



# Condensed Consolidated Interim Financial Statements

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

For the nine months ended 30 September 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 in first place out of 423\* regional banks analysed by Sustainalytics.

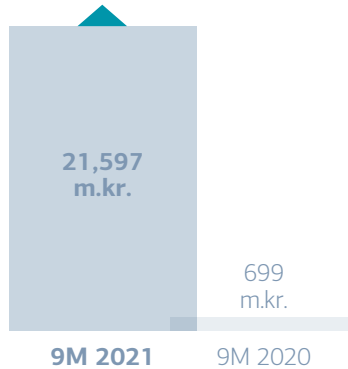
\*April 2021

## PCAF - Carbon Accounting

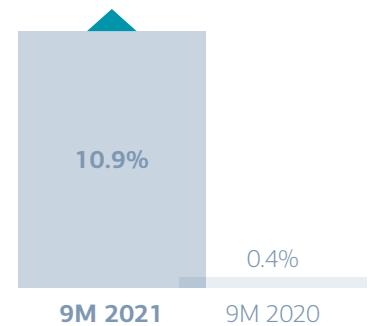


We have assessed the carbon emissions from our loan portfolio

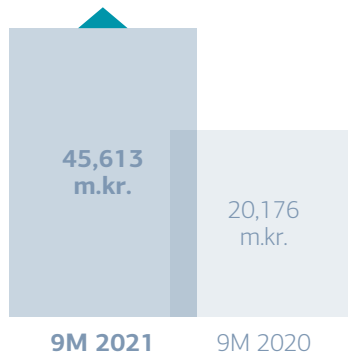
## Profit



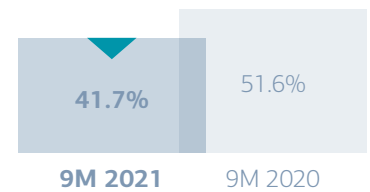
## Return on equity



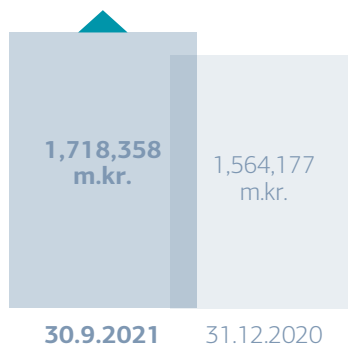
## Total operating income



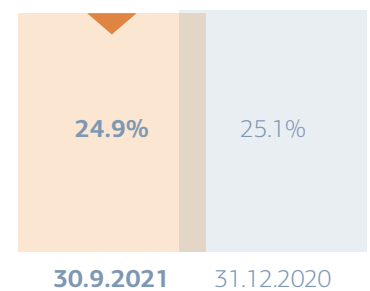
## Cost-income ratio



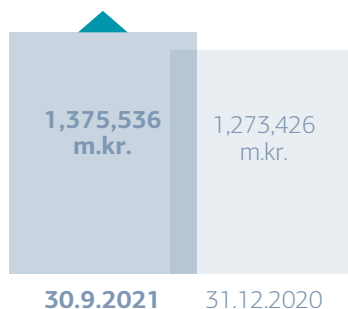
## Total assets



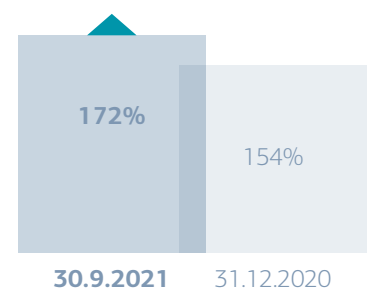
## Total capital ratio



## Loans and advances to customers



## Total liquidity coverage ratio (LCR)



## Report of the Board of Directors and the CEO

The Board of Directors and the CEO of Landsbankinn hf. ("Landsbankinn" or the "Bank") present this report together with the reviewed Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months 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 on continuing 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.

Towards the end of the third quarter of 2021, a new division, Community, was added to the Bank's organisational structure. The new division emphasises the integration of sustainability, marketing, human resources, communication and research, also ensuring that education and development reflects the Bank's strategy. With this new division, the Bank is organised into seven divisions, in addition to the CEO's Office: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management, IT and Community.

### Operations

Consolidated profit amounted to ISK 21,597 million for the first nine months of 2021 as compared with a profit of ISK 699 million for the same period the previous year. Net impairment gain on loans in the amount of ISK 3,790 million was recognised for the period as compared with a loss of ISK 13,555 million for the same period the year before. The reversal of impairment on loans is attributed to expected economic recovery and the coronavirus pandemic is expected to have less an impact on the Bank's loan portfolio than previously anticipated. Net interest income amounted to ISK 28,558 million for the period and is stable year-over-year. Net gain on financial assets and liabilities at fair value rose by ISK 6,340 million between years. Net fee and commission income was ISK 6,890 million, compared with ISK 5,657 million for the same period last year. Salaries and related expenses were ISK 10,731 million and remained almost unchanged between years. The average number of full-time equivalent positions during the period was 885, compared with 910 for the same period last year.

Consolidated total equity amounted to ISK 275,343 million at the end of the period. Total assets were ISK 1,718,358 million and grew by 9.9% during the first nine months of 2021. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.9% at the end of the period as compared with 25.1% at the beginning of the year.

The Group's total capital requirement is 18.9% of REA at the end of the third quarter of 2021 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 36). On 29 September 2021, the Financial Stability Committee of the Central Bank of Iceland (FSN) decided to increase the countercyclical buffer (CCyB) from 0% to 2%, in view of the build-up of cyclical systemic risk as a result of the combination of rapidly rising asset prices and increased household debt. The FSN reasons, inter alia, that uncertainty about financial institutions' position has receded, and loan quality has improved. As a result, financial institutions are resilient enough to lend to households and businesses. In the FSN's opinion, the scope it had granted to financial institutions after the pandemic outbreak in Iceland, in the form of a reduction in the CCyB, is no longer needed. The change enters into effect twelve months from the decision of the FSN, in accordance with the rules that apply to the CCyB, at the end of third quarter of 2022.

### Risk factors

The Bank's total capital ratio remains well above the current regulatory requirement. The carrying amount of loans and advances to customers increased by 8.0% in the first nine months of the year, mainly due to a growth in mortgage lending to individuals. There has been strong growth in mortgage lending this year, increasing by 20.2% during the period, or around ISK 104 billion.

Despite the effects of the economic uncertainty of the pandemic during the years 2020 and 2021 on the Bank's credit risk, the current outlook indicates that the final impact of the pandemic on the Bank's loan portfolio will be less 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 nine months of 2021 and was 2.4% at the end of the third quarter, compared to 2.9% at year-end 2020. Impairment charges on loans to customers decreased during the period and a net impairment gain of ISK 3,790 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 third quarter of this year, the gross carrying amount of loans with active payment moratoria was ISK 78.2 billion. Of that amount, ISK 63.5 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 third quarter of 2021. The total liquidity coverage ratio at the end of the third quarter was 172%, 113% in Icelandic króna and 443% in foreign currencies. Market risk has decreased and remains low 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, supplemented with Pillar III additional disclosures for the first nine months of 2021, all accessible on the Bank's website, [www.landsbankinn.is](http://www.landsbankinn.is).

## Report of the Board of Directors and the CEO

### Economic outlook

Preliminary figures from Statistics Iceland show that GDP contracted by 0.2% in Q1 2021 following 6.5% contraction in 2020. The trend turned in Q2, when GDP increased by 7.3% compared with the same period last year, signalling the start of recovery. Preliminary figures indicate 3.5% economic growth in the first half of 2021.

About 90% of Icelanders, 12 years and older, are now fully vaccinated against COVID-19, which is slightly higher than in Iceland's main trading partner countries. Development of export income from the travel sector has been more positive than expected last year, private consumption growth has also been robust and unemployment levels have fallen rapidly. The outlook is for continued recovery in the second half of the year and the Bank projects 5.1% economic growth this year.

Inflation has proved to be more persistent than indicated in May. This is primarily due to tension in the housing market, where price increases have been both higher and more prolonged than anticipated. The Bank expects a slow and steady decline in inflation as the year progresses and the international impact of the pandemic on such things as commodities prices and freight cost recedes.

### Governance

On 24 September, the Bank announced organisational changes involving the addition of a new division, Community, to the Bank's organisational structure and the appointment of a new managing director of the division. After these changes, the Bank's Executive Board consist of the CEO and seven managing directors instead of six. Sara Pálsdóttir has been appointed a managing director of the new division and, in addition, the Bank has announced the appointment of Bergsteinn Ó. Einarsson as a new managing director of Risk Management and the appointment of Eyrún Ö. Einarsdóttir as a new managing director of Asset Management & Capital Markets.

On 20 August 2021, the Bank received recognition of good governance in Stjórnvís's annual review and the designation model of good corporate governance. Landsbankinn first received the award in 2014 and has received it annually since. The aim of the recognition is first and foremost to encourage debate and actions that promote good corporate governance.

### Other matters

Landsbankinn's operation has been carbon-neutralised for 2021 and on 13 August 2021, the Bank renewed its international CarbonNeutral® company certification. The operation is carbon-offset through internationally approved projects and the purchase of certified carbon credits through Natural Capital Partners. The Bank invests in carbon credits from renewable energy production that have undergone a strict certification process and certainly have led to carbon sequestration or the avoidance of GHG emissions.

On 23 July 2021, the Bank's Board of Directors announced its decision to exercise an authorisation to purchase the Bank's own shares during a buyback period which extended from 26 July 2021 up to and including 9 August 2021. The authorisation is consistent with the resolution of the Annual General Meeting on 24 March this year and the Bank's current buyback programme. During the repurchase period, Landsbankinn acquired a total of 1,700,672 own shares at a share price of 11.3387, for a total purchase price of ISK 19.3 million. Prior to the repurchase period, Landsbankinn held around 375.5 million own shares and at its conclusion, the Bank holds around 377 million of own shares, or the equivalent of around 1.57% of issued shares.

### Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months 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 nine months of 2021, its consolidated financial position as at 30 September 2021, and its consolidated cash flows for the first nine months 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 nine months of 2021.

Reykjavík, 28 October 2021

#### Board of Directors

Helga Björk Eiríksdóttir, Chairman  
Berglind Svavarsdóttir, Vice-Chairman  
Elín H. Jónsdóttir  
Guðrún Ó. Blöndal  
Helgi F. Arnarson  
Sigríður Olgeirsdóttir  
Sigurður Jón Björnsson

#### 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 September 2021 which comprise of Report of the Board of Directors and the CEO, Condensed Consolidated Statement of Financial Position as at 30 September 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 nine-month period then ended 30 September 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, 28 October 2021

**PricewaterhouseCoopers ehf**

Arna G. Tryggvadóttir  
State Authorized Public Accountant

Atli Þór Jóhannsson  
State Authorized Public Accountant

## Condensed Consolidated Income Statement for the nine months ended 30 September 2021

Notes		2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
7	Interest income	15,646	16,167	48,074	50,803
	Interest expense	(6,046)	(6,726)	(19,516)	(22,423)
	<b>Net interest income</b>	<b>9,600</b>	<b>9,441</b>	<b>28,558</b>	<b>28,380</b>
	Fee and commission income	3,417	2,844	9,489	8,008
8	Fee and commission expense	(895)	(785)	(2,599)	(2,351)
	<b>Net fee and commission income</b>	<b>2,522</b>	<b>2,059</b>	<b>6,890</b>	<b>5,657</b>
9	Net gain (loss) on financial assets and liabilities at FVTPL	1,886	(1,001)	5,541	(799)
10	Net foreign exchange gain (loss)	55	(52)	(17)	(226)
11	Net impairment changes	1,008	(120)	3,790	(13,555)
12	Other income and (expenses)	275	574	851	719
	<b>Net other operating income</b>	<b>3,224</b>	<b>(599)</b>	<b>10,165</b>	<b>(13,861)</b>
	<b>Total operating income</b>	<b>15,346</b>	<b>10,901</b>	<b>45,613</b>	<b>20,176</b>
13	Salaries and related expenses	(3,238)	(3,135)	(10,731)	(10,781)
	Other operating expenses	(2,202)	(1,995)	(6,719)	(6,631)
	Tax on liabilities of financial institutions	(525)	(540)	(1,505)	(1,415)
	<b>Total operating expenses</b>	<b>(5,965)</b>	<b>(5,670)</b>	<b>(18,955)</b>	<b>(18,827)</b>
	<b>Profit before tax</b>	<b>9,381</b>	<b>5,231</b>	<b>26,658</b>	<b>1,349</b>
14	Income tax	(1,889)	(1,245)	(5,061)	(650)
	<b>Profit for the period</b>	<b>7,492</b>	<b>3,986</b>	<b>21,597</b>	<b>699</b>
	<b>Profit for the year attributable to:</b>				
	Owners of the Bank	7,492	3,986	21,597	699
	Non-controlling interests	0	0	0	0
	<b>Profit for the period</b>	<b>7,492</b>	<b>3,986</b>	<b>21,597</b>	<b>699</b>
	<b>Earnings per share</b>				
31	Basic and diluted earnings per share from operations (ISK)	<b>0.32</b>	<b>0.17</b>	<b>0.91</b>	<b>0.03</b>

## Condensed Consolidated Statement of Comprehensive Income for the nine months ended 30 September 2021

Notes		2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
	Profit for the period	7,492	3,986	21,597	699
	Other comprehensive income for the period, after tax	0	0	0	0
	<b>Total comprehensive income for the period</b>	<b>7,492</b>	<b>3,986</b>	<b>21,597</b>	<b>699</b>

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



## Condensed Consolidated Statement of Financial Position as at 30 September 2021

Notes		30.9.2021	31.12.2020
<b>Assets</b>			
19, 50	Cash and balances with Central Bank	92,043	67,604
20	Bonds and debt instruments	129,579	119,330
21	Equities and equity instruments	30,527	26,808
22	Derivative instruments	1,538	3,303
23, 50	Loans and advances to financial institutions	59,363	48,073
24, 50	Loans and advances to customers	1,375,536	1,273,426
	Investments in equity-accounted associates	1,996	1,722
	Property and equipment	11,872	9,327
	Intangible assets	1,805	1,696
27	Deferred tax assets	0	23
25	Other assets	12,809	11,227
	Assets classified as held for sale	1,290	1,638
	<b>Total assets</b>	<b>1,718,358</b>	<b>1,564,177</b>
<b>Liabilities</b>			
	Due to financial institutions and Central Bank	48,991	48,725
	Deposits from customers	869,463	793,427
22	Derivative instruments and short positions	6,802	4,248
26, 50	Borrowings	474,415	420,178
27	Tax liabilities	4,260	3,919
28	Other liabilities	17,955	14,029
	Liabilities associated with assets classified as held for sale	30	30
29	Subordinated liabilities	21,099	21,366
	<b>Total liabilities</b>	<b>1,443,015</b>	<b>1,305,922</b>
30	<b>Equity</b>		
	Share capital	23,623	23,625
	Share premium	120,612	120,630
	Reserves	22,731	19,250
	Retained earnings	108,377	94,750
	<b>Total equity</b>	<b>275,343</b>	<b>258,255</b>
	<b>Total liabilities and equity</b>	<b>1,718,358</b>	<b>1,564,177</b>

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

## Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2021

### Notes

		Attributable to owners of the Bank								
		Reserves*					Retained earnings	Total	Non-controlling interests	Total
Change in equity for the nine months ended 30 September 2021		Share capital	Share premium	Statutory reserve	Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL				
	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						21,597	21,597		21,597
	Transferred to restricted retained earnings				1,300	2,181	(3,481)	0		0
	Purchase of own shares	(2)	(18)					(20)		(20)
	Dividends allocated						(4,489)	(4,489)		(4,489)
30	<b>Balance as at 30 September 2021</b>	<b>23,623</b>	<b>120,612</b>	<b>6,000</b>	<b>4,959</b>	<b>11,772</b>	<b>108,377</b>	<b>275,343</b>	<b>0</b>	<b>275,343</b>
<b>Change in equity for the nine months ended 30 September 2020</b>										
	Balance as at 1 January 2020	23,625	120,630	6,000	2,709	5,625	89,145	247,734		247,734
	Profit for the period						699	699		699
	Transferred to restricted retained earnings				597	1,457	(2,054)	0		0
30	<b>Balance as at 30 September 2020</b>	<b>23,625</b>	<b>120,630</b>	<b>6,000</b>	<b>3,306</b>	<b>7,082</b>	<b>87,790</b>	<b>248,433</b>	<b>0</b>	<b>248,433</b>

\*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 nine months ended 30 September 2021

Notes	2021 1.1-30.9	2020 1.1-30.9
<b>Operating activities</b>		
Profit for the period	21,597	699
Adjustments for non-cash items included in profit for the period	(31,488)	(7,925)
Changes in operating assets and liabilities	(36,483)	10,866
Interest received	46,973	49,374
Interest paid	(8,915)	(7,176)
Dividends received	238	651
Income tax and sepcial tax on liabilities paid	(6,202)	(7,175)
<b>Net cash from (used in) operating activities</b>	<b>(14,280)</b>	<b>39,314</b>
<b>Investing activities</b>		
Acquisition of additional shares in associates	(30)	-
Purchase of property and equipment	(2,941)	(1,965)
Proceeds from sale of property and equipment	295	3
Purchase of intangible assets	(314)	(31)
<b>Investing activities</b>	<b>(2,990)</b>	<b>(1,993)</b>
<b>Financing activities</b>		
Proceeds from borrowings	84,418	78,112
Purchase of own shares	(19)	-
Repayment of borrowings	(30,534)	(60,563)
Rent paid	(482)	(424)
Dividends paid	(4,489)	-
<b>Financing activities</b>	<b>48,894</b>	<b>17,125</b>
Cash and cash equivalents as at the beginning of the period	69,091	70,704
Net change in cash and cash equivalents	31,624	54,446
Effect of exchange rate changes on cash and cash equivalents held	502	(2,852)
<b>Cash and cash equivalents as at the end of the period</b>	<b>101,217</b>	<b>122,298</b>
<b>Cash and cash equivalents is specified as follows:</b>		
19 Cash and balances with Central Bank	92,043	111,260
23 Bank accounts with financial institutions	26,764	26,469
19 Mandatory and special restricted balances with Central Bank	(17,590)	(15,431)
<b>Cash and cash equivalents as at the end of the period</b>	<b>101,217</b>	<b>122,298</b>

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

## Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2021

Notes	2021 1.1-30.9	2020 1.1-30.9
<b>Adjustments for non-cash items included in profit for the period</b>		
7 Net interest income	(28,558)	(28,380)
9 Net (gain) loss on financial assets and liabilities at FVTPL	(5,541)	799
10 Net foreign exchange (gain) loss	(485)	3,078
11 Net impairment changes	(3,790)	13,555
Gain on sale of property and equipment	(209)	(2)
Net (gain) loss on assets classified as held for sale	(166)	218
Depreciation and amortisation	938	950
Share of profit of equity-accounted associates	(243)	(208)
Tax on liabilities of financial institutions	1,505	1,415
14 Income tax	5,061	650
	<b>(31,488)</b>	<b>(7,925)</b>

### Changes in operating assets and liabilities

Change in reserve requirement with Central Bank	(3,936)	10,128
Change in bonds and equities	(9,527)	25,947
Change in loans and advances to financial institutions	72	(21,971)
Change in loans and advances to customers	(101,379)	(91,360)
Change in other assets	(1,032)	(4,760)
Change in assets classified as held for sale	515	(1,003)
Change in due to financial institutions and Central Bank	46	(972)
Change in deposits from customers	72,902	83,136
Change in tax liability	24	79
Change in other liabilities	5,832	11,642
	<b>(36,483)</b>	<b>10,866</b>

### Change in liabilities due to financing activities

	As at 1.1.2021	Cash flow	Non-cash changes			As at 30.9.2021
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	189,360	23,659	8,746	-	-	221,765
Senior unsecured bonds	116,196	27,451	1,373	(3,921)	-	141,099
Senior unsecured bonds held to hedge long-term borrowings	95,468	(255)	284	(2,992)	(787)	91,718
Other unsecured loans	19,154	(54)	229	504	-	19,833
Subordinated liabilities	21,366	(470)	699	(496)	-	21,099
<b>Total</b>	<b>441,544</b>	<b>50,331</b>	<b>11,331</b>	<b>(6,905)</b>	<b>(787)</b>	<b>495,514</b>

	As at 1.1.2020	Cash flow	Non-cash changes			As at 30.9.2020
			Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	140,549	37,779	6,824	-	-	185,152
Senior unsecured bonds	122,705	(11,464)	494	20,846	-	132,581
Senior unsecured bonds held to hedge long-term borrowings	86,813	(4,406)	57	16,338	194	98,996
Commercial paper issued	3,605	(3,641)	36	-	-	0
Other unsecured loans	19,496	(1,186)	487	2,783	-	21,580
Subordinated liabilities	19,081	(515)	776	2,617	-	21,959
<b>Total</b>	<b>392,249</b>	<b>16,567</b>	<b>8,674</b>	<b>42,584</b>	<b>194</b>	<b>460,268</b>

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 nine months ended 30 September 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 nine months ended 30 September 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 28 October 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](http://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. Assessment of expected credit losses (ECL)

ECL assessment at the end of the third 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. As in the past 18 months, ECL assessment takes into account the impact of the COVID-19 pandemic. The impact of the pandemic on ECL is expected to be less than originally anticipated and accounts for the decrease in ECL for the first nine months of 2021.

While there is still uncertainty about the final impact of the pandemic on the Bank's credit portfolio, it has decreased and is more demarcated than before. The uncertainty has been greatest regarding loans to customers granted relief measures in the form of payment moratoria. The volume of loans to customers still with active measures as a result of the impact of the pandemic has decreased during the year, primarily because many customers who were granted payment moratoria have now gained the payment capacity to handle regular debt service.

## Notes to the Condensed Consolidated Interim Financial Statements

### 4. Assessment of expected credit losses (ECL) (continued)

In the third quarter of 2021, 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 third quarter. These loans are subsequently moved to Stage 2, provided certain conditions are satisfied. This special reclassification moves loans valued at ISK 2.1 billion to Stage 2 at the end of the third quarter. The Bank has also assessed the need for a collective provision for these loans and recognised an ISK 2.0 billion (31 December 2020; ISK 841 million) provision for loans to the travel sector; ISK 131 million (31 December 2020; ISK 0 million) for loans to other companies, and ISK 27 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 relief 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 introduced several relief programmes designed to help households and companies directly. These measures were directed at counteracting unemployment and temporary loss of personal income by supplementing wages lost because of reduced working hours with unemployment benefits. Companies that had lost revenues were offered revenue loss grants aimed to guarantee support to keep workers employed part-time. Companies could also apply for support and supplementary loans granted by credit institutions but government guaranteed. Companies which were required to close their doors 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 September 2021 and 31 December 2020 for customers with active special measures at the reporting date due to continuing difficulties caused by COVID-19. The measures include payment holiday of principal or interest, or payment holiday of principal only. The expiry date of these temporary measures varies between customers. In most cases, the measures expire in the first quarter of 2022 or latter part of 2022.

#### As at 30 September 2021

On-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Carrying amount
	Stage 1	Stage 2	Stage 3			
Individuals	-	925	56	(41)	-	939
Travel industry	5,378	57,388	6,051	(5,292)	-	63,525
Other corporates	75	13,417	784	(532)	-	13,744
<b>Total</b>	<b>5,453</b>	<b>71,730</b>	<b>6,891</b>	<b>(5,865)</b>	<b>0</b>	<b>78,208</b>

Off-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Total
	Stage 1	Stage 2	Stage 3			
Individuals	-	14	-	-	-	14
Travel industry	83	11,952	42	(80)	-	11,998
Other corporates	-	337	22	(1)	-	359
<b>Total</b>	<b>83</b>	<b>12,303</b>	<b>64</b>	<b>(81)</b>	<b>0</b>	<b>12,371</b>

<b>Maximum exposure to credit risk</b>	<b>5,536</b>	<b>84,033</b>	<b>6,955</b>	<b>(5,946)</b>	<b>0</b>	<b>90,579</b>
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#### As at 31 December 2020

On-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Carrying amount
	Stage 1	Stage 2	Stage 3			
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
<b>Total</b>	<b>17,014</b>	<b>61,826</b>	<b>8,908</b>	<b>(6,214)</b>	<b>755</b>	<b>82,289</b>

Off-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Total
	Stage 1	Stage 2	Stage 3			
Individuals	-	25	1	-	-	26
Travel industry	118	11,282	596	(98)	-	11,898
Other corporates	-	352	18	(10)	-	360
<b>Total</b>	<b>118</b>	<b>11,659</b>	<b>615</b>	<b>(108)</b>	<b>0</b>	<b>12,284</b>

<b>Maximum exposure to credit risk</b>	<b>17,132</b>	<b>73,485</b>	<b>9,523</b>	<b>(6,322)</b>	<b>755</b>	<b>94,573</b>
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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. Assessment of expected credit losses (ECL) (continued)

Granting of government-backed support and supplementary loans ended in May 2021, as these government measures expired. In total, the Bank provided support and supplementary loans in the amount of ISK 3.8 bn to just over 300 customers and, as at 30 September 2021, the gross carrying amount was ISK 3.9 bn (31 December 2020: ISK 3.5 bn). In addition, the Bank has opened a credit line in the amount of ISK 7.8 bn (31 December 2020: ISK 7.6 bn), 90% government-backed, that is as yet undrawn at the end of the third quarter of 2021.

### 5. 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%). The scenarios were approved by the Bank's Valuation Team on 22 September 2021, but Landsbankinn Economic Research has since updated its baseline forecast from a 4.9% to a 5.1% growth in GDP in its latest annual macroeconomic forecast, published 20 October 2021. At the reporting date, the baseline scenario from 22 September 2021 serves as input for the model for ECL allowance.

	Upside scenario		Base case senario		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
<b>As at 30 September 2021</b>						
GDP growth	6.4%	4.6%	4.1%	2.4%	1.6%	0.0%
Unemployment rate	3.7%	3.3%	4.7%	4.5%	7.4%	6.8%
Base rate	2.6%	4.3%	2.1%	3.0%	1.2%	1.7%
Inflation	4.1%	3.5%	3.9%	2.7%	5.0%	2.5%
EUR/ISK exchange rate, average	146.4	139.3	148.5	142.6	164.5	153.3
Housing Price index, y/y change	12.9%	7.5%	10.1%	5.0%	7.8%	1.9%

	Upside scenario		Base case senario		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
<b>As at 31 December 2020</b>						
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 September 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)	7,745	8,217	8,879	9,922	10,912	13,035
Proportion af assets in Stage 2	8.9%	9.0%	9.3%	10.8%	11.0%	11.4%

	Reported under IFRS 9	
	As at 30 September 2021	As at 31 December 2020
Allowance for impairment (Stage 1 and Stage 2)	8,253	11,196



## Notes to the Condensed Consolidated Interim Financial Statements

### 6. 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 following 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 aforesaid organisational changes, the Bank is organised into the following divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management, and IT. Towards the end of the third quarter of 2021, a new division, Community, was added to the Bank's organisational structure. The new division falls under other operating segments along with 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. Community consists of Human Resources, 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) after 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 September 2021 and the corresponding period in 2020.

## Notes to the Condensed Consolidated Interim Financial Statements

### 6. Operating segments (continued)

	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other segments	Recon- ciliation	Total
<b>1 January - 30 September 2021</b>							
Net interest income	12,573	13,921	386	1,744	(48)	(18)	28,558
Net fee and commission income	2,126	1,156	4,082	(193)	28	(309)	6,890
Net impairment changes	687	3,098	(1)	6	-	-	3,790
Net other operating income (expenses)	229	223	243	5,110	582	(12)	6,375
<b>Total operating income (expense)</b>	<b>15,615</b>	<b>18,398</b>	<b>4,710</b>	<b>6,667</b>	<b>562</b>	<b>(339)</b>	<b>45,613</b>
Operating expenses	(5,124)	(2,188)	(1,583)	(536)	(8,342)	323	(17,450)
Tax on liabilities of financial institutions	(609)	(280)	(6)	(599)	(11)	-	(1,505)
<b>Profit (loss) before cost allocation and tax</b>	<b>9,882</b>	<b>15,930</b>	<b>3,121</b>	<b>5,532</b>	<b>(7,791)</b>	<b>(16)</b>	<b>26,658</b>
Allocated expenses	(3,162)	(2,076)	(809)	(697)	6,744	-	0
<b>Profit (loss) before tax</b>	<b>6,720</b>	<b>13,854</b>	<b>2,312</b>	<b>4,835</b>	<b>(1,047)</b>	<b>(16)</b>	<b>26,658</b>
Income tax	(1,734)	(3,477)	332	(399)	217	-	(5,061)
<b>Profit (loss) for the period</b>	<b>4,986</b>	<b>10,377</b>	<b>2,644</b>	<b>4,436</b>	<b>(830)</b>	<b>(16)</b>	<b>21,597</b>
Net revenue (expenses) from external customers	23,941	24,963	4,556	(8,062)	554	-	45,952
Net revenue (expenses) from other segments	(8,326)	(6,565)	154	14,729	8	-	0
<b>Total operating income (expense)</b>	<b>15,615</b>	<b>18,398</b>	<b>4,710</b>	<b>6,667</b>	<b>562</b>	<b>0</b>	<b>45,952</b>
<b>As at 30 September 2021</b>							
<b>Total assets</b>	750,169	624,769	10,906	687,416	18,640	(373,542)	1,718,358
<b>Total liabilities</b>	711,565	504,931	6,527	574,894	18,640	(373,542)	1,443,015
<b>Allocated capital</b>	38,604	119,838	4,379	112,522	-	-	275,343

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
<b>1 January - 30 September 2020</b>							
Net interest income	12,750	14,151	244	1,280	(5)	(40)	28,380
Net fee and commission income	2,482	526	3,086	(355)	101	(183)	5,657
Credit impairment losses	(2,327)	(11,214)	(1)	(11)	(2)	-	(13,555)
Net other operating income (expenses)	680	(1,959)	(141)	1,085	45	(16)	(306)
<b>Total operating income (expense)</b>	<b>13,585</b>	<b>1,504</b>	<b>3,188</b>	<b>1,999</b>	<b>139</b>	<b>(239)</b>	<b>20,176</b>
Operating expenses	(4,979)	(1,773)	(1,838)	(893)	(8,127)	198	(17,412)
Tax on liabilities of financial institutions	(458)	(447)	(7)	(490)	(13)	-	(1,415)
<b>Profit (loss) before cost allocation and tax</b>	<b>8,148</b>	<b>(716)</b>	<b>1,343</b>	<b>616</b>	<b>(8,001)</b>	<b>(41)</b>	<b>1,349</b>
Cost allocated from support functions to business segments	(3,108)	(1,969)	(1,083)	(584)	6,744	-	0
<b>Profit (loss) before tax</b>	<b>5,040</b>	<b>(2,685)</b>	<b>260</b>	<b>32</b>	<b>(1,257)</b>	<b>(41)</b>	<b>1,349</b>
Income tax	(1,642)	50	(528)	(147)	1,617	-	(650)
<b>Profit (loss) for the period</b>	<b>3,398</b>	<b>(2,635)</b>	<b>(268)</b>	<b>(115)</b>	<b>360</b>	<b>(41)</b>	<b>699</b>
Net revenue (expenses) from external customers	20,057	8,352	3,000	(11,131)	137	-	20,415
Net revenue (expenses) from other segments	(6,472)	(6,848)	188	13,130	2	-	0
<b>Total operating income (expense)</b>	<b>13,585</b>	<b>1,504</b>	<b>3,188</b>	<b>1,999</b>	<b>139</b>	<b>0</b>	<b>20,415</b>
<b>As at 30 September 2020</b>							
<b>Total assets</b>	559,733	634,995	15,605	649,819	16,881	(266,768)	1,610,265
<b>Total liabilities</b>	522,548	519,134	10,085	559,952	16,881	(266,768)	1,361,832
<b>Allocated capital</b>	37,185	115,861	5,520	89,867	-	-	248,433

## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Consolidated Income Statement

#### 7. Net interest income

	1.7-30.9.2021			1.7-30.9.2020		
	Amortised cost	FVTPL	Total	Amortised cost	FVTPL	Total
<b>Interest income</b>						
Cash and balances with Central Bank	152	-	152	194	-	194
Bonds and debt instruments	-	-	0	43	-	43
Loans and advances to financial institutions	1	-	1	2	-	2
Loans and advances to customers	15,306	175	15,481	15,799	110	15,909
Other interest income	3	9	12	5	14	19
<b>Total</b>	<b>15,462</b>	<b>184</b>	<b>15,646</b>	<b>16,043</b>	<b>124</b>	<b>16,167</b>
<b>Interest expense</b>						
Due to financial institutions and Central Bank	(133)	-	(133)	(141)	-	(141)
Deposits from customers	(1,926)	-	(1,926)	(2,205)	-	(2,205)
Borrowings	(3,140)	(171)	(3,311)	(3,413)	(13)	(3,426)
Other interest expense	(23)	(408)	(431)	(69)	(612)	(681)
Subordinated liabilities	(245)	-	(245)	(273)	-	(273)
<b>Total</b>	<b>(5,467)</b>	<b>(579)</b>	<b>(6,046)</b>	<b>(6,101)</b>	<b>(625)</b>	<b>(6,726)</b>
<b>Net interest income</b>	<b>9,995</b>	<b>(395)</b>	<b>9,600</b>	<b>9,942</b>	<b>(501)</b>	<b>9,441</b>

	1.1-30.9.2021			1.1-30.9.2020		
	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
<b>Interest income</b>						
Cash and balances with Central Bank	332	-	332	982	-	982
Bonds and debt instruments	24	-	24	226	-	226
Loans and advances to financial institutions	4	-	4	75	-	75
Loans and advances to customers	47,198	476	47,674	47,382	449	47,831
Other interest income	6	34	40	558	1,131	1,689
<b>Total</b>	<b>47,564</b>	<b>510</b>	<b>48,074</b>	<b>49,223</b>	<b>1,580</b>	<b>50,803</b>
<b>Interest expense</b>						
Due to financial institutions and Central Bank	(394)	-	(394)	(609)	-	(609)
Deposits from customers	(6,224)	-	(6,224)	(8,210)	-	(8,210)
Borrowings	(10,204)	(426)	(10,630)	(9,519)	(1,182)	(10,701)
Other interest expense	(73)	(1,473)	(1,546)	(642)	(1,525)	(2,167)
Subordinated liabilities	(722)	-	(722)	(736)	-	(736)
<b>Total</b>	<b>(17,617)</b>	<b>(1,899)</b>	<b>(19,516)</b>	<b>(19,716)</b>	<b>(2,707)</b>	<b>(22,423)</b>
<b>Net interest income</b>	<b>29,947</b>	<b>(1,389)</b>	<b>28,558</b>	<b>29,507</b>	<b>(1,127)</b>	<b>28,380</b>

Net interest income, calculated based on the effective interest rate method, amounted to ISK 28,554 million in the first nine months of 2021 as compared with ISK 28,380 for the same period in 2020.

#### 8. Net fee and commission income

	1.7-30.9.2021			1.7-30.9.2020		
	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	1,564	(155)	1,409	1,113	(111)	1,002
Loans and guarantees	250	-	250	333	-	333
Payment cards	1,166	(519)	647	980	(452)	528
Collection and payment services	233	(49)	184	227	(46)	181
Other	204	(172)	32	191	(176)	15
<b>Total</b>	<b>3,417</b>	<b>(895)</b>	<b>2,522</b>	<b>2,844</b>	<b>(785)</b>	<b>2,059</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 8. Net fee and commission income (continued)

	1.1-30.9.2021			1.1-30.9.2020		
	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	4,444	(461)	3,983	3,085	(422)	2,663
Loans and guarantees	739	-	739	898	-	898
Payment cards	3,100	(1,449)	1,651	2,799	(1,305)	1,494
Collection and payment services	687	(147)	540	683	(138)	545
Other	519	(542)	(23)	543	(486)	57
<b>Total</b>	<b>9,489</b>	<b>(2,599)</b>	<b>6,890</b>	<b>8,008</b>	<b>(2,351)</b>	<b>5,657</b>

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

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
<b>Net gain (loss) on financial assets and liabilities at FVTPL</b>				
Bonds and debt instruments	105	(11)	215	590
Equities and equity instruments	1,445	(976)	4,044	790
Derivatives and underlying hedges	263	61	994	(273)
Loans and advances to customers	60	(23)	219	(1,878)
Net gain (loss) on fair value hedges	13	(52)	69	(28)
<b>Total</b>	<b>1,886</b>	<b>(1,001)</b>	<b>5,541</b>	<b>(799)</b>

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

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
<b>Assets</b>				
Cash and balances with Central Bank	(59)	5	(69)	34
Bonds and debt instruments	2,077	1,069	(283)	10,462
Equities and equity instruments	7	(2)	(4)	2
Derivative instruments	(37)	803	(1,446)	381
Loans and advances to financial institutions	2,425	1,981	(192)	10,382
Loans and advances to customers	8,509	8,650	(4,397)	38,313
Other assets	(901)	(136)	(1,050)	192
<b>Total</b>	<b>12,021</b>	<b>12,370</b>	<b>(7,441)</b>	<b>59,766</b>
<b>Liabilities</b>				
Due to financial institutions and Central Bank	(4)	(10)	-	(51)
Deposits from customers	(3,720)	(2,583)	214	(17,154)
Borrowings	(7,940)	(9,222)	6,409	(39,967)
Other liabilities	134	67	305	(203)
Subordinated liabilities	(436)	(674)	496	(2,617)
<b>Total</b>	<b>(11,966)</b>	<b>(12,422)</b>	<b>7,424</b>	<b>(59,992)</b>
<b>Net foreign exchange (loss) gain</b>	<b>55</b>	<b>(52)</b>	<b>(17)</b>	<b>(226)</b>

### 11. Net impairment changes

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
Net impairment changes of loans to customers	1,028	(118)	3,836	(13,538)
Net impairment changes of other financial assets	(20)	(2)	(46)	(17)
<b>Net impairment changes of financial assets</b>	<b>1,008</b>	<b>(120)</b>	<b>3,790</b>	<b>(13,555)</b>
<b>Net impairment changes by customer type</b>				
Public entities	1	-	1	-
Financial institutions	-	-	-	5
Individuals	401	(76)	859	(634)
Corporates	606	(44)	2,930	(12,926)
<b>Net impairment changes of financial assets</b>	<b>1,008</b>	<b>(120)</b>	<b>3,790</b>	<b>(13,555)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 12. Other income and expenses

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
Gain (loss) on repossessed collateral	(3)	(142)	166	(218)
Share of profit of equity-accounted associates	109	67	243	208
Other	169	649	442	729
<b>Total</b>	<b>275</b>	<b>574</b>	<b>851</b>	<b>719</b>

### 13. Salaries and related expenses

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
Salaries	2,394	2,300	8,230	8,301
Contribution to defined pension plans	437	425	1,292	1,259
Social security contributions	200	205	593	611
Special financial activities tax on salaries	180	178	534	529
Other related expenses	27	27	82	81
<b>Total</b>	<b>3,238</b>	<b>3,135</b>	<b>10,731</b>	<b>10,781</b>

Average number of full-time equivalent positions during the period	919	943	885	910
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### 14. Income tax

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

	2021 1.1-30.9	2020 1.1-30.9
Current tax expense	(3,967)	(511)
Special income tax on financial institutions	(1,070)	(59)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(24)	(80)
<b>Total</b>	<b>(5,061)</b>	<b>(650)</b>

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 1.1-30.9	2020 1.1-30.9
Profit before income tax	26,658	1,349
Income tax calculated using the domestic corporate income tax rate	20.0% (5,332)	20.0% (270)
Special income tax on financial institutions	4.0% (1,070)	4.4% (59)
Income not subject to tax	(6.1%) 1,634	(26.0%) 351
Non-deductible expenses	1.1% (293)	49.8% (673)
<b>Effective income tax</b>	<b>19.0% (5,061)</b>	<b>48.2% (650)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Notes to the Condensed Consolidated Statement of Financial Position

#### 15. 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 September 2021:

As at 30 September 2021	Notes	Carrying amount					Fair value			
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>										
Bonds and debt instruments	20	-	127,575	2,004	-	129,579	129,117	28	434	129,579
Equities and equity instruments	21	-	30,527	-	-	30,527	9,736	-	20,791	30,527
Derivative instruments	22	-	1,538	-	-	1,538	-	1,538	-	1,538
Loans and advances to customers	24	-	22,813	-	-	22,813	-	-	22,813	22,813
		0	182,453	2,004	0	184,457	138,853	1,566	44,038	184,457
<b>Financial assets not measured at fair value</b>										
Cash and balances with Central Bank	19	92,043	-	-	-	92,043	-	92,043	-	92,043
Loans and advances to financial institutions	23	59,363	-	-	-	59,363	-	59,363	-	59,363
Loans and advances to customers	24	1,352,723	-	-	-	1,352,723	-	1,354,202	-	1,354,202
Other financial assets		11,671	-	-	-	11,671	-	11,671	-	11,671
		1,515,800	0	0	0	1,515,800	0	1,517,279	0	1,517,279
<b>Financial liabilities measured at fair value</b>										
Derivative instruments	22	-	3,322	-	-	3,322	-	3,322	-	3,322
Short positions	22	-	3,480	-	-	3,480	3,480	-	-	3,480
		0	6,802	0	0	6,802	3,480	3,322	0	6,802
<b>Financial liabilities not measured at fair value</b>										
Due to financial institutions and Central Bank		-	-	-	48,991	48,991	-	48,991	-	48,991
Deposits from customers		-	-	-	869,463	869,463	-	869,173	-	869,173
Borrowings	26	-	-	-	474,415	474,415	-	489,791	-	489,791
Other financial liabilities		-	-	-	13,226	13,226	-	13,226	-	13,226
Subordinated liabilities	29	-	-	-	21,099	21,099	-	21,532	-	21,532
		0	0	0	1,427,194	1,427,194	0	1,442,713	0	1,442,713

## Notes to the Condensed Consolidated Interim Financial Statements

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

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

Carrying amount							Fair value			
As at 31 December 2020	Notes	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>										
Bonds and debt instruments	20	-	113,336	1,683	-	115,019	114,412	26	581	115,019
Equities and equity instruments	21	-	26,808	-	-	26,808	9,318	-	17,490	26,808
Derivative instruments	22	-	3,303	-	-	3,303	-	3,303	-	3,303
Loans and advances to customers	24	-	16,515	-	-	16,515	-	-	16,515	16,515
		0	159,962	1,683	0	161,645	123,730	3,329	34,586	161,645
<b>Financial assets not measured at fair value</b>										
Cash and balances with Central Bank	19	67,604	-	-	-	67,604	-	67,604	-	67,604
Bonds and debt instruments	20	4,311	-	-	-	4,311	-	4,330	-	4,330
Loans and advances to financial institutions	23	48,073	-	-	-	48,073	-	48,073	-	48,073
Loans and advances to customers	24	1,256,911	-	-	-	1,256,911	-	1,261,094	-	1,261,094
Other financial assets		9,853	-	-	-	9,853	-	9,853	-	9,853
		1,386,752	0	0	0	1,386,752	0	1,390,954	0	1,390,954
<b>Financial liabilities measured at fair value</b>										
Derivative instruments	22	-	3,724	-	-	3,724	-	3,724	-	3,724
Short positions	22	-	524	-	-	524	523	-	-	523
		0	4,248	0	0	4,248	523	3,724	0	4,247
<b>Financial liabilities not measured at fair value</b>										
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	26	-	-	-	420,178	420,178	-	436,455	-	436,455
Other financial liabilities		-	-	-	8,127	8,127	-	8,127	-	8,127
Subordinated liabilities	29	-	-	-	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

#### 16. 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 September 2021 and 1 January to 30 September 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 nine months ended 30 September 2021 and for the year 2020:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
<b>1 January - 30 September 2021</b>				
Carrying amount as at 1 January 2021	581	17,490	16,515	34,586
Net gain on financial assets and liabilities at FVTPL	7	3,645	219	3,871
Net foreign exchange gain (loss)	-	-	-	0
Purchases	47	313	102,484	102,844
Sales	(200)	(444)	-	(644)
Settlements	(1)	-	(96,405)	(96,406)
Dividend received	-	(213)	-	(213)
<b>Carrying amount as at 30 September 2021</b>	<b>434</b>	<b>20,791</b>	<b>22,813</b>	<b>44,038</b>
<b>1 January - 31 December 2020</b>				
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)
<b>Carrying amount as at 31 December 2020</b>	<b>581</b>	<b>17,490</b>	<b>16,515</b>	<b>34,586</b>

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 September 2021 and 30 September 2020, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
<b>1 January - 30 September 2021</b>				
Net gain (loss) on financial assets and liabilities at FVTPL realised	25	76	-	101
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	(18)	3,569	219	3,770
Net foreign exchange gain (loss)	-	-	-	0
<b>Total</b>	<b>7</b>	<b>3,645</b>	<b>219</b>	<b>3,871</b>
<b>1 January - 30 September 2020</b>				
Net gain (loss) on financial assets and liabilities at FVTPL realised	-	364	-	364
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	23	392	(1,878)	(1,463)
Net foreign exchange gain (loss)	2	3	(5)	0
<b>Total</b>	<b>25</b>	<b>759</b>	<b>(1,883)</b>	<b>(1,099)</b>

#### 17. 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 September 2021 and 31 December 2020.

As at 30 September 2021	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	434	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	20,791	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	22,813	-	See 3) below	See 3) below	n/a	n/a
	<b>44,038</b>	<b>0</b>				



## Notes to the Condensed Consolidated Interim Financial Statements

### 17. 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
	<b>34,586</b>	<b>0</b>				

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 nine months ended 30 September 2021 and 30 September 2020:

	2021 1.1-30.9		2020 1.1-30.9	
	Favourable	Unfavourable	Favourable	Unfavourable
<b>Effect on profit before tax</b>				
Bonds and debt instruments	1	(1)	1	(1)
Equities and equity instruments:				
Equities	1,010	(998)	875	(887)
Mutual funds	235	(235)	216	(216)
Total equities and equity instruments	1,245	(1,233)	1,091	(1,103)
Loans and advances to customers	36	(36)	80	(80)
<b>Total</b>	<b>1,282</b>	<b>(1,270)</b>	<b>1,172</b>	<b>(1,184)</b>

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.

### 18. Expected credit loss

	30.9.2021			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(9)	-	-	(9)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(2,156)	(5,661)	(10,523)	(18,340)
Other financial assets	(81)	-	-	(81)
Expected credit loss, off-balance sheet items	(272)	(164)	(106)	(542)
<b>Total</b>	<b>(2,519)</b>	<b>(5,825)</b>	<b>(10,629)</b>	<b>(18,973)</b>

	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)
<b>Total</b>	<b>(4,292)</b>	<b>(6,969)</b>	<b>(14,110)</b>	<b>(25,371)</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 19. Cash and balances with Central Bank

	30.9.2021	31.12.2020
Cash on hand	5,799	4,844
Unrestricted balances with Central Bank	68,654	49,106
<b>Total cash and unrestricted balances with Central Bank</b>	<b>74,453</b>	<b>53,950</b>
Restricted balances with Central Bank - fixed reserve requirement	9,575	9,143
Cash and balances pledged as collateral to the Central Bank	8,015	4,511
<b>Total restricted balances with Central Bank</b>	<b>17,590</b>	<b>13,654</b>
<b>Total cash and balances with Central Bank</b>	<b>92,043</b>	<b>67,604</b>

### 20. Bonds and debt instruments

Bonds and debt instruments	30.9.2021			31.12.2020			
	Mandatorily at FVTPL	Designated at FVTPL	Total	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Total
<b>Domestic</b>							
Listed	74,978	425	75,403	4,311	72,174	249	76,734
Unlisted	-	1,579	1,579	-	-	1,434	1,434
	<b>74,978</b>	<b>2,004</b>	<b>76,982</b>	<b>4,311</b>	<b>72,174</b>	<b>1,683</b>	<b>78,168</b>
<b>Foreign</b>							
Listed	52,597	-	52,597	-	41,162	-	41,162
	<b>52,597</b>	<b>0</b>	<b>52,597</b>	<b>0</b>	<b>41,162</b>	<b>0</b>	<b>41,162</b>
<b>Total bonds</b>	<b>127,575</b>	<b>2,004</b>	<b>129,579</b>	<b>4,311</b>	<b>113,336</b>	<b>1,683</b>	<b>119,330</b>

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

### 21. Equities and equity instruments

Equities and equity instruments	30.9.2021			31.12.2020		
	Trading book	Banking book	Total	Trading book	Banking book	Total
<b>Domestic</b>						
Listed	8,105	443	8,548	8,773	164	8,937
Unlisted	-	21,060	21,060	-	17,753	17,753
	<b>8,105</b>	<b>21,503</b>	<b>29,608</b>	<b>8,773</b>	<b>17,917</b>	<b>26,690</b>
<b>Foreign</b>						
Listed	534	360	894	2	98	100
Unlisted	-	25	25	-	18	18
	<b>534</b>	<b>385</b>	<b>919</b>	<b>2</b>	<b>116</b>	<b>118</b>
<b>Total equities</b>	<b>8,639</b>	<b>21,888</b>	<b>30,527</b>	<b>8,775</b>	<b>18,033</b>	<b>26,808</b>

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 September 2021, outstanding commitments of the Group in share subscriptions amounted to ISK 781 million (31 December 2020: ISK 741 million) altogether in seven entities.

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Derivative instruments and short positions

#### Trading

	30.9.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Foreign exchange derivatives</b>						
Currency forwards	30,448	270	55	8,579	126	57
Cross-currency interest rate swaps	563	48	-	1,148	134	-
	<b>31,011</b>	<b>318</b>	<b>55</b>	<b>9,727</b>	<b>260</b>	<b>57</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	1,252	10	-	2,276	17	-
Total return swaps	57,163	152	25	33,331	18	51
	<b>58,415</b>	<b>162</b>	<b>25</b>	<b>35,607</b>	<b>35</b>	<b>51</b>
<b>Equity derivatives</b>						
Equity forwards	52	-	2	87	-	13
Total return swaps	7,130	28	191	6,386	8	524
Equity options	104	-	1	190	-	31
	<b>7,286</b>	<b>28</b>	<b>194</b>	<b>6,663</b>	<b>8</b>	<b>568</b>
<b>Total derivative instruments</b>	<b>96,712</b>	<b>508</b>	<b>274</b>	<b>51,997</b>	<b>303</b>	<b>676</b>
<b>Short positions</b>						
Listed equities	-	-	392	-	-	-
Listed bonds	2,370	-	3,088	880	-	524
<b>Total short positions</b>	<b>2,370</b>	<b>0</b>	<b>3,480</b>	<b>880</b>	<b>0</b>	<b>524</b>
<b>Total</b>	<b>99,082</b>	<b>508</b>	<b>3,754</b>	<b>52,877</b>	<b>303</b>	<b>1,200</b>

#### Risk management

	30.9.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
<b>Foreign exchange derivatives</b>						
Currency forwards	42,076	24	542	32,009	1,276	2
	<b>42,076</b>	<b>24</b>	<b>542</b>	<b>32,009</b>	<b>1,276</b>	<b>2</b>
<b>Interest rate derivatives</b>						
Interest rate swaps	21,752	81	2,506	29,777	81	3,046
	<b>21,752</b>	<b>81</b>	<b>2,506</b>	<b>29,777</b>	<b>81</b>	<b>3,046</b>
<b>Fair value hedging</b>						
Interest rate swaps	90,660	925	-	93,660	1,643	-
	<b>90,660</b>	<b>925</b>	<b>0</b>	<b>93,660</b>	<b>1,643</b>	<b>0</b>
<b>Total</b>	<b>154,488</b>	<b>1,030</b>	<b>3,048</b>	<b>155,446</b>	<b>3,000</b>	<b>3,048</b>
<b>Total derivative instruments and short positions</b>	<b>253,570</b>	<b>1,538</b>	<b>6,802</b>	<b>208,323</b>	<b>3,303</b>	<b>4,248</b>

#### 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 September 2021, the slope of the regression line was in all cases within the range of 1.04 and 1.09 (for a 95% confidence level) and the regression coefficient was at least 0.90 ( $R^2$ ). During the same period in 2020, the slope of the regression line is in all cases within the range of 1.00 and 1.09 (for a 95% confidence level) and the regression coefficient is at least 0.87 ( $R^2$ ). In all cases the effectiveness is within limits during the first nine months of 2021 and 2020.

## Notes to the Condensed Consolidated Interim Financial Statements

### 22. Derivative instruments and short positions (continued)

#### Fair value hedging (continued)

As at 30 September 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	90,660	45,330	45,330	-	925	-	(718)
<b>Total</b>	<b>90,660</b>	<b>45,330</b>	<b>45,330</b>	<b>0</b>	<b>925</b>	<b>0</b>	<b>(718)</b>

Average fixed interest rate - EUR                      1.375%              1.00%

As at 30 September 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	Assets	Liabilities	
LBANK 1.375 3/22	-	45,769	-	(118)	380
LBANK 1.00 5/23	-	45,949	-	(454)	407
<b>Total EMTN hedged borrowings</b>	<b>0</b>	<b>91,718</b>	<b>0</b>	<b>(572)</b>	<b>787</b>

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)
<b>Total</b>	<b>93,660</b>	<b>0</b>	<b>93,660</b>	<b>0</b>	<b>1,643</b>	<b>0</b>	<b>316</b>

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	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)
<b>Total EMTN hedged borrowings</b>	<b>0</b>	<b>95,468</b>	<b>0</b>	<b>1,066</b>	<b>(314)</b>

### 23. Loans and advances to financial institutions

	30.9.2021	31.12.2020
Bank accounts with financial institutions	26,764	15,141
Money market loans	30,688	32,210
Other loans	1,912	723
Allowance for impairment	(1)	(1)
<b>Total</b>	<b>59,363</b>	<b>48,073</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 24. Loans and advances to customers

	30.9.2021	31.12.2020
Loans and advances to customers at amortised cost	1,371,063	1,281,386
Allowance for impairment	(18,340)	(24,475)
<b>Total</b>	<b>1,352,723</b>	<b>1,256,911</b>
Loans and advances to customers at FVTPL	22,813	16,515
<b>Total</b>	<b>1,375,536</b>	<b>1,273,426</b>

#### Loans and advances to customers at amortised cost

	30.9.2021			31.12.2020		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	3,857	(33)	3,824	4,169	(41)	4,128
Individuals	702,872	(1,866)	701,006	593,984	(2,307)	591,677
Mortgage lending	623,654	(945)	622,709	519,470	(1,221)	518,249
Other	79,218	(921)	78,297	74,514	(1,086)	73,428
Corporates	664,334	(16,441)	647,893	683,233	(22,127)	661,106
	<b>1,371,063</b>	<b>(18,340)</b>	<b>1,352,723</b>	<b>1,281,386</b>	<b>(24,475)</b>	<b>1,256,911</b>

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

### 25. Other assets

	30.9.2021	31.12.2020
Unsettled securities trading	4,933	1,892
Other accounts receivable	4,660	5,592
Right-of-use assets	2,078	2,369
Sundry assets	1,138	1,374
<b>Total</b>	<b>12,809</b>	<b>11,227</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 26. Borrowings

#### Secured borrowings

As at 30.9.2021	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%	6,131
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	23,453
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	47,303
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	45,539
LBANK CB 25	ISK	17.09.2025	27,300	Non-indexed	Fixed 3.4%	27,497
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	12,236
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	59,606
<b>Total covered bonds</b>						<b>221,765</b>
<b>Total secured borrowings</b>						<b>221,765</b>

#### Unsecured borrowings

As at 30.9.2021	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%	14,958
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	7,460
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	45,769
LBANK FLOAT 08/22	SEK	02.08.2022	SEK 900 million	STIBOR + 0.75%	13,419
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	45,949
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1.55%	7,478
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1.55%	7,458
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	45,266
LBANK 0.375 5/25 GB	EUR	23.05.2025	EUR 300 million	Fixed 0.375%	45,060
<b>Total senior unsecured bonds</b>					<b>232,817</b>

As at 30.9.2021	Carrying amount
Other unsecured loans	19,833
<b>Total other unsecured loans</b>	<b>19,833</b>
<b>Total unsecured borrowings</b>	<b>252,650</b>
<b>Total borrowings as at 30.9.2021</b>	<b>474,415</b>

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

### 26. 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
<b>Total covered bonds</b>						<b>189,360</b>

**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
<b>Total senior unsecured bonds</b>					<b>211,664</b>

**As at 31.12.2020** **Carrying amount**  
Other unsecured loans 19,154

**Total other unsecured loans** **19,154**

**Total unsecured borrowings** **230,818**

**Total borrowings as at 31.12.2020** **420,178**

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

### 27. Deferred tax assets and liabilities

	30.9.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	4,259	-	3,919
Deferred tax assets / liabilities	-	1	23	-
<b>Taxes in the Statement of Financial Position</b>	<b>0</b>	<b>4,260</b>	<b>23</b>	<b>3,919</b>

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

	30.9.2021			31.12.2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(99)	(99)	-	(124)	(124)
Intangibles	-	(184)	(184)	-	(201)	(201)
Exchange rate-indexed assets and liabilities	-	(522)	(522)	-	(444)	(444)
Deferred foreign exchange differences	98	-	98	118	-	118
Other assets and liabilities	704	-	704	674	-	674
Tax losses carried forward	2	-	2	-	-	0
	<b>804</b>	<b>(805)</b>	<b>(1)</b>	<b>792</b>	<b>(769)</b>	<b>23</b>
Set-off of deferred tax assets together with liabilities of the same taxable entities	(804)	804	0	(769)	769	0
<b>Deferred tax liabilities total</b>	<b>0</b>	<b>(1)</b>	<b>(1)</b>	<b>23</b>	<b>0</b>	<b>23</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 27. Deferred tax assets and liabilities (continued)

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

		Recognised in income statement	
	Balance as at 1.1	Tax income (expense)	Balance as at 30.9
<b>As at 30.9.2021</b>			
Property and equipment	(124)	25	(99)
Intangibles	(201)	17	(184)
Foreign currency denominated assets and liabilities	(444)	(78)	(522)
Deferred foreign exchange differences	118	(20)	98
Other assets and other liabilities	674	30	704
Tax losses carried forward	-	2	2
<b>Total</b>	<b>23</b>	<b>(24)</b>	<b>(1)</b>
		Recognised in income statement	
	Balance as at 1.1	Tax income (expense)	Balance as at 31.12
<b>As at 31.12.2020</b>			
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
<b>Total</b>	<b>20</b>	<b>3</b>	<b>23</b>

### 28. Other liabilities

	30.9.2021	31.12.2020
Unsettled securities trading	9,532	4,688
Withholding tax	406	1,475
Accounts payable	1,219	674
Contribution to the Depositors' and Investors' Guarantee Fund	206	198
Non-controlling interests - Funds	459	47
Lease liabilities	2,269	2,567
Sundry liabilities	3,864	4,380
<b>Total</b>	<b>17,955</b>	<b>14,029</b>

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

### 29. Subordinated liabilities

As at 30.9.2021	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%	15,051
LBANK T21 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3.85%	6,048
<b>Total subordinated liabilities</b>						<b>21,099</b>
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
<b>Total subordinated liabilities</b>						<b>21,366</b>

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

### 30. Equity

#### *Share capital*

As of 30 September 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 377 million at the end of the third quarter of 2021, or 1.57% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. 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 this year. 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.

On 23 July 2021, Landsbankinn's Board of Directors announced its decision to exercise the authorisation to purchase own shares under the buyback programme during a period which extended from 26 July 2021 up to and including 9 August 2021. During the buyback period, the Bank acquired a total of 1,700,672 own shares at a share price of 11.3387, for a total purchase price of ISK 19.3 million. Prior to the repurchase, Landsbankinn held around 375.5 million own shares, or the equivalent of around 1.56% of issued shares.

#### *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 36 Capital requirements.

## Notes to the Condensed Consolidated Interim Financial Statements

### Other notes

#### 31. Earnings per share

	2021 1.7-30.9	2020 1.7-30.9	2021 1.1-30.9	2020 1.1-30.9
<b>Profit (loss) for the period</b>				
Profit for the period attributable to owners of the Bank	7,492	3,986	21,597	699
<b>Weighted average number of shares</b>				
Weighted average number of ordinary shares issued	24,000	24,000	24,000	24,000
Weighted average number of own shares	(377)	(375)	(376)	(375)
<b>Weighted average number of shares outstanding</b>	<b>23,623</b>	<b>23,625</b>	<b>23,624</b>	<b>23,625</b>
<b>Basic and diluted earnings per share from operations (ISK)</b>	<b>0.32</b>	<b>0.17</b>	<b>0.91</b>	<b>0.03</b>

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.

#### 32. 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 and the operational procedures of the Bank or the Group, as the case may be. 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 certain other financial institutions 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 had been brought before the courts for this purpose, but all previous cases had 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 the case on grounds of insufficient substantiation. On 26 March 2021 the Appeal Court, Landsréttur, confirmed the ruling of the District Court. In August 2021, the same plaintiff brought yet a new case on the matter against the same defendants. In September 2021 the District Court decided that the plaintiff is to put up a surety for the payment of legal costs. In October, the plaintiff referred the decision to the Appeal Court. The Bank rejects all claims of the plaintiff and requests the dismissal of the case.

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. The main hearing of the case was on 18 October 2021. Judgment is expected within four weeks from that date.

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.

In September 2021, an individual commenced litigation against the Bank claiming that a provision in a mortgage credit agreement issued in 2006 be deemed illegal and void as it does not specify under which conditions changes are made to the interest rate, as allegedly required by the consumer credit legislation applicable at the time. The plaintiff demands that interests be recalculated, either in accordance with Article 4 of the Act No. 38/2001 on Interest Rates and Price Indexation or in accordance with the initial interest rate. The Bank requests the dismissal of the case.

## Notes to the Condensed Consolidated Interim Financial Statements

### 32. 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.

### 33. Interest in subsidiaries

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

#### Main subsidiaries as at 30 September 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 September 2021.

### 34. 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 39, 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:

	30.9.2021		31.12.2020	
	Gross carrying amount as at 30 September	Highest outstanding during the period	Gross carrying amount as at 31 December	Highest outstanding during the period
<b>Loans in ISK million</b>				
Key management personnel	371	539	419	493
Parties related to key management personnel	179	259	121	168
Associates	942	948	946	984
Other	19	20	20	22
<b>Total</b>	<b>1,511</b>	<b>1,766</b>	<b>1,506</b>	<b>1,667</b>

Specific impairment allowance of ISK 378 million in Stage 3 is recognised in respect of the loans under the item Associates.

The Bank provided a financial guarantee of ISK 449 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

### 34. 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:

	30.9.2021		31.12.2020	
	Gross carrying amount as at 30 September	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
<b>Deposits in ISK million</b>				
Key management personnel	71	282	63	172
Parties related to key management personnel	138	240	64	127
Associates	166	1,121	766	1,261
Other	20	308	248	423
<b>Total</b>	<b>395</b>	<b>1,951</b>	<b>1,141</b>	<b>1,983</b>

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 September 2021	Gross carrying amount as at 31 December 2020
<b>Guarantees in ISK million</b>		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	449	517
<b>Total</b>	<b>449</b>	<b>517</b>

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.

### 35. 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 part of an agreement between the Treasury and all shareholders of the company, providing for transfer of its ownership to the State. The transaction is subject to approval by the Icelandic Competition Authority (ICA) which to date has not been forthcoming and, as such, not all terms and conditions of the sale agreement have been satisfied. As a result, the Bank's shareholding in the company is still accounted for as an investment in an associate in these financial statements and the sale and the profit from it, ISK 147 million, have not been recognised in the accounting period ended 30 September 2021.

## Notes to the Condensed Consolidated Interim Financial Statements

### Capital management

#### 36. 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 30.9.2021	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.0%	2.6%	3.5%
<b>Minimum requirement under Pillar I and Pillar II-R</b>	<b>6.5%</b>	<b>8.6%</b>	<b>11.5%</b>
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%
<b>Combined buffer requirement</b>	<b>7.4%</b>	<b>7.4%</b>	<b>7.4%</b>
<b>Total capital requirement</b>	<b>13.9%</b>	<b>16.0%</b>	<b>18.9%</b>

On 29 September 2021 the Financial Stability Committee (FSC) decided to increase the value of the countercyclical capital buffer, taking effect twelve months thereafter. As of the following dates, the countercyclical capital buffer on domestic exposures will therefore be, ceteris paribus:

	1.2.2020	19.3.2020	29.9.2022
Countercyclical capital buffer on domestic exposures	2.00%	0.00%	2.00%

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. December 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%
<b>Minimum requirement under Pillar I and Pillar II-R</b>	<b>6.4%</b>	<b>8.6%</b>	<b>11.4%</b>
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%
<b>Combined buffer requirement</b>	<b>7.38%</b>	<b>7.38%</b>	<b>7.38%</b>
<b>Total capital requirement</b>	<b>13.8%</b>	<b>16.0%</b>	<b>18.8%</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 37. 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.

In accordance with the aforementioned laws and regulations, the Financial Supervisory Authority (FSA) has granted permission for interim profits net of any foreseeable dividend to be included in the Group's capital base. The permission is subject to the conditions that interim statements have been verified by the Group's auditors.

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.

<b>Capital base</b>	<b>30.9.2021</b>	<b>31.12.2020</b>
Share capital	23,623	23,625
Share premium	120,612	120,630
Reserves	22,731	19,250
Retained earnings	108,377	94,750
<b>Total equity attributable to owners of the Bank</b>	<b>275,343</b>	<b>258,255</b>
Intangible assets	(34)	(1,696)
Deferred tax assets	-	(23)
Fair value hedges	(925)	(1,643)
Foreseeable dividends*	(10,799)	-
Adjustment under IFRS 9 transitional arrangements	3,063	5,353
<b>Common equity Tier 1 capital (CET1)</b>	<b>266,648</b>	<b>260,246</b>
Non-controlling interests	-	-
<b>Tier 1 capital</b>	<b>266,648</b>	<b>260,246</b>
Subordinated liabilities	21,099	21,366
<b>Tier 2 capital</b>	<b>21,099</b>	<b>21,366</b>
<b>Total capital base</b>	<b>287,747</b>	<b>281,612</b>
<b>Risk exposure amount (REA)</b>		
Credit risk	1,046,629	1,010,588
Market risk	7,237	11,526
Operational risk**	99,485	99,485
<b>Total risk exposure amount</b>	<b>1,153,351</b>	<b>1,121,599</b>

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

\*\*The amounts are updated on a yearly basis.

<b>CET1 ratio</b>	<b>23.1%</b>	<b>23.2%</b>
<b>Tier 1 capital ratio</b>	<b>23.1%</b>	<b>23.2%</b>
<b>Total capital ratio</b>	<b>24.9%</b>	<b>25.1%</b>
<b>CET 1 Ratio as if IFRS 9 transitional arrangements were not applied</b>	<b>22.9%</b>	<b>22.7%</b>
<b>Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied</b>	<b>22.9%</b>	<b>22.7%</b>
<b>Total capital ratio as if IFRS 9 transitional arrangements were not applied</b>	<b>24.7%</b>	<b>24.6%</b>

### 38. 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.

<b>Leverage ratio</b>	<b>30.9.2021</b>	<b>31.12.2020</b>
- On-balance sheet exposure (excluding derivatives)	1,701,428	1,556,541
- Derivative instrument exposure	7,128	5,944
- Securities financing transaction exposures	20,315	4,366
- Off-balance sheet exposure	147,463	130,089
- Regulatory adjustments to Tier 1 capital	(8,695)	(3,362)
<b>Total leverage exposure</b>	<b>1,867,639</b>	<b>1,693,578</b>
<b>Tier 1 capital</b>	<b>266,648</b>	<b>260,246</b>
<b>Leverage ratio</b>	<b>14.3%</b>	<b>15.4%</b>
<b>Leverage ratio as if IFRS 9 transitional arrangements were not applied</b>	<b>14.1%</b>	<b>15.1%</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Risk management

#### Credit risk

#### 39. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure as at 30 September 2021 and 31 December 2020. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the 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 September 2021	Financial institutions	Public entities*	Individuals	Corporations										Maximum exposure	Carrying amount
				Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
Cash and balances with Central Bank	-	92,043	-	-	-	-	-	-	-	-	-	-	-	92,043	92,043
Bonds and debt instruments	124	102,004	-	-	60	-	-	1,565	-	30	14	-	-	103,797	129,579
Equities and equity instruments	103	-	-	43	25	-	-	2,276	1	103	19,340	-	-	21,891	30,527
Derivative instruments	1,046	-	1	22	7	48	-	14	8	1	5	-	386	1,538	1,538
Loans and advances to financial institutions	59,363	-	-	-	-	-	-	-	-	-	-	-	-	59,363	59,363
Loans and advances to customers	-	3,824	701,467	184,319	134,252	74,471	99,485	64,421	50,536	24,844	31,745	6,172	-	1,375,536	1,375,536
Other assets	21,815	-	42	3	2,120	33	1	4,576	-	3	6	-	1,139	29,738	29,772
<b>Total on-balance sheet exposure</b>	<b>82,451</b>	<b>197,871</b>	<b>701,510</b>	<b>184,387</b>	<b>136,464</b>	<b>74,552</b>	<b>99,486</b>	<b>72,852</b>	<b>50,545</b>	<b>24,981</b>	<b>51,110</b>	<b>6,172</b>	<b>1,525</b>	<b>1,683,906</b>	<b>1,718,358</b>
<b>Off-balance sheet exposure</b>	<b>1</b>	<b>6,912</b>	<b>31,880</b>	<b>14,965</b>	<b>20,812</b>	<b>49,389</b>	<b>16,491</b>	<b>18,935</b>	<b>23,267</b>	<b>19,008</b>	<b>2,949</b>	<b>569</b>	<b>63</b>	<b>205,241</b>	
Financial guarantees and underwriting commitments	-	-	588	6,637	1,514	4,571	2,015	3,222	3,058	1,337	351	-	35	23,328	
Undrawn loan commitments	-	16	-	6,124	18,200	42,428	13,008	6,342	15,038	13,917	2,426	216	-	117,715	
Undrawn overdraft/credit card facilities	1	6,896	31,292	2,204	1,098	2,390	1,468	9,371	5,171	3,754	172	353	28	64,198	
<b>Maximum exposure to credit risk</b>	<b>82,452</b>	<b>204,783</b>	<b>733,390</b>	<b>199,352</b>	<b>157,276</b>	<b>123,941</b>	<b>115,977</b>	<b>91,787</b>	<b>73,812</b>	<b>43,989</b>	<b>54,059</b>	<b>6,741</b>	<b>1,588</b>	<b>1,889,147</b>	
Percentage of maximum exposure to credit risk	4.4%	10.8%	38.8%	10.6%	8.3%	6.6%	6.1%	4.9%	3.9%	2.3%	2.9%	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

### 39. 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
<b>Total on-balance sheet exposure</b>	<b>66,964</b>	<b>150,962</b>	<b>592,281</b>	<b>179,769</b>	<b>131,894</b>	<b>82,480</b>	<b>95,997</b>	<b>74,548</b>	<b>53,662</b>	<b>34,840</b>	<b>48,185</b>	<b>6,544</b>	<b>1,450</b>	<b>1,519,576</b>	<b>1,564,177</b>
<b>Off-balance sheet exposure</b>	<b>139</b>	<b>6,953</b>	<b>32,240</b>	<b>18,294</b>	<b>14,836</b>	<b>43,786</b>	<b>16,948</b>	<b>17,495</b>	<b>20,504</b>	<b>14,223</b>	<b>2,539</b>	<b>292</b>	<b>38</b>	<b>188,287</b>	
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	
<b>Maximum exposure to credit risk</b>	<b>67,103</b>	<b>157,915</b>	<b>624,521</b>	<b>198,063</b>	<b>146,730</b>	<b>126,266</b>	<b>112,945</b>	<b>92,043</b>	<b>74,166</b>	<b>49,063</b>	<b>50,724</b>	<b>6,836</b>	<b>1,488</b>	<b>1,707,863</b>	
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

### 40. 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 September 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*			
<b>Financial institutions</b>	-	-	-	-	0	-	-	59,364	(1)	59,363
<b>Public entities</b>	21	149	156	7	333	63	30	3,461	(33)	3,824
<b>Individuals</b>	39,503	146,651	418,585	55,175	659,914	8,044	4,291	35,375	(1,866)	701,467
Mortgages	32,517	135,940	399,479	48,864	616,800	4,741	2,451	2,113	(945)	622,709
Other	6,986	10,711	19,106	6,311	43,114	3,303	1,840	33,262	(921)	78,758
<b>Corporates</b>	30,318	129,996	195,612	192,092	548,018	110,789	85,635	27,879	(16,441)	670,245
Fisheries	10,333	46,104	76,411	45,576	178,424	5,211	3,826	1,137	(453)	184,319
Real estate companies	2,054	10,265	59,464	48,587	120,370	13,040	10,342	2,570	(1,728)	134,252
Construction companies	455	6,921	10,008	17,603	34,987	39,397	33,927	1,819	(1,732)	74,471
Travel industry	1,262	5,459	16,975	59,096	82,792	20,254	16,141	5,058	(8,619)	99,485
Services, IT and communications	6,666	9,693	12,402	5,746	34,507	20,063	13,601	11,784	(1,933)	64,421
Retail	2,885	25,797	9,006	5,839	43,527	6,909	4,336	1,366	(1,266)	50,536
Manufacturing and energy	901	6,218	8,076	2,421	17,616	4,523	2,659	3,204	(499)	24,844
Holding companies	5,092	17,409	1,982	5,783	30,266	796	598	822	(139)	31,745
Agriculture	670	2,130	1,288	1,441	5,529	596	205	119	(72)	6,172
Other	-	-	-	-	0	-	-	-	-	0
<b>Total</b>	<b>69,842</b>	<b>276,796</b>	<b>614,353</b>	<b>247,274</b>	<b>1,208,265</b>	<b>118,896</b>	<b>89,956</b>	<b>126,079</b>	<b>(18,341)</b>	<b>1,434,899</b>

\*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 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*			
<b>Financial institutions</b>	-	-	-	-	0	-	-	48,074	(1)	48,073
<b>Public entities</b>	26	236	35	-	297	68	33	3,804	(41)	4,128
<b>Individuals</b>	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
<b>Corporates</b>	21,447	137,408	226,339	147,631	532,825	130,046	100,573	36,338	(22,127)	677,082
Fisheries	11,054	39,749	81,557	35,756	168,116	8,795	4,767	4,038	(1,236)	179,713
Real estate companies	2,129	8,978	73,039	25,589	109,735	18,393	14,412	4,669	(3,335)	129,462
Construction companies	2,112	3,466	22,333	16,977	44,888	38,406	34,345	1,533	(2,482)	82,345
Travel industry	1,282	11,718	15,886	46,007	74,893	24,536	19,771	5,074	(8,507)	95,996
Services, IT and communications	859	16,427	7,485	8,863	33,634	23,261	17,021	12,696	(2,239)	67,352
Retail	1,657	28,101	10,034	5,483	45,275	6,989	4,700	2,726	(1,400)	53,590
Manufacturing and energy	1,016	2,369	11,224	5,886	20,495	7,677	4,702	4,599	(2,540)	30,231
Holding companies	720	24,669	3,261	1,196	29,846	1,391	535	856	(244)	31,849
Agriculture	618	1,931	1,520	1,874	5,943	598	320	147	(144)	6,544
Other	-	-	-	-	0	-	-	-	-	0
<b>Total</b>	<b>57,577</b>	<b>269,798</b>	<b>572,256</b>	<b>190,519</b>	<b>1,090,150</b>	<b>136,207</b>	<b>104,282</b>	<b>119,618</b>	<b>(24,476)</b>	<b>1,321,499</b>

\*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

### 41. 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 September 2021	Real estate	Vessels	Deposits	Securities	Other*	Total
<b>Public entities</b>	<b>324</b>	-	<b>1</b>	-	<b>37</b>	<b>362</b>
<b>Individuals</b>	<b>644,806</b>	<b>65</b>	<b>141</b>	<b>3,074</b>	<b>15,899</b>	<b>663,985</b>
Mortgages	613,595	14	47	59	5,323	619,038
Other	31,211	51	94	3,015	10,576	44,947
<b>Corporates</b>	<b>329,613</b>	<b>134,988</b>	<b>2,442</b>	<b>78,288</b>	<b>88,325</b>	<b>633,656</b>
Fisheries	9,593	133,172	124	24,285	15,076	182,250
Real estate companies	122,392	73	905	5,453	1,890	130,713
Construction companies	65,836	15	344	40	2,679	68,914
Travel industry	67,127	682	232	208	30,684	98,933
Services, IT and communications	26,131	1,042	291	8,151	12,493	48,108
Retail	21,003	2	88	11,878	14,893	47,864
Manufacturing and energy	9,910	2	73	-	10,290	20,275
Holding companies	2,202	-	378	28,273	12	30,865
Agriculture	5,419	-	7	-	308	5,734
Other	-	-	-	-	-	0
<b>Total</b>	<b>974,743</b>	<b>135,053</b>	<b>2,584</b>	<b>81,362</b>	<b>104,261</b>	<b>1,298,003</b>
<b>As at 31 December 2020</b>	<b>Real estate</b>	<b>Vessels</b>	<b>Deposits</b>	<b>Securities</b>	<b>Other*</b>	<b>Total</b>
<b>Public entities</b>	<b>293</b>	-	<b>1</b>	-	<b>14</b>	<b>308</b>
<b>Individuals</b>	<b>541,822</b>	<b>82</b>	<b>131</b>	<b>3,137</b>	<b>15,382</b>	<b>560,554</b>
Mortgages	511,893	10	30	58	4,578	516,569
Other	29,929	72	101	3,079	10,804	43,985
<b>Corporates</b>	<b>341,572</b>	<b>129,320</b>	<b>3,082</b>	<b>75,126</b>	<b>84,299</b>	<b>633,399</b>
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	-	-	-	-	-	0
<b>Total</b>	<b>883,687</b>	<b>129,402</b>	<b>3,214</b>	<b>78,263</b>	<b>99,695</b>	<b>1,194,261</b>

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

## Notes to the Condensed Consolidated Interim Financial Statements

### 42. Credit quality of loans and advances

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

	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
<b>As at 30 September 2021</b>							
<b>Financial institutions</b>	<b>59,364</b>	-	-	-	-	(1)	<b>59,363</b>
<b>Public entities</b>	<b>162</b>	<b>3,688</b>	-	<b>7</b>	-	(33)	<b>3,824</b>
<b>Individuals</b>	<b>358,994</b>	<b>317,898</b>	<b>22,611</b>	<b>3,010</b>	<b>820</b>	<b>(1,866)</b>	<b>701,467</b>
Mortgages	331,292	273,579	16,213	1,965	605	(945)	622,709
Other	27,702	44,319	6,398	1,045	215	(921)	78,758
<b>Corporations</b>	<b>71,523</b>	<b>482,728</b>	<b>96,977</b>	<b>35,379</b>	<b>79</b>	<b>(16,441)</b>	<b>670,245</b>
Fisheries	28,153	147,329	7,620	1,670	-	(453)	184,319
Real estate companies	819	119,645	11,726	3,714	76	(1,728)	134,252
Construction companies	2,572	54,204	9,278	10,149	-	(1,732)	74,471
Travel industry	322	46,242	47,713	13,827	-	(8,619)	99,485
Services, IT and communications	3,949	53,655	6,329	2,420	1	(1,933)	64,421
Retail	23,271	24,185	3,098	1,248	-	(1,266)	50,536
Manufacturing and energy	11,321	10,045	1,799	2,176	2	(499)	24,844
Holding companies	-	22,770	9,102	12	-	(139)	31,745
Agriculture	1,116	4,653	312	163	-	(72)	6,172
Other	-	-	-	-	-	-	0
<b>Total</b>	<b>490,043</b>	<b>804,314</b>	<b>119,588</b>	<b>38,396</b>	<b>899</b>	<b>(18,341)</b>	<b>1,434,899</b>
	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
<b>As at 31 December 2020</b>							
<b>Financial institutions</b>	<b>48,057</b>	-	-	-	17	(1)	<b>48,073</b>
<b>Public entities</b>	<b>179</b>	<b>3,990</b>	-	-	-	(41)	<b>4,128</b>
<b>Individuals</b>	<b>313,257</b>	<b>251,820</b>	<b>24,400</b>	<b>4,117</b>	<b>929</b>	<b>(2,307)</b>	<b>592,216</b>
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
<b>Corporates</b>	<b>63,930</b>	<b>480,168</b>	<b>117,569</b>	<b>35,568</b>	<b>1,974</b>	<b>(22,127)</b>	<b>677,082</b>
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
<b>Total</b>	<b>425,423</b>	<b>735,978</b>	<b>141,969</b>	<b>39,685</b>	<b>2,920</b>	<b>(24,476)</b>	<b>1,321,499</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 43. 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.

	Gross carrying amount							
	Days past due							
	Not past due						Allowance for impairment	Carrying amount
As at 30 September 2021		1-5	6-30	31-60	61-90	over 90		
Financial institutions	59,364	-	-	-	-	-	(1)	59,363
Public entities	3,856	-	1	-	-	-	(33)	3,824
Individuals	694,520	3,465	3,101	314	765	1,168	(1,866)	701,467
Mortgages	619,786	1	2,468	183	520	696	(945)	622,709
Other	74,734	3,464	633	131	245	472	(921)	78,758
Corporates	666,829	6,950	2,223	862	1,686	8,136	(16,441)	670,245
Fisheries	180,213	4,415	132	-	-	12	(453)	184,319
Real estate companies	133,304	99	509	386	1,291	391	(1,728)	134,252
Construction companies	74,308	695	565	147	-	488	(1,732)	74,471
Travel industry	102,769	155	110	192	147	4,731	(8,619)	99,485
Services, IT and communications	63,094	1,428	323	61	51	1,397	(1,933)	64,421
Retail	50,489	31	73	15	186	1,008	(1,266)	50,536
Manufacturing and energy	24,757	34	387	45	11	109	(499)	24,844
Holding companies	31,713	56	104	11	-	-	(139)	31,745
Agriculture	6,182	37	20	5	-	-	(72)	6,172
Other	-	-	-	-	-	-	-	0
Total	1,424,569	10,415	5,325	1,176	2,451	9,304	(18,341)	1,434,899

	Gross carrying amount							
	Days past due							
	Not past due						Allowance for impairment	Carrying amount
As at 31 December 2020		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

### 44. 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			
<b>As at 30 September 2021</b>										
<b>Financial institutions</b>	59,364	59,364	(1)	-	-	-	-	(1)	-	59,363
<b>Public entities</b>	3,857	3,792	(31)	58	(1)	7	(1)	(33)	-	3,824
<b>Individuals</b>	703,333	665,703	(604)	34,159	(592)	3,010	(670)	(1,866)	461	701,467
Mortgages	623,654	598,411	(392)	23,278	(351)	1,965	(202)	(945)	-	622,709
Other	79,679	67,292	(212)	10,881	(241)	1,045	(468)	(921)	461	78,758
<b>Corporates</b>	686,686	523,823	(1,521)	105,132	(5,068)	35,379	(9,852)	(16,441)	22,352	670,245
Fisheries	184,772	176,418	(271)	2,469	(60)	1,670	(122)	(453)	4,215	184,319
Real estate companies	135,980	115,523	(328)	10,809	(511)	3,714	(889)	(1,728)	5,934	134,252
Construction companies	76,203	61,492	(356)	4,284	(64)	10,149	(1,312)	(1,732)	278	74,471
Travel industry	108,104	23,632	(182)	70,645	(4,177)	13,827	(4,260)	(8,619)	-	99,485
Services, IT and communications	66,354	51,702	(191)	7,883	(151)	2,420	(1,591)	(1,933)	4,349	64,421
Retail	51,802	46,434	(61)	2,959	(45)	1,248	(1,160)	(1,266)	1,161	50,536
Manufacturing and energy	25,343	21,364	(24)	1,803	(21)	2,176	(454)	(499)	-	24,844
Holding companies	31,884	21,772	(99)	3,685	(33)	12	(7)	(139)	6,415	31,745
Agriculture	6,244	5,486	(9)	595	(6)	163	(57)	(72)	-	6,172
Other	-	-	-	-	-	-	-	-	-	0
<b>Total</b>	<b>1,453,240</b>	<b>1,252,682</b>	<b>(2,157)</b>	<b>139,349</b>	<b>(5,661)</b>	<b>38,396</b>	<b>(10,523)</b>	<b>(18,341)</b>	<b>22,813</b>	<b>1,434,899</b>

# Notes to the Condensed Consolidated Interim Financial Statements

## 44. Loans and advances by stage allocation (continued)

	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			
<b>As at 31 December 2020</b>										
<b>Financial institutions</b>	<b>48,074</b>	<b>48,074</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>48,073</b>
<b>Public entities</b>	<b>4,169</b>	<b>4,026</b>	<b>(39)</b>	<b>143</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>(41)</b>	<b>-</b>	<b>4,128</b>
<b>Individuals</b>	<b>594,523</b>	<b>549,450</b>	<b>(415)</b>	<b>40,417</b>	<b>(1,022)</b>	<b>4,117</b>	<b>(870)</b>	<b>(2,307)</b>	<b>539</b>	<b>592,216</b>
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
<b>Corporates</b>	<b>699,209</b>	<b>535,653</b>	<b>(3,378)</b>	<b>112,012</b>	<b>(5,612)</b>	<b>35,568</b>	<b>(13,137)</b>	<b>(22,127)</b>	<b>15,976</b>	<b>677,082</b>
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
<b>Total</b>	<b>1,345,975</b>	<b>1,137,203</b>	<b>(3,833)</b>	<b>152,572</b>	<b>(6,636)</b>	<b>39,685</b>	<b>(14,007)</b>	<b>(24,476)</b>	<b>16,515</b>	<b>1,321,499</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 45. 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	
<b>Balance as at 1 January 2021 - Financial institutions</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
Changes in models/risk parameters	-	-	-	0
<b>Balance as at 30 September 2021 - Financial institutions</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
- 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	
<b>Balance as at 1 January 2021 - Loans and advances to customers</b>	<b>(4,224)</b>	<b>(6,969)</b>	<b>(14,110)</b>	<b>(25,303)</b>
New financial assets originated	(1,058)	(397)	(1,692)	(3,147)
Reversals due to financial assets that have been derecognised	1,405	1,244	2,233	4,882
Transfer to Stage 1 - 12-month ECL	(89)	75	14	0
Transfer to Stage 2 - Lifetime ECL	706	(793)	87	0
Transfer to Stage 3 - Lifetime ECL	164	448	(612)	0
Changes in models/risk parameters	667	562	485	1,714
Provisions used to cover write-offs	1	5	2,966	2,972
<b>Balance as at 30 September 2021 - Loans and advances to customers</b>	<b>(2,428)</b>	<b>(5,825)</b>	<b>(10,629)</b>	<b>(18,882)</b>
- thereof classified as deduction from gross carrying amounts	(2,156)	(5,661)	(10,523)	(18,340)
- thereof classified as liabilities	(272)	(164)	(106)	(542)

	1.1-30.9.2021				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	(1)	(377)	(2,769)	(3,147)
Reversals due to financial assets that have been derecognised	-	1	415	4,466	4,882
Changes due to financial assets recognised in the opening balance	-	1	207	1,506	1,714
Write-offs	-	-	(371)	(3,020)	(3,391)
Provisions used to cover write-offs	-	-	208	2,764	2,972
Recoveries	-	-	795	112	907
Translation difference	-	-	-	(101)	(101)
<b>Net impairment on loans and advances</b>	<b>0</b>	<b>1</b>	<b>877</b>	<b>2,958</b>	<b>3,836</b>



## Notes to the Condensed Consolidated Interim Financial Statements

### 45. 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	
<b>Restated balance as at 1 January 2020 - Financial institutions</b>	<b>(1)</b>	<b>(5)</b>	<b>0</b>	<b>(6)</b>
Reversals due to financial assets that have been derecognised	-	3	-	3
Changes in models/risk parameters	-	2	-	2
<b>Balance as at 31 December 2020 - Financial institutions</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
- 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	
<b>Restated balance as at 1 January 2020 - Loans and advances to customers</b>	<b>(2,579)</b>	<b>(2,029)</b>	<b>(10,625)</b>	<b>(15,233)</b>
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
<b>Balance as at 31 December 2020 - Loans and advances to customers</b>	<b>(4,224)</b>	<b>(6,969)</b>	<b>(14,110)</b>	<b>(25,303)</b>
- 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				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	(1)	(558)	(5,436)	(5,995)
Reversals due to financial assets that have been derecognised	3	1	458	2,553	3,015
Changes due to financial assets recognised in the opening balance	2	(3)	(416)	(8,232)	(8,649)
Write-offs	-	-	(704)	(1,904)	(2,608)
Provisions used to cover write-offs	-	-	365	1,199	1,564
Recoveries	-	-	325	170	495
Translation difference	-	-	1	296	297
<b>Net impairment on loans and advances</b>	<b>5</b>	<b>(3)</b>	<b>(529)</b>	<b>(11,354)</b>	<b>(11,881)</b>

### 46. Large exposures

As at 30 September 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
<b>As at 30 September 2021</b>		
Large exposures between 10% and 20% of the Group's tier 1 capital	3	92,512
Large exposures between 0% and 10% of the Group's tier 1 capital	1	7,285
<b>Total</b>	<b>4</b>	<b>99,797</b>

Total ratio of large exposures to tier 1 capital 37%

	Number of large exposures	Large exposures
<b>As at 31 December 2020</b>		
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
<b>Total</b>	<b>4</b>	<b>111,648</b>

Total ratio of large exposures to eligible capital 40%

## Notes to the Condensed Consolidated Interim Financial Statements

### 47. 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% total net stable funding ratio. The Group also follows 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 September 2021 and 31 December 2020 are shown in the following table:

Liquidity coverage ratio 30 September 2021	ISK		Foreign currencies		Total	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	142,872	142,871	54,788	54,788	197,660	197,660
Level 2 liquid assets	12,015	8,410	236	201	12,251	8,611
Information items	7,511	-	65	-	7,577	-
<b>Total liquid assets</b>	<b>162,398</b>	<b>151,281</b>	<b>55,089</b>	<b>54,989</b>	<b>217,488</b>	<b>206,271</b>
Deposits	610,699	134,956	109,479	45,754	720,178	180,710
Borrowing	-	-	138	138	138	138
Other outflows	117,872	18,718	37,782	3,758	155,653	22,477
<b>Total outflows (0-30 days)</b>	<b>728,571</b>	<b>153,674</b>	<b>147,399</b>	<b>49,650</b>	<b>875,969</b>	<b>203,325</b>
Loans and advances to financial institutions	12,630	-	59,276	57,427	71,906	57,427
Other inflows	39,627	19,396	12,150	6,497	51,776	25,894
Limit on inflows	-	-	-	(26,686)	-	-
<b>Total inflows (0-30 days)</b>	<b>52,257</b>	<b>19,396</b>	<b>71,426</b>	<b>37,238</b>	<b>123,682</b>	<b>83,321</b>
<b>Liquidity coverage ratio</b>		<b>113%</b>		<b>443%</b>		<b>172%</b>

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	-
<b>Total liquid assets</b>	<b>143,491</b>	<b>122,458</b>	<b>47,498</b>	<b>46,512</b>	<b>190,989</b>	<b>168,969</b>
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
<b>Total outflows (0-30 days)</b>	<b>614,128</b>	<b>130,608</b>	<b>134,230</b>	<b>43,890</b>	<b>748,358</b>	<b>174,498</b>
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)	-	-
<b>Total inflows (0-30 days)</b>	<b>42,919</b>	<b>13,902</b>	<b>54,148</b>	<b>32,917</b>	<b>97,066</b>	<b>65,026</b>
<b>Liquidity coverage ratio</b>		<b>105%</b>		<b>424%</b>		<b>154%</b>

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 September 2021	ISK	Foreign currencies	Total
Cash and balances with the Central Bank	81,837	2,191	84,028
Domestic bonds and debt instruments eligible as collateral at the Central Bank	73,050	236	73,286
Foreign government bonds with 0% risk weight	-	52,597	52,597
<b>High quality liquidity assets</b>	<b>154,887</b>	<b>55,024</b>	<b>209,911</b>
Loans and advances to financial institutions	12,630	59,276	71,906
<b>Total liquidity reserves</b>	<b>167,517</b>	<b>114,300</b>	<b>281,817</b>

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### 47. 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
<b>High quality liquidity assets</b>	<b>122,457</b>	<b>47,197</b>	<b>169,654</b>
Loans and advances to financial institutions	13,084	47,727	60,811
<b>Total liquidity reserves</b>	<b>135,541</b>	<b>94,924</b>	<b>230,465</b>

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 September 2021 and 31 December 2020:

	As at 30 September 2021	As at 31 December 2020
Net stable funding ratio FX	122%	132%
Net stable funding ratio total	118%	116%

### 48. 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 47.

The amounts in the maturity analyses as at 30 September 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 47, 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 September 2021 and 31 December 2020. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

## Notes to the Condensed Consolidated Interim Financial Statements

### 48. Maturity analysis of financial assets and liabilities (continued)

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

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
<b>Non-derivative financial liabilities</b>								
Due to financial institutions and								
Central Bank	(22,060)	(26,743)	(220)	-	-	-	(49,023)	(48,991)
Deposits from customers	(706,137)	(129,282)	(12,912)	(18,886)	(6,586)	-	(873,803)	(869,463)
Short positions	-	(8)	(59)	(2,444)	(1,916)	-	(4,427)	(3,480)
Borrowings	(1,729)	(10,006)	(111,386)	(308,722)	(92,131)	-	(523,974)	(474,415)
Other financial liabilities	(13,226)	-	-	-	-	-	(13,226)	(13,226)
Subordinated liabilities	-	(228)	(472)	(2,884)	(25,073)	-	(28,657)	(21,099)
<b>Total</b>	<b>(743,152)</b>	<b>(166,267)</b>	<b>(125,049)</b>	<b>(332,936)</b>	<b>(125,706)</b>	<b>0</b>	<b>(1,493,110)</b>	<b>(1,430,674)</b>
<b>Derivative financial liabilities</b>								
<b>Trading</b>								(274)
Inflow	6,076	1,761	1,029	-	-	-	8,866	
Outflow	(6,318)	(1,781)	(1,025)	-	-	-	(9,124)	
<b>Risk management</b>								(3,048)
Inflow	25,825	30,661	18	3,453	-	-	59,957	
Outflow	(27,087)	(31,988)	(37)	(3,951)	-	-	(63,063)	
<b>Total</b>	<b>(1,504)</b>	<b>(1,347)</b>	<b>(15)</b>	<b>(498)</b>	<b>0</b>	<b>0</b>	<b>(3,364)</b>	<b>(3,322)</b>
<b>Non-derivative financial assets</b>								
Cash and balances with								
Central Bank	92,043	-	-	-	-	-	92,043	92,043
Bonds and debt instruments	20,339	30,274	21,692	53,756	7,922	-	133,983	129,579
Equities and equity instruments	-	-	-	-	-	30,527	30,527	30,527
Loans and advances to financial institutions	59,276	-	-	-	-	-	59,276	59,363
Loans and advances to customers	79,515	62,790	181,980	558,763	1,473,914	-	2,356,962	1,375,536
Other financial assets	11,671	-	-	-	-	-	11,671	11,671
<b>Total</b>	<b>262,844</b>	<b>93,064</b>	<b>203,672</b>	<b>612,519</b>	<b>1,481,836</b>	<b>30,527</b>	<b>2,684,462</b>	<b>1,698,719</b>
<b>Derivative financial assets</b>								
<b>Trading</b>								508
Inflow	18,404	1,692	2,158	1,351	-	-	23,605	
Outflow	(18,007)	(1,667)	(2,112)	(1,342)	-	-	(23,128)	
<b>Risk management</b>								1,030
Inflow	2,444	1,317	46,407	45,783	-	-	95,951	
Outflow	(2,351)	(1,455)	(45,600)	(45,520)	-	-	(94,926)	
<b>Total</b>	<b>490</b>	<b>(113)</b>	<b>853</b>	<b>272</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>1,538</b>
<b>Off-balance sheet items</b>								
Financial guarantees and underwriting commitments	(478)	(1,097)	(3,841)	(4,807)	(12,324)	(781)	(23,328)	
Undrawn loan commitments	(117,715)	-	-	-	-	-	(117,715)	
Undrawn overdraft/credit card commitments	(64,198)	-	-	-	-	-	(64,198)	
<b>Total</b>	<b>(182,391)</b>	<b>(1,097)</b>	<b>(3,841)</b>	<b>(4,807)</b>	<b>(12,324)</b>	<b>(781)</b>	<b>(205,241)</b>	
<b>Net liquidity position</b>	<b>(663,713)</b>	<b>(75,760)</b>	<b>75,620</b>	<b>274,550</b>	<b>1,343,806</b>	<b>29,746</b>	<b>984,249</b>	<b>266,261</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 48. 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:

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
<b>Non-derivative financial liabilities</b>								
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)
<b>Total</b>	<b>(638,757)</b>	<b>(170,701)</b>	<b>(68,017)</b>	<b>(354,430)</b>	<b>(115,472)</b>	<b>0</b>	<b>(1,347,377)</b>	<b>(1,292,346)</b>
<b>Derivative financial liabilities</b>								
<b>Trading</b>								(676)
Inflow	3,668	1,168	8	-	-	-	4,844	
Outflow	(4,263)	(1,246)	(8)	-	-	-	(5,517)	
<b>Risk management</b>								(3,048)
Inflow	499	26	25,980	3,563	-	-	30,068	
Outflow	(534)	(85)	(28,533)	(4,011)	-	-	(33,163)	
<b>Total</b>	<b>(630)</b>	<b>(137)</b>	<b>(2,553)</b>	<b>(448)</b>	<b>0</b>	<b>0</b>	<b>(3,768)</b>	<b>(3,724)</b>
<b>Non-derivative financial assets</b>								
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
<b>Total</b>	<b>213,439</b>	<b>97,161</b>	<b>215,186</b>	<b>538,659</b>	<b>1,295,970</b>	<b>26,808</b>	<b>2,387,223</b>	<b>1,545,093</b>
<b>Derivative financial assets</b>								
<b>Trading</b>								303
Inflow	1,957	1,797	2,019	1,858	-	-	7,631	
Outflow	(1,885)	(1,728)	(1,912)	(1,805)	-	-	(7,330)	
<b>Risk management</b>								3,000
Inflow	12,711	20,707	1,053	95,241	-	-	129,712	
Outflow	(12,110)	(19,547)	(989)	(94,081)	-	-	(126,727)	
<b>Total</b>	<b>673</b>	<b>1,229</b>	<b>171</b>	<b>1,213</b>	<b>0</b>	<b>0</b>	<b>3,286</b>	<b>3,303</b>
<b>Off-balance sheet items</b>								
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)	
<b>Total</b>	<b>(165,604)</b>	<b>(632)</b>	<b>(5,693)</b>	<b>(4,086)</b>	<b>(12,269)</b>	<b>0</b>	<b>(188,284)</b>	
<b>Net liquidity position</b>	<b>(590,879)</b>	<b>(73,080)</b>	<b>139,094</b>	<b>180,908</b>	<b>1,168,229</b>	<b>26,808</b>	<b>851,080</b>	<b>252,326</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 49. 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 September 2021:

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
<b>Non-derivative financial liabilities</b>								
Total in foreign currencies	(110,573)	(593)	(88,277)	(171,261)	(16,055)	-	(386,759)	(1,022,440)
ISK	(632,579)	(165,674)	(36,772)	(161,675)	(109,651)	-	(1,106,351)	(408,234)
<b>Total</b>	<b>(743,152)</b>	<b>(166,267)</b>	<b>(125,049)</b>	<b>(332,936)</b>	<b>(125,706)</b>	<b>0</b>	<b>(1,493,110)</b>	<b>(1,430,674)</b>
<b>Derivative financial liabilities</b>								
Total in foreign currencies	(94)	(655)	(498)	(2)	-	-	(1,249)	(605)
ISK	(1,410)	(692)	483	(496)	-	-	(2,115)	(2,717)
<b>Total</b>	<b>(1,504)</b>	<b>(1,347)</b>	<b>(15)</b>	<b>(498)</b>	<b>0</b>	<b>0</b>	<b>(3,364)</b>	<b>(3,322)</b>
<b>Non-derivative financial assets</b>								
Total in foreign currencies	94,311	51,972	77,483	158,787	3,097	959	386,609	1,332,176
ISK	168,533	41,092	126,189	453,732	1,478,739	29,568	2,297,853	366,543
<b>Total</b>	<b>262,844</b>	<b>93,064</b>	<b>203,672</b>	<b>612,519</b>	<b>1,481,836</b>	<b>30,527</b>	<b>2,684,462</b>	<b>1,698,719</b>
<b>Derivative financial assets</b>								
Total in foreign currencies	13,533	1,499	2,409	363	-	-	17,804	1,276
ISK	(13,043)	(1,612)	(1,556)	(91)	-	-	(16,302)	262
<b>Total</b>	<b>490</b>	<b>(113)</b>	<b>853</b>	<b>272</b>	<b>0</b>	<b>0</b>	<b>1,502</b>	<b>1,538</b>
<b>Off-balance sheet items</b>								
Total in foreign currencies	(33,946)	(690)	(1,943)	(1,540)	(6,531)	-	(44,650)	
ISK	(148,445)	(407)	(1,898)	(3,267)	(5,793)	(781)	(160,591)	
<b>Total</b>	<b>(182,391)</b>	<b>(1,097)</b>	<b>(3,841)</b>	<b>(4,807)</b>	<b>(12,324)</b>	<b>(781)</b>	<b>(205,241)</b>	
<b>Net liquidity position in ISK</b>	<b>(626,944)</b>	<b>(127,293)</b>	<b>86,446</b>	<b>288,203</b>	<b>1,363,295</b>	<b>28,787</b>	<b>1,012,494</b>	<b>(44,146)</b>
<b>Net liquidity position in foreign currencies</b>	<b>(36,769)</b>	<b>51,533</b>	<b>(10,826)</b>	<b>(13,653)</b>	<b>(19,489)</b>	<b>959</b>	<b>(28,245)</b>	<b>310,407</b>
<b>Net liquidity position</b>	<b>(663,713)</b>	<b>(75,760)</b>	<b>75,620</b>	<b>274,550</b>	<b>1,343,806</b>	<b>29,746</b>	<b>984,249</b>	<b>266,261</b>

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
<b>Non-derivative financial liabilities</b>								
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)
<b>Total</b>	<b>(638,757)</b>	<b>(170,701)</b>	<b>(68,017)</b>	<b>(354,430)</b>	<b>(115,472)</b>	<b>0</b>	<b>(1,347,377)</b>	<b>(1,292,346)</b>
<b>Derivative financial liabilities</b>								
Total in foreign currencies	2,889	(86)	3	(6)	-	-	2,800	(113)
ISK	(3,519)	(51)	(2,556)	(442)	-	-	(6,568)	(3,611)
<b>Total</b>	<b>(630)</b>	<b>(137)</b>	<b>(2,553)</b>	<b>(448)</b>	<b>0</b>	<b>0</b>	<b>(3,768)</b>	<b>(3,724)</b>
<b>Non-derivative financial assets</b>								
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
<b>Total</b>	<b>213,439</b>	<b>97,161</b>	<b>215,186</b>	<b>538,659</b>	<b>1,295,970</b>	<b>26,808</b>	<b>2,387,223</b>	<b>1,545,093</b>
<b>Derivative financial assets</b>								
Total in foreign currencies	902	196	-	1,609	-	-	2,707	3,197
ISK	(229)	1,033	171	(396)	-	-	579	106
<b>Total</b>	<b>673</b>	<b>1,229</b>	<b>171</b>	<b>1,213</b>	<b>0</b>	<b>0</b>	<b>3,286</b>	<b>3,303</b>
<b>Off-balance sheet items</b>								
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)	
<b>Total</b>	<b>(165,604)</b>	<b>(632)</b>	<b>(5,693)</b>	<b>(4,086)</b>	<b>(12,269)</b>	<b>0</b>	<b>(188,284)</b>	
<b>Net liquidity position in ISK</b>	<b>(542,684)</b>	<b>(90,404)</b>	<b>64,288</b>	<b>226,759</b>	<b>1,187,174</b>	<b>26,581</b>	<b>871,714</b>	<b>4,810</b>
<b>Net liquidity position in foreign currencies</b>	<b>(48,195)</b>	<b>17,324</b>	<b>74,806</b>	<b>(45,851)</b>	<b>(18,945)</b>	<b>227</b>	<b>(20,634)</b>	<b>247,516</b>
<b>Net liquidity position</b>	<b>(590,879)</b>	<b>(73,080)</b>	<b>139,094</b>	<b>180,908</b>	<b>1,168,229</b>	<b>26,808</b>	<b>851,080</b>	<b>252,326</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 50. 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 September 2021 and 31 December 2020.

	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other		
<b>As at 30 September 2021</b>				
Cash and balances with Central Bank	4,740	8,015	79,288	92,043
Bonds and debt instruments	-	-	129,579	129,579
Equities and equity instruments	-	-	30,527	30,527
Derivative instruments	-	-	1,538	1,538
Loans and advances to financial institutions	-	1,825	57,538	59,363
Loans and advances to customers	279,047	-	1,096,489	1,375,536
Investments in equity-accounted associates	-	-	1,996	1,996
Property and equipment	-	-	11,872	11,872
Intangible assets	-	-	1,805	1,805
Other assets	-	-	12,809	12,809
Assets classified as held for sale	-	-	1,290	1,290
<b>Total</b>	<b>283,787</b>	<b>9,840</b>	<b>1,424,731</b>	<b>1,718,358</b>

	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other		
<b>As at 31 December 2020</b>				
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
<b>Total</b>	<b>241,246</b>	<b>4,888</b>	<b>1,318,043</b>	<b>1,564,177</b>

### Market risk

#### 51. Market risk management

The following table summarises the Group's exposure to market risk as a percentage of REA as at 30 September 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	30.9.2021	31.12.2020
	% of REA	% of REA
Equity price risk	0.3%	0.3%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.1%	0.4%
<b>Total</b>	<b>0.6%</b>	<b>1.0%</b>

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 55-56.

#### 52. 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 21.

## Notes to the Condensed Consolidated Interim Financial Statements

### 53. 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 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

<b>As at 30 September 2021</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Carrying amount</b>
<b>Financial assets</b>					
Cash and balances with Central Bank	92,043	-	-	-	92,043
Bonds and debt instruments	50,974	20,299	50,733	7,573	129,579
Derivative instruments	1,538	-	-	-	1,538
Loans and advances to financial institutions	59,363	-	-	-	59,363
Loans and advances to customers	1,042,166	115,305	197,616	20,449	1,375,536
Other financial assets	11,671	-	-	-	11,671
<b>Total</b>	<b>1,257,755</b>	<b>135,604</b>	<b>248,349</b>	<b>28,022</b>	<b>1,669,730</b>
<b>Financial liabilities</b>					
Due to financial institutions and Central Bank	(48,991)	-	-	-	(48,991)
Deposits from customers	(863,485)	(3,072)	(2,906)	-	(869,463)
Derivative instruments and short positions	(3,715)	-	(1,632)	(1,455)	(6,802)
Borrowings	(66,751)	(79,032)	(256,790)	(71,842)	(474,415)
Other financial liabilities	(13,226)	-	-	-	(13,226)
Subordinated liabilities	-	-	(21,099)	-	(21,099)
<b>Total</b>	<b>(996,168)</b>	<b>(82,104)</b>	<b>(282,427)</b>	<b>(73,297)</b>	<b>(1,433,996)</b>
Net on-balance sheet position	261,587	53,500	(34,078)	(45,275)	235,734
Derivatives held for hedging	(90,660)	45,330	45,330	-	-
Net off-balance sheet position	2,000	0	(2,000)	-	-
<b>Total interest repricing gap</b>	<b>172,927</b>	<b>98,830</b>	<b>9,252</b>	<b>(45,275)</b>	
<b>As at 31 December 2020</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Carrying amount</b>
<b>Financial assets</b>					
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
<b>Total</b>	<b>1,189,237</b>	<b>140,748</b>	<b>160,009</b>	<b>31,595</b>	<b>1,521,589</b>
<b>Financial liabilities</b>					
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)
<b>Total</b>	<b>(927,203)</b>	<b>(18,529)</b>	<b>(282,418)</b>	<b>(67,921)</b>	<b>(1,296,071)</b>
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)	-	-
<b>Total interest repricing gap</b>	<b>194,875</b>	<b>97,718</b>	<b>(30,749)</b>	<b>(36,326)</b>	



## Notes to the Condensed Consolidated Interim Financial Statements

### 54. 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 September 2021 and 31 December 2020.

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
<b>As at 30 September 2021</b>					
<b>Financial assets</b>					
Bonds and debt instruments	-	-	7	2,415	2,422
Loans and advances to customers	4,110	9,528	73,090	233,568	320,296
<b>Total</b>	<b>4,110</b>	<b>9,528</b>	<b>73,097</b>	<b>235,983</b>	<b>322,718</b>
<b>Financial liabilities</b>					
Deposits from customers	(74,829)	(2,695)	(14,310)	(39,031)	(130,865)
Derivative instruments and short positions	-	-	(1,632)	(1,498)	(3,130)
Borrowings	-	(23,453)	(45,539)	(71,842)	(140,834)
Subordinated liabilities	-	-	(6,048)	-	(6,048)
<b>Total</b>	<b>(74,829)</b>	<b>(26,148)</b>	<b>(67,529)</b>	<b>(112,371)</b>	<b>(280,877)</b>
<b>Total on-balance sheet position</b>	<b>(70,719)</b>	<b>(16,620)</b>	<b>5,568</b>	<b>123,612</b>	<b>41,841</b>
<b>Off-balance sheet position</b>					
Interest rate swaps	(16,703)	(3,333)	(2,463)	-	(22,499)
Total return swaps	(1,694)	-	-	-	(1,694)
Guarantees	-	-	(101)	(2,972)	(3,073)
<b>Total off-balance sheet position</b>	<b>(18,397)</b>	<b>(3,333)</b>	<b>(2,564)</b>	<b>(2,972)</b>	<b>(27,266)</b>
<b>Total CPI indexation balance</b>	<b>(89,116)</b>	<b>(19,953)</b>	<b>3,004</b>	<b>120,640</b>	<b>14,575</b>
<b>As at 31 December 2020</b>					
<b>Financial assets</b>					
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
<b>Total</b>	<b>4,553</b>	<b>13,218</b>	<b>74,972</b>	<b>283,791</b>	<b>376,534</b>
<b>Financial liabilities</b>					
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)
<b>Total</b>	<b>(74,090)</b>	<b>(2,582)</b>	<b>(84,760)</b>	<b>(104,824)</b>	<b>(266,256)</b>
<b>Total on-balance sheet position</b>	<b>(69,537)</b>	<b>10,636</b>	<b>(9,788)</b>	<b>178,967</b>	<b>110,278</b>
<b>Off-balance sheet position</b>					
Interest rate swaps	-	(24,295)	(5,737)	-	(30,032)
Total return swaps	(8,527)	-	-	-	(8,527)
Guarantees	-	(54)	(96)	(3,295)	(3,445)
<b>Total off-balance sheet position</b>	<b>(8,527)</b>	<b>(24,349)</b>	<b>(5,833)</b>	<b>(3,295)</b>	<b>(42,004)</b>
<b>Total CPI indexation balance</b>	<b>(78,064)</b>	<b>(13,713)</b>	<b>(15,621)</b>	<b>175,672</b>	<b>68,274</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### Currency risk

#### 55. 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 these reports on monthly basis.

The Group's combined net foreign exchange balance as at 30 September 2021 was - 0,13% of the Group's capital base (31.12.2020: +1.5%).

#### 56. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 September 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 September 2021	EUR	GBP	USD	JPY	CHF	Other	Total
<b>Assets</b>							
Cash and balances with Central Bank	800	170	546	10	51	615	2,192
Bonds and debt instruments	26,740	1	26,105	-	-	-	52,846
Equities and equity instruments	71	68	801	-	-	19	959
Derivative instruments	993	19	216	-	-	48	1,276
Loans and advances to financial institutions	16,263	3,150	7,603	140	1,277	30,843	59,276
Loans and advances to customers	185,398	4,227	56,561	1,029	170	3,886	251,271
Other assets	6	4	963	-	-	1	974
<b>Total</b>	<b>230,271</b>	<b>7,639</b>	<b>92,795</b>	<b>1,179</b>	<b>1,498</b>	<b>35,412</b>	<b>368,794</b>
<b>Liabilities</b>							
Due to financial institutions and Central Bank	(948)	(10)	(107)	-	-	-	(1,065)
Deposits from customers	(38,631)	(7,408)	(48,954)	(449)	(1,448)	(14,278)	(111,168)
Derivative instruments and short positions	(96)	(25)	(872)	-	-	(4)	(997)
Borrowings	(182,044)	-	(19,658)	-	-	(50,773)	(252,475)
Other liabilities	(1,392)	(779)	(1,251)	(3)	(61)	(622)	(4,108)
Subordinated liabilities	(15,050)	-	-	-	-	-	(15,050)
<b>Total</b>	<b>(238,161)</b>	<b>(8,222)</b>	<b>(70,842)</b>	<b>(452)</b>	<b>(1,509)</b>	<b>(65,677)</b>	<b>(384,863)</b>
Net on-balance sheet position	(7,890)	(583)	21,953	727	(11)	(30,265)	(16,069)
Net off-balance sheet position	6,482	761	(22,040)	(607)	151	30,980	15,727
<b>Net currency position</b>	<b>(1,408)</b>	<b>178</b>	<b>(87)</b>	<b>120</b>	<b>140</b>	<b>715</b>	<b>(342)</b>
<b>As at 31 December 2020</b>	<b>EUR</b>	<b>GBP</b>	<b>USD</b>	<b>JPY</b>	<b>CHF</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>							
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
<b>Total</b>	<b>229,338</b>	<b>7,152</b>	<b>92,107</b>	<b>1,220</b>	<b>1,229</b>	<b>21,409</b>	<b>352,455</b>
<b>Liabilities</b>							
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)
<b>Total</b>	<b>(232,779)</b>	<b>(5,978)</b>	<b>(64,326)</b>	<b>(430)</b>	<b>(1,055)</b>	<b>(48,018)</b>	<b>(352,586)</b>
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
<b>Net currency position</b>	<b>933</b>	<b>233</b>	<b>2,422</b>	<b>88</b>	<b>174</b>	<b>89</b>	<b>3,939</b>

## Notes to the Condensed Consolidated Interim Financial Statements

### 57. 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 September 2021	As at 31 December 2020	% change	Average for 1.1-30.9 2021	Average for 1.1-30.9 2020
EUR/ISK	151.10	156.10	(3.2%)	150.62	152.04
GBP/ISK	175.80	173.54	1.3%	173.86	172.41
USD/ISK	130.53	127.16	2.7%	125.90	134.43
JPY/ISK	1.1706	1.2339	(5.1%)	1.1602	1.2542
CHF/ISK	139.76	144.39	(3.2%)	138.24	142.09
CAD/ISK	102.99	99.85	3.1%	100.49	99.67
DKK/ISK	20.318	20.980	(3.2%)	20.252	20.387
NOK/ISK	14.931	14.926	0.0%	14.690	14.212
SEK/ISK	14.900	15.572	(4.3%)	14.833	14.416

## Notes to the Condensed Consolidated Interim Financial Statements

### Consolidated Key Figures

#### 58. Operations by quarters

Operations	2021			2020			
	Q3	Q2	Q1	Q4*	Q3	Q2	Q1
Interest income	15,646	18,096	14,332	15,695	16,167	18,220	16,416
Interest expense	(6,046)	(7,764)	(5,706)	(6,001)	(6,726)	(8,708)	(6,989)
<b>Net interest income</b>	<b>9,600</b>	<b>10,332</b>	<b>8,626</b>	<b>9,694</b>	<b>9,441</b>	<b>9,512</b>	<b>9,427</b>
Fee and commission income	3,417	3,197	2,875	2,811	2,844	2,391	2,773
Fee and commission expense	(895)	(883)	(821)	(830)	(785)	(738)	(828)
<b>Net fee and commission income</b>	<b>2,522</b>	<b>2,314</b>	<b>2,054</b>	<b>1,981</b>	<b>2,059</b>	<b>1,653</b>	<b>1,945</b>
Net gain (loss) on financial assets and liabilities at FVTPL	1,886	1,284	2,371	5,056	(1,001)	2,827	(2,625)
Net foreign exchange gain (loss)	55	(45)	(27)	(52)	(52)	(259)	85
Net impairment changes	1,008	293	2,489	1,535	(120)	(8,191)	(5,244)
Other income and (expenses)	275	330	246	(137)	574	333	(188)
<b>Net other operating income</b>	<b>3,224</b>	<b>1,862</b>	<b>5,079</b>	<b>6,402</b>	<b>(599)</b>	<b>(5,290)</b>	<b>(7,972)</b>
<b>Total operating income</b>	<b>15,346</b>	<b>14,508</b>	<b>15,759</b>	<b>18,077</b>	<b>10,901</b>	<b>5,875</b>	<b>3,400</b>
Salaries and related expenses	(3,238)	(3,724)	(3,769)	(3,986)	(3,135)	(3,802)	(3,844)
Other operating expenses	(2,202)	(2,202)	(2,315)	(2,433)	(1,995)	(2,206)	(2,430)
Tax on liabilities of financial institutions	(525)	(513)	(467)	(400)	(540)	(425)	(450)
<b>Total operating expenses</b>	<b>(5,965)</b>	<b>(6,439)</b>	<b>(6,551)</b>	<b>(6,819)</b>	<b>(5,670)</b>	<b>(6,433)</b>	<b>(6,724)</b>
<b>Profit (loss) before tax</b>	<b>9,381</b>	<b>8,069</b>	<b>9,208</b>	<b>11,258</b>	<b>5,231</b>	<b>(558)</b>	<b>(3,324)</b>
Income tax	(1,889)	(1,582)	(1,590)	(1,436)	(1,245)	899	(304)
<b>Profit (loss) for the period</b>	<b>7,492</b>	<b>6,487</b>	<b>7,618</b>	<b>9,822</b>	<b>3,986</b>	<b>341</b>	<b>(3,628)</b>
<b>Balance sheet</b>	<b>30.9.2021</b>	<b>30.6.2021</b>	<b>31.3.2021</b>	<b>31.12.2020</b>	<b>30.9.2020</b>	<b>30.6.2020</b>	<b>31.3.2020</b>
Cash and cash balances with Central Bank	92,043	89,342	59,937	67,604	111,260	89,598	92,440
Bonds and debt instruments	129,579	128,208	134,183	119,330	104,895	104,758	116,568
Equities and equity instruments	30,527	35,111	31,811	26,808	25,445	26,794	25,923
Loans and advances to financial institutions	59,363	64,245	55,234	48,073	80,324	56,394	69,740
Loans and advances to customers	1,375,536	1,328,031	1,287,448	1,273,426	1,255,393	1,198,210	1,190,536
Other assets	30,020	31,147	30,913	27,298	31,268	23,913	26,851
Assets classified as held for sale	1,290	1,213	1,426	1,638	1,680	1,443	1,130
<b>Total assets</b>	<b>1,718,358</b>	<b>1,677,297</b>	<b>1,600,952</b>	<b>1,564,177</b>	<b>1,610,265</b>	<b>1,501,110</b>	<b>1,523,188</b>
Due to financial institutions and Central Bank	48,991	40,312	40,932	48,725	47,654	37,226	41,495
Deposits from customers	869,463	842,624	794,252	793,427	813,784	758,790	755,160
Borrowings	474,415	456,688	452,709	420,178	438,309	408,097	412,591
Other liabilities	29,017	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	30
Subordinated liabilities	21,099	20,889	20,850	21,366	21,959	21,527	21,379
Equity	275,343	267,871	261,384	258,255	248,433	244,447	244,106
<b>Total liabilities and equity</b>	<b>1,718,358</b>	<b>1,677,297</b>	<b>1,600,952</b>	<b>1,564,177</b>	<b>1,610,265</b>	<b>1,501,110</b>	<b>1,523,188</b>

\*The first three 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

#### 59. Key figures and ratios

	2021			2020			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	13.8%	12.2%	14.2%	17.8%	8.5%	-0.9%	-5.4%
Return on equity after taxes	11.0%	9.8%	11.7%	15.5%	6.5%	0.6%	-5.9%
Cost-income ratio	37.9%	41.7%	45.8%	38.8%	46.6%	42.7%	72.6%
Operating expenses as a ratio of average total assets	1.3%	1.4%	1.5%	1.6%	1.3%	1.6%	1.7%
Return on assets	1.8%	1.6%	1.9%	2.5%	1.0%	0.1%	-1.0%
Interest spread as a ratio of average of total assets	2.3%	2.5%	2.2%	2.4%	2.4%	2.5%	2.6%
Earnings per share	0.32	0.27	0.32	0.42	0.17	0.01	(0.15)
	30.9.2021	30.6.2021	31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
Total capital ratio	24.9%	25.1%	24.9%	25.1%	24.7%	24.9%	24.8%
CET1 ratio	23.1%	23.3%	23.0%	23.2%	22.7%	22.8%	22.7%
Leverage ratio	14.3%	14.4%	14.8%	15.4%	14.4%	14.9%	14.7%
Loans / deposits	158.2%	157.6%	162.1%	160.5%	154.3%	157.9%	157.7%
Deposits / total assets	50.6%	50.2%	49.6%	50.7%	50.5%	50.5%	49.6%
Liquidity coverage ratio total (LCR)	172%	180%	202%	154%	186%	191%	196%
Net stable funding ratio FX (NSFR)	122%	140%	140%	132%	116%	121%	127%
Number of full-time positions at the end of the period	837	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  
Elín Jónsdóttir

Undirritað af  
Guðrún Blöndal

Undirritað af  
Helga Björk Eiríksdóttir

Undirritað af  
Helgi Friðjón Arnarson

Undirritað af  
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