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# Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2014

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

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the first six months of 2014 include the Bank and its subsidiaries (collectively referred to as the "Group").

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

The Icelandic State Treasury holds 97.92% of shares in Landsbankinn, managed by Icelandic State Financial Investments (ISFI). The Bank's current and former employees hold 0.78% and the Bank itself holds 1.30% of own shares.

### Operations

The Group's profit for the first six months of the year 2014 was ISK 14,878 million. The Group's equity at the end of this period amounted to ISK 235,894 million. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 26.8% at the end of the second quarter of 2014. As at 30 June 2014, the Group's total assets amounted to ISK 1,154,598 million.

In April 2014, the Bank opened a specialised Corporate Service Centre for small and medium-sized enterprises (SMEs) located in the capital city region. This arrangement provides SMEs in the region with access to higher quality and more comprehensive expert services in one place. Other branches in the capital city region will be dedicated to personal banking and simplified services to corporates. These changes are intended to improve service quality to individuals and corporates alike and increase the operational efficiency of the Bank's customer service. The shift of these services from personal banking to corporate banking has been accounted for in the operating segments as shown in Note 4.

In June 2014, the Bank concluded a sale of its 9.9% share in Iceland Enterprise Investment Fund (EIF) slhf. and its entire shareholding of 27.6% in Icelandic Enterprise Invest (IEI) slhf. The total proceeds from the sale amounted to ISK 7,024 million. With a 17.7% share, the Bank is now the second largest shareholder in EIF. The Bank recognised a profit of ISK 4,885 million in the second quarter of 2014 as a result of both the sale and the fair value change of the Bank's remaining stake in EIF.

The recalculation of customer loan contracts which fall under the precedent of the Supreme Court's ruling on foreign currency indexation are ongoing and are expected to be finalised in the coming months. There are, however, some material litigation cases still pending which are expected to provide further clarification on the precedence of these rulings.

On 8 May 2014, the Bank and the Winding-up Board of LBI hf. reached an agreement on amendments to contractual obligations under the Bank's secured bonds, denominated in foreign currencies and issued to LBI hf. The agreement is conditional upon the Winding-up Board of LBI hf. obtaining certain exemptions with regard to capital controls. Pursuant to this agreement, inter alia, regular instalments currently scheduled for the years 2014-2018 will be extended to the years 2014-2026 and interest rate terms will remain unchanged until 2018, stepping-up for each maturity thereafter. The Bank will not be required to convert any outstanding bonds to Eurobonds before October 2018 and specific restrictions on dividend payments will be removed. Should the agreement be finalised, it would be an improvement of Landsbankinn's balance sheet financing and a significant step towards the easing of capital controls in Iceland. The Winding-up Board of LBI hf. is awaiting approval from the Central Bank of Iceland concerning its request for exemptions with regard to capital controls. Consequently, the agreement between the Bank and the Winding-up Board of LBI hf. has not yet come into effect.

The Bank is finalising a EUR 1,000 million Euro Medium Term Note (EMTN) Programme which will enable the Bank to issue senior unsecured notes in a broad range of currencies. The arranger of the Programme will be Deutsche Bank AG.

### Risk management

The Bank is party to litigation cases that have had or may have significant impact (see Note 21). In one such case, the Bank awaits the advisory opinion of the EFTA Court concerning, inter alia, the interpretation of the Consumer Credit Directive 87/102/EEC with regard to the calculation method of the total cost of a credit and of the annual percentage rate of charge for a loan agreement linked to inflation as expressed in the national consumer price index. Subsequently, the case will be heard before Icelandic courts.

The ratio of non-performing loans has steadily decreased since year-end 2013 and borrower credit quality has been stable. Borrowers on watch lists are decreasing in numbers, signalling a better position compared to previous years. Loans to customers are increasing, especially new lending in the mortgage sector.

The Bank's core operations are sound and have been improving in recent years. Processes are being revised on a continuous basis to improve risk management, efficiency and customer relationship management. The Group's liquidity position is strong in both ISK and foreign currencies, and its Tier 1 ratio is considerably higher than the minimum required by the Financial Supervisory Authority in Iceland (FME). The Bank's stress testing of its capital requirements are also reviewed under a variety of economic scenarios.

## Outlook

Landsbankinn Economic Research believes that the economic outlook for 2014 has improved somewhat since its last forecast in November 2013 and has therefore revised its previous GDP growth forecast from 2.9% to 3.2%. Furthermore, the GDP growth forecast for 2015 has been revised upward to 5.5%, which is more than double the growth predicted in the previous forecast. However, there continue to be economic uncertainties due to Iceland's current capital controls. In addition, the increased taxation of the Bank, net interest income, valuation adjustments, other net operating income and litigation risk are factors that need to be considered in terms of future profitability of the Bank.

## Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first six months ended 30 June 2014 have been prepared 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 six months of 2014, its consolidated financial position as at 30 June 2014 and its consolidated cash flows for the first six months of 2014.

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 six months ended 30 June 2014.

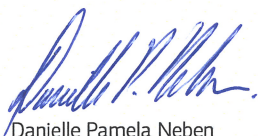
Reykjavík, 21 August 2014.

Board of Directors



Tryggvi Pálsson

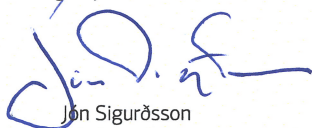
Chairman



Danielle Pamela Neben



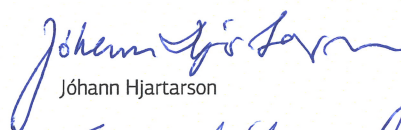
Helga Björk Eiríksdóttir



Jón Sigurðsson



Eva Sóley Guðbjörnsdóttir

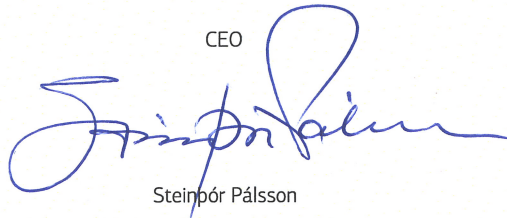


Jóhann Hjartarson



Tinna Laufey Ásgeirsdóttir

CEO



Steinn 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 30 June 2014 and the related Condensed Consolidated Income Statement, Changes in Equity and Condensed Cash Flows for the six-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, 21 August 2014.

KPMG ehf.



Helgi F. Arnarson



Sigríður Helga Sveinsdóttir

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## Condensed Consolidated Income Statement for the six months ended 30 June 2014

Notes	2014 1.4-30.6	2013 1.4-30.6	2014 1.1-30.6	2013 1.1-30.6
Interest income	14,215	13,711	28,665	31,626
Interest expense	(6,830)	(6,593)	(13,425)	(14,629)
5 <b>Net interest income</b>	<b>7,385</b>	<b>7,118</b>	<b>15,240</b>	<b>16,997</b>
6 Net credit impairment charges and valuation adjustments	7,276	3,317	11,446	7,570
<b>Net interest income after net credit impairment charges and valuation adjustments</b>	<b>14,661</b>	<b>10,435</b>	<b>26,686</b>	<b>24,567</b>
Fee and commission income	1,772	2,427	3,895	4,574
Fee and commission expense	(369)	(830)	(974)	(1,614)
<b>Net fee and commission income</b>	<b>1,403</b>	<b>1,597</b>	<b>2,921</b>	<b>2,960</b>
7 Net (loss) gain on financial assets designated as at fair value through profit or loss	1,929	375	1,142	2,907
8 Net gain on financial assets and liabilities held for trading	51	711	169	1,291
9 Net foreign exchange (loss) gain	(171)	16	(194)	1,188
Other income and (expenses)	2,401	1,708	2,193	1,981
<b>Other net operating income</b>	<b>4,210</b>	<b>2,810</b>	<b>3,310</b>	<b>7,367</b>
<b>Total operating income</b>	<b>20,274</b>	<b>14,842</b>	<b>32,917</b>	<b>34,894</b>
10 Salaries and related expenses	3,288	3,122	6,743	10,986
Other operating expenses	1,965	2,109	4,170	4,243
Depreciation and amortisation	175	214	352	423
Contribution to the Depositors' and Investors' Guarantee Fund	255	270	522	538
<b>Total operating expenses</b>	<b>5,683</b>	<b>5,715</b>	<b>11,787</b>	<b>16,190</b>
Share of profit of equity-accounted associates, net of income tax	329	866	340	1,127
<b>Profit before tax</b>	<b>14,920</b>	<b>9,993</b>	<b>21,470</b>	<b>19,831</b>
11 Income tax	(3,530)	(2,362)	(4,957)	(4,121)
Tax on liabilities of financial institutions	(800)	(95)	(1,635)	(185)
<b>Profit for the period</b>	<b>10,590</b>	<b>7,536</b>	<b>14,878</b>	<b>15,525</b>
<b>Profit for the period attributable to:</b>				
<b>Owners of the Bank</b>				
Profit for the period from continuing operations	10,505	7,554	14,829	15,577
<b>Profit for the period attributable to owners of the Bank</b>	<b>10,505</b>	<b>7,554</b>	<b>14,829</b>	<b>15,577</b>
<b>Non-controlling interests</b>				
Profit (loss) for the period from continuing operations	85	(18)	49	(52)
<b>Profit (loss) for the period attributable to non-controlling interests</b>	<b>85</b>	<b>(18)</b>	<b>49</b>	<b>(52)</b>
<b>Profit for the period</b>	<b>10,590</b>	<b>7,536</b>	<b>14,878</b>	<b>15,525</b>
<b>Earnings per share:</b>				
20 Basic and diluted earnings per share from continuing operations	<b>0.44</b>	<b>0.32</b>	<b>0.63</b>	<b>0.66</b>
Basic and diluted earnings per share from discontinued operations	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total basic and diluted earnings per share</b>	<b>0.44</b>	<b>0.32</b>	<b>0.63</b>	<b>0.66</b>

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



## Condensed Consolidated Statement of Financial Position as at 30 June 2014

Notes	30.6.2014	31.12.2013
<b>Assets</b>		
	7,964	21,520
12, 22	297,141	290,595
12	42,221	36,275
12, 13	44	654
14, 22	67,163	67,916
15, 22	699,648	680,468
	5,034	14,224
	6,313	5,440
	715	585
16	6,236	8,816
	<b>1,132,479</b>	<b>1,126,493</b>
17	22,119	25,023
	<b>1,154,598</b>	<b>1,151,516</b>
<b>Liabilities</b>		
	166,172	167,218
	473,356	456,662
13	5,529	7,571
18, 22	231,378	239,642
	272	590
	38,171	34,589
	<b>914,878</b>	<b>906,272</b>
	3,826	3,885
	<b>918,704</b>	<b>910,157</b>
<b>Equity</b>		
	23,687	23,618
	121,275	120,700
	6,000	7,046
	84,933	90,002
	<b>235,895</b>	<b>241,366</b>
	(1)	(7)
	<b>235,894</b>	<b>241,359</b>
	<b>1,154,598</b>	<b>1,151,516</b>

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

## Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2014

### Notes

	Attributable to owners of the Bank							Non-controlling interests	Total
	Share capital	Share premium	Own shares reserve	Statutory reserve	Share-based payment reserve	Retained earnings	Total		
<b>Change in equity for the six months ended 30 June 2014</b>									
Balance as at 1 January 2014	23,618	120,700		6,000	1,046	90,002	241,366	(7)	241,359
Profit for the period						14,829	14,829	49	14,878
Own shares allocated to employees	112	934			(1,046)		0		0
Purchase of own shares for settlement of the tax obligations and pension liabilities	(43)	(359)					(402)		(402)
Dividends declared						(19,897)	(19,897)		(19,897)
Decrease in non-controlling interests due to sale of subsidiaries							0	(43)	(43)
<b>19 Balance as at 30 June 2014</b>	<b>23,687</b>	<b>121,275</b>	<b>0</b>	<b>6,000</b>	<b>0</b>	<b>84,933</b>	<b>235,895</b>	<b>(1)</b>	<b>235,894</b>
<b>Change in equity for the six months ended 30 June 2013</b>									
Balance as at 1 January 2013	24,000	123,898		5,053		72,120	225,071	95	225,166
Profit for the period						15,577	15,577	(52)	15,525
Equity classified as liability to purchase own shares			(4,691)				(4,691)		(4,691)
Purchase of own shares	(500)	(4,191)	4,691				0		0
Recognition of equity-settled employee share-based payments					4,017		4,017		4,017
Dividends declared						(10,080)	(10,080)		(10,080)
Decrease in non-controlling interests due to sale of subsidiaries							0	(105)	(105)
<b>19 Balance as at 30 June 2013</b>	<b>23,500</b>	<b>119,707</b>	<b>0</b>	<b>5,053</b>	<b>4,017</b>	<b>77,617</b>	<b>229,892</b>	<b>(62)</b>	<b>229,832</b>

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

## Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2014

Notes	2014 1.1-30.6	2013 1.1-30.6
<b>Operating activities</b>		
Profit for the period	14,878	15,525
Adjustments for non-cash items included in profit for the period	(20,899)	(23,852)
Changes in operating assets and liabilities	(3,560)	(22,980)
Interest received	24,211	21,586
Interest paid	(3,986)	(4,218)
Dividends received	466	425
<b>Net cash from (used in) operating activities</b>	<b>11,110</b>	<b>(13,514)</b>
<b>Investing activities</b>		
Proceeds of shares in equity-accounted associates	7,628	5,574
Purchase of property and equipment	(1,170)	(611)
Proceeds from sale of property and equipment	5	1,133
Purchase of intangible assets	(199)	(48)
Sale of subsidiaries	-	202
<b>Net cash from investing activities</b>	<b>6,264</b>	<b>6,250</b>
<b>Financing activities</b>		
Proceeds from new long-term debt issue	1,500	1,160
Repayment of long-term debt	(6,935)	(2,201)
Acquisition of non-controlling interest	341	-
Dividends paid	(19,897)	-
<b>Net cash used in financing activities</b>	<b>(24,991)</b>	<b>(1,041)</b>
Net change in cash and cash equivalents	(7,618)	(8,305)
Cash and cash equivalents as at the beginning of the period	19,927	32,554
Effect of exchange rate changes on cash and cash equivalents held	280	379
<b>Cash and cash equivalents as at 30 June</b>	<b>12,589</b>	<b>24,628</b>

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

## Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2014

Notes	2014 1.1-30.6	2013 1.1-30.6
<b>Adjustments for non-cash items included in profit for the period</b>		
5	(15,240)	(16,997)
6	(11,012)	(14,945)
6,35	(434)	8,694
12,18	-	(1,319)
7	(1,142)	(2,907)
8	(169)	(1,291)
9	(86)	(1,567)
	9	(277)
	571	(601)
	352	423
	-	(935)
	(340)	(1,127)
	-	4,691
11	4,957	4,121
	1,635	185
	<b>(20,899)</b>	<b>(23,852)</b>
<b>Changes in operating assets and liabilities</b>		
	2,308	(3,012)
	(8,548)	(45,166)
	2,884	(10,795)
	(910)	4,093
	2,034	(5,326)
	(1)	10,151
	408	11,939
	9,907	23,469
	181	-
	604	1,889
	(7,815)	(7,061)
	(4,612)	(3,161)
	<b>(3,560)</b>	<b>(22,980)</b>
<b>Cash and cash equivalents are specified as follows:</b>		
	3,816	18,660
14	8,773	5,968
	<b>12,589</b>	<b>24,628</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 six months ended 30 June 2014 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 21 August 2014.

## 2. Basis of preparation

### Statement of compliance

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2014 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 2013, 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 *króna* (ISK), which is also the Bank's functional currency, rounded to the nearest million unless otherwise stated.

### Use of estimates and judgements

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

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

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 2013.

## Notes to the Condensed Consolidated Interim Financial Statements

### 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 2013. The accounting policies applied have been applied consistently to all periods presented.

IFRS 10 Consolidated Financial Statements became effective on 1 January 2014 and has been applied in these Condensed Consolidated Interim Financial Statements. IFRS 10 establishes principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for determining which entities are consolidated. The principle of control sets out three elements of control: (a) power over an investee, (b) exposure, or rights, to variable returns from involvement with the investee, and (c) the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 contains guidance on how to apply the control principle in various circumstances, including situations where the investor holds less than a majority of voting rights. IFRS 10 carries forward the consolidation procedures from IAS 27 Consolidated and Separate Financial Statements (as amended in 2008). IFRS 10 supersedes IAS 27 (2008) and SIC-12 Consolidation – Special Purpose Entities. The adoption of IFRS 10 does not have any impact on the Bank's Financial Statements.

### 4. Operating segments

The business segments are presented in accordance with 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.

In April 2014, the Bank opened a specialised Corporate Service Centre for small and medium-sized enterprises (SMEs) located in the capital city region. As a result, the services to these SMEs have shifted from Personal to Corporate Banking. At the end of the reporting period the Group continues as before with its four main business segments.

- **Personal Banking** provides financial services through the Bank's branch network to individuals and to small and medium-size businesses outside the capital city region.
- **Corporate Banking** provides financial services to large and medium-size corporate clients and to small and medium-size businesses in the capital city region. It also provides restructuring solutions for underperforming businesses.
- **Markets** provide brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. Markets provide 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 segment profits 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 30 June 2014 and 2013.

## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Operating segments (continued)

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
<b>1 January - 30 June 2014</b>							
Net interest income (expense)	7,629	8,073	365	(191)	4	(640)	15,240
Net credit impairment charges and valuation adjustments	3,078	8,137	-	(15)	246	-	11,446
Net fee and commission income	1,525	354	1,304	(89)	25	(198)	2,921
Other net operating income	(468)	379	(424)	3,780	(587)	630	3,310
<b>Total operating income (expense)</b>	<b>11,764</b>	<b>16,943</b>	<b>1,245</b>	<b>3,485</b>	<b>(312)</b>	<b>(208)</b>	<b>32,917</b>
Operating expenses	(3,090)	(688)	(1,019)	(642)	(6,556)	208	(11,787)
Share of profit of equity-accounted associates, net of income tax	315	-	-	25	-	-	340
<b>Profit (loss) before cost allocation and tax</b>	<b>8,989</b>	<b>16,255</b>	<b>226</b>	<b>2,868</b>	<b>(6,868)</b>	<b>0</b>	<b>21,470</b>
Cost allocated from support functions to business segments	(2,727)	(1,708)	(608)	(513)	5,556	-	0
<b>Profit (loss) before tax</b>	<b>6,262</b>	<b>14,547</b>	<b>(382)</b>	<b>2,355</b>	<b>(1,312)</b>	<b>0</b>	<b>21,470</b>
Net revenue (expenses) from external customers	8,144	23,555	1,075	676	(324)	-	33,126
Net revenue (expenses) from other segments	3,620	(6,612)	170	2,809	12	-	0
<b>Total operating income (expense)</b>	<b>11,764</b>	<b>16,943</b>	<b>1,245</b>	<b>3,485</b>	<b>(312)</b>	<b>0</b>	<b>33,126</b>
<b>As at 30 June 2014</b>							
<b>Total assets</b>	489,201	452,125	30,239	529,024	29,709	(375,700)	1,154,598
<b>Total liabilities</b>	440,496	343,899	23,099	457,201	29,709	(375,700)	918,704
<b>Allocated capital</b>	48,705	108,226	7,140	71,823	0	0	235,894

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
<b>1 January - 30 June 2013</b>							
Net interest income (expense)	8,706	7,473	206	1,555	(41)	(902)	16,997
Net credit impairment charges and valuation adjustments	(3,585)	11,013	-	(139)	281	-	7,570
Net fee and commission income	1,308	407	1,386	106	(97)	(150)	2,960
Other net operating income	(579)	(743)	1,501	5,814	472	902	7,367
<b>Total operating income (expense)</b>	<b>5,850</b>	<b>18,150</b>	<b>3,093</b>	<b>7,336</b>	<b>615</b>	<b>(150)</b>	<b>34,894</b>
Operating expenses	(4,761)	(782)	(1,118)	(684)	(8,995)	150	(16,190)
Share of profit of equity-accounted associates, net of income tax	(35)	-	-	1,195	(33)	-	1,127
<b>Profit (loss) before cost allocation and tax</b>	<b>1,054</b>	<b>17,368</b>	<b>1,975</b>	<b>7,847</b>	<b>(8,413)</b>	<b>0</b>	<b>19,831</b>
Cost allocated from support functions to business segments	(3,195)	(1,364)	(590)	(400)	5,549	-	0
<b>Profit (loss) before tax</b>	<b>(2,141)</b>	<b>16,004</b>	<b>1,385</b>	<b>7,447</b>	<b>(2,864)</b>	<b>0</b>	<b>19,831</b>
Net revenue (expenses) from external customers	3,018	25,550	2,925	2,949	601	-	35,043
Net revenue (expenses) from other segments	2,832	(7,400)	168	4,387	13	-	0
<b>Total operating income (expense)</b>	<b>5,850</b>	<b>18,150</b>	<b>3,093</b>	<b>7,336</b>	<b>614</b>	<b>0</b>	<b>35,043</b>
<b>As at 30 June 2013</b>							
<b>Total assets</b>	499,165	402,609	63,515	519,203	31,687	(390,085)	1,126,094
<b>Total liabilities</b>	443,973	321,764	56,168	432,757	31,687	(390,085)	896,264
<b>Allocated capital</b>	55,192	80,845	7,348	86,445	0	0	229,830



## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Condensed Consolidated Interim Income Statement

#### 5. Net interest income

	2014 1.4-30.6	2013 1.4-30.6	2014 1.1-30.6	2013 1.1-30.6
<b>Interest income</b>				
Cash and balances with Central Bank	242	296	730	629
Bonds and debt instruments classified as loans and receivables	1,371	1,375	2,728	2,747
Loans and advances to financial institutions	121	143	256	366
Loans and advances to customers	12,477	11,702	24,935	27,456
Other interest income	4	195	16	428
<b>Total</b>	<b>14,215</b>	<b>13,711</b>	<b>28,665</b>	<b>31,626</b>
<b>Interest expense</b>				
Due to financial institutions and Central Bank	(804)	(770)	(1,568)	(1,448)
Deposits from customers	(4,124)	(3,502)	(8,071)	(8,581)
Secured bonds	(1,898)	(2,316)	(3,780)	(4,585)
Other interest expense	(4)	(5)	(6)	(15)
<b>Total</b>	<b>(6,830)</b>	<b>(6,593)</b>	<b>(13,425)</b>	<b>(14,629)</b>
<b>Net interest income</b>	<b>7,385</b>	<b>7,118</b>	<b>15,240</b>	<b>16,997</b>
Interest spread (as the annualised ratio of net interest income to the average carrying amount of total assets during the period).	2.6%	2.6%	2.6%	3.1%
Adjusted interest spread (as the annualised ratio of net interest income after net credit impairment charges and valuation adjustments to the average carrying amount of total assets during the period).	5.1%	3.8%	4.6%	4.5%

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.

#### 6. Net credit impairment charges and valuation adjustments

	2014 1.4-30.6	2013 1.4-30.6	2014 1.1-30.6	2013 1.1-30.6
Net adjustments to loans and advances acquired at deep discount	4,301	11,352	11,012	14,945
Net impairment gain (loss)	2,975	(8,035)	434	(8,694)
<b>Net impairment charges and valuation adjustments to loans and advances to customers</b>	<b>7,276</b>	<b>3,317</b>	<b>11,446</b>	<b>6,251</b>
Fair value change of contingent bond	-	-	-	1,319
<b>Net credit impairment charges and valuation adjustments</b>	<b>7,276</b>	<b>3,317</b>	<b>11,446</b>	<b>7,570</b>
<b>Impairment charges and valuation adjustments by customer type</b>				
Individuals	1,257	(954)	1,399	(1,106)
Corporations	6,019	4,271	10,047	7,357
<b>Net impairment charges and valuation adjustments to loans and advances to customers</b>	<b>7,276</b>	<b>3,317</b>	<b>11,446</b>	<b>6,251</b>

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

	2014 1.4-30.6	2013 1.4-30.6	2014 1.1-30.6	2013 1.1-30.6
Bonds and debt instruments	268	621	(222)	936
Equities and equity instruments	1,661	(246)	1,364	1,971
<b>Total</b>	<b>1,929</b>	<b>375</b>	<b>1,142</b>	<b>2,907</b>

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

	2014 1.4-30.6	2013 1.4-30.6	2014 1.1-30.6	2013 1.1-30.6
Bonds and debt instruments	97	729	377	1,346
Equities and equity instruments	(101)	11	(246)	194
Derivative instruments	55	(29)	38	(249)
<b>Total</b>	<b>51</b>	<b>711</b>	<b>169</b>	<b>1,291</b>

## Notes to the Condensed Consolidated Interim Financial Statements

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

	2014	2013	2014	2013
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
<b>Assets</b>				
Cash and balances with Central Bank	(20)	(14)	(51)	(85)
Bonds and debt instruments	759	(215)	(1,138)	(5,767)
Equities and equity instruments	(145)	71	(291)	(884)
Derivative instruments	(124)	1,180	(440)	708
Loans and advances to financial institutions	(229)	823	(1,714)	(1,789)
Loans and advances to customers	(364)	1,101	(3,886)	(11,235)
Other assets	22	120	(4)	(24)
<b>Total</b>	<b>(101)</b>	<b>3,066</b>	<b>(7,524)</b>	<b>(19,076)</b>
<b>Liabilities</b>				
Due to financial institutions and Central Bank	(102)	(72)	1,434	888
Deposits from customers	149	(474)	1,567	3,527
Secured bonds	(103)	(1,777)	4,268	11,253
Other liabilities	(14)	(727)	61	4,596
<b>Total</b>	<b>(70)</b>	<b>(3,050)</b>	<b>7,330</b>	<b>20,264</b>
<b>Net foreign exchange (loss) gain</b>	<b>(171)</b>	<b>16</b>	<b>(194)</b>	<b>1,188</b>

The foreign exchange differences, which were recognised during the period 1 January to 30 June 2014 in the Condensed Consolidated Income Statement and arose on financial instruments not measured at fair value through profit or loss, amounted to an ISK 5,655 million loss for financial assets (1.1-30.6.2013: loss of ISK 13,133 million) and gain of ISK 7,269 million for financial liabilities (1.1-30.6.2013: gain of ISK 15,668 million).

### 10. Salaries and related expenses

	2014	2013	2014	2013
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Salaries	2,493	2,340	5,230	4,776
Contributions to defined pension plans	381	340	712	670
Social security contributions, special financial activities tax on salaries and other expenses	414	442	801	849
<b>Total</b>	<b>3,288</b>	<b>3,122</b>	<b>6,743</b>	<b>6,295</b>
Recognition of equity-settled employee share-based salaries	-	-	-	4,017
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	-	-	-	674
<b>Total equity-settled employee share-based payments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,691</b>
<b>Total salaries and related expenses</b>	<b>3,288</b>	<b>3,122</b>	<b>6,743</b>	<b>10,986</b>

### 11. 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% (2013: 20.0%). An additional special income tax on financial institutions is recognised at a rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011, on Financial Activities Tax.

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

	2014	2013
	1.1-30.6	1.1-30.6
Current tax expense	(4,269)	(3,174)
Special income tax on financial institutions	(1,213)	-
Difference of prior year's imposed and calculated income tax	110	-
Deferred tax expense	415	(947)
<b>Total</b>	<b>(4,957)</b>	<b>(4,121)</b>

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

	1.1-30.6.2014	1.1-30.6.2013
Profit before tax	21,470	19,831
Tax on liabilities of financial institutions	(1,635)	(185)
Profit before income tax	19,835	19,646
Income tax calculated using the domestic corporate income tax rate	20.0% (3,967)	20.0% (3,929)
Special income tax on financial institutions	6.1% (1,213)	3.2% (635)
Income not subject to tax	(1.8%) 351	(1.7%) 336
Non-deductible expenses	3.2% (625)	0.3% (50)
Other	(2.5%) 497	(0.8%) 157
<b>Effective income tax</b>	<b>25.0% (4,957)</b>	<b>21.0% (4,121)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

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

#### 12. 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 30 June 2014:

<b>Financial assets</b>	<b>Loans and receivables</b>	<b>Held for trading</b>	<b>Designated as at fair value</b>	<b>Liabilities at amortised cost</b>	<b>Other liabilities at fair value</b>	<b>Total carrying amount</b>	<b>Fair value</b>
Cash and balances with Central Bank	7,964	-	-	-	-	7,964	7,964
Bonds and debt instruments	111,614	158,969	26,558	-	-	297,141	297,458
Equities and equity instruments	-	4,238	37,983	-	-	42,221	42,221
Derivative instruments	-	44	-	-	-	44	44
Loans and advances to financial institutions	67,163	-	-	-	-	67,163	67,163
Loans and advances to customers	699,648	-	-	-	-	699,648	701,985
Other financial assets	4,968	-	-	-	-	4,968	4,968
<b>Total</b>	<b>891,357</b>	<b>163,251</b>	<b>64,541</b>	<b>0</b>	<b>0</b>	<b>1,119,149</b>	<b>1,121,803</b>
<b>Financial liabilities</b>							
Due to financial institutions and Central Bank	-	-	-	166,172	-	166,172	166,171
Deposits from customers	-	-	-	473,356	-	473,356	473,304
Derivative instruments and short positions	-	5,529	-	-	-	5,529	5,529
Secured bonds	-	-	-	231,378	-	231,378	231,378
Other financial liabilities	-	-	-	14,078	-	14,078	14,078
<b>Total</b>	<b>0</b>	<b>5,529</b>	<b>0</b>	<b>884,984</b>	<b>0</b>	<b>890,513</b>	<b>890,460</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 2013:

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 12. 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 2013.

#### Fair value hierarchy

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

- Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.
- Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares and the yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.
- Level 3: Valuation technique based on significant non-observable inputs. It includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies multiples are the most commonly used methods to calculate fair value of unlisted shares in addition to recent transactions and market conditions.

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

#### Valuation framework

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

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial Position, are categorised as at 30 June 2014:

<b>Financial assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Bonds and debt instruments	161,045	15,356	9,126	185,527
Equities and equity instruments	8,749	-	33,472	42,221
Derivative instruments	-	44	-	44
<b>Total</b>	<b>169,794</b>	<b>15,400</b>	<b>42,598</b>	<b>227,792</b>
<b>Financial liabilities</b>				
Derivative instruments	-	549	-	549
Short positions	4,980	-	-	4,980
<b>Total</b>	<b>4,980</b>	<b>549</b>	<b>0</b>	<b>5,529</b>

During the period from 1 January to 30 June 2014 there were no transfers between Level 1, Level 2 or Level 3.

The following table shows the Level in the hierarchy into which the fair value of financial assets and liabilities, carried at fair value in the Consolidated Statement of Financial position, are categorised as at 31 December 2013:

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

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 12. 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 six months ended 30 June 2014 and for the year 2013:

	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
<b>1 January - 30 June 2014</b>				
Carrying amount as at 1 January 2014	10,674	28,064	38,738	-
Total gains (losses) recognised in income statement	(954)	525	(429)	-
Purchases	-	354	354	-
Sales	(208)	(4)	(212)	-
Settlements	(386)	-	(386)	-
Reclassification from investments in equity-accounted associates	-	4,533	4,533	-
<b>Carrying amount as at 30 June 2014</b>	<b>9,126</b>	<b>33,472</b>	<b>42,598</b>	<b>0</b>

	Bonds and debt instruments	Equities and equity instruments	Total financial assets	Contingent bond
<b>1 January - 31 December 2013</b>				
Carrying amount as at 1 January 2013	10,611	29,877	40,488	(87,474)
Total gains (losses) recognised in income statement	474	5,561	6,035	6,212
Change in contingent bond	-	-	-	(4,691)
Purchases	-	56	56	-
Sales	(436)	(8,432)	(8,868)	-
Settlements	25	-	25	85,953
Winding-up proceedings of subsidiary	-	1,002	1,002	-
<b>Carrying amount as at 31 December 2013</b>	<b>10,674</b>	<b>28,064</b>	<b>38,738</b>	<b>0</b>

The following tables show the line items in the Consolidated Income Statement where the total gains (losses) were recognised during the six months ended 30 June 2014 and 30 June 2013, for fair value measurements in Level 3:

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
<b>1 January - 30 June 2014</b>				
Net (loss) gain on financial assets designated as at fair value through profit or loss	(685)	747	-	62
Net foreign exchange gain (loss)	(269)	(222)	-	(491)
<b>Total</b>	<b>(954)</b>	<b>525</b>	<b>0</b>	<b>(429)</b>

	Bonds and debt instruments	Equities and equity instruments	Contingent bond	Total
<b>1 January - 30 June 2013</b>				
Fair value change of contingent bond	-	-	1,319	1,319
Interest expense	-	-	(623)	(623)
Net (loss) gain on financial assets designated as at fair value through profit or loss	655	1,960	-	2,615
Net foreign exchange gain (loss)	(396)	(519)	5,516	4,601
<b>Total</b>	<b>259</b>	<b>1,441</b>	<b>6,212</b>	<b>7,912</b>

### 13. Derivative instruments and short positions

	30.6.2014			31.12.2013		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Foreign exchange derivatives</b>						
Currency forwards	26,354	10	53	43,608	637	68
Cross-currency interest rate swaps	340	-	443	1,098	-	453
	<b>26,694</b>	<b>10</b>	<b>496</b>	<b>44,706</b>	<b>637</b>	<b>521</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	500	2	-	-	-	-
Total return swaps	3,525	3	39	5,178	3	9
Bond options	750	-	14	-	-	-
	<b>4,775</b>	<b>5</b>	<b>53</b>	<b>5,178</b>	<b>3</b>	<b>9</b>
<b>Equity derivatives</b>						
Total return swaps	1,077	29	-	2,067	14	52
	<b>1,077</b>	<b>29</b>	<b>0</b>	<b>2,067</b>	<b>14</b>	<b>52</b>
<b>Short positions - listed bonds</b>	-	-	4,980	-	-	6,988
<b>Total</b>	<b>32,546</b>	<b>44</b>	<b>5,529</b>	<b>51,951</b>	<b>654</b>	<b>7,571</b>

The Group uses derivatives both for hedging and trading purposes.

## Notes to the Condensed Consolidated Interim Financial Statements

### 14. Loans and advances to financial institutions

	30.6.2014	31.12.2013
Bank accounts with financial institutions	8,773	4,863
Money market loans	46,112	49,625
Overdrafts	5,678	6,394
Other loans	6,600	7,034
<b>Total</b>	<b>67,163</b>	<b>67,916</b>

### 15. Loans and advances to customers

	30.6.2014	31.12.2013
Public entities	9,963	10,149
Individuals	238,221	217,719
Corporations	497,091	503,544
Less: Allowance for impairment	(45,627)	(50,944)
<b>Total</b>	<b>699,648</b>	<b>680,468</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 disclosure on loans and advances is provided in the risk management notes to these Condensed Consolidated Interim Financial Statements.

### 16. Other assets

	30.6.2014	31.12.2013
Unsettled securities trading	2,166	863
Other accounts receivable	2,802	3,248
Claim on LBI hf. due to court ruling	-	2,255
Sundry assets	1,268	2,449
<b>Total</b>	<b>6,236</b>	<b>8,816</b>

### 17. Assets classified as held for sale

	30.6.2014	31.12.2013
Repossessed collateral	14,410	17,213
Assets of disposal groups	7,709	7,810
<b>Total</b>	<b>22,119</b>	<b>25,023</b>

#### Repossessed collateral

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

	30.6.2014	31.12.2013
<b>Repossessed collateral</b>		
Carrying amount as at the beginning of the period	17,213	25,221
Repossessed during the period	2,858	11,543
Disposed during the period	(4,910)	(16,366)
Impairment and loss of sale	(751)	(3,185)
<b>Carrying amount as at the end of the period</b>	<b>14,410</b>	<b>17,213</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 loss for the period from discontinued operations which is presented in the Consolidated Financial 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

### 18. Secured bonds

As at 30.6.2014	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
EUR Bonds	EUR	9.10.2018	€ 733 million	EURIBOR + 2.90 %	113,784
GBP Bonds	GBP	9.10.2018	£ 234 million	LIBOR + 2.90 %	45,344
USD Bonds	USD	9.10.2018	\$ 608 million	LIBOR + 2.90 %	68,882
<b>Total issued bonds to LBI hf.</b>					<b>228,010</b>

As at 30.6.2014	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	3,360 million	6.3%	3,368
<b>Total covered bonds</b>					<b>3,368</b>

**Secured bonds total as at 30.6.2014** **231,378**

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

As at 31.12.2013	Currency	Final maturity	Remaining principal	Contractual interest rate	Carrying amount
LBANK CB 16	ISK	10.6.2016	1,860 million	6.3 %	1,925
<b>Total covered bonds</b>					<b>1,925</b>

**Secured bonds total as at 31.12.2013** **239,642**

The secured bonds which the Bank issued to LBI hf. consist of the secured bonds issued in October 2010 as part of the acquisition price for the Icelandic operations of LBI hf. and the secured bonds issued in April 2013 as the additional consideration for the assets and liabilities transferred from LBI hf. to the Bank in October 2008. Both of these secured bond issues are denominated in EUR, USD and GBP. The carrying amount of the bonds as at 30 June 2014 and December 2013 assumes the effective interest of EURIBOR/LIBOR+2.90% to maturity.

The secured bonds which the Bank issued to LBI hf. mature in October 2018 with originally scheduled quarterly instalments starting in 2014. The interest rates are 3-month EURIBOR for the EUR-denominated bond and 3-month LIBOR for the GBP and USD-denominated bonds. During the years 2012 and 2013, the Bank made mandatory early redemptions and optional and partial early redemptions of the outstanding secured bonds to LBI hf. The prepayments will reduce, on a pro-rata basis, maturities of the bonds arising between 2014 and 2018.

From 30 June 2010, the bondholders have had the right to require the Bank to convert the secured bonds which the Bank issued to LBI hf. into Eurobonds. Upon such conversion, the Bank will make reasonable endeavours to list such Eurobonds on a qualified stock exchange, as soon as feasible following conversion. The bondholders have not yet exercised their right to require the Bank to convert the bonds into Eurobonds.

In March 2014, the Bank concluded a sale of an additional ISK 1,500 million in Landsbankinn's non-indexed covered bond series, LBANK CB 16, at a yield of 6.4%. This latest issue of the bonds was admitted for trading on NASDAQ OMX Iceland in the same month. The total size limit of this bond series is ISK 10,000 million and the previous issue amounted to ISK 1,920 million. The bonds carry a 3-year fixed interest rate of 6.3%. The covered bonds issue provides broader funding opportunities for the Bank's mortgage portfolio and reduces the Bank's fixed interest rate risk.

The Bank has committed itself to pledge certain pools of loans to customers as collateral for the secured bonds issued to LBI hf. and the issue of the covered bonds. The Bank must maintain a minimum coverage ratio of 124.7% for the secured bonds issued to LBI hf. and a minimum coverage ratio of 120% for the covered bonds. For further details on encumbered assets, see Note 22.

On 8 May 2014, the Bank and the Winding-up Board of LBI hf. reached an agreement on extension of the repayment schedule of the secured bonds which the Bank issued to LBI hf. The agreement is conditional upon the Winding-up Board of LBI hf. obtaining certain exemptions from capital controls from the Central Bank of Iceland. Under this agreement the repayment schedule for the years 2014-2018 would be extended to the years 2014-2026 with bond tranches maturing every second year throughout the period. Each of the tranches will be equivalent to approximately ISK 30,000 million, except for the 2014 tranche of ISK 36,000 million and the 2018 tranche of ISK 40,000 million. Interest rate terms will remain unchanged at a 2.90% margin until October 2018, stepping up to a 3.50% margin for the 2020 tranche, a 3.65% margin for the 2022 tranche, 3.95% for the 2024 tranche and a 4.05% margin for the 2026 tranche. The Bank will be required to use proceeds from any new foreign currency debt financing, above a certain threshold, to make prepayments on the bonds. Otherwise, the Bank will have increased flexibility in terms of how optional and mandatory prepayments of the bonds will be applied against outstanding maturities, without any additional costs. The minimum coverage ratio for the secured bonds will be reduced from 124.7% to 115%. Furthermore, the Bank will not be required to convert any outstanding bonds to Eurobonds before October 2018 and specific restrictions on dividend payments will be removed.

## Notes to the Condensed Consolidated Interim Financial Statements

### 19. Equity

In February 2014, the Bank completed the allocation of own shares received from LBI hf. in 2013, in accordance with LBI hf. requirements and a resolution passed at a shareholder's meeting of the Bank in July 2013. The net result of the 500 million shares being allocated, and partly repurchased by the Bank for settlement of tax obligations and pension liabilities, is that the Bank's current and former employees now own 187 million shares in total (0.78%) and the Bank itself holds 313 million of own shares (1.30%).

At the Annual General Meeting of the Bank for the operating year 2013 held on 19 March 2014, shareholders approved the Board's proposal to pay dividends to shareholders in the amount of ISK 0.84 per share for the year 2013. Dividend was paid on 26 March 2014 to parties registered in the shareholders' registry on 19 March 2014. The dividend payment amounted to ISK 19,897 million on the outstanding shares.



## Notes to the Condensed Consolidated Interim Financial Statements

### Other notes

#### 20. Earnings per share

	2014	2013	2014	2013
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
<b>Profit for the period</b>				
Profit for the period from continuing operations	10,505	7,554	14,829	15,577
<b>Profit for the period attributable to owners of the Bank</b>	<b>10,505</b>	<b>7,554</b>	<b>14,829</b>	<b>15,577</b>

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

	2014	2013	2014	2013
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
<b>Number of shares</b>				
Number of ordinary shares outstanding at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(313)	(500)	(336)	(250)
<b>Weighted average number of shares outstanding</b>	<b>23,687</b>	<b>23,500</b>	<b>23,664</b>	<b>23,750</b>

	2014	2013	2014	2013
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
<b>Basic earnings per share</b>				
Continuing operations	0.44	0.32	0.63	0.66
Discontinued operations	-	-	-	-
<b>Total basic earnings per share</b>	<b>0.44</b>	<b>0.32</b>	<b>0.63</b>	<b>0.66</b>

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

#### 21. Litigation

The Bank is party to litigation cases which arise in the ordinary course of business and are expected to have immaterial effect on the Group's financial position. However, since the establishment of the Bank, the Group has engaged in various material litigation cases, most of them being related to financial assets and liabilities transferred from Landsbanki Íslands hf. (now LBI hf.) to the Bank. These cases are material in the sense that they have had or may have significant impact on the amounts disclosed in the Group's financial statements.

At the end of the second quarter of 2014, all of the material cases that were reported open and not concluded at year-end 2013 in the litigation section of the Group's Consolidated Financial Statements for the year 2013 are still open with the exception of case No. 4 in the aforesaid Financial Statements. On 6 March 2014, the Supreme Court confirmed the District Court's judgment in this particular case and thereby acquitted the Bank of the company's claim.

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 Bank has considered further court rulings necessary to clarify the scope of the legal precedence of these rulings for interest calculations of other loans. Pending material litigation cases filed against the Bank are expected to provide further clarification on the precedence of these rulings in the coming months. These pending material litigation cases at the end of the second quarter of 2014 are the following:

- In December 2012, a corporate customer of the Bank commenced litigation against the Bank demanding, inter alia, that the Court acknowledge that a loan agreement dating from June 2006 constitutes a loan denominated in the Icelandic krona (ISK), illegally indexed to foreign currencies, and should as such be recalculated in accordance with Act No. 38/2001. The Bank's view is that the loan agreement is a loan in foreign currencies, inter alia due to the fact that it was repaid in foreign currencies, and should therefore not be recalculated. The Bank's view is that it is of no relevance that the repayment currencies were not the same as the foreign currencies stipulated in the loan agreement. The case was heard by the District Court of Reykjavik which in its judgment concluded that the loan was in ISK indexed to foreign currencies. The case has been appealed to the Supreme Court and it is expected that the Court will hear the case in autumn 2014.

- In December 2013, a corporate customer of the Bank commenced litigation against the Bank claiming that previous recalculations of a foreign currency indexed loan should be recalculated in accordance with Supreme Court judgments No. 600/2011 and No. 464/2012 whereby interest rates determined by the Central Bank of Iceland (CBI) were considered by the Court as not being applicable in specified circumstances, inter alia, as the lender had issued final receipts for interest payments. One of the conditions established by the Supreme Court for rejecting CBI interest rates is that the additional claim, i.e. the difference between the CBI's interest amount and the interest amount appearing on the final receipts, would cause a serious disruption of a company's financial position. In this case the Bank takes the view that this condition is not met. The case is expected to be heard by the District Court of Reykjavik in autumn 2014.

- In May 2014, the Icelandic Competition Authority submitted to the Bank its preliminary assessment in a case regarding alleged breaches of competition rules by construction product stores operating in the Icelandic capital region. The investigation period extended from 2008 until March 2011. From October 2009, one of the stores, Húsasmiðjan ehf., was owned by Vestia Holdings ehf., a subsidiary of the Bank. In August 2010, Vestia Holdings ehf. was sold to Framtakssjóður Íslands slhf. (FSÍ) subject to approval by the Competition Authority, which was granted in January 2011. In December 2011, FSÍ sold Húsasmiðjan to Hömlur ehf., a subsidiary of the Bank, while all operations of the store were transferred and sold to a third company outside of the Landsbankinn Group. The name of the legal entity held by Hömlur was changed to Holtavegur 10 ehf. It was the preliminary assessment of the Competition Authority that fines might be imposed on Holtavegur 10 due to alleged breaches of competition law and that the Bank might potentially be held liable for such a fine since Húsasmiðjan was within the Landsbankinn Group during a part of the investigation period. The Bank submitted that there were no grounds for imposing a fine on the Bank inter alia as the Bank had accepted strict obligations not to interfere with companies held by Vestia Holdings and, consequently, never had any decisive influence on Húsasmiðjan. In July 2014, Holtavegur 10 entered into a settlement arrangement with the Competition Authority agreeing on the payment of a fine in the amount of ISK 325 million. Furthermore, the Authority acknowledged the arguments presented by the Bank, i.e. that there were no grounds for holding the Bank responsible or liable for the alleged breaches of competition rules. Consequently, the case has been closed.

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Encumbered assets

As at 30 June 2014	Collateral pledged against			Un-encumbered	Total
	Covered bonds	Issued bonds to LBI hf.	Other*		
Cash and balances with Central Bank	-	-	-	7,964	7,964
Bonds and debt instruments	-	-	14,178	282,963	297,141
Equities and equity instruments	-	-	-	42,221	42,221
Derivative instruments	-	-	-	44	44
Loans and advances to financial institutions	-	-	4,677	62,486	67,163
Loans and advances to customers	4,130	299,351	-	396,167	699,648
Investments in equity-accounted associates	-	-	-	5,034	5,034
Property and equipment	-	-	-	6,313	6,313
Intangible assets	-	-	-	715	715
Other assets	-	-	-	6,236	6,236
Assets classified as held for sale	-	-	-	22,119	22,119
<b>Total</b>	<b>4,130</b>	<b>299,351</b>	<b>18,855</b>	<b>832,262</b>	<b>1,154,598</b>

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

### 23. Related party transactions

#### Transactions with related parties

##### Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature and outstanding amounts receivable from public entities are disclosed in Note 27.

##### Transactions with other related parties

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	2014		2013	
	Balance as at 30 June	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
Key management personnel	76	130	108	131
Parties related to key management personnel	53	151	136	224
Associates	44,627	55,967	47,037	63,892
Other	11	17	17	18
<b>Total</b>	<b>44,767</b>	<b>56,265</b>	<b>47,298</b>	<b>64,265</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 during the period. There are no leasing transactions between related parties during the period.

## Notes to the Condensed Consolidated Interim Financial Statements

### 23. Related party transactions (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	2014		2013	
	Balance as at 30 June	Highest amount outstanding during the period	Balance as at 31 December	Highest amount outstanding during the period
Key management personnel	47	123	49	116
Parties related to key management personnel	72	74	24	116
Associates	10,704	18,107	13,030	21,234
Other	1	1	1	1
<b>Total</b>	<b>10,824</b>	<b>18,305</b>	<b>13,104</b>	<b>21,467</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 as at 30 June 2014	Balance as at 31 December 2013
Associates	370	520
<b>Total</b>	<b>370</b>	<b>520</b>

### 24. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the financial statements for the six months ended 30 June 2014.

## Notes to the Consolidated Financial Statements

### Capital management

#### 25. Capital management

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

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

In the latest Supervisory Review and Evaluation Process (SREP), based on year-end 2012, FME determined the Capital Adequacy Requirement to be 16.7%.

#### 26. Capital base and Capital Adequacy Ratio

The Group's equity as at 30 June 2014 amounted to ISK 235,894 million (31.12.2013: ISK 241,359 million), equivalent to 20.4% (31.12.2013: 21.0%) of total assets, according to the Consolidated Statement of Financial Position. The Capital Adequacy Ratio, calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings, was 26.8% as at 30 June 2014 (31.12.2013: 26.7%). According to the Act, this ratio may not fall below 8%.

<b>Capital base</b>	<b>30.06.2014</b>	<b>31.12.2013</b>
Share capital	23,687	23,618
Share premium	121,275	120,700
Reserves	6,000	7,046
Retained earnings	84,933	90,002
Non-controlling interests	(1)	(7)
<b>Total equity</b>	<b>235,894</b>	<b>241,359</b>
Intangible assets	(715)	(585)
<b>Tier 1 capital</b>	<b>235,179</b>	<b>240,774</b>
Deduction from original and additional own funds	(4,180)	(3,865)
<b>Capital base</b>	<b>230,999</b>	<b>236,909</b>
<b>Risk-weighted assets</b>		
Credit risk	651,420	684,655
Market risk	105,522	99,763
Operational risk*	104,500	104,500
<b>Total risk-weighted assets</b>	<b>861,442</b>	<b>888,918</b>
Tier 1 capital ratio	27.3%	27.1%
Capital Adequacy Ratio	26.8%	26.7%

\*The amounts are updated on a yearly basis.

## Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show the Group's maximum credit risk exposure as at 30 June 2014 and 31 December 2013. 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>As at 30 June 2014</b>													
Cash and balances with Central Bank	-	7,964	-	-	-	-	-	-	-	-	-	-	7,964
Bonds and debt instruments	108	273,572	-	-	13,659	-	-	8,948	-	-	-	854	297,141
Derivative instruments	8	-	5	-	-	-	-	3	-	-	-	28	44
Loans and advances to financial institutions	67,163	-	-	-	-	-	-	-	-	-	-	-	67,163
Loans and advances to customers	-	9,876	222,091	147,666	127,037	54,141	46,123	36,905	26,096	7,623	22,072	18	699,648
Other financial assets	2,823	300	435	1	632	408	200	53	3	85	1	27	4,968
<b>Total on-balance sheet exposure</b>	<b>70,102</b>	<b>291,712</b>	<b>222,531</b>	<b>147,667</b>	<b>141,328</b>	<b>54,549</b>	<b>46,323</b>	<b>45,909</b>	<b>26,099</b>	<b>7,708</b>	<b>22,073</b>	<b>927</b>	<b>1,076,928</b>
<b>Off-balance sheet exposure</b>	<b>4,480</b>	<b>16,477</b>	<b>21,164</b>	<b>14,852</b>	<b>30,335</b>	<b>15,050</b>	<b>9,548</b>	<b>652</b>	<b>8,421</b>	<b>1,286</b>	<b>2,782</b>	<b>788</b>	<b>125,835</b>
Financial guarantees and underwriting commitments	45	647	511	1,476	2,069	5,372	2,138	24	738	27	754	272	14,073
Undrawn loan commitments	600	9,385	5	10,543	26,743	424	3,374	395	5,958	893	1,032	-	59,352
Undrawn overdraft/credit card facilities	3,835	6,445	20,648	2,833	1,523	9,254	4,036	233	1,725	366	996	516	52,410
<b>Maximum exposure to credit risk</b>	<b>74,582</b>	<b>308,189</b>	<b>243,695</b>	<b>162,519</b>	<b>171,663</b>	<b>69,599</b>	<b>55,871</b>	<b>46,561</b>	<b>34,520</b>	<b>8,994</b>	<b>24,855</b>	<b>1,715</b>	<b>1,202,763</b>
Percentage of carrying amount	6.2%	25.6%	20.3%	13.5%	14.3%	5.8%	4.6%	3.9%	2.9%	0.7%	2.1%	0.1%	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. Maximum exposure to credit risk and concentration by industry sectors (continued)

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

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

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 28. Collateral and loan-to-value by industry sectors

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

As at 30 June 2014	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised		Without collateral*	Allowance for impairment	Maximum exposure to credit risk
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value			
Financial institutions	-	-	-	-	-	-	-	71,643	-	71,643
Public entities	76	41	156	777	1,050	5,232	523	20,158	87	26,353
Individuals	2,429	9,208	19,800	37,304	68,741	135,454	99,286	55,190	16,131	243,254
Corporations										
Fisheries	5,382	13,800	31,418	31,973	82,573	78,792	62,224	7,794	6,642	162,517
Construction and real estate companies	553	716	6,500	10,757	18,526	134,821	75,744	10,877	6,851	157,373
Holding companies	312	907	1,700	1,076	3,995	31,465	14,949	6,954	4,857	37,557
Retail	119	598	1,623	3,129	5,469	46,575	25,393	8,490	4,862	55,672
Services	262	643	2,556	5,181	8,642	46,666	27,190	16,911	3,027	69,192
Information, technology and communication	5	25	117	90	237	18,673	6,677	6,800	858	24,852
Manufacturing	100	415	974	3,486	4,975	23,126	13,360	8,217	1,802	34,516
Agriculture	70	294	549	767	1,680	7,012	2,743	721	503	8,910
Other	-	-	-	8	8	3	2	803	7	807
<b>Total</b>	<b>9,308</b>	<b>26,647</b>	<b>65,393</b>	<b>94,548</b>	<b>195,896</b>	<b>527,819</b>	<b>328,091</b>	<b>214,558</b>	<b>45,627</b>	<b>892,646</b>
<b>As at 31 December 2013</b>										
Financial institutions	-	-	-	-	-	-	-	72,484	-	72,484
Public entities	24	60	209	1,169	1,462	4,969	294	20,550	134	26,847
Individuals	2,370	10,978	19,567	33,728	66,643	119,759	86,272	52,135	16,234	222,303
Corporations										
Fisheries	3,758	6,695	22,194	35,242	67,889	99,711	69,672	7,768	8,874	166,494
Construction and real estate companies	348	4,546	5,167	12,397	22,458	123,137	66,030	14,138	8,992	150,741
Holding companies	495	245	1,143	2,709	4,592	50,895	34,908	12,384	3,994	63,878
Retail	153	1,050	1,623	3,604	6,430	34,635	17,244	8,851	5,692	44,223
Services	235	3,789	2,791	9,922	16,737	27,608	16,282	20,386	3,757	60,974
Information, technology and communication	20	45	90	68	223	19,107	8,316	4,853	636	23,546
Manufacturing	97	183	1,275	6,389	7,944	16,658	9,403	9,935	1,476	33,061
Agriculture	89	311	306	1,477	2,183	5,556	2,565	1,170	800	8,109
Other	2	-	-	112	114	522	231	4,882	355	5,162
<b>Total</b>	<b>7,591</b>	<b>27,902</b>	<b>54,365</b>	<b>106,817</b>	<b>196,675</b>	<b>502,557</b>	<b>311,217</b>	<b>229,536</b>	<b>50,944</b>	<b>877,822</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 Consolidated Financial Statements

### 29. Collateral types

The following tables show the collateral less a haircut held to mitigate credit risk.

As at 30 June 2014	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	2,203	-	44	-	78	2,325
Individuals	200,158	398	1,107	3,075	13,191	217,929
Corporates						
Fisheries	11,143	164,401	93	13,442	22,402	211,481
Construction and real estate companies	99,806	-	860	342	2,935	103,943
Holding companies	2,883	-	43	22,306	515	25,747
Retail	14,614	429	251	4,521	15,272	35,087
Services	25,741	-	1,796	1,459	13,051	42,047
Information, technology and communication	466	-	96	1,010	5,503	7,075
Manufacturing	10,317	-	246	4,339	5,851	20,753
Agriculture	5,211	-	4	-	752	5,967
Other	1	-	9	-	-	10
<b>Total</b>	<b>372,543</b>	<b>165,228</b>	<b>4,549</b>	<b>50,494</b>	<b>79,550</b>	<b>672,364</b>

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

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

### 30. Loans and advances credit monitoring

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

Industry sectors as at 30 June 2014	Green	Yellow	Orange	Red	Carrying amount
Financial institutions	67,163	-	-	-	67,163
Public entities	9,402	380	60	34	9,876
Individuals	175,819	10,914	23,304	12,054	222,091
Corporations					
Fisheries	129,304	8,478	3,534	6,349	147,665
Construction and real estate companies	100,118	13,041	8,189	5,689	127,037
Holding companies	32,950	1,912	910	1,132	36,904
Retail	36,538	3,203	4,129	2,254	46,124
Services	39,629	6,396	6,393	1,723	54,141
Information, technology and communication	18,014	3,756	209	93	22,072
Manufacturing	16,490	3,067	1,205	5,334	26,096
Agriculture	6,318	763	188	354	7,623
Other	4	-	15	-	19
<b>Total</b>	<b>631,749</b>	<b>51,910</b>	<b>48,136</b>	<b>35,016</b>	<b>766,811</b>



## Notes to the Consolidated Financial Statements

### 30. Loans and advances credit monitoring (continued)

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

### 31. 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>As at 30 June 2014</b>						
Cash and balances with Central Bank	7,964	-	-	7,964	-	7,964
Bonds and debt instruments	288,027	9,114	-	297,141	-	297,141
Derivative instruments	44	-	-	44	-	44
Loans and advances to financial institutions	67,163	-	-	67,163	-	67,163
Loans and advances to customers	604,136	54,809	86,330	745,275	(45,627)	699,648
Other financial assets	4,968	-	-	4,968	-	4,968
<b>Total</b>	<b>972,302</b>	<b>63,923</b>	<b>86,330</b>	<b>1,122,555</b>	<b>(45,627)</b>	<b>1,076,928</b>
<b>As at 31 December 2013</b>						
Cash and balances with Central Bank	21,520	-	-	21,520	-	21,520
Bonds and debt instruments	280,736	9,859	-	290,595	-	290,595
Derivative instruments	654	-	-	654	-	654
Loans and advances to financial institutions	67,916	-	-	67,916	-	67,916
Loans and advances to customers	585,526	54,874	91,012	731,412	(50,944)	680,468
Other financial assets	6,366	-	-	6,366	-	6,366
<b>Total</b>	<b>962,718</b>	<b>64,733</b>	<b>91,012</b>	<b>1,118,463</b>	<b>(50,944)</b>	<b>1,067,519</b>

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

## Notes to the Consolidated Financial Statements

### 32. 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.

As at 30 June 2014	Rating grades					Total
	10-7	6-4	3-1	0*	Unrated	
Financial institutions	67,163	-	-	-	-	67,163
Public entities	8,585	1,128	-	-	17	9,730
Individuals	69,438	87,714	29,237	576	4,157	191,122
Corporations						
Fisheries	15,362	91,742	16,537	1,931	103	125,675
Construction and real estate companies	140	79,421	37,847	157	200	117,765
Holding companies	-	18,941	6,426	63	38	25,468
Retail	74	33,233	6,509	317	35	40,168
Services	4,069	34,906	9,048	27	95	48,145
Information, technology and communication	218	11,990	7,243	-	3	19,454
Manufacturing	2,061	13,980	3,029	92	397	19,559
Agriculture	656	5,395	975	-	7	7,033
Other	-	4	13	-	-	17
<b>Total</b>	<b>167,766</b>	<b>378,454</b>	<b>116,864</b>	<b>3,163</b>	<b>5,052</b>	<b>671,299</b>
<b>As at 31 December 2013</b>						
Financial institutions	59,822	8,094	-	-	-	67,916
Public entities	8,149	1,485	261	-	19	9,914
Individuals	58,283	83,424	26,089	855	4,228	172,879
Corporations						
Fisheries	11,938	88,350	21,534	778	-	122,600
Construction and real estate companies	67	81,600	32,591	104	15	114,377
Holding companies	727	26,250	16,931	10	29	43,947
Retail	29	25,515	5,591	264	23	31,422
Services	132	30,599	10,494	36	137	41,398
Information, technology and communication	4	14,773	1,453	-	-	16,230
Manufacturing	2,187	13,237	4,053	1,481	341	21,299
Agriculture	244	5,628	1,023	-	15	6,910
Other	-	493	772	-	3,285	4,550
<b>Total</b>	<b>141,582</b>	<b>379,448</b>	<b>120,792</b>	<b>3,528</b>	<b>8,092</b>	<b>653,442</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.

### 33. 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.

As at 30 June 2014	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	-	123	11	-	31	165
Individuals	214	12,162	3,189	1,495	4,325	21,385
Corporations	1,525	10,779	5,556	1,665	13,734	33,259
<b>Total</b>	<b>1,739</b>	<b>23,064</b>	<b>8,756</b>	<b>3,160</b>	<b>18,090</b>	<b>54,809</b>
<b>As at 31 December 2013</b>						
Public entities	-	105	1	24	20	150
Individuals	180	9,630	3,276	1,003	6,702	20,791
Corporations	1,069	11,382	3,392	977	17,113	33,933
<b>Total</b>	<b>1,249</b>	<b>21,117</b>	<b>6,669</b>	<b>2,004</b>	<b>23,835</b>	<b>54,874</b>

### 34. Loans and advances by industry sectors

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

	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non-performing*		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
<b>As at 30 June 2014</b>								
Financial institutions	67,163	67,163	-	-	-	-	-	67,163
Public entities	9,963	9,894	21	55	53	14	13	9,876
Individuals	238,221	212,506	2,656	11,821	5,880	13,895	7,595	222,091
Corporations								
Fisheries	154,308	133,889	651	18,370	4,575	2,048	1,416	147,665
Construction and real estate companies	133,888	124,506	2,013	6,053	2,797	3,329	2,041	127,037
Holding companies	41,762	26,681	788	14,119	3,212	961	857	36,904
Retail	50,985	44,807	999	4,013	2,350	2,166	1,513	46,124
Services	57,168	54,343	1,370	790	568	2,035	1,089	54,141
Information, technology and communication	22,930	22,604	611	204	167	122	80	22,072
Manufacturing	27,897	22,194	381	5,099	1,028	604	392	26,096
Agriculture	8,126	7,495	71	263	137	369	296	7,623
Other	26	26	7	-	-	-	-	19
<b>Total</b>	<b>812,437</b>	<b>726,108</b>	<b>9,568</b>	<b>60,786</b>	<b>20,767</b>	<b>25,544</b>	<b>15,292</b>	<b>766,811</b>

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

\*Non-performing past due more than 90 days

## Notes to the Consolidated Financial Statements

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

	1.1-30.6.2014			1.1-30.6.2013		
	Individual allowance	Collective allowance	Total	Individual allowance	Collective allowance	Total
Balance at the beginning of the period	(41,278)	(9,666)	(50,944)	(28,523)	(15,507)	(44,030)
New provisions	(12,761)	-	(12,761)	(16,879)	-	(16,879)
Reversals	14,068	61	14,129	4,012	420	4,432
Provisions used to cover write-offs	3,840	-	3,840	3,460	-	3,460
Translation difference	72	37	109	(49)	3	(46)
<b>Balance at the end of the period</b>	<b>(36,059)</b>	<b>(9,568)</b>	<b>(45,627)</b>	<b>(37,979)</b>	<b>(15,084)</b>	<b>(53,063)</b>

	1.1-30.6.2014			1.1-30.6.2013		
	Customers	Financials	Total	Customers	Financials	Total
New provisions	(12,761)	-	(12,761)	(16,879)	-	(16,879)
Write-offs	(6,573)	-	(6,573)	(3,460)	-	(3,460)
Provisions used to cover write-offs	3,840	-	3,840	3,460	-	3,460
Reversals	14,130	-	14,130	4,432	-	4,432
Recoveries	1,689	-	1,689	3,530	-	3,530
Translation difference	109	-	109	(46)	-	(46)
Impairment loss for the period	434	0	434	(8,963)	0	(8,963)
Impairment of claims reversed	-	-	0	-	269	269
<b>Net impairment loss for the period</b>	<b>434</b>	<b>0</b>	<b>434</b>	<b>(8,963)</b>	<b>269</b>	<b>(8,694)</b>

### 36. Large exposures

As at 30 June 2014, 8 Group clients were rated as large exposures in accordance with the FME's Rules on Large Exposures Incurred by Financial Undertakings No. 625/2013. 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 exposure amount is calculated after taking account of eligible collateral held. No exposure may attain the equivalent of 25% of the capital base. Net of eligible collateral there are four large exposures as at 30 June 2014 (31 December 2013; two clients).

	Number of large exposures	Large exposures
<b>As at 30 June 2014</b>		
Large exposures between 10% and 20% of the Group's capital base	4	117,984
<b>Total</b>	<b>4</b>	<b>117,984</b>
Total large exposures to capital base (400% is the maximum limit)		51%
<b>As at 31 December 2013</b>		
Large exposures between 10% and 20% of the Group's capital base	2	70,696
<b>Total</b>	<b>2</b>	<b>70,696</b>
Total large exposures to capital base (400% is the maximum limit)		30%

### Liquidity risk

#### 37. Liquidity risk management

The key indicator of short-term liquidity risk is measured by the liquidity coverage ratio (LCR) which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Bank and zero percent risk-weighted foreign government bonds. The following table shows values of the LCR as at 30 June 2014 and 31 December 2013:

	Liquidity coverage ratio total	Liquidity coverage ratio FX
As at 30 June 2014	110%	208%
As at 31 December 2013	102%	208%

Another key measure used by the Group for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Group could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with the Central Bank, loans to financial institutions (maturity within seven days), assets eligible for repo transactions with the Central Bank and zero percent risk-weighted foreign 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 the Central Bank and loans to financial institutions (maturity within seven days). The following table shows various values of the core liquidity ratio and cash ratio as at 30 June 2014 and 31 December 2013:

	Core liquidity ratio		Cash ratio	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013
Period-end	47%	50%	13%	13%
Maximum	53%	53%	21%	22%
Minimum	46%	41%	11%	10%
Average	50%	47%	15%	16%

## Notes to the Consolidated Financial Statements

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

The following table shows a maturity analysis of the Group's financial instruments as at 30 June 2014:

<b>Non-derivative financial assets</b>	<b>0-1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No maturity</b>	<b>Total</b>	<b>Carrying amount</b>
Cash and balances with								
Central Bank	7,964	-	-	-	-	-	7,964	7,964
Bonds and debt instruments	37,166	37,155	49,956	184,274	45,223	-	353,774	297,141
Equities and equity instruments	-	-	-	-	-	42,221	42,221	42,221
Loans and advances to financial institutions	59,585	-	5,678	1,903	-	-	67,166	67,163
Loans and advances to customers	68,569	38,331	138,601	331,452	412,811	-	989,764	699,648
Other financial assets	4,413	-	-	555	-	-	4,968	4,968
<b>Total</b>	<b>177,697</b>	<b>75,486</b>	<b>194,235</b>	<b>518,184</b>	<b>458,034</b>	<b>42,221</b>	<b>1,465,857</b>	<b>1,119,105</b>
<b>Derivative financial assets</b>								
<b>Gross settled derivatives</b>								<b>11</b>
Inflow	4,643	3,301	-	500	-	-	8,444	
Outflow	(4,636)	(3,299)	-	(500)	-	-	(8,435)	
<b>Total</b>	<b>7</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>11</b>
<b>Net settled derivatives</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>33</b>
<b>Total</b>	<b>40</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42</b>	<b>44</b>
<b>Non-derivative financial liabilities</b>								
Due to financial institutions and								
Central Bank	(165,520)	(656)	-	-	-	-	(166,176)	(166,172)
Deposits from customers	(335,735)	(76,628)	(42,460)	(19,517)	(4,999)	-	(479,339)	(473,356)
Short positions	(4,980)	-	-	-	-	-	(4,980)	(4,980)
Secured bonds	(4,808)	-	(26,735)	(217,379)	-	-	(248,922)	(231,378)
Other financial liabilities	(14,078)	-	-	-	-	-	(14,078)	(14,078)
<b>Total</b>	<b>(525,121)</b>	<b>(77,284)</b>	<b>(69,195)</b>	<b>(236,896)</b>	<b>(4,999)</b>	<b>0</b>	<b>(913,495)</b>	<b>(889,964)</b>
<b>Off-balance sheet items</b>								
Financial guarantees and underwriting commitments	(721)	(1,185)	(3,265)	(1,284)	(7,618)	-	(14,073)	
Undrawn loan commitments	(59,352)	-	-	-	-	-	(59,352)	
Undrawn overdraft/credit card commitments	(52,410)	-	-	-	-	-	(52,410)	
<b>Total</b>	<b>(112,483)</b>	<b>(1,185)</b>	<b>(3,265)</b>	<b>(1,284)</b>	<b>(7,618)</b>	<b>0</b>	<b>(125,835)</b>	
<b>Total non-derivative financial liabilities and off-balance sheet items</b>	<b>(637,604)</b>	<b>(78,469)</b>	<b>(72,460)</b>	<b>(238,180)</b>	<b>(12,617)</b>	<b>0</b>	<b>(1,039,330)</b>	<b>(889,964)</b>
<b>Derivative financial liabilities</b>								
<b>Gross settled derivatives</b>								<b>(509)</b>
Inflow	12,654	5,966	-	777	-	-	19,397	
Outflow	(12,714)	(6,050)	-	(1,083)	-	-	(19,847)	
<b>Total</b>	<b>(60)</b>	<b>(84)</b>	<b>0</b>	<b>(306)</b>	<b>0</b>	<b>0</b>	<b>(450)</b>	<b>(509)</b>
<b>Net settled derivatives</b>	<b>(40)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40)</b>	<b>(40)</b>
<b>Total</b>	<b>(100)</b>	<b>(84)</b>	<b>0</b>	<b>(306)</b>	<b>0</b>	<b>0</b>	<b>(490)</b>	<b>(549)</b>
<b>Net liquidity position</b>	<b>(459,967)</b>	<b>(3,065)</b>	<b>121,775</b>	<b>279,698</b>	<b>445,417</b>	<b>42,221</b>	<b>426,079</b>	<b>228,636</b>

## Notes to the Consolidated Financial Statements

### 38. 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 2013:

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

## Notes to the Consolidated Financial Statements

### 39. 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 30 June 2014:

<b>Non-derivative financial assets</b>	<b>0-1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No maturity</b>	<b>Total</b>	<b>Carrying amount</b>
Total in foreign currencies	107,183	47,844	79,878	155,315	5,620	19,044	414,884	400,889
ISK	70,514	27,642	114,357	362,869	452,414	23,177	1,050,973	718,216
<b>Total</b>	<b>177,697</b>	<b>75,486</b>	<b>194,235</b>	<b>518,184</b>	<b>458,034</b>	<b>42,221</b>	<b>1,465,857</b>	<b>1,119,105</b>
<b>Derivative financial assets</b>								
Total in foreign currencies	(7)	(42)	-	-	-	-	(49)	11
ISK	47	44	-	-	-	-	91	33
<b>Total</b>	<b>40</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>42</b>	<b>44</b>
<b>Non-derivative financial liabilities</b>								
Total in foreign currencies	(148,624)	(2,260)	(33,397)	(213,798)	-	-	(398,079)	(380,927)
ISK	(376,497)	(75,024)	(35,798)	(23,098)	(4,999)	-	(515,416)	(509,037)
<b>Total</b>	<b>(525,121)</b>	<b>(77,284)</b>	<b>(69,195)</b>	<b>(236,896)</b>	<b>(4,999)</b>	<b>0</b>	<b>(913,495)</b>	<b>(889,964)</b>
<b>Off-balance sheet items</b>								
Total in foreign currencies	(18,099)	(980)	(1,501)	(348)	(283)	-	(21,211)	
ISK	(94,384)	(205)	(1,764)	(936)	(7,335)	-	(104,624)	
<b>Total</b>	<b>(112,483)</b>	<b>(1,185)</b>	<b>(3,265)</b>	<b>(1,284)</b>	<b>(7,618)</b>	<b>0</b>	<b>(125,835)</b>	
<b>Derivative financial liabilities</b>								
Total in foreign currencies	(1,319)	168	-	255	-	-	(896)	(509)
ISK	1,219	(252)	-	(561)	-	-	406	(40)
<b>Total</b>	<b>(100)</b>	<b>(84)</b>	<b>0</b>	<b>(306)</b>	<b>0</b>	<b>0</b>	<b>(490)</b>	<b>(549)</b>
<b>Net liquidity position in foreign currencies</b>								
	(60,866)	44,730	44,980	(58,576)	5,337	19,044	(5,351)	19,464
<b>Net liquidity position in ISK</b>								
	(399,101)	(47,795)	76,795	338,274	440,080	23,177	431,430	209,172
<b>Net liquidity position</b>								
	(459,967)	(3,065)	121,775	279,698	445,417	42,221	426,079	228,636

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

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

## Notes to the Consolidated Financial Statements

### Market risk

#### 40. Market risk management

The following table summarises the Group's exposure to market risk as at 30 June 2014 and 31 December 2013:

Market risk factor	30.6.2014	31.12.2013
	% of RWA	% of RWA
Equity price risk	7.1%	5.8%
Interest rate risk	3.0%	3.3%
Foreign exchange risk	2.2%	2.2%
<b>Total</b>	<b>12.3%</b>	<b>11.3%</b>

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 44-45, together with the related sensitivity analysis.

#### 41. Equity price risk

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

The Group's main equity portfolios consist of a trading portfolio, strictly focused on listed equities in ISK as part of market making and a proprietary portfolio containing both listed and unlisted equities, as part of asset and liability management. Furthermore, the Bank has a hedge portfolio for derivative sales, containing listed equities in ISK. Further details can be seen in Note 45, Concentration of currency risk.

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

As at 30 June 2014	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>Financial assets</b>					
Cash and balances with Central Bank	7,964	-	-	-	7,964
Bonds and debt instruments	233,520	44,309	3,006	16,306	297,141
Derivative instruments	44	-	-	-	44
Loans and advances to financial institutions	61,485	5,678	-	-	67,163
Loans and advances to customers	490,389	99,619	63,245	46,395	699,648
Other financial assets	4,413	-	555	-	4,968
<b>Total</b>	<b>797,815</b>	<b>149,606</b>	<b>66,806</b>	<b>62,701</b>	<b>1,076,928</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(166,172)	-	-	-	(166,172)
Deposits from customers	(465,009)	(7,203)	(1,144)	-	(473,356)
Derivative instruments and short positions	(549)	(3,420)	(1,181)	(379)	(5,529)
Secured bonds	(228,010)	-	(3,368)	-	(231,378)
Other financial liabilities	(14,078)	-	-	-	(14,078)
<b>Total</b>	<b>(873,818)</b>	<b>(10,623)</b>	<b>(5,693)</b>	<b>(379)</b>	<b>(890,513)</b>
Net on-balance sheet position	(76,003)	138,983	61,113	62,322	186,415
Net off-balance sheet position	(401)	-	401	-	-
<b>Total interest repricing gap</b>	<b>(76,404)</b>	<b>138,983</b>	<b>61,514</b>	<b>62,322</b>	



## Notes to the Consolidated Financial Statements

### 42. Interest rate risk (continued)

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

### 43. 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-linked financial instruments may fluctuate due to changes in the Icelandic CPI. The Group has a considerable imbalance in its CPI-linked assets and liabilities. To mitigate this imbalance, which the Bank is in a limited position to do, the Bank offers non-CPI linked loans and CPI-linked deposits.

CPI indexation risk is managed centrally within the Group by the Treasury of the Bank, and is monitored by Market Risk. The following table summarizes the Group's CPI imbalance, calculated as the difference between CPI-indexed financial assets and liabilities, as at 30 June 2014 and 31 December 2013:

Carrying amount	30.6.2014	31.12.2013
<b>Assets</b>		
Bonds and debt instruments	18,717	18,688
Loans and advances to customers	250,418	249,681
<b>Total</b>	<b>269,135</b>	<b>268,369</b>
<b>Liabilities</b>		
Short positions	(416)	(483)
Deposits from customers	(99,743)	(102,555)
<b>Total</b>	<b>(100,159)</b>	<b>(103,038)</b>
Total on-balance sheet position	168,976	165,331
Total off-balance sheet position	(101)	(796)
<b>Total CPI indexation balance</b>	<b>168,875</b>	<b>164,535</b>

### 44. Currency risk (all portfolios)

The Group follows 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 its 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 30 June 2014 was +8.0% of the Group's capital base (31 December 2013: +6.1%). Uncertainty regarding the denomination currencies of the Group's loan portfolio has not been fully resolved in the period 1 January to 30 June 2014.

## Notes to the Consolidated Financial Statements

### 45. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2014 and 31 December 2013. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments.

Amounts presented under assets and liabilities include all spot deals as at 30 June 2014 and 31 December 2013. When managing liquidity risk, the Group regards spot deals as non-derivative assets or liabilities.

<b>As at 30 June 2014</b>	<b>EUR</b>	<b>GBP</b>	<b>USD</b>	<b>JPY</b>	<b>CHF</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>							
Cash and balances with Central Bank	590	189	321	14	64	327	1,505
Bonds and debt instruments	42,735	47,149	49,614	-	-	-	139,498
Equities and equity instruments	16,297	-	1	-	-	2,746	19,044
Derivative instruments	10	-	-	-	-	-	10
Loans and advances to financial institutions	30,390	2,546	20,863	559	95	4,606	59,059
Loans and advances to customers	89,711	18,189	47,279	4,770	7,358	13,290	180,597
Other assets	-	-	1,186	-	-	-	1,186
<b>Total</b>	<b>179,733</b>	<b>68,073</b>	<b>119,264</b>	<b>5,343</b>	<b>7,517</b>	<b>20,969</b>	<b>400,899</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(41,000)	(16,933)	(23,697)	-	(136)	(2,094)	(83,860)
Deposits from customers	(29,425)	(4,431)	(24,894)	(582)	(948)	(6,264)	(66,544)
Derivative instruments and short positions	(61)	-	(434)	-	-	-	(495)
Secured bonds	(113,784)	(45,344)	(68,882)	-	-	-	(228,010)
Other liabilities	(766)	(152)	(1,248)	(3)	(3)	(359)	(2,531)
<b>Total</b>	<b>(185,036)</b>	<b>(66,860)</b>	<b>(119,155)</b>	<b>(585)</b>	<b>(1,087)</b>	<b>(8,717)</b>	<b>(381,440)</b>
Net on-balance sheet position	(5,303)	1,213	109	4,758	6,430	12,252	19,459
Net off-balance sheet position	17,359	-	907	(4,174)	(6,085)	(8,952)	(945)
<b>Net currency position</b>	<b>12,056</b>	<b>1,213</b>	<b>1,016</b>	<b>584</b>	<b>345</b>	<b>3,300</b>	<b>18,514</b>
<b>As at 31 December 2013</b>							
<b>Assets</b>							
Cash and balances with Central Bank	505	228	238	11	38	309	1,329
Bonds and debt instruments	44,188	41,335	48,450	-	-	-	133,973
Equities and equity instruments	16,443	-	1	-	-	2,617	19,061
Derivative instruments	635	-	2	-	-	-	637
Loans and advances to financial institutions	24,055	5,173	18,902	1,495	946	8,068	58,639
Loans and advances to customers	87,986	17,841	52,829	7,257	8,072	12,746	186,731
Other assets	-	-	8	-	-	25	33
<b>Total</b>	<b>173,812</b>	<b>64,577</b>	<b>120,430</b>	<b>8,763</b>	<b>9,056</b>	<b>23,765</b>	<b>400,403</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(37,579)	(14,418)	(22,251)	-	(137)	(670)	(75,055)
Deposits from customers	(29,202)	(4,841)	(24,250)	(407)	(721)	(10,724)	(70,145)
Derivative instruments and short positions	(80)	-	(440)	-	-	-	(520)
Secured bonds	(119,808)	(45,877)	(72,032)	-	-	-	(237,717)
Other liabilities	(775)	(175)	(346)	-	(4)	(491)	(1,791)
<b>Total</b>	<b>(187,444)</b>	<b>(65,311)</b>	<b>(119,319)</b>	<b>(407)</b>	<b>(862)</b>	<b>(11,885)</b>	<b>(385,228)</b>
Net on-balance sheet position	(13,632)	(734)	1,111	8,356	8,194	11,880	15,175
Net off-balance sheet position	29,124	(95)	39	(8,999)	(8,459)	(12,328)	(718)
<b>Net currency position</b>	<b>15,492</b>	<b>(829)</b>	<b>1,150</b>	<b>(643)</b>	<b>(265)</b>	<b>(448)</b>	<b>14,457</b>

## Notes to the Consolidated Financial Statements

### 46. Foreign exchange rates used

The following exchange rates were used by the Group:

	30 June 2014	31 December 2013	% Change	Average for 1.1-30.6 2014	Average for 1.1-30.6 2013
EUR/ISK	154.10	158.50	(2.8%)	155.53	162.27
GBP/ISK	192.63	190.30	1.2%	189.72	191.39
USD/ISK	112.56	115.11	(2.2%)	113.36	123.75
JPY/ISK	1.11	1.10	0.9%	1.11	1.31
CHF/ISK	126.91	129.20	(1.8%)	127.52	132.39
CAD/ISK	105.49	108.24	(2.5%)	103.89	121.49
DKK/ISK	20.67	21.25	(2.7%)	20.84	21.76
NOK/ISK	18.36	18.95	(3.1%)	18.72	21.49
SEK/ISK	16.84	17.96	(6.2%)	17.36	18.98