Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2020

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Highlights

Number one in Performance Satisfaction Index

Credit rating

BBB
with stable outlook

Best Bank

Marketshare

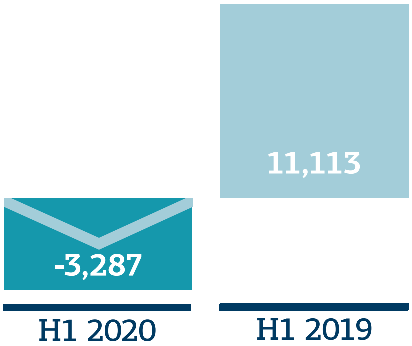
38% Retail banking

36% Corporate banking

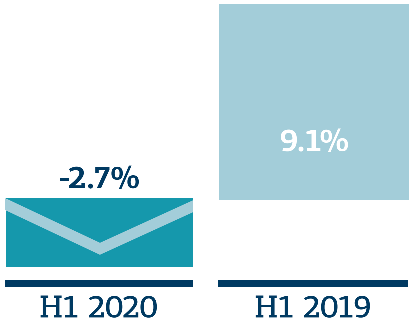
Principles for Responsible Investment

Equal Pay Certification

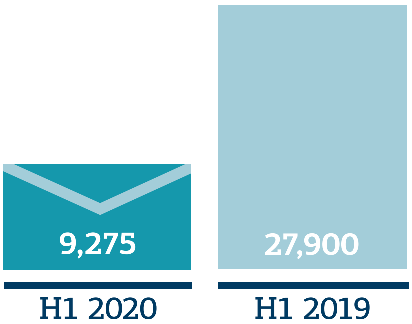
Profit (Loss)



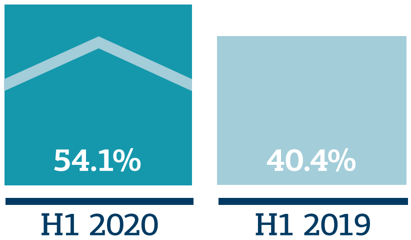
Return on equity



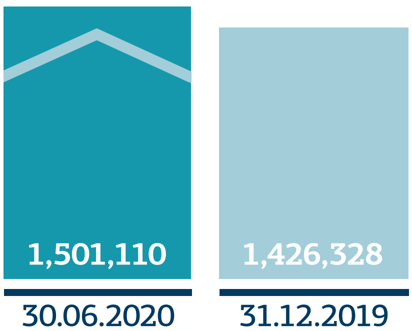
Total operating income



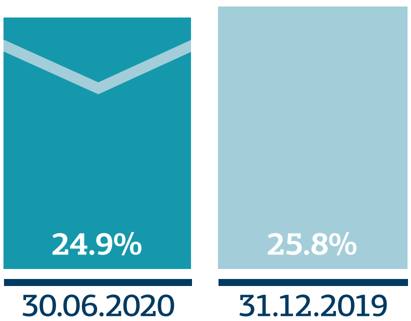
Cost-income ratio



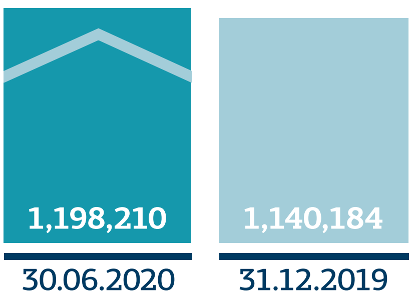
Total assets



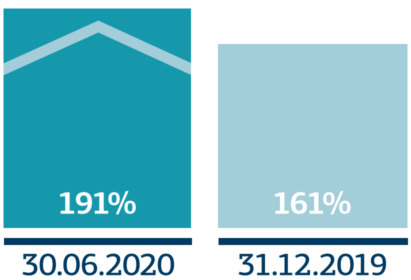
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

The Board of Directors and the CEO of Landsbankinn hf. (the "Bank" or "Landsbankinn") present this report together with the reviewed Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2020, which include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors. The Group consists of four main business segments and support functions that constitute the reportable segments presented in the Group's internal and external financial reporting.

Operations

Consolidated loss amounted to ISK 3,287 million for the first half of 2020 as compared with a profit of ISK 11,113 for the same period the previous year. Net interest income amounted to ISK 18,939 million for the period as compared with ISK 20,459 million for the same period the year before while net fee and commission income was ISK 3,598 million as compared with ISK 4,136 million for the same period the previous year. Net impairment on loans amounted to ISK 13,435 million for the period as compared with ISK 2,372 million for the same period the year before. The sharp increase in impairment on loans is attributed to the situation that has arisen in the wake of the COVID-19 pandemic which is covered further in Note 4.

Consolidated total equity amounted to ISK 244,447 million and total assets to ISK 1,501,110 million at the end of the period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.9% at the end of the period as compared with 25.8% at the beginning of the year. The Bank's total regulatory capital requirements have been reduced from 20.5% to 18.8% as a result of reduction of the countercyclical capital buffer on domestic exposures from 1.75% at year-end 2019 to 0% as of 18 March 2020.

On 24 April 2020, S&P Global Ratings announced a lowering of the Bank's long-term credit rating, but revised outlook from negative to stable. The credit rating is lowered by one notch, to BBB/A-2 with stable outlook. The downgrade is triggered by S&P's assessment of industry risk with regard to a reduction in economic activity due to the COVID-19 pandemic. This results in that the anchor, used as a starting point in the credit rating of banks operating in Iceland, is revised down by one notch. The stable outlook of Landsbankinn's credit rating is based on S&P's expectation that the Bank will withstand the consequences of the economic recession by maintaining solid capital positions and comfortable funding and liquidity profiles. Furthermore, S&P acknowledges that Landsbankinn has a higher market share and slightly better efficiency than its domestic peers. It is further noted that the Bank has a relatively advanced digitalized banking platform and is well ahead of many other European banks in its preparation for technological disruption.

Risk factors

The total capital ratio remains well above current regulatory requirements of 18.8% at the end of the second quarter. The Bank's risk exposure amount has increased by 3.2% since year-end 2019 due to increase in credit risk due to growth in the loan portfolio. The carrying amount of loans and advances to customers increased by 5.1% during the first half of the year, mainly due to the depreciation of the Icelandic *króna* and a growth in the mortgage portfolio.

The great uncertainty of the COVID-19 pandemic affected the Bank's credit risk during the first half of 2020. Average probability of default increased during the period and was 3.3% at the end of the quarter as compared with 2.4% at year-end 2019. The average loss given default also increased, from 14.5% to 14.9%. Impairment provisions on loans to customers increased considerably during the period and an impairment loss of ISK 13,435 million was recognised in the income statement. The increased impairment provisions are largely due to expected credit losses in stages 1 and 2, which can be attributed to more negative scenarios of the economic consequences of the COVID-19 pandemic and a review of credit ratings and collateral value for that part of the corporate portfolio that is most vulnerable to the pandemic.

Market risk, measured as the ratio of the Bank's risk-weighted assets to the total risk exposure amount, was 1.0% at the end of the period as compared with 1.2% at year-end 2019. The Bank's market risk increased in the first quarter of 2020 due to extreme volatilities in the markets for equities, fixed income and FX as a consequence of the COVID-19 pandemic. Since then the Bank's market risk has decreased and while the Bank recognised a loss on equities in the first quarter of 2020 of ISK 2,307 million it now recognises a profit on equities in the second quarter of 2020 in the amount of ISK 4,073 million.

The Bank's liquidity ratios remain strong, despite the pandemic. At the end of the second quarter, the Bank's total liquidity coverage ratio (LCR) was 191%, 476% in foreign currencies and 114% in Icelandic *króna*.

In March 2020, the Central Bank of Iceland lowered deposit institutions' average reserve requirement from 1% to 0% and authorised the 1% fixed reserve requirement to be included in the calculation of the LCR with the aim of easing banks' liquidity position and giving them greater scope to respond to changed conditions in the domestic economy. The effect of the Central Bank's actions on Landsbankinn's liquidity ratios was positive, amounting to 18 percentage points for the total LCR and 15 percentage points for Icelandic *króna*.

Further information about the Group's risk and capital management is included in the notes to the Condensed Consolidated Interim Financial Statements and the Pillar III Report for the first half of 2020, both published at the same time and accessible on the Bank's website.

Economic outlook

The economic outlook changed swiftly and drastically for the worse on a global scale following the COVID-19 pandemic during the latter part of the first quarter of 2020. Extensive action to curb the pandemic, such as travel bans and restrictions on gatherings has effectively paralysed various economic activities, particularly the travel industry.

Economic outlook (continued)

Despite the successful measures in curbing the spread of the pandemic domestically for the past months the spread of the virus is growing widely around the world. Further development of the pandemic and eventual easing of all restrictions is very uncertain. As a result, there is a substantial uncertainty about the domestic and global economic outlook for the next months and years. The outlook is for a considerable contraction in domestic production this year. The International Monetary Fund (IMF) is forecasting a 4.9% contraction in the world economy, the greatest dip since the Great Depression of 1929 if the forecast holds true. Similarly, a substantial contraction of GDP is foreseen this year in the Icelandic economy. Landsbankinn Economic Research projects a contraction of 8.7% and the Central Bank of Iceland projects contraction of 8.0%. The inflation outlook remains fairly stable despite considerable depreciation of the Icelandic *króna* since the beginning of the year and the average inflation for the year is expected to be close to the Central Bank's inflation target.

The outlook is for increasing unemployment as compared to past years, with an average unemployment rate of 9% being predicted for the year. The travel industry and connected industries will most likely be hardest hit.

The authorities and the Central Bank have taken a number of actions to counteract the negative economic impact of the pandemic. The Central Bank lowered the policy rate thrice in the first quarter by a total of 1.25 percentage points and another 0.75 percentage points in May. The CB's key interest rate was 1.0% at the end of the second quarter. Changes were also made to deposit institutions' reserve requirements, the aim being to increase the money supply in circulation. The countercyclical capital buffer on domestic exposures in capital requirements for financial undertakings has been lowered to 0% and the CB has stated its intention for quantitative intervention in the bond market, if circumstances require.

Other matters

The AGM of the Bank held on 22 April 2020, approved the motion of the Board of Directors to the AGM that no dividend be paid for the accounting year 2019 in light of the economic uncertainty linked to COVID-19 and in line with directions from the Central Bank of Iceland. The Bank is well positioned to handle the challenges society now faces and the decision that no dividend should be paid further increases the Bank's capacity to support its customers.

Report of the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2020 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first half of 2020, its consolidated financial position as at 30 June 2020, and its consolidated cash flows for the first half of 2020.

Furthermore, in our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. describe the principal risks and uncertainties faced by the Group.

In our judgement, the Condensed Consolidated Financial Statements give a true and fair view of the value of the Bank's assets under the present conditions. There is still uncertainty about the eventual impact of COVID-19 on the Bank's assets and operations as the pandemic has not subsided and there are still ongoing restrictions that affect the economy. Furthermore, it is uncertain whether people behaviour and customs around the world will change permanently, which could adversely alter the underlying assumptions of the Bank's economic forecast, inter alia, consumer behaviour, investments and tourism. The Bank's assets may suffer further adverse effects, though this will not impact the Bank's future going-concern assumptions as the Bank's capital and liquidity positions and operations are sound and stable, in our opinion.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2020.

Reykjavík, 30 July 2020

Board of Directors

Helga Björk Eiríksdóttir

Chairman

Berglind Svavarsdóttir

Einar Þór Bjarnason

Guðbrandur Sigurðsson

Hersir Sigurgeirsson

Sigríður Benediktsdóttir

Þorvaldur Jacobsen

CEO

Lilja Björk Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Landsbanki hf.

Introduction

We have reviewed, on mandate of the Icelandic National Audit Office, the accompanying Condensed Consolidated Interim Financial Statements of Landsbankinn hf. as at 30 June 2020 which comprise of Report of the Board of Directors and the CEO, Condensed Consolidated Statement of Financial Position as at 30 June 2020 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the six-month period then ended 30 June 2020 and other explanatory notes. The Board of Directors and CEO are responsible for the preparation and presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the EU. 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 Standards 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 are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the EU.

Reykjavík, 30. July 2020

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorized Public Accountant

Atli Þór Jóhannsson
State Authorized Public Accountant

Condensed Consolidated Income Statement for the six months ended 30 June 2020

Notes		2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
	Interest income	18,220	20,555	34,636	38,454
	Interest expense	(8,708)	(10,341)	(15,697)	(17,995)
6	**Net interest income**	**9,512**	**10,214**	**18,939**	**20,459**
	Fee and commission income	2,391	2,861	5,164	5,764
	Fee and commission expense	(738)	(785)	(1,566)	(1,628)
7	**Net fee and commission income**	**1,653**	**2,076**	**3,598**	**4,136**
8	Net gain on financial assets and liabilities at FVTPL	2,827	1,776	202	5,218
9	Net foreign exchange gain (loss)	(259)	(87)	(174)	(245)
10	Credit impairment losses	(8,191)	(1,378)	(13,435)	(2,372)
11	Other income and (expenses)	333	266	145	704
	Net other operating income	**(5,290)**	**577**	**(13,262)**	**3,305**
	Total net operating income	**5,875**	**12,867**	**9,275**	**27,900**
12	Salaries and related expenses	(3,802)	(3,689)	(7,646)	(7,369)
13	Other operating expenses	(2,206)	(2,340)	(4,636)	(4,862)
	Tax on liabilities of financial institutions	(425)	(1,065)	(875)	(2,075)
	Total operating expenses	**(6,433)**	**(7,094)**	**(13,157)**	**(14,306)**
	Profit (loss) before tax	**(558)**	**5,773**	**(3,882)**	**13,594**
14	Income tax	899	(1,444)	595	(2,481)
	Profit (loss) for the period	**341**	**4,329**	**(3,287)**	**11,113**
	Profit (loss) for the year attributablere to:				
	Owners of the Bank	341	4,329	(3,287)	11,113
	Non-controlling interests	0	0	0	0
	Profit (loss) for the period	**341**	**4,329**	**(3,287)**	**11,113**
	Earnings per share				
34	Basic and diluted earnings per share from operations (ISK)	**0.01**	**0.18**	**(0.14)**	**0.47**

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2020

Notes		2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
	Profit (loss) for the period	341	4,329	(3,287)	11,113
	Other comprehensive income for the period, after tax	0	0	0	0
	Total comprehensive (expenses) income for the period	**341**	**4,329**	**(3,287)**	**11,113**

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

All amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 June 2020

Notes		30.6.2020	31.12.2019
	Assets		
19, 53	Cash and balances with Central Bank	89,598	69,824
20	Bonds and debt instruments	104,758	115,262
21	Equities and equity instruments	26,794	30,019
22	Derivative instruments	1,668	2,694
23, 53	Loans and advances to financial institutions	56,394	47,929
24, 53	Loans and advances to customers	1,198,210	1,140,184
	Investments in equity-accounted associates	1,507	1,471
	Property and equipment	7,856	6,743
	Intangible assets	2,146	2,296
30	Deferred tax assets	677	20
25	Other assets	10,059	8,864
26	Assets classified as held for sale	1,443	1,022
	Total assets	**1,501,110**	**1,426,328**
	Liabilities		
27	Due to financial institutions and Central Bank	37,226	48,062
28	Deposits from customers	758,790	707,813
22	Derivative instruments and short positions	5,727	5,390
29, 53	Borrowings	408,097	373,168
31	Other liabilities	25,266	25,050
26	Liabilities associated with assets classified as held for sale	30	30
32	Subordinated liabilities	21,527	19,081
	Total liabilities	**1,256,663**	**1,178,594**
33	**Equity**		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	16,290	14,334
	Retained earnings	83,902	89,145
	Total equity	**244,447**	**247,734**
	Total liabilities and equity	**1,501,110**	**1,426,328**

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

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2020

Notes

Notes		Attributable to owners of the Bank								
				Reserves*						
	Change in equity for the six months ended 30 June 2020	**Share capital**	**Share premium**	**Statutory reserve**	**Unrealised gains in subsidiaries and equity-accounted associates reserve**	**Fair value changes of financial assets designated at FVTPL**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Restated balance as at 1 January 2020	23,625	120,630	6,000	2,709	5,625	89,145	247,734		247,734
	Loss for the period						(3,287)	(3,287)		(3,287)
	Transferred (from) to restricted retained earnings				242	1,714	(1,956)	0		0
33	**Balance as at 30 June 2020**	**23,625**	**120,630**	**6,000**	**2,951**	**7,339**	**83,902**	**244,447**	**0**	**244,447**
	Change in equity for the six months ended 30 June 2019									
	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 as at 1 January 2019	**23,625**	**120,630**	**6,000**	**5,153**	**977**	**83,037**	**239,422**	**0**	**239,422**
	Profit for the period						11,113	11,113		11,113
	Transferred (from) to restricted retained earnings				(2,801)	3,473	(672)	0		0
	Dividends allocated						(9,922)	(9,922)		(9,922)
33	**Balance as at 30 June 2019**	**23,625**	**120,630**	**6,000**	**2,352**	**4,450**	**83,555**	**240,612**	**0**	**240,612**

*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.

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2020

Notes		2020 1.1-30.6	2019 1.1-30.6
	Operating activities		
	Profit (loss) for the period	(3,287)	11,113
	Adjustments for non-cash items included in profit for the period	(2,449)	(16,431)
	Changes in operating assets and liabilities	(433)	(84,556)
	Interest received	33,460	34,756
	Interest paid	(5,820)	(6,164)
	Dividends received	638	1,351
	Tax on liabilities of financial institutions paid	(5,384)	(3,455)
	Net cash used in operating activities	**16,725**	**(63,386)**
	Investing activities		
	Purchase of property and equipment	(1,335)	(423)
	Proceeds from sale of property and equipment	3	3
	Purchase of intangible assets	(15)	(30)
	Investing activities	**(1,347)**	**(450)**
	Financing activities		
	Proceeds from borrowings	61,015	60,846
	Repayment of borrowings	(60,563)	(14,991)
	Rent paid	(282)	(292)
	Dividends paid	-	(4,961)
	Financing activities	**170**	**40,602**
	Cash and cash equivalents as at the beginning of the period	70,704	81,723
	Net change in cash and cash equivalents	15,548	(23,234)
	Effect of exchange rate changes on cash and cash equivalents held	(2,231)	(1,590)
	Cash and cash equivalents as at the end of the period	**84,021**	**56,899**
	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	89,598	63,990
23	Bank accounts with financial institutions	11,804	23,265
19	Mandatory and special restricted balances with Central Bank	(17,381)	(30,356)
	Cash and cash equivalents as at the end of the period	**84,021**	**56,899**

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

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2020

Notes		2020 1.1-30.6	2019 1.1-30.6
	Adjustments for non-cash items included in profit for the period		
6	Net interest income	(18,939)	(20,459)
8	Net gain on financial assets and liabilities at FVTPL	(202)	(5,218)
9	Net foreign exchange loss	2,405	1,835
10	Net impairment of loans and advances and guarantees and other assets	13,435	2,372
	Gain on sale of property and equipment	(2)	(2)
	Net (gain) loss on assets classified as held for sale	76	(40)
	Depreciation and amortisation	639	678
	Share of profit of equity-accounted associates	(141)	(153)
	Tax on liabilities of financial institutions	875	2,075
14	Income tax	(595)	2,481
		(2,449)	**(16,431)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	8,177	(313)
	Change in bonds and equities	24,890	(5,717)
	Change in derivatives	6	(3)
	Change in loans and advances to financial institutions	(14,683)	(13,262)
	Change in loans and advances to customers	(43,025)	(52,358)
	Change in other assets	125	(17)
	Change in assets classified as held for sale	(625)	89
	Change in due to financial institutions and Central Bank	(11,293)	(707)
	Change in deposits from customers	31,988	(7,632)
	Change in tax liability	(656)	25
	Change in other liabilities	4,663	(4,661)
		(433)	**(84,556)**

Change in liabilities due to financing activities

			Non-cash changes			
	As at 1.1.2020	Cash flow	Accrued interest	Foreign exchange	Change in the fair value	As at 30.6.2020
Secured borrowings	140,549	20,284	4,283	-	-	165,116
Senior unsecured bonds	122,705	(11,464)	(83)	15,729	-	126,887
Senior unsecured bonds held to hedge long-term borrowings	86,813	(4,406)	44	12,269	(215)	94,505
Commercial paper issued	3,605	(3,641)	36	-	-	0
Other unsecured loans	19,496	(1,016)	362	2,747	-	21,589
Subordinated liabilities	19,081	-	503	1,943	-	21,527
Total	**392,249**	**(243)**	**5,145**	**32,688**	**(215)**	**429,624**

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

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

All amounts are in ISK million

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 of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík.

The Condensed Consolidated Interim Financial Statements of the Bank for the six months ended 30 June 2020 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020 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 30 July 2020.

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 2019, 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. Critical accounting estimates and judgements in applying accounting policies

The Condensed Consolidated Interim Financial Statements for the first half of 2020 have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2019.

4. Economic impact of the COVID-19 pandemic

The outbreak of the coronavirus COVID-19 and related global responses have caused material disruptions to businesses around the world, including Iceland. In the first half of 2020, the impact on the domestic economy has been extensive. GDP has contracted considerably and unemployment levels have risen sharply. It is impossible to estimate the overall impact in the final analysis with any degree of certainty.

It is now assumed that the effect of the pandemic will be both more profound and long-lasting than previously expected, and prospects have at the same time deteriorated. Restrictions on gatherings, including workplaces, have been gradually eased to groups of 500 as of 15 June. As of that date, travel bans were also lifted to reflect rules for EU and Schengen countries. According to figures from the Directorate of Labour, unemployment levels have receded from 17.8% in April to 9.6% in June. Lower unemployment is linked to fewer individuals registered for partial unemployment benefits, a measure introduced to counteract the impact of COVID-19, with a corresponding rate dropping from 10.3% to 2.1%.

Action taken by the government and CBI

The government of Iceland has introduced a comprehensive measures respond to the economic impact of the COVID-19 pandemic. Almost all countermeasures introduced have been implemented towards the end of June. The measures aim to reduce and shorten the impact on businesses and the economy while also creating the conditions for a swift recovery. The measures are directed at

counteracting unemployment and temporary loss of personal income by supplementing wages lost because of reduced working hours with partial unemployment benefits. Viable companies that have lost revenues are in return guaranteed support to keep their workers employed part-time. Such companies can apply for disbursement from the National Treasury to partly cover wage payments during termination notice periods. Smaller companies can apply for support loans, which are operating loans intended for SMEs facing severe income declines due to the COVID-19 pandemic. The loans are for up to 10% of a company's income in the previous year, yet capped at ISK 40 million. Financially distressed companies can also apply for supplemental loans to bridge income gaps caused by the pandemic.

4. Economic impact of the COVID-19 pandemic (continued)

Action taken by the government and CBI (continued)

Such loans are capped at twice annual wage cost the previous year and a guaranteed loan can amount to ISK 1.2 bn at a maximum, with the government guaranteeing part of supplemental loans. In addition, businesses that were forced to lock down in line with official instructions are offered special lockdown grants of up to ISK 2.4 m. The measures also include a reduction of the tax on liabilities of financial institutions which enables them to provide more support to their customers. In addition, the Treasury will support the economy with deferral of tax payments and payment holiday for businesses and increased public expenditures in consequence of weaker economic conditions. These broad-based measures complement the Central Bank's combined decisions to lower interest rates gradually by 1.75 percentage points in total, lower and change minimum reserve requirements of credit institutions, expand the conditions for assets eligible for repo transactions between credit institutions and the Central Bank, and lower the countercyclical capital buffer on domestic exposures from 2% of the risk base to 0%.

Landsbankinn's measures

The Bank has provided private customers with guidance on how to deal with the financial impact of the pandemic. Most of the Bank's solutions intended to help customers bridge the gap are immediately available through the Bank's app or online banking. These include raising the limit on payment cards, taking on additional unsecured loans, withdrawing supplementary pension savings or smoothing credit card bills across a longer period. Furthermore, customers with mortgages may request a temporary payment holiday or a temporary reduction in payments for up to six months.

The Bank has also provided guidance to corporate customers. Landsbankinn and other financial institutions, together with other major lenders in the Icelandic market, entered into an agreement on a common framework for a payment holiday. The agreement was sanctioned by the Icelandic Competition Authority. Corporates may request a temporary payment holiday for up to 6 months. Companies that qualify for the measure must have been in good financial health but suffered significant temporary operational difficulties due to a fall in income, meaning that they may not have been over 60 days in arrears at the end of February 2020 and have taken advantage of the government's solutions in response to the pandemic.

Normal repayments resume when a payment holiday ends. During a payment holiday, capital repayments are suspended and interest is added to the outstanding loan principal. The maturity date of a loan is extended for a period corresponding to the duration of the payment holiday.

Landsbankinn's AGM, held on 22 April 2020, approved the motion of the Board of Directors to not pay a dividend for the operating year 2019 in light of economic uncertainty caused by COVID-19 and in line with directions from the Central Bank of Iceland. Landsbankinn is well placed to respond to the demanding tasks society now faces and the decision to refrain from paying a dividend further strengthens the Bank's resources, allowing it to support its customers to the fullest.

Landsbankinn and the Central Bank of Iceland have signed an agreement providing for support loans and supplemental lending to companies facing severe income declines due to the COVID-19 pandemic, subject to specific conditions.

The aim of such support and supplemental lending (bridge loans) is to provide companies, especially SMEs, that are facing temporary operating problems due to COVID-19, with access to liquid funds. This reduces the impact of the pandemic on industry and employment. The Treasury guarantee is capped at 70% on supplemental loans, 100% on support loans in the maximum amount of ISK 10 million and 85% on supporting loans in the amount of ISK 10 – ISK 40 million. At the reporting date, Landsbankinn has not granted any support or supplemental loans as preparation for such lending is on-going. The agreements between the CBI and Landsbankinn on Treasury guarantee on the supplemental and support loans were signed on 8 May and 24 June, respectively.

Impact of COVID-19 on the Financial Statements

The Financial Statements for the first half of the year reflect the unprecedented conditions caused by the COVID-19 pandemic and related economic uncertainties. In the first half of 2020, the Bank has adopted the guidelines of the European Banking Authority (EBA) on prudential accounting and credit risk measurement under these circumstances. The Bank has complied with EBA's requirements, on a temporary basis, for additional notes to financial statements. The notes provide for integrated disclosures on forbearance measures applied to existing loans and newly originated loans subject to Treasury guarantee issued in response to the impact of the pandemic. The additional notes are disclosed in the Bank's Pillar III report for the first half of 2020. The guidelines have also been supported by FSA Iceland.

Measurement of expected credit losses (ECL)

The assessment of ECL at the end of the first half of 2020 is based on updated and probability-weighted scenarios from the economic forecasts of the Bank's Economic Research. The probability-weighted scenarios provide a fairer reflection of the deteriorating economy, whereas darker scenarios mainly manifest in increased PD and higher lifetime PD, which in turn leads to an increase in Stage 2 loans. The impact of COVID-19 is greatest on the travel industry and consequently all individually significant loans in this industry have been assessed manually for staging.

While the final impact of the COVID-19 pandemic on the Bank's credit portfolio is as yet uncertain, it must be considered likely that lower income and/or increased indebtedness will negatively affect credit ratings of the Bank's customers and contribute to increased loan impairment. In accordance with recommendations from the European Banking Authority (EBA), the Bank did not automatically reclassify loans from Stage 1 to Stage 2 if they qualified for COVID-19 measures. It was nevertheless considered necessary to assess specifically to what extent loans should be reclassified as Stage 2 as there are signs of a significant increase in credit risk that fall outside of normal parameters for such reclassification. The Bank assessed the portfolio of these loans and subsequently moved ISK 8.1 billion from Stage 1 into Stage 2 in the first half of 2020.

4. Economic impact of the COVID-19 pandemic (continued)

Measurement of expected credit losses (ECL) (continued)

In addition, it was considered necessary to assess especially the need for increased impairment provisions on loans to individuals where the impact of COVID-19 is deemed not yet to have fully materialised. This assessment was performed using expert judgement for likely default rates of individuals and on that basis a general provision of ISK 239 million was recognised in the first half of the year. The expert judgement was based on historic default rates for businesses and individuals, as well as expectation of the possible effects of COVID-19.

Impact of COVID-19 on the loan portfolio

The gross carrying amount of loans to the travel industry accounts for ISK 101 billion (73%) of the service sector in the Bank's loan portfolio at the end of the first half of 2020 as compared with ISK 100 billion at the beginning of the year. Total credit risk exposure to the travel industry represented 8.2% of the Bank's loan portfolio at the end of the first half of the year.

The Bank's total ECL for the travel industry grew from ISK 3.3 billion to ISK 8.8 billion during the first half of 2020.

The gross carrying amount of loans to individuals which the Bank has approved for COVID-19 solutions amounted to ISK 39.4 billion, or 7.8% of loans to individuals at the end of the first half of the year.

The Bank's total ECL on loans to individuals increased from ISK 2.1 billion to ISK 2.4 billion during the first half of the 2020.

The gross carrying amount of loans to businesses which the Bank has approved for COVID-19 solutions amounted to ISK 57.3 billion, or 8.0% of loans to businesses at the end of the first half of the year.

The Bank's total ECL on loans to businesses other than the travel industry increased from ISK 9.4 billion to ISK 16.1 billion during the first half of 2020.

As mentioned above, no support or supplemental loans have been granted to any company at the end of the first half of 2020.

Fair value measurement

Since the beginning of 2020, global equity markets have experienced significant volatility and weakness. As at 30 June 2020, the fair value of the Group's financial assets at FVPL had increased by ISK 202 million. The fluctuation between the first two quarters of 2020 was positive by ISK 2.8 billion, thereof positive by ISK 3.3 billion in level 3 financial assets. The valuation of level 3 assets was based on analysis of financial position and results, economic outlook and recent transactions.

Economic forecasts

Landsbankinn's Economic Research provides scenarios with forecasts on relevant economic variables and presents them to the Bank's Valuation Team.

Additional scenarios were created to address the forward-looking risks that management considers not adequately captured by the consensus. At the reporting date, the Bank had run additional scenarios to address the domestic economic contraction in the wake of the COVID-19 global crisis. The scenarios drawn up at the end of the second quarter of 2020 are darker and assume a more protracted recovery than those that formed the basis of the assessment of ECL at the end of the first quarter.

The following table shows certain key macroeconomic variables used in modelling the allowance for credit losses for Stage 1 and Stage 2. Landsbankinn's Economic Research base line forecast projects a GDP contraction of 8.7% this year. Projections for the upside scenarios, base case scenario and downside scenarios are averages for the next 12 months and then for the remainder of the forecast period, which represents a medium-term view. The upside scenario is assigned a weight of 25%, the base case scenario is assigned a weight of 50% and the downside scenario is assigned a weight of 25%.

	Upside scenario		Base case senario		Downside scenario	
As at 30.6.2020	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
GDP growth	0.0%	5.0%	-2.0%	3.5%	-4.8%	3.4%
Unemployment rate	8.0%	4.8%	9.5%	5.9%	16.6%	7.8%
Base rate	1.0%	2.0%	0.5%	1.0%	0.1%	0.6%
Inflation	3.7%	2.6%	2.9%	2.5%	3.5%	2.1%
EUR/ISK exchange rate, average	155.7	149.6	156.7	151.6	166.2	154.7
Housing Price index, y/y change	3.3%	4.0%	1.8%	3.0%	-1.8%	0.1%

	Upside scenario		Base case senario		Downside scenario	
As at 31.12.2019	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
GDP growth	3.5%	3.5%	2.0%	2.4%	0.0%	1.3%
Unemployment rate	3.0%	2.3%	4.0%	3.3%	6.0%	5.0%
Base rate	3.7%	3.9%	3.0%	3.1%	2.9%	2.2%
Inflation	2.4%	2.6%	2.4%	2.5%	4.4%	2.7%
EUR/ISK exchange rate, average	136.8	135.6	138.5	138.0	154.4	154.4
Housing Price index, y/y change	7.0%	6.0%	4.5%	4.0%	2.0%	1.5%

All amounts are in ISK million

4. Economic impact of the COVID-19 pandemic (continued)

Economic forecasts (continued)

	1.1-30.6.2020			2019		
	Upside scenario	Base scenario	Downside scenario	Upside scenario	Base scenario	Downside scenario
Impairment allowance on loans and advances in stages 1 and 2	13,876	14,559	16,882	4,095	4,452	5,443
Ratio of loans and advances in stage 2	12.3%	12.5%	13.9%	7.8%	8.0%	10.6%

	Reported under IFRS 9	
	2020 1.1-30.6	2019
Impairment allowance on loans and advances in stages 1 and 2	14,969	4,614

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, if possible, on an arm's-length basis by use and activity. Income tax is allocated to appropriate business segments based on the prevailing income tax rate. Tax on the Bank's liabilities is allocated to the income generating divisions based on the prevailing tax rate, currently 0.145%.

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.

Revenue from transactions with any single external customer was within 10% of the Group's total revenue during the period from 1 January to 30 June 2020 and the corresponding period in 2019.

All amounts are in ISK million

5. Operating segments (continued)

1 January - 30 June 2020	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon-ciliation	Total
Net interest income	8,466	9,430	193	910	(69)	9	**18,939**
Net fee and commission income	1,600	349	1,904	(226)	89	(118)	**3,598**
Credit impairment losses	(2,392)	(11,031)	(2)	(8)	(2)	-	**(13,435)**
Net other operating income (expenses)	166	(1,872)	(2)	1,871	22	(12)	**173**
Total operating income (expense)	**7,840**	**(3,124)**	**2,093**	**2,547**	**40**	**(121)**	**9,275**
Operating expenses	(3,306)	(1,191)	(1,252)	(884)	(5,777)	128	**(12,282)**
Tax on liabilities of financial institutions	(286)	(291)	(7)	(282)	(9)	-	**(875)**
Profit (loss) before cost allocation and tax	**4,248**	**(4,606)**	**834**	**1,381**	**(5,746)**	**7**	**(3,882)**
Cost allocated from support functions to business segments	(2,094)	(1,318)	(725)	(385)	4,522	-	**0**
Profit (loss) before tax	**2,154**	**(5,924)**	**109**	**996**	**(1,224)**	**7**	**(3,882)**
Income tax	(873)	860	(444)	(271)	1,323	-	**595**
Profit (loss) for the period	**1,281**	**(5,064)**	**(335)**	**725**	**99**	**7**	**(3,287)**
Net revenue (expenses) from external customers	11,787	1,391	1,968	(5,792)	42	-	**9,396**
Net revenue (expenses) from other segments	(3,947)	(4,515)	125	8,339	(2)	-	**0**
Total operating income (expense)	**7,840**	**(3,124)**	**2,093**	**2,547**	**40**	**0**	**9,396**
As at 30 June 2020							
Total assets	535,502	626,576	18,270	590,114	15,939	(285,291)	**1,501,110**
Total liabilities	501,039	517,657	13,884	493,435	15,939	(285,291)	**1,256,663**
Allocated capital	34,463	108,919	4,386	96,679	-		**244,447**

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

All amounts are in ISK million

Notes to the Consolidated Income Statement

6. Net interest income

	1.4-30.6.2020			1.4-30.6.2019		
Interest income	**Amortised cost**	**FVTPL**	**Total**	**Amortised cost**	**FVTPL**	**Total**
Cash and balances with Central Bank	243	-	243	453	5	458
Bonds and debt instruments	35	-	35	65	-	65
Loans and advances to financial institutions	1	-	1	75	-	75
Loans and advances to customers	17,259	150	17,409	19,046	138	19,184
Other interest income	3	529	532	77	696	773
Total	**17,541**	**679**	**18,220**	**19,716**	**839**	**20,555**
Interest expense						
Due to financial institutions and Central Bank	(207)	-	(207)	(307)	-	(307)
Deposits from customers	(2,976)	-	(2,976)	(5,306)	-	(5,306)
Borrowings	(3,613)	(504)	(4,117)	(2,996)	(1,012)	(4,008)
Other interest expense	(551)	(610)	(1,161)	(8)	(592)	(600)
Subordinated liabilities	(247)	-	(247)	(120)	-	(120)
Total	**(7,594)**	**(1,114)**	**(8,708)**	**(8,737)**	**(1,604)**	**(10,341)**
Net interest income	**9,947**	**(435)**	**9,512**	**10,979**	**(765)**	**10,214**

	1.1-30.6.2020			1.1-30.6.2019		
Interest income	**Amortised cost**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Designated at FVTPL**	**Total**
Cash and balances with Central Bank	788	-	788	992	14	1,006
Bonds and debt instruments	183	-	183	142	-	142
Loans and advances to financial institutions	73	-	73	133	-	133
Loans and advances to customers	31,583	339	31,922	35,495	292	35,787
Other interest income	553	1,117	1,670	84	1,302	1,386
Total	**33,180**	**1,456**	**34,636**	**36,846**	**1,608**	**38,454**
Interest expense						
Due to financial institutions and Central Bank	(468)	-	(468)	(563)	-	(563)
Deposits from customers	(6,005)	-	(6,005)	(10,079)	-	(10,079)
Borrowings	(6,106)	(1,169)	(7,275)	(5,152)	(1,029)	(6,181)
Other interest expense	(573)	(913)	(1,486)	(119)	(819)	(938)
Subordinated liabilities	(463)	-	(463)	(234)	-	(234)
Total	**(13,615)**	**(2,082)**	**(15,697)**	**(16,147)**	**(1,848)**	**(17,995)**
Net interest income	**19,565**	**(626)**	**18,939**	**20,699**	**(240)**	**20,459**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 18,917 million in the first six months of 2020 as compared with ISK 20,457 for the same period in 2019.

7. Net fee and commission income

	1.4-30.6.2020			1.4-30.6.2019		
	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	858	(158)	700	957	(127)	830
Loans and guarantees	307	-	307	201	-	201
Payment cards	840	(388)	452	1,195	(454)	741
Collection and payment services	230	(46)	184	231	(42)	189
Other	156	(146)	10	277	(162)	115
Total	**2,391**	**(738)**	**1,653**	**2,861**	**(785)**	**2,076**

All amounts are in ISK million

7. Net fee and commission income (continued)

	1.1-30.6.2020			1.1-30.6.2019		
	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	1,972	(311)	1,661	2,029	(322)	1,707
Loans and guarantees	565	-	565	409	-	409
Payment cards	1,819	(853)	966	2,369	(959)	1,410
Collection and payment services	456	(92)	364	450	(83)	367
Other	352	(310)	42	507	(264)	243
Total	**5,164**	**(1,566)**	**3,598**	**5,764**	**(1,628)**	**4,136**

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

Net gain (loss) on financial assets and liabillities at FVTPL	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Bonds and debt instruments	347	307	601	643
Equities and equity instruments	4,073	778	1,766	3,955
Derivatives and underlying hedges	(61)	480	(334)	603
Loans and advances to customers	(1,453)	19	(1,855)	72
Net gain (loss) on fair value hedges	(79)	192	24	(55)
Total	**2,827**	**1,776**	**202**	**5,218**

9. Net foreign exchange gain (loss)

Assets	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Cash and balances with Central Bank	(6)	43	29	70
Bonds and debt instruments	(1,067)	1,214	9,393	3,542
Equities and equity instruments	(5)	-	4	10
Derivative instruments	907	152	(422)	(1,143)
Loans and advances to financial institutions	1,823	1,493	8,401	4,770
Loans and advances to customers	(3,070)	5,403	29,663	12,847
Other assets	(265)	(37)	328	14
Total	**(1,683)**	**8,268**	**47,396**	**20,110**
Liabilities				
Due to financial institutions and Central Bank	3	(10)	(41)	(18)
Deposits from customers	2,234	(2,123)	(14,571)	(6,601)
Borrowings	(752)	(5,924)	(30,745)	(12,886)
Other liabilities	(160)	99	(270)	(7)
Subordinated liabilities	99	(397)	(1,943)	(843)
Total	**1,424**	**(8,355)**	**(47,570)**	**(20,355)**
Net foreign exchange gain (loss)	**(259)**	**(87)**	**(174)**	**(245)**

10. Credit impairment losses

	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Net impairment on loans and advances to customers and financial institutions	(8,185)	(1,383)	(13,420)	(2,407)
Net impairment on other financial assets	(6)	5	(15)	35
Credit impairment losses	**(8,191)**	**(1,378)**	**(13,435)**	**(2,372)**
Credit impairment losses by customer type				
Financial institutions	4	-	5	1
Individuals	(124)	(75)	(558)	(111)
Corporates	(8,071)	(1,303)	(12,882)	(2,262)
Credit impairment losses	**(8,191)**	**(1,378)**	**(13,435)**	**(2,372)**

All amounts are in ISK million

11. Other income and expenses

	Note	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Gain (loss) on repossessed collateral	26	(36)	(37)	(76)	40
Share of profit of equity-accounted associates		84	60	141	153
Other		285	243	80	511
Total		**333**	**266**	**145**	**704**

12. Salaries and related expenses

	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Salaries	2,957	2,843	6,001	5,711
Contribution to defined pension plans	429	423	834	827
Social security contributions	191	217	406	424
Special financial activities tax on salaries	180	181	351	354
Other related expenses	45	25	54	53
Total	**3,802**	**3,689**	**7,646**	**7,369**
Average number of full-time equivalent positions during the period	891	921	893	917

13. Other operating expenses

	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Information technology	628	633	1,225	1,215
Real estate and fixtures	220	234	455	461
Advertising and marketing	124	191	308	389
FSA supervisory expenses	123	122	249	244
Contribution to the Debtor's Ombudsman	21	20	41	39
Audit and related services	27	31	84	76
Other professional services	127	123	343	295
Depreciation and amortisation	319	330	639	678
Contribution to the Depositors' and Investors' Guarantee Fund	285	248	556	619
Other operating expenses	332	408	736	846
Total	**2,206**	**2,340**	**4,636**	**4,862**

14. Income tax

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

	2020 1.1-30.6	2019 1.1-30.6
Current tax expense	(61)	(1,958)
Special income tax on financial institutions	-	(498)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	656	(25)
Total	**595**	**(2,481)**

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

		2020 1.1-30.6		2019 1.1-30.6
Profit (loss) before tax		(3,007)		15,669
Tax on liabilities of financial institutions		(875)		(2,075)
Profit (loss) before income tax		(3,882)		13,594
Income tax calculated using the domestic corporate income tax rate	20.0%	777	20.0%	(2,719)
Special income tax on financial institutions	0.0%	-	3.7%	(498)
Income not subject to tax	2.3%	88	(9.0%)	1,221
Non-deductible expenses	(6.9%)	(270)	3.6%	(493)
Other	0.0%	-	(0.1%)	8
Effective income tax	**15.3%**	**595**	**18.3%**	**(2,481)**

for the six months ended 30 June 2020 19 All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

15. Classification and fair values of financial assets and liabilities

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

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

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 30 June 2020:

		Carrying amount					Fair value			
As at 30 June 2020	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										
Cash and balances with Central Bank	19	-	6	-	-	6	-	6	-	6
Bonds and debt instruments	20	-	98,426	1,687	-	100,113	99,582	30	501	100,113
Equities and equity instruments	21	-	26,794	-	-	26,794	9,034	-	17,760	26,794
Derivative instruments	22	-	1,668	-	-	1,668	-	1,668	-	1,668
Loans and advances to customers	24	-	12,297	-	-	12,297	-	-	12,297	12,297
		0	**139,191**	**1,687**	**0**	**140,878**	**108,616**	**1,704**	**30,558**	**140,878**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	89,592	-	-	-	89,592	-	89,592	-	89,592
Bonds and debt instruments	20	4,645	-	-	-	4,645	-	4,742	-	4,742
Loans and advances to financial institutions	23	56,394	-	-	-	56,394	-	56,394	-	56,394
Loans and advances to customers	24	1,185,913	-	-	-	1,185,913	-	1,193,125	-	1,193,125
Other financial assets		8,657	-	-	-	8,657	-	8,657	-	8,657
		1,345,201	**0**	**0**	**0**	**1,345,201**	**0**	**1,352,510**	**0**	**1,352,510**
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,372	-	-	3,372	-	3,372	-	3,372
Short positions	22	-	2,355	-	-	2,355	2,355	-	-	2,355
		0	**5,727**	**0**	**0**	**5,727**	**2,355**	**3,372**	**0**	**5,727**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	27	-	-	-	37,226	37,226	-	37,226	-	37,226
Deposits from customers	28	-	-	-	758,790	758,790	-	758,532	-	758,532
Borrowings	29	-	-	-	408,097	408,097	-	428,036	-	428,036
Other financial liabilities		-	-	-	13,144	13,144	-	13,144	-	13,144
Subordinated liabilities	32	-	-	-	21,527	21,527	-	21,733	-	21,733
		0	**0**	**0**	**1,238,784**	**1,238,784**	**0**	**1,258,671**	**0**	**1,258,671**

All amounts are in ISK million

15. 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 2019:

		Carrying amount					Fair value			
As at 31 December 2019	**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	-	108,461	2,781	-	111,242	111,013	79	150	111,242
Equities and equity instruments	21	-	30,019	-	-	30,019	12,939	-	17,080	30,019
Derivative instruments	22	-	2,694	-	-	2,694	-	2,694	-	2,694
Loans and advances to customers	24	-	14,679	-	-	14,679	-	-	14,679	14,679
		0	**155,853**	**2,781**	**0**	**158,634**	**123,952**	**2,773**	**31,909**	**158,634**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	69,824	-	-	-	69,824	-	69,824	-	69,824
Bonds and debt instruments	20	4,020	-	-	-	4,020	-	4,148	-	4,148
Loans and advances to financial institutions	23	47,929	-	-	-	47,929	-	47,929	-	47,929
Loans and advances to customers	24	1,125,505	-	-	-	1,125,505	-	1,130,435	-	1,130,435
Other financial assets		7,819	-	-	-	7,819	-	7,819	-	7,819
		1,255,097	**0**	**0**	**0**	**1,255,097**	**0**	**1,260,155**	**0**	**1,260,155**
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,309	-	-	3,309	-	3,309	-	3,309
Short positions	22	-	2,081	-	-	2,081	2,081	-	-	2,081
		0	**5,390**	**0**	**0**	**5,390**	**2,081**	**3,309**	**0**	**5,390**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	27	-	-	-	48,062	48,062	-	48,062	-	48,062
Deposits from customers	28	-	-	-	707,813	707,813	-	707,366	-	707,366
Borrowings	29	-	-	-	373,168	373,168	-	381,506	-	381,506
Other financial liabilities		-	-	-	7,118	7,118	-	7,118	-	7,118
Subordinated liabilities	32	-	-	-	19,081	19,081	-	19,179	-	19,179
		0	**0**	**0**	**1,155,242**	**1,155,242**	**0**	**1,163,231**	**0**	**1,163,231**

All amounts are in ISK million

Notes to the Consolidated Statement of Financial Position

16. 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 Finance. 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 June 2020 and 1 January to 30 June 2019, there were no transfers between Level 1, Level 2 and Level 3.

The following tables show the reconciliation of fair value measurement in Level 3 for the six months ended 30 June 2020 and for the year 2019:

1 January - 30 June 2020	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
Carrying amount as at 1 January 2020	150	17,080	14,679	31,909
Net gain (loss) on financial assets and liabilities at FVTPL	20	1,639	(1,855)	(196)
Net foreign exchange gain (loss)	1	3	(6)	(2)
Purchases	136	79	-	215
Sales	(7)	(240)	-	(247)
Settlements	(1)	-	(521)	(522)
Dividend received	-	(498)	-	(498)
Transfer into, out of Level 3 due to changes in control	202	(303)	-	(101)
Carrying amount as at 30 June 2020	**501**	**17,760**	**12,297**	**30,558**
1 January - 31 December 2019				
Carrying amount as at 1 January 2019	210	11,807	9,670	21,687
Net gain on financial assets and liabilities at FVTPL	79	5,376	18	5,473
Net foreign exchange gain	3	1	1	5
Purchases	87	1,065	5,742	6,894
Sales	(111)	(5)	-	(116)
Settlements	(119)	-	(752)	(871)
Dividend received	-	(1,424)	-	(1,424)
Transfer into Level 3 due to change in control	1	260	-	261
Carrying amount as at 31 December 2019	**150**	**17,080**	**14,679**	**31,909**

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group as at 30 June 2020 and 30 June 2019, were recognised:

1 January - 30 June 2020	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
Net gain (loss) on financial assets and liabilities at FVTPL	23	1,637	(1,855)	(195)
Net foreign exchange gain (loss)	1	3	(6)	(2)
Total	**24**	**1,640**	**(1,861)**	**(197)**
1 January - 30 June 2019				
Net gain on financial assets and liabilities at FVTPL	119	3,970	72	4,161
Net foreign exchange gain	4	2	1	7
Total	**123**	**3,972**	**73**	**4,168**

17. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 30 June 2020 and 31 December 2019.

					Range of inputs	
As at 30 June 2020	**Assets**	**Liabilities**	**Valuation technique**	**Key un-observable inputs**	**Lower**	**Higher**
Bonds and debt instruments	501	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	17,760	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	12,297	-	See 3) below	See 3) below	n/a	n/a
	30,558	**0**				

All amounts are in ISK million

17. Unobservable inputs in fair value measurement (continued)

As at 31 December 2019	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs Lower	Higher
Bonds and debt instruments	150	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	17,080	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	14,679	-	See 3) below	See 3) below	n/a	n/a
	31,909	**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 six months ended 30 June 2020 and 30 June 2019:

	2020 1.1-30.6		2019 1.1-30.6	
Effect on profit before tax	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Bonds and debt instruments	1	(1)	4	(4)
Equities and equity instruments:				
Equities	901	(902)	716	(729)
Mutual funds	230	(230)	258	(258)
Total equities and equity instruments	1,131	(1,132)	974	(987)
Loans and advances to customers	66	(64)	12	(15)
Total	**1,198**	**(1,197)**	**990**	**(1,006)**

The effect on (loss) 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.

18. Expected credit loss

	30.6.2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and balances with Central Bank	(7)	-	-	(7)
Bonds and debt instruments	(8)	-	-	(8)
Loans and advances to customers	(5,500)	(8,456)	(13,337)	(27,293)
Other financial assets	(45)	-	-	(45)
Expected credit loss, off-balance sheet items	(498)	(515)	(108)	(1,121)
Total	**(6,058)**	**(8,971)**	**(13,445)**	**(28,474)**

	31.12.2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and balances with Central Bank	(10)	-	-	(10)
Bonds and debt instruments	(3)	-	-	(3)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(2,390)	(1,978)	(10,515)	(14,883)
Other financial assets	(29)	-	-	(29)
Expected credit loss, off-balance sheet items	(190)	(55)	(109)	(354)
Total	**(2,623)**	**(2,033)**	**(10,624)**	**(15,280)**

All amounts are in ISK million

19. Cash and balances with Central Bank

	30.6.2020	31.12.2019
Cash on hand	5,334	4,606
Unrestricted balances with Central Bank	66,883	39,660
Total cash and unrestricted balances with Central Bank	**72,217**	**44,266**
Restricted balances with Central Bank - fixed reserve requirement	8,881	7,801
Restricted balances with Central Bank - average maintenance level	-	7,801
Cash and balances pledged as collateral to the Central Bank	8,500	9,956
Total restricted balances with Central Bank	**17,381**	**25,558**
Total cash and balances with Central Bank	**89,598**	**69,824**

20. Bonds and debt instruments

	30.6.2020				31.12.2019			
Bonds and debt instruments	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**
Domestic								
Listed	4,645	47,433	351	52,429	4,020	26,141	1,995	32,156
Unlisted	-	-	1,336	1,336	-	-	786	786
	4,645	**47,433**	**1,687**	**53,765**	**4,020**	**26,141**	**2,781**	**32,942**
Foreign								
Listed	-	50,993	-	50,993	-	82,320	-	82,320
	0	**50,993**	**0**	**50,993**	**0**	**82,320**	**0**	**82,320**
Total bonds	**4,645**	**98,426**	**1,687**	**104,758**	**4,020**	**108,461**	**2,781**	**115,262**

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

21. Equities and equity instruments

	30.6.2020			31.12.2019		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	6,662	2,008	8,670	12,311	542	12,853
Unlisted	-	17,992	17,992	-	17,149	17,149
	6,662	**20,000**	**26,662**	**12,311**	**17,691**	**30,002**
Foreign						
Listed	2	112	114	2	-	2
Unlisted	-	18	18	-	15	15
	2	**130**	**132**	**2**	**15**	**17**
Total equities	**6,664**	**20,130**	**26,794**	**12,313**	**17,706**	**30,019**

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

As at 30 June 2020, outstanding commitments of the Group in share subscriptions amounted to ISK 689 million (31 December 2019: ISK 1.166 million) altogether in six entities. The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

All amounts are in ISK million

22. Derivative instruments and short positions

Trading

	30.6.2020			31.12.2019		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	5,902	67	173	6,431	60	94
Cross-currency interest rate swaps	1,141	124	-	-	-	-
	7,043	**191**	**173**	**6,431**	**60**	**94**
Interest rate derivatives						
Interest rate swaps	2,399	22	-	2,213	23	-
Total return swaps	19,664	8	96	23,927	23	91
	22,063	**30**	**96**	**26,140**	**46**	**91**
Equity derivatives						
Equity forwards	1,323	124	182	5,800	382	1,057
Total return swaps	3,024	6	93	4,450	26	121
Equity options	-	-	-	73	-	1
	4,347	**130**	**275**	**10,323**	**408**	**1,179**
Total derivative instruments	**33,453**	**351**	**544**	**42,894**	**514**	**1,364**
Short positions						
Listed bonds	2,040	-	2,355	2,610	-	2,081
Total short positions	**2,040**	**0**	**2,355**	**2,610**	**0**	**2,081**
Total	**35,493**	**351**	**2,899**	**45,504**	**514**	**3,445**

Risk management

	30.6.2020			31.12.2019		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	20,209	95	80	38,471	782	65
Cross-currency interest rate swaps	11,268	-	76	9,857	-	244
	31,477	**95**	**156**	**48,328**	**782**	**309**
Interest rate derivatives						
Interest rate swaps	30,400	86	2,672	30,214	71	1,636
	30,400	**86**	**2,672**	**30,214**	**71**	**1,636**
Fair value hedging						
Interest rate swaps	93,240	1,136	-	85,357	1,327	-
	93,240	**1,136**	**0**	**85,357**	**1,327**	**0**
Total	**155,117**	**1,317**	**2,828**	**163,899**	**2,180**	**1,945**
Total derivative instruments and short positions	**190,610**	**1,668**	**5,727**	**209,403**	**2,694**	**5,390**

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 June 2020, the slope of the regression line was in all cases within the range of 0.98 and 1,08 (for a 95% confidence level) and the regression coefficient was at least 0.92 (R^2). During the period from 1 January to 30 June 2019, the slope of the regression line is in all cases within the range of 0.92 and 0.99 (for a 95% confidence level) and the regression coefficient is at least 0.95 (R^2).

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22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 30 June 2020	Notional amount of the hedging instrument	Maturity date: Up to 3 months	Maturity date: 1-5years	Maturity date: >5years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	93,240	-	93,240	-	1,136	-	(187)
Interest rate swaps - SEK	-	-	-	-	-	-	(5)
Total	**93,240**	**0**	**93,240**	**0**	**1,136**	**0**	**(192)**

Average fixed interest rate - EUR		1.19%

As at 30 June 2020	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 0.75 06/20	-	-	-	-	6
LBANK 1.375 3/22	-	47,095	-	366	229
LBANK 1.00 5/23	-	47,410	-	744	(19)
Total EMTN hedged borrowings	**0**	**94,505**	**0**	**1,110**	**216**

As at 31 December 2019	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5years	Maturity date: >5years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	81,480	-	81,480	-	1,322	-	550
Interest rate swaps - SEK	3,877	3,877	-	-	5	-	13
Total	**85,357**	**3,877**	**81,480**	**0**	**1,327**	**0**	**563**

Average fixed interest rate - EUR		1.19%
Average fixed interest rate - SEK		0.75%

As at 31 December 2019	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 0.75 06/20	-	3,884	8	-	(10)
LBANK 1.375 3/22	-	41,430	-	335	(185)
LBANK 1.00 5/23	-	41,499	-	517	(448)
Total EMTN hedged borrowings	**0**	**86,813**	**8**	**852**	**(643)**

23. Loans and advances to financial institutions

	30.6.2020	31.12.2019
Bank accounts with financial institutions	11,804	26,438
Money market loans	43,498	20,379
Other loans	1,092	1,113
Allowance for impairment	-	(1)
Total	**56,394**	**47,929**

All amounts are in ISK million

24. Loans and advances to customers

	Notes	30.6.2020	31.12.2019
Loans and advances to customers at amortised cost	a)	1,213,206	1,140,388
Allowance for impairment		(27,293)	(14,883)
Total		**1,185,913**	**1,125,505**
Loans and advances to customers at FVTPL	b)	12,297	14,679
Total		**1,198,210**	**1,140,184**

a) Loans and advances to customers at amortised cost

	30.6.2020			31.12.2019		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	4,129	(34)	4,095	4,170	(35)	4,135
Individuals	506,554	(2,424)	504,130	470,096	(2,151)	467,945
Mortgage lending	431,084	(1,188)	429,896	392,753	(848)	391,905
Other	75,470	(1,236)	74,234	77,343	(1,303)	76,040
Corporates	702,523	(24,835)	677,688	666,122	(12,697)	653,425
	1,213,206	**(27,293)**	**1,185,913**	**1,140,388**	**(14,883)**	**1,125,505**

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

b) Loans and advances to customers at FVTPL

	30.6.2020	31.12.2019
Corporates	12,297	14,679
Total	**12,297**	**14,679**

25. Other assets

	30.6.2020	31.12.2019
Unsettled securities trading	1,687	958
Other accounts receivable	4,881	4,544
Right-of-use assets	2,089	2,317
Sundry assets	1,402	1,045
Total	**10,059**	**8,864**

26. Assets and liabilities classified as held for sale

Assets classified as held for sale

	30.6.2020	31.12.2019
Repossessed collateral	1,443	1,022
Total	**1,443**	**1,022**

Repossessed collateral

Repossessed 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 repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. Repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

Repossessed collateral	30.6.2020	31.12.2019
Real estate	1,433	1,019
Equipment and vehicles	10	3
Total	**1,443**	**1,022**

	2020	2019
Repossessed collateral	**1.1.-30.6**	**1.1.-31.12**
Carrying amount as at the beginning of the period	1,022	1,330
Repossessed during the period	515	633
Disposed of during the period	(104)	(950)
Impairment and gain of sale	10	9
Carrying amount as at the end of the period	**1,443**	**1,022**

Liabilities associated with assets classified as held for sale

	30.6.2020	31.12.2019
Liabilities of disposal groups	30	30
Total	**30**	**30**

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27. Due to financial institutions and Central Bank

	30.6.2020	31.12.2019
Loans and repurchase agreements with Central Bank	51	67
Loans and deposits from financial institutions	37,175	47,995
Total	**37,226**	**48,062**

28. Deposits from customers

	30.6.2020	31.12.2019
Demand deposits	520,369	457,427
Term deposits	238,421	250,386
Total	**758,790**	**707,813**

29. Borrowings

Secured borrowings

As at 30.6.2020	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,860	Non-indexed	Fixed 5.5%	6,068
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	22,148
LBANK CB 23	ISK	23.11.2023	19,860	Non-indexed	Fixed 5.0%	20,603
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	43,195
LBANK CB 25	ISK	17.09.2025	6,880	Non-indexed	Fixed 3.4%	7,014
LBANK CBI 26	ISK	20.11.2026	9,180	CPI-indexed	Fixed 1.5%	9,848
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	56,240
Total covered bonds						**165,116**
Total secured borrowings						**165,116**

Unsecured borrowings

As at 30.6.2020	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	11,227
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,719
LBANK FLOAT 11/20	NOK	27.11.2020	NOK 300 million	NIBOR + 0.83%	4,297
LBANK FLOAT 11/20	SEK	30.11.2020	SEK 600 million	STIBOR + 0.85%	8,919
LBANK 1.625 03/21	EUR	15.03.2021	EUR 200 million	FIXED 1.625%	30,549
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1.75%	14,322
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	7,430
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	47,095
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	47,410
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	46,424
Total senior unsecured bonds					**221,392**

As at 30.6.2020	Carrying amount
Other unsecured loans	21,589
Total other unsecured loans	**21,589**
Total unsecured borrowings	**242,981**
Total borrowings as at 30.6.2020	**408,097**

* 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.

All amounts are in ISK million

29. Borrowings (continued)

Secured borrowings

As at 31.12.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,760	Non-indexed	Fixed 5.5%	5,810
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	22,025
LBANK CB 23	ISK	23.11.2023	15,480	Non-indexed	Fixed 5.0%	15,468
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	42,089
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	55,157
Total covered bonds						**140,549**
Total secured borrowings						**140,549**

Unsecured borrowings

As at 31.12.2019	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 06/20	SEK	22.06.2020	SEK 700 million	STIBOR + 1.0%	9,049
LBANK 0.75 06/20*	SEK	22.06.2020	SEK 300 million	FIXED 0.75%	3,884
LBANK 1.375 11/20	SEK	24.11.2020	SEK 750 million	FIXED 1.375%	9,690
LBANK FLOAT 11/20	SEK	24.11.2020	SEK 250 million	STIBOR + 1.5%	3,233
LBANK FLOAT 11/20	NOK	27.11.2020	NOK 300 million	NIBOR + 0,83%	4,132
LBANK FLOAT 11/20	SEK	30.11.2020	SEK 600 million	STIBOR + 0,85%	7,752
LBANK 1.625 03/21	EUR	15.03.2021	EUR 500 million	FIXED 1.625%	68,609
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1,75%	13,783
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	6,457
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	41,430
LBANK 1.000 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	41,499
Total senior unsecured bonds					**209,518**

As at 31.12.2019	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Carrying amount
LBANK 200228	ISK	28.02.2020	2,840	Non-indexed	2,820
LBANK 200528	ISK	28.05.2020	800	Non-indexed	785
Total commercial paper issued					**3,605**

As at 31.12.2019	Carrying amount
Other unsecured loans	19,496
Total other unsecured loans	**19,496**
Total unsecured borrowings	**232,619**
Total borrowings as at 31.12.2019	**373,168**

* 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.

30. Deferred tax assets and liabilities

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

	30.6.2020			31.12.2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(135)	(135)	-	(151)	(151)
Intangibles	-	(289)	(289)	-	(303)	(303)
Exchange rate-indexed assets and liabilities	-	(487)	(487)	-	(443)	(443)
Deferred foreign exchange differences	239	-	239	285	-	285
Other assets and liabilities	641	-	641	632	-	632
Tax losses carried forward	708	-	708	-	-	0
	1,588	**(911)**	**677**	**917**	**(897)**	**20**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(911)	911	0	(897)	897	0
Deferred tax assets total	**677**	**0**	**677**	**20**	**0**	**20**

All amounts are in ISK million

30. Deferred tax assets and liabilities (continued)

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

As at 30.6.2020	Balance as at 1.1	Recognised in income statement: Tax income (expense)	Balance as at 30.6
Property and equipment	(151)	16	(135)
Intangibles	(303)	14	(289)
Foreign currency denominated assets and liabilities	(443)	(44)	(487)
Deferred foreign exchange differences	285	(46)	239
Other assets and other liabilities	632	9	641
Tax losses carried forward	-	708	708
Total	**20**	**657**	**677**

As at 31.12.2019	Balance as at 1.1	Impact of adopting IFRS 16	Recognised in income statement: Tax income (expense)	Balance as at 31.12
Property and equipment	(183)	-	32	(151)
Intangibles	(304)	-	1	(303)
Foreign currency denominated assets and liabilities	(307)	-	(136)	(443)
Deferred foreign exchange differences	343	-	(58)	285
Other assets and other liabilities	400	46	186	632
Tax losses carried forward	185	-	(185)	0
Total	**134**	**46**	**(160)**	**20**

31. Other liabilities

	30.6.2020	31.12.2019
Unsettled securities trading	8,573	3,467
Withholding tax	582	3,803
Accounts payable	1,997	873
Contribution to the Depositors' and Investors' Guarantee Fund	281	253
Tax on liabilities of financial institutions	5,079	4,204
Current tax liabilities	-	4,917
Non-controlling interests - Funds	1,832	2,050
Lease liabilities	2,293	2,525
Sundry liabilities	4,629	2,958
Total	**25,266**	**25,050**

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

32. Subordinated liabilities

As at 30.6.2020	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	15,825
LBANK T2I 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3,85%	5,702
Total subordinated liabilities						**21,527**

As at 31.12.2019	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	13,613
LBANK T2I 29	ISK	11.12.2029	ISK 5.480 million	CPI-indexed	Fixed 3,85%	5,468
Total subordinated liabilities						**19,081**

The bond series, LBANK T21 29, has af final maturity in December 2029, but is callable in December 2024. The Tier 2 subordinated bonds in EUR have a final maturity in September 2028, but are callable in September 2023.

All amounts are in ISK million

33. Equity

Share capital

As of 30 June 2020, 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.

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 Bank's AGM, held on 22 April 2020, approved the motion of the Board of Directors to pay no dividend for the operating year 2019 in the light of the economic uncertainty caused by the COVID-19 pandemic and in line with directions from the Central Bank of Iceland. The Board of Directors had previously stated its intent to propose that the AGM approve a dividend of ISK 0.40 per share, to be paid to shareholders for the operating year 2019 in two equal payments in 2020. The total dividend would have been ISK 9,450 million, corresponding to 52% of the consolidated profit in 2019.

Dividend policy

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to ≥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 39 Capital requirements.

Other notes

34. Earnings per share

Profit (loss) for the period	2020 1.4-30.6	2019 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Profit (loss) for the period attributable to owners of the Bank	341	4,329	(3,287)	11,113

Weighted average number of shares	2020 1.4-30.6	2020 1.4-30.6	2020 1.1-30.6	2019 1.1-30.6
Weighted average number of ordinary shares issued	24,000	24,000	24,000	24,000
Weighted average number of own shares	(375)	(375)	(375)	(375)
Weighted average number of shares outstanding	**23,625**	**23,625**	**23,625**	**23,625**
Basic and diluted earnings per share from operations (ISK)	**0.01**	**0.18**	**(0.14)**	**0.47**

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

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.

35. 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 April 2020, a former owner of a payment card company brought a case against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 923 million, plus interest, due to an alleged breach of competition rules in the determination of payment card interchange fees. This is the fifth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. The Bank rejects all claims of the plaintiff. At the first hearing of the case the defendants requested security from the plaintiff for the payment of litigation costs. The District Court, by decision of 6 May 2020, dismissed the request for security. On 29 June 2020, the Court of Appeal annulled the decision and ordered the plaintiff to present the requested security.

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 assets at any time. At a hearing of the case in January 2019 before the District Court of Reykjavík the Bank submitted a statement of defence, rejecting all claims. On 24 April 2019 the District Court decided to dismiss all claims against the Bank due to procedural reasons. 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 Pension Fund presented a request for an appointment of an assessor to evaluate certain actuarial matters relating to the calculation of the alleged claims against each of the defendants. The assessment was presented before the Court on 9 January 2020. In March 2020, one of the defendants presented a request for an appointment of an assessor to evaluate certain matters relating to the settlement from 1997. In May 2020, two other defendants presented a similar request. At a hearing of the case on 29 June 2020, the Pension Fund partially objected to the requests and in that regard presented its own request for an appointment of an assessor. The case has been postponed until the fall of 2020.

In March 2019, an Irish company commenced litigation before a German court claiming payment in the amount of around EUR 3,9 million (around ISK 630 million) plus interest due to alleged damages that the Irish company maintains that the Bank caused the company in connection with the insolvency of a German company. The Irish company maintains that loans provided by Landsbanki Íslands in 2005 to a group of companies including the German company and in 2014 by Landsbankinn to the German company caused the insolvency of the German company, and that the Bank, in order to strengthen the position of the Bank, opposed the representatives of the German company to file for bankruptcy in 2013. The Irish company maintains that the Bank thereby caused other lenders of the German company, including the Irish company, to suffer damages. From the initiation of the litigation the case has been postponed while the parties have endeavoured to reach a settlement. Currently, it is considered unlikely that a settlement will be reached. It is therefore probable that litigation procedures will commence in the coming months. The Bank rejects all claims presented by the plaintiff.

All amounts are in ISK million

35. Litigation (continued)

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

In January 2017, the Bank commenced proceedings before the Reykjavík District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf. and the then CEO of Borgun hf. The Bank considers the defendants to have been in possession of information about the shareholding of Borgun in Visa Europe Ltd. at the time when the Bank sold its 31.2% shareholding in Borgun hf. that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. The defendants demanded the dismissal of the case which was rejected by a ruling of the District Court in June 2017. That ruling could not be appealed, and the defendants submitted their written defences, responding to the substance of the Bank's pleadings. At the request of the Bank, the District Court of Reykjavík ruled on 10 September 2018 on the appointment of assessors to evaluate certain issues regarding Borgun's Annual Accounts. The Court of Appeal confirmed the ruling on 30 October 2018. The assessors delivered their assessment on 22 October 2019. The assessors conclude, inter alia, that information on the existence of an option to buy and sell holdings of Borgun in Visa Europe Ltd to Visa Inc., the terms of the option and possible payments to Borgun based on the option had been of relevance for the drawing up, presentation and therefore the audit of the Annual Accounts of Borgun for the year 2013. Borgun should have provided information in its Annual Accounts for 2013 on its holding in Visa Europe Ltd. and that Borgun was a principal member of Visa Europe Ltd. Borgun should have informed about the option in the Annual Accounts for 2013 in accordance with the provisions of the international financial reporting standard IFRS 7 and informed about the uncertainty relating to the option in the Report of the Board of Directors in accordance with the Act on Annual Accounts No. 3/2006. Moreover, the assessors conclude that the Annual Accounts of Borgun for the year 2013 did not fulfil all requirements of the Act on Annual Accounts and of international financial reporting standards as approved by the European Union at the time. The Bank presented the assessment to the District Court at a hearing on 9 December 2019. At a hearing on 24 January 2020, Borgun and another defendant presented a request for the appointment of new assessors to review the assessment. On 29 June 2020 the District Court of Reykjavik appointed re-assessors. The re-assessment report shall be completed on 15 October 2020 the latest. The case has been postponed until the report has been completed.

36. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 June 2020 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 36 branches and service points as at 30 June 2020.

Main subsidiaries as at 30 June 2020

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 30 June 2020.

37. 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 42, 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 42, 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:

	2020		2019	
Loans in ISK million	Gross carrying amount as at 30 June	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Key management personnel	357	370	310	387
Parties related to key management personnel	124	167	149	205
Associates	258	271	271	289
Other	20	22	22	113
Total	**759**	**830**	**752**	**994**

No specific allowance for impairment was recognised as at 30 June 2020 in Stage 3 in respect of these loans.

37. Related party transactions (continued)

Transactions with other related parties (continued)

No financial guarantees were given to associates of the Bank during the reporting 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:

	2020		2019	
Deposits in ISK million	**Gross carrying amount as at 30 June**	**Highest amount outstanding during the period**	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the period**
Key management personnel	59	107	79	211
Parties related to key management personnel	73	100	46	105
Associates	253	503	173	483
Other	261	420	183	1,009
Total	**646**	**1,130**	**481**	**1,808**

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

Guarantees in ISK million	**Gross carrying amount as at 30 June 2020**	**Gross carrying amount as at 31 December 2019**
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	-	85
Total	**0**	**85**

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.

38. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Condensed Consolidated Financial Statements for the six months ended 30 June 2020.

Capital management

39. 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 of the Central Bank of Iceland (FSA). 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 FSA in the Supervisory Review and Evaluation Process (SREP). The Group's minimum capital requirement, as determined by the FSA, 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 FSA, 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 FSA, are as follows (as a percentage of REA):

As at 30.6.2020	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	2.87%	2.87%	2.87%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**7.37%**	**7.37%**	**7.37%**
Total capital requirement	**13.8%**	**16.0%**	**18.8%**

On 18.3.2020, the Financial Stability Committee (FSC) decided to reduce the requirement for a 2% countercyclical capital buffer on domestic exposures to 0%. The following timeline shows the effective dates of countercyclical capital buffer requirements on domestic exposures:

	31.12.2019	1.2.2020	19.3.2020
Countercyclical capital buffer on domestic exposures	1.75%	2.00%	0.00%

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

The Group's capital requirements at 31.12.2019, as determined by the FSA, were as follows (as a percentage of REA):

As at 31.12.2019	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	2.87%	2.87%	2.87%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.70%	1.70%	1.70%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**9.07%**	**9.07%**	**9.07%**
Total capital requirement	**15.5%**	**17.7%**	**20.5%**

All amounts are in ISK million

40. 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. Articles 500 and 501 (capital requirements relief for small and medium enterprises) took effect in Iceland on 1.1.2020.

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

Capital base	**30.6.2020**	**31.12.2019**
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	16,290	14,334
Retained earnings	83,902	89,145
Total equity attributable to owners of the Bank	**244,447**	**247,734**
Intangible assets	(2,146)	(2,296)
Deferred tax assets	(677)	(20)
Fair value hedges	(1,136)	(1,327)
Common equity Tier 1 capital (CET1)	**240,488**	**244,091**
Non-controlling interests	-	-
Tier 1 capital	**240,488**	**244,091**
Subordinated liabilities	21,527	19,081
Tier 2 capital	**21,527**	**19,081**
Total capital base	**262,015**	**263,172**
Risk exposure amount (REA)		
Credit risk	941,759	908,249
Market risk	10,583	11,754
Operational risk*	100,394	100,394
Total risk exposure amount	**1,052,736**	**1,020,397**
CET1 ratio	22.8%	23.9%
Tier 1 capital ratio	22.8%	23.9%
Total capital ratio	24.9%	25.8%

*The amounts are updated on a yearly basis.

41. 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	**30.6.2020**	**31.12.2019**
- On-balance sheet exposure (excluding derivatives)	1,499,442	1,423,634
- Derivative instrument exposure	1,668	2,694
- Potential future exposure on derivatives	1,823	1,625
- Off-balance sheet exposure	114,592	125,848
- Regulatory adjustments to Tier 1 capital	(3,959)	(3,643)
Total leverage exposure	**1,613,566**	**1,550,158**
Tier 1 capital	**240,488**	**244,091**
Leverage ratio	**14.9%**	**15.7%**

All amounts are in ISK million

Risk management

Credit risk

42. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure as at 30 June 2020 and 31 December 2019. 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.

				Corporations											
As at 30 June 2020	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction companies**	**Real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	89,598	-	-	-	-	-	-	-	-	-	-	-	**89,598**	**89,598**
Bonds and debt instruments	3	82,445	-	-	-	22	26	-	-	-	-	-	1,135	**83,631**	**104,758**
Equities and equity instruments	51	-	-	74	-	41	16,530	98	1,279	30	53	72	322	**18,550**	**26,794**
Derivative instruments	1,317	-	41	-	124	1	64	45	14	-	-	-	62	**1,668**	**1,668**
Loans and advances to financial institutions	56,394	-	-	-	-	-	-	-	-	-	-	-	-	**56,394**	**56,394**
Loans and advances to customers	-	4,095	504,130	183,564	94,725	130,954	26,375	60,401	126,577	33,258	25,782	8,348	1	**1,198,210**	**1,198,210**
Other assets	13,273	-	91	-	7	2,106	32	-	3,005	928	20	-	1,403	**20,865**	**23,688**
Total on-balance sheet exposure	**71,038**	**176,138**	**504,262**	**183,638**	**94,856**	**133,124**	**43,027**	**60,544**	**130,875**	**34,216**	**25,855**	**8,420**	**2,923**	**1,468,916**	**1,501,110**
Off-balance sheet exposure	**151**	**4,296**	**32,657**	**19,554**	**40,034**	**10,261**	**2,775**	**16,855**	**23,967**	**5,396**	**13,767**	**1,877**	**63**	**171,653**	
Financial guarantees and underwriting commitments	150	48	694	7,247	3,933	1,449	594	3,207	4,658	1,113	1,272	58	35	24,458	
Undrawn loan commitments	-	-	-	10,634	33,800	7,285	1,952	7,638	9,672	2,825	8,987	1,004	-	83,797	
Undrawn overdraft/credit card facilities	1	4,248	31,963	1,673	2,301	1,527	229	6,010	9,637	1,458	3,508	815	28	63,398	
Maximum exposure to credit risk	**71,189**	**180,434**	**536,919**	**203,192**	**134,890**	**143,385**	**45,802**	**77,399**	**154,842**	**39,612**	**39,622**	**10,297**	**2,986**	**1,640,569**	
Percentage of maximum exposure to credit risk	4.3%	11.0%	32.7%	12.4%	8.2%	8.7%	2.8%	4.7%	9.4%	2.4%	2.4%	0.6%	0.2%	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.

All amounts are in ISK million

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

				Corporations											
As at 31 December 2019	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction companies**	**Real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	69,824	-	-	-		-	-	-	-	-	-	-	**69,824**	**69,824**
Bonds and debt instruments	132	86,633	-	-	-	59	-	18	28	-	-	-	617	**87,487**	**115,262**
Equities and equity instruments	1	-	-	32	-	-	15,508	1	1,449	-	-	49	399	**17,439**	**30,019**
Derivative instruments	2,202	-	9	-	-	12	363	5	-	-	-	-	103	**2,694**	**2,694**
Loans and advances to financial institutions	47,929	-	-	-	-	-	-	-	-	-	-	-	-	**47,929**	**47,929**
Loans and advances to customers	-	4,135	467,945	151,336	98,536	136,000	26,154	60,525	133,326	32,943	20,365	8,918	1	**1,140,184**	**1,140,184**
Other assets	11,120	26	76	-	22	2,342	30	2	2,549	904	4	-	1,045	**18,120**	**20,416**
Total on-balance sheet exposure	**61,384**	**160,618**	**468,030**	**151,368**	**98,558**	**138,413**	**42,055**	**60,551**	**137,352**	**33,847**	**20,369**	**8,967**	**2,165**	**1,383,677**	**1,426,328**
Off-balance sheet exposure	**3,598**	**5,051**	**33,553**	**16,594**	**53,174**	**11,059**	**1,655**	**19,691**	**14,711**	**5,618**	**17,819**	**912**	**42**	**183,477**	
Financial guarantees and underwriting commitments	306	168	775	6,999	4,105	1,364	1,026	2,855	3,822	1,912	558	42	35	23,967	
Undrawn loan commitments	-	-	-	7,495	46,655	8,163	328	11,655	4,831	2,359	13,751	241	-	95,478	
Undrawn overdraft/credit card facilities	3,292	4,883	32,778	2,100	2,414	1,532	301	5,181	6,058	1,347	3,510	629	7	64,032	
Maximum exposure to credit risk	**64,982**	**165,669**	**501,583**	**167,962**	**151,732**	**149,472**	**43,710**	**80,242**	**152,063**	**39,465**	**38,188**	**9,879**	**2,207**	**1,567,154**	
Percentage of maximum exposure to credit risk	4.1%	10.6%	32.0%	10.7%	9.7%	9.5%	2.8%	5.1%	9.7%	2.5%	2.4%	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.

All amounts are in ISK million

43. 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.

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 30 June 2020	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*	Without collateral	Allowance for impairment	Carrying amount
Financial institutions	-	-	-	-	0	-	-	56,394	-	56,394
Public entities	30	135	139	35	339	39	5	3,751	(34)	4,095
Individuals	**34,230**	**116,340**	**285,089**	**33,150**	**468,809**	**4,912**	**2,918**	**32,833**	**(2,424)**	**504,130**
Mortgages	26,049	106,428	268,675	24,922	426,074	1,946	971	3,064	(1,188)	429,896
Other	8,181	9,912	16,414	8,228	42,735	2,966	1,947	29,769	(1,236)	74,234
Corporates	**21,605**	**108,524**	**275,259**	**161,009**	**566,397**	**111,313**	**83,983**	**37,110**	**(24,835)**	**689,985**
Fisheries	10,626	19,279	109,446	41,731	181,082	1,742	1,235	2,073	(1,333)	183,564
Construction companies	999	3,488	18,183	34,405	57,075	39,395	32,005	2,161	(3,906)	94,725
Real estate companies	2,117	11,505	72,467	22,668	108,757	20,597	14,381	5,811	(4,211)	130,954
Holding companies	1,571	17,992	5,361	154	25,078	966	816	695	(364)	26,375
Retail	2,126	24,212	16,072	8,902	51,312	8,278	5,679	2,322	(1,511)	60,401
Services	2,465	18,538	37,385	44,151	102,539	27,408	21,904	7,278	(10,648)	126,577
Information, technology and communication	61	9,562	2,003	40	11,666	10,910	6,715	10,869	(187)	33,258
Manufacturing	749	2,400	11,812	6,438	21,399	1,141	662	5,763	(2,521)	25,782
Agriculture	891	1,548	2,530	2,520	7,489	876	586	137	(154)	8,348
Other	-	-	-	-	0	-	-	1	-	1
Total	**55,865**	**224,999**	**560,487**	**194,194**	**1,035,545**	**116,264**	**86,906**	**130,088**	**(27,293)**	**1,254,604**

*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.

All amounts are in ISK million

43. Collateral and loan-to-value (continued)

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2019	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*	Without collateral	Allowance for impairment	Carrying amount
Financial institutions	-	-	-	-	0	-	-	47,930	(1)	47,929
Public entities	49	28	141	36	254	41	5	3,875	(35)	4,135
Individuals	36,333	112,769	256,069	29,480	434,651	3,507	2,269	31,938	(2,151)	467,945
Mortgages	25,753	103,192	241,093	21,113	391,151	892	425	710	(848)	391,905
Other	10,580	9,577	14,976	8,367	43,500	2,615	1,844	31,228	(1,303)	76,040
Corporates	23,353	157,567	199,288	148,550	528,758	118,000	96,635	34,043	(12,697)	668,104
Fisheries	9,844	51,195	54,453	32,012	147,504	4,011	3,188	277	(456)	151,336
Construction companies	1,010	6,488	10,079	32,391	49,968	48,487	44,404	1,758	(1,677)	98,536
Real estate companies	2,025	23,980	60,917	24,723	111,645	21,322	18,316	5,207	(2,174)	136,000
Holding companies	3,433	20,695	323	349	24,800	756	552	727	(129)	26,154
Retail	2,252	25,483	12,119	11,469	51,323	7,957	5,586	2,194	(949)	60,525
Services	3,300	17,536	50,803	37,670	109,309	21,478	17,413	7,323	(4,784)	133,326
Information, technology and communication	56	8,703	2,049	59	10,867	11,800	5,792	10,397	(121)	32,943
Manufacturing	645	2,176	5,637	7,013	15,471	1,228	819	5,961	(2,295)	20,365
Agriculture	788	1,311	2,908	2,864	7,871	961	565	198	(112)	8,918
Other	-	-	-	-	-	-	-	1	-	1
Total	59,735	270,364	455,498	178,066	963,663	121,548	98,909	117,786	(14,884)	1,188,113

*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.

All amounts are in ISK million

44. 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 June 2020	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**305**	**-**	**1**	**-**	**37**	**343**
Individuals	**453,143**	**91**	**129**	**2,599**	**15,525**	**471,487**
Mortgages	422,486	12	70	27	4,240	426,835
Other	30,657	79	59	2,572	11,285	44,652
Corporates	**346,918**	**135,746**	**1,540**	**71,399**	**94,776**	**650,379**
Fisheries	9,651	133,852	88	24,321	14,404	182,316
Construction companies	85,339	8	657	121	2,954	89,079
Real estate companies	120,917	48	298	211	1,665	123,139
Holding companies	1,466	-	188	24,233	7	25,894
Retail	24,225	67	31	11,220	21,449	56,992
Services	86,071	1,769	223	495	35,884	124,442
Information, technology and communication	2,048	-	10	10,778	5,545	18,381
Manufacturing	10,841	2	31	20	11,167	22,061
Agriculture	6,360	-	14	-	1,701	8,075
Other	-	-	-	-	-	-
Total	**800,366**	**135,837**	**1,670**	**73,998**	**110,338**	**1,122,209**

As at 31 December 2019	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**218**	**-**	**1**	**-**	**38**	**257**
Individuals	**418,218**	**82**	**74**	**2,691**	**15,598**	**436,663**
Mortgages	387,130	11	23	26	4,157	391,347
Other	31,088	71	51	2,665	11,441	45,316
Corporates	**363,815**	**107,729**	**1,560**	**65,867**	**86,419**	**625,390**
Fisheries	9,956	106,024	29	21,236	13,445	150,690
Construction companies	89,978	39	1,037	85	3,233	94,372
Real estate companies	128,840	21	110	217	772	129,960
Holding companies	1,156	-	-	24,001	196	25,353
Retail	29,612	-	25	7,664	19,607	56,908
Services	84,959	1,643	308	3,322	36,491	126,723
Information, technology and communication	1,966	-	16	9,328	5,348	16,658
Manufacturing	11,273	2	31	14	4,969	16,289
Agriculture	6,075	-	4	-	2,358	8,437
Other	-	-	-	-	-	-
Total	**782,251**	**107,811**	**1,635**	**68,558**	**102,055**	**1,062,310**

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

All amounts are in ISK million

45. Credit quality of loans and advances

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

	Gross carrying amount						
As at 30 June 2020	10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**56,352**	**0**	**-**	**-**	**42**	**0**	**56,394**
Public entities	**223**	**3,906**	**-**	**-**	**-**	**(34)**	**4,095**
Individuals	**263,858**	**211,130**	**25,685**	**5,858**	**23**	**(2,424)**	**504,130**
Mortgages	238,740	171,008	17,560	3,776	-	(1,188)	429,896
Other	25,118	40,122	8,125	2,082	23	(1,236)	74,234
Corporations	**68,422**	**498,477**	**115,648**	**31,962**	**311**	**(24,835)**	**689,985**
Fisheries	30,198	147,842	6,217	640	-	(1,333)	183,564
Construction companies	609	63,410	30,233	4,359	20	(3,906)	94,725
Real estate companies	1,464	117,396	11,184	5,063	58	(4,211)	130,954
Holding companies	62	23,850	2,601	88	138	(364)	26,375
Retail	23,035	30,463	6,800	1,614	-	(1,511)	60,401
Services	3,786	61,730	56,818	14,809	82	(10,648)	126,577
Information, technology and communication	234	32,903	166	142	-	(187)	33,258
Manufacturing	7,701	14,638	1,081	4,870	13	(2,521)	25,782
Agriculture	1,333	6,244	548	377	-	(154)	8,348
Other	-	1	-	-	-	-	1
Total	**388,855**	**713,513**	**141,333**	**37,820**	**376**	**(27,293)**	**1,254,604**

	Gross carrying amount						
As at 31 December 2019	10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**47,923**	**7**	**-**	**-**	**-**	**(1)**	**47,929**
Public entities	**245**	**3,925**	**-**	**-**	**-**	**(35)**	**4,135**
Individuals	**236,273**	**201,184**	**27,122**	**5,497**	**20**	**(2,151)**	**467,945**
Mortgages	211,262	159,730	18,491	3,270	-	(848)	391,905
Other	25,011	41,454	8,631	2,227	20	(1,303)	76,040
Corporates	**54,655**	**541,538**	**56,043**	**28,510**	**55**	**(12,697)**	**668,104**
Fisheries	5,814	140,476	4,904	598	-	(456)	151,336
Construction companies	598	82,251	14,921	2,443	-	(1,677)	98,536
Real estate companies	982	122,167	10,029	4,942	54	(2,174)	136,000
Holding companies	164	20,023	6,018	78	-	(129)	26,154
Retail	23,654	30,399	5,415	2,006	-	(949)	60,525
Services	14,087	97,949	13,036	13,037	1	(4,784)	133,326
Information, technology and communication	344	32,433	247	40	-	(121)	32,943
Manufacturing	7,676	8,994	986	5,004	-	(2,295)	20,365
Agriculture	1,336	6,846	486	362	-	(112)	8,918
Other	-	-	1	-	-	-	1
Total	**339,096**	**746,654**	**83,165**	**34,007**	**75**	**(14,884)**	**1,188,113**

All amounts are in ISK million

46. 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							
		Days past due						
As at 30 June 2020	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**56,394**	-	-	-	-	-	-	**56,394**
Public entities	**4,117**	-	**12**	-	-	-	**(34)**	**4,095**
Individuals	**495,332**	**3,075**	**3,567**	**513**	**1,433**	**2,634**	**(2,424)**	**504,130**
Mortgages	425,920	-	2,413	268	1,001	1,482	(1,188)	429,896
Other	69,412	3,075	1,154	245	432	1,152	(1,236)	74,234
Corporates	**685,844**	**1,994**	**6,498**	**1,740**	**3,663**	**15,081**	**(24,835)**	**689,985**
Fisheries	184,220	160	31	88	-	398	(1,333)	183,564
Construction companies	94,435	320	2,506	32	608	730	(3,906)	94,725
Real estate companies	130,738	142	1,232	380	450	2,223	(4,211)	130,954
Holding companies	26,408	210	117	-	-	4	(364)	26,375
Retail	59,860	416	690	99	93	754	(1,511)	60,401
Services	125,068	629	1,795	1,102	2,137	6,494	(10,648)	126,577
Information, technology and communication	33,355	42	7	-	2	39	(187)	33,258
Manufacturing	23,398	62	85	22	367	4,369	(2,521)	25,782
Agriculture	8,361	13	35	17	6	70	(154)	8,348
Other	1	-	-	-	-	-	-	1
Total	**1,241,687**	**5,069**	**10,077**	**2,253**	**5,096**	**17,715**	**(27,293)**	**1,254,604**

	Gross carrying amount							
		Days past due						
As at 31 December 2019	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**47,930**	-	-	-	-	-	**(1)**	**47,929**
Public entities	**4,120**	**50**	-	-	-	-	**(35)**	**4,135**
Individuals	**457,047**	**2,662**	**2,344**	**4,175**	**1,134**	**2,734**	**(2,151)**	**467,945**
Mortgages	385,776	-	1,593	3,126	824	1,434	(848)	391,905
Other	71,271	2,662	751	1,049	310	1,300	(1,303)	76,040
Corporations	**652,881**	**4,413**	**5,195**	**4,269**	**2,504**	**11,539**	**(12,697)**	**668,104**
Fisheries	151,055	234	83	65	4	351	(456)	151,336
Construction companies	98,426	293	214	427	90	763	(1,677)	98,536
Real estate companies	131,356	172	2,850	1,856	401	1,539	(2,174)	136,000
Holding companies	26,242	9	9	17	3	3	(129)	26,154
Retail	59,672	684	467	67	72	512	(949)	60,525
Services	126,640	2,675	1,455	1,680	1,877	3,783	(4,784)	133,326
Information, technology and communication	32,836	57	64	61	8	38	(121)	32,943
Manufacturing	17,779	242	49	90	34	4,466	(2,295)	20,365
Agriculture	8,875	46	4	6	15	84	(112)	8,918
Other	-	1	-	-	-	-	-	1
Total	**1,161,978**	**7,125**	**7,539**	**8,444**	**3,638**	**14,273**	**(14,884)**	**1,188,113**

All amounts are in ISK million

47. 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.

As at 30 June 2020	Gross carrying amount	Stage 1 Gross carrying amount	Stage 1 12-month ECL	Stage 2 Gross carrying amount	Stage 2 Lifetime ECL	Stage 3 Gross carrying amount	Stage 3 Lifetime ECL	Allowance for impairment	Fair value	Carrying amount
Financial institutions	**56,394**	**56,394**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,394**
Public entities	**4,129**	**3,940**	**(32)**	**189**	**(2)**	**-**	**-**	**(34)**	**-**	**4,095**
Individuals	**506,554**	**467,859**	**(432)**	**32,837**	**(852)**	**5,858**	**(1,140)**	**(2,424)**	**0**	**504,130**
Mortgages	431,084	405,551	(230)	21,757	(562)	3,776	(396)	(1,188)	-	429,896
Other	75,470	62,308	(202)	11,080	(290)	2,082	(744)	(1,236)	-	74,234
Corporates	**714,820**	**531,005**	**(5,036)**	**139,617**	**(7,602)**	**31,901**	**(12,197)**	**(24,835)**	**12,297**	**689,985**
Fisheries	184,897	168,629	(956)	13,012	(215)	640	(162)	(1,333)	2,616	183,564
Construction companies	98,631	77,037	(1,501)	17,235	(1,244)	4,359	(1,161)	(3,906)	-	94,725
Real estate companies	135,165	107,407	(1,157)	22,695	(1,176)	5,063	(1,878)	(4,211)	-	130,954
Holding companies	26,739	25,687	(297)	964	(58)	88	(9)	(364)	-	26,375
Retail	61,912	50,886	(347)	7,376	(478)	1,614	(686)	(1,511)	2,036	60,401
Services	137,225	47,258	(594)	75,158	(4,386)	14,748	(5,668)	(10,648)	61	126,577
Information, technology and communication	33,445	25,604	(122)	115	(2)	142	(63)	(187)	7,584	33,258
Manufacturing	28,303	22,422	(42)	1,011	(14)	4,870	(2,465)	(2,521)	-	25,782
Agriculture	8,502	6,074	(20)	2,051	(29)	377	(105)	(154)	-	8,348
Other	1	1	-	-	-	-	-	-	-	1
Total	**1,281,897**	**1,059,198**	**(5,500)**	**172,643**	**(8,456)**	**37,759**	**(13,337)**	**(27,293)**	**12,297**	**1,254,604**

All amounts are in ISK million

47. Loans and advances by stage allocation (continued)

As at 31 December 2019	Gross carrying amount	Stage 1 Gross carrying amount	Stage 1 12-month ECL	Stage 2 Gross carrying amount	Stage 2 Lifetime ECL	Stage 3 Gross carrying amount	Stage 3 Lifetime ECL	Allowance for impairment	Fair value	Carrying amount
Financial institutions	**47,930**	**47,929**	**(1)**	**1**	**-**	**-**	**-**	**(1)**	**-**	**47,929**
Public entities	**4,170**	**4,058**	**(34)**	**112**	**(1)**	**-**	**-**	**(35)**	**-**	**4,135**
Individuals	**470,096**	**429,012**	**(370)**	**35,587**	**(584)**	**5,497**	**(1,197)**	**(2,151)**	**0**	**467,945**
Mortgages	392,753	364,991	(171)	24,492	(329)	3,270	(348)	(848)	-	391,905
Other	77,343	64,021	(199)	11,095	(255)	2,227	(849)	(1,303)	-	76,040
Corporates	**680,801**	**572,853**	**(1,986)**	**64,759**	**(1,393)**	**28,510**	**(9,318)**	**(12,697)**	**14,679**	**668,104**
Fisheries	151,792	143,576	(236)	4,959	(85)	598	(135)	(456)	2,659	151,336
Construction companies	100,213	78,562	(548)	19,208	(302)	2,443	(827)	(1,677)	-	98,536
Real estate companies	138,174	120,626	(497)	12,606	(346)	4,942	(1,331)	(2,174)	-	136,000
Holding companies	26,283	24,277	(105)	1,928	(15)	78	(9)	(129)	-	26,154
Retail	61,474	52,414	(101)	4,870	(133)	2,006	(715)	(949)	2,184	60,525
Services	138,110	107,737	(369)	15,538	(434)	13,037	(3,981)	(4,784)	1,798	133,326
Information, technology and communication	33,064	24,716	(96)	270	(4)	40	(21)	(121)	8,038	32,943
Manufacturing	22,660	15,260	(21)	2,396	(50)	5,004	(2,224)	(2,295)	-	20,365
Agriculture	9,030	5,685	(13)	2,983	(24)	362	(75)	(112)	-	8,918
Other	1	-	-	1	-	-	-	-	-	1
Total	**1,202,997**	**1,053,852**	**(2,391)**	**100,459**	**(1,978)**	**34,007**	**(10,515)**	**(14,884)**	**14,679**	**1,188,113**

All amounts are in ISK million

48. 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 Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2020 - Financial institutions	**(1)**	**(5)**	**0**	**(6)**
Changes in models/risk parameters	-	4	-	4
Balance as at 30 June 2020 - Financial institutions	**(1)**	**(1)**	**0**	**(2)**
- therof classified as deduction from gross carrying amounts	-	-	-	0
- therof classified as liabilities	(1)	(1)	-	(2)

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2020 - Loans and advances to customers	**(2,580)**	**(2,028)**	**(10,624)**	**(15,232)**
New financial assets originated	(2,250)	(1,328)	(1,606)	(5,184)
Reversals due to financial assets that have been derecognised	645	309	917	1,871
Transfer to Stage 1 - 12-month ECL	(156)	121	35	0
Transfer to Stage 2 - Lifetime ECL	4,885	(4,953)	68	0
Transfer to Stage 3 - Lifetime ECL	578	531	(1,109)	0
Changes in models/risk parameters	(7,129)	(1,625)	(1,538)	(10,292)
Provisions used to cover write-offs	10	3	412	425
Balance as at 30 June 2020 - Loans and advances to customers	**(5,997)**	**(8,970)**	**(13,445)**	**(28,412)**
- therof classified as deduction from gross carrying amounts	(5,500)	(8,456)	(13,337)	(27,293)
- therof classified as liabilities	(497)	(514)	(108)	(1,119)

	1.1-30.6.2020				
	Financial institutions	**Public entities**	**Individuals**	**Corporates**	**Total**
New financial assets originated	-	-	(224)	(4,960)	(5,184)
Reversals due to financial assets that have been derecognised	-	3	214	1,654	1,871
Changes due to financial assets recognised in the opening balance	5	(1)	(452)	(9,840)	(10,288)
Write-offs	-	-	(353)	(393)	(746)
Provisions used to cover write-offs	-	-	194	231	425
Recoveries	-	-	81	17	98
Translation difference	-	-	1	403	404
Net impairment on loans and advances	**5**	**2**	**(539)**	**(12,888)**	**(13,420)**

All amounts are in ISK million

48. 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 2019.

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Restated balance as at 1 January 2019 - Financial institutions	**(2)**	**(5)**	**0**	**(7)**
Changes in models/risk parameters	1	-	-	1
Balance as at 31 December 2019 - Financial institutions	**(1)**	**(5)**	**0**	**(6)**
- therof classified as deduction from gross carrying amounts	(1)	-	-	(1)
- therof classified as liabilities	-	(5)	-	(5)

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Restated balance as at 1 January 2019 - Loans and advances to customers	**(2,552)**	**(1,230)**	**(9,345)**	**(13,127)**
New financial assets originated	(1,084)	(497)	(2,445)	(4,026)
Reversals due to financial assets that have been derecognised	854	267	1,850	2,971
Changes due to reclassification of financial assets	7	-	-	7
Transfer to Stage 1 - 12-month ECL	(91)	83	8	0
Transfer to Stage 2 - Lifetime ECL	920	(937)	17	0
Transfer to Stage 3 - Lifetime ECL	1,230	928	(2,158)	0
Changes in models/risk parameters	(1,884)	(658)	(529)	(3,071)
Provisions used to cover write-offs	20	16	1,978	2,014
Balance as at 31 December 2019 - Loans and advances to customers	**(2,580)**	**(2,028)**	**(10,624)**	**(15,232)**
- therof classified as deduction from gross carrying amounts	(2,390)	(1,978)	(10,515)	(14,883)
- therof classified as liabilities	(190)	(50)	(109)	(349)

	1.1-31.12.2019				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	(1)	(338)	(3,687)	(4,026)
Reversals due to financial assets that have been derecognised	-	1	405	2,565	2,971
Changes due to reclassification of financial assets	-	-	-	7	7
Changes due to financial assets recognised in the opening balance	1	105	(317)	(2,859)	(3,070)
Write-offs	-	-	(787)	(2,772)	(3,559)
Provisions used to cover write-offs	-	-	436	1,578	2,014
Recoveries	-	-	478	265	743
Translation difference	-	-	1	65	66
Net impairment on loans and advances	**1**	**105**	**(122)**	**(4,838)**	**(4,854)**

49. Large exposures

As at 30 June 2020, 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:

As at 30 June 2020	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's eligible capital	3	107,192
Large exposures between 0% and 10% of the Group's eligible capital	2	-
Total	**5**	**107,192**
Total ratio of large exposures to eligible capital		41%
As at 31 December 2019		
Large exposures between 10% and 20% of the Group's eligible capital	3	100,057
Large exposures between 0% and 10% of the Group's eligible capital	2	-
Total	**5**	**100,057**
Total ratio of large exposures to eligible capital		38%

All amounts are in ISK million

50. 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	30.6.2020	31.12.2019
Rated AAA	23,340	34,079
Rated AA- to AA+	27,653	48,241
Rated A- to A+	32,053	9,241
Rated BBB+ and below	741	3,355
	83,787	**94,916**
Corporate bonds		
Rated A- to A+	3,615	1,488
Rated BBB- to BBB+	4,645	4,152
Rated BB+ and below	-	322
Unrated	2,985	3,049
	11,245	**9,011**
Asset-backed securities		
Rated BBB- to BBB+	9,726	11,335
	9,726	**11,335**
Total	**104,758**	**115,262**

51. Offsetting financial assets and financial liabilities

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

As at 30 June 2020

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

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	**Financial assets**	**Financial liabilities**	**Net amount**	**Financial liabilities**	**Collateral received**	**Net financial assets subject to netting agreements**	**Financial assets not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	1,668	-	1,668	(104)	(1,482)	81	-	1,668

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

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	**Financial liabilities**	**Financial assets**	**Net amount**	**Financial assets**	**Collateral pledged**	**Net financial liabilities subject to netting agreements**	**Financial liabilities not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	(3,372)	-	(3,372)	(104)	2,762	(714)	-	(3,372)
Short positions	(2,355)	-	(2,355)	-	2,355	-	-	(2,355)
Total	**(5,727)**	**0**	**(5,727)**	**(104)**	**5,117**	**(714)**	**0**	**(5,727)**

All amounts are in ISK million

51. Offsetting financial assets and financial liabilities (continued)

As at 31 December 2019

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

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received	Net financial assets subject to netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
Derivatives	2,694	-	2,694	(499)	(2,088)	107	-	2,694

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

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged	Net financial liabilities subject to netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
Derivatives	(3,309)	-	(3,309)	(499)	1,827	(1,981)	-	(3,309)
Short positions	(2,081)	-	(2,081)	-	2,081	-	-	(2,081)
Total	**(5,390)**	**0**	**(5,390)**	**(499)**	**3,908**	**(1,981)**	**0**	**(5,390)**

Liquidity risk

52. 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. The Central Bank of Iceland made changes to rules No. 266/2017 in December 2019, implementing a minimum requirement for liquidity ratio in Icelandic króna. The implementation of the new minimum requirement is according to a schedule set forth by the Central Bank which requires the Bank to have a minimum LCR-ISK of 30% as of 1 January 2020, 40% as of 1 January 2021 and 50% as of 1 January 2022. 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 FSA.

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, zero percent risk-weighted foreign government bonds and other assets that fulfill the requirements of liquid assets according to rules No. 266/2017 . Estimated inflow and outflow weights, according to rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 30 June 2020 and 31 December 2019 are shown in the following table:

	Total		Foreign currencies		ISK	
Liquidity coverage ratio 30 June 2020	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	168,380	168,380	53,163	53,163	115,216	115,216
Level 2 liquid assets	4,989	4,240	4,989	4,240	-	-
Information items	14,767	-	183	-	14,584	-
Total liquid assets	**188,136**	**172,620**	**58,335**	**57,403**	**129,800**	**115,216**
Deposits	573,138	144,354	106,210	44,680	466,928	99,674
Borrowing	166	166	166	166	-	-
Other outflows	118,303	15,297	33,896	3,382	84,407	11,915
Total outflows (0-30 days)	**691,607**	**159,817**	**140,272**	**48,228**	**551,335**	**111,589**
Loans and advances to financial institutions	68,238	55,256	56,361	55,256	11,876	-
Other inflows	28,820	13,998	5,505	3,087	23,315	10,911
Limit on inflows	-	-	-	(22,171)	-	-
Total inflows (0-30 days)	**97,058**	**69,254**	**61,866**	**36,172**	**35,191**	**10,911**
Liquidity coverage ratio		**191%**		**476%**		**114%**

All amounts are in ISK million

52. Liquidity risk management (continued)

	Total		Foreign currencies		ISK	
Liquidity coverage ratio 31 December 2019	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	141,172	141,172	83,846	83,846	57,327	57,327
Level 2 liquid assets	5,048	4,156	4,148	3,526	900	630
Information items	22,211	-	2,476	-	19,734	-
Total liquid assets	**168,431**	**145,328**	**90,470**	**87,372**	**77,961**	**57,957**
Deposits	523,236	136,855	96,026	42,320	427,210	94,535
Borrowing	165	165	165	165	-	-
Other outflows	129,015	17,459	33,158	2,973	95,857	14,486
Total outflows (0-30 days)	**652,416**	**154,479**	**129,349**	**45,458**	**523,067**	**109,021**
Loans and advances to financial institutions	57,584	46,767	47,825	46,767	9,759	-
Other inflows	37,177	17,187	6,831	3,773	30,346	13,414
Limit on inflows	-	-	-	(16,447)	-	-
Total inflows (0-30 days)	**94,761**	**63,954**	**54,656**	**34,093**	**40,105**	**13,414**
Liquidity coverage ratio		**161%**		**769%**		**61%**

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

Liquidity reserves as at 30 June 2020	**Total**	**Foreign currencies**	**ISK**
Cash and balances with the Central Bank	81,100	2,186	78,914
Domestic bonds and debt instruments eligible as collateral at the Central Bank	41,292	4,989	36,302
Foreign government bonds with 0% risk weight	50,977	50,977	-
High quality liquidity assets	**173,369**	**58,152**	**115,216**
Loans and advances to financial institutions	68,238	56,361	11,876
Total liquidity reserves	**241,607**	**114,513**	**127,092**

Liquidity reserves as at 31 December 2019	**Total**	**Foreign currencies**	**ISK**
Cash and balances with the Central Bank	44,235	1,525	42,710
Domestic bonds and debt instruments eligible as collateral at the Central Bank	19,665	4,148	15,517
Foreign government bonds with 0% risk weight	82,320	82,320	-
High quality liquidity assets	**146,220**	**87,993**	**58,227**
Loans and advances to financial institutions	57,584	47,825	9,759
Total liquidity reserves	**203,804**	**135,818**	**67,986**

The Group measures the net stable funding ratio (NSFR) as another key indicator of liquidity risk up to 12 months. The following table shows the values of the NSFR for foreign currencies and NSFR total as at 30 June 2020 and 31 December 2019:

	As at 30 June 2020	**As at 31 December 2019**
Net stable funding ratio FX	121%	143%
Net stable funding ratio total	117%	117%

53. Encumbered assets

The following tables show the Group's total encumbered and unencumbered assets as at 30 June 2020 and 31 December 2019.

	Collateral pledged against			
As at 30 June 2020	**Covered bonds**	**Other***	**Un-encumbered**	**Total**
Cash and balances with Central Bank	6,516	8,500	74,582	89,598
Bonds and debt instruments	-	-	104,758	104,758
Equities and equity instruments	-	-	26,794	26,794
Derivative instruments	-	-	1,668	1,668
Loans and advances to financial institutions	-	1,059	55,335	56,394
Loans and advances to customers	205,049	-	993,161	1,198,210
Investments in equity-accounted associates	-	-	1,507	1,507
Property and equipment	-	-	7,856	7,856
Intangible assets	-	-	2,146	2,146
Deferred tax assets	-	-	677	677
Other assets	-	-	10,059	10,059
Assets classified as held for sale	-	-	1,443	1,443
Total	**211,565**	**9,559**	**1,279,986**	**1,501,110**

All amounts are in ISK million

53. Encumbered assets (continued)

As at 31 December 2019	Collateral pledged against: Covered bonds	Collateral pledged against: Other*	Un-encumbered	Total
Cash and balances with Central Bank	2,152	9,956	57,716	69,824
Bonds and debt instruments	-	-	115,262	115,262
Equities and equity instruments	-	-	30,019	30,019
Derivative instruments	-	-	2,694	2,694
Loans and advances to financial institutions	-	1,039	46,890	47,929
Loans and advances to customers	177,933	-	962,251	1,140,184
Investments in equity-accounted associates	-	-	1,471	1,471
Property and equipment	-	-	6,743	6,743
Intangible assets	-	-	2,296	2,296
Deferred tax assets	-	-	20	20
Other assets	-	-	8,864	8,864
Assets classified as held for sale	-	-	1,022	1,022
Total	**180,085**	**10,995**	**1,235,248**	**1,426,328**

*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

54. Market risk management

The following table summarises the Group's exposure to market risk as a percentage of risk exposure amount (REA) as at 30 June 2020 and 31 December 2019. The Group uses the standardized approach to calculate risk exposure amounts of derivatives for credit valuation adjustment (CVA) according to capital requirement regulations.

Market risk factor	30.6.2020 % of REA	31.12.2019 % of REA
Equity price risk	0.4%	0.4%
Interest rate risk	0.3%	0.4%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.2%	0.4%
Total	**1.0%**	**1.2%**

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 58-59.

55. 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.

All amounts are in ISK million

56. 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 June 2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	89,598	-	-	-	89,598
Bonds and debt instruments	55,119	29,634	13,971	6,034	104,758
Derivative instruments	1,668	-	-	-	1,668
Loans and advances to financial institutions	56,394	-	-	-	56,394
Loans and advances to customers	930,161	123,818	115,052	29,179	1,198,210
Other financial assets	8,657	-	-	-	8,657
Total	**1,141,597**	**153,452**	**129,023**	**35,213**	**1,459,285**
Financial liabilities					
Due to financial institutions and Central Bank	(37,226)	-	-	-	(37,226)
Deposits from customers	(751,008)	(4,755)	(3,027)	-	(758,790)
Derivative instruments and short positions	(3,372)	-	-	(2,355)	(5,727)
Borrowings	(49,197)	(52,853)	(232,944)	(73,103)	(408,097)
Other financial liabilities	(13,144)	-	-	-	(13,144)
Subordinated liabilities	-	-	(15,825)	(5,702)	(21,527)
Total	**(853,947)**	**(57,608)**	**(251,796)**	**(81,160)**	**(1,244,511)**
Net on-balance sheet position	287,650	95,844	(122,773)	(45,947)	214,774
Derivatives held for hedging	(93,240)	0	93,240	0	
Net off-balance sheet position	14,733	11,767	(24,500)	(2,000)	
Total interest repricing gap	**209,143**	**107,611**	**(54,033)**	**(47,947)**	

As at 31 December 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	69,824	-	-	-	69,824
Bonds and debt instruments	52,477	36,344	15,450	10,991	115,262
Derivative instruments	2,694	-	-	-	2,694
Loans and advances to financial institutions	47,929	-	-	-	47,929
Loans and advances to customers	857,054	116,140	133,234	33,756	1,140,184
Other financial assets	7,819	-	-	-	7,819
Total	**1,037,797**	**152,484**	**148,684**	**44,747**	**1,383,712**
Financial liabilities					
Due to financial institutions and Central Bank	(48,062)	-	-	-	(48,062)
Deposits from customers	(699,961)	(5,092)	(2,760)	-	(707,813)
Derivative instruments and short positions	(3,309)	-	-	(2,081)	(5,390)
Borrowings	(56,438)	(24,643)	(236,930)	(55,157)	(373,168)
Other financial liabilities	(7,118)	-	-	-	(7,118)
Subordinated liabilities	-	-	(13,613)	(5,468)	(19,081)
Total	**(814,888)**	**(29,735)**	**(253,303)**	**(62,706)**	**(1,160,632)**
Net on-balance sheet position	222,909	122,749	(104,619)	(17,959)	223,080
Derivatives held for hedging	(85,357)	3,877	81,480	0	
Net off-balance sheet position	16,143	10,192	(24,335)	(2,000)	
Total interest repricing gap	**153,695**	**136,818**	**(47,474)**	**(19,959)**	

All amounts are in ISK million

57. 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 summarizes the Group's CPI imbalance, where CPI-linked financial assets and liabilities are calculated at their carrying amounts and categorised at maturity date, as at 30 June 2020 and 31 December 2019.

As at 30 June 2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	2,563	4,314	5,020	11,897
Loans and advances to customers	3,629	12,615	71,013	301,310	388,567
Total	**3,629**	**15,178**	**75,327**	**306,330**	**400,464**
Financial liabilities					
Deposits from customers	(67,939)	(2,918)	(11,128)	(36,034)	(118,019)
Derivative instruments and short positions	-	-	-	(1,926)	(1,926)
Borrowings	-	-	(65,343)	(66,088)	(131,431)
Subordinated liabilities	-	-	-	(5,702)	(5,702)
Total	**(67,939)**	**(2,918)**	**(76,471)**	**(109,750)**	**(257,078)**
Total on-balance sheet position	**(64,310)**	**12,260**	**(1,144)**	**196,580**	**143,386**
Off-balance sheet position					
Interest rate swaps	-	-	(27,219)	(2,436)	(29,655)
Total return swaps	(8,582)	-	-	-	(8,582)
Total off-balance sheet position	**(8,582)**	**0**	**(27,219)**	**(2,436)**	**(38,237)**
Total CPI indexation balance	**(72,892)**	**12,260**	**(28,363)**	**194,144**	**105,149**

As at 31 December 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	1	5,531	8,760	14,292
Loans and advances to customers	4,956	11,451	69,661	315,875	401,943
Total	**4,956**	**11,452**	**75,192**	**324,635**	**416,235**
Financial liabilities					
Deposits from customers	(71,093)	(2,486)	(11,418)	(35,809)	(120,806)
Derivative instruments and short positions	-	-	-	(939)	(939)
Borrowings	-	-	(64,113)	(55,158)	(119,271)
Subordinated liabilities	-	-	-	(5,468)	(5,468)
Total	**(71,093)**	**(2,486)**	**(75,531)**	**(97,374)**	**(246,484)**
Total on-balance sheet position	**(66,137)**	**8,966**	**(339)**	**227,261**	**169,751**
Off-balance sheet position					
Interest rate swaps	-	-	(26,391)	(2,228)	(28,619)
Total return swaps	(11,923)	-	-	-	(11,923)
Total off-balance sheet position	**(11,923)**	**0**	**(26,391)**	**(2,228)**	**(40,542)**
Total CPI indexation balance	**(78,060)**	**8,966**	**(26,730)**	**225,033**	**129,209**

All amounts are in ISK million

Currency risk

58. 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 Bank submits daily reports to the Central Bank on its foreign exchange balance and the Group submits monthly reports to the Central Bank on its for eign exchange balance.

The Group's combined net foreign exchange balance as at 30 June 2020 was - 0,15% of the Group's capital base (31.12.2019: +1.2%).

59. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2020 and 31 December 2019. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments. Amounts presented under assets and liabilities include all spot deals. When managing currency risk the Group regards spot deals as non-derivative assets or liabilities.

As at 30 June 2020	**EUR**	**GBP**	**USD**	**JPY**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	839	202	549	11	65	520	2,186
Bonds and debt instruments	23,604	3	32,298	-	-	-	55,905
Equities and equity instruments	57	-	155	-	-	119	331
Derivative instruments	1,193	48	79	-	-	127	1,447
Loans and advances to financial institutions	7,471	2,489	8,321	208	1,789	36,083	56,361
Loans and advances to customers	191,238	3,295	55,424	1,754	330	3,780	255,821
Other assets	1,767	-	91	-	-	5	1,863
Total	**226,169**	**6,037**	**96,917**	**1,973**	**2,184**	**40,634**	**373,914**
Liabilities							
Due to financial institutions and Central Bank	(1,156)	(5)	(62)	-	-	-	(1,223)
Deposits from customers	(42,656)	(5,093)	(51,493)	(771)	(2,159)	(9,318)	(111,490)
Derivative instruments and short positions	(71)	(54)	(227)	-	-	(4)	(356)
Borrowings	(172,142)	-	(20,924)	-	-	(49,914)	(242,980)
Other liabilities	(618)	(115)	(348)	-	(52)	(501)	(1,634)
Subordinated liabilities	(15,825)	-	-	-	-	-	(15,825)
Total	**(232,468)**	**(5,267)**	**(73,054)**	**(771)**	**(2,211)**	**(59,737)**	**(373,508)**
Net on-balance sheet position	(6,299)	770	23,863	1,202	(27)	(19,103)	406
Net off-balance sheet position	4,758	(807)	(22,666)	(1,009)	-	18,952	(772)
Net currency position	**(1,541)**	**(37)**	**1,197**	**193**	**(27)**	**(151)**	**(366)**

As at 31 December 2019	**EUR**	**GBP**	**USD**	**JPY**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	575	163	307	12	35	434	1,526
Bonds and debt instruments	27,213	4	52,261	-	-	6,882	86,360
Equities and equity instruments	2,210	-	77	-	-	263	2,550
Derivative instruments	1,395	24	763	-	-	10	2,192
Loans and advances to financial institutions	17,514	2,286	8,000	1,013	800	18,242	47,855
Loans and advances to customers	158,304	2,661	41,364	2,135	300	3,541	208,305
Other assets	1,387	-	-	-	-	36	1,423
Total	**208,598**	**5,138**	**102,772**	**3,160**	**1,135**	**29,408**	**350,211**
Liabilities							
Due to financial institutions and Central Bank	(1,661)	(47)	(148)	-	-	(393)	(2,249)
Deposits from customers	(43,391)	(4,511)	(43,163)	(823)	(861)	(8,754)	(101,503)
Derivative instruments and short positions	(1,017)	(18)	(323)	-	(2)	(141)	(1,501)
Borrowings	(152,699)	-	(18,336)	-	-	(57,980)	(229,015)
Other liabilities	(413)	(48)	(188)	(1)	(5)	(531)	(1,186)
Subordinated liabilities	(13,613)	-	-	-	-	-	(13,613)
Total	**(212,794)**	**(4,624)**	**(62,158)**	**(824)**	**(868)**	**(67,799)**	**(349,067)**
Net on-balance sheet position	(4,196)	514	40,614	2,336	267	(38,391)	1,144
Net off-balance sheet position	6,736	(26)	(40,280)	(2,357)	(409)	38,181	1,845
Net currency position	**2,540**	**488**	**334**	**(21)**	**(142)**	**(210)**	**2,989**

All amounts are in ISK million

60. Foreign exchange rates used

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

	As at 30 June 2020	As at 31 December 2019	% change	Average for 1.1-30.6 2020	Average for 1.1-30.6 2019
EUR/ISK	155.40	135.80	14.4%	147.73	137.23
GBP/ISK	171.06	160.28	6.7%	169.15	156.81
USD/ISK	138.30	120.98	14.3%	133.32	121.23
JPY/ISK	1.2831	1.1132	15.3%	1.2364	1.1046
CHF/ISK	146.07	124.98	16.9%	138.50	121.79
CAD/ISK	101.57	93.27	8.9%	98.06	90.92
DKK/ISK	20.855	18.172	14.8%	19.793	18.385
NOK/ISK	14.321	13.764	4.0%	13.812	14.107
SEK/ISK	14.858	12.923	15.0%	13.905	13.112

All amounts are in ISK million

Consolidated Key Figures

61. Operations by quarters

	2020		2019			
Operations	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	18,220	16,416	16,844	16,874	20,555	17,899
Interest expense	(8,708)	(6,989)	(7,264)	(7,243)	(10,341)	(7,654)
Net interest income	**9,512**	**9,427**	**9,580**	**9,631**	**10,214**	**10,245**
Fee and commission income	2,391	2,773	2,980	2,784	2,861	2,903
Fee and commission expense	(738)	(828)	(855)	(826)	(785)	(843)
Net fee and commission income	**1,653**	**1,945**	**2,125**	**1,958**	**2,076**	**2,060**
Net gain (loss) on financial assets and liabilities at FVTPL	2,827	(2,625)	2,126	649	1,776	3,442
Net foreign exchange gain (loss)	(259)	85	(300)	(39)	(87)	(158)
Credit impairment losses	(8,191)	(5,244)	(1,399)	(1,056)	(1,378)	(994)
Other income and (expenses)	333	(188)	131	211	266	438
Net other operating income	**(5,290)**	**(7,972)**	**558**	**(235)**	**577**	**2,728**
Total operating income	**5,875**	**3,400**	**12,263**	**11,354**	**12,867**	**15,033**
Salaries and related expenses	(3,802)	(3,844)	(3,805)	(3,284)	(3,689)	(3,680)
Other operating expenses	(2,206)	(2,430)	(2,505)	(2,167)	(2,340)	(2,522)
Tax on liabilities of financial institutions	(425)	(450)	(1,064)	(1,065)	(1,065)	(1,010)
Total operating expenses	**(6,433)**	**(6,724)**	**(7,374)**	**(6,516)**	**(7,094)**	**(7,212)**
Profit (loss) before tax	**(558)**	**(3,324)**	**4,889**	**4,838**	**5,773**	**7,821**
Income tax	899	(304)	(1,014)	(1,591)	(1,444)	(1,037)
Profit (loss) for the period	**341**	**(3,628)**	**3,875**	**3,247**	**4,329**	**6,784**

Balance sheet	**30.6.2020**	**31.3.2020**	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**
Cash and cash balances with Central Bank	89,598	92,440	69,824	56,680	63,990	63,014
Bonds and debt instruments	104,758	116,568	115,262	96,786	84,830	80,954
Equities and equity instruments	26,794	25,923	30,019	29,150	27,658	25,151
Loans and advances to financial institutions	56,394	69,740	47,929	71,222	71,812	88,664
Loans and advances to customers	1,198,210	1,190,536	1,140,184	1,136,804	1,130,915	1,095,376
Other assets	23,913	26,851	22,088	23,476	22,348	24,744
Assets classified as held for sale	1,443	1,130	1,022	1,144	1,282	1,394
Total assets	**1,501,110**	**1,523,188**	**1,426,328**	**1,415,262**	**1,402,835**	**1,379,298**
Due to financial institutions and Central Bank	37,226	41,495	48,062	47,860	34,430	36,636
Deposits from customers	758,790	755,160	707,813	703,762	697,898	694,820
Borrowings	408,097	412,591	373,168	366,337	377,680	351,005
Other liabilities	30,993	48,427	30,440	39,980	37,768	36,701
Liabilities associated with assets classified as held for sale	30	30	30	30	30	30
Subordinated liabilities	21,527	21,379	19,081	13,433	14,417	13,900
Equity	244,447	244,106	247,734	243,860	240,612	246,205
Total liabilities and equity	**1,501,110**	**1,523,188**	**1,426,328**	**1,415,262**	**1,402,835**	**1,379,298**

*The first quarter result for the year 2020 and the first three quarter results for the year 2019 were reviewed by the Bank's independent auditors.

All amounts are in ISK million

Consolidated Key Figures

62. Key figures and ratios

	2020		2019			
	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	-0.9%	-5.4%	8.0%	8.0%	9.5%	12.9%
Return on equity after taxes	0.6%	-5.9%	6.3%	5.4%	7.1%	11.2%
Return on equity after taxes, excluding bank levy	1.3%	-5.2%	8.0%	7.1%	8.9%	12.9%
Cost-income ratio	42.7%	72.6%	46.2%	43.9%	42.3%	38.7%
Operating expenses as a ratio of average total assets	1.6%	1.7%	1.8%	1.5%	1.7%	1.8%
Return on assets	0.1%	-1.0%	1.1%	0.9%	1.2%	2.0%
Interest spread as a ratio of assets and liabilities	2.1%	2.2%	2.3%	2.3%	2.3%	2.5%
Earnings per share	0.01	(0.15)	0.16	0.14	0.18	0.29

	30.6.2020	31.3.2020	31.12.2019	30.9.2019	30.6.2019	31.3.2019
Total capital ratio	24.9%	24.8%	25.8%	23.6%	23.7%	23.8%
CET1 ratio	22.8%	22.7%	23.9%	22.3%	22.3%	22.4%
Leverage ratio	14.9%	14.7%	15.7%	15.2%	15.2%	15.3%
Loans / deposits	157.9%	157.7%	161.1%	161.5%	162.0%	157.6%
Deposits / total assets	50.5%	49.6%	49.6%	49.7%	49.7%	50.4%
Liquidity coverage ratio total (LCR)	191%	196%	161%	186%	174%	243%
Net stable funding ratio FX (NSFR)	121%	127%	143%	158%	164%	165%
Number of full-time positions at the end of the period	872	886	893	903	903	922

Key figures and ratios	Definition
Return on equity before taxes	(Profit (loss) before taxes - tax on liabilities of financial institutions) / average total equity
Return on equity after taxes	Profit (loss) after taxes / average total equity
Return on equity after taxes, excluding bank levy	Profit (loss) after taxes, excluding bank levy / average total equity
Cost-income ratio	(Total operating expenses - tax on liabilities of financial institutions) / (total net operating income - net valuation adjustments)
Operating expenses as a ratio of average total assets	(Total operating expenses - tax on liabilities of financial institutions) / 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 (loss) 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	Comon 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 pe	Number of full-time equivalent positions at the end of the period

All amounts are in ISK million