



Condensed Consolidated Interim Financial Statements

For the three months ended 31 March 2019

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Credit rating

BBB+
with a stable outlook

Principles for
Responsible Banking



Robust cyber security

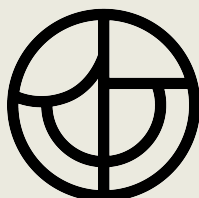


Nordic Financial CERT

Principles for
Responsible Investment



Equal Pay Certification



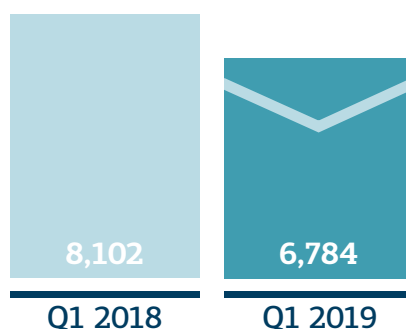
Good governance



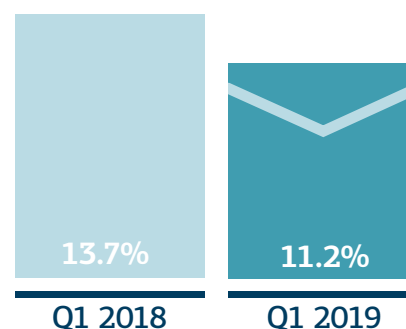
Highlights



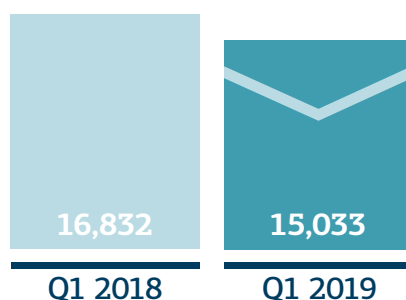
Profit



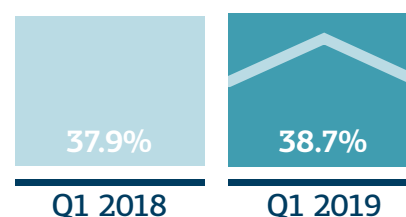
Return on equity



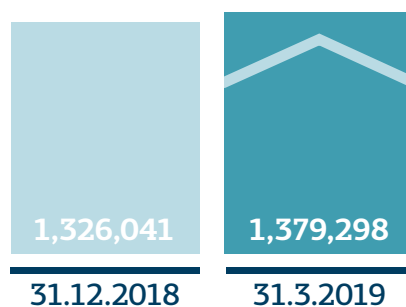
Total operating income



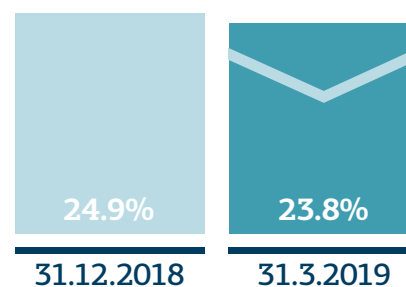
Cost-income ratio



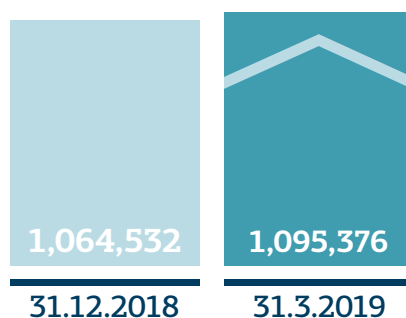
Total assets



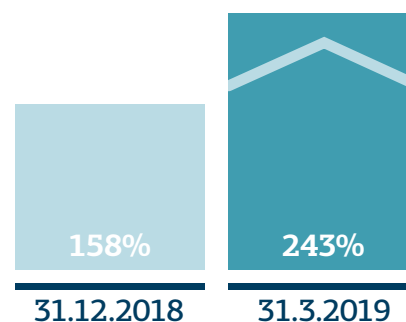
Total capital ratio



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 three months of 2019 include the Bank and its subsidiaries (collectively referred to as the "Group").

Operations

Consolidated profit amounted to ISK 6,784 million for the first three months of the financial year 2019. Consolidated total equity amounted to ISK 246,206 million and total assets to ISK 1,379,298 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 23.8% at the end of the first quarter of 2019.

Risk factors

The carrying amount of the Bank's credit portfolio increased by 2.9% in the first quarter of 2019. Despite signs that the external economic outlook is deteriorating, the Bank's credit risk remained fairly stable and even decreased slightly during the quarter. Loss given default (LGD) and probability of default (PD) continued to decrease slightly during the quarter. Expected credit loss (ECL) as a percentage of total loans decreased slightly during the quarter and remains within the Bank's risk appetite. However, the growth of the loan portfolio during the first quarter of 2019 contributed to an increase in economic capital (EC) while credit risk remained the same.

The Bank's liquidity ratios, both total and in foreign currencies, were robust in the first quarter of 2019 and the total liquidity coverage ratio (LCR) was 243% at the end of the quarter, 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

Following a long period of robust economic growth alongside low and stable inflation, the outlook is for a cooling economy this year with less activity in tourism as compared to the previous year. Inflation has hovered slightly above the Central Bank's target since June of last year after staying below target for just over four years. There is an unusual degree of uncertainty about economic developments for the next couple of years, particularly as regards tourism in the short and medium term. Many signs indicate much slower economic growth in the coming 2-3 years than the previous 2-3-year period. GDP could contract this year and unemployment may increase as compared to previous years.

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 shall be paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The dividend is payable to shareholders listed on the shareholders' registry of Landsbankinn at end of business on the day of the AGM, 4 April 2019, unless the Bank receives notification of assignment of the dividend through the transfer of shares.

Furthermore, the AGM of the Bank 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.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the three months ended 31 March 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 three months of 2019, its consolidated financial position as at 31 March 2019, and its consolidated cash flows for the first three months 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 three months ended 31 March 2019.

Reykjavík, 2 May 2019

Board of Directors

Helga Björk Eiríksdóttir

Chairman

Berglind Svavarsdóttir

Guðbrandur Sigurðsson

Sigríður Benediktsdóttir

Einar Þór Bjarnason

Hersir Sigurgeirsson

Þorvaldur Jacobsen

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 31 March 2019 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the three-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 31 March 2019, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 2 May 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 three months ended 31 March 2019

		2019	2018
Notes		1.1-31.3	1.1-31.3
	Interest income	17,899	16,059
	Interest expense	(7,654)	(6,418)
6	Net interest income	10,245	9,641
7	Net valuation adjustments and impairment	(994)	1,024
	Net interest income after net valuation adjustments and impairment	9,251	10,665
	Fee and commission income	2,903	2,460
	Fee and commission expense	(843)	(769)
8	Net fee and commission income	2,060	1,691
9	Net gain on financial assets and liabilities at FVTPL	3,442	2,196
10	Net foreign exchange loss	(158)	(70)
11	Other income and (expenses)	438	2,350
	Other net operating income	3,722	4,476
	Total operating income	15,033	16,832
12	Salaries and related expenses	3,680	3,663
13	Other operating expenses	2,522	2,335
	Total operating expenses	6,202	5,998
	Profit before tax	8,831	10,834
14	Income tax	(1,037)	(1,892)
15	Tax on liabilities of financial institutions	(1,010)	(840)
	Profit for the period	6,784	8,102
Profit for the year attributable to :			
	Owners of the Bank	6,784	8,102
	Non-controlling interests	0	0
	Profit for the period	6,784	8,102
Earnings per share			
36	Basic and diluted earnings per share from operations (ISK)	0.29	0.34

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2019

		2019	2018
Notes		1.1-31.3	1.1-31.3
	Profit for the period	6,784	8,102
	Other comprehensive income for the period, after tax	0	0
	Comprehensive income for the period	6,784	8,102

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

Condensed Consolidated Statement of Financial Position as at 31 March 2019

Notes		31.3.2019	31.12.2018
Assets			
19	Cash and balances with Central Bank	63,014	70,854
16, 20, 55	Bonds and debt instruments	80,954	77,058
16, 21	Equities and equity instruments	25,151	23,547
16, 22	Derivative instruments	1,291	1,923
23, 55	Loans and advances to financial institutions	88,664	71,385
24, 55	Loans and advances to customers	1,095,376	1,064,532
	Investments in equity-accounted associates	1,354	1,453
	Property and equipment	5,646	5,548
	Intangible assets	2,534	2,622
32	Deferred tax assets	100	134
27	Other assets	13,819	5,655
28	Assets classified as held for sale	1,395	1,330
	Total assets	1,379,298	1,326,041
Liabilities			
29	Due to financial institutions and Central Bank	36,636	34,609
30	Deposits from customers	694,820	693,043
22	Derivative instruments and short positions	7,896	6,546
31, 55	Borrowings	351,005	314,412
33	Other liabilities	28,805	24,451
28	Liabilities associated with assets classified as held for sale	30	30
34	Subordinated liabilities	13,900	13,340
	Total liabilities	1,133,092	1,086,431
35	Equity		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	15,593	12,130
	Retained earnings	86,358	83,225
	Total equity	246,206	239,610
	Total liabilities and equity	1,379,298	1,326,041

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

Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2019

Notes

		Attributable to owners of the Bank								
		Reserves*								
		Share capital	Share premium	Statutory reserve	Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL	Retained earnings	Total	Non-controlling interests	Total
Change in equity for the three months ended 31 March 2019										
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)
	Restated balance at 1 January 2018	23,625	120,630	6,000	5,153	977	83,037	239,422	0	239,422
35	Profit for the period						6,784	6,784		6,784
	Transferred to restricted retained earnings				418	3,044	(3,462)	0		0
	Balance as at 31 March 2019	23,625	120,630	6,000	5,571	4,022	86,358	246,206	0	246,206
Change in equity for the three months ended 31 March 2018										
	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)
	Restated balance at 1 January 2018	23,640	120,764	6,000	2,949	3,953	88,015	245,321	0	245,321
	Profit for the period						8,102	8,102		8,102
	Transferred (from) to restricted retained earnings				1,501	(1,993)	492	0		0
35	Dividends allocated						(24,822)	(24,822)		(24,822)
	Balance as at 31 March 2018	23,640	120,764	6,000	4,450	1,960	71,787	228,601	0	228,601

*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 three months ended 31 March 2019

Notes	2019 1.1-31.3	2018 1.1-31.3
Operating activities		
Profit for the period	6,784	8,102
Adjustments for non-cash items included in profit for the period	(9,376)	(12,571)
Changes in operating assets and liabilities	(56,862)	24,667
Interest received	16,393	15,177
Interest paid	(3,321)	(2,583)
Dividends received	944	2,096
Income tax and special income tax on financial institutions paid	(1,726)	(967)
Net cash (used in) from operating activities	(47,164)	33,921
Investing activities		
Purchase of property and equipment	(214)	(138)
Proceeds from sale of property and equipment	3	225
Purchase of intangible assets	(21)	(40)
Investing activities	(232)	47
Financing activities		
Proceeds from borrowings	33,466	13,589
Repayment of borrowings	(5,249)	(5,640)
Repayment of subordinated liabilities	0	(3)
Paid rent	(146)	0
Dividends paid	0	(15,366)
Financing activities	28,071	(7,420)
Cash and cash equivalents as at the beginning of the period	81,723	53,174
Net change in cash and cash equivalents	(19,325)	26,548
Effect of exchange rate changes on cash and cash equivalents held	(936)	420
Cash and cash equivalents as at the end of the period	61,462	80,142
Investing and financing activities not affecting cash flows		
Approved extraordinary dividend to shareholders	-	(9,456)
Unpaid extraordinary dividend to shareholders	-	9,456
Cash and cash equivalents is specified as follows:		
19 Cash and balances with Central Bank	63,014	82,266
23 Bank accounts with financial institutions	27,622	27,763
19 Mandatory and special restricted balances with Central Bank	(29,174)	(29,886)
Cash and cash equivalents as at the end of the period	61,462	80,142

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

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2019

Notes	2019 1.1-31.3	2018 1.1-31.3
Adjustments for non-cash items included in profit for the period		
6 Net interest income	(10,245)	(9,641)
7 Net impairment of loans and advances and guarantees and other assets	994	(1,024)
9 Net gain on financial assets and liabilities at FVTPL	(3,442)	(2,196)
10 Net foreign exchange loss (gain)	1,094	(350)
Gain on sale of property and equipment	(2)	(113)
Net gain on assets classified as held for sale	(77)	(2,124)
Depreciation and amortisation	348	221
Share of profit of equity-accounted associates	(93)	(76)
14 Income tax	1,037	1,892
15 Tax on liabilities of financial institutions	1,010	840
	(9,376)	(12,571)

Changes in operating assets and liabilities

Change in reserve requirement with Central Bank	870	2,351
Change in bonds and equities	(276)	16,039
Change in derivatives	2	0
Change in loans and advances to financial institutions	(27,249)	(535)
Change in loans and advances to customers	(22,768)	(12,468)
Change in other assets	(4,623)	(1,055)
Change in assets classified as held for sale	942	2,498
Change in due to financial institutions and Central Bank	1,788	(1,129)
Change in deposits from customers	(5,162)	16,239
Change in tax liability	34	(43)
Change in other liabilities	(420)	2,770
	(56,862)	24,667

Change in liabilities due to financing activities

	As at 1.1.2019	Cash flow	Non-cash changes			As at 31.3.2019
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	106,309	12,158	1,890	-	-	120,357
Senior unsecured bonds	100,807	15,487	(652)	3,256	-	118,898
Senior unsecured bonds held to hedge long-term borrowings	84,634	-	(281)	2,719	394	87,466
Commercial paper issued	2,705	572	29	-	-	3,306
Other unsecured loans	19,958	-	33	987	-	20,978
Subordinated liabilities	13,340	-	114	446	-	13,900
Total	327,753	28,217	1,133	7,408	394	364,905

	As at 1.1.2018	Cash flow	Non-cash changes			As at 31.3.2018
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	70,253	8,496	1,295	-	-	80,044
Senior unsecured bonds	113,420	-	(558)	(3,487)	-	109,375
Senior unsecured bonds held to hedge long-term borrowings	78,065	-	(281)	(1,891)	2	75,895
Commercial paper issued	7,433	(547)	90	-	-	6,976
Other unsecured loans	12,703	-	(39)	(471)	-	12,193
Subordinated liabilities	77	(3)	-	-	-	74
Total	281,951	7,946	507	(5,849)	2	284,557

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 three months ended 31 March 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 three months ended 31 March 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 2 May 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.

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)
Lease liabilities as at 1 January 2019	2,829

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 31 March 2019 and 2018.

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments (continued)

1 January - 31 March 2019	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income	4,017	4,765	196	1,340	(14)	(59)	10,245
Net valuation adjustments and impairment	(224)	(768)	(1)	(1)	-	-	(994)
Net fee and commission income	980	182	959	(111)	116	(66)	2,060
Other net operating income (expenses)	297	61	45	3,214	135	(30)	3,722
Total operating income (expense)	5,070	4,240	1,199	4,442	237	(155)	15,033
Operating expenses	(1,555)	(534)	(604)	(512)	(3,068)	71	(6,202)
Profit (loss) before cost allocation and tax	3,515	3,706	595	3,930	(2,831)	(84)	8,831
Cost allocated from support functions to business segments	(1,157)	(693)	(374)	(216)	2,440	-	0
Profit (loss) before tax	2,358	3,013	221	3,714	(391)	(84)	8,831
Net revenue (expenses) from external customers	6,433	6,545	1,080	919	211	-	15,188
Net revenue (expenses) from other segments	(1,363)	(2,305)	119	3,523	26	-	0
Total operating income	5,070	4,240	1,199	4,442	237	0	15,188

As at 31 March 2019

Total assets	471,766	588,798	12,697	564,043	22,549	(280,555)	1,379,298
Total liabilities	432,994	483,933	4,591	469,580	22,549	(280,555)	1,133,092
Allocated capital	38,772	104,865	8,106	94,463	-	-	246,206

1 January - 31 March 2018	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income	3,872	4,266	139	1,362	6	(4)	9,641
Net valuation adjustments and impairment	531	499	-	2	(8)	-	1,024
Net fee and commission income	764	223	822	(98)	32	(52)	1,691
Other net operating income (expenses)	121	(13)	388	1,750	2,235	(5)	4,476
Total operating income (expense)	5,288	4,975	1,349	3,016	2,265	(61)	16,832
Operating expenses	(1,589)	(479)	(546)	(425)	(3,017)	58	(5,998)
Profit (loss) before cost allocation and tax	3,699	4,496	803	2,591	(752)	(3)	10,834
Cost allocated from support functions to business segments	(1,219)	(743)	(373)	(205)	2,540	-	0
Profit (loss) before tax	2,480	3,753	430	2,386	1,788	(3)	10,834
Net revenue (expenses) from external customers	6,042	7,603	1,249	(224)	2,223	-	16,893
Net revenue (expenses) from other segments	(754)	(2,628)	100	3,240	42	-	0
Total operating income	5,288	4,975	1,349	3,016	2,265	0	16,893

As at 31 March 2018

Total assets	434,662	504,323	16,776	466,504	13,683	(229,800)	1,206,148
Total liabilities	387,206	394,179	9,396	402,883	13,683	(229,800)	977,547
Allocated capital	47,456	110,144	7,380	63,621	-	-	228,601

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

	1.1-31.3.2019			1.1-31.3.2018		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
Interest income						
Cash and balances with Central Bank	539	9	548	512	-	512
Bonds and debt instruments	77	-	77	269	-	269
Loans and advances to financial institutions	58	-	58	7	-	7
Loans and advances to customers	16,449	154	16,603	15,237	31	15,268
Other interest income	7	606	613	3	-	3
Total	17,130	769	17,899	16,028	31	16,059
Interest expense						
Due to financial institutions and Central Bank	(256)	-	(256)	(83)	-	(83)
Deposits from customers	(4,773)	-	(4,773)	(4,395)	-	(4,395)
Borrowings	(2,156)	(17)	(2,173)	(1,860)	(74)	(1,934)
Other interest expense	(111)	(227)	(338)	(5)	-	(5)
Subordinated liabilities	(114)	-	(114)	(1)	-	(1)
Total	(7,410)	(244)	(7,654)	(6,344)	(74)	(6,418)
Net interest income	9,720	525	10,245	9,684	(43)	9,641

Net interest income, calculated based on the effective interest rate method, amounted to ISK 10,245 million in the first quarter of 2019 as compared with ISK 9,639 for the same period in 2018.

7. Net valuation adjustments and impairment

	2019 1.1-31.3	2018 1.1-31.3
Net impairment on loans and advances to customers and financial institutions	(1,024)	1,024
Net impairment on other financial assets	30	-
Net valuation adjustments and impairment	(994)	1,024
Valuation adjustments and impairment by customer type		
Financial institutions	-	1
Individuals	(36)	262
Corporates	(958)	761
Net valuation adjustments and impairment	(994)	1,024

8. Net fee and commission income

	Fee and commission income	Fee and commission expense	Net fee and commission expense
1 January - 31 March 2019			
Capital Markets	1,072	(196)	876
Loans and guarantees	208	-	208
Payment cards	1,172	(504)	668
Collection and payment services	220	(41)	179
Other	231	(102)	129
Total	2,903	(843)	2,060
1 January - 31 March 2018			
Capital Markets	845	(174)	671
Loans and guarantees	240	-	240
Payment cards	928	(454)	474
Collection and payment services	219	(39)	180
Other	228	(102)	126
Total	2,460	(769)	1,691

Notes to the Condensed Consolidated Interim Financial Statements

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

	2019 1.1-31.3	2018 1.1-31.3
Net gain (loss) on financial assets and liabilities at FVTPL		
Bonds and debt instruments	336	(213)
Equities and equity instruments	3,177	2,338
Derivatives and underlying hedges	123	(12)
Loans and advances to customers	53	(5)
Net gain (loss) on fair value hedges	(247)	88
Total	3,442	2,196

10. Net foreign exchange (loss) gain

	2019 1.1-31.3	2018 1.1-31.3
Assets		
Cash and balances with Central Bank	27	(15)
Bonds and debt instruments	2,328	(1,650)
Equities and equity instruments	10	3
Derivative instruments	(1,295)	(849)
Loans and advances to financial institutions	3,277	(1,039)
Loans and advances to customers	7,444	(4,031)
Other assets	51	91
Total	11,842	(7,490)
Liabilities		
Due to financial institutions and Central Bank	(8)	(1)
Deposits from customers	(4,478)	1,622
Borrowings	(6,962)	5,849
Other liabilities	(106)	(50)
Subordinated liabilities	(446)	-
Total	(12,000)	7,420
Net foreign exchange loss	(158)	(70)

11. Other income and expenses

	Note	2019 1.1-31.3	2018 1.1-31.3
Gain on sale of property and equipment		2	113
Gain on repossessed collateral	28	77	2,124
Share of profit of equity-accounted associates		93	107
Other		266	6
Total		438	2,350

12. Salaries and related expenses

	2019 1.1-31.3	2018 1.1-31.3
Salaries	2,868	2,868
Contributions to defined pension plans	404	391
Social security contributions, special financial activities tax on salaries and other expenses	408	404
Total salaries and related expenses	3,680	3,663

13. Other operating expenses

	2019 1.1-31.3	2018 1.1-31.3
Information technology	582	570
Real estate and fixtures	227	218
Advertising and marketing	198	190
Operating lease rentals	15	142
FME supervisory expenses	122	153
Contribution to the Debtor's Ombudsman	19	25
Audit and related services	45	35
Other professional services	172	110
Depreciation and amortisation	348	221
Contribution to the Depositors' and Investors' Guarantee Fund	371	317
Other operating expenses	423	354
Total	2,522	2,335

Notes to the Condensed Consolidated Interim Financial Statements

14. Income tax

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

	2019 1.1-31.3	2018 1.1-31.3
Current tax expense	(831)	(1,638)
Special income tax on financial institutions	(172)	(298)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(34)	44
Total	(1,037)	(1,892)

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 1.1-31.3	2018 1.1-31.3
Profit before tax	8,831	10,834
Tax on liabilities of financial institutions	(1,010)	(840)
Profit before income tax	7,821	9,994
Income tax calculated using the domestic corporate income tax rate	20.0% (1,564)	20.0% (1,999)
Special income tax on financial institutions	2.2% (172)	3.0% (298)
Income not subject to tax	(11.6%) 907	(6.1%) 605
Non-deductible expenses	2.8% (220)	2.0% (203)
Other	(0.2%) 12	0.0% 3
Effective income tax	13.3% (1,037)	18.9% (1,892)

15. Tax on liabilities of financial institutions

	2019 1.1-31.3	2018 1.1-31.3
Tax on liabilities of financial institutions	(1,010)	(840)

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 31 March 2019:

As at 31 March 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	-	6,568	-	-	6,568	-	6,568	-	6,568
Bonds and debt instruments	20	-	67,183	9,798	-	76,981	68,183	8,602	196	76,981
Equities and equity instruments	21	-	25,151	-	-	25,151	9,868	-	15,283	25,151
Derivative instruments	22	-	1,291	-	-	1,291	-	1,291	-	1,291
Loans and advances to customers		-	9,254	-	-	9,254	-	-	9,254	9,254
		0	109,447	9,798	0	119,245	78,051	16,461	24,733	119,245
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	56,446	-	-	-	56,446	-	56,446	-	56,446
Bonds and debt instruments	20	3,973	-	-	-	3,973	-	4,187	-	4,187
Loans and advances to financial institutions	23	88,664	-	-	-	88,664	-	88,664	-	88,664
Loans and advances to customers	24	1,086,122	-	-	-	1,086,122	-	1,088,431	-	1,088,431
Other financial assets		10,042	-	-	-	10,042	-	10,042	-	10,042
		1,245,247	0	0	0	1,245,247	0	1,247,770	0	1,247,770
Financial liabilities measured at fair value										
Derivative instruments	22	-	2,459	-	-	2,459	-	2,459	-	2,459
Short positions	22	-	5,437	-	-	5,437	5,437	-	-	5,437
		0	7,896	0	0	7,896	5,437	2,459	0	7,896
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	29	-	-	-	36,636	36,636	-	36,636	-	36,636
Deposits from customers	30	-	-	-	694,820	694,820	-	694,037	-	694,037
Borrowings	31	-	-	-	351,005	351,005	-	359,227	-	359,227
Other financial liabilities		-	-	-	9,253	9,253	-	9,253	-	9,253
Subordinated liabilities	34	-	-	-	13,900	13,900	-	14,011	-	14,011
		0	0	0	1,105,614	1,105,614	0	1,113,164	0	1,113,164

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
Financial assets measured at fair value										
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
		0	98,526	9,896	0	108,422	76,185	10,550	21,687	108,422
Financial assets not measured at fair value										
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
		1,205,741	0	0	0	1,205,741	0	1,208,479	0	1,208,479
Financial liabilities measured at fair value										
Derivative instruments	22	-	1,638	-	-	1,638	-	1,638	-	1,638
Short positions	22	-	4,908	-	-	4,908	4,908	-	-	4,908
		0	6,546	0	0	6,546	4,908	1,638	0	6,546
Financial liabilities not measured at fair value										
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
		0	0	0	1,061,518	1,061,518	0	1,065,040	0	1,065,040

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 31 March 2019 and 1 January to 31 March 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 three months ended 31 March 2019 and for the year 2018:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
1 January - 31 March 2019				
Carrying amount as at 1 January 2019	210	11,807	9,670	21,687
Net gain on financial assets and liabilities at FVTPL	104	3,331	53	3,488
Net foreign exchange gain	5	1	-	6
Purchases	-	879	-	879
Sales	(25)	-	-	(25)
Settlements	(98)	-	(469)	(567)
Dividend received	-	(735)	-	(735)
Carrying amount as at 31 March 2019	196	15,283	9,254	24,733
1 January - 31 December 2018				
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)
Carrying amount as at 31 December 2018	210	11,807	9,670	21,687

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 31 March 2019 and 31 March 2018, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
1 January - 31 March 2019				
Net gain on financial assets and liabilities at FVTPL	104	3,331	53	3,488
Net foreign exchange gain	5	1	-	6
Total	109	3,332	53	3,494
1 January - 31 March 2018				
Net gain (loss) on financial assets and liabilities at FVTPL	12	2,171	(5)	2,178
Net foreign exchange loss	(16)	(1)	-	(17)
Total	(4)	2,170	(5)	2,161

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 31 March 2019 and 31 December 2018.

As at 31 March 2019	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	196	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	15,283	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	9,254	-	See 3) below	See 3) below	n/a	n/a
	24,733	0				

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
	21,687	0				

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 three months ended 31 March 2019 and 31 March 2018:

Effect on profit before tax	2019 1.1-31.3		2018 1.1-31.3	
	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	4	(4)	4	(4)
Equities and equity instruments:				
Equities	700	(700)	709	(709)
Mutual funds	244	(244)	192	(192)
Total equities and equity instruments	944	(944)	901	(901)
Loans and advances to customers	21	(21)	16	(16)
Total	969	(969)	921	(921)

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

	31.3.2019	31.12.2018
Cash on hand	5,174	5,217
Unrestricted balances with Central Bank	28,666	35,594
Total cash and unrestricted balances with Central Bank	33,840	40,811
Restricted balances with Central Bank - fixed reserve requirement	7,011	7,155
Restricted balances with Central Bank - average maintenance level	7,011	7,155
Assets held with Central Bank, subject to special restrictions	6,574	8,512
Assets pledged as collateral to the Central Bank	8,578	7,221
Total restricted balances with Central Bank	29,174	30,043
Total cash and balances with Central Bank	63,014	70,854

Notes to the Condensed Consolidated Interim Financial Statements

20. Bonds and debt instruments

Bonds and debt instruments	31.3.2019			Total	31.12.2018			Total
	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	
Domestic								
Listed	3,973	15,141	8,827	27,941	3,776	13,454	8,874	26,104
Unlisted	-	-	971	971	-	-	1,022	1,022
	3,973	15,141	9,798	28,912	3,776	13,454	9,896	27,126
Foreign								
Listed	-	52,042	-	52,042	-	49,932	-	49,932
	0	52,042	0	52,042	0	49,932	0	49,932
Total bonds	3,973	67,183	9,798	80,954	3,776	63,386	9,896	77,058

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

21. Equities and equity instruments

Equities and equity instruments	31.3.2019			Total	31.12.2018			Total
	Trading book	Banking book			Trading book	Banking book		
Domestic								
Listed	7,954	1,244		9,198	10,038	1,122		11,160
Unlisted	-	15,886		15,886	-	12,333		12,333
	7,954	17,130		25,084	10,038	13,455		23,493
Foreign								
Listed	28	23		51	24	-		24
Unlisted	-	16		16	-	30		30
	28	39		67	24	30		54
Total equities	7,982	17,169		25,151	10,062	13,485		23,547

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

As at 31 March 2019, outstanding commitments of the Group in share subscriptions amounted to ISK 1.321 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

	31.3.2019			31.12.2018		
	Notional amount	Fair value		Notional amount	Fair value	
Foreign exchange derivatives		Assets	Liabilities		Assets	Liabilities
Currency forwards	36,714	119	147	42,072	641	331
Cross-currency interest rate swaps	9,991	-	139	9,495	280	-
	46,705	119	286	51,567	921	331
Interest rate derivatives						
Interest rate swaps	33,367	86	1,058	33,191	78	995
Total return swaps	13,642	14	126	9,344	2	29
	47,009	100	1,184	42,535	80	1,024
Equity derivatives						
Equity forwards	3,487	155	976	3,900	232	186
Total return swaps	2,062	162	5	1,322	80	51
Equity options	232	-	1	444	-	38
	5,781	317	982	5,666	312	275
Fair value hedging						
Interest rate swaps	86,587	755	7	83,861	610	8
	86,587	755	7	83,861	610	8
Total derivative instruments	186,082	1,291	2,459	183,629	1,923	1,638
Short positions						
Listed equities	-	-	11	-	-	-
Listed bonds	4,146	-	5,426	3,993	-	4,908
	4,146	0	5,437	3,993	0	4,908
Total	190,228	1,291	7,896	187,622	1,923	6,546

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	
As at 31 March 2019						
Interest rate swaps - EUR	82,620	82,620	-	755	-	145
Interest rate swaps - SEK	3,967	3,967	-	-	7	2
Total	86,587	86,587	0	755	7	147

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	-	3,964	25	-	6
LBANK1.375 3/22	-	41,489	-	277	(116)
LBANK 1.00 5/23	-	42,013	-	358	(284)
Total EMTN hedged borrowings	0	87,466	25	635	(394)

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).

As at 31 December 2018	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	
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)
Total EMTN hedged borrowings	0	84,634	19	236	(785)

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

	31.3.2019	31.12.2018
Bank accounts with financial institutions	27,622	40,913
Money market loans	59,897	29,455
Other loans	1,146	1,019
Allowance for impairment	(1)	(2)
Total	88,664	71,385

24. Loans and advances to customers

	Notes	31.3.2019	31.12.2018
Loans and advances to customers at amortised cost	25	1,099,481	1,067,667
Allowance for impairment		(13,359)	(12,805)
Total		1,086,122	1,054,862
Loans and advances to customers at FVTPL	26	9,254	9,670
Total		1,095,376	1,064,532

Notes to the Condensed Consolidated Interim Financial Statements

25. Loans and advances to customers at amortised cost

	31.3.2019			31.12.2018		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	4,813	(21)	4,792	4,865	(145)	4,720
Individuals	428,928	(2,260)	426,668	416,040	(2,341)	413,699
Mortgage lending	351,835	(938)	350,897	336,685	(886)	335,799
Other	77,093	(1,322)	75,771	79,355	(1,455)	77,900
Corporates	665,740	(11,078)	654,662	646,762	(10,319)	636,443
	1,099,481	(13,359)	1,086,122	1,067,667	(12,805)	1,054,862

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

	31.3.2019	31.12.2018
Corporates	9,254	9,670
Total	9,254	9,670

27. Other assets

	31.3.2019	31.12.2018
Unsettled securities trading	5,876	686
Other accounts receivable	4,166	4,178
Right-of-use assets	2,612	-
Sundry assets	1,165	791
Total	13,819	5,655

28. Assets and liabilities classified as held for sale

Assets classified as held for sale

	31.3.2019	31.12.2018
Reposessed collateral	1,395	1,330
Total	1,395	1,330

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	31.3.2019	31.12.2018
Real estate	1,390	1,326
Equipment and vehicles	5	4
Total	1,395	1,330

Reposessed collateral	31.3.2019	31.12.2018
Carrying amount as at the beginning of the period	1,330	3,648
Reposessed during the period	126	838
Disposed of during the period	(111)	(5,807)
Impairment and gain of sale	50	2,651
Carrying amount as at the end of the period	1,395	1,330

Liabilities associated with assets classified as held for sale

	31.3.2019	31.12.2018
Liabilities of disposal groups	30	30
Total	30	30

Notes to the Condensed Consolidated Interim Financial Statements

29. Due to financial institutions and Central Bank

	31.3.2019	31.12.2018
Loans and repurchase agreements with Central Bank	-	74
Loans and deposits from financial institutions	30,338	28,324
Deposits subject to special restrictions*	6,298	6,211
Total	36,636	34,609

*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

	31.3.2019	31.12.2018
Demand deposits	442,755	432,788
Term deposits	251,789	257,954
Deposits subject to special restrictions*	276	2,301
Total	694,820	693,043

*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 31.3.2019	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%	16,736
LBANK CB 21	ISK	30.11.2021	3,720	Non-indexed	Fixed 5.5%	3,784
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	21,689
LBANK CB 23	ISK	23.11.2023	6,480	Non-indexed	Fixed 5.0%	6,370
LBANK CBI 24	ISK	15.11.2024	31,360	CPI-indexed	Fixed 3.0%	34,089
LBANK CBI 28	ISK	04.10.2028	34,020	CPI-indexed	Fixed 3.0%	37,689
Total covered bonds						120,357
Total secured borrowings						120,357

Unsecured borrowings

As at 31.3.2019	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 06/19	SEK	10.06.2019	SEK 350 million	STIBOR + 2.6%	4,635
LBANK FLOAT 06/19	NOK	11.06.2019	NOK 162 million	NIBOR + 2.6%	2,293
LBANK FLOAT 06/20	SEK	22.06.2020	SEK 700 million	STIBOR + 1.0%	9,254
LBANK 0.75 06/20*	SEK	22.06.2020	SEK 300 million	FIXED 0.75%	3,964
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	9,937
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,306
LBANK 1.625 03/21	EUR	15.03.2021	EUR 500 million	FIXED 1.625%	68,622
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1.75%	14,246
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	6,605
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	41,489
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	42,013
Total senior unsecured bonds					206,364

As at 31.3.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 190410	ISK	10.04.2019	420	Non-indexed	419
LBANK 190510	ISK	10.05.2019	1,760	Non-indexed	1,751
LBANK 190812	ISK	12.08.2019	260	Non-indexed	255
LBANK 190910	ISK	10.09.2019	900	Non-indexed	881
Total commercial paper issued					3,306

As at 31.3.2019	Carrying amount
Other unsecured loans	20,978
Total other unsecured loans	20,978

Total unsecured borrowings	230,648
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Total borrowings as at 31.3.2019	351,005
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* 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
Total covered bonds						106,309
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
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Total borrowings as at 31.12.2018	314,412
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* 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:

	31.3.2019			31.12.2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(161)	(161)	-	(183)	(183)
Intangibles	-	(302)	(302)	-	(304)	(304)
Other assets	-	(24)	(24)	-	(24)	(24)
Deferred foreign exchange differences	354	-	354	343	-	343
Other items	51	-	51	117	-	117
Tax losses carried forward	182	-	182	185	-	185
	587	(487)	100	645	(511)	134
Set-off of deferred tax assets together with liabilities of the same taxable entities	(487)	487	-	(511)	511	-
Deferred tax assets (liabilities) total	100	0	100	134	0	134

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 31.3
			Tax (expense) income	Changes from prior year	
As at 31.3.2019					
Property and equipment	(183)	-	22	-	(161)
Intangibles	(304)	-	2	-	(302)
Other assets	(24)	-	-	-	(24)
Deferred foreign exchange differences	343	-	11	-	354
Other items	117	46	(112)	-	51
Tax losses carried forward	185	-	(3)	-	182
Total	134	46	(80)	0	100

	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	
As at 31.12.2018					
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
Total	(40)	258	(84)	0	134

33. Other liabilities

	31.3.2019	31.12.2018
Unsettled securities trading	7,346	4,848
Withholding tax	676	2,793
Accounts payable	1,547	876
Contribution to the Depositors' and Investors' Guarantee Fund	360	340
Tax on liabilities of financial institutions	4,870	3,860
Current tax liabilities	5,934	6,702
Non-controlling interests - Funds	1,169	1,040
Lease liabilities	2,850	-
Sundry liabilities	4,053	3,992
Total	28,805	24,451

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

34. Subordinated liabilities

As at 31.3.2019	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%	13,900
Total subordinated liabilities					13,900

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
Total subordinated liabilities					13,340

Notes to the Condensed Consolidated Interim Financial Statements

35. Equity

Share capital

As of 31 March 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 ISK 0.42 per share, for the operating year 2018. The dividend shall be paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The dividend is payable to shareholders listed on the shareholders' registry of Landsbankinn at end of business on the day of the AGM, 4 April 2019, unless the Bank receives notification of assignment of the dividend through the transfer of shares.

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	2018
Profit for the period	1.1-31.3	1.1-31.3
Profit for the period attributable to owners of the Bank	6,784	8,102

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	2018
Number of shares	1.1-31.3	1.1-31.3
Number of ordinary shares issued at beginning of period	24,000	24,000
Average number of own shares	(375)	(360)
Weighted average number of shares outstanding	23,625	23,640
Basic and diluted earnings per share from operations (ISK)	0.29	0.34

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 June 2013, a payment card company commenced litigation against the Bank and other financial undertakings claiming tort liability in the amount of ISK 1.2 billion plus interest. The plaintiff argued that the defendants were liable in tort for alleged violation of competition rules in the determination of payment card interchange fees. On 1 June 2017, the Supreme Court confirmed the decision of the District Court to dismiss the case on grounds of insufficient substantiation. In September 2017, the same payment card company commenced litigation against the same defendants as in the previous case claiming tort liability in the amount of around ISK 923 million, plus interest. The plaintiff, again, argued that the defendants should be held liable in tort for alleged violation of competition rules. The Supreme Court dismissed this case on 13 June 2018. In November 2018, a former owner of the payment card company, having had the alleged rights assigned to him from the payment card company, brought a new case against the same parties and demanded acknowledgement of the defendants' tort liability due to alleged breach of competition rules. The Bank rejected all claims put forth by the plaintiff and demanded that the case be dismissed. In February 2019 the District Court dismissed the case on grounds of insufficient substantiation. The Court of Appeal (Landsréttur) confirmed the decision in April 2019.

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 Reykjavík 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. Since the sale of the shareholding in Valitor, the Bank has assessed the fair value of granted indemnities in the purchase agreement and the District Court's ruling will have an immaterial impact on amounts disclosed in the Group's financial statements. It is expected that the judgment will be appealed to the Court of Appeal.

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 Reykjavík 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.

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

In January 2017, the Bank commenced proceedings before the Reykjavík 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 Reykjavík 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 31 March 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 31 March 2019.

Main subsidiaries as at 31 March 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 31 March 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:

	2019		2018	
	Gross carrying amount as at 31 March	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Loans in ISK million				
Key management personnel	301	311	242	266
Parties related to key management personnel	129	136	135	159
Associates	287	289	288	17,589
Other	103	106	24	26
Total	820	842	689	18,040

Specific allowance for impairment of ISK 82 million was recognised in respect of these loans during the period in Stage 3.

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:

	2019		2018	
	Gross carrying amount as at 31 March	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Deposits in ISK million				
Key management personnel	53	128	79	229
Parties related to key management personnel	35	56	48	159
Associates	135	384	149	16,885
Other	212	271	214	7,727
Total	435	839	490	25,000

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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 31 March 2019	Gross carrying amount as at 31 December 2018
Guarantees in ISK million		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	259	334
Total	259	334

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

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 ISK 0.42 per share, for the operating year 2018. The dividend shall be paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The dividend is payable to shareholders listed on the shareholders' registry of Landsbankinn at end of business on the day of the AGM, 4 April 2019. The earlier instalment was paid to shareholders on 10 April 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):

As at 31.3.2019	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.3%	3.0%	4.0%
Minimum requirement under Pillar I and Pillar II-R	6.8%	9.0%	12.0%
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%
Combined buffer requirement	8.54%	8.54%	8.54%
Total capital requirement	15.3%	17.5%	20.5%

Following recommendations of the FSC, the FME has decided to raise the countercyclical capital buffer in two separate decisions. The effective dates and rates of the countercyclical capital buffer are as follows:

	31.12.2018	31.3.2019	15.5.2019	1.2.2020
Countercyclical capital buffer on domestic exposures	1.25%	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.

The Group's capital requirements as determined by the FME, on 31.3.2019 are unchanged from 31.12.2018.

Notes to the Condensed Consolidated Interim Financial Statements

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	31.3.2019	31.12.2018
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	15,593	12,130
Retained earnings	86,358	83,225
Total equity attributable to owners of the Bank	246,206	239,610
Intangible assets	(2,534)	(2,622)
Deferred tax assets	(100)	(134)
Fair value hedges	(749)	(602)
Foreseeable dividends*	(13,314)	-
Common equity Tier 1 capital (CET1)	229,509	236,252
Non-controlling interests	-	-
Tier 1 capital	229,509	236,252
Subordinated liabilities	13,900	13,340
Tier 2 capital	13,900	13,340
Total capital base	243,409	249,592
Risk exposure amount (REA)		
Credit risk	919,696	887,372
Market risk	8,339	17,739
Operational risk**	95,815	95,815
Total risk exposure amount	1,023,850	1,000,926
CET1 ratio	22.4%	23.6%
Tier 1 capital ratio	22.4%	23.6%
Total capital ratio	23.8%	24.9%

*Pursuant to the Bank's dividend policy, the foreseeable dividend consists of approved dividend for the operating year 2018 (ISK 9,992 million) and 50% of net earnings for the first quarter of 2019.

**The amounts are updated on a yearly basis.

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.

Leverage ratio	31.3.2019	31.12.2018
- On-balance sheet exposure (excluding derivatives)	1,378,007	1,324,118
- Derivative instrument exposure	1,291	1,923
- Potential future exposure on derivatives	1,318	1,674
- Off-balance sheet exposure	139,047	147,010
- Regulatory adjustments to Tier 1 capital	(16,697)	(3,358)
Total leverage exposure	1,502,966	1,471,367
Tier 1 capital	229,509	236,252
Leverage ratio	15.3%	16.1%

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 31 March 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 31 March 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	-	63,014	-	-	-	-	-	-	-	-	-	-	-	63,014
Bonds and debt instruments	7,284	63,962	-	-	-	8,757	70	-	-	-	-	-	881	80,954
Derivative instruments	901	-	18	10	9	111	166	-	4	-	-	-	72	1,291
Loans and advances to financial institutions	88,664	-	-	-	-	-	-	-	-	-	-	-	-	88,664
Loans and advances to customers	-	4,792	426,668	152,541	94,882	131,698	27,831	68,159	131,317	30,234	19,030	8,223	1	1,095,376
Other financial assets	7,328	1	58	-	10	109	33	34	2,414	1	53	-	1	10,042
Total on-balance sheet exposure	104,177	131,769	426,744	152,551	94,901	140,675	28,100	68,193	133,735	30,235	19,083	8,223	955	1,339,341
Off-balance sheet exposure	3,759	4,421	32,394	11,666	58,345	16,469	551	18,098	19,505	7,007	24,183	1,301	30	197,729
Financial guarantees and underwriting commitments	251	-	777	1,130	3,401	1,185	10	2,538	4,595	2,115	689	1	-	16,692
Undrawn loan commitments	-	-	13	7,867	51,622	13,748	-	11,285	6,678	3,720	20,417	483	-	115,833
Undrawn overdraft/credit card facilities	3,508	4,421	31,604	2,669	3,322	1,536	541	4,275	8,232	1,172	3,077	817	30	65,204
Maximum exposure to credit risk	107,936	136,190	459,138	164,217	153,246	157,144	28,651	86,291	153,240	37,242	43,266	9,524	985	1,537,070
Percentage of maximum exposure to credit risk	7.0%	8.9%	29.9%	10.7%	10.0%	10.2%	1.9%	5.6%	10.0%	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**	Manu- facturing	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
Total on-balance sheet exposure	78,324	138,823	413,818	146,916	87,717	146,984	31,236	63,686	121,760	29,844	21,975	8,559	974	1,290,616
Off-balance sheet exposure	3,760	2,936	31,099	12,935	56,891	22,057	1,884	19,502	21,511	5,659	23,994	1,082	31	203,341
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
Maximum exposure to credit risk	82,084	141,759	444,917	159,851	144,608	169,041	33,120	83,188	143,271	35,503	45,969	9,641	1,005	1,493,957
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 31 March 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*			
Financial institutions	-	-	-	-	0	-	-	88,665	(1)	88,664
Public entities	73	2	104	57	236	80	21	4,497	(21)	4,792
Individuals	35,963	105,685	225,133	29,868	396,649	3,323	2,211	28,956	(2,260)	426,668
Mortgages	25,212	94,110	210,413	20,792	350,527	693	494	615	(938)	350,897
Other	10,751	11,575	14,720	9,076	46,122	2,630	1,717	28,341	(1,322)	75,771
Corporates	15,099	127,531	186,577	193,004	522,211	124,094	100,873	28,689	(11,078)	663,916
Fisheries	718	37,968	53,741	57,817	150,244	2,313	1,776	326	(342)	152,541
Construction companies	640	4,441	12,121	23,823	41,025	53,998	50,505	1,643	(1,784)	94,882
Real estate companies	2,056	26,645	45,848	41,040	115,589	15,238	11,805	2,795	(1,924)	131,698
Holding companies	4,477	22,618	221	223	27,539	47	44	325	(80)	27,831
Retail	2,068	5,654	30,958	17,531	56,211	10,760	7,999	2,250	(1,062)	68,159
Services	3,816	18,797	30,377	47,358	100,348	26,543	20,297	7,594	(3,168)	131,317
Information, technology and communication	55	7,696	715	88	8,554	13,218	7,148	8,585	(123)	30,234
Manufacturing	574	2,403	10,393	2,319	15,689	848	615	5,043	(2,550)	19,030
Agriculture	695	1,309	2,203	2,805	7,012	1,129	684	127	(45)	8,223
Other	-	-	-	-	-	-	-	1	-	1
Total	51,135	233,218	411,814	222,929	919,096	127,497	103,105	150,807	(13,360)	1,184,040
As at 31 December 2018										
Financial institutions	-	-	-	-	0	-	-	71,387	(2)	71,385
Public entities	58	20	106	58	242	42	19	4,581	(145)	4,720
Individuals	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
Corporates	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	-	-	-	-	-	-	-	-	-	-
Total	39,729	211,590	403,263	221,768	876,350	134,736	103,178	137,638	(12,807)	1,135,917

*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.

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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.

As at 31 March 2019	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	210	-	1	-	46	257
Individuals	378,894	93	211	2,795	16,673	398,666
Mortgages	346,572	15	145	55	4,068	350,855
Other	32,322	78	66	2,740	12,605	47,811
Corporates	336,242	108,007	3,338	73,973	101,523	623,083
Fisheries	10,386	106,531	198	21,212	13,692	152,019
Construction companies	84,549	40	1,738	23	5,178	91,528
Real estate companies	125,876	22	705	200	592	127,395
Holding companies	815	-	2	26,755	12	27,584
Retail	22,700	4	290	14,089	27,127	64,210
Services	74,723	1,410	273	3,631	40,608	120,645
Information, technology and communication	1,541	-	10	8,050	6,101	15,702
Manufacturing	10,020	-	118	13	6,153	16,304
Agriculture	5,632	-	4	-	2,060	7,696
Other	-	-	-	-	-	-
Total	715,346	108,100	3,550	76,768	118,242	1,022,006
As at 31 December 2018	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	209	-	2	-	49	260
Individuals	364,073	96	167	2,748	17,183	384,267
Mortgages	331,631	16	91	31	4,170	335,939
Other	32,442	80	76	2,717	13,013	48,328
Corporates	322,111	108,996	4,910	68,737	90,717	595,471
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	-	-	-	-	-	-
Total	686,393	109,092	5,079	71,485	107,949	979,998

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

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47. Credit quality of loans and advances

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

As at 31 March 2019	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	88,657	8	-	-	-	(1)	88,664
Public entities	379	4,410	24	-	-	(21)	4,792
Individuals	149,778	233,496	40,848	3,838	968	(2,260)	426,668
Mortgages	137,240	183,369	28,532	1,944	750	(938)	350,897
Other	12,538	50,127	12,316	1,894	218	(1,322)	75,771
Corporations	58,332	530,239	58,492	27,850	81	(11,078)	663,916
Fisheries	11,528	135,824	4,124	1,407	-	(342)	152,541
Construction companies	1,121	77,169	15,035	3,341	-	(1,784)	94,882
Real estate companies	829	112,796	14,171	5,746	80	(1,924)	131,698
Holding companies	-	21,737	6,064	110	-	(80)	27,831
Retail	26,176	36,688	3,864	2,493	-	(1,062)	68,159
Services	10,073	101,871	13,660	8,880	1	(3,168)	131,317
Information, technology and communication	649	29,538	76	94	-	(123)	30,234
Manufacturing	6,527	8,449	1,125	5,479	-	(2,550)	19,030
Agriculture	1,429	6,166	373	300	-	(45)	8,223
Other	-	1	-	-	-	-	1
Total	297,146	768,153	99,364	31,688	1,049	(13,360)	1,184,040

As at 31 December 2018	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	71,376	11	-	-	-	(2)	71,385
Public entities	469	4,389	7	-	-	(145)	4,720
Individuals	154,648	216,864	39,147	4,492	889	(2,341)	413,699
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
Corporates	68,189	500,981	60,965	25,886	411	(10,319)	646,113
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	-	-	-	-	-	-	-
Total	294,682	722,245	100,119	30,378	1,300	(12,807)	1,135,917

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 31 March 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	88,665	-	-	-	-	-	(1)	88,664
Public entities	4,813	-	-	-	-	-	(21)	4,792
Individuals	413,179	3,949	3,176	5,257	615	2,752	(2,260)	426,668
Mortgages	344,323	-	1,989	3,821	417	1,285	(938)	350,897
Other	68,856	3,949	1,187	1,436	198	1,467	(1,322)	75,771
Corporates	651,554	5,986	3,784	3,399	1,268	9,003	(11,078)	663,916
Fisheries	152,138	178	29	53	13	472	(342)	152,541
Construction companies	93,219	464	370	154	49	2,410	(1,784)	94,882
Real estate companies	127,699	341	2,153	942	707	1,780	(1,924)	131,698
Holding companies	27,741	98	17	54	-	1	(80)	27,831
Retail	66,483	626	364	676	75	997	(1,062)	68,159
Services	129,710	819	640	770	407	2,139	(3,168)	131,317
Information, technology and communication	30,217	43	2	5	7	83	(123)	30,234
Manufacturing	16,508	3,291	181	616	8	976	(2,550)	19,030
Agriculture	7,838	126	28	129	2	145	(45)	8,223
Other	1	-	-	-	-	-	-	1
Total	1,158,211	9,935	6,960	8,656	1,883	11,755	(13,360)	1,184,040

	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			
As at 31 March 2019										
Financial institutions	88,665	88,665	(1)	-	-	-	-	(1)	-	88,664
Public entities	4,813	4,767	(21)	46	-	-	-	(21)	-	4,792
Individuals	428,928	370,100	(559)	54,990	(766)	3,838	(935)	(2,260)	0	426,668
Mortgages	351,835	311,986	(263)	37,905	(456)	1,944	(219)	(938)	-	350,897
Other	77,093	58,114	(296)	17,085	(310)	1,894	(716)	(1,322)	-	75,771
Corporates	674,994	595,278	(1,626)	42,612	(468)	27,850	(8,984)	(11,078)	9,254	663,916
Fisheries	152,883	141,110	(90)	8,986	(35)	1,407	(217)	(342)	1,380	152,541
Construction companies	96,666	88,282	(684)	5,043	(93)	3,341	(1,007)	(1,784)	-	94,882
Real estate companies	133,622	118,669	(495)	9,207	(152)	5,746	(1,277)	(1,924)	-	131,698
Holding companies	27,911	27,617	(52)	184	(2)	110	(26)	(80)	-	27,831
Retail	69,221	60,676	(57)	3,639	(28)	2,493	(977)	(1,062)	2,413	68,159
Services	134,485	111,757	(150)	11,776	(122)	8,880	(2,896)	(3,168)	2,072	131,317
Information, technology and communication	30,357	26,759	(60)	115	(1)	94	(62)	(123)	3,389	30,234
Manufacturing	21,580	14,679	(29)	1,422	(22)	5,479	(2,499)	(2,550)	-	19,030
Agriculture	8,268	5,728	(9)	2,240	(13)	300	(23)	(45)	-	8,223
Other	1	1	-	-	-	-	-	-	-	1
Total	1,197,400	1,058,810	(2,207)	97,648	(1,234)	31,688	(9,919)	(13,360)	9,254	1,184,040

	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			
As at 31 December 2018										
Financial institutions	71,387	71,384	(2)	3	-	-	-	(2)	-	71,385
Public entities	4,865	1,859	(8)	3,006	(137)	-	-	(145)	-	4,720
Individuals	416,040	363,967	(561)	47,581	(602)	4,492	(1,178)	(2,341)	0	413,699
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
Corporates	656,432	582,067	(1,714)	38,809	(468)	25,886	(8,137)	(10,319)	9,670	646,113
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
Total	1,148,724	1,019,277	(2,285)	89,399	(1,207)	30,378	(9,315)	(12,807)	9,670	1,135,917

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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	
Balance as at 1 January 2019 - Financial institutions	(2)	(5)	-	(7)
New financial assets originated	-	-	-	0
Changes in models/risk parameters	1	-	-	1
Balance at the end of the period - Financial institutions	(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	
Balance as at 1 January 2019 - Loans and advances to customers	(2,553)	(1,230)	(9,344)	(13,127)
New financial assets originated	(354)	(46)	(439)	(839)
Reversals due to financial assets that have been derecognised	208	95	553	856
Transfer to Stage 1 - 12-month ECL	(60)	52	8	0
Transfer to Stage 2 - Lifetime ECL	485	(512)	27	0
Transfer to Stage 3 - Lifetime ECL	307	535	(842)	0
Changes in models/risk parameters	(459)	(178)	(430)	(1,067)
Provisions used to cover write-offs	2	2	493	497
Balance at the end of the period - Loans and advances to customers	(2,424)	(1,282)	(9,974)	(13,680)
- thereof classified as deduction from gross carrying amounts	(2,206)	(1,234)	(9,919)	(13,359)
- thereof classified as liabilities	(218)	(48)	(55)	(321)

	1.1-31.3.2019				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	-	(74)	(765)	(839)
Reversals due to financial assets that have been derecognised	-	-	97	759	856
Changes due to financial assets recognised in the opening balance	-	121	(136)	(1,051)	(1,066)
Write-offs	-	-	(335)	(468)	(803)
Provisions used to cover write-offs	-	-	194	303	497
Recoveries	-	-	184	33	217
Translation difference	-	-	1	113	114
Net impairment loss for the period	0	121	(69)	(1,076)	(1,024)

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	
Restated balance as at 1 January 2018 - Financial institutions	(3)	-	-	(3)
New financial assets originated	-	(1)	-	(1)
Transfer to Stage 2 - Lifetime ECL	4	(4)	-	0
Changes in models/risk parameters	(3)	-	-	(3)
Balance as at 31 December 2018 - Financial institutions	(2)	(5)	0	(7)
- 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	
Restated balance as at 1 January 2018 - Loans and advances to customers	(2,671)	(1,048)	(13,075)	(16,794)
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
Balance as at 31 December 2018 - Loans and advances to customers	(2,553)	(1,230)	(9,344)	(13,127)
- 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
Net impairment loss for the year	(5)	137	539	(372)	299

51. Large exposures

As at 31 March 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
As at 31 March 2019		
Large exposures between 10% and 20% of the Group's eligible capital	3	90,013
Large exposures between 0% and 10% of the Group's eligible capital	1	-
Total	4	90,013

Total ratio of large exposures to eligible capital 37%

As at 31 December 2018		
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	-
Total	4	83,842

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:

Government bonds and treasury bills	31.3.2019	31.12.2018
Rated AAA	27,572	26,685
Rated AA- to AA+	24,470	23,247
Rated A- to A+	5,700	7,187
Rated BBB+ and below	536	576
	58,278	57,695
Corporate bonds		
Rated A- to A+	473	379
Rated BBB- to BBB+	3,973	3,776
Unrated	10,945	11,701
	15,391	15,856
Asset-backed securities		
Rated BBB- to BBB+	7,285	3,507
	7,285	3,507
Total	80,954	77,058

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 31 March 2019

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	1,291	-	1,291	(224)	(917)	150	-	-	1,291

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	(2,459)	-	(2,459)	(224)	1,248	(1,436)	-	-	(2,459)
Short positions	(5,437)	-	(5,437)	-	5,437	-	-	-	(5,437)
Total	(7,896)	0	(7,896)	(224)	6,685	(1,436)	0	0	(7,896)

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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)
Total	(6,546)	0	(6,546)	(284)	5,915		(916)	0	(6,546)

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 31 March 2019 and 31 December 2018 are shown in the following table:

Liquidity coverage ratio 31 March 2019	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	90,715	90,715	53,627	53,627
Information items	22,507	-	4,344	-
Total liquid assets	113,222	90,715	57,971	53,627
Deposits	511,285	129,712	104,913	45,952
Borrowing	602	602	182	182
Other outflows	144,936	19,087	31,506	3,277
Total outflows (0-30 days)	656,823	149,401	136,601	49,411
Loans and advances to financial institutions	96,972	87,493	88,631	87,493
Other inflows	61,260	28,908	10,143	5,337
Limit on inflows	-	(4,350)	-	(55,771)
Total inflows (0-30 days)	158,232	112,051	98,774	37,059
Liquidity coverage ratio		243%		434%

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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	-
Total liquid assets	112,761	94,961	55,635	51,587
Deposits	517,428	133,200	86,615	35,216
Borrowing	730	730	170	170
Other outflows	150,699	16,765	31,999	3,263
Total outflows (0-30 days)	668,857	150,695	118,784	38,649
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)
Total inflows (0-30 days)	124,000	90,712	82,974	28,987
Liquidity coverage ratio		158%		534%

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 31 March 2019	Total	Foreign currencies
Cash and balances with the Central Bank	28,331	1,585
Domestic bonds and debt instruments eligible as collateral at the Central Bank	10,342	-
Foreign government bonds with 0% risk weight	52,042	52,042
High quality liquidity assets	90,715	53,627
Loans and advances to financial institutions	96,972	88,631
Total liquidity reserves	187,687	142,258

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
High quality liquidity assets	94,961	51,587
Loans and advances to financial institutions	81,211	71,168
Total liquidity reserves	176,172	122,755

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 31 March 2019 and 31 December 2018:

	As at 31 March 2019	As at 31 December 2018
Net stable funding ratio FX	165%	166%
Net stable funding ratio total	118%	120%

55. Encumbered assets

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

As at 31 March 2019	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other*		
Cash and balances with Central Bank	1,638	14,097	47,279	63,014
Bonds and debt instruments	-	-	80,954	80,954
Equities and equity instruments	-	-	25,151	25,151
Derivative instruments	-	-	1,291	1,291
Loans and advances to financial institutions	-	1,135	87,529	88,664
Loans and advances to customers	153,798	-	941,578	1,095,376
Investments in equity-accounted associates	-	-	1,354	1,354
Property and equipment	-	-	5,646	5,646
Intangible assets	-	-	2,534	2,534
Deferred tax assets	-	-	100	100
Other assets	-	-	13,819	13,819
Assets classified as held for sale	-	-	1,395	1,395
Total	155,436	15,232	1,208,630	1,379,298

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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
Total	136,699	13,546	1,175,796	1,326,041

*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 31 March 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	31.3.2019	31.12.2018
	% of REA	% of REA
Equity price risk	0.5%	0.9%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.2%	0.6%
Total	0.8%	1.8%

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.

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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.

As at 31 March 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	63,014	-	-	-	63,014
Bonds and debt instruments	46,199	13,311	6,604	14,840	80,954
Derivative instruments	1,291	-	-	-	1,291
Loans and advances to financial institutions	88,664	-	-	-	88,664
Loans and advances to customers	883,803	64,782	102,039	44,752	1,095,376
Other financial assets	10,042	-	-	-	10,042
Total	1,093,013	78,093	108,643	59,592	1,339,341
Financial liabilities					
Due to financial institutions and Central Bank	(36,636)	-	-	-	(36,636)
Deposits from customers	(687,750)	(5,160)	(1,910)	-	(694,820)
Derivative instruments and short positions	(2,470)	-	(1,753)	(3,673)	(7,896)
Borrowings	(54,227)	(27,133)	(197,868)	(71,777)	(351,005)
Other financial liabilities	(9,253)	-	-	-	(9,253)
Subordinated liabilities	-	-	-	(13,900)	(13,900)
Total	(790,336)	(32,293)	(201,531)	(89,350)	(1,113,510)
Net on-balance sheet position	302,677	45,800	(92,888)	(29,758)	225,831
Derivatives held for hedging	(86,587)	0	86,587	0	
Net off-balance sheet position	16,009	0	(14,009)	(2,000)	
Total interest repricing gap	232,099	45,800	(20,310)	(31,758)	
As at 31 December 2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
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
Total	1,050,239	75,301	106,190	58,886	1,290,616
Financial liabilities					
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)
Total	(774,639)	(22,522)	(192,386)	(78,517)	(1,068,064)
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)	
Total interest repricing gap	208,696	52,835	(17,046)	(21,934)	

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 table summarizes the Group's CPI imbalance, calculated as the difference between CPI-linked financial assets and liabilities, as at 31 March 2019 and 31 December 2018.

Carrying amount	31.3.2019	31.12.2018
Assets		
Bonds and debt instruments	14,689	12,786
Loans and advances to customers	386,987	389,067
Total	401,676	401,853
Liabilities		
Deposits from customers	(117,299)	(113,525)
Derivative instruments and short positions	(3,394)	(3,625)
Borrowings	(93,467)	(84,604)
Total	(214,160)	(201,754)
Total on-balance sheet position	187,515	200,099
Total off-balance sheet position	(30,319)	(28,801)
Total CPI indexation balance	157,196	171,298

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 31 March 2019 was - 0,01% 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 31 March 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 31 March 2019	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	561	161	365	16	35	447	1,585
Bonds and debt instruments	27,596	39	28,442	-	-	-	56,077
Equities and equity instruments	6	-	19	-	-	42	67
Derivative instruments	815	24	56	-	-	7	902
Loans and advances to financial institutions	25,959	3,241	18,396	143	54	40,838	88,631
Loans and advances to customers	143,397	2,436	51,718	3,401	1,242	4,238	206,432
Other assets	1,387	4	12	-	-	85	1,488
Total	199,721	5,905	99,008	3,560	1,331	45,657	355,182
Liabilities							
Due to financial institutions and Central Bank	(881)	(356)	(88)	-	-	(808)	(2,133)
Deposits from customers	(35,912)	(4,154)	(56,635)	(296)	(846)	(10,674)	(108,517)
Derivative instruments and short positions	(97)	(22)	(187)	-	-	(7)	(313)
Borrowings	(154,492)	-	(18,612)	-	-	(54,240)	(227,344)
Other liabilities	(1,372)	(134)	(411)	(1)	(26)	(601)	(2,545)
Subordinated liabilities	(13,900)	-	-	-	-	-	(13,900)
Total	(206,654)	(4,666)	(75,933)	(297)	(872)	(66,330)	(354,752)
Net on-balance sheet position	(6,933)	1,239	23,075	3,263	459	(20,673)	430
Net off-balance sheet position	7,767	(1,357)	(23,523)	(3,274)	(488)	20,423	(452)
Net currency position	834	(118)	(448)	(11)	(29)	(250)	(22)

Notes to the Condensed Consolidated Interim Financial Statements

61. Concentration of currency risk (continued)

As at 31 December 2018	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
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
Total	208,686	5,892	82,418	3,631	1,638	18,804	321,069
Liabilities							
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)
Total	(200,899)	(4,776)	(62,823)	(306)	(887)	(47,552)	(317,243)
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
Net currency position	3,842	(123)	1,085	92	128	396	5,420

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 31 March 2019	As at 31 December 2018	% change	Average for 1.1-31.3 2019	Average for 1.1-31.3 2018
EUR/ISK	137.70	133.20	3.4%	136.05	123.56
GBP/ISK	159.81	148.24	7.8%	156.07	140.14
USD/ISK	122.63	116.54	5.2%	119.56	100.93
JPY/ISK	1.1079	1.0623	4.3%	1.0855	0.9289
CHF/ISK	123.13	118.25	4.1%	120.46	106.17
CAD/ISK	91.78	85.32	7.6%	89.71	79.99
DKK/ISK	18.445	17.859	3.3%	18.230	16.592
NOK/ISK	14.241	13.465	5.8%	13.972	12.783
SEK/ISK	13.225	13.137	0.7%	13.131	12.364

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 quarter of 2019, the Group recognised ISK 124 million as depreciation of right-of-use assets and ISK 25 million as interest expenses on lease liabilities. Previously, all operating lease expenses 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			
	Q1	Q4*	Q3	Q2	Q1
Interest income	17,899	19,381	17,622	16,316	16,059
Interest expense	(7,654)	(8,413)	(7,252)	(6,481)	(6,418)
Net interest income	10,245	10,968	10,370	9,835	9,641
Reversals of loss from foreign currency linkage of loans and advances	-	-	-	1,129	-
Net impairment (loss) gain	(1,024)	(210)	(89)	(426)	1,024
Net impairment to other financial assets	30	(76)	-	-	-
Net valuation adjustments and impairment	(994)	(286)	(89)	703	1,024
Net interest income after net valuation adjustments and impairment	9,251	10,682	10,281	10,538	10,665
Fee and commission income	2,903	3,269	2,565	2,926	2,460
Fee and commission expense	(843)	(914)	(639)	(741)	(769)
Net fee and commission income	2,060	2,355	1,926	2,185	1,691
Net (loss) gain on financial assets and liabilities at FVTPL	3,442	(58)	(151)	(333)	2,196
Net foreign exchange (loss) gain	(158)	(676)	(352)	(399)	(70)
Other income and (expenses)	438	537	348	195	2,350
Other net operating income	3,722	(197)	(155)	(537)	4,476
Total operating income	15,033	12,840	12,052	12,186	16,832
Salaries and related expenses	3,680	3,835	3,222	3,869	3,663
Other operating expenses	2,522	2,373	2,353	2,287	2,335
Total operating expenses	6,202	6,208	5,575	6,156	5,998
Profit before tax	8,831	6,632	6,477	6,030	10,834
Income tax	(1,037)	(1,737)	(1,615)	(1,609)	(1,892)
Tax on liabilities of financial institutions	(1,010)	(1,028)	(1,082)	(910)	(840)
Profit for the period	6,784	3,867	3,780	3,511	8,102
Balance sheet	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Cash and cash balances with Central Bank	63,014	70,854	61,155	68,372	82,266
Bonds and debt instruments	80,954	77,058	88,749	97,214	100,216
Equities and equity instruments	25,151	23,547	27,766	28,756	25,666
Loans and advances to financial institutions	88,664	71,385	84,513	47,937	41,796
Loans and advances to customers	1,095,376	1,064,532	1,038,005	989,481	936,636
Other assets	24,744	17,335	15,399	16,261	17,455
Assets classified as held for sale	1,395	1,330	1,618	1,832	2,113
Total assets	1,379,298	1,326,041	1,317,205	1,249,853	1,206,148
Due to financial institutions and Central Bank	36,636	34,609	34,714	27,504	30,943
Deposits from customers	694,820	693,043	692,675	654,689	622,021
Borrowings	351,005	314,412	308,362	297,684	284,484
Other liabilities	36,701	30,997	32,614	37,764	39,984
Liabilities associated with assets classified as held for sale	30	30	73	27	41
Subordinated liabilities	13,900	13,340	12,875	72	74
Equity	246,206	239,610	235,892	232,113	228,601
Total liabilities and equity	1,379,298	1,326,041	1,317,205	1,249,853	1,206,148

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