



Condensed Consolidated Interim Financial Statements

LANDSBANKINN HF | Reg. No. 471008-0280 | LANDSBANKINN.IS

For the six months ended 30 June 2021

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Highlights

Number one in performance satisfaction index



Credit rating

BBB
with stable outlook
S&P Global
Ratings

Best bank

EUROMONEY
AWARDS FOR EXCELLENCE
2021

The Banker
GLOBAL FINANCIAL INTELLIGENCE SINCE 1926

ESG Risk Rating



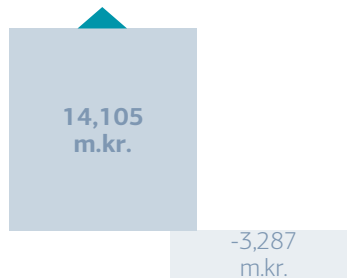
Landsbankinn is now 1st out of 423 European banks assessed by Sustainalytics.

PCAF - Carbon Accounting



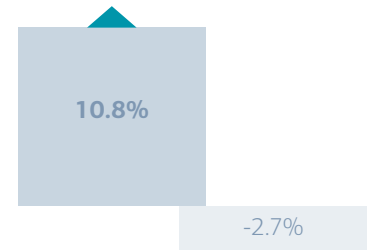
We have assessed the carbon emissions from our loan portfolio

Profit (loss)



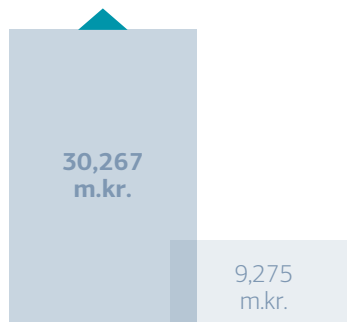
H1 2021 H1 2020

Return on equity



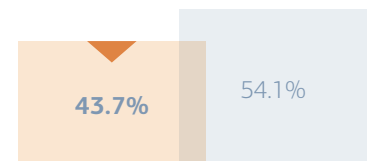
H1 2021 H1 2020

Total operating income



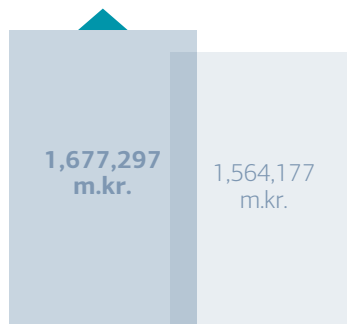
H1 2021 H1 2020

Cost-income ratio



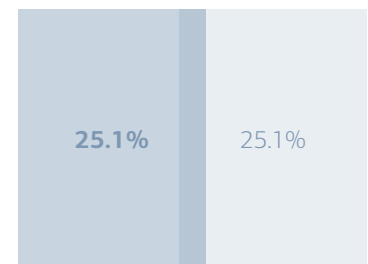
H1 2021 H1 2020

Total assets



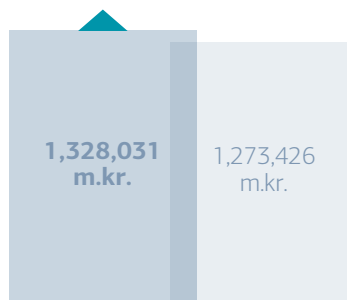
30.6.2021 31.12.2020

Total capital ratio



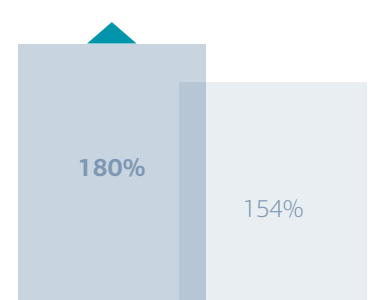
30.6.2021 31.12.2020

Loans and advances to customers



30.6.2021 31.12.2020

Total liquidity coverage ratio (LCR)



30.6.2021 31.12.2020

Report of the Board of Directors and the CEO

The Board of Directors and the CEO of Landsbankinn hf. (the "Bank" or "Landsbankinn") present this report together with the reviewed Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2021, which is comprised of the Bank and its subsidiaries (collectively referred to as the "Group").

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering a wide range of financial services that suit the needs of our customers, individuals and businesses alike.

Towards the end of 2020, the Bank presented its new strategy: Landsbankinn, an ever-smarter bank. 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 robust development of digital solutions. Our aim is to simplify life for our customers by making finance more approachable while simultaneously strengthening advisory service and education. Satisfied employees and a success-driven culture will strengthen the Bank's operation and create opportunities for initiative.

The Bank is organised into the following six divisions, in addition to the CEO's Office: 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, together constituting the reportable segments presented in the Group's internal and external financial reporting (see Note 5).

Operations

Consolidated profit amounted to ISK 14,105 million for the first half of 2021 as compared with a loss of ISK 3,287 for the same period the previous year. Net impairment gains on loans in the amount of ISK 2,782 million was recognised for the period as compared with a loss of ISK 13,435 million for the same period the year before. The reversal of impairment on loans is attributed to expected economic recovery and the COVID-19 pandemic is no longer expected to have as negative an impact on the Bank's loan portfolio as anticipated around mid-2020. Net interest income amounted to ISK 18,958 million for the period and is stable year-over-year. Net gain on financial assets and liabilities at fair value rose considerably between years, or by ISK 3,453 million. Net fee and commission income was ISK 4,368 million, compared with ISK 3,598 million for the same period last year. Salaries and related expenses were ISK 7,493 million and remained relatively stable between years. The average number of full-time equivalent positions during the period was 869, compared with 893 for the same period last year.

Consolidated total equity amounted to ISK 267,871 million and total assets to ISK 1,677,297 million at the end of the period. Total assets grow by 7.2% during the first half of 2021. The total capital ratio of the Group at the end of the period, calculated according to the Act on Financial Undertakings, was unchanged at 25.1% from the beginning of the year.

At the end of June 2021, the Financial Supervisory Authority of the Central Bank of Iceland notified Landsbankinn of the results of the annual Supervisory Review and Evaluation Process (SREP) and its decision on the Group's prudential capital requirements. The Group is required to maintain a total minimum capital of 11.5% of its risk exposure amount (REA) at each time as of 30 June 2021, with the requirement under Pillar II-R increasing by 0.1 percentage points from the previous SREP. The Group's total capital requirement is thus 18.9% of its REA at the end of the second quarter and comprises a minimum capital requirement of 8.0%, a 3.5% additional capital requirement and a total capital buffer requirement of 7.4% (see Note 35).

Risk factors

The Bank's total capital ratio is 25.1% and remains well above the current regulatory requirement. The carrying amount of loans and advances to customers increased by 4.3% during the first half of the year, mainly due to a growth in mortgage lending to individuals. There has been strong growth in mortgage lending in the past year, increasing by 13.8% during the first half of this year, or around ISK 72 billion.

The great economic uncertainty of the COVID-19 pandemic has affected the Bank's credit risk during the years 2020 and 2021. The current outlook indicates that the final impact of the pandemic on the Bank's loan portfolio will be milder than initially feared. There is continuing uncertainty about the effect on loans to customers who still have active payment moratoria, which are mostly loans to travel sector companies. Average probability of default decreased during the first half of this year and was 2.5% at the end of the first half, compared to 2.9% at year-end 2020. Impairment charges on loans to customers decreased during the first half of this year and a net impairment gain of ISK 2,782 million is recognised in the income statement. The main reasons for decreased impairment charges are a decline in expected credit loss (ECL) on loans in stages 1 and 2, on the one hand due to a more positive outlook for macroeconomic variables and on the other hand due to less defaults than expected. At the end of the first half of this year, the gross carrying amount of loans with active payment moratoria was ISK 90.5 billion. Of that amount, ISK 71.6 billion are loans to travel sector companies. Details on the impact of COVID-19 on the measurement of ECL are disclosed in Note 4.

The Bank's liquidity position remained strong during the second quarter of 2021. The total liquidity coverage ratio at the end of the second quarter was 180%, 112% in Icelandic *króna* and 420% in foreign currencies. Market risk remains modest and well within the Bank's risk appetite.

Further information on the Group's risk management is included in the notes to the Consolidated Financial Statements and the Pillar III report for the year 2020, the notes to these Interim Financial Statements, supplemented with Pillar III additional disclosures for the first half of 2021, all accessible on the Bank's website, www.landsbankinn.is.

Report of the Board of Directors and the CEO

Economic outlook

Preliminary figures from Statistics Iceland show that GDP contracted by 1.7% in Q1 as compared to the same quarter last year. This contraction is far less pronounced than in previous quarters. Private consumption grew by 0.8%, the first increase in private consumption since Q1 2020. A large majority of the nation was fully vaccinated against COVID-19 at the end of May and Iceland has been relatively free of infection until the last couple of days. As of yet, no restrictions have been placed on gatherings again; however, border control has been tightened. This being said, uncertainty remains and it is likely that travel will continue to be limited with new mutations of the virus emerging and the infection rate rising, albeit with less serious repercussions on peoples' health. The outlook is still for a good economic recovery in the second half of the year, provided that travel sector recovery picks up and private consumption increases. Registered unemployment, which was 12.8% at the beginning of the year, had fallen to 7.4% in June.

Annual inflation in the second quarter was 4.4%. Inflation is expected to recede in H2 of 2021 and trend towards the Central Bank's inflation target around mid-2022.

Other matters

The Bank has launched a share buyback programme to purchase up to 57 million of own shares, or up to 0.24% of the Bank's issued share capital. The buyback programme is based on a decision of the Board of Directors on 10 June 2021 and resolution of the Bank's Annual General Meeting on 24 March 2021. The objective of the buyback programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner.

On 10 June 2021, the Bank published a report on the assessment of emissions from its loan portfolio on its website, www.landsbankinn.is: Emissions from loan portfolio. In addition to measurement of GHG emissions from the Bank's operation, the Bank has now assessed Scope 2 or indirect emissions from corporate loans, mortgage loans and vehicle loans using the international Partnership for Carbon Accounting Financials (PCAF) methodology, which the Bank participated in developing. Landsbankinn is the first financial undertaking in Iceland to assess emissions from its loan portfolio. This marks a certain milestone as banks have been challenged to measure the environmental impact of projects they finance or invest in. The information will be made public and updated annually in the Bank's sustainability report.

On 17 May 2021, Sustainalytics reported its new ESG rating for Landsbankinn. The Bank achieved its best rating yet, dropping from 13.5 to 9.7 on a scale to 100, and now ranks 1st of the 423 banks Sustainalytics assesses in Europe. This means that Sustainalytics considers Landsbankinn at exceedingly low risk of experiencing material financial impacts from ESG factors. These results show that the Bank is on the right track and is a testament to the work the Bank has undertaken to advance its sustainability journey in the past decade.

On 14 July 2021, *Euromoney's* Country Awards for Excellence 2021 were announced and Landsbankinn was named the Best Bank in Iceland for the third consecutive year. *Euromoney* cited the winning combination of operational efficiency, profitability and leadership in the mortgage market.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2021 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first half of 2021, its consolidated financial position as at 30 June 2021, and its consolidated cash flows for the first half of 2021.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first half of 2021.

Reykjavík, 22 July 2021

Board of Directors

Helga Björk Eiríksdóttir, Chairman
Berglind Svavarsdóttir, Vice-Chairman
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarson
Sigurður J. Björnsson
Þorvaldur Jacobsen

Chief Executive officer

Lilja Björk Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Landsbanki hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Landsbankinn hf. as at 30 June 2021 which comprise of Report of the Board of Directors and the CEO, Condensed Consolidated Statement of Financial Position as at 30 June 2021 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the six-month period then ended 30 June 2021 and other explanatory notes. The Board of Directors and CEO are responsible for the preparation and presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the EU and articles in Icelandic law on annual accounts that are applicable. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the EU.

Reykjavík, 22 July 2021

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorized Public Accountant

Atli Þór Jóhannsson
State Authorized Public Accountant

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Condensed Consolidated Income Statement for the six months ended 30 June 2021

Notes	2021 1.4-30.6	2020 1.4-30.6	2021 1.1-30.6	2020 1.1-30.6	
	Interest income	18,096	18,220	32,428	34,636
	Interest expense	(7,764)	(8,708)	(13,470)	(15,697)
6	Net interest income	10,332	9,512	18,958	18,939
	Fee and commission income	3,197	2,391	6,072	5,164
	Fee and commission expense	(883)	(738)	(1,704)	(1,566)
7	Net fee and commission income	2,314	1,653	4,368	3,598
8	Net gain on financial assets and liabilities at FVTPL	1,284	2,827	3,655	202
9	Net foreign exchange (loss) gain	(45)	(259)	(72)	(174)
10	Net impairment changes	293	(8,191)	2,782	(13,435)
11	Other income and (expenses)	330	333	576	145
	Net other operating income	1,862	(5,290)	6,941	(13,262)
	Total operating income	14,508	5,875	30,267	9,275
12	Salaries and related expenses	(3,724)	(3,802)	(7,493)	(7,646)
	Other operating expenses	(2,202)	(2,206)	(4,517)	(4,636)
	Tax on liabilities of financial institutions	(513)	(425)	(980)	(875)
	Total operating expenses	(6,439)	(6,433)	(12,990)	(13,157)
	Profit (loss) before tax	8,069	(558)	17,277	(3,882)
13	Income tax	(1,582)	899	(3,172)	595
	Profit (loss) for the period	6,487	341	14,105	(3,287)
	Profit (loss) for the year attributable to:				
	Owners of the Bank	6,487	341	14,105	(3,287)
	Non-controlling interests	0	0	0	0
	Profit (loss) for the period	6,487	341	14,105	(3,287)
	Earnings per share				
30	Basic and diluted earnings per share from operations (ISK)	0.27	0.01	0.60	(0.14)

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2021

Notes	2021 1.4-30.6	2020 1.4-30.6	2021 1.1-30.6	2020 1.1-30.6	
	Profit (loss) for the period	6,487	341	14,105	(3,287)
	Other comprehensive income for the period, after tax	0	0	0	0
	Total comprehensive income for the period	6,487	341	14,105	(3,287)

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

Condensed Consolidated Statement of Financial Position as at 30 June 2021

Notes		30.6.2021	31.12.2020
Assets			
18, 49	Cash and balances with Central Bank	89,342	67,604
19	Bonds and debt instruments	128,208	119,330
20	Equities and equity instruments	35,111	26,808
21	Derivative instruments	1,262	3,303
22, 49	Loans and advances to financial institutions	64,245	48,073
23, 49	Loans and advances to customers	1,328,031	1,273,426
	Investments in equity-accounted associates	1,886	1,722
	Property and equipment	11,146	9,327
	Intangible assets	1,844	1,696
26	Deferred tax assets	1	23
24	Other assets	15,008	11,227
	Assets classified as held for sale	1,213	1,638
	Total assets	1,677,297	1,564,177
Liabilities			
	Due to financial institutions and Central Bank	40,312	48,725
	Deposits from customers	842,624	793,427
21	Derivative instruments and short positions	5,437	4,248
25, 49	Borrowings	456,688	420,178
26	Tax liabilities	3,398	3,919
27	Other liabilities	40,048	14,029
	Liabilities associated with assets classified as held for sale	30	30
28	Subordinated liabilities	20,889	21,366
	Total liabilities	1,409,426	1,305,922
29	Equity		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	20,955	19,250
	Retained earnings	102,661	94,750
	Total equity	267,871	258,255
	Total liabilities and equity	1,677,297	1,564,177

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

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2021

Notes

	Attributable to owners of the Bank									
	Share capital	Share premium	Statutory reserve	Reserves*			Retained earnings	Total	Non-controlling interests	Total
				Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL					
Change in equity for the six months ended 30 June 2021										
Restated balance as at 1 January 2021	23,625	120,630	6,000	3,659	9,591	94,750	258,255			258,255
Profit for the period						14,105	14,105			14,105
Transferred to restricted retained earnings				747	958	(1,705)	0			0
Dividends allocated						(4,489)	(4,489)			(4,489)
29 Balance as at 30 June 2021	23,625	120,630	6,000	4,406	10,549	102,661	267,871	0	0	267,871
Change in equity for the six months ended 30 June 2020										
Balance as at 1 January 2020	23,625	120,630	6,000	2,709	5,625	89,145	247,734			247,734
Loss for the period						(3,287)	(3,287)			(3,287)
Transferred to (from) restricted retained earnings				242	1,714	(1,956)	0			0
29 Balance as at 30 June 2020	23,625	120,630	6,000	2,951	7,339	83,902	244,447	0	0	244,447

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

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

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2021

Notes	2021 1.1-30.6	2020 1.1-30.6
Operating activities		
Profit (loss) for the period	14,105	(3,287)
Adjustments for non-cash items included in profit for the period	(21,652)	(2,449)
Changes in operating assets and liabilities	(31,481)	(433)
Interest received	30,808	33,460
Interest paid	(3,949)	(5,820)
Dividends received	236	638
Tax on liabilities of financial institutions paid	(4,651)	(5,384)
Net cash from (used in) operating activities	(16,584)	16,725
Investing activities		
Acquisition of additional shares in associates	(30)	-
Purchase of property and equipment	(2,114)	(1,335)
Proceeds from sale of property and equipment	295	3
Purchase of intangible assets	(285)	(15)
Investing activities	(2,134)	(1,347)
Financing activities		
Proceeds from borrowings	76,969	61,015
Repayment of borrowings	(30,534)	(60,563)
Rent paid	(319)	(282)
Dividends paid	(4,489)	-
Financing activities	41,627	170
Cash and cash equivalents as at the beginning of the period	69,091	70,704
Net change in cash and cash equivalents	22,909	15,548
Effect of exchange rate changes on cash and cash equivalents held	706	(2,231)
Cash and cash equivalents as at the end of the period	92,706	84,021
Cash and cash equivalents is specified as follows:		
18 Cash and balances with Central Bank	89,342	89,598
22 Bank accounts with financial institutions	18,895	11,804
18 Mandatory and special restricted balances with Central Bank	(15,531)	(17,381)
Cash and cash equivalents as at the end of the period	92,706	84,021

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

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2021

Notes	2021 1.1-30.6	2020 1.1-30.6	
Adjustments for non-cash items included in profit for the period			
6	Net interest income	(18,958)	(18,939)
8	Net gain on financial assets and liabilities at FVTPL	(3,655)	(202)
9	Net foreign exchange (gain) loss	(634)	2,405
10	Net impairment changes	(2,782)	13,435
	Gain on sale of property and equipment	(101)	(2)
	Net (gain) loss on assets classified as held for sale	(169)	76
	Depreciation and amortisation	629	639
	Share of profit of equity-accounted associates	(134)	(141)
	Tax on liabilities of financial institutions	980	875
13	Income tax	3,172	(595)
		(21,652)	(2,449)
Changes in operating assets and liabilities			
	Change in reserve requirement with Central Bank	(1,877)	8,177
	Change in bonds and equities	(16,405)	24,890
	Change in derivatives	-	6
	Change in loans and advances to financial institutions	(15,046)	(14,683)
	Change in loans and advances to customers	(62,949)	(43,025)
	Change in other assets	(2,508)	125
	Change in assets classified as held for sale	595	(625)
	Change in due to financial institutions and Central Bank	(8,547)	(11,293)
	Change in deposits from customers	49,400	31,988
	Change in tax liability	22	(656)
	Change in other liabilities	25,834	4,663
		(31,481)	(433)

Change in liabilities due to financing activities

	As at 1.1.2021	Non-cash changes				As at 30.6.2021
		Cash flow	Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	189,360	16,922	6,039	-	-	212,321
Senior unsecured bonds	116,196	27,794	867	(8,221)	-	136,636
Senior unsecured bonds held to hedge long-term borrowings	95,468	(254)	263	(5,625)	(942)	88,910
Other unsecured loans	19,154	20	150	(503)	-	18,821
Subordinated liabilities	21,366	-	455	(932)	-	20,889
Total	441,544	44,482	7,775	(15,281)	(942)	477,577

	As at 1.1.2020	Non-cash changes				As at 30.6.2020
		Cash flow	Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	140,549	20,284	4,283	-	-	165,116
Senior unsecured bonds	122,705	(11,464)	(83)	15,729	-	126,887
Senior unsecured bonds held to hedge long-term borrowings	86,813	(4,406)	44	12,269	(215)	94,505
Commercial paper issued	3,605	(3,641)	36	-	-	0
Other unsecured loans	19,496	(1,016)	362	2,747	-	21,589
Subordinated liabilities	19,081	-	503	1,943	-	21,527
Total	392,249	(243)	5,145	32,688	(215)	429,624

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

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements of the Bank for the six months ended 30 June 2021 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 Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union. The Condensed Consolidated Interim 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 issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 22 July 2021.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2020, which are available on the Bank's website, www.landsbankinn.is.

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 Condensed Consolidated Interim 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.

Use of estimates and judgements

The preparation of 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.

3. Critical accounting estimates and judgements in applying accounting policies

The Condensed Consolidated Interim Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2020.

4. Measurement of expected credit losses (ECL)

The Interim Financial Statements of the Group for the first six months of 2021 reflect the unprecedented conditions caused by the COVID-19 pandemic and related economic uncertainties.

ECL assessment at the end of the second quarter of 2021 is based on different probability-weighted scenarios from the Bank's Economic Research department. Probability-weighted scenarios reflect both positive and negative uncertainties in economic development.

The final impact of the COVID-19 pandemic on the Bank's credit portfolio is as yet uncertain and it is likely that income decline will cause financial difficulties for customers, many of whom have already been assigned lower credit grades by the Bank and their collateral revalued as a result of changed conditions. In response to the impact of COVID-19, the Bank granted both businesses and individuals general measures in the form of payment moratoria and, at a later stage, special measures that include extended payment moratoria; the latter qualifying as forbearance. The definitions of payment moratoria and forbearance are those of European Banking Association's (EBA) guidelines. Active measures at the reporting date apply to customers that are still on payment moratoria and qualify simultaneously as special measures and forbearance, as the general measures offered by the Bank expired in 2020.

Notes to the Condensed Consolidated Interim Financial Statements

4. Measurement of expected credit losses (ECL) (continued)

In the second quarter, individually significant loans to companies with active COVID-19 measures were assessed manually for staging. The application of special COVID-19 measures is not in itself considered grounds for re-staging to Stage 3, yet such loans are all classified as having received debt forbearance. The Bank also specially assesses loans to customers in the travel sector for staging, as well as loans to customers with special measures and who are still on payment holiday at the end of the first quarter. These loans are subsequently moved to Stage 2, provided certain conditions are satisfied. This special reclassification moves loans valued at ISK 3.2 billion to Stage 2 at the end of the second quarter. The Bank has also assessed the need for a collective provision for these loans and recognised an ISK 1.6 billion (31 December 2020; 1.2 billion) provision for loans to the travel sector; ISK 136 million for loans to other companies, and ISK 79 million (31 December 2020; ISK 309 million) for loans to individuals.

Maximum credit risk exposure to customers provided with special COVID-19 measures

The Bank has responded to the conditions created by the pandemic by providing various support measures to customers in need. Initially, general measures were provided under an agreement between the domestic banks and other lenders. Customers experiencing more severe difficulties were later offered special measures which include extended payment moratoria. In addition, a small part of the Bank's customers has 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 credit institutions but government guaranteed. Companies which were required to close their doors have received special business closure grants. Companies can potentially seek payment respite for up to a year for financial distress caused by the pandemic. Lastly, relief grants are intended to ensure that companies can maintain necessary minimum activities during the pandemic, safeguard 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 Bank's credit risk exposure as at 30 June 2021 and 31 December 2020 for customers with special measures for a longer term due to continuing difficulties caused by COVID-19. Most of the special measures, granted when the general measures expired, are expiring in the latter half of 2021. However, many of these customers have already been granted further measures, which extend their payment holiday to the summer of 2022. The measures include payment holiday of principal or interest, or payment holiday of principal only.

As at 30 June 2021	Gross carrying amount			Allowance for impairment	Fair value	Carrying amount
	Stage 1	Stage 2	Stage 3			
On-balance sheet exposure						
Individuals	3	2,152	58	(112)	-	2,101
Travel industry	5,509	63,054	9,205	(6,197)	-	71,570
Other corporates	113	14,948	1,610	(591)	741	16,821
Total	5,625	80,154	10,873	(6,900)	741	90,492
Off-balance sheet exposure				Allowance for impairment	Fair value	Total
Individuals	-	39	1	-	-	40
Travel industry	199	11,730	86	(139)	2	11,879
Other corporates	-	340	2	(1)	-	342
Total	199	12,109	89	(140)	2	12,261
Maximum exposure to credit risk	5,824	92,263	10,962	(7,040)	743	102,753
As at 31 December 2020	Gross carrying amount			Allowance for impairment	Fair value	Carrying amount
	Stage 1	Stage 2	Stage 3			
On-balance sheet exposure						
Individuals	-	1,155	39	(75)	-	1,119
Travel industry	16,916	48,803	7,345	(5,452)	26	67,638
Other corporates	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				Allowance for impairment	Fair value	Total
Individuals	-	25	1	-	-	26
Travel industry	118	11,282	596	(98)	-	11,898
Other corporates	-	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 Bank has granted 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.

Notes to the Condensed Consolidated Interim Financial Statements

4. Measurement of expected credit losses (ECL) (continued)

As at 30 June 2021, the Bank has approved government-backed supplementary loans to just over 300 customers in the gross carrying amount of ISK 3.8 bn (31 December 2020: ISK 3.5 bn). In addition, the Bank has opened a credit line in the amount of ISK 7.4 bn (31 December 2020: ISK 7.6 bn), 90% government-backed, that is as yet undrawn at the end of the second quarter of 2021.

Economic forecasts

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

The following table shows certain key economic variables used to calculate expected credit loss (ECL) for stages 1 and 2. At the reporting date, the baseline forecast of Landsbankinn Economic Research projects 4.9% growth in GDP this year. The forecasts for the upside, baseline and downside scenarios show averages for the 12-month outlook and to the medium-term forecast horizon. The upside scenario is given 20% weight (31 December 2020; 25%), the baseline 60% weight (31 December 2020; 50%) and the downside scenario 20% weight (31 December 2020; 25%).

	Upside scenario		Base case scenario		Downside scenario	
	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
As at 30 June 2021						
GDP growth	8.4%	4.7%	6.1%	2.5%	3.6%	0.1%
Unemployment rate	5.1%	3.4%	6.1%	4.7%	8.8%	7.0%
Base rate	2.0%	4.0%	1.6%	2.7%	0.6%	1.3%
Inflation	3.5%	3.3%	3.3%	2.5%	3.2%	1.9%
EUR/ISK exchange rate, average	139.9	135.3	142.0	138.6	158.0	149.3
Housing Price index, y/y change	14.4%	6.3%	11.1%	3.8%	8.7%	1.6%

	Upside scenario		Base case scenario		Downside scenario	
	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
As at 31 December 2020						
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%

	As at 30 June 2021			As at 31 December 2020		
	Upside scenario	Base scenario	Downside scenario	Upside scenario	Base scenario	Downside scenario
Allowance for impairment (Stage 1 and Stage 2)	8,140	8,717	9,449	9,922	10,912	13,035
Proportion of assets in Stage 2	9.4%	9.5%	9.8%	10.8%	11.0%	11.4%

	Reported under IFRS 9	
	As at 30 June 2021	As at 31 December 2020
Allowance for impairment (Stage 1 and Stage 2)	8,748	11,196

Notes to the Condensed Consolidated Interim Financial Statements

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.

The financial reporting for business segments in the interim financial statements reflects the organisational changes made towards year-end 2020. Comparison amounts for the same period the previous year have not been adjusted and reflect the former organisational structure. The Group is comprised of the four main business segments at the end of the reporting period:

- **Personal Banking** offers individuals and small and medium-sized companies outside the capital city region, comprehensive financial services and advice, emphasising digital service channels and self-service solutions, both through online banking and apps, together with conventional service through the Bank's branch network and Customer Service Centre.
- **Corporate Banking** offers municipalities, institutions, larger companies and SMEs in the capital region financial service and advice, emphasising digital service channels and self-service solutions such as corporate online banking.
- **Asset Management & Capital Markets** offers brokerage service in securities, currencies and derivatives, in addition to comprehensive asset management. Landsbréf hf., the Bank's subsidiary, is included in Asset Management & Capital Markets' segment reporting.
- **Treasury** and **Market Making** are units under the **Finance & Operation** division. These units are responsible for the Bank's funding, liquidity management, internal pricing of capital and market-making in currency, bonds and equities. Treasury also manages the FX, interest rate and indexation risk of the Bank within the parameters of its risk appetite.

After the organisational changes, the Bank has the following divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management and IT. Other operating segments include Finance & Operations (with the exception of Treasury and Market Making), Risk Management and IT. Also under other operating segments are the CEO's Office, incorporating Compliance and Legal Services, and the Community, incorporating HR, Marketing & Communication and Economic Research. While the Bank's Internal Audit function also falls under other segments, it is an independent unit directly responsible to the Board of Directors.

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

Administrative expenses of the Group's other segments 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 income 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 30 June 2021 and the corresponding period in 2020.

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments (continued)

	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other segments	Recon- ciliation	Total
1 January - 30 June 2021							
Net interest income	8,230	9,253	227	1,291	(34)	(9)	18,958
Net fee and commission income	1,245	826	2,603	(154)	63	(215)	4,368
Net impairment changes	638	2,148	(1)	(3)	-	-	2,782
Net other operating income (expenses)	183	159	196	3,249	380	(8)	4,159
Total operating income (expense)	10,296	12,386	3,025	4,383	409	(232)	30,267
Operating expenses	(3,396)	(1,438)	(1,082)	(384)	(5,934)	224	(12,010)
Tax on liabilities of financial institutions	(382)	(174)	(5)	(419)	-	-	(980)
Profit (loss) before cost allocation and tax	6,518	10,774	1,938	3,580	(5,525)	(8)	17,277
Allocated expenses	(2,144)	(1,394)	(547)	(457)	4,542	-	0
Profit (loss) before tax	4,374	9,380	1,391	3,123	(983)	(8)	17,277
Income tax	(1,114)	(2,315)	330	(279)	206	-	(3,172)
Profit (loss) for the period	3,260	7,065	1,721	2,844	(777)	(8)	14,105
Net revenue (expenses) from external customers	15,849	17,228	2,919	(5,899)	402	-	30,499
Net revenue (expenses) from other segments	(5,553)	(4,842)	106	10,282	7	-	0
Total operating income (expense)	10,296	12,386	3,025	4,383	409	0	30,499
As at 30 June 2021							
Total assets	714,309	616,024	11,817	692,996	17,118	(374,967)	1,677,297
Total liabilities	678,397	497,623	8,170	583,085	17,118	(374,967)	1,409,426
Allocated capital	35,912	118,401	3,647	109,911	-	-	267,871

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 30 June 2020							
Net interest income	8,466	9,430	193	910	(69)	9	18,939
Net fee and commission income	1,600	349	1,904	(226)	89	(118)	3,598
Credit impairment losses	(2,392)	(11,031)	(2)	(8)	(2)	-	(13,435)
Net other operating income (expenses)	166	(1,872)	(2)	1,871	22	(12)	173
Total operating income (expense)	7,840	(3,124)	2,093	2,547	40	(121)	9,275
Operating expenses	(3,306)	(1,191)	(1,252)	(884)	(5,777)	128	(12,282)
Tax on liabilities of financial institutions	(286)	(291)	(7)	(282)	(9)	-	(875)
Profit (loss) before cost allocation and tax	4,248	(4,606)	834	1,381	(5,746)	7	(3,882)
Cost allocated from support functions to business segments	(2,094)	(1,318)	(725)	(385)	4,522	-	0
Profit (loss) before tax	2,154	(5,924)	109	996	(1,224)	7	(3,882)
Income tax	(873)	860	(444)	(271)	1,323	-	595
Profit (loss) for the period	1,281	(5,064)	(335)	725	99	7	(3,287)
Net revenue (expenses) from external customers	11,787	1,391	1,968	(5,792)	42	-	9,396
Net revenue (expenses) from other segments	(3,947)	(4,515)	125	8,339	(2)	-	0
Total operating income (expense)	7,840	(3,124)	2,093	2,547	40	0	9,396
As at 30 June 2020							
Total assets	535,502	626,576	18,270	590,114	15,939	(285,291)	1,501,110
Total liabilities	501,039	517,657	13,884	493,435	15,939	(285,291)	1,256,663
Allocated capital	34,463	108,919	4,386	96,679	-	-	244,447

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

	1.4-30.6.2021			1.4-30.6.2020		
	Amortised cost	FVTPL	Total	Amortised cost	FVTPL	Total
Interest income						
Cash and balances with Central Bank	103	-	103	243	-	243
Bonds and debt instruments	-	-	0	35	-	35
Loans and advances to financial institutions	1	-	1	1	-	1
Loans and advances to customers	17,832	144	17,976	17,259	150	17,409
Other interest income	1	15	16	3	529	532
Total	17,937	159	18,096	17,541	679	18,220
Interest expense						
Due to financial institutions and Central Bank	(113)	-	(113)	(207)	-	(207)
Deposits from customers	(2,673)	-	(2,673)	(2,976)	-	(2,976)
Borrowings	(3,903)	(155)	(4,058)	(3,613)	(504)	(4,117)
Other interest expense	(25)	(635)	(660)	(551)	(610)	(1,161)
Subordinated liabilities	(260)	-	(260)	(247)	-	(247)
Total	(6,974)	(790)	(7,764)	(7,594)	(1,114)	(8,708)
Net interest income	10,963	(631)	10,332	9,947	(435)	9,512
	1.1-30.6.2021			1.1-30.6.2020		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
Interest income						
Cash and balances with Central Bank	180	-	180	788	-	788
Bonds and debt instruments	24	-	24	183	-	183
Loans and advances to financial institutions	3	-	3	73	-	73
Loans and advances to customers	31,892	301	32,193	31,585	339	31,922
Other interest income	3	25	28	553	1,117	1,670
Total	32,102	326	32,428	33,180	1,456	34,636
Interest expense						
Due to financial institutions and Central Bank	(261)	-	(261)	(468)	-	(468)
Deposits from customers	(4,298)	-	(4,298)	(6,005)	-	(6,005)
Borrowings	(7,064)	(255)	(7,319)	(6,106)	(1,169)	(7,275)
Other interest expense	(50)	(1,065)	(1,115)	(573)	(913)	(1,486)
Subordinated liabilities	(477)	-	(477)	(463)	-	(463)
Total	(12,150)	(1,320)	(13,470)	(13,615)	(2,082)	(15,697)
Net interest income	19,952	(994)	18,958	19,565	(626)	18,939

Net interest income, calculated based on the effective interest rate method, amounted to ISK 18,954 million in the first half of 2021 as compared with ISK 18,917 for the same period in 2020.

7. Net fee and commission income

	1.4-30.6 2021			1.4-30.6 2020		
	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	1,528	(146)	1,382	858	(158)	700
Loans and guarantees	246	-	246	307	-	307
Payment cards	1,018	(505)	513	840	(388)	452
Collection and payment services	238	(50)	188	230	(46)	184
Other	167	(182)	(15)	156	(146)	10
Total	3,197	(883)	2,314	2,391	(738)	1,653

Notes to the Condensed Consolidated Interim Financial Statements

7. Net fee and commission income (continued)

	1.1-30.6.2021			1.1-30.6.2020		
	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	2,880	(306)	2,574	1,972	(311)	1,661
Loans and guarantees	489	-	489	565	-	565
Payment cards	1,934	(930)	1,004	1,819	(853)	966
Collection and payment services	454	(98)	356	456	(92)	364
Other	315	(370)	(55)	352	(310)	42
Total	6,072	(1,704)	4,368	5,164	(1,566)	3,598

8. Net gain on financial assets and liabilities at FVTPL

	2021 1.4-30.6	2020 1.4-30.6	2021 1.1-30.6	2020 1.1-30.6
Net gain (loss) on financial assets and liabilities at FVTPL				
Bonds and debt instruments	8	347	110	601
Equities and equity instruments	659	4,073	2,599	1,766
Derivatives and underlying hedges	507	(61)	731	(334)
Loans and advances to customers	103	(1,453)	159	(1,855)
Net gain (loss) on fair value hedges	7	(79)	56	24
Total	1,284	2,827	3,655	202

9. Net foreign exchange (loss) gain

	2021 1.4-30.6	2020 1.4-30.6	2021 1.1-30.6	2020 1.1-30.6
Assets				
Cash and balances with Central Bank	(3)	(6)	(10)	29
Bonds and debt instruments	(943)	(1,067)	(2,360)	9,393
Equities and equity instruments	(6)	(5)	(11)	4
Derivative instruments	112	907	(1,409)	(422)
Loans and advances to financial institutions	(1,112)	1,823	(2,617)	8,401
Loans and advances to customers	(3,696)	(3,070)	(12,906)	29,663
Other assets	(63)	(265)	(149)	328
Total	(5,711)	(1,683)	(19,462)	47,396
Liabilities				
Due to financial institutions and Central Bank	5	3	4	(41)
Deposits from customers	1,743	2,234	3,934	(14,571)
Borrowings	3,638	(752)	14,349	(30,745)
Other liabilities	82	(160)	171	(270)
Subordinated liabilities	198	99	932	(1,943)
Total	5,666	1,424	19,390	(47,570)
Net foreign exchange (loss) gain	(45)	(259)	(72)	(174)

10. Net impairment changes

	2021 1.4-30.6	2020 1.4-30.6	2021 1.1-30.6	2020 1.1-30.6
Net impairment changes of loans to customers	309	(8,185)	2,808	(13,420)
Net impairment changes of other financial assets	(16)	(6)	(26)	(15)
Net impairment changes of financial assets	293	(8,191)	2,782	(13,435)
Net impairment changes by customer type				
Public entities	(1)	-	-	-
Financial institutions	-	4	-	5
Individuals	120	(124)	458	(558)
Corporates	174	(8,071)	2,324	(12,882)
Net impairment changes of financial assets	293	(8,191)	2,782	(13,435)

Notes to the Condensed Consolidated Interim Financial Statements

11. Other income and expenses

	2021	2020	2021	2020
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Gain (loss) on repossessed collateral	54	(36)	169	(76)
Share of profit of equity-accounted associates	50	84	134	141
Other	226	285	273	80
Total	330	333	576	145

12. Salaries and related expenses

	2021	2020	2021	2020
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Salaries	2,886	2,957	5,836	6,001
Contribution to defined pension plans	433	429	855	834
Social security contributions	199	191	393	406
Special financial activities tax on salaries	179	180	354	351
Other related expenses	27	45	55	54
Total	3,724	3,802	7,493	7,646

Average number of full-time equivalent positions during the period	865	891	869	893
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13. Income tax

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

	2021	2020
	1.1-30.6	1.1-30.6
Current tax expense	(2,505)	(61)
Special income tax on financial institutions	(645)	-
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(22)	656
Total	(3,172)	595

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

	2021	2020
	1.1-30.6	1.1-30.6
Profit (loss) before tax	18,257	(3,007)
Tax on liabilities of financial institutions	(980)	(875)
Profit (loss) before income tax	17,277	(3,882)
Income tax calculated using the domestic corporate income tax rate	20.0% (3,455)	20.0% 777
Special income tax on financial institutions	3.7% (645)	0.0% -
Income not subject to tax	(6.5%) 1,115	2.3% 88
Non-deductible expenses	1.1% (187)	(6.9%) (270)
Effective income tax	18.4% (3,172)	15.3% 595

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Statement of Financial Position

14. Classification and fair values of financial assets and liabilities

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 30 June 2021:

As at 30 June 2021	Notes	Carrying amount				Total	Fair value			
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Cash and balances with Central Bank	18	-	92	-	-	92	-	92	-	92
Bonds and debt instruments	19	-	126,437	1,771	-	128,208	127,775	28	405	128,208
Equities and equity instruments	20	-	35,111	-	-	35,111	15,448	-	19,663	35,111
Derivative instruments	21	-	1,262	-	-	1,262	-	1,262	-	1,262
Loans and advances to customers	23	-	19,764	-	-	19,764	-	-	19,764	19,764
		0	182,666	1,771	0	184,437	143,223	1,382	39,832	184,437
Financial assets not measured at fair value										
Cash and balances with Central Bank	18	89,250	-	-	-	89,250	-	89,250	-	89,250
Loans and advances to financial institutions	22	64,245	-	-	-	64,245	-	64,245	-	64,245
Loans and advances to customers	23	1,308,267	-	-	-	1,308,267	-	1,310,923	-	1,310,923
Other financial assets		13,672	-	-	-	13,672	-	13,672	-	13,672
		1,475,434	0	0	0	1,475,434	0	1,478,090	0	1,478,090
Financial liabilities measured at fair value										
Derivative instruments	21	-	4,601	-	-	4,601	-	4,601	-	4,601
Short positions	21	-	836	-	-	836	836	-	-	836
		0	5,437	0	0	5,437	836	4,601	0	5,437
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank		-	-	-	40,312	40,312	-	40,312	-	40,312
Deposits from customers		-	-	-	842,624	842,624	-	842,346	-	842,346
Borrowings	25	-	-	-	456,688	456,688	-	473,824	-	473,824
Other financial liabilities		-	-	-	34,521	34,521	-	34,521	-	34,521
Subordinated liabilities	28	-	-	-	20,889	20,889	-	21,320	-	21,320
		0	0	0	1,395,034	1,395,034	0	1,412,323	0	1,412,323

Notes to the Condensed Consolidated Interim Financial Statements

14. 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 2020:

As at 31 December 2020	Notes	Carrying amount				Total	Fair value			
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Bonds and debt instruments	19	-	113,336	1,683	-	115,019	114,412	26	581	115,019
Equities and equity instruments	20	-	26,808	-	-	26,808	9,318	-	17,490	26,808
Derivative instruments	21	-	3,303	-	-	3,303	-	3,303	-	3,303
Loans and advances to customers	23	-	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	18	67,604	-	-	-	67,604	-	67,604	-	67,604
Bonds and debt instruments	19	4,311	-	-	-	4,311	-	4,330	-	4,330
Loans and advances to financial institutions	22	48,073	-	-	-	48,073	-	48,073	-	48,073
Loans and advances to customers	23	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	21	-	3,724	-	-	3,724	-	3,724	-	3,724
Short positions	21	-	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		-	-	-	48,725	48,725	-	48,725	-	48,725
Deposits from customers		-	-	-	793,427	793,427	-	793,214	-	793,214
Borrowings	25	-	-	-	420,178	420,178	-	436,455	-	436,455
Other financial liabilities		-	-	-	8,127	8,127	-	8,127	-	8,127
Subordinated liabilities	28	-	-	-	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

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Statement of Financial Position

15. Fair value of financial assets and liabilities

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. During the period from 1 January to 30 June 2021 and 1 January to 30 June 2020, there were no transfers between Level 1, Level 2 and Level 3.

The following tables show the reconciliation of fair value measurement in Level 3 for the six months ended 30 June 2021 and for the year 2020:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
1 January - 30 June 2021				
Carrying amount as at 1 January 2021	581	17,490	16,515	34,586
Net gain on financial assets and liabilities at FVTPL	11	2,350	159	2,520
Net foreign exchange gain (loss)	(1)	(1)	(32)	(34)
Purchases	14	298	56,394	56,706
Sales	(200)	(263)	-	(463)
Settlements	-	-	(53,272)	(53,272)
Dividend received	-	(211)	-	(211)
Carrying amount as at 30 June 2021	405	19,663	19,764	39,832
1 January - 31 December 2020				
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	(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

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 as at 30 June 2021 and 30 June 2020, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
1 January - 30 June 2021				
Net gain (loss) on financial assets and liabilities at FVTPL realised	25	5	-	30
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	(13)	2,346	159	2,492
Net foreign exchange gain (loss)	(1)	(1)	(32)	(34)
Total	11	2,350	127	2,488
1 January - 30 June 2020				
Net gain (loss) on financial assets and liabilities at FVTPL realised	-	(134)	-	(134)
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	23	1,771	(1,855)	(61)
Net foreign exchange gain (loss)	1	3	(6)	(2)
Total	24	1,640	(1,861)	(197)

16. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 30 June 2021 and 31 December 2020.

As at 30 June 2021	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	405	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	19,663	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	19,764	-	See 3) below	See 3) below	n/a	n/a
	39,832	0				

Notes to the Condensed Consolidated Interim Financial Statements

16. Unobservable inputs in fair value measurement (continued)

As at 31 December 2020	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of 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				

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 for the six months ended 30 June 2021 and 30 June 2020:

Effect on profit before tax	2021 1.1-30.6		2020 1.1-30.6	
	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	1	(1)	1	(1)
Equities and equity instruments:				
Equities	972	(947)	901	(902)
Mutual funds	215	(215)	230	(230)
Total equities and equity instruments	1,187	(1,162)	1,131	(1,132)
Loans and advances to customers	42	(42)	66	(64)
Total	1,230	(1,205)	1,198	(1,197)

The effect on (loss) profit was calculated as the difference between 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.

17. Expected credit loss

	30.6.2021			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(18)	-	-	(18)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(2,394)	(5,798)	(10,585)	(18,777)
Other financial assets	(57)	-	-	(57)
Expected credit loss, off-balance sheet items	(347)	(208)	(118)	(673)
Total	(2,817)	(6,006)	(10,703)	(19,526)
	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)

Notes to the Condensed Consolidated Interim Financial Statements

18. Cash and balances with Central Bank

	30.6.2021	31.12.2020
Cash on hand	4,743	4,844
Unrestricted balances with Central Bank	69,068	49,106
Total cash and unrestricted balances with Central Bank	73,811	53,950
Restricted balances with Central Bank - fixed reserve requirement	8,979	9,143
Cash and balances pledged as collateral to the Central Bank	6,552	4,511
Total restricted balances with Central Bank	15,531	13,654
Total cash and balances with Central Bank	89,342	67,604

19. Bonds and debt instruments

Bonds and debt instruments	30.6.2021				31.12.2020			
	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Total	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Total
Domestic								
Listed	-	78,451	353	78,804	4,311	72,174	249	76,734
Unlisted	-	-	1,418	1,418	-	-	1,434	1,434
	0	78,451	1,771	80,222	4,311	72,174	1,683	78,168
Foreign								
Listed	-	47,986	-	47,986	-	41,162	-	41,162
	0	47,986	0	47,986	0	41,162	0	41,162
Total bonds	0	126,437	1,771	128,208	4,311	113,336	1,683	119,330

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

20. Equities and equity instruments

Equities and equity instruments	30.6.2021			31.12.2020		
	Trading book	Banking book	Total	Trading book	Banking book	Total
Domestic						
Listed	14,213	508	14,721	8,773	164	8,937
Unlisted	-	19,996	19,996	-	17,753	17,753
	14,213	20,504	34,717	8,773	17,917	26,690
Foreign						
Listed	105	289	394	2	98	100
Unlisted	-	-	0	-	18	18
	105	289	394	2	116	118
Total equities	14,318	20,793	35,111	8,775	18,033	26,808

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

Part of the Bank's investments in equities are comprised of alternative investments in private equity funds, often established based on the assumption that they will be wound up within a set time frame (pre-determined lifetime). Within each fund's lifetime, there is a defined investment period during which the fund identifies suitable investments and draws on subscribed capital from its shareholders, including the Bank, followed by a transformation period during which the fund implements its value-enhancing changes for the companies it has invested in. When the lifetime period of a fund expires it is wound up and dissolved and shareholders realise their investment.

As at 30 June 2021, outstanding commitments of the Group in share subscriptions amounted to ISK 816 million (31 December 2020: ISK 741 million) altogether in seven entities.

Notes to the Condensed Consolidated Interim Financial Statements

21. Derivative instruments and short positions

Trading

	30.6.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	25,202	292	132	8,579	126	57
Cross-currency interest rate swaps	724	42	-	1,148	134	-
	25,926	334	132	9,727	260	57
Interest rate derivatives						
Interest rate swaps	1,252	11	-	2,276	17	-
Total return swaps	43,062	35	52	33,331	18	51
	44,314	46	52	35,607	35	51
Equity derivatives						
Equity forwards	52	-	3	87	-	13
Total return swaps	11,630	30	513	6,386	8	524
Equity options	392	-	17	190	-	31
	12,074	30	533	6,663	8	568
Total derivative instruments	82,314	410	717	51,997	303	676
Short positions						
Listed bonds	918	-	836	880	-	524
Total short positions	918	0	836	880	0	524
Total	83,232	410	1,553	52,877	303	1,200

Risk management

	30.6.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	37,262	12	698	32,009	1,276	2
	37,262	12	698	32,009	1,276	2
Interest rate derivatives						
Interest rate swaps	28,752	83	3,186	29,777	81	3,046
	28,752	83	3,186	29,777	81	3,046
Fair value hedging						
Interest rate swaps	88,020	757	-	93,660	1,643	-
	88,020	757	0	93,660	1,643	0
Total	154,034	852	3,884	155,446	3,000	3,048
Total derivative instruments and short positions	237,266	1,262	5,437	208,323	3,303	4,248

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 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 2021 to 30 June 2021, the slope of the regression line was in all cases within the range of 1.04 and 1.10 (for a 95% confidence level) and the regression coefficient was at least 0.89 (R^2). During the same period in 2020, the slope of the regression line is in all cases within the range of 0.98 and 1.08 (for a 95% confidence level) and the regression coefficient is at least 0.92 (R^2). In all cases the effectiveness is within limits during the first half of 2021 and 2020.

Notes to the Condensed Consolidated Interim Financial Statements

21. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 30 June 2021	Notional amount of the hedging instrument	Maturity date			Fair value of the hedging derivatives		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		Up to 3 months	1-5 years	>5 years	Assets	Liabilities	
Interest rate swaps - EUR	88,020	44,610	44,610	-	757	-	(886)
Total	88,020	44,610	44,610	0	757	0	(886)

Average fixed interest rate - EUR 1.375% 1.00%

As at 30 June 2021	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities	
LBANK 1.375 3/22	-	44,337	179	481
LBANK 1.00 5/23	-	44,573	515	461
Total EMTN hedged borrowings	0	88,910	694	942

As at 31 December 2020	Notional amount of the hedging instrument	Maturity date			Fair value of the hedging derivatives		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		3-12 months	1-5 years	>5 years	Assets	Liabilities	
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	Accumulated amount of fair value hedge adjustments on the hedged item		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities	
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	1,066	(314)

22. Loans and advances to financial institutions

	30.6.2021	31.12.2020
Bank accounts with financial institutions	18,895	15,141
Money market loans	43,985	32,210
Other loans	1,366	723
Allowance for impairment	(1)	(1)
Total	64,245	48,073

Notes to the Condensed Consolidated Interim Financial Statements

23. Loans and advances to customers

	30.6.2021	31.12.2020
Loans and advances to customers at amortised cost	1,327,044	1,281,386
Allowance for impairment	(18,777)	(24,475)
Total	1,308,267	1,256,911
Loans and advances to customers at FVTPL	19,764	16,515
Total	1,328,031	1,273,426

Loans and advances to customers at amortised cost

	30.6.2021			31.12.2020		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	3,903	(34)	3,869	4,169	(41)	4,128
Individuals	667,699	(1,903)	665,796	593,984	(2,307)	591,677
Mortgage lending	590,695	(933)	589,762	519,470	(1,221)	518,249
Other	77,004	(970)	76,034	74,514	(1,086)	73,428
Corporates	655,442	(16,840)	638,602	683,233	(22,127)	661,106
	1,327,044	(18,777)	1,308,267	1,281,386	(24,475)	1,256,911

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

24. Other assets

	30.6.2021	31.12.2020
Unsettled securities trading	6,912	1,892
Other accounts receivable	4,537	5,592
Right-of-use assets	2,223	2,369
Sundry assets	1,336	1,374
Total	15,008	11,227

Notes to the Condensed Consolidated Interim Financial Statements

25. Borrowings

Secured borrowings

As at 30.6.2021	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%	6,054
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	23,085
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	46,910
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	44,871
LBANK CB 25	ISK	17.09.2025	19,780	Non-indexed	Fixed 3.4%	20,557
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	12,094
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	58,750
Total covered bonds						212,321
Total secured borrowings						212,321

Unsecured borrowings

As at 30.6.2021	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1.75%	14,387
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	7,238
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	44,337
LBANK FLOAT 08/22	SEK	02.08.2022	SEK 900 million	STIBOR + 0.75%	13,020
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	44,573
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1.55%	7,194
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1.55%	7,235
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	43,879
LBANK 0.375 5/25 GB	EUR	23.05.2025	EUR 300 million	Fixed 0.375%	43,683
Total senior unsecured bonds					225,546

As at 30.6.2021	Carrying amount
Other unsecured loans	18,821
Total other unsecured loans	18,821
Total unsecured borrowings	244,367
Total borrowings as at 30.6.2021	456,688

* 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 21. 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.

Notes to the Condensed Consolidated Interim Financial Statements

25. Borrowings (continued)

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 1.000 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	47,854
LBANKFL 1023	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,471
LBANKFL 1023	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 21. 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.

26. Deferred tax assets and liabilities

	30.6.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	3,398	-	3,919
Deferred tax assets / liabilities	1	-	23	-
Taxes in the Statement of Financial Position	1	3,398	23	3,919

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

	30.6.2021			31.12.2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(106)	(106)	-	(124)	(124)
Intangibles	-	(189)	(189)	-	(201)	(201)
Exchange rate-indexed assets and liabilities	-	(499)	(499)	-	(444)	(444)
Deferred foreign exchange differences	114	-	114	118	-	118
Other assets and liabilities	681	-	681	674	-	674
	795	(794)	1	792	(769)	23
Set-off of deferred tax assets together with liabilities of the same taxable entities	(794)	794	0	(769)	769	0
Deferred tax liabilities total	1	0	1	23	0	23

Notes to the Condensed Consolidated Interim Financial Statements

26. Deferred tax assets and liabilities (continued)

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

	Balance as at 1.1	Recognised in income statement	Balance as at 30.6
		Tax income (expense)	
As at 30.6.2021			
Property and equipment	(124)	18	(106)
Intangibles	(201)	12	(189)
Foreign currency denominated assets and liabilities	(444)	(55)	(499)
Deferred foreign exchange differences	118	(4)	114
Other assets and other liabilities	674	7	681
Total	23	(22)	1

	Balance as at 1.1	Recognised in income statement	Balance as at 31.12
		Tax income (expense)	
As at 31.12.2020			
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

27. Other liabilities

	30.6.2021	31.12.2020
Unsettled securities trading	29,933	4,688
Withholding tax	688	1,475
Accounts payable	1,967	674
Contribution to the Depositors' and Investors' Guarantee Fund	202	198
Non-controlling interests - Funds	366	47
Lease liabilities	2,419	2,567
Sundry liabilities	4,473	4,380
Total	40,048	14,029

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

28. Subordinated liabilities

As at 30.6.2021	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%	14,952
LBANK T21 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3.85%	5,937
Total subordinated liabilities						20,889

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 T21 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3.85%	5,705
Total subordinated liabilities						21,366

The Tier 2 subordinated bonds in EUR have a final maturity in September 2028, but are callable in September 2023. The bond series, LBANK T21 29, has a final maturity in December 2029, but is callable in December 2024.

Notes to the Condensed Consolidated Interim Financial Statements

29. Equity

Share capital

As of 30 June 2021, 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 the end of first half of 2021, or 1.56% of issued shares. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

The Bank has launched a share buyback programme to purchase up to 57 million of own shares or up to 0.24% of the Bank's issued share capital. The buyback programme is based on the decision of the Bank's Board of Directors on 10 June 2021 and resolution of its Annual General Meeting on 24 March 2021. The objective of the buyback programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner. The share price is determined by the internal value of the Bank's shares, according to its most recently published consolidated financial statements for an interim period or the year-end prior to repurchase. The buyback programme will commence following publication of the consolidated interim financial statements of the Bank for the first half of 2021.

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 AGM of Landsbankinn, held on 24 March 2021, approved the motion of the Board of Directors to pay a dividend of ISK 0.19 per share to shareholders for the operating year 2020. The total dividend of ISK 4,489 million corresponds to about 43% of the consolidated profit in 2020 (and is 16% of the consolidated profit in 2019 and 2020). The dividend payment is in accordance with the maximum guidance for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021. The dividend was paid to shareholders on 31 March 2021.

Dividend policy

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to around 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 FSA 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 35 Capital requirements.

Notes to the Condensed Consolidated Interim Financial Statements

Other notes

30. Earnings per share

	2021	2020	2021	2020
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Profit (loss) for the period				
Profit (loss) for the period attributable to owners of the Bank	6,487	341	14,105	(3,287)
	2021	2020	2021	2020
	1.4-30.6	1.4-30.6	1.1-30.6	1.1-30.6
Weighted average number of shares				
Weighted average number of ordinary shares issued	24,000	24,000	24,000	24,000
Weighted average number of own shares	(375)	(375)	(375)	(375)
Weighted average number of shares outstanding	23,625	23,625	23,625	23,625
Basic and diluted earnings per share from operations (ISK)	0.27	0.01	0.60	(0.14)

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.

31. 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.

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 was the fifth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. The Bank claimed the case should again be dismissed and rejected all claims of the plaintiff. In November 2020 the District Court of Reykjavik dismissed this new case on grounds of insufficient substantiation. On 26 March 2021 the Appeal Court, Landsréttur, confirmed the ruling of the District Court.

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 reports of the court appointed assessor were submitted in March and April 2021 by the parties which had requested them. Submission of evidence was completed in May 2021 and the main hearing of the case is scheduled on 18 October 2021.

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 593 million) plus interest due to alleged damages that the Irish company maintained that the Bank had caused the company in connection with the insolvency of a German company. The Irish company maintained 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 had caused the insolvency of the German company, and that the Bank, in order to strengthen the position of the Bank, had opposed the representatives of the German company to file for bankruptcy in 2013. The Irish company maintained that the Bank thereby had 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 Irish company formally withdrew the action in January 2021. In 2018, the Bank made allowance for expected losses relating to the loans. The settlement does not involve further losses of the Bank.

Notes to the Condensed Consolidated Interim Financial Statements

31. Litigation (continued)

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., now SaltPay IIB hf. (the Company), and the then CEO of the Company. The Bank considers the defendants to have been in possession of information about the shareholding of the Company in Visa Europe Ltd. at the time when the Bank sold its 31.2% shareholding in 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 the Company'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 the Company in Visa Europe Ltd to Visa Inc., the terms of the option and possible payments to the Company based on the option had been of relevance for the drawing up, presentation and therefore the audit of the Annual Accounts of the Company for the year 2013. The Company should have provided information in its Annual Accounts for 2013 on its holding in Visa Europe Ltd. and that the Company was a principal member of Visa Europe Ltd. The Company 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 the Company 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 request of the Company and another defendant the District Court appointment new assessors to review the assessment. The revised assessment was delivered in April 2021. The re-assessors concluded, inter alia, that information on the existence and terms of the option could have been of relevance for the drawing up, presentation and the audit of the Annual Accounts of the Company for the year 2013, that the directors of the Company had been obligated to provide information on the existence and, under circumstances, the terms of the option in the notes to the Annual Accounts, and that the Annual Accounts did not fulfil all requirements to inform about the holdings of the Company in Visa Europe Ltd and/or the option according to the laws and regulation applicable at the time. It is expected that the main hearing of the case will be in January 2022.

32. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 30 June 2021 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 as at 30 June 2021.

Main subsidiaries as at 30 June 2021

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 30 June 2021.

33. Related party transactions

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 38, 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:

Loans in ISK million	30.6.2021		31.12.2020	
	Gross carrying amount as at 30 June	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Key management personnel	405	498	419	493
Parties related to key management personnel	89	158	121	168
Associates	944	948	946	984
Other	19	20	20	22
Total	1,457	1,624	1,506	1,667

Specific impairment allowance of ISK 392 million in Stage 3 is recognised in respect of the loans under the item Associates.

The Bank provided a financial guarantee of ISK 447 million to one of its associates. The Bank made no lease contracts with related parties during the period.

Notes to the Condensed Consolidated Interim Financial Statements

33. Related party transactions (continued)

Transactions with other related parties (continued)

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

	30.6.2021		31.12.2020	
	Gross carrying amount as at 30 June	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Deposits in ISK million				
Key management personnel	67	219	63	172
Parties related to key management personnel	112	155	64	127
Associates	272	1,110	766	1,261
Other	20	23	248	423
Total	471	1,507	1,141	1,983

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

	Gross carrying amount as at 30 June 2021	Gross carrying amount as at 31 December 2020
Guarantees in ISK million		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	447	517
Total	447	517

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.

34. Events after the reporting period

On 1 July 2021, the Bank sold all of its shares in electronic security solutions company Auðkenni ehf. to the Icelandic State Treasury. The sale was a part of an agreement between the Treasury and all shareholders of the company for the transfer of its ownership to the State. The Bank's shareholding in the company is accounted for as an investment in an associate in these financial statements. The sale and the profit from it, ISK 147 million, have not been recognised in the accounting period ended 30 June 2021.

Notes to the Condensed Consolidated Interim Financial Statements

Capital management

35. 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. The Bank's 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 30.6.2021	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.0%	2.6%	3.5%
Minimum requirement under Pillar I and Pillar II-R	6.5%	8.6%	11.5%
Systemic risk buffer	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirement	7.4%	7.4%	7.4%
Total capital requirement	13.9%	16.0%	18.9%

The Bank aims to maintain at all times capital ratios well above FSA's minimum capital requirements. The Bank's target capital ratio includes a management buffer, in addition to FSA's capital requirements, 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 31.12.2020, as determined by the FSA, were 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%

Notes to the Condensed Consolidated Interim Financial Statements

36. 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 aforementioned 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 arrangement, whereby the transitional adjustment amount throughout the transition period is determined by recalculating it periodically to reflect the evolution of the Group's expected 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.

	30.6.2021	31.12.2020
Capital base		
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	20,955	19,250
Retained earnings	102,661	94,750
Total equity attributable to owners of the Bank	267,871	258,255
Intangible assets	(34)	(1,696)
Deferred tax assets	(1)	(23)
Fair value hedges	(757)	(1,643)
Foreseeable dividends*	(7,053)	-
Adjustment under IFRS 9 transitional arrangements	3,416	5,353
Common equity Tier 1 capital (CET1)	263,442	260,246
Non-controlling interests	-	-
Tier 1 capital	263,442	260,246
Subordinated liabilities	20,889	21,366
Tier 2 capital	20,889	21,366
Total capital base	284,331	281,612
Risk exposure amount (REA)		
Credit risk	1,024,819	1,010,588
Market risk	7,348	11,526
Operational risk**	99,485	99,485
Total risk exposure amount	1,131,652	1,121,599

*Pursuant to the Bank's dividend policy, the foreseeable dividend corresponds to 50% of net earnings for the six months of 2021.

**The amounts are updated on a yearly basis.

CET1 ratio	23.3%	23.2%
Tier 1 capital ratio	23.3%	23.2%
Total capital ratio	25.1%	25.1%
CET 1 Ratio as if IFRS 9 transitional arrangements were not applied	23.0%	22.7%
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	23.0%	22.7%
Total capital ratio as if IFRS 9 transitional arrangements were not applied	24.8%	24.6%

37. 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.

	30.6.2021	31.12.2020
Leverage ratio		
- On-balance sheet exposure (excluding derivatives)	1,664,485	1,556,541
- Derivative instrument exposure	8,559	5,944
- Securities financing transaction exposures	15,245	4,366
- Off-balance sheet exposure	150,442	130,089
- Regulatory adjustments to Tier 1 capital	(4,429)	(3,362)
Total leverage exposure	1,834,302	1,693,578
Tier 1 capital	263,442	260,246
Leverage ratio	14.4%	15.4%
Leverage ratio as if IFRS 9 transitional arrangements were not applied	14.2%	15.1%

Notes to the Condensed Consolidated Interim Financial Statements

Risk management

Credit risk

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

The following tables show the Group's maximum credit risk exposure as at 30 June 2021 and 31 December 2020. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Condensed Consolidated Interim 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.

As at 30 June 2021	Corporations													Maximum exposure	Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
Cash and balances with Central Bank	-	89,342	-	-	-	-	-	-	-	-	-	-	-	89,342	89,342
Bonds and debt instruments	79	124,699	-	-	13	-	-	1,363	-	23	21	-	-	126,198	128,208
Equities and equity instruments	61	-	-	135	12	-	1	2,131	1	77	18,132	-	24	20,574	35,111
Derivative instruments	855	-	-	1	-	42	-	-	29	-	3	-	332	1,262	1,262
Loans and advances to financial institutions	64,245	-	-	-	-	-	-	-	-	-	-	-	-	64,245	64,245
Loans and advances to customers	-	3,869	666,316	176,072	132,573	75,465	96,909	64,189	54,332	21,228	30,438	6,639	1	1,328,031	1,328,031
Other assets	21,201	1	5	-	2,275	42	2	4,387	-	1	5	-	1,336	29,255	31,098
Total on-balance sheet exposure	86,441	217,911	666,321	176,208	134,873	75,549	96,912	72,070	54,362	21,329	48,599	6,639	1,693	1,658,907	1,677,297
Off-balance sheet exposure	1	6,849	31,728	19,633	19,769	54,221	16,029	18,855	18,656	21,211	2,209	415	63	209,639	
Financial guarantees and underwriting commitments	-	-	630	6,530	1,382	4,381	2,089	3,435	2,494	1,367	364	-	35	22,707	
Undrawn loan commitments	-	20	-	10,182	17,420	47,374	12,301	5,581	10,081	16,410	1,638	150	-	121,157	
Undrawn overdraft/credit card facilities	1	6,829	31,098	2,921	967	2,466	1,639	9,839	6,081	3,434	207	265	28	65,775	
Maximum exposure to credit risk	86,442	224,760	698,049	195,841	154,642	129,770	112,941	90,925	73,018	42,540	50,808	7,054	1,756	1,868,546	
Percentage of maximum exposure to credit risk	4.6%	12.0%	37.4%	10.5%	8.3%	6.9%	6.0%	4.9%	3.9%	2.3%	2.7%	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.

Notes to the Condensed Consolidated Interim Financial Statements

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

As at 31 December 2020	Corporations													Maximum exposure	Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
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	16,285	-	-	18,033	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	48,185	6,544	1,450	1,519,576	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	50,724	6,836	1,488	1,707,863	
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%	100.0%	

* 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.

Notes to the Condensed Consolidated Interim Financial Statements

39. 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.

As at 30 June 2021	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised		Without collateral	Allowance for impairment	Carrying amount
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
Financial institutions	-	-	-	-	0	-	-	64,246	(1)	64,245
Public entities	22	151	152	8	333	65	31	3,505	(34)	3,869
Individuals	37,716	141,017	399,049	49,844	627,626	6,758	3,783	33,835	(1,903)	666,316
Mortgages	30,873	130,446	381,101	42,651	585,071	3,483	1,899	2,141	(933)	589,762
Other	6,843	10,571	17,948	7,193	42,555	3,275	1,884	31,694	(970)	76,554
Corporates	41,327	137,168	199,725	160,608	538,828	108,470	82,066	27,388	(16,840)	657,846
Fisheries	12,568	49,136	74,533	37,395	173,632	1,851	1,575	1,153	(564)	176,072
Real estate companies	2,133	22,924	61,543	28,080	114,680	17,599	14,751	2,112	(1,818)	132,573
Construction companies	590	10,326	15,198	15,723	41,837	33,473	28,045	2,044	(1,889)	75,465
Travel industry	1,203	5,663	13,093	61,272	81,231	19,245	15,275	5,070	(8,637)	96,909
Services, IT and communications	6,766	7,238	13,526	5,731	33,261	21,149	14,267	11,739	(1,960)	64,189
Retail	2,846	27,591	7,424	7,425	45,286	8,541	5,195	1,821	(1,316)	54,332
Manufacturing and energy	893	2,585	7,075	3,010	13,563	4,888	1,859	3,269	(492)	21,228
Holding companies	13,753	9,826	5,395	454	29,428	1,057	861	56	(103)	30,438
Agriculture	575	1,879	1,938	1,518	5,910	667	238	123	(61)	6,639
Other	-	-	-	-	-	-	-	1	-	1
Total	79,065	278,336	598,926	210,460	1,166,787	115,293	85,880	128,974	(18,778)	1,392,276

*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.

Notes to the Condensed Consolidated Interim Financial Statements

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

As at 31 December 2020	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised		Without collateral	Allowance for impairment	Carrying amount
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
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	-	-	-	-	-	-	-	-	-	-
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.

Notes to the Condensed Consolidated Interim Financial Statements

40. 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 30 June 2021	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	323	-	1	-	39	363
Individuals	606,573	78	242	2,953	21,334	631,180
Mortgages	580,329	12	75	59	6,269	586,744
Other	26,244	66	167	2,894	15,065	44,436
Corporates	321,952	130,144	2,167	78,476	88,156	620,895
Fisheries	9,065	128,255	35	24,673	13,180	175,208
Real estate companies	123,199	71	314	3,657	2,190	129,431
Construction companies	63,858	9	835	42	5,138	69,882
Travel industry	64,247	703	306	205	31,045	96,506
Services, IT and communications	25,464	1,021	260	8,310	12,472	47,527
Retail	21,939	83	116	13,328	15,015	50,481
Manufacturing and energy	8,376	2	94	-	6,952	15,424
Holding companies	1,813	-	202	28,261	13	30,289
Agriculture	3,991	-	5	-	2,151	6,147
Other	-	-	-	-	-	-
Total	928,848	130,222	2,410	81,429	109,529	1,252,438
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

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

Notes to the Condensed Consolidated Interim Financial Statements

41. Credit quality of loans and advances

The following tables show the credit quality of loans and advances, measured by rating grade.

As at 30 June 2021	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	64,246	-	-	-	-	(1)	64,245
Public entities	163	3,732	-	8	-	(34)	3,869
Individuals	350,786	291,411	22,103	2,986	933	(1,903)	666,316
Mortgages	322,941	249,207	15,929	1,893	725	(933)	589,762
Other	27,845	42,204	6,174	1,093	208	(970)	76,554
Corporations	67,204	466,369	100,650	36,283	4,180	(16,840)	657,846
Fisheries	25,204	136,885	12,708	1,839	-	(564)	176,072
Real estate companies	448	117,965	12,386	3,592	-	(1,818)	132,573
Construction companies	2,259	58,131	6,503	10,461	-	(1,889)	75,465
Travel industry	889	38,296	51,964	14,397	-	(8,637)	96,909
Services, IT and communications	4,129	52,790	6,857	2,372	1	(1,960)	64,189
Retail	24,344	27,217	2,816	1,271	-	(1,316)	54,332
Manufacturing and energy	8,763	8,696	2,083	2,174	4	(492)	21,228
Holding companies	-	21,435	4,917	14	4,175	(103)	30,438
Agriculture	1,168	4,953	416	163	-	(61)	6,639
Other	-	1	-	-	-	-	1
Total	482,399	761,512	122,753	39,277	5,113	(18,778)	1,392,276

As at 31 December 2020	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
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	3,354	58,613	4,163	3,461	-	(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	60	27,630	2,484	8	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

Notes to the Condensed Consolidated Interim Financial Statements

42. Loans and advances by past due status

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

As at 30 June 2021	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	64,246	-	-	-	-	-	(1)	64,245
Public entities	3,895	-	8	-	-	-	(34)	3,869
Individuals	660,131	2,940	2,756	453	601	1,338	(1,903)	666,316
Mortgages	586,817	1	2,257	295	499	826	(933)	589,762
Other	73,314	2,939	499	158	102	512	(970)	76,554
Corporates	650,967	5,504	7,847	754	603	9,011	(16,840)	657,846
Fisheries	170,827	4,338	1,208	251	-	12	(564)	176,072
Real estate companies	131,451	146	1,665	126	297	706	(1,818)	132,573
Construction companies	75,070	428	1,080	45	23	708	(1,889)	75,465
Travel industry	97,217	85	2,911	7	218	5,108	(8,637)	96,909
Services, IT and communications	64,171	303	294	18	33	1,330	(1,960)	64,189
Retail	54,088	73	232	190	32	1,033	(1,316)	54,332
Manufacturing and energy	21,064	93	449	-	-	114	(492)	21,228
Holding companies	30,456	5	1	79	-	-	(103)	30,438
Agriculture	6,622	33	7	38	-	-	(61)	6,639
Other	1	-	-	-	-	-	-	1
Total	1,379,239	8,444	10,611	1,207	1,204	10,349	(18,778)	1,392,276

As at 31 December 2020	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
	Not past due	1-5	6-30	31-60	61-90	over 90		
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
Corporations	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

Notes to the Condensed Consolidated Interim Financial Statements

43. Loans and advances by stage allocation

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

	Gross carrying amount	Stage 1		Stage 2		Stage 3		Allowance for impairment	Fair value	Carrying amount
		Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
As at 30 June 2021										
Financial institutions	64,246	64,246	(1)	-	-	-	-	(1)	-	64,245
Public entities	3,903	3,789	(32)	106	(1)	8	(1)	(34)	-	3,869
Individuals	668,219	632,307	(538)	32,406	(658)	2,986	(707)	(1,903)	520	666,316
Mortgages	590,695	567,214	(346)	21,588	(385)	1,893	(202)	(933)	-	589,762
Other	77,524	65,093	(192)	10,818	(273)	1,093	(505)	(970)	520	76,554
Corporates	674,686	507,904	(1,824)	111,255	(5,139)	36,283	(9,877)	(16,840)	19,244	657,846
Fisheries	176,636	168,209	(354)	3,834	(86)	1,839	(124)	(564)	2,754	176,072
Real estate companies	134,391	115,248	(431)	11,892	(539)	3,592	(848)	(1,818)	3,659	132,573
Construction companies	77,354	61,964	(427)	4,653	(93)	10,461	(1,369)	(1,889)	276	75,465
Travel industry	105,546	20,377	(244)	70,772	(4,040)	14,397	(4,353)	(8,637)	-	96,909
Services, IT and communications	66,149	49,921	(204)	9,341	(225)	2,372	(1,531)	(1,960)	4,515	64,189
Retail	55,648	49,052	(91)	3,323	(63)	1,271	(1,162)	(1,316)	2,002	54,332
Manufacturing and energy	21,720	17,300	(16)	2,246	(29)	2,174	(447)	(492)	-	21,228
Holding companies	30,541	19,947	(46)	4,542	(51)	14	(6)	(103)	6,038	30,438
Agriculture	6,700	5,885	(11)	652	(13)	163	(37)	(61)	-	6,639
Other	1	1	-	-	-	-	-	-	-	1
Total	1,411,054	1,208,246	(2,395)	143,767	(5,798)	39,277	(10,585)	(18,778)	19,764	1,392,276

Notes to the Condensed Consolidated Interim Financial Statements

43. Loans and advances by stage allocation (continued)

As at 31 December 2020	Stage 1			Stage 2		Stage 3		Allowance for impairment	Fair value	Carrying amount
	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
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

Notes to the Condensed Consolidated Interim Financial Statements

44. Impairment allowance on loans and advances

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

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2021 - Financial institutions	(1)	0	0	(1)
Changes in models/risk parameters	-	-	-	0
Balance as at 30 June 2021 - Financial institutions	(1)	0	0	(1)
- thereof classified as deduction from gross carrying amounts	(1)	-	-	(1)
- thereof classified as liabilities	-	-	-	0

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2021 - Loans and advances to customers	(4,224)	(6,969)	(14,110)	(25,303)
New financial assets originated	(969)	(383)	(1,568)	(2,920)
Reversals due to financial assets that have been derecognised	1,162	995	1,738	3,895
Transfer to Stage 1 - 12-month ECL	(91)	77	14	0
Transfer to Stage 2 - Lifetime ECL	679	(850)	171	0
Transfer to Stage 3 - Lifetime ECL	89	376	(465)	0
Changes in models/risk parameters	612	745	652	2,009
Provisions used to cover write-offs	1	3	2,865	2,869
Balance as at 30 June 2021 - Loans and advances to customers	(2,741)	(6,006)	(10,703)	(19,450)
- thereof classified as deduction from gross carrying amounts	(2,394)	(5,798)	(10,585)	(18,777)
- thereof classified as liabilities	(347)	(208)	(118)	(673)

	1.1-30.6.2021				Total
	Financial institutions	Public entities	Individuals	Corporates	
New financial assets originated	-	(2)	(247)	(2,671)	(2,920)
Reversals due to financial assets that have been derecognised	-	1	289	3,605	3,895
Changes due to financial assets recognised in the opening balance	-	1	177	1,831	2,009
Write-offs	-	-	(302)	(2,923)	(3,225)
Provisions used to cover write-offs	-	-	191	2,678	2,869
Recoveries	-	-	364	49	413
Translation difference	-	-	-	(233)	(233)
Net impairment on loans and advances	0	0	472	2,336	2,808

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44. Impairment allowance on loans and advances (continued)

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

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Restated 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)
- thereof classified as deduction from gross carrying amounts	(1)	-	-	(1)
- thereof classified as liabilities	-	-	-	0

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Restated 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)
- thereof classified as deduction from gross carrying amounts	(3,831)	(6,636)	(14,007)	(24,474)
- thereof classified as liabilities	(395)	(333)	(103)	(831)

	1.1-31.12.2020				Total
	Financial institutions	Public entities	Individuals	Corporates	
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)

45. Large exposures

As at 30 June 2021, 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 tier 1 capital. According to the rules, no exposure, after credit risk mitigation, may exceed 25% of tier 1 capital. The following table shows the Group's large exposures after credit mitigation:

	Number of large exposures	Large exposures
As at 30 June 2021		
Large exposures between 10% and 20% of the Group's tier 1 capital	3	102,311
Large exposures between 0% and 10% of the Group's tier 1 capital	1	6,915
Total	4	109,226

Total ratio of large exposures to tier 1 capital 41%

	Number of large exposures	Large exposures
As at 31 December 2020		
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%

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46. Liquidity risk management

The Group complies with liquidity rules set by the Central Bank of Iceland, No. 266/2017. On 30 June 2021, Central Bank rules No. 1032/2014, on Funding Ratios in Foreign Currencies, were repealed and Rules No. 750/2021, on Minimum Net Stable Funding, took effect. The Rules introduce an 100% overall stable funding ratio. The Group also follows Central Bank Rules No. 750/2021, on Total Funding Ratio, 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 an 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. 750/2021 set requirements for a minimum 100% overall net stable funding ratio (NSFR). The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland.

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 30 June 2021 and 31 December 2020 are shown in the following table:

Liquidity coverage ratio 30 June 2021	ISK		Foreign currencies		Total	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	130,313	130,313	49,509	49,509	179,822	179,822
Level 2 liquid assets	10,908	7,635	230	195	11,138	7,831
Information items	14,590	-	219	-	14,809	-
Total liquid assets	155,811	137,948	49,958	49,704	205,769	187,653
Deposits	584,208	126,346	101,013	43,176	685,221	169,522
Borrowing	-	-	135	135	135	135
Other outflows	109,463	16,488	41,272	4,017	150,735	20,504
Total outflows (0-30 days)	693,671	142,834	142,420	47,328	836,091	190,161
Loans and advances to financial institutions	12,920	-	64,234	62,857	77,154	62,857
Other inflows	40,840	19,635	6,700	3,705	47,539	23,340
Limit on inflows	-	-	-	(31,066)	-	-
Total inflows (0-30 days)	53,760	19,635	70,934	35,496	124,693	86,197
Liquidity coverage ratio		112%		420%		180%

Liquidity coverage ratio 31 December 2020	ISK		Foreign currencies		Total	
	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%

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 30 June 2021	ISK	Foreign currencies	Total
Cash and balances with the Central Bank	81,267	1,523	82,790
Domestic bonds and debt instruments eligible as collateral at the Central Bank	59,954	230	60,184
Foreign government bonds with 0% risk weight	-	47,986	47,986
High quality liquidity assets	141,221	49,739	190,960
Loans and advances to financial institutions	12,920	64,234	77,154
Total liquidity reserves	154,141	113,973	268,114

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46. Liquidity risk management (continued)

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 at 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

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 30 June 2021 and 31 December 2020:

	As at 30 June 2021	As at 31 December 2020
Net stable funding ratio FX	140%	132%
Net stable funding ratio total	121%	116%

47. 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 46.

The amounts in the maturity analyses as at 30 June 2021 and 31 December 2020 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 46, 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 as at 30 June 2021 and 31 December 2020. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

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

The following table shows a maturity analysis of the Group's financial instruments as at 30 June 2021:

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	(10,474)	(26,638)	(139)	-	-	-	(37,251)	(40,312)
Deposits from customers	(676,789)	(132,470)	(9,901)	(18,123)	(6,103)	-	(843,386)	(842,624)
Short positions	-	-	(29)	(1,281)	(296)	-	(1,606)	(836)
Borrowings	(58)	(793)	(102,935)	(310,241)	(87,330)	-	(501,357)	(456,688)
Other financial liabilities	(34,521)	-	-	-	-	-	(34,521)	(34,521)
Subordinated liabilities	-	(458)	(226)	(2,804)	(24,556)	-	(28,044)	(20,889)
Total	(721,842)	(160,359)	(113,230)	(332,449)	(118,285)	0	(1,446,165)	(1,395,870)
Derivative financial liabilities								
Trading								(717)
Inflow	8,073	1,280	891	-	-	-	10,244	
Outflow	(8,749)	(1,311)	(912)	-	-	-	(10,972)	
Risk management								(3,884)
Inflow	5,095	32,617	18,046	3,433	-	-	59,191	
Outflow	(5,190)	(34,068)	(20,009)	(3,874)	-	-	(63,141)	
Total	(771)	(1,482)	(1,984)	(441)	0	0	(4,678)	(4,601)
Non-derivative financial assets								
Cash and balances with								
Central Bank	89,342	-	-	-	-	-	89,342	89,342
Bonds and debt instruments	7,339	52,542	20,176	43,760	8,473	-	132,290	128,208
Equities and equity instruments	-	-	-	-	-	35,111	35,111	35,111
Loans and advances to financial institutions	64,334	-	-	-	-	-	64,334	64,245
Loans and advances to customers	74,317	59,265	182,798	523,735	1,365,907	-	2,206,022	1,328,031
Other financial assets	13,672	-	-	-	-	-	13,672	13,672
Total	249,004	111,807	202,974	567,495	1,374,380	35,111	2,540,771	1,658,609
Derivative financial assets								
Trading								410
Inflow	9,846	5,445	837	1,439	-	-	17,567	
Outflow	(9,652)	(5,277)	(812)	(1,428)	-	-	(17,169)	
Risk management								852
Inflow	5,917	-	45,637	44,450	-	-	96,004	
Outflow	(5,902)	(147)	(44,864)	(44,244)	-	-	(95,157)	
Total	209	21	798	217	0	0	1,245	1,262
Off-balance sheet items								
Financial guarantees and underwriting commitments	(681)	(582)	(4,607)	(4,134)	(11,887)	(816)	(22,707)	
Undrawn loan commitments	(121,157)	-	-	-	-	-	(121,157)	
Undrawn overdraft/credit card commitments	(65,775)	-	-	-	-	-	(65,775)	
Total	(187,613)	(582)	(4,607)	(4,134)	(11,887)	(816)	(209,639)	
Net liquidity position	(661,013)	(50,595)	83,951	230,688	1,244,208	34,295	881,534	259,400

Notes to the Condensed Consolidated Interim Financial Statements

47. 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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48. 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 30 June 2021:

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Non-derivative financial liabilities								
Total in foreign currencies	(102,740)	(1,679)	(68,100)	(182,041)	(16,046)	-	(370,606)	(962,848)
ISK	(619,102)	(158,680)	(45,130)	(150,408)	(102,239)	-	(1,075,559)	(433,022)
Total	(721,842)	(160,359)	(113,230)	(332,449)	(118,285)	0	(1,446,165)	(1,395,870)
Derivative financial liabilities								
Total in foreign currencies	4,949	409	860	(3)	-	-	6,215	(856)
ISK	(5,720)	(1,891)	(2,844)	(438)	-	-	(10,893)	(3,745)
Total	(771)	(1,482)	(1,984)	(441)	0	0	(4,678)	(4,601)
Non-derivative financial assets								
Total in foreign currencies	85,884	49,316	78,416	152,876	3,077	591	370,160	1,307,684
ISK	163,120	62,491	124,558	414,619	1,371,303	34,520	2,170,611	350,925
Total	249,004	111,807	202,974	567,495	1,374,380	35,111	2,540,771	1,658,609
Derivative financial assets								
Total in foreign currencies	7,008	2,127	616	394	-	-	10,145	1,114
ISK	(6,799)	(2,106)	182	(177)	-	-	(8,900)	148
Total	209	21	798	217	0	0	1,245	1,262
Off-balance sheet items								
Total in foreign currencies	(38,042)	(178)	(2,737)	(906)	(6,321)	-	(48,184)	
ISK	(149,571)	(404)	(1,870)	(3,228)	(5,566)	(816)	(161,455)	
Total	(187,613)	(582)	(4,607)	(4,134)	(11,887)	(816)	(209,639)	
Net liquidity position in ISK	(618,072)	(100,590)	74,896	260,368	1,263,498	33,704	913,804	(85,694)
Net liquidity position in foreign currencies	(42,941)	49,995	9,055	(29,680)	(19,290)	591	(32,270)	345,094
Net liquidity position	(661,013)	(50,595)	83,951	230,688	1,244,208	34,295	881,534	259,400

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

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Non-derivative financial liabilities								
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

Notes to the Condensed Consolidated Interim Financial Statements

49. 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 30 June 2021 and 31 December 2020.

	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other		
As at 30 June 2021				
Cash and balances with Central Bank	6,890	6,552	75,900	89,342
Bonds and debt instruments	-	-	128,208	128,208
Equities and equity instruments	-	-	35,111	35,111
Derivative instruments	-	-	1,262	1,262
Loans and advances to financial institutions	-	1,353	62,892	64,245
Loans and advances to customers	264,124	-	1,063,907	1,328,031
Investments in equity-accounted associates	-	-	1,886	1,886
Property and equipment	-	-	11,146	11,146
Intangible assets	-	-	1,844	1,844
Other assets	-	-	15,008	15,008
Assets classified as held for sale	-	-	1,213	1,213
Total	271,014	7,905	1,398,378	1,677,297

	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other		
As at 31 December 2020				
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

Market risk

50. Market risk management

The following table summarises the Group's exposure to market risk as a percentage of REA as at 30 June 2021 and 31 December 2020. 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	30.6.2021	31.12.2020
	% of REA	% of REA
Equity price risk	0.3%	0.3%
Interest rate risk	0.1%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.1%	0.4%
Total	0.6%	1.0%

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 54-55.

51. 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 20.

Notes to the Condensed Consolidated Interim Financial Statements

52. Interest rate 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 21. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 30 June 2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	89,342	-	-	-	89,342
Bonds and debt instruments	53,794	25,406	40,637	8,371	128,208
Derivative instruments	1,262	-	-	-	1,262
Loans and advances to financial institutions	64,245	-	-	-	64,245
Loans and advances to customers	1,041,867	113,027	151,918	21,219	1,328,031
Other financial assets	13,672	-	-	-	13,672
Total	1,264,182	138,433	192,555	29,590	1,624,760
Financial liabilities					
Due to financial institutions and Central Bank	(40,312)	-	-	-	(40,312)
Deposits from customers	(836,859)	(2,915)	(2,850)	-	(842,624)
Derivative instruments and short positions	(4,601)	-	(764)	(72)	(5,437)
Borrowings	(58,415)	(82,780)	(244,648)	(70,845)	(456,688)
Other financial liabilities	(34,521)	-	-	-	(34,521)
Subordinated liabilities	-	-	(20,889)	-	(20,889)
Total	(974,708)	(85,695)	(269,151)	(70,917)	(1,400,471)
Net on-balance sheet position	289,474	52,738	(76,596)	(41,327)	224,289
Derivatives held for hedging	(88,020)	44,010	44,010	-	-
Net off-balance sheet position	19,500	(17,500)	(2,000)	-	-
Total interest repricing gap	220,954	79,248	(34,586)	(41,327)	
As at 31 December 2020					
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)	-	93,660	-	-
Net off-balance sheet position	26,501	(24,501)	(2,000)	-	-
Total interest repricing gap	194,875	97,718	(30,749)	(36,326)	

Notes to the Condensed Consolidated Interim Financial Statements

53. 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 summarize 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 30 June 2021 and 31 December 2020.

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
As at 30 June 2021					
Financial assets					
Bonds and debt instruments	-	-	1,364	3,671	5,035
Loans and advances to customers	4,339	10,399	76,675	248,775	340,188
Total	4,339	10,399	78,039	252,446	345,223
Financial liabilities					
Deposits from customers	(71,414)	(2,869)	(13,854)	(38,586)	(126,723)
Derivative instruments and short positions	-	-	(764)	(72)	(836)
Borrowings	-	(23,085)	(44,871)	(70,844)	(138,800)
Subordinated liabilities	-	-	(5,937)	-	(5,937)
Total	(71,414)	(25,954)	(65,426)	(109,502)	(272,296)
Total on-balance sheet position	(67,075)	(15,555)	12,613	142,944	72,927
Off-balance sheet position					
Interest rate swaps	-	(27,760)	(2,418)	-	(30,178)
Total return swaps	(3,687)	-	-	-	(3,687)
Guarantees	-	-	-	(6,136)	(6,136)
Total off-balance sheet position	(3,687)	(27,760)	(2,418)	(6,136)	(40,001)
Total CPI indexation balance	(70,762)	(43,315)	10,195	136,808	32,926
As at 31 December 2020					
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

Notes to the Condensed Consolidated Interim Financial Statements

Currency risk

54. Currency risk (all portfolios)

The Group follows Central Bank Rules No. 784/2018, on Foreign Exchange Balances. The Rules stipulate that a 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 30 June 2021 was + 0,42% of the Group's capital base (31.12.2020: +1.5%).

55. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 June 2021 and 31 December 2020. 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 30 June 2021	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	592	166	317	9	43	396	1,523
Bonds and debt instruments	25,947	3	22,282	-	-	-	48,232
Equities and equity instruments	205	70	297	-	-	19	591
Derivative instruments	859	30	183	-	-	42	1,114
Loans and advances to financial institutions	13,298	1,509	13,775	323	843	34,484	64,232
Loans and advances to customers	179,652	3,904	47,807	979	166	3,841	236,349
Other assets	28	1	1,194	-	-	-	1,223
Total	220,581	5,683	85,855	1,311	1,052	38,782	353,264
Liabilities							
Due to financial institutions and Central Bank	(774)	(9)	(4)	-	-	-	(787)
Deposits from customers	(37,084)	(4,164)	(53,179)	(297)	(879)	(7,684)	(103,287)
Derivative instruments and short positions	(69)	(31)	(697)	-	-	(42)	(839)
Borrowings	(176,472)	-	(18,645)	-	-	(49,074)	(244,191)
Other liabilities	(1,858)	(105)	(1,245)	(9)	(11)	(837)	(4,065)
Subordinated liabilities	(14,952)	-	-	-	-	-	(14,952)
Total	(231,209)	(4,309)	(73,770)	(306)	(890)	(57,637)	(368,121)
Net on-balance sheet position	(10,628)	1,374	12,085	1,005	162	(18,855)	(14,857)
Net off-balance sheet position	10,903	(1,042)	(12,185)	(882)	-	19,205	15,999
Net currency position	275	332	(100)	123	162	350	1,142
As at 31 December 2020							
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

Notes to the Condensed Consolidated Interim Financial Statements

56. Foreign exchange rates used

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

	As at 30 June 2021	As at 31 December 2020	% change	Average for 1.1-30.6 2021	Average for 1.1-30.6 2020
EUR/ISK	146.70	156.10	(6.0%)	151.36	147.73
GBP/ISK	170.91	173.54	(1.5%)	173.90	169.15
USD/ISK	123.80	127.16	(2.6%)	125.51	133.32
JPY/ISK	1.1148	1.2339	(9.7%)	1.1653	1.2364
CHF/ISK	133.79	144.39	(7.3%)	138.34	138.50
CAD/ISK	99.80	99.85	(0.1%)	100.41	98.06
DKK/ISK	19.727	20.980	(6.0%)	20.351	19.793
NOK/ISK	14.366	14.926	(3.8%)	14.779	13.812
SEK/ISK	14.460	15.572	(7.1%)	14.917	13.905

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

57. Operations by quarters

Operations	2021		2020			
	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	18,096	14,332	15,695	16,167	18,220	16,416
Interest expense	(7,764)	(5,706)	(6,001)	(6,726)	(8,708)	(6,989)
Net interest income	10,332	8,626	9,694	9,441	9,512	9,427
Fee and commission income	3,197	2,875	2,811	2,844	2,391	2,773
Fee and commission expense	(883)	(821)	(830)	(785)	(738)	(828)
Net fee and commission income	2,314	2,054	1,981	2,059	1,653	1,945
Net gain (loss) on financial assets and liabilities at FVTPL	1,284	2,371	5,056	(1,001)	2,827	(2,625)
Net foreign exchange gain (loss)	(45)	(27)	(52)	(52)	(259)	85
Net impairment changes	293	2,489	1,535	(120)	(8,191)	(5,244)
Other income and (expenses)	330	246	(137)	574	333	(188)
Net other operating income	1,862	5,079	6,402	(599)	(5,290)	(7,972)
Total operating income	14,508	15,759	18,077	10,901	5,875	3,400
Salaries and related expenses	(3,724)	(3,769)	(3,986)	(3,135)	(3,802)	(3,844)
Other operating expenses	(2,202)	(2,315)	(2,433)	(1,995)	(2,206)	(2,430)
Tax on liabilities of financial institutions	(513)	(467)	(400)	(540)	(425)	(450)
Total operating expenses	(6,439)	(6,551)	(6,819)	(5,670)	(6,433)	(6,724)
Profit (loss) before tax	8,069	9,208	11,258	5,231	(558)	(3,324)
Income tax	(1,582)	(1,590)	(1,436)	(1,245)	899	(304)
Profit (loss) for the period	6,487	7,618	9,822	3,986	341	(3,628)
Balance sheet	30.6.2021	31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
Cash and cash balances with Central Bank	89,342	59,937	67,604	111,260	89,598	92,440
Bonds and debt instruments	128,208	134,183	119,330	104,895	104,758	116,568
Equities and equity instruments	35,111	31,811	26,808	25,445	26,794	25,923
Loans and advances to financial institutions	64,245	55,234	48,073	80,324	56,394	69,740
Loans and advances to customers	1,328,031	1,287,448	1,273,426	1,255,393	1,198,210	1,190,536
Other assets	31,147	30,913	27,298	31,268	23,913	26,851
Assets classified as held for sale	1,213	1,426	1,638	1,680	1,443	1,130
Total assets	1,677,297	1,600,952	1,564,177	1,610,265	1,501,110	1,523,188
Due to financial institutions and Central Bank	40,312	40,932	48,725	47,654	37,226	41,495
Deposits from customers	842,624	794,252	793,427	813,784	758,790	755,160
Borrowings	456,688	452,709	420,178	438,309	408,097	412,591
Other liabilities	48,883	30,795	22,196	40,096	30,993	48,427
Liabilities associated with assets classified as held for sale	30	30	30	30	30	30
Subordinated liabilities	20,889	20,850	21,366	21,959	21,527	21,379
Equity	267,871	261,384	258,255	248,433	244,447	244,106
Total liabilities and equity	1,677,297	1,600,952	1,564,177	1,610,265	1,501,110	1,523,188

*The first two quarter results for the year 2021 and the first three quarter results for the year 2020 were reviewed by the Bank's independent auditors.

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

58. Key figures and ratios

	2021		2020			
	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	12.2%	14.2%	17.8%	8.5%	-0.9%	-5.4%
Return on equity after taxes	9.8%	11.7%	15.5%	6.5%	0.6%	-5.9%
Cost-income ratio	41.7%	45.8%	38.8%	46.6%	42.7%	72.6%
Operating expenses as a ratio of average total assets	1.4%	1.5%	1.6%	1.3%	1.6%	1.7%
Return on assets	1.6%	1.9%	2.5%	1.0%	0.1%	-1.0%
Interest spread as a ratio of average of total assets	2.5%	2.2%	2.4%	2.4%	2.5%	2.6%
Earnings per share	0.27	0.32	0.42	0.17	0.01	(0.15)
	30.6.2021	31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
Total capital ratio	25.1%	24.9%	25.1%	24.7%	24.9%	24.8%
CET1 ratio	23.3%	23.0%	23.2%	22.7%	22.8%	22.7%
Leverage ratio	14.4%	14.8%	15.4%	14.4%	14.9%	14.7%
Loans / deposits	157.6%	162.1%	160.5%	154.3%	157.9%	157.7%
Deposits / total assets	50.2%	49.6%	50.7%	50.5%	50.5%	49.6%
Liquidity coverage ratio total (LCR)	180%	202%	154%	186%	191%	196%
Net stable funding ratio FX (NSFR)	140%	140%	132%	116%	121%	127%
Number of full-time positions at the end of the period	844	869	878	884	872	886

Key figures and ratios

Definition

Return on equity before taxes	Profit (loss) before taxes / average total equity
Return on equity after taxes	Profit (loss) 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 (loss) for the period / average total assets
Interest spread	(Interest income - interest expenses) / average total assets
Earnings per share	Profit (loss) for the period 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 total (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 the end of the period	Number of full-time equivalent positions at the end of the period

Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af
Guðbrandur Sigurðsson

Undirritað af
Guðrún Blöndal

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af
Helgi Friðjón Arnarson

Undirritað af
Lilja Björk Einarsdóttir

Undirritað af
Sigurður Jón Björnsson

Undirritað af
Þorvaldur Jacobsen