Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2021

Contents

Factsheet 2Q21

Íslandsbanki

Our profile

With a history that dates from 1875, Íslandsbanki is an Icelandic universal bank with a strong customer focus. The Bank believes in moving Iceland forward by empowering its customers to succeed – reflecting a commitment to run a solid business that is a force for good in society.

Driven by the ambition to be #1 for service, Íslandsbanki's banking model is led by three business divisions that build and manage relationships with its customers. Íslandsbanki maintains a strong market share with the most efficient branch network in the country, supporting at the same time its customers' move to more digital services.

The Bank operates in a highly attractive market and, with its technically strong foundations and robust balance sheet, is well positioned for the opportunities that lie ahead.

Íslandsbanki has a BBB/A-2 rating from S&P Global Ratings.

The Bank's shares are listed on the Nasdaq Iceland Main Market.

The Bank

12 branches

733 number of FTEs at Íslandsbanki at period end

Sustainability 2Q21

- Commitment to reaching net zero emissions by 2040 and only Icelandic founding member of NZBA (Net-Zero Banking Alliance)
- In April Íslandsbanki topped Reitun's ESG rankings with 90 points out of 100
- Íslandsbanki received environmental award from Ministry for the Environment and Natural Resources in April

Digital milestones 2Q21

- The "funds in app" enables trading of IS funds and includes fund details and performance
- SmartId enables our customers to move seamlessly between channels without having to log in again
- Record number for digital origination of trading accounts in June

Market share[1]

32% retail customers

37% SMEs

35% large companies

Ratings and certifications

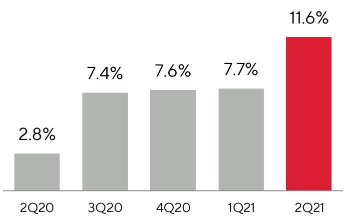
S&P Global Ratings

BBB/A-2 Stable outlook

EQUAL PAY CERTIFICATE 2018 - 2021

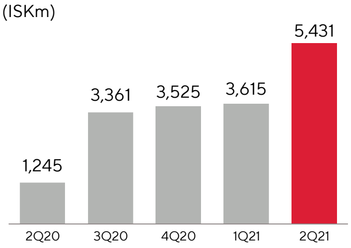
EXEMPLARY IN CORPORATE GOVERNANCE

Return on equity

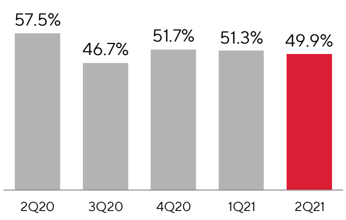


Profit after tax

(ISKm)

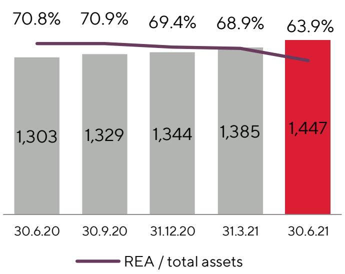


Cost-to-income ratio[2]



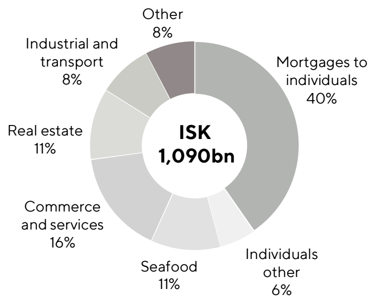
Total assets

(ISKbn)



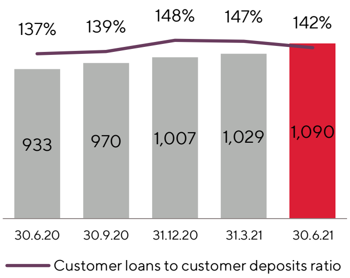
Loans to customers

(Sector split as of 30.6.21)

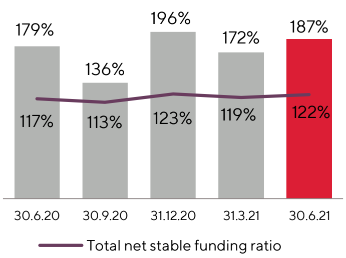


Loans to customers

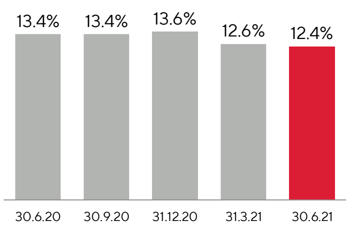
(ISKbn)



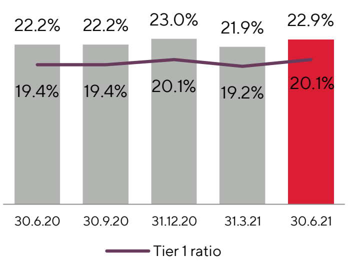
Total liquidity coverage ratio



Leverage ratio



Total capital ratio



The information above has not been reviewed or audited by the Bank's auditor.
1. Based on Gallup surveys regarding primary bank. 2021 average for retail customers and SMEs and 2020 average for large companies.
2. IPO costs in 1Q21 were not adjusted for in the 1Q21 results.

Directors' Report

These are the condensed consolidated interim financial statements for the for the period 1 January to 30 June 2021. (“the interim financial statements”) of Íslandsbanki hf. (“the Bank” or “Íslandsbanki”) and its subsidiaries (together referred to as "the Group").

In late June the Bank's shares were listed on the Icelandic stock exchange following its successful Initial Public Offering ("IPO"), as further described in the Ownership section below.

Operations in the reporting period

Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

The Group's profit from its operations for the reporting period amounted to ISK 9,046 million. At the end of the reporting period, the Group employed 768 full-time members of staff, including 733 within the Bank itself.

Net interest income fell by 1.2% between years, as the lower interest rate environment resulted in the net interest margin reducing from 2.7% to 2.4%. Net fee and commission income rose by 20.2%, with strong performance in all business units, especially the Bank's fund management company Íslandssjóðir. Salaries and related expenses were up by 7.1% between years, in line with general wage agreement increases in Iceland, one-off costs relating to the IPO of the Bank, along with redundancy costs and accrued leave. Other operating expenses rose by 6.2% due to one-off costs relating to the IPO of the Bank. The Bank's cost to income ratio fell from 60.1% to 50.6% between years. Net impairment reversals amounted to ISK 622 million as the tourism sector has started to recover from the COVID-19 pandemic and positive economic conditions.

The Group's loan book grew by 8.2% in the period as the demand for new mortgages and refinancing continues at a strong pace. Growth is also picking up in both corporate and SME lending. The Bank's ratio of non-performing loans fell from 2.9% to 2.1% due to both partial and full repayment of some exposures. Stage 2 loans under IFRS 9 are remain at 13.7% as the credit risk related to loans to the tourism industry are still deemed to show signs of increased credit risk. That said, the outlook for the sector has improved substantially in the past few months.

Customer deposits rose by 12.7% from year-end 2020. The main reason is a temporary impact in Treasury deposits due to cash flows relating to the Bank's IPO and to strong growth in SME deposits. The Bank continued its consistent issuance of ISK denominated covered bonds to fund the growth in the mortgage book. It also issued several bonds in Norwegian and Swedish currencies to refinance maturing debt. The liquidity position of the Bank remains robust, with limited maturities of long-term debt in 2021. The Bank is also very well capitalised, with a total capital ratio of 22.9% at the end of the period, compared to the current 17.8% regulatory requirement.

The COVID-19 pandemic continued to impact the operations of the Bank during the first half of 2021. Employees did however start to return to the office in the second quarter and operations were close to normal at the end of the quarter. The Bank plans to allow employees to work partially from home going forward. Recent surveys suggest that employees would generally prefer to work from home two to three days a week.

Outlook

The Icelandic Tourism sector has started to recover from the COVID-19 pandemic and the outlook for the summer season is steadily improving. Demand for hotel rooms and rental cars has risen gradually and prices are starting to move upwards, especially for rental cars, where there could be a shortage in the latter part of the summer. There is, however, still a risk of further lockdowns and limits on travel if new variants of the coronavirus continue to increase global infection rates. The Icelandic economy shows clear signs of recovery, with unemployment rates coming down sharply in recent months, from 12.8% in January to 7.4% in June. Inflation has however been rising, with 12-month inflation running at 4.3% in June, substantially above the Central Bank's target of 2.5% and outside its target range of 1.0-4.0%. The Bank's Chief Economist is however forecasting inflation to fall in the next few months, returning to the Central Bank's target in the third quarter of 2022.

The outlook for the Bank's operations is favourable in the short term if the economy continues on its current path of recovery. Fee income will benefit from increasing travel and economic activity, whilst interest income should benefit from the forecast rate rises. The outlook for impairments is also favourable, although still clearly dependent on continuing recovery of the tourism sector and the overall economy.

Ownership

In late June the Bank's shares were listed on the Icelandic stock exchange following its successful IPO. The process, through which Icelandic State Financial Investments (ISFI) sold a 35% stake in the Bank on behalf of the Icelandic government, saw a very strong 9 times oversubscription and attracted over 24,000 new shareholders. Secondary trading has been strong, with substantial trading volumes and robust share price performance.

Prior to the IPO the Bank was fully owned by the Icelandic Government. At 30 June 2021 the number of shareholders of the Bank numbered over twenty thousand, which is the largest shareholder base of any listed company in Iceland. The Icelandic Government is the largest shareholder, representing 65% of the outstanding shares and votes, those shares are administered by the ISFI in accordance with Act no. 88/2009 on Icelandic State Financial Investments. Other shareholders include pension funds, asset management funds, and private individuals. For further information on the Bank's shareholders see Note 37.

Directors' Report

Corporate governance

The Annual General Meeting ("AGM") for the operating year 2020 was held on 18 March 2021. At the AGM seven members were elected to serve on the Board of Directors until the next AGM, four men and three women, and additionally two Alternate Directors were elected (one man and one woman).

At the AGM shareholders approved that the Bank would pay a ISK 3.4 billion dividend, which amounts to about 50% of the 2020 net income, in line with the Bank's dividend policy. The dividend was paid out in March 2021. It was also approved that the Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividend of profit for previous fiscal years could be suggested.

Due to the proposed IPO, Íslandsbanki held a shareholders meeting on 26 May 2021. The meeting approved new Articles of Association for the Bank, which entailed a comprehensive revision of the Articles. Provisions on the election of the Bank's Board of Directors, electronic shareholders meetings and Nomination Committee were among the revisions. Election of the Board of Directors shall now be made by cumulative voting between individuals, in accordance with item (c) of Article 63(6) of the Act no. 2/1995, on Public Limited Companies. Shareholders' meetings may now be held electronically, in whole or in part and the Bank shall operate a Nomination Committee whose role is to nominate individuals for election to the Bank's Board of Directors. The Nomination Committee will consist of three members who shall be elected for one year at a time by the Board of Directors. The committee shall be independent in its work and the majority of the committee's members shall be independent of the Bank and its management. The shareholders meeting approved new Rules of Procedure of the Bank's Nomination Committee, available for inspection on the Bank's website.

Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 30 June 2021 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union; the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these interim financial statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 June 2021. Furthermore, in our opinion the financial statements and the Director's report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2021.

Kópavogur, 28 July 2021

Board of Directors:

Hallgrímur Snorrason, Chairman

Heiðrún Jónsdóttir, Vice-Chairman

Anna Þórðardóttir

Árni Stefánsson

Frosti Ólafsson

Guðrún Þorgeirsdóttir

Jökull H. Úlfsson

Chief Executive Officer:

Birna Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Íslandsbanki hf.

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries as at June 30, 2021 which comprise of the Consolidated Interim Statement of Financial Position as at June 30, 2021 and the related Consolidated Interim Income Statement, the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and Consolidated Interim Statement of Cash Flows for the six months ended 30 June 2021 and other explanatory notes. The Board of Directors and CEO are responsible for the preparation and fair presentation of these Condensed Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting as adopted by the EU. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 28 July 2021

Margrét Pétursdóttir

State Authorised Public Accountant

Ernst & Young ehf.

Borgartúni 30

105 Reykjavík

Consolidated Interim Income Statement

	Notes	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Interest income*		28,137	28,598	15,353	14,953
Interest expense		(11,530)	(11,790)	(6,936)	(6,725)
Net interest income	5	16,607	16,808	8,417	8,228
Fee and commission income		6,836	5,385	3,529	2,622
Fee and commission expense		(1,067)	(587)	(622)	(315)
Net fee and commission income	6	5,769	4,798	2,907	2,307
Net financial income (expense)	7	912	(1,919)	619	(181)
Net foreign exchange gain	8	225	263	95	208
Other operating income	9	204	90	82	71
Other net operating income		1,341	(1,566)	796	98
Total operating income		23,717	20,040	12,120	10,633
Salaries and related expenses	10	(7,168)	(6,694)	(3,594)	(3,447)
Other operating expenses	11	(5,172)	(4,869)	(2,894)	(2,424)
Contribution to the Depositors' and Investors' Guarantee Fund		(344)	(475)	(162)	(247)
Bank tax		(861)	(758)	(451)	(399)
Total operating expenses		(13,545)	(12,796)	(7,101)	(6,517)
Profit before net impairment on financial assets		10,172	7,244	5,019	4,116
Net impairment on financial assets	12	622	(5,929)	1,140	(2,439)
Profit before tax		10,794	1,315	6,159	1,677
Income tax expense	13	(1,805)	(888)	(769)	(119)
Profit for the period from continuing operations		8,989	427	5,390	1,558
Discontinued operations held for sale, net of income tax	14	57	(558)	41	(313)
Profit (loss) for the period		9,046	(131)	5,431	1,245
Profit attributable to shareholders of Íslandsbanki hf.		9,050	171	5,433	1,422
Loss attributable to non-controlling interests		(4)	(302)	(2)	(177)
Profit (loss) for the period		9,046	(131)	5,431	1,245
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	15	0.90	0.07	0.54	0.17

*Of which interest income amounting to ISK 27,274 million (2020: ISK 27,526 million) is calculated using the effective interest method.

The half-year results were reviewed by the Bank's auditor. The split between quarters were not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Profit (loss) for the period	9,046	(131)	5,431	1,245
Net gain (loss) on financial assets	(39)	(913)	20	(604)
Net gain (loss) on financial liabilities	(720)	819	(524)	(346)
Items that will not be reclassified to the income statement	(759)	(94)	(504)	(950)
Foreign currency translation	(9)	-	(43)	-
Items that may subsequently be reclassified to the income statement	(9)	-	(43)	-
Other comprehensive expense for the period, net of tax	(768)	(94)	(547)	(950)
Comprehensive income (expense) for the period	8,278	(225)	4,884	295
Comprehensive income attributable to shareholders of Íslandsbanki hf.	8,649	424	5,248	693
Comprehensive expense attributable to non-controlling interests	(371)	(649)	(364)	(398)
Comprehensive income (expense) for the period	8,278	(225)	4,884	295

The half-year results were reviewed by the Bank's auditor. The split between quarters were not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.6.2021	31.12.2020
Assets			
Cash and balances with Central Bank	20	130,968	78,948
Loans to credit institutions	21	57,793	89,920
Bonds and debt instruments	16	110,499	128,216
Derivatives	22	2,649	6,647
Loans to customers	23	1,089,723	1,006,717
Shares and equity instruments	16	31,751	14,851
Investments in associates	25	911	775
Property and equipment	26	7,246	7,341
Intangible assets		3,307	3,478
Other assets	27	10,474	4,125
Non-current assets and disposal groups held for sale	28	1,539	3,173
Total Assets		1,446,860	1,344,191
Liabilities			
Deposits from Central Bank and credit institutions	29	32,240	39,758
Deposits from customers	30	765,614	679,455
Derivative instruments and short positions	22	10,079	6,936
Debt issued and other borrowed funds	32	398,786	387,274
Subordinated loans	33	25,297	27,194
Tax liabilities		6,025	5,450
Other liabilities	35	18,464	11,920
Total Liabilities		1,256,505	1,157,987
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		5,401	6,181
Retained earnings		119,535	113,529
Total Shareholders' Equity		189,936	184,710
Non-controlling interests		419	1,494
Total Equity		190,355	186,204
Total Liabilities and Equity		1,446,860	1,344,191

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Fair value reserve	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Equity as at 1.1.2021	10,000	55,000	2,500	3,556	572	(238)	(209)	113,529	184,710	1,494	186,204
Profit (loss) for the period								9,050	9,050	(4)	9,046
Net gain (loss) on financial assets					(572)			900	328	(367)	(39)
Net loss on financial liabilities						(720)			(720)		(720)
Foreign currency translation							(9)		(9)		(9)
Comprehensive income (expense) for the period	-	-	-	-	(572)	(720)	(9)	9,950	8,649	(371)	8,278
Dividends paid								(3,400)	(3,400)		(3,400)
Restricted due to capitalised development costs				(145)				145	-		-
Restricted due to fair value changes				629				(629)	-		-
Restricted due to associates				37				(37)	-		-
Changes in non-controlling interests								(23)	(23)	(704)	(727)
Equity as at 30.6.2021	10,000	55,000	2,500	4,077	-	(958)	(218)	119,535	189,936	419	190,355
Equity as at 1.1.2020	10,000	55,000	2,500	3,525	1,432	(392)	-	105,569	177,634	2,428	180,062
Profit (loss) for the period								171	171	(302)	(131)
Net gain (loss) on financial assets					(602)			36	(566)	(347)	(913)
Net gain on financial liabilities						819			819		819
Comprehensive income (expense) for the period	-	-	-	-	(602)	819	-	207	424	(649)	(225)
Restricted due to capitalised development costs				(146)				146	-		-
Restricted due to fair value changes				107				(107)	-		-
Restricted due to subsidiaries and associates				19				(19)	-		-
Other changes due to IFRS 15								(115)	(115)		(115)
Equity as at 30.6.2020	10,000	55,000	2,500	3,505	830	427	-	105,681	177,943	1,779	179,722

Authorised share capital of the Bank is 10,000 million ordinary shares of ISK 5 each. At 30 June 2021 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Bank. The Bank has one class of ordinary shares which carry no right to fixed income. The Annual General Meeting ("AGM") for the operating year 2020 was held on 18 March 2021. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 3,400 million which is equivalent to ISK 0.34 per share (2020: none). The dividends were paid on 30 March 2021. It was also approved that the Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for previous fiscal years could be suggested.

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2021	2020
	1.1-30.6	1.1-30.6
Profit (loss) for the period	9,046	(131)
Non-cash items included in profit for the period*	8,900	15,671
Changes in operating assets and liabilities*	118	(21,771)
Dividends received	54	27
Income tax, special financial activities tax and bank tax paid	(2,806)	(3,270)
Net cash provided by (used in) operating activities	15,312	(9,474)
Net investment in an associated company	(30)	-
Proceeds from sales of property and equipment	15	8
Purchase of property and equipment	(99)	(433)
Purchase of intangible assets	(105)	(116)
Net cash used in investing activities	(219)	(541)
Proceeds from borrowings	51,263	10,300
Repayment and repurchases of borrowings	(35,528)	(19,243)
Repayment of lease liabilities	(206)	(197)
Dividends paid	(3,400)	-
Subsidiary's capital decrease and share buyback paid to non-controlling interests	(704)	-
Net cash provided by (used in) financing activities	11,425	(9,140)
Net increase (decrease) in cash and cash equivalents	26,518	(19,155)
Effects of foreign exchange rate changes	(73)	176
Cash and cash equivalents at the beginning of the year	115,668	152,481
Cash and cash equivalents at the end of the period	142,113	133,502

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	20	3,518	4,121
Cash balances with Central Bank	20	127,450	99,448
Bank accounts	21	20,860	34,382
Mandatory reserve, special restricted and pledged balances with Central Bank	20	(9,715)	(9,009)
Cash and cash equivalents attributable to discontinued operations		-	4,560
Cash and cash equivalents at the end of the period		142,113	133,502

*For further breakdown see the following page.

Interest received from 1 January to 30 June 2021 amounted to ISK 25,960 million (2020: ISK 24,659 million) and interest paid in the same period 2021 amounted to ISK 9,203 million (2020: ISK 10,650 million). Interest is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2021 1.1-30.6	2020 1.1-30.6
Depreciation, amortisation and write-offs	687	1,003
Share of profit and reversal of impairment of associates	(105)	(20)
Accrued interest and fair value changes on debt issued and subordinated loans	7,148	6,401
Net impairment on financial assets	(551)	5,743
Foreign exchange gain	(225)	(263)
Net gain from sales of property and equipment	(7)	-
Unrealised fair value (gain) loss recognised in profit or loss	(674)	1,208
Discontinued operations, net of income tax	(57)	(78)
Bank tax	861	758
Income tax	1,805	888
Other changes	18	31
Non-cash items included in profit (loss) for the period	8,900	15,671

Mandatory reserve, special restricted and pledged balances with Central Bank	(166)	6,270
Loans to credit institutions	4,007	4,552
Bonds and debt instruments	16,821	(85,374)
Loans to customers	(92,740)	(21,682)
Shares and equity instruments	(16,970)	4,258
Other assets	(5,411)	(4,015)
Non-current assets and liabilities held for sale	1,658	(718)
Deposits from Central Bank and credit institutions	(6,983)	3,451
Deposits from customers	90,156	50,766
Derivative instruments and short positions	3,273	2,337
Other liabilities	6,473	18,384
Changes in operating assets and liabilities	118	(21,771)

Non-cash transactions 1 January to 30 June 2021
During the period the Group did not have any significant non-cash transactions.

Non-cash transactions 1 January to 30 June 2020
During the period the Bank sold an office building for ISK 100 million with cash settlement after the period end.

The notes on pages 12 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Statements first half 2021 11 Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

Íslandsbanki hf., the parent company, was incorporated on 8 October 2008 and is a limited liability company domiciled in Iceland. The address of its registered office is Hagasmári 3, 201 Kópavogur, Iceland.

The condensed consolidated interim financial statements for the first half of 2021 ("the interim financial statements") comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group".

The interim financial statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 28 July 2021.

2. Basis of preparation

The interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2020, as well as the unaudited Pillar 3 Report for the year 2020. Both are available on the Bank's website: www.islandsbanki.is.

The accounting policies and the basis of measurement are unchanged from those set out in Notes 3 and 67 in the consolidated financial statements for the year 2020 except for the changes presented in Note 3.

The interim financial statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except when otherwise indicated. At 30 June 2021 the exchange rate of the ISK against the USD was 123.22 and for the EUR 146.50 (at year-end 2020: USD 127.21 and EUR 156.10).

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Therefore, the interim financial statements have been prepared on a going concern basis.

Significant accounting estimates and judgements

The preparation of the interim 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 recognised. Actual results may differ from those estimates.

Estimates and underlying assumptions are under constant review. Changes in accounting estimates are recognised when they occur.

As described in Note 3 in the consolidated financial statements for the year 2020 key sources of estimation uncertainty include the allowance for credit losses, the determination of fair value of financial instruments, and intangible assets.

Impairment of financial assets, changes from year-end 2020

Note 67.4 in the consolidated financial statements for the year 2020 contains a description of the Group's accounting policies for the impairment of financial assets.

At the end of the first half of 2021, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in 26 May 2021 which takes into account the effects of the COVID-19 pandemic. The table below shows macroeconomic indicators from the new forecast.

Change in economic indicators %	Estimate 2020	Forecast 2021	Forecast 2022	Forecast 2023	Forecast 2024
Economic growth	(6.6)	2.7	4.9	2.9	2.8
Housing prices in Iceland	6.4	11.3	6.7	4.4	3.5
Purchasing power	3.5	4.0	1.9	1.5	1.6
ISK exchange rate index	11.1	(3.2)	(4.7)	(1.3)	-
Policy rate, Central Bank of Iceland	1.5	1.0	1.8	2.8	3.3
Inflation	2.8	4.1	2.6	2.4	2.5
Capital formation	(6.8)	1.9	4.8	5.9	3.5
thereof capital formation in industry	(8.7)	2.7	8.4	5.5	3.0

2. Cont'd

The Group continues to make temporary changes to the impairment model due to the COVID-19 pandemic.The Group's impairment process allows for temporary changes to the impairment model to account for circumstances when it becomes evident that existing or expected risk factors have not been appropriately considered in the credit risk rating or modelling process. The COVID-19 pandemic has created such circumstances for the tourism industry and therefore an adjustment is warranted. To account for the material uncertainty in the operating environment of companies in the tourism industry, not reflected in their current risk class, they have been further classified into four impact groups as described in Note 46. Where the increase was found to be significant (groups 2 - 4), the exposure was transferred to Stage 2. In addition, an overlay factor was applied to the expected credit loss, comparable to an increase in up to three risk classes, and a higher haircut was applied to value of collateral for the higher impact groups in the more severe scenarios. The common risk factor in tourism was found to apply to loans to customers with a net carrying amount of ISK 97,443 million and the cumulative effect of the stage transfer and credit loss overlay amounted to ISK 6,991 million.

The All Risk Committee determined that it was appropriate to adjust the weights of the scenarios due to the COVID-19 pandemic, generally the scenarios are weighted 25%-50%-25% (good, base, bad) but it was determined appropriate to set the weights at 15%-50%-35%, as this would best represent the probability-weighted average over all possible scenarios. When deciding on the appropriate weights for the three scenarios, management used sensitivity analysis that indicated that a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 750 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 250 million.

Substantial uncertainty remains with regards to the impact of the COVID-19 pandemic on the credit quality of the Group's credit exposures in future periods and therefore the assessment of expected credit losses.

3. Changes to accounting policies

The accounting policies in the interim financial statements are consistent with those applied in the consolidated financial statements for the year 2020, except for amendments related to the Phase 2 of the Interest Rate Benchmark Reform as described in Note 4 in the consolidated financial statements for the year 2020. The amendments did not have a significant impact on the interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

Segment information is presented in accordance with the Group's management and internal reporting structure. The segments' operating result are reported to the Board of Directors and the Chief Executive Officer, who are responsible for allocating resources to the reportable segments and assessing their financial performance.

An operating segment is a distinguishable component of the Group, for which discrete financial information is available, 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. Each operating segment is engaged in providing products or services which are subject to risk and return that are different from those of other operating segments. The accounting policies for the reportable segments are in line with the Group's accounting policies. The Group operates mainly in the Icelandic market.

The Bank has three main business segments: Personal Banking, Business Banking, and Corporate & Investment Banking. Operating segments pay and receive interest to and from Treasury to reflect the allocation of capital, funding costs, and the relevant risk premium. Capital allocation to the business units is based on the pillar 1 regulatory capital requirement, the pillar 2-R capital requirement calculated according to the Bank's ICAAP and the combined buffer requirement as stipulated in the Act on Financial Undertakings. Income tax and bank tax with breakdown for each segment is according to the current tax rates.

The Group comprises the following operating segments:

Personal Banking

Personal Banking provides comprehensive financial services to individuals, such as lending, savings and payments. Íslandsbanki's customers are increasingly taking care of their day-to-day banking via digital solutions such as apps, the online bank and the secure web chat. Customers can also visit the Bank's efficient branch network for comprehensive consultancy services and contact the contact centre.

Business Banking

Business Banking provides small and medium-sized enterprises (SMEs) with comprehensive financial services and Ergo, the Bank's asset financing service, is also part of the division. Business Banking serves customers in business centres and branches close to their business. Via online banking and app, customers have full overview of their business and day-to-day operations are easy to manage.

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors, and affluent individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage, and private banking services. The division is sector-focused, building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

Treasury and Proprietary Trading

Treasury is responsible for funding the Bank's operations and for managing the internal pricing framework. It is also responsible for the Bank's balance sheet management and for relations with investors, financial institutions, stock exchanges, and rating agencies. Equity that is not allocated to business units sits within Treasury. Proprietary Trading includes equity and debt investments in the trading book and the banking book.

Cost centres

Cost centres comprise the CEO's office (Human Resources, Marketing & Communications, Strategy, and Legal), IT, Risk Management, Compliance and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf., Allianz Ísland hf. and other less significant subsidiaries (see Note 25).

Assets and liabilities of subsidiaries, that are classified as non-current assets and disposal groups held for sale, are included in the column “Other subsidiaries".

All inter-company eliminations are included in the column “Eliminations & adjustments".

Following is an overview showing the Group's performance with a breakdown by operating segments.

4. Cont'd

1 January to 30 June 2021	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	5,796	5,111	4,382	1,399	(89)	16,599	8	16,607
Net fee and commission income	1,728	1,059	2,041	(75)	(63)	4,690	1,079	5,769
Other net operating income	173	42	517	1,199	97	2,028	(687)	1,341
Total operating income	7,697	6,212	6,940	2,523	(55)	23,317	400	23,717
Salaries and related expenses	(1,230)	(976)	(873)	(136)	(3,546)	(6,761)	(407)	(7,168)
Other operating expenses	(1,228)	(526)	(401)	(118)	(2,669)	(4,942)	(230)	(5,172)
Contribution to the Depositors' and Investors' Guarantee Fund	(270)	(66)	(8)	-	-	(344)	-	(344)
Bank tax	(353)	(175)	(271)	(54)	(8)	(861)	-	(861)
Net impairment on financial assets	101	1,004	(533)	51	-	623	(1)	622
Cost allocation	(2,373)	(1,645)	(1,648)	155	5,511	-	-	-
Profit (loss) before tax	2,344	3,828	3,206	2,421	(767)	11,032	(238)	10,794
Income tax expense	(701)	(1,041)	(904)	764	197	(1,685)	(120)	(1,805)
Profit (loss) for the period from continuing operations	1,643	2,787	2,302	3,185	(570)	9,347	(358)	8,989
Net segment revenue from external customers	12,829	7,321	9,749	(6,582)	-	23,317	400	23,717
Net segment revenue from other segments	(5,132)	(1,109)	(2,809)	9,105	(55)	-	-	-
Fee and commission income	2,556	1,072	2,057	70	-	5,755	1,081	6,836
Depreciation, amortisation and write-offs	(82)	(30)	(8)	-	(562)	(682)	(5)	(687)
At 30 June 2021								
Loans to customers	483,001	238,828	367,591	303	-	1,089,723	-	1,089,723
Other assets	3,489	2,244	5,914	335,727	10,396	357,770	(633)	357,137
Total segment assets	486,490	241,072	373,505	336,030	10,396	1,447,493	(633)	1,446,860
Deposits from customers	331,748	209,547	138,230	89,620	-	769,145	(3,531)	765,614
Other liabilities	1,780	1,539	9,952	470,248	6,307	489,826	1,065	490,891
Total segment liabilities	333,528	211,086	148,182	559,868	6,307	1,258,971	(2,466)	1,256,505
Allocated equity	35,657	38,169	64,031	49,748	917	188,522	1,833	190,355
Risk exposure amount	239,587	219,307	397,372	61,373	5,973	923,612	763	924,375

The individual segment balance sheet positions are with external customers, and exclude internal transactions thus explaining the differences in total assets and total liabilities and equity.

Amounts are in ISK million

4. Cont'd

1 January to 30 June 2020	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	5,426	5,291	4,345	1,831	(118)	16,775	33	16,808
Net fee and commission income	1,489	948	1,784	(46)	(9)	4,166	632	4,798
Other net operating income	305	46	715	(1,794)	137	(591)	(975)	(1,566)
Total operating income	7,220	6,285	6,844	(9)	10	20,350	(310)	20,040
Salaries and related expenses	(1,254)	(982)	(829)	(152)	(3,086)	(6,303)	(391)	(6,694)
Other operating expenses	(1,322)	(621)	(440)	(152)	(2,122)	(4,657)	(212)	(4,869)
Contribution to the Depositors' and Investors' Guarantee Fund	(272)	(156)	(46)	(1)	-	(475)	-	(475)
Bank tax	(248)	(171)	(263)	(68)	(8)	(758)	-	(758)
Net impairment on financial assets	(112)	(4,202)	(1,617)	2	-	(5,929)	-	(5,929)
Cost allocation	(2,399)	(1,457)	(1,556)	181	5,231	-	-	-
Profit (loss) before tax	1,613	(1,304)	2,093	(199)	25	2,228	(913)	1,315
Income tax expense	(484)	294	(613)	(32)	(8)	(843)	(45)	(888)
Profit (loss) for the period from continuing operations	1,129	(1,010)	1,480	(231)	17	1,385	(958)	427
Net segment revenue from external customers	9,988	7,469	10,098	(7,297)	92	20,350	(310)	20,040
Net segment revenue from other segments	(2,768)	(1,184)	(3,254)	7,288	(82)	-	-	-
Fee and commission income	2,311	962	1,816	88	4	5,181	204	5,385
Depreciation, amortisation and write-offs	(198)	(105)	(9)	-	(570)	(882)	(4)	(886)
At 30 June 2020								
Loans to customers	338,523	234,020	360,739	38	-	933,320	-	933,320
Other assets	3,271	2,434	2,294	334,834	11,402	354,235	15,701	369,936
Total segment assets	341,794	236,454	363,033	334,872	11,402	1,287,555	15,701	1,303,256
Deposits from customers	308,158	185,657	146,386	44,640	-	684,841	(3,618)	681,223
Other liabilities	1,184	1,523	5,672	414,365	5,911	428,655	13,656	442,311
Total segment liabilities	309,342	187,180	152,058	459,005	5,911	1,113,496	10,038	1,123,534
Allocated equity	29,034	37,494	61,215	45,379	937	174,059	5,663	179,722
Risk exposure amount	196,375	239,758	399,574	59,642	6,227	901,576	21,557	923,133

Amounts are in ISK million

4. Cont'd

Subsidiaries, eliminations & adjustments

1 January to 30 June 2021	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	-	3	6	(1)	8
Net fee and commission income	791	322	(15)	(19)	1,079
Other net operating income	201	15	9	(912)	(687)
Total operating income	992	340	-	(932)	400
Salaries and related expenses	(312)	(95)	-	-	(407)
Other operating expenses	(96)	(206)	(1)	73	(230)
Net impairment on financial assets	-	-	-	(1)	(1)
Profit (loss) before tax	584	39	(1)	(860)	(238)
Income tax expense	(114)	(2)	-	(4)	(120)
Profit (loss) for the period from continuing operations	470	37	(1)	(864)	(358)
Net segment revenue from external customers	1,126	316	-	(1,042)	400
Net segment revenue from other segments	(134)	24	-	110	-
Fee and commission income	1,037	322	-	(278)	1,081
Depreciation, amortisation and write-offs	-	(1)	-	(4)	(5)
At 30 June 2021					
Total assets	2,377	1,057	6,897	(10,964)	(633)
Total liabilities	410	655	37	(3,568)	(2,466)
Total equity	1,967	402	6,860	(7,396)	1,833

1 January to 30 June 2020	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	11	8	14	-	33
Net fee and commission income	583	316	(15)	(252)	632
Other net operating income	20	11	(1)	(1,005)	(975)
Total operating income	614	335	(2)	(1,257)	(310)
Salaries and related expenses	(297)	(94)	-	-	(391)
Other operating expenses	(93)	(190)	(1)	72	(212)
Profit (loss) before tax	224	51	(3)	(1,185)	(913)
Income tax expense	(46)	(10)	-	11	(45)
Profit (loss) for the period from continuing operations	178	41	(3)	(1,174)	(958)
Net segment revenue from external customers	753	267	-	(1,330)	(310)
Net segment revenue from other segments	(139)	68	(2)	73	-
Fee and commission income	822	316	-	(934)	204
Depreciation, amortisation and write-offs	-	-	-	(4)	(4)
At 30 June 2020					
Total assets	1,967	1,365	28,414	(16,045)	15,701
Total liabilities	301	627	15,605	(6,495)	10,038
Total equity	1,666	738	12,809	(9,550)	5,663

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Cash and balances with Central Bank	258	1,410	153	408
Loans at amortised cost	27,016	26,116	14,775	14,026
Financial assets mandatorily at fair value through profit or loss	860	1,070	424	519
Other assets	3	2	1	-
Total interest income	28,137	28,598	15,353	14,953
Deposits from Central Bank and credit institutions	(191)	(420)	(98)	(199)
Deposits from customers	(3,120)	(4,699)	(1,925)	(2,236)
Debt issued and other borrowed funds at fair value through profit or loss	(364)	(296)	(179)	(154)
Debt issued and other borrowed funds at amortised cost	(6,747)	(5,374)	(4,096)	(3,327)
Subordinated loans	(339)	(359)	(176)	(193)
Other liabilities*	(769)	(642)	(462)	(616)
Total interest expense	(11,530)	(11,790)	(6,936)	(6,725)
Net interest income	16,607	16,808	8,417	8,228

*Thereof is lease liabilities' interest expense amounting to ISK 43 million (2020: ISK 44 million).

6. Net fee and commission income

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Asset management	1,424	1,170	769	605
Investment banking and brokerage	1,349	1,147	689	576
Payment processing	2,099	1,600	1,154	786
Loans and guarantees	1,064	810	526	427
Other fee and commission income	900	658	391	228
Total fee and commission income	6,836	5,385	3,529	2,622
Brokerage	(226)	(166)	(136)	(113)
Clearing and settlement	(835)	(421)	(486)	(202)
Other fee and commission expense	(6)	-	-	-
Total fee and commission expense	(1,067)	(587)	(622)	(315)
Net fee and commission income	5,769	4,798	2,907	2,307

Fee and commission income by segment is disclosed in Note 4.

7. Net financial income (expense)

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	605	(1,548)	424	180
Net gain (loss) on financial liabilities designated as at FVTPL	302	(372)	191	(366)
Net gain on fair value hedges	5	1	4	5
Net financial income (expense)	912	(1,919)	619	(181)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

8. Net foreign exchange gain

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Cash and balances with Central Bank	(73)	176	(19)	(1)
Financial assets mandatorily at fair value through profit or loss	(5,185)	5,836	(294)	4,458
Loans at amortised cost	(12,942)	29,451	(3,505)	(299)
Other assets	(6)	11	(4)	(8)
Net foreign exchange gain (loss) for assets	(18,206)	35,474	(3,822)	4,150
Deposits	4,532	(13,229)	1,832	476
Debt issued and other borrowed funds designated as at FVTPL	5,819	(7,098)	966	(14)
Debt issued and other borrowed funds at amortised cost	6,188	(11,730)	1,156	(3,030)
Subordinated loans	1,892	(3,154)	(37)	(1,374)
Net foreign exchange gain (loss) for liabilities	18,431	(35,211)	3,917	(3,942)
Net foreign exchange gain	225	263	95	208

9. Other operating income

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Share of profit of associates, net of income tax	45	19	39	38
Reversal of impairment for an associate	60	-	-	-
Legal fees	36	40	18	18
Rental income	20	20	9	10
Other net operating income	43	11	16	5
Other operating income	204	90	82	71

10. Salaries and related expenses

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Salaries	5,526	5,158	2,765	2,654
Contributions to pension funds	852	768	431	406
Social security charges and financial activities tax*	719	716	369	359
Other salary-related expenses	71	52	29	28
Salaries and related expenses	7,168	6,694	3,594	3,447

*Financial activities tax calculated on salaries is 5.5% (2020: 5.5%).

11. Other operating expenses

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Professional services	1,326	760	926	348
Software and IT expenses	2,149	2,230	1,111	1,130
Real estate and office equipment	277	275	115	139
Depreciation, amortisation and write-offs	687	886	342	524
Other administrative expenses	733	718	400	283
Other operating expenses	5,172	4,869	2,894	2,424

Amounts are in ISK million

12. Net impairment on financial assets

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Expected credit losses, on-balance sheet items*	569	(5,743)	1,024	(2,404)
Expected credit losses, off-balance sheet items	53	(186)	116	(35)
Net impairment on financial assets	622	(5,929)	1,140	(2,439)

*The main reasons for the reduced expected credit loss allowance are: a decrease related to the COVID-19 pandemic, mostly due to more favourable outlook in the tourism industry (ISK 106 million) and a further reduction due to a more favourable economic environment (ISK 267 million). For further information see Note 2.

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2021 is 20% (2020: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first half 2021 is 16.7% (2020: 67.5%).

	2021 1.1-30.6	2020 1.1-30.6
Current tax expense excluding discontinued operations	2,047	1,120
Special financial activities tax	519	248
Difference in prior year's calculated income tax	2	14
Changes in deferred tax assets and deferred tax liabilities	(763)	(494)
Income tax recognised in the income statement	1,805	888

	2021 1.1-30.6		2020 1.1-30.6	
Profit before tax	10,794		1,315	
20% income tax calculated on the profit for the period	2,159	20.0%	263	20.0%
Special financial activities tax	519	4.8%	248	18.8%
Expenses (income) not subject to tax	(1,048)	(9.7%)	185	14.1%
Non-deductible expenses	173	1.6%	152	11.6%
Other differences	2	0.02%	40	3.0%
Effective income tax expense	1,805	16.7%	888	67.5%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

14. Discontinued operations held for sale, net of income tax

	2021 1.1-30.6	2020 1.1-30.6	2021 1.4-30.6	2020 1.4-30.6
Net profit (loss) from foreclosed assets	32	(36)	5	11
Net profit (loss) from disposal groups held for sale	31	(538)	37	(321)
Income tax expense	(6)	16	(1)	(3)
Discontinued operations held for sale, net of income tax	57	(558)	41	(313)

Amounts are in ISK million

15. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2021	2020	2021	2020
	1.1-30.6	1.1-30.6	1.1-30.6	1.1-30.6
Profit attributable to shareholders of the Bank	8,993	729	9,050	171
Weighted average number of outstanding shares	10,000	10,000	10,000	10,000
Basic earnings per share	0.90	0.07	0.91	0.02

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2020: none).

16. Classification of financial assets and financial liabilities

At 30 June 2021	Mandatorily at FVTPL	Held for hedging	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	130,968	130,968
Loans to credit institutions	-	-	-	57,793	57,793
Listed bonds and debt instruments	79,268	-	-	-	79,268
Listed bonds and debt instruments used for economic hedging	31,174	-	-	-	31,174
Unlisted bonds and debt instruments	57	-	-	-	57
Derivatives	1,982	667	-	-	2,649
Loans to customers	-	-	-	1,089,723	1,089,723
Listed shares and equity instruments	3,832	-	-	-	3,832
Listed shares and equity instruments used for economic hedging	24,532	-	-	-	24,532
Unlisted shares and equity instruments	3,387	-	-	-	3,387
Other financial assets	-	-	-	9,156	9,156
Total financial assets	144,232	667	-	1,287,640	1,432,539
Deposits from Central Bank and credit institutions	-	-	-	32,240	32,240
Deposits from customers	-	-	-	765,614	765,614
Derivative instruments and short positions	10,079	-	-	-	10,079
Debt issued and other borrowed funds	-	44,637	89,068	265,081	398,786
Subordinated loans	-	-	-	25,297	25,297
Other financial liabilities	-	-	-	16,551	16,551
Total financial liabilities	10,079	44,637	89,068	1,104,783	1,248,567

Amounts are in ISK million

16. Cont'd

At 31 December 2020	Mandatorily at FVTPL	Held for hedging	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	78,948	78,948
Loans to credit institutions	-	-	-	89,920	89,920
Listed bonds and debt instruments	90,603	-	-	-	90,603
Listed bonds and debt instruments used for economic hedging	37,468	-	-	-	37,468
Unlisted bonds and debt instruments	145	-	-	-	145
Derivatives	5,639	1,008	-	-	6,647
Loans to customers	-	-	-	1,006,717	1,006,717
Listed shares and equity instruments	2,933	-	-	-	2,933
Listed shares and equity instruments used for economic hedging	9,109	-	-	-	9,109
Unlisted shares and equity instruments	2,809	-	-	-	2,809
Other financial assets	-	-	-	3,692	3,692
Total financial assets	148,706	1,008	-	1,179,277	1,328,991
Deposits from Central Bank and credit institutions	-	-	-	39,758	39,758
Deposits from customers	-	-	-	679,455	679,455
Derivative instruments and short positions	6,936	-	-	-	6,936
Debt issued and other borrowed funds	-	48,032	94,438	244,804	387,274
Subordinated loans	-	-	-	27,194	27,194
Other financial liabilities	-	-	-	9,721	9,721
Total financial liabilities	6,936	48,032	94,438	1,000,932	1,150,338

17. Fair value information for financial instruments

Financial instruments carried at fair value

The fair value of a financial instrument is the transaction price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where a market price is not readily available, the Group applies valuation techniques based on estimates and assumptions that are consistent with that which market participants would use in setting a price for the financial instrument.

The table below shows financial instruments carried at fair value at 30 June 2021 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques based on significant unobservable inputs, e.g. internal assumptions.

At 30 June 2021	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	110,442	-	57	110,499
Derivatives	-	2,649	-	2,649
Shares and equity instruments	28,302	2	3,447	31,751
Total financial assets	138,744	2,651	3,504	144,899
Short positions	173	-	-	173
Derivative instruments	-	9,906	-	9,906
Debt issued and other borrowed funds designated as at FVTPL	89,068	-	-	89,068
Total financial liabilities	89,241	9,906	-	99,147

Amounts are in ISK million

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At 31 December 2020	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	128,071	-	145	128,216
Derivatives	-	6,647	-	6,647
Shares and equity instruments	11,931	30	2,890	14,851
Non-current assets and disposal groups held for sale	-	-	1,266	1,266
Total financial assets	140,002	6,677	4,301	150,980
Short positions	737	-	-	737
Derivative instruments	-	6,199	-	6,199
Debt issued and other borrowed funds designated as at FVTPL	94,438	-	-	94,438
Total financial liabilities	95,175	6,199	-	101,374

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments	Non-current assets
Fair value at 1 January 2021	145	2,890	1,266
Purchases	31	155	-
Sales	(116)	-	(1,201)
Net gain (loss) on financial instruments recognised in profit or loss	(3)	402	-
Net loss on financial instruments recognised in other comprehensive income	-	-	(65)
Fair value at 30 June 2021	57	3,447	-

	Bonds and debt instruments	Shares and equity instruments	Non-current assets
Fair value at 1 January 2020	1,348	6,016	-
Purchases	18	7	-
Sales	-	-	(2,028)
Net loss on financial instruments recognised in profit or loss	(1,256)	(2)	-
Net gain on financial instruments recognised in other comprehensive income	-	-	114
Transfer to "Non-current assets and disposal groups held for sale"	-	(3,180)	3,180
Other changes	35	49	-
Fair value at 31 December 2020	145	2,890	1,266

At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole. No transfers between levels took place during the period.

Valuation process

The responsibility for the valuation of the fair value of financial instruments lies with the relevant business units. Each quarter, the business units present a valuation report to the Investment Committee for approval. The report and its assumptions are reviewed by Risk Management.

Valuation techniques

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. In other cases, where there is no active market, the fair value is estimated using valuation techniques such as net present value and discounted cash flow models; comparison with similar instruments for which observable market data exists; net asset value (NAV) for investment fund units or expected recovery for distressed bonds. These valuation techniques are based on various assumptions and inputs such as risk-free rate, expected revenue growth and credit and liquidity spreads. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

Amounts are in ISK million

17. Cont'd

Level 1: Fair value established from quoted market prices.

Financial instruments at this level are financial assets and financial liabilities containing actively traded bonds and equities that are listed either domestically or abroad.

Level 2: Fair value established using valuation techniques with observable market information.

Financial instruments at this level are assets and liabilities containing domestic bonds, equities as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

Level 3: Fair value established using valuation techniques using significant unobservable market information.

Financial instruments at this level contain primarily unlisted and illiquid equities and bonds. Unlisted equities and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

At 30 June 2021 the Group's Level 3 shares amounted to ISK 3,447 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted equities and specialised investments in Iceland totalling ISK 2,015 million. The Group receives information from fund managers which use valuation models for the valuation of these equities.

-Other Level 3 shares amount to ISK 1,432 million.

At 30 June 2021 the Group's Level 3 bonds amounted to ISK 57 million:

-The majority of the amount in Level 3 bonds is estimated by discounting cash flow where the yield is the contractual currency's base rate with a premium that is decided by expert judgement on projected risk and financing cost.

In April 2021 the Group sold Series C preferred shares in Visa Inc., classified as non-current asset held for sale, amounting to ISK 1,201 million.

Sensitivity analysis for Level 3 assets

The valuations of Level 3 assets are in general uncertain and subject to various factors. The favourable and unfavourable scenarios can be considered as being likely movements in valuation within a year. The very favourable and very unfavourable scenarios are considered less likely, but not impossible and are not worst-case scenarios for some of the assets.

The table below shows how profit (loss) and total comprehensive income would have been affected if one or more of the inputs for fair value measurement in Level 3 were changed.

At 30 June 2021

Effect on profit or (loss):	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	57	82	17	(28)	(57)
Level 3 Shares and equity instruments	3,447	1,303	413	(1,199)	(1,372)

At 31 December 2020

Effect on profit or (loss):	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	145	1,015	773	(132)	(145)
Level 3 Shares and equity instruments	2,890	1,897	539	(571)	(878)
Effect on comprehensive income:					
Level 3 Non-current assets and disposal groups held for sale	1,266	1,898	949	(633)	(1,266)

Amounts are in ISK million

18. Financial instruments not carried at fair value

Assets

The fair value of “Loans to customers” may differ from their net carrying amount because the interest rates they carry may not reflect the interest rates that similar new loans would carry. The fair value is estimated by subtracting from or adding to the net carrying amount of the loans the discounted interest rate difference calculated from the reporting date until the next interest reset or maturity, whichever comes first. Since the interest rate difference is estimated using internal models these assets are classified as Level 3.

For “Cash and balances with Central Bank”, the majority of “Loans to credit institutions” and “Other financial assets” the fair value is adequately approximated by the carrying amount as they are short-term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. The fair value for longer term fixed rate deposits is calculated with a duration approach, using the difference in each liability's current interest rate from the rate that a similar deposit would carry today. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

Observed market value is used for the fair value of "Debt issued and other borrowed funds" where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Group's current funding premium on similar debt. These liabilities are classified as Level 2. The funding premium is based on the interest margin in the Group's issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

Other financial liabilities mainly include unsettled securities transactions and payments due to leasing contracts and they are classified as Level 2 since their value is not observable from active market prices. Due to the short-term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 17.

At 30 June 2021	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	130,968	-	130,968	130,968
Loans to credit institutions	-	54,939	2,854	57,793	57,793
Loans to customers	-	-	1,092,369	1,092,369	1,089,723
Other financial assets	-	9,156	-	9,156	9,156
Total financial assets	-	195,063	1,095,223	1,290,286	1,287,640
Deposits from Central Bank and credit institutions	-	32,306	-	32,306	32,240
Deposits from customers	-	765,709	-	765,709	765,614
Debt issued and other borrowed funds	208,673	107,648	-	316,321	309,718
Subordinated loans	-	25,757	-	25,757	25,297
Other financial liabilities	-	16,551	-	16,551	16,551
Total financial liabilities	208,673	947,971	-	1,156,644	1,149,420

At 31 December 2020	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	78,948	-	78,948	78,948
Loans to credit institutions	-	89,920	-	89,920	89,920
Loans to customers	-	-	1,010,315	1,010,315	1,006,717
Other financial assets	-	3,692	-	3,692	3,692
Total financial assets	-	172,560	1,010,315	1,182,875	1,179,277
Deposits from Central Bank and credit institutions	-	39,827	-	39,827	39,758
Deposits from customers	-	679,607	-	679,607	679,455
Debt issued and other borrowed funds	194,849	112,165	-	307,014	292,836
Subordinated loans	-	26,003	-	26,003	27,194
Other financial liabilities	-	9,721	-	9,721	9,721
Total financial liabilities	194,849	867,323	-	1,062,172	1,048,964

Amounts are in ISK million

19. Offsetting financial assets and financial liabilities

The following tables show reconciliation to the net amounts of financial assets and financial liabilities, which are subject to offsetting, enforceable master netting agreements and similar agreements.

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 June 2021	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Reverse repurchase agreements ..	290	-	290	-	-	-	290	-	290
Derivatives	2,649	-	2,649	(1,326)	(1,206)	-	117	-	2,649
Total assets	2,939	-	2,939	(1,326)	(1,206)	-	407	-	2,939
At 31 December 2020									
Reverse repurchase agreements ..	898	-	898	-	-	-	898	-	898
Derivatives	6,647	-	6,647	(761)	(4,330)	(187)	1,369	-	6,647
Total assets	7,545	-	7,545	(761)	(4,330)	(187)	2,267	-	7,545

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 30 June 2021	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Derivative instruments and short positions	10,079	-	10,079	(1,326)	(883)	-	7,870	-	10,079
At 31 December 2020									
Derivative instruments and short positions	6,936	-	6,936	(761)	(504)	-	5,671	-	6,936

20. Cash and balances with Central Bank

	30.6.2021	31.12.2020
Cash on hand	3,518	3,814
Balances with Central Bank	117,735	65,585
Balances with Central Bank subject to special restrictions*	1,237	1,288
Included in cash and cash equivalents	122,490	70,687
Cash and balances pledged as collateral to Central Bank	588	288
Mandatory reserve deposits with Central Bank	7,890	7,973
Cash and balances with Central Bank	130,968	78,948

*Balances as defined in Act no. 37/2016 on the treatment of króna-denominated assets subject to special restrictions and rules no. 490/2016 on special reserve requirements for new foreign currency inflows.

Amounts are in ISK million

21. Loans to credit institutions

	30.6.2021	31.12.2020
Money market loans	34,052	43,646
Bank accounts	20,860	46,269
Other loans	2,881	5
Loans to credit institutions	57,793	89,920

22. Derivative instruments and short positions

At 30 June 2021	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,180	140,197	3,170	89,055
Cross-currency interest rate swaps	344	13,764	253	17,653
Equity forwards	75	1,425	4,084	20,568
Foreign exchange forwards	30	4,308	820	15,527
Foreign exchange swaps	780	29,356	1,422	49,092
Bond forwards	240	23,572	157	13,725
Derivatives	2,649	212,622	9,906	205,620
Short positions in listed bonds	-	-	173	144
Total	2,649	212,622	10,079	205,764

At 31 December 2020				
Interest rate swaps	1,888	181,914	3,581	62,275
Cross-currency interest rate swaps	2,861	63,067	45	3,171
Equity forwards	7	813	1,488	6,702
Foreign exchange forwards	70	4,010	362	8,582
Foreign exchange swaps	1,738	32,227	435	24,101
Foreign exchange options	-	-	1	25
Bond forwards	83	10,907	287	29,596
Derivatives	6,647	292,938	6,199	134,452
Short positions in listed bonds	-	-	737	550
Total	6,647	292,938	6,936	135,002

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. The Group carries relatively low indirect exposure due to margin trading with clients and the Group holds collaterals for possible losses. Other derivatives in the Group held for trading or for other purposes are insignificant.

Short positions are in Icelandic Government bonds and bonds issued by municipalities, banks and public companies. As a primary dealer the Group has access to securities lending facilities provided by the Central Bank and other issuers. Majority of the securities lending facilities have a maturity of less than a year.

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 32) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 June 2021 the total fair value of the interest rate swaps was positive and amounted to ISK 667 million (2020: ISK 1,008 million) and their total notional amount was ISK 43,950 million (2020: ISK 46,830).

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23. Loans to customers

At 30 June 2021	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	487,010	10,535	6,075	(1,589)	(267)	(739)	501,025
Commerce and services	95,585	80,708	7,424	(621)	(4,490)	(2,959)	175,647
Construction	34,902	2,523	2,147	(312)	(83)	(190)	38,987
Energy	9,176	124	-	(61)	-	-	9,239
Financial services	1,440	1	-	(1)	-	-	1,440
Industrial and transportation	63,356	27,097	3,800	(271)	(408)	(1,904)	91,670
Investment companies	19,027	4,922	701	(300)	(403)	(142)	23,805
Public sector and non-profit organisations	10,026	102	-	(14)	(1)	-	10,113
Real estate	94,273	24,952	2,742	(424)	(722)	(545)	120,276
Seafood	117,321	383	102	(193)	(11)	(81)	117,521
Loans to customers	932,116	151,347	22,991	(3,786)	(6,385)	(6,560)	1,089,723

At 31 December 2020							
Individuals	423,570	9,011	7,561	(1,608)	(254)	(903)	437,377
Commerce and services	60,062	64,350	5,958	(511)	(3,151)	(2,448)	124,260
Construction	36,551	5,420	997	(283)	(195)	(138)	42,352
Energy	7,997	701	-	(17)	(8)	-	8,673
Financial services	1,539	-	-	-	-	-	1,539
Industrial and transportation	46,526	30,971	3,989	(243)	(783)	(1,899)	78,561
Investment companies	15,287	5,504	3,628	(268)	(427)	(284)	23,440
Public sector and non-profit organisations	10,869	58	1	(17)	-	-	10,911
Real estate	112,189	42,169	6,794	(461)	(1,655)	(1,534)	157,502
Seafood	120,845	1,365	319	(237)	(9)	(181)	122,102
Loans to customers	835,435	159,549	29,247	(3,645)	(6,482)	(7,387)	1,006,717

24. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	67	2	-	69
Loans to customers	3,786	6,385	6,560	16,731
Other financial assets	17	5	-	22
Off-balance sheet loan commitments and financial guarantees	434	411	157	1,002
At 30 June 2021	4,307	6,803	6,717	17,827
Cash and balances with Central Bank	2	-	-	2
Loans to credit institutions	109	-	-	109
Loans to customers	3,645	6,482	7,387	17,514
Other financial assets	15	4	-	19
Off-balance sheet loan commitments and financial guarantees	347	483	225	1,055
At 31 December 2020	4,118	6,969	7,612	18,699

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The following tables reconcile the opening and closing balances for accumulated expected credit losses for loans to customers, and off-balance sheet loan commitments and financial guarantees.

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	3,645	6,482	7,387	17,514
Transfer to Stage 1	612	(505)	(107)	-
Transfer to Stage 2	(212)	747	(535)	-
Transfer to Stage 3	(24)	(527)	551	-
Net remeasurement of loss allowance	(1,598)	(399)	(1,436)	(3,433)
New financial assets originated or purchased	1,618	789	1,144	3,551
Derecognitions and maturities	(255)	(202)	(229)	(686)
Write-offs	-	-	(430)	(430)
Recoveries of amounts previously written off	-	-	71	71
Foreign exchange	-	-	(78)	(78)
Unwinding of interest	-	-	222	222
At 30 June 2021	3,786	6,385	6,560	16,731
At 1 January 2020	3,645	953	5,700	10,298
Transfer to Stage 1	3,577	(2,827)	(750)	-
Transfer to Stage 2	(1,743)	3,200	(1,457)	-
Transfer to Stage 3	(171)	(1,314)	1,485	-
Transfer to "Non-current assets and disposal groups held for sale"	(50)	(12)	(83)	(145)
Net remeasurement of loss allowance	(3,316)	6,024	1,201	3,909
New financial assets originated or purchased	2,104	597	2,516	5,217
Derecognitions and maturities	(401)	(139)	(404)	(944)
Write-offs	-	-	(1,498)	(1,498)
Recoveries of amounts previously written off	-	-	159	159
Foreign exchange	-	-	37	37
Unwinding of interest	-	-	481	481
At 31 December 2020	3,645	6,482	7,387	17,514

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	347	483	225	1,055
Transfer to Stage 1	33	(20)	(13)	-
Transfer to Stage 2	(6)	31	(25)	-
Transfer to Stage 3	(1)	(11)	12	-
Net remeasurement of loss allowance	(215)	(104)	(33)	(352)
New loan commitments and financial guarantees	335	107	14	456
Derecognitions and maturities	(59)	(75)	(23)	(157)
At 30 June 2021	434	411	157	1,002
At 1 January 2020	403	55	231	689
Transfer to Stage 1	230	(146)	(84)	-
Transfer to Stage 2	(74)	252	(178)	-
Transfer to Stage 3	(11)	(53)	64	-
Net remeasurement of loss allowance	(466)	269	103	(94)
New loan commitments and financial guarantees	376	166	128	670
Derecognitions and maturities	(111)	(60)	(39)	(210)
At 31 December 2020	347	483	225	1,055

Amounts are in ISK million

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25. Investments in subsidiaries and associates

Investments in subsidiaries		30.6.2021	31.12.2020
Íslandssjóðir hf., a fund management company, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
Allianz Ísland hf., an insurance agent, Dalshraun 3, 220 Hafnarfjörður	Iceland	100%	100%

In addition Íslandsbanki has control over nine other non-significant subsidiaries.

Investments in associates		30.6.2021	31.12.2020
Auðkenni ehf., an information security company, Borgartún 31, 105 Reykjavík	Iceland	23.8%	23.8%
JCC ehf., a cash centre service company, Sundaborg 15, 108 Reykjavík	Iceland	33.3%	33.3%
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%

26. Property and equipment

At 30 June 2021	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,058	4,729	3,119	10,906
Additions during the period	19	133	80	232
Disposals and write-offs during the period	-	-	(116)	(116)
Remeasurement	-	94	-	94
Historical cost	3,077	4,956	3,083	11,116
Balance at the beginning of the year	(1,340)	(906)	(1,319)	(3,565)
Depreciation during the period	(11)	(214)	(189)	(414)
Disposals and write-offs during the period	-	-	109	109
Accumulated depreciation	(1,351)	(1,120)	(1,399)	(3,870)
Carrying amount	1,726	3,836	1,684	7,246

At 31 December 2020	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	4,096	4,634	4,068	12,798
Additions during the year	35	-	441	476
Disposals and write-offs during the year	(120)	(69)	(583)	(772)
Remeasurement	-	184	-	184
Transfer to "Non-current assets and disposal groups held for sale"	(953)	(20)	(807)	(1,780)
Historical cost	3,058	4,729	3,119	10,906
Balance at the beginning of the year	(1,447)	(420)	(1,763)	(3,630)
Depreciation during the year	(19)	(421)	(398)	(838)
Disposals and write-offs during the year	17	(67)	455	405
Transfer to "Non-current assets and disposal groups held for sale"	109	2	387	498
Accumulated depreciation	(1,340)	(906)	(1,319)	(3,565)
Carrying amount	1,718	3,823	1,800	7,341

Amounts are in ISK million

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27. Other assets

	30.6.2021	31.12.2020
Receivables	1,814	1,767
Unsettled securities transactions	6,701	1,550
Accruals	225	200
Prepaid expenses	421	181
Deferred tax assets	1,200	259
Other assets	113	168
Other assets	10,474	4,125

28. Non-current assets and disposal groups held for sale

	30.6.2021	31.12.2020
Repossessed collateral:		
Land and buildings	1,212	1,548
Industrial equipment and vehicles	7	7
Assets of disposal groups classified as held for sale	320	1,618
Non-current assets and disposal groups held for sale	1,539	3,173

29. Deposits from Central Bank and credit institutions

	30.6.2021	31.12.2020
Deposits from credit institutions	32,158	39,650
Repurchase agreements with Central Bank	82	108
Deposits from Central Bank and credit institutions	32,240	39,758

30. Deposits from customers

	30.6.2021	31.12.2020
Demand deposits and deposits with maturity up to 3 months	678,116	582,746
Term deposits with maturity of more than 3 months	87,498	96,709
Deposits from customers	765,614	679,455

Deposits from customers specified by owners	30.6.2021		31.12.2020	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	65,468	9%	8,145	1%
Municipalities	12,123	2%	7,561	1%
Companies	346,348	45%	326,799	48%
Individuals	341,675	44%	336,950	50%
Deposits from customers	765,614	100%	679,455	100%

Amounts are in ISK million

31. Pledged assets

	30.6.2021	31.12.2020
Financial assets pledged as collateral against liabilities	296,262	236,901
Financial assets pledged as collateral with the Central Bank	5,388	5,088
Financial assets pledged as collateral in foreign banks	1,107	167
Pledged assets against liabilities	302,757	242,156

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Bank owns covered bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 30 June 2021 was ISK 29,816 million.

The Group has also pledged assets with the Central Bank to ensure the clearing of the Icelandic payment system as well as other contracts with the Central Bank, moreover, it has pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

32. Debt issued and other borrowed funds

	Issued	Maturity		Interest	30.6.2021	31.12.2020
Covered bonds in ISK	2019-2020	2021	At maturity	Fixed rates	5,050	5,076
Covered bonds in ISK	2015-2020	2023	At maturity	Fixed rates	40,451	29,496
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	18,202	5,386
Covered bonds in ISK - CPI-linked	2015-2017	2022	At maturity	Fixed rates	19,715	19,228
Covered bonds in ISK - CPI-linked	2012-2018	2024	At maturity	Fixed rates	37,458	36,797
Covered bonds in ISK - CPI-linked	2015-2018	2026	At maturity	Fixed rates	29,194	28,571
Covered bonds in ISK - CPI-linked	2019-2020	2028	Amortising	Fixed rates	24,623	25,606
Covered bonds in ISK - CPI-linked	2017-2018	2030	At maturity	Fixed rates	26,794	26,285
Covered bonds					201,487	176,445
Senior unsecured bonds in SEK	2018	2021	At maturity	Fixed rates	-	1,553
Senior unsecured bonds in SEK	2018-2019	2021	At maturity	Floating rates	-	6,630
Senior unsecured bonds in SEK	2018	2021	At maturity	Floating rates	13,790	14,832
Senior unsecured bonds in EUR	2019	2021	At maturity	Floating rates	-	1,795
Senior unsecured bonds in SEK*	2018	2022	At maturity	Floating rates	-	15,574
Senior unsecured bonds in EUR**	2019	2022	At maturity	Fixed rates	44,498	47,494
Senior unsecured bonds in NOK	2019	2022	At maturity	Floating rates	14,454	14,982
Senior unsecured bonds in EUR***	2018	2024	At maturity	Fixed rates	44,637	48,032
Senior unsecured bonds in NOK	2019	2024	At maturity	Fixed rates	5,855	6,187
Senior unsecured bonds in ISK	2019	2024	Monthly	Floating rates	2,460	2,664
Senior unsecured bonds in EUR**	2020	2023	At maturity	Fixed rates	44,570	46,944
Senior unsecured bonds in ISK	2020	2025	At maturity	Fixed rates	3,981	2,709
Senior unsecured bonds in NOK	2021	2024	At maturity	Floating rates	2,155	-
Senior unsecured bonds in SEK	2021	2024	At maturity	Floating rates	3,621	-
Senior unsecured bonds in NOK	2021	2025	At maturity	Floating rates	10,764	-
Senior unsecured bonds in SEK	2021	2025	At maturity	Floating rates	6,514	-
Bonds issued					197,299	209,396
Bills issued					-	1,433
Debt issued and other borrowed funds					398,786	387,274

Amounts are in ISK million

32. Cont'd

*The Bank repurchased own bonds during the period amounting to ISK 14,873 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 30 June 2021 the total carrying amount of the bonds amounted to ISK 89,068 million and included in the amount are fair value changes amounting to ISK 1,087 million. The carrying amount of the bonds at 30 June 2021 was ISK 454 million higher than the contractual amount due at maturity.

***The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 June 2021 the total carrying amount of the bond issuance amounted to ISK 44,637 million and included in the amount are fair value changes amounting to ISK 555 million.

The Bank has issued additional covered bonds for its own use, for example for the purpose of securities lending with regards to market making agreements. These covered bond amounts are not included in the total.

33. Subordinated loans

	Issued	Maturity		Interest	30.6.2021	31.12.2020
Loans which qualify as Tier 2 capital:						
Subordinated loans in SEK	2017	2027	At maturity	Floating, STIBOR + 2.0%	10,856	11,646
Subordinated loans in SEK	2018	2028	At maturity	Floating, STIBOR + 2.5%	7,233	7,775
Subordinated loans in SEK	2019	2029	At maturity	Floating, STIBOR + 3.9%	7,208	7,773
Subordinated loans					25,297	27,194

34. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2021	Cash flows	Interest expense	Foreign exchange	Fair value changes	30.6.2021
Covered bonds in ISK	39,958	22,699	1,046	-	-	63,703
Covered bonds in ISK - CPI-linked	136,487	(3,585)	4,882	-	-	137,784
Senior unsecured bonds in ISK	5,373	991	77	-	-	6,441
Senior unsecured bonds FX	61,553	(1,549)	462	(3,313)	-	57,153
Senior unsecured bonds FX at fair value	94,438	(513)	364	(5,819)	598	89,068
Senior unsecured bonds used for hedging	48,032	(524)	273	(2,875)	(269)	44,637
Other borrowed funds	1,433	(1,440)	7	-	-	-
Subordinated loans	27,194	(344)	339	(1,892)	-	25,297
Total	414,468	15,735	7,450	(13,899)	329	424,083

			Non-cash changes			
	1.1.2020	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2020
Covered bonds in ISK	24,088	14,400	1,470	-	-	39,958
Covered bonds in ISK - CPI-linked	125,975	2,532	7,980	-	-	136,487
Senior unsecured bonds in ISK	3,553	1,728	92	-	-	5,373
Senior unsecured bonds FX	58,892	(7,093)	1,013	8,741	-	61,553
Senior unsecured bonds FX at fair value	49,352	38,069	608	6,468	(59)	94,438
Senior unsecured bonds used for hedging	41,816	(463)	566	6,061	52	48,032
Other borrowed funds	2,705	(1,330)	58	-	-	1,433
Subordinated loans	22,674	(738)	763	4,495	-	27,194
Total	329,055	47,105	12,550	25,765	(7)	414,468

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35. Other liabilities

	30.6.2021	31.12.2020
Accruals	2,797	2,311
Lease liabilities	3,982	3,962
Provision for effects of court rulings	288	288
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,002	1,055
Withholding tax	686	915
Unsettled securities transactions	7,460	1,379
Sundry liabilities	2,221	1,983
Non-current liabilities and disposal groups held for sale	28	27
Other liabilities	18,464	11,920

36. Custody assets

	30.6.2021	31.12.2020
Custody assets - not managed by the Group	3,133,388	2,863,328

37. Íslandsbanki's shareholders

The following table shows the ten largest shareholders of the Bank.	30.6.2021	31.12.2020
The Icelandic Government	65.05%	100%
Capital Group	3.85%	-
Gildi Pension Fund	3.10%	-
Live Pension Fund	2.43%	-
LSR Pension Fund	1.77%	-
RWC Asset Management	1.52%	-
Iceland Funds	1.17%	-
Almenni Pension Fund	0.82%	-
Brú Pension Fund	0.76%	-
Mainfirst	0.75%	-
Other shareholders with less than 0.75% shareholding	18.78%	-
Total	100%	100%

Amounts are in ISK million

38. Related party

Íslandsbanki has a related party relationship with the Icelandic Government as the largest shareholder with control over the Group. The shares are administered by the Icelandic State Financial Investments (ISFI). As a result, the Icelandic Government and the Icelandic State Financial Investments are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

The Board of Directors and key management personnel of the Bank, ISFI and subsidiaries of the Bank, close family members of individuals referred to herein and legal entities controlled by them, are defined as related parties.

The Group's associates are also defined as related parties.

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 Group entities purchase products and services from government-related entities under generally accepted commercial terms. Transactions with related parties were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Cash and balances with the Central Bank are disclosed under Note 20 and Deposits from the Central Bank are disclosed under Note 29.

All loans to employees are provided on general business terms of the Group and the balances do not reflect collaterals held by the Group.

At 30 June 2021	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with control over the Group	-	-	-	2
Board of Directors, key management personnel and other related parties	459	821	(362)	63
Associated companies	19	460	(441)	229
Balances with related parties	478	1,281	(803)	294

1 January - 30 June 2021	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	10	6	1	2
Associated companies	1	-	1	730
Transactions with related parties	11	6	2	732

At 31 December 2020	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with control over the Group	-	-	-	3
Board of Directors, key management personnel and other related parties	440	393	47	45
Associated companies	31	342	(311)	228
Balances with related parties	471	735	(264)	276

1 January - 30 June 2020	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	2	5	1	-
Associated companies	-	5	-	776
Transactions with related parties	2	10	1	776

At 30 June 2021 total of ISK 1 million (at year-end 2020: none) were recognised as Stage 1 expected credit losses. No share option programmes were operated during the period.

Amounts are in ISK million

39. Contingencies

Contingent liabilities

Borgun hf. – Landsbankinn hf.

Borgun hf., (currently SaltPay IIB hf.) a former subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun hf. in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun hf. during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun hf. sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun hf. and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun hf. is approximately ISK 1,930 million. Court appointed assessors presented their assessment in November 2019. A reassessment was demanded, and the senior assessors appointed by the court presented their reassessment in April 2021 which corroborates the previous assessment of Borgun's obligation to disclose. Further, the senior assessors estimated that Borgun's share in the Visa option as of 31 December 2013 would have amounted to at least ISK 387 million. It is uncertain when a ruling is to be expected.

On 11 March 2020, the Bank signed an agreement to sell its 63.47% stake in Borgun hf. to Salt Pay Co Ltd. and concluded the sale on 7 July 2020. In the agreement the Bank undertook to reimburse 63.47% of losses incurred by Borgun hf. or the buyer as a result of an unfavourable outcome in the Landsbankinn case, however such reimbursement was never to exceed the Bank's share in the purchase price.The Group has not recognised a provision as a result of this event.

105 Miðborg slhf. - ÍAV hf.

In March 2021 the professional investor fund 105 Miðborg slhf., operated by Íslandssjóðir (Iceland Funds), a wholly owned subsidiary of the Bank, terminated its contractor agreement with ÍAV hf., a contractor that had been retained for a real estate project at Kirkjusandur in the centre of Reykjavík. The main reason for the termination was the alleged and significant non-performance and delays in the construction of one building on the premises. The contractor, ÍAV hf., has claimed approximately ISK 3,829 million in damages plus late payment interest and legal costs from 105 Miðborg slhf. and Iceland Funds for the alleged unlawful termination. The case was filed on 11 May 2021 at the District Court of Reykjavík. In a written brief of dismissal, Iceland Funds opposed their involvement in the case on the basis that the contractual relationship was between ÍAV hf. and 105 Miðborg slhf. Further, the 105 Miðborg slhf. has issued a subpoena against ÍAV hf. claiming approximately ISK 3,878 million plus late payment interest and legal cost due to delay and significant breaches of contract. The Bank owns a 6.25% stake in the 105 Miðborg slhf. The Group has not recognised a provision in respect of this matter.

40. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the interim financial statements for the first half of 2021.

41. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2020 Report, which is available on the Bank's website: www.islandsbanki.is.

42. Credit risk

Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any financial contract with the Group.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. industrial sector, economy, geographical location, type of financial instrument or due to connections or relations among counterparties. This includes exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

Credit risk arises principally from loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as financial guarantees, loan commitments and derivatives.

The Group has policies and procedures dedicated to accepting, measuring, and managing credit risk. The objective of the Group's credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Group's financial performance.

A thorough analysis of the counterparty's financial standing, analysis of past and estimated future cash flows as well as the borrower's general ability to repay its obligations forms the basis for all credit decisions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers, countries and industry segments. The Group measures and consolidates its credit risk for each counterparty or group of connected clients in accordance with internal and external criteria of connection between parties.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in borrower's assets. The principal collateral types for loans are properties, vehicles, equipment, vessels and securities. When applicable, other credit risk mitigants are employed.

43. Maximum credit exposure

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and loan commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated by multiplying the sum of potential future credit exposure and the positive market value of the contract by a factor 1.4. This multiplication factor along with a new method for calculating potential future credit exposure was introduced with the implementation of CRR II in Iceland, leading to an increase in maximum credit exposure due to derivatives.

The industry breakdown shows the credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard. During the period, industry classification was changed for a number of customers in order to better reflect the underlying operations. This is most notable where certain companies previously in “Real estate" are now classified as “Commerce and services" or “Industrial and transportation". Comparative figures have not been restated.

43. Cont'd

The Government guarantee schemes issued in response to the COVID-19 pandemic are presented in the line item “Loans to customers”. Of these, ISK 2,451 million are subject to 100% Government guarantee, ISK 1,188 million to 85% Government guarantee and ISK 551 million to 70% Government guarantee.

As a part of the agreement on the sale of Borgun hf. in 2020 the Group took on certain guarantees with regards to chargeback risk that Borgun hf. is exposed to through its operations, which at 30 June 2021 amounted to about ISK 134 million. These guarantees are not included in the following table.

The Group's credit exposure, before taking account of any collateral held or other credit enhancements, is as follows:

At 30 June 2021	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	130,968	-	-	-	-	-	-	-	-	-	130,968
Loans to credit institutions	-	-	-	-	-	57,793	-	-	-	-	-	57,793
Bonds and debt instruments	-	80,678	183	-	868	27,486	-	8	123	1,153	-	110,499
Derivatives	256	536	417	6	36	14,783	553	3,619	-	1,270	661	22,137
Loans to customers:	501,025	-	175,647	38,987	9,239	1,440	91,670	23,805	10,113	120,276	117,521	1,089,723
Overdrafts	10,603	-	13,491	3,217	93	928	6,894	847	241	2,419	3,503	42,236
Credit cards	15,101	-	1,338	271	5	22	359	29	89	61	33	17,308
Mortgages	439,797	-	-	-	-	-	-	-	-	-	-	439,797
Capital leases	5,861	-	26,457	3,035	39	-	7,410	114	33	247	181	43,377
Government guarantee schemes	18	-	3,406	129	-	-	360	49	-	139	88	4,189
Other loans	29,645	-	130,955	32,335	9,102	490	76,647	22,766	9,750	117,410	113,716	542,816
Other financial assets	479	541	283	190	9	7,045	24	181	92	107	205	9,156
Off-balance sheet items:	31,531	-	31,262	19,965	321	10,332	23,264	1,010	5,283	12,987	14,557	150,512
Financial guarantees	502	-	6,351	7,149	5	8	2,401	20	5	1,896	571	18,908
Undrawn loan commitments	-	-	7,334	9,137	199	-	13,921	495	-	8,390	5,241	44,717
Undrawn overdrafts	8,664	-	12,941	2,824	84	10,076	5,881	296	3,962	2,383	8,541	55,652
Credit card commitments	22,365	-	4,636	855	33	248	1,061	199	1,316	318	204	31,235
Maximum credit exposure	533,291	212,723	207,792	59,148	10,473	118,879	115,511	28,623	15,611	135,793	132,944	1,570,788

Amounts are in ISK million

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43. Cont'd

At 31 December 2020	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	78,948	-	-	-	-	-	-	-	-	-	78,948
Loans to credit institutions	-	-	-	-	-	89,920	-	-	-	-	-	89,920
Bonds and debt instruments	-	107,502	22	-	1,257	18,192	116	7	191	929	-	128,216
Derivatives	-	165	66	-	-	8,436	239	669	-	65	273	9,913
Loans to customers:	437,377	-	124,260	42,352	8,673	1,539	78,561	23,440	10,911	157,502	122,102	1,006,717
Overdrafts	10,506	-	12,117	3,104	10	1,097	5,915	954	949	2,422	5,138	42,212
Credit cards	14,942	-	1,170	247	6	14	318	23	77	62	29	16,888
Mortgages	377,155	-	-	-	-	-	-	-	-	-	-	377,155
Capital leases	5,612	-	26,236	2,742	16	-	7,328	153	38	1,058	176	43,359
Government guarantee schemes	15	-	2,968	57	-	-	323	9	-	136	86	3,594
Other loans	29,147	-	81,769	36,202	8,641	428	64,677	22,301	9,847	153,824	116,673	523,509
Other financial assets	437	645	110	10	6	2,285	29	39	88	35	8	3,692
Off-balance sheet items:	33,695	-	29,294	13,373	316	7,376	26,056	1,531	5,348	21,209	14,190	152,388
Financial guarantees	489	-	5,349	6,786	-	90	2,077	30	6	8,090	272	23,189
Undrawn loan commitments	-	-	5,445	3,111	-	-	17,896	846	-	10,145	2,583	40,026
Undrawn overdrafts	9,722	-	13,826	2,679	286	7,051	4,901	446	4,026	2,664	11,145	56,746
Credit card commitments	23,484	-	4,674	797	30	235	1,182	209	1,316	310	190	32,427
Maximum credit exposure	471,509	187,260	153,752	55,735	10,252	127,748	105,001	25,686	16,538	179,740	136,573	1,469,794

44. Credit exposure covered by collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured although there is an overdraft in loans to credit institutions that is fully collateralised. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Group takes a charge over assets such as real estate, vessels, cash and securities as well as other collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exception from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Amounts are in ISK million

44. Cont'd

Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to the gross carrying amount of loans and nominal off-balance sheet items, and is measured without including the effect of overcollateralisation. This means that if some loans have collateral values in excess of their gross carrying amount, then the excess is removed in order to reflect the Group's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the cover indicates. The maximum credit risk exposure is measured on net carrying value basis, and therefore collateral allocation can in some instances be higher. For capital leases the Group remains the owner of the leased object. In total ISK 38,291 million of the collateral are leased objects.

The following tables show the maximum exposure to credit risk by class of financial asset and collateral held against those exposures. An overview of collateral held by the Group against credit exposure is shown below for exposures in Stages 1 and 2 (non credit-impaired) and exposures in Stage 3 (credit-impaired):

At 30 June 2021 **Collateral held against non credit-impaired exposures**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Derivatives	22,137	-	-	-	9,626	-	-	9,626	12,511	-
Loans and commitments to customers:	1,223,470	486,705	299,119	93,628	8,561	49,012	99,332	1,036,357	187,113	11,016
Individuals	527,177	438,627	9,930	3	332	15,153	227	464,272	62,905	1,919
Commerce and services	202,217	15,775	78,314	154	880	25,366	28,592	149,081	53,136	5,556
Construction	56,973	12,383	24,686	9	885	2,325	3,168	43,456	13,517	566
Energy	9,560	27	5,255	-	21	24	15	5,342	4,218	65
Financial services	11,772	-	1,502	-	3,191	-	3,469	8,162	3,610	8
Industrial and transportation	113,009	1,622	50,646	1,227	218	5,701	28,515	87,929	25,080	770
Investment companies	24,256	1,567	7,305	-	2,113	73	11,590	22,648	1,608	713
Public sector and non-profit organisations	15,396	106	817	-	4	24	-	951	14,445	17
Real estate	131,057	15,786	105,233	-	416	255	2,550	124,240	6,817	1,186
Seafood	132,053	812	15,431	92,235	501	91	21,206	130,276	1,777	216
Total	1,245,607	486,705	299,119	93,628	18,187	49,012	99,332	1,045,983	199,624	11,016
Collateral held against credit-impaired exposures										
Loans and commitments to customers:	16,765	5,557	6,621	1,923	91	551	763	15,506	1,259	6,717
Individuals	5,379	4,316	382	17	5	133	2	4,855	524	769
Commerce and services	4,692	548	2,062	686	6	261	626	4,189	503	3,053
Construction	1,979	40	1,772	-	29	40	1	1,882	97	199
Industrial and transportation	1,925	36	370	1,210	14	101	116	1,847	78	1,922
Investment companies	559	12	530	-	-	6	-	548	11	142
Public sector and non-profit organisations	-	-	-	-	-	-	-	-	-	-
Real estate	2,206	598	1,493	5	37	10	18	2,161	45	550
Seafood	25	7	12	5	-	-	-	24	1	82
Total	16,765	5,557	6,621	1,923	91	551	763	15,506	1,259	6,717

Amounts are in ISK million

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At 31 December 2020 **Collateral held against non credit-impaired exposures**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Derivatives	9,913	-	-	-	5,318	-	-	5,318	4,595	-
Loans and commitments to customers:	1,136,660	398,644	307,452	95,947	11,869	49,504	102,673	966,089	170,571	10,957
Individuals	464,333	357,801	24,704	7	376	14,327	151	397,366	66,967	1,939
Commerce and services	149,751	14,754	46,856	157	659	25,444	32,211	120,081	29,670	4,029
Construction	54,812	7,036	34,293	11	1,297	2,108	2,249	46,994	7,818	570
Energy	8,989	-	6,545	-	1	14	14	6,574	2,415	25
Financial services	8,915	357	726	-	26	-	3,543	4,652	4,263	2
Industrial and transportation	102,499	1,174	38,576	12	178	7,088	29,500	76,528	25,971	1,127
Investment companies	21,626	1,054	5,849	-	1,891	79	11,125	19,998	1,628	709
Public sector and non-profit organisations	16,258	108	899	-	5	28	-	1,040	15,218	20
Real estate	173,328	16,122	133,869	-	7,424	343	1,157	158,915	14,413	2,280
Seafood	136,149	238	15,135	95,760	12	73	22,723	133,941	2,208	256
Total	1,146,573	398,644	307,452	95,947	17,187	49,504	102,673	971,407	175,166	10,957
Collateral held against credit-impaired exposures										
Loans and commitments to customers:	22,445	8,469	6,175	1,556	2,704	725	917	20,546	1,899	7,612
Individuals	6,739	5,436	537	21	3	144	4	6,145	594	935
Commerce and services	3,803	417	1,289	691	3	232	780	3,412	391	2,573
Construction	913	111	519	-	-	87	50	767	146	151
Industrial and transportation	2,118	46	385	810	51	246	71	1,609	509	1,922
Investment companies	3,345	104	610	-	2,611	6	-	3,331	14	284
Public sector and non-profit organisations	1	-	1	-	-	-	-	1	-	-
Real estate	5,383	2,348	2,734	5	36	7	12	5,142	241	1,565
Seafood	143	7	100	29	-	3	-	139	4	182
Total	22,445	8,469	6,175	1,556	2,704	725	917	20,546	1,899	7,612

Amounts are in ISK million

45. Credit quality of financial assets

The following table provides the gross carrying amount of loans and credit risk exposure on loan commitments and financial guarantees. Amounts are broken down by risk class and the method by which their respective credit loss allowances (ECL) are calculated, i.e. Stage 1, 2 and 3.

The Group uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

The rating of corporate customers is based on a company's most recent financial statements, together with a qualitative assessment of its management, market position and industry sector.

For retail customers the Group uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Group of less than ISK 150 million. These models are behavioural scoring models and use information about a customer's payment history, amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of his obligations within 12 months of the rating assessment.

Risk classes 1-4 represent low risk, risk classes 5-6 moderate risk, risk classes 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers that are in default. Unrated are loans that are yet to be rated.

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2020 Report.

The same customer can have loans and off-balance sheet commitments in Stages 1 and 2 simultaneously. However, if a customer has an exposure in Stage 3 then all other loans and commitments are classified as Stage 3 as well.

At 30 June 2021

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	274,441	1,381	-	275,822
Risk class 5-6	353,535	64,916	-	418,451
Risk class 7-8	262,596	70,285	-	332,881
Risk class 9	40,822	14,744	-	55,566
Risk class 10	-	-	22,991	22,991
Unrated	722	21	-	743
	932,116	151,347	22,991	1,106,454
Expected credit losses	(3,786)	(6,385)	(6,560)	(16,731)
Net carrying amount	928,330	144,962	16,431	1,089,723

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	64,092	1,319	-	65,411
Risk class 5-6	42,349	7,348	-	49,697
Risk class 7-8	19,036	15,722	-	34,758
Risk class 9	621	373	-	994
Risk class 10	-	-	491	491
Unrated	130	33	-	163
	126,228	24,795	491	151,514
Expected credit losses	(434)	(411)	(157)	(1,002)
Total	125,794	24,384	334	150,512

Amounts are in ISK million

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At 30 June 2021	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	101,483	200,427	188,371	38,730	6,228	5	(2,688)	532,556
Commerce and services	41,242	83,519	72,711	9,952	7,699	395	(8,609)	206,909
Construction	5,913	20,561	29,429	1,641	2,173	-	(765)	58,952
Energy	4,652	4,060	913	-	-	-	(65)	9,560
Financial services	7,850	3,269	646	-	-	15	(8)	11,772
Industrial and transportation	29,753	55,184	27,426	1,265	3,840	158	(2,692)	114,934
Investment companies	605	7,242	15,963	936	700	224	(855)	24,815
Public sector and non-profit organisations	13,898	1,330	155	2	-	28	(17)	15,396
Real estate	49,303	48,630	30,526	3,720	2,741	79	(1,736)	133,263
Seafood	86,534	43,926	1,499	314	101	2	(298)	132,078
Total	341,233	468,148	367,639	56,560	23,482	906	(17,733)	1,240,235

At 31 December 2020

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	232,806	1,209	-	234,015
Risk class 5-6	346,781	62,788	-	409,569
Risk class 7-8	217,368	80,867	-	298,235
Risk class 9	38,290	14,684	-	52,974
Risk class 10	-	-	29,247	29,247
Unrated	190	1	-	191
	835,435	159,549	29,247	1,024,231
Expected credit losses	(3,645)	(6,482)	(7,387)	(17,514)
Net carrying amount	831,790	153,067	21,860	1,006,717

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	64,781	1,341	-	66,122
Risk class 5-6	51,169	6,461	-	57,630
Risk class 7-8	10,852	16,227	-	27,079
Risk class 9	1,142	553	-	1,695
Risk class 10	-	-	809	809
Unrated	99	8	-	107
	128,043	24,590	809	153,442
Expected credit losses	(347)	(483)	(225)	(1,055)
Total	127,696	24,107	584	152,387

Amounts are in ISK million

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At 31 December 2020	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	94,574	182,706	153,088	35,928	7,646	4	(2,874)	471,072
Commerce and services	25,813	62,494	58,182	7,121	6,402	144	(6,602)	153,554
Construction	4,809	22,332	26,078	2,130	1,064	33	(721)	55,725
Energy	5,006	3,338	670	-	-	-	(25)	8,989
Financial services	5,816	2,650	443	-	-	8	(2)	8,915
Industrial and transportation	15,557	56,578	28,547	2,895	4,039	50	(3,049)	104,617
Investment companies	868	5,171	14,695	1,599	3,628	2	(993)	24,970
Public sector and non-profit organisations	14,525	1,400	324	1	1	28	(20)	16,259
Real estate	46,297	82,945	42,299	4,057	6,950	8	(3,845)	178,711
Seafood	86,872	47,585	988	938	326	21	(438)	136,292
Total	300,137	467,199	325,314	54,669	30,056	298	(18,569)	1,159,104

46. Loans to customers in the tourism industry likely to be vulnerable to COVID-19 pandemic

Companies susceptible to the impact of COVID-19 were classified into four groups based on an assessment of how much of an increase in credit risk these companies face in the short, medium and long term. In addition, to account for the material uncertainty in the operating environment of companies in the tourism industry, not reflected in their current risk class, they are further classified into four groups based on an assessment of how vulnerable they are to various assumptions on when tourists can be expected to start visiting Iceland again. The base case assumes around 700,000 tourists in Iceland in 2021.

Impact group 1: viable even though significantly fewer tourists arrive in the year 2021
Impact group 2: viable with forbearance even though significantly fewer tourists arrive in the year 2021
Impact group 3: viable if the number of tourists in the year 2021 is similar to the base case
Impact group 4: viable if the year 2021 turns out to be better than the base case

Where the increase was found to be significant (groups 2-4), the exposure was transferred to Stage 2. In addition, an overlay factor was applied to the expected credit loss, comparable to an increase in up to three risk classes, and a higher haircut was applied to value of collateral for the higher impact groups in the more severe scenarios.

At 30 June 2021

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	3,179	18,490	-	21,669
Group 2	-	32,096	2,317	34,413
Group 3	-	43,375	1,776	45,151
Group 4	-	566	2,635	3,201
	3,179	94,527	6,728	104,434
Expected credit losses	(16)	(4,937)	(2,038)	(6,991)
Net carrying amount	3,163	89,590	4,690	97,443

Off-balance sheet loan commitments and financial guarantees to customers in the tourism industry:

	Stage 1	Stage 2	Stage 3	Total
Group 1	159	20	-	179
Group 2	-	14,345	195	14,540
Group 3	-	3,340	43	3,383
Group 4	-	137	8	145
	159	17,842	246	18,247
Expected credit losses	(1)	(368)	(79)	(448)
Total	158	17,474	167	17,799

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At 31 December 2020

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	1,903	308	-	2,211
Group 2	-	30,503	406	30,909
Group 3	-	58,610	2,579	61,189
Group 4	-	3,317	3,612	6,929
	1,903	92,738	6,597	101,238
Expected credit losses	(24)	(4,483)	(2,529)	(7,036)
Net carrying amount	1,879	88,255	4,068	94,202

Off-balance sheet loan commitments and financial guarantees to customers in the tourism industry:

	Stage 1	Stage 2	Stage 3	Total
Group 1	50	2	-	52
Group 2	-	13,416	51	13,467
Group 3	-	5,118	163	5,281
Group 4	-	429	17	446
	50	18,965	231	19,246
Expected credit losses	(3)	(363)	(101)	(467)
Total	47	18,602	130	18,779

47. Forbearance

When restructuring or modification measures are believed to be more appropriate than collection procedures, the Group offers several debt relief measures and restructuring frameworks for customers in financial difficulties. These forbearance measures include temporary payment holidays, extension of loan terms, capitalisation of arrears and waiving of covenants.

The relationship between forbearance and stages is discussed in Note 67.4 in the consolidated financial statements for the year 2020.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for a loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of the customer's facilities have to be considered performing; and
- The customer does not have any contract that is more than 30 days past due; and
- The probation period of two years has passed from the date of the forbearance event; and
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period

The tourism industry is an important economic sector in Iceland but due to the nature of tourism, its effects are not limited to hotels, car rentals and tour guides. The Group therefore monitors the tourism industry internally as a quasi-sector instead of a new separate sector. Real estate companies that do not operate directly in the tourism sector but rely in part on rental income from such activities explain around half of the forbearance amount for companies not in tourism.

The following table provides a summary of the Group's forborne assets.

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At 30 June 2021	Stage 1	Stage 2	Stage 3	Total
Individuals	1,560	6,984	1,713	10,257
Companies	2,597	94,304	10,904	107,805
- In the tourism quasi-sector	-	59,911	5,327	65,238
- Other than the tourism quasi-sector	2,597	34,393	5,577	42,567
Gross carrying amount	4,157	101,288	12,617	118,062

	Stage 1	Stage 2	Stage 3	Total
Individuals	(12)	(150)	(134)	(296)
Companies	(25)	(4,298)	(3,980)	(8,303)
- In the tourism quasi-sector	-	(3,302)	(1,582)	(4,884)
- Other than the tourism quasi-sector	(25)	(996)	(2,398)	(3,419)
Expected credit losses	(37)	(4,448)	(4,114)	(8,599)

At 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individuals	932	5,249	2,068	8,249
Companies	209	104,523	13,608	118,340
- In the tourism quasi-sector	-	62,295	5,747	68,042
- Other than the tourism quasi-sector	209	42,228	7,861	50,298
Gross carrying amount	1,141	109,772	15,676	126,589

	Stage 1	Stage 2	Stage 3	Total
Individuals	(10)	(127)	(176)	(313)
Companies	(1)	(4,114)	(4,147)	(8,262)
- In the tourism quasi-sector	-	(2,787)	(1,888)	(4,675)
- Other than the tourism quasi-sector	(1)	(1,327)	(2,259)	(3,587)
Expected credit losses	(11)	(4,241)	(4,323)	(8,575)

48. Assets obtained by taking possession of collateral

Details of non-financial assets obtained by the Group during the period by taking possession of collateral held as security against loans.

	30.6.2021	31.12.2020
Property and land	56	1,754
Industrial equipment and vehicles	50	86
Total	106	1,840

The Group pursues realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

49. Write-offs

When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

Gross carrying amount written off and still subject to enforcement activity	2021 1.1-30.6	2020 1.1-30.6
Individuals	168	273
Companies	282	420
Total	450	693

50. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Note that the regulatory definition has changed since last reporting. Previously exposures were considered large when the value of the exposure exceeded 10% of total capital base instead of Tier 1 capital. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by regulation no. 233/2017. The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of Article (1)(a) of the Act on Financial Undertakings no. 161/2002, where groups of connected clients are defined.

The exposure is evaluated both before and after credit risk mitigating effects. After mitigating effects, the Group currently has three large exposures. The increase since last reporting is partly due to new definition of large exposures. No large exposure is above the maximum 25% large exposure limit set by the law.

The following tables show the Group's large exposures before and after eligible credit risk mitigating effects as a percentage of the Tier 1 capital as at 30 June 2021 and the Group's capital base as at 31 December 2020.

At 30 June 2021

Groups of connected clients:	Before	After
Group 1	107%	8%
Group 2	14%	14%
Group 3	13%	13%
Group 4	11%	11%

At 31 December 2020

Groups of connected clients:	Before	After
Group 1	65%	-
Group 2	13%	10%

Amounts are in ISK million

51. Liquidity risk

The Group defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

The Group's main source of funding is customer deposits. Treasury is responsible for the Bank's funding and liquidity management in line with internal and regulatory limits and policies. Treasury manages the Bank's intraday liquidity. Risk Management, as the second line of defence, is responsible for independent reporting on the liquidity position to internal and external stakeholders and providing a holistic view on liquidity risk on a consolidated basis.

52. Liquidity coverage and Net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratio and the rules on funding ratio in foreign currencies. In addition, the Group complies with the Financial Supervisory Authority of the Central Bank's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 266/2017.

The following tables show the NSFR and the LCR for the Group at 30 June 2021 and at year-end 2020.

Net stable funding ratio	30.6.2021	31.12.2020
For all currencies	122%	123%
Foreign currencies	154%	179%

Liquidity coverage ratio	30.6.2021	31.12.2020
For all currencies	187%	196%
Domestic currency	133%	95%
Foreign currencies	287%	463%

At 30 June 2021	For all currencies		Domestic currency		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	208,980	208,980	181,493	181,493	27,486	27,486
Liquid assets level 2	48,507	18,287	48,318	18,287	189	-
Total liquid assets	257,487	227,267	229,811	199,780	27,675	27,486
Deposits	636,025	179,387	568,676	155,148	67,350	24,239
Debt issued	9,584	9,584	44	44	9,540	9,540
Other outflows	93,223	35,285	69,805	30,760	23,418	4,525
Total outflows	738,832	224,256	638,525	185,952	100,308	38,304
Short-term deposits with other banks**	54,653	53,546	2,077	2,077	52,576	51,469
Other inflows	66,654	48,984	46,931	33,850	19,723	15,134
Restrictions on inflows	-	-	-	-	-	(37,875)
Total inflows	121,307	102,530	49,008	35,927	72,299	28,728
Liquidity coverage ratio		187%		133%		287%

Amounts are in ISK million

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At 31 December 2020	For all currencies		Domestic currency		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	182,104	182,104	138,078	138,078	44,027	44,027
Liquid assets level 2	14,648	2,941	14,470	2,941	178	-
Total liquid assets	196,752	185,045	152,548	141,019	44,205	44,027
Deposits	542,123	147,611	472,073	120,974	70,049	26,636
Debt issued	2,271	2,271	47	47	2,225	2,225
Other outflows	99,949	44,756	68,500	35,605	31,449	9,151
Total outflows	644,343	194,638	540,620	156,626	103,723	38,012
Short-term deposits with other banks**	88,495	88,328	2,077	2,077	86,419	86,252
Other inflows	29,842	11,981	21,342	6,221	8,500	5,760
Restrictions on inflows	-	-	-	-	(17,126)	(63,503)
Total inflows	118,337	100,309	23,419	8,298	77,793	28,509
Liquidity coverage ratio		196%		95%		463%

*Level 1 liquid assets include cash and balances with the Central Bank, domestic bonds and foreign government bonds in accordance with rules no. 266/2017 on liquidity ratio.

**Short-term deposits with other banks with maturity less than 30 days.

Deposits by liquidity coverage ratio category

The Group's deposits are categorised by counterparty according to the Liquidity Coverage Ratio (LCR) standard. The groups are listed in order of estimated stability and the respective LCR outflow weight. Deposits are also classified as stable if the customer has an established business relationship with the Bank and is covered by an effective insurance scheme.

At 30 June 2021	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	127,915	14%	256,382	5%	71,277	455,574
Operational relationships	3,024	25%	-	5%	-	3,024
Corporations	95,468	40%	2,451	20%	25,396	123,315
Sovereigns, Central Bank and public sector entities	67,063	40%	1,163	20%	15,993	84,219
Pension funds	42,424	100%	-	-	18,920	61,344
Domestic financial entities	36,792	100%	-	-	21,904	58,696
Foreign financial entities	3,343	100%	-	-	8,339	11,682
Total	376,029		259,996		161,829	797,854

At 31 December 2020	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	120,510	14%	247,625	5%	75,971	444,106
Operational relationships	3,155	25%	-	5%	-	3,155
Corporations	77,705	40%	1,959	20%	24,965	104,629
Sovereigns, Central Bank and public sector entities	6,340	40%	1,174	20%	934	8,448
Pension funds	39,105	100%	-	-	23,754	62,859
Domestic financial entities	38,284	100%	-	-	41,647	79,931
Foreign financial entities	6,266	100%	-	-	9,819	16,085
Total	291,365		250,758		177,090	719,213

Amounts are in ISK million

53. Maturity analysis of financial assets and financial liabilities

The following tables show the maturity profile of the Group's financial assets and the undiscounted cash flows of its financial liabilities.

Maturity classification of assets is based on contractual maturity. For bonds and debt instruments in the banking book the maturity classification is based on contractual maturity while for bonds and debt instruments held for trading the maturity classification is based on the estimated liquidation time of the asset.

The tables show undiscounted contractual payments of principal and interest for the Group's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

For dated financial liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

The following tables also show the contractual cash flow of the Group's derivative liabilities, i.e. derivatives that have a negative and a positive carrying amount at the reporting date. For derivatives settled on a gross basis, the cash flow for both legs of the derivative is shown, since netting cannot be applied upon settlement.

At 30 June 2021	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	130,968	76,866	52,865	-	-	1,237	-	130,968
Loans to credit institutions	57,793	19,753	38,040	-	-	-	-	57,793
Bonds and debt instruments	110,499	-	28,778	12,036	59,672	10,013	-	110,499
Loans to customers	1,089,723	2,981	89,193	95,896	324,382	577,270	-	1,089,722
Shares and equity instruments	31,751	-	-	-	-	-	31,751	31,751
Other financial assets	9,156	8,024	524	603	6	-	-	9,156
Total financial assets	1,429,890	107,624	209,400	108,535	384,060	588,520	31,751	1,429,889
Deposits from CB and credit institutions	32,240	7,821	12,303	10,322	1,935	-	-	32,381
Deposits from customers	765,614	632,480	66,918	48,032	25,076	27,551	-	800,057
Debt issued and other borrowed funds	398,786	-	27,072	72,816	336,129	60,604	-	496,621
Subordinated loans	25,297	-	171	432	3,211	27,787	-	31,601
Other financial liabilities:	16,551	10,463	1,457	1,165	1,829	2,047	-	16,961
Lease liabilities	3,982	-	129	387	1,829	2,047	-	4,392
Other liabilities	12,569	10,463	1,328	778	-	-	-	12,569
Total financial liabilities	1,238,488	650,764	107,921	132,767	368,180	117,989	-	1,377,621

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	32,915	15,713	13,685	-	-	62,313
Outflow	-	(32,996)	(14,138)	(12,058)	-	-	(59,192)
Total	-	(81)	1,575	1,627	-	-	3,121
Net settled derivatives	-	292	-	-	-	-	292
Total derivative financial assets	-	211	1,575	1,627	-	-	3,413
Gross settled derivatives							
Inflow	-	71,624	34,000	40,588	-	-	146,212
Outflow	-	(75,406)	(35,815)	(43,923)	-	-	(155,144)
Total	-	(3,782)	(1,815)	(3,335)	-	-	(8,932)
Net settled derivatives	-	(3,153)	-	-	-	-	(3,153)
Total derivative financial liabilities	-	(6,935)	(1,815)	(3,335)	-	-	(12,085)
Total net financial assets and financial liabilities	(543,140)	108,625	(20,842)	20,842	470,531	31,751	67,766

Amounts are in ISK million

53. Cont'd

At 31 December 2020	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	78,948	29,600	48,060	-	-	1,288	-	78,948
Loans to credit institutions	89,920	46,102	43,818	-	-	-	-	89,920
Bonds and debt instruments	128,216	-	38,169	34,776	48,047	7,224	-	128,216
Loans to customers	1,006,717	2,562	81,090	96,084	334,520	492,461	-	1,006,717
Shares and equity instruments	14,851	-	-	-	-	-	14,851	14,851
Other financial assets	3,692	2,483	560	643	6	-	-	3,692
Total financial assets	1,322,344	80,747	211,697	131,503	382,573	500,973	14,851	1,322,344
Deposits from CB and credit institutions	39,758	6,073	20,044	10,278	3,368	-	-	39,763
Deposits from customers	679,455	539,932	65,532	56,764	23,409	27,016	-	712,653
Debt issued and other borrowed funds	387,274	-	12,677	31,569	327,003	93,434	-	464,683
Subordinated loans	27,194	-	176	477	3,096	29,903	-	33,652
Other financial liabilities:	9,721	3,570	1,453	1,227	1,783	2,123	-	10,156
Lease liabilities	3,962	-	123	369	1,783	2,123	-	4,398
Other liabilities	5,759	3,571	1,330	858	-	-	-	5,759
Total financial liabilities	1,143,402	549,575	99,882	100,315	358,659	152,476	-	1,260,907

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	41,288	46,627	39,643	-	-	127,558
Outflow	-	(38,823)	(45,090)	(36,516)	-	-	(120,429)
Total	-	2,465	1,537	3,127	-	-	7,129
Net settled derivatives	-	90	-	-	-	-	90
Total derivative financial assets	-	2,555	1,537	3,127	-	-	7,219
Gross settled derivatives							
Inflow	-	29,311	18,714	29,943	-	-	77,968
Outflow	-	(30,236)	(20,113)	(33,957)	-	-	(84,306)
Total	-	(925)	(1,399)	(4,014)	-	-	(6,338)
Net settled derivatives	-	(1,752)	-	-	-	-	(1,752)
Total derivative financial liabilities	-	(2,677)	(1,399)	(4,014)	-	-	(8,090)
Total net financial assets and financial liabilities	(468,828)	117,047	34,124	31,055	348,497	14,851	76,746

Amounts are in ISK million

53. Cont'd

Off-balance sheet liabilities

The following tables show the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations all fall into the first time bucket since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

At 30 June 2021	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	18,908	-	-	-	-	-	18,908
Undrawn loan commitments	44,717	-	-	-	-	-	44,717
Undrawn overdrafts	55,652	-	-	-	-	-	55,652
Credit card commitments	31,235	-	-	-	-	-	31,235
Total off-balance sheet liabilities	150,512	-	-	-	-	-	150,512
At 31 December 2020							
Financial guarantees	23,189	-	-	-	-	-	23,189
Undrawn loan commitments	40,026	-	-	-	-	-	40,026
Undrawn overdrafts	56,746	-	-	-	-	-	56,746
Credit card commitments	32,427	-	-	-	-	-	32,427
Total off-balance sheet liabilities	152,388	-	-	-	-	-	152,388

54. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies and equities. Derivative contracts are also potential sources of market risk.

Market risk within the Group can broadly be split into two categories, trading book and banking book. The trading book includes market risk exposures related, directly or indirectly, to the Group's short- and medium-term trading in securities, currencies and other capital market instruments and derivatives. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. The banking book includes market risk exposures related to securities held for long-term investment purposes, unlisted securities or holdings in subsidiaries or affiliates. A large part of the banking book market risk is due to mismatches in the composition of assets and liabilities, for example with respect to currencies, interest rates, CPI-indexation or other factors that can affect the Group's earnings or earnings volatility. These mismatches are reported to management and are subject to internal and regulatory limits.

55. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates. Sensitivity measures like Basis Point Value (BPV) are used to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 percentage point upward parallel shift in the yield curve on the fair value of these exposures.

Amounts are in ISK million

55. Cont'd

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing and Construction Authority which are guaranteed by the Icelandic Government, domestic municipality bonds, and covered bonds issued by other Icelandic banks. Bonds and bills in the Group's liquidity portfolio are also categorised in the trading book. In the following table the total market value (MV) of long and short positions may not be the same as reported in Note 16 since netting between short and long positions is not applied here.

	30.6.2021			31.12.2020		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	889	5.62	(0.50)	4,103	1.87	(0.77)
Non-indexed	78,480	0.99	(7.75)	86,829	0.66	(5.70)
Total	79,369	1.04	(8.25)	90,932	0.71	(6.47)

	30.6.2021			31.12.2020		
Trading bonds and debt instruments, short positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	129	15.00	0.19	224	6.00	0.12
Non-indexed	224	5.00	0.12	351	5.00	0.17
Total	353	8.65	0.31	575	5.39	0.29
Net position of trading bonds and debt instruments	79,016	1.01	(7.94)	90,357	0.68	(6.18)

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Group's assets and liabilities are of different maturities and are priced relative to different interest rates.

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset.

Sensitivity analysis for interest rate risk in the banking book

At 30 June 2021

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(2)	(48)	126	(1,988)	2,840	(910)	18
ISK, non-indexed	(17)	(12)	(76)	(1,284)	536	(21)	(874)
EUR	13	(93)	(722)	811	-	-	9
SEK	49	(20)	-	-	-	-	29
USD	14	(6)	-	-	-	-	8
Other	-	-	-	-	-	-	-
Total	57	(179)	(672)	(2,461)	3,376	(931)	(810)

At 31 December 2020

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	-	(108)	236	(2,554)	4,388	(1,232)	730
ISK, non-indexed	(13)	(28)	(43)	(945)	(218)	(4)	(1,251)
EUR	60	(58)	(34)	123	-	(1)	90
SEK	(5)	-	-	-	-	-	(5)
USD	27	-	-	-	-	(1)	26
Other	(2)	(12)	-	(8)	-	(6)	(28)
Total	67	(206)	159	(3,384)	4,170	(1,244)	(438)

Amounts are in ISK million

56. Currency risk

Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in the currency composition of assets or liabilities.

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

At 30 June 2021	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	435	237	131	38	13	54	56	79	30	121	1,194
Loans to credit institutions	6,351	27,176	863	166	1,133	1,384	15,068	257	76	76	52,550
Bonds and debt instruments	13,937	3,696	39	-	-	2,899	5,761	-	-	-	26,332
Loans to customers	123,747	37,718	1,091	968	2,937	68	3,291	2,697	3,771	23	176,311
Shares and equity instruments	142	281	333	-	-	94	5	-	-	-	855
Other assets	644	21	-	-	-	58	-	1	-	-	724
Total assets	145,256	69,129	2,457	1,172	4,083	4,557	24,181	3,034	3,877	220	257,966
Deposits from credit institutions	7,783	3,686	23	-	-	-	8	2	-	-	11,502
Deposits from customers	26,396	27,488	3,862	382	803	1,053	2,674	1,779	330	30	64,797
Derivative instruments and short positions	1	-	-	-	-	9	-	-	-	-	10
Debt issued and other borrowed funds	132,317	-	-	-	-	23,925	33,228	-	-	-	189,470
Subordinated loans	-	-	-	-	-	25,297	-	-	-	-	25,297
Other liabilities	57	2,321	-	-	-	56	-	34	-	-	2,468
Total liabilities	166,554	33,495	3,885	382	803	50,340	35,910	1,815	330	30	293,544
Net on-balance sheet position	(21,298)	35,634	(1,428)	790	3,280	(45,783)	(11,729)	1,219	3,547	190	(35,578)
Net off-balance sheet position	20,311	(33,819)	1,444	(807)	(3,289)	45,742	11,949	(1,025)	(3,529)	(230)	36,747
Net position	(987)	1,815	16	(17)	(9)	(41)	220	194	18	(40)	1,169

Amounts are in ISK million

56. Cont'd

At 31 December 2020	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	779	281	148	45	17	54	56	101	31	119	1,631
Loans to credit institutions	28,586	44,519	1,301	422	248	880	9,487	415	375	100	86,333
Bonds and debt instruments	25,052	3,932	7	-	-	3,894	11,195	-	-	-	44,080
Loans to customers	127,317	31,584	1,160	521	3,330	84	3,215	2,788	7,468	29	177,496
Shares and equity instruments	32	1,551	338	-	-	152	32	-	-	-	2,105
Other assets	606	124	-	-	-	34	-	-	3	-	767
Total assets	182,372	81,991	2,954	988	3,595	5,098	23,985	3,304	7,877	248	312,412
Deposits from credit institutions	10,958	788	23	-	-	-	1	-	-	-	11,770
Deposits from customers	26,757	30,607	3,917	517	386	1,017	3,132	2,277	392	20	69,022
Derivative instruments and short positions	-	-	-	-	-	9	-	-	-	-	9
Debt issued and other borrowed funds	143,255	-	-	-	-	38,589	21,169	-	-	-	203,013
Subordinated loans	-	-	-	-	-	27,194	-	-	-	-	27,194
Other liabilities	415	114	-	-	-	19	-	29	1	-	578
Total liabilities	181,385	31,509	3,940	517	386	66,828	24,302	2,306	393	20	311,586
Net on-balance sheet position	987	50,482	(986)	471	3,209	(61,730)	(317)	998	7,484	228	826
Net off-balance sheet position	463	(46,840)	920	(484)	(3,198)	61,672	268	(829)	(7,468)	(276)	4,228
Net position	1,450	3,642	(66)	(13)	11	(58)	(49)	169	16	(48)	5,054

Amounts are in ISK million

57. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% rise in the index would lead to an ISK 292 million increase in the balance sheet and a 1% fall would lead to a corresponding decrease, other risk factors held constant.

	30.6.2021	31.12.2020
Bonds and debt instruments	1,679	4,684
Loans to customers	271,099	268,062
Total CPI-linked assets	272,778	272,746
Deposits from customers	89,372	90,353
Debt issued and other borrowed funds	137,784	136,487
Off-balance sheet exposures	16,416	19,725
Total CPI-linked liabilities	243,572	246,565
CPI imbalance	29,206	26,181

58. Derivatives

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book as well as inflation risk. However, the Group is subject to indirect exposure through customers' margin trading. Margin trading is subject to continuous monitoring and collateral requirements. Other derivatives held for trading or for other purposes are insignificant.

59. Capital management

The following tables show the capital base, the risk exposure amount (“REA"), the resulting capital ratios, and the leverage ratio for the Group at 30 June 2021 and 31 December 2020.

The Group's regulatory capital requirement is calculated according to CRD IV as implemented through Act no. 161/2002 on Financial Undertakings and regulation no. 233/2017 on prudential requirements for financial undertakings. Capital requirement calculations for credit risk and market risk are based on the standardised approach whereas the capital requirement calculations for operational risk are based on the basic indicator approach. EU regulation 2019/876 was implemented in Iceland 28 June 2021 by amending regulation no. 233/2017. The most material effect was the amendment of the SME supporting factor, which relaxes the conditions for obligors to be classified as small or medium sized enterprises allowing the supporting factor to be applied to a larger part of the Bank's loan portfolio, lowering the REA. Another material amendment was the change in methodology for calculating the exposure amount for counterparty credit risk, which lead to an increase in the REA.

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2021 maintain an additional capital requirement of 2.5% of risk exposure amount, which is an increase of 0.8 percentage points from the previous assessment. The Bank’s overall capital requirement, taking into account capital buffers, therefore increases from 17.0% to 17.8%. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

The minimum leverage ratio for Icelandic financial institutions is 3%.

Amounts are in ISK million

59. Cont'd

	30.6.2021	31.12.2020
Own funds		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	5,401	6,181
Retained earnings	119,535	113,529
Non-controlling interests	419	1,494
IFRS 9 reversal due to transitional rules	3,699	5,164
Fair value changes due to own credit standing	958	238
Expected or proposed dividend payment	(4,271)	-
Tax assets	(1,200)	(259)
Intangible assets	(3,307)	(3,478)
CET1 capital	186,234	187,869
Tier 2 capital		
Qualifying subordinated loans	25,297	27,194
Total capital base	211,531	215,063
Risk exposure amount		
- due to credit risk	819,122	830,141
- due to market risk	18,566	16,626
Market risk, trading book	16,274	11,306
Currency risk	2,292	5,320
- due to credit valuation adjustment	1,661	1,728
- due to operational risk	85,026	85,026
Total risk exposure amount	924,375	933,521
Capital ratios		
Tier 1 ratio	20.1%	20.1%
Total capital ratio	22.9%	23.0%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,435,433	1,333,807
Off-balance sheet exposures	42,114	41,067
Derivative exposures	22,362	9,922
Leverage ratio total exposure measure	1,499,909	1,384,797
Tier 1 capital	186,234	187,869
Leverage ratio	12.4%	13.6%

Amounts are in ISK million