Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2022

Contents

Factsheet 2Q22

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

702 number of FTEs at Íslandsbanki at period end

Sustainability 2Q22

- Íslandsbanki receives top ESG score (90/100) from Reitun for the second year in a row
- The Bank's score for environmental practices has risen by 12.9% year-on-year
- Total avoided greenhouse gas emissions in 2021 ~16,800 tCO2e

Digital milestones 2Q22

- New pension platform released, enables self service for pension customers
- Corporates can apply for and modify overdraft in app
- App available in Polish

Market share[1]

31% retail customers

37% SMEs

35% large companies

Ratings and certifications

S&P Global Ratings

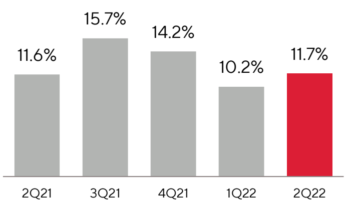
BBB/A-2

Stable outlook

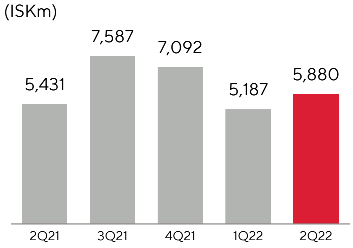
EQUAL PAY CERTIFICATE 2018 - 2021

EXEMPLARY IN CORPORATE GOVERNANCE

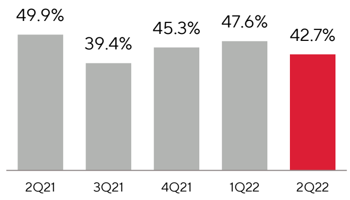
Return on equity



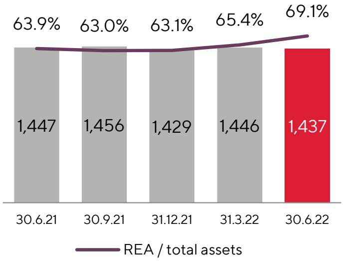
Profit after tax
(ISKm)



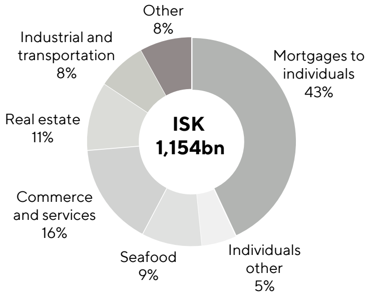
Cost-to-income ratio



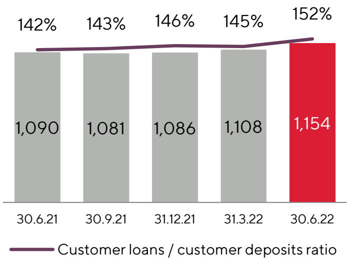
Total assets
(ISKbn)



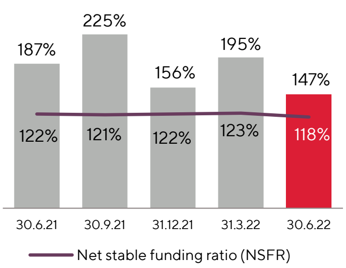
Loans to customers
(Sector split as of 30.6.22)



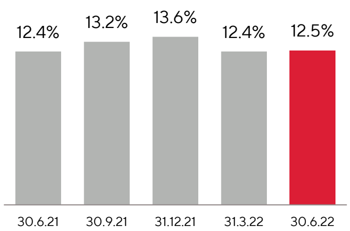
Loans to customers
(ISKbn)



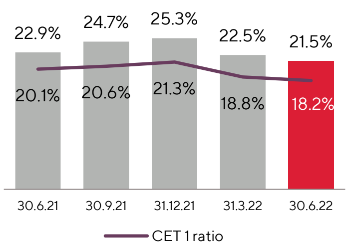
Total liquidity coverage ratio



Leverage ratio[2]



Total capital ratio[2]



The information above has not been reviewed or audited by the Bank's auditor.
1. Based on Gallup surveys regarding primary bank. 12 months rolling average for retail customers, December 2021 survey for SMEs and 2021 average for large companies.
2. Including 3Q21 profit for 30.9.21 and 1Q22 profit for 31.3.22.

Directors' Report

These are the condensed consolidated interim financial statements for the period 1 January to 30 June 2022 ("the interim financial statements") of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

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.

Operations in the reporting period

The Group's profit from operations for the first half of 2022 amounted to ISK 11,067 million and the return on equity was 10.9%, surpassing the Bank's target of over 10% ROE. At the end of the reporting period, the Group employed 740 full-time members of staff, including 702 within the Bank itself and operated 12 branches.

Net interest income in the first half of the year rose by 17.2% from the previous year, supported by balance sheet growth and a rising interest rate environment and as a result the net interest margin increased from 2.4% to 2.7%. Net fee and commission income rose by 12.6%, with a strong performance in Allianz Ísland hf. and good growth in fees from cards and payment processing. Salaries and related expenses fell by 4.9% between years due to a 5.1% reduction in the number of FTEs. Other operating expenses decreased by 3.2%, largely due to one-off IPO related costs in the first half of 2021. The Group's cost-to-income ratio fell from 53.5% to 45.0% between years. Net impairment reversals amounted to ISK 1,058 million, of which approximately ISK 750 million was a result of a court ruling regarding a fully impaired loan, coupled with the outlook for the tourism sector continuing to improve and outweighing the negative impact from increased inflation and international economic volatility.

The Group's loan book grew by 6.2% during the first half due to continued strong growth in mortgages and loans to SMEs. The Group's ratio of non-performing loans fell from 2.0% at year-end 2021 to 1.8% at the end of the first half of 2022. Stage 2 loans under IFRS 9 have come down to 5.6% of the loan book, compared with 9.6% at year-end 2021, as the credit risk relating to loans to the tourism industry and related industries has come down substantially.

Íslandsbanki's vision is to be #1 for service for its customers and the Bank was recently named the best bank in Iceland by the international financial magazine Euromoney.

Capital and funding

Deposits from customers rose by 1.7% during the first half of the year as deposits in Business Banking grew by 3.5%, while deposits in Treasury decreased. There were no major debt issuances in the second quarter, apart from the regular domestic covered bond auctions. The liquidity position of the Bank remains robust with all liquidity ratios well above both internal targets and regulatory requirements. In June, S&P Global Ratings (S&P) assigned a credit rating of A to the Bank's covered bond programme. The programme has been updated to allow for covered bond issuance in foreign currencies. In July S&P affirmed the Bank's rating at BBB/A-2 with a stable outlook. In its report, S&P views economic risks facing Icelandic financial institutions as elevated as property prices have risen higher than fundamental determinants. However, the rating agency notes that it expects the Bank's capitalisation to remain strong, alongside a healthy and improving earnings capacity.

The Group is very well capitalised, with a total capital ratio of 21.5% at the end of the first half, taking into account the ISK 15 billion capital distribution planned for in the coming few months. The Bank is exploring the most suitable option for the distribution, which will either be in the form of share buybacks or a special dividend. International capital markets have been extremely volatile over the past few months and the capital distribution is therefore subject to more stable market conditions.

In the annual Supervisory Review and Evaluation Process (SREP) the Central Bank increased the Bank's capital requirement by 0.1 percentage points, from 17.8% to 17.9%. The overall requirement will increase to 19.9% in September 2022 when the countercyclical buffer increases from zero to 2.0%. The Bank still retains its long term CET1 capital target of approximately 16.5%.

Outlook

The economic recovery in Iceland is well underway following a short but sharp recession as the pandemic raged. After growing by 4.3% in 2021, the Icelandic economy grew by 8.6% in the first quarter of 2022. As in 2021, buoyant domestic demand, in particular business investment and private consumption, explained a large share of rapid first quarter growth, supported by a rebound in tourism, which explained the lion's share of the 28% YoY export growth registered in the period.

Short-term economic trends and timely indicators point to continuing strong growth in the second quarter of 2022. Card turnover figures, coupled with new car sales and departures from Keflavík airport, indicate that private consumption increased markedly in the period, supported by declining unemployment and rising real wages. The tourist sector has continued its upward trajectory, with June being Iceland's busiest tourist month since autumn 2019. The economy has also proven relatively resilient to impact from the Ukraine war, as domestic renewable energy supplies most of households' energy needs and prices of main export commodities have surged in tandem with import prices. However, inflation has risen to 9.9% in Iceland as global factors are compounded by a rapid rise in residential house prices. The Central Bank has reacted by raising policy rates by 4% since May 2021 and further monetary tightening seems likely.

Directors' Report

For 2022, the Bank's Chief Economist expects GDP growth to measure 5.0%. Exports take over from domestic demand as the main catalyst of growth as the year progresses, with a rapid recovery of tourism and an increase in other exports. Growing consumption and investment also fuel GDP growth in 2022.

The international economic volatility and rapidly increasing inflation is not yet having a major impact on the domestic economy and private consumption. The war in Ukraine has so far had a limited direct impact on the Bank and a relatively modest impact on the Bank's corporate clients. The corporate loan book is performing well, and new mortgage lending is expected to slow down now that interest rates have reached a relatively high level. Fees from cards and payment processing are expected to continue to grow as tourism continues to pick up. The overall short-term outlook for the Bank remains favourable, even though the downside risks are certainly present due to the global turbulence in both economic activity and capital markets.

The recent Icelandic Government sell down of shares in the Bank is being scrutinised in special reports from the National Audit Office and the Central Bank, which are both expected to be issued in the third quarter. It is unclear when and how the Government will continue its planned sell down of its remaining shares in the Bank.

Ownership

After a successful IPO in June 2021, the Bank has one of the largest shareholder base of any listed company in Iceland. The Icelandic Government sold a 22.5% stake in the Bank in an accelerated book building process at the end of March and as a result, the Government has now become a minority shareholder with a 42.5% stake. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009.

At the end of the first half in 2022, 91.8% of the Bank's shares were owned by domestic parties and 8.2% by international investors. Apart from the Government, pension funds and insurance companies were the largest investor group, owning 32.7% of the outstanding shares, where the largest pension funds have been gradually increasing their shareholding. Fund companies own 10.2% of the shares and individuals 7.5%. For further information on the Bank's shareholders see Note 35.

Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 30 June 2022 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 2022.

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 2022.

Kópavogur, 28 July 2022

Board of Directors:

Finnur Árnason, Chairman

Heiðrún Jónsdóttir, Vice-Chairman

Anna Þórðardóttir

Ari Daníelsson

Frosti Ólafsson

Guðrún Þorgeirsdóttir

Tanya Zharov

Chief Executive Officer:

Birna Einarsdóttir

Building a better
working world

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 of 30 June 2022 which comprise of the Consolidated Interim Statement of Financial Position as of 30 June 2022 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 2022 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 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. 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 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.

Reykjavík, 28 July 2022

Valgerður Kristjánsdóttir
State Authorised Public Accountant
Ernst & Young ehf.
Borgartúni 30
105 Reykjavík

Consolidated Interim Income Statement

	Notes	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Interest income calculated using the effective interest rate method		39,369	27,274	21,777	14,928
Other interest income		2,657	863	1,452	425
Interest expense		(22,563)	(11,530)	(12,975)	(6,936)
Net interest income	4	19,463	16,607	10,254	8,417
Fee and commission income		8,102	6,836	4,279	3,529
Fee and commission expense		(1,604)	(1,067)	(845)	(622)
Net fee and commission income	5	6,498	5,769	3,434	2,907
Net financial income	6	113	912	208	619
Net foreign exchange gain	7	241	225	75	95
Other operating income	8	324	204	59	82
Other net operating income		678	1,341	342	796
Total operating income		26,639	23,717	14,030	12,120
Salaries and related expenses	9	(6,818)	(7,168)	(3,396)	(3,594)
Other operating expenses	10	(5,009)	(5,172)	(2,597)	(2,894)
Contribution to the Depositors' and Investors' Guarantee Fund		(165)	(344)	-	(162)
Bank tax		(842)	(861)	(412)	(451)
Total operating expenses		(12,834)	(13,545)	(6,405)	(7,101)
Profit before net impairment on financial assets		13,805	10,172	7,625	5,019
Net impairment on financial assets	11	1,058	622	575	1,140
Profit before tax		14,863	10,794	8,200	6,159
Income tax expense	12	(3,794)	(1,805)	(2,331)	(769)
Profit for the period from continuing operations		11,069	8,989	5,869	5,390
Discontinued operations held for sale, net of income tax	13	(2)	57	11	41
Profit for the period		11,067	9,046	5,880	5,431
Profit attributable to shareholders of Íslandsbanki hf.		11,067	9,050	5,880	5,433
Loss attributable to non-controlling interests		-	(4)	-	(2)
Profit for the period		11,067	9,046	5,880	5,431
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf.*	14	5.53	4.50	2.93	2.70

*The calculation for earnings per share for comparative period has been restated (see Note 14).

The half-year results were reviewed by the Bank's auditor. The splits between quarters were not reviewed or audited by the Bank's auditor.
The notes on pages 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2022	2021	2022	2021
	1.1-30.6	1.1-30.6	1.4-30.6	1.4-30.6
Profit for the period	11,067	9,046	5,880	5,431
Net gain (loss) on financial assets	-	(39)	-	20
Net gain (loss) on financial liabilities	787	(720)	584	(524)
Items that will not be reclassified to the income statement	787	(759)	584	(504)
Foreign currency translation	(2)	(9)	(3)	(43)
Items that may subsequently be reclassified to the income statement	(2)	(9)	(3)	(43)
Other comprehensive income (expense) for the period, net of tax	785	(768)	581	(547)
Comprehensive income for the period	11,852	8,278	6,461	4,884
Comprehensive income attributable to shareholders of Íslandsbanki hf.	11,852	8,649	6,461	5,248
Comprehensive expense attributable to non-controlling interests	-	(371)	-	(364)
Comprehensive income for the period	11,852	8,278	6,461	4,884

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

The notes on pages 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.6.2022	31.12.2021
Assets			
Cash and balances with Central Bank	19	77,884	113,667
Loans to credit institutions	20	37,226	43,988
Bonds and debt instruments	15	108,477	132,289
Derivatives	21	6,193	2,445
Loans to customers	22	1,153,677	1,086,327
Shares and equity instruments	15	25,789	31,677
Investments in associates	24	3,836	939
Property and equipment	25	6,846	7,010
Intangible assets		3,304	3,351
Other assets	26	12,126	5,784
Non-current assets and disposal groups held for sale	27	1,895	1,344
Total Assets		1,437,253	1,428,821
Liabilities			
Deposits from Central Bank and credit institutions	28	11,437	13,384
Deposits from customers	29	756,862	744,036
Derivative instruments and short positions	21	11,410	9,467
Debt issued and other borrowed funds	31	393,754	402,226
Subordinated loans	32	32,181	35,762
Tax liabilities		8,498	6,432
Other liabilities	33	18,498	12,848
Non-current liabilities and disposal groups held for sale		951	956
Total Liabilities		1,233,591	1,225,111
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		7,478	6,086
Retained earnings		131,184	132,624
Total Equity		203,662	203,710
Total Liabilities and Equity		1,437,253	1,428,821

The notes on pages 12 to 56 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 January 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 June 2021	10,000	55,000	2,500	4,077	-	(958)	(218)	119,535	189,936	419	190,355
Equity as at 1 January 2022	10,000	55,000	2,500	4,640	-	(1,054)	-	132,624	203,710	-	203,710
Profit for the period								11,067	11,067		11,067
Net gain (loss) on financial liabilities						1,100		(313)	787		787
Foreign currency translation							(2)		(2)		(2)
Comprehensive income (expense) for the period	-	-	-	-	-	1,100	(2)	10,754	11,852	-	11,852
Dividends paid								(11,900)	(11,900)		(11,900)
Restricted due to capitalised development costs				(145)				145	-		-
Restricted due to fair value changes				407				(407)	-		-
Restricted due to associates				32				(32)	-		-
Equity as at 30 June 2022	10,000	55,000	2,500	4,934	-	46	(2)	131,184	203,662	-	203,662

Authorised share capital of the Bank is 2,000 million ordinary shares of ISK 5 each. At 30 June 2022 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 2021 was held on 17 March 2022. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 11,900 million which is equivalent to ISK 5.95 per share (2021: ISK 1.70 per share). The dividends were paid on 28 March 2022.

The notes on pages 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2022 1.1-30.6	2021 1.1.-30.6
Profit for the period	11,067	9,046
Non-cash items included in profit for the period*	(18,663)	(15,157)
Changes in operating assets and liabilities*	(44,451)	(712)
Interest received	35,692	28,544
Interest paid	(13,773)	(9,496)
Dividends received	907	54
Paid income tax, special financial activities tax, and bank tax	(2,306)	(2,806)
Net cash (used in) provided by operating activities	(31,527)	9,473
Net investment in associated companies	(1,103)	(30)
Proceeds from sales of property and equipment	11	15
Purchase of property and equipment	(69)	(99)
Purchase of intangible assets	(218)	(105)
Net cash used in investing activities	(1,379)	(219)
Proceeds from borrowings	63,747	51,263
Repayment and repurchases of borrowings	(62,569)	(29,689)
Repayment of lease liabilities	(229)	(206)
Dividends paid	(11,900)	(3,400)
Subsidiary's capital decrease and share buyback paid to non-controlling interests	-	(704)
Net cash (used in) provided by financing activities	(10,951)	17,264
Net increase (decrease) in cash and cash equivalents	(43,857)	26,518
Effects of foreign exchange rate changes	(98)	(73)
Cash and cash equivalents at the beginning of the year	130,597	115,668
Cash and cash equivalents at the end of the period	86,642	142,113

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,763	3,518
Cash balances with Central Bank	19	74,121	127,450
Bank accounts	20	18,326	20,860
Mandatory reserve, special restricted and pledged balances with Central Bank	19	(9,568)	(9,715)
Cash and cash equivalents at the end of the period		86,642	142,113

*For further breakdown see the following page.

The Group has prepared its consolidated interim statement of cash flows using the indirect method. The statement is based on the net profit after tax for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the period.

Presentation of interest received and interest paid has been changed, comparative period information has therefore been restated.

The notes on pages 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2022 1.1-30.6	2021 1.1.-30.6
Net interest income	(19,463)	(16,607)
Depreciation, amortisation, and write-offs	688	687
Share of profit, gain from sale and reversal of impairment of associates	(190)	(105)
Net impairment on financial assets	(981)	(551)
Foreign exchange gain	(241)	(225)
Net gain from sales of property and equipment	(3)	(7)
Unrealised fair value gain recognised in profit or loss	(3,124)	(976)
Discontinued operations held for sale, net of income tax	2	(57)
Bank tax	842	861
Income tax expense	3,794	1,805
Other changes	13	18
Total	(18,663)	(15,157)

Changes in operating assets and liabilities

	2022 1.1-30.6	2021 1.1.-30.6
Mandatory reserve, special restricted and pledged balances with Central Bank	(311)	(166)
Loans to credit institutions	(2,286)	4,007
Bonds and debt instruments	22,171	14,798
Loans to customers	(67,870)	(90,852)
Shares and equity instruments	3,322	(16,970)
Other assets	(6,350)	(5,408)
Non-current assets and liabilities held for sale	(553)	1,658
Deposits from Central Bank and credit institutions	(1,571)	(6,983)
Deposits from customers	13,805	89,914
Derivative instruments and short positions	(9,995)	2,818
Other liabilities	5,187	6,472
Total	(44,451)	(712)

Significant non-cash transactions

Significant non-cash transactions 1 January to 30 June 2022
During the period the Group repurchased own debt securites amounting to ISK 1,794 million by issuing new debt.

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

The notes on pages 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

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 registered office is at Hagasmári 3, 201 Kópavogur, Iceland.

The condensed consolidated interim financial statements for the first half of 2022 ("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 Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over ten other non-significant subsidiaries.

The interim financial statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 28 July 2022.

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 for the year 2021, as well as the unaudited Pillar 3 Report for the year 2021. 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 2 and 66 in the consolidated financial statements for the year 2021.

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 where otherwise indicated. At 30 June 2022 the exchange rate of the ISK against the USD was 133.72 and for the EUR 138.9 (at year-end 2021: USD 130.38 and EUR 147.60).

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 consolidated financial statements have been prepared on a going concern basis.

Significant accounting estimates and judgements

In preparing these interim financial statements management has made judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management bases its judgements on previous experience and other factors that are considered reasonable under the circumstances, but actual results may differ from those estimates.

Management continuously evaluates these judgements, estimates, and assumptions. Changes in accounting estimates are recognised when they occur.

As described in Note 3 in the consolidated financial statements for the year 2021, key sources of estimation uncertainty include the allowance for credit losses and the determination of fair value of financial instruments.

Impairment of financial assets, changes from year-end 2021

Note 66.4 in the consolidated financial statements for the year 2021 contains a description of the Group's accounting policies for the impairment of financial assets.

At the end of the first half of 2022, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast on 18 May 2022 where the outlook has deteriorated since the last forecast. The main reason for the rise in inflation is due to housing prices as well as imported inflation, partly due to the armed conflict in Ukraine. The table below shows macroeconomic indicators from the new forecast.

2. Cont'd

Change in economic indicators %	2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025
Economic growth	4.3	5.0	2.7	2.6	2.6
Housing prices in Iceland	15.9	22.2	5.7	3.7	3.5
Purchasing power	3.7	0.0	2.0	1.6	2.4
ISK exchange rate index	(2.4)	(3.4)	(4.7)	(0.3)	0.0
Policy rate, Central Bank of Iceland	1.1	3.9	5.4	4.8	3.9
Inflation	4.4	7.6	5.9	3.9	2.9
Capital formation	13.6	7.2	0.5	2.6	3.5
thereof capital formation in industry	23.1	8.3	(3.2)	2.6	3.5

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 43. Where the increase was found to be significant (groups 2-4), the exposure was transferred to Stage 2. Since the start of the pandemic, an overlay factor has been applied to the expected credit losses, 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. Now that two years have passed since the pandemic started, most of these companies have received an updated risk assessment and the general uncertainty has been reduced. It was therefore decided to remove the general overlay factor and the additional haircut on underlying collateral valuation, while keeping the transfer to Stage 2 unchanged. For significant exposures where an increase in ECL was deemed to be appropriate, the added impairment allowance is accounted for through individual assessment in a manual process. The common risk factor in tourism was found to apply to loans to customers with a gross carrying amount of ISK 109,692 million at end of second quarter 2022, resulting in a expected credit losses of ISK 4,348 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 20%-50%-30%, as this would best represent the probability-weighted average over all possible scenarios. This amounts to a shift of 5% from the pessimistic scenario to the baseline compared to the first quarter in 2022. 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 280 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 150 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. 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 no.161/2002. 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 the 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 & Sustainability, 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. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries.

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.

Notes to the Condensed Consolidated Interim Financial Statements

3. Cont'd

1 January to 30 June 2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	6,863	6,582	5,131	961	(104)	19,433	30	19,463
Net fee and commission income (expense)	1,915	1,080	2,166	(70)	(1)	5,090	1,408	6,498
Other net operating income	333	70	910	658	98	2,069	(1,391)	678
Total operating income	9,111	7,732	8,207	1,549	(7)	26,592	47	26,639
Salaries and related expenses	(1,201)	(965)	(881)	(143)	(3,202)	(6,392)	(426)	(6,818)
Other operating expenses	(1,224)	(527)	(496)	(261)	(2,249)	(4,757)	(252)	(5,009)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	-	-	(165)	-	(165)
Bank tax	(391)	(189)	(262)	7	(7)	(842)	-	(842)
Net impairment on financial assets	(160)	359	125	791	-	1,115	(57)	1,058
Cost allocation	(2,388)	(1,697)	(1,643)	298	5,430	-	-	-
Profit (loss) before tax	3,618	4,680	5,047	2,241	(35)	15,551	(688)	14,863
Income tax income (expense)	(1,043)	(1,266)	(1,380)	10	7	(3,672)	(122)	(3,794)
Profit (loss) for the period from continuing operations	2,575	3,414	3,667	2,251	(28)	11,879	(810)	11,069
Net segment revenue from external customers	16,924	8,679	11,351	(10,425)	63	26,592	47	26,639
Net segment revenue from other segments	(7,813)	(947)	(3,144)	11,974	(70)	-	-	-
Fee and commission income	3,156	1,105	2,268	166	-	6,695	1,407	8,102
Depreciation, amortisation, and write-offs	(85)	(28)	(1)	-	(565)	(679)	(9)	(688)
At 30 June 2022								
Loans to customers	539,929	259,971	354,166	6	-	1,154,072	(395)	1,153,677
Other assets	3,188	2,129	6,579	261,475	9,656	283,027	549	283,576
Total segment assets	543,117	262,100	360,745	261,481	9,656	1,437,099	154	1,437,253
Deposits from customers	347,966	248,325	143,503	20,435	-	760,229	(3,367)	756,862
Other liabilities	1,219	1,596	8,162	458,073	5,584	474,634	2,095	476,729
Total segment liabilities	349,185	249,921	151,665	478,508	5,584	1,234,863	(1,272)	1,233,591
Allocated equity	41,140	37,811	63,863	58,484	939	202,237	1,425	203,662
Risk exposure amount	266,806	243,588	415,979	58,815	6,353	991,541	1,342	992,883

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

Notes to the Condensed Consolidated Interim Financial Statements

3. 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 (expense)	5,796	5,111	4,382	1,399	(89)	16,599	8	16,607
Net fee and commission income (expense)	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 income (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	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

3. Cont'd

Subsidiaries, eliminations & adjustments

1 January to 30 June 2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	10	16	1	30
Net fee and commission income (expense)	855	554	(15)	14	1,408
Other net operating income	(97)	7	124	(1,425)	(1,391)
Total operating income	761	571	125	(1,410)	47
Salaries and related expenses	(299)	(100)	(27)	-	(426)
Other operating expenses	(112)	(238)	(101)	199	(252)
Net impairment on financial assets	-	-	-	(57)	(57)
Profit (loss) before tax	350	233	(3)	(1,268)	(688)
Income tax expense	(71)	(51)	-	-	(122)
Profit (loss) for the period from continuing operations	279	182	(3)	(1,268)	(810)
Net segment revenue from external customers	903	576	3	(1,435)	47
Net segment revenue from other segments	(142)	(5)	123	24	-
Fee and commission income	1,123	554	-	(270)	1,407
Depreciation, amortisation, and write-offs	-	-	(4)	(5)	(9)
At 30 June 2022					
Total assets	2,251	1,350	7,297	(10,744)	154
Total liabilities	476	700	1,420	(3,868)	(1,272)
Total equity	1,775	650	5,877	(6,877)	1,425

1 January to 30 June 2021	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	-	3	6	(1)	8
Net fee and commission income (expense)	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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Net interest income

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Cash and balances with Central Bank	789	258	391	153
Loans to credit institutions	70	42	52	20
Loans to customers	38,510	26,974	21,334	14,755
Financial assets mandatorily at fair value through profit or loss	2,654	860	1,451	424
Other assets	3	3	1	1
Interest income	42,026	28,137	23,229	15,353
Deposits from Central Bank and credit institutions	(92)	(191)	(52)	(98)
Deposits from customers	(8,596)	(3,120)	(5,124)	(1,925)
Debt issued and other borrowed funds designated as at FVTPL	(304)	(364)	(134)	(179)
Debt issued and other borrowed funds at amortised cost	(11,473)	(6,747)	(6,536)	(4,096)
Subordinated loans	(571)	(339)	(292)	(176)
Lease liabilities	(41)	(43)	(20)	(23)
Other liabilities	(1,486)	(726)	(817)	(439)
Interest expense	(22,563)	(11,530)	(12,975)	(6,936)
Net interest income	19,463	16,607	10,254	8,417

5. Net fee and commission income

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Asset management	1,550	1,424	763	769
Investment banking and brokerage	1,793	1,569	901	799
Payment processing	2,856	2,099	1,623	1,154
Loans and guarantees	1,203	1,152	647	558
Other fee and commission income	700	592	345	249
Fee and commission income	8,102	6,836	4,279	3,529
Brokerage	(251)	(226)	(144)	(136)
Clearing and settlement	(1,262)	(835)	(701)	(486)
Other fee and commission expense	(91)	(6)	-	-
Fee and commission expense	(1,604)	(1,067)	(845)	(622)
Net fee and commission income	6,498	5,769	3,434	2,907

Fee and commission income by segment is disclosed in Note 3.

6. Net financial income

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(2,784)	605	(1,101)	424
Net gain on financial liabilities designated as at FVTPL	2,903	302	1,315	191
Net gain (loss) on fair value hedges	(6)	5	(6)	4
Net financial income	113	912	208	619

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Notes to the Condensed Consolidated Interim Financial Statements

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The following table shows the categorisation of the net financial income (expense).

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Shares and related derivatives	(887)	130	(370)	503
Dividend income	907	54	234	25
Bonds and related derivatives	(2,058)	404	(976)	(246)
Other derivatives	(746)	17	11	142
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(2,784)	605	(1,101)	424
Debt issued and other borrowed funds designated as at FVTPL	2,903	302	1,315	191
Net gain on financial liabilities designated as at FVTPL	2,903	302	1,315	191
Clean fair value loss on interest rate swaps designated as hedging instruments	(357)	(264)	(177)	(120)
Fair value gain on bonds issued by the Group attributable to interest rate risk	351	269	171	124
Net gain (loss) on fair value hedges	(6)	5	(6)	4

7. Net foreign exchange gain

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Cash and balances with Central Bank	(98)	(73)	(26)	(19)
Loans at amortised cost	(8,922)	(12,942)	(1,730)	(3,505)
Financial assets mandatorily at fair value through profit or loss	(9,484)	(5,185)	(5,596)	(294)
Other assets	(7)	(6)	(3)	(4)
Net foreign exchange loss for assets	(18,511)	(18,206)	(7,355)	(3,822)
Deposits	3,129	4,532	97	1,832
Debt issued and other borrowed funds designated as at FVTPL	5,730	5,819	2,084	966
Debt issued and other borrowed funds at amortised cost	6,293	6,188	3,277	1,156
Subordinated loans	3,600	1,892	1,972	(37)
Net foreign exchange gain for liabilities	18,752	18,431	7,430	3,917
Net foreign exchange gain	241	225	75	95

8. Other operating income

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Net gain from sale of associates	158	-	-	-
Share of profit of associates, net of income tax	32	45	30	39
Reversal of impairment for an associate	-	60	-	-
Legal fees	25	36	12	18
Rental income	19	20	10	9
Other net operating income	90	43	7	16
Other operating income	324	204	59	82

Amounts are in ISK million

9. Salaries and related expenses

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Salaries	5,237	5,526	2,616	2,765
Contributions to pension funds	802	852	393	431
Social security charges and financial activities tax*	719	719	363	369
Other salary-related expenses	60	71	24	29
Salaries and related expenses	6,818	7,168	3,396	3,594

*Financial activities tax calculated on salaries is 5.5% in 2022 (2021: 5.5%).

10. Other operating expenses

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Professional services	941	1,326	532	926
Software and IT expenses	2,269	2,149	1,109	1,111
Real estate and office equipment	256	277	133	115
Depreciation, amortisation, and write-offs	688	687	349	342
Other administrative expenses	855	733	474	400
Other operating expenses	5,009	5,172	2,597	2,894

11. Net impairment on financial assets

	2022 1.1-30.6	2021 1.1-30.6	2022 1.4-30.6	2021 1.4-30.6
Net change in expected credit losses, on-balance sheet items	1,211	569	604	1,024
Net change in expected credit losses, off-balance sheet items	(228)	53	(104)	116
Changes in provision due to court rulings	75	-	75	-
Net impairment on financial assets	1,058	622	575	1,140

Net impairment reversals amounted to ISK 1,058 million, of which approximately ISK 750 million in total was a result of a court ruling regarding a fully impaired loan.

12. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2022 is 20% (2021: 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 2022 is 25.5% (first half 2021: 16.7%).

	2022 1.1-30.6	2021 1.1-30.6
Current tax expense excluding discontinued operations	2,434	2,047
Special financial activities tax	545	519
Adjustments in prior year's calculated income tax	(591)	2
Changes in deferred tax assets and deferred tax liabilities	1,406	(763)
Income tax recognised in the income statement	3,794	1,805
Income tax recognised in other comprehensive income	(110)	-

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Notes to the Condensed Consolidated Interim Financial Statements

12. Cont'd

	2022		2021	
	1.1-30.6		1.1-30.6	
Profit before tax	14,863		10,794	
20% income tax calculated on the profit for the period	2,973	20.0%	2,159	20.0%
Special financial activities tax	545	3.7%	519	4.8%
Share in taxes of non-independent taxpayers	150	1.0%	-	0.0%
Adjustments in prior year's calculated income tax	(455)	(3.1%)	-	0.0%
Income not subject to tax	(202)	(1.4%)	(1,048)	(9.7%)
Non-deductible expenses	769	5.2%	173	1.6%
Other differences	14	0.1%	2	0.0%
Effective income tax expense	3,794	25.5%	1,805	16.7%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf. (Iceland Funds).

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

	2022	2021	2022	2021
	1.1-30.6	1.1-30.6	1.4-30.6	1.4-30.6
Net profit from foreclosed assets	23	32	33	5
Net gain (loss) from disposal groups held for sale	(20)	31	(15)	37
Income tax expense	(5)	(6)	(7)	(1)
Discontinued operations held for sale, net of income tax	(2)	57	11	41

14. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2022	2021	2022	2021	2022	2021
	1.1-30.6	1.1-30.6	1.1-30.6	1.1-30.6	1.1-30.6	1.1-30.6
Profit (loss) attributable to shareholders of the Bank	11,069	8,993	(2)	57	11,067	9,050
Weighted average number of outstanding shares*	2,000	2,000	2,000	2,000	2,000	2,000
Basic earnings per share	5.53	4.50	(0.00)	0.03	5.53	4.53

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 (2021: none).

*In the third quarter 2021 the share capital of ISK 10,000 million was divided into 2,000 million outstanding shares of ISK 5 each. As a result, the calculation for earnings per share for comparative period has been restated.

Amounts are in ISK million

15. Classification of financial assets and financial liabilities

At 30 June 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	77,884	77,884
Loans to credit institutions	-	-	-	37,226	37,226
Listed bonds and debt instruments	92,498	-	-	-	92,498
Listed bonds and debt instruments used for economic hedging	15,947	-	-	-	15,947
Unlisted bonds and debt instruments	32	-	-	-	32
Derivatives	6,089	104	-	-	6,193
Loans to customers	-	-	-	1,153,677	1,153,677
Listed shares and equity instruments	3,647	-	-	-	3,647
Listed shares and equity instruments used for economic hedging	19,455	-	-	-	19,455
Unlisted shares and equity instruments	2,687	-	-	-	2,687
Other financial assets	-	-	-	11,385	11,385
Total financial assets	140,355	104	-	1,280,172	1,420,631
Deposits from Central Bank and credit institutions	-	-	-	11,437	11,437
Deposits from customers	-	-	-	756,862	756,862
Derivative instruments and short positions	11,410	-	-	-	11,410
Debt issued and other borrowed funds	-	41,832	80,125	271,797	393,754
Subordinated loans	-	-	-	32,181	32,181
Other financial liabilities	-	-	-	15,800	15,800
Total financial liabilities	11,410	41,832	80,125	1,088,077	1,221,444

At 31 December 2021	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	113,667	113,667
Loans to credit institutions	-	-	-	43,988	43,988
Listed bonds and debt instruments	96,343	-	-	-	96,343
Listed bonds and debt instruments used for economic hedging	35,896	-	-	-	35,896
Unlisted bonds and debt instruments	50	-	-	-	50
Derivatives	1,900	545	-	-	2,445
Loans to customers	-	-	-	1,086,327	1,086,327
Listed shares and equity instruments	3,246	-	-	-	3,246
Listed shares and equity instruments used for economic hedging	24,406	-	-	-	24,406
Unlisted shares and equity instruments	4,025	-	-	-	4,025
Other financial assets	-	-	-	5,241	5,241
Total financial assets	165,866	545	-	1,249,223	1,415,634
Deposits from Central Bank and credit institutions	-	-	-	13,384	13,384
Deposits from customers	-	-	-	744,036	744,036
Derivative instruments and short positions	9,467	-	-	-	9,467
Debt issued and other borrowed funds	-	45,036	89,460	267,730	402,226
Subordinated loans	-	-	-	35,762	35,762
Other financial liabilities	-	-	-	9,681	9,681
Total financial liabilities	9,467	45,036	89,460	1,070,593	1,214,556

Amounts are in ISK million

16. 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 following table shows financial instruments carried at fair value at 30 June 2022 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 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	108,445	-	32	108,477
Derivatives	-	6,193	-	6,193
Shares and equity instruments	23,102	-	2,687	25,789
Total financial assets	131,547	6,193	2,719	140,459
Short positions	439	-	-	439
Derivative instruments	-	10,971	-	10,971
Debt issued and other borrowed funds designated as at FVTPL	80,125	-	-	80,125
Total financial liabilities	80,564	10,971	-	91,535

At 31 December 2021	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	132,239	-	50	132,289
Derivatives	-	2,445	-	2,445
Shares and equity instruments	27,625	-	4,052	31,677
Total financial assets	159,864	2,445	4,102	166,411
Short positions	1,951	-	-	1,951
Derivative instruments	-	7,516	-	7,516
Debt issued and other borrowed funds designated as at FVTPL	89,460	-	-	89,460
Total financial liabilities	91,411	7,516	-	98,927

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2022	50	4,052
Purchases	-	27
Net gain (loss) on financial instruments recognised in profit or loss	(18)	345
Transfers to Level 1 or 2	-	(26)
Transfers to associates*	-	(1,711)
Fair value at 30 June 2022	32	2,687

*For further information see Note 24.

Amounts are in ISK million

16. Cont'd

	Bonds and debt instruments	Shares and equity instruments	Non-current assets
Fair value at 1 January 2021	145	2,890	1,266
Purchases	32	178	-
Sales and share capital reduction	(116)	(186)	(1,201)
Net gain (loss) on financial instruments recognised in profit or loss	(11)	1,170	-
Net loss on financial instruments recognised in other comprehensive income	-	-	(65)
Fair value at 31 December 2021	50	4,052	-

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.

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. If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, net asset value (NAV) for investment fund units, expected recovery for distressed bonds, Black-Scholes option pricing model and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

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 shares 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, shares 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 shares and bonds. Unlisted shares and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

At 30 June 2022 the Group's Level 3 shares amounted to ISK 2,687 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 2,382 million. The Group receives information from fund managers which use valuation models for the valuation of these shares.

-Other Level 3 shares amount to ISK 305 million.

At 30 June 2022 the Group's Level 3 bonds amounted to ISK 32 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.

Amounts are in ISK million

16. Cont'd

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

At 30 June 2022 **Effect on profit or (loss):**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	32	54	16	(11)	(32)
Level 3 Shares and equity instruments	2,686	1,998	1,079	(290)	(366)

At 31 December 2021 **Effect on profit or (loss):**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	50	89	24	(21)	(50)
Level 3 Shares and equity instruments	4,052	3,415	1,475	(975)	(1,676)

17. 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" 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 16.

Amounts are in ISK million

17. Cont'd

At 30 June 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	77,884	-	77,884	77,884
Loans to credit institutions	-	37,226	-	37,226	37,226
Loans to customers	-	-	1,143,988	1,143,988	1,153,677
Other financial assets	-	11,385	-	11,385	11,385
Total financial assets	-	126,495	1,143,988	1,270,483	1,280,172
Deposits from Central Bank and credit institutions	-	11,389	-	11,389	11,437
Deposits from customers	-	756,860	-	756,860	756,862
Debt issued and other borrowed funds	228,215	83,905	-	312,120	313,629
Subordinated loans	-	32,028	-	32,028	32,181
Other financial liabilities	-	15,800	-	15,800	15,800
Total financial liabilities	228,215	899,982	-	1,128,197	1,129,909

At 31 December 2021	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	113,667	-	113,667	113,667
Loans to credit institutions	-	43,988	-	43,988	43,988
Loans to customers	-	-	1,089,920	1,089,920	1,086,327
Other financial assets	-	5,241	-	5,241	5,241
Total financial assets	-	162,896	1,089,920	1,252,816	1,249,223
Deposits from Central Bank and credit institutions	-	13,441	-	13,441	13,384
Deposits from customers	-	744,098	-	744,098	744,036
Debt issued and other borrowed funds	225,763	97,311	-	323,074	312,766
Subordinated loans	-	37,581	-	37,581	35,762
Other financial liabilities	-	9,681	-	9,681	9,681
Total financial liabilities	225,763	902,112	-	1,127,875	1,115,629

18. 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 2022	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
Derivatives	6,193	-	6,193	(1,766)	(2,217)	(504)	1,706	-	6,193

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At 31 December 2021	Financial assets subject to netting arrangements: Financial assets before netting	Netting with financial liabilities	Net financial assets	Amounts not set off but subject to master netting arrangements and similar agreements: 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 ..	100	-	100	-	-	-	100	-	100
Derivatives	2,445	-	2,445	(927)	(885)	(73)	560	-	2,445
Total assets	2,545	-	2,545	(927)	(885)	(73)	660	-	2,545

	Financial liabilities subject to netting arrangements: Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Amounts not set off but subject to master netting arrangements and similar agreements: 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
At 30 June 2022									
Derivative instruments and short positions	11,410	-	11,410	(1,766)	(3,171)	-	6,473	-	11,410
At 31 December 2021									
Derivative instruments and short positions	9,467	-	9,467	(927)	(945)	-	7,595	-	9,467

19. Cash and balances with Central Bank

	30.6.2022	31.12.2021
Cash on hand	3,763	3,882
Balances with Central Bank	64,553	100,528
Included in cash and cash equivalents	68,316	104,410
Balances pledged as collateral to Central Bank	590	589
Mandatory reserve deposits with Central Bank	8,978	8,668
Cash and balances with Central Bank	77,884	113,667

20. Loans to credit institutions

	30.6.2022	31.12.2021
Money market loans	18,900	17,759
Bank accounts	18,326	26,187
Other loans	-	42
Loans to credit institutions	37,226	43,988

Amounts are in ISK million

21. Derivative instruments and short positions

At 30 June 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,112	92,634	5,834	131,758
Cross-currency interest rate swaps	-	-	1,740	31,785
Equity forwards	1,449	12,673	1,502	6,847
Foreign exchange forwards	174	11,535	668	18,865
Foreign exchange swaps	564	28,727	1,218	48,658
Foreign exchange options	-	-	1	45
Bond forwards	894	19,639	8	1,372
Derivatives	6,193	165,208	10,971	239,330
Short positions in listed bonds	-	-	439	431
Total	6,193	165,208	11,410	239,761

At 31 December 2021	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,253	131,732	3,182	88,920
Cross-currency interest rate swaps	157	14,392	473	16,587
Equity forwards	126	5,693	2,958	16,591
Foreign exchange forwards	97	15,719	278	12,674
Foreign exchange swaps	359	33,914	599	42,795
Bond forwards	453	34,594	26	7,043
Derivatives	2,445	236,044	7,516	184,610
Short positions in listed bonds	-	-	1,951	1,447
Total	2,445	236,044	9,467	186,057

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 31) 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 2022 the total fair value of the interest rate swaps was positive and amounted to ISK 104 million (2021: ISK 545 million) and their total notional amount was ISK 41,670 million (2021: ISK 44,280 million).

Amounts are in ISK million

22. Loans to customers

At 30 June 2022	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	550,552	4,514	5,756	(1,578)	(145)	(600)	558,499
Commerce and services	140,090	44,186	4,290	(912)	(2,337)	(1,471)	183,846
Construction	44,529	2,390	243	(406)	(77)	(29)	46,650
Energy	9,869	-	-	(37)	-	-	9,832
Financial services	1,817	1	-	(3)	-	-	1,815
Industrial and transportation	75,620	7,769	7,315	(266)	(130)	(2,220)	88,088
Investment companies	22,279	2,661	612	(244)	(228)	(38)	25,042
Public sector and non-profit organisations	9,651	48	-	(19)	-	-	9,680
Real estate	119,486	2,128	2,170	(528)	(76)	(532)	122,648
Seafood	106,174	1,432	53	(68)	(6)	(8)	107,577
Loans to customers	1,080,067	65,129	20,439	(4,061)	(2,999)	(4,898)	1,153,677

At 31 December 2021	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	510,024	7,197	5,704	(1,368)	(199)	(625)	520,733
Commerce and services	110,618	55,299	5,252	(844)	(2,696)	(2,407)	165,222
Construction	34,238	1,704	1,298	(341)	(72)	(54)	36,773
Energy	9,529	-	-	(36)	-	-	9,493
Financial services	1,980	1	-	(3)	-	-	1,978
Industrial and transportation	61,386	24,593	6,481	(281)	(292)	(2,260)	89,627
Investment companies	21,066	2,636	606	(295)	(297)	(39)	23,677
Public sector and non-profit organisations	9,862	144	1	(18)	(1)	(1)	9,987
Real estate	97,395	10,989	2,177	(485)	(225)	(537)	109,314
Seafood	116,451	3,204	57	(159)	(22)	(8)	119,523
Loans to customers	972,549	105,767	21,576	(3,830)	(3,804)	(5,931)	1,086,327

23. 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	48	-	-	48
Loans to customers	4,061	2,999	4,898	11,958
Other financial assets	13	5	-	18
Off-balance sheet loan commitments and financial guarantees	788	241	200	1,229
At 30 June 2022	4,913	3,245	5,098	13,256
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	89	-	-	89
Loans to customers	3,830	3,804	5,931	13,565
Other financial assets	18	6	-	24
Off-balance sheet loan commitments and financial guarantees	545	298	158	1,001
At 31 December 2021	4,485	4,108	6,089	14,682

Amounts are in ISK million

23. Cont'd

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 2022	3,830	3,804	5,931	13,565
Transfer to Stage 1	736	(640)	(96)	-
Transfer to Stage 2	(213)	341	(128)	-
Transfer to Stage 3	(40)	(198)	238	-
Net remeasurement of loss allowance	(1,681)	(284)	(942)	(2,907)
New financial assets originated or purchased	1,862	1,463	1,265	4,590
Derecognitions and maturities	(433)	(1,487)	(1,118)	(3,038)
Write-offs	-	-	(354)	(354)
Recoveries of amounts previously written off	-	-	78	78
Foreign exchange	-	-	(153)	(153)
Unwinding of interest	-	-	177	177
At 30 June 2022	4,061	2,999	4,898	11,958

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	3,645	6,482	7,387	17,514
Transfer to Stage 1	1,995	(1,780)	(215)	-
Transfer to Stage 2	(476)	1,650	(1,174)	-
Transfer to Stage 3	(48)	(1,259)	1,307	-
Net remeasurement of loss allowance	(3,550)	(2,254)	(779)	(6,583)
New financial assets originated or purchased	2,759	1,497	3,645	7,901
Derecognitions and maturities	(495)	(529)	(3,695)	(4,719)
Write-offs	-	(3)	(1,206)	(1,209)
Recoveries of amounts previously written off	-	-	293	293
Foreign exchange	-	-	(44)	(44)
Unwinding of interest	-	-	412	412
At 31 December 2021	3,830	3,804	5,931	13,565

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	545	298	158	1,001
Transfer to Stage 1	32	(21)	(11)	-
Transfer to Stage 2	(4)	32	(28)	-
Transfer to Stage 3	(1)	(7)	8	-
Net remeasurement of loss allowance	(778)	(436)	(111)	(1,325)
New loan commitments and financial guarantees	972	375	183	1,530
Derecognitions and maturities	22	-	1	23
At 30 June 2022	788	241	200	1,229
At 1 January 2021	347	483	225	1,055
Transfer to Stage 1	132	(114)	(18)	-
Transfer to Stage 2	(28)	92	(64)	-
Transfer to Stage 3	(4)	(16)	20	-
Net remeasurement of loss allowance	(491)	(292)	2	(781)
New loan commitments and financial guarantees	673	242	29	944
Derecognitions and maturities	(84)	(97)	(36)	(217)
At 31 December 2021	545	298	158	1,001

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24. Investments in associates

		30.6.2022	31.12.2021
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	12.2%
Auðkenni ehf., an information security company, Borgartún 31, 105 Reykjavík	Iceland	0.0%	33.3%
JCC ehf., a cash centre service company, Sundaborg 15, 108 Reykjavík	Iceland	0.0%	30.1%

At year-end 2021 Íslandsbanki owned shares in Norðurturninn hf. which was classified as shares and equity instruments (see Note 16). During the second quarter Íslandsbanki increased its share in Norðurturninn and now has significant influence over the company, therefore the company is now classified as an associate. The company's shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,224 million (CPI-linked, based on the CPI in June 2022). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

25. Property and equipment

At 30 June 2022	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,101	4,921	2,996	11,018
Additions during the period	17	8	52	77
Disposals and write-offs during the period	-	-	(21)	(21)
Remeasurement	-	188	-	188
Historical cost	3,118	5,117	3,027	11,262
Balance at the beginning of the year	(1,360)	(1,234)	(1,414)	(4,008)
Depreciation during the period	(9)	(232)	(180)	(421)
Disposals and write-offs during the period	-	-	13	13
Accumulated depreciation	(1,369)	(1,466)	(1,581)	(4,416)
Carrying amount	1,749	3,651	1,446	6,846

At 31 December 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 year	43	133	163	339
Disposals and write-offs during the year	-	(110)	(286)	(396)
Remeasurement	-	169	-	169
Historical cost	3,101	4,921	2,996	11,018
Balance at the beginning of the year	(1,340)	(906)	(1,319)	(3,565)
Depreciation during the year	(20)	(438)	(370)	(828)
Disposals and write-offs during the year	-	110	275	385
Accumulated depreciation	(1,360)	(1,234)	(1,414)	(4,008)
Carrying amount	1,741	3,687	1,582	7,010

Amounts are in ISK million

26. Other assets

	30.6.2022	31.12.2021
Receivables	1,290	1,582
Unsettled securities transactions	9,819	3,412
Accruals	329	252
Prepaid expenses	482	332
Deferred tax assets	95	94
Other assets	111	112
Other assets	12,126	5,784

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

	30.6.2022	31.12.2021
Repossessed collateral:		
Land and buildings	830	269
Industrial equipment and vehicles	3	-
Assets of disposal groups held for sale	1,062	1,075
Non-current assets and disposal groups held for sale	1,895	1,344

28. Deposits from Central Bank and credit institutions

	30.6.2022	31.12.2021
Deposits from credit institutions	11,399	13,233
Repurchase agreements with Central Bank	38	151
Deposits from Central Bank and credit institutions	11,437	13,384

29. Deposits from customers

	30.6.2022	31.12.2021
Demand deposits and deposits with maturity up to 3 months	673,976	658,543
Term deposits with maturity of more than 3 months	82,886	85,493
Deposits from customers	756,862	744,036

	30.6.2022		31.12.2021	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	11,405	2%	10,750	1%
Municipalities	9,591	1%	7,125	1%
Companies	378,370	50%	371,893	50%
Individuals	357,496	47%	354,268	48%
Deposits from customers	756,862	100%	744,036	100%

Amounts are in ISK million

30. Pledged assets

	30.6.2022	31.12.2021
Loans to customers	361,277	289,544
Financial assets pledged as collateral with Central Bank	5,439	7,440
Loans to credit institutions	5,816	1,861
Cash and balances with Central Bank pledged against Covered Bonds	7,934	2,200
Pledged assets against liabilities	380,466	301,045

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 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.

31. Debt issued and other borrowed funds

	First issued	Maturity	Maturity type	Interest	30.6.2022	31.12.2021
Covered bonds in ISK	2015	2023	Bullet	Fixed rates	38,459	39,020
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	27,145	25,750
Covered bonds in ISK	2022	2027	Amortising	Floating rates	3,304	-
Covered bonds in ISK - CPI-linked	2015	2022	Bullet	Fixed rates	17,901	18,722
Covered bonds in ISK - CPI-linked	2012	2024	Bullet	Fixed rates	39,507	38,231
Covered bonds in ISK - CPI-linked	2015	2026	Bullet	Fixed rates	31,342	29,833
Covered bonds in ISK - CPI-linked	2019	2028	Amortising	Fixed rates	29,771	25,902
Covered bonds in ISK - CPI-linked	2017	2030	Bullet	Fixed rates	28,724	27,363
Covered bonds					216,153	204,821
Senior unsecured bonds in NOK	2019	2022	Bullet	Floating rates	-	14,841
Senior unsecured bonds in EUR*	2019	2022	Bullet	Fixed rates	-	44,803
Senior unsecured bonds in EUR*	2020	2023	Bullet	Fixed rates	40,908	44,657
Senior unsecured bonds in EUR**	2018	2024	Bullet	Fixed rates	41,832	45,036
Senior unsecured bonds in NOK	2019	2024	Bullet	Fixed rates	5,456	6,122
Senior unsecured bonds in ISK	2019	2024	Amortising	Floating rates	1,740	2,100
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	2,009	2,211
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	3,236	3,597
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	6,404	7,037
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	2,593	2,882
Senior unsecured bonds in ISK	2020	2025	Bullet	Fixed rates	6,733	6,603
Senior unsecured bonds in SEK	2021	2025	Bullet	Floating rates	5,822	6,472
Senior unsecured bonds in NOK	2021	2025	Bullet	Floating rates	10,035	11,044
Senior unsecured bonds in EUR*	2022	2025	Bullet	Fixed rates	39,217	-
Unsecured bonds					165,985	197,405
Other unsecured loans					11,616	-
Debt issued and other borrowed funds					393,754	402,226

The Group repurchased own bonds during the period amounting to ISK 31,390 million.

Amounts are in ISK million

31. Cont'd

*These bond issuances are classified as being designated as at fair value through profit or loss. At 30 June 2022 the total carrying amount of the bonds amounted to ISK 80,125 million; included in the amount are negative fair value changes amounting to ISK 3,367 million. The carrying amount of the bonds at 30 June 2022 was ISK 3,736 million lower than the contractual amount due at maturity.

**The bond is callable in 2023. The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 21). 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 2022 the total carrying amount of the bond issuance amounted to ISK 41,832 million and included in the amount are fair value changes amounting to ISK 3 million.

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

32. Subordinated loans

	Issued	Maturity	Callable	Interest	30.6.2022	31.12.2021
Subordinated loans in SEK	2017	2027	2022	Floating, STIBOR + 2.0%	9,710	10,786
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	6,468	7,187
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,444	7,163
Tier 2 subordinated loans					22,622	25,136
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	9,559	10,626
Additional Tier 1 subordinated loans					9,559	10,626
Subordinated loans					32,181	35,762

33. Other liabilities

	30.6.2022	31.12.2021
Accruals	2,507	2,463
Lease liabilities	3,807	3,838
Provision for effects of court rulings	118	288
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,229	1,001
Withholding tax	742	1,288
Unsettled securities transactions	7,871	2,005
Sundry liabilities	2,224	1,965
Other liabilities	18,498	12,848

34. Custody assets

	30.6.2022	31.12.2021
Custody assets - not managed by the Group	3,329,819	3,411,059

Amounts are in ISK million

35. Íslandsbanki's shareholders

The following table shows shareholders holding more than 1% of Íslandsbanki's shares:		30.6.2022	31.12.2021
The Icelandic Government	Iceland	42.5%	65.0%
LSR Pension Fund	Iceland	7.2%	4.1%
Gildi Pension Fund	Iceland	6.5%	3.1%
Live Pension Fund	Iceland	6.1%	3.7%
Capital Group	USA	5.2%	4.4%
Brú Pension Fund	Iceland	2.4%	0.8%
Stapi Pension Fund	Iceland	2.0%	1.0%
RWC Asset Management LLP	UK	1.3%	0.8%
Birta Pension Fund	Iceland	1.3%	0.6%
Lífsverk Pension Fund	Iceland	1.2%	0.1%
Arion Banki hf.	Iceland	1.2%	0.6%
Íslandssjóðir hf. (Iceland Funds)	Iceland	1.1%	0.9%
Frjálsi Pension Fund	Iceland	1.0%	0.3%
Other shareholders		21.0%	14.6%
Total		100.0%	100.0%

At 30 June 2022 the number of shareholders of the Bank was around 14,300 (2021: around 15,700). At 30 June 2022, 91.8% of the Bank's shares were owned by domestic parties and 8.2% by international investors (2021: 92.2% domestic parties and 7.8% international investors).

36. Related party

Íslandsbanki has a related party relationship with the Icelandic Government as the largest shareholder with significant influence over the Group. The shares are administered by the Icelandic State Financial Investments (ISFI). As a result, the Icelandic Government and the ISFI 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.

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

The following tables show the Group's balances and transactions with related parties:

At 30 June 2022	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with significant influence over the Group	-	-	-	2
Board of Directors, key management personnel and other related parties	489	425	64	73
Associated companies	8,264	4,179	4,085	208
Balances with related parties	8,753	4,604	4,149	283

Amounts are in ISK million

36. Cont'd

1 January - 30 June 2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	16	11	4	-
Associated companies	131	36	14	814
Transactions with related parties	147	47	18	814

At 31 December 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	356	413	(57)	57
Associated companies	3	478	(475)	206
Balances with related parties	359	891	(532)	265

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 30 June 2022 a total of ISK 3 million (at year-end 2021: ISK 1 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the period.

37. 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 during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun 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 is approximately ISK 1,930 million. Court appointed senior assessors presented their reassessment in April 2021 which corroborates the previous assessment of Borgun's obligation to disclose. Furthermore, the senior assessors estimated that Borgun's share in Visa as of 31 December 2013 would have amounted to at least ISK 387 million. The hearing of the case in front of the District Court of Reykjavík is scheduled on 19 October 2022.

On 11 March 2020, the Bank signed an agreement to sell its 63.47% stake in Borgun hf. to SaltPay 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 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.

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37. Cont'd

105 Miðborg slhf. – ÍAV hf.

In February 2021 the alternative investor fund 105 Miðborg slhf., operated by Íslandssjóðir hf. (Iceland Funds hf.), 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 non-performance and delays in the construction of one building on the premises. The contractor, ÍAV, has claimed approximately ISK 3,829 million in damages plus late payment interest and legal costs from 105 Miðborg and Iceland Funds for the alleged unlawful termination. The suit was filed on 11 May 2021 at the District Court of Reykjavík. Additionally, 105 Miðborg has filed a case against ÍAV claiming approximately ISK 3,878 million in damages plus late payment interest and legal costs due to alleged delays and significant breaches of contract. The Bank owns a 6.25% stake in 105 Miðborg. The Group has not recognised a provision in respect of this matter.

The Consumers' Association of Iceland

In December 2021 three customers, sponsored by the Consumers' Association of Iceland, commenced litigation against the Bank, demanding that certain provisions of their residential mortgages, governing variable interest rates, be deemed illegal and unenforceable and demand the repayment of any overpaid interest.

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on interest and price indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Group estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 3 to 5 billion.

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

It is disputed in the three cases whether the terms of the Bank's mortgages, and the method used by the Bank to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable finding could therefore affect other loans to consumers bearing variable interest rates. Furthermore, the Bank has received information requests from a legal firm representing over 1,200 customers of Icelandic commercial banks and loan institutions, they deem to have a comparable right.

In the event of an unfavourable ruling and a subsequent finding that the affected loans should bear a fixed rate of interest instead of a variable interest rate, the Bank's interest rate risk would rise significantly which could lead to a significant financial loss in the event of adverse developments of interest rates in the capital markets. The Group believes that this is a very unlikely scenario. The Group has reviewed the terms of its mortgages, other loan contracts and the methods used for the setting and resetting of variable interest rates in light of the above claims. The Group believes that the claims of the plaintiffs are unfounded.

The Group has not recognised a provision with regards to this matter.

EC Clear ehf.

In August 2021 EC Clear ehf., a former owner of a payment processing company, filed a suit against the Bank and four other financial institutions claiming damages in the amount of ISK 923 million plus interest from June 2013, resulting from a breach of competition law that allegedly took place during the period from 2003 to 2013. This was the sixth time the case had been brought before the courts for this purpose, after previous cases had been dismissed. On 31 March 2022 the District Court of Reykjavik denied the plaintiff's demand to obtain an advisory opinion of the EFTA Court and to appoint independent assessors before the oral argumentation on the request for dismissal of the case takes place. That denial was confirmed by the Court of Appeal on 23 May 2022. The date for the oral argumentation on the dismissal of the case has not been set. The Group has not recognised a provision in respect of this matter.

38. 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 2022.

39. 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 2021 Report, which is available on the Bank's website: www.islandsbanki.is.

40. 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.

41. Maximum credit exposure and collateral

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.

Collateral and other credit mitigants vary between types of obligors and credit facilities. 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. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 2,223 million are subject to 100% Government guarantee, ISK 1,154 million to 85% Government guarantee and ISK 426 million to 70% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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. The total value of pledged assets can thus be higher than the cover indicates. For capital leases the Group remains the owner of the leased object.

The industry breakdown under loans to customers 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.

The following table shows the maximum exposure to credit risk by collateral held against those exposures:

41. Cont'd

At 30 June 2022 **Collateral held against credit exposure**	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
Cash and balances with Central Bank	77,884	-	-	-	-	-	-	-	77,884	3
Loans to credit institutions	37,226	-	-	-	-	-	-	-	37,226	48
Bonds and debt instruments	108,477	-	-	-	-	-	-	-	108,477	-
Derivatives	27,688	-	-	-	13,057	-	-	13,057	14,631	-
Loans to customers:	1,153,677	539,158	284,342	82,704	9,453	60,601	72,416	1,048,674	105,003	11,958
Individuals	558,499	497,933	10,383	21	132	14,710	140	523,319	35,180	2,323
-thereof mortgages	496,394	492,416	2,527	-	123	-	-	495,066	1,328	1,016
Commerce and services	183,846	9,485	75,458	2,173	465	36,724	25,051	149,356	34,490	4,720
Construction	46,650	11,160	27,940	2	348	2,462	2,329	44,241	2,409	512
Energy	9,832	70	8,148	-	4	6	28	8,256	1,576	37
Financial services	1,815	-	477	-	1	-	1,306	1,784	31	3
Industrial and transportation	88,088	1,370	46,473	2,128	60	6,157	14,644	70,832	17,256	2,616
Investment companies	25,042	1,567	5,619	-	8,182	63	8,789	24,220	822	510
Public sector and non-profit organisations	9,680	55	719	-	-	35	12	821	8,859	19
Real estate	122,648	17,286	97,684	5	191	364	3,314	118,844	3,804	1,136
Seafood	107,577	232	11,441	78,375	70	80	16,803	107,001	576	82
Other financial assets	11,385	-	-	-	-	-	-	-	11,385	18
Off-balance sheet items:	187,290	6,917	32,905	9,532	2,114	1	18,635	70,104	117,186	1,229
Financial guarantees	20,349	-	6,361	104	1,485	-	2,114	10,064	10,285	421
Undrawn loan commitments	70,632	6,917	14,595	3,369	69	1	5,931	30,882	39,750	482
Undrawn overdrafts	58,439	-	11,949	6,059	560	-	10,590	29,158	29,281	134
Credit card commitments	37,870	-	-	-	-	-	-	-	37,870	192
Total	1,603,627	546,075	317,247	92,236	24,624	60,602	91,051	1,131,835	471,792	13,256

Amounts are in ISK million

41. Cont'd

At 31 December 2021 **Collateral held against credit exposure**	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
Cash and balances with Central Bank	113,667	-	-	-	-	-	-	-	113,667	3
Loans to credit institutions	43,988	-	-	-	-	-	-	-	43,988	89
Bonds and debt instruments	132,289	-	-	-	-	-	-	-	132,289	-
Derivatives	21,547	-	-	-	9,722	-	-	9,722	11,825	-
Loans to customers:	1,086,327	510,100	250,581	86,387	6,664	50,536	72,774	977,042	109,285	13,565
Individuals	520,733	460,898	9,317	21	205	15,756	198	486,395	34,338	2,192
-thereof mortgages	457,800	454,684	1,417	-	194	-	-	456,295	1,505	1,023
Commerce and services	165,222	16,083	66,667	721	262	25,422	20,997	130,152	35,070	5,947
Construction	36,773	12,619	15,532	7	118	2,605	2,621	33,502	3,271	467
Energy	9,493	27	7,638	-	2	6	13	7,686	1,807	36
Financial services	1,978	-	475	-	-	-	1,472	1,947	31	3
Industrial and transportation	89,627	1,511	46,292	2,375	104	6,268	13,578	70,128	19,499	2,833
Investment companies	23,677	1,328	4,637	-	5,421	72	11,720	23,178	499	631
Public sector and non-profit organisations	9,987	85	738	-	-	45	3	871	9,116	20
Real estate	109,314	16,715	87,266	-	480	264	2,655	107,380	1,934	1,247
Seafood	119,523	834	12,019	83,263	72	98	19,517	115,803	3,720	189
Other financial assets	5,241	-	-	-	-	-	-	-	5,241	24
Off-balance sheet items:	164,262	4,230	32,611	12,306	1,902	-	20,515	71,564	92,698	1,001
Financial guarantees	18,830	-	6,614	370	1,434	-	1,503	9,921	8,909	453
Undrawn loan commitments	58,809	4,230	15,118	3,993	2	-	10,058	33,401	25,408	252
Undrawn overdrafts	56,573	-	9,512	7,874	351	-	8,505	26,242	30,331	172
Credit card commitments	30,050	-	1,367	69	115	-	449	2,000	28,050	124
Total	1,567,321	514,330	283,192	98,693	18,288	50,536	93,289	1,058,328	508,993	14,682

Amounts are in ISK million

42. Credit quality of financial assets

The following tables provide 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 2021 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 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	443,951	838	-	444,789
Risk class 5-6	429,275	22,884	-	452,159
Risk class 7-8	191,541	35,530	-	227,071
Risk class 9	15,180	5,645	-	20,825
Risk class 10	-	-	20,439	20,439
Unrated	120	232	-	352
	1,080,067	65,129	20,439	1,165,635
Expected credit losses	(4,061)	(2,999)	(4,898)	(11,958)
Net carrying amount	1,076,006	62,130	15,541	1,153,677

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	83,156	876	-	84,032
Risk class 5-6	58,993	6,101	-	65,094
Risk class 7-8	32,849	2,272	-	35,121
Risk class 9	638	642	-	1,280
Risk class 10	-	-	1,479	1,479
Unrated	1,216	252	45	1,513
	176,852	10,143	1,524	188,519
Expected credit losses	(788)	(241)	(200)	(1,229)
Total	176,064	9,902	1,324	187,290

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At 31 December 2021

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	398,524	1,775	-	400,299
Risk class 5-6	377,063	42,650	-	419,713
Risk class 7-8	180,421	53,444	-	233,865
Risk class 9	16,445	7,889	-	24,334
Risk class 10	-	-	21,576	21,576
Unrated	96	9	-	105
	972,549	105,767	21,576	1,099,892
Expected credit losses	(3,830)	(3,804)	(5,931)	(13,565)
Net carrying amount	968,719	101,963	15,645	1,086,327

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	77,769	1,065	-	78,834
Risk class 5-6	43,831	4,550	-	48,381
Risk class 7-8	21,854	14,446	-	36,300
Risk class 9	472	690	-	1,162
Risk class 10	-	-	544	544
Unrated	38	4	-	42
	143,964	20,755	544	165,263
Expected credit losses	(545)	(298)	(158)	(1,001)
Total	143,419	20,457	386	164,262

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

Companies susceptible to the impact of the COVID-19 pandemic 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.

Impact group 1: Viable even though fewer tourists arrive than expected
Impact group 2: Viable with forbearance even though fewer tourists arrive than expected
Impact group 3: Viable if the number of tourists is similar to general expectations
Impact group 4: Viable only if the tourism industry fares better than expected

Where the increase was found to be significant (groups 2-4), the exposure was transferred to Stage 2. No further overlay factor is applied as most of these companies have received an updated risk assessment and the general uncertainty has been reduced.

At 30 June 2022

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	60,098	5,872	-	65,970
Group 2	-	29,852	1,011	30,863
Group 3	-	13,558	1,753	15,311
Group 4	-	-	1,896	1,896
	60,098	49,282	4,660	114,040
Expected credit losses	(268)	(2,540)	(1,540)	(4,348)
Net carrying amount	59,830	46,742	3,120	109,692

Amounts are in ISK million

43. Cont'd

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

	Stage 1	Stage 2	Stage 3	Total
Group 1	4,270	4,229	-	8,499
Group 2	-	2,569	50	2,619
Group 3	-	784	26	810
Group 4	-	-	9	9
	4,270	7,582	85	11,937
Expected credit losses	(19)	(140)	(22)	(181)
Total	4,251	7,442	63	11,756

At 31 December 2021

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	21,992	19,425	-	41,417
Group 2	-	42,212	567	42,779
Group 3	-	14,500	2,024	16,524
Group 4	-	294	2,916	3,210
	21,992	76,431	5,507	103,930
Expected credit losses	(155)	(3,195)	(1,945)	(5,295)
Net carrying amount	21,837	73,236	3,562	98,635

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

	Stage 1	Stage 2	Stage 3	Total
Group 1	1,642	1,596	-	3,238
Group 2	-	14,446	38	14,484
Group 3	-	1,293	43	1,336
Group 4	-	32	10	42
	1,642	17,367	91	19,100
Expected credit losses	(8)	(174)	(42)	(224)
Total	1,634	17,193	49	18,876

44. 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 66.4 in the consolidated financial statements for the year 2021.

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 during the probation period; 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 the tourism business, its effects are not only 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.

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

At 30 June 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	5,437	1,409	1,446	8,292
Companies	36,495	39,731	7,860	84,086
- In the tourism quasi-sector	21,826	34,865	3,865	60,556
- Other than the tourism quasi-sector	14,669	4,866	3,995	23,530
Total	41,932	41,140	9,306	92,378

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(33)	(39)	(115)	(187)
Companies	(115)	(2,208)	(3,010)	(5,333)
- In the tourism quasi-sector	(64)	(1,955)	(1,327)	(3,346)
- Other than the tourism quasi-sector	(51)	(253)	(1,683)	(1,987)
Total	(148)	(2,247)	(3,125)	(5,520)

At 31 December 2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,920	3,989	1,453	9,362
Companies	17,500	68,081	9,076	94,657
- In the tourism quasi-sector	3,216	56,340	4,636	64,192
- Other than the tourism quasi-sector	14,284	11,741	4,440	30,465
Total	21,420	72,070	10,529	104,019

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(25)	(78)	(135)	(238)
Companies	(102)	(2,719)	(3,543)	(6,364)
- In the tourism quasi-sector	(21)	(2,397)	(1,734)	(4,152)
- Other than the tourism quasi-sector	(81)	(322)	(1,809)	(2,212)
Total	(127)	(2,797)	(3,678)	(6,602)

Amounts are in ISK million

45. 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	2022 1.1-30.6	2021 1.1-30.6
Individuals	94	168
Companies	328	282
Total	422	450

46. 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. 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 on prudential requirements for financial undertakings. 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 no large exposures. No large exposure is above the maximum 25% large exposure limit set by the law.

At 30 June 2022

Groups of connected clients:	Before	After
Group 1	78%	7%
Group 2	11%	11%
Group 3	10%	10%

At 31 December 2021

Group of connected clients:	Before	After
Group 1	100%	7%

47. 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.

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48. 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 ratios and the rules on funding ratios. 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 minimum LCR ratio that the Group is required to maintain is 100% for the total LCR and LCR in foreign currencies. For LCR in ISK, the requirement is 40% in 2022 and 50% as of 2023. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 30 June 2022 and at year-end 2021.

Net stable funding ratio	30.6.2022	31.12.2021
For all currencies	118%	122%
Foreign currencies	182%	157%

Liquidity coverage ratio	30.6.2022	31.12.2021
For all currencies	147%	156%
ISK	125%	141%
Foreign currencies	240%	235%

	For all currencies		ISK		Foreign currencies	
At 30 June 2022	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	146,744	146,744	123,709	123,709	23,035	23,035
Liquid assets level 2	25,834	19,842	25,797	19,842	37	-
Total liquid assets	172,578	166,586	149,506	143,551	23,072	23,035
Deposits	627,069	162,870	547,329	134,153	79,740	28,717
Debt issued	120	120	81	81	39	39
Other outflows	80,281	39,395	55,250	29,693	25,031	9,702
Total outflows	707,470	202,385	602,660	163,927	104,810	38,458
Short-term deposits with other banks**	36,906	31,090	868	-	36,038	31,090
Other inflows	70,825	57,590	62,038	49,482	8,787	8,108
Restrictions on inflows	-	-	-	-	-	(10,355)
Total inflows	107,731	88,680	62,906	49,482	44,825	28,843
Liquidity coverage ratio		147%		125%		240%
At 31 December 2021						
Liquid assets level 1*	214,480	214,480	184,282	184,282	30,198	30,198
Liquid assets level 2	45,559	16,404	41,415	16,404	4,144	-
Total liquid assets	260,039	230,884	225,697	200,686	34,342	30,198
Deposits	618,940	173,789	542,616	145,478	76,324	28,311
Debt issued	15,464	15,464	66	66	15,398	15,398
Other outflows	99,162	37,587	69,796	29,940	29,366	7,647
Total outflows	733,566	226,840	612,478	175,484	121,088	51,356
Short-term deposits with other banks**	43,997	42,135	3,040	2,118	40,957	40,017
Other inflows	51,161	36,692	43,385	30,540	7,776	6,152
Restrictions on inflows	-	-	-	-	-	(7,653)
Total inflows	95,158	78,827	46,425	32,658	48,733	38,516
Liquidity coverage ratio		156%		141%		235%

*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.

Amounts are in ISK million

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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 2022	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	87,754	13%	197,821	5%	71,921	357,496
Small and medium enterprises	62,117	13%	57,205	5%	8,548	127,870
Operational relationships	3,823	25%	-	5%	-	3,823
Corporations	129,869	40%	3,256	20%	32,739	165,864
Sovereigns, Central Bank and public sector entities	11,815	40%	1,176	20%	537	13,528
Pension funds	26,542	100%	-	-	18,061	44,603
Domestic financial entities	42,167	100%	-	-	1,944	44,111
Foreign financial entities	3,524	100%	-	-	7,480	11,004
Total	367,611		259,458		141,230	768,299

At 31 December 2021	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	78,319	13%	204,340	5%	66,643	349,302
Small and medium enterprises	58,774	12%	57,685	5%	6,185	122,644
Operational relationships	3,260	25%	-	5%	-	3,260
Corporations	110,682	40%	2,913	20%	29,279	142,874
Sovereigns, Central Bank and public sector entities	8,168	40%	1,115	20%	559	9,842
Pension funds	45,346	100%	-	-	18,269	63,615
Domestic financial entities	41,894	100%	-	-	12,522	54,416
Foreign financial entities	6,444	100%	-	-	5,023	11,467
Total	352,887		266,053		138,480	757,420

49. 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.

Bonds and debt instruments are based on contractual maturity and therefore do not represent the estimated liquidation time of the trading book.

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.

Amounts are in ISK million

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At 30 June 2022	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	77,884	30,452	47,432	-	-	-	-	77,884
Loans to credit institutions	37,226	12,510	24,716	-	-	-	-	37,226
Bonds and debt instruments	108,477	-	28,252	35,371	41,834	3,020	-	108,477
Derivatives	6,193	-	2,545	1,830	1,463	-	-	5,838
Loans to customers	1,153,677	612	84,969	120,496	311,353	636,247	-	1,153,677
Shares and equity instruments	25,789	-	-	-	-	-	25,789	25,789
Other financial assets	11,385	10,359	724	302	-	-	-	11,385
Total financial assets	1,420,631	53,933	188,638	157,999	354,650	639,267	25,789	1,420,276
Deposits from CB and credit institutions	11,437	3,700	1,269	-	6,944	-	-	11,913
Deposits from customers	756,862	636,557	66,899	35,792	30,034	29,261	-	798,543
Derivatives instrument and short positions	11,410	-	3,329	3,336	3,963	582	-	11,210
Debt issued and other borrowed funds	393,754	-	24,437	13,408	353,130	46,342	-	437,317
Subordinated loans	32,181	-	188	1,120	17,603	24,606	-	43,517
Other financial liabilities:	15,800	9,380	1,864	1,258	1,878	1,777	-	16,157
Lease liabilities	3,807	-	139	410	1,838	1,777	-	4,164
Other liabilities	11,993	9,380	1,725	848	40	-	-	11,993
Total financial liabilities	1,221,444	649,637	97,986	54,914	413,552	102,568	-	1,318,657
Total net financial assets and financial liabilities		(595,704)	90,652	103,085	(58,902)	536,699	25,789	101,619

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	29,680	18,374	12,930	-	-	60,984
Outflow	-	(29,171)	(16,657)	(11,467)	-	-	(57,295)
Total	-	509	1,717	1,463	-	-	3,689
Net settled derivatives	-	2,036	113	-	-	-	2,149
Total derivative financial assets	-	2,545	1,830	1,463	-	-	5,838
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	(55,143)	(26,013)	(43,357)	-	-	(124,513)
Outflow	-	56,879	29,334	47,259	-	-	133,472
Total	-	1,736	3,321	3,902	-	-	8,959
Net settled derivatives	-	1,509	-	-	-	-	1,509
Total derivative financial liabilities	-	3,245	3,321	3,902	-	-	10,468

At 31 December 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	113,667	39,278	74,389	-	-	-	-	113,667
Loans to credit institutions	43,988	24,327	19,661	-	-	-	-	43,988
Bonds and debt instruments	132,289	-	25,420	38,495	63,315	5,059	-	132,289
Derivatives	2,445	-	(1,747)	1,227	2,497	-	-	1,977
Loans to customers	1,086,327	1,153	89,452	114,436	304,623	576,663	-	1,086,327
Shares and equity instruments	31,677	-	-	-	-	-	31,677	31,677
Other financial assets	5,241	4,712	373	156	-	-	-	5,241
Total financial assets	1,415,634	69,470	207,548	154,314	370,435	581,722	31,677	1,415,166

Amounts are in ISK million

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At 31 December 2021	Carrying amount	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Deposits from CB and credit institutions	13,384	5,403	4,022	-	4,101	-	-	13,526
Deposits from customers	744,036	621,391	62,356	43,950	25,254	28,357	-	781,308
Derivatives instrument and short positions	9,467	-	5,652	1,429	5,368	1,454	-	13,903
Debt issued and other borrowed funds	402,226	-	22,948	78,045	315,021	54,676	-	470,690
Subordinated loans	35,762	-	292	732	16,784	27,285	-	45,093
Other financial liabilities:	9,681	3,434	1,739	1,157	1,858	2,047	-	10,235
Lease liabilities	3,838	-	129	387	1,829	2,047	-	4,392
Other liabilities	5,843	3,434	1,610	770	29	-	-	5,843
Total financial liabilities	1,214,556	630,228	97,009	125,313	368,386	113,819	-	1,334,755
Total net financial assets and financial liabilities		(560,758)	110,539	29,001	2,049	467,903	31,677	80,411

Derivative financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	40,945	6,895	29,424	-	-	77,264
Outflow	-	(43,261)	(5,668)	(26,927)	-	-	(75,856)
Total	-	(2,316)	1,227	2,497	-	-	1,408
Net settled derivatives	-	569	-	-	-	-	569
Total derivative financial assets	-	(1,747)	1,227	2,497	-	-	1,977
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	(55,405)	(18,216)	(33,280)	-	-	(106,901)
Outflow	-	58,086	19,486	36,950	-	-	114,522
Total	-	2,681	1,270	3,670	-	-	7,621
Net settled derivatives	-	2,955	-	-	-	-	2,955
Total derivative financial liabilities	-	5,636	1,270	3,670	-	-	10,576

Off-balance sheet liabilities

The following table shows 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 are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

	30.6.2022	31.12.2021
Financial guarantees	20,770	19,283
Undrawn loan commitments	71,114	59,061
Undrawn overdrafts	58,573	56,745
Credit card commitments	38,062	30,174
Off-balance sheet liabilities	188,519	165,263

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50. 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 (see Note 21).

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.

51. 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.

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 15 since netting between short and long positions is not applied here.

	30.6.2022			31.12.2021		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,238	7.47	(0.92)	548	6.59	(0.36)
Non-indexed	91,498	0.79	(7.20)	95,996	0.91	(8.75)
Total	92,736	0.88	(8.12)	96,544	0.94	(9.11)
Trading bonds and debt instruments, short positions						
Indexed	571	9.00	0.53	215	9.00	0.20
Non-indexed	692	7.00	0.49	148	1.00	0.02
Total	1,263	7.90	1.02	363	5.74	0.22
Net position of trading bonds and debt instruments	91,473	0.78	(7.10)	96,181	0.92	(8.89)

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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 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	44	(26)	460	(4,007)	2,890	(562)	(1,201)
ISK, non-indexed	26	(14)	75	(1,949)	686	(43)	(1,219)
EUR	188	(300)	264	(47)	-	-	105
SEK	42	-	-	-	-	-	42
USD	31	(4)	-	-	-	-	27
Other	41	(6)	2	(5)	-	-	32
Total	372	(350)	801	(6,008)	3,576	(605)	(2,214)

At 31 December 2021

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	5	178	(99)	(2,245)	2,802	(839)	(198)
ISK, non-indexed	(7)	(19)	(96)	(1,559)	668	(35)	(1,048)
EUR	23	(49)	(621)	721	-	-	74
SEK	32	-	-	-	-	-	32
USD	11	(6)	-	-	-	-	5
Other	36	(2)	-	(7)	-	-	27
Total	100	102	(816)	(3,090)	3,470	(874)	(1,108)

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52. 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 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	527	384	167	48	9	53	54	97	24	145	1,508
Loans to credit institutions	2,506	19,817	486	286	207	4,012	7,848	702	202	25	36,091
Bonds and debt instruments	9,033	-	14	-	-	3,215	9,346	-	-	-	21,608
Loans to customers	122,475	38,261	940	938	2,456	45	2,861	137	1,557	-	169,670
Shares and equity instruments	54	297	147	-	-	1,125	-	-	-	-	1,623
Other assets	37	491	-	-	-	2	88	-	-	-	618
Total assets	134,632	59,250	1,754	1,272	2,672	8,452	20,197	936	1,783	170	231,118
Deposits from credit institutions	7,069	1,086	22	-	-	-	7	2	-	-	8,186
Deposits from customers	36,607	31,505	3,788	442	273	853	2,754	9,297	342	18	85,879
Debt issued and other borrowed funds	125,489	11,616	-	-	-	11,651	23,903	-	-	-	172,659
Subordinated loans	-	-	-	-	-	32,181	-	-	-	-	32,181
Other liabilities	21	394	-	-	-	11	84	-	-	10	520
Total liabilities	169,186	44,601	3,810	442	273	44,696	26,748	9,299	342	28	299,425
Net on-balance sheet position	(34,554)	14,649	(2,056)	830	2,399	(36,244)	(6,551)	(8,363)	1,441	142	(68,307)
Net off-balance sheet position	33,128	(14,862)	1,984	(845)	(2,389)	36,068	6,557	8,431	(1,446)	(263)	66,363
Net position	(1,426)	(213)	(72)	(15)	10	(176)	6	68	(5)	(121)	(1,944)

Amounts are in ISK million

52. Cont'd

At 31 December 2021	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	659	350	183	43	15	47	65	89	26	164	1,641
Loans to credit institutions	12,297	15,080	967	400	724	261	10,095	331	586	189	40,930
Bonds and debt instruments	9,612	3,910	32	-	-	5,040	10,320	-	-	-	28,914
Loans to customers	124,674	41,409	1,071	994	2,903	59	3,263	3,011	3,863	20	181,267
Shares and equity instruments	2,311	386	343	-	-	1,881	-	-	-	-	4,921
Other assets	13	390	-	-	-	4	-	1	-	-	408
Total assets	149,566	61,525	2,596	1,437	3,642	7,292	23,743	3,432	4,475	373	258,081
Deposits from credit institutions	7,802	336	15	-	-	-	8	2	-	-	8,163
Deposits from customers	38,846	29,637	3,763	442	708	831	2,813	2,258	340	29	79,667
Debt issued and other borrowed funds	133,709	-	-	-	-	12,951	41,255	-	-	-	187,915
Subordinated loans	-	-	-	-	-	35,762	-	-	-	-	35,762
Other liabilities	629	226	-	-	-	3	-	43	-	-	901
Total liabilities	180,986	30,199	3,778	442	708	49,547	44,076	2,303	340	29	312,408
Net on-balance sheet position	(31,420)	31,326	(1,182)	995	2,934	(42,255)	(20,333)	1,129	4,135	344	(54,327)
Net off-balance sheet position	31,200	(30,849)	893	(990)	(2,924)	42,157	20,148	(1,114)	(4,113)	(408)	54,000
Net position	(220)	477	(289)	5	10	(98)	(185)	15	22	(64)	(327)

Amounts are in ISK million

53. 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% increase in the index would lead to an ISK 73 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.6.2022	31.12.2021
Bonds and debt instruments	1,944	1,169
Loans to customers	261,299	247,426
Total CPI-linked assets	263,243	248,595
Deposits from customers	98,441	93,806
Debt issued and other borrowed funds	147,833	140,051
Off-balance sheet exposures	9,662	14,697
Total CPI-linked liabilities	255,936	248,554
CPI imbalance	7,307	41

54. 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 2022 and 31 December 2021.

The Group's regulatory capital requirement is calculated according to CRD IV as implemented through the Act on Financial Undertakings no. 161/2002 and regulation no. 233/2017 on prudential requirements for financial undertakings. Capital requirement calculations for credit risk, market risk and operational risk are based on the standardised approach.

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 1 July 2022 maintain an additional capital requirement of 2.6% of risk exposure amount. The Group’s overall capital requirement, taking into account capital buffers, is 17.9%. In September 2022 a countercyclical capital buffer of 2% will be reintroduced, increasing from its current level of 0%. 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%.

	30.6.2022	31.12.2021
Own funds		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	7,478	6,086
Retained earnings	131,184	132,624
IFRS 9 reversal due to transitional rules	1,302	2,768
Fair value changes due to own credit standing	(46)	1,054
Forseeable dividend payment and approved buyback*	(20,533)	(11,863)
Tax assets	(95)	(94)
Intangible assets	(3,304)	(3,351)
CET1 capital	180,986	192,224
Additional Tier 1 capital	9,559	10,626
Tier 1 capital	190,545	202,850
Tier 2 capital	22,622	25,136
Total capital base	213,167	227,986

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*The Annual General Meeting of Íslandsbanki hf. held on 17 March 2022 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 15 billion, which is within the 10% authorisation from the AGM. The approved amount of ISK 15 billion is subtracted from the capital base. The target dividend payment amounting to 50% of profit is also deducted from the capital base.

	30.6.2022	31.12.2021
Risk exposure amount		
- due to credit risk	892,395	802,147
- due to market risk	17,092	17,100
Market risk, trading book	15,114	16,223
Currency risk	1,978	877
- due to credit valuation adjustment	2,826	1,829
- due to operational risk	80,570	80,570
Total risk exposure amount	992,883	901,646
Capital ratios		
CET 1 ratio	18.2%	21.3%
Tier 1 ratio	19.2%	22.5%
Total capital ratio	21.5%	25.3%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,429,699	1,422,930
Off-balance sheet exposures	63,628	49,220
Derivative exposures	28,177	21,615
Leverage ratio total exposure measure	1,521,504	1,493,765
Tier 1 capital	190,545	202,850
Leverage ratio	12.5%	13.6%

Amounts are in ISK million