



Consolidated Interim Financial Statements
31 March 2013

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Endorsement and Statement

by the Board of Directors and the CEO

The Consolidated Interim Financial Statements of MP Bank hf. for the period 1 January to 31 March 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 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 31 March 2013 amounted to ISK 466 million. According to the Consolidated Statement of Financial Position, the Bank's equity at the end of this period amounted to ISK 5,909 million. As at 31 March 2013, the Bank's total assets amounted to ISK 63,185 million. The Tier 1 capital ratio of the Bank was 12.0% but the minimum requirement by law is 8.0%.

The Bank's issued share capital amounted to ISK 5,554 million as at 31 March 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 had 49 shareholders at the end of the period (2012: 49). One shareholder held more than 10% of shares in the Bank, Titan B ehf. with 17.3%.

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 Consolidated Interim Financial Statements of MP Bank hf. for the period 1 January to 31 March 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 31 March 2013 and the financial performance of the Bank and changes of cash flows for the period 1 January to 31 March 2013.

Further, in our opinion the 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 Bank.

The Board of Directors and the CEO of the Bank have today discussed the Consolidated Interim Financial Statements for the period 1 January to 31 March 2013 and confirm them by the means of their signatures.

Reykjavík, 23 April 2013.

Board of Directors

CEO


Handwritten signatures of Board of Directors members.


Handwritten signature of CEO.

Consolidated Income Statement

For the period 1 January 2013 to 31 March 2013

	Notes	3m 2013	3m 2012
Interest income		1,030,609	735,186
Interest expense		(558,036)	(357,889)
Net interest income	39	472,573	377,297
Fee and commission income	40	441,175	366,383
Fee and commission expense		(21,540)	(35,022)
Net fee and commission income		419,635	331,362
Net financial income	41-42	143,184	82,111
Share in profit of associates, net of income tax	55	13,643	53,215
Other operating income (expense)		56,309	(25,446)
Other operating income		213,136	109,880
Net operating income		1,105,344	818,538
Administrative expenses	43	(893,844)	(732,899)
Impairment of loans and receivables	53	221,366	(36,501)
Profit before taxes		432,867	49,137
Income tax	45	50,843	(9,096)
Special tax on financial institutions	46	(18,209)	(18,000)
Profit for the period		465,501	22,041
	Notes	3m 2013	3m 2012
Attributable to the shareholders of MP Bank hf.		462,655	22,041
Attributable to non-controlling interest	54	2,846	0
Profit for the period		465,501	22,041

The notes on pages 7 to 42 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Comprehensive Income

For the period 1 January 2013 to 31 March 2013

	Notes	3m 2013	3m 2012
Profit for the period		465,501	22,041
Fair value changes in securities classified as available for sale		(14,982)	4,337
Exchange difference on translation of foreign operations		(6,463)	(1,465)
Other comprehensive income, net of tax		(21,445)	2,872
Total comprehensive income for the period		444,056	24,912

	Notes	3m 2013	3m 2012
Attributable to the shareholders of MP Bank hf.		441,210	24,912
Attributable to non-controlling interest		2,846	0
Total comprehensive income for the period		444,056	24,912

The notes on pages 7 to 42 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Financial Position

As at 31 March 2013

Assets	Notes	31.3.2013	31.12.2012
Cash and cash equivalents	48	15,110,927	20,289,559
Receivables from Central Bank of Iceland		0	3,287,741
Fixed income securities	49	5,296,570	5,221,038
Shares and other variable income securities	50	988,791	1,243,133
Securities used for hedging	51	6,854,833	6,807,792
Loans to customers	52-53	29,558,950	27,789,290
Derivatives	28	368,854	312,795
Investment in associates	55	572,124	560,825
Intangible assets	56	1,098,257	1,103,829
Property and equipment	57	326,693	738,099
Deferred tax asset		358,000	292,288
Other assets	58	1,394,210	646,485
Assets classified as held for sale	14, 59	1,256,636	1,100,000
Total assets		63,184,845	69,392,873
Liabilities			
Deposits	60	40,065,010	42,402,442
Borrowings	61	7,821,651	6,575,208
Short positions used for trading	62	1,663,430	5,961,847
Short positions used for hedging	63	1,551,711	2,024,604
Derivatives	28	187,973	221,518
Current tax liabilities		0	3,180
Deferred tax liabilities		180	180
Other liabilities	64	5,385,940	6,159,274
Liabilities associated with assets classified as held for sale	14, 59	600,000	795,000
Total liabilities		57,275,895	64,143,251
Equity			
Share capital	65	5,550,000	5,550,000
Share premium		8,088	7,500
Option reserve	90	1,312	518
Other reserves		11,089	41,890
Retained earnings (accumulated deficit)		101,390	(346,283)
Total equity attributable to the shareholders of MP Bank hf.		5,671,879	5,253,625
Non-controlling interest		237,071	(4,003)
Total equity		5,908,950	5,249,622
Total liabilities and equity		63,184,845	69,392,873

The notes on pages 7 to 42 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

For the period 1 January 2013 to 31 March 2013

	Notes	Share capital	Share premium	Share options reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
1 January 2013 to 31 March 2013									
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					(6,463)	447,673	441,210	2,846	444,056
Share-based payment transactions	90			794			794		794
Acquisition of non-controlling interest	54						0	238,227	238,227
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
Equity at 31 March 2013		5,550,000	8,088	1,312	11,089	101,390	5,671,879	237,071	5,908,950

	Notes	Share capital	Share premium	Share options reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
1 January 2012 to 31 March 2012									
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
Equity at 31 March 2012		5,550,000	7,500	0	40,806	(462,372)	5,135,934	0	5,135,934

The notes on pages 7 to 42 are an integral part of these Consolidated Interim Financial Statements.

Consolidated Statement of Cash Flows

For the period 1 January 2013 to 31 March 2013

Cash flows from operating activities	Notes	3m 2013	3m 2012
Profit for the period		465,501	22,041
Adjustments for:			
Indexation and exchange rate difference		(62,511)	351,381
Share in profit of associates, net of income tax	55	(13,643)	(53,215)
Depreciation and amortisation	56-57	28,386	24,920
Impairment of loans and receivables	53	(221,366)	36,501
Deferred income tax, change	0	(65,712)	10,456
Other adjustments		(30,781)	0
		99,874	392,083
Changes in:			
Loans		(1,561,758)	(3,332,614)
Deposits		(2,019,493)	3,925,529
Financial assets		3,348,470	(2,843,206)
Financial liabilities		(4,829,192)	2,739,191
Operating assets and liabilities		(1,524,239)	3,803,774
Net cash (to) from operating activities		(6,486,338)	4,684,757
Cash flows from investing activities			
Associated companies	55	238,228	(9)
Acquisition of intangible assets	56	(7,983)	(17,107)
Acquisition of property and equipment	57	(27,868)	(478,370)
Proceeds from the sale of property and equipment	57	450,616	17,293
Investment in assets classified as held for sale	14, 59	(351,636)	0
Net cash from (to) investing activities		301,357	(478,193)
Cash flows from financing activities			
Borrowings		10,535,000	11,109,000
Repayment of borrowings		(9,288,556)	(9,167,572)
Net cash from financing activities		1,246,444	1,941,428
Cash and cash equivalents at the beginning of the year	48	20,289,559	11,545,143
Net (decrease) increase in cash and cash equivalents		(4,938,537)	6,147,992
Effects of exchange rate fluctuations on cash held		(240,094)	74,227
Cash and cash equivalents at the end of the period	48	15,110,927	17,767,363

The notes on pages 7 to 42 are an integral part of these 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 Consolidated Interim Financial Statements for the period ended 31 March 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 Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and CEO on 23 April 2013.

2. Basis of preparation

a. Statement of compliance

The 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.

b. Basis of measurement

The 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 as outlined in notes 79.

c. Functional and presentation currency

The 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 Consolidated Interim Financial Statements is provided in note 38.

Notes - continued

Significant accounting policies

3. Basis of consolidation

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Interim Financial Statements, and have been applied consistently by Bank entities.

a. Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Bank holds more than 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are presently exercisable or convertible, if any, are taken into account. The financial statements of subsidiaries are included in the financial statements of the Bank from the date that control commences until the date that control ceases.

The Bank uses the purchase method to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

b. Non-controlling interest

Non-controlling interest represent the portion of profit or loss and equity not owned, directly or indirectly, by the Bank. Non-controlling interest is presented separately in the income statement and is included in equity in the statement of financial position, separately from equity attributable to owners of the Bank.

The Bank chooses on an acquisition-by-acquisition basis whether to measure non-controlling interest in an acquiree at fair value or according to the proportion of non-controlling interests in the acquiree's net assets. Changes in the Bank's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

c. Fiduciary services

The Bank provides custody services, fund management and discretionary and advisory investment management services which require the Bank to make decisions on the handling, acquisition or disposal of financial instruments on behalf of its clients.

The financial statements of managed funds and investment portfolios managed by the Bank on behalf of customers, are not included in the financial statements of the Bank, as they do not constitute assets or liabilities of the Bank.

d. Transactions eliminated on consolidation

Intra-bank balances, income and expenses, and unrealised gains and losses arising from intra-bank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Bank's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Associates

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost.

The Bank's share of the total recognised gains and losses of associates is included in the financial statements of the Bank on an equity accounted basis, from the date the significant influence commences until the date it ceases.

If the Bank's share of loss exceeds its interest in an associate, the Bank's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Notes - continued

5. Foreign currency

a. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the respective Bank's entity using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate at the date the fair value was determined.

b. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at spot exchange rate current at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the spot exchange rates at the dates of the transactions.

6. Recognition and derecognition of financial assets and liabilities

a. Recognition

Loans, deposits, debt securities issued and subordinated liabilities are recognised on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date, which is the date when the Bank becomes a party to the contractual provisions of the instrument.

b. Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or when the Bank enters into a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities are derecognised when the obligation of the Bank is discharged, cancelled or expires.

7. Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses arising from a group of similar transactions, such as in the Bank's trading activity, or other circumstances permitted by International Financial Reporting Standards.

8. Amortised cost measurement of financial assets and liabilities

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.

9. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment, when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Notes - continued

10. Financial instruments - accounting classification

Upon initial recognition, financial assets and liabilities are classified into one of the categories below. This classification determines amongst other things initial measurement, subsequent accounting and handling of interest revenue and expenses. International Financial Reporting Standards restrict the reclassification of financial instruments after initial recognition.

a. Held for trading

A financial instrument is classified as held for trading if it is purchased or incurred with the intention to resell, repurchase, repay or collect within a short period of time, or if it is a part of a group of defined financial instruments managed on a portfolio basis and historical data shows recent pattern of short-term profit taking.

Financial assets held for trading include fixed income securities, shares and other variable income securities and derivatives. Financial liabilities include derivatives and short positions, i.e. commitments to deliver financial assets that the Bank has borrowed and sold to a third party.

Financial instruments held for trading are initially recognised at fair value. They are subsequently measured at fair value in the statement of financial position, with transactions costs recognised in profit or loss. Interest income and expense from derivatives is recognised in net interest income but all other interest income and expense, and all changes in fair value, are recognised as financial income.

b. Designated at fair value

A financial instrument is designated at fair value through profit and loss when it is a part of a portfolio of financial instruments that are managed on the basis of fair value and information provided to management is based on fair value.

Financial assets designated at fair value include fixed income securities and shares and other variable income securities. Financial liabilities consist primarily of short positions, i.e. commitments to deliver financial assets that the Bank has borrowed and sold to a third party.

Financial instruments designated at fair value are initially recognised at fair value. They are subsequently measured at fair value in the statement of financial position, with transactions costs recognised in profit or loss. Interest income and expense, and all changes in fair value, are recognised as financial income.

c. Available for sale

Non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold indefinitely, but not necessarily to maturity, are classified as available for sale.

Financial assets classified as available for sale consist primarily of fixed income securities.

Financial instruments classified as available for sale are initially recognised at fair value. They are subsequently measured at fair value in the statement of financial position, with interest income recognised in net interest income using the effective interest method. The difference between fair value and amortised cost is recognised in comprehensive income until the financial instrument is sold or reaches maturity, whereupon the cumulative gains or losses previously recognised in other comprehensive income are reclassified to financial income.

d. Held to maturity

Non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity.

Financial assets classified as held to maturity consist primarily of fixed income securities.

Financial assets classified as held to maturity are initially recognised at cost. They are subsequently measured at amortised cost using the effective interest method, with interest income recognised in net interest income.

A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

e. Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Financial assets classified as loans and receivables include cash and cash equivalents, loans to customers and receivables.

Financial assets classified as loans and receivables are initially recognised at fair value, which is typically equal to cost, i.e. cash advanced plus any transaction costs. They are subsequently measured at amortised cost using the effective interest method. Accrued interest, in the case of interest bearing assets, is included in the carrying amount. Interest income is recognised in net interest income.

f. Other at amortised cost

Non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market are classified as other at amortised cost.

Financial liabilities classified as other at amortised cost include deposits, borrowings and payables.

Financial liabilities classified as other at amortised cost are initially recognised at fair value, which is typically equal to cost, i.e. cash advanced less any transaction costs. They are subsequently measured at amortised cost using the effective interest method. Accrued interest, in the case of interest bearing liabilities is included in the carrying amount. Interest expense is recognised in net interest income.

Notes - continued

11. Determination of fair value

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

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

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

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

12. Impairment

a. General principle

The carrying amount of the Bank's non-financial assets and financial assets not at fair value through profit and loss is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

b. Reversal 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, the previously recognised impairment loss is recognised as reduction of cost in the income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

c. Calculation of recoverable amount

The recoverable amount of the Bank'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 their fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

13. Impairment of loans

a. Indications of impairment

Objective evidence of impairment includes information about one or more of the following:

- Indications of significant financial difficulties of the borrower, including financial restructuring and refinancing concessions that a lender would not otherwise consider
- A breach of contract, such as a default on instalments or on interest or principal payments
- An observable decrease in the estimated future cash flows from a group of loans due to adverse changes in the economic conditions of a sector or region in which the borrower operates, even if the decrease cannot yet be identified with the individual financial assets in the group
- The disappearance of an active market for an asset held as collateral

Impairment losses expected as a result of events taking place after the reporting date, no matter how likely, are not recognised.

b. Calculation of impairment losses

Impairment loss is calculated by comparing the carrying amount of individual loans with the present value of their expected future cash flows, discounted at their original effective interest rate. In the case of loans at variable interest rates, the discount rate used is their current effective interest rate.

Notes - continued

c. Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. This procedure is applied to all loans that are considered individually significant. In making the assessment, the following factors are considered:

- The Bank's aggregate exposure towards the customer
- The amount and timing of expected receipts and recoveries
- The likely recovery upon liquidation or bankruptcy
- Complexity and uncertainty related to ranking of creditor claims and legal standing
- The realisable value of securities or other credit mitigants and the likelihood of successful repossession
- The likely deduction of any costs involved in recovery of amounts outstanding

d. Collectively assessed loans

Impairment losses on collectively assessed loans are determined by an evaluation of the exposures on a group of loans with similar risk characteristics. This procedure is applied to all loans that are not considered individually significant, or have been individually assessed but showed no indications of impairment. 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 the following:

- 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 an individual loan
- Management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience

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

e. Loan write-offs

The carrying amount of impaired loans is reduced through the use of an allowance account. Loans are written off, partially or in full, when there is no realistic prospect of recovery.

14. Assets classified as held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

15. Share capital

a. Treasury shares

Acquired own shares and other equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity. Incremental transaction costs of treasury share transactions are accounted for as a deduction from equity, net of any related income tax benefit.

b. Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Bank. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

c. Dividends on share capital

Dividends on share capital are deducted from equity in the period in which they are approved by the Bank's shareholders meetings.

Notes - continued

16. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows to the carrying amount of the financial asset or liability, over the expected life of the financial instrument. Estimated future cash flows take into account all contractual terms of the financial instruments but not future credit losses.

Interest income and expense presented in the income statement includes interest on:

- financial assets classified as loans and receivables
- financial assets classified as held to maturity
- financial assets classified as available for sale
- financial liabilities carried at amortised cost
- derivatives

Further information about the accounting classification of financial assets and liabilities is provided in notes 10 and 79.

17. Fee and commission income and expense

The Bank earns income from providing various services to its customers. This includes fees for managing assets on behalf of customers, commissions received for equity and bond transactions and fees and commissions for various other financial services.

- Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate
- Other fee and commission income is recognised in the income statement as the services are provided
- Fee and commission expense relates mainly to transaction fees, which are expensed as the services are received

18. Net financial income

Net financial income comprises the following:

- Realised and unrealised gains or losses from price changes of fixed income securities carried at fair value
- Realised and unrealised gains or losses from price changes of variable income securities
- Interest income from fixed income securities carried at fair value
- Dividends, excluding dividends from associates
- Fair value changes in derivatives
- Foreign exchange difference

19. Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends, other than those from associates, are presented as component of net financial income.

20. Administrative expenses

Administrative expenses comprise expenses other than interest expenses, fee and commission expenses and expenses related to fair value changes. A breakdown of administrative expenses is provided in note 43.

21. Employee benefits

a. Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

b. Defined contribution plans

Contractual payments to contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank has no further obligations once those contributions have been paid.

c. Shared-based payments

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and nonmarket performance conditions at the vesting date.

Notes - continued

22. Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised there.

Current tax liabilities include the estimated tax payable next year on current year's profit according to the tax rates prevailing at reporting date, in addition to corrections on tax from previous years and unpaid taxes from the previous year, if any.

The deferred income tax asset and/or liability has been calculated and recognised in the statement of financial position. The calculation is based on the difference between assets and liabilities as presented in the tax return on one hand, and in the consolidated financial statements on the other, taking into consideration tax losses carried forward. This difference is due to the fact that the tax assessment is based on premises that differ from those governing the financial statements, mostly due to temporary differences arising from the recognition of revenue and expense in the tax returns and in the financial statements.

Deferred tax assets and tax liabilities are offset in the statement of financial position when there is a legal right to settle on a net basis and they are levied by the same taxing authority on the same entity or on different entities subject to joint taxation.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

23. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash in hand, balances with banks, unrestricted balances with Central Bank and other short-term highly liquid investments with original maturities of three months or less.

24. Fixed income securities

Fixed income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 10.

25. Shares and other variable income securities

Shares and other variable income securities consist of equity investments and unit shares in mutual funds. Shares and other variable income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 10.

26. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Bank's risk exposure arising from derivative contracts with customers. Securities used for hedging are designated at fair value as discussed in note 10.

27. Loans to customers

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include loans provided by the Bank to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Bank has no intention of selling immediately or in the near future.

Loans are initially recognised at fair value, which is the cash advanced, plus any transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and advances. The carrying amount of impaired loans is reduced through the use of an allowance account.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset, or a substantially similar asset, at a fixed price at a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and the underlying asset is not recognised in the Bank's statement of financial position.

Notes - continued

28. Derivatives

A derivative is a financial instrument or another contract that falls under the scope of IAS 39 and has the following three characteristics:

- Its value changes due to changes in an underlying variable, such as bond price, share price, security or price index (including CPI), foreign currency exchange rate or interest rate
- The contract requires no initial investment or an initial investment that is smaller than would be required for
- Settlement takes place at a future date

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange risk and inflation and interest risk arising from operating, financing and investing activities. The Bank does not apply hedge accounting.

Derivative assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position. Derivatives with positive fair values are classified as financial assets and derivatives with negative fair values as financial liabilities. Revenue from derivatives is split into interest income and net income from financial instruments at fair value and presented in the corresponding line items in the income statement.

29. Intangible assets

a. Asset categories

The Bank groups intangible assets into three categories:

- Software
Software comprise acquired software licences and external costs associated with the development of bespoke applications.
- Goodwill
Goodwill arises in business combinations and equals the difference between the purchase price and share in the net assets of the acquired company. Net assets include book equity and the revaluation of assets and liabilities, if relevant, and the value of off-balance sheet assets and liabilities. Following initial recognition, goodwill is recognised at cost less impairment.
- Other intangible assets
Other intangible assets comprise licences and acquired trademarks used in the operation of the Bank.

b. Initial recognition

Intangible assets are initially recognised at cost.

c. Subsequent measurement

The Bank uses the cost model for measurement after recognition and intangible assets are carried at cost less accumulated amortisation and impairment. Intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits at each reporting date. If such indications exist, the assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

d. Amortisation

Intangible assets with finite useful life are amortised using the straight-line method over their estimated useful economic life, with the amortisation recognised in the income statement. The estimated useful life of intangible assets is as follows:

Software	5-10 years
Other intangible assets with finite useful life	10 years

Notes - continued

30. Property and equipment

a. Asset categories

The Bank groups intangible assets into two categories:

- Real estate
Real estate comprise office buildings.
- Other property and equipment
Other property and equipment comprise automobiles, furniture and fixtures, computers and other office equipment.

b. Initial recognition

Property and equipment is initially recognised at cost, which includes direct expenses related to the purchase.

c. Subsequent measurement

The Bank uses the cost model for the measurement after recognition and property and equipment is carried at cost less accumulated depreciation and impairment. Property and equipment is reviewed for indications of impairment or changes in estimated future economic benefits at each reporting date. If such indications exist, the assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

d. Subsequent cost

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. The decision, if subsequent costs are added to the acquisition cost of property and equipment, is based on whether an identified component, or part of such component, has been replaced or not, or if the nature of the subsequent cost means a contribution of a new component. All other costs are expensed in the income statement when incurred.

e. Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

Real estate	15-50 years
Other property and equipment	3-5 years

Where parts of an item of property and equipment have different useful lives, those components are accounted for separately.

31. Other assets

Other assets are measured at cost.

32. Deposits

Deposits consist of time deposits and demand deposits. Money market deposits are included in borrowings. Deposits are recognised at amortised cost, including accrued interest.

33. Borrowings

Borrowings are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset, or a substantially similar asset, at a fixed price at a future date ("repo" or "stock lending"), the arrangement is accounted for as a borrowing and the underlying asset continues to be recognised in the Bank's statement of financial position.

34. Short positions used for trading

Short positions are carried at fair value with all fair value changes recognised in the income statement under net financial income.

35. Short positions used for hedging

Short positions used for hedging consist of non-derivative financial liabilities that are used to hedge the Bank's risk exposure arising from derivative contracts with customers. Short positions used for hedging are designated at fair value as discussed in note 10.

Notes - continued

36. Other liabilities

Other liabilities are measured at cost.

37. New standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the current financial year and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are IFRS 9 Financial Instruments, IFRS 13 Fair Value Measurement and amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities. Early adoption of the standards is not planned and the effects of the adoption have not been estimated.

38. Use of estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Impairment losses

As outlined in notes 12 and 13, the use of estimates and judgement is an important component of the calculation of impairment losses. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Unforeseen events could, however, result in further impairment losses which would have a material effect on the income statement and statement of financial position.

b. Deferred tax asset

The value of a deferred tax asset is estimated by management, based on projections about future profits and the extent to which the tax asset will be realised.

c. Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques which are reviewed regularly by qualified independent personnel. All models that are used must be approved and calibrated to ensure that outputs reflect actual data.

Notes - continued

Income statement

39. Net interest income

Interest income is specified as follows:

	3m 2013	3m 2012
Cash and cash equivalents	166,686	130,696
Derivatives	76,886	70,128
Loans to customers	717,654	290,078
Other interest income	69,383	244,283
Total	1,030,609	735,186

Interest expense is specified as follows:

	3m 2013	3m 2012
Deposits	435,220	334,915
Borrowings	110,798	12,293
Other interest expense	12,018	10,681
Total	558,036	357,889

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

40. Fee and commission income

Fee and commission income is specified as follows:

	3m 2013	3m 2012
Banking	112,120	83,426
Capital Markets	133,861	154,680
Asset Management	123,405	90,458
Other	71,789	37,819
Total	441,175	366,383

41. Net financial income

Net financial income is specified as follows:

	3m 2013	3m 2012
Fixed income	141,510	(19,483)
Equities	18,158	34,854
Foreign currency exchange difference	(4,443)	7,683
Fair value adjustments	(12,041)	59,058
Total	143,184	82,111

42. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	3m 2013	3m 2012
Gain on financial instruments at fair value through profit and loss	33	32,454
Loss on other financial instruments	(4,476)	(24,771)
Total	(4,443)	7,683

Change in the ISK trade index during the period	-6.0%	+6.1%
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Note 74 provides information about the development of foreign exchange rates against the Icelandic krona.

Notes - continued

43. Administrative expenses

Administrative expenses are specified as follows:

	3m 2013	3m 2012
Salaries and related expenses	526,701	359,888
Other operating expenses	314,651	319,629
Depositors' and Investors' Guarantee Fund contributions	24,194	30,743
Depreciation and amortisation	28,298	22,640
Total	893,844	732,899

44. Salaries and related expenses

Salaries and related expenses are specified as follows:

	3m 2013	3m 2012
Salaries	382,195	291,024
Performance based payments excluding share based payments	34,587	0
Share-based payment expenses	794	0
Pension fund contributions	47,998	36,191
Tax on financial activity	25,583	12,900
Other salary related expenses	35,544	19,773
Total	526,701	359,888

Average number of full time employees during the period	128	110
Total number of full time employees at the end of the period	130	111

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: 5.5%).

45. Income tax

Profit before taxes amounts to ISK 432.9 million. Income tax amounts to ISK -50.8 million, resulting in an effective tax rate of -12.3%. This is substantially different from the Icelandic corporate tax rate of 20% due to non-taxable income, mainly from shares, and the recognition of previously unrecognised tax losses.

46. 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.

	3m 2013	3m 2012
Special tax on financial institutions	18,209	18,000

47. Quarterly statements (unaudited)

	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest income	472,573	412,708	452,363	473,752	377,297
Net fee and commission income	419,635	412,335	359,619	291,742	331,362
Net financial income	143,184	159,203	154,237	241,483	82,111
Share in profit of associates, net of income tax	13,643	0	0	164,267	53,215
Other operating income (expense)	56,309	21,867	14,252	18,200	(25,446)
Net operating income	1,105,344	1,006,113	980,472	1,189,444	818,538
Administrative expenses	(893,844)	(889,563)	(684,369)	(821,334)	(732,899)
Impairment of loans and receivables	221,366	(390,817)	(26,376)	(217,268)	(36,501)
Loss from assets held for sale	0	(10,989)	0	0	0
Profit before taxes	432,867	(285,256)	269,728	150,842	49,137
Income tax	50,843	180,431	6,623	(29,545)	(9,096)
Special tax on financial institutions	(18,209)	(16,208)	(22,473)	(24,835)	(18,000)
Profit for the period	465,501	(121,033)	253,878	96,462	22,041

Notes - continued

Statement of Financial Position

48. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	31.3.2013	31.12.2012
Cash	104,707	106,824
Balances with banks	9,094,223	9,313,187
Certificates of deposits issued by Central Bank of Iceland	5,911,998	10,869,548
Total	15,110,927	20,289,559

49. Fixed income securities

Fixed income securities are specified as follows:

	31.3.2013	31.12.2012
Government bonds and bonds with government guarantees	3,851,332	3,131,968
Treasury bills	107,950	115,972
Listed bonds	1,142,210	1,775,643
Unlisted bonds	195,079	197,455
Total	5,296,570	5,221,038

50. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	31.3.2013	31.12.2012
Listed shares	170,977	349,076
Listed unit shares	196	199
Unlisted shares	129,836	129,836
Unlisted unit shares	687,782	764,022
Total	988,791	1,243,133

51. Securities used for hedging

Securities used for hedging are specified as follows:

	31.3.2013	31.12.2012
Government bonds and bonds with government guarantees	2,879,203	2,614,941
Listed bonds	625,095	784,324
Listed shares	3,350,536	3,408,527
Total	6,854,833	6,807,792

52. Loans to customers

Loans to customers are specified as follows:

	31.3.2013	31.12.2012
Loans to customers, gross amount	29,921,653	28,619,840
Specific allowance for impairment losses	(117,755)	(668,337)
Collective allowance for impairment losses	(244,947)	(162,213)
Total	29,558,950	27,789,290

Notes - continued

53. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

a. Loans to customers

	Specific	Collective	Total
31.3.2013			
Balance as at 1 January 2013	668,337	162,213	830,550
Charge to the income statement for the period	(306,885)	82,734	(224,151)
Write-offs	(243,697)	0	(243,697)
Balance as at 31 March 2013	117,755	244,947	362,703
31.12.2012			
Balance as at 1 January 2012	164,378	50,819	215,197
Charge to the income statement for the period	557,591	111,394	668,985
Write-offs	(53,631)	0	(53,631)
Balance as at 31 December 2012	668,337	162,213	830,550

b. Other assets

	Specific	Collective	Total
31.3.2013			
Balance as at 1 January 2013	23,251	6,977	30,228
Charge to the income statement for the period	0	2,785	2,785
Balance as at 31 March 2013	23,251	9,761	33,013
31.12.2012			
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
Balance as at 31 December 2012	23,251	6,977	30,228

54. Group entities

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

	Domicile	Share 31.3.2013	Share 31.12.2012
Axia Asset Management UAB	Lithuania	100%	100%
Fí Fasteignafélag GP ehf. (formerly Fasteignasjóður Íslands 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	65%	100%
MP Pension Funds Baltic UAB	Lithuania	100%	100%

The Bank's share in Mánatún slhf. is classified as asset held for sale, as discussed in note 59.

Notes - continued

55. Investment in associates

a. Information about associated companies at the end of the period:

			Share in	
31.3.2013	Domicile	Share	results	Book value
GAM Management hf.	Iceland	26.8%	13,643	191,661
Londonderry Associates LLC	USA	38.0%	0	71,442
Teris	Iceland	50.2%	0	309,021
Total			13,643	572,124

			Share in	
31.12.2012	Domicile	Share	results	Book value
GAM Management hf.	Iceland	26.8%	67,402	178,017
Londonderry Associates LLC	USA	38.0%	0	73,786
Teris	Iceland	50.2%	150,080	309,021
Total			217,482	560,825

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:

	31.3.2013	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)
Share in profit of associates, net of income tax	13,643	217,482
Translation difference	(2,344)	3,449
Total	572,124	560,825

56. Intangible assets

Intangible assets are specified as follows:

31.3.2013	Software	Goodwill	Other	Total
Balance as at 1 January 2013	179,975	599,930	323,924	1,103,829
Acquisitions	7,983	0	0	7,983
Amortisation	(8,951)	0	(4,604)	(13,554)
Translation difference	(1)	0	0	(1)
Balance as at 31 March 2013	179,007	599,930	319,320	1,098,257
31.12.2012	Software	Goodwill	Other	Total
Balance as at 1 January 2012	181,588	599,930	342,339	1,123,857
Acquisitions	32,229	0	0	32,229
Amortisation	(33,843)	0	(18,415)	(52,258)
Translation difference	1	0	0	1
Balance as at 31 December 2012	179,975	599,930	323,924	1,103,829

Notes - continued

57. Property and equipment

Property and equipment is specified as follows:

31.3.2013	Real estate	Other	Total
Balance as at 1 January 2013	613,923	124,176	738,099
Additions	50,000	9,443	59,443
Disposals	(450,425)	(191)	(450,616)
Depreciation	(4,643)	(10,189)	(14,832)
Translation difference	(5,207)	(194)	(5,401)
Balance as at 31 March 2013	203,648	123,045	326,693

31.12.2012	Real estate	Other	Total
Balance as at 1 January 2012	199,553	129,047	328,599
Additions	460,400	44,281	504,681
Disposals	(31,153)	(15,600)	(46,753)
Depreciation	(20,674)	(33,607)	(54,281)
Translation difference	5,797	56	5,853
Balance as at 31 December 2012	613,923	124,176	738,099

Real estate is specified as follows:	Official value	Insurance value	Book value
Real estate in Iceland	93,300	163,250	124,877
Office buildings in Vilnius, Lithuania	-	-	78,770
Balance as at 31 March 2013			203,648

58. Other assets

Other assets consist of accounts receivables and prepayments.

59. Assets classified as held for sale

The Bank has designated its holdings in Mánatún slhf. as assets classified as held for sale. The Bank held 100% of outstanding shares in Mánatún slhf. at year-end 2012 and it is the Bank's intention to further reduce its shareholding in the company during the year 2013.

60. Deposits

Deposits are specified as follows:

	31.3.2013	31.12.2012
Demand deposits	32,972,518	36,212,486
Time deposits	7,092,492	6,189,956
Total	40,065,010	42,402,442

61. Borrowings

Borrowings are specified as follows:

	31.3.2013	31.12.2012
Repo transactions and overnight borrowings from the Central Bank of Iceland	0	147,682
Money market deposits	7,821,651	6,427,526
Total	7,821,651	6,575,208

62. Short positions used for trading

Short positions used for trading are specified as follows:

	31.3.2013	31.12.2012
Government bonds and bonds with government guarantees	1,501,695	5,947,104
Listed bonds	89,851	14,435
Listed shares	71,877	300
Unlisted shares	7	7
Total	1,663,430	5,961,847

Notes - continued

63. Short positions used for hedging

Short positions used for hedging are specified as follows:

	31.3.2013	31.12.2012
Government bonds and bonds with government guarantees	1,551,711	2,024,604
Total	1,551,711	2,024,604

64. Other liabilities

Other liabilities are specified as follows:

	31.3.2013	31.12.2012
Payment and settlement services	3,038,494	3,515,054
Unsettled securities transactions	938,835	1,220,677
Accounts payable	181,260	138,765
Withholding taxes	436,719	544,386
Other liabilities	790,631	740,391
Total	5,385,940	6,159,274

The Bank provides foreign exchange payment and settlement services for 10 savings banks according to an agreement signed in 2012.

65. Equity

a. Share capital

	31.3.2013	31.12.2012
Share capital according to the Parent's Articles of Association	5,554,000	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 5,909 million (2012: 5,250 million), equivalent to 9.4% (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 12.0% (2012: 10.8%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

Tier 1 capital	31.3.2013	31.12.2012
Total equity	5,908,950	5,249,622
Goodwill and intangibles	(1,098,257)	(1,103,829)
Shares in financial institutions	(191,661)	(178,017)
Subordinated fixed income securities	(96,156)	(96,156)
Deferred tax asset	(358,000)	(292,288)
Total	4,164,876	3,579,332

Capital requirements	31.3.2013	31.12.2012
Credit risk	2,142,272	1,993,050
Market risk	200,720	220,044
Operational risk	436,841	436,841
Total	2,779,833	2,649,934

Surplus capital	1,385,043	929,398
Capital adequacy ratio (CAD)	12.0%	10.8%
Official Capital adequacy ratio (CAD)	10.3%	10.8%

Official Capital adequacy ratio is based on audited retained earnings at 31 December 2012.

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

66. Risk management framework

- a. Board of Directors
The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. For the parent company the Board of Directors set the risk appetite. Risk management policies are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.
- b. Board of Directors sub-committees
The Bank's Board of Directors has established two sub-committees, Remuneration Committee and Audit committee. The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit.
- c. CEO
The CEO is responsible for the effective implementation through the corporate governance structure and committees. The CEO has established three committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas.
- d. Committees
The Bank operates three committees that are involved in risk management: an Asset and Liability Committee (ALCO), a Credit Committee and a Quality and Security Committee.

The ALCO Committee meets regularly and each department reports on its operations and positions activity since the previous meeting. The committee addresses matters regarding the Bank's risk management, financing, capital management and proprietary trading.

The Credit Committee addresses matters regarding the Bank's loan activities. The committee is responsible for the approval of individual loans as well as deciding on credit limits for individual clients in derivative trades, and is the primary forum for the discussion of loan activity policy.

The Quality and Security Committee is responsible for supervision and implementation of the Bank's security and quality policies. The security policy mainly addresses data security and operational security in IT systems, physical security for the personnel and proper access controls and monitoring in the Bank's premises. The quality work is aimed at upholding proper quality in work processes, IT systems and services to support performance and profitability, lower operational risk and increase the customer experience.
- e. Risk management
The purpose of the risk management is to identify, quantify, control and report on the risks that the Bank is exposed to in its daily activities. The unit also participates in drafting the overall risk policy of the Bank and has representatives on the ALCO committee, Credit committee and the Quality and Security committee. The unit's main activities include monitoring and managing credit risk, market risk, liquidity risk and operational risk. The Board of Directors sets the rules and guidelines regarding the Bank's risk policy and the obligations of risk management and credit control. The division reports regularly on the Bank's positions and exposure to risk to the Board of Directors, the CEO and to the ALCO committee.
- f. Compliance Officer
The Compliance unit ensures that the Bank adheres to its rules on securities trading and insider trading and operation comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and Terrorist Financing and other relevant legislation and regulations.
- g. Internal audit
Internal audit has the role to give objective opinion on the Bank's operations and advisory that aims to increase its value, and to strengthen risk management and internal control. The tasks of internal audit and main emphasis are to estimate whether processes and systems are in place, and whether they are relevant and efficient. Internal auditor is recruited by the board and is located accordingly in the hierarchy. It's operations cover all units of operations, including subsidiaries.

67. Hedging

A part of the Bank's portfolio consists of securities held as a hedge against derivatives positions of customers. The Bank hedges currency exposure between the Bank's loan portfolio and debts to the extent possible, but does not apply hedge accounting.

Notes - continued

68. Credit risk - overview

a. Definition

One of the Bank's primary sources of risk is counterparty credit risk. If one or more counterparties, typically borrowers, fail to meet their financial obligations towards the Bank, the Bank has to recognise losses due to these defaults.

b. Management

The risk management and credit control unit is responsible for managing and reporting on credit risk. The Bank uses a variety of tools and processes to manage credit risk, including collaterals, hedges and loan portfolio management.

c. Credit approval process

The originating department prepares a proposal for each loan or credit line which is presented to the credit committee for approval. The proposal consists of a basic description of the client, the purpose of the loan, a simple credit assessment and arguments for or against granting the loan. The committee decides whether there is need for further credit assessment and on what terms the loan may be granted.

A more thorough credit assessment may be conducted if considered appropriate and can include an assessment of a borrower's fundamental credit strength as well as the value of any collateral. To assess the borrower's capacity to meet his or her obligations the committee can request stress test analysis of the borrower's cash flow or call for third party assessments.

d. Collateral

Securing loans with collateral is a traditional method to reduce credit risk. The Bank uses different methods to reduce credit risk by obtaining collateral from customers where appropriate. Such collateral gives the Bank right to the collateralised assets for current and future obligations incurred by the customer.

The Bank places emphasis on ensuring that loans are secured with collateral that can be marked to market, and that asset coverage exceeds 100%. The Bank applies appropriate haircuts on all collateral in listed securities in order to ensure proper risk mitigation. For all collateral in listed securities, the Bank maintains the right to liquidate collateral in case its market value falls below a predefined limit.

To a very large extent the Bank's loan portfolio consists of senior loans, most of which are highly collateralised.

e. Credit rating, control and provisioning

The risk management and credit control unit is responsible for credit rating and reviewing the loan portfolio. In case of any significant delay of payments or defaults the unit carefully analyses the underlying assets and loan documents and organizes the process of collection.

The Bank monitors the value of collateral by listed securities on a real time basis, and takes prompt action when necessary.

Provisioning for loan impairments is estimated on the basis of models assessing a portfolio as a whole based on the seniority of the loans, the degree of collateralisation and the Bank's history of defaulted loans. Risk management and credit control suggest a provisioning percentage for the portfolio, based on the expected loss assessment. Risk management and credit control reassess impairments in the event of collateral decay, delayed payments or other early warning signs. Provisions require approval by the CEO and the credit committee.

f. Loan portfolio management

To ensure an effective diversification of the loan portfolio the board has set a limit framework defining maximum exposure as a ratio of the Bank's equity and/or the total size of the loan portfolio. These limits include limitation on joint exposure to associated clients, exposure to individual and associated industries, single regions and countries etc. It is the responsibility of risk management and credit control to monitor that these limits are not being violated and to report discrepancies to the credit committee.

g. Derivatives

The Bank offers derivative contracts in the form of swap contracts on listed, highly liquid securities. On the day when the contract is entered into, the Bank purchases the underlying security and hedges its exposure to price changes. Collateral is in the form of cash or listed, highly liquid securities. The Bank's risk management sets rules about the level of collateralisation and monitors the compliance to these rules. Contracts are closed if required levels of collateralisation are not met.

h. Securities used for hedging

The Bank hedges itself for market risk of derivative contracts by purchasing the underlying securities at the commencement of the contract. Since the contracts require delivery of the underlying securities to the customer on the settlement day, the credit risk towards the issuer is immaterial.

Notes - continued

69. 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:

	31.3.2013	31.12.2012
Cash and cash equivalents	15,110,927	20,289,559
Receivables from Central Bank of Iceland	0	3,287,741
Fixed income securities	5,296,570	5,221,038
Shares and other variable income securities	600,475	674,379
Securities used for hedging	3,504,297	3,399,265
Loans to customers	29,558,950	27,789,290
Derivatives	368,854	312,795
Other assets	1,394,210	646,485
	55,834,284	61,620,552
Loan commitments	3,460,918	3,319,497
Financial guarantee contracts	509,144	1,318,623
Total	59,804,346	66,258,671

70. 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
31.3.2013							
Cash and cash equivalents	15,110,927			15,110,927			15,110,927
Loans to customers	27,126,848	2,581,040	213,765	29,921,653	(117,755)	(244,947)	29,558,950
Other assets	1,397,644		29,578	1,427,223	(23,251)	(9,761)	1,394,210
Total	43,635,420	2,581,040	243,343	46,459,803	(141,007)	(254,709)	46,064,087
31.12.2012							
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	(668,337)	(162,213)	27,789,290
Other assets	647,134		29,578	676,713	(23,251)	(6,977)	646,485
Total	49,890,108	2,208,921	774,825	52,873,853	(691,588)	(169,190)	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

71. Breakdown of loans

a. By segments

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

	31.3.2013	%	31.12.2012	%
Services	10,685,421	36.1%	9,989,440	35.9%
Individuals	7,321,941	24.8%	6,587,114	23.7%
Holding companies	3,516,195	11.9%	3,908,775	14.1%
Retail	3,624,320	12.3%	3,545,082	12.8%
Real estate, construction and industry	2,232,160	7.6%	2,229,210	8.0%
Other	2,178,914	7.4%	1,529,669	5.5%
Total	29,558,950	100.0%	27,789,290	100.0%

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.

72. 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 65). According to the regulation a single exposure, net of collateralised assets, cannot exceed 25% of the capital base.

	31.3.2013		31.12.2012	
Large exposures net of collateralised assets	Number	Amount	Number	Amount
10-20% of capital base	7	3,860,149	6	2,805,348
20-25% of capital base	0	0	1	789,711
Exceeding 25% of capital base	0	0	0	0
Total	7	3,860,149	7	3,595,059

Notes - continued

73. Liquidity risk

a. Definition

Liquidity risk is the risk that the Bank will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. This risk mainly arises from mismatches in the timing of cash flows. The Bank has internal rules that require certain matching of the maturities of assets and liabilities. Furthermore, to ensure the sufficiency of funds, the Bank has lines of credit, overdraft facilities and highly liquid securities such as treasury bills and treasury bonds.

b. Management

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the ALCO committee. The Bank is subject to the Central Bank's of Iceland requirements about minimum coverage ratio between cash flows of assets and liabilities. The Bank was in compliance with external liquidity requirements throughout the period.

c. 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 4.2 billion at the reporting date and could be converted to cash within two days.

31.3.2013

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Cash and cash equivalents	15,110,927						15,110,927
Fixed income securities		1,441,592	772,942	1,444,577	1,637,459		5,296,570
Shares and other variable income securities						988,791	988,791
Securities used for hedging			121,502	457,582	2,925,214	3,350,536	6,854,833
Loans to customers	9,716,869	1,278,275	3,384,667	9,998,313	5,180,825		29,558,950
Other assets	239,508	883,013	109,553			162,136	1,394,210
Financial assets excluding derivatives	25,067,305	3,602,880	4,388,664	11,900,473	9,743,498	4,501,462	59,204,281
Derivatives	165,827	24,434	152,667	25,926			368,854
Total	25,233,132	3,627,314	4,541,331	11,926,398	9,743,498	4,501,462	59,573,135

Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Deposits	33,368,435	1,132,037	3,178,186	2,315,117	71,236		40,065,010
Borrowings	6,349,903	1,320,160	151,589				7,821,651
Short positions used for trading			96,239	216,701	1,350,491		1,663,430
Short positions used for hedging		105,865	376,930		1,068,916		1,551,711
Other liabilities	4,867,658	93,028	373,479	51,775			5,385,940
Financial liabilities excluding derivatives	44,585,995	2,651,090	4,176,423	2,583,593	2,490,643	0	56,487,743
Derivatives	182,766	3,017			2,190		187,973
Total	44,768,761	2,654,106	4,176,423	2,583,593	2,492,833	0	56,675,716

	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Financial assets	25,233,132	3,627,314	4,541,331	11,926,398	9,743,498	4,501,462	59,573,135
Financial liabilities	(44,768,761)	(2,654,106)	(4,176,423)	(2,583,593)	(2,492,833)		(56,675,716)
Loan commitments	(351,077)	(579,276)	(1,967,326)	(485,673)	(77,566)		(3,460,918)
Financial guarantee contracts	(19,207)	(84,429)	(292,174)	(110,762)	(2,572)		(509,144)
Net financial assets (liabilities)	(19,905,912)	309,503	(1,894,592)	8,746,370	7,170,526	4,501,462	(1,072,643)

Notes - continued

31.12.2012

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
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
Financial assets excluding derivatives	31,754,631	2,506,622	5,205,307	11,480,265	9,500,450	4,837,763	65,285,037
Derivatives	165,120	27,040		120,635			312,795
Total	31,919,751	2,533,662	5,205,307	11,600,901	9,500,450	4,837,763	65,597,833
Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
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
Financial liabilities excluding derivatives	45,890,303	4,836,527	6,198,886	4,766,371	1,419,503	11,784	63,123,374
Derivatives	213,717	7,801			0		221,518
Total	46,104,020	4,844,327	6,198,886	4,766,371	1,419,503	11,784	63,344,891
Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
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)
Net financial assets (liabilities)	(14,734,916)	(3,510,935)	(2,782,589)	5,776,030	8,041,253	4,825,978	(2,385,178)

Notes - continued

74. Currency risk

a. Definition

Currency risk arises when financial instruments are not denominated in the functional currency of the respective Bank entity and can affect both the Bank's income statement and statement of financial position. A part of the Bank's financial assets and liabilities is denominated in foreign currencies.

b. Management

Currency positions are monitored by risk management and reported to the ALCO committee. Any mismatch between assets and liabilities in each currency is monitored closely and managed within limits.

The Bank is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 31 March 2013 and 31 March 2012 the Bank's position in foreign currencies was within those limits.

c. Exchange rates

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

	31.3.2013	31.12.2012	Average 3m 2013	Average 3m 2012
EUR/ISK	159.4	169.8	168.2	163.1
LTL/ISK	46.2	49.2	47.9	48.1
NOK/ISK	21.4	23.0	22.6	21.5
USD/ISK	124.7	128.7	127.3	124.4
ISK trade index	206.2	219.4	216.0	211.2

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

31.3.2013

Financial assets

	EUR	LTL	NOK	USD	Other currencies	Total
Cash and cash equivalents	2,395,171	94,732	246,013	1,657,258	482,112	4,875,287
Fixed income securities		19,528	107,950			127,478
Shares and other variable income securities	829			85,634	43,161	129,624
Securities used for hedging	84,690			1,553		86,243
Loans to customers	972,496		30,024	323,346	21,426	1,347,293
Other assets		243,394		71,442		314,836
Financial assets excluding derivatives	3,453,187	357,654	383,987	2,139,234	546,699	6,880,760
Derivatives	42,469			6,880		49,350
Total	3,495,656	357,654	383,987	2,146,114	546,699	6,930,110

Financial liabilities

	EUR	LTL	NOK	USD	Other currencies	Total
Deposits	3,591,430		280,196	1,694,777	687,342	6,253,744
Short positions used for trading			63	261		324
Financial liabilities excluding derivatives	3,591,430	0	280,259	1,695,038	687,342	6,254,068
Derivatives					6,977	6,977
Total	3,591,430	0	280,259	1,695,038	694,319	6,261,045

Net currency position

	EUR	LTL	NOK	USD	Other currencies	Total
Financial assets	3,495,656	357,654	383,987	2,146,114	546,699	6,930,110
Financial liabilities	(3,591,430)		(280,259)	(1,695,038)	(694,319)	(6,261,045)
Net off-balance sheet position	(47,288)			(99,662)	(90,745)	(237,695)
Total	(143,061)	357,654	103,728	351,414	(238,365)	431,370

Notes - continued

31.12.2012

Financial assets	Other					Total
	EUR	LTL	NOK	USD	currencies	
Cash and cash equivalents	2,446,953	124,385	138,941	464,712	529,814	3,704,804
Fixed income securities		22,613	115,977			138,590
Shares and other variable income securities	840			88,141	42,765	131,745
Securities used for hedging	91,315		905	1,604		93,824
Loans to customers	1,044,610		60,172	288,119	22,773	1,415,673
Other assets		252,775		73,786		326,561
Financial assets excluding derivatives	3,583,718	399,774	315,995	916,361	595,351	5,811,198
Derivatives	43,038		1,199	7,320		51,557
Total	3,626,756	399,774	317,194	923,681	595,351	5,862,755

Financial liabilities	Other					Total
	EUR	LTL	NOK	USD	currencies	
Deposits	3,552,260		218,615	1,172,418	469,342	5,412,635
Short positions used for trading			61	246		307
Financial liabilities excluding derivatives	3,552,260	0	218,676	1,172,664	469,342	5,412,942
Derivatives	133,293				105,028	238,321
Total	3,685,553	0	218,676	1,172,664	574,371	5,651,263

Net currency position	Other					Total
	EUR	LTL	NOK	USD	currencies	
Financial assets	3,626,756	399,774	317,194	923,681	595,351	5,862,755
Financial liabilities	(3,685,553)		(218,676)	(1,172,664)	(574,371)	(5,651,263)
Net off-balance sheet position	(256,816)			(59,408)	(98,488)	(414,711)
Total	(315,613)	399,774	98,518	(308,391)	(77,507)	(203,219)

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	31.3.2013		31.12.2012	
	-10%	+10%	-10%	+10%
EUR	(14,306)	14,306	(31,561)	31,561
LTL	35,765	(35,765)	39,977	(39,977)
NOK	10,373	(10,373)	9,852	(9,852)
USD	35,141	(35,141)	(30,839)	30,839
Other currencies	(23,837)	23,837	(7,751)	7,751
Total	43,137	(43,137)	(20,322)	20,322

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

Notes - continued

75. Interest rate risk

a. Definition

The Bank's exposure to interest rate risk is twofold. On one hand, the Bank has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised in the income statement. On the other hand, the Bank has mismatch in assets and liabilities with fixed interest terms in the banking book. The banking book generally pertains to the Bank's loans and swap contracts for securities on the asset side and borrowings and deposits on the liability side. This mismatch does not create an immediate effect on the income statement but nevertheless affects the Bank's economic value.

Proprietary positions which are subject to interest rate risk fall under the scope of the Bank's market risk management.

b. Management

The Bank takes measures to minimise interest rate risk in the banking book by matching the interest rate profile and duration of assets with the Bank's liabilities. This is obtained in part by matching the currency and duration of the funding of the Bank with its assets, as well as using derivative and non-derivative financial instruments to manage effectively the risk of an adverse impact on the Bank's earnings.

c. Breakdown of financial assets and financial liabilities by currency and interest repricing time

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

31.3.2013

Financial assets

	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	41,985,711	933,862	21,391	30,025	169,513		43,140,502
1-2 years	146,269						146,269
2-3 years	3,034,412						3,034,412
3-4 years	77,329						77,329
Over 4 years	1,479,777						1,479,777
Total	46,723,498	933,862	21,391	30,025	169,513	0	47,878,289

Financial liabilities

	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	49,813,551	3,561,238	294,391	276,904	1,396,898	393,665	55,736,646
Total	49,813,551	3,561,238	294,391	276,904	1,396,898	393,665	55,736,646

Net imbalance

	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	(7,827,840)	(2,627,376)	(273,000)	(246,879)	(1,227,385)	(393,665)	(12,596,144)
1-2 years	146,269						146,269
2-3 years	3,034,412						3,034,412
3-4 years	77,329						77,329
Over 4 years	1,479,777						1,479,777
Total	(3,090,052)	(2,627,376)	(273,000)	(246,879)	(1,227,385)	(393,665)	(7,858,357)

Notes - continued

31.12.2012

Financial assets	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	51,271,685	1,619,966	22,760	63,565	664,871		53,642,846
1-2 years	3,170						3,170
2-3 years	2,890,227						2,890,227
3-4 years	219,435						219,435
Over 4 years	1,426,617						1,426,617
Total	55,811,134	1,619,966	22,760	63,565	664,871	0	58,182,295

Financial liabilities	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	52,317,820	3,652,047	233,899	216,992	1,162,765	333,109	57,916,632
Total	52,317,820	3,652,047	233,899	216,992	1,162,765	333,109	57,916,632

Net imbalance	ISK	EUR	DKK	NOK	USD	Other currencies	Total
0-1 year	(1,046,135)	(2,032,081)	(211,139)	(153,428)	(497,894)	(333,109)	(4,273,786)
1-2 years	3,170						3,170
2-3 years	2,890,227						2,890,227
3-4 years	219,435						219,435
Over 4 years	1,426,617						1,426,617
Total	3,493,314	(2,032,081)	(211,139)	(153,428)	(497,894)	(333,109)	265,663

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	31.3.2013		31.12.2012	
		Downward	Upward	Downward	Upward
ISK, indexed	50	84,565	(84,565)	86,850	(86,850)
ISK, non-indexed	100	36,639	(36,639)	40,610	(40,610)
Other currencies	20	126	(126)	224	(224)
Total		121,330	(121,330)	127,684	(127,684)

76. Exposure towards changes in the CPI

a. Definition

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

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

b. Management

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

c. Balance of CPI linked assets and liabilities

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

Net inflation exposure	31.3.2013	31.12.2012
Assets	8,975,421	10,063,006
Liabilities	(5,834,415)	(5,834,415)
Total	3,141,006	4,228,591

Notes - continued

77. Market risk

- a. Definition
Market risk constitutes risk due to changes in the market prices of financial instruments and comprises currency risk, interest rate risk and other price risk.
- b. Management
The Bank has a strict policy on controlling market risk and to keep the exposure within set limits. The risk management unit monitors market risk limits on a daily basis and reports regularly to the ALCO committee and to the CEO.
- c. Market price risk
Market price risk arises from changes in the market values of securities in the Bank's portfolio, the size of which varies greatly. The Bank invests primarily in securities listed on regulated markets, but has also invested in unlisted equities and bonds. The Bank's risk is the general risk involved in investing in securities. Efforts are made to reduce this risk through active risk management.
- d. Interest rate risk
The breakdown of interest rate risk associated with proprietary position is specified as follows:

31.3.2013

Financial assets	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	6,508,670	641,514	803,064	1,529,258	90,954	9,573,460	
Fixed income securities in foreign currencies	107,950					107,950	
Total	6,616,620	641,514	803,064	1,529,258	90,954	9,681,410	

Financial liabilities	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	4,498,325		216,701	366,006	913,371	5,994,403	
Fixed income securities in foreign currencies						0	
Total	4,498,325	0	216,701	366,006	913,371	5,994,403	

Net imbalance	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	2,010,345	641,514	586,363	1,163,252	(822,417)	3,579,057	
Fixed income securities in foreign currencies	107,950					107,950	
Total	2,118,295	641,514	586,363	1,163,252	(822,417)	3,687,006	

31.12.2012

Financial assets	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	1,408,856	538,709	948,718	1,710,844	470,184	5,077,311	
Fixed income securities in foreign currencies	115,977					115,977	
Total	1,524,833	538,709	948,718	1,710,844	470,184	5,193,288	

Financial liabilities	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	4,230,821	538,531	653,777	14,439	527,192	5,964,761	
Total	4,230,821	538,531	653,777	14,439	527,192	5,964,761	

Net imbalance	Less than				More than		Total
	1 year	1-3 years	3-5 years	5-7 years	7 years		
Fixed income securities in ISK	(2,821,965)	178	294,940	1,696,405	(57,008)	(887,450)	
Fixed income securities in foreign currencies	115,977					115,977	
Total	(2,705,988)	178	294,940	1,696,405	(57,008)	(771,473)	

78. Operational risk

- a. Definition
The risk involved in the Bank's operations is primarily linked to the risks inherent in each type of security in which the Bank invests, although there are several other factors which can also affect its operations and performance, such as incorrect analysis of investment options, employee negligence, violations of rules, problems with information systems and loss of key personnel. The Bank's reputation may be damaged, either for the above reasons or as a result of other factors which are difficult to control.
- b. Management
Operational risk can be reduced through staff training, process re-design and enhancement of the control environment. The risk management and credit control unit monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. The unit takes an active role in internal control and quality management.

Notes - continued

Financial assets and liabilities

79. Accounting classification of financial assets and liabilities

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

31.3.2013 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					15,110,927		15,110,927
Fixed income securities	3,252,790	195,079	1,848,702				5,296,570
Shares and other variable income securities	774,145	214,646					988,791
Securities used for hedging		6,854,833					6,854,833
Loans to customers					29,558,950		29,558,950
Derivatives	368,854						368,854
Other assets					1,394,210		1,394,210
Total	4,395,789	7,264,557	1,848,702	0	46,064,087	0	59,573,135

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						40,065,010	40,065,010
Borrowings						7,821,651	7,821,651
Short positions used for trading	1,663,430						1,663,430
Short positions used for hedging		1,551,711					1,551,711
Derivatives	187,973						187,973
Other liabilities						5,385,940	5,385,940
Total	1,851,403	1,551,711	0	0	0	53,272,602	56,675,716

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
Total	4,526,734	7,222,251	1,835,772	0	52,013,075	0	65,597,833

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
Total	6,183,364	2,024,604	0	0	0	55,136,923	63,344,891

80. Reclassification of assets previously designated as held to maturity

In 2012 the Bank sold certain securities that were classified as held-to-maturity as at 31 December 2011. Due to this tainting, the entire hold-to-maturity portfolio was subsequently reclassified as available for sale. Furthermore the Bank's use of the hold-to-maturity classification is restricted during the years 2012-2014.

Notes - continued

81. 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:

31.3.2013

Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities	3,252,790			3,252,790
Shares and other variable income securities	771,650	2,495		774,145
Derivatives		368,854		368,854
Designated at fair value				
Fixed income securities			195,079	195,079
Shares and other variable income securities			214,646	214,646
Securities used for hedging	6,854,833			6,854,833
Available for sale				
Fixed income securities	1,848,702			1,848,702
Total	12,727,974	371,349	409,724	13,509,048

Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions used for trading	1,663,423	7		1,663,430
Derivatives		187,973		187,973
Designated at fair value				
Short positions used for hedging	1,551,711			1,551,711
Total	3,215,135	187,980	0	3,403,114

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
Total	12,855,031	315,268	414,459	13,584,758

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
Total	7,986,443	221,525	0	8,207,968

82. 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:

31.3.2013

Financial assets	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents	15,110,927	15,110,927	0
Loans to customers	29,558,950	29,558,950	0
Other assets	1,394,210	1,394,210	0
Total	46,064,087	46,064,087	0

Financial liabilities	Carrying amount	Fair value	Unrealized gain
Deposits	40,065,010	40,065,010	0
Borrowings	7,821,651	7,821,651	0
Other liabilities	5,385,940	5,385,940	0
Total	53,272,602	53,272,602	0

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
Total	52,013,075	52,013,075	0

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
Total	55,136,923	55,136,923	0

Notes - continued

Segment information

83. Geographical information

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

Net operating income	3m 2013	3m 2012
Iceland	1,149,332	770,757
Lithuania	12,222	11,644
Other regions and eliminations	(56,210)	36,137
Total	1,105,344	818,538
Total assets	31.3.2013	31.12.2012
Iceland	64,563,421	70,971,872
Lithuania	382,557	400,051
Other regions and eliminations	(1,761,133)	(1,979,050)
Total	63,184,845	69,392,873

84. 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 segments results

	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
3m 2013						
Net interest income	2,458	239,146	209,979	20,990	0	472,573
Net fee and commission income	47,860	191,769	69,733	116,096	(5,822)	419,635
Net financial income	13	179,123	(8,457)	(27,496)	0	143,184
Share in profit of associates, net of income tax	0	0	0	51,898	(38,254)	13,643
Other operating income (expense)	0	431	0	55,879	0	56,309
Net operating income	50,331	610,468	271,255	217,367	(44,077)	1,105,344
Administrative expenses	(44,299)	(189,109)	(176,758)	(489,501)	5,822	(893,844)
Allocated cost	(20,135)	(129,178)	(110,274)	259,587	0	0
Impairment of loans and receivables	0	(1,773)	(9,979)	233,118	0	221,366
Profit before taxes	(14,103)	290,408	(25,755)	220,571	(38,254)	432,867
	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
Net operating income from external customers	47,873	794,954	29,373	277,221		1,149,421
Net operating income from internal customers	2,458	(184,486)	241,882	(59,855)	(44,077)	(44,077)
Net operating income	50,331	610,468	271,255	217,367	(44,077)	1,105,344

Notes - continued

Other information

85. 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 4.7 million and the agreements expire in 2015.

86. Pledged assets

The Bank has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland in the amount of ISK 3.0 billion as at 31 March 2013 (2012: 3.0 billion) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 4.9 billion as at 31 March 2013 (2012: 9.5 billion).

87. Related parties

a. Definition of related parties

The Bank has a related party relationship with its subsidiaries as disclosed in note 54, associates as disclosed in note 55, large shareholders, 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

31.3.2013	Receivables	Payables	Loans	Deposits
Board members and large shareholders	1,818	9,650	12,245	598,675
Management	1,602	0	39,139	43,231
Subsidiaries	29,452	24,959	905,464	47,927
Associates	757	138	121,075	23,948
Total	33,629	34,747	1,077,923	713,781

31.12.2012	Receivables	Payables	Loans	Deposits
Board members and large shareholders	16,818	9,650	47,529	393,706
Management	1,602	0	22,154	12,889
Subsidiaries	485,876	0	896,170	186,638
Associates	757	138	79,825	39,022
Total	505,053	9,788	1,045,677	632,256

d. Off-balance sheet obligations

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

e. Effects on income statement

3m 2013	Interest income	Interest expense	Impairment expense	Fees received	Fees paid
Board members and large shareholders	153	4,490	0	0	17,994
Management	779	324	0	115	0
Subsidiaries	19,268	359	0	2,829	0
Associates	2,401	180	0	199	1,070
Total	22,601	5,353	0	3,143	19,064

3m 2012	Interest income	Interest expense	Impairment expense	Fees received	Fees paid
Board members and large shareholders	249	479	0	2,662	12,930
Management	2	72	0	0	0
Subsidiaries	10,660	778	0	840	0
Associates	0	1,111	0	0	31,875
Total	10,911	2,439	0	3,502	44,805

Notes - continued

88. Remuneration policy

The Board of Directors has adopted a remuneration policy at the proposal of the Remuneration Committee. The policy was approved by the Bank's Annual General Meeting in April 2012.

The remuneration policy conforms to Article 57 of Act No. 161/2002 on Financial Undertakings, Act No. 2/1995 on Public Limited Companies and the Icelandic FSA's directive No. 700/2011 on Incentive Schemes. The policy covers three remuneration components, base pay, performance based incentive scheme and other benefits, including pension fund contributions. A more detailed description of the policy can be found on the Bank's website, www.mp.is.

89. Incentive scheme

The Board of Directors has approved a performance based incentive scheme at the proposal of the Remuneration Committee. The scheme forms a part of the remuneration policy adopted by the Bank.

a. Description

The incentive scheme conforms to the Icelandic FSA's directive No. 700/2011 on Incentive Schemes. Payments according to the scheme are based on key performance indicators (KPIs) that reflect the goals of the Bank, the division and the employee. The basis for performance based pay reflects sound risk management and does not induce excessive risk taking. Performance based pay to individual employees does not exceed 25% of their annual base salary, and payment of 40-60% of the performance based pay is deferred for three years. Performance based pay can be in the form of cash payments or share options. Share based payments are discussed in note 90.

90. Share-based payments

The remuneration policy approved by the Board of Directors of the Bank includes a share-based incentive scheme. At the Bank's Annual General Meeting in April 2012 the Board of Directors was authorized to increase the share capital of the Bank by up to ISK 275 million in stages to fulfill any obligations arising from the scheme.

a. Description

In 2012 the Bank established a share based incentive scheme that grants key personnel options to purchase shares in the Bank at a fixed price. The options are equity-settled, have a term of five years and will vest in three tranches with vesting dates 36, 48 and 60 months from the grant date. The grant is subject to the participant's continued employment by the company, and various other conditions satisfying the requirements of the Icelandic FSA. A more detailed description of the scheme can be found on the Bank's website, www.mp.is.

As at 31 March 2013, the Bank had enrolled 11 employees in the share-based incentive scheme, with a total number of options granted equalling 195 million shares in the bank. No options had vested as at 31 March 2013.

b. Grant date fair value

The grant date fair value of the options granted through the scheme was as follows:

	3m 2013	3m 2012
Grant date fair value (ISK per share)	0.01-0.13	-

The grant date fair value of the options is calculated using the Black-Scholes method for European style options pricing. The following inputs were used in the valuation of the options:

	3m 2013	3m 2012
Exercise price (ISK per share)	1.15	-
Risk free interest rate	6.0%-6.7%	-
Expected volatility	2.7%	-
Option life (years)	2-4	-

91. Supreme Court ruling no. 600/2011 on interest rate calculations on loans linked to foreign currencies

In February 2012 the Supreme Court of Iceland passed ruling no. 600/2011 in a case involving a dispute about interest rate calculations on a loan the court had previously ruled was currency indexed and as such in violation of Icelandic law. The ruling, and other rulings in comparable cases, will have no material effect on the financial statements of the Bank.