Condensed Consolidated Interim Financial Statements

Six months ended 30 June 2013

Íslandsbanki hf.
Kirkjusandur
155 Reykjavík
Reg. no. 491008-0160
Iceland

Contents

Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. for the period 1 January to 30 June 2013 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as “the Bank”.

Accounting convention

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2013 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Financial Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

Profit from the Bank's operations for the period 1 January to 30 June 2013 amounted to ISK 11,208 million, which corresponds to a 14.8% return on equity. Bank equity, according to the Consolidated Financial Position, amounted to ISK 155,537 million at 30 June 2013. The Bank's capital ratio, calculated according to the Act on Financial Undertakings, was 27.4% and the Tier 1 ratio was 24.0%. The Board of Directors refers to Note 59 for further understanding of the capital requirements of the Bank. The Bank's total assets amounted to ISK 822,929 million at the end of the period.

The Annual General Meeting for the operating year 2012 was held on 18 April 2013 where shareholders approved the Board's proposal to pay dividend to shareholders for the financial year 2012 of ISK 0,3 per share. The dividend was paid on 30 April 2013. The dividend payment amounts to ISK 3,000 million.

The Board of Directors draws special attention to the risks relating to the political and legal environment in Iceland where capital controls are still in place. The Bank has made appropriate provisions to reflect the risk associated with court rulings. The Board also notes that the Bank maintains a strong capital base and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 41 for the principal risks and uncertainties currently faced by the Bank.

To the best of our knowledge the Condensed Consolidated Interim Financial Statements provide a true and fair view of the Bank's operating profits and its financial position as at 30 June 2013.

The Board of Directors and the CEO of Íslandsbanki hf. hereby confirm the Bank's Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2013 by means of their signatures.

Reykjavík, 27 August 2013

Board of Directors:
Fridrik Sophusson, Chairman
John E. Mack, Vice-Chairman
Árni Tómasson
Daniel Levin
María E. Ingvadóttir
Marianne Økland
Neil Graeme Brown

Chief Executive Officer:
Birna Einarsdóttir

Review Report on Interim Financial Information

To the Board of Directors and Shareholders of Íslandsbanki hf.

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Íslandsbanki hf. (the “Bank”) as of 30 June 2013 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the six months then ended and a summary of significant accounting policies and other explanatory notes.

Management’s and the Board of Directors Responsibility for the Interim Financial Statements.

The Board of directors and management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the EU.

Auditor's Responsibility

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the Bank as at 30 June 2013, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the EU.

Kópavogur, 27 August 2013

Deloitte ehf.

Pálína Árnadóttir

State Authorized Public Accountant

Páll Grétar Steingrímsson

State Authorized Public Accountant

Condensed Consolidated Income Statement for the six months ended 30 June 2013

	Notes	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Interest income		12,542	15,411	28,115	31,471
Interest expense		(5,497)	(7,826)	(13,597)	(14,876)
Net interest income	11	7,045	7,585	14,518	16,595
Net valuation changes on loans and receivables	12	4,751	3,613	7,868	2,069
Provision for latent impairment	12,27	106	(149)	(18)	(270)
Net valuation changes		4,857	3,464	7,850	1,799
Net interest income after net valuation changes		11,902	11,049	22,368	18,394
Fee and commission income		4,066	3,561	7,921	6,869
Fee and commission expense		(1,396)	(1,237)	(2,799)	(2,443)
Net fee and commission income		2,670	2,324	5,122	4,426
Net financial income	13-14	669	191	1,550	1,105
Net foreign exchange (loss) gain	15	(152)	(452)	(1,715)	739
Other net operating income	16	716	294	1,128	589
Other net operating income		1,233	33	963	2,433
Total operating income		15,805	13,406	28,453	25,253
Administrative expenses	17-18	(6,244)	(6,595)	(12,547)	(13,024)
Contribution to the Depositors' and Investors' Guarantee Fund		(256)	(201)	(502)	(526)
Share of profit of associates net of tax		-	-	3	-
Profit before tax		9,305	6,610	15,407	11,703
Income tax	19	(2,347)	(1,546)	(3,795)	(2,998)
Profit for the period from continuing operations		6,958	5,064	11,612	8,705
(Loss) profit from discontinued operations, net of income tax		(335)	954	(404)	2,919
Profit for the period		6,623	6,018	11,208	11,624

* unaudited information

The notes on pages 9 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2013

	Notes	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Other comprehensive income					
Foreign currency translation differences for foreign operations		(25)	(8)	(169)	103
Other comprehensive income for the period		(25)	(8)	(169)	103
Total comprehensive income for the period		6,598	6,010	11,039	11,727
Attributable to:					
Equity holders of Íslandsbanki hf.		6,636	6,002	11,236	11,606
Non-controlling interests		(13)	16	(28)	18
Profit for the period		6,623	6,018	11,208	11,624
Basic earnings per share	20	0.66	0.60	1.12	1.16
Diluted earnings per share	20	0.66	0.60	1.12	1.16

* unaudited information

The notes on pages 9 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 June 2013

	Notes	30.6.2013	31.12.2012
Assets			
Cash and balances with Central Bank	7,21	98,042	85,500
Derivatives	7,22	229	127
Bonds and debt instruments	7	64,281	64,035
Shares and equity instruments	7	10,400	10,445
Loans to credit institutions	7,23-24	48,975	54,043
Loans to customers	7,25-26	538,565	557,857
Investments in associates	28	1,490	503
Property and equipment		9,153	5,579
Intangible assets		272	261
Deferred tax assets		1,139	864
Non-current assets and disposal groups held for sale	31	44,886	39,046
Other assets	32	5,497	5,115
Total Assets		822,929	823,375
Liabilities			
Derivative instruments and short positions	7,22	11,082	18,435
Deposits from Central Bank	7,33	9	54
Deposits from credit institutions	7,33	29,396	38,218
Deposits from customers	7,34-35	476,212	471,156
Debt issued and other borrowed funds	7,36	74,764	66,571
Subordinated loans	7	22,249	23,450
Current tax liabilities		5,269	2,052
Deferred tax liabilities		30	20
Non-current liabilities and disposal groups held for sale	31	8,913	6,805
Other liabilities	37	39,468	48,954
Total Liabilities		667,392	675,715
Equity			
Share capital	38	10,000	10,000
Share premium	38	55,000	55,000
Other reserves		2,665	2,834
Retained earnings		86,807	78,571
Total equity attributable to the equity holders of Íslandsbanki hf.		154,472	146,405
Non-controlling interests		1,065	1,255
Total Equity		155,537	147,660
Total Liabilities and Equity		822,929	823,375

The notes on pages 9 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June 2013

	Attributable to equity holders of Íslandsbanki hf.					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Equity at 1.1.2012	10,000	55,000	2,661	55,133	122,794	909	123,703
Translation differences for foreign operations			103		103		103
Net income recognised directly in equity	-	-	103	-	103	-	103
Profit for the period				11,606	11,606	18	11,624
Total comprehensive income for the period	-	-	103	11,606	11,709	18	11,727
Change in non-controlling interests					-	51	51
Equity at 30.6.2012	10,000	55,000	2,764	66,739	134,503	978	135,481
Equity at 1.1.2013	10,000	55,000	2,834	78,571	146,405	1,255	147,660
Translation differences for foreign operations			(169)		(169)		(169)
Net income recognised directly in equity	-	-	(169)		(169)	-	(169)
Profit for the period				11,236	11,236	(28)	11,208
Total comprehensive income for the period	-	-	(169)	11,236	11,067	(28)	11,039
Change in non-controlling interests					-	(162)	(162)
Dividends				(3,000)	(3,000)		(3,000)
Equity at 30.6.2013	10,000	55,000	2,665	86,807	154,472	1,065	155,537

The notes on pages 9 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2013

	Notes	2013 1.1-30.6	2012 1.1-30.6
Cash flows from operating activities:			
Profit for the period		11,208	11,624
Adjustments to reconcile profit for the period to cash flows by operating activities:			
Non-cash items included in profit for the period and other adjustments		(1,693)	4,556
Changes in operating assets and liabilities		(88)	(1,875)
Income tax paid		(992)	(4,063)
Net cash provided by operating activities		8,435	10,242
Net cash provided by (used in) investing activities		555	(671)
Net cash provided by financing activities		3,659	1,247
Changes in cash and cash equivalents		12,649	10,818
Effects of exchange rate changes on cash and cash equivalents		(77)	1
Cash and cash equivalents at the beginning of the period		112,810	78,571
Cash and cash equivalents at the end of the period		125,382	89,390
Reconciliation of cash and cash equivalents:			
Cash on hand	21	2,251	2,373
Cash balances with Central Bank and certificates of deposit	21	86,712	60,805
Bank accounts	23	36,419	26,212
Total cash and cash equivalents		125,382	89,390

Interest received from 1st of January to end of June 2013 amounted to ISK 23,142 million (2012: ISK 20,706 million) and interest paid in same period 2013 amounted to ISK 12,448 million (2012: ISK 15,025 million). Interest is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

The notes on pages 9 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements

Amounts are in ISK million

Notes to the Condensed Consolidated Financial Statements

Notes to the Condensed Consolidated Financial Statements

Accounting policies

General information

1. **The reporting entity**

Íslandsbanki hf. is a limited company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2013 comprise Íslandsbanki hf. (the parent) and its subsidiaries (together referred to as "the Bank").

The Condensed Consolidated Interim Financial Statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 27 August 2013.

2. **Basis of preparation**

2.1 *Statement of compliance*

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2013 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The Interim Financial Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Bank and the Risk Report for the year ended 31 December 2012, available at the Bank's website www.islandsbanki.is.

2.2 *Basis of measurement*

The Condensed Consolidated Interim Financial Statements have been prepared on an historical cost basis except for the following items in the statement of financial position: bonds and debt instrument which are measured at fair value, shares and equity instruments which are measured at fair value, derivative financial instruments which are measured at fair value and non-current assets and disposal groups classified as held for sale which are measured at the lower of cost and fair value less cost to sell.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Bank, rounded to the nearest million.

2.3 *Significant accounting judgements and estimates*

The preparation of the Condensed Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognised in the Condensed Consolidated Financial Statements. The accounting estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

2.4 *Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has adequate resources to continue its operations for the foreseeable future. Therefore, the financial statements are prepared on a going concern basis.

2.5 *Changes in presentation*

Comparable information in Note 11, Net interest income, Note 13, Net financial income, and Note 15, Net foreign exchange gain, has been changed due to change in methodology. Note 11 from ISK -278 million to ISK 633 million (Q2 2012: from ISK -224m to ISK 365m) for financial assets held for trading, Note 13 from ISK 484 million to ISK -287 million (Q2 2012: from ISK 260m to ISK -102m) for net gain (loss) on financial instruments held for trading and Note 15 from ISK 583 million to ISK 443 million (Q2 2012: from ISK 1,218m to ISK 991m) for financial assets held for trading.

2.5 Cont'd

Changes have been made in the presentation of market risk notes. These are explained further under Notes 55 and 56. Comparable information has been changed accordingly.

The Bank has changed its presentation in the Condensed Consolidated Income Statement where the Bank tax is not shown separately in the statement but has been added to administrative expenses. The comparable figures have been adjusted accordingly.

3 **Significant accounting policies**

The same accounting policies, presentation and methods of computation have been followed in these Condensed Consolidated Interim Financial Statements as were applied in the preparation of the Bank's Consolidated Financial Statements for the year ended 31 December 2012.

New or amended accounting standards or interpretations that entered into force for the Condensed Consolidated Interim Financial Statement are described below.

IFRS 13 Fair Value Measurement
The Bank has adopted IFRS 13 “Fair Value Measurement” which establishes a single source of guidance for fair value measurements under IFRS and introduces new and enhanced disclosure requirements. Disclosures of fair value measurement is provided in Note 8.

IFRS 7 Financial Instruments: Disclosures, Offsetting Financial Assets and Financial Liabilities
The Bank has adopted revision to IFRS 7 "Disclosures, Offsetting Financial Assets and Financial Liabilites“ requiring extended disclousers of new information in respect of an entity's use of enforcable netting arrangements. Disclosures of Offsetting are provided in Note 10.

Business segments

4. A business segment is a distinguishable component of the Bank that is engaged in providing products or services that are subject to risks and rewards that may be different from those of other business segments. Transactions between the business segments are on normal commercial terms and conditions. No single customer generates 10% or more of the combined revenue of the Bank.

The accounting policies for the reportable segments are in line with the Bank's accounting policies. The segment profit presented is the profit reported to the chief operating decision maker (CEO) and the Board of Directors for the purpose of resource allocation and assessment of segment performance.

The Bank is organised into six main business segments based on products and services:

a) Retail Banking operates 21 branches and asset-based financing under the brand name Ergo. The branches provide services to individuals and small and medium-sized enterprises. In addition, the Retail Banking division operates Kreditkort, which is a special credit card branch, call center and centralised cash center.

b) Corporate Banking provides lending and other credit services to medium and large corporates in Iceland. In addition, Corporate Banking's Corporate Solutions unit, manages and leads restructuring of the distressed large corporate portfolio.

c) Markets incorporates brokerage services in securities, foreign currencies and derivatives as well as providing money market lending and interbank services. The division further offers an extensive range of corporate finance services locally as well as to the international seafood sector.

d) Wealth Management offers a range of wealth and asset management products and services for individuals, corporations and institutional investors. The Wealth Management unit consists of VÍB which offers a broad range of asset management products and services and the fund management company Íslandssjódir. Net valuation changes in Wealth Management derive from a small loan book in a winding down process.

e) Treasury is responsible for the management of liquidity risk, foreign exchange risk and interest rate risk within regulatory requirements and internal limits established by the Board of Directors. Treasury is also responsible for funding the Bank´s operations and managing an internal pricing framework.

f) Subsidiaries and equity investments include equity investments in the banking book and subsidiaries, the most significant being:
• Midengi, an asset management company managing commercial real estate and businesses which the Bank has acquired through repossessions following loan defaults, debt restructuring and bankruptcies of its customers
• Borgun, a credit card settlement company
• HTO formerly Höfdatorg, a property investment company
• Allianz Ísland hf., an agent for the German insurance company Allianz and its holding company Hringur eignarhaldsfélag ehf.

g) Cost centres comprise Head Office, Human Resources, Risk Management and Credit Control, Legal, Finance, Operations & IT.

On the following page is an overview showing the Bank's performance with a breakdown by business segments.

4. Cont'd

1 January to 30 June 2013

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity nvestments	Cost Centres & Eliminations	Total
Net interest income	10,616	2,184	188	423	2,382	(294)	(981)	14,518
Net valuation changes	2,456	4,689	1	884	0	(52)	(128)	7,850
Net fee and commission income	1,769	64	890	887	(105)	1,502	115	5,122
Net other income (expenses)	16	(54)	245	46	(1,826)	2,093	443	963
Operating income	14,857	6,883	1,324	2,240	451	3,249	(551)	28,453
Administrative expenses	(3,636)	(316)	(508)	(444)	(260)	(1,583)	(5,800)	(12,547)
Insurance fund	(437)	(0)	(1)	(39)	(25)	-	-	(502)
Share of profit of associates net of tax	-	-	-	-	-	-	3	3
Profit (loss) before tax	10,784	6,567	815	1,757	166	1,666	(6,348)	15,407
Net segment revenue from external customers	16,033	10,948	1,299	804	(4,125)	3,787	(293)	28,453
Net segment revenue from other segments	(1,176)	(4,066)	25	1,437	4,576	(538)	(258)	0

At 30 June 2013	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity nvestments	Cost Centres & Eliminations	Total
Total segment assets	384,448	175,371	495	2,722	203,960	108,452	(52,519)	822,929
Total segment liabilities	378,763	4,736	634	52,070	208,098	58,622	(35,531)	667,392

1 January to 30 June 2012

Operations	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity nvestments	Cost Centres & Eliminations	Total
Net interest income	10,339	3,455	76	575	3,005	(115)	(740)	16,595
Net valuation changes	(371)	723	8	920	0	321	198	1,799
Net fee and commission income	1,561	35	847	725	(40)	1,274	24	4,426
Net other (expenses) income	(386)	185	373	62	(232)	1,975	456	2,433
Operating income	11,143	4,398	1,304	2,282	2,733	3,455	(62)	25,253
Administrative expenses	(3,420)	(270)	(524)	(455)	(551)	(1,365)	(6,439)	(13,024)
Insurance fund	(449)	(0)	(0)	(40)	(37)	-	-	(526)
Profit (loss) before tax	7,274	4,128	780	1,787	2,145	2,090	(6,501)	11,703
Net segment revenue from external customers	13,926	8,952	1,280	1,099	(3,802)	3,667	131	25,253
Net segment revenue from other segments	(2,784)	(4,554)	25	1,184	6,534	(212)	(193)	0

At 31 December 2012	Retail Banking	Corporate Banking	Markets	Wealth Manage-ment	Treasury	Subsidiaries & Equity nvestments	Cost Centres & Eliminations	Total
Total segment assets	379,450	199,948	954	5,808	195,005	101,945	(59,735)	823,375
Total segment liabilities	398,628	5,777	500	44,770	213,107	57,453	(44,520)	675,715

Amounts are in ISK million

Business combination

5. **Changes within the group**

5.1 **Aquisition of subsidiaries**

On 24 January 2013, the Bank acquired 100% shareholding in the real estate company EFF 1 ehf. and EFF 2 ehf.

5.2 **Aquisition of subsidiaries held exclusively with a view to disposal**

On 24 January 2013, the Bank acquired 100% shareholding in the real estate company EFF 4 ehf. The entity EFF 4 ehf. qualifies as being held for sale in accordance with IFRS 5 and has therefore been classified as disposal groups held for sale.

Quarterly statements

6. Operations by quarters:

	Q2* 2013	Q1* 2013	Q4* 2012	Q3* 2012	Q2* 2012
Net interest income	7,045	7,473	8,560	7,785	7,585
Net valuation changes	4,751	3,117	3,704	713	3,613
Provision for latent impairment	106	(124)	(197)	(309)	(149)
Net fee and commission income	2,670	2,452	2,755	2,278	2,324
Net financial income	669	881	199	213	191
Net foreign exchange (loss) gain	(152)	(1,563)	1,507	491	(452)
Other net operating income	716	412	181	226	294
Administrative expenses	(6,244)	(6,303)	(6,928)	(5,495)	(6,595)
Impairment of goodwill	-	-	(425)	-	-
Contribution to the Depositors' and Investors' Guarantee Fund	(256)	(246)	(257)	(272)	(201)
Share of profit of associates	-	3	-	-	-
Profit before tax	9,305	6,102	9,099	5,630	6,610
Income tax	(2,347)	(1,448)	(1,790)	(1,465)	(1,546)
Profit for the period from continuing operations	6,958	4,654	7,309	4,165	5,064
(Loss) profit for the period from discontinued operations	(335)	(69)	(112)	432	954
Profit for the period	6,623	4,585	7,197	4,597	6,018

*The half year results were reviewed by the Bank's auditors but the splits between quarters were not audited.

Amounts are in ISK million

Financial assets and liabilities

7. The following tables show the carrying value of financial assets and financial liabilities according to their IAS39 classification.

At 30 June 2013	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	98,042	-	98,042
Loans and receivables						
Loans to credit institutions	23-24	-	-	48,975	-	48,975
Loans to customers	25-26	-	-	538,565	-	538,565
Loans and receivables		-	-	685,582	-	685,582
Bonds and debt instruments						
Listed		30,336	31,611	-	-	61,947
Unlisted		-	2,334	-	-	2,334
Bonds and debt instruments		30,336	33,945	-	-	64,281
Shares and equity instruments						
Listed		4,238	3,107	-	-	7,345
Unlisted		-	3,055	-	-	3,055
Shares and equity instruments		4,238	6,162	-	-	10,400
Derivatives	22	229	-	-	-	229
Other financial assets		-	-	1,202	-	1,202
Total financial assets		34,803	40,107	686,784	-	761,694
Derivative instruments and short positions	22	11,082	-	-	-	11,082
Deposits from Central Bank	33	-	-	-	9	9
Deposits from credit institutions	33	-	-	-	29,396	29,396
Deposits from customers	34-35	-	-	-	476,212	476,212
Debt issued and other borrowed funds	36	-	-	-	74,764	74,764
Subordinated loans		-	-	-	22,249	22,249
Other financial liabilities		-	-	-	21,669	21,669
Total financial liabilities		11,082	-	-	624,299	635,381

For the six months ended 30 June 2013 15 Amounts are in ISK million

7. Cont'd

At 31 December 2012	Notes	Held for trading	Designated at fair value through P&L	Loans & receivables	Other amortised cost	Total carrying amount
Cash and balances with Central Bank	21	-	-	85,500	-	85,500
Loans and receivables						
Loans to credit institutions	23-24	-	-	54,043	-	54,043
Loans to customers	25-26	-	-	557,857	-	557,857
Loans and receivables		-	-	697,400	-	697,400
Bonds and debt instruments						
Listed		28,400	31,661	-	-	60,061
Unlisted		-	3,974	-	-	3,974
Bonds and debt instruments		28,400	35,635	-	-	64,035
Shares and equity instruments						
Listed		2,835	3,681	-	-	6,516
Unlisted		-	3,929	-	-	3,929
Shares and equity instruments		2,835	7,610	-	-	10,445
Derivatives	22	127	-	-	-	127
Other financial assets		-	-	1,259	-	1,259
Total financial assets		31,362	43,245	698,659	-	773,266
Derivative instruments and short positions	22	18,435	-	-	-	18,435
Deposits from Central Bank	33	-	-	-	54	54
Deposits from credit institutions	33	-	-	-	38,218	38,218
Deposits from customers	34-35	-	-	-	471,156	471,156
Debt issued and other borrowed funds	36	-	-	-	66,571	66,571
Subordinated loans		-	-	-	23,450	23,450
Other financial liabilities		-	-	-	23,494	23,494
Total financial liabilities		18,435	-	-	622,943	641,378

Amounts are in ISK million

Fair value information for financial instruments

8. Financial instruments at amortised cost

Loans on the Bank's balance sheet that are carried at amortised cost consist of two components:

1) Loans whose carrying amount is less than their claim value, due to either impairments or deep discount.
2) Loans whose carrying amount equals the claim value.

Loans in category 1) are valued specifically on a quarterly basis and therefore their fair value is fully represented by their carrying amount. The fair value of the loans in category 2) may differ from their carrying amount because the interest rate they carry may not reflect the interest rate that similar new loans would carry. This difference stems from two sources:
a) Credit migration: The debtors may not have the same credit-worthiness they had when the loans' interest rates were last reset.
b) Fixed rate loans: The interest rate level used as a base for pricing fixed rate loans may have shifted.

The Bank takes these effects into account for each loan by discounting the resulting interest rate difference from 30 June 2013 to that loan's next interest reset. At this time positive credit migrations balance out negative migrations. Furthermore, while nominal fixed rates have increased, a decrease in real rates counter-balances that effect. Thus the assessment is that the carrying amount of loans on the Bank's balance sheet fully represents their fair value.

On the liabilities side most deposits carry floating interest rates and their fair value equals their carrying amount. For longer term, fixed rate deposits, the Bank calculates the fair value with a duration approach, using the difference in each liability´s current rate from the estimated rate that a similar product would carry today. For "Debt issued and other borrowed funds" the Bank uses an observed market value where it is available while other debt is valued in the same manner as deposits.

For "Cash and balances with Central Bank" the carrying value is very well approximated by the carrying amount since they are very short term in nature. The liabilities in Subordinated loans carry floating interest rates and the Bank believes that in the current market environment it is very difficult to assess the funding rates of these instruments. There is no clear evidence that the funding premium has changed from the time of issuance of these loans. Therefore, their fair value equals their carrying amount.

The following table shows the fair value for the Bank's assets and liabilities recognised at amortised cost.

	Carrying amount 30.6.2013	Fair value 30.6.2013	Carrying amount 31.12.2012	Fair value 31.12.2012
Financial assets:				
Cash and balances with Central banks	98,042	98,042	85,500	85,500
Loans to credit institutions	48,975	48,975	54,043	54,043
Loans to customers	538,565	538,565	557,857	557,857
Total financial assets	685,582	685,582	697,400	697,400
Financial liabilities:				
Deposits from Central Bank	9	9	54	54
Deposits from credit institutions	29,396	29,396	38,218	38,218
Deposits from customers	476,212	476,534	471,156	471,402
Debt issued and other borrowed funds	74,764	75,340	66,571	67,100
Subordinated loans	22,249	22,249	23,450	23,450
Total financial liabilities	602,630	603,528	599,449	600,224

For the six months ended 30 June 2013 17 Amounts are in ISK million

9. Fair value hierarchy

The table below categorises financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly i.e. as prices or indirectly i.e. derived from prices

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs)

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities carried at fair value in the consolidated balance sheet are categorised as at 30 June 2013:

At 30 June 2013

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	61,947	1,093	1,241	64,281
Shares and equity instruments	7,345	-	3,055	10,400
Derivative instruments	229	-	-	229
Total financial assets	69,521	1,093	4,296	74,910

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	7,984	108	-	8,092
Derivative instruments	1,846	-	1,144	2,990
Total financial liabilities	9,830	108	1,144	11,082

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities carried at fair value in the consolidated balance sheet are categorised as at 31 December 2012:

At 31 December 2012

Financial assets:	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	59,542	795	3,698	64,035
Shares and equity instruments	6,516	-	3,929	10,445
Derivative instruments	107	-	20	127
Total financial assets	66,165	795	7,647	74,607

Financial liabilities:	Level 1	Level 2	Level 3	Total
Short positions	11,991	-	-	11,991
Derivative instruments	1,270	-	5,174	6,444
Total financial liabilities	13,261	-	5,174	18,435

For the six months ended 30 June 2013 18 Amounts are in ISK million

9. Cont'd

Reconciliation of financial instruments in level 3

January-June 2013	Bonds and debt instruments	Shares and equity instruments	Derivatives
Recorded value at 31 December 2012	3,698	3,929	(5,099)
Additions/purchases	-	1,232	-
Sales	-	(927)	-
Recategorised as subsidiary	-	(948)	-
Recategorised as affiliate	-	(11)	-
Settled	(759)	-	-
Net gains on financial instruments	(475)	(30)	4,030
Transfers from level 1 or 2	-	-	-
Transfers to level 1 or 2	(1,223)	-	(75)
Other *	-	(190)	-
Recorded value at 30 June 2013	1,241	3,055	(1,144)

* Other includes manual elimination

The responsibility for the valuation of the fair value of financial instruments lies within the relevant busines units. Risk Management is then responsible for categorising the valuation methods and assessing the extent of market data used. Level 3 contains primarily unlisted and illiquid equities and bonds. ISK 75 million of derivatives were transferred from level 3 to level 2 in 2013. ISK 1,223 million of bonds were transferred from level 3 to level 1 because the underlying bonds, previously unlisted, were listed on the domestic market in Q1 2013.

For the six months ended 30 June 2013 19 Amounts are in ISK million

Offsetting financial assets and financial liabilities

10. Offsetting financial assets and financial liabilities

The table below provides a summary of the financial assets which are subject to enforcable master netting agreements of similar arrangements, even if they have not been offset in the balance sheet.

a) Financial assets subject to offsetting, enforceable netting arrangements and similar agreements

	Financial assets subject to netting arrangements			Amounts not set of but subject to master netting arrangements and similar agreements					
At 30 June 2013	Gross recognised financial assets before balance sheet netting	Balance sheet netting with gross recog-nised financial liabilities	Financial assets recognis-ed on the balance sheet, net	Recognised financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total assets recognised on the balance sheet
Cash & balances with CB [1]	75,103	-	75,103	-	-	(75,103)	-	22,939	98,042
Derivative instruments	1,447	(1,218)	229	(90)	(47)	(18)	74	-	229
Loans to credit institutions [2]	89	-	89	-	-	(89)	-	48,886	48,975
Total assets	76,639	(1,218)	75,421	(90)	(47)	(75,210)	74	71,825	147,246
At 31 December 2012									
Cash & balances with CB [1]	58,120	-	58,120	-	-	(58,120)	-	27,380	85,500
Derivative instruments	127	-	127	(97)	(30)	-	-	-	127
Loans to credit institut. [2]	-	-	-	-	-	-	-	54,043	54,043
Total assets	58,247	-	58,247	(97)	(30)	(58,120)	-	81,423	139,670

[1] Reverse repurchase agreements. [2] Cash collateral on securities borrowed to credit institutions.

b) Financial liabilities subject to offsetting, enforceable netting arrangements and similar agreements

	Financial assets subject to netting arrangements			Amounts not set of but subject to master netting arrangements and similar agreements					
At 30 June 2013	Gross recognised financial assets before balance sheet netting	Balance sheet netting with gross recog-nised financial liabilities	Financial assets recognis-ed on the balance sheet, net	Recognised financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total assets recognised on the balance sheet
Derivative instruments and short position [1]	4,208	(1,218)	2,990	(90)	(1)	(1,012)	1,887	8,092	11,082
Total liabilities	4,208	(1,218)	2,990	(90)	(1)	(1,012)	1,887	8,092	11,082
At 31 December 2012									
Derivative instruments and short position [1]	6,444	-	6,444	(97)	(33)	5,044	1,270	11,991	18,435
Total liabilities	6,444	-	6,444	(97)	(33)	5,044	1,270	11,991	18,435

[1] Derivative instruments

For the six months ended 30 June 2013 20 Amounts are in ISK million

Net interest income

11. Net interest income is specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Interest income:				
Cash and balances with Central Bank	1,083	846	2,037	1,406
Loans and receivables	10,627	13,736	24,694	28,567
Financial assets held for trading	361	365	401	633
Financial assets designated at fair value through profit or loss	443	445	954	813
Other assets	28	19	29	52
Total interest income	12,542	15,411	28,115	31,471
Interest expense:				
Deposits from credit institutions and Central Bank	(134)	(487)	(288)	(812)
Deposits from customers	(3,953)	(4,951)	(9,541)	(9,495)
Borrowings	(1,061)	(1,845)	(3,039)	(3,536)
Subordinated loans	(244)	(264)	(467)	(579)
Other financial liabilities	(67)	(159)	(179)	(272)
Other interest expense	(38)	(120)	(83)	(182)
Total interest expense	(5,497)	(7,826)	(13,597)	(14,876)
Net interest income	7,045	7,585	14,518	16,595

Net valuation changes on loans and receivables

12. Net valuation changes on loans and receivables:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Impairment charged to the comprehensive income:				
Specific impairment losses on financial assets	(6,558)	(9,416)	(7,437)	(10,941)
Impairment of foreign exchange loss (gain)	99	1,062	484	(483)
Net specific impairment losses on financial assets	(6,459)	(8,354)	(6,953)	(11,424)
Provision for latent impairment losses	106	(149)	(18)	(270)
Total impairment charged to the income statement (see note 27)	(6,353)	(8,503)	(6,971)	(11,694)
Net valuation changes:				
Income due to revised estimated future cash flow from loans	11,309	13,029	15,305	13,010
Net specific impairment losses on financial assets	(6,459)	(8,354)	(6,953)	(11,424)
Foreign exchange (loss) gain (see note 15)	(99)	(1,062)	(484)	483
Net valuation changes on loans and receivables	4,751	3,613	7,868	2,069

Foreign exchange gain from customers with foreign exchange loans and cash flows in ISK is impaired and offset against total foreign exchange gain as per Note 15. Foreign exchange loss is recognised after previously impaired gain has been reversed.

The impairment which is offset against total foreign exchange gain is mainly to account for currency changes in loans that are on the verge of being converted to ISK.

* unaudited information

For the six months ended 30 June 2013 21 Amounts are in ISK million

Net financial income

13. Net financial income is specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Net gain (loss) on financial instruments held for trading	173	(102)	399	(287)
Net gain on financial instruments designated at fair value through P&L	496	293	1,151	1,392
Net financial income	669	191	1,550	1,105

14. Net gain on financial instruments designated at fair value through profit or loss is specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Shares	486	137	1,292	1,275
Bonds	10	156	(141)	117
Net gain on financial instruments designated at fair value through P&L	496	293	1,151	1,392

Net foreign exchange (loss) gain

15. Net foreign exchange (loss) gain is specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Assets:				
Cash and balances with Central Bank	(11)	(55)	(77)	1
Financial assets held for trading	500	991	2,745	443
Loans to credit institutions	(719)	(1,144)	(4,120)	1,152
Loans to customers	(210)	(5,133)	(6,945)	1,187
Other assets	88	(10)	14	85
Total	(352)	(5,351)	(8,383)	2,868
Liabilities:				
Deposits from credit institutions	24	167	134	(153)
Deposits from customers	330	2,181	4,766	(1,544)
Subordinated loan	(219)	1,450	1,217	84
Other liabilities	(34)	39	67	(33)
Total	101	3,837	6,184	(1,646)
Unadjusted net foreign exchange (loss) gain	(251)	(1,514)	(2,199)	1,222
Foreign exchange reversal on loans to customers with ISK cash flow	99	1,062	484	(483)
Net foreign exchange (loss) gain	(152)	(452)	(1,715)	739

Other net operating income

16. Other net operating income is specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Agency fees and service level agreement fees	89	78	168	164
Legal cost and fees	67	22	91	42
Rental income	27	30	85	52
Gain from sale of buildings	549	-	549	-
Rental income on foreclosed mortgages	65	100	128	214
Other net operating income	(81)	64	107	117
Other net operating income	716	294	1,128	589

* unaudited information

For the six months ended 30 June 2013 22 Amounts are in ISK million

Administrative expenses

17. Administrative expenses are specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Salaries and related expenses	3,552	3,335	7,020	6,620
Other administrative expenses	2,397	2,840	4,920	5,557
Depreciation and amortisation	230	220	475	440
Bank tax	65	200	132	407
Administrative expenses	6,244	6,595	12,547	13,024

Salaries and related expenses

18. Salaries and related expenses are specified as follows:

	2013* 1.4-30.6	2012* 1.4-30.6	2013 1.1-30.6	2012 1.1-30.6
Salaries	2,708	2,573	5,353	5,115
Pension and similar expenses	369	345	730	692
Social security charges and financial activities tax	427	359	818	705
Other	48	58	119	108
Salaries and related expenses	3,552	3,335	7,020	6,620

Effective income tax rate

19. Income tax for the six month period to 30 June 2013 is calculated at 20%. New tax, special financial activities tax (FAT) is calculated as 6% of taxable profits above ISK 1 billion. The effective income tax rate in the Bank's income statement is 24.6% for the six months ended 30 June 2013. The difference is specified as follows:

	2013 1.1-30.6		2012 1.1-30.6	
Profit before tax	15,407		11,703	
Income tax calculated on the profit for the period	3,081	20.0%	2,341	20.0%
Special financial activities tax	851	5.5%	425	3.6%
Effect of different tax rate in other countries	-	0.0%	(7)	(0.1%)
Non-deductable expenses	30	0.2%	123	1.1%
Income not subject to tax	(289)	(1.9%)	(316)	(2.7%)
Correction in accordance with ruling on prior years' taxable income	27	0.2%	19	0.2%
Other differences	95	0.6%	413	3.5%
Effective income tax	3,795	24.6%	2,998	25.6%

Earnings per share

20. Earnings per share are specified as follows:

	2013 1.1-30.6	2012 1.1-30.6
Net profit of the equity holders of the parent, according to the statement of comprehensive income	11,236	11,606
Average outstanding shares:		
Weighted average number of outstanding shares for the period, million	10,000	10,000
Average outstanding shares, million	10,000	10,000
Basic earnings per share	1.12	1.16
Diluted earnings per share	1.12	1.16

* unaudited information

Amounts are in ISK million

Cash and balances with Central Bank

21. Specification of cash and balances with Central Bank:

	30.6.2013	31.12.2012
Cash on hand	2,251	2,008
Balances with Central Bank other than mandatory reserve deposits	11,609	16,221
Certificates of deposit	75,103	58,119
Included in cash and cash equivalents	88,963	76,348
Mandatory reserve deposits with Central Bank	9,079	9,152
Cash and balances with Central Bank	98,042	85,500

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations.

Certificates of deposit (CDs) are a 28-day promissory notes issued by the Central Bank at fixed rates. The CD auction process is only for financial institutions with accounts at the Central Bank. The CDs may be used as collateral in collateralised lending transactions with the Central Bank.

Derivative instruments and short positions

22. Derivative instruments and short positions:

At 30 June 2013	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1	1,000	1,717	20,400
Cross currency interest rate swaps	75	6,726	1,059	50,941
Equity forwards	99	98	76	29
Foreign exchange forwards	10	1,038	44	2,698
Foreign exchange swaps	14	348	0	115
Bond forwards	30	2,220	9	760
Bond options	-	-	85	25,000
Derivatives held for trading	229	11,430	2,990	99,943
Short positions in listed bonds	-	-	8,092	-
Total	229	11,430	11,082	99,943

At 31 December 2012	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	5	500	1,142	19,900
Cross currency interest rate swaps	20	7,199	5,094	55,351
Equity forwards	-	-	89	95
Foreign exchange forwards	8	1,503	8	219
Foreign exchange swaps	33	1,154	9	2,492
Bond forwards	61	2,250	22	1,325
Bond options	-	-	80	25,000
Derivatives held for trading	127	12,606	6,444	104,382
Short positions in listed bonds	-	-	11,991	-
Total	127	12,606	18,435	104,382

Amounts are in ISK million

Loans

23. Loans to credit institutions:

	30.6.2013	31.12.2012
Money market loans	12,556	17,581
Bank accounts	36,419	36,462
Loans to credit institutions	48,975	54,043

24. Loans to credit institutions at amortised cost:

	30.6.2013	31.12.2012
Loans	48,975	54,043
Loans to credit institutions	48,975	54,043

25. Loans to customers:

	30.6.2013	31.12.2012
Loans to customers at amortised cost	538,565	557,857
Loans to customers	538,565	557,857

26. Loans to customers at amortised cost:

At 30 June 2013

	Gross amount	Individually assessed impairment allowance	Collectively assessed impairment allowance	Loans less impairment allowance
Loans to customers:				
Individuals	258,995	(9,610)	(1,601)	247,784
Commerce and services	79,298	(6,049)	(505)	72,744
Construction	18,927	(1,450)	(893)	16,584
Energy	4,366	-	(4)	4,362
Financial services	239	(35)	-	204
Industrial and transportation	47,348	(2,227)	(686)	44,435
Investment companies	15,310	(4,441)	(4)	10,865
Public sector and non-profit organisations	9,490	(319)	(52)	9,119
Real estate	70,882	(6,523)	(1,182)	63,177
Seafood	73,629	(2,582)	-	71,047
Loans to customers before latent impairment allowance				540,321
Latent impairment allowance				(1,756)
Loans to customers	578,484	(33,236)	(4,927)	538,565

Amounts are in ISK million

26. Cont'd

At 31 December 2012

	Gross amount	Individually assessed impairment allowance	Collectively assessed impairment allowance	Loans less impairment allowance
Loans to customers:				
Individuals	254,461	(7,896)	(2,139)	244,426
Commerce and services	75,130	(5,761)	(564)	68,805
Construction	18,954	(1,576)	(913)	16,465
Energy	4,945	-	(3)	4,942
Financial services	282	(27)	(1)	254
Industrial and transportation	46,773	(2,406)	(707)	43,660
Investment companies	21,943	(5,920)	-	16,023
Public sector and non-profit organisations	11,307	(329)	(44)	10,934
Real estate	86,849	(12,686)	(1,222)	72,941
Seafood	84,142	(2,959)	(38)	81,145
Loans to customers before latent impairment allowance				559,595
Latent impairment allowance				(1,738)
Loans to customers	604,786	(39,560)	(5,631)	557,857

27. Financial assets - impairments

The following table shows the movement in the provision for impairment losses for loans and receivables.

	Individually assessed	Collectively assessed	Latent	Total
At 1 January 2013	39,560	5,631	1,738	46,929
Amounts written-off	(11,339)	(1)	-	(11,340)
Recoveries of amounts previously written-off	449	-	-	449
Principal credit adjustment	(3,054)	(36)	-	(3,090)
Charged to the income statement	7,620	(667)	18	6,971
At 30 June 2013	33,236	4,927	1,756	39,919

	Individually assessed	Collectively assessed	Latent	Total
At 1 January 2012	32,735	8,508	915	42,158
Merger with Kreditkort,	205	(252)	47	-
Amounts written-off	(12,643)	(46)	-	(12,689)
Recoveries of amounts previously written-off	2,136	-	-	2,136
Principal credit adjustment	(3,998)	(751)	-	(4,749)
Charged to the income statement	21,125	(1,828)	776	20,073
At 31 December 2012	39,560	5,631	1,738	46,929

	2013	2012
	1.1-30.6	1.1-30.6
Impairment losses charged to the income statement:		
Loans to customers	6,971	11,694
Impairment losses charged to the income statement	6,971	11,694

Amounts are in ISK million

Investment in associates

28. Changes in investments in associates:

	30.6.2013	31.12.2012
Investment in associates at the beginning of the period	503	1,070
Additions during the period	25	-
Sales of shares in associates	-	(567)
Transfers	960	-
Share of results	2	-
Investments in associates at the end of the period	1,490	503

Investment in subsidiaries

29. Significant subsidiaries:

	Location	Ownership
Borgun hf., Ármúla 30, 108 Reykjavík	Iceland	62.2%
Íslandssjódir hf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Midengi ehf., Lækjargötu 12, 155 Reykjavík	Iceland	100%
HTO ehf. formerly Höfdatorg ehf., Skúlagötu 63, 105 Reykjavík	Iceland	72.5%
Hringur eignarhaldsfélag ehf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
Allianz Ísland hf., Digranesvegi 1, 200 Kópavogur	Iceland	100%
D-1 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
EFF 2 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
EFF 4 ehf., Kirkjusandi 2, 105 Reykjavík	Iceland	100%
Geysir Green Investment Fund slhf., Hafnargötu 90, Reykjanesbæ	Iceland	100%
Island Fund S.A., 5 Allée Scheffer L-2520 Luxembourg	Luxembourg	100%
Glacier Geothermal and Seafood Corporation, 7 Times Square, Suite 1605 New York	USA	100%
28 other subsidiaries (SME)		

Related party disclosures

30. Ultimate controlling party

The Bank has determined that ISB Holding is the ultimate controlling party of the Bank with GLB Holding having significant influence. This is reflected in the related party transactions.

Entities which are controlled, jointly controlled or significantly influenced by the government (state-controlled entities) are not considered as being a related party if neither entity actually influenced the other and if the state did not actually influence either entity with regards to transactions between them. The Bank's transactions with state-controlled entities during the period were based on general business terms of the Bank.

Related party transactions

The Bank has a related party relationship with its associates, the Board of Directors of the parent company and the ulitmate controlling party, the executive vice presidents of the Bank, close family members of individuals referred to herein and entities with significant influence as the largest shareholders of the Bank.

All loans to employees are provided on general business terms of the Bank. Included in assets are loans to key management. The amounts are negative where deposits exceed loans to the related party.

Related parties have transacted with the Bank during the period as follows:

	30.6.2013	31.12.2012
CEO and Managing Directors (including companies owned by them)	(30)	(82)
Members of the Board (including companies owned by them)	(2,693)	141
Associated companies and other related parties	(1,752)	2,813
Total	(4,475)	2,872
Guarantees	343	363
Loan commitments, overdraft and credit card commitments	3,109	3,195

Impairment allowances of ISK 19 million were recognised in the period against balances outstanding with associated companies (same period 2012: ISK 73 million).

No share option programmes were operated during the reporting period 1 January - 30 June 2013.

For the six months ended 30 June 2013 27 Amounts are in ISK million

Non-current assets and disposal groups held for sale

31. Specification of non-current assets and disposal groups held for sale:

	30.6.2013	31.12.2012
Repossessed collateral	11,422	10,161
Assets of disposal groups classified as held for sale	33,464	28,885
Total	44,886	39,046

Repossessed collateral:

Land and property	9,559	8,225
Industrial equipment and vehicles	70	94
Shares and equity instruments	1,702	1,702
Vehicles	91	140
Total	11,422	10,161

Assets of disposal groups classified as held for sale:	30.6.2013	31.12.2012
Cash	319	1,069
Equity instruments	901	1,037
Receivables	955	1,513
Tax assets	281	231
Properties	14,102	16,081
Assets classified as held for sale	13,035	4,937
Other assets	3,871	4,017
Total	33,464	28,885

Liabilities associated with assets classified as held for sale:	30.6.2013	31.12.2012
Payables	731	634
Deferred tax liabilities	613	676
Income Tax payable	48	-
Borrowings	6,843	3,588
Other liabilities	678	1,907
Total	8,913	6,805

Other assets

32. Other assets are specified as follows:

	30.6.2013	31.12.2012
Receivables	3,009	2,740
Unsettled securities transactions	1,202	1,259
Accruals	572	562
Prepaid expenses	426	271
Other assets	288	283
Other assets	5,497	5,115

For the six months ended 30 June 2013 28 Amounts are in ISK million

Deposits from Central Bank and credit institutions

33. Deposits from Central Bank and credit institutions are specified as follows:

	30.6.2013	31.12.2012
Repurchase agreements with Central Bank	9	54
Deposits from credit institutions	29,396	38,218
Deposits from Central Bank and credit institutions	29,405	38,272

Deposits from customers

34. Deposits from customers are specified by type as follows:

	30.6.2013	31.12.2012
Demand deposits	378,382	379,257
Time deposits	97,830	91,899
Deposits from customers	476,212	471,156

35. Deposits from customers are specified by owners as follows:

	30.6.2013		31.12.2012	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	5,428	1%	4,963	1%
Municipalities	6,692	1%	5,671	1%
Companies	278,695	59%	276,168	59%
Individuals	185,397	39%	184,354	39%
Deposits from customers	476,212	100%	471,156	100%

Debt issued and other borrowed funds

36. Specification of debt issued and other borrowed funds:

	30.6.2013	31.12.2012
Non-listed issued bonds	48,982	51,335
Listed issued bonds	24,199	13,713
Loans from credit institutions	4	8
Other debt securities	1,579	1,515
Debt issued and other borrowed funds	74,764	66,571

Amounts are in ISK million

Other liabilities

37. Specification of other liabilities:

	30.6.2013	31.12.2012
Accruals	3,392	3,117
Liabilities to retailers for credit card provision	18,866	17,404
Provision for effects of court rulings*	10,423	14,736
Provision for estimated losses from guarantees**	536	868
Provision for reimbursement of interest***	-	2,493
Chargeable gain tax	730	1,896
Unsettled securities transactions	2,267	5,222
Deferred income	198	197
Sundry liabilities	3,056	3,021
Other liabilities	39,468	48,954

	Provision for effects of court rulings*	Provision for estimated losses from guarantees**	Provision for reimbursem. of interest***	Total
At 1 January 2013	14,736	868	2,493	18,097
Provisions made during the period	-	-	-	-
Provision used during the period	(2,294)	-	(2,493)	(4,787)
Provisions reversed during the period	(2,019)	(332)	-	(2,351)
At 30 June 2013	10,423	536	-	10,959

Equity

38. Authorised share capital of the Bank is 10,000m ordinary shares of ISK 1 each. At 30.6.2013 paid up share capital totalled ISK 65,000m which is the total stated share capital of the Bank.

Total share capital:

	30.6.2013	31.12.2012
Ordinary share capital	10,000	10,000
Share premium account	55,000	55,000
Total share capital	65,000	65,000

Off balance sheet items

Obligations

39. The Bank has granted its customers guarantees, overdraft facilities and loan commitments. These items are specified as follows:

	30.6.2013	31.12.2012
Financial guarantees	9,090	8,371
Undrawn loan commitments	15,966	12,798
Undrawn overdrafts	20,604	22,412
Credit card commitments	27,914	27,710

The Depositors' and Investors' Guarantee Fund

Under the previous legislation, the Bank was required to grant the fund a declaration of guarantee in case the fund's assets did not meet the required minimum amount. Accordingly, in 2010, the Bank issued a declaration of guarantee for future obligations amounting to ISK 3,724 million. The Bank did not recognise a liability in its statement of financial position in respect of this declaration which is now considered void. The amended legislation does not stipulate a requirement for such declaration of guarantee. However, there remains some uncertainty as to its validity in relation to losses originated in the period from October 2008 to June 2012.

Amounts are in ISK million

Balance of custody assets

40. Balance of custody assets:

	30.6.2013	31.12.2012
Custody assets	735,644	762,568

Contingencies

41. **Litigation threats**

Several former customers of Glitnir private banking services have threatened litigation against the Bank in order to claim compensation for alleged mistakes made by former employees of Glitnir. A few of those customers have already filed lawsuits against the Bank with the Reykjavík District Court. The Bank has not accepted liability and will challenge these lawsuits on the grounds that these claims relate to events that happened prior to the incorporation of the Bank and the assignment of related liabilities and assets and are therefore not the responsibility of the Bank. The District Court has now ruled in favour of the Bank in one of these cases stating that the Bank cannot be held responsible for a mistake made by a former employee of Glitnir. This ruling was not appealed. The Bank estimates the total amount of compensation liabilities currently claimed by customers of Glitnir to be ISK 5.5 billion.

Netting agreement

When certain assets and obligations were transferred from Glitnir to the Bank, the FME (Financial Supervisory Authority) ruled that customers would, upon liquidation of Glitnir, maintain their right to claim netting of assets and liabilities held by Glitnir prior to the Bank's acquisition.

The Bank made an agreement with Glitnir that the latter will compensate the Bank for any losses incurred as a result of netting of assets and liabilities. The claims in question are priority claims on the liquidated assets of Glitnir and the netting exercise is therefore unlikely to affect either the net asset value or the earnings of the Bank.

Following the Bank's acquisition of Byr hf. the Bank may also be in the position of having to honour a clients' right to claim netting of assets and liabilities held by Byr sparisjóður, prior to the founding of Byr hf., as later acquired by the Bank. Arrangements, comparable to the agreement between the Bank and Glitnir, have been made between Byr sparisjóður and the Bank.

Allocation of liens, guarantees and comparable rights

When certain assets and obligations were transferred from Glitnir to the Bank, the FME ruled that the Bank would take over all rights used to secure the performance of obligations of the debtors of Glitnir, including all liens, guarantees and other comparable rights connected to the claims of the Bank.

The Bank should, however, be accountable to Glitnir for specific collateral of its customers, as applicable, due to claims and derivatives which were not transferred to the Bank. The Bank has, in accordance with this decision, transferred to Glitnir certain collateralised obligations of customers. One customer filed a lawsuit against the Bank with the Reykjavík District Court challenging the Bank's decision to transfer the customer's money market deposit to Glitnir which the Bank, in good faith, identified as collateral for a foreign exchange future contract. The claim was for approximately ISK 450 million. The District Court ruled in favour of the Bank and the ruling was confirmed by the Iceland Supreme Court after appeal. Any future allocation of collaterals will be made under an agreement with Glitnir, whereby Glitnir indemnifies the Bank against any future claims arising from the transfer of such rights.

Indexed loans

Two court cases have been filed, one against the Housing Financing Fund (HFF) and the other against Landsbankinn, challenging the legality of fixing the principal of a mortgage to the consumer price index (CPI). Such indexation has been the industry standard for at least 30 years. However, the method of calculating the index has changed over the years, with the most recent change introduced in 1995.

The HFF case was based on the fund being noncompliant with the law on consumer loans. Thus the case did not address the legality of CPI indexation as such. The HFF case was dismissed by the District Court of Reykjavík in April 2013. The Landsbanki case is based on the argument that CPI indexation places a mortgage in line with a complex financial instrument as defined in the Act on Securities Transactions no. 108/2007 (MiFID Directive) and therefore unsuitable for retail/non-institutional investors. The case will probably be heard by the District Court this summer.

In addition, one customer challenged an auction procedure instigated by Islandsbanki on the grounds that indexation was unfair and in violation of the Icelandic Contract Law as amended by the EU Directive 93/13/EBE on Unfair Terms in Consumer Contracts. The judicial procedure involving such cases is a great deal shorter than the one necessary for regular cases. However it will not be finalised until after the Supreme Court 2013 summer recess.

The possible effect on the Bank has not been estimated.

Foreign currency loans

Several rulings of the Supreme Court of Iceland during the years 2010 to 2013 in relation to foreign currency-linked loans have affected the Bank. Most important of these rulings was a ruling in June 2010 on the illegality of a principal of loans in ISK being linked to foreign currencies. Consequently, such loans could not carry Libor interest rates.

Amounts are in ISK million

41. Cont'd

In order to address the uncertainty surrounding which foreign currency loans should be deemed to be illegally linked to foreign currency exchange rates, the Parliament introduced in 2010 a new legislation, taking effect on 28 December 2010. Based on the context of this new law, the Bank treated all foreign currency dominated mortgages and car loans according to the method previously set forth in a September 2010 ruling of the Supreme Court concerning car loans/leasing contracts. All customers with foreign currency mortgages were presented with an offer of having their mortgage recalculated according to a similar formula, regardless of the legality of the contract in question. The definition of a mortgage in the legislation refers to tax law. The recalculation had to be offered if the debtor was eligible for a refund in part of paid interest (interest subsidy) of the loan. The Bank decided to expand this definition to cover all residential loans to individuals, although the debtors were not required to accept the offer. The interest rate on car loans going forward was, according to the law, replaced by the lowest non-indexed Central Bank rate. The same goes for mortgages for the first five years, in addition to a choice of an indexed CPI rate. At the end of the five year term, mortgages will revert back to market rates.

Several court rulings have found additional loan contract types illegally indexed to foreign currency exchange rates. In April 2011, the District Court of Reykjavík ruled on a dispute regarding the nature of a financial leasing contract between the Bank and a customer. The court ruled that although the contract had the form of a lease, it was by nature a loan contract, thereby subject to the Interest Law 38/2001. The contract was denominated in foreign currency, and the court further ruled that the contract had an illegal foreign currency indexation, citing the precedent set by the Supreme Court in June 2010. In October 2011, the District Court ruling was confirmed by the Supreme Court. The ruling affected, by precedent, approximately 4,100 similar contracts. The Supreme Court set a new precedent in June 2011 by deciding that a Landsbankinn loan contract contained an illegal foreign currency indexation (MótorMax case).

In other cases, the courts have ruled that disputed contracts are indeed legal foreign currency loan contracts. On 3 November 2011, the Supreme Court ruled on an appeal of a District Court's decision to dismiss a case involving a disputed foreign currency bond (the box form). The Supreme Court ruled that because the disputed bond was by its nature not affected by the Supreme Court's previous rulings (including the June 2010 and 2011 rulings) the District Court should hear the case and pass a ruling of its own. The Supreme Court specifically mentions in the ruling that the bond's principal is stated in foreign currencies, and reiterates that a correctly written foreign currency debt agreement is not prohibited according to the Interest Law 38/2001. Consequently, the District Court ruled on the case as presented and found in favour of the Bank. In June 2012, the Supreme Court in effect confirmed this decision by ruling 7-0 on an identical loan contract. Furthermore, the Supreme Court decided in June 2012 that a loan contract similar to the one in the MótorMax case mentioned above was legal because the lender did actually receive payment in foreign currency.

On 15 February 2012, the Supreme Court in Iceland passed a ruling (no. 600/2011) that affects the recalculation of loans that are illegally linked to the value of foreign currencies. The ruling states that Law 151/2010, which the Icelandic Parliament passed in December 2010 and instructed banks on how to recalculate foreign currency linked mortgages, violates the provisions of the Icelandic constitution that protects the freedom to hold private property, as the legislator cannot pass a law that retroactively deprives a person of an asset without adequate compensation. More specifically, the Court ruled that the recalculation in the disputed case, which had been carried out as prescribed by Law 151/2012, was not appropriate. The Supreme Court passed on 18 October 2012 a new ruling on a similar case. The ruling gave to a certain extent instructions on how the disputed loans shall be recalculated. In both cases the amount of an outstanding loan was in dispute and the court found that borrowers that had made payments in line with instructions from the lender should not suffer a higher interest charge for payments already made. Internal and external legal counsel are unanimously of the opinion that the rulings affect loans to various types of borrowers, including individuals, corporate and municipalities and both long and short term loans.

A Supreme Court ruling issued on 17 January 2013 on a currency loan involved an Íslandsbanki loan contract. The loan amount was denominated in ISK and the loan was disbursed to the customer in ISK, with the exception of one document/annex named “loan application” in which the loan amount was presented in foreign currencies. The court found that this document could not change or offset the illegal nature of the contract, mainly because the contract itself did not refer to any such document (technically, every such contract has an annex named “disbursement notice”, but this was scarcely used as the opinion was that the loan application did serve more or less the same purpose). The ruling affected at least 300 loan contracts, some of which had previously been recalculated according to the offers made by the Bank. However, despite being relatively few in number, these type of contracts generally carry the greatest loan amounts.

As stated before, the Supreme Court previously found that one of the most common loan contracts in Islandsbanki (June 2012) was legal. However, the wording of most housing loans deviates slightly from that of the common contract. This deviation has been tested before the district court and found to be of no importance. The Supreme court will rule on the decision late this year. Being great in numbers, a reversal of the verdict on the housing loans would have significant impact.

The effects of these rulings and the subsequent corrections to the recalculations of illegal foreign currency-linked loans are reflected in the value of the loans in the Bank's consolidated financial statements. The amount owed to customers with regards to paid-up loans is reflected in the Bank's provisions, see Note 37.

These court rulings have gradually reduced the uncertainty regarding which foreign currency loans are illegal. The Bank has made an announcement to the effect that it will recalculate illegally foreign currency-linked and outstanding as well as paid-up loans in line with the instructions given in the most recent ruling. This process in well on its way, for instance most car loans/contracts have been recalculated. However, finding that the ruling is based on the Bank being the dominant and expert party in the contractual relationship, the ruling does not necessarily apply to other financial institutions or large companies as counterparties, especially if those conduct their business in part abroad or deal in foreign currency contracts on a regular basis.

41. Cont'd

Settlement of the 2011 Byr acquisition

The Bank acquired Byr (a former Savings Bank) in 2011 from the Bank's Winding-up Committee. According to standard practice, the Bank retained the right to re-evaluate the value of the assets acquired and subsequently to demand a refund if the assets did not live up to expectations. During the last 18 months, the Byr loan portfolio has been thoroughly assessed in order to quantify such a refund claim. The result was presented to the seller in July with the claim amounting to ISK 6,943 million plus interest. The Bank has not received a formal reply and settlement negotiations have not been scheduled at this point. The claim is filed as a priority claim, according to Article 110 of Law 21/1991, to be set of against the bond the Bank owes Byr amounting to ISK 5,834 million (due in November 2014 and 2015). Any possible revenues relating to this claim have as yet not been incorporated into the Bank's current financial statements.

Risk Management

42. Risk governance

The Bank is exposed to various risks and managing these risks is an integral part of the Bank's operations. More information about the Bank's risk management and risk assessment processes is available in the Risk Report 2012. The English and Icelandic versions are available at the Bank's homepage under investor relations: www.islandsbanki.is/ir.

Credit risk

43. Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Bank or to otherwise fail to perform as agreed.

This risk comprises default risk, recovery risk, country risk, settlement risk and credit concentration risk.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. sector, economy, geographical location, type of financial instrument or due to connections or relations among counterparties. This includes large individual exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Credit risk arises principally from the Bank's loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as guarantees, loan commitments and derivatives.

44. Restructuring and forbearance

Restructuring of customers' debt has been one of the Bank's main tasks since October 2008. This has been a challenging task as such a large part of the customers needed forbearance measures. Legal issues, political environment and the general economy have contributed in ways of uncertainty and complications. Íslandsbanki has set in place processes and resources to take on this task. The Bank's management team is kept well informed on the status of restructuring on a regular basis.

The Bank has offered several debt relief measures and restructuring frameworks for its customers since its establishment. These restructuring frameworks include principal adjustment and recalculation of currency linked loans, debt adjustment for companies and individuals, 110% adjustment of mortgages, interest discount, write offs and tailor made solutions in complicated cases where general solutions do not suffice. In some cases, often prior to formal restructuring, customers undergo less formal forbearance measures such as temporary payment holidays, extension of loans terms and capitalisation of arrears.

This has been done without a significant loss to the Bank because the loan portfolio was acquired at a deep discount. The Bank has furthermore offset any foreign exchange gain or loss due to currency movements relating to loans to customers with ISK cash flow.

45. Maximum credit exposure

The Bank's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position before the latent impairment allowance is subtracted, see Note 26. The maximum exposure for off-balance sheet items is the amount that the Bank might have to pay out against financial guarantees and loan commitments, less provisions the Bank has made because of these items. The maximum credit exposure for a derivative contract is calculated by adding future credit exposure to the market value of the contract as described in Annex III of the European Parliament directive 2006/48/EC (Basel II).

The industry breakdown shows the Bank's credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

The Bank's credit exposure, before taking account of any collateral held or other credit enhancements, is as follows:

Credit risk exposure

45. Cont'd

Maximum credit exposure 30.6.2013

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrials and transporta-tion	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	98,042	-	-	-	-	-	-	-	-	-	98,042
Derivatives	32	92	37	-	107	1,257	32	45	-	46	13	1,661
Bonds and debt instruments	-	59,053	-	-	-	3,447	-	968	370	443	-	64,281
Loans to credit institutions	-	-	-	-	-	48,975	-	-	-	-	-	48,975
Loans to customers:	247,784	-	72,744	16,584	4,362	204	44,435	10,866	9,119	63,177	71,046	540,321
Overdrafts	14,364	-	8,045	3,390	1	50	4,837	433	1,337	1,474	2,183	36,114
Credit cards	14,732	-	1,232	156	10	21	379	25	172	45	50	16,822
Mortgages	170,312	-	-	-	-	-	-	-	-	-	-	170,312
Leases	9,129	-	16,455	1,912	11	11	4,882	141	344	1,400	247	34,532
Other loans	39,247	-	47,012	11,126	4,340	122	34,337	10,267	7,266	60,258	68,566	282,541
Off-balance sheet items:												
Financial guarantees	1,337	-	2,297	2,282	4	1,499	910	25	54	152	530	9,090
Undrawn loan commitments	-	-	3,764	1,179	6,583	-	2,984	-	90	-	1,366	15,966
Undrawn overdraft	8,752	-	4,479	1,019	217	1,303	2,267	58	1,195	352	962	20,604
Credit card commitments	22,189	-	2,964	416	13	105	764	116	1,051	155	141	27,914
Total maximum credit exposure	280,094	157,187	86,285	21,480	11,286	56,790	51,392	12,078	11,879	64,325	74,058	826,854

Amounts are in ISK million

45. Cont'd

Maximum exposure 31.12.2012

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrials and transporta-tion	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	85,500	-	-	-	-	-	-	-	-	-	85,500
Derivatives	8	132	51	30	-	1,292	12	70	-	8	36	1,639
Bonds and debt instruments	-	58,141	316	-	-	2,174	-	2,162	19	1,223	-	64,035
Loans to credit institutions	-	-	-	-	-	54,043	-	-	-	-	-	54,043
Loans to customers:	244,426	-	68,805	16,465	4,942	254	43,660	16,023	10,934	72,941	81,145	559,595
Overdrafts	14,871	-	6,487	2,705	3	94	3,508	418	1,756	1,616	1,898	33,356
Credit cards	15,825	-	1,243	138	2	26	333	34	182	45	41	17,869
Mortgages	164,416	-	-	-	-	-	-	-	-	-	-	164,416
Leases	9,763	-	14,187	2,266	14	13	4,181	176	408	1,492	413	32,913
Other loans	39,551	-	46,888	11,356	4,923	121	35,638	15,395	8,588	69,788	78,793	311,041
Off-balance sheet items:												
Financial guarantees	1,307	-	2,242	1,858	4	1,001	873	360	55	152	519	8,371
Undrawn loan commitments	-	-	3,308	422	5,436	-	2,798	1	-	-	833	12,798
Undrawn overdraft	9,502	-	4,330	1,141	229	1,318	3,117	279	1,146	471	879	22,412
Credit card commitments	21,893	10	2,990	426	17	93	796	123	1,096	154	112	27,710
Total maximum credit exposure	277,136	143,783	82,042	20,342	10,628	60,175	51,256	19,018	13,250	74,949	83,524	836,103

For the six months ended 30 June 2013 35 Amounts are in ISK million

46. Collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Bank takes a charge over assets such as real estate, fishing vessels, cash and securities and as well as other collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Bank uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Valuation of collateral is based on market price, official valuation from the Iceland Property Registry or expert opinion of the Bank's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to claim value of loans, not carrying amount, and is measured without including the effect of overcollateralisation. This means that if some loans have collateral values in excess of their claim value, then the excess is removed in order to reflect the Bank's actual maximum exposure to credit risk.

An estimate of the collateral held by the Bank against credit exposure is shown below:

At 30 June 2013

	Real estate	Fishing vessels	Cash & securities	Vehicles & equipment	Other collateral	Total collateral
Derivatives	-	-	629	-	-	629
Loans and commitments to customers:	312,595	61,497	9,625	21,593	14,610	419,920
Individuals	197,554	38	2,854	8,221	-	208,667
Commerce and services	29,039	15	874	12,307	2,586	44,821
Construction	7,399	-	141	304	3,039	10,883
Energy	2,568	-	8	-	132	2,708
Financial services	77	-	-	11	-	88
Industrial and transportation	14,491	-	124	560	7,062	22,237
Investment companies	3,356	-	4,412	13	401	8,182
Public sector ad non-profit organisations	3,855	-	2	64	-	3,921
Real estate	49,713	131	336	69	-	50,249
Seafood	4,543	61,313	874	44	1,390	68,164
Total	312,595	61,497	10,254	21,593	14,610	420,549

At 31 December 2012

	Real estate	Fishing vessels	Cash & securities	Vehicles & equipment	Other collateral	Total collateral
Derivatives	-	-	640	-	-	640
Loans and commitments to customers:	314,242	68,349	15,682	17,790	14,231	430,294
Individuals	197,187	89	2,918	8,145	-	208,339
Commerce and services	27,477	-	913	8,471	3,083	39,944
Construction	7,622	186	121	287	3,662	11,878
Energy	2,601	-	6	3	146	2,756
Financial services	69	-	8	11	-	88
Industrial and transportation	13,036	-	724	674	5,793	20,227
Investment companies	3,493	-	10,150	17	397	14,057
Public sector ad non-profit organisations	3,645	-	10	59	194	3,908
Real estate	54,596	139	233	76	-	55,044
Seafood	4,516	67,935	599	47	956	74,053
Total	314,242	68,349	16,322	17,790	14,231	430,934

The Bank is still in the process of finalising the registration of necessary collateral information for this disclosure.

Amounts are in ISK million

47. Credit quality of financial assets

Loans are classified as impaired loans if contractual cash payments are not expected to be fulfilled and if financial restructuring of the obligor is expected to lead to a loss on that particular loan. In most cases, loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio. Loans are also classified as impaired if the Bank has made impairments to offset currency movements. This impairment does not signal a loss from the deep discount.

The full carrying amount of all loans which give rise to individual impairment or collective impairment is included in impaired loans, even if parts are covered by collateral. The latent impairment has not been subtracted from the carrying amount here.

At 30 June 2013

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	98,042	-	-	98,042
Derivatives	1,661	-	-	1,661
Bonds and debt instruments	64,281	-	-	64,281
Loans to credit institutions	48,975	-	-	48,975
Loans to customers:	461,766	40,770	37,785	540,321
Individuals	212,345	26,862	8,577	247,784
Commerce and services	59,730	4,128	8,886	72,744
Construction	14,101	1,580	903	16,584
Energy	4,361	-	1	4,362
Financial services	157	4	43	204
Industrial and transportation	40,164	2,302	1,969	44,435
Investment companies	7,855	1,205	1,806	10,866
Public sector and non-profit organisations	8,662	75	382	9,119
Real estate	49,100	3,938	10,139	63,177
Seafood	65,291	676	5,079	71,046
Total	674,725	40,770	37,785	753,280

At 31 December 2012

	Neither past due nor impaired	Past due but not impaired	Classified as impaired	Total carrying amount
Cash and balances with Central Bank	85,500	-	-	85,500
Derivatives	1,639	-	-	1,639
Bonds and debt instruments	64,035	-	-	64,035
Loans to credit institutions	54,043	-	-	54,043
Loans to customers:	469,435	42,205	47,955	559,595
Individuals	206,255	29,714	8,457	244,426
Commerce and services	55,908	3,330	9,567	68,805
Construction	13,411	1,717	1,337	16,465
Energy	4,941	-	1	4,942
Financial services	197	16	41	254
Industrial and transportation	39,531	1,454	2,675	43,660
Investment companies	11,736	631	3,656	16,023
Public sector and non-profit organisations	10,425	101	408	10,934
Real estate	51,351	4,598	16,992	72,941
Seafood	75,680	644	4,821	81,145
Total	674,652	42,205	47,955	764,812

Amounts are in ISK million

48. Neither past due nor impaired loans

The Bank uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

The rating of corporate customers is based on a company's most recent financial statement, together with a qualitative assessment of its management, market position and industry sector.

For retail customers the Bank uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Bank of less than ISK 150 million. These models are behavioural scoring models and use information about a customer's payment history, amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of his obligations within 12 months of the rating assessment.

The table below shows loans that are neither past due nor impaired aggregated in five customer groups based on the default probability. Group 1-4 represents low risk, group 5-6 moderate risk, group 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers in default.

At 30 June 2013

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Total
Loans to customers						
Individuals	8,973	78,800	73,389	43,462	7,721	212,345
Commerce and services	6,426	21,109	24,267	4,613	3,315	59,730
Construction	-	2,559	9,098	1,593	851	14,101
Energy	-	4,313	21	27	-	4,361
Financial services	-	4	137	13	3	157
Industrial and transportation	11,497	18,739	6,622	2,753	553	40,164
Investment companies	763	2,654	1,683	2,473	282	7,855
Public sector ad non-profit organisations	453	6,103	1,519	528	59	8,662
Real estate	131	28,757	9,328	9,053	1,831	49,100
Seafood	24,816	30,795	7,562	428	1,690	65,291
Total	53,059	193,833	133,626	64,943	16,305	461,766

At 31 December 2012

	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Total
Loans to customers						
Individuals	8,215	71,069	66,147	49,650	11,174	206,255
Commerce and services	3,737	14,624	21,225	10,326	5,996	55,908
Construction	-	1,511	9,062	2,117	721	13,411
Energy	2	2,882	24	2,033	-	4,941
Financial services	5	16	99	77	-	197
Industrial and transportation	10,494	18,062	7,432	2,937	606	39,531
Investment companies	661	7,092	1,358	1,812	813	11,736
Public sector ad non-profit organisations	639	4,994	2,000	2,774	18	10,425
Real estate	4,443	15,369	10,643	4,553	16,343	51,351
Seafood	31,949	34,605	5,638	705	2,783	75,680
Total	60,145	170,224	123,628	76,984	38,454	469,435

Note that the same customer can have loans that are more than 90 days past or impaired, and at the same time other loans that are neither past due nor impaired. Those customers will be in risk class 10 and their loans that are neither past due nor impaired are included in the tables above.

Amounts are in ISK million

49. Past due but not impaired loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due date without the obligor making full payment, but where specific impairment is not appropriate. The reason is usually that contractual payments are eventually expected to be fulfilled or these loans are expected to be restructured without any loss to the Bank. In some cases, loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio. In other cases, there is sufficient collateral.

Amounts reported as loans past due refer to the total loan exposure and not only the payment or sum of payments that are past due. Payments three days in arrears or less are not considered to be past due and the corresponding loans are therefore omitted here. Past due but not impaired loans are as follows:

At 30 June 2013

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:					
Individuals	9,284	3,711	1,872	11,995	26,862
Commerce and services	2,233	439	269	1,187	4,128
Construction	460	315	90	715	1,580
Energy	-	-	-	-	-
Financial services	2	1	-	1	4
Industrial and transportation	795	495	180	832	2,302
Investment companies	375	18	20	792	1,205
Public sector and non-profit organisations	27	13	6	29	75
Real estate	2,032	188	208	1,510	3,938
Seafood	202	258	15	201	676
Total	15,410	5,438	2,660	17,262	40,770

At 31 December 2012

	Past due 4-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total past due loans
Loans to customers:					
Individuals	8,567	4,652	1,107	15,388	29,714
Commerce and services	1,023	502	101	1,704	3,330
Construction	323	82	97	1,215	1,717
Energy	-	-	-	-	-
Financial services	1	1	1	13	16
Industrial and transportation	299	269	72	814	1,454
Investment companies	73	30	38	490	631
Public sector and non-profit organisations	42	19	-	40	101
Real estate	580	1,528	133	2,357	4,598
Seafood	45	30	34	535	644
Total	10,953	7,113	1,583	22,556	42,205

Amounts are in ISK million

50. Large exposure disclosure

When the Bank's total exposure to a group of connected clients is 10% of the Bank's capital base or higher it is considered a large exposure. The exposure is evaluated net of credit risk mitigating effects eligible according to FME rules 216/2007.

When assessing the exposure, both on-balance sheet and off-balance sheet items from all types of financial instruments are included as defined by the FME rules. The Bank has internal criteria that define connections between clients. This criteria reflect the Bank's interpretation of Article (1)(a) of law 161/2002 on Financial Undertakings, where groups of connected clients are defined. In line with the law, the capital base from the last reviewed financial statements at 30 June 2013 is used to define large exposures.

The Bank has one large exposure to a group of connected clients that amounts to 11% of the Bank's capital base. In particular, the Bank is below the aggregated 400% limit set by the law. No large exposure exceeds the maximum 25% set by the law.

The following tables show the Bank's large exposures as a percentage of the Bank's capital base, gross and net of eligible credit risk mitigating effects. Note that group references might change between reporting periods, i.e. Group 1 might not be the same group in the two tables.

		30.6.2013
Client groups	Gross	Net
Group 1	71%	0%
Group 2	11%	11%

		31.12.2012
Client groups	Gross	Net
Group 1	53%	0%
Group 2	15%	15%

Amounts are in ISK million

Liquidity Risk

51. The Bank defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

Liquidity risk management

The Bank's main source of funding is customer deposits. The Bank's Treasury is responsible for the Bank's funding and liquidity management within the limits approved by the Board and the Asset and Liability Committee. The Interbank desk manages the Bank's intraday liquidity.

Risk management is responsible for measuring, monitoring and reporting on the Bank's liquidity position.

The Bank's liquidity risk policy assumes that the Bank has at all times sufficient liquidity to meet liabilities and other obligations over the next twelve months.

The tables below show the contractual payments of principal and interest for the Bank's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

In the table below the total amount for loans to customers is shown before latent impairment allowance and is therefore higher than the total amount shown in the financial statement.

Maturity analysis 30 June 2013

Financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	8,092	-	-	-	-	-	8,092
Deposits from Central Bank	9	-	-	-	-	-	9
Deposits from credit institutions	25,807	3,072	404	-	-	-	29,283
Deposits from customers	328,762	49,953	55,410	29,613	22,513	-	486,251
Debt issued and other borrowed funds	4	6,140	9,966	47,854	22,384	1,020	87,368
Subordinated loans	-	-	751	6,700	26,418	-	33,869
Other financial liabilities	36,577	1,805	4,891	-	85	-	43,358
Total financial liabilities	399,251	60,970	71,422	84,167	71,400	1,020	688,230

Off-balance sheet liabilities show the amount of contractual obligations that the Bank has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Bank's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations all fall into the first time bucket since contractually, on a case by case basis, the Bank could be required to fulfil these obligations instantaneously.

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	9,090	-	-	-	-	-	9,090
Undrawn loan commitments	15,966	-	-	-	-	-	15,966
Undrawn overdrafts	20,604	-	-	-	-	-	20,604
Credit card commitments	27,914	-	-	-	-	-	27,914
Total	73,574	-	-	-	-	-	73,574
Total non-derivative financial liabilities and off-balance sheet liabilities	472,825	60,970	71,422	84,167	71,400	1,020	761,804

The table below shows the contractual cash flow of the Bank's derivative liabilities, i.e. derivatives that have a negative carrying amount at the date of reporting. Derivatives with a positive carrying amount are detailed separately. For derivatives settled on a gross basis, the cash flow for both legs of the derivative is shown, since netting cannot be applied upon settlement.

Amounts are in ISK million

51. Cont'd

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	3,623	5,738	73,579	25,000	-	107,940
Outflow	-	(3,451)	(5,285)	(83,190)	(25,085)	-	(117,011)
Total	-	172	453	(9,611)	(85)	-	(9,071)
Net settled derivatives	-	(96)	-	-	-	-	(96)
Total	-	76	453	(9,611)	(85)	-	(9,167)

Maturity classification of assets is based on contractual maturity. For loans that were acquired at a deep discount and have not yet been restructured, the contractual amount is scaled to reflect the carrying amount of the claim. For bonds and debt instruments in the banking book the maturity classification is based on contractual maturity dates while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

Financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	22,939	75,103	-	-	-	-	98,042
Bonds and debt instruments	2,910	27,574	-	-	31,161	2,636	64,281
Shares and equity instruments	-	-	10	309	-	10,081	10,400
Loans to credit institutions	35,553	13,266	156	-	-	-	48,975
Loans to customers	1,013	72,520	41,517	147,420	277,851	-	540,321
Other financial assets	1,477	1,406	76	1,501	-	2,545	7,005
Total financial assets	63,892	189,869	41,759	149,230	309,012	15,262	769,024

Derivative financial assets							
Gross settled derivatives							
Inflow	-	1,084	7,397	1,298	-	-	9,779
Outflow	-	(1,058)	(7,279)	(1,286)	-	-	(9,623)
Total	-	26	118	12	-	-	156
Net settled derivatives	-	98	-	-	-	-	98
Total	-	124	118	12	-	-	254

The tables below show the comparative amounts for financial assets and liabilities at the end of 2012.

Maturity analysis 31 December 2012

Financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Short positions	11,991	-	-	-	-	-	11,991
Deposits from Central Bank	54	-	-	-	-	-	54
Deposits from credit institutions	29,726	8,119	401	-	-	-	38,246
Deposits from customers	338,464	46,390	41,059	27,590	23,969	-	477,472
Debt issued and other borrowed funds	8	2,449	7,304	44,288	23,085	983	78,117
Subordinated loans	-	236	523	6,337	28,919	-	36,015
Other financial liabilities	42,190	5,957	2,154	-	291	-	50,592
Total financial liabilities	422,433	63,151	51,441	78,215	76,264	983	692,487

Amounts are in ISK million

51. Cont'd

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	8,371	-	-	-	-	-	8,371
Undrawn loan commitments	12,798	-	-	-	-	-	12,798
Undrawn overdrafts	22,412	-	-	-	-	-	22,412
Credit card commitments	27,710	-	-	-	-	-	27,710
Total	71,291	-	-	-	-	-	71,291
Total non-derivative financial liabilities and off-balance sheet liabilities	493,724	63,151	51,441	78,215	76,264	983	763,778

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	6,074	1,872	75,987	25,000	-	108,933
Outflow	-	(5,849)	(1,944)	(93,004)	(25,080)	-	(125,877)
Total	-	225	(72)	(17,017)	(80)	-	(16,944)
Net settled derivatives	-	(115)	-	-	-	-	(115)
Total	-	110	(72)	(17,017)	(80)	-	(17,059)

Financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central bank	27,380	58,120	-	-	-	-	85,500
Bonds and debt instruments	1,281	26,730	-	-	31,120	4,904	64,035
Shares and equity instruments	-	-	13	326	-	10,106	10,445
Loans to credit institutions	34,665	19,227	151	-	-	-	54,043
Loans to customers	578	70,346	50,267	149,005	289,399	-	559,595
Other financial assets	1,640	1,007	209	1,201	-	1,998	6,055
Total financial assets	65,544	175,430	50,640	150,532	320,519	17,008	779,673

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	1,805	909	8,284	-	-	10,998
Outflow	-	(1,755)	(860)	(8,189)	-	-	(10,804)
Total	-	50	49	95	-	-	194
Net settled derivatives	-	61	-	-	-	-	61
Total	-	111	49	95	-	-	255

As a part of managing liquidity risk, the Bank holds a portfolio of liquid assets to meet unexpected outflow of funds or a temporary shortage in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Bank's liquidity back-up at the end of June 2013 and end of 2012.

Composition and amount of liquidity back-up	30.6.2013	31.12.2012
Cash and balances with Central Bank	98,043	85,500
Domestic bonds eligible as collateral against borrowing at Central Bank	18,790	12,704
Foreign government bonds	27,574	26,730
Short-term placements with credit institutions	45,877	49,264
Composition and amount of liquidity back-up	190,284	174,198

Amounts are in ISK million

Market risk

52. The Bank defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, equity prices, commodity prices and foreign exchange rates.

Market risk management
The Bank's market risk appetite is determined by the Board of Directors. The Asset and Liability Committee (ALCO) decides on limits for portfolios and products in accordance with the market risk policy approved by the Board. Risk management is responsible for monitoring and reporting on the Bank's overall market risk positions and compliance to limits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Bank separates exposures to market risk into trading book and banking book (non-trading portfolios). The Bank's primary sources of market risk in the trading portfolio are shares, debt instruments and foreign currency positions. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. Market risk in the banking book is mainly due to mismatches in interest rate terms and denomination currency of assets and liabilities. These mismatches are reported to management and are subject to regulatory and internal limits.

Interest rate risk

53. Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates.

The Bank uses sensitivity measures like Basis Point Value (BPV) to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01% upward parallel shift in the yield curve on the fair value of these exposures.

54. Interest rate risk in trading portfolios

The fixed income trading unit invests mainly in government bonds and bonds issued by the Housing Financing Fund (HFF), which are guaranteed by the Icelandic government. These positions can include short positions. Government bonds are either indexed to the Icelandic Consumer Price Index (CPI) or non-indexed, with duration up to 10 years. HFF bonds are CPI linked and have duration up to 13 years. All bond trading positions are subject to BPV limits, both intraday and end-of-day. In addition to BPV limits short and long positions in each instrument are subject to separate limits. Risk Management monitors these limits and reports all breaches to ALCO.

Note that in the table below the total market value of long and short positions may not be exactly the same as reported in Note 7. The reason for this difference is that Note 7 sums up the net positions in each security while the table below ignores netting of long and short positions in specific securities between different portfolios.

Trading bonds and debt instruments, long positions	30.6.2013			31.12.2012		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	2,011	8.90	(1.79)	1,589	11.01	(1.75)
Non-indexed	28,392	0.30	(0.85)	26,933	0.18	(0.50)
Total	30,403	0.87	(2.64)	28,522	0.79	(2.25)

Trading bonds and debt instruments, short positions	30.6.2013			31.12.2012		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	597	11.74	0.70	521	10.65	0.55
Non-indexed	902	2.19	0.20	1,592	2.21	0.35
Total	1,499	6.00	0.90	2,113	4.29	0.90
Net position of trading bonds and debt instruments	28,904	0.60	(1.74)	26,409	0.50	(1.35)

For the six months ended 30 June 2013 44 Amounts are in ISK million

55. Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Bank's assets and liabilities are of different maturities and are priced relative to different interest rates.

The Bank holds a government bond designated at fair value amounting to ISK 30.8 billion (31 December 2012: ISK 30.9 billion). The bond pays floating rates, which change monthly, and carries relatively low interest rate risk.

The Bank uses traditional measures for assessing the sensitivity of the Bank's financial assets, financial liabilities and earnings to changes in the underlying interest rates.

In the table below the total amount for loans to customers is shown before the latent impairment allowance is subtracted and is therefore not the same as the total amount shown in the financial statement. Loans with specific impairment have been placed in the category 0-3 months since such loans bear no interest rate risk until possibly after debt restrucuring. The end-of-year figures for 2012 have been updated accordingly and thus differ from those previously reported in the Annual Report 2012.

Banking book interest rate adjustment periods on 30 June 2013

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Cash and balances with Central Bank	95,830	-	-	-	-	-	95,830
Bonds and debt instruments	31,301	738	30	1,217	287	370	33,943
Loans to credit institutions	48,819	156	-	-	-	-	48,975
Loans to customers	409,642	35,793	55,888	23,481	1,247	14,270	540,321
Total assets	585,592	36,687	55,918	24,698	1,534	14,640	719,069
Off-balance sheet items..	47,981	27,485	-	1,912	113	-	77,491
Liabilities							
Short positions	-	2,406	588	881	-	-	3,875
Deposits from Central Bank	9	-	-	-	-	-	9
Deposits from credit institutions	29,004	392	-	-	-	-	29,396
Deposits from customers	465,004	1,511	1,621	1,191	6,885	-	476,212
Debt issued and other borrowed funds	9,977	3,008	-	50,334	4,700	6,745	74,764
Subordinated loans	-	22,249	-	-	-		22,249
Total liabilities	503,994	29,566	2,209	52,406	11,585	6,745	606,505
Off-balance sheet items	48,965	17,273	6,315	6,627	-		79,180
Net interest gap on 30 June 2013	80,614	17,333	47,394	(32,423)	(9,938)	7,895	110,875

For the six months ended 30 June 2013 45 Amounts are in ISK million

55. Cont'd

Banking book interest rate adjustment periods 31 December 2012

Assets	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	83,493	-	-	-	-	-	83,493
Bonds and debt instruments	33,424	795	403	382	575	58	35,637
Loans to credit institutions	53,891	151	-	-	-	-	54,042
Loans to customers	422,980	48,961	27,250	46,197	1,314	12,893	559,595
Total assets	593,788	49,907	27,653	46,579	1,889	12,951	732,767
Off balance sheet items	47,981	29,259	-	-	113	-	77,353
Liabilities							
Short positions	-	3,226	1,140	850	-	-	5,216
Deposits from Central Bank	54	-	-	-	-	-	54
Deposits from credit institutions	37,837	381	-	-	-	-	38,218
Deposits from customers	459,233	1,657	888	2,743	6,635	-	471,156
Debt issued and other borrowed funds	7,420	-	-	6,018	48,193	4,940	66,571
Subordinated loans	23,450	-	-	-	-	-	23,450
Total liabilities	527,994	5,264	2,028	9,611	54,828	4,940	604,665
Off-balance sheet items	52,896	9,479	10,552	9,754	-	-	82,681
Net interest gap on 31 December 2012	60,879	64,423	15,073	27,214	(52,826)	8,011	122,774

Amounts are in ISK million

Currency risk

56. Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to mismatch in the currency composition of assets or liabilities.

The adjustment of previous reports for FX/ISK loans, i.e. loans with a non-ISK contractual currency to customers with ISK income, is no longer included. Such loans have been or are on the verge of being converted to ISK and as such are excluded from the figures or are believed to remain as FX loans and are in such cases included in the figures.

Currency analysis 30 June 2013

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank......................	374	193	82	29	13	231	922
Bonds and debt instruments....................................	9,706	15,165	-	-	-	3,114	27,985
Shares and equity instruments................................	367	261	13	0	-	1	642
Loans to credit institutions.......................................	17,070	14,955	1,765	117	6,078	5,653	45,638
Loans to customers...	59,716	11,709	4,575	7,323	8,484	2,076	93,883
Investments in associates.......................................	26	-	-	-	-	-	26
Other assets..	490	1,040	119	1	2	32	1,684
Total assets	87,749	43,323	6,554	7,470	14,577	11,107	170,780
Liabilities							
Deposits from credit institutions	55	4	0	0	-	0	59
Deposits from customers	40,500	19,665	4,689	479	1,681	4,746	71,760
Debt issued and other borrowed funds	-	-	-	-	-	125	125
Subordinated loans	22,249	-	-	-	-	-	22,249
Other liabilities...	2,012	3,679	817	8	17	237	6,770
Total liabilities	64,816	23,348	5,506	487	1,698	5,108	100,963
On-balance sheet imbalance	22,933	19,975	1,048	6,983	12,879	5,999	69,817
Off balance sheet items							
Off-balance sheet assets	6,915	10,722	507	48	870	83	19,145
Off-balance sheet liabilities	23,660	26,769	808	6,654	11,736	238	69,865
Net off-balance sheet items	(16,745)	(16,047)	(301)	(6,606)	(10,866)	(155)	(50,720)
Net currency imbalance on 30 June 2013...	6,188	3,928	747	377	2,013	5,844	19,097

Amounts are in ISK million

56. Cont'd

Currency analysis 31 December 2012

Assets	EUR	USD	GBP	CHF	JPY	Other	Total
Cash and balances with Central Bank	355	187	101	30	11	248	932
Bonds and debt instruments	15,283	10,686	-	-	-	1,149	27,118
Shares and equity instruments	491	255	16	2	-	-	764
Loans to credit institutions	13,721	17,758	683	2,166	2,836	9,235	46,399
Loans to customers	60,309	17,674	5,314	8,590	10,808	1,729	104,424
Investments in associates	21	348	-	-	-	-	369
Other assets	358	1,096	138	-	4	30	1,626
Total assets	90,538	48,004	6,252	10,788	13,659	12,391	181,632
Liabilities							
Deposits from credit institutions	44	5	-	-	-	-	49
Deposits from customers	28,752	26,484	3,960	1,025	720	5,937	66,878
Debt issued and other borrowed funds	-	-	-	-	-	128	128
Subordinated loans	23,450	-	-	-	-	-	23,450
Other liabilities	1,521	4,088	669	1	16	166	6,461
Total liabilities	53,767	30,577	4,629	1,026	736	6,231	96,966
On-balance sheet imbalance	36,771	17,427	1,623	9,762	12,923	6,160	84,666
Off-balance sheet items							
Off-balance sheet assets	3,862	12,786	445	-	1,800	464	19,357
Off-balance sheet liabilities	24,610	26,826	722	9,818	13,394	795	76,165
Net off-balance sheet items	(20,748)	(14,040)	(277)	(9,818)	(11,594)	(331)	(56,808)
Net currency imbalance on 31 December 2012...	16,023	3,387	1,346	(56)	1,329	5,829	27,858

Derivatives

57. The Bank uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Bank carries relatively low indirect exposure due to margin trading with clients and the Bank holds collaterals for possible losses. Other derivatives in the Bank held for trading or for other purposes are insignificant.

Inflation risk

58. The Bank is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI index affect profit and loss. On 30 June 2013 the CPI gap amounted to ISK 2.6 billion (31 December 2012: ISK 1.3 billion). Thus, a 1% increase in the index would have a positive impact on the profit and loss account to the amount of ISK 26 million in profit and a 1% decrease would result in a corresponding loss, other risk factors held constant.

Amounts are in ISK million

Capital management

59. Risk exposure and capital base

The Bank's total capital ratio, calculated according to the Act on Financial Undertakings, was 27.4% and the Tier 1 ratio was 24.0%. The capital ratio is based on reviewed retained earnings at 30 June 2013.

As required in the Basel II rules, the Bank's Board of Directors sets a minimum capital target for the Bank. The Board has approved a minimum capital target for the Bank to be 18% of RWA. The target is based on the Bank's internal capital adequacy assessment (ICAAP) and the views expressed by the regulator through the latest SREP results. The capital target is intended to support the Bank's business strategy and takes into account changes or uncertainties in the operating environment. Unlike the 8% regulatory minimum, the Bank's capital target can change over time reflecting changes in the Bank's risk profile, business strategy and external environment. Thus, falling below the capital target does not impose any direct regulatory actions but the Bank's dividend payments and remuneration can be impacted.

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.

The table below shows the capital base, risk weighted assets and capital ratios of the Bank at 30 June 2013 and 31 December 2012.

	30.6.2013	31.12.2012
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,665	2,834
Retained earnings	86,807	78,571
Non-controlling interests	1,065	1,255
Tax assets	(1,139)	(864)
Intangible assets	(272)	(261)
Other regulatory adjustments	(321)	(321)
Total Tier 1 capital	153,805	146,214
Tier 2 capital		
Other regulatory adjustments	(322)	(322)
Qualifying subordinated liabilities	22,249	23,450
Total regulatory capital	175,732	169,342
Risk weighted assets		
- due to credit risk	534,278	549,535
- due to market risk:	25,016	33,940
Market risk, trading book	5,794	6,006
Currency risk foreign exchange	19,222	27,934
- due to operational risk	81,214	81,214
Total risk weighted assets	640,508	664,689
Capital ratios		
Tier 1 ratio	24.0%	22.0%
Total capital ratio	27.4%	25.5%

Amounts are in ISK million