Interim Consolidated Financial Statements

1 January - 31 March 2015

Unaudited

Arion Bank

CONTENTS

ENDORSEMENT AND STATEMENT BY THE BOARD OF DIRECTORS AND THE CEO

The Interim Financial Statements of Arion Bank for the period ended 31 March 2015 include the Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Outlook

The outlook for the Icelandic economy is positive. Economic growth, which slowed somewhat in the latter half of 2014, is now expected to be 2.7% in 2015 and to reach 3% in 2016 and beyond. The uncertainty regarding the economy is mainly linked to the expected lifting of the capital controls currently in place. The government and the Central Bank, along with local and international advisors, are preparing to lift the controls, and public announcements by both the prime minister and the minister of finance indicate that progress will be made in the near term. The increased foreign exchange reserves of the Central Bank, the successful re-entry of the Bank into the international capital markets and the improved terms of trade for Iceland should contribute to a favorable outcome. Another uncertainty regarding the economy is the current wage round being negotiated between employers and a number of large labour unions in Iceland. Excessive pay rises could temporarily increase inflation from the current 1% level and force the Central Bank to hike rates.

Arion Bank is a leading universal bank on the Icelandic market and has as such actively contributed to the recovery of the Icelandic economy. In recent years Arion Bank has systematically reduced risk in the Bank's loan portfolio by increasing the proportion of loans to individuals, most of which have been first lien mortgages. Loans are now evenly split between individuals and corporate. Furthermore, the distribution of the corporate loan book reflects the relative size of sectors in the Icelandic economy. The quality of the loan portfolio has continued to improve and the ratio of problem loans is now close to levels seen at banks in the other Nordic countries, especially when measured as a proportion of equity.

The Bank has strategically positioned itself as a market leader in Iceland in loans to new businesses in the export sector, health care and energy-intensive industries. The Bank aims to further strengthen its position in these areas. The Bank has also augmented its international loan portfolio by lending to businesses involved in fish-processing and the fisheries in neighboring countries, thus supporting growth while at the same time reducing geographical risk.

The Bank has successfully sold a number of shareholdings acquired by the Bank while restructuring the finances of some of its corporate clients. The Bank has, furthermore, actively managed a small number of such holdings and now aims to concentrate on selling such remaining shareholdings. In April 2015 Arion Bank sold its shareholding in the real estate company Eik fasteignafélag hf. in relation to the listing of the company on NASDAQ Iceland. Furthermore, the shareholding in the telecommunications company Síminn hf. is expected to be sold in the second half of 2015 in relation to the listing of the company on NASDAQ Iceland. The Bank is financially robust as demonstrated by the new Leverage Ratio of 14.5% (see Note 39) which the Bank will disclose in the future. The Bank’s capital strength, the positive outlook assigned by S&P and planned new funding enables Arion Bank to provide financial backing for its retail and corporate customers as their business expands, both domestically as well as internationally.

Operations during the period

Net earnings amounted to ISK 14,908 million for the period ended 31 March 2015. Net earnings are greatly affected by the sale and listing of the Group's direct and indirect shareholding in Refresco Gerber and the largest real estate company in Iceland, Reitir fasteignafélag hf. The Group’s equity amounted to ISK 177,115 million at period end. The capital adequacy ratio of the Group, calculated according to the Financial Undertakings Act, was 23.9% and Tier 1 capital was 21.2%, which comfortably meets the requirements set by law and the Financial Supervisory Authority ("FME"). The liquidity position was also strong at period end and well above the regulatory minimum.

The Group performed well during the period and operations were characterized by greater stability. Net interest income increase slightly compared to the same period in 2014 despite the fact that inflation was lower than in the same period in the previous year. Net commission income increased substantially between years, or by 19%, the increase generated across the Bank. The net valuation change on loans was positive by ISK 1.8 billion, which bears witness to the successful restructuring of the loan portfolio. Net financial income totals ISK 7.5 billion, a significant proportion of this relating to the holding in Refresco Gerber following the company's listing. The Bank's equities and bond portfolios also performed well during the period. Other operating income is greatly affected by the profit of associated companies and is mainly related to the sale and listing of Reitir fasteignafélag hf. on NASDAQ Iceland.

The main change on the Balance Sheet from year end 2014 is related to funding of the Bank, i.e. the issue of new senior unsecured bonds, amounting to ISK 45 billion, and an increase in deposit base after a slight reduction at the end of 2014. This increase is reflected on the asset side by an increase in Bank accounts and Loans to credit institutions.

On 3 March 2015 Arion Bank launched its inaugural euro senior unsecured benchmark transaction, the first by an Icelandic bank since 2008, when the Bank sold EUR 300 million 3-year fixed rate bonds to around 100 international investors. The demand for bonds was in excess of EUR 675 million which enabled the Bank to price at interbank rates +3.1%, or 0.15% lower than initial guidance. The transaction saw very strong demand from fund managers, pension funds and banks which combined accounted for 82% of the bonds sold. Geographically the investors from the UK and Nordics accounted for 48% and 31% of bonds sold respectively. The Bank’s inaugural bond is the first EUR public transaction and the single largest transaction, and the most important step taken by an Icelandic bank to re-enter the international capital markets since 2008. The Bank also continued the regular issuance of domestic covered bonds and commercial paper.

ENDORSEMENT AND STATEMENT BY THE BOARD OF DIRECTORS AND THE CEO

The Group had 1,112 full-time equivalent positions at the end of the period, compared with 1,120 at the end of 2014; 848 of these positions were at Arion Bank, compared with 865 at the end of 2014.

Group ownership

Arion Bank is a group of financial undertakings which provide comprehensive financial services to companies, institutions and private customers. These services include corporate banking, retail banking, investment banking and asset management. The Group includes subsidiaries in the real estate sector, card services and insurance.

Kaupskil ehf., a company owned by Kaupthing hf., holds 87% of the shares in Arion Bank. The remaining shareholding of 13% is held by Icelandic State Financial Investments on behalf of the Icelandic government.

Endorsement of the Board of Directors and the Chief Executive Officer

The Interim Financial Statements of Arion Bank for the period ended 31 March 2015 have been prepared in accordance with International Financial Reporting Standards (IAS 34 Interim Financial Reporting) as adopted by the European Union and additional requirements in the Icelandic Act on Financial Statements, Act on Financial Undertakings and Rules on Accounting for Credit Institutions, where applicable, to the extent that they are not inconsistent with the requirements of IFRS as adopted by the EU.

It is our opinion that the Interim Financial Statements give a true and fair view of the financial performance of the Group for the period ended 31 March 2015 and its financial position as at 31 March 2015.

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

The Board of Directors and the CEO have today discussed the Interim Financial Statements of Arion Bank for the period ended 31 March 2015 and confirm them by means of their signatures.

Reykjavík, 12 May 2015

Board of Directors

Monica Caneman
Chairman

Benedikt Olgeirsson

Guðrún Johnsen

Måns Höglund

Brynjólfur Bjarnason

Kirstín Þ. Flygenring

Þóra Hallgrímsdóttir

Chief Executive Officer

Höskuldur H. Ólafsson

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2015

	Notes	2015 1.1. -31.3.	2014 1.1. -31.3.
Interest income		11,644	12,891
Interest expense		(5,861)	(7,408)
Net interest income	5	5,783	5,483
Fee and commission income		5,057	4,264
Fee and commission expense		(1,300)	(1,116)
Net fee and commission income	6	3,757	3,148
Net financial income	7	7,539	(572)
Other operating income	8	4,702	918
Operating income		21,781	8,977
Salaries and related expense	9	(3,492)	(3,450)
Other operating expense	10	(2,896)	(2,747)
Net impairment	11	1,782	1,967
Earnings before tax		17,175	4,747
Income tax expense	12	(1,720)	(1,315)
Bank levy	13	(730)	(660)
Net earnings from continuing operations		14,725	2,772
Net gain from discontinued operations, net of tax	14	183	92
Net earnings		14,908	2,864
Attributable to			
Shareholders of Arion Bank		14,864	2,808
Non-controlling interest		44	56
Net earnings		14,908	2,864
Other comprehensive income			
Exchange difference on translating foreign subsidiaries	31	(5)	2
Total comprehensive income for the period		14,903	2,866
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to the shareholders of Arion Bank (ISK)	15	7.34	1.36

The notes on pages 10 to 53 are an integral part of these Interim Financial Statements.

Arion Bank Interim Consolidated I Financial Statements 31 March 2015 5 Amounts are in ISK millions

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

Assets	Notes	31.3.2015	31.12.2014
Cash and balances with Central Bank	16	63,575	21,063
Loans to credit institutions	17	125,643	108,792
Loans to customers	18	649,089	647,508
Financial instruments	19-21	106,675	101,828
Investment property	21	7,915	6,842
Investments in associates	23	24,965	21,966
Intangible assets	24	9,493	9,596
Tax assets	25	420	655
Other assets	26	16,549	15,486
Total Assets		1,004,324	933,736
Liabilities			
Due to credit institutions and Central Bank	20	21,561	22,876
Deposits	20	471,271	454,973
Financial liabilities at fair value	20	7,311	9,143
Tax liabilities	25	6,027	5,123
Other liabilities	27	50,794	47,190
Borrowings	20,28	249,751	200,580
Subordinated liabilities	20,29	20,494	31,639
Total Liabilities		827,209	771,524
Equity			
Share capital and share premium	31	75,861	75,861
Other reserves	31	1,627	1,632
Retained earnings		98,082	83,218
Total Shareholders' Equity		175,570	160,711
Non-controlling interest		1,545	1,501
Total Equity		177,115	162,212
Total Liabilities and Equity		1,004,324	933,736

The notes on pages 10 to 53 are an integral part of these Interim Financial Statements.

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY TO 31 MARCH 2015

	Share capital and share premium	Other reserves	Retained earnings	**Total Share-holders' equity**	Non-controlling interest	**Total equity**
Equity 1 January 2015	75,861	1,632	83,218	160,711	1,501	162,212
Total comprehensive income for the period		(5)	14,864	14,859	44	14,903
Equity 31 March 2015	75,861	1,627	98,082	175,570	1,545	177,115
Equity 1 January 2014	75,861	1,637	62,591	140,089	4,858	144,947
Total comprehensive income for the period		2	2,808	2,811	56	2,867
Equity 31 March 2014	75,861	1,639	65,400	142,900	4,913	147,813

The notes on pages 10 to 53 are an integral part of these Interim Financial Statements.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 7 Amounts are in ISK millions

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2015

	2015 1.1.-31.3.	2014 1.1.-31.3.
Operating activities		
Net earnings	14,908	2,864
Non-cash items included in net earnings and other adjustments	(16,599)	(4,012)
Changes in operating assets and liabilities	74,942	(32,623)
Interest received	10,116	8,083
Interest paid*	(2,643)	(2,669)
Dividend received	44	599
Income tax and Bank levy paid	(581)	(566)
Net cash from (used in) operating activities	80,187	(28,324)
Investing activities		
Net investment in associated companies	1,366	-
Net investment in property and equipment and intangible assets	(275)	(324)
Net cash from (used in) investing activities	1,091	(324)
Financing activities		
Payment of subordinated loan	(10,315)	-
Net cash used in financing activities	(10,315)	-
Net increase (decrease) in cash and cash equivalents	70,963	(28,648)
Cash and cash equivalents at beginning of the period	91,715	99,683
Effect of exchange rate changes on cash and cash equivalents	1,076	(961)
Cash and cash equivalents at the end of the period	163,754	70,074
Non-cash investing and financing transactions		
Assets acquired through foreclosure on collateral from customers with view to resale	232	295
Settlement of loans through foreclosure on collateral from customers with view to resale	(232)	(295)

* Interest paid includes interest credited to deposit accounts at the end of the period.

The notes on pages 10 to 53 are an integral part of these Interim Financial Statements.

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NOTES TO THE INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2015

	2015 1.1.-31.3.	2014 1.1.-31.3.
Non-cash items included in net earnings and other adjustments		
Net interest income	(5,783)	(5,480)
Net impairment	(1,782)	(1,967)
Income tax expense	1,720	1,315
Bank levy	730	660
Net foreign exchange (gain) loss	(308)	476
Net gain (loss) on financial instruments	(7,187)	695
Depreciation and amortisation	444	319
Share of (profit) loss of associates and fair value change	(4,211)	64
Net gain from discontinued operations, net of tax	(183)	(92)
Other changes	(39)	(2)
Non-cash items included in net earnings and other adjustments	(16,599)	(4,012)
Changes in operating assets and liabilities		
Mandatory reserve with Central Bank	344	(112)
Loans to credit institutions, excluding bank accounts	12,730	(3,073)
Loans to customers	4,789	(3,847)
Financial instruments and financial liabilities at fair value	907	(13,605)
Investment property	(1,034)	21
Other assets	(607)	(1,646)
Due to credit institutions and Central Bank	(2,392)	(2,441)
Deposits	10,907	(2,427)
Borrowings	48,180	(1,547)
Other liabilities	1,118	(3,946)
Changes in operating assets and liabilities	74,942	(32,623)
Cash and cash equivalents comprises		
Cash in hand and demand deposits	63,575	18,744
Due from credit institutions	108,770	60,429
Mandatory reserve with Central Bank	(8,591)	(9,099)
Cash and cash equivalents at the end of the period	163,754	70,074

The notes on pages 10 to 53 are an integral part of these Interim Financial Statements.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS CONTENTS

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

Arion banki hf., the Parent Company, was established 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion banki hf. is located at Borgartún 19, Reykjavík. The Interim Financial Statements for the period ended 31 March 2015 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

Statement of compliance

The Interim Financial Statements are consolidated and have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Act on Financial Statements, Act on Financial Undertakings and rules on Accounting for Credit Institutions, where applicable, to the extent that they are not inconsistent with the requirements of IFRS as adopted by the EU. The Interim Financial Statements do not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with Arion Bank´s Annual Financial Statements for the year 2014. The statements are available at Arion Bank's website www.arionbanki.is.

The Interim Financial Statements were approved and authorised for issue by the Board of Directors of Arion Bank on 12 May 2015.

Basis of measurement

The Interim Financial Statements are prepared on the historical cost basis except for the following:

- financial assets and financial liabilities held for trading are measured at fair value;
- financial assets and financial liabilities at fair value are measured at fair value;
- investment properties are measured at fair value; and
- non-current assets and disposal groups classified as held for sale are stated at the lower of their carrying amount and fair value, less costs to sell.

Functional and presentation currency

The Interim Financial Statements are presented in Icelandic Krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million unless otherwise stated. At the end of the period the exchange rate of the ISK against the USD was 137.27 and 147.35 for the EUR (31.12.2014: USD 127.46 and EUR 154.28).

2. Significant accounting estimates and judgements in applying accounting policies

The preparation of the Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The key sources of estimation uncertainty are within:

- impairment losses and reversal of impairment losses on loans; and
- investments in associates.

3. The Group

Shares in main subsidiaries in which Arion Bank held a direct interest at the end of the period

			Equity interest	
	Operating activity	Currency	31.03.2015	31.12.2014
AFL - sparisjóður, Aðalgata 34, Siglufjörður, Iceland	Retail banking	ISK	99.3%	99.3%
Arion Bank Mortgages Instit. Investor Fund, Borgartún 19, Reykjavík, Iceland	Retail banking	ISK	100.0%	100.0%
BG12 slhf., Katrínartún 2, Reykjavík, Iceland	Holding company	ISK	62.0%	62.0%
EAB 1 ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Eignarhaldsfélagið Landey ehf., Grófinni 1, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Okkar líftryggingar hf., Sóltún 26, Reykjavík, Iceland	Life insurance	ISK	100.0%	100.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Valitor Holding hf., Dalshraun 3, Hafnarfjörður, Iceland	Payment solutions	ISK	98.8%	98.8%

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OPERATING SEGMENT REPORTING

Segment information is presented in respect of the Group's operating segments based on the Group´s management and internal reporting structure. Segment performance is evaluated based on earnings before tax.

Inter segment pricing is determined on an arm's length basis. Operating segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital, funding cost and relevant risk premium.

Operating segments

The Group comprises six main operating segments:

Asset Management comprises Institutional Asset Management, Private Banking and Investment Services. Asset Management manages financial assets on behalf of its customers according to a pre-determined investment strategy. Asset Management also administers pension funds. In addition the division is the main distributor of funds managed by Stefnir hf. to individuals, companies and institutional investors as well as distributing funds managed by international fund management companies. Stefnir hf. is an independently operating financial company owned by Arion Bank. Stefnir manages a broad range of mutual funds, investment funds and institutional investor funds.

Corporate Banking provides comprehensive financial services and customized solutions to larger corporate clients in Iceland. Corporate Banking provides a full range of conventional lending products, deposit accounts as well as value added electronic corporate solutions to meet the needs of each customer.

Investment Banking is divided into Corporate Advisory, Capital Markets and Research. Corporate Advisory advises customers on securities offerings and the admission of securities for trading on regulated securities markets and also provides M&A advisory services. Capital Markets handles securities brokerage and foreign exchange trading for the Bank’s customers. Research publishes regular analyses of listed securities, the major business sectors, markets and the Icelandic economy and also produces economic forecasts. Investment Banking’s customers are private individuals, companies and institutions.

Retail Banking, including Arion Bank Mortgages Institutional Investor Fund and AFL - sparisjóður, provide a comprehensive range of services. That includes among other advice on deposits and loans, savings, payment cards, pension savings, insurance, securities and funds. To maximize operational efficiency the branch network is divided into six clusters, with the smaller branches capitalizing on the strength of larger units within each cluster. Customers of Retail Banking's 25 branches all around Iceland are over 100,000.

Treasury is responsible for the Bank’s liquidity management as well as currency and interest rate management for the Bank. The other main functions of Treasury are the internal pricing of interest rates and currency and liaison with other financial institutions.

Other divisions and Subsidiaries include market making in domestic securities and currencies. The subsidiaries are Eignabjarg ehf., Eignarhaldsfélagið Landey ehf., Okkar líftryggingar hf., Valitor holding hf., BG12 slhf., EAB 1 ehf. and other smaller entities of the Group.

Headquarters: Overhead, Risk Management, Accounting, Legal, Corporate Development and Marketing and Operations.

4. Operating segments

1.1.-31.3.2015	Asset Manage-ment and Stefnir	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other divisions and Sub-sidiaries	Head-quarters and Elimination	Total
Net interest income	94	1,475	(1)	3,265	875	61	14	5,783
Other income	986	219	7,690	800	(175)	2,015	4,463	15,998
Operating income	1,080	1,694	7,689	4,065	700	2,076	4,477	21,781
Operating expense	(373)	(127)	(204)	(1,377)	(64)	(1,337)	(2,906)	(6,388)
Net impairment	-	1,332	1,344	(463)	11	(439)	(3)	1,782
Earnings before tax	707	2,899	8,829	2,225	647	300	1,568	17,175
Net seg. rev. from ext. customers	656	3,059	7,861	6,143	(2,630)	2,195	4,497	21,781
Net seg. rev. from other segments	424	(1,365)	(172)	(2,078)	3,330	(119)	(20)	-
Operating income	1,080	1,694	7,689	4,065	700	2,076	4,477	21,781
Depreciation and amortisation	-	-	-	71	-	174	199	444
31.03.2015								
Total assets	5,151	230,701	53,241	416,131	215,406	59,038	24,656	1,004,324
Total liabilities	416	176,989	30,036	368,317	203,129	34,442	13,880	827,209
Allocated equity	4,735	53,712	23,205	47,814	12,277	24,596	10,776	177,115

1.1.-31.3.2014	Asset Manage-ment and Stefnir	Corporate Banking	Investment Banking	Retail Banking	Treasury	Other divisions and Sub-sidiaries	Head-quarters and Elimination	Total
Net interest income	144	1,340	50	3,293	996	(372)	32	5,483
Other income	917	163	612	577	(549)	1,578	196	3,494
Operating income	1,061	1,503	662	3,870	447	1,206	228	8,977
Operating expense	(362)	(132)	(184)	(1,423)	(63)	(1,230)	(2,803)	(6,197)
Net impairment	-	2,340	7	(1,048)	686	(25)	7	1,967
Earnings before tax	699	3,711	485	1,399	1,070	(49)	(2,568)	4,747
Net seg. rev. from ext. customers	558	3,730	776	6,109	(3,945)	1,535	214	8,977
Net seg. rev. from other segments	503	(2,227)	(114)	(2,239)	4,392	(329)	14	-
Operating income	1,061	1,503	662	3,870	447	1,206	228	8,977
Depreciation and amortisation	-	-	-	70	-	76	173	319
31.3.2014								
Total assets	4,918	249,411	35,868	399,586	158,497	76,801	8,064	933,145
Total liabilities	1,769	209,505	35,177	356,638	133,643	41,485	7,115	785,332
Allocated equity	3,149	39,906	691	42,948	24,854	35,316	949	147,813

The vast majority of the revenues from external customers is attributable to customers in Iceland.

Discontinued operations are excluded from the profit and loss segment information.

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NOTES TO THE INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5. Net interest income

	2015	2014
Interest income	1.1.-31.3.	1.1.-31.3.
Cash and balances with Central Bank	142	179
Loans	10,509	11,616
Securities	832	971
Other	161	125
Interest income	11,644	12,891
Interest expense		
Deposits	(3,147)	(4,448)
Borrowings	(2,394)	(2,629)
Subordinated liabilities	(306)	(324)
Other	(14)	(7)
Interest expense	(5,861)	(7,408)
Net interest income	5,783	5,483
Net interest income from assets and liabilities at fair value	832	971
Interest income from assets not at fair value	10,812	11,920
Interest expense from liabilities not at fair value	(5,861)	(7,408)
Net interest income	5,783	5,483
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	2.6%	2.6%

6. Net fee and commission income

1.1.-31.3.2015	Income	Expense	Net income
Asset management	1,011	(72)	939
Cards	2,490	(1,101)	1,389
Collection and payment services	329	(20)	309
Investment banking	675	(10)	665
Lending and guarantees	307	-	307
Other	245	(97)	148
Net fee and commission income	5,057	(1,300)	3,757
1.1.-31.3.2014			
Asset management	1,009	(83)	926
Cards	2,006	(808)	1,198
Collection and payment services	277	(25)	252
Investment banking	392	(14)	378
Lending and guarantees	228	-	228
Other	352	(186)	166
Net fee and commission income	4,264	(1,116)	3,148

Asset management fees are earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of the customers.

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7. Net financial income

	2015 1.1.-31.3.	2014 1.1.-31.3.
Dividend income	44	599
Net loss on financial assets and financial liabilities classified as held for trading	(56)	(361)
Net gain (loss) on financial assets and financial liabilities designated at fair value through profit or loss	7,243	(334)
Net foreign exchange gain (loss)	308	(476)
Net financial income	7,539	(572)

Net gain (loss) on financial assets and financial liabilities designated at fair value through profit or loss

Equity instruments designated at fair value	7,214	(253)
Interest rate instruments designated at fair value	29	(81)
Net gain (loss) on financial assets and financial liabilities designated at fair value through profit or loss	7,243	(334)

8. Other operating income

Share of profit of associates and reversal of impairment	4,211	(64)
Rental income from investment property	10	588
Fair value changes on investment property	39	-
Earned premiums, net of reinsurance	244	227
Other income	198	167
Other operating income	4,702	918

9. Personnel and salaries

Number of employees

Average number of full time equivalent positions during the period	1,113	1,144
Full time equivalent positions at the end of the period	1,112	1,140

The Bank's number of employees

Average number of full time equivalent positions during the period	852	913
Full time equivalent positions at the end of the period	848	908

Salaries and related expense

Salaries	2,688	2,658
Defined contribution pension plans	384	375
Salary related expense	420	417
Salaries and related expense	3,492	3,450

Salaries and related expense for the Bank

Salaries	1,991	2,093
Defined contribution pension plans	291	295
Salary related expense	301	340
Salaries and related expense	2,583	2,728

During the period the Group made a provision of ISK 44 million (Q1 2014: ISK 79 million) for performance plan payments, including salary related expense, thereof the Bank made a provision of ISK 15 million (Q1 2014: ISK 64 million). Forty percent of the payment is deferred for three years in accordance with FME rules on remuneration policy for financial undertakings. At the end of the period the Group's accrual for performance plan payments amounts to ISK 608 million (31.12.2014: ISK 741 million), thereof the Bank's accrual amounts to ISK 519 million (31.12.2014: ISK 639 million).

Arion Bank Interim Consolidated Financial Statements 31 March 2015 16 Amounts are in ISK millions

10. Other operating expense

	2015 1.1.-31.3.	2014 1.1.-31.3.
Administration expense	2,143	2,013
Depositors' and investors' guarantee fund	217	203
Depreciation of property and equipment	173	221
Amortisation of intangible assets	271	98
Direct operating expense derived from rental-earning investment properties	-	137
Claims incurred, net of reinsurance	74	73
Other expense	18	2
Other operating expense	2,896	2,747

11. Net impairment

Increase in book value of loans to corporates	1,959	588
Increase in book value of loans to individuals	398	203
Increase in book value of other assets	-	683
(Impairment) reversal of impairment of loans to corporates	394	1,394
Impairment of loans to individuals	(941)	(1,024)
(Impairment) Collective reversal	(3)	123
Impairment of intangible assets	(25)	-
Net impairment	1,782	1,967

12. Income tax expense

Current tax expense	1,224	1,107
Deferred tax expense	496	208
Income tax expense	1,720	1,315

Reconciliation of effective tax rate	1.1.-31.3.2015		1.1.-31.3.2014	
Earnings before tax		17,175		4,747
Income tax using the Icelandic corporation tax rate	20.0%	3,435	20.0%	949
Additional 6% tax on financial institutions	1.9%	334	6.0%	283
Non-deductible expenses	0.0%	3	1.9%	89
Tax exempt revenue	(13.3%)	(2,291)	(0.0%)	(1)
Other changes	1.4%	239	(0.1%)	(5)
Effective tax rate	10.0%	1,720	27.7%	1,315

Financial institutions pay 6% additional tax on taxable profit exceeding ISK 1.0 billion.

Tax exempt revenues consist mainly of profit from equity positions.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 17 Amounts are in ISK millions

13. Bank levy

The Bank levy is 0.376% on total debt excluding tax liabilities, in excess of ISK 50 billions. Non-financial subsidiaries are exempt from this tax. The tax is assessed on financial institutions to meet the funding of a special index and interest relief provided to individual tax payers.

14. Net gain from discontinued operations, net of tax

	2015 1.1.-31.3.	2014 1.1.-31.3.
Net gain from real estates and other assets	183	92
Net gain from discontinued operations, net of tax	183	92

15. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2015 1.1.-31.3.	2014 1.1.-31.3.	2015 1.1.-31.3.	2014 1.1.-31.3.
Net earnings attributable to the shareholders of Arion Bank	14,681	2,716	14,864	2,808
Weighted average number of outstanding shares for the period, million	2,000	2,000	2,000	2,000
Basic earnings per share	7.34	1.36	7.43	1.40

There were no instruments at the end of the period that could potentially dilute basic earnings per share (2014: none).

Arion Bank Interim Consolidated Financial Statements 31 March 2015 18 Amounts are in ISK millions

NOTES TO THE INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16. Cash and balances with Central Bank

	31.3.2015	31.12.2014
Cash on hand	5,875	5,255
Cash with Central Bank	49,109	6,873
Mandatory reserve deposit with Central Bank	8,591	8,935
Cash and balances with Central Bank	63,575	21,063

The mandatory reserve deposit with Central Bank is not available for the Group to use in its daily operations.

17. Loans to credit institutions

Bank accounts	108,770	79,587
Money market loans	12,624	23,007
Other loans	4,249	6,198
Loans to credit institutions	125,643	108,792

18. Loans to customers

31.3.2015	Individuals	Corporates	Total
Overdrafts	18,508	25,305	43,813
Credit cards	10,135	1,004	11,139
Mortgage loans	262,883	11,601	274,484
Capital lease	2,556	3,774	6,330
Other loans	31,716	307,966	339,682
Provision on loans	(13,587)	(12,772)	(26,359)
Loans to customers	312,211	336,878	649,089
31.12.2014			
Overdrafts	17,955	24,420	42,375
Credit cards	11,065	943	12,008
Mortgage loans	271,639	10,406	282,045
Capital lease	2,469	3,607	6,076
Other loans	31,294	300,391	331,685
Provision on loans	(13,111)	(13,570)	(26,681)
Loans to customers	321,311	326,197	647,508

The total book value of pledged loans that were pledged against amounts borrowed was ISK 197 billion at the end of the period (31.12.2014: ISK 197 billion). Pledged loans comprised mortgage loans to individuals, loans to real estate companies, wholesale and retail and industry and energy companies.

Further analysis of loans is provided in Risk Management Disclosures.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 19 Amounts are in ISK millions

18. Loans to customers, continued

Changes in the provision for losses on loans to customers

1.1.-31.3.2015	Specific	Collective	Total
Balance at the beginning of the year	22,214	4,467	26,681
Provision for losses	547	3	550
Write-offs	(889)	-	(889)
Payment of loans previously written off	17	-	17
Balance at the end of the period	21,889	4,470	26,359

1.1.-31.3.2014			
Balance at the beginning of the year	25,126	4,100	29,226
Provision for losses	(370)	(123)	(493)
Write-offs	744	(37)	707
Payment of loans previously written off	67	-	67
Balance at the end of the period	25,567	3,940	29,507

Significant accounting estimates and judgements

Key sources of estimation uncertainty are impairment losses on loans.

The Group reviews its loan portfolios to assess impairment at least quarterly as further described in Note 53 in the Annual Financial Statements for 2014. The specific component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, the workout strategy and estimate of cash flows considered recoverable are independently reviewed by the Credit Risk function.

19. Financial instruments

	31.3.2015	31.12.2014
Bonds and debt instruments	65,841	66,466
Shares and equity instruments with variable income	29,278	25,232
Derivatives	2,016	1,026
Securities used for hedging	9,540	9,104
Financial instruments	106,675	101,828

Arion Bank Interim Consolidated Financial Statements 31 March 2015 20 Amounts are in ISK millions

20. Financial assets and financial liabilities

31.3.2015	Amortised cost	Trading	Designated at fair value	Total
Loans				
Cash and balances with Central Bank	63,575	-	-	63,575
Loans to credit institutions	125,643	-	-	125,643
Loans to customers	649,089	-	-	649,089
Loans	838,307	-	-	838,307
Bonds and debt instruments				
Listed	-	2,011	62,332	64,343
Unlisted	-	34	1,464	1,498
Bonds and debt instruments	-	2,045	63,796	65,841
Shares and equity instruments with variable income				
Listed	-	733	6,039	6,772
Unlisted	-	1,560	20,473	22,033
Bond funds with variable income, unlisted	-	266	207	473
Shares and equity instruments with variable income	-	2,559	26,719	29,278
Derivatives				
OTC derivatives	-	2,016	-	2,016
Derivatives	-	2,016	-	2,016
Securities used for hedging				
Bonds and debt instruments, listed	-	2,693	-	2,693
Shares and equity instruments with variable income, listed	-	5,546	-	5,546
Shares and equity instruments with variable income, unlisted	-	1,301	-	1,301
Securities used for hedging	-	9,540	-	9,540
Other financial assets	4,601	-	-	4,601
Financial assets	842,908	16,160	90,515	949,583
Liabilities at amortised cost				
Due to credit institutions and Central Bank	21,561	-	-	21,561
Deposits	471,271	-	-	471,271
Borrowings	249,751	-	-	249,751
Subordinated liabilities	20,494	-	-	20,494
Liabilities at amortised cost	763,077	-	-	763,077
Financial liabilities at fair value				
Short position in bonds	-	5,521	-	5,521
Derivatives	-	1,790	-	1,790
Financial liabilities at fair value	-	7,311	-	7,311
Other financial liabilities	42,231	-	-	42,231
Financial liabilities	805,308	7,311	-	812,619

Arion Bank Interim Consolidated Financial Statements 31 March 2015 21 Amounts are in ISK millions

20. Financial assets and financial liabilities, continued

31.12.2014	Amortised cost	Trading	Designated at fair value	Total
Loans				
Cash and balances with Central Bank	21,063	-	-	21,063
Loans to credit institutions	108,792	-	-	108,792
Loans to customers	647,508	-	-	647,508
Loans	777,363	-	-	777,363
Bonds and debt instruments				
Listed	-	3,157	61,421	64,578
Unlisted	-	36	1,852	1,888
Bonds and debt instruments	-	3,193	63,273	66,466
Shares and equity instruments with variable income				
Listed	-	1,538	7,079	8,617
Unlisted	-	1,613	13,901	15,514
Bond funds with variable income, unlisted	-	928	173	1,101
Shares and equity instruments with variable income	-	4,079	21,153	25,232
Derivatives				
OTC derivatives	-	1,026	-	1,026
Derivatives	-	1,026	-	1,026
Securities used for hedging				
Bonds and debt instruments, listed	-	3,212	-	3,212
Shares and equity instruments with variable income, listed	-	4,911	-	4,911
Shares and equity instruments with variable income, unlisted	-	981	-	981
Securities used for hedging	-	9,104	-	9,104
Other financial assets	3,514	-	-	3,514
Financial assets	780,877	17,402	84,426	882,705
Liabilities at amortised cost				
Due to credit institutions and Central Bank	22,876	-	-	22,876
Deposits	454,973	-	-	454,973
Borrowings	200,580	-	-	200,580
Subordinated liabilities	31,639	-	-	31,639
Liabilities at amortised cost	710,068	-	-	710,068
Financial liabilities at fair value				
Short position in bonds	-	8,238	-	8,238
Derivatives	-	905	-	905
Financial liabilities at fair value	-	9,143	-	9,143
Other financial liabilities	39,032	-	-	39,032
Financial liabilities	749,100	9,143	-	758,243

Arion Bank Interim Consolidated Financial Statements 31 March 2015 22 Amounts are in ISK millions

20. Financial assets and financial liabilities, continued

Bonds and debt instruments designated at fair value specified by issuer	31.3.2015	31.12.2014
Financial and insurance activities	8,445	3,403
Public sector	54,148	58,730
Corporates	1,203	1,140
Bonds and debt instruments designated at fair value	63,796	63,273

The total amount of pledged bonds at the end of the period was ISK 18.0 billion (31.12.2014: ISK 18.0 billion). Pledged bonds comprise Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

21. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
Level 3: valuation techniques which include significant inputs that are not based on observable market data.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Assets and liabilities recorded at fair value by level of the fair value hierarchy

31.3.2015	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds and debt instruments	26,673	39,072	96	65,841
Shares and equity instruments with variable income	6,307	22,894	77	29,278
Derivatives	-	2,016	-	2,016
Securities used for hedging	7,895	1,645	-	9,540
Investment property	-	-	7,915	7,915
Assets at fair value	40,875	65,627	8,088	114,590
Liabilities at fair value				
Short position in bonds	5,521	-	-	5,521
Derivatives	-	1,790	-	1,790
Liabilities at fair value	5,521	1,790	-	7,311

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21. Fair value hierarchy, continued

31.12.2014	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds and debt instruments	26,677	38,611	1,178	66,466
Shares and equity instruments with variable income	8,072	17,062	98	25,232
Derivatives	-	1,026	-	1,026
Securities used for hedging	7,789	1,315	-	9,104
Investment property	-	-	6,842	6,842
Assets at fair value	42,538	58,014	8,118	108,670
Liabilities at fair value				
Short position in bonds	8,238	-	-	8,238
Derivatives	-	905	-	905
Liabilities at fair value	8,238	905	-	9,143

There have been no transfers between Level 1 and Level 2 during the period (2014: none).

The level of the fair value hierarchy of assets is determined at the end of each reporting period.

Movements in Level 3 assets measured at fair value	Investment property		Financial assets		Total	
	31.3.2015	31.12.2014	31.3.2015	31.12.2014	31.3.2015	31.12.2014
Balance at the beginning of the year	6,842	28,523	1,276	1,667	8,118	30,190
Recognised in Statement of Comprehensive Income	39	1,091	(1)	(373)	38	718
Additions	1,648	2,148	-	5	1,648	2,153
Disposal	(614)	(25,503)	(1,102)	(23)	(1,716)	(25,526)
Transfers into Level 3	-	583	-	-	-	583
Balance at the end of the period	7,915	6,842	173	1,276	8,088	8,118

Line items where effects of Level 3 assets are recognised in the Statement of Comprehensive Income

	2015 1.1.-31.3.	2014 1.1.-31.3.
Net interest income	15	19
Net financial income	(16)	(72)
Other operating income	39	-
Effects recognised in the Statement of Comprehensive Income	38	(53)

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21. Fair value hierarchy, continued

Carrying values and fair values of financial assets and financial liabilities that are not carried at fair value in the Financial Statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

31.3.2015	Carrying value	Fair value	Unrealised gain (loss)
Financial assets not carried at fair value			
Cash and balances with Central bank	63,575	63,575	-
Loans to credit institutions	125,643	125,643	-
Loans to customers	649,089	657,472	8,383
Other financial assets	4,601	4,601	-
Financial assets not carried at fair value	842,908	851,291	8,383
Financial liabilities not carried at fair value			
Due to credit institutions and Central bank	21,561	21,561	-
Deposits	471,271	471,437	(166)
Borrowings	249,751	253,112	(3,361)
Subordinated loans	20,494	20,494	-
Other financial liabilities	42,231	42,231	-
Financial liabilities not carried at fair value	805,308	808,835	(3,527)

31.12.2014	Carrying value	Fair value	Unrealised gain (loss)
Financial assets not carried at fair value			
Cash and balances with Central bank	21,063	21,063	-
Loans to credit institutions	108,792	108,792	-
Loans to customers	647,508	657,261	9,753
Other financial assets	3,514	3,514	-
Financial assets not carried at fair value	780,877	790,630	9,753
Financial liabilities not carried at fair value			
Due to credit institutions and Central bank	22,876	22,876	-
Deposits	454,973	455,133	(160)
Borrowings	200,580	197,115	3,465
Subordinated loans	31,639	31,639	-
Other financial liabilities	39,032	39,032	-
Financial liabilities not carried at fair value	749,100	745,795	3,305

Financial assets and financial liabilities predominantly bear interest at floating rates. For assets and liabilities not at floating rates fair value is determined by Level 2 methods for which the valuation input is market observable interest rates.

Retail mortgages are estimated by using the discount cash flow method with the interest rates offered on new loans, taking into account mortgaging. Defaulted loans are presented at book value as no future cash flow is expected on them. Instead they are written down according to their estimated potential recovery value. Other loans, including corporate loans, are presented at book value as they are generally of a shorter duration than retail mortgages and the interest rate risk on them is therefore limited.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 25 Amounts are in ISK millions

21. Fair value hierarchy, continued

Derivatives	Fair value	
31.3.2015	Assets	Liabilities
Forward exchange rate agreements, unlisted	475	723
Interest rate and exchange rate agreements, unlisted	685	678
Bond swap agreements, unlisted	19	24
Share swap agreements, unlisted	396	353
Options - purchased agreements, unlisted	441	12
Derivatives	2,016	1,790

31.12.2014		
Forward exchange rate agreements, unlisted	63	172
Interest rate and exchange rate agreements, unlisted	215	271
Bond swap agreements, unlisted	40	34
Share swap agreements, unlisted	230	397
Options - purchased agreements, unlisted	478	31
Derivatives	1,026	905

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22. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet				
31.3.2015	Gross assets before balance sheet nettings	Balance sheet nettings with gross liabilities	Assets recognised on balance sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements	Total assets recognised on balance sheet
Reverse repurchase agreements	10,153	-	10,153	(5,521)	-	4,632	-	10,153
Derivatives	116	-	116	(72)	-	44	1,900	2,016
Total assets	10,269	-	10,269	(5,593)	-	4,676	1,900	12,169
31.12.2014								
Reverse repurchase agreements	10,044	-	10,044	(8,238)	-	1,806	-	10,044
Derivatives	117	-	117	(1)	-	116	909	1,026
Total assets	10,161	-	10,161	(8,239)	-	1,922	909	11,070

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet				
31.3.2015	Gross liabilities before balance sheet nettings	Balance sheet nettings with gross assets	Liabilities recognised on balance sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arrangements	Total liabilities recognised on balance sheet
Repurchase agreements	5,521	-	5,521	(5,521)	-	-	-	5,521
Derivatives	105	-	105	(72)	-	33	1,685	1,790
Total liabilities	5,626	-	5,626	(5,593)	-	33	1,685	7,311
31.12.2014								
Repurchase agreements	8,238	-	8,238	(8,238)	-	-	-	8,238
Derivatives	1	-	1	(1)	-	-	904	905
Total liabilities	8,239	-	8,239	(8,239)	-	-	904	9,143

Accounting policies for offsetting are provided in Note 53 in the Annual Financial Statements for 2014.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 27 Amounts are in ISK millions

23. Investments in associates

The Group's interest in its principal associates	31.3.2015	31.12.2014
Auðkenni hf., Borgartún 31, Reykjavík, Iceland	21.0%	21.0%
Bakkavör Group Ltd., West Marsh Road, Spalding, Lincolnshire, United Kingdom	45.8%	45.8%
Farice ehf., Smáratorg 3, Kópavogur, Iceland	39.3%	39.3%
Klakki ehf., Ármúli 3, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Katrínartúni 2, Reykjavík, Iceland	21.7%	21.7%
Reitir fasteignafélag hf., Kringlan 4-12, Reykjavík, Iceland	22.1%	25.6%
Síminn hf., Ármúla 25, Reykjavík, Iceland	38.3%	38.3%
Urriðaland ehf., Laugavegi 182, Reykjavík, Iceland	41.4%	41.4%

Investments in associates		
Carrying amount at the beginning of the period	21,966	17,929
Additions	13	7,557
Dividend	-	(16)
Transfers	-	(2,636)
Sold during the period	(1,379)	(4,603)
Exchange difference	154	237
Share of profit of associates and reversal of impairment	4,211	3,498
Investment in associates	24,965	21,966

In January the Bank sold 3.5% shareholding in Reitir fasteignafélag hf. At the end of March the Bank offered 13.3% shareholding for sale in connection with the listing of Reitir fasteignafélag hf. on NASDAQ Iceland in April 2015. The sale of this shareholding took place beginning of April but the total effects of Reitir fasteignafélag hf. on the Statement of Comprehensive Income is ISK 4,224 million in the first quarter of 2015.

Significant accounting estimates and judgements

The Group accounts for investments in associates based on the equity method less applicable impairment. The impairment testing uses management valuation techniques and assumptions such as EBITDA multiples. Alternative assumptions could potentially result in significantly different carrying values but management considers that the impaired value is based on the most probable outcomes under current market conditions.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 28 Amounts are in ISK millions

24. Intangible assets

Intangible assets comprise four categories: Goodwill, Infrastructure, Customer Relationship and Related Agreements and Software. Goodwill arises on the acquisition of subsidiaries. Infrastructure and Customer Relationship and Related Agreements originate as a premium in connection with the acquisition of business activities in subsidiaries, while Software originates from the acquisition of software licenses and the introduction of the software into the Group's operations.

31.3.2015	Goodwill	Infra-structure	Customer relation-ship and related agreements	Software	Total
Balance at the beginning of the year	2,171	3,046	1,539	2,840	9,596
Additions	-	-	-	193	193
Impairment	-	(25)	-	-	(25)
Amortisation	-	-	(50)	(221)	(271)
Intangible assets	2,171	3,021	1,489	2,812	9,493

31.12.2014	Goodwill	Infra-structure	Customer relation-ship and related agreements	Software	Total
Balance at the beginning of the year	-	3,075	1,144	1,164	5,383
Acquisition through business combination	2,171	-	598	1,448	4,217
Additions	-	-	-	603	603
Impairment	-	(29)	-	-	(29)
Amortisation	-	-	(203)	(375)	(578)
Intangible assets	2,171	3,046	1,539	2,840	9,596

25. Tax assets and tax liabilities

	31.3.2015		31.12.2014	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	5,142	-	4,499
Deferred tax	420	885	655	624
Tax assets and tax liabilities	420	6,027	655	5,123

26. Other assets

	31.3.2015	31.12.2014
Non-current assets and disposal groups held for sale	3,685	3,958
Property and equipment	6,989	7,080
Accounts receivable	2,288	2,474
Sundry assets	3,587	1,974
Other assets	16,549	15,486

Non-current assets and disposal groups held for sale	31.3.2015	31.12.2014
Real estates	3,646	3,919
Other assets	39	39
Non-current assets and disposal groups held for sale	3,685	3,958

Real estates and other assets classified as non-current assets are generally the result of foreclosures on companies and individuals.

Arion Bank Interim Consolidated Financial Statements 31 March 2015 29 Amounts are in ISK millions

27. Other liabilities

	31.3.2015	31.12.2014
Accounts payable	21,434	20,909
Provision for settled FX loans	2,791	2,791
Depositors' and investors' guarantee fund	2,885	2,880
Insurance claim	2,483	2,402
Withholding tax	458	1,507
Bank levy	3,418	2,688
Sundry liabilities	17,325	14,013
Other liabilities	50,794	47,190

28. Borrowings

	Issued	Maturity	Maturity type	Terms of interest		
Covered bond in ISK	2012	2015	At maturity	Fixed, 6.50%	12,481	14,493
Covered bond in ISK	2013	2019	At maturity	Fixed, CPI linked, 2.50%	4,494	4,508
Covered bond in ISK	2014	2021	At maturity	Fixed, CPI linked, 3.50%	2,459	1,134
Covered bond in ISK	2014	2029	At maturity	Fixed, CPI linked, 3.50%	7,485	5,232
Covered bond in ISK	2005	2033	Amortizing	Fixed, CPI linked, 3.75%	17,311	17,428
Covered bond in ISK	2012	2034	Amortizing	Fixed, CPI linked, 3.60%	2,480	2,541
Covered bond in ISK	2008	2045	Amortizing	Fixed, CPI linked, 4.00%	6,156	6,165
Covered bond in ISK	2006	2048	Amortizing	Fixed, CPI linked, 3.75%	77,471	77,557
Covered bonds					130,337	129,058
Senior unsecured bond in NOK	2013	2016	At maturity	Floating, NIBOR +5.00%	7,492	8,478
Senior unsecured bond in ISK	2010	2018	Amortizing	Floating, REIBOR +1.00%	2,165	2,130
Senior unsecured bond in EUR	2009	2018	Amortizing	Floating, EURIBOR +1.00%	1,642	1,714
Senior unsecured bond in EUR	2015	2018	At maturity	Fixed, 3.125%	44,136	-
Bonds issued					55,435	12,322
Central Bank, secured, various curr.	2010	2022	At maturity	Floating, LIBOR + 3.00%	59,213	55,102
Bills issued					4,454	3,186
Other					312	912
Other loans/bills					63,979	59,200
Borrowings					249,751	200,580

Book value of listed bonds was ISK 186,419 million (31.12.2014: ISK 140,721 million) at the end of the period. Market value of those bonds was ISK 189,937 million (31.12.2014: ISK 137,715 million).

The Group repurchased own debts during the period for the amount of ISK 3 billion (2014: 20 billion) with minor effects on the Statement of Comprehensive Income.

29. Subordinated liabilities

	Issued	Maturity	Maturity type	Terms of interest	31.3.2015	31.12.2014
Tier II capital in various currencies	2010	2020	At maturity	Floating, EURIBOR/LIBOR + 5.00%	20,494	31,639
Subordinated liabilities					20,494	31,639

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30. Pledged assets

Pledged assets against liabilities	31.3.2015	31.12.2014
Assets, pledged as collateral against borrowings	238,248	233,191
Assets, pledged as collateral against loans from credit institutions and short positions	17,990	17,973
Pledged assets against liabilities	256,238	251,164

The Group has pledged assets against borrowings, both issued covered bonds and other issued bonds and loan agreements. The total value of those pledged assets was ISK 238 billion at the end of the period (31.12.2014: ISK 233 billion). Those assets were mainly pool of mortgage loans to individuals, loans to real estate companies, wholesale and retal and industry and energy companies. The book value of those borrowings was ISK 190 billion at the end of the period (31.12.2014: ISK 184 billion).

Assets are primarily pledged against borrowings associated with the acquisition of the pledged assets. Two major events are most significant. Assets were acquired from the Central Bank of Iceland in conjunction with the recapitalization of Arion Bank on 8 January 2010 and a portfolio of mortgages was acquired from Kaupthing hf. and is pledged against a structured covered bond that Arion Bank took over as issuer of from Kaupthing hf. at the end of 2011.

The Group has pledged bonds against short term lending from the Central Bank of Iceland and against short positions, related to swap agreements, to hedge market risk of those assets.

31. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 2,000 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the general meeting and are entitled to one vote per share at Shareholders' meetings.

	Number (million)	31.3.2015	Number (million)	31.12.2014
Issued share capital	2,000	75,861	2,000	75,861

Share premium represents excess of payment above nominal value that Shareholders have paid for shares issued by Arion banki hf.

Other reserves	31.3.2015	31.12.2014
Statutory reserve	1,632	1,637
Foreign currency translation reserve	(5)	(5)
Other reserves	1,627	1,632

OFF BALANCE SHEET INFORMATION

32. Obligations

Guarantees, unused overdraft and loan commitments the Group has granted its customers	31.3.2015	31.12.2014
Guarantees	11,762	9,542
Unused overdrafts	38,035	38,890
Loan commitments	80,487	56,363

Depositors' and Investors' Guarantee fund

The Icelandic parliament has discussed a bill on a new Depositors' and Investors' Guarantee Fund, without conclusion of the matter. Even though the law has not been amended Icelandic bank's have made quarterly payments to a separate division within the fund since 2010. Despite this change in execution and due to uncertainty of the shape of future legislation the liability brought forward from previous years is not changed from the balance of ISK 2,669 million. The Group has granted the Fund a guarantee for obligations amounting to ISK 3,210 million.

33. Assets under management and under custody

	31.3.2015	31.12.2014
Assets under management	963,530	923,599
Assets under custody	1,388,849	1,337,561

34. Legal matters

The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments, if appropriate, to account for any adverse effects which the claims may have on its financial standing. When the Group is of the opinion that it is to the detriment of the Group's case to disclose potential amounts relating to legal claims, it elects not to do so. At the end of the period, the Group had several unresolved legal claims.

i) Contingent liabilities

Investigation and legal proceedings regarding alleged breaches of competition law

The Bank and Valitor hf. reached a settlement with the Icelandic Competition Authority (ICA) in December 2014 concerning an investigation into the structure of the payment card system. The central issue in the settlement concerned changes to the way in which interchange fees, which card companies pay to the banks, are decided and the awarding of customer loyalty points. The Bank has already implemented the agreed changes. As part of the settlement the Bank paid a fine of ISK 450 million and Valitor hf. ISK 220 million. A formal Decision with reasoning behind settlement has not yet been published by the ICA, but is expected shortly. Further, under the settlement changes were made to the ownership of Valitor hf., with acquisition by the Bank of Landsbankinn´s stake in Valitor Holding hf. In June 2013 Kortaþjónustan hf. filed a suit, against the Bank and Valitor hf., as well as Landsbankinn hf., Íslandsbanki hf. and Borgun hf., claiming damages for the alleged loss suffered by Kortaþjónustan hf. in relation to above mentioned case. The case is being contested before the District Court of Reykjavík.

The ICA has also opened a formal investigation into the alleged abuse of an alleged collective dominant position by the three largest retail banks in Iceland, including the Bank. The investigation was initiated by separate complaints from BYR hf. and MP banki hf. made in 2010. The complaints from BYR hf. and MP banki hf. concern the terms of the Banks' mortgage arrangements, which, according to the complaint, deter individuals from moving their business to other banks and thereby restrict competition. The extent of the investigation and outcome is still uncertain as well as any effect on the Group. However, if the Bank will be deemed to have violated the Competition Act, it could result in a fine or restrictions by the ICA.

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34. Legal matters, continued

In April 2013 the ICA imposed a ISK 500 million fine on Valitor for abusing its dominant position on the payment card market and violating conditions set in an earlier decision of the Authority. Valitor appealed the decision to the Competition Appeals Committee. In October 2013 the Committee confirmed the decision of the Competition Authority. In May 2015 the District Court of Reykjavik confirmed the decision but lowered the fine to ISK 400 million. Whether the judgement will be appealed to the Supreme Court is not known at present time, but the time limit for appeal is three months.

Legal proceedings regarding damages

The former chairman of the Board of BM Vallá hf., together with Lindarflöt ehf., have filed two cases against the Bank claiming damages. The plaintiffs claim in total damages in the amount of over four billion ISK plus further specified interests. The plaintiffs claim that the Bank caused them, as shareholders of BM Vallá and Fasteignafélagið Ártún, damage by not granting the companies financial restructuring and thereby forcing the companies into bankruptcy. The Bank believes more than less likely that it will be acquitted of the plaintiff's claims in both cases and has therefore made no provision.

ii) Other legal matters

Legal proceedings regarding CPI loans

In 2013 the Supreme Court of Iceland requested an Advisory Opinion from the EFTA Court in two cases regarding the interpretation of certain provisions of EC Directives. In the cases the disagreement was is whether the CPI-indexation of a consumer loan and its presentation was in accordance with certain provisions of Icelandic law on contracts and consumer loans. An Advisory Opinion in the first case was published 28 August 2014 where the EFTA Court concluded, in short, that Directive 93/13/EEC does not generally prohibit contractual terms on the indexation of loans in contracts between lenders and consumers and that it was for the national court to assess whether the terms of such loans were unfair. An Advisory Opinion in the second case was published 24 November 2014 where the EFTA Court concluded i.a. that it is not compatible with Directive 87/102/EEC to calculate the total cost of the credit and the annual percentage rate of charge on the basis of 0% inflation if the known rate of inflation at the time of the credit agreement is not 0%. Furthermore the EFTA Court concluded that it was for the national court to assess, having regard to all the circumstances of the case, the legal consequences of and the remedies for such incorrect information. Following the Advisory Opinions the cases were continued at the District Court of Reykjavík. Judgments in both cases were pronounced in the District Court on 6 February 2015. The conclusion on the first case was that the indexation on the loan agreement was not considered an unfair contractual term. With respect to the second case, the District Court concluded that the lender could not, in the calculations of the total cost of the credit and the percentage rate of charge, assume that inflation was 0%. Therefore, the lender had not fulfilled its obligations to inform the borrower. However, the District Court concluded that this did not mean that the provisions of the loan agreement on such costs could be unconditionally ignored. In this respect the District Court pointed out that it should have been clear to borrowers, when taking out the loans, that price changes may occur during the loan period and that the loans would change in line with the CPI. The cases have been appealed to the Supreme Court. The first case will be heard before the Court on May 4, 2015. It is difficult to predict the outcome of the Supreme Court. If the Court finds in favour of the borrowers it is possible that the section of the loan agreements in general concerning the indexation of loans will be considered non-binding. It is also possible that the borrowers will be entitled to reimbursement of some or all the payments relating to CPI increases on their loans. The Group considers the possibility of this happening remote and has therefore made no provision due to this.

34. Legal matters, continued

The uncertainty regarding the book value of foreign currency loans

In recent years there has been considerable uncertainty over the legality of foreign currency loans to individuals and companies and the recalculation of those loans which are clearly currency-linked loans in Icelandic krona. Firstly, there has been uncertainty over which loans are considered legal foreign currency loans and which loans are considered currency-linked loans in Icelandic krona, and secondly over how loans in the latter category should be recalculated. The Bank has been required to recalculate numerous loans which are considered currency-linked loans in Icelandic krona on the basis of the Interest and Indexation Act No. 38/2001 and after examining the judgments passed by the Supreme Court which were considered to set a precedent for the Bank's loans.

The uncertainty of legality of FX loans has continued in 2015 and the Group constantly monitors judgments involving itself and others to refine its provisions on foreign currency loans.

Although there is more clarity in the matters of FX loans there still remains uncertainty regarding foreign currency linked loans in three respects. Firstly, there is uncertainty over the legality of certain loans. Secondly, there is disagreement over the recalculation and settlement of the loans, i.e. what interest rates should be used when recalculating the periods when the borrower did not actually pay any interest, for example during so-called "freeze-periods." Thirdly, there is uncertainty over which interest rate should apply to currency-linked loans in the future, i.e. whether they should bear the Central Bank's non-indexed rate or the contractual interest rate for each loan.

Nevertheless, the Group considers its portfolio of foreign currency linked loans fully provisioned for the most likely outcome.

iii) Legal matters concluded

In 2012 Kortaþjónustan hf. filed a suit against Valitor, Borgun and Greiðsluveitan, claiming damages for the alleged loss suffered by Kortaþjónustan hf. due to alleged breaches of competition law based on a settlement made by Valitor, Borgun and Greiðsluveitan with the ICA, published in an ICA Decision No 4/2008. The case was dropped in September 2014, and a new claim filed based on the findings of a court appointed evaluators on Kortaþjónustan's alleged damage. The case was settled in early March 2015 with a payment of ISK 250 million to Kortaþjónustan.

35. Events after Balance Sheet date

In April the Bank sold shareholding in Reitir fasteignafélag hf. as further discussed in Note 23.

In April the Bank increased its shareholding in Valitor Holding hf. when it purchased 0.6% shareholding. After the acquisition Arion Bank's shareholding in Valitor Holding hf. is 99.4%.

RELATED PARTY

36. Related party

The Group has a related party relationship with Kaupskil ehf., being the ultimate controlling party with 87% stake in Arion Bank, the Board of Directors of Kaupskil ehf. and Kaupthing hf., being the parent company of Kaupskil ehf.

Icelandic State Financial Investments (ISFI, a separate state institution under the Ministry of Finance) manages a 13% stake in Arion Bank and thus has influence over the Group. ISFI and related entities are defined as related parties.

The Board of Directors of Arion Bank, key Management personnel of the Bank and the Group's associates are defined as related parties, as well as close family members of individuals referred to above and legal entities controlled by them.

No unusual transactions took place with related parties during the period. Transactions with related parties have been conducted on an arm's length basis. There have been no further guarantees provided or received for related party receivables or payables.

Balances with related parties			Net
31.3.2015	Assets	Liabilities	balance
Shareholders with control over the Group	227	(51,302)	(51,075)
Board of Directors and key Management personnel	266	(66)	200
Associates and other related parties	21,091	(25,303)	(4,212)
Balances with related parties	21,584	(76,671)	(55,087)
31.12.2014			
Shareholders with control over the Group	577	(53,970)	(53,393)
Board of Directors and key Management personnel	260	(67)	193
Associates and other related parties	20,060	(22,861)	(2,801)
Balances with related parties	20,897	(76,898)	(56,001)

Through the ownership of ISFI the Group has a related party relationship with Landsbankinn hf. Landsbankinn hf. provides banking services to the Bank's subsidiary Valitor hf. and has a traditional bank to bank relationship with Arion Bank hf. The Group holds assets amounting to ISK 22,822 million (31.12.2014: ISK 28,881 million) by Landsbankinn hf. and liabilities amounting to ISK 7,346 million at the end of the period (31.12.2014: ISK 7,332 million). Those amounts are not included in the table above.

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RISK MANAGEMENT DISCLOSURES

The Group faces various risks arising from its day to day operations. Managing risk is therefore a core activity within the Group. The key to effective risk management is a process of on-going identification of significant risk, quantification of risk exposure, actions to limit risk and constant monitoring of risk. This process of risk management and the ability to evaluate, manage and correctly price the risk encountered is critical to the Group's continuing profitability as well as to be able to ensure that the Group's exposure to risk remains within acceptable levels.

Further information regarding risk management is available in the Annual Financial Statements for 2014 and in the Pillar 3 Risk Disclosures for 2014, published on the Bank's website, www.arionbanki.is. The Pillar 3 Risk Disclosures are not audited.

37. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

Credit risk arises anytime the Group commits its funds, resulting in capital or earnings being dependent on counterparty, issuer or borrower performance. Loans to customers and credit institutions are the largest source of credit risk. Credit risk is also inherent in other types of assets, such as bonds and debt instruments, and off-balance sheet items such as commitments and guarantees.

Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk for the components of the Interim Statement of Financial Position, at the end of the reporting period before the effect of mitigation due to collateral agreements or other credit enhancements.

Maximum exposure to credit risk related to on-balance sheet items	31.3.2015	31.12.2014
Cash and balances with Central Bank	63,575	21,063
Loans to credit institutions	125,643	108,792
Loans to customers	649,089	647,508
Financial instruments	70,550	70,704
Other assets with credit risk	4,601	3,514
Total on-balance sheet maximum exposure to credit risk	913,458	851,581
Maximum exposure to credit risk related to off-balance sheet items		
Financial guarantees	11,762	9,542
Unused overdrafts	38,035	38,890
Loan commitments	80,487	56,363
Total off-balance sheet maximum exposure to credit risk	130,284	104,795
Maximum exposure to credit risk	1,043,742	956,376

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37. Credit risk, continued

Loans to customers specified by sectors	31.3.2015	31.12.2014
Individuals	48.1%	49.6%
Real estate activities and construction	12.8%	12.5%
Fishing industry	11.9%	11.8%
Information and communication technology	3.5%	3.6%
Wholesale and retail trade	8.8%	8.5%
Financial and insurance activities	4.9%	4.3%
Industry, energy and manufacturing	3.2%	3.9%
Transportation	1.7%	0.9%
Services	2.9%	2.8%
Public sector	1.4%	1.2%
Agriculture and forestry	0.8%	0.9%
	100.0%	100.0%

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the exposure type. The main types of collateral obtained are as follows:

- Retail loans to individuals: Mortgages on residential properties.
- Corporate loans: Real estate, fishing vessels and other fixed and current assets, including inventory and trade receivables, cash and securities.
- Derivative exposures: Cash, treasury notes and bills, asset backed bonds, listed equity and funds that consist of eligible securities.

The value of collateral is based on estimated market value. The valuation of real estate is built on market price, official valuation of the Icelandic Property Registry, or the opinion of internal or external specialists. The valuation of fishing vessels takes into account related fishing quota.

Collateral value is monitored and additional collateral requested in accordance with the underlying agreement. Collateral value is reviewed in line with the adequacy of the allowance for impairment losses.

The collateral value in the table below is capped by the exposure amount.

Collateral held by the Bank against different types of financial assets

31.3.2015	Cash and securities	Real estate	Fishing vessels	Other collateral	Total
Cash and balances with Central Bank	-	-	-	-	-
Loans to credit institutions	-	-	-	-	-
Loans to customers					
Individuals	334	274,934	7	1,184	276,459
Real estate activities and construction	783	69,211	128	2,763	72,885
Fishing industry	69	5,260	62,342	3,856	71,527
Information and communication technology	85	2,215	-	17,798	20,098
Wholesale and retail trade	343	18,505	5	25,589	44,442
Financial and insurance activities	12,358	3,552	-	1,883	17,793
Industry, energy and manufacturing	785	10,448	582	3,529	15,344
Transportation	47	636	148	2,289	3,120
Services	154	3,235	40	718	4,147
Public sector	22	3,770	-	48	3,840
Agriculture and forestry	5	2,593	-	15	2,613
Financial instruments	5,063	-	-	-	5,063
Guarantees	840	2,974	400	2,838	7,052
Collateral held against different types of financial assets	20,888	397,333	63,652	62,510	544,383

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37. Credit risk, continued

31.12.2014	Cash and securities	Real estates	Fishing vessels	Other collateral	Total
Cash and balances with Central Bank	-	-	-	-	-
Loans to credit institutions	-	-	-	-	-
Loans to customers					
Individuals	440	282,871	43	1,093	284,447
Real estate activities and construction	635	66,910	11	2,976	70,532
Fishing industry	70	7,513	57,190	3,176	67,949
Information and communication technology	14	2,059	-	18,327	20,400
Wholesale and retail trade	261	16,522	5	30,173	46,961
Financial and insurance activities	12,108	2,584	-	2,886	17,578
Industry, energy and manufacturing	5,977	9,823	3	4,171	19,974
Transportation	42	587	153	3,019	3,801
Services	144	3,147	96	1,110	4,497
Public sector	18	3,700	-	152	3,870
Agriculture and forestry	5	2,546	-	124	2,675
Financial instruments	3,330	-	-	-	3,330
Guarantees	741	2,641	316	1,199	4,897
Collateral held against different types of financial assets	23,785	400,903	57,817	68,406	550,911

Information on collateral held at subsidiaries is not available.

Credit quality by class of financial assets

31.3.2015	Neither past due nor impaired	Past due but not impaired	Individu-ally impaired	Total
Cash and balances with Central Bank	63,575	-	-	63,575
Loans to credit institutions	125,643	-	-	125,643
Loans to customers				
Loans to corporates	317,228	16,997	2,653	336,878
Loans to individuals	273,560	30,391	8,260	312,211
Financial instruments	70,550	-	-	70,550
Other assets with credit risk	4,601	-	-	4,601
Credit quality by class of financial assets	855,157	47,388	10,913	913,458

31.12.2014				
Cash and balances with Central Bank	21,063	-	-	21,063
Loans to credit institutions	108,792	-	-	108,792
Loans to customers				
Loans to corporates	308,588	15,114	2,495	326,197
Loans to individuals	277,859	32,847	10,605	321,311
Financial instruments	70,704	-	-	70,704
Other assets with credit risk	3,514	-	-	3,514
Credit quality by class of financial assets	790,520	47,961	13,100	851,581

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37. Credit risk, continued

Neither past due nor impaired loans

The Bank uses internal credit rating models to monitor the development of credit risk and to estimate customers' probability of default (PD). The Bank rates customers with one of three models. For large corporates the Bank uses quantitative information based on financial statements as well as qualitative data. Credit ratings of individuals and SMEs are based on statistical models using historical information which has been found to be predictive. The models are updated annually and recalibrated with current data with the aim of improving their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement.

The table below shows loans to customers that are neither past due nor impaired, broken down by the Bank's classification scale, where 5 denotes the highest risk.

	Risk classification						
31.3.2015	1	2	3	4	5	Not rated	Total
Individuals	53,995	133,138	54,887	19,696	6,949	4,895	273,560
Real estate activities and construction	2,374	16,369	51,718	6,243	92	685	77,481
Fishing industry	30,232	23,137	13,402	2,204	2,223	1,759	72,957
Information and communication technology	399	19,001	3,284	56	-	-	22,740
Wholesale and retail trade	7,647	20,070	21,895	2,083	1,054	765	53,514
Financial and insurance activities	2,698	10,016	15,581	159	52	559	29,065
Industry, energy and manufacturing	2,100	9,705	8,035	211	20	332	20,403
Transportation	341	8,580	1,072	606	2	39	10,640
Services	1,199	9,826	3,609	436	13	2,502	17,585
Public sector	169	3,577	2,855	1,148	35	175	7,959
Agriculture and forestry	209	1,566	1,873	429	377	430	4,884
Neither past due nor impaired loans	101,363	254,985	178,211	33,271	10,817	12,141	590,788
31.12.2014							
Individuals	57,039	139,569	51,547	17,397	6,818	5,489	277,859
Real estate activities and construction	2,898	13,931	49,417	5,679	98	4,767	76,790
Fishing industry	25,757	26,757	13,681	2,182	1,599	1,596	71,572
Information and communication technology	371	19,469	3,205	219	-	-	23,264
Wholesale and retail trade	7,248	20,332	21,292	2,843	160	381	52,256
Financial and insurance activities	679	1,907	14,707	90	-	8,032	25,415
Industry, energy and manufacturing	7,804	8,017	6,996	517	363	621	24,318
Transportation	268	3,575	958	593	3	62	5,459
Services	820	9,848	3,577	533	13	2,571	17,362
Public sector	209	3,427	1,817	340	35	1,422	7,250
Agriculture and forestry	225	1,283	1,754	386	388	866	4,902
Neither past due nor impaired loans	103,318	248,115	168,951	30,779	9,477	25,807	586,447

Exposures that are 'Not rated' are primarily due to newly formed entities and entities for which the Bank's rating models are not applicable.

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37. Credit risk, continued

Past due but not impaired loans by class of loans

31.3.2015	Up to 3 days	4 to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to corporates	7,453	3,542	3,242	1,022	1,738	16,997
Loans to individuals	4,672	10,432	4,699	2,357	8,231	30,391
Past due but not impaired loans	12,125	13,974	7,941	3,379	9,969	47,388
31.12.2014						
Loans to corporates	6,553	2,434	2,267	565	3,295	15,114
Loans to individuals	3,436	10,589	5,974	847	12,001	32,847
Past due but not impaired loans	9,989	13,023	8,241	1,412	15,296	47,961

Loans past due up to three days are mainly overdrafts that were not renewed in time. The majority of the past due but not impaired loans are considered fully secured with collateral or have been acquired at discount. Loans aquired at discount are not considered to be impaired unless the specific allowance exceeds the discount received.

Collateral repossessed

During the period the Group took possession of assets due to foreclosures. The total amount of real estates the Group took possession of during the period and still holds at period end amount to ISK 232 million (31.12.2014: ISK 1,607 million) and other assets ISK 5 million (31.12.2014: ISK 10 million). The assets are held for sale, see Note 26.

Impaired loans to customers specified by sector	31.3.2015 Impair-ment amount	31.3.2015 Gross carrying amount	31.12.2014 Impair-ment amount	31.12.2014 Gross carrying amount
Individuals	10,959	19,219	11,016	21,621
Real estate activities and construction	1,381	1,686	1,396	1,981
Fishing industry	1,155	2,523	1,115	2,366
Information and communication technology	238	238	251	251
Wholesale and retail trade	611	930	751	831
Financial and insurance activities	6,514	6,529	6,739	6,756
Industry, energy and manufacturing	270	371	296	474
Transportation	18	19	18	18
Services	429	695	375	641
Public sector	65	209	27	35
Agriculture and forestry	249	383	230	340
	21,889	32,802	22,214	35,314

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37. Credit risk, continued

Large exposure

A large exposure is defined as an exposure to a group of financially related borrowers which exceeds 10% of the Group's capital base according to FME rule No 625/2013.

The legal maximum for individual large exposures is 25% of the capital base, net of eligible collateral, and the sum of all large exposures cannot exceed 400% of the capital base.

The largest exposure to a group of connected clients at the end of the period was ISK 25 billion (31.12.2014: ISK 25 billion) before taking account of eligible collateral. The Group has three large exposures at the end of the period (31.12.2014: two exposures) net of eligible collateral. Nostro accounts are excluded.

	31.3.2015		31.12.2014	
no.	Gross	Net	Gross	Net
1	16%	16%	14%	14%
2	12%	12%	11%	10%
3	10%	10%	<10%	<10%
Sum of large exposure gross and net > 10%	38%	38%	25%	24%

No large exposure exceeds the legal limit of 25% of the Group's capital base at the end of the period.

The sum of exposures exceeding 10% of capital base is 38% of the Group's capital base before collateral mitigation or 38% net of eligible collateral, which is well below the 400% legal maximum.

The capital base which is used as a basis for large exposure excludes unaudited Q1 earnings.

38. Market risk

Market risk is the current or prospective risk that changes in financial market prices and rates will cause fluctuations in the value and cash flows of financial instruments.

Market risk arises from imbalances in the Group's balance sheet as well as in market making activities and position taking in bonds, equities, currencies, derivatives, and other commitments which are marked to market.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Group's operations are subject to interest rate risk associated with a mismatch between interest bearing assets and interest bearing liabilities. This mismatch is characterised by a large gap between the interest fixing period of assets and liabilities, with a large amount of liabilities being demand deposits while the interest rates of assets are generally fixed for a long period, resulting in a yield curve risk for the Group. The Group also faces interest basis risk between interest bearing assets and interest bearing liabilities due to different types of floating rate indices in different currencies, of which the largest one is EUR.

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38. Market risk, continued

Interest rate risk in the banking book

The following table shows the Group's interest bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 21, and are therefore different from the amounts shown in the Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

The Group's interest bearing assets and liabilities by interest rate adjustement periods

31.3.2015 Assets	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	57,700	-	-	-	-	57,700
Loans to credit institutions	125,643	-	-	-	-	125,643
Loans to customers	378,546	35,259	88,718	3,755	151,194	657,472
Financial instruments	44,347	2,048	10,041	121	1,368	57,925
Assets	606,236	37,307	98,759	3,876	152,562	898,740
Liabilities						
Due to credit institutions and Central Bank	21,561	-	-	-	-	21,561
Deposits	464,340	3,700	3,296	-	101	471,437
Borrowings	86,266	1,200	48,379	2,528	114,740	253,113
Subordinated loans	20,494	-	-	-	-	20,494
Liabilities	592,661	4,900	51,675	2,528	114,841	766,605
Derivatives and other off-balance sheet items (net position)	(46,706)	-	46,883	-	-	177
Net interest gap	(33,131)	32,407	93,967	1,348	37,721	132,312

31.12.2014 Assets	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	15,808	-	-	-	-	15,808
Loans to credit institutions	108,792	-	-	-	-	108,792
Loans to customers	358,943	56,338	78,887	2,845	160,248	657,261
Financial instruments	39,963	1,552	12,609	4,672	1,046	59,842
Assets	523,506	57,890	91,496	7,517	161,294	841,703
Liabilities						
Due to credit institutions and Central Bank	22,876	-	-	-	-	22,876
Deposits	449,638	2,124	3,270	-	101	455,133
Borrowings	62,821	18,307	7,313	1,124	107,550	197,115
Subordinated loans	31,639	-	-	-	-	31,639
Liabilities	566,974	20,431	10,583	1,124	107,651	706,763
Derivatives and other off-balance sheet items (net position)	56	(2,760)	2,778	-	-	74
Net interest gap	(43,412)	34,699	83,691	6,393	53,643	135,014

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38. Market risk, continued

Interest rate risk in the trading book

The following table shows the total basis point value (BPV) of the Group's long and short bond positions in the trading book at market value (MV). BVP denotes the change in the price of a bond given a basis point (0.01%) change in the yield of the bond.

	31.3.2015			31.12.2014		
Trading financial instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
ISK, CPI Indexed linked	1,357	5.8	(0.8)	1,924	6.3	(1.2)
ISK, Non Indexed linked	6,073	(1.1)	0.7	3,353	(2.1)	0.7
FX	46,953	0.1	(0.7)	22,844	0.1	(0.2)
Total	54,383	0.1	(0.8)	28,121	0.3	(0.7)
Trading financial instruments, short positions						
ISK, CPI Indexed linked	572	0.7	(0.0)	1,003	6.1	(0.6)
ISK, Non Indexed linked	7,761	0.1	(0.1)	7,139	0.4	(0.3)
FX	47,953	0.1	(0.7)	22,243	0.1	(0.2)
Total	56,286	0.1	(0.8)	30,385	0.4	(1.1)

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38. Market risk, continued

Indexation risk

The Group is exposed to indexation risk when there is a mismatch between index-linked assets and liabilities. The total amount of indexed assets is ISK 286.3 billion (31.12.2014: ISK 289.2 billion) and the total amount of indexed liabilities is ISK 207.9 billion (31.12.2014: ISK 204.0 billion).

Transaction maturity profile of indexed assets and liabilities

31.3.2015 Assets, CPI indexed linked	Up to 1 year	1 to 5 years	Over 5 years	Total
Loans to customers	11,471	73,229	194,619	279,319
Financial instruments	4,177	-	-	4,177
Off-balance sheet position	846	2,003	-	2,849
Assets, CPI indexed linked	16,494	75,232	194,619	286,345
Liabilities, CPI indexed linked				
Deposits	68,048	18,625	2,459	89,132
Borrowings	2,042	13,784	102,446	118,272
Off-balance sheet position	530	-	-	530
Liabilities, CPI indexed linked	70,620	32,409	104,905	207,934
Net on-balance sheet position	(54,442)	40,820	89,714	76,092
Net off-balance sheet position	316	2,003	-	2,319
CPI Balance	(54,126)	42,823	89,714	78,411

31.12.2014 Assets, CPI indexed linked	Up to 1 year	1 to 5 years	Over 5 years	Total
Loans to customers	9,566	74,705	200,030	284,301
Financial instruments	2,090	-	-	2,090
Off-balance sheet position	825	1,952	-	2,777
Assets, CPI indexed linked	12,481	76,657	200,030	289,168
Liabilities, CPI indexed linked				
Deposits	66,489	19,615	2,415	88,519
Borrowings	2,019	13,703	99,277	114,999
Off-balance sheet position	524	-	-	524
Liabilities, CPI indexed linked	69,032	33,318	101,692	204,042
Net on-balance sheet position	(56,852)	41,387	98,338	82,873
Net off-balance sheet position	301	1,952	-	2,253
CPI Balance	(56,551)	43,339	98,338	85,126

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38. Market risk, continued

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Group is exposed to currency risk through a currency mismatch between assets and liabilities. ISK denominated deposits are a primary source of funding for the Group whereas a substantial part of the Group's assets consist of foreign currency denominated loans to customers. Net exposures per currency are monitored centrally in the Bank.

Breakdown of assets and liabilities by currency

31.3.2015 Assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with Central Bank	52,261	10,074	752	168	102	45	173	63,575
Loans to credit institutions	32,508	31,255	19,005	14,244	4,272	9,532	14,827	125,643
Loans to customers	534,409	43,694	29,497	7,189	13,104	5,647	15,549	649,089
Financial instruments	73,863	17,903	7,187	1,998	48	3,812	1,864	106,675
Investment property	7,915	-	-	-	-	-	-	7,915
Investments in associates	18,897	-	-	6,068	-	-	-	24,965
Intangible assets	5,345	-	-	-	4,148	-	-	9,493
Tax assets	420	-	-	-	-	-	-	420
Other assets	15,699	394	241	77	55	20	63	16,549
Assets	741,317	103,320	56,682	29,744	21,729	19,056	32,476	1,004,324
Liabilities and equity								
Due to credit inst. and Central Bank	17,130	598	812	6	-	-	3,015	21,561
Deposits	388,703	26,740	17,735	11,268	1,512	15,956	9,357	471,271
Financial liabilities at fair value	6,078	574	590	-	34	19	16	7,311
Tax liabilities	5,528	-	-	-	499	-	-	6,027
Other liabilities	39,251	3,281	4,977	869	1,338	225	853	50,794
Borrowings	137,268	45,779	24,201	9,040	-	7,492	25,971	249,751
Subordinated liabilities	-	13,688	2,747	4,059	-	-	-	20,494
Shareholders' equity	175,570	-	-	-	-	-	-	175,570
Non-controlling interest	1,545	-	-	-	-	-	-	1,545
Liabilities and equity	771,073	90,660	51,062	25,242	3,383	23,692	39,212	1,004,324
Net on-balance sheet position	(29,756)	12,660	5,620	4,502	18,346	(4,636)	(6,736)	
Net off-balance sheet position	10,432	(5,828)	(2,585)	(407)	(16,385)	(713)	15,486	
Net position	(19,324)	6,832	3,035	4,095	1,961	(5,349)	8,750	

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38. Market risk, continued

31.12.2014

Assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with Central Bank	19,472	5	904	178	107	46	351	21,063
Loans to credit institutions	35,076	16,570	13,141	13,646	2,946	11,084	16,329	108,792
Loans to customers	538,828	40,526	27,606	6,605	14,734	5,376	13,833	647,508
Financial instruments	73,851	14,963	7,776	3,436	47	1,736	19	101,828
Investment property	6,842	-	-	-	-	-	-	6,842
Investments in associates	16,052	-	-	5,914	-	-	-	21,966
Intangible assets	5,469	-	-	-	4,127	-	-	9,596
Tax assets	655	-	-	-	-	-	-	655
Other assets	14,665	485	128	123	26	52	7	15,486
Assets	710,910	72,549	49,555	29,902	21,987	18,294	30,539	933,736
Liabilities and equity								
Due to credit inst. and Central Bank ..	16,752	2,103	958	5	1	-	3,057	22,876
Deposits	374,063	25,949	16,247	11,348	9,306	8,075	9,985	454,973
Financial liabilities at fair value	8,971	43	127	-	1	-	1	9,143
Tax liabilities	4,642	-	-	-	481	-	-	5,123
Other liabilities	37,336	2,217	3,470	975	2,199	174	819	47,190
Borrowings	135,285	1,714	22,475	8,812	-	8,478	23,816	200,580
Subordinated liabilities	-	25,133	2,550	3,956	-	-	-	31,639
Shareholders' equity	160,711	-	-	-	-	-	-	160,711
Non-controlling interest	1,501	-	-	-	-	-	-	1,501
Liabilities and equity	739,261	57,159	45,827	25,096	11,988	16,727	37,678	933,736
Net on-balance sheet position	(28,351)	15,390	3,728	4,806	9,999	1,567	(7,139)	
Net off-balance sheet position	9,454	(9,065)	(397)	56	(8,963)	-	8,915	
Net position	(18,897)	6,325	3,331	4,862	1,036	1,567	1,776	

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39. Liquidity risk

Liquidity risk is defined as the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

Group's assets and liabilities at carrying amount by residual maturity

31.3.2015 Assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity
Cash and balances with Central Bank	63,575	55,140	-	8,435	-	-	-
Loans to credit institutions	125,643	71,110	54,533	-	-	-	-
Loans to customers	649,089	6,763	55,460	84,001	238,514	264,351	-
Financial instruments	106,675	4,812	3,173	1,668	56,387	4,510	36,125
Derivatives - assets leg	*39,608*	-	*29,878*	*3,853*	*5,877*	-	-
Derivatives - liabilities leg	*(37,592)*	-	*(28,549)*	*(3,566)*	*(5,477)*	-	-
Investment property	7,915	-	-	-	-	-	7,915
Investments in associates	24,965	-	-	-	-	-	24,965
Intangible assets	9,493	-	-	-	-	-	9,493
Tax assets	420	-	-	-	420	-	-
Other assets	16,549	12	2,866	806	885	14	11,966
Assets	1,004,324	137,837	116,032	94,910	296,206	268,875	90,464
Liabilities							
Due to credit institutions and Central Bank	21,561	12,998	1,195	7,344	24	-	-
Deposits	471,271	270,012	97,976	80,954	18,846	3,483	-
Financial liabilities at fair value	7,311	-	6,304	346	661	-	-
Derivatives - assets leg	*(30,763)*	-	*(19,683)*	*(6,251)*	*(4,829)*	-	-
Derivatives - liabilities leg	*32,552*	-	*20,465*	*6,597*	*5,490*	-	-
Short position bonds and derivatives	*4,887*	-	*4,887*	-	-	-	-
Short position bonds used for hedging	*635*	-	*635*	-	-	-	-
Tax liabilities	6,027	-	1,286	3,856	885	-	-
Other liabilities	50,794	113	35,656	6,328	223	117	8,357
Borrowings	249,751	-	19,296	25,240	45,864	159,351	-
Subordinated liabilities	20,494	-	-	-	13,689	6,805	-
Liabilities	827,209	283,123	161,713	124,068	80,192	169,756	8,357
Off-balance sheet items							
Guarantees	11,762	1,362	3,168	3,347	2,197	1,688	-
Unused overdraft	38,035	608	9,223	15,963	12,207	34	-
Loan commitments	80,487	4,255	24,643	23,263	28,326	-	-
Off-balance sheet items	130,284	6,225	37,034	42,573	42,730	1,722	-
Net assets (liabilities)	46,831	(151,511)	(82,715)	(71,731)	173,284	97,397	82,107

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39. Liquidity risk, continued

31.12.2014 Assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity
Cash and balances with Central Bank	21,063	12,285	-	8,778	-	-	-
Loans to credit institutions	108,792	52,119	56,673	-	-	-	-
Loans to customers	647,508	11,678	50,642	89,332	230,055	265,801	-
Financial instruments	101,828	7,562	742	2,203	52,527	7,670	31,124
Derivatives - assets leg	*28,234*	-	*6,654*	*15,659*	*5,921*	-	-
Derivatives - liabilities leg	*(27,209)*	-	*(5,912)*	*(15,524)*	*(5,773)*	-	-
Investment property	6,842	-	-	-	-	-	6,842
Investments in associates	21,966	-	-	-	-	-	21,966
Intangible assets	9,596	-	-	-	-	-	9,596
Tax assets	655	-	-	-	655	-	-
Other assets	15,486	47	2,283	46	1,121	17	11,972
Assets	933,736	83,691	110,340	100,359	284,358	273,488	81,500
Liabilities							
Due to credit institutions and Central Bank	22,876	13,652	2,238	6,962	24	-	-
Deposits	454,973	263,899	96,009	46,412	45,102	3,551	-
Financial liabilities at fair value	9,143	-	8,663	227	253	-	-
Derivatives - assets leg	*(15,693)*	-	*(4,525)*	*(10,504)*	*(664)*	-	-
Derivatives - liabilities leg	*16,598*	-	*4,950*	*10,731*	*917*	-	-
Short position bonds and derivatives	*5,478*	-	*5,478*	-	-	-	-
Short position bonds used for hedging	*2,760*	-	*2,760*	-	-	-	-
Tax liabilities	5,123	-	1,125	3,374	624	-	-
Other liabilities	47,190	667	30,372	5,192	2,680	120	8,159
Borrowings	200,580	-	1,776	20,057	24,908	153,839	-
Subordinated liabilities	31,639	-	-	-	-	31,639	-
Liabilities	771,524	278,218	140,183	82,224	73,591	189,149	8,159
Off-balance sheet items							
Guarantees	9,542	2,373	1,234	2,389	1,753	1,793	-
Unused overdraft	38,890	658	10,163	17,738	10,273	58	-
Loan commitments	56,363	2,432	21,419	15,705	16,807	-	-
Off-balance sheet items	104,795	5,463	32,816	35,832	28,833	1,851	-
Net assets (liabilities)	57,417	(199,990)	(62,659)	(17,697)	181,934	82,488	73,341

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39. Liquidity risk, continued

Liquidity coverage ratio

The liquidity coverage ratio (LCR) is part of the standards introduced in the Basel III Accord and is to be implemented in 2015 on a global level. The LCR is the result of a stress test that is designed to ensure that banks have the necessary assets on hand to withstand short-term liquidity disruptions. More accurately, LCR represents the balance between highly liquid assets and the expected net cash outflow of the Group in the next 30 days under stressed conditions.

To qualify as highly liquid assets under the LCR rules, assets must be non-pledged, liquid and easily priced on the market, repoable at the Central Bank and not issued by the Group or related entities.

The Central Bank has set a guideline for minimum LCR. In 2015, the LCR requirement is 100% in foreign currency and 80% in total (ISK and foreign currency). The latter benchmark increases by 10% every year until a 100% requirement is implemented in 2017.

Liquidity coverage ratio	31.3.2015	31.12.2014
FX	279%	254%
Total	192%	174%

LCR deposit categorization

As per the LCR methodology, the Group's deposit base is split into different categories depending on customer type. A second categorization is used where term deposits refer to deposits with a residual maturity greater than 30 days. Deposits that can be withdrawn within 30 days are marked stable if the customer has a business relationship with the Group and the amount is covered by the Deposit Insurance Scheme. Other deposit funds are considered less stable. A weight is attributed to each category, representing the expected outflow under stressed conditions, i.e. the level of stickiness.

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39. Liquidity risk, continued

The table below shows the breakdown of the Group's deposit base according to the LCR categorization, with the associated expected stressed outflow weights. Some similar categories are grouped together. The table contains deposits at the Bank and at banking subsidiaries. Thus, amounts due to Central Bank and amounts due to credit institutions at non-banking subsidiaries are excluded.

LCR categorization - amounts and LCR outflow weights

	Deposits maturing within 30 days					
31.3.2015	Less Stable	Weight (%)	Stable	Weight (%)	Term deposits*	Total deposits
Retail	80,798	10%	32,525	5%	54,846	168,169
SME	36,415	10%	3,817	5%	6,748	46,980
Operational relationship	-	25%	-	5%	1,123	1,123
Corporations	45,466	40%	808	20%	6,405	52,679
Sovereigns, central-banks and PSE	14,888	40%	-	-	2,632	17,520
Financial entities being wound up	17,134	100%	-	-	63,777	80,911
Pension funds	41,225	100%	-	-	18,165	59,390
Domestic financial entities	28,104	100%	-	-	17,861	45,965
Foreign financial entities	3,922	100%	-	-	328	4,250
Other foreign parties	3,466	100%	3,037	25%	1,998	8,501
Total	271,418		40,187		173,883	485,488
31.12.2014						
Retail	78,659	10%	36,076	5%	53,803	168,538
SME	36,060	10%	3,895	5%	6,011	45,966
Operational relationship	-	25%	-	5%	1,190	1,190
Corporations	36,961	40%	830	20%	5,873	43,664
Sovereigns, central-banks and PSE	12,196	40%	-	-	2,870	15,066
Financial entities being wound up	19,796	100%	-	-	67,105	86,901
Pension funds	36,824	100%	-	-	19,765	56,589
Domestic financial entities	22,634	100%	-	-	16,752	39,386
Foreign financial entities	4,532	100%	-	-	522	5,054
Other foreign parties	3,425	100%	3,026	25%	2,082	8,533
Total	251,087		43,827		175,973	470,887

* Here term deposits refer to deposits with maturities greater than 30 days.

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40. Capital management

The capital base at 31 March 2015 amounts to ISK 174,008 million. The capital adequacy ratio, calculated in accordance with Article 84 of the Act on Financial Undertakings was 21.8%, exceeding the minimum legal requirement of 8%.

The Group uses the standardised approach to calculate the capital requirements for credit risk and market risk and basic indicator approach for operational risk.

The Bank carries out an on-going process, the Internal Capital Adequacy Assessment Process (ICAAP), with the aim to ensure that the Bank has in place sufficient risk management processes and systems to identify, manage and measure the Bank’s total risk exposure. The ICAAP is aimed at identifying and measuring the Group’s risk across all risk types and ensure that the Group has sufficient capital in accordance to its risk profile. FME supervises the Group, receives the Group's internal estimation on the capital adequacy and sets capital requirements for the Group as a whole.

The Group is subject to capital requirements which are specified by the FME following the Supervisory Review and Evaluation Process (SREP). The Group‘s capital base exceeds the FME‘s SREP requirements.

Capital Base	31.3.2015	31.12.2014
Share capital and share premium	75,861	75,861
Other reserves	1,627	1,632
Retained earnings	98,082	83,218
Non-controlling interests	1,545	1,501
Total equity	177,115	162,212
Intangible assets	(9,493)	(9,596)
Tax assets	(420)	(655)
Other statutory deductions*	(12,913)	(111)
Tier 1 capital	154,289	151,850
Subordinated liabilities	20,494	31,639
Regulatory adjustments to Tier 2 capital	(684)	-
Other statutory deductions	(91)	(101)
Tier 2 capital	19,719	31,538
Total Capital base	174,008	183,388

Risk weighted assets		
Credit risk	625,520	591,994
Market risk FX	19,413	18,915
Market risk other	1,492	2,890
Operational risk	82,211	82,211
Total risk weighted assets	728,636	696,010

Capital ratios		
Tier 1 ratio	21.2%	21.8%
Capital adequacy ratio	23.9%	26.3%
Official Tier 1 ratio**	19.1%	21.8%
Official Capital adequacy ratio**	21.8%	26.3%

* Including forseeable dividend payment.

**Offical ratio is based on audited retained earnings at 31 December 2014.

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40. Capital management, continued

Leverage ratio

As part of the Basel III regulatory framework, the leverage ratio is seen as a complementary measure to the risk-based Capital adequacy ratio.

	31.3.2015	31.12.2014
On-balance sheet exposures	969,329	912,303
Derivative exposures	2,508	1,348
Securities financing transaction exposures	10,153	10,044
Off-balance sheet exposures	80,541	59,922
Total exposure	1,062,531	983,617
Tier 1 capital	154,289	151,850
Leverage ratio	14.5%	15.4%

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these Interim Financial Statements are consistent with those followed in the preparation of the Annual Financial Statements for the year 2014.

41. Going concern assumption

The Group's management has made an assessment of the ability to continue as a going concern and is satisfied that the Group has the resources to continue. In making this assessment, management has taken into consideration the risk exposures facing the Group which are further described in the Risk Management Disclosures. The Interim Financial Statements are prepared on a going concern basis.