



Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2019

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Credit rating
BBB+
with a negative outlook

Best Bank



Robust cyber security



Nordic Financial CERT

Principles for
Responsible Investment



Equal Pay Certification



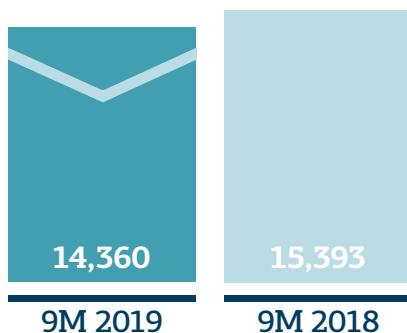
Good governance



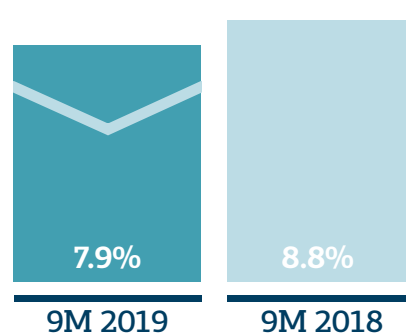
Highlights



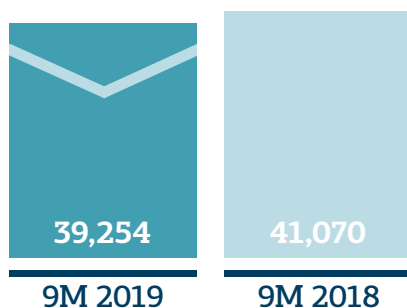
Profit



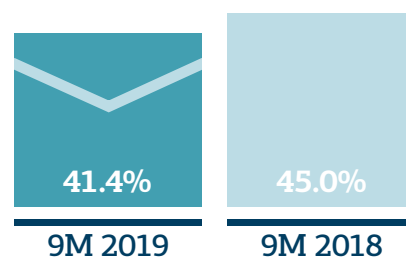
Return on equity



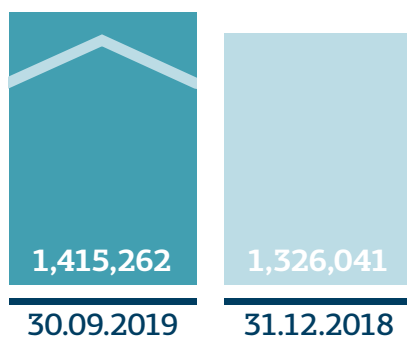
Total operating income



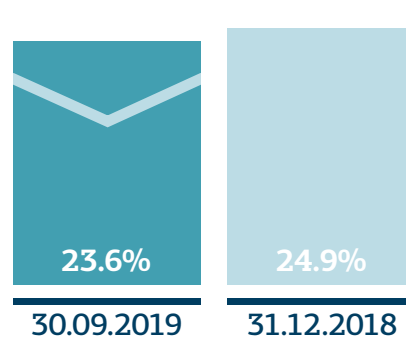
Cost-income ratio



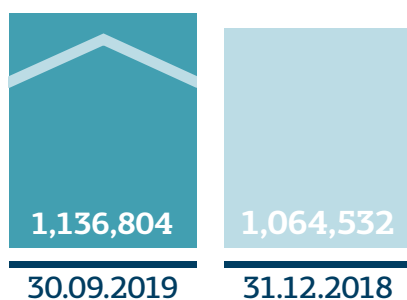
Total assets



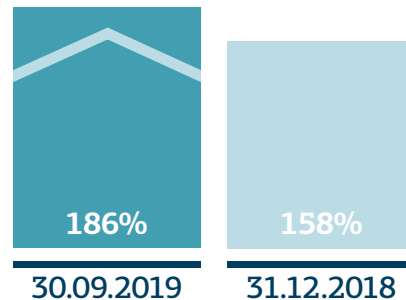
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

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

Operations

Consolidated profit amounted to ISK 14,360 million for the first nine months of 2019. Consolidated total equity amounted to ISK 243,860 million and total assets to ISK 1,415,262 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 23.6% at the end of the period.

Risk factors

The carrying amount of the Bank's credit portfolio increased by 6.8% this year to date. The Bank's credit risk remains well within its risk appetite. The average probability of default for the portfolio is currently 2.5%, which is marginally lower than at year-end 2018. Impairment on loans was significantly higher during the first three quarters of the year compared to the same period last year. Expected credit losses as a percentage of total loans are similar to what they were at year-end 2018, despite a slight increase during the third quarter of the year.

The Bank closely monitors and manages its liquidity risk, both collectively and separately, in foreign currencies and Icelandic *króna*. The Bank's total liquidity coverage ratio (LCR) was 186% at the end of the period, compared with 158% at year-end 2018.

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

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

Outlook

Following setbacks in the fishing and tourism sectors, the outlook is for economic contraction this year. This contraction is expected to be slight and short-lived. Despite above-trend growth in the past several years, the Icelandic economy is better balanced and in a stronger position than at the end of previous expansion periods. A combination of relatively high policy rates compared to main trading partners and a favourable Treasury position enable firm application of policy instruments and lay the groundwork for sustainable growth as early as next year. The Central Bank of Iceland has already reacted to deteriorating economic growth by lowering policy rates by 125 basis points since May.

Other matters

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

Statement by the Board of Directors and the CEO

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

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

Reykjavík, 24 October 2019

Board of Directors



Helga Björk Eiríksdóttir

Chairman



Berglind Svavarsdóttir



Einar Þór Bjarnason



Guðbrandur Sigurðsson



Hersir Sigurgeirsson



Sigríður Benedíksdóttir



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 30 September 2019 and the related Condensed Consolidated Income Statement, Condensed Consolidated Changes in Equity and Condensed Consolidated Cash Flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements do not give a true and fair view of the financial position of the Bank as at 30 September 2019, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

Reykjavík, 24 October 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 nine months ended 30 September 2019

		2019	2018	2019	2018
Notes		1.7-30.9	1.7-30.9	1.1-30.9	1.1-30.9
	Interest income	16,874	17,622	55,328	49,997
	Interest expense	(7,243)	(7,252)	(25,238)	(20,151)
6	Net interest income	9,631	10,370	30,090	29,846
7	Net valuation adjustments and impairment	(1,056)	(89)	(3,428)	1,638
	Net interest income after net valuation adjustments and impairment	8,575	10,281	26,662	31,484
	Fee and commission income	2,784	2,565	8,548	7,951
	Fee and commission expense	(826)	(639)	(2,454)	(2,149)
8	Net fee and commission income	1,958	1,926	6,094	5,802
9	Net gain (loss) on financial assets and liabilities at FVTPL	649	(151)	5,867	1,712
10	Net foreign exchange loss	(39)	(352)	(284)	(821)
11	Other income and (expenses)	211	348	915	2,893
	Other net operating income	821	(155)	6,498	3,784
	Total operating income	11,354	12,052	39,254	41,070
12	Salaries and related expenses	3,284	3,222	10,653	10,754
13	Other operating expenses	2,167	2,353	7,029	6,975
	Total operating expenses	5,451	5,575	17,682	17,729
	Profit before tax	5,903	6,477	21,572	23,341
14	Income tax	(1,591)	(1,615)	(4,072)	(5,116)
15	Tax on liabilities of financial institutions	(1,065)	(1,082)	(3,140)	(2,832)
	Profit for the period	3,247	3,780	14,360	15,393
Profit for the year attributable to:					
	Owners of the Bank	3,247	3,780	14,360	15,393
	Non-controlling interests	0	0	0	0
	Profit for the period	3,247	3,780	14,360	15,393
Earnings per share					
36	Basic and diluted earnings per share from operations (ISK)	0.14	0.16	0.61	0.65

Condensed Consolidated Statement of Comprehensive Income for the nine months ended 30 September 2019

		2019	2018	2019	2018
Notes		1.7-30.9	1.7-30.9	1.1-30.9	1.1-30.9
	Profit for the period	3,247	3,780	14,360	15,393
	Other comprehensive income for the period, after tax	0	0	0	0
	Comprehensive income for the period	3,247	3,780	14,360	15,393

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

Condensed Consolidated Statement of Financial Position as at 30 September 2019

Notes		30.9.2019	31.12.2018
Assets			
19, 55	Cash and balances with Central Bank	56,680	70,854
16, 20	Bonds and debt instruments	96,786	77,058
16, 21	Equities and equity instruments	29,150	23,547
16, 22	Derivative instruments	2,528	1,923
23, 55	Loans and advances to financial institutions	71,222	71,385
24, 55	Loans and advances to customers	1,136,804	1,064,532
	Investments in equity-accounted associates	1,445	1,453
	Property and equipment	5,975	5,548
	Intangible assets	2,338	2,622
32	Deferred tax assets	34	134
27	Other assets	11,156	5,655
28	Assets classified as held for sale	1,144	1,330
	Total assets	1,415,262	1,326,041
Liabilities			
29	Due to financial institutions and Central Bank	47,860	34,609
30	Deposits from customers	703,762	693,043
22	Derivative instruments and short positions	5,900	6,546
31, 55	Borrowings	366,337	314,412
33	Other liabilities	34,080	24,451
28	Liabilities associated with assets classified as held for sale	30	30
34	Subordinated liabilities	13,433	13,340
	Total liabilities	1,171,402	1,086,431
35	Equity		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	13,624	12,130
	Retained earnings	85,981	83,225
	Total equity	243,860	239,610
	Total liabilities and equity	1,415,262	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 nine months ended 30 September 2019

Notes

		Attributable to owners of the Bank								
		Reserves*					Retained earnings	Total	Non-controlling interests	Total
Change in equity for the nine months ended 30 September 2019		Share capital	Share premium	Statutory reserve	Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL				
4	Balance as at 31 December 2018	23,625	120,630	6,000	5,153	977	83,225	239,610		239,610
	Impact of adopting IFRS 16 at 1 January 2019						(188)	(188)		(188)
	Restated balance at 1 January 2019	23,625	120,630	6,000	5,153	977	83,037	239,422	0	239,422
	Profit for the period						14,360	14,360		14,360
35	Transferred (from) to restricted retained earnings				(2,680)	4,174	(1,494)	0		0
	Dividends allocated						(9,922)	(9,922)		(9,922)
	Balance as at 30 September 2019	23,625	120,630	6,000	2,473	5,151	85,981	243,860	0	243,860
Change in equity for the nine months ended 30 September 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
35	Profit for the period						15,393	15,393		15,393
	Transferred to restricted retained earnings				1,220	(994)	(226)	0		0
	Dividends paid						(24,822)	(24,822)		(24,822)
	Balance as at 30 September 2018	23,640	120,764	6,000	4,169	2,959	78,360	235,892	0	235,892

*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 nine months ended 30 September 2019

Notes	2019 1.1-30.9	2018 1.1-30.9
Operating activities		
Profit for the period	14,360	15,393
Adjustments for non-cash items included in profit for the period	(24,250)	(25,326)
Changes in operating assets and liabilities	(108,186)	(30,917)
Interest received	51,174	45,820
Interest paid	(7,441)	(5,934)
Dividends received	1,401	2,345
Income tax and special income tax on financial institutions paid	(4,033)	(3,386)
Net cash used in operating activities	(76,975)	(2,005)
Investing activities		
Acquisition of additional shares in associates	-	(85)
Purchase of property and equipment	(768)	(376)
Proceeds from sale of property and equipment	12	240
Purchase of intangible assets	(34)	(43)
Proceeds from sale of intangible assets	-	10
Investing activities	(790)	(254)
Financing activities		
Proceeds from borrowings	71,003	30,641
Repayment of borrowings	(27,591)	(13,962)
Proceeds from subordinated liabilities	-	12,791
Repayment of subordinated liabilities	-	(10)
Rent paid	(435)	-
Dividends paid	(4,961)	(24,822)
Financing activities	38,016	4,638
Cash and cash equivalents as at the beginning of the period	81,723	53,174
Net change in cash and cash equivalents	(39,749)	2,379
Effect of exchange rate changes on cash and cash equivalents held	(64)	(1,103)
Cash and cash equivalents as at the end of the period	41,910	54,450
Investing and financing activities not affecting cash flows		
Approved dividend to shareholders	(4,961)	-
Unpaid dividend to shareholders	4,961	-
Cash and cash equivalents is specified as follows:		
19 Cash and balances with Central Bank	56,680	61,155
23 Bank accounts with financial institutions	15,440	26,007
19 Mandatory and special restricted balances with Central Bank	(35,723)	(32,712)
Cash and cash equivalents as at the end of the period	36,397	54,450

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

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2019

Notes	2019 1.1-30.9	2018 1.1-30.9	
Adjustments for non-cash items included in profit for the period			
6	Net interest income	(30,090)	(29,846)
7	Net impairment of loans and advances and guarantees and other assets	3,428	(509)
7	Reversals of loss from foreign currency linkage of loans and advances to customers	-	(1,129)
9	Net gain on financial assets and liabilities at FVTPL	(5,867)	(1,712)
10	Net foreign exchange loss	348	1,924
	Gain on sale of property and equipment	(3)	(121)
	Net gain on assets classified as held for sale	(9)	(2,322)
	Depreciation and amortisation	1,009	660
	Share of profit of equity-accounted associates	(278)	(219)
14	Income tax	4,072	5,116
15	Tax on liabilities of financial institutions	3,140	2,832
		(24,250)	(25,326)

Changes in operating assets and liabilities

Change in reserve requirement with Central Bank	(168)	(475)
Change in bonds and equities	(20,064)	29,212
Change in derivatives	(3)	-
Change in loans and advances to financial institutions	(23,995)	(41,240)
Change in loans and advances to customers	(67,068)	(98,633)
Change in other assets	(2,827)	(500)
Change in assets classified as held for sale	196	(61)
Change in due to financial institutions and Central Bank	12,500	2,525
Change in deposits from customers	(2,054)	75,998
Change in tax liability	100	(128)
Change in other liabilities	(4,803)	2,368
Change in liabilities associated with assets classified as held for sale	-	17
	(108,186)	(30,917)

Change in liabilities due to financing activities

	As at 1.1.2019	Cash flow	Non-cash changes			As at 30.9.2019
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	106,309	23,239	5,081	-	-	134,629
Senior unsecured bonds	100,807	19,970	631	(366)	-	121,042
Senior unsecured bonds held to hedge long-term borrowings	84,634	(996)	1,081	919	925	86,563
Commercial paper issued	2,705	748	110	-	-	3,563
Other unsecured loans	19,958	(605)	28	1,159	-	20,540
Subordinated liabilities	13,340	-	(95)	188	-	13,433
Total	327,753	42,356	6,836	1,900	925	379,770

	As at 1.1.2018	Cash flow	Non-cash changes			As at 30.9.2018
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	70,253	19,874	3,556	-	-	93,683
Senior unsecured bonds	113,420	(652)	1,044	3,084	-	116,896
Senior unsecured bonds held to hedge long-term borrowings	78,065	(866)	941	2,540	170	80,850
Commercial paper issued	7,433	(3,609)	260	-	-	4,084
Other unsecured loans	12,703	(542)	(17)	706	-	12,850
Subordinated liabilities	77	12,781	27	(10)	-	12,875
Total	281,951	26,986	5,811	6,320	170	321,238

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 nine months ended 30 September 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 nine months ended 30 September 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 24 October 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 is a market maker of listed securities and foreign currencies in the domestic market. Markets 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' segment reporting.
- **Treasury** incorporates the Bank's funding and liquidity management, market making in money markets, and determines the Bank's internal pricing. Treasury also manages the Bank's exchange rate, interest rate and inflation risks, within limits set by the Board of Directors.

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

Reconciliation consists of eliminations of internal transactions and operating items that cannot be allocated to any one segment.

Administrative expenses of the Group's support functions are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Support functions supply services to business units and transactions are settled at unit prices or on an arm's-length basis, if possible, on the basis of use and activity.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss) before tax. In these reports, all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm's-length basis.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue during the period from 1 January to 30 September 2019 and corresponding period in 2018.

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments (continued)

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 30 September 2019							
Net interest income	12,580	14,273	534	2,702	(24)	25	30,090
Net valuation adjustments and impairment	(638)	(2,791)	(2)	3	-	-	(3,428)
Net fee and commission income	3,115	504	2,716	(214)	141	(168)	6,094
Other net operating income (expenses)	706	99	(446)	5,979	209	(49)	6,498
Total operating income (expense)	15,763	12,085	2,802	8,470	326	(192)	39,254
Operating expenses	(4,939)	(1,591)	(1,737)	(1,043)	(8,553)	181	(17,682)
Profit (loss) before cost allocation and tax	10,824	10,494	1,065	7,427	(8,227)	(11)	21,572
Cost allocated from support functions to business segments	(3,430)	(2,063)	(1,111)	(637)	7,241	-	0
Profit (loss) before tax	7,394	8,431	(46)	6,790	(986)	(11)	21,572
Net revenue (expenses) from external customers	20,641	19,567	2,508	(3,531)	261	-	39,446
Net revenue (expenses) from other segments	(4,878)	(7,482)	294	12,001	65	-	0
Total operating income	15,763	12,085	2,802	8,470	326	0	39,446
As at 30 September 2019							
Total assets	492,406	604,760	15,182	582,593	20,976	(300,655)	1,415,262
Total liabilities	449,592	491,433	9,936	500,120	20,976	(300,655)	1,171,402
Allocated capital	42,814	113,327	5,246	82,473	-	-	243,860

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 30 September 2018							
Net interest income	11,045	13,788	433	4,528	19	33	29,846
Net valuation adjustments and impairment	633	1,001	-	4	-	-	1,638
Net fee and commission income	2,619	581	2,845	(245)	165	(163)	5,802
Other net operating income (expenses)	379	(38)	(1,158)	2,093	2,566	(58)	3,784
Total operating income (expense)	14,676	15,332	2,120	6,380	2,750	(188)	41,070
Operating expenses	(4,871)	(1,459)	(1,679)	(1,356)	(8,539)	175	(17,729)
Profit (loss) before cost allocation and tax	9,805	13,873	441	5,024	(5,789)	(13)	23,341
Cost allocated from support functions to business segments	(3,658)	(2,188)	(1,107)	(618)	7,571	-	0
Profit (loss) before tax	6,147	11,685	(666)	4,406	1,782	(13)	23,341
Net revenue (expenses) from external customers	19,355	22,048	1,827	(4,693)	2,721	-	41,258
Net revenue (expenses) from other segments	(4,679)	(6,716)	293	11,073	29	-	0
Total operating income	14,676	15,332	2,120	6,380	2,750	0	41,258
As at 30 September 2018							
Total assets	468,313	562,848	17,278	540,833	13,326	(285,393)	1,317,205
Total liabilities	425,233	455,670	10,394	462,083	13,326	(285,393)	1,081,313
Allocated capital	43,080	107,178	6,884	78,750	-	-	235,892

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

	1.7-30.9.2019			1.7-30.9.2018		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
Interest income						
Cash and balances with Central Bank	383	-	383	301	9	310
Bonds and debt instruments	51	-	51	215	-	215
Loans and advances to financial institutions	61	-	61	9	-	9
Loans and advances to customers	15,816	148	15,964	16,932	127	17,059
Other interest income	9	406	415	29	-	29
Total	16,320	554	16,874	17,486	136	17,622
Interest expense						
Due to financial institutions and Central Bank	(274)	-	(274)	(70)	-	(70)
Deposits from customers	(3,926)	-	(3,926)	(4,943)	-	(4,943)
Borrowings	(2,353)	(2)	(2,355)	(2,192)	(19)	(2,211)
Other interest expense	(21)	(561)	(582)	-	-	0
Subordinated liabilities	(106)	-	(106)	(28)	-	(28)
Total	(6,680)	(563)	(7,243)	(7,233)	(19)	(7,252)
Net interest income	9,640	(9)	9,631	10,253	117	10,370

	1.1-30.9.2019			1.1-30.9.2018		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
Interest income						
Cash and balances with Central Bank	1,375	14	1,389	1,357	12	1,369
Bonds and debt instruments	193	-	193	739	-	739
Loans and advances to financial institutions	194	-	194	40	-	40
Loans and advances to customers	51,311	440	51,751	47,525	287	47,812
Other interest income	93	1,708	1,801	37	-	37
Total	53,166	2,162	55,328	49,698	299	49,997
Interest expense						
Due to financial institutions and Central Bank	(837)	-	(837)	(210)	-	(210)
Deposits from customers	(14,005)	-	(14,005)	(13,764)	-	(13,764)
Borrowings	(7,505)	(1,031)	(8,536)	(5,877)	(233)	(6,110)
Other interest expense	(140)	(1,380)	(1,520)	(37)	-	(37)
Subordinated liabilities	(340)	-	(340)	(30)	-	(30)
Total	(22,827)	(2,411)	(25,238)	(19,918)	(233)	(20,151)
Net interest income	30,339	(249)	30,090	29,780	66	29,846

Net interest income, calculated based on the effective interest rate method, amounted to ISK 30,089 million in the first nine months of 2019 as compared with ISK 29,842 for the same period in 2018.

7. Net valuation adjustments and impairment

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Net impairment on loans and advances to customers and financial institutions	(1,047)	(89)	(3,454)	509
Net impairment on other financial assets	(9)	-	26	-
Reversals of foreign currency linkage loans and advances to customers	-	-	-	1,129
Net valuation adjustments and impairment	(1,056)	(89)	(3,428)	1,638

Valuation adjustments and impairment by customer type				
Financial institutions	-	-	1	(4)
Individuals	(133)	(142)	(244)	356
Corporates	(923)	53	(3,185)	1,286
Net valuation adjustments and impairment	(1,056)	(89)	(3,428)	1,638

Notes to the Condensed Consolidated Interim Financial Statements

8. Net fee and commission income

	1.7-30.9 2019			1.7-30.9 2018		
	Fee and commission income	Fee and commission expense	Net fee and commission income	Fee and commission income	Fee and commission expense	Net fee and commission income
Capital Markets	834	(137)	697	833	(145)	688
Loans and guarantees	216	-	216	241	-	241
Payment cards	1,217	(540)	677	949	(350)	599
Collection and payment services	227	(43)	184	231	(41)	190
Other	290	(106)	184	311	(103)	208
Total	2,784	(826)	1,958	2,565	(639)	1,926

	1.1-30.9 2019			1.1-30.9 2018		
	Fee and commission income	Fee and commission expense	Net fee and commission income	Fee and commission income	Fee and commission expense	Net fee and commission income
Capital Markets	2,863	(459)	2,404	2,950	(473)	2,477
Loans and guarantees	625	-	625	654	-	654
Payment cards	3,585	(1,498)	2,087	2,826	(1,235)	1,591
Collection and payment services	677	(127)	550	684	(121)	563
Other	798	(370)	428	837	(320)	517
Total	8,548	(2,454)	6,094	7,951	(2,149)	5,802

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

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Net gain (loss) on financial assets and liabilities at FVTPL				
Bonds and debt instruments	582	112	1,225	(117)
Equities and equity instruments	30	218	3,985	2,180
Derivatives and underlying hedges	257	(735)	860	(640)
Loans and advances to customers	19	53	91	(90)
Net (loss) gain on fair value hedges	(239)	201	(294)	379
Total	649	(151)	5,867	1,712

10. Net foreign exchange (loss) gain

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Assets				
Cash and balances with Central Bank	8	(2)	78	(18)
Bonds and debt instruments	(1,390)	2,478	2,152	2,304
Equities and equity instruments	(88)	16	(78)	30
Derivative instruments	(1,753)	(91)	(2,896)	(3,302)
Loans and advances to financial institutions	(3,494)	2,698	1,276	2,780
Loans and advances to customers	(8,038)	7,117	4,809	7,179
Other assets	(150)	41	(136)	(143)
Total	(14,905)	12,257	5,205	8,830
Liabilities				
Due to financial institutions and Central Bank	43	-	25	-
Deposits from customers	3,092	(3,336)	(3,509)	(3,524)
Borrowings	11,174	(9,360)	(1,712)	(6,330)
Other liabilities	(98)	75	(105)	193
Subordinated liabilities	655	12	(188)	10
Total	14,866	(12,609)	(5,489)	(9,651)
Net foreign exchange loss	(39)	(352)	(284)	(821)

11. Other income and expenses

	Note	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Gain on sale of property and equipment		1	14	3	129
(Loss) gain on repossessed collateral	28	(31)	11	9	2,322
Share of profit of equity-accounted associates		125	228	278	449
Other		116	95	625	(7)
Total		211	348	915	2,893

Notes to the Condensed Consolidated Interim Financial Statements

12. Salaries and related expenses

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Salaries	2,472	2,403	8,183	8,295
Contributions to defined pension plans	413	412	1,240	1,219
Social security contributions	213	221	637	652
Special financial activities tax on salaries	177	178	531	524
Other related expenses	9	8	62	64
Total	3,284	3,222	10,653	10,754

13. Other operating expenses

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Information technology	488	526	1,703	1,569
Real estate and fixtures	226	221	687	653
Advertising and marketing	194	179	583	590
Operating lease rentals	1	148	16	438
FME supervisory expenses	119	152	363	459
Contribution to the Debtor's Ombudsman	19	25	58	76
Audit and related services	4	17	80	92
Other professional services	122	152	417	375
Depreciation and amortisation	331	219	1,009	660
Contribution to the Depositors' and Investors' Guarantee Fund	244	339	863	981
Other operating expenses	419	375	1,250	1,082
Total	2,167	2,353	7,029	6,975

14. Income tax

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

	2019 1.1-30.9	2018 1.1-30.9
Current tax expense	(3,130)	(4,145)
Special income tax on financial institutions	(845)	(1,022)
Difference of prior year's imposed and calculated income tax	3	(78)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(100)	129
Total	(4,072)	(5,116)

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

	2019 1.1-30.9	2018 1.1-30.9
Profit before tax	21,572	23,341
Tax on liabilities of financial institutions	(3,140)	(2,832)
Profit before income tax	18,432	20,509
Income tax calculated using the domestic corporate income tax rate	20.0% (3,686)	20.0% (4,102)
Special income tax on financial institutions	4.6% (845)	5.0% (1,022)
Income not subject to tax	(6.5%) 1,194	(3.4%) 703
Non-deductible expenses	4.0% (745)	3.2% (667)
Other	(0.1%) 10	0.1% (28)
Effective income tax	22.1% (4,072)	24.9% (5,116)

15. Tax on liabilities of financial institutions

	2019 1.1-30.9	2018 1.1-30.9
Tax on liabilities of financial institutions	(3,140)	(2,832)

Notes to the Condensed Consolidated Statement of Financial Position

16. Classification and fair values of financial assets and liabilities

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

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

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

As at 30 September 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	-	2,810	-	-	2,810	-	2,810	-	2,810
Bonds and debt instruments	20	-	82,367	10,353	-	92,720	83,403	9,122	195	92,720
Equities and equity instruments	21	-	29,150	-	-	29,150	12,748	-	16,402	29,150
Derivative instruments	22	-	2,528	-	-	2,528	-	2,528	-	2,528
Loans and advances to customers		-	10,076	-	-	10,076	-	-	10,076	10,076
		0	126,931	10,353	0	137,284	96,151	14,460	26,673	137,284
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	53,870	-	-	-	53,870	-	53,870	-	53,870
Bonds and debt instruments	20	4,066	-	-	-	4,066	-	4,223	-	4,223
Loans and advances to financial institutions	23	71,222	-	-	-	71,222	-	71,222	-	71,222
Loans and advances to customers	24	1,126,728	-	-	-	1,126,728	-	1,131,885	-	1,131,885
Other financial assets		10,129	-	-	-	10,129	-	10,129	-	10,129
		1,266,015	0	0	0	1,266,015	0	1,271,329	0	1,271,329
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,680	-	-	3,680	-	3,680	-	3,680
Short positions	22	-	2,220	-	-	2,220	2,220	-	-	2,220
		0	5,900	0	0	5,900	2,220	3,680	0	5,900
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	29	-	-	-	47,860	47,860	-	47,860	-	47,860
Deposits from customers	30	-	-	-	703,762	703,762	-	704,042	-	704,042
Borrowings	31	-	-	-	366,337	366,337	-	375,735	-	375,735
Other financial liabilities		-	-	-	13,968	13,968	-	13,968	-	13,968
Subordinated liabilities	34	-	-	-	13,433	13,433	-	13,538	-	13,538
		0	0	0	1,145,360	1,145,360	0	1,155,143	0	1,155,143

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

During the period from 1 January to 30 September 2019 and 1 January to 30 September 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 nine months ended 30 September 2019 and for the year 2018:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
1 January - 30 September 2019				
Carrying amount as at 1 January 2019	210	11,807	9,670	21,687
Net gain on financial assets and liabilities at FVTPL	122	4,383	91	4,596
Net foreign exchange gain	2	1	-	3
Purchases	66	1,041	774	1,881
Sales	(87)	(2)	-	(89)
Settlements	(118)	-	(459)	(577)
Dividend received	-	(1,088)	-	(1,088)
Transfer into Level 3	-	260	-	260
Carrying amount as at 30 September 2019	195	16,402	10,076	26,673
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 30 September 2019 and 30 September 2018, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
1 January - 30 September 2019				
Net gain on financial assets and liabilities at FVTPL	113	4,383	91	4,587
Net foreign exchange gain	2	1	-	3
Total	115	4,384	91	4,590
1 January - 30 September 2018				
Net gain (loss) on financial assets and liabilities at FVTPL	16	3,162	(90)	3,088
Net foreign exchange (loss) gain	(7)	1	-	(6)
Total	9	3,163	(90)	3,082

18. Unobservable inputs in fair value measurement

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

As at 30 September 2019	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	195	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	16,402	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	10,076	-	See 3) below	See 3) below	n/a	n/a
	26,673	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 nine months ended 30 September 2019 and 30 September 2018:

Effect on profit before tax	2019 1.1-30.9		2018 1.1-30.9	
	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	3	(3)	4	(4)
Equities and equity instruments:				
Equities	755	(741)	755	(756)
Mutual funds	257	(257)	191	(191)
Total equities and equity instruments	1,012	(998)	946	(947)
Loans and advances to customers	12	(16)	77	(77)
Total	1,027	(1,017)	1,027	(1,028)

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

19. Cash and balances with Central Bank

	30.9.2019	31.12.2018
Cash on hand	4,980	5,217
Unrestricted balances with Central Bank	15,977	35,594
Total cash and unrestricted balances with Central Bank	20,957	40,811
Restricted balances with Central Bank - fixed reserve requirement	7,780	7,155
Restricted balances with Central Bank - average maintenance level	7,780	7,155
Assets held with Central Bank, subject to special restrictions	2,809	8,512
Assets pledged as collateral to the Central Bank	17,354	7,221
Total restricted balances with Central Bank	35,723	30,043
Total cash and balances with Central Bank	56,680	70,854

Notes to the Condensed Consolidated Interim Financial Statements

20. Bonds and debt instruments

Bonds and debt instruments	30.9.2019			Total	31.12.2018			Total
	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	
Domestic								
Listed	4,066	23,156	9,352	36,574	3,776	13,454	8,874	26,104
Unlisted	-	-	1,001	1,001	-	-	1,022	1,022
	4,066	23,156	10,353	37,575	3,776	13,454	9,896	27,126
Foreign								
Listed	-	59,211	-	59,211	-	49,932	-	49,932
	0	59,211	0	59,211	0	49,932	0	49,932
Total bonds	4,066	82,367	10,353	96,786	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	30.9.2019			Total	31.12.2018			Total
	Trading book	Banking book			Trading book	Banking book		
Domestic								
Listed	12,186	492		12,678	10,038	1,122		11,160
Unlisted	-	16,455		16,455	-	12,333		12,333
	12,186	16,947		29,133	10,038	13,455		23,493
Foreign								
Listed	2	-		2	24	-		24
Unlisted	-	15		15	-	30		30
	2	15		17	24	30		54
Total equities	12,188	16,962		29,150	10,062	13,485		23,547

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

As at 30 September 2019, outstanding commitments of the Group in share subscriptions amounted to ISK 1.218 million (31 December 2018: ISK 1.342 million) altogether in seven entities. The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

Notes to the Condensed Consolidated Interim Financial Statements

22. Derivative instruments and short positions

	30.9.2019			31.12.2018		
	Notional amount	Fair value		Notional amount	Fair value	
Foreign exchange derivatives		Assets	Liabilities		Assets	Liabilities
Currency forwards	34,665	77	409	42,072	641	331
Cross-currency interest rate swaps	10,094	-	611	9,495	280	-
	44,759	77	1,020	51,567	921	331
Interest rate derivatives						
Interest rate swaps	32,520	98	1,449	33,191	78	995
Total return swaps	25,825	2	195	9,344	2	29
	58,345	100	1,644	42,535	80	1,024
Equity derivatives						
Equity forwards	6,039	610	996	3,900	232	186
Total return swaps	3,265	93	18	1,322	80	51
Equity options	-	-	-	444	-	38
	9,304	703	1,014	5,666	312	275
Fair value hedging						
Interest rate swaps	84,840	1,648	2	83,861	610	8
	84,840	1,648	2	83,861	610	8
Total derivative instruments	197,248	2,528	3,680	183,629	1,923	1,638
Short positions						
Listed bonds	1,654	-	2,220	3,993	-	4,908
	1,654	0	2,220	3,993	0	4,908
Total	198,902	2,528	5,900	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.

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.

During the period from 1 January 2019 to 30 September 2019, the slope of the regression line is in all cases within the range of 0.91-0.98 (for a 95% confidence level) and the regression coefficient is at least 0.92 (R^2). During the period from 1 January to 30 September 2018, the slope of the regression line is in all cases within the range of 0.92-0.99 (for a 95% confidence level) and the regression coefficient is at least 0.96 (R^2).

Notes to the Condensed Consolidated Interim Financial Statements

22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

	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 30 September 2019						
Interest rate swaps - EUR	81,060	81,060	-	1,648	-	632
Interest rate swaps - SEK	3,780	3,780	-	-	2	(1)
Total	84,840	84,840	0	1,648	2	631
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	-	3,780	7	-	(4)
LBANK1.375 3/22	-	41,249	-	516	(226)
LBANK 1.00 5/23	-	41,534	-	866	(695)
Total EMTN hedged borrowings	0	86,563	7	1,382	(925)

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

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

23. Loans and advances to financial institutions

	30.9.2019	31.12.2018
Bank accounts with financial institutions	15,440	40,913
Money market loans	53,916	29,455
Other loans	1,867	1,019
Allowance for impairment	(1)	(2)
Total	71,222	71,385

Notes to the Condensed Consolidated Interim Financial Statements

24. Loans and advances to customers

	Notes	30.9.2019	31.12.2018
Loans and advances to customers at amortised cost	25	1,141,644	1,067,667
Allowance for impairment		(14,916)	(12,805)
Total		1,126,728	1,054,862
Loans and advances to customers at FVTPL	26	10,076	9,670
Total		1,136,804	1,064,532

25. Loans and advances to customers at amortised cost

	30.9.2019			31.12.2018		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	4,089	(18)	4,071	4,865	(145)	4,720
Individuals	458,011	(2,363)	455,648	416,040	(2,341)	413,699
Mortgage lending	379,048	(938)	378,110	336,685	(886)	335,799
Other	78,963	(1,425)	77,538	79,355	(1,455)	77,900
Corporates	679,544	(12,535)	667,009	646,762	(10,319)	636,443
	1,141,644	(14,916)	1,126,728	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

	30.9.2019	31.12.2018
Corporates	10,076	9,670
Total	10,076	9,670

27. Other assets

	30.9.2019	31.12.2018
Unsettled securities trading	3,470	686
Other accounts receivable	4,282	4,178
Right-of-use assets	2,377	-
Sundry assets	1,027	791
Total	11,156	5,655

28. Assets and liabilities classified as held for sale

Assets classified as held for sale

	30.9.2019	31.12.2018
Reposessed collateral	1,144	1,330
Total	1,144	1,330

Reposessed collateral

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

Reposessed collateral	30.9.2019	31.12.2018
Real estate	1,142	1,326
Equipment and vehicles	2	4
Total	1,144	1,330

Reposessed collateral	2019 1.1.-30.9	2018 1.1.-31.12
Carrying amount as at the beginning of the period	1,330	3,648
Reposessed during the period	449	838
Disposed of during the period	(486)	(5,807)
Impairment and gain of sale	(149)	2,651
Carrying amount as at the end of the period	1,144	1,330

Liabilities associated with assets classified as held for sale

	30.9.2019	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

	30.9.2019	31.12.2018
Loans and repurchase agreements with Central Bank	58	74
Loans and deposits from financial institutions	45,204	28,324
Deposits subject to special restrictions*	2,598	6,211
Total	47,860	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

	30.9.2019	31.12.2018
Demand deposits	449,406	432,788
Term deposits	254,145	257,954
Deposits subject to special restrictions*	211	2,301
Total	703,762	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 30.9.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,240	Non-indexed	Fixed 5.5%	5,496
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	21,724
LBANK CB 23	ISK	23.11.2023	13,340	Non-indexed	Fixed 5.0%	13,753
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	42,822
LBANK CBI 28	ISK	04.10.2028	43,980	CPI-indexed	Fixed 3.0%	50,834
Total covered bonds						134,629
Total secured borrowings						134,629

Unsecured borrowings

As at 30.9.2019	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 06/20	SEK	22.06.2020	SEK 700 million	STIBOR + 1.0%	8,820
LBANK 0.75 06/20*	SEK	22.06.2020	SEK 300 million	FIXED 0.75%	3,780
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	9,540
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,151
LBANK FLOAT 11/20	NOK	27.11.2020	NOK 300 million	NIBOR + 0.83%	4,091
LBANK FLOAT 11/20	SEK	30.11.2020	SEK 600 million	STIBOR + 0.85%	7,556
LBANK 1.625 03/21	EUR	15.03.2021	EUR 500 million	FIXED 1.625%	67,945
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1,000 million	NIBOR + 1.75%	13,646
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	6,293
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	41,249
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	41,534
Total senior unsecured bonds					207,605

As at 30.9.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 200228	ISK	28.02.2020	2,840	Non-indexed	2,788
LBANK 200528	ISK	28.05.2020	800	Non-indexed	775
Total commercial paper issued					3,563

As at 30.9.2019	Carrying amount
Other unsecured loans	20,540
Total other unsecured loans	20,540
Total unsecured borrowings	231,708
Total borrowings as at 30.9.2019	366,337

* 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
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Total other unsecured loans

19,958

Total unsecured borrowings

208,103

Total borrowings as at 31.12.2018

314,412

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

32. Deferred tax assets and liabilities

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

	30.9.2019			31.12.2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(146)	(146)	-	(183)	(183)
Intangibles	-	(298)	(298)	-	(304)	(304)
Other assets	-	(25)	(25)	-	(24)	(24)
Deferred foreign exchange differences	280	-	280	343	-	343
Other items	42	-	42	117	-	117
Tax losses carried forward	181	-	181	185	-	185
	503	(469)	34	645	(511)	134
Set-off of deferred tax assets together with liabilities of the same taxable entities	(469)	469	-	(511)	511	-
Deferred tax assets (liabilities) total	34	0	34	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 30.9
			Tax (expense) income	Changes from prior year	
As at 30.9.2019					
Property and equipment	(183)	-	37	-	(146)
Intangibles	(304)	-	6	-	(298)
Other assets	(24)	-	(1)	-	(25)
Deferred foreign exchange differences	343	-	(63)	-	280
Other items	117	46	(121)	-	42
Tax losses carried forward	185	-	(4)	-	181
Total	134	46	(146)	0	34
	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

	30.9.2019	31.12.2018
Unsettled securities trading	7,766	4,848
Withholding tax	493	2,793
Accounts payable	3,364	876
Contribution to the Depositors' and Investors' Guarantee Fund	248	340
Tax on liabilities of financial institutions	3,140	3,860
Current tax liabilities	7,944	6,702
Non-controlling interests - Funds	320	1,040
Lease liabilities	2,590	-
Sundry liabilities	8,215	3,992
Total	34,080	24,451

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

34. Subordinated liabilities

As at 30.9.2019	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%	13,433
Total subordinated liabilities					13,433
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 30 September 2019, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion. Each share has a par value of ISK 1. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

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

Share premium

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

Statutory reserve

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

Retained earnings

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

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

Dividend

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

Dividend policy

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

Restriction of dividend payments

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

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

Notes to the Condensed Consolidated Interim Financial Statements

Other notes

36. Earnings per share

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Profit for the period				
Profit for the period attributable to owners of the Bank	3,247	3,780	14,360	15,393

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

	2019 1.7-30.9	2018 1.7-30.9	2019 1.1-30.9	2018 1.1-30.9
Number of shares				
Number of ordinary shares issued at beginning of period	24,000	24,000	24,000	24,000
Average number of own shares	(375)	(360)	(375)	(360)
Weighted average number of shares outstanding	23,625	23,640	23,625	23,640
Basic and diluted earnings per share from operations (ISK)	0.14	0.16	0.61	0.65

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 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 on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its asset at any time. At a hearing of the case in January 2019 before the District Court of Reykjavik the Bank submitted a statement of defence, rejecting all claims. On 24 April 2019 the District Court decided to dismiss all claims against the Bank due to procedural reasons. The Pension Fund appealed the decision to the Court of Appeal in May 2019. On 6 June 2019 the Court of Appeal decided to invalidate the decision of the District Court and order the case to be brought again before the District Court for substantive resolution. On 10 September 2019 the case was heard by the District Court where new documents were presented. Moreover, at the hearing, the Pension Fund presented a request for an appointment of assessors to evaluate certain actuarial matters relating to the calculation of the alleged claims against each of the defendants.

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. In April 2019 the Court of Appeal confirmed a decision of the District Court to dismiss the case on grounds of insufficient substantiation. At the beginning of October 2019 the same former owner of the payment card company brought a new case against the same parties claiming tort liability in the amount of around ISK 923 million, plus interest. The Bank considers that the case should be dismissed on the same grounds as in the previous cases.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

38. Interest in subsidiaries

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

Main subsidiaries as at 30 September 2019

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 September 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, loans to associates of the Group and other related parties:

	2019		2018	
	Gross carrying amount as at 30 September	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	316	384	242	266
Parties related to key management personnel	147	204	135	159
Associates	283	289	288	17,589
Other	108	108	24	26
Total	854	985	689	18,040

Specific allowance for impairment of ISK 86 million in Stage 3 is recognised in respect of the loans under the item Other.

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 30 September	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	66	192	79	229
Parties related to key management personnel	46	94	48	159
Associates	269	397	149	16,885
Other	305	932	214	7,727
Total	686	1,615	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 30 September 2019	Gross carrying amount as at 31 December 2018
Guarantees in ISK million		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	85	334
Total	85	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

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Condensed Consolidated Financial Statements for the nine months ended 30 September 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 30.9.2019	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.9%	2.6%	3.4%
Minimum requirement under Pillar I and Pillar II-R	6.4%	8.6%	11.4%
Systemic risk buffer	2.84%	2.84%	2.84%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.68%	1.68%	1.68%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	9.02%	9.02%	9.02%
Total capital requirement	15.4%	17.6%	20.4%

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

	31.12.2018	15.5.2019	1.2.2020
Countercyclical capital buffer on domestic exposures	1.25%	1.75%	2.00%

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

Notes to the Condensed Consolidated Interim Financial Statements

41. Capital requirements (continued)

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

As at 31.12.2018	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II A	2.3%	3.0%	4.0%
Minimum requirement under Pillar I and Pillar II A	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%

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 interim profits have been verified by the Group's auditors and that any foreseeable dividend has been deducted from the amount of those interim profits.

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

Capital base	30.9.2019	31.12.2018
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	13,624	12,130
Retained earnings	85,981	83,225
Total equity attributable to owners of the Bank	243,860	239,610
Intangible assets	(2,338)	(2,622)
Deferred tax assets	(34)	(134)
Fair value hedges	(1,646)	(602)
Foreseeable dividends*	(7,180)	-
Common equity Tier 1 capital (CET1)	232,662	236,252
Non-controlling interests	-	-
Tier 1 capital	232,662	236,252
Subordinated liabilities	13,433	13,340
Tier 2 capital	13,433	13,340
Total capital base	246,095	249,592
Risk exposure amount (REA)		
Credit risk	933,036	887,372
Market risk	13,021	17,739
Operational risk**	95,815	95,815
Total risk exposure amount	1,041,872	1,000,926
CET1 ratio	22.3%	23.6%
Tier 1 capital ratio	22.3%	23.6%
Total capital ratio	23.6%	24.9%

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

**The amounts are updated on a yearly basis.

Notes to the Condensed Consolidated Interim Financial Statements

43. Leverage ratio

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

Leverage ratio	30.9.2019	31.12.2018
- On-balance sheet exposure (excluding derivatives)	1,412,734	1,324,118
- Derivative instrument exposure	2,528	1,923
- Potential future exposure on derivatives	1,455	1,674
- Off-balance sheet exposure	122,426	147,010
- Regulatory adjustments to Tier 1 capital	(11,198)	(3,358)
Total leverage exposure	1,527,945	1,471,367
Tier 1 capital	232,662	236,252
Leverage ratio	15.2%	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 30 September 2019 and 31 December 2018. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Condensed Consolidated Interim Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Group uses the ISAT 08 industry classification for corporate customers.

As at 30 September 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	-	56,680	-	-	-	-	-	-	-	-	-	-	-	56,680
Bonds and debt instruments	8,968	77,183	-	-	-	9,656	67	-	-	-	-	-	912	96,786
Derivative instruments	1,741	-	80	10	46	80	458	22	-	-	-	-	91	2,528
Loans and advances to financial institutions	71,222	-	-	-	-	-	-	-	-	-	-	-	-	71,222
Loans and advances to customers	-	4,071	455,648	153,258	95,145	140,410	28,340	64,916	138,124	30,416	18,500	7,974	2	1,136,804
Other financial assets	5,047	-	51	-	-	2,453	30	2	2,491	1	53	-	1	10,129
Total on-balance sheet exposure	86,978	137,934	455,779	153,268	95,191	152,599	28,895	64,940	140,615	30,417	18,553	7,974	1,006	1,374,149
Off-balance sheet exposure	3,643	4,945	32,097	10,678	49,363	14,954	841	16,117	13,459	5,788	24,385	3,012	30	179,312
Financial guarantees and underwriting commitments	353	46	783	3,121	3,741	1,301	19	2,690	3,200	1,634	791	1	-	17,680
Undrawn loan commitments	-	-	-	5,560	43,087	12,072	616	8,658	2,879	2,933	20,454	2,169	-	98,428
Undrawn overdraft/credit card facilities	3,290	4,899	31,314	1,997	2,535	1,581	206	4,769	7,380	1,221	3,140	842	30	63,204
Maximum exposure to credit risk	90,621	142,879	487,876	163,946	144,554	167,553	29,736	81,057	154,074	36,205	42,938	10,986	1,036	1,553,461
Percentage of maximum exposure to credit risk	5.8%	9.2%	31.4%	10.6%	9.3%	10.8%	1.9%	5.2%	9.9%	2.3%	2.8%	0.7%	0.1%	100%

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

As at 31 December 2018	Corporations													Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Construction companies	Real estate companies	Holding companies	Retail	Services	ITC**	Manufacturing	Agriculture	Other	
Cash and balances with Central Bank	-	70,854	-	-	-	-	-	-	-	-	-	-	-	70,854
Bonds and debt instruments	3,507	63,222	-	-	-	9,336	69	-	-	-	-	-	924	77,058
Derivative instruments	1,529	-	11	4	48	76	165	39	1	-	-	-	50	1,923
Loans and advances to financial institutions	71,385	-	-	-	-	-	-	-	-	-	-	-	-	71,385
Loans and advances to customers	-	4,720	413,699	146,912	87,510	137,343	30,971	63,644	119,439	29,799	21,936	8,559	-	1,064,532
Other financial assets	1,903	27	108	-	159	229	31	3	2,320	45	39	-	-	4,864
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 30 September 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	-	-	71,223	(1)	71,222
Public entities	68	13	123	55	259	22	0	3,808	(18)	4,071
Individuals	32,750	105,584	251,399	32,090	421,823	3,477	2,259	32,711	(2,363)	455,648
Mortgages	23,005	94,651	236,450	23,162	377,268	857	522	923	(938)	378,110
Other	9,745	10,933	14,949	8,928	44,555	2,620	1,737	31,788	(1,425)	77,538
Corporates	23,322	155,620	176,468	163,690	519,100	138,149	112,652	32,371	(12,535)	677,085
Fisheries	10,050	50,874	48,922	37,701	147,547	5,659	4,780	327	(275)	153,258
Construction companies	1,103	3,253	18,944	14,357	37,657	57,590	53,117	1,686	(1,788)	95,145
Real estate companies	1,737	23,109	55,967	34,881	115,694	22,147	17,028	4,839	(2,270)	140,410
Holding companies	3,485	22,486	560	27	26,558	1,182	1,008	669	(69)	28,340
Retail	1,996	26,366	9,470	16,176	54,008	9,935	6,916	2,221	(1,248)	64,916
Services	3,506	19,002	33,605	56,042	112,155	22,025	17,614	7,947	(4,003)	138,124
Information, technology and communication	63	6,959	790	1,257	9,069	11,624	5,587	9,821	(98)	30,416
Manufacturing	618	2,110	6,004	1,980	10,712	5,784	5,209	4,723	(2,719)	18,500
Agriculture	764	1,461	2,206	1,269	5,700	2,203	1,393	136	(65)	7,974
Other	-	-	-	-	-	-	-	2	-	2
Total	56,140	261,217	427,990	195,835	941,182	141,648	114,911	140,113	(14,917)	1,208,026
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 30 September 2019	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	215	-	1	-	43	259
Individuals	404,384	82	115	2,643	16,701	423,925
Mortgages	373,045	13	59	29	4,519	377,665
Other	31,339	69	56	2,614	12,182	46,260
Corporates	361,255	108,381	1,497	65,816	94,819	631,768
Fisheries	10,371	106,701	44	19,863	15,349	152,328
Construction companies	86,287	40	545	84	3,820	90,776
Real estate companies	131,324	20	365	142	884	132,735
Holding companies	969	-	1	26,588	10	27,568
Retail	30,412	-	61	8,051	22,400	60,924
Services	83,732	1,620	360	3,571	40,486	129,769
Information, technology and communication	1,589	-	11	7,504	5,551	14,655
Manufacturing	10,792	-	105	13	5,011	15,921
Agriculture	5,779	-	5	-	1,308	7,092
Other	-	-	-	-	-	-
Total	765,854	108,463	1,613	68,459	111,563	1,055,952
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.

Notes to the Condensed Consolidated Interim Financial Statements

47. Credit quality of loans and advances

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

As at 30 September 2019	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	71,209	14	-	-	-	(1)	71,222
Public entities	363	3,704	22	-	-	(18)	4,071
Individuals	225,307	198,268	28,571	5,835	30	(2,363)	455,648
Mortgages	200,680	155,490	19,522	3,356	-	(938)	378,110
Other	24,627	42,778	9,049	2,479	30	(1,425)	77,538
Corporations	57,712	547,270	54,969	29,367	302	(12,535)	677,085
Fisheries	7,709	141,809	3,361	654	-	(275)	153,258
Construction companies	653	81,749	10,609	3,922	-	(1,788)	95,145
Real estate companies	857	122,520	13,591	5,525	187	(2,270)	140,410
Holding companies	-	22,370	5,961	78	-	(69)	28,340
Retail	26,076	32,268	4,978	2,842	-	(1,248)	64,916
Services	13,790	102,977	14,594	10,651	115	(4,003)	138,124
Information, technology and communication	737	29,559	169	49	-	(98)	30,416
Manufacturing	6,515	7,913	1,459	5,332	-	(2,719)	18,500
Agriculture	1,375	6,104	246	314	-	(65)	7,974
Other	-	1	1	-	-	-	2
Total	354,591	749,256	83,562	35,202	332	(14,917)	1,208,026

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.

	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
As at 30 September 2019	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	71,223	-	-	-	-	-	(1)	71,222
Public entities	4,069	20	-	-	-	-	(18)	4,071
Individuals	442,530	4,239	6,074	905	1,375	2,888	(2,363)	455,648
Mortgages	371,281	6	4,871	549	1,015	1,326	(938)	378,110
Other	71,249	4,233	1,203	356	360	1,562	(1,425)	77,538
Corporates	657,154	4,103	8,596	3,399	4,078	12,290	(12,535)	677,085
Fisheries	152,207	181	739	108	19	279	(275)	153,258
Construction companies	94,008	186	1,548	11	46	1,134	(1,788)	95,145
Real estate companies	134,554	331	3,433	504	518	3,340	(2,270)	140,410
Holding companies	28,345	37	16	4	-	7	(69)	28,340
Retail	64,019	523	172	152	192	1,106	(1,248)	64,916
Services	130,157	2,586	2,443	2,234	2,215	2,492	(4,003)	138,124
Information, technology and communication	30,381	33	45	6	7	42	(98)	30,416
Manufacturing	15,672	193	165	350	1,075	3,764	(2,719)	18,500
Agriculture	7,810	32	35	30	6	126	(65)	7,974
Other	1	1	-	-	-	-	-	2
Total	1,174,976	8,362	14,670	4,304	5,453	15,178	(14,917)	1,208,026

	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 30 September 2019										
Financial institutions	71,223	71,217	(1)	6	-	-	-	(1)	-	71,222
Public entities	4,089	4,041	(18)	48	-	-	-	(18)	-	4,071
Individuals	458,011	414,412	(511)	37,764	(544)	5,835	(1,308)	(2,363)	0	455,648
Mortgages	379,048	349,159	(260)	26,533	(342)	3,356	(336)	(938)	-	378,110
Other	78,963	65,253	(251)	11,231	(202)	2,479	(972)	(1,425)	-	77,538
Corporates	689,620	592,804	(1,558)	57,373	(810)	29,367	(10,167)	(12,535)	10,076	677,085
Fisheries	153,533	147,144	(95)	2,942	(17)	654	(163)	(275)	2,793	153,258
Construction companies	96,933	75,448	(612)	17,563	(160)	3,922	(1,016)	(1,788)	-	95,145
Real estate companies	142,680	126,334	(531)	10,821	(218)	5,525	(1,521)	(2,270)	-	140,410
Holding companies	28,409	28,243	(53)	88	(1)	78	(15)	(69)	-	28,340
Retail	66,164	57,332	(45)	3,755	(53)	2,842	(1,150)	(1,248)	2,235	64,916
Services	142,127	112,300	(119)	17,353	(272)	10,651	(3,612)	(4,003)	1,823	138,124
Information, technology and communication	30,514	26,997	(67)	243	(3)	49	(28)	(98)	3,225	30,416
Manufacturing	21,219	13,220	(28)	2,667	(67)	5,332	(2,624)	(2,719)	-	18,500
Agriculture	8,039	5,785	(8)	1,940	(19)	314	(38)	(65)	-	7,974
Other	2	1	-	1	-	-	-	-	-	2
Total	1,222,943	1,082,474	(2,088)	95,191	(1,354)	35,202	(11,475)	(14,917)	10,076	1,208,026

	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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2019 - Financial institutions	(2)	(5)	-	(7)
Changes in models/risk parameters	1	-	-	1
Balance as at 30 September 2019 - 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)	(9,345)	(13,128)
New financial assets originated	(802)	(331)	(1,340)	(2,473)
Reversals due to financial assets that have been derecognised	686	208	1,079	1,973
Transfer to Stage 1 - 12-month ECL	(79)	71	8	0
Transfer to Stage 2 - Lifetime ECL	618	(631)	13	0
Transfer to Stage 3 - Lifetime ECL	1,285	916	(2,201)	0
Changes in models/risk parameters	(1,429)	(487)	(675)	(2,591)
Provisions used to cover write-offs	21	12	883	916
Balance as at 30 September 2019 - Loans and advances to customers	(2,253)	(1,472)	(11,578)	(15,303)
- thereof classified as deduction from gross carrying amounts	(2,087)	(1,354)	(11,475)	(14,916)
- thereof classified as liabilities	(166)	(118)	(103)	(387)

	1.1-30.9.2019				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	-	(269)	(2,204)	(2,473)
Reversals due to financial assets that have been derecognised	-	1	285	1,687	1,973
Changes due to financial assets recognised in the opening balance	1	124	(407)	(2,308)	(2,590)
Write-offs	-	-	(643)	(1,324)	(1,967)
Provisions used to cover write-offs	-	-	366	550	916
Recoveries	-	-	390	246	636
Translation difference	-	-	-	51	51
Net impairment on loans and advances	1	125	(278)	(3,302)	(3,454)

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 on loans and advances	(5)	137	539	(372)	299

51. Large exposures

As at 30 September 2019, five 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 30 September 2019		
Large exposures between 10% and 20% of the Group's eligible capital	3	101,693
Large exposures between 0% and 10% of the Group's eligible capital	2	-
Total	5	101,693

Total ratio of large exposures to eligible capital 41%

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	30.9.2019	31.12.2018
Rated AAA	27,064	26,685
Rated AA- to AA+	32,147	23,247
Rated A- to A+	8,823	7,187
Rated BBB+ and below	2,458	576
	70,492	57,695
Corporate bonds		
Rated A- to A+	1,005	379
Rated BBB- to BBB+	4,066	3,776
Unrated	12,255	11,701
	17,326	15,856
Asset-backed securities		
Rated BBB- to BBB+	8,968	3,507
	8,968	3,507
Total	96,786	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 30 September 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	2,528	-	2,528	(468)	(2,187)	(127)	-	2,528

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	(3,680)	-	(3,680)	(468)	2,148	(2,000)	-	(3,680)
Short positions	(2,220)	-	(2,220)	-	2,220	-	-	(2,220)
Total	(5,900)	0	(5,900)	(468)	4,368	(2,000)	0	(5,900)

Notes to the Condensed Consolidated Interim Financial Statements

53. Offsetting financial assets and financial liabilities (continued)

As at 31 December 2018

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

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

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

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet			Net financial liabilities subject to netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged				
Derivatives	(1,638)	-	(1,638)	(284)	1,007		(916)	-	(1,638)
Short positions	(4,908)	-	(4,908)	-	4,908		-	-	(4,908)
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 No. 266/2017 require the Group to maintain a total liquidity coverage ratio (LCR) of 100% at a minimum and also a LCR in foreign currencies of 100% at a minimum. Rules No. 1032/2014 set requirements for a minimum of 100% net stable funding ratio (NSFR) in foreign currencies. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland and the FME.

The key indicator of short-term liquidity risk is measured by the LCR which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Bank and zero percent risk-weighted foreign government bonds. Estimated inflow and outflow weights, according to rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 30 September 2019 and 31 December 2018 are shown in the following table:

Liquidity coverage ratio 30 September 2019	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	99,758	99,758	61,029	61,029
Level 2 liquid assets	817	572	-	-
Information items	23,954	-	6,993	-
Total liquid assets	124,529	100,330	68,022	61,029
Deposits	518,959	129,518	93,980	39,096
Borrowing	185	185	185	185
Other outflows	134,538	21,556	28,631	3,062
Total outflows (0-30 days)	653,682	151,259	122,796	42,343
Loans and advances to financial institutions	80,798	69,210	71,059	69,210
Other inflows	57,705	28,173	7,591	4,181
Limit on inflows	-	-	-	(41,634)
Total inflows (0-30 days)	138,503	97,383	78,650	31,757
Liquidity coverage ratio		186%		577%

Notes to the Condensed Consolidated Interim Financial Statements

54. Liquidity risk management (continued)

	Total		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Liquidity coverage ratio 31 December 2018				
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.

	Total	Foreign currencies
Liquidity reserves as at 30 September 2019		
Cash and balances with the Central Bank	20,928	1,818
Domestic bonds and debt instruments eligible as collateral at the Central Bank	20,436	-
Foreign government bonds with 0% risk weight	59,211	59,211
High quality liquidity assets	100,575	61,029
Loans and advances to financial institutions	80,798	71,059
Total liquidity reserves	181,373	132,088

	Total	Foreign currencies
Liquidity reserves as at 31 December 2018		
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 30 September 2019 and 31 December 2018:

	As at 30 September 2019	As at 31 December 2018
Net stable funding ratio FX	158%	166%
Net stable funding ratio total	119%	120%

55. Encumbered assets

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

	Collateral pledged against		Un- encumbered	Total
	Covered bonds	Other*		
As at 30 September 2019				
Cash and balances with Central Bank	2,810	17,354	36,516	56,680
Bonds and debt instruments	-	-	96,786	96,786
Equities and equity instruments	-	-	29,150	29,150
Derivative instruments	-	-	2,528	2,528
Loans and advances to financial institutions	-	1,726	69,496	71,222
Loans and advances to customers	167,079	-	969,725	1,136,804
Investments in equity-accounted associates	-	-	1,445	1,445
Property and equipment	-	-	5,975	5,975
Intangible assets	-	-	2,338	2,338
Deferred tax assets	-	-	34	34
Other assets	-	-	11,156	11,156
Assets classified as held for sale	-	-	1,144	1,144
Total	169,889	19,080	1,226,293	1,415,262

Notes to the Condensed Consolidated Interim Financial Statements

55. Encumbered assets (continued)

As at 31 December 2018	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other*		
Cash and balances with Central Bank	3,835	12,741	54,278	70,854
Bonds and debt instruments	-	-	77,058	77,058
Equities and equity instruments	-	-	23,547	23,547
Derivative instruments	-	-	1,923	1,923
Loans and advances to financial institutions	-	805	70,580	71,385
Loans and advances to customers	132,864	-	931,668	1,064,532
Investments in equity-accounted associates	-	-	1,453	1,453
Property and equipment	-	-	5,548	5,548
Intangible assets	-	-	2,622	2,622
Deferred tax assets	-	-	134	134
Other assets	-	-	5,655	5,655
Assets classified as held for sale	-	-	1,330	1,330
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 30 September 2019 and 31 December 2018. The Group uses the standardized approach to calculate risk exposure amounts of derivatives for credit valuation adjustment (CVA) according to capital requirement regulations.

Market risk factor	30.9.2019	31.12.2018
	% of REA	% of REA
Equity price risk	0.6%	0.9%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.4%	0.6%
Total	1.2%	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.

Notes to the Condensed Consolidated Interim Financial Statements

58. Interest rate risk

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 30 September 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	56,680	-	-	-	56,680
Bonds and debt instruments	44,416	21,900	13,321	17,149	96,786
Derivative instruments	2,528	-	-	-	2,528
Loans and advances to financial institutions	71,222	-	-	-	71,222
Loans and advances to customers	843,051	119,952	137,263	36,538	1,136,804
Other financial assets	10,129	-	-	-	10,129
Total	1,028,026	141,852	150,584	53,687	1,374,149
Financial liabilities					
Due to financial institutions and Central Bank	(47,860)	-	-	-	(47,860)
Deposits from customers	(695,100)	(5,824)	(2,838)	-	(703,762)
Derivative instruments and short positions	(3,680)	-	-	(2,220)	(5,900)
Borrowings	(54,698)	(16,691)	(201,242)	(93,706)	(366,337)
Other financial liabilities	(13,968)	-	-	-	(13,968)
Subordinated liabilities	-	-	-	(13,433)	(13,433)
Total	(815,306)	(22,515)	(204,080)	(109,359)	(1,151,260)
Net on-balance sheet position	212,720	119,337	(53,496)	(55,672)	222,889
Derivatives held for hedging	(84,840)	3,780	81,060	0	
Net off-balance sheet position	15,907	0	(13,907)	(2,000)	
Total interest repricing gap	143,787	123,117	13,657	(57,672)	
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 tables summarize the Group's CPI imbalance, where CPI-linked financial assets and liabilities are calculated at their carrying amounts and categorised at maturity date, as at 30 September 2019 and 31 December 2018.

As at 30 September 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	20	2,962	16,411	19,393
Loans and advances to customers	6,093	10,493	68,906	313,372	398,864
Total	6,093	10,513	71,868	329,783	418,257
Financial liabilities					
Deposits from customers	(88,334)	(13,916)	(11,230)	(4,023)	(117,503)
Derivative instruments and short positions	-	-	-	(2,220)	(2,220)
Borrowings	(2,473)	(273)	(21,472)	(91,162)	(115,380)
Total	(90,807)	(14,189)	(32,702)	(97,405)	(235,103)
Total on-balance sheet position	(84,714)	(3,676)	39,166	232,378	183,154
Off-balance sheet position					
Interest rate swaps	-	-	(26,228)	(2,201)	(28,429)
Total return swaps	(6,951)	-	-	-	(6,951)
Total off-balance sheet position	(6,951)	0	(26,228)	(2,201)	(35,380)
Total CPI indexation balance	(91,665)	(3,676)	12,938	230,177	147,774
As at 31 December 2018	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	115	5	136	12,530	12,786
Loans and advances to customers	5,058	11,782	64,356	307,871	389,067
Total	5,173	11,787	64,492	320,401	401,853
Financial liabilities					
Deposits from customers	(85,965)	(12,554)	(11,316)	(3,690)	(113,525)
Derivative instruments and short positions	-	-	(2,274)	(2,264)	(4,538)
Borrowings	(426)	(341)	(21,021)	(62,816)	(84,604)
Total	(86,391)	(12,895)	(34,611)	(68,770)	(202,667)
Total on-balance sheet position	(81,218)	(1,108)	29,881	251,631	199,186
Off-balance sheet position					
Interest rate swaps	(66)	-	(25,000)	(2,000)	(27,066)
Total return swaps	(823)	-	-	-	(823)
Total off-balance sheet position	(889)	0	(25,000)	(2,000)	(27,889)
Total CPI indexation balance	(82,107)	(1,108)	4,881	249,631	171,297

Notes to the Condensed Consolidated Interim Financial Statements

Currency risk

60. Currency risk (all portfolios)

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

The Group's combined net foreign exchange balance as at 30 September 2019 was + 1,4% of the Group's capital base (31.12.2018: +2.3%).

61. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 September 2019 and 31 December 2018. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments. Amounts presented under assets and liabilities include all spot deals. When managing currency risk the Group regards spot deals as non-derivative assets or liabilities.

As at 30 September 2019	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	666	178	399	13	36	523	1,815
Bonds and debt instruments	27,087	37	36,213	-	-	-	63,337
Equities and equity instruments	2,393	-	65	-	-	297	2,755
Derivative instruments	1,728	23	1	-	-	-	1,752
Loans and advances to financial institutions	24,619	1,446	4,681	204	410	39,721	71,081
Loans and advances to customers	150,728	2,839	48,648	3,157	1,193	4,778	211,343
Other assets	1,238	-	745	-	-	33	2,016
Total	208,459	4,523	90,752	3,374	1,639	45,352	354,099
Liabilities							
Due to financial institutions and Central Bank	(1,742)	(69)	(115)	-	-	(384)	(2,310)
Deposits from customers	(48,289)	(3,657)	(39,273)	(637)	(1,056)	(11,520)	(104,432)
Derivative instruments and short positions	(104)	(29)	(887)	-	-	(22)	(1,042)
Borrowings	(152,471)	-	(18,797)	-	-	(56,876)	(228,144)
Other liabilities	(1,091)	(136)	(1,106)	(3)	(11)	(498)	(2,845)
Subordinated liabilities	(13,433)	-	-	-	-	-	(13,433)
Total	(217,130)	(3,891)	(60,178)	(640)	(1,067)	(69,300)	(352,206)
Net on-balance sheet position	(8,671)	632	30,574	2,734	572	(23,948)	1,893
Net off-balance sheet position	7,563	(598)	(26,896)	(2,711)	(543)	22,283	(902)
Net currency position	(1,108)	34	3,678	23	29	(1,665)	991
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

Notes to the Condensed Consolidated Interim Financial Statements

62. Foreign exchange rates used

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

	As at 30 September 2019	As at 31 December 2018	% change	Average for 1.1-30.9 2019	Average for 1.1-30.9 2018
EUR/ISK	135.10	133.20	1.4%	136.93	123.88
GBP/ISK	152.44	148.24	2.8%	155.18	140.05
USD/ISK	123.89	116.54	6.3%	121.99	103.89
JPY/ISK	1.1459	1.0623	7.9%	1.1182	0.9445
CHF/ISK	124.17	118.25	5.0%	122.65	107.06
CAD/ISK	93.55	85.32	9.6%	91.72	80.89
DKK/ISK	18.093	17.859	1.3%	18.345	16.628
NOK/ISK	13.636	13.465	1.3%	14.002	12.886
SEK/ISK	12.599	13.137	(4.1%)	12.986	12.087

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 nine months of 2019, the Group recognised ISK 359 million as depreciation of right-of-use assets and ISK 52 million as interest expenses on lease liabilities. Previously, all operating lease expenses of the Group were recognised amongst other operating expenses.

(b) When a Group entity is the lessor

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

Policy applicable before 1 January 2019

(a) When a Group entity is the lessee

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

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

(b) When a Group entity is the lessor

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

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

64. Operations by quarters

Operations	2019			2018			
	Q3	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	16,874	20,555	17,899	19,381	17,622	16,316	16,059
Interest expense	(7,243)	(10,341)	(7,654)	(8,413)	(7,252)	(6,481)	(6,418)
Net interest income	9,631	10,214	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	(1,047)	(1,383)	(1,024)	(210)	(89)	(426)	1,024
Net impairment to other financial assets	(9)	5	30	(76)	-	-	-
Net valuation adjustments and impairment	(1,056)	(1,378)	(994)	(286)	(89)	703	1,024
Net interest income after net valuation adjustments and impairment	8,575	8,836	9,251	10,682	10,281	10,538	10,665
Fee and commission income	2,784	2,861	2,903	3,269	2,565	2,926	2,460
Fee and commission expense	(826)	(785)	(843)	(914)	(639)	(741)	(769)
Net fee and commission income	1,958	2,076	2,060	2,355	1,926	2,185	1,691
Net gain (loss) on financial assets and liabilities at FVTPL	649	1,776	3,442	(58)	(151)	(333)	2,196
Net foreign exchange (loss) gain	(39)	(87)	(158)	(676)	(352)	(399)	(70)
Other income and (expenses)	211	266	438	537	348	195	2,350
Other net operating income	821	1,955	3,722	(197)	(155)	(537)	4,476
Total operating income	11,354	12,867	15,033	12,840	12,052	12,186	16,832
Salaries and related expenses	3,284	3,689	3,680	3,835	3,222	3,869	3,663
Other operating expenses	2,167	2,340	2,522	2,373	2,353	2,287	2,335
Total operating expenses	5,451	6,029	6,202	6,208	5,575	6,156	5,998
Profit before tax	5,903	6,838	8,831	6,632	6,477	6,030	10,834
Income tax	(1,591)	(1,444)	(1,037)	(1,737)	(1,615)	(1,609)	(1,892)
Tax on liabilities of financial institutions	(1,065)	(1,065)	(1,010)	(1,028)	(1,082)	(910)	(840)
Profit for the period	3,247	4,329	6,784	3,867	3,780	3,511	8,102
Balance sheet	30.9.2019	30.6.2019	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Cash and cash balances with Central Bank	56,680	63,990	63,014	70,854	61,155	68,372	82,266
Bonds and debt instruments	96,786	84,830	80,954	77,058	88,749	97,214	100,216
Equities and equity instruments	29,150	27,658	25,151	23,547	27,766	28,756	25,666
Loans and advances to financial institutions	71,222	71,812	88,664	71,385	84,513	47,937	41,796
Loans and advances to customers	1,136,804	1,130,915	1,095,376	1,064,532	1,038,005	989,481	936,636
Other assets	23,476	22,348	24,744	17,335	15,399	16,261	17,455
Assets classified as held for sale	1,144	1,282	1,394	1,330	1,618	1,832	2,113
Total assets	1,415,262	1,402,835	1,379,298	1,326,041	1,317,205	1,249,853	1,206,148
Due to financial institutions and Central Bank	47,860	34,430	36,636	34,609	34,714	27,504	30,943
Deposits from customers	703,762	697,898	694,820	693,043	692,675	654,689	622,021
Borrowings	366,337	377,680	351,005	314,412	308,362	297,684	284,484
Other liabilities	39,980	37,768	36,701	30,997	32,614	37,764	39,984
Liabilities associated with assets classified as held for sale	30	30	30	30	73	27	41
Subordinated liabilities	13,433	14,417	13,900	13,340	12,875	72	74
Equity	243,860	240,612	246,206	239,610	235,892	232,113	228,601
Total liabilities and equity	1,415,262	1,402,835	1,379,298	1,326,041	1,317,205	1,249,853	1,206,148

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

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

65. Key figures and ratios

	2019			2018			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	9.7%	11.2%	14.5%	11.2%	11.1%	10.5%	18.3%
Return on equity after taxes	5.4%	7.1%	11.2%	6.5%	6.5%	6.1%	13.7%
Return on equity after taxes, excluding bank levy	7.1%	8.9%	12.9%	8.2%	8.3%	7.7%	15.1%
Cost-income ratio	43.9%	42.3%	38.7%	47.3%	45.9%	53.6%	37.9%
Operating expenses as a ratio of average total assets	1.5%	1.7%	1.8%	1.9%	1.7%	2.0%	2.0%
Return on assets	0.9%	1.2%	2.0%	1.2%	1.2%	1.1%	2.7%
Interest spread as a ratio of assets and liabilities	2.3%	2.3%	2.5%	2.8%	2.7%	2.7%	2.7%
Earnings per share	0.14	0.18	0.29	0.16	0.16	0.15	0.34
	30.9.2019	30.6.2019	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Total capital ratio	23.6%	23.7%	23.8%	24.9%	24.8%	24.1%	24.7%
CET1 ratio	22.3%	22.3%	22.4%	23.6%	23.5%	24.1%	24.6%
Leverage ratio	15.2%	15.2%	15.3%	16.1%	15.9%	16.4%	16.7%
Loans / deposits	161.5%	162.0%	157.6%	153.6%	149.9%	151.1%	150.6%
Deposits / total assets	49.7%	49.7%	50.4%	52.3%	52.6%	52.4%	51.6%
Liquidity coverage ratio total (LCR)	186%	174%	243%	158%	154%	164%	171%
Net stable funding ratio FX (NSFR)	158%	164%	165%	166%	168%	165%	168%
Number of full-time positions at the end of the period	903	903	922	919	948	955	998

Key figures and ratios

Definition

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