Íslandsbanki

Condensed Consolidated Interim Financial Statements

First quarter 2019

Unaudited

440 4000

@islandsbanki

islandsbanki.is

Contents

Highlights

Our profile

- A leader in financial services in Iceland, Íslandsbanki is a universal bank with total assets of ISK 1,205bn 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 and in July 2018, Euromoney selected Íslandsbanki as the best bank in Iceland.
- Íslandsbanki has a BBB+/A-2 rating from S&P Global Ratings.

Our Bank

14 branches

834 Number of FTEs for parent company at period end

86.000 APP users

Market Share*

32% individuals

37% SMEs

33% large companies

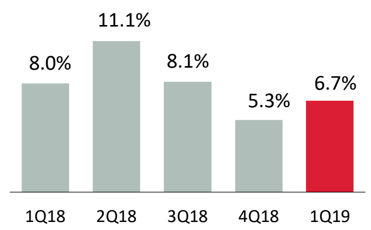
Credit Ratings

S&P Global Ratings

BBB+/A-2

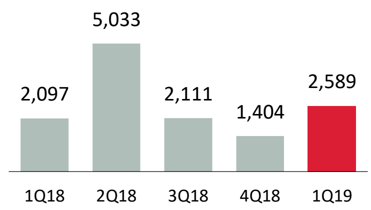
Stable outlook

ROE reg. operations CET1 16%**

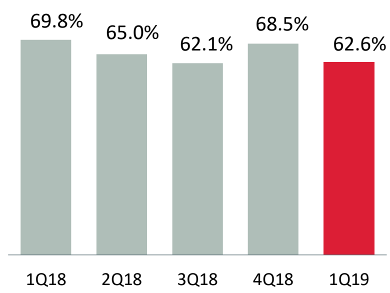


Profit after tax

(ISKbn)

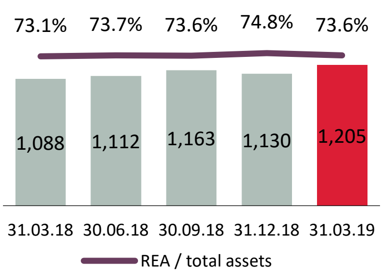


Cost / income ratio***



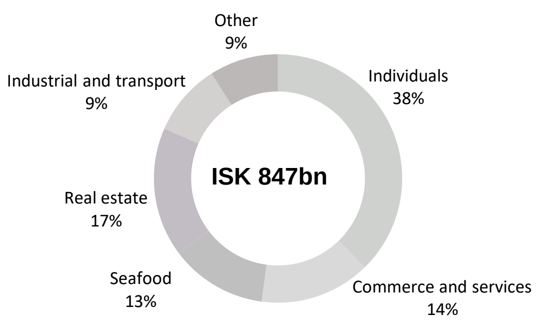
REA / total assets

(ISKbn)



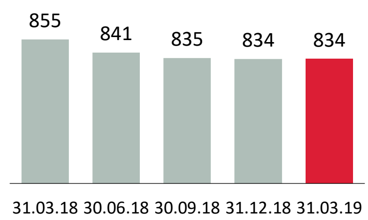
Loans to customers

(Sector split as at 31.03.19)



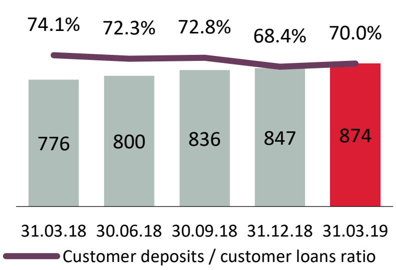
Number of FTEs for Parent Company

(Excluding seasonal employees)

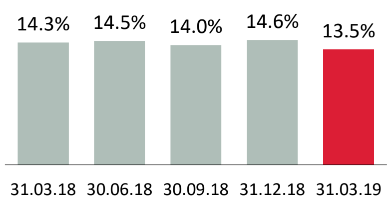


Loans to customers

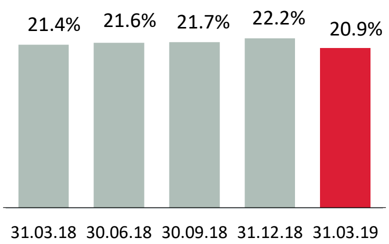
(ISKbn)



Leverage ratio



Total capital ratio



*Based on Gallup survey regarding primary bank.
**Earnings on regular income now includes profit from discontinued operations. The Bank has introduced a new long term minimum capital target of 16% (CET1 16%), resulting in adjustments to its ROE on regular operations from previous levels (CET1 15%).
***The cost/income ratio for parent company 1Q19 is 58.1%.

Directors' Report

These are the condensed consolidated interim financial statements for the first quarter of 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 2,589 million, which corresponds to 5.9% annualised return on equity. At the end of the reporting period, the Group employed 1,070 full-time members of staff, including 834 within the Bank itself.

Net interest income rose by 5% between years as loan growth was very robust in 2018. Net fee income was up by 16%, due to strong growth in both the Bank and its subsidiaries. Other income was about 1.6bn and mostly explained by a settlement of the Bank's claim deriving from the acquisition of Byr savings bank back in 2011. Salary costs were up by 3% between years and other operating expenses grew by 4%.

Net impairments were negative by ISK 0.9 billion and are largely explained by a less favourable economic environment and forward looking provisions under the IFRS 9 standard. At the same time the Bank's ratio of non performing loans increased only modestly from 2.0% to 2.2%.

The Group's loan book grew by 3.2% in the first quarter on the back of strong demand in all lending units and higher FX denominated loans as the Icelandic króna weakened in the quarter.

Customer deposits increased by 5.6% during the quarter, mainly on the back of an increase in deposits from institutional investors. The Bank continued to have good access to capital markets and issued ISK16 billion in covered bonds in the quarter and about ISK 30 billion in foreign currency denominated senior unsecured private placements. In the beginning of April the Bank issued a new EUR 300 million benchmark transaction with maturity in 2022 and at the same time tendered for about the same amount a part of the EUR 500 million bond that is maturing in 2020, thereby effectively managing the maturity profile of the Bank's outstanding debt.

At the Bank's annual general meeting in March, Tómas Már Sigurðsson was elected as a new board member and will serve as Vice-Chairman of the Board. Tómas has extensive experience from management roles in the aluminum industry and is currently a senior vice-president of strategic alliances for Alcoa.

The Bank engaged BCG Nordics to help to formulate a new strategy for the Bank and the outcome was presented to the Bank's employees at a stategic summit at the end of March. The strategy work was based on extensive research, industry insights and benchmarks, identifying the competitive advantages and future strategic positioning in a changing environment. The outcome of the work was an articulation of the Bank's purpose, values and vision along with a list of strategic initiatives to be implemented in the next five years. The purpose of "Moving Iceland forward through empowering our customers to succeed" was defined through input from workshops with all employees. It articulates a more active role of the Bank in a shaping and progressing society. The purpose is further supported by three values that will serve as a guiding principles for employees in all their efforts: "Passion, Professionalism, and Collaboration".

To live the purpose and values, Íslandsbanki continues to be guided by the vision to be '#1 for service', placing the customer at the centre of gravity for value creation. The Bank will put a strong emphasis on technology to facilitate innovation and development of simple, efficient solutions for its customers. Going forward, the Bank will be reinforcing its commitment to corporate social responsibility (CSR) by integrating social and environmental impact as a driver of strategy and value creation within the Bank. As such, the Bank's CSR work will be centered around four of the United Nations's seventeen SDGs: #4 Quality education; #5 Gender equality; #9 Industry, innovation and infrastructure; and #13 Climate action.

Outlook

The Icelandic economy is cooling markedly after a period of robust growth. The latest public forecast from Íslandsbanki Research, published in January, assumes 1.1% GDP growth in 2019. That forecast is likely to be revised downwards following setbacks in the tourist and seafood sectors in Q1. Growth is expected to pick up again in 2020 as business investment and the tourism sector recover.

Debt levels of households, corporates and the public sector have remained stable in recent quarters and the current level of resilience in the domestic economy and financial system is considerable as a result.

The Bank's ratio of non-performing loans remains low overall and borrower debt levels are at historically low levels. As a result of the forward looking mechanism of the IFRS 9 standard, it can however be expected that the slower growth in the economy will lead to increased impairments in the short term. The Bank continues to have a strong capital and liquidity position and is therefore prepared for changes in the economic activity.

Directors' Report

Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 31 March 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 31 March 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 31 March 2019.

Kópavogur, 8 May 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 1.1-31.3	2018 1.1-31.3
Interest income*		15,227	14,995
Interest expense		(7,075)	(7,255)
Net interest income	10	8,152	7,740
Fee and commission income		5,011	4,273
Fee and commission expense		(1,794)	(1,495)
Net fee and commission income	11	3,217	2,778
Net financial income (expense)	12	448	(283)
Net foreign exchange loss	13	(30)	(10)
Other operating income	14	1,144	13
Other net operating income		1,562	(280)
Total operating income		12,931	10,238
Salaries and related expenses	15	(4,051)	(3,926)
Other operating expenses	16	(3,039)	(2,924)
Contribution to the Depositors' and Investors' Guarantee Fund		(312)	(292)
Bank tax		(880)	(785)
Total operating expenses		(8,282)	(7,927)
Profit before net impairment on financial assets		4,649	2,311
Net impairment on financial assets	17	(919)	88
Profit before tax		3,730	2,399
Income tax expense	18	(1,153)	(1,015)
Profit for the period from continuing operations		2,577	1,384
Profit from discontinued operations, net of income tax	19	12	713
Profit for the period		2,589	2,097

*Of which interest income amounting to ISK 14,639 million (2018: ISK 14,514 million) is calculated using the effective interest method.

	Notes	2019	2018
Profit attributable to:			
Shareholders of Íslandsbanki hf.		2,651	2,186
Non-controlling interests		(62)	(89)
Profit for the period		2,589	2,097
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	20	0.26	0.15

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

Financial Statements first quarter 2019 5 Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2019 1.1-31.3	2018 1.1-31.3
Profit for the period	2,589	2,097
Items that will not be reclassified to profit or loss		
Changes in fair value of financial assets and financial liabilities, net of tax	19	302
Other comprehensive income for the period, net of tax	19	302
Total comprehensive income for the period	2,608	2,399

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

Financial Statements first quarter 2019 6 Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2019	31.12.2018
Assets			
Cash and balances with Central Bank	21	129,039	135,056
Bonds and debt instruments	5	80,809	69,415
Shares and equity instruments	5	15,268	13,074
Derivatives	22	4,837	4,550
Loans to credit institutions	23	65,145	41,577
Loans to customers	24	873,530	846,599
Investments in associates	26	682	682
Property and equipment	28	9,642	5,271
Intangible assets		4,868	5,002
Other assets	29	21,408	9,177
Total Assets		1,205,228	1,130,403
Liabilities			
Deposits from Central Bank and credit institutions	30	16,404	15,619
Deposits from customers	31	611,303	578,959
Derivative instruments and short positions	22	7,325	5,521
Debt issued and other borrowed funds	33	325,035	300,976
Subordinated loans	34	16,468	16,216
Tax liabilities		8,303	7,150
Other liabilities	36	46,769	29,649
Total Liabilities		1,031,607	954,090
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		6,776	6,499
Retained earnings		99,401	102,496
Total equity attributable to the equity holders of Íslandsbanki hf.		171,177	173,995
Non-controlling interests		2,444	2,318
Total Equity		173,621	176,313
Total Liabilities and Equity		1,205,228	1,130,403

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

Amounts are in ISK million

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
Equity as at 1.1.2019	10,000	55,000	2,500	3,750	625	(376)	102,496	173,995	2,318	176,313
Profit for the period							2,651	2,651	(62)	2,589
Dividends paid							(5,300)	(5,300)		(5,300)
Net change in fair value of financial assets					326			326	188	514
Net change in fair value of financial liabilities						(495)		(495)		(495)
Restricted due to capitalised development cost				(66)			66	-		-
Restricted due to fair value changes				525			(525)	-		-
Restricted due to subsidiaries and associates				(13)			13	-		-
Equity as at 31.3.2019	10,000	55,000	2,500	4,196	951	(871)	99,401	171,177	2,444	173,621
Equity as at 1.1.2018	10,000	55,000	2,500	3,440	239	(1,486)	104,760	174,453	2,485	176,938
Profit for the period							2,186	2,186	(89)	2,097
Dividends paid							(13,000)	(13,000)		(13,000)
Net change in fair value of financial assets					33			33	20	53
Net change in fair value of financial liabilities						249		249		249
Restricted due to capitalised development cost				164			(164)	-		-
Restricted due to fair value changes				(107)			107	-		-
Restricted due to subsidiaries and associates				(41)			41	-		-
Equity as at 31.3.2018	10,000	55,000	2,500	3,456	272	(1,237)	93,930	163,921	2,416	166,337

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.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	Notes	2019 1.1-31.3	2018 1.1-31.3
Profit for the period		2,589	2,097
Non-cash items included in profit for the period		5,767	4,084
Changes in operating assets and liabilities		(25,864)	(49,483)
Dividends received		23	11
Income tax and bank tax paid		(809)	(883)
Net cash used in operating activities		(18,294)	(44,174)
Proceeds from sale of property and equipment		7	4
Purchase of property and equipment		(121)	(64)
Purchase of intangible assets		(19)	(232)
Net cash used in investing activities		(133)	(292)
Proceeds from borrowings		37,993	55,299
Repayment of borrowings		(21,712)	(3,428)
Repayment of lease liabilities		(93)	-
Dividends paid		(4,134)	(10,140)
Net cash provided by financing activities		12,054	41,731
Net decrease in cash and cash equivalents		(6,373)	(2,735)
Effects of foreign exchange rate changes		9	(60)
Cash and cash equivalents at the beginning of the period		143,203	187,438
Cash and cash equivalents at the end of the period		136,839	184,643

Reconciliation of cash and cash equivalents			
Cash on hand	21	4,088	2,025
Cash balances with Central Bank	21	124,951	175,004
Bank accounts	23	24,434	22,702
Mandatory reserve and special restricted balances with Central Bank	21	(16,634)	(15,088)
Cash and cash equivalents at the end of the period		136,839	184,643

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 31 March 2019 was ISK 14,954 million (2018: ISK 14,170 million) and interest paid in the same period 2019 was ISK 5,471 million (2018: ISK 4,224 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.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2019 1.1-31.3	2018 1.1-31.3
Depreciation and impairment	241	164
Amortisation of intangible assets	153	51
Share of gain of associates	-	32
Accrued interest and fair value changes on debt issued and subordinated loans	2,527	2,500
Net impairment on financial assets	907	(88)
Foreign exchange loss	30	10
Net gain on sale of subsidiary, property and equipment	(2)	(1)
Unrealised fair value (gain) loss recognised in profit or loss	(110)	329
Net profit on non-current assets classified as held for sale	(12)	(713)
Bank tax	880	1,015
Income tax	1,153	785
Non-cash items included in profit for the period	5,767	4,084

Mandatory reserve and special restricted balances with Central Bank	478	2,478
Loans to credit institutions	(22,109)	(16,038)
Loans to customers	(21,801)	(28,784)
Bonds and debt instruments	(9,521)	(23,594)
Shares and equity instruments	(1,530)	(254)
Other operating assets	(11,982)	(432)
Non-current assets and liabilities held for sale	38	2,440
Deposits with credit institutions and Central Bank	618	2,500
Deposits from customers	28,896	11,127
Trading financial liabilities	-	(270)
Derivatives	(368)	1,105
Other operating liabilities	11,417	239
Changes in operating assets and liabilities	(25,864)	(49,483)

Non-cash transactions 2019

The Bank paid dividends amounting to ISK 5,300 million. Thereof were non-cash transactions amounting to ISK 1,166 million in withheld capital income tax due in May 2019.

During the period the Bank repurchased own debt securities amounting to ISK 288 million by issuing new debt.

Non-cash transactions 2018

The Bank paid dividends amounting to ISK 13,000 million. Thereof were non-cash transactions amounting to ISK 2,860 million in withheld capital income tax due in May 2018.

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated 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 first 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 first quarter 2019 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 8 May 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 ended 31 December 2018. Both are available on the Bank's website: www.islandsbanki.is.

On 1 January 2019 the Group implemented IFRS 16 - Leases, the impact of the implementation on the opening balance sheet at 1 January 2019 is disclosed in Note 3.

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.

The interim financial statements have been prepared on an historical cost basis except for the following items in the statement of financial position: bonds and debt instruments which are measured at fair value, shares and equity instruments which are measured at fair value, derivative financial instruments which are measured at fair value, non-current assets and disposal groups classified as held for sale which are measured at the lower of its carrying amount and fair value less costs to sell and certain debt securities which are measured at fair value. Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

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.

Important 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 the allowance for credit losses, the fair value of financial instruments and intangible assets.

Changes in presentation

The Group has changed its presentation in the consolidated interim statement of financial position as follows:
- The line item "Non-current assets and disposal groups held for sale" has been included in the line item "Other assets"
- The line item "Non-current liabilities and disposal groups held for sale" has been included in the line item "Other liabilities"

3. Changes to accounting policies

The accounting policies in the interim financial statements are consistent with those applied in the Group's audited consolidated financial statements for the year ended 31 December 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.

3. Cont'd

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.

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 50. 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".

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.

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, adjusted by the amount of any prepaid or accrued lease payments.

On transition to IFRS 16, the Group recognised ISK 4,489 million of right-of-use assets and the same amount in lease liabilities. All lease liabilities and right-of-use assets at transition and throughout the first quarter of 2019 stem from CPI-linked real estate lease commitments for offices, branches and storage. 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 2.12% for CPI-indexed leases.

3. Cont'd

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)
Lease liabilities recognised at 1 January 2019	4,489

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.

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 for leases where the Group is the lessor.

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, Operations & 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 27).

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

1 January to 31 March 2019	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	2,573	2,700	2,092	604	(55)	7,914	238	8,152
Net fee and commission income	1,052	415	877	(69)	1	2,276	941	3,217
Other operating income	-	5	107	251	1,166	1,529	33	1,562
Total operating income	3,625	3,120	3,076	786	1,112	11,719	1,212	12,931
Salaries and related expenses	(643)	(496)	(460)	(67)	(1,619)	(3,285)	(766)	(4,051)
Other operating expenses	(540)	(282)	(168)	(58)	(1,525)	(2,573)	(466)	(3,039)
Contribution to the Depositors' and Investors' Guarantee Fund	(173)	(107)	(32)	-	-	(312)	-	(312)
Bank tax	(112)	(84)	(124)	(556)	(4)	(880)	-	(880)
Net impairment on financial assets	(224)	(550)	(101)	(34)	-	(909)	(10)	(919)
Cost allocation	(1,347)	(700)	(717)	62	2,702	-	-	-
Profit (loss) before tax	586	901	1,474	133	666	3,760	(30)	3,730
Income tax expense	(152)	(234)	(383)	(192)	(173)	(1,134)	(19)	(1,153)
Profit (loss) for the period from continuing operations	434	667	1,091	(59)	493	2,626	(49)	2,577
Net segment revenue from external customers	3,987	3,461	4,558	(1,435)	1,148	11,719	1,212	12,931
Net segment revenue from other segments	(362)	(341)	(1,482)	2,221	(36)	-	-	-
Fee and commission income	1,374	418	915	11	1	2,719	2,292	5,011
Depreciation and amortisation	(18)	(72)	(6)	(1)	(263)	(360)	(37)	(397)
At 31 March 2019								
Loans to customers	305,652	228,266	335,441	217	-	869,576	3,954	873,530
Other assets	2,529	3,540	4,633	283,841	11,916	306,459	25,239	331,698
Total segment assets	308,181	231,806	340,074	284,058	11,916	1,176,035	29,193	1,205,228
Deposits from customers	273,836	171,677	113,589	55,825	-	614,927	(3,624)	611,303
Other liabilities	1,283	2,815	5,493	379,500	6,472	395,563	24,741	420,304
Total segment liabilities	275,119	174,492	119,082	435,325	6,472	1,010,490	21,117	1,031,607
Allocated equity	26,649	39,178	58,495	40,672	551	165,545	8,076	173,621
Risk exposure amount	179,216	238,013	376,389	68,475	3,624	865,717	21,184	886,901

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.

Amounts are in ISK million

4. Cont'd

Subsidiaries, eliminations & adjustments

1 January to 31 March 2019	Borgun hf.	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	218	12	6	3	(1)	238
Net fee and commission income	358	252	338	(8)	1	941
Other operating income	100	75	-	5	(147)	33
Total operating income	676	339	344	-	(147)	1,212
Salaries and related expenses	(587)	(137)	(42)	-	-	(766)
Other operating expenses	(290)	(47)	(128)	(31)	30	(466)
Net impairment on financial assets	(12)	-	-	-	2	(10)
Profit (loss) before tax	(213)	155	174	(31)	(115)	(30)
Income tax expense	43	(32)	(35)	-	5	(19)
Profit (loss) for the period from cont. operations	(170)	123	139	(31)	(110)	(49)
Net segment revenue from external customers	884	378	343	-	(393)	1,212
Net segment revenue from other segments	(208)	(39)	1	-	246	-
Fee and commission income	2,328	356	338	-	(730)	2,292
Depreciation and amortisation	(37)	-	-	-	-	(37)
At 31 March 2019						
Total assets	31,168	2,621	1,254	7,547	(13,397)	29,193
Total liabilities	24,590	223	388	10	(4,094)	21,117
Total equity	6,578	2,398	866	7,537	(9,303)	8,076

1 January to 31 March 2018	Retail Banking	Corporate & Investment Banking	Treasury	Proprietary Trading & Subsidiaries	Cost centres & eliminations	Total
Net interest income	4,995	1,465	1,034	305	(59)	7,740
Net fee and commission income	1,423	737	(63)	679	2	2,778
Other operating income	6	94	(150)	(226)	(4)	(280)
Total operating income	6,424	2,296	821	758	(61)	10,238
Salaries and related expenses	(1,201)	(394)	(40)	(699)	(1,592)	(3,926)
Other operating expenses	(883)	(146)	(103)	(611)	(1,181)	(2,924)
Deposit Guarantee Fund	(285)	(4)	(3)	-	-	(292)
Bank tax	-	-	(785)	-	-	(785)
Net loan impairment	354	(245)	(29)	8	-	88
Cost allocation	(1,865)	(648)	142	(14)	2,385	-
Profit (loss) before tax	2,544	859	3	(558)	(449)	2,399
Income tax expense	(661)	(223)	(373)	125	117	(1,015)
Profit (loss) for the period from cont. operations	1,883	636	(370)	(433)	(332)	1,384
Net segment revenue from external customers	6,690	4,342	(1,644)	851	(1)	10,238
Net segment revenue from other segments	(266)	(2,046)	2,465	(93)	(60)	-
Fee and commission income	1,818	796	(48)	2,478	(771)	4,273
Depreciation and amortisation	(68)	(4)	(1)	(41)	(100)	(214)
At 31 March 2018						
Loans to customers	485,916	283,750	146	6,307	30	776,149
Other assets	3,869	1,220	258,013	57,029	(7,972)	312,159
Total segment assets	489,785	284,970	258,159	63,336	(7,942)	1,088,308
Deposits from customers	495,072	17,345	66,824	396	(4,441)	575,196
Other liabilities	4,375	4,093	309,860	26,830	1,617	346,775
Total segment liabilities	499,447	21,438	376,684	27,226	(2,824)	921,971
Allocated equity	57,639	46,699	48,898	22,880	(9,779)	166,337
Risk exposure amount	409,401	316,520	29,781	42,478	(2,257)	795,923

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5. Classification of financial assets and financial liabilities

At 31 March 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	-	-	-	-	129,039	129,039
Listed bonds and debt instruments	78,671	-	-	-	-	78,671
Unlisted bonds and debt instruments	2,138	-	-	-	-	2,138
Listed shares and equity instruments	9,933	-	-	-	-	9,933
Unlisted shares and equity instruments	2,979	-	-	2,356	-	5,335
Derivatives	4,065	772	-	-	-	4,837
Loans to credit institutions	-	-	-	-	65,145	65,145
Loans to customers	-	-	-	-	873,530	873,530
Other financial assets	-	-	-	-	19,650	19,650
Total financial assets	97,786	772	-	2,356	1,087,364	1,188,278
Deposits from CB and credit institutions	-	-	-	-	16,404	16,404
Deposits from customers	-	-	-	-	611,303	611,303
Derivative instruments and short positions	7,325	-	-	-	-	7,325
Debt issued and other borrowed funds	-	41,911	71,186	-	211,938	325,035
Subordinated loans	-	-	-	-	16,468	16,468
Other financial liabilities	-	-	-	-	44,160	44,160
Total financial liabilities	7,325	41,911	71,186	-	900,273	1,020,695

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
Listed bonds and debt instruments	67,901	-	-	-	-	67,901
Unlisted bonds and debt instruments	1,514	-	-	-	-	1,514
Listed shares and equity instruments	8,386	-	-	-	-	8,386
Unlisted shares and equity instruments	2,846	-	-	1,842	-	4,688
Derivatives	3,923	627	-	-	-	4,550
Loans to credit institutions	-	-	-	-	41,577	41,577
Loans to customers	-	-	-	-	846,599	846,599
Other financial assets	-	-	-	-	7,511	7,511
Total financial assets	84,570	627	-	1,842	1,030,743	1,117,782
Deposits from CB and credit institutions	-	-	-	-	15,619	15,619
Deposits from customers	-	-	-	-	578,959	578,959
Derivative instruments and short positions	5,521	-	-	-	-	5,521
Debt issued and other borrowed funds	-	40,714	68,154	-	192,108	300,976
Subordinated loans	-	-	-	-	16,216	16,216
Other financial liabilities	-	-	-	-	27,186	27,186
Total financial liabilities	5,521	40,714	68,154	-	830,088	944,477

Amounts are in ISK million

6. Fair value information for financial instruments

Financial instruments carried at fair value

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

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

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

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

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

At 31 March 2019

	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	78,670	-	2,139	80,809
Shares and equity instruments	9,842	41	5,385	15,268
Derivative instruments	-	4,837	-	4,837
Total financial assets	88,512	4,878	7,524	100,914
Derivative instruments	-	7,325	-	7,325
Debt issued and other borrowed funds designated as at FVTPL	71,186	-	-	71,186
Total financial liabilities	71,186	7,325	-	78,511

At 31 December 2018

	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	67,901	-	1,514	69,415
Shares and equity instruments	8,344	42	4,688	13,074
Derivative instruments	-	4,550	-	4,550
Total financial assets	76,245	4,592	6,202	87,039
Short positions	-	5,521	-	5,521
Derivative instruments	68,154	-	-	68,154
Total financial liabilities	68,154	5,521	-	73,675

Changes in Level 3 assets measured at fair value:	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2019	1,514	4,688
Purchases	-	91
Sales	-	(52)
Net gain on financial instruments recognised in profit or loss	585	114
Net gain on financial instruments recognised in other comprehensive income	-	514
Other	40	30
Fair value at 31 March 2019	2,139	5,385

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Notes to the Condensed Consolidated Interim Financial Statements

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

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 occured between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1: Fair value established from quoted market prices.

Level 1 financial assets and financial liabilities contain actively traded bonds and equities that are listed either domestically or abroad.

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

Level 2 assets and liabilities contain 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.

Level 3 assets contain primarily unlisted and illiquid equities and bonds. Unlisted equities and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above. At 31 March 2019 the Group's Level 3 equities amounted to ISK 5,385 million. These include shares in five professional investment funds and investment companies investing in unlisted equities and specialised investments in Iceland totalling ISK 1,696 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 2,356 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 2,139 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.

Amounts are in ISK million

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 31 March 2019	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	129,039	-	129,039	129,039
Loans to credit institutions	-	65,145	-	65,145	65,145
Loans to customers	-	-	875,664	875,664	873,530
Other financial assets	-	19,650	-	19,650	19,650
Total financial assets	-	213,834	875,664	1,089,498	1,087,364
Deposits from Central Bank and credit institutions	-	16,422	-	16,422	16,404
Deposits from customers	-	611,554	-	611,554	611,303
Debt issued and other borrowed funds	155,616	104,452	-	260,068	253,849
Subordinated loans	16,418	-	-	16,418	16,468
Other financial liabilities	-	44,160	-	44,160	44,160
Total financial liabilities	172,034	776,588	-	948,622	942,184

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

8. Offsetting financial assets and financial liabilities

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

Financial assets	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2019	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Derivatives	4,837	-	4,837	(1,651)	(1,375)	(193)	1,618	-	4,837
Total assets	4,837	-	4,837	(1,651)	(1,375)	(193)	1,618	-	4,837
At 31 December 2018									
Reverse repurchase agreements	153	-	153	-	-	-	153	-	153
Derivatives	4,550	-	4,550	(1,655)	(1,383)	(698)	814	-	4,550
Total assets	4,703	-	4,703	(1,655)	(1,383)	(698)	967	-	4,703

Financial liabilities	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2019	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Derivative instruments and short positions	7,325	-	7,325	(1,651)	(562)	-	5,112	-	7,325
At 31 December 2018									
Derivative instruments and short positions	5,521	-	5,521	(1,655)	(85)	-	3,781	-	5,521

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

9. Quarterly statements

	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Net interest income	8,152	8,294	8,301	7,602	7,740
Net fee and commission income	3,217	3,478	2,939	3,032	2,778
Net financial income (expense)	448	(637)	(420)	378	(283)
Net foreign exchange (loss) gain	(30)	76	(8)	(57)	(10)
Other operating income	1,144	120	64	1,587	13
Salaries and related expenses	(4,051)	(4,047)	(3,501)	(4,026)	(3,926)
Other operating expenses	(3,039)	(3,418)	(2,962)	(2,846)	(2,924)
Contribution to the Depositors' and Investors' Guarantee Fund	(312)	(299)	(295)	(287)	(292)
Bank tax	(880)	(740)	(944)	(812)	(785)
Net impairment on financial assets	(919)	(297)	(53)	1,846	88
Profit before tax	3,730	2,530	3,121	6,417	2,399
Income tax expense	(1,153)	(1,118)	(1,136)	(1,465)	(1,015)
Profit for the period from continuing operations	2,577	1,412	1,985	4,952	1,384
Profit (loss) from discontinued operations, net of income tax	12	(8)	126	81	713
Profit for the period	2,589	1,404	2,111	5,033	2,097

10. Net interest income

	2019 1.1-31.3	2018 1.1-31.3
Cash and balances with Central Bank	1,366	2,161
Loans at amortised cost	13,273	12,353
Financial assets mandatorily at fair value through profit or loss	568	431
Other assets	20	50
Total interest income	15,227	14,995
Deposits from credit institutions and Central Bank	(107)	(97)
Deposits from customers	(4,043)	(4,095)
Debt issued and other borrowed funds at fair value through profit or loss	(180)	(288)
Debt issued and other borrowed funds at amortised cost	(2,223)	(2,050)
Subordinated loans	(80)	(34)
Other interest expense*	(442)	(691)
Total interest expense	(7,075)	(7,255)
Net interest income	8,152	7,740

*Thereof is lease liabilities' interest expense amounting to ISK 24 million.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

11. Net fee and commission income

	2019 1.1-31.3	2018 1.1-31.3
Asset management	548	475
Investment banking and brokerage	530	496
Payment processing	2,970	2,554
Loans and guarantees	378	340
Other fee and commission income	585	408
Total fee and commission income	5,011	4,273
Brokerage	(69)	(68)
Clearing and settlement	(1,703)	(1,424)
Other fee and commission expense	(22)	(3)
Total fee and commission expense	(1,794)	(1,495)
Net fee and commission income	3,217	2,778

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

12. Net financial income (expense)

	2019 1.1-31.3	2018 1.1-31.3
Net gain on financial assets and liabilities mandatorily at FVTPL	504	112
Net loss on financial liabilities designated as at FVTPL	(44)	(364)
Net loss on fair value hedges	(12)	(31)
Net financial income (expense)	448	(283)

13. Net foreign exchange loss

	2019 1.1-31.3	2018 1.1-31.3
Cash and balances with Central Bank	9	(60)
Financial assets mandatorily at fair value through profit or loss	(199)	(1,542)
Loans at amortised cost	8,316	(6,720)
Other assets	181	(78)
Net foreign exchange gain (loss) for assets	8,307	(8,400)
Deposits	(3,614)	3,086
Debt issued and other borrowed funds designated as at FVTPL	(2,188)	2,404
Debt issued and other borrowed funds at amortised cost	(2,200)	2,117
Subordinated loans	(246)	669
Other liabilities	(89)	114
Net foreign exchange (loss) gain for liabilities	(8,337)	8,390
Net foreign exchange loss	(30)	(10)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

14. Other operating income

	2019 1.1-31.3	2018 1.1-31.3
Share of loss of associates, net of income tax	-	(32)
Legal fees	20	19
Rental income	10	9
Legal dispute settlement*	1,103	-
Other net operating income	11	17
Other operating income	1,144	13

*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 1.1-31.3	2018 1.1-31.3
Salaries	3,144	3,020
Contributions to pension funds	458	440
Social security charges and financial activities tax*	422	433
Other	27	33
Salaries and related expenses	4,051	3,926

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

16. Other operating expenses

	2019 1.1-31.3	2018 1.1-31.3
Professional services	1,262	1,324
Real estate and fixtures	764	872
Depreciation and amortisation	397	214
Other administrative expenses	616	514
Other operating expenses	3,039	2,924

17. Net impairment on financial assets

	2019 1.1-31.3	2018 1.1-31.3
Allowance for expected credit losses, on-balance sheet items*	(920)	53
Allowance for expected credit losses, off-balance sheet items	7	35
Changes of provision due to court rulings	(6)	-
Net impairment on financial assets	(919)	88

*The main reasons for the additional allowance are: a less favourable economic environment (ISK 400 million), a change in the relative weighting of economic forecasts (ISK 250 million) and an unfavourable ruling in a court case (ISK 190 million).

Amounts are in ISK 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 first quarter of 2019 is 30.9% (2018: 42.2%).

	2019 1.1-31.3	2018 1.1-31.3
Current tax expense excluding discontinued operations	1,057	1,195
Special financial activities tax	237	297
Difference in prior year's calculated income tax	(2)	1
Changes in temporary differences due to deferred tax assets and deferred tax liabilities	(139)	(478)
Income tax recognised in the income statement	1,153	1,015

	2019 1.1-31.3		2018 1.1-31.3	
Profit before tax	3,730		2,399	
20% income tax calculated on the profit of the period	746	20.0%	480	20.0%
Special financial activities tax	237	6.3%	297	12.4%
(Income) expenses not subject to tax	(31)	(0.8%)	25	1.0%
Non-deductible expenses	177	4.7%	157	6.5%
Other differences	24	0.7%	56	2.3%
Effective income tax expense	1,153	30.9%	1,015	42.2%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

19. Profit from discontinued operations

	2019 1.1-31.3	2018 1.1-31.3
Net (loss) profit from sales of foreclosed mortgages	(1)	40
Net share of profit from disposal groups held for sale	13	673
Profit from discontinued operations, net of income tax	12	713

20. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2019 1.1-31.3	2018 1.1-31.3	2019 1.1-31.3	2018 1.1-31.3
Profit attributable to shareholders of the Bank	2,639	1,473	2,651	2,186
Weighted average number of outstanding shares	10,000	10,000	10,000	10,000
Basic earnings per share	0.26	0.15	0.27	0.22

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

21. Cash and balances with Central Bank

	31.3.2019	31.12.2018
Cash on hand	4,088	3,095
Balances with Central Bank	108,317	114,849
Balances with Central Bank assets subject to special restrictions*	2,894	3,049
Included in cash and cash equivalents	115,299	120,993
Mandatory reserve deposits with Central Bank	13,740	14,063
Cash and balances with Central Bank	129,039	135,056

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

22. Derivative instruments and short positions

At 31 March 2019	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,330	100,705	3,396	141,935
Cross-currency interest rate swaps	2,151	45,465	1,808	61,016
Equity forwards	365	4,240	184	2,986
Foreign exchange forwards	521	10,943	50	4,047
Foreign exchange swaps	467	22,136	1,273	41,160
Bond forwards	3	1,070	614	24,320
Derivatives	4,837	184,559	7,325	275,464

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

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

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 33) arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. At the end of the first quarter 2019 the total fair value of the interest rate swaps was positive and amounted to ISK 772 million and their total notional amount was ISK 41,250 million.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

23. Loans to credit institutions

	31.3.2019	31.12.2018
Money market loans	40,711	16,314
Bank accounts	24,434	25,259
Other loans	-	4
Loans to credit institutions	65,145	41,577

24. Loans to customers

At 31 March 2019	Gross carrying amount			ECL allowance			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	313,315	5,740	7,755	(1,202)	(243)	(1,120)	324,245
Commerce and services	123,726	4,770	4,138	(745)	(285)	(1,279)	130,325
Construction	29,977	1,499	335	(256)	(44)	(45)	31,466
Energy	6,198	740	-	(23)	(4)	-	6,911
Financial services	2,583	-	-	(8)	-	-	2,575
Industrial and transportation	67,921	10,717	3,877	(381)	(80)	(1,068)	80,986
Investment companies	19,397	5,413	391	(226)	(117)	(201)	24,657
Public sector and non-profit organisations	11,486	12	46	(11)	(1)	(4)	11,528
Real estate	146,423	1,214	2,149	(666)	(61)	(294)	148,765
Seafood	102,478	9,615	456	(131)	(133)	(213)	112,072
Loans to customers	823,504	39,720	19,147	(3,649)	(968)	(4,224)	873,530

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

Amounts are in ISK million

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	602	(493)	(109)	-
Transfer to Stage 2	(706)	894	(188)	-
Transfer to Stage 3	(38)	(137)	175	-
Net remeasurement of loss allowance (including changes in models)	62	(385)	929	606
New financial assets originated or purchased	529	57	42	628
Derecognitions and maturities	(77)	(47)	(281)	(405)
Write-offs	-	-	(191)	(191)
Recoveries of amounts previously written off	-	-	41	41
Foreign exchange	-	-	38	38
Unwinding of interests	-	-	79	79
At 31 March 2019	3,649	968	4,224	8,841

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	2,701	1,244	9,151	13,096
Transfer to Stage 1	2,652	(1,733)	(919)	-
Transfer to Stage 2	(1,053)	2,317	(1,264)	-
Transfer to Stage 3	(99)	(1,167)	1,266	-
Net remeasurement of loss allowance	(2,073)	126	(429)	(2,376)
New financial assets originated or purchased	1,474	478	711	2,663
Derecognitions and maturities	(323)	(185)	(618)	(1,126)
Write-offs	(2)	(1)	(5,254)	(5,257)
Recoveries of amounts previously written off	-	-	416	416
Foreign exchange	-	-	87	87
Unwinding of interests	-	-	542	542
At 31 December 2018	3,277	1,079	3,689	8,045

Total expected credit loss

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	61	-	-	61
Loans to credit institutions	81	-	-	81
Loans to customers	3,649	968	4,224	8,841
Other financial assets	5	2	88	95
Off-balance sheet loan commitments and financial guarantees	431	40	159	630
At 31 March 2019	4,227	1,010	4,471	9,708

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	48	-	-	48
Loans to credit institutions	62	-	-	62
Loans to customers	3,277	1,079	3,689	8,045
Other financial assets	5	3	83	91
Off-balance sheet loan commitments and financial guarantees	410	142	84	636
At 31 December 2018	3,802	1,224	3,856	8,882

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

26. Investments in associates

	2019 1.1-31.3	2018 1.1-31.12
Investments in associates at the beginning of the year	682	704
Additions during the period	-	86
Sales of shares in associates	-	(39)
Transfer from associates to subsidiaries	-	(80)
Share of results	-	29
Dividends paid	-	(18)
Investments in associates	682	682

27. Investments in subsidiaries

		31.3.2019	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 13 other non-significant subsidiaries.

28. Property and equipment

At 31 March 2019 **Historical cost**	Land and buildings	Right-of-use assets: Properties	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	4,054	-	3,984	8,038
Impact of adopting IFRS 16, see Note 3	-	4,489	-	4,489
Additions during the period	5	-	116	121
Disposals and write-offs during the period	-	-	(43)	(43)
Remeasurement	-	34	-	34
Total	4,059	4,523	4,057	12,639
Accumulated depreciation				
Balance at the beginning of the year	(1,402)	-	(1,365)	(2,767)
Depreciation during the period	(8)	(104)	(129)	(241)
Disposals and write-offs during the period	-	-	11	11
Total	(1,410)	(104)	(1,483)	(2,997)
Carrying amount	2,649	4,419	2,574	9,642
Depreciation rates	0-2%	8-33%	8-33%	

Official real estate value of land and buildings	3,747
Insurance value of buildings	4,889
Insurance value of fixtures, equipment and vehicles	3,515

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

28. Cont'd

At 31 December 2018

Historical cost	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)
Total	4,054	3,984	8,038
Accumulated depreciation			
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
Total	(1,402)	(1,365)	(2,767)
Carrying amount	2,652	2,619	5,271
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

29. Other assets

	31.3.2019	31.12.2018
Receivables	8,322	5,793
Unsettled securities transactions	10,443	1,033
Accruals	285	289
Prepaid expenses	611	395
Deferred tax assets	292	215
Other assets	256	222
Non-current assets and disposal groups held for sale	1,199	1,230
Other assets	21,408	9,177

Non-current assets and disposal groups held for sale	31.3.2019	31.12.2018
Repossessed collateral:		
Land and property	959	995
Industrial equipment and vehicles	18	17
Assets of disposal groups classified as held for sale	222	218
Total	1,199	1,230

Amounts are in ISK million

30. Deposits from Central Bank and credit institutions

	31.3.2019	31.12.2018
Deposits from credit institutions	16,404	15,527
Repurchase agreements with Central Bank	-	92
Deposits from Central Bank and credit institutions	16,404	15,619

31. Deposits from customers

	31.3.2019	31.12.2018
Demand deposits*	542,558	499,170
Time deposits	68,745	79,789
Deposits from customers	611,303	578,959

*Demand deposits include deposits with maturity of up to 3 months.

Deposits from customers specified by owners:

	31.3.2019		31.12.2018	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	7,239	1%	9,331	2%
Municipalities	5,738	1%	5,574	1%
Companies	313,661	51%	278,209	48%
Individuals	284,665	47%	285,845	49%
Deposits from customers	611,303	100%	578,959	100%

32. Pledged assets

	31.3.2019	31.12.2018
Financial assets pledged as collateral against liabilities	193,262	190,471
Financial assets pledged as collateral in foreign banks	1,623	1,105
Financial assets pledged as collateral in repurchase agreements	139	153
Pledged assets against liabilities	195,024	191,729

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

33. Debt issued and other borrowed funds

	Issued	Maturity	Maturity type	Terms of interest	31.3.2019	31.12.2018
Covered bond in ISK*	2014-2017	2019	At maturity	Fixed rates	8,860	9,866
Covered bond in ISK	2019	2021	At maturity	Fixed rates	2,352	-
Covered bond in ISK	2015-2019	2023	At maturity	Fixed rates	12,454	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	4,307	4,248
Covered bond in ISK - CPI-linked	2015-2017	2022	At maturity	Fixed rates	17,975	18,009
Covered bond in ISK - CPI-linked	2012-2018	2024	At maturity	Fixed rates	34,854	35,009
Covered bond in ISK - CPI-linked	2015-2018	2026	At maturity	Fixed rates	27,344	26,992
Covered bond in ISK - CPI-linked	2019	2028	At maturity	Fixed rates	7,183	-
Covered bond in ISK - CPI-linked	2017-2018	2030	At maturity	Fixed rates	25,157	24,862
Covered bonds					140,486	138,813
Senior unsecured bond in SEK	2015	2019	At maturity	Floating rates	-	7,844
Senior unsecured bond in EUR	2017	2019	At maturity	Floating rates	1,376	4,398
Senior unsecured bond in SEK	2018	2019	At maturity	Floating rates	1,323	1,302
Senior unsecured bond in EUR**	2016	2020	At maturity	Fixed rates	71,186	68,154
Senior unsecured bond in SEK	2018-2019	2020	At maturity	Floating rates	7,943	3,259
Senior unsecured bond in SEK	2018-2019	2021	At maturity	Floating rates	20,585	16,364
Senior unsecured bond in SEK	2018	2022	At maturity	Floating rates	13,204	12,995
Senior unsecured bond in NOK	2019	2022	At maturity	Fixed rates	14,252	-
Senior unsecured bond in EUR***	2018	2024	At maturity	Fixed rates	41,911	40,714
Senior unsecured bond in NOK	2019	2024	At maturity	Floating rates	5,714	-
Bonds issued					177,494	155,030
Bills issued					6,638	6,729
Other debt securities					417	404
Other borrowed funds					7,055	7,133
Debt issued and other borrowed funds					325,035	300,976

*Íslandsbanki repurchased own covered bonds during the period amounting to ISK 288 million.

**This bond issuance is classified as being designated as at fair value through profit or loss. At 31 March 2019 the total carrying amount of the bond amounted to ISK 71,186 million and included in the amount are fair value changes amounting to ISK 664 million. The carrying amount of the bond at 31 March 2019 was ISK 1,233 million higher than the contractual amount due at maturity.

***The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 31 March 2019 the total carrying amount of the bond issuance amounted to ISK 41,911 million and included in the amount are fair value changes amounting to ISK 250 million.

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

34. Subordinated loans

	Issued	Maturity	Maturity type	Terms of interest	31.3.2019	31.12.2018
Loans which qualify as Tier 2 capital:						
Subordinated loans in SEK	2017	2027	At maturity	Floating, STIBOR + 2.0%	9,875	9,724
Subordinated loans in SEK	2018	2028	At maturity	Floating, STIBOR + 2.5%	6,593	6,492
Subordinated loans					16,468	16,216

35. Changes in liabilities arising from financing activities

			Non-cash changes			
	31.12.2018	Cash flows	Interest expense	Foreign exchange movement	Fair value changes	31.3.2019
Covered bonds NIL	20,756	2,568	342	-	-	23,666
Covered bonds CPI	118,057	(2,696)	1,459	-	-	116,820
Senior unsecured bonds FX	46,162	17,101	223	911	-	64,397
Senior unsecured bonds FX at fair value	68,154	-	180	2,188	664	71,186
Senior unsecured bonds used for hedging	40,714	(466)	124	1,289	250	41,911
Short-term borrowings	7,133	(153)	75	-	-	7,055
Subordinated loans	16,216	(74)	80	246	-	16,468
Total	317,192	16,280	2,483	4,634	914	341,503

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

Amounts are in ISK million

36. Other liabilities

	31.3.2019	31.12.2018
Accruals	3,823	3,906
Liabilities to retailers for credit cards	23,581	20,722
Lease liabilities	4,430	-
Off-balance sheet loan commitments and financial guarantees	630	636
Withholding tax	1,884	1,733
Unsettled securities transactions	10,691	612
Deferred income	177	193
Sundry liabilities	1,552	1,841
Non-current liabilities and disposal groups held for sale	1	6
Other liabilities	46,769	29,649

Reconciliation of 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	71	(52)	(19)	-
Transfer to Stage 2	(5)	9	(4)	-
Transfer to Stage 3	(2)	(2)	4	-
Net remeasurement of loss allowance (including changes in models)	(118)	(47)	73	(92)
New loan commitments and financial guarantees	112	4	23	139
Derecognitions and maturities	(37)	(14)	(2)	(53)
At 31 March 2019	431	40	159	630
At 1 January 2018	467	101	106	674
Transfer to Stage 1	595	(545)	(50)	-
Transfer to Stage 2	(58)	67	(9)	-
Transfer to Stage 3	(6)	(69)	75	-
Net remeasurement of loss allowance	(828)	481	(132)	(479)
New loan commitments and financial guarantees	521	130	132	783
Derecognitions and maturities	(281)	(23)	(38)	(342)
At 31 December 2018	410	142	84	636

37. Custody assets

	31.3.2019	31.12.2018
Custody assets - not managed by the Group	2,502,879	2,167,946

Amounts are in ISK million

38. 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 30.

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

At 31 March 2019	Assets	Liabilities	Net balance	Commitments & overdrafts
Shareholders with control over the Group	-	-	-	1
Board of Directors, key management personnel and other related parties	229	367	(138)	72
Associated companies	170	803	(633)	210
Balances with related parties	399	1,170	(771)	283

1 January - 31 March 2019	Interest income	Interest expense	Other income	Other expense
Board of Directors and key management personnel	14	2	-	-
Associated companies	3	5	2	425
Transactions with related parties	17	7	2	425

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

1 January - 31 March 2018	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	1	-	-
Board of Directors and key management personnel	4	4	-	-
Associated companies	4	4	-	437
Transactions with related parties	8	9	-	437

At 31 March 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.

Financial Statements first quarter 2019 35 Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

39. 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.

40. 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 first quarter 2019.

41. 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.

42. 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

43. 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:

Maximum credit exposure at 31 March 2019

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with CB	-	129,039	-	-	-	-	-	-	-	-	-	129,039
Bonds and debt instruments	-	62,551	-	-	194	15,182	1,532	607	681	62	-	80,809
Derivatives	1	-	114	-	2,255	5,931	605	426	-	75	220	9,627
Loans to credit institutions	-	-	-	-	-	65,145	-	-	-	-	-	65,145
Loans to customers:	324,245	-	130,325	31,466	6,911	2,575	80,986	24,657	11,528	148,765	112,072	873,530
Overdrafts	12,417	-	15,214	3,671	144	2,364	4,731	494	246	4,829	9,010	53,120
Credit cards	13,809	-	1,486	226	6	24	434	39	128	64	37	16,253
Mortgages	255,579	-	-	-	-	-	-	-	-	-	-	255,579
Capital leases	6,234	-	29,835	2,217	5	-	7,589	113	43	1,053	220	47,309
Other loans	36,206	-	83,790	25,352	6,756	187	68,232	24,011	11,111	142,819	102,805	501,269
Other financial assets	544	10	205	6	1	18,367	217	54	47	192	7	19,650
Off-balance sheet items:	35,389	-	26,576	18,566	10,255	7,314	13,958	1,274	5,720	20,339	13,213	152,604
Financial guarantees	1,485	-	5,764	4,715	12	1,172	3,058	137	36	1,964	260	18,603
Undrawn loan commitments	-	-	5,862	10,971	9,990	-	5,244	802	-	15,054	4,913	52,836
Undrawn overdrafts	8,983	-	10,703	2,126	231	6,010	4,591	214	5,012	3,084	7,888	48,842
Credit card commitments	24,921	-	4,247	754	22	132	1,065	121	672	237	152	32,323
Total maximum credit exposure	360,179	191,600	157,220	50,038	19,616	114,514	97,298	27,018	17,976	169,433	125,512	1,330,404

Amounts are in ISK million

43. Cont'd

Maximum credit exposure at 31 December 2018

	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with CB	-	135,056	-	-	-	-	-	-	-	-	-	135,056
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 credit institutions	-	-	-	-	-	41,577	-	-	-	-	-	41,577
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
Total maximum credit exposure	353,727	188,397	149,487	47,805	15,719	75,585	94,435	28,808	17,331	164,000	119,760	1,255,054

Amounts are in ISK million

44. 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 37,896 million of the collateral are leased objects.

The following tables show the maximum exposure to credit risk by class of financial asset and collateral held against those exposures.

An overview of collateral held by the Group against credit exposure is shown below for exposures in Stages 1 and 2 (non credit-impaired) and exposures in Stage 3 (credit-impaired):

At 31 March 2019

Collateral held against non credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
Derivatives	9,627	-	-	2,145	-	-	2,145
Loans and commitments to customers:	1,010,690	583,690	94,140	6,333	51,107	71,163	806,433
Individuals	352,807	272,211	23	390	13,343	118	286,085
Commerce and services	153,915	58,203	843	246	28,871	23,985	112,148
Construction	49,730	31,326	-	471	1,913	3,519	37,229
Energy	17,166	3,751	-	369	-	5	4,125
Financial services	9,889	-	-	311	-	-	311
Industrial and transportation	92,103	42,503	9	77	6,493	16,169	65,251
Investment companies	25,731	9,999	-	3,212	90	11,348	24,649
Public sector and non-profit organisations	17,202	965	-	6	32	-	1,003
Real estate	167,126	150,790	-	1,232	226	1,204	153,452
Seafood	125,021	13,942	93,265	19	139	14,815	122,180
Total	1,020,317	583,690	94,140	8,478	51,107	71,163	808,578

Collateral held against credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
Loans and commitments to customers:	15,444	9,983	1,348	114	1,110	342	12,897
Individuals	6,827	6,028	-	13	135	2	6,178
Commerce and services	2,986	1,274	-	-	823	73	2,170
Construction	302	220	-	-	28	11	259
Industrial and transportation	2,841	221	1,348	101	87	201	1,958
Investment companies	200	183	-	-	-	-	183
Public sector and non-profit organisations	46	40	-	-	-	-	40
Real estate	1,978	1,868	-	-	1	-	1,869
Seafood	264	149	-	-	36	55	240
Total	15,444	9,983	1,348	114	1,110	342	12,897

Amounts are in ISK million

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At 31 December 2018 **Collateral held against non credit-impaired exposures**	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
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
Total	987,335	563,362	89,350	8,381	49,883	69,902	780,878

Collateral held against credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral
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
Total	14,160	9,003	2,282	106	328	487	12,206

45. 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.

Amounts are in ISK million

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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.

As explained in Note 72.3 in the consolidated financial statements for the year 2018, the Group has a new harmonised definition of default. The new definition is broader than each individual definition, in particular the previous definition of Risk class 10.

At 31 March 2019

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	210,979	133	-	211,112
Risk class 5-6	372,188	15,171	-	387,359
Risk class 7-8	197,355	14,656	-	212,011
Risk class 9	38,642	9,722	-	48,364
Risk class 10	-	-	18,998	18,998
Unrated	4,340	38	149	4,527
	823,504	39,720	19,147	882,371
Expected credit loss	(3,649)	(968)	(4,224)	(8,841)
Net carrying amount	819,855	38,752	14,923	873,530

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	76,828	48	-	76,876
Risk class 5-6	54,087	646	-	54,733
Risk class 7-8	17,600	1,365	-	18,965
Risk class 9	1,414	452	-	1,866
Risk class 10	-	-	680	680
Unrated	111	3	-	114
	150,040	2,514	680	153,234
Expected credit loss	(431)	(40)	(159)	(630)
Total	149,609	2,474	521	152,604

At 31 March 2019	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	74,637	136,382	107,202	32,461	7,955	3,730	(2,733)	359,634
Commerce and services	38,824	85,447	23,745	6,438	4,274	625	(2,452)	156,901
Construction	3,947	22,580	22,435	1,163	348	37	(478)	50,032
Energy	15,518	640	1,039	-	-	-	(31)	17,166
Financial services	9,305	592	10	-	-	4	(22)	9,889
Industrial and transportation	28,376	50,657	8,591	4,823	3,903	165	(1,571)	94,944
Investment companies	3,676	7,377	14,688	348	405	-	(563)	25,931
Public sector and non-profit organisations	14,175	2,728	245	3	50	68	(21)	17,248
Real estate	40,014	79,179	45,701	3,035	2,269	11	(1,105)	169,104
Seafood	59,516	56,510	7,320	1,959	474	1	(495)	125,285
Total	287,988	442,092	230,976	50,230	19,678	4,641	(9,471)	1,026,134

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At 31 December 2018

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

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

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

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46. 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 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individuals	1,316	1,642	1,287	4,245
Companies	14,874	4,780	4,188	23,842
Gross carrying amount	16,190	6,422	5,475	28,087

	Stage 1	Stage 2	Stage 3	Total
Individuals	(11)	(53)	(163)	(227)
Companies	(166)	(151)	(1,244)	(1,561)
Expected credit loss	(177)	(204)	(1,407)	(1,788)

Gross carrying amount written off during the first quarter of 2019 and still subject to enforcement activity:	Gross carrying amount
Individuals	140
Companies	67
Total	207

At 31 December 2018

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

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

Gross carrying amount written off during the first quarter of 2018 and still subject to enforcement activity:	Gross carrying amount
Individuals	248
Companies	123
Total	371

Amounts are in ISK million

47. 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 first quarter of the year are not audited, the official capital is based on reviewed own fund items at 31 December 2018.

The exposure is evaluated both before and after credit risk mitigating effects. After mitigating effects, the Group currently has four 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 31 March 2019

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

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%

48. 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.

49. 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 March 2019 and at year-end 2018.

Net Stable Funding Ratio	31.3.2019	31.12.2018
For all currencies	115%	114%
Foreign currencies	166%	149%

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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Liquidity Coverage Ratio	31.3.2019	31.12.2018
For all currencies	158%	172%
Foreign currencies	453%	544%

At 31 March 2019	For all currencies		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	172,953	172,953	52,484	52,484
Liquid assets level 2	3,323	822	3,323	822
Total liquid assets	176,276	173,775	55,807	53,306
Deposits	452,222	137,120	83,145	37,307
Debt issued	2,988	2,988	1,530	1,530
Other outflows	102,986	48,652	20,649	8,246
Total outflows	558,196	188,760	105,324	47,083
Short-term deposits with other banks**	64,625	62,098	64,545	62,087
Other inflows	33,371	16,656	6,907	4,138
Restrictions on inflows	-	-	-	(30,913)
Total inflows	97,996	78,754	71,452	35,312
Liquidity coverage ratio		158%		453%

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

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

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

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Deposits by Liquidity Coverage Ratio category

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

At 31 March 2019	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	216,532	12%	80,445	5%	80,143	377,120
Operational relationships	2,924	25%	-	5%	-	2,924
Corporations	68,445	40%	346	20%	21,848	90,639
Sovereigns, Central Bank and public sector entities	7,488	40%	267	20%	830	8,585
Pension funds	43,093	100%	-	-	26,242	69,335
Domestic financial entities	26,990	100%	-	-	38,427	65,417
Foreign financial entities	5,678	100%	-	-	8,009	13,687
Total	371,150		81,058		175,499	627,707

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
Total	351,895		81,391		161,292	594,578

50. 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 has been added to the maturity analysis of financial liabilities.

Maturity analysis 31 March 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	16,404	4,634	6,421	5,617	-	-	-	16,672
Deposits from customers	611,303	440,855	107,388	29,538	25,761	29,671	-	633,213
Debt issued and other borrowed funds	325,035	417	15,369	15,665	268,887	68,059	-	368,397
Subordinated loans	16,468	-	103	341	2,038	19,813	-	22,295
Other financial liabilities:	44,160	32,231	6,215	1,726	1,534	2,454	-	44,160
Lease liabilities	4,430	-	159	283	1,534	2,454	-	4,430
Other liabilities	39,730	32,231	6,056	1,443	-	-	-	39,730
Total	1,013,370	478,137	135,496	52,887	298,220	119,997	-	1,084,737

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

Off-balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	18,603	-	-	-	-	-	18,603
Undrawn loan commitments	52,836	-	-	-	-	-	52,836
Undrawn overdrafts	48,842	-	-	-	-	-	48,842
Credit card commitments	32,323	-	-	-	-	-	32,323
Total	152,604	-	-	-	-	-	152,604
Total non-derivative financial liabilities and off-balance sheet liabilities	630,741	135,496	52,887	298,220	119,997	-	1,237,341

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.

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	17,760	29,766	102,458	1,899	-	151,883
Outflow	-	(18,465)	(31,456)	(106,666)	(2,092)	-	(158,679)
Total	-	(705)	(1,690)	(4,208)	(193)	-	(6,796)
Net settled derivatives	-	(805)	-	-	-	-	(805)
Total	-	(1,510)	(1,690)	(4,208)	(193)	-	(7,601)

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

Financial assets	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	129,039	32,950	96,089	-	-	-	-	129,039
Bonds and debt instruments	80,809	-	28,818	25,552	12,659	13,780	-	80,809
Shares and equity instruments	15,268	-	-	-	-	-	15,268	15,268
Loans to credit institutions	65,145	23,206	41,939	-	-	-	-	65,145
Loans to customers	873,530	3,416	90,461	76,442	300,733	402,478	-	873,530
Other financial assets	19,650	10,952	573	52	10	-	8,063	19,650
Total	1,183,441	70,524	257,880	102,046	313,402	416,258	23,331	1,183,441

Amounts are in ISK million

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Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	30,600	13,736	53,932	327	-	98,595
Outflow	-	(29,923)	(13,057)	(49,964)	(342)	-	(93,286)
Total	-	677	679	3,968	(15)	-	5,309
Net settled derivatives	-	362	-	-	-	-	362
Total	-	1,039	679	3,968	(15)	-	5,671

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

Maturity analysis 31 December 2018

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

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

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

Amounts are in ISK million

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

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

51. 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.

52. 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.

53. 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.

Amounts are in ISK million

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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.

	31.3.2019			31.12.2018		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	2,084	5.89	(1.23)	1,872	6.13	(1.15)
Non-indexed	52,347	0.30	(1.59)	43,550	0.32	(1.40)
Total	54,431	0.51	(2.82)	45,422	0.56	(2.55)

	31.3.2019			31.12.2018		
Trading bonds and debt instruments, short positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	29	15	-	-	-	-
Non-indexed	434	6.00	0.26	198	5.00	0.09
Total	463	6.56	0.31	198	5.00	0.09
Net position of trading bonds and debt instruments	53,968	0.46	(2.51)	45,224	0.54	(2.46)

Interest rate risk in the banking book

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

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

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2019

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	7	159	(352)	(1,593)	1,815	137	173
ISK, non-indexed	14	17	(38)	(218)	(6)	(5)	(236)
EUR	130	(39)	24	89	-	-	204
SEK	14	-	-	-	-	-	14
USD	(47)	(13)	-	-	-	-	(60)
Other	17	11	-	(107)	-	-	(79)
Total	135	135	(366)	(1,829)	1,809	132	16

At 31 December 2018

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

Amounts are in ISK million

54. Currency risk

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

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

Currency analysis at 31 March 2019

Assets	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	778	465	198	69	16	82	120	133	35	123	2,019
Bonds and debt instruments	29,444	11,294	27	-	-	-	12,703	-	-	-	53,468
Shares and equity instruments	50	2,830	429	-	-	-	43	-	-	-	3,352
Loans to credit institutions	16,933	33,079	6,209	117	725	599	5,706	976	69	623	65,036
Loans to customers	112,708	32,010	2,156	714	3,319	2	4,362	1,200	6,004	39	162,514
Other assets	1,263	2,435	1,454	5	-	68	4	17	-	2,218	7,464
Total assets	161,176	82,113	10,473	905	4,060	751	22,938	2,326	6,108	3,003	293,853
Liabilities											
Deposits from credit institutions	5,794	27	91	-	101	-	17	-	-	-	6,030
Deposits from customers	31,074	40,639	4,583	368	538	1,002	3,116	2,687	479	59	84,545
Debt issued and other borrowed funds	114,890	-	-	-	-	43,056	19,966	-	-	-	177,912
Subordinated loans	-	-	-	-	-	16,468	-	-	-	-	16,468
Other liabilities	3,017	1,389	1,509	37	120	109	49	46	38	2,099	8,413
Total liabilities	154,775	42,055	6,183	405	759	60,635	23,148	2,733	517	2,158	293,368
Net on-balance sheet position	6,401	40,058	4,290	500	3,301	(59,884)	(210)	(407)	5,591	845	485
Net off-balance sheet position	(7,115)	(39,105)	(4,170)	(530)	(3,346)	59,903	271	535	(5,623)	(89)	731
Net position	(714)	953	120	(30)	(45)	19	61	128	(32)	756	1,216

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Currency analysis at 31 December 2018

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

Amounts are in ISK million

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55. 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 112 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

Assets, CPI-linked	31.3.2019	31.12.2018
Bonds and debt instruments	2,996	2,721
Loans to customers	291,002	293,917
Total assets	293,998	296,638
Liabilities, CPI-linked		
Deposits from customers	97,862	95,917
Debt issued and other borrowed funds	116,820	118,103
Off-balance sheet position	68,076	70,617
Total liabilities	282,758	284,637
CPI imbalance	11,240	12,001

56. Capital management

The following table shows the capital base, risk exposure amount, the resulting capital ratios, and leverage for the Group at 31 March 2019 and 31 December 2018. In addition, the table shows the official capital ratios where the unaudited profit of the first quarter is excluded according to the Act on Financial Undertakings.

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, published in October 2018, the overall capital requirement is 18.8%, increasing to 19.3% in May 2019 when the countercyclical buffer will increase by 0.5%. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

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

	31.3.2019	31.12.2018
CET1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	6,776	6,499
Retained earnings	99,401	102,496
Non-controlling interests	2,444	2,318
Fair value changes due to own credit standing	871	376
Tax assets	(292)	(215)
Intangible assets	(4,868)	(5,002)
Total CET1 capital	169,332	171,472
Tier 2 capital		
Qualifying subordinated liabilities	16,468	16,216
Total capital base	185,800	187,688

Financial Statements first quarter 2019 53 Amounts are in ISK million

56. Cont'd

	31.3.2019	31.12.2018
Risk exposure amount		
- due to credit risk	789,806	750,801
- due to market risk	9,877	7,622
Market risk, trading book	7,843	6,649
Currency risk	2,034	973
- due to credit valuation adjustment	2,077	2,385
- due to operational risk	85,141	85,141
Total risk exposure amount	886,901	845,949
Capital ratios		
CET1 ratio	19.1%	20.3%
Total capital ratio	20.9%	22.2%
Official Tier 1 ratio	18.8%	20.3%
Official capital ratio	20.7%	22.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,195,230	1,120,637
Off-balance sheet exposures	48,056	47,119
Derivative exposures	9,667	8,935
Leverage ratio total exposure measure	1,252,953	1,176,691
Tier 1 capital	169,332	171,472
Leverage ratio	13.5%	14.6%

Amounts are in ISK million

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