Valitor Holding hf.

Consolidated Financial Statements

2015

Valitor Holding hf.
Dalshraun 3
220 Hafnarfjordur

Reg.no. 511207-0100

*These financial statements are translated from the original Icelandic.
Should there be discrepancies between the two versions,
the Icelandic version takes precedence over the translated version.

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Message from the CEO

The year 2015 was an eventful period of growth for Valitor Holding and the total comprehensive income for the year was 4.555 m. ISK. In general the core operations were solid, in spite of the fact that profits were lower than the forecast for the year. Post-tax profit was 29 m. ISK on a pre-tax income of 141 m. ISK. The results are impacted by the significant investment associated with the group's rapid expansion and growth abroad. The group's total operating revenues grew by 2,839 m. ISK, or 33%, compared to the prior year. The subsidiary Valitor hf., which operates under license from the Financial Services Authority of Iceland, enjoys a sound financial posistion with a total equity of 7.588 m. ISK and CAD ratio of 25,1%, which is significantly higher than the regulatory requirement of 8%.

Viðar Þorkelsson, CEO Valitor.

Operating income from international business continued to grow during the year. The vision and strategy set in 2012 has resulted in a 150% growth compared to 2014 and international operations now represent 52% of overall operating income. The fast pace of growth has tested the strength and resilience of Valitor's employees, as international operating income has grown by a factor of 20 during the last three years. A dedicated team effort has enabled the group to rise to the occasion. Increased turnover and volume strengthens Valitor's competitiveness, by lowering the cost per transaction.

In conjunction with the fast growth valuable milestones in strengthening of the group's infrastructure were met. The added robustness was shown when the systems developed and operated by Valitor handled large events such as the UK "Comic Relief" charity drive and the US "Black Friday" shopping events. The real time processing of a tremendous volume of transactions demonstrated the scalability and stability of the systems operated by Valitor.

Valitor's key partners abroad are some of the most progressive companies in the field of payment processing and fintech. These partnerships continue to sprout opportunities for cooperation with exciting parties such as Stripe, from the United States, and Klarna, of Sweden. Both are at the very forefront in the field of e-commerce. These include partnering with Stripe in acquiring for Comic Relief and when Valitor was among six acquiring partners selected from a group of 150 to service ApplePay as they entered the European market.

One of the most significant projects on the issuing side of the group was the development of a new multi-currency wallet for Caxton FX in collaboration with MasterCard. The product solution is a prepaid currency card offering a simple and convenient way to manage foreign currency while travelling. This far reaching project for the UK market clearly demonstrates Valitor's differentiation in the market and the competency of Valitor's employees both in development and international cooperation.

Early in 2015 Valitor product development team concluded development on several new POS solutions for the UK & Ireland market. With these addition the group now fulfills all basic needs in these markets. The new solution included a service gateway that will be used for all merchants and partners across all markets in the future. Towards the end of 2014 Valitor acquired the payment services provider Altapay in Denmark. The alignment of Altapay and Valitor operations was successful during 2015 and during the year Altapay took over the POS business of Valitor in Denmark.

A new business model was introduced for the Icelandic market during the year. It included substantial changes to the previous model that had mostly remained unchanged since the introduction of card transactions in Iceland. This included implementing far reaching commitments towards competition authorities on the basis of a settlement made in December 2014.

Message from the CEO, contd.:

Valitor increased the scope of its focus on social responsibility in 2015. Amongst other things that were done in this respect, was signing a declaration on climate change and switching to an electric car fleet. This was done in addition to the annual grants made from the group's community fund.

Valitor's core competencies are product development and the operation of software solutions for payments, in addition to providing outstanding service to our partners. The group has many exciting opportunities for growth in its key international markets. Valitor's goal is to be among the 30 largest payment acquirers in Europe in 2017. At that point international operating income should be at a minimum of 70% of the group's operating income.

In November 2015 Visa Inc. announced the acquisition of all shares in Visa Europe Ltd. The transaction is subject to an appeal process and regulatory approval in several countries. In exchange for its shares in Visa Europe Ltd., Visa Ísland, a subsidiary of Valitor Holding, will receive up to 48 m. EUR in cash and 16.5 m EUR in preference shares in Visa Inc. Additionally the company may be entitled to an earn-out payment in the future. The fair value of the share is stated in the group's balance sheet at 4,514 m. ISK. Should the transaction go through it will impact the net operating income in 2016.

Valitor's core values are Trust, Cooperation and Initiave. With those values as our guiding light and a clear vision of the future the group is well equipped to face the opportunities and challenges that lie ahead.

In conclusion I would like to thank all employees and the board for the cooperation during 2015.

Viðar Þorkelsson, CEO Valitor.

Endorsement by the Board of Directors and CEO

Operations in 2015

These consolidated financial statemants for the Valitor Holding hf. group are prepared in accordance with IFRS as adopted by the European Union.

The group's main purpose is to own and operate companies related to payment processing. The subsidiary Valitor hf. is a progressive payment service provider operating internationally emphasising initiative, trust and cooperation. Valitor hf.'s role is to provide it's customers with services facilitating successful transactions. VISA Ísland ehf. is a subsidiary of Valitor Holding hf. which purpose is to be the principal and sponsored member of VISA EUROPE.

The group's total comprehensive income amounted to 4,555 m. ISK with an operating profit of 28.9 m. ISK according to the Statement of Comprehensive Income. The equity of the group at the end of the year amounted to 12,373 m.

The Board of Directors and the CEO believe that it is necessary to maintain at all times sufficient equity in order to support further growth and meet unexpected events and risk due to fraud.

During the year the group had on average 208 employees and paid in total 2,495 m. ISK in salaries. The Board of Directors were 60% male and 40% female. Management was 25% female and 75% male.

Share capital amounted to 400 m. ISK at year end. There were four shareholders at the beginning of the year but at year end the Arion Bank Group held 100% share in Valitor Holding hf.

The Board of Directors proposes no payment of dividend in 2016 for the year 2015.

Future Prospects

The group's core business in Iceland is stable and the financial position is strong which enables the group to take on new and challenging tasks in penetrating foreign markets. The Company's future operating return is based on operating requirements set by official authorities and the card associations. Significant changes to current operating condition may affect the Company's financial return.

Risk Management

The Group faces various risks associated with it's subsidiaries operating as financial undertakings that stem from their daily operations. Risk management is therefore a fundemental part of the Group's operations. The main pillars of active risk management are identification of risk, numerical quantification of the risks identified, the actions taken to mitigate or eliminate those risks and active monitoring. Note 4 further discusses the risk management of the group.

Board of Directors, Guðmundur Þorbjörnsson, Jónína Sigrún Lárusdóttir, Roger Keith Alexander, Halldór Bjarkar Lúðvígsson and Synnöve Trygg

Endorsement by the Board of Directors and CEO, contd.:

Corporate Governance

The Board of Directors of Valitor Holding hf. emphasizes the maintenance of good corporate governance. The Board of Directors has laid down comprehensive guidelines wherein the Board's authority is defined as well as scope of work in relation to the CEO. These rules include i.a. rules regarding conduct of meetings, comprehensive rules on the competence of Directors to participate in the discussion and decision of issues presented to the Board, rules on confidentiality, and rules on information disclosure by the CEO to the Board and other issues. The Company's Board of Directors determines the CEO's terms of employment and meets regularly with the Company's auditors.

Endorsement by the Board of Directors and CEO

According to the best knowledge of the Board of Directors and the CEO, the Group's consolidated financial statements are in accordance with International Financial Reporting Standards as adopted by the EU. Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements give a fair view of assets, liabilities and financial position as at 31 December 2015, and it's operating return and changes in cash during the year 2015.

Furthermore, it is the opinion of the Board of Directors and the CEO that the financial statements and the endorsement by the Board of Directors include a fair overview of the development and results in the Company's operation, it's position and describes the main risk factors and any uncertainty that the Company may face.

The Board of Directors and the CEO of Valitor Holding hf. have today discussed the Company's financial statements for the year 2015 and confirm them with their signatures. The Board of Directors and the CEO submit the financial statements to the Annual General Meeting for approval.

Hafnarfjörður, March 10, 2016

The Board of Directors:

Guðmundur Þorbjörnsson
Chairman of the Board

Synnöve Trygg

Roger Keith Alexander

Halldór Bjarkar Lúðvígsson

Jónína Sigrún Lárusdóttir

Viðar Þorkelsson
CEO

Independent Auditor's Report

To the Board of Directors and Shareholders of Valitor Holding hf.

We have audited the accompanying consolidated financial statements of Valitor Holding hf., which comprise the endorsement of Board of Directors and the CEO, statement of comprehensive income for the year 2015, balance sheet as at December 31, 2015, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's and the Board of directors Responsibility for the Financial Statements

Management and the Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management and the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit

Opinion

In our opinion, the consolidated financial statements give a true and fair view, of the financial position of Valitor Holding hf. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance International Financial Reporting Standards, as adopted by the EU.

Kópavogur, March 10, 2016

Deloitte ehf.

Páll Grétar Steingrímsson
State Authorized Public Accountant

Jón Rafn Ragnarsson
State Authorized Public Accountant

Statement of Comprehensive Income for the year 2015

INCOME STATEMENT:	Notes	2015	2014
Operating revenue			
Fee and commission income		10.973.615	8.239.542
Other revenue		458.848	354.074
Total operating revenue		11.432.463	8.593.617
Operating expenses			
Fee and commission expense		6.772.676	3.996.533
Salaries and salary-related expenses	7	2.495.461	1.833.301
Other operating expenses	8	2.452.887	2.159.773
Penalties		0	220.000
Total operating expenses		11.721.024	8.209.606
Operating profit (loss)		(288.561)	384.011
Finance income and (expenses)			
Interest income		863.721	578.568
Interest expense		(264.407)	(644.966)
Net income (expenses) on financial assets and liabilities		(175.639)	87.043
Total finance income and (expenses)	10	423.676	20.645
Income from equity accounted investees	16	5.821	10.536
Profit before tax		140.935	415.192
Income tax	11	(112.073)	(175.957)
Profit for the year		28.862	239.235
OTHER COMPREHENSIVE INCOME:			
Items later to be reclassified to profit or loss:			
Fair value changes of available-for-sale financial assets, net of tax	15	4.514.111	0
Foreign currency translation differences of foreign subsidiaries		12.071	(5.509)
Other comprehensive income for the year		4.526.182	(5.509)
Total comprehensive income		4.555.044	233.726

Notes on pages 13 to 39 are an integral part of these financial statements.

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Balance Sheet as at 31 December 2015

	Notes	2015	2014
Assets			
Cash	13	24.157.065	8.381.750
Restricted cash	13	641.346	24.216.478
Receivables from credit institutions		3.148.326	6.160.171
Loans	14	3.550.560	2.975.410
Other financial assets	15	5.735.263	3.500
Shares in associated companies and other companies	16	78.123	74.533
Property, plant and equipment	17	439.178	480.681
Intangible assets	18	4.542.949	4.912.740
Other assets	19	1.177.999	470.327
Total assets		43.470.811	47.675.589
Liabilities			
Accounts payable		21.137.746	19.108.813
Due to credit institutions	20	4.469.321	14.531.143
Long-term liabilities	21	1.821.257	2.075.571
Current income tax	11	140.792	137.938
Deferred tax liabilities	22	1.459.134	549.117
Other liabilities	23	2.069.288	3.454.778
Total liabilities		31.097.538	39.857.360
Equity			
Share capital		400.000	400.000
Statutory reserve		100.000	100.000
Share premium		1.514.189	1.514.189
Other reserves		4.520.673	(5.509)
Retained earnings		5.838.411	5.809.549
Total equity	24	12.373.273	7.818.229
Total equity and liabilities		43.470.811	47.675.589

Notes on pages 13 to 39 are an integral part of these financial statements.

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Statement of Changes in Equity for the year 2015

2015	Share capital	Statutory reserve	Share premium	Other reserves	Retained earnings	Total
Equity as at 1 January 2015	400.000	100.000	1.514.189	(5.509)	5.809.549	7.818.229
Profit for the year	0	0	0	0	28.862	28.862
Other compreh. income for the year	0	0	0	4.526.182	0	4.526.182
Total comprehensive income	0	0	0	4.526.182	28.862	4.555.044
Equity as at 31 December 2015	400.000	100.000	1.514.189	4.520.673	5.838.411	12.373.273

2014	Share capital	Statutory reserve	Share premium	Other reserves	Retained earnings	Total
Equity as at 1 January 2014	400.000	0	1.514.189	0	5.670.314	7.584.503
Profit for the year	0	0	0	0	239.235	239.235
Other compreh. income for the year	0	0	0	(5.509)	0	(5.509)
Total comprehensive income	0	0	0	(5.509)	239.235	233.726
Contribution to statutory reserve		100.000			(100.000)	0
Equity as at 31 December 2014	400.000	100.000	1.514.189	(5.509)	5.809.549	7.818.229

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Statement of Cash Flows for the year 2015

	Notes	2015	2014
Cash flows from operating activities			
Profit for the year		28.862	239.235
Operating items not affecting cash flows:			
Gain on sale of assets		(1.882)	(731)
Depreciation and amortisation	17, 18	538.493	329.430
Income from associated companies	16	(5.821)	(10.536)
Finance income and expenses		(423.675)	374.850
Income tax		126.198	175.957
Impairment on loans		73.428	81.615
Operating activities total		335.602	1.189.820
Changes in operating assets and liabilities:			
Other assets, change		(707.672)	(100.341)
Other liabilities, change		(1.480.166)	1.120.619
Accounts payable, change		2.394.904	1.116.018
Changes in operating assets and liabilities total		542.668	3.326.116
Interest income received		863.721	578.568
Interest expense paid		(264.407)	(644.966)
Income tax paid		(137.938)	(86.235)
Cash flows (to) from operating activities		1.004.044	3.173.483
Cash flows from investing activities			
Restricted cash, change		23.575.131	4.687.052
Repayments on bonds	15	3.500	3.651
Loans, change		(648.578)	(576.157)
Acquisition of subsidiary, net of cash acquired		0	(2.842.057)
Acquisition of property, plant and equipment	17	(199.291)	(178.934)
Acquisition of intangible assets	18	(317.738)	(333.177)
Dividend received		2.231	0
Shares in other companies, change	16	0	11.153
Proceeds from sales of financial instruments		0	1.069.173
Proceeds from sales of property, plant and equipment	17	6.264	16.491
Investing activities		22.421.518	1.857.195
Cash flows from financing activities			
Due to credit institutions, change		(10.021.738)	(1.363.486)
New long-term liability		0	2.084.356
Repayment of long-term liabilities	21	(179.977)	0
Receivables from credit institutions, change		3.011.845	(1.300.273)
Financing activities		(7.189.871)	(579.403)
Cash and cash equivalents, increase		16.235.692	4.451.276
Effect of exchange rate fluctuations on cash held		(460.377)	(374.189)
Cash and cash equivalents at the beginning of the year		8.381.750	4.304.663
Cash and cash equivalents at year end	13	24.157.065	8.381.750
Investing and financing activities not affecting cash flows:			
Fair value of available-for-sale financial assets	15	5.642.639	0
Commitment due to profit-related payments, change		9.567	485.669
Commitment to purchase non-controlling interests, change		(15.642)	400.602

Notes on pages 13 to 39 are an integral part of these financial statements.

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Notes to the Consolidated Financial Statements

General information

1. Reporting entity

Valitor Holding hf. has its headquarters at Dalshraun 3, Hafnarfjordur. The Valitor Holding Group consists of the following entities over which the Group has control:

Valitor hf.
Visa Ísland ehf.
Vildarkerfi ehf.
Iteron Holding Ltd.
Valitor Payment Services Ltd.
Markadis Ltd.
Iteron Holding DK ApS.
AltaPay A/S.
AltaPay Gmbh.
AltaPay Inc.

Control is achieved when the Group has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Group reasses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements.

The subsidiary Valitor hf. operates as a credit institution according to Act no. 161/2002 on Financial Undertakings.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries, together referred to as "the Group" and to single entities as "Group entities".

Valitor Holding hf.'s objective is to hold shares in payment services companies.

Valitor Holding hf.'s Board of Directors has agreed to the puplishing of these consolidated financial statements on 10 March 2016.

2. Basis of preparation

(a) Statement of compliance

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

(b) Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for other financial assets, which are recognised at fair value.

Methods of measuring fair value are described in note 3 g(v).

(c) Functional and presentation currency

These financial statements are presented in ISK. All amounts have been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. This estimate and related presumptions are based on experience and various other factors that are considered reasonable under the relevant circumstances and form a basis for decisions made on the book value of assets and liabilities not available by other means. 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 estimates are revised and in any future periods affected.

(e) Changes in accounting policies

The consolidated financial statements are prepared using the same accounting policies as for the previous year.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Other assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised through profit or loss except for foreign currency differences arising from foreign companies classified as available-for-sale assets and denominated at fair value, where it is recognised in other comprehensive income as part of fair value changes of the shares.

(b) Associated companies and other companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds over 20 percent or more of the voting power of another entity, including potential voting rights unless it can be conclusively demonstrated that it is not the case. Investments in associated companies are initially recognised at cost. The items taken into account in the determination of significant influence are comparible to those necessary when determining control over subsidiaries. Investments in associated companies are recognised on the basis of the equity method.

The financial statements include the Group's share in profit or loss of associated companies accounted for using the equity method, from the date that significant influence commences until the date that significant influences ceases. When the Group's share of losses exceeds the book value of an associated company the book value is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associated company. If in subsequent periods there is a profit on the operation of associated companies, the share in the profit is not recognised until the previous share in losses has been set off.

(c) Finance income and expenses

Finance income and expenses are recognised in the statement of comprehensive income using the effective interest method on the date they are incurred. Finance income and expenses include the amortisation of discounts and premiums and other differences initially stated between the book value of the financial instrument and due amounts based on the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payment and receipts through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the carrying amount of the financial asset or liability. In calculating effective interests the Group estimates cash flow in relation to all contractual terms of the financial instrument but does not allow for future losses on loans.

If a financial asset or a portfolio of comparable financial assets have been impaired interest income is recognised on the basis of the same imputed rate of interest as used in the calculation of the impairment loss. Financial income on financial assets that have been written down due to impairment losses are calculated on the recoverable amount of financial assets where impairment loss has been taking into account.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

3. Significant accounting policies, continued:

(d) Fee and commission income and expenses

Valitor hf. collects fees and commission from domestic and foreign clients. Banks and savings banks pay to Valitor hf. fees in the form of a wholesale price, but the wholesale price includes cost of the service related to credit card issuance. Income is recognised in the statement of comprehensive income in the period that it is earned.

Service fees are mainly payments due to services that the Group purchases and they are expensed as the services are received.

(e) Dividend income

Dividend income is recognised on the date that the right to receive payment is established, which is usually the ex-dividend date. Dividend income other than from subsidiaries and associated companies is recognised in net income (expenses) on financial assets and liabilities.

(f) Income tax

Income tax in the financial statements comprises current and deferred/unrealised tax. Income tax is recognised through profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or other comprehensive income when applicable. Income tax that has been recognised in other comprehensive income is transferred to profit or loss if and when related items have been reclassified from other comprehensive income to profit or loss.

Current tax is the expected tax payable next year on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The deferred income tax liability has been calculated and recognised in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return on the one hand, and in the financial statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the financial statements.

Valitor Holding hf., Valitor hf. and Vildarkerfi ehf. applied for joint taxation in 2013, cf. Article 55 of the Income Tax Act no. 90/2003. The Directorate of Internal Revenue approved the joint taxation of these entities as of the financial year 2012. The joint taxation is valid for at least 5 years as of the 2013 tax return.

(g) Financial assets and liabilities

(i) Recognition

The Group recognises initially loans and prepayments, bonds and borrowings at the date that they are originated. All other financial assets and liabilities, including assets and liabilities denominated at fair value in the statement of comprehensive income, are initially recognised at the date that the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. All interests arising upon transfer of financial assets in the hands of the Group are recognised as separate assets and liabilities.

A financial liability is derecognised when its contractual obligations are discharged or cancelled or expire.

3. Significant accounting policies, continued:

(g) Financial assets and liabilities, continued:

(iii) Offsetting financial assets and financial liabilities

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends to settle on a net basis.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Determination of fair value

The determination of fair value of financial assets and financial liabilities quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available from a stock exchange or other independent parties and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

(h) Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that assets, other than financial assets carried at fair value, are impaired. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generated unit exceeds it recoverable amount. Impairment loss is recognised in the statement of comprehensive

The Group tests both individual financial assets and asset groups for impairment. All individually significant financial assets are tested for impairment on an individual basis. All individually significant financial assets that have not incurred impairment loss are then tested overall in order to find out whether there has been impairment loss not previously detected. The remaining financial assets are assessed (at the carrying amount value) collectively in groups that share similar credit risk characteristics.

Objective evidence of impairment of financial assets, including shares, can be a default or neglect of a borrower, amendment of loans on terms that the Company would otherwise not take into consideration, indication that the borrower or issuer heads for bankruptcy, disappearance of an active market for securities or other visible information in relation to an asset group, such as unfavourable changes in the liquidity of a borrower or issuer in the relevant group or financial condition related to default in the group.

(i) Impairment of loans

There are two methods of calculating impairment losses, those calculated on individual loans and those assessed on specific loan portfolios basis.

Objective evidence of impairment includes observable data about the following loss events:

(i) significant financial difficulty of the borrower;

(ii) a breach of contract, such as a default on installments or on interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;

3. Significant accounting policies, continued:

(h) Impairment of financial assets, continued.:

(i) Impairment of loans, continued:

(v) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- general national or local economic conditions connected with the assets in the group.

(ii) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposure on a case-by-case basis. The Group assesses at each reporting date whether there is any objective evidence that a loan is impaired. This procedure is applied to all loans that are considered individually significant. In determining such impairment losses on individually assessed loans, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the likely payment to the Group upon liquidation or bankruptcy;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigates) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment loss is calculated by comparing the current carrying value with the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of impaired loans is reduced through the use of an allowance account.

(iii) Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the reporting date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics,for example by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on a individual loan;
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Estimates of changes in future cash flows for groups of assets are consistent with changes in observable data from period to period, for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

(iv) Loan write-offs

Loans are written off, either partially or in full, when there is no realistic prospect of recovery of these loans.

3. Significant accounting policies, continued:

(h) Impairment of financial assets, continued:

(v) Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised in the statement of comprehensive income, the previously recognised impairment loss is reversed in the statement of comprehensive income.

(vi) Calculation of recoverable amount

The recoverable amount of the Group's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

The recoverable amount of other assets is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the case of an asset that does not create a considerably independent cash flow the recoverable amount is determined for the cash generating unit to which the asset appertains.

(i) Cash

Cash comprise cash on hand, demand bank deposits and loans to credit institutions that are due.

(j) Loans and receivables to credit institutions

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except for those the Group specifies and recognises at fair value. Loans and receivables include loans that the Group provides its clients, loans that the Group participates in providing together with other credit institutions and purchased loans that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Accrued interests are included in the carrying amount of loans and receivables.

(k) Other financial assets

Other financial assets are financial assets measured at fair value through profit or loss and available-for-sale financial assets.

(i) Financial assets at fair value through profit and loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Financial instruments at fair value through profit or loss are measured at fair value in the balance sheet, and changes therein are recognised in profit or loss. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred.

Accounting for finance income and expense is discussed in note 3.c.

(ii) Available-for-sale financial assets

Assets classified as available-for-sale financial assets consist of certain shares in other companies which the Group has designated as available-for-sale or did not classify in other categories of financial assets. These assets are non-derivative financial assets.

Available-for-sale financial assets are initially recognised in the balance sheet at fair value plus transaction costs that are directly attributable to the acquisition of the assets. After initial recognition they are measured at fair value and changes in fair value are recognised in other comprehensive income, including foreign currency differences arising from shares in foreign companies. From there the fair value changes are recognised in the fair value reserve within equity until the assets are derecognised or impaired.

3. Significant accounting policies, continued:

(k) Other financial assets, continued:

(ii) Available-for-sale financial assets, continued:

Upon derecognition of an available-for-sale financial asset the cumulative changes in fair value of the asset are reclassified from the fair value reserve to profit or loss through other comprehensive income. This is also done when there is objective evidence that the value of an available-for-sale financial asset has been impaired. The amount of cumulative loss that is reclassified from the fair value reserve to profit or loss is the difference between the acquisition cost and current fair value of the asset, less any impairment loss previously recognised in profit or loss for that asset, if any. Impairment losses recognised in profit or loss for investments in shares in other companies is not reversed through profit or loss.

Shares in other companies that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment losses. No foreign currency differences are recognised in the Financial Statements for these shares. As soon as their fair value measurement is considered reliable these assets are measured at fair value and changes in fair value are recognised in other comprehensive income, including foreign currency differences arising from shares in foreign companies.

Dividends from shares in other companies which are classified as available-for-sale financial assets is recognised in profit or loss in accordance with the accounting policy disclosed in Note 3(e).

(l) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are recognised at cost less accumulated depreciation and amortisation. Cost value includes direct cost incurred upon the purchase.

(ii) Recognition of subsequent cost

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of operating assets. The estimated useful lives are specified as follows:

Land	0%
Buildings and paintings	0-6%
Fixtures, equipment and vehicles	20-33%

Depreciation method, useful lives and scrap value are evaluated on each reporting date.

(m) Intangible assets

(i) Software

Software is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3. Significant accounting policies, continued:

(m) Intangible assets, continued:

(i) Software, continued:

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three to ten years.

(n) Leases

The Group classifies leases based on the extent of the transfer of risks and rewards incidental to ownership of leased assets. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership. Leases that are not clssified as finance leases are classified as operating leases.

Lease payments under operating leases where the Group is the lessee are recognised as an expense on a straight-line basis over the lease term.

Lease payments under operating leases where the Group is the lessor are recognised as a revenues on a straight-line basis over the lease term.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(p) Financial guarantees

Financial guarantees are contracts binding the Group to repay a certain amount to the holder of a guarantee due to a loss it incurs when the debtor is unable to meet with its obligations on the due date in accordance with the terms of a debt instrument.

Liabilities due to financial guarantees are initially stated at fair value and the fair value is recognized in the statement of comprehensive income over the estimated life of the contract. The contract is then recognized at the higher of the fair value, taken into account recognised fee income, or the present value of estimated payments when a payment due to a guarantee is considered to be likely. Financial guarantees are presented in the balance sheet among other liabilities.

(q) Employee benefits

(i) Defined contribution plan

The Group pays contributions, as a part of employees' salaries, into separate pension funds. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

(r) Equity

Share capital is classified as equity. Direct cost due to issue of share capital is accounted for as a deduction from equity.

Dividends on shares are recognised in equity in the period in which they are approved by the Group's Annual General Meeting.

(s) New standards and interpretations yet to be adopted

Valitor Holding hf. has adopted all International Financial Reporting Standards, amendments thereto and interpretations adopted by the EU at year end 2015 and apply to its operation. No changes in application have occured from the previous period and thus no impact from such changes have been recorded.

RISK MANAGEMENT

4. Financial risk management

a) *Overview of financial risks and risk management*

A key matter in daily management of the Group consists of mitigating the risks it is exposed to due to its main operations. Following are the risks that matters to the Group.

– Credit risk
– Liquidity risk
– Market risk

Risk management framework

Risk assessment, especially the determination of its exposure, together with actions directed at mitigating risk exposure by reasonable countermeasures in each field of credit card transactions as applicable, is one of the Group's main tasks. Many risk factors can have negative effect on the Group's operation. The Board of Directors' policy is to continually monitor and manage the main risk factors that can affect the Group's equity and return. For this purpose the Group maintains an active risk management within the Group and in addition, it is the role of the Group's internal audit to monitor the operation by ensuring that rules are complied with in accordance with the Board of Directors' resolution.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits and find acceptable balance between minimising risk on one hand and maximising the Group's revenue on the other hand.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The CEO has responsibility of risk management towards the Board of Directors. The CEO establishes further rules thereon, defines risk benchmark as required in accordance with provisions of those rules and monitors regulatory compliance.

The Company's Board of Directors

- Establishes risk policy on an annual basis and reviews on a regular basis reports on the Group's financial risks.
- Takes note of risk factors in the management and organisation of the Group.

CEO

- Reviews reports on the Group's risks.
- Is responsible for the Group meeting its long term capital need.
- Distributes responsibility on financial matters in accordance with finance and risk policy to standing committees and the financial department.

Risk committee

- Elaborates the Group's risk management policy.
- Discusses the Group's major risk exposure.
- Makes decisions on various matters related to the Group's risk management.

Risk management

- Supervises and coordinates daily risk management tasks.
- Shares knowledge and risk awareness within the Group.

b) *Credit risk*

(i) Contracts including credit risk

The Group's main credit risk arises in relation to agreements with vendors selling service in advance, which the Group might have to refund if the vendor does not fulfil its obligation towards card holders. In this case, airlines and domestic travel agencies weigh the most. Also credit card loans and installment loans guaranteed by the Group fall hereunder, in addition to possible default of foreign vendors, with which the Group has made payment service agreements.

4. Financial risk management, continued:

b) *Credit risk, continued:*

(i) Agreements including credit risk, continued:

The Group's biggest asset item is receivables from credit institutions due to cardholders' withdrawals that have either been paid by the Group or that the Group has guaranteed to pay to a vendor. The Group operates in accordance with applicable laws and regulations, relevant for its operations, as well as in accordance with guidelines of the international card conglomerates. Accordingly, the Group's risk committee reviews the credit worthiness of the banks and savings banks against which it holds claims due to customer withdrawals. Before a new bank or savings bank is accepted as a new customer it needs to pass a specific credit evaluation and if it scores less than B the company needs to provide additional guarantees. Credit risk in respect of banks and savings banks is reviewed on a regular basis. With the Icelandic Central Bank's rules established in 2011 aimed at increasing security in domestic funds, transfers have significantly decreased settlements risk between credit card issuers and merchants possibly arising upon defaults by credit card issuers. Banks, saving banks and other credit card issuers are now required to make daily deposits amounting to all their customer withdrawals from their credit cards.

(ii) Credit risk policy

For the past few years, the Group has placed emphasis on effective control on banks and savings banks due to cardholders' withdrawals, regular collecting and evaluation of information from vendors selling service in advance and finally, improved hedges in its own credit card loan system. In relation to foreign vendors, the Group requires guarantees or payout deferral.

(iii) Loan processing and authorisation

Banks and savings banks determine withdrawal limits on cards upon issue, which are registered with the Group and used in daily control on card usage. Furthermore, various banks and savings banks register credit limits on a specific customer, which are used as basis for customers using more than one card. The Group uses the same information in addition to other available information as criterion in the processing of credit card loans that are fully guaranteed by the Group.

(iv) Credit risk monitoring

Various rules regarding risk management and control on card usage in various business environment are recorded in the card issuance authorisation system in collaboration with banks and savings banks. Precise work procedures regarding negotiations and agreements with vendors and transaction monitoring apply to the Group's transaction collection. Work procedures are in place regarding information gathering on transactions of domestic vendors selling service in advance and an action plan, if necessary, to require the vendor in question to provide special guarantees or other resort in order to reduce risk. Foreign vendors are required to provide a reserve contribution or payouts deferral. The Group operates a special support division, risk management, which in collaboration with the income division monitors balances of single customers and under certain circumstances, takes a stance to new trade agreements.

c) *Impairment on loans*

An allowance for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or equivalent terms. An allowance for credit losses is reported as a reduction of the carrying value of loans on the balance sheet. Additions to the allowances and provisions for credit losses are made through impairment on loans. Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles:

4. Financial risk management, continued:

c) Impairment on loans, continued:

(i) Impairment-specific

A claim is considered impaired when there is an objective evidence that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or equivalent terms. Credit risk is evaluated based upon the borrower's position, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realisable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original effective interest rate. Impairment is measured as the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of prior period impaired claims is reported as interest income.

All impaired claims are reviewed and analysed at least every three months. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the allowances for credit losses and be charged or credited through impairment on loans.

An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are recongised as reduction of loan impairment expense.

(ii) Impairment-collective

All loans for which no impairment is identified on a counterparty-specific level are grouped into economically homogeneous portfolios to collectively assess whether impairment exists within a portfolio. Allowances from collective assessment of impairment are recognised as impairement expense and result in an offset to the loan position. As the allowance cannot be allocated to individual loans, interest is accrued on all loans according to contractual terms.

d) Credit Risk

Book value of the Group's financial assets corresponds to its maximum exposure to credit risk. The Group's maximum credit risk exposure is specified as follows:

	2015	2014
Cash and cash equivalents	24.157.065	8.381.750
Restricted cash	641.346	24.216.478
Receivables from credit institutions	3.148.326	6.160.171
Loans	3.550.560	2.975.410
Other financial assets	5.735.263	3.500
Other assets	474.106	236.302
	37.706.667	41.973.611

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4. Financial risk management, continued:

d) *Credit risk, continued:*

The Group's credit risk is specified as follows in terms of impairment:

	Neither due nor impaired	Due but not impaired	Impaired	Gross	Impairment	Total
31 December 2015						
Cash	24.157.065	0	0	24.157.065	0	24.157.065
Restricted cash	641.346	0	0	641.346	0	641.346
Rec. from credit instit. .	3.148.326	0	0	3.148.326	0	3.148.326
Loans	3.532.842	0	240.349	3.773.191	(222.631)	3.550.560
Other financial assets .	5.735.263	0	0	5.735.263	0	5.735.263
Other assets	474.106	0	0	474.106	0	474.106
	37.688.949	0	240.349	37.929.298	(222.631)	37.706.667
31 December 2014						
Cash	8.381.750	0	0	8.381.750	0	8.381.750
Restricted cash	24.216.478	0	0	24.216.478	0	24.216.478
Rec. from credit instit. .	6.160.171	0	0	6.160.171	0	6.160.171
Loans	2.908.526	0	269.398	3.177.924	(202.514)	2.975.410
Other financial assets .	0	3.500	0	3.500	0	3.500
Other assets	236.302	0	0	236.302	0	236.302
	41.903.227	3.500	269.398	42.176.125	(202.514)	41.973.611

Impairment on loans is specified as follows:

	Specific	Collective	Total
Year 2015			
Balance at 1 January	176.204	26.311	202.514
Provision for losses during the year	90.082	5.372	95.454
Payment on loans previously written off	0	0	0
Final write down	(75.337)	0	(75.337)
Balance at 31 December	190.949	31.683	222.631
Year 2014			
Balance at 1 January	181.928	23.080	205.008
Provision for losses during the year	57.925	3.231	61.156
Payment on loans previously written off	541	0	541
Final write down	(64.191)	0	(64.191)
Balance at 31 December	176.204	26.311	202.514

e) *Significant risk exposure*

The subsidiary Valitor hf. operates in accordance with Act no. 57/2015 which was enacted in June 2015. The act defines significant risk exposure as obligations exceeding 10% of the financial institution’s equity and stipulates that maximum risk linked to a client or group of clients that are related, is 25% of equity or ISK 10 billion, whichever is higher. When 25% of the financial institution’s equity is lower than ISK 10 billion, as it is for Valitor hf., the risk exposure linked to a client or group of clients that are related parties cannot exceed 100% of the equity. Upon settlement of payment processing Valitor hf. frequently needs to have considerable deposits in domestic and foreign banks. When compiling the balance at accounting dates, in particular at Christmas and year-end, the amount of Valitor hf’s deposits at its commercial banks has exceeded the aforementioned criterion. The Group actively limits such counterparty risk.

f) *Liquidity risk*

Liquidity risk is the risk arising from the possible inability of the Group to meet its liabilities in relation to contractual payments of interest and principal in relation to its debt financing. With effective and intensive control on liquidity the Group endeavours to ensure at all times sufficient liquid resources in order to be able to meet it's obligations in case of a temporary imbalance between the payment flow of the Group's lending activity and other financial assets on the one hand, and on the other, the Group's borrowings.

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4. Financial risk management, continued:

f) *Liquidity risk, continued:*

Liquidity risk management

Liquidity risk is the risk arising from the possible inability of the Group to meet its liabilities when they come due. The Group must always have sufficient funds in order to meet both predictable and unpredictable payment obligations.

Liquidity risk is monitored by reports on liquidity ratio prepared on a monthly basis. Liquidity ratio shows the ratio between assets and liabilities based on their maturity.

Measurement of liquidity risk

A key factor in the Group's liquidity risk management is to ensure a balance between the cash flows of financial assets and liabilities. Contractual cash flows of the Group's financial assets and liabilities compared to book value is specified as follows.

		Contractual cash flows			
	Book value	**0 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Total**
31 December 2015					
Financial assets:					
Cash	24.157.065	24.157.065	0	0	24.157.065
Restricted cash	641.346	641.346	0	0	641.346
Receivables from credit institutions	3.148.326	3.148.326	0	0	3.148.326
Other financial assets	5.735.263	0	4.895.420	839.843	5.735.263
Loans	3.550.560	810.152	1.347.385	1.176.315	3.333.852
Other assets	474.106	474.106	0	0	474.106
Total financial assets	37.706.667	29.230.996	6.242.805	2.016.158	37.489.959
Financial liabilities:					
Accounts payable	21.137.746	21.137.746	0	0	21.137.746
Payable to credit institutions	4.469.321	4.469.321	0	0	4.469.321
Long-term liabilities	1.821.257	83.881	83.881	1.653.496	1.821.257
Other liabilities	1.627.002	727.694	514.348	384.960	1.627.002
Total financial liabilities	27.234.069	26.334.761	514.348	384.960	27.234.069

		Contractual cash flows			
	Book value	**0 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Total**
31 December 2014					
Financial assets:					
Cash	8.381.750	8.381.750	0	0	8.381.750
Restricted cash	24.216.478	24.216.478	0	0	24.216.478
Receivables from credit institutions	6.160.171	6.160.171	0	0	6.160.171
Bonds	3.500	653	2.970	0	3.623
Loans	2.975.410	727.075	1.148.542	911.781	2.787.398
Other assets	236.302	236.302	0	0	236.302
Total financial assets	41.973.611	39.722.429	1.151.512	911.781	41.785.722
Financial liabilities:					
Accounts payable	19.108.813	19.108.813	0	0	19.108.813
Payable to credit institutions	14.531.143	14.531.143	0	0	14.531.143
Long-term liabilities	2.075.571	66.462	66.462	1.942.646	2.075.571
Other liabilities	1.974.181	1.002.856	85.053	886.272	1.974.181
Total financial liabilities	37.689.708	34.709.274	151.516	2.828.918	37.689.708

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4. Financial risk management, continued:

g) Market risk

(i) Interest rate risk

The Group's operation is exposed to risk due to interest rate fluctuations to the extent that interest bearing assets (including investments) and interest bearing liabilities have different maturity, are recalculated on the basis of different time or different amounts. As for variable interests of assets and liabilities the Group is also exposed to risk due to fluctuations of various variable interest criterion, such as borrowing interests and LIBOR-interests, and other various types of interests. The financial department manages the Group's interest adjustment. The financial department has the authorisation to take on interest risk within defined limits, which reflect the Group's expectations of interest development in the market.

At year end all assets and liabilities bear variable interests and no assets or liabilities are indexed.

(ii) Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. Open foreign currency balance for each currency is monitored. The group aims at limiting foreign exchange risk and monitors it in terms of Valitor Holding hf.'s total equity.

Currency controls and foreign exchange restrictions in Iceland have affected the group's ability to manage its currency risk.

Probable loss due to currency risk

Valitor Holding hf.'s currency risk based on nominal values is specified as follows:

2015	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies**
Cash	2.006.506	2.884.011	1.745.254	824.841	1.600.070
Other financial assets	0	0	5.642.639	0	0
Long-term liabilities	0	0	0	(1.821.257)	0
Accounts payable	(743.303)	(1.210.008)	(1.354.610)	(454.424)	(671.375)
Currency swaps	(126.120)	(1.337.757)	(361.586)	(968.874)	(380.250)
Risk in balance sheet	1.137.083	336.246	5.671.697	(2.419.714)	548.445

2014	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies**
Cash	840.479	1.698.467	1.867.382	999.074	715.069
Other financial assets	0	66.800	0	828.048	0
Long-term liabilities	0	0	0	(2.075.571)	0
Accounts payable	(462.614)	(701.561)	(1.212.595)	(520.837)	(150.103)
Risk in balance sheet	377.865	1.063.707	654.787	(769.286)	564.966

Sensitivity analysis

A 10% strengthening of the ISK against the above currencies at 31 December would have decreased profit before tax by ISK 527 million (2014: ISK 189 million). This analysis assumes that all other variables, including interest rates, remain constant. The analysis is performed on the same basis for 2014.

Total assets in foreign currency according to Valitor Holding hf.'s financial statments are ISK 14.703 million (2014: ISK 7.015 million) and total liabilities are ISK 7.608 million (2014: ISK 5.123 million) at year end.

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4. Financial risk management, continued:

g) *Market risk, continued:*

(iii) Share price risk

The Group owns shares in other companies that are subject to share price risk, which is the risk that fair value of the shares will fluctuate because of changes in their prices. The Group is exposed to share price risk because of Visa Island ehf.'s shareholding in Visa Europe Ltd. See note 16 for further information regarding that asset.

h) *Equity and equity management*

It is the Group Board of Directors´ policies to maintain a strong equity position so as to support stability in future operations. No changes were made during the year with respect to the Group´s equity management.

The Group is not subject to external rules regarding minimal equity position. The subsidiary of Valitor Holding hf., Valitor hf., is a financial institution. Therefore, its operations is based on the applicable law thereon, which require a minimum capital ratio of 8%. Valitor hf.'s capital ratio at year end 2015 was 25.1%.

5. Guarantee risk

The Group's main risk exposure is the risk of actual receivables and payment thereof or timing not meeting with expectations. This is affected by the frequency of claims, their amount and final payout and also by general economic development. The Group's objective is therefore to keep the risk due guarantees within acceptable limits by monitoring risk at each time and defining parties specifically considered to be risky in that respect.

The Group reduces its risk exposure by reserving its right to withhold payments from a vendor corresponding to the amount of paid-out receivables due to noncompliance by the vendor and by obtaining guarantees from the vendor.

a) *Guarantee risk*

	2015	2014
Total amount of guaranteed possible noncompliance at year end	1.216.296	3.003.225
Collateral and guarantees provided by vendors	(1.072.964)	(2.836.048)
Net risk	143.332	167.177

6. Use of estimates and judgements regarding accounting policies applied

a) *Fair value estimates on shares*

When determination of fair value of shares cannot be based on pulished price on an active market management use valuation models in determining fair value. Using valuation models require management to decide both what model to use as well as to determine the assumptions on which fair value is based. Using other models and assumption could have an impact on both fair value and fair value changes recognised in the consolidated financial statements. Further information regarding methods and assumptions applied by management in determining fair value is disclosed in notes 3 g(v) and 15.

b) *Impairment on loans and receivables*

The Group reviews its loans and receivables portfolio and assesses impairment on a regular basis. Before the Group decides to recognise an impairment loss objective evidence of a measurable decrease in the expected future cash flows from a single loan or loan portfolio before the decrease becomes detectable with individual loans in the portfolio shall be evaluated. This evidence could be changes in the payment ability of a borrower or in the economic environment. Management uses evaluations based on historical experience of assets with similar risk characteristics and objective evidence of impairment when future cash flow is estimated. The methodology and assumptions used in the evaluation of both the amounts and the timing of future cash flow are reviewed on a regular basis in order to reduce the difference between estimated and actual loss. Expected losses due to specific debt restructuring has been taken into account.

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NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

7. Personnel

The total number of employees is as follows:

	2015	2014
Average number of full time equivalent positions during the year	208	150
Full time equivalent positions at the end of the year	222	169

Salaries and salary related expenses are specified as follows:

Salaries	1.988.629	1.447.522
Pension fund contribution	215.104	200.734
Other salary related expenses	291.729	185.044
Total salaries and related expenses	2.495.461	1.833.301

Remunerations of the Board of Directors are specified as follows:

Guðmundur Þorbjörnsson, Chairman of the Board	5.700	4.200
Synnöve Trygg	6.000	0
Roger Keith Alexander	5.000	0
Halldór Bjarkar Lúðvígsson	2.850	1.663
Jónína S. Lárusdóttir	2.850	1.663
Anna Rún Ingvarsdóttir	2.450	2.100
Hrönn Greipsdóttir	475	663
Hrefna Ingólfsdóttir	0	400
Arnar Þór Ragnarsson	0	438
Árni Geir Pálsson	0	2.500
	25.325	13.625
Viðar Þorkelsson, CEO	32.779	27.283

Salaries to 7 key management amounted to a total of ISK 142,394 thousand (2014: ISK 147,199 thousand).

8. Other operating expenses

Other operating expenses are specified as follows:

	2015	2014
IT equipment	639.335	571.184
Depreciation and amortisation	538.493	329.430
Housing	325.947	185.899
External services	226.580	274.205
Impairment of loans and receivables	165.484	81.615
Marketing expenses	125.719	125.979
Mail and phone	91.107	87.505
Guarantees and card holder benefits	19.348	22.665
Other	320.874	481.290
Total other operating expenses	2.452.887	2.159.773

9. Auditor's fee

Auditor's fee is specified as follows:

	2015	2014
Audit of the financial statements	20.747	13.927
Review of interim financial statements	4.905	4.129
Total	25.652	18.056

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10. Financial income and expenses

Financial income and expenses are specified as follows:

	2015	2014
Interest income on receivables from credit institutions	354.173	135.511
Interest income on loans to customers	509.549	438.091
Interest income on other loans	0	4.966
Total interest income	863.721	578.568
Interest expenses on financial liabilities with credit institutions	(252.356)	(602.888)
Interest expenses on other liabilities	(12.051)	(42.078)
Total interest expenses	(264.407)	(644.966)
Foreign exchange difference	(190.059)	87.043
Fair value changes of financial assets	15.066	0
Loss on sales	(646)	0
Total income (expenses) on financial assets and liabilities	(175.639)	87.043
Total financial income and (expenses)	423.676	20.645

11. Taxes

Income tax

Income tax recognised through profit or loss is specified as follows:

	2015	2014
Current tax	140.792	137.938
Deferred income taxes	(14.594)	40.204
Effects change in tax rate	(14.125)	0
Correction of tax	0	(2.185)
Income tax expense	112.073	175.957

Effective tax rate is specified as follows:

	2015		2014	
Earnings (loss) before income tax		140.935		415.192
Income tax according to current tax rate	20,0%	28.187	20,0%	83.038
Effect of tax rate change	(10,0%)	(14.125)	0,0%	0
Non-deductible expenses	69,5%	98.019	21,7%	90.000
Correction of tax	0,0%	0	(0,5%)	(2.185)
Other	(0,0%)	(8)	1,2%	5.103
Effective income tax	79,5%	112.073	42,4%	175.957

Non-deductible expenses

Non-deductible expenses for the year 2015 represent tax losses in jurisdictions where the group pays no income tax and have not been capitalised due to uncertainty of future use. For the year 2014 the non-deductible expenses were due to fines levied by regulatory authorities.

Specific tax

The subsidiary Valitor hf. has an obligation to pay a special tax on financial institutions according to current law. On the one hand there is 0.376% tax of total liabilities exceeding ISK 50 billion according to the tax return and on the other hand a special financial management tax amounting to 6% of income tax base exceeding ISK 1,000 million. Whereas the Company exceeds neither limit, neither of these taxes are applicable for 2014 or 2015.

Consolidated Financial Statements of Valitor Holding hf. 2015 29 Amounts are in ISK thousand

NOTES TO THE BALANCE SHEET

12. Financial assets and liabilities

Classification and fair value of financial assets and liabilities

The Group's classification and fair value of financial assets and liabilities (not including accrued interests) is specified as follows.

31 December 2015	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
Cash	0	24.157.065	24.157.065	24.157.065
Restricted cash	0	641.346	641.346	641.346
Receivables from credit institutions	0	3.148.326	3.148.326	3.148.326
Other financial assets	5.735.263	0	5.735.263	5.735.263
Loans	0	3.550.560	3.550.560	3.550.560
Other assets	0	474.106	474.106	474.106
	5.735.263	31.971.404	37.706.667	37.706.667
Accounts payable	0	21.137.746	21.137.746	21.137.746
Due to credit institutions	0	4.469.321	4.469.321	4.469.321
Long-term liabilities	0	1.821.257	1.821.257	1.821.257
Other short term liabilities	0	1.627.002	1.627.002	1.627.002
	0	29.055.327	29.055.327	29.055.327

31 December 2014	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
Cash	0	8.381.750	8.381.750	8.381.750
Restricted cash	0	24.216.478	24.216.478	24.216.478
Receivables from credit institutions	0	6.160.171	6.160.171	6.160.171
Other financial assets	3.500	0	3.500	3.500
Loans	0	2.975.410	2.975.410	2.975.410
Other assets	0	236.302	236.302	236.302
	3.500	41.970.111	41.973.611	41.973.611
Accounts payable	0	19.108.813	19.108.813	19.108.813
Due to credit institutions	0	14.531.143	14.531.143	14.531.143
Long-term liabilities	0	2.075.571	2.075.571	2.075.571
Other short term liabilities	0	1.974.181	1.974.181	1.974.181
	0	37.689.708	37.689.708	37.689.708

13. Cash and restricted cash

Cash is specified as follows:	2015	2014
Bank deposits	24.157.065	8.381.750
Total cash	24.157.065	8.381.750

Restricted cash is specified as follows:	2015	2014
Bank deposits in banks and saving banks	641.346	24.019.298
Guarantee due to bank and credit card conglomerates	0	197.180
Total restricted cash	641.346	24.216.478

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13. Cash and restricted cash, continued:

The Group's subsidiary Valitor hf is bound by the Central Bank's Rules no. 31/2011 on Settlement of Payment Card Transactions the settlement risk shall be reduced and security of payments from card issuers to acquirers and from acquirers to merchants. In order to comply with this provision, card issuers deposit each day into Valitor hf.'s bank accounts in the relevant commercial bank or savings bank, an amount equal to all financial institutions' customers withdrawals from their credit cards. Valitor hf. has supplied a bank letter of credit for the amount of GBP 400,000 as a security for payment path at Citi and a GBP 1,500,000 credit line for Caxton.

14. Loans

Loans are specified as follows by loan type:	2015	2014
Credit card loans	3.773.191	3.177.924
Impairment account due to loans	(222.631)	(202.514)
Total loans	3.550.560	2.975.410

Impaired loans are specified as follows by age:	2015	2014
6 months overdue and older	200.205	143.919
5 months overdue	8.104	4.189
4 months overdue	2.348	6.869
3 months overdue	2.433	9.587
2 months overdue	2.090	10.828
1-40 days old	7.451	27.122
	222.631	202.514

15. Other financial assets

Other financial assets are financial instruments at fair value through profit or loss and available-for-sale financial assets.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Financial instruments at fair value through profit or loss are specified as follows:

Derivatives:	2015	2014
Currency and interest rate swaps	92.624	0

Domestic bonds are specified as follows:	2015	2014
Initial amount	66.470	66.470
Previous amortisation	(62.970)	(59.319)
Amortisation during the year	(3.500)	(3.651)
Total domestic bonds	0	3.500
Total financial instruments at fair value through profit or loss	92.624	3.500

Available-for-sale financial assets

Available-for-sale financial assets consist of the shares owned by Visa Ísland ehf. in Visa Europe Ltd.

In November 2015 Visa Inc. announced the acquisition of all shares in Visa Europe Ltd., whereas the acquisition price would be paid with three types of consideration: cash, preference shares issued by Visa Inc. and earn-out payment. The transaction is subject to regulatory approval in several countries and it is expected that the delivery of the shares in Visa Europe Ltd., the payment of cash and the delivery of the preference shares in Visa Inc. will occur as soon as the approval is given by the relevant parties, which is expected to happen in the second quarter of 2016. The earn-out payment is based on the turnover during the four year period following the sale and occurs at the end of that period.

Consolidated Financial Statements of Valitor Holding hf. 2015 31 Amounts are in ISK thousand

15. Other financial assets, continued:

The preference shares will be converted into common shares in Visa Inc. at the latest after twelve years, subject to the satisfaction of certain conditions, which among other things relate to outstanding litigations of Visa Europe Ltd. Therefore, the payment in preference shares can decrease if payments must be made due to these litigations. However, Visa Inc. is allowed to convert them into common shares earlier if Visa Inc. considers that the said uncertainty has been eliminated.

In exchange for it's shares in Visa Europe Ltd., Visa Ísland ehf. is expected to receive in the second quarter of 2016 ISK 6,8 billion in cash and 18,5 thousand preference shares in Visa Inc. (valued at up to ISK 2,3 billion at year-end 2015). Additionally the company may be entitled to a earn-out payment four years after the sale.

The shares of Visa Ísland ehf. in Visa Europe Ltd. are recognised in the consolidated financial statements at their fair value as at year-end 2015, amounting to ISK 5,6 billion. The shares were previously recognised in the consolidated financial statements at cost, amounting to ISK 1.432, as it was not possible to measure their fair value reliably. The difference between fair value and cost, net of income tax effects, is recognised in other comprehensive income in the year 2015 and from there in a special fair value reserve within equity. The Group will recognise the gain on sale of the shares in Visa Europe Ltd., and the possible income tax effects, in profit or loss when the sale will be completed, which is expected to happen in the second quarter of 2016.

The estimation of the fair value of the shares of Visa Ísland ehf. in Visa Europe Ltd. as at 31 December 2015 is based on information available about the transaction at measurement date and on management's assessment of the key variables, which are not considered to be market observable information and therefore it is considered as Level 3 in the fair value hierarchy. The valuation approach of the management is based on the estimated value of each type of consideration taking into consideration the probability of the payment occurring.

The estimation of the value of the cash payment from the transaction is based on the present value of the payment from Visa Inc., taking into consideration risk factors which can affect the final amount of the transaction. These factors are: 1) the probability of the transaction not occurring, 2) adjustments to the acquisition price according to acquisition agreement and 3) uncertainty about the final share of Visa Ísland ehf. in the payment.

Part of the acquisition price will be paid with the delivery of a maximum 18,5 thousand Class C preference shares issued by Visa Inc., which will be possible to convert in common shares in Visa Inc., subject to the satisfaction of certain conditions and based on the conversion factor of 13,952 initially. The conversion factor may change due to various factors, such as the outcome of court cases against Visa Europe Ltd. and related payments of claims, market value of common shares in Visa Inc. on conversion date, dividend paid by Visa Inc. during the period and changes to outstanding common shares in Visa Inc.

The estimation of the value of the preference shares is based on the management's assessment of the conversion factor, market value of Visa Inc. at year-end 2015, liquidity discounts, as restrictions apply to the sale of these shares, and discounts due to uncertainty as to whether the transaction will occur and the final number of preference shares to be received by Visa Ísland ehf.

The estimation of the value of the earn-out payment is subject to significant uncertain factors which must be taken into consideration, the principal ones being: 1) the probability of the transaction not occurring, 2) the risk that the conditions for the earn-out payment will not be fulfilled and 3) the risk that Visa Ísland ehf. will not be able to maintain its share of the profit of Visa Europe Ltd.

Management believes that the uncertainty of the settlement of the earn-out payment is significant and it cannot assess the probability that Visa Ísland ehf. will fulfill the conditions nor whether Visa Ísland ehf. will be able to maintain it's share of the profit undiminished. Considering this uncertainty, it is management´s assessment that it is appropriate to apply a significant risk discount to this item and it estimates the value of the earn-out payment as nil.

Fair value of VISA Ísland ehf's shareholding in Visa Europe Ltd is specified as follows:

	2015	2014
Present value of estimated cash payment, taking uncertainty into account	4.895.420	0
Estimated fair value of preference shares to be paid upon sale of shares	747.219	0
Total available for sale	5.642.639	0

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15. Other financial assets, continued:

The Group applies a fair value determination hierarchy specified as follows:
Level 1: Based on publicly available prices on active markets for identical assets and liabilities.
Level 2: A valuation method not based on public prices in an active market (level 1) but information that is for the assets and liabilities, either directly (e.g. price) or indirectly (derived from prices).
Level 3: A valuation method with significant unobservabe inputs, i.e. assumptions not based on market information.

The following table specify the levels to which financial assets pertain in 2015:

	Level 1	Level 2	Level 3	Total
Bonds and bond instruments	92.624	0	5.642.639	5.735.263
	92.624	0	5.642.639	5.735.263

2014

	Level 1	Level 2	Level 3	Total
Bonds and bond instruments	0	0	3.500	3.500
	0	0	3.500	3.500

16. Shares in associated companies and other companies

The following table summarises the financial position and book value of associates adjusted by the Group for equity accounting purposes:

Farsímagreiðslur ehf.	**2015**	**2014**
Ownership interest	31,16%	31,16%
Current assets	30.772	31.218
Non-current assets	1.611	1.611
Current liabilities	1.365	2.843
Non-current liabilities	8	15
Revenue	11.541	13.378
Profit for the year	1.058	5.152
Dividends received	0	0
Book value of ownership interest	31.039	29.980

Reiknistofa bankanna hf.	**2015**	**2014**
Ownership interest	2,97%	2,97%
Current assets	23.714	43.110
Non-current assets	85.606	53.340
Current liabilities	24.829	32.085
Non-current liabilities	37.405	19.840
Revenue	129.027	129.030
Profit for the year	4.770	6.264
Dividends received	2.231	2.231
Book value of ownership interest	47.085	44.553

There were no discontinued operations in the Group's associates during the period. No items of other comprehensive income were recognised by the associates.

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17. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Real estates and land	Equipment, furnishings, and vehicles	Total
2015			
Total value at the beginning of the year	22.993	1.106.651	1.129.644
Additions during the year	0	199.291	199.291
Sold and disposed of during the year	0	(11.054)	(11.054)
Total value at year end	22.993	1.294.889	1.317.882
Previously depreciated	14.303	634.661	648.964
Depreciated during the year	1.193	235.220	236.413
Sold and disposed of during the year	0	(6.672.709)	(6.673)
Total depreciation	15.496	863.208	878.704
Book value at year end	7.497	431.681	439.178
2014			
Total value at the beginning of the year	22.993	995.312	1.018.305
Additions during the year	0	182.327	182.327
Sold and disposed of during the year	0	(70.987)	(70.987)
Total value at year end	22.993	1.106.651	1.129.644
Previously depreciated	13.110	521.977	535.087
Depreciated during the year	1.193	167.836	169.029
Sold and disposed of during the year	0	(55.152)	(55.152)
Total depreciation	14.303	634.661	648.964
Book value at year end	8.691	471.990	480.681
Depreciation rate	0-6%	20-33%	

Official real estate value of buildings and land, insurance value of buildings and insurance value of equipment, IT- and office tools are specified as follows:

	2015	2014
Real estate value of buildings and land	37.490	36.340
Insurance value of buildings	52.350	50.250
Insurance value of equipment, IT- and office tools	593.882	591.875

Depreciation of fixed assets and amortisation of intangible assets are specified as follows:

	2015	2014
Depreciation of property, plant and equipment	236.413	169.029
Amortisation of intangible assets, see note 18	302.080	160.401
Total depreciation and amortisation	538.493	329.430

Depreciation and amortisation is recognised in other operating expenses, see note 8.

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18. Intangible assets

2015

	Software	Brands	Customer relations	Agreements	Goodwill	Total
Total value at 01.01.15	2.468.845	134.737	353.984	180.646	2.114.752	5.252.965
Additions/Transfers	436.755	0	(353.984)	(180.646)	415.613	317.737
Total value at 31.12.15	2.905.600	134.737	0	0	2.530.365	5.570.702
Previously amortised	340.225	0	0	0	0	340.225
Amortised 2015	293.627	8.453	0	0	0	302.080
Total amortisation	633.852	8.453	0	0	0	642.305
Exchange rate effects	(131.411)	(12.017)	0	0	(242.021)	(385.448)
Book value at year end	2.140.338	114.267	0	0	2.288.344	4.542.950

Amortisation rate 0-33%

When finishing the allocation of goodwill due to the Group's acquisition of Altapay A/S the part of the purchase price that previously had been allocated to customer relations and agreements was reallocated to goodwill.

An impairment test was performed on the Group's goodwill at year end. For impairment purposes goodwill was allocated to two cash-generating units, Altapay and Valitor hf.'s. Global Partnerships division. The recoverable amount of these cash-generating units was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the board of directors. The calculation considers the time value of money discounting future payments using a discount rate determined by the risk free return rates of the currencies in which the cash flows are projected to occur in and a risk premium based on any factors of risk or uncertainty. The impairment test concluded that no indications of impairment existed.

Key findings of the impairment test

	Altapay	Valitor hf. Global Partn.	Total
Book value of goodwill	1.849.268	439.076	2.288.344
Other assets assigned to cash-generating unit	1.494.507	260.970	1.755.477
Book value	3.343.775	700.046	4.043.821
Recoverable amount	5.388.524	3.849.321	9.237.845
Excess value	2.044.749	3.149.275	5.194.024
Discount factor	10,6%	9,8%	

2014

	Software	Brands	Customer relations	Agreements	Goodwill	Total
Total value at 01.01.14	688.109	0	0	0	0	688.109
Additions	1.780.736	134.737	353.984	180.646	2.114.752	4.564.856
Total value at 31.12.14	2.468.845	134.737	353.984	180.646	2.114.752	5.252.965
Previously amortised	179.824	0	0	0	0	179.824
Amortised 2014	160.401	0	0	0	0	160.401
Total depreciation	340.225	0	0	0	0	340.225
Book value at year end	2.128.620	134.737	353.984	180.646	2.114.752	4.912.740

Depreciation rate 0-33%

19. Other assets

Other assets are specified as follows:	2015	2014
Various assets	474.106	242.702
Pre-payments and uncollected income	703.893	227.625
Total other assets	1.177.999	470.327

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20. Due to credit institutions

Due to credit institutions are specified as follows:

	2015	2014
Bank overdraft	4.469.321	14.531.143
Total due to credit institutions	4.469.321	14.531.143

21. Long-term liabilities

Long-term liabilities are specified as follows:

	2015	2014
Liabilities in DKK	1.821.257	2.075.571
Current maturities	(167.762)	(132.925)
	1.653.495	1.942.646
Year 2016	167.762	132.925
Year 2017	254.384	259.019
Year 2018	1.399.112	1.683.627
	1.821.257	2.075.571

22. Income tax assets (liabilities)

Income tax assets (liabilities) are specified as follows:

	Assets	Liabilities	Net 2015	Assets	Liabilities	Net 2014
Prop., plant and equipm.	0	(3.246)	(3.246)	0	(18.191)	(18.191)
Intangible assets	0	(359.814)	(359.814)	0	(564.189)	(564.189)
Deferred FX diff.	4.265	0	4.265	6.612	0	6.612
Loans	14.946	0	14.946	11.304	0	11.304
Carry-forward tax losses	9.303	0	9.303	5.030		5.030
Other financial assets	0	(1.128.528)	(1.128.528)	0	0	0
Other liabilities	3.941	0	3.941	10.317	0	10.317
	32.455	(1.491.588)	(1.459.134)	33.263	(582.381)	(549.117)

23. Other liabilities

Other liabilities are specified as follows:

	2015	2014
Prepaid income and accrued expenses	984.436	1.232.372
Profit-related payments	495.236	485.669
Commitment to purchase non-controlling interest	384.960	400.602
Other short term liabilities	204.656	1.336.136
Total other liabilities	2.069.288	3.454.778

24. Equity

Share capital

Valitor Holding hf. share capital according to its Articles of Association amounts to ISK 400 million at year end and remains unchanged from the beginning of the year. One vote is attached to each ISK one share in the Company, in addition to the right of receiving dividend. The entire share capital has been paid.

Statutory reserve

The statutory reserve may be used to offset a loss if it cannot be equialised by transfer from other reserves. When the statutory reserve exceeds a quarter of the share capital the excess reserve may be used to increase share capital or to meet other needs.

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24. Equity, continued:

Other reserves

Other reserves items comprise fair value changes of available-for-sale assets, net of tax, amounting to ISK 4,514,111 thousands and accumulated translation difference due to financial statements of foreign subsidaries, amounting to ISK 12,557 thousands. These amounts are transferred to profit or loss at derecognition or impairment of underlying assets.

Dividend

The Board of Directors proposes no payment of dividend in 2016 for the year 2015.

25. Off balance sheet information

Operating leases

The Group has entered into lease contracts on real estates and vehicles used in the operation. The contract terms are up to 10 years and the Company has the priority purchase right to the assets or the right to extend the contracts at the end of the contract term.

Non-cancellable lease payments are payable as follows:	**2015**	**2014**
Within one year	107.345	119.683
1 to 5 years	395.303	399.555
After 5 years	101.104	146.098
Total	603.752	665.336

26. Related parties

The Group's related parties are owners with significant influence, associated companies, Board members, Managing Directors, and close family members of the aforementioned parties.

Owners and associated companies have carried out transactions with the Group during the year. Terms and condition of the transactions are on an arm's length basis.

The following tables discloses main transactions with related parties during the year, in addition to information of the Group's receivable and payable to these parties at year end.

2015

Outstanding with related parties is specified as follows:

	Assets	**Liabilities**	**Net**
Controlling parties	383.144	1.874.676	(1.491.532)
Key management personnel	0	880.885	(880.885)
	383.144	2.755.561	(2.372.417)

Transactions with related parties:

	Interest income	**Interest expenses**	**Fee and comm.**	**Fee and comm.**	**Other income/expen**
Controlling parties	22.761	(167.035)	443.264	(927.051)	(261.314)
Key management personnel	0	0	78	(4)	0
	22.761	(167.035)	443.342	(927.055)	(261.314)

Landsbankinn, formerly a party with signicant influence, is no longer considered to be a related party as it sold it's shares in December 2014.

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2014

Outstanding with related parties is specified as follows:

	Assets	Liabilities	Net
Controlling parties	8.191.514	9.476.234	(1.284.720)
Parties with significant influence	11.841.982	7.331.809	4.510.173
Key management personnel	0	886.271	(886.271)
	20.033.496	17.694.314	2.339.182

Transactions with related parties:

	Interest income	Interest expenses	Fee and comm. income	Fee and comm. expenses	Other income/expenses
Controlling parties	327	(421.377)	299.372	(308.056)	(342.817)
Parties with significant influence	27.872	(171.600)	293.864	(361.950)	0
Key management personnel	0	0	0	(2.486)	0
	28.199	(592.977)	593.236	(672.493)	(342.817)

27. Guarantee due to issuers

The financial position of Visa card issuers is evaluated on a yearly basis according to rules set by Visa EU. According to these rules issuers in Iceland, that get membership of Visa EU through a group membership that the group's subsidiary Valitor hf. handles on behalf of Visa Ísland ehf., shall under certain circumstances provide guarantee to Visa EU due to the issuance.

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LEGAL MATTERS

Valitor Holding hf. has adopted a policy and implemented procedures in order to manage legal matters of dispute. When professional advice has been sought and the amount of potential loss has been realistically estimated, the Company takes appropriate actions in order to reflect the possible negative effect on the Company's financial position. In cases where it is deemed to harm Valitor hf.'s defence to divulge possible amounts in relation to law suits, it is omitted. At year end there were a few disputes unsolved where the Company was involved.

28. Contingent liabilities

In January 2015, Datacell ehf. and Sunshine Press Productions ehf. jointly filed suit against Valitor hf. for compensatory damages relating to Valitor hf.'s rescission of Datacell's vendor agreement. The Supreme Court ruled on 24 April 2013 in case no. 612/2012 that Valitor hf. did not have premise to rescind the agreement. The plaintiffs had court appointed appraisers evaluate their alleged losses. The appraisers returned their report in March 2016. The Group is looking into its options to decide on the next steps.

Kortaþjónustan hf. filed a suit against Valitor hf. in June 2013 and demands compensation for the alleged loss of Kortaþjónustan hf. regarding the Competition Authority's decision no. 8/2015. Kortaþjónustan hf. has had appraisers court appointed to assess its alledged damages. Valitor hf. will guard its interests in this process.

The Company has asked its advisors to review a few tax issues and this work is ongoing.

29. Other matters

The Competition Authority decided on 12 April 2013 to impose administrative fines on Valitor hf. for the amount of ISK 500 million due to a violation of Article 11 of the Competition Act and breach of conditions of a settlement reached with the Competition Authority at the beginning of 2008. The Competition Authority traces the onset of this case to a complaint from Borgun hf. in 2009 and a raid on the Company's premises on 1 July 2009. Valitor hf. has recognised the administrative fine in Valitor hf.'s accounts and it was paid on 10 May 2013. The Appeals Committee ratified the Competition Authority's decision on 8 October 2013. In June 2015 the District Court reached the decision to lower the fine for the amount of ISK 100 million. Valitor hf. appealed the District Court's ruling to the Supreme Court and primarily demanded nullification of the Appeals Committee's decision and secondly a significant reduction of the fines. The Competition Authority also appealed the ruling to the Supreme Court and demands that the initial ruling of ISK 500 million will be upheld. It is expected that a ruling will be issued in June 2016.