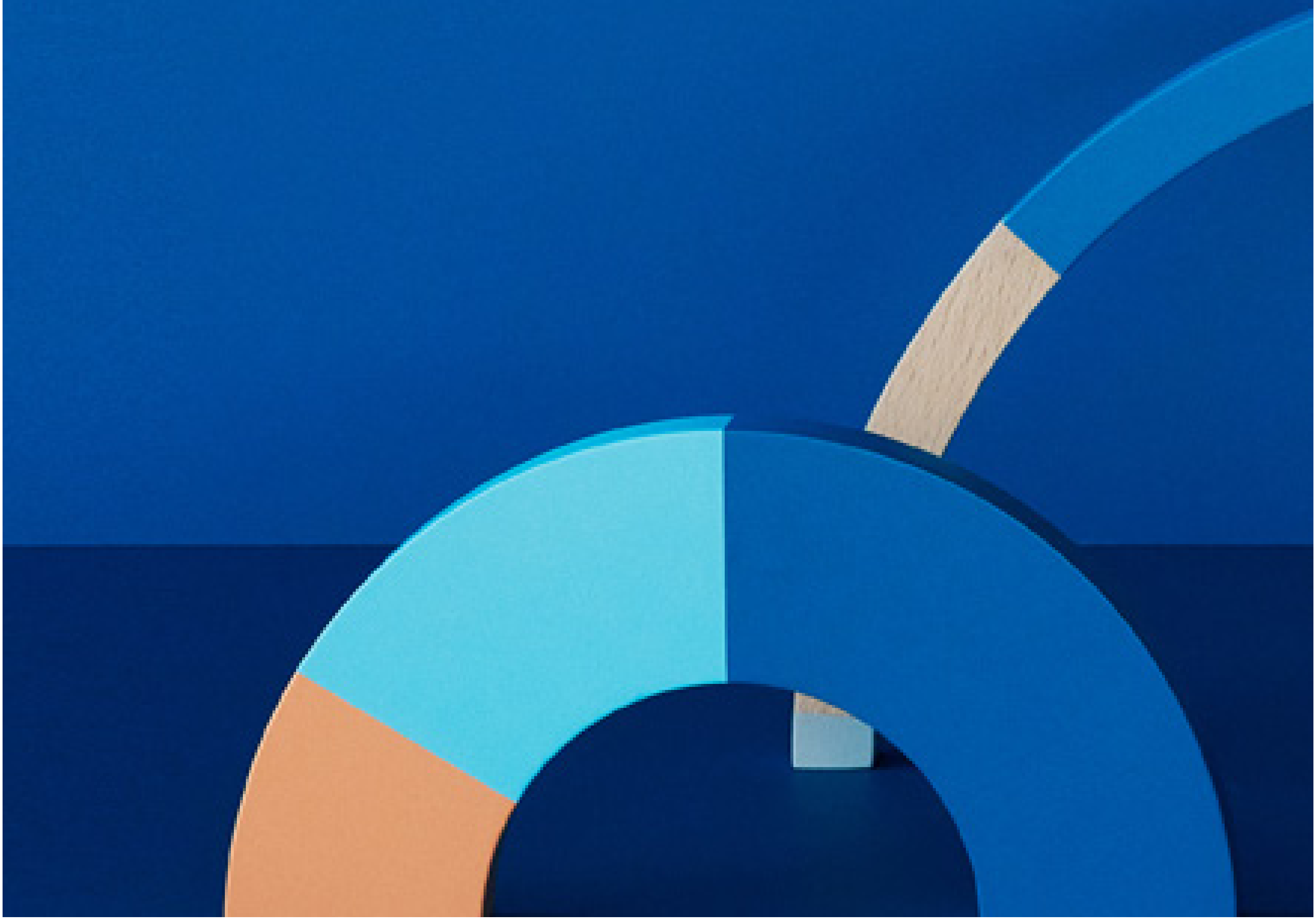
Consolidated Financial Statements

LANDSBANKINN HF. | KT. 471008-0280 | LANDSBANKINN.IS

2020



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Highlights

Number one in Performance Satisfaction Index

ÍSLENSKA ÁNÆGJUVOGIN
2020

Credit rating

BBB
með stöðugum horfum

Best Bank

EUROMONEY
AWARDS FOR EXCELLENCE
2020

Principles for Responsible Investment

PRI

Equal Pay Certification

Profit

2020	2019
10,521 m.	18,235 m.

Return on equity

2020	2019
4.3%	7.5%

Total operating income

2020	2019
38,253 m.	51,517 m.

Cost-income ratio

2020	2019
47.4%	42.6%

Total assets

31.12.2020	31.12.2019
1,564,177 m.	1,426,328 m.

Total capital ratio

31.12.2020	31.12.2019
25.1%	25.8%

Loans and advances to customers

31.12.2020	31.12.2019
1,273,426 m.	1,140,184 m.

Total liquidity coverage ratio (LCR)

31.12.2020	31.12.2019
154%	161%

Report of the Board of Directors and the CEO

The Board of Directors and CEO of Landsbankinn hf. (hereafter Landsbankinn or the Bank) submit this report with the audited Consolidated Financial Statements of Landsbankinn for 2020, which is comprised of the Consolidated Financial Statements of the Bank and its subsidiaries.

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors.

In early November, the Bank presented its new strategy under the headline Landsbankinn, an ever-smarter bank. The strategy is focused on the changes both individual and corporate finances are undergoing. The strategy is founded on the ideal of mutual trust and personal approach to banking. With us, customer satisfaction comes first, we are focused on ensuring sound operation and continue to develop digital solutions. Our aim is to simplify life for our customers by making finances more approachable while simultaneously strengthening advisory service and information provision. Satisfied employees and a success-driven culture will strengthen the Bank's operation and create opportunities for initiative.

At the same time, the Bank underwent organisational changes intended to support the goal of simplifying life for customers and creating more opportunities for internal collaboration. After these changes, the Bank still has six divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management and IT. These divisions comprise the Bank's operating segments as of 1 January 2021 yet the organisational changes entered into effect as of 1 November 2020. Other departments operate across the Bank directly under the CEO in two groups, on the one hand under the umbrella term Community (HR, marketing and Economic Research), and Compliance and Legal Services on the other. The financial performance of operating segments is therefore reported unchanged at year-end 2020 under the former organisational structure, i.e. Personal Banking, Corporate Banking, Markets and Treasury. The Bank's subsidiary, Landsbréf hf., which is specialised in fund and asset management, is included under Markets. The operating results of individual segments are disclosed in the Group's internal and external financial reports.

Operations in 2020

Consolidated profit amounted to ISK 10,521 million for the financial year 2020 as compared with a profit of ISK 18,235 in 2019. Net impairment on loans and advances increased considerably between years and amounted to ISK 12,020 million as compared with ISK 4,827 million the previous year. This sharp increase in impairment on loans is caused by the circumstances created by the COVID-19 pandemic, see Note 4. After-tax return on equity was 4.3% as compared with 7.5% in 2019, and the Bank's cost-income ratio was 47.4%, which is close to the Bank's target of 45.0%. Net interest income was ISK 38.074 million and net fee and commission income was ISK 7,638 million. Net gain on financial assets and liabilities at fair value, which had been quite high the previous year, contracted by 3,736 million between years. Salaries and related expenses remain fairly stable between years and amounted to ISK 14,767 million. The average number of full-time equivalent positions during the year in 2020 was 921 as compared with 950 in 2019.

Consolidated total equity amounted to ISK 258,255 million and total assets to ISK 1,564,177 million at year-end 2020, increasing by just under ISK 138 billion. The year-over-year growth in total assets is mostly driven by an increase in lending to individuals of ISK 124 billion, or 26.5% between years. The Group's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 25.1% at year-end 2020, as compared with 25.8% at the end of 2019. The Bank's total regulatory capital requirement decreased from 20.5% at year-end 2019 to 18.8% at the end of 2020 because of a lower countercyclical capital buffer on domestic exposures, from 1.75% to 0%, but was otherwise unchanged.

Funding

Customer deposits are the Bank's primary source of funding and amounted to ISK 793 billion at year-end 2020, mostly non-indexed and demand deposits. Indexed deposits amounted to ISK 126 billion at year-end 2020. Customer deposits increased in total by ISK 86 billion or 12.1% between years.

EMTN-issuance in international capital markets and issuance of covered bonds and commercial paper in the domestic capital market has been the Bank's main source of market funding. The carrying value of such funding increased in total by ISK 47 billion in 2020. The increase is mostly the result of issuance of covered bonds, up by ISK 49 billion during the year. Covered bonds increasingly weigh more in the Bank's funding, in line with its growing share in the housing loan market.

The Bank continued issuing unsecured notes in international markets in 2020. On 19 February 2020, the Bank accepted offers in the amount of EUR 300 million after having made a tender offer to the holders of the Bank's EUR 500 million 1.625% unsecured notes due in March 2021. On 20 February 2020, the Bank concluded issuance of new 4.25-year EUR 300 million, or the equivalent of ISK 46,830 million at year-end, senior unsecured bonds maturing in May 2024 with a fixed 0.50% coupon. The bonds were sold at terms equivalent to an 83 basis points spread above mid-swap market rates.

On 14 October, the Bank issued senior unsecured floating rate bonds with a maturity of three years in the amount of NOK 500 million, or the equivalent of ISK 7,463 million at year-end, and SEK 500 million, or the equivalent of ISK 7,786 million at year-end. The bonds were priced at a spread of 155 basis points above 3-month NIBOR and STIBOR.

Over the past years, the Bank has issued commercial paper in the domestic market. At the beginning of 2020, the Bank decided to temporarily discontinue the issuance of such paper. No commercial paper is outstanding at year-end 2020.

Funding (continued)

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

On 15 January 2021, S&P Global Ratings assigned a credit rating for covered bonds issued by Landsbankinn at A- with stable outlook. The credit rating for covered bonds issued by the Bank is two notches above the Bank's issuer credit rating. This is the first time an international rating agency issues a rating grade for the covered bonds of an Icelandic bank. Such a good credit rating reflects the Bank's robust operation and solid legal framework for covered bonds in Iceland.

Overall, the COVID-19 pandemic and increased uncertainty about its impact on the Bank's operation and finances, has not had any marked effect on the Bank's funding in either the short or long term. Deposits have grown considerably in 2020. The Bank has also been a regular issuer in the domestic market and issued twice overseas, as mentioned above.

Risk factors

The Bank's risk in 2020 was for the most part within its risk appetite as approved by the Board of Directors. Credit risk measures exceeded risk appetite slightly during the year. This was precipitated especially by the deteriorating position of companies in the travel sector experiencing difficulties as a result of COVID-19 and increasing economic uncertainty. The Bank's capital adequacy ratio remains strong at 25.1%, well above its capital requirement of 18.8%. The Bank's liquidity position, in total, in foreign currencies and in individual currencies remains good and above regulatory requirements. The aggregate liquidity coverage ratio (LCR) was 154%, 105% in ISK and 424% in foreign currencies at year-end. Market risk remains low and well within risk appetite.

The Bank has in recent years emphasised updating and maintaining contingency plans. In February 2020, the Bank's main contingency plans had been updated with regard for pandemics and high rate of unplanned absences from work. Management was thus prepared when the need to activate the appropriate plans arose in the pandemic. As of March 2020, a majority of the Bank's employees has worked outside of conventional work stations without any material adverse impact on its operation or service.

Credit risk increased in 2020, mostly due to a higher probability of default on lending to companies in the travel sector. The book value of lending increased by ISK 133 billion in 2020, or the equivalent of 11.7% between years. Lending growth is mostly driven by an increase in housing loans to individuals in the amount of ISK 126 billion in 2020. The fisheries and seafood sector remains the largest individual industry in the Bank's credit portfolio. Loans to that sector grew by ISK 28.4 billion in 2020 due in part to depreciation of the ISK, as loans to this sector are mostly in foreign currency. However, increased uncertainty in economic conditions due to COVID-19 has negatively affected the demand for new lending to corporates in other sectors. Increasing loan impairment allowances in the amount of ISK 7.2 billion between years are for the most part a result of higher expected credit loss (ECL) in Stages 1 and 2, largely attributable to loans to the travel sector.

The Bank's internal EC assessment was ISK 110 billion at year-end 2020, up by ISK 11.8 billion between years. The increase mainly represents increased EC for credit risk in the amount of ISK 10.4 billion. No material changes were made to the Bank's methodology to calculate internal capital assessment in 2020. The Bank's risk exposure amount (REA) also increased slightly alongside lending growth in 2020 and EC was 9.8% of REA at the end of the year as compared with 9.6% at year-end 2019.

Further information about the Group's risk and capital management is included in notes to the Consolidated Financial Statements and in the Bank's Pillar III Risk Report for 2020, both published simultaneously and available on the Bank's website, www.landsbankinn.is.

Equity

Rules on capital requirements are provided for on the one hand in Icelandic law and regulations and on the other hand by the Financial Supervisory Authority of the Central Bank of Iceland (FSA). The requirements are based on the EU Capital Requirements Directives and Regulation (CRD IV and CRR), on capital and prudential requirements. The Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP) and the results are subsequently reviewed by the FSA in the Supervisory Review and Evaluation Process (SREP).

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FSA, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC).

On 23 December 2020, Regulation No. 1544/2020 transposed into Icelandic law Regulation (EU) No. 2020/873 of the European Parliament and of the Council, amending Regulation (EU) No. 575/2013, on arrangements to mitigate the impact of implementation of IFRS 9 on own funds. The FSA has granted permission for the Group to apply IFRS 9 transitional arrangements in accordance with the aforementioned regulations. The effect of the arrangements on the Group's capital ratio is positive by 0.4 percentage points at the end of 2020 (see Note 48).

On 1 January 2020, Articles 500 and 501 (capital requirements relief for SMEs) of Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms, took effect in Iceland.

The Bank's aim is to maintain a total capital ratio above 22.0% at any given time and be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 47).

Equity (continued)

The Bank's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to ≥50% of the previous year's profit. To achieve the Bank's target capital ratio, the aim is also to make special dividend payments to optimise the Bank's capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Landsbankinn's AGM, held on 22 April 2020, approved the motion of the Board of Directors to not pay a dividend for the operating year 2019 in light of economic uncertainty caused by COVID-19 and in line with directions from the Central Bank of Iceland. The Board of Directors considered the Bank well positioned to handle the challenges it faced and the decision that no dividend should be paid further increased the Bank's capacity to support its customers through difficult times.

The Board of Directors intends to propose to the Annual General Meeting (AGM) that a dividend of ISK 0.19 per share be paid to shareholders for the operating year 2020, based on the Bank' strong standing and resilience in dealing with the pandemic. The total dividend of ISK 4,489 million corresponds to 43% of the consolidated profit in 2020 (and is 16% of the consolidated profit in 2019 and 2020). Should the AGM approve the dividend proposal, the capital requirement of the Group will be reduced by an amount equivalent to the dividend payment and the Bank's capital ratio, in accordance with the Act on Financial Undertakings, will decrease by 0.4 percentage points. The intended dividend proposal is in accordance with the maximum benchmark for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021.

Economic outlook

The economic impact of the Covid-19 pandemic has been momentous all around the world. Iceland has been hit harder than many countries as quarantine and other control measures to reduce the impact of the disease have more or less halted the travel industry, which has become Iceland's most important export industry in recent years. Tourist arrivals to Iceland decreased by 76% in 2020. It appears that 2020 will represent the most severe contraction in GDP since the foundation of the Icelandic Republic. The forecast of Landsbankinn Economic Research is for net 8.5% negative growth in 2020. Preliminary figures in national accounts indicate an 8.1% contraction in GDP in the first three quarters of 2020, with over 10% of that contraction measured in both Q2 and Q3. The indications are that the economy will see a recovery in 2021 and, in October, Economic Research forecast 3.4% growth in 2021. The most serious effect of this recession is soaring unemployment, with around 26,000 individuals registered for full or partial unemployment in November, resulting in 12% unemployment. The outlook is for a rapid increase in jobs in the latter half of 2021, with the travel industry gaining ground, and unemployment will recede rapidly in coming years. The government budget deficit was significant in 2020 and the outlook is for a continued deficit this year.

Inflation measured 1.7% in January 2020. It increased as of that point, averaging 2.8% during the year. Increased inflation towards the end of the year can be ascribed to depreciation of the Icelandic króna. Economic Research expects inflation to recede considerably this year as the effect of the ISK depreciation in 2020 peters out, and for inflation to drift back down to the CBI's target of 2.5% by mid-year.

At the beginning of 2020, the CBI's key rate, i.e. the 7-day term deposit rate, was 3%. The Monetary Policy Committee lowered the CBI's rates by a total of 2.25 percentage points in 2020, with the key rate standing at 0.75% at year-end, a record low.

Ownership

Shareholders of the Bank at year-end 2020 numbered 882 as compared with 881 the previous year. The ten largest shareholders at year-end 2020 were as follows:

Shareholders		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Municipality	3.5	0.01%
Vinnslustöðin hf.	Legal entity	1.8	0.01%
Helgi T. Helgason	Private individual	0.5	0,00%
Hreiðar Bjarnason	Private individual	0.5	0,00%
Árni Þ. Þorbjörnsson	Private individual	0.5	0,00%
Hrefna Ö. Sigfinnsdóttir	Private individual	0.4	0,00%
Steinþór Pálsson	Private individual	0.3	0,00%
Hjördís D. Vilhjálmsdóttir	Private individual	0.3	0,00%
Top 10 total		**23,580.0**	**98.25%**
Other shareholders		44.5	0.19%
Total shares outstanding		**23,624.5**	**98.44%**
Landsbankinn hf.	Own shares	375.5	1.56%
Total shares issued		**24,000.0**	**100,00%**

Icelandic State Financial Investments (ISFI) manages the State's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury) in accordance with Act No. 88/2009, on Icelandic State Financial Investments.

Governance

Landsbankinn's Board of Directors is comprised of seven directors and two alternates. The Board of Directors shall ensure active risk management and internal control. Special committees, the Risk Committee and the Audit Committee, report to the Board as part of their advisory and supervisory role in risk governance and internal control. The Risk Committee regularly discusses internal control and risk management while the Audit Committee focuses on the Bank's accounting and evaluates its internal control processes. Executives and employees are responsible for internal control, risk culture and managing risks connected to their units. Emphasis is placed on ensuring that all employees are aware of and understand the risks in their work and that action to meet risk is based on informed decisions. Advice on the design of risk management processes, monitoring of exposures and surveillance of the effectiveness of internal control is under the auspices of Risk Management, Compliance and Internal Audit. Internal Audit reports to the Board of Directors and Compliance is directly responsible to the CEO.

It is Landsbankinn's aim to promote good corporate governance for the overall benefit of the Bank, its shareholders, customers and the community. The Bank complies with the most recent Guidelines on Corporate Governance issued in June 2015 (5th edition) by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Employers. The Bank publishes an annual Corporate Governance Statement on its governance practices and its compliance with the Guidelines in the Group's annual report which is accessible on the Bank's website, www.landsbankinn.is. The corporate governance statement for the accounting year 2020 has been reviewed by the Board of Directors, the Audit Committee, and the CEO. In 2020, Stjórnvísi renewed the recognition of the Bank as a model of good corporate governance for the period 2019-2020. The Bank also bases its activities on the European Banking Authority's Guidelines on Internal Governance for financial undertakings (EBA/GL/2017/11), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market.

The Bank also complies with the Icelandic State's Ownership Policy for financial undertakings administered by Icelandic State Financial Investments, most recently updated in February 2020. The Ownership Policy sets out detailed requirements and guidelines of the owner for the operation of financial undertakings based on the main rules of the Policy which apply, inter alia, to governance.

Corporate social responsibility and code of ethics

Landsbankinn's policy on social responsibility is to contribute to sustainability in Iceland, to be a dynamic force for action and operate in accordance with the principles of good corporate governance.

The Bank takes the initiative to form partnerships with companies and institutions to develop industrial activities and infrastructure which will contribute to increased sustainability in Icelandic industry and society. A joint effort facilitates the creation of new business opportunities with an emphasis on sustainability.

The Bank focuses especially on three of the UN's Sustainable Development Goals (SDGs) and new Principles for Responsible Banking from UNEP-FI. The PRBs were developed by a core group of 30 international banks in collaboration with UNEP FI are intended to align banking activity with the SDGs and the Paris Agreement.

The Bank is also an active participant in the UN's Global Compact, UN PRI, a founding member of the Iceland Sustainable Investment Forum (IcelandSIF), as well as Festa, Centre for Corporate Social Responsibility. Work is under way to measure emissions from the Bank's asset portfolio using PCAF's recently launched carbon accounting method. The Bank participated in the development of this international method.

The Bank's code of conduct applies to relations between employees and customers, co-workers, regulators, shareholders, competitors and other stakeholders.

In spring 2020, the Bank improved on its score in a new ESG risk rating from Sustainalytics, decreasing its score from 17.5 to 13.5 on a scale to 100. Landsbankinn now ranks 2nd out of 382 banks operating only in Europe which Sustainalytics has analysed. Sustainalytics considers the Bank at exceedingly low risk of experiencing material financial impacts from ESG factors.

The Bank publishes an annual ESG report based on the principles of the Global Reporting Initiative (GRI) as part of its annual report. The ESG report discloses information about developments in sustainability and social responsibility with the Bank, its policy on social responsibility and social performance indicators. The ESG report is available on the Bank's website, www.landsbankinn.is.

Human Resources

Despite the many challenges posed by COVID-19, job satisfaction and pride has never measured higher in the Bank than in 2020. As of March, most of the Bank's employees worked from home through remote equipment without any significant negative impact on operation or performance. The Bank places a high value on employee satisfaction and will look to increasing job flexibility using the lessons learned during the pandemic. The Bank is systematic in its efforts to foster a healthy and positive workplace culture, spearheaded by equality. The Bank aims to achieve gender equality among its employees and management; currently, the gender balance is 60% women, 40% men. Equal pay certification became a legal requirement in March 2019 and the Bank has since operated in accordance with a certified equal pay system. The Bank's HR policy emphasises job satisfaction, a positive work environment and effective job development.

Miscellaneous

Landsbankinn continued to enhance its measures to prevent money laundering and terrorist financing. The Bank's control systems were enhanced, processes strengthened even further and work to develop digital solutions to enable customers to complete due diligence online continued. Of the Bank's active customers, 91% of individuals and 53.6% of legal entities had finished updating their due diligence questionnaire at the end of the year.

A risk assessment was carried out on the Bank's operation, its customers, products and distribution channels employees look to during control and decision-making. At the same time, the Board of Directors approved a new policy on measures to combat money laundering and terrorist financing.

Miscellaneous (continued)

Monitoring of international payments was enhanced in 2020 for the purpose of mitigating even further the risk of money laundering and terrorist financing, corruption and bribery. The Bank has set itself a policy against bribery and corruption that is in the implementation phase.

In 2020, the Financial Action Task Force (FATF), removed Iceland from its list of countries that have declared their willingness to implement an action plan for remedy of the situation. The impact of Iceland's presence on this list on the Bank's operation and services was limited, with the Bank benefiting from solid business relations with non-domestic banks.

As before, we emphasise responsible and secure handling of the personal data of customers, employees and others in our operation and comply with laws on data protection and the processing of personal data, and the EU General Data Protection Regulation (GDPR). New products and service channels were assessed for privacy risk and the Bank's Privacy Policy updated. The Bank will continue to improve the management of personal data in its operation through such measures as updating and improving processes, rules and information in the field of personal data protection, including in electronic solutions, with an eye to safeguarding customer rights.

Landsbankinn's remuneration policy states that compensation to the CEO and key managers shall be competitive yet moderate and not leading. The Remuneration Committee is tasked with ensuring that compensation to key executives is within the framework of the remuneration policy and shall submit an annual report on the matter to the Board of Directors. The Bank's Remuneration Committee has submitted its report on compensation to executives and considers their terms to be within the framework of the Bank's remuneration policy.

Landsbankinn is in the process of constructing new housing for its operation, at Austurhöfn in Reykjavík. The new building will be around 16.500 m^2 plus technical space and underground parking. The Bank will occupy around 10.000 m^2 of the new building, or ca. 60% of its square measure, and sell or rent around 6.500 m^2 as premises for commerce and services. The Bank's operation, currently housed in 12 buildings in central Reykjavík and most of the activities housed in Borgartún 12 in Reykjavík, will move to the new building. Three tenders have been held in connection with the construction side. Earthworks began in early 2019 and casting around mid-2019. At the end of summer 2020, work on final completion began. Estimated conclusion of the project is in the second half of 2022.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn for 2020 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and compliant with applicable Icelandic laws and regulations.

In our opinion, the Consolidated Financial Statements of Landsbankinn give a true and fair view of the consolidated financial performance of the Group for the year 2020, its consolidated financial position as at 31 December 2020 and its consolidated cash flows for the year 2020.

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

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Consolidated Financial Statements of Landsbankinn for the year 2020. The Board of Directors and the CEO recommend that the Annual General Meeting of Landsbankinn approve these Consolidated Financial Statements.

Reykjavík, 11 February 2021

Board of Directors

Helga Björk Eiríksdóttir, Chairman of the Board
Berglind Svavarsdóttir
Einar Þór Bjarnason
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Sigríður Benediktsdóttir
Þorvaldur Jacobsen

CEO

Lilja Björk Einarsdóttir

Independent Auditor's report

To the Board of Directors and the Shareholders of Landsbankinn hf.

Opinion

We have audited the accompanying consolidated financial statements of Landsbankinn hf. and its subsidiaries (the group) for the year 2020, excluding the Board of Directors and CEO report.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at December 31, 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

Our opinion is consistent with our additional report to the Audit Committee.

The consolidated financial statements comprise

- Report of the Board of Directors and the CEO
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Year ended 31 December 2020
- Consolidated Statement of Financial Position as at 31 December 2020
- Consolidated Statement of Changes in Equity for the Year ended 31 December 2020
- Consolidated Statement of Cash Flows for the Year ended 31 December 2020
- Notes to the consolidated financial statements, which include significant accounting policies and other explanatory information

The Board of Directors and the CEO report and certain notes are excluded from the audit, refer to section reporting on other information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Independence

We are independent of the group in accordance with Icelandic laws on auditors and auditing and the code of ethics that apply to auditors in Iceland and relate to our audit of the group's consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the group and its subsidiaries are in accordance with the applicable law and regulations in Iceland and that we have not provided non-audit services that are prohibited under Article 5.1. of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 13 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to the Report of the Board of Directors and the CEO and Note 4 to these consolidated financial statements, which discloses the impact of COVID-19. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit procedures
Impairment allowance of loans to customers Refer to the Note 89.5 (g) "Accounting Policies - Impairment of financial assets", Note 3 (b) "Critical accounting estimates and judgements in applying accounting policies - Impairment losses on loans and advances", Note 67 "Allowance for impairment on loans and advances to financial institutions and customers and other assets" and Note 24 "Loans and advances to customers". Allowance for impairment on loans and advances to customers amounted to ISK 24.475 million at 31 December 2020. Loans and advances to customers amounted to ISK 1.273.426 million or 81% of total assets as at 31 December 2020, against which impairment allowances have been recorded. The amount of impairment allowance is based on assumptions, many of which are subject to management's assessment. In assessing expected credit losses (ECL), the Group uses a forward-looking model in accordance with International Financial Reporting Standard no. 9, Financial Instruments (IFRS 9). Important criteria for evaluation are: - probability of default and future cash flows of customers; - how changes in economic factors affect expected credit losses; and - assessment of collateral Given the high level of judgement involved in determining impairment, and the significance of loans and advances to customers of the Group's balance sheet, we consider the impairment allowance to be a key audit matter.	Our audit included a combination of testing of internal controls over financial reporting in the Groups lending processes and substantive testing of impairment allowances. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. We performed tests of the Group's impairment models and evaluated the methodology for calculating ECL. We reviewed the Group's models in particular for changes made during the year due to the effects of the COVID-19 pandemic. During the review of the Group's models, we utilised PwC's model experts in reviewing the ECL calculations in accordance with the requirements set out in IFRS 9. Our audit procedures included, among other: - verification of assumptions used in the ECL-model to assess the probability of defaults and future customer cash flows; - verification of registrations and assessments of collateral used in the calculation of ECL; - testing of key reconciliations, validations and approvals in regards to impairment; - sample testing of loans to substantiate the assumptions used in the model for ECL, including an examination of the assumptions used to classify loans into relevant stages together with an assessment of collateral and credit rating; - sample testing of stage 3 loans that are individually assessed to verify whether appropriate criteria are used in determining the value of the loans, including the value of collateral and the assessment of future customers' cash flows. We assessed the disclosures related to impairment allowance.

Key audit matter	Audit procedures
Valuation of Level 3 financial instruments - unlisted shares *Refer to Note 89.5 (f) "Accounting policies - Fair value measurement", Note 3 (c) "Critical accounting estimates and judgements in applying accounting policies - Valuation of financial instruments", Note 15 "Classification and fair values of financial assets and liabilities"* Financial assets measured at fair value amounted to ISK 161.645 million, which is a total of 10% of total assets on 31 December 2020. A significant part of the financial assets are listed on the market as of the balance sheet reporting date. Unlisted shares are categorised within Level 3 of the fair value hierarchy. The value of these shares amounts to ISK 17.490 million or 1% of total assets at the end of 2020. The portion of the portfolio that required special attention in our audit refers to unlisted shares. These financial instruments are valued based on models and certain assumptions that are not observable by third parties. Therefore, this item is a key audit matter. Valuation methods can include recent transactions with unrelated parties, a reference to the fair value of comparable financial instruments, discounted cash flows, price formation models or other valuation techniques that indicate a reliable valuation of other transactions on the market.	Our audit included a combination of testing of internal controls over financial reporting in the Group valuation processes and substantive testing unlisted shares categorised as Level 3 financial instruments. Our audit procedures included, among other: - We obtained an understanding of and evaluated the investment process. The methodology and criteria for valuation were reviewed and compared with common criteria for comparable assets. - We reviewed and evaluated data inputs on which calculations and assumptions of valuation methods were based. - We recalculated a sample of unlisted shares and utilised PwC valuation experts in the assessment of the valuation of the unlisted shares. - We reviewed the classification of shares in the fair value hierarchy. We assessed the disclosures related to the valuation of level 3 financial instruments.

Reporting on other information including the Report of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for other information. The other information comprises of highlights on page 1, Report of the Board of Directors and the CEO, consolidated key figures notes 90 to 92, which we obtained prior to the date of this auditor's report.
In addition other information comprises the Group's annual report, which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover other information, including the Report of the Board of Directors and the CEO.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

With respect to the Board of Directors and the CEO report we have, in accordance with article 104, of the Icelandic law on annual accounts reviewed that to the best of our knowledge, the report of the Board of Directors and the CEO accompanying the consolidated financial statements includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the consolidated financial statements.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and applicable articles in Icelandic law on annual accounts, and for such internal control as determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the groups' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the company on mandate of the Icelandic National Audit office in accordance with paragraph 7 of Act on the Auditor General and the auditing of government accounts no. 46/2016. Our appointment was approved on the general meeting of the company at 22. april 2020.
We have therefore been the Group's auditor for one year.

Reykjavík, February 11th., 2021

PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State authorized public accountant

Atli Þór Jóhannsson
State authorized public accountant

Consolidated Income Statement for the Year ended 31 December 2020

Notes		2020	2019
	Interest income	66,498	72,172
	Interest expense	(28,424)	(32,502)
6	**Net interest income**	**38,074**	**39,670**
	Fee and commission income	10,819	11,528
	Fee and commission expense	(3,181)	(3,309)
7	**Net fee and commission income**	**7,638**	**8,219**
8	Net gain on financial assets and liabilities at FVTPL	4,257	7,993
9	Net foreign exchange loss	(278)	(584)
10	Credit impairment losses	(12,020)	(4,827)
11	Other income	582	1,046
	Net other operating income (expenses)	**(7,459)**	**3,628**
	Total net operating income	**38,253**	**51,517**
12	Salaries and related expenses	(14,767)	(14,458)
13	Other operating expenses	(9,064)	(9,534)
89.16	Tax on liabilities of financial institutions	(1,815)	(4,204)
	Total operating expenses	**(25,646)**	**(28,196)**
	Profit before tax	**12,607**	**23,321**
14	Income tax	(2,086)	(5,086)
	Profit for the year	**10,521**	**18,235**
	Profit for the year attributable to:		
	Owners of the Bank	10,521	18,235
	Non-controlling interests	0	0
	Profit for the year	**10,521**	**18,235**
	Earnings per share:		
37	Basic and diluted earnings per share from operations (ISK)	**0.45**	**0.77**

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2020

Notes		2020	2019
	Profit for the year	10,521	18,235
	Other comprehensive income for the year, after tax	0	0
	Total comprehensive income for the year	**10,521**	**18,235**

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

Landsbankinn hf. Consolidated Financial Statements 2020 11 All amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2020

Notes		2020	2019
	Assets		
19, 76	Cash and balances with Central Bank	67,604	69,824
20	Bonds and debt instruments	119,330	115,262
21	Equities and equity instruments	26,808	30,019
22	Derivative instruments	3,303	2,694
23, 76	Loans and advances to financial institutions	48,073	47,929
24, 76	Loans and advances to customers	1,273,426	1,140,184
25	Investments in equity-accounted associates	1,722	1,471
26	Property and equipment	9,327	6,743
27	Intangible assets	1,696	2,296
33	Deferred tax assets	23	20
28	Other assets	11,227	8,864
29	Assets classified as held for sale	1,638	1,022
	Total assets	**1,564,177**	**1,426,328**
	Liabilities		
30	Due to financial institutions and Central Bank	48,725	48,062
31	Deposits from customers	793,427	707,813
22	Derivative instruments and short positions	4,248	5,390
32, 76	Borrowings	420,178	373,168
33	Tax liabilities	3,919	9,121
34	Other liabilities	14,029	15,929
29	Liabilities associated with assets classified as held for sale	30	30
35	Subordinated liabilities	21,366	19,081
	Total liabilities	**1,305,922**	**1,178,594**
36	**Equity**		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	19,250	14,334
	Retained earnings	94,750	89,145
	Total equity attributable to owners of the Bank	**258,255**	**247,734**
	Non-controlling interests	0	0
	Total equity	**258,255**	**247,734**
	Total liabilities and equity	**1,564,177**	**1,426,328**

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

Landsbankinn hf. Consolidated Financial Statements 2020 12 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2020

Notes											
		Attributable to owners of the Bank									
				Reserves*							
	Change in equity for the year 2020	**Share capital**	**Share premium**	**Statutory**	**Unrealised gains in subsidiaries and equity-accounted associates reserve**	**Fair value changes of financial assets designated at FVTPL**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Balance as at 31 December 2019	23,625	120,630	6,000	2,709	5,625	89,145	247,734		247,734
	Profit for the year						10,521	10,521		10,521
	Transferred (from) to restricted reserves				950	3,966	(4,916)	0		0
36	**Balance as at 31 December 2020**	**23,625**	**120,630**	**6,000**	**3,659**	**9,591**	**94,750**	**258,255**	**0**	**258,255**
	Change in equity for the year 2019									
	Balance as at 31 December 2018	23,625	120,630	6,000	5,153	977	83,225	239,610		239,610
	Impact of adopting IFRS 16 at 1 January 2019						(188)	(188)		(188)
	Restated balance at 1 January 2019	**23,625**	**120,630**	**6,000**	**5,153**	**977**	**83,037**	**239,422**	**0**	**239,422**
	Profit for the year						18,235	18,235		18,235
	Transferred (from) to restricted reserves				(2,444)	4,648	(2,204)	0		0
	Dividends paid						(9,922)	(9,922)		(9,922)
36	**Balance as at 31 December 2019**	**23,625**	**120,630**	**6,000**	**2,709**	**5,625**	**89,145**	**247,734**	**0**	**247,734**

*In accordance with Act. No. 2/1995, on Public Limited Companies and Act No. 3/2006, on Annual Financial Statements.

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

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Consolidated Statement of Cash Flows for the Year ended 31 December 2020

Notes		2020	2019
	Operating activities		
	Profit for the year	10,521	18,235
	Adjustments for non-cash items included in profit for the year	(23,656)	(31,565)
	Changes in operating assets and liabilities	(28,422)	(76,047)
	Interest received	65,364	69,602
	Interest paid	(21,147)	(25,929)
8, 25	Dividends received	637	1,737
	Income tax and special income tax on financial institutions paid	(4,355)	(6,698)
	Tax on liabilities of financial institutions paid	(4,765)	(3,860)
	Net cash (used in) from operating activities	**(5,823)**	**(54,525)**
	Investing activities		
26	Purchase of property and equipment	(3,115)	(1,642)
26	Proceeds from sale of property and equipment	89	13
27	Purchase of intangible assets	(101)	(85)
	Investing activities	**(3,127)**	**(1,714)**
	Financing activities		
32	Proceeds from borrowings	103,952	78,731
32	Repayment of borrowings	(94,719)	(28,179)
	Proceeds from subordinated liabilities	-	5,492
	Rent paid	(590)	(582)
36	Dividends paid	-	(9,922)
	Financing activities	**8,643**	**45,540**
	Cash and cash equivalents as at the beginning of the year	70,704	81,723
	Net change in cash and cash equivalents	(307)	(10,699)
	Effect of exchange rate changes on cash and cash equivalents held	(1,306)	(320)
	Cash and cash equivalents as at year end	**69,091**	**70,704**

Cash and cash equivalents is specified as follows:

19	Cash and balances with Central Bank	67,604	69,824
23	Bank accounts with financial institutions	15,141	26,438
19	Mandatory and special restricted balances with Central Bank	(13,654)	(25,558)
	Cash and cash equivalents as at year end	**69,091**	**70,704**

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

Landsbankinn hf. Consolidated Financial Statements 2020 14 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2020

Notes		2020	2019
	Adjustments for non-cash items included in profit for the year		
6	Net interest income	(38,074)	(39,670)
8	Net gain on financial assets and liabilities at FVTPL	(4,257)	(7,993)
9	Net foreign exchange loss	1,584	904
10, 67	Net impairment of loans and advances and guarantees and other assets	12,020	4,827
11	Gain on sale of property and equipment	(2)	(3)
11	Net loss on assets classified as held for sale	113	50
13	Depreciation and amortisation	1,281	1,334
11, 25	Share of profit of equity-accounted associates	(222)	(304)
89.16	Tax on liabilities of financial institutions	1,815	4,204
14	Income tax	2,086	5,086
		(23,656)	**(31,565)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	11,905	4,485
	Change in bonds and equities	9,729	(37,378)
	Change in derivatives	-	(3)
	Change in loans and advances to financial institutions	(2,628)	11,042
	Change in loans and advances to customers	(120,667)	(73,263)
	Change in other assets	647	954
	Change in assets classified as held for sale	(729)	258
	Change in due to financial institutions and Central Bank	619	13,462
	Change in deposits from customers	74,563	11,715
	Change in tax liability	(3)	113
	Change in other liabilities	(1,858)	(7,432)
		(28,422)	**(76,047)**

Change in liabilities due to financing activities

			Non-cash changes			
	As at 1.1.2020	Cash flow	Accrued interest	Foreign exchange	Change in the fair value	As at 31.12.2020
Secured borrowings	140,549	39,567	9,244	-	-	189,360
Senior unsecured bonds	122,705	(28,017)	2,975	18,533	-	116,196
Senior unsecured bonds held to hedge long-term borrowings	86,813	(5,520)	1,173	12,688	314	95,468
Commercial paper issued	3,605	(3,640)	35	-	-	0
Other unsecured loans	19,496	(1,997)	568	1,085	-	19,152
Subordinated liabilities	19,081	(735)	1,008	2,012	-	21,366
Total	**392,249**	**(342)**	**15,003**	**34,318**	**314**	**441,542**

			Non-cash changes			
	As at 1.1.2019	Cash flow	Accrued interest	Foreign exchange	Change in the fair value	As at 31.12.2019
Secured borrowings	106,309	27,495	6,745	-	-	140,549
Senior unsecured bonds	100,807	19,620	1,285	993	-	122,705
Senior unsecured bonds held to hedge long-term borrowings	84,634	(997)	1,041	1,492	643	86,813
Commercial paper issued	2,705	749	151	-	-	3,605
Other unsecured loans	19,958	(1,975)	774	739	-	19,496
Subordinated liabilities	13,340	5,017	466	258	-	19,081
Total	**327,753**	**49,909**	**10,462**	**3,482**	**643**	**392,249**

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

Landsbankinn hf. Consolidated Financial Statements 2020 15 All amounts are in ISK million

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

General

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings. The Bank is subject to supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2020 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Consolidated Financial Statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The Consolidated Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The Consolidated Financial Statements reflect the unprecedented conditions caused by the COVID-19 pandemic and related economic uncertainties. In 2020, the Bank adopted the guidelines of the European Banking Authority (EBA) on prudential accounting and credit risk measurement under these circumstances. These guidelines have been supported by FSA Iceland.

The issue of these Consolidated Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 11 February 2021.

Significant accounting policies are summarised in Note 89.

Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it has a reasonable expectation that the Group has adequate resources to continue its operations. Accordingly, these Consolidated Financial Statements have been prepared on a going concern basis.

Functional and presentation currency

The functional currency of the Bank and its individual Group entities is Icelandic króna (ISK) and all amounts are presented in ISK, rounded to the nearest million unless otherwise stated.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of the Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Classification of financial instruments

Financial instruments under IFRS 9 are accounted for according to their classification. Professional judgement is applied and determination of the appropriate classification depends on the contractual cash flows of the financial asset (the Solely Payments of Principal and Interest (SPPI) test) and the objective of the business model within which the financial instrument is held. For further details on the accounting for these instruments under IFRS 9, see Note 89.5.

(b) Impairment losses on loans and advances

Measurement of expected credit losses on loans, financial guarantees and loan commitments measured at amortised cost:

Measurement of expected credit losses (ECL) is based on the three-stage expected credit loss model under IFRS 9. Loss allowance is measured either at an amount equal to 12-month ECLs or lifetime ECLs.

Expected credit losses depend on whether the credit risk has increased significantly since initial recognition. A significant increase in credit risk is defined in Note 89.5(g). If the credit risk has not increased significantly, the loss allowance equals the expected credit losses resulting from loss events that are possible within the next 12 months (Stage 1). If the credit risk has increased significantly the allowance measured equals the lifetime expected credit losses (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

The expected credit loss is calculated for all loans as a function of PD, EAD and LGD, is discounted using the effective interest rate (EIR), and incorporates forward-looking information. The forward-looking information reflects the expectations of the Valuation Team, the Bank's Economic Research department, and involves the creation of scenarios of relevant economic variables, including an assessment of the probability for each scenario.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

(b) Impairment losses on loans and advances (continued)

Economic forecasts

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

Additional scenarios were created to address the forward-looking risks that management considers not adequately captured by the consensus in the wake of the COVID-19 global crisis.

The following table shows certain key macroeconomic variables used in modelling the ECL allowance for Stage 1 and Stage 2. At the reporting date, Economic Research's baseline forecast projects a GDP contraction of 8.5% for the year 2020. Projections for the upside scenarios, base case scenario and downside scenarios are averages for the next 12 months and to the forecast horizon, which represents a medium-term view. The upside scenario is assigned a weight of 25%, the base case scenario is assigned a weight of 50% and the downside scenario is assigned a weight of 25%. The scenarios were approved by the Bank's Valuation Team on 21 December 2020.

	Upside scenario		Base case senario		Downside scenario	
As at 31.12.2020	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
GDP growth	5.5%	7.6%	3.3%	5.0%	0.9%	2.6%
Unemployment rate	7.1%	4.1%	8.4%	5.3%	10.9%	7.5%
Base rate	1.1%	2.9%	0.9%	1.8%	0.3%	0.6%
Inflation	3.3%	3.2%	3.3%	2.6%	3.5%	2.1%
EUR/ISK exchange rate, average	149.9	144.1	155.0	151.1	167.8	158.1
Housing Price index, y/y change	10.9%	5.5%	9.1%	3.4%	5.3%	1.3%

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

	2020			2019		
	Upside scenario	Base senario	Downside senario	Upside scenario	Base senario	Downside senario
Allowance for impairment (stage 1 and stage 2)	9,922	10,912	13,035	4,095	4,452	5,443
Proportion of assets in Stage 2	10.8%	11.0%	11.4%	7.8%	8.0%	10.6%

	Reported under IFRS 9	
	2020	2019
Allowance for impairment (stage 1 and stage 2)	11,196	4,614

(c) Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where observable market inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair value, they are validated and regularly reviewed by discrete and qualified in-house reviewers. All models are certified before use, and calibrated to ensure that the outputs reflect actual data and comparative market prices. Wherever practical, models are confined to observable data; however, areas such as volatility, correlation and credit risk, whether own or counterparty, require management to make estimates. Changing assumptions on these factors could affect the reported fair value of financial instruments.

(d) Determination of control over investees

Management applies professional judgement to determine whether the control indicators set out in Note 89.1 Consolidation and non-controling interests, indicate that the Group controls an investee.

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4. Impact of COVID-19 on the Financial Statements

The Consolidated Financial Statements for 2020 reflect the unprecedented conditions caused by the COVID-19 pandemic and related economic uncertainties. The Bank followed the clarifications outlined in the statement issued by the European Banking Authority (EBA) in March 2020, on application of the prudential framework regarding default, forbearance and IFRS 9 under these circumstances. These guidelines have also been supported by FSA Iceland. The Bank has also complied with EBA's requirements for temporary additional COVID-19 notes to financial statements. The notes provide for integrated disclosures on forbearance measures applied to the Bank's loans and newly originated loans subject to Treasury guarantee issued in response to the impact of the pandemic. The additional notes are disclosed in the Bank's semi-annual Pillar III report, for reporting periods ending 30 June and 31 December. The Pillar III report and the Financial Statements for the same period are accessible and published at the same time on the Bank's website, www.landsbankinn.is.

Measurement of expected credit losses (ECL)

ECL assessment at the end of 2020 is based on probability-weighted scenarios from the Bank's Economic Research Department. Probability-weighted scenarios provide a clearer reflection of the deteriorating economy, whereas darker scenarios mainly show an increased PD and higher lifetime PD, which in turn leads to an increase in Stage 2 loans.

While the final impact of the COVID-19 pandemic on the Bank's credit portfolio is as yet uncertain, it is likely that a protracted period of lower income will put pressure on customers, many of whom have already been assigned lower credit grades by the Bank and their collateral revalued with regard to protracted income reduction. Such difficulties are likely to lead to credit loss which the Bank met with the loan impairment provision mostly recognised in the second quarter. There is a possibility that credit loss may exceed impairment provisions if the pandemic becomes very protracted and the travel industry does not begin its recovery in 2021. In accordance with recommendations from the European Banking Authority (EBA), the Bank did not automatically reclassify loans from Stage 1 to Stage 2 if they qualified for general COVID-19 measures. Nevertheless, a considerable portion of loans to customers for which general COVID-19 measures have been approved, are Stage 2 at the end of the year. This is for the most part due to lower credit ratings and increased PD.

In the fourth quarter, all individually significant loans to companies for which special COVID-19 measures have been approved were assessed individually for staging. The granting of special COVID-19 measures is not in itself considered grounds for reclassification as Stage 3, yet such loans are all classified as being subject to forbearance. In addition, the Bank individually assesses the classification of loans to customers in the travel industry and customers granted special relief measures who are still on payment holiday at the end of the year. These loans are moved to Stage 2 if certain conditions are met. This special reclassification moves loans valued at ISK 8.9 billion to Stage 2 at the end of the year. The Bank has also assessed the need for a collective provision for these loans and entered an ISK 840 million provision for loans to the travel sector; ISK 309 million for loans to individuals.

Maximum credit risk exposure to customers with COVID-19 measures

The Bank has responded to the conditions created by the pandemic by applying various support measures to customers in need. Initially, general measures were applied under an agreement between the domestic banks and other lenders. Customers experiencing more severe difficulties were later offered other, special forbearance measures. In addition, some of the Bank's customers have been granted government-backed loans.

The government has introduced several relief programmes designed to help households and companies directly. These measures are directed at counteracting unemployment and temporary loss of personal income by supplementing wages lost because of reduced working hours with unemployment benefits. Companies that have lost revenues are offered revenue loss grants aimed to guarantee support to keep workers employed part-time. Companies can also apply for support and supplementary loans granted by lenders but government guaranteed. Companies who were required to close their doors will receive special business closure grants. Companies can potentially seek payment holiday for up to a year for financial difficulties caused by the pandemic. Lastly, relief grants are intended to ensure that companies can maintain a necessary minimum activity level during the pandemic, safeguarding business relationships and stand ready to resume operations once the situation improves. All these government relief programmes are contingent on certain conditions.

The table below shows the balance of loans at year-end for those customers who had benefited from general measures, such as payment holiday of principal and interest for up to 6 months within the year 2020.

As at 31 December 2020	Gross carrying amount					
On-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Carrying amount**
Individuals	28,264	13,944	836	(667)	-	42,377
Travel industry	23,135	56,792	9,029	(6,242)	26	82,740
Other	36,113	15,898	2,806	(1,824)	1,014	54,007
Total	**87,512**	**86,634**	**12,671**	**(8,733)**	**1,040**	**179,124**
Off-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Total**
Individuals	403	151	5	(5)	-	554
Travel industry	292	11,713	51	(106)	-	11,950
Other	5,336	999	43	(76)	-	6,302
Total	**6,031**	**12,863**	**99**	**(187)**	**0**	**18,806**
Maximum exposure to credit risk	**93,543**	**99,497**	**12,770**	**(8,920)**	**1,040**	**197,930**

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4. Impact of COVID-19 on the Financial Statements (continued)

The table below shows the balance of loans at year-end for customers who have received special measures for a longer term or extending to the second half of 2021 due to continuing difficulties caused by COVID-19. The special measures include payment holiday of principal and interest, or payment holiday of principal only.

As at 31 December 2020

	Gross carrying amount					
On-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Carrying amount**
Individuals	-	1,155	39	(75)	-	1,119
Travel industry	16,916	48,803	7,345	(5,452)	26	67,638
Other	98	11,868	1,524	(687)	729	13,532
Total	**17,014**	**61,826**	**8,908**	**(6,214)**	**755**	**82,289**

Off-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Total**
Individuals	-	25	1	-	-	26
Travel industry	118	11,282	596	(98)	-	11,898
Other	-	352	18	(10)	-	360
Total	**118**	**11,659**	**615**	**(108)**	**0**	**12,284**
Maximum exposure to credit risk	**17,132**	**73,485**	**9,523**	**(6,322)**	**755**	**94,573**

The gross carrying amount of loans to the travel sector which the Bank had approved for general COVID-19 measures is ISK 89.0 billion, or 85% of loans to the travel sector. Impairment provisions for loans to the travel industry with approved general COVID-19 measures amount to ISK 6.3 billion, or around 7.1% of gross value, at the end of the year. The gross carrying amount of loans to the travel sector which the Bank has approved for additional special COVID-19 measures is ISK 73 .1billion, or 70% of loans to the travel sector. Impairment provisions for loans to the travel industry with special COVID-19 measures amount to ISK 5.6 billion, or around 7.6% of gross value, at the end of the year. Details about the division of loans to the travel industry by staging and ECL are provided in Note 66.

The gross carrying amount of loans to other companies which the Bank has approved for general COVID-19 measures is ISK 54.8 billion, or 9.2% of loans to companies not in the travel sector. A much lower proportion of other companies have had special measures applied, or just over 2% of the Bank's loans to other companies. The largest share of other companies who had taken advantage of measures to counteract COVID-19 are real estate companies, then businesses in retail and service.

The same holds true for individuals, with the gross carrying amount of private persons approved for COVID-19 relief measures by the Bank amounting to ISK 43 bn, or 7% of the Bank's retail credit portfolio. Only 0.2% of loans to private individuals have had special COVID-19 measures applied at the end of 2020.

With the exception of the travel sector, the need for special COVID-19 measures has been proportionally low. Default has not increased and it may be concluded that the need for special measures is not as high for these groups, most likely because the pandemic has not affected their payment capacity as much. It is possible that other official remedies for companies and individuals have had an impact here.

The Bank has participated in granting customers government-backed support and supplementary loans. The aim of such support and supplementary loans is to provide companies, especially SMEs that are facing temporary operating problems due to COVID-19, with access to liquid funds. This reduces the impact of the pandemic on industry and employment. The Treasury guarantee is capped at 70% on supplementary loans, 100% on support loans in the maximum amount of ISK 10 million and 85% on support loans in the amount of ISK 10-40 million.

At year-end 2020, the Bank has approved government-backed support and supplementary loans to just under 300 customers in the gross carrying amount of ISK 3.5 bn. In addition, the Bank has opened a credit line in the amount of ISK 7.6 bn, 90% government-backed that is as yet undrawn at year end.

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5. Operating segments

Business segments are presented in accordance with internal reporting to the CEO and the Board of Directors, who are responsible for allocating resources to the reportable segments and assessing their financial performance.

Despite organisational changes made within the Bank toward the end of the year, the financial reporting for business segments will not reflect those changes until as of the beginning of 2021. After the organisational changes, the Bank has six divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management and IT. However, the Consolidated Financial Statements for 2020 represent the following four main business segments at the end of the reporting period:

• **Personal Banking** offers individuals and small and medium-size businesses outside the capital city region diverse financial services through digital service channels, both online banking and apps, alongside conventional service through the Bank's branch network and Customer Service Centre.
• **Corporate Banking** offers financial services to corporate clients and to small and medium-size businesses in the capital city region and manages a corporate online banking platform that offers electronic banking services.
• **Markets** provides brokerage services in securities, foreign currencies, derivatives and money market lending, as well as advisory, issuance and market maker services. Markets provides a range of wealth and asset management services. Landsbréf hf. a subsidiary of the Bank, is included in Market's segments reporting.
• **Treasury** incorporates the Bank's funding and liquidity management, market making in money markets, and determines the Bank's internal pricing. Treasury also manages the Bank's exchange rate, interest rate and inflation risks, within limits set by the Board of Directors.

Support functions are comprised of Finance (excluding Treasury), Risk Management, IT and the CEO's Office. The CEO's Office is comprised of Human Resources, Marketing & Communications and Compliance. The Bank's Internal Audit department is also included in support functions; however, it is independent and reports directly to the Bank's Board of Directors.

Reconciliation consists of eliminations of internal transactions and operating items that cannot be allocated to any one segment.

The Group's administrative expenses are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Support functions supply services to business units and transactions are settled at unit prices or, if possible, on an arm's-length basis by use and activity. Income tax is allocated to appropriate business segments based on the prevailing invome tax rate. Tax on the Bank's liabilities is allocated to the income generating divisions based on the prevailing tax rate, currently 0.145%.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss) before tax. In these reports, all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm's-length basis.

Revenue from transactions with any single external customer was within 10% of the Group's total revenue during the period from 1 January to 31 December 2020 and the corresponding period in 2019.

5. Operating segments (continued)

1 January - 31 December 2020	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon-ciliation	Total
Net interest income	17,299	18,694	323	1,784	(26)	-	**38,074**
Net fee and commission income	3,164	880	4,272	(460)	40	(258)	**7,638**
Credit impairment losses	(2,090)	(10,040)	-	111	(1)	-	**(12,020)**
Other net operating income (expenses)	857	(1,753)	742	4,709	27	(21)	**4,561**
Total operating income (expense)	**19,230**	**7,781**	**5,337**	**6,144**	**40**	**(279)**	**38,253**
Operating expenses	(6,740)	(2,425)	(2,466)	(1,080)	(11,398)	278	**(23,831)**
Tax on liabilities of financial institutions	(617)	(570)	(13)	(606)	(9)	-	**(1,815)**
Profit (loss) before cost allocation and tax	**11,873**	**4,786**	**2,858**	**4,458**	**(11,367)**	**(1)**	**12,607**
Allocated cost	(4,226)	(2,650)	(1,453)	(778)	9,107	-	**0**
Profit (loss) before tax	**7,647**	**2,136**	**1,405**	**3,680**	**(2,260)**	**(1)**	**12,607**
Income tax	(1,769)	(652)	(36)	(91)	462	-	**(2,086)**
Profit (loss) for the year	**5,878**	**1,484**	**1,369**	**3,589**	**(1,798)**	**(1)**	**10,521**
Net revenue (expenses) from external customers	28,086	16,769	5,093	(11,453)	37	-	**38,532**
Net revenue (expenses) from other segments	(8,856)	(8,988)	244	17,597	3	-	**0**
Total operating income	**19,230**	**7,781**	**5,337**	**6,144**	**40**	**0**	**38,532**
As at 31 December 2020							
Total assets	571,874	618,305	15,472	610,948	15,680	(268,102)	**1,564,177**
Total liabilities	532,377	500,671	9,987	515,309	15,680	(268,102)	**1,305,922**
Allocated capital	39,497	117,634	5,485	95,639	-		**258,255**

1 January - 31 December 2019	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon-ciliation	Total
Net interest income	16,674	18,821	709	3,597	(68)	(63)	**39,670**
Net valuation adjustments and impairment	(1,424)	(3,409)	1	4	1	-	**(4,827)**
Net fee and commission income	4,114	699	3,761	(276)	159	(238)	**8,219**
Other net operating income (expenses)	808	26	(134)	7,591	220	(56)	**8,455**
Total operating income (expense)	**20,172**	**16,137**	**4,337**	**10,916**	**312**	**(357)**	**51,517**
Operating expenses	(6,550)	(2,121)	(2,368)	(1,666)	(11,542)	255	**(23,992)**
Profit (loss) before cost allocation and tax	**13,622**	**14,016**	**1,969**	**9,250**	**(11,230)**	**(102)**	**27,525**
Allocated cost	(4,651)	(2,829)	(1,506)	(885)	9,871	-	**0**
Profit (loss) before tax	**8,971**	**11,187**	**463**	**8,365**	**(1,359)**	**(102)**	**27,525**
Net revenue from external customers	26,926	26,132	3,902	(5,368)	282	-	**51,874**
Net revenue (expenses) from other segments	(6,754)	(9,995)	435	16,284	30	-	**0**
Total operating income	**20,172**	**16,137**	**4,337**	**10,916**	**312**	**0**	**51,874**
As at 31 December 2019							
Total assets	510,568	599,414	13,601	548,039	17,659	(262,953)	**1,426,328**
Total liabilities	466,799	481,045	7,325	468,719	17,659	(262,953)	**1,178,594**
Allocated capital	43,769	118,369	6,276	79,320	-		**247,734**

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Notes to the Consolidated Income Statement

6. Net interest income

See accounting policy in Note 89.33.

	2020			2019		
Interest income	**Amortised cost**	**FVTPL**	**Total**	**Amortised cost**	**FVTPL**	**Total**
Cash and balances with Central Bank	1,113	-	1,113	1,747	14	1,761
Bonds and debt instruments	248	-	248	229	-	229
Loans and advances to financial institutions	77	-	77	240	-	240
Loans and advances to customers	62,692	600	63,292	67,688	655	68,343
Other interest income	566	1,202	1,768	24	1,575	1,599
Total	**64,696**	**1,802**	**66,498**	**69,928**	**2,244**	**72,172**
Interest expense						
Due to financial institutions and Central Bank	(751)	-	(751)	(1,151)	-	(1,151)
Deposits from customers	(10,091)	-	(10,091)	(17,744)	-	(17,744)
Borrowings	(12,644)	(1,185)	(13,829)	(9,978)	(1,047)	(11,025)
Other interest expense	(668)	(2,117)	(2,785)	(178)	(1,938)	(2,116)
Subordinated liabilities	(968)	-	(968)	(466)	-	(466)
Total	**(25,122)**	**(3,302)**	**(28,424)**	**(29,517)**	**(2,985)**	**(32,502)**
Net interest income	**39,574**	**(1,500)**	**38,074**	**40,411**	**(741)**	**39,670**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 38,073 million for the year ended 2020 as compared with ISK 39,669 million for the year ended 2019.

7. Net fee and commission income

See accounting policy in Note 89.34.

	2020			2019		
	Fee and commission income	**Fee and commission expense**	**Net fee and commission income**	**Fee and commission income**	**Fee and commission expense**	**Net fee and commission income**
Capital Markets	4,248	(609)	3,639	3,906	(579)	3,327
Loans and guarantees	1,218	-	1,218	899	-	899
Payment cards	3,740	(1,765)	1,975	4,765	(2,066)	2,699
Collection and payment services	910	(183)	727	906	(168)	738
Other	703	(624)	79	1,052	(496)	556
Total	**10,819**	**(3,181)**	**7,638**	**11,528**	**(3,309)**	**8,219**

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

See accounting policy in Note 89.35.

Net gain (loss) on financial assets and liabilities at FVTPL	**2020**	**2019**
Bonds and debt instruments	736	1,745
Equities and equity instruments	5,220	5,231
Derivatives and underlying hedges	29	1,079
Loans and advances to customers	(1,730)	18
Net (loss) gain on fair value hedges	2	(80)
Total	**4,257**	**7,993**

The dividend income below is recognised in the income statement in “Net gain on financial assets and liabilities at FVTPL”.

Dividend income	**2020**	**2019**
Net gain on financial assets in the trading book	33	27
Net gain on financial assets and liabilities in the banking book	498	1,424
Total	**531**	**1,451**

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Notes to the Consolidated Financial Statements

9. Net foreign exchange gain (loss)

See accounting policy in Note 89.36.

Assets	2020	2019
Cash and balances with Central Bank	23	103
Bonds and debt instruments	7,344	1,018
Equities and equity instruments	(13)	-
Derivative instruments	3,101	(1,528)
Loans and advances to financial institutions	8,812	2,002
Loans and advances to customers	25,889	4,655
Other assets	152	(296)
Total	**45,308**	**5,954**
Liabilities		
Due to financial institutions and Central Bank	(44)	9
Deposits from customers	(11,043)	(3,063)
Borrowings	(32,306)	(3,224)
Other liabilities	(181)	(2)
Subordinated liabilities	(2,012)	(258)
Total	**(45,586)**	**(6,538)**
Net foreign exchange loss	**(278)**	**(584)**

The net foreign exchange difference recognised in the income statement in 2020 arousing on financial instruments not measured at FVTPL, amounted to a gain of ISK 34,876 million on financial assets (2019: gain of ISK 6,464 million) and a loss of ISK 45,586 million on financial liabilities (2019: loss of ISK 6,538 million).

10. Credit impairment losses

See accounting policy in Note 89.5 (g).

	2020	2019
Net impairment on loans and advances to customers and financial institutions	(11,881)	(4,854)
Net impairment on other financial assets	(139)	27
Credit impairment losses	**(12,020)**	**(4,827)**
Credit impairment losses by customer type		
Financial institutions	4	1
Individuals	(541)	(168)
Corporates	(11,483)	(4,660)
Credit impairment losses	**(12,020)**	**(4,827)**

11. Other income and expenses

See accounting policy in Note 89.37.

	Notes	2020	2019
Gain on sale of property and equipment	26	2	3
Loss on repossessed collateral	29	(113)	(50)
Share of profit of equity-accounted associates	25	222	304
Other		471	789
Total		**582**	**1,046**

12. Salaries and related expenses

See accounting policy in Note 89.30.

	2020	2019
Salaries	11,423	11,136
Contributions to defined pension plans	1,713	1,671
Social security contributions	816	850
Special financial activities tax on salaries	707	709
Other related expenses	108	92
Total	**14,767**	**14,458**
Number of full-time equivalent positions at year-end	878	893
Average number of full-time equivalent positions during the year	921	950

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13. Other operating expenses

	2020	2019
Information technology	2,479	2,353
Real estate and fixtures	933	905
Advertising and marketing	751	805
Operating lease rentals	15	16
FSA supervisory expenses	497	489
Contribution to the Debtors' Ombudsman	81	77
Audit and related services	147	137
Other professional services	632	588
Depreciation and amortisation	1,281	1,334
Contribution to the Depositors' and Investors' Guarantee Fund	830	1,115
Other operating expenses	1,418	1,715
Total	**9,064**	**9,534**

Audit and related services	2020	2019
Audit and reviews of financial statements	144	133
Other audit-related services	3	4
Total	**147**	**137**

Depreciation and amortisation	Notes	2020	2019
Amortisation of property and equipment	26	442	438
Depreciation of intangible assets	27	310	411
Amortisation of Right-of-use assets	39	529	485
Total		**1,281**	**1,334**

14. Income tax

See accounting policy in Note 89.15.

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

	2020	2019
Current tax expense	(1,711)	(3,909)
Special income tax on financial institutions	(394)	(1,067)
Difference of prior year's imposed and calculated income tax	16	3
Origination and reversal of temporary differences due to deferred tax assets/liabilities	3	(113)
Total	**(2,086)**	**(5,086)**

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

		2020		2019
Profit before tax		14,422		27,525
Tax on liabilities of financial institutions		(1,815)		(4,204)
Profit before income tax		12,607		23,321
Income tax calculated using the domestic corporate income tax rate	20.0%	(2,521)	20.0%	(4,664)
Special income tax on financial institutions	3.1%	(394)	4.6%	(1,067)
Income not subject to tax	(9.5%)	1,200	(7.0%)	1,625
Non-deductible expenses	3.1%	(388)	4.3%	(993)
Other	(0.1%)	17	(0.1%)	13
Effective income tax	**16.5%**	**(2,086)**	**21.8%**	**(5,086)**

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15. Classification and fair values of financial assets and liabilities

See accounting policy in Note 89.5 (b).

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

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

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2020:

		Carrying amount					Fair value			
As at 31 December 2020	**Notes**	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	20	-	113,336	1,683	-	115,019	114,412	26	581	115,019
Equities and equity instruments	21	-	26,808	-	-	26,808	9,318	-	17,490	26,808
Derivative instruments	22	-	3,303	-	-	3,303	-	3,303	-	3,303
Loans and advances to customers	24	-	16,515	-	-	16,515	-	-	16,515	16,515
		0	**159,962**	**1,683**	**0**	**161,645**	**123,730**	**3,329**	**34,586**	**161,645**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	67,604	-	-	-	67,604	-	67,604	-	67,604
Bonds and debt instruments	20	4,311		-	-	4,311	-	4,330	-	4,330
Loans and advances to financial institutions	23	48,073	-	-	-	48,073	-	48,073	-	48,073
Loans and advances to customers	24	1,256,911	-	-	-	1,256,911	-	1,261,094	-	1,261,094
Other financial assets		9,853	-	-	-	9,853	-	9,853	-	9,853
		1,386,752	**0**	**0**	**0**	**1,386,752**	**0**	**1,390,954**	**0**	**1,390,954**
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,724	-	-	3,724	-	3,724	-	3,724
Short positions	22	-	524	-	-	524	523	-	-	523
		0	**4,248**	**0**	**0**	**4,248**	**523**	**3,724**	**0**	**4,247**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	48,725	48,725	-	48,725	-	48,725
Deposits from customers	31	-	-	-	793,427	793,427	-	793,214	-	793,214
Borrowings	32	-	-	-	420,178	420,178	-	436,455	-	436,455
Other financial liabilities		-	-	-	8,127	8,127	-	8,127	-	8,127
Subordinated liabilities	35	-	-	-	21,366	21,366	-	21,567	-	21,567
		0	**0**	**0**	**1,291,823**	**1,291,823**	**0**	**1,308,088**	**0**	**1,308,088**

All amounts are in ISK million

15. Classification and fair values of financial assets and liabilities (continued)

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2019:

		Carrying amount					Fair value			
As at 31 December 2019	**Notes**	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	20	-	108,461	2,781	-	111,242	111,013	79	150	111,242
Equities and equity instruments	21	-	30,019	-	-	30,019	12,939	-	17,080	30,019
Derivative instruments	22	-	2,694	-	-	2,694	-	2,694	-	2,694
Loans and advances to customers	24	-	14,679	-	-	14,679	-	-	14,679	14,679
		0	**155,853**	**2,781**	**0**	**158,634**	**123,952**	**2,773**	**31,909**	**158,634**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	69,824	-	-	-	69,824	-	69,824	-	69,824
Bonds and debt instruments	20	4,020		-	-	4,020	-	4,148	-	4,148
Loans and advances to financial institutions	23	47,929	-	-	-	47,929	-	47,929	-	47,929
Loans and advances to customers	24	1,125,505	-	-	-	1,125,505	-	1,130,435	-	1,130,435
Other financial assets		7,819	-	-	-	7,819	-	7,819	-	7,819
		1,255,097	**0**	**0**	**0**	**1,255,097**	**0**	**1,260,155**	**0**	**1,260,155**
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,309	-	-	3,309	-	3,309	-	3,309
Short positions	22	-	2,081	-	-	2,081	2,081	-	-	2,081
		0	**5,390**	**0**	**0**	**5,390**	**2,081**	**3,309**	**0**	**5,390**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	48,062	48,062	-	48,062	-	48,062
Deposits from customers	31	-	-	-	707,813	707,813	-	707,366	-	707,366
Borrowings	32	-	-	-	373,168	373,168	-	381,506	-	381,506
Other financial liabilities		-	-	-	7,118	7,118	-	7,118	-	7,118
Subordinated liabilities	35	-	-	-	19,081	19,081	-	19,179	-	19,179
		0	**0**	**0**	**1,155,242**	**1,155,242**	**0**	**1,163,231**	**0**	**1,163,231**

All amounts are in ISK million

16. Fair value of financial assets and liabilities

See accounting policy in Note 89.5 (f).

Valuation framework

The Bank's Risk & Finance Committee oversees the Group's overall risk and is responsible for fair value measurements of financial assets and liabilities classified as Level 2 and 3 instruments. The Bank's Valuation group reports its valuation results to the Risk & Finance Committee for verification. The Valuation group is comprised of personnel from Risk Management, Treasury and Finance. The Valuation group holds monthly meetings to determine the value of Level 2 and Level 3 financial assets and liabilities.

Transfers between Levels

At the end of each reporting period the Group determines whether transfers of financial assets and financial liabilities measured at fair value have occurred between levels in the hierarchy by reviewing the classification. In 2020 and 2019, there were no transfers between levels 1, 2 and 3.

The following tables show the reconciliation of fair value measurement in Level 3 for the year 2020 and 2019:

1 January - 31 December 2020	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
Carrying amount as at 1 January 2020	150	17,080	14,679	31,909
Net gain (loss) on financial assets and liabilities at FVTPL	18	4,289	(1,730)	2,577
Net foreign exchange gain (loss)	(2)	3	(7)	(6)
Purchases	477	284	14,130	14,891
Sales	(61)	(3,438)	-	(3,499)
Settlements	(1)	(230)	(10,557)	(10,788)
Dividend received	-	(498)	-	(498)
Carrying amount as at 31 December 2020	**581**	**17,490**	**16,515**	**34,586**
1 January - 31 December 2019				
Carrying amount as at 1 January 2019	210	11,807	9,670	21,687
Net gain on financial assets and liabilities at FVTPL	79	5,376	18	5,473
Net foreign exchange gain	3	1	1	5
Purchases	87	1,065	5,742	6,894
Sales	(111)	(5)	-	(116)
Settlements	(119)	-	(752)	(871)
Dividend received	-	(1,424)	-	(1,424)
Transfer into Level 3	1	260	-	261
Carrying amount as at 31 December 2019	**150**	**17,080**	**14,679**	**31,909**

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

1 January - 31 December 2020	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
Net gain (loss) on financial assets and liabilities at FVTPL realised	1	357	-	358
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	20	2,892	(1,730)	1,182
Net foreign exchange (loss) gain	(2)	3	(7)	(6)
Total	**19**	**3,252**	**(1,737)**	**1,534**
1 January - 31 December 2019				
Net gain (loss) on financial assets and liabilities at FVTPL realised	114	1,424	-	1,538
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	(44)	3,950	18	3,924
Net foreign exchange gain	3	1	1	5
Total	**73**	**5,375**	**19**	**5,467**

17. Unobservable inputs in fair value measurement

See accounting policy in Note 89.5 (f).

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 at year end 2020 and 2019.

					Range of inputs	
As at 31 December 2020	**Assets**	**Liabilities**	**Valuation technique**	**Key un-observable inputs**	**Lower**	**Higher**
Bonds and debt instruments	581	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	17,490	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	16,515	-	See 3) below	See 3) below	n/a	n/a
	34,586	**0**				

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17. Unobservable inputs in fair value measurement (continued)

As at 31 December 2019	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs Lower	Range of inputs Higher
Bonds and debt instruments	150	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	17,080	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	14,679	-	See 3) below	See 3) below	n/a	n/a
	31,909	**0**				

A further description of the financial instruments categorised in Level 3 are as follows:

1. Fair value of corporate bonds and claims on financial institutions in winding-up proceedings and other insolvent assets is estimated on expected recovery. Reference is also made to prices in recent transactions. Given the nature of the valuation method, a range of key unobservable inputs is not available.

2. Equities and equity instruments classified as Level 3 assets, are unlisted and not traded in an active market and therefore subject to unobservable inputs for fair value measurements. Valuation using discounted cash flows, comparison of peer companies' multiples, analysis of financial position and results, outlook and recent transactions are the methods or inputs used to estimate fair value of investments in equities and equity instruments. Given the nature of the valuation method, the range of key unobservable inputs is not available.

3. Loans and advances to customers carried at FVTPL are classified as financial assets in Level 3. The valuation technique is based on significant non-observable inputs as loans and advances are unlisted and not traded in an active market. The valuation technique is based on available market data such as interest and inflation curves, probability of default and liquidity spread. Given the nature of the valuation method, the range of key unobservable inputs is not available.

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit (loss) before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives at year-end 2020 and 2019:

	2020		2019	
Effect on profit before tax	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Bonds and debt instruments	1	(1)	1	(1)
Equities and equity instruments:				
Equities - banking book	870	(870)	792	(805)
Mutual funds - banking book	246	(246)	241	(241)
Total equities and equity instruments	1,117	(1,117)	1,033	(1,046)
Loans and advances to customers	65	(68)	79	(80)
Total	**1,182**	**(1,185)**	**1,113**	**(1,127)**

The effect on profit was calculated as the difference between the results generated using the same valuation methods but changing key unobservable inputs for bonds and equities by +/- 5% and +/- 1% for loans and advances to customers.

18. Expected credit loss

See accounting policy in Note 89.5.

	31.12.2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and balances with Central Bank	(12)	-	-	(12)
Bonds and debt instruments	(3)	-	-	(3)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(3,831)	(6,636)	(14,007)	(24,474)
Other financial assets	(50)	-	-	(50)
Expected credit loss, off-balance sheet items	(395)	(333)	(103)	(831)
Total	**(4,292)**	**(6,969)**	**(14,110)**	**(25,371)**

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

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19. Cash and balances with Central Bank

See accounting policy in Note 89.6.

	2020	2019
Cash on hand	4,844	4,606
Unrestricted balances with Central Bank	49,106	39,660
Total cash and unrestricted balances with Central Bank	**53,950**	**44,266**
Restricted balances with Central Bank - fixed reserve requirement	9,143	7,801
Restricted balances with Central Bank - average maintenance level	-	7,801
Cash and balances pledged as collateral to the Central Bank	4,511	9,956
Total restricted balances with Central Bank	**13,654**	**25,558**
Total cash and balances with Central Bank	**67,604**	**69,824**

20. Bonds and debt instruments

See accounting policy in Note 89.7.

	2020				2019			
Bonds and debt instruments	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**
Domestic								
Listed	4,311	72,174	249	76,734	4,020	26,141	1,995	32,156
Unlisted	-	-	1,434	1,434	-	-	786	786
	4,311	**72,174**	**1,683**	**78,168**	**4,020**	**26,141**	**2,781**	**32,942**
Foreign								
Listed	-	41,162	-	41,162	-	82,320	-	82,320
	0	**41,162**	**0**	**41,162**	**0**	**82,320**	**0**	**82,320**
Total bonds	**4,311**	**113,336**	**1,683**	**119,330**	**4,020**	**108,461**	**2,781**	**115,262**

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

21. Equities and equity instruments

See accounting policy in Note 89.8.

	2020			2019		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	8,773	164	8,937	12,311	542	12,853
Unlisted	-	17,753	17,753	-	17,149	17,149
	8,773	**17,917**	**26,690**	**12,311**	**17,691**	**30,002**
Foreign						
Listed	2	98	100	2	-	2
Unlisted	-	18	18	-	15	15
	2	**116**	**118**	**2**	**15**	**17**
Total equities	**8,775**	**18,033**	**26,808**	**12,313**	**17,706**	**30,019**

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

At year-end 2020, outstanding commitments of the Group in share subscriptions amounted to ISK 741 million (2019: ISK 1.166 million) altogether in six entities. The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

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22. Derivative instruments and short positions

See accounting policy in Note 89.9.

Trading

	2020			2019		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	8,579	126	57	6,431	60	94
Cross-currency interest rate swaps	1,148	134	-	-	-	-
	9,727	**260**	**57**	**6,431**	**60**	**94**
Interest rate derivatives						
Interest rate swaps	2,276	17	-	2,213	23	-
Total return swaps	33,331	18	51	23,927	23	91
	35,607	**35**	**51**	**26,140**	**46**	**91**
Equity derivatives						
Equity forwards	87	-	13	5,800	382	1,057
Total return swaps	6,386	8	524	4,450	26	121
Equity options	190	-	31	73	-	1
	6,663	**8**	**568**	**10,323**	**408**	**1,179**
Total derivative instruments	**51,997**	**303**	**676**	**42,894**	**514**	**1,364**
Short positions						
Listed bonds	880	-	524	2,610	-	2,081
Total short positions	**880**	**0**	**524**	**2,610**	**0**	**2,081**
Total	**52,877**	**303**	**1,200**	**45,504**	**514**	**3,445**

Risk management

	2020			2019		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	32,009	1,276	2	38,471	782	65
Cross-currency interest rate swaps	-	-	-	9,857	-	244
	32,009	**1,276**	**2**	**48,328**	**782**	**309**
Interest rate derivatives						
Interest rate swaps	29,777	81	3,046	30,214	71	1,636
	29,777	**81**	**3,046**	**30,214**	**71**	**1,636**
Fair value hedging						
Interest rate swaps	93,660	1,643	-	85,357	1,327	-
	93,660	**1,643**	**0**	**85,357**	**1,327**	**0**
Total	**155,446**	**3,000**	**3,048**	**163,899**	**2,180**	**1,945**
Total derivative instruments and short positions	**208,323**	**3,303**	**4,248**	**209,403**	**2,694**	**5,390**

Fair value hedging

Currently the Group applies hedge accounting only for fair value hedges of fixed interest risk on borrowings. The Group designates interest rate swaps as hedging instruments to hedge its interest rate exposure of fixed-rate EUR and SEK borrowings. The interest rate swaps and the borrowings have identical cash flows and under the interest rate swap the Group pays floating rates while receiving fixed rates. Thus the interest rate swaps hedge the fixed interest rate risk of the borrowings.

Linear regression is the method used to assess the effectiveness of each hedge. The relationship between daily fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined.

During the period from 1 January 2020 to 31 December 2020, the slope of the regression line was in all cases within the range of 1.01 and 1.09 (for a 95% confidence level) and the regression coefficient was at least 0.87 (R^2). During the period from 1 January to 31 December 2019, the slope of the regression line is in all cases within the range of 0.91 and 0.98 (for a 95% confidence level) and the regression coefficient was at least 0.90 (R^2).

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22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 31 December 2020	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	93,660	-	93,660	-	1,643	-	321
Interest rate swaps - SEK	-	-	-	-	-	-	(5)
Total	**93,660**	**0**	**93,660**	**0**	**1,643**	**0**	**316**
Average fixed interest rate - EUR			1.19%				

As at 31 December 2020	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 0.75 06/20	-	-	-	-	6
LBANK 1.375 3/22	-	47,614	-	(326)	(58)
LBANK 1.00 5/23	-	47,854	-	(740)	(262)
Total EMTN hedged borrowings	**0**	**95,468**	**0**	**(1,066)**	**(314)**

As at 31 December 2019	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	81,480	-	81,480	-	1,323	-	550
Interest rate swaps - SEK	3,877	3,877	-	-	5	-	13
Total	**85,357**	**3,877**	**81,480**	**0**	**1,328**	**0**	**563**
Average fixed interest rate - EUR			1.19%				
Average fixed interest rate - SEK			0.75%				

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

23. Loans and advances to financial institutions

See accounting policy in Note 89.11.

	2020	2019
Bank accounts with financial institutions	15,141	26,438
Money market loans	32,210	20,379
Other loans	723	1,113
Allowance for impairment	(1)	(1)
Total	**48,073**	**47,929**

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24. Loans and advances to customers

See accounting policy in Note 89.11.

	2020	2019
Loans and advances to customers at amortised cost	1,281,386	1,140,388
Allowance for impairment	(24,475)	(14,883)
Total	**1,256,911**	**1,125,505**
Loans and advances to customers at FVTPL	16,515	14,679
Total	**1,273,426**	**1,140,184**

Loans and advances to customers at amortised cost

	31.12.2020			31.12.2019		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	4,169	(41)	4,128	4,170	(35)	4,135
Individuals	593,984	(2,307)	591,677	470,096	(2,151)	467,945
Mortgage lending	519,470	(1,221)	518,249	392,753	(848)	391,905
Other	74,514	(1,086)	73,428	77,343	(1,303)	76,040
Corporates	683,233	(22,127)	661,106	666,122	(12,697)	653,425
Total	**1,281,386**	**(24,475)**	**1,256,911**	**1,140,388**	**(14,883)**	**1,125,505**

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

25. Investments in associates

See accounting policy in Note 89.3.

The Group's interest in its principal associates	2020	2019
Auðkenni hf. Borgartúni 31, Reykjavík	25.6%	25.6%
Greiðslumiðlun Íslands ehf. Katrínartúni 4, Reykjavík	47.9%	47.9%
JCC ehf. Borgartúni 19, Reykjavík	33.3%	33.3%
Keahótel ehf. Hafnarstræti 94, 600 Akureyri	35.0%	-
Reiknistofa bankanna hf. Katrínartúni 2, Reykjavík	38.6%	38.6%

Investments in equity-accounted associates	2020	2019
Carrying amount as at the beginning of the year	1,471	1,453
Share of profit of equity-accounted associates	222	304
Dividends received	(106)	(286)
Total	**1,587**	**1,471**

Investments in associates designated at fair value through profit or loss

One investment in associate is accounted for in its entirety by the Group as financial assets designated at fair value through profit or loss and presented in the consolidated statement of financial position in the line "Investments in associates". This investment is a 35% share in Keahótel ehf.

26. Property and equipment

See accounting policy in Note 89.12.

	2020			2019		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount as at the beginning of the year	4,770	1,973	6,743	3,492	2,056	5,548
Additions during the year	2,882	233	3,115	1,343	299	1,642
Sold during the year	(88)	(1)	(89)	(7)	(2)	(9)
Depreciation	(57)	(385)	(442)	(58)	(380)	(438)
Carrying amount as at 31 December	**7,507**	**1,820**	**9,327**	**4,770**	**1,973**	**6,743**
Gross carrying amount	8,227	6,363	14,590	5,433	6,130	11,563
Accumulated depreciation	(720)	(4,543)	(5,263)	(663)	(4,157)	(4,820)
Carrying amount as at 31 December	**7,507**	**1,820**	**9,327**	**4,770**	**1,973**	**6,743**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

Official assessment value of buildings	2020	2019
Property valuation	6,019	6,169
Fire insurance value	9,873	10,183

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27. Intangible assets

See accounting policy in Note 89.13.

	2020			2019		
	Hard- and software licences	Goodwill	Total	Hard- and software licences	Goodwill	Total
Carrying amount as at the beginning of the year	1,905	391	2,296	2,231	391	2,622
Additions during the year	101	-	101	85	-	85
Impairment loss during the year	-	(391)	(391)	-	-	0
Amortisation	(310)	-	(310)	(411)	-	(411)
Carrying amount as at 31 December	**1,696**	**0**	**1,696**	**1,905**	**391**	**2,296**
Gross carrying amount	5,072	391	5,463	4,988	391	5,379
Accumulated amortisation	(3,376)	(391)	(3,767)	(3,083)	-	(3,083)
Carrying amount as at 31 December	**1,696**	**0**	**1,696**	**1,905**	**391**	**2,296**
Annual amortisation rates	20-33%		20-33%	20-33%		20-33%

28. Other assets

	2020	2019
Unsettled securities trading	1,892	958
Other accounts receivable	5,592	4,544
Right-of-use assets	2,369	2,317
Sundry assets	1,374	1,045
Total	**11,227**	**8,864**

29. Assets and liabilities classified as held for sale

See accounting policy in Note 89.17.

Assets classified as held for sale

	2020	2019
Repossessed collateral	1,638	1,022
Total	**1,638**	**1,022**

Repossessed collateral

Repossessed collateral consists mainly of property and equipment acquired by foreclosure on collateral securing loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. Repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

Repossessed collateral	2020	2019
Real estate	1,393	1,019
Equipment and vehicles	245	3
Total	**1,638**	**1,022**

Repossessed collateral	2020	2019
Carrying amount as at the beginning of the year	1,022	1,330
Repossessed during the year	1,625	633
Disposed of during the year	(1,092)	(950)
Impairment and gain of sale	83	9
Carrying amount as at year end	**1,638**	**1,022**

Liabilities associated with assets classified as held for sale

	2020	2019
Liabilities of disposal groups	30	30
Total	**30**	**30**

30. Due to financial institutions and Central Bank

See accounting policy in Note 89.18.

	2020	2019
Loans and repurchase agreements with Central Bank	-	67
Loans and deposits from financial institutions	48,725	47,995
Total	**48,725**	**48,062**

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31. Deposits from customers

See accounting policy in Note 89.18.

	2020	2019
Demand deposits	558,681	457,427
Term deposits	234,746	250,386
Total	**793,427**	**707,813**

32. Borrowings

See accounting policy in Note 88.19 and 88.20.

Secured borrowings

As at 31.12.2020	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,860	Non-indexed	Fixed 5.5%	5,900
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	22,846
LBANK CB 23	ISK	23.11.2023	37,800	Non-indexed	Fixed 5.0%	39,366
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	43,311
LBANK CB 25	ISK	17.09.2025	10,240	Non-indexed	Fixed 3.4%	10,539
LBANK CBI 26	ISK	20.11.2026	10,140	CPI-indexed	Fixed 1.5%	10,678
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	56,720
Total covered bonds						**189,360**
Total secured borrowings						**189,360**

Unsecured borrowings

As at 31.12.2020	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 1.625 03/21	EUR	15.03.2021	EUR 200 million	FIXED 1.625%	31,429
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1,75%	14,939
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	7,789
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	47,614
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	47,854
LBANKFL1023	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,471
LBANKFL1023	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	7,788
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	46,780
Total senior unsecured bonds					**211,664**

As at 31.12.2020	Carrying amount
Other unsecured loans	19,154
Total other unsecured loans	**19,154**
Total unsecured borrowings	**230,818**
Total borrowings as at 31.12.2020	**420,178**

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

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32. Borrowings (continued)

Secured borrowings

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

Unsecured borrowings

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

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

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

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

33. Deferred tax assets and liabilities

See accounting policy in Note 89.15.

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	3,919	-	9,121
Deferred tax assets / liabilities	23	-	20	-
Taxes in the Statement of Financial Position	**23**	**3,919**	**20**	**9,121**

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

	2020			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(124)	(124)	-	(151)	(151)
Intangibles	-	(201)	(201)	-	(303)	(303)
Exchange rate-indexed assets and liabilities	-	(444)	(444)	-	(443)	(443)
Deferred foreign exchange differences	118	-	118	285	-	285
Other assets and liabilities	674	-	674	632	-	632
	792	**(769)**	**23**	**917**	**(897)**	**20**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(769)	769	0	(897)	897	0
Deferred tax assets (liabilities) total	**23**	**0**	**23**	**20**	**0**	**20**

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33. Deferred tax assets and liabilities (continued)

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2020, according to which the domestic corporate income tax rate was 20% as at 31 December 2020 (2019: 20%).

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

2020	Balance 1.1	Recognised in income statement: Tax (expense) income	Balance as at 31.12
Property and equipment	(151)	27	(124)
Intangibles	(303)	102	(201)
Foreign currency denominated assets and liabilities	(443)	(1)	(444)
Deferred foreign exchange differences	285	(167)	118
Other assets and other liabilities	632	42	674
Total	**20**	**3**	**23**

2019	Balance 1.1	Impact of adopting IFRS 16	Recognised in income statement: Tax (expense) income	Balance as at 31.12
Property and equipment	(183)	-	32	(151)
Intangibles	(304)	-	1	(303)
Foreign currency denominated assets and liabilities	(307)	-	(136)	(443)
Deferred foreign exchange differences	343	-	(58)	285
Other assets and other liabilities	400	46	186	632
Tax loss carried forward	185	-	(185)	0
Total	**134**	**46**	**(160)**	**20**

34. Other liabilities

See accounting policy in Note 89.22.

	2020	2019
Unsettled securities trading	4,688	3,467
Withholding tax	1,475	3,803
Accounts payable	674	873
Contribution to the Depositors' and Investors' Guarantee Fund	198	253
Non-controlling interests - Funds	47	2,050
Lease liabilities	2,567	2,525
Sundry liabilities	4,380	2,958
Total	**14,029**	**15,929**

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

35. Subordinated liabilities

See accounting policy in Note 89.23.

As at 31.12.2020	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	15,661
LBANK T2I 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3,85%	5,705
Total subordinated liabilities						**21,366**

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

The Tier 2 subordinated bonds in EUR have a final maturity in September 2028, but are callable in September 2023. The bond series, LBANK T2I 29, has a final maturity in December 2029, but is callable in December 2024.

All amounts are in ISK million

36. Equity

See accounting policy in Note 89.31.

Share capital

As of 31 December 2020, the number of ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion. Each share has a par value of ISK 1. Own shares numbered 375.5 million at year-end, or 1.56% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. All share capital is fully paid up.

Share premium

Share premium represents the difference between the ISK amount received by the Bank when issuing share capital and the nominal amount of the shares issued, less costs directly attributable to issuing the new shares.

Statutory reserve

The statutory reserve is established in accordance with the Public Limited Companies Act, No. 2/1995, which stipulates that the Bank must allocate profits to the statutory reserve until the reserve is equal to one-quarter of the Bank's share capital.

Retained earnings

Act No. 3/2006, on Annual Financial Statements, with subsequent amendments, require *inter alia* the separation of retained earnings into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings. Restricted retained earnings are split into two categories:

1. Unrealised gains in subsidiaries and equity-accounted associates reserve; if the share of profit from subsidiaries or equity-accounted associates is in excess of dividend received, the Group transfers the difference to a restricted reserve in equity. If the Group's interest in subsidiaries or equity-accounted associates is sold or written off, the applicable amount recognised in the reserve is transferred to retained earnings.

2. Financial assets designated at fair value through profit or loss reserve. The Group transfers fair value changes arising from financial assets designated at fair value through profit or loss, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Dividend

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

Dividend policy

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to ≥50% of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Restriction of dividend payments

According to the Public Limited Companies Act, No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit carried forward from previous years, and free funds after deducting loss which has not been met, and the funds which according to law or Articles of Association must be contributed to a reserve fund or for other use. Furthermore, under the amendment to Act No. 3/2006, on Annual Financial Statements, from June 2016 it is only permissible to allocate as dividend profit from unrestricted retained earnings.

Additionally, according to the Act on Financial Undertakings, No. 161/2002, the Icelandic Financial Supervisory Authority can impose proportionate restrictions on the Bank's dividend payments, if the Bank's capital adequacy ratio falls below the total capital requirement plus capital buffers, see Note 47 Capital requirements.

Other notes

37. Earnings per share

See accounting policy in Note 89.40.

Profit for the year	**2020**	**2019**
Profit for the year attributable to owners of the Bank	10,521	18,235

Weighted average number of shares	**2020**	**2019**
Weighted average number of ordinary shares issued	24,000	24,000
Weighted average number of own shares	(375)	(375)
Weighted average number of shares outstanding	**23,625**	**23,625**
Basic and diluted earnings per share from operations (ISK)	**0.45**	**0.77**

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

The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

38. Litigation

Material litigation cases against the Bank and its subsidiaries

The Bank and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

Open court proceedings disclosed in the annual financial statement for 2019

In April 2020, a former owner of a payment card company brought a case against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 923 million, plus interest, due to an alleged breach of competition rules in the determination of payment card interchange fees. This is the fifth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. The Bank claims the case should again be dismissed and rejects all claims of the plaintiff. In November 2020 the District Court of Reykjavik dismissed this new case on grounds of insufficient substantiation. The plaintiff has appealed the decision to the Appeal Court, Landsréttur.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its assets at any time. On 24 April 2019 the District Court decided to dismiss all claims against the Bank due to procedural reasons. On 6 June 2019 the Appeal Court invalidated the decision of the District Court and ordered the case to be brought again before the District Court for substantive resolution. In November 2020 the District Court approved requests for the appointment of an assessor to evaluate certain actuarial issues regarding the case. The case has been postponed until 28. January 2021.

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38. Litigation (continued)

Open court proceedings disclosed in the annual financial statement for 2019 (continued)

In March 2019, an Irish company commenced litigation before a German court claiming payment in the amount of around EUR 3,9 million (around ISK 610 million) plus interest due to alleged damages that the Irish company maintains that the Bank caused the company in connection with the insolvency of a German company. The Irish company maintains that loans provided by Landsbanki Íslands in 2005 to a group of companies including the German company and in 2014 by Landsbankinn to the German company caused the insolvency of the German company, and that the Bank, in order to strengthen the position of the Bank, opposed the representatives of the German company to file for bankruptcy in 2013. The Irish company maintains that the Bank thereby caused other lenders of the German company, including the Irish company, to suffer damages. At the end of December 2020, the Bank, the Irish company and the trustee on behalf of the bankruptcy estate signed an agreement providing for a settlement between the parties in all disputes concerning the bankruptcy estate. The settlement provides, inter alia, that the Irish company withdraws and cancels the subpoena. It is expected that the subpoena will be formally cancelled during the first quarter of 2021. In 2018, the Bank made allowance for expected losses relating to the loans. The settlement will not involve further losses of the Bank.

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

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

39. Leasing

See accounting policy in Note 89.38.

a) The Group as a lessee

Leases into which the Group enters as a lessee are primarily operating leases. The Group leases premises for centralised activity, branches and ATMs. The lease contracts are of variable duration, most having a lifetime of 3-5 years with an option to renew. Details are in the following table:

Right-of use assets	No. of right-of use assets	Remaining term	Average remaining term	No. with extension options	No. with inflation-indexed payments	No. with termination options
Real estate	23	1-11 years	5 years	20	21	9
ATM's	18	0,5-3 years	2 years	14	14	13

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39. Leasing (continued)

a) The Group as a lessee (continued)

Lease assets

Right-of-use

The following table summarises the right-of-use assets disclosed under Other assets, see note 28, at year-end 2020.

	31.12.2020			31.12.2019		
	Real estate	ATMs	Total	Real estate	ATMs	Total
Opening balance	2,286	31	2,317	2,557	38	2,595
New contracts	210	-	210	3	1	4
Amendments	286	3	289	9	2	11
Inflation-indexation	81	1	82	191	1	192
Amortisation	(518)	(11)	(529)	(474)	(11)	(485)
Total	**2,345**	**24**	**2,369**	**2,286**	**31**	**2,317**

Lease liabilities

The following table summarises lease liabilities disclosed in the Financial Statements at year-end 2020 under Other liabilities, see Note 34.

	31.12.2020			31.12.2019		
	Real estate	ATMs	Total	Real estate	ATMs	Total
Opening balance	(2,492)	(34)	(2,526)	(2,789)	(40)	(2,829)
New contracts	(210)	-	(210)	(3)	(1)	(4)
Amendments	(286)	(3)	(289)	1	(3)	(2)
Inflation-indexation	(81)	(1)	(82)	(191)	(1)	(192)
Interest on lease liabilities	(69)	(1)	(70)	(80)	(1)	(81)
Lease expense	597	13	610	570	12	582
Total	**(2,541)**	**(26)**	**(2,567)**	**(2,492)**	**(34)**	**(2,526)**

b) The Group as a lessor

Finance leases

The Group acts as lessor whereby commercial and residential real estate is leased under arrangements qualifying as finance leases. Finance lease receivables are included in Loans and advances to customers in the Statement of Financial Position.

The following table summarises the net investment in finance lease receivables at year-end 2020:

	2020			2019		
At 31 December	Gross investment in finance lease	Future finance income	Present value of minimum lease	Gross investment in finance lease	Future finance income	Present value of minimum lease
Between one and two years	22	0	22	22	(1)	21
Total	**22**	**0**	**22**	**22**	**(1)**	**21**

Unguaranteed residual value at year-end 2020 is nil (2019: nil).

40. Fiduciary activities

See accounting policy in Note 89.32.

The Group offers custodian, asset management, investment management and advisory services. These services require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets under custody are not reported in the Consolidated Financial Statements, since they are assets held on behalf of customers, institutions and pension funds and are not assets of the Group. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2020, financial assets managed by the Group amounted to ISK 489 billion (2019: ISK 412 billion). Custody accounts amounted to ISK 1,506 billion (2019: ISK 1.437 billion).

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41. Interest in subsidiaries

See accounting policy in Note 89.1 (a).

The main subsidiaries held directly or indirectly by the Group as at 31 December 2020 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business. Landsbankinn operates an extensive branch network in Iceland, comprised of 36 branches and service points at year-end 2020.

Main subsidiaries as at 31 December 2020

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

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 31 December 2020.

42. Consolidated structured entities

See accounting policy in Note 89.2.

Assessment of control over an investee determines which structured entities are consolidated in the financial statements. Investees controlled by the Group are presented in the following balance sheet lines:

Assets	2020	2019
Bonds and debt instruments	1	2,184
Equities and equity instruments	107	190
Loans and advances to financial institutions	0	40
Other assets	0	1

Liabilities	2020	2019
Non controlling interests	47	2,050
Other liabilities	12	3

The Bank holds the majority of the units in the investment funds managed by Landsbréf. These funds are consolidated in the Bank's Consolidated Financial Statements, with the exception that minority interests are recognised among Other liabilities instead of Equity. The reason for this distinction is that the holders of the units may request redemption of their shareholding and therefore the units do not meet the requirements of the definition of equity.

43. Unconsolidated structured entities

See accounting policy in Note 89.2.

In cases where the Group acts as an agent for the investor, it does not consolidate the investment funds of the principal. In cases where the Group holds investments in unconsolidated investment funds, the investments are classified as financial investments designated at fair value through profit or loss. The fair value of these investments represents the Group's maximum exposure to loss from investments in unconsolidated investment funds.

			Total assets	
Type of structured entity	Nature and purpose	Interest held by the Group	2020	2019
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investment in units issued by fund	102,841	66,529
	These vehicles are financed through the issue of units to investors	Management fees		

The following table shows an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The Group's maximum exposure to loss is the carrying amount of the assets held.

	Carrying amount	
Investment securities	2020	2019
Investment funds	2,760	1,913
Total	**2,760**	**1,913**

44. Guarantees / Off-balance sheet exposures within the Group

As at year end the off-balance sheet exposure to credit risk within the Group was as follows:

	Carrying amount	
Off-balance sheet exposure 31 December	2020	2019
Financial guarantees	0	85
Undrawn overdraft and credit card facilities	8	63
Total	**8**	**148**

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45. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98.2% of shares in the Bank at year-end 2020. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. All transactions with subsidiaries are eliminated on consolidation and are thus not disclosed in the Group's Consolidated Financial Statements. The main subsidiaries are summarised in Note 41 Interest in subsidiaries.

The key management personnel of the Bank and their close family members meet the definition of related parties and in some cases, the key management personnel of the Bank's subsidiaries. The key management personnel of the Bank are the members of the Board of Directors, the CEO, managing directors and other managers with the authority and responsibility to organise, manage and control the Bank's activities. The Minister for Finance and the Board of Directors of Icelandic State Financial Investments meet the definition of related parties due to the scope of their authority to influence Bank policy.

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature of and amounts outstanding with public entities are disclosed in Note 60 under Public entities.

Transactions with other related parties

The following table presents the total amounts of loans to key management personnel and parties related to them, loans to associates of the Group and other related parties:

	2020		2019	
Loans in ISK million	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	419	493	310	387
Parties related to key management personnel	121	168	149	205
Associates	233	271	271	289
Other	20	22	22	113
Total	**793**	**954**	**752**	**994**

No specific allowance for impairment was recognised at year end 2020 in Stage 3 in respect of these loans.

No financial guarantees were given to associates of the Bank during the year. There are no lease transactions between related parties during the year.

The following table presents the total amounts of deposits received from key management personnel and parties related to them and associates of the Group:

	2020		2019	
Deposits in ISK million	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	63	172	79	211
Parties related to key management personnel	64	127	46	105
Associates	151	554	173	483
Other	248	423	183	1,009
Total	**526**	**1,276**	**481**	**1,808**

45. Related party transactions (continued)

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

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

The following table presents the total number of shares in the Bank owned by key management personnel and parties related to them and associates of the Group:

Number of shares in ISK million	2020	2019
Key management personnel	2	2
Parties related to key management personnel	-	-
Associates	-	-
Total	**2**	**2**

All of the above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Effect on income statement

The following table presents the total amount of interest income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

	2020		2019	
Interest income and expense	Interest income	Interest expense	Interest income	Interest expense
Key management personnel	10	2	15	2
Parties related to key management personnel	5	1	7	1
Associates	13	4	18	3
Other	1	3	1	3
Total	**29**	**10**	**41**	**9**

The following table presents the total amount of other income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

	2020		2019	
Other income and expense	Other income	Other expense	Other income	Other expense
Associates	-	883	-	905
Total	**0**	**883**	**0**	**905**

All of the above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collaterals, as those prevailing at the time for comparable transactions with third party counterparties.

45. Related party transactions (continued)

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2020:

Salary and benefits for the year 2020	Salary and benefits*	Defined contri-butions**	Total
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	11.7	1.5	13.2
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	8.9	1.2	10.1
Einar Þór Bjarnason, Director	7.9	1.0	8.9
Guðbrandur Sigurðsson, Director	7.6	1.0	8.6
Hersir Sigurgeirsson, Director	7.3	1.0	8.3
Sigríður Benediktsdóttir, Director	7.9	1.0	8.9
Þorvaldur Jacobsen, Director	7.6	1.0	8.6
Guðrún Blöndal, Alternate Director	1.5	0.2	1.7
Sigurður Jón Björnsson, Alternate Director	1.1	0.1	1.2
Lilja Björk Einarsdóttir, CEO	42.2	8.0	50.2
Arinbjörn Ólafsson, Managing Director Information Technology	35.3	6.8	42.1
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	35.1	6.7	41.8
Helgi Teitur Helgason, Managing Director Personal Banking	39.4	7.5	46.9
Hrefna Ösp Sigfinnsdóttir, Managing Director Markets	35.3	6.8	42.1
Hreiðar Bjarnason, Managing Director, CFO	35.3	6.8	42.1
Perla Ösp Ásgeirsdóttir, Managing Director Risk Management	31.3	6.1	37.4
Total	**315.4**	**56.7**	**372.1**

In 2020 the total monthly average salary and benefits of the current CEO of the Bank amounted to ISK 3.5 million.

*Benefits are non-monetary benefits such as the use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2019:

Salary and benefits for the year 2019	Salary and benefits*	Defined contri-butions**	Total
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	11.7	1.4	13.1
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	8.8	1.1	9.9
Einar Þór Bjarnason, Director	7.9	1.0	8.9
Guðbrandur Sigurðsson, Director	5.6	0.7	6.3
Hersir Sigurgeirsson, Director	7.9	1.0	8.9
Sigríður Benediktsdóttir, Director	7.8	1.0	8.8
Þorvaldur Jacobsen, Director	6.4	0.8	7.2
Guðrún Blöndal, Alternate Director	1.7	0.2	1.9
Sigurður Jón Björnsson, Alternate Director	1.5	0.2	1.7
Jón Guðmann Pétursson, Former Director	1.6	0.2	1.8
Lilja Björk Einarsdóttir, CEO	43.6	8.2	51.8
Arinbjörn Ólafsson, Managing Director Information Technology	35.1	6.7	41.8
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	35.1	6.7	41.8
Helgi Teitur Helgason, Managing Director Personal Banking	35.1	6.6	41.7
Hrefna Ösp Sigfinnsdóttir, Managing Director Markets	35.1	6.6	41.7
Hreiðar Bjarnason, Managing Director, CFO	39.5	7.6	47.1
Perla Ösp Ásgeirsdóttir, Managing Director Risk Management	29.3	5.7	35.0
Total	**313.7**	**55.7**	**369.4**

*Benefits are non-monetary benefits such as the use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

In 2019 the total monthly average salary and benefits of the current CEO of the Bank amounted to ISK 3.6 million.

Transactions with the Minister of Finance and members of the Board of Directors of ISFI

The Minister of Finance and the members of the Board of Directors of ISFI did not receive any salaries or similar payments from the Group during the year 2020. The Group did not enter into any transactions with these persons or close members of their families, other than normal banking transactions which were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

46. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the year ended 31 December 2020.

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Capital management

47. Capital requirements

The Group's capital management policies and practices aim to ensure that the Group has sufficient capital to cover the risks associated with its activities on a consolidated basis. The capital management framework of the Group comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Group regularly monitors and assesses its risk profile in key business areas on a consolidated basis and for the most important risk types. Risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

The Group's capital requirements are defined in Icelandic law and regulations and by the Financial Supervisory Authority of the Central Bank of Iceland (FSA). The requirements are based on the European legal framework for capital requirements (CRD IV and CRR), implementing the Basel III capital framework. The regulatory minimum capital requirement under Pillar I is 8% of Risk Exposure Amount (REA) for credit risk, market risk and operational risk. In conformity with Pillar II-R requirements, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP results are subsequently reviewed by the FSA in the Supervisory Review and Evaluation Process (SREP). The Group's minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FSA, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC). The FSC has defined Landsbankinn as a systematically important financial institution in Iceland.

The Group's most recent capital requirements, as determined by the FSA, are as follows (as a percentage of REA):

As at 31.12.2020	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.9%	2.6%	3.4%
Minimum requirement under Pillar I and Pillar II-R	**6.4%**	**8.6%**	**11.4%**
Systemic risk buffer	2.88%	2.88%	2.88%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**7.38%**	**7.38%**	**7.38%**
Total capital requirement	**13.8%**	**16.0%**	**18.8%**

On 18.3.2020 the Financial Stability Committy (FSC) decided to remove the 2% requirement for the countercyclical capital buffer. As of the following dates, the countercyclical capital buffer on domestic exposures will therefore be, ceteris paribus:

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

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

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

As at 31.12.2019	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.9%	2.6%	3.4%
Minimum requirement under Pillar I and Pillar II-R	**6.4%**	**8.6%**	**11.4%**
Systemic risk buffer	2.87%	2.87%	2.87%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.70%	1.70%	1.70%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**9.07%**	**9.07%**	**9.07%**
Total capital requirement	**15.5%**	**17.7%**	**20.5%**

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48. Capital base, risk exposure amount and capital ratios

The following table shows the Group's capital base, risk exposure amount and capital ratios. The calculations are in accordance with Chapter X of the Act on Financial Undertakings, No. 161/2002, and Regulation No. 233/2017, on prudential requirements for the operations of financial undertakings. Iceland has also adopted regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. Articles 500 and 501 (capital requirements relief for small and medium enterprises) took effect in Iceland on 1 January 2020.

Also in accordance with the aformentioned laws and regulations, the FSA has granted permission for the Group to apply IFRS 9 transitional arrangements. The Bank applies the dynamic approach in terms of the IFRS 9 transitional arrengement, whereby the transitional adjustment amount throughout the transition period is determined by recalculating it periodically to reflect the evolution of the Group's excpected credit loss provisions within the transition period.

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

Capital base	2020	2019
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	19,250	14,334
Retained earnings	94,750	89,145
Total equity attributable to owners of the Bank	**258,255**	**247,734**
Intangible assets	(1,696)	(2,296)
Deferred tax assets	(23)	(20)
Fair value hedges	(1,643)	(1,327)
Adjustment under IFRS 9 transitional arrangements	5,353	-
Common equity Tier 1 capital (CET1)	**260,246**	**244,091**
Non-controlling interests	-	-
Tier 1 capital	**260,246**	**244,091**
Subordinated liabilities	21,366	19,081
Tier 2 capital	**21,366**	**19,081**
Total capital base	**281,612**	**263,172**
Risk exposure amount (REA)		
Credit risk	1,010,588	908,249
Market risk	11,526	11,754
Operational risk	99,485	100,394
Total risk exposure amount	**1,121,599**	**1,020,397**
CET1 ratio	**23.2%**	**23.9%**
Tier 1 capital ratio	**23.2%**	**23.9%**
Total capital ratio	**25.1%**	**25.8%**
CET1 Ratio as if IFRS 9 transitional arrangements were not applied	**22.7%**	
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	**22.7%**	
Total capital ratio as if IFRS 9 transitional arrangements were not applied	**24.6%**	

The Board of Directors intends to propose to the Annual General Meeting (AGM) that a dividend of ISK 0.19 per share be paid to shareholders for the operating year 2020. The total dividend of ISK 4,489 million corresponds to 43% of the consolidated profit in 2020 (and corresponds to 16% of the consolidated profit in 2019 and 2020). Should the AGM approve the dividend proposal, the capital requirement of the Group will be reduced by an amount equivalent to the dividend payment and the Bank's capital ratio, in accordance with the Act on Financial Undertakings, will decrease by 0.4 percentage points. The intended dividend proposal is in accordance with the maximum benchmark for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021.

49. Leverage ratio

The following table shows the Group's leverage ratio. Subject to Article 30(a) of Act on Financial Undertakings, No. 161/2002, Regulation No. 233/2017 on prudential requirements for the operations of financial undertakings and Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, a minimum leverage ratio of 3.0% is required.

Leverage ratio	2020	2019
- On-balance sheet exposure (excluding derivatives)	1,556,541	1,423,634
- Derivative instrument exposure	5,944	4,319
- Securities financing transaction exposures	4,366	-
- Off-balance sheet exposure	130,089	125,848
- Regulatory adjustments to Tier 1 capital	(3,362)	(3,643)
Total leverage exposure	**1,693,578**	**1,550,158**
Tier 1 capital	**260,246**	**244,091**
Leverage ratio	**15.4%**	**15.7%**
Leverage ratio as if IFRS 9 transitional arrangements were not applied	**15.1%**	

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Economic capital

50. Economic capital framework

Economic capital (EC) is a risk measure which is applied to all material risks. It captures unexpected losses and reduction in value or income for which the Group needs to hold capital to avoid insolvency. It arises from the unexpected nature of losses as distinct from expected losses. EC is defined as the difference between unexpected losses and expected losses, where unexpected loss is defined as the 99.9% value-at-risk (VaR), with a one-year time horizon.

The purpose of the EC framework is to enable the Group to assess the amount of capital it requires to cover the economic effects of risk-taking activities, as well as to compare different risk types using a common “risk currency”.

The objective of the EC framework is to measure unexpected losses as well as to decompose EC on various levels to enable capital allocation, limit setting, pricing of products, risk-adjusted performance measurement and risk-based management evaluation.

The framework covers the following risk types: credit risk, market risk, currency risk, operational risk, concentration risk, interest rate risk and inflation risk in the banking book, business risk and legal and regulatory risk.

The following summarises how the Group calculates its EC for these risks:

Credit risk:
The credit risk EC model is the asymptotic single risk factor (ASRF) model from the Basel II internal ratings-based (IRB) approach’s risk weight formula, i.e. the EC equals the capital requirements of the IRB approach in the capital requirements directive. The main input to the model are the risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Market risk:
Economic capital for market risk includes EC for interest rate risk in the trading book, EC for equity price risk in the trading book and EC for credit valuation adjustment.

EC for interest rate risk in the trading book and EC for equity price risk in the trading book is calculated according to a stressed value-at-risk model as specified in the internal model’s approach in the capital requirements regulation (CRR). The model inputs are calibrated to historical data from the previous five years.

EC for credit valuation adjustment equals the capital requirements for credit valuation adjustment.

Currency risk:
EC for foreign exchange risk is calculated according to a modified stressed value-at-risk model where the model inputs are calibrated to historical data from a period of significant stress relevant to the Groups’ net FX position. The time horizon is one year.

Operational risk:
EC for operational risk is calculated using the basic indicator approach, which means that it equals the Group’s capital requirement.

Concentration risk:
EC for single name concentration is calculated by adjusting for the granularity and non-homogeneity in the loan portfolio. This is necessary as the credit risk EC model assumes that the portfolio is infinitely large and homogeneous; hence, the single name concentration EC is given as an add-on.

An internal model is used to measure the additional EC for credit risk related to industry concentrations in the loan portfolio, i.e. a concentration add-on. The model calculates the industry concentration risk for the loan portfolio and subtracts the industry concentration risk for Iceland to get the EC add-on for industry concentration.

Interest rate risk and inflation risk in the banking book:
EC for interest rate risk and inflation risk in the banking book is equal to the sum of:

i. The loss in economic value corresponding to the 99.9th percentile for ISK and the 99th percentile for significant foreign currencies of risk factor changes estimated by a Monte Carlo simulation model.
ii. The loss in economic value due to a +/- 200 bps shift of risk factors in other currencies (whichever results in a larger loss).

Business risk:
EC for business risk is measured at least annually in the ICAAP and is based on the effects of the base case scenario on the Bank’s balance sheet and operations and its following effect on the Bank’s capital base.

Legal and regulatory risk:
EC for legal and regulatory risk is calculated by adding the potential loss of on-going disputes. The significance of a dispute is weighted by its status within the legal system.

51. Economic capital by risk type

The Bank's total EC increased by ISK 11.8 billion from the previous year and was ISK 110 billion at year-end 2020. The increase is primarily due to an increase in EC for credit risk, which increased by ISK 10.4 billion. EC for market risk increased by ISK 0.8 billion to ISK 2.3 billion at year end. EC for operational risk decreased slightly and amounted to ISK 8 billion at year end. No significant changes were made to the Bank's EC methodology in 2020.

Economic capital ISK million	2020	2019
Credit risk - Loans to customers and credit institutions	72,194	62,574
Credit risk - Other assets	7,583	6,815
Market risk	2,300	1,511
Currency risk	964	776
Operational risk	7,959	8,031
Single name concentration risk	7,226	6,331
Industry concentration risk	1,618	1,539
Interest rate risk and inflation risk in the banking book	7,878	8,587
Business risk	-	-
Legal and regulatory risk	2,329	2,067
Total	**110,051**	**98,231**
EC/REA	9.8%	9.6%

	Weighted average			
Credit risk as at 31 December 2020	**Probability of default (PD)**	**Loss given default (LGD)**	**Exposure at default (EAD)**	**Economic capital (EC)**
Financial institutions	0.1%	45.0%	47,884	770
Public entities	0.7%	45.0%	9,832	163
Retail	1.8%	24.7%	671,855	15,245
Corporates	4.1%	34.0%	702,549	56,016
Total EC	**2.9%**	**30.1%**	**1,432,120**	**72,194**
Credit risk as at 31 December 2019				
Financial institutions	0.2%	45.0%	49,413	807
Public entities	0.1%	45.0%	85,613	165
Retail	2.1%	25.0%	545,597	13,408
Corporates	2.4%	33.9%	698,380	48,194
Total EC	**2.1%**	**31.5%**	**1,379,003**	**62,574**

Risk management

52. Risk management structure

Risk committees

The Group's risk management governance structure as at year-end 2020 is as follows:

Board of Directors

Supervision by the Board of Directors and its sub-committees:

- Audit Committee
- Remuneration Committee
- Risk Committee
- Strategic Development Committee

Key risk management bodies and committees

Committee	Chair	Other members
Executive Board	CEO	Managing directors
Risk & Finance Committee	CEO	CFO, CRO, Head of Legal Department,
Credit Committee	CEO	CRO, MD of Corporate Banking
Operational Risk Committee	CRO	MD of Personal Banking, MD of IT, Chief Compliance Officer, Senior Director of Operation Director of Operational Risk
Project committee	CEO	Managing directors

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework and setting risk appetite and risk limits. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The CEO is the chairman of the Executive Board, the Risk & Finance Committee, the Credit Committee. and the Project Committee.

52. Risk management structure (continued)

Risk committees (continued)

The Credit Committee covers credit risk, including individual credit decisions, credit limits for customers and credit risk policy. The Risk & Finance Committee covers primarily market risk, liquidity risk and legal risk. The Risk & Finance Committee monitors the Group's overall risk position, is responsible for enforcing the Group's risk appetite and risk limits, and reviews and approves changes to risk models before they are presented to the Board of Directors. The Executive Board serves as a forum for discussion about business opportunities and challenges, approves funding for larger projects, and serves as a decision-making platform on matters that do not fall under the remit of other committees. The Operational Risk Committee is a forum for discussions and decisions on operational risk issues and review of the effective implementation of the operational risk framework. The Project Committee selects, prioritises and oversees the Bank's bigger projects and digital transformation projects.

Risk Management Division

The Bank's Risk Management Division is responsible for the Bank's risk management framework. Subsidiaries of the Bank have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

The Risk Management Division is comprised of seven departments.

• The Credit Management Department reviews, and confirms or vetos credit decisions made by the Bank's business units when credit applications exceed the business unit's limits. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and does not exercise its veto rights. Credit applications exceeding the confirmation limits of the Risk Management Division are referred to the Bank's Credit Committee. The Department also oversees regular updates of the Bank's Credit policies and other rules related to the credit process.

• The Credit Risk Department is responsible for measuring and monitoring credit risk as well as for providing the Bank with systems and processes to measure and control credit risk in credit and policy decisions. Credit Risk is further responsible for analysis and reporting on credit risk, economic capital and impairment. Credit Risk is also responsible for rules and procedures regarding credit risk, such as procedures for impairment measurement, credit mitigation and forbearance.

• The Market Risk Department is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the Group's banking book along with limit monitoring and reporting. The Department develops and maintains the Bank's market risk models and maintains the Group's Market Risk Policy and Liquidity Risk Policy as well as implementing processes to measure and monitor market risk and liquidity risk within the Group. Market Risk is also responsible for monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes, as well as FX balance monitoring for the Group.

• The Operational Risk Department is responsible for ensuring centralised management of operational risk on a Group level. The department assists in mapping the Bank's operational risk in a comprehensive risk assessment and in executive assessment and analysis of operational and loss events. The Operational Risk department is involved in the design and testing of the Group's continuity plans. The Department is responsible for the organisational structure and operation of the IT and for ensuring compliance with the ISO 27001 standard for information security.

• The Risk Manager for Pension Funds is an independent entity, that is responsible for development and implementation of risk policy and risk governance, execution of risk assessment and correspondence with regulators such as the Central Bank. The Risk Manager also makes sure that monitoring of regulatory compliance is carried out, reviews calculations and results and performs tolerance interval monitoring. The Risk Manager has direct access to the boards of the pension funds and also reports to their managing directors.

• The Internal Modeling Department is responsible for providing the Bank with IRB and EC models and related processes to estimate credit risk and link the risk to equity, as well as for providing support during the implementation of those models and processes within the Bank. The Department is also responsible for the development of a model for pre-approved limits.

• The Risk Solutions Department develops and operates external solutions used by the Risk Management division, and maintains the IT reporting and development environment for the Risk Management division. The Department is also responsible for monitoring and maintaining periodic executions of code by the Division and reporting to supervisory parties. The Department is responsible for effective risk data aggregation and risk reporting, in accordance with BCBS 239.

Compliance

Compliance is an independent management unit, reporting directly to the CEO, operating in accordance with a letter of appointment from the Board of Directors. The operations of the Compliance unit are shaped by its independence from other units. Compliance is part of the Bank's second level control and is responsible for monitoring compliance with laws and actions against money laundering and financing of terrorist activities, laws on securities trading and data protection laws. Compliance also monitors the efficiency of the Bank's policy on compliance with laws, regulations and internal rules. Compliance consults and instructs management on the effects of changes to the legal environment on the Bank's operations, measures to prevent conflict of interest and action necessary to ensure that the Bank operates in accordance with proper and sound business practices with the aim of strengthening the credibility of and confidence in financial markets. The Data Protection Officer works independently out of Compliance, in accordance with a letter of appointment from the Board of Directors.

52. Risk management structure (continued)

Internal Audit

Internal Audit is an independent, objective assurance and consulting activity that is a part of the Bank's organizational chart and an element of its monitoring system. The Board of Directors has oversight of Internal Audit and appoints the Chief Audit Executive. The role of Internal Audit is to improve and protect the Bank's value with risk-focused and objective verification, consultation and insight. Internal Audit evaluates and improves the risk management framework, control and governance processes through systematic and disciplined practices and thus supports the Group in accomplishing its objectives. The Chief Audit Executive is responsible for ensuring that Internal Audit works in accordance with laws, recommendations from the Financial Supervisory Authority of the Central Bank of Iceland no. 3/2008, and standards and guidelines cited therein, including the benchmarks of the Institute of Internal Auditors (IIA).

53. Risk appetite

The Group's risk appetite for 2021 has been reviewed, revised and implemented. The Group's risk policy is as follows:

The Bank's operations, risk diversification and decisions shall always be in accordance with its risk appetite, sound business practices, financing, liquidity and equity position. The Bank seeks to ensure diversified and sound financing and a sustainable risk profile in its balance sheet. The Bank has set internal limits with the aim of maintaining a strong capital and liquidity position which, along with active risk management, ensures long-term profitability and strong standing. In this manner, the Bank aims to minimise fluctuations in its operations and is well positioned to withstand stress scenarios.

Risk appetite defines the type and extent of risk that management is willing to take to meet the Bank's business objectives. The Bank has set itself objectives regarding financial position, asset quality, exposures and sustainable long-term profitability. In pursuit of its goals, the Bank only takes on risks that it understands, and is able to measure, evaluate and manage.

The Bank seeks to maintain solid business relationships, having regard for its own position as well as that of its customers at all times, and with due regard to any internal connections between customers. The Bank pursues long-term business relationships and aims to minimize and contain reputational risk.

Landsbankinn has set a policy on corporate social responsibility that integrates economic, social and environmental factors in its operations. The policy aims to promote sustainability in Icelandic society, to ensure that the Bank is a dynamic force in the community and that it operates in accordance with the principles of good corporate governance.

The Bank is obligated to comply with relevant laws and regulations in all its operations. The main focus areas within the Bank's risk culture are adherence to rules, integrity, ethical behaviour, professionalism and management promoting good risk culture.

54. Risk assessment

Risk is inherent in the Group's activities. It is managed through a process of on-going identification, measurement, management and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of possible risk factors in the Group's operations and undertakings. Risk measurement entails measuring identified risk for management and monitoring purposes. Finally, risk controls and limits promote compliance with rules and procedures, as well as adherence with the Group's risk appetite.

The objective of the Group's risk policies and procedures is to ensure that the risks in its operations are detected, measured, monitored and effectively managed. Exposure to risk is managed to endeavour to ensure that it remains within limits and that the risk appetite adopted by the Group complies with regulatory requirements. In order to limit and manage fluctuations that might affect the Group's equity, liquidity and performance, the Group has adopted policies regarding the risk structure of its asset portfolio which are covered in more detail under each risk type.

Risk policy is implemented through risk appetite, goal setting, business strategy, internal policies and limits that comply with the regulatory framework of the financial markets.

The Group is exposed to the following material risks that arise from financial instruments:
· Credit risk
· Operational risk
· Market risk
    -Currency risk
    -Interest rate risk
    -Other market risk
· Liquidity risk

The table below provides a link between the Group's business units and the material risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of economic capital within the Group.

Material risk	Personal Banking	Corporate Banking	Markets	Treasury
Credit risk	High	High	Low	Low
Operational risk	Medium	Medium	High	Medium
Market risk	Low	Low	Medium	High
Liquidity risk	n/a	n/a	n/a	High

The Group also manages other relevant risks, such as concentration risk, business risk, legal risk, reputation risk, conduct risk, compliance risk, data risk and modeling risk.

The above material risks are addressed in the following notes.

55. Disclosure of risk data

The Bank has implemented a policy on risk data in compliance with BCBS 239 (Basel Committee on Banking Supervision's guideline 239). The policy defines which reports should be submitted where, the frequency of those submissions, and who's responsible for them.

Credit risk

56. Credit risk identification

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit risk is the greatest single risk faced by the Group and principally arises from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and the aforementioned settlement risk.

57. Credit risk assessment

Credit risk is measured in three main dimensions: probability of default (PD), loss given default (LGD) and exposure at default (EAD). For the purpose of measuring PD, the Group has developed an internal rating system, including a number of internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful differentiation of credit quality; and accurate and consistent quantitative estimates of default risk, i.e., probability of default (PD). Internal ratings and associated PD are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

The rating system has an obligor rating scale which exclusively reflects quantification of the risk of obligor default, or credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors from '1' to '10', with '10' indicating the highest credit quality, and the grade '0' for defaulted obligors. The rating assignment is supported by rating models, where information such as industry classification, financial accounts and payment behaviour is taken into account.

The following table shows the Group's internal mapping from internal rating grade to S&P rating grades:

	S&P	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	0.00%	0.04%
9	A+/A/A-	0.04%	0.10%
8	BBB+	0.10%	0.21%
7	BBB/BBB-	0.21%	0.46%
6	BB+/BB	0.46%	0.99%
5	BB-	0.99%	2.13%
4	B+	2.13%	4.54%
3	B	4.54%	9.39%
2	B-	9.39%	18.42%
1	CCC/C	18.42%	99.99%
0	D	In default	In default

The rating assignment and approval is an integrated part of the credit approval process and assignment shall be updated at least annually, or when material information on the obligor or exposure becomes available.

The credit rating models' discriminatory powers significantly exceed the Basel framework requirement of 0.5. The models are well calibrated, i.e. the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

LGD is measured using an internal LGD model for the purpose of EC calculations. The internal LGD model takes into account more types of collateral and is more sensitive to the collateralisation level than the Basel model.

Exposure at default is an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults. The Group uses the standard approach for estimating capital requirement, but uses internal models for provisioning.

58. Credit risk management and policy

The Group's credit risk management objective is to ensure compliance with its credit policy, which entails that the only risk taken is one that the Bank understands, can measure, evaluate and manage.

The Group's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within the Risk Management Division and the business units. The Group manages credit risk according to its risk appetite statement and credit policy approved by the Board of Directors, as well as detailed credit policies approved by the CEO. The risk appetite and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposure to certain industries. The CEO ensures that the risk policy is reflected in the Group's internal framework of regulations and guidelines. The Bank's executives are responsible for ensuring that the Bank's business units execute the risk policy appropriately and the CEO is responsible for the oversight of the process as a whole.

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58. Credit risk management and policy (continued)

Incremental credit authorisation levels are defined based on size of units, types of customers and the lending experience of credit officers. The Group has also set industry policies that describe the Bank's appetite to provide credit to specific industries. Credit decisions exceeding authorization levels of business units are subject to confirmation by Credit Management. The Corporate Banking Credit Committee has authorisation levels exceeding that of individual business unit managers and meets regularly to make credit decisions. Credit Management has veto powers over the decisions of the Corporate Banking Credit Committee. Credit decisions exceeding the signing limits of the Corporate Banking Credit Committee are subject to approval by the Group's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors, which holds the highest credit authorisation within the Bank.

59. Credit risk mitigation

Mitigating risk in the credit portfolio is a key element of the Group's credit policy, as well as an inherent part of the credit-decision process. Securing loans with collateral is the main method of mitigating credit risk, whereas for some loan products collateral is required by legislation, as in the mortgage finance market, or is standard market practice.

The most important types of collateral are real estate, vessels and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Group's credit policy. Credit extended by the Group may be secured on residential or commercial properties, land, listed and unlisted securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, etc. The Group also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

The Group regularly assesses the market value of received collateral. The Group estimates the value as the market value less a haircut. A haircut in this context is a discount factor which represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs during the period the asset is held for sale, external fees and loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Group monitors the market value of mark-to-market collateral and may require additional collateral in accordance with underlying loan agreements.

In order to further limit the credit risk arising from financial instruments, the Group enters into netting agreements, under which the Group is able to set off all contracts covered by the netting agreement against the debt in case of default. The arrangements generally include all market transactions between the Group and the client.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Group includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take price volatility and the expected costs of repossession and sale of the pledge into account.

Derivative financial instruments and securities financing

In order to mitigate credit risk arising from derivatives and securities financing transactions, the Group chooses the counterparties for derivatives and margin trading based on stringent requirements. The Group also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements and similar general netting agreements with financial counterparties. Collateral and margin requirements are in place for all derivative contracts the Group enters into. Collateral management and monitoring is performed daily, and derivative contracts with clients are usually fully hedged.

The Group's supervision system monitors both derivatives exposure and collateral value and calculates an intraday credit equivalent value for each derivative. It also issues margin calls and manages netting agreements. In the case of derivatives, amounts due to and from the Bank are offset when the Bank has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. External ratings are used where applicable to assist in managing the credit risk exposure of bonds. Otherwise the Bank uses fair value estimates based on available information and the Bank's own estimates.

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

The following tables show the Group's maximum credit risk exposure as at 31 December 2020 and 31 December 2019. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Consolidated Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Bank continues to use the ISAT 08 industrial classification of economic activities but has altered its own classification to include a special category for tourism, which was previously included under services. The category services, other than tourism, is subsumed under IT and telecommunications.

				Corporates											
As at 31 December 2020	**Financial institutions**	**Public entities ***	**Individuals**	**Fisheries**	**Real estate companies**	**Construction companies**	**Travel industry**	**Services, ITC ****	**Retail**	**Manufactur-ing and energy**	**Holding companies**	**Agri-culture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	67,604	-	-	-	-	-	-	-	-	-	-	-	**67,604**	**67,604**
Bonds and debt instruments	26	79,204	-	-	-	-	-	1,412	-	4,560	22	-	-	**85,224**	**119,330**
Equities and equity instruments	1	-	-	41	-	-	1	1,655	1	49	16,286	-	-	**18,034**	**26,808**
Derivative instruments	3,000	-	-	15	2	134	-	-	71	-	5	-	75	**3,302**	**3,303**
Loans and advances to financial institutions	48,073	-	-	-	-	-	-	-	-	-	-	-	-	**48,073**	**48,073**
Loans and advances to customers	-	4,128	592,216	179,713	129,462	82,345	95,996	67,352	53,590	30,231	31,849	6,544	-	**1,273,426**	**1,273,426**
Other assets	15,864	26	65	-	2,430	1	-	4,129	-	-	24	-	1,375	**23,914**	**25,633**
Total on-balance sheet exposure	**66,964**	**150,962**	**592,281**	**179,769**	**131,894**	**82,480**	**95,997**	**74,548**	**53,662**	**34,840**	**48,186**	**6,544**	**1,450**	**1,519,577**	**1,564,177**
Off-balance sheet exposure	**139**	**6,953**	**32,240**	**18,294**	**14,836**	**43,786**	**16,948**	**17,495**	**20,504**	**14,223**	**2,539**	**292**	**38**	**188,287**	
Financial guarantees and underwriting commitments	138	44	645	7,188	1,461	4,395	2,762	2,716	2,640	1,379	665	1	35	24,069	
Undrawn loan commitments	-	-	-	9,028	11,633	36,740	12,642	5,821	12,651	9,510	1,513	17	-	99,555	
Undrawn overdraft/credit card facilities	1	6,909	31,595	2,078	1,742	2,651	1,544	8,958	5,213	3,334	361	274	3	64,663	
Maximum exposure to credit risk	**67,103**	**157,915**	**624,521**	**198,063**	**146,730**	**126,266**	**112,945**	**92,043**	**74,166**	**49,063**	**50,725**	**6,836**	**1,488**	**1,707,864**	
Percentage of maximum exposure to credit risk	3.9%	9.2%	36.6%	11.6%	8.6%	7.4%	6.6%	5.4%	4.3%	2.9%	3.0%	0.4%	0.1%	100%	

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

All amounts are in ISK million

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

				Corporates											
As at 31 December 2019	**Financial institutions**	**Public entities ***	**Individuals**	**Fisheries**	**Real estate companies**	**Construction companies**	**Travel industry**	**Services, ITC ****	**Retail**	**Manufacturing and energy**	**Holding companies**	**Agri- culture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	69,824	-	-	-	-	-	-	-	-	-	-	-	**69,824**	**69,824**
Bonds and debt instruments	132	86,633	-	-	59	-	-	28	18	-	-	-	617	**87,487**	**115,262**
Equities and equity instruments	1	-	-	32	-	-	-	1,449	1	-	15,508	49	399	**17,439**	**30,019**
Derivative instruments	2,202	-	9	-	12	-	-	-	5	-	363	-	103	**2,694**	**2,694**
Loans and advances to financial institutions	47,929	-	-	-	-	-	-	-	-	-	-	-	-	**47,929**	**47,929**
Loans and advances to customers	0	4,135	467,945	151,336	136,000	98,536	96,665	69,604	60,525	23,836	26,154	5,447	1	**1,140,184**	**1,140,184**
Other assets	11,120	26	76	-	2,342	22	-	3,453	2	4	30	-	1,045	**18,120**	**20,416**
Total on-balance sheet exposure	**61,384**	**160,618**	**468,030**	**151,368**	**138,413**	**98,558**	**96,665**	**74,534**	**60,551**	**23,840**	**42,055**	**5,496**	**2,165**	**1,383,677**	**1,426,328**
Off-balance sheet exposure	**3,598**	**5,051**	**33,553**	**16,594**	**11,059**	**53,174**	**7,278**	**13,051**	**19,691**	**18,404**	**1,655**	**327**	**42**	**183,477**	
Financial guarantees and underwriting commitments	306	168	775	6,999	1,364	4,105	2,121	3,613	2,855	558	1,026	42	35	23,967	
Undrawn loan commitments	-	-	-	7,495	8,163	46,655	3,447	3,743	11,655	13,982	328	10	-	95,478	
Undrawn overdraft/credit card facilities	3,292	4,883	32,778	2,100	1,532	2,414	1,710	5,695	5,181	3,864	301	275	7	64,032	
Maximum exposure to credit risk	**64,982**	**165,669**	**501,583**	**167,962**	**149,472**	**151,732**	**103,943**	**87,585**	**80,242**	**42,244**	**43,710**	**5,823**	**2,207**	**1,567,154**	
Percentage of maximum exposure to credit risk	4.1%	10.6%	32.0%	10.7%	9.6%	9.7%	6.6%	5.6%	5.1%	2.7%	2.8%	0.4%	0.1%	100.0%	

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

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61. Collateral and loan-to-value

The loan-to-value (LTV) ratio expresses the gross carrying amount of loans and advances as a percentage of the total value of the collateral. Loan-to-value is one of the key risk factors assessed when qualifying borrowers for a loan. The risk of default is always at the forefront of lending decisions, and the likelihood of a lender absorbing a loss in the foreclosure process increases as the collateral value decreases. A high LTV indicates that there are smaller buffers to protect against price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance.

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2020	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value***	**Without collateral**	**Allowance for impairment**	**Carrying amount**
Financial institutions	-	-	-	-	0	-	-	48,074	(1)	48,073
Public entities	26	236	35	-	297	68	33	3,804	(41)	4,128
Individuals	**36,104**	**132,154**	**345,882**	**42,888**	**557,028**	**6,093**	**3,676**	**31,402**	**(2,307)**	**592,216**
Mortgages	28,769	122,615	329,615	34,047	515,046	2,827	1,647	1,597	(1,221)	518,249
Other	7,335	9,539	16,267	8,841	41,982	3,266	2,029	29,805	(1,086)	73,967
Corporates	**21,447**	**137,408**	**226,339**	**147,631**	**532,825**	**130,046**	**100,573**	**36,338**	**(22,127)**	**677,082**
Fisheries	11,054	39,749	81,557	35,756	168,116	8,795	4,767	4,038	(1,236)	179,713
Real estate companies	2,129	8,978	73,039	25,589	109,735	18,393	14,412	4,669	(3,335)	129,462
Construction companies	2,112	3,466	22,333	16,977	44,888	38,406	34,345	1,533	(2,482)	82,345
Travel industry	1,282	11,718	15,886	46,007	74,893	24,536	19,771	5,074	(8,507)	95,996
Services, IT and communications	859	16,427	7,485	8,863	33,634	23,261	17,021	12,696	(2,239)	67,352
Retail	1,657	28,101	10,034	5,483	45,275	6,989	4,700	2,726	(1,400)	53,590
Manufacturing and energy	1,016	2,369	11,224	5,886	20,495	7,677	4,702	4,599	(2,540)	30,231
Holding companies	720	24,669	3,261	1,196	29,846	1,391	535	856	(244)	31,849
Agriculture	618	1,931	1,520	1,874	5,943	598	320	147	(144)	6,544
Other	-	-	-	-	-	-	-	-	-	0
Total	**57,577**	**269,798**	**572,256**	**190,519**	**1,090,150**	**136,207**	**104,282**	**119,618**	**(24,476)**	**1,321,499**

*If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

All amounts are in ISK million

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

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2019	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*	Without collateral	Allowance for impairment	Carrying amount
Financial institutions	-	-	-	-	0	-	-	47,930	(1)	47,929
Public entities	49	28	141	36	254	41	5	3,875	(35)	4,135
Individuals	36,333	112,769	256,069	29,480	434,651	3,507	2,269	31,938	(2,151)	467,945
Mortgages	25,753	103,192	241,093	21,113	391,151	892	425	710	(848)	391,905
Other	10,580	9,577	14,976	8,367	43,500	2,615	1,844	31,228	(1,303)	76,040
Corporates	23,353	157,567	199,288	148,550	528,758	118,000	96,635	34,043	(12,697)	668,104
Fisheries	9,844	51,195	54,453	32,012	147,504	4,011	3,188	277	(456)	151,336
Real estate companies	2,025	23,980	60,917	24,723	111,645	21,322	18,316	5,207	(2,174)	136,000
Construction companies	1,010	6,488	10,079	32,391	49,968	48,487	44,404	1,758	(1,677)	98,536
Travel industry	1,751	14,040	39,999	31,546	87,336	7,039	5,698	5,596	(3,306)	96,665
Services, IT and communications	1,605	12,199	12,853	6,183	32,840	26,239	17,507	12,124	(1,599)	69,604
Retail	2,252	25,483	12,119	11,469	51,323	7,957	5,586	2,194	(949)	60,525
Manufacturing and energy	704	2,348	6,566	8,918	18,536	1,650	1,091	5,965	(2,315)	23,836
Holding companies	3,433	20,695	323	349	24,800	756	552	727	(129)	26,154
Agriculture	729	1,139	1,979	959	4,806	539	293	194	(92)	5,447
Other	-	-	-	-	-	-	-	1	-	1
Total	59,735	270,364	455,498	178,066	963,663	121,548	98,909	117,786	(14,884)	1,188,113

*If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

All amounts are in ISK million

62. Collateral types

The following tables disclose the assignments of collateral values to claim values, whereby the value of each individual collateral item held cannot exceed the gross carrying amount of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the gross carrying amount.

As at 31 December 2020	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**293**	**-**	**1**	**-**	**14**	**308**
Individuals	**541,822**	**82**	**131**	**3,137**	**15,382**	**560,554**
Mortgages	511,893	10	30	58	4,578	516,569
Other	29,929	72	101	3,079	10,804	43,985
Corporates	**341,572**	**129,320**	**3,082**	**75,126**	**84,299**	**633,399**
Fisheries	10,005	127,319	158	25,400	10,000	172,882
Real estate companies	121,135	50	649	668	1,644	124,146
Construction companies	75,537	18	964	36	2,677	79,232
Travel industry	65,818	750	399	205	27,493	94,665
Services, IT and communications	24,773	1,092	240	10,931	13,619	50,655
Retail	23,424	89	182	11,191	15,089	49,975
Manufacturing and energy	11,816	2	63	1	13,317	25,199
Holding companies	3,123	-	424	26,694	142	30,383
Agriculture	5,941	-	3	-	318	6,262
Other	-	-	-	-	-	-
Total	**883,687**	**129,402**	**3,214**	**78,263**	**99,695**	**1,194,261**

As at 31 December 2019	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**218**	**-**	**1**	**-**	**38**	**257**
Individuals	**418,218**	**82**	**74**	**2,691**	**15,598**	**436,663**
Mortages	387,130	11	23	26	4,157	391,347
Other	31,088	71	51	2,665	11,441	45,316
Corporates	**363,815**	**107,729**	**1,560**	**65,867**	**86,419**	**625,390**
Fisheries	9,956	106,024	29	21,236	13,445	150,690
Real estate companies	128,840	21	110	217	772	129,960
Construction companies	89,978	39	1,037	85	3,233	94,372
Travel industry	60,748	613	216	1,960	29,497	93,034
Services, IT and communications	26,177	1,030	108	10,690	12,342	50,347
Retail	29,612	-	25	7,664	19,607	56,908
Manufacturing and energy	12,574	2	31	14	7,005	19,626
Holding companies	1,156	-	-	24,001	196	25,353
Agriculture	4,774	-	4	-	322	5,100
Other	-	-	-	-	-	-
Total	**782,251**	**107,811**	**1,635**	**68,558**	**102,055**	**1,062,310**

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

63. Loans and advances by geographical area

The following tables show loans and advances by geographical segmentation. Geographical segmentation is based on the customer's legal residence rather than domicile.

As at 31 December 2020	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	348	47,725	48,073
Loans and advances to customers	1,241,087	32,339	1,273,426
Total	**1,241,435**	**80,064**	**1,321,499**

As at 31 December 2019	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	8	47,921	47,929
Loans and advances to customers	1,103,403	36,781	1,140,184
Total	**1,103,411**	**84,702**	**1,188,113**

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64. Credit quality of loans and advances

The following tables show the credit quality of loans and advances, measured by rating grade. Further details on rating grades can be seen in Note 57, Credit risk assessment.

As at 31 December 2020	Gross carrying amount 10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**48,057**	**-**	**-**	**-**	**17**	**(1)**	**48,073**
Public entities	**179**	**3,990**	**-**	**-**	**-**	**(41)**	**4,128**
Individuals	**313,257**	**251,820**	**24,400**	**4,117**	**929**	**(2,307)**	**592,216**
Mortgages	287,369	211,528	17,109	2,735	729	(1,221)	518,249
Other	25,888	40,292	7,291	1,382	200	(1,086)	73,967
Corporates	**63,930**	**480,168**	**117,569**	**35,568**	**1,974**	**(22,127)**	**677,082**
Fisheries	25,230	143,113	11,508	1,098	-	(1,236)	179,713
Real estate companies	312	112,892	13,988	5,550	55	(3,335)	129,462
Construction companies	887	54,452	26,186	3,302	-	(2,482)	82,345
Travel industry	657	37,791	51,098	14,957	-	(8,507)	95,996
Services, IT and communications	3,353	58,613	4,163	3,462	-	(2,239)	67,352
Retail	21,601	26,824	4,655	1,910	-	(1,400)	53,590
Manufacturing and energy	10,937	13,823	3,084	4,919	8	(2,540)	30,231
Holding companies	61	27,630	2,484	7	1,911	(244)	31,849
Agriculture	892	5,030	403	363	-	(144)	6,544
Other	-	-	-	-	-	-	0
Total	**425,423**	**735,978**	**141,969**	**39,685**	**2,920**	**(24,476)**	**1,321,499**

As at 31 December 2019	Gross carrying amount 10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**47,923**	**7**	**-**	**-**	**-**	**(1)**	**47,929**
Public entities	**245**	**3,925**	**-**	**-**	**-**	**(35)**	**4,135**
Individuals	**236,273**	**201,184**	**27,122**	**5,497**	**20**	**(2,151)**	**467,945**
Mortgages	211,262	159,730	18,491	3,270	-	(848)	391,905
Other	25,011	41,454	8,631	2,227	20	(1,303)	76,040
Corporates	**54,655**	**541,538**	**56,043**	**28,510**	**55**	**(12,697)**	**668,104**
Fisheries	5,814	140,476	4,904	598	-	(456)	151,336
Real estate companies	982	122,167	10,029	4,942	54	(2,174)	136,000
Construction companies	598	82,251	14,921	2,443	-	(1,677)	98,536
Travel industry	11,046	68,332	11,046	9,547	-	(3,306)	96,665
Services, IT and communications	3,385	62,050	2,237	3,530	1	(1,599)	69,604
Retail	23,654	30,399	5,415	2,006	-	(949)	60,525
Manufacturing and energy	8,318	11,811	1,018	5,004	-	(2,315)	23,836
Holding companies	164	20,023	6,018	78	-	(129)	26,154
Agriculture	694	4,029	454	362	-	(92)	5,447
Other	-	-	1	-	-	-	1
Total	**339,096**	**746,654**	**83,165**	**34,007**	**75**	**(14,884)**	**1,188,113**

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65. Loans and advances by past due status

The following tables show the gross carrying amount of loans and advances by past due status.

	Gross carrying amount							
		Days past due						
As at 31 December 2020	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**48,074**	**-**	**-**	**-**	**-**	**-**	**(1)**	**48,073**
Public entities	**4,169**	**-**	**-**	**-**	**-**	**-**	**(41)**	**4,128**
Individuals	**585,132**	**2,038**	**1,216**	**2,758**	**1,530**	**1,849**	**(2,307)**	**592,216**
Mortgages	514,190	-	880	2,201	1,232	967	(1,221)	518,249
Other	70,942	2,038	336	557	298	882	(1,086)	73,967
Corporates	**670,335**	**3,757**	**4,428**	**1,575**	**3,361**	**15,753**	**(22,127)**	**677,082**
Fisheries	180,482	61	360	19	10	17	(1,236)	179,713
Real estate companies	129,662	144	788	624	308	1,271	(3,335)	129,462
Construction companies	80,973	126	2,234	128	37	1,329	(2,482)	82,345
Travel industry	93,261	124	699	374	2,334	7,711	(8,507)	95,996
Services, IT and communications	66,774	1,932	79	160	56	590	(2,239)	67,352
Retail	53,494	194	174	238	584	306	(1,400)	53,590
Manufacturing and energy	27,949	280	11	-	31	4,500	(2,540)	30,231
Holding companies	31,262	811	3	13	-	4	(244)	31,849
Agriculture	6,478	85	80	19	1	25	(144)	6,544
Other	-	-	-	-	-	-	-	0
Total	**1,307,710**	**5,795**	**5,644**	**4,333**	**4,891**	**17,602**	**(24,476)**	**1,321,499**

	Gross carrying amount							
		Days past due						
As at 31 December 2019	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**47,930**	**-**	**-**	**-**	**-**	**-**	**(1)**	**47,929**
Public entities	**4,120**	**50**	**-**	**-**	**-**	**-**	**(35)**	**4,135**
	457,047	**2,662**	**2,344**	**4,175**	**1,134**	**2,734**	**(2,151)**	**467,945**
Mortgages	385,776	-	1,593	3,126	824	1,434	(848)	391,905
Other	71,271	2,662	751	1,049	310	1,300	(1,303)	76,040
Corporations	**652,881**	**4,413**	**5,195**	**4,269**	**2,504**	**11,539**	**(12,697)**	**668,104**
Fisheries	151,055	234	83	65	4	351	(456)	151,336
Real estate companies	131,356	172	2,850	1,856	401	1,539	(2,174)	136,000
Construction companies	98,426	293	214	427	90	763	(1,677)	98,536
Travel industry	90,500	2,151	1,201	1,626	1,409	3,084	(3,306)	96,665
Services, IT and communications	68,976	581	318	115	476	737	(1,599)	69,604
Retail	59,672	684	467	67	72	512	(949)	60,525
Manufacturing and energy	21,262	250	49	90	34	4,466	(2,315)	23,836
Holding companies	26,242	9	9	17	3	3	(129)	26,154
Agriculture	5,392	38	4	6	15	84	(92)	5,447
Other	-	1	-	-	-	-	-	1
Total	**1,161,978**	**7,125**	**7,539**	**8,444**	**3,638**	**14,273**	**(14,884)**	**1,188,113**

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66. Loans and advances by stage allocation

The table below show both gross carrying amount and expected credit loss (ECL) by industry sectors and the three-stage criteria under IFRS 9.

		Stage 1		Stage 2		Stage 3				
As at 31 December 2020	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL	Allowance for impairment	Fair Value	Carrying amount
Financial institutions	**48,074**	**48,074**	**(1)**	**-**	**-**	**-**	**-**	**(1)**	**-**	**48,073**
Public entities	**4,169**	**4,026**	**(39)**	**143**	**(2)**	**-**	**-**	**(41)**	**-**	**4,128**
Individuals	**594,523**	**549,450**	**(415)**	**40,417**	**(1,022)**	**4,117**	**(870)**	**(2,307)**	**539**	**592,216**
Mortgages	519,470	487,781	(242)	28,954	(701)	2,735	(278)	(1,221)	-	518,249
Other	75,053	61,669	(173)	11,463	(321)	1,382	(592)	(1,086)	539	73,967
Corporates	**699,209**	**535,653**	**(3,378)**	**112,012**	**(5,612)**	**35,568**	**(13,137)**	**(22,127)**	**15,976**	**677,082**
Fisheries	180,949	172,356	(678)	4,665	(153)	1,098	(405)	(1,236)	2,830	179,713
Real estate companies	132,797	114,269	(788)	12,456	(646)	5,550	(1,901)	(3,335)	522	129,462
Construction companies	84,827	67,399	(717)	14,014	(678)	3,302	(1,087)	(2,482)	112	82,345
Travel industry	104,503	29,677	(479)	59,843	(3,624)	14,957	(4,404)	(8,507)	26	95,996
Services, IT and communications	69,591	51,639	(302)	7,011	(198)	3,462	(1,739)	(2,239)	7,479	67,352
Retail	54,990	46,893	(207)	4,440	(116)	1,910	(1,077)	(1,400)	1,747	53,590
Manufacturing and energy	32,771	24,995	(45)	2,857	(67)	4,919	(2,428)	(2,540)	-	30,231
Holding companies	32,093	22,966	(147)	5,860	(93)	7	(4)	(244)	3,260	31,849
Agriculture	6,688	5,459	(15)	866	(37)	363	(92)	(144)	-	6,544
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,345,975**	**1,137,203**	**(3,833)**	**152,572**	**(6,636)**	**39,685**	**(14,007)**	**(24,476)**	**16,515**	**1,321,499**

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66. Loans and advances by stage allocation (continued)

		Stage 1		Stage 2		Stage 3				
As at 31 December 2019	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL	Allowance for impairment	Fair Value	Carrying amount
Financial institutions	**47,930**	**47,929**	**(1)**	**1**	**-**	**-**	**-**	**(1)**	**-**	**47,929**
Public entities	**4,170**	**4,058**	**(34)**	**112**	**(1)**	**-**	**-**	**(35)**	**-**	**4,135**
Individuals	**470,096**	**429,012**	**(370)**	**35,587**	**(584)**	**5,497**	**(1,197)**	**(2,151)**	**-**	**467,945**
Mortgages	392,753	364,991	(171)	24,492	(329)	3,270	(348)	(848)	-	391,905
Other	77,343	64,021	(199)	11,095	(255)	2,227	(849)	(1,303)	-	76,040
Corporates	**680,801**	**572,853**	**(1,986)**	**64,759**	**(1,393)**	**28,510**	**(9,318)**	**(12,697)**	**14,679**	**668,104**
Fisheries	151,792	143,576	(236)	4,959	(85)	598	(135)	(456)	2,659	151,336
Real estate companies	138,174	120,626	(497)	12,606	(346)	4,942	(1,331)	(2,174)	-	136,000
Construction companies	100,213	78,562	(548)	19,208	(302)	2,443	(827)	(1,677)	-	98,536
Travel industry	99,971	77,768	(287)	10,859	(373)	9,547	(2,646)	(3,306)	1,798	96,665
Services, IT and communications	71,203	54,686	(178)	4,949	(65)	3,530	(1,356)	(1,599)	8,038	69,604
Retail	61,473	52,413	(101)	4,870	(133)	2,006	(715)	(949)	2,184	60,525
Manufacturing and energy	26,151	16,332	(23)	4,815	(68)	5,004	(2,224)	(2,315)	-	23,836
Holding companies	26,284	24,277	(105)	1,928	(15)	78	(9)	(129)	-	26,154
Agriculture	5,539	4,613	(11)	564	(6)	362	(75)	(92)	-	5,447
Other	1	-	-	1	-	-	-	-	-	1
Total	**1,202,997**	**1,053,852**	**(2,391)**	**100,459**	**(1,978)**	**34,007**	**(10,515)**	**(14,884)**	**14,679**	**1,188,113**

All amounts are in ISK million

67. Allowance for impairment on loans and advances to financial institutions and customers and other assets

See accounting policy in Note 89.5 (g).

The following tables show changes in the impairment allowance of loans and advances during the year 2020.

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2020 - Financial institutions	**(1)**	**(5)**	**0**	**(6)**
Reversals due to financial assets that have been derecognised	-	3	-	3
Changes in models/risk parameters	-	2	-	2
Balance as at 31 December 2020 - Financial institutions	**(1)**	**0**	**0**	**(1)**
- therof classified as deduction from gross carrying amounts	(1)	-	-	(1)
- therof classified as liabilities	-	-	-	0

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2020 - Loans and advances to customers	**(2,579)**	**(2,029)**	**(10,625)**	**(15,233)**
New financial assets originated	(1,773)	(1,508)	(2,714)	(5,995)
Reversals due to financial assets that have been derecognised	890	544	1,578	3,012
Transfer to Stage 1 - 12-month ECL	(121)	104	17	0
Transfer to Stage 2 - Lifetime ECL	3,692	(3,782)	90	0
Transfer to Stage 3 - Lifetime ECL	1,557	1,207	(2,764)	0
Changes in models/risk parameters	(5,907)	(1,517)	(1,227)	(8,651)
Provisions used to cover write-offs	17	12	1,535	1,564
Balance as at 31 December 2020 - Loans and advances to customers	**(4,224)**	**(6,969)**	**(14,110)**	**(25,303)**
- therof classified as deduction from gross carrying amounts	(3,831)	(6,636)	(14,007)	(24,474)
- therof classified as liabilities	(395)	(333)	(103)	(831)

	1.1-31.12.2020				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	(1)	(558)	(5,436)	(5,995)
Reversals due to financial assets that have been derecognised	3	1	458	2,553	3,015
Changes due to financial assets recognised in the opening balance	2	(3)	(416)	(8,232)	(8,649)
Write-offs	-	-	(704)	(1,904)	(2,608)
Provisions used to cover write-offs	-	-	365	1,199	1,564
Recoveries	-	-	325	170	495
Translation difference	-	-	1	296	297
Net impairment on loans and advances	**5**	**(3)**	**(529)**	**(11,354)**	**(11,881)**

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67. Allowance for impairment on loans and advances to financial institutions and customers and other assets (continued)

The following tables show changes in the impairment allowance of loans and advances during the year 2019.

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

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

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

68. Large exposures

As at 31 December 2020, four customer groups were rated as large exposures in accordance with rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's eligible capital. According to the rules, no exposure, after credit risk mitigation, may exceed 25% of the elibible capital. The following table shows the Group's large exposures after credit mitigation.

As at 31 December 2020	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's eligible capital	3	104,514
Large exposures between 0% and 10% of the Group's eligible capital	1	7,134
Total	**4**	**111,648**
Total ratio of large exposures to eligible capital		40%
As at 31 December 2019		
Large exposures between 10% and 20% of the Group's eligible capital	3	100,057
Large exposures between 0% and 10% of the Group's eligible capital	2	-
Total	**5**	**100,057**
Total ratio of large exposures to eligible capital		38%

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69. Bonds and debt instruments

A breakdown of the Group's bond portfolio, by Standard & Poor's ratings, is as follows:

Government bonds and treasury bills	2020	2019
Rated AAA	19,546	34,079
Rated AA- to AA+	21,616	48,241
Rated A- to A+	55,448	9,241
Rated BB+ and below	207	-
Rated BBB+ and below	26	3,355
	96,843	**94,916**
Corporate bonds		
Rated A- to A+	3,389	1,488
Rated BBB- to BBB+	4,311	4,152
Rated BB+ and below	-	322
Unrated	3,437	3,049
	11,137	**9,011**
Asset-backed securities		
Rated BBB- to BBB+	11,350	11,335
	11,350	**11,335**
Total	**119,330**	**115,262**

The following table shows the carrying amounts of bonds for which the issuers have failed, by one or more days, to make contractually due payments.

As at 31 December 2020	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	20	20
Total	**0**	**20**	**20**
As at 31 December 2019			
Holding companies	-	21	21
Other	-	3	3
Total	**0**	**24**	**24**

70. Derivative instruments

The following table summarises the Group's exposure in derivative instruments, classified by the Bank into equivalent Standard & Poor's ratings by counterparty:

	2020			2019		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
AA- to AA+	-	-	-	9,857	-	244
A+/A/A-	105,436	1,981	3,036	145,437	1,910	1,699
BBB+	49,842	985	12	1,000	71	-
BB+	2,107	71	4	-	-	-
Unrated	50,058	266	672	50,499	713	1,366
Total	**207,443**	**3,303**	**3,724**	**206,793**	**2,694**	**3,309**

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71. Offsetting financial assets and financial liabilities

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

As at 31 December 2020

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

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received	Net financial assets subject to netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
Derivatives	3,303	-	3,303	(60)	(2,525)	718	-	3,303

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

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged	Net financial liabilities subject netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
Derivatives	(3,724)	-	(3,724)	(60)	3,035	(750)	-	(3,724)
Short positions	(523)	-	(523)	-	523	-	-	(523)
Total	**(4,247)**	**0**	**(4,247)**	**(60)**	**3,558**	**(750)**	**0**	**(4,247)**

As at 31 December 2019

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

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

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

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

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Liquidity risk

72. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from earlier maturities of financial liabilities than financial assets.

73. Liquidity risk management

A liquidity management policy for the Bank and its subsidiaries is in place. The objective of the liquidity management policy is to ensure, even in times of stress, that sufficient liquid assets and funding capacity are available to meet financial obligations in a timely manner and at reasonable cost. Furthermore, the liquidity management policy is to describe the manner in which the Group identifies, evaluates, measures, monitors, manages and reports its liquidity. Enforcing this policy has the further objective of minimising fluctuations in liquidity. The liquidity management policy is built on the European Capital Requirements Regulation (CRR), as set by the European Banking Authority (EBA). The Bank's main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The objective of the LCR is to promote short-term resilience by ensuring that the Group has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. NSFR has a longer time horizon and its objective is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities and to limit overreliance on short-term wholesale funding.

The Group complies with liquidity rules set by the Central Bank of Iceland No. 266/2017. The Group also follows Central Bank Rules No. 1032/2014, on funding ratios in foreign currencies, as well as guidelines No. 2/2010 from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) on best practice for managing liquidity in banking organisation. The Central Bank's liquidity Rules No. 266/2017 require the Group to maintain a total liquidity coverage ratio (LCR) of 100% at a minimum and also a LCR in foreign currencies of 100% at a minimum. The Central Bank of Iceland made changes to Rules No. 266/2017 in December 2019, implementing a minimum requirement for liquidity ratio in Icelandic króna. The implementation of the new minimum requirement is according to a schedule set forth by the Central Bank which requires the Bank to have a minimum LCR-ISK of 30% as of 1 January 2020, 40% as of 1 January 2022 and 50% as of 1 January 2023. Rules No. 1032/2014 sets requirements for a minimum of 100% net stable funding ratio (NSFR) in foreign currencies. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland.

The Group has implemented a risk appetite where these rules and guidelines, alongside the Bank's internal requirements, set benchmarks for liquidity management.

The Group's liquidity risk is managed centrally by Treasury and monitored by Market Risk. This allows management to monitor and manage liquidity risk throughout the Group. The Risk & Finance Committee monitors the Group's liquidity risk, while the Bank's Internal Audit function assesses whether the liquidity management process is designed properly and operating effectively.

The Group monitors intraday liquidity risk, short-term 30-day liquidity risk, medium and longer-term liquidity risk and risk arising from mismatches of longer term assets and liabilities.

The Group's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities, monitoring balance sheet liquidity, monitoring and managing the maturity profile of liabilities and off-balance sheet commitments, monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties, projecting cash flows arising from future business, and maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis.

Market Risk conducts monthly stress tests by applying various hypothetical scenarios on the Group's liquidity position to ensure that it has adequate liquidity to withstand stressed conditions. Different assumptions are drawn for each stress test to estimate the impact of a variety of market conditions.

The key indicator of short-term liquidity risk is measured by the LCR which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Bank, zero percent risk-weighted foreign government bonds and other assets that fulfill the requirements of liquid assets according to Rules No. 266/2017. Estimated inflow and outflow weights, according to Rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 31 December 2020 and 31 December 2019 are shown in the following table:

	ISK		Foreign currencies		Total	
Liquidity coverage ratio 31 December 2020	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	122,458	122,458	42,620	42,620	165,077	165,077
Level 2 liquid assets	-	-	4,578	3,892	4,578	3,892
Information items	21,033	-	300	-	21,334	-
Total liquid assets	**143,491**	**122,458**	**47,498**	**46,512**	**190,989**	**168,969**
Deposits	520,333	114,832	102,032	40,757	622,365	155,589
Borrowing	-	-	146	146	146	146
Other outflows	93,795	15,776	32,052	2,987	125,847	18,763
Total outflows (0-30 days)	**614,128**	**130,608**	**134,230**	**43,890**	**748,358**	**174,498**
Loans and advances to financial institutions	13,084	-	47,727	47,336	60,810	47,336
Other inflows	29,835	13,902	6,421	3,787	36,256	17,690
Limit on inflows	-	-	-	(18,206)	-	-
Total inflows (0-30 days)	**42,919**	**13,902**	**54,148**	**32,917**	**97,066**	**65,026**
Liquidity coverage ratio		**105%**		**424%**		**154%**

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73. Liquidity risk management (continued)

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

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

Liquidity reserves as at 31 December 2020	**ISK**	**Foreign currencies**	**Total**
Cash and balances with the Central Bank	61,634	1,458	63,092
Domestic bonds and debt instruments eligible as collateral with the Central Bank	60,823	4,578	65,401
Foreign government bonds with 0% risk weight	-	41,161	41,161
High quality liquidity assets	**122,457**	**47,197**	**169,654**
Loans and advances to financial institutions	13,084	47,727	60,811
Total liquidity reserves	**135,541**	**94,924**	**230,465**

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

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

	2020	**2019**
Net stable funding ratio FX	132%	143%
Net stable funding ratio total	116%	117%

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73. Liquidity risk management (continued)

The following table shows the Groups deposit base categorised into groups based on methodology set out in liquidity Rules No. 266/2017. The deposit groups are categorised by maturity as well as applied run-off rate which indicates their level of stickiness. Stickiness is defined as tendency of funding not to run off quickly under stress.

As at 31. December 2020	Run off rate	0-30 days	Over 30 days	Total
Individuals	5% - 100%	320,408	111,226	431,634
Small and Medium Sized Corporates	5% - 100%	78,887	7,092	85,979
Operational deposits	5% - 25%	-	-	-
Large Corporates	20% - 40%	116,435	20,269	136,704
Public entities	20% - 40%	35,071	8,041	43,112
Financial customers	100%	68,961	64,280	133,241
Pledged deposits		11,082	399	11,481
Total deposits		**630,844**	**211,307**	**842,151**

As at 31. December 2019	Run off rate	0-30 days	Over 30 days	Total
Individuals	5% - 100%	269,432	115,493	384,925
Small and Medium Sized Corporates	5% - 100%	64,672	7,145	71,817
Operational deposits	5% - 25%	-	-	-
Large Corporates	20% - 40%	108,386	20,477	128,863
Public entities	20% - 40%	25,416	9,459	34,875
Financial customers	100%	55,330	71,375	126,705
Pledged deposits		8,297	392	8,689
Total deposits		**531,533**	**224,341**	**755,874**

74. Maturity analysis of financial assets and liabilities

The following tables only take into account the contractual maturity of the Group's assets and liabilities but do not account for measures that the Group could take to convert assets into cash at hand by liquidation, either through sale or participation in Central Bank operations. Further information on the Group's liquidity management can be found in Note 73.

The amounts in the maturity analyses as at year-end 2020 and 2019 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation, the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in the time span of 1-5 years.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the statement of financial position, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analysis has been determined by reference to the relevant interest rates curves, exchange rates and inflation prevailing at the reporting date. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay, which is the worst-case scenario from Group perspective. An example of this is that demand deposits are included in the earliest time span. Where the Group is committed to have amounts available in installments, each installment is allocated to the earliest period in which the Group might be required to pay. Thus, undrawn loan commitments are included in the time span together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included in the maturity analysis is the guarantee's maximum amount, allocated to the earliest period in which the guarantee might be called.

The Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analysis. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and also it is not expected that every committed loan will be drawn down immediately. As mentioned in Note 73, the Group conducts a monthly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals at year-end 2020 and 2019. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

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74. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2020:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(18,997)	(29,641)	-	-	-	-	(48,638)	(48,725)
Deposits from customers	(611,570)	(108,575)	(53,867)	(16,827)	(5,761)	-	(796,600)	(793,427)
Short positions	-	(6)	(2)	(35)	(560)	-	(603)	(523)
Borrowings	(63)	(32,479)	(13,438)	(334,670)	(83,795)	-	(464,445)	(420,178)
Other financial liabilities	(8,127)	-	-	-	-	-	(8,127)	(8,127)
Subordinated liabilities	-	-	(710)	(2,898)	(25,356)	-	(28,964)	(21,366)
Total	**(638,757)**	**(170,701)**	**(68,017)**	**(354,430)**	**(115,472)**	**0**	**(1,347,377)**	**(1,292,346)**
Derivative financial liabilities								
Trading								(676)
Inflow	3,668	1,168	8	-	-	-	4,844	
Outflow	(4,263)	(1,246)	(8)	-	-	-	(5,517)	
Risk management								(3,048)
Inflow	499	26	25,980	3,563	-	-	30,068	
Outflow	(534)	(85)	(28,533)	(4,011)	-	-	(33,163)	
Total	**(630)**	**(137)**	**(2,553)**	**(448)**	**0**	**0**	**(3,768)**	**(3,724)**
Non-derivative financial assets								
Cash and balances with Central Bank	67,604	-	-	-	-	-	67,604	67,604
Bonds and debt instruments	26,454	29,325	22,433	34,494	11,438	-	124,144	119,330
Equities and equity instruments	-	-	-	-	-	26,808	26,808	26,808
Loans and advances to financial institutions	48,073	-	-	-	-	-	48,073	48,073
Loans and advances to customers	61,456	67,836	192,753	504,165	1,284,532	-	2,110,742	1,273,426
Other financial assets	9,852	-	-	-	-	-	9,852	9,852
Total	**213,439**	**97,161**	**215,186**	**538,659**	**1,295,970**	**26,808**	**2,387,223**	**1,545,093**
Derivative financial assets								
Trading								303
Inflow	1,957	1,797	2,019	1,858	-	-	7,631	
Outflow	(1,885)	(1,728)	(1,912)	(1,805)	-	-	(7,330)	
Risk management								3,000
Inflow	12,711	20,707	1,053	95,241	-	-	129,712	
Outflow	(12,110)	(19,547)	(989)	(94,081)	-	-	(126,727)	
Total	**673**	**1,229**	**171**	**1,213**	**0**	**0**	**3,286**	**3,303**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(1,388)	(632)	(5,693)	(4,086)	(12,269)	-	(24,068)	
Undrawn loan commitments	(99,553)	-	-	-	-	-	(99,553)	
Undrawn overdraft/credit card commitments	(64,663)	-	-	-	-	-	(64,663)	
Total	**(165,604)**	**(632)**	**(5,693)**	**(4,086)**	**(12,269)**	**0**	**(188,284)**	
Net liquidity position	**(590,879)**	**(73,080)**	**139,094**	**180,908**	**1,168,229**	**26,808**	**851,080**	**252,326**

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74. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2019*:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(20,495)	(28,028)	-	-	-	-	(48,524)	(48,062)
Deposits from customers	(509,024)	(152,794)	(26,590)	(15,733)	(5,812)	-	(709,953)	(707,813)
Short positions	(26)	(10)	(35)	(290)	(2,369)	-	(2,731)	(2,081)
Borrowings	(111)	(4,748)	(45,838)	(295,518)	(74,514)	-	(420,729)	(373,168)
Other financial liabilities	(7,118)	-	-	-	-	-	(7,118)	(7,118)
Subordinated liabilities	-	-	(642)	(2,616)	(23,562)	-	(26,820)	(19,081)
Total	**(536,775)**	**(185,580)**	**(73,105)**	**(314,158)**	**(106,257)**	**0**	**(1,215,876)**	**(1,157,324)**
Derivative financial liabilities								
Trading								(1,364)
Inflow	4,136	938	1,470	-	-	-	6,543	
Outflow	(5,427)	(953)	(1,531)	-	-	-	(7,911)	
Riks management								(1,945)
Inflow	4,112	3,725	10,379	23,745	2,070	-	44,030	
Outflow	(4,139)	(3,801)	(10,519)	(25,354)	(2,460)	-	(46,273)	
Total	**(1,319)**	**(91)**	**(201)**	**(1,609)**	**(390)**	**0**	**(3,610)**	**(3,309)**
Non-derivative financial assets								
Cash and balances with Central Bank	69,824	-	-	-	-	-	69,824	69,824
Bonds and debt instruments	9,726	45,450	30,435	20,542	13,193	-	119,346	115,262
Equities and equity instruments	-	-	-	-	-	30,019	30,019	30,019
Loans and advances to financial institutions	47,929	-	-	-	-	-	47,929	47,929
Loans and advances to customers	31,887	65,759	163,689	455,669	1,107,400	-	1,824,404	1,140,184
Other financial assets	7,819	-	-	-	-	-	7,819	7,819
Total	**167,184**	**111,209**	**194,124**	**476,211**	**1,120,593**	**30,019**	**2,099,340**	**1,411,036**
Derivative financial assets								
Trading								514
Inflow	4,464	689	648	2,228	-	-	8,030	
Outflow	(4,013)	(680)	(597)	(2,216)	-	-	(7,506)	
Riks management								2,180
Inflow	12,447	19,646	4,852	84,404	-	-	121,350	
Outflow	(12,040)	(18,933)	(4,934)	(83,316)	-	-	(119,223)	
Total	**858**	**722**	**(31)**	**1,101**	**0**	**0**	**2,651**	**2,694**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(1,108)	(725)	(4,221)	(5,568)	(11,179)	(1,166)	(23,967)	
Undrawn loan commitments	(95,478)	-	-	-	-	-	(95,478)	
Undrawn overdraft/credit card commitments	(64,032)	-	-	-	-	-	(64,032)	
Total	**(160,618)**	**(725)**	**(4,221)**	**(5,568)**	**(11,179)**	**(1,166)**	**(183,477)**	
Net liquidity position	**(530,670)**	**(74,465)**	**116,566**	**155,977**	**1,002,767**	**28,852**	**699,028**	**253,098**

*Comparison numbers have been updated due to a correction made to the interest rate spread of floating rate assets and liabilities.

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75. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2020:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(103,161)	(32,924)	(2,553)	(202,633)	(17,074)	-	(358,345)	(952,226)
ISK	(535,596)	(137,777)	(65,464)	(151,797)	(98,398)	-	(989,032)	(340,120)
Total	**(638,757)**	**(170,701)**	**(68,017)**	**(354,430)**	**(115,472)**	**0**	**(1,347,377)**	**(1,292,346)**
Derivative financial liabilities								
Total in foreign currencies	2,889	(86)	3	(6)	-	-	2,800	(113)
ISK	(3,519)	(51)	(2,556)	(442)	-	-	(6,568)	(3,611)
Total	**(630)**	**(137)**	**(2,553)**	**(448)**	**0**	**0**	**(3,768)**	**(3,724)**
Non-derivative financial assets								
Total in foreign currencies	79,573	50,536	80,629	155,648	4,902	227	371,515	1,196,658
ISK	133,866	46,625	134,557	383,011	1,291,068	26,581	2,015,708	348,435
Total	**213,439**	**97,161**	**215,186**	**538,659**	**1,295,970**	**26,808**	**2,387,223**	**1,545,093**
Derivative financial assets								
Total in foreign currencies	902	196	-	1,609	-	-	2,707	3,197
ISK	(229)	1,033	171	(396)	-	-	579	106
Total	**673**	**1,229**	**171**	**1,213**	**0**	**0**	**3,286**	**3,303**
Off-balance sheet items								
Total in foreign currencies	(28,398)	(398)	(3,273)	(469)	(6,773)	-	(39,311)	
ISK	(137,206)	(234)	(2,420)	(3,617)	(5,496)	-	(148,973)	
Total	**(165,604)**	**(632)**	**(5,693)**	**(4,086)**	**(12,269)**	**0**	**(188,284)**	
Net liquidity position in ISK	**(542,684)**	**(90,404)**	**64,288**	**226,759**	**1,187,174**	**26,581**	**871,714**	**4,810**
Net liquidity position in foreign currencies	**(48,195)**	**17,324**	**74,806**	**(45,851)**	**(18,945)**	**227**	**(20,634)**	**247,516**
Net liquidity position	**(590,879)**	**(73,080)**	**139,094**	**180,908**	**1,168,229**	**26,808**	**851,080**	**252,326**

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2019*:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(96,566)	(5,865)	(43,226)	(191,682)	(18,360)	-	(355,699)	(347,566)
ISK	(440,210)	(179,715)	(29,879)	(122,476)	(87,897)	-	(860,176)	(809,758)
Total	**(536,775)**	**(185,580)**	**(73,105)**	**(314,158)**	**(106,257)**	**0**	**(1,215,876)**	**(1,157,324)**
Derivative financial liabilities								
Total in foreign currencies	(582)	174	(274)	(9)	-	-	(691)	(1,379)
ISK	(736)	(266)	73	(1,600)	(390)	-	(2,919)	(1,930)
Total	**(1,319)**	**(91)**	**(201)**	**(1,609)**	**(390)**	**0**	**(3,610)**	**(3,309)**
Non-derivative financial assets								
Total in foreign currencies	70,239	59,901	73,032	135,006	11,672	2,735	352,585	348,203
ISK	96,945	51,309	121,092	341,205	1,108,921	27,284	1,746,755	1,062,833
Total	**167,184**	**111,209**	**194,124**	**476,211**	**1,120,593**	**30,019**	**2,099,340**	**1,411,036**
Derivative financial assets								
Total in foreign currencies	1,232	777	(434)	1,039	-	-	2,614	2,192
ISK	(374)	(54)	403	62	-	-	37	502
Total	**858**	**722**	**(31)**	**1,101**	**0**	**0**	**2,651**	**2,694**
Off-balance sheet items								
Total in foreign currencies	(22,542)	(411)	(2,085)	(1,563)	(6,439)	-	(33,040)	
ISK	(138,076)	(313)	(2,137)	(4,005)	(4,739)	(1,166)	(150,436)	
Total	**(160,618)**	**(725)**	**(4,221)**	**(5,568)**	**(11,179)**	**(1,166)**	**(183,477)**	
Net liquidity position in ISK	**(482,450)**	**(129,040)**	**89,552**	**213,186**	**1,015,894**	**26,118**	**733,260**	**251,647**
Net liquidity position in foreign	**(48,219)**	**54,575**	**27,014**	**(57,209)**	**(13,128)**	**2,735**	**(34,233)**	**1,451**
Net liquidity position	**(530,670)**	**(74,465)**	**116,566**	**155,977**	**1,002,767**	**28,852**	**699,028**	**253,098**

*Comparison numbers have been updated due to a correction made to the interest rate spread of floating rate assets and liabilities.

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76. Encumbered assets

Part of the Bank's loan portfolio has been pledged as collateral to secure the covered bonds issued by the Bank in accordance with Icelandic laws and FSA rules. The Bank has pledged assets as collateral to the Central Bank of Iceland to secure settlement in the Icelandic clearing systems, pledged assets as collateral to secure trading lines and credit support for GMRA and ISDA master agreements, as well as other pledges of similar nature.

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

	Collateral pledged against			
As at 31 December 2020	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	683	4,511	62,410	67,604
Bonds and debt instruments	-	-	119,330	119,330
Equities and equity instruments	-	-	26,808	26,808
Derivative instruments	-	-	3,303	3,303
Loans and advances to financial institutions	-	377	47,696	48,073
Loans and advances to customers	240,563	-	1,032,863	1,273,426
Investments in equity-accounted associates	-	-	1,722	1,722
Property and equipment	-	-	9,327	9,327
Intangible assets	-	-	1,696	1,696
Deferred tax assets	-	-	23	23
Other assets	-	-	11,227	11,227
Assets classified as held for sale	-	-	1,638	1,638
Total	**241,246**	**4,888**	**1,318,043**	**1,564,177**

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

Market risk

77. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices. Other market risk is defined as equity price risk and inflation risk, each of which is disclosed in the following notes.

78. Market risk management

The Group separates its exposure to market risk into trading and banking book portfolios, managing each separately. Trading portfolios include positions arising from market-making, hedges for derivative sales and proprietary position-taking. Banking book portfolios include positions arising from the Group's retail and commercial banking operations and proprietary position-taking as part of asset and liability management and funding transactions, managed by Treasury. Treasury is also responsible for daily liquidity management, creating exposure to market risk.

The Board of Directors is responsible for determining the Group's overall risk appetite, including for market risk. The CEO of the Bank appoints the Risk & Finance Committee, which is responsible for developing detailed market risk management policies and setting market risk limits. Treasury and the Market Making department within Markets are responsible for managing market-related positions under the supervision of Market Risk. The objective of market risk management is to identify, locate and monitor market risk exposures and analyse and report to appropriate parties.

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78. Market risk management (continued)

Market risks arising from trading and banking book activities are monitored and reported on a daily, weekly and monthly basis to the head of each business unit along with a comprehensive biannual risk report to the Board of Directors. The Group's market risk is thereby measured and monitored on a daily basis, and Market Risk monitors the limits set in the Group's risk appetite and submits these and other market risk measurements and concerns to the Risk & Finance Committee every other week. Several indicators are used, including daily profits and losses, delta positions and net positions across different attributes such as currency and issuer.

The Group uses risk exposure amounts (REA) and economic capital (EC) as a common denominator for measuring risk across different asset classes, including those assets subject to market risk. Risk exposure amounts are determined by applying specific risk weights to the Group's assets, following capital requirements regulations.

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

Market risk factor	2020 % of REA	2019 % of REA
Equity price risk	0.3%	0.4%
Interest rate risk	0.2%	0.4%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.4%	0.4%
Total	**1.0%**	**1.2%**

79. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity-based instruments.

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's banking book portfolio contains listed and unlisted equities as part of asset and liability management. Further details are disclosed in Note 22 and Notes 80-81.

80. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to changes in market interest rates.

Changes in interest rates for the Group's assets and liabilities, other than those in its trading portfolios, have an impact on its interest rate margin. This risk results primarily from duration mismatches between assets and liabilities. Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Group by the Treasury of the Bank, and is monitored by Market Risk.

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 31 December 2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	67,604	-	-	-	67,604
Bonds and debt instruments	57,071	21,199	33,530	7,530	119,330
Derivative instruments	3,303	-	-	-	3,303
Loans and advances to financial institutions	48,073	-	-	-	48,073
Loans and advances to customers	1,003,333	119,549	126,479	24,065	1,273,426
Other financial assets	9,853	-	-	-	9,853
Total	**1,189,237**	**140,748**	**160,009**	**31,595**	**1,521,589**
Financial liabilities					
Due to financial institutions and Central Bank	(48,725)	-	-	-	(48,725)
Deposits from customers	(787,612)	(3,073)	(2,742)	-	(793,427)
Derivative instruments and short positions	(3,725)	-	-	(523)	(4,248)
Borrowings	(79,014)	(15,456)	(258,310)	(67,398)	(420,178)
Other financial liabilities	(8,127)	-	-	-	(8,127)
Subordinated liabilities	-	-	(21,366)	-	(21,366)
Total	**(927,203)**	**(18,529)**	**(282,418)**	**(67,921)**	**(1,296,071)**
Net on-balance sheet position	262,034	122,219	(122,409)	(36,326)	225,518
Derivatives held for hedging	(93,660)	0	93,660	0	
Net off-balance sheet position	26,501	(24,501)	(2,000)	0	
Total interest repricing gap	**194,875**	**97,718**	**(30,749)**	**(36,326)**	

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80. Interest rate risk (continued)

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

81. Sensitivity analysis of trading portfolios

The management of market risk in the trading book is supplemented by monitoring sensitivity of the trading portfolios to various scenarios in equity prices and interest rates.

The following table shows the changes in the fair value for bonds for a +/-100 basis point parallel shift in all interest rate curves.

	2020		2019	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(71)	76	(104)	112
ISK, CPI indexed	(180)	207	(271)	310
Total	**(251)**	**283**	**(375)**	**422**

The following table shows how the Group's profit (loss) before tax would have been affected by a change of +/-5% in the price of equities and equity instruments in the trading book held by the Group at year-end.

	2020		2019	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	103	(103)	17	(17)
Other	-	-	-	-
Total	**103**	**(103)**	**17**	**(17)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

82. Sensitivity analysis of portfolios in the banking book

The management of interest rate risk in the Group's banking book is supplemented by monitoring the sensitivity of the fair value of financial assets and liabilities to various interest rate scenarios. The Group employs a monthly stress test of the interest rate risk in the Group's banking book by shifting the interest rate curves for every currency, and measuring the effect on economic value.

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82. Sensitivity analysis of portfolios in the banking book (continued)

The following table shows the changes in the fair value of financial assets and liabilities for a +/-100 basis point parallel shift in all interest rate curves.

	2020		2019	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(102)	94	205	(248)
ISK, CPI indexed	4,366	(4,293)	4,437	(4,510)
EUR	2,074	(2,184)	1,405	(1,479)
Other	(45)	46	200	(200)
Total	**6,293**	**(6,337)**	**6,247**	**(6,437)**

The following table shows how the Group's profit (loss) before tax would have been affected by a change of +/-5% in the price of equities which are classified into Level 1 or Level 2, as defined in Note 89.5 (f) and of +/-5% in the key unobservable inputs used in valuation of equities which are classified into Level 3, as defined in Note 89.5 (f), in the price of equities in the banking book at year end.

	2020		2019	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	204	(204)	808	(808)
Other	9	(9)	14	(14)
Total	**213**	**(213)**	**822**	**(822)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase (decrease) in profit before tax would have affected retained earnings.

83. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-linked financial instruments may fluctuate due to changes in the Icelandic CPI. To mitigate imbalance in the Bank's CPI-linked assets and liabilities, the Bank offers non-CPI-linked loans, CPI-linked deposits, CPI-linked covered bonds as well as CPI-linked interest rate swaps.

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk department within the Risk Management division. The following tables summarizes the Group's CPI imbalance, where CPI-linked financial assets and liabilities are calculated at their carrying amounts and categorised at maturity date, as at 31 December 2020 and 31 December 2019.

As at 31 December 2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	187	3,708	5,540	9,435
Loans and advances to customers	4,553	13,031	71,264	278,251	367,099
Total	**4,553**	**13,218**	**74,972**	**283,791**	**376,534**
Financial liabilities					
Deposits from customers	(74,090)	(2,582)	(12,899)	(36,902)	(126,473)
Derivative instruments and short positions	-	-	-	(523)	(523)
Borrowings	-	-	(66,156)	(67,399)	(133,555)
Subordinated liabilities	-	-	(5,705)	-	(5,705)
Total	**(74,090)**	**(2,582)**	**(84,760)**	**(104,824)**	**(266,256)**
Total on-balance sheet position	**(69,537)**	**10,636**	**(9,788)**	**178,967**	**110,278**
Off-balance sheet position					
Interest rate swaps	-	(24,295)	(5,737)	-	(30,032)
Total return swaps	(8,527)	-	-	-	(8,527)
Guarantees	-	(54)	(96)	(3,295)	(3,445)
Total off-balance sheet position	**(8,527)**	**(24,349)**	**(5,833)**	**(3,295)**	**(42,004)**
Total CPI indexation balance	**(78,064)**	**(13,713)**	**(15,621)**	**175,672**	**68,274**

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83. CPI indexation risk (all portfolios) (continued)

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

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1% change in the CPI applied to the inflation risk exposures in existence at 31 December 2020, with no change in other variables, would have changed net interest income by ISK 683 million (31 December 2019: ISK 1.292 million). The Group's equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings. However, in a scenario of ongoing high (low) inflation, floating unindexed interest rates are likely to remain higher (lower) than would be the case in the reverse scenario, thus counterbalancing the positive (negative) income effects for the Group in the medium and longer term.

Currency risk

84. Currency risk (all portfolios)

The Group follows Central Bank Rules No. 784/2018, on Foreign Exchange Balances. The rules stipulate that the foreign exchange balance (whether long or short) of a systemically important financial institution must always be within 10% of its capital base, in each currency and for all currencies combined, although the total foreign exchange balance should never exceed ISK 25,000 million. The Bank submits daily reports to the Central Bank on its foreign exchange balance and the Group submits monthly reports to the Central Bank on its foreign exchange balance.

The Group's combined net foreign exchange balance as at 31 December 2020 was +1.5% of the Group's total equity (31.12.2019: +1.2%).

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85. Concentration of currency risk

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

As at 31 December 2020	**EUR**	**GBP**	**USD**	**JPY**	**CHF**	**Other**	**Total**
Assets							
Cash and balances with Central Bank	434	188	416	14	55	374	1,481
Bonds and debt instruments	19,809	3	25,927	-	-	-	45,739
Equities and equity instruments	57	-	152	-	-	18	227
Derivative instruments	1,730	67	1,266	-	-	134	3,197
Loans and advances to financial institutions	19,072	2,614	7,450	125	987	17,479	47,727
Loans and advances to customers	188,235	4,280	54,582	1,081	187	3,404	251,769
Other assets	1	-	2,314	-	-	-	2,315
Total	**229,338**	**7,152**	**92,107**	**1,220**	**1,229**	**21,409**	**352,455**
Liabilities							
Due to financial institutions and Central Bank	(1,958)	(3)	(380)	-	-	-	(2,341)
Deposits from customers	(40,500)	(5,820)	(44,326)	(423)	(1,048)	(9,530)	(101,647)
Derivative instruments and short positions	(33)	(9)	(40)	-	-	-	(82)
Borrowings	(173,677)	-	(19,155)	-	-	(37,986)	(230,818)
Other liabilities	(950)	(146)	(425)	(7)	(7)	(502)	(2,037)
Subordinated liabilities	(15,661)	-	-	-	-	-	(15,661)
Total	**(232,779)**	**(5,978)**	**(64,326)**	**(430)**	**(1,055)**	**(48,018)**	**(352,586)**
Net on-balance sheet position	(3,441)	1,174	27,781	790	174	(26,609)	**(131)**
Net off-balance sheet position	4,374	(941)	(25,359)	(702)	-	26,698	**4,070**
Net currency position	**933**	**233**	**2,422**	**88**	**174**	**89**	**3,939**

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

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86. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 5% depreciation/appreciation of the ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 85.

	2020		2019	
Currency (ISK million)	**-5%**	**+5%**	**-5%**	**+5%**
EUR	47	(47)	127	(127)
GBP	12	(12)	24	(24)
USD	121	(121)	17	(17)
JPY	4	(4)	(1)	1
CHF	9	(9)	(7)	7
Other	5	(5)	(11)	11
Total	**198**	**(198)**	**149**	**(149)**

The Group's equity would have been affected to the same extent as the income statement, but net of income tax. This is because the increase/decrease in other net operating income would have affected retained earnings.

87. Foreign exchange rates used

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

	As at 31 December 2020	As at 31 December 2019	% change	Average for 1.1-31.12 2020	Average for 1.1-31.12 2019
EUR/ISK	156.10	135.80	14.9%	153.82	136.68
GBP/ISK	173.54	160.28	8.3%	173.65	156.09
USD/ISK	127.16	120.98	5.1%	134.26	122.00
JPY/ISK	1.23	1.11	10.8%	1.26	1.12
CHF/ISK	144.39	124.98	15.5%	143.54	122.94
CAD/ISK	99.85	93.27	7.1%	100.38	91.99
DKK/ISK	20.98	18.17	15.5%	20.64	18.31
NOK/ISK	14.93	13.76	8.5%	14.37	13.88
SEK/ISK	15.57	12.92	20.5%	14.70	12.95

Operational risk

88. Operational risk

Operational risk is the risk of financial losses resulting from fraud, the failure or inadequacy of internal processes or systems, from employee error or from external events. Operational risk includes legal risks, but excludes reputational risks. It is therefore inherent in all areas of business activities.

Whereas the managing director of each division is responsible for that division's operational risk, the daily management of operational risk is overseen by the general managers of each department. The Group establishes, maintains and coordinates its operational risk management framework. This framework complies with the Basel Committee's 2011 publication, "Principles for the Sound Management of Operational Risk". The Group ensures that operational risk management stays consistent throughout the Group by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit function. By managing operational risk in this manner, the Group intends to ensure that all of the Group's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented to minimize risk in an efficient and effective manner.

Accounting policies

89. Significant accounting policies

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

The principal accounting polices used in preparing these Consolidated Financial Statements are set out in Notes 89.1 to 89.42.

89.1. Consolidation and non-controlling interests

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities. For the Group to have power over an entity, it must have the practical ability to exercise those rights.

Where voting rights are not relevant in deciding whether the Group has power over an investee, the assessment of control is based on all facts and circumstances. This includes circumstances in which protective rights become substantive and lead to the Group having power over an investee.

Subsidiaries are fully consolidated from the date on which control is obtained, and are de-consolidated from the date on which control ceases.

The acquisition method is applied to account for business combinations through which the Group obtains control. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay a contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in fair value are recognised in profit or loss.

Intercompany transactions, balances, and unrealised gains on transactions between Group entities are eliminated in the Consolidated Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

89.2. Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group acts as fund manager or investment advisor to a number of investment funds operated by a subsidiary of the Bank. The purpose of these investment funds is to generate fees from managing assets on behalf of third-party investors by providing investment strategies. These investment funds are financed through the issue of units to investors. The Group has no contractual obligation to provide financial support to these structured entities.

From time to time, the Group makes seed capital investments in certain fund products in order to establish track records for new products, to test new investment strategies or to launch new products at a viable minimum size.

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed as such without cause, has variable returns through significant unit holdings and/or a guarantee, is able to influence the returns of the funds by exercising its power and the Group's aggregate interest is in each case not less than 15%.

For further disclosure in respect of unconsolidated investment funds in which the Group acts as an agent, see Note 43 Unconsolidated structured entities.

89. Significant accounting policies (continued)

89.3. Associates

Associates are entities in which the Group has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20% and 50% of the voting power of another entity. The Group accounts for investments in associates either using the equity method or as financial assets designated at fair value through profit or loss, as described further in this note.

Equity-accounted associates

Investments in equity-accounted associates are accounted for using the equity method from the date on which significant influence is obtained and are initially recognised at cost. Goodwill relating to an investment in an associate is included in the carrying amount of the investment. Any excess of the Group's share of net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period which the investment is acquired. Investments in associates which are accounted for by the Group using the equity method are presented in the consolidated statement of financial position in the line "Investments in equity-accounted associates".

Because goodwill included in the carrying amount of an investment in an associate is not recognised separately, it is not separately tested for impairment according to the requirements for goodwill impairment testing in IAS 36, Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment under IAS 36 by comparing its recoverable amount with its carrying amount, whenever application of the requirements in IFRS 9, Financial Instruments, indicates the investment may be impaired.

The Group's share of its equity-accounted associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements in their reserves is recognised in the Group's equity reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associates. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

Associates designated at fair value through profit or loss

The Group designates certain investments in associates upon initial recognition at fair value through profit or loss and they are accounted for in accordance with IFRS 9, Financial Instruments. The Group measures such investments at fair value, with changes in fair value recognised in the income statement in the relevant period as net gain (loss) on financial assets designated at fair value through profit and loss in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL".

89.4. Foreign currency translation

Transactions in a currency other than the functional currency, i.e. foreign currency, are translated initially into the functional currency at the spot exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are measured at amortised cost or fair value, as applicable, in their respective foreign currencies at the reporting period and are converted into the functional currency at the closing spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the reporting period, adjusted for effective interest and payments during the reporting period, and the amortised cost in foreign currency translated at the closing exchange rate at the end of the period. All foreign currency differences arising on currency translation are recognised in the line item "Net foreign exchange gain(loss)" in the income statement.

89.5. Financial assets and liabilities

(a) Recognition and initial measurement

The Group initially recognises loans and advances, deposits and borrowings, on the date at which they are originated. All other financial assets and liabilities are initially recognised on the date at which the Group becomes a party to contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the date at which the Group committed itself to purchasing or selling the asset.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(b) Classification

On initial recognition, a financial asset is classified as measured at: Amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

89. Significant accounting policies (continued)

89.5. Financial assets and liabilities (continued)

(b) Classification (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.
- The primary risks that affect the performance of the business model and its strategy for managing those risks.
- The methods by which the performance of assets in a portfolio is evaluated and reported to management.
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activities. Sales in themselves do not determine the business model and are not considered in isolation. Instead, sales provide evidence about how cash flows are realised.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell.

Cash flow characteristics assessment

The SPPI test, which requires that the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest, is used to determine whether loans and advances granted to financial institutions and to customers are measured at amortised cost or at FVTPL.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows,
- leverage features,
- terms that may adjust the contractual coupon rate, including variable-rate features,
- prepayment and extension features; and,
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

(c) Derecognition

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or when the Group transfers the rights to receive contractual cash flows relating to the financial asset in a transaction which substantially transfers all the risks and rewards of ownership of the asset or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in the Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In cases where all or substantially all of the risks and rewards are retained, transferred assets are not derecognised. Asset transfers whereby all or substantially all risks and rewards are retained include, for example, securities lending and repurchase transactions.

89. Significant accounting policies (continued)

89.5. Financial assets and liabilities (continued)

(c) Derecognition (continued)

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

d) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised see note 88.5 (g) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and,
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, it first considers whether a portion of the asset should be written off before the modification takes place, see Note 88.5 (g) Write-off. This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, see Note 88.5 (g), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as de-recognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(e) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and simultaneously settle the liability.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions, such as in the Group's trading activity.

89. Significant accounting policies (continued)

89.5. Financial assets and liabilities (continued)

(f) Fair value measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The fair value of a liability reflects its non-performance risk. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument, if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions at an arm's-length basis. Where available, the relevant market's closing price determines the fair value of financial assets held for trading and of assets designated at fair value through profit or loss; this will generally be the last trading price. If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using 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, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates every factor that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank has a valuation committee which estimates fair value by applying models and incorporating observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available, observable market data.

Should the transaction price differ from the fair value of other observable, current market transactions in the same instrument or be based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a day 1 profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised in the income statement depending on the individual circumstances of the transaction but no later than when the inputs become observable, or when the instrument is derecognised.

The fair value of financial assets and liabilities is determined based on different methods and assumptions depending on what financial asset or liability is being valued. For all foreign currency financial assets and liabilities, the exchange rates used are from observable markets both for spot and forward contracts and futures in the major currencies.

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs used to measure fair value of financial assets and liabilities. Fair value measurements of financial instruments are made on the basis of the following hierarchy:

• Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.

• Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. The yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.

• Level 3: Valuation technique based on significant non-observable inputs. It covers all instruments for which the valuation technique includes inputs based on unobservable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there is no market data available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares, in addition to recent transactions and current market conditions. Valuation of loans and advances to customers is based on market data such as interest and inflation curves and probability of default.

Assumptions used in the valuation technique include risk-free and benchmark interest rates for estimating discount rates, credit spreads, bonds and equity prices, foreign currency exchange rates, market multipliers, market conditions for estimating future growth and other market indicators.

(g) Impairment of financial assets

Impairment process

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and balances with Central Bank
- Bonds and debt instruments
- Loans and advances to financial institutions
- Loans and advances to customers
- Off-balance sheet credit exposures:
  - Financial guarantees and underwriting commitments
  - Undrawn loan commitments
  - Undrawn overdraft/credit card facilities

89. Significant accounting policies (continued)

89.5. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Impairment process (continued)

When measuring ECL, the Group uses a forward-looking model in compliance with IFRS 9. This requires considerable judgement over how changes in economic factors affect ECL. ECL reflects the present value of cash shortfalls due to possible default events either over the following twelve months or over the expected lifetime of a financial instrument, depending on credit deterioration from inception.

Risk Management is responsible for assessing impairment on loans and receivables and a Valuation Team, comprised of the CEO, the managing directors of Finance, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

In general, all impairment charges are loan-specific based on the aforementioned ECL models. If needed, the Valuation Team can assess and issue additional general impairment charges on the loan portfolio as a whole or part of it.

The impairment process for each reporting period is as follows:

1. The Economic Research Department provides scenarios with forecasts on relevant economic variables and presents them to the Valuation Team.
2. The Valuation Team approves the scenarios and their respective weights for the reporting date.
3. Loans are classified for measurement by amortised cost (impairment) or the fair value approach.
4. Parameters for staging and ECL calculations are estimated.
5. Results from manual staging and ECL calculations for individually significant loans are applied.
6. Staging and ECL calculations are carried out for all loans that are subject to impairment.
7. The Valuation Team receives reports from Risk Management on the impairment results. The reports are reviewed by the Team and valuations are determined.
8. Results of staging and impairment are presented in the Group's annual and interim reports.

ECL calculation

IFRS 9 requires the calculation of an ECL that is probability-weighted and reflects an unbiased, probability-weighted outcome. The probability-weighted outcome considers variable forward looking scenarios based on reasonable and available information. In general, the calculation of ECL is based on the present value of the multiplication of the following parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Under IFRS 9, credit loss allowance on all loans is measured on each reporting date according to a three-stage expected credit loss model. Allowance is calculated as either the 12-month expected credit loss or the lifetime ECL.

- Stage 1 – No significant increase in credit risk. Loans whose credit risk has not increased significantly shall be Stage 1 and the loss allowance measured as the 12-month expected credit losses.
- Stage 2 – Significant increase in credit risk. Loans whose credit risk has increased significantly since initial recognition but are not credit-impaired shall be Stage 2 and the loss allowance measured as the lifetime ECL.
- Stage 3 – Credit-impaired. Loans where the obligor is in default or otherwise impaired shall be Stage 3 and the loss allowance measured as the lifetime ECL.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as measured at the reporting date has increased significantly relative to the credit risk measured at initial recognition. For the purpose of this assessment, credit risk is based on an instrument's lifetime PD, not the loss amounts.

Credit-impaired loans

A financial asset is credit-impaired if one or both of the following events have occurred:

- A loan that is more than 90 days past due is considered to be in default and therefore credit-impaired.
- It is considered likely that an obligor cannot fully fulfil their obligations unless the Bank resorts to enforcement activities, such as the collection of collateral.

The following events are used as indicators of default for a financial asset. Events automatically leading to default are marked with an asterisk.

- Bankruptcy*
- Restructuring*
- Sale of an obligation to a third party
- Impairment: The Bank classifies the asset as Stage 3
- Legal collection*

Other factors that may indicate default are concessions to a customer because of financial difficulties and notices in financial statements on the operational viability of the customer.

Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD as at the reporting date that was estimated at initial recognition.

89. Significant accounting policies (continued)

89.5. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

The framework aligns with the Group's internal credit risk management process, and includes a backstop based on delinquencies so that a significant increase in credit risk occurs no later than when contractual payments are more than 30 days past due. If an asset's credit rating grade at the reporting date does not comply with benchmarks set by the Group's risk appetite that also constitutes a significant increase in credit risk. The Group also applies a low-risk criterion, which states that as long as the rating grade of an asset qualifies as investment grade, the asset will be categorized as Stage 1.

The estimation of whether credit risk has increased significantly for individually significant loans is carried out manually. Loans are initially assessed based on quantitative criteria and based on that assessment, staging is manually assessed using both quantitative and qualitative information.

Presentation of allowance

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.
- Loan commitments, overdrafts and financial guarantee contracts: as allowance for impairment or provision classified as liabilities.
- Where a financial instrument includes both a drawn and an undrawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision and classified with other liabilities.

Restructured financial assets

In regard to financial restructuring of customers, the Group has put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans.

The general rule is that when loan restructuring is significant enough to qualify for derecognition, a new loan is created and staging and impairment is carried out as if it was a new loan. The previous loan is derecognized.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Provision used to cover write-offs is shown as the provision for the written-off asset as at the start of the reporting period. The provision used to cover write-offs cannot exceed the written-off amount.

Recoveries of amounts previously written off are included in 'Net valuation adjustments and impairment' in the statement of profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and an agreement of new loan terms. Loans which are impaired and whose terms are renegotiated are not considered to be new loans. Once the terms have been renegotiated these loans are no longer considered past due and any subsequent impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to individual or collective impairment assessment. Loans which are not individually impaired and whose terms have been renegotiated are accounted for as new loans. Accordingly, the original loans are derecognised and the renegotiated loans are recognised as new loans.

89.6. Cash and balances with Central Bank

Cash and cash equivalents include notes and coins on hand, and balances held with central banks. The carrying amount of balances with the Central Bank of Iceland is a reasonable approximation of their fair value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position. The Group measures 12-month ECL for cash and cash equivalents measured at amortised cost that are determined to have low credit risk at the reporting date.

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. The reserve requirements fall into two categories: a fixed reserve requirement of 1% bearing no interest and an average maintenance level requirement of 0%. Amendments were made to the rules as of the reserve period starting 21 March 2020 whereby the average maintenace level requirement was reduced from 1% to 0% and the fixed reserve requirement became eligible to serve as liquidity reserves.

89. Significant accounting policies (continued)

89.7. Bonds and debt instruments

Bonds and debt instruments are either measured at amortised cost or at fair value through profit or loss.

Bonds and debt instruments classified as financial assets at fair value through profit or loss (FVTPL) are recognised at fair value both initially and subsequent to initial recognition. These are either designated or mandatorily measured at FVTPL - fair value option. Transaction costs are recognised immediately as fees in the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement, either as net gain (loss) on financial assets and liabilities held for trading or net gain (loss) on financial assets designated at fair value in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL". Foreign exchange gains and losses are included in the line item "Net foreign exchange (loss) gain".

Bonds and debt instruments designated at FVTPL must have a reliably measurable fair value and the designation must eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (sometimes referred to as an "accounting mismatch"). This includes, inter alia, bonds held for trading purposes.

Bonds and debt instruments mandatorily measured at FVTPL are managed on a fair value basis but not held for trading or their cash flows do not represent solely payments of principal and interest.

Bonds and debt instruments classified at amortised cost are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and it is recognised in the line item "Interest income" in the income statement. Bonds and debt instruments within a held-to collect business model under which their contractual cash flows are solely payment of principal and interest are measured at amortised cost. The Group measures 12-month ECL allowances for bonds and debt instrument classified at amortised cost that are determined to have low credit risk at the reporting date.

89.8. Equities and equity instruments

Equities and equity instruments classified as financial assets at fair value through profit or loss are recognised at fair value both initially and subsequent to initial recognition.

Equities and equity instruments designated at FVTPL must have a reliably measurable fair value and the designation must eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (sometimes referred to as an "accounting mismatch"). This includes, inter alia, equities held for trading purposes.

Equities and equity instruments mandatorily measured at FVTPL are managed on a fair value basis but not held for trading.

Equities and equity instruments classified as financial assets at FVTPL are recognised at fair value both initially and subsequent to initial recognition. Transaction costs are recognised immediately as fees in the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement, either as net gain (loss) on financial assets and liabilities held for trading or net gain (loss) on financial assets designated at fair value in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL". Foreign exchange gains and losses are included in the line item "Net foreign exchange (loss) gain".

Quoted prices are generally readily available for equities listed on the world's stock exchanges and for major indices on such shares. In lieu of such information, fair value is estimated based on market prices and earnings multiples from similar securities, recent transactions or by using discounted cash flow methods.

89.9. Derivative instruments

Derivatives are initially recognised in the statement of financial position at fair value, with transaction costs recognised in the income statement. The fair value of derivative instruments is determined using valuation methods whose most significant input is volatility, which is obtained from broker quotations, pricing services or derived from option prices. Subsequently, derivatives continue to be carried at fair value, with all fair value changes recognised in the income statement as net gain on financial assets and liabilities held for trading in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL", except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement. In the statement of financial position, derivatives with positive fair values are recognised as assets and derivatives with negative fair values as liabilities.

89.10. Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is a component of a combined (hybrid) financial instrument that also includes a non-derivative host contract. The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

89. Significant accounting policies (continued)

89.10. Embedded derivatives (continued)

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contracts.

Pursuant to IFRS 9, a derivative embedded in a host contract where the host is a financial asset is not separated from the host contract. Instead, the hybrid financial instrument as a whole is assessed whenever the contractual cash flows are solely payments of principal and interest.

89.11. Loans and advances

'Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method,
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and,
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

89.12. Property and equipment

All property and equipment is recognised at cost, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditures directly attributable to acquiring these assets.

Subsequent costs are included in an asset's carrying amount only if it is probable that future economic benefits associated with the item will flow to the Group and if these costs can be reliably measured. All other repairs and maintenance are charged to the income statement of the financial period in which their costs are incurred.

Depreciation of any property and equipment is calculated using the straight-line method. This method is applied to the depreciable amount of the assets, which is their cost less their residual value over their estimated useful lives, as follows:

Buildings	25-50 years
Computer hardware	3 years
Other equipment and motor vehicles	3-10 years

An asset's residual value and useful life is reviewed annually and adjusted where appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the item "Other income and expenses" in the income statement.

89.13. Intangible assets

Computer software

Computer software is capitalised on the basis of cost to acquire or develop and bring into service. Computer software recognised as an intangible asset is amortised over its useful life, which is estimated to be 3-5 years.

The costs associated with maintaining computer software are recorded as expenses at the time they are incurred.

Goodwill

Goodwill is recognised as an asset only if acquired in a business combination. It is recognised as of the acquisition date and measured as the aggregate of the fair value of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree, and the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is generally reviewed for impairment annually, but more frequently if events or changes in circumstances indicate a potential impairment of the carrying amount. For the purpose of impairment testing, goodwill is allocated as of the acquisition date to each of the Group's cash-generating units (CGUs) or group of CGUs which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which this goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Where goodwill is attached to a particular unit of a CGU (or of a group of CGUs) and part of the operations within that unit is disposed of, the goodwill that is associated with the operations disposed of is included in the carrying amount of these operations when determining the gain or loss incurred upon disposing of the operations.

89. Significant accounting policies (continued)

89.14. Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is either an asset's fair value less selling costs or its value in use, whichever is higher. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). With the exception of goodwill, non-financial assets are reviewed at each reporting date for any possible reversal of impairment.

89.15. Income tax

(a) Income tax

Income tax is recognised based on the domestic income tax laws and corporate income tax rates that have been enacted at the reporting date. Income tax recognised in these Consolidated Financial Statements comprises current and deferred tax.

The income tax for the operating year 2020 was recognised at the year-end corporate income tax rate of 20.0% (2019: 20.0%) and an additional special income tax on financial institutions is recognised at the rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011, on Financial Activity Tax.

(b) Current tax

Current tax is the expected tax payable on the taxable income for the current year and, if applicable, adjustments to the tax payable or receivable in respect of previous years. Current tax is measured based on the domestic income tax laws and corporate income tax rates that have been enacted at the reporting date.

(c) Deferred tax

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred income tax is recognised in full as a liability, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither the Group's accounting nor its taxable profit or loss. Deferred income tax is determined based on domestic income tax laws and corporate income tax rates that have been enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

d) Joint taxation

The Bank is taxed jointly with its subsidiaries Landsbréf hf., Eignarhaldsfélag Landsbankans ehf., Blámi - fjárfestingafélag ehf., Hömlur ehf. and Hömlur fyrirtæki ehf.

89.16. Tax on liabilities of financial institutions

On 31 December 2013, the Parliament of Iceland passed an amendment to Act No. 155/2010, on Special Tax on Financial Institutions, according to which financial institutions must pay annually a tax calculated as 0.145% (2019: 0.376%) of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense.

89.17. Assets and liabilities classified as held for sale

The Group classifies non-current assets (or groups of assets together with related liabilities) as held for sale when their carrying amount will be recovered principally through a sale transaction. These are usually acquired by foreclosure on collateral securing loans and advances, including assets and liabilities of subsidiaries over which the Group obtains control through foreclosure on collateral and/or financial restructuring.

A non-current asset (or group of assets together with related liabilities) is considered to be recovered principally through a sale transaction when the asset's sale is highly probable and it is available for immediate sale in its present condition, subject to ordinary and customary terms on the sale of such assets. Management must be committed to the sale and must actively market the asset for sale at a price that is reasonable in relation to its current fair value. A further condition is that the sale is expected to qualify for recognition as completed within one year from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Additional net assets that become part of a disposal group, for example due to profits generated by the disposal group, increase the carrying amount of the disposal group but not in excess of the fair value less costs to sell of the disposal group as determined at each reporting date.

In the case of single assets classified by the Group as held for sale, the Group determines their fair value less costs to sell by reference to the current market price at each reporting date. In the case of subsidiaries classified as held for sale, the Group determines the fair value of disposal groups based on discounted cash flow methodologies. Costs to sell are deemed to be only the costs which are directly attributable to the disposal of the disposal groups, excluding finance costs and income tax expense.

89. Significant accounting policies (continued)

89.18. Deposits

Deposits from customers and financial institutions are the primary source of funding for the Group. The deposits consist of demand deposits and term deposits. Deposits are initially measured at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. The fair value of a financial liability with a demand feature, such as demand deposits, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

89.19. Secured borrowings

Each covered bond series of the secured borrowings denominated in ISK is issued under the Bank's ISK 250,000 million Covered Bond Programme. These covered bonds are issued under a licence from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) and with reference to Act No. 11/2008 and FSA Rules No. 528/2008. All covered bond series are listed and traded on Nasdaq Iceland.

The covered bonds are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued CPI-indexation for indexed bonds is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement. Foreign exchange gains and losses are included in the line "Net foreign exchange (loss) gain".

89.20. Unsecured borrowings

The unsecured borrowings consist of senior bonds denominated in foreign currencies and marketable commercial papers denominated in ISK. The bonds are issued by the Bank under its EUR 2.000 million Euro Medium Term Note (EMTN) Programme and are listed and traded on the Irish Stock Exchange. The commercial papers on the other hand are issued under the Bank's ISK 50.000 million Debt Issuance Programme and listed and traded on Nasdaq Iceland.

The unsecured bonds and commercial papers are initially measured at fair value less directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement.

No unsecured non-indexed commercial papers were outstanding at year-end 2020.

89.21. Hedge accounting

IFRS 9 incorporates new hedge accounting rules intended to align hedge accounting with risk management practices. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group has opted to continue to apply IAS 39. The Group will nevertheless provide the expanded disclosures on hedge accounting introduced by the amendments to IFRS 7 Financial Instruments.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group uses interest rate swaps to hedge its exposure to changes in the fair values of some of its notes, issued under the Bank's Euro Medium Term Note (EMTN) programme. Such interest rate swaps are matched to specific issuances of the EMTN fixed-rate notes. The change in fair value of interest rate swaps together with change in the fair value of bonds attributable to interest rate risk is recognised immediately as net gain (loss) on fair value hedges in "Net gain (loss) on financial assets and financial liabilities at FVTPL" in the income statement. Accrued interest on both bonds and swaps is included in the line item "Interest expense".

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate, equity market and credit risk. The financial instruments used include, but are not limited to, interest rate swaps, cross-currency swaps, forward contracts, futures, options, credit swaps and equity swaps.

On initial designation of the hedges, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at the inception of the hedge relationships and on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustments, up to the point of discontinuation, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

89. Significant accounting policies (continued)

89.22. Other liabilities

Unpaid contributions to the Depositors' and Investors' Guarantee Fund

According to Act No. 98/1999, on Deposit Guarantees and Investors' Compensation Scheme, as subsequently amended, the Bank is to pay each quarter a non-refundable general and variable contribution to the Icelandic Depositors' and Investors' Guarantee Fund. On 1 September 2020, Act No. 70/2020, amending Act No. 98/1999, entered into force, providing that payments to each depositor shall equal the total amount of eligible deposits at a maximum of EUR 100,000 in ISK.

The general contribution is 0.02% per annum (0.005% on each quarterly due date) of covered deposits, as defined in the Act, up to ISK 10,000 million, and 0.16% of covered deposits in excess of this amount (0.04% on each quarterly due date). The variable contribution is determined by a risk factor assigned to the Bank by the Financial Supervisory Authority and may at maximum be equal to the general contribution.

The Bank only recognises a liability for contributions to the Fund equivalent to the amount which the Bank has at the end of each accounting period been requested to pay. This is the contribution which the Bank is to pay during the current quarter for the preceding quarter. Other contributions to be paid by the Bank to the Fund in later periods are dependent on the Bank's future activities and are thus not recognised as a liability on the reporting date.

89.23. Subordinated liabilities

Subordinated liabilities are comprised of Tier 2 subordinated bonds issued by the Bank, on the one hand in foreign currencies under its Euro Medium Term Note (EMTN) programme, and, on the other, in Icelandic króna under its Debt Issuance Programme. The subordinated liabilities share characteristics of equity in that they are subordinated to other Group liabilities and are included in equity in equity ratio calculations. The outstanding amounts of the subordinated liabilities are subject to regulatory amortisation whereby the amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity.

Subordinated liabilities are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued inflation indexation is recognised as part of the carrying amount of subordinated liabilities.

89.24. Short positions

Short positions are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. These obligations are initially recognised in the statement of financial position at fair value, with transaction costs recognised in the income statement. Subsequently, they continue to be carried at fair value, with all fair value changes recognised in the income statement as net gain on financial assets and liabilities held for trading in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL". The short positions are in Icelandic government bonds with readily available quoted market prices.

89.25. Repurchase and reverse repurchase agreements

Repurchase agreements consist of repo and reverse repo transactions with other banks. Repo transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in both cases.

Securities originally sold by the Bank under repurchase agreements continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of securities it sells under repurchase agreements. Inflows of liquidity from repo transactions are recognised in the financial statements of the Bank as financial liabilities to counterparties. Interest payments are recognised as interest expense in net interest income. Inflows are measured either at fair value using the fair value option or at amortised cost.

Conversely, securities originally bought by the Bank under reverse repurchase agreements are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of securities bought by the Bank under repurchase agreements. Outflows of liquidity arising from reverse repos are accounted for as claims on counterparties. Interest payments in reverse repos are recognised as interest income under net interest income. Outflows are measured either at fair value using the fair value option or at amortised cost.

Repurchase agreements and reverse repurchase agreements are initially measured at fair value less transaction costs and subsequently either at fair value using the fair value option or at amortised cost.

89.26. Collateral swaps

Collateral swaps consist of collateral swaps with other banks whereby the collateral provided is in the form of securities. In essence, collateral swaps are a form of securities lending whereby the Bank borrows relatively liquid securities from another bank in exchange for a pledge of less liquid securities. The securities borrowed by the Bank from the counterparty are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of the securities. However, the securities lent to the counterparty by the Bank continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of the securities. The Bank pays a fee to the lender to compensate for the risk of holding less liquid collateral. Interest and expenses from collateral swaps are recognised in net interest income. Collateral swaps are initially measured at fair value less transaction costs and subsequently at amortised cost.

89. Significant accounting policies (continued)

89.27. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder of a financial guarantee for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Group recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

89.28. Contingent liabilities and provisions

The Group does not recognise contingent liabilities as liabilities in the statement of financial position, other than contingent liabilities which are assumed in a business combination and which have a fair value that can be measured reliably. A contingent consideration transferred by the Group in a business combination is recognised at its acquisition-date fair value. The Group classifies the obligation to pay contingent considerations as liability or equity and accounts for changes in fair value in accordance with applicable IFRSs.

Provisions for expenditures such as those related to legal claims or restructuring are recognised as incurred when (i) the Group has as a result of past events a present legal or constructive obligation to pay, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected for settling the obligation. A pre-tax rate is used which reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognised as interest expense.

89.29. Pension liabilities

When the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands merged with Landsbankinn in 2015, the Bank took over pension obligations towards the former employees and part of the employees' pension obligations of these savings banks at the time. The pension liability is calculated annually by an actuary. The increase in the liability in 2020 is expensed in the income statement and is included in salaries and related expenses.

89.30. Employee benefits

All Group entities have defined contribution plans, with the entities paying a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense in the income statement when they become due and are included in salaries and related expenses. The Group has no defined benefit pension plan.

89.31. Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are presented separately in equity as a deduction from share premiums.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity during the period in which they are approved by the Bank's shareholders' meeting.

89.32. Fiduciary activities

The Group acts as a custodian, by holding or placing assets on behalf of individuals, institutions and pension funds, including various mutual funds managed by the Group. These assets are not reported in the Consolidated Financial Statements, since they are assets held on behalf of customers, institutions and pension funds and are not assets of the Group.

89.33. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

89. Significant accounting policies (continued)

89.33. Interest income and expense (continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date the amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss includes:

- Interest on financial assets and financial liabilities measured at amortised cost,
- interest on debt instruments measured at FVTPL; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Other interest income presented in the statement of profit or loss includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Changes in the fair value of financial assets and financial liabilities at FVTPL, including interest income and interest expense, are presented in the income statement in "Net gain on financial assets and liabilities at FVTPL".

89.34. Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate and recognised under interest income in the income statement.

Fee and commission income and expense are recognised in the income statement when an agreement with a customer meets all of the following criteria:

- The parties to the contract have approved the contract and are committed to perform their respective obligations.
- Performance obligations have been established for services to be transferred.
- The payment terms have been established for the services to be transferred.
- The transaction price can be allocated to each individual service in the agreement.
- It is probable that a consideration will be collected in exchange for the services that will be transferred to the customer.

The following applies to recognition of income for various types of fees and charges:

- Fees that are earned gradually as the services are performed, such as management fees in asset management, are recognised as income at the rate these services are delivered. In practice, these are on a straight-line basis.
- Fees attributable to a specific service or action are recognised as income when the service has been performed. Examples of such fees are brokerage and payment commission.

Income and expense for various kinds of services are recognised in the income statement under "Fee and commission income" and "Fee and commission expense", respectively. This means that brokerage income and various types of management fees are recognised as commissions. Other forms of income recognised as commission are payment fees, card fees and premiums of issued financial guarantees.

89.35. Net gain (loss) on financial assets and liabilities at FVPL

Net gain (loss) on financial assets and financial liabilities is composed of: 1) net gain (loss) on financial assets designated at fair value through profit or loss; and 2) net profit (loss) on fair value hedges.

1) The net gain (loss) on financial assets designated at fair value through profit or loss includes:

- All realised and unrealised changes in fair value.
- Interest income on an accrual basis.
- Dividend income, which is recognised when the Group's right to receive payment is established.

2) The net profit (loss) on fair value hedges includes:

- All realised and unrealised changes in the fair value of hedging instruments.
- All realised and unrealised changes in the value of hedged items.
- Interest income/expense on an accrual basis that is included in the line item "Interest expense" in the income statement.

89. Significant accounting policies (continued)

89.36. Net foreign exchange (loss) gain

Net foreign exchange gain (loss) includes all gains and losses arising from the settlement of transactions in foreign currencies and translation at month-end exchange rates of monetary assets and liabilities denominated in foreign currencies, including non-derivative financial assets and liabilities classified as held for trading and financial assets designated at fair value through profit or loss. Foreign exchange gains and losses arising from derivative financial assets and liabilities are included in the line item "Net gain (loss) on financial assets and financial liabilities at FVPL" in the income statement, except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC equity derivatives which are included in the line item "Net foreign exchange (loss) gain" in the income statement.

89.37. Other income and expenses

Other income and expenses include, *inter alia*, revenue arising from recharging agreements and gains and losses on repossessed collateral and property and equipment.

89.38. Leases

Leases that are not exempt are reported in the Consolidated Financial Statements under IFRS 16 *Leases*. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(a) When the Group is the lessee

The leases into which the Group enters as a lessee are primarily operating leases. Under IFRS 16, lessees are required to recognise assets for the right-of-use of the underlying assets and liabilities for the obligations to make lease payments created by the leases. The assets and liabilities are recognised in the Statement of Financial Position under "Other assets" and "Other liabilities".

Initially, the lease liability and the right-of-use asset will be measured at the present value of the lease payments (defined as unavoidable payments). A right-of-use asset is then depreciated on a straight-line basis over the lease period and the depreciation charge is recognised under Other operating expenses in the income statement. The lease liability is measured at the present value of future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Interest expenses on lease liabilities are recognised in the income statement under Interest expenses. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or interest or exchange rate, change in contractual lease payments and extension of leases. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets.

Short-term leases and leases of low-value assets

Exempted from the requirement of IFRS 16 to recognise assets and liabilities for leases into which the Group enters as a lessee are leases with a lease term of 12 months or less or with low-value underlying assets. In such cases the Group recognises the lease payments under Other operating expenses in the income statement.

(b) When the Group is the lessor

When assets are held subject to a finance lease, the present value of lease payments is recognised as a receivable under Loans and advances to customers in the Statement of Financial Position. Finance income from such a lease is recognised as interest income in the income statement over the term of the lease, using a method that reflects a constant periodic rate of return on the Group's net investment in the lease.

Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Group holds investment property as a consequence of the ongoing rationalisation of its retail branch network and acquisitions through enforcement of security over loans and advances.

Investment property is comprised of a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee and historically the average renewal period is four years. Further information about these leases is included in Note 39.

89. Significant accounting policies (continued)

89.39. Discontinued operations

The Group presents discontinued operations in a separate line of the Consolidated Income Statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:

- represents a major separate line of business,
- is a part of a single co-ordinated plan to dispose of a major separate line of business,
- is a subsidiary acquired exclusively with a view to resale.

The profit from discontinued operations disclosed in the Consolidated Income Statement consists of (a) post-tax profit or loss from discontinued operations and (b) post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or the disposal groups constituting the discontinued operation. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting, from the rest of the Group's operations and cash flows.

89.40. Earnings per share

Basic earnings per share (EPS) are calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the accounting period, excepting own shares. Diluted EPS are determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

89.41. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed monthly by the Executive Board (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

89.42. New standards, amendments to standards and interpretations of standards

The International Accounting Standards Board (IASB) has issued new IFRS standards and made amendments to standards which have not yet taken effect. Those standards are not expected to have a significant impact on the Group’s Consolidated Financial Statements.

A fundamental reform (referred to as the ‘IBOR reform’) of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rates (IBORs) with alternative nearly risk-free rates (RFRs). The change is expected to enter into effect for EUR, CHF, JPY and GBP at year-end 2021 and around mid-2023 for USD. The Group has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. In accordance with the terms of the instruments, the Bank may determine that the relevant IBOR benchmark rate may be replaced by a successor rate, if available, or an alternative rate in the interbank market or foreign exchange and swap markets. The Bank has commenced work to change benchmark rates in its financial instruments in accordance with the aforementioned market reform.

Consolidated Key Figures

90. Operations by years

Operations	2020	2019	2018	2017	2016
Interest income	66,498	72,172	69,378	62,556	64,612
Interest expense	(28,424)	(32,502)	(28,564)	(26,285)	(29,962)
Net interest income	**38,074**	**39,670**	**40,814**	**36,271**	**34,650**
Fee and commission income	10,819	11,528	11,220	11,289	10,290
Fee and commission expense	(3,181)	(3,309)	(3,063)	(2,858)	(2,481)
Net fee and commission income	**7,638**	**8,219**	**8,157**	**8,431**	**7,809**
Net gain on financial assets and liabilities at FVTPL	4,257	7,993	1,654	5,802	1,755
Net foreign exchange loss	(278)	(584)	(1,497)	(1,375)	(179)
Credit impairment losses	(12,020)	(4,827)	1,352	1,785	(318)
Other income	582	1,046	3,430	2,598	4,983
Net Other operating income (expenses)	**(7,459)**	**3,628**	**4,939**	**8,810**	**6,241**
Total operating income	**38,253**	**51,517**	**53,910**	**53,512**	**48,700**
Salaries and related expenses	(14,767)	(14,458)	(14,589)	(14,061)	(14,049)
Other operating expenses	(9,064)	(9,534)	(9,348)	(9,789)	(9,465)
Tax on liabilities of financial institutions	(1,815)	(4,204)	(3,860)	(3,253)	(2,973)
Total operating expenses	**(25,646)**	**(28,196)**	**(27,797)**	**(27,103)**	**(26,487)**
Profit before tax	**12,607**	**23,321**	**26,113**	**26,409**	**22,213**
Income tax	(2,086)	(5,086)	(6,853)	(6,643)	(5,570)
Profit for the year	**10,521**	**18,235**	**19,260**	**19,766**	**16,643**
Attributable to:					
Owners of the Bank	10,521	18,235	19,260	19,766	16,633
Non-controlling interests	-	-	-	-	10

Balance sheet	2020	2019	2018	2017	2016
Cash and cash balances with Central Bank	67,604	69,824	70,854	55,192	30,662
Bonds and debt instruments	119,330	115,262	77,058	117,310	154,892
Equities and equity instruments	26,808	30,019	23,547	27,980	26,688
Loans and advances to financial institutions	48,073	47,929	71,385	44,866	20,408
Loans and advances to customers	1,273,426	1,140,184	1,064,532	925,636	853,417
Other assets	27,298	22,088	17,335	18,238	17,641
Assets classified as held for sale	1,638	1,022	1,330	3,648	7,449
Total assets	**1,564,177**	**1,426,328**	**1,326,041**	**1,192,870**	**1,111,157**
Due to financial institutions and Central Bank	48,725	48,062	34,609	32,062	20,093
Deposits from customers	793,427	707,813	693,043	605,158	589,725
Borrowings	420,178	373,168	314,412	281,874	223,944
Other liabilities	22,196	30,440	30,997	27,615	24,681
Liabilities associated with assets classified as held for sale	30	30	30	27	1,095
Subordinated liabilities	21,366	19,081	13,340	77	388
Equity	258,255	247,734	239,610	246,057	251,231
Total liabilities and equity	**1,564,177**	**1,426,328**	**1,326,041**	**1,192,870**	**1,111,157**

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91. Operations by quarters

	2020				2019			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	15,695	16,167	18,220	16,416	16,844	16,874	20,555	17,899
Interest expense	(6,001)	(6,726)	(8,708)	(6,989)	(7,264)	(7,243)	(10,341)	(7,654)
Net interest income	**9,694**	**9,441**	**9,512**	**9,427**	**9,580**	**9,631**	**10,214**	**10,245**
Fee and commission income	2,811	2,844	2,391	2,773	2,980	2,784	2,861	2,903
Fee and commission expense	(830)	(785)	(738)	(828)	(855)	(826)	(785)	(843)
Net fee and commission income	**1,981**	**2,059**	**1,653**	**1,945**	**2,125**	**1,958**	**2,076**	**2,060**
Net gain (loss) on financial assets and liabilities at FVTPL	5,056	(1,001)	2,827	(2,625)	2,126	649	1,776	3,442
Net foreign exchange loss	(52)	(52)	(259)	85	(300)	(39)	(87)	(158)
Credit impairment losses	1,535	(120)	(8,191)	(5,244)	(1,399)	(1,056)	(1,378)	(994)
Other income and (expenses)	(137)	574	333	(188)	131	211	266	438
Other net operating income (expenses)	**6,402**	**(599)**	**(5,290)**	**(7,972)**	**558**	**(235)**	**577**	**2,728**
Total operating income	**18,077**	**10,901**	**5,875**	**3,400**	**12,263**	**11,354**	**12,867**	**15,033**
Salaries and related expenses	(3,986)	(3,135)	(3,802)	(3,844)	(3,805)	(3,284)	(3,689)	(3,680)
Other operating expenses	(2,433)	(1,995)	(2,206)	(2,430)	(2,505)	(2,167)	(2,340)	(2,522)
Tax on liabilities of financial institutions	(400)	(540)	(425)	(450)	(1,064)	(1,065)	(1,065)	(1,010)
Total operating expenses	**(6,819)**	**(5,670)**	**(6,433)**	**(6,724)**	**(7,374)**	**(6,516)**	**(7,094)**	**(7,212)**
Profit (loss) before tax	**11,258**	**5,231**	**(558)**	**(3,324)**	**4,889**	**4,838**	**5,773**	**7,821**
Income tax	(1,436)	(1,245)	899	(304)	(1,014)	(1,591)	(1,444)	(1,037)
Profit (loss) for the period	**9,822**	**3,986**	**341**	**(3,628)**	**3,875**	**3,247**	**4,329**	**6,784**

Balance sheet	**31.12.2020**	**30.9.2020**	**30.6.2020**	**31.3.2020**	**31.12.2019**	**30.9.2019**	**30.6.2019**	**31.3.2019**
Cash and cash balances with Central Bank	67,604	111,260	89,598	92,440	69,824	56,680	63,990	63,014
Bonds and debt instruments	119,330	104,895	104,758	116,568	115,262	96,786	84,830	80,954
Equities and equity instruments	26,808	25,445	26,794	25,923	30,019	29,150	27,658	25,151
Loans and advances to financial institutions	48,073	80,324	56,394	69,740	47,929	71,222	71,812	88,664
Loans and advances to customers	1,273,426	1,255,393	1,198,210	1,190,536	1,140,184	1,136,804	1,130,915	1,095,376
Other assets	27,298	31,268	23,913	26,851	22,088	23,476	22,348	24,744
Assets classified as held for sale	1,638	1,680	1,443	1,130	1,022	1,144	1,282	1,394
Total assets	**1,564,177**	**1,610,265**	**1,501,110**	**1,523,188**	**1,426,328**	**1,415,262**	**1,402,835**	**1,379,298**
Due to financial institutions and Central Bank	48,725	47,654	37,226	41,495	48,062	47,860	34,430	36,636
Deposits from customers	793,427	813,784	758,790	755,160	707,813	703,762	697,898	694,820
Borrowings	420,178	438,309	408,097	412,591	373,168	366,337	377,680	351,005
Other liabilities	22,196	40,096	30,993	48,427	30,440	39,980	37,768	36,701
Liabilities associated with assets classified as held for sale	30	30	30	30	30	30	30	30
Subordinated liabilities	21,366	21,959	21,527	21,379	19,081	13,433	14,417	13,900
Equity	258,255	248,433	244,447	244,106	247,734	243,860	240,612	246,206
Total liabilities and equity	**1,564,177**	**1,610,265**	**1,501,110**	**1,523,188**	**1,426,328**	**1,415,262**	**1,402,835**	**1,379,298**

*The result for the first three quarters of the years 2020 and 2019 were reviewed by the Bank's independent auditors.

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92. Key figures and ratios

	2020	2019	2018	2017	2016
Return on equity before taxes	5.1%	9.6%	11.1%	11.0%	8.7%
Return on equity after taxes	4.3%	7.5%	8.2%	8.2%	6.6%
Cost-income ratio	47.4%	42.6%	45.5%	46.1%	48.4%
Operating expenses as a ratio of average total assets	1.6%	1.7%	1.9%	2.0%	2.1%
Return on assets	0.7%	1.3%	1.5%	1.7%	1.5%
Interest spread as ratio of average total assets	2.5%	2.8%	3.2%	3.1%	3.1%
Earnings per share	0.45	0.77	0.81	0.84	0.70
Total capital ratio	25.1%	25.8%	24.9%	26.7%	30.2%
CET1 ratio	23.2%	23.9%	23.6%	26.3%	29.7%
Leverage ratio	15.4%	15.7%	16.1%	18.2%	20.3%
Loans / deposits	160.5%	161.1%	153.6%	153.0%	144.7%
Deposits / total assets	50.7%	49.6%	52.3%	50.7%	53.1%
Liquidity coverage ratio (LCR)	154%	161%	158%	157%	128%
Net stable funding ratio FX (NSFR)	132%	143%	166%	179%	154%
Number of full-time positions at year-end	878	893	919	997	1,012
Dividend per share	0.00	0.42	1.05	1.05	1.20

Key figures and ratios	Definition
Return on equity before taxes	(Profit before taxes - tax on liabilities of financial institutions) / average total equity
Return on equity after taxes	Profit after taxes / average total equity
Cost-income ratio	(Total operating expenses - tax on liabilities of financial institutions) / (total net operating income - net valuation adjustments)
Operating expenses as a ratio of average total assets	(Total operating expenses - tax on liabilities of financial institutions) / average total assets
Return on assets	Profit for the year / average total assets
Interest spread	(Interest income - interest expenses) / average total assets
Earnings per share	Profit for the year attributable to owners of the Bank / Weighted average number of shares outstanding
Total capital ratio	Total capital base / risk-exposure amount
CET1 ratio	Common equity tier 1 capital (CET1) / Risk exposure amount
Common equity Tier 1 capital (CET1)	Total equity - deductions (intangible assets, deferred tax assets)
Additional common equity Tier 1 capital (AT1)	Capital instruments under Tier 1 other than (CET1)
Tier 1 capital (T1)	Common equity Tier 1 capital + additional common equity Tier 1 capital
Tier 2 capital (T2)	Subordinated liabilities - regulatory amortisation
Total capital base	CET1 + AT1 + T2
Leverage ratio	Tier 1 capital / (total assets + off balance sheet items)
Loans/ deposits	Loans and advances to customers/ deposits from customers
Deposits / total assets	Deposits from customers/ total assets
Liquidity coverage ratio (LCR)	High quality liquid assets / total net liquidity outflows over 30 days under stressed conditions
Net stable funding ratio FX (NSFR)	Available amount of stable funding / required amount of stable funding
Number of full-time equivalent positions at year-end	Number of full-time equivalent positions at year-end
Dividend per share	Dividends paid / number of shares outstanding

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Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af:
Berglind Svavarsdóttir
0212644239
Dags: 11.02.2021
Tími: 14:01:30
Ástæða: Ársreikningur samstæðu 2020 - enska
Signet ID: bb4651c9-fed6-4993-aeff-

Undirritað af
Einar Þór Bjarnason

Undirritað af:
Einar Þór Bjarnason
1012626939
Dags: 11.02.2021
Tími: 14:03:27
Ástæða: Ársreikningur samstæðu 2020 - enska
Signet ID: bb4651c9-fed6-4993-aeff-

Undirritað af
Guðbrandur Sigurðsson

Undirritað af:
Guðbrandur Sigurðsson
0205618239
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Tími: 13:58:58
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Undirritað af
Guðrún Blöndal

Undirritað af:
Guðrún Blöndal
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Undirritað af
Helga Björk Eiríksdóttir

Undirritað af:
Helga Björk Eiríksdóttir
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Undirritað af
Lilja Björk Einarsdóttir

Undirritað af:
Lilja Björk Einarsdóttir
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Undirritað af
Sigríður Benediktsdóttir

Undirritað af:
Sigríður Benediktsdóttir
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Tími: 14:02:15
Ástæða: Ársreikningur samstæðu 2020 - enska
Signet ID: bb4651c9-

Undirritað af
Þorvaldur Jacobsen

Undirritað af:
Þorvaldur Jacobsen
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Tími: 14:04:46
Ástæða: Ársreikningur samstæðu 2020 - enska
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Arna Guðrún Tryggvadóttir
0802783499
Dags: 11.02.2021
Tími: 14:47:53
Ástæða: Ársreikningur samstæðu 2020 - enska
Signet ID: 42693ba5-

Undirritað af:
Atli Þór Jóhannsson
1207883539
Dags: 11.02.2021
Tími: 14:50:18
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