Consolidated Financial Statements
2013

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Endorsement and Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the financial year 2013 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn was founded on 7 October 2008. The Bank is a leading bank in the domestic market and offers a complete range of financial products and services to personal, corporate and institutional customers.

Operations in 2013

Consolidated profit amounted to ISK 28,759 million for the financial year 2013. The Board of Directors proposes that 70% of the consolidated profit will, subject to the approval of a shareholders' meeting, be paid in dividends to shareholders. Otherwise the profit will be added to the Bank's equity. Consolidated total equity amounted to ISK 241,359 million at the end of the year, including outstanding share capital amounting to ISK 23,618 million. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 26.7% at year-end 2013. The number of full-time equivalent positions was 1,183 at year-end 2013.

In June 2013, the Group's remaining 25% of shares in the facility management company Reginn hf. were sold in a public offering. The proceeds of the offering amounted to ISK 4,068 million and the average share price of accepted offers was ISK 12.52 per share.

In June 2013, Landsbankinn issued its first tranche of Covered Bonds and in October 2013 the Covered Bonds were listed for trading on NASDAQ OMX Iceland. This is the first listing on an exchange of securities issued by the Bank and is an important milestone in terms of broadening the Bank's funding base.

In January 2014, the international rating agency Standard and Poor's (S&P) assigned its BB+ long-term counterparty credit rating to Landsbankinn with a stable outlook. The rating is one notch below the sovereign credit rating for Iceland.

During the year 2013, the Bank completed corrections of its previous recalculations of 18,000 loans which fall under precedent of the Supreme Court's ruling on foreign currency indexation of vehicle loans, real estate mortgages and loans to corporates. Since May 2013 the emphasis has been on recalculations of interest payments of vehicle loans indexed to foreign currencies in accordance with the Supreme Court's ruling in case No. 50/2013. The Supreme Court's ruling in this case confirmed the precedent of the Court's previous rulings from 2012, in cases where retroactive calculations under certain circumstances were also disputed. The majority of these recalculations were completed before or shortly after year-end 2013.

In 2014, the Bank intends to correct recalculations of an additional 17,000 loans which fall under recent Supreme Court's rulings, that of cases No. 430/2013 and No. 463/2013, where the substance of loan contracts and retroactive calculations under certain circumstances were disputed. The corrections are expected to be completed by the end of the first half of 2014. Further Supreme Court rulings in the coming months are expected to provide additional clarifications on the matter.

Risk management

The Bank's core operations are sound and have been improving in recent years. Processes are being revised on a continuous basis to improve risk management, efficiency and customer relationship management. The Group has a strong equity and liquidity base and is, therefore, in a position to deal with the challenges ahead and maintain its strong financial position. However, the political and legal environment in Iceland, as well as the risk associated with the country's current capital controls, continues to pose uncertainty.

Regular instalments of the Bank's secured bonds, denominated in foreign currencies and issued to LBI hf., are scheduled for the years 2014-2018. At year-end 2013 the Bank continued to maintain its strong liquidity position in foreign currencies and the Bank's concentration of currency risk was well within acceptable risk limits. However, it is important for the Bank to maintain a strong liquidity position in foreign currencies and extend the maturity profile of its foreign currency funding in a timely manner, through renegotiations or refinancing. At the beginning of October 2013, the Winding-up Board of LBI hf. agreed to the Bank's request to commence discussions on possible amendments to contractual obligations under the bonds.

Due to capital controls, the Group's ability to mitigate the risk from ISK-related currency fluctuations is limited. However, the Group has taken various measures to decrease its overall currency risk and expects future currency risk levels to be within acceptable limits.

Outlook

The domestic economic recovery continued in 2013. GDP grew for the third year in a row with growth expected in 2013 at 2.5%. Unemployment levels went down, inflation slowed and the ISK exchange rate was fairly stable. The recovery is expected to continue over the coming years as GDP is expected to grow by 2.3% on average to 2016. Landsbankinn Economic Research forecasts about 3% GDP growth in 2014, driven equally by increased capital formation, net exports and private consumption.

The sharp year-over-year income increase in net adjustments in valuation is attributed to the settlement of the Contingent Bond. Prior to 1 January 2013, net adjustments to loans and advances acquired at deep discount were offset to a large extent by the fair value change of the Contingent Bond. Since 1 January 2013 the value adjustments of the loans have been that of the Bank but within the next few years these adjustments will decrease as restructuring of these loans is gradually coming to an end. Therefore the net adjustments in valuation, plus increased taxation levied on the Bank, are factors that need to be considered in terms of sustainable profitability.

Other matters

In April 2013, the Bank issued additional secured bonds to LBI hf. in an amount equivalent to ISK 92,000 million, denominated in foreign currencies. The bonds were issued under the settlement agreement of December 2009 between the Bank, LBI hf. and the Icelandic State and as a result of the conclusion of third-party valuation agent Deloitte UK LLP of the additional consideration for the acquired assets and liabilities transferred from LBI hf. In return for the secured bonds, LBI hf. surrendered its entire holding in Landsbankinn to the Icelandic State and Landsbankinn.

Following the change in ownership, the Icelandic State holds 98% of shares in Landsbankinn while Landsbankinn received 2% of own shares, or 500 million shares. The Bank received the shares from LBI hf. with the obligation to allocate them to employees. The Bank made an arrangement for the allocation of its own shares in accordance with LBI hf. requirements and a resolution passed at a shareholders' meeting of the Bank in July 2013. In September 2013, 317 million own shares were allocated to employees, of which employees received 119 million shares and 198 million of own shares were repurchased by the Bank for settlement of tax obligations and pension liabilities. The allocation of the remainder of the own shares was completed in February 2014.

In the first and fourth quarters of 2013, the Bank made a mandatory and an optional partial early redemption of the secured bonds, respectively, equivalent to ISK 52,201 million in total. The Bank's strong liquidity position in foreign currencies has enabled the Bank to reduce its long-term liabilities faster than contractual provisions require.

In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment and conclusions in two cases. The first case concerns certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI hf.) and, subsequently, by the Bank to clients for retail banking services, in particular for household mortgage loans. In June 2013 the Bank gave its response and refuted allegations of a breach of competition rules. The Bank does not have information as to whether the Competition Authority will take further action in the case but has expressed willingness to discuss the matter. The second case concerns, in particular, an alleged involvement of Landsbanki Íslands hf. (now LBI hf.) and, subsequently, of the Bank during 2007-2009 in the way in which decisions were taken on interchange fees. In June 2013 the Bank gave its response and refuted allegations of a breach of competition rules. The Bank and the Competition Authority have entered into discussions regarding the settlement of the case.

In April 2013, the EFTA Surveillance Authority (ESA) announced its decision that Landsbankinn's repayment of interest to customers in the year 2011 did not constitute state aid. ESA found that the Bank's actions were based on business reasons without involvement or instructions from the Icelandic State. ESA has in this regard assessed the Icelandic State's applicable policy and arrangements on public ownership of financial undertakings, as well as the available evidence on the adoption of the decision by Landsbankinn. ESA concluded that there are insufficient grounds to question the commercial nature of Landsbankinn's measure.

On 1 October 2013, the Bank paid dividends for the operating year 2012 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting held on 17 April 2013. This is the first time dividends are paid since the Bank was established. The dividend payment amounted to ISK 10,080 million, equivalent to ISK 0.42 per share for the year 2012, or 39% of net profit for the year 2012.

Ownership

The total number of shareholders at year-end 2013 was 1,394, but was 2 at the beginning of 2013. The ten largest shareholders in the Bank at year-end 2013 are as follows:

Shareholders		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23.300,0	97,08%
Eignarhlutir ehf.	Government related entity	200,0	0,83%
Árni Þ. Þorbjörnsson	Managing Director	0,3	0,00%
Helgi T. Helgason	Managing Director	0,3	0,00%
Hjördís D. Vilhjálmsdóttir	Former Managing Director	0,3	0,00%
Hrefna Ö. Sigfinnsdóttir	Managing Director	0,3	0,00%
Hreiðar Bjarnason	Managing Director	0,3	0,00%
Jensína K. Böðvarsdóttir	Managing Director	0,3	0,00%
Helgi Þ. Arason	Head of Department	0,2	0,00%
Hermann M. Þórisson	Managing Director of a subsidiary	0,2	0,00%
Top 10 total		**23.502,3**	**97,93%**
Other shareholders		119,0	0,50%
Landsbankinn hf.	Own shares	378,7	1,58%
Total shares issued		**24.000,0**	**100,00%**

Icelandic State Financial Investments (ISFI) manages the State's holding in the Bank on behalf of both Ríkissjóður Íslands (the Icelandic State Treasury) and Eignarhlutir ehf.

Governance

The Bank's good governance practices form the foundation for trust in the interrelationship between shareholders, Board of Directors, management, employees and interested parties and they promote objectivity, integrity, transparency and responsibility in the management of the Bank.

Each year, the Bank reviews compliance with generally accepted guidelines on corporate governance and whether the Bank's governance practices are in accordance with those guidelines at any time.

The underlying regulatory framework for the Bank's corporate governance policy and procedures is, inter alia, Act No. 75/2010, Amendments to the Act on Financial Undertakings (No. 161/2002), Act No. 118/2011, Amendments to the Act on Annual Financial Statements (No. 3/2006), as well as other applicable laws and regulations.

Landsbankinn complies with all the recommendations of the latest Corporate Governance Guidelines issued in March 2012 (fourth edition) by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, except for certain items in Articles 1.1, 2.7, 5.B.3 and 5.B.4 in the Guidelines. Further details on the Bank's corporate governance in general and these exceptions are provided in the Annual Report of the Group for the year 2013 and on the Bank's website www.landsbankinn.is.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2013 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Consolidated Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the year 2013, its consolidated financial position as at 31 December 2013 and its consolidated cash flows for the year 2013.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. and Endorsement of its Board of Directors and CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Landsbankinn hf. for the year 2013 and confirmed them by their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 4 March 2014.

Board of Directors

Tryggvi Pálsson

Chairman

Eva Sóley Guðbjörnsdóttir

Helga Björk Eiríksdóttir

Danielle Pamela Neben

Jón Sigurðsson

Kristján Þ. Davíðsson

Þórdís Ingadóttir

CEO

Steinþór Pálsson

Independent Auditor's Report

To the Board of Directors and Shareholders of Landsbankinn hf.

We have audited the accompanying consolidated financial statements of Landsbankinn hf., which comprise the consolidated statement of financial position as at 31 December, 2013, the consolidated income statement, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Landsbankinn hf. as at 31 December, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

Reykjavík, 4 March 2014.

KPMG ehf.

Helgi F. Arnarson

Sigríður Helga Sveinsd.

Sigríður Helga Sveinsdóttir

Consolidated Statement of Financial Position as at 31 December 2013

Notes		2013	2012
	Assets		
7	Cash and balances with Central Bank	21,520	25,898
6, 8, 37	Bonds and debt instruments	290,595	228,208
8	Equities and equity instruments	36,275	36,881
6, 9	Derivative instruments	654	1,043
10, 37	Loans and advances to financial institutions	67,916	64,349
11, 37	Loans and advances to customers	680,468	666,087
12	Investments in equity-accounted associates	14,224	15,528
13	Property and equipment	5,440	6,776
14	Intangible assets	585	541
20	Deferred tax assets	0	48
15	Other assets	8,816	14,108
		1,126,493	**1,059,467**
16	Assets classified as held for sale	25,023	25,320
	Total assets	**1,151,516**	**1,084,787**
	Liabilities		
17	Due to financial institutions and Central Bank	167,218	98,718
18	Deposits from customers	456,662	421,058
9	Derivative instruments and short positions	7,571	9,438
20	Deferred tax liabilities	590	0
19, 37	Secured bonds	239,642	221,791
6, 19	Contingent bond	0	87,474
21	Other liabilities	34,589	20,249
		906,272	**858,728**
	Liabilities associated with assets classified as held for sale	3,885	893
	Total liabilities	**910,157**	**859,621**
22	**Equity**		
	Share capital	23,618	24,000
	Share premium	120,700	123,898
	Reserves	7,046	5,053
	Retained earnings	90,002	72,120
	Total equity attributable to owners of the Bank	**241,366**	**225,071**
	Non-controlling interests	(7)	95
	Total equity	**241,359**	**225,166**
	Total liabilities and equity	**1,151,516**	**1,084,787**

The accompanying notes are an integral part of these consolidated financial statements.

Landsbankinn hf. Consolidated Financial Statements 2013 5 All amounts are in ISK million

Consolidated Income Statement for the Year ended 31 December 2013

Notes		2013	2012
	Interest income	63,224	64,661
	Interest expense	(28,910)	(29,077)
23	**Net interest income**	**34,314**	**35,584**
24	Net adjustments to loans and advances acquired at deep discount	19,440	37,320
4, 24	Loss from foreign currency linkage of loans and advances to customers	0	(2,120)
24, 64	Net impairment loss	(7,706)	(12,260)
6	Fair value change of contingent bond	1,319	(27,331)
	Net adjustments in valuation	**13,053**	**(4,391)**
	Net interest income after net adjustments in valuation	**47,367**	**31,193**
	Fee and commission income	8,451	7,696
	Fee and commission expense	(3,160)	(3,248)
25	**Net fee and commission income**	**5,291**	**4,448**
26	Net gain on financial assets designated as at fair value through profit or loss	8,460	5,703
27	Net gain on financial assets and liabilities held for trading	2,092	2,169
29	Net foreign exchange gain	1,147	4,566
30	Other income and (expenses)	1,224	1,062
	Other net operating income	**12,923**	**13,500**
	Total operating income	**65,581**	**49,141**
31	Salaries and related expenses	17,304	13,176
32	Other operating expenses	8,005	8,878
13	Depreciation and amortisation	818	719
21	Contribution to the Depositors' and Investors' Guarantee Fund	1,079	1,042
33	Acquisition-related costs	45	290
	Total operating expenses	**27,251**	**24,105**
12	Share of profit of equity-accounted associates, net of income tax	2,712	2,449
	Profit before tax	**41,042**	**27,485**
34	Income tax	(9,000)	(2,925)
34	Tax on liabilities of financial institutions	(3,283)	(1,200)
	Profit for the year from continuing operations	**28,759**	**23,360**
	Profit for the year from discontinued operations, net of income tax	0	2,134
	Profit for the year	**28,759**	**25,494**
	Profit for the year attributable to:		
	Owners of the Bank		
	Profit for the year from continuing operations	28,750	23,360
	Profit for the year from discontinued operations	0	2,079
	Profit for the year attributable to owners of the Bank	**28,750**	**25,439**
	Non-controlling interests		
	Profit for the period from continuing operations	9	0
	Profit for the year from discontinued operations	0	55
	Profit for the year attributable to non-controlling interests	**9**	**55**
	Profit for the year	**28,759**	**25,494**
	Earnings per share:		
35	Basic and diluted earnings per share from continuing operations	**1.22**	**0.97**

The accompanying notes are an integral part of these consolidated financial statements.

Landsbankinn hf. Consolidated Financial Statements 2013 6 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2013

Notes		Attributable to owners of the Bank								
	Change in equity for the year 2013	**Share capital**	**Share premium**	**Own shares reserve**	**Statutory reserve**	**Share-based payment reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Balance at 1 January 2013	24,000	123,898		5,053		72,120	225,071	95	225,166
	Profit for the year						28,750	28,750	9	28,759
	Equity classified as liability to purchase own shares			(4,691)				(4,691)		(4,691)
	Purchase of own shares	(500)	(4,191)	4,691				0		0
	Recognition of equity-settled employee share-based payments					4,017		4,017		4,017
	Dividends declared						(9,921)	(9,921)		(9,921)
	Own shares allocated to employees	317	2,654			(2,971)		0		0
	Purchase of own shares for settlement of the tax obligations and pension liabilities	(199)	(1,661)					(1,860)		(1,860)
	Transfer to statutory reserve				947		(947)	0		0
	Decrease in non-controlling interests due to sale of subsidiaries							0	(111)	(111)
22	**Balance at 31 December 2013**	**23,618**	**120,700**	**0**	**6,000**	**1,046**	**90,002**	**241,366**	**(7)**	**241,359**
	Change in equity for the year 2012									
	Balance at 1 January 2012	24,000	123,898		3,781		47,952	199,631	613	200,244
	Profit for the year						25,439	25,439	55	25,494
	Transfer to statutory reserve				1,272		(1,272)	0		0
	Decrease in non-controlling interests due to sale of subsidiaries							0	(573)	(573)
22	**Balance at 31 December 2012**	**24,000**	**123,898**	**0**	**5,053**	**0**	**72,120**	**225,071**	**95**	**225,166**

The accompanying notes are an integral part of these consolidated financial statements.

Landsbankinn hf. Consolidated Financial Statements 2013 7 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2013

Notes		2013	2012
	Operating activities		
	Profit for the year	28,759	25,494
	Adjustments for non-cash items included in profit for the year	(45,393)	(43,778)
	Changes in operating assets and liabilities	39,532	77,065
	Interest received	43,205	48,726
	Interest paid	(26,026)	(25,386)
28	Dividends received	425	551
	Income tax paid	(49)	(895)
	Net cash from operating activities	**40,453**	**81,777**
	Investing activities		
	Sale of additional shares in equity- accounted associates	4,833	1,264
13	Purchase of property and equipment	(820)	(849)
13	Proceeds from sale of property and equipment	1,152	71
14	Purchase of intangible assets	(293)	(126)
	Sale of subsidiaries	1,067	9,455
	Net cash from investing activities	**5,939**	**9,815**
	Financing activities		
	Proceeds from new long-term debt issue	1,860	-
	Aquisition of non-controlling interest	840	(472)
	Repayment of long-term debt	(52,201)	(72,115)
22	Dividends paid	(9,921)	-
	Net cash used in financing activities	**(59,422)**	**(72,587)**
	Net change in cash and cash equivalents	(13,030)	19,005
	Cash and cash equivalents at the beginning of the year	32,486	13,625
	Effect of exchange rate changes on cash and cash equivalents held	471	(144)
	Cash and cash equivalents at 31 December	**19,927**	**32,486**
	Investing and financing activities not affecting cash flows		
	Provisional amount of the bond to be issued by the Icelandic State Treasury	-	(19,198)
	Bonds and debt instruments	-	19,198

The accompanying notes are an integral part of these consolidated financial statements.

Landsbankinn hf. Consolidated Financial Statements 2013 8 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2013

Notes		2013	2012
	Adjustments for non-cash items included in profit for the year		
23	Net interest income	(34,314)	(35,584)
24	Net adjustments to loans and advances acquired at deep discount	(19,440)	(37,320)
4, 24	Loss from foreign currency linkage of loans and advances to customers	-	2,120
24, 64	Net impairment loss	7,706	12,260
6, 19	Fair value change of contingent bond	(1,319)	27,331
26	Net (gain) on financial assets designated as at fair value through profit or loss	(8,460)	(5,703)
27	Net (gain) on financial assets and liabilities held for trading	(2,092)	(2,169)
	Net gain on assets classified as held for sale	-	(2,134)
29	Net foreign exchange gain	(1,618)	(4,422)
13	Gain on sale of property and equipment	(277)	(14)
32	Loss (Gain) on repossessed collateral	177	(537)
13	Depreciation and amortisation	818	719
12	Share of profit of equity-accounted associates, net of income tax	(2,712)	(2,449)
	Share of profit of sale of associates	(836)	-
22	Recognition of equity-settled employee share-based payments	4,691	-
34	Income tax	9,000	2,925
34	Tax on liabilities of financial institutions	3,283	1,200
		(45,393)	**(43,778)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	(4,485)	448
	Change in bonds and equities	(57,214)	35,545
	Change in loans and advances to financial institutions	(10,949)	39,838
	Change in loans and advances to customers	(3,698)	44,598
	Change in investments in associates	-	(349)
	Change in other assets	5,768	5,069
	Change in assets classified as held for sale	4,150	(5,937)
	Change in due to financial institutions and Central Bank	69,502	(15,530)
	Change in deposits from customers	42,389	(26,401)
	Change in tax liability	(383)	-
	Change in repossessed collateral	712	(1,400)
	Change in other liabilities	(5,019)	(2,027)
	Change in liabilities associated with assets classified as held for sale	(1,241)	3,212
		39,532	**77,065**
	Cash and cash equivalents is specified as follows:		
7	Cash and unrestricted balances with Central Bank	15,064	23,927
10	Bank accounts with financial institutions	4,863	8,559
	Cash and cash equivalents at the end of the year	**19,927**	**32,486**

The accompanying notes are an integral part of these consolidated financial statements.

Landsbankinn hf. Consolidated Financial Statements 2013 9 All amounts are in ISK million

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008 by the Ministry of Finance on behalf of the Icelandic State Treasury, thereby taking over part of the domestic operations of LBI hf. (formerly Landsbanki Íslands hf.).

The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings and is licensed by the Financial Supervisory Authority in Iceland (FME) as a commercial bank. The Bank is subject to supervision of the FME in accordance with Act No. 87/1998 on Official Supervision of Financial Activities. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2013 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, investment banking, asset management and other related services. The Group operates solely in Iceland.

The issue of these Consolidated Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 4 March 2014.

2. Basis of preparation

Statement of compliance

These Consolidated Financial Statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it has a reasonable expectation that the Group has adequate resources to continue its operations. Accordingly, these Consolidated Financial Statements have been prepared on a going concern basis.

Basis of measurement

The Consolidated Financial Statements have been prepared on a historical cost basis except for the following:
- Financial assets and liabilities classified as held for trading are measured at fair value;
- Financial assets and liabilities designated as at fair value through profit or loss are measured at fair value;
- Non-current assets and disposal groups classified as held for sale are measured at the lower of cost or fair value less costs to sell.

Functional and presentation currency

Items included in the financial statements of each individual Group entity are measured using the currency of the economic environment in which the respective entity operates (its functional currency). All amounts are presented in Icelandic krona (ISK), which is also the Bank's functional currency, rounded to the nearest million unless otherwise stated.

Use of estimates and judgements

The preparation of 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. Actual results may differ from these estimates.

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

Note 4 discusses estimates and assumptions which involve a substantial risk which could result in material adjustments to the carrying amounts of assets and liabilities during the next year.

3. Significant accounting policies

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies applied by the Group in the consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year-ended 31 December 2012.

The principal accounting polices used in preparing these consolidated financial statements are set out below.

3. Significant accounting policies (continued)

3.1 Consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern financial and operating policies so as to obtain benefits from their activities, generally accompanied by a shareholding of over half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is obtained, and are de-consolidated from the date on which control ceases.

The acquisition method is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred, except for costs related to the issue of debt and equity instruments. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair value on the acquisition date. A contingent liability of an acquiree is only recognised in a business combination if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably. More information about how the Group accounts for goodwill acquired in a business combination is disclosed further in this note.

Intercompany transactions, balances, and unrealised gains on transactions between Group entities are eliminated in the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

(b) Non-controlling interests

Non-controlling interests represent the portion of profit or loss and equity not owned, directly or indirectly, by the Bank. Such interests are presented separately in the consolidated income statement and are included in equity in the consolidated statement of financial position, separately from equity attributable to owners of the Bank. The Group chooses on an acquisition-by-acquisition basis whether to measure non-controlling interests in an acquiree at fair value or according to the proportion of non-controlling interests in the acquiree's net assets. Changes in the Bank's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

3.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20 and 50 percent of the voting power of another entity. The Group accounts for investments in associates either using the equity method or as financial assets designated as at fair value through profit or loss, as described further in this note. Investments in associates which are accounted for by the Group using the equity method are presented in the consolidated statement of financial position in the line “Investments in equity-accounted associates”. Investments in associates which are accounted for by the Group as financial assets designated as at fair value through profit or loss are presented in the consolidated statement of financial position in the line “Equities and equity instruments”.

Equity-accounted associates

Investments in equity-accounted associates are accounted for using the equity method from the date on which significant influence is obtained and are initially recognised at cost. Goodwill relating to an investment in an associate is included in the carrying amount of the investment. Amortisation of goodwill is not permitted. Any excess of the Group's share of net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period which the investment is acquired.

Because goodwill included in the carrying amount of an investment in an associate is not recognised separately, it is not separately tested for impairment according to the requirements for goodwill impairment testing in IAS 36 Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment under IAS 36 by comparing its recoverable amount with its carrying amount, whenever application of the requirements in IAS 39 Financial Instruments: Recognition and Measurement indicates the investment may be impaired.

The Group's share of its equity-accounted associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements in their reserves is recognised in the Group's equity reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

3. Significant accounting policies (continued)

3.2 Associates (continued)

Associates designated as at fair value through profit or loss

The Group designates certain investments in associates upon initial recognition as at fair value through profit or loss and are accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The Group measures such investments at fair value, with changes in fair value recognised in the consolidated income statement in the line "Net gain on financial assets designated as at fair value through profit or loss" in the period of the change.

3.3 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of the respective Group entity at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are measured at amortised cost or fair value, as applicable, in their respective foreign currencies and are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are first measured at fair value in their respective foreign currencies and then retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. All foreign currency differences arising on retranslation are recognised in the income statement.

3.4 Financial assets and liabilities

(a) Recognition

The Group initially recognises loans and advances, deposits and debt securities issued on the date at which they are originated. All other financial assets and liabilities are initially recognised on the date at which the Group becomes a party to contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the date at which the Group committed itself to purchasing or selling the asset.

A financial asset or financial liability is initially measured at fair value plus, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(b) Classification

The Group classifies all financial assets either as loans and receivables or as at fair value through profit or loss. The Group classifies all financial liabilities either as at fair value through profit or loss or at amortised cost.

A financial asset or liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Financial assets held for trading consist of debt, equity and derivative instruments. Financial liabilities held for trading consist of derivative liabilities and short positions, i.e. obligations to deliver financial assets borrowed by the Group and sold to third parties.

The Group designates certain financial assets, including certain investments in associates, upon initial recognition as at fair value through profit or loss when the financial assets are part of portfolios of financial instruments which are managed and reported to senior management on a fair value basis in accordance with the Group's documented risk management or investment strategy.

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market which the Group originates or acquires with no intention of trading them.

(c) Derecognition

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or when the Group transfers the rights to receive contractual cash flows relating to the financial asset in a transaction which substantially transfers all the risks and rewards of owning that asset. Any interest in transferred financial assets created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In cases where all or substantially all of the risks and rewards are retained, then transferred assets are not derecognised. Asset transfers whereby all or substantially all risks and rewards are retained include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(d) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off these amounts and intends either to settle on a net basis or to realise the asset and simultaneously settle the liability.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

(e) Amortised cost measurement

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

(f) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction at the measurement date.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument, if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. Where available, the relevant market's closing price determines the fair value of financial assets held for trading and of assets designated at fair value through profit or loss; this will generally be the last trading price.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates every factor that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank has a valuation committee which estimates fair value by applying models and incorporating observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available, observable market data.

Should the transaction price differ from the fair value of other observable, current market transactions in the same instrument or be based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised in the income statement depending on the individual circumstances of the transaction but not later than when the inputs become observable, or when the instrument is derecognised.

(g) Impairment of financial assets

Impairment of loans and advances

At each reporting date, the Group assesses whether there is any objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is considered impaired and impairment losses are incurred only when there is objective evidence of impairment as a result of one or more events occurring after initial recognition of the asset ("loss events") and these loss events impact future cash flows that can be estimated reliably for the loan or group of loans. Objective evidence of impairment includes observable data on the following loss events:

- significant financial difficulties of the borrower;
- a breach of contract, such as defaulting on instalments or on interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter into bankruptcy or undergo other financial reorganisation;
- observable data indicate a measurable decrease in estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with individual financial assets within the group, including adverse changes in the payment status of borrowers in the group or a general deterioration of economic conditions connected to that group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and then makes individual or collective assessments for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for a significant loan, it includes this loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in collective impairment assessments.

If there is objective evidence that an impairment loss has been incurred on loans or advances, the amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value. The recoverable value is the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment, using an allowance account, and the amount of the loss is recognised in the line item "Net impairment loss on loans and advances" in the income statement. In the case of loans with variable interest rates, the discount rate for measuring impairment losses is the current effective interest rate.

The present value calculated for estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure, less the costs involved in obtaining and selling the collateral, whether or not foreclosure is probable.

3. Significant accounting policies (continued)

3.4 Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

In order to conduct a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics on the basis of the Group's grading process, which considers asset type, collateral type, industry, past-due status and other relevant factors. These characteristics are appropriate for estimating future cash flows in groups of such loans by indicating the debtors' ability to pay every amount due according to contractual terms.

Groups of loans are collectively evaluated for impairment on the basis of expected cash flows and of peer review regarding assets with similar credit risk characteristics. Such peer review is also adjusted on the basis of current observable data, in order to reflect the effects of current conditions that did not affect the period on which peer review was originally based and to remove the effects of previous loss factors which no longer exist.

Estimates of changes in future cash flows in groups of assets are consistent with changes in observable data from period to period, for example changes in property prices, payment status, or other factors indicative of trends in the probability and magnitude of Group losses. The Group regularly reviews its methodology and assumptions for estimating future cash flows in order to minimise discrepancies between estimated losses and actual loss experience.

When a loan is uncollectible, it is written off against the provision for loan impairment in the statement of financial position. Loans are written off after all the necessary procedures have been completed, as set out in Group lending policies, and the amount of loss has been determined. Any subsequent recovery of an amount previously written off is recognised in the income statement in the line item "Net impairment loss on loans and advances".

If the amount of the impairment loss decreases in the subsequent period and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognised in the income statement in the line item "Net impairment loss on loans and advances".

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and an agreement of new loan terms. Loans which are impaired and whose terms are renegotiated are not considered to be new loans. Once the terms have been renegotiated these loans are no longer considered past due and any subsequent impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to individual or collective impairment assessment. Loans which are not individually impaired and whose terms are renegotiated are accounted for as new loans. Accordingly, the original loans are derecognised and the renegotiated loans are recognised as new loans.

3.5 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash, unrestricted balances with the Central Bank and unrestricted balances with financial institutions.

3.6 Bonds and equities

Bonds and equities which are classified as at fair value through profit or loss are recognised at fair value in the statement of financial position both initially and subsequently to initial recognition. Transaction costs are recognised directly in the income statement. Gains and losses arising from changes in fair value are recognised directly in the consolidated income statement in the line items "Net gain on financial assets and liabilities held for trading" and "Net gain on financial assets designated as at fair value through profit or loss", respectively. The gains and losses include interest income on bonds but exclude foreign exchange gains and losses, which are included in the line item "Net foreign exchange (loss) gain".

Bonds which are classified as loans and receivables are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and it is recognised in the line item "Interest income" in the income statement.

3.7 Derivative instruments

Derivatives are initially recognised in the statement of financial position at fair value, with transaction costs being recognised in the income statement. Subsequently, derivatives are carried at fair value, with all fair value changes recognised in the line item "Net gain on financial assets and liabilities held for trading" in the income statement, except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement. In the statement of financial position, derivatives with positive fair values are recognised as assets and derivatives with negative fair values are recognised as liabilities. The Group does not apply hedge accounting.

3. Significant accounting policies (continued)

3.8 Loans and advances

Loans and advances are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of loans and advances. Interest income on loans and advances is recognised in the line item "Interest income" in the income statement and foreign exchange differences in the line item "Net foreign exchange (loss) gain".

Loans and advances acquired at deep discount

The Bank acquired loans and advances from LBI hf. at deep discount that reflected credit losses which were already incurred at acquisition date. The deep discount was included in the fair value of these loans and advances estimated at initial recognition. The deep discount is also included in the estimated future cash flows used by the Group to calculate the amortised cost and effective interest rate of these loans and advances.

At each reporting date, the Group assesses the current status of these loans and advances and whether there is any objective evidence of changes in expected cash flows for example due to changes in the value of collateral and improvement in the financial situation of debtors. If there is any change in expected cash flows, the Group recalculates the carrying amount of these loans and advances as the present value of the revised estimated future cash flows, using their effective interest rate. The difference between the revised carrying amount of the loans and their current carrying amount, which includes accrued interest, indexation, foreign exchange differences and actual payments received by the Group, is recognised in the income statement in the line "Net adjustments to loans and advances acquired at deep discount".

The Group recognises interest and indexation on these loans and advances based on their carrying amount and only to the extent that the interest and indexation are deemed to be collectible. The interest and indexation are recognised in the income statement in the line "Interest income".

3.9 Property and equipment

All property and equipment is recognised at cost, less accumulated depreciation and accumulated impairment losses. The cost includes expenditures directly attributable to acquiring these assets.

Subsequent costs are included in an asset's carrying amount only if it is probable that future economic benefits associated with the item will flow to the Group and if these costs can be reliably measured. All other repairs and maintenance are charged to the income statement of the financial period in which their costs are incurred.

Depreciation of any property and equipment is calculated using the straight-line method. This method is applied to the depreciable amount of the assets, which is their cost less their residual value over their estimated useful lives, as follows:

Buildings	25-50 years
Computer hardware	3 years
Other equipment and motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed annually and adjusted where appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the item "Other income and expenses" in the income statement.

3.10 Intangible assets

(a) Computer software

Computer software is capitalised on the basis of cost to acquire or develop and bring into service. Computer software recognised as intangible asset is amortised over its useful life, which is estimated to be 3 - 5 years.

The costs associated with maintaining computer software are recorded as expenses at the time they are incurred.

(b) Goodwill

Goodwill is recognised as an asset only if acquired in a business combination. It is recognised as of the acquisition date and measured as the aggregate of (a) the fair value of the consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration.

3. Significant accounting policies (continued)

3.10 Intangible assets (continued)

(b) Goodwill (continued)

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is generally reviewed for impairment annually, but more frequently if events or changes in circumstances indicate a potential impairment of the carrying amount. For the purpose of impairment testing, goodwill is allocated as of the acquisition date to each of the Group's cash-generating units (CGUs) or group of CGUs which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which this goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Where goodwill is attached to a particular unit of a CGU (or of a group of CGUs) and part of the operations within that unit is disposed of, the goodwill that is associated with the operations disposed of is included in the carrying amount of these operations when determining the gain or loss incurred upon disposing of the operations.

3.11 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is either an asset's fair value less selling costs or its value in use, whichever is higher. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). With the exception of goodwill, non-financial assets are reviewed at each reporting date for any possible reversal of impairment.

3.12 Deferred income tax

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred income tax is recognised in full as a liability, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither the Group's accounting nor its taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from fair value changes in various financial assets and liabilities and the difference between the fair values of acquired assets and their tax base.

3.13 Assets and liabilities classified as held for sale

The Group classifies non-current assets (or groups of assets together with related liabilities) as held for sale when their carrying amount will be recovered principally through a sale transaction. This is usually the case with collateral foreclosed by the Group which it holds as security for loans and advances, including assets and liabilities of subsidiaries over which the Group obtains control through foreclosure of collateral and/or financial restructuring.

A non-current asset (or group of assets together with related liabilities) is considered to be recovered principally through a sale transaction when the asset's sale is highly probable and it is available for immediate sale in its present condition, subject to ordinary and customary terms on the sale of such assets. Management must be committed to the sale and must actively market the asset for sale at a price that is reasonable in relation to its current fair value. A further condition is that the sale is expected to qualify for recognition as completed within one year from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Additional net assets that become part of a disposal group, for example due to profits generated by the disposal group, increase the carrying amount of the disposal group but not in excess of the fair value less costs to sell of the disposal group as determined at each reporting date.

In the case of single assets classified by the Group as held for sale the Group determines their fair value less costs to sell by reference to the current market price at each reporting date. In the case of subsidiaries classified as held for sale, the Group determines the fair value of disposal groups based on discounted cash flow methodologies. Costs to sell are deemed to be only the costs which are incremental and directly attributable to the disposal of the disposal groups, excluding finance costs and income tax expense.

3.14 Deposits and secured bonds

The Group's sources of debt funding consist of deposits, loans from financial institutions and debt securities.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset or a similar asset at a fixed price on a future date ("repo"), this arrangement is accounted for as an amount due to financial institutions or the Central Bank, and the underlying asset continues to be recognised in the Group's financial statements.

3. Significant accounting policies (continued)

3.14 Deposits and secured bonds (continued)

The Group classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset or an equity instrument.

Deposits and borrowings are initially measured at fair value plus any directly attributable transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method. The fair value of a financial liability with a demand feature such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

3.15 Contingent bond

The Contingent Bond was a contingent obligation of the Bank to issue a bond to LBI hf. on 31 March 2013 as an additional consideration for the assets and liabilities transferred from LBI hf. on 9 October 2008. The issue of the bond and its nominal amount was contingent on the excess of the value of certain pools of assets, to be determined as at 31 December 2012, over the future value of the acquisition price of those assets as at 9 October 2008, subject to specified adjustments. In April 2013, the Bank issued Secured Bonds in the amount equivalent to ISK 92,000 million in foreign currencies (see Note 19). As these Secured Bonds were issued and recognised as a financial liability the Contingent Bond was simultaneously derecognised as a financial liability.

The contingent obligation of the Bank was classified as a financial liability and measured initially at fair value. Subsequently, it was measured at fair value, with any resulting gain or loss recognised in the line item "Fair value change of contingent bond" in the income statement.

3.16 Short positions

Short positions are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. These obligations are initially recognised in the statement of financial position at fair value, with transaction costs being recognised in the income statement. Subsequently, they are carried at fair value, with all fair value changes recognised in the income statement in the line item "Net gain on financial assets and liabilities held for trading".

3.17 Financial guarantee contracts

Financial guarantee contracts are contracts requiring the issuer to make specified payments to reimburse the holder for a loss it will incur if a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are issued by the Group to banks, financial institutions or other parties on behalf of Group customers so that they can secure loans, overdrafts and other banking facilities.

Financial guarantees issued by the Group are primarily bank guarantees and documentary letters of credit. Fees of long term guarantees are claimed up-front periodically over the life of each guarantee, initially at the inception of a guarantee. Fees of short term guarantees are in essence claimed up-front at inception. Fee income arising from the guarantees is recognised over time as the fees become payable. Provisions for losses on guarantees are subject to the uncertainty of assessing the extent to which guarantees may be called upon. For this purpose outstanding bank guarantees and documentary letters of credit are assessed quarterly in respect of credit losses and recognition of provisions. The provision assessment is based on experience with similar transactions and the history of past losses, supplemented by management judgement.

3.18 Contingent liabilities and provisions

The Group does not recognise contingent liabilities as liabilities in the statement of financial position, other than contingent liabilities which are assumed in a business combination and which have a fair value that can be measured reliably. A contingent consideration transferred by the Group in a business combination is recognised at its acquisition-date fair value. The Group classifies the obligation to pay contingent consideration as liability or equity and accounts for changes in fair value in accordance with applicable IFRS's.

Provisions for expenditures such as those related to legal claims or restructuring are recognised as incurred when (i) the Group has as a result of past events a present legal or constructive obligation to pay, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected for settling the obligation. A pre-tax rate is used which reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognised as interest expense.

3.19 Employee benefits

All Group entities have defined contribution plans, with the entities paying a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due. The Group has no defined benefit pension plan.

3. Significant accounting policies (continued)

3.20 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are presented separately in equity as a deduction from share premium.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity during the period in which they are approved by the Bank's shareholders' meeting.

3.21 Fiduciary activities

The Group acts as a custodian, holding or placing assets on behalf of individuals, institutions and pension funds, including various mutual funds managed by the Group. These assets, together with the income arising from them, are excluded from these financial statements, since they are not assets of the Group.

3.22 Interest income and expense

The interest income and expense presented in the consolidated income statement consist of interest income and expense from financial assets and liabilities measured at amortised cost.

The interest income and expense is recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but it does not consider any future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.23 Net impairment loss on loans and advances

Impairment charges relating to loans and advances to financial institutions and customers are presented in the consolidated income statement under the item "Net impairment loss on loans and advances". Once impairment has been recognised, subsequent interest income is recognised at the rate of interest used for discounting future cash flows when measuring impairment losses.

3.24 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis as the related services are performed. Arrangement fees are generally deferred together with related direct costs and recognised as an adjustment to the effective interest rate of a loan. Commissions and fees for participation in negotiating a transaction for a third party, such as arrangement of transactions with equities or other securities or the purchase or sale of businesses, are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period when the service is provided. The same principle for reporting income is applied to other custody services that are continuously provided over an extended period of time.

3.25 Net gain on financial assets designated as at fair value through profit or loss

The net gain on financial assets designated as at fair value through profit or loss relates to financial assets designated by the Group as at fair value through profit or loss and includes:
• All realised and unrealised changes in fair value;
• Interest income on an accrual basis;
• Dividend income, which is recognised when the Group's right to receive payment is established.

3.26 Net gain on financial assets and liabilities held for trading

The net gain on financial assets and liabilities held for trading relates to financial assets and liabilities classified by the Group as held for trading and includes:
• All realised and unrealised changes in fair value;
• Interest income on an accrual basis;
• Dividend income, which is recognised when the Group's right to receive payment is established;
• Foreign exchange gains and losses arising from derivative financial assets and liabilities, except for changes in fair value of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange gain" in the income statement.

3. Significant accounting policies (continued)

3.27 Net foreign exchange gain

Net foreign exchange gain (loss) includes all gains and losses arising from settlement of transactions in foreign currencies and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, including non-derivative financial assets and liabilities classified as held for trading and financial assets designated as at fair value through profit or loss. Foreign exchange gains and losses arising from derivative financial assets and liabilities are included in the line item "Net gain on financial assets and liabilities held for trading", except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement.

3.28 Other income and expenses

Other income and expenses include revenue arising from recharging agreements and gains and losses on repossessed collateral and property and equipment.

3.29 Leases

(a) When a Group entity is the lessee

The leases into which the Group enters as a lessee are primarily operating leases. Over the period of the lease, payments for operating leases are charged to the income statement on a straight-line basis, in the line item "Other operating expenses".

If an operating lease is terminated before the lease period has expired, any payment to the lessor required by way of penalty is recognised as an expense in the period in which termination occurs.

(b) When a Group entity is the lessor

When assets are held subject to a finance lease, the present value of lease payments is recognised as a receivable, under loans and advances to customers. Finance income from such a lease is recognised over the term of the lease, using a method that reflects a constant periodic rate of return on the Group's net investment in the lease.

3.30 Discontinued operations

The Group presents discontinued operations in a separate line of the consolidated income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:
• Represents a major separate line of business;
• Is a part of a single co-ordinated plan to dispose of a major separate line of business;
• Is a subsidiary acquired exclusively with a view to resale.

The profit from discontinued operations disclosed in the consolidated income statement consists of (a) post-tax profit or loss from discontinued operations and (b) post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or the disposal groups constituting the discontinued operation. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting, from the rest of the Group's operations and cash flows.

3.31 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.32 New standards, amendments to standards and interpretations of standards

New standards: The amendments to IFRS 7 Offsetting Financial Assets and Financial Liabilities and IFRS 13 Fair Value Measurement became effective for the year ended 31 December 2013 and have been applied in these consolidated financial statements. These standards required more extensive disclosures and had immaterial effect on the consolidated financial statements of the Group, whereas the material effect of the standards that have not yet become effective for the year ended 31 December 2013 remains uncertain.

The amendments to IAS 32 and IFRS 7 Offsetting Financial Assets and Financial Liabilities, which clarify when an entity currently has a legally enforceable right to set-off financial assets and financial liabilities and require an entity to disclose certain information about the effect or potential effect on an entity's financial position resulting from netting arrangements. The amendments to IAS 32 will become mandatory for the Group starting with its consolidated financial statements for the year 2014. The amendments to IFRS 7 became mandatory for the Group starting with these consolidated financial statements for the year 2013. Retrospective application is required for both amendments to IAS 32 and IFRS 7. The initial adoption of the amendments to the IFRS 7 has resulted in a new disclosure: Offsetting financial assets and liabilities (Note 69). The Group did not early adopt IAS 32 which, inter alia, requires the Group to provide more extensive disclosures about the effect or potential effect of netting arrangements on the Group's financial position.

3. Significant accounting policies (continued)

3.32 New standards, amendments to standards and interpretations of standards (continued)

IFRS 13 Fair Value Measurement establishes a single framework for measuring fair value of both financial and non-financial items and sets out related disclosure requirements. IFRS 13 does not give rise to any new requirements as to when fair value measurements are required. Instead, IFRS 13 provides guidance on how fair value should be measured and disclosed when required or permitted under other IFRS's. In general, the disclosures required by IFRS 13 are more extensive than the disclosures required previously. IFRS 13 became mandatory for the Group starting with these consolidated financial statements for the year 2013. The Group applied the measurement requirements of IFRS 13 prospectively as of the beginning of the annual period starting 1 January 2013 and provides the disclosures required by IFRS 13 for comparative periods. The application of IFRS 13 has resulted in more extensive disclosures about fair value measurements but has not had any significant impact on the measurement of assets or liabilities. The additional disclosures required by IFRS 13 are presented in Note 6.

IFRS 10 Consolidated Financial Statements, which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for determining which entities are consolidated. The principle of control sets out three elements of control: (a) power over an investee, (b) exposure, or rights, to variable returns from involvement with the investee, and (c) the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 contains guidance on how to apply the control principle in various circumstances, including situations where the investor holds less than a majority of voting rights. IFRS 10 carries forward the consolidation procedures from IAS 27 Consolidated and Separate Financial Statements (as amended in 2008). IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 will become mandatory for the Group starting with its consolidated financial statements for the year 2014, with retrospective application but subject to specific transition rules. The Group did not early adopt IFRS 10 and is currently in the process of evaluating the possible impact of IFRS on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities, which includes all the disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosures required by IFRS 12 are more extensive than the disclosures required by currently effective standards. IFRS 12 will become mandatory for the Group starting with its consolidated financial statements for the year 2014, with retrospective application required but subject to specific transition rules. The Group did not early adopt IFRS 12 and is currently in the process of evaluating the impact of IFRS 12 on its consolidated financial statements. However, the Group already expects that it will be required to provide more extensive disclosures about the nature of, and risks associated with, the Bank's interests in other entities and the effects of those interests on the Group's financial position, financial performance and cash flows.

IFRS 9 Financial Instruments, which replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets and financial liabilities. The key features of IFRS 9 are the following:

• Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

• An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

• All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There will be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

• Derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not to be separated; instead the hybrid financial instrument is to be assessed in its entirety as to whether it should be measured at amortised cost or fair value.

• IFRS 9 (2010) generally requires that the amount of change in fair value attributable to changes in the credit risk of liabilities designated by an entity as at fair value through profit or loss be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss. The amounts presented in other comprehensive income may not be subsequently reclassified to profit or loss but may be transferred within equity. However, if the recognition of gains and losses in other comprehensive income creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change must be presented in profit or loss. Additionally, all fair value gains and losses continue to be included in profit or loss for loan commitments and financial guarantee contracts designated as fair value through profit or loss.

3. Significant accounting policies (continued)

3.32 New standards, amendments to standards and interpretations of standards (continued)

Currently, IASB has issued two versions of IFRS 9. The first version was issued in 2009 and the second version was issued in 2010. The 2010 version includes all the requirements of the 2009 version without amendment, but in addition, it also includes the requirements with respect to the classification and measurement of financial liabilities and the de-recognition of financial assets and financial liabilities. The 2010 version supersedes the 2009 version. However, for annual periods beginning before 1 January 2015, an entity may elect to apply the 2009 version rather than the 2010 version.

If endorsed by the EU, IFRS 9 was supposed to become mandatory for the Group starting with its consolidated financial statements for the year 2015. The International Accounting Standards Board (IASB) decided to remove 1 January 2015 as the mandatory effective date of IFRS 9 and tentatively decided that it would be no earlier than 1 January 2018. Upon initial application of IFRS 9 the Group will have a choice as to whether it will restate prior periods or not and it will need to provide certain disclosures about the transition from IAS 39 to IFRS 9. The Group does not plan to early adopt IFRS 9 and is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, the standard is expected to have a pervasive impact on the consolidated financial statements of the Group.

4. Critical accounting estimates and judgements in applying accounting policies

(a) Effective interest rate on loans and advances

The Bank acquired loans and advances from LBI hf. at a deep discount, reflecting incurred credit losses. The effective interest rate is computed for these loans by estimating their future cash flows and comparing it with their acquisition prices. Estimating the cash flows involves management judgements about the debtors' financial situation and ability to pay their debts, the net realisable value of any underlying collateral and the timing of any potential cash flows. These estimates have a significant risk of resulting in material adjustments to the carrying amounts of loans within the next financial year.

(b) Impairment losses on loans and advances

To assess impairment, the Group reviews its loan portfolios on at least a quarterly basis. To determine whether an impairment loss should be recognised, the Group judges whether there is any observable data indicating a measurable decrease in estimated future cash flows from a portfolio of loans, before any decrease in individual loans becomes identifiable within that portfolio. The evidence may include either observable data indicating that an adverse change has occurred in the payment status of the borrowers in a group, or national or local economic conditions correlating with defaults on assets in the group. In order to schedule its future cash flows, management uses estimates based on historical loss experience, together with objective evidence of impairment in homogenous portfolios. The methodology and assumptions for estimating both the amount and timing of future cash flows are reviewed regularly in order to reduce potential discrepancies between loss estimates and actual loss experience.

(c) Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair value, they are validated and periodically reviewed by qualified and independent personnel. All models are certified before use, and calibrated to ensure that the outputs reflect actual data and comparative market prices. Wherever practical, models are confined to observable data; however, areas such as volatility, correlation and credit risk, whether own or counterparty, require management to make estimates. Changing assumptions on these factors could affect the reported fair value of financial instruments.

(d) Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be classified at initial recognition into different categories in certain circumstances:

• Where financial assets or liabilities have been classified as "held for trading", the Group has determined that they meet the description of such assets and liabilities set out in its accounting policies.

• Where financial assets have been designated as at fair value through profit or loss, the Group has determined that they meet the criteria set out in the accounting policies.

• Where financial assets have been classified as loans and receivables, the Group has determined that they meet the criteria set out in the accounting policies.

(e) Assets classified as held for sale

The Group classifies assets and groups of assets together with related liabilities as held for sale if such assets or disposal groups are immediately available for sale in their present condition, subject to terms that are usual and customary for selling such assets or disposal groups, if management is committed to selling such assets and is actively looking for a buyer, if the assets are being actively marketed at a reasonable sales price in relation to their fair value, if completion of the sale is expected within one year and if sale is considered highly probable. However, events and circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete the sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and the Group remains committed to its plan to sell the asset (or disposal group).

When classifying assets as held for sale the Group has determined that the classification criteria have been met.

4. **Critical accounting estimates and judgements in applying accounting policies (continued)**

(f) Deferred tax assets

Deferred tax assets are recognised in the consolidated statement of financial position. In respect of tax losses carried forward, they are recognised to the extent that it is probable that taxable profits will be available against which to utilise the losses. Judgement is required to determine the amount of deferred tax assets that may be recognised, based upon the likely timing and level of future taxable profits, as well as tax-planning strategies.

(g) Liquidity

The key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits. The calculation of this ratio requires judgement as to which assets to consider liquid. Furthermore, the maturity of some assets included in the maturity analysis of the financial assets and liabilities disclosed in the notes, such as loans acquired from LBI hf., is based on expected future cash flows rather than contractual maturities. The estimation of the amount and timing of the cash flows from these financial assets involves management judgements about the debtors' financial situations and their abilities to repay their debts, the net realisable value of any underlying collateral and the timing of any possible cash flows.

(h) Denomination currencies and interest rates of lease and loan agreements

On 15 February 2012 and 18 October 2012 the Supreme Court ruled in two separate cases concerning loans with illegal currency indexation that a lender could not apply the Central Bank interest rates in the recalculation of such a loan under circumstances specified in the rulings, inter alia, as the lender had issued final receipt of payment of interests. The Group has accounted for the potential impact of the these two rulings and recognised, respectively, expenses in the amount of ISK 38,042 million and ISK 2,120 million in its consolidated income statements for 2011 and 2012. These expenses were recognises in the income statements under line item "Loss from foreign currency linkage of loans and advances to customers". Further Court rulings are awaited to obtain final clarification of the precedent of these rulings. The total amount of the estimated impact may change accordingly.

The litigation section in Note 36 includes a case No. 4 involving a dispute of whether a loan agreement is to be regarded as a legitimate foreign currency loan or a loan denominated in Icelandic krona illegally indexed to foreign currencies. In June 2013, the District Court of Reykjavík ruled in favour of the Bank concluding that the loan was a legitimate foreign currency loan. The case has been appealed to the Supreme Court. The Bank refers to the fact that the loan was repaid in foreign currencies and maintains that the loan should be considered as a foreign currency loan. If the Supreme Court finds that the currency of repayment is irrelevant in the circumstances at hand the case may set precedent for other loan agreements and have a significant impact. The Bank may have to recognise expenses in the amount of ISK 11,521 million in the forthcoming periods.

In November 2013, the Supreme Court ruled in a case in which the plaintiff had issued a bond with an illegal indexation to foreign currencies. The plaintiff repaid the loan in full at a later date with a new loan. The plaintiff then repaid the new loan. The Supreme Court considered that because of the currency indexation of the first loan the principal amount of new loan, used to repay the first loan, had been determined as too high. The Court concluded that the Bank was obliged to repay the plaintiff the difference. The case may have an impact with regard to loans where circumstances are identical.

5. Operating segments

The business segments are presented in accordance with the internal reporting to the CEO and the Board of Directors, who are responsible for allocating resources to the reportable segments and assessing their financial performance.

The Group has four main business segments at the end of the reporting period:

• **Personal Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses.

• **Corporate Banking** provides financial servies to large and medium-size corporate clients. It also provides restructuring solutions for underperforming businesses.

• **Markets** provide brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. Markets provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Horn fjárfestingarfélag and Landsbréf, subsidiaries of the Bank, are included in Markets.

• **Treasury** incorporates unallocated capital, funding, liquidity and interbank functions for the Bank as well as management of the Group's market risk.

Support Functions comprise of Finance (excluding Treasury), Risk Management, Corporate Development & HR and Operations & IT.

Reconciliation consists of eliminations and transactions that cannot be allocated to any one segment.

Administrative expenses of the Group's Support Functions are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Support Functions supply services to business units, and transactions are settled at unit prices or on an arm's-length basis; if possible, on the basis of consumption and activity.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segments profit before tax. In these reports all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm's length basis.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the periods from 1 January to 31 December 2013 and 2012.

5. Operating segments (continued)

1 January - 31 December 2013	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Recon-ciliation	Total
Net interest income (expense)	17,615	14,364	443	3,552	(36)	(1,624)	**34,314**
Net adjustments in valuation	68	12,899	-	(195)	281	-	**13,053**
Net fee and commission income	2,667	565	2,463	116	(173)	(347)	**5,291**
Other net operating income	(1,331)	(1,062)	5,640	8,014	76	1,586	**12,923**
Total operating income (expense)	**19,019**	**26,766**	**8,546**	**11,487**	**148**	**(385)**	**65,581**
Operating expenses	(8,170)	(1,357)	(2,129)	(1,286)	(14,670)	361	**(27,251)**
Share of profit of equity-accounted associates, net of income tax	300	-	-	2,412	-	-	**2,712**
Profit (loss) before cost allocation and tax	**11,149**	**25,409**	**6,417**	**12,613**	**(14,522)**	**(24)**	**41,042**
Cost allocated from support functions to business segments	(6,225)	(2,656)	(1,178)	(801)	10,860	-	**0**
Profit (loss) before tax	**4,924**	**22,753**	**5,239**	**11,812**	**(3,662)**	**(24)**	**41,042**
Net revenue (expenses) from external customers	13,084	40,569	8,217	3,977	120	-	**65,967**
Net revenue (expenses) from other segments	5,935	(13,801)	329	7,510	27	-	**0**
Total operating income (expense)	**19,019**	**26,768**	**8,546**	**11,487**	**147**	**0**	**65,967**
At 31 December 2013							
Total assets	502,120	406,896	59,238	558,637	22,846	(398,221)	**1,151,516**
Total liabilities	449,219	323,591	50,457	462,265	22,846	(398,221)	**910,157**
Allocated capital	52,901	83,305	8,782	96,371	-		**241,359**

1 January - 31 December 2012	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Recon-ciliation	Total
Net interest income (expense)	17,395	17,739	194	1,728	(835)	(637)	**35,584**
Net adjustments in valuation	(10,082)	1,743	-	269	3,679	-	**(4,391)**
Net fee and commission income	2,381	403	2,035	247	(237)	(381)	**4,448**
Other net operating income	(149)	(24)	4,723	8,251	408	291	**13,500**
Total operating income (expense)	**9,545**	**19,861**	**6,952**	**10,495**	**3,015**	**(727)**	**49,141**
Operating expenses	(7,028)	(1,161)	(1,506)	(1,537)	(13,207)	334	**(24,105)**
Share of profit of equity-accounted associates, net of income tax	618	-	-	1,793	38	-	**2,449**
Profit (loss) before cost allocation and tax	**3,135**	**18,700**	**5,446**	**10,751**	**(10,154)**	**(393)**	**27,485**
Cost allocated from support functions to business segments	(6,408)	(2,543)	(888)	(1,140)	10,979	-	-
Profit (loss) before tax	**(3,273)**	**16,157**	**4,558**	**9,611**	**825**	**(393)**	**27,485**
Net revenue (expenses) from external customers	2,973	36,367	6,647	578	3,303	-	**49,868**
Net revenue (expenses) from other segments	6,572	(16,506)	305	9,917	(288)	-	**0**
Total operating income (expense)	**9,545**	**19,861**	**6,952**	**10,495**	**3,015**	**0**	**49,868**
At 31 December 2012							
Total assets	486,318	403,379	33,051	539,568	37,387	(414,916)	**1,084,787**
Total liabilities	449,838	330,373	28,833	428,179	37,314	(414,916)	**859,621**
Allocated capital	36,480	73,006	4,218	111,389	73		**225,166**

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Notes to the Consolidated Statement of Financial Position

6. Classification and fair value of financial assets and liabilities

According to IAS 39, financial assets and liabilities must be classified into specific categories which affect how they are measured after initial recognition. Each category's basis of subsequent measurement is specified below:

- Loans and receivables, measured at amortised cost;
- Financial assets and liabilities held for trading, measured at fair value;
- Financial assets designated as at fair value through profit or loss, measured at fair value;
- Other financial liabilities, measured at amortised cost.

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2013:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	21,520	-	-	-	-	21,520	21,520
Bonds and debt instruments	111,902	151,894	26,799	-	-	290,595	292,329
Equities and equity instruments	-	3,965	32,310	-	-	36,275	36,275
Derivative instruments	-	654	-	-	-	654	654
Loans and advances to financial institutions	67,916	-	-	-	-	67,916	67,916
Loans and advances to customers	680,468	-	-	-	-	680,468	685,159
Other financial assets	6,366	-	-	-	-	6,366	6,366
Total	**888,172**	**156,513**	**59,109**	**0**	**0**	**1,103,794**	**1,110,219**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	167,218	-	167,218	167,218
Deposits from customers	-	-	-	456,662	-	456,662	456,637
Derivative instruments and short positions	-	7,571	-	-	-	7,571	7,571
Secured bonds	-	-	-	239,642	-	239,642	239,642
Other financial liabilities	-	-	-	12,320	-	12,320	12,320
Total	**0**	**7,571**	**0**	**875,842**	**0**	**883,413**	**883,388**

The following table shows the classification of the Group's financial assets and liabilities according to IAS 39 and their fair values as at 31 December 2012:

Financial assets	Loans and receivables	Held for trading	Designated as at fair value	Liabilities at amortised cost	Other liabilities at fair value	Total carrying amount	Fair value
Cash and balances with Central Bank	25,898	-	-	-	-	25,898	25,898
Bonds and debt instruments	113,203	100,950	14,055	-	-	228,208	228,641
Equities and equity instruments	-	1,107	35,774	-	-	36,881	36,881
Derivative instruments	-	1,043	-	-	-	1,043	1,043
Loans and advances to financial institutions	64,349	-	-	-	-	64,349	64,349
Loans and advances to customers	666,087	-	-	-	-	666,087	674,417
Other financial assets	10,481	-	-	-	-	10,481	10,481
Total	**880,018**	**103,100**	**49,829**	**0**	**0**	**1,032,947**	**1,041,710**
Financial liabilities							
Due to financial institutions and Central Bank	-	-	-	98,718	-	98,718	98,718
Deposits from customers	-	-	-	421,058	-	421,058	420,856
Derivative instruments and short positions	-	9,438	-	-	-	9,438	9,438
Secured bonds	-	-	-	221,791	-	221,791	221,791
Contingent bond	-	-	-	-	87,474	87,474	87,474
Other financial liabilities	-	-	-	14,369	-	14,369	14,369
Total	**0**	**9,438**	**0**	**755,936**	**87,474**	**852,848**	**852,646**

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

The fair value of financial assets and liabilities was determined based on the following methods and assumptions. For all financial assets and liabilities the foreign currency exchange rates used are from observable markets both for spot and forward contracts and futures in the world's major currencies.

Balances with Central Bank

The carrying amount of balances with Central Bank is a reasonable approximation of their fair value.

Bonds and debt instruments

Quoted prices are generally available for government bonds and certain corporate securities. Where this information is not available, fair value is estimated by adding credit spreads to quoted market rates for similar bonds or relevant interest rate curves.

For bonds issued by defaulting or greatly distressed parties recovery values are used for estimating the fair value. These estimated are based on statement of financial position information or expert opinion.

Where available, credit spreads are derived from prices of credit default swaps (CDS) or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services. Counterparty credit spreads are estimated based on the creditworthiness of the counterparty when differing from the assumed counterparty in the market.

Equities and equity instruments

Quoted prices are generally readily available for equity shares listed on the world's stock exchanges and for major indices on such shares. When this information is not available the fair value is estimated based on market prices and earning multiples from similar securities, recent transactions or by using discounted cash flow methods.

Derivative instruments

The fair value of derivative instruments is determined using valuation methods whose most significant inputs is volatility, which are obtained from broker quotations, pricing services or derived from option prices.

Loans and advances to financial institutions

Loans and advances to banks include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of their fair value.

Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received based on future recovery of the loans. The recovery rates and loss given default are used as input into valuation models as an indicator of severity of losses on default. The loans are grouped by type and for each loan the estimated cash flows to be received during each month until end of 2014 are estimated and payments after 2014 are estimated to be received at the end of June each year. Expected cash flows are discounted at current market rates to determine fair value.

Due to financial institutions and Central Bank

Amounts due to financial institutions and Central Bank are repriced at least monthly and therefore their estimated fair value is the same as their carrying amount.

Deposits from customers

Deposits are recognised at amortised cost. The difference from fair value is the interest-rate dependent value adjustment calculated by comparing current market rates with original market rates of the deposits.

Short positions

The short positions are in Icelandic government bonds with readily available quoted market prices.

6. Classification and fair value of financial assets and liabilities (continued)

Secured bonds

The fair value of the secured bonds equals their carrying amount as the bonds have been discounted upon initial recognition at market rate and no significant changes have occurred in the market rate for these secured bonds since initial recognition.

Contingent bond

In April 2013, the Bank issued secured bonds in the amount equivalent to ISK 92,000 million in foreign currencies (see Note 19). As these Secured Bonds were issued and recognised as a financial liability the Contingent bond was simultaneously derecognised as a financial liability.

The contingent obligation of the Bank was classified as a financial liability and measured initially at fair value. Subsequently, it was measured at fair value, with any resulting gain or loss recognised in the line item "Fair value change of contingent bond" in the income statement.

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs to valuation used to measure fair value. Fair value measurements of financial instruments are made on the basis of the following hierarchy:

• Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value;

• Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares and the yield of actively traded bonds with same duration is used as a benchmark for the valuation of bonds;

• Level 3: Valuation technique based on significant non-observable inputs. It includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies multiples are the most commonly used methods to calculate fair value of unlisted shares in addition to recent transactions and market conditions.

Assumptions and inputs used in the valuation technique include risk-free and benchmark interest rates for estimating discount rates, credit spreads, bonds and equity prices, foreign currency exchange rates, market multipliers, market conditions for estimating future growth and other market indicators.

Valuation framework

The Bank's Risk and Finance Committee is responsible for fair value measurements of financial assets and liabilities classified as level 2 and 3 instruments. Furthermore, the Committee oversees the Group's overall risk. The Bank's Valuation group reports its valuation results to the Risk and Finance Committee for verification. The Valuation group is comprised of personnel from Risk, Treasury and Accounting. The Valuation group holds meetings monthly to determine the value of level 2 and level 3 financial assets and liabilities.

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 Statement of Financial Position, are categorised as at 31 December 2013:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	152,472	15,547	10,674	178,693
Equities and equity instruments	8,209	1	28,064	36,275
Derivative instruments	-	654	-	654
Total	**160,681**	**16,202**	**38,738**	**215,622**
Financial liabilities				
Derivative instruments	-	583	-	582
Short positions	6,988	-	-	6,988
Total	**6,988**	**583**	**0**	**7,571**

During the year 2013 there were transfers between Level 1 and Level 2 due to changes in market conditions. Price determination of certain securities is more dynamic and unadjusted quoted prices can be used as a measurement of fair value. Therefore, these securities, with a carrying amount of ISK 30 billion, were transferred from Level 2 to Level 1 of the fair value hierarchy.

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

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 Statement of Financial position, are categorised as at 31 December 2012:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	63,751	40,643	10,611	115,005
Equities and equity instruments	4,212	2,792	29,877	36,881
Derivative instruments	-	1,043	-	1,043
Total	**67,963**	**44,478**	**40,488**	**152,929**

Financial liabilities				
Derivative instruments	-	519	-	519
Short positions	8,919	-	-	8,919
Contingent bond	-	-	87,474	87,474
Total	**8,919**	**519**	**87,474**	**96,912**

During the year 2012 there were no transfers between Level 1, Level 2 or Level 3.

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, not carried at fair value in the Consolidated Statement of Financial Position, are categorised as at 31 December 2013:

Financial assets	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	-	21,520	-	21,520
Bonds and debt instruments	102,033	11,603	-	113,636
Loans and advances to financial institutions	-	67,916	-	67,916
Loans and advances to customers	-	509,128	176,031	685,159
Other financial assets	-	6,366	-	6,366
Total	**102,033**	**616,533**	**176,031**	**894,597**

Financial liabilities				
Due to financial institutions and Central Bank	-	167,218	-	167,218
Deposits from customers	-	456,637	-	456,637
Secured bonds	-	239,642	-	239,642
Other financial liabilitites	-	12,320	-	12,320
Total	**0**	**875,817**	**0**	**875,817**

The following table shows the level in the hierarchy into which the fair value of financial assets and liabilities, not carried at fair value in the Consolidated Statement of Financial Position, are categorised as at 31 December 2012:

Financial assets	Level 1	Level 2	Level 3	Total
Cash and balances with Central Bank	-	25,898	-	25,898
Bonds and debt instruments	100,719	12,917	-	113,636
Loans and advances to financial institutions	-	64,349	-	64,349
Loans and advances to customers	-	401,211	273,206	674,417
Other financial assets	-	10,481	-	10,481
Total	**100,719**	**514,856**	**273,206**	**888,781**

Financial liabilities				
Due to financial institutions and Central Bank	-	98,718	-	98,718
Deposits from customers	-	420,856	-	420,856
Secured bonds	-	221,791	-	221,791
Contingent bond	-	-	87,474	87,474
Other financial liabilitites	-	14,369	-	14,369
Total	**0**	**755,734**	**87,474**	**843,208**

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

The following tables show the reconciliation of fair value measurement in Level 3 for the year 2013 and 2012:

1 January - 31 December 2013	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
Carrying amount at 1 January 2013	10,611	29,877	40,488	(87,474)
Total gains recognised in income statement	474	5,561	6,035	6,212
Change in contingent bond	-	-	-	(4,691)
Purchases	-	56	56	-
Sales	(436)	(8,432)	(8,868)	-
Settlements	25	-	25	85,953
Winding up proceedings of subsidiary	-	1,002	1,002	-
Carrying amount at 31 December 2013	**10,674**	**28,064**	**38,738**	**0**
1 January - 31 December 2012				
Carrying amount at 1 January 2012	11,603	28,259	39,862	(60,826)
Total gains (losses) recognised in income statement	462	5,061	5,523	(26,648)
Purchases	-	2,629	2,629	-
Sales	(40)	(6,281)	(6,321)	-
Settlements	(1,414)	209	(1,205)	-
Carrying amount at 31 December 2012	**10,611**	**29,877**	**40,488**	**(87,474)**

The following tables show the line items in the consolidated income statement where the total gains (losses) were recognised during the year 2013 and 2012, for fair value measurements in Level 3:

1 January - 31 December 2013	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Fair value change of contingent bond	-	-	1,319	1,319
Interest expense	-	-	(623)	(623)
Net gain on financial assets designated as at fair value through profit or loss	1,045	6,300	-	7,345
Net foreign exchange gain (loss)	(571)	(739)	5,516	4,206
Total	**474**	**5,561**	**6,212**	**12,247**
1 January - 31 December 2012				
Fair value change of contingent bond	-	-	(27,331)	(27,331)
Net gain on financial assets designated as at fair value through profit or loss	643	4,534	-	5,177
Net foreign exchange gain (loss)	(181)	527	683	1,029
Total	**462**	**5,061**	**(26,648)**	**(21,125)**

The following table shows the line items in the consolidated income statement where gains (losses), relating only to financial assets and liabilities held by the Group at 31 December 2013 and categorised in Level 3, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
Interest expense	-	-	(623)	(623)
Net gain on financial assets designated as at fair value through profit or loss	1,030	488	-	1,518
Net foreign exchange gain (loss)	(563)	(5)	5,516	4,948
Total	**467**	**483**	**4,893**	**5,843**

All amounts are in ISK million

6. Classification and fair value of financial assets and liabilities (continued)

Unobservable inputs in fair value measurement

The following table shows the unobservable inputs used in measuring fair value for the year 2013.

At 31 December 2013	Assets	Liabilities	Valuation technique	Key unobservable inputs	Range of inputs Lower	Range of inputs Higher
Bonds and debt instruments	10,674	-	See note 1)	See note 1)	n/a	n/a
Equities and equity instruments	28,064	-	See note 2)	See note 2)	n/a	n/a
	38,738	**0**				

The table above provides information on Level 3 financial assets and liabilities. A further description of the categories is given below:

1. Fair value of corporate bonds and claims on financial institutions in winding up proceedings and other insolvent assets is estimated on the basis of an analysis of the estates' financial position and expected recovery. Reference is also made to prices in recent transactions. Given the nature of the valuation method, a range of key unobservable inputs is not available.

2. Equities and equity instruments classified as level 3 assets, are unlisted and not traded in an active market and therefore subject to unobservable inputs for fair value measurements. Valuation using discounted cash flows, comparison of peer companies' multiples, analysis of financial position and results, outlook and recent transactions are the methods or inputs used to estimate fair value of investments in equities and equity instruments. Given the nature of the valuation method, a range of key unobservable inputs is not available.

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following table shows how profit before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to reasonably possible alternatives:

	Effect on profit before tax Favourable	Effect on profit before tax Unfavourable
Bonds and debt instruments	534	(534)
Equities and equity instruments	1,200	(1,195)
Total	**1,734**	**(1,729)**

The effect on profit was calculated using methods suitable for the models used. Key unobservable inputs were changed by +/- 5%.

7. Cash and balances with Central Bank

	2013	2012
Cash on hand	3,465	2,749
Reverse repurchase agreements with Central Bank	10,013	21,178
Unrestricted balances with Central Bank	1,586	-
Total cash and unrestricted balances with Central Bank	**15,064**	**23,927**
Restricted balances with Central Bank	6,456	1,971
Total cash and balances with Central Bank	**21,520**	**25,898**

The Group has entered into short-term reverse repurchase agreements with the Central Bank of Iceland according to which the Group acquired certificates of deposit issued by the Central Bank and committed to resell the certificates to the Central Bank at a fixed price at the end of the contractual period. The Group does not recognise the certificates of deposit as its assets because the Group does not bear substantially all the risks and rewards of ownership of the certificates. However, the Group derecognised the cash transferred to the Central Bank and recognised a receivable from the Central Bank, including accrued interest.

The Bank holds a mandatory reserve deposit account with the Central Bank of Iceland. The average balance of this account for each month must be equivalent to at least mandatory reserve deposits, which amounted to ISK 7,857 million for December 2013 (December 2012: ISK 7,262 million). Any excess balance is available for use by the Group. Other cash and balances with the Central Bank are available for the Group's immediate use.

All amounts are in ISK million

8. **Bonds and equities**

	2013				2012			
Bonds and debt instruments	Loans and receivables	Held for trading	Designated as at fair value	Total	Loans and receivables	Held for trading	Designated as at fair value	Total
Domestic								
Listed	111,902	38,152	612	150,666	113,203	45,251	1,820	160,274
Unlisted	-	1,619	26,187	27,806	-	-	11,837	11,837
	111,902	**39,771**	**26,799**	**178,472**	**113,203**	**45,251**	**13,657**	**172,111**
Foreign								
Listed	-	112,123	-	112,123	-	55,699	-	55,699
Unlisted	-	-	-	0	-	-	398	398
	0	**112,123**	**0**	**112,123**	**0**	**55,699**	**398**	**56,097**
Total bonds	**111,902**	**151,894**	**26,799**	**290,595**	**113,203**	**100,950**	**14,055**	**228,208**
Equities and equity instruments								
Domestic								
Listed	-	3,047	775	3,822	-	1,105	996	2,101
Unlisted	-	917	28,846	29,763	-	-	31,362	31,362
	0	**3,964**	**29,621**	**33,585**	**0**	**1,105**	**32,358**	**33,463**
Foreign								
Listed	-	1	2,617	2,618	-	2	561	563
Unlisted	-	-	72	72	-	-	2,855	2,855
	0	**1**	**2,689**	**2,690**	**0**	**2**	**3,416**	**3,418**
Total equities	**0**	**3,965**	**32,310**	**36,275**	**0**	**1,107**	**35,774**	**36,881**
Total bonds and equities	**111,902**	**155,859**	**59,109**	**326,870**	**113,203**	**102,057**	**49,829**	**265,089**

Bonds and equities are classified as "domestic" or "foreign" according to the country of incorporation of the issuer.

Bonds and debt instruments classified as loans and receivables as at 31 December 2013 and 2012 consist partly of the government bonds which the Bank received in settlement of the capital contribution in 2009. The bonds were listed on the OMX Stock Exchange in Iceland during 2010.

9. **Derivative instruments and short positions**

	2013			2012		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	43,608	637	68	57,302	1,040	113
Cross-currency interest rate swaps	1,098	-	453	1,506	-	377
	44,706	**637**	**521**	**58,808**	**1,040**	**490**
Interest rate derivatives						
Total return swaps	5,178	3	9	4,668	3	8
	5,178	**3**	**9**	**4,668**	**3**	**8**
Equity derivatives						
Total return swaps	2,067	14	52	562	-	21
	2,067	**14**	**52**	**562**	**0**	**21**
Short positions - listed bonds	-	-	6,988	-	-	8,918
Total	**51,951**	**654**	**7,571**	**64,038**	**1,043**	**9,438**

The Group uses derivatives both for hedging and trading purposes.

10. **Loans and advances to financial institutions**

	2013	2012
Bank accounts with financial institutions	4,863	8,559
Money market loans	49,625	37,769
Overdrafts	6,394	7,726
Other loans	7,034	10,295
Total	**67,916**	**64,349**

All amounts are in ISK million

11. Loans and advances to customers

	2013	2012
Public entities	10,149	11,682
Individuals	217,719	207,608
Corporations	503,544	490,827
Less: Allowance for impairment	(50,944)	(44,030)
Total	**680,468**	**666,087**

During the reporting period the Group was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.

Further disclosures on loans and advances are provided in the risk management section of the notes.

12. Investments in associates

a) Investments in equity-accounted associates	2013	2012
Carrying amount at the beginning of the year	15,528	11,678
Acquisition	2,468	1,334
Reclassification from assets held for sale	(4)	2,665
Share of profit of equity-accounted associates, net of income tax	2,712	2,449
Disposals and dividend received	(6,480)	(2,598)
Total	**14,224**	**15,528**

At 31 December 2013*	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Valitor Holding hf.	42,527	35,058	(352)	38%	(137)	2,905
Framtakssjóður Íslands slhf.	35,862	3,669	7,636	28%	2,134	8,882
Borgun hf.	24,914	21,899	960	31%	301	960
Reiknistofa bankanna hf.	2,186	522	91	37%	3	613
Motus ehf.	714	390	225	48%	137	191
Auðkenni ehf.	287	38	(163)	20%	(39)	50
IEI slhf.	2,251	-	-	28%	-	621
Reginn hf.	-	-	-	-	315	-
Other	-	-	-	-	(1)	2
Total	**108,742**	**61,576**	**8,397**		**2,712**	**14,224**

At 31 December 2012*	Total assets	Total liabilities	Profit (loss)	Ownership interest	Share of profit of associates	Carrying amount
Valitor Holding hf.	43,391	35,098	918	38%	352	3,155
Framtakssjóður Íslands slhf.	29,526	118	6,014	28%	1,660	8,113
Reginn hf.	28,004	16,811	533	25%	133	2,798
Borgun hf.	20,599	18,548	654	31%	204	660
Reiknistofa bankanna hf.	2,187	478	91	37%	34	629
Motus ehf.	569	355	129	40%	62	125
Auðkenni ehf.	224	32	21	20%	4	38
Other	-	-	-	-	-	10
Total	**124,500**	**71,440**	**8,360**		**2,449**	**15,528**

*The amounts for the years 2012 and 2013 in the tables are estimated not actual amounts at the end of the respective years, if actual amounts were not readily available.

The Group sold the 25% of the remaining shares in Reginn hf. in the year 2013. All associates are unlisted companies.

At year-end 2013 the Bank has undrawn committments to invest in Framtakssjóður Íslands slhf. (FSI) for ISK 3,121 million (2012: ISK 6,158 million) and in IE slhf. (IEI) for ISK 1,242 million (2012: ISK 0 million). Both amounts represent 27.6% of undrawn shareholder commitments in FSI and IEI, respectively. FSI and IEI are both required to redeem its shareholders with the proceeds from the sale of assets. FSI's estimated fair value of the Bank's investment in FSI is higher than the carrying amount at year-end 2013 by ISK 4,031 million. IEI's estimated fair value of the Bank's investment in IEI is higher than the carrying amount at year-end 2013 by ISK 1,405 million.

b) Investments in associates designated as at fair value through profit or loss

Three investments in associates are accounted for in their entirety by the Group as financial assets designated as at fair value through profit or loss and presented in the consolidated statement of financial position in the line "Equities and equity instruments". Those investments are 49.9% shareholding in Promens hf., 29.6% shareholding in Reitir hf. and 21.2% in Eyrir Invest hf.

All amounts are in ISK million

13. Property and equipment

	2013			2012		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount at the beginning of the year	4,466	2,310	6,776	4,531	1,906	6,437
Additions during the year	-	820	820	61	788	849
Sold during the year	(1,581)	(7)	(1,588)	(28)	(29)	(57)
Depreciation	(75)	(493)	(568)	(98)	(355)	(453)
Carrying amount at 31 December	**2,810**	**2,631**	**5,440**	**4,466**	**2,310**	**6,776**
Gross carrying amount	3,135	5,950	9,085	4,820	5,158	9,978
Accumulated depreciation	(326)	(3,319)	(3,645)	(354)	(2,848)	(3,202)
Carrying amount at 31 December	**2,810**	**2,631**	**5,440**	**4,466**	**2,310**	**6,776**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

Official assessment value of buildings at 31 December	2013	2012
Official assessment value	3,948	4,998
Replacement value	8,817	12,556

Depreciation and amortisation presented in the income statement consists of	2013	2012
Depreciation of property and equipment	568	453
Amortisation of intangible assets	249	266
Total	**818**	**719**

14. Intangible assets

Computer software licenses	2013	2012
Carrying amount at the beginning of the year	541	681
Additions	293	126
Amortisation	(249)	(266)
Carrying amount	**585**	**541**
Amortisation rates	20-33%	20-33%
Gross carrying amount	1,863	1,571
Accumulated amortisation	(1,278)	(1,030)
Carrying amount	**585**	**541**

15. Other assets

	2013	2012
Unsettled securities trading	863	1,877
Other accounts receivable	3,248	3,555
Claim on LBI hf. due to court ruling	2,255	5,049
Sundry assets	2,449	3,627
Total	**8,816**	**14,108**

16. Assets classified as held for sale

	2013	2012
Repossessed collateral	17,213	25,221
Assets of disposal groups	7,810	99
Total	**25,023**	**25,320**

Repossessed collateral

Repossessed collateral consists mainly of property and equipment resulting from collateral foreclosed by the Group as security for loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. The repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

All amounts are in ISK million

16. Assets classified as held for sale (continued)

Repossessed collateral	2013	2012
Carrying amount at the beginning of the year	25,221	51,711
Repossessed during the period	11,543	11,684
Disposed during the period	(16,366)	(37,979)
Impairment and loss of sale	(3,185)	(195)
Carrying amount at the end of the year	**17,213**	**25,221**

Assets of disposal groups classified as held for sale

Assets of disposal groups classified as held for sale consist of all the assets and liabilities of subsidiaries acquired by the Bank exclusively with a view to resale.

The profit (loss) for the period from discontinued operations which is presented in the Consolidated Statement consists only of the results of those subsidiaries acquired by the Bank exclusively with a view to resale as they meet the definition of discontinued operations in IFRS 5.

17. Due to financial institutions and Central Bank

	2013	2012
Loans and repurchase agreements with Central Bank	115	180
Loans and deposits from financial institutions	167,103	98,538
Total	**167,218**	**98,718**

18. Deposits from customers

	2013	2012
Demand deposits	345,086	310,088
Time deposits	111,575	110,970
Total	**456,662**	**421,058**

19. Secured bonds

As at 31.12.2013	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
EUR Bonds	EUR	9.10.2018	€ 755 million	EURIBOR + 2.90 %	119,808
GBP Bonds	GBP	9.10.2018	£ 241 million	LIBOR + 2.90 %	45,877
USD Bonds	USD	9.10.2018	$ 625 million	LIBOR + 2.90 %	72,032
Total issued bonds to LBI hf.					**237,717**

As at 31.12.2013	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	1,860 million	6.3 %	1,925
Total covered bonds					**1,925**
Secured bonds total 31.12.2013					**239,642**

As at 31.12.2012	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
EUR Bonds	EUR	9.10.2018	€ 649 million	EURIBOR +1.75/2.90 %	109,380
GBP Bonds	GBP	9.10.2018	£ 205 million	LIBOR +1.75/ 2.90 %	42,397
USD Bonds	USD	9.10.2018	$ 548 million	LIBOR +1.75/2.90 %	70,014
Total issued bonds to LBI hf.					**221,791**
Secured bonds total 31.12.2012					**221,791**

On 12 October 2010 the Bank issued secured bonds to LBI hf. (see Note 37) as part of the acquisition price for its Icelandic operations. These bonds are denominated in EUR, GBP and USD and carry interest from October 2008. The carrying amount of the bonds as at 31 December 2013 and 2012 assumes the effective interest of EURIBOR/LIBOR+2.90% to maturity.

The bonds mature in October 2018 with original scheduled quarterly instalments starting in 2014. The interest rates are 3 months EURIBOR for the EUR-denominated bond and 3 months LIBOR for the GBP and USD-denominated bonds, plus a margin of 1.75% for the first 5 years and a margin of 2.90% for the remaining 5 years. The first interest payment date was on 12 October 2010. From 30 June 2010, bondholders have had the right to require the Bank to convert the bonds into Eurobonds. Upon such conversion, the Bank will make reasonable endeavours to list such Eurobonds on a qualified stock exchange, as soon as feasible following conversion. The bondholders have not yet exercised their right to require the Bank to convert the bonds into Eurobonds.

All amounts are in ISK million

19. Secured bonds (continued)

In April 2013, the Bank issued additional secured bonds to LBI hf. in an amount equivalent to ISK 92,000 million, denominated in EUR (50%), USD (30%) and GBP (20%). Interest rate terms are the same as those of the bonds issued in October 2010. These bonds were issued under the settlement agreement of December 2009 between the Bank, LBI hf. and the Icelandic State and as a result of the conclusion of third-party valuation agent Deloitte UK LLP of the additional consideration for the assets and liabilities transferred from LBI hf. to the Bank on 9 October 2008. The value of the secured bonds was contingent on the excess fair value of certain pools of assets as at 31 December 2012 over the future value of their acquisition price as at 9 October 2008, subject to specified adjustments. The additional secured bonds reached the ceiling amount stipulated in the aforesaid settlement agreement and replaced the Contingent bond disclosed in previous financial statements. In return for the secured bonds, LBI hf. surrendered its entire holding in Landsbankinn to the Icelandic State and Landsbankinn.

In February 2013, the Bank made a mandatory early redemption amount of ISK 2,201 million, pursuant to a clause on Asset Disposition in the secured bonds issued in October 2010. Under this clause the Bank shall redeem such part of the principal amount of the Bonds as is equal to 50% of the excess of the disposal amount of ISK 35,000 million in respect of net proceeds of asset dispositions which the Group receives in any financial year prior to 2014, subject to a maximum redemption amount.

In December 2013, the Bank made an optional and partial early redemption of the outstanding secured bonds to LBI hf. The prepayment was made in foreign currencies and was equivalent to ISK 50,000 million. The prepayment will reduce, on a pro-rata basis, maturities of the bonds arising between 2014 and 2018. The first regular repayment of the bonds was in January 2014 and the final repayment date is in October 2018.

In June 2013, Landsbankinn issued its first series of covered bonds, LBANK CB 16, in the amount of ISK 1,220 million with the total size limit being ISK 10,000 million. The bonds are non-indexed with a 3-year fixed interest rate of 6.3%. The Bank simultaneously lowered its interest rates on non-indexed housing mortgages with a 3-year fixed interest rate from 7.5% to 7.3%. The covered bonds issue provides broader funding opportunities for the Bank's housing loan portfolio and reduces the Bank's fixed interest risk. Of this issue of ISK 1,220 million was ISK 1,160 million originally sold to investors in the market. The remaining amount was intended for market-making purposes in connection with listing of the bonds on NASDAQ OMX Iceland. The bonds were listed for trading in October 2013 on NASDAQ OMX Iceland. In December 2013, the Bank concluded a sale of additional ISK 700 million in the same series which were admitted for trading on NASDAQ OMX Iceland in the same month.

In October 2010, the Bank and LBI hf. signed a pledge agreement according to which the Bank commits itself to pledge certain pools of loans to customers as collateral for the secured bonds issued to LBI hf. Additional pledges of collateral were made to secure increased issue of the secured bonds in April 2013 in relation to the Contingent bond and the issue of the covered bonds in October and December 2013. The Bank must maintan a minimum coverage ratio of 124,7% for the secured bonds issued to LBI hf. and a minimum coverage ratio of 120% for the covered bonds. For further detail on encumbered assets, see Note 37.

20. Deferred tax liabilities

Tax assets and liabilities are specified as follows:

Tax assets	**2013**	**2012**
Deferred tax assets	-	48
Tax liabilities		
Deferred tax liabilities	(590)	-
Special income tax on financial institutions	(2,018)	-

Recognised deferred tax assets and liabilities are attributable to the following:

	2013			2012		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property and equipment	-	(524)	(524)	-	(1,061)	(1,061)
Intangibles	-	(54)	(54)	-	(105)	(105)
Loans and advances to customers	416	-	416	450	-	450
Deferred foreign exchange differences	-	(434)	(434)	-	(638)	(638)
Other items	-	(269)	(269)	-	(68)	(68)
Tax losses carried forward	275	-	275	1,470	-	1,470
	691	**(1,281)**	**(590)**	**1,920**	**(1,872)**	**48**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(691)	691	-	(1,872)	1,872	-
Total	**0**	**(590)**	**(590)**	**48**	**0**	**48**

All amounts are in ISK million

20. Deferred tax liabilities

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2013, according to which the domestic corporate income tax rate was 20% as at 31 December 2013 (2012: 20%).

The movements in temporary differences during the period were as follows:

		Recognised in income statement		
2013	**Balance 1.1**	**Tax (expense) income**	**Changes from prior year**	**Balance 31.12**
Property and equipment	(1,061)	537	-	(524)
Intangibles	(105)	51	-	(54)
Loans and advances to customers	450	(34)	-	416
Deferred foreign exchange differences	(342)	(92)	-	(434)
Other items	(67)	(202)	-	(269)
Tax losses carried forward	1,172	(897)	-	275
Total	**48**	**(637)**	**0**	**(590)**
2012				
Property and equipment	(1,332)	271	-	(1,061)
Intangibles	(17)	(88)	-	(105)
Loans and advances to customers	3,641	(3,191)	-	450
Deferred foreign exchange differences	(1,259)	917	-	(342)
Other items	(348)	273	8	(67)
Tax losses carried forward	2,318	(2,107)	960	1,172
Total	**3,003**	**(3,925)**	**968**	**48**

21. Other liabilities

	2013	**2012**
Excess payments on lease and loan agreements	8,857	8,857
Unsettled securities trading	2,710	3,873
Withholding tax	4,256	2,121
Accounts payable	484	1,293
Contribution to the Depositors' and Investors' Guarantee Fund	270	270
Tax on liabilities of financial institutions	3,283	300
Current tax liabilities	8,325	-
Sundry liabilities	6,405	3,535
Total	**34,589**	**20,249**

Unsettled securities trading were settled in less than three days from the reporting date.

Contribution to the Depositors' and Investors' Guarantee Fund

According to Act No. 98/1999 on Deposit Guarantees and Investor Compensation Schemes ("the Act") and the amendment of the Act from 31 May 2011, the Bank was required during the year 2011 to make a non-refundable general and variable quarterly contributions to the Depositors' and Investors' Guarantee Fund ("the Fund"). The amount of the general contributions was determined on a quarterly basis as the amount equivalent to 0.05625% of all guaranteed deposits in the Bank, as defined in the amendment of the Act from 19 June 2012. The amount of the variable contributions was determined on a quarterly basis based on the risk rating of the Bank by the Icelandic Financial Supervisory Authority in Iceland (FME). The general and variable contributions become payable in the event of the Fund's total assets do not reach a minimum of 1% of the amount of guaranteed deposits in commercial banks and savings banks in the preceding year. In addition to the general and variable contributions, the Fund must demand that the Bank make additional contributions to the Fund if so commonly proposed by the FME and the Central Bank of Iceland. Furthermore, the Fund is allowed to demand additional contributions from the Bank in order for the Fund to repay its borrowings and related costs. The maximum amount of additional contributions that the Bank may be required to make to the Fund is the amount equivalent to 0.6% of guaranteed deposits in the Bank.

The Bank's management has concluded that the amount to be recognised as a liability in respect of the general and variable contribution shall only equal the amount that the Bank has no realistic alternative but to settle at each reporting date in accordance with the Act. This is the amount to be paid by the Bank during the following quarter, in respect of the preceding quarter. Other regular contributions to be made by the Bank to the Fund in future quarters do not exist independent of the Bank's future actions and therefore do not represent a present obligation of the Bank at the reporting date. Accordingly, they are not recognised as part of the liability towards the Fund. Therefore, the amount recognised as liability as at 31 December 2013 amounts to ISK 270 million to be paid no later than 1 March 2014 (31 December 2012: ISK 270 million).

All amounts are in ISK million

22. Equity

Share capital

The total number of ordinary shares authorised and issued by the Bank at year-end 2013 were 24 billion, but outstanding shares were 23,6 billion, with par value of ISK 1 per share. One vote is attached to each share of one ISK and the holders of ordinary shares are entitled to one vote per share at general meetings of the Bank. All issued shares are fully paid.

Share premium

Share premium represents the difference between the ISK amount received by the Bank when issuing share capital and the nominal amount of the shares issued, less costs directly attributable to issuing the new shares, net of any related tax benefit.

Statutory reserve

The statutory reserve is created in accordance with requirements of the Company Act No. 2/1995, according to which at least 10% of the profit of the Bank, which is not devoted to meeting losses of previous years and is not contributed to other legally stipulated reserves must be contributed to the statutory reserve until it amounts to 10% of the share capital of the Bank. When that limit has been reached the contribution to the statutory reserve must be at a minimum 5% until the reserve amounts to a quarter of the share capital of the Bank.

Share-based payment reserve

On 11 April 2013 LBI hf. surrendered all its shareholding in Landsbankinn, of which the Bank received own shares of 2% (i.e. 500 million shares). The Bank has made an arrangement for the allocation of these shares to employees in accordance with LBI hf. conditions and a resolution passed at a shareholders' meeting of the Bank on 17 July 2013. On 30 September 2013, 317 million of own shares were allocated to employees, of which 198 million of own shares were repurchased by the Bank for settlement of tax obligations and pension liabilities. The allocation of the remainder of the own shares to employees was completed in February 2014.

In the third quarter of 2013, the Bank recognised in equity the part of the own shares allocated to employees and the own shares retained by the Bank for settlement of tax obligations and pension liabilities thereon known as "Own shares allocated to employees" and "Purchase of own shares for settlement of the tax obligations and pension liabilities", respectively. The receipt of the 500 million own shares had previously been recognised in equity as "Purchase of own shares" in the second quarter of 2013 and in the first quarter of 2013, the Bank had recognised its obligation to allocate the shares to its employees as equity-settled share-based payments. As such, the Bank recognised in the first quarter of 2013 ISK 4,017 million as salary expenses in the income statement, with a corresponding amount recognised in equity as "Recognition of equity-settled employee share-based payments." In addition, the Bank recognised in the first quarter of 2013 ISK 674 million as salary related expenses in the income statement, with a corresponding amount recognised as a payable among other liabilities in the balance sheet.

Retained earnings

Retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the statutory reserve of the Bank.

Dividend

At the Annual General Meeting of the Bank for the operating year 2012 held on 17 April 2013 shareholders approved the Board's proposal to pay dividends to shareholders in the amount of ISK 0,42 per share for the year 2012. Dividend was paid to parties registered in the shareholders' registry 30 September 2013. The dividend payment amounted to ISK 9,921 million on the outstanding shares.

Restriction of dividend payments

As part of the acquisition price for the domestic operations of LBI hf., the Bank issued senior secured bonds (see Notes 19 and 37). If the Bank makes a dividend payment then it shall redeem or shall have redeemed (such redemption not having been required by any other provision hereof) the bonds on a pro-rata basis in an amount equal to such dividend payment. In June 2012, the Bank made an optional and partial prepayment of principal of each of the bonds in an amount equivalent to ISK 71,200 million. In December 2013, the Bank made again an optional and partial prepayment of principal of each of the bonds in an amount equivalent to ISK 50,000 million. In consequence of the Bank having redeemed part of the principal of the bonds with an optional prepayment, past and future dividend payments (and other payments of similar nature) up to ISK 121,200 million will not require further early redemptions of the bonds.

According to the Company Act No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit brought forward from previous years and free funds after deducting loss which has not been met and the funds which according to laws or Articles of Association must be contributed to a reserve fund or for other use.

Notes to the Consolidated Income Statement

23. Net interest income

Interest income	2013	2012
Cash and balances with Central Bank	1,401	1,091
Bonds and debt instruments classified as loans and receivables	5,531	4,921
Loans and advances to financial institutions	668	585
Loans and advances to customers	52,529	57,131
Other interest income	3,097	933
Total	**63,224**	**64,661**

Interest expense		
Due to financial institutions and Central Bank	(2,958)	(2,048)
Deposits from customers	(16,608)	(16,485)
Secured bonds	(9,321)	(10,482)
Other interest expense	(23)	(62)
Total	**(28,910)**	**(29,077)**

Net interest income	**34,314**	**35,584**
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the year).	**3.1%**	**3.2%**
Adjusted interest spread (as the annualised ratio of net interest income after net adjustments in valuation to the average carrying amount of total assets during the year).	**4.7%**	**2.8%**

All the interest income and interest expense disclosed above is from financial assets and financial liabilities that are not carried at fair value through profit or loss.

24. Net valuation change in loans and advances

	2013	2012
Net adjustments to loans and advances acquired at deep discount	19,440	37,320
Loss from foreign currency linkage of loans and advances to customers	-	(2,120)
Net impairment gain (loss)	(7,706)	(12,260)
Total	**11,734**	**22,940**
Individuals	(838)	(233)
Corporations	12,573	23,173
Total	**11,734**	**22,940**

25. Net fee and commission income

Fee and commission income	2013	2012
Investment banking and capital markets	1,408	1,223
Asset management	1,131	1,009
Lending	1,206	1,060
Cards	1,624	1,524
Interbank clearing	1,273	1,079
Collection and payment services	792	792
Foreign trade	659	638
Other commissions and fees	358	371
Total	**8,451**	**7,696**

Fee and commission expense		
Investment banking and capital markets	(278)	(316)
Interbank clearing	(1,162)	(1,082)
Other fees	(1,720)	(1,850)
Total	**(3,160)**	**(3,248)**
Net fee and commission income	**5,291**	**4,448**

The net fee and commission income above excludes amounts that are otherwise included in determining the effective interest rate for financial assets and liabilities that are not at fair value through profit or loss. Moreover, it does not include any net fee and commission income relating to such financial assets and liabilities.

All amounts are in ISK million

26. Net gain on financial assets designated as at fair value through profit or loss

	2013	2012
Bonds and debt instruments	1,922	740
Equities and equity instruments	6,537	4,963
Total	**8,460**	**5,703**

27. Net gain on financial assets and liabilities held for trading

	2013	2012
Bonds and debt instruments	2,153	2,200
Equities and equity instruments	466	205
Derivative instruments	(527)	(236)
Total	**2,092**	**2,169**

28. Dividend income

Dividend income was recognised in the consolidated income statement in the following line items:

	2013	2012
Net gain on financial assets designated as at fair value through profit or loss	418	531
Net gain on financial assets and liabilities held for trading	7	20
Total	**425**	**551**

29. Net foreign exchange gain

Assets	2013	2012
Cash and balances with Central Bank	(137)	56
Bonds and debt instruments	(10,153)	4,972
Equities and equity instruments	(1,113)	1,085
Derivative instruments	1,727	2,438
Loans and advances to financial institutions	(3,737)	2,643
Loans and advances to customers	(18,493)	9,465
Other assets	(39)	1,194
Total	**(31,945)**	**21,853**

Liabilities		
Due to financial institutions and Central Bank	1,710	(1,347)
Deposits from customers	6,932	(3,281)
Secured bonds	18,732	(12,631)
Contingent bond	5,516	-
Other liabilities	202	(28)
Total	**33,092**	**(17,287)**
Net foreign exchange gain	**1,147**	**4,566**

The foreign exchange differences which were recognised during the year 2013 in the consolidated income statement and arose on financial instruments not measured at fair value through profit or loss, amounted to a ISK 22,406 million loss for financial assets (2012; gain ISK 13,304 million) and gain of ISK 33,092 million for financial liabilities (2012: loss of ISK 15,940 million).

30. Other income and expenses

	2013	2012
Recharged expenses	160	235
Gain on sale of property and equipment	277	14
Loss on repossessed collateral	(363)	(176)
Other	1,150	989
Total	**1,224**	**1,062**

All amounts are in ISK million

31. Salaries and related expenses

	2013	2012
Salaries	9,477	10,224
Contributions to defined contribution pension plans	1,399	1,365
Social security contributions, special financial activities tax on salaries and other expenses	1,737	1,587
Total	**12,613**	**13,176**
Recognition of equity-settled employee share-based salaries	4,017	-
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	674	-
Total equity-settled employee share-based payments*	**4,691**	**0**
Total Salaries and related expenses	**17,304**	**13,176**

* Further details on recognition of equity-settled employee share-based payments can be seen in Note 22.

Number of full-time equivalent positions at year-end	1,183	1,233
Average number of full-time equivalent positions during the year	1,193	1,260

32. Other operating expenses

	2013	2012
Computer software and other information technology costs	1,675	2,025
Real estate and fixtures	995	1,150
Advertising and marketing	760	736
Operating lease rentals	658	660
FME supervisory expenses	383	417
Contribution to the Debtor's Ombudsman	230	203
Audit and related services	128	130
Other professional services	788	879
Other operating expenses	2,388	2,678
Total	**8,005**	**8,878**

Audit and related services	**2013**	**2012**
Audit of financial statement and audit related service	61	79
Review of interim financial statements and other services	67	51
Total	**128**	**130**

33. Acquisition-related costs

	2013	2012
Cost of acquisition of assets and liabilities from LBI hf.	45	290
Total	**45**	**290**

34. Income tax and other taxes

Income tax is recognised based on the tax rates and tax laws enacted by the end of the year, according to which the domestic corporate income tax rate was 20.0% (2012: 20.0%). An additional Special income tax on financial institutions is recognised at a rate of 6% on income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011 on Financial Activity Tax.

Income tax recognised in the income statement is specified as follows:

	2013	2012
Current tax expense	(6,364)	-
Special income tax on financial institutions	(2,018)	-
Difference of prior year's imposed and calculated income tax	20	1,087
Deferred tax expense	(638)	(4,012)
Total	**(9,000)**	**(2,925)**

All amounts are in ISK million

34. Income tax and other taxes (continued)

The tax on Group profit differs to the following extent from the amount that would theoretically arise by the domestic corporate income tax rate:

		2013		2012
Profit before tax		41,042		27,485
Tax on liabilities of financial institutions		(3,283)		(1,200)
Profit before income tax		37,759		26,285
Income tax calculated using the domestic corporate income tax rate	20.0%	(7,552)	20.0%	(5,257)
Special income tax on financial institutions	5.3%	(2,018)	0.0%	-
Income not subject to tax	(5.5%)	2,060	(5.2%)	1,357
Non-deductable expenses	4.0%	(1,492)	1.4%	(371)
Other	0.0%	2	(5.1%)	1,346
Effective income tax	**23.8%**	**(9,000)**	**11.1%**	**(2,925)**

Tax on liabilities of financial institutions

On 31 December 2013 the Parliament of Iceland passed an amendment to Act No. 155/2010 on Special Tax on Financial Institutions, according to which certain financial institutions must pay annually a tax calculated as 0.376% (2012: 0.1285%) of the carrying amount of total liabilities at year-end in excess of ISK 50,000 million as determined for tax purposes.

	2013	2012
Tax on liabilities of financial institutions	(3,283)	(1,200)
Total	**(3,283)**	**(1,200)**

Other notes

35. Earnings per share

Profit for the year	2013	2012
Profit for the year from continuing operations	28,750	23,360
Profit for the year from discontinued operations	-	2,079
Profit for the year attributable to owners of the Bank	**28,750**	**25,439**

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Numbers of shares		
Number of shares outstanding at beginning of year	24,000	24,000
Average numbers of own shares	(345)	-
Weighted average numbers of shares outstanding	**23,655**	**24,000**

Basic earnings per share		
Continuing operations	1.22	0.97
Discontinued operations	-	0.09
Total basic earnings per share	**1.22**	**1.06**

The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

36. Litigation

The Bank is party to litigation cases which arise in the ordinary course of business and are expected to have immaterial effect on the Group's financial position. However, since the establishment of the Bank, the Group has engaged in various material litigation cases, most of them being related to financial assets and liabilities transferred from Landsbanki Íslands hf. (now LBI hf.) to the Bank. These cases are material in the sense that they have had or may have significant impact on the amounts disclosed in the Group's financial statements. During the year 2013, a few new litigation cases were filed against the Bank and some of the litigation cases that were ongoing in the litigation section of the Group's Consolidated Financial Statements at year-end 2012 are still open at year-end 2013. Other ongoing cases at year-end 2012 have been concluded at District Court level, Supreme Court level or other authority level.

All amounts are in ISK million

36. Litigation (continued)

New material cases opened during 2013 and open at year-end 2013:

1) In January 2013 a customer commenced litigation against the Bank, seeking acknowledgement of unlawfulness of a consumer price indexation of a bond issued by him to the Bank and that it is not permissible to revalue the principle amount of the bond on a monthly basis in accordance with the consumer price index. In December 2013, the Supreme Court concluded that the matter should be brought before the EFTA Court for an advisory opinion. A hearing before the EFTA Court is expected in the spring of 2014. Subsequently, the case will be heard before Icelandic courts.

2) In March 2013 the Icelandic Competition Authority submitted to the Bank its preliminary assessment and conclusions in two cases. The first case concerns certain preferential terms and conditions offered during 2004-2010 by Landsbanki Íslands hf. (now LBI hf.) and, subsequently, by the Bank to clients for retail banking services, in particular for household mortgage loans. In June 2013 the Bank gave its response and refuted allegations of a breach of competition rules. The Bank does not have information as to whether the Competition Authority will take further action in the case but has expressed willingness to discuss the matter. The second case concerns, in particular, an alleged involvement of Landsbanki Íslands hf. (now LBI hf.) and, subsequently, of the Bank during 2007-2009 in the way in which decisions were taken on payment card interchange fees. In June 2013 the Bank gave its response and refuted allegations of a breach of competition rules. The Bank and the Competition Authority have entered into discussions regarding the settlement of the case.

3) In June 2013 a payment card acquirer, commenced litigation against the Bank as well as certain other financial undertakings claiming tort liability in an amount of around ISK 1,2 billion plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. The time limit for the Bank to submit its defence has not expired.

Material cases reported at year-end 2012 and not concluded at year-end 2013:

4) In December 2012 a limited liability company commenced litigation against the Bank, arguing that a loan granted by the Bank to the company should be recalculated as a loan denominated in Icelandic krona unlawfully indexed to foreign currency. The Bank refers to the fact that the loan was repaid in foreign currencies and should be considered as a foreign currency loan. On 25 June 2013 the District Court acquitted the Bank of the company's claim. The case was appealed to the Supreme Court and was heard by the Court on 28 February 2014. A judgment is expected in the coming weeks.

5) In November 2012 Landsbankinn Guernsey Ltd. commenced litigation against the Bank, the FME and the Icelandic Government. The plaintiff claims are that the Bank pays approximately ISK 2,474 million (GBP 13 million), ISK 100 million (EUR 628 thousand) and ISK 357 million (USD 3,1 million) plus interest, based on money market loans between the plaintiff and LBI that were transferred to the Bank with FME's decision on 9 October 2008. The Bank's view is that money market loans were not transferred to the Bank on 9 October 2008 with FME's decision. This is in line with the Supreme Court's previous conclusions in identical cases. It is foreseeable that the case will be heard by the District Court in the year 2014.

6) In December 2012 fourteen foreign banks commenced litigation against the Bank on the basis of tort liability, claiming the Bank pays approximately ISK 317 million (EUR 2 million). The plaintiffs base their claim on a syndicated loan to a limited liability company that later underwent bankruptcy proceedings. When the plaintiffs submitted their claim to the liquidator of the company's estate, they failed to provide details on pledged assets. As a result of this failure the previously pledged assets were distributed to claimants of the estate as if they were not pledged assets in accordance with the Bankruptcy Act. The plaintiffs commenced legal action against the liquidator and in August 2011 the Supreme Court ruled in favour of the liquidator. The plaintiffs now argue that the Bank should not have given the liquidator access to the previously pledged assets and is therefore liable for damages. The Bank argues that it reacted to the liquidator's requests in compliance with Act on Bankruptcy and that the plaintiffs' failure to correctly submit their claims to the estate cannot create a liability for the Bank. The Bank was acquitted by the District Court on 13 November 2013. The appeal period has not yet expired.

7) In October 2012 Kaupþing hf. commenced litigation against Landsbréf hf., Landsbanki Structured Finance III and Landsvaki hf. before the District Court of Reykjavík. Kaupþing's claim in the amount of ISK 724 million is based on a derivative contract of 28 February 2008 between Kaupþing and Landssjóður. Landsvaki submitted its claim to the liquidator of Kauþing's estate on the basis of a bond issued by Kaupþing in the amount of ISK 1.151 million (USD 10 million) and declared a set-off against Kaupþing's aforementioned claim. The Winding-up Board of Kaupþing rejected Landsvaki's claim and declaration of a set-off. Landsbréf hf., Landsbanki Structured Finance III and Landsvaki hf. have not yet submitted their defence.

Other cases:

Other litigation cases reported as ongoing at year-end 2012 or early 2013 were concluded in the year 2013 or early 2014. The impact of these rulings has been accounted for in the Group's Consolidated Financial Statements for the year 2013.

37. Encumbered assets

In October 2010, the Bank and LBI hf. signed a pledge agreement according to which the Bank commits itself to pledge certain pools of loans to customers as collateral for the secured bonds issued to LBI hf. Additional pledges of collateral were made to secure the increased issue of the secured bonds in April 2013 in relation to the Contingent bond and the issue of the covered bonds in October and December 2013. The Bank must maintain a minimum coverage ratio of 124,7% for the secured bonds issued to LBI hf. and a minimum coverage ratio of 120% for the covered bonds. Pledged assets added to the pledged pool must comply with certain eligibility criteria.

	Collateral pledged against				
At 31 December 2013	**Covered bonds**	**Issued bonds to LBI hf.**	**Other***	**Un-encumbered**	**Total**
Cash and balances with Central Bank	61	-	-	21,459	21,520
Bonds and debt instruments	-	11,603	15,717	263,275	290,595
Equities and equity instruments	-	-	-	36,275	36,275
Derivative instruments	-	-	-	654	654
Loans and advances to financial institutions	-	-	4,608	63,308	67,916
Loans and advances to customers	2,400	302,159	-	375,909	680,468
Investments in equity-accounted associates	-	-	-	14,224	14,224
Property and equipment	-	-	-	5,440	5,440
Intangible assets	-	-	-	585	585
Other assets	-	-	-	8,816	8,816
Assets classified as held for sale	-	-	-	25,023	25,023
Total	**2,461**	**313,762**	**20,325**	**814,968**	**1,151,516**

	Collateral pledged against			
At 31 December 2012	**Issued bonds to LBI hf.**	**Other***	**Un-encumbered**	**Total**
Cash and balances with Central Bank	-	-	25,898	25,898
Bonds and debt instruments	-	17,821	210,387	228,208
Equities and equity instruments	-	-	36,881	36,881
Derivative instruments	-	-	1,043	1,043
Loans and advances to financial institutions	-	8,091	56,258	64,349
Loans and advances to customers	319,240	-	346,847	666,087
Investments in equity-accounted associates	-	-	15,528	15,528
Property and equipment	-	-	6,776	6,776
Intangible assets	-	-	541	541
Deferred tax assets	-	-	48	48
Other assets	-	-	14,108	14,108
Assets classified as held for sale	-	-	25,320	25,320
Total	**319,240**	**25,912**	**739,635**	**1,084,787**

*Other represents assets pledged as collateral to the Central Bank of Iceland to secure settlement in the Icelandic clearing systems, assets pledged as collateral to secure trading lines and credit support for ISDA master agreements and other pledges of similar nature.

38. Leasing

Operating lease commitments where the Group is lessee

In cases where the Group is a lessee, the future minimum lease payments under none-cancellable operating leases on 31 December were as follows:

	2013	**2012**
Less than one year	123	219
Between one and five years	312	292
More than five years	247	158
Total	**682**	**669**

All amounts are in ISK million

38. Leasing (continued)

Operating lease commitments where the Group is legal lessor

The Group acts as the legal lessor whereby tools and equipment are purchased and leased to third parties under arrangements that in substance are loans and advances accounted for under IAS 39 in the consolidated financial statements of the Group.

The future minimum lease payments expected to be received under none-cancellable operating leases on 31 December were as follows:

	2013	2012
Less than one year	167	139
Between one and five years	247	206
More than five years	22	18
Total	**436**	**363**

Finance lease commitments where the Group is lessor

The Group acts as lessor whereby items of plant and equipment are leased to third parties under arrangements qualifying as finance leases. Finance lease receivables are included within loans and advances to customers.

The net investment in finance lease receivables was as follows:

At 31 December 2013	Gross investment in finance lease	Future finance income	Present value of minimum lease
Less than one year	2,748	(268)	2,480
Between one and five years	4,753	(368)	4,385
More than five years	621	(48)	573
Total	**8,122**	**(684)**	**7,438**
At 31 December 2012			
Less than one year	1,567	(153)	1,414
Between one and five years	2,710	(210)	2,500
More than five years	354	(27)	327
Total	**4,631**	**(390)**	**4,241**

Unguaranteed residual value at year-end 2013 is nil (2012: nil).

39. Fiduciary activities

The Group provides asset custody, asset management, investment management and advisory services. All of them require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets in Bank custody are not reported in the consolidated financial statements, since they are not assets of the Bank. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2013, financial assets managed by the Group amounted to ISK 111 billion (2012: ISK 95 billion). Custody accounts amounted to ISK 845 billion (2012: ISK 1.368 billion).

All amounts are in ISK million

40. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98% of the shares in the Bank. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. All transactions with subsidiaries are eliminated on consolidation and are thus not disclosed in the Group's consolidated financial statements. The main subsidiaries held directly or indirectly by the Bank at 31 December 2013 were the following:

Company	Ownership interest	Activity
Eignarhaldsfélag Landsbankans ehf. (Iceland)	100%	Holding company
Horn fjárfestingarfélag hf. (Iceland)	100%	Investment company
Landsbréf hf. (Iceland)	100%	Management company for mutual funds
Hömlur ehf. (Iceland)	100%	Holding company
Blámi - fjárfestingafélag ehf. (Iceland)	100%	Holding company
Span ehf. (Iceland)	100%	IT-services
Ístak hf. (Iceland)	100%	Construction company
Landsbanki Holdings UK plc. (United Kingdom)	100%	Holding company in liquidation
Eignarhaldsfélagið ehf. (Iceland)	100%	Holding company
Lindir Resources ehf. (Iceland)	78%	Holding company

Landsvaki ehf, a subsidiary of the Bank, is in winding-up proceedings by the request of the Board of Directors of Landsvaki and subsequent ruling of the District Court of Reykjavík of 28 November 2013.

The key management personnel of the Bank and its close family members meet the definition of related parties and in some cases the key management personnel of the Bank's subsidiaries. The key management personnel of the Bank are the members of the Board of Directors, CEO and Managing Directors. The Minister of Finance and the members of the Board of Directors of ISFI also meet the definition of related party.

Transactions with related parties

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 55.

Transactions with other related parties

Following the change in ownership of the Bank on 11 April 2013 and LBI hf. surrendered its holding in Landsbankinn, as described in Note 22, LBI hf. no longer meets the definition of a related party under IAS 24. The deposits from LBI hf. as at 31 December 2012 amounted to ISK 43,807 million and during the year 2012 the Bank recognised ISK 235 million from administrative services provided to LBI hf. based on a service level agreement.

The following table presents the total amounts of loans to key management personnel and parties related to them and loans to associates of the Group:

	2013		2012	
Loans in ISK million	**Balance at 31 December**	**Highest amount outstanding during the period**	**Balance at 31 December**	**Highest amount outstanding during the period**
Key management personnel	108	131	98	214
Parties related to key management personnel	136	224	176	279
Associates	47,037	63,892	44,544	72,677
Other	17	18	10	77
Total	**47,298**	**64,265**	**44,828**	**73,247**

No specific allowance for impairment was recognised in respect of these loans.

No pledges or commitments have been given or received in respect of these transactions in the period. There are no leasing transactions between related parties in the period.

40. Related party transactions (continued)

Transactions with other related parties (continued)

The following table presents the total amounts of deposits received from key management personnel and parties related to them and associates of the Group:

	2013		2012	
Deposits in ISK million	**Balance at 31 December**	**Highest amount outstanding during the period**	**Balance at 31 December**	**Highest amount outstanding during the period**
Key management personnel	49	116	112	163
Parties related to key management personnel	24	116	56	166
Associates	13,030	21,234	18,432	36,667
Other	1	1	-	5
Total	**13,104**	**21,467**	**18,600**	**37,001**

The following table presents the total amount of guarantees to key management personnel and parties related to them and associates of the Group:

Guarantees in ISK million	Balance at 31 December 2013	Balance at 31 December 2012
Associates	520	507
Total	**520**	**507**

Effect on income statement:

The following table presents the total amount of interest income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

	2013		2012	
Interest income and expense	**Interest income**	**Interest expense**	**Interest income**	**Interest expense**
Key management personnel	7	4	10	4
Parties related to key management personnel	9	1	24	2
Associates	3,078	106	3,683	197
Other	1	-	2	-
Total	**3,095**	**111**	**3,719**	**203**

The following table presents the total amount of other income and expense recognised by the Group in realation to key management personnel and parties related to them and associates of the Group:

	2013		2012	
Other income and expense	**Other income**	**Other expense**	**Other income**	**Other expense**
Associates	-	371	-	520
Total	**0**	**371**	**0**	**520**

All of the above transactions were made in the ordinary course of business and substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the third party counterparties.

40. Related party transactions (continued)

Compensation to directors, CEOs and managing directors

The following table presents the total amount of compensation to directors, CEOs and managing directors for the year 2013:

Salary and benefits for the year 2013	Salary and benefits*	Equity-settled employee share-based payment	Defined contri-butions**	Total	Number of shares
Tryggvi Pálsson, Chairman of the Board of the Bank	5.91	-	0.6	6.5	-
Eva Sóley Guðbjörnsdóttir, Vice-chairman of the Board of the Bank	4.38	-	0.4	4.8	-
Þórdís Ingadóttir, member of the Board of the Bank	5.41	-	0.4	5.8	-
Danielle Pamela Neben, member of the Board of the Bank	2.25	-	0.2	2.5	-
Helga Björk Eiríksdóttir, member of the Board of the Bank	3.78	-	0.3	4.1	-
Kristján Þórarinn Davíðsson, member of the Board of the Bank	3.78	-	0.3	4.1	-
Jón Sigurðsson, member of the Board of the Bank	4.48	-	0.4	4.9	-
Tinna Laufey Ásgeirsdóttir, alternate director of the Board of the Bank	0.18	-	-	0.2	-
Helga Loftsdóttir, alternate director of the Board of the Bank	1.40	-	0.1	1.5	-
Gunnar Helgi Hálfdánarson, former Chairman of the Board of the Bank	2.40	-	0.2	2.6	-
Sigríður Hrólfsdóttir, former Vice-chairman of the Board of the Bank	1.79	-	0.1	1.9	-
Ólafur Helgi Ólafsson, former member of the Board of the Bank	1.53	-	0.1	1.6	-
Andri Geir Arinbjarnarson, former member of the Board of the Bank	1.66	-	0.1	1.8	-
Steinþór Pálsson, CEO of the Bank	18.02	4.2	4.0	26.2	0.2
7 Managing Directors of the Bank's divisions	161.79	29.2	38.8	229.8	1.6
Total	**218.8**	**33.4**	**46.0**	**298.3**	**1.8**

*Benefits are non-monetary benefits in the form of free use of cars owned by the Group.
**Includes both private and statutory contributions to independent pension funds without further obligation.

In 2013 the total monthly salary and benefits of the current CEO of the Bank amounted to ISK 1.5 million and the average monthly salary and benefits of current Managing Directors of the Bank's divisions amounted to ISK 1.9 million.

The following table presents the total amount of compensation to directors, CEOs and managing directors for the year 2012:

Salary and benefits for the year 2012	Salary and benefits*	Defined contri-butions**	Termi-nation benefits	Total
Gunnar Helgi Hálfdanarson, Chairman of the Board of the Bank	8.1	0.6	-	8.7
Sigríður Hrólfsdóttir, Vice-chairman of the Board of the Bank	6.0	0.5	-	6.5
Þórdís Ingadóttir, member of the Board of the Bank	5.1	0.4	-	5.5
Ólafur Helgi Ólafsson, member of the Board of the Bank	5.1	0.4	-	5.5
Andri Geir Arinbjarnarson, member of the Board of the Bank	5.5	0.4	-	5.9
Alternate directors of the Board of the Bank	5.1	0.4	-	5.5
Steinþór Pálsson, CEO of the Bank	14.2	2.4	-	16.6
7 Managing Directors of the Bank's divisions	134.6	25.5	-	160.1
2 former Managing Directors of the Bank	41.6	8.0	-	49.6
Total	**225.3**	**38.6**	**0.0**	**263.9**

*Benefits are non-monetary benefits in the form of free use of cars owned by the Group.
**Includes both private and statutory contributions to independent pension funds without further obligation.

In 2012 the total monthly salary and benefits of the current CEO of the Bank amounted to ISK 1.2 million and the average monthly salary and benefits of current Managing Directors of the Bank's divisions amounted to ISK 1.8 million.

In addition to the salaries and related expenses of the CEO in the table above the Bank made a provision at year-end 2012 in the amount of ISK 47 million, due to possible corrections or retroactive adjustments of the CEO's salary and employment conditions for the years 2011 and 2012.

Transactions with the Minister of Finance and members of the Board of Directors of the ISFI

The Minister of Finance and the members of the Board of Directors of the ISFI did not receive any salaries or similar payments from the Group during the year 2013. The Group did not enter into any transactions with these persons or close members of their families, other than lending and deposit taking during the normal course of commercial banking operations.

41. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the financial statements the year ended 31 December 2013.

All amounts are in ISK million

Capital management

42. Capital management

The Group's capital management policies and practices ensure that the Group has sufficient capital to cover the risk associated with its activities. The capital management framework of the Group comprises four interdependent activities: Capital Assessment, Risk Appetite/Capital Target, Capital Planning, and Reporting/Monitoring. The Group regularly monitors and assesses its current risk profile in the most important business areas and for the most important risk types. Risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

Capital requirements are defined by two external bodies: the European Council and the Financial Supervisory Authority in Iceland (FME). The basis of the requirements of both bodies is the EU Capital Requirements Directive (CRD). The regulatory minimum capital requirement under Pillar I of the directive is 8% of Risk Weighted Assets (RWA) for credit risk, market risk and operational risk. The Capital Adequacy Requirement is reviewed by the FME in the Supervisory Review and Evaluation Process (SREP). The FME also requires the Group to maintain a minimum core Tier 1 capital ratio of 12%.

The Group uses the standardised approach in measuring Pillar I risks. The Internal Capital Adequacy Assessment Process (ICAAP) under Pillar II is the Group's calculation of its solvency need (as a percentage of RWA) and is based on economic capital calculations, stress tests and result of the Supervisory Review and Evaluation Process (SREP). The economic capital requirements at year-end 2013 is estimated by the Group to be 13.7%. Including capital buffers the Group's internal assesment is 15.1% for year-end 2013. In the latest SREP process, based on year-end 2012, the FME determined the Capital Adequacy Requirement to be 16.7% (which replaces the 19.5% requirment determined by the FME in the previous SREP process, based on year-end 2011).

43. Capital base and capital adequacy ratio

The Group's equity at 31 December 2013 amounted to ISK 241,359 million (31.12.2012: ISK 225,166 million), equivalent to 21.0% (31.12.2012: 20.8%) of total assets, according to the consolidated statement of financial position. The Capital Adequacy Ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 26.7% at 31 December 2013 (31.12.2012: 25.1%). According to the Act, this ratio may not fall below 8%.

Capital base	**2013**	**2012**
Share capital	23,618	24,000
Share premium	120,700	123,898
Reserves	7,046	5,053
Retained earnings	90,002	72,120
Non-controlling interests	(7)	95
Total equity	**241,359**	**225,166**
Intangible assets	(585)	(541)
Deferred tax assets	-	(48)
Tier 1 capital	**240,774**	**224,577**
Deduction from original and additional own funds	(3,865)	(3,815)
Capital base	**236,909**	**220,762**
Risk-weighted assets		
Credit risk	684,655	679,516
Market risk	99,763	98,486
Operational risk	104,500	101,393
Total risk-weighted assets	**888,918**	**879,395**
Tier 1 capital ratio	27.1%	25.5%
Capital adequacy ratio	26.7%	25.1%

44. Economic Capital framework

Economic Capital (EC) is a risk measure which is applied to all material risks. It captures unexpected losses and reduction in value or income for which the Group needs to hold capital to avoid insolvency. It arises from the unexpected nature of losses as distinct from expected losses. EC is defined as the difference between unexpected losses and expected losses, where unexpected loss is defined as the 99.9% Value-at-Risk, with a one year time horizon.

The purpose of the EC framework is to enable the Group to assess the amount of capital it requires to cover the economic effects of risk-taking activities, as well as to compare different risk types using a common "risk currency".

The objective of the EC framework is to measure unexpected losses as well as to decompose EC on various levels to enable capital allocation, limit setting, pricing of products, risk adjusted performance measurement and value based management.

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44. Economic Capital framework (continued)

The framework covers the following risk types: credit risk, market risk, currency risk, operational risk, concentration risk, interest rate risk in the non-trading book, legal risk and business risk.

The following summarises how the Group calculates its Economic Capital (EC) for these risks:

Credit risk:
The credit risk EC model is the asymptotic single risk factor (ASRF) model from the Basel II internal rating based (IRB) approach's risk weight formula, i.e. the EC equals the capital requirements of the IRB approach in the capital requirements directive. The main input to the model are the risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Market risk:
Market risk EC for interest rate risk in the trading book is calculated using the standardised measurement method of the Basel framework, i.e. EC equals the Bank's capital requirements for interest rate risk. However market risk EC for equity risk is calculated using the following risk weights:
• 290 % (2012:150%) for exchange traded equity exposures.
• 370 % (2012:150%) for all other equity exposures.

Currency risk:
For FX positions a VaR-model is used to calculate EC. 1-day 99% VaR as well as stressed VaR (SVaR) are calculated, scaled to a 10-day value and multiplied by 3 in accordance with the internal model approach in the Basel framework. Stressed VaR is calculated from the worst case of the previous 250 days. EC for FX-risk equals the sum of the one-year 99.9% VaR and SVaR.

Concentration risk:
EC for single name concentration is calculated by adjusting for the granularity and non-homogeneity in the portfolio. This is necessary as the credit risk EC model assumes that the portfolio is infinitely large and homogenous hence the single name concentration EC is given as an add-on.

An internal model is used to measure the additional EC for credit risk related to industry concentrations in the loan portfolio, i.e. a concentration add-on. EC is given by the increase in credit risk EC when a correlation adjusted for the concentration in the portfolio is used.

Interest rate risk in the banking book:
Interest rate risk in the banking book EC is equal to the loss of economic value resulting from a simultaneous parallel shift in the relevant interest rate curves.

Operational risk:
EC for Operational risk is calculated using the basic indicator approach, which means that it equals the Group's capital requirement.

Business risk:
EC for Business risk is calculated using an internal model, which is based on the volatility of the Group's income, before profit or loss due to any other material risk.

Legal and regulatory risk:
EC for legal and regulatory risk is calculated by adding the potential loss of on-going disputes. The significance of a dispute is assessed by its claim value and status within the legal system.

45. Economic Capital by risk type

Economic Capital decreased during 2013 mainly due to improved quality of the loan portfolio and lower assessment of EC for Legal and regulatory risk. EC for Market risk increased significantly due to higher risk weights applied to Equities. Credit risk is the largest source of risk confronting the Bank and in the year 2013 the EC for this risk type decreased reasonably.

Economic Capital ISK million	2013	2012
Credit risk - Loans to customers and credit institutions	63,770	68,764
Credit risk - Other assets	4,379	5,041
Market risk	12,124	5,865
Currency risk	2,728	3,676
Operational risk	8,360	8,111
Single name concentration risk	7,736	8,099
Industry concentration risk	3,175	2,710
Interest rate risk	9,925	10,688
Business risk	4,180	4,056
Legal and regulatory risk	5,711	18,913
Total	**122,088**	**135,923**
EC/RWA	13.7%	15.5%

45. Economic Capital by risk type (continued)

Credit risk at 31 December 2013	Weighted average Probability of default (PD)	Weighted average Loss given default (LGD)	Exposure at default (EAD)	Economic Capital (EC)
Financial institutions	0.2%	45.0%	59,820	1,421
Public entities	0.9%	45.4%	15,842	553
Individuals	4.4%	33.0%	243,616	8,690
Corporates	5.5%	44.8%	603,202	53,107
Total	**4.7%**	**41.7%**	**922,480**	**63,771**

Credit risk at 31 December 2012	Weighted average Probability of default (PD)	Weighted average Loss given default (LGD)	Exposure at default (EAD)	Economic Capital (EC)
Financial institutions	1.5%	45.0%	58,357	2,716
Public entities	1.2%	44.9%	26,277	1,687
Individuals	2.7%	33.2%	214,516	8,078
Corporates	6.0%	44.0%	527,410	56,283
Total	**4.6%**	**41.3%**	**826,560**	**68,764**

Risk management

46. Risk management structure

Risk committees

The Group’s risk management governance structure as at year-end 2013 is as follows:

Supervision by the Board of Directors	**Board of Directors**				
	Internal Audit, Audit and Risk Committee, Remuneration Committee, Strategic Development committee				
Key risk management bodies and committees	**The CEO**				
	Executive Management Committee				
	Risk and Finance Committee				
	Credit Committee				
	Security committee				
Risk types	Compliance risk	Credit risk	Market risk	Operational risk	Liquidity risk

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework and risk appetite setting. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The CEO has established and is a member of the Credit Committee, the Risk & Finance Committee and the Executive Management Committee.

The Credit Committee deals with credit risk - both credit limits on individual customers as well as credit risk policy issues - while the Risk & Finance Committee covers primarily market risk, liquidity risk, operational risk and legal risk. The Risk & Finance Committee monitors all of the Group's risks, is responsible for enforcing the Bank's risk appetite and risk limits, and reviews and approves changes to risk models before presented to the Board of Directors. The Executive Management Committee serves as a forum for consultation and communication between the CEO and managing directors, addressing the main current issues in each division. This committee makes all major decisions not being considered in other standing committee. The Security Committee is a forum for discussions and decisions on information safety, personnel security, responsibilities in specific security areas and the Group’s safety procedures.

Risk Management Divisions

The Bank's Risk Management Division is responsible for the Group's risk management framework. Subsidiaries of the Bank have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures.

The Risk Management Division is comprised of five departments.

• The Credit Management Department is responsible for risk assessment and confirmation of credit decisions, with veto rights, regarding credit applications from customers with exposures exceeding the credit limits of individual business units and customers which have been classified yellow, orange or red in the Early Warning System (see Note 51). Decisions exceeding the confirmation limits of the Risk Management Division are referred to the Bank's Credit Committee.

• The Credit Risk Monitoring Department is responsible for monitoring credit risk in the Bank's credit portfolio. This is done by operating a credit monitoring system. The Credit Risk Monitoring Department is also responsible for the portfolio valuation methodology and for the operation of the Bank's write-off process. In addition the department works with other departments on impairment analysis.

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46. Risk management structure (continued)

• The Market Risk Department is responsible for measuring and monitoring market risk, liquidity risk and interest rate risk in the Bank's banking book. Market Risk is also responsible for monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes. Market Risk monitoring also includes FX balance monitoring for the Bank as well as providing limit monitoring for pension funds under management by the Bank. The Market risk Department is also responsible for comprehensive risk reporting to various departments and committees.

• The Operational Risk Department is responsible for ensuring that Bank operational risks are monitored and that the Bank implements and maintains an effective operational risk management framework.

• The Models and Analysis Department is responsible for providing, developing and maintaining the Bank's internal models and related processes to measure risk, including the Economic Capital framework; as well as to support the implementation of such models and processes within the Bank. In addition, the Department is responsible for credit risk, economic capital and risk appetite reporting within the Bank as well as reporting to supervisory authorities.

The Bank's Compliance Department ensures that the Group adheres to its own rules on securities trading and insider trading and that the Group's operations comply with Act No. 108/2007, on Securities Transactions, Act No. 67/2006 on Actions to Combat Money Laundering and Terrorist Financing, and other relevant legislation and regulations. Compliance also concentrates on Group adherence to codes of ethics and on limiting market abuse, minimising conflicts of interest and ensuring best practice. Compliance is one of the Group's support functions and is integral to its corporate culture.

Internal Audit is part of the Group's risk management framework as well as being a part of the monitoring system. The purpose of Internal Audit in the risk management process is to confirm that risk management is functioning and is sufficient for the Group. The effectiveness of the Group's risk management and risk assessment procedures, including the Internal Capital Adequacy Assessment process (ICAAP), is evaluated by Internal Audit and the findings are reported to the Board of Directors. The activities of Internal Audit extend to every operating unit, including the Bank's subsidiaries.

47. Risk appetite

The Group's risk appetite has been reviewed, revised and implemented for 2014. The statement of the Group's risk appetite is as follows:

It is the policy of the Bank to only take on risks that the Bank understands, is able to measure and manage. The Bank's strategy and long-term vision is to attain the same credit rating as comparable leading banks in the Nordic countries.

The Bank seeks to maintain solid business relationships and avoids taking part in transactions that might damage the Bank's reputation. It will take advantage of market opportunities to ensure diversified and sound financing.

Transactions entered into by the Bank aim to limit fluctuations in its operations and ensure that the Bank is always in a position to withstand shocks. Moreover, transactions shall take into account the current standing of both the Bank and its customers and has due regard for any internal connections. The profitability of the Bank shall be assessed with respect to risk taken by the Bank. The Bank's corporate culture is characterised by professionalism and processes that support its risk strategy.

Executives and employees are responsible for monitoring and managing risks taken on within their units in accordance with the Bank's rules and applicable law. Decisions are based on in-depth and professional discussion with the Bank's long-term interests in mind. Regular and thorough follow-up on decisions and risk monitoring is an integral part of the Bank's operations.

48. Risk assessment

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement, management and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of possible risk factors in the Group's operations and undertakings. Risk measurement entails measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits ensure compliance with rules and procedures as well as compliance with the Group's risk appetite.

The objective of the Group's risk policies and procedures is to ensure that the risks in its operations are detected, measured, monitored and effectively managed. Exposure to risks is managed to ensure that it will remain within limits and the risk appetite adopted by the Group will comply with regulatory requirements. In order to ensure that fluctuations which might affect the Group's equity as well as performance are kept limited and manageable, the Group has adopted several policies regarding the risk structure of its asset portfolio which are covered in more detail under each risk type.

48. Risk assessment (continued)

Risk policy is implemented through goal setting, business strategy, internal rules and limits that comply with the regulatory framework of the financial markets.

The Group is exposed to the following material risks which arise from financial instruments:
· Credit risk
· Market risk
  -Currency risk
  -Interest rate risk
  -Other market risk
· Liquidity risk
· Operational risk

The table below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of the regulatory capital within the Group.

Principal risk	Personal Banking	Corporate Banking	Markets	Treasury
Credit risk	High	High	n/a	Low
Operational risk	Medium	Medium	High	Medium
Market risk	Low	Low	Medium	High
Liquidity risk	n/a	n/a	n/a	High

The Group also manages other relevant risks, such as business, legal and compliance risks.

The above material risks are addressed in the following notes.

Credit risk

49. Credit risk identification

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit risk is the greatest single risk faced by the Group and arises principally from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and aforementioned settlement risk.

50. Credit risk assessment

Credit risk is measured in three main dimensions: the probability of default (PD); the loss given default (LGD) and the exposure. For the purpose of measuring PD the Group has developed an internal rating system, including a number of internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful differentiation of credit quality; and accurate and consistent quantitative estimates of default risk, i.e. probabilities of default (PD). Internal ratings and associated PD play an essential role in the risk management and decision-making process, and in the credit approval and corporate governance functions.

The rating system has an obligor rating scale which reflects exclusively quantification of the risk of obligor default, i.e. credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors going from '1' to '10', '10' indicating the highest credit quality, and the grade '0' for defaulted obligors. The rating assignment is supported by rating models, which takes information such as industry classification, financial accounts and payment behaviour into account.

The following table shows the Group's internal mapping from internal rating grade to S&P rating grade

Internal rating grade	S&P	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	0.00%	0.04%
9	A+/A/A-	0.04%	0.10%
8	BBB+	0.10%	0.21%
7	BBB/BBB-	0.21%	0.46%
6	BB+/BB	0.46%	0.99%
5	BB-	0.99%	2.13%
4	B+	2.13%	4.54%
3	B	4.54%	9.39%
2	B-	9.39%	18.42%
1	CCC/C	18.42%	99,99%
0	D	In default	In default

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50. Credit risk assessment (continued)

The rating assignment and approval is an integrated part of the credit approval process and assignment shall be updated at least annually or when material information on the obligor or exposure becomes available, whichever is earlier.

The Group implemented in 2013 a new Credit rating model for individuals. Considerable changes in the rating distribution resulted from the implementation compared to the former model. The new model's discriminatory power significantly exceeds the Basel II regulatory minimum requirement of 0.5. Furthermore, the new model is well calibrated, i.e. the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

LGD is measured using the models defined in the Basel framework for the purpose of Economic Capital calculations. In addition, the Group has implemented in the business processes an internal LGD model, which takes into account more types of collateral and is more sensitive to the collateralisation level than the aforementioned Basel model.

Exposure is calculated using the credit conversion factors of the Basel framework.

51. Credit risk control and monitoring

The Group monitors exposures to identify signs of weakness in customer earnings and liquidity as soon as possible.

To monitor customers, the Group uses -supplemental to ratings- a credit monitoring classification of four credit risk groups (green, yellow, orange and red). The colour classification is the following:

• Green customers are considered as performing without signs of repayment problems;

• Yellow customers are on Watch list 1, they have temporary difficulties and may need some instalments postponed or modification of terms or loan covenants;

• Orange customers are on Watch list 2. They are still under the supervision of the relevant business unit but are likely to go through debt restructuring or postponement of instalments;

• Red customers are under supervision by Corporate Solutions and need restructuring, or are in legal collection. Management of the customer's operations will possibly be taken over by the Group. In some cases, collateral or guarantees will be collected and/or the operations sold.

The Credit Risk Monitoring Department within Risk Management is together with the business units responsible for the verification of colour for the customer and transfer of customers from the business units to Corporate Solutions if necessary.

52. Credit risk management and policy

The Group's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within the Risk Management Division and the business units. The Group manages credit risk according to its risk appetite statement and credit policy approved by the Board of Directors as well as detailed lending rules approved by the CEO. The risk appetite statement and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposures to certain industries. The CEO ensures that the risk policy is reflected in the Group's internal framework of regulation and guidelines. The Bank's executives are responsible for the Bank's business units to execute the risk policy appropriately as the CEO is responsible for the oversight of the process as a whole.

Incremental credit authorisation levels are defined based on size of units, types of customers and lending experience of credit officers. Credit decisions exceeding authorisation levels of business units are subject to confirmation by Credit Management, a department within Risk Management. Credit decisions exceeding the limits of Credit Management are subject to approval by the Bank's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors which holds the highest credit authorisation within the Bank.

53. Credit risk mitigation

Mitigating risks in the credit portfolio is a key element of the Group's credit policy as well as being an inherent part of the credit decision process. Securing loans with collateral is the main method of mitigating credit risk and is standard market practice.

The most important types of collateral are real estate, ships and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Group's credit policy. Credit extended by the Group may be secured on residential or commercial properties, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft, etc. The Group also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

53. Credit risk mitigation (continued)

The Group regularly assesses the market value of collateral received. The Group has developed models to estimate the value of the most frequent types of collateral. For collateral for which no valuation model exists, the Group estimates the value manually. It calculates the value as the market value less a haircut. The haircut represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period over which the asset is up for sale, fees for external advisory services and any loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Group monitors the market value of mark-to-market collateral and may require additional collateral in accordance with the underlying loan agreements.

The Group is consistently improving its collateral system, which is developed internally and allows the Group to analyse the quality and value of the collateral held to secure the loan portfolio.

In order to limit further the credit risk arising from financial instruments, the Group enters into netting agreements, under which the Group is able to set off all contracts covered by the netting agreement against the debt in cases of default. The arrangements generally include all market transactions between the Group and the client.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Group includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take into account price volatility and the expected costs of repossession and sale of the pledge.

Derivative financial instruments

In order to mitigate credit risk arising from derivatives the Group chooses the counterparties for derivatives trading based on stringent rules, according to which clients must meet certain conditions set by the Group. The Group also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements with foreign counterparties and similar general netting agreements with domestic counterparties. Commensurate collateral and margin requirements are in place for all derivative contracts the Group enters into. Collateral management and monitoring is performed daily and derivative contracts with clients are usually fully hedged.

The Group's supervision system monitors both derivatives exposures and collateral value and calculates a credit equivalent value for each derivative intraday. It also it issues margin calls and manages netting agreements.

Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. External ratings are used where applicable to assist in managing the credit risk exposure of bonds. Otherwise the Group uses fair value estimates based on available information and the Group’s own estimates.

54. Impairment process

Group policy requires that individual financial assets above materiality thresholds be reviewed at least quarterly, and more frequently when circumstances require. Impairment allowances on individually assessed accounts are determined on a case-by-case basis by evaluating incurred losses at the reporting date. Collectively assessed impairment allowances are permitted in the following cases: (i) portfolios of homogenous loans that are individually below materiality thresholds, and (ii) losses that have been incurred but not yet identified, using the available historical experience together with experienced judgement and statistical techniques.

Should the expected cash flows be re-examined and the present value of the cash flows (calculated using the effective interest rate) be revised, the difference is then recognised in profit or loss (as either impairment or net adjustments to loans and advances). Impairment is calculated using the effective interest rate, before any revision of the expected cash flows. Any adjustments to the carrying amount which result from revising the expected cash flows are recognised in profit or loss. The impact of financial restructuring of the Group's customers is reflected in loan impairment, or net adjustments to loans and advances, as the expected cash flow of customers has changed.

The Group has significantly reduced granting loans in foreign currency unless the customer's income is in the same currency or a comparable currency. This also applies to granting consumer price indexed (CPI) loans to corporate customers.

55. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure at 31 December 2013 and 2012. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Group uses the ISAT 08 industry classification for corporate customers.

				Corporations									
At 31 December 2013	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction and real estate companies**	**Services**	**Retail**	**Holding companies**	**Manu-facturing**	**Agriculture**	**ITC****	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	21,520	-	-	-	-	-	-	-	-	-	-	**21,520**
Bonds and debt instruments	844	265,482	-	-	13,860	-	-	9,655	-	-	-	755	**290,595**
Derivative instruments	606	1	-	-	-	-	30	-	-	-	-	17	**654**
Loans and advances to financial institutions	67,916	-	-	-	-	-	-	-	-	-	-	-	**67,916**
Loans and advances to customers	-	10,015	201,485	146,302	127,233	46,617	35,974	55,814	25,337	7,714	19,459	4,518	**680,468**
Other financial assets	3,743	327	458	99	1,193	438	20	1	5	40	2	41	**6,366**
Total on-balance sheet exposure	**73,109**	**297,345**	**201,943**	**146,401**	**142,286**	**47,055**	**36,024**	**65,470**	**25,342**	**7,754**	**19,461**	**5,331**	**1,067,521**
Off-balance sheet exposure	**4,568**	**16,833**	**20,818**	**20,191**	**23,508**	**14,355**	**8,249**	**8,064**	**7,723**	**395**	**4,088**	**646**	**129,438**
Financial guarantees and underwriting commitments	26	705	506	1,666	2,486	5,529	1,738	34	593	28	1,012	40	14,363
Undrawn loan commitments	1,500	9,687	49	16,613	19,626	807	1,238	7,225	5,348	35	2,007	433	64,568
Undrawn overdraft/credit card facilities	3,042	6,441	20,263	1,912	1,396	8,019	5,273	805	1,782	332	1,069	173	50,507
Maximum exposure to credit risk	**77,677**	**314,178**	**222,761**	**166,592**	**165,794**	**61,410**	**44,273**	**73,534**	**33,065**	**8,149**	**23,549**	**5,977**	**1,196,959**
Percentage of carrying amount	6.5%	26.2%	18.6%	13.9%	13.9%	5.1%	3.7%	6.1%	2.8%	0.7%	2.0%	0.5%	100%

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

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55. Maximum exposure to credit risk and concentration by industry sectors (continued)

				Corporations									
At 31 December 2012	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manu-facturing	Agriculture	ITC**	Other	Carrying amount
Cash and balances with Central Bank	-	25,898	-	-	-	-	-	-	-	-	-	-	**25,898**
Bonds and debt instruments	9,528	216,935	-	-	3	-	-	397	352	-	-	993	**228,208**
Derivative instruments	1,039	-	-	-	-	-	-	-	-	-	-	4	**1,043**
Loans and advances to financial institutions	64,349	-	-	-	-	-	-	-	-	-	-	-	**64,349**
Loans and advances to customers	-	11,576	195,047	142,952	104,928	52,700	42,019	60,009	25,665	10,199	19,413	1,579	**666,087**
Other financial assets	8,106	276	600	11	300	587	-	-	253	-	2	346	**10,481**
Total on-balance sheet exposure	**83,022**	**254,685**	**195,647**	**142,963**	**105,231**	**53,287**	**42,019**	**60,406**	**26,270**	**10,199**	**19,415**	**2,922**	**996,066**
Off-balance sheet exposure	**4,054**	**14,215**	**28,146**	**14,374**	**30,797**	**11,465**	**8,612**	**1,147**	**2,361**	**1,049**	**2,496**	**46**	**118,762**
Financial guarantees and underwriting commitments	-	95	463	1,731	23,149	2,123	1,685	208	584	39	552	35	30,664
Undrawn loan commitments	1,500	9,022	22	10,592	5,628	2,122	1,948	278	194	701	901	-	32,908
Undrawn overdraft/credit card facilities	2,554	5,098	27,661	2,051	2,020	7,220	4,979	661	1,583	309	1,043	11	55,190
Notes to the Consolidated Financial Statements													
Maximum exposure to credit risk	**87,076**	**268,900**	**223,793**	**157,337**	**136,028**	**64,752**	**50,631**	**61,553**	**28,631**	**11,248**	**21,911**	**2,968**	**1,114,828**
Percentage of carrying amount	7.8%	24.1%	20.1%	14.1%	12.2%	5.8%	4.5%	5.5%	2.6%	1.0%	2.0%	0.3%	100%

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

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56. Collateral and loan-to-value by industry sectors

The loan-to-value (LTV) ratio expresses the maximum exposure of credit risk (carrying amount of loans and off-balance sheet items) as a percentage of the total value of collateral less a haircut. Loan to value is one of the key risk factors that is assessed when qualifying borrowers for a loan. The risk of default is always at the forefront of lending decisions, and the likelihood of a lender absorbing a loss in the foreclosure process increases as the collateral value decreases. A high LTV indicates that there are smaller cushions to protect against price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance.

	LTV Ratio - Fully collateralised					LTV Ratio - Partially collateralised				
At 31 December 2013	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value**	**Without Collateral***	**Allowance for impairment**	**Maximum exposure to credit risk**
Financial institutions	-	-	-	-	-	-	-	72,484	-	72,484
Public entities	24	60	209	1,169	1,462	4,969	294	20,550	134	26,847
Individuals	2,370	10,978	19,567	33,728	66,643	119,759	86,272	52,135	16,234	222,303
Corporations										
Fisheries	3,758	6,695	22,194	35,242	67,889	99,711	69,672	7,768	8,874	166,494
Construction and real estate companies	348	4,546	5,167	12,397	22,458	123,137	66,030	14,138	8,992	150,741
Holding companies	495	245	1,143	2,709	4,592	50,895	34,908	12,384	3,994	63,878
Retail	153	1,050	1,623	3,604	6,430	34,635	17,244	8,851	5,692	44,223
Services	235	3,789	2,791	9,922	16,737	27,608	16,282	20,386	3,757	60,974
Information, technology and communication	20	45	90	68	223	19,107	8,316	4,853	636	23,546
Manufacturing	97	183	1,275	6,389	7,944	16,658	9,403	9,935	1,476	33,061
Agriculture	89	311	306	1,477	2,183	5,556	2,565	1,170	800	8,109
Other	2	-	-	112	114	522	231	4,882	355	5,162
Total	**7,591**	**27,902**	**54,365**	**106,817**	**196,675**	**502,557**	**311,217**	**229,536**	**50,944**	**877,822**
At 31 December 2012**										
Financial institutions	-	-	-	-	-	-	-	68,404	-	68,404
Public entities	21	37	146	88	292	5,527	1,295	20,079	107	25,791
Individuals	5,967	10,099	13,137	16,648	45,851	118,312	76,849	71,591	12,560	223,194
Corporations										
Fisheries	1,212	5,295	26,891	22,530	55,929	84,757	65,015	23,165	6,525	157,326
Construction and real estate companies	323	1,854	3,204	9,428	14,809	107,421	53,899	21,125	7,630	135,725
Holding companies	518	210	1,345	2,514	4,587	55,948	36,049	6,848	6,226	61,157
Retail	262	1,058	2,115	1,758	5,193	33,273	16,544	17,696	5,530	50,632
Services	874	883	11,666	1,721	15,144	32,602	17,051	19,635	3,217	64,164
Information, technology and communication	22	30	57	25	134	16,944	7,785	5,186	357	21,907
Manufacturing	93	363	951	1,317	2,725	17,872	11,942	8,567	1,138	28,026
Agriculture	409	277	608	149	1,444	7,202	4,648	3,150	547	11,249
Other	2	-	41	-	43	579	305	1,195	193	1,624
Total	**9,703**	**20,107**	**60,161**	**56,178**	**146,151**	**480,437**	**291,382**	**266,641**	**44,030**	**849,199**

*Credit card loans and overdraft on debit cards are assumed to be without collateral. If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

**The comparative amounts have been restated due to an error in the year-end 2012 amounts previously disclosed. The amounts in this table are only of informative nature and do therefore not have any effect on the amounts reported by the Group in the income statement or statement of financial position.

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57. Collateral types

The following tables show the collateral less a haircut held to mitigate credit risk. Further details on the Collateral types can be seen in Note 53, Credit risk mitigation.

At 31 December 2013	Real Estate	Vessels	Deposits	Securities	Other*	Total
Public entities	2,362	-	44	-	96	2,502
Individuals	178,271	456	1,064	3,686	21,655	205,132
Corporates						
Fisheries	10,763	138,676	541	9,240	23,701	182,921
Construction and real estate companies	97,092	33	1,103	372	2,249	100,849
Holding companies	6,855	-	118	33,851	2,915	43,739
Retail	12,289	18	292	282	16,938	29,819
Services	23,713	891	357	1,590	18,558	45,109
Information, technology and communication	454	4	53	1,990	6,285	8,786
Manufacturing	9,425	389	297	6,510	3,892	20,513
Agriculture	5,658	15	5	-	556	6,234
Other	412	-	-	-	1	413
Total	**347,294**	**140,482**	**3,874**	**57,521**	**96,846**	**646,016**

At 31 December 2012**	Real Estate	Vessels	Deposits	Securities	Other*	Total
Public entities	2,217	-	28	-	70	2,315
Individuals	148,193	847	1,397	2,390	13,818	166,645
Corporates						
Fisheries	7,284	144,105	167	5,462	11,518	168,536
Construction and real estate companies	90,604	-	1,191	168	1,801	93,764
Holding companies	4,632	-	128	29,292	4,000	38,052
Retail	13,205	-	407	614	14,937	29,163
Services	39,568	403	396	657	9,360	50,384
Information, technology and communication	438	-	117	2,516	6,087	9,158
Manufacturing	9,196	-	283	5,756	2,149	17,384
Agriculture	7,403	-	-	-	3,882	11,285
Other	35	-	-	-	1	36
Total	**322,775**	**145,355**	**4,114**	**46,855**	**67,623**	**586,722**

* Other includes collateral like financial claims, invoices, liquid assets, vehicles, machines, aircrafts and inventories.

** The comparative amounts have been restated due to an error in the year-end 2012 amounts previously disclosed. The amounts in this table are only of informative nature and do therefore not have any effect on the amounts reported by the Group in the income statement or statement of financial position.

58. Loans and advances by geographical area

Geographical segmentation is based on the customer's country of residence rather than the location of the creditor.

At 31 December 2013	Domestic	Foreign	Carrying
Loans and advances to financial institutions	7,435	60,481	67,916
Loans and advances to customers	631,755	48,713	680,468
Total loans and advances to customers	**639,190**	**109,194**	**748,384**

At 31 December 2012	Domestic	Foreign	Carrying
Loans and advances to financial institutions	8,358	55,991	64,349
Loans and advances to customers	622,800	43,288	666,087
Total loans and advances to customers	**631,158**	**99,279**	**730,436**

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59. Loans and advances credit monitoring

The following tables show the credit risk monitoring split on colour classification. Further details on the credit risk monitoring and colour classification can be seen in Note 51, Credit risk control and monitoring.

Industry sectors as at 31 December 2013	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	67,916	-	-	-	67,916
Public entities	9,462	467	85	1	10,015
Individuals	155,486	13,053	20,746	12,200	201,485
Corporations					
Fisheries	111,413	23,905	3,098	7,886	146,302
Construction and real estate companies	85,624	19,905	13,950	7,754	127,233
Holding companies	44,553	9,121	893	1,246	55,813
Retail	23,712	5,805	3,424	3,034	35,975
Services	31,475	9,193	2,983	2,966	46,617
Information, technology and communication	18,420	784	163	92	19,459
Manufacturing	17,634	1,887	1,275	4,541	25,337
Agriculture	5,917	728	596	474	7,715
Other	4,279	-	238	-	4,517
Total	**575,891**	**84,848**	**47,451**	**40,194**	**748,384**

Industry sectors as at 31 December 2012	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	64,349	-	-	-	64,349
Public entities	10,849	571	152	4	11,576
Individuals	149,615	9,641	19,010	16,781	195,047
Corporations					
Fisheries	102,319	29,130	3,006	8,497	142,952
Construction and real estate companies	55,038	16,190	18,318	15,382	104,928
Holding companies	32,668	10,867	8,028	8,446	60,009
Retail	18,643	16,075	2,470	4,831	42,019
Services	34,944	5,389	6,096	6,271	52,700
Information, technology and communication	18,853	192	202	166	19,413
Manufacturing	18,037	3,044	1,505	3,079	25,665
Agriculture	8,624	952	187	436	10,199
Other	346	657	471	105	1,579
Total	**514,285**	**92,708**	**59,445**	**63,998**	**730,436**

60. Credit quality of financial assets

	Gross carrying amount					
At 31 December 2013	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment	Carrying amount
Cash and balances with Central Bank	21,520	-	-	21,520	-	21,520
Bonds and debt instruments	280,736	9,859	-	290,595	-	290,595
Derivative instruments	654	-	-	654	-	654
Loans and advances to financial institutions	67,916	-	-	67,916	-	67,916
Loans and advances to customers	585,526	54,874	91,012	731,412	(50,944)	680,468
Other financial assets	6,366	-	-	6,366	-	6,366
Total	**962,718**	**64,733**	**91,012**	**1,118,463**	**(50,944)**	**1,067,519**
At 31 December 2012						
Cash and balances with Central Bank	25,898	-	-	25,898	-	25,898
Bonds and debt instruments	219,009	9,199	-	228,208	-	228,208
Derivative instruments	1,043	-	-	1,043	-	1,043
Loans and advances to financial institutions	64,349	-	-	64,349	-	64,349
Loans and advances to customers	450,885	60,078	199,154	710,117	(44,030)	666,087
Other financial assets	10,481	-	-	10,481	-	10,481
Total	**771,665**	**69,277**	**199,154**	**1,040,096**	**(44,030)**	**996,066**

The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

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61. Loans and advances neither past due nor individually impaired

The following tables shows the credit quality, measured by rating grade, of Loans and advances neither past due nor individually impaired. Further details on rating grades can be seen in note 50, Credit risk assessment.

	Rating grades					
At 31 December 2013	**10-7**	**6-4**	**3-1**	**0***	**Unrated**	**Total**
Financial institutions	59,822	8,094	-	-	-	67,916
Public entities	8,149	1,485	261	-	19	9,914
Individuals	58,283	83,424	26,089	855	4,228	172,879
Corporations						
Fisheries	11,938	88,350	21,534	778	-	122,600
Construction and real estate companies	67	81,600	32,591	104	15	114,377
Holding companies	727	26,250	16,931	10	29	43,947
Retail	29	25,515	5,591	264	23	31,422
Services	132	30,599	10,494	36	137	41,398
Information, technology and communication	4	14,773	1,453	-	-	16,230
Manufacturing	2,187	13,237	4,053	1,481	341	21,299
Agriculture	244	5,628	1,023	-	15	6,910
Other	-	493	772	-	3,285	4,550
Total	**141,582**	**379,448**	**120,792**	**3,528**	**8,092**	**653,442**
At 31 December 2012						
Financial institutions	64,349	-	-	-	-	64,349
Public entities	2,357	73	4,866	10	88	7,394
Individuals	11,266	97,272	21,276	3,968	5,987	139,769
Corporations						
Fisheries	391	31,227	47,886	3,442	19	82,965
Construction and real estate companies	-	41,960	20,039	7,129	248	69,376
Holding companies	-	23,468	13,203	1,174	477	38,322
Retail	-	26,667	2,775	223	248	29,913
Services	10,884	18,201	11,454	1,131	488	42,158
Information, technology and communication	-	239	13,724	30	26	14,019
Manufacturing	54	4,872	16,337	230	154	21,647
Agriculture	2	914	3,138	72	30	4,156
Other	-	534	3	-	630	1,166
Total	**89,303**	**245,427**	**154,701**	**17,409**	**8,395**	**515,234**

* Due to the accounting policies, loans and advances acquired at deep discount are not impaired even though the Group considers the obligor likely not to meet its obligations. Hence such loans can be defaulted but neither past due nor individually impaired.

62. Loans and advances past due but not individually impaired

The following table shows the gross carrying amount of loans and advances to financial institutions and customers that have failed to make payments which had become contractually due by one or more days.

At 31 December 2013	**Past due 1-5 days**	**Past due 6-30 days**	**Past due 31 - 60 days**	**Past due 61 - 90 days**	**Past due over 90 days**	**Gross carrying amount**
Public entities	-	105	1	24	20	150
Individuals	180	9,630	3,276	1,003	6,702	20,791
Corporations	1,069	11,382	3,392	977	17,113	33,933
Total	**1,249**	**21,117**	**6,669**	**2,004**	**23,835**	**54,874**
At 31 December 2012						
Public entities	-	2	1	-	19	22
Individuals	115	7,545	3,156	1,487	11,450	23,753
Corporations	1,052	4,570	2,134	1,262	27,285	36,303
Total	**1,167**	**12,117**	**5,291**	**2,749**	**38,754**	**60,078**

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63. Loans and advances by industry sectors

The table below shows the credit exposure, allowances and impairment by industry and customer segment.

				Individually impaired				
				Of which performing		Of which non-performing*		
At 31 December 2013	**Gross carrying amount**	**Gross not individually impaired**	**Collective allowance**	**Gross carrying amount**	**Individual allowance**	**Gross carrying amount**	**Individual allowance**	**Carrying amount**
Financial institutions	67,916	67,916	-	-	-	-	-	67,916
Public entities	10,149	10,065	58	70	63	14	12	10,016
Individuals	217,719	193,669	3,114	11,866	6,341	12,184	6,779	201,486
Corporations								
Fisheries	155,176	130,702	782	22,454	6,745	2,020	1,348	146,300
Construction and real estate companies	136,224	122,365	2,191	5,925	3,704	7,934	3,098	127,231
Holding companies	59,808	45,547	738	12,641	1,836	1,620	1,420	55,814
Retail	41,666	34,081	825	5,742	3,454	1,843	1,414	35,973
Services	50,375	46,620	1,013	1,502	1,082	2,253	1,663	46,616
Information, technology and communication	20,096	19,847	426	181	150	68	61	19,459
Manufacturing	26,814	25,225	355	1,148	923	441	198	25,340
Agriculture	8,514	7,728	101	388	370	398	329	7,714
Other	4,871	4,550	63	-	-	320	288	4,519
Total	**799,328**	**708,315**	**9,666**	**61,917**	**24,668**	**29,095**	**16,610**	**748,384**

				Individually impaired				
				Of which performing		Of which non-performing*		
At 31 December 2012	**Gross carrying amount**	**Gross not individually impaired**	**Collective allowance**	**Gross carrying amount**	**Individual allowance**	**Gross carrying amount**	**Individual allowance**	**Carrying amount**
Financial institutions	64,349	64,349	-	-	-	-	-	64,349
Public entities	11,682	7,794	44	3,768	51	120	11	11,576
Individuals	207,608	167,667	2,632	25,984	3,549	13,956	6,379	195,047
Corporations								
Fisheries	149,477	89,405	2,582	56,827	2,448	3,245	1,496	142,952
Construction and real estate companies	112,558	82,272	3,835	24,914	1,926	5,371	1,869	104,928
Holding companies	66,235	40,464	3,087	22,614	564	3,157	2,575	60,009
Retail	47,549	33,737	1,520	11,139	2,376	2,673	1,634	42,019
Services	55,917	45,944	986	8,036	1,323	1,937	908	52,700
ITC	19,770	14,202	126	5,473	186	95	46	19,413
Manufacturing	26,802	22,807	346	3,347	458	649	334	25,665
Agriculture	10,747	5,098	248	5,219	127	429	173	10,199
Other	1,772	1,573	102	-	-	201	90	1,581
Total	**774,466**	**575,312**	**15,508**	**167,321**	**13,008**	**31,833**	**15,515**	**730,438**

*Non-performing past due more than 90 days

All amounts are in ISK million

64. Allowance for impairment on loans and advances to financial institutions and customers and other financial assets

	2013			2012		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the year	(28,523)	(15,507)	(44,030)	(19,696)	(8,724)	(28,420)
New provisions	(16,686)	-	(16,686)	(11,719)	(6,723)	(18,442)
Reversals	1,659	5,815	7,474	2,353	-	2,353
Provisions used to cover write-offs	2,156	-	2,156	586	-	586
Translation difference	116	26	142	(47)	(60)	(107)
Balance at the end of the period	**(41,278)**	**(9,666)**	**(50,944)**	**(28,523)**	**(15,507)**	**(44,030)**

	2013			2012		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(16,686)	-	(16,686)	(18,442)	-	(18,442)
Write-offs	(7,430)	-	(7,430)	(1,161)	-	(1,161)
Provisions used to cover write-offs	2,156	-	2,156	586	-	586
Reversals	7,474	-	7,474	2,354	-	2,354
Recoveries	6,369	-	6,369	811	-	811
Translation difference	142	-	142	(107)	-	(107)
Impairment loss for the period	(7,975)	0	(7,975)	(15,959)	0	(15,959)
Impairment of claims reversed	-	269	269	-	3,700	3,700
Net impairment loss for the period	**(7,975)**	**269**	**(7,706)**	**(15,959)**	**3,700**	**(12,259)**

65. Renegotiated loans

Financial restructuring and renegotiation of loans to the Group's customers acquired from LBI hf. started in 2009. In regard to financial restructuring of customers, the Group has put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans. During the year 2013 the Bank continued its focus and effort in restructuring loans to individuals and companies.

66. Large exposures

At 31 December 2013, two Group clients were rated as large exposures (31 December 2012: two clients), including subsidiaries of the Group classified as held for sale. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's capital base. The large exposures amount is calculated after taking account of collateral held, in accordance with the Financial Supervisory Authority's Rules on Large Exposures incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25% of the capital base. All of the Group's large exposures were within these limits as at 31 December 2013 and 2012.

At 31 December 2013	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's capital base	2	70,696
Total	**2**	**70,696**
Total large exposure to capital base (400% is the maximum limit)		30%
At 31 December 2012		
Large exposures between 10% and 20% of the Group's capital base	2	71,610
Total	**2**	**71,610**
Total large exposure to capital base (400% is the maximum limit)		32%

67. Bonds and debt instruments

A breakdown of the Group's bond portfolio, by Standard & Poor's rating, is as follows:

Carrying amount	2013	2012*
AAA/AA+/AA/AA-	112,123	55,699
BBB/BBB-	136,789	140,468
Lower than BBB-	15,157	19,307
Unrated	26,526	12,735
Total	**290,595**	**228,209**

* Comparative amounts for the year 2012 have been restated as Moody's ratings were replaced by Standard & Poor's ratings in the year 2013.

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67. Bonds and debt instruments (continued)

The following table shows the carrying amounts of bonds for which the issuers have failed, by one or more days, to make a payment when it was contractually due:

At 31 December 2013	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	9,655	9,655
Other	-	204	204
Total	**0**	**9,859**	**9,859**

At 31 December 2012			
Financial institutions	-	8,995	8,995
Holding companies	-	147	147
Public entities	-	54	54
Real estate companies	-	3	3
Total	**0**	**9,199**	**9,199**

Bond issuers classified as financial institutions at year-end 2012 lost their operating licence in the year 2013 and are subsequently classified as holding companies.

68. Derivative instruments

The following table summarises the Group's exposure in derivative instruments, classified by the Bank into equivalent Standard & Poor's ratings by counterparty:

	2013			2012*		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
AAA/AA+/AA/AA-	-	-	-	774	3	-
A+/A/A-	35,565	421	62	49,436	1,036	81
BBB+ to BBB-	1,573	1	453	1,844	-	379
Lower than BBB-	476	1	-	1,858	-	11
Unrated	14,337	231	67	10,126	4	49
Total	**51,951**	**654**	**582**	**64,038**	**1,043**	**520**

* Comparative amounts for the year 2012 have been restated as Moody's ratings were replaced by Standard & Poor's ratings in the year 2013.

69. Offsetting financial assets and financial liabilities

The following table shows reconciliaton to the net amounts of financial assets and financial liabilities. Those financial assets and financial liabilities are subject to offsetting, enforceable master netting agreements and similar agreements.

31 December 2013

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreement

	Assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net Amount	Financial liabilities	Collateral recived	Net financial assets with netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
Derivatives	654	-	654	(42)	(31)	581	-	654

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreement

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilites	Financial liabilities	Financial assets	Net Amount	Financial assets	Collateral pledged	Net financial assets with netting agreements	Financial assets not subject to netting agreements	Carrying amount
Derivatives	(129)	-	(129)	42	43	(44)	(453)	583
Short positions	(6,988)	-	(6,988)	-	6,987	-	-	6,988
Total	**(7,117)**	**0**	**(7,117)**	**42**	**7,030**	**(44)**	**(453)**	**7,571**

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69. Offsetting financial assets and financial liabilities (continued)

31 December 2012

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreement

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net Amount	Financial liabilities	Collateral recived	Net financial assets with netting agreements	Financial assets not subject to netting agreements	Carrying amount
Derivatives	1,043	-	1,043	(75)	-	986	-	1,043

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreement

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	Financial liabilities	Financial assets	Net Amount	Financial assets	Collateral pledged	Net financial assets with netting agreements	Financial assets not subject to netting agreements	Carrying amount
Derivatives	(143)	-	(143)	75	41	(27)	(377)	(520)
Short positions	(8,918)	-	(8,918)	-	8,918	-	-	(8,918)
Total	**(9,061)**	**0**	**(9,061)**	**75**	**8,959**	**(27)**	**(377)**	**(9,438)**

Liquidity risk

70. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from earlier maturities of financial liabilities and financial assets.

71. Liquidity risk management

A liquidity management policy for the Bank and its subsidiaries is in place. The objective of the liquidity management policy is to ensure, even in times of stress, that sufficient liquid assets and funding capacity are available to meet financial obligations in a timely manner and at reasonable cost. Furthermore, the liquidity management policy is to describe the manner in which the Bank identifies, evaluates, measures, monitors, manages and reports its liquidity. Enforcing this policy has the further objective of minimising fluctuations in liquidity. The policy is built on a framework published in Basel III standards on liquidity risk measurement where the main metric for measuring liquidity risk is the Liquidity Coverage Ratio (LCR). The objective of the LCR is to promote short-term resilience by ensuring that the Bank has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The Central Bank of Iceland issued new liquidity rules as of 1 December 2013 which set requirements for minimum LCR.

In the year 2013 the Group followed liquidity rules set by the Central Bank of Iceland to govern the ratio of weighted liquid assets and liabilities as well as following guidelines No. 1/2008 from the Icelandic Financial Supervisory Authority in Iceland (FME) on best practice for managing liquidity in banking organisation. Previous rules set by the Central Bank required the ratio of weighted assets to weighted liabilities to stay above 1 for the next three months, and they involved a stress test, weighting assets and liabilities with specific coefficients and reflecting how accessible each asset would be in a liquidity crisis and how great the need would be to repay the liability in question when due. The guidelines set by the FME require the ratio of core liquid assets to deposits to stay above 20% and the ratio of cash and cash equivalents to on-demand deposits to stay above 5%. The new liquidity rules issued by the Central Bank of Iceland require the Group to maintain a LCR minimum of 60% total and 100% for foreign currencies at the end of year 2013. The Group submits monthly reports on its liquidity position to the Central Bank of Iceland and the FME.

The Group has implemented a risk appetite where these rules and guidelines as well as inner requirements within the Bank set benchmark for liquidity management.

The Group's liquidity risk is managed centrally by Treasury and is monitored by Market Risk. This allows management to monitor and manage liquidity risk throughout the Group. The Risk and Finance Committee monitors the Group's liquidity risk, while the Bank's internal audit assesses whether the liquidity management process is designed properly and operating effectively.

The Group monitors intraday liquidity risk, short-term 30 day liquidity risk, liquidity risk for one year horizon and risk arising from mismatches of longer term assets and liabilities. The Group has neither defaulted on any principal or interest nor breached any covenants in respect of liabilities in the years 2013 and 2012.

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71. Liquidity risk management (continued)

The Group's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities, monitoring balance sheet liquidity, monitoring and managing the maturity profile of liabilities and off-balance sheet commitments, monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business, and maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis.

Market Risk Unit conducts weekly stress tests by applying various hypothetical scenarios on the Group's liquidity position to ensure that it has adequate liquidity to withstand stressed conditions. Different assumptions are drawn for each stress test to estimate the impact of a variety of market conditions, in particular the lifting of capital controls in Iceland and how that would impact the Group's deposit base.

The key indicator of short-term liquidity risk is measured by the Liquidity Coverage Ratio which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with Central Bank and assets eligible for repo transactions with Central Bank. The following table shows values of the Liquidity Coverage Ratio at 31 December 2013:

	Liquidity Coverage Ratio total	Liquidity Coverage Ratio FX
As at 31 December 2013	102%	208%

Another key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with Central Bank. Another method the Group uses is the cash ratio which shows the ratio of on-demand deposits that the Group could deliver with cash and cash equivalents such as cash at hand, balances with Central Bank and loans to financial institutions (maturity within seven days). The following table shows various values of the core liquidity ratio and cash ratio in the year 2013 and 2012:

	Core liquidity ratio		Cash ratio	
	2013	2012	2013	2012
Year-end	50%	48%	13%	12%
Maximum	53%	51%	22%	32%
Minimum	41%	36%	10%	12%
Average	47%	45%	16%	20%

72. Deposit stickiness

Stickiness is a method that the bank uses to estimate the stability of the deposit base. The Bank for International Settlements (BIS) defines stickiness as tendency of funding not to run off quickly under stress. The Bank has categorised its deposit base into seven different groups representing different levels of stickiness. The groups are based on Basel III's LCR methodology and are reflected in the Bank's internal liquidity stress tests where a concentration charge is applied to account for possible outflows.

The defining criteria for the groups are as follows:

		2013		2012	
Groups	Criteria	% of total	Amount	% of total	Amount
Individuals	Individuals	36.1%	225,150	42.6%	221,617
Small and medium size corporates	Businesses that have less than 1 million EUR in deposits	8.1%	50,616	9.7%	50,593
Large corporates	Businesses that have greater than or equal to 1 million EUR in deposits	11.0%	68,384	11.7%	60,934
Financial institutions, in resolution process	Financial institutions in resolution process	22.1%	137,583	9.6%	50,083
Government, municipalities and Central Bank	Government, municipalities and Central Bank	4.5%	27,961	6.0%	31,353
Financial institutions, securities firms and incurance companies	Financial institutions, securities firms and incurance companies	17.7%	110,524	19.6%	101,857
Other foreign counterparties	Businesses with residency outside of Iceland	0.6%	3,662	0.6%	3,339
Total		**100%**	**623,880**	**100%**	**519,776**

The table above shows the deposit base split between different groups at year-end 2013 and 2012 from the estimated most sticky group to the least sticky.

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73. Maturity analysis of financial assets and liabilities

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2013:

Non-derivative financial assets	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	21,520	-	-	-	-	-	21,520	21,520
Bonds and debt instruments	36,352	56,347	30,131	186,800	56,739	-	366,369	290,595
Equities and equity instruments	-	-	-	-	-	36,275	36,275	36,275
Loans and advances to financial institutions	59,714	-	6,394	1,811	-	-	67,919	67,916
Loans and advances to customers	58,833	37,746	102,593	374,870	396,309	-	970,351	680,468
Other financial assets	5,811	-	-	555	-	-	6,366	6,366
Total	**182,230**	**94,093**	**139,118**	**564,036**	**453,048**	**36,275**	**1,468,800**	**1,103,140**
Derivative financial assets								
Gross settled derivatives								637
Inflow	13,645	15,884	1,361	-	-	-	30,890	
Outflow	(13,395)	(15,523)	(1,344)	-	-	-	(30,262)	
Total	**250**	**361**	**17**	**0**	**0**	**0**	**628**	**637**
Net settled derivatives	17	-	-	-	-	-	17	17
Total	**267**	**361**	**17**	**0**	**0**	**0**	**645**	**654**
Non-derivative financial liabilities								
Due to financial institutions and Central Bank	(167,128)	(91)	-	-	-	-	(167,219)	(167,218)
Deposits from customers	(345,086)	(48,630)	(41,031)	(23,770)	(5,238)	-	(463,755)	(456,662)
Short positions	(6,988)	-	-	-	-	-	(6,988)	(6,988)
Secured bonds	(4,788)	-	(16,183)	(242,047)	-	-	(263,018)	(239,642)
Other financial liabilities	(12,320)	-	-	-	-	-	(12,320)	(12,320)
Total	**(536,310)**	**(48,721)**	**(57,214)**	**(265,817)**	**(5,238)**	**0**	**(913,300)**	**(882,830)**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(471)	(877)	(3,802)	(1,141)	(8,072)	-	(14,363)	
Undrawn loan commitments	(64,568)	-	-	-	-	-	(64,568)	
Undrawn overdraft/credit card commitments	(50,507)	-	-	-	-	-	(50,507)	
Total	**(115,546)**	**(877)**	**(3,802)**	**(1,141)**	**(8,072)**	**0**	**(129,438)**	
Total non-derivative financial liabilities and off-balance sheet	**(651,856)**	**(49,598)**	**(61,016)**	**(266,958)**	**(13,310)**	**0**	**(1,042,738)**	**(882,830)**
Derivative financial liabilities								
Gross settled derivatives								(521)
Inflow	9,317	2,560	796	1,046	-	-	13,719	
Outflow	(9,373)	(2,574)	(1,136)	(1,116)	-	-	(14,199)	
Total	**(56)**	**(14)**	**(340)**	**(70)**	**0**	**0**	**(480)**	**(521)**
Net settled derivatives	(61)	-	-	-	-	-	(61)	(61)
Total	**(117)**	**(14)**	**(340)**	**(70)**	**0**	**0**	**(541)**	**(582)**
Net liquidity position	**(469,476)**	**44,842**	**77,779**	**297,008**	**439,738**	**36,275**	**426,166**	**220,382**

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73. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2012:

Non-derivative financial assets	0-1 months*	1-3 months*	3-12 months	1-5 years	Over 5 years	No maturity**	Total	Carrying amount
Cash and balances with Central Bank	25,898	-	-	-	-	-	25,898	25,898
Bonds and debt instruments	17,423	34,768	12,202	48,362	158,688	-	271,443	228,208
Equities and equity instruments	-	-	-	-	-	36,881	36,881	36,881
Loans and advances to financial institutions	55,035	-	7,726	1,591	-	-	64,352	64,349
Loans and advances to customers	52,707	30,625	97,531	396,142	374,154	-	951,159	666,087
Other financial assets	10,017	-	-	464	-	-	10,481	10,481
Total	**161,080**	**65,393**	**117,459**	**446,560**	**532,842**	**36,881**	**1,360,214**	**1,031,904**
Derivative financial assets								
Gross settled derivatives								1,040
Inflow	20,866	10,303	-	-	-	-	31,169	
Outflow	(23,683)	(10,011)	-	-	-	-	(33,694)	
Total	**(2,817)**	**292**	**0**	**0**	**0**	**0**	**(2,525)**	**1,040**
Net settled derivatives	3	-	-	-	-	-	3	3
Total	**(2,814)**	**292**	**0**	**0**	**0**	**0**	**(2,522)**	**1,043**
Non-derivative financial liabilities								
Due to financial institutions and Central Bank	(98,696)	(5)	(18)	-	-	-	(98,719)	(98,718)
Deposits from customers	(315,718)	(47,110)	(33,048)	(26,362)	(4,137)	-	(426,375)	(421,058)
Short positions	(8,918)	-	-	-	-	-	(8,918)	(8,918)
Secured bonds	(1,164)	-	(3,401)	(184,607)	(60,329)	-	(249,501)	(221,791)
Contingent bond	-	-	-	(90,261)	(23,351)	-	(113,612)	(87,474)
Other financial liabilities	(14,369)	-	-	-	-	-	(14,369)	(14,369)
Total	**(438,865)**	**(47,115)**	**(36,467)**	**(301,230)**	**(87,817)**	**0**	**(911,494)**	**(852,328)**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(474)	(19,678)	(3,434)	(2,102)	(4,976)	-	(30,664)	
Undrawn loan commitments	(32,908)	-	-	-	-	-	(32,908)	
Undrawn overdraft/credit card commitments	(55,190)	-	-	-	-	-	(55,190)	
Total	**(88,572)**	**(19,678)**	**(3,434)**	**(2,102)**	**(4,976)**	**0**	**(118,762)**	
Total non-derivative financial liabilities and off-balance sheet	**(527,437)**	**(66,793)**	**(39,901)**	**(303,332)**	**(92,793)**	**0**	**(1,030,256)**	**(852,328)**
Derivative financial liabilities								
Gross settled derivatives								**(490)**
Inflow	25,417	676	276	839	284	-	27,492	
Outflow	(21,971)	(679)	(347)	(1,074)	(371)	-	(24,441)	
Total	**3,446**	**(3)**	**(71)**	**(235)**	**(87)**	**0**	**3,051**	**(490)**
Net settled derivatives	(29)	-	-	-	-	-	(29)	(29)
Total	**3,417**	**(3)**	**(71)**	**(235)**	**(87)**	**0**	**3,022**	**(520)**
Net liquidity position	**(365,754)**	**(1,111)**	**77,487**	**142,993**	**439,962**	**36,881**	**330,458**	**180,099**

* The time bands On demand and Up to 3 months in the financial statements for the year 2012 have been replaced by the time bands 0-1 months and 1-3 months in these financial statements for the year 2013; consequently, the comparative amounts have been restated.

** Financial assets and liabilities with no maturity were reported in this table for the first time in the year 2013. This time band is for informative purposes only and does not have any effect on amounts reported in other time bands within the table.

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73. Maturity analysis of financial assets and liabilities (continued)

The tables above only take into account the contractual maturity of the Group's assets and liabilities but does not account for measures that the Group could decide upon to convert assets into cash at hand by liquidation either through sale or participation in Central Bank operations. Furthermore all instant access deposits are categorised as outflows in the first time bucket. The Groups liquidity position can withstand 50% outflow of deposits (see Note 71). Further information on the Group's liquidity management can also be found in the aforementioned note.

The amounts in the maturity analyses as at year-end 2013 and 2012 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in time band of 1-5 years.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the statement of financial position, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analyses has been determined by reference to the conditions existing at the reporting date. For example, for inflation-linked assets and liabilities, the Group estimates the inflation related future cash flows using an internally estimated inflation curve based on the Central Bank of Iceland's inflation target for the annualised inflation rate. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay, which is the worst case scenario from Group perspective. An example of this is that demand deposits are included in the earliest time band. Where the Group is committed to have amounts available in installments, each installment is allocated to the earliest period in which the Group might be required to pay. Thus undrawn loan commitments are included in the time band together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included in the maturity analysis is the guarantee's maximum amount, allocated to the earliest period in which the guarantee might be called.

Nonetheless, the Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analyses. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and it is not expected that every committed loan will be drawn down immediately (see Note 72 on deposit stickiness). The Group conducts a weekly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals at year-end 2013 and 2012. When managing liquidity risk the Group regards spot deals as a non-derivative assets or liabilities.

74. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2013:

	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Non-derivative financial assets								
Total in foreign currencies	104,379	65,680	50,563	169,443	14,580	19,061	423,706	399,766
ISK	77,851	28,413	88,555	394,593	438,468	17,214	1,045,094	703,374
Total	**182,230**	**94,093**	**139,118**	**564,036**	**453,048**	**36,275**	**1,468,800**	**1,103,140**
Derivative financial assets								
Total in foreign currencies	(1,273)	31	(148)	-	-	-	(1,390)	637
ISK	1,540	330	165	-	-	-	2,035	17
Total	**267**	**361**	**17**	**0**	**0**	**0**	**645**	**654**
Non-derivative financial liabilities								
Total in foreign currencies	(147,609)	(1,108)	(19,121)	(239,879)	-	-	(407,717)	(384,690)
ISK	(388,701)	(47,613)	(38,093)	(25,938)	(5,238)	-	(505,583)	(498,140)
Total	**(536,310)**	**(48,721)**	**(57,214)**	**(265,817)**	**(5,238)**	**0**	**(913,300)**	**(882,830)**
Off-balance sheet items								
Total in foreign currencies	(27,072)	(501)	(2,122)	(693)	(295)	-	(30,683)	
ISK	(88,474)	(376)	(1,680)	(448)	(7,777)	-	(98,755)	
Total	**(115,546)**	**(877)**	**(3,802)**	**(1,141)**	**(8,072)**	**0**	**(129,438)**	
Derivative financial liabilities								
Total in foreign currencies	341	(14)	(340)	686	-	-	673	(521)
ISK	(458)	-	-	(756)	-	-	(1,214)	(61)
Total	**(117)**	**(14)**	**(340)**	**(70)**	**0**	**0**	**(541)**	**(582)**
Net liquidity position in foreign currencies	**(71,234)**	**64,088**	**28,832**	**(70,443)**	**14,285**	**19,061**	**(15,411)**	**15,192**
Net liquidity position in ISK	**(398,242)**	**(19,246)**	**48,947**	**367,451**	**425,453**	**17,214**	**441,577**	**205,190**
Net liquidity position	**(469,476)**	**44,842**	**77,779**	**297,008**	**439,738**	**36,275**	**426,166**	**220,382**

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74. Maturity analysis of financial assets and liabilities by currency (continued)

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2012:

Non-derivative financial assets	0-1 months*	1-3 months*	3-12 months	1-5 years	Over 5 years	No maturity**	Total	Carrying amount
Total in foreign currencies	78,957	45,450	45,852	172,124	24,002	14,720	381,105	349,739
ISK	82,123	19,943	71,607	274,436	508,840	22,161	979,109	682,165
Total	**161,080**	**65,393**	**117,459**	**446,560**	**532,842**	**36,881**	**1,360,214**	**1,031,904**
Derivative financial assets								
Total in foreign currencies	(2,257)	292	-	-	-	-	(1,965)	1,040
ISK	(557)	-	-	-	-	-	(557)	3
Total	**(2,814)**	**292**	**0**	**0**	**0**	**0**	**(2,522)**	**1,043**
Non-derivative financial liabilities								
Total in foreign currencies	(67,043)	(623)	(6,494)	(274,868)	(83,680)	-	(432,708)	(378,847)
ISK	(371,822)	(46,492)	(29,973)	(26,362)	(4,137)	-	(478,786)	(473,480)
Total	**(438,865)**	**(47,115)**	**(36,467)**	**(301,230)**	**(87,817)**	**0**	**(911,494)**	**(852,328)**
Off-balance sheet items								
Total in foreign currencies	(13,503)	(539)	(2,509)	(571)	(286)	-	(17,408)	
ISK	(75,069)	(19,139)	(924)	(1,530)	(4,689)	-	(101,351)	
Total	**(88,572)**	**(19,678)**	**(3,434)**	**(2,102)**	**(4,976)**	**0**	**(118,762)**	
Derivative financial liabilities								
Total in foreign currencies	9,231	(3)	101	302	101	-	9,731	(491)
ISK	(5,814)	-	(172)	(537)	(188)	-	(6,709)	(29)
Total	**3,417**	**(3)**	**(71)**	**(235)**	**(87)**	**0**	**3,022**	**(520)**
Net liquidity position in foreign currencies	**5,385**	**44,577**	**36,950**	**(103,013)**	**(59,863)**	**14,720**	**(61,245)**	**(28,559)**
Net liquidity position in ISK	**(371,139)**	**(45,688)**	**40,538**	**246,006**	**499,825**	**22,161**	**391,703**	**208,659**
Net liquidity position	**(365,754)**	**(1,111)**	**77,487**	**142,993**	**439,962**	**36,881**	**330,458**	**180,099**

* The time bands On demand and Up to 3 months in the financial statements for the year 2012 have been replaced by the time bands 0-1 months and 1-3 months in these financial statements for the year 2013; consequently, the comparative amounts have been restated.

** Financial assets and liabilities with no maturity are reported in this table for the first time in the year 2013. This time band is for informative purposes only and does not have any effect on amounts reported in other time bands within the table.

The amounts in the maturity analysis as at 31 December 2013 and 31 December 2012 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). Exceptions to this are loans and advances to customers and bonds issued by companies in moratorium or in the process of liquidation as disclosed in Note 73.

Market risk

75. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices. Other market risk is defined as equity price risk and inflation risk, each of which is disclosed in the following notes.

76. Market risk management

The Group separates its exposure to market risk into trading and non-trading portfolios, managing each of them separately. Trading portfolios include positions arising from market-making and proprietary position-taking (i.e. bonds classified as held for trading, equities, unsettled securities trading, derivatives and short positions) managed by Treasury. Non-trading portfolios include positions arising from the Group's retail and commercial banking operations and proprietary position-taking as part of the Asset and Liability Management (ALM) within Treasury (i.e. loans and advances, deposits and bonds designated as at fair value through profit or loss or classified as loans and receivables). ALM is also responsible for daily liquidity management and therefore hold positions in interest rate related instruments, creating exposure to market risk.

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76. Market risk management (continued)

The Board of Directors is responsible for determining the Group's overall risk appetite, including for market risk. The CEO of the Bank appoints the Risk and Finance Committee, which is responsible for developing detailed market risk management policies and setting market risk limits. Treasury and the Market Making department within Markets are responsible for managing market-related positions under the supervision of Market Risk. The objective of market risk management is to identify, locate and monitor market risk exposures and analysing and reporting to appropriate parties.

Market risks arising from trading and non-trading activities are monitored and reported on a daily, weekly and monthly basis to the head of each business unit along with detailed input to a comprehensive quarterly risk report. The Group's market risk is thereby measured and monitored on a daily basis, and Market Risk monitors the limits set in the Bank's risk appetite and submits these and other market risk measurements to the Risk and Finance Committee every other week. Several indicators are used, including daily profits and losses as well as net positions across different attributes such as the currency and issuer.

The Group uses risk-weighted assets (RWA) as a common denominator for measuring risk across different asset classes, including those assets subject to market risk. Risk-weighted assets are determined by applying specific risk weights to the Group’s assets, following methodology developed by the Basel Committee on Banking Supervision. The following table summarises the Group's exposure to market risk as at 31 December 2013 and 2012:

	2013	2012
Market risk factor	**% of RWA**	**% of RWA**
Equity price risk	5.8%	6.3%
Interest rate risk	3.3%	2.0%
Foreign exchange risk	2.2%	2.9%
Total	**11.3%**	**11.2%**

The currency risk in the Group’s trading portfolios is disclosed together with that in its non-trading portfolios in Notes 82-83, together with the related sensitivity analysis.

77. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity-based instruments.

The Group’s main equity portfolios consist of a trading portfolio, strictly focused on listed equites in ISK as part of market making and a proprietary portfolio containing both listed and unlisted equities, as part of asset and liability management. Furthermore, the Bank has a hedge portfolio for derivative sales, containing listed equities in ISK. Further details can be seen in Note 8, Bonds and equities and Note 83 Concentration of currency risk.

78. Interest rate risk

The interest rate risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to changes in market interest rates.

Changes in interest rates for the Group's assets and liabilities, other than those in its trading portfolios, have an impact on its interest rate margin. This risk results primarily from duration mismatch between assets and liabilities.

Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Group by the Treasury of the Bank, and is monitored by Market Risk. In the current economic environment, the Group has limited access to derivative instruments and other tools for managing interest rate risk.

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78. Interest rate risk (continued)

The following tables summarise the Group's exposure to interest rate risk. The tables include interest bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments (see Note 6). The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

At 31 December 2013	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	21,520	-	-	-	21,520
Bonds and debt instruments	247,179	24,117	1,856	17,443	290,595
Derivative instruments	654	-	-	-	654
Loans and advances to financial institutions	61,522	6,394	-	-	67,916
Loans and advances to customers	489,925	76,299	71,237	43,007	680,468
Other financial assets	5,811	-	555	-	6,366
Total	**826,611**	**106,810**	**73,648**	**60,450**	**1,067,519**
Financial liabilities					
Due to financial institutions and Central Bank	(167,218)	-	-	-	(167,218)
Deposits from customers	(446,451)	(9,401)	(810)	-	(456,662)
Derivative instruments and short positions	(4,594)	-	(2,494)	(483)	(7,571)
Secured bonds	(237,717)	-	(1,925)	-	(239,642)
Other financial liabilities	(12,320)	-	-	-	(12,320)
Total	**(868,300)**	**(9,401)**	**(5,229)**	**(483)**	**(883,413)**
Net on-balance sheet position	(41,689)	97,409	68,419	59,967	184,106
Net off-balance sheet position	(538)	126	412	-	
Total interest repricing gap	**(42,227)**	**97,535**	**68,831**	**59,967**	

At 31 December 2012	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	25,898	-	-	-	25,898
Bonds and debt instruments	214,996	6,395	1,331	5,486	228,208
Derivative instruments	1,043	-	-	-	1,043
Loans and advances to financial institutions	55,032	7,726	1,591	-	64,349
Loans and advances to customers	483,493	62,515	58,198	61,881	666,087
Other financial assets	10,017	-	464	-	10,481
Total	**790,479**	**76,636**	**61,584**	**67,367**	**996,066**
Financial liabilities					
Due to financial institutions and Central Bank	(98,718)	-	-	-	(98,718)
Deposits from customers	(418,750)	(1,861)	(447)	-	(421,058)
Derivative instruments and short positions	(521)	(5,257)	(2,717)	(943)	(9,438)
Secured bonds	(221,791)	-	-	-	(221,791)
Contingent bond	(87,474)	-	-	-	(87,474)
Other financial liabilities	(14,369)	-	-	-	(14,369)
Total	**(841,623)**	**(7,118)**	**(3,164)**	**(943)**	**(852,848)**
Net on-balance sheet position	(51,144)	69,518	58,420	66,424	143,218
Net off-balance sheet position	698	(133)	(418)	(146)	
Total interest repricing gap	**(50,446)**	**69,385**	**58,002**	**66,278**	

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79. Sensitivity analysis for trading portfolios

The management of market risk in the trading book is supplemented by monitoring sensitivity of the trading portfolios to various scenarios in equity prices and interest rates.

The following table shows how the Group's profit before tax would have been affected by parallel shifts in interest rate curves through changes in the fair value of its bond trading portfolios at year-end 2013 and 2012 and cash flows for the next 12 months, assuming a constant position.

	2013			2012		
Currency (ISK million)	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit	Parallel shift in yield curve in basis points	Effect of downward shift on profit	Effect of upward shift on profit
ISK, non-CPI indexed	100	(190)	182	100	99	(132)
ISK, CPI indexed	50	1,361	(1,227)	50	129	(122)
USD	20	3	(3)	20	8	(8)
Total		**1,174**	**(1,048)**		**236**	**(262)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

The following table shows how the Group's profit before tax would have been affected by a change of +/-5% in the price of equity and equity instruments held by the Group at year-end which are classified into Level 1 and 2 (as defined in Note 7):

	2013		2012	
Currency (ISK million)	Increase	Decrease	Increase	Decrease
ISK	280	(280)	186	(186)
Other	131	(131)	278	(278)
Total	**411**	**(411)**	**464**	**(464)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

The following table shows how the Group's profit before tax would have been affected by a change of +/-5% in the price of equity and equity instruments held by the Group at year-end which are classified into Level 3 (as defined in Note 7):

	2013		2012	
Currency (ISK million)	Increase	Decrease	Increase	Decrease
ISK	377	(373)	1,849	(1,849)
Other	822	(822)	1,138	(1,138)
Total	**1,199**	**(1,195)**	**2,987**	**(2,987)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

80. Sensitivity analysis for non-trading portfolios

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Group employs a quarterly stress test of the interest rate risk in the Group's banking book by measuring the impact on profit of shifting the interest rate curves for every currency. The Bank is now applying more severe interest rate shocks to the relevant interest rate curves. The magnitudes of the shifts are based on guidelines from the European Banking Authority (EBA) and the Financial Supervisory Authority in Iceland, taking historical interest rate volatility into account.

The following table shows how the Group's profit before tax would have been affected by a parallel shift in all interest rate curves, with all other variables held constant, as related to risk exposure at year-end 2013 and 2012 and cash flows for the next 12 months, assuming a constant position.

	2013			2012*		
Currency (ISK million)	**Parallel shift in yield curve in basis points**	**Effect of downward shift on profit**	**Effect of upward shift on profit**	**Parallel shift in yield curve in basis points**	**Effect of downward shift on profit**	**Effect of upward shift on profit**
ISK, unindexed	400	601	(601)	400	604	(604)
ISK, CPI indexed	240	274	(274)	240	227	(227)
EUR	200	320	(320)	200	282	(282)
Other	200	366	(366)	200	226	(226)
Total		**1,561**	**(1,561)**		**1,339**	**(1,339)**

* The comparative amounts have changes, the bank is now applying more severe interest rate shocks to the relevant interest rate curves.

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

81. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-indexed financial instruments may fluctuate due to changes in the Icelandic CPI index. The Group has a considerable imbalance in its CPI-indexed assets and liabilities. To mitigate this imbalance, which the bank is in a limited position to do, the bank offers non-CPI indexed loans and CPI-indexed deposits.

CPI indexation risk is managed centrally within the Group by the Treasury of the Bank, and is monitored by Market Risk. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, at year-end 2013 and 2012. The increase in CPI imbalance between years is mainly caused by underwriting activities in 2013.

Carrying amount	**2013**	**2012**
Assets		
Bonds and debt instruments	18,688	7,586
Loans and advances to customers	249,681	239,432
Total	**268,369**	**247,018**
Liabilities		
Due to financial institutions and Central Bank	-	(23)
Short positions	(483)	-
Deposits from customers	(102,555)	(100,768)
Total	**(103,038)**	**(100,791)**
Total on-balance sheet position	165,331	146,227
Total off-balance sheet position	(796)	(443)
Total CPI indexation balance	**164,535**	**145,784**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1% change in the CPI index applied to the inflation risk exposures in existence at 31 December 2013, with no change in other variables, would have changed net interest income by ISK 1,653 million (31 December 2012: ISK 1,462 million). The Group's equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings. However, in a scenario of ongoing high (low) inflation, floating unindexed interest rate are likely to remain higher (lower) than would be the case in the reverse scenario, thus counterbalancing the positive (negative) income effects for the Group in medium and longer term.

82. Currency risk (all portfolios)

The Group follows the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15% of the Bank's Capital base, in each currency and for all currencies combined. The Bank submits daily and monthly reports to the Central Bank with information on its foreign exchange balance.

The Group's combined net foreign exchange balance as at 31 December 2013 was +6,1% of the Group's Capital base (2012: -9,1%). Uncertainty regarding the denomination currencies of the Groups loan portfolio has not been fully resolved in the year 2013. As explained in note 4 (h) and 36 there are few rulings concerning these denomination currencies that the Icelandic courts have not passed judgement on yet.

83. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at year-end 2013 and 2012. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals at year-end 2013 and 2012. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

As explained in Note 22 in these Consolidated Financial Statements, the contingent bond was issued as secured bonds on 11 April 2013, denominated in EUR (50%), USD (30%) and GBP (20%). Using the exchange rate as published by the Central Bank of Iceland on 31 December 2012, the Bank converted the final value of the ISK balance of the contingent bond into EUR, USD and GBP.

At 31 December 2013	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	505	228	238	11	38	309	1,329
Bonds and debt instruments	44,188	41,335	48,450	-	-	-	133,973
Equities and equity instruments	16,443	-	1	-	-	2,617	19,061
Derivative instruments	635	-	2	-	-	-	637
Loans and advances to financial institutions	24,055	5,173	18,902	1,495	946	8,068	58,639
Loans and advances to customers	87,986	17,841	52,829	7,257	8,072	12,746	186,731
Other assets	-	-	8	-	-	25	33
Total	**173,812**	**64,577**	**120,430**	**8,763**	**9,056**	**23,765**	**400,403**
Liabilities							
Due to financial institutions and Central Bank	(37,579)	(14,418)	(22,251)	-	(137)	(670)	(75,055)
Deposits from customers	(29,202)	(4,841)	(24,250)	(407)	(721)	(10,724)	(70,145)
Derivative instruments and short positions	(80)	-	(440)	-	-	-	(520)
Secured bonds	(119,808)	(45,877)	(72,032)	-	-	-	(237,717)
Other liabilities	(775)	(175)	(346)	-	(4)	(491)	(1,791)
Total	**(187,444)**	**(65,311)**	**(119,319)**	**(407)**	**(862)**	**(11,885)**	**(385,228)**
Net on-balance sheet position	(13,632)	(734)	1,111	8,356	8,194	11,880	**15,175**
Net off-balance sheet position	29,124	(95)	39	(8,999)	(8,459)	(12,328)	**(718)**
Net currency position	**15,492**	**(829)**	**1,150**	**(643)**	**(265)**	**(448)**	**14,457**

At 31 December 2012	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	400	173	229	13	40	377	1,232
Bonds and debt instruments	8,995	35,200	34,483	-	-	-	78,678
Equities and equity instruments	11,381	-	1	-	-	3,339	14,721
Derivative instruments	1,037	-	3	-	-	-	1,040
Loans and advances to financial institutions	32,399	1,630	9,360	3,095	2,961	4,600	54,045
Loans and advances to customers	90,044	19,250	58,169	12,406	12,777	6,642	199,288
Other assets	502	-	1,761	1	-	30	2,294
Assets classified as held for sale	288	-	-	-	-	-	288
Total	**145,046**	**56,253**	**104,006**	**15,515**	**15,778**	**14,988**	**351,586**
Liabilities							
Due to financial institutions and Central Bank	(5,438)	(4,068)	(4,870)	-	(148)	(823)	(15,348)
Deposits from customers	(15,814)	(6,007)	(21,671)	(520)	(428)	(6,456)	(50,895)
Derivative instruments and short positions	(176)	-	(314)	-	-	-	(491)
Secured bonds	(109,380)	(42,397)	(70,013)	-	-	-	(221,791)
Contingent bond	(87,474)	-	-	-	-	-	(87,474)
Other liabilities	(580)	(70)	(2,197)	(6)	(2)	(536)	(3,391)
Total	**(218,862)**	**(52,542)**	**(99,065)**	**(526)**	**(578)**	**(7,815)**	**(379,390)**
Net on-balance sheet position	(73,816)	3,711	4,941	14,990	15,201	7,171	**(27,802)**
Net off-balance sheet position	49,234	(2,948)	(5,532)	(13,882)	(13,768)	(5,337)	**7,767**
Net currency position	**(24,582)**	**763**	**(591)**	**1,108**	**1,433**	**1,834**	**(20,035)**

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84. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 10% depreciation/appreciation of ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 83.

	2013		2012	
Currency (ISK million)	**-10%**	**+10%**	**-10%**	**+10%**
EUR	1,549	(1,549)	(2,458)	2,458
GBP	(83)	83	76	(76)
USD	115	(115)	(59)	59
JPY	(64)	64	111	(111)
CHF	(27)	27	143	(143)
Other	(45)	45	183	(183)
Total	**1,445**	**(1,445)**	**(2,004)**	**2,004**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase/decrease in other net operating income would have affected retained earnings.

85. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 December 2013	At 31 December 2012	% Change	Average for 1.1-31.12 2013	Average for 1.1-31.12 2012
EUR/ISK	158.50	168.95	(6.2%)	161.54	161.60
GBP/ISK	190.30	207.22	(8.2%)	190.77	198.77
USD/ISK	115.11	128.16	(10.2%)	121.58	125.07
JPY/ISK	1.10	1.49	(26.2%)	1.26	1.57
CHF/ISK	129.20	139.94	(7.7%)	131.63	134.15
CAD/ISK	108.24	128.73	(15.9%)	117.94	125.00
DKK/ISK	21.25	22.64	(6.1%)	21.66	21.71
NOK/ISK	18.95	22.96	(17.5%)	20.69	21.59
SEK/ISK	17.96	19.68	(8.7%)	18.67	18.58

Operational risk

86. Operational risk

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, from employee error or from external events. Operational risk includes legal risks, but excludes reputational risks. It is therefore inherent in all areas of business activities.

Whereas the executive managing director of each division is responsible for that division's operational risk, the daily management of operational risk is in the hands of general managers of each department. The Bank establishes, maintains and coordinates its operational risk management framework on a Group level. This framework complies with the Basel Committee's 2011 publication "Principles for the Sound Management of Operational Risk". The Bank ensures that operational risk management stays consistent throughout the Bank by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit Department. By managing operational risk in this manner, the Bank intends to ensure that all of the Bank's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented efficiently and effectively.

Consolidated Key Figures

87. Operations by years

Operations	2013	2012	2011	2010	2009
Interest income	63,224	64,661	60,831	61,060	81,476
Interest expense	(28,910)	(29,077)	(28,182)	(36,374)	(66,902)
Net interest income	**34,314**	**35,584**	**32,649**	**24,685**	**14,574**
Net adjustments in valuation of loans and advances	13,053	(4,391)	(23,587)	641	6,954
Net interest income after adjustments in valuation	**47,367**	**31,193**	**9,062**	**25,326**	**21,528**
Fee and commission income	8,451	7,696	7,437	6,292	6,835
Fee and commission expense	(3,160)	(3,248)	(3,014)	(2,710)	(2,622)
Net fee and commission income	**5,291**	**4,448**	**4,424**	**3,582**	**4,213**
Other operating income	**12,923**	**13,500**	**17,258**	**21,941**	**4,983**
Net operating income	**65,581**	**49,141**	**30,743**	**50,849**	**30,725**
Salaries and related expenses	(17,304)	(13,176)	(11,990)	(9,331)	(8,468)
Administrative expenses	(8,868)	(9,887)	(9,482)	(8,485)	(7,706)
Contribution to the Depositors' and Investors' Guarantee Fund	(1,079)	(1,042)	(583)	(680)	(680)
Operating expenses	**(27,251)**	**(24,105)**	**(22,055)**	**(18,496)**	**(16,854)**
Share of profit of associates, net of income tax	**2,712**	**2,449**	**1,418**	**291**	**383**
Pre-tax profit	**41,042**	**27,485**	**10,105**	**32,644**	**14,253**
Income and bank tax	(12,283)	(4,125)	597	(8,182)	(615)
Profit from continuing operations	**28,759**	**23,360**	**10,703**	**24,462**	**13,638**
Profit for the period from discontinued operations, net of income tax	**0**	**2,134**	**6,255**	**2,769**	**693**
Net profit	**28,759**	**25,494**	**16,957**	**27,231**	**14,332**
Attributable to:					
Shareholders of Landsbankinn	28,750	25,439	16,973	27,228	14,477
Minority interests	9	55	(16)	3	(145)

Balance Sheet	2013	2012	2011	2010	2009
Cash and cash balances with Central Bank	21,520	25,898	8,823	47,777	26,174
Bonds and debt instruments	290,595	228,208	221,848	161,559	165,721
Equities and equity instruments	36,275	36,881	46,037	29,429	23,411
Loans and advances to financial institutions	67,916	64,349	100,133	91,882	83,129
Loans and advances to customers	680,468	666,087	639,130	592,954	667,122
Other assets	29,719	38,044	65,959	28,743	31,666
Assets classified as held for sale	25,023	25,320	53,552	128,789	63,878
Total assets	**1,151,516**	**1,084,787**	**1,135,482**	**1,081,133**	**1,061,101**
Due to financial institutions and Central Bank	167,218	98,718	112,876	147,478	98,228
Deposits from customers	456,662	421,058	443,590	371,558	452,655
Secured bonds	239,642	221,791	277,076	261,313	306,493
Contingent bond	-	87,474	60,826	26,510	10,241
Other liabilities	42,750	29,687	31,485	27,800	14,203
Liabilities associated with assets classified as held for sale	3,885	893	9,385	61,609	21,689
Equity	241,359	225,166	200,244	184,866	157,593
Total liabilities and equity	**1,151,516**	**1,084,787**	**1,135,482**	**1,081,133**	**1,061,101**

Key ratios	2013	2012	2011	2010	2009
Return on equity before taxes (Average equity)	17.6%	14.0%	8.1%	20.8%	9.9%
Return on equity after taxes (Average equity)	12.4%	12.0%	8.4%	16.0%	9.5%
Capital adequacy ratio	26.7%	25.1%	21.4%	19.5%	15.0%
Cost-income ratio, adjusted for one off items	42.8%	45.0%	40.6%	36.8%	70.9%
Operating expenses adjusted for one off items as a ratio of average total assets	2.0%	2.2%	2.0%	1.7%	1.6%
Interest spread as a ratio of average total assets	3.1%	3.2%	2.9%	2.3%	1.4%
Loans / deposits	149.0%	158.2%	144.1%	159.6%	147.4%
Number of full-time positions at year-end	1,183	1,233	1,311	1,146	1,161
Earnings per share	1.22	1.06	0.71	1.13	0.60
Dividend per share	0.42	0.00	0.00	0.00	0.00

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88. Operations by quarters (Unaudited)

	2013				2012			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	17,236	14,362	13,711	17,915	16,624	12,962	18,306	16,769
Interest expense	(7,259)	(7,022)	(6,593)	(8,036)	(7,395)	(5,180)	(8,286)	(8,216)
Net interest income	**9,977**	**7,340**	**7,118**	**9,879**	**9,229**	**7,782**	**10,020**	**8,553**
Net adjustments to loans and advances acquired at deep discount	3,178	1,317	11,352	3,593	17,935	8,213	3,610	7,562
Loss from foreign currency linkage of loans and advances to customers	-	-	-	-	-	(2,120)	-	-
Net impairment loss	754	234	(8,035)	(659)	(1,307)	(4,514)	(5,151)	(1,288)
Fair value change of contingent bond	-	-	-	1,319	(13,932)	(5,201)	(2,251)	(5,947)
Net adjustments in valuation	**3,932**	**1,551**	**3,317**	**4,253**	**2,696**	**(3,622)**	**(3,792)**	**327**
Net interest income after net adjustments in valuation	**13,909**	**8,891**	**10,435**	**14,132**	**11,925**	**4,160**	**6,228**	**8,880**
Fee and commission income	1,944	1,933	2,427	2,147	2,103	1,917	1,836	1,840
Fee and commission expense	(764)	(782)	(830)	(784)	(777)	(887)	(746)	(838)
Net fee and commission income	**1,180**	**1,151**	**1,597**	**1,363**	**1,326**	**1,030**	**1,090**	**1,002**
Net gain on financial assets designated as at fair value through profit or loss	2,365	3,188	375	2,532	2,446	(549)	1,429	2,377
Net gain on financial assets and liabilities held for trading	401	400	711	580	356	586	112	1,115
Net foreign exchange gain (loss)	(203)	162	16	1,172	2,831	899	(1,280)	2,116
Other income and (expenses)	(592)	(165)	1,708	273	316	255	269	222
Other net operating income	**1,971**	**3,585**	**2,810**	**4,557**	**5,949**	**1,191**	**530**	**5,830**
Total operating income	**17,060**	**13,627**	**14,842**	**20,052**	**19,200**	**6,381**	**7,848**	**15,712**
Salaries and related expenses	3,508	2,810	3,122	7,864	3,477	3,103	3,364	3,232
Other operating expenses	1,923	1,884	2,109	2,089	2,112	2,250	2,331	2,185
Depreciation and amortisation	176	219	214	209	181	177	181	180
Contribution to the Depositors' and Investors' Guarantee Fund	273	268	270	268	275	213	204	350
Acquisition-related costs	-	-	-	45	290	-	-	-
Total operating expenses	**5,880**	**5,181**	**5,715**	**10,475**	**6,335**	**5,743**	**6,080**	**5,947**
Share of profit of equity-accounted associates, net of income tax	1,585	-	866	261	1,762	14	673	-
Profit before tax	**12,765**	**8,446**	**9,993**	**9,838**	**14,627**	**652**	**2,441**	**9,765**
Income tax	(3,284)	(1,595)	(2,362)	(1,759)	(1,925)	1,277	(400)	(1,877)
Tax on liabilities of financial institutions	(2,998)	(100)	(95)	(90)	(399)	(265)	(205)	(331)
Profit for the year from continuing operations	**6,483**	**6,751**	**7,536**	**7,989**	**12,303**	**1,664**	**1,836**	**7,557**
Profit for the year from discontinued operations, net of income tax	-	-	-	-	(350)	-	2,312	172
Profit for the period	**6,483**	**6,751**	**7,536**	**7,989**	**11,953**	**1,664**	**4,148**	**7,729**

Balance sheet	**31/12/2013**	**30/09/2013**	**30/06/2013**	**31/03/2013**	**31/12/2012**	**30/09/2012**	**30/06/2012**	**31/03/2012**
Cash and cash balances with Central Bank	21,520	36,024	23,643	21,966	25,898	25,235	16,364	25,494
Bonds and debt instruments	290,595	288,994	278,386	248,571	228,208	217,485	203,863	202,195
Equities and equity instruments	36,275	33,954	34,029	32,549	36,881	33,198	38,161	42,803
Loans and advances to financial institutions	67,916	70,545	70,671	56,551	64,349	60,787	59,529	130,946
Loans and advances to customers	680,468	671,378	665,411	663,719	666,087	657,050	666,890	653,949
Other assets	29,719	31,325	34,219	36,396	38,044	37,688	37,082	66,771
Assets classified as held for sale	25,023	25,934	19,735	25,653	25,320	25,382	26,684	52,104
Total assets	**1,151,516**	**1,158,154**	**1,126,094**	**1,085,405**	**1,084,787**	**1,056,825**	**1,048,573**	**1,174,262**
Due to financial institutions and Central Bank	167,218	110,460	110,025	97,352	98,718	90,206	91,018	115,300
Deposits from customers	456,662	465,742	448,931	433,647	421,058	439,853	440,392	455,402
Secured bonds	239,642	298,938	297,459	206,491	221,791	211,699	209,028	289,908
Contingent bond	-	-	-	85,953	87,474	74,225	69,024	66,773
Other liabilities	42,750	43,541	38,827	28,569	29,687	26,561	26,130	29,166
Liabilities associated with assets classified as held for sale	3,885	4,761	1,022	963	893	603	959	9,839
Equity	241,359	234,712	229,830	232,430	225,166	213,678	212,022	207,874
Total liabilities and equity	**1,151,516**	**1,158,154**	**1,126,094**	**1,085,405**	**1,084,787**	**1,056,825**	**1,048,573**	**1,174,262**

*The first three quarter results for the years 2013 and 2012 were reviewed by the Bank's independent auditors.

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