



Condensed Consolidated  
Interim Financial Statements  
30 June 2015

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

The Condensed Consolidated Interim Financial Statements of MP banki hf. ("MP Straumur" or the "Bank") for the period 1 January to 30 June 2015 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional Icelandic disclosure requirements where applicable. The Condensed Consolidated Interim Financial Statements comprise MP Straumur and its subsidiaries.

According to the Consolidated Income Statement, profit for the period 1 January to 30 June 2015 amounted to ISK 294 million. According to the Consolidated Statement of Financial Position, the Group's equity at the end of this period amounted to ISK 7,687 million. As at 30 June 2015, the Group's total assets amounted to ISK 70,847 million.

The Bank's issued share capital amounted to ISK 1,605 million as at 30 June 2015 (2014: ISK 1,171 million). At the end of the period the Bank held no treasury shares (2014: ISK 1 million). The Bank's share capital was increased by nominal value of ISK 434 million during the period.

The Bank had 72 shareholders at the end of the period (2014: 34), none of which held more than 10% of shares in the Bank (2014: 1).

### A merger between MP banki and Straumur

In February 2015 MP banki hf. and Straumur fjárfestingabanki hf. ("Straumur") disclosed a commencement of a formal merger process based on heads of terms mutually agreed by the two banks. This merger was approved by shareholders on 22 June 2015 and became effective on 29 June 2015. As disclosed in note 3, the consideration transferred to the previous owners of Straumur was in the form of shares in MP banki hf. As a result, the number of shareholders in the Bank has increased considerably from the beginning of the year. The Group's balance sheet has also grown due to the merger. The vision of the Board and Management is to build a bank with a strong asset and wealth management foundation, which at end of June 2015 had ISK 205 billion in assets under management. Furthermore to continue to build on the the Bank's strong presence in investment banking.

The two banks were merged under the identification number and legal name of MP banki hf., which is the acquiring entity in the merger, and has assumed all rights and obligations previously belonging to Straumur. The headquarters of the Bank will be located at Straumur's offices in Borgartun 25, Reykjavik. MP Straumur maintains its full bank license which supports various selective banking services for the clients of the Bank.

On the first day of the merger, the Board approved a new organizational chart and implemented its post-merger integration plan. The plan is aimed to capture the strategic and operating objectives of the merger.

### Building a track record

One off items relating to the merger impact the results for the first six months in 2015. The largest one off cost items which have been expensed in the financial statements relate to termination of employment agreements and rent for premises which will not be used going forward, in the total amount of ISK 328 million. Other one off costs relating to the merger, such as due diligence costs, branding and other, in the amount of ISK 45 million have also been expensed. The Bank also recognized a one off income entry amounting to ISK 298 million as the acquisition price of Straumur was lower than the total identifiable net assets, as disclosed in note 3. The net profit before tax, excluding these one off items, is ISK 220 million highlighting the Group's profitability from ongoing operations. The Bank expects some further merger costs in the second half of 2015 but a lower cost base from synergies in 2016 and onwards.

### Risk management

The Bank is maintaining high capitalization and liquidity well within regulatory as well as internally defined requirements. The Capital Adequacy Ratio (Tier 1) of the Group was 18.4% at the end of the period, compared with 17.4% at the end of the year 2014. The Bank's minimum regulatory capital requirement is 11.8%. The Bank is also well prepared for implementation of additional CRD IV regulatory capital buffers in the near future

The Bank is exposed to various types of risk in its operations. The Bank enforces a risk management framework which is further structured and outlined in the Bank's risk policy guide and rules on risk management. We refer to notes 31-38 on analysis of exposure to various types of risk.

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

### Corporate Governance

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

The Board determines compensation for the CEO. The Board of Directors has delegated certain tasks to two subcommittees, the Remuneration Committee and the Audit Committee. Each committee has three members appointed by the Board, the majority of which is independent of the Bank.

More information about the Bank's Corporate Governance, including a signed statement, can be found on the Bank's website, [www.mp.is](http://www.mp.is).

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

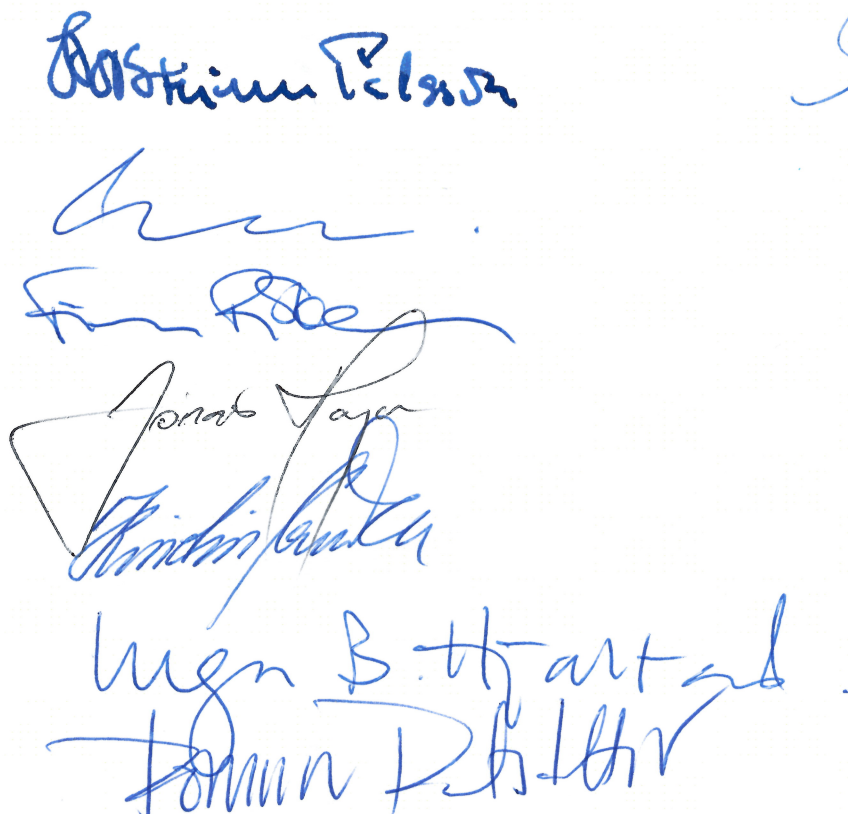
To the best of our knowledge the Condensed Consolidated Interim Financial Statements of MP banki hf. for the period 1 January to 30 June 2015 comply with IAS 34 Interim Financial Reporting as adopted by the EU, and give a true and fair view of the Group's assets, liabilities and financial position as at 30 June 2015 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 June 2015.

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

The Board of Directors and the CEO of the Bank have today discussed the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2015, and confirm them by the means of their signatures.

Reykjavík, 31 August 2015.

Board of Directors



Handwritten signatures of the Board of Directors members in blue ink, including names like Þorsteinn Pálsson, Finn Röðvígsson, Jónas Jónsson, and others.

CEO



Handwritten signature of the CEO in blue ink.

## Independent Auditor's Review Report

### To the Board of Directors of MP banki hf.

We have reviewed the accompanying condensed consolidated statement of financial position of MP banki hf. as at June 30, 2015, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. The Board of Directors and CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### Scope of review

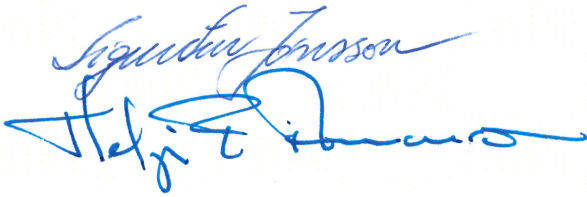
We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavík, 31 August 2015.

KPMG ehf.



# Consolidated Income Statement

For the period 1 January 2015 to 30 June 2015

	Notes	6m 2015	6m 2014
Interest income .....		1,419,468	1,549,167
Interest expense .....		(882,176)	(875,656)
<b>Net interest income</b>	4	537,293	673,512
Fee and commission income .....		898,154	872,682
Fee and commission expense .....		(11,695)	(58,490)
<b>Net fee and commission income</b>		886,459	814,192
Net financial income (expense) .....	5,6	155,145	(53,627)
Share in profit (loss) of associates, net of income tax .....	19	0	(14,364)
Negative goodwill .....	3	297,560	0
Other operating income .....		20,982	72,595
<b>Other operating income</b>		473,687	4,604
 <b>Net operating income</b>		 1,897,439	 1,492,307
Administrative expenses .....	7	(1,719,687)	(1,615,192)
Impairment of loans and receivables .....	16	(27,289)	(18,762)
Loss from assets held for sale .....		(6,338)	(3,548)
<b>Profit (loss) before taxes</b>		144,125	(145,194)
Income tax .....	10	149,688	(13,373)
<b>Profit (loss) for the period</b>		293,812	(158,566)
	Notes	6m 2015	6m 2014
Attributable to the shareholders of MP banki hf. ....		290,700	(162,637)
Attributable to non-controlling interest .....	18	3,112	4,071
<b>Profit (loss) for the period</b>		293,812	(158,566)

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Consolidated Statement of Comprehensive Income

For the period 1 January 2015 to 30 June 2015

	Notes	6m 2015	6m 2014
<b>Profit (loss) for the period</b>		293,812	(158,566)
Available for sale financial assets			
Fair value changes .....		0	(2,067)
Translation of foreign operations			
Exchange difference on translation of foreign operations .....		(7,624)	(2,938)
<b>Other comprehensive income that are or may be reclassified to profit and loss, net of tax</b>		(7,624)	(5,005)
<b>Total comprehensive income (loss) for the period</b>		286,188	(163,572)
	Notes	6m 2015	6m 2014
Attributable to the shareholders of MP banki hf. ....		283,076	(167,643)
Attributable to non-controlling interest .....		3,112	4,071
<b>Total comprehensive income (loss) for the period</b>		286,188	(163,572)

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Consolidated Statement of Financial Position

As at 30 June 2015

Assets	Notes	30.6.2015	31.12.2014
Cash and cash equivalents .....	11	17,202,242	12,970,418
Receivables from Central Bank .....		3,635,815	98,832
Fixed income securities .....	12	4,049,497	4,196,330
Shares and other variable income securities .....	13	2,406,937	790,723
Securities used for hedging .....	14	14,944,734	6,856,641
Loans to customers .....	15,16	24,496,139	22,287,138
Derivatives .....	17	500,648	233,685
Investment in associates .....	19	29,052	0
Intangible assets .....	20	773,357	248,766
Property and equipment .....	21	182,274	74,873
Deferred tax asset .....	10	1,029,347	578,080
Other assets .....	16,22	1,473,952	718,188
Assets classified as held for sale .....	23	123,048	290,651
<b>Total assets</b>		<b>70,847,043</b>	<b>49,344,327</b>
<b>Liabilities</b>			
Deposits from customers .....	24	29,328,303	26,764,581
Deposits from credit institutions .....		2,078,656	2,711,342
Borrowings .....	25	20,357,083	9,854,731
Short positions held for trading .....	26	6,052,766	2,988,256
Short positions used for hedging .....	27	2,681,724	249,158
Derivatives .....	17	719,462	154,196
Current tax liabilities .....		7,324	13,589
Deferred tax liabilities .....		3,973	3,973
Other liabilities .....	28	1,930,860	1,007,996
<b>Total liabilities</b>		<b>63,160,151</b>	<b>43,747,821</b>
<b>Equity</b>			
Share capital .....	29	1,604,599	1,170,000
Share premium .....		1,095,738	9,069
Option reserve .....		3,228	4,541
Warrants reserve .....		11,070	11,070
Deficit reduction reserve .....		3,850,917	3,850,917
Other reserves .....		(18,283)	(10,659)
Retained earnings .....		579,553	288,853
<b>Total equity attributable to the shareholders of MP banki hf.</b>		<b>7,126,822</b>	<b>5,323,792</b>
Non-controlling interest .....		560,070	272,714
<b>Total equity</b>		<b>7,686,892</b>	<b>5,596,506</b>
<b>Total liabilities and equity</b>		<b>70,847,043</b>	<b>49,344,327</b>

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.



## Consolidated Statement of Changes in Equity

For the period 1 January 2015 to 30 June 2015

1 January 2015 to 30 June 2015	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Equity instrument reserve	Translation reserve	Fair value reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2015 .....		1,170,000	9,069	4,541	11,070	3,850,917	0	(10,659)	0	288,853	5,323,792	272,714	5,596,506
Profit for the period .....										290,700	290,700	3,112	293,812
Translation of foreign operations													
Exchange difference on translation of foreign operations .....								(7,624)			(7,624)		(7,624)
Total comprehensive income for the period .....		0	0	0	0	0	0	(7,624)	0	290,700	283,076	3,112	286,188
Transactions with owners of the Bank													
Capital increase .....	29	433,799	1,083,468								1,517,268		1,517,268
Acquisition of non-controlling interest via merger .....	18										0	290,844	290,844
Treasury shares acquired via merger .....	29	(228,724)	(568,067)								(796,791)		(796,791)
Treasury shares held by the Bank before the merger and delivered to shareholders via merger .....	3,29	800	3,200								4,000		4,000
Treasury shares delivered to shareholders via merger .....	3,29	228,724	568,067								796,791		796,791
Share-based payment transactions .....				(1,314)							(1,314)		(1,314)
Other transactions													
Dividend paid to non-controlling interest by subsidiary .....											0	(6,600)	(6,600)
<b>Equity as at 30 June 2015</b>		<b>1,604,599</b>	<b>1,095,738</b>	<b>3,228</b>	<b>11,070</b>	<b>3,850,917</b>	<b>0</b>	<b>(18,283)</b>	<b>0</b>	<b>579,553</b>	<b>7,126,822</b>	<b>560,070</b>	<b>7,686,892</b>

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Statement of Changes in Equity

For the period 1 January 2014 to 30 June 2014

1 January 2014 to 30 June 2014	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Equity instrument reserve	Translation reserve	Fair value reserve	(Accumulated deficit)	Total shareholders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2014 .....		5,850,000	8,088	2,388	0	0	23,482	4,780	(5,842)	(851,402)	5,031,493	5,274	5,036,767
Loss for the period .....								(5,522)		(162,120)	(167,643)	4,071	(163,572)
Total comprehensive loss for the period .....		0	0	0	0	0	0	(5,522)	0	(162,120)	(167,643)	4,071	(163,572)
Transactions with owners of the Bank													
Reduction in share capital .....		(4,680,000)				3,850,917				828,983	(100)		(100)
Treasury shares acquired .....		(25,000)	2,500								(22,500)		(22,500)
Equity instrument converted to equity .....		25,000	(1,518)				(23,482)				0		0
Share-based payment transactions .....				1,251							1,251		1,251
Other transactions .....											0	(4,950)	(4,950)
<b>Equity as at 30 June 2014</b>		<b>1,170,000</b>	<b>9,069</b>	<b>3,639</b>	<b>0</b>	<b>3,850,917</b>	<b>0</b>	<b>(742)</b>	<b>(5,842)</b>	<b>(184,540)</b>	<b>4,842,501</b>	<b>4,395</b>	<b>4,846,896</b>

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Consolidated Statement of Cash Flows

For the period 1 January 2015 to 30 June 2015

Cash flows from operating activities	Notes	6m 2015	6m 2014
Profit (loss) for the period .....		293,812	(158,566)
Adjustments for:			
Indexation and exchange rate difference .....		(120,429)	(49,711)
Share in profit (loss) of associates, net of income tax .....	19	0	14,364
Depreciation and amortisation .....	20,21	46,916	48,263
Net interest income .....	4	(537,293)	(673,512)
Impairment of loans and receivables .....	16	27,289	18,762
Income tax .....	10	(149,688)	13,373
Negatívie goodwill .....	3	(297,560)	0
Other adjustments .....		2,106	5,863
		(734,846)	(781,165)
Changes in:			
Receivables from Central Bank .....		(2,466,983)	2,583,993
Securities .....		(3,056,301)	(2,062,231)
Loans to customers .....		(936,608)	3,520,620
Derivatives - assets .....		(1,344)	(11,625)
Other financial assets .....		0	(1,551)
Deposits from customers .....		(7,480,330)	(3,244,376)
Deposits from credit institutions .....		(632,685)	(285,713)
Short positions .....		4,608,253	(2,243,570)
Derivatives - liabilities .....		210,928	(117,150)
Other financial liabilities .....		0	(23,482)
Other assets and liabilities .....		405,161	870,246
		(10,084,756)	(1,796,004)
Interest received .....		1,352,212	1,449,762
Interest paid .....		(945,517)	(897,296)
<b>Net cash to operating activities</b>		<b>(9,678,060)</b>	<b>(1,243,538)</b>
<b>Cash flows from investing activities</b>			
Cash and cash equivalent acquired in business combination .....		3,337,433	0
Acquisition of intangible assets .....	20	(4,588)	0
Acquisition of property and equipment .....	21	(19,126)	(14,424)
Proceeds from the sale of property and equipment .....		4,314	5,347
Proceeds from the sale of a non-controlling interest .....		0	(4,950)
Proceeds from the sale (acquisition) of assets classified as held for sale .....		167,602	7,081
<b>Net cash from (to) investing activities</b>		<b>3,485,635</b>	<b>(6,946)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings .....		51,556,904	46,656,713
Repayment of borrowings .....		(41,166,740)	(48,820,899)
Dividend paid by subsidiary to non-controlling interest .....		(6,600)	0
Treasury share transactions .....		0	0
<b>Net cash from (to) financing activities</b>		<b>10,383,564</b>	<b>(2,164,186)</b>
Net increase (decrease) in cash and cash equivalents .....		4,191,139	(3,414,671)
Cash and cash equivalents at the beginning of the year .....	11	12,970,418	14,795,993
Effects of exchange rate fluctuations on cash and cash equivalents held .....		40,684	(108,131)
<b>Cash and cash equivalents at the end of the period</b>	11	<b>17,202,242</b>	<b>11,273,191</b>
<b>Investing and financing activities not affecting cash flows</b>			
Changes in loans to customers .....		0	670,000
Acquisition of assets classified as held for sale .....		0	(670,000)
<b>Investing and financing activities not affecting cash flows due to a merger, refer to note 3.</b>			

The notes on pages 10 to 37 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Notes to the Consolidated Financial Statements

## General information

### 1. Reporting entity

MP banki hf. (the Bank) is a limited liability company incorporated and domiciled in Iceland, with registered offices at Borgartún 25, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 June 2015 comprise MP banki hf. and its subsidiaries (together referred to as the Group). The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services.

### 2. Basis of preparation

#### a. Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, as adopted by the European Union.

#### b. Basis of measurement

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

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

A breakdown of the accounting classification of financial assets and financial liabilities is provided in note 39.

#### c. Functional and presentation currency

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

#### d. Going concern

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

#### e. Estimates and judgements

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

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

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

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Consolidated Interim Financial Statements is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2014.

## Notes to the Consolidated Financial Statements

### 3. Merger between MP banki hf. and Straumur fjárfestingabanki hf.

On 29 June 2015, the Bank took over all assets, liabilities and operations of Straumur fjárfestingabanki hf. ("Straumur") in accordance with the decision of the board of directors in both banks and the approval of shareholder meetings. The activities and operations of both banks are currently being integrated into that of MP Straumur.

The consideration transferred, to the previous owners of Straumur, was in the form of shares in MP banki hf. with a nominal value of ISK 663,323,468. The Bank issued new shares with a nominal amount of ISK 433,799,468. The remaining shares transferred, with a nominal amount of ISK 229,524,000, were own shares held by the Bank. Based on the estimated fair value of the consideration transferred, the acquisition price of Straumur was ISK 2,321 million.

The following table summarises the recognised amounts of assets and liabilities acquired by the Bank at the date of the merger. Assets acquired from Straumur have been recognised in these financial statements at the fair value amount of ISK 14,842 million. The liabilities assumed from Straumur have been recognised at the fair value amount of ISK 12,224 million.

#### Identifiable assets acquired and liabilities assumed

Assets	Fair value
Cash and cash equivalents .....	3,240,892
Receivables from Central Bank .....	1,070,000
Fixed income securities .....	601,867
Shares and other variable income securities .....	708,317
Securities used for hedging .....	4,755,195
Loans to customers .....	1,338,470
Derivatives .....	265,619
Investment in subsidiaries .....	680,955
Property and equipment .....	8,678
Deferred tax asset .....	232,094
Other assets .....	1,940,307
<b>Total</b>	<b>14,842,394</b>
Borrowings .....	10,154,962
Short positions used for trading .....	888,824
Derivatives .....	354,338
Other liabilities .....	825,452
<b>Total</b>	<b>12,223,576</b>
Total identifiable net assets .....	2,618,818
Negative Goodwill .....	(297,560)
Acquisition price .....	2,321,258

As the merger took place very close to the end of the period, the effects of the merger on the operations of the Bank for the first six months of the year are limited. If the merger had occurred on 1 January 2015, it is estimated that consolidated revenue would have been ISK 2,627 million and consolidated profit for the period would have been ISK 427 million.

# Notes to the Consolidated Financial Statements

## Income statement

### 4. Net interest income

Interest income is specified as follows:

	6m 2015	6m 2014
Cash and cash equivalents .....	254,571	320,676
Derivatives .....	259,650	127,162
Loans to customers .....	895,643	1,080,217
Other interest income .....	9,604	21,112
<b>Total</b>	<b>1,419,468</b>	<b>1,549,167</b>

Interest expense is specified as follows:

	6m 2015	6m 2014
Deposits from customers .....	469,024	528,461
Deposits from credit institutions .....	50,774	56,299
Borrowings .....	335,700	241,249
Other interest expense .....	26,677	49,647
<b>Total</b>	<b>882,176</b>	<b>875,656</b>

### 5. Net financial income (expense)

Net financial income (expense) is specified as follows:

	6m 2015	6m 2014
Financial assets held for trading		
Fixed income securities .....	64,268	(24,583)
Shares and other variable income securities .....	116,780	(8,943)
Derivatives .....	(24,367)	30,852
Financial assets designated at fair value through profit or loss		
Fixed income securities .....	5,402	5,890
Shares and other variable income securities .....	(12,758)	(5,670)
Foreign currency exchange difference .....	5,821	(51,174)
<b>Total</b>	<b>155,145</b>	<b>(53,627)</b>

### 6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	6m 2015	6m 2014
Gain (loss) on financial instruments at fair value through profit and loss .....	4,340	(69,698)
Gain on other financial instruments .....	1,481	18,524
<b>Total</b>	<b>5,821</b>	<b>(51,174)</b>

Note 38 provides information about the development of foreign exchange rates against the Icelandic krona.

## Notes to the Consolidated Financial Statements

### 7. Administrative expenses

Administrative expenses are specified as follows:

	6m 2015	6m 2014
Salaries and related expenses .....	1,045,526	972,547
Other operating expenses .....	595,608	556,340
Depositors' and Investors' Guarantee Fund contributions .....	31,637	38,042
Depreciation and amortisation .....	46,916	48,263
<b>Total</b>	<b>1,719,687</b>	<b>1,615,192</b>

One off merger costs amounting to ISK 280 million, on the one hand, and ISK 93 million, on the other hand, are included in the 6m 2015 figures for salaries and related expenses and other operating costs, respectively.

### 8. Salaries and related expenses

Salaries and related expenses are specified as follows:

	6m 2015	6m 2014
Salaries .....	808,456	742,202
Performance based payments excluding share-based payments .....	23,820	19,963
Share-based payment expenses .....	(1,314)	1,251
Pension fund contributions .....	113,210	109,602
Tax on financial activity .....	39,672	48,928
Other salary related expenses .....	61,682	50,602
<b>Total</b>	<b>1,045,526</b>	<b>972,547</b>
Average number of full time employees during the period .....	72	108
Total number of full time employees at the end of the period .....	81	97

Due to the merger with Straumur fjárfestingabanki hf., the number of full time employees at the end of the period is higher than the average number of full time employees during the period. Employees of Íslensk verðbréf hf. are not included in the number for full time employees as the company does not become a part of the Group until at end of June 2015. At the beginning of 2015, Straumur had 34 full time employees and MP banki and its subsidiaries had 75.

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2014: 5.50%).

### 9. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.376% (2014: 0.376%) for taxes payable in 2014 and beyond. This tax is not a deductible expense for income tax purposes. Based on total liabilities at the end of the period this tax is estimated to be 48 million for the Bank and will be expensed at year-end.

### 10. Income tax

The Group will not pay income tax on its profit for 2015 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2014, the tax loss carry forward from Straumur fjárfestingabanki hf. amounted to ISK 154 billion and the tax loss carry forward from MP banki hf. amounted to ISK 2,913 million. A substantial part of the deferred tax asset is utilisable until end of year 2018. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position. The deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The deferred tax asset is reviewed at each reporting date.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2013: 20.0%)

Reconciliation of effective tax rate:

	6m 2015		6m 2014	
Profit (loss) before income tax .....		144,125		(145,194)
Income tax using the domestic corporation tax rate .....	20.0%	(28,825)	20.0%	29,086
Effect of tax rates in foreign jurisdictions .....	0.0%	0	(0.5%)	(757)
Non-deductible expenses .....	0.0%	(25)	(9.6%)	(13,882)
Non-taxable income .....	(93.5%)	134,745	1.2%	1,730
Recognition of previously unrecognised tax losses .....	1.2%	(1,659)	(0.2%)	(239)
Other changes .....	(31.5%)	45,452	(20.2%)	(29,310)
<b>Effective income tax</b>	<b>(103.9%)</b>	<b>149,688</b>	<b>(9.2%)</b>	<b>(13,373)</b>

Profit before tax amounts to ISK 144 million. Income tax amounts to ISK 150 million, resulting in an effective tax rate of -103.9%. This is substantially different from the Icelandic corporate tax rate of 20%, mainly due to non-taxable income from shares.

# Notes to the Consolidated Financial Statements

## Statement of Financial Position

### 11. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Deposits with the Central Bank of Iceland .....	12,260,038	8,643,487
Cash on hand .....	151,387	89,691
Balances with banks .....	4,134,419	3,678,258
Listed treasury bills .....	656,397	558,982
<b>Total</b>	<b>17,202,242</b>	<b>12,970,418</b>

### 12. Fixed income securities

Fixed income securities are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Held for trading		
Listed government bonds and bonds with government guarantees .....	1,957,375	2,471,713
Listed Treasury bills .....	0	84,637
Listed bonds .....	1,820,225	1,367,033
Designated at fair value		
Unlisted bonds .....	271,898	272,946
<b>Total</b>	<b>4,049,497</b>	<b>4,196,330</b>

Further discussion about the accounting classification of financial assets is provided in notes 39-41.

### 13. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Held for trading		
Listed shares .....	825,868	338,712
Listed unit shares .....	0	220
Unlisted shares .....	0	4,418
Unlisted unit shares .....	906,576	97,467
Designated at fair value		
Unlisted shares .....	390,661	287,082
Unlisted unit shares .....	283,833	62,825
<b>Total</b>	<b>2,406,937</b>	<b>790,723</b>

Further discussion about the accounting classification of financial assets is provided in notes 39-41.



## Notes to the Consolidated Financial Statements

### 14. Securities used for hedging

Securities used for hedging are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Listed government bonds and bonds with government guarantees .....	5,373,220	3,675,958
Listed bonds .....	0	53,418
Listed shares .....	9,058,716	3,123,620
Unlisted unit shares .....	512,797	3,645
<b>Total</b>	<b>14,944,734</b>	<b>6,856,641</b>

Securities used for hedging are designated at fair value. Further discussion about the accounting classification of financial assets is provided in notes 39-41.

### 15. Loans to customers

Loans to customers are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Loans to customers, gross amount .....	24,760,379	22,577,554
Specific allowance for impairment losses .....	(83,240)	(108,761)
Collective allowance for impairment losses .....	(180,999)	(181,654)
<b>Total</b>	<b>24,496,139</b>	<b>22,287,138</b>

### 16. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

#### a. Loans to customers

<b>30.6.2015</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2015 .....	108,761	181,654	290,415
Charge to the income statement for the period .....	29,272	(655)	28,617
Write-offs .....	(54,793)	0	(54,793)
<b>Balance as at 30 June 2015</b>	<b>83,240</b>	<b>180,999</b>	<b>264,239</b>
<b>31.12.2014</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2014 .....	294,306	210,587	504,893
Charge to the income statement for the period .....	58,712	1,345	60,057
Recoveries .....	(72,036)	0	(72,036)
Write-offs .....	(172,220)	0	(172,220)
Reclassification .....	0	(30,278)	(30,278)
<b>Balance as at 31 December 2014</b>	<b>108,761</b>	<b>181,654</b>	<b>290,415</b>

#### b. Other assets - accounts receivable

<b>30.6.2015</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2015 .....	0	3,053	3,053
Charge to the income statement for the period .....	0	(1,328)	(1,328)
Write-offs .....	0	0	0
<b>Balance as at 30 June 2015</b>	<b>0</b>	<b>1,725</b>	<b>1,725</b>
<b>31.12.2014</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2014 .....	23,251	10,608	33,859
Charge to the income statement for the period .....	(2,958)	4,246	1,288
Write-offs .....	(20,294)	(11,800)	(32,094)
<b>Balance as at 31 December 2014</b>	<b>0</b>	<b>3,053</b>	<b>3,053</b>

## Notes to the Consolidated Financial Statements

### 17. Derivatives

Derivatives are specified as follows:

			30.6.2015		31.12.2014	
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Interest rate derivatives .....	500,000	39,283		500,000	34,527	
Currency forwards .....	163,380	442				
Bond and equity total return swaps .....	19,037,140	437,100	711,150	10,098,940	176,084	134,275
Equity options .....	633,980	12,811	8,312	903,240	17,670	19,921
Bond options .....	418,400	11,013		405,200	5,405	
	20,752,900	500,648	719,462	11,907,380	233,685	154,196

### 18. Group entities

The Group included 16 subsidiaries at the end of period (2014: 9), all of which are included in the Consolidated Interim Financial Statements. The number of subsidiaries increased by 7 due to the merger with Straumur fjárfestingabanki hf. The subsidiaries are specified as follows:

Entity	Nature of operations	Domicile	Share	
			30.6.2015	31.12.2014
Ármúli fasteignir ehf. ....	Holding company	Iceland	100%	100%
Fasteignastýring ehf. ....	Dormant	Iceland	100%	100%
Fí Fasteignafélag GP ehf. ....	Real estate fund management	Iceland	70%	70%
Heildun UAB .....	Holding company	Lithuania	100%	100%
Horn Florida Ltd. ....	Holding company	UK	100%	100%
Júpiter rekstrarfélag hf. ....	Fund management	Iceland	100%	100%
M-Investments ehf. ....	Holding company	Iceland	100%	100%
Mánatún GP ehf. ....	Dormant	Iceland	100%	100%
Teris .....	Holding company	Iceland	54%	54%
Straumur sjóðir hf. ....	Fund management	Iceland	100%	-
Pivot ehf. ....	Holding company	Iceland	100%	-
Íslensk eignastýring ehf. ....	Holding company	Iceland	64%	-
Íslensk verðbréf hf. ....	Asset management	Iceland	58%	-
Straumur fjárfestingar hf. ....	Dormant	Iceland	100%	-
Straumur Equites ehf. ....	Dormant	Iceland	100%	-
Foss eignarhaldsfélag ehf. ....	Dormant	Iceland	100%	-
Foss 2 eignarhaldsfélag ehf. ....	Dormant	Iceland	100%	-
Straumur eignarhaldsfélag ehf. ....	Dormant	Iceland	100%	-

### 19. Investment in associates

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

Entity	Nature of operations	Domicile	Share	
			30.6.2015	31.12.2014
Londonderry Associates LLC .....	Holding company	USA	38%	38%
T-plús hf. ....	Financial services	Iceland	45%	-

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

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

	30.6.2015	31.12.2014
Balance at the beginning of the year .....	0	309,021
Additions through a merger .....	29,052	
Reclassification .....	0	(331,448)
Share in profit (loss) of associates, net of income tax .....	0	22,427
<b>Total</b>	29,052	0

## Notes to the Consolidated Financial Statements

### 20. Intangible assets

Intangible assets are specified as follows:

	Software	Goodwill	Other	Total
<b>30.6.2015</b>				
Balance as at 1 January 2015 .....	133,673	0	115,094	248,766
Acquisitions .....	4,588	0	0	4,588
Additions through a merger .....	4,328	544,925	0	549,253
Amortisation .....	(20,043)	0	(9,208)	(29,250)
<b>Balance as at 30 June 2015</b>	<b>122,546</b>	<b>544,925</b>	<b>105,886</b>	<b>773,357</b>
Gross carrying amount .....	133,673	544,925	184,150	862,748
Accumulated amortization and impairment losses .....	(11,127)	0	(78,264)	(89,391)
<b>Balance as at 30 June 2015</b>	<b>122,546</b>	<b>544,925</b>	<b>105,886</b>	<b>773,357</b>
<b>31.12.2014</b>				
Balance as at 1 January 2014 .....	171,519	0	133,509	305,028
Acquisitions .....	1,741	0	0	1,741
Impairment losses .....	(106)	0	0	(106)
Amortisation .....	(39,476)	0	(18,415)	(57,891)
Translation difference .....	(5)	0	0	(5)
<b>Balance as at 31 December 2014</b>	<b>133,673</b>	<b>0</b>	<b>115,094</b>	<b>248,766</b>
Gross carrying amount .....	262,767	0	184,150	446,917
Accumulated amortization and impairment losses .....	(91,248)	0	(50,641)	(141,889)
<b>Balance as at 1 January 2014</b>	<b>171,519</b>	<b>0</b>	<b>133,509</b>	<b>305,028</b>
Gross carrying amount .....	264,508	0	184,150	448,658
Accumulated amortization and impairment losses .....	(130,835)	0	(69,056)	(199,892)
<b>Balance as at 31 December 2014</b>	<b>133,673</b>	<b>0</b>	<b>115,094</b>	<b>248,766</b>

The goodwill which the Group acquired through the merger with Straumur fjárfestingabanki hf. relates to investments in Íslensk verðbréf hf. The goodwill will be allocated to cash-generating units before the end of 2015 and at that time it will be tested for impairment.

### 21. Property and equipment

Property and equipment is specified as follows:

	Real estate	Other	Total
<b>30.6.2015</b>			
Balance as at 1 January 2015 .....	0	74,873	74,873
Acquisitions .....	0	19,126	19,126
Additions through a merger .....	98,407	11,543	109,950
Disposals .....	0	(4,009)	(4,009)
Depreciation .....	0	(17,667)	(17,667)
<b>Balance as at 30 June 2015</b>	<b>98,407</b>	<b>83,867</b>	<b>182,274</b>
Gross carrying amount .....	0	197,507	197,507
Accumulated depreciation .....	98,407	(113,640)	(15,233)
<b>Balance as at 30 June 2015</b>	<b>98,407</b>	<b>83,867</b>	<b>182,274</b>
<b>31.12.2014</b>			
Balance as at 1 January 2014 .....	0	99,465	99,465
Acquisitions .....	0	24,584	24,584
Disposals .....	0	(11,714)	(11,714)
Reclassified to assets classified as held for sale .....	0	(147)	(147)
Depreciation .....	0	(37,238)	(37,238)
Translation difference .....	0	(76)	(76)
<b>Balance as at 31 December 2014</b>	<b>0</b>	<b>74,873</b>	<b>74,873</b>
Gross carrying amount .....	0	196,484	196,484
Accumulated depreciation .....	0	(97,019)	(97,019)
<b>Balance as at 1 January 2014</b>	<b>0</b>	<b>99,465</b>	<b>99,465</b>
Gross carrying amount .....	0	194,207	194,207
Accumulated depreciation .....	0	(119,334)	(119,334)
<b>Balance as at 31 December 2014</b>	<b>0</b>	<b>74,873</b>	<b>74,873</b>

## Notes to the Consolidated Financial Statements

### 22. Other assets

Other assets are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Unsettled securities transactions .....	588,902	379,024
Accounts receivable .....	777,062	314,839
Sundry assets .....	107,988	24,325
<b>Total</b>	<b>1,473,952</b>	<b>718,188</b>

### 23. Assets classified as held for sale

The Group has classified certain assets as held for sale. The Group intends to dispose of the majority of these assets in 2016, and they are included in Other operations for segment reporting purposes as disclosed in note 43.

Assets classified as held for sale are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Buildings and land .....	54,455	251,025
Unlisted shares .....	68,594	39,626
<b>Total</b>	<b>123,048</b>	<b>290,651</b>

### 24. Deposits from customers

Deposits from customers are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Demand deposits .....	21,827,525	19,848,388
Time deposits .....	7,500,778	6,916,193
<b>Total</b>	<b>29,328,303</b>	<b>26,764,581</b>

### 25. Borrowings

Borrowings are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Loans from credit institutions .....	114,642	2,922
Money market deposits .....	20,242,441	9,851,810
<b>Total</b>	<b>20,357,083</b>	<b>9,854,731</b>

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

### 26. Short positions held for trading

Short positions held for trading are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Listed government bonds and bonds with government guarantees .....	5,963,237	2,875,806
Listed bonds .....	74,891	64,152
Listed shares .....	12,341	48,290
Unlisted shares .....	7	7
Unlisted unit shares .....	2,289	0
<b>Total</b>	<b>6,052,766</b>	<b>2,988,256</b>

Short positions used for trading are classified as held for trading. Further discussion about the accounting classification of financial assets is provided in notes 39-41.

## Notes to the Consolidated Financial Statements

### 27. Short positions used for hedging

Short positions used for hedging are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Listed government bonds and bonds with government guarantees .....	2,681,724	217,637
Listed shares .....	0	31,521
<b>Total</b>	<b>2,681,724</b>	<b>249,158</b>

Short positions used for hedging are classified as held for trading. Further discussion about the accounting classification of financial assets is provided in notes 39-41.

### 28. Other liabilities

Other liabilities are specified as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
Unsettled securities transactions .....	441,861	0
Accounts payable and accrued expenses .....	211,906	127,537
Taxes, other than income tax .....	11,375	0
Withholding taxes .....	122,934	288,376
Salaries and salary related expenses .....	454,131	160,897
Other liabilities .....	688,654	431,186
<b>Total</b>	<b>1,930,860</b>	<b>1,007,996</b>

### 29. Equity

#### a. Share capital

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

	<b>30.6.2015</b>	<b>31.12.2014</b>
Share capital according to the Bank's Articles of Association .....	1,604,599	1,170,800
Nominal amount of treasury shares .....	0	800
Authorised but not issued shares .....	281,500	1,500,000

#### b. Capital management

A capital plan is prepared on an annual basis and approved by the Board, with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Bank's policy is to hold capital in a range of different forms and from diverse sources.

#### c. Share capital increase authorizations

A shareholder meeting in June 2015 authorized the Board of Directors to increase the share capital by up to ISK 200,000,000 through a subscription for new shares. This authorization expires at the Bank's Annual General Meeting in 2016. The Board of Directors is moreover authorized during a five year period to increase the share capital of the Bank in stages by up to ISK 20,000,000 in nominal value, for the purposes of fulfilling share option agreements in accordance with the Bank's share incentive scheme. The Board of Directors is finally authorized to increase the share capital of the Bank by up to ISK 61,500,000 in nominal value, until 12 December 2016, for the purposes of fulfilling the Bank's obligations under issued subscription rights (warrants). A copy of the Bank's Articles of Association, including the temporary provisions, is available on the Bank's website, [www.mp.is](http://www.mp.is).

## Notes to the Consolidated Financial Statements

### 30. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 7,687 million (31.12.2014: 5,597 million), equivalent to 10.8% (31.12.2014: 11.3%) of total assets according to the statement of financial position. The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 18.4% (31.12.2014: 17.4%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

	<b>30.6.2015</b>	<b>31.12.2014</b>
<b>Tier 1 capital base</b>		
Total equity .....	7,686,892	5,596,506
Goodwill and intangibles .....	(773,357)	(248,766)
Shares in financial institutions .....	(118,275)	(3,709)
Subordinated fixed income securities .....	(97,907)	(97,907)
Deferred tax asset .....	(1,029,347)	(578,080)
<b>Total</b>	<b>5,668,007</b>	<b>4,668,044</b>
<b>Capital requirements</b>		
Credit risk .....	1,480,571	1,431,518
Market risk .....	443,555	168,464
Operational risk .....	546,350	546,350
<b>Total</b>	<b>2,470,476</b>	<b>2,146,333</b>
Surplus capital .....	3,197,531	2,521,711
Capital adequacy ratio (CAD) .....	18.4%	17.4%

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

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

# Notes to the Consolidated Financial Statements

## Risk management

### 31. Maximum exposure to credit risk

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

	Public entities	Financial institutions	Corporate customers	Individuals	30.6.2015
Cash and cash equivalents .....	13,067,823	4,134,419			17,202,242
Receivables from Central Bank .....	3,635,815				3,635,815
Fixed income securities .....	2,354,550	1,419,070	275,878		4,049,497
Securities used for hedging .....	5,373,220				5,373,220
Loans to customers .....	90,775	1,837,927	15,773,826	6,793,611	24,496,139
Derivatives .....		293,044	186,202	21,402	500,648
Other assets .....	30,344	24,611	1,124,939	186,071	1,365,964
	24,552,527	7,709,071	17,360,845	7,001,084	56,623,526
Loan commitments .....	1,522	131,386	2,342,233	692,586	3,167,726
Financial guarantee contracts .....			403,909	5,731	409,640
<b>Total</b>	<b>24,554,048</b>	<b>7,840,457</b>	<b>20,106,986</b>	<b>7,699,401</b>	<b>60,200,892</b>

	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2014
Cash and cash equivalents .....	9,292,160	3,678,258			12,970,418
Receivables from Central Bank .....	98,832				98,832
Fixed income securities .....	2,806,395	1,207,858	182,077		4,196,330
Securities used for hedging .....	3,675,958	53,418			3,729,376
Loans to customers .....	3,835	497,665	15,899,159	5,886,479	22,287,138
Derivatives .....		108,151	116,114	9,420	233,685
Other assets .....	3,764	48,355	563,914	77,831	693,863
	15,880,943	5,593,706	16,761,263	5,973,730	44,209,642
Loan commitments .....	234	83,641	1,991,361	794,775	2,870,010
Financial guarantee contracts .....			334,054	10,568	344,622
<b>Total</b>	<b>15,881,177</b>	<b>5,677,346</b>	<b>19,086,678</b>	<b>6,779,072</b>	<b>47,424,274</b>

### 32. Credit quality of financial assets

#### a. Breakdown

Credit quality of financial assets is specified as follows:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
<b>30.6.2015</b>							
Cash and cash equivalents .....	17,202,242			17,202,242			17,202,242
Receivables from Central Bank .....	3,635,815			3,635,815			3,635,815
Fixed income securities .....	4,049,497			4,049,497			4,049,497
Securities used for hedging .....	5,373,220			5,373,220			5,373,220
Loans to customers .....	23,419,188	1,208,524	132,668	24,760,379	(83,240)	(180,999)	24,496,139
Derivatives .....	500,648			500,648			500,648
Other assets .....	1,354,164		13,525	1,367,689		(1,725)	1,365,964
<b>Total</b>	<b>55,534,774</b>	<b>1,208,524</b>	<b>146,193</b>	<b>56,889,491</b>	<b>(83,240)</b>	<b>(182,724)</b>	<b>56,623,526</b>

## Notes to the Consolidated Financial Statements

### 32. Credit quality of financial assets (cont.)

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
<b>31.12.2014</b>							
Cash and cash equivalents .....	12,970,418			12,970,418			12,970,418
Receivables from Central Bank .....	98,832			98,832			98,832
Fixed income securities .....	4,196,330			4,196,330			4,196,330
Securities used for hedging .....	3,729,376			3,729,376			3,729,376
Loans to customers .....	21,471,192	954,285	152,077	22,577,554	(108,761)	(181,654)	22,287,138
Derivatives .....	233,685			233,685			233,685
Other assets .....	687,063		9,853	696,916		(3,053)	693,863
<b>Total</b>	<b>43,386,896</b>	<b>954,285</b>	<b>161,930</b>	<b>44,503,111</b>	<b>(108,761)</b>	<b>(184,707)</b>	<b>44,209,642</b>

#### b. Past due but not individually impaired

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

	30.6.2015	31.12.2014
Past due 1-30 days .....	753,384	629,911
Past due 31-60 days .....	298,941	159,759
Past due 61-90 days .....	23,959	5,561
Past due 91-180 days .....	101,675	44,831
Past due 180-360 days .....	15,953	94,757
Past due more than 360 days .....	14,612	19,466
<b>Total</b>	<b>1,208,524</b>	<b>954,285</b>

#### c. Individually impaired

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

	Past due 1-30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Claim value
<b>30.6.2015</b>					
Services .....	40,000		1,019	13,274	54,294
Individuals .....	13,494	103	1,674	61,076	76,347
Holding companies .....	2				2
Retail .....	1,224			8,988	10,212
Real estate, construction and industry .....				5,338	5,338
<b>Total</b>	<b>54,721</b>	<b>103</b>	<b>2,693</b>	<b>88,676</b>	<b>146,193</b>
<b>31.12.2014</b>					
Services .....				4,653	4,653
Individuals .....	13,400	821		56,411	70,633
Holding companies .....				19,843	19,843
Retail .....				9,662	9,662
Real estate, construction and industry .....				57,139	57,139
<b>Total</b>	<b>13,400</b>	<b>821</b>	<b>0</b>	<b>147,708</b>	<b>161,930</b>



## Notes to the Consolidated Financial Statements

### 33. Breakdown of loans to customers

#### a. By industry

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

	Claim value	Impairment allowance	Carrying amount	%
<b>30.6.2015</b>				
Services .....	8,364,359	(78,239)	8,286,120	33.8%
Individuals .....	5,737,256	(93,876)	5,643,379	23.0%
Holding companies .....	4,137,189	(31,906)	4,105,282	16.8%
Retail .....	2,243,192	(27,432)	2,215,760	9.0%
Financial institutions .....	1,852,211	(14,283)	1,837,927	7.5%
Real estate, construction and industry .....	1,826,525	(13,878)	1,812,648	7.4%
Other .....	599,647	(4,624)	595,023	2.4%
<b>Total</b>	<b>24,760,379</b>	<b>(264,239)</b>	<b>24,496,139</b>	<b>100.0%</b>

	Claim value	Impairment allowance	Carrying amount	%
<b>31.12.2014</b>				
Services .....	8,722,923	(73,166)	8,649,758	38.8%
Individuals .....	5,991,953	(105,474)	5,886,479	26.4%
Holding companies .....	3,436,347	(33,810)	3,402,537	15.3%
Retail .....	2,350,508	(28,436)	2,322,072	10.4%
Financial institutions .....	501,723	(4,058)	497,665	2.2%
Real estate, construction and industry .....	1,189,373	(42,360)	1,147,013	5.1%
Other .....	384,726	(3,111)	381,615	1.7%
<b>Total</b>	<b>22,577,554</b>	<b>(290,415)</b>	<b>22,287,138</b>	<b>100.0%</b>

#### b. By seniority

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

##### - Senior I

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

##### - Senior II

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

##### - Junior

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

##### - Mezzanine

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

The breakdown of loans by categories is as follows:

	Senior I	Senior II	Junior	Mezzanine	30.6.2015
Neither past due nor individually impaired .....	12,259,907	6,702,321	1,901,188	2,357,086	23,220,502
Past due but not individually impaired .....	424,949	307,200	373,968	120,093	1,226,210
Individually impaired .....	94	4,413	6,483	38,438	49,427
<b>Total</b>	<b>12,684,951</b>	<b>7,013,933</b>	<b>2,281,638</b>	<b>2,515,617</b>	<b>24,496,139</b>

	Senior I	Senior II	Junior	Mezzanine	31.12.2014
Neither past due nor individually impaired .....	7,158,273	9,499,752	2,944,486	1,628,183	21,230,694
Past due but not individually impaired .....	506,982	316,168	110,868	79,111	1,013,129
Individually impaired .....	1,634	6,950	27,131	7,601	43,315
<b>Total</b>	<b>7,666,889</b>	<b>9,822,870</b>	<b>3,082,485</b>	<b>1,714,895</b>	<b>22,287,138</b>

## Notes to the Consolidated Financial Statements

### 34. Collateral and other credit enhancements

#### a. Valuation

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. The methods used for financial assets are outlined in note 40. For other types of assets the Group uses third party valuation where possible. Haircuts are then applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

#### b. Loans to customers

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.6.2015
Public entities .....		88,902					88,902
Financial institutions .....		1,852,211	71				1,852,282
Corporate customers .....	1,299,344	40,566	3,443,482	7,986,845	1,517,666	53,086	14,340,988
Individuals .....	21,811	7,075	7,624	4,326,598	34,309	77,126	4,474,543
<b>Total</b>	<b>1,321,155</b>	<b>1,988,754</b>	<b>3,451,177</b>	<b>12,313,443</b>	<b>1,551,975</b>	<b>130,211</b>	<b>20,756,715</b>

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2014
Financial institutions .....	1	309,110					309,111
Corporate customers .....	720,827	52,435	2,801,236	9,191,701	327,599	2,299,054	15,392,852
Individuals .....	23,197	8,219	3,016	4,635,572	47,900	90,461	4,808,366
Other .....	509	54,187	2,004				56,700
<b>Total</b>	<b>744,533</b>	<b>423,952</b>	<b>2,806,256</b>	<b>13,827,274</b>	<b>375,499</b>	<b>2,389,515</b>	<b>20,567,029</b>

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

#### c. Derivatives

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.6.2015
Financial institutions .....	536,043	5,048	1,065,113				1,606,203
Corporate customers .....	601,129	39,199	169,892				810,220
Individuals .....	42,203	3,880	82,501				128,585
<b>Total</b>	<b>1,179,375</b>	<b>48,127</b>	<b>1,317,506</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,545,008</b>

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2014
Financial institutions .....	349,070	13,484	1,260,637				1,623,190
Corporate customers .....	307,432	39,852	58,395				405,679
Individuals .....	1,281	3,478	87,779				92,539
<b>Total</b>	<b>657,783</b>	<b>56,814</b>	<b>1,406,811</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,121,409</b>

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

## Notes to the Consolidated Financial Statements

### 35. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 30). According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base.

	30.6.2015		31.12.2014	
	Number	Amount	Number	Amount
<b>Large exposures before risk adjusted mitigation</b>				
10-20% of capital base .....	8	6,736,970	12	7,985,737
20-25% of capital base .....	1	1,232,109	0	0
Exceeding 25% of capital base .....	0	0	0	0
<b>Total</b>	9	7,969,079	12	7,985,737
Thereof nostro accounts with foreign banks with S&P rating of A- or higher .....	4	3,034,753	3	1,987,230
Large exposures net of risk adjusted mitigation .....	9	4,083,188	11	4,948,076

Large exposures net of risk adjusted mitigation take into account the effects of collateral held by the Bank, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

### 36. Liquidity risk

#### a. Maturity analysis of financial assets and financial liabilities

Maturity analysis of financial assets and financial liabilities is based on contractual maturity and takes into account both on-balance sheet and off-balance sheet items. Amounts are based on undiscounted cash flows, including both principal and interest cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis uses estimates based on current conditions.

When the timing of a cash flow is not fixed, e.g. for demand deposits, the analysis assumes the earliest possible payment of amounts due and the latest possible payment of amounts receivable, which is the worst case scenario from the Group's perspective.

The analysis does not account for measures the Group could take to improve its liquidity, e.g. the sale of listed securities. The Group also holds market securities with a carrying amount of ISK 4.9 billion at the reporting date, which can be converted to cash through repurchase agreements within two days.

## Notes to the Consolidated Financial Statements

### 36. Liquidity risk (cont.)

30.6.2015

#### Financial assets - contractual maturity

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Cash and cash equivalents .....	4,285,806	12,916,435					17,202,242	17,202,242
Receivables from Central Bank .....		3,635,815					3,635,815	3,635,815
Fixed income securities .....		168,880	470,764	3,647,781	655,576		4,943,002	4,049,497
Shares and other variable income securities .....						2,406,937	2,406,937	2,406,937
Securities used for hedging .....		14,944,735					14,944,735	14,944,734
Loans to customers .....	572,469	5,973,776	6,369,165	9,492,353	8,533,381		30,941,145	24,496,139
Other assets .....		1,365,964					1,365,964	1,365,964
Financial assets excluding derivatives	4,858,276	39,005,605	6,839,930	13,140,135	9,188,957	2,406,937	75,439,840	68,101,328
Derivatives .....		461,366		39,283			500,648	500,648
<b>Total</b>	4,858,276	39,466,971	6,839,930	13,179,418	9,188,957	2,406,937	75,940,488	68,601,977

#### Financial liabilities - contractual maturity

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Deposits from customers .....	22,667,372	2,574,549	2,849,454	1,313,223	89,651		29,494,249	29,328,303
Deposits from credit institutions .....	2,078,656						2,078,656	2,078,656
Borrowings .....	1,180,570	17,598,842	1,589,043				20,368,455	20,357,083
Short positions held for trading .....		6,052,766					6,052,766	6,052,766
Short positions used for hedging .....		2,681,724					2,681,724	2,681,724
Other liabilities .....		1,930,860					1,930,860	1,930,860
Loan commitments .....	3,167,726						3,167,726	
Financial guarantee contracts .....	409,640						409,640	
Financial liabilities excluding derivatives	29,503,964	30,838,742	4,438,497	1,313,223	89,651	0	66,184,077	62,429,393
Derivatives .....		719,462					719,462	719,462
<b>Total</b>	29,503,964	31,558,203	4,438,497	1,313,223	89,651	0	66,903,539	63,148,855

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Financial assets - contractual maturity .....	4,858,276	39,466,971	6,839,930	13,179,418	9,188,957	2,406,937	75,940,488	68,601,977
Financial liabilities - contractual maturity .....	(29,503,964)	(31,558,203)	(4,438,497)	(1,313,223)	(89,651)		(66,903,539)	(63,148,855)
<b>Net financial assets (liabilities)</b>	(24,645,688)	7,908,767	2,401,432	11,866,195	9,099,306	2,406,937	9,036,950	5,453,121

## Notes to the Consolidated Financial Statements

### 36. Liquidity risk (cont.)

31.12.2014

#### Financial assets - contractual maturity

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Cash and cash equivalents .....	3,750,397	9,220,022					12,970,418	12,970,418
Receivables from Central Bank .....		98,832					98,832	98,832
Fixed income securities .....		217,735	620,720	1,583,713	2,570,451	29,655	5,022,274	4,196,330
Shares and other variable income securities .....						790,723	790,723	790,723
Securities used for hedging .....		6,856,641					6,856,641	6,856,641
Loans to customers .....	578,819	5,609,256	5,097,777	9,435,183	8,013,669		28,734,704	22,287,138
Other assets .....	51,561	511,527	130,774				693,863	693,863
Financial assets excluding derivatives	4,380,777	22,514,013	5,849,271	11,018,895	10,584,120	820,378	55,167,455	47,893,946
Derivatives .....		199,158		11,969			211,127	233,685
<b>Total</b>	4,380,777	22,713,171	5,849,271	11,030,864	10,584,120	820,378	55,378,582	48,127,631

#### Financial liabilities - contractual maturity

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Deposits from customers .....	20,282,912	2,437,239	1,145,948	3,246,384	97,113		27,209,596	26,764,581
Deposits from credit institutions .....	2,711,342						2,711,342	2,711,342
Borrowings .....	2,784	9,039,523	883,210				9,925,516	9,854,731
Short positions held for trading .....		2,988,252					2,988,252	2,988,256
Short positions used for hedging .....		249,158					249,158	249,158
Other liabilities .....	299,259	479,618	175,394	53,725			1,007,996	1,007,996
Loan commitments .....	2,870,010						2,870,010	
Financial guarantee contracts .....	344,622						344,622	
Financial liabilities excluding derivatives	26,510,928	15,193,790	2,204,552	3,300,108	97,113	0	47,306,492	43,576,063
Derivatives .....		161,990	10,324				172,314	154,196
<b>Total</b>	26,510,928	15,355,780	2,214,876	3,300,108	97,113	0	47,478,806	43,730,259

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total	Carrying amount
Financial assets - contractual maturity .....	4,380,777	22,713,171	5,849,271	11,030,864	10,584,120	820,378	55,378,582	48,127,631
Financial liabilities - contractual maturity .....	(26,510,928)	(15,355,780)	(2,214,876)	(3,300,108)	(97,113)		(47,478,806)	(43,730,259)
<b>Net financial assets (liabilities)</b>	(22,130,151)	7,357,390	3,634,395	7,730,756	10,487,007	820,378	7,899,776	4,397,371

## Notes to the Consolidated Financial Statements

### 37. Exposure towards changes in the CPI

#### a. Definition

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

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

#### b. Management

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

#### c. Balance of CPI linked assets and liabilities

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

	<b>30.6.2015</b>	<b>31.12.2014</b>
Government bonds .....	180,235	2,204,010
Other fixed income securities .....	1,626,453	1,355,007
Loans to customers .....	4,885,603	4,926,942
Derivatives .....	543,518	539,441
Short positions .....	(1,530,412)	(671,942)
Liabilities .....	(5,221,386)	(5,545,008)
<b>Total</b>	<b>484,011</b>	<b>2,808,449</b>
	<b>30.6.2015</b>	<b>31.12.2014</b>
Assets .....	7,235,809	9,025,399
Liabilities .....	(6,751,798)	(6,216,950)
<b>Total</b>	<b>484,011</b>	<b>2,808,449</b>

### 38. Currency risk

#### a. Exchange rates

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

	<b>Closing</b>	<b>Average</b>	<b>Closing</b>	<b>Average</b>
	<b>30.6.2015</b>	<b>6m 2015</b>	<b>31.12.2014</b>	<b>6m 2014</b>
EUR/ISK .....	147.3	149.1	154.3	156.6
USD/ISK .....	131.6	133.6	126.9	114.4
ISK trade index .....	193.4	194.8	194.8	195.8

## Notes to the Consolidated Financial Statements

### 38. Currency risk (cont.)

#### b. Breakdown of financial assets and financial liabilities denominated in foreign currencies

##### 30.6.2015

##### Financial assets

	EUR	USD	GBP	NOK	Other currencies	Total
Cash and cash equivalents .....	1,091,009	2,637,852	477,186	244,977	165,322	4,616,345
Fixed income securities .....						0
Shares and other variable income securities .....		56,249			35,519	91,767
Securities used for hedging .....		400				400
Loans to customers .....	838,465	147,006			20,719	1,006,189
Other assets .....		41,094			166	41,259
<b>Financial assets excluding derivatives</b>	<b>1,929,473</b>	<b>2,882,599</b>	<b>477,186</b>	<b>244,977</b>	<b>221,725</b>	<b>5,755,961</b>
Derivatives .....		3,168				3,168
<b>Total</b>	<b>1,929,473</b>	<b>2,885,768</b>	<b>477,186</b>	<b>244,977</b>	<b>221,725</b>	<b>5,759,129</b>

##### Financial liabilities

	EUR	USD	GBP	NOK	Other currencies	Total
Deposits from customers .....	1,946,957	1,323,324	439,696	210,561	171,119	4,091,656
Borrowings .....	1,126	1,179,445				1,180,570
Subordinated liabilities .....						0
Short positions held for trading .....		12				12
Short positions used for hedging .....		400				400
<b>Financial liabilities excluding derivatives</b>	<b>1,948,082</b>	<b>2,503,180</b>	<b>439,696</b>	<b>210,561</b>	<b>171,119</b>	<b>5,272,638</b>
Derivatives .....	57,280	8,686	2,276		94,697	162,938
<b>Total</b>	<b>2,005,362</b>	<b>2,511,866</b>	<b>441,972</b>	<b>210,561</b>	<b>265,816</b>	<b>5,435,577</b>

##### Net currency position

	EUR	USD	GBP	NOK	Other currencies	Total
Net on-balance sheet position .....	(75,889)	373,902	35,215	34,416	(44,091)	323,552
Financial guarantee contracts .....	97,185	46,060				143,245
<b>Total</b>	<b>21,296</b>	<b>419,962</b>	<b>35,215</b>	<b>34,416</b>	<b>(44,091)</b>	<b>466,797</b>

##### 31.12.2014

##### Financial assets

	EUR	USD	GBP	NOK	Other currencies	Total
Cash and cash equivalents .....	1,614,337	1,286,923	330,286	226,143	334,126	3,791,814
Fixed income securities .....				84,637		84,637
Shares and other variable income securities .....	220	62,583		0	28,909	91,712
Securities used for hedging .....		391		0		391
Loans to customers .....	665,865	150,887			21,383	838,135
Other assets .....		1		1	59,964	59,965
<b>Financial assets excluding derivatives</b>	<b>2,280,422</b>	<b>1,500,784</b>	<b>330,286</b>	<b>310,781</b>	<b>444,383</b>	<b>4,866,656</b>
Derivatives .....		2,967				2,967
<b>Total</b>	<b>2,280,422</b>	<b>1,503,751</b>	<b>330,286</b>	<b>310,781</b>	<b>444,383</b>	<b>4,869,622</b>

##### Financial liabilities

	EUR	USD	GBP	NOK	Other currencies	Total
Deposits from customers .....	2,327,604	1,096,531	341,028	246,917	139,397	4,151,477
Borrowings .....		126				126
Subordinated liabilities .....		391				391
Short positions held for trading .....					17,649	17,649
<b>Financial liabilities excluding derivatives</b>	<b>2,327,604</b>	<b>1,097,048</b>	<b>341,028</b>	<b>246,917</b>	<b>157,046</b>	<b>4,169,643</b>
Derivatives .....						0
<b>Total</b>	<b>2,327,604</b>	<b>1,097,048</b>	<b>341,028</b>	<b>246,917</b>	<b>157,046</b>	<b>4,169,643</b>

##### Net currency position

	EUR	USD	GBP	NOK	Other currencies	Total
Net on-balance sheet position .....	(47,182)	406,703	(10,742)	63,864	287,337	699,979
Financial guarantee contracts .....	(206,105)	(83,949)			(10,568)	(300,622)
<b>Total</b>	<b>(253,287)</b>	<b>322,754</b>	<b>(10,742)</b>	<b>63,864</b>	<b>276,769</b>	<b>399,358</b>

# Notes to the Consolidated Financial Statements

## Financial assets and liabilities

### 39. Accounting classification of financial assets and liabilities

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

30.6.2015				Other at	Total
Financial assets	Held for trading	Designated at fair value	Loans and receivables	amortised cost	carrying amount
Cash and cash equivalents .....			17,202,242		17,202,242
Receivables from Central Bank .....			3,635,815		3,635,815
Fixed income securities .....	3,777,600	271,898			4,049,497
Shares and other variable income securities .....	1,732,443	674,494			2,406,937
Securities used for hedging .....		14,944,734			14,944,734
Loans to customers .....			24,496,139		24,496,139
Derivatives .....	500,648				500,648
Other assets .....			1,365,964		1,365,964
<b>Total</b>	<b>6,010,691</b>	<b>15,891,125</b>	<b>46,700,160</b>	<b>0</b>	<b>68,601,977</b>

Financial liabilities	Held for trading	Designated at fair value	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits from customers .....				29,328,303	29,328,303
Deposits from credit institutions .....				2,078,656	2,078,656
Borrowings .....				20,357,083	20,357,083
Short positions held for trading .....	6,052,766				6,052,766
Short positions used for hedging .....	2,681,724				2,681,724
Derivatives .....	719,462				719,462
Other liabilities .....				1,930,860	1,930,860
<b>Total</b>	<b>9,453,952</b>	<b>0</b>	<b>0</b>	<b>53,694,903</b>	<b>63,148,855</b>

31.12.2014				Other at	Total
Financial assets	Held for trading	Designated at fair value	Loans and receivables	amortised cost	carrying amount
Cash and cash equivalents .....			12,970,418		12,970,418
Receivables from Central Bank .....			98,832		98,832
Fixed income securities .....	3,923,384	272,946			4,196,330
Shares and other variable income securities .....	440,816	349,907			790,723
Securities used for hedging .....		6,856,641			6,856,641
Loans to customers .....			22,287,138		22,287,138
Derivatives .....	233,685				233,685
Other assets .....			693,863		693,863
<b>Total</b>	<b>4,597,885</b>	<b>7,479,494</b>	<b>36,050,251</b>	<b>0</b>	<b>48,127,631</b>

Financial liabilities	Held for trading	Designated at fair value	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits from customers .....				26,764,581	26,764,581
Deposits from credit institutions .....				2,711,342	2,711,342
Borrowings .....				9,854,731	9,854,731
Short positions held for trading .....	2,988,256				2,988,256
Short positions used for hedging .....	249,158				249,158
Derivatives .....	154,196				154,196
Other liabilities .....				1,007,996	1,007,996
<b>Total</b>	<b>3,391,609</b>	<b>0</b>	<b>0</b>	<b>40,338,650</b>	<b>43,730,259</b>

The book value of financial assets and liabilities not carried at fair value is considered a reasonable approximation of their fair value, as discussed in note 41. Their fair value is therefore not shown separately.



## Notes to the Consolidated Financial Statements

### 40. Financial assets and liabilities measured at fair value

#### a. Fair value hierarchy

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

- Level 1

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

- Level 2

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

- Level 3

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

#### b. Valuation process

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

#### c. Valuation techniques

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

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

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

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

## Notes to the Consolidated Financial Statements

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

#### d. Fair value hierarchy classification

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

#### 30.6.2015

##### Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities .....	3,777,600			3,777,600
Shares and other variable income securities .....	1,732,443			1,732,443
Derivatives .....		500,648		500,648
Designated at fair value				
Fixed income securities .....		29,656	242,242	271,898
Shares and other variable income securities .....	1,634	320,430	352,429	674,494
Securities used for hedging .....	14,944,734			14,944,734
<b>Total</b>	<b>20,456,411</b>	<b>850,735</b>	<b>594,671</b>	<b>21,901,817</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions held for trading .....	6,052,759	7		6,052,766
Short positions used for hedging .....	2,681,724			2,681,724
Derivatives .....		719,462		719,462
<b>Total</b>	<b>8,734,483</b>	<b>719,469</b>	<b>0</b>	<b>9,453,952</b>

There were no transfers between levels during the period.

#### 31.12.2014

##### Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities .....	3,923,384			3,923,384
Shares and other variable income securities .....	440,816			440,816
Derivatives .....		233,685		233,685
Designated at fair value				
Fixed income securities .....	3,981	29,655	239,310	272,946
Shares and other variable income securities .....	102,858	19,697	227,352	349,907
Securities used for hedging .....	6,856,641			6,856,641
<b>Total</b>	<b>11,327,680</b>	<b>283,037</b>	<b>466,662</b>	<b>12,077,379</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions held for trading .....	2,988,249	7		2,988,256
Short positions used for hedging .....	249,158			249,158
Derivatives .....		154,196		154,196
<b>Total</b>	<b>3,237,406</b>	<b>154,203</b>	<b>0</b>	<b>3,391,609</b>

## Notes to the Consolidated Financial Statements

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

#### e. Reconciliation of changes in Level 3 fair value measurements

	Fixed income securities	Shares and other var. income securities	Total
<b>30.6.2015</b>			
Balance as at 1 January 2015 .....	239,310	227,352	466,662
Total gains and losses in profit or loss .....	5,402	28,887	34,288
Purchases .....		95,596	95,596
Settlements .....	(2,470)		(2,470)
Sales .....		595	595
<b>Balance as at 30 June 2015</b>	<b>242,242</b>	<b>352,429</b>	<b>594,671</b>
<b>31.12.2014</b>			
Balance as at 1 January 2014 .....	197,537	257,594	455,131
Total gains and losses in profit or loss .....	52,597	(9,718)	42,878
Purchases .....		1,521	1,521
Settlements .....	(10,823)	(22,045)	(32,868)
<b>Balance as at 31 December 2014</b>	<b>239,310</b>	<b>227,352</b>	<b>466,662</b>

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

	Fixed income securities	Shares and other var. income securities	Total
<b>Net financial income - 6m 2015</b>			
Financial assets designated at fair value through profit or loss .....	5,402	28,887	34,288
<b>Total</b>	<b>5,402</b>	<b>28,887</b>	<b>34,288</b>

#### g. Fair value measurements for Level 3 financial assets

Level 3 assets consist primarily of highly illiquid, unlisted bonds, shares and share certificates. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use in 2015:

Asset class	Method	Significant unobservable input	Range	Book value 30.6.2015
Unlisted bonds (performing)	Expected recovery	Value of assets	90-100%	242,242
Unlisted shares	P/B multiplier	Equity	1.0-1.5	304,662
Unlisted unit shares	Investment multiplier	Original investment	0.37	47,767
Other assets (distressed/non-performing)	Fixed, nominal value			
<b>Total</b>				<b>594,671</b>
Asset class	Method	Significant unobservable input	Range	Book value 31.12.2014
Unlisted bonds (performing)	Expected recovery	Value of assets	83-100%	239,310
Unlisted shares	P/B multiplier	Equity	1.07-1.17	164,769
Unlisted unit shares	Investment multiplier	Original investment	0.51	62,583
Other assets (distressed/non-performing)	Fixed, nominal value			
<b>Total</b>				<b>466,662</b>

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

## Notes to the Consolidated Financial Statements

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

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

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

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

	+10%	-10%
Fixed income securities .....	24,224	(24,224)
Shares and other variable income securities .....	35,243	(35,243)
<b>Total</b>	<b>59,467</b>	<b>(59,467)</b>

### 41. Financial assets and liabilities not measured at fair value

Financial assets and liabilities not measured at fair value have either a short time to maturity or settlement, variable interest rates or other attributes which result in the carrying amount being a reasonable approximation of their fair value.

#### a. Fair value hierarchy classification

The carrying amount of financial assets and liabilities not measured at fair value in the statement of financial position is classified into a fair value hierarchy as follows:

#### 30.6.2015

##### Financial assets

	Level 1	Level 2	Level 3	Fair value
Cash and cash equivalents .....		17,202,242		17,202,242
Receivables from Central Bank .....		3,635,815		3,635,815
Loans to customers .....		24,363,472	132,668	24,496,139
Other assets .....		1,352,439	13,525	1,365,964
<b>Total</b>	<b>0</b>	<b>46,553,967</b>	<b>146,193</b>	<b>46,700,160</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Fair value
Deposits from customers .....		29,328,303		29,328,303
Deposits from credit institutions .....		2,078,656		2,078,656
Borrowings .....		20,357,083		20,357,083
Other liabilities .....		1,930,860		1,930,860
<b>Total</b>	<b>0</b>	<b>53,694,903</b>	<b>0</b>	<b>53,694,903</b>

#### 31.12.2014

##### Financial assets

	Level 1	Level 2	Level 3	Fair value
Cash and cash equivalents .....		12,970,418		12,970,418
Receivables from Central Bank .....		98,832		98,832
Loans to customers .....		22,135,062	152,077	22,287,138
Other assets .....		684,010	9,853	693,863
<b>Total</b>	<b>0</b>	<b>35,888,321</b>	<b>161,930</b>	<b>36,050,251</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Fair value
Deposits from customers .....		26,764,581		26,764,581
Deposits from credit institutions .....		2,711,342		2,711,342
Borrowings .....		9,854,731		9,854,731
Other liabilities .....		1,007,996		1,007,996
<b>Total</b>	<b>0</b>	<b>40,338,650</b>	<b>0</b>	<b>40,338,650</b>

# Notes to the Consolidated Financial Statements

## Segment information

### 42. Geographical information

Net operating income is based on the customer's country of domicile and assets are based on the geographical location of the assets.

<b>Net operating income</b>	<b>6m 2015</b>	<b>6m 2014</b>
Iceland .....	1,954,352	1,470,847
Other regions .....	(2,865)	15,746
Eliminations .....	(54,048)	5,715
<b>Total</b>	<b>1,897,439</b>	<b>1,492,307</b>
<b>Total assets</b>	<b>30.6.2015</b>	<b>31.12.2014</b>
Iceland .....	73,310,658	50,099,773
Other regions .....	51,170	108,206
Eliminations .....	(2,514,785)	(863,653)
<b>Total</b>	<b>70,847,043</b>	<b>49,344,327</b>

### 43. Business segments

Segment reporting is based on the same principles and structure as internal reporting to senior management and the board of directors. Segment performance is evaluated on earnings before tax.

Assets and liabilities which support revenue generation are allocated to business segments. All equity is allocated to Treasury and all funding flows through Treasury. The segments pay and receive interest from Treasury to reflect the allocation of capital and funding costs, with inter segment pricing being determined on an arm's length basis. Administrative expenses of support functions are allocated to business segments based on the underlying cost drivers.

#### a. Reportable segments

The Group defines three reportable segments which reflect the reporting structure of the Bank.

##### - Asset Management

Products and services offered include asset management, both domestic and foreign assets, private banking, and private pension plans.

##### - Banking

Banking offers various forms of savings (e.g. checking accounts, savings accounts and money market deposits) and lending (e.g. overdrafts, mortgages, inventory financing, project financing and credit cards) and payment services, with a special focus on institutional investors, financial institution, SME's and professionals. Banking also provides treasury services to the Bank.

##### - Markets

Markets offers securities and foreign currency brokerage, derivatives brokerage, forward contracts, market making activities and merger and acquisition advisory services to clients, which include institutional investors, corporates and high net worth individuals. Markets also manage proprietary trading on behalf of the Bank.

Information about other divisions of the Bank, e.g. non-revenue generating divisions, various non-core subsidiaries of the Bank, non-current assets classified as held for sale, and certain non-core assets acquired from EA fjárfestingarfélag hf. in 2011, primarily unlisted securities and non-performing loans, is presented under the heading Other operations.

#### b. Business segment balance sheet

30.6.2015	Asset			Other Operations	Elimination entries	Total
	Management	Banking	Markets			
Segment assets 30.6.2015 .....	137,467	100,762,452	30,829,060	1,178,587	(62,060,523)	70,847,043
Segment liabilities 30.6.2015 .....	137,467	93,075,560	30,829,060	1,178,587	(62,060,523)	63,160,151
Segment equity 30.6.2015 .....	0	7,686,892	0	0	0	7,686,892

## Notes to the Consolidated Financial Statements

### 43. Business segments (cont.)

	Asset			Other	Elimination	
31.12.2014	Management	Banking	Markets	Operations	entries	Total
Segment assets 31.12.2014 .....	150,625	76,965,970	15,131,712	1,743,965	(44,647,946)	49,344,327
Segment liabilities 31.12.2014 .....	150,625	71,369,464	15,131,712	1,743,965	(44,647,946)	43,747,821
Segment equity 31.12.2014 .....	0	5,596,506	0	0	0	5,596,506

Elimination entries arise primarily from internal funding, as all funding flows through Treasury which is a part of the Banking segment.

### c. Business segments results

	Asset			Other	Elimination	
6m 2015	Management	Banking	Markets	Operations	entries	Total
Net interest income .....	(20)	289,619	260,224	(12,531)	(16,215)	537,293
Net fee and commission income .....	134,904	128,714	433,811	205,864	(16,834)	886,459
Net financial income (expense) .....	34	21,788	120,583	12,740	0	155,145
Share in profit of associates, net of income tax .....	39,949	0	0	(23,408)	(16,541)	0
Other operating income .....	0	0	714	338,501	(20,673)	318,542
Net operating income from external customers	174,867	440,121	815,332	521,166	(70,263)	1,897,439
Net operating income from internal customers .....	2,104	272,295	(274,399)	23,626	(23,626)	0
Net operating income	176,971	712,416	540,933	544,793	(93,890)	1,897,439
Administrative expenses .....	(213,715)	(589,653)	(600,365)	(332,789)	16,834	(1,719,687)
Impairment of loans and receivables .....	0	(27,289)	0	0	0	(27,289)
Loss from assets held for sale .....	0	0	0	(6,338)	0	(6,338)
<b>Profit (loss) before taxes .....</b>	<b>(36,743)</b>	<b>95,475</b>	<b>(59,432)</b>	<b>205,665</b>	<b>(77,055)</b>	<b>144,125</b>

	Asset			Other	Elimination	
6m 2014	Management	Banking	Markets	Operations	entries	Total
Net interest income .....	(21)	329,914	159,665	183,953	0	673,512
Net fee and commission income .....	122,627	146,338	376,526	181,913	(13,211)	814,192
Net financial income (expense) .....	(166)	(493)	(49,169)	(3,799)	0	(53,627)
Share in profit of associates, net of income tax .....	8,560	0	0	(41,850)	18,926	(14,364)
Other operating income .....	0	2,268	703	69,625	0	72,595
Net operating income from external customers	130,999	478,027	487,725	389,842	5,715	1,492,307
Net operating income from internal customers .....	2,148	268,793	(100,852)	(170,088)	0	0
Net operating income	133,147	746,819	386,873	219,754	5,715	1,492,307
Administrative expenses .....	(187,883)	(623,425)	(426,800)	(390,295)	13,211	(1,615,192)
Impairment of loans and receivables .....	0	(19,111)	0	349	0	(18,762)
Loss from assets held for sale .....	0	0	0	(3,548)	0	(3,548)
<b>Profit (loss) before taxes .....</b>	<b>(54,736)</b>	<b>104,283</b>	<b>(39,928)</b>	<b>(173,740)</b>	<b>18,926</b>	<b>(145,194)</b>

Internal reporting is based on the results of the Bank, which accounts for around 90% of the net operating income of the Group, and do not take into account the effects of consolidation. As a result, elimination entries are needed to reconcile internal reporting with consolidated results. Elimination entries arise primarily from interest calculated on internal balances, share in the results of subsidiaries and fees charged for services the parent provides to subsidiaries.

# Notes to the Consolidated Financial Statements

## Other information

### 44. Related parties

#### a. Definition of related parties

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

#### b. Arm's length

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

#### c. Effects on statement of financial position

	Loans & receivables	Deposits & payables
<b>30.6.2015</b>		
Management .....	6,817	182,162
Associates .....	0	425,304
Shareholders .....	2,094	309,240
<b>Total</b>	<b>8,911</b>	<b>916,706</b>

	Loans & receivables	Deposits & payables
<b>31.12.2014</b>		
Management .....	8,821	123,420
Associates .....	0	194,319
Shareholders .....	0	0
<b>Total</b>	<b>8,821</b>	<b>317,739</b>

#### d. Off-balance sheet obligations

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

#### e. Effects on income statement

	Interest income	Interest expense	Fees received	Fees paid
<b>6m 2015</b>				
Shareholders .....	24	6,670	(2,839)	10,169
Management .....	314	655	55	1,539
Associates .....	0	4,721	0	0
<b>Total</b>	<b>314</b>	<b>5,376</b>	<b>55</b>	<b>1,539</b>

	Interest income	Interest expense	Fees received	Fees paid
<b>6m 2014</b>				
Management .....	37	2,755	2	2,016
Associates .....	0	3,569	0	133
<b>Total</b>	<b>37</b>	<b>6,324</b>	<b>2</b>	<b>2,149</b>

### 45. Pledged assets

The Group has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland in the amount of ISK 3.0 billion as at 30 June 2015 (2014: 3.0 billion) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 5.4 billion as at 30 June 2015 (2014: 4.0 billion).

### 46. Other matters

The Bank has reached an agreement to purchase an additional 8% stake in Íslensk verðbréf hf. which is one of the Bank's subsidiaries. The sale is expected to close before end of third quarter 2015.

### 47. Events after the reporting date

There were no material events after the reporting date.