



Condensed Consolidated
Interim Financial Statements
30 September 2013

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Endorsement and Statement by the Board of Directors and the CEO

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

According to the Consolidated Income Statement, profit for the period 1 January to 30 September 2013 amounted to ISK 590 million. According to the Consolidated Statement of Financial Position, the Bank's equity at the end of this period amounted to ISK 6,139 million. As at 30 September 2013, the Bank's total assets amounted to ISK 63,236 million. The Capital Adequacy Ratio (Tier 1) of the Bank was 14.2% but the minimum requirement by law is 8.0%.

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

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

Corporate Governance

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

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

Statement by the Board of Directors and the CEO

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

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

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

Reykjavík, 5 November 2013.

Board of Directors

Ólafur Pálsson
Hanna Fabian-Friðriksdóttir
Lýza Þórunn Hjartardóttir
Ragnhildur Helgadóttir

CEO



Consolidated Income Statement

For the period 1 January 2013 to 30 September 2013

	Notes	Q3 2013	Q3 2012	9m 2013	9m 2012
Interest income		907,776	856,482	2,800,725	2,517,582
Interest expense		(512,099)	(404,119)	(1,526,102)	(1,214,171)
Net interest income	4	395,676	452,363	1,274,624	1,303,412
Fee and commission income	5	368,631	381,678	1,271,622	1,069,605
Fee and commission expense		(21,739)	(22,058)	(62,130)	(86,882)
Net fee and commission income		346,892	359,619	1,209,492	982,723
Net financial income	6-7	85,331	154,237	257,688	477,832
Share in profit of associates, net of income tax	17	17,244	0	30,887	217,482
Other operating income		12,897	14,252	86,325	7,006
Other operating income		115,472	168,489	374,901	702,320
Net operating income		858,040	980,472	2,859,017	2,988,455
Administrative expenses	8	(784,786)	(684,369)	(2,589,810)	(2,238,603)
Impairment of loans and receivables	15	37,040	(26,376)	221,693	(280,145)
Profit from assets held for sale		0	0	9,927	0
Profit before taxes		110,294	269,728	500,827	469,707
Income tax	10	24,438	6,623	106,854	(32,018)
Special tax on financial institutions	11	(4,889)	(22,473)	(17,616)	(65,308)
Profit for the period		129,843	253,878	590,065	372,380
	Notes	Q3 2013	Q3 2012	9m 2013	9m 2012
Attributable to the shareholders of MP Bank hf.		126,853	254,741	582,166	373,243
Attributable to non-controlling interest	16	2,990	(863)	7,900	(863)
Profit for the period		129,843	253,878	590,065	372,380

The notes on pages 7 to 26 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Statement of Comprehensive Income

For the period 1 January 2013 to 30 September 2013

	Notes	9m 2013	9m 2012
Profit for the period		590,065	372,380
Fair value changes in securities classified as available for sale		11,627	(87,248)
Exchange difference on translation of foreign operations		8,762	(3,413)
Other comprehensive income, net of tax		20,389	(90,661)
Total comprehensive income for the period		610,454	281,719

	Notes	9m 2013	9m 2012
Attributable to the shareholders of MP Bank hf.		602,554	282,582
Attributable to non-controlling interest		7,900	(863)
Total comprehensive income for the period		610,454	281,719

The notes on pages 7 to 26 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Statement of Financial Position

As at 30 September 2013

Assets	Notes	30.9.2013	31.12.2012
Cash and cash equivalents	13	16,616,896	20,289,559
Receivables from Central Bank of Iceland		3,802,196	3,287,741
Fixed income securities		6,269,203	5,221,038
Shares and other variable income securities		1,835,650	1,243,133
Securities used for hedging		3,656,247	6,807,792
Loans to customers	14-15	27,206,450	27,789,290
Derivatives		495,966	312,795
Investment in associates	17	588,190	560,825
Intangible assets		1,082,431	1,103,829
Property and equipment		218,605	738,099
Deferred tax asset		415,312	292,288
Other assets	18	1,049,103	646,485
Assets classified as held for sale		0	1,100,000
Total assets		63,236,251	69,392,873
Liabilities			
Deposits		37,240,939	42,402,442
Borrowings	19	7,886,642	6,575,208
Short positions used for trading		5,749,086	5,961,847
Short positions used for hedging		2,274,619	2,024,604
Derivatives		185,925	221,518
Current tax liabilities		2,406	3,180
Deferred tax liabilities		180	180
Other liabilities	20	3,757,756	6,159,274
Liabilities associated with assets classified as held for sale		0	795,000
Total liabilities		57,097,552	64,143,251
Equity			
Share capital	21	5,850,000	5,550,000
Share premium		8,088	7,500
Option reserve		2,891	518
Other reserves		26,314	41,890
Retained earnings (accumulated deficit)		247,509	(346,283)
Total equity attributable to the shareholders of MP Bank hf.		6,134,802	5,253,625
Non-controlling interest		3,897	(4,003)
Total equity		6,138,699	5,249,622
Total liabilities and equity		63,236,251	69,392,873

The notes on pages 7 to 26 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Statement of Changes in Equity

For the period 1 January 2013 to 30 September 2013

	Notes	Share capital	Share premium	Option reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
1 January 2013 to 30 September 2013									
Equity as at 1 January 2013		5,550,000	7,500	518	41,890	(346,283)	5,253,625	(4,003)	5,249,622
Total comprehensive income for the period					8,762	593,792	602,554	7,900	610,454
New share capital sold		300,000					300,000		300,000
Share-based payment transactions				2,373			2,373		2,373
Treasury shares acquired		(25,000)	1,250				(23,750)		(23,750)
Equity instrument related to ALFA verðbréf hf. acquisition converted to equity		25,000	(662)		(24,338)		0		0
Equity at 30 September 2013		5,850,000	8,088	2,891	26,314	247,509	6,134,802	3,897	6,138,699

	Notes	Share capital	Share premium	Option reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
1 January 2012 to 30 September 2012									
Equity as at 1 January 2012		5,550,000	7,500		(8,478)	(480,076)	5,068,945	9	5,068,954
Total comprehensive income for the period					(3,413)	285,995	282,582	(863)	281,719
Acquisition of non-controlling interest							0	141	141
Equity instrument related to ALFA verðbréf hf. acquisition					47,819		47,819		47,819
Equity at 30 September 2012		5,550,000	7,500	0	35,928	(194,081)	5,399,347	(713)	5,398,634

The notes on pages 7 to 26 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Statement of Cash Flows

For the period 1 January 2013 to 30 September 2013

Cash flows from operating activities	Notes	9m 2013	9m 2012
Profit for the period		590,065	372,380
Adjustments for:			
Indexation and exchange rate difference		(1,287)	59,011
Share in profit of associates, net of income tax	17	(30,887)	(217,482)
Depreciation and amortisation		80,776	86,289
Impairment of loans and other assets	15	(226,113)	280,145
Deferred income tax, change		(123,025)	28,635
Other adjustments		(41,114)	22,913
		248,415	631,891
Changes in:			
Loans to customers		738,228	(10,533,909)
Deposits		(4,866,386)	9,626,923
Financial assets		701,250	5,595,862
Financial liabilities		(22,677)	2,838,816
Operating assets and liabilities		(2,804,910)	3,203,453
Net cash (to) from operating activities		(6,006,080)	11,363,036
Cash flows from investing activities			
Associated companies	17	123,614	42,607
Acquisition of intangible assets		(20,095)	(29,782)
Acquisition of property and equipment		(54,833)	(493,059)
Proceeds from the sale of property and equipment		575,055	20,308
Investment in assets classified as held for sale		305,000	0
Net cash from (to) investing activities		928,741	(459,926)
Cash flows from financing activities			
Borrowings		69,248,861	28,055,002
Repayment of borrowings		(67,944,977)	(20,941,000)
New share capital		300,000	0
Net cash from financing activities		1,603,884	7,114,002
Cash and cash equivalents at the beginning of the year	13	20,289,559	11,545,143
Net (decrease) increase in cash and cash equivalents		(3,473,455)	18,017,112
Effects of exchange rate fluctuations on cash held		(199,208)	21,711
Cash and cash equivalents at the end of the period	13	16,616,896	29,583,967

The notes on pages 7 to 26 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes

General information

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and CEO on 5 November 2013.

2. Basis of preparation

a. Statement of compliance

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

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

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Going concern

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

e. Estimates and judgements

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

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

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

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

3. Significant accounting policies

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

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

Notes - continued

Income statement

4. Net interest income

Interest income is specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Cash and cash equivalents	198,824	366,016	513,036	723,235
Derivatives	51,620	18,531	220,124	139,534
Loans to customers	631,432	475,019	1,967,916	1,168,633
Other interest income (expense)	25,899	(3,084)	99,649	486,180
Total	907,776	856,482	2,800,725	2,517,582

Interest expense is specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Deposits	325,948	307,045	1,082,816	1,032,194
Borrowings	136,560	85,357	373,129	148,476
Other interest expense	49,592	11,717	70,156	33,501
Total	512,099	404,119	1,526,102	1,214,171

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

5. Fee and commission income

Fee and commission income is specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Banking	106,139	105,547	327,181	266,315
Capital Markets	64,486	89,027	359,196	327,311
Asset Management	115,464	110,769	328,169	281,394
Other	82,542	76,334	257,076	194,584
Total	368,631	381,678	1,271,622	1,069,605

6. Net financial income

Net financial income is specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Fixed income	50,015	154,292	241,714	330,830
Equities	35,484	22,993	77,051	13,132
Foreign currency exchange difference	1,879	(14,614)	(54,257)	17,017
Fair value adjustments	(2,047)	(8,433)	(6,819)	116,853
Total	85,331	154,237	257,688	477,832

7. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Gain (loss) on financial instruments at fair value through profit and loss	15,669	(22,933)	(3,553)	(31,317)
(Loss) gain on other financial instruments	(13,790)	8,319	(50,704)	48,334
Total	1,879	(14,614)	(54,257)	17,017

Change in the ISK trade index during the period	+0.8%	+1.3%	-6.0%	+1.9%
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Note 27 provides information about the development of foreign exchange rates against the Icelandic krona.

Notes - continued

8. Administrative expenses

Administrative expenses are specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Salaries and related expenses	450,863	385,118	1,517,939	1,179,744
Other operating expenses	287,366	225,607	915,281	886,749
Depositors' and Investors' Guarantee Fund contributions	21,917	35,526	76,468	85,821
Depreciation and amortisation	24,640	38,119	80,122	86,289
Total	784,786	684,369	2,589,810	2,238,603

9. Salaries and related expenses

Salaries and related expenses are specified as follows:

	Q3 2013	Q3 2012	9m 2013	9m 2012
Salaries	304,993	203,091	1,087,198	838,015
Performance based payments excluding share based payments	29,461	92,251	83,651	92,251
Share-based payment expenses	794	0	2,373	0
Pension fund contributions	47,741	42,267	149,385	118,741
Tax on financial activity	26,770	18,507	83,661	53,388
Other salary related expenses	41,103	29,002	111,671	77,350
Total	450,863	385,118	1,517,939	1,179,744

Average number of full time employees during the period	130	115
Total number of full time employees at the end of the period	135	118

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

10. Income tax

Profit before taxes amounts to ISK 483.2 million. Income tax amounts to ISK -106.9 million, resulting in an effective tax rate of -22.1%. This is substantially different from the Icelandic corporate tax rate of 20% due to non-taxable income, mainly from shares.

11. Special tax on financial institutions

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

	9m 2013	9m 2012
Special tax on financial institutions	17,616	65,308

12. Quarterly statements (unaudited)

	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Net interest income	395,676	406,374	472,573	412,708	452,363
Net fee and commission income	346,892	442,966	419,635	412,335	359,619
Net financial income	85,331	29,173	143,184	159,203	154,237
Share in profit of associates, net of income tax	17,244	0	13,643	0	0
Other operating income	12,897	17,119	56,309	21,867	14,252
Net operating income	858,040	895,632	1,105,344	1,006,113	980,472
Administrative expenses	(784,786)	(911,180)	(893,844)	(889,563)	(684,369)
Impairment of loans and receivables	37,040	(36,714)	221,366	(390,817)	(26,376)
Profit (loss) from assets held for sale	0	9,927	0	(10,989)	0
Profit (loss) before taxes	110,294	(42,334)	432,867	(285,256)	269,728
Income tax	24,438	31,573	50,843	180,431	6,623
Special tax on financial institutions	(4,889)	5,482	(18,209)	(16,208)	(22,473)
Profit (loss) for the quarter	129,843	(5,279)	465,501	(121,033)	253,878

Notes - continued

Statement of Financial Position

13. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	30.9.2013	31.12.2012
Cash	92,858	106,824
Balances with banks	8,656,584	9,313,187
Certificates of deposits issued by Central Bank of Iceland	7,867,453	10,869,548
Total	16,616,896	20,289,559

14. Loans to customers

Loans to customers are specified as follows:

	30.9.2013	31.12.2012
Loans to customers, gross amount	27,608,244	28,619,840
Specific allowance for impairment losses	(178,847)	(661,360)
Collective allowance for impairment losses	(222,947)	(169,190)
Total	27,206,450	27,789,290

15. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

a. Loans to customers

30.9.2013	Specific	Collective	Total
Balance as at 1 January 2013	661,360	169,190	830,550
Charge to the income statement for the period	(279,870)	53,757	(226,113)
Write-offs	(202,643)	0	(202,643)
Balance as at 30 September 2013	178,847	222,947	401,794
31.12.2012	Specific	Collective	Total
Balance as at 1 January 2012	157,401	57,796	215,197
Charge to the income statement for the period	557,591	111,394	668,985
Write-offs	(53,631)	0	(53,631)
Balance as at 31 December 2012	661,360	169,190	830,550

b. Other assets

30.9.2013	Specific	Collective	Total
Balance as at 1 January 2013	23,251	6,977	30,228
Charge to the income statement for the period	0	4,421	4,421
Balance as at 30 September 2013	23,251	11,397	34,649
31.12.2012	Specific	Collective	Total
Balance as at 1 January 2012	23,251	5,000	28,251
Charge to the income statement for the period	0	1,977	1,977
Balance as at 31 December 2012	23,251	6,977	30,228

Notes - continued

16. Group entities

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

	Domicile	Share 30.9.2013	Share 31.12.2012
Axia Asset Management UAB	Lithuania	100%	100%
Fí Fasteignafélag GP ehf.	Iceland	70%	70%
Heildun UAB	Lithuania	100%	100%
Horn Florida Ltd.	UK	100%	100%
Júpíter rekstrarfélag hf.	Iceland	100%	100%
LV31 ehf.	Iceland	100%	100%
Lykillán ehf.	Iceland	100%	100%
M-Investments ehf.	Iceland	100%	100%
M8 ehf.	Iceland	100%	100%
Mánatún GP ehf.	Iceland	100%	100%
Mánatún slhf.	Iceland	-	100%
MP Pension Funds Baltic UAB	Lithuania	100%	100%

Mánatún slhf. was a wholly owned subsidiary of Mánatún GP ehf., a subsidiary of the bank, at year end 2012. The Bank reduced its share in Mánatún slhf. below 20% in 2013.

17. Investment in associates

a. Associated companies at the end of the period:

	Domicile	Share 30.9.2013	Share 31.12.2012
GAM Management hf.	Iceland	27%	27%
Londonderry Associates LLC	USA	38%	38%
Teris	Iceland	50%	50%

Mánatún slhf. was a wholly owned subsidiary of Mánatún GP ehf., a subsidiary of the bank, at year end 2012. The Bank reduced its share in Mánatún slhf. below 20% in 2013.

Teris has sold all material assets and operations to Reiknistofa Bankanna hf., and is in the process of winding down its operations. This process is expected to be completed in 2014.

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

	30.9.2013	31.12.2012
Balance at the beginning of the year	560,825	405,272
Acquisition of shares in associates	0	534
Disposal of shares in associates	(123,614)	(65,913)
Reclassification	123,614	0
Share in profit of associates, net of income tax	30,887	217,482
Translation difference	(3,521)	3,449
Total	588,190	560,825

18. Other assets

Other assets are specified as follows:

	30.9.2013	31.12.2012
Unsettled securities transactions	192,866	0
Accounts receivable and prepayments	856,237	646,485
Total	1,049,103	646,485

19. Borrowings

Borrowings are specified as follows:

	30.9.2013	31.12.2012
Repo transactions and overnight borrowings from the Central Bank of Iceland	0	147,682
Money market deposits	7,886,642	6,427,526
Total	7,886,642	6,575,208

Notes - continued

20. Other liabilities

Other liabilities are specified as follows:

	30.9.2013	31.12.2012
Payment and settlement services	2,756,962	3,515,054
Unsettled securities transactions	0	1,220,677
Accounts payable	210,540	138,765
Taxes	117,479	81,837
Withholding taxes	108,399	462,549
Other liabilities	564,374	740,391
Total	3,757,756	6,159,274

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

21. Equity

a. Share capital

	30.9.2013	31.12.2012
Share capital according to the Parent's Articles of Association	5,854,000	5,554,000
Nominal amount of treasury shares	4,000	4,000

b. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 6,139 million (2012: 5,250 million), equivalent to 9.7% (2012: 7.6%) of total assets according to the statement of financial position. The capital adequacy ratio of the Bank, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 14.2% (2012: 10.8%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

Tier 1 capital	30.9.2013	31.12.2012
Total equity	6,138,699	5,249,622
Goodwill and intangibles	(1,082,431)	(1,103,829)
Shares in financial institutions	(221,788)	(178,017)
Subordinated fixed income securities	(92,601)	(96,156)
Deferred tax asset	(415,312)	(292,288)
Total	4,326,566	3,579,332

Capital requirements

	30.9.2013	31.12.2012
Credit risk	1,839,446	1,993,050
Market risk	157,042	220,044
Operational risk	436,841	436,841
Total	2,433,329	2,649,934

Surplus capital	1,893,238	929,398
Capital adequacy ratio (CAD)	14.2%	10.8%
Official Capital adequacy ratio (CAD)	13.8%	10.8%

Official Capital adequacy ratio is based on reviewed retained earnings at 30 June 2013.

c. Capital management

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

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

Notes - continued

Risk management

22. Maximum exposure to credit risk

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

	30.9.2013	31.12.2012
Cash and cash equivalents	16,616,896	20,289,559
Receivables from Central Bank of Iceland	3,802,196	3,287,741
Fixed income securities	6,269,203	5,221,038
Shares and other variable income securities	1,214,493	674,379
Securities used for hedging	1,155,772	3,399,265
Loans to customers	27,206,450	27,789,290
Derivatives	495,966	312,795
Other assets	1,049,103	646,485
	57,810,079	61,620,552
Loan commitments	3,585,737	3,319,497
Financial guarantee contracts	435,135	1,318,623
Total	61,830,951	66,258,671

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

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

	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Claim value	Less specific impairment allowance	Less collective impairment allowance	Net carrying amount
30.9.2013							
Cash and cash equivalents	16,616,896			16,616,896			16,616,896
Receivables from Central Bank of Iceland	3,802,196			3,802,196			3,802,196
Loans to customers	26,167,994	1,126,880	313,371	27,608,244	(178,847)	(222,947)	27,206,450
Other assets	1,054,519		29,233	1,083,752	(23,251)	(11,397)	1,049,103
Total	47,641,604	1,126,880	342,604	49,111,088	(202,098)	(234,345)	48,674,645

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

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

Notes - continued

24. Breakdown of loans

a. By segments

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

	30.9.2013	%	31.12.2012	%
Services	9,166,761	33.7%	9,989,440	35.9%
Individuals	7,886,401	29.0%	6,587,114	23.7%
Holding companies	3,692,079	13.6%	3,908,775	14.1%
Retail	2,679,310	9.8%	3,545,082	12.8%
Real estate, construction and industry	1,522,285	5.6%	2,229,210	8.0%
Other	2,259,613	8.3%	1,529,669	5.5%
Total	27,206,450	100.0%	27,789,290	100.0%

b. By seniority

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

25. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 21). According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base.

	30.9.2013		31.12.2012	
Large exposures net of collateralised assets	Number	Amount	Number	Amount
10-20% of capital base	6	3,393,487	6	2,805,348
20-25% of capital base	0	0	1	789,711
Exceeding 25% of capital base	2	3,369,673	0	0
Total	8	6,763,160	7	3,595,059

The rules on large exposures incurred by financial undertakings were amended in June 2013. In October 2013, the Financial Supervisory Authority provided guidance on some of the changes in the rules. As a result, two exposures breached the regulatory limit of 25% of the Bank's capital base. Those exposures were the Bank's nostro deposits with Commerzbank AG (Fitch: A+, S&P: A-, Moody's: Baa1), and JP Morgan Chase Bank N.A. (Fitch: A+, S&P: A+, Moody's: Aa3). The Bank has notified the Icelandic Financial Supervisory Authority and has taken measures to bring the exposures below the 25% limit.

Notes - continued

26. Liquidity risk

a. Breakdown of financial assets and financial liabilities by maturity

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

Furthermore, since the table is based on contractual maturities it doesn't reflect the liquid nature of market securities which can be converted to cash through repo transactions. Such securities amounted to ISK 1.2 billion at the reporting date and could be converted to cash within two days.

30.9.2013

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Cash and cash equivalents	16,616,896						16,616,896
Receivables from Central Bank of Iceland	3,802,196						3,802,196
Fixed income securities		245,068	2,263,310	1,504,955	2,255,870		6,269,203
Shares and other variable income securities						1,835,650	1,835,650
Securities used for hedging				24,579	1,131,385	2,500,283	3,656,247
Loans to customers	8,335,257	1,394,781	3,036,904	9,492,299	4,947,210		27,206,450
Other assets	527,183	184,616	164,221			173,083	1,049,103
Financial assets excluding derivatives	29,281,532	1,824,465	5,464,434	11,021,834	8,334,464	4,509,017	60,435,746
Derivatives	285,990	3,696	172,494	22,992	10,795		495,966
Total	29,567,521	1,828,161	5,636,928	11,044,825	8,345,259	4,509,017	60,931,712
Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Deposits	30,419,875	972,245	3,110,584	2,661,935	76,300		37,240,939
Borrowings	5,171,808	2,583,901	130,933				7,886,642
Short positions used for trading			3,013,112	1,377,390	1,328,408	30,175	5,749,086
Short positions used for hedging			564,353	426,645	1,283,621		2,274,619
Other liabilities	3,231,055	194,926	280,000	51,775			3,757,756
Financial liabilities excluding derivatives	38,822,737	3,751,072	7,098,982	4,517,745	2,688,329	30,175	56,909,041
Derivatives	173,393				12,532		185,925
Total	38,996,130	3,751,072	7,098,982	4,517,745	2,700,861	30,175	57,094,966
Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Financial assets	29,567,521	1,828,161	5,636,928	11,044,825	8,345,259	4,509,017	60,931,712
Financial liabilities	(38,996,130)	(3,751,072)	(7,098,982)	(4,517,745)	(2,700,861)	(30,175)	(57,094,966)
Loan commitments	(281,326)	(754,818)	(1,817,762)	(690,523)	(41,308)		(3,585,737)
Financial guarantee contracts	(12,300)	(86,328)	(193,355)	(129,978)	(13,172)		(435,135)
Net financial assets (liabilities)	(9,722,236)	(2,764,057)	(3,473,172)	5,706,579	5,589,918	4,478,842	(184,126)

Notes - continued

31.12.2012

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

Notes - continued

27. Currency risk

a. Exchange rates

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

	30.9.2013	31.12.2012	Average 9m 2013	Average 9m 2012
EUR/ISK	163.4	169.8	162.1	159.8
USD/ISK	121.1	128.7	123.1	124.7
ISK trade index	206.3	219.4	206.9	208.2

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

30.9.2013

Financial assets

	EUR	USD	Other currencies	Total
Cash and cash equivalents	1,643,901	1,537,843	796,515	3,978,260
Fixed income securities	490,100		116,742	606,842
Shares and other variable income securities	863	82,122	45,126	128,111
Securities used for hedging	74,920	484	0	75,404
Loans to customers	873,812	265,337	51,479	1,190,628
Other assets		70,265	303,031	373,297
Financial assets excluding derivatives	3,083,596	1,956,052	1,312,894	6,352,542
Derivatives	57,558	2,539		60,097
Total	3,141,155	1,958,591	1,312,894	6,412,640

Financial liabilities

	EUR	USD	Other currencies	Total
Deposits	3,156,519	1,788,899	954,468	5,899,885
Short positions used for trading		136	83	218
Financial liabilities excluding derivatives	3,156,519	1,789,034	954,550	5,900,103
Derivatives		284,515		284,515
Total	3,156,519	2,073,549	954,550	6,184,618

Net currency position

	EUR	USD	Other currencies	Total
Financial assets	3,141,155	1,958,591	1,312,894	6,412,640
Financial liabilities	(3,156,519)	(2,073,549)	(954,550)	(6,184,618)
Net off-balance sheet position	(28,129)	(51,035)	(48,986)	(128,151)
Total	(43,493)	(165,993)	309,358	99,871

Notes - continued

31.12.2012

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

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

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

e. Sensitivity to currency risk

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

Assets and liabilities denominated in	30.9.2013		31.12.2012	
	-10%	+10%	-10%	+10%
EUR	(4,349)	4,349	(31,561)	31,561
USD	(16,599)	16,599	(30,839)	30,839
Other currencies	30,936	(30,936)	42,078	(42,078)
Total	9,987	(9,987)	(20,322)	20,322

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

Notes - continued

28. Interest rate risk

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

30.9.2013

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK	37,549,781	5,303,172	918,360	4,146,498	260,445	48,178,256
Total in foreign currencies	1,178,096					1,178,096
Total	38,727,877	5,303,172	918,360	4,146,498	260,445	49,356,352

Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK	45,938,111					45,938,111
Total in foreign currencies	5,632,705					5,632,705
Total	51,570,817	0	0	0	0	51,570,817

Net imbalance	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total in ISK	(8,388,331)	5,303,172	918,360	4,146,498	260,445	2,240,144
Total in foreign currencies	(4,454,609)					(4,454,609)
Total	(12,842,940)	5,303,172	918,360	4,146,498	260,445	(2,214,465)

31.12.2012

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

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

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

d. Sensitivity analysis for non-trading portfolios

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

Currency	Shift in basis points	30.9.2013		31.12.2012	
		Downward	Upward	Downward	Upward
ISK, indexed	50	40,474	(40,474)	86,850	(86,850)
ISK, non-indexed	100	38,797	(38,797)	40,610	(40,610)
Other currencies	20	49	(49)	224	(224)
Total		79,320	(79,320)	127,684	(127,684)

29. Exposure towards changes in the CPI

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

	30.9.2013	31.12.2012
Assets	9,712,956	10,063,006
Liabilities	(5,941,200)	(5,834,415)
Total	3,771,756	4,228,591

Notes - continued

30. Market risk

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

30.9.2013

Financial assets	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Fixed income securities in ISK			1,916,343	1,504,955	2,243,814	5,665,112
Fixed income securities in foreign currencies		245,068	346,967			592,035
Total	0	245,068	2,263,310	1,504,955	2,243,814	6,257,147
Financial liabilities	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Fixed income securities in ISK			3,013,112	1,377,390	1,349,460	5,739,962
Total	0	0	3,013,112	1,377,390	1,349,460	5,739,962
Net imbalance	up to 1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Fixed income securities in ISK			(1,096,769)	127,565	894,354	(74,850)
Fixed income securities in foreign currencies		245,068	346,967			592,035
Total	0	245,068	(749,802)	127,565	894,354	517,185

31.12.2012

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

Notes - continued

Financial assets and liabilities

31. Accounting classification of financial assets and liabilities

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

30.9.2013 Financial assets	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Cash and cash equivalents					16,616,896		16,616,896
Receivables from Central Bank of Iceland					3,802,196		3,802,196
Fixed income securities	3,101,100	225,373	2,942,731				6,269,203
Shares and other variable income securities	1,542,540	293,111					1,835,650
Securities used for hedging		3,656,247					3,656,247
Loans to customers					27,206,450		27,206,450
Derivatives	495,966						495,966
Other assets					1,049,103		1,049,103
Total	5,139,605	4,174,731	2,942,731	0	48,674,645	0	60,931,712

Financial liabilities	Held for trading	Designated at fair value	Available for sale	Held to maturity	Loans and receivables	Other at amortised cost	Total carrying amount
Deposits						37,240,939	37,240,939
Borrowings						7,886,642	7,886,642
Short positions used for trading	5,749,086						5,749,086
Short positions used for hedging		2,274,619					2,274,619
Derivatives	185,925						185,925
Other liabilities						3,757,756	3,757,756
Total	5,935,010	2,274,619	0	0	0	48,885,336	57,094,966

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

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

Notes - continued

32. Financial assets and liabilities measured at fair value

a. Fair value hierarchy

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

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

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

b. Fair value hierarchy classification

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

30.9.2013

Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Fixed income securities	3,101,100			3,101,100
Shares and other variable income securities	1,542,540			1,542,540
Derivatives		495,966		495,966
Designated at fair value				
Fixed income securities			225,373	225,373
Shares and other variable income securities		2,470	290,640	293,111
Securities used for hedging	3,656,247			3,656,247
Available for sale				
Fixed income securities	2,942,731			2,942,731
Total	11,242,617	498,436	516,014	12,257,067

Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Held for trading				
Short positions used for trading	5,749,079	7		5,749,086
Derivatives		185,925		185,925
Designated at fair value				
Short positions used for hedging	2,274,619			2,274,619
Total	8,023,698	185,932	0	8,209,629

Notes - continued

31.12.2012

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

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

33. Financial assets and liabilities not measured at fair value

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

30.9.2013

Financial assets	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents	16,616,896	16,616,896	0
Receivables from Central Bank of Iceland	3,802,196	3,802,196	0
Loans to customers	27,206,450	27,206,450	0
Other assets	1,049,103	1,049,103	0
Total	48,674,645	48,674,645	0

Financial liabilities	Carrying amount	Fair value	Unrealized gain
Deposits	37,240,939	37,240,939	0
Borrowings	7,886,642	7,886,642	0
Other liabilities	3,757,756	3,757,756	0
Total	48,885,336	48,885,336	0

31.12.2012

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

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

Notes - continued

Segment information

34. Business segments

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

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

a. Reportable segments

The Bank defines four reportable segments.

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

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

b. Business segment balance sheet

	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
30.9.2013						
Segment assets 30.9.2013	0	64,602,370	50,500,492	6,490,604	(58,357,215)	63,236,251
Segment liabilities 30.9.2013	0	58,463,671	50,500,492	6,490,604	(58,357,215)	57,097,552
Segment equity 30.9.2013	0	6,138,699	0	0	0	6,138,699

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

Notes - continued

c. Business segments results

	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
9m 2013						
Net interest income	6,369	545,809	656,924	65,522	0	1,274,624
Net fee and commission income	150,947	569,283	193,977	310,512	(15,227)	1,209,492
Net financial income	(9)	235,989	(591)	22,299	(0)	257,688
Share in profit of associates, net of income tax	0	0	0	92,253	(61,366)	30,887
Other operating income	2	1,476	26	84,822	0	86,325
Net operating income	157,309	1,352,557	850,335	575,409	(76,593)	2,859,017
Administrative expenses	(148,666)	(578,829)	(542,232)	(1,335,310)	15,227	(2,589,810)
Allocated cost	(51,362)	(374,508)	(316,427)	742,297	0	0
Impairment of loans and receivables	0	18,503	(32,926)	236,116	0	221,693
Profit before taxes	(42,719)	417,724	(41,250)	218,512	(51,439)	500,827
	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
Net operating income from external customers	150,935	1,872,868	145,008	766,799		2,935,610
Net operating income from internal customers	6,374	(520,311)	705,327	(191,390)	(76,593)	(76,593)
Net operating income	157,309	1,352,557	850,335	575,409	(76,593)	2,859,017
9m 2012						
Net interest income	30,011	691,376	563,867	18,158	0	1,303,412
Net fee and commission income	153,958	502,829	181,353	158,322	(13,740)	982,723
Net financial income	113	354,620	9,536	113,563	0	477,832
Share in profit of associates, net of income tax	0	0	0	133,456	84,025	217,482
Other operating income	0	1,278	12	5,716	0	7,006
Net operating income	184,082	1,550,103	754,768	429,216	70,285	2,988,455
Administrative expenses	(141,332)	(552,287)	(442,394)	(1,116,330)	13,740	(2,238,603)
Allocated cost	(63,273)	(356,522)	(319,890)	739,686	0	0
Impairment of loans and receivables	0	(35,153)	(59,611)	(185,380)	0	(280,145)
Profit before taxes	(20,524)	606,141	(67,127)	(132,809)	84,025	469,707
	Asset Management	Investment Banking	Retail Banking	Other Operations	Elimination entries	Total
Net operating income from external customers	77,702	2,290,794	78,292	471,381		2,918,169
Net operating income from internal customers	106,380	(740,691)	676,476	(42,165)	70,285	70,285
Net operating income	184,082	1,550,103	754,768	429,216	70,285	2,988,455

Notes - continued

Other information

35. Off-balance sheet obligations

a. Lease agreements

The Bank has entered into lease agreements for the office premises in Ármúli 13a and Höfðatún 2 in Reykjavík. Monthly lease payments amount to ISK 4.7 million and the agreements expire in 2015.

36. Related parties

a. Definition of related parties

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

b. Arm's length

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

c. Effects on statement of financial position

	Loans & receivables	Deposits & payables
30.9.2013		
Board members and large shareholders	4,525	51,999
Management	3,010	41,230
Subsidiaries	359,461	287,005
Associates	121,225	220,539
Total	488,222	600,773

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

d. Off-balance sheet obligations

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

37. Other matters

The Bank has made a binding offer for all outstanding shares in Íslensk verðbréf hf., an asset management company with over ISK 100 billion in assets under management. The offer has been accepted by a majority of shareholders in Íslensk verðbréf hf., and legal and financial due diligence has been completed. The acquisition is expected to be completed in Q4.