Valitor Holding hf.

Consolidated Financial Statements

2016

Valitor Holding hf.
Dalshraun 3
220 Hafnarfjordur

Reg.no. 511207-0100

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Letter from the CEO

Continued growth by the Valitor Group characterised 2016 with total revenue of ISK 15,129 million or 23% increase from the previous year despite significant strengthening of the Icelandic krona and depreciation of the sterling pound. Profit after tax was ISK 7,351 million. Valitor is a financially strong company with equity at the end of 2016 of ISK 15,279 million and total capital ratio of 46%.* Valitor continued its focus on growth and long-term value creation, thereby forfeiting short-term profitability, with significant investments in product development, infrastructure optimisation, and in its direct sales channels.

Viðar Þorkelsson, Group CEO

Over the past year we continued to execute Valitor's strategy set in 2012 for both acquiring and issuing, which involves development and expansion through partners in Iceland and Europe, and direct end-to-end services to the market through merchant acquiring in Iceland and via subsidiaries in key markets in the UK and Scandinavia. At year-end 2016 there were 263 employees working at Valitor's offices in Hafnarfjordur, Copenhagen and London.

When considering Valitor's individual business units in 2016, the Icelandic operation continued to perform well. Growth in Iceland is primarily attributed to the increased number of foreign tourists and the growth of the economy. The strong krona had a negative impact on profitability for the Global Partnerships unit. This aside, international acquiring operations performed very well with processing volume of USD 7 billion compared to USD 3 billion in 2015. Among Valitor's partners are some of the world's leading and fastest growing Fintech companies. The operation of international issuing of prepaid cards was below expectations but in the final quarter there was a positive development. Despite the strong Icelandic krona, revenue from Valitor's international operations increased by 50% in 2016 and contributes now over 60% of the company's total business. Markadis saw their customer base in the UK market increase considerably during the year, particularly during the last quarter, which promises well for the future. Operations of AltaPay in Denmark were weaker than expected, but the outlook for 2017 is much better.

The sale of Visa Europe to Visa Inc. was completed in 2016. Significant benefits were realised from the sale, and a large part of the amount received can be directly linked to Valitor's rapid growth in recent years.

The strong growth in international business has tested the strength and competence of Valitor's employees as the scope of business has multiplied during the past three years. To support this rapid growth, important milestones were achieved in order to strengthen the infrastructure. Scalability of operations remained a key area of focus and sound planning and preparation was key to solid service when Valitor's systems underwent major levels of stress at year-end. November and December set historical turnover and transaction level monthly records. "Black Friday" was up by a record number of 115% year on year. This major shopping weekend has become Valitor's largest annual business period and our strong and cohesive esprit de corps met the challenge with distinction. Increased turnover and transaction levels strengthens Valitor's competitive position and lowers unit costs.

The total number of transactions through Valitor's system has doubled year on year and are now over 300 million on an annual basis. It is apparent that the company is on track to achieve two key objectives of higher transaction numbers and an increased share of international income.

Key success factors for Valitor are edged in the strategy of developing its own software platforms, both for acquiring and card issuing and providing innovative and excellent service. Valitor is one of the larger software companies in Iceland with over 60 software developers and the number is rapidly growing. On this basis, Valitor has been able to steadily develop products and highly valuable intellectual property over the years, which enables the company to differentiate itself from competitors and strengthen its competitiveness in the aggressive international payments industry market.

** All numbers based on audited Comprehensive Income and Balance Sheet*

In 2016, there was special focus on development projects that support economies of scale, service quality and automation. This involved, among other things, increased automation of billing and settlements with customers and also implementing a new authorisation system.

One of the major projects of the year was the introduction of Lean Management methodology in order to facilitate efficient growth and scalability in coming years. In the same vein, a new organisational structure for Valitor was introduced in September, which will support growth and profitability in the future. Part of the restructuring is to enhance Global Partnerships sales and marketing activities in London, which is responsible for Valitor's international partners' business. At year-end, the Financial Conduct Authority (FCA) in the UK awarded Valitor an operating license for this purpose, a so-called "E-Money license". Additionally, regular monitoring of customers was strengthened with the establishment of a dedicated Business Monitoring team.

Among the many new products and services introduced for the international market are Android Pay mobile payment solution in the UK, a special solution for corporate lending in cooperation with Capital on Tap, and offering point of sale (POS) acquiring services in the Nordics in addition to the Danish market. Also worthy of mention is a new solution combining issuing and acquiring services for insurance companies in cooperation with the international company WEX. AltaPay received the „Gazelle“ award from Børsen, the Danish financial publication, for its achievements as a growth company, and Markadis established its positioning and differentiation in the UK market through its acquiring and „Mii-Promo“ loyalty solution.

Many innovations were introduced in Iceland in 2016. Iceland issuing made an important advancement with comprehensive services for domestic banks in issuing debit cards, as well as beginning the issuance of contactless cards. A major step was also taken in services to issuing banks in Iceland by replacing Electron cards with Visa debit cards. The new debit cards can, for example, be used in E-commerce transactions. In addition, a new currency card was introduced in Icelandic krona for foreign tourists.

Iceland acquiring introduced dynamic currency conversion (DCC) in ATMs for both Visa and Mastercard, and the response exceeded expectations. Valitor developed a new payment solution in partnership with Domino's Pizza Iceland, which includes E-commerce payment facilities and a phone app. In December, Já.is (e: Yes.is) debuted in cooperation with Valitor a new tool for online sales, "Yes please! Click & Collect". It includes a payment solution on ja.is, where a product is advertised, ordered and paid online and then collected in store.

Letter from the CEO, contd.:

At the end of the year, the Payment Holiday product was introduced, which is an addition to Valitor's lending solutions and gives merchants the option of offering a longer grace period and to distribute payments for lower amounts over a shorter time.

Valitor has always had a concern for corporate social responsibility, both in regard to its internal and external activities. During the year, a staff steering committee established targets and measures to minimize any negative environmental impact of operations. A major step was taken towards those objectives when Valitor signed an agreement with the Iceland Carbon Fund to offset air travel and company car use in coming years. Additionally, Valitor was the first Icelandic company to sign an agreement for assisting employees to voluntarily offset their personal car use on an annual basis. Valitor intends to implement green procurement standards that are guided by sustainability considerations with suppliers and service providers.

Through Valitor's Community Fund, the company continued to support important projects and issues in the community in 2016 as it has for the past 25 years.

The vision and strategy of the company is clear. We face exciting opportunities for further international growth and the challenges that accompany them. It is Valitor's objective to be among the 25 largest acquirers in Europe in 2018. By that time, the objective is to have 80% of Valitor Group's total revenue coming from international operations. Parallel to this expansion, Valitor will continue to work towards increased scalability and operational efficiency, combined with a differentiating approach in product development, which is key to Valitor's positioning in the highly competitive international financial technology environment.

Our core values are **Trust, Collaboration and Initiative**. With this solid foundation, clear vision and objectives, the Valitor Group has attracted some 263 inspired employees who form a collective entity focussed on building and growing the company, anticipating opportunities and innovatively embracing and addressing whatever challenges that are encountered along the path.

Viðar Þorkelsson, Group CEO

Management presentation of Comprehensive Income - unaudited

INCOME STATEMENT	2016	2015
Operating revenue		
Fee and commission income	14,282,877	11,325,024
Other operating revenue	905,015	968,396
Total operating revenue	15,187,892	12,293,421
Operating expenses		
Fee and commission expense	9,680,934	6,772,676
Salaries and salary-related expenses	2,814,759	2,495,461
Other operating expenses	2,276,316	1,914,394
Total operating expenses	14,772,009	11,182,531
EBITDA	415,883	1,110,890
Depreciation	650,733	538,493
Operating results (EBIT)	(234,851)	572,397
Finance income and (expenses)		
Net interest income (expenses)	28,764	(270,133)
Net income (expenses) on financial assets and liabilities	7,356,322	(175,639)
Total finance income and (expenses)	7,385,086	(445,772)
Income from equity accounted investees	4,861	5,821
Profit before tax	7,155,096	132,445
Income tax	310,274	(112,073)
Profit for the year	7,465,370	20,372
OTHER COMPREHENSIVE INCOME		
Fair value changes of available-for-sale financial assets, net of tax	(4,514,111)	4,514,111
Corrections related to prior periods through P/L	(114,604)	0
Foreign currency translation differences of foreign subsidiaries	247,366	12,071
Other comprehensive income for the year	(4,381,349)	4,526,182
Total comprehensive income	3,084,021	4,546,554

Endorsement by the Board of Directors and CEO

Operations in 2016

These Consolidated Financial Statements for Valitor Holding hf. are prepared in accordance with IFRS as adopted by the European Union and additional requirements according to Act no. 3/2006.

The Group's main purpose is to own and operate companies related to payment services. The subsidiary Valitor hf. is an innovative payment services company operating internationally building on its core values of trust, initiative and collaboration. Valitor hf.'s role is to provide it's customers with services facilitating successful card payment transactions. VISA Ísland ehf. is a subsidiary of Valitor Holding hf. which purpose is to be the principal and sponsoring member of VISA.

The Group's total comprehensive income amounted to ISK 3,084 m. with an operating profit of ISK 7,351 m. according to the Statement of Comprehensive Income. The equity of the group at the end of the year amounted to 15,279 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.

During the year the group had on average of 249 employees and paid total of ISK 2,815 m. in salaries. The Board of Directors were 60% male and 40% female. Executive Directors were 12.5% female and 87.5% male.

Valitor Holding hf. is a subsidiary of Arion Bank hf. Share capital amounted to ISK 400 m. at year end and is fully owned by Arion Bank and related companies, as at the beginning of the year.

The Board of Directors proposes that net earnings be added to equity and that no dividend be paid in 2017 for the fiscal year 2016, for now. The Board of Directors has broad authority to suggest that the company pay dividends or other disbursement of equity and may convene a special shareholders' meeting later in the year to propose a payment.

Future Prospects

The Group's core business in Iceland is stable and the financial position is strong. That enables the Group to pursue a growth strategy and penetrate international markets. By doing so the Group forfeits short-term profitability for long-term value creation. The Group's future operating return is effected by operating requirements set by official authorities and the card associations. Significant changes to current operating condition may affect the Group'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 in the accounts further discusses the risk management of the Group.

Board of Directors, Jónína Sigrún Lárusdóttir, Stefán Pétursson, Roger Keith Alexander, Synnöve Trygg and Guðmundur Þorbjörnsson, Chairman of the Board

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

Corporate Governance
The Board of Directors of Valitor Holding hf. emphasises the maintenance of good corporate governance. The Board of Directors has established comprehensive guidelines wherein the Board's authority is defined as well as scope of work in relation to the CEO. These rules include i.e. 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.

In June 2016, Parliament approved numerous amendments to legislation concerning annual financial statements. Among the changes in legislation is a requirement that in the overview accompanying the summary report of the board for certain companies it is necessary to include particular information assessing the development, scale, current situation and influence of the company in relation to environmental, social, and human resource concerns. Furthermore, there shall be included an explanation of the company's policy on human rights and how the company counters corruption and bribery issues. In addition, the overview is to contain a short description of the company's business model, non-financial key metrics and more. If the company has no policy in relation to one or more of the issues listed in the legislation, it must make a clear and reasoned statement of explanation. The company constitutes a unit affecting the public interest and subject to aforementioned disclosure requirements associated with the implementation of the EU Directive. It should be noted that for companies in the EU Member States, the provisions take effect for the year 2017. Management calls attention to the corporate governance statement for Valitor hf. on the company's website.

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 and additional requirements in the Icelandic Financial Statement Act. 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 of 31 December 2016, and its operating return and changes in cash during the year 2016.

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, its 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 2016 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, 20 February 2017

The Board of Directors:

Guðmundur Þorbjörnsson
Chairman of the Board

Jónína Sigrún Lárusdóttir

Roger Keith Alexander

Stefán Pétursson

Synnöve Trygg

Viðar Þorkelsson
CEO

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Valitor Holding hf. for the year ended December 31, 2016 which comprise the statement of comprehensive income for the year 2016, the balance sheet as at 31 December 2016, the statement of changes in equity for the year 2016, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Valitor Holding hf. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Valitor Holding hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the management presentation of comprehensive income, the message from the CEO and the endorsement by the board of directors and CEO.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Board of Directors and the CEO are responsible for assessing Valitor Holding hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Independent Auditor’s Report, contd.:

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit 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 Valitor Holding hf.'s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

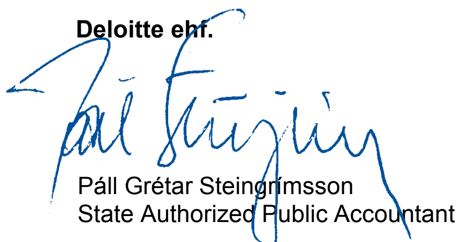
• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Kópavogur, 20 February 2017

Deloitte ehf.



Páll Grétar Steingrímsson
State Authorized Public Accountant

Björn Arason
State Authorized Public Accountant

Statement of Comprehensive Income
for the year 2016

INCOME STATEMENT	Notes	2016	2015*
Operating revenue			
Fee and commission income		14,223,877	11,325,024
Other operating revenue		905,015	968,396
Total operating revenue		15,128,892	12,293,421
Operating expenses			
Fee and commission expense		9,796,538	6,772,676
Salaries and salary-related expenses	7	2,814,759	2,495,461
Other operating expenses	8	2,927,049	2,452,887
Total operating expenses		15,538,347	11,721,024
Operating (loss) profit		(409,455)	572,397
Finance income and (expenses)			
Interest income		213,522	2,763
Interest expense		(124,758)	(272,897)
Net income (expenses) on financial assets and liabilities		7,356,322	(175,639)
Total finance income and (expenses)	10	7,445,086	(445,772)
Income from equity accounted investees	16	4,861	5,821
Profit before tax		7,040,492	132,445
Income tax	11	310,274	(112,073)
Profit for the year		7,350,766	20,372
OTHER COMPREHENSIVE INCOME			
Fair value changes of available-for-sale financial assets, net of tax	15	(4,514,111)	4,514,111
Foreign currency translation differences of foreign subsidiaries		247,366	12,071
Other comprehensive income for the year		(4,266,745)	4,526,182
Total comprehensive income		3,084,021	4,546,554

Notes on pages 15 to 42 are an integral part of these financial statements.

*2015 numbers have been restated, see note 2. (e)

Balance Sheet as at 31 December 2016

	Notes	2016	2015*
Assets			
Cash	13	24,228,311	24,157,065
Restricted cash	13	748,934	641,346
Receivables from credit institutions		2,572,216	3,148,326
Loans	14	3,733,298	3,550,560
Other financial assets	15	1,493,904	5,735,263
Shares in associated companies and other companies	16	51,946	78,123
Deferred tax assets	22	143,823	0
Property, plant and equipment	17	409,363	439,178
Intangible assets	18	4,082,299	4,542,949
Other assets	19	1,897,806	1,183,538
Total assets		39,361,899	43,476,350
Liabilities			
Accounts payable		22,006,068	21,137,746
Due to credit institutions	20	332,618	4,469,321
Long-term liabilities	21	0	1,821,257
Current income tax	11	74,092	140,792
Deferred tax liabilities	22	26,212	1,459,134
Other liabilities	23	1,643,823	2,253,035
Total liabilities		24,082,813	31,281,285
Equity			
Share capital		400,000	400,000
Share premium		1,614,189	1,614,189
Restricted equity		1,530,479	0
Other reserves		259,437	4,526,182
Retained earnings		11,474,980	5,654,694
Total equity	24	15,279,085	12,195,065
Total equity and liabilities		39,361,899	43,476,350

Notes on pages 15 to 42 are an integral part of these financial statements.

*2015 numbers have been restated, see note 2. (e)

Statement of Changes in Equity for the year 2016

2016	Share capital	Share premium	Restricted equity	Other reserves	Retained earnings	Total
Equity as at 1 January 2016	400,000	1,614,189	0	4,526,182	5,654,694	12,195,065
Profit for the year	0	0	0	0	7,350,766	7,350,766
Moved to restricted equity	0	0	1,530,479	0	(1,530,479)	0
Other compreh. inc. for the year	0	0	0	(4,266,745)	0	(4,266,745)
Total comprehensive income	0	0	1,530,479	(4,266,745)	5,820,287	3,084,021
Equity as at 31 December 2016	400,000	1,614,189	1,530,479	259,437	11,474,980	15,279,085

2015	Share capital	Share premium	Restricted equity	Other reserves	Retained earnings	Total
Equity as at 31 December 2014	400,000	1,614,189	0	(5,509)	5,809,549	7,818,229
Correction of prior years	0	0	0	5,509	(175,226)	(169,717)
Equity as at 1 January 2015	400,000	1,614,189	0	0	5,634,323	7,648,512
Profit for the year	0	0	0	0	20,372	20,372
Other compreh. inc. for the year	0	0	0	4,526,182	0	4,526,182
Total comprehensive income	0	0	0	4,526,182	20,372	4,546,554
Equity as at 31 December 2015	400,000	1,614,189	0	4,526,182	5,654,694	12,195,065

*2015 numbers have been restated, see note 2. (e)

Statement of Cash Flows for the year 2016

	Notes	2016	2015*
Cash flows from operating activities			
Profit for the year		7,350,766	20,372
Operating items not affecting cash flows:			
Gain on sale of assets		(6,503)	(1,882)
Depreciation and amortisation	17.18	645,194	538,493
Income from associated companies	16	(4,861)	(5,821)
Finance income and expenses		(7,071,672)	440,046
Income tax		(43,518)	126,198
Impairment on loans		22,898	73,428
Operating activities total		892,305	1,190,833
Changes in operating assets and liabilities:			
Other assets, change		(799,267)	(707,672)
Other liabilities, change		(1,131,105)	(1,471,676)
Accounts payable, change		868,322	2,394,904
Changes in operating assets and liabilities total		(169,745)	1,406,389
Interest income received		213,522	0
Interest expense paid		(124,758)	(264,407)
Income tax paid		(140,792)	(137,938)
Cash flows (to) from operating activities		(221,773)	1,004,044
Cash flows from investing activities			
Restricted cash, change	13	(107,587)	23,575,131
Repayments on bonds	15	0	3,500
Loans, change	14	(205,635)	(648,578)
Investment in property, plant and equipment	17	(194,988)	(199,291)
Investment in intangible assets	18	(783,424)	(317,738)
Dividends received	16	6,486	2,231
Proceeds from sale of VISA Europe Ltd.	16	7,117,714	0
Proceeds from sales of associate		32,362	0
Proceeds from sales of property, plant and equipment	17	7,522	6,264
Investing activities		5,872,451	22,421,518
Cash flows from financing activities			
Due to credit institutions, change		(4,136,703)	(10,021,738)
Repayment of long-term liabilities	21	(1,747,078)	(179,977)
Receivables from credit institutions, change		1,084,632	3,011,845
Financing activities		(4,799,149)	(7,189,871)
Cash and cash equivalents, increase		851,529	16,235,692
Effect of exchange rate fluctuations on cash held		(780,282)	(460,377)
Cash and cash equivalents at the beginning of the year		24,157,065	8,381,750
Cash and cash equivalents at year end	13	24,228,311	24,157,065
Investing and financing activities not affecting cash flows:			
Fair value of available-for-sale financial assets	15	(4,514,111)	5,642,639
Commitment due to profit-related payments, change		0	9,567
Commitment to purchase non-controlling interests, change		(38,658)	(15,642)

Notes on pages 15 to 42 are an integral part of these financial statements.

*2015 numbers have been restated, see note 2. (e)

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. Markadis operates in the United Kingdom as an Authorised Payment Institution by the Financial Conduct Authority.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2016 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.

The Financial Statements were approved and authorized for issue by the Board of Directors of Valitor hf. on 20 February 2017.

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 and errors*

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

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period, presented in which the error occurred, or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

The Group has corrected prior period errors. The errors are net ISK (77) million adjustment of VAT on purchased foreign services in the years 2010-2014 and net ISK (101) million correction due to shares in subsidiaries. The only impact on the income statement for the year 2015 is interest expense of ISK 8.5 million, other remaining adjustments are from other prior periods.

Other restatements of 2015 statement of comprehensive income are reclassification of interest income, see note 3. (c) and 10.

Comprehensive Income	**Prior to corrections**	**Corrections**	**Updated balance 1.1.2016**
Operating revenue	11,432,463	860,958	12,293,421
Operating expenses	(11,721,024)	0	(11,721,024)
Interest income	863,721	(860,958)	2,763
Interest expenses	(264,407)	(8,490)	(272,897)
Net (expenses) on financial assets and liabilities	(175,639)	0	(175,639)
Income from equity accounted investees	5,821	0	5,821
Income tax	(112,073)	0	(112,073)
Profit for the year	28,862	(8,490)	20,372
Other comprehensive income for the year	4,526,182	0	4,526,182
Total comprehensive income for the year	4,555,044	(8,490)	4,546,554

Balance Sheet	**Prior to corrections**	**Corrections**	**Updated balance 1.1.2016**
Other assets	1,177,999	5,539	1,183,538
All assets excluding other assets	42,292,812	0	42,292,812
Total assets	43,470,811	5,539	43,476,350
Other liabilities	2,069,288	183,747	2,253,035
All liabilities excluding other liabilities	29,028,250	0	29,028,250
Total liabilities	31,097,538	183,747	31,281,285
Share capital and share premium	2,014,189	0	2,014,189
Other reserves	4,520,673	5,509	4,526,182
Retained earnings	5,838,411	(183,717)	5,654,694
Total equity	12,373,273	(178,208)	12,195,065

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.

In 2016 a decision was made to reclassify the capital gains of the company, arising from capital the Company holds on behalf of its clients in acquiring in Iceland, and classify them among commission income in the income statement. Additionally, capital gains from the loan portfolio were reclassified to other operating revenue. Last years accounts have been restated to reflect these changes. Fees and commission income in 2015 were ISK 10.973.615 but are restated as ISK 11.325.024. Other operating revenue were ISK 458.848 but are restated as ISK 968.396. Interest income and expense were ISK 863.721 and ISK (264.407) respectively but are restated as ISK 2.763 and ISK (272.897).

3. Significant accounting policies, continued:

(c) Finance income and expenses, continued:

Acquiring customers of Valitor in Iceland receive either monthly settlements, where turnover is paid out on the first working day of the following month, or they receive daily settlements. Valitor is able to use capital from the funds of customers Valitor receives daily and are paid out monthly and can thus offer clients with monthly statements better terms than those receiving daily settlement. Quotes on business rates take into account the interest conditions at the time with the aim of insuring that Valitor is equally well protected whether a merchant receives daily or monthly settlements.

The term income is defined as gross inflows of economic proceeds during the period arising in connection with core company operations which lead to an increase in equity. The capital gains which Valitor benefits from on funds settled monthly with acquiring customers are thus part of core company operations, as these interests are directly related to when settlement is made.

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.

3. Significant accounting policies, continued:

(g) Financial assets and liabilities, continued:

(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.

(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 income.

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.

3. Significant accounting policies, continued:

(h) Impairment of financial assets, continued.:

(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;

(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.

3. Significant accounting policies, continued:

(h) Impairment of financial assets, continued:

(iii) Collectively assessed loans, continued:

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.

(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)

3. Significant accounting policies, continued:

(k) Other financial assets, continued:

(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.

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.

3. Significant accounting policies, continued:

(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.

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.

3. Significant accounting policies, continued:

(s) New standards and interpretations yet to be adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these Financial Statements. Relevant to the Company's reporting are:

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. The Parent's Company Group has set up a multidisciplinary implementation team. The Project has six key phases: the initial assessment and analysis, design, build and test the system, parallel running in the second half of 2017, and go live in 2018. At year-end 2016 the Project is on time and the Group will be able to meet the set timeline in this project. The Group is currently evaluating the impats of IFRS 9 on the Financial Statements.

IFRS 15 Revenue from Contracts with Customers

The standard was issued in 2014 and defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards. Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transfer anticipates entitlement to goods and services. The standard specifies a comprehensive set of disclosure requirements. The standard will be effective for periods beginning on 1 January 2018 with early adoption permitted. The Group does not expect IFRS 15 to be adopted early and is currently evaluating its impacts.

IFRS 16 Leases

The standard issued in January 2016 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheet as lease liabilities, with the corresponding right-to-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize short-term leases and leases of low-value assets. The standard is effective for annual periods beginning 1 January 2019. The Group is currently assessing the impact of the new standard.

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 and audit 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) Agreements including credit risk

The Group's main credit risk arises in relation to agreements with merchants selling service in advance, which the Group might have to refund if the merchant 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 merchants, 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 merchant. 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 merchants selling service in advance and finally, improved hedges in its own credit card loan system. In relation to foreign merchants, 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 merchants and transaction monitoring apply to the Group's transaction collection. Work procedures are in place regarding information gathering on transactions of domestic merchants selling service in advance and an action plan, if necessary, to require the merchants in question to provide special guarantees or other resort in order to reduce risk. Foreign merchants 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:

	2016	**2015**
Cash and cash equivalents	24,228,311	24,157,065
Restricted cash	748,934	641,346
Receivables from credit institutions	2,572,216	3,148,326
Loans	3,733,298	3,550,560
Other financial assets	1,493,904	5,735,263
Other assets	1,413,015	474,106
	34,189,678	37,706,667

4. Financial risk management, continued:

(d) *Credit risk, continued:*

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

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Impairment	Total
31 December 2016						
Cash	24,228,311	0	0	24,228,311	0	24,228,311
Restricted cash	748,934	0	0	748,934	0	748,934
Rec. from credit instit. .	2,572,216	0	0	2,572,216	0	2,572,216
Loans	3,661,483	0	333,912	3,995,395	(262,097)	3,733,298
Other financial assets .	1,493,904	0	0	1,493,904	0	1,493,904
Other assets	1,413,015	0	0	1,413,015	0	1,413,015
	34,117,863	0	333,912	34,451,775	(262,097)	34,189,678
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

Impairment on loans is specified as follows:

	Specific	Collective	Total
Year 2016			
Balance at 1 January	190,949	31,683	222,631
Provision for losses during the year	56,672	8,815	65,487
Payment on loans previously written off	(2,653)	0	(2,653)
Final write off	(23,368)	0	(23,368)
Balance at 31 December	221,600	40,498	262,097
Year 2015			
Balance at 1 January	176,204	26,311	202,514
Provision for losses during the year	90,082	5,372	95,454
Final write off	(75,337)	0	(75,337)
Balance at 31 December	190,949	31,683	222,631

(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 an EEA regulated credit institution 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, the amount of Valitor hf’s deposits at its commercial banks has exceeded the aforementioned criterion. The Group actively limits such counterparty risk.

4. Financial risk management, continued:

(f) *Liquidity risk*

Liquidity risk management

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. The Group places great emphasis on monitoring and managing liquidity risk on a daily basis, and endeavours to ensure it has sufficient resources to meet its obligations at all times.

Measurement of liquidity risk

A key factor in the Group´s management of liquidity risk is to ensure a balance between cash flow of financial assets and liabilities. A comparison of the book value of the Group's financial assets and liabilities and the contractual cash flow thereof is outlined in the table below.

		Contractual cash flows			
	Book value	0 - 3 months	3 - 12 months	1 - 5 years	Total
31 December 2016					
Financial assets:					
Cash	24,228,311	24,228,311	0	0	24,228,311
Restricted cash	748,934	748,934	0	0	748,934
Receivables from credit institutions	2,572,216	2,572,216	0	0	2,572,216
Other financial assets	1,493,904	0	0	1,493,904	1,493,904
Loans	3,733,298	751,669	1,652,073	1,043,189	3,446,931
Other assets	1,413,015	1,413,015	0	0	1,413,015
Total financial assets	34,189,678	29,714,144	1,652,073	2,537,093	33,903,311
Financial liabilities:					
Accounts payable	22,006,068	22,006,068	0	0	22,006,068
Payable to credit institutions	332,618	332,618	0	0	332,618
Other liabilities	1,254,913	1,278,795	0	365,028	1,643,823
Total financial liabilities	23,593,599	23,617,481	0	365,028	23,982,509

		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	29,055,327	26,418,642	598,229	2,038,456	29,055,327

4. Financial risk management, continued:

(g) *Market risk*

(i) Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in market interest rates. The Group is exposed to interest rate risk, primarily resulting from a mismatch in interest bearing assets and liabilities, their duration and interest rate fixing periods.

At year end all assets and liabilities bear variable interest. No assets or liabilities are indexed.

(ii) Currency risk

Currency risk is the risk that earnings or capital may be negatively affected by fluctuations in foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in currency composition of assets and liabilities. The Group aims to limit currency risk. Net exposure per currency is monitored relative to the total equity of Valitor Holding.

Capital controls and foreign exchange restrictions in Iceland have negatively affected the Group's ability to manage its currency risk.

The Group's currency risk based on nominal values is specified as follows:

2016	**USD**	**GBP**	**EUR**	**DKK**	**Other currencies**
Cash	650,662	5,102,902	2,680,996	942,013	1,054,429
Other financial assets	921,645	0	0	0	0
Accounts receivable	323,522	387,305	113,239	6,777	25,619
Accounts payable	(333,262)	(2,543,290)	(1,842,541)	(298,450)	(511,479)
Currency swaps	(898,901)	(1,477,288)	(302,996)	(811,301)	(368,251)
Risk in balance sheet	663,666	1,469,629	648,698	(160,961)	200,318

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

Sensitivity analysis

Based on net currency exposure at year-end, a 10% depreciation of the Icelandic krona agains all currencies would increase profit before tax by ISK 282 million (2015: ISK 527 million). This analysis is based on the assumption that other risk factors are being held constant. The analysis is performed on the same basis for 2015.

At year end, total assets in foreign currencies according to the financial statements of the Group are ISK 12,209 million (2015: ISK 14,703 million), and total liabilities are ISK 9,388 million (2015: ISK 9,430 million). In January 2017 Valitor increased its borrowing in foreign currencies to further balance out its currency exposure.

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 Inc. See note 15 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 2016 was 25.2%.

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 merchants corresponding to the amount of paid-out receivables due to default on obligations by the merchants and by obtaining guarantees from the merchant.

(a) Guarantee risk

	2016	2015
Total amount of guaranteed possible default on obligations at year end	791.866	1.216.296
Collateral and guarantees provided by merchants	(681.594)	(1.072.964)
Net risk	110.273	143.332

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.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

7. Personnel

The total number of employees is as follows:

	2016	2015
Average number of full time equivalent positions during the year	249	208
Full time equivalent positions at the end of the year	263	222

Salaries and salary related expenses are specified as follows:

	2016	2015
Salaries	2,350,179	1,988,629
Pension fund contribution	263,668	215,104
Other salary related expenses	200,912	291,729
Total salaries and related expenses	2,814,759	2,495,461
Thereof capitalization of salaries, due to internally developed software	433,345	328,257

Remunerations of the Board of Directors are specified as follows:

	2016	2015
Guðmundur Þorbjörnsson, Chairman of the Board	6,000	5,700
Synnöve Trygg	7,200	6,000
Roger Keith Alexander	6,000	5,000
Jónína S. Lárusdóttir	3,000	2,850
Anna Rún Ingvarsdóttir, Deputy Board Member	2,400	2,450
Halldór Bjarkar Lúðvígsson, to 16 September 2016	2,000	2,850
Stefán Pétursson, from 16 September 2016	1,000	0
Hrönn Greipsdóttir, Deputy Board Member to 16 September 2016	500	475
	28,100	25,325
Viðar Þorkelsson, CEO	33,000	32,779
Seven managing directors of the company's divisions who are members of the company's Executive Committee	155,384	142,394

During the year 2015 the company's subsidiary, Valitor hf., made a provision of ISK 49 million for performance plan payments, including salary-related expense. Thereof sixty percent was paid to employees in 2016. The remaining forty percent of the total payment is deferred for three years in accordance with FME rules on remuneration policy for Financial Undertakings. At the end of the year the company accrual for performance plan payments amounted to ISK 12 million.

8. Other operating expenses

Other operating expenses are specified as follows:

	2016	2015
Depreciation and amortisation	650,733	538,493
IT equipment	630,078	525,352
External services	516,263	293,386
Various office and employee related cost	292,390	240,017
Housing	256,458	330,341
Marketing expenses	191,342	125,719
Impairment of loans and receivables	76,037	165,484
Other	313,748	234,094
Total other operating expenses	2,927,049	2,452,887

9. Auditor's fee

Auditor's fee is specified as follows:

	2016	2015
Audit of the financial statements	25,410	20,747
Review of interim financial statements	5,348	4,905
Total	30,757	25,652

10. Financial income and expenses

Financial income and expenses are specified as follows:

	2016	2015
Interest income on receivables from credit institutions	519,396	354,173
Interest income on loans to customers	570,508	509,549
Interest income on other loans	91,729	0
Reclassification of interest income as part of total operating income	(968,110)	(860,958)
Total interest income	213,522	2,763
Interest expenses on financial liabilities with credit institutions	(93,110)	(252,356)
Interest expenses on other liabilities	(31,648)	(20,540)
Total interest expenses	(124,758)	(272,896)
Foreign exchange difference	(1,768,353)	(190,059)
Fair value changes of financial assets	433,551	15,066
Gain (loss) on sales	8,691,124	(646)
Total income (expenses) on financial assets and liabilities	7,356,322	(175,639)
Total financial income and (expenses)	7,445,086	(445,772)

11. Taxes

Income tax

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

	2016	2015
Current tax	74,092	140,792
Deferred income taxes	(384,366)	(14,594)
Effects change in tax rate	0	(14,125)
Income tax expense	(310,274)	112,073

Effective tax rate is specified as follows:

	2016		2015	
Earnings before income tax		7,040,492		132,445
Income tax according to current tax rate	20.0%	1,408,098	20.0%	28,187
Non-taxable income	(24.4%)	(1,718,372)	0.0%	0
Non-deductible expenses	0.0%	0	74.0%	98,019
Effect of tax rate change	0.0%	0	(10.7%)	(14,125)
Other	0.0%	0	(0.0%)	(8)
Effective income tax	(4.4%)	(310,274)	83.3%	112,073

Non-taxable income

Non-taxable income consist mainly of profit from equity posistions.

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.

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 2015 or 2016.

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.

	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
31 December 2016				
Cash	0	24,228,311	24,228,311	24,228,311
Restricted cash	0	748,934	748,934	748,934
Receivables from credit institutions	0	2,572,216	2,572,216	2,572,216
Loans	0	3,733,298	3,733,298	3,733,298
Other financial assets	1,493,904	0	1,493,904	1,493,904
Other assets	0	1,413,015	1,413,015	1,413,015
	1,493,904	32,695,773	34,189,678	34,189,678
Accounts payable	0	22,006,068	22,006,068	22,006,068
Due to credit institutions	0	332,618	332,618	332,618
Other short term liabilities	0	1,254,913	1,254,913	1,254,913
	0	23,593,599	23,593,599	23,593,599

	Financial assets and liabilities at fair value	Assets and liabilities at amortised cost	Total book value	Fair value
31 December 2015				
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

13. Cash and restricted cash

Cash is specified as follows:

	2016	2015
Bank deposits	24,228,311	24,157,065
Total cash	24,228,311	24,157,065

Restricted cash is specified as follows:

	2016	2015
Bank deposits in banks and saving banks	748,934	641,346
Total restricted cash	748,934	641,346

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 by means of forcing acquirers to settle in Icelandic krona when the issuer of the card is Icelandic as well as the Merchant and the purchase is made in Icelandic Krona. This reduces settlement risk and ensures security of payments from issuer of the card to the acquirer and from the acquirer to Merchant. 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 the financial institutions' customers withdrawals from their credit cards. Valitor hf. has supplied a bank letter of credit for the amount of GBP 1,400,000 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:	2016	2015
Credit card loans	3,995,395	3,773,191
Impairment account due to loans	(262,097)	(222,631)
Total loans	3,733,298	3,550,560

Impaired loans are specified as follows by age:	2016	2015
6 months overdue and older	227,145	200,205
5 months overdue	21,336	8,104
4 months overdue	2,098	2,348
3 months overdue	667	2,433
2 months overdue	2,031	2,090
1-40 days old	8,820	7,451
	262,097	222,631

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:	2016	2015
Currency and interest rate swaps	572,259	92,624
International shares:		
VISA Inc, USA (pref. shares, c-class)	921,645	0
VISA Europe Ltd., UK *	0	5,642,639
	921,645	5,642,639
Domestic bonds:		
Initial amount	0	66,470
Previous amortisation	0	(62,970)
Amortisation during the year	0	(3,500)
Total domestic bonds	0	0
Total financial instruments at fair value through profit or loss	1,493,904	5,735,263

* In year 2015, the share in VISA Europe Ltd. was classified as available for sale asset. The sale was finalized mid 2016, see further on next page.

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 observable 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.

15. Other financial assets, continued:

The following table specify the levels to which financial assets pertain in 2016:

	Level 1	Level 2	Level 3	Total
Shares and other financial assets	1,493,904	0	0	1,493,904
	1,493,904	0	0	1,493,904

2015

	Level 1	Level 2	Level 3	Total
Shares and other financial assets	92,624	0	5,642,639	5,735,263
	92,624	0	5,642,639	5,735,263

Sale of Visa Europe

On the 21st of June 2016 the sale of shares in Visa Europe Ltd. to Visa International (Visa Inc.) was formally completed. VISA Island ehf., subsidiary of Valitor Holding hf., was the owner of all the shares held by the Group in Visa Europe. Estimated selling price of the shares owned by VISA Island in Visa Europe amounted to ISK 8,685 m. (EUR 62.7 m.) and the payments were in the form of cash amounting to ISK 7,118 m. (EUR 51.4 m.), preferred shares in Visa Inc. amounting to ISK 978 m. (EUR 7.1 m.) and deferred cash payment to be paid on the third anniversary of the transaction, amounting to ISK 592 m. (EUR 4.3 m.). At year-end 2015 the Group revalued its shares in Visa Europe amounting to ISK 4,514 million and recognised the fair value change in equity. Upon the sale of the shares that fair value change is transferred from equity to income statement through other compressive income.

Preference shares, C-class, in Visa Inc. are measured at fair value at initial recognition, considering the uncertainty surrounding the factor at which the preference shares will be converted into common shares in Visa Inc. whereas the final conversion factor will be known after 12 years at the latest. The main uncertainties about the number of shares in Visa Inc. relate to litigations of regulators against Visa Europe Ltd. However, Visa Inc. is allowed to convert the preference shares into shares in Visa Inc. when they consider that the said uncertainty has been eliminated.

The estimation of the fair value of the preference shares in Visa Inc. is based on management's assessment of the following factors: the conversion factor of the preferred shares into common shares in Visa Inc., the fair value of the shares in Visa Inc. at December-end 2016 and liquidity discount due to restrictions which apply to the sale of the preferred C shares.

16. Shares in associated companies and other companies

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

Reiknistofa bankanna hf.	**2016**	**2015**
Ownership interest	2.97%	2.97%
Current assets	36,232	23,714
Non-current assets	91,236	85,606
Current liabilities	25,099	24,829
Non-current liabilities	50,465	37,405
Revenue	127,144	129,027
Income from equity accounted investees	4,861	4,770
Dividends received	0	2,231
Book value of ownership interest	51,946	47,085

During the year, Farsímagreiðslur ehf. was sold to third party for ISK 32.4 million. Total profit for the sale amounted to ISK 1.3 million. Booked value of ownership interest in year end 2015 was ISK 31.0 million.

Total book value of ownership interest in associated companies	51,946	78,123

16. Shares in associated companies and other companies, continued:

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

17. Property, plant and equipment

Property, plant and equipment is specified as follows:

	Real estates and land	Equipment, furnishings and vehicles	Total
2016			
Total value at the beginning of the year	22,993	1,294,889	1,317,882
Reclassification	0	(15,004)	(15,004)
Additions during the year	0	209,992	209,992
Sold and disposed of during the year	0	(549,055)	(549,055)
Translation differences	0	(16,179)	(16,179)
Total value at year end	22,993	924,642	947,635
Previously depreciated	15,496	863,208	878,704
Depreciated during the year	1,193	205,088	206,281
Sold and disposed of during the year	0	(546,712)	(546,712)
Total depreciation	16,689	521,583	538,272
Book value at year end	6,304	403,059	409,363
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	(6,673)	(6,673)
Total depreciation	15,496	863,208	878,704
Book value at year end	7,497	431,681	439,178
Depreciation rate	0-6%	20-33%	

Official real estate value of real estates and land, insurance value of real estates and insurance value of equipment, furnishings and vehicles are specified as follows:

	2016	2015
Real estate value of real estates and land	37,490	37,490
Insurance value of real estates	53,050	52,350
Insurance value of equipment, furnishings and vehicles	635,278	593,882

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

	2016	2015
Depreciation of property, plant and equipment	206,281	236,413
Amortisation of intangible assets, see note 18	444,453	302,080
Total depreciation and amortisation	650,734	538,493

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

18. Intangible assets

2016

	Software	Brands	Customer relations	Goodwill	Total
Total value at 01.01.2016	2,774,190	122,721	0	2,288,344	5,185,254
Corrections/Reclassification	208,218	0	108,407	(151,608)	165,017
Additions/Transfers	616,770	1,637		0	618,407
Total value at 31.12.2016	3,599,178	124,357	108,407	2,136,736	5,968,678
Previously amortised	633,852	8,453	0	0	642,305
Corrections/Reclassification	155,309	0	0	0	155,309
Amortised 2016	425,172	7,854	11,427	0	444,453
Total amortisation	1,214,332	16,307	11,427	0	1,242,067
Exchange rate effects	(182,298)	(16,990)	(15,450)	(429,575)	(644,313)
Book value at year end	2,202,547	91,060	81,530	1,707,161	4,082,299
Amortisation rate					0-33%

In year 2016, allocation of the Group's acquisition of Altapay A/S was finished. Reallocated was to customer relations that previously had been allocated 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	1,385,814	483,246	1,869,060
Other assets assigned to cash-generating unit	1,746,346	3,453,754	5,200,100
Book value	3,132,160	3,937,000	7,069,160
Recoverable amount	7,709,154	13,666,000	21,375,154
Excess value	4,576,994	9,729,000	14,305,994
Discount factor	9.8%	9.9%	

2015

	Software	Brands	Customer relations	Agreements	Goodwill	Total
Total value at 01.01.2015	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	317,738
Total value at 31.12.2015	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	4,542,949
Depreciation rate						0-33%

19. Other assets

Other assets are specified as follows:

	2016	2015
Account Receivables	1,385,201	474,100
Pre-payments and uncollected income	418,694	703,893
Other assets	93,910	5,545
Total other assets	1,897,806	1,183,538

20. Due to credit institutions

Due to credit institutions are specified as follows:

	2016	2015
Bank overdraft	332,618	4,469,321
Total due to credit institutions	332,618	4,469,321

21. Long-term liabilities

Long-term liabilities are specified as follows:

	2016	2015
Liabilities in DKK	0	1,821,257
Current maturities	0	(167,762)
	0	1,653,495
Year 2016	0	167,762
Year 2017	0	254,384
Year 2018	0	1,399,112
	0	1,821,257

22. Income tax assets (liabilities)

Income tax assets (liabilities) are specified as follows:

	Assets	Liabilities	Net 2016	Assets	Liabilities	Net 2015
Prop., plant and equipm.	0	(2,108)	(2,108)	0	(3,246)	(3,246)
Intangible assets	15,647	(336,143)	(320,495)	0	(359,814)	(359,814)
Deferred FX diff.	241,025	0	241,025	4,265	0	4,265
Loans	0	0	0	14,946	0	14,946
Carry-forward tax losses	185,487	0	185,487	9,303	0	9,303
Other financial assets	0	0	0	0	(1,128,528)	(1,128,528)
Other	13,703	0	13,703	3,941	0	3,941
	455,862	(338,251)	117,611	32,455	(1,491,588)	(1,459,134)

23. Other liabilities

Other liabilities are specified as follows:

	2016	2015
Prepaid income and accrued expenses	672,272	984,436
Profit-related payments	0	495,236
Commitment to purchase non-controlling interest	365,029	384,960
Other short term liabilities	606,522	388,403
Total other liabilities	1,643,823	2,253,035

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.

24. Equity, continued:

Share premium (Statutory reserve)

Within Share premium is the statutory reserve. It 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.

Restricted equity

According to changes made to the Icelandic Financial Statement Act in 2016, effective from date 1 January 2016, companies must present in a seperate equity account recognized share in profit of subsidiaries and associates in excess of dividend received or declared. This limitation, ties the parent's share in subsidiaries profit and restricts the possibility of a dividend to shareholders of the parent company.

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 translation difference due to financial statements of foreign subsidaries, amounting to ISK 247,366 thousands. These amounts are transferred to profit or loss at derecognition or impairment of underlying assets.

Dividend

The Board of Directors proposes that net earnings be added to equity and that no dividend be paid in 2017 for the fiscal year 2016, for now. The Board of Directors has broad authority to suggest that the company pay dividends or other disbursement of equity and may convene a special shareholders' meeting later in the year to propose a payment.

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:	**2016**	**2015**
Within one year	114,259	107,345
1 to 5 years	405,158	395,303
After 5 years	160,577	101,104
Total	679,995	603,752

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.

26. Related parties, continued:

2016

Outstanding with related parties is specified as follows:

	Assets	Liabilities	Net
Controlling parties	1,804,540	1,072,270	732,270
Key management personnel	0	813	(813)
	1,804,540	1,073,083	731,458

Transactions with related parties:

	Interest income	Interest expenses	Fee and comm. income	Fee and comm. expenses	Other income/ expenses
Controlling parties	95,010	(9,056)	529,138	906,681	(214,567)
Key management personnel	0	0	99	0	(68)
	95,010	(9,056)	529,236	906,681	(214,635)

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. income	Fee and comm. expenses	Other income/ expenses
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)

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 principal 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.

28. Legal Matters

Valitor 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 potential sums in relation to law suits, it is omitted. At end of December there remained a few unresolved disputes involving the Company.

28. Legal Matters, continued:

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 cessation of Datacell's vendor agreement. The Supreme Court ruled on 24 April 2013 in case no. 612/2012 that Valitor hf. did not have a premise to rescind the agreement. The plaintiffs had court appointed appraisers evaluate their alleged losses. The appraisers returned their report in March 2016.Valitor disagreed with the assessment stated in the report and filed a motion for appointing three court appraisers to re-evaluate plaintiffs' alleged losses. The district court approved the motion and they have been appointed. Conclusion is pending.

Kortaþjónustan hf. filed a suit against Valitor hf., Arion banki hf., Íslandsbanki hf., Landsbanki hf. and Borgun hf. in June 2013 and demands compensation for alleged losses of Kortaþjónustan hf. in regard to the Competition Authority´s decision no. 8/2015. Kortaþjónustan hf. had the court appoint appraisers to assess its alleged damages. They finished their report on 30th of June 2016. A defence submission was submitted on 6 October 2016, whereby Valitor is claiming primarily dismissal, alternatively acquittal, and finally, as a second reserve claim, significant lowering of the plaintiff's claims. A request for re-evaluation was submitted together with the defence submission. A hearing on the dismissal claim is currently scheduled for 1 March 2017.

On August 2, 2016, the Bankers' Pension Fund filed a motion in the District Court of Reykjavik for selection of a court-appointed appraiser where the judgment recipients were Landsbanki hf., The Central Bank, Valitor hf., RB Data Centre hf., the Government of Iceland, The Confederation of Icelandic Bank and Finance Employees and Landsvaki hf. The Bankers' Pension Fund maintains that is has a potential claim against the judgment recipients based on a contractual settlement guaranteeing accrued obligations of the pension fund when changes were made to the specific amendments to the Pension Fund Regulations which came into force in 1998. The district Court of Reykjavik has approved the motion. That decision has been appealed to the Supreme Court.

29. Other matters

The Competition Authority decided on 12 April 2013 to impose administrative fines on Valitor hf. in 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 in the amount of ISK 100 million. Valitor hf. appealed the District Court's ruling to the Supreme Court. In a Judgement by the Supreme Court in April 2016 the Supreme Court upheld the Competition Authority's decision from April 2013.

In June 2016 a Swedish company Ceptum AB initiated two cases against Valitor for return of a total amount of USD 1,080,000 with interest, and penalty payments per day from the day of the court's judgement, which the Plaintiff, in both instances, claims Valitor had deducted from their card transactions settlement without having right thereto under the existing merchant agreement between Valitor and Ceptum. Valitor and the estate of Ceptum AB reached a settlement in November 2016 and the case has been withdrawn.