Contents

Consolidated Income Statement

	Notes	2019	2018
Interest income*		62,846	61,675
Interest expense		(29,170)	(29,738)
Net interest income	10	33,676	31,937
Fee and commission income		21,026	19,853
Fee and commission expense		(7,667)	(7,626)
Net fee and commission income	11	13,359	12,227
Net financial expense	12	(817)	(962)
Net foreign exchange gain	13	143	1
Other operating income	14	2,134	1,784
Other net operating income		1,460	823
Total operating income		48,495	44,987
Salaries and related expenses	15	(16,279)	(15,500)
Other operating expenses	16	(11,828)	(12,150)
Contribution to the Depositors' and Investors' Guarantee Fund		(936)	(1,173)
Bank tax	66.22	(3,528)	(3,281)
Total operating expenses		(32,571)	(32,104)
Profit before net impairment on financial assets		15,924	12,883
Net impairment on financial assets	18	(3,663)	1,584
Profit before tax		12,261	14,467
Income tax expense	19	(3,682)	(4,734)
Profit for the year from continuing operations		8,579	9,733
Discontinued operations, net of income tax	20	(125)	912
Profit for the year		8,454	10,645

*Of which interest income amounting to ISK 60,123 million (2018: ISK 59,741 million) is calculated using the effective interest method.

	Notes	2019	2018
Profit attributable to:			
Shareholders of Íslandsbanki hf.		8,809	11,036
Non-controlling interests		(355)	(391)
Profit for the year		8,454	10,645
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	21	0.89	1.01

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 10 Amounts are in ISK million

Consolidated Statement of Comprehensive Income

	2019	2018
Profit for the year	8,454	10,645
Items that will not be reclassified to profit or loss		
Changes in fair value of financial assets, net of tax	1,272	610
Changes in fair value of financial liabilities, net of tax	(677)	1,120
Other comprehensive income for the year, net of tax	595	1,730
Total comprehensive income for the year	9,049	12,375
Total comprehensive income attributable to:		
Shareholders of Íslandsbanki hf.	8,939	12,542
Non-controlling interests	110	(167)
Total comprehensive income for the year	9,049	12,375

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 11 Amounts are in ISK million

Consolidated Statement of Financial Position

	Notes	31.12.2019	31.12.2018
Assets			
Cash and balances with Central Bank	22	146,638	135,056
Loans to credit institutions	23	54,376	41,577
Bonds and debt instruments	5	52,870	69,415
Derivatives	24	5,621	4,550
Loans to customers	25	899,632	846,599
Shares and equity instruments	5	18,426	13,074
Investments in associates	27	746	682
Property and equipment	29	9,168	5,271
Intangible assets	30	4,330	5,002
Other assets	31	7,683	9,177
Total Assets		1,199,490	1,130,403
Liabilities			
Deposits from Central Bank and credit institutions	32	30,925	15,619
Deposits from customers	33	618,313	578,959
Derivative instruments and short positions	24	6,219	5,521
Debt issued and other borrowed funds	35	306,381	300,976
Subordinated loans	36	22,674	16,216
Tax liabilities	38	7,853	7,150
Other liabilities	39	27,063	29,649
Total Liabilities		1,019,428	954,090
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		7,065	6,499
Retained earnings		105,569	102,496
Total Shareholders' Equity		177,634	173,995
Non-controlling interests		2,428	2,318
Total Equity		180,062	176,313
Total Liabilities and Equity		1,199,490	1,130,403

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 12 Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Fair value reserve	Liability credit reserve	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Equity as at 1.1.2019	10,000	55,000	2,500	3,750	625	(376)	102,496	173,995	2,318	176,313
Profit (loss) for the year							8,809	8,809	(355)	8,454
Dividends paid							(5,300)	(5,300)		(5,300)
Net change in fair value of financial assets					807			807	465	1,272
Net change in fair value of financial liabilities						(16)	(661)	(677)		(677)
Restricted due to capitalised development costs				(551)			551	-		-
Restricted due to fair value changes				308			(308)	-		-
Restricted due to subsidiaries and associates				18			(18)	-		-
Equity as at 31.12.2019	10,000	55,000	2,500	3,525	1,432	(392)	105,569	177,634	2,428	180,062
Equity as at 1.1.2018	10,000	55,000	2,500	3,440	239	(1,486)	104,760	174,453	2,485	176,938
Profit (loss) for the year							11,036	11,036	(391)	10,645
Dividends paid							(13,000)	(13,000)		(13,000)
Net change in fair value of financial assets					386			386	224	610
Net change in fair value of financial liabilities						1,110	10	1,120		1,120
Restricted due to capitalised development costs				458			(458)	-		-
Restricted due to fair value changes				123			(123)	-		-
Restricted due to subsidiaries and associates				(271)			271	-		-
Equity as at 31.12.2018	10,000	55,000	2,500	3,750	625	(376)	102,496	173,995	2,318	176,313

Authorised share capital of the Bank is 10,000 million ordinary shares of ISK 1 each. At 31.12.2019 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Bank. The Bank has one class of ordinary shares which carry no right to fixed income. The Annual General Meeting ("AGM") for the operating year 2018 was held on 21 March 2019. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 5,300 million which is equivalent to ISK 0.53 per share (2018: ISK 1.30 per share). The dividends were paid on 27 March 2019.

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 13 Amounts are in ISK million

Consolidated Statement of Cash Flows

	Notes	2019	2018
Profit for the year		8,454	10,645
Non-cash items included in profit for the year*		24,324	16,061
Changes in operating assets and liabilities*		(7,998)	(120,407)
Dividends received		46	55
Income tax and bank tax paid		(6,493)	(7,873)
Net cash provided by (used in) operating activities		18,333	(101,519)
Net investment in subsidiaries and associated companies		-	4,764
Proceeds from sales of property and equipment		21	15
Purchase of property and equipment		(327)	(611)
Purchase of intangible assets		(246)	(877)
Net cash (used in) provided by investing activities		(552)	3,291
Proceeds from borrowings		112,105	115,661
Repayment of borrowings		(114,708)	(48,475)
Repayment of lease liabilities		(378)	-
Dividends paid		(5,300)	(13,000)
Net cash (used in) provided by financing activities		(8,281)	54,186
Net increase (decrease) in cash and cash equivalents		9,500	(44,042)
Effects of foreign exchange rate changes		(222)	(193)
Cash and cash equivalents at the beginning of the year		143,203	187,438
Cash and cash equivalents at year-end		152,481	143,203

Reconciliation of cash and cash equivalents			
Cash on hand	22	4,403	3,095
Cash balances with Central Bank	22	142,235	131,961
Bank accounts	23	21,122	25,259
Mandatory reserve and special restricted balances with Central Bank	22	(15,279)	(17,112)
Cash and cash equivalents at year-end		152,481	143,203

*For further breakdown see the following page.

The Group has prepared its consolidated statement of cash flows using the indirect method. The statement is based on the net profit after tax for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Interest received in 2019 amounted to ISK 60,624 million (2018: ISK 58,354 million) and interest paid in 2019 amounted to ISK 22,736 million (2018: ISK 24,386 million). Interest paid is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 14 Amounts are in ISK million

Consolidated Statement of Cash Flows

	2019	2018
Depreciation, amortisation and write-offs	1,960	1,312
Share of profit of associates	(64)	(29)
Accrued interest and fair value changes on debt issued and subordinated loans	11,450	10,436
Net impairment on financial assets	3,568	(1,634)
Foreign exchange gain	(143)	(1)
Net loss (gain) from sales of subsidiaries, property and equipment	17	(1,557)
Unrealised fair value loss recognised in profit or loss	192	406
Discontinued operations, net of income tax	125	(912)
Bank tax	3,528	3,281
Income tax	3,682	4,734
Other changes	9	25
Non-cash items included in profit for the year	24,324	16,061

Mandatory reserve and special restricted balances with Central Bank	1,833	454
Loans to credit institutions	(15,268)	767
Bonds and debt instruments	17,254	(38,740)
Loans to customers	(52,638)	(82,808)
Shares and equity instruments	(3,953)	(2,411)
Other assets	1,653	3,455
Deposits from Central Bank and credit institutions	15,232	4,116
Deposits from customers	37,678	4,307
Derivative instruments and short positions	(2,944)	(2,761)
Other liabilities	(6,845)	(6,786)
Changes in operating assets and liabilities	(7,998)	(120,407)

Non-cash transactions 2019
During the year the Bank repurchased own debt securities amounting to ISK 4,319 million by issuing new debt.

The Group recognised right-of-use assets amounting to ISK 4,505 million and the same amount in lease liabilities following the adoption of IFRS 16 - Leases (see Note 3).

Non-cash transactions 2018
During the year the Bank repurchased own debt securities amounting to ISK 184 million by issuing new debt.

The notes on pages 16 to 84 are an integral part of these consolidated financial statements.

Íslandsbanki hf. Consolidated Financial Statements 2019 15 Amounts are in ISK million

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

4. Cont'd

2019	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	10,578	10,812	8,397	3,169	(251)	32,705	971	33,676
Net fee and commission income	4,504	1,716	3,530	(236)	7	9,521	3,838	13,359
Other net operating income	77	25	564	(848)	2,197	2,015	(555)	1,460
Total operating income	15,159	12,553	12,491	2,085	1,953	44,241	4,254	48,495
Salaries and related expenses	(2,791)	(1,993)	(1,720)	(253)	(6,516)	(13,273)	(3,006)	(16,279)
Other operating expenses	(2,131)	(1,184)	(660)	(257)	(5,725)	(9,957)	(1,871)	(11,828)
Contribution to the Depositors' and Investors' Guarantee Fund	(530)	(314)	(89)	(3)	-	(936)	-	(936)
Bank tax	(483)	(339)	(486)	(2,205)	(15)	(3,528)	-	(3,528)
Net impairment on financial assets	(547)	(1,098)	(1,043)	(791)	-	(3,479)	(184)	(3,663)
Cost allocation	(5,606)	(3,381)	(3,421)	278	12,130	-	-	-
Profit (loss) before tax	3,071	4,244	5,072	(1,146)	1,827	13,068	(807)	12,261
Income tax expense	(924)	(1,192)	(1,445)	318	(478)	(3,721)	39	(3,682)
Profit (loss) for the year from continuing operations	2,147	3,052	3,627	(828)	1,349	9,347	(768)	8,579
Net segment revenue from external customers	18,137	14,492	19,191	(9,708)	2,129	44,241	4,254	48,495
Net segment revenue from other segments	(2,978)	(1,939)	(6,700)	11,793	(176)	-	-	-
Fee and commission income	6,224	1,724	3,574	124	8	11,654	9,372	21,026
Depreciation, amortisation and write-offs	(215)	(112)	(21)	-	(1,367)	(1,715)	(245)	(1,960)
At 31 December 2019								
Loans to customers	329,265	230,842	334,788	2	-	894,897	4,735	899,632
Other assets	3,553	3,085	347	267,384	10,648	285,017	14,841	299,858
Total segment assets	332,818	233,927	335,135	267,386	10,648	1,179,914	19,576	1,199,490
Deposits from customers	290,894	167,623	113,455	49,517	-	621,489	(3,176)	618,313
Other liabilities	1,497	1,822	2,553	374,459	6,209	386,540	14,575	401,115
Total segment liabilities	292,391	169,445	116,008	423,976	6,209	1,008,029	11,399	1,019,428
Allocated equity	29,981	38,924	58,953	42,882	1,145	171,885	8,177	180,062
Risk exposure amount	194,601	247,565	367,456	48,063	6,968	864,653	19,897	884,550

The individual segment balance sheet positions are with external customers, and exclude internal transactions thus explaining the differences in total assets and total liabilities and equity.

Íslandsbanki hf. Consolidated Financial Statements 2019 20 Amounts are in ISK million

Notes to the Consolidated Financial Statements

4. Cont'd

2018	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	9,946	9,788	7,676	3,649	(218)	30,841	1,096	31,937
Net fee and commission income	4,564	1,477	3,321	(109)	12	9,265	2,962	12,227
Other net operating income	1	41	353	1,070	282	1,747	(924)	823
Total operating income	14,511	11,306	11,350	4,610	76	41,853	3,134	44,987
Salaries and related expenses	(2,585)	(2,069)	(1,641)	(258)	(6,185)	(12,738)	(2,762)	(15,500)
Other operating expenses	(2,466)	(1,062)	(680)	(494)	(5,646)	(10,348)	(1,802)	(12,150)
Contribution to the Depositors' and Investors' Guarantee Fund	(669)	(395)	(109)	-	-	(1,173)	-	(1,173)
Bank tax	(434)	(327)	(470)	(2,041)	(9)	(3,281)	-	(3,281)
Net impairment on financial assets	579	955	164	(37)	-	1,661	(77)	1,584
Cost allocation	(5,134)	(2,813)	(2,660)	423	10,184	-	-	-
Profit (loss) before tax	3,802	5,595	5,954	2,203	(1,580)	15,974	(1,507)	14,467
Income tax expense	(989)	(1,455)	(1,548)	(1,280)	411	(4,861)	127	(4,734)
Profit (loss) for the year from continuing operations	2,813	4,140	4,406	923	(1,169)	11,113	(1,380)	9,733
Net segment revenue from external customers	14,958	14,996	17,337	(5,733)	295	41,853	3,134	44,987
Net segment revenue from other segments	(447)	(3,690)	(5,987)	10,343	(219)	-	-	-
Fee and commission income	5,990	1,612	3,420	133	12	11,167	8,686	19,853
Depreciation, amortisation and write-offs	(275)	(142)	(26)	(38)	(688)	(1,169)	(143)	(1,312)
At 31 December 2018								
Loans to customers	299,429	219,608	322,974	904	-	842,915	3,684	846,599
Other assets	1,332	3,151	316	252,085	8,056	264,940	18,864	283,804
Total segment assets	300,761	222,759	323,290	252,989	8,056	1,107,855	22,548	1,130,403
Deposits from customers	275,265	164,738	101,417	42,566	-	583,986	(5,027)	578,959
Other liabilities	1,453	2,811	3,199	345,375	2,317	355,155	19,976	375,131
Total segment liabilities	276,718	167,549	104,616	387,941	2,317	939,141	14,949	954,090
Allocated equity	24,582	37,304	57,200	48,982	646	168,714	7,599	176,313
Risk exposure amount	164,795	239,073	360,923	61,986	3,316	830,093	15,856	845,949

Íslandsbanki hf. Consolidated Financial Statements 2019 21 Amounts are in ISK million

Notes to the Consolidated Financial Statements

4. Cont'd

Subsidiaries, eliminations & adjustments

2019	Borgun hf.*	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	872	28	26	36	9	971
Net fee and commission income	1,716	1,089	1,069	(30)	(6)	3,838
Other net operating income	15	156	(1)	(5)	(720)	(555)
Total operating income	2,603	1,273	1,094	1	(717)	4,254
Salaries and related expenses	(2,260)	(558)	(188)	-	-	(3,006)
Other operating expenses	(1,359)	(181)	(471)	(2)	142	(1,871)
Net impairment on financial assets	(184)	-	-	-	-	(184)
(Loss) profit before tax	(1,200)	534	435	(1)	(575)	(807)
Income tax expense	228	(107)	(87)	-	5	39
(Loss) profit for the year from cont. operations	(972)	427	348	(1)	(570)	(768)
Net segment revenue from external customers	3,329	1,475	1,080	(16)	(1,614)	4,254
Net segment revenue from other segments	(726)	(202)	14	17	897	-
Fee and commission income	9,889	1,520	1,069	-	(3,106)	9,372
Depreciation, amortisation and write-offs	(235)	-	(3)	-	(7)	(245)
At 31 December 2019						
Total assets	22,362	2,726	1,201	6,467	(13,180)	19,576
Total liabilities	15,753	302	412	2	(5,070)	11,399
Total equity	6,609	2,424	789	6,465	(8,110)	8,177

*The Bank's shares in Borgun have been in a divestment process since January 2019. The Bank is in discussions with prospective buyers, however, there is still uncertainty as to whether the sale will occur and therefore the Bank has not reclassified the shares in Borgun as assets held for sale.

2018	Borgun hf.	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	1,021	28	19	15	13	1,096
Net fee and commission income	1,104	1,028	950	(31)	(89)	2,962
Other net operating income	3	21	13	519	(1,480)	(924)
Total operating income	2,128	1,077	983	503	(1,556)	3,134
Salaries and related expenses	(2,072)	(529)	(157)	-	(4)	(2,762)
Other operating expenses	(1,323)	(200)	(432)	(3)	156	(1,802)
Net impairment on financial assets	(76)	-	-	-	(1)	(77)
(Loss) profit before tax	(1,343)	348	394	499	(1,405)	(1,507)
Income tax expense	274	(74)	(79)	(1)	7	127
(Loss) profit for the year from cont. operations	(1,069)	274	315	498	(1,398)	(1,380)
Net segment revenue from external customers	2,813	1,217	939	1,125	(2,960)	3,134
Net segment revenue from other segments	(685)	(140)	44	(622)	1,403	-
Fee and commission income	9,331	1,421	950	-	(3,016)	8,686
Depreciation, amortisation and write-offs	(141)	-	(3)	-	1	(143)
At 31 December 2018						
Total assets	28,498	2,466	1,043	9,352	(18,811)	22,548
Total liabilities	22,154	196	231	1,860	(9,492)	14,949
Total equity	6,344	2,270	812	7,492	(9,319)	7,599

Íslandsbanki hf. Consolidated Financial Statements 2019 22 Amounts are in ISK million

5. Classification of financial assets and financial liabilities

At 31 December 2019	Mandatorily at FVTPL	Held for hedging	Designated as at FVTPL	Fair value through OCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	-	146,638	146,638
Loans to credit institutions	-	-	-	-	54,376	54,376
Listed bonds and debt instruments	33,302	-	-	-	-	33,302
Listed bonds and debt instruments used for economic hedging	18,220	-	-	-	-	18,220
Unlisted bonds and debt instruments	1,348	-	-	-	-	1,348
Derivatives	4,700	921	-	-	-	5,621
Loans to customers	-	-	-	-	899,632	899,632
Listed shares and equity instruments	3,779	-	-	-	-	3,779
Listed shares and equity instruments used for economic hedging	8,681	-	-	-	-	8,681
Unlisted shares and equity instruments	2,851	-	-	3,115	-	5,966
Other financial assets	-	-	-	-	5,757	5,757
Total financial assets	72,881	921	-	3,115	1,106,403	1,183,320
Deposits from Central Bank and credit institutions	-	-	-	-	30,925	30,925
Deposits from customers	-	-	-	-	618,313	618,313
Derivative instruments and short positions	6,219	-	-	-	-	6,219
Debt issued and other borrowed funds	-	41,816	49,352	-	215,213	306,381
Subordinated loans	-	-	-	-	22,674	22,674
Other financial liabilities	-	-	-	-	24,772	24,772
Total financial liabilities	6,219	41,816	49,352	-	911,897	1,009,284

At 31 December 2018	Mandatorily at FVTPL	Held for hedging	Designated as at FVTPL	Fair value through OCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	-	135,056	135,056
Loans to credit institutions	-	-	-	-	41,577	41,577
Listed bonds and debt instruments	45,496	-	-	-	-	45,496
Listed bonds and debt instruments used for economic hedging	22,405	-	-	-	-	22,405
Unlisted bonds and debt instruments	1,514	-	-	-	-	1,514
Derivatives	3,923	627	-	-	-	4,550
Loans to customers	-	-	-	-	846,599	846,599
Listed shares and equity instruments	2,928	-	-	-	-	2,928
Listed shares and equity instruments used for economic hedging	5,458	-	-	-	-	5,458
Unlisted shares and equity instruments	2,846	-	-	1,842	-	4,688
Other financial assets	-	-	-	-	7,511	7,511
Total financial assets	84,570	627	-	1,842	1,030,743	1,117,782
Deposits from Central Bank and credit institutions	-	-	-	-	15,619	15,619
Deposits from customers	-	-	-	-	578,959	578,959
Derivative instruments and short positions	5,521	-	-	-	-	5,521
Debt issued and other borrowed funds	-	40,714	68,154	-	192,108	300,976
Subordinated loans	-	-	-	-	16,216	16,216
Other financial liabilities	-	-	-	-	27,186	27,186
Total financial liabilities	5,521	40,714	68,154	-	830,088	944,477

Íslandsbanki hf. Consolidated Financial Statements 2019 23 Amounts are in ISK million

Notes to the Consolidated Financial Statements

6. Fair value information for financial instruments

Financial instruments carried at fair value

The fair value of a financial instrument is the transaction price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where a market price is not readily available, the Group applies valuation techniques based on estimates and assumptions that are consistent with that which market participants would use in setting a price for the financial instrument.

The table below shows financial instruments carried at fair value at 31 December 2019 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques based on significant unobservable inputs, e.g. internal assumptions.

At 31 December 2019	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	51,522	-	1,348	52,870
Derivatives	-	5,621	-	5,621
Shares and equity instruments	12,383	27	6,016	18,426
Total financial assets	63,905	5,648	7,364	76,917
Short positions	814	-	-	814
Derivative instruments	-	5,405	-	5,405
Debt issued and other borrowed funds designated as at FVTPL	49,352	-	-	49,352
Total financial liabilities	50,166	5,405	-	55,571

At 31 December 2018	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	67,901	-	1,514	69,415
Derivatives	-	4,550	-	4,550
Shares and equity instruments	8,344	42	4,688	13,074
Total financial assets	76,245	4,592	6,202	87,039
Derivative instruments	-	5,521	-	5,521
Debt issued and other borrowed funds designated as at FVTPL	68,154	-	-	68,154
Total financial liabilities	68,154	5,521	-	73,675

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2019	1,514	4,688
Purchases	7	338
Sales and instalments	(537)	(52)
Net gain (loss) on financial instruments recognised in profit or loss	306	(118)
Net gain on financial instruments recognised in other comprehensive income	-	1,272
Other changes	58	(112)
Fair value at 31 December 2019	1,348	6,016

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	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2018	1,828	3,373
Purchases	8	790
Net loss on financial instruments recognised in profit or loss	(249)	(135)
Net gain on financial instruments recognised in other comprehensive income	-	610
Transfers from Level 1 or 2	-	50
Other changes	(73)	-
Fair value at 31 December 2018	1,514	4,688

At the end of each reporting period the Group determines whether transfers have occured between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole. No transfers between levels took place in 2019.

Valuation process

The responsibility for the valuation of the fair value of financial instruments lies with the relevant business units. Each quarter, the business units present a valuation report to the Investment Committee for approval. The report and its assumptions are reviewed by Risk Management.

Valuation techniques

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. In other cases, where there is no active market, the fair value is estimated using valuation techniques such as net present value and discounted cash flow models; comparison with similar instruments for which observable market data exists; net asset value (NAV) for investment fund units or expected recovery for distressed bonds. These valuation techniques are based on various assumptions and inputs such as risk-free rate, expected revenue growth and credit and liquidity spreads. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

Level 1: Fair value established from quoted market prices.

Assets at this level are financial assets and financial liabilities containing actively traded bonds and equities that are listed either domestically or abroad.

Level 2: Fair value established using valuation techniques with observable market information.

Assets at this level are assets and liabilities containing domestic bonds, equities as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

Level 3: Fair value established using valuation techniques using significant unobservable market information.

Assets at this level contain primarily unlisted and illiquid equities and bonds. Unlisted equities and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

At 31 December 2019 the Group's Level 3 equities amounted to ISK 6,016 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted equities and specialised investments in Iceland totalling ISK 1,722 million. The Group receives information from fund managers which use valuation models for the valuation of these equities.

-The Group holds Series C preferred shares in Visa Inc., amounting to ISK 3,115 million, which are subject to selling restrictions for a period of up to 9 years and under certain conditions may have to be recalled. The fair value of the preferred shares is closely linked to the market value of Visa Inc. at NYSE stock exchange, written down by 24% due to uncertainty of the final number of shares and marketability.

-Other Level 3 equities amounting to ISK 1,179 million.

At 31 December 2019 the Group's Level 3 bonds amounted to ISK 1,348 million:

-The majority of the amount in Level 3 bonds is estimated by discounting cash flow where the yield is the contractual currency's base rate with a premium that is decided by expert judgement on projected risk and financing cost.

Sensitivity analysis for Level 3 assets

The valuations of Level 3 assets are in general uncertain and subject to various factors. The favourable and unfavourable scenarios can be considered as being likely movements in valuation within a year. The very favourable and very unfavourable scenarios are considered less likely, but not impossible and are not worst-case scenarios for some of the assets.

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The table below shows how profit (loss) and total comprehensive income would have been affected if one or more of the inputs for fair value measurement in Level 3 were changed.

Effect on profit or (loss):	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	1,348	330	257	(296)	(1,348)
Level 3 Shares and equity instruments	2,901	2,399	645	(762)	(1,614)
Effect on comprehensive income:					
Level 3 Shares in Visa Inc.	3,115	1,246	623	(623)	(1,246)

7. Financial instruments not carried at fair value

Assets

The fair value of “Loans to customers” may differ from their net carrying amount because the interest rates they carry may not reflect the interest rates that similar new loans would carry. The fair value is estimated by subtracting from or adding to the net carrying amount of the loans the discounted interest rate difference calculated from the reporting date until the next interest reset or maturity, whichever comes first. Since the interest rate difference is estimated using internal models these assets are classified as Level 3.

For “Cash and balances with Central Bank”, “Loans to credit institutions” and “Other financial assets” the fair value is adequately approximated by the carrying amount as they are short-term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. The fair value for longer term fixed rate deposits is calculated with a duration approach, using the difference in each liability's current interest rate from the rate that a similar deposit would carry today. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

Observed market value is used for the fair value of "Debt issued and other borrowed funds" where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Group's current funding premium on similar debt. These liabilities are classified as Level 2. The funding premium is based on the interest margin in the Group's issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

Other financial liabilities mainly include unsettled securities transactions, payments due to leasing contracts and liabilities to retailers for credit card provisions and they are classified as Level 2 since their value is not observable from active market prices. Due to the short-term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 6.

At 31 December 2019	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	146,638	-	146,638	146,638
Loans to credit institutions	-	54,376	-	54,376	54,376
Loans to customers	-	-	902,053	902,053	899,632
Other financial assets	-	5,757	-	5,757	5,757
Total financial assets	-	206,771	902,053	1,108,824	1,106,403
Deposits from Central Bank and credit institutions	-	31,027	-	31,027	30,925
Deposits from customers	-	618,592	-	618,592	618,313
Debt issued and other borrowed funds	165,044	100,334	-	265,378	257,029
Subordinated loans	22,626	-	-	22,626	22,674
Other financial liabilities	-	24,772	-	24,772	24,772
Total financial liabilities	187,670	774,725	-	962,395	953,713

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At 31 December 2018	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	135,056	-	135,056	135,056
Loans to credit institutions	-	41,577	-	41,577	41,577
Loans to customers	-	-	848,751	848,751	846,599
Other financial assets	-	7,511	-	7,511	7,511
Total financial assets	-	184,144	848,751	1,032,895	1,030,743
Deposits from Central Bank and credit institutions	-	15,633	-	15,633	15,619
Deposits from customers	-	579,232	-	579,232	578,959
Debt issued and other borrowed funds	151,767	84,476	-	236,243	232,822
Subordinated loans	16,167	-	-	16,167	16,216
Other financial liabilities	-	27,186	-	27,186	27,186
Total financial liabilities	167,934	706,527	-	874,461	870,802

8. Offsetting financial assets and financial liabilities

The tables below show reconciliation to the net amounts of financial assets and financial liabilities, which are subject to offsetting, enforceable master netting agreements and similar agreements.

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 December 2019	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Reverse repurchase agreements	1,114	-	1,114	-	-	-	1,114	-	1,114
Derivatives	5,621	-	5,621	(1,374)	(3,146)	(88)	1,013	-	5,621
Total assets	6,735	-	6,735	(1,374)	(3,146)	(88)	2,127	-	6,735
At 31 December 2018									
Reverse repurchase agreements	153	-	153	-	-	-	153	-	153
Derivatives	4,550	-	4,550	(1,655)	(1,383)	(698)	814	-	4,550
Total assets	4,703	-	4,703	(1,655)	(1,383)	(698)	967	-	4,703

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 December 2019	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Derivative instruments and short positions	6,219	-	6,219	(1,374)	(1,139)	-	3,706	-	6,219
At 31 December 2018									
Derivative instruments and short positions	5,521	-	5,521	(1,655)	(85)	-	3,781	-	5,521

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9. Quarterly statements (unaudited)

2019	Q4	Q3	Q2	Q1	Total
Net interest income	8,486	8,412	8,626	8,152	33,676
Net fee and commission income	3,646	3,090	3,406	3,217	13,359
Net financial (expense) income	(840)	(598)	173	448	(817)
Net foreign exchange gain (loss)	97	147	(71)	(30)	143
Other operating income	917	44	29	1,144	2,134
Salaries and related expenses	(4,196)	(3,720)	(4,312)	(4,051)	(16,279)
Other operating expenses	(3,130)	(2,698)	(2,961)	(3,039)	(11,828)
Contribution to the Depositors' and Investors' Guarantee Fund	(216)	(210)	(198)	(312)	(936)
Bank tax	(814)	(900)	(934)	(880)	(3,528)
Net impairment on financial assets	(1,585)	(230)	(929)	(919)	(3,663)
Profit before tax	2,365	3,337	2,829	3,730	12,261
Income tax expense	(611)	(1,292)	(626)	(1,153)	(3,682)
Profit for the period from continuing operations	1,754	2,045	2,203	2,577	8,579
Discontinued operations, net of income tax	(95)	41	(83)	12	(125)
Profit for the period	1,659	2,086	2,120	2,589	8,454

2018	Q4	Q3	Q2	Q1	Total
Net interest income	8,294	8,301	7,602	7,740	31,937
Net fee and commission income	3,478	2,939	3,032	2,778	12,227
Net financial (expense) income	(637)	(420)	378	(283)	(962)
Net foreign exchange gain (loss)	76	(8)	(57)	(10)	1
Other operating income	120	64	1,587	13	1,784
Salaries and related expenses	(4,047)	(3,501)	(4,026)	(3,926)	(15,500)
Other operating expenses	(3,418)	(2,962)	(2,846)	(2,924)	(12,150)
Contribution to the Depositors' and Investors' Guarantee Fund	(299)	(295)	(287)	(292)	(1,173)
Bank tax	(740)	(944)	(812)	(785)	(3,281)
Net impairment on financial assets	(297)	(53)	1,846	88	1,584
Profit before tax	2,530	3,121	6,417	2,399	14,467
Income tax expense	(1,118)	(1,136)	(1,465)	(1,015)	(4,734)
Profit for the period from continuing operations	1,412	1,985	4,952	1,384	9,733
Discontinued operations, net of income tax	(8)	126	81	713	912
Profit for the period	1,404	2,111	5,033	2,097	10,645

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10. Net interest income

	2019	2018
Cash and balances with Central Bank	4,755	7,279
Loans at amortised cost	55,368	52,462
Financial assets mandatorily at fair value through profit or loss	2,630	1,825
Other assets	93	109
Total interest income	62,846	61,675
Deposits from Central Bank and credit institutions	(625)	(409)
Deposits from customers	(15,241)	(16,539)
Debt issued and other borrowed funds at fair value through profit or loss	(734)	(963)
Debt issued and other borrowed funds at amortised cost	(9,823)	(9,035)
Subordinated loans	(501)	(198)
Other interest expense*	(2,246)	(2,594)
Total interest expense	(29,170)	(29,738)
Net interest income	33,676	31,937

*Thereof is lease liabilities' interest expense amounting to ISK 94 million.

Net interest margin on total assets 2.8% (2018: 2.9%).

11. Net fee and commission income

	2019	2018
Asset management	2,225	2,116
Investment banking and brokerage	2,430	2,303
Payment processing	12,783	12,065
Loans and guarantees	1,510	1,467
Other fee and commission income	2,078	1,902
Total fee and commission income	21,026	19,853
Brokerage	(337)	(300)
Clearing and settlement	(7,293)	(7,302)
Other fee and commission expense	(37)	(24)
Total fee and commission expense	(7,667)	(7,626)
Net fee and commission income	13,359	12,227

Fee and commission income by segment is disclosed in Note 4.

12. Net financial expense

	2019	2018
Net loss on financial assets and liabilities mandatorily at FVTPL	(419)	(720)
Net loss on financial liabilities designated as at FVTPL	(399)	(240)
Net gain (loss) on fair value hedges	1	(2)
Net financial expense	(817)	(962)

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12. Cont'd

	2019	2018
Shares and related derivatives	(572)	(576)
Dividend income	32	38
Bonds and related derivatives	144	(197)
Other derivatives	(23)	15
Net loss on financial assets and liabilities mandatorily at FVTPL	(419)	(720)
Debt issued and other borrowed funds designated as at FVTPL	(399)	(240)
Net loss on financial liabilities designated as at FVTPL	(399)	(240)
Clean fair value gain on interest rate swaps designated as hedging instruments	285	486
Fair value loss on bonds issued by the Group attributable to interest rate risk	(284)	(488)
Net gain (loss) on fair value hedges	1	(2)

13. Net foreign exchange gain

	2019	2018
Cash and balances with Central Bank	(222)	(193)
Financial assets mandatorily at fair value through profit or loss	(1,781)	2,281
Loans at amortised cost	5,686	17,120
Other assets	138	305
Net foreign exchange gain for assets	3,821	19,513
Deposits	(1,749)	(7,938)
Debt issued and other borrowed funds designated as at FVTPL	(1,667)	(3,868)
Debt issued and other borrowed funds at amortised cost	(384)	(6,567)
Subordinated loans	233	(884)
Other liabilities	(111)	(255)
Net foreign exchange loss for liabilities	(3,678)	(19,512)
Net foreign exchange gain	143	1

14. Other operating income

	2019	2018
Share of profit of associates, net of income tax	64	29
Net (loss) gain from sale of subsidiaries	(16)	1,526
Legal dispute settlement*	1,103	-
Legal fees	93	83
Rental income	38	37
Depositor's and Investor's Guarantee Fund reversed contribution**	847	-
Other net operating income	5	109
Other operating income	2,134	1,784

*In February 2019 Íslandsbanki and Old Byr reached an agreement on the settlement of the dispute deriving from the acquisition of Byr savings bank in 2011.

**The Bank had recognised a liability of ISK 847 million against the Depositors' and Investors' Guarantee Fund (the Fund) for the year 2010 in accordance with the Act on Depositor's and Investor's Guarantee Fund at the time. The Icelandic Parliament has since discussed a bill on a new Depositors' and Investors' Guarantee Fund, without reaching a conclusion on the matter. An amendment to the Act regarding contributions to the Fund was made in 2011 and Icelandic banks have made quarterly payments to a separate division within the Fund since then. The Bank is of the opinion that it is not obliged to pay the expensed contribution from 2010 and therefore the Bank has reversed the previously expensed contribution.

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15. Personnel and salaries

	2019	2018
Salaries	12,565	11,923
Contributions to pension funds	1,849	1,767
Social security charges and financial activities tax*	1,711	1,723
Other salary-related expenses	154	95
Capitalisation of internal staff costs in software development	-	(8)
Salaries and related expenses	16,279	15,500

*Financial activities tax calculated on salaries is 5.5% (2018: 5.5%).

	2019		2018	
	The Bank	The Group	The Bank	The Group
Average number of employees	842	1,079	873	1,076
Positions at year-end	749	984	834	1,075

Total amount of compensation to the Board of Directors, the CEO and Executive Board are specified as follows:

	2019	2018
Friðrik Sophusson, Chairman of the Board	11.3	11.3
Tómas Már Sigurðsson, Vice-Chairman of the Board	6.6	-
Anna Þórðardóttir, member of the Board	7.9	7.8
Auður Finnbogadóttir, member of the Board	7.6	7.5
Árni Stefánsson, member of the Board	7.8	7.5
Hallgrímur Snorrason, member of the Board	7.6	7.5
Heiðrún Jónsdóttir, member of the Board	7.9	7.7
Helga Valfells, former Vice-Chairman of the Board	2.3	9.0
Alternate board members	1.3	0.4
Total salaries	60.3	58.7

Contribution to pension funds for the Board of Directors amounted to ISK 7.1 million in 2019 (2018: ISK 7.2 million).

	2019		2018	
	Total salaries	Contri-butions to pension funds	Total salaries	Contri-butions to pension funds
Birna Einarsdóttir, CEO	50.9	11.9	63.5	14.0
Ásmundur Tryggvason, Managing Director of Corporate & Investment Banking	39.5	5.6	-	-
Guðmundur Kristinn Birgisson, Chief Risk Officer	36.1	5.1	8.0	1.1
Jón Guðni Ómarsson, Chief Financial Officer	41.5	6.1	41.0	6.0
Riaan Dreyer, Director of Information Technology	13.6	2.0	-	-
Sigríður Hrefna Hrafnkelsdóttir, Managing Director of Personal Banking	37.8	5.3	36.0	5.0
Una Steinsdóttir, Managing Director of Business Banking	42.6	6.1	41.9	6.0
Sigríður Olgeirsdóttir, former Director of Information Technology	22.8	3.3	41.5	5.9
Sverrir Örn Þorvaldsson, former Chief Risk Officer	-	-	39.8	6.0
Vilhelm Þorsteinsson, former Managing Director of Corporate & Investment Banking	3.3	0.5	42.1	6.0
Total	288.1	45.9	313.8	50.0

The amounts in the table above comprise salaries for the managing directors for their executive board responsibilities. Included in total salaries are non-monetary benefits such as the use of cars owned by the Group.

As of 1 January 2017, the Bank has not had an active remuneration policy in place as stated in the Bank's compensation policy. Included in total salaries are paid performance-based salaries, which were earned in 2015, and paid by the Bank in 2019. For the Bank's CEO those amounted to ISK 4.1 million (2018: ISK 3.9 million) and for the managing directors the payments amounted to ISK 10.7 million (2018: ISK 12.5 million). The final payment for unpaid performance-based salaries at year-end, based on salaries for 2016, will be paid in April 2020.

There were no share based payments in the years 2019 and 2018.

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16. Other operating expenses

	2019	2018
Professional services	2,051	2,385
Software and IT expenses	4,616	4,568
Real estate and office equipment	1,188	1,796
Depreciation, amortisation and write-offs	1,960	1,312
Other administrative expenses	2,013	2,089
Other operating expenses	11,828	12,150

17. Auditors' fees

	2019	2018
Audit of the annual accounts	125	117
Review of interim accounts	23	24
Other services	5	15
Auditors' fees	153	156

18. Net impairment on financial assets

	2019	2018
Expected credit loss, on-balance sheet items*	(3,524)	529
Expected credit loss, off-balance sheet items	(52)	38
Changes in provision due to court rulings	(87)	1,017
Net impairment on financial assets	(3,663)	1,584

*The main reasons for the additional expected credit loss allowance are: increased loan impairments for a few customers (ISK 1,178 million), due to a less favourable economic environment (ISK 992 million), and an unfavourable ruling in a court case (ISK 787 million).

19. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2019 is 20% (2018: 20%). Special financial activities tax is calculated as 6% of taxable profits exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the year 2019 is 30.1% (2018: 32.7%).

	2019	2018
Current tax expense excluding discontinued operations	2,610	3,205
Special financial activities tax	642	860
Difference in prior year's calculated income tax	(6)	196
Changes in deferred tax assets and deferred tax liabilities	436	473
Income tax recognised in the income statement	3,682	4,734
Income tax recognised in other comprehensive income	(233)	(884)

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19. Cont'd

	2019		2018	
Profit before tax	12,261		14,467	
20% income tax calculated on the profit of the year	2,452	20.0%	2,893	20.0%
Special financial activities tax	642	5.2%	860	5.9%
(Income) expenses not subject to tax	(140)	(1.1%)	217	1.5%
Non-deductible expenses	708	5.8%	657	4.5%
Other differences	20	0.2%	107	0.8%
Effective income tax expense	3,682	30.1%	4,734	32.7%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

20. Discontinued operations, net of income tax

	2019	2018
Net (loss) profit from foreclosed assets	(199)	58
Net profit from disposal groups held for sale	74	854
Discontinued operations, net of income tax	(125)	912

21. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2019	2018	2019	2018
Profit attributable to shareholders of the Bank	8,934	10,124	8,809	11,036
Weighted average number of outstanding shares	10,000	10,000	10,000	10,000
Basic earnings per share	0.89	1.01	0.88	1.10

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2018: none).

22. Cash and balances with Central Bank

	31.12.2019	31.12.2018
Cash on hand	4,403	3,095
Balances with Central Bank	126,956	114,849
Balances with Central Bank subject to special restrictions*	1,679	3,049
Included in cash and cash equivalents	133,038	120,993
Mandatory reserve deposits with Central Bank	13,600	14,063
Cash and balances with Central Bank	146,638	135,056

*Balances as defined in Act no. 37/2016 on the treatment of króna-denominated assets subject to special restrictions and rules no. 490/2016 on special reserve requirements for new foreign currency inflows.

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23. Loans to credit institutions

	31.12.2019	31.12.2018
Money market loans	33,254	16,314
Bank accounts	21,122	25,259
Other loans	-	4
Loans to credit institutions	54,376	41,577

24. Derivative instruments and short positions

At 31 December 2019	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,254	114,393	3,575	96,212
Cross-currency interest rate swaps	3,015	91,950	880	13,073
Equity forwards	141	4,664	298	4,001
Foreign exchange forwards	212	5,460	321	10,217
Foreign exchange swaps	867	30,990	298	24,928
Bond forwards	132	12,756	33	6,219
Derivatives	5,621	260,213	5,405	154,650
Short positions in listed bonds	-	-	814	734
Total	5,621	260,213	6,219	155,384

At 31 December 2018				
Interest rate swaps	1,037	102,429	3,422	134,010
Cross-currency interest rate swaps	1,821	69,691	1,184	28,309
Equity forwards	419	4,596	78	1,195
Foreign exchange forwards	359	9,242	196	3,869
Foreign exchange swaps	875	35,726	440	13,373
Bond forwards	39	3,511	201	19,993
Derivatives	4,550	225,195	5,521	200,749

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Group carries relatively low indirect exposure due to margin trading with clients and the Group holds collaterals for possible losses. Other derivatives in the Group held for trading or for other purposes are insignificant.

Short positions are in Icelandic Government bonds and bonds issued by institutions with government guarantees. As a primary dealer the Group has access to securities lending facilities provided by the Central Bank and the Housing Financing Fund. Majority of the securities lending facilities have a maturity of less than a year.

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 35) arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. At year-end 2019 the total fair value of the interest rate swaps was positive and amounted to ISK 921 million (2018: ISK 627 million) and their total notional amount was ISK 40,749 million (2018: ISK 39,696).

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25. Loans to customers

At 31 December 2019	Gross carrying amount			Expected credit loss			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	338,335	4,119	9,362	(1,319)	(168)	(1,148)	349,181
Commerce and services	115,679	6,999	6,515	(739)	(194)	(1,772)	126,488
Construction	39,248	849	4,924	(310)	(53)	(238)	44,420
Energy	7,913	-	-	(26)	-	-	7,887
Financial services	2,315	-	-	-	-	-	2,315
Industrial and transportation	77,492	3,338	3,503	(278)	(221)	(1,546)	82,288
Investment companies	19,542	4,369	265	(260)	(216)	(110)	23,590
Public sector and non-profit organisations	12,279	44	15	(23)	(2)	(1)	12,312
Real estate	140,604	3,831	2,345	(542)	(89)	(590)	145,559
Seafood	105,411	249	385	(148)	(10)	(295)	105,592
Loans to customers	858,818	23,798	27,314	(3,645)	(953)	(5,700)	899,632

At 31 December 2018							
Individuals	308,870	5,901	6,860	(1,130)	(256)	(855)	319,390
Commerce and services	118,563	4,981	3,358	(643)	(179)	(1,838)	124,242
Construction	25,958	3,301	298	(196)	(247)	(19)	29,095
Energy	6,145	740	-	(20)	(7)	-	6,858
Financial services	1,708	-	-	(4)	-	-	1,704
Industrial and transportation	74,338	2,625	3,800	(398)	(53)	(488)	79,824
Investment companies	18,709	5,128	398	(217)	(103)	(116)	23,799
Public sector and non-profit organisations	12,054	22	30	(18)	-	(1)	12,087
Real estate	139,073	2,588	2,087	(528)	(154)	(181)	142,885
Seafood	103,014	3,616	479	(123)	(80)	(191)	106,715
Loans to customers	808,432	28,902	17,310	(3,277)	(1,079)	(3,689)	846,599

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26. Expected credit loss

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	3,277	1,079	3,689	8,045
Transfer to Stage 1	1,725	(1,343)	(382)	-
Transfer to Stage 2	(1,336)	1,687	(351)	-
Transfer to Stage 3	(178)	(720)	898	-
Net remeasurement of loss allowance	(1,216)	145	2,727	1,656
New financial assets originated or purchased	1,803	278	353	2,434
Derecognitions and maturities	(430)	(169)	(188)	(787)
Write-offs	-	(4)	(1,616)	(1,620)
Recoveries of amounts previously written off	-	-	249	249
Foreign exchange	-	-	10	10
Unwinding of interests	-	-	311	311
At 31 December 2019	3,645	953	5,700	10,298
At 1 January 2018	2,701	1,244	9,151	13,096
Transfer to Stage 1	2,652	(1,733)	(919)	-
Transfer to Stage 2	(1,053)	2,317	(1,264)	-
Transfer to Stage 3	(99)	(1,167)	1,266	-
Net remeasurement of loss allowance	(2,073)	126	(429)	(2,376)
New financial assets originated or purchased	1,474	478	711	2,663
Derecognitions and maturities	(323)	(185)	(618)	(1,126)
Write-offs	(2)	(1)	(5,254)	(5,257)
Recoveries of amounts previously written off	-	-	416	416
Foreign exchange	-	-	87	87
Unwinding of interests	-	-	542	542
At 31 December 2018	3,277	1,079	3,689	8,045

Total expected credit loss

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	4	-	-	4
Loans to credit institutions	67	-	-	67
Loans to customers	3,645	953	5,700	10,298
Other financial assets	9	3	86	98
Off-balance sheet loan commitments and financial guarantees*	403	55	231	689
At 31 December 2019	4,128	1,011	6,017	11,156
Cash and balances with Central Bank	48	-	-	48
Loans to credit institutions	62	-	-	62
Loans to customers	3,277	1,079	3,689	8,045
Other financial assets	5	3	83	91
Off-balance sheet loan commitments and financial guarantees*	410	142	84	636
At 31 December 2018	3,802	1,224	3,856	8,882

*For further breakdown see Note 39.

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27. Investments in associates

		31.12.2019	31.12.2018
Auðkenni hf., an information security company, Borgartún 31, 105 Reykjavík	Iceland	23.8%	23.8%
JCC ehf., a cash centre service company, Borgartún 19, 105 Reykjavík	Iceland	33.3%	33.3%
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.8%	30.8%

	2019	2018
Investments in associates at the beginning of the year	682	704
Additions during the year	-	86
Sales of shares in associates	-	(39)
Transfer from associates to subsidiaries	-	(80)
Share of gain of associates	64	29
Dividends paid	-	(18)
Investments in associates	746	682

Summarised financial information in respect of the Group's associates is set out below:	2019	2018
Revenue	6,259	5,487
Profit	281	171
Assets	5,445	5,291
Liabilities	(2,832)	(2,932)
Net assets	2,613	2,359
Group's share of net assets of associates	746	682

28. Investments in subsidiaries

		31.12.2019	31.12.2018
Borgun hf., a payment acquirer and issuing processor, Ármúli 30, 108 Reykjavík	Iceland	63.5%	63.5%
B-Payment Group Szolgáltató Zrt., a payment processing company, H-1132 Budapest	Hungary	100%	100%
Íslandssjóðir hf., an investment fund management company, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
Hringur-eignarhaldsfélag ehf., a holding company, Dalshraun 3, 220 Hafnarfjörður	Iceland	100%	100%
Allianz Ísland hf., an insurance agent, Dalshraun 3, 220 Hafnarfjörður	Iceland	100%	100%

In addition Íslandsbanki has control over nine other non-significant subsidiaries.

Borgun hf. is the only subsidiary of Íslandsbanki that has a material non-controlling interest, 2019: 36.5% (2018: 36.5%). The following table summarises key information relevant to Borgun hf. The amounts shown are before inter-company eliminations.

	2019	2018
Loans at amortised cost	7,780	7,425
Other assets	14,582	21,073
Liabilities	15,753	22,154
Net assets	6,609	6,344
Carrying amount of non-controlling interests	2,412	2,318
Revenue	10,807	10,383
Loss for the year	(972)	(1,069)
Other comprehensive income for the year, net of tax	1,272	610
Total comprehensive income	300	(459)
Profit (loss) allocated to non-controlling interests	110	(167)
Net cash used in operating activities	(1,679)	(4,500)
Net cash provided by investing activities	75	371
Net cash (used in) provided by financing activities	(405)	19
Net decrease in cash and cash equivalents	(2,009)	(4,110)

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29. Property and equipment

At 31 December 2019	Land and buildings	Right-of-use assets: Land, buildings & vehicles	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	4,054	-	3,984	8,038
Impact of adopting IFRS 16, see Note 3	-	4,505	-	4,505
Additions during the year	56	3	271	330
Disposals and write-offs during the year	(14)	-	(187)	(201)
Remeasurement	-	126	-	126
Historical cost	4,096	4,634	4,068	12,798
Balance at the beginning of the year	(1,402)	-	(1,365)	(2,767)
Depreciation during the year	(47)	(420)	(574)	(1,041)
Disposals and write-offs during the year	2	-	176	178
Accumulated depreciation	(1,447)	(420)	(1,763)	(3,630)
Carrying amount	2,649	4,214	2,305	9,168
Annual deprecion rates	0-2%	3-33%	8-35%	
Official real estate value of land and buildings				2,240
Insurance value of buildings				3,545
Insurance value of fixtures, equipment and vehicles				3,429

At 31 December 2018	Land and buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	5,722	4,683	10,405
Additions during the year	15	829	844
Disposals and write-offs during the year	(1,683)	(1,528)	(3,211)
Historical cost	4,054	3,984	8,038
Balance at the beginning of the year	(1,330)	(1,947)	(3,277)
Depreciation during the year	(72)	(496)	(568)
Disposals and write-offs during the year	-	1,078	1,078
Accumulated depreciation	(1,402)	(1,365)	(2,767)
Carrying amount	2,652	2,619	5,271
Annual deprecion rates	0-2%	8-33%	
Official real estate value of buildings and land			3,747
Insurance value of buildings			4,889
Insurance value of fixtures, equipment and vehicles			3,500

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30. Intangible assets

At 31 December 2019	Purchased software	Developed software	Goodwill	Total
Balance at the beginning of the year	1,639	3,644	248	5,531
Additions during the year and internal development	169	7	70	246
Write-offs during the year	(26)	(268)	-	(294)
Historical cost	1,782	3,383	318	5,483
Balance at the beginning of the year	(222)	(307)	-	(529)
Amortisation during the year	(313)	(318)	-	(631)
Write-offs during the year	7	-	-	7
Accumulated amortisation	(528)	(625)	-	(1,153)
Carrying amount	1,254	2,758	318	4,330
Amortisation rates	10-25%	10-25%	-	

At 31 December 2018	Purchased software	Developed software	Goodwill	Total
Balance at the beginning of the year	1,381	3,090	-	4,471
Additions during the year and internal development	479	555	248	1,282
Write-offs during the year	(221)	(1)	-	(222)
Historical cost	1,639	3,644	248	5,531
Balance at the beginning of the year	(39)	(201)	-	(240)
Amortisation during the year	(345)	(106)	-	(451)
Write-offs during the year	162	-	-	162
Accumulated amortisation	(222)	(307)	-	(529)
Carrying amount	1,417	3,337	248	5,002
Amortisation rates	10-25%	10-25%	-	

31. Other assets

	31.12.2019	31.12.2018
Receivables	4,810	5,793
Unsettled securities transactions	279	1,033
Accruals	253	289
Prepaid expenses	468	395
Deferred tax assets	476	215
Other assets	322	222
Non-current assets and disposal groups held for sale	1,075	1,230
Other assets	7,683	9,177

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31. Cont'd

Non-current assets and disposal groups held for sale	31.12.2019	31.12.2018
Repossessed collateral:		
Land and buildings	739	995
Industrial equipment and vehicles	44	17
Assets of disposal groups classified as held for sale	292	218
Total	1,075	1,230

At year-end 2019 the Group classified the assets and liabilities of Miðengi ehf. (100%) as assets and liabilities of disposal groups held for sale.

32. Deposits from Central Bank and credit institutions

	31.12.2019	31.12.2018
Deposits from credit institutions	30,808	15,527
Repurchase agreements with Central Bank	117	92
Deposits from Central Bank and credit institutions	30,925	15,619

33. Deposits from customers

	31.12.2019	31.12.2018
Demand deposits and deposits with maturity up to 3 months	530,960	499,170
Term deposits with maturity of more than 3 months	87,353	79,789
Deposits from customers	618,313	578,959

Deposits from customers specified by owners	31.12.2019		31.12.2018	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	12,553	2%	9,331	2%
Municipalities	5,619	1%	5,574	1%
Companies	299,204	48%	278,209	48%
Individuals	300,937	49%	285,845	49%
Deposits from customers	618,313	100%	578,959	100%

34. Pledged assets

	31.12.2019	31.12.2018
Financial assets pledged as collateral against liabilities	205,773	190,471
Financial assets pledged as collateral in foreign banks	402	1,105
Financial assets pledged as collateral in repurchase agreements	1,114	153
Pledged assets against liabilities	207,289	191,729

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans.

The Group has also pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

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35. Debt issued and other borrowed funds

	Issued	Maturity		Interest	31.12.2019	31.12.2018
Covered bonds in ISK*	2014-2017	2019	At maturity	Fixed rates	-	9,866
Covered bonds in ISK	2019	2021	At maturity	Fixed rates	3,918	-
Covered bonds in ISK	2015-2019	2023	At maturity	Fixed rates	20,170	10,890
Covered bonds in ISK - CPI-linked*	2012-2014	2019	At maturity	Fixed rates	-	8,937
Covered bonds in ISK - CPI-linked	2014-2015	2020	At maturity	Fixed rates	4,359	4,248
Covered bonds in ISK - CPI-linked	2015-2017	2022	At maturity	Fixed rates	18,512	18,009
Covered bonds in ISK - CPI-linked	2012-2018	2024	At maturity	Fixed rates	35,752	35,009
Covered bonds in ISK - CPI-linked	2015-2018	2026	At maturity	Fixed rates	27,661	26,992
Covered bonds in ISK - CPI-linked	2019	2028	At maturity	Fixed rates	14,228	-
Covered bonds in ISK - CPI-linked	2017-2018	2030	At maturity	Fixed rates	25,463	24,862
Covered bonds					150,063	138,813
Senior unsecured bonds in SEK	2015	2019	At maturity	Fixed rates	-	7,844
Senior unsecured bonds in EUR	2017	2019	At maturity	Fixed rates	-	4,398
Senior unsecured bonds in SEK	2018	2019	At maturity	Fixed rates	-	1,302
Senior unsecured bonds in EUR**	2016	2020	At maturity	Fixed rates	7,782	68,154
Senior unsecured bonds in SEK*	2018	2020	At maturity	Fixed rates	-	3,259
Senior unsecured bonds in SEK	2019	2020	At maturity	Floating rates	4,557	-
Senior unsecured bonds in SEK	2018	2021	At maturity	Fixed rates	1,308	1,311
Senior unsecured bonds in SEK	2018-2019	2021	At maturity	Floating rates	18,913	15,053
Senior unsecured bonds in EUR	2019	2021	At maturity	Floating rates	1,559	-
Senior unsecured bonds in SEK	2018	2022	At maturity	Floating rates	12,990	12,995
Senior unsecured bonds in EUR**	2019	2022	At maturity	Fixed rates	41,570	-
Senior unsecured bonds in NOK	2019	2022	At maturity	Floating rates	13,856	-
Senior unsecured bonds in EUR***	2018	2024	At maturity	Fixed rates	41,816	40,714
Senior unsecured bonds in NOK	2019	2024	At maturity	Fixed rates	5,709	-
Senior unsecured bonds in ISK	2019	2024	Monthly	Floating rates	3,553	-
Bonds issued					153,613	155,030
Bills issued					2,705	6,729
Other debt securities					-	404
Other borrowed funds					2,705	7,133
Debt issued and other borrowed funds					306,381	300,976

*The Bank repurchased own bonds during the year amounting to ISK 7,614 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 December 2019 the total carrying amount of the bonds amounted to ISK 49,352 million and included in the amount are fair value changes amounting to ISK 863 million. The carrying amount of the bond at 31 December 2019 was ISK 367 million higher than the contractual amount due at maturity. Íslandsbanki repurchased part of the bond issuance maturing in 2020 during the year, amounting to ISK 62,227 million.

***The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 24). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 31 December 2019 the total carrying amount of the bond issuance amounted to ISK 41,816 million and included in the amount are fair value changes amounting to ISK 771 million.

The Bank has issued additional covered bonds to hold for the purpose of securities lending with regards to market making agreements. These covered bond amounts are not included in the total.

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36. Subordinated loans

	Issued	Maturity		Interest	31.12.2019	31.12.2018
Loans which qualify as Tier 2 capital:						
Subordinated loans in SEK	2017	2027	At maturity	Floating, STIBOR + 2.0%	9,714	9,724
Subordinated loans in SEK	2018	2028	At maturity	Floating, STIBOR + 2.5%	6,485	6,492
Subordinated loans in SEK	2019	2029	At maturity	Floating, STIBOR + 3.9%	6,475	-
Subordinated loans					22,674	16,216

37. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2019	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2019
Covered bonds in ISK	20,756	2,060	1,272	-	-	24,088
Covered bonds in ISK - CPI-linked	118,057	1,263	6,655	-	-	125,975
Senior unsecured bonds in ISK	-	3,528	25	-	-	3,553
Senior unsecured bonds FX	46,162	12,139	1,016	(425)	-	58,892
Senior unsecured bonds FX at fair value	68,154	(22,509)	734	1,667	1,306	49,352
Senior unsecured bonds used for hedging	40,714	(465)	497	786	284	41,816
Other borrowed funds	7,133	(4,809)	358	23	-	2,705
Subordinated loans	16,216	6,190	501	(233)	-	22,674
Total	317,192	(2,603)	11,058	1,818	1,590	329,055

					Non-cash changes			
	31.12.2017	Reclassi-fication & remeasure	1.1.2018	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2018
Covered bonds in ISK	17,589	-	17,589	2,055	1,112	-	-	20,756
Covered bonds in ISK - CPI-linked	91,351	-	91,351	20,134	6,572	-	-	118,057
Senior unsecured bonds FX	37,182	(19,003)	18,179	23,275	531	4,177	-	46,162
Senior unsecured bonds FX at fair value	-	84,563	84,563	(20,083)	963	3,868	(1,157)	68,154
Senior unsecured bonds used for hedging ..	63,652	(63,652)	-	37,406	430	2,390	488	40,714
Other borrowed funds	7,974	-	7,974	(1,231)	390	-	-	7,133
Subordinated loans	9,505	-	9,505	5,629	198	884	-	16,216
Total	227,253	1,908	229,161	67,185	10,196	11,319	(669)	317,192

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38. Tax assets and tax liabilities

	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	6,670	-	6,472
Deferred tax	476	1,183	215	678
Tax in the balance sheet	476	7,853	215	7,150

Changes in the deferred tax assets and the tax liabilities were as follows:

	Assets	Liabilities
Deferred tax assets and tax liabilities 1.1.2018	4	88
Calculated income tax for 2018	211	3,888
Income tax payable in 2019	-	(3,214)
Income tax recognised in other comprehensive income	-	(94)
Prior year's income tax adjustment	-	10
Deferred tax assets and tax liabilities 31.12.2018	215	678
Calculated income tax for 2019	256	3,223
Income tax payable in 2020	-	(2,535)
Income tax recognised in other comprehensive income	9	(183)
Prior year's income tax adjustment	(4)	-
Deferred tax assets and tax liabilities 31.12.2019	476	1,183

Movements in temporary differences during the year were as follows:

				Balance at 31 December		
2019	Net balance at 1 January	Recognised in profit or (loss)	Recognised in equity	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(249)	(848)	-	(1,097)	-	(1,097)
Intangible assets	(527)	16	-	(511)	-	(511)
Assets and liabilities denominated in foreign currency	(264)	(12)	-	(276)	-	(276)
Deferred foreign exchange difference	(213)	(213)	-	(426)	-	(426)
Derivatives	194	(236)	-	(42)	-	(42)
Lease liabilities	-	851	-	851	851	-
Debt issued and other borrowed funds	329	(253)	192	268	268	-
Other items	(2)	32	-	30	30	-
Tax loss carry forwards	269	227	-	496	496	-
	(463)	(436)	192	(707)	1,645	(2,352)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,169)	1,169
Tax assets (liabilities)	(463)	(436)	192	(707)	476	(1,183)

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38. Cont'd

2018	Net balance at 1 January	Recognised in profit or (loss)	Recognised in equity	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(79)	(170)	-	(249)	-	(249)
Intangible assets	(395)	(132)	-	(527)	-	(527)
Assets and liabilities denominated in foreign currency	(186)	(78)	-	(264)	-	(264)
Deferred foreign exchange difference	(202)	(11)	-	(213)	-	(213)
Derivatives	465	(271)	-	194	194	-
Debt issued and other borrowed funds	314	(79)	94	329	329	-
Other items	(1)	(1)	-	(2)	-	(2)
Tax loss carry forwards	-	269	-	269	269	-
	(84)	(473)	94	(463)	792	(1,255)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(577)	577
Tax assets (liabilities)	(84)	(473)	94	(463)	215	(678)

39. Other liabilities

	31.12.2019	31.12.2018
Accruals	3,217	3,906
Liabilities to retailers for credit cards	14,765	20,722
Lease liabilities	4,256	-
Provision for effects of court rulings	75	-
Expected credit loss for off-balance sheet loan commitments and financial guarantees	689	636
Withholding tax	1,559	1,733
Unsettled securities transactions	515	612
Deferred income	229	193
Sundry liabilities	1,758	1,841
Non-current liabilities and disposal groups held for sale	-	6
Other liabilities	27,063	29,649

Expected credit loss for off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	410	142	84	636
Transfer to Stage 1	152	(81)	(71)	-
Transfer to Stage 2	(20)	39	(19)	-
Transfer to Stage 3	(9)	(18)	27	-
Net remeasurement of loss allowance	(455)	(27)	131	(351)
New loan commitments and financial guarantees	447	20	119	586
Derecognitions and maturities	(122)	(20)	(40)	(182)
At 31 December 2019	403	55	231	689
At 1 January 2018	467	101	106	674
Transfer to Stage 1	595	(545)	(50)	-
Transfer to Stage 2	(58)	67	(9)	-
Transfer to Stage 3	(6)	(69)	75	-
Net remeasurement of loss allowance	(828)	481	(132)	(479)
New loan commitments and financial guarantees	521	130	132	783
Derecognitions and maturities	(281)	(23)	(38)	(342)
At 31 December 2018	410	142	84	636

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40. Custody assets

	31.12.2019	31.12.2018
Custody assets - not managed by the Group	2,898,686	2,167,946

41. Leases

The Group as a lessee

The Group adopted a new IFRS standard, IFRS 16 - Leases as of 1 January 2019 (see Note 3). As a result of the adoption the Group changed its accounting policy for leases (see Note 66.10).

The Group's significant leases are leases for offices, branches and storage but the Group also leases land and vehicles. Most leases are CPI-linked real estate leases with duration of 5-10 years with extension options. Lease commitments are recognised on-balance sheet except for short-term leases and leases of low-value assets. Total expense for leases of low-value assets and short-term leases amounted to ISK 21 million during the year 2019.

Total cash outflow for leases amounted to ISK 493 million (2018: ISK 492 million).

Right-of-use assets are presented in the line item “Property and equipment” (see Note 29). Lease liabilities are presented in the line item “Other liabilities” (see Note 39).

At 31 December 2018 the future non-cancellable minimum operating lease payments where the Group was a lessee was:

	31.12.2018
Due within 1 year	470
Due in 1-5 years	1,831
Due in more than 5 years	2,842
Operating lease commitments	5,143

The Group as a lessor

Net investment in finance lease receivables

	31.12.2019	31.12.2018
Due within 1 year	17,559	18,524
Due in 1-5 years	30,960	30,195
Due in more than 5 years	3,538	3,011
Total gross investment in the lease	52,057	51,730
Due within 1 year	15,303	16,069
Due in 1-5 years	27,628	26,730
Due in more than 5 years	2,692	2,317
Total present value of lease payments*	45,623	45,116
Unearned interest income	6,434	6,614

*The Group presents finance lease receivables in the line item “Loans to customers”.

Expected credit loss allowance	202	193
Interest income from finance lease receivables during the year	3,165	3,166

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42. Related party

Íslandsbanki is wholly owned by the Icelandic Government. The shares are administered by the Icelandic State Financial Investments (ISFI). As a result, the Icelandic Government and the Icelandic State Financial Investments are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24, and does not disclose those transactions in the related party note.

The Board of Directors and key management personnel of the Bank, ISFI and subsidiaries of the Bank, close family members of individuals referred to herein and legal entities controlled by them, are defined as related parties.

The Group's associates are also defined as related parties.

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 Group entities purchase products and services from government-related entities under generally accepted commercial terms. Transactions with related parties were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Cash and balances with the Central Bank are disclosed under Note 22 and Deposits from the Central Bank are disclosed under Note 32.

All loans to employees are provided on general business terms of the Group and the balances do not reflect collaterals held by the Group.

At 31 December 2019	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Board of Directors, key management personnel and other related parties	324	392	(68)	51
Associated companies	16	830	(814)	213
Balances with related parties	340	1,222	(882)	264

2019	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	25	7	1	-
Associated companies	7	17	3	1,620
Transactions with related parties	32	24	4	1,620

At 31 December 2018	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with control over the Group	-	105	(105)	-
Board of Directors, key management personnel and other related parties	220	493	(273)	82
Associated companies	198	469	(271)	210
Balances with related parties	418	1,067	(649)	292

2018	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	2	-	-
Board of Directors, key management personnel and other related parties	16	10	2	-
Associated companies	15	10	2	1,937
Transactions with related parties	31	22	4	1,937

At year-end 2019 ISK 2 million were recognised as Stage 1 expected credit loss against balances outstanding with related parties (2018: ISK 2 million). No share option programmes were operated during the reporting period. For related party remuneration see Note 15.

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43. Contingencies

Contingent liabilities

Borgun hf.

Borgun hf., a subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun during the sales process, namely the worth of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun hf. and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun is approximately ISK 1,930 million. Seeing that the conclusion of the case is uncertain and the financial effect cannot be estimated the Group has not recognised a provision in relation to this matter. Court appointed surveyors presented their assessment in November 2019. A reassessment has been demanded. It is uncertain when a ruling is to be expected.

44. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the consolidated financial statements for the year ended 31 December 2019.

45. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. The Bank emphasises sound governance principles. The risk management and internal control framework of the Group is based on a three lines of defence model, as referred to in the European Banking Authority Guidelines on Internal Governance, and aims for informed decision-making and strong risk awareness. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Group’s internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence comprises the Bank's internal control units, risk management and compliance; and the third line of defence is Internal Audit which gives the Board an independent assessment of the quality of corporate governance, risk management and internal controls.

The Group's management body has a dual structure. The Board of Directors of the Bank has a supervising role in setting and monitoring the execution of set policies, the sound control of accounting and financial management and ensuring that group internal audit, compliance and risk management are effective. The Chief Executive Officer (CEO), the Chief Risk Officer (CRO), other members of the senior management and the senior management committees are responsible for implementing risk management practises and internal monitoring in accordance with Board authorisation.

The ultimate responsibility for ensuring an adequate risk management and internal control framework at the Group lies with the Board of Directors. The Board defines and communicates the risk governance framework and the acceptable level of risk through risk management policies and the Risk Appetite Statement. To assist the Board in fulfilling its oversight responsibilities, the Board has appointed three board subcommittees.

The CEO is responsible for the day-to-day operations of the Bank, pursuant to set policies and resolutions of the Board. Moreover, it is the task of the CEO to ensure that the Group's operations are consistent with applicable legislation and the Group's Articles of Association which includes maintaining adequate and effective risk management and internal control functions. The CEO appoints the Chief Risk Officer, the Compliance Officer as well as other members of the Executive Board. The CEO also engages the members of the senior management committees.

The CRO heads the risk management function and is responsible for defining the daily tasks of the department and to assess the adequacy of its professional skills. In addition, the CRO is responsible for monitoring the risk management framework at the Group and for verifying that the Bank has the right resources and an appropriate organisation to manage its risks efficiently.

The CRO is selected and appointed by the CEO, subject to Board confirmation. The CRO reports directly to the Board and the Board Risk Committee on the overall risk profile of the Group and cannot be removed without the Board's prior approval.

45. Cont'd

The CRO is independent from the business units, is a member of the Executive Board and reports directly to the CEO. The CRO provides an independent view on the Group's exposure to risk. The CRO has the right but not the responsibility to veto certain risk-taking decisions of the senior management committees if an internal control unit considers the proposal inconsistent with the Bank's risk appetite, policies or procedures.

Risk management is mandated to identify, understand, measure and monitor the risks that the Group is exposed to. It provides independent information, analyses and expert judgement on risk exposures, and advice on proposals and risk decisions made by the management and business or support units as to whether they are consistent with the risk appetite and risk polices set by the Board.

Where necessary, risk management makes recommendations to senior management and the Board to improve or clarify risk policies, procedures and limits.

Risk Management provides a holistic view on risk, and compliance to limits to internal and external stakeholders, and ensures an appropriate escalation in the event of limit breaches.

Business and support units are, however, responsible for maintaining their independent view on the risks inherent in their operations and reporting to senior management any foreseeable breaches from limits, policies or strategic direction.

Risk management provides the senior management and the Board with all relevant risk related information to enable it to define the Bank's risk appetite.

The General Counsel is appointed by and reports directly to the CEO. The General Counsel provides legal advice to the Bank's senior management, including the Board of Directors, and manages the Bank's legal department which provides comprehensive legal advice to the Bank's business segments and support units.

The Chief Audit Executive (CAE) is appointed by the Board, reports directly to Board and directs Group Internal Audit with a mandate from the Board. The CAE is responsible for internal audit matters within the Group, including internal audit tasks which have been outsourced.

The Compliance Officer heads the compliance function and is responsible for defining the daily tasks of the department and assessing the adequacy of its professional skills. The Compliance Officer is responsible for monitoring the compliance risk management framework for the Bank and maintaining oversight for compliance risk throughout the Bank.

The Bank's Compliance Officer is selected and engaged by the CEO, subject to Board confirmation. The Compliance Officer cannot be removed without the Board's prior approval. The Financial Supervisory Authority and Chief Audit Executive shall be notified of the dismissal or departure of the Compliance Officer.

The Compliance Officer reports directly to the Board on the overall compliance risk profile of the Bank.

Each employee is responsible for understanding the risk related to their day-to-day work, for knowing and understanding the respective internal and external rules and procedures, for using the alert procedures in the event of possible fraudulent activities and for conducting business in accordance with the Bank's code of conduct.

The Bank's senior management committee structure is twofold. Firstly the two executive committees, the Executive Board and the All Risk Committee, that are responsible for the implementation of the Board approved business strategy, risk appetite and policies. Secondly the four business committees, the Asset and Liability Committee (ALCO), the Senior Credit Committee (SCC), the Investment Committee (IC) and the Operational and Security Committee (OSC), which are responsible for the approval of business or operational proposals subject to internal rules and guidelines issued by the executive committees and the Board.

The members of the senior management committees are appointed by the CEO, and their mandate and rules of procedure are documented in a charter issued by the CEO.

More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2019 Report, which is available on the Bank's website: www.islandsbanki.is.

46. Credit risk

Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any financial contract with the Group.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. industrial sector, economy, geographical location, type of financial instrument or due to connections or relations among counterparties. This includes exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Credit risk arises principally from loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as financial guarantees, loan commitments and derivatives.

The Group has policies and procedures dedicated to accepting, measuring, and managing credit risk. The objective of the Group's credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Group's financial performance.

A thorough analysis of the counterparty's financial standing, analysis of past and estimated future cash flows as well as the borrower's general ability to repay its obligations forms the basis for all credit decisions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers, countries and industry segments. The Group measures and consolidates its credit risk for each counterparty or group of connected clients in accordance with internal and external criteria of connection between parties.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in borrower's assets. The principal collateral types for loans are properties, vehicles, equipment, vessels and securities. When applicable, other credit risk mitigants are employed.

47. Maximum credit exposure

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and loan commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated by adding potential future credit exposure to the positive market value of the contract.

The industry breakdown shows the credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

The Group's credit exposure, before taking account of any collateral held or other credit enhancements, is as follows:

At 31 December 2019	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	146,638	-	-	-	-	-	-	-	-	-	146,638
Loans to credit institutions	-	-	-	-	-	54,376	-	-	-	-	-	54,376
Bonds and debt instruments	-	33,007	-	-	125	16,131	1,296	52	1,027	1,232	-	52,870
Derivatives	-	-	706	-	1,836	5,788	189	530	-	208	228	9,485
Loans to customers:	349,181	-	126,488	44,420	7,887	2,315	82,288	23,590	12,312	145,559	105,592	899,632
Overdrafts	12,333	-	14,506	3,425	110	2,289	4,927	654	1,204	3,220	6,270	48,938
Credit cards	16,466	-	1,579	271	5	24	437	40	106	63	35	19,026
Mortgages	281,450	-	5	-	-	-	-	-	-	44	-	281,499
Capital leases	5,774	-	28,422	2,700	15	-	7,322	139	39	1,005	207	45,623
Other loans	33,158	-	81,976	38,024	7,757	2	69,602	22,757	10,963	141,227	99,080	504,546
Other financial assets	532	-	199	7	6	4,803	117	41	10	36	6	5,757
Off-balance sheet items:	33,964	-	24,605	16,035	2,974	6,579	18,865	548	3,461	19,036	9,738	135,805
Financial guarantees	1,477	-	6,035	4,914	-	1,172	2,907	95	5	2,004	252	18,861
Undrawn loan commitments	-	-	1,871	8,297	2,442	-	9,726	-	-	11,303	1,804	35,443
Undrawn overdrafts	9,842	-	12,476	2,063	503	5,291	5,135	314	2,733	5,456	7,525	51,338
Credit card commitments	22,645	-	4,223	761	29	116	1,097	139	723	273	157	30,163
Maximum credit exposure	383,677	179,645	151,998	60,462	12,828	89,992	102,755	24,761	16,810	166,071	115,564	1,304,563

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At 31 December 2018	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	135,056	-	-	-	-	-	-	-	-	-	135,056
Loans to credit institutions	-	-	-	-	-	41,577	-	-	-	-	-	41,577
Bonds and debt instruments	-	53,341	-	-	447	12,925	1,724	68	724	186	-	69,415
Derivatives	-	-	121	2	2,322	4,687	451	1,090	-	61	205	8,939
Loans to customers:	319,390	-	124,242	29,095	6,858	1,704	79,824	23,799	12,087	142,885	106,715	846,599
Overdrafts	11,769	-	11,699	3,304	31	1,509	4,483	780	754	4,501	9,751	48,581
Credit cards	15,779	-	1,516	251	4	21	433	33	112	59	34	18,242
Mortgages	249,296	-	-	-	-	-	-	-	-	-	-	249,296
Capital leases	6,504	-	27,552	2,270	5	-	7,166	116	48	1,197	258	45,116
Other loans	36,042	-	83,475	23,270	6,818	174	67,742	22,870	11,173	137,128	96,672	485,364
Other financial assets	409	-	451	5	1	6,532	23	34	3	18	35	7,511
Off-balance sheet items:	33,928	-	24,673	18,703	6,091	8,160	12,413	3,817	4,517	20,850	12,805	145,957
Financial guarantees	1,494	-	5,863	4,563	12	1,172	2,416	160	5	1,828	508	18,021
Undrawn loan commitments	-	-	4,986	11,662	5,996	-	4,899	1,100	-	14,629	5,782	49,054
Undrawn overdrafts	10,187	-	9,908	1,830	63	6,863	4,124	2,433	3,884	4,167	6,374	49,833
Credit card commitments	22,247	-	3,916	648	20	125	974	124	628	226	141	29,049
Maximum credit exposure	353,727	188,397	149,487	47,805	15,719	75,585	94,435	28,808	17,331	164,000	119,760	1,255,054

48. Credit exposure covered by collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Group takes a charge over assets such as real estate, vessels, cash and securities as well as other collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to the gross carrying amount of loans and nominal off-balance sheet items, and is measured without including the effect of overcollateralisation. This means that if some loans have collateral values in excess of their gross carrying amount, then the excess is removed in order to reflect the Group's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the cover indicates. The maximum credit risk exposure is measured on net carrying value basis, and therefore collateral allocation can in some instances be higher. For capital leases the Group remains the owner of the leased object. In total ISK 37,035 million of the collateral are leased objects.

The following tables show the maximum exposure to credit risk by class of financial asset and collateral held against those exposures. An overview of collateral held by the Group against credit exposure is shown below for exposures in Stages 1 and 2 (non credit-impaired) and exposures in Stage 3 (credit-impaired):

At 31 December 2019 **Collateral held against non credit-impaired exposures**	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Net exposure	Associated ECL
Derivatives	9,485	-	-	1,757	-	-	1,757	7,728	-
Loans and commitments to customers:	1,012,821	622,021	87,217	7,001	49,865	80,043	846,147	166,674	5,056
Individuals	374,718	292,701	7	417	13,317	116	306,558	68,160	1,579
Commerce and services	146,149	63,151	777	961	27,124	25,891	117,904	28,245	1,030
Construction	55,236	40,432	4	653	2,130	3,968	47,187	8,049	495
Energy	10,861	5,655	-	366	8	5	6,034	4,827	34
Financial services	8,894	-	-	123	-	3,621	3,744	5,150	7
Industrial and transportation	99,188	49,944	12	107	6,757	18,566	75,386	23,802	534
Investment companies	23,982	7,748	-	3,281	71	11,930	23,030	952	478
Public sector and non-profit organisations	15,758	958	-	7	29	-	994	14,764	29
Real estate	162,795	148,919	5	1,072	301	1,125	151,422	11,373	702
Seafood	115,240	12,513	86,412	14	128	14,821	113,888	1,352	168
Total	1,022,306	622,021	87,217	8,758	49,865	80,043	847,904	174,402	5,056
Collateral held against credit-impaired exposures									
Loans and commitments to customers:	22,616	17,100	1,481	333	846	830	20,590	2,026	5,931
Individuals	8,427	7,191	17	12	166	2	7,388	1,039	1,245
Commerce and services	4,944	2,980	102	22	561	805	4,470	474	1,864
Construction	5,219	4,919	-	197	19	7	5,142	77	261
Industrial and transportation	1,965	253	1,331	102	72	16	1,774	191	1,559
Investment companies	156	149	-	-	-	-	149	7	111
Public sector and non-profit organisations	15	14	-	-	-	-	14	1	1
Real estate	1,800	1,567	-	-	9	-	1,576	224	595
Seafood	90	27	31	-	19	-	77	13	295
Total	22,616	17,100	1,481	333	846	830	20,590	2,026	5,931

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At 31 December 2018

Collateral held against non credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Net exposure	Associated ECL
Derivatives	8,939	-	-	2,232	-	-	2,232	6,707	-
Loans and commitments to customers:	978,396	563,362	89,350	6,149	49,883	69,902	778,646	199,750	4,908
Individuals	347,490	266,508	6	359	13,485	155	280,513	66,977	1,508
Commerce and services	146,286	56,407	733	189	27,574	23,915	108,818	37,468	918
Construction	47,495	28,694	-	379	1,880	3,761	34,714	12,781	624
Energy	12,949	3,737	-	366	-	5	4,108	8,841	32
Financial services	9,864	-	-	309	-	-	309	9,555	17
Industrial and transportation	89,289	39,523	9	82	6,437	15,980	62,031	27,258	481
Investment companies	27,392	9,588	26	2,891	83	11,361	23,949	3,443	358
Public sector and non-profit organisations	16,551	974	-	7	37	2	1,020	15,531	22
Real estate	161,864	144,530	-	1,549	231	1,113	147,423	14,441	737
Seafood	119,216	13,401	88,576	18	156	13,610	115,761	3,455	211
Total	987,335	563,362	89,350	8,381	49,883	69,902	780,878	206,457	4,908

Collateral held against credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Net exposure	Associated ECL
Loans and commitments to customers:	14,160	9,003	2,282	106	328	487	12,206	1,954	3,773
Individuals	5,828	5,256	17	7	83	3	5,366	462	887
Commerce and services	2,629	1,023	139	-	78	247	1,487	1,142	1,853
Construction	303	232	-	-	21	14	267	36	19
Industrial and transportation	2,948	317	2,077	99	109	170	2,772	176	492
Investment companies	224	180	-	-	-	-	180	44	117
Public sector and non-profit organisations	53	37	-	-	-	-	37	16	1
Real estate	1,871	1,829	-	-	1	-	1,830	41	209
Seafood	304	129	49	-	36	53	267	37	195
Total	14,160	9,003	2,282	106	328	487	12,206	1,954	3,773

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49. Credit quality of financial assets

The following table provides the gross carrying amount of loans and credit risk exposure on loan commitments and financial guarantees. Amounts are broken down by risk class and the method by which their respective credit loss allowances (ECL) are calculated, i.e. Stage 1, 2 and 3.

The Group uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

The rating of corporate customers is based on a company's most recent financial statement, together with a qualitative assessment of its management, market position and industry sector.

For retail customers the Group uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Group of less than ISK 150 million. These models are behavioural scoring models and use information about a customer's payment history, amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of his obligations within 12 months of the rating assessment.

Risk classes 1-4 represent low risk, risk classes 5-6 moderate risk, risk classes 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers that are in default. Unrated are loans originating from subsidiaries of Íslandsbanki that do not have rating models, in addition to loans that are yet to be rated.

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2019 Report.

The same customer can have loans and off-balance sheet commitments in Stages 1 and 2 simultaneously. However, if a customer has an exposure in Stage 3 then all other loans and commitments are classified as Stage 3 as well.

At 31 December 2019

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	226,347	289	-	226,636
Risk class 5-6	388,936	1,385	-	390,321
Risk class 7-8	204,979	14,487	-	219,466
Risk class 9	33,880	7,544	-	41,424
Risk class 10	-	-	27,160	27,160
Unrated	4,676	93	154	4,923
	858,818	23,798	27,314	909,930
Expected credit loss	(3,645)	(953)	(5,700)	(10,298)
Net carrying amount	855,173	22,845	21,614	899,632

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	58,327	25	-	58,352
Risk class 5-6	58,271	253	-	58,524
Risk class 7-8	15,334	1,757	-	17,091
Risk class 9	1,095	186	-	1,281
Risk class 10	-	-	1,233	1,233
Unrated	8	5	-	13
	133,035	2,226	1,233	136,494
Expected credit loss	(403)	(55)	(231)	(689)
Total	132,632	2,171	1,002	135,805

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At 31 December 2019	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	76,119	151,224	115,042	29,537	9,517	4,530	(2,824)	383,145
Commerce and services	29,718	81,536	31,572	3,968	6,810	383	(2,894)	151,093
Construction	3,354	33,345	17,924	1,120	5,468	-	(756)	60,455
Energy	5,045	3,846	2,004	-	-	-	(34)	10,861
Financial services	8,848	30	17	-	-	6	(7)	8,894
Industrial and transportation	26,474	59,108	11,775	2,363	3,526	-	(2,093)	101,153
Investment companies	2,803	9,198	11,090	1,367	268	1	(589)	24,138
Public sector and non-profit organisations	12,761	2,733	268	11	15	15	(30)	15,773
Real estate	52,934	64,623	42,304	3,631	2,400	-	(1,297)	164,595
Seafood	66,932	43,202	4,561	708	389	1	(463)	115,330
Total	284,988	448,845	236,557	42,705	28,393	4,936	(10,987)	1,035,437

At 31 December 2018

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	213,012	104	-	213,116
Risk class 5-6	367,843	1,055	-	368,898
Risk class 7-8	184,807	15,339	-	200,146
Risk class 9	38,633	12,363	-	50,996
Risk class 10	-	-	17,215	17,215
Unrated	4,137	41	95	4,273
	808,432	28,902	17,310	854,644
Expected credit loss	(3,277)	(1,079)	(3,689)	(8,045)
Net carrying amount	805,155	27,823	13,621	846,599

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	68,712	30	-	68,742
Risk class 5-6	55,112	194	-	55,306
Risk class 7-8	16,913	1,899	-	18,812
Risk class 9	1,517	1,460	-	2,977
Risk class 10	-	-	623	623
Unrated	130	3	-	133
	142,384	3,586	623	146,593
Expected credit loss	(410)	(142)	(84)	(636)
Total	141,974	3,444	539	145,957

At 31 December 2018	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	74,325	135,721	101,859	33,354	6,955	3,499	(2,395)	353,318
Commerce and services	33,700	84,690	23,538	5,455	3,718	585	(2,771)	148,915
Construction	3,387	21,930	21,711	1,024	336	53	(643)	47,798
Energy	11,472	544	965	-	-	-	(32)	12,949
Financial services	9,450	419	8	-	-	4	(17)	9,864
Industrial and transportation	34,253	41,922	8,331	4,930	3,705	69	(973)	92,237
Investment companies	5,709	6,976	10,751	4,241	414	-	(475)	27,616
Public sector and non-profit organisations	13,150	3,119	240	-	52	66	(23)	16,604
Real estate	41,768	73,484	44,312	2,909	2,172	36	(946)	163,735
Seafood	54,644	55,399	7,243	2,060	486	94	(406)	119,520
Total	281,858	424,204	218,958	53,973	17,838	4,406	(8,681)	992,556

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50. Forbearance and write-offs

When restructuring or modification measures are believed to be more appropriate than collection procedures, the Group offers several debt relief measures and restructuring frameworks for customers in financial difficulties. These forbearance measures include temporary payment holidays, extension of loan terms, capitalisation of arrears and waiving of covenants.

The relationship between forbearance and stages is discussed in Note 66.3.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for a loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of the customer's facilities have to be considered performing; and
- The customer does not have any contract that is more than 30 days past due; and
- The probation period of two years has passed from the date of the forbearance event; and
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period

The following table provides a summary of the Group's forborne assets.

At 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individuals	1,615	1,102	1,372	4,089
Companies	13,212	8,469	8,289	29,970
Gross carrying amount	14,827	9,571	9,661	34,059

	Stage 1	Stage 2	Stage 3	Total
Individuals	(12)	(41)	(182)	(235)
Companies	(77)	(249)	(2,167)	(2,493)
Expected credit loss	(89)	(290)	(2,349)	(2,728)

At 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Individuals	1,741	2,020	1,238	4,999
Companies	14,377	2,016	4,588	20,981
Gross carrying amount	16,118	4,036	5,826	25,980

	Stage 1	Stage 2	Stage 3	Total
Individuals	(13)	(92)	(198)	(303)
Companies	(139)	(49)	(1,160)	(1,348)
Expected credit loss	(152)	(141)	(1,358)	(1,651)

Gross carrying amount written off and still subject to enforcement activity	2019	2018
Individuals	578	1,514
Companies	1,253	3,756
Total	1,831	5,270

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51. Assets obtained by taking possession of collateral

Details of non-financial assets obtained by the Group during the year by taking possession of collateral held as security against loans.

	31.12.2019	31.12.2018
Property and land	378	1,072
Industrial equipment and vehicles	81	41
Total	459	1,113

The Group pursues realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations. The Group's employees are not permitted to purchase foreclosed assets.

52. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's capital base it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by regulation no. 233/2017. The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of Article (1)(a) of the Act on Financial Undertakings no. 161/2002, where groups of connected clients are defined.

The exposure is evaluated both before and after credit risk mitigating effects. After mitigating effects, the Group currently has no large exposures, a decrease of four since the last reporting date. No large exposure is therefore above the maximum 25% single large exposure limit set by the law.

The following tables show the Group's large exposures as a percentage of the Group's capital base, before and after eligible credit risk mitigating effects.

At 31 December 2019

Groups of connected clients:	Before	After
Group 1	75%	-

At 31 December 2018

Groups of connected clients:	Before	After
Group 1	73%	-
Group 2	12%	12%
Group 3	12%	11%
Group 4	11%	11%
Group 5	13%	11%

53. Liquidity risk

The Group defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

The Group's main source of funding is customer deposits. Treasury is responsible for the Bank's funding and liquidity management in line with internal and regulatory limits and policies. Treasury manages the Bank's intraday liquidity. Risk Management, as the second line of defence, is responsible for independent reporting on the liquidity position to internal and external stakeholders and providing a holistic view on liquidity risk on a consolidated basis.

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54. Liquidity coverage and Net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratio and the rules on funding ratio in foreign currencies. In addition, the Group complies with the Financial Supervisory Authority's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 266/2017.

The following tables show the NSFR and the LCR for the Group at year-end 2019 and 2018.

Net stable funding ratio	31.12.2019	31.12.2018
For all currencies	119%	114%
Foreign currencies	156%	149%

Liquidity coverage ratio	31.12.2019	31.12.2018
For all currencies	155%	172%
Foreign currencies	325%	544%

At 31 December 2019	For all currencies		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	157,080	157,080	31,858	31,858
Liquid assets level 2	11,942	6,271	3,727	520
Total liquid assets	169,022	163,351	35,585	32,378
Deposits	482,322	139,354	78,089	33,961
Debt issued	1,361	1,361	650	650
Other outflows	81,493	30,997	18,012	5,248
Total outflows	565,176	171,712	96,751	39,859
Short-term deposits with other banks**	54,203	52,335	51,343	50,261
Other inflows	33,984	14,213	6,287	3,558
Restrictions on inflows	-	-	-	(23,925)
Total inflows	88,187	66,548	57,630	29,894
Liquidity coverage ratio		155%		325%

At 31 December 2018	For all currencies		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	169,217	169,217	42,608	42,608
Liquid assets level 2	2,754	775	2,754	775
Total liquid assets	171,971	169,992	45,362	43,383
Deposits	455,883	127,018	67,513	25,191
Debt issued	875	875	875	875
Other outflows	72,598	32,095	15,277	5,849
Total outflows	529,356	159,988	83,665	31,915
Short-term deposits with other banks**	39,718	39,718	39,716	39,716
Other inflows	42,739	21,443	9,702	7,950
Restrictions on inflows	-	-	-	(23,730)
Total inflows	82,457	61,161	49,418	23,936
Liquidity coverage ratio		172%		544%

*Level 1 liquid assets include cash and balances with the Central Bank, domestic bonds eligible as collateral against borrowing at the Central Bank and foreign government bonds in accordance with rules no. 266/2017 on liquidity ratio.

**Short-tem deposits with other banks with maturity less than 30 days.

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Deposits by liquidity coverage ratio category

The Group's deposits are categorised by counterparty according to the Liquidity Coverage Ratio (LCR) standard. The groups are listed in order of estimated stability and the respective LCR outflow weight. Deposits are also classified as stable if the customer has an established business relationship with the Bank and is covered by an effective insurance scheme.

	Deposits maturing within 30 days					
At 31 December 2019	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	228,447	12%	83,773	5%	78,870	391,090
Operational relationships	2,446	25%	-	5%	-	2,446
Corporations	73,739	40%	337	20%	24,589	98,665
Sovereigns, Central Bank and public sector entities	6,813	40%	253	20%	620	7,686
Pension funds	35,405	100%	-	-	24,869	60,274
Domestic financial entities	28,494	100%	-	-	46,371	74,865
Foreign financial entities	8,038	100%	-	-	6,174	14,212
Total	383,382		84,363		181,493	649,238

	Deposits maturing within 30 days					
At 31 December 2018	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	216,428	12%	80,804	5%	78,476	375,708
Operational relationships	2,572	25%	-	5%	-	2,572
Corporations	63,887	40%	341	20%	22,809	87,037
Sovereigns, Central Bank and public sector entities	7,613	40%	246	20%	591	8,450
Pension funds	30,686	100%	-	-	26,987	57,673
Domestic financial entities	27,467	100%	-	-	24,622	52,089
Foreign financial entities	3,242	100%	-	-	7,807	11,049
Total	351,895		81,391		161,292	594,578

55. Maturity analysis of assets and liabilities

The following tables show the contractual payments of principal and interest for the Group's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

Maturity analysis 31 December 2019

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Deposits from CB and credit institutions	30,925	1,992	16,363	8,468	4,580	-	-	31,403
Deposits from customers	618,313	453,959	78,232	54,994	16,612	62,222	-	666,019
Debt issued and other borrowed funds	306,381	-	6,991	24,861	267,776	90,610	-	390,238
Subordinated loans	22,674	-	158	463	2,865	26,482	-	29,968
Other financial liabilities:	24,772	17,581	2,124	1,276	1,759	2,448	-	25,188
Lease liabilities	4,256	-	116	349	1,759	2,448	-	4,672
Other liabilities	20,516	17,581	2,008	927	-	-	-	20,516
Total	1,003,065	473,532	103,868	90,062	293,592	181,762	-	1,142,816

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Off-balance sheet liabilities show the amount of contractual obligations that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations all fall into the first time bucket since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	18,861	-	-	-	-	-	18,861
Undrawn loan commitments	35,443	-	-	-	-	-	35,443
Undrawn overdrafts	51,338	-	-	-	-	-	51,338
Credit card commitments	30,163	-	-	-	-	-	30,163
Total	135,805	-	-	-	-	-	135,805
Total non-derivative financial liabilities and off-balance sheet liabilities	609,337	103,868	90,062	293,592	181,762	-	1,278,621

The following table shows the contractual cash flow of the Group's derivative liabilities, i.e. derivatives that have a negative and a positive carrying amount at the reporting date. For derivatives settled on a gross basis, the cash flow for both legs of the derivative is shown, since netting cannot be applied upon settlement.

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	57,542	36,133	43,218	-	-	136,893
Outflow	-	(59,615)	(37,222)	(44,915)	-	-	(141,752)
Total	-	(2,073)	(1,089)	(1,697)	-	-	(4,859)
Net settled derivatives	-	(323)	-	-	-	-	(323)
Total	-	(2,396)	(1,089)	(1,697)	-	-	(5,182)

Maturity classification of assets is based on contractual maturity. For bonds and debt instruments in the banking book the maturity classification is based on contractual maturity dates while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	146,638	28,978	115,981	-	-	1,679	-	146,638
Loans to credit institutions	54,376	20,719	33,656	-	-	-	-	54,375
Bonds and debt instruments	52,870	7,768	23,998	10,120	10,983	-	-	52,869
Loans to customers	899,632	2,972	88,446	87,462	303,668	417,083	-	899,631
Shares and equity instruments	18,426	-	-	-	-	-	18,426	18,426
Other financial assets	5,757	1,889	525	118	17	-	3,259	5,808
Total	1,177,699	62,326	262,606	97,700	314,668	418,762	21,685	1,177,747

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	92,680	28,583	74,731	-	-	195,994
Outflow	-	(82,832)	(27,964)	(73,544)	-	-	(184,340)
Total	-	9,848	619	1,187	-	-	11,654
Net settled derivatives	-	273	-	-	-	-	273
Total	-	10,121	619	1,187	-	-	11,927

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The following tables show the comparative amounts for maturity analysis at year-end 2018.

Maturity analysis 31 December 2018

Financial liabilities	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Deposits from CB and credit institutions	15,619	4,594	3,229	4,992	3,249	-	-	16,064
Deposits from customers	578,959	420,242	81,178	37,952	26,976	38,070	-	604,418
Debt issued and other borrowed funds	300,976	404	24,214	21,178	154,315	141,098	-	341,209
Subordinated loans	16,216	-	90	307	2,242	20,417	-	23,056
Other financial liabilities	27,186	24,431	1,729	1,026	-	-	-	27,186
Total	938,956	449,671	110,440	65,455	186,782	199,585	-	1,011,933

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	18,021	-	-	-	-	-	18,021
Undrawn loan commitments	49,054	-	-	-	-	-	49,054
Undrawn overdrafts	49,833	-	-	-	-	-	49,833
Credit card commitments	29,049	-	-	-	-	-	29,049
Total	145,957	-	-	-	-	-	145,957
Total non-derivative financial liabilities and off-balance sheet liabilities	595,628	110,440	65,455	186,782	199,585	-	1,157,890

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	20,124	23,147	49,380	1,771	-	94,422
Outflow	-	(20,638)	(24,189)	(51,654)	(1,943)	-	(98,424)
Total	-	(514)	(1,042)	(2,274)	(172)	-	(4,002)
Net settled derivatives	-	(280)	-	-	-	-	(280)
Total	-	(794)	(1,042)	(2,274)	(172)	-	(4,282)

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	135,056	47,746	87,310	-	-	-	-	135,056
Loans to credit institutions	41,577	24,152	17,425	-	-	-	-	41,577
Bonds and debt instruments	69,415	-	18,946	24,189	14,409	11,604	267	69,415
Loans to customers	846,599	2,054	90,269	74,716	282,624	396,936	-	846,599
Shares and equity instruments	13,074	-	-	-	-	-	13,074	13,074
Other financial assets	7,511	1,888	475	71	9	-	5,068	7,511
Total	1,113,232	75,840	214,425	98,976	297,042	408,540	18,409	1,113,232

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	57,050	22,267	77,126	327	-	156,770
Outflow	-	(56,077)	(21,929)	(74,072)	(343)	-	(152,421)
Total	-	973	338	3,054	(16)	-	4,349
Net settled derivatives	-	869	-	-	-	-	869
Total	-	1,842	338	3,054	(16)	-	5,218

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56. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies and equities. Derivative contracts are also potential sources of market risk.

Market risk within the Group can broadly be split into two categories, trading book and banking book. The trading book includes market risk exposures related, directly or indirectly, to the Group's short- and medium-term trading in securities, currencies and other capital market instruments and derivatives. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. The banking book includes market risk exposures related to securities held for long-term investment purposes, unlisted securities or holdings in subsidiaries or affiliates. A large part of the banking book market risk is due to mismatches in the composition of assets and liabilities, for example with respect to currencies, interest rates, CPI-indexation or other factors that can affect the Group's earnings or earnings volatility. These mismatches are reported to management and are subject to internal and regulatory limits.

57. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates. Sensitivity measures like Basis Point Value (BPV) are used to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 percentage point upward parallel shift in the yield curve on the fair value of these exposures.

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing Financing Fund (HFF) which are guaranteed by the Icelandic Government, domestic municipality bonds, and covered bonds issued by other Icelandic banks. Bonds and bills in the Group's liquidity portfolio are also categorised in the trading book. In the following table the total market value (MV) of long and short positions may not be the same as reported in Note 5 since netting between short and long positions is not applied here.

	31.12.2019			31.12.2018		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,143	6.84	(0.78)	1,872	6.13	(1.15)
Non-indexed	31,855	0.41	(1.29)	43,550	0.32	(1.40)
Total	32,998	0.63	(2.07)	45,422	0.56	(2.55)

	31.12.2019			31.12.2018		
Trading bonds and debt instruments, short positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	150	6.00	0.10	-	-	-
Non-indexed	615	4.00	0.28	198	5.00	0.09
Total	765	4.39	0.38	198	5.00	0.09
Net position of trading bonds and debt instruments	32,233	0.54	(1.69)	45,224	0.54	(2.46)

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The following table shows the interest rate sensitivity of the Group's trading book from a parallel 100 basis points change in all yield curves.

Sensitivity analysis for trading bonds and debt instuments

		31.12.2019		31.12.2018	
		Profit (loss)			
Currency	Parallel shift in yield curve (basis points)	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	100	87	(87)	115	(115)
ISK, non-indexed	100	44	(44)	24	(24)
EUR	100	40	(40)	56	(56)
USD	100	32	(32)	29	(29)
Other total	100	9	(9)	-	-
Total		212	(212)	224	(224)

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Group's assets and liabilities are of different maturities and are priced relative to different interest rates.

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset.

Sensitivity analysis for interest rate risk in the banking book

At 31 December 2019

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	55	60	(442)	(1,668)	1,995	193	193
ISK, non-indexed	7	(12)	11	89	(10)	(9)	76
EUR	(17)	(20)	(29)	118	-	(2)	50
SEK	10	-	-	-	-	-	10
USD	(42)	-	-	-	-	(1)	(43)
Other	12	(11)	-	41	-	(6)	36
Total	25	17	(460)	(1,420)	1,985	175	322

At 31 December 2018

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	20	8	110	(3,318)	3,185	72	77
ISK, non-indexed	9	57	(7)	(193)	(77)	(1)	(212)
EUR	87	(25)	13	(1,605)	1,709	-	179
SEK	92	-	(16)	-	-	-	76
USD	(63)	-	-	-	-	-	(63)
Other	(1)	(11)	-	-	-	-	(12)
Total	144	29	100	(5,116)	4,817	71	45

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58. Currency risk

Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in the currency composition of assets or liabilities.

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

Currency analysis at 31 December 2019

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	942	319	210	52	24	51	73	114	58	123	1,966
Loans to credit institutions	11,689	25,740	1,650	378	534	116	9,707	1,294	272	687	52,067
Bonds and debt instruments	12,930	10,937	3	-	-	-	8,232	-	-	-	32,102
Loans to customers	112,185	29,486	2,037	581	3,185	3	3,408	635	6,005	33	157,558
Shares and equity instruments	31	3,371	419	-	-	-	27	-	-	-	3,848
Other assets	390	1,866	338	6	-	73	2	20	-	458	3,153
Total assets	138,167	71,719	4,657	1,017	3,743	243	21,449	2,063	6,335	1,301	250,694
Liabilities											
Deposits from credit institutions	9,145	558	1	-	-	-	-	-	-	-	9,704
Deposits from customers	32,247	27,939	3,810	385	395	874	3,317	3,617	453	42	73,079
Debt issued and other borrowed funds	91,809	-	-	-	-	37,768	19,565	-	-	-	149,142
Subordinated loans	-	-	-	-	-	22,674	-	-	-	-	22,674
Other liabilities	1,728	944	558	35	3	162	5	47	2	665	4,149
Total liabilities	134,929	29,441	4,369	420	398	61,478	22,887	3,664	455	707	258,748
Net on-balance sheet position	3,238	42,278	288	597	3,345	(61,235)	(1,438)	(1,601)	5,880	594	(8,054)
Net off-balance sheet position	(4,344)	(41,574)	(231)	(610)	(3,345)	61,127	1,255	1,726	(5,840)	(203)	7,961
Net position	(1,106)	704	57	(13)	-	(108)	(183)	125	40	391	(93)

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Currency analysis at 31 December 2018

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	377	250	135	23	10	54	51	88	29	73	1,090
Loans to credit institutions	15,662	12,614	4,488	258	613	4,683	1,901	530	123	538	41,410
Bonds and debt instruments	32,313	10,968	24	-	-	-	-	-	-	-	43,305
Loans to customers	105,852	31,603	2,037	734	3,213	2	4,318	572	5,710	39	154,080
Shares and equity instruments	45	2,202	398	-	-	-	40	-	-	-	2,685
Other assets	1,270	2,056	834	4	91	83	2	45	-	1,737	6,122
Total assets	155,519	59,693	7,916	1,019	3,927	4,822	6,312	1,235	5,862	2,387	248,692
Liabilities											
Deposits from credit institutions	5,622	538	83	-	96	-	16	-	-	-	6,355
Deposits from customers	26,605	26,819	4,293	329	430	927	3,211	1,728	434	144	64,920
Debt issued and other borrowed funds	113,670	-	-	-	-	41,764	-	-	-	-	155,434
Subordinated loans	-	-	-	-	-	16,216	-	-	-	-	16,216
Other liabilities	2,502	1,269	578	30	266	82	154	138	-	2,098	7,117
Total liabilities	148,399	28,626	4,954	359	792	58,989	3,381	1,866	434	2,242	250,042
Net on-balance sheet position	7,120	31,067	2,962	660	3,135	(54,167)	2,931	(631)	5,428	145	(1,350)
Net off-balance sheet position	(7,589)	(31,140)	(2,964)	(667)	(3,170)	54,350	(2,844)	642	(5,418)	(147)	1,053
Net position	(469)	(73)	(2)	(7)	(35)	183	87	11	10	(2)	(297)

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The following table shows the effect of a 10% depreciation or appreciation of foreign exchange rates where the Group had positions at the reporting date, with all other variables held constant.

Sensitivity analysis for currency risk	31.12.2019		31.12.2018	
	Profit or (loss)			
Currency	-10%	10%	-10%	10%
EUR	111	(111)	47	(47)
USD	(70)	70	7	(7)
GBP	(6)	6	-	-
CHF	1	(1)	1	(1)
JPY	-	-	4	(4)
SEK	11	(11)	(18)	18
NOK	18	(18)	(9)	9
DKK	(13)	13	(1)	1
CAD	(4)	4	(1)	1
Other foreign currencies	(39)	39	-	-
Total	9	(9)	30	(30)

59. Shares and equity instruments

The Group's equity exposure in the trading book arises from flow trading and market making with shares listed on the Nasdaq Iceland Stock Exchange. Shares and equity instruments in the banking book are classified as mandatorily at fair value through profit or loss or are classified as held for sale.

The following table shows how a 10% shift in equity prices would affect the Group's equity and net financial income. Securities used for hedging are excluded.

Sensitivity analysis for shares and equity instruments		31.12.2019		31.12.2018	
		Profit or (loss)			
Portfolio	Change in equity prices	Downward shift	Upward shift	Downward shift	Upward shift
Trading book	10%	(169)	169	(123)	123
Banking book	10%	(806)	806	(639)	639
Total		(975)	975	(762)	762

60. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 93 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.12.2019	31.12.2018
Bonds and debt instruments	2,103	2,721
Loans to customers	295,725	293,917
Total CPI-linked assets	297,828	296,638

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	31.12.2019	31.12.2018
Deposits from customers	98,766	95,917
Debt issued and other borrowed funds	125,975	118,103
Off-balance sheet position	63,827	70,617
Total CPI-linked liabilities	288,568	284,637
CPI imbalance	9,260	12,001

61. Derivatives

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. However, the Group is subject to indirect exposure through customers' margin trading. Margin trading is subject to continuous monitoring and collateral requirements. Other derivatives held for trading or for other purposes are insignificant.

62. Capital management

The following table shows the capital base, risk exposure amount, the resulting capital ratios, and leverage for the Group at 31 December 2019 and 31 December 2018.

The Group's regulatory capital requirement is calculated according to CRD IV as implemented through Act no. 161/2002 on Financial Undertakings and regulation no. 233/2017 on prudential requirements for financial undertakings. Capital requirement calculations for credit risk and market risk are based on the standardised approach whereas the capital requirement calculations for operational risk are based on the basic indicator approach.

Article 501 of the capital requirements regulation (EU) no. 575/2013 of the European parliament came into effect in Iceland on 1 January 2020. This article stipulates capital requirements deduction for credit risk on exposures to SMEs and is expected to lower the risk exposure amount by ISK 15.6 billion, which corresponds to a 40 basis point increase in the Group's capital ratio.

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority, applicable as of 30 September 2019, the overall capital requirement is 18.8%. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

The minimum leverage ratio for Icelandic financial institutions is 3%.

	31.12.2019	31.12.2018
CET1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	7,065	6,499
Retained earnings	105,569	102,496
Non-controlling interests	2,428	2,318
Fair value changes due to own credit standing	392	376
Tax assets	(476)	(215)
Intangible assets	(4,330)	(5,002)
Total CET1 capital	175,648	171,472
Tier 2 capital		
Qualifying subordinated liabilities	22,674	16,216
Total capital base	198,322	187,688

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	31.12.2019	31.12.2018
Risk exposure amount		
- due to credit risk	789,180	750,801
- due to market risk	7,919	7,622
Market risk, trading book	6,488	6,649
Currency risk	1,431	973
- due to credit valuation adjustment	2,027	2,385
- due to operational risk	85,424	85,141
Total risk exposure amount	884,550	845,949
Capital ratios		
Tier 1 ratio	19.9%	20.3%
Total capital ratio	22.4%	22.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,189,062	1,120,637
Off-balance sheet exposures	38,849	47,119
Derivative exposures	9,461	8,935
Leverage ratio total exposure measure	1,237,372	1,176,691
Tier 1 capital	175,648	171,472
Leverage ratio	14.2%	14.6%

63. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Goup's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk and compliance risk among other risk factors.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at Íslandsbanki lies with the Board of Directors. The Board has approved an Operational Risk Policy which outlines the Bank's framework for operational risk management. Risk Management is responsible for implementing the Bank's operational risk framework, for developing, maintaining the Operational Risk Policy and for communicating the policy to the Bank‘s employees.

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