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## Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2013

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

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

### Operations

The Group's profit for the first three months of the year 2013 was ISK 7,989 million. The Group's equity at the end of this period amounted to ISK 232,430 million. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 26.6%. As of 31 March 2013, the Group's total assets amounted to ISK 1,085,405 million.

On 11 April 2013 the third-party valuation agent Deloitte UK LLP concluded its valuation of specified assets in relation to the contingent bond, with the result that the contingent bond has been issued as secured bonds in the equivalent amount of ISK 92,000 million, denominated in EUR (50%), USD (30%) and GBP (20%). LBI hf. has in return 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 in line with the settlement agreement of 15 December 2009 between the Bank, LBI hf. and the Icelandic State. The 2% holding came with the obligation that it be distributed to employees. It is the intention of the Board of Directors to develop a plan to distribute the shares to employees which is subject to FME rules and the approval of shareholders' meeting of Landsbankinn. The Bank has therefore recognised ISK 4,691 million as expenses under salaries and related expenses. As a consequence of the shares being transferred to the Bank, net adjustments in valuation related to the contingent bond are also higher by ISK 4,691 million than would otherwise have been the case. Distribution of the shares has therefore no effect on the net profit for the period. Further description is provided in Notes 12 and 18.

### Risk management

Following Supreme Court rulings in 2012, on interest calculations of loans illegally indexed to foreign currencies, the Bank recalculated loans which the Bank expects to fall under the precedence of these rulings. The original method proposed under Act No. 151/2010 on retroactive recalculations of interest payments, based on ISK interest rates determined by the Central Bank of Iceland, was ruled illegitimate in the specified circumstances, inter alia, as the lender had issued ultimate interest payment receipts. The Bank considers further court rulings necessary to clarify the scope of the legal precedence of these rulings for interest calculations of other loans. Several court rulings in the coming months are expected to provide further clarification on this issue. The Bank has made special provisions to provide for the potential impact of the aforesaid rulings and further rulings are not considered likely to have an adverse effect on the Bank's financial position.

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 the end of the first quarter of 2013 the Bank has a strong liquidity position in foreign currencies and the Bank's concentration of currency risk is well within acceptable risk limits. It is, however, 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.

Due to restrictions on the movement of capital between Iceland and other countries, 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 Economic Research Department's macroeconomic forecast from November 2012 assumes 2.4% GDP growth in 2013. Recent indicators show a slight slowdown in private consumption growth and investment in Q1 2013 which might negatively affect the outlook for the year. A complete updated macroeconomic forecast will be finalised at the end of May.

The Bank's core operations are sound and have been improving continuously. Foundations have been laid with new and revised processes to improve efficiency and customer relationship management. The Group has a strong equity and liquidity base and is, therefore, in a strong position to deal with the challenges ahead and is a force for change in the Icelandic economy.

## Other issues

On 11 April 2013 the EFTA Surveillance Authority (ESA) announced its decision that Landsbankinn's repayment of interest to prompt customers in summer 2011 did not constitute state aid. ESA found that Landsbankinn's actions were based on business assumptions without involvement or instructions from the Icelandic State. ESA has in this regard assessed the Icelandic State's applicable policy and arrangement on public ownership of financial undertakings as well as the available evidence on the adoption of the decision by Landsbankinn. ESA therefore concluded that there are insufficient grounds to question the commercial nature of Landsbankinn's measure.

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, or what amounts to 39% of net profit for the year 2012. Dividends shall be paid to parties registered in the shareholders' registry at 30 September 2013 and payment will be made on the 1 October 2013. The dividend payment amounts to ISK 10,080 million.

## Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first three months ended 31 March 2013 have been prepared on a going-concern basis in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* as adopted by the EU.

It is our opinion that the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first three months of 2013, its consolidated financial position as at 31 March 2013 and its consolidated cash flows for the first three months of 2013.

Furthermore, in our opinion, the Condensed Consolidated Interim 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 of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first three months ended 31 March 2013.

Reykjavík, 23 May 2013.

Board of Directors



Tryggvi Pálsson

Chairman



Eva Sóley Guðbjörnsdóttir



Helga Björk Eiríksdóttir



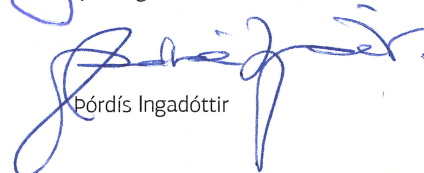
Helga Loftsdóttir



Jón Sigurðsson

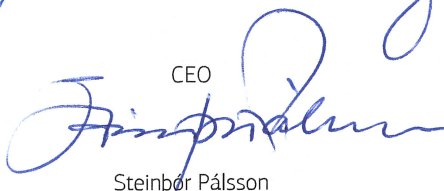


Kristján P. Davíðsson



Þórdís Ingadóttir

CEO



Steinþór Pálsson

## Independent Auditor's Review Report

### To the board of Directors and Shareholders of Landsbankinn hf.

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. as at 31 March 2013 and the related Condensed Consolidated Income Statement, Changes in Equity and Condensed Cash Flows for the three-month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. Our responsibility is to express a conclusion on this Condensed Consolidated Interim Financial information based on our review.

### Scope of Review

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

### Conclusion

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

Reykjavík, 23 May 2013.

KPMG ehf.



Helgi F. Arnarson



Sigríður Helga Sveinsdóttir

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## Condensed Consolidated Statement of Financial Position as at 31 March 2013

Notes		31.3.2013	31.12.2012
<b>Assets</b>			
	Cash and balances with Central Bank	21,966	25,898
5, 21	Bonds and debt instruments	248,571	228,208
5	Equities and equity instruments	32,549	36,881
5, 6	Derivative instruments	174	1,043
7, 21	Loans and advances to financial institutions	56,551	64,349
8, 21	Loans and advances to customers	663,719	666,087
	Investments in equity-accounted associates	15,785	15,528
	Property and equipment	5,687	6,776
	Intangible assets	491	541
	Deferred tax assets	0	48
9	Other assets	14,259	14,108
		<b>1,059,752</b>	<b>1,059,467</b>
10	Assets classified as held for sale	25,653	25,320
	<b>Total assets</b>	<b>1,085,405</b>	<b>1,084,787</b>
<b>Liabilities</b>			
	Due to financial institutions and Central Bank	97,352	98,718
	Deposits from customers	433,647	421,058
6	Derivative instruments and short positions	6,732	9,438
	Tax liabilities	1,421	0
11, 21	Secured bonds	206,491	221,791
5,12,21	Contingent bond	85,953	87,474
	Other liabilities	20,416	20,249
		<b>852,012</b>	<b>858,728</b>
	Liabilities associated with assets classified as held for sale	963	893
	<b>Total liabilities</b>	<b>852,975</b>	<b>859,621</b>
<b>Equity</b>			
	Share capital	24,000	24,000
	Share premium	123,898	123,898
	Reserves	4,378	5,053
	Retained earnings	80,143	72,120
	<b>Total equity attributable to owners of the Bank</b>	<b>232,419</b>	<b>225,071</b>
	Non-controlling interests	11	95
	<b>Total equity</b>	<b>232,430</b>	<b>225,166</b>
	<b>Total liabilities and equity</b>	<b>1,085,405</b>	<b>1,084,787</b>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.



## Condensed Consolidated Income Statement for the three months ended 31 March 2013

		2013	2012
Notes		1.1-31.3	1.1-31.3
	Interest income	17,915	16,769
	Interest expense	(8,036)	(8,216)
13	<b>Net interest income</b>	<b>9,879</b>	<b>8,553</b>
14	Net adjustments to loans and advances acquired at deep discount	3,593	7,562
14, 34	Net impairment loss	(659)	(1,288)
5	Fair value change of contingent bond	1,319	(5,947)
	<b>Net adjustments in valuation</b>	<b>4,253</b>	<b>327</b>
	<b>Net interest income after net adjustments in valuation</b>	<b>14,132</b>	<b>8,880</b>
	Fee and commission income	2,147	1,840
	Fee and commission expense	(784)	(838)
	<b>Net fee and commission income</b>	<b>1,363</b>	<b>1,002</b>
15	Net gain on financial assets designated as at fair value through profit or loss	2,532	2,377
16	Net gain on financial assets and liabilities held for trading	580	1,115
17	Net foreign exchange gain (loss)	1,172	2,116
	Other income and (expenses)	273	222
	<b>Other net operating income</b>	<b>4,557</b>	<b>5,830</b>
	<b>Total operating income</b>	<b>20,052</b>	<b>15,712</b>
18	Salaries and related expenses	7,864	3,232
	Other operating expenses	2,089	2,185
	Depreciation and amortisation	209	180
	Contribution to the Depositors' and Investors' Guarantee Fund	268	350
	Acquisition-related costs	45	0
	<b>Total operating expenses</b>	<b>10,475</b>	<b>5,947</b>
	Share of profit of equity-accounted associates, net of income tax	261	0
	<b>Profit before tax</b>	<b>9,838</b>	<b>9,765</b>
19	Income tax	(1,759)	(1,877)
	Tax on liabilities of financial institutions	(90)	(331)
	<b>Profit for the period from continuing operations</b>	<b>7,989</b>	<b>7,557</b>
	Profit for the period from discontinued operations, net of income tax	0	172
	<b>Profit for the period</b>	<b>7,989</b>	<b>7,729</b>
<b>Profit for the period attributable to:</b>			
<b>Owners of the Bank</b>			
	Profit for the period from continuing operations	8,023	7,557
	Profit for the period from discontinued operations	0	154
	<b>Profit for the period attributable to owners of the Bank</b>	<b>8,023</b>	<b>7,711</b>
<b>Non-controlling interests</b>			
	(Loss) profit for the period from discontinued operations	(34)	18
	<b>(Loss) profit for the period attributable to non-controlling interests</b>	<b>(34)</b>	<b>18</b>
	<b>Profit for the period</b>	<b>7,989</b>	<b>7,729</b>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2013

### Notes

		Attributable to owners of the Bank						Non-controlling interests	
Change in equity for the three months ended 31 March 2013		Share capital	Share premium	Own shares reserve	Statutory reserve	Share-based payment reserve	Retained earnings	Total	Total
	Balance at 1 January 2013	24,000	123,898		5,053		72,120	225,071	95 225,166
	Profit for the period						8,023	8,023	(34) 7,989
12	Equity classified as liability to purchase own shares			(4,691)				(4,691)	(4,691)
12	Recognition of equity-settled employee share-based payments					4,016		4,016	4,016
	Decrease in non-controlling interests due to sale of subsidiaries							0	(50) (50)
	<b>Balance at 31 March 2013</b>	<b>24,000</b>	<b>123,898</b>	<b>(4,691)</b>	<b>5,053</b>	<b>4,016</b>	<b>80,143</b>	<b>232,419</b>	<b>11 232,430</b>
Change in equity for the three months ended 31 March 2012		Share capital	Share premium	Own shares reserve	Statutory reserve	Share-based payment reserve	Retained earnings	Total	Total
	Balance at 1 January 2012	24,000	123,898		3,781		47,952	199,631	613 200,244
	Profit for the period						7,711	7,711	18 7,729
	Decrease in non-controlling interests due to sale of subsidiaries							0	(99) (99)
	<b>Balance at 31 March 2012</b>	<b>24,000</b>	<b>123,898</b>	<b>0</b>	<b>3,781</b>	<b>0</b>	<b>55,663</b>	<b>207,342</b>	<b>532 207,874</b>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2013

Notes	2013 1.1-31.3	2012 1.1-31.3
<b>Operating activities</b>		
Profit for the period	7,989	7,729
Adjustments for non-cash items included in profit for the period	(12,432)	(11,989)
Changes in operating assets and liabilities	(15,190)	4,534
Interest received	10,739	13,744
Interest paid	(2,861)	(3,699)
Dividends received	-	56
Income tax paid	(49)	(322)
<b>Net cash (used in) from operating activities</b>	<b>(11,804)</b>	<b>10,053</b>
<b>Investing activities</b>		
Cash and cash equivalents included in net assets acquired	(19)	-
Purchase of property and equipment	(405)	(24)
Proceeds from sale of property and equipment	908	4
Purchase of intangible assets	(19)	(47)
Sale of subsidiaries	7	-
<b>Net cash from (used in) investing activities</b>	<b>472</b>	<b>(67)</b>
<b>Financing activities</b>		
Repayment of secured bonds	(2,201)	(1,615)
<b>Net cash used in financing activities</b>	<b>(2,201)</b>	<b>(1,615)</b>
Net change in cash and cash equivalents	(13,533)	8,371
Cash and cash equivalents at the beginning of the period	32,486	13,625
Effect of exchange rate changes on cash and cash equivalents held	327	(358)
<b>Cash and cash equivalents at 31 March</b>	<b>19,280</b>	<b>21,638</b>
<b>Investing and financing activities not affecting cash flows</b>		
Sale of financial investments	93,500	1,371
Loans and advances to financial institutions	-	(1,371)
Assets classified as held for sale	(93,500)	-

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

## Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2013

Notes		2013 1.1-31.3	2012 1.1-31.3
<b>Adjustments for non-cash items included in profit for the period</b>			
13	Net interest income	(9,879)	(8,553)
14	Net adjustments to loans and advances acquired at deep discount	(3,593)	(7,561)
14	Net impairment loss	659	1,288
5	Fair value change of contingent bond	(1,319)	5,948
15	Net (gain) on financial assets designated as at fair value through profit or loss	(2,532)	(2,377)
16	Net (gain) on financial assets and liabilities held for trading	(580)	(1,115)
	Net gain on assets classified as held for sale	-	(172)
17	Net foreign exchange (gain) loss	(1,500)	(1,758)
	(Gain) loss on sale of property and equipment	(266)	(2)
	(Gain) loss on repossessed collateral	88	(73)
	Depreciation and amortisation	209	180
	Share of profit of equity-accounted associates, net of income tax	(261)	-
	Recognition of equity-settled employee share-based payments	4,691	-
19	Income tax	1,759	1,877
19	Tax on liabilities of financial institutions	90	331
		<b>(12,432)</b>	<b>(11,989)</b>
<b>Changes in operating assets and liabilities</b>			
	Change in reserve requirement with Central Bank	(3,965)	(5,533)
	Change in bonds and equities	(19,076)	30,866
	Change in loans and advances to financial institutions	(179)	(27,745)
	Change in loans and advances to customers	900	9,309
	Change in other assets	671	1,896
	Change in assets classified as held for sale	360	(862)
	Change in due to financial institutions and Central Bank	(1,354)	2,288
	Change in deposits from customers	12,008	4,478
	Change in tax liability	(85)	-
	Change in repossessed collateral	728	(1,390)
	Change in other liabilities	(3,307)	(7,966)
	Change in liabilities associated with assets classified as held for sale	(1,890)	(809)
		<b>(15,190)</b>	<b>4,534</b>
<b>Cash and cash equivalents is specified as follows:</b>			
	Cash and unrestricted balances with Central Bank	16,030	17,543
7	Bank accounts with financial institutions	3,250	4,095
	<b>Cash and cash equivalents at the end of the period</b>	<b>19,280</b>	<b>21,638</b>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

## Notes to the Condensed Consolidated Interim Financial Statements

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# Notes to the Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements of the Bank for the three months ended 31 March 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 Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 23 May 2013.

## 2. Basis of preparation

### Statement of compliance

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2013 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union.

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

### 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 Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis.

### Basis of measurement

The Condensed Consolidated Interim 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 the 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.

In preparing the Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2012.

## 3. Significant accounting policies

The Condensed Consolidated Interim 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 Condensed Consolidated Interim 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 accounting policies applied have been applied consistently to all periods presented.

## Notes to the Condensed Consolidated Interim Financial Statements

### 3. Significant accounting policies (continued)

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

The Group has adopted IFRS 7, Offsetting Financial Assets and Financial Liabilities, which clarifies that when an entity currently has a legally enforceable right to set-off financial assets and financial liabilities, it is required to disclose certain information about the effect or potential effect on an entity's financial position resulting from netting arrangements. The adoption did not result in any significant effect on the Group financial results.

### 4. Operating segments

The business segments are disclosed 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 services to large and medium-size corporate clients. It provides restructuring solutions to corporate clients who have defaulted on their loans and can be returned to viability.
- **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 March 2013 and 2012.

## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Operating segments (continued)

<b>1 January - 31 March 2013</b>	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Markets</b>	<b>Treasury</b>	<b>Support Functions</b>	<b>Recon- ciliation</b>	<b>Total</b>
Net interest income (expense)	4,399	3,911	102	1,926	(157)	(302)	<b>9,879</b>
Net adjustments in valuation	(1,015)	4,899	-	(78)	447	-	<b>4,253</b>
Net fee and commission income	608	306	576	18	(73)	(72)	<b>1,363</b>
Other net operating income	(283)	(159)	371	3,932	394	302	<b>4,557</b>
<b>Total operating income (expense)</b>	<b>3,709</b>	<b>8,957</b>	<b>1,049</b>	<b>5,798</b>	<b>611</b>	<b>(72)</b>	<b>20,052</b>
Operating expenses	(3,130)	(516)	(660)	(364)	(5,877)	72	<b>(10,475)</b>
Share of profit of equity-accounted associates, net of income tax	8	-	-	253	-	-	<b>261</b>
<b>Profit (loss) before cost allocation and tax</b>	<b>587</b>	<b>8,441</b>	<b>389</b>	<b>5,687</b>	<b>(5,266)</b>	<b>0</b>	<b>9,838</b>
Cost allocated from support functions to business segments	(1,593)	(668)	(292)	(193)	2,746	-	<b>0</b>
<b>Profit (loss) before tax</b>	<b>(1,006)</b>	<b>7,773</b>	<b>97</b>	<b>5,494</b>	<b>(2,520)</b>	<b>0</b>	<b>9,838</b>
Net revenue (expenses) from external customers	2,617	13,429	944	2,529	605	-	<b>20,124</b>
Net revenue (expenses) from other segments	1,092	(4,472)	105	3,269	6	-	<b>-</b>
<b>Total operating income (expense)</b>	<b>3,709</b>	<b>8,957</b>	<b>1,049</b>	<b>5,798</b>	<b>611</b>	<b>0</b>	<b>20,124</b>
<b>At 31 March 2013</b>							
<b>Total assets</b>	<b>479,574</b>	<b>395,209</b>	<b>59,493</b>	<b>560,320</b>	<b>35,425</b>	<b>(444,616)</b>	<b>1,085,405</b>
<b>Total liabilities</b>	<b>426,350</b>	<b>307,911</b>	<b>52,165</b>	<b>475,740</b>	<b>35,425</b>	<b>(444,616)</b>	<b>852,975</b>
<b>Allocated capital</b>	<b>53,224</b>	<b>87,298</b>	<b>7,328</b>	<b>84,580</b>	<b>0</b>	<b>0</b>	<b>232,430</b>

<b>1 January - 31 March 2012</b>	<b>Personal Banking</b>	<b>Corporate Banking</b>	<b>Markets</b>	<b>Treasury</b>	<b>Support Functions</b>	<b>Recon- ciliation</b>	<b>Total</b>
Net interest income (expense)	4,007	4,763	(23)	345	(212)	(327)	<b>8,553</b>
Net adjustments in valuation	(1,630)	(995)	-	(507)	(21)	3,480	<b>327</b>
Net fee and commission income	547	72	488	14	(114)	(5)	<b>1,002</b>
Other net operating income	(179)	(359)	1,969	4,221	70	108	<b>5,830</b>
<b>Total operating income (expense)</b>	<b>2,745</b>	<b>3,481</b>	<b>2,434</b>	<b>4,073</b>	<b>(277)</b>	<b>3,256</b>	<b>15,712</b>
Operating expenses	(1,787)	(328)	(352)	(424)	(3,062)	6	<b>(5,947)</b>
Share of profit of equity-accounted associates, net of income tax	-	-	-	-	-	-	<b>0</b>
<b>Profit (loss) before cost allocation and tax</b>	<b>958</b>	<b>3,153</b>	<b>2,082</b>	<b>3,649</b>	<b>(3,339)</b>	<b>-</b>	<b>9,765</b>
Cost allocated from support functions to business segments	(1,567)	(554)	(178)	(282)	2,581	-	<b>0</b>
<b>Profit (loss) before tax</b>	<b>(609)</b>	<b>5,752</b>	<b>3,986</b>	<b>7,016</b>	<b>(4,097)</b>	<b>0</b>	<b>9,765</b>
Net revenue (expenses) from external customers	1,516	7,898	2,369	871	(198)	-	<b>12,456</b>
Net revenue (expenses) from other segments	1,229	(4,417)	65	3,202	(79)	-	<b>-</b>
<b>Total operating income (expense)</b>	<b>2,745</b>	<b>3,481</b>	<b>2,434</b>	<b>4,073</b>	<b>(277)</b>	<b>0</b>	<b>12,456</b>
<b>At 31 March 2012</b>							
<b>Total assets</b>	<b>499,459</b>	<b>470,980</b>	<b>39,373</b>	<b>593,053</b>	<b>29,123</b>	<b>(457,726)</b>	<b>1,174,262</b>
<b>Total liabilities</b>	<b>466,448</b>	<b>389,273</b>	<b>33,011</b>	<b>506,259</b>	<b>29,123</b>	<b>(457,726)</b>	<b>966,388</b>
<b>Allocated capital</b>	<b>33,011</b>	<b>81,707</b>	<b>6,362</b>	<b>86,794</b>	<b>0</b>	<b>0</b>	<b>207,874</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Condensed Consolidated Statement of Financial Position

#### 5. 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 March 2013:

	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
<b>Financial assets</b>							
Cash and balances with Central Bank	21,966	-	-	-	-	21,966	21,966
Bonds and debt instruments	112,767	121,538	14,266	-	-	248,571	248,571
Equities and equity instruments	-	1,096	31,453	-	-	32,549	32,549
Derivative instruments	-	174	-	-	-	174	174
Loans and advances to financial institutions	56,551	-	-	-	-	56,551	56,551
Loans and advances to customers	663,719	-	-	-	-	663,719	671,831
Other financial assets	9,750	-	-	-	-	9,750	9,750
<b>Total</b>	<b>864,753</b>	<b>122,808</b>	<b>45,719</b>	<b>0</b>	<b>0</b>	<b>1,033,280</b>	<b>1,041,392</b>
<b>Financial liabilities</b>							
Due to financial institutions and Central Bank	-	-	-	97,352	-	97,352	97,352
Deposits from customers	-	-	-	433,647	-	433,647	433,397
Derivative instruments and short positions	-	6,732	-	-	-	6,732	6,732
Secured bonds	-	-	-	206,491	-	206,491	206,491
Contingent bond	-	-	-	-	85,953	85,953	85,953
Other financial liabilities	-	-	-	16,120	-	16,120	16,120
<b>Total</b>	<b>0</b>	<b>6,732</b>	<b>0</b>	<b>753,610</b>	<b>85,953</b>	<b>846,295</b>	<b>846,045</b>

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:

	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
<b>Financial assets</b>							
Cash and balances with Central Bank	25,898	-	-	-	-	25,898	25,898
Bonds and debt instruments	113,203	100,950	14,055	-	-	228,208	228,208
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
<b>Total</b>	<b>880,018</b>	<b>103,100</b>	<b>49,829</b>	<b>0</b>	<b>0</b>	<b>1,032,947</b>	<b>1,041,277</b>
<b>Financial liabilities</b>							
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
<b>Total</b>	<b>0</b>	<b>9,438</b>	<b>0</b>	<b>755,936</b>	<b>87,474</b>	<b>852,848</b>	<b>852,646</b>

## Notes to the Condensed Consolidated Interim Financial Statements

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

The fair value of financial assets and liabilities was determined based on the same valuation methods as those described in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2012.

#### 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 input, 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 input. For unlisted shares and bonds where there are 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 is the most commonly used methods to calculate fair value of unlisted shares.

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 March 2013:

Financial assets	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	85,185	39,816	10,803	135,804
Equities and equity instruments	2,911	3,115	26,523	32,549
Derivative instruments	-	174	-	174
<b>Total</b>	<b>88,096</b>	<b>43,105</b>	<b>37,326</b>	<b>168,527</b>
<b>Financial liabilities</b>				
Derivative instruments	-	2,170	-	2,170
Short positions	4,562	-	-	4,562
Contingent bond	-	-	85,953	85,953
<b>Total</b>	<b>4,562</b>	<b>2,170</b>	<b>85,953</b>	<b>92,685</b>

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
<b>Total</b>	<b>67,963</b>	<b>44,478</b>	<b>40,488</b>	<b>152,929</b>
<b>Financial liabilities</b>				
Derivative instruments	-	519	-	519
Short positions	8,919	-	-	8,919
Contingent bond	-	-	87,474	87,474
<b>Total</b>	<b>8,919</b>	<b>519</b>	<b>87,474</b>	<b>96,912</b>

During the period from 1 January to 31 March 2013 there were no transfers between Level 1, Level 2 or Level 3.

## Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show the reconciliation for fair value measurement in Level 3 for the three months ended 31 March 2013 and for the year 2012:

	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
<b>1 January - 31 March 2013</b>				
Carrying amount at 1 January 2013	10,611	29,877	40,488	(87,474)
Total gains recognised in income statement	202	680	882	6,212
Change in contingent bond - liability to purchase own shares	-	-	-	(4,691)
Purchases	-	31	31	-
Sales	-	(4,065)	(4,065)	-
Settlements	(10)	-	(10)	-
<b>Carrying amount at 31 March 2013</b>	<b>10,803</b>	<b>26,523</b>	<b>37,326</b>	<b>(85,953)</b>
<b>1 January - 31 December 2012</b>				
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)	-
<b>Carrying amount at 31 December 2012</b>	<b>10,611</b>	<b>29,877</b>	<b>40,488</b>	<b>(87,474)</b>

The following tables show the line items in the Consolidated Income Statement where the total gains (losses) were recognised during the three months ended 31 March 2013 and during the year 2012, for fair value measurements in Level 3:

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
<b>1 January - 31 March 2013</b>				
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	232	1,381	-	1,613
Net foreign exchange gain (loss)	(30)	(701)	5,516	4,785
<b>Total</b>	<b>202</b>	<b>680</b>	<b>6,212</b>	<b>7,094</b>
<b>1 January - 31 March 2012</b>				
Fair value change of contingent bond	-	-	(5,947)	(5,947)
Net gain on financial assets designated as at fair value through profit or loss	107	803	-	910
Net foreign exchange gain (loss)	540	530	-	1,070
<b>Total</b>	<b>647</b>	<b>1,333</b>	<b>(5,947)</b>	<b>(3,967)</b>

### 6. Derivative instruments and short positions

	31.3.2013			31.12.2012		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Foreign exchange derivatives</b>						
Currency forwards	80,612	172	1,677	57,302	1,040	113
Cross-currency interest rate swaps	1,442	-	471	1,506	-	377
	<b>82,054</b>	<b>172</b>	<b>2,148</b>	<b>58,808</b>	<b>1,040</b>	<b>490</b>
<b>Interest rate derivatives</b>						
Total return swaps	1,537	1	15	4,668	3	8
	<b>1,537</b>	<b>1</b>	<b>15</b>	<b>4,668</b>	<b>3</b>	<b>8</b>
<b>Equity derivatives</b>						
Total return swaps	453	1	7	562	-	21
	<b>453</b>	<b>1</b>	<b>7</b>	<b>562</b>	<b>0</b>	<b>21</b>
<b>Short positions - listed bonds</b>	-	-	4,562	-	-	8,918
<b>Total</b>	<b>84,044</b>	<b>174</b>	<b>6,732</b>	<b>64,038</b>	<b>1,043</b>	<b>9,438</b>

The Group uses derivatives both for hedging and trading purposes.

## Notes to the Condensed Consolidated Interim Financial Statements

### 7. Loans and advances to financial institutions

	31.3.2013	31.12.2012
Bank accounts with financial institutions	3,250	8,559
Money market loans	35,444	37,769
Overdrafts	6,610	7,726
Other loans	11,247	10,295
<b>Total</b>	<b>56,551</b>	<b>64,349</b>

### 8. Loans and advances to customers

	31.3.2013	31.12.2012
Public entities	11,604	11,682
Individuals	206,899	207,608
Corporations	491,619	490,827
Less: Allowance for impairment	(46,403)	(44,030)
<b>Total</b>	<b>663,719</b>	<b>666,087</b>

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.

### 9. Other assets

	31.3.2013	31.12.2012
Unsettled securities trading	2,804	1,877
Receivable from LBI hf.	556	465
Other accounts receivable	1,341	3,090
Claim on LBI hf. due to court ruling	5,049	5,049
Sundry assets	4,509	3,627
<b>Total</b>	<b>14,259</b>	<b>14,108</b>

### 10. Assets classified as held for sale

Assets classified as held for sale	31.3.2013	31.12.2012
Reposessed collateral	25,603	25,221
Assets of disposal groups classified as held for sale	50	99
<b>Total</b>	<b>25,653</b>	<b>25,320</b>

#### Reposessed collateral

Reposessed 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 reposessed collateral in an orderly manner. The Group generally does not use the non-cash reposessed collateral for its own operations. The reposessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

Reposessed collateral	31.3.2013	31.12.2012
Carrying amount at the beginning of the period	25,221	51,711
Reposessed during the period	3,470	12,171
Disposed during the period	(2,831)	(37,979)
Impairment	(257)	(682)
<b>Carrying amount at the end of the period</b>	<b>25,603</b>	<b>25,221</b>

#### 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 Condensed Consolidated Income 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 11. Secured bonds

Secured bonds	Nominal amount				Contractual interest rate (%)	Carrying amount	
	Foreign currency		ISK			ISK	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012		31.3.2013	31.12.2012
EUR	643 million	649 million	101,925	109,730	EURIBOR + 1.75/2.90	101,563	109,380
GBP	203 million	205 million	38,052	42,503	LIBOR + 1.75/2.90	37,926	42,397
USD	542 million	548 million	67,216	70,186	LIBOR + 1.75/2.90	67,002	70,014
Total			207,193	222,419		206,491	221,791

During the period the Bank made a mandatory early redemption amount of ISK 2,201 million, due to a clause on Asset Disposition. The Bank shall redeem such part of the principal amount of the bonds as is equal to 50% of excess disposal amounts in regards to asset dispositions, subject to a maximum redemption amount.

### 12. Contingent bond

Pursuant to the provisions of the settlement agreement between the Bank, LBI hf. and the Icelandic State of 15 December 2009, the Bank issued the contingent bond to LBI hf. as secured bonds on 11 April 2013, the secured bonds being an additional consideration for the assets and liabilities transferred from LBI hf. to the Bank on 9 October 2008. The value of the 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 third-party valuation agent Deloitte UK LLP concluded its valuation of the specified assets in relation to the contingent bond, with the result that the contingent bond has been issued as secured bonds in the equivalent amount of ISK 92,000 million (ceiling amount), denominated in EUR (50%), USD (30%) and GBP (20%). LBI hf. has in return surrendered its entire holding in Landsbankinn to the Icelandic State and Landsbankinn.

Following the change in ownership of the Bank on 11 April 2013, as LBI hf. surrendered its holding in Landsbankinn, the Icelandic State holds 98% of shares in Landsbankinn while Landsbankinn receives 2% of own shares, with the obligation that it be distributed to employees. It is the intention of the Board of Directors to develop a plan to distribute the shares to employees which is subject to FME rules and the approval of shareholders' meeting of Landsbankinn. In order to meet its obligation to receive own shares from LBI hf., the Bank has recognised in these condensed consolidated interim financial statements a liability in the amount of ISK 4,691 million, with a corresponding amount recognised directly in equity as „Equity classified as liability to purchase own shares“. The amount is based on the book value of the Bank's equity at the end of the year 2012, whereas the liability is included in the line item "Contingent bond" in the balance sheet as at 31 March 2013. The Bank also recognised in these condensed consolidated interim financial statements its obligation to distribute its own shares to employees as equity-settled employee share-based payments. Thus, the Bank has recognised ISK 4,017 million as salary expenses in the income statement, with a corresponding amount recognised as equity-settled employee share-based payments in equity. In addition, the Bank recognised 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. The employee share-based payments recognised in these condensed consolidated interim financial statements are based on the Bank's management current best estimate that the Bank will distribute those own shares to its employees under certain conditions. However, the method of distribution of the shares has yet to be approved by the shareholders' meeting of the Bank and the conditions for distribution have yet to be defined. Accordingly, the Bank might need to adjust the amounts recognised as equity-settled employee share-based payments in future accounting periods.

## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Condensed Consolidated Income Statement

#### 13. Net interest income

	2013 1.1-31.3	2012 1.1-31.3
<b>Interest income</b>		
Cash and balances with Central Bank	333	138
Bonds and debt instruments classified as loans and receivables	1,372	1,078
Loans and advances to financial institutions	223	179
Loans and advances to customers	15,754	15,360
Other interest income	233	14
<b>Total</b>	<b>17,915</b>	<b>16,769</b>
<b>Interest expense</b>		
Due to financial institutions and Central Bank	(678)	(438)
Deposits from customers	(5,079)	(4,439)
Secured bonds	(2,269)	(3,295)
Other interest expense	(10)	(44)
<b>Total</b>	<b>(8,036)</b>	<b>(8,216)</b>
<b>Net interest income</b>	<b>9,879</b>	<b>8,553</b>
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period).	3.6%	3.0%
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 period).	5.2%	3.1%
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.		

#### 14. Net valuation change in loans and advances

	2013 1.1-31.3	2012 1.1-31.3
Net adjustments to loans and advances acquired at deep discount	3,593	7,562
Net impairment loss	(659)	(1,288)
<b>Total</b>	<b>2,934</b>	<b>6,274</b>
Individuals	(152)	(1,256)
Corporations	3,086	7,530
<b>Total</b>	<b>2,934</b>	<b>6,274</b>

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

	2013 1.1-31.3	2012 1.1-31.3
Bonds and debt instruments	315	42
Equities and equity instruments	2,217	2,335
<b>Total</b>	<b>2,532</b>	<b>2,377</b>

#### 16. Net gain on financial assets and liabilities held for trading

	2013 1.1-31.3	2012 1.1-31.3
Bonds and debt instruments	617	1,061
Equities and equity instruments	183	206
Derivative instruments	(220)	(152)
<b>Total</b>	<b>580</b>	<b>1,115</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 17. Net foreign exchange gain (loss)

	2013 1.1-31.3	2012 1.1-31.3
<b>Assets</b>		
Cash and balances with Central Bank	(71)	59
Bonds and debt instruments	(5,552)	3,671
Equities and equity instruments	(955)	1,080
Derivative instruments	(472)	1,623
Loans and advances to financial institutions	(2,612)	6,095
Loans and advances to customers	(12,336)	8,346
Other assets	(144)	56
<b>Total</b>	<b>(22,142)</b>	<b>20,930</b>
<b>Liabilities</b>		
Due to financial institutions and Central Bank	960	(1,102)
Deposits from customers	4,001	(3,433)
Secured bonds	13,030	(14,278)
Contingent bond	5,323	0
<b>Total</b>	<b>23,314</b>	<b>(18,814)</b>
<b>Net foreign exchange gain (loss)</b>	<b>1,172</b>	<b>2,116</b>

The foreign exchange differences which were recognised during the period 1 January to 31 March 2013 in the Condensed Consolidated Income Statement and arose on financial instruments not measured at fair value through profit or loss, amounted to a ISK 15,161 million loss for financial assets (1.1-31.3.2012: loss of ISK 14,556 million) and gain of ISK 23,314 million for financial liabilities (1.1-31.3.2012: loss of ISK 18,813 million).

### 18. Salaries and related expenses

	2013 1.1-31.3	2012 1.1-31.3
Salaries	2,436	2,561
Contributions to defined contribution pension plans	330	313
Social security contributions, special financial activities tax on salaries and other expenses	407	358
<b>Total</b>	<b>3,173</b>	<b>3,232</b>
Recognition of equity-settled employee share-based salaries	4,017	0
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	674	0
<b>Total equity-settled employee share-based payments*</b>	<b>4,691</b>	<b>0</b>
<b>Total Salaries and related expenses</b>	<b>7,864</b>	<b>3,232</b>

\* Further details on recognition of equity-settled employee share-based payments can be seen in note 12.

### 19. Income tax

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%). Special income tax on financial institutions 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 1.1-31.3	2012 1.1-31.3
Current tax expense	(641)	(444)
Deferred tax expense	(1,118)	(1,433)
<b>Total</b>	<b>(1,759)</b>	<b>(1,877)</b>

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

	1.1-31.3.2013		1.1-31.3.2012	
Profit before tax		9,837		9,765
Tax on liabilities of financial institutions		(90)		(331)
Profit before income tax		9,747		9,434
Income tax calculated using the domestic corporate income tax rate	20.0%	(1,949)	20.0%	(1,887)
Special income tax on financial institutions	0.9%	(89)	3.5%	(328)
Income not subject to tax	(2.9%)	283	(3.6%)	335
Non-deductable expenses	0.1%	(14)	0.5%	(43)
Other	(0.1%)	10	(0.5%)	46
<b>Effective income tax</b>	<b>18.0%</b>	<b>(1,759)</b>	<b>19.9%</b>	<b>(1,877)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Other notes

#### 20. Litigation

The Group is exposed to litigations that arise from time to time in the ordinary course of business and that are expected to have immaterial effect on the Group's financial position. The pending legal cases disclosed in the litigation section of the Group's Consolidated Financial Statements at year end 2012 remain either unchanged or court rulings have been issued in favour of the Group. New litigations that have arisen as at 31 March 2013 are the following:

In January 2013 a client of the Bank commenced litigation against the Bank claiming acknowledgement by the Court that he is not legally bound by a clause on consumer price index in a bond issued by himself to the Bank, alternatively that the Court confirms that the Bank is not entitled to revalue the principal amount of the bond on a monthly basis according to the consumer price index. Furthermore, the client claims confirmation by the Court that he is not legally bound by a clause in the same bond regarding the issuer's duty to pay a settlement fee. The client claims that the bond's clauses are illegal according to the Securities Transaction Act No. 108/2007 and EU Directive No. 2004/39/EB. The Bank will submit its defence and it is foreseeable that the case will be heard before the District Court of Reykjavík in the year 2013.

Following Supreme Court rulings in 2012, on interest calculations of loans illegally indexed to foreign currencies, the Bank has recalculated loans which the Bank presume fall under the precedence of the rulings. The original method under Act No. 151/2010 on retroactive recalculations of interest payments, based on ISK interest rates determined by the Central Bank of Iceland, was ruled illegitimate in the specified circumstances, inter alia, as the lender had issued ultimate interest payment receipts. The Bank considers further court rulings are needed to clarify the scope of the legal precedence of these rulings for interest calculations of other loans. Several court rulings in the coming months are expected to provide further clarification on this issue.

#### 21. Encumbered assets

On 12 October 2010 the Bank and LBI hf. signed a pledge agreement according to which the Bank pledged certain pools of loans to customers as collateral for the secured bonds issued on 12 October 2010 and the contingent bond the Bank might issue to LBI hf. The Bank must maintain a minimum cover ratio of 127.5% for the secured bonds. As at 31 March 2013 Collateral pledged against Secured Bonds includes collateral of the secured bonds issued on 11 April 2013 in relation to the contingent bond in the Financial Statements. The contingent bond was issued as secured bonds on 11 April 2013 as explained in Note 12.

	Encumbered			Total
	Collateral pledged against Secured Bonds	Other*	Un-encumbered	
<b>At 31 March 2013</b>				
Cash and balances with Central Bank	-	-	21,966	21,966
Bonds and debt instruments	48,383	14,809	185,379	248,571
Equities and equity instruments	-	-	32,549	32,549
Derivative instruments	-	-	174	174
Loans and advances to financial institutions	-	9,561	46,990	56,551
Loans and advances to customers	359,355	-	304,364	663,719
Investments in equity-accounted associates	-	-	15,785	15,785
Property and equipment	-	-	5,687	5,687
Intangible assets	-	-	491	491
Other assets	-	-	14,259	14,259
Assets classified as held for sale	-	-	25,653	25,653
<b>Total</b>	<b>407,738</b>	<b>24,370</b>	<b>653,297</b>	<b>1,085,405</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 21. Encumbered assets (continued)

At 31 December 2012	Encumbered		Un-encumbered	Total
	Collateral pledged against Secured Bonds	Other*		
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
<b>Total</b>	<b>319,240</b>	<b>25,912</b>	<b>739,635</b>	<b>1,084,787</b>

\*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.

### 22. Related party transactions

#### (a) 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 26.

#### (b) Transactions with other related parties

The deposits from LBI hf. amounted to ISK 46,580 million as at 31 March 2013 (31.12.2012: ISK 43,807 million). During the period from 1 January to 31 March 2013 the Bank recognised ISK 55 million from administrative services provided to LBI hf. based on a service level agreement (1.1-31.3.2012: ISK 63 million).

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:

Loans in ISK million	2013		2012	
	Balance at 31 March	Maximum exposure	Balance at 31 December	Maximum exposure
Key management personnel	124	127	108	237
Parties related to key management personnel	217	224	176	333
Associates	53,666	63,892	44,544	72,677
<b>Total</b>	<b>54,007</b>	<b>64,243</b>	<b>44,828</b>	<b>73,247</b>

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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Related party transactions (continued)

#### (b) 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:

Deposits in ISK million	2013		2012	
	Balance at 31 March	Maximum exposure	Balance at 31 December	Maximum exposure
Key management personnel	99	116	112	168
Parties related to key management personnel	95	100	56	166
Associates	12,141	21,234	18,432	36,667
<b>Total</b>	<b>12,335</b>	<b>21,450</b>	<b>18,600</b>	<b>37,001</b>

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 March 2013	Balance at 31 December 2012
Associates	274	507
<b>Total</b>	<b>274</b>	<b>507</b>

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

### 23. Events after the reporting period

The main events after the reporting period are as follows:

On 6 May 2013 the Supreme Court of Iceland confirmed the ruling of the District Court of Reykjavík from 1 March 2013, in a dispute between Landsbankinn and the estate of LBI hf. (LBI), regarding the priority order of a claim that relates to the processing of specific business transactions shortly after the fall of LBI. In these particular circumstances FME had not transferred the operations of LBI to Landsbankinn and LBI made the mistake of not acting upon instructions given by its customers to sell their units in investment funds before trading of these funds was terminated. Due to these mistakes the customers suffered losses which were compensated by Landsbankinn. As a result Landsbankinn made a claim on LBI equal to the compensation amounts Landsbankinn paid to the former customers of LBI. There was a presumed consensus that LBI would eventually bear the cost of the payments Landsbankinn processed shortly after the fall of LBI. As far as recurring compensation payments is concerned, it was assumed that Landsbankinn could continue to rely on this consensus, inter alia, with reference to the nature of the relationship between LBI and Landsbankinn at that time, the mistakes had not been at the responsibility of Landsbankinn and LBI should have been aware of the harmful consequences of discontinuing the compensation payments on the business interest and operations of Landsbankinn. As a result Landsbankinn's claim amount of ISK 435 million was approved by the Court and in addition the Court acknowledged the priority order in accordance with Act on Bankruptcy, etc. No. 21/1991 section 110. The Court ruled that litigation costs of Landsbankinn of ISK 0.5 million to be paid by LBI.

At the Annual General Meeting of the Bank for the operating year 2012 held on last 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, or what amounts to 39% of net earnings. Dividends shall be paid to parties registered in the shareholders' registry 30 September 2013 and payment will be made on the 1 October 2013. The dividend payment amounts to ISK 10,080 million.

On 11 April 2013 the third-party valuation agent Deloitte UK LLP concluded its valuation of the specified assets in relation to the contingent bond, with the result that the contingent bond has been issued as secured bonds in the equivalent amount of ISK 92,000 million (ceiling amount), denominated in EUR (50%), USD (30%) and GBP (20%). LBI hf. in return 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. The 2% holding comes with the obligation that it be distributed to employees. It is the intention of the Board of Directors to develop a plan to distribute the shares to employees which is subject to FME rules and the approval of shareholders' meeting of Landsbankinn. Further details are provided in Note 12.

## Notes to the Condensed Consolidated Interim Financial Statements

### Capital management

#### 24. Capital management

According to the EU Capital Requirements Directive the regulatory minimum capital requirement under Pillar I is 8% of risk weighted assets. The FME requires the Group to maintain a minimum core Tier 1 capital ratio of 12% unless revised by FME. In the latest Supervisory Review and Evaluation Process (SREP), based on year end 2011, the FME determined the Capital Adequacy Ratio to be at 19.5%, mainly because of uncertainty regarding currency loans. The Capital Adequacy Ratio is determined by the Group's calculation of its solvency need (ICAAP report) and SREP by the FME which is performed each year.

#### 25. Capital base and capital adequacy ratio

The Group's equity at 31 March 2013 amounted to ISK 232,430 million (31.12.2012: ISK 225,166 million), equivalent to 21.4% (31.12.2012: 20.8%) of total assets, according to the Condensed Consolidated Statement of Financial Position. The Capital Adequacy Ratio, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 26.6% at 31 March 2013 (31.12.2012: 25.1%). According to the Act, this ratio may not fall below 8%.

	31.3.2013	31.12.2012
<b>Capital base</b>		
Share capital	24,000	24,000
Share premium	123,898	123,898
Statutory reserve	4,378	5,053
Retained earnings	80,143	72,120
Non-controlling interests	11	95
<b>Total equity</b>	<b>232,430</b>	<b>225,166</b>
Intangible assets	(491)	(541)
Deferred tax assets	-	(48)
<b>Tier 1 capital</b>	<b>231,939</b>	<b>224,577</b>
Deduction from original and additional own funds	(3,812)	(3,815)
<b>Capital base</b>	<b>228,127</b>	<b>220,762</b>
<b>Risk-weighted assets</b>		
Credit risk	672,314	679,516
Market risk	83,539	98,486
Operational risk	101,393	101,393
<b>Total risk-weighted assets</b>	<b>857,246</b>	<b>879,395</b>
Tier 1 capital ratio	27.1%	25.5%
Capital adequacy ratio	26.6%	25.1%

## Notes to the Condensed Consolidated Interim Financial Statements

### 26. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure at 31 March 2013 and 31 December 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												Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manu- facturing	Agriculture	ITC**	Other	
<b>At 31 March 2013</b>													
Cash and balances with Central Bank	-	21,966	-	-	-	-	-	-	-	-	-	-	21,966
Bonds and debt instruments	816	237,025	-	-	368	-	-	9,358	-	-	-	1,004	248,571
Derivative instruments	174	-	-	-	-	-	-	-	-	-	-	-	174
Loans and advances to financial institutions	56,551	-	-	-	-	-	-	-	-	-	-	-	56,551
Loans and advances to customers	-	11,520	194,233	141,635	99,223	50,963	41,823	61,942	26,449	11,952	19,494	4,485	663,719
Other financial assets	8,969	410	-	11	-	338	-	-	5	-	3	14	9,750
<b>Total on-balance sheet exposure</b>	<b>66,510</b>	<b>270,921</b>	<b>194,233</b>	<b>141,646</b>	<b>99,591</b>	<b>51,301</b>	<b>41,823</b>	<b>71,300</b>	<b>26,454</b>	<b>11,952</b>	<b>19,497</b>	<b>5,503</b>	<b>1,000,731</b>
<b>Off-balance sheet exposure</b>	<b>3,982</b>	<b>15,641</b>	<b>27,089</b>	<b>11,212</b>	<b>32,662</b>	<b>10,266</b>	<b>8,367</b>	<b>1,387</b>	<b>2,828</b>	<b>1,748</b>	<b>3,060</b>	<b>215</b>	<b>118,457</b>
Financial guarantees and underwriting commitments	-	152	588	2,012	22,422	1,973	1,471	642	935	155	818	47	31,215
Undrawn loan commitments	2,100	9,460	22	7,314	8,642	319	2,670	51	442	1,305	898	1	33,224
Undrawn overdraft/credit card facilities	1,882	6,029	26,479	1,886	1,598	7,974	4,226	694	1,451	288	1,344	167	54,018
<b>Maximum exposure to credit risk</b>	<b>70,492</b>	<b>286,562</b>	<b>221,322</b>	<b>152,858</b>	<b>132,253</b>	<b>61,567</b>	<b>50,190</b>	<b>72,687</b>	<b>29,282</b>	<b>13,700</b>	<b>22,557</b>	<b>5,718</b>	<b>1,119,188</b>
Percentage of carrying amount	6.3%	25.6%	19.8%	13.7%	11.8%	5.5%	4.5%	6.5%	2.6%	1.2%	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.

## Notes to the Condensed Consolidated Interim Financial Statements

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

	Corporations												Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC**	Other	
<b>At 31 December 2012</b>													
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
<b>Total on-balance sheet exposure</b>	<b>83,022</b>	<b>254,685</b>	<b>195,647</b>	<b>142,963</b>	<b>105,231</b>	<b>53,287</b>	<b>42,019</b>	<b>60,406</b>	<b>26,270</b>	<b>10,199</b>	<b>19,415</b>	<b>2,922</b>	<b>996,066</b>
<b>Off-balance sheet exposure</b>	<b>4,054</b>	<b>14,215</b>	<b>28,146</b>	<b>14,374</b>	<b>30,797</b>	<b>11,465</b>	<b>8,612</b>	<b>1,147</b>	<b>2,361</b>	<b>1,049</b>	<b>2,496</b>	<b>46</b>	<b>118,762</b>
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
<b>Maximum exposure to credit risk</b>	<b>87,076</b>	<b>268,900</b>	<b>223,793</b>	<b>157,337</b>	<b>136,028</b>	<b>64,752</b>	<b>50,631</b>	<b>61,553</b>	<b>28,631</b>	<b>11,248</b>	<b>21,911</b>	<b>2,968</b>	<b>1,114,828</b>
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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 27. Collaterals 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 appraised value of collateral. 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 is less cushion to protect against pricefalls 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		Without Collaterals*	Allowance for impairment	Maximum exposure to credit risk
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value			
<b>At 31 March 2013</b>										
Financial institutions	-	-	-	-	-	-	-	60,532	-	60,532
Public entities	29	43	156	24	252	6,112	1,137	20,882	84	27,162
Individuals	7,100	11,730	15,702	21,197	55,729	100,309	68,152	77,951	12,666	221,323
Corporations										
Fisheries	1,340	9,024	27,278	18,496	56,138	76,762	52,909	27,088	7,141	152,847
Construction and real estate companies	577	1,905	1,981	6,676	11,139	125,451	55,332	2,007	6,711	131,886
Holding companies	438	116	1,006	2,196	3,756	60,933	37,657	6,464	7,824	63,330
Retail	138	1,439	1,229	1,160	3,966	40,601	17,386	11,453	5,830	50,189
Services	815	918	10,149	1,987	13,869	38,033	14,955	12,867	3,539	61,230
Information, technology and communication	24	34	68	41	167	20,858	6,358	1,863	332	22,555
Manufacturing	66	358	708	973	2,105	19,464	11,473	8,882	1,175	29,276
Agriculture	83	139	286	310	818	11,541	4,907	2,143	801	13,701
Other	3	-	-	-	3	-	-	4,996	300	4,698
<b>Total</b>	<b>10,613</b>	<b>25,706</b>	<b>58,563</b>	<b>53,060</b>	<b>147,942</b>	<b>500,064</b>	<b>270,266</b>	<b>237,128</b>	<b>46,403</b>	<b>838,729</b>
<b>At 31 December 2012</b>										
Financial institutions	-	-	-	-	-	-	-	68,404	-	68,404
Public entities	25	43	172	104	344	6,002	1,142	19,552	107	25,791
Individuals	6,621	11,206	14,577	18,473	50,877	100,197	64,967	84,679	12,560	223,193
Corporations										
Fisheries	1,091	4,765	24,202	20,277	50,335	90,952	58,291	22,564	6,525	157,326
Construction and real estate companies	320	1,833	3,167	9,321	14,641	121,949	49,980	6,765	7,630	135,725
Holding companies	402	163	1,043	1,950	3,558	49,780	32,115	14,044	6,226	61,156
Retail	159	641	1,281	1,065	3,146	42,039	17,042	10,977	5,530	50,632
Services	803	811	10,719	1,581	13,914	34,793	14,160	18,673	3,217	64,163
Information, technology and communication	25	35	65	29	154	20,727	6,396	1,383	357	21,907
Manufacturing	72	278	729	1,010	2,089	19,283	10,786	7,792	1,138	28,026
Agriculture	176	119	262	64	621	10,205	3,910	970	547	11,249
Other	3	-	77	-	80	41	26	1,696	193	1,624
<b>Total</b>	<b>9,697</b>	<b>19,895</b>	<b>56,294</b>	<b>53,874</b>	<b>139,759</b>	<b>495,968</b>	<b>258,815</b>	<b>257,499</b>	<b>44,030</b>	<b>849,196</b>

\*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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 28. Collateral types

The following tables shows the collaterals used to mitigate credit risk.

<b>At 31 March 2013</b>	<b>Real Estate</b>	<b>Vessels</b>	<b>Deposits</b>	<b>Securities</b>	<b>Other*</b>	<b>Total</b>
Public entities	1,482	-	39	-	38	1,559
Individuals	160,042	162	2,408	2,438	87	165,137
Corporates						
Fisheries	5,776	120,525	107	6,387	7,248	140,043
Construction and real estate companies	72,071	-	1,329	168	1,091	74,659
Holding companies	5,161	-	139	36,368	4,898	46,566
Retail	11,770	-	489	608	11,951	24,818
Services	32,334	368	760	1,212	2,090	36,764
ITC	310	-	103	1,843	4,337	6,593
Manufacturing	7,670	-	346	5,756	1,647	15,419
Agriculture	3,561	-	37	-	2,670	6,268
Other	6,607	131	263	259	1,678	8,938
<b>Total</b>	<b>306,784</b>	<b>121,186</b>	<b>6,020</b>	<b>55,039</b>	<b>37,735</b>	<b>526,764</b>

<b>At 31 December 2012</b>	<b>Real Estate</b>	<b>Vessels</b>	<b>Deposits</b>	<b>Securities</b>	<b>Other*</b>	<b>Total</b>
Public entities	1,575	-	32	-	38	1,645
Individuals	152,374	23	2,339	2,438	88	157,262
Corporates						
Fisheries	5,395	112,632	136	2,564	5,455	126,182
Construction and real estate companies	77,958	-	1,162	340	1,559	81,019
Holding companies	4,751	-	210	27,304	3,627	35,892
Retail	11,515	-	219	627	10,514	22,875
Services	30,372	430	866	2,678	1,982	36,328
ITC	756	8	125	1,843	4,357	7,089
Manufacturing	7,179	-	385	5,408	1,370	14,342
Agriculture	3,203	-	4	-	2,671	5,878
Other	261	-	1	-	-	262
<b>Total</b>	<b>295,339</b>	<b>113,093</b>	<b>5,479</b>	<b>43,202</b>	<b>31,661</b>	<b>488,774</b>

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 29. Loans and advances credit monitoring

The following tables shows the credit risk monitoring split on colour classification.

Industry sectors as at 31 March 2013	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	56,551	-	-	-	56,551
Public entities	10,694	663	159	3	11,519
Individuals	151,817	7,035	19,197	16,184	194,233
Corporations					
Fisheries	105,546	24,368	3,248	8,474	141,636
Construction and real estate companies	59,701	6,400	20,982	12,140	99,223
Holding companies	35,650	11,843	8,138	6,311	61,942
Retail	18,892	16,470	2,760	3,701	41,823
Services	32,975	8,117	6,282	3,589	50,963
Information, technology and communication	18,746	348	264	135	19,493
Manufacturing	18,540	2,757	2,359	2,792	26,448
Agriculture	8,744	762	409	2,039	11,954
Other	3,398	955	76	56	4,485
<b>Total</b>	<b>521,254</b>	<b>79,718</b>	<b>63,874</b>	<b>55,424</b>	<b>720,270</b>

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
<b>Total</b>	<b>514,285</b>	<b>92,708</b>	<b>59,445</b>	<b>63,998</b>	<b>730,436</b>

### 30. Credit quality of financial assets

	Gross carrying amount				Allowance for impairment	Carrying amount
	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total		
<b>At 31 March 2013</b>						
Cash and balances with Central Bank	21,966	-	-	21,966	-	21,966
Bonds and debt instruments	239,396	9,175	-	248,571	-	248,571
Derivative instruments	174	-	-	174	-	174
Loans and advances to financial institutions	56,551	-	-	56,551	-	56,551
Loans and advances to customers	447,777	75,826	186,519	710,122	(46,403)	663,719
Other financial assets	9,750	-	-	9,750	-	9,750
<b>Total</b>	<b>775,614</b>	<b>85,001</b>	<b>186,519</b>	<b>1,047,134</b>	<b>(46,403)</b>	<b>1,000,731</b>
<b>At 31 December 2012</b>						
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
<b>Total</b>	<b>771,665</b>	<b>69,277</b>	<b>199,154</b>	<b>1,040,096</b>	<b>(44,030)</b>	<b>996,066</b>

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



## Notes to the Condensed Consolidated Interim Financial Statements

### 31. Loans and advances neither past due nor individually impaired

The following tables show the credit quality, measured by rating grade, of loans and advances neither past due nor individually impaired.

At 31 March 2013	Rating grades					Total
	10-7	6-4	3-1	0*	Unrated	
Financial institutions	56,551	-	-	-	-	56,551
Public entities	6,256	821	4	-	2	7,083
Individuals	9,726	87,705	23,262	2,893	7,186	130,772
Corporations						
Fisheries	10,280	54,496	17,361	1,434	-	83,571
Construction and real estate companies	-	37,332	26,203	434	12	63,981
Holding companies	2	18,139	24,092	1,058	15	43,306
Retail	-	19,878	10,817	4,050	-	34,745
Services	858	29,813	7,829	409	245	39,154
Information, technology and communication	-	13,271	479	11	227	13,988
Manufacturing	696	11,855	8,377	70	39	21,037
Agriculture	2	4,046	717	497	104	5,366
Other	8	561	4,031	-	174	4,774
<b>Total</b>	<b>84,379</b>	<b>277,917</b>	<b>123,172</b>	<b>10,856</b>	<b>8,004</b>	<b>504,328</b>

#### 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
<b>Total</b>	<b>89,303</b>	<b>245,427</b>	<b>154,701</b>	<b>17,409</b>	<b>8,395</b>	<b>515,234</b>

\*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.

### 32. 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 March 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	2	4	-	-	20	26
Individuals	3,433	7,157	3,999	1,363	11,317	27,269
Corporations	4,194	5,428	3,925	10,563	24,421	48,531
<b>Total</b>	<b>7,629</b>	<b>12,589</b>	<b>7,924</b>	<b>11,926</b>	<b>35,758</b>	<b>75,826</b>

#### 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
<b>Total</b>	<b>1,167</b>	<b>12,117</b>	<b>5,291</b>	<b>2,749</b>	<b>38,754</b>	<b>60,078</b>

### 33. Loans and advances by industry sectors

	Gross carrying amount	Not individually impaired	Individually impaired				Collective allowance	Carrying amount
			Of which performing	Individual allowance	Of which non-performing*	Individual allowance		
<b>At 31 March 2013</b>								
Financial institutions	56,551	56,551	-	-	-	-	-	56,551
Public entities	11,604	7,724	3,725	44	106	6	35	11,520
Individuals	206,899	168,666	20,730	5,417	6,253	5,832	1,417	194,233
Corporations								
Fisheries	148,775	90,596	52,996	2,249	1,159	1,775	3,117	141,635
Construction and real estate companies	105,934	81,887	16,311	1,976	2,955	2,804	1,930	99,223
Holding companies	69,766	45,375	20,920	483	341	2,647	4,694	61,942
Retail	47,653	37,448	4,739	2,834	446	2,187	809	41,823
Services	54,502	43,651	7,231	1,314	742	1,565	661	50,963
ITC	19,826	14,125	5,533	88	23	57	187	19,494
Manufacturing	27,624	23,622	2,896	293	428	386	495	26,449
Agriculture	12,753	5,731	6,435	167	60	361	273	11,952
Other	4,785	4,778	-	-	1	6	294	4,485
<b>Total</b>	<b>766,672</b>	<b>580,154</b>	<b>141,516</b>	<b>14,865</b>	<b>12,514</b>	<b>17,626</b>	<b>13,912</b>	<b>720,270</b>

	Gross carrying amount	Not individually impaired	Individually impaired				Collective allowance	Carrying amount
			Of which performing	Individual allowance	Of which non-performing*	Individual allowance		
<b>At 31 December 2012</b>								
Financial institutions	64,349	64,349	-	-	-	-	-	64,349
Public entities	11,682	7,794	3,717	51	108	11	44	11,576
Individuals	207,608	167,667	22,436	3,549	7,577	6,379	2,632	195,047
Corporations								
Fisheries	149,477	89,405	54,380	2,448	1,749	1,496	2,582	142,952
Construction and real estate companies	112,558	82,272	22,988	1,926	3,503	1,869	3,835	104,928
Holding companies	66,235	40,464	22,050	564	582	2,575	3,087	60,009
Retail	47,549	33,737	8,763	2,376	1,039	1,634	1,520	42,019
Services	55,917	45,944	6,713	1,323	1,028	908	986	52,700
ITC	19,770	14,202	5,287	186	50	46	126	19,413
Manufacturing	26,802	22,807	2,889	458	315	334	346	25,665
Agriculture	10,747	5,098	5,093	127	256	173	248	10,199
Other	1,772	1,573	-	-	110	90	101	1,579
<b>Total</b>	<b>774,466</b>	<b>575,312</b>	<b>154,316</b>	<b>13,008</b>	<b>16,317</b>	<b>15,515</b>	<b>15,507</b>	<b>730,436</b>

\*Non-performing past due more than 90 days

## Notes to the Condensed Consolidated Interim Financial Statements

### 34. Allowance for impairment on loans and advances to customers and other financial assets

	1.1-31.3.2013			1.1-31.3.2012		
	Customers	Other financial assets	Total	Customers	Other financial assets	Total
Balance at the beginning of the year	44,030	-	44,030	28,420	-	28,420
Impairment loss for the period	1,094	-	1,094	4,768	-	4,768
Collected previously written-off loans	1,279	-	1,279	24	-	24
<b>Balance at the end of the period</b>	<b>46,403</b>	<b>0</b>	<b>46,403</b>	<b>33,212</b>	<b>0</b>	<b>33,212</b>
Individual allowance	32,490	-	32,490	22,799	-	22,799
Collective allowance	13,913	-	13,913	10,413	-	10,413
<b>Total</b>	<b>46,403</b>	<b>0</b>	<b>46,403</b>	<b>33,212</b>	<b>0</b>	<b>33,212</b>
<b>Net impairment loss</b>						
Impairment loss for the period	1,094	-	1,094	4,768	-	4,768
Impairment of claims reversed	-	(435)	(435)	-	(3,480)	(3,480)
<b>Net impairment loss for the period</b>	<b>1,094</b>	<b>(435)</b>	<b>659</b>	<b>4,768</b>	<b>(3,480)</b>	<b>1,288</b>

### 35. Large exposures

At 31 March 2013, two Group clients were rated as large exposures (31 December 2012: two clients). 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 March 2013 and 31 December 2012.

At 31 March 2013, no exposure exceeded 20% (31 December 2012: no exposure). According to the Group's risk appetite, the total utilisation percentage of a large exposure ought to remain below 50% of the Group's capital base.

	Number of large exposures	Large exposures
<b>At 31 March 2013</b>		
Large exposures between 10% and 20% of the Group's capital base	2	69,473
<b>Total</b>	<b>2</b>	<b>69,473</b>
Utilisation ratio (400% max limit)		31%
<b>At 31 December 2012</b>		
Large exposures between 10% and 20% of the Group's capital base	2	71,610
<b>Total</b>	<b>2</b>	<b>71,610</b>
Utilisation ratio (400% max limit)		32%

## Liquidity risk

### 36. Liquidity risk management

The 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 (such as government bonds). 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 core liquidity ratio as at 31 March 2013 was 42% (31 December 2012: 48%) and the ratio of cash and cash equivalents to on-demand deposits was 13% (31 December 2012: 12%). Aggregated values for the core liquidity ratio are based on daily values and aggregated values for the cash ratio are based on monthly values.

## Notes to the Condensed Consolidated Interim Financial Statements

### 36. Liquidity risk management (continued)

The following table shows various values of the core liquidity ratio and cash ratio in the period from 1 January to 31 March 2013 and in the year 2012:

	Core liquidity ratio		Cash ratio	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012
Period end	42%	48%	13%	12%
Maximum	52%	51%	18%	32%
Minimum	42%	36%	11%	12%
Average	51%	45%	14%	20%

### 37. Maturity analysis of financial assets and liabilities

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

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
<b>Non-derivative financial assets</b>							
Cash and balances with Central Bank	21,966	-	-	-	-	21,966	21,966
Bonds and debt instruments	-	67,982	21,093	49,113	161,140	299,328	248,571
Loans and advances to financial institutions	-	48,268	6,610	1,674	-	56,552	56,551
Loans and advances to customers	27,988	60,663	98,521	374,730	383,905	945,807	663,719
Other financial assets	-	9,194	-	556	-	9,750	9,750
<b>Total</b>	<b>49,954</b>	<b>186,107</b>	<b>126,224</b>	<b>426,073</b>	<b>545,045</b>	<b>1,333,403</b>	<b>1,000,557</b>
<b>Derivative financial assets</b>							
<b>Gross settled derivatives</b>							172
Inflow	-	12,301	-	-	-	12,301	
Outflow	-	(12,504)	-	-	-	(12,504)	
<b>Total</b>	<b>0</b>	<b>(203)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(203)</b>	<b>172</b>
<b>Net settled derivatives</b>	-	2	-	-	-	2	2
<b>Total</b>	<b>0</b>	<b>(201)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(201)</b>	<b>174</b>
<b>Non-derivative financial liabilities</b>							
Due to financial institutions and Central Bank	(96,189)	(1,147)	(16)	-	-	(97,352)	(97,352)
Deposits from customers	(300,420)	(86,931)	(22,576)	(26,783)	(4,949)	(441,659)	(433,647)
Short positions	-	(4,562)	-	-	-	(4,562)	(4,562)
Secured bonds	-	(104)	(3,795)	(184,425)	(41,957)	(230,281)	(206,491)
Contingent bond	-	(435)	(5,878)	(75,113)	(13,099)	(94,525)	(85,953)
Other financial liabilities	-	(16,120)	-	-	-	(16,120)	(16,120)
<b>Total</b>	<b>(396,609)</b>	<b>(109,299)</b>	<b>(32,265)</b>	<b>(286,321)</b>	<b>(60,005)</b>	<b>(884,499)</b>	<b>(844,125)</b>
<b>Off-balance sheet items</b>							
Financial guarantees and underwriting commitments	(32)	(21,146)	(3,107)	(2,109)	(4,821)	(31,215)	
Undrawn loan commitments	(33,224)	-	-	-	-	(33,224)	
Undrawn overdraft/credit card commitments	(54,018)	-	-	-	-	(54,018)	
<b>Total</b>	<b>(87,274)</b>	<b>(21,146)</b>	<b>(3,107)</b>	<b>(2,109)</b>	<b>(4,821)</b>	<b>(118,457)</b>	<b>0</b>
<b>Total non-derivative financial liabilities and off-balance sheet items</b>	<b>(483,883)</b>	<b>(130,445)</b>	<b>(35,372)</b>	<b>(288,430)</b>	<b>(64,826)</b>	<b>(1,002,956)</b>	<b>(844,125)</b>
<b>Derivative financial liabilities</b>							
<b>Gross settled derivatives</b>							(2,148)
Inflow	-	67,160	1,377	1,116	-	69,653	
Outflow	-	(67,612)	(1,490)	(1,483)	-	(70,585)	
<b>Total</b>	<b>0</b>	<b>(452)</b>	<b>(113)</b>	<b>(367)</b>	<b>0</b>	<b>(932)</b>	<b>(2,148)</b>
<b>Net settled derivatives</b>	-	(22)	-	-	-	(22)	(22)
<b>Total</b>	<b>0</b>	<b>(474)</b>	<b>(113)</b>	<b>(367)</b>	<b>0</b>	<b>(954)</b>	<b>(2,170)</b>
<b>Net liquidity position</b>	<b>(433,929)</b>	<b>54,987</b>	<b>90,739</b>	<b>137,276</b>	<b>480,219</b>	<b>329,292</b>	<b>154,436</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 37. 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:

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
<b>Non-derivative financial assets</b>							
Cash and balances with Central Bank	25,898	-	-	-	-	25,898	25,898
Bonds and debt instruments	-	52,191	12,202	48,362	158,688	271,443	228,208
Loans and advances to financial institutions	-	55,035	7,726	1,591	-	64,352	64,349
Loans and advances to customers	15,169	68,164	97,531	396,142	374,154	951,160	666,087
Other financial assets	-	10,016	-	465	-	10,481	10,481
<b>Total</b>	<b>41,067</b>	<b>185,406</b>	<b>117,459</b>	<b>446,559</b>	<b>532,842</b>	<b>1,323,333</b>	<b>995,023</b>
<b>Derivative financial assets</b>							
<b>Gross settled derivatives</b>							1,040
Inflow	-	31,169	-	-	-	31,169	
Outflow	-	(33,694)	-	-	-	(33,694)	
<b>Total</b>	<b>0</b>	<b>(2,525)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,525)</b>	<b>1,040</b>
<b>Net settled derivatives</b>	-	3	-	-	-	3	3
<b>Total</b>	<b>0</b>	<b>(2,522)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,522)</b>	<b>1,043</b>
<b>Non-derivative financial liabilities</b>							
Due to financial institutions and Central Bank	(97,646)	(1,054)	(18)	-	-	(98,718)	(98,718)
Deposits from customers	(310,088)	(52,739)	(33,049)	(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)
<b>Total</b>	<b>(407,734)</b>	<b>(78,244)</b>	<b>(36,468)</b>	<b>(301,230)</b>	<b>(87,817)</b>	<b>(911,493)</b>	<b>(852,328)</b>
<b>Off-balance sheet items</b>							
Financial guarantees and underwriting commitments	(297)	(19,855)	(3,434)	(2,102)	(4,976)	(30,664)	
Undrawn loan commitments	(32,908)	-	-	-	-	(32,908)	
Undrawn overdraft/credit card commitments	(55,190)	-	-	-	-	(55,190)	
<b>Total</b>	<b>(88,395)</b>	<b>(19,855)</b>	<b>(3,434)</b>	<b>(2,102)</b>	<b>(4,976)</b>	<b>(118,762)</b>	<b>0</b>
<b>Total non-derivative financial liabilities and off-balance sheet items</b>	<b>(496,129)</b>	<b>(98,099)</b>	<b>(39,902)</b>	<b>(303,332)</b>	<b>(92,793)</b>	<b>(1,030,255)</b>	<b>(852,328)</b>
<b>Derivative financial liabilities</b>							
<b>Gross settled derivatives</b>							(490)
Inflow	-	26,093	276	839	284	27,492	
Outflow	-	(22,650)	(347)	(1,074)	(371)	(24,441)	
<b>Total</b>	<b>0</b>	<b>3,443</b>	<b>(71)</b>	<b>(235)</b>	<b>(87)</b>	<b>3,051</b>	<b>(490)</b>
<b>Net settled derivatives</b>	-	(29)	-	-	-	(29)	(29)
<b>Total</b>	<b>0</b>	<b>3,414</b>	<b>(71)</b>	<b>(235)</b>	<b>(87)</b>	<b>3,022</b>	<b>(519)</b>
<b>Net liquidity position</b>	<b>(455,062)</b>	<b>88,199</b>	<b>77,486</b>	<b>142,992</b>	<b>439,962</b>	<b>293,578</b>	<b>143,219</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 38. 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 March 2013:

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
<b>Non-derivative financial assets</b>							
Total in foreign currencies	2,790	132,740	52,328	158,360	20,246	366,464	337,980
ISK	47,164	53,367	73,896	267,713	524,799	966,939	662,577
<b>Total</b>	<b>49,954</b>	<b>186,107</b>	<b>126,224</b>	<b>426,073</b>	<b>545,045</b>	<b>1,333,403</b>	<b>1,000,557</b>
<b>Derivative financial assets</b>							
Total in foreign currencies	-	(838)	-	-	-	(838)	172
ISK	-	637	-	-	-	637	2
<b>Total</b>	<b>0</b>	<b>(201)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(201)</b>	<b>174</b>
<b>Non-derivative financial liabilities</b>							
Total in foreign currencies	(62,588)	(10,297)	(10,433)	(259,539)	(55,055)	(397,912)	(365,541)
ISK	(334,021)	(99,002)	(21,832)	(26,782)	(4,950)	(486,587)	(478,584)
<b>Total</b>	<b>(396,609)</b>	<b>(109,299)</b>	<b>(32,265)</b>	<b>(286,321)</b>	<b>(60,005)</b>	<b>(884,499)</b>	<b>(844,125)</b>
<b>Off-balance sheet items</b>							
Total in foreign currencies	(9,167)	(1,688)	(1,910)	(596)	(420)	(13,781)	
ISK	(78,107)	(19,458)	(1,197)	(1,513)	(4,401)	(104,676)	
<b>Total</b>	<b>(87,274)</b>	<b>(21,146)</b>	<b>(3,107)</b>	<b>(2,109)</b>	<b>(4,821)</b>	<b>(118,457)</b>	
<b>Derivative financial liabilities</b>							
Total in foreign currencies	-	3,848	60	401	-	4,309	(2,148)
ISK	-	(4,322)	(173)	(768)	-	(5,263)	(22)
<b>Total</b>	<b>0</b>	<b>(474)</b>	<b>(113)</b>	<b>(367)</b>	<b>0</b>	<b>(954)</b>	<b>(2,170)</b>
<b>Net liquidity position in foreign currencies</b>	<b>(68,965)</b>	<b>123,765</b>	<b>40,045</b>	<b>(101,374)</b>	<b>(35,229)</b>	<b>(41,758)</b>	<b>(29,537)</b>
<b>Net liquidity position in ISK</b>	<b>(364,964)</b>	<b>(68,778)</b>	<b>50,694</b>	<b>238,650</b>	<b>515,448</b>	<b>371,050</b>	<b>183,973</b>
<b>Net liquidity position</b>	<b>(433,929)</b>	<b>54,987</b>	<b>90,739</b>	<b>137,276</b>	<b>480,219</b>	<b>329,292</b>	<b>154,436</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 38. 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:

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
<b>Non-derivative financial assets</b>							
Total in foreign currencies	2,109	122,299	45,852	172,123	24,002	366,385	335,019
ISK	38,958	63,107	71,607	274,436	508,840	956,948	660,004
<b>Total</b>	<b>41,067</b>	<b>185,406</b>	<b>117,459</b>	<b>446,559</b>	<b>532,842</b>	<b>1,323,333</b>	<b>995,023</b>
<b>Derivative financial assets</b>							
Total in foreign currencies	-	(1,964)	-	-	-	(1,964)	1,040
ISK	-	(558)	-	-	-	(558)	3
<b>Total</b>	<b>0</b>	<b>(2,522)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,522)</b>	<b>1,043</b>
<b>Non-derivative financial liabilities</b>							
Total in foreign currencies	(62,542)	(5,127)	(6,495)	(274,868)	(83,680)	(432,712)	(378,847)
ISK	(345,192)	(73,117)	(29,973)	(26,362)	(4,137)	(478,781)	(473,480)
<b>Total</b>	<b>(407,734)</b>	<b>(78,244)</b>	<b>(36,468)</b>	<b>(301,230)</b>	<b>(87,817)</b>	<b>(911,493)</b>	<b>(852,328)</b>
<b>Off-balance sheet items</b>							
Total in foreign currencies	(13,398)	(644)	(2,509)	(571)	(286)	(17,408)	
ISK	(74,997)	(19,211)	(924)	(1,530)	(4,689)	(101,351)	
<b>Total</b>	<b>(88,395)</b>	<b>(19,855)</b>	<b>(3,434)</b>	<b>(2,102)</b>	<b>(4,976)</b>	<b>(118,762)</b>	
<b>Derivative financial liabilities</b>							
Total in foreign currencies	-	9,228	101	302	101	9,731	(490)
ISK	-	(5,814)	(172)	(537)	(188)	(6,709)	(29)
<b>Total</b>	<b>0</b>	<b>3,414</b>	<b>(71)</b>	<b>(235)</b>	<b>(87)</b>	<b>3,022</b>	<b>(519)</b>
<b>Net liquidity position in foreign currencies</b>	<b>(73,831)</b>	<b>123,792</b>	<b>36,949</b>	<b>(103,014)</b>	<b>(59,863)</b>	<b>(75,968)</b>	<b>(43,278)</b>
<b>Net liquidity position in ISK</b>	<b>(381,231)</b>	<b>(35,593)</b>	<b>40,538</b>	<b>246,007</b>	<b>499,826</b>	<b>369,549</b>	<b>186,498</b>
<b>Net liquidity position</b>	<b>(455,062)</b>	<b>88,199</b>	<b>77,487</b>	<b>142,993</b>	<b>439,963</b>	<b>293,578</b>	<b>143,219</b>

## Market risk

### 39. Market risk management

The following table summarises the Group's exposure to market risk as at 31 March 2013 and 31 December 2012:

Market risk factor	31.3.2013	31.12.2012
	% of RWA	% of RWA
Equity price risk	5.7%	6.3%
Interest rate risk	2.2%	2.0%
Foreign exchange risk	1.8%	2.9%
<b>Total</b>	<b>9.7%</b>	<b>11.2%</b>

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 42-43.

## Notes to the Condensed Consolidated Interim Financial Statements

### 40. Interest rate risk

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 5). The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>At 31 March 2013</b>					
<b>Financial assets</b>					
Cash and balances with Central Bank	21,966	-	-	-	21,966
Bonds and debt instruments	223,448	15,055	1,604	8,464	248,571
Derivative instruments	174	-	-	-	174
Loans and advances to financial institutions	48,267	6,610	1,674	-	56,551
Loans and advances to customers	484,407	49,144	66,999	63,169	663,719
Other financial assets	9,194	-	556	-	9,750
<b>Total</b>	<b>787,456</b>	<b>70,809</b>	<b>70,833</b>	<b>71,633</b>	<b>1,000,731</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(97,352)	-	-	-	(97,352)
Deposits from customers	(430,464)	(2,726)	(457)	-	(433,647)
Derivative instruments and short positions	(6,514)	(164)	-	(54)	(6,732)
Secured bonds	(206,491)	-	-	-	(206,491)
Contingent bond	(85,953)	-	-	-	(85,953)
Other financial liabilities	(16,120)	-	-	-	(16,120)
<b>Total</b>	<b>(842,894)</b>	<b>(2,890)</b>	<b>(457)</b>	<b>(54)</b>	<b>(846,295)</b>
Net on-balance sheet position	(55,438)	67,919	70,376	71,579	154,436
Net off-balance sheet position	-	(581)	581	-	-
<b>Total interest repricing gap</b>	<b>(55,438)</b>	<b>67,338</b>	<b>70,957</b>	<b>71,579</b>	
<b>At 31 December 2012</b>					
<b>Financial assets</b>					
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
<b>Total</b>	<b>790,479</b>	<b>76,636</b>	<b>61,584</b>	<b>67,367</b>	<b>996,066</b>
<b>Financial liabilities</b>					
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)
<b>Total</b>	<b>(841,623)</b>	<b>(7,118)</b>	<b>(3,164)</b>	<b>(943)</b>	<b>(852,848)</b>
Net on-balance sheet position	(51,144)	69,518	58,420	66,424	143,218
Net off-balance sheet position	698	(133)	(418)	(146)	-
<b>Total interest repricing gap</b>	<b>(50,446)</b>	<b>69,385</b>	<b>58,002</b>	<b>66,278</b>	



## Notes to the Condensed Consolidated Interim Financial Statements

### 41. 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. At 31 March 2013 the CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, was ISK 144,930 million (31 December 2012: ISK 145,784 million).

Carrying amount	31.3.2013	31.12.2012
<b>Assets</b>		
Bonds and debt instruments	6,920	7,586
Loans and advances to customers	242,481	239,432
<b>Total</b>	<b>249,401</b>	<b>247,018</b>
<b>Liabilities</b>		
Due to financial institutions and Central Bank	(18)	(23)
Deposits from customers	(103,532)	(100,768)
<b>Total</b>	<b>(103,550)</b>	<b>(100,791)</b>
Total on-balance sheet position	145,851	146,227
Total off-balance sheet position	(921)	(443)
<b>Total CPI indexation balance</b>	<b>144,930</b>	<b>145,784</b>

### 42. 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 March was -5.4% of the Group's Capital base (31 December 2012: -9.1%). Uncertainty regarding the denomination currencies of the Groups loan portfolio has not been fully resolved in the period 1 January to 31 March 2013.

### 43. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at 31 March 2013 and 31 December 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 foreign exchange contracts at 31 March 2013 and 31 December 2012. When managing liquidity risk the Group regards foreign exchange contracts as a non-derivative assets or liabilities.

As explained in Note 12 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 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, which will be the new balance of the secured bonds in the Consolidated Financial Statement in the second quarter of 2013.

## Notes to the Condensed Consolidated Interim Financial Statements

### 43. Concentration of currency risk (continued)

At 31 March 2013	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
Cash and balances with Central Bank	367	149	228	19	41	353	1,157
Bonds and debt instruments	10,556	35,577	53,207	-	-	-	99,340
Equities and equity instruments	10,680	-	1	-	-	3,100	13,781
Derivative instruments	169	1	2	-	-	-	172
Loans and advances to financial institutions	10,848	10,596	24,396	422	78	1,542	47,882
Loans and advances to customers	87,075	16,877	55,738	10,967	11,638	6,060	188,355
Other assets	3	-	1,243	-	-	-	1,246
<b>Total</b>	<b>119,698</b>	<b>63,200</b>	<b>134,815</b>	<b>11,408</b>	<b>11,757</b>	<b>11,055</b>	<b>351,933</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(5,653)	(3,796)	(5,230)	-	(138)	(750)	(15,567)
Deposits from customers	(21,431)	(4,222)	(22,224)	(464)	(332)	(5,635)	(54,308)
Derivative instruments and short positions	(1,704)	(1)	(442)	-	-	-	(2,147)
Secured bonds	(101,563)	(37,926)	(67,002)	-	-	-	(206,491)
Contingent bond	(42,877)	(16,539)	(26,537)	-	-	-	(85,953)
Other liabilities	(586)	(64)	(2,290)	-	(4)	(266)	(3,210)
<b>Total</b>	<b>(173,814)</b>	<b>(62,548)</b>	<b>(123,725)</b>	<b>(464)</b>	<b>(474)</b>	<b>(6,651)</b>	<b>(367,676)</b>
Net on-balance sheet position	(54,116)	652	11,090	10,944	11,283	4,404	(15,743)
Net off-balance sheet position	56,130	(4,972)	(18,966)	(11,067)	(10,029)	(7,625)	3,471
<b>Net currency position</b>	<b>2,014</b>	<b>(4,320)</b>	<b>(7,876)</b>	<b>(123)</b>	<b>1,254</b>	<b>(3,221)</b>	<b>(12,272)</b>

At 31 December 2012	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
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
<b>Total</b>	<b>145,046</b>	<b>56,253</b>	<b>104,006</b>	<b>15,515</b>	<b>15,778</b>	<b>14,988</b>	<b>351,586</b>
<b>Liabilities</b>							
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)
<b>Total</b>	<b>(218,862)</b>	<b>(52,542)</b>	<b>(99,065)</b>	<b>(526)</b>	<b>(578)</b>	<b>(7,815)</b>	<b>(379,390)</b>
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
<b>Net currency position</b>	<b>(24,582)</b>	<b>763</b>	<b>(591)</b>	<b>1,108</b>	<b>1,433</b>	<b>1,834</b>	<b>(20,035)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 44. Foreign exchange rates used

The following foreign exchange rates were used by the Group:

	At 31 March 2013	At 31 December 2012	% Change	Average for 1.1-31.3 2013	Average for 1.1-31.3 2012
EUR/ISK	158.55	168.95	(6.2%)	165.60	161.60
GBP/ISK	187.43	207.22	(9.6%)	196.14	198.77
USD/ISK	124.00	128.16	(3.2%)	125.85	125.07
JPY/ISK	1.31	1.49	(12.1%)	1.39	1.57
CHF/ISK	130.10	139.94	(7.0%)	135.67	134.15
CAD/ISK	121.95	128.73	(5.3%)	124.65	125.00
DKK/ISK	21.27	22.64	(6.1%)	22.20	21.71
NOK/ISK	21.20	22.96	(7.7%)	22.27	21.59
SEK/ISK	19.05	19.68	(3.2%)	19.49	18.58