



Condensed Consolidated  
Interim Financial Statements  
30 June 2013

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

The Condensed Consolidated Interim Financial Statements of MP Bank hf. for the period 1 January to 30 June 2013 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34) as adopted by the European Union, and additional Icelandic disclosure requirements. The Condensed Consolidated Interim Financial Statements comprise MP Bank hf. and its subsidiaries. The Financial Statements for the year 2012 were approved on 21 March 2013.

According to the Consolidated Income Statement, profit for the period 1 January to 30 June 2013 amounted to ISK 460 million. According to the Consolidated Statement of Financial Position, the Bank's equity at the end of this period amounted to ISK 5,963 million. As at 30 June 2013, the Bank's total assets amounted to ISK 67,844 million. The Capital Adequacy Ratio (Tier 1) of the Bank was 12.9% but the minimum requirement by law is 8.0%.

The Bank's issued share capital amounted to ISK 5,854 million as at 30 June 2013 (2012: ISK 5,554 million). The Bank held treasury shares with a nominal value of ISK 4 million (2012: ISK 4 million). The Bank's share capital was increased by ISK 300 million during the period.

The Bank had 50 shareholders at the end of the period (2012: 49). No shareholder held more than 10% of shares in the Bank.

### Corporate Governance

The Board of Directors emphasizes good corporate governance and following accepted guidelines on corporate governance. The Board has laid down comprehensive rules, *The Rules of Procedures for the Board of MP Bank*, in which the authority of the Board is defined and its scope of work in conjunction with the CEO. They cover e.g. order at meetings, competence of Board members to participate in individual decisions, confidentiality and information disclosure between the CEO and the Board. Majority of Board members are independent of the Bank and there are no executive directors on the Board.

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

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

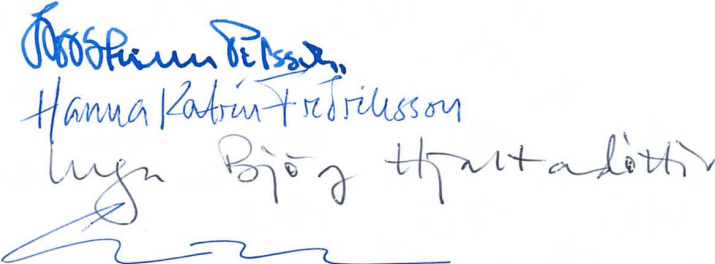
To the best of our knowledge the Condensed Consolidated Interim Financial Statements of MP Bank hf. for the period 1 January to 30 June 2013 comply with IAS 34 "Interim Financial Statements" as adopted by the EU, and give a true and fair view of the Bank's assets, liabilities and financial position as at 30 June 2013 and the financial performance of the Bank and changes of cash flows for the period 1 January to 30 June 2013.

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


The Board of Directors and the CEO of the Bank have today discussed the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2013 and confirm them by the means of their signatures.

Reykjavík, 22 August 2013.

Board of Directors

  
Hanna Kabin-Freðriksson  
Lýgn Björg Haraldsdóttir

CEO



## Independent Auditor's Report

### To the Board of Directors and Shareholders of MP Bank hf.

We have reviewed the accompanying condensed consolidated statement of financial position of MP Bank hf. as at 30 June 2013 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

### Scope of review

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

### Conclusion

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

Reykjavík, 22 August 2013.

KPMG ehf.



Hrafnildur Helgadóttir

## Consolidated Income Statement

For the period 1 January 2013 to 30 June 2013

	Notes	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Interest income .....		862,340	925,915	1,892,950	1,661,100
Interest expense .....		(455,966)	(452,163)	(1,014,002)	(810,052)
<b>Net interest income</b>	4	406,374	473,752	878,947	851,048
Fee and commission income .....	5	461,816	321,544	902,991	687,927
Fee and commission expense .....		(18,850)	(29,801)	(40,390)	(64,823)
<b>Net fee and commission income</b>		442,966	291,742	862,600	623,104
Net financial income .....	6-7	29,173	241,483	172,357	323,595
Share in profit of associates, net of income tax .....	17	0	164,267	13,643	217,482
Other operating income .....		17,119	18,200	73,429	(7,246)
<b>Other operating income</b>		46,293	423,951	259,429	533,830
<b>Net operating income</b>		895,632	1,189,444	2,000,977	2,007,982
Administrative expenses .....	8	(911,180)	(821,334)	(1,805,024)	(1,554,234)
Impairment of loans and receivables .....	15	(36,714)	(217,268)	184,653	(253,770)
Profit from assets held for sale .....		9,927	0	9,927	0
<b>(Loss) profit before taxes</b>		(42,334)	150,842	390,533	199,979
Income tax .....	10	31,573	(29,545)	82,416	(38,641)
Special tax on financial institutions .....	11	5,482	(24,835)	(12,727)	(42,835)
<b>(Loss) profit for the period</b>		(5,279)	96,462	460,222	118,503
	Notes	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Attributable to the shareholders of MP Bank hf. ....		(7,342)	96,462	455,313	118,503
Attributable to non-controlling interest .....	16	2,063	0	4,909	0
<b>(Loss) profit for the period</b>		(5,279)	96,462	460,222	118,503

The notes on pages 8 to 27 are an integral part of these Condensed Consolidated Interim Financial Statements.

\*Quarterly information is unreviewed.

## Consolidated Statement of Comprehensive Income

For the period 1 January 2013 to 30 June 2013

	Notes	6m 2013	6m 2012
<b>Profit for the period</b>		460,222	118,503
Fair value changes in securities classified as available for sale .....		(21,865)	(8,395)
Exchange difference on translation of foreign operations .....		(3,262)	(7,453)
<b>Other comprehensive income, net of tax</b>		(25,128)	(15,848)
<b>Total comprehensive income for the period</b>		435,094	102,655

	Notes	6m 2013	6m 2012
Attributable to the shareholders of MP Bank hf. ....		430,185	102,655
Attributable to non-controlling interest .....		4,909	0
<b>Total comprehensive income for the period</b>		435,094	102,655

*The notes on pages 8 to 27 are an integral part of these Condensed Consolidated Interim Financial Statements.*

# Consolidated Statement of Financial Position

As at 30 June 2013

<b>Assets</b>	<b>Notes</b>	<b>30.6.2013</b>	<b>31.12.2012</b>
Cash and cash equivalents .....	13	19,795,334	20,289,559
Receivables from Central Bank of Iceland .....		1,916,333	3,287,741
Fixed income securities .....		7,258,895	5,221,038
Shares and other variable income securities .....		1,717,170	1,243,133
Securities used for hedging .....		4,311,508	6,807,792
Loans to customers .....	14-15	29,177,556	27,789,290
Derivatives .....		463,256	312,795
Investment in associates .....	17	779,039	560,825
Intangible assets .....		1,090,850	1,103,829
Property and equipment .....		306,567	738,099
Deferred tax asset .....		391,608	292,288
Other assets .....	18	635,413	646,485
Assets classified as held for sale .....		0	1,100,000
<b>Total assets</b>		<b>67,843,528</b>	<b>69,392,873</b>
<b>Liabilities</b>			
Deposits .....		40,844,057	42,402,442
Borrowings .....	19	8,678,864	6,575,208
Short positions used for trading .....		5,403,706	5,961,847
Short positions used for hedging .....		2,042,787	2,024,604
Derivatives .....		146,722	221,518
Current tax liabilities .....		2,697	3,180
Deferred tax liabilities .....		180	180
Other liabilities .....	20	4,761,971	6,159,274
Liabilities associated with assets classified as held for sale .....		0	795,000
<b>Total liabilities</b>		<b>61,880,983</b>	<b>64,143,251</b>
<b>Equity</b>			
Share capital .....	21	5,850,000	5,550,000
Share premium .....		8,088	7,500
Option reserve .....		2,097	518
Other reserves .....		14,290	41,890
Retained earnings (accumulated deficit) .....		87,164	(346,283)
<b>Total equity attributable to the shareholders of MP Bank hf.</b>		<b>5,961,639</b>	<b>5,253,625</b>
Non-controlling interest .....		907	(4,003)
<b>Total equity</b>		<b>5,962,546</b>	<b>5,249,622</b>
<b>Total liabilities and equity</b>		<b>67,843,528</b>	<b>69,392,873</b>

The notes on pages 8 to 27 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Statement of Changes in Equity

For the period 1 January 2013 to 30 June 2013

	Notes	Share capital	Share premium	Option reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
<b>1 January 2013 to 30 June 2013</b>									
Equity as at 1 January 2013 .....		5,550,000	7,500	518	41,890	(346,283)	5,253,625	(4,003)	5,249,622
Total comprehensive income for the period .....					(3,262)	433,448	430,185	4,909	435,094
New share capital sold .....		300,000					300,000		300,000
Share-based payment transactions .....				1,579			1,579		1,579
Treasury shares acquired .....		(25,000)	1,250				(23,750)		(23,750)
Equity instrument related to ALFA verðbréf hf. acquisition converted to equity .....		25,000	(662)		(24,338)		0		0
<b>Equity at 30 June 2013</b>		5,850,000	8,088	2,097	14,290	87,164	5,961,639	907	5,962,546

	Notes	Share capital	Share premium	Option reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
<b>1 January 2012 to 30 June 2012</b>									
Equity as at 1 January 2012 .....		5,550,000	7,500		(8,478)	(480,076)	5,068,945	9	5,068,954
Total comprehensive income for the period .....					1,465	17,704	19,169		19,169
Acquisition of non-controlling interest .....							0	(9)	(9)
Equity instrument related to ALFA verðbréf hf. acquisition .....					47,819		47,819		47,819
<b>Equity at 30 June 2012</b>		5,550,000	7,500	0	40,806	(462,372)	5,135,934	0	5,135,934

The notes on pages 8 to 27 are an integral part of these Condensed Consolidated Interim Financial Statements.



## Consolidated Statement of Cash Flows

For the period 1 January 2013 to 30 June 2013

Cash flows from operating activities	Notes	6m 2013	6m 2012
Profit for the period .....		460,222	118,503
Adjustments for:			
Indexation and exchange rate difference .....		(64,650)	81,355
Share in profit of associates, net of income tax .....	17	(13,643)	(217,482)
Depreciation and amortisation .....		55,842	53,155
Impairment of loans and other assets .....	15	(188,079)	253,770
Deferred income tax, change .....		(99,320)	41,009
Other adjustments .....		(32,996)	22,913
		117,377	353,223
Changes in:			
Loans to customers .....		(1,238,753)	(7,579,479)
Deposits .....		(1,207,976)	8,977,032
Financial assets .....		1,183,472	3,001,005
Financial liabilities .....		(639,091)	4,542,223
Operating assets and liabilities .....		(1,386,714)	2,909,377
<b>Net cash (to) from operating activities</b>		<b>(3,171,685)</b>	<b>12,203,381</b>
<b>Cash flows from investing activities</b>			
Associated companies .....	17	(206,804)	42,607
Acquisition of intangible assets .....		(14,436)	(28,473)
Acquisition of property and equipment .....		(49,249)	(489,323)
Proceeds from the sale of property and equipment .....		482,343	20,308
Investment in assets classified as held for sale .....		305,000	0
<b>Net cash from (to) investing activities</b>		<b>516,854</b>	<b>(454,881)</b>
<b>Cash flows from financing activities</b>			
Borrowings .....		41,027,626	19,677,427
Repayment of borrowings .....		(38,935,629)	(14,421,000)
New share capital .....		300,000	0
<b>Net cash from financing activities</b>		<b>2,391,997</b>	<b>5,256,427</b>
Cash and cash equivalents at the beginning of the year .....	13	20,289,559	11,545,143
Net (decrease) increase in cash and cash equivalents .....		(262,834)	17,004,927
Effects of exchange rate fluctuations on cash held .....		(231,390)	18,539
<b>Cash and cash equivalents at the end of the period</b>	13	<b>19,795,334</b>	<b>28,568,609</b>

The notes on pages 8 to 27 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Notes

## General information

### 1. Reporting entity

MP Bank hf. is a limited liability company incorporated and domiciled in Iceland, with registered offices at Ármúli 13a, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 June 2013 comprise MP Bank hf. (the Parent) and its subsidiaries (together referred to as the Bank). The Bank is primarily involved in investment, corporate and retail banking, and in providing asset management services.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and CEO on 22 August 2013.

### 2. Basis of preparation

#### a. Statement of compliance

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

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statement as at and for the year ended 31 December 2012, which are available on the Bank's website [www.mp.is](http://www.mp.is).

#### b. Basis of measurement

The Condensed Consolidated Interim Financial Statements have been prepared using the historical cost basis except for financial instruments at fair value through profit or loss, available for sale financial assets and short positions which are measured at fair value. A breakdown of the accounting classification of financial assets is provided in note 31.

#### c. Functional and presentation currency

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

#### d. Going concern

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

#### e. Estimates and judgements

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

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

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

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Consolidated Interim Financial Statements is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2012.

#### f. Quarterly information

Quarterly information in the Consolidated Income Statement, and accompanying notes, has not been reviewed by the Bank's Auditor.

### 3. Significant accounting policies

The accounting policies applied in the Consolidated Interim Financial Statements are consistent with those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2012. The accounting policies applied have been applied consistently to all periods presented.

The Bank has adopted IFRS 13, Fair Value Measurement, which establishes a single framework for measuring fair value of both financial and non-financial items and sets out related disclosure requirements. The adoption, which was effective 1 January 2013, did not result in any significant effect on the Group financial results.

## Notes - continued

### Income statement

#### 4. Net interest income

Interest income is specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Cash and cash equivalents .....	147,526	226,523	314,212	357,219
Derivatives .....	91,617	50,875	168,504	121,004
Loans to customers .....	618,830	403,536	1,336,484	693,613
Other interest income .....	4,367	244,981	73,750	489,264
<b>Total</b>	<b>862,340</b>	<b>925,915</b>	<b>1,892,950</b>	<b>1,661,100</b>

Interest expense is specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Deposits .....	321,648	390,234	756,868	725,149
Borrowings .....	125,771	50,826	236,569	63,120
Other interest expense .....	8,547	11,103	20,565	21,784
<b>Total</b>	<b>455,966</b>	<b>452,163</b>	<b>1,014,002</b>	<b>810,052</b>

Other interest income includes interest income from securities classified as held to maturity and available for sale.

#### 5. Fee and commission income

Fee and commission income is specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Banking .....	108,922	77,342	221,042	160,768
Capital Markets .....	160,849	83,604	294,710	238,285
Asset Management .....	89,300	80,167	212,705	170,625
Other .....	102,745	80,430	174,534	118,250
<b>Total</b>	<b>461,816</b>	<b>321,544</b>	<b>902,991</b>	<b>687,927</b>

#### 6. Net financial income

Net financial income is specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Fixed income .....	50,189	196,021	191,699	176,538
Equities .....	23,410	(44,715)	41,567	(9,861)
Foreign currency exchange difference .....	(51,693)	23,949	(56,136)	31,631
Fair value adjustments .....	7,268	66,228	(4,773)	125,286
<b>Total</b>	<b>29,173</b>	<b>241,483</b>	<b>172,357</b>	<b>323,595</b>

#### 7. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Loss on financial instruments at fair value through profit and loss .....	(19,256)	(40,838)	(19,222)	(8,384)
(Loss) gain on other financial instruments .....	(32,438)	64,787	(36,914)	40,015
<b>Total</b>	<b>(51,693)</b>	<b>23,949</b>	<b>(56,136)</b>	<b>31,631</b>

Change in the ISK trade index during the period .....	-0.8%	-5.2%	-6.7%	+0.6%
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Note 27 provides information about the development of foreign exchange rates against the Icelandic krona.

## Notes - continued

### 8. Administrative expenses

Administrative expenses are specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Salaries and related expenses .....	540,376	434,739	1,067,077	794,626
Other operating expenses .....	313,263	341,513	627,915	661,142
Depositors' and Investors' Guarantee Fund contributions .....	30,357	19,553	54,551	50,295
Depreciation and amortisation .....	27,184	25,530	55,482	48,170
<b>Total</b>	<b>911,180</b>	<b>821,334</b>	<b>1,805,024</b>	<b>1,554,234</b>

### 9. Salaries and related expenses

Salaries and related expenses are specified as follows:

	Q2 2013*	Q2 2012*	6m 2013	6m 2012
Salaries .....	400,010	285,448	782,205	576,473
Performance based payments excluding share based payments .....	19,604	58,451	54,191	58,451
Share-based payment expenses .....	785	0	1,579	0
Pension fund contributions .....	53,646	40,283	101,644	76,473
Tax on financial activity .....	31,308	21,981	56,891	34,881
Other salary related expenses .....	35,023	28,576	70,568	48,348
<b>Total</b>	<b>540,376</b>	<b>434,739</b>	<b>1,067,077</b>	<b>794,626</b>

Average number of full time employees during the period ..... 130 118

Total number of full time employees at the end of the period ..... 132 129

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a calculated tax based on salary payments, called tax on financial activity. The current tax rate is 6.75% (2012: 5.45%).

### 10. Income tax

Profit before taxes amounts to ISK 377.8 million. Income tax amounts to ISK -82.4 million, resulting in an effective tax rate of -21.8%. This is substantially different from the Icelandic corporate tax rate of 20% due to non-taxable income, mainly from shares.

### 11. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes. The tax rate is set at 0.041%. This tax is not a deductible expense for income tax purposes. A temporary amendment to the act passed in 2011 increases the tax rate by 0.0875% for taxes payable in 2012 and 2013.

	6m 2013	6m 2012
Special tax on financial institutions .....	12,727	42,835

### 12. Quarterly statements (unaudited)

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Net interest income .....	406,374	472,573	412,708	452,363	473,752
Net fee and commission income .....	442,966	419,635	412,335	359,619	291,742
Net financial income .....	29,173	143,184	159,203	154,237	241,483
Share in profit of associates, net of income tax .....	0	13,643	0	0	164,267
Other operating income .....	17,119	56,309	21,867	14,252	18,200
<b>Net operating income</b>	<b>895,632</b>	<b>1,105,344</b>	<b>1,006,113</b>	<b>980,472</b>	<b>1,189,444</b>
Administrative expenses .....	(911,180)	(893,844)	(889,563)	(684,369)	(821,334)
Impairment of loans and receivables .....	(36,714)	221,366	(390,817)	(26,376)	(217,268)
<b>Profit (loss) from assets held for sale</b>	<b>9,927</b>	<b>0</b>	<b>(10,989)</b>	<b>0</b>	<b>0</b>
<b>(Loss) profit before taxes</b>	<b>(42,334)</b>	<b>432,867</b>	<b>(285,256)</b>	<b>269,728</b>	<b>150,842</b>
Income tax .....	31,573	50,843	180,431	6,623	(29,545)
Special tax on financial institutions .....	5,482	(18,209)	(16,208)	(22,473)	(24,835)
<b>(Loss) profit for the quarter</b>	<b>(5,279)</b>	<b>465,501</b>	<b>(121,033)</b>	<b>253,878</b>	<b>96,462</b>

## Notes - continued

### Statement of Financial Position

#### 13. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	<b>30.6.2013</b>	<b>31.12.2012</b>
Cash .....	133,029	106,824
Balances with banks .....	9,638,109	9,313,187
Certificates of deposits issued by Central Bank of Iceland .....	10,024,196	10,869,548
<b>Total</b>	<b>19,795,334</b>	<b>20,289,559</b>

#### 14. Loans to customers

Loans to customers are specified as follows:

	<b>30.6.2013</b>	<b>31.12.2012</b>
Loans to customers, gross amount .....	29,604,442	28,619,840
Specific allowance for impairment losses .....	(184,575)	(661,360)
Collective allowance for impairment losses .....	(242,310)	(169,190)
<b>Total</b>	<b>29,177,556</b>	<b>27,789,290</b>

#### 15. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

##### a. Loans to customers

<b>30.6.2013</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2013 .....	661,360	169,190	830,550
Charge to the income statement for the period .....	(261,199)	73,120	(188,079)
Write-offs .....	(215,586)	0	(215,586)
<b>Balance as at 30 June 2013</b>	<b>184,575</b>	<b>242,310</b>	<b>426,885</b>
<b>31.12.2012</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2012 .....	157,401	57,796	215,197
Charge to the income statement for the period .....	557,591	111,394	668,985
Write-offs .....	(53,631)	0	(53,631)
<b>Balance as at 31 December 2012</b>	<b>661,360</b>	<b>169,190</b>	<b>830,550</b>

##### b. Other assets

<b>30.6.2013</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2013 .....	23,251	6,977	30,228
Charge to the income statement for the period .....	0	3,426	3,426
<b>Balance as at 30 June 2013</b>	<b>23,251</b>	<b>10,403</b>	<b>33,655</b>
<b>31.12.2012</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
Balance as at 1 January 2012 .....	23,251	5,000	28,251
Charge to the income statement for the period .....	0	1,977	1,977
<b>Balance as at 31 December 2012</b>	<b>23,251</b>	<b>6,977</b>	<b>30,228</b>

## Notes - continued

### 16. Group entities

The Bank held 11 subsidiaries at the end of period (2012: 12), all of which are included in the Condensed Consolidated Interim Financial Statements. They are specified as follows:

	Domicile	Share 30.6.2013	Share 31.12.2012
Axia Asset Management UAB .....	Lithuania	100%	100%
Fí Fasteignafélag GP ehf. ....	Iceland	70%	70%
Heildun UAB .....	Lithuania	100%	100%
Horn Florida Ltd. ....	UK	100%	100%
Júpíter rekstrarfélag hf. ....	Iceland	100%	100%
LV31 ehf. ....	Iceland	100%	100%
Lykillán ehf. ....	Iceland	100%	100%
M-Investments ehf. ....	Iceland	100%	100%
M8 ehf. ....	Iceland	100%	100%
Mánatún GP ehf. ....	Iceland	100%	100%
Mánatún slhf. ....	Iceland	-	100%
MP Pension Funds Baltic UAB .....	Lithuania	100%	100%

Mánatún slhf. was a wholly owned subsidiary of Mánatún GP ehf., a subsidiary of the bank, at year end 2012. The Bank reduced its share in Mánatún slhf. in Q2 and the remaining share has been reclassified as an associate.

### 17. Investment in associates

a. Associated companies at the end of the period:

	Domicile	Share 30.6.2013	Share 31.12.2012
GAM Management hf. ....	Iceland	27%	27%
Londonderry Associates LLC .....	USA	38%	38%
Mánatún slhf. ....	Iceland	30%	-
Teris .....	Iceland	50%	50%

Mánatún slhf. was a wholly owned subsidiary of Mánatún GP ehf., a subsidiary of the bank, at year end 2012. The Bank reduced its share in Mánatún slhf. in Q2 and the remaining share has been reclassified as an associate.

Teris has sold all material assets and operations to Reiknistofa Bankanna hf., and is in the process of winding down its operations. This process is expected to be completed in 2013.

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

	30.6.2013	31.12.2012
Balance at the beginning of the year .....	560,825	405,272
Acquisition of shares in associates .....	0	534
Disposal of shares in associates .....	0	(65,913)
Reclassification .....	206,804	0
Share in profit of associates, net of income tax .....	13,643	217,482
Translation difference .....	(2,233)	3,449
<b>Total</b>	<b>779,039</b>	<b>560,825</b>

### 18. Other assets

Other assets are specified as follows:

	30.6.2013	31.12.2012
Accounts receivable and prepayments .....	635,413	646,485
<b>Total</b>	<b>635,413</b>	<b>646,485</b>

### 19. Borrowings

Borrowings are specified as follows:

	30.6.2013	31.12.2012
Repo transactions and overnight borrowings from the Central Bank of Iceland .....	0	147,682
Money market deposits .....	8,678,864	6,427,526
<b>Total</b>	<b>8,678,864</b>	<b>6,575,208</b>

## Notes - continued

### 20. Other liabilities

Other liabilities are specified as follows:

	<b>30.6.2013</b>	<b>31.12.2012</b>
Payment and settlement services .....	3,634,631	3,515,054
Unsettled securities transactions .....	50,984	1,220,677
Accounts payable .....	190,386	138,765
Taxes .....	106,234	81,837
Withholding taxes .....	204,381	462,549
Other liabilities .....	575,354	740,391
<b>Total</b>	<b>4,761,971</b>	<b>6,159,274</b>

The Bank provides foreign exchange payment and settlement services for several savings banks according to an agreement signed in 2012.

### 21. Equity

#### a. Share capital

	<b>30.6.2013</b>	<b>31.12.2012</b>
Share capital according to the Parent's Articles of Association .....	5,854,000	5,554,000
Nominal amount of treasury shares .....	4,000	4,000

#### b. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 5,963 million (2012: 5,250 million), equivalent to 8.8% (2012: 7.6%) of total assets according to the statement of financial position. The capital adequacy ratio of the Bank, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 12.9% (2012: 10.8%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

<b>Tier 1 capital</b>	<b>30.6.2013</b>	<b>31.12.2012</b>
Total equity .....	5,962,546	5,249,622
Goodwill and intangibles .....	(1,090,850)	(1,103,829)
Shares in financial institutions .....	(196,451)	(178,017)
Subordinated fixed income securities .....	(92,601)	(96,156)
Deferred tax asset .....	(391,608)	(292,288)
<b>Total</b>	<b>4,191,036</b>	<b>3,579,332</b>

<b>Capital requirements</b>	<b>30.6.2013</b>	<b>31.12.2012</b>
Credit risk .....	1,941,371	1,993,050
Market risk .....	221,382	220,044
Operational risk .....	436,841	436,841
<b>Total</b>	<b>2,599,594</b>	<b>2,649,934</b>

Surplus capital .....	1,591,442	929,398
Capital adequacy ratio (CAD) .....	12.9%	10.8%

#### c. Capital management

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

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

## Notes - continued

### Risk management

#### 22. Maximum exposure to credit risk

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

	30.6.2013	31.12.2012
Cash and cash equivalents .....	19,795,334	20,289,559
Receivables from Central Bank of Iceland .....	1,916,333	3,287,741
Fixed income securities .....	7,258,895	5,221,038
Shares and other variable income securities .....	1,190,374	674,379
Securities used for hedging .....	2,172,378	3,399,265
Loans to customers .....	29,177,556	27,789,290
Derivatives .....	463,256	312,795
Other assets .....	635,413	646,485
	62,609,540	61,620,552
Loan commitments .....	3,791,833	3,319,497
Financial guarantee contracts .....	475,694	1,318,623
<b>Total</b>	66,877,066	66,258,671

#### 23. Financial assets not measured at fair value - credit risk

Financial assets not measured at fair value, but exposed to credit risk, are specified as follows:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Claim value	Less specific impairment allowance	Less collective impairment allowance	Net carrying amount
<b>30.6.2013</b>							
Cash and cash equivalents .....	19,795,334			19,795,334			19,795,334
Receivables from Central Bank of Iceland .....	1,916,333			1,916,333			1,916,333
Loans to customers .....	28,600,190	682,913	321,338	29,604,442	(184,575)	(242,310)	29,177,556
Other assets .....	639,834		29,233	669,067	(23,251)	(10,403)	635,413
<b>Total</b>	50,951,691	682,913	350,571	51,985,175	(207,826)	(252,714)	51,524,636

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Claim value	Less specific impairment allowance	Less collective impairment allowance	Net carrying amount
<b>31.12.2012</b>							
Cash and cash equivalents .....	20,289,559			20,289,559			20,289,559
Receivables from Central Bank of Iceland .....	3,287,741			3,287,741			3,287,741
Loans to customers .....	25,665,673	2,208,921	745,246	28,619,840	(661,360)	(169,190)	27,789,290
Other assets .....	647,134		29,578	676,713	(23,251)	(6,977)	646,485
<b>Total</b>	49,890,108	2,208,921	774,825	52,873,853	(684,611)	(176,167)	52,013,075

Past due but not impaired financial assets are those assets where contractual payments are more than 30 days past due but the Bank believes that impairment is not appropriate on the basis of the level of security or future cash flows of the borrower. Past due loans are reported as the total claim value and not only those payments that are past due.



## Notes - continued

### 24. Breakdown of loans

#### a. By segments

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

	<b>30.6.2013</b>	<b>%</b>	<b>31.12.2012</b>	<b>%</b>
Services .....	10,343,820	35.5%	9,989,440	35.9%
Individuals .....	7,497,295	25.7%	6,587,114	23.7%
Holding companies .....	3,690,413	12.6%	3,908,775	14.1%
Retail .....	3,532,037	12.1%	3,545,082	12.8%
Real estate, construction and industry .....	1,851,485	6.3%	2,229,210	8.0%
Other .....	2,262,507	7.8%	1,529,669	5.5%
<b>Total</b>	<b>29,177,556</b>	<b>100.0%</b>	<b>27,789,290</b>	<b>100.0%</b>

#### b. By seniority

The Bank's loan portfolio mainly consists of Senior I loans which have first priority claims on the borrower's assets, are secured with collateral which can be marked to market, and have asset coverage exceeding 100% and Senior II loans which have sufficient coverage and liquid collateral but in some cases collateral such as unlisted shares and other collateral which cannot be marked to market. The loan portfolio contains less than 30% of either junior loans which have second lien claims on the borrower's assets or mezzanine loans where the loan is unsecured and subordinated to all of the borrower's liabilities.

### 25. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 216/2007 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 21). According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base.

	<b>30.6.2013</b>		<b>31.12.2012</b>	
<b>Large exposures net of collateralised assets</b>	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
10-20% of capital base .....	8	4,456,637	6	2,805,348
20-25% of capital base .....	0	0	1	789,711
Exceeding 25% of capital base .....	0	0	0	0
<b>Total</b>	<b>8</b>	<b>4,456,637</b>	<b>7</b>	<b>3,595,059</b>

## Notes - continued

### 26. Liquidity risk

#### a. Breakdown of financial assets and financial liabilities by maturity

The table below shows the contractual maturity of financial assets and liabilities, for both on-balance sheet and off-balance sheet items. The analysis is based on contractual maturities of undiscounted cash flows. The table does not take future interest payments into account and therefore doesn't fully reflect future cash flows.

Furthermore, since the table is based on contractual maturities it doesn't reflect the liquid nature of market securities which can be converted to cash through repo transactions. Such securities amounted to ISK 2.3 billion at the reporting date and could be converted to cash within two days.

#### 30.6.2013

<b>Financial assets</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Cash and cash equivalents .....	19,795,334						19,795,334
Receivables from Central Bank of Iceland .....	1,916,333						1,916,333
Fixed income securities .....			2,131,045	1,344,705	3,783,145		7,258,895
Shares and other variable income securities ....						1,717,170	1,717,170
Securities used for hedging .....					2,172,490	2,139,018	4,311,508
Loans to customers .....	7,608,941	1,197,194	5,040,374	10,496,139	4,834,909		29,177,556
Other assets .....	155,904	173,450	142,643			163,415	635,413
<b>Financial assets excluding derivatives</b>	<b>29,476,511</b>	<b>1,370,645</b>	<b>7,314,061</b>	<b>11,840,845</b>	<b>10,790,544</b>	<b>4,019,603</b>	<b>64,812,209</b>
Derivatives .....	264,860	26,233	159,561	7,045	5,558		463,256
<b>Total</b>	<b>29,741,371</b>	<b>1,396,877</b>	<b>7,473,622</b>	<b>11,847,890</b>	<b>10,796,102</b>	<b>4,019,603</b>	<b>65,275,465</b>

<b>Financial liabilities</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Deposits .....	34,973,674	1,548,877	1,778,967	2,469,517	73,022		40,844,057
Borrowings .....	6,349,926	1,958,382	299,783	70,773			8,678,864
Short positions used for trading .....			2,637,633	1,087,942	1,665,140	12,991	5,403,706
Short positions used for hedging .....			358,148	892,387	783,521	8,730	2,042,787
Other liabilities .....	4,275,836	130,035	304,325	51,775			4,761,971
<b>Financial liabilities excluding derivatives</b>	<b>45,599,436</b>	<b>3,637,294</b>	<b>5,378,856</b>	<b>4,572,393</b>	<b>2,521,684</b>	<b>21,721</b>	<b>61,731,384</b>
Derivatives .....	141,165				5,558		146,722
<b>Total</b>	<b>45,740,601</b>	<b>3,637,294</b>	<b>5,378,856</b>	<b>4,572,393</b>	<b>2,527,241</b>	<b>21,721</b>	<b>61,878,107</b>

	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Financial assets .....	29,741,371	1,396,877	7,473,622	11,847,890	10,796,102	4,019,603	65,275,465
Financial liabilities .....	(45,740,601)	(3,637,294)	(5,378,856)	(4,572,393)	(2,527,241)	(21,721)	(61,878,107)
Loan commitments .....	(334,228)	(701,588)	(2,170,116)	(526,381)	(59,520)		(3,791,833)
Financial guarantee contracts .....	(9,697)	(90,981)	(222,298)	(139,546)	(13,172)		(475,694)
<b>Net financial assets (liabilities)</b>	<b>(16,343,155)</b>	<b>(3,032,986)</b>	<b>(297,648)</b>	<b>6,609,570</b>	<b>8,196,169</b>	<b>3,997,882</b>	<b>(870,168)</b>

## Notes - continued

31.12.2012

<b>Financial assets</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Cash and cash equivalents .....	20,289,559						20,289,559
Receivables from Central Bank of Iceland .....	3,287,741						3,287,741
Fixed income securities .....			1,524,833	1,487,426	2,186,165	22,613	5,221,038
Shares and other variable income securities ....						1,243,133	1,243,133
Securities used for hedging .....				578,424	2,820,841	3,408,527	6,807,792
Loans to customers .....	8,024,844	2,236,860	3,619,728	9,414,416	4,493,443		27,789,290
Other assets .....	152,487	269,762	60,746			163,489	646,485
<b>Financial assets excluding derivatives</b>	<b>31,754,631</b>	<b>2,506,622</b>	<b>5,205,307</b>	<b>11,480,265</b>	<b>9,500,450</b>	<b>4,837,763</b>	<b>65,285,037</b>
Derivatives .....	165,120	27,040		120,635			312,795
<b>Total</b>	<b>31,919,751</b>	<b>2,533,662</b>	<b>5,205,307</b>	<b>11,600,901</b>	<b>9,500,450</b>	<b>4,837,763</b>	<b>65,597,833</b>
<b>Financial liabilities</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Deposits .....	36,576,205	1,639,500	1,319,134	2,795,405	72,198		42,402,442
Borrowings .....	3,407,555	3,167,653					6,575,208
Short positions used for trading .....			4,230,821	1,192,308	538,410	307	5,961,847
Short positions used for hedging .....			528,853	686,856	808,895		2,024,604
Other liabilities .....	5,906,543	29,374	120,078	91,801		11,477	6,159,274
<b>Financial liabilities excluding derivatives</b>	<b>45,890,303</b>	<b>4,836,527</b>	<b>6,198,886</b>	<b>4,766,371</b>	<b>1,419,503</b>	<b>11,784</b>	<b>63,123,374</b>
Derivatives .....	213,717	7,801			0		221,518
<b>Total</b>	<b>46,104,020</b>	<b>4,844,327</b>	<b>6,198,886</b>	<b>4,766,371</b>	<b>1,419,503</b>	<b>11,784</b>	<b>63,344,891</b>
<b>Financial assets</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
Financial assets .....	31,919,751	2,533,662	5,205,307	11,600,901	9,500,450	4,837,763	65,597,833
Financial liabilities .....	(46,104,020)	(4,844,327)	(6,198,886)	(4,766,371)	(1,419,503)	(11,784)	(63,344,891)
Loan commitments .....	(342,884)	(549,536)	(1,483,495)	(930,060)	(13,522)		(3,319,497)
Financial guarantee contracts .....	(207,762)	(650,733)	(305,515)	(128,441)	(26,172)		(1,318,623)
<b>Net financial assets (liabilities)</b>	<b>(14,734,916)</b>	<b>(3,510,935)</b>	<b>(2,782,589)</b>	<b>5,776,030</b>	<b>8,041,253</b>	<b>4,825,978</b>	<b>(2,385,178)</b>

## Notes - continued

### 27. Currency risk

#### a. Exchange rates

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

	30.6.2013	31.12.2012	Average 6m 2013	Average 6m 2012
EUR/ISK .....	161.1	169.8	162.9	163.1
USD/ISK .....	123.3	128.7	124.0	125.7
ISK trade index .....	204.6	219.4	208.9	211.4

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

##### 30.6.2013

##### Financial assets

	EUR	USD	Other currencies	Total
Cash and cash equivalents .....	2,203,143	1,461,836	924,420	4,589,400
Fixed income securities .....			117,642	117,642
Shares and other variable income securities .....	824	82,371	42,101	125,296
Securities used for hedging .....	83,322	545	0	83,867
Loans to customers .....	857,553	208,924	50,996	1,117,474
Other assets .....		71,553	243,020	314,573
Financial assets excluding derivatives	3,144,843	1,825,230	1,378,179	6,348,252
Derivatives .....	46,256	2,488		48,744
<b>Total</b>	<b>3,191,099</b>	<b>1,827,718</b>	<b>1,378,179</b>	<b>6,396,995</b>

##### Financial liabilities

	EUR	USD	Other currencies	Total
Deposits .....	3,216,403	1,465,548	927,943	5,609,894
Short positions used for trading .....		162	58	221
Financial liabilities excluding derivatives	3,216,403	1,465,710	928,001	5,610,115
Derivatives .....				0
<b>Total</b>	<b>3,216,403</b>	<b>1,465,710</b>	<b>928,001</b>	<b>5,610,115</b>

##### Net currency position

	EUR	USD	Other currencies	Total
Financial assets .....	3,191,099	1,827,718	1,378,179	6,396,995
Financial liabilities .....	(3,216,403)	(1,465,710)	(928,001)	(5,610,115)
Net off-balance sheet position .....	(44,261)	(43,152)	(69,203)	(156,615)
<b>Total</b>	<b>(69,565)</b>	<b>318,856</b>	<b>380,974</b>	<b>630,266</b>

## Notes - continued

31.12.2012

Financial assets	Other			Total
	EUR	USD	currencies	
Cash and cash equivalents .....	2,446,953	464,712	793,139	3,704,804
Fixed income securities .....			138,590	138,590
Shares and other variable income securities .....	840	88,141	42,765	131,745
Securities used for hedging .....	91,315	1,604	905	93,824
Loans to customers .....	1,044,610	288,119	82,945	1,415,673
Other assets .....		73,786	252,775	326,561
Financial assets excluding derivatives	3,583,718	916,361	1,311,119	5,811,198
Derivatives .....	43,038	7,320	1,199	51,557
<b>Total</b>	<b>3,626,756</b>	<b>923,681</b>	<b>1,312,318</b>	<b>5,862,755</b>

Financial liabilities

Financial liabilities	Other			Total
	EUR	USD	currencies	
Deposits .....	3,552,260	1,172,418	687,957	5,412,635
Short positions used for trading .....		246	61	307
Financial liabilities excluding derivatives	3,552,260	1,172,664	688,018	5,412,942
Derivatives .....	133,293		105,028	238,321
<b>Total</b>	<b>3,685,553</b>	<b>1,172,664</b>	<b>793,047</b>	<b>5,651,263</b>

Net currency position

Net currency position	Other			Total
	EUR	USD	currencies	
Financial assets .....	3,626,756	923,681	1,312,318	5,862,755
Financial liabilities .....	(3,685,553)	(1,172,664)	(793,047)	(5,651,263)
Net off-balance sheet position .....	(256,816)	(59,408)	(98,488)	(414,711)
<b>Total</b>	<b>(315,613)</b>	<b>(308,391)</b>	<b>420,784</b>	<b>(203,219)</b>

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Bank's pre-tax profit.

Assets and liabilities denominated in	30.6.2013		31.12.2012	
	-10%	+10%	-10%	+10%
EUR .....	(6,956)	6,956	(31,561)	31,561
USD .....	31,886	(31,886)	(30,839)	30,839
Other currencies .....	38,097	(38,097)	42,078	(42,078)
<b>Total</b>	<b>63,027</b>	<b>(63,027)</b>	<b>(20,322)</b>	<b>20,322</b>

The effect on equity would be the same, net of income tax.

## Notes - continued

### 28. Interest rate risk

The breakdown of financial assets and liabilities by currency and the earlier of interest repricing time or maturity is specified as follows:

#### 30.6.2013

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	40,256,749	5,613,266	1,211,398	4,149,005	274,199	51,504,616
Total in foreign currencies .....	820,259	184,707	156,635			1,161,601
<b>Total</b>	<b>41,077,008</b>	<b>5,797,973</b>	<b>1,368,032</b>	<b>4,149,005</b>	<b>274,199</b>	<b>52,666,217</b>

Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	51,930,800					51,930,800
Total in foreign currencies .....	5,375,538					5,375,538
<b>Total</b>	<b>57,306,339</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57,306,339</b>

Net imbalance	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	(11,674,052)	5,613,266	1,211,398	4,149,005	274,199	(426,184)
Total in foreign currencies .....	(4,555,279)	184,707	156,635			(4,213,938)
<b>Total</b>	<b>(16,229,331)</b>	<b>5,797,973</b>	<b>1,368,032</b>	<b>4,149,005</b>	<b>274,199</b>	<b>(4,640,122)</b>

#### 31.12.2012

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	47,954,202	3,291,461	26,022	3,607,070	932,379	55,811,134
Total in foreign currencies .....	1,554,838	816,324				2,371,161
<b>Total</b>	<b>49,509,039</b>	<b>4,107,785</b>	<b>26,022</b>	<b>3,607,070</b>	<b>932,379</b>	<b>58,182,295</b>

Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	52,317,820					52,317,820
Total in foreign currencies .....	5,598,812					5,598,812
<b>Total</b>	<b>57,916,632</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57,916,632</b>

Net imbalance	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK .....	(4,363,618)	3,291,461	26,022	3,607,070	932,379	3,493,314
Total in foreign currencies .....	(4,043,974)	816,324				(3,227,650)
<b>Total</b>	<b>(8,407,592)</b>	<b>4,107,785</b>	<b>26,022</b>	<b>3,607,070</b>	<b>932,379</b>	<b>265,663</b>

#### d. Sensitivity analysis for non-trading portfolios

The Bank performs monthly sensitivity analysis on non-trading portfolios. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Bank's pre-tax profit and equity, assuming all other risk factors remain constant.

Currency	Shift in basis points	30.6.2013		31.12.2012	
		Downward	Upward	Downward	Upward
ISK, indexed .....	50	44,604	(44,604)	86,850	(86,850)
ISK, non-indexed .....	100	49,468	(49,468)	40,610	(40,610)
Other currencies .....	20	184	(184)	224	(224)
<b>Total</b>		<b>94,255</b>	<b>(94,255)</b>	<b>127,684</b>	<b>(127,684)</b>

### 29. Exposure towards changes in the CPI

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

	30.6.2013	31.12.2012
Assets .....	10,943,010	10,063,006
Liabilities .....	(5,839,780)	(5,834,415)
<b>Total</b>	<b>5,103,231</b>	<b>4,228,591</b>

## Notes - continued

### 30. Market risk

The breakdown of interest rate risk associated with proprietary position is specified as follows:

#### 30.6.2013

<b>Financial assets</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			2,028,003	1,344,705	3,768,819	7,141,527
Fixed income securities in foreign currencies .....			103,042			103,042
<b>Total</b>	0	0	2,131,045	1,344,705	3,768,819	7,244,569
<b>Financial liabilities</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			2,637,633	1,087,942	1,678,338	5,403,913
<b>Total</b>	0	0	2,637,633	1,087,942	1,678,338	5,403,913
<b>Net imbalance</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			(609,630)	256,764	2,090,481	1,737,615
Fixed income securities in foreign currencies .....			103,042			103,042
<b>Total</b>	0	0	(506,588)	256,764	2,090,481	1,840,657

#### 31.12.2012

<b>Financial assets</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			1,408,856	1,487,426	2,181,028	5,077,311
Fixed income securities in foreign currencies .....		0	115,977			115,977
<b>Total</b>	0	0	1,524,833	1,487,426	2,181,028	5,193,288
<b>Financial liabilities</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			4,230,821	1,192,308	541,632	5,964,761
<b>Total</b>	0	0	4,230,821	1,192,308	541,632	5,964,761
<b>Net imbalance</b>	<b>up to 1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Fixed income securities in ISK .....			(2,821,965)	295,118	1,639,397	(887,450)
Fixed income securities in foreign currencies .....		0	115,977			115,977
<b>Total</b>	0	0	(2,705,988)	295,118	1,639,397	(771,473)

## Notes - continued

### Financial assets and liabilities

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

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

30.6.2013 Financial assets	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Cash and cash equivalents .....					19,795,334		19,795,334
Receivables from Central Bank of Iceland .....					1,916,333		1,916,333
Fixed income securities .....	4,196,941	225,560	2,836,395				7,258,895
Shares and other variable income securities ....	1,503,405	213,764					1,717,170
Securities used for hedging .....		4,311,508					4,311,508
Loans to customers .....					29,177,556		29,177,556
Derivatives .....	463,256						463,256
Other assets .....					635,413		635,413
<b>Total</b>	<b>6,163,602</b>	<b>4,750,833</b>	<b>2,836,395</b>	<b>0</b>	<b>51,524,636</b>	<b>0</b>	<b>65,275,465</b>

Financial liabilities	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits .....						40,844,057	40,844,057
Borrowings .....						8,678,864	8,678,864
Short positions used for trading .....	5,403,706						5,403,706
Short positions used for hedging .....		2,042,787					2,042,787
Derivatives .....	146,722						146,722
Other liabilities .....						4,761,971	4,761,971
<b>Total</b>	<b>5,550,428</b>	<b>2,042,787</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54,284,892</b>	<b>61,878,107</b>

31.12.2012 Financial assets	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Cash and cash equivalents .....					20,289,559		20,289,559
Receivables from Central Bank of Iceland .....					3,287,741		3,287,741
Fixed income securities .....	3,187,811	197,455	1,835,772				5,221,038
Shares and other variable income securities ....	1,026,128	217,005					1,243,133
Securities used for hedging .....		6,807,792					6,807,792
Loans to customers .....					27,789,290		27,789,290
Derivatives .....	312,795						312,795
Other assets .....					646,485		646,485
<b>Total</b>	<b>4,526,734</b>	<b>7,222,251</b>	<b>1,835,772</b>	<b>0</b>	<b>52,013,075</b>	<b>0</b>	<b>65,597,833</b>

Financial liabilities	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits .....						42,402,442	42,402,442
Borrowings .....						6,575,208	6,575,208
Short positions used for trading .....	5,961,847						5,961,847
Short positions used for hedging .....		2,024,604					2,024,604
Derivatives .....	221,518						221,518
Other liabilities .....						6,159,274	6,159,274
<b>Total</b>	<b>6,183,364</b>	<b>2,024,604</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,136,923</b>	<b>63,344,891</b>



## Notes - continued

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

#### a. Fair value hierarchy

IFRS 7 specifies a fair value hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs result in the following fair value hierarchy:

- Level 1  
Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example Nasdaq OMX, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example Nasdaq, S&P 500).
- Level 2  
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3  
Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable inputs.

Fair value measurements requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

#### b. Fair value hierarchy classification

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

#### 30.6.2013

##### Financial assets

	Level 1	Level 2	Level 3	Carrying amount
<b>Held for trading</b>				
Fixed income securities .....	4,196,941			4,196,941
Shares and other variable income securities .....	1,503,405			1,503,405
Derivatives .....		463,256		463,256
<b>Designated at fair value</b>				
Fixed income securities .....			225,560	225,560
Shares and other variable income securities .....		2,487	211,278	213,764
Securities used for hedging .....	4,311,508			4,311,508
<b>Available for sale</b>				
Fixed income securities .....	2,836,395			2,836,395
<b>Total</b>	<b>12,848,249</b>	<b>465,742</b>	<b>436,838</b>	<b>13,750,829</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
<b>Held for trading</b>				
Short positions used for trading .....	5,403,699	7		5,403,706
Derivatives .....		146,722		146,722
<b>Designated at fair value</b>				
Short positions used for hedging .....	2,042,787			2,042,787
<b>Total</b>	<b>7,446,486</b>	<b>146,729</b>	<b>0</b>	<b>7,593,215</b>

## Notes - continued

### 31.12.2012

Financial assets	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities .....	3,187,811			3,187,811
Shares and other variable income securities .....	1,023,655	2,473		1,026,128
Derivatives .....		312,795		312,795
Designated at fair value				
Fixed income securities .....			197,455	197,455
Shares and other variable income securities .....			217,005	217,005
Securities used for hedging .....	6,807,792			6,807,792
Available for sale				
Fixed income securities .....	1,835,772			1,835,772
<b>Total</b>	<b>12,855,031</b>	<b>315,268</b>	<b>414,459</b>	<b>13,584,758</b>

### Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions used for trading .....	5,961,839	7		5,961,847
Derivatives .....		221,518		221,518
Designated at fair value				
Short positions used for hedging .....	2,024,604			2,024,604
<b>Total</b>	<b>7,986,443</b>	<b>221,525</b>	<b>0</b>	<b>8,207,968</b>

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

The fair value of financial assets and liabilities not measured at fair value in the statement of financial position is specified as follows:

#### 30.6.2013

Financial assets	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents .....	19,795,334	19,795,334	0
Loans to customers .....	29,177,556	29,177,556	0
Other assets .....	635,413	635,413	0
<b>Total</b>	<b>51,524,636</b>	<b>51,524,636</b>	<b>0</b>

### Financial liabilities

	Carrying amount	Fair value	Unrealized gain
Deposits .....	40,844,057	40,844,057	0
Borrowings .....	8,678,864	8,678,864	0
Other liabilities .....	4,761,971	4,761,971	0
<b>Total</b>	<b>54,284,892</b>	<b>54,284,892</b>	<b>0</b>

#### 31.12.2012

Financial assets	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents .....	20,289,559	20,289,559	0
Receivables from Central Bank of Iceland .....	3,287,741	3,287,741	0
Loans to customers .....	27,789,290	27,789,290	0
Other assets .....	646,485	646,485	0
<b>Total</b>	<b>52,013,075</b>	<b>52,013,075</b>	<b>0</b>

### Financial liabilities

	Carrying amount	Fair value	Unrealized gain
Deposits .....	42,402,442	42,402,442	0
Borrowings .....	6,575,208	6,575,208	0
Other liabilities .....	6,159,274	6,159,274	0
<b>Total</b>	<b>55,136,923</b>	<b>55,136,923</b>	<b>0</b>

## Notes - continued

### Segment information

#### 34. Business segments

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

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

##### a. Reportable segments

The Bank defines four reportable segments.

- **Asset Management** manages assets on behalf of its clients, who consist primarily of institutional investors and high net worth individuals, and offers a variety of products and services to meet their diverse needs.
- **Investment Banking** is divided into Corporate Finance, Capital Markets, Credit, Proprietary Trading and Treasury and serves institutional and private investors and corporate clients. Services provided to external customers include M&A advisory services, securities and FX brokerage, specialized lending and market making activities.
- **Retail Banking** provides selected banking services with a special focus on SME's and professionals.
- **Asset Financing** provides equipment financing to individuals and corporate clients.

Other divisions, subsidiaries and certain legacy assets form a fifth reporting segment, **Other Operations**.

##### b. Business segment balance sheet

	<b>Asset Management</b>	<b>Investment Banking</b>	<b>Retail Banking</b>	<b>Other Operations</b>	<b>Elimination entries</b>	<b>Total</b>
<b>30.6.2013</b>						
Segment assets 30.6.2013 .....	0	69,034,935	55,170,743	6,594,653	(62,956,802)	67,843,528
Segment liabilities 30.6.2013 .....	0	63,072,389	55,170,743	6,594,653	(62,956,802)	61,880,983
Segment equity 30.6.2013 .....	0	5,962,546	0	0	0	5,962,546

	<b>Asset Management</b>	<b>Investment Banking</b>	<b>Retail Banking</b>	<b>Other Operations</b>	<b>Elimination entries</b>	<b>Total</b>
<b>31.12.2012</b>						
Segment assets 31.12.2012 .....	0	71,288,957	56,131,633	5,062,212	(63,089,929)	69,392,873
Segment liabilities 31.12.2012 .....	0	66,039,334	56,131,633	5,062,212	(63,089,929)	64,143,251
Segment equity 31.12.2012 .....	0	5,249,622	0	0	0	5,249,622

## Notes - continued

### c. Business segments results

	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
<b>6m 2013</b>						
Net interest income .....	4,902	399,027	438,455	36,563	0	878,947
Net fee and commission income .....	99,244	446,163	129,385	198,091	(10,282)	862,600
Net financial income .....	26	152,093	(4,980)	25,219	0	172,357
Share in profit of associates, net of income tax .....	0	0	0	50,410	(36,767)	13,643
Other operating income .....	1	818	13	72,598	0	73,429
<b>Net operating income</b>	<b>104,173</b>	<b>998,100</b>	<b>562,872</b>	<b>382,880</b>	<b>(47,049)</b>	<b>2,000,977</b>
Administrative expenses .....	(98,007)	(397,180)	(364,832)	(955,287)	10,282	(1,805,024)
Allocated cost .....	(37,568)	(260,172)	(219,537)	517,278	0	0
Impairment of loans and receivables .....	0	10,117	(51,346)	226,275	(393)	184,653
<b>(Loss) profit before taxes</b>	<b>(31,402)</b>	<b>350,865</b>	<b>(72,844)</b>	<b>171,146</b>	<b>(27,233)</b>	<b>390,533</b>
	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
Net operating income from external customers .....	99,270	1,351,072	87,940	509,744		2,048,026
Net operating income from internal customers .....	4,903	(352,971)	474,932	(126,864)	(47,049)	(47,049)
<b>Net operating income</b>	<b>104,173</b>	<b>998,100</b>	<b>562,872</b>	<b>382,880</b>	<b>(47,049)</b>	<b>2,000,977</b>
<b>6m 2012</b>						
Net interest income .....	18,480	486,932	354,943	(9,306)	0	851,048
Net fee and commission income .....	108,126	330,252	115,546	78,421	(9,240)	623,104
Net financial income .....	104	195,815	4,821	122,854	0	323,595
Share in profit of associates, net of income tax .....	0	0	0	145,444	72,038	217,482
Other operating income .....	0	983	12	(8,241)	0	(7,246)
<b>Net operating income</b>	<b>126,710</b>	<b>1,013,981</b>	<b>475,322</b>	<b>329,171</b>	<b>62,798</b>	<b>2,007,982</b>
Administrative expenses .....	(94,310)	(373,202)	(292,836)	(803,126)	9,240	(1,554,234)
Allocated cost .....	(44,574)	(251,802)	(223,105)	519,481	0	0
Impairment of loans and receivables .....	0	(23,004)	(54,300)	(176,466)	0	(253,770)
<b>(Loss) profit before taxes</b>	<b>(12,175)</b>	<b>365,973</b>	<b>(94,918)</b>	<b>(130,940)</b>	<b>72,038</b>	<b>199,979</b>
	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
Net operating income from external customers .....	61,286	1,460,800	70,113	352,986		1,945,184
Net operating income from internal customers .....	65,424	(446,819)	405,209	(23,814)	62,798	62,798
<b>Net operating income</b>	<b>126,710</b>	<b>1,013,981</b>	<b>475,322</b>	<b>329,171</b>	<b>62,798</b>	<b>2,007,982</b>

## Notes - continued

### Other information

#### 35. Off-balance sheet obligations

##### a. Lease agreements

The Bank has entered into lease agreements for the office premises in Ármúli 13a and Höfðatún 2 in Reykjavík. Monthly lease payments amount to ISK 4.9 million and the agreements expire in 2015.

#### 36. Related parties

##### a. Definition of related parties

The Bank has a related party relationship with its subsidiaries as disclosed in note 16, associates as disclosed in note 17, shareholders with qualifying holdings (10% or greater) as approved by the Icelandic FSA, board members, CEO and key employees (together referred to as management), close family members of these parties and companies where related parties are large shareholders.

##### b. Arm's length

All transactions with related parties are carried out at arm's length and subject to an annual review by the Bank's internal and external auditors.

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

	Loans & receivables	Deposits & payables
<b>30.6.2013</b>		
Board members and large shareholders .....	12,403	76,502
Management .....	2,219	40,159
Subsidiaries .....	445,927	262,561
Associates .....	135,862	236,685
<b>Total</b>	<b>596,411</b>	<b>615,907</b>

	Loans & receivables	Deposits & payables
<b>31.12.2012</b>		
Board members and large shareholders .....	64,347	403,357
Management .....	23,756	13,889
Subsidiaries .....	1,382,046	186,638
Associates .....	80,582	39,160
<b>Total</b>	<b>1,550,730</b>	<b>643,043</b>

##### d. Off-balance sheet obligations

As at 30 June 2013 and 31 December 2012 there were no off-balance sheet obligations with related parties.

#### 37. Other matters

The Bank has made a binding offer for all outstanding shares in Íslensk verðbréf hf., an asset management company with over ISK 100 billion in assets under management. The offer has been accepted by a majority of shareholders in Íslensk verðbréf hf., and work has begun on legal and financial due diligence. The acquisition is expected to be completed in Q3.