



Condensed Interim
Consolidated Financial Statements

31 March 2020

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Endorsement and Statement by the Board of Directors and the CEO

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the period 1 January to 31 March 2020 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional requirements in the Icelandic Financial Statement Act. The Condensed Interim Consolidated Financial Statements comprise Kvika and its subsidiaries (together the "Group").

Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services, as well as selected banking services. Kvika's Asset Management has an established reputation and offers solutions covering all major asset classes, including fixed-income securities, equities, and alternative investments in both domestic and international markets. At the end of March 2020 the Group had ISK 427 billion of assets under management, compared to ISK 426 billion at year end 2019. The Bank is listed on the main list of Nasdaq OMX Iceland.

Operations in the reporting period

Profit for the period amounted to ISK 336 million (3m 2019: ISK 709 million), corresponding to an annualised 8.8% return on equity based on the equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Group's net operating income during the period was ISK 2,031 million (3m 2019: ISK 2,289 million). Net interest income amounted to ISK 483 million (3m 2019: ISK 424 million). Net fee income amounted to ISK 1,664 million (3m 2019: ISK 1,657 million). Other operating income amounted to negative ISK 117 million (3m 2019: ISK 208 million). Administrative expenses during the year amounted to ISK 1,314 million (3m 2019: ISK 1,301 million).

The COVID-19 pandemic, and the uncertainty related to it, had a considerable impact on the Bank's operations and the Icelandic economy during the reporting period. The Bank has, among other things, updated the economic scenarios which are used in the Expected Credit Loss model to better reflect the economic situation. Furthermore, the economic situation has, to some extent, increased the amount of loan exposures classified as Stages 2 and 3. During the operating period, the Group had a negative impairment charge of ISK 155 million (3m 2019: 1 million). In addition to that, unfavourable market conditions due to the economic situation resulted in the Group recognising a loss on shares and other variable income securities to the amount of ISK 202 million while in 1F 2019 there was a gain of ISK 247 million.

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 16,012 million (31.12.2019: ISK 15,515 million) and total assets amounted to ISK 117,043 million (31.12.2019: ISK 105,584 million).

The Group's total capital ratio at 31.03.2020 is 23.7% (31.12.2019: 24.1%). The Bank's minimum regulatory capital requirement based on Financial Supervisory Authority's Supervisory Review and Evaluation Process (SREP) is 15.1%. In March 2020, the Central Bank of Iceland lowered the countercyclical capital buffer to zero. The minimum regulatory capital requirement including the additional capital requirements imposed following the implementation of CRD IV is 20.6% as at 31 March 2020.

The Bank maintains a strong liquidity position. The Bank's assets are liquid and its access to funding is good, reflected in ample liquidity position. At the end of March 2020 the Group's 30 day liquidity coverage ratio (LCR) was 275%, well above the minimum level of 100%.

The Bank's Annual General Meeting ("AGM") was held on 26 March 2020. It approved the motion of the Board of Directors ("BOD") to the AGM that no dividend be paid for the operating year 2019. The AGM also approved a motion from the BOD to reduce the Bank's share capital by 50,000,000 shares by cancelling the Bank's own shares. The share capital reduction was registered by the Company Registry on 1 April 2020. Further, the AGM approved a motion from the BOD permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2021.

Expansion of asset management operations in the UK

In April 2020, KKV Investment Management Ltd., a subsidiary of Kvika Securities Ltd., Kvika banki hf.'s UK subsidiary, reached an agreement to provide investment management services to British secured loan fund SQN Asset Finance Income Fund. The fund has net assets of GBP 390 million, equivalent to ca. ISK 70 billion and is listed on the London Stock Exchange.

Sale of shareholding in Korta hf.

In April 2020, Kvika signed an agreement to sell all its shares in Korta hf. to the UK based fintech company Rapyd. Other shareholders of Korta are also parties to the agreement. The sale is subject to the approval of the Financial Supervision of the Central Bank of Iceland. The purchase price is in USD and will be paid in cash. Part of the payment is based on Korta's operations this year and the full price will, thus, not be known until early next year. Kvika currently estimates that the purchase price for the bank's shares will be equivalent to its book value at the end of last year and will therefore not have an impact on this year's earnings.

Risk management

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group is faced with various kinds of risk that relate to its operations as a financial institution and arise from its day-to-day operations. An active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors. The Group's risk management, and its main operations, are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 35-48 on analysis of exposure to various types of risk.

Endorsement and Statement by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

To the best of our knowledge the Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period 1 January to 31 March 2020 comply with IAS 34 Interim Financial Reporting as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and give a true and fair view of the Group's assets, liabilities and financial position as at 31 March 2020 and the financial performance of the Group and changes of cash flows for the period 1 January to 31 March 2020.

Further, in our opinion the Condensed Interim Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of the Bank have today discussed the Condensed Interim Consolidated Financial Statements for the period 1 January to 31 March 2020, and confirm them by the means of their signatures.

Reykjavík, 14 May 2020.

Board of Directors




CEO



Condensed Interim Consolidated Income Statement

For the period 1 January 2020 to 31 March 2020

	Notes	3m 2020	3m 2019
Interest income		1,148,480	1,208,482
Interest expense		(665,225)	(784,038)
Net interest income	4	483,256	424,443
Fee and commission income		1,711,616	1,701,621
Fee and commission expense		(47,674)	(44,919)
Net fee and commission income		1,663,942	1,656,702
Net financial (expense) income	5	(157,049)	208,763
Share in profit (loss) of associates, net of income tax	21	6,649	(26,876)
Other operating income		33,765	26,415
Other operating (expense) income		(116,635)	208,301
Net operating income		2,030,563	2,289,447
Administrative expenses	7	(1,313,958)	(1,300,920)
Net impairment	9	(155,360)	590
Revaluation of contingent consideration		(115,794)	(137,539)
Profit before taxes		445,451	851,578
Income tax	10	(69,219)	(99,102)
Special tax on financial activity	11	(22,189)	0
Special tax on financial institutions	12	(18,026)	(43,730)
Profit for the period		336,017	708,745

	Notes	3m 2020	3m 2019
Attributable to the shareholders of Kvika banki hf.		343,665	709,074
Attributable to non-controlling interest	20	(7,648)	(328)
Profit for the period		336,017	708,745
Earnings per share	13		
Basic earnings per share (ISK per share)		0.17	0.38
Diluted earnings per share (ISK per share)		0.16	0.34

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statement of Comprehensive Income

For the period 1 January 2020 to 31 March 2020

	Notes	3m 2020	3m 2019
Profit for the period		336,017	708,745
Translation of foreign operations			
Exchange difference on translation of foreign operations		34,015	15,716
Items that may be reclassified subsequently to profit and loss, net of tax		34,015	15,716
Total comprehensive income for the period		370,032	724,461
	Notes	3m 2020	3m 2019
Attributable to the shareholders of Kvika banki hf.		377,680	724,790
Attributable to non-controlling interest		(7,648)	(328)
Total comprehensive income for the period		370,032	724,461

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statement of Financial Position

As at 31 March 2020

Assets	Notes	31.3.2020	31.12.2019
Cash and balances with Central Bank	14	48,067,616	26,818,231
Fixed income securities	15	5,572,357	8,097,169
Shares and other variable income securities	16	3,718,575	3,659,208
Securities used for hedging	17	11,931,125	24,274,769
Loans to customers	18	30,865,222	30,105,643
Derivatives	19	1,032,013	1,259,833
Investment in associates	21	783,154	776,490
Investment properties	22	1,016,553	1,016,553
Intangible assets	23	3,314,350	3,283,256
Property and equipment		613,761	596,336
Deferred tax assets		872,972	872,972
Other assets	24	9,254,817	4,823,577
Total assets		117,042,514	105,584,035
Liabilities			
Deposits from customers	25	57,745,460	51,479,732
Borrowings	26	24,864,339	22,058,747
Issued bills	27	1,983,050	3,945,306
Issued bonds	28	3,686,721	4,261,308
Subordinated liabilities	29	2,035,944	1,999,530
Short positions held for trading	30	1,444,450	1,239,916
Derivatives	19	346,157	1,282,341
Current tax liabilities		81	136,395
Deferred tax liabilities		252,299	268,613
Other liabilities	31	8,672,231	3,396,965
Total liabilities		101,030,733	90,068,852
Equity			
Share capital	32	1,964,759	1,945,366
Share premium		3,228,276	3,115,992
Option reserve		8,533	7,687
Warrants reserve	33	200,543	206,501
Deficit reduction reserve		3,103,697	3,103,697
Other reserves		39,601	5,586
Restricted retained earnings		444,226	778,191
Retained earnings		6,969,819	6,292,189
Total equity attributable to the shareholders of Kvika banki hf.		15,959,454	15,455,209
Non-controlling interest		52,327	59,974
Total equity		16,011,781	15,515,183
Total liabilities and equity		117,042,514	105,584,035

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements.

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2020 to 31 March 2020

	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Translation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
1 January 2020 to 31 March 2020												
Equity as at 1 January 2020		1,945,366	3,115,992	7,687	206,501	3,103,697	5,586	778,191	6,292,189	15,455,209	59,974	15,515,183
Profit for the period									343,665	343,665	(7,648)	336,017
Translation of foreign operations												
Exchange difference on translation of foreign operations							34,015			34,015		34,015
Total comprehensive income for the period		0	0	0	0	0	34,015	0	343,665	377,680	(7,648)	370,032
Restricted retained earnings								(333,965)	333,965	0		0
Transactions with owners of the Bank												
Capital increase		19,393	106,327							125,720		125,720
Stock options				845						845		845
Warrants exercised			5,957		(5,957)					0		0
Equity as at 31 March 2020		1,964,759	3,228,276	8,533	200,543	3,103,697	39,601	444,226	6,969,819	15,959,454	52,327	16,011,781

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2019 to 31 March 2019

	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Translation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
1 January 2019 to 31 March 2019												
Equity as at 1 January 2019		1,844,996	2,881,165	4,297	202,527	3,103,697	(12,023)	506,896	4,376,900	12,908,455	61,544	12,969,999
Impact of adopting IFRS 16									(32,637)	(32,637)		(32,637)
Restated opening balance under IFRS 16		1,844,996	2,881,165	4,297	202,527	3,103,697	(12,023)	506,896	4,344,263	12,875,818	61,544	12,937,362
Profit for the period									709,074	709,074	(328)	708,745
Translation of foreign operations												
Exchange difference on translation of foreign operations							15,716			15,716		15,716
Total comprehensive income for the period		0	0	0	0	0	15,716	0	709,074	724,790	(328)	724,461
Restricted retained earnings								0	0	0		0
Transactions with owners of the Bank												
Dividend paid to shareholders									(442,799)	(442,799)		(442,799)
Stock options				836						836		836
Equity as at 31 March 2019		1,844,996	2,881,165	5,133	202,527	3,103,697	3,692	506,896	4,610,538	13,158,644	61,216	13,219,860

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements

Condensed Interim Consolidated Statement of Cash Flows

For the period 1 January 2020 to 31 March 2020

	Notes	3m 2020	3m 2019
Cash flows from operating activities			
Profit for the period		336,017	708,745
Adjustments for:			
Indexation and exchange rate difference		9,010,772	520,183
Share in (profit) loss of associates, net of income tax	21	(6,649)	26,876
Depreciation and amortisation		73,752	26,421
Net interest income	4	(483,256)	(424,443)
Net impairment		130,910	136,949
Income tax		69,219	99,102
Other adjustments		130,702	0
		9,261,467	1,093,833
Changes in:			
Fixed income securities		2,524,812	830,503
Shares and other variable income securities		(59,367)	(627,575)
Securities used for hedging		12,343,644	(5,800,200)
Loans to customers		(596,290)	814,966
Derivatives - assets		227,820	(124,810)
Other assets		(4,532,201)	(8,400,705)
Deposits from customers		(4,185,372)	8,602,614
Short positions		204,535	(440,447)
Derivatives - liabilities		(936,184)	851,282
Other liabilities		5,004,442	10,938,673
		9,995,837	6,644,301
Interest received		1,034,619	1,163,697
Interest paid		(526,557)	(493,145)
Net cash from operating activities		19,765,367	8,408,686
Cash flows from investing activities			
Acquisition of intangible assets	23	(30,545)	(66,789)
Acquisition of property and equipment		(41,367)	(37,399)
Proceeds from the sale of property and equipment		1,650	3,570
Acquisition of subsidiary, net of cash		0	(667,280)
Lease receivable payments		50,897	0
Net cash to investing activities		(19,364)	(767,898)
Cash flows from financing activities			
Borrowings		2,231,006	4,054,651
Issued bills		(1,962,256)	195,083
Increase (decrease) in warrants		(5,957)	0
Dividend paid to shareholders		0	(442,799)
Treasury share transactions		131,677	0
Lease payments		(56,977)	0
Net cash from financing activities		337,493	3,806,935
Net increase in cash and balances with Central Bank		20,083,495	11,447,723
Cash and balances with Central Bank at the beginning of the year	14	26,818,231	21,339,185
Change in cash and cash equivalents due to acquisition of subsidiary		0	8,016
Effects of exchange rate fluctuations on cash and balances with Central Bank		1,165,890	(574,876)
Cash and balances with Central Bank at the end of the period	14	48,067,616	32,220,047
Investing and financing activities not affecting cash flows due to a acquisitions, refer to note 5			
Assets and liabilities acquired from GAMMA Capital Management hf.		0	1,842,958

The notes on pages 10 to 38 are an integral part of these Condensed Interim Consolidated Financial Statements.

Notes to the Condensed Interim Consolidated Financial Statements

General information

1. Reporting entity

Kvika banki hf. ("Kvika" or the "Bank") is a limited liability company incorporated and domiciled in Iceland, with its registered office at Katrínartún 2, Reykjavík. The Bank operates as a bank based on Act No. 161/2002, on Financial Undertakings, and is supervised by the Financial Supervisory Authority of Iceland.

The Condensed Interim Consolidated Financial Statements for the period ended 31 March 2020 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 14 May 2020.

2. Basis of preparation

a. Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act. The Condensed Interim Consolidated Financial Statements are also prepared in accordance with Icelandic laws on financial statements.

b. Basis of measurement

The Condensed Interim Consolidated Financial Statements have been prepared using the historical cost basis except for the following:

- fixed income securities are measured at fair value;
- shares and other variable income securities are measured at fair value;
- securities used for hedging are measured at fair value;
- loans to customers which are measured at fair value;
- derivatives are measured at fair value;
- investment properties are measured at fair value;
- contingent consideration is measured at fair value;
- short positions are measured at fair value; and
- assets classified as held for sale are measured at the lower of cost or fair value less cost to sell.

c. Functional and presentation currency

The Condensed Interim Consolidated Financial Statements are prepared in Icelandic Krona (ISK), which is the Bank's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 31 March 2020.

d. Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue its operations.

e. Estimates and judgements

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

The estimates and underlying assumptions are based on historical result and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period and future periods if the revision affects both current and future periods.

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Interim Consolidated Financial Statements, is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2019

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the Financial Statements, the notes are evaluated based on relevance and importance for the reader. This can result in information, that has been evaluated as neither important or relevant for the reader, not being presented in the notes.

3. Significant accounting policies

The accounting policies applied in the Condensed Interim Consolidated Financial Statements are consistent with those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not effective.

Notes to the Condensed Interim Consolidated Financial Statements

Income statement

4. Net interest income

Interest income is specified as follows:

	3m 2020	3m 2019
Cash and balances with Central Bank	209,013	172,103
Derivatives	276,319	339,924
Loans to customers	641,474	675,532
Other interest income	21,674	20,923
Total	1,148,480	1,208,482

Interest expense is specified as follows:

	3m 2020	3m 2019
Deposits from customers	268,814	352,533
Borrowings	253,388	260,058
Issued bills	37,744	46,273
Issued bonds	49,475	45,629
Subordinated liabilities	37,446	41,578
Derivatives	3,410	5,456
Other interest expense*	14,947	32,512
Total	665,225	784,038

* Thereof are lease liabilities' interest expense amounting to ISK 6 million (3m 2019: ISK 5 million)

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 828 million (3m 2019: ISK 825 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 656 million (3m 2019: ISK 779 million).

5. Net financial (expense) income

Net financial (expense) income is specified as follows:

	3m 2020	3m 2019
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	85,351	(80,121)
Shares and other variable income securities	(201,860)	246,470
Derivatives	743	(48,914)
Loans to customers	(13,301)	55,428
Foreign currency exchange difference	(27,981)	35,900
Total	(157,049)	208,763

6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	3m 2020	3m 2019
Gain on financial instruments at fair value through profit and loss	624,366	491,349
Loss on other financial instruments	(652,347)	(455,449)
Total	(27,981)	35,900

7. Administrative expenses

Administrative expenses are specified as follows:

	3m 2020	3m 2019
Salaries and related expenses	858,771	873,484
Other operating expenses	369,407	373,295
Depositors' and Investors' Guarantee Fund contributions	12,029	27,720
Depreciation and amortisation	25,246	8,750
Depreciation of right of use asset	48,507	17,671
Total	1,313,958	1,300,920

Notes to the Condensed Interim Consolidated Financial Statements

8. Salaries and related expenses

Salaries and related expenses are specified as follows:	3m 2020	3m 2019
Salaries	679,817	591,476
Performance based payments excluding share-based payments	3,611	83,642
Share-based payment expenses	845	836
Pension fund contributions	87,747	73,603
Tax on financial activity	38,776	55,970
Other salary related expenses	47,974	67,957
Total	858,771	873,484
Average number of full time employees during the period	132	117
Total number of full time employees at the end of the period	135	133

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2019: 5.50%).

9. Net impairment

	3m 2020	3m 2019
Net change in impairment of loans	114,855	(6,644)
Net change in impairment of other assets	34,110	8,220
Net change in impairment of loan commitments, guarantees and unused credit facilities	6,395	(2,166)
Total	155,360	(590)

10. Income tax

The Bank and most of its subsidiaries will not pay income tax on its profit for 2020 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2019, the tax loss carry forward of the Group amounted to ISK 7 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2025. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position. The deferred tax asset is recognised only to the extent that it is probable to be utilisable against future taxable profits.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2018: 20.0%)

11. Special tax on financial activity

The special tax on financial activity is an additional income tax which becomes effective when the income tax base exceeds ISK 1,000 million. It is levied on the same entities as the tax on financial activity according to Act No. 90/2003. The tax rate is set at 6.0% (2019: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

12. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.145% (2019: 0.376%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

13. Earnings per share

The calculation of basic earnings per share is based on earnings attributable to shareholders and a weighted average number of shares outstanding during the period. The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank has issued warrants and stock options that have a dilutive effect.

	3m 2020	3m 2019
Net earnings attributable to equity holders of the Bank	343,665	709,074
Weighted average number of outstanding shares	1,979,011	1,844,996
Adjustments for warrants and stock options	176,564	236,330
Total	2,155,575	2,081,326
Basic earnings per share (ISK)	0.17	0.38
Diluted earnings per share (ISK)	0.16	0.34

Notes to the Condensed Interim Consolidated Financial Statements

Statement of Financial Position

14. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.3.2020	31.12.2019
Deposits with Central Bank	36,510,177	19,106,515
Cash on hand	10,806	6,845
Balances with banks	4,710,726	2,268,540
Foreign treasury bills	5,288,995	2,956,550
Included in cash and cash equivalents	46,520,704	24,338,450
Restricted balances with Central Bank - average maintenance level	0	853,192
Restricted balances with Central Bank - fixed reserve requirement	876,670	853,192
Receivables from Central Bank	670,242	773,398
Total	48,067,616	26,818,231

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements No. 585/2018. Under these rules the reserve requirement is divided into two parts: a fixed reserve requirement bearing no interest and an average maintenance level requirement bearing the same interest as that on deposit-taking institutions' current accounts with the Central Bank. The mandatory reserve deposit with the Central Bank and the receivables from the Central Bank are not available for the Group to use in its daily operations.

15. Fixed income securities

Fixed income securities are specified as follows:

	31.3.2020	31.12.2019
Mandatorily measured at fair value through profit or loss		
Listed government bonds and bonds with government guarantees	1,191,985	3,434,851
Listed bonds	3,436,695	3,700,392
Unlisted bonds	943,676	961,925
Total	5,572,357	8,097,169

16. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	31.3.2020	31.12.2019
Mandatorily measured at fair value through profit or loss		
Listed shares	1,053,588	1,271,325
Unlisted shares	1,964,479	1,694,493
Unlisted unit shares	700,507	693,390
Total	3,718,575	3,659,208

17. Securities used for hedging

Securities used for hedging are specified as follows:

	31.3.2020	31.12.2019
Listed government bonds and bonds with government guarantees	4,876,007	8,006,643
Listed bonds	1,002,706	2,366,621
Listed shares	6,012,893	13,822,091
Unlisted unit shares	39,519	79,414
Total	11,931,125	24,274,769

18. Loans to customers

The breakdown of the loan portfolio by individuals and corporates is specified as follows:

	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
31.3.2020						
Loans to customers at amortised cost	6,151,166	6,128,109	22,359,541	21,871,061	28,510,707	27,999,170
Loans to customers at fair value through profit or loss	0	0	2,866,052	2,866,052	2,866,052	2,866,052
Total	6,151,166	6,128,109	25,225,593	24,737,113	31,376,759	30,865,222
	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
31.12.2019						
Loans to customers at amortised cost	4,790,146	4,780,053	23,365,514	22,978,928	28,155,660	27,758,981
Loans to customers at fair value through profit or loss	0	0	2,346,662	2,346,662	2,346,662	2,346,662
Total	4,790,146	4,780,053	25,712,176	25,325,590	30,502,322	30,105,643

Notes to the Condensed Interim Consolidated Financial Statements

19. Derivatives

Derivatives are specified as follows:

	Notional		Carrying value	
	Assets	Liabilities	Assets	Liabilities
31.3.2020				
Interest rate derivatives	3,375,469	3,103,362	272,107	0
Currency forwards	3,330,809	3,338,655	51,537	59,384
Bond and equity total return swaps	14,075,419	13,674,139	583,558	183,086
Equity options	318,862	3,860	124,811	103,688
Total	21,100,558	20,120,017	1,032,013	346,157
	Notional		Carrying value	
	Assets	Liabilities	Assets	Liabilities
31.12.2019				
Interest rate derivatives	3,342,934	3,103,868	239,066	0
Currency forwards	1,963,733	1,938,785	29,636	4,688
Bond and equity total return swaps	27,091,699	27,396,373	727,855	1,033,599
Equity options	326,762	11,760	263,275	244,054
Total	32,725,127	32,450,786	1,259,833	1,282,341

20. Group entities

The main subsidiaries held directly or indirectly by the Group are listed in the table below.

Entity	Nature of operations	Domicile	Share	
			31.3.2020	31.12.2019
Fí Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Júpíter rekstrarfélag hf.	Fund management	Iceland	100%	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Netgíró reikningar ehf.	Holding company	Iceland	100%	100%
Netgíró lán ehf.	Holding company	Iceland	100%	100%
Netgíró lán II ehf.	Holding company	Iceland	100%	100%
Rafklettur ehf.	Holding company	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities Ltd.	Business consultancy services	UK	100%	100%

21. Investment in associates

a. Investment in associates is accounted for using the equity method and is specified as follows:

Entity	Nature of operations	Domicile	Share	
			31.3.2020	31.12.2019
Akta sjóðir hf.	Fund management	Iceland	34%	34%
Kjölfesta GP ehf.	Holding company	Iceland	50%	50%
KORTA hf.	Payment Institution	Iceland	41%	41%
Gláma fjárfestingar silhf.	Holding company	Iceland	24%	24%

The Group does not consider its associates material, neither individually nor as a group.

b. Changes in investments in associates are specified as follows:

	31.3.2020	31.12.2019
Balance at the beginning of the year	776,490	774,832
Acquisition of shares in associates	0	47,201
Dividend received	0	(7,500)
Disposal of shares in associates	0	(70,025)
Share in profit (loss) of associates, net of income tax	6,663	31,982
Total	783,154	776,490

22. Investment properties

Investment properties are specified as follows:

	31.3.2020	31.12.2019
Balance at year beginning	1,016,553	950,000
Acquisitions	0	66,553
Total	1,016,553	1,016,553

In October 2017, the Group acquired investment properties through one of its subsidiaries, Rafklettur ehf. The intention is to either earn rental income or capital appreciation or both. The book value of investment properties is based on the most recent appraisal values by licensed real estate agents, current listing prices and/or recent transactions for comparable real estates or valuation models based on gross income multipliers. The Group received rental income for the first three months amounting to ISK 19 million (3m 2019: ISK 16 million) and incurred direct operating expenses of ISK 3 million (3m 2019 : ISK 2 million).

Notes to the Condensed Interim Consolidated Financial Statements

23. Intangible assets

a. Intangible assets are specified as follows:

31.3.2020	Goodwill	Software	Other	Total
Balance as at 1 January 2020	2,943,881	175,256	164,118	3,283,256
Acquisitions	0	20,668	20,699	41,367
Amortisation	0	(4,856)	(5,416)	(10,272)
Balance as at 31 March 2020	2,943,881	191,068	179,401	3,314,350
Gross carrying amount	2,943,881	248,473	237,302	3,429,656
Accumulated amortisation and impairment losses	0	(57,405)	(57,901)	(115,306)
Balance as at 31 March 2020	2,943,881	191,068	179,401	3,314,350
31.12.2019	Goodwill	Software	Other	Total
Balance as at 1 January 2019	2,244,521	118,428	16,332	2,379,281
Acquisitions	0	76,467	119,167	195,634
Additions through business combinations	699,360	0	46,586	745,946
Disposals	0	(3,244)	(3,301)	(6,545)
Amortisation	0	(16,396)	(14,664)	(31,060)
Balance as at 31 December 2019	2,943,881	175,256	164,118	3,283,256
Gross carrying amount	2,943,881	227,805	216,603	3,388,289
Accumulated amortisation and impairment losses	0	(52,549)	(52,484)	(105,033)
Balance as at 31 December 2019	2,943,881	175,256	164,118	3,283,256

Notes to the Condensed Interim Consolidated Financial Statements

24. Other assets

Other assets are specified as follows:

	31.3.2020	31.12.2019
Unsettled transactions	4,542,248	162,007
Accounts receivable	3,375,695	3,193,923
Right of use asset and lease receivables	572,992	622,415
Sundry assets	763,882	845,232
Total	9,254,817	4,823,577

Right of use asset and lease receivables are specified as follows:

	31.3.2020	31.12.2019
Balance of IFRS 16 leases at the beginning of the year	622,415	353,811
Addition	0	541,118
Disposal	0	(189,692)
Indexation	2,587	3,254
Depreciation and lease receivable installment	(52,010)	(86,076)
Total	572,992	622,415

Right of use assets and lease receivables consist of real estates for the Group's own use, primarily the Bank's headquarters. The Bank has entered into sublease contracts for the parts of the real estates which it does not use for its operations.

25. Deposits from customers

Deposits from customers are specified as follows:

	31.3.2020	31.12.2019
Demand deposits	43,006,760	37,487,799
Time deposits	14,738,700	13,991,933
Total	57,745,460	51,479,732

26. Borrowings

Borrowings are specified as follows:

	31.3.2020	31.12.2019
Loans from credit institutions	1,014,108	803,052
Money market deposits	23,850,231	21,255,695
Total	24,864,339	22,058,747

Money market deposits typically have a principal of ISK 5-500 million and maturity between 1 day and 6 months and pay fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt issued and other borrowed funds.

27. Issued bills

Issued bills are specified as follows:

	31.3.2020	31.12.2019
Issued bills	1,983,050	3,945,306
Total	1,983,050	3,945,306

28. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2020	31.12.2019
KVB 19 01, ISK 1,520 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	1,445,935	1,522,432
KVB 17 02, ISK 2,160 million	2017	2020	At maturity	Floating, 1 month REIBOR + 1.25%	1,884,121	1,881,675
Total					3,330,056	3,404,107
Unlisted senior unsecured bonds, total					356,665	857,201
Total					3,686,721	4,261,308

Unlisted senior unsecured bonds are composed of KVB 18 03 and KVB 18 04 which were issued in 2018 and mature in 2020 and 2021 respectively. For further information on the bonds, refer to the issue descriptions which are available on Nasdaq CSD Iceland's website.

Notes to the Condensed Interim Consolidated Financial Statements

29. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2020	31.12.2019
KVB 15 01, ISK 1,000 million	2015	2025	At maturity	CPI-Indexed, fixed 5.50%	1,158,775	1,122,360
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	877,170	877,170
Total					2,035,944	1,999,530

At the interest payment date in the year 2020 for KVB 15 01, the annual interest rate increases from 5.50% p.a. to 7.50% p.a. At the same date, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

At the interest payment date in the year 2023 for KVB 18 02, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

Subordinated liabilities are financial liabilities in the form of subordinated capital which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been met. In the calculation of the capital ratio, they are included within Tier 2 and are a part of the equity base. The amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity or up to 20% a year. The Group may only retire subordinated liabilities with the permission of the Icelandic Financial Supervisory Authority.

b. Subordinated liabilities are specified as follows:

	31.3.2020	31.12.2019
Balance at the beginning of the year	1,999,530	1,947,511
Paid interest	0	(115,000)
Paid interests due to indexation	0	(7,000)
Accrued interests and indexation	36,415	174,019
Total	2,035,944	1,999,530

30. Short positions held for trading

Short positions held for trading are specified as follows:

	31.3.2020	31.12.2019
Listed government bonds and bonds with government guarantees	558,406	632,124
Listed bonds	886,044	607,792
Total	1,444,450	1,239,916

31. Other liabilities

Other liabilities are specified as follows:

	31.3.2020	31.12.2019
Unsettled transactions	5,698,458	487,683
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	27,484	21,092
Accounts payable and accrued expenses	310,913	401,230
Special taxes on financial institutions and financial activities	242,522	202,307
Withholding taxes	339,656	459,251
Salaries and salary related expenses	624,228	541,401
Lease liability	568,092	616,521
Contingent consideration	598,563	494,991
Other liabilities	262,315	172,489
Total	8,672,231	3,396,965

Notes to the Condensed Interim Consolidated Financial Statements

31. Other liabilities (cont.)

Lease liability is specified as follows:

	31.3.2020	31.12.2019
Balance of IFRS 16 leases at the beginning of the year	616,521	386,455
Addition	0	541,118
Disposal	0	(217,535)
Installment	(50,897)	(98,493)
Indexation	2,468	4,976
Total	568,092	616,521

32. Share capital

a. Share capital

The nominal value of shares issued by the Bank is ISK 1 per share. All currently issued shares have a nominal value of ISK 1 per share, and are fully paid. The holders of shares are entitled to receive dividends as approved by the general meeting and are entitled to one vote per nominal value of ISK 1 at shareholders' meetings. Reference is made to the Bank's Articles of Association for more information about the share capital.

	31.3.2020	31.12.2019
Share capital according to the Bank's Articles of Association	2,014,759	1,995,366
Nominal amount of treasury shares	50,000	50,000
Authorised but not issued shares	722,723	742,117

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 19,393,331 in nominal value during the period 1 January to 31 March 2020 in order to serve the exercising of issued warrants.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 27 February 2020, the Board of Directors is authorised to increase the share capital of the Bank by up to ISK 100 million through subscription for new shares. This authorisation is based on temporary provision I to the Articles of Association and is valid until 15 March 2022.

The Board of Directors is furthermore authorised to increase the share capital of the Bank in stages by up to ISK 50,000,000 in nominal value, for the purposes of fulfilling share option agreements in accordance with the Bank's share incentive scheme. This authorisation is based on temporary provision I, cf. paragraph B of the provision, to the Articles of Association and is valid until 30 November 2021.

The Board of Directors is, according to temporary provision II to the Bank's Articles of Association, authorised to issue warrants for 54 million new shares until the Bank's annual general meeting in 2020. The Board is furthermore, until 14 March 2024, authorised to increase share capital to serve warrants issued under the aforementioned authorisation.

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to section A of temporary provision IV the Board of Directors is authorised to increase share capital by up to ISK 369 million to serve issued warrants. According to section B of temporary provision IV the Board of Directors is furthermore granted a conditioned authorisation to increase the share capital by an additional amount of ISK 200 million to serve issued warrants. The authorisation under section B of temporary provision IV is directly linked to the Board of Directors' authorisation under section A of temporary provision I.

The aforementioned authorisation under section B of temporary provision IV currently stands at ISK 150 million. However, should the Board of Directors utilise its authorisation according to section A of temporary provision I and increase the Bank's share capital by ISK 100 million, the authorisation under section B of temporary provision IV will increase from ISK 150 million to ISK 200 million, as stipulated in the provision. The Board of Directors' authorisation under temporary provision IV to increase share capital thus currently totals ISK 519 million but can increase to ISK 569 million by the usage by the Board of Directors of its authorisation pursuant to section A of temporary provision I. This authorisation is valid until 31 December 2022.

A copy of the Bank's Articles of Association, including the temporary provisions, is available on the Bank's website, www.kvika.is, reference is made to them for more information.

Notes to the Condensed Interim Consolidated Financial Statements

33. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 564,223,351 as at 31 March 2020. The number of owners of these warrants is 116 and they purchased the warrants for a total consideration of ISK 200,543,228. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 2,578,982,448, and the newly issued shares would represent 21.9% of the Bank's total issued capital, post dilution.

Issue Date	Nominal amount	Purchase price of warrants	Annual increase of strike price	Strike price at expiry date	Exercise period
September 2017	93,390,018	28,110,395	7.5%	6.67	Sept. 2019 - Sept. 2020
September 2017	201,333,333	60,601,333	7.5%	7.74	Sept. 2020 - Sept. 2022
September 2017	201,333,333	60,601,333	7.5%	7.74	Sept. 2021 - Sept. 2022
December 2017	4,000,000	1,348,000	7.5%	7.59	Dec. 2019 - Dec. 2020
December 2017	7,333,333	2,471,333	7.5%	8.80	Dec. 2020 - Dec. 2022
December 2017	7,333,333	2,471,333	7.5%	8.80	Dec. 2021 - Dec. 2022
May 2018	1,166,667	505,167	7.5%	9.27	Dec. 2019 - Dec. 2020
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2020 - Dec. 2022
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2021 - Dec. 2022
April 2019	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
April 2019	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2021 - Dec. 2022
Total	564,223,351	200,543,228			

34. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 16,012 million (31.12.2019: 15,515 million), equivalent to 13.7% of total assets according to the statement of financial position (31.12.2019: 14.7%). The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 23.7% (31.12.2019: 24.1%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

	31.3.2020	31.12.2019
Own funds		
Total equity	16,011,781	15,515,183
Unaudited retained (positive) earnings from current period	(343,665)	0
Other unaudited (positive) changes to total equity in current period	(34,860)	0
Capital eligible as CET1 Capital	15,633,256	15,515,183
Goodwill and intangibles	(3,314,350)	(3,283,256)
Shares in financial institutions	(145,139)	(146,401)
Subordinated fixed income securities	(107,220)	(102,999)
Deferred tax asset	(872,972)	(872,972)
Common equity Tier 1 capital (CET 1)	11,193,574	11,109,555
Tier 2 capital	1,949,360	1,941,695
Total own funds	13,142,934	13,051,251
Risk weighted assets		
Credit risk	39,056,666	37,614,747
Market risk	4,895,137	5,246,577
Operational risk	11,608,403	11,336,890
Total Capital requirements	55,560,205	54,198,213
Capital ratios		
Capital adequacy ratio (CAD)	23.7%	24.1%
CET1 ratio	20.1%	20.5%
Total own funds including unaudited (positive) retained earnings and expected dividends	13,435,543	
Capital adequacy ratio, adjusted	24.2%	
CET1 ratio, adjusted	20.7%	
Minimum Capital adequacy ratio requirement	15.1%	14.5%
Minimum Capital adequacy ratio requirement including supervisory buffers	20.6%	20.3%
Minimum CET 1 ratio requirement including supervisory buffers	14.0%	13.9%

The Icelandic Financial Supervisory Authority (FME) supervises the Bank on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach.

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on the SREP from 2019, is 15.1%. The minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 31 March 2020.

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Risk management

35. Maximum exposure to credit risk

The maximum exposure to credit risk for on-balance sheet and off-balance sheet items, before taking into account any collateral held or other credit enhancements, is specified as follows:

	Public entities	Financial institutions	Corporate customers	Individuals	
31.3.2020					31.3.2020
On-balance sheet exposure					
Cash and balances with Central Bank	43,356,890	4,710,726			48,067,616
Fixed income securities	2,064,190	3,295,465	212,702		5,572,357
Loans to customers		305,489	24,431,624	6,128,109	30,865,222
Derivatives		460,809	491,324	79,880	1,032,013
Other assets	198,163	419,874	8,063,788		8,681,825
	45,619,242	9,192,364	33,199,438	6,207,989	94,219,033
Off-balance sheet exposure					
Loan commitments		854,318	2,097,788	383,205	3,335,311
Financial guarantee contracts			595,704		595,704
Maximum exposure to credit risk	45,619,242	10,046,682	35,892,929	6,591,194	98,150,048
31.12.2019					31.12.2019
On-balance sheet exposure					
Cash and balances with Central Bank	24,549,691	2,268,540			26,818,231
Fixed income securities	4,306,557	2,782,322	1,008,289		8,097,169
Loans to customers		258,556	25,072,034	4,775,053	30,105,643
Derivatives		404,345	811,802	43,686	1,259,833
Other assets	67,451	230,117	3,903,594		4,201,162
	28,923,699	5,943,881	30,795,719	4,818,739	70,482,037
Off-balance sheet exposure					
Loan commitments		2,073,113	1,258,009	336,493	3,667,615
Financial guarantee contracts		197,415	642,515		839,930
Maximum exposure to credit risk	28,923,699	8,214,408	32,696,243	5,155,232	74,989,582

36. Credit quality of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses ("ECL") in the statement of financial position. The ECL are recalculated for each asset on at least a quarterly basis. The assessment of ECL is based upon calculations being derived from models on PD, LGD and EAD. Furthermore, the assessment is based upon management's assumptions regarding the development of macroeconomic factors over the next three years. The assumptions for macroeconomic development are decided for three scenarios: a base case, an upside case and a downside case, including a probability weight for each scenario. The assumptions are used for calculations of the probability weighted ECLs. The amount of ECL to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. The factors that are used to measure significant increase in credit risk include comparison of changes in PD values, annualized lifetime PD values, days past due and watch list.

Due to the considerable impact that the COVID-19 pandemic is having on the economy, the Bank has made changes to the macroeconomic outlook used for IFRS 9 provision calculations in accordance with the guidelines of the European supervisors and the Central Bank of Iceland. A new set of economic scenarios has been defined and used in the assessment of ECL. These scenarios and the weights assigned to them will be reexamined in the coming quarters as uncertainty over the domestic and international impact of the COVID-19 pandemic is reviewed. The Bank continues to monitor developments closely and will adjust its provisions accordingly.

a. Credit quality of financial assets by credit quality band

The following tables show financial assets subject to the impairment requirements of IFRS 9 broken down by credit quality bands where band i denotes the lowest and iv the highest credit risk. Assets serviced by debtors already recognised as being in default by the rating agency are shown outside credit quality bands. Assets measured at fair value through profit or loss are not subject to the impairment requirements of IFRS 9 but are nevertheless included in the tables in order to give a more complete picture of the credit quality of loans to customers and reconcile the tables to the carrying amount on the balance sheet. Exposures which are non-rated relate to Legal Entities not rated by rating agency or Individuals where individual rating has not been obtained. Probability of default for these exposures is based on average probability for similar exposures and is furthermore individually assessed by credit specialists.

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36. Credit quality of financial assets (cont.)

31.3.2020

<i>Loans to customers:</i>	Stage 1	Stage 2	Stage 3	FVTPL	Total
Credit quality band I	17,546,618	448,338		1,246,354	19,241,309
Credit quality band II	2,206,857	727,690	36,071	102,356	3,072,974
Credit quality band III	1,374,500	626,726		799,010	2,800,237
Credit quality band IV	776,939	1,199,513	48,365		2,024,817
In default	38,067	0	479,659	718,332	1,236,059
Non-rated	2,131,944	869,420			3,001,364
Gross carrying amount	24,074,925	3,871,686	564,096	2,866,052	31,376,759
Expected credit loss	(203,139)	(132,010)	(176,389)		(511,537)
Book value	23,871,787	3,739,677	387,706	2,866,052	30,865,222
<i>Loan commitments, guarantees and unused credit facilities:</i>	Stage 1	Stage 2	Stage 3	FVTPL	Total
Credit quality band I	2,171,711	10,447		2,266	2,184,424
Credit quality band II	122,018	160,076			282,094
Credit quality band III	94,441	18,565		703	113,709
Credit quality band IV		7,631	34,767		42,398
In default	100,000		7,240	49,643	156,883
Non-rated	1,053,865	97,642			1,151,507
Total off-balance sheet amount	3,542,034	294,361	42,008	52,612	3,931,015
Expected credit loss	(20,623)	(4,785)	(2,076)		(27,484)
Net off-balance sheet amount	3,521,411	289,576	39,932	52,612	3,903,531

31.12.2019

<i>Loans to customers:</i>	Stage 1	Stage 2	Stage 3	FVTPL	Total
Credit quality band I	16,746,578	542,505	17,566	890,560	18,197,209
Credit quality band II	2,517,738	2			2,517,740
Credit quality band III	1,105,650	1,370,939		812,293	3,288,882
Credit quality band IV	1,793,786	1,137,340		643,809	3,574,935
In default	35,037	0	297,331		332,369
Non-rated	2,591,158	29			2,591,186
Gross carrying amount	24,789,948	3,050,814	314,898	2,346,662	30,502,322
Expected credit loss	(167,078)	(100,185)	(129,416)		(396,679)
Book value	24,622,870	2,950,629	185,482	2,346,662	30,105,643
<i>Loan commitments, guarantees and unused credit facilities:</i>	Stage 1	Stage 2	Stage 3	FVTPL	Total
Credit quality band I	2,140,892	6,283		11,215	2,158,389
Credit quality band II	484,628	0			484,628
Credit quality band III	38,059	176,503		149,929	364,491
Credit quality band IV	56,437	36,459			92,896
In default	100,000		9,739		109,739
Non-rated	1,297,403				1,297,403
Total off-balance sheet amount	4,117,418	219,245	9,739	161,143	4,507,545
Expected credit loss	(15,592)	(2,746)	(2,754)		(21,092)
Net off-balance sheet amount	4,101,826	216,499	6,985	161,143	4,486,453

b. Breakdown of loans to customers into not past due and past due

31.3.2020

	Claim value	Expected credit loss	Carrying amount
Not past due	29,735,261	(421,255)	29,314,006
Past due 1-30 days	604,972	(11,847)	593,125
Past due 31-60 days	712,060	(8,730)	703,329
Past due 61-90 days	51,751	(15,432)	36,318
Past due 91-180 days	272,211	(54,021)	218,191
Past due 181-360 days	505	(252)	252
Past due more than 360 days			0
Total	31,376,759	(511,537)	30,865,222

Notes to the Condensed Interim Consolidated Financial Statements

36. Credit quality of financial assets (cont.)

31.12.2019	Claim value	Expected credit loss	Carrying amount
Not past due	28,752,106	(297,606)	28,454,500
Past due 1-30 days	1,168,884	(2,705)	1,166,179
Past due 31-60 days	417,918	(95,485)	322,433
Past due 61-90 days	141,431	(543)	140,888
Past due 91-180 days	21,492	(95)	21,397
Past due 181-360 days	492	(246)	246
Past due more than 360 days			0
Total	30,502,322	(396,679)	30,105,643

c. Breakdown of loans to customers by industry

The breakdown of the loan portfolio by industries is specified as follows:

31.3.2020	Claim value	Expected credit loss	Carrying amount	%
Financial institutions	306,009	(519)	305,489	1.0%
Corporate				
Services	7,234,159	(143,368)	7,090,790	23.0%
Holding companies	6,986,334	(55,888)	6,930,446	22.5%
Real estate, construction and industry	9,165,671	(249,349)	8,916,322	28.9%
Retail	452,184	(13,989)	438,195	1.4%
Other	1,081,236	(25,366)	1,055,870	3.4%
Individual	6,151,166	(23,058)	6,128,109	19.9%
Total	31,376,759	(511,537)	30,865,222	100.0%

31.12.2019	Claim value	Expected credit loss	Carrying amount	%
Financial institutions	258,665	(108)	258,556	0.9%
Corporate				
Services	7,522,777	(106,675)	7,416,102	24.6%
Holding companies	7,656,488	(47,285)	7,609,203	25.3%
Real estate, construction and industry	9,281,142	(207,116)	9,074,027	30.1%
Retail	449,783	(11,325)	438,458	1.5%
Other	543,322	(9,077)	534,245	1.8%
Individual	4,790,146	(15,093)	4,775,053	15.9%
Total	30,502,322	(396,679)	30,105,643	100.0%

Notes to the Condensed Interim Consolidated Financial Statements

36. Credit quality of financial assets (cont.)

d. Allowance for expected credit loss on loans to customers and loan commitments, guarantees and unused credit facilities

The following tables show changes in the expected credit loss allowance of loans to customers and for loan commitments, guarantees and unused credit facilities during the period.

31.3.2020

Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2019	182,670	102,932	132,170	417,771
Transfer to Stage 1 - (Initial recognition)	6,394	(4,639)	(1,755)	0
Transfer to Stage 2 - (significantly increased credit risk)	(18,872)	19,382	(510)	0
Transfer to Stage 3 - (credit impaired)	(2,393)	(11,570)	13,964	0
Net remeasurement of loss allowance	44,589	17,975	(30,683)	31,881
New financial assets, originated or purchased	39,891	16,087	67,139	123,118
Derecognitions and maturities	(28,518)	(3,371)	(1,860)	(33,749)
Write-offs				0
Balance as at 31 March 2020	223,761	136,795	178,465	539,021

Expected credit loss allowance for loans to customers

Transfers of financial assets:

Balance as at 31 December 2019	167,078	100,185	129,416	396,679
Transfer to Stage 1 - (Initial recognition)	5,748	(4,169)	(1,579)	0
Transfer to Stage 2 - (significantly increased credit risk)	(17,840)	17,860	(20)	0
Transfer to Stage 3 - (credit impaired)	(2,388)	(11,427)	13,816	0
Net remeasurement of loss allowance	43,701	16,502	(30,523)	29,681
New financial assets, originated or purchased	34,574	16,080	67,139	117,793
Derecognitions and maturities	(27,734)	(3,021)	(1,860)	(32,616)
Write-offs				0
Balance as at 31 March 2020	203,139	132,010	176,389	511,537

Expected credit loss allowance for loan commitments, guarantees and unused credit facilities

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2019	15,592	2,746	2,754	21,092
Transfer to Stage 1 - (Initial recognition)	646	(470)	(176)	0
Transfer to Stage 2 - (significantly increased credit risk)	(1,032)	1,522	(490)	0
Transfer to Stage 3 - (credit impaired)	(5)	(143)	148	0
Net remeasurement of loss allowance	888	1,472	(160)	2,200
New financial assets, originated or purchased	5,317	8		5,325
Derecognitions and maturities	(784)	(349)		(1,133)
Balance as at 31 March 2020	20,623	4,785	2,076	27,484

31.12.2019

Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2018	176,146	28,614	33,657	238,416
Transfer to Stage 1 - (Initial recognition)	5,847	(438)	(5,410)	0
Transfer to Stage 2 - (significantly increased credit risk)	(22,672)	22,672		0
Transfer to Stage 3 - (credit impaired)	(2,701)	(19)	2,719	0
Net remeasurement of loss allowance	(13,866)	45,580	10,318	42,032
New financial assets, originated or purchased	127,749	26,700	113,056	267,505
Derecognitions and maturities	(86,640)	(20,178)	(19,922)	(126,739)
Write-offs	(1,194)		(2,249)	(3,443)
Balance as at 31 December 2019	182,670	102,932	132,170	417,771

Notes to the Condensed Interim Consolidated Financial Statements

36. Credit quality of financial assets (cont.)

Expected credit loss allowance for loans to customers

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2018	160,684	27,930	32,363	220,977
Transfer to Stage 1 - (Initial recognition)	5,844	(434)	(5,410)	0
Transfer to Stage 2 - (significantly increased credit risk)	(22,404)	22,404		0
Transfer to Stage 3 - (credit impaired)	(2,677)	(19)	2,695	0
Net remeasurement of loss allowance	(13,575)	43,767	8,912	39,103
New financial assets, originated or purchased	120,333	26,468	112,592	259,393
Derecognitions and maturities	(79,932)	(19,931)	(19,488)	(119,351)
Write-offs	(1,194)		(2,249)	(3,443)
Balance as at 31 December 2019	167,078	100,185	129,416	396,679

Expected credit loss allowance for loan commitments, guarantees and unused credit facilities

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2018	15,462	683	1,293	17,439
Transfer to Stage 1 - (Initial recognition)	4	(4)		0
Transfer to Stage 2 - (significantly increased credit risk)	(268)	268		0
Transfer to Stage 3 - (credit impaired)	(24)		24	0
Net remeasurement of loss allowance	(290)	1,813	1,407	2,929
New financial assets, originated or purchased	7,417	232	464	8,113
Derecognitions and maturities	(6,708)	(246)	(434)	(7,388)
Write-offs				0
Balance as at 31 December 2019	15,592	2,746	2,754	21,092

Notes to the Condensed Interim Consolidated Financial Statements

37. Collateral and other credit enhancements

a. Valuation

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. The methods used for financial assets are outlined in note 50. For other types of assets the Group uses third party valuation where possible. Haircuts are then applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

b. Loans to customers

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.3.2020
Financial institutions	236,986	14,909	631,166	781,589		196,565	1,861,214
Corporate customers	165,122	901,465	6,990,042	12,316,821	80,710	102,118	20,556,277
Individuals	30,734	10,859	815,850	2,107,330			2,964,774
Total	432,842	927,233	8,437,059	15,205,740	80,710	298,682	25,382,265

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2019
Financial institutions	382,137	15,159	773,001	887,268		193,049	2,250,614
Corporate customers	211,923	892,170	7,188,215	10,129,828	100,651	97,695	18,620,482
Individuals	26,351	10,033	724,757	937,911			1,699,052
Total	620,411	917,361	8,685,973	11,955,008	100,651	290,744	22,570,148

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralisation. Other collateral includes financial claims, inventories, receivables and letters of credit and guarantees.

c. Derivatives

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.3.2020
Financial institutions	834,310	28,574	219,781				1,082,665
Corporate customers	669,164		484,455				1,153,619
Individuals	152,256	12,601	19,789				184,646
Total	1,655,730	41,175	724,025	0	0	0	2,420,930

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2019
Financial institutions	776,901	469,180	709,118				1,955,199
Corporate customers	499,619	13,234	1,463,259				1,976,112
Individuals	81,341		72,169				153,510
Total	1,357,861	482,414	2,244,546	0	0	0	4,084,821

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralisation.

38. Loan-to-value

a. General

The loan-to-value ratio (LTV) is the ratio of the gross amount of the loan to the value of the collateral, if any. The general creditworthiness of a customer is viewed as the most reliable indicator of credit quality of a loan. Besides collateral included in the LTV ratios the Bank uses other risk mitigation measures, such as guarantees, negative pledge, cross-collateral and collateralization of non-quantifiable assets.

b. Breakdown

The breakdown of loans to customers by LTV is specified as follows:

	31.3.2020	%	31.12.2019	%
Less than 50%	12,294,973	39.8%	12,784,235	42.5%
51-70%	5,690,961	18.4%	4,655,736	15.5%
71-90%	6,336,377	20.5%	2,440,778	8.1%
91-100%	783,544	2.5%	673,622	2.2%
More than 100%	1,241,785	4.0%	4,895,571	16.3%
No collateral:				
Purchased short-term retail claims	2,843,193	9.2%	2,763,804	9.2%
Other loans with no collateral	1,674,388	5.4%	1,891,896	6.3%
Total	30,865,222	100.0%	30,105,643	100.0%

The Group has entered into an agreement to purchase short term consumer credit (the claims) from an originator. The purchase of claims are subject to conditions such as credit rating of the borrower and maximum maturity of 24 months. Further, the originator receives final payment of the purchased claim when the claim is fully repaid, until then a part of the purchase price is held as collateral against defaults.

Notes to the Condensed Interim Consolidated Financial Statements

39. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 34).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base. Single large exposures net of risk adjusted mitigation take into account the effects of collateral held by the Bank, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

	31.3.2020		31.12.2019	
	Number	Amount	Number	Amount
Large exposures before risk adjusted mitigation				
10-20% of capital base	6	9,693,659	7	10,931,359
20-25% of capital base	1	3,114,165	0	0
Exceeding 25% of capital base	0	0	0	0
Total	7	12,807,824	7	10,931,359
Thereof nostro accounts with foreign banks with a rating of investment grade or higher ..	3	2,914,739	0	0
Thereof foreign governments and central banks exposures	2	5,443,906	1	2,413,067
Large exposures net of risk adjusted mitigation	2	2,976,715	2	4,138,396

No single large exposure net of risk adjusted mitigation exceeds 25% of capital base in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

40. Liquidity risk

a. Definition

Liquidity risk is the risk that the Group will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. This risk mainly arises from mismatches in the timing of cash flows. The Group has internal rules that require certain matching of the maturities of assets and liabilities. Furthermore, to ensure the ability to meet liquidity needs, the Group maintains a stock of highly liquid unencumbered assets, e.g. cash, treasury bills and treasury bonds.

b. Management

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the ALCO committee. The Central Bank of Iceland sets minimum requirements for the coverage ratio between cash flows of assets and liabilities (LCR) and stable funding in foreign currencies (NSFR). The minimum 30 day LCR regulatory requirement is 100%. The minimum regulatory requirement for foreign currencies NSFR is 100%.

The Group was in compliance with internal and external liquidity requirements throughout the years 2020 and 2019. At end of March 2020 the LCR was 275% and at year-end 2019 it was 246%.

Notes to the Condensed Interim Consolidated Financial Statements

40. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

31.3.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross inflow/ (outflow)	Carrying amount
Financial assets by type							
<i>Non-derivative assets</i>							
Cash and balances with Central Bank	46,653,461	1,417,200				48,070,661	48,067,616
Fixed income securities	5,374,898	107,220	90,239			5,572,357	5,572,357
Shares and other variable income securities	1,157,541		2,561,034			3,718,575	3,718,575
Securities used for hedging	11,931,125					11,931,125	11,931,125
Loans to customers	4,570,710	5,114,320	14,009,473	6,475,457	2,467,543	32,637,503	30,865,222
Other assets	6,090,723	455,630	492,724	2,215,740		9,254,817	9,254,817
	75,778,458	7,094,370	17,153,470	8,691,197	2,467,543	111,185,038	109,409,711
<i>Derivative assets</i>							
Inflow	7,687,982	486,074	130,878	42,498		8,347,432	
Outflow	(7,092,076)	(350,350)	3,488	(1,122)		(7,440,060)	
	595,906	135,724	134,366	41,376	0	907,372	1,032,013
Financial liabilities by type							
<i>Non-derivative liabilities</i>							
Deposits from customers	(44,185,463)	(9,784,172)	(2,054,374)	(1,758,304)	(136,432)	(57,918,745)	57,745,460
Borrowings	(8,471,221)	(7,795,180)	(8,795,008)			(25,061,409)	24,864,339
Issued bills		(2,000,000)				(2,000,000)	1,983,050
Issued bonds		(69,408)	(2,163,964)	(1,612,738)		(3,846,110)	3,686,721
Subordinated liabilities		(63,124)	(60,881)	(496,018)	(2,261,948)	(2,881,971)	2,035,944
Short positions held for trading	(1,444,450)					(1,444,450)	1,444,450
Other liabilities	(5,224,807)	(823,448)	(1,999,065)	(624,911)		(8,672,231)	8,672,231
	(59,325,942)	(20,535,332)	(15,073,291)	(4,491,971)	(2,398,380)	(101,824,916)	100,432,196
<i>Derivative liabilities</i>							
Inflow	9,183,267					9,183,267	
Outflow	(9,425,850)					(9,425,850)	
	(242,583)	0	0	0	0	(242,583)	346,157
Unrecognised financial items							
<i>Loan commitments</i>							
Inflow	401,698	1,261,036	1,288,192	431,925		3,382,851	
Outflow	(3,335,311)					(3,335,311)	
<i>Financial guarantee contracts</i>							
Inflow	104,285	100,762	266,382	58,249	66,026	595,704	
Outflow	(595,704)					(595,704)	
	(3,425,033)	1,361,798	1,554,574	490,174	66,026	47,540	
Summary							
Non-derivative assets	75,778,458	7,094,370	17,153,470	8,691,197	2,467,543	111,185,038	
Derivative assets	595,906	135,724	134,366	41,376		907,372	
Non-derivative liabilities	(59,325,942)	(20,535,332)	(15,073,291)	(4,491,971)	(2,398,380)	(101,824,916)	
Derivative liabilities	(242,583)					(242,583)	
Net assets (liabilities) excluding unrecognised items	16,805,840	(13,305,239)	2,214,546	4,240,602	69,163	10,024,911	
Net unrecognised items	(3,425,033)	1,361,798	1,554,574	490,174	66,026	47,540	
Net assets (liabilities)	13,380,807	(11,943,441)	3,769,120	4,730,776	135,189	10,072,451	

Notes to the Condensed Interim Consolidated Financial Statements

40. Liquidity risk (cont.)

31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross inflow/ (outflow)	Carrying amount
Financial assets by type							
<i>Non-derivative assets</i>							
Cash and balances with Central Bank	25,773,296	968,800				26,742,096	26,818,231
Fixed income securities	7,902,293	102,999	91,876			8,097,169	8,097,169
Shares and other variable income securities	1,528,914		2,130,294			3,659,208	3,659,208
Securities used for hedging	24,274,769					24,274,769	24,274,769
Loans to customers	3,066,655	6,490,086	14,211,455	6,443,200	984,383	31,195,778	30,105,643
Other assets	1,629,388	535,529	517,497	2,141,163		4,823,577	4,823,577
	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	97,778,596
<i>Derivative assets</i>							
Inflow	10,272,921		205,885	37,050		10,515,855	
Outflow	(9,515,478)		(2,658)	(1,210)		(9,519,347)	
	757,442	0	203,226	35,840	0	996,508	1,259,833
Financial liabilities by type							
<i>Non-derivative liabilities</i>							
Deposits from customers	(38,047,222)	(8,851,313)	(2,813,005)	(1,905,846)	(122,169)	(51,739,556)	51,479,732
Borrowings	(2,419,498)	(7,505,617)	(12,417,607)			(22,342,722)	22,058,747
Issued bills		(2,000,000)	(2,000,000)			(4,000,000)	3,945,306
Issued bonds	(40,079)	(636,625)	(2,209,392)	(1,671,961)		(4,558,057)	4,261,308
Subordinated liabilities			(123,396)	(493,584)	(2,250,952)	(2,867,933)	1,999,530
Short positions held for trading	(1,239,916)					(1,239,916)	1,239,916
Other liabilities	(955,774)	(917,995)	(973,396)	(549,800)		(3,396,965)	3,396,965
	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	88,381,503
<i>Derivative liabilities</i>							
Inflow	15,612,704		339,575			15,952,279	
Outflow	(16,645,233)		(349,300)			(16,994,533)	
	(1,032,529)	0	(9,725)	0	0	(1,042,254)	1,282,341
Unrecognised financial items by type							
<i>Loan commitments</i>							
Inflow	212,618	442,930	2,307,256	776,847		3,739,651	
Outflow	(3,667,615)					(3,667,615)	
<i>Financial guarantee contracts</i>							
Inflow	103,265	63,000	222,017	417,808	33,840	839,930	
Outflow	(839,930)					(839,930)	
	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
Summary							
Non-derivative assets	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	
Derivative assets	757,442		203,226	35,840		996,508	
Non-derivative liabilities	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	
Derivative liabilities	(1,032,529)		(9,725)			(1,042,254)	
Net assets (liabilities) excluding unrecognised items	21,197,739	(11,814,136)	(3,392,173)	3,999,012	(1,388,739)	8,601,702	
Net unrecognised items	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
Net assets (liabilities)	17,006,077	(11,308,207)	(862,901)	5,193,667	(1,354,899)	8,673,738	

Maturity analysis of financial assets and financial liabilities is based on contractual cash flows or, in the case of held for trading securities, expected cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis uses estimates based on current conditions.

Cash flows relating to unrecognised balance sheet items (unused loan commitments and financial guarantee contracts) are presented separately from financial assets and financial liabilities. Both contractual outflows and inflows are shown, to fully reflect the nature of these items.

It should be noted that the Group's expected cash flows sometimes vary considerably from the contractual cash flows, most significantly in that demand deposits from customers are expected to remain stable or increase in the long term. In this case the presentation used reflects the worst case scenario from the Group's perspective. Furthermore, the analysis does not consider any measures that could be taken to convert long-term assets to cash through sale.

Notes to the Condensed Interim Consolidated Financial Statements

41. Market risk

a. Definition

Market risk constitutes risk due to changes in the market prices of financial instruments and comprises interest rate risk, currency risk and other price risk. Notes 42-47 relate to market risk exposure.

b. Management

The Group has a strict policy on controlling market risk and to keep the exposure within set limits. The risk management unit monitors market risk limits on a daily basis and reports regularly to the ALCO committee and to the CEO.

42. Interest rate risk

a. Definition

The Group's exposure to interest rate risk is twofold. On the one hand, the Group has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised in the income statement. On the other hand, the Group has mismatch in assets and liabilities with fixed interest terms. These include loans and swap contracts for securities on the asset side and borrowings and deposits on the liability side. This mismatch does not create an immediate effect on the income statement but nevertheless affects the Group's economic value.

Proprietary positions which are subject to interest rate risk fall under the scope of the Group's market risk management.

b. Management

The Group takes measures to minimise interest rate risk by matching the interest rate profile and duration of assets with the Group's liabilities as well as using derivative and non-derivative financial instruments to manage effectively the risk of an adverse impact on the Group's earnings.

43. Interest rate risk associated with trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.3.2020
Fixed income securities		22,842	1,528	2,155,271	3,392,716	5,572,357
Short positions - fixed income securities				(964,359)	(275,557)	(1,239,916)
Net imbalance	0	22,842	1,528	1,190,912	3,117,159	4,332,441
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2019
Fixed income securities		2,832,280	22,712	2,533,636	2,708,542	8,097,169
Short positions - fixed income securities				(1,137,103)	(102,813)	(1,239,916)
Net imbalance	0	2,832,280	22,712	1,396,533	2,605,729	6,857,253

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

	Shift in basis points	Downward	31.3.2020 Upward	Downward	31.12.2019 Upward
Indexed	50	140,658	(140,658)	117,650	(117,650)
Non-indexed	100	94,579	(94,579)	64,121	(64,121)
Total		235,237	(235,237)	181,771	(181,771)

Notes to the Condensed Interim Consolidated Financial Statements

44. Interest rate risk associated with non-trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in non-trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

31.3.2020

Financial assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with Central Bank	42,778,621	5,288,995				48,067,616
Loans to customers	25,015,612	790,050	3,166,214	654,015	1,239,331	30,865,222
Financial assets excluding derivatives	67,794,233	6,079,045	3,166,214	654,015	1,239,331	78,932,838
Effect of derivatives	14,346,210	1,000,000	1,504,678	600,000		17,450,888
Total	82,140,443	7,079,045	4,670,892	1,254,015	1,239,331	96,383,726
Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers	57,745,460					57,745,460
Borrowings	8,759,255	6,954,192	8,648,048	502,844		24,864,339
Issued bills		1,983,050				1,983,050
Issued bonds	36,568	70,458	2,136,958	1,442,738		3,686,721
Subordinated liabilities		62,455	1,140,988	832,501		2,035,944
Financial liabilities excluding derivatives	66,541,283	9,070,154	11,925,994	2,778,083	0	90,315,514
Effect of derivatives	3,104,224					3,104,224
Total	69,645,507	9,070,154	11,925,994	2,778,083	0	93,419,738
Total interest repricing gap	12,494,936	(1,991,110)	(7,255,102)	(1,524,068)	1,239,331	2,963,988

31.12.2019

Financial assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with Central Bank	23,861,681	2,956,550				26,818,231
Loans to customers	23,951,507	1,148,549	3,010,619	647,975	1,346,993	30,105,643
Financial assets excluding derivatives	47,813,188	4,105,100	3,010,619	647,975	1,346,993	56,923,874
Effect of derivatives	27,334,633		2,500,000	600,000		30,434,633
Total	75,147,821	4,105,100	5,510,619	1,247,975	1,346,993	87,358,507
Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers	51,479,732					51,479,732
Borrowings	2,417,672	7,463,302	12,177,773			22,058,747
Issued bills		1,982,430	1,962,876			3,945,306
Issued bonds	39,974	633,194	2,124,611	1,463,529		4,261,308
Subordinated liabilities			1,184,146	815,383		1,999,530
Financial liabilities excluding derivatives	53,937,378	10,078,925	17,449,406	2,278,912	0	83,744,622
Effect of derivatives	3,104,224					3,104,224
Total	57,041,603	10,078,925	17,449,406	2,278,912	0	86,848,846
Total interest repricing gap	18,106,219	(5,973,826)	(11,938,788)	(1,030,938)	1,346,993	509,660

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in non-trading portfolios subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

Currency	Shift in		31.3.2020		31.12.2019	
	basis points	Downward	Upward	Downward	Upward	
ISK, indexed	50	16,382	(15,416)	26,255	(24,900)	
ISK, non-indexed	100	(62,883)	58,973	(85,240)	78,636	
Other currencies	20	(439)	(106)	(1,141)	175	
Total		(46,940)	43,451	(60,126)	53,912	

Notes to the Condensed Interim Consolidated Financial Statements

45. Exposure towards changes in the CPI

a. Definition

Exposure towards changes in CPI is the risk that fluctuations in the Icelandic Consumer Price Index (CPI) will affect the balance and cash flow of indexed financial instruments.

The Group is exposed to inflation indexation of assets and liabilities denominated in ISK. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in CPI are recognised in the income statement.

b. Management

The Group controls its indexation risk through derivatives contracts and sales and purchases of indexed bonds, mostly government bonds, and thus keeps its exposure to the CPI within the limits set by the ALCO committee.

c. Balance of CPI linked assets and liabilities

The net balance of CPI linked assets and liabilities is specified as follows:

	31.3.2020	31.12.2019
Assets	10,503,383	10,676,860
Liabilities	(8,365,018)	(7,620,546)
Total	2,138,365	3,056,314

d. Sensitivity to changes in CPI

Given the net balance of CPI linked assets and liabilities, a 1% change in the CPI would, with other things constant, result in the following changes to the Group's pre-tax profit.

	31.3.2020		31.12.2019	
	-1%	1%	-1%	1%
Government bonds	(3,014)	3,014	(11,095)	11,095
Other fixed income securities	(19,430)	19,430	(25,248)	25,248
Loans to customers	(51,590)	51,590	(39,425)	39,425
Derivatives	(31,000)	31,000	(31,000)	31,000
Short positions	10,662	(10,662)	3,737	(3,737)
Deposits	54,988	(54,988)	54,469	(54,469)
Subordinated debt	18,000	(18,000)	18,000	(18,000)
	(21,384)	21,384	(30,563)	30,563

The effect on equity would be the same.

46. Currency risk

a. Definition

Currency risk arises when financial instruments are not denominated in the functional currency of the respective Group entity and can affect both the Group's income statement and statement of financial position. A part of the Group's financial assets and liabilities is denominated in foreign currencies.

b. Management

Currency positions are monitored by risk management and reported to the ALCO committee. Any mismatch between assets and liabilities in each currency is monitored closely and managed within limits.

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 31 March 2020 and 31 December 2019 the Group's position in foreign currencies was within those limits.

c. Exchange rates

The following exchange rates have been used by the Group in the preparation of these financial statements:

	Closing 31.3.2020	Average 3m 2020	Closing 31.12.2019	Average 3m 2019
EUR/ISK	155.3	141.5	135.8	136.2
USD/ISK	141.7	128.4	121.1	119.9
GBP/ISK	175.2	164.1	159.4	156.0

Notes to the Condensed Interim Consolidated Financial Statements

46. Currency risk (cont.)

d. Breakdown of financial assets and financial liabilities denominated in foreign currencies

31.3.2020

Financial assets

	EUR	USD	GBP	SEK	Other currencies	Total
Cash and balances with Central Bank	1,355,000	1,477,513	264,462	217,436	1,261,987	4,576,398
Fixed income securities	2,174,399	3,114,165				5,288,565
Shares and other variable income securities	1,038	212,036	516,311	1		729,386
Securities used for hedging	373,921	5,309				379,230
Loans to customers	642,459	121,542	942,337	302,738	4,552	2,013,629
Other assets	873,231	95,430	887,025	8,998	27,575	1,892,259
Financial assets excluding derivatives	5,420,050	5,025,995	2,610,136	529,172	1,294,115	14,879,467
Derivatives	1,615,868	1,818,720	21,122			3,455,711
Total	7,035,917	6,844,715	2,631,258	529,172	1,294,115	18,335,178

Financial liabilities

	EUR	USD	GBP	SEK	Other currencies	Total
Deposits from customers	4,624,289	6,580,459	727,870	149,923	1,181,094	13,263,634
Borrowings	45,788					45,788
Issued bonds		356,665				356,665
Other liabilities	1,734,465	18,198	35,133	9,637	97,946	1,895,379
Financial liabilities excluding derivatives	6,404,542	6,955,322	763,003	159,560	1,279,040	15,561,466
Derivatives	698,850	103,937	1,927,090	364,338		3,094,215
Total	7,103,392	7,059,259	2,690,093	523,898	1,279,040	18,655,682

Net currency position

	EUR	USD	GBP	SEK	Other currencies	Total
Financial assets	7,035,917	6,844,715	2,631,258	529,172	1,294,115	18,335,178
Financial liabilities	(7,103,392)	(7,059,259)	(2,690,093)	(523,898)	(1,279,040)	(18,655,682)
Financial guarantee contracts	83,412					83,412
Total	15,938	(214,544)	(58,835)	5,274	15,075	(237,092)

31.12.2019

Financial assets

	EUR	USD	GBP	CAD	Other currencies	Total
Cash and balances with Central Bank	726,348	277,004	195,341	322,278	665,077	2,186,049
Fixed income securities	543,483	2,413,067				2,956,550
Shares and other variable income securities		181,624	1,020,161		1	1,201,786
Securities used for hedging	1,297,948					1,297,948
Loans to customers	444,945	106,074	863,985		16,616	1,431,619
Other assets	946,260	181,361	299,735		57,397	1,484,753
Financial assets excluding derivatives	3,958,984	3,159,129	2,379,222	322,278	739,091	10,558,704
Derivatives	1,319,461	888,608	19,221			2,227,290
Total	5,278,445	4,047,737	2,398,443	322,278	739,091	12,785,994

Financial liabilities

	EUR	USD	GBP	CAD	Other currencies	Total
Deposits from customers	3,526,958	3,459,182	690,839	294,344	670,179	8,641,502
Borrowings	40,079					40,079
Issued bonds		301,738				301,738
Other liabilities	1,498,474	136,045	42,103		1,264	1,677,887
Financial liabilities excluding derivatives	5,065,512	3,896,965	732,942	294,344	671,443	10,661,206
Derivatives	165,895	78,811	1,594,200			1,838,907
Total	5,231,407	3,975,777	2,327,142	294,344	671,443	12,500,113

Net currency position

	EUR	USD	GBP	CAD	Other currencies	Total
Financial assets	5,278,445	4,047,737	2,398,443	322,278	739,091	12,785,994
Financial liabilities	(5,231,407)	(3,975,777)	(2,327,142)	(294,344)	(671,443)	(12,500,113)
Financial guarantee contracts	67,915					67,915
Total	114,953	71,960	71,301	27,935	67,648	353,796

Notes to the Condensed Interim Consolidated Financial Statements

46. Currency risk (cont.)

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Group's pre-tax profit.

	31.3.2020		31.12.2019	
Assets and liabilities denominated in foreign currencies	-10%	+10%	-10%	+10%
EUR	1,594	(1,594)	11,495	(11,495)
USD	(21,454)	21,454	7,196	(7,196)
GBP	(5,884)	5,884	7,130	(7,130)
SEK	527	(527)	1,842	(1,842)
CAD	431	(431)	2,793	(2,793)
Other currencies	1,076	(1,076)	4,923	(4,923)
Total	(23,709)	23,709	35,380	(35,380)

The effect on equity would be the same.

47. Other price risk

Other price risk arises from changes in the market prices of shares and other variable income securities in the Group's portfolio. The Group directly holds listed and unlisted shares and other variable income securities, while also gaining exposure to listed shares through portfolio options trading. The table below shows the Group's net exposure, including delta-adjusted options exposure.

	31.3.2020			31.12.2019		
	Average	Max	Exposure	Average	Max	Exposure
Listed shares	1,038,364	1,486,961	1,053,588	927,255	1,352,589	1,271,325
Unlisted shares	1,855,529	2,136,385	1,964,479	1,657,393	1,863,076	1,694,493
Unlisted unit shares	785,316	998,994	700,507	773,771	998,994	693,390
Total			3,718,575			3,659,208

48. Operational risk

a. Definition

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes or systems, from human error or external events that affect the Group's reputation and operational earnings.

b. Management

The individual business units within the Group are primarily responsible for managing their respective operational risk. The risk management unit is furthermore responsible for identifying, monitoring and reporting the Group's operational risk. Operational risk can be reduced through staff training, process re-design and enhancement of the control environment. The risk management unit monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. The unit takes an active role in internal control and quality management.

Notes to the Condensed Interim Consolidated Financial Statements

Financial assets and financial liabilities

49. Accounting classification of financial assets and financial liabilities

The accounting classification of financial assets and financial liabilities is specified as follows:

31.3.2020		Amortised cost	Manda- torily at fair value through P/L	Total carrying amount
Financial assets				
Cash and balances with Central Bank	48,067,616			48,067,616
Fixed income securities			5,572,357	5,572,357
Shares and other variable income securities			3,718,575	3,718,575
Securities used for hedging			11,931,125	11,931,125
Loans to customers	27,999,170		2,866,052	30,865,222
Derivatives			1,032,013	1,032,013
Other assets	9,254,817			9,254,817
Total	85,321,603		25,120,122	110,441,724
Financial liabilities				
Deposits from customers	57,745,460			57,745,460
Borrowings	24,864,339			24,864,339
Issued bills	1,983,050			1,983,050
Issued bonds	3,686,721			3,686,721
Subordinated liabilities	2,035,944			2,035,944
Short positions held for trading			1,444,450	1,444,450
Derivatives			346,157	346,157
Other liabilities	8,073,668		598,563	8,672,231
Total	98,389,182		2,389,171	100,778,353
31.12.2019				
Financial assets				
Cash and balances with Central Bank	26,818,231			26,818,231
Fixed income securities			8,097,169	8,097,169
Shares and other variable income securities			3,659,208	3,659,208
Securities used for hedging			24,274,769	24,274,769
Loans to customers	27,758,981		2,346,662	30,105,643
Derivatives			1,259,833	1,259,833
Other assets	4,823,577			4,823,577
Total	59,400,789		39,637,640	99,038,429
Financial liabilities				
Deposits from customers	51,479,732			51,479,732
Borrowings	22,058,747			22,058,747
Issued bills	3,945,306			3,945,306
Issued bonds	4,261,308			4,261,308
Subordinated liabilities	1,999,530			1,999,530
Short positions held for trading			1,239,916	1,239,916
Derivatives			1,282,341	1,282,341
Other liabilities	2,901,973		494,991	3,396,965
Total	86,646,596		3,017,248	89,663,844

Notes to the Condensed Interim Consolidated Financial Statements

50. Financial assets and financial liabilities measured at fair value

a. Fair value hierarchy

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices. For other financial instruments the Bank determines fair value using various valuation techniques. IFRS 13 specifies a fair value hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources whereas unobservable inputs reflect the Bank's market assumptions. These two types of inputs result in the following fair value hierarchy:

- Level 1
Inputs are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2
Inputs are not quoted market prices but are observable either directly, i.e. as prices, or indirectly, i.e. derived from prices. This category includes financial instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar or identical instruments in markets that are considered less than active and other instruments which are valued using techniques which rely primarily on inputs that are directly or indirectly observable from market data.
- Level 3
Inputs are not observable or unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments are required to reflect the differences between the instruments.

b. Valuation process

The Bank's ALCO committee is responsible for fair value measurements of financial assets and financial liabilities classified as level 2 or level 3 instruments. The valuation is carried out by personnel from Risk and Treasury and is revised at least quarterly, or when there are indications of significant changes in the underlying inputs.

c. Valuation techniques

The Group uses widely recognised valuation techniques, including net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and other valuation models.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value, indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and no later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Notes to the Condensed Interim Consolidated Financial Statements

50. Financial assets and financial liabilities measured at fair value (cont.)

d. Fair value hierarchy classification

The fair value of financial assets and financial liabilities measured at fair value in the statement of financial position is classified into the fair value hierarchy as follows:

31.3.2020

Financial assets	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Fixed income securities	5,570,894		1,463	5,572,357
Shares and other variable income securities	1,398,131	124,225	2,196,219	3,718,575
Securities used for hedging	11,895,606	35,519		11,931,125
Loans to customers			2,866,052	2,866,052
Derivatives		1,032,013		1,032,013
Total	18,864,631	1,191,758	5,063,733	25,120,122
Financial liabilities				Carrying amount
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,444,450			1,444,450
Derivatives		346,157		346,157
Other liabilities			598,563	598,563
Total	1,444,450	346,157	598,563	2,389,171

There were no transfers between levels during the period.

31.12.2019

Financial assets	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Fixed income securities	8,095,688		1,480	8,097,169
Shares and other variable income securities	1,665,665	227,472	1,766,071	3,659,208
Securities used for hedging	24,195,355	79,414		24,274,769
Loans to customers			2,346,662	2,346,662
Derivatives		1,259,833		1,259,833
Total	33,956,707	1,566,719	4,114,214	39,637,640
Financial liabilities				Carrying amount
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,239,916			1,239,916
Derivatives		1,282,341		1,282,341
Other liabilities			494,991	494,991
Total	1,239,916	1,282,341	494,991	3,017,248

Transfers from Level 3 to Level 1 amounted to ISK 360 million during the year due to listing of a company on Nasdaq First North Growth Market.

Notes to the Condensed Interim Consolidated Financial Statements

50. Financial assets and financial liabilities measured at fair value (cont.)

e. Reconciliation of changes in Level 3 fair value measurements

	Shares and		Loans to	Other	Total
	Fixed	other var.			
	income	income	customers	liabilities	
31.3.2020	securities	securities			
Balance as at 31 December 2019	1,480	1,766,071	2,346,662	(494,991)	3,619,222
Reclassification into Level 3 in accordance with IFRS 9			425,919		425,919
Total gains and losses in profit or loss	(18)	138,870	56,483	(115,794)	79,542
Purchases		291,277	77,417		368,694
Repayments			(40,429)	12,222	(28,207)
Sales					0
Transfers in (out) of Level 3					0
Balance as at 31 March 2020	1,463	2,196,219	2,866,052	(598,563)	4,465,170
	Fixed	Shares and	Loans to	Other	Total
	income	other var.	customers	liabilities	
	securities	securities			
31.12.2019					
Balance as at 31 December 2018	134,944	864,180	2,160,522		3,159,646
Reclassification into Level 3 in accordance with IFRS 9			150,865		150,865
Total gains and losses in profit or loss	(133,463)	212,897	95,505	447,463	622,401
Purchases		1,652,385	592,385		2,244,770
Repayments			(652,615)	1,599,864	947,249
Acquisition of subsidiary		928,327		(2,542,318)	(1,613,991)
Sales		(1,531,253)			(1,531,253)
Transfers in (out) Level 3		(360,466)			(360,466)
Balance as at 31 December 2019	1,480	1,766,071	2,346,662	(494,991)	3,619,222

f. Fair value measurements for Level 3 financial assets and liabilities

Level 3 assets consist primarily of illiquid, unlisted bonds, shares and share certificates and loans measured at fair value. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use in 2020:

Asset class	Method	Significant unobservable input	Range	Book value
				31.3.2020
Unlisted bonds	Expected recovery	Value of assets	0-5%	1,463
Unlisted shares	Market price	Recent trades	-	2,196,219
Loans to customers	Expert model	Value of assets and collateral	-	2,866,052
Total				5,063,733
				Book value
				31.12.2019
Unlisted bonds	Expected recovery	Value of assets	90-100%	1,480
Unlisted shares	Market price	Recent trades	-	1,766,071
Loan to customers	Expert model	Value of assets and collateral	-	2,346,662
Total				4,114,214

Given the methods used, the possible range of the significant unobservable inputs is wide. When determining the values used the Group considers the financial strength of the entity in question, recent trades if any and multipliers for comparable instruments.

g. The effect of unobservable inputs in Level 3 fair value measurements

The Group believes its estimates represent appropriate approximations of fair value and that the use of different valuation methodologies and reasonable changes in assumptions or unobservable inputs would not significantly change the estimates.

A 10% change in the estimates would have the following effect on profit before taxes:

	+10%	-10%
Shares and other variable income securities	219,622	(219,622)
Loans to customers	286,605	(286,605)
Total	506,227	(506,227)

Notes to the Condensed Interim Consolidated Financial Statements

Other information

51. Pledged assets

The Group has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland to the amount of ISK 2.7 billion as at 31 March 2020 (2019: ISK 2.7 billion) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 1.8 billion as at 31 March 2020 (2019: ISK 0.7 billion).

52. Related parties

a. Definition of related parties

The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 21, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

Transactions with related parties are carried out at arm's length and subject to an annual review by the Bank's internal auditor.

c. Effects on statement of financial position

	Loans & receivables	Deposits & payables
31.3.2020		
Management	1,636	143,562
Associates	210,215	4,418,207
Total	211,851	4,561,769
31.12.2019		
Management	354	40,296
Associates	208,278	2,995,554
Total	208,632	3,035,851

d. Effects on income statement

	Interest income	Interest expense	Fees received	Fees paid
3m 2020				
Management	0	660	1,362	6,997
Associates	3,750	7,727	18,031	0
Total	3,750	8,387	19,394	6,997
3m 2019				
Management	3,419	758	439	2,629
Associates	22	12,552	9,745	0
Total	3,441	13,310	10,184	2,629

Further information about salaries and benefits paid to the Board of Directors, the CEO and Managing Directors is provided in note 0.

53. Events after the reporting date

Expansion of asset management operations in the UK

In April 2020, KKV Investment Management Ltd., a subsidiary of Kvika Securities Ltd., Kvika banki hf.'s UK subsidiary, reached an agreement to provide investment management services to British secured loan fund SQN Asset Finance Income Fund. The fund has net assets of GBP 390 million, equivalent to ca. ISK 70 billion and is listed on the London Stock Exchange.

Sale of shareholding in Korta hf.

In April, Kvika signed an agreement to sell all its shares in Korta hf. to the UK based fintech company Rapyd. Other shareholders of Korta are also parties to the agreement. The sale is subject to the approval of the Financial Supervision of the Central Bank of Iceland. The purchase price is in USD and will be paid in cash. Part of the payment is based on Korta's operations this year and the full price will, thus, not be known until early next year. Kvika currently estimates that the purchase price for the bank's shares will be equivalent to its book value at the end of last year and will therefore not have an impact on this year's earnings.