



# Condensed Consolidated Interim Financial Statements

Third quarter 2019

Unaudited

# Contents

Highlights .....	2
Directors' Report .....	3 - 4
Consolidated Interim Income Statement .....	5
Consolidated Interim Statement of Comprehensive Income .....	6
Consolidated Interim Statement of Financial Position .....	7
Consolidated Interim Statement of Changes in Equity .....	8
Consolidated Interim Statement of Cash Flows .....	9 - 10
Notes to the Condensed Consolidated Interim Financial Statements .....	11 - 54

# Highlights

## Our profile

A leader in financial services in Iceland, Íslandsbanki is a universal bank with total assets of ISK 1,234bn and a 25-50% market share across all domestic business segments.

Building on over 140 years of servicing key industries, Íslandsbanki has developed specific expertise in tourism, seafood and energy related industries.

Driven by the vision to be #1 for service, Íslandsbanki's relationship banking business model is propelled by three business divisions that manage and build relationships with the Bank's customers.

Íslandsbanki has developed a wide range of online services such as the Íslandsbanki, Kort and Kass apps, enabling customers to do their banking whenever and wherever. At the same time, the Bank continues to operate the most efficient branch network in Iceland through its strategically located 14 branches.

In 2018, Íslandsbanki led the Icelandic Customer Satisfactory Index for banks for the sixth consecutive year.

Íslandsbanki has a BBB+/A-2 rating from S&P Global Ratings.



## Our Bank



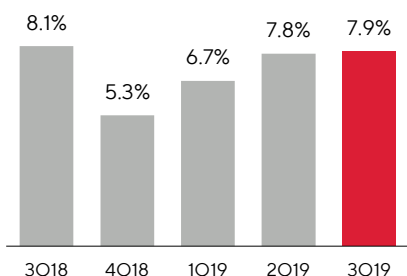
## Market Share\*



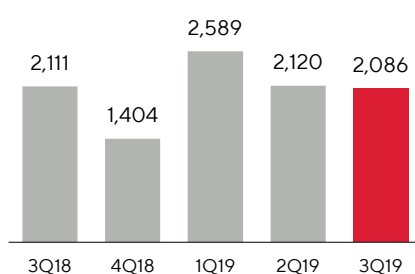
## Credit Ratings

S&P Global Ratings **BBB+/A-2**  
Negative outlook

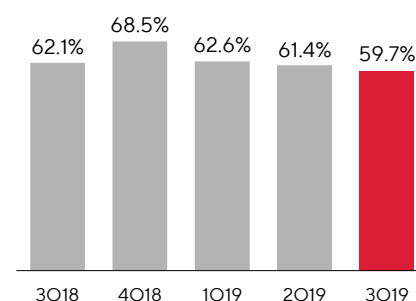
## ROE reg. operations CET1 16%\*\*



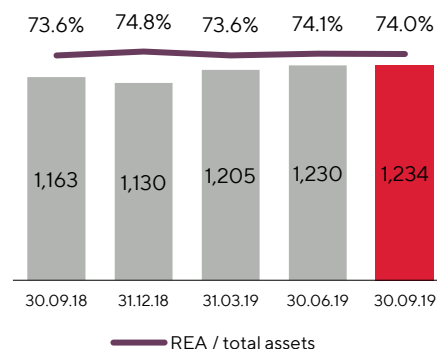
## Profit after tax (ISKm)



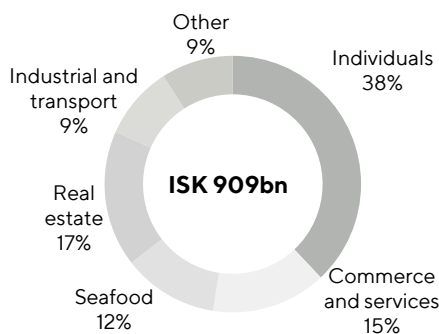
## Cost / income ratio\*\*\*



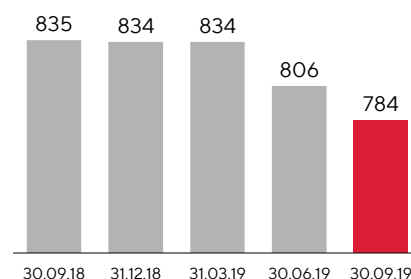
## Total assets (ISKbn)



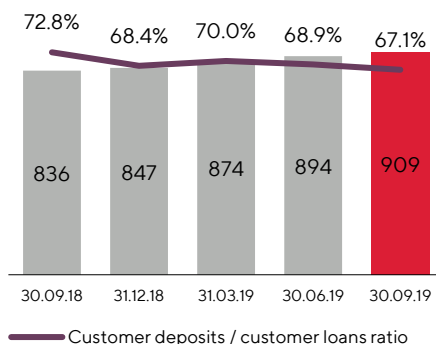
## Loans to customers (Sector split as of 30.09.19)



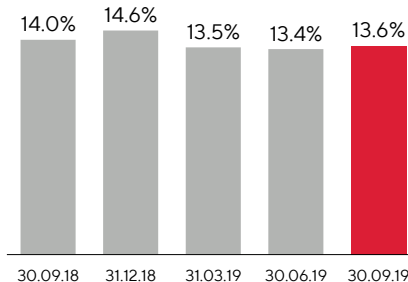
## Number of FTEs for Parent Company (Excluding seasonal employees)



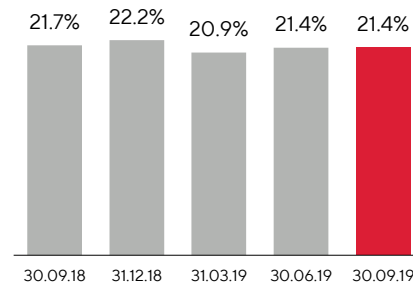
## Loans to customers (ISKbn)



## Leverage ratio



## Total capital ratio



\*Based on Gallup survey regarding primary bank.

\*\*Earnings on regular income now includes profit from discontinued operations.

\*\*\*The cost/income ratio for parent company 3Q19 is 55.0%.

## Directors' Report

These are the condensed consolidated interim financial statements for the period 1 January to 30 September 2019 ("the interim financial statements") of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

### Operations in the reporting period

Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

The profit from the Group's operations for the reporting period amounted to ISK 6,795 million, which corresponds to 5.1% annualised return on equity. At the end of the reporting period, the Group employed 1,022 full-time members of staff, including 784 within the Bank itself.

Net interest income rose by 6.5% between years, mainly on the back of a larger loan book, while net interest margin decreased from 2.9% to 2.8%. Net fee and commission income was up by 11% and driven by a healthy 5.1% growth in the Bank and 25.4% growth in the Bank's subsidiaries. Other net operating income amounted to ISK 1.3 billion and is mostly explained by a settlement of the Bank's claim deriving from the acquisition of Byr savings bank back in 2011. Salaries and related expenses were up by 5.5% between years while other operating expenses decreased by 0.4% and were impacted by a change in the accounting treatment of lease agreements.

Net impairments were negative by ISK 2.1 billion in the first nine months of the year and are explained by specific impairments for large customers and a less favourable economic environment, as economic growth is projected to be about zero this year and the fall of Wow air is causing a contraction in tourism. As a result of this, the Bank's ratio of non-performing loans has increased from 2.0% at the beginning of the year to 2.8%.

The Group's loan book grew by 7.4% in the period on the back of strong demand across all lending units. The annualised growth rate spiked to 12.7% in the first quarter and has come down to 6.4% in the third quarter. Demand for credit has been strong as one of the Bank's competitors has become more conservative in terms of balance sheet usage and reduced the size of its loan book in the first few months of the year.

Customer deposits increased by 5.4% in the period and are therefore not quite keeping pace with the growth in the loan book. Bond issuance was modest in the third quarter, following strong activity in the first half of the year with the EUR 300 million benchmark transaction and SEK 500 million of Tier 2 bonds.

The Bank continues to streamline its operations and increase efficiencies and has made heavy investments on that front in the past few years. As a result, the number of employees has come down and unfortunately some of those changes have come through redundancies. The banking system is undergoing substantial changes worldwide and difficult decisions are being made to ensure that organisations stay relevant in this fast-moving environment.

### Outlook

The Icelandic economy is facing headwinds after 8 years of robust economic growth as the tourist sector is facing a sharp drop in the number of visitors due to setbacks in the domestic airline sector. GDP growth is likely to be close to zero this year as sharp contraction in business investment and services exports weighs against consumption growth, increasing investment in residential housing and infrastructure and a strong contraction in imports. For 2020 growth of around 1.3% is likely, driven by modest growth in domestic demand. Growth is then expected to pick up to about 2.8% in 2021, as private consumption and exports regain momentum.

The tourist sector is proving more resilient to recent setbacks than many had feared earlier in the year. Although visitor numbers are down about 14%, the visitors spend significantly more per head this year. Strong balance sheets of both the public and private sector, coupled with a strong external position and increased leeway for countercyclical economic policy, will help mitigate the impact of the setback in tourism on the economy.

# Directors' Report

## Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 30 September 2019 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union; the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these interim financial statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 September 2019.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2019.

Kópavogur, 30 October 2019

### **Board of Directors:**

Friðrik Sophusson, Chairman

Tómas Már Sigurðsson, Vice-Chairman

Anna Þórðardóttir

Auður Finnbogadóttir

Árni Stefánsson

Hallgrímur Snorrason

Heiðrún Jónsdóttir

### **Chief Executive Officer:**

Birna Einarsdóttir

## Consolidated Interim Income Statement

	Notes	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Interest income* .....		47,733	45,044	15,163	15,707
Interest expense .....		( 22,543)	( 21,401)	( 6,751)	( 7,406)
<b>Net interest income</b>	10	25,190	23,643	8,412	8,301
Fee and commission income .....		15,532	14,280	5,175	5,044
Fee and commission expense .....		( 5,819)	( 5,531)	( 2,085)	( 2,105)
<b>Net fee and commission income</b>	11	9,713	8,749	3,090	2,939
Net financial income (expense) .....	12	23	( 325)	( 598)	( 420)
Net foreign exchange gain (loss) .....	13	46	( 75)	147	( 8)
Other operating income .....	14	1,217	1,664	44	64
<b>Other net operating income</b>		1,286	1,264	( 407)	( 364)
<b>Total operating income</b>		36,189	33,656	11,095	10,876
Salaries and related expenses .....	15	( 12,083)	( 11,453)	( 3,720)	( 3,501)
Other operating expenses .....	16	( 8,698)	( 8,732)	( 2,698)	( 2,962)
Contribution to the Depositors' and Investors' Guarantee Fund .....		( 720)	( 874)	( 210)	( 295)
Bank tax .....		( 2,714)	( 2,541)	( 900)	( 944)
<b>Total operating expenses</b>		( 24,215)	( 23,600)	( 7,528)	( 7,702)
<b>Profit before net impairment on financial assets</b>		11,974	10,056	3,567	3,174
Net impairment on financial assets .....	17	( 2,078)	1,881	( 230)	( 53)
<b>Profit before tax</b>		9,896	11,937	3,337	3,121
Income tax expense .....	18	( 3,071)	( 3,616)	( 1,292)	( 1,136)
<b>Profit for the period from continuing operations</b>		6,825	8,321	2,045	1,985
Discontinued operations, net of income tax .....	19	( 30)	920	41	126
<b>Profit for the period</b>		6,795	9,241	2,086	2,111
*Of which interest income amounting to ISK 45,647 million (2018: ISK 43,617 million) is calculated using the effective interest method.					
<b>Profit attributable to:</b>					
Shareholders of Íslandsbanki hf. ....		7,072	9,520	2,153	2,199
Non-controlling interests .....		( 277)	( 279)	( 67)	( 88)
<b>Profit for the period</b>		6,795	9,241	2,086	2,111
<b>Earnings per share from continuing operations</b>					
Basic and diluted earnings per share attributable to the					
shareholders of Íslandsbanki hf. ....	20	0.71	0.86	0.21	0.21

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Interim Statement of Comprehensive Income

	2019	2018	2019	2018
	1.1-30.9	1.1-30.9	1.7-30.9	1.7-30.9
Profit for the period .....	6,795	9,241	2,086	2,111
<b>Items that will not be reclassified to profit or loss</b>				
Changes in fair value of financial assets, net of tax .....	978	699	85	341
Changes in fair value of financial liabilities, net of tax .....	( 802)	752	29	( 4)
<b>Other comprehensive income for the period, net of tax</b>	176	1,451	114	337
<b>Total comprehensive income for the period</b>	6,971	10,692	2,200	2,448

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Interim Statement of Financial Position

	Notes	30.9.2019	31.12.2018
<b>Assets</b>			
Cash and balances with Central Bank .....	21	129,115	135,056
Loans to credit institutions .....	22	66,409	41,577
Bonds and debt instruments .....	5	73,899	69,415
Derivatives .....	23	5,438	4,550
Loans to customers .....	24	909,175	846,599
Shares and equity instruments .....	5	19,200	13,074
Investments in associates .....		687	682
Property and equipment .....	27	9,442	5,271
Intangible assets .....		4,709	5,002
Other assets .....	28	15,781	9,177
<b>Total Assets</b>		<b>1,233,855</b>	<b>1,130,403</b>
<b>Liabilities</b>			
Deposits from Central Bank and credit institutions .....	29	31,808	15,619
Deposits from customers .....	30	610,281	578,959
Derivative instruments and short positions .....	23	7,910	5,521
Debt issued and other borrowed funds .....	32	331,938	300,976
Subordinated loans .....	33	21,993	16,216
Tax liabilities .....		10,127	7,150
Other liabilities .....	35	41,814	29,649
<b>Total Liabilities</b>		<b>1,055,871</b>	<b>954,090</b>
<b>Equity</b>			
Share capital .....		10,000	10,000
Share premium .....		55,000	55,000
Reserves .....		6,801	6,499
Retained earnings .....		103,785	102,496
<b>Total Shareholders' Equity</b>		<b>175,586</b>	<b>173,995</b>
Non-controlling interests .....		2,398	2,318
<b>Total Equity</b>		<b>177,984</b>	<b>176,313</b>
<b>Total Liabilities and Equity</b>		<b>1,233,855</b>	<b>1,130,403</b>

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.



## Consolidated Interim 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
<b>Equity as at 1.1.2019</b>	10,000	55,000	2,500	3,750	625	( 376)	102,496	173,995	2,318	176,313
Profit for the period .....							7,072	7,072	( 277)	6,795
Dividends paid .....							( 5,300)	( 5,300)		( 5,300)
Net change in fair value of financial assets .....					621			621	357	978
Net change in fair value of financial liabilities .....						( 355)	( 447)	( 802)		( 802)
Restricted due to capitalised development costs .....				( 218)			218	-		-
Restricted due to fair value changes .....				303			( 303)	-		-
Restricted due to subsidiaries and associates .....				( 49)			49	-		-
<b>Equity as at 30.9.2019</b>	10,000	55,000	2,500	3,786	1,246	( 731)	103,785	175,586	2,398	177,984
<b>Equity as at 1.1.2018</b>	10,000	55,000	2,500	3,440	239	( 1,486)	104,760	174,453	2,485	176,938
Profit for the period .....							9,520	9,520	( 279)	9,241
Dividends paid .....							( 13,000)	( 13,000)		( 13,000)
Net change in fair value of financial assets .....					446			446	253	699
Net change in fair value of financial liabilities .....						812	( 60)	752		752
Restricted due to capitalised development costs .....				363			( 363)	-		-
Restricted due to fair value changes .....				( 91)			91	-		-
Restricted due to subsidiaries and associates .....				( 332)			332	-		-
<b>Equity as at 30.9.2018</b>	10,000	55,000	2,500	3,380	685	( 674)	101,280	172,171	2,459	174,630

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 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Interim Statement of Cash Flows

	Notes	2019 1.1-30.9	2018 1.1-30.9
Profit for the period .....		6,795	9,241
Non-cash items included in profit for the period .....		17,955	10,263
Changes in operating assets and liabilities .....		( 42,657)	( 105,461)
Dividends received .....		32	75
Income tax and bank tax paid .....		( 2,884)	( 2,834)
<b>Net cash used in operating activities</b>		<b>( 20,759)</b>	<b>( 88,716)</b>
Net investment in subsidiaries and associated companies .....		-	3,220
Proceeds from sales of property and equipment .....		23	15
Purchase of property and equipment .....		( 352)	( 107)
Purchase of intangible assets .....		( 187)	( 597)
<b>Net cash (used in) provided by investing activities</b>		<b>( 516)</b>	<b>2,531</b>
Proceeds from borrowings .....		108,701	107,097
Repayment of borrowings .....		( 81,388)	( 34,655)
Repayment of lease liabilities .....		( 281)	-
Dividends paid .....		( 5,300)	( 13,000)
<b>Net cash provided by financing activities</b>		<b>21,732</b>	<b>59,442</b>
Net increase (decrease) in cash and cash equivalents .....		457	( 26,743)
Effects of foreign exchange rate changes .....		( 201)	( 143)
Cash and cash equivalents at the beginning of the period .....		143,203	187,438
<b>Cash and cash equivalents at the end of the period</b>		<b>143,459</b>	<b>160,552</b>
<b>Reconciliation of cash and cash equivalents</b>			
Cash on hand .....	21	4,007	2,062
Cash balances with Central Bank .....	21	125,108	154,189
Bank accounts .....	22	29,411	19,768
Mandatory reserve and special restricted balances with Central Bank .....	21	( 15,067)	( 15,467)
<b>Cash and cash equivalents at the end of the period</b>		<b>143,459</b>	<b>160,552</b>

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

Interest received from 1 January to 30 September 2019 amounted to ISK 45,089 million (2018: ISK 43,085 million) and interest paid in the same period 2019 amounted to ISK 18,628 million (2018: ISK 16,277 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 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

## Consolidated Interim Statement of Cash Flows

	2019	2018
	1.1-30.9	1.1-30.9
Depreciation and amortisation .....	1,246	703
Share of (profit) loss of associates .....	( 5)	34
Accrued interest and fair value changes on debt issued and subordinated loans .....	8,680	7,296
Net impairment on financial assets .....	2,220	( 1,943)
Foreign exchange (gain) loss .....	( 46)	75
Net gain from sales of subsidiary, property and equipment .....	( 1)	( 1,557)
Unrealised fair value loss recognised in profit or loss .....	40	387
Discontinued operations, net of income tax .....	30	( 920)
Bank tax .....	2,714	2,541
Income tax .....	3,071	3,616
Other changes .....	6	31
<b>Non-cash items included in profit for the period</b>	<b>17,955</b>	<b>10,263</b>
Mandatory reserve and special restricted balances with Central Bank .....	2,045	2,099
Loans to credit institutions .....	( 18,677)	( 33,237)
Bonds and debt instruments .....	( 3,548)	( 34,346)
Loans to customers .....	( 60,476)	( 76,661)
Shares and equity instruments .....	( 5,089)	( 3,280)
Other operating assets .....	( 6,069)	( 766)
Non-current assets and liabilities held for sale .....	( 268)	2,464
Deposits from Central Bank and credit institutions .....	16,172	4,182
Deposits from customers .....	29,000	37,840
Derivative instruments and short positions .....	( 3,652)	( 2,532)
Other operating liabilities .....	7,905	( 1,224)
<b>Changes in operating assets and liabilities</b>	<b>( 42,657)</b>	<b>( 105,461)</b>

### Non-cash transactions 2019

During the period the Bank repurchased own debt securities amounting to ISK 4,319 million by issuing new debt.

The recognition of right-of-use assets amounting to ISK 4,505 million and the same amount in lease liabilities following the adoption of IFRS 16 - Leases had no cash flow effect (see Note 3).

### Non-cash transactions 2018

During the period the Group did not have any non-cash transactions.

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

# Notes to the Condensed Consolidated Interim Financial Statements

Notes	Page	Notes	Page
<b>General information</b>			
1	Corporate information .....	12	
2	Basis of preparation .....	12	
3	Changes to accounting policies and presentation .....	12	
4	Operating segments .....	14	
<b>Notes to the Consolidated Income Statement</b>			
9	Quarterly statements .....	22	
10	Net interest income .....	22	
11	Net fee and commission income .....	23	
12	Net financial income (expense) .....	23	
13	Net foreign exchange gain (loss) .....	23	
14	Other operating income .....	24	
15	Salaries and related expenses .....	24	
16	Other operating expenses .....	24	
17	Net impairment on financial assets .....	24	
18	Income tax expense .....	25	
19	Discontinued operations, net of income tax .....	25	
20	Earnings per share .....	25	
<b>Notes to the Consolidated Statement of Financial Position</b>			
5	Classification of financial assets and liabilities .....	17	
6-7	Fair value information for financial instruments .....	18	
8	Offsetting financial assets and financial liabilities .....	21	
21	Cash and balances with Central Bank .....	26	
22	Loans to credit institutions .....	26	
23	Derivative instruments and short positions .....	26	
24	Loans to customers .....	27	
25	Expected credit loss .....	28	
26	Investments in subsidiaries .....	29	
27	Property and equipment .....	29	
28	Other assets .....	30	
29	Deposits from Central Bank and credit institutions .....	31	
30	Deposits from customers .....	31	
31	Pledged assets .....	31	
32	Debt issued and other borrowed funds .....	32	
33	Subordinated loans .....	33	
34	Changes in liabilities arising from financing activities .....	33	
35	Other liabilities .....	34	
<b>Other Notes</b>			
36	Custody assets .....	34	
37	Related party .....	35	
38	Contingencies .....	36	
39	Events after the reporting period .....	36	
<b>Risk Management</b>			
40	Risk management .....	36	
41-46	Credit risk .....	36	
47-49	Liquidity risk .....	44	
50-54	Market risk .....	49	
55	Capital management .....	53	

# Notes to the Condensed Consolidated Interim Financial Statements

## 1. Corporate information

Íslandsbanki hf., the parent company, was incorporated on 8 October 2008 and is a limited liability company domiciled in Iceland. The condensed consolidated interim financial statements for the third quarter of 2019 ("the interim financial statements") comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group".

At the end of the period the Bank was wholly owned by the Icelandic Government. The shares are administered by the Icelandic State Financial Investments in accordance with Act no. 88/2009 on Icelandic State Financial Investments.

The interim financial statements were authorised for issue by the Board of Directors of Íslandsbanki hf. on 30 October 2019.

## 2. Basis of preparation

The interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2018, as well as the unaudited Pillar 3 Report for the year 2018. Both are available on the Bank's website: [www.islandsbanki.is](http://www.islandsbanki.is).

The accounting policies and the basis of measurement are unchanged in comparison with Notes 70 and 72 in the consolidated financial statements for the year 2018 except for the changes presented in Note 3.

The interim financial statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except when otherwise indicated. At 30 September 2019 the exchange rate of the ISK against the USD was 123.69 and 135.10 for the EUR (year-end 2018: USD 116.33 and EUR 133.23).

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Therefore, the interim financial statements have been prepared on a going concern basis.

### Significant accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognised. Actual results may differ from those estimates.

Estimates and underlying assumptions are under constant review. Changes in accounting estimates are recognised when they occur.

Key areas where management has made difficult, complex or subjective judgements, include those relating to impairment of financial assets, the fair value of financial instruments and intangible assets.

## 3. Changes to accounting policies and presentation

The accounting policies in the interim financial statements are consistent with those applied in the consolidated financial statements for the year 2018, except for changes to the accounting for leases resulting from the adoption of IFRS 16. Those changes are described below.

### IFRS 16 – Leases

The Group adopted a new IFRS standard, IFRS 16 – Leases, which replaced IAS 17, IFRIC 4, SIC 15 and SIC 27 as of 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

As a result of the adoption of IFRS 16, the Group has changed its accounting policy for lease contracts as follows.

#### The Group as a lessee

##### Recognition

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to separate non-lease components and account for lease and non-lease components of a contract as a single lease component. This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group recognises a lease liability and a right-of-use asset at the lease commencement date.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

# Notes to the Condensed Consolidated Interim Financial Statements

## 3. Cont'd

### Measurement

#### Lease liabilities

The lease liability is initially measured at the present value of the lease payments, both fixed and variable, discounted using the entity's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method and remeasured when there is a change in future payments, e.g. arising from a change in an index or an assessment of whether extension or termination options will be exercised.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

#### Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received. For any remeasurement of the lease liability a corresponding adjustment is made to the carrying amount of the right-of-use asset or recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use-asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. Right-of-use assets are subject to impairment.

### Modification

If a lease modification increases the scope of the lease by adding a right to use of one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increased scope and any adjustments to the price that reflects the circumstances of the particular contract, then the modification is accounted for as a separate lease.

For lease modifications that are not accounted for as separate leases the lease term of the modified lease is redetermined and the lease liability remeasured using the revised lease payments and discounted using the incremental borrowing rate at the effective date of modification. Any adjustment of the lease liability is then correspondingly made to the right-of-use asset.

### Presentation

The Group presents right-of-use assets in the line item "Property and equipment" and lease liabilities in the line item "Other liabilities" in the statement of financial position. Maturity analysis of lease liabilities is disclosed in Note 49. Interest on lease liabilities is recognised in profit or loss in the line item "Interest expense". Depreciation of right-of-use assets is recognised in profit or loss in the line item "Other operating expenses".

### Impact of adoption of IFRS 16

The Group applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. On transition to IFRS 16 the Group elected to apply the practical expedient to apply the standard only to contracts previously identified as leases under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted with each entity's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liabilities at transition.

On transition to IFRS 16, the Group recognised ISK 4,505 million of right-of-use assets and the same amount in lease liabilities. The Group's lease liabilities and right-of-use assets at transition and throughout the third quarter 2019 are mostly derived from CPI-linked real estate lease commitments for offices, branches and storage but a small minority stems from lease commitments for land. When measuring lease liabilities, each entity discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied by the Group is 2.14% for CPI-linked leases.

### Reconciliation between IAS 17 lease commitments and IFRS 16 lease liabilities as at 1 January 2019

Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements .....	5,143
Effects of discounting operating lease commitments using the incremental borrowing rate .....	( 593)
Recognition exemption for short-term and low-value asset leases .....	( 61)
Addition for lease commitments for land .....	16
<b>Lease liabilities recognised as at 1 January 2019</b>	<b>4,505</b>

When applying IFRS 16 to leases previously classified as operating leases under IAS 17 the Group used the following practical expedients; not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term and for leases of low-value assets; exclude initial direct costs from measuring right-of-use assets at the date of initial application, and using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

# Notes to the Condensed Consolidated Interim Financial Statements

## 3. Cont'd

### The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact on leases where the Group is the lessor.

### Other changes in presentation

Other changes in presentation in the statement of financial position are that the line item "Non-current assets and disposal groups held for sale" has been included in the line item "Other assets" and the line item "Non-current liabilities and disposal groups held for sale" has been included in the line item "Other liabilities".

## 4. Operating segments

Segment information is presented in accordance with the Group's management and internal reporting structure. The Bank has three main business segments: Personal Banking, Business Banking and Corporate & Investment Banking. Operating segments pay and receive interest to and from Treasury to reflect the allocation of capital, funding costs and the relevant risk premium. The accounting policies for the reportable segments are in line with the Group's accounting policies. The Group operates mainly in the Icelandic market.

The Group comprises the following operating segments:

### Personal Banking

Personal Banking provides comprehensive financial services to individuals, such as lending, savings and payments. Íslandsbanki's customers are increasingly taking care of their day-to-day banking via digital solutions such as apps, the online bank and the secure web chat. Customers can also visit the Bank's efficient branch network for comprehensive consultancy services.

### Business Banking

Business Banking provides wide-ranging financial services to small- and medium-sized enterprises. Business Banking is organised around the branches where it can service its customers close to their own business. In addition, Business Banking operates Ergo, the asset based financing unit of the Bank.

### Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors and affluent individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage and private banking services. The division is sector-focused, building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

### Treasury and Proprietary Trading

Treasury is responsible for funding the Bank's operations and for managing the internal pricing framework. It is also responsible for the Bank's balance sheet management and for the relations with investors, financial institutions, stock exchanges and rating agencies. Equity that is not allocated to business units sits within Treasury. Proprietary Trading includes equity and debt investments in the trading book and banking book.

### Cost centres

Cost centres comprise the CEO's office (Human Resources, Marketing & Communications, Strategy, and Legal), Finance excluding Treasury and Proprietary Trading, IT, Risk Management and Compliance. Group Internal Audit is included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

### Subsidiaries, eliminations and adjustments

Subsidiaries include Borgun hf., Íslandssjóðir hf., Allianz Ísland hf. and other less significant subsidiaries (see Note 26).

Following is an overview showing the Group's performance with a breakdown by operating segments. Comparative amounts due to organisational changes have not been restated.

## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Cont'd

<b>1 January to 30 September 2019</b>	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income .....	7,876	8,140	6,271	2,337	( 171)	24,453	737	25,190
Net fee and commission income .....	3,361	1,213	2,641	( 137)	6	7,084	2,629	9,713
Other net operating income .....	-	12	349	229	1,308	1,898	( 612)	1,286
Total operating income	11,237	9,365	9,261	2,429	1,143	33,435	2,754	36,189
Salaries and related expenses .....	( 2,041)	( 1,483)	( 1,300)	( 187)	( 4,845)	( 9,856)	( 2,227)	( 12,083)
Other operating expenses .....	( 1,650)	( 824)	( 465)	( 203)	( 4,146)	( 7,288)	( 1,410)	( 8,698)
Contribution to the Depositors' and Investors' Guarantee Fund .....	( 404)	( 245)	( 71)	-	-	( 720)	-	( 720)
Bank tax .....	( 357)	( 258)	( 375)	( 1,711)	( 13)	( 2,714)	-	( 2,714)
Net impairment on financial assets .....	( 425)	( 689)	( 748)	( 156)	-	( 2,018)	( 60)	( 2,078)
Cost allocation .....	( 3,906)	( 2,162)	( 2,172)	233	8,007	-	-	-
Profit (loss) before tax	2,454	3,704	4,130	405	146	10,839	( 943)	9,896
Income tax expense .....	( 731)	( 1,030)	( 1,171)	( 151)	( 41)	( 3,124)	53	( 3,071)
Profit (loss) for the period from continuing operations	1,723	2,674	2,959	254	105	7,715	( 890)	6,825
Net segment revenue from external customers .....	13,332	10,810	14,229	( 6,194)	1,258	33,435	2,754	36,189
Net segment revenue from other segments .....	( 2,095)	( 1,445)	( 4,968)	8,623	( 115)	-	-	-
Fee and commission income .....	4,520	1,226	2,673	98	6	8,523	7,009	15,532
Depreciation and amortisation .....	( 164)	( 88)	( 16)	-	( 812)	( 1,080)	( 166)	( 1,246)
<b>At 30 September 2019</b>								
Loans to customers .....	325,014	234,206	344,928	540	-	904,688	4,487	909,175
Other assets .....	2,997	3,229	276	284,816	11,643	302,961	21,719	324,680
Total segment assets	328,011	237,435	345,204	285,356	11,643	1,207,649	26,206	1,233,855
Deposits from customers .....	279,252	175,357	104,696	54,294	-	613,599	( 3,318)	610,281
Other liabilities .....	1,037	2,043	2,218	412,552	5,956	423,806	21,784	445,590
Total segment liabilities	280,289	177,400	106,914	466,846	5,956	1,037,405	18,466	1,055,871
Allocated equity .....	28,907	39,312	60,614	40,202	1,209	170,244	7,740	177,984
Risk exposure amount .....	188,335	246,964	373,528	76,055	7,429	892,311	20,532	912,843

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.



## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Cont'd

#### Subsidiaries, eliminations & adjustments

##### 1 January to 30 September 2019

	Borgun hf.	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income .....	669	24	20	26	(2)	737
Net fee and commission income .....	1,155	805	696	(23)	(4)	2,629
Other net operating income .....	39	109	-	(3)	(757)	(612)
Total operating income	1,863	938	716	-	(763)	2,754
Salaries and related expenses .....	(1,688)	(401)	(138)	-	-	(2,227)
Other operating expenses .....	(1,052)	(131)	(330)	(1)	104	(1,410)
Net impairment on financial assets .....	(61)	-	-	-	1	(60)
(Loss) profit before tax	(938)	406	248	(1)	(658)	(943)
Income tax expense .....	179	(82)	(48)	-	4	53
(Loss) profit for the period from cont. operations	(759)	324	200	(1)	(654)	(890)
Net segment revenue from external customers .....	2,457	1,087	706	(16)	(1,480)	2,754
Net segment revenue from other segments .....	(594)	(149)	10	16	717	-
Fee and commission income .....	7,548	1,125	696	-	(2,360)	7,009
Depreciation and amortisation .....	(161)	-	-	-	(5)	(166)

##### At 30 September 2019

Total assets .....	28,868	2,579	1,090	6,439	(12,770)	26,206
Total liabilities .....	22,412	258	399	8	(4,611)	18,466
Total equity .....	6,456	2,321	691	6,431	(8,159)	7,740

##### 1 January to 30 September 2018

	Retail Banking	Corporate & Investment Banking	Treasury	Proprietary Trading & subsidiaries	Cost centres & eliminations	Total
Net interest income .....	14,727	5,490	2,975	651	(200)	23,643
Net fee and commission income .....	4,482	2,353	(137)	2,096	(45)	8,749
Other net operating income .....	40	265	(192)	2,007	(856)	1,264
Total operating income	19,249	8,108	2,646	4,754	(1,101)	33,656
Salaries and related expenses .....	(3,510)	(1,184)	(122)	(2,071)	(4,566)	(11,453)
Other operating expenses .....	(2,608)	(489)	(239)	(1,643)	(3,753)	(8,732)
Deposit Guarantee Fund .....	(792)	(85)	3	-	-	(874)
Bank tax .....	-	-	(2,541)	-	-	(2,541)
Net impairment on financial assets .....	1,550	501	(97)	(71)	(2)	1,881
Cost allocation .....	(5,740)	(1,924)	360	(39)	7,343	-
Profit (loss) before tax	8,149	4,927	10	930	(2,079)	11,937
Income tax expense .....	(2,119)	(1,281)	(638)	(119)	541	(3,616)
Profit (loss) for the period from cont. operations	6,030	3,646	(628)	811	(1,538)	8,321
Net segment revenue from external customers .....	21,935	12,273	(4,813)	5,162	(901)	33,656
Net segment revenue from other segments .....	(2,686)	(4,165)	7,459	(408)	(200)	-
Fee and commission income .....	5,625	2,563	(104)	8,438	(2,242)	14,280
Depreciation and amortisation .....	(230)	(21)	(3)	(127)	(321)	(702)

##### At 30 September 2018

Loans to customers .....	509,073	321,307	165	5,037	-	835,582
Other assets .....	3,685	1,883	271,326	56,487	(6,324)	327,057
Total segment assets	512,758	323,190	271,491	61,524	(6,324)	1,162,639
Deposits from customers .....	433,735	125,171	54,682	-	(4,942)	608,646
Other liabilities .....	4,937	3,498	346,969	29,841	(5,882)	379,363
Total segment liabilities	438,672	128,669	401,651	29,841	(10,824)	988,009
Allocated equity .....	58,883	52,065	50,084	19,296	(5,698)	174,630
Risk exposure amount .....	417,426	359,696	28,383	51,725	(2,078)	855,152

## Notes to the Condensed Consolidated Interim Financial Statements

### 5. Classification of financial assets and financial liabilities

#### At 30 September 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 .....	-	-	-	-	129,115	129,115
Loans to credit institutions .....	-	-	-	-	66,409	66,409
Listed bonds and debt instruments .....	46,795	-	-	-	-	46,795
Listed bonds and debt instruments used for economic hedging ....	25,546	-	-	-	-	25,546
Unlisted bonds and debt instruments .....	1,558	-	-	-	-	1,558
Derivatives .....	4,205	1,233	-	-	-	5,438
Loans to customers .....	-	-	-	-	909,175	909,175
Listed shares and equity instruments .....	4,253	-	-	-	-	4,253
Listed shares and equity instruments used for economic hedging	9,030	-	-	-	-	9,030
Unlisted shares and equity instruments .....	3,097	-	-	2,820	-	5,917
Other financial assets .....	-	-	-	-	13,538	13,538
<b>Total financial assets</b>	<b>94,484</b>	<b>1,233</b>	<b>-</b>	<b>2,820</b>	<b>1,118,237</b>	<b>1,216,774</b>
Deposits from Central Bank and credit institutions .....	-	-	-	-	31,808	31,808
Deposits from customers .....	-	-	-	-	610,281	610,281
Derivative instruments and short positions .....	7,910	-	-	-	-	7,910
Debt issued and other borrowed funds .....	-	41,817	68,824	-	221,297	331,938
Subordinated loans .....	-	-	-	-	21,993	21,993
Other financial liabilities .....	-	-	-	-	40,444	40,444
<b>Total financial liabilities</b>	<b>7,910</b>	<b>41,817</b>	<b>68,824</b>	<b>-</b>	<b>925,823</b>	<b>1,044,374</b>

#### 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
<b>Total financial assets</b>	<b>84,570</b>	<b>627</b>	<b>-</b>	<b>1,842</b>	<b>1,030,743</b>	<b>1,117,782</b>
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
<b>Total financial liabilities</b>	<b>5,521</b>	<b>40,714</b>	<b>68,154</b>	<b>-</b>	<b>830,088</b>	<b>944,477</b>

# Notes to the Condensed Consolidated Interim 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 30 September 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 30 September 2019

	Level 1	Level 2	Level 3	Total
Bonds and debt instruments .....	72,341	-	1,558	73,899
Derivatives .....	-	5,438	-	5,438
Shares and equity instruments .....	13,202	31	5,967	19,200
<b>Total financial assets</b>	<b>85,543</b>	<b>5,469</b>	<b>7,525</b>	<b>98,537</b>
Derivative instruments .....	-	7,910	-	7,910
Debt issued and other borrowed funds designated as at FVTPL .....	68,824	-	-	68,824
<b>Total financial liabilities</b>	<b>68,824</b>	<b>7,910</b>	<b>-</b>	<b>76,734</b>

### 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
<b>Total financial assets</b>	<b>76,245</b>	<b>4,592</b>	<b>6,202</b>	<b>87,039</b>
Derivative instruments .....	-	5,521	-	5,521
Debt issued and other borrowed funds designated as at FVTPL .....	68,154	-	-	68,154
<b>Total financial liabilities</b>	<b>68,154</b>	<b>5,521</b>	<b>-</b>	<b>73,675</b>

### 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	286
Sales .....	(536)	(52)
Net gain on financial instruments recognised in profit or loss .....	511	46
Net gain on financial instruments recognised in other comprehensive income .....	-	978
Other changes .....	62	21
<b>Fair value at 30 September 2019</b>	<b>1,558</b>	<b>5,967</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 6. Cont'd

	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)	-
<b>Fair value at 31 December 2018</b>	<b>1,514</b>	<b>4,688</b>

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.

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.

At the end of each reporting period the Group determines whether transfers have occurred 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.

*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 30 September 2019 the Group's Level 3 equities amounted to ISK 5,967 million. These include shares in five professional investment funds and investment companies investing in unlisted equities and specialised investments in Iceland totalling ISK 1,457 million. The Group receives information from fund managers which use valuation models for the valuation of these equities. Full access to information of all components in these valuation models is unavailable to the Group and is therefore no basis for assumptions for sensitivity analysis. The Group holds Series C preferred shares in Visa Inc., amounting to ISK 2,820 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 30% due to uncertainty of the final number of shares and marketability. For other Level 3 equities, changes in components for valuation will have minimal impact on the Group's income statement.

The Group's Level 3 bonds amounted to ISK 1,558 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 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 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 tables show 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 30 September 2019

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank .....	-	129,115	-	129,115	129,115
Loans to credit institutions .....	-	66,409	-	66,409	66,409
Loans to customers .....	-	-	912,199	912,199	909,175
Other financial assets .....	-	13,538	-	13,538	13,538
<b>Total financial assets</b>	-	209,062	912,199	1,121,261	1,118,237
Deposits from Central Bank and credit institutions .....	-	31,846	-	31,846	31,808
Deposits from customers .....	-	610,568	-	610,568	610,281
Debt issued and other borrowed funds .....	168,979	102,591	-	271,570	263,114
Subordinated loans .....	21,946	-	-	21,946	21,993
Other financial liabilities .....	-	40,444	-	40,444	40,444
<b>Total financial liabilities</b>	190,925	785,449	-	976,374	967,640

## Notes to the Condensed Consolidated Interim Financial Statements

### 7. Cont'd

#### 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
<b>Total financial assets</b>	-	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
<b>Total financial liabilities</b>	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				Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
	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		
<b>At 30 September 2019</b>									
Derivatives .....	5,438	-	5,438	(1,513)	(2,055)	(232)	1,638	-	5,438

#### At 31 December 2018

Reverse repurchase agreements ..	153	-	153	-	-	-	153	-	153
Derivatives .....	4,550	-	4,550	(1,655)	(1,383)	(698)	814	-	4,550
<b>Total assets</b>	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				Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
	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		
<b>At 30 September 2019</b>									
Derivative instruments and short positions .....	7,910	-	7,910	(1,513)	(1,266)	-	5,131	-	7,910
<b>At 31 December 2018</b>									
Derivative instruments and short positions .....	5,521	-	5,521	(1,655)	(85)	-	3,781	-	5,521

## Notes to the Condensed Consolidated Interim Financial Statements

### 9. Quarterly statements

	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Net interest income .....	8,412	8,626	8,152	8,294	8,301
Net fee and commission income .....	3,090	3,406	3,217	3,478	2,939
Net financial (expense) income .....	( 598)	173	448	( 637)	( 420)
Net foreign exchange gain (loss) .....	147	( 71)	( 30)	76	( 8)
Other operating income .....	44	29	1,144	120	64
Salaries and related expenses .....	( 3,720)	( 4,312)	( 4,051)	( 4,047)	( 3,501)
Other operating expenses .....	( 2,698)	( 2,961)	( 3,039)	( 3,418)	( 2,962)
Contribution to the Depositors' and Investors' Guarantee Fund .....	( 210)	( 198)	( 312)	( 299)	( 295)
Bank tax .....	( 900)	( 934)	( 880)	( 740)	( 944)
Net impairment on financial assets .....	( 230)	( 929)	( 919)	( 297)	( 53)
Profit before tax .....	3,337	2,829	3,730	2,530	3,121
Income tax expense .....	( 1,292)	( 626)	( 1,153)	( 1,118)	( 1,136)
Profit for the period from continuing operations .....	2,045	2,203	2,577	1,412	1,985
Discontinued operations, net of income tax .....	41	( 83)	12	( 8)	126
<b>Profit for the period</b>	<b>2,086</b>	<b>2,120</b>	<b>2,589</b>	<b>1,404</b>	<b>2,111</b>

### 10. Net interest income

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Cash and balances with Central Bank .....	3,704	5,676	1,067	1,629
Loans at amortised cost .....	41,943	37,941	13,331	13,565
Financial assets mandatorily at fair value through profit or loss .....	2,024	1,327	743	500
Other assets .....	62	100	22	13
<b>Total interest income</b>	<b>47,733</b>	<b>45,044</b>	<b>15,163</b>	<b>15,707</b>
Deposits from Central Bank and credit institutions .....	( 388)	( 303)	( 159)	( 97)
Deposits from customers .....	( 12,178)	( 12,150)	( 3,475)	( 4,192)
Debt issued and other borrowed funds at fair value through profit or loss .....	( 558)	( 713)	( 184)	( 133)
Debt issued and other borrowed funds at amortised cost .....	( 7,409)	( 6,357)	( 2,271)	( 2,399)
Subordinated loans .....	( 341)	( 89)	( 168)	( 18)
Other interest expense* .....	( 1,669)	( 1,789)	( 494)	( 567)
<b>Total interest expense</b>	<b>( 22,543)</b>	<b>( 21,401)</b>	<b>( 6,751)</b>	<b>( 7,406)</b>
<b>Net interest income</b>	<b>25,190</b>	<b>23,643</b>	<b>8,412</b>	<b>8,301</b>

\*Thereof is lease liabilities' interest expense amounting to ISK 71 million.

## Notes to the Condensed Consolidated Interim Financial Statements

### 11. Net fee and commission income

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Asset management .....	1,635	1,529	512	498
Investment banking and brokerage .....	1,742	1,682	598	634
Payment processing .....	9,692	8,822	3,325	3,186
Loans and guarantees .....	1,121	1,131	367	362
Other fee and commission income .....	1,342	1,116	373	364
<b>Total fee and commission income</b>	<b>15,532</b>	<b>14,280</b>	<b>5,175</b>	<b>5,044</b>
Brokerage .....	( 209)	( 209)	( 65)	( 79)
Clearing and settlement .....	( 5,586)	( 5,314)	( 2,007)	( 2,025)
Other fee and commission expense .....	( 24)	( 8)	( 13)	( 1)
<b>Total fee and commission expense</b>	<b>( 5,819)</b>	<b>( 5,531)</b>	<b>( 2,085)</b>	<b>( 2,105)</b>
<b>Net fee and commission income</b>	<b>9,713</b>	<b>8,749</b>	<b>3,090</b>	<b>2,939</b>

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

### 12. Net financial income (expense)

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Net gain (loss) on financial assets and liabilities mandatorily at FVTPL .....	394	( 171)	( 482)	( 447)
Net (loss) gain on financial liabilities designated as at FVTPL .....	( 372)	( 137)	( 113)	25
Net gain (loss) on fair value hedges .....	1	( 17)	( 3)	2
<b>Net financial income (expense)</b>	<b>23</b>	<b>( 325)</b>	<b>( 598)</b>	<b>( 420)</b>

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

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Cash and balances with Central Bank .....	( 201)	( 143)	( 198)	( 36)
Financial assets mandatorily at fair value through profit or loss .....	( 4,714)	19	( 5,614)	2,130
Loans at amortised cost .....	6,320	8,819	( 7,794)	8,779
Other assets .....	78	128	( 145)	105
<b>Net foreign exchange gain (loss) for assets</b>	<b>1,483</b>	<b>8,823</b>	<b>( 13,751)</b>	<b>10,978</b>
Deposits .....	( 2,340)	( 3,935)	2,794	( 3,727)
Debt issued and other borrowed funds designated as at FVTPL .....	( 1,334)	( 1,551)	3,372	( 2,400)
Debt issued and other borrowed funds at amortised cost .....	1,358	( 3,022)	6,158	( 3,907)
Subordinated loans .....	908	( 228)	1,440	( 865)
Other liabilities .....	( 29)	( 162)	134	( 87)
<b>Net foreign exchange (loss) gain for liabilities</b>	<b>( 1,437)</b>	<b>( 8,898)</b>	<b>13,898</b>	<b>( 10,986)</b>
<b>Net foreign exchange gain (loss)</b>	<b>46</b>	<b>( 75)</b>	<b>147</b>	<b>( 8)</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 14. Other operating income

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Share of gain (loss) of associates, net of income tax .....	5	( 34)	-	-
Net (loss) gain from sale of subsidiaries .....	( 16)	1,529	-	-
Legal dispute settlement* .....	1,103	-	-	-
Legal fees .....	69	62	26	18
Rental income .....	29	28	10	9
Other net operating income .....	27	79	8	37
<b>Other operating income</b>	<b>1,217</b>	<b>1,664</b>	<b>44</b>	<b>64</b>

\*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.

### 15. Salaries and related expenses

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Salaries .....	9,316	8,793	2,839	2,672
Contributions to pension funds .....	1,385	1,316	443	411
Social security charges and financial activities tax* .....	1,278	1,287	410	416
Other salary-related expenses .....	104	65	28	6
Capitalisation of internal staff costs in software development .....	-	( 8)	-	( 4)
<b>Salaries and related expenses</b>	<b>12,083</b>	<b>11,453</b>	<b>3,720</b>	<b>3,501</b>

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

### 16. Other operating expenses

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Professional services .....	1,572	1,734	514	541
Software and IT expenses .....	3,489	3,319	1,090	1,229
Real estate and office equipment .....	871	1,431	245	431
Depreciation and amortisation .....	1,246	702	435	261
Other administrative expenses .....	1,520	1,546	414	500
<b>Other operating expenses</b>	<b>8,698</b>	<b>8,732</b>	<b>2,698</b>	<b>2,962</b>

### 17. Net impairment on financial assets

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Expected credit loss, on-balance sheet items* .....	( 2,088)	918	( 288)	35
Expected credit loss, off-balance sheet items .....	16	( 48)	58	( 88)
Changes of provision due to court rulings .....	( 6)	1,011	-	-
<b>Net impairment on financial assets</b>	<b>( 2,078)</b>	<b>1,881</b>	<b>( 230)</b>	<b>( 53)</b>

\*The main reasons for the additional expected credit loss allowance are: increased loan impairments for a few customers (ISK 1,130 million), due to a less favourable economic environment (ISK 832 million), and an unfavourable ruling in a court case (ISK 210 million).

## Notes to the Condensed Consolidated Interim Financial Statements

### 18. Income tax expense

Income tax is recognised based on applicable tax rates and 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 third quarter of 2019 is 31.0% (2018: 30.3%).

	2019 1.1-30.9	2018 1.1-30.9
Current tax expense excluding discontinued operations .....	2,195	2,960
Special financial activities tax .....	555	813
Difference in prior year's calculated income tax .....	( 6)	( 6)
Changes in temporary differences due to deferred tax assets and deferred tax liabilities .....	327	( 151)
<b>Income tax recognised in the income statement</b>	<b>3,071</b>	<b>3,616</b>
<b>Income tax due to equity activities</b>	<b>( 157)</b>	<b>( 874)</b>

	2019 1.1-30.9		2018 1.1-30.9	
Profit before tax .....	9,896		11,937	
20% income tax calculated on the profit for the period .....	1,979	20.0%	2,387	20.0%
Special financial activities tax .....	555	5.6%	813	6.8%
Income not subject to tax .....	( 45)	( 0.5%)	( 108)	( 0.9%)
Non-deductible expenses .....	547	5.5%	509	4.3%
Other differences .....	35	0.4%	15	0.1%
<b>Effective income tax expense</b>	<b>3,071</b>	<b>31.0%</b>	<b>3,616</b>	<b>30.3%</b>

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

### 19. Discontinued operations, net of income tax

	2019 1.1-30.9	2018 1.1-30.9	2019 1.7-30.9	2018 1.7-30.9
Net (loss) profit from sales of foreclosed mortgages .....	( 81)	73	( 47)	34
Net profit from disposal groups held for sale .....	51	847	88	92
<b>Discontinued operations, net of income tax</b>	<b>( 30)</b>	<b>920</b>	<b>41</b>	<b>126</b>

### 20. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2019 1.1-30.9	2018 1.1-30.9	2019 1.1-30.9	2018 1.1-30.9
Profit attributable to shareholders of the Bank .....	7,102	8,600	7,072	9,520
Weighted average number of outstanding shares .....	10,000	10,000	10,000	10,000
<b>Basic earnings per share</b>	<b>0.71</b>	<b>0.86</b>	<b>0.71</b>	<b>0.95</b>

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other potential sources of dilution (2018: none).

## Notes to the Condensed Consolidated Interim Financial Statements

### 21. Cash and balances with Central Bank

	30.9.2019	31.12.2018
Cash on hand .....	4,007	3,095
Balances with Central Bank .....	110,041	114,849
Balances with Central Bank subject to special restrictions* .....	1,611	3,049
<b>Included in cash and cash equivalents</b>	<b>115,659</b>	<b>120,993</b>
Mandatory reserve deposits with Central Bank .....	13,456	14,063
<b>Cash and balances with Central Bank</b>	<b>129,115</b>	<b>135,056</b>

\*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.

### 22. Loans to credit institutions

	30.9.2019	31.12.2018
Money market loans .....	36,998	16,314
Bank accounts .....	29,411	25,259
Other loans .....	-	4
<b>Loans to credit institutions</b>	<b>66,409</b>	<b>41,577</b>

### 23. Derivative instruments and short positions

At 30 September 2019	Notional values related to assets		Notional values related to liabilities	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps .....	1,946	136,635	3,581	95,223
Cross-currency interest rate swaps .....	2,190	30,056	2,356	50,626
Equity forwards .....	455	4,748	492	5,574
Foreign exchange forwards .....	141	5,837	519	13,883
Foreign exchange swaps .....	678	35,974	736	28,681
Bond forwards .....	28	11,166	226	12,821
<b>Derivatives</b>	<b>5,438</b>	<b>224,416</b>	<b>7,910</b>	<b>206,808</b>
<b>At 31 December 2018</b>				
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
<b>Derivatives</b>	<b>4,550</b>	<b>225,195</b>	<b>5,521</b>	<b>200,749</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 23. Cont'd

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.

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 32) arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. At the end of the third quarter 2019 the total fair value of the interest rate swaps was positive and amounted to ISK 1,233 million and their total notional amount was ISK 40,530 million.

### 24. Loans to customers

At 30 September 2019	Gross carrying amount			Expected credit loss			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals .....	334,257	4,255	9,331	( 1,279)	( 174)	( 1,156)	345,234
Commerce and services .....	123,473	3,662	5,499	( 742)	( 102)	( 911)	130,879
Construction .....	32,229	420	1,606	( 278)	( 13)	( 99)	33,865
Energy .....	6,086	743	-	( 23)	( 3)	-	6,803
Financial services .....	2,768	-	-	-	-	-	2,768
Industrial and transportation .....	79,010	3,511	3,668	( 323)	( 244)	( 1,495)	84,127
Investment companies .....	22,065	2,409	3,652	( 282)	( 16)	( 321)	27,507
Public sector and non-profit organisations .....	11,571	40	17	( 11)	( 1)	( 1)	11,615
Real estate .....	154,126	1,710	1,880	( 650)	( 53)	( 465)	156,548
Seafood .....	109,277	615	445	( 168)	( 8)	( 332)	109,829
<b>Loans to customers</b>	<b>874,862</b>	<b>17,365</b>	<b>26,098</b>	<b>( 3,756)</b>	<b>( 614)</b>	<b>( 4,780)</b>	<b>909,175</b>
<b>At 31 December 2018</b>							
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
<b>Loans to customers</b>	<b>808,432</b>	<b>28,902</b>	<b>17,310</b>	<b>( 3,277)</b>	<b>( 1,079)</b>	<b>( 3,689)</b>	<b>846,599</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 25. 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 .....	1,417	( 1,140)	( 277)	-
Transfer to Stage 2 .....	( 1,125)	1,435	( 310)	-
Transfer to Stage 3 .....	( 116)	( 616)	732	-
Net remeasurement of loss allowance (including changes in models) .....	( 762)	( 231)	1,741	748
New financial assets originated or purchased .....	1,314	245	252	1,811
Derecognitions and maturities .....	( 249)	( 154)	( 181)	( 584)
Write-offs .....	-	( 4)	( 1,295)	( 1,299)
Recoveries of amounts previously written off .....	-	-	208	208
Foreign exchange .....	-	-	( 9)	( 9)
Unwinding of interests .....	-	-	230	230
<b>At 30 September 2019</b>	<b>3,756</b>	<b>614</b>	<b>4,780</b>	<b>9,150</b>

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
<b>At 31 December 2018</b>	<b>3,277</b>	<b>1,079</b>	<b>3,689</b>	<b>8,045</b>

#### Total expected credit loss

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank .....	3	-	-	3
Loans to credit institutions .....	58	-	-	58
Loans to customers .....	3,756	614	4,780	9,150
Other financial assets .....	4	2	96	102
Off-balance sheet loan commitments and financial guarantees .....	415	16	189	620
<b>At 30 September 2019</b>	<b>4,236</b>	<b>632</b>	<b>5,065</b>	<b>9,933</b>

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
<b>At 31 December 2018</b>	<b>3,802</b>	<b>1,224</b>	<b>3,856</b>	<b>8,882</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 26. Investments in subsidiaries

		30.9.2019	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 9 other non-significant subsidiaries.

### 27. Property and equipment

At 30 September 2019	Right-of-use assets:			Total
	Land and buildings	Land and buildings	Fixtures, equipment & vehicles	
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 period .....	52	-	300	352
Disposals and write-offs during the period .....	( 14)	-	( 185)	( 199)
Remeasurement .....	-	102	-	102
<b>Historical cost</b>	<b>4,092</b>	<b>4,607</b>	<b>4,099</b>	<b>12,798</b>
Balance at the beginning of the year .....	( 1,402)	-	( 1,365)	( 2,767)
Depreciation during the period .....	( 28)	( 314)	( 424)	( 766)
Disposals and write-offs during the period .....	2	-	175	177
<b>Accumulated depreciation</b>	<b>( 1,428)</b>	<b>( 314)</b>	<b>( 1,614)</b>	<b>( 3,356)</b>
<b>Carrying amount</b>	<b>2,664</b>	<b>4,293</b>	<b>2,485</b>	<b>9,442</b>
Depreciation rates .....	0-2%	3-33%	8-35%	
Official real estate value of land and buildings .....				3,747
Insurance value of buildings .....				4,890
Insurance value of fixtures, equipment and vehicles .....				3,515

## Notes to the Condensed Consolidated Interim Financial Statements

### 27. Cont'd

<b>At 31 December 2018</b>	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)
<b>Historical cost</b>	<b>4,054</b>	<b>3,984</b>	<b>8,038</b>
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
<b>Accumulated depreciation</b>	<b>( 1,402)</b>	<b>( 1,365)</b>	<b>( 2,767)</b>
<b>Carrying amount</b>	<b>2,652</b>	<b>2,619</b>	<b>5,271</b>
Depreciation 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

### 28. Other assets

	30.9.2019	31.12.2018
Receivables .....	4,947	5,793
Unsettled securities transactions .....	7,750	1,033
Accruals .....	267	289
Prepaid expenses .....	608	395
Deferred tax assets .....	445	215
Other assets .....	294	222
Non-current assets and disposal groups held for sale .....	1,470	1,230
<b>Other assets</b>	<b>15,781</b>	<b>9,177</b>
<b>Non-current assets and disposal groups held for sale</b>	<b>30.9.2019</b>	<b>31.12.2018</b>
Reposessed collateral:		
Land and buildings .....	1,099	995
Industrial equipment and vehicles .....	20	17
Assets of disposal groups classified as held for sale .....	351	218
<b>Total</b>	<b>1,470</b>	<b>1,230</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 29. Deposits from Central Bank and credit institutions

	30.9.2019	31.12.2018
Deposits from credit institutions .....	31,762	15,527
Repurchase agreements with Central Bank .....	46	92
<b>Deposits from Central Bank and credit institutions</b>	<b>31,808</b>	<b>15,619</b>

### 30. Deposits from customers

	30.9.2019	31.12.2018
Demand deposits and deposits with maturity up to 3 months .....	534,890	499,170
Term deposits with maturity of more than 3 months .....	75,391	79,789
<b>Deposits from customers</b>	<b>610,281</b>	<b>578,959</b>

#### Deposits from customers specified by owners

	30.9.2019		31.12.2018	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises .....	10,318	2%	9,331	2%
Municipalities .....	10,663	2%	5,574	1%
Companies .....	300,837	49%	278,209	48%
Individuals .....	288,463	47%	285,845	49%
<b>Deposits from customers</b>	<b>610,281</b>	<b>100%</b>	<b>578,959</b>	<b>100%</b>

### 31. Pledged assets

	30.9.2019	31.12.2018
Financial assets pledged as collateral against liabilities .....	204,681	190,471
Financial assets pledged as collateral in foreign banks .....	1,649	1,105
Financial assets pledged as collateral in repurchase agreements .....	801	153
<b>Pledged assets against liabilities</b>	<b>207,131</b>	<b>191,729</b>

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 underlying cover pool must withstand a weekly stress test.

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



## Notes to the Condensed Consolidated Interim Financial Statements

### 32. Debt issued and other borrowed funds

	Issued	Maturity	Interest	30.9.2019	31.12.2018
Covered bond in ISK* .....	2014-2017	2019 At maturity	Fixed rates	-	9,866
Covered bond in ISK .....	2019	2021 At maturity	Fixed rates	3,869	-
Covered bond in ISK .....	2015-2019	2023 At maturity	Fixed rates	20,512	10,890
Covered bond in ISK - CPI-linked* .....	2012-2014	2019 At maturity	Fixed rates	-	8,937
Covered bond in ISK - CPI-linked .....	2014-2015	2020 At maturity	Fixed rates	4,372	4,248
Covered bond in ISK - CPI-linked .....	2015-2017	2022 At maturity	Fixed rates	18,265	18,009
Covered bond in ISK - CPI-linked .....	2012-2018	2024 At maturity	Fixed rates	35,301	35,009
Covered bond in ISK - CPI-linked .....	2015-2018	2026 At maturity	Fixed rates	27,743	26,992
Covered bond in ISK - CPI-linked .....	2019	2028 At maturity	Fixed rates	14,077	-
Covered bond in ISK - CPI-linked .....	2017-2018	2030 At maturity	Fixed rates	25,517	24,862
<b>Covered bonds</b>				<b>149,656</b>	<b>138,813</b>
Senior unsecured bond in SEK .....	2015	2019 At maturity	Fixed rates	-	7,844
Senior unsecured bond in EUR .....	2017	2019 At maturity	Fixed rates	-	4,398
Senior unsecured bond in SEK .....	2018	2019 At maturity	Fixed rates	1,264	1,302
Senior unsecured bond in EUR** .....	2016	2020 At maturity	Fixed rates	27,579	68,154
Senior unsecured bond in SEK .....	2018	2020 At maturity	Fixed rates	3,158	3,259
Senior unsecured bond in SEK .....	2019	2020 At maturity	Floating rates	4,420	-
Senior unsecured bond in SEK .....	2018	2021 At maturity	Fixed rates	1,267	1,311
Senior unsecured bond in SEK .....	2018-2019	2021 At maturity	Floating rates	18,357	15,053
Senior unsecured bond in EUR .....	2019	2021 At maturity	Floating rates	1,551	-
Senior unsecured bond in SEK .....	2018	2022 At maturity	Floating rates	12,600	12,995
Senior unsecured bond in EUR** .....	2019	2022 At maturity	Fixed rates	41,245	-
Senior unsecured bond in NOK .....	2019	2022 At maturity	Floating rates	13,695	-
Senior unsecured bond in EUR*** .....	2018	2024 At maturity	Fixed rates	41,817	40,714
Senior unsecured bond in NOK .....	2019	2024 At maturity	Fixed rates	5,590	-
<b>Bonds issued</b>				<b>172,543</b>	<b>155,030</b>
Bills issued .....				9,542	6,729
Other debt securities .....				197	404
<b>Other borrowed funds</b>				<b>9,739</b>	<b>7,133</b>
<b>Debt issued and other borrowed funds</b>				<b>331,938</b>	<b>300,976</b>

\*Íslandsbanki repurchased own covered bonds during the period amounting to ISK 4,319 million.

\*\*These bond issuances are classified as being designated as at fair value through profit or loss. At 30 September 2019 the total carrying amount of the bonds amounted to ISK 68,824 million and included in the amount are fair value changes amounting to ISK 1,421 million. The carrying amount of the bond at 30 September 2019 was ISK 345 million higher than the contractual amount due at maturity. Íslandsbanki repurchased part of the bond issuance maturing in 2020 during the period, amounting to ISK 42,361 million.

\*\*\*The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 23). 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 30 September 2019 the total carrying amount of the bond issuance amounted to ISK 41,817 million and included in the amount are fair value changes amounting to ISK 629 million.

The covered bond amounts do not contain the bonds reserved for securities lending.

## Notes to the Condensed Consolidated Interim Financial Statements

### 33. Subordinated loans

	Issued	Maturity	Interest	30.9.2019	31.12.2018
Loans which qualify as Tier 2 capital:					
Subordinated loans in SEK .....	2017	2027 At maturity	Floating, STIBOR + 2.0%	9,424	9,724
Subordinated loans in SEK .....	2018	2028 At maturity	Floating, STIBOR + 2.5%	6,290	6,492
Subordinated loans in SEK .....	2019	2029 At maturity	Floating, STIBOR + 3.9%	6,279	-
<b>Subordinated loans</b>				<b>21,993</b>	<b>16,216</b>

### 34. Changes in liabilities arising from financing activities

	1.1.2019	Cash flows	Non-cash changes			30.9.2019
			Interest expense	Foreign exchange	Fair value changes	
Covered bond in ISK .....	20,756	2,684	941	-	-	24,381
Covered bond in ISK - CPI-linked .....	118,057	2,164	5,054	-	-	125,275
Senior unsecured bonds FX .....	46,162	16,941	746	( 1,947)	-	61,902
Senior unsecured bonds FX at fair value .....	68,154	( 2,643)	558	1,334	1,421	68,824
Senior unsecured bond used for hedging .....	40,714	( 465)	373	566	629	41,817
Other borrowed funds .....	7,133	2,288	295	23	-	9,739
Subordinated loans .....	16,216	6,344	341	( 908)	-	21,993
<b>Total</b>	<b>317,192</b>	<b>27,313</b>	<b>8,308</b>	<b>( 932)</b>	<b>2,050</b>	<b>353,931</b>

	31.12.2017	Reclassi- fication & remeasure	1.1.2018	Cash flows	Non-cash changes			31.12.2018
					Interest expense	Foreign exchange	Fair value changes	
Covered bond in ISK .....	17,589	-	17,589	2,055	1,112	-	-	20,756
Covered bond 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 bond 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
<b>Total</b>	<b>227,253</b>	<b>1,908</b>	<b>229,161</b>	<b>67,185</b>	<b>10,196</b>	<b>11,319</b>	<b>( 669)</b>	<b>317,192</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 35. Other liabilities

	30.9.2019	31.12.2018
Accruals .....	3,819	3,906
Liabilities to retailers for credit cards .....	20,578	20,722
Lease liabilities .....	4,326	-
Off-balance sheet loan commitments and financial guarantees .....	620	636
Withholding tax .....	719	1,733
Unsettled securities transactions .....	9,172	612
Deferred income .....	208	193
Sundry liabilities .....	2,372	1,841
Non-current liabilities and disposal groups held for sale .....	-	6
<b>Other liabilities</b>	<b>41,814</b>	<b>29,649</b>

#### 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 .....	119	( 73)	( 46)	-
Transfer to Stage 2 .....	( 12)	20	( 8)	-
Transfer to Stage 3 .....	( 7)	( 16)	23	-
Net remeasurement of loss allowance (including changes in models) .....	( 330)	( 55)	101	( 284)
New loan commitments and financial guarantees .....	331	17	66	414
Derecognitions and maturities .....	( 96)	( 19)	( 31)	( 146)
<b>At 30 September 2019</b>	<b>415</b>	<b>16</b>	<b>189</b>	<b>620</b>
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)
<b>At 31 December 2018</b>	<b>410</b>	<b>142</b>	<b>84</b>	<b>636</b>

### 36. Custody assets

	30.9.2019	31.12.2018
Custody assets - not managed by the Group .....	2,624,267	2,167,946

## Notes to the Condensed Consolidated Interim Financial Statements

### 37. 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 Bank and other 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 21 and Deposits from the Central Bank are disclosed under Note 29.

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 30 September 2019

	Assets	Liabilities	Commitments	
			Net balance & overdrafts	
Board of Directors, key management personnel and other related parties .....	305	373	( 68)	61
Associated companies .....	114	942	( 828)	226
<b>Balances with related parties</b>	<b>419</b>	<b>1,315</b>	<b>( 896)</b>	<b>287</b>

#### 1 January - 30 September 2019

	Interest income	Interest expense	Other income	Other expense
Board of Directors and key management personnel .....	23	7	-	-
Associated companies .....	7	13	3	1,231
<b>Transactions with related parties</b>	<b>30</b>	<b>20</b>	<b>3</b>	<b>1,231</b>

#### At 31 December 2018

	Assets	Liabilities	Commitments	
			Net balance & 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
<b>Balances with related parties</b>	<b>418</b>	<b>1,067</b>	<b>( 649)</b>	<b>292</b>

#### 1 January - 30 September 2018

	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group .....	-	2	-	-
Board of Directors and key management personnel .....	37	6	24	-
Associated companies .....	12	6	2	1,312
<b>Transactions with related parties</b>	<b>49</b>	<b>14</b>	<b>26</b>	<b>1,312</b>

At 30 September 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.

# Notes to the Condensed Consolidated Interim Financial Statements

## 38. 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 on 12 January 2017 against four defendants, including Borgun hf., 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. The court has appointed professionals to assess certain matters regarding the claim but it is uncertain when the assessment will be completed. Therefore, it is uncertain when a ruling is to be expected.

## 39. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the interim financial statements for the third quarter 2019.

## 40. Risk management

### Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 Report. The Pillar 3 2018 Report is available on the Bank's website: [www.islandsbanki.is](http://www.islandsbanki.is).

## 41. 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 42. 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 30 September 2019	Public sector											Total
	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	and non-profit organisations	Real estate	Seafood	
Cash and balances with Central Bank .....	-	129,115	-	-	-	-	-	-	-	-	-	129,115
Loans to credit institutions .....	-	-	-	-	-	66,409	-	-	-	-	-	66,409
Bonds and debt instruments .....	-	50,962	-	-	149	19,473	1,484	74	1,318	439	-	73,899
Derivatives .....	1	-	565	-	2,440	4,837	220	596	-	429	306	9,394
Loans to customers:	345,234	-	130,879	33,865	6,803	2,768	84,127	27,507	11,615	156,548	109,829	909,175
Overdrafts .....	13,240	-	14,794	3,494	22	2,730	5,240	435	419	6,488	7,648	54,510
Credit cards .....	16,965	-	1,727	271	6	29	477	37	151	75	39	19,777
Mortgages .....	274,186	-	-	-	-	-	-	-	-	-	-	274,186
Capital leases .....	6,079	-	29,590	2,022	6	-	7,507	99	41	1,027	212	46,583
Other loans .....	34,764	-	84,768	28,078	6,769	9	70,903	26,936	11,004	148,958	101,930	514,119
Other financial assets .....	443	327	156	172	5	12,247	34	33	105	14	2	13,538
Off-balance sheet items:	32,526	-	22,981	13,980	6,599	6,524	16,979	1,485	5,045	20,824	9,189	136,132
Financial guarantees .....	1,467	-	5,381	4,842	12	1,173	2,972	80	6	1,959	256	18,148
Undrawn loan commitments .....	-	-	1,920	6,227	6,039	-	7,456	946	-	15,839	1,481	39,908
Undrawn overdrafts .....	8,974	-	11,583	2,167	522	5,233	5,508	345	4,383	2,787	7,298	48,800
Credit card commitments .....	22,085	-	4,097	744	26	118	1,043	114	656	239	154	29,276
<b>Total maximum credit exposure</b>	<b>378,204</b>	<b>180,404</b>	<b>154,581</b>	<b>48,017</b>	<b>15,996</b>	<b>112,258</b>	<b>102,844</b>	<b>29,695</b>	<b>18,083</b>	<b>178,254</b>	<b>119,326</b>	<b>1,337,662</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 42. Cont'd

<b>At 31 December 2018</b>	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
<b>Total maximum credit exposure</b>	<b>353,727</b>	<b>188,397</b>	<b>149,487</b>	<b>47,805</b>	<b>15,719</b>	<b>75,585</b>	<b>94,435</b>	<b>28,808</b>	<b>17,331</b>	<b>164,000</b>	<b>119,760</b>	<b>1,255,054</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 43. 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 and 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.

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 38,160 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):

<b>At 30 September 2019</b>	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
<b>Collateral held against non credit-impaired exposures</b>							
Derivatives .....	9,394	-	-	2,077	-	-	2,077
Loans and commitments to customers:	1,022,739	619,570	85,700	9,068	51,547	79,168	845,053
Individuals .....	369,298	286,818	7	350	13,710	123	301,008
Commerce and services .....	148,964	62,950	725	429	28,960	24,487	117,551
Construction .....	46,262	31,953	2	357	1,912	3,655	37,879
Energy .....	13,402	4,220	-	370	-	6	4,596
Financial services .....	9,292	-	-	313	-	3,622	3,935
Industrial and transportation .....	98,878	50,776	7	101	6,502	16,683	74,069
Investment companies .....	25,203	8,236	-	3,369	80	12,793	24,478
Public sector and non-profit organisations .....	16,644	984	-	7	37	-	1,028
Real estate .....	175,901	161,090	-	792	212	1,278	163,372
Seafood .....	118,895	12,543	84,959	2,980	134	16,521	117,137
<b>Total</b>	<b>1,032,133</b>	<b>619,570</b>	<b>85,700</b>	<b>11,145</b>	<b>51,547</b>	<b>79,168</b>	<b>847,130</b>

<b>Collateral held against credit-impaired exposures</b>	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
Loans and commitments to customers:	22,568	16,746	1,512	318	1,042	803	20,421
Individuals .....	8,462	7,374	17	10	183	3	7,587
Commerce and services .....	4,896	2,440	105	-	727	695	3,967
Construction .....	1,583	1,558	-	-	19	6	1,583
Industrial and transportation .....	2,228	260	1,361	124	85	99	1,929
Investment companies .....	3,789	3,605	-	184	-	-	3,789
Public sector and non-profit organisations .....	16	16	-	-	-	-	16
Real estate .....	1,471	1,466	-	-	5	-	1,471
Seafood .....	123	27	29	-	23	-	79
<b>Total</b>	<b>22,568</b>	<b>16,746</b>	<b>1,512</b>	<b>318</b>	<b>1,042</b>	<b>803</b>	<b>20,421</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 43. Cont'd

<b>At 31 December 2018</b>	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
<b>Collateral held against non credit-impaired exposures</b>							
Derivatives .....	8,939	-	-	2,232	-	-	2,232
Loans and commitments to customers:	978,396	563,362	89,350	6,149	49,883	69,902	778,646
Individuals .....	347,490	266,508	6	359	13,485	155	280,513
Commerce and services .....	146,286	56,407	733	189	27,574	23,915	108,818
Construction .....	47,495	28,694	-	379	1,880	3,761	34,714
Energy .....	12,949	3,737	-	366	-	5	4,108
Financial services .....	9,864	-	-	309	-	-	309
Industrial and transportation .....	89,289	39,523	9	82	6,437	15,980	62,031
Investment companies .....	27,392	9,588	26	2,891	83	11,361	23,949
Public sector and non-profit organisations .....	16,551	974	-	7	37	2	1,020
Real estate .....	161,864	144,530	-	1,549	231	1,113	147,423
Seafood .....	119,216	13,401	88,576	18	156	13,610	115,761
<b>Total</b>	<b>987,335</b>	<b>563,362</b>	<b>89,350</b>	<b>8,381</b>	<b>49,883</b>	<b>69,902</b>	<b>780,878</b>

<b>Collateral held against credit-impaired exposures</b>	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
Loans and commitments to customers:	14,160	9,003	2,282	106	328	487	12,206
Individuals .....	5,828	5,256	17	7	83	3	5,366
Commerce and services .....	2,629	1,023	139	-	78	247	1,487
Construction .....	303	232	-	-	21	14	267
Industrial and transportation .....	2,948	317	2,077	99	109	170	2,772
Investment companies .....	224	180	-	-	-	-	180
Public sector and non-profit organisations .....	53	37	-	-	-	-	37
Real estate .....	1,871	1,829	-	-	1	-	1,830
Seafood .....	304	129	49	-	36	53	267
<b>Total</b>	<b>14,160</b>	<b>9,003</b>	<b>2,282</b>	<b>106</b>	<b>328</b>	<b>487</b>	<b>12,206</b>

### 44. 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 44. Cont'd

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 2018 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 30 September 2019

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4 .....	221,153	132	-	221,285
Risk class 5-6 .....	399,933	1,173	-	401,106
Risk class 7-8 .....	211,793	8,114	-	219,907
Risk class 9 .....	37,079	7,881	-	44,960
Risk class 10 .....	-	-	25,982	25,982
Unrated .....	4,904	65	116	5,085
	874,862	17,365	26,098	918,325
Expected credit loss.....	( 3,756)	( 614)	( 4,780)	( 9,150)
<b>Net carrying amount</b>	<b>871,106</b>	<b>16,751</b>	<b>21,318</b>	<b>909,175</b>

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4 .....	61,117	54	-	61,171
Risk class 5-6 .....	55,745	400	-	56,145
Risk class 7-8 .....	16,121	640	-	16,761
Risk class 9 .....	1,035	145	-	1,180
Risk class 10 .....	-	-	1,439	1,439
Unrated .....	50	6	-	56
	134,068	1,245	1,439	136,752
Expected credit loss.....	( 415)	( 16)	( 189)	( 620)
<b>Total</b>	<b>133,653</b>	<b>1,229</b>	<b>1,250</b>	<b>136,132</b>

At 30 September 2019	Risk class	Risk class	Risk class	Risk class	Risk class	Unrated	ECL	Total
	1-4	5-6	7-8	9	10			
Loans and commitments to customers:								
Individuals .....	73,580	138,691	123,485	30,694	9,627	4,465	( 2,782)	377,760
Commerce and services .....	30,557	90,774	22,733	5,418	5,852	410	( 1,884)	153,860
Construction .....	3,225	24,656	17,257	1,324	1,688	180	( 485)	47,845
Energy .....	11,658	587	1,186	-	-	-	( 29)	13,402
Financial services .....	8,885	405	8	-	-	4	( 10)	9,292
Industrial and transportation .....	27,707	58,898	9,691	3,150	3,726	65	( 2,131)	101,106
Investment companies .....	2,699	10,030	12,360	424	4,118	1	( 640)	28,992
Public sector and non-profit organisations .....	13,547	2,833	277	-	17	3	( 17)	16,660
Real estate .....	43,325	84,821	45,239	3,305	1,935	12	( 1,265)	177,372
Seafood .....	67,273	45,556	4,432	1,825	458	1	( 527)	119,018
<b>Total</b>	<b>282,456</b>	<b>457,251</b>	<b>236,668</b>	<b>46,140</b>	<b>27,421</b>	<b>5,141</b>	<b>( 9,770)</b>	<b>1,045,307</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 44. Cont'd

#### 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)
<b>Net carrying amount</b>	<b>805,155</b>	<b>27,823</b>	<b>13,621</b>	<b>846,599</b>

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)
<b>Total</b>	<b>141,974</b>	<b>3,444</b>	<b>539</b>	<b>145,957</b>

At 31 December 2018	Risk class	Risk class	Risk class	Risk class	Risk class	Unrated	ECL	Total
	1-4	5-6	7-8	9	10			
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
<b>Total</b>	<b>281,858</b>	<b>424,204</b>	<b>218,958</b>	<b>53,973</b>	<b>17,838</b>	<b>4,406</b>	<b>( 8,681)</b>	<b>992,556</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 45. 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.

When a loan has been renegotiated or modified but not derecognised the Group also reassesses, after a certain trial period, whether the loan is still considered to have a significant increase in credit risk. The Group also considers whether forborne assets classified as Stage 3 should be recognised and transferred to Stage 2.

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 the forborne contract was considered performing; 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 30 September 2019

	Stage 1	Stage 2	Stage 3	Total
Individuals .....	1,692	1,115	1,585	4,392
Companies .....	12,605	6,272	8,905	27,782
<b>Gross carrying amount</b>	<b>14,297</b>	<b>7,387</b>	<b>10,490</b>	<b>32,174</b>

	Stage 1	Stage 2	Stage 3	Total
Individuals .....	( 12)	( 37)	( 181)	( 230)
Companies .....	( 84)	( 275)	( 2,020)	( 2,379)
<b>Expected credit loss</b>	<b>( 96)</b>	<b>( 312)</b>	<b>( 2,201)</b>	<b>( 2,609)</b>

#### 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
<b>Gross carrying amount</b>	<b>16,118</b>	<b>4,036</b>	<b>5,826</b>	<b>25,980</b>

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

Gross carrying amount written off and still subject to enforcement activity	2019	2018
	1.1-30.9	1.1-30.9
Individuals .....	348	580
Companies .....	995	312
<b>Total</b>	<b>1,343</b>	<b>892</b>

# Notes to the Condensed Consolidated Interim Financial Statements

## 46. 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. Since the interim financial statements for the third quarter of the year are not audited, the official capital is based on reviewed own fund items at 30 June 2019.

The exposure is evaluated both before and after credit risk mitigating effects. After mitigating effects, the Group currently has two large exposures. No large exposure is 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 30 September 2019

Groups of connected clients:	Before	After
Group 1 .....	63%	-
Group 2 .....	12%	10%
Group 3 .....	11%	10%

### 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%

## 47. 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.

## 48. 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 the end of September 2019 and at year-end 2018.

Net stable funding ratio	30.9.2019	31.12.2018
For all currencies .....	117%	114%
Foreign currencies .....	163%	149%

## Notes to the Condensed Consolidated Interim Financial Statements

### 48. Cont'd

<b>Liquidity coverage ratio</b>	30.9.2019	31.12.2018
For all currencies .....	174%	172%
Foreign currencies .....	484%	544%

<b>At 30 September 2019</b>	For all currencies		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1* .....	168,578	168,578	45,996	45,996
Liquid assets level 2 .....	9,467	4,746	3,442	529
<b>Total liquid assets</b>	<b>178,045</b>	<b>173,324</b>	<b>49,438</b>	<b>46,525</b>
Deposits .....	479,491	137,295	80,658	33,246
Debt issued .....	3,476	3,476	181	181
Other outflows .....	83,324	32,538	16,732	5,019
<b>Total outflows</b>	<b>566,291</b>	<b>173,309</b>	<b>97,571</b>	<b>38,446</b>
Short-term deposits with other banks** .....	60,810	56,592	60,641	56,592
Other inflows .....	36,159	17,259	5,793	4,983
Restrictions on inflows .....	-	-	-	( 32,741)
<b>Total inflows</b>	<b>96,969</b>	<b>73,851</b>	<b>66,434</b>	<b>28,834</b>
<b>Liquidity coverage ratio</b>		<b>174%</b>		<b>484%</b>

<b>At 31 December 2018</b>	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
<b>Total liquid assets</b>	<b>171,971</b>	<b>169,992</b>	<b>45,362</b>	<b>43,383</b>
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
<b>Total outflows</b>	<b>529,356</b>	<b>159,988</b>	<b>83,665</b>	<b>31,915</b>
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)
<b>Total inflows</b>	<b>82,457</b>	<b>61,161</b>	<b>49,418</b>	<b>23,936</b>
<b>Liquidity coverage ratio</b>		<b>172%</b>		<b>544%</b>

\*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-term deposits with other banks with maturity less than 30 days.

## Notes to the Condensed Consolidated Interim Financial Statements

### 48. Cont'd

#### 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.

At 30 September 2019	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail .....	224,222	12%	80,708	5%	78,116	383,046
Operational relationships .....	3,389	25%	-	5%	-	3,389
Corporations .....	70,218	40%	342	20%	24,373	94,933
Sovereigns, Central Bank and public sector entities .....	11,417	40%	267	20%	636	12,320
Pension funds .....	35,776	100%	-	-	25,282	61,058
Domestic financial entities .....	28,941	100%	-	-	44,862	73,803
Foreign financial entities .....	3,909	100%	-	-	9,631	13,540
<b>Total</b>	<b>377,872</b>		<b>81,317</b>		<b>182,900</b>	<b>642,089</b>

At 31 December 2018	Deposits maturing within 30 days					
	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
<b>Total</b>	<b>351,895</b>		<b>81,391</b>		<b>161,292</b>	<b>594,578</b>

### 49. 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.

In accordance with the IFRS 16 standard lease liabilities have been added to the maturity analysis of financial liabilities.

#### Maturity analysis 30 September 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 .....	31,808	2,512	9,035	18,013	2,631	-	-	32,191
Deposits from customers .....	610,281	426,917	91,211	36,335	25,137	44,821	-	624,421
Debt issued and other borrowed funds .....	331,938	-	1,799	51,245	254,587	73,228	-	380,859
Subordinated loans .....	21,993	-	89	463	2,343	25,199	-	28,094
Other financial liabilities:	40,444	34,839	599	1,155	1,814	2,561	-	40,968
Lease liabilities .....	4,326	-	119	356	1,814	2,561	-	4,850
Other liabilities .....	36,118	34,839	480	799	-	-	-	36,118
<b>Total</b>	<b>1,036,464</b>	<b>464,268</b>	<b>102,733</b>	<b>107,211</b>	<b>286,512</b>	<b>145,809</b>	<b>-</b>	<b>1,106,533</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 49. Cont'd

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.

<b>Off-balance sheet liabilities</b>	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees .....	18,148	-	-	-	-	-	18,148
Undrawn loan commitments .....	39,908	-	-	-	-	-	39,908
Undrawn overdrafts .....	48,800	-	-	-	-	-	48,800
Credit card commitments .....	29,276	-	-	-	-	-	29,276
<b>Total</b>	<b>136,132</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136,132</b>

Total non-derivative financial liabilities and off-balance sheet liabilities .....	600,400	102,733	107,211	286,512	145,809	-	1,242,665
--	---------	---------	---------	---------	---------	---	-----------

The table below 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.

<b>Derivative financial liabilities</b>	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
<b>Gross settled derivatives</b>							
Inflow .....	-	41,862	83,780	78,784	-	-	204,426
Outflow .....	-	(39,581)	(88,466)	(76,349)	-	-	(204,396)
Total	-	2,281	(4,686)	2,435	-	-	30
Net settled derivatives .....	-	(685)	-	-	-	-	(685)
<b>Total</b>	<b>-</b>	<b>1,596</b>	<b>(4,686)</b>	<b>2,435</b>	<b>-</b>	<b>-</b>	<b>(655)</b>

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.

<b>Financial assets</b>	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 .....	129,115	34,968	92,536	1,611	-	-	-	129,115
Loans to credit institutions .....	66,409	27,762	38,647	-	-	-	-	66,409
Bonds and debt instruments .....	73,899	-	29,993	18,236	8,617	17,053	-	73,899
Loans to customers .....	909,175	5,744	103,627	77,456	311,824	410,524	-	909,175
Shares and equity instruments .....	19,200	-	-	-	-	-	19,200	19,200
Other financial assets .....	13,538	8,348	591	172	27	-	4,400	13,538
<b>Total</b>	<b>1,211,336</b>	<b>76,822</b>	<b>265,394</b>	<b>97,475</b>	<b>320,468</b>	<b>427,577</b>	<b>23,600</b>	<b>1,211,336</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 49. Cont'd

<b>Derivative financial assets</b>	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
<b>Gross settled derivatives</b>							
Inflow .....	-	40,579	90,656	53,526	-	-	184,761
Outflow .....	-	(34,455)	(86,641)	(54,802)	-	-	(175,898)
Total	-	6,124	4,015	(1,276)	-	-	8,863
Net settled derivatives .....	-	482	-	-	-	-	482
<b>Total</b>	-	6,606	4,015	(1,276)	-	-	9,345

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

#### Maturity analysis 31 December 2018

<b>Financial liabilities</b>	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
<b>Total</b>	938,956	449,671	110,440	65,455	186,782	199,585	-	1,011,933

<b>Off-balance sheet liabilities</b>	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
<b>Total</b>	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
--	---------	---------	--------	---------	---------	---	-----------

<b>Derivative financial liabilities</b>	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
<b>Gross settled derivatives</b>							
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)
<b>Total</b>	-	(794)	(1,042)	(2,274)	(172)	-	(4,282)

## Notes to the Condensed Consolidated Interim Financial Statements

### 49. Cont'd

<b>Financial assets</b>	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
<b>Total</b>	<b>1,113,232</b>	<b>75,840</b>	<b>214,425</b>	<b>98,976</b>	<b>297,042</b>	<b>408,540</b>	<b>18,409</b>	<b>1,113,232</b>

<b>Derivative financial assets</b>	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
<b>Gross settled derivatives</b>							
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
<b>Total</b>	<b>-</b>	<b>1,842</b>	<b>338</b>	<b>3,054</b>	<b>(16)</b>	<b>-</b>	<b>5,218</b>

### 50. 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, equity prices, commodity prices, and foreign exchange rates.

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.

### 51. 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.

### 52. 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### 52. Cont'd

#### 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 table below 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. Derivatives and securities used for hedging are excluded from the table.

	30.9.2019			31.12.2018		
	MV	Duration	BPV	MV	Duration	BPV
<b>Trading bonds and debt instruments, long positions</b>						
Indexed .....	1,659	5.52	( 0.92)	1,872	6.13	( 1.15)
Non-indexed .....	45,911	0.38	( 1.76)	43,550	0.32	( 1.40)
<b>Total</b>	<b>47,570</b>	<b>0.56</b>	<b>( 2.68)</b>	<b>45,422</b>	<b>0.56</b>	<b>( 2.55)</b>
	30.9.2019			31.12.2018		
	MV	Duration	BPV	MV	Duration	BPV
<b>Trading bonds and debt instruments, short positions</b>						
Indexed .....	331	8.00	0.27	-	-	-
Non-indexed .....	585	3.00	0.19	198	5.00	0.09
<b>Total</b>	<b>916</b>	<b>4.81</b>	<b>0.46</b>	<b>198</b>	<b>5.00</b>	<b>0.09</b>
<b>Net position of trading bonds and debt instruments</b>	<b>46,654</b>	<b>0.48</b>	<b>( 2.22)</b>	<b>45,224</b>	<b>0.54</b>	<b>( 2.64)</b>

#### 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 30 September 2019

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed .....	4	89	( 287)	( 1,771)	2,057	225	317
ISK, non-indexed .....	18	7	11	42	( 3)	-	75
EUR .....	20	3	( 19)	119	-	-	123
SEK .....	17	-	-	-	-	-	17
USD .....	( 39)	( 1)	-	-	-	-	( 40)
Other .....	15	( 4)	-	24	-	-	35
<b>Total</b>	<b>35</b>	<b>94</b>	<b>( 295)</b>	<b>( 1,586)</b>	<b>2,054</b>	<b>225</b>	<b>527</b>

##### 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)
<b>Total</b>	<b>144</b>	<b>29</b>	<b>100</b>	<b>( 5,116)</b>	<b>4,817</b>	<b>71</b>	<b>45</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 53. 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 30 September 2019

<b>Assets</b>	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank .....	1,125	445	289	59	26	65	78	172	39	145	2,443
Loans to credit institutions .....	22,430	32,818	1,919	492	388	223	5,487	179	304	840	65,080
Bonds and debt instruments .....	22,320	11,350	24	-	-	-	12,185	-	-	-	45,879
Loans to customers .....	109,678	34,515	1,974	629	3,346	1	3,506	1,102	6,027	35	160,813
Shares and equity instruments .....	32	3,061	419	-	-	-	37	-	-	-	3,549
Other assets .....	767	1,611	576	7	-	41	4	22	1	1,225	4,254
<b>Total assets</b>	<b>156,352</b>	<b>83,800</b>	<b>5,201</b>	<b>1,187</b>	<b>3,760</b>	<b>330</b>	<b>21,297</b>	<b>1,475</b>	<b>6,371</b>	<b>2,245</b>	<b>282,018</b>
<b>Liabilities</b>											
Deposits from credit institutions .....	7,884	1	1	-	-	-	-	-	-	-	7,886
Deposits from customers .....	34,803	33,219	4,448	444	304	984	2,901	1,485	508	70	79,166
Debt issued and other borrowed funds .....	112,191	-	-	-	-	41,066	19,286	-	-	-	172,543
Subordinated loans .....	-	-	-	-	-	21,993	-	-	-	-	21,993
Other liabilities .....	2,257	1,407	832	32	-	81	159	7	28	392	5,195
<b>Total liabilities</b>	<b>157,135</b>	<b>34,627</b>	<b>5,281</b>	<b>476</b>	<b>304</b>	<b>64,124</b>	<b>22,346</b>	<b>1,492</b>	<b>536</b>	<b>462</b>	<b>286,783</b>
<b>Net on-balance sheet position</b>	<b>( 783)</b>	<b>49,173</b>	<b>( 80)</b>	<b>711</b>	<b>3,456</b>	<b>( 63,794)</b>	<b>( 1,049)</b>	<b>( 17)</b>	<b>5,835</b>	<b>1,783</b>	<b>( 4,765)</b>
<b>Net off-balance sheet position</b>	<b>198</b>	<b>( 49,133)</b>	<b>286</b>	<b>( 693)</b>	<b>( 3,436)</b>	<b>63,778</b>	<b>671</b>	<b>206</b>	<b>( 5,822)</b>	<b>( 190)</b>	<b>5,865</b>
<b>Net position</b>	<b>( 585)</b>	<b>40</b>	<b>206</b>	<b>18</b>	<b>20</b>	<b>( 16)</b>	<b>( 378)</b>	<b>189</b>	<b>13</b>	<b>1,593</b>	<b>1,100</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 53. Cont'd

#### Currency analysis at 31 December 2018

<b>Assets</b>	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
<b>Total assets</b>	<b>155,519</b>	<b>59,693</b>	<b>7,916</b>	<b>1,019</b>	<b>3,927</b>	<b>4,822</b>	<b>6,312</b>	<b>1,235</b>	<b>5,862</b>	<b>2,387</b>	<b>248,692</b>
<b>Liabilities</b>											
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
<b>Total liabilities</b>	<b>148,399</b>	<b>28,626</b>	<b>4,954</b>	<b>359</b>	<b>792</b>	<b>58,989</b>	<b>3,381</b>	<b>1,866</b>	<b>434</b>	<b>2,242</b>	<b>250,042</b>
<b>Net on-balance sheet position</b>	<b>7,120</b>	<b>31,067</b>	<b>2,962</b>	<b>660</b>	<b>3,135</b>	<b>( 54,167)</b>	<b>2,931</b>	<b>( 631)</b>	<b>5,428</b>	<b>145</b>	<b>( 1,350)</b>
<b>Net off-balance sheet position</b>	<b>( 7,589)</b>	<b>( 31,140)</b>	<b>( 2,964)</b>	<b>( 667)</b>	<b>( 3,170)</b>	<b>54,350</b>	<b>( 2,844)</b>	<b>642</b>	<b>( 5,418)</b>	<b>( 147)</b>	<b>1,053</b>
<b>Net position</b>	<b>( 469)</b>	<b>( 73)</b>	<b>( 2)</b>	<b>( 7)</b>	<b>( 35)</b>	<b>183</b>	<b>87</b>	<b>11</b>	<b>10</b>	<b>( 2)</b>	<b>( 297)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 54. 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 130 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.9.2019	31.12.2018
Bonds and debt instruments .....	2,597	2,721
Loans to customers .....	298,412	293,917
<b>Total CPI-linked assets</b>	<b>301,009</b>	<b>296,638</b>
Deposits from customers .....	97,009	95,917
Debt issued and other borrowed funds .....	125,275	118,103
Off-balance sheet position .....	65,705	70,617
<b>Total CPI-linked liabilities</b>	<b>287,989</b>	<b>284,637</b>
<b>CPI imbalance</b>	<b>13,020</b>	<b>12,001</b>

### 55. Capital management

The following table shows the capital base, risk exposure amount, the resulting capital ratios, and leverage for the Group at 30 September 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.

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%.

	30.9.2019	31.12.2018
<b>CET1 capital</b>		
Ordinary share capital .....	10,000	10,000
Share premium .....	55,000	55,000
Reserves .....	6,801	6,499
Retained earnings .....	103,785	102,496
Non-controlling interests .....	2,398	2,318
Fair value changes due to own credit standing .....	731	376
Tax assets .....	( 445)	( 215)
Intangible assets .....	( 4,709)	( 5,002)
<b>Total CET1 capital</b>	<b>173,561</b>	<b>171,472</b>
<b>Tier 2 capital</b>		
Qualifying subordinated liabilities .....	21,993	16,216
<b>Total capital base</b>	<b>195,554</b>	<b>187,688</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 55. Cont'd

	30.9.2019	31.12.2018
<b>Risk exposure amount</b>		
- due to credit risk .....	815,266	750,801
- due to market risk .....	10,482	7,622
Market risk, trading book .....	8,736	6,649
Currency risk .....	1,746	973
- due to credit valuation adjustment .....	1,954	2,385
- due to operational risk .....	85,141	85,141
<b>Total risk exposure amount</b>	<b>912,843</b>	<b>845,949</b>
<b>Capital ratios</b>		
Tier 1 ratio .....	19.0%	20.3%
Total capital ratio .....	21.4%	22.2%
Official Tier 1 ratio .....	18.8%	20.3%
Official capital ratio .....	21.2%	22.2%
<b>Leverage ratio</b>		
<b>Exposure amount</b>		
On-balance sheet exposures .....	1,223,263	1,120,637
Off-balance sheet exposures .....	41,213	47,119
Derivative exposures .....	9,341	8,935
<b>Leverage ratio total exposure measure</b>	<b>1,273,817</b>	<b>1,176,691</b>
Tier 1 capital .....	173,561	171,472
<b>Leverage ratio</b>	<b>13.6%</b>	<b>14.6%</b>

