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## Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2019

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Credit rating  
**BBB+**  
with a negative outlook

Best Bank



Robust cyber security



Nordic Financial CERT

Principles for  
Responsible Investment



Equal Pay Certification



Good governance



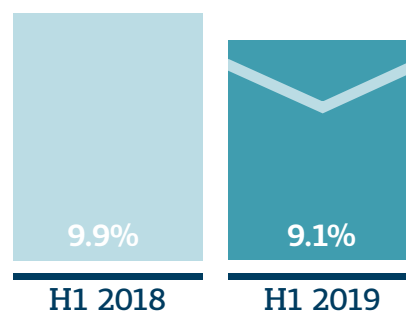
# Highlights



## Profit



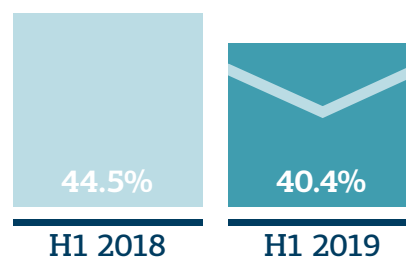
## Return on equity



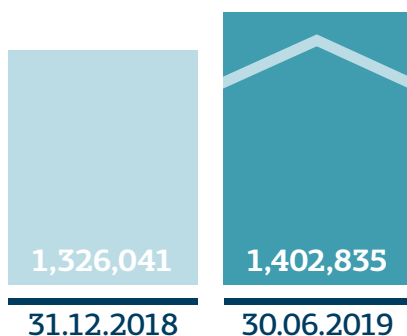
## Total operating income



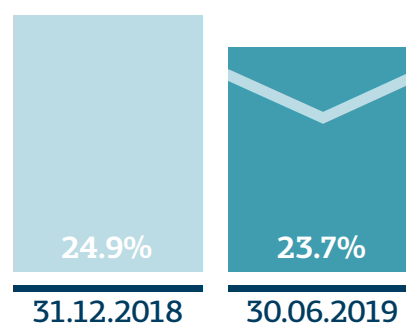
## Cost-income ratio



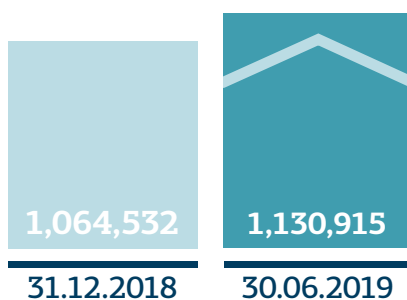
## Total assets



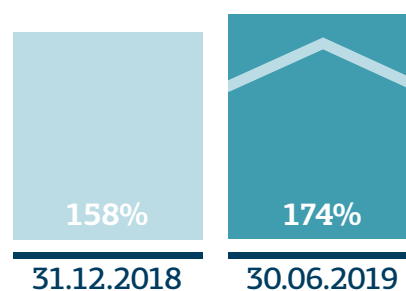
## Total capital ratio



## Loans and advances to customers



## Total liquidity coverage ratio (LCR)



## Report of the Board of Directors and the CEO

Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors. The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the first half of 2019 include the Bank and its subsidiaries (collectively referred to as the "Group").

### Operations

Consolidated profit amounted to ISK 11,113 million for the first half of 2019. Consolidated total equity amounted to ISK 240,612 million and total assets to ISK 1,402,835 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 23.7% at the end of the period.

On 23 July 2019, the international rating agency S&P Global Ratings affirmed Landsbankinn's long-term and short-term issuer credit rating of BBB+/A-2, but revised its outlook from stable to negative.

### Risk factors

The carrying amount of the Bank's credit portfolio increased by 6.2% in the first half of 2019. The Bank's credit risk remains well within its risk appetite. Impairment on loans is significantly higher during the first half of the year compared to the same period last year. However, expected credit losses as a percentage of total loans decreased during the first half of 2019, despite a slight increase during the second quarter of the year.

The Bank monitors closely and manages its liquidity risk, both collectively and separately in foreign currencies and Icelandic krona. The total liquidity coverage ratio (LCR) was 174% at the end of the period, compared with 158% at year-end 2018.

Market risk remains low and well within the Bank's risk appetite.

Information about the Group's risk management is included in the notes to the Interim Financial Statement.

### Outlook

After a period of continuous economic growth in Iceland since 2011, a turning point has been reached in the economic cycle. Following setbacks in the fishing and tourism sectors, the outlook is for economic contraction this year. This contraction is expected to be slight and short-lived. Despite above-trend growth in the past several years, the Icelandic economy is more balanced and robust than at the end of previous expansion periods. A combination of relatively high policy rates and a strong Treasury position enable firm application of policy instruments to soften the impact of contraction and lay the groundwork for sustainable growth as early as next year. The Central Bank of Iceland has already reacted to the impending downturn by lowering policy rates by 75 basis points this May and June.

S&P's Global Ratings announcement regarding the affirmation of Landsbankinn's issuer credit rating and revision of outlook from stable to negative refers, among other things, to challenges in the economic environment of Icelandic banks, pointing out that an economic slowdown is expected in 2019, together with falling interest rates, continuing high taxation of banks and stiff competition from pension funds. S&P expects these factors to negatively affect profitability of the banks; however, it also expects the economy to rebound in 2020. Should the competitive environment of the banks become more benign or Landsbankinn improve its returns, efficiency and asset quality, S&P says it could revise the outlook back to stable.

### Other matters

The AGM of the Bank held on 4 April 2019, approved the motion of the Board of Directors to pay shareholders a dividend in the amount of ISK 9,922 million, or equivalent to ISK 0.42 per share, for the operating year 2018. The dividend was to be paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The earlier instalment was paid to shareholders last April in accordance with the resolution of the meeting.

## Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2019 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

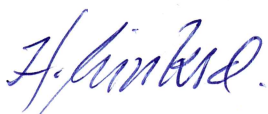
In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first half of 2019, its consolidated financial position as at 30 June 2019, and its consolidated cash flows for the first half of 2019.

Furthermore, in our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. 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 half of 2019.

Reykjavík, 25 July 2019

Board of Directors

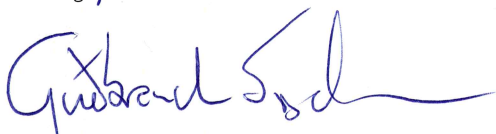


Helga Björk Eiríksdóttir

Chairman



Berglind Svavarsdóttir



Guðbrandur Sigurðsson



Sigríður Benediktsdóttir



Einar Pór Bjarnason

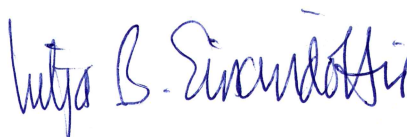


Guðrún Blöndal



Sigurður Jón Björnsson

CEO



Lilja Björk Einarsdóttir

# Independent Auditor's Review Report

To the Board of Directors and Shareholders of Landsbankinn hf.

## Introduction

We have reviewed the accompanying Condensed Consolidated Statement of Financial Position of Landsbankinn hf. (the Bank) as at 30 June 2019 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements 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 statements 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 Statements do not give a true and fair view of the financial position of the Bank as at 30 June 2019, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 25 July 2019

*Grant Thornton endurskoðun ehf.*



Davíð Arnar Einarsson  
State Authorised Public Accountant



J. Sturla Jónsson  
State Authorised Public Accountant

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## Condensed Consolidated Income Statement for the six months ended 30 June 2019

		2019	2018	2019	2018
Notes		1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
	Interest income	20,555	16,316	38,454	32,375
	Interest expense	(10,341)	(6,481)	(17,995)	(12,899)
6	<b>Net interest income</b>	<b>10,214</b>	<b>9,835</b>	<b>20,459</b>	<b>19,476</b>
7	Net valuation adjustments and impairment	(1,378)	703	(2,372)	1,727
	<b>Net interest income after net valuation adjustments and impairment</b>	<b>8,836</b>	<b>10,538</b>	<b>18,087</b>	<b>21,203</b>
	Fee and commission income	2,861	2,926	5,764	5,386
	Fee and commission expense	(785)	(741)	(1,628)	(1,510)
8	<b>Net fee and commission income</b>	<b>2,076</b>	<b>2,185</b>	<b>4,136</b>	<b>3,876</b>
9	Net gain (loss) on financial assets and liabilities at FVTPL	1,776	(333)	5,218	1,863
10	Net foreign exchange loss	(87)	(399)	(245)	(469)
11	Other income and (expenses)	266	195	704	2,545
	<b>Other net operating income</b>	<b>1,955</b>	<b>(537)</b>	<b>5,677</b>	<b>3,939</b>
	<b>Total operating income</b>	<b>12,867</b>	<b>12,186</b>	<b>27,900</b>	<b>29,018</b>
12	Salaries and related expenses	3,689	3,869	7,369	7,532
13	Other operating expenses	2,340	2,287	4,862	4,622
	<b>Total operating expenses</b>	<b>6,029</b>	<b>6,156</b>	<b>12,231</b>	<b>12,154</b>
	<b>Profit before tax</b>	<b>6,838</b>	<b>6,030</b>	<b>15,669</b>	<b>16,864</b>
14	Income tax	(1,444)	(1,609)	(2,481)	(3,501)
15	Tax on liabilities of financial institutions	(1,065)	(910)	(2,075)	(1,750)
	<b>Profit for the period</b>	<b>4,329</b>	<b>3,511</b>	<b>11,113</b>	<b>11,613</b>
<b>Profit for the year attributable to :</b>					
	Owners of the Bank	4,329	3,511	11,113	11,613
	Non-controlling interests	0	0	0	0
	<b>Profit for the period</b>	<b>4,329</b>	<b>3,511</b>	<b>11,113</b>	<b>11,613</b>
<b>Earnings per share</b>					
36	Basic and diluted earnings per share from operations (ISK)	<b>0.18</b>	<b>0.15</b>	<b>0.47</b>	<b>0.49</b>

## Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2019

		2019	2018	2019	2018
Notes		1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
	Profit for the period	4,329	3,511	11,113	11,613
	Other comprehensive income for the period, after tax	0	0	0	0
	<b>Comprehensive income for the period</b>	<b>4,329</b>	<b>3,511</b>	<b>11,113</b>	<b>11,613</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 2019

Notes		30.6.2019	31.12.2018
<b>Assets</b>			
19, 55	Cash and balances with Central Bank	63,990	70,854
16, 20	Bonds and debt instruments	84,830	77,058
16, 21	Equities and equity instruments	27,658	23,547
16, 22	Derivative instruments	2,045	1,923
23, 55	Loans and advances to financial institutions	71,812	71,385
24, 55	Loans and advances to customers	1,130,915	1,064,532
	Investments in equity-accounted associates	1,321	1,453
	Property and equipment	5,743	5,548
	Intangible assets	2,435	2,622
32	Deferred tax assets	108	134
27	Other assets	10,696	5,655
28	Assets classified as held for sale	1,282	1,330
	<b>Total assets</b>	<b>1,402,835</b>	<b>1,326,041</b>
<b>Liabilities</b>			
29	Due to financial institutions and Central Bank	34,430	34,609
30	Deposits from customers	697,898	693,043
22	Derivative instruments and short positions	4,617	6,546
31, 55	Borrowings	377,680	314,412
33	Other liabilities	33,151	24,451
28	Liabilities associated with assets classified as held for sale	30	30
34	Subordinated liabilities	14,417	13,340
	<b>Total liabilities</b>	<b>1,162,223</b>	<b>1,086,431</b>
35	<b>Equity</b>		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	12,802	12,130
	Retained earnings	83,555	83,225
	<b>Total equity</b>	<b>240,612</b>	<b>239,610</b>
	<b>Total liabilities and equity</b>	<b>1,402,835</b>	<b>1,326,041</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 2019

### Notes

		Attributable to owners of the Bank								
		Reserves*					Retained earnings	Total	Non-controlling interests	Total
Change in equity for the six months ended 30 June 2019		Share capital	Share premium	Statutory reserve	Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL				
4	Balance as at 31 December 2018	23,625	120,630	6,000	5,153	977	83,225	239,610		239,610
	Impact of adopting IFRS 16 at 1 January 2019						(188)	(188)		(188)
	<b>Restated balance at 1 January 2018</b>	<b>23,625</b>	<b>120,630</b>	<b>6,000</b>	<b>5,153</b>	<b>977</b>	<b>83,037</b>	<b>239,422</b>	<b>0</b>	<b>239,422</b>
	Profit for the period						11,113	11,113		11,113
35	Transferred (from) to restricted retained earnings				(2,801)	3,473	(672)	0		0
	Dividends allocated						(9,922)	(9,922)		(9,922)
	<b>Balance as at 30 June 2019</b>	<b>23,625</b>	<b>120,630</b>	<b>6,000</b>	<b>2,352</b>	<b>4,450</b>	<b>83,555</b>	<b>240,612</b>	<b>0</b>	<b>240,612</b>
<b>Change in equity for the six months ended 30 June 2018</b>										
	Balance as at 31 December 2017	23,640	120,764	6,000	2,949	3,953	88,751	246,057		246,057
	Impact of adopting IFRS 9 at 1 January 2018						(482)	(482)		(482)
	Impact of adopting IFRS 15 at 1 January 2018						(254)	(254)		(254)
	<b>Restated balance at 1 January 2018</b>	<b>23,640</b>	<b>120,764</b>	<b>6,000</b>	<b>2,949</b>	<b>3,953</b>	<b>88,015</b>	<b>245,321</b>	<b>0</b>	<b>245,321</b>
35	Profit for the period						11,613	11,613		11,613
	Transferred (from) to restricted retained earnings				934	(1,897)	963	0		0
	Dividends paid						(24,822)	(24,822)		(24,822)
	<b>Balance as at 30 June 2018</b>	<b>23,640</b>	<b>120,764</b>	<b>6,000</b>	<b>3,883</b>	<b>2,056</b>	<b>75,770</b>	<b>232,113</b>	<b>0</b>	<b>232,113</b>

\*In accordance with the Public Limited Companies Act, No. 2/1995 and Act No. 3/2006, on Annual Financial Statements

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 2019

Notes	2019 1.1-30.6	2018 1.1-30.6
<b>Operating activities</b>		
Profit for the period	11,113	11,613
Adjustments for non-cash items included in profit for the period	(16,431)	(19,524)
Changes in operating assets and liabilities	(84,556)	(12,323)
Interest received	34,756	31,034
Interest paid	(6,164)	(3,741)
Dividends received	1,351	2,340
Income tax and special income tax on financial institutions paid	(3,455)	(2,419)
<b>Net cash (used in) from operating activities</b>	<b>(63,386)</b>	<b>6,980</b>
<b>Investing activities</b>		
Purchase of property and equipment	(423)	(171)
Proceeds from sale of property and equipment	3	230
Purchase of intangible assets	(30)	(43)
<b>Investing activities</b>	<b>(450)</b>	<b>16</b>
<b>Financing activities</b>		
Proceeds from borrowings	60,846	25,487
Repayment of borrowings	(14,991)	(9,002)
Repayment of subordinated liabilities	0	(7)
Paid rent	(292)	0
Dividends paid	(4,961)	(15,366)
<b>Financing activities</b>	<b>40,602</b>	<b>1,112</b>
Cash and cash equivalents as at the beginning of the period	81,723	53,174
Net change in cash and cash equivalents	(23,234)	8,108
Effect of exchange rate changes on cash and cash equivalents held	(1,590)	85
<b>Cash and cash equivalents as at the end of the period</b>	<b>56,899</b>	<b>61,367</b>
<b>Investing and financing activities not affecting cash flows</b>		
Approved dividend to shareholders	(4,961)	(9,456)
Unpaid dividend to shareholders	4,961	9,456
<b>Cash and cash equivalents is specified as follows:</b>		
19 Cash and balances with Central Bank	63,990	68,372
23 Bank accounts with financial institutions	23,265	21,409
19 Mandatory and special restricted balances with Central Bank	(30,356)	(28,413)
<b>Cash and cash equivalents as at the end of the period</b>	<b>56,899</b>	<b>61,367</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 2019

Notes	2019 1.1-30.6	2018 1.1-30.6
<b>Adjustments for non-cash items included in profit for the period</b>		
6 Net interest income	(20,459)	(19,476)
7 Net impairment of loans and advances and guarantees and other assets	2,372	(598)
7 Reversals of loss from foreign currency linkage of loans and advances to customers	0	(1,129)
9 Net gain on financial assets and liabilities at FVTPL	(5,218)	(1,863)
10 Net foreign exchange loss	1,835	384
Gain on sale of property and equipment	(2)	(115)
Net gain on assets classified as held for sale	(40)	(2,311)
Depreciation and amortisation	678	441
Share of profit of equity-accounted associates	(153)	(108)
14 Income tax	2,481	3,501
15 Tax on liabilities of financial institutions	2,075	1,750
	<b>(16,431)</b>	<b>(19,524)</b>

### Changes in operating assets and liabilities

Change in reserve requirement with Central Bank	(313)	3,825
Change in bonds and equities	(5,717)	17,023
Change in derivatives	(3)	(20)
Change in loans and advances to financial institutions	(13,262)	(11,908)
Change in loans and advances to customers	(52,358)	(60,242)
Change in other assets	(17)	(1,629)
Change in assets classified as held for sale	89	10
Change in due to financial institutions and Central Bank	(707)	(4,649)
Change in deposits from customers	(7,632)	44,955
Change in tax liability	25	(99)
Change in other liabilities	(4,661)	413
Change in liabilities associated with assets classified as held for sale	0	(2)
	<b>(84,556)</b>	<b>(12,323)</b>

### Change in liabilities due to financing activities

	As at 1.1.2019	Cash flow	Non-cash changes			As at 30.6.2019
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	106,309	24,968	4,132	-	-	135,409
Senior unsecured bonds	100,807	20,187	155	6,370	-	127,519
Senior unsecured bonds held to hedge long-term borrowings	84,634	(996)	1,029	5,168	524	90,359
Commercial paper issued	2,705	891	63	-	-	3,659
Other unsecured loans	19,958	(606)	34	1,348	-	20,734
Subordinated liabilities	13,340	-	234	843	-	14,417
<b>Total</b>	<b>327,753</b>	<b>44,444</b>	<b>5,647</b>	<b>13,729</b>	<b>524</b>	<b>392,097</b>

	As at 1.1.2018	Cash flow	Non-cash changes			As at 30.6.2018
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	70,253	16,224	2,071	-	-	88,548
Senior unsecured bonds	113,420	(687)	618	(2,270)	-	111,081
Senior unsecured bonds held to hedge long-term borrowings	78,065	(719)	451	(884)	425	77,338
Commercial paper issued	7,433	803	184	-	-	8,420
Other unsecured loans	12,703	(542)	13	124	-	12,298
Subordinated liabilities	77	(7)	-	2	-	72
<b>Total</b>	<b>281,951</b>	<b>15,072</b>	<b>3,337</b>	<b>(3,028)</b>	<b>425</b>	<b>297,757</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

## General

### 1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008. 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. The Bank is subject to supervision of the Financial Supervisory Authority (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 2019 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, markets, asset management and other related financial services. The Group operates solely in Iceland.

### 2. Basis of preparation

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2019 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 have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 25 July 2019.

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 2018, 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.

#### Functional and presentation currency

The functional currency of the Bank and its individual Group entities is Icelandic króna (ISK) and all amounts are presented in ISK, 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.

Accounting 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.

### 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 in the Condensed Consolidated Interim Financial Statements are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2018, except for changes resulting from the initial adoption of IFRS 16 Leases, which are described in Note 63.

### 4. Impact of IFRS 16 Leases on the date of initial application

On transition to IFRS 16, the Group accounted for ISK 2,595 million as a right-of-use assets and ISK 2,829 million as lease liabilities, recognising the difference in retained earnings net of tax.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate as at 1 January 2019 of 3.0% for CPI-indexed leases and 6.0% for non-indexed leases.

#### 1 January 2019

Operating lease commitments disclosed in the Groups Consolidated Financial Statements as at 31 December 2018	3,346
Recognition exemption for leases with a remaining lease term of less than 12 months	(11)
Effect of using incremental borrowing rate	(506)
<b>Lease liabilities as at 1 January 2019</b>	<b>2,829</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 5. Operating segments

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.

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

- **Personal Banking** offers individuals and small and medium-size businesses outside the capital city region diverse financial services through digital service channels, both online banking and apps, alongside conventional service through the Bank's branch network and Customer Service Centre.
- **Corporate Banking** offers financial services to corporate clients and to small and medium-size businesses in the capital city region and manages a corporate online banking platform that offers electronic banking services.
- **Markets** provides brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. The division provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf. a subsidiary of the Bank, is included in Markets.
- **Treasury** incorporates the Bank's funding and liquidity management, market making in money markets, and determines the Bank's internal pricing. Treasury also manages the Bank's exchange rate, interest rate and inflation risks, within limits set by the Board of Directors.

Support functions are comprised of Finance (excluding Treasury), Risk Management, IT and the CEO's Office. The CEO's Office is comprised of Human Resources, Marketing & Communications and Compliance. The Bank's Internal Audit department is also included in support functions; however, it is independent and reports directly to the Bank's Board of Directors.

Reconciliation consists of eliminations of internal transactions and operating items 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 use and activity.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss) 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 period from 1 January to 30 June 2019 and 2018.

## Notes to the Condensed Consolidated Interim Financial Statements

### 5. Operating segments (continued)

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
<b>1 January - 30 June 2019</b>							
Net interest income	8,143	9,882	371	2,062	(16)	17	20,459
Net valuation adjustments and impairment	(504)	(1,872)	(1)	5	-	-	(2,372)
Net fee and commission income	2,066	343	1,913	(190)	122	(118)	4,136
Other net operating income (expenses)	606	84	52	4,841	134	(40)	5,677
<b>Total operating income (expense)</b>	<b>10,311</b>	<b>8,437</b>	<b>2,335</b>	<b>6,718</b>	<b>240</b>	<b>(141)</b>	<b>27,900</b>
Operating expenses	(3,264)	(1,087)	(1,193)	(926)	(5,887)	126	(12,231)
<b>Profit (loss) before cost allocation and tax</b>	<b>7,047</b>	<b>7,350</b>	<b>1,142</b>	<b>5,792</b>	<b>(5,647)</b>	<b>(15)</b>	<b>15,669</b>
Cost allocated from support functions to business segments	(2,372)	(1,485)	(778)	(571)	5,206	-	0
<b>Profit (loss) before tax</b>	<b>4,675</b>	<b>5,865</b>	<b>364</b>	<b>5,221</b>	<b>(441)</b>	<b>(15)</b>	<b>15,669</b>
Net revenue (expenses) from external customers	14,021	13,532	2,121	(1,827)	194	-	28,041
Net revenue (expenses) from other segments	(3,710)	(5,095)	214	8,545	46	-	0
<b>Total operating income</b>	<b>10,311</b>	<b>8,437</b>	<b>2,335</b>	<b>6,718</b>	<b>240</b>	<b>0</b>	<b>28,041</b>
<b>As at 30 June 2019</b>							
<b>Total assets</b>	488,531	610,443	8,920	592,314	20,755	(318,128)	1,402,835
<b>Total liabilities</b>	446,844	502,341	2,399	508,012	20,755	(318,128)	1,162,223
<b>Allocated capital</b>	41,687	108,102	6,521	84,302	-	-	240,612

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
<b>1 January - 30 June 2018</b>							
Net interest income	7,749	8,788	274	2,628	54	(17)	19,476
Net valuation adjustments and impairment	545	1,203	-	2	(23)	-	1,727
Net fee and commission income	1,636	377	2,031	(198)	141	(111)	3,876
Other net operating income (expenses)	215	(145)	(101)	1,519	2,476	(25)	3,939
<b>Total operating income (expense)</b>	<b>10,145</b>	<b>10,223</b>	<b>2,204</b>	<b>3,951</b>	<b>2,648</b>	<b>(153)</b>	<b>29,018</b>
Operating expenses	(3,232)	(969)	(1,083)	(859)	(6,129)	118	(12,154)
<b>Profit (loss) before cost allocation and tax</b>	<b>6,913</b>	<b>9,254</b>	<b>1,121</b>	<b>3,092</b>	<b>(3,481)</b>	<b>(35)</b>	<b>16,864</b>
Cost allocated from support functions to business segments	(2,455)	(1,476)	(732)	(413)	5,076	-	0
<b>Profit (loss) before tax</b>	<b>4,458</b>	<b>7,778</b>	<b>389</b>	<b>2,679</b>	<b>1,595</b>	<b>(35)</b>	<b>16,864</b>
Net revenue (expenses) from external customers	12,599	14,569	2,017	(2,543)	2,529	-	29,171
Net revenue (expenses) from other segments	(2,454)	(4,346)	187	6,494	119	-	0
<b>Total operating income</b>	<b>10,145</b>	<b>10,223</b>	<b>2,204</b>	<b>3,951</b>	<b>2,648</b>	<b>0</b>	<b>29,171</b>
<b>As at 30 June 2018</b>							
<b>Total assets</b>	448,633	531,942	19,510	513,645	14,057	(277,934)	1,249,853
<b>Total liabilities</b>	409,155	432,965	14,025	425,472	14,057	(277,934)	1,017,740
<b>Allocated capital</b>	39,478	98,977	5,485	88,173	-	-	232,113



## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Consolidated Income Statement

#### 6. Net interest income

	1.4-30.6.2019			1.1-30.6.2019		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
<b>Interest income</b>						
Cash and balances with Central Bank	453	5	458	992	14	1,006
Bonds and debt instruments	65	-	65	142	-	142
Loans and advances to financial institutions	75	-	75	133	-	133
Loans and advances to customers	19,046	138	19,184	35,495	292	35,787
Other interest income	77	696	773	84	1,302	1,386
<b>Total</b>	<b>19,716</b>	<b>839</b>	<b>20,555</b>	<b>36,846</b>	<b>1,608</b>	<b>38,454</b>
<b>Interest expense</b>						
Due to financial institutions and Central Bank	(307)	-	(307)	(563)	-	(563)
Deposits from customers	(5,306)	-	(5,306)	(10,079)	-	(10,079)
Borrowings	(2,996)	(1,012)	(4,008)	(5,152)	(1,029)	(6,181)
Other interest expense	(8)	(592)	(600)	(119)	(819)	(938)
Subordinated liabilities	(120)	-	(120)	(234)	-	(234)
<b>Total</b>	<b>(8,737)</b>	<b>(1,604)</b>	<b>(10,341)</b>	<b>(16,147)</b>	<b>(1,848)</b>	<b>(17,995)</b>
<b>Net interest income</b>	<b>10,979</b>	<b>(765)</b>	<b>10,214</b>	<b>20,699</b>	<b>(240)</b>	<b>20,459</b>
	1.4-30.6.2018			1.1-30.6.2018		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
<b>Interest income</b>						
Cash and balances with Central Bank	544	3	547	1,056	3	1,059
Bonds and debt instruments	255	-	255	524	-	524
Loans and advances to financial institutions	24	-	24	31	-	31
Loans and advances to customers	15,356	129	15,485	30,593	160	30,753
Other interest income	5	-	5	8	-	8
<b>Total</b>	<b>16,184</b>	<b>132</b>	<b>16,316</b>	<b>32,212</b>	<b>163</b>	<b>32,375</b>
<b>Interest expense</b>						
Due to financial institutions and Central Bank	(57)	-	(57)	(140)	-	(140)
Deposits from customers	(4,426)	-	(4,426)	(8,821)	-	(8,821)
Borrowings	(1,825)	(140)	(1,965)	(3,685)	(214)	(3,899)
Other interest expense	(32)	-	(32)	(37)	-	(37)
Subordinated liabilities	(1)	-	(1)	(2)	-	(2)
<b>Total</b>	<b>(6,341)</b>	<b>(140)</b>	<b>(6,481)</b>	<b>(12,685)</b>	<b>(214)</b>	<b>(12,899)</b>
<b>Net interest income</b>	<b>9,843</b>	<b>(8)</b>	<b>9,835</b>	<b>19,527</b>	<b>(51)</b>	<b>19,476</b>

Net interest income, calculated based on the effective interest rate method, amounted to ISK 20,457 million in the first half of 2019 as compared with ISK 19,473 for the same period in 2018.

#### 7. Net valuation adjustments and impairment

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
Net impairment on loans and advances to customers and financial institutions	(1,383)	(426)	(2,407)	598
Net impairment on other financial assets	5	-	35	-
Reversals of foreign currency linkage loans and advances to customers	-	1,129	-	1,129
<b>Net valuation adjustments and impairment</b>	<b>(1,378)</b>	<b>703</b>	<b>(2,372)</b>	<b>1,727</b>
<b>Valuation adjustments and impairment by customer type</b>				
Financial institutions	-	(5)	1	(4)
Individuals	(75)	236	(111)	498
Corporates	(1,303)	472	(2,262)	1,233
<b>Net valuation adjustments and impairment</b>	<b>(1,378)</b>	<b>703</b>	<b>(2,372)</b>	<b>1,727</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 8. Net fee and commission income

	1.4-30.6 2019			1.1-30.6 2019		
	Fee and commission income	Fee and commission expense	Net fee and commission expense	Fee and commission income	Fee and commission expense	Net fee and commission expense
Capital Markets	957	(127)	830	2,029	(322)	1,707
Loans and guarantees	201	-	201	409	-	409
Payment cards	1,195	(454)	741	2,369	(959)	1,410
Collection and payment services	231	(42)	189	450	(83)	367
Other	277	(162)	115	507	(264)	243
<b>Total</b>	<b>2,861</b>	<b>(785)</b>	<b>2,076</b>	<b>5,764</b>	<b>(1,628)</b>	<b>4,136</b>

	1.4-30.6 2018			1.1-30.6 2018		
	Fee and commission income	Fee and commission expense	Net fee and commission expense	Fee and commission income	Fee and commission expense	Net fee and commission expense
Capital Markets	1,272	(154)	1,118	2,117	(328)	1,789
Loans and guarantees	173	-	173	413	-	413
Payment cards	950	(432)	518	1,877	(885)	992
Collection and payment services	234	(41)	193	453	(80)	373
Other	297	(114)	183	526	(217)	309
<b>Total</b>	<b>2,926</b>	<b>(741)</b>	<b>2,185</b>	<b>5,386</b>	<b>(1,510)</b>	<b>3,876</b>

### 9. Net gain (loss) on financial assets and liabilities at FVTPL

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
<b>Net gain (loss) on financial assets and liabilities at FVTPL</b>				
Bonds and debt instruments	307	(16)	643	(229)
Equities and equity instruments	778	(376)	3,955	1,962
Derivatives and underlying hedges	480	107	603	95
Loans and advances to customers	19	(138)	72	(143)
Net gain (loss) on fair value hedges	192	90	(55)	178
<b>Total</b>	<b>1,776</b>	<b>(333)</b>	<b>5,218</b>	<b>1,863</b>

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

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
<b>Assets</b>				
Cash and balances with Central Bank	43	(1)	70	(16)
Bonds and debt instruments	1,214	1,476	3,542	(174)
Equities and equity instruments	-	11	10	14
Derivative instruments	152	(2,362)	(1,143)	(3,211)
Loans and advances to financial institutions	1,493	1,121	4,770	82
Loans and advances to customers	5,403	4,093	12,847	62
Other assets	(37)	(275)	14	(184)
<b>Total</b>	<b>8,268</b>	<b>4,063</b>	<b>20,110</b>	<b>(3,427)</b>
<b>Liabilities</b>				
Due to financial institutions and Central Bank	(10)	1	(18)	-
Deposits from customers	(2,123)	(1,810)	(6,601)	(188)
Borrowings	(5,924)	(2,819)	(12,886)	3,030
Other liabilities	99	168	(7)	118
Subordinated liabilities	(397)	(2)	(843)	(2)
<b>Total</b>	<b>(8,355)</b>	<b>(4,462)</b>	<b>(20,355)</b>	<b>2,958</b>
<b>Net foreign exchange loss</b>	<b>(87)</b>	<b>(399)</b>	<b>(245)</b>	<b>(469)</b>

### 11. Other income and expenses

	Note	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
Gain on sale of property and equipment		-	2	2	115
Gain on repossessed collateral	28	(37)	187	40	2,311
Share of profit of equity-accounted associates		60	114	153	221
Other		243	(108)	509	(102)
<b>Total</b>		<b>266</b>	<b>195</b>	<b>704</b>	<b>2,545</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 12. Salaries and related expenses

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
Salaries	2,843	3,024	5,711	5,892
Contributions to defined pension plans	423	416	827	807
Social security contributions	217	222	424	431
Special financial activities tax on salaries	181	179	354	347
Other related expenses	25	28	53	55
<b>Total salaries and related expenses</b>	<b>3,689</b>	<b>3,869</b>	<b>7,369</b>	<b>7,532</b>

### 13. Other operating expenses

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
Information technology	633	473	1,215	1,043
Real estate and fixtures	234	214	461	432
Advertising and marketing	191	221	389	411
Operating lease rentals	-	148	15	290
FME supervisory expenses	122	154	244	307
Contribution to the Debtor's Ombudsman	20	26	39	51
Audit and related services	31	40	76	75
Other professional services	123	113	295	223
Depreciation and amortisation	330	220	678	441
Contribution to the Depositors' and Investors' Guarantee Fund	248	325	619	642
Other operating expenses	408	353	831	707
<b>Total</b>	<b>2,340</b>	<b>2,287</b>	<b>4,862</b>	<b>4,622</b>

### 14. Income tax

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

	2019 1.1-30.6	2018 1.1-30.6
Current tax expense	(1,958)	(2,935)
Special income tax on financial institutions	(498)	(666)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(25)	100
<b>Total</b>	<b>(2,481)</b>	<b>(3,501)</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:

	2019 1.1-30.6	2018 1.1-30.6
Profit before tax	15,669	16,864
Tax on liabilities of financial institutions	(2,075)	(1,750)
Profit before income tax	13,594	15,114
Income tax calculated using the domestic corporate income tax rate	20.0% (2,719)	20.0% (3,023)
Special income tax on financial institutions	3.7% (498)	4.4% (666)
Income not subject to tax	(9.0%) 1,221	(3.7%) 555
Non-deductible expenses	3.6% (493)	2.8% (416)
Other	(0.1%) 8	(0.3%) 49
<b>Effective income tax</b>	<b>18.3% (2,481)</b>	<b>23.2% (3,501)</b>

### 15. Tax on liabilities of financial institutions

	2019 1.1-30.6	2018 1.1-30.6
Tax on liabilities of financial institutions	(2,075)	(1,750)

## Notes to the Condensed Consolidated Statement of Financial Position

### 16. Classification and fair values of financial assets and liabilities

Under IFRS 9, financial assets must be classified into categories that reflects the cash flow characteristic of the assets and the objective of business model for managing the assets. Subsequent measurement of each category is specified below:

- Financial assets measured at amortised cost
- Financial assets mandatorily measured at fair value through profit or loss
- Financial assets designated at fair value through profit or loss
- Financial liabilities measured at amortised cost
- Financial liabilities measured at fair value through profit or loss.

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 30 June 2019:

As at 30 June 2019	Notes	Carrying amount				Total	Fair value			
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Cash and balances with Central Bank	19	-	5,376	-	-	5,376	-	5,376	-	5,376
Bonds and debt instruments	20	-	70,886	9,851	-	80,737	71,903	8,643	191	80,737
Equities and equity instruments	21	-	27,658	-	-	27,658	11,678	-	15,980	27,658
Derivative instruments	22	-	2,045	-	-	2,045	-	2,045	-	2,045
Loans and advances to customers		-	9,501	-	-	9,501	-	-	9,501	9,501
		0	115,466	9,851	0	125,317	83,581	16,064	25,672	125,317
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	58,614	-	-	-	58,614	-	58,614	-	58,614
Bonds and debt instruments	20	4,093	-	-	-	4,093	-	4,283	-	4,283
Loans and advances to financial institutions	23	71,812	-	-	-	71,812	-	71,812	-	71,812
Loans and advances to customers	24	1,121,414	-	-	-	1,121,414	-	1,125,718	-	1,125,718
Other financial assets		9,814	-	-	-	9,814	-	9,814	-	9,814
		1,265,747	0	0	0	1,265,747	0	1,270,241	0	1,270,241
Financial liabilities measured at fair value										
Derivative instruments	22	-	2,488	-	-	2,488	-	2,488	-	2,488
Short positions	22	-	2,129	-	-	2,129	2,129	-	-	2,129
		0	4,617	0	0	4,617	2,129	2,488	0	4,617
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	29	-	-	-	34,430	34,430	-	34,430	-	34,430
Deposits from customers	30	-	-	-	697,898	697,898	-	697,324	-	697,324
Borrowings	31	-	-	-	377,680	377,680	-	387,730	-	387,730
Other financial liabilities		-	-	-	10,543	10,543	-	10,543	-	10,543
Subordinated liabilities	34	-	-	-	14,417	14,417	-	14,528	-	14,528
		0	0	0	1,134,968	1,134,968	0	1,144,555	0	1,144,555

## Notes to the Condensed Consolidated Interim Financial Statements

### 16. Classification and fair values of financial assets and liabilities (continued)

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2018:

Carrying amount							Fair value			
As at 31 December 2018	Notes	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>										
Bonds and debt instruments	20	-	63,386	9,896	-	73,282	64,445	8,627	210	73,282
Equities and equity instruments	21	-	23,547	-	-	23,547	11,740	-	11,807	23,547
Derivative instruments	22	-	1,923	-	-	1,923	-	1,923	-	1,923
Loans and advances to customers		-	9,670	-	-	9,670	-	-	9,670	9,670
		<b>0</b>	<b>98,526</b>	<b>9,896</b>	<b>0</b>	<b>108,422</b>	<b>76,185</b>	<b>10,550</b>	<b>21,687</b>	<b>108,422</b>
<b>Financial assets not measured at fair value</b>										
Cash and balances with Central Bank	19	70,854	-	-	-	70,854	-	70,854	-	70,854
Bonds and debt instruments	20	3,776	-	-	-	3,776	-	4,001	-	4,001
Loans and advances to financial institutions	23	71,385	-	-	-	71,385	-	71,385	-	71,385
Loans and advances to customers	24	1,054,862	-	-	-	1,054,862	-	1,057,375	-	1,057,375
Other financial assets		4,864	-	-	-	4,864	-	4,864	-	4,864
		<b>1,205,741</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,205,741</b>	<b>0</b>	<b>1,208,479</b>	<b>0</b>	<b>1,208,479</b>
<b>Financial liabilities measured at fair value</b>										
Derivative instruments	22	-	1,638	-	-	1,638	-	1,638	-	1,638
Short positions	22	-	4,908	-	-	4,908	4,908	-	-	4,908
		<b>0</b>	<b>6,546</b>	<b>0</b>	<b>0</b>	<b>6,546</b>	<b>4,908</b>	<b>1,638</b>	<b>0</b>	<b>6,546</b>
<b>Financial liabilities not measured at fair value</b>										
Due to financial institutions and Central Bank	29	-	-	-	34,609	34,609	-	34,609	-	34,609
Deposits from customers	30	-	-	-	693,043	693,043	-	690,920	-	690,920
Borrowings	31	-	-	-	314,412	314,412	-	319,945	-	319,945
Other financial liabilities		-	-	-	6,114	6,114	-	6,114	-	6,114
Subordinated liabilities	34	-	-	-	13,340	13,340	-	13,452	-	13,452
		<b>0</b>	<b>0</b>	<b>0</b>	<b>1,061,518</b>	<b>1,061,518</b>	<b>0</b>	<b>1,065,040</b>	<b>0</b>	<b>1,065,040</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 17. Fair value of financial assets and liabilities

#### Valuation framework

The Bank's Risk & Finance Committee oversees the Group's overall risk and is responsible for fair value measurements of financial assets and liabilities classified as Level 2 and 3 instruments. 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 monthly meetings to determine the value of Level 2 and Level 3 financial assets and liabilities.

#### Transfers between Levels 1 and 2

During the period from 1 January to 30 June 2019 and 1 January to 30 June 2018, there were no transfers between Level 1, Level 2 and Level 3.

The following tables show the reconciliation of fair value measurement in Level 3 for the six months ended 30 June 2019 and for the year 2018:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
<b>1 January - 30 June 2019</b>				
Carrying amount as at 1 January 2019	210	11,807	9,670	21,687
Net gain on financial assets and liabilities at FVTPL	119	3,970	72	4,161
Net foreign exchange gain	4	2	1	7
Purchases	50	980	-	1,030
Sales	(81)	-	-	(81)
Settlements	(111)	-	(242)	(353)
Dividend received	-	(1,039)	-	(1,039)
Transfer into Level 3	-	260	-	260
<b>Carrying amount as at 30 June 2019</b>	<b>191</b>	<b>15,980</b>	<b>9,501</b>	<b>25,672</b>
<b>1 January - 31 December 2018</b>				
Carrying amount as at 1 January 2018	83	15,659	1,857	17,599
Net gain (loss) on financial assets and liabilities at FVTPL	46	3,001	(25)	3,022
Net foreign exchange (loss) gain	(7)	2	-	(5)
Purchases	135	230	12,961	13,326
Sales	(1)	(4,377)	-	(4,378)
Settlements	(46)	-	(5,123)	(5,169)
Dividend received	-	(2,295)	-	(2,295)
Transfer out of Level 3	-	(413)	-	(413)
<b>Carrying amount as at 31 December 2018</b>	<b>210</b>	<b>11,807</b>	<b>9,670</b>	<b>21,687</b>

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group as at 30 June 2019 and 30 June 2018, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
<b>1 January - 30 June 2019</b>				
Net gain on financial assets and liabilities at FVTPL	119	3,970	72	4,161
Net foreign exchange gain	4	2	1	6
<b>Total</b>	<b>123</b>	<b>3,972</b>	<b>73</b>	<b>4,167</b>
<b>1 January - 30 June 2018</b>				
Net gain (loss) on financial assets and liabilities at FVTPL	44	2,358	(143)	2,259
Net foreign exchange loss	(9)	-	-	(9)
<b>Total</b>	<b>35</b>	<b>2,358</b>	<b>(143)</b>	<b>2,250</b>

### 18. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 30 June 2019 and 31 December 2018.

As at 30 June 2019	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	191	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	15,980	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	9,501	-	See 3) below	See 3) below	n/a	n/a
	<b>25,672</b>	<b>0</b>				

## Notes to the Condensed Consolidated Interim Financial Statements

### 18. Unobservable inputs in fair value measurement (continued)

As at 31 December 2018	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	210	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	11,807	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	9,670	-	See 3) below	See 3) below	n/a	n/a
	<b>21,687</b>	<b>0</b>				

A further description of the financial instruments categorised in Level 3 are as follows:

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

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

3. Loans and advances to customers carried at FVTPL are classified as financial assets in Level 3. The valuation technique is based on significant non-observable inputs as loans and advances are unlisted and not traded in an active market. The valuation technique is based on available market data such as interest and inflation curves, probability of default and liquidity spread. Given the nature of the valuation method, the range of key unobservable inputs is not available.

#### The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit (loss) before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives for the six months ended 30 June 2019 and 30 June 2018:

	2019 1.1-30.6		2018 1.1-30.6	
	Favourable	Unfavourable	Favourable	Unfavourable
<b>Effect on profit before tax</b>				
Bonds and debt instruments	4	(4)	5	(5)
Equities and equity instruments:				
Equities	716	(729)	730	(709)
Mutual funds	258	(258)	194	(194)
Total equities and equity instruments	974	(987)	924	(903)
Loans and advances to customers	12	(15)	88	(88)
<b>Total</b>	<b>990</b>	<b>(1,006)</b>	<b>1,017</b>	<b>(996)</b>

The effect on profit was calculated as the difference between results generated using the same valuation methods but changing key unobservable inputs for bonds and equities by +/- 5% and +/- 1% for loans and advances to customers.

### 19. Cash and balances with Central Bank

	30.6.2019	31.12.2018
Cash on hand	5,880	5,217
Unrestricted balances with Central Bank	27,754	35,594
<b>Total cash and unrestricted balances with Central Bank</b>	<b>33,634</b>	<b>40,811</b>
Restricted balances with Central Bank - fixed reserve requirement	7,796	7,155
Restricted balances with Central Bank - average maintenance level	7,796	7,155
Assets held with Central Bank, subject to special restrictions	5,382	8,512
Assets pledged as collateral to the Central Bank	9,382	7,221
<b>Total restricted balances with Central Bank</b>	<b>30,356</b>	<b>30,043</b>
<b>Total cash and balances with Central Bank</b>	<b>63,990</b>	<b>70,854</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 20. Bonds and debt instruments

Bonds and debt instruments	30.6.2019			Total	31.12.2018			Total
	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	
<b>Domestic</b>								
Listed	4,093	20,121	8,870	33,084	3,776	13,454	8,874	26,104
Unlisted	-	-	981	981	-	-	1,022	1,022
	<b>4,093</b>	<b>20,121</b>	<b>9,851</b>	<b>34,065</b>	<b>3,776</b>	<b>13,454</b>	<b>9,896</b>	<b>27,126</b>
<b>Foreign</b>								
Listed	-	50,765	-	50,765	-	49,932	-	49,932
	<b>0</b>	<b>50,765</b>	<b>0</b>	<b>50,765</b>	<b>0</b>	<b>49,932</b>	<b>0</b>	<b>49,932</b>
<b>Total bonds</b>	<b>4,093</b>	<b>70,886</b>	<b>9,851</b>	<b>84,830</b>	<b>3,776</b>	<b>63,386</b>	<b>9,896</b>	<b>77,058</b>

Bonds are classified as "domestic" or "foreign" according to issuers' country of incorporation.

### 21. Equities and equity instruments

Equities and equity instruments	30.6.2019			Total	31.12.2018			Total
	Trading book	Banking book			Trading book	Banking book		
<b>Domestic</b>								
Listed	11,026	139		11,165	10,038	1,122		11,160
Unlisted	-	16,426		16,426	-	12,333		12,333
	<b>11,026</b>	<b>16,565</b>		<b>27,591</b>	<b>10,038</b>	<b>13,455</b>		<b>23,493</b>
<b>Foreign</b>								
Listed	19	32		51	24	-		24
Unlisted	-	16		16	-	30		30
	<b>19</b>	<b>48</b>		<b>67</b>	<b>24</b>	<b>30</b>		<b>54</b>
<b>Total equities</b>	<b>11,045</b>	<b>16,613</b>		<b>27,658</b>	<b>10,062</b>	<b>13,485</b>		<b>23,547</b>

Equities are classified as "domestic" or "foreign" according to issuers' country of incorporation.

As at 30 June 2019, outstanding commitments of the Group in share subscriptions amounted to ISK 1.237 million (31 December 2018: ISK 1.342 million) altogether in seven entities. The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.



## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Derivative instruments and short positions

	30.6.2019			31.12.2018		
	Notional amount	Fair value		Notional amount	Fair value	
Foreign exchange derivatives		Assets	Liabilities		Assets	Liabilities
Currency forwards	46,005	432	49	42,072	641	331
Cross-currency interest rate swaps	10,151	-	90	9,495	280	-
	<b>56,156</b>	<b>432</b>	<b>139</b>	<b>51,567</b>	<b>921</b>	<b>331</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	33,523	100	1,304	33,191	78	995
Total return swaps	20,330	8	48	9,344	2	29
	<b>53,853</b>	<b>108</b>	<b>1,352</b>	<b>42,535</b>	<b>80</b>	<b>1,024</b>
<b>Equity derivatives</b>						
Equity forwards	4,082	195	929	3,900	232	186
Total return swaps	2,880	59	50	1,322	80	51
Equity options	255	-	1	444	-	38
	<b>7,217</b>	<b>254</b>	<b>980</b>	<b>5,666</b>	<b>312</b>	<b>275</b>
<b>Fair value hedging</b>						
Interest rate swaps	89,043	1,251	17	83,861	610	8
	<b>89,043</b>	<b>1,251</b>	<b>17</b>	<b>83,861</b>	<b>610</b>	<b>8</b>
<b>Total derivative instruments</b>	<b>206,269</b>	<b>2,045</b>	<b>2,488</b>	<b>183,629</b>	<b>1,923</b>	<b>1,638</b>
<b>Short positions</b>						
Listed equities	-	-	42	-	-	-
Listed bonds	1,558	-	2,087	3,993	-	4,908
	<b>1,558</b>	<b>0</b>	<b>2,129</b>	<b>3,993</b>	<b>0</b>	<b>4,908</b>
<b>Total</b>	<b>207,827</b>	<b>2,045</b>	<b>4,617</b>	<b>187,622</b>	<b>1,923</b>	<b>6,546</b>

The Group uses derivatives both for hedging and trading purposes.

#### Fair value hedging

Currently the Group applies hedge accounting only for fair value hedges of fixed interest risk on borrowings. The Group designates interest rate swaps as hedging instruments to hedge its interest rate exposure of fixed-rate EUR and SEK borrowings. The interest rate swaps and the borrowings have identical cash flows and under the interest rate swap the Group pays floating rates while receiving fixed rates. Thus the interest rate swaps hedge the fixed interest rate risk of the borrowings.

	Notional amount of the hedging instrument	Maturity date		Fair value of the hedging derivatives		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		1-5years	>5years	Assets	Liabilities	
<b>As at 30 June 2019</b>						
Interest rate swaps - EUR	85,020	85,020	-	1,251	-	478
Interest rate swaps - SEK	4,023	4,023	-	-	17	(9)
<b>Total</b>	<b>89,043</b>	<b>89,043</b>	<b>0</b>	<b>1,251</b>	<b>17</b>	<b>469</b>

Average fixed interest rate - EUR

1.19%

Average fixed interest rate - SEK

0.75%

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
LBANK 0.75 06/20	-	4,010	13	-	9
LBANK1.375 3/22	-	43,058	-	493	(65)
LBANK 1.00 5/23	-	43,291	-	744	(468)
<b>Total EMTN hedged borrowings</b>	<b>0</b>	<b>90,359</b>	<b>13</b>	<b>1,237</b>	<b>(524)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Derivative instruments and short positions (continued)

#### Fair value hedging (continued)

Linear regression is the method used to assess the effectiveness of each hedge. The relationship between daily fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases, the slope of the regression line is within a 0.92-0.99 range (for a 95% confidence level) and regression coefficient at least 0.95 ( $R^2$ ).

	Notional amount of the hedging instrument	Maturity date		Fair value of the hedging derivatives		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		1-5years	>5years	Assets	Liabilities	
As at 31 December 2018						
Interest rate swaps - EUR	79,920	79,920	-	610	-	1,500
Interest rate swaps - SEK	3,941	3,941	-	-	8	2
Total	83,861	83,861	0	610	8	1,502
Average fixed interest rate - EUR						
		1.19%				
Average fixed interest rate - SEK						
		0.75%				

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
LBANK 0.75 06/20	-	3,935	19	-	1
LBANK1.375 3/22	-	40,430	-	161	(316)
LBANK 1.00 5/23	-	40,269	-	75	(470)
<b>Total EMTN hedged borrowings</b>	<b>0</b>	<b>84,634</b>	<b>19</b>	<b>236</b>	<b>(785)</b>

Linear regression is the method used to assess the effectiveness of each hedge. The relationship between daily fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases, the slope of the regression line is within a 0.92-0.99 range (for a 95% confidence level) and regression coefficient at least 0.96 ( $R^2$ ).

### 23. Loans and advances to financial institutions

	30.6.2019	31.12.2018
Bank accounts with financial institutions	23,265	40,913
Money market loans	47,385	29,455
Other loans	1,163	1,019
Allowance for impairment	(1)	(2)
<b>Total</b>	<b>71,812</b>	<b>71,385</b>

### 24. Loans and advances to customers

	Notes	30.6.2019	31.12.2018
Loans and advances to customers at amortised cost	25	1,135,927	1,067,667
Allowance for impairment		(14,513)	(12,805)
<b>Total</b>		<b>1,121,414</b>	<b>1,054,862</b>
Loans and advances to customers at FVTPL	26	9,501	9,670
<b>Total</b>		<b>1,130,915</b>	<b>1,064,532</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 25. Loans and advances to customers at amortised cost

	30.6.2019			31.12.2018		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	4,550	(20)	4,530	4,865	(145)	4,720
Individuals	442,329	(2,193)	440,136	416,040	(2,341)	413,699
Mortgage lending	365,237	(854)	364,383	336,685	(886)	335,799
Other	77,092	(1,339)	75,753	79,355	(1,455)	77,900
Corporates	689,048	(12,300)	676,748	646,762	(10,319)	636,443
	<b>1,135,927</b>	<b>(14,513)</b>	<b>1,121,414</b>	<b>1,067,667</b>	<b>(12,805)</b>	<b>1,054,862</b>

Further disclosure on loans and advances to customers is provided in the risk management notes to these Condensed Consolidated Interim Financial Statements.

### 26. Loans and advances to customers at FVTPL

	30.6.2019	31.12.2018
Corporates	9,501	9,670
<b>Total</b>	<b>9,501</b>	<b>9,670</b>

### 27. Other assets

	30.6.2019	31.12.2018
Unsettled securities trading	2,650	686
Other accounts receivable	4,625	4,178
Right-of-use assets	2,539	-
Sundry assets	882	791
<b>Total</b>	<b>10,696</b>	<b>5,655</b>

### 28. Assets and liabilities classified as held for sale

#### Assets classified as held for sale

	30.6.2019	31.12.2018
Reposessed collateral	1,282	1,330
<b>Total</b>	<b>1,282</b>	<b>1,330</b>

#### Reposessed collateral

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

Reposessed collateral	30.6.2019	31.12.2018
Real estate	1,277	1,326
Equipment and vehicles	5	4
<b>Total</b>	<b>1,282</b>	<b>1,330</b>

Reposessed collateral	30.6.2019	31.12.2018
Carrying amount as at the beginning of the period	1,330	3,648
Reposessed during the period	196	838
Disposed of during the period	(250)	(5,807)
Impairment and gain of sale	6	2,651
<b>Carrying amount as at the end of the period</b>	<b>1,282</b>	<b>1,330</b>

#### Liabilities associated with assets classified as held for sale

	30.6.2019	31.12.2018
Liabilities of disposal groups	30	30
<b>Total</b>	<b>30</b>	<b>30</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 29. Due to financial institutions and Central Bank

	30.6.2019	31.12.2018
Loans and repurchase agreements with Central Bank	-	74
Loans and deposits from financial institutions	29,270	28,324
Deposits subject to special restrictions*	5,160	6,211
<b>Total</b>	<b>34,430</b>	<b>34,609</b>

\*in compliance with Article 8 of Act No. 37/2016, on the Treatment of Króna-Denominated Assets Subject to Special Restrictions

### 30. Deposits from customers

	30.6.2019	31.12.2018
Demand deposits	448,273	432,788
Term deposits	249,403	257,954
Deposits subject to special restrictions*	222	2,301
<b>Total</b>	<b>697,898</b>	<b>693,043</b>

\*in compliance with Article 8 of Act No. 37/2016, on the Treatment of Króna-Denominated Assets Subject to Special Restrictions

### 31. Borrowings

#### Secured borrowings

As at 30.6.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 19	ISK	17.09.2019	12,780	Non-indexed	Fixed 6.8%	13,458
LBANK CB 21	ISK	30.11.2021	4,460	Non-indexed	Fixed 5.5%	4,609
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	21,457
LBANK CB 23	ISK	23.11.2023	11,680	Non-indexed	Fixed 5.0%	11,805
LBANK CBI 24	ISK	15.11.2024	35,180	CPI-indexed	Fixed 3.0%	38,981
LBANK CBI 28	ISK	04.10.2028	39,660	CPI-indexed	Fixed 3.0%	45,099
<b>Total covered bonds</b>						<b>135,409</b>
<b>Total secured borrowings</b>						<b>135,409</b>

#### Unsecured borrowings

As at 30.6.2019	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 06/20	SEK	22.06.2020	SEK 700 million	STIBOR + 1.0%	9,386
LBANK 0.75 06/20*	SEK	22.06.2020	SEK 300 million	FIXED 0.75%	4,010
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	10,116
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,354
LBANK FLOAT 11/20	NOK	27.11.2020	NOK 300 million	NIBOR + 0.83%	4,378
LBANK FLOAT 11/20	SEK	30.11.2020	SEK 600 million	STIBOR + 0.85%	8,040
LBANK 1.625 03/21	EUR	15.03.2021	EUR 500 million	FIXED 1.625%	70,938
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1.75%	14,610
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	6,697
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	43,058
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	43,291
<b>Total senior unsecured bonds</b>					<b>217,878</b>

As at 30.6.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 190812	ISK	12.08.2019	260	Non-indexed	259
LBANK 190910	ISK	10.09.2019	900	Non-indexed	891
LBANK 200228	ISK	28.02.2020	1,800	Non-indexed	1,744
LBANK 200528	ISK	28.05.2020	800	Non-indexed	765
<b>Total commercial paper issued</b>					<b>3,659</b>

As at 30.6.2019	Carrying amount
Other unsecured loans	20,734
<b>Total other unsecured loans</b>	<b>20,734</b>
<b>Total unsecured borrowings</b>	<b>242,271</b>
<b>Total borrowings as at 30.6.2019</b>	<b>377,680</b>

\* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

## Notes to the Condensed Consolidated Interim Financial Statements

### 31. Borrowings (continued)

#### Secured borrowings

As at 31.12.2018	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 19	ISK	17.09.2019	16,120	Non-indexed	Fixed 6.8%	16,476
LBANK CB 21	ISK	30.11.2021	3,720	Non-indexed	Fixed 5.5%	3,732
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	21,414
LBANK CB 23	ISK	23.11.2023	1,540	Non-indexed	Fixed 5.0%	1,497
LBANK CBI 24	ISK	15.11.2024	27,740	CPI-indexed	Fixed 3.0%	29,744
LBANK CBI 28	ISK	04.10.2028	30,700	CPI-indexed	Fixed 3.0%	33,446
<b>Total covered bonds</b>						<b>106,309</b>

**Total secured borrowings** **106,309**

#### Unsecured borrowings

As at 31.12.2018	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 06/19	SEK	10.06.2019	SEK 350 million	STIBOR + 2.6%	4,601
LBANK FLOAT 06/19	NOK	11.06.2019	NOK 500 million	NIBOR + 2.6%	6,739
LBANK FLOAT 06/20	SEK	22.06.2020	SEK 700 million	STIBOR + 1.0%	9,190
LBANK 0.75 06/20*	SEK	22.06.2020	SEK 300 million	FIXED 0.75%	3,935
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	9,833
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,282
LBANK 1.625 03/21	EUR	15.03.2021	EUR 500 million	FIXED 1.625%	67,161
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	40,430
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	40,269

**Total senior unsecured bonds** **185,440**

As at 31.12.2018	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 190110	ISK	10.01.2019	560	Non-indexed	559
LBANK 190410	ISK	10.04.2019	420	Non-indexed	415
LBANK 190510	ISK	10.05.2019	1,760	Non-indexed	1,731

**Total commercial paper issued** **2,705**

**As at 31.12.2018** **Carrying amount**

Other unsecured loans 19,958

**Total other unsecured loans** **19,958**

**Total unsecured borrowings** **208,103**

**Total borrowings as at 31.12.2018** **314,412**

\* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

### 32. Deferred tax assets and liabilities

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

	30.6.2019			31.12.2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(153)	(153)	-	(183)	(183)
Intangibles	-	(300)	(300)	-	(304)	(304)
Other assets	-	(24)	(24)	-	(24)	(24)
Deferred foreign exchange differences	291	-	291	343	-	343
Other items	113	-	113	117	-	117
Tax losses carried forward	181	-	181	185	-	185
	<b>585</b>	<b>(477)</b>	<b>108</b>	<b>645</b>	<b>(511)</b>	<b>134</b>
Set-off of deferred tax assets together with liabilities of the same taxable entities	(476)	476	-	(511)	511	-
<b>Deferred tax assets (liabilities) total</b>	<b>109</b>	<b>(1)</b>	<b>108</b>	<b>134</b>	<b>0</b>	<b>134</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 32. Deferred tax assets and liabilities (continued)

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

	Balance as at 1.1	Impact of adopting IFRS 16	Recognised in income statement		Balance as at 30.6
			Tax (expense) income	Changes from prior year	
<b>As at 30.6.2019</b>					
Property and equipment	(183)	-	30	-	(153)
Intangibles	(304)	-	4	-	(300)
Other assets	(24)	-	-	-	(24)
Deferred foreign exchange differences	343	-	(52)	-	291
Other items	117	46	(50)	-	113
Tax losses carried forward	185	-	(4)	-	181
<b>Total</b>	<b>134</b>	<b>46</b>	<b>(72)</b>	<b>0</b>	<b>108</b>

	Balance as at 1.1	Impact of adopting IFRS 9 and IFRS 15	Recognised in income statement		Balance as at 31.12
			Tax (expense) income	Changes from prior year	
<b>As at 31.12.2018</b>					
Property and equipment	(210)	-	27	-	(183)
Intangibles	(285)	-	(19)	-	(304)
Other assets	(6)	-	(18)	-	(24)
Deferred foreign exchange differences	174	-	169	-	343
Other items	106	258	(247)	-	117
Tax losses carried forward	181	-	4	-	185
<b>Total</b>	<b>(40)</b>	<b>258</b>	<b>(84)</b>	<b>0</b>	<b>134</b>

### 33. Other liabilities

	30.6.2019	31.12.2018
Unsettled securities trading	6,136	4,848
Withholding tax	1,772	2,793
Accounts payable	1,405	876
Contribution to the Depositors' and Investors' Guarantee Fund	250	340
Tax on liabilities of financial institutions	5,935	3,860
Current tax liabilities	5,661	6,702
Non-controlling interests - Funds	307	1,040
Lease liabilities	2,752	-
Sundry liabilities	8,933	3,992
<b>Total</b>	<b>33,151</b>	<b>24,451</b>

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

### 34. Subordinated liabilities

As at 30.6.2019	Currency	Final maturity	Remaining principal in currencies	Contractual interest rate	Carrying amount
Tier 2 subordinated bonds	EUR	06.09.2028	EUR 100 million	Fixed 3.125%	14,417
<b>Total subordinated liabilities</b>					<b>14,417</b>

As at 31.12.2018	Currency	Final maturity	Remaining principal in currencies	Contractual interest rate	Carrying amount
Tier 2 subordinated bonds	EUR	06.09.2028	EUR 100 million	Fixed 3.125%	13,340
<b>Total subordinated liabilities</b>					<b>13,340</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 35. Equity

#### *Share capital*

As of 30 June 2019, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion. Each share has a par value of ISK 1. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

The Annual General Meeting (AGM) of the Bank, held on 4 April 2019, approved the motion of the Board of Directors to authorise the Bank to acquire up to 10% of the nominal value of the Bank's share capital in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995. The price of each share is to be determined by the internal value of the Bank's shares, according to its most recently published results prior to the timing of the repurchase of the own shares. This authorisation applies until the next AGM in 2020 and the disposal of the own shares under this authorisation is subject to the approval of a shareholders meeting.

#### *Share premium*

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

#### *Statutory reserve*

The statutory reserve is established in accordance with the Public Limited Companies Act, No. 2/1995, which stipulates that the Bank must allocate profits to the statutory reserve until the reserve is equal to one-quarter of the Bank's share capital.

#### *Retained earnings*

Act No. 3/2006, on Annual Financial Statements, with subsequent amendments, require inter alia the separation of retained earnings into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings. Restricted retained earnings are split into two categories:

1. Unrealised gains in subsidiaries and equity-accounted associates reserve; if the share of profit from subsidiaries or equity-accounted associates is in excess of dividend received, the Group transfers the difference to a restricted reserve in equity. If the Group's interest in subsidiaries or equity-accounted associates is sold or written off, the applicable amount recognised in the reserve is transferred to retained earnings.
2. Financial assets designated at fair value through profit or loss reserve. The Group transfers fair value changes arising from financial assets designated at fair value through profit or loss, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

#### *Dividend*

The AGM of the Bank held on 4 April 2019, approved the motion of the Board of Directors to pay shareholders a dividend in the amount of ISK 9,922 million, or equivalent to ISK 0.42 per share, for the operating year 2018. The dividend was to be paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The earlier instalment was paid to shareholders last April in accordance with the resolution of the meeting.

#### *Dividend policy*

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to  $\geq 50\%$  of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

#### *Restriction of dividend payments*

According to the Public Limited Companies Act, No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit carried forward from previous years, and free funds after deducting loss which has not been met, and the funds which according to law or Articles of Association must be contributed to a reserve fund or for other use. Furthermore, under the amendment to Act No. 3/2006, on Annual Financial Statements, from June 2016 it is only permissible to allocate as dividend profit from unrestricted retained earnings.

Additionally, according to the Act on Financial Undertakings, No. 161/2002, the Icelandic Financial Supervisory Authority can impose proportionate restrictions on the Bank's dividend payments, if the Bank's capital adequacy ratio falls below the total capital requirement plus capital buffers, see Note 41 Capital requirements.

## Notes to the Condensed Consolidated Interim Financial Statements

### Other notes

#### 36. Earnings per share

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
<b>Profit for the period</b>				
Profit for the period attributable to owners of the Bank	4,329	3,511	11,113	11,613

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.

	2019 1.4-30.6	2018 1.4-30.6	2019 1.1-30.6	2018 1.1-30.6
<b>Number of shares</b>				
Number of ordinary shares issued at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(375)	(360)	(375)	(360)
<b>Weighted average number of shares outstanding</b>	<b>23,625</b>	<b>23,640</b>	<b>23,625</b>	<b>23,640</b>
<b>Basic and diluted earnings per share from operations (ISK)</b>	<b>0.18</b>	<b>0.15</b>	<b>0.47</b>	<b>0.49</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.

#### 37. Litigation

##### *Material litigation cases against the Bank and its subsidiaries*

The Bank and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

In December 2014, the Bank sold to Arion Bank hf. all its shares in Valitor Holding hf. (Valitor), the parent company of Valitor hf. The purchase agreement includes an indemnity clause under which the Bank is to proportionally (currently 38.62%) compensate Arion Bank hf. with regards to certain cases concerning Valitor that relate to events that occurred before delivery of the sold shares, inter alia, for potential compensatory damages that Valitor may be obligated to pay for an alleged loss sustained due to Valitor's termination of a vendor agreement. A case on the matter was filed before the District Court of Reykjavik in January 2015. In a judgment in the case of the District Court of 24 April 2019 Valitor hf. was ordered to pay damages in the total amount of ISK 1,200 million. Valitor appealed the judgment to the Court of Appeal (Landsréttur) in May 2019. On 1 July 2019 the parties to the court case decided to put an end to the dispute by concluding an agreement on a final settlement of claims and withdrawing the case from the Court of Appeal. Consequently, in July 2019 the Bank paid to Arion Bank hf. around ISK 426 million as a final payment under the indemnity clause of the said purchase agreement. Since the sale of the shareholding in Valitor, the Bank has assessed the fair value of granted indemnities in the purchase agreement and the payment by the Bank to Arion Bank hf. will have an immaterial impact on amounts disclosed in the Group's financial statements.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement from 1997 between the Fund and the defendants be amended, firstly, that the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its asset at any time. At a hearing of the case in January 2019 before the District Court of Reykjavik the Bank submitted a statement of defence, rejecting all claims. On 24 April 2019 the District Court decided to dismiss all claims against the Bank due to procedural reasons. The Pension Fund appealed the decision to the Court of Appeal in May 2019. On 6 June 2019 the Court of Appeal decided to invalidate the decision of the District Court and order the case to be brought again before the District Court for substantive resolution.

##### *Proceedings relating to the sale of the Bank's shareholding in Borgun hf.*

In January 2017, the Bank commenced proceedings before the Reykjavik District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf. and the then CEO of Borgun hf. The Bank considers the defendants' to have been in possession of information about the shareholding of Borgun in Visa Europe Ltd. at the time when the Bank sold its 31.2% shareholding in Borgun hf. that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. The defendants demanded the dismissal of the case which was rejected by a ruling of the District Court in June 2017. That ruling could not be appealed, and the defendants have now submitted their written defences, responding to the substance of the Bank's pleadings. On 10 September 2018, the District Court of Reykjavik ruled on the appointment of assessors to evaluate certain issues regarding Borgun's annual financial statements. The Court of Appeal confirmed the ruling on 30 October 2018. The assessors have commenced work on the preparation of the evaluation.



## Notes to the Condensed Consolidated Interim Financial Statements

### 38. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 June 2019 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business. Landsbankinn operates an extensive branch network in Iceland, comprised of 37 branches and service points as at 30 June 2019.

#### Main subsidiaries as at 30 June 2019

Company	Ownership interest	Activity
Eignarhaldsfélag Landsbankans ehf. (Iceland)	100%	Holding company
Landsbréf hf. (Iceland)	100%	Fund management company
Hömlur ehf. (Iceland)*	100%	Holding company

\*Hömlur ehf. is a parent of a number of subsidiaries, which are neither individually nor combined significant in the context of the Group's business.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 June 2019.

### 39. Related party transactions

#### 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 of and amounts outstanding with public entities are disclosed in Note 44, under Public entities.

In March 2016, the Icelandic State Treasury took over Íslandsbanki hf. Following the takeover, a settlement was reached with the Icelandic Competition Authority to the effect that both banks will continue to operate as independent competitors in the financial market. The takeover qualifies as a merger under Icelandic competition law, as the Icelandic State Treasury has control over the two banks as of the time of the takeover. The Bank has a traditional bank-to-bank relationship with Íslandsbanki under generally accepted commercial terms. The nature of and amounts outstanding with financial institutions, including Íslandsbanki, are disclosed in Note 44, under Financial institutions.

#### 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	2019		2018	
	Gross carrying amount as at 30 June	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Key management personnel	336	384	242	266
Parties related to key management personnel	149	204	135	159
Associates	285	289	288	17,589
Other	106	108	24	26
<b>Total</b>	<b>876</b>	<b>985</b>	<b>689</b>	<b>18,040</b>

Specific allowance for impairment of ISK 84 million in Stage 3 is recognised in respect of these loans.

No financial pledges or commitments have been given or received in respect of these transactions during the reporting period. No financial guarantees were given to an associate of the Bank during the period. There are no lease transactions between related parties during the period.

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	2019		2018	
	Gross carrying amount as at 30 June	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Key management personnel	74	182	79	229
Parties related to key management personnel	42	80	48	159
Associates	236	395	149	16,885
Other	478	683	214	7,727
<b>Total</b>	<b>830</b>	<b>1,340</b>	<b>490</b>	<b>25,000</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 39. Related party transactions (continued)

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

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

	Gross carrying amount as at 30 June 2019	Gross carrying amount as at 31 December 2018
<b>Guarantees in ISK million</b>		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	178	334
<b>Total</b>	<b>178</b>	<b>334</b>

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

### 40. 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 Condensed Consolidated Financial Statements for the six months ended 30 June 2019.

## Capital management

### 41. Capital requirements

The Group's capital management policies and practices aim to ensure that the Group has sufficient capital to cover the risks associated with its activities on a consolidated basis. The capital management framework of the Group comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Group regularly monitors and assesses its risk profile in key business areas on a consolidated basis 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.

The Group's capital requirements are defined in Icelandic law and regulations and by the Icelandic Financial Supervisory Authority (FME). The requirements are based on the European legal framework for capital requirements (CRD IV and CRR), implementing the Basel III capital framework. The regulatory minimum capital requirement under Pillar I is 8% of Risk Exposure Amount (REA) for credit risk, market risk and operational risk. In conformity with Pillar II-R requirements, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process (SREP). The Group's minimum capital requirement, as determined by the FME, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FME, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC). The FSC has defined Landsbankinn as a systematically important financial institution in Iceland.

The Group's most recent capital requirements, as determined by the FME, are as follows (as a percentage of REA):

<b>As at 30.6.2019</b>	<b>CET1</b>	<b>Tier 1</b>	<b>Total</b>
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.3%	3.0%	4.0%
<b>Minimum requirement under Pillar I and Pillar II-R</b>	<b>6.8%</b>	<b>9.0%</b>	<b>12.0%</b>
Systemic risk buffer	2.84%	2.84%	2.84%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.68%	1.68%	1.68%
Capital conservation buffer	2.50%	2.50%	2.50%
<b>Combined buffer requirement</b>	<b>9.02%</b>	<b>9.02%</b>	<b>9.02%</b>
<b>Total capital requirement</b>	<b>15.8%</b>	<b>18.0%</b>	<b>21.0%</b>

Following recommendations of the FSC, the FME has decided to raise the countercyclical capital buffer. Changes to the countercyclical capital buffer on domestic exposures will therefore be, ceteris paribus, as follows:

	<b>31.12.2018</b>	<b>15.5.2019</b>	<b>1.2.2020</b>
Countercyclical capital buffer on domestic exposures	1.25%	1.75%	2.00%

The Bank aims to maintain at all times capital ratios above FME's capital requirements, in addition to a management capital buffer that is defined in the Bank's risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

## Notes to the Condensed Consolidated Interim Financial Statements

### 41. Capital requirements (continued)

The Group's capital requirements at 31.12.2018, as determined by the FME, were as follows (as a percentage of REA):

As at 31.12.2018	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II A	2.3%	3.0%	4.0%
<b>Minimum requirement under Pillar I and Pillar II A</b>	<b>6.8%</b>	<b>9.0%</b>	<b>12.0%</b>
Systemic risk buffer	2.85%	2.85%	2.85%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.19%	1.19%	1.19%
Capital conservation buffer	2.50%	2.50%	2.50%
<b>Combined buffer requirement</b>	<b>8.54%</b>	<b>8.54%</b>	<b>8.54%</b>
<b>Total capital requirement</b>	<b>15.3%</b>	<b>17.5%</b>	<b>20.5%</b>

### 42. Capital base, risk exposure amount and capital ratios

The following table shows the Group's capital base, risk exposure amount and capital ratios. The calculations are in accordance with Chapter X of the Act on Financial Undertakings, No. 161/2002, and Regulation No. 233/2017 on prudential requirements for the operations of financial undertakings. Iceland has also adopted regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, but has temporarily excluded Articles 500 and 501 (capital requirements relief for small and medium enterprises).

In accordance with the aforementioned laws and regulations, the Financial Supervisory Authority (FME) has granted permission for interim profits to be included in the Group's capital base. The permission is subject to the conditions that those profits have been verified by the Group's auditors and that any foreseeable dividend has been deducted from the amount of those profits.

The Group uses the standardised approach to calculate the risk exposure amount for credit risk and market risk, and the basic indicator approach for operational risk.

Capital base	30.6.2019	31.12.2018
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	12,802	12,130
Retained earnings	83,555	83,225
<b>Total equity attributable to owners of the Bank</b>	<b>240,612</b>	<b>239,610</b>
Intangible assets	(2,435)	(2,622)
Deferred tax assets	(108)	(134)
Fair value hedges	(1,234)	(602)
Foreseeable dividends*	(5,557)	-
<b>Common equity Tier 1 capital (CET1)</b>	<b>231,278</b>	<b>236,252</b>
Non-controlling interests	-	-
<b>Tier 1 capital</b>	<b>231,278</b>	<b>236,252</b>
Subordinated liabilities	14,417	13,340
<b>Tier 2 capital</b>	<b>14,417</b>	<b>13,340</b>
<b>Total capital base</b>	<b>245,695</b>	<b>249,592</b>
<b>Risk exposure amount (REA)</b>		
Credit risk	930,843	887,372
Market risk	12,032	17,739
Operational risk**	95,815	95,815
<b>Total risk exposure amount</b>	<b>1,038,690</b>	<b>1,000,926</b>
CET1 ratio	22.3%	23.6%
Tier 1 capital ratio	22.3%	23.6%
Total capital ratio	23.7%	24.9%

\*Pursuant to the Bank's dividend policy, the foreseeable dividend consists of 50% of net earnings for the first half of 2019.

\*\*The amounts are updated on a yearly basis.

## Notes to the Condensed Consolidated Interim Financial Statements

### 43. Leverage ratio

The following table shows the Group's leverage ratio. Subject to Article 30(a) of Act on Financial Undertakings, No. 161/2002, Regulation No. 233/2017 on prudential requirements for the operations of financial undertakings and Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, a minimum leverage ratio of 3.0% is required.

<b>Leverage ratio</b>	<b>30.6.2019</b>	<b>31.12.2018</b>
- On-balance sheet exposure (excluding derivatives)	1,400,790	1,324,118
- Derivative instrument exposure	2,045	1,923
- Potential future exposure on derivatives	1,700	1,674
- Off-balance sheet exposure	129,835	147,010
- Regulatory adjustments to Tier 1 capital	(9,334)	(3,358)
<b>Total leverage exposure</b>	<b>1,525,036</b>	<b>1,471,367</b>
<b>Tier 1 capital</b>	<b>231,278</b>	<b>236,252</b>
<b>Leverage ratio</b>	<b>15.2%</b>	<b>16.1%</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Risk management

#### Credit risk

#### 44. 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 2019 and 31 December 2018. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Condensed Consolidated Interim Statement of Financial Position. Off-balance sheet amounts 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.

As at 30 June 2019	Corporations													Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction companies	Real estate companies	Holding companies	Retail	Services	ITC**	Manu- facturing	Agriculture	Other	
Cash and balances with Central Bank	-	63,990	-	-	-	-	-	-	-	-	-	-	-	63,990
Bonds and debt instruments	9,958	64,484	-	-	-	9,430	69	-	-	-	-	-	889	84,830
Derivative instruments	1,736	-	23	-	27	13	125	6	11	-	-	-	104	2,045
Loans and advances to financial institutions	71,812	-	-	-	-	-	-	-	-	-	-	-	-	71,812
Loans and advances to customers	-	4,530	440,136	159,791	96,448	142,919	29,300	66,611	133,637	30,641	18,811	8,088	3	1,130,915
Other financial assets	7,193	-	40	-	-	34	30	2	2,459	1	54	-	1	9,814
<b>Total on-balance sheet exposure</b>	<b>90,699</b>	<b>133,004</b>	<b>440,199</b>	<b>159,791</b>	<b>96,475</b>	<b>152,396</b>	<b>29,524</b>	<b>66,619</b>	<b>136,107</b>	<b>30,642</b>	<b>18,865</b>	<b>8,088</b>	<b>997</b>	<b>1,363,406</b>
<b>Off-balance sheet exposure</b>	<b>3,663</b>	<b>4,551</b>	<b>33,063</b>	<b>10,690</b>	<b>50,519</b>	<b>16,129</b>	<b>269</b>	<b>18,498</b>	<b>18,109</b>	<b>6,259</b>	<b>24,620</b>	<b>1,503</b>	<b>31</b>	<b>187,904</b>
Financial guarantees and underwriting commitments	354	3	805	955	3,209	1,215	10	3,165	4,617	2,035	808	1	-	17,177
Undrawn loan commitments	-	-	1	7,202	45,059	13,456	-	10,423	5,633	3,101	20,633	700	-	106,208
Undrawn overdraft/credit card facilities	3,309	4,548	32,257	2,533	2,251	1,458	259	4,910	7,859	1,123	3,179	802	31	64,519
<b>Maximum exposure to credit risk</b>	<b>94,362</b>	<b>137,555</b>	<b>473,262</b>	<b>170,481</b>	<b>146,994</b>	<b>168,525</b>	<b>29,793</b>	<b>85,117</b>	<b>154,216</b>	<b>36,901</b>	<b>43,485</b>	<b>9,591</b>	<b>1,028</b>	<b>1,551,310</b>
Percentage of maximum exposure to credit risk	6.1%	8.9%	30.5%	11.0%	9.5%	10.9%	1.9%	5.5%	9.9%	2.4%	2.8%	0.6%	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

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

As at 31 December 2018	Corporations													Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction companies	Real estate companies	Holding companies	Retail	Services	ITC**	Manufacturing	Agriculture	Other	
Cash and balances with Central Bank	-	70,854	-	-	-	-	-	-	-	-	-	-	-	70,854
Bonds and debt instruments	3,507	63,222	-	-	-	9,336	69	-	-	-	-	-	924	77,058
Derivative instruments	1,529	-	11	4	48	76	165	39	1	-	-	-	50	1,923
Loans and advances to financial institutions	71,385	-	-	-	-	-	-	-	-	-	-	-	-	71,385
Loans and advances to customers	-	4,720	413,699	146,912	87,510	137,343	30,971	63,644	119,439	29,799	21,936	8,559	-	1,064,532
Other financial assets	1,903	27	108	-	159	229	31	3	2,320	45	39	-	-	4,864
<b>Total on-balance sheet exposure</b>	<b>78,324</b>	<b>138,823</b>	<b>413,818</b>	<b>146,916</b>	<b>87,717</b>	<b>146,984</b>	<b>31,236</b>	<b>63,686</b>	<b>121,760</b>	<b>29,844</b>	<b>21,975</b>	<b>8,559</b>	<b>974</b>	<b>1,290,616</b>
<b>Off-balance sheet exposure</b>	<b>3,760</b>	<b>2,936</b>	<b>31,099</b>	<b>12,935</b>	<b>56,891</b>	<b>22,057</b>	<b>1,884</b>	<b>19,502</b>	<b>21,511</b>	<b>5,659</b>	<b>23,994</b>	<b>1,082</b>	<b>31</b>	<b>203,341</b>
Financial guarantees and underwriting commitments	255	-	784	827	3,829	1,109	8	2,524	4,653	2,092	593	79	-	16,753
Undrawn loan commitments	-	-	15	9,217	49,903	19,457	1,319	11,910	9,644	2,317	20,020	195	-	123,997
Undrawn overdraft/credit card facilities	3,505	2,936	30,300	2,891	3,159	1,491	557	5,068	7,214	1,250	3,381	808	31	62,591
<b>Maximum exposure to credit risk</b>	<b>82,084</b>	<b>141,759</b>	<b>444,917</b>	<b>159,851</b>	<b>144,608</b>	<b>169,041</b>	<b>33,120</b>	<b>83,188</b>	<b>143,271</b>	<b>35,503</b>	<b>45,969</b>	<b>9,641</b>	<b>1,005</b>	<b>1,493,957</b>
Percentage of maximum exposure to credit risk	5.5%	9.5%	29.8%	10.7%	9.7%	11.3%	2.2%	5.6%	9.6%	2.4%	3.1%	0.6%	0.1%	100.0%

\* 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

### 45. Collateral and loan-to-value

The loan-to-value (LTV) ratio expresses the gross carrying amount of loans and advances as a percentage of the total value of the collateral. Loan-to-value is one of the key risk factors 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 buffers 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 2019	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised		Without collateral	Allowance for impairment	Carrying amount
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
<b>Financial institutions</b>	-	-	-	-	0	-	-	71,813	(1)	71,812
<b>Public entities</b>	70	14	105	56	245	46	21	4,259	(20)	4,530
<b>Individuals</b>	34,704	105,629	237,482	30,100	407,915	3,742	2,513	30,672	(2,193)	440,136
Mortgages	24,397	94,587	222,131	21,535	362,650	808	522	1,779	(854)	364,383
Other	10,307	11,042	15,351	8,565	45,265	2,934	1,991	28,893	(1,339)	75,753
<b>Corporates</b>	14,216	124,480	216,572	167,678	522,946	143,644	116,130	31,959	(12,300)	686,249
Fisheries	1,003	35,404	69,498	46,882	152,787	6,981	5,492	345	(322)	159,791
Construction companies	964	3,883	12,420	19,751	37,018	59,403	54,429	1,841	(1,814)	96,448
Real estate companies	2,022	25,461	59,159	29,384	116,026	25,490	21,267	3,435	(2,032)	142,919
Holding companies	4,069	23,252	324	320	27,965	857	854	573	(95)	29,300
Retail	1,028	4,585	30,537	16,325	52,475	12,199	8,182	3,347	(1,410)	66,611
Services	3,758	19,467	37,930	46,672	107,827	21,928	16,317	7,465	(3,583)	133,637
Information, technology and communication	54	7,311	351	82	7,798	13,133	6,717	9,821	(111)	30,641
Manufacturing	560	3,457	4,516	7,039	15,572	1,118	798	4,998	(2,877)	18,811
Agriculture	758	1,660	1,837	1,223	5,478	2,535	2,074	131	(56)	8,088
Other	-	-	-	-	-	-	-	3	-	3
<b>Total</b>	<b>48,990</b>	<b>230,123</b>	<b>454,159</b>	<b>197,834</b>	<b>931,106</b>	<b>147,432</b>	<b>118,664</b>	<b>138,703</b>	<b>(14,514)</b>	<b>1,202,727</b>
<b>As at 31 December 2018</b>										
<b>Financial institutions</b>	-	-	-	-	0	-	-	71,387	(2)	71,385
<b>Public entities</b>	58	20	106	58	242	42	19	4,581	(145)	4,720
<b>Individuals</b>	29,219	90,793	224,419	36,576	381,007	4,787	3,182	30,246	(2,341)	413,699
Mortgages	20,611	77,814	209,505	26,867	334,797	1,413	1,046	475	(886)	335,799
Other	8,608	12,979	14,914	9,709	46,210	3,374	2,136	29,771	(1,455)	77,900
<b>Corporates</b>	10,452	120,777	178,738	185,134	495,101	129,907	99,977	31,424	(10,319)	646,113
Fisheries	755	36,736	47,333	55,288	140,112	6,880	4,878	303	(383)	146,912
Construction companies	526	3,069	14,238	31,151	48,984	38,938	31,490	1,383	(1,795)	87,510
Real estate companies	2,572	23,980	36,273	43,992	106,817	28,903	22,573	3,231	(1,608)	137,343
Holding companies	650	23,894	1,846	1,946	28,336	2,006	1,145	823	(194)	30,971
Retail	893	4,354	31,729	16,428	53,404	9,023	5,512	2,030	(813)	63,644
Services	3,478	17,817	30,648	32,765	84,708	27,994	21,219	9,681	(2,944)	119,439
Information, technology and communication	52	7,818	1,201	127	9,198	12,090	10,075	8,634	(123)	29,799
Manufacturing	665	1,697	13,199	2,320	17,881	1,162	895	5,177	(2,284)	21,936
Agriculture	861	1,412	2,271	1,117	5,661	2,911	2,190	162	(175)	8,559
Other	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>39,729</b>	<b>211,590</b>	<b>403,263</b>	<b>221,768</b>	<b>876,350</b>	<b>134,736</b>	<b>103,178</b>	<b>137,638</b>	<b>(12,807)</b>	<b>1,135,917</b>

\*If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

## Notes to the Condensed Consolidated Interim Financial Statements

### 46. Collateral types

The following tables disclose the assignments of collateral values to claim values, whereby the value of each individual collateral item held cannot exceed the gross carrying amount of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the gross carrying amount.

<b>As at 30 June 2019</b>	<b>Real estate</b>	<b>Vessels</b>	<b>Deposits</b>	<b>Securities</b>	<b>Other*</b>	<b>Total</b>
<b>Public entities</b>	<b>222</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>44</b>	<b>267</b>
<b>Individuals</b>	<b>390,619</b>	<b>90</b>	<b>139</b>	<b>2,601</b>	<b>16,792</b>	<b>410,241</b>
Mortgages	358,659	15	84	34	4,225	363,017
Other	31,960	75	55	2,567	12,567	47,224
<b>Corporates</b>	<b>348,024</b>	<b>114,153</b>	<b>3,563</b>	<b>72,371</b>	<b>100,965</b>	<b>639,076</b>
Fisheries	10,408	112,363	117	20,774	14,617	158,279
Construction companies	84,341	40	2,292	23	4,751	91,447
Real estate companies	134,936	30	464	192	1,672	137,294
Holding companies	838	-	191	27,779	11	28,819
Retail	22,314	3	170	12,310	25,862	60,659
Services	77,699	1,717	243	3,459	41,024	124,142
Information, technology and communication	1,554	-	9	7,820	5,133	14,516
Manufacturing	10,245	-	70	14	6,039	16,368
Agriculture	5,689	-	7	-	1,856	7,552
Other	-	-	-	-	-	-
<b>Total</b>	<b>738,865</b>	<b>114,243</b>	<b>3,703</b>	<b>74,972</b>	<b>117,801</b>	<b>1,049,584</b>
<b>As at 31 December 2018</b>	<b>Real estate</b>	<b>Vessels</b>	<b>Deposits</b>	<b>Securities</b>	<b>Other*</b>	<b>Total</b>
<b>Public entities</b>	<b>209</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>49</b>	<b>260</b>
<b>Individuals</b>	<b>364,073</b>	<b>96</b>	<b>167</b>	<b>2,748</b>	<b>17,183</b>	<b>384,267</b>
Mortgages	331,631	16	91	31	4,170	335,939
Other	32,442	80	76	2,717	13,013	48,328
<b>Corporates</b>	<b>322,111</b>	<b>108,996</b>	<b>4,910</b>	<b>68,737</b>	<b>90,717</b>	<b>595,471</b>
Fisheries	9,530	107,296	386	15,257	12,639	145,108
Construction companies	73,430	46	1,557	77	5,405	80,515
Real estate companies	127,043	38	555	1,221	622	129,479
Holding companies	3,093	-	146	26,251	13	29,503
Retail	22,901	3	106	12,349	23,599	58,958
Services	69,033	1,613	327	3,811	31,211	105,995
Information, technology and communication	1,293	-	30	9,507	8,451	19,281
Manufacturing	9,723	-	1,800	264	7,003	18,790
Agriculture	6,065	-	3	-	1,774	7,842
Other	-	-	-	-	-	-
<b>Total</b>	<b>686,393</b>	<b>109,092</b>	<b>5,079</b>	<b>71,485</b>	<b>107,949</b>	<b>979,998</b>

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



## Notes to the Condensed Consolidated Interim Financial Statements

### 47. Credit quality of loans and advances

The following tables show the credit quality of loans and advances, measured by rating grade.

As at 30 June 2019	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
<b>Financial institutions</b>	<b>71,806</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>71,812</b>
<b>Public entities</b>	<b>331</b>	<b>4,196</b>	<b>22</b>	<b>1</b>	<b>-</b>	<b>(20)</b>	<b>4,530</b>
<b>Individuals</b>	<b>210,733</b>	<b>197,802</b>	<b>29,055</b>	<b>4,719</b>	<b>20</b>	<b>(2,193)</b>	<b>440,136</b>
Mortgages	188,821	154,330	19,499	2,587	-	(854)	364,383
Other	21,912	43,472	9,556	2,132	20	(1,339)	75,753
<b>Corporations</b>	<b>55,346</b>	<b>559,067</b>	<b>57,220</b>	<b>26,600</b>	<b>316</b>	<b>(12,300)</b>	<b>686,249</b>
Fisheries	11,368	144,308	3,655	782	-	(322)	159,791
Construction companies	840	81,849	12,505	3,068	-	(1,814)	96,448
Real estate companies	784	126,067	12,742	5,163	195	(2,032)	142,919
Holding companies	5	21,993	7,285	112	-	(95)	29,300
Retail	24,115	36,955	4,278	2,673	-	(1,410)	66,611
Services	10,050	103,571	14,627	8,851	121	(3,583)	133,637
Information, technology and communication	349	30,253	83	67	-	(111)	30,641
Manufacturing	6,503	7,921	1,686	5,578	-	(2,877)	18,811
Agriculture	1,332	6,147	359	306	-	(56)	8,088
Other	-	3	-	-	-	-	3
<b>Total</b>	<b>338,216</b>	<b>761,072</b>	<b>86,297</b>	<b>31,320</b>	<b>336</b>	<b>(14,514)</b>	<b>1,202,727</b>

As at 31 December 2018	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
<b>Financial institutions</b>	<b>71,376</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>71,385</b>
<b>Public entities</b>	<b>469</b>	<b>4,389</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>(145)</b>	<b>4,720</b>
<b>Individuals</b>	<b>154,648</b>	<b>216,864</b>	<b>39,147</b>	<b>4,492</b>	<b>889</b>	<b>(2,341)</b>	<b>413,699</b>
Mortgages	140,745	167,355	25,570	2,375	640	(886)	335,799
Other	13,903	49,509	13,577	2,117	249	(1,455)	77,900
<b>Corporates</b>	<b>68,189</b>	<b>500,981</b>	<b>60,965</b>	<b>25,886</b>	<b>411</b>	<b>(10,319)</b>	<b>646,113</b>
Fisheries	20,962	120,554	4,060	1,458	261	(383)	146,912
Construction companies	1,379	66,351	18,031	3,544	-	(1,795)	87,510
Real estate companies	765	119,006	14,291	4,829	60	(1,608)	137,343
Holding companies	1	26,134	4,882	148	-	(194)	30,971
Retail	25,354	34,968	2,544	1,591	-	(813)	63,644
Services	11,464	87,560	15,711	7,558	90	(2,944)	119,439
Information, technology and communication	273	29,497	53	99	-	(123)	29,799
Manufacturing	6,582	10,749	877	6,012	-	(2,284)	21,936
Agriculture	1,409	6,162	516	647	-	(175)	8,559
Other	-	-	-	-	-	-	-
<b>Total</b>	<b>294,682</b>	<b>722,245</b>	<b>100,119</b>	<b>30,378</b>	<b>1,300</b>	<b>(12,807)</b>	<b>1,135,917</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 48. Loans and advances by past due status

The following tables show the gross carrying amount of loans and advances to financial institutions and customers by past due status.

As at 30 June 2019	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	71,813	-	-	-	-	-	(1)	71,812
Public entities	4,530	20	-	-	-	-	(20)	4,530
Individuals	427,928	3,496	5,711	965	1,400	2,829	(2,193)	440,136
Mortgages	357,964	3	4,311	645	1,038	1,276	(854)	364,383
Other	69,964	3,493	1,400	320	362	1,553	(1,339)	75,753
Corporates	659,875	2,958	17,008	3,113	1,373	14,222	(12,300)	686,249
Fisheries	159,440	148	102	6	1	416	(322)	159,791
Construction companies	92,528	300	2,590	365	207	2,272	(1,814)	96,448
Real estate companies	136,752	181	3,086	1,749	592	2,591	(2,032)	142,919
Holding companies	28,950	268	64	2	46	65	(95)	29,300
Retail	64,678	816	630	40	41	1,816	(1,410)	66,611
Services	123,448	946	9,320	905	444	2,157	(3,583)	133,637
Information, technology and communication	30,507	172	6	1	8	58	(111)	30,641
Manufacturing	15,794	66	1,196	27	26	4,579	(2,877)	18,811
Agriculture	7,775	61	14	18	8	268	(56)	8,088
Other	3	-	-	-	-	-	-	3
Total	1,164,146	6,474	22,719	4,078	2,773	17,051	(14,514)	1,202,727

	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
As at 31 December 2018	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	71,387	-	-	-	-	-	(2)	71,385
Public entities	4,848	-	16	1	-	-	(145)	4,720
Individuals	402,153	2,842	2,780	4,204	879	3,182	(2,341)	413,699
Mortgages	329,665	-	1,984	2,996	590	1,450	(886)	335,799
Other	72,488	2,842	796	1,208	289	1,732	(1,455)	77,900
Corporations	629,832	9,059	4,243	2,549	1,035	9,714	(10,319)	646,113
Fisheries	146,381	371	20	50	3	470	(383)	146,912
Construction companies	84,409	990	785	64	212	2,845	(1,795)	87,510
Real estate companies	134,799	162	1,238	1,109	215	1,428	(1,608)	137,343
Holding companies	30,853	104	8	114	18	68	(194)	30,971
Retail	62,378	283	532	155	49	1,060	(813)	63,644
Services	113,694	2,630	1,550	919	361	3,229	(2,944)	119,439
Information, technology and communication	29,758	63	3	2	8	88	(123)	29,799
Manufacturing	19,308	4,345	88	88	11	380	(2,284)	21,936
Agriculture	8,252	111	19	48	158	146	(175)	8,559
Other	-	-	-	-	-	-	-	0
Total	1,108,220	11,901	7,039	6,754	1,914	12,896	(12,807)	1,135,917

## Notes to the Condensed Consolidated Interim Financial Statements

### 49. Loans and advances by stage allocation

The tables below show both gross carrying amount and expected credit loss (ECL) by industry sectors and the three-stage criteria under IFRS 9.

	Gross carrying amount	Stage 1		Stage 2		Stage 3		Allowance for impairment	Fair value	Carrying amount
		Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
<b>As at 30 June 2019</b>										
<b>Financial institutions</b>	<b>71,813</b>	<b>71,812</b>	<b>(1)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>71,812</b>
<b>Public entities</b>	<b>4,550</b>	<b>4,487</b>	<b>(19)</b>	<b>62</b>	<b>-</b>	<b>1</b>	<b>(1)</b>	<b>(20)</b>	<b>-</b>	<b>4,530</b>
<b>Individuals</b>	<b>442,329</b>	<b>399,224</b>	<b>(526)</b>	<b>38,386</b>	<b>(522)</b>	<b>4,719</b>	<b>(1,145)</b>	<b>(2,193)</b>	<b>0</b>	<b>440,136</b>
Mortgages	365,237	335,757	(260)	26,893	(324)	2,587	(270)	(854)	-	364,383
Other	77,092	63,467	(266)	11,493	(198)	2,132	(875)	(1,339)	-	75,753
<b>Corporates</b>	<b>698,549</b>	<b>616,189</b>	<b>(1,591)</b>	<b>46,259</b>	<b>(621)</b>	<b>26,600</b>	<b>(10,088)</b>	<b>(12,300)</b>	<b>9,501</b>	<b>686,249</b>
Fisheries	160,113	153,927	(101)	3,361	(20)	782	(201)	(322)	2,043	159,791
Construction companies	98,262	88,248	(694)	6,946	(99)	3,068	(1,021)	(1,814)	-	96,448
Real estate companies	144,951	129,032	(455)	10,756	(174)	5,163	(1,403)	(2,032)	-	142,919
Holding companies	29,395	29,001	(59)	282	(2)	112	(34)	(95)	-	29,300
Retail	68,021	59,174	(54)	3,844	(31)	2,673	(1,325)	(1,410)	2,330	66,611
Services	137,220	109,499	(126)	17,048	(235)	8,851	(3,222)	(3,583)	1,822	133,637
Information, technology and communication	30,752	27,251	(64)	128	(1)	67	(46)	(111)	3,306	30,641
Manufacturing	21,688	14,420	(29)	1,690	(43)	5,578	(2,805)	(2,877)	-	18,811
Agriculture	8,144	5,634	(9)	2,204	(16)	306	(31)	(56)	-	8,088
Other	3	3	-	-	-	-	-	-	-	3
<b>Total</b>	<b>1,217,241</b>	<b>1,091,712</b>	<b>(2,137)</b>	<b>84,708</b>	<b>(1,143)</b>	<b>31,320</b>	<b>(11,234)</b>	<b>(14,514)</b>	<b>9,501</b>	<b>1,202,727</b>

	Gross carrying amount	Stage 1		Stage 2		Stage 3		Allowance for impairment	Fair value	Carrying amount
		Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
<b>As at 31 December 2018</b>										
<b>Financial institutions</b>	<b>71,387</b>	<b>71,384</b>	<b>(2)</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>71,385</b>
<b>Public entities</b>	<b>4,865</b>	<b>1,859</b>	<b>(8)</b>	<b>3,006</b>	<b>(137)</b>	<b>-</b>	<b>-</b>	<b>(145)</b>	<b>-</b>	<b>4,720</b>
<b>Individuals</b>	<b>416,040</b>	<b>363,967</b>	<b>(561)</b>	<b>47,581</b>	<b>(602)</b>	<b>4,492</b>	<b>(1,178)</b>	<b>(2,341)</b>	<b>0</b>	<b>413,699</b>
Mortgages	336,685	301,920	(240)	32,390	(343)	2,375	(303)	(886)	-	335,799
Other	79,355	62,047	(321)	15,191	(259)	2,117	(875)	(1,455)	-	77,900
<b>Corporates</b>	<b>656,432</b>	<b>582,067</b>	<b>(1,714)</b>	<b>38,809</b>	<b>(468)</b>	<b>25,886</b>	<b>(8,137)</b>	<b>(10,319)</b>	<b>9,670</b>	<b>646,113</b>
Fisheries	147,295	135,868	(83)	8,373	(42)	1,458	(258)	(383)	1,596	146,912
Construction companies	89,305	79,649	(620)	6,112	(110)	3,544	(1,065)	(1,795)	-	87,510
Real estate companies	138,951	127,569	(569)	5,575	(82)	4,829	(957)	(1,608)	978	137,343
Holding companies	31,165	30,818	(84)	199	(4)	148	(106)	(194)	-	30,971
Retail	64,457	56,974	(88)	4,391	(28)	1,591	(697)	(813)	1,501	63,644
Services	122,383	102,188	(169)	10,514	(159)	7,558	(2,616)	(2,944)	2,123	119,439
Information, technology and communication	29,922	26,210	(61)	141	(1)	99	(61)	(123)	3,472	29,799
Manufacturing	24,220	17,003	(32)	1,205	(18)	6,012	(2,234)	(2,284)	-	21,936
Agriculture	8,734	5,788	(8)	2,299	(24)	647	(143)	(175)	-	8,559
Other	-	-	-	-	-	-	-	-	-	0
<b>Total</b>	<b>1,148,724</b>	<b>1,019,277</b>	<b>(2,285)</b>	<b>89,399</b>	<b>(1,207)</b>	<b>30,378</b>	<b>(9,315)</b>	<b>(12,807)</b>	<b>9,670</b>	<b>1,135,917</b>

## Notes to the Condensed Consolidated Interim Financial Statements

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

The following tables show changes in the impairment allowance of loans and advances during the period.

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
<b>Balance as at 1 January 2019 - Financial institutions</b>	(2)	(5)	-	(7)
Changes in models/risk parameters	1	-	-	1
<b>Balance at the end of the period - Financial institutions</b>	(1)	(5)	0	(6)
- thereof classified as deduction from gross carrying amounts	(1)	-	-	(1)
- thereof classified as liabilities	-	(5)	-	(5)

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
<b>Balance as at 1 January 2019 - Loans and advances to customers</b>	(2,553)	(1,230)	(9,345)	(13,128)
New financial assets originated	(792)	(129)	(675)	(1,596)
Reversals due to financial assets that have been derecognised	572	181	821	1,574
Transfer to Stage 1 - 12-month ECL	(166)	137	29	0
Transfer to Stage 2 - Lifetime ECL	858	(894)	36	0
Transfer to Stage 3 - Lifetime ECL	646	951	(1,597)	0
Changes in models/risk parameters	(880)	(181)	(1,413)	(2,474)
Provisions used to cover write-offs	11	4	838	853
<b>Balance at the end of the period - Loans and advances to customers</b>	(2,304)	(1,161)	(11,306)	(14,771)
- thereof classified as deduction from gross carrying amounts	(2,136)	(1,143)	(11,234)	(14,513)
- thereof classified as liabilities	(168)	(18)	(72)	(258)

	1.1-30.6.2019				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	-	(157)	(1,439)	(1,596)
Reversals due to financial assets that have been derecognised	-	-	202	1,372	1,574
Changes due to financial assets recognised in the opening balance	1	123	(234)	(2,363)	(2,473)
Write-offs	-	-	(536)	(718)	(1,254)
Provisions used to cover write-offs	-	-	332	521	853
Recoveries	-	-	247	34	281
Translation difference	-	-	1	207	208
<b>Net impairment loss for the period</b>	<b>1</b>	<b>123</b>	<b>(145)</b>	<b>(2,386)</b>	<b>(2,407)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 50. Allowance for impairment on loans and advances to financial institutions and customers and other assets (continued)

The following tables show changes in the impairment allowance of loans and advances during the year 2018.

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
<b>Restated balance as at 1 January 2018 - Financial institutions</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(3)</b>
New financial assets originated	-	(1)	-	(1)
Transfer to Stage 2 - Lifetime ECL	4	(4)	-	0
Changes in models/risk parameters	(3)	-	-	(3)
<b>Balance as at 31 December 2018 - Financial institutions</b>	<b>(2)</b>	<b>(5)</b>	<b>0</b>	<b>(7)</b>
- thereof classified as deduction from gross carrying amounts	(2)	-	-	(2)
- thereof classified as liabilities	-	(5)	-	(5)

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
<b>Restated balance as at 1 January 2018 - Loans and advances to customers</b>	<b>(2,671)</b>	<b>(1,048)</b>	<b>(13,075)</b>	<b>(16,794)</b>
New financial assets originated	(1,359)	(350)	(494)	(2,203)
Reversals due to financial assets that have been derecognised	976	207	1,080	2,263
Changes due to reclassification of financial assets	80	-	-	80
Transfer to Stage 1 - 12-month ECL	(103)	84	19	0
Transfer to Stage 2 - Lifetime ECL	452	(483)	31	0
Transfer to Stage 3 - Lifetime ECL	990	470	(1,460)	0
Changes in models/risk parameters	(949)	(120)	1,050	(19)
Provisions used to cover write-offs	31	10	3,505	3,546
<b>Balance as at 31 December 2018 - Loans and advances to customers</b>	<b>(2,553)</b>	<b>(1,230)</b>	<b>(9,344)</b>	<b>(13,127)</b>
- thereof classified as deduction from gross carrying amounts	(2,283)	(1,207)	(9,315)	(12,805)
- thereof classified as liabilities	(270)	(23)	(29)	(322)

	1.1-31.12.2018				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	(2)	(1)	(359)	(1,842)	(2,204)
Reversals due to financial assets that have been derecognised	-	124	507	1,632	2,263
Changes due to reclassification of financial assets	-	-	-	80	80
Changes due to financial assets recognised in the opening balance	(3)	14	173	(206)	(22)
Write-offs	-	-	(946)	(3,714)	(4,660)
Provisions used to cover write-offs	-	-	654	2,892	3,546
Recoveries	-	-	509	328	837
Translation difference	-	-	1	458	459
<b>Net impairment loss for the year</b>	<b>(5)</b>	<b>137</b>	<b>539</b>	<b>(372)</b>	<b>299</b>

### 51. Large exposures

As at 30 June 2019, four customer groups were rated as large exposures in accordance with rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's eligible capital. According to the rules, no exposure, after credit risk mitigation, may exceed 25% of the eligible capital. The following table shows the Group's large exposures after credit mitigation:

	Number of large exposures	Large exposures
<b>As at 30 June 2019</b>		
Large exposures between 10% and 20% of the Group's eligible capital	3	106,283
Large exposures between 0% and 10% of the Group's eligible capital	1	-
<b>Total</b>	<b>4</b>	<b>106,283</b>

Total ratio of large exposures to eligible capital 43%

<b>As at 31 December 2018</b>		
Large exposures between 10% and 20% of the Group's eligible capital	3	83,842
Large exposures between 0% and 10% of the Group's eligible capital	1	-
<b>Total</b>	<b>4</b>	<b>83,842</b>

Total ratio of large exposures to eligible capital 34%

## Notes to the Condensed Consolidated Interim Financial Statements

### 52. Bonds and debt instruments

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

<b>Government bonds and treasury bills</b>	<b>30.6.2019</b>	<b>31.12.2018</b>
Rated AAA	28,379	26,685
Rated AA- to AA+	22,386	23,247
Rated A- to A+	7,313	7,187
Rated BBB+ and below	522	576
	<b>58,600</b>	<b>57,695</b>
<b>Corporate bonds</b>		
Rated A- to A+	530	379
Rated BBB- to BBB+	4,093	3,776
Unrated	11,649	11,701
	<b>16,272</b>	<b>15,856</b>
<b>Asset-backed securities</b>		
Rated BBB- to BBB+	9,958	3,507
	<b>9,958</b>	<b>3,507</b>
<b>Total</b>	<b>84,830</b>	<b>77,058</b>

### 53. Offsetting financial assets and financial liabilities

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

#### As at 30 June 2019

Financial assets subject to offsetting, enforceable master netting arrangement and other similar agreements.

<b>Types of financial assets</b>	<b>Financial assets subject to netting agreements</b>			<b>Netting not recognised on balance sheet</b>			<b>Net financial assets subject to netting agreements</b>	<b>Financial assets not subject to netting agreements</b>	<b>Net amount on balance sheet</b>
	<b>Financial assets</b>	<b>Financial liabilities</b>	<b>Net amount</b>	<b>Financial liabilities</b>	<b>Collateral received</b>				
Derivatives	2,045	-	2,045	(212)	(1,085)	749	-	-	2,045

Financial liabilities subject to offsetting, enforceable master netting arrangement and other similar agreements.

<b>Types of financial liabilities</b>	<b>Financial liabilities subject to netting agreements</b>			<b>Netting not recognised on balance sheet</b>			<b>Net financial liabilities subject to netting agreements</b>	<b>Financial liabilities not subject to netting agreements</b>	<b>Net amount on balance sheet</b>
	<b>Financial liabilities</b>	<b>Financial assets</b>	<b>Net amount</b>	<b>Financial assets</b>	<b>Collateral pledged</b>				
Derivatives	(2,488)	-	(2,488)	(212)	1,336	(1,364)	-	-	(2,488)
Short positions	(2,129)	-	(2,129)	-	2,129	-	-	-	(2,129)
<b>Total</b>	<b>(4,617)</b>	<b>0</b>	<b>(4,617)</b>	<b>(212)</b>	<b>3,465</b>	<b>(1,364)</b>	<b>0</b>	<b>0</b>	<b>(4,617)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 53. Offsetting financial assets and financial liabilities (continued)

As at 31 December 2018

Financial assets subject to offsetting, enforceable master netting arrangement and other similar agreements.

Types of financial assets	Financial assets subject to netting agreements			Netting not recognised on balance sheet			Net financial assets subject to netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received				
Derivatives	1,923	-	1,923	(284)	(806)		833	-	1,923

Financial liabilities subject to offsetting, enforceable master netting arrangement and other similar agreements.

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet			Net financial liabilities subject to netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged				
Derivatives	(1,638)	-	(1,638)	(284)	1,007		(916)	-	(1,638)
Short positions	(4,908)	-	(4,908)	-	4,908		-	-	(4,908)
<b>Total</b>	<b>(6,546)</b>	<b>0</b>	<b>(6,546)</b>	<b>(284)</b>	<b>5,915</b>		<b>(916)</b>	<b>0</b>	<b>(6,546)</b>

### Liquidity risk

#### 54. Liquidity risk management

The Group complies with liquidity rules set by the Central Bank of Iceland No. 266/2017. The Group also follows Central Bank rules No. 1032/2014 on funding ratios in foreign currencies, as well as guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority on best practice for managing liquidity in banking organisation. The Central Bank's liquidity rules require the Group to maintain a liquidity coverage ratio (LCR) minimum of 100% total and 100% for foreign currencies and rules No. 1032/2014 set requirements for a minimum of 100% net stable funding ratio (NSFR) in foreign currencies. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.

The key indicator of short-term liquidity risk is measured by the 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. Estimated inflow and outflow weights, according to rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 30 June 2019 and 31 December 2018 are shown in the following table:

Liquidity coverage ratio 30 June 2019	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	92,437	92,437	53,285	53,285
Level 2 liquid assets	762	534	-	-
Information items	28,201	-	6,863	-
<b>Total liquid assets</b>	<b>121,400</b>	<b>92,971</b>	<b>60,148</b>	<b>53,285</b>
Deposits	512,909	126,838	85,729	35,022
Borrowing	195	195	195	195
Other outflows	134,009	17,226	30,953	3,159
<b>Total outflows (0-30 days)</b>	<b>647,113</b>	<b>144,259</b>	<b>116,877</b>	<b>38,376</b>
Loans and advances to financial institutions	81,596	70,661	71,837	70,661
Other inflows	43,357	20,314	5,435	3,132
Limit on inflows	-	-	-	(45,012)
<b>Total inflows (0-30 days)</b>	<b>124,953</b>	<b>90,975</b>	<b>77,272</b>	<b>28,781</b>
<b>Liquidity coverage ratio</b>		<b>174%</b>		<b>555%</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 54. Liquidity risk management (continued)

Liquidity coverage ratio 31 December 2018	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	94,961	94,961	51,587	51,587
Level 2 liquid assets and information items	17,800	-	4,048	-
<b>Total liquid assets</b>	<b>112,761</b>	<b>94,961</b>	<b>55,635</b>	<b>51,587</b>
Deposits	517,428	133,200	86,615	35,216
Borrowing	730	730	170	170
Other outflows	150,699	16,765	31,999	3,263
<b>Total outflows (0-30 days)</b>	<b>668,857</b>	<b>150,695</b>	<b>118,784</b>	<b>38,649</b>
Loans and advances to financial institutions	81,211	70,340	71,168	70,340
Other inflows	42,789	20,372	11,806	6,442
Limit on inflows	-	-	-	(47,795)
<b>Total inflows (0-30 days)</b>	<b>124,000</b>	<b>90,712</b>	<b>82,974</b>	<b>28,987</b>
<b>Liquidity coverage ratio</b>		<b>158%</b>		<b>534%</b>

The following table shows the composition of the Group's liquidity reserve which is comprised of high quality liquid assets as defined in the Rules on Liquidity Ratio, etc., No. 266/2017, as well as readily available loans and advances to financial institutions.

Liquidity reserves as at 30 June 2019	Total	Foreign currencies
Cash and balances with the Central Bank	28,118	2,520
Domestic bonds and debt instruments eligible as collateral at the Central Bank	14,316	-
Foreign government bonds with 0% risk weight	50,765	50,765
<b>High quality liquidity assets</b>	<b>93,199</b>	<b>53,285</b>
Loans and advances to financial institutions	81,596	71,837
<b>Total liquidity reserves</b>	<b>174,795</b>	<b>125,122</b>

Liquidity reserves as at 31 December 2018	Total	Foreign currencies
Cash and balances with the Central Bank	35,291	1,655
Domestic bonds and debt instruments eligible as collateral at the Central Bank	9,738	-
Foreign government bonds with 0% risk weight	49,932	49,932
<b>High quality liquidity assets</b>	<b>94,961</b>	<b>51,587</b>
Loans and advances to financial institutions	81,211	71,168
<b>Total liquidity reserves</b>	<b>176,172</b>	<b>122,755</b>

The Group measures the net stable funding ratio (NSFR) as another key indicator of liquidity risk up to 12 months. The following table shows the values of the NSFR for foreign currencies and NSFR total as at 30 June 2019 and 31 December 2018:

	As at 30 June 2019	As at 31 December 2018
Net stable funding ratio FX	164%	166%
Net stable funding ratio total	119%	120%

### 55. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets as at 30 June 2019 and 31 December 2018.

As at 30 June 2019	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other*		
Cash and balances with Central Bank	1,653	14,899	47,438	63,990
Bonds and debt instruments	-	-	84,830	84,830
Equities and equity instruments	-	-	27,658	27,658
Derivative instruments	-	-	2,045	2,045
Loans and advances to financial institutions	-	1,133	70,679	71,812
Loans and advances to customers	175,581	-	955,334	1,130,915
Investments in equity-accounted associates	-	-	1,321	1,321
Property and equipment	-	-	5,743	5,743
Intangible assets	-	-	2,435	2,435
Deferred tax assets	-	-	108	108
Other assets	-	-	10,696	10,696
Assets classified as held for sale	-	-	1,282	1,282
<b>Total</b>	<b>177,234</b>	<b>16,032</b>	<b>1,209,569</b>	<b>1,402,835</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 55. Encumbered assets (continued)

As at 31 December 2018	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other*		
Cash and balances with Central Bank	3,835	12,741	54,278	70,854
Bonds and debt instruments	-	-	77,058	77,058
Equities and equity instruments	-	-	23,547	23,547
Derivative instruments	-	-	1,923	1,923
Loans and advances to financial institutions	-	805	70,580	71,385
Loans and advances to customers	132,864	-	931,668	1,064,532
Investments in equity-accounted associates	-	-	1,453	1,453
Property and equipment	-	-	5,548	5,548
Intangible assets	-	-	2,622	2,622
Deferred tax assets	-	-	134	134
Other assets	-	-	5,655	5,655
Assets classified as held for sale	-	-	1,330	1,330
<b>Total</b>	<b>136,699</b>	<b>13,546</b>	<b>1,175,796</b>	<b>1,326,041</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 GMRA and ISDA master agreements and other pledges of similar nature.

### Market risk

#### 56. Market risk management

The following table summarises the Group's exposure to market risk as a percentage of risk exposure amount (REA) as at 30 June 2019 and 31 December 2018. The Group uses the standardized approach to calculate risk exposure amounts of derivatives for credit valuation adjustment (CVA) according to capital requirement regulations.

Market risk factor	30.6.2019	31.12.2018
	% of REA	% of REA
Equity price risk	0.4%	0.9%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.5%	0.6%
<b>Total</b>	<b>1.2%</b>	<b>1.8%</b>

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 60-61.

#### 57. Equity price risk

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

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's banking book portfolio contains listed and unlisted equities as part of asset and liability management. Further details are disclosed in Note 21.

## Notes to the Condensed Consolidated Interim Financial Statements

### 58. 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 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

<b>As at 30 June 2019</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Carrying amount</b>
<b>Financial assets</b>					
Cash and balances with Central Bank	63,990	-	-	-	63,990
Bonds and debt instruments	40,940	16,330	10,755	16,805	84,830
Derivative instruments	2,045	-	-	-	2,045
Loans and advances to financial institutions	71,812	-	-	-	71,812
Loans and advances to customers	912,012	71,094	104,695	43,114	1,130,915
Other financial assets	9,814	-	-	-	9,814
<b>Total</b>	<b>1,100,613</b>	<b>87,424</b>	<b>115,450</b>	<b>59,919</b>	<b>1,363,406</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(34,430)	-	-	-	(34,430)
Deposits from customers	(689,608)	(5,511)	(2,779)	-	(697,898)
Derivative instruments and short positions	(2,530)	-	(626)	(1,461)	(4,617)
Borrowings	(70,584)	(17,744)	(205,315)	(84,037)	(377,680)
Other financial liabilities	(10,543)	-	-	-	(10,543)
Subordinated liabilities	-	-	-	(14,417)	(14,417)
<b>Total</b>	<b>(807,695)</b>	<b>(23,255)</b>	<b>(208,720)</b>	<b>(99,915)</b>	<b>(1,139,585)</b>
Net on-balance sheet position	292,918	64,169	(93,270)	(39,996)	223,821
Derivatives held for hedging	(89,043)	4,023	85,020	0	
Net off-balance sheet position	15,849	0	(13,849)	(2,000)	
<b>Total interest repricing gap</b>	<b>219,724</b>	<b>68,192</b>	<b>(22,099)</b>	<b>(41,996)</b>	
<b>As at 31 December 2018</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Carrying amount</b>
<b>Financial assets</b>					
Cash and balances with Central Bank	70,854	-	-	-	70,854
Bonds and debt instruments	48,155	7,044	9,762	12,097	77,058
Derivative instruments	1,923	-	-	-	1,923
Loans and advances to financial institutions	71,385	-	-	-	71,385
Loans and advances to customers	853,058	68,257	96,428	46,789	1,064,532
Other financial assets	4,864	-	-	-	4,864
<b>Total</b>	<b>1,050,239</b>	<b>75,301</b>	<b>106,190</b>	<b>58,886</b>	<b>1,290,616</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(34,609)	-	-	-	(34,609)
Deposits from customers	(686,952)	(3,900)	(2,191)	-	(693,043)
Derivative instruments and short positions	(2,634)	-	(1,925)	(1,987)	(6,546)
Borrowings	(44,330)	(18,622)	(188,270)	(63,190)	(314,412)
Other financial liabilities	(6,114)	-	-	-	(6,114)
Subordinated liabilities	-	-	-	(13,340)	(13,340)
<b>Total</b>	<b>(774,639)</b>	<b>(22,522)</b>	<b>(192,386)</b>	<b>(78,517)</b>	<b>(1,068,064)</b>
Net on-balance sheet position	275,600	52,779	(86,196)	(19,631)	222,552
Derivatives held for hedging	(83,861)	0	83,861	0	
Net off-balance sheet position	16,957	56	(14,711)	(2,303)	
<b>Total interest repricing gap</b>	<b>208,696</b>	<b>52,835</b>	<b>(17,046)</b>	<b>(21,934)</b>	

## Notes to the Condensed Consolidated Interim Financial Statements

### 59. 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 the Bank offers non-CPI-linked loans, CPI-linked deposits, CPI-linked covered bonds as well as CPI-linked interest rate swaps.

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk department within the Risk Management division. The following tables summarize the Group's CPI imbalance, where CPI-linked financial assets and liabilities are calculated at their carrying amounts and categorised at maturity date, as at 30 June 2019 and 31 December 2018.

As at 30 June 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>Financial assets</b>						
Bonds and debt instruments	-	-	20	590	14,854	15,464
Loans and advances to customers	2,948	2,591	11,247	70,233	314,551	401,570
<b>Total</b>	<b>2,948</b>	<b>2,591</b>	<b>11,267</b>	<b>70,823</b>	<b>329,405</b>	<b>417,034</b>
<b>Financial liabilities</b>						
Deposits from customers	(41,672)	(44,033)	(13,210)	(11,393)	(3,802)	(114,110)
Derivative instruments and short positions	-	-	-	(1,672)	(1,684)	(3,356)
Borrowings	(1,672)	-	(111)	(21,358)	(82,396)	(105,537)
<b>Total</b>	<b>(43,344)</b>	<b>(44,033)</b>	<b>(13,321)</b>	<b>(34,423)</b>	<b>(87,882)</b>	<b>(223,003)</b>
<b>Total on-balance sheet position</b>	<b>(40,396)</b>	<b>(41,442)</b>	<b>(2,054)</b>	<b>36,400</b>	<b>241,523</b>	<b>194,031</b>
<b>Off-balance sheet position</b>						
Interest rate swaps	(7)	(60)	-	(25,000)	(2,000)	(27,067)
Total return swaps	(3,707)	-	-	-	-	(3,707)
<b>Total off-balance sheet position</b>	<b>(3,714)</b>	<b>(60)</b>	<b>0</b>	<b>(25,000)</b>	<b>(2,000)</b>	<b>(30,774)</b>
<b>Total CPI indexation balance</b>	<b>(44,110)</b>	<b>(41,502)</b>	<b>(2,054)</b>	<b>11,400</b>	<b>239,523</b>	<b>163,257</b>
<b>As at 31 December 2018</b>	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Carrying amount</b>
<b>Financial assets</b>						
Bonds and debt instruments	19	96	5	136	12,530	12,786
Loans and advances to customers	2,741	2,317	11,782	64,356	307,871	389,067
<b>Total</b>	<b>2,760</b>	<b>2,413</b>	<b>11,787</b>	<b>64,492</b>	<b>320,401</b>	<b>401,853</b>
<b>Financial liabilities</b>						
Deposits from customers	(43,703)	(42,262)	(12,554)	(11,316)	(3,690)	(113,525)
Derivative instruments and short positions	-	-	-	(2,274)	(2,264)	(4,538)
Borrowings	(426)	-	(341)	(21,021)	(62,816)	(84,604)
<b>Total</b>	<b>(44,129)</b>	<b>(42,262)</b>	<b>(12,895)</b>	<b>(34,611)</b>	<b>(68,770)</b>	<b>(202,667)</b>
<b>Total on-balance sheet position</b>	<b>(41,369)</b>	<b>(39,849)</b>	<b>(1,108)</b>	<b>29,881</b>	<b>251,631</b>	<b>199,186</b>
<b>Off-balance sheet position</b>						
Interest rate swaps	(7)	(59)	-	(25,000)	(2,000)	(27,066)
Total return swaps	(823)	-	-	-	-	(823)
<b>Total off-balance sheet position</b>	<b>(830)</b>	<b>(59)</b>	<b>0</b>	<b>(25,000)</b>	<b>(2,000)</b>	<b>(27,889)</b>
<b>Total CPI indexation balance</b>	<b>(42,199)</b>	<b>(39,908)</b>	<b>(1,108)</b>	<b>4,881</b>	<b>249,631</b>	<b>171,297</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Currency risk

#### 60. Currency risk (all portfolios)

The Group follows Central Bank Rules No. 784/2018, on Foreign Exchange Balances. The Rules stipulate that a foreign exchange balance (whether long or short) of a systemically important financial institution must always be within 10% of its capital base, in each currency and for all currencies combined, although the total foreign exchange balance should never exceed ISK 25,000 million. The Group submits monthly reports to the Central Bank on its foreign exchange balance.

The Group's combined net foreign exchange balance as at 30 June 2019 was + 1,1% of the Group's capital base (31.12.2018: +2.3%).

#### 61. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2019 and 31 December 2018. 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. When managing currency risk the Group regards spot deals as non-derivative assets or liabilities.

As at 30 June 2019	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
Cash and balances with Central Bank	1,059	207	573	19	44	617	2,519
Bonds and debt instruments	28,403	38	26,480	-	-	-	54,921
Equities and equity instruments	2,223	-	27	-	-	193	2,443
Derivative instruments	1,313	14	372	-	-	13	1,712
Loans and advances to financial institutions	19,522	3,255	5,305	310	124	43,246	71,762
Loans and advances to customers	155,516	2,722	49,757	3,419	1,268	4,915	217,597
Other assets	1,607	2	19	-	-	76	1,704
<b>Total</b>	<b>209,643</b>	<b>6,238</b>	<b>82,533</b>	<b>3,748</b>	<b>1,436</b>	<b>49,060</b>	<b>352,658</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(1,418)	(111)	(134)	-	(64)	(412)	(2,139)
Deposits from customers	(37,510)	(3,901)	(37,415)	(406)	(943)	(14,349)	(94,524)
Derivative instruments and short positions	(807)	(3)	(106)	-	-	(59)	(975)
Borrowings	(159,104)	-	(18,916)	-	-	(60,591)	(238,611)
Other liabilities	(811)	(107)	(500)	(3)	(8)	(343)	(1,772)
Subordinated liabilities	(14,417)	-	-	-	-	-	(14,417)
<b>Total</b>	<b>(214,067)</b>	<b>(4,122)</b>	<b>(57,071)</b>	<b>(409)</b>	<b>(1,015)</b>	<b>(75,754)</b>	<b>(352,438)</b>
Net on-balance sheet position	(4,424)	2,116	25,462	3,339	421	(26,694)	220
Net off-balance sheet position	8,649	(2,108)	(27,786)	(3,242)	(363)	27,190	2,340
<b>Net currency position</b>	<b>4,225</b>	<b>8</b>	<b>(2,324)</b>	<b>97</b>	<b>58</b>	<b>496</b>	<b>2,560</b>
<b>As at 31 December 2018</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	666	180	318	15	40	436	1,655
Bonds and debt instruments	26,717	30	27,023	-	-	-	53,770
Equities and equity instruments	5	-	23	-	-	53	81
Derivative instruments	961	146	441	-	-	7	1,555
Loans and advances to financial institutions	39,127	2,951	13,771	343	374	14,602	71,168
Loans and advances to customers	139,993	2,585	40,790	3,273	1,224	3,677	191,542
Other assets	1,217	-	52	-	-	29	1,298
<b>Total</b>	<b>208,686</b>	<b>5,892</b>	<b>82,418</b>	<b>3,631</b>	<b>1,638</b>	<b>18,804</b>	<b>321,069</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(938)	(451)	(125)	-	-	(795)	(2,309)
Deposits from customers	(35,906)	(4,195)	(44,219)	(306)	(879)	(8,393)	(93,898)
Derivative instruments and short positions	(156)	(51)	(98)	-	(7)	(44)	(356)
Borrowings	(150,137)	-	(17,681)	-	-	(37,580)	(205,398)
Other liabilities	(422)	(79)	(700)	-	(1)	(740)	(1,942)
Subordinated liabilities	(13,340)	-	-	-	-	-	(13,340)
<b>Total</b>	<b>(200,899)</b>	<b>(4,776)</b>	<b>(62,823)</b>	<b>(306)</b>	<b>(887)</b>	<b>(47,552)</b>	<b>(317,243)</b>
Net on-balance sheet position	7,787	1,116	19,595	3,325	751	(28,748)	3,826
Net off-balance sheet position	(3,945)	(1,239)	(18,510)	(3,233)	(623)	29,144	1,594
<b>Net currency position</b>	<b>3,842</b>	<b>(123)</b>	<b>1,085</b>	<b>92</b>	<b>128</b>	<b>396</b>	<b>5,420</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 62. Foreign exchange rates used

The following foreign exchange rates were used by the Group for the accounting period presented in these Financial Statements :

	As at 30 June 2019	As at 31 December 2018	% change	Average for 1.1-30.6 2019	Average for 1.1-30.6 2018
EUR/ISK	141.70	133.20	6.4%	137.23	123.11
GBP/ISK	158.25	148.24	6.8%	156.81	139.71
USD/ISK	124.59	116.54	6.9%	121.23	102.15
JPY/ISK	1.1552	1.0623	8.7%	1.1046	0.9367
CHF/ISK	127.68	118.25	8.0%	121.79	105.64
CAD/ISK	95.17	85.32	11.5%	90.92	79.97
DKK/ISK	18.985	17.859	6.3%	18.385	16.530
NOK/ISK	14.605	13.465	8.5%	14.107	12.781
SEK/ISK	13.412	13.137	2.1%	13.112	12.092

## Notes to the Condensed Consolidated Interim Financial Statements

### Accounting policies

#### 63. Changes to accounting policies

The accounting policies applied in the Condensed Consolidated Interim Financial Statements are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2018, except for the changes set out below.

##### IFRS 16 - Leases

The accounting policies applied in the Condensed Consolidated Interim Financial Statements are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2018, except for changes resulting from the initial adoption of IFRS 16 Leases as of 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach and the comparative information has not been restated. Under this approach the cumulative effect on initial application is recognised in retained earnings net of tax as at 1 January 2019.

##### Policy applicable from 1 January 2019

###### (a) When a Group entity is the lessee

The leases into which the Group enters as a lessee are primarily operating leases. This type of leasing contracts, with the exception of short-term contracts and contracts for small assets, are recognised in the Statement of Financial Position both on the asset side as right-of-use assets under Other assets and on the liability side as a lease liability under Other liabilities. Initially, the lease liability and the right-of-use asset will be measured at the present value of the lease payments (defined as unavoidable payments). A right-of-use asset is then depreciated on a straight-line basis over the lease period and the depreciation charge is recognised amongst Other operating expenses in the income statement. The lease liability is measured at the present value of future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Interest expenses on lease liabilities are recognised in the income statement amongst interest expenses. During the first half-year of 2019, the Group recognised ISK 235 million as depreciation of right-of-use assets and ISK 32 million as interest expenses on lease liabilities. Previously, all operating lease expenses of the Group were recognised amongst other operating expenses.

###### (b) When a Group entity is the lessor

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

##### Policy applicable before 1 January 2019

###### (a) When a Group entity is the lessee

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

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

###### (b) When a Group entity is the lessor

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

## Notes to the Condensed Consolidated Interim Financial Statements

### Consolidated Key Figures

#### 64. Operations by quarters

Operations	2019		2018			
	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	20,555	17,899	19,381	17,622	16,316	16,059
Interest expense	(10,341)	(7,654)	(8,413)	(7,252)	(6,481)	(6,418)
<b>Net interest income</b>	<b>10,214</b>	<b>10,245</b>	<b>10,968</b>	<b>10,370</b>	<b>9,835</b>	<b>9,641</b>
Reversals of loss from foreign currency linkage of loans and advances	-	-	-	-	1,129	-
Net impairment (loss) gain	(1,383)	(1,024)	(210)	(89)	(426)	1,024
Net impairment to other financial assets	5	30	(76)	-	-	-
<b>Net valuation adjustments and impairment</b>	<b>(1,378)</b>	<b>(994)</b>	<b>(286)</b>	<b>(89)</b>	<b>703</b>	<b>1,024</b>
<b>Net interest income after net valuation adjustments and impairment</b>	<b>8,836</b>	<b>9,251</b>	<b>10,682</b>	<b>10,281</b>	<b>10,538</b>	<b>10,665</b>
Fee and commission income	2,861	2,903	3,269	2,565	2,926	2,460
Fee and commission expense	(785)	(843)	(914)	(639)	(741)	(769)
<b>Net fee and commission income</b>	<b>2,076</b>	<b>2,060</b>	<b>2,355</b>	<b>1,926</b>	<b>2,185</b>	<b>1,691</b>
Net (loss) gain on financial assets and liabilities at FVTPL	1,776	3,442	(58)	(151)	(333)	2,196
Net foreign exchange (loss) gain	(87)	(158)	(676)	(352)	(399)	(70)
Other income and (expenses)	266	438	537	348	195	2,350
<b>Other net operating income</b>	<b>1,955</b>	<b>3,722</b>	<b>(197)</b>	<b>(155)</b>	<b>(537)</b>	<b>4,476</b>
<b>Total operating income</b>	<b>12,867</b>	<b>15,033</b>	<b>12,840</b>	<b>12,052</b>	<b>12,186</b>	<b>16,832</b>
Salaries and related expenses	3,689	3,680	3,835	3,222	3,869	3,663
Other operating expenses	2,340	2,522	2,373	2,353	2,287	2,335
<b>Total operating expenses</b>	<b>6,029</b>	<b>6,202</b>	<b>6,208</b>	<b>5,575</b>	<b>6,156</b>	<b>5,998</b>
<b>Profit before tax</b>	<b>6,838</b>	<b>8,831</b>	<b>6,632</b>	<b>6,477</b>	<b>6,030</b>	<b>10,834</b>
Income tax	(1,444)	(1,037)	(1,737)	(1,615)	(1,609)	(1,892)
Tax on liabilities of financial institutions	(1,065)	(1,010)	(1,028)	(1,082)	(910)	(840)
<b>Profit for the period</b>	<b>4,329</b>	<b>6,784</b>	<b>3,867</b>	<b>3,780</b>	<b>3,511</b>	<b>8,102</b>
<b>Balance sheet</b>	<b>30.6.2019</b>	<b>31.3.2019</b>	<b>31.12.2018</b>	<b>30.9.2018</b>	<b>30.6.2018</b>	<b>31.3.2018</b>
Cash and cash balances with Central Bank	63,990	63,014	70,854	61,155	68,372	82,266
Bonds and debt instruments	84,830	80,954	77,058	88,749	97,214	100,216
Equities and equity instruments	27,658	25,151	23,547	27,766	28,756	25,666
Loans and advances to financial institutions	71,812	88,664	71,385	84,513	47,937	41,796
Loans and advances to customers	1,130,915	1,095,376	1,064,532	1,038,005	989,481	936,636
Other assets	22,348	24,744	17,335	15,399	16,261	17,455
Assets classified as held for sale	1,282	1,394	1,330	1,618	1,832	2,113
<b>Total assets</b>	<b>1,402,835</b>	<b>1,379,298</b>	<b>1,326,041</b>	<b>1,317,205</b>	<b>1,249,853</b>	<b>1,206,148</b>
Due to financial institutions and Central Bank	34,430	36,636	34,609	34,714	27,504	30,943
Deposits from customers	697,898	694,820	693,043	692,675	654,689	622,021
Borrowings	377,680	351,005	314,412	308,362	297,684	284,484
Other liabilities	37,768	36,701	30,997	32,614	37,764	39,984
Liabilities associated with assets classified as held for sale	30	30	30	73	27	41
Subordinated liabilities	14,417	13,900	13,340	12,875	72	74
Equity	240,612	246,206	239,610	235,892	232,113	228,601
<b>Total liabilities and equity</b>	<b>1,402,835</b>	<b>1,379,298</b>	<b>1,326,041</b>	<b>1,317,205</b>	<b>1,249,853</b>	<b>1,206,148</b>

\*The first two quarter results for the year 2019 and the first three quarter results for the year 2018 were reviewed by the Bank's independent auditors.

## Notes to the Condensed Consolidated Interim Financial Statements

### Consolidated Key Figures

#### 65. Key figures and ratios

	2019		2018			
	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	11.2%	14.5%	11.2%	11.1%	10.5%	18.3%
Return on equity after taxes	7.1%	11.2%	6.5%	6.5%	6.1%	13.7%
Return on equity after taxes, excluding bank levy	8.9%	12.9%	8.2%	8.3%	7.7%	15.1%
Cost-income ratio	42.3%	38.7%	47.3%	45.9%	53.6%	37.9%
Operating expenses as a ratio of average total assets	1.7%	1.8%	1.9%	1.7%	2.0%	2.0%
Return on assets	1.2%	2.0%	1.2%	1.2%	1.1%	2.7%
Interest spread as a ratio of assets and liabilities	2.3%	2.5%	2.8%	2.7%	2.7%	2.7%
Earnings per share	0.18	0.29	0.16	0.16	0.15	0.34
	<b>30.6.2019</b>	<b>31.3.2019</b>	<b>31.12.2018</b>	<b>30.9.2018</b>	<b>30.6.2018</b>	<b>31.3.2018</b>
Total capital ratio	23.7%	23.8%	24.9%	24.8%	24.1%	24.7%
CET1 ratio	22.3%	22.4%	23.6%	23.5%	24.1%	24.6%
Leverage ratio	15.2%	15.3%	16.1%	15.9%	16.4%	16.7%
Loans / deposits	162.0%	157.6%	153.6%	149.9%	151.1%	150.6%
Deposits / total assets	49.7%	50.4%	52.3%	52.6%	52.4%	51.6%
Liquidity coverage ratio (LCR)	174%	243%	158%	154%	164%	171%
Net stable funding ratio (NSFR)	164%	165%	166%	168%	165%	168%
Number of full-time positions at the end of the period	903	922	919	948	955	998

#### Key figures and ratios

#### Definition

Return on equity before taxes	Profit before taxes / average total equity
Return on equity after taxes	Profit after taxes / average total equity
Return on equity after taxes, excluding bank levy	Profit after taxes, excluding bank levy / average total equity
Cost-income ratio	Total operating expenses / (total operating income - net valuation adjustments)
Operating expenses as a ratio of average total assets	Total operating expenses as a ratio of average total assets
Return on assets	Profit (loss) for the period / average total assets
Interest spread	(Interest income / average total assets) - (interest expenses / average total liabilities)
Earnings per share	Profit for the period attributable to owners of the Bank / Weighted average number of shares outstanding
Total capital ratio	Total capital base / risk-exposure amount
CET1 ratio	Common equity tier 1 capital (CET1) / Risk exposure amount
Common equity Tier 1 capital (CET1)	Total equity - deductions (intangible assets, deferred tax assets)
Additional common equity Tier 1 capital (AT1)	Capital instruments under Tier 1 other than (CET1)
Tier 1 capital (T1)	Common equity Tier 1 capital + additional common equity Tier 1 capital
Tier 2 capital (T2)	Subordinated liabilities - regulatory amortisation
Total capital base	CET1 + AT1 + T2
Leverage ratio	Tier 1 capital / (total assets + off balance sheet items)
Loans / deposits	Loans and advances to customers/ deposits from customers
Deposits / total assets	Deposits from customers/ total assets
Liquidity coverage ratio (LCR)	High quality liquid assets / total net liquidity outflows over 30 days under stressed conditions
Net stable funding ratio (NSFR)	Available amount of stable funding / required amount of stable funding
Number of full-time equivalent positions at the end of the period	Number of full-time equivalent positions at the end of the period