Consolidated Financial Statements

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

2021

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Highlights

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ÍSLENSKA ÁNÆGJUVOGIN 2021
ÍSLENSKA ÁNÆGJUVOGIN 2020
ÍSLENSKA ÁNÆGJUVOGIN 2019

Credit rating

BBB with stable outlook

S&P Global Ratings

Best bank in Iceland

EUROMONEY AWARDS FOR EXCELLENCE 2021

ESG risk rating

SUSTAINALYTICS negliglible risk

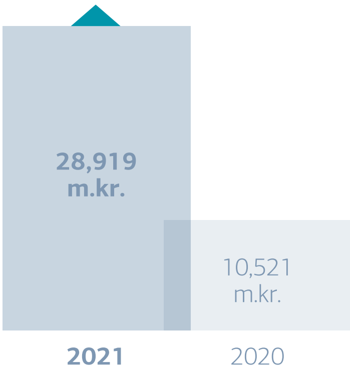
Sustainalytics considers Landsbankinn at exceedingly low risk of experiencing material financial impacts from ESG factors.

PCAF - carbon accounting

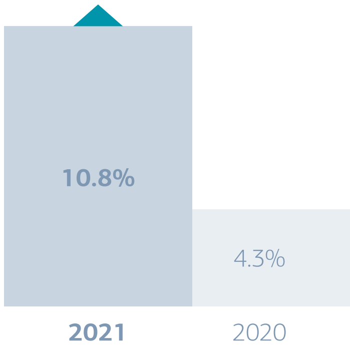
PCAF Partnership for Carbon Accounting Financials

We have for the first time assessed carbon emissions from our loan portfolio.

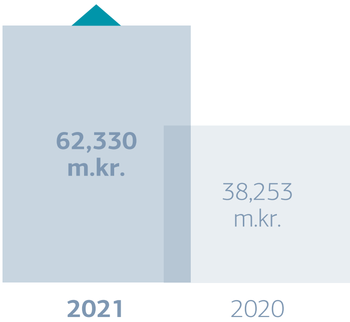
Profit



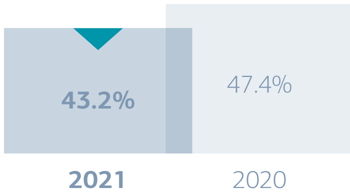
Return on equity



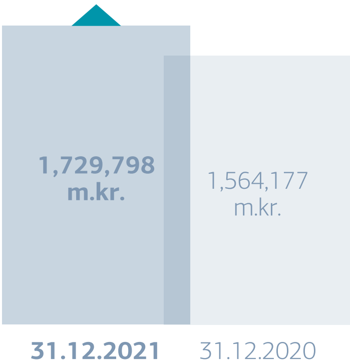
Total operating income



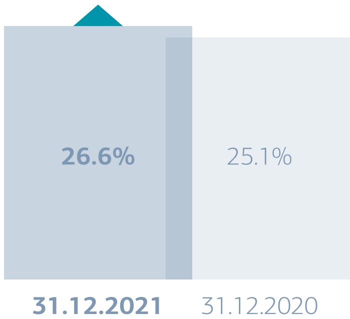
Cost-income ratio



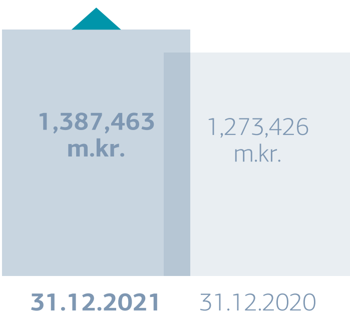
Total assets



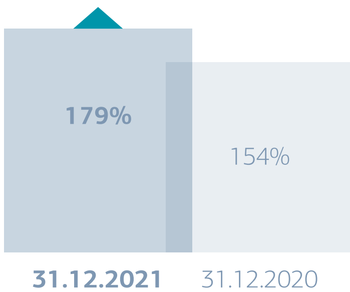
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

The Board of Directors and CEO of Landsbankinn hf. ("Landsbankinn" or the "Bank") submit this report together with the audited Consolidated Financial Statements of Landsbankinn hf. for the year 2021, which include the accounts 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 comprehensive range of financial services to individuals, corporates and investors.

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. Customer satisfaction comes first at Landsbankinn. Our focus is on ensuring sound operation and continued 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 economic research, also ensuring that instruction and development reflect 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.

Personal Banking, Corporate Banking, Asset Management & Capital Markets (including the subsidiary Landsbréf hf.), and Treasury and Market Making (within Finance & Operations) comprise the four business segments of the Group. Together with other segments, they constitute the reportable operating segments the results of which are presented in the Group's internal and external financial reporting (see Note 6).

Financial performance in 2021

Consolidated profit amounted to ISK 28,919 million (2020: ISK 10,521 million). Net release of credit impairment was ISK 7,037 million (2020: ISK 12,020 million charge). This reversal reflects the improved economic outlook in Iceland and less than expected economic impact from the pandemic on the Bank's loan portfolio. After-tax return on equity was 10.8% (2020: 4.3%) and the Bank's cost-income ratio was 43.2%, better than the Bank's target of 45.0%. Net interest income increased by 2.3% between years to ISK 38.953 million. Net fee and commission income increased by 24.2% between years to ISK 9,483 million, mostly as a result of increased activity in asset management and market transactions. Net gain on financial assets and liabilities at fair value was ISK 5,980 million (2020: ISK 4,257 million). Salaries and related expenses remain stable between years and amounted to ISK 14,759 million during the year. The average number of full-time equivalent positions during the year in 2021 was 890 (2020: 921).

Consolidated total equity amounted to ISK 282,645 million. Total assets amounted to ISK 1,729,798 million at year-end 2021, with the balance sheet growing by 10.6%, or just under ISK 166 billion, between years. The year-over-year growth in total assets is mostly driven by a 24.8% growth in mortgage lending of ISK 128 billion. The Group's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 26.6% at year-end 2021 (2020: 25.1%).

Funding

Overall, the COVID-19 pandemic and increased uncertainty about its impact on the Bank's operation and finances has not had any marked effect on the Bank's funding in either the short or long term. Deposits have grown considerably in 2021 and the Bank continues to be a regular issuer in the domestic market.

Customer deposits are the Bank's primary source of funding and amounted to ISK 900 billion at year-end 2021, mostly non-indexed and on demand. Indexed deposits amounted to ISK 136 billion at year-end 2021. Customer deposits increased in total by ISK 107 billion, or 13.4%, between years.

EMTN-issuance in international capital markets and issuance of covered bonds and commercial paper in the domestic capital market has been the Bank's main source of market funding. The carrying amount of such funding increased in total by ISK 66 billion in 2021. Covered bonds issuance has increased in line with the Bank's growing market share in the domestic mortgage market.

In January 2021, the Bank published its first Sustainable Finance Framework. The Framework broadens the scope for financing green and social projects, such as switching to renewable energy sources, developing eco-friendly infrastructure and sustainable fisheries. It sets out clear criteria for the definition of sustainable projects and ensures transparency and, according to the latest review, just under 20% of the Bank's corporate loans already fit the parameters of the Framework.

In February and November 2021, the Bank issued green bonds in the amount of EUR 300 million each time under the Sustainable Finance Framework, or the total equivalent of ISK 88,560 million at year-end 2021. The inaugural February issuance has a maturity of 4.25 years, bearing a fixed rate of 0.375% and was priced at a spread of 87 basis points above EUR mid-swap market rates while the November issuance has a maturity of 4.5 years, bearing a fixed rate of 0.75% and was priced at a spread of 95 basis points. Issuance of green bonds has reached a broader investor group than before including investors who focus on sustainability.

On 18 October 2021, international rating agency S&P Global Ratings affirmed Landsbankinn's long-term credit rating at BBB/A-2 with stable outlook. According to S&P, the Bank's key strengths are very high capital and leverage ratios, stable and solid franchise with larger markets shares and limited wholesale refinancing needs.

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

Risk factors

Risk measurements and the Bank's assessment of material risk factors generally point to a stable and positive outlook. Loans past due are at a historical low, the Bank's capital and liquidity ratios are strong, and all risk factors are within risk appetite at year-end 2021.

Credit risk continues to be the most significant risk in the Bank's operations. The carrying amount of loans increased by ISK 114 billion in 2021, mainly due to growth in the mortgage portfolio. Favourable developments in credit risk measurements, such as decreasing probability of default and historically low past due ratios, were observed during the year. There is still some uncertainty about loans with payment moratoria applied in response to the COVID-19 pandemic and, at year-end 2021, the carrying amount of such loans was ISK 74 billion.

In 2021, net release of credit impairment was ISK 7 billion (2020: ISK 12 billion charge). This is because expected increases in loan losses as a result of the pandemic have not materialised and the current outlook suggests that loan losses will eventually be considerably lower than initially expected. The carrying amount of stage 3 loans decreased in 2021, which is explained by fewer defaults. The carrying amount of stage 2 loans also decreased during 2021, in line with an improved risk position.

The second largest risk in the Bank's operation is operational risk, which includes numerous sub-risks. The most notable sub-risk is cyberattacks, a growing threat on the global stage. The Bank has been focused on maintaining sound defences against cyberattacks for several years, as well as ensuring good information security. In addition to monitoring and gap control, a high premium is placed on educating staff and customers. The Bank is certified under the ISO 27001 information security standard. More details are provided in the Bank's Pillar III risk report.

At year-end 2021, the Bank's total capital ratio of 26.6% was well above its capital requirement of 18.9%. The Bank's liquidity position, in total, in foreign currencies and position of individual currencies remains strong and well above regulatory requirements. The aggregate liquidity coverage ratio (LCR) was 179%, 120% in ISK and 556% in foreign currencies at year-end. Market risk remains low and well within the Bank's risk appetite.

Risk factors in the Bank's operations are assessed by various measurements, in line with their scope and nature, and these measurements provide the foundation for risk limits, analysis of risk factors, disclosure of information and risk management. A common measurement for all risk factors is the Bank's internal assessment of economic capital (EC) which is meant to meet unexpected losses in the Bank's operations.

The Bank's internal EC assessment was ISK 104 billion at year-end 2021, decreasing by ISK 6 billion from the previous year. The decrease is mainly due to a decrease in EC for credit risk, in line with an improved risk position. The Bank's risk-weighted exposure amount (RWEA) increased in 2021, in line with growth in the loan portfolio, and the ratio of EC to RWEA was 9.1% at year-end 2021 (2020: 9.8%).

Further information about the Group's risk and capital management is included in notes to the Consolidated Financial Statements and in the Bank's Pillar III Risk Report for 2021, both accessible on the Bank's website, www.landsbankinn.is.

Equity and capital management

In June 2021, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) revised the capital requirements for Landsbankinn following its annual Supervisory Review and Evaluation Process (SREP). The Group was required to maintain a total minimum capital of 11.5% of its risk-weighted exposure amount (RWEA) at each time as of 30 June 2021, with the requirement under Pillar II-R increasing by 0.1 percentage point from the previous SREP. The Group's total capital requirement is thus 18.9% of its RWEA at year-end 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 48).

At the end of September 2021, the Financial Stability Committee of the Central Bank of Iceland (FSN) decided to increase the countercyclical buffer (CCyB) of the domestic banks 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 financial institutions after the pandemic's 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 the third quarter of 2022.

The Bank's aim is to maintain a total capital ratio above 22.0% at any given time and be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 49).

Dividends

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. 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.

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 on outstanding shares amounts to ISK 4,489 million and corresponds to about 43% of the consolidated profit in 2020 (and is 16% of the consolidated profit in 2019 and 2020). The dividend payment was in accordance with the guidance for maximum 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.

The Board of Directors intends to propose to the Annual General Meeting (AGM), scheduled to be held on 23 March 2022, that a dividend of ISK 0.61 per share be paid to shareholders for the operating year 2021, based on the Bank's strong standing and resilience in dealing with the pandemic. The total dividend of ISK 14,409 million corresponds to around 50% of the consolidated profit in 2021. Should the AGM approve the dividend proposal, the capital requirement of the Group will be reduced by an amount equivalent to the dividend payment and the Bank's capital ratios, in accordance with the Act on Financial Undertakings, will decrease by 1.3 percentage points. Additionally, the Board of Directors is considering proposing a special dividend payment to the AGM.

Economic outlook

Preliminary figures from Statistics Iceland show that GDP grew by 6% in the third quarter as compared to the same quarter last year. This is the second quarter in a row of economic growth post-COVID and further confirmation that the economy is on the road to recovery. Economic growth in the first three quarters of the year was 4.1%, carried by the second and third quarter, as growth was slightly negative in the first quarter. Landsbankinn Economic Research expects final figures for economic growth in 2021 to be around 5% and forecasts continued robust growth in 2022, or 5.5%.

Unemployment, according to measurements by Statistics Iceland, was 4.4% in December, 2.5 percentage points lower than the same time last year. General unemployment as registered by the Directorate of Labour was 4.9%, down by 5.8 percentage points between years.

Inflation has been over the Central Bank's inflation target since May 2020. The consumer price index (CPI) increased by 0.45% between months in December and inflation was 5.1% at year-end. Inflation was 3.6% a year ago and has increased by 1.5 percentage points in the span of a year. The annual average inflation rate in 2021 was 4.4%, compared with 2.8% in 2020. The outlook is for above-target inflation until around mid-2022.

The Monetary Policy Committee of the Central Bank began a rate hike cycle in May 2021 with a 0.25 percentage point increase. Interest rates were again raised by the same increment in August and October, followed by a 0.5 percentage point increase in November. During this period, rates have risen from 0.75%, a historic low for Icelandic policy rates, to 2.0%. Economic Research's forecast assumes that the Central Bank's key rates will be raised continuously going forward to the third quarter of 2023, at which point they will be 4.25%. The inflation target will be attained at that point, with interest rates decreasing again to stand at 3.5% at year-end 2024.

Ownership

Shareholders of the Bank at year-end 2021 numbered 855 as compared with 882 the previous year. The ten largest shareholders at year-end 2021 were as follows:

Shareholders		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Municipality	3.5	0.01%
Vinnslustöðin hf.	Legal entity	1.8	0.01%
Helgi T. Helgason	Private individual	0.5	0,00%
Hreiðar Bjarnason	Private individual	0.5	0,00%
Árni Þ. Þorbjörnsson	Private individual	0.5	0,00%
Steinþór Pálsson	Private individual	0.3	0,00%
Hjördís D. Vilhjálmsdóttir	Private individual	0.3	0,00%
Arinbjörn Ólafsson	Private individual	0.3	0,00%
Top 10 total		**23,580.0**	**98.25%**
Other shareholders		41.2	0.17%
Total shares outstanding		**23,621.2**	**98.42%**
Landsbankinn hf.	Own shares	378.8	1.58%
Total shares issued		**24,000.0**	**100,00%**

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

In 2021, the Bank 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, in accordance with a decision of the Board of Directors on 10 June 2021 and resolution of the Bank's Annual General Meeting on 24 March 2021. The objective of the buyback programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner.

In July and October 2021, the Bank's Board of Directors announced its decision to exercise the authorisation to purchase the Bank's own shares during buyback periods which extended from 26 July 2021 up to and including 9 August 2021 and from 1 November 2021 up to and including 15 November 2021. During these periods the Bank acquired around 3.4 million own shares at the average price of 11,49621, for a total purchase price of ISK 38.8 million. Prior to the repurchase period, Landsbankinn held around 375.5 million own shares or the equivalent of 1.56% of issued shares.

Governance

Landsbankinn's Board of Directors is elected by the Annual General Meeting (AGM) and is comprised of seven directors and two alternates. Currently four directors and one alternate are women, including the Chairman, with women making up 56% of the Board and men 44%, inclusive of alternates. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders.

The Board of Directors of Landsbankinn holds ultimate authority on all questions between shareholders' meetings. The Board of Directors bears ultimate responsibility for the Bank's operation and strategy. Furthermore, the Board of Directors is ultimately responsible for the Bank's activities as provided for by law, regulations, its Articles of Association and other rules relevant to the company's operation. The Board of Directors shall ensure active risk management and internal control. The Board of Directors shall also monitor the Bank's general activities and ensure that control of accounting and financial management is satisfactory.

Governance (continued)

There are three sub-committees to the Board of Directors: The Audit Committee, the Risk Committee and the Remuneration Committee. The Board of Directors appoints members to its sub-committees. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee and the Remuneration Committee are each comprised of three Directors. The Audit Committee and the Risk Committee report to the Board in their advisory and supervisory capacity in risk governance and internal control, set out in detail in the rules of procedure for each sub-committee. The Risk Committee regularly discusses internal control and risk management. The Audit Committee regularly discusses the Bank's accounting and evaluates its internal control processes.

The Board of Directors hires the CEO and the Chief Audit Executive. The CEO hires other executives to the Bank. The Bank has seven divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Risk Management, Finance & Operations, IT and Community. Each division is directed by a managing director who, together with the CEO, form the Bank's Executive Board. Currently, three women and five men sit on the Executive Board and respectively make up 37.5% and 62.5% of the Board. In September 2021, the division Community was added to the Bank's organisational structure and Sara Pálsdóttir was appointed its Managing Director. Bergsteinn Ó. Einarsson was appointed Managing Director of Risk Management and Eyrún A. Einarsdóttir was appointed Managing Director of Asset Management & Capital Markets.

The Internal Audit function reports to the Board of Directors. The CEO's Office, Legal Services and Compliance are directly responsible to the CEO.

The Bank's CEO is responsible for the Bank's day-to-day operations and is authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Landsbankinn's Executive Board is a forum for consultation and decision-making by the CEO and managing directors. The Executive Board has appointed four cross-disciplinary standing committees with the aim of ensuring collaboration and implementation of the Bank's strategy: The Credit Committee, the Risk & Finance Committee (RAFC), the Operational Risk Committee and the Project Committee.

Executives and employees are responsible for internal control, risk culture and managing risks connected to their units. Emphasis is placed on ensuring that all employees are aware of and understand the risks in their work and that action to meet risk is based on informed decisions. Advice on the design of risk management processes, monitoring of exposures and surveillance of the effectiveness of internal control is under the auspices of Risk Management, Compliance and Internal Audit.

Landsbankinn is committed to promoting good corporate governance for the overall benefit of the Bank, its shareholders, customers and society. In 2021, Stjórnvísi renewed the recognition of the Bank as a model of good corporate governance for the period 2020-2021. Landsbankinn's governance practices derive, inter alia, from Icelandic laws and regulations that apply to financial undertakings and the financial market, under which the Bank operates. In accordance with the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, the Bank is compliant with recognised guidelines on corporate governance. The Guidelines on Corporate Governance, published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers, have become the recognised standard, the most recent version from 1 July 2021 (6th ed.). The Bank is compliant with the provisions of the Guidelines with the exception of the provision requiring a policy dedicated to ensuring diversity among directors, executives and key managers, nor has a shareholders meeting appointed a Nomination Committee. Details are provided in Articles 2 and 5 of the Bank's annual Corporate Governance Statement for 2021.

The Bank's governance practices are also based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market.

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

Landsbankinn's Corporate Governance Statement for the year 2021 has been reviewed by the Board of Directors, the Audit Committee and the CEO. Further details on the Bank's corporate governance are outlined in the Corporate Governance Statement which is included as an unaudited appendix to the Consolidated Financial Statements and is accessible on the Bank's website, www.landsbankinn.is.

Sustainability

Landsbankinn's Sustainability Policy was updated in 2021. This Policy sets aims for sustainability and describes the Bank's methods of implementing these in its operation. The Policy supports the objectives of Landsbankinn's strategy and its focus on the environment, social and governance factors (ESG). The Bank intends to show initiative in disclosing information about sustainability.

The Bank published its initial Sustainable Finance Framework in early 2021, setting out clear parameters for projects that support sustainability and ensures transparency. The Framework is based on ICMA's guidelines and the EU's taxonomy for green and social financing and has been reviewed by international rating agency Sustainalytics. As mentioned above, the Bank issued green bonds twice under the Framework in 2021.

In 2021, entities could for the first time apply to be issued the Bank's Sustainable Financing Label. To receive this Label, the financed project must meet the sustainability criteria in the Bank's Sustainable Finance Framework and fall into one of the project categories of the Framework. In 2021, Landsbréf, Landsbankinn's subsidiary, created a new asset allocation fund, Eignadreifing sjálfbær, based on sustainable investment. Landsbankinn also created a new savings account, Vaxtareikningur sjálfbær, which invests deposits in projects that contribute to sustainable development.

The Bank estimated carbon emissions from its credit portfolio using the PCAF methodology and was one of the first banks globally to publish the results in 2021. This marks a certain milestone, as banks have been challenged to measure the environmental impact of projects they finance or invest in. Landsbankinn's operation has been carbon-neutralised for 2021 and the Bank renewed its international CarbonNeutral® company certification.

Sustainability (continued)

The Bank works to achieve four of the UN's Sustainable Development Goals and the Principles for Responsible Banking from the United Nation Environment Programme Finance Initiative (UNEP-FI PRB). The Bank is committed to both domestic and international partnerships on sustainability and continues its active participation in the development of PCAF's methodology to assess emissions from the credit and asset portfolios of financial undertakings.

In spring 2021, the Bank improved its score in a new ESG risk rating from Sustainalytics, going from 13.5 to 9.7 on a scale to 100. Sustainalytics considers Landsbankinn at negligible risk of experiencing material financial impacts from ESG factors.

The Bank publishes a sustainability report based on the principles of the Global Reporting Initiative (GRI) as part of its annual report. This Annual and Sustainability Report discloses information about sustainability developments within the Bank, its Sustainability Policy and management of GRI's material topics and is available on the Bank's website, www.landsbankinn.is.

The Bank's emission accounts are audited with limited assurance by Deloitte as part of the Bank's GRI report. A short summary of the Bank's emissions shows that they fall almost entirely under Scope 3 through the credit portfolio.

GHG Emissions	2021	2020	2019
Scope 1 tCO_2 e emissions (tonnes)	76.10	73.50	95.40
Scope 2 tCO_2 e emissions (tonnes)	75.30	56.40	46.30
Scope 3 tCO_2 e emissions (tonnes)	1,551	2,932	2,043
Total tCO_2 e emissions for loans (corporate loans, car loans and mortgages)*		283,090	324,960
Energy Consumption			
Total amount of direct and indirect energy consumption (MWh)	16,031	11,097	9,127
Intensity Ratio			
Total direct energy consumption in tCO_2 per output scaling factor. Scope 1 and 2 per FTEs.	0.18	0.15	0.16

*Calculations based on PCAF. Data is not available until after publication of annual financial statements and estimated emissions in 2021 can thus not be calculated until all annual financial statements have been published.

tCO_2 e = tonnes of carbon dioxide equivalent

Human resources and code of conduct

Much as in 2020, the Bank's activities this year were coloured by the various challenges posed by COVID-19. The challenge has been to balance health precautions for the Bank's employees while maintaining a high service level and ensuring smooth operation. The option of working from home or using some form of remote work has become a real possibility for a much wider selection of jobs and, in 2021, the Bank adopted guidelines for employee home office work that apply regardless of the pandemic. A survey of employees in March 2021 showed that employee pride and satisfaction had never been higher, indicating that a successful course had been steered through changing restrictions. Towards year-end, measurements showed job satisfaction as receding slightly. The move to new housing at Austurbakki is highly anticipated, with over 80% of employees currently positive towards the move and expectant that the new building will improve their work conditions.

The Bank is systematic in its efforts to foster a healthy and positive workplace culture, spearheaded by equality. Emphasis is placed on ensuring equal job opportunities and that no jobs are earmarked by gender. The Bank aims to achieve a gender balance of 40/60 on all levels of management. Landsbankinn places special emphasis on four of the UN Sustainable Development Goals in its operation, as stated in the Bank's Sustainability Policy, including the goal on equal rights. Equal pay certification became a legal requirement in March 2019 and the Bank has since operated in accordance with a certified equal pay system. The gendered wage gap has been measured monthly and has ranged between 0.5%-1.4%, with men earning the higher wages. The wage gap is 0.9% based on wages 1 January 2022. Landsbankinn aims to close the gap as nearly as possible at 0%, taking care that it never exceeds 3% in either direction. Work on the annual review of Landsbankinn's equal pay system by BSI ("British Standards Institution") began on 27 January 2022.

Landsbankinn's code of conduct forms the basis of good business practices and ethics. The code is written from the perspective of employees at all levels and describes how their work practices and procedures are informed by integrity. The code outlines the employees' commitment to the community, the customer, the workplace, conflict of interest, professionalism, confidentiality and the Bank's reputation.

Compliance

In 2021, Landsbankinn updated its internal monitoring system for measures against money laundering and terrorist financing. Alongside work on the update, utilisation of information from the Bank's data warehouse was enhanced to increase understanding of possible risks. The updated internal monitoring system and improved use of data allows the Bank to enhance its control and defences even more.

Employee education on these issues takes place through presentations and e-learning, with 95% of support unit personnel and 96% of front-line personnel completing such education.

Work on updating customer due diligence continued and, at the end of the year, was complete for 99% of individuals and 96% of legal entities among active customers. The focus has been on simplifying the due diligence process, guided by customer interests.

Compliance (continued)

The risk assessment for money laundering and terrorist financing in the Bank's operation has been updated. Inherent risk was assessed for all evaluated risk factors before factoring in the Bank's control and mitigating measures. Having regard for the Bank's controls and measures against money laundering and terrorist financing, the outcome of the risk assessment is that for all evaluated risk factors, residual risk is deemed medium or low; in other words, that residual risk is in no cases high or significant. The outcome of the risk assessment is used e.g. in ongoing monitoring, customer risk categorisations and employee training.

As before, Landsbankinn is focused on ensuring privacy and secure processing of personal data in its operation, in accordance with the Act on Data Protection and the Processing of Personal Data (the Data Protection Act). The policies, rules and documented processes that combined form the Bank's data protection governance system were reviewed during the year and amended to enhance the security of customer rights and personal data protection, as well as ensuring the Bank's compliance with the Data Protection Act.

Other matters

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

Landsbankinn is in the process of constructing new housing for its operation, at Austurhöfn in Reykjavík. The new building will be around 16.500 m2 and the Bank will occupy around 10.000 m2 of the new building and sell or rent around 6.500 m2 as premises for commerce and services. Almost all operations in the city region, excepting branches, will be united in the new building and the move is scheduled for year-end 2022.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn for 2021 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and compliant with applicable Icelandic laws and regulations.

In our opinion, the Consolidated Financial Statements of Landsbankinn give a true and fair view of the consolidated financial performance of the Group for the year 2021, its consolidated financial position as at 31 December 2021 and its consolidated cash flows for the year 2021.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Consolidated Financial Statements of Landsbankinn for the year 2021. The Board of Directors and the CEO recommend that the Annual General Meeting of Landsbankinn approve these Consolidated Financial Statements.

Reykjavík, 3 February 2022

Board of Directors

Helga Björk Eiríksdóttir, Chairman of the Board
Berglind Svavarsdóttir
Elín H. Jónsdóttir
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarsson
Þorvaldur Jacobsen

CEO

Lilja Björk Einarsdóttir

Independent Auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Landsbankinn hf. and its subsidiaries (the group) for the year 2021, excluding the Board of Directors and CEO report.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at December 31, 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

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

The consolidated financial statements comprise

- Report of the Board of Directors and the CEO
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Year ended 31 December 2021
- Consolidated Statement of Financial Position as at 31 December 2021
- Consolidated Statement of Changes in Equity for the Year ended 31 December 2021
- Consolidated Statement of Cash Flows for the Year ended 31 December 2021
- Notes to the consolidated financial statements, which include significant accounting policies and other explanatory information

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

Basis for opinion

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

Independence

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

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

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 January 2021 to 31 December 2021, are disclosed in note 14 to the consolidated financial statements.

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

Key Audit Matters

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

Key audit matter	Audit procedures
Impairment allowance of loans to customers *Refer to the Note 83.11 (g) "Accounting Policies - Impairment of financial assets", Note 3 (b) "Critical accounting estimates and judgements in applying accounting policies - Impairment losses on loans and advances", Note 4 "Assessment of expected credit losses (ECL), Note 25 "Loans and advances to customers" and Note 61 "Impairment allowance on loans and advances".* Allowance for impairment on loans and advances to customers amounted to ISK 13.823 million at 31 December 2021. Loans and advances to customers amounted to ISK 1.387.463 million or 80% of total assets as at 31 December 2021, against which impairment allowances have been recorded. The amount of impairment allowance is based on assumptions, many of which are subject to management's assessment. In assessing expected credit losses (ECL), the Group uses a forward-looking model in accordance with International Financial Reporting Standard no. 9, Financial Instruments (IFRS 9). Important criteria for evaluation are: - probability of default and future cash flows of customers; - how changes in economic factors affect expected credit losses; and - assessment of collateral - Post-model-adjustments to reflect uncertainties not captured in the ECL models for loans with special COVID-19 measures. Given the high level of judgement involved in determining impairment, and the significance of loans and advances to customers of the Group's balance sheet, we consider the impairment allowance to be a key audit matter.	Our audit included a combination of testing of internal controls over financial reporting in the Groups lending processes and substantive testing of impairment allowances. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. We performed tests of the Group's impairment models and evaluated the methodology and challenged assumptions for calculating the ECL models. We reviewed the Group's models and utilised PwC's model experts in reviewing the ECL models in accordance with the requirements set out in IFRS 9. Our audit procedures included, among other: - verification of assumptions used in the ECL models to assess the probability of defaults and future customer cash flows; - verification of registrations and assessments of collateral used in the calculation of the ECL models; - testing of key reconciliations, validations and approvals in regards to impairment; - sample testing of loans to substantiate the assumptions used in the ECL models, including an examination of the assumptions used to classify loans into relevant stages together with an assessment of collateral and credit rating; - we involved PwC model experts to independantly reperform the calculation of ECL models for a sample of loans; - sample testing of stage 3 loans that are individually assessed to verify whether appropriate criteria are used in determining the value of the loans, including the value of collateral and the assessment of future customers' cash flows. - evaluation of the assumptions used to develop the post-model-adjustments to reflect uncertainties not captured in the ECL models for loans with special COVID-19 measures and reviewed that governance procedures have been performed. We assessed the disclosures related to impairment allowance.

Key audit matter	Audit procedures
IT systems supporting processes over financial reporting The Group´s financial reporting is highly dependent on IT systems supporting the overall financial reporting process. During the year the bank has started implementing a new extensive IT system supporting their financial reporting process. The Group uses data from various IT systems in preparing the group's financial statements. The completeness and accuracy of data generated by the IT systems are important to the reporting process. Because of the implementation of a new extensive IT system supporting the completeness and accuracy of the data used in the financial reporting process we consider this to be a key audit matter.	We obtained an understanding of the Group's IT systems that support the overall financial reporting process. In addition we obtained understanding of the implementation process of the new extensive IT system. During the review of the Group's IT systems, we utilised PwC's IT experts in reviewing the IT systems. We obtained and assessed the ISAE 3402 report issued by the service organisation for IT systems that have been outsourced and are relevant to the audit. We have tested the design and operating effectiveness for controls related to the IT systems relevant for financial reporting as well as the implementation of the new extensive IT system. Our testing included access to program and data, computer operations as well as program development and changes.

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

The Board of Directors and the CEO are responsible for other information. The other information comprises of highlights on page 1, Report of the Board of Directors and the CEO, consolidated key figures notes 84 to 86 and appendix about the corporate governance statement, which we obtained prior to the date of this auditor's report. In addition other information comprises the Group's annual report, which we obtained prior to the date of this auditor's report.

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

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

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

Responsibilities of the Board of Directors and the CEO

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the company on mandate of the Icelandic National Audit office in accordance with paragraph 7 of Act on the Auditor General and the auditing of government accounts no. 46/2016 at the company's annual general meeting on April 22nd, 2020. Our appointment has been renewed annually at the company's annual general meeting representing a total period of uninterrupted engagement appointment of two years.

Reykjavík, 3 February 2022

PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State authorized public accountant

Atli Þór Jóhannsson
State authorized public accountant

Consolidated Income Statement for the Year ended 31 December 2021

Notes		2021	2020
	Interest income	66,594	66,498
	Interest expense	(27,641)	(28,424)
7	**Net interest income**	**38,953**	**38,074**
	Fee and commission income	13,121	10,819
	Fee and commission expense	(3,638)	(3,181)
8	**Net fee and commission income**	**9,483**	**7,638**
9	Net gain on financial assets and liabilities at FVTPL	5,980	4,257
10	Net foreign exchange loss	(86)	(278)
11	Credit impairment changes	7,037	(12,020)
12	Other income and (expenses)	963	582
	Net other operating income	**13,894**	**(7,459)**
	Total operating income	**62,330**	**38,253**
13	Salaries and related expenses	(14,759)	(14,767)
14	Other operating expenses	(9,105)	(9,064)
83.9	Tax on liabilities of financial institutions	(2,013)	(1,815)
	Total operating expenses	**(25,877)**	**(25,646)**
	Profit before tax	**36,453**	**12,607**
15	Income tax	(7,534)	(2,086)
	Profit for the year	**28,919**	**10,521**
	Profit for the year attributable to:		
	Owners of the Bank	28,919	10,521
	Non-controlling interests	0	0
	Profit for the year	**28,919**	**10,521**
	Earnings per share:		
38	Basic and diluted earnings per share from operations (ISK	**1.22**	**0.45**

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2021

Notes		2021	2020
	Profit for the year	28,919	10,521
	Other comprehensive income for the year, after tax	0	0
	Total comprehensive income for the year	**28,919**	**10,521**

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

Landsbankinn hf. Consolidated Financial Statements 2021 12 All amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2021

Notes		2021	2020
	Assets		
20, 70	Cash and balances with Central Bank	82,425	67,604
21	Bonds and debt instruments	150,435	119,330
22	Equities and equity instruments	33,347	26,808
23	Derivative instruments	1,233	3,303
24, 70	Loans and advances to financial institutions	47,231	48,073
25, 70	Loans and advances to customers	1,387,463	1,273,426
26	Investments in equity-accounted associates	1,857	1,722
27	Property and equipment	13,019	9,327
28	Intangible assets	1,781	1,696
34	Deferred tax assets	15	23
29	Other assets	10,087	11,227
30	Assets classified as held for sale	905	1,638
	Total assets	**1,729,798**	**1,564,177**
	Liabilities		
31	Due to financial institutions and Central Bank	10,425	48,725
32	Deposits from customers	900,098	793,427
23	Derivative instruments and short positions	4,562	4,248
33, 70	Borrowings	486,042	420,178
34	Tax liabilities	9,602	3,919
35	Other liabilities	15,609	14,029
30	Liabilities associated with assets classified as held for sale	30	30
36	Subordinated liabilities	20,785	21,366
	Total liabilities	**1,447,153**	**1,305,922**
37	**Equity**		
	Share capital	23,621	23,625
	Share premium	120,594	120,630
	Reserves	23,591	19,250
	Retained earnings	114,839	94,750
	Total equity attributable to owners of the Bank	**282,645**	**258,255**
	Non-controlling interests	0	0
	Total equity	**282,645**	**258,255**
	Total liabilities and equity	**1,729,798**	**1,564,177**

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

Landsbankinn hf. Consolidated Financial Statements 2021 13 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

Notes	Change in equity for the year 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	Retained earnings	Total	Non-controlling interests	Total
		Attributable to owners of the Bank		Reserves*						
	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 year						28,919	28,919		28,919
	Transferred to (from) restricted reserves				1,613	2,728	(4,341)	0		0
	Purchase of own shares	(4)	(36)					(40)		(40)
	Dividends allocated						(4,489)	(4,489)	0	(4,489)
37	**Balance as at 31 December 2021**	**23,621**	**120,594**	**6,000**	**5,272**	**12,319**	**114,839**	**282,645**	**0**	**282,645**
	Change in equity for the year 2020									
	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 year						10,521	10,521		10,521
	Transferred to (from) restricted reserves				950	3,966	(4,916)	0		0
37	**Balance as at 31 December 2020**	**23,625**	**120,630**	**6,000**	**3,659**	**9,591**	**94,750**	**258,255**	**0**	**258,255**

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

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

Landsbankinn hf. Consolidated Financial Statements 2021 14 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2021

Notes		2021	2020
	Operating activities		
	Profit for the year	28,919	10,521
	Adjustments for non-cash items included in profit for the year	(42,611)	(23,656)
	Changes in operating assets and liabilities	(70,857)	(28,422)
	Interest received	63,844	65,364
	Interest paid	(24,744)	(21,147)
9, 26	Dividends received	242	637
	Income tax and special income tax on financial institutions paid	(2,043)	(4,355)
	Tax on liabilities of financial institutions paid	(1,816)	(4,765)
	Net cash used in operating activities	**(49,066)**	**(5,823)**
	Investing activities		
	Acquisition of additional shares in associates	(30)	-
27	Purchase of property and equipment	(4,211)	(3,115)
27	Proceeds from sale of property and equipment	339	89
28	Purchase of intangible assets	(370)	(101)
	Sale of subsidiarie	146	-
	Investing activities	**(4,126)**	**(3,127)**
	Financing activities		
33	Proceeds from borrowings	132,194	103,952
33	Repayment of borrowings	(59,298)	(94,719)
	Rent paid	(648)	(590)
37	Purchase of own shares	(40)	-
37	Dividends paid	(4,489)	-
	Financing activities	**67,719**	**8,643**
	Cash and cash equivalents as at the beginning of the year	69,091	70,704
	Net change in cash and cash equivalents	14,527	(307)
	Effect of exchange rate changes on cash and cash equivalents held	770	(1,306)
	Cash and cash equivalents as at year end	**84,388**	**69,091**

	Cash and cash equivalents is specified as follows:		
20	Cash and balances with Central Bank	82,425	67,604
24	Bank accounts with financial institutions	15,261	15,141
20	Mandatory and special restricted balances with Central Bank	(13,298)	(13,654)
	Cash and cash equivalents as at year end	**84,388**	**69,091**

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

Landsbankinn hf. Consolidated Financial Statements 2021 15 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2021

Notes		2021	2020
	Adjustments for non-cash items included in profit for the year		
7	Net interest income	(38,953)	(38,074)
9	Net gain on financial assets and liabilities at FVTPL	(5,980)	(4,257)
10	Net foreign exchange (gain)loss	(684)	1,584
11, 61	Net impairment changes	(7,037)	12,020
12	Gain on sale of property and equipment	(287)	(2)
12	Net (income) expense on repossessions	(235)	113
14	Depreciation and amortisation	1,268	1,281
	Profit on sale of associates	(22)	0
12, 26	Share of profit of equity-accounted associates	(228)	(222)
83.9	Tax on liabilities of financial institutions	2,013	1,815
15	Income tax	7,534	2,086
		(42,611)	**(23,656)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	355	11,905
	Change in bonds and equities	(33,461)	9,729
	Change in loans and advances to financial institutions	(179)	(2,628)
	Change in loans and advances to customers	(112,935)	(120,667)
	Change in other assets	1,218	647
	Change in assets classified as held for sale	968	(729)
	Change in due to financial institutions and Central Bank	(38,299)	619
	Change in deposits from customers	108,092	74,563
	Change in deferred tax assets	8	(3)
	Change in other liabilities	3,376	(1,858)
		(70,857)	**(28,422)**

Change in liabilities due to financing activities

			Non-cash changes			
	As at 1.1.2021	**Cash flow**	**Accrued interest**	**Foreign exchange**	**Change in the fair value**	**As at 31.12.2021**
Secured borrowings	189,360	16,286	12,241	-	-	217,887
Senior unsecured bonds	116,196	71,022	1,708	(7,021)	-	181,905
Senior unsecured bonds held to hedge long-term borrowings	95,468	(23,394)	551	(5,180)	(975)	66,470
Other unsecured loans	19,152	(163)	305	486	-	19,780
Subordinated liabilities	21,366	(724)	986	(843)	-	20,785
Total	**441,542**	**63,027**	**15,791**	**(12,558)**	**(975)**	**506,827**

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

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

Landsbankinn hf. Consolidated Financial Statements 2021 16 All amounts are in ISK million

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

General

1. Reporting entity

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

The Consolidated Financial Statements of the Bank for the year ended 31 December 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 Consolidated Financial Statements for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The Consolidated Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The Consolidated Financial Statements were approved and authorised for publication by the Board of Directors and the CEO of Landsbankinn on 3

Significant accounting policies are summarised in Note 83.

Going concern

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

Functional and presentation currency

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

(a) Classification of financial instruments

Financial instruments under IFRS 9 are accounted for according to their classification. Professional judgement is applied and determination of the appropriate classification depends on the contractual cash flows of the financial asset (the Solely Payments of Principal and Interest (SPPI) test) and the objective of the business model within which the financial instrument is held. For further details on the accounting for these instruments under IFRS 9, see Note 83.11.

(b) Impairment losses on loans and advances

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

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

Expected credit loss depends on whether the credit risk has increased significantly since initial recognition. A significant increase in credit risk is defined in Note 83.11(g). If the credit risk has not increased significantly, the loss allowance equals the expected credit losses resulting from loss events that are possible within the next 12 months (Stage 1). If the credit risk has increased significantly, the allowance measured equals the lifetime expected credit losses (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

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

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

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

Economic forecasts

Landsbankinn Economic Research 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 the ECL allowance for stageas 1 and 2. At the reporting date, baseline forecast of Landsbankinn Economic 'Research projects 5,1% growth in GDP this year. The forecasts for the upside, baseline and downside scenarios show averages for the 12-months outlook and to the medum-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 20 December 2021.

	Upside scenario		Base case senario		Downside scenario	
As at 31.12.2021	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
GDP growth	7.8%	4.1%	5.6%	1.9%	3.0%	-0.1%
Unemployment rate	3.7%	2.5%	4.7%	3.8%	7.6%	6.1%
Base rate	3.4%	5.3%	2.9%	3.9%	2.3%	1.7%
Inflation	4.7%	3.5%	3.6%	2.6%	5.0%	2.5%
EUR/ISK exchange rate, average	143.1	136.0	145.3	139.3	161.3	150.0
Housing Price index, y/y change	12.9%	7.0%	10.2%	4.5%	7.9%	1.4%

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

	2021			2020		
	Upside scenario	Base senario	Downside senario	Upside scenario	Base senario	Downside senario
Allowance for impairment (Stage 1 and Stage 2)	6,005	6,273	7,152	9,922	10,912	13,035
Proportion of assets in Stage 2	6.8%	6.9%	7.1%	10.8%	11.0%	11.4%

	Reported under IFRS 9	
	2021	2020
Allowance for impairment (stage 1 and stage 2)	6,394	11,196

(c) Valuation of financial instruments

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

(d) Determination of control over investees

Management applies professional judgement to determine whether the control indicators set out in Note 83.1 Consolidation and non-controling interests, indicate that the Group controls an investee.

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4. Assessment of expected credit losses (ECL)

Measurement of expected credit losses (ECL)

ECL assessment at the end 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 before, 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 in 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 decreased during the year, primarily because many customers who were granted payment moratoria have now gained the payment capacity to handle regular debt service.

In the fourth 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 year. These loans are subsequently moved to Stage 2, provided certain conditions are satisfied. This special reclassification moves loans valued at ISK 1.6 billion to Stage 2 at the end of the year. The Bank has also assessed the need for additional allowance by applying post-model-adjustment for these loans and recognised an ISK 2.1 billion (31 December 2020; ISK 841 million) provision for loans to the travel sector, ISK 119 million (31 December 2020; ISK 0 million) for loans to other companies and ISK 0 million (31 December 2020; ISK 309 million) for loans to individuals.

Maximum credit risk exposure to customers with COVID-19 measures

The Bank has responded to the conditions created by the pandemic by 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 various conditions.

The table below shows the Bank's credit risk exposure as at 31 December 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 31 December 2021	Gross carrying amount					
On-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Carrying amount**
Individuals	136	363	-	(6)	-	493
Travel industry	17,256	40,308	5,537	(4,187)	-	58,914
Other	64	13,251	679	(370)	751	14,375
Total	**17,456**	**53,922**	**6,216**	**(4,563)**	**751**	**73,782**
Off-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Total**
Individuals	8	-	-	-	-	8
Travel industry	748	11,135	11	(54)	-	11,840
Other	-	338	22	-	-	360
Total	**756**	**11,473**	**33**	**(54)**	**0**	**12,208**
Maximum exposure to credit risk	**18,212**	**65,395**	**6,249**	**(4,617)**	**751**	**85,990**

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

Maximum credit risk exposure to customers with COVID-19 measures (continued)

As at 31 December 2020	Gross carrying amount					
On-balance sheet exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Allowance for impairment**	**Fair value**	**Carrying amount**
Individuals	-	1,155	39	(75)	-	1,119
Travel industry	16,916	48,803	7,345	(5,452)	26	67,638
Other	98	11,868	1,524	(687)	729	13,532
Total	**17,014**	**61,826**	**8,908**	**(6,214)**	**755**	**82,289**

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

The 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.

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. Changes in significant accounting policies

Interest Rate Benchmark Reform – phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021 .

The Group applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

The amendments cover the effects on the financial statements when old interest rate benchmarks are altered or replaced by alternative benchmark rates as a result of the benchmark reform. The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows at the date on which interest rate benchmarks are altered or replaced. Under the practical expedient, a change to the determination of the contractual cash flows is applied prospectively by altering the effective interest rate, i.e. not leading to a modification gain or loss recognised in the income statement. To be applicable for the practical expedient, a change must meet two conditions: (a) the change is a direct consequence of the reform and (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments further introduce reliefs from existing hedge accounting requirements. The reliefs include that hedge accounting would not discontinue solely due to the benchmark reform and that, for the retrospective effectiveness test for fair value hedges under IAS 39, the cumulative fair value changes of the hedged item and the hedging instrument may be reset to zero to minimise the risk that a hedge will fail the retrospective effectiveness test when the benchmark transitions to an alternative benchmark. The amendments further require that the hedging relationships and documentations are amended to reflect changes in the hedged item, the hedging instrument and the hedged risk (which do not represent a discontinuation of the exiting hedge).

The Group formally established an IBOR Transition Programme, the main objectives being to identify how the IBOR transition will affect the Group financially and operationally and to recommend the best implementation of the transition, mitigate risks, implement changes in contractual relationships etc. On 5 March 2021, ICE Benchmark Administration (IBA), the administrator of LIBOR, announced its intention to cease publication of GBP, EUR, CHF, JPY, 1 week USD LIBOR and 2 month USD LIBOR immediately after 31 December 2021. The remaining USD LIBOR tenors will be published until 30 June 2023. EURIBOR, CIBOR, STIBOR and NIBOR are expected to continue for the foreseeable future.

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5. Changes in significant accounting policies (continued)

Total amounts of unreformed contracts, including those with an appropriate fallback clause

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract').

The following table shows the total amounts of unreformed contracts and those with appropriate fallback language as at 31 December 2021. The amounts of financial assets and financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

As at 31 December 2021	Amount with appropriate fallback clause	Total amount of unreformed contracts
Loans and advances to customers	52,526	13,984

6. Operating segments

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

As of 1 January 2021, changes in the Bank's organisational structure made towards year end 2020 became effective for segment reporting. Comparison amounts for the same period the previous year have not been adjusted and reflect the former organisational structure. The Group is divided into four main business segments and other operating segments. The business segments were the following 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 undir 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 and Internal Audit.

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 31 December 2021 and the corresponding period in 2020.

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6. Operating segments (continued)

1 January - 31 December 2021	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other segments	Recon-ciliation	Total
Net interest income	16,986	18,754	468	2,843	(62)	(36)	**38,953**
Net fee and commission income	3,072	1,612	5,388	(241)	(2)	(346)	**9,483**
Net impairment changes	1,424	5,596	-	13	4	-	**7,037**
Other net operating income (expenses)	238	100	559	5,305	670	(15)	**6,857**
Total operating income (expense)	**21,720**	**26,062**	**6,415**	**7,920**	**610**	**(397)**	**62,330**
Operating expenses	(6,783)	(2,981)	(2,102)	(1,528)	(10,835)	365	**(23,864)**
Tax on liabilities of financial institutions	(845)	(370)	(8)	(776)	(14)	-	**(2,013)**
Profit (loss) before cost allocation and tax	**14,092**	**22,711**	**4,305**	**5,616**	**(10,239)**	**(32)**	**36,453**
Allocated expenses	(4,245)	(2,786)	(1,079)	(920)	9,030	-	**0**
Profit (loss) before tax	**9,847**	**19,925**	**3,226**	**4,696**	**(1,209)**	**(32)**	**36,453**
Income tax	(2,609)	(5,061)	264	(382)	254	-	**(7,534)**
Profit (loss) for the year	**7,238**	**14,864**	**3,490**	**4,314**	**(955)**	**(32)**	**28,919**
Net revenue (expenses) from external customers	33,555	34,762	6,338	(12,527)	599	-	**62,727**
Net revenue (expenses) from other segments	(11,835)	(8,700)	77	20,447	11	-	**0**
Total operating income (expense)	**21,720**	**26,062**	**6,415**	**7,920**	**610**	**0**	**62,727**
As at 31 December 2021							
Total assets	772,724	613,071	12,004	672,837	20,214	(361,052)	**1,729,798**
Total liabilities	728,841	491,925	7,259	559,966	20,214	(361,052)	**1,447,153**
Allocated capital	43,883	121,146	4,745	112,871	-		**282,645**

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

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Notes to the Consolidated Income Statement

7. Net interest income

See accounting policy in Note 83.5.

	2021			2020		
Interest income	**Amortised cost**	**FVTPL**	**Total**	**Amortised cost**	**FVTPL**	**Total**
Cash and balances with Central Bank	670	-	670	1,113	-	1,113
Bonds and debt instruments	24	-	24	248	-	248
Loans and advances to financial institutions	4	-	4	77	-	77
Loans and advances to customers	65,120	699	65,819	62,692	600	63,292
Other interest income	38	39	77	566	1,202	1,768
Total	**65,856**	**738**	**66,594**	**64,696**	**1,802**	**66,498**
Interest expense						
Due to financial institutions and Central Bank	(561)	-	(561)	(751)	-	(751)
Deposits from customers	(9,390)	-	(9,390)	(10,091)	-	(10,091)
Borrowings	(14,164)	(638)	(14,802)	(12,644)	(1,185)	(13,829)
Other interest expense	(43)	(1,860)	(1,903)	(668)	(2,117)	(2,785)
Subordinated liabilities	(985)	-	(985)	(968)	-	(968)
Total	**(25,143)**	**(2,498)**	**(27,641)**	**(25,122)**	**(3,302)**	**(28,424)**
Net interest income	**40,713**	**(1,760)**	**38,953**	**39,574**	**(1,500)**	**38,074**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 38,977 million for the year ended 2021 as compared with ISK 38,073 million for the year ended 2020.

8. Net fee and commission income

See accounting policy in Note 83.6.

	2021			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	5,864	(622)	5,242	4,248	(609)	3,639
Loans and guarantees	1,073	-	1,073	1,218	-	1,218
Payment cards	4,512	(2,083)	2,429	3,740	(1,765)	1,975
Collection and payment services	922	(196)	726	910	(183)	727
Other	750	(737)	13	703	(624)	79
Total	**13,121**	**(3,638)**	**9,483**	**10,819**	**(3,181)**	**7,638**

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

See accounting policy in Note 83.7.

Net gain (loss) on financial assets and liabilities at FVTPL	**2021**	**2020**
Bonds and debt instruments	272	736
Equities and equity instruments	4,052	5,220
Derivatives and underlying hedges	1,473	29
Loans and advances to customers	95	(1,730)
Net gain on fair value hedges	88	2
Total	**5,980**	**4,257**

The dividend income below is recognised in the income statement i "Net gain on financial assets and liabilities at FVTPL"

Dividend income	**2021**	**2020**
Net gain on financial assets in the trading book	29	33
Net gain on financial assets and liabilities in the banking book	213	498
Total	**242**	**531**

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10. Net foreign exchange gain (loss)

See accounting policy in Note 83.8.

Assets	2021	2020
Cash and balances with Central Bank	(76)	23
Bonds and debt instruments	(809)	7,344
Equities and equity instruments	(7)	(13)
Derivative instruments	(2,641)	3,101
Loans and advances to financial institutions	(1,068)	8,812
Loans and advances to customers	(8,803)	25,889
Other assets	(867)	152
Total	**(14,271)**	**45,308**
Liabilities		
Due to financial institutions and Central Bank	-	(44)
Deposits from customers	1,250	(11,043)
Borrowings	11,715	(32,306)
Other liabilities	377	(181)
Subordinated liabilities	843	(2,012)
Total	**14,185**	**(45,586)**
Net foreign exchange loss	**(86)**	**(278)**

The net foreign exchange difference recognised in the income statement in 2021 arousing on financial instruments not measured at FVTPL, amounted to a loss of ISK 10,814 million on financial assets (2020: gain of ISK 34,876 million) and a gain of ISK 14,185 million on financial liabilities (2020: loss of ISK 45,586 million).

11. Net impairment changes

See accounting policy in Note 83.11 (g).

	2021	2020
Net impairment changes of loans to customers	7,075	(11,881)
Net impairment changes of other financial assets	(38)	(139)
Net impairment changes of financial assets	**7,037**	**(12,020)**
Net impairment changes by customer type		
Public entities	41	-
Financial institutions	1	4
Individuals	1,325	(541)
Corporates	5,670	(11,483)
Net impairment changes of financial assets	**7,037**	**(12,020)**

12. Other income and expenses

	Notes	2021	2020
Share of profit of equity-accounted associates	26	228	222
Gain on sale of property and equipment	27	287	2
Net income (expense) on repossessions	30	235	(113)
Other		213	471
Total		**963**	**582**

13. Salaries and related expenses

See accounting policy in Note 83.37.

	2021	2020
Salaries	11,359	11,423
Contributions to defined pension plans	1,781	1,713
Social security contributions	794	816
Special financial activities tax on salaries	716	707
Other related expenses	109	108
Total	**14,759**	**14,767**

Number of full-time equivalent positions at year-end	816	878
Average number of full-time equivalent positions during the year	890	921

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14. Other operating expenses

	2021	2020
Information technology	2,626	2,479
Real estate and fixtures	954	933
Advertising and marketing	812	751
Operating lease rentals	10	15
FSA supervisory expenses	503	497
Contribution to the Debtors' Ombudsman	97	81
Audit and related services	136	147
Other professional services	470	632
Depreciation and amortisation	1,268	1,281
Contribution to the Depositors' and Investors' Guarantee Fund	816	830
Other operating expenses	1,413	1,418
Total	**9,105**	**9,064**

Audit and related services	2021	2020
Audit and reviews of financial statements	135	144
Other audit-related services	1	3
Total	**136**	**147**

Depreciation and amortisation	Notes	2021	2020
Amortisation of property and equipment	27	414	442
Depreciation of intangible assets	28	285	310
Amortisation of Right-of-use assets	40	569	529
Total		**1,268**	**1,281**

15. Income tax

See accounting policy in Note 83.10.

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

	2021	2020
Current tax expense	(5,930)	(1,711)
Special income tax on financial institutions	(1,659)	(394)
Difference of prior year's imposed and calculated income tax	62	16
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(7)	3
Total	**(7,534)**	**(2,086)**

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

		2021		2020
Profit before income tax		36,453		12,607
Income tax calculated using the domestic corporate income tax rate	20.0%	(7,291)	20.0%	(2,521)
Special income tax on financial institutions	4.6%	(1,659)	3.1%	(394)
Income not subject to tax	(4.7%)	1,718	(9.5%)	1,200
Non-deductible expenses	1.1%	(392)	3.1%	(388)
Other	(0.2%)	90	(0.1%)	17
Effective income tax	**20.7%**	**(7,534)**	**16.5%**	**(2,086)**

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16. Classification and fair values of financial assets and liabilities

See accounting policy in Note 83.11 (b).

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

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

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2021:

		Carrying amount					Fair value			
As at 31 December 2021	Notes	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Bonds and debt instruments	21	-	148,201	2,234	-	150,435	149,939	29	467	150,435
Equities and equity instruments	22	-	33,347	-	-	33,347	12,753	-	20,594	33,347
Derivative instruments	23	-	1,233	-	-	1,233	-	1,233	-	1,233
Loans and advances to customers	25	-	22,142	-	-	22,142	-	-	22,142	22,142
		0	**204,923**	**2,234**	**0**	**207,157**	**162,692**	**1,262**	**43,203**	**207,157**
Financial assets not measured at fair value										
Cash and balances with Central Bank	20	82,425	-	-	-	82,425	-	82,425	-	82,425
Loans and advances to financial institutions	24	47,231	-	-	-	47,231	-	47,231	-	47,231
Loans and advances to customers	25	1,365,321	-	-	-	1,365,321	-	1,372,601	-	1,372,601
Other financial assets		8,800	-	-	-	8,800	-	8,800	-	8,800
		1,503,777	**0**	**0**	**0**	**1,503,777**	**0**	**1,511,057**	**0**	**1,511,057**
Financial liabilities measured at fair value										
Derivative instruments	23	-	1,946	-	-	1,946	-	1,946	-	1,946
Short positions	23	-	2,616	-	-	2,616	2,616	-	-	2,616
		0	**4,562**	**0**	**0**	**4,562**	**2,616**	**1,946**	**0**	**4,562**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	31	-	-	-	10,425	10,425	-	10,425	-	10,425
Deposits from customers	32	-	-	-	900,098	900,098	-	899,792	-	899,792
Borrowings	33	-	-	-	486,042	486,042	-	502,304	-	502,304
Other financial liabilities		-	-	-	9,195	9,195	-	9,195	-	9,195
Subordinated liabilities	36	-	-	-	20,785	20,785	-	21,217	-	21,217
		0	**0**	**0**	**1,426,545**	**1,426,545**	**0**	**1,442,933**	**0**	**1,442,933**

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16. 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
Financial assets measured at fair value										
Bonds and debt instruments	21	-	113,336	1,683	-	115,019	114,412	26	581	115,019
Equities and equity instruments	22	-	26,808	-	-	26,808	9,318	-	17,490	26,808
Derivative instruments	23	-	3,303	-	-	3,303	-	3,303	-	3,303
Loans and advances to customers	25	-	16,515	-	-	16,515	-	-	16,515	16,515
		0	**159,962**	**1,683**	**0**	**161,645**	**123,730**	**3,329**	**34,586**	**161,645**
Financial assets not measured at fair value										
Cash and balances with Central Bank	20	67,604	-	-	-	67,604	-	67,604	-	67,604
Bonds and debt instruments	21	4,311		-	-	4,311	-	4,330	-	4,330
Loans and advances to financial institutions	24	48,073	-	-	-	48,073	-	48,073	-	48,073
Loans and advances to customers	25	1,256,911	-	-	-	1,256,911	-	1,261,094	-	1,261,094
Other financial assets		9,853	-	-	-	9,853	-	9,853	-	9,853
		1,386,752	**0**	**0**	**0**	**1,386,752**	**0**	**1,390,954**	**0**	**1,390,954**
Financial liabilities measured at fair value										
Derivative instruments	23	-	3,724	-	-	3,724	-	3,724	-	3,724
Short positions	23	-	524	-	-	524	523	-	-	523
		0	**4,248**	**0**	**0**	**4,248**	**523**	**3,724**	**0**	**4,247**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	31	-	-	-	48,725	48,725	-	48,725	-	48,725
Deposits from customers	32	-	-	-	793,427	793,427	-	793,214	-	793,214
Borrowings	33	-	-	-	420,178	420,178	-	436,455	-	436,455
Other financial liabilities		-	-	-	8,127	8,127	-	8,127	-	8,127
Subordinated liabilities	36	-	-	-	21,366	21,366	-	21,567	-	21,567
		0	**0**	**0**	**1,291,823**	**1,291,823**	**0**	**1,308,088**	**0**	**1,308,088**

All amounts are in ISK million

17. Fair value of financial assets and liabilities

See accounting policy in Note 83.11 (f).

Valuation framework

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

Transfers between Levels

At the end of each reporting period the Group determines whether transfers of financial assets and financial liabilities measured at fair value have occurred between levels in the hierarchy by reviewing the classification.In 2021 and 2020, there were no transfers between Level 1 and Level 2.

The following tables show the reconciliation of fair value measurement in Level 3 for the year 2021 and 2020:

1 January - 31 December 2021	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
Carrying amount as at 1 January 2021	581	17,490	16,515	34,586
Net gain on financial assets and liabilities at FVTPL	12	3,477	95	3,584
Net foreign exchange (loss) gain	(2)	(1)	18	15
Purchases	77	371	163,386	163,834
Sales	(200)	(527)	-	(727)
Settlements	(1)	-	(157,872)	(157,873)
Transfers out of Level 3	-	(3)	-	(3)
Dividend received	-	(213)	-	(213)
Carrying amount as at 31 December 2021	**467**	**20,594**	**22,142**	**43,203**
1 January - 31 December 2020				
Carrying amount as at 1 January 2020	150	17,080	14,679	31,909
Net gain (loss) on financial assets and liabilities at FVTPL	18	4,289	(1,730)	2,577
Net foreign exchange gain (loss)	(2)	3	(7)	(6)
Purchases	477	284	14,130	14,891
Sales	(61)	(3,438)	-	(3,499)
Settlements	(1)	(230)	(10,557)	(10,788)
Dividend received	-	(498)	-	(498)
Carrying amount as at 31 December 2020	**581**	**17,490**	**16,515**	**34,586**

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group at year end 2021 and 2020 were recognised:

1 January - 31 December 2021	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
Net gain (loss) on financial assets and liabilities at FVTPL realised	25	121	95	241
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	(13)	3,333	-	3,320
Net foreign exchange (loss) gain	(2)	(1)	18	15
Total	**10**	**3,453**	**113**	**3,576**
1 January - 31 December 2020				
Net gain (loss) on financial assets and liabilities at FVTPL realised	1	357	-	358
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	20	2,892	(1,730)	1,182
Net foreign exchange (loss) gain	(2)	3	(7)	(6)
Total	**19**	**3,252**	**(1,737)**	**1,534**

18. Unobservable inputs in fair value measurement

See accounting policy in Note 83.11 (f).

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 at year end 2021 and 2020.

					Range of inputs	
As at 31 December 2021	**Assets**	**Liabilities**	**Valuation technique**	**Key un-observable inputs**	**Lower**	**Higher**
Bonds and debt instruments	467	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	20,594	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	22,142	-	See 3) below	See 3) below	n/a	n/a
	43,203	**0**				

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18. Unobservable inputs in fair value measurement (continued)

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

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

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

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

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

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit (loss) before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives at year-end 2021 and 2020:

	2021		2020	
Effect on profit before tax	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Bonds and debt instruments	1	(1)	1	(1)
Equities and equity instruments:				
Equities - Banking book	974	(962)	870	(870)
Mutual funds - Banking book	255	(255)	246	(246)
Total equities and equity instruments	1,229	(1,217)	1,117	(1,117)
Loans and advances to customers	20	(20)	65	(68)
Total	**1,250**	**(1,238)**	**1,182**	**(1,185)**

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

19. Expected credit loss

See accounting policy in Note 83.11.

	31.12.2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and balances with Central Bank	(1)	-	-	(1)
Loans and advances to financial institutions	-	-	-	0
Loans and advances to customers	(1,845)	(4,098)	(7,880)	(13,823)
Other financial assets	(70)	-	(2)	(72)
Expected credit loss, off-balance sheet items	(329)	(122)	(99)	(550)
Total	**(2,245)**	**(4,220)**	**(7,981)**	**(14,446)**

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

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20. Cash and balances with Central Bank

See accounting policy in Note 83.12.

	2021	2020
Cash on hand	5,274	4,844
Unrestricted balances with Central Bank	63,853	49,106
Total cash and unrestricted balances with Central Bank	**69,127**	**53,950**
Restricted balances with Central Bank - fixed reserve requirement	10,144	9,143
Cash and balances pledged as collateral to the Central Bank	3,154	4,511
Total restricted balances with Central Bank	**13,298**	**13,654**
Total cash and balances with Central Bank	**82,425**	**67,604**

21. Bonds and debt instruments

See accounting policy in Note 83.13.

	2021			2020			
Bonds and debt instruments	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Mandatorily at FVTPL**	**Designated at FVTPL**	**Total**
Domestic							
Listed	78,982	499	79,481	4,311	72,174	249	76,734
Unlisted	-	1,735	1,735	-	-	1,434	1,434
	78,982	**2,234**	**81,216**	**4,311**	**72,174**	**1,683**	**78,168**
Foreign							
Listed	69,219	-	69,219	-	41,162	-	41,162
	69,219	**0**	**69,219**	**0**	**41,162**	**0**	**41,162**
Total bonds	**148,201**	**2,234**	**150,435**	**4,311**	**113,336**	**1,683**	**119,330**

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

22. Equities and equity instruments

See accounting policy in Note 83.14.

	2021			2020		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	11,071	511	11,582	8,773	164	8,937
Unlisted	-	20,893	20,893	-	17,753	17,753
	11,071	**21,404**	**32,475**	**8,773**	**17,917**	**26,690**
Foreign						
Listed	431	417	848	2	98	100
Unlisted	-	24	24	-	18	18
	431	**441**	**872**	**2**	**116**	**118**
Total equities	**11,502**	**21,845**	**33,347**	**8,775**	**18,033**	**26,808**

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

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

At year-end 2021, outstanding commitments of the Group in share subscriptions amounted to ISK 3.952 million (2020: ISK 741 million) altogether in seven entities (2020: six entities). The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

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23. Derivative instruments and short positions

See accounting policy in Note 83.15.

Trading

	2021			2020		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	45,712	99	133	8,579	126	57
Cross-currency interest rate swaps	411	24	-	1,148	134	-
	46,123	**123**	**133**	**9,727**	**260**	**57**
Interest rate derivatives						
Interest rate swaps	1,187	8	-	2,276	17	-
Total return swaps	51,613	25	69	33,331	18	51
	52,800	**33**	**69**	**35,607**	**35**	**51**
Equity derivatives						
Equity forwards	107	-	5	87	-	13
Total return swaps	8,525	11	220	6,386	8	524
Equity options	-	-	-	190	-	31
	8,632	**11**	**225**	**6,663**	**8**	**568**
Total derivative instruments	**107,555**	**167**	**427**	**51,997**	**303**	**676**
Short positions						
Listed equities	-	-	434	-	-	-
Listed bonds	2,054	-	2,182	880	-	524
Total short positions	**2,054**	**0**	**2,616**	**880**	**0**	**524**
Total	**109,609**	**167**	**3,043**	**52,877**	**303**	**1,200**

Risk management

	2021			2020		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	62,015	308	1,058	32,009	1,276	2
	62,015	**308**	**1,058**	**32,009**	**1,276**	**2**
Interest rate derivatives						
Interest rate swaps	3,187	-	461	29,777	81	3,046
	3,187	**0**	**461**	**29,777**	**81**	**3,046**
Fair value hedging						
Interest rate swaps	111,523	758	-	93,660	1,643	-
	111,523	**758**	**0**	**93,660**	**1,643**	**0**
Total	**176,725**	**1,066**	**1,519**	**155,446**	**3,000**	**3,048**
Total derivative instruments and short positions	**286,334**	**1,233**	**4,562**	**208,323**	**3,303**	**4,248**

Fair value hedging

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

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

During the period from 1 January 2021 to 31 December 2021, the slope of the regression line was in all cases within the range of 0.90 and 0.95 (for a 95% confidence level) and the regression coefficient was at least 0.86 (R^2). During the period from 1 January 2020 to 31 December 2020, the slope of the regression line is in all cases within the range of 1.01 and 1.09 (for a 95% confidence level) and the regression coefficient was at least 0.87 (R^2).

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23. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 31 December 2021	Notional amount of the hedging instrument	Maturity date: Up to 3 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	65,597	21,317	44,280	-	758	-	(886)
Total	**65,597**	**21,317**	**44,280**	**0**	**758**	**0**	**(886)**
Average fixed interest rate - EUR		1.375%	1.00%				

As at 31 December 2021	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 1.375 3/22	-	21,570	-	27	568
LBANK 1.00 5/23	-	44,900	-	346	406
Total EMTN hedged borrowings	**0**	**66,470**	**0**	**373**	**974**

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

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

24. Loans and advances to financial institutions

See accounting policy in Note 83.19.

	2021	2020
Bank accounts with financial institutions	15,261	15,141
Money market loans	29,552	32,210
Other loans	2,418	723
Allowance for impairment	-	(1)
Total	**47,231**	**48,073**

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25. Loans and advances to customers

See accounting policy in Note 83.19.

	2021	2020
Loans and advances to customers at amortised cost	1,379,144	1,281,386
Allowance for impairment	(13,823)	(24,475)
Total	**1,365,321**	**1,256,911**
Loans and advances to customers at FVTPL	22,142	16,515
Total	**1,387,463**	**1,273,426**

Loans and advances to customers at amortised cost

	31.12.2021			31.12.2020		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	3,898	(3)	3,895	4,169	(41)	4,128
Individuals	726,309	(1,359)	724,950	593,984	(2,307)	591,677
Mortgage lending	646,981	(466)	646,515	519,470	(1,221)	518,249
Other	79,328	(893)	78,435	74,514	(1,086)	73,428
Corporates	648,937	(12,461)	636,476	683,233	(22,127)	661,106
Total	**1,379,144**	**(13,823)**	**1,365,321**	**1,281,386**	**(24,475)**	**1,256,911**

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

26. Investments in associates

See accounting policy in Note 83.3.

The Group's interest in its principal associates	2021	2020
Auðkenni hf. Borgartúni 31, Reykjavík	25.6%	25.6%
Greiðslumiðlun Íslands ehf. Katrínartúni 4, Reykjavík	47.9%	47.9%
JCC ehf. Borgartúni 19, Reykjavík	0.0%	33.3%
Keahótel ehf. Hafnarstræti 94, 600 Akureyri	35.0%	35.0%
Reiknistofa bankanna hf. Katrínartúni 2, Reykjavík	37.2%	38.6%

Investments in equity-accounted associates	2021	2020
Carrying amount as at the beginning of the year	1,587	1,471
Acquisitions	30	-
Share of profit of equity-accounted associates	228	222
Dividends received	-	(106)
Disposals	(145)	-
Gain of disposal of associates	22	-
Total	**1,722**	**1,587**

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 130,1 million, have not been recognised in the accounting period ended 31 December 2021.

Investments in associates designated at fair value through profit or loss

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

27. Property and equipment

See accounting policy in Note 83.20.

	2021			2020		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount as at the beginning of the year	7,507	1,820	9,327	4,770	1,973	6,743
Additions during the year	3,876	335	4,211	2,882	233	3,115
Sold during the year	(95)	(10)	(105)	(88)	(1)	(89)
Depreciation	(53)	(361)	(414)	(57)	(385)	(442)
Carrying amount as at 31 December	**11,235**	**1,784**	**13,019**	**7,507**	**1,820**	**9,327**
Gross carrying amount	12,008	6,688	18,696	8,227	6,363	14,590
Accumulated depreciation	(773)	(4,904)	(5,677)	(720)	(4,543)	(5,263)
Carrying amount as at 31 December	**11,235**	**1,784**	**13,019**	**7,507**	**1,820**	**9,327**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

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27. Property and equipment (continued)

Official assessment value of buildings	2021	2020
Property valuation	5,936	6,019
Fire insurance value	9,897	9,873

28. Intangible assets

See accounting policy in Note 83.21.

	2021		2020		
	Hard- and software licences	Total	Hard- and software licences	Goodwill	Total
Carrying amount as at the beginning of the year	1,696	1,696	1,905	391	2,296
Additions during the year	370	370	101	-	101
Impairment loss during the year	-	0	-	(391)	-391
Amortisation	(285)	(285)	(310)	-	(310)
Carrying amount as at 31 December	**1,781**	**1,781**	**1,696**	**0**	**1,696**
Gross carrying amount	5,442	5,442	5,072	391	5,463
Accumulated amortisation	(3,661)	(3,661)	(3,376)	(391)	(3,767)
Carrying amount as at 31 December	**1,781**	**1,781**	**1,696**	**0**	**1,696**
Annual amortisation rates	20-33%	20-33%	20-33%		20-33%

29. Other assets

	2021	2020
Unsettled securities trading	2,111	1,892
Other accounts receivable	4,710	5,592
Right-of-use assets	1,979	2,369
Sundry assets	1,287	1,374
Total	**10,087**	**11,227**

30. Assets and liabilities classified as held for sale

See accounting policy in Note 83.25.

Assets classified as held for sale

	2021	2020
Repossessed collateral	905	1,638
Total	**905**	**1,638**

Repossessed collateral

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

Repossessed collateral	2021	2020
Real estate	905	1,393
Equipment and vehicles	-	245
Total	**905**	**1,638**

Repossessed collateral	2021	2020
Carrying amount as at the beginning of the year	1,638	1,022
Repossessed during the year	752	1,625
Disposed of during the year	(1,845)	(1,092)
Impairment and gain of sale	360	83
Carrying amount as at year end	**905**	**1,638**

Liabilities associated with assets classified as held for sale

	2021	2020
Liabilities of disposal groups	30	30
Total	**30**	**30**

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31. Due to financial institutions and Central Bank

See accounting policy in Note 83.26.

	2021	2020
Loans and repurchase agreements with Central Bank	101	-
Loans and deposits from financial institutions	10,324	48,725
Total	**10,425**	**48,725**

32. Deposits from customers

See accounting policy in Note 83.26.

	2021	2020
Demand deposits	659,228	558,681
Term deposits	240,870	234,746
Total	**900,098**	**793,427**

33. Borrowings

See accounting policy in Note 83.27

Secured borrowings

As at 31. December 2021	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CBI 22	ISK	28.04.2022	19,520	CPI-indexed	Fixed 3.0%	23,978
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	45,492
LBANK CBI 24	ISK	15.11.2024	38,100	CPI-indexed	Fixed 3.0%	45,132
LBANK CB 25	ISK	17.09.2025	31,580	Non-indexed	Fixed 3.4%	31,935
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	12,264
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	59,086
Total covered bonds						**217,887**
Total secured borrowings						**217,887**

Unsecured borrowings

As at 31. December 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%	14,815
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	7,208
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 144 million	FIXED 1.375%	21,570
LBANK FLOAT 08/22	SEK	02.08.2022	SEK 900 million	STIBOR + 0,75%	12,963
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	44,900
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,408
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	7,205
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	44,287
LBANK 0.375 5/25 GB**	EUR	23.05.2025	EUR 300 million	FIXED 0.375%	44,080
LBANK 0.75 5/26 GB**	EUR	25.05.2026	EUR 300 million	FIXED 0.75%	43,939
Total senior unsecured bonds					**248,375**

As at 31. December 2021	Carrying amount
Other unsecured loans	19,780
Total other unsecured loans	**19,780**
Total unsecured borrowings	**268,155**
Total borrowings as at 31. December 2021	**486,042**

* 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 23. 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.

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33. Borrowings (continued)

Secured borrowings

As at 31. December 2020	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,860	Non-indexed	Fixed 5.5%	5,900
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	22,846
LBANK CB 23	ISK	23.11.2023	37,800	Non-indexed	Fixed 5.0%	39,366
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	43,311
LBANK CB 25	ISK	17.09.2025	10,240	Non-indexed	Fixed 3.4%	10,539
LBANK CBI 26	ISK	20.11.2026	10,140	CPI-indexed	Fixed 1.5%	10,678
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	56,720
Total covered bonds						**189,360**
Total secured borrowings						**189,360**

Unsecured borrowings

As at 31. December 2020	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 1.625 03/21	EUR	15.03.2021	EUR 200 million	FIXED 1.625%	31,429
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1,75%	14,939
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	7,789
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	47,614
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	47,854
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,471
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	7,788
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	46,780
Total senior unsecured borrowings					**211,664**

As at 31. December 2020	Carrying amount
Other unsecured loans	19,154
Total other unsecured loans	**19,154**
Total unsecured borrowings	**230,818**
Total borrowings as at 31. December 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 23. 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.

34. Deferred tax assets and liabilities

See accounting policy in Note 83.10.

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	9,602	-	3,919
Deferred tax assets / liabilities	15	-	23	-
Taxes in the Statement of Financial Position	**15**	**9,602**	**23**	**3,919**

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

	2021			2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(111)	(111)	-	(124)	(124)
Intangibles	-	(180)	(180)	-	(201)	(201)
Exchange rate-indexed assets and liabilities	-	(536)	(536)	-	(444)	(444)
Deferred foreign exchange differences	92	-	92	118	-	118
Other assets and liabilities	745	-	745	674	-	674
Tax losses carried forward	5	-	5	-	-	0
	842	**(827)**	**15**	**792**	**(769)**	**23**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(827)	827	0	(769)	769	0
Deferred tax assets total	**15**	**0**	**15**	**23**	**0**	**23**

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34. Deferred tax assets and liabilities (continued)

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2021, according to which the domestic corporate income tax rate was 20% as at 31 December 2021 (2020: 20%).

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

2021	Balance 1.1	Recognised in income statement Tax (expense) income	Balance as at 31.12
Property and equipment	(124)	13	(111)
Intangibles	(201)	21	(180)
Foreign currency denominated assets and liabilities	(444)	(92)	(536)
Deferred foreign exchange differences	118	(26)	92
Other assets and other liabilities	674	71	745
Tax losses carried forward	-	5	5
Total	**23**	**(8)**	**15**

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

35. Other liabilities

See accounting policy in Note 83.28.

	2021	2020
Unsettled securities trading	5,473	4,688
Withholding tax	1,413	1,475
Accounts payable	1,349	674
Contribution to the Depositors' and Investors' Guarantee Fund	209	198
Non-controlling interests - Funds	557	47
Lease liabilities	2,164	2,567
Sundry liabilities	4,444	4,380
Total	**15,609**	**14,029**

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

36. Subordinated liabilities

See accounting policy in Note 83.30.

As at 31.12.2021	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	14,821
LBANK T2I 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3,85%	5,964
Total subordinated liabilities						**20,785**

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

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

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37. Equity

See accounting policy in Note 83.31.

Share capital

As of 31 December 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 378.8 million at year-end, or 1.58% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. All share capital is fully paid up.

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

In July and October 2021, the Bank's Board of Directors announced its decision to exercise the authorisation to purchase the Bank's own shares during buyback periods which extended from 26 July 2021 up to and including 9 August 2021 and from 1 November 2021 up to and including 15 November 2021. During these periods, the Bank acquired around 4 million own shares, for a total purchase price of around ISK 40 million. Prior to the repurchase period, Landsbankinn held 375 million own shares, or the equivalent of 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 ≥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 48 Capital requirements.

Other notes

38. Earnings per share

See accounting policy in Note 83.32.

Profit for the year	2021	2020
Profit for the year attributable to owners of the Bank	28,919	10,521

Weighted average number of shares	2021	2020
Weighted average number of ordinary shares issued	24,000	24,000
Weighted average number of own shares	(376)	(375)
Weighted average number of shares outstanding	**23,624**	**23,625**
Basic and diluted earnings per share from operations (ISK)	**1.22**	**0.45**

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.

39. 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 November 2021 the Appeal Court confirmed the decision of the District Court of Reykjavík that the plaintiff was to put up a surety for the payment of legal costs. On 30 September 2021 the Bank requested the dismissal of the case in a written statement. At a hearing of the case on 9 December 2021 the plaintiff submitted that assessors be appointed and an advisory opinion be requested from the EFTA Court. The next hearing of the case will be on 3 March 2022. In that hearing the parties will argue if the appointment of assessors and/or request of an advisory opinion can take place before the oral argumentation on dismissal of the case takes place.

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. On 12 November 2021 the District Court acquitted the Bank and the other defendants of all claims of the Pension Fund. The Fund has appealed the case to the Appeal Court.

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 did 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 demanded 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. On 15 December 2021 the District Court, at the request of the Bank, dismissed the case on grounds of insufficient legal reasoning. The decision of the Disctrict Court was not appealed to the Appeal Court. On 20 January 2022 the same individual commenced new litigation against the Bank on the same matter.

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39. Litigation (continued)

In December 2021 two individuals commenced litigation against the Bank claiming that an interest rate provision in two credit agreements, issued in 2006, should be deemed illegal and void since the provision allegedly does not stipulate under which circumstances the interest rate changes, as provided for in the Consumer Credit Act No. 121/1994, applicable at the time. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 3,5 million plus interest. The Bank has until 10 February 2022 to deliver its written statement in the case.

In December 2021 two individuals commenced litigation against the Bank claiming that an interest rate provision in a mortgage credit agreement, issued in 2019, should be deemed illegal and void since the provision allegedly does not stipulate conditions and procedure for interest rate changes, as provided for in the Consumer Mortgage Act No. 118/2016. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 83.000 plus interest. The Bank has until 10 February 2022 to deliver its written statement in the case.

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 May 2022.

40. Leasing

See accounting policy in Note 83.23.

a) The Group as a lessee

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

Right-of use assets	No. of right-of use assets	Remaining term	Average remaining term	No. with extension options	No. with inflation-indexed payments	No. with termination options
Real estate	25	1-10 years	4 years	20	24	11
ATM's	18	1-5 years	2 years	14	13	13

Lease assets

Right-of-use

The following table summarises the right-of-use assets disclosed under Other assets, see note 29, at year-end 2021.

	31.12.2021			31.12.2020		
	Real estate	ATMs	Total	Real estate	ATMs	Total
Opening balance	2,345	24	2,369	2,286	31	2,317
New contracts	98	2	100	210	-	210
Amendments	(33)	9	(24)	286	3	289
Inflation-indexation	102	1	103	81	1	82
Amortisation	(557)	(12)	(569)	(518)	(11)	(529)
Total	**1,955**	**24**	**1,979**	**2,345**	**24**	**2,369**

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40. Leasing (continued)

a) The Group as a lessee (continued)

Lease liabilities

The following table summarises lease liabilities disclosed in the Financial Statements at year-end 2021 under Other liabilities, see Note 35.

	31.12.2021			31.12.2020		
	Real estate	ATMs	Total	Real estate	ATMs	Total
Opening balance	(2,541)	(26)	(2,567)	(2,492)	(34)	(2,526)
New contracts	(98)	(2)	(100)	(210)	-	(210)
Amendments	33	(9)	24	(286)	(3)	(289)
Inflation-indexation	(102)	(1)	(103)	(81)	(1)	(82)
Interest on lease liabilities	(65)	(1)	(66)	(69)	(1)	(70)
Lease expense	635	13	648	597	13	610
Total	**(2,138)**	**(26)**	**(2,164)**	**(2,541)**	**(26)**	**(2,567)**

b) The Group as a lessor

Finance leases

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

The following table summarises the net investment in finance lease receivables at year-end 2021:

	2021			2020		
At 31 December	Gross investment in finance lease	Future finance income	Present value of minimum lease	Gross investment in finance lease	Future finance income	Present value of minimum lease
Between one and two years	-	-	-	22	0	22
Total	**0**	**0**	**0**	**22**	**0**	**22**

Unguaranteed residual value at year-end 2021 is nil (2020: nil).

41. Fiduciary activities

See accounting policy in Note 83.38.

The Group offers custodian, asset management, investment management and advisory services. These services require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets under custody are not reported in the Consolidated Financial Statements, since they are assets held on behalf of customers, institutions and pension funds and are not assets of the Group. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2021, financial assets managed by the Group amounted to ISK 656 billion (2020: ISK 489 billion). Custody accounts amounted to ISK 1,822 billion (2020: ISK 1.506 billion).

42. Interest in subsidiaries

See accounting policy in Note 83.1 (a).

The main subsidiaries held directly or indirectly by the Group as at 31 December 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 at year-end 2021.

Main subsidiaries as at 31 December 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 31 December 2021.

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43. Consolidated structured entities

See accounting policy in Note 83.2.

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

Assets	2021	2020
Bonds and debt instruments	354	1
Equities and equity instruments	820	107

Liabilities	2021	2020
Other liabilities	33	12
Non controlling interests	557	47

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

44. Unconsolidated structured entities

See accounting policy in Note 83.2.

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

			Total assets	
Type of structured entity	Nature and purpose	Interest held by the Group	2021	2020
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investment in units issued by fund	92,044	102,841
	These vehicles are financed through the issue of units to investors	Management fees		

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

	Carrying amount	
Investment securities	2021	2020
Investment funds	2,877	2,760
Total	**2,877**	**2,760**

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

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

	Carrying amount	
Off-balance sheet exposure 31 December	2021	2020
Financial guarantees	-	-
Undrawn overdraft and credit card facilities	30	8
Total	**30**	**8**

46. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98.2% of shares in the Bank at year-end 2021. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. All transactions with subsidiaries are eliminated on consolidation and are thus not disclosed in the Group's Consolidated Financial Statements. The main subsidiaries are summarised in Note 42 Interest in subsidiaries.

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

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46. Related party transactions (continued)

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 54 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:

	2021		2020	
Loans in ISK million	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	532	727	419	493
Parties related to key management personnel	181	283	121	168
Associates	939	949	233	271
Other	19	20	20	22
Total	**1,671**	**1,979**	**793**	**954**

Specific impairment allowance of ISK 374 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.

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

	2021		2020	
Deposits in ISK million	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personne	48	351	63	172
Parties related to key management personnel	65	261	64	127
Associates	208	1,124	151	554
Other	8	308	248	423
Total	**329**	**2,044**	**526**	**1,276**

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

Guarantees in ISK million	**Gross carrying amount as at 31 December 2021**	**Gross carrying amount as at 31 December 2020**
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	449	-
Total	**449**	**0**

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

Number of shares in ISK million	**2021**	**2020**
Key management personnel	2	2
Parties related to key management personnel	-	-
Associates	-	-
Total	**2**	**2**

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

46. Related party transactions (continued)

Transactions with other related parties (continued)

Effect on income statement

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

	2021		2020	
Interest income and expense	**Interest income**	**Interest expense**	**Interest income**	**Interest expense**
Key management personnel	18	-	10	2
Parties related to key management personnel	4	-	5	1
Associates	17	1	13	4
Other	1	1	1	3
Total	**40**	**2**	**29**	**10**

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

	2021		2020	
Other income and expense	**Other income**	**Other expense**	**Other income**	**Other expense**
Associates	-	816	-	883
Total	**0**	**816**	**0**	**883**

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

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2021:

Salary and benefits for the year 2021	Salary and benefits*	Defined contri- butions**	Total
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	14.0	1.7	15.7
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	9.4	1.3	10.7
Elín H. Jónsdóttir, Director	6.1	0.8	6.9
Guðbrandur Sigurðsson, Director	8.4	1.1	9.5
Guðrún Ó. Blöndal, Director	7.8	1.0	8.8
Helgi Friðjón Arnarson, Director	6.5	0.9	7.4
Þorvaldur Jacobsen, Director	8.2	1.1	9.3
Sigríður Olgeirsdóttir, Alternate Director	0.9	0.1	1.0
Sigurður Jón Björnsson, Alternate Director	0.9	0.1	1.0
Einar Þór Bjarnason, Former Director	2.0	0.3	2.3
Sigríður Benediktsdóttir, Former Director	2.0	0.3	2.3
Lilja Björk Einarsdóttir, CEO	45.4	8.7	54.1
Arinbjörn Ólafsson, Managing Director Information Technology	40.2	7.7	47.9
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	41.7	8.0	49.7
Bergsteinn Ólafur Einarsson, Managing Director Risk Management	8.0	1.6	9.6
Eyrún Anna Einarsdóttir, Managing Director Asset Management & Capital	8.0	1.6	9.6
Helgi Teitur Helgason, Managing Director Personal Banking	36.2	6.9	43.1
Hreiðar Bjarnason, Managing Director, CFO	37.0	7.1	44.1
Sara Pálsdóttir, Managing Director Community	6.7	1.3	8.0
Two former Managing Director of the Bank's divisions***	99.4	19.5	118.9
Total	**388.8**	**71.1**	**459.9**

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

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

*** In 2021, a termination of employment agreement was concluded with two Managing Director. All contractual termination payments have been recognised in the income statement for the year 2021.

In 2021 the total monthly average salary and benefits of the current CEO of the Bank amounted to ISK 3.8 million.

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46. Related party transactions (continued)

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

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

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

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

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

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

The Minister of Finance and the members of the Board of Directors of ISFI did not receive any salaries or similar payments from the Group during the year 2021. The Group did not enter into any transactions with these persons or close members of their families, other than normal banking transactions which were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

47. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the year ended 31 December 2021.

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Capital management

48. 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-Weighted Exposure Amount (RWEA) 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 RWEA):

As at 31.12.2021	**CET1**	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.0%	2.6%	3.5%
Minimum requirement under Pillar I and Pillar II-R	**6.5%**	**8.6%**	**11.5%**
Systemic risk buffer	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirement	**7.4%**	**7.4%**	**7.4%**
Total capital requirement	**13.9%**	**16.0%**	**18.9%**

On 29 September 2021 the Financial Stability Committy (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:

	31.12.2021	**29.9.2022**
Countercyclical capital buffer on domestic exposures	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 31.12.2020, as determined by the FSA, were as follows (as a percentage of RWEA):

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

Minimum Requirement for own funds and Eligible Liabilities (MREL)

Under the Act on Recovery and Resolution of Credit Institutions and Investment Firms, No. 70/2020, companies that fall under the scope of the Act shall at all times satisfy Minimum Requirements for own funds and Eligible Liabilities (MREL). The Central Bank of Iceland's Resolution Authority has begun the process of determining Landsbankinn's MREL and the decision is expected in the first half of 2022.

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49. Capital base, risk-weighted exposure amount and capital ratios

The following table shows the Group's capital base, risk-weighted 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.

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

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

Capital base	**2021**	**2020**
Share capital	23,621	23,625
Share premium	120,594	120,630
Reserves	23,591	19,250
Retained earnings	114,839	94,750
Total equity attributable to owners of the Bank	**282,645**	**258,255**
Intangible assets	(14)	(1,696)
Deferred tax assets	(15)	(23)
Fair value hedges	(758)	(1,643)
Adjustment under IFRS 9 transitional arrangements	1,674	5,353
Common equity Tier 1 capital (CET1)	**283,532**	**260,246**
Non-controlling interests	-	-
Tier 1 capital	**283,532**	**260,246**
Subordinated liabilities	20,785	21,366
Tier 2 capital	**20,785**	**21,366**
Total capital base	**304,317**	**281,612**

Risk-weighted exposure amount (RWEA)		
Credit risk	1,032,889	1,010,588
Market risk	9,909	11,526
Operational risk	101,194	99,485
Total risk-weighted exposure amount	**1,143,992**	**1,121,599**

CET1 ratio	**24.8%**	**23.2%**
Tier 1 capital ratio	**24.8%**	**23.2%**
Total capital ratio	**26.6%**	**25.1%**
CET1 Ratio as if IFRS 9 transitional arrangements were not applied	**24.6%**	**22.7%**
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	**24.6%**	**22.7%**
Total capital ratio as if IFRS 9 transitional arrangements were not applied	**26.5%**	**24.6%**

The Board of Directors intends to propose to the Annual General Meeting (AGM), scheduled to be held on 23 March 2022, that a dividend of ISK 0.61 per share be paid to shareholders for the operating year 2021. The total dividend of ISK 14,409 million corresponds to around 50% of the consolidated profit in 2021. Should the AGM approve the dividend proposal, the Group's capital base will decrease by an amount equal to the dividend payment and the Bank's capital ratios, in accordance with the Act on Financial Undertakings, will decrease by 1.3 percentage points.

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50. Leverage ratio

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

Leverage ratio	2021	2020
- On-balance sheet exposure (excluding derivatives and SFTs)	1,711,930	1,556,541
- Derivative instrument exposure	8,799	5,944
- Securities financing transaction exposures	21,958	4,366
- Off-balance sheet exposure	160,994	130,089
- Regulatory adjustments to Tier 1 capital	887	(3,362)
Total leverage exposure	**1,904,568**	**1,693,578**
Tier 1 capital	**283,532**	**260,246**
Leverage ratio	**14.9%**	**15.4%**
Leverage ratio as if IFRS 9 transitional arrangements were not applied	**14.8%**	**15.1%**

Economic capital

51. Economic capital framework

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

Further information about the Group's assessment of EC is provided in the Group's Pillar III Risk Report for 2021, published in conjunction with the Annual Financial Statement and available on the Bank's website, www.landsbankinn.is

Economic capital ISK million	2021	2020
Credit risk - Loans to customers and credit institutions	66,341	72,194
Credit risk - Other assets	9,691	7,583
Market risk	1,670	2,300
Currency risk	540	964
Operational risk	8,096	7,959
Single name concentration risk	6,460	7,226
Industry concentration risk	1,003	1,618
Interest rate risk and inflation risk in the banking book	10,489	7,878
Business risk	-	-
Legal and regulatory risk	2	2,329
Total	**104,292**	**110,051**
EC/RWEA	9.1%	9.8%

	Weighted average			
Credit risk as at 31 December 2021	**Probability of default (PD)**	**Loss given default (LGD)**	**Exposure at default (EAD)**	**Economic capital (EC)**
Financial institutions	0.1%	45.0%	45,553	729
Public entities	1.4%	45.0%	5,682	140
Retail	1.5%	24.1%	810,677	17,423
Corporates	3.0%	34.3%	680,847	48,049
Total EC	**2.1%**	**29.3%**	**1,542,759**	**66,341**
Credit risk as at 31 December 2020				
Financial institutions	0.1%	45.0%	47,884	770
Public entities	0.7%	45.0%	9,832	163
Retail	1.8%	24.7%	671,855	15,245
Corporates	4.1%	34.0%	702,549	56,016
Total EC	**2.9%**	**30.1%**	**1,432,120**	**72,194**

Risk management

52. Risk management

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

The objective of the Group's risk policies and procedures is to ensure that the risks in its operation are detected, measured, monitored and effectively managed. Exposure to risk is managed to ensure that it remains within limits and that the risk appetite adopted by the Group complies with regulatory requirements. To limit and manage fluctuations that might affect the Group's equity, liquidity and performance, the Group has adopted policies regarding the risk structure of its asset portfolio.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, risk appetite, and setting risk limits. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees.

Effective sub-committees of the Board of Directors provide important preparation for Board meetings. The establishment of sub-committees is designed to facilitate discussion and deeper analysis of issues for the Board's attention and its efficacy. There are currently three sub-committees. The Audit Committee's role is to ensure the quality of the Group's financial statements and other financial information, as well as the independence of its auditors. The Risk Committee serves as a consulting entity to the Board of Directors in the development of the Group's risk strategy and risk appetite. The Remuneration Committee's role is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the board on the remuneration policy.

The Executive Board serves as a forum for discussion about business opportunities and challenges, approves funding for larger projects, and serves as a decision-making platform on matters that do not fall under the remit of other committees. The main role of the Executive Board is to ensure compliance of the Group's operation with laws, regulations, business plans and policies of the Bank at any given time. There are four sub-committees at the Executive Board level. The Credit Committee's main role is to ensure that the Group's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The Credit Committee covers individual credit decisions, credit limits for customers, credit quality and large exposures, among other things. The Risk & Finance Committee primarily covers market and liquidity risk and is responsible for formulating risk limits for these factors for the Board of Directors. The committee also covers counterparty risk, reviews various rules and policies regarding risk, reviews ICAAP methodology and scenarios, and reviews the Group's market risk, liquidity risk and economic capital policies. The Operational Risk Committee is a forum for discussion and decisions on operational risk issues and review of the effective implementation of the operational risk policy of the Bank. The Project Committee selects, prioritises, oversees and supports the Group's bigger projects and digital transformation projects.

Compliance is an independent function which reports directly to the CEO and operates in accordance with a letter of appointment from the Board of Directors. The operation of Compliance is shaped by its independence from other units.

Internal Audit is an independent, objective assurance and consulting unit that is a part of the Group's organizational chart and an element of its internal control system.

The Risk Management Division is responsible for the Group's risk management framework. Subsidiaries of the Group have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposure. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities. The Risk Management Division comprised six departments at year-end 2021.

Further information about the Group's risk and capital management is provided in the Group's Pillar III Risk Report for 2021, published in conjunction with the Annual Financial Statement and available on the Bank's website, www.landsbankinn.is.

Credit risk

53. Credit risk

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

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

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

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

The following tables show the Group's maximum credit risk exposure as at 31 December 2021 and 31 December 2020. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Consolidated Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, undrawn loan commitments, and undrawn overdraft and credit card facilities.

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

				Corporates											
As at 31 December 2021	**Financial institutions**	**Public entities ***	**Individuals**	**Fisheries**	**Real estate companies**	**Construction companies**	**Travel industry**	**Services, ITC ****	**Retail**	**Manufacturing and energy**	**Holding companies**	**Agri-culture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	82,425	-	-	-	-	-	-	-	-	-	-	-	**82,425**	**82,425**
Bonds and debt instruments	179	98,539	-	-	61	-	-	1,722	-	30	13	-	-	**100,544**	**150,435**
Equities and equity instruments	135	-	-	51	57	-	9	2,346	12	170	19,068	-	-	**21,848**	**33,347**
Derivative instruments	1,068	-	-	2	1	31	-	12	17	-	-	-	102	**1,233**	**1,233**
Loans and advances to financial institutions	47,231	-	-	-	-	-	-	-	-	-	-	-	-	**47,231**	**47,231**
Loans and advances to customers	-	3,895	725,543	177,439	120,326	89,867	97,635	56,872	49,535	30,117	30,077	6,157	-	**1,387,463**	**1,387,463**
Other assets	19,695	29	2	3	1,984	-	2	4,618	-	15	1	-	1,288	**27,637**	**27,664**
Total on-balance sheet exposure	**68,308**	**184,888**	**725,545**	**177,495**	**122,429**	**89,898**	**97,646**	**65,570**	**49,564**	**30,332**	**49,159**	**6,157**	**1,390**	**1,668,381**	**1,729,798**
Off-balance sheet exposure	**1**	**8,004**	**33,096**	**18,061**	**15,355**	**67,611**	**16,516**	**20,439**	**24,385**	**16,077**	**1,126**	**574**	**26**	**221,271**	
Financial guarantees and underwriting commitments	-	-	562	6,406	1,475	4,700	2,145	3,149	3,207	4,110	965	70	-	26,789	
Undrawn loan commitments	-	2	-	9,413	12,817	60,277	13,061	8,431	14,965	8,346	-	196	-	127,508	
Undrawn overdraft/credit card facilities	1	8,002	32,534	2,242	1,063	2,634	1,310	8,859	6,213	3,621	161	308	26	66,974	
Maximum exposure to credit risk	**68,309**	**192,892**	**758,641**	**195,556**	**137,784**	**157,509**	**114,162**	**86,009**	**73,949**	**46,409**	**50,285**	**6,731**	**1,416**	**1,889,652**	
Percentage of maximum exposure to credit risk	3.6%	10.2%	40.1%	10.3%	7.3%	8.3%	6.0%	4.6%	3.9%	2.5%	2.7%	0.4%	0.1%	100%	

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

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

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

As at 31 December 2020	Financial institutions	Public entities *	Individuals	Corporates: Fisheries	Corporates: Real estate companies	Corporates: Construction companies	Corporates: Travel industry	Corporates: Services, ITC **	Corporates: Retail	Corporates: Manufactur-ing and energy	Corporates: Holding companies	Corporates: Agri-culture	Corporates: Other	Maximum exposure	Carrying amount
Cash and balances with Central Bank	-	67,604	-	-	-	-	-	-	-	-	-	-	-	**67,604**	**67,604**
Bonds and debt instruments	26	79,204	-	-	-	-	-	1,412	-	4,560	22	-	-	**85,224**	**119,330**
Equities and equity instruments	1	-	-	41	-	-	1	1,655	1	49	16,286	-	-	**18,034**	**26,808**
Derivative instruments	3,000	-	-	15	2	134	-	-	71	-	5	-	75	**3,302**	**3,303**
Loans and advances to financial institutions	48,073	-	-	-	-	-	-	-	-	-	-	-	-	**48,073**	**48,073**
Loans and advances to customers	-	4,128	592,216	179,713	129,462	82,345	95,996	67,352	53,590	30,231	31,849	6,544	-	**1,273,426**	**1,273,426**
Other assets	15,864	26	65	-	2,430	1	-	4,129	-	-	24	-	1,375	**23,914**	**25,633**
Total on-balance sheet exposure	**66,964**	**150,962**	**592,281**	**179,769**	**131,894**	**82,480**	**95,997**	**74,548**	**53,662**	**34,840**	**48,186**	**6,544**	**1,450**	**1,519,577**	**1,564,177**
Off-balance sheet exposure	**139**	**6,953**	**32,240**	**18,294**	**14,836**	**43,786**	**16,948**	**17,495**	**20,504**	**14,223**	**2,539**	**292**	**38**	**188,287**	
Financial guarantees and underwriting commitments	138	44	645	7,188	1,461	4,395	2,762	2,716	2,640	1,379	665	1	35	24,069	
Undrawn loan commitments	-	-	-	9,028	11,633	36,740	12,642	5,821	12,651	9,510	1,513	17	-	99,555	
Undrawn overdraft/credit card facilities	1	6,909	31,595	2,078	1,742	2,651	1,544	8,958	5,213	3,334	361	274	3	64,663	
Maximum exposure to credit risk	**67,103**	**157,915**	**624,521**	**198,063**	**146,730**	**126,266**	**112,945**	**92,043**	**74,166**	**49,063**	**50,725**	**6,836**	**1,488**	**1,707,864**	
Percentage of maximum exposure to credit risk	3.9%	9.2%	36.6%	11.6%	8.6%	7.4%	6.6%	5.4%	4.3%	2.9%	3.0%	0.4%	0.1%	100.0%	

* 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.

All amounts are in ISK million

55. 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 ratio indicates that there is a smaller buffer to protect against a price fall of a collateral or an increase in a loan balance when repayments are not made and unpaid interest is added to the outstanding balance of the loan.

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2021	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*	Without collateral	Allowance for impairment	Carrying amount
Financial institutions	-	-	-	-	0	-	-	47,231	-	47,231
Public entities	22	143	171	7	343	62	29	3,493	(3)	3,895
Individuals	**46,322**	**167,153**	**438,265**	**39,057**	**690,797**	**3,279**	**1,853**	**32,826**	**(1,359)**	**725,543**
Mortgages	38,543	155,307	418,150	33,627	645,627	1,025	574	329	(466)	646,515
Other	7,779	11,846	20,115	5,430	45,170	2,254	1,279	32,497	(893)	79,028
Corporates	**26,460**	**150,916**	**183,256**	**173,828**	**534,460**	**107,979**	**84,658**	**28,047**	**(12,461)**	**658,025**
Fisheries	10,064	56,503	61,963	46,361	174,891	1,740	1,343	1,011	(203)	177,439
Real estate companies	3,026	20,777	56,098	29,864	109,765	9,692	7,887	2,192	(1,323)	120,326
Construction companies	635	6,799	15,339	16,332	39,105	49,897	40,166	2,437	(1,572)	89,867
Travel industry	1,097	7,351	21,162	51,663	81,273	18,103	15,784	5,208	(6,949)	97,635
Services, IT and communications	1,184	8,062	13,635	8,071	30,952	17,444	13,101	9,119	(643)	56,872
Retail	2,980	24,912	7,441	6,675	42,008	6,757	4,315	1,951	(1,181)	49,535
Manufacturing and energy	927	8,913	4,591	6,960	21,391	3,326	1,587	5,899	(499)	30,117
Holding companies	5,719	15,614	1,418	6,841	29,592	459	226	103	(77)	30,077
Agriculture	828	1,985	1,609	1,061	5,483	561	249	127	(14)	6,157
Other	-	-	-	-	-	-	-	-	-	0
Total	**72,804**	**318,212**	**621,692**	**212,892**	**1,225,600**	**111,320**	**86,540**	**111,597**	**(13,823)**	**1,434,694**

*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.

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

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

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

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56. 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 of claim.

As at 31 December 2021	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**335**	**-**	**2**	**-**	**36**	**373**
Individuals	**673,171**	**63**	**115**	**3,455**	**15,485**	**692,289**
Mortgages	640,569	14	29	58	5,174	645,844
Other	32,602	49	86	3,397	10,311	46,445
Corporates	**325,539**	**134,081**	**1,958**	**71,713**	**85,826**	**619,117**
Fisheries	9,551	131,496	46	21,431	13,710	176,234
Real estate companies	108,951	81	676	6,371	1,572	117,651
Construction companies	76,319	12	307	35	2,597	79,270
Travel industry	66,319	704	173	103	29,758	97,057
Services, IT and communications	26,774	1,779	255	4,223	11,024	44,055
Retail	20,492	2	138	11,675	14,015	46,322
Manufacturing and energy	10,083	7	48	-	12,840	22,978
Holding companies	1,615	-	313	27,875	15	29,818
Agriculture	5,435	-	2	-	295	5,732
Other	-	-	-	-	-	0
Total	**999,045**	**134,144**	**2,075**	**75,168**	**101,347**	**1,311,779**

As at 31 December 2020	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	**293**	**-**	**1**	**-**	**14**	**308**
Individuals	**541,822**	**82**	**131**	**3,137**	**15,382**	**560,554**
Mortages	511,893	10	30	58	4,578	516,569
Other	29,929	72	101	3,079	10,804	43,985
Corporates	**341,572**	**129,320**	**3,082**	**75,126**	**84,299**	**633,399**
Fisheries	10,005	127,319	158	25,400	10,000	172,882
Real estate companies	121,135	50	649	668	1,644	124,146
Construction companies	75,537	18	964	36	2,677	79,232
Travel industry	65,818	750	399	205	27,493	94,665
Services, IT and communications	24,773	1,092	240	10,931	13,619	50,655
Retail	23,424	89	182	11,191	15,089	49,975
Manufacturing and energy	11,816	2	63	1	13,317	25,199
Holding companies	3,123	-	424	26,694	142	30,383
Agriculture	5,941	-	3	-	318	6,262
Other	-	-	-	-	-	0
Total	**883,687**	**129,402**	**3,214**	**78,263**	**99,695**	**1,194,261**

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

57. Loans and advances by geographical area

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

As at 31 December 2021	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	104	47,127	47,231
Loans and advances to customers	1,356,672	30,791	1,387,463
Total	**1,356,776**	**77,918**	**1,434,694**

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

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58. Credit quality of loans and advances

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

As at 31 December 2021	Gross carrying amount 10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**47,231**	**-**	**-**	**-**	**-**	**-**	**47,231**
Public entities	**148**	**3,750**	**-**	**-**	**-**	**(3)**	**3,895**
Individuals	**371,025**	**329,427**	**22,809**	**2,738**	**903**	**(1,359)**	**725,543**
Mortgages	343,099	284,502	16,963	1,738	679	(466)	646,515
Other	27,926	44,925	5,846	1,000	224	(893)	79,028
Corporates	**80,664**	**491,799**	**67,916**	**29,267**	**840**	**(12,461)**	**658,025**
Fisheries	31,263	140,433	5,899	47	-	(203)	177,439
Real estate companies	954	107,092	9,518	3,442	643	(1,323)	120,326
Construction companies	2,548	73,603	6,377	8,911	-	(1,572)	89,867
Travel industry	309	62,650	29,232	12,271	122	(6,949)	97,635
Services, IT and communications	5,269	48,861	2,347	1,038	-	(643)	56,872
Retail	22,956	24,873	1,577	1,235	75	(1,181)	49,535
Manufacturing and energy	16,697	9,536	2,218	2,165	-	(499)	30,117
Holding companies	-	19,519	10,624	11	-	(77)	30,077
Agriculture	668	5,232	124	147	-	(14)	6,157
Other	-	-	-	-	-	-	0
Total	**499,068**	**824,976**	**90,725**	**32,005**	**1,743**	**(13,823)**	**1,434,694**

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

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59. Loans and advances by past due status

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

As at 31 December 2021	Gross carrying amount Not past due	Days past due 1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**47,231**	**-**	**-**	**-**	**-**	**-**	**-**	**47,231**
Public entities	**3,869**	**29**	**-**	**-**	**-**	**-**	**(3)**	**3,895**
Individuals	**720,122**	**2,108**	**1,060**	**1,726**	**719**	**1,167**	**(1,359)**	**725,543**
Mortgages	643,594	-	716	1,420	585	666	(466)	646,515
Other	76,528	2,108	344	306	134	501	(893)	79,028
Corporates	**659,706**	**1,920**	**1,017**	**454**	**648**	**6,741**	**(12,461)**	**658,025**
Fisheries	177,415	190	24	2	-	11	(203)	177,439
Real estate companies	118,967	225	503	66	130	1,758	(1,323)	120,326
Construction companies	89,939	680	177	63	2	578	(1,572)	89,867
Travel industry	100,845	114	76	174	433	2,942	(6,949)	97,635
Services, IT and communications	56,752	258	187	15	26	277	(643)	56,872
Retail	49,100	381	19	98	55	1,063	(1,181)	49,535
Manufacturing and energy	30,422	37	20	25	-	112	(499)	30,117
Holding companies	30,136	6	10	-	2	-	(77)	30,077
Agriculture	6,130	29	1	11	-	-	(14)	6,157
Other	-	-	-	-	-	-	-	0
Total	**1,430,928**	**4,057**	**2,077**	**2,180**	**1,367**	**7,908**	**(13,823)**	**1,434,694**

As at 31 December 2020	Gross carrying amount Not past due	Days past due 1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**48,074**	**-**	**-**	**-**	**-**	**-**	**(1)**	**48,073**
Public entities	**4,169**	**-**	**-**	**-**	**-**	**-**	**(41)**	**4,128**
Individuals	**585,132**	**2,038**	**1,216**	**2,758**	**1,530**	**1,849**	**(2,307)**	**592,216**
Mortgages	514,190	-	880	2,201	1,232	967	(1,221)	518,249
Other	70,942	2,038	336	557	298	882	(1,086)	73,967
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**

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60. Loans and advances by stage allocation

The tables below show both the gross carrying amount of loans and advances and the related expected credit losses (ECLs) by industry sectors and the three-stage criteria under IFRS 9.

		Stage 1		Stage 2		Stage 3				
As at 31 December 2021	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL	Allowance for impairment	Fair Value	Carrying amount
Financial institutions	**47,231**	**47,231**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47,231**
Public entities	**3,898**	**3,868**	**(3)**	**30**	**-**	**-**	**-**	**(3)**	**-**	**3,895**
Individuals	**726,902**	**696,781**	**(319)**	**26,790**	**(408)**	**2,738**	**(632)**	**(1,359)**	**593**	**725,543**
Mortgages	646,981	626,118	(137)	19,125	(214)	1,738	(115)	(466)	-	646,515
Other	79,921	70,663	(182)	7,665	(194)	1,000	(517)	(893)	593	79,028
Corporates	**670,486**	**539,869**	**(1,523)**	**79,801**	**(3,690)**	**29,267**	**(7,248)**	**(12,461)**	**21,549**	**658,025**
Fisheries	177,642	170,822	(158)	3,465	(19)	47	(26)	(203)	3,308	177,439
Real estate companies	121,649	104,590	(221)	7,190	(331)	3,442	(771)	(1,323)	6,427	120,326
Construction companies	91,439	78,640	(520)	3,512	(41)	8,911	(1,011)	(1,572)	376	89,867
Travel industry	104,584	40,383	(303)	51,930	(3,155)	12,271	(3,491)	(6,949)	-	97,635
Services, IT and communications	57,515	46,714	(171)	6,834	(64)	1,038	(408)	(643)	2,929	56,872
Retail	50,716	47,354	(68)	982	(19)	1,235	(1,094)	(1,181)	1,145	49,535
Manufacturing and energy	30,616	26,150	(21)	2,301	(38)	2,165	(440)	(499)	-	30,117
Holding companies	30,154	19,291	(52)	3,488	(20)	11	(5)	(77)	7,364	30,077
Agriculture	6,171	5,925	(9)	99	(3)	147	(2)	(14)	-	6,157
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,448,517**	**1,287,749**	**(1,845)**	**106,621**	**(4,098)**	**32,005**	**(7,880)**	**(13,823)**	**22,142**	**1,434,694**

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60. Loans and advances by stage allocation (continued)

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

All amounts are in ISK million

61. Impairment allowance on loans and advances

See accounting policy in Note 83.11 (g).

The following tables show changes in the impairment allowance on loans and advances during the year 2021.

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2021 - Financial institutions	**(1)**	**0**	**0**	**(1)**
Changes in models/risk parameters	1	-	-	1
Balance as at 31 December 2021 - Financial institutions	**0**	**0**	**0**	**0**
- therof classified as deduction from gross carrying amounts	-	-	-	0
- therof classified as liabilities	-	-	-	0

	,	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2021 - Loans and advances to customers	**(4,224)**	**(6,969)**	**(14,110)**	**(25,303)**
New financial assets originated	(882)	(339)	(1,627)	(2,848)
Reversals due to financial assets that have been derecognised	1,141	1,118	2,501	4,760
Transfer to Stage 1 - 12-month ECL	(115)	105	10	0
Transfer to Stage 2 - Lifetime ECL	205	(262)	57	0
Transfer to Stage 3 - Lifetime ECL	174	387	(561)	0
Changes in models/risk parameters	1,525	1,730	1,518	4,773
Provisions used to cover write-offs	2	10	4,233	4,245
Balance as at 31 December 2021 - Loans and advances to customers	**(2,174)**	**(4,220)**	**(7,979)**	**(14,373)**
- therof classified as deduction from gross carrying amounts	(1,845)	(4,098)	(7,880)	(13,823)
- therof classified as liabilities	(329)	(122)	(99)	(550)

	1.1-31.12.2021				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	-	(285)	(2,563)	(2,848)
Reversals due to financial assets that have been derecognised	-	1	500	4,259	4,760
Changes due to financial assets recognised in the opening balance	-	40	496	4,238	4,774
Write-offs	-	-	(468)	(4,214)	(4,682)
Provisions used to cover write-offs	-	-	246	3,999	4,245
Recoveries	-	-	855	139	994
Translation difference	-	-	-	(168)	(168)
Net impairment on loans and advances	**0**	**41**	**1,344**	**5,690**	**7,075**

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61. Impairment allowance on loans and advances (continued)

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

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

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

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

62. Large exposures

As at 31 December 2021, five customer groups were rated as large exposures in accordance with current 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.

As at 31 December 2021	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's tier 1 capital	2	61,480
Large exposures between 0% and 10% of the Group's tier 1 capital	3	32,253
Total	**5**	**93,733**
Total ratio of large exposures to tier 1 capital		33%
As at 31 December 2020		
Large exposures between 10% and 20% of the Group's eligible capital	3	104,514
Large exposures between 0% and 10% of the Group's eligible capital	1	7,134
Total	**4**	**111,648**
Total ratio of large exposures to eligible capital		40%

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63. Bonds and debt instruments

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

Government bonds and treasury bills	2021	2020
Rated AAA	41,182	19,546
Rated AA- to AA+	28,037	21,616
Rated A- to A+	62,316	55,448
Rated BB+ and below	622	207
Rated BBB+ and below	-	26
	132,157	**96,843**
Corporate bonds		
Rated A- to A+	615	3,389
Rated BBB- to BBB+	135	4,311
Unrated	5,007	3,437
	5,757	**11,137**
Asset-backed securities		
Rated BBB- to BBB+	12,521	11,350
	12,521	**11,350**
Total	**150,435**	**119,330**

The following table shows the carrying amount of bonds for which the issuers have failed to make contractually due payments.

As at 31 December 2021	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	11	11
Total	**0**	**11**	**11**
As at 31 December 2020			
Holding companies	-	20	20
Total	**0**	**20**	**20**

64. Derivative instruments

The following table summarises the Group's exposure in derivative instruments by Standard & Poor's counterparty ratings:

	2021			2020		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Rated A- to A+	166,629	966	1,311	105,436	1,981	3,036
Rated BBB- to BBB+	13,043	100	211	49,842	985	12
Rated BB+ and below	2,252	16	6	2,107	71	4
Unrated	102,356	151	418	50,058	266	672
Total	**284,280**	**1,233**	**1,946**	**207,443**	**3,303**	**3,724**

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65. Offsetting financial assets and financial liabilities

The following table discloses the Group's net amounts of financial assets and financial liabilities which are subject to offsetting, enforceable master netting agreements and other similar agreements.

As at 31 December 2021

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

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received	Net financial assets subject to netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
Derivatives	1,233	-	1,233	(343)	(1,224)	(334)	-	1,233

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

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged	Net financial liabilities subject netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
Derivatives	(1,946)	-	(1,946)	(343)	1,118	(1,171)	-	(1,946)
Short positions	(2,616)	-	(2,616)	-	2,616	-	-	(2,616)
Total	**(4,562)**	**0**	**(4,562)**	**(343)**	**3,734**	**(1,171)**	**0**	**(4,562)**

As at 31 December 2020

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

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

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

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

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Liquidity risk

66. Liquidity risk

The Bank's main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The objective of the LCR is to promote short-term liquidity resilience by ensuring that sufficient high-quality liquid assets are available to survive a significant stress scenario lasting 30 calendar days. However, NSFR objective is to limit the maturity mismatch of assets and liabilities and overreliance on unstable short-term funding of long-term assets.

67. Liquidity risk management

The Bank's main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The objective of the LCR is to promote short-term resilience by ensuring that the Group has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. NSFR has a longer time horizon and its objective is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities and to limit overreliance on short-term wholesale funding.

The Group complies with liquidity rules set by the Central Bank of Iceland, No. 266/2017, on Credit Institutions' Liquidity Ratios. 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 of financial undertakings. 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 Group monitors intraday liquidity risk, short-term 30-day liquidity risk, medium and longer-term liquidity risk and risk arising from mismatches of longer-term assets and liabilities.

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

The Group conducts monthly stress tests by simulating the Group's liquidity coverage ratio (LCR). The simulation is repeated numerous times and provides an output distribution for the LCR for the next 30 days which is compared to the risk appetite.

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 fulfil the requirements of liquid assets according to rules No. 266/2017. Estimated inflow and outflow weights, according to rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 31 December 2021 and 31 December 2020 are shown in the following table:

	ISK		Foreign currencies		Total	
Liquidity coverage ratio 31 December 2021	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	139,388	139,388	71,156	71,156	210,545	210,544
Level 2 liquid assets	11,945	8,361	229	194	12,173	8,556
Information items	9,903	-	10	-	9,913	-
Total liquid assets	**161,236**	**147,749**	**71,395**	**71,350**	**232,631**	**219,100**
Deposits	604,555	122,046	115,772	47,492	720,326	169,538
Borrowing	-	-	142	142	142	142
Other outflows	124,953	17,319	34,638	3,716	159,592	21,035
Total outflows (0-30 days)	**729,508**	**139,365**	**150,552**	**51,350**	**880,060**	**190,715**
Loans and advances to financial institutions	10,438	-	47,128	44,651	57,566	44,651
Other inflows	33,640	16,323	13,773	7,198	47,412	23,521
Limit on inflows	-	-	-	(13,337)	-	-
Total inflows (0-30 days)	**44,078**	**16,323**	**60,901**	**38,512**	**104,978**	**68,172**
Liquidity coverage ratio		**120%**		**556%**		**179%**

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67. Liquidity risk management (continued)

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

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

Liquidity reserves as at 31 December 2021	**ISK**	**Foreign currencies**	**Total**
Cash and balances with the Central Bank	77,334	1,937	79,271
Domestic bonds and debt instruments eligible as collateral with the Central Bank	73,999	229	74,228
Foreign government bonds with 0% risk weight	-	69,219	69,219
High quality liquidity assets	**151,333**	**71,385**	**222,718**
Loans and advances to financial institutions	10,438	47,128	57,566
Total liquidity reserves	**161,771**	**118,513**	**280,284**

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

The Group measures the net stable funding ratio (NSFR) as another key indicator of liquidity risk up to 12 months. The following table shows the values of the NSFR for foreign currencies and NSFR total as at 31 December 2021 and 31 December 2020.

	2021	**2020**
Net stable funding ratio FX	142%	132%
Net stable funding ratio total	121%	116%

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67. Liquidity risk management (continued)

The following table shows the Group's deposits categorised based on the methodology set out in liquidity Rules No. 266/2017. The deposit groups are categorised by maturity as well as applied run-off rate which indicates their level of stickiness. Analysis of stickiness is the Bank's preferred method of measuring the tendency of funding not to run off quickly under stress.

As at 31. December 2021	Run off rate	0-30 days	Over 30 days	Total
Individuals	5% - 100%	353,612	114,234	467,846
Small and Medium Sized Corporates	5% - 100%	88,358	6,121	94,479
Operational deposits	5% - 25%	-	-	-
Large Corporates	20% - 40%	185,594	33,970	219,564
Public entities	20% - 40%	38,926	2,231	41,157
Financial customers	100%	50,739	24,080	74,819
Pledged deposits		12,154	503	12,657
Total deposits		**729,383**	**181,139**	**910,522**

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

68. 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 67.

The amounts in the maturity analyses as at year-end 2021 and 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. This applies, inter alia, to demand deposits which are included in the earliest time span. Where the Group is committed to have amounts available in instalments, each instalment 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 67 the Group conducts a monthly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals at year-end 2021 and 2020. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

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68. 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 2021:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(10,372)	-	-	-	-	-	(10,372)	(10,425)
Deposits from customers	(718,631)	(147,851)	(11,277)	(19,930)	(6,843)	-	(904,532)	(900,098)
Short positions	-	(31)	(7)	(2,001)	(744)	-	(2,783)	(2,616)
Borrowings	(69)	(43,790)	(48,345)	(367,744)	(76,214)	-	(536,162)	(486,042)
Other financial liabilities	(9,195)	-	-	-	-	-	(9,195)	(9,195)
Subordinated liabilities	-	-	(698)	(2,896)	(24,480)	-	(28,074)	(20,785)
Total	**(738,267)**	**(191,672)**	**(60,327)**	**(392,571)**	**(108,281)**	**0**	**(1,491,118)**	**(1,429,161)**
Derivative financial liabilities								
Trading								(427)
Inflow	8,458	9,477	2,701	-	-	-	20,636	
Outflow	(8,779)	(9,584)	(2,758)	-	-	-	(21,121)	
Risk management								(1,519)
Inflow	18,205	12,530	1,328	3,384	-	-	35,447	
Outflow	(18,753)	(13,048)	(1,341)	(3,885)	-	-	(37,027)	
Total	**(869)**	**(625)**	**(70)**	**(501)**	**0**	**0**	**(2,065)**	**(1,946)**
Non-derivative financial assets								
Cash and balances with Central Bank	82,425	-	-	-	-	-	82,425	82,425
Bonds and debt instruments	27,234	41,264	35,597	39,828	11,517	-	155,440	150,435
Equities and equity instruments	-	-	-	-	-	33,347	33,347	33,347
Loans and advances to financial institutions	47,128	-	-	-	-	-	47,128	47,231
Loans and advances to customers	69,923	54,628	195,785	573,244	1,484,240	-	2,377,820	1,387,463
Other financial assets	8,800	-	-	-	-	-	8,800	8,800
Total	**235,510**	**95,892**	**231,382**	**613,072**	**1,495,757**	**33,347**	**2,704,960**	**1,709,701**
Derivative financial assets								
Trading								167
Inflow	15,961	8,500	1,196	1,213	-	-	26,870	
Outflow	(15,875)	(8,478)	(1,153)	(1,210)	-	-	(26,716)	
Risk management								1,066
Inflow	13,315	83,778	443	44,723	-	-	142,259	
Outflow	(13,230)	(83,345)	(170)	(44,442)	-	-	(141,187)	
Total	**171**	**455**	**316**	**284**	**0**	**0**	**1,226**	**1,233**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(1,300)	(1,053)	(4,089)	(4,037)	(12,358)	(3,952)	(26,789)	
Undrawn loan commitments	(127,508)	-	-	-	-	-	(127,508)	
Undrawn overdraft/credit card commitments	(66,974)	-	-	-	-	-	(66,974)	
Total	**(195,782)**	**(1,053)**	**(4,089)**	**(4,037)**	**(12,358)**	**(3,952)**	**(221,271)**	
Net liquidity position	**(699,237)**	**(97,003)**	**167,212**	**216,247**	**1,375,118**	**29,395**	**991,732**	**279,827**

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

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

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

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69. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2021:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(116,624)	(44,947)	(18,407)	(213,343)	(15,683)	-	(409,004)	(1,007,200)
ISK	(621,643)	(146,725)	(41,920)	(179,228)	(92,598)	-	(1,082,114)	(421,961)
Total	**(738,267)**	**(191,672)**	**(60,327)**	**(392,571)**	**(108,281)**	**0**	**(1,491,118)**	**(1,429,161)**
Derivative financial liabilities								
Total in foreign currencies	5,266	7,514	2,696	(1)	-	-	15,475	(1,197)
ISK	(6,135)	(8,139)	(2,766)	(500)	-	-	(17,540)	(749)
Total	**(869)**	**(625)**	**(70)**	**(501)**	**0**	**0**	**(2,065)**	**(1,946)**
Non-derivative financial assets								
Total in foreign currencies	85,784	58,910	82,313	160,912	2,703	916	391,538	1,340,052
ISK	149,726	36,982	149,069	452,160	1,493,054	32,431	2,313,422	369,649
Total	**235,510**	**95,892**	**231,382**	**613,072**	**1,495,757**	**33,347**	**2,704,960**	**1,709,701**
Derivative financial assets								
Total in foreign currencies	10,657	6,842	(240)	306	-	-	17,565	1,197
ISK	(10,486)	(6,387)	556	(22)	-	-	(16,339)	36
Total	**171**	**455**	**316**	**284**	**0**	**0**	**1,226**	**1,233**
Off-balance sheet items								
Total in foreign currencies	(31,193)	(381)	(2,589)	(887)	(6,205)	-	(41,255)	
ISK	(164,589)	(672)	(1,500)	(3,150)	(6,153)	(3,952)	(180,016)	
Total	**(195,782)**	**(1,053)**	**(4,089)**	**(4,037)**	**(12,358)**	**(3,952)**	**(221,271)**	
Net liquidity position in ISK	**(653,127)**	**(124,941)**	**103,439**	**269,260**	**1,394,303**	**28,479**	**1,017,413**	**(53,025)**
Net liquidity position in foreign currencies	**(46,110)**	**27,938**	**63,773**	**(53,013)**	**(19,185)**	**916**	**(25,681)**	**332,852**
Net liquidity position	**(699,237)**	**(97,003)**	**167,212**	**216,247**	**1,375,118**	**29,395**	**991,732**	**279,827**

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

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

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70. Encumbered assets

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

The following tables show the Group's total encumbered and unencumbered assets as at 31 December 2021 and 31 December 2020:

	Collateral pledged against			
As at 31 December 2021	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	1,687	3,154	77,584	82,425
Bonds and debt instruments	-	-	150,435	150,435
Equities and equity instruments	-	-	33,347	33,347
Derivative instruments	-	-	1,233	1,233
Loans and advances to financial institutions	-	2,315	44,916	47,231
Loans and advances to customers	277,539	-	1,109,924	1,387,463
Investments in equity-accounted associates	-	-	1,857	1,857
Property and equipment	-	-	13,019	13,019
Intangible assets	-	-	1,781	1,781
Deferred tax assets	-	-	15	15
Other assets	-	-	10,087	10,087
Assets classified as held for sale	-	-	905	905
Total	**279,226**	**5,469**	**1,445,103**	**1,729,798**

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

Market risk

71. Market risk

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

72. Market risk management

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

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

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72. Market risk management (continued)

The following table summarises the Group's exposure to market risk as a percentage of RWEA as at 31 December 2021 and 31 December 2020. The Group uses the standardized approach to calculate risk-weighted exposure amounts of derivatives for credit valuation adjustment (CVA) according to capital requirement regulations.

Market risk factor	2021 % of RWEA	2020 % of RWEA
Equity price risk	0.5%	0.3%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.2%	0.4%
Total	**0.9%**	**1.0%**

73. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity 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 domestic equities. The Group's banking book portfolio contains domestic and foreign listed and unlisted equities as part of asset and liability management. Further details are disclosed in Note 22 and Notes 74-75.

74. Interest rate risk

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

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

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 23. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 31 December 2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	82,425	-	-	-	82,425
Bonds and debt instruments	70,000	33,700	36,185	10,550	150,435
Derivative instruments	1,233	-	-	-	1,233
Loans and advances to financial institutions	47,231	-	-	-	47,231
Loans and advances to customers	1,018,799	104,486	247,771	16,407	1,387,463
Other financial assets	8,800	-	-	-	8,800
Total	**1,228,488**	**138,186**	**283,956**	**26,957**	**1,677,587**
Financial liabilities					
Due to financial institutions and Central Bank	(10,425)	-	-	-	(10,425)
Deposits from customers	(894,867)	(2,298)	(2,933)	-	(900,098)
Derivative instruments and short positions	(2,380)	-	(1,715)	(467)	(4,562)
Borrowings	(81,007)	(33,779)	(312,170)	(59,086)	(486,042)
Other financial liabilities	(9,195)	-	-	-	(9,195)
Subordinated liabilities	-	-	(20,785)	-	(20,785)
Total	**(997,874)**	**(36,077)**	**(337,603)**	**(59,553)**	**(1,431,107)**
Net on-balance sheet position	230,614	102,109	(53,647)	(32,596)	246,480
Derivatives held for hedging	(44,280)	-	44,280	-	
Net off-balance sheet position	2,000	-	(2,000)	-	
Total interest repricing gap	**188,334**	**102,109**	**(11,367)**	**(32,596)**	

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74. Interest rate risk (continued)

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

75. Sensitivity analysis of trading portfolios

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

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

	2021		2020	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(132)	139	(71)	76
ISK, CPI indexed	(90)	102	(180)	207
Total	**(222)**	**241**	**(251)**	**283**

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

	2021		2020	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	111	(111)	103	(103)
Other	21	21	-	-
Total	**132**	**(90)**	**103**	**(103)**

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

76. Sensitivity analysis of portfolios in the banking book

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

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

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

	2021		2020	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(3,551)	3,717	(102)	94
ISK, CPI indexed	4,460	(4,808)	4,366	(4,293)
EUR	4,747	(4,948)	2,074	(2,184)
Other	(9)	10	(45)	46
Total	**5,647**	**(6,029)**	**6,293**	**(6,337)**

The following table shows how the Group's profit (loss) before tax would have been affected if the price of equities in the banking book at year end classified into Level 1 or Level 2 (see Note 83.11 (f)) changed by +/-5% and key unobservable inputs used in valuation of equities which are classified into Level 3 (see Note 83.11 (f)) changed also by +/- 5%.

	2021		2020	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	411	(411)	204	(204)
Other	24	(24)	9	(9)
Total	**435**	**(435)**	**213**	**(213)**

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

77. 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.

The following tables summarize the Group's CPI exposure by maturity dates as at 31 December 2021 and 31 December 2020, where CPI-linked financial assets and liabilities are disclosed at their carrying amounts.

As at 31 December 2021	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Carrying amount**
Financial assets					
Bonds and debt instruments	-	-	-	2,761	2,761
Loans and advances to customers	3,420	8,745	61,572	216,268	290,005
Total	**3,420**	**8,745**	**61,572**	**219,029**	**292,766**
Financial liabilities					
Deposits from customers	(78,214)	(2,483)	(15,144)	(39,949)	(135,790)
Derivative instruments and short positions	-	-	(1,715)	(582)	(2,297)
Borrowings	-	(23,978)	(57,396)	(59,086)	(140,460)
Subordinated liabilities	-	-	(5,964)	-	(5,964)
Total	**(78,214)**	**(26,461)**	**(80,219)**	**(99,617)**	**(284,511)**
Total on-balance sheet position	**(74,794)**	**(17,716)**	**(18,647)**	**119,412**	**8,255**
Off-balance sheet position					
Interest rate swaps	-	-	(2,456)	-	(2,456)
Total return swaps	(944)	-	-	-	(944)
Total off-balance sheet position	**(944)**	**0**	**(2,456)**	**0**	**(3,400)**
Total CPI indexation balance	**(75,738)**	**(17,716)**	**(21,103)**	**119,412**	**4,855**

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

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

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1% change in the CPI applied to the inflation risk exposures in existence at 31 December 2021, with no change in other variables, would have changed net interest income by ISK 49 million (31 December 2020: ISK 683 million). The Group's equity would have been affected by the same amount as the income statement, but net of income tax. This is because the increase/decrease in net interest income would have affected retained earnings. However, in a scenario of ongoing high (low) inflation, floating unindexed interest rates are likely to remain higher (lower) than would be the case in the reverse scenario, thus counterbalancing the positive (negative) income effects for the Group in the medium and longer term

Currency risk

78. Currency risk (all portfolios)

The Group complies with Central Bank Rules No. 784/2018, on Foreign Exchange Balances. 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 31 December 2021 was -0.38% of the Group's total capital base (31.12.2020: +1.5%).

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79. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at year-end 2021 and 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 31 December 2021	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	677	183	440	9	55	573	1,937
Bonds and debt instruments	41,420	1	28,037	-	-	-	69,458
Equities and equity instruments	75	-	842	-	-	-	917
Derivative instruments	846	62	264	-	-	25	1,197
Loans and advances to financial institutions	10,698	869	10,395	259	742	24,165	47,128
Loans and advances to customers	179,512	3,875	62,035	945	-	3,843	250,210
Other assets	402	-	987	-	-	101	1,490
Total	**233,630**	**4,990**	**103,000**	**1,213**	**797**	**28,707**	**372,337**
Liabilities							
Due to financial institutions and Central Bank	(1,048)	(3)	(129)	-	-	-	(1,180)
Deposits from customers	(49,445)	(7,703)	(45,789)	(196)	(726)	(13,547)	(117,406)
Derivative instruments and short positions	(116)	(16)	(1,499)	-	-	-	(1,631)
Borrowings	(198,776)	-	(19,640)	-	-	(49,599)	(268,015)
Other liabilities	(968)	(84)	(863)	(6)	(10)	(736)	(2,667)
Subordinated liabilities	(14,821)	-	-	-	-	-	(14,821)
Total	**(265,174)**	**(7,806)**	**(67,920)**	**(202)**	**(736)**	**(63,882)**	**(405,720)**
Net on-balance sheet position	(31,544)	(2,816)	35,080	1,011	61	(35,175)	**(33,383)**
Net off-balance sheet position	29,740	3,192	(35,566)	(888)	(89)	35,886	**32,275**
Net currency position	**(1,804)**	**376**	**(486)**	**123**	**(28)**	**711**	**(1,108)**

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

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80. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 5% depreciation/appreciation of the ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group's overall position in foreign currency on-balance sheet as disclosed in Note 79.

	2021		2020	
Currency (ISK million)	**-5%**	**+5%**	**-5%**	**+5%**
EUR	(90)	90	47	(47)
GBP	19	(19)	12	(12)
USD	(24)	24	121	(121)
JPY	6	(6)	4	(4)
CHF	(1)	1	9	(9)
Other	36	(36)	5	(5)
Total	**(54)**	**54**	**198**	**(198)**

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

81. Foreign exchange rates used

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

	As at 31 December 2021	As at 31 December 2020	% change	Average for 1.1-31.12 2021	Average for 1.1-31.12 2020
EUR/ISK	147.60	156.10	(5.4%)	150.05	153.82
GBP/ISK	175.77	173.54	1.3%	174.23	173.65
USD/ISK	130.41	127.16	2.6%	126.90	134.26
JPY/ISK	1.1327	1.2339	(8.2%)	1.1555	1.2615
CHF/ISK	142.86	144.39	(1.1%)	139.07	143.54
CAD/ISK	102.40	99.85	2.6%	101.06	100.38
DKK/ISK	19.847	20.980	(5.4%)	20.174	20.636
NOK/ISK	14.776	14.926	(1.0%)	14.718	14.370
SEK/ISK	14.393	15.572	(7.6%)	14.785	14.702

Operational risk

82. Operational risk

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

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

Notes to the Consolidated Financial Statements

Accounting policies

83. Significant accounting policies

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

The principal accounting polices used in preparing these Consolidated Financial Statements are set out in Notes 83.1 to 83.40.

83.1. Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

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

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

(b) Non-controlling interests

Non-controlling interest is the proportionate share of profit or loss and net assets not attributable, directly or indirectly, to the Group. Non-controlling interests are presented specifically in the Income Statement and within equity in the Statement of Financial Position, separately from equity attributable to the owners of the Group. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Loss of control

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

83.2. Structured entities

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

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

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

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

For further disclosure in respect of unconsolidated investment funds in which the Group acts as an agent, see Note 44 Unconsolidated structured entities.

83. Significant accounting policies (continued)

83.3. Associates

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

Equity-accounted associates

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

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

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

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

Associates designated at fair value through profit or loss

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

83.4. Foreign currency translation

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

83.5. Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less principal repayments, plus or minus cumulative amortisation of any premium/discount using the effective interest method and, for financial assets, less any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

83. Significant accounting policies (continued)

83.5. Interest income and expense (continued)

Calculation of interest income and expense

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

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

Presentation

Interest income calculated using the effective interest method presented in the income statement includes:

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

Other interest income presented in the income statement includes interest income on finance leases.

Interest expense presented in the income statement and OCI includes financial liabilities measured at amortised cost.

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

83.6. Fee and commission income and expense

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

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

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

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

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

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

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

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

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

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

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

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

83.8. Net foreign exchange gain (loss)

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

83. Significant accounting policies (continued)

83.9. Tax on liabilities of financial institutions

On 31 December 2013, the Parliament of Iceland passed an amendment to Act No. 155/2010, on Special Tax on Financial Institutions, according to which financial institutions must pay annually a tax calculated as 0.145% (2020: 0.145%) of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense.

83.10. Income tax

(a) Income tax

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

The income tax for the operating year 2021 was recognised at the year-end corporate income tax rate of 20.0% (2020: 20.0%) and an additional special income tax on financial institutions is recognised at the rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011, on Financial Activity Tax.

(b) Current tax

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

(c) Deferred tax

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

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

d) Joint taxation

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

83.11. Financial assets and liabilities

(a) Recognition and initial measurement

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

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

(b) Classification

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

83. Significant accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(b) Classification (continued)

Business model assessment

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

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

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

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

Cash flow characteristics assessment

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

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

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(c) Derecognition

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

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

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

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

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

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

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

83. Significant accounting policies (continued)

83.11. Financial assets and liabilities (continued)

d) Modification of financial assets and financial liabilities

Financial assets

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

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised see note 83.11 (g) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, it first considers whether a portion of the asset should be written off before the modification takes place, see Note 83.11 (g) Write-off. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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

If such a modification is carried out because of financial difficulties of the borrower, see Note 83.11 (g), then the gain or loss is presented together with impairment changes. In other cases, it is presented as interest income calculated using the effective interest rate method.

Restructured financial assets

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

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

Renegotiated loans

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

Financial liabilities

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

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

(e) Offsetting

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

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

83. Significant accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(f) Fair value measurement

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

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

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

If there is no active market for a financial instrument, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's-length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates every factor that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank has a valuation committee which estimates fair value by applying models and incorporating observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available, observable market data.

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

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

Fair value hierarchy

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

• Level 1: Quoted prices are used for assets and liabilities traded in active markets. Unadjusted quoted prices are used as the measurement of fair value.
• Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. The yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.
• Level 3: Valuation technique based on significant non-observable inputs. It covers all financial instruments for which the valuation technique includes inputs based on unobservable data and the unobservable inputs have significant effect on the instrument's valuation. For unlisted shares and bonds where there no market data is available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares, in addition to recent transactions and current market conditions. Valuation of loans and advances to customers is based on market data such as interest and inflation curves and probability of default.

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

(g) Impairment of financial assets

Impairment process

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

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

83. Significant accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Impairment process (continued)

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

The Bank's Risk Management is responsible for assessing impairment on loans and advances and a Valuation Team, comprised of the CEO, the managing directors of Finance & Operation, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

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

The impairment process for each reporting period is as follows:

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

ECL calculation

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

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

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

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

Credit-impaired loans

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

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

The following events are used as indicators of loan default. Events automatically leading to default are marked with an asterisk.

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

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

Significant increase in credit risk

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

83. Significant accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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

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

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

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

Presentation of allowance

Allowance for impairment based on ECL is presented in the statement of financial position as follows:

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

Write-off

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

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

83.12. Cash and balances with Central Bank

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

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements No. 585/2018. The reserve requirements fall into two categories: a fixed reserve requirement of 1% bearing no interest and an average maintenance level requirement of 0%. Amendments were made to the rules as of the reserve period starting 21 March 2020 whereby the average maintenance level requirement was reduced from 1% to 0% and the fixed reserve requirement became eligible to classify as liquidity reserves.

83.13. Bonds and debt instruments

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

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

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

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

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

83. Significant accounting policies (continued)

83.14. Equities and equity instruments

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

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

83.15. Derivative instruments

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

83.16. Embedded derivatives

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

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

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

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

83.17. Hedge accounting

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

Derivatives held for risk management purposes consist of all derivative assets and liabilities that are not classified as trading assets or liabilities. These include derivatives designated in hedging relationships and which are accounted for as fair value hedges in the statement of financial position.

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

The Group uses other derivatives, not designated in qualifying hedge relationships, to manage its exposure to foreign currency, interest rate, equity market and credit risk.

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

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

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

83. Significant accounting policies (continued)

83.18. Short positions

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

83.19. Loans and advances

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

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

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

83.20. Property and equipment

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

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

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

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

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

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

83.21. Intangible assets

Computer software

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

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

Goodwill

Goodwill is recognised as an asset only if acquired in a business combination. It is recognised as of the acquisition date and measured as the aggregate of the fair value of the consideration transferred, the recognised amount of any non-controlling interest in the acquiree, and the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is generally reviewed for impairment annually, but more frequently if events or changes in circumstances indicate a potential impairment of the carrying amount.

83. Significant accounting policies (continued)

83.22 Investment property

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

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

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

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

Investment property is comprised of a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee and historically the average renewal period is four years. Further information about these leases is included in Note 40.

83.23. Leases

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

(a) When the Group is the lessee

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

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

Short-term leases and leases of low-value assets

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

(b) When the Group is the lessor

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

83.24. Impairment of non-financial assets

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

83. Significant accounting policies (continued)

83.25. Assets and liabilities classified as held for sale

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

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

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

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

83.26. Deposits

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

83.27. Borrowings

(a) Secured borrowings

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

The covered bonds are initially measured at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued indexation, in the case of indexed bonds, are included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement.

(b) unsecured borrowings

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

The unsecured bonds and commercial papers are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement. Foreign exchange gains and losses are included in the line "Net foreign exchange (loss) gain".

No unsecured non-indexed commercial papers were outstanding at year-end 2021.

83.28. Other liabilities

Unpaid contributions to the Depositors' and Investors' Guarantee Fund

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

83.29. Pension liabilities

When the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands merged with Landsbankinn in 2015, the Bank took over pension obligations towards the former employees and part of the then current employees' pension obligations of these savings banks. The pension liability is calculated annually by an actuary. The increase in the liability in 2021 is expensed in the income statement and is included in salaries and related expenses.

83. Significant accounting policies (continued)

83.30. Subordinated liabilities

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

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

83.31. Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

83.32. Earnings per share

Basic earnings per share (EPS) are calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the accounting period, excepting own shares. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

83.33. Repurchase and reverse repurchase agreements

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

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

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

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

83.34. Collateral swaps

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

83.35. Financial guarantees and loan commitments

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

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

83. Significant accounting policies (continued)

83.36. Contingent liabilities and provisions

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

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

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

83.37. Employee benefits

All Group entities have defined contribution plans under which the entities pay a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense in the income statement when they become due and are included in salaries and related expenses. The Group does not operate any defined benefit pension plan.

83.38. Fiduciary activities

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

83.39. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed monthly by the Executive Board (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

83.40. New standards, amendments to standards and

The International Accounting Standards Board (IASB) has issued new IFRS standards and made amendments to standards which have not yet taken effect. Those standards are not expected to have a significant impact on the Group’s Consolidated Financial Statements.

A fundamental reform (referred to as the ‘IBOR reform’) of major interest rate benchmarks is being undertaken globally to replace or reform interbank offered rates (IBORs) with alternative nearly risk-free rates (RFRs). The change is expected to enter into effect for EUR, CHF, JPY and GBP at year-end 2021 and around mid-2023 for USD. The Group has exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative. In accordance with the terms of the instruments, the Bank may determine that the relevant IBOR benchmark rate may be replaced by a successor rate, if available, or an alternative rate in the interbank market or foreign exchange and swap markets. The Bank has commenced work to change benchmark rates in its financial instruments in accordance with the aforementioned market reform.

Consolidated Key Figures

84. Operations by years

Operations	2021	2020	2019	2018	2017
Interest income	66,594	66,498	72,172	69,378	62,556
Interest expense	(27,641)	(28,424)	(32,502)	(28,564)	(26,285)
Net interest income	**38,953**	**38,074**	**39,670**	**40,814**	**36,271**
Fee and commission income	13,121	10,819	11,528	11,220	11,289
Fee and commission expense	(3,638)	(3,181)	(3,309)	(3,063)	(2,858)
Net fee and commission income	**9,483**	**7,638**	**8,219**	**8,157**	**8,431**
Net gain on financial assets and liabilities at FVTPL	5,980	4,257	7,993	1,654	5,802
Net foreign exchange loss	(86)	(278)	(584)	(1,497)	(1,375)
Net impairment changes	7,037	(12,020)	(4,827)	1,352	1,785
Other income and (expenses)	963	582	1,046	3,430	2,598
Net other operating income and (expenses)	**13,894**	**(7,459)**	**3,628**	**4,939**	**8,810**
Total operating income	**62,330**	**38,253**	**51,517**	**53,910**	**53,512**
Salaries and related expenses	(14,759)	(14,767)	(14,458)	(14,589)	(14,061)
Other operating expenses	(9,105)	(9,064)	(9,534)	(9,348)	(9,789)
Tax on liabilities of financial institutions	(2,013)	(1,815)	(4,204)	(3,860)	(3,253)
Total operating expenses	**(25,877)**	**(25,646)**	**(28,196)**	**(27,797)**	**(27,103)**
Profit before tax	**36,453**	**12,607**	**23,321**	**26,113**	**26,409**
Income tax	(7,534)	(2,086)	(5,086)	(6,853)	(6,643)
Profit for the year	**28,919**	**10,521**	**18,235**	**19,260**	**19,766**
Attributable to:					
Owners of the Bank	28,919	10,521	18,235	19,260	19,766
Non-controlling interests	-	-	-	-	-

Balance sheet	2021	2020	2019	2018	2017
Cash and cash balances with Central Bank	82,425	67,604	69,824	70,854	55,192
Bonds and debt instruments	150,435	119,330	115,262	77,058	117,310
Equities and equity instruments	33,347	26,808	30,019	23,547	27,980
Loans and advances to financial institutions	47,231	48,073	47,929	71,385	44,866
Loans and advances to customers	1,387,463	1,273,426	1,140,184	1,064,532	925,636
Other assets	27,992	27,298	22,088	17,335	18,238
Assets classified as held for sale	905	1,638	1,022	1,330	3,648
Total assets	**1,729,798**	**1,564,177**	**1,426,328**	**1,326,041**	**1,192,870**
Due to financial institutions and Central Bank	10,425	48,725	48,062	34,609	32,062
Deposits from customers	900,098	793,427	707,813	693,043	605,158
Borrowings	486,042	420,178	373,168	314,412	281,874
Other liabilities	29,803	22,226	30,470	31,027	27,642
Subordinated liabilities	20,785	21,366	19,081	13,340	77
Equity	282,645	258,255	247,734	239,610	246,057
Total liabilities and equity	**1,729,798**	**1,564,177**	**1,426,328**	**1,326,041**	**1,192,870**

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Consolidated Key Figures

85. Operations by quarters

	2021				2020			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	18,520	15,646	18,096	14,332	15,695	16,167	18,220	16,416
Interest expense	(8,125)	(6,046)	(7,764)	(5,706)	(6,001)	(6,726)	(8,708)	(6,989)
Net interest income	**10,395**	**9,600**	**10,332**	**8,626**	**9,694**	**9,441**	**9,512**	**9,427**
Fee and commission income	3,632	3,417	3,197	2,875	2,811	2,844	2,391	2,773
Fee and commission expense	(1,039)	(895)	(883)	(821)	(830)	(785)	(738)	(828)
Net fee and commission income	**2,593**	**2,522**	**2,314**	**2,054**	**1,981**	**2,059**	**1,653**	**1,945**
Net gain (loss) on financial assets and liabilities at FVTPL	439	1,886	1,284	2,371	5,056	(1,001)	2,827	(2,625)
Net foreign exchange (loss) gain	(69)	55	(45)	(27)	(52)	(52)	(259)	85
Net impairment changes	3,247	1,008	293	2,489	1,535	(120)	(8,191)	(5,244)
Other income and (expenses)	112	275	330	246	(137)	574	333	(188)
Other net operating income (expenses)	**3,729**	**3,224**	**1,862**	**5,079**	**6,402**	**(599)**	**(5,290)**	**(7,972)**
Total operating income	**16,717**	**15,346**	**14,508**	**15,759**	**18,077**	**10,901**	**5,875**	**3,400**
Salaries and related expenses	(4,028)	(3,238)	(3,724)	(3,769)	(3,986)	(3,135)	(3,802)	(3,844)
Other operating expenses	(2,386)	(2,202)	(2,202)	(2,315)	(2,433)	(1,995)	(2,206)	(2,430)
Tax on liabilities of financial institutions	(508)	(525)	(513)	(467)	(400)	(540)	(425)	(450)
Total operating expenses	**(6,922)**	**(5,965)**	**(6,439)**	**(6,551)**	**(6,819)**	**(5,670)**	**(6,433)**	**(6,724)**
Profit (loss) before tax	**9,795**	**9,381**	**8,069**	**9,208**	**11,258**	**5,231**	**(558)**	**(3,324)**
Income tax	(2,473)	(1,889)	(1,582)	(1,590)	(1,436)	(1,245)	899	(304)
Profit (loss) for the period	**7,322**	**7,492**	**6,487**	**7,618**	**9,822**	**3,986**	**341**	**(3,628)**

Balance sheet	**31.12.2021**	**30.9.2021**	**30.6.2021**	**31.3.2021**	**31.12.2020**	**30.9.2020**	**30.6.2020**	**31.3.2020**
Cash and cash balances with Central Bank	82,425	92,043	89,342	59,937	67,604	111,260	89,598	92,440
Bonds and debt instruments	150,435	129,579	128,208	134,183	119,330	104,895	104,758	116,568
Equities and equity instruments	33,347	30,527	35,111	31,811	26,808	25,445	26,794	25,923
Loans and advances to financial institutions	47,231	59,363	64,245	55,234	48,073	80,324	56,394	69,740
Loans and advances to customers	1,387,463	1,375,536	1,328,031	1,287,448	1,273,426	1,255,393	1,198,210	1,190,536
Other assets	27,992	30,020	31,147	30,913	27,298	31,268	23,913	26,851
Assets classified as held for sale	905	1,290	1,213	1,426	1,638	1,680	1,443	1,130
Total assets	**1,729,798**	**1,718,358**	**1,677,297**	**1,600,952**	**1,564,177**	**1,610,265**	**1,501,110**	**1,523,188**
Due to financial institutions and Central Bank	10,425	48,991	40,312	40,932	48,725	47,654	37,226	41,495
Deposits from customers	900,098	869,463	842,624	794,252	793,427	813,784	758,790	755,160
Borrowings	486,042	474,415	456,688	452,709	420,178	438,309	408,097	412,591
Other liabilities	29,803	29,047	48,913	30,825	22,226	40,126	31,023	48,457
Subordinated liabilities	20,785	21,099	20,889	20,850	21,366	21,959	21,527	21,379
Equity	282,645	275,343	267,871	261,384	258,255	248,433	244,447	244,106
Total liabilities and equity	**1,729,798**	**1,718,358**	**1,677,297**	**1,600,952**	**1,564,177**	**1,610,265**	**1,501,110**	**1,523,188**

*The result for the first three quarters of the years 2021 and 2020 were reviewed by the Group's independent auditors.

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Consolidated Key Figures

86. Key figures and ratios

	2021	2020	2019	2018	2017
Return on equity before taxes	13.6%	5.1%	9.6%	11.1%	11.0%
Return on equity after taxes	10.8%	4.3%	7.5%	8.2%	8.2%
Cost-income ratio	43.2%	47.4%	42.6%	45.5%	46.1%
Operating expenses as a ratio of average total assets	1.4%	1.6%	1.7%	1.9%	2.0%
Return on assets	1.7%	0.7%	1.3%	1.5%	1.7%
Interest spread as ratio of average total assets	2.3%	2.5%	2.8%	3.2%	3.1%
Earnings per share	1.22	0.45	0.77	0.81	0.84
Total capital ratio	26.6%	25.1%	25.8%	24.9%	26.7%
CET1 ratio	24.8%	23.2%	23.9%	23.6%	26.3%
Leverage ratio	14.9%	15.4%	15.7%	16.1%	18.2%
Loans / deposits	154.1%	160.5%	161.1%	153.6%	153.0%
Deposits / total assets	52.0%	50.7%	49.6%	52.3%	50.7%
Liquidity coverage ratio total (LCR)	179%	154%	161%	158%	157%
Net stable funding ratio FX (NSFR)	142%	132%	143%	166%	179%
Number of full-time positions at year-end	816	878	893	919	997
Dividend per share	0.19	0.00	0.42	1.05	1.05

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 year / average total assets
Interest spread	(Interest income - interest expenses) / average total assets
Earnings per share	Profit (loss) for the year attributable to owners of the Bank / Weighted average number of shares outstanding
Total capital ratio	Total capital base / risk-exposure amount
CET1 ratio	Common equity tier 1 capital (CET1) / Risk exposure amount
Common equity Tier 1 capital (CET1)	Total equity - adjustments according to CRR II
Additional common equity Tier 1 capital (AT1)	Capital instruments under Tier 1 other than (CET1)
Tier 1 capital (T1)	Common equity Tier 1 capital + additional common equity Tier 1 capital
Tier 2 capital (T2)	Subordinated liabilities - regulatory amortisation
Total capital base	CET1 + AT1 + T2
Leverage ratio	Tier 1 capital / (total assets + off balance sheet items)
Loans/ deposits	Loans and advances to customers/ deposits from customers
Deposits / total assets	Deposits from customers/ total assets
Liquidity coverage ratio (LCR)	High quality liquid assets / total net liquidity outflows over 30 days under stressed conditions
Net stable funding ratio FX (NSFR)	Available amount of stable funding / required amount of stable funding
Number of full-time positions at year-end	Number of full-time equivalent positions at year-end
Dividend per share	Dividends paid / number of shares outstanding

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Corporate Governance Statement of Landsbankinn for 2021

24 January 2022

UNAUDITED

The governance structure of Landsbankinn forms the foundation for solid relations between shareholders, the Board of Directors, executives, employees, customers and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Landsbankinn complies with recognised guidelines on corporate governance and publishes an annual statement on its governance practices in a dedicated chapter in its annual report.

In August 2021, Stjórnvísi renewed the recognition of Landsbankinn as a model of corporate governance for the period 2020-2021 based on a review undertaken by external advisors of the Bank's governance practices in March 2020. The review is based on the *Guidelines on Corporate Governance* published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers. The aim of the recognition is first and foremost to encourage debate and actions that promote good corporate governance.

1. References to the rules on corporate governance which the Bank complies with or is required to comply with by law and information about the accessibility of such rules are public information

According to the first paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, the Board of Directors of Landsbankinn is responsible for ensuring that corporate governance and the Bank's internal organisation contribute to the efficient and prudent management of the Bank, segregation of duties and for preventing conflict of interest. The same Article provides that the Board review governance practices annually with regard to approved guidelines on corporate governance and take appropriate action as necessary.

According to the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, Landsbankinn is required to comply with recognised guidelines on corporate governance and to publish a statement on the company's governance in a separate chapter in its annual financial statements or annual report. The Bank is also required to make information on its governance available on its website.

The Bank complies with the *Guidelines on Corporate Governance* published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers 1 July 2021 (6th ed.). The Guidelines are available on the website of the Iceland Chamber of Commerce, http://leidbeiningar.is (hereafter referred to as the Guidelines).

This chapter of the Annual Report contains the corporate governance statement of Landsbankinn with content presented in accordance with the requirements set out in the *Guidelines on Corporate Governance*.

2. Deviations from the Guidelines

Landsbankinn complies with the provisions of the Guidelines with the exception of the provision for a committee dedicated to ensuring diversity among directors, executives and key managers. Details are provided in Section 5 of the Statement. As regards the provisions of the Guidelines about a Nomination Committee, it should be noted that a shareholders' meeting has not appointed a Nomination Committee as a Selection Committee, appointed by Icelandic State Financial Investments by law, nominates individuals to represent the State on the Board of Directors of Landsbankinn.

3. Other rules and guidelines that apply and are specific to the company's activities

Landsbankinn's activities are governed by the Act on Financial Undertakings, No. 161/2002, rules and guidelines of the Financial Supervisory Authority of the Central Bank of Iceland (hereafter the "FSA") Central Bank, and various other statutory provisions concerning financial markets. In addition to the Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers 1 July 2021 (6th ed.), the Bank also bases its activities on the European Banking Authority's Guidelines on Internal Governance for financial undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market. These guidelines are available on the FSA's website (https://www.fme.is/log-og-tilmaeli/ees-vidmidunarreglur/eba/nr/3076).

4. Main aspects of risk management and internal control

Effective risk management is one of the prerequisites of long-term profitability and stability in the Bank's operation. Risk management involves identification, assessment and control of risks in the Bank's operation and ensuring that an effective system is in place to meet risk. Communication of information about risk as a foundation of decision-making and a key aspect of effective risk management.

Internal control supports the Bank in achieving its objectives as regards performance, risk appetite, reliable financial information and compliance with laws and regulations. Analysis of the efficacy of internal control is based on a review of control weaknesses, risk management, supervisory activity, information and communication and management supervision.

The Board of Directors shall ensure active risk management and internal control.

Two sub-committees of the Board of Directors report to the Board in their advisory and supervisory capacity in risk governance and internal control, set out in detail in the rules of procedure for each sub-committee. The Risk Committee of the Board of Directors regularly discusses internal control and risk management. The Audit Committee, another sub-committee of the Board, regularly discusses the Bank's accounting and evaluates its internal control processes.

A more detailed description of risk management within the Bank is provided on the following website.[1]

Implementation of internal control is determined by the nature of the controls and the implementing party.

The first line of defence is provided by the operational management of business units who are responsible for ensuring that risk governance and internal control form in integral part of the Bank's daily operation. Management shall actively and regularly analyse and assess the risk posed to the

1 https://www.landsbankinn.is/bankinn/fjarfestatengsl/skyrslur-og-uppgjor

operations under their purview. Management shall assess changes in the Bank's operating environment to identify any opportunities or risks to their unit, implement mitigating measures in processes, implement measures, monitor such measures and report on their effectiveness.

The second line of defence is the purview of Risk Management and Compliance, who carry out risk-based internal control in that managers and employees carry out their duties in accordance with the policies, rules and processes the Bank has adopted. These units, along with Legal Services, participate in shaping and implementing policies and methodologies in internal control based on the Bank's strategy.

The third line of defence is Internal Audit which is independent control unit. The role of Internal Audit is to provide independent and objective confirmation and advice which should be value-adding and improve the Bank's operations. Internal Audit shall in a regular and disciplined manner provide assurance of the effectiveness of the first and second line of defence, advise on areas for improvement and evaluate and enhance the efficacy of the Bank's risk management, control measures and governance.

5. Description of the company's policy on diversity among directors, executives and key managers

Landsbankinn has not adopted a special policy to ensure the diversity of the Board of Directors, Executive Board or key managers with regard for age, gender or educational or professional background.

According to law, the Board of Icelandic State Financial Investments appoints a three-person Nomination Committee which nominates directors to represent the State on the Bank's Board of Directors. The Nomination Committee shall ensure as equal a gender balance as possible. The Nomination Committee works according to rules of procedure that include guidelines on the evaluation of the qualifications, education and experience of eligible individuals. These rules of procedure provide that the Committee shall nominate individuals with a varied background as regards education and qualification. The Committee shall consider the overall make-up and seek to avoid a homogeneous composition of the boards of financial undertakings.

The Bank's Equality Policy provides for equal rights and equal job opportunities and promotion. Landsbankinn's Human Resources Policy sets out the Bank's intention to attract talented and dependable individuals with varied backgrounds to join its team. Landsbankinn places special emphasis on four of the UN Sustainable Development Goals in its operation, as stated in the Bank's Sustainability Policy. These SDGs include a goal on equal rights and the Bank has included its goal of ensuring no less than 40% representation by either gender in its leadership in its Annual and Sustainability Report.

6. Composition and activities of the Board of Directors, sub-committees of the Board and the Executive Board

The Board of Directors consists of seven directors and two alternates. The Board of Directors is elected by the Annual General Meeting (AGM) and the term of office is one year. In electing members to the Board, the aim shall be to ensure a gender balance and that the Board as a whole possesses in-depth knowledge of banking activities. The Chairman of the Board is elected specifically by the AGM and the Directors elect a Vice-chairman from amongst their members. The Board of Directors of Landsbankinn holds ultimate authority on all questions between shareholders' meetings. The Board of Directors bears ultimate responsibility for the Bank's operation and strategy. Furthermore, the Board of Directors is ultimately responsible for the Bank's activities as provided for by law, regulations, its Articles of Association and other rules relevant to the company's operation. The Board of Directors shall also monitor the Bank's general activities and ensure that control of accounting and financial management is satisfactory. The Board adopts its own rules of procedure, providing in detail its tasks.

There are three sub-committees to the Board of Directors: The Audit Committee, the Risk Committee and the Remuneration Committee. Amongst other duties, the committees prepare the Board's discussion of certain aspects of the Bank's activities and follow up on related matters.

The Board of Directors hires the CEO and the Chief Audit Executive. The CEO hires other executives to the Bank. The Bank has 7 divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Risk Management, Finance & Operations, IT and the Community. Each division is directed by a managing director who, together with the CEO, form the Bank's Executive Board. The Internal Audit function reports to the Board of Directors. The CEO's Office, Legal Services and Compliance are directly responsible to the CEO.

Landsbankinn's Executive Board is a forum for consultation and decision-making by the CEO and managing directors. The Executive Board sees to strategy formulation and shall ensure that Landsbankinn's operations accord with current laws and rules at each time. The Executive Board has appointed four cross-disciplinary standing committees with the aim of ensuring collaboration and implementation of the Bank's strategy: The Credit Committee, the Risk & Finance Committee (RAFC), the Operational Risk Committee and the Project Committee. The committees have appointed work groups and teams around specific subjects.

7. Appointment to a Nomination Committee

Landsbankinn has not appointed a Nomination Committee. A Nomination Committee appointed by Icelandic State Financial Investments by law nominates individuals to represent the State on the Board of Directors of Landsbankinn. The Board of Directors annually evaluates the eligibility of Directors and the composition of the Board.

8. Appointment of the sub-committees of the Board of Directors

The Board of Directors appoints members to its sub-committees. One change was made to the committee structure in 2021, with the discontinuation of the Strategic Development Committee. Its roles and responsibilities were transferred to the Board of Directors. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee and the Remuneration Committee are each comprised of three Directors.

9. Information on the number of Board meetings, sub-committee meetings, and attendance

In 2021, the Board of Directors of Landsbankinn held a total of 18 meetings. The Audit Committee met 8 times; the Risk Committee 11 times; the Remuneration Committee 6 times; and the Strategic Development Committee met 2 times. The table provides an overview of attendance.

	Term of office in 2021	Board of Directors	Audit Committee	Risk Committee	Remuneration Committee	Strategic Development Committee[2]
Meetings of the Board of Directors and sub-committees		18	8	11	6	2
Board of Directors						
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	18			6	2
Berglind Svavarsdóttir	01.01 - 31.12	18		11	6	
Einar Thór Bjarnason	01.01 - 24.03	6		3		1
Elín H. Jónsdóttir	24.03 - 31.12	10		8		1
Guðbrandur Sigurðsson	01.01 - 31.12	17	2	8		2
Helgi Friðjón Arnarson	24.03 - 31.12	12	6			
Sigríður Benediktsdóttir	01.01 - 24.03	6	2	3		
Thorvaldur Jacobsen	01.01 - 31.12	17	8			2
Guðrún Blöndal, alternate until 24.03	01.01 - 12.03	18	6		6	
Sigríður Olgeirsdóttir, alternate as of 24.03	24.03 - 31.12	2				
Sigurður Jón Björnsson, alternate	01.01 - 31.12	2				
Audit Committee						
Hjörleifur Pálsson, certified public accountant	01.01 - 31.12		8			

10. Rules of Procedure for the Board of Directors and its sub-committees

The Rules of Procedure for the Board of Directors are available on Landsbankinn's website.[3] Special procedural rules have been issued for the Audit Committee, the Risk Committee and the Remuneration Committee, and these rules are also available on the Bank's website.

11. Information about members of the Board of Directors

Members of the Board of Directors

Directors

Helga Björk Eiríksdóttir
Chairman

Helga Björk Eiríksdóttir was born in 1968. Helga Björk works in real estate development and consultancy and operates accommodation services in Akureyri. Previously, she handled public relations for Marel and chaired the Board of Directors of Sparisjóður Svarfdæla. Helga Björk holds an MBA from the University of Edinburgh. She graduated from the University of Iceland in 1997 with a BA degree in English and Italian and completed a degree in journalism from the same institution in 1999. Helga Björk completed a degree in marketing and export management with the Department of Continuing Education at the University of Iceland in 2002 and has studied brokerage at the University of Reykjavík. She worked as an independent consultant in 2010-2012. In 2009 and 2010, she handled PR for the Resolution Committee and Winding-up Board of Kaupthing

2 The Board of Directors determined at its meeting on 26 August 2021 to discontinue the Strategic Development Committee.
3 https://www.landsbankinn.is/bankinn/um-bankann/stefna-og-skipulag/bankarad

hf. Previously, Helga Björk spent eight years working as marketing and PR manager of Nasdaq OMX Iceland. Helga Björk has also worked in media, various other jobs and worked for savings bank Sparisjóður Svarfdæla at Dalvík for a longer period. Helga Björk was elected to the Board of Directors of Landsbankinn in April 2013. She is Chairman of the Board of Directors and chairs the Remuneration Committee.

Berglind Svavarsdóttir
Vice-chairman of the Board

Berglind Svavarsdóttir was born in 1964. She is a Supreme Court Attorney and partner at Lögfræðistofa Reykjavíkur. Berglind is a law graduate of the University of Iceland 1989, was admitted to the bar as a District Court Attorney in 1995 and a Supreme Court Attorney in 2008. Berglind holds a diploma in general management from the University of Akureyri 2006. She worked at the Directorate of Tax Investigations in Iceland in 1988-1989 and for the District Commissioner at Húsavík in 1990-1996. She was owner of a legal firm and real estate agency in 1996-2003, partner in Regula lögmannsstofa ehf. in 2003-2010, and partner in Acta lögmannsstofa in 2011-2016. The last firm merged with Lögfræðistofa Reykjavíkur on 1 April 2016. Berglind has held various executive and confidentiality positions. She was on the Board of Directors of Lögmannafélag Íslands in 2015-2021, three years thereof as chairman of the association. She was a member of the Winding-up Board of SPB hf. in 2009-2016. She currently chairs the Election Rulings Committee and chairs the Evangelical Lutheran Church of Iceland Complaints Board. Berglind was elected to the Board of Directors in April 2016 and is its Vice-chairman.

Elín H. Jónsdóttir
Director

Elín H. Elín H. Jónsdóttir was born in 1966. She is Dean of Law at Bifröst University. Elín is a law graduate of the University of Iceland 1993 and completed an LL.M. degree from Duke University in 1996. She was awarded an MBA from Stockholm School of Economics in 2018 and is a licensed securities broker. She worked in securities market regulation for the Financial Supervisory Authority in 2001-2005, as managing director at Arev Securities in 2005-2009, as Director of Icelandic State Financial Investments in 2010-2011, and as managing director of asset management at Íslandsbanki in 2014-2017. Elín has in addition worked as a consultant and teacher. She has sat on the boards of various companies, including Reginn Real Estate, Tryggingamiðstöðin, Promens, Icelandair, Borgun and Skeljungur. Elín has also served on the board of directors of Kvennaathvafið, the Women's Shelter, in 2013-2020, and is the chairman of the board of Arnrún hses, Kvennaathvarfið's construction company. She was elected to the Board of Directors in March 2021.

Guðbrandur Sigurðsson
Director

Guðbrandur Sigurðsson was born in 1961. He is managing director of Brynja leigufélag. Guðbrandur completed a BSc degree in food science in 1985 and an MBA from the University of Edinburgh in 1994. He worked for Íslenskar sjávarafurðir and its predecessors in 1985-1996 and was one of its managing directors when it was founded in 1991. He was managing director of ÚA and Brimir in 1996-2004. In 2005-2008, he was managing director of MS, managing director of Nýland ehf. in 2008-2010, and managing director of Plastprent ehf. in 2010-2012. He was later managing director of auditing firm PwC in Iceland between 2013-2016, managing director of Heimavellir hf. in 2016-2019, and managing director of Plastprent ehf. in 2019-21. Guðbrandur has served on the boards of numerous companies and associations, including BL hf., Hagar hf. and Reitir hf. He currently sits on the Board of Directors of Talnakönnun hf. Guðbrandur was elected to the Board of Directors in April 2019 and is Chairman of the Risk Committee.

Guðrún Ó. Blöndal
Director

Guðrún Ó. Blöndal was born in 1960. Guðrún completed a cand.ocean. degree from the University of Iceland in 1990. Guðrún worked for Kaupthing in 1982-2002, first in asset management and later as marketing director, HR manager and head of the custody department until 2002. She was managing director of Arion custody, a subsidiary of Kaupthing, from its establishment in 2002 until it merged into Arion Bank in 2012. Guðrún has been a director of the board of Eimskipafélag Íslands hf. since 2018. In 2012-2013, she was a director of the boards of Framtakssjóður Íslands slhf., Reginn hf., Vörður tryggingar hf., Vörður líftryggingar hf. and Míla ehf. Guðrún was managing director of Nasdaq verðbréfamiðstöð hf. from 2013 to 2018. Guðrún was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2021.

Helgi Friðjón Arnarson
Director

Helgi Friðjón Arnarson was born in 1957. He graduated with a cand.oecon. degree from the University of Iceland in 1983 and became a legally certified accountant in 1987. Helgi worked as a certified accountant and partner at KPMG in 1984-2020. His duties involved auditing and other services for financial undertakings and pension funds. He served as auditor of banks, savings banks, pension funds and other entities in the financial market for several years. Helgi has taught KPMG courses in auditing and financial reporting for financial undertakings, and courses for managers of financial undertakings preparing for eligibility assessments administered by the Financial Supervisory Authority. He was elected to the Board of Directors in March 2021 and is Chairman of the Audit Committee.

Thorvaldur Jacobsen
Director

Thorvaldur Jacobsen was born in 1963. He is managing director of Landsnet's system administration division. Thorvaldur completed a degree in electrical engineering from the University of Iceland in 1987 and a degree in computer science from the same institution in 1988. He completed a master's degree in electrical engineering from the University of Texas at Austin in 1990. Thorvaldur worked for Opin kerfi as a sales manager in 1990-1996 and as a sales and marketing manager of Teymi in 1996-1999. He became managing director of Vísir.is ehf. in 1999 and led that company until 2001. Thorvaldur worked for the Nýherji Group for several years, first as managing director of communications solutions in 2001-2005 and later as managing director of core solutions in 2005-2008. He acted as CEO of Dansupport A/S (a Nýherji subsidiary in Denmark) for a six-month period in 2007-2008, was a managing director at Skyggni 2009-2011, managing director at UAB Baltic IT Services 2010-2012 (a Nýherji subsidiary in Lithuania), and finally managing director of operating solutions at Nýherji in 2011-2012. Thorvaldur was managing director of development at VÍS in 2012-2017 and worked for Valcon Consulting A/S in management consultancy and change control in 2017-2019. He has served on the boards of various companies and associations in his field. Thorvaldur was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2019.

Alternates

Sigríður Olgeirsdóttir
Alternate

Sigríður Olgeirsdóttir was born in 1960. Sigríður is a graduate of applied computing from EDB, Denmark in 1984, holds an MBA from Reykjavík University 2005, an AMP from Harvard Business School 2017 and completed a course in business operation and administration from the Department of Continuing Education at the University of Iceland 1991. She has extensive management experience in the field of IT, including in the financial sector. She was director of services at Valka ehf. in 2019-2021, managing director of operation and IT at Íslandsbanki in 2010-2019, director of Humac ehf. in Iceland in 2007-2008, managing director of Skipti in 2006-2008, managing director of Ax hugbúnaðarhús in 2001-2006, managing director at Ax Business Intelligence A/S in Denmark in 1999-2001, and managing director and director of Tæknival in 1994-1999. Sigríður has sat on the boards of Penninn, Arion securities custody, Reitir, Auðkenni and Kerfi. She was also on the board of directors of Sensa and chairman of the audit committee of Kópavogsbær Civil Servants' Pension Fund. Sigríður has in addition been on the boards of IT companies in the Nordic countries and is currently a director of the board of Opin kerfi. Sigríður was elected as alternate to the Board of Directors in March 2021.

Sigurður Jón Björnsson
Alternate

Sigurður Jón Björnsson was born in 1966. He completed a cand.oecon. degree from the School of Accounting and Finance from the University of Iceland in 1994 and became a licensed securities broker in 2009. Following graduation, he worked as assistance sales manager for Íslensk Ameríska hf. in 1995-1997. He worked as head of finance, deputy managing director and analyst in investment banking at Framtak Fjárfestingarbanki hf. in 1997- 2003. He headed up the financial administration department of Air Atlanta in 2003-3006 and was CFO and deputy managing director of financial administration at Norðurál in 2006-2007. He worked as a corporate consultant at Capacent in 2007 and later became a partner at securities house Capacent Fjárfestingarráðgjöf, later Centra Fyrirtækjaráðgjöf hf. Alongside his consultancy role, Sigurður served as Compliance Officer for the securities house. Sigurður was CFO of the Housing Financing Fund in 2011-2017 and was, among other things, responsible for risk management at the fund in 2011-2015. Sigurður was chairman of the board of tech company Betware in Iceland from the company's establishment in 1998 and until it was sold to foreign parties in 2014. He has also served on the boards of companies Stoðir hf., Íslandsflug hf., Landsafl hf., IMSI Inc., and SPC Holding AS. Sigurður was elected as alternate to the Board of Directors in April 2019.

Committee members who are not Directors of the Board

Hjörleifur Pálsson
Member of the Audit Committee of the Board of Directors

Hjörleifur Pálsson was born in 1963. Hjörleifur completed a cand.ocean. degree from the University of Iceland in 1988. He became a certified public accountant in 1989 and worked as an auditor to 2001. He was managing director of finance at Össur hf. from 2001 to 2013. Since 2013, Hjörleifur has sat on the boards of various companies and invested in and supported start-ups. He is currently chairman of the board of Sýn hf., chairman of the board of directors and chairman of the university council of Reykjavik University, on the investment council of Akur fjárfestingar slhf., a director of the board of Brunnur vaxtarsjóður slhf., Lotus Pharmaceutical Co., Ltd in Taiwan and Ankra ehf. Hjörleifur chairs the nomination committee of Icelandair Group hf. He became a member of the Audit Committee of the Board of Directors in November 2019.

12. Information on the independence of Directors of the company and of major shareholders

Regular and alternate members of the Board of Directors do not hold shares in Landsbankinn, neither directly nor indirectly through related parties. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders. They have no connected interests with the Bank's main customers or competitors, other than those mentioned in Section 11, or large shareholders in the Bank.

13. Key aspects of the performance assessment

The Board of Directors underwent a performance assessment in January of 2022. The activities and work of the Board of Directors in 2021 were evaluated. Also up for evaluation was information disclosure, strategy development and future vision, the performance of Directors, exchange of opinions, the work of sub-committees of the Board, the performance of the Chairman and the CEO.

14. Information on the CEO and description of her main responsibilities

Lilja Björk Einarsdóttir took up the position of CEO of Landsbankinn on 15 March 2017.

Lilja graduated as a mechanical and industrial engineer from the University of Iceland in 1998 and achieved an MSc. in financial engineering from the University of Michigan, Ann Arbor, in 2003. In 2008 to 2016, Lilja directed the operation, asset management and recovery of assets of old Landsbanki Íslands, LBI ehf., in London. She was an independent consultant and director as of 2016 and until she was hired as CEO of Landsbankinn. In 2005 to 2008, she worked as a specialist and later Managing Director at Landsbanki Íslands hf. in London, responsible for the daily operation and development of support functions, amongst other things. Lilja previously worked for consulting firm Marsh & McLennan from 2003 to 2005 for such clients as the Ford Motor Company, as an expert in planning and creating risk models for the insurance and treasury departments. Lilja sits on the executive board of the Confederation of Icelandic Employers, the board of directors of the Icelandic Financial Services Association (SFF), and the board of the Iceland Chamber of Commerce.

Lilja does not hold shares in the Bank and has no connected interests with its main customers, competitors or large shareholders.

The Bank's CEO shall be responsible for the Bank's day-to-day operations and shall be authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Day-to-day operation does not include extraordinary actions or actions of major significance. Such actions can only be taken by special authorisation from the Board of Directors. The CEO shall ensure that the bank's operations comply with laws, regulations and the Articles of Associations, and with Board decisions. She shall ensure that the Bank's accounting complies with law and good business practice and that handling of the Bank's assets is secure. The Bank's CEO serves as spokesperson for the Bank on all business and administrative issues.

15. Laws and rules

No remarks were received from supervisory entities in 2021 concerning violations of laws or rules leading to penalties.

16. Organisation of communication between shareholders and the Board of Directors

At year-end 2021, shareholders in Landsbankinn numbered 857. The Board of Directors communicates with shareholders in accordance with law, the Bank's Articles of Association and the Board's Rules of Procedure. The Chairman of the Board directs its communications with shareholders. Members of the Board of Directors shall, in their duties and decision-making, safeguard the interests of the Bank and shareholders in accordance with the provisions of Act No. 2/1995, on Public Limited-liability Companies, Act No. 161/2002, on Financial Undertakings, and other rules and guidelines about the Bank's activities.

Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af:
Berglind Svavarsdóttir
0212644239
Dags: 03.02.2022
Tími: 10:36:08
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af
Elín Jónsdóttir

Undirritað af:
Elín Jónsdóttir
1308666039
Dags: 03.02.2022
Tími: 10:46:31
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af
Guðbrandur Sigurðsson

Undirritað af:
Guðbrandur Sigurðsson
0205618239
Dags: 03.02.2022
Tími: 10:45:02
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-

Undirritað af
Guðrún Blöndal

Undirritað af:
Guðrún Blöndal
2703603869
Dags: 03.02.2022
Tími: 10:37:18
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af:
Helga Björk Eiríksdóttir
2212683939
Dags: 03.02.2022
Tími: 10:35:18
Ástæða: Ársreikningur samstæðu enska 31.12.2021
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Undirritað af
Helgi Friðjón Arnarson

Undirritað af:
Helgi Friðjón Arnarson
0306572339
Dags: 03.02.2022
Tími: 10:33:21
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af
Lilja Björk Einarsdóttir

Undirritað af:
Lilja Björk Einarsdóttir
0408733339
Dags: 03.02.2022
Tími: 10:43:49
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af
Þorvaldur Jacobsen

Undirritað af:
Þorvaldur Jacobsen
2112632029
Dags: 03.02.2022
Tími: 10:34:18
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: d2ddea8b-bd10-4f27-aad2-

Undirritað af:
Arna Guðrún Tryggvadóttir
0802783499
Dags: 03.02.2022
Tími: 10:58:24
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: 654d87d1-

Undirritað af:
Atli Þór Jóhannsson
1207883539
Dags: 03.02.2022
Tími: 11:01:02
Ástæða: Ársreikningur samstæðu enska 31.12.2021
Signet ID: 654d87d1-aead-4441-b9ff-