Íslandsbanki

Condensed Consolidated Interim Financial Statements

First quarter 2022

Contents

Factsheet 1Q22

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

706 number of FTEs at Íslandsbanki at period end

Sustainability 1Q22

- Íslandsbanki regarded as the most sustainable bank in Iceland according to a Gallup survey
- Estimates of the financed emission for 2020 and 2019 published
- Íslandsbanki issued a EUR 300m 0.75% fixed rate senior preferred sustainable bond

Digital milestones 1Q22

- Unified digital sales platform released[1]
- Up to date price information for securities implemented in the app
- Cardless ATM services

Market share[2]

30% retail customers

37% SMEs

35% large companies

Ratings and certifications

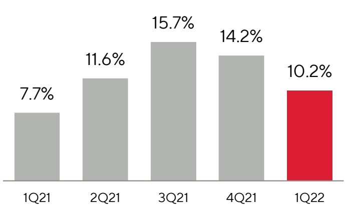
S&P Global Ratings

BBB/A-2 Stable outlook

EQUAL PAY CERTIFICATE 2018 - 2021

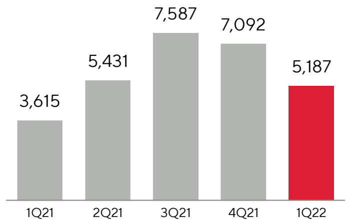
EXEMPLARY IN CORPORATE GOVERNANCE

Return on equity

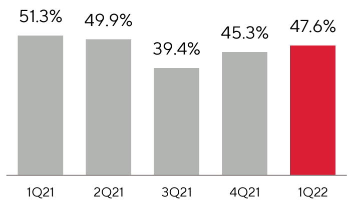


Profit after tax

(ISKm)

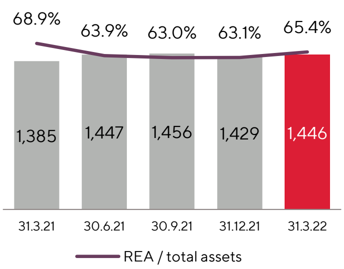


Cost-to-income ratio[3]



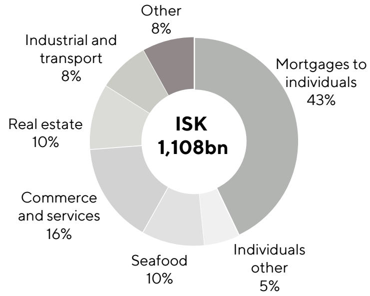
Total assets

(ISKbn)



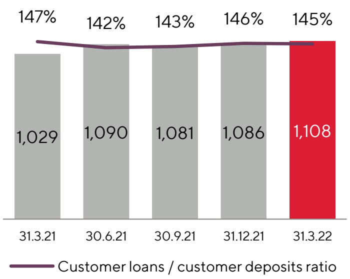
Loans to customers

(Sector split as of 31.3.22)

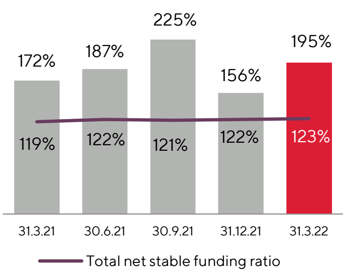


Loans to customers

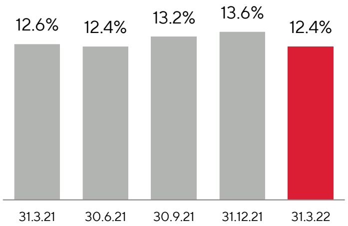
(ISKbn)



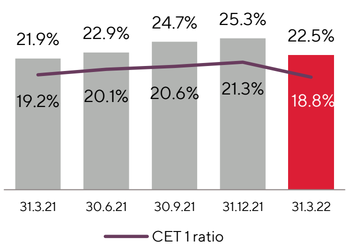
Total liquidity coverage ratio



Leverage ratio[4]



Total capital ratio[4]



1. In beta version at close of books, and released on 27 April 2022.
2. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, December 2021 survey for SMEs and 2021 average for large companies.
3. IPO costs in 1Q21 were not adjusted for in 1Q21 published results.
4. 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 31 March 2022 ("the interim financial statements") of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

Operations in the reporting period

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

The Group's profit from operations for the first quarter of 2022 amounted to ISK 5,187 million and the return on equity was 10.2%, surpassing the Bank's target of >10% ROE. At the end of the reporting period, the Group employed 741 full-time members of staff, including 706 within the Bank itself.

Net interest income in the first quarter rose by 12.4% 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 2.6%. Net fee and commission income rose by 7.1%, with a strong performance in two of the Bank's subsidiaries, Íslandssjóðir hf. (Iceland Funds hf.) and Allianz Ísland hf. Salaries and related expenses fell by 4.3% between years due to a 5.8% reduction in the number of FTEs. Other operating expenses increased by 5.9%. The Group's cost-to-income ratio fell from 51.3% to 47.6% between years. Net impairment reversals amounted to ISK 483 million as the outlook for the tourism sector continues to improve and outweighs the negative impact from increased inflation.

The Group's loan book grew by 2.0% during the quarter due to continued strong growth in mortgages. 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 quarter in 2022. Stage 2 loans under IFRS 9 have come down to 7.1% of the loan book, compared with 9.6% at year-end 2021.

Capital and funding

Deposits from customers rose by 2.3% during the quarter due to a short-term increase in deposits in Treasury. The Bank continued on its sustainability path by issuing its second international sustainable bond, which amounted to EUR 300 million and was well received by investors. The liquidity position of the Bank remains robust with all liquidity ratios well above both internal targets and regulatory requirements.

The Group is very well capitalised, with a total capital ratio of 22.2% at the end of the quarter, taking into account the ISK 15 billion share buyback planned for the coming few months. At the end of March, the Bank paid its annual dividend to shareholders, amounting to ISK 11.9 billion or 50% of 2021 earnings.

Outlook

The Icelandic economy is firmly on a recovery path following the sharp economic contraction in the wake of the pandemic. Iceland's GDP grew by 4.3% in 2021 on the heels of a 7.1% contraction in 2020. Last year's growth was due primarily to a surge in domestic demand as both private consumption and investment increased at a relatively rapid pace. Export growth was brisk as well due both to a 44% year-on-year increase in tourist numbers and an 8% growth in goods exports. Strong import growth pulled in the opposite direction, though. Private consumption growth was supported by a decline in unemployment from over 11% at the start of the year to around 5% by year-end, as well as rising real wages and increasing housing wealth.

Short term economic trends and leading indicators point to a relatively strong start to 2022, indicating continued growth in private consumption as well as robust investment. Tourism is also recovering, with the number of foreign visitors to Iceland in the first quarter approaching similar volumes as six years ago while booking trends and flight frequency for the high season indicate a further convergence to pre-pandemic levels. Inflation has been rising in tandem with global developments, measuring 6.7% in March, and the Central Bank of Iceland has reacted to a recovering economy and worsening near-term inflation outlook by raising its policy rate to 3.75% in early May, with more rate hikes likely in the offing.

For 2022, the Bank's Chief Economist expects GDP growth to measure 4.7%. The growth will most likely be led by expanding exports as tourism rebounds and goods exports grow at a healthy pace while the pace of domestic demand growth looks set to moderate. However, the Ukraine war has dented household and business sentiment and could put a dent in near-term growth in both exports and domestic demand although the negative impact is likely to be milder than in countries closer to the conflict.

The Icelandic economy continues to rebound strongly and the outlook for the Bank's borrowers in the tourism industry continues to improve. There is however increased uncertainty in the environment due to the war in Ukraine and the global impact on supply chains and inflation. With a strong first quarter, the Group is well placed to reach the guidance level of 8-10% return of equity in 2022.

The Icelandic Government sold a 22.5% stake in the Bank in an accelerated book building process at the end of March. The sale process has been criticised in both the public and political space in Iceland. As a result, the process will be investigated by both the Central Bank and the Icelandic National Audit Office and further steps in the Government sell down will not take place until their findings are in place.

Directors' Report

Ownership

The Bank had a successful IPO in June 2021. At the end of the first quarter of 2022, the shareholders of the Bank exceeded 15 thousand, which is 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. 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 quarter in 2022, 91.2% of the Bank's shares were owned by domestic parties and 8.8% by international investors. Apart from the Government, pension funds were the largest investor group, owning 26.6% of the outstanding shares. 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 31 March 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 31 March 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 31 March 2022.

Kópavogur, 5 May 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

Consolidated Interim Income Statement

	Notes	2022 1.1-31.3	2021 1.1-31.3
Interest income calculated using the effective interest rate method		17,592	12,346
Other interest income		1,205	438
Interest expense		(9,588)	(4,594)
Net interest income	4	9,209	8,190
Fee and commission income		3,823	3,307
Fee and commission expense		(759)	(445)
Net fee and commission income	5	3,064	2,862
Net financial income (expense)	6	(95)	293
Net foreign exchange gain	7	166	130
Other operating income	8	265	123
Other net operating income		336	546
Total operating income		12,609	11,598
Salaries and related expenses	9	(3,422)	(3,574)
Other operating expenses	10	(2,412)	(2,278)
Contribution to the Depositors' and Investors' Guarantee Fund		(165)	(183)
Bank tax		(430)	(410)
Total operating expenses		(6,429)	(6,445)
Profit before net impairment on financial assets		6,180	5,153
Net impairment on financial assets	11	483	(518)
Profit before tax		6,663	4,635
Income tax expense	12	(1,463)	(1,036)
Profit for the period from continuing operations		5,200	3,599
Discontinued operations held for sale, net of income tax	13	(13)	16
Profit for the period		5,187	3,615

	Notes	2022 1.1-31.3	2021 1.1-31.3
Profit attributable to shareholders of Íslandsbanki hf.		5,187	3,617
Loss attributable to non-controlling interests		-	(2)
Profit for the period		5,187	3,615
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf.*	14	2.60	1.80

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

The notes on pages 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2022 1.1-31.3	2021 1.1-31.3
Profit for the period	5,187	3,615
Net loss on financial assets	-	(59)
Net gain (loss) on financial liabilities	203	(196)
Items that will not be reclassified to the income statement	203	(255)
Foreign currency translation	1	34
Items that may subsequently be reclassified to the income statement	1	34
Other comprehensive income (expense) for the period, net of tax	204	(221)
Comprehensive income for the period	5,391	3,394
Comprehensive income attributable to shareholders of Íslandsbanki hf.	5,391	3,401
Comprehensive expense attributable to non-controlling interests	-	(7)
Comprehensive income for the period	5,391	3,394

The notes on pages 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2022	31.12.2021
Assets			
Cash and balances with Central Bank	19	77,799	113,667
Loans to credit institutions	20	73,220	43,988
Bonds and debt instruments	15	130,700	132,289
Derivatives	21	4,245	2,445
Loans to customers	22	1,107,893	1,086,327
Shares and equity instruments	15	28,655	31,677
Investments in associates	24	767	939
Property and equipment	25	6,911	7,010
Intangible assets		3,327	3,351
Other assets	26	11,170	5,784
Non-current assets and disposal groups held for sale	27	1,668	1,344
Total Assets		1,446,355	1,428,821
Liabilities			
Deposits from Central Bank and credit institutions	28	10,949	13,384
Deposits from customers	29	761,471	744,036
Derivative instruments and short positions	21	11,013	9,467
Debt issued and other borrowed funds	31	406,845	402,226
Subordinated loans	32	34,139	35,762
Tax liabilities		6,980	6,432
Other liabilities	33	16,802	12,848
Non-current liabilities and disposal groups held for sale		955	956
Total Liabilities		1,249,154	1,225,111
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		6,605	6,086
Retained earnings		125,596	132,624
Total Shareholders' Equity		197,201	203,710
Non-controlling interests		-	-
Total Equity		197,201	203,710
Total Liabilities and Equity		1,446,355	1,428,821

The notes on pages 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Statements first quarter 2022 7 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								3,617	3,617	(2)	3,615
Net loss on financial assets					(38)				(38)	(21)	(59)
Net loss on financial liabilities						(196)			(196)		(196)
Foreign currency translation							18		18	16	34
Comprehensive income (expense) for the period	-	-	-	-	(38)	(196)	18	3,617	3,401	(7)	3,394
Dividends paid								(3,400)	(3,400)		(3,400)
Restricted due to capitalised development costs				(72)				72	-		-
Restricted due to fair value changes				461				(461)	-		-
Restricted due to associates				(1)				1	-		-
Changes in non-controlling interests								(23)	(23)	(704)	(727)
Equity as at 31 March 2021	10,000	55,000	2,500	3,944	534	(434)	(191)	113,335	184,688	783	185,471
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								5,187	5,187		5,187
Net gain (loss) on financial liabilities						413		(210)	203		203
Foreign currency translation							1		1		1
Comprehensive income for the period	-	-	-	-	-	413	1	4,977	5,391	-	5,391
Dividends paid								(11,900)	(11,900)		(11,900)
Restricted due to capitalised development costs				(73)				73	-		-
Restricted due to fair value changes				176				(176)	-		-
Restricted due to associates				2				(2)	-		-
Equity as at 31 March 2022	10,000	55,000	2,500	4,745	-	(641)	1	125,596	197,201	-	197,201

Authorised share capital of the Bank is 2,000 million ordinary shares of ISK 5 each. At 31 March 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 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2022 1.1-31.3	2021 1.1.-31.3
Profit for the period	5,187	3,615
Non-cash items included in profit for the period*	(9,374)	(6,648)
Changes in operating assets and liabilities*	(33,600)	(7,594)
Interest received	15,156	13,239
Interest paid	(6,194)	(4,330)
Dividends received	673	29
Paid income tax, special financial activities tax, and bank tax	(1,380)	(1,096)
Net cash used in operating activities	(29,532)	(2,785)
Net investment in an associated company	225	-
Proceeds from sales of property and equipment	9	15
Purchase of property and equipment	(31)	(30)
Purchase of intangible assets	(106)	(19)
Net cash provided by (used in) investing activities	97	(34)
Proceeds from borrowings	59,481	32,683
Repayment and repurchases of borrowings	(48,626)	(11,786)
Repayment of lease liabilities	(113)	(102)
Dividends paid	(11,701)	(2,652)
Subsidiary's capital decrease and share buyback paid to non-controlling interests	-	(704)
Net cash (used in) provided by financing activities	(959)	17,439
Net increase (decrease) in cash and cash equivalents	(30,394)	14,620
Effects of foreign exchange rate changes	(72)	(54)
Cash and cash equivalents at the beginning of the year	130,597	115,668
Cash and cash equivalents at the end of the period	100,131	130,234

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,538	3,695
Cash balances with Central Bank	19	74,261	85,053
Bank accounts	20	31,606	51,225
Mandatory reserve, special restricted and pledged balances with Central Bank	19	(9,274)	(9,739)
Cash and cash equivalents at the end of the period		100,131	130,234

*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 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Statements first quarter 2022 9 Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2022 1.1-31.3	2021 1.1.-31.3
Net interest income	(9,209)	(8,190)
Depreciation, amortisation, and write-offs	339	345
Share of profit, gain from sale and reversal of impairment of associates	(160)	(66)
Net impairment on financial assets	(449)	556
Foreign exchange gain	(166)	(130)
Net gain from sales of property and equipment	(2)	(7)
Unrealised fair value gain recognised in profit or loss	(1,661)	(603)
Discontinued operations held for sale, net of income tax	13	(16)
Bank tax	430	410
Income tax expense	1,463	1,036
Other changes	28	17
Non-cash items included in profit for the period	(9,374)	(6,648)

Mandatory reserve, special restricted and pledged balances with Central Bank	(17)	(190)
Loans to credit institutions	(24,784)	(10,283)
Bonds and debt instruments	1,243	23,990
Loans to customers	(23,949)	(31,034)
Shares and equity instruments	2,275	(11,142)
Other assets	(5,393)	(12,613)
Non-current assets and liabilities held for sale	(340)	278
Deposits from Central Bank and credit institutions	(2,154)	(7,777)
Deposits from customers	19,547	21,267
Derivative instruments and short positions	(3,771)	2,557
Other liabilities	3,743	17,353
Changes in operating assets and liabilities	(33,600)	(7,594)

Significant non-cash transactions 1 January to 31 March 2022

The Bank paid dividends to shareholders amounting to ISK 11,900 million, of which ISK 199 million were withheld for capital income tax due in the second quarter 2022.

Significant non-cash transactions 1 January to 31 March 2021

The Bank paid dividends to shareholders amounting to ISK 3,400 million of which ISK 748 million were withheld for capital income tax due in May 2021.

The notes on pages 11 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

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 quarter 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 interim financial statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 5 May 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 when otherwise indicated. At 31 March 2022 the exchange rate of the ISK against the USD was 127.92 and for the EUR 142.00 (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 consolidated 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. The 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 quarter of 2022, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast on 26 January 2022, with an updated inflation forecast from 16 March 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 war in Ukraine. The table below shows macroeconomic indicators from the new forecast.

2. Cont'd

Change in economic indicators %	Estimate 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025
Economic growth	4.1	4.7	3.2	2.6	2.6
Housing prices in Iceland	15.9	7.8	3.5	3.5	3.5
Purchasing power	3.7	2.5	3.5	2.4	2.4
ISK exchange rate index	(2.4)	(3.4)	(4.7)	(0.3)	0.0
Policy rate, Central Bank of Iceland	1.1	2.7	3.5	3.9	3.9
Inflation	5.1	6.9	4.1	2.8	2.6
Capital formation	11.9	3.1	2.2	3.5	3.5
thereof capital formation in industry	19.7	(1.5)	1.7	3.5	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. Therefore, it was 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 104,547 million at end of first quarter 2022, resulting in a expected credit losses of ISK 4,461 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%-45%-35%, as this would best represent the probability-weighted average over all possible scenarios. This amounts to a shift of 5% from the baseline to the optimistic scenario compared to year-end 2021. 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 400 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 200 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.

Notes to the Condensed Consolidated Interim Financial Statements

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., Allianz Ísland hf. and other less significant subsidiaries (see Note 24).

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 31 March 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	3,291	3,133	2,416	403	(47)	9,196	13	9,209
Net fee and commission income	847	518	1,072	(67)	-	2,370	694	3,064
Other net operating income	8	9	222	70	49	358	(22)	336
Total operating income	4,146	3,660	3,710	406	2	11,924	685	12,609
Salaries and related expenses	(600)	(483)	(447)	(71)	(1,605)	(3,206)	(216)	(3,422)
Other operating expenses	(598)	(271)	(245)	(124)	(1,074)	(2,312)	(100)	(2,412)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(32)	(4)	-	-	(165)	-	(165)
Bank tax	(189)	(89)	(127)	(22)	(3)	(430)	-	(430)
Net impairment on financial assets	(67)	413	203	(10)	-	539	(56)	483
Cost allocation	(1,171)	(847)	(814)	148	2,684	-	-	-
Profit before tax	1,392	2,351	2,276	327	4	6,350	313	6,663
Income tax expense	(411)	(634)	(625)	281	(2)	(1,391)	(72)	(1,463)
Profit for the period from continuing operations	981	1,717	1,651	608	2	4,959	241	5,200
Net segment revenue from external customers	7,530	4,075	5,052	(4,765)	32	11,924	685	12,609
Net segment revenue from other segments	(3,384)	(415)	(1,342)	5,171	(30)	-	-	-
Fee and commission income	1,395	531	1,121	79	-	3,126	697	3,823
Depreciation, amortisation, and write-offs	(43)	(14)	(1)	-	(277)	(335)	(4)	(339)
At 31 March 2022								
Loans to customers	517,415	244,079	346,710	69	-	1,108,273	(380)	1,107,893
Other assets	4,782	2,044	3,651	317,384	9,569	337,430	1,032	338,462
Total segment assets	522,197	246,123	350,361	317,453	9,569	1,445,703	652	1,446,355
Deposits from customers	342,666	236,011	137,387	49,301	-	765,365	(3,894)	761,471
Other liabilities	3,422	1,498	5,155	469,797	5,757	485,629	2,054	487,683
Total segment liabilities	346,088	237,509	142,542	519,098	5,757	1,250,994	(1,840)	1,249,154
Allocated equity	38,165	33,954	59,078	62,620	892	194,709	2,492	197,201
Risk exposure amount	255,279	223,878	395,273	64,555	6,248	945,233	88	945,321

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 31 March 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	2,859	2,531	2,111	730	(46)	8,185	5	8,190
Net fee and commission income	922	518	1,068	(39)	(24)	2,445	417	2,862
Other net operating income	16	14	131	257	46	464	82	546
Total operating income	3,797	3,063	3,310	948	(24)	11,094	504	11,598
Salaries and related expenses	(595)	(479)	(429)	(65)	(1,803)	(3,371)	(203)	(3,574)
Other operating expenses	(601)	(258)	(215)	(43)	(1,074)	(2,191)	(87)	(2,278)
Contribution to the Depositors' and Investors' Guarantee Fund	(145)	(34)	(4)	-	-	(183)	-	(183)
Bank tax	(164)	(86)	(128)	(28)	(4)	(410)	-	(410)
Net impairment on financial assets	105	(167)	(441)	(16)	-	(519)	1	(518)
Cost allocation	(1,212)	(812)	(812)	62	2,774	-	-	-
Profit (loss) before tax	1,185	1,227	1,281	858	(131)	4,420	215	4,635
Income tax expense	(351)	(341)	(366)	34	33	(991)	(45)	(1,036)
Profit (loss) for the period from continuing operations	834	886	915	892	(98)	3,429	170	3,599
Net segment revenue from external customers	5,818	3,518	4,565	(2,811)	4	11,094	504	11,598
Net segment revenue from other segments	(2,021)	(455)	(1,255)	3,759	(28)	-	-	-
Fee and commission income	1,267	527	1,078	18	-	2,890	417	3,307
Depreciation, amortisation, and write-offs	(40)	(18)	(4)	-	(280)	(342)	(3)	(345)

At 31 March 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	450,552	234,003	344,662	198	-	1,029,415	-	1,029,415
Other assets	3,103	2,092	8,685	330,551	10,810	355,241	579	355,820
Total segment assets	453,655	236,095	353,347	330,749	10,810	1,384,656	579	1,385,235
Deposits from customers	334,012	197,053	136,903	33,501	-	701,469	(2,894)	698,575
Other liabilities	1,101	1,340	11,878	480,131	5,813	500,263	926	501,189
Total segment liabilities	335,113	198,393	148,781	513,632	5,813	1,201,732	(1,968)	1,199,764
Allocated equity	35,429	37,526	61,636	47,406	927	182,924	2,547	185,471
Risk exposure amount	225,338	236,918	404,664	70,387	6,244	943,551	11,161	954,712

Amounts are in ISK million

3. Cont'd

Subsidiaries, eliminations & adjustments

1 January to 31 March 2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	2	4	7	-	13
Net fee and commission income	425	249	(8)	28	694
Other net operating income	11	5	70	(108)	(22)
Total operating income	438	258	69	(80)	685
Salaries and related expenses	(155)	(48)	(13)	-	(216)
Other operating expenses	(60)	(112)	(36)	108	(100)
Net impairment on financial assets	-	-	-	(56)	(56)
Profit (loss) before tax	223	98	20	(28)	313
Income tax expense	(44)	(21)	-	(7)	(72)
Profit (loss) for the period from continuing operations	179	77	20	(35)	241
Net segment revenue from external customers	503	281	1	(100)	685
Net segment revenue from other segments	(65)	(23)	68	20	-
Fee and commission income	553	249	-	(105)	697
Depreciation, amortisation, and write-offs	-	-	(2)	(2)	(4)
At 31 March 2022					
Total assets	3,194	1,440	7,310	(11,292)	652
Total liabilities	491	725	1,398	(4,454)	(1,840)
Total equity	2,703	715	5,912	(6,838)	2,492

1 January to 31 March 2021	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	-	3	3	(1)	5
Net fee and commission income	323	118	(7)	(17)	417
Other net operating income	107	12	4	(41)	82
Total operating income	430	133	-	(59)	504
Salaries and related expenses	(155)	(48)	-	-	(203)
Other operating expenses	(48)	(75)	-	36	(87)
Net impairment on financial assets	-	-	-	1	1
Profit (loss) before tax	227	10	-	(22)	215
Income tax expense	(46)	(2)	-	3	(45)
Profit (loss) for the period from continuing operations	181	8	-	(19)	170
Net segment revenue from external customers	495	113	-	(104)	504
Net segment revenue from other segments	(65)	20	-	45	-
Fee and commission income	442	118	-	(143)	417
Depreciation, amortisation, and write-offs	-	(1)	-	(2)	(3)
At 31 March 2021					
Total assets	2,486	1,340	7,080	(10,327)	579
Total liabilities	326	506	37	(2,837)	(1,968)
Total equity	2,160	834	7,043	(7,490)	2,547

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Net interest income

	2022 1.1-31.3	2021 1.1-31.3
Cash and balances with Central Bank	398	105
Loans to credit institutions	18	21
Loans to customers	17,176	12,220
Financial assets mandatorily at fair value through profit or loss	1,203	436
Other assets	2	2
Interest income	18,797	12,784
Deposits from Central Bank and credit institutions	(40)	(93)
Deposits from customers	(3,472)	(1,195)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(170)	(185)
Debt issued and other borrowed funds at amortised cost	(4,937)	(2,651)
Subordinated loans	(279)	(163)
Other liabilities*	(690)	(307)
Interest expense	(9,588)	(4,594)
Net interest income	9,209	8,190

*Thereof is lease liabilities' interest expense amounting to ISK 21 million (2021: ISK 20 million).

5. Net fee and commission income

	2022 1.1-31.3	2021 1.1-31.3
Asset management	787	655
Investment banking and brokerage	892	770
Payment processing	1,233	945
Loans and guarantees	556	594
Other fee and commission income	355	343
Fee and commission income	3,823	3,307
Brokerage	(107)	(90)
Clearing and settlement	(561)	(349)
Other fee and commission expense	(91)	(6)
Fee and commission expense	(759)	(445)
Net fee and commission income	3,064	2,862

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

6. Net financial income (expense)

	2022 1.1-31.3	2021 1.1-31.3
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss	(1,683)	181
Net gain on financial liabilities designated as at fair value through profit or loss	1,588	111
Net gain on fair value hedges	-	1
Net financial income (expense)	(95)	293

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

6. Cont'd

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

	2022 1.1-31.3	2021 1.1-31.3
Shares and related derivatives	(517)	(373)
Dividend income	673	29
Bonds and related derivatives	(1,082)	651
Other derivatives	(757)	(126)
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss	(1,683)	181
Debt issued and other borrowed funds designated as at fair value through profit or loss	1,588	111
Net gain on financial liabilities designated as at fair value through profit or loss	1,588	111
Clean fair value gain on interest rate swaps designated as hedging instruments	(180)	(144)
Fair value loss on bonds issued by the Group attributable to interest rate risk	180	145
Net gain on fair value hedges	-	1

7. Net foreign exchange gain

	2022 1.1-31.3	2021 1.1-31.3
Cash and balances with Central Bank	(72)	(54)
Loans at amortised cost	(7,192)	(9,437)
Financial assets mandatorily at fair value through profit or loss	(3,888)	(4,891)
Other assets	(4)	(2)
Net foreign exchange loss for assets	(11,156)	(14,384)
Deposits	3,032	2,700
Debt issued and other borrowed funds designated as at fair value through profit or loss	3,646	4,853
Debt issued and other borrowed funds at amortised cost	3,016	5,032
Subordinated loans	1,628	1,929
Net foreign exchange gain for liabilities	11,322	14,514
Net foreign exchange gain	166	130

8. Other operating income

	2022 1.1-31.3	2021 1.1-31.3
Net gain from sale of associates	158	-
Share of profit of associates, net of income tax	2	6
Reversal of impairment for an associate	-	60
Legal fees	13	18
Rental income	9	11
Other net operating income	83	28
Other operating income	265	123

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

9. Salaries and related expenses

	2022 1.1-31.3	2021 1.1-31.3
Salaries	2,621	2,761
Contributions to pension funds	409	421
Social security charges and financial activities tax*	356	350
Other salary-related expenses	36	42
Salaries and related expenses	3,422	3,574

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

10. Other operating expenses

	2022 1.1-31.3	2021 1.1-31.3
Professional services	409	400
Software and IT expenses	1,160	1,038
Real estate and office equipment	123	162
Depreciation, amortisation, and write-offs	339	345
Other administrative expenses	381	333
Other operating expenses	2,412	2,278

11. Net impairment on financial assets

	2022 1.1-31.3	2021 1.1-31.3
Net change in expected credit losses, on-balance sheet items	607	(455)
Net change in expected credit losses, off-balance sheet items	(124)	(63)
Net impairment on financial assets	483	(518)

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 quarter 2022 is 21.9% (2021: 22.4%).

	2022 1.1-31.3	2021 1.1-31.3
Current tax expense excluding discontinued operations	695	1,450
Special financial activities tax	128	363
Adjustments in prior year's calculated income tax	1	2
Changes in deferred tax assets and deferred tax liabilities	639	(779)
Income tax recognised in the income statement	1,463	1,036
Income tax recognised in other comprehensive income	(73)	-

Amounts are in ISK million

12. Cont'd

	2022 1.1-31.3		2021 1.1-31.3	
Profit before tax	6,663		4,635	
20% income tax calculated on the profit for the period	1,333	20.0%	927	20.0%
Special financial activities tax	128	1.9%	363	7.8%
Income not subject to tax	(98)	(1.5%)	(326)	(7.0%)
Non-deductible expenses	91	1.4%	82	1.8%
Other differences	9	0.1%	(10)	(0.2%)
Effective income tax expense	1,463	21.9%	1,036	22.4%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

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

	2022 1.1-31.3	2021 1.1-31.3
Net profit (loss) from foreclosed assets	(10)	27
Net loss from disposal groups held for sale	(5)	(6)
Income tax expense	2	(5)
Discontinued operations held for sale, net of income tax	(13)	16

14. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2022 1.1-31.3	2021 1.1-31.3	2022 1.1-31.3	2021 1.1-31.3	2022 1.1-31.3	2021 1.1-31.3
Profit (loss) attributable to shareholders of the Bank	5,200	3,601	(13)	16	5,187	3,617
Weighted average number of outstanding shares*	2,000	2,000	2,000	2,000	2,000	2,000
Basic earnings per share	2.60	1.80	(0.01)	0.01	2.59	1.81

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

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 31 March 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	77,799	77,799
Loans to credit institutions	-	-	-	73,220	73,220
Listed bonds and debt instruments	108,329	-	-	-	108,329
Listed bonds and debt instruments used for economic hedging	22,333	-	-	-	22,333
Unlisted bonds and debt instruments	38	-	-	-	38
Derivatives	3,986	259	-	-	4,245
Loans to customers	-	-	-	1,107,893	1,107,893
Listed shares and equity instruments	3,475	-	-	-	3,475
Listed shares and equity instruments used for economic hedging	21,095	-	-	-	21,095
Unlisted shares and equity instruments	4,085	-	-	-	4,085
Other financial assets	-	-	-	10,930	10,930
Total financial assets	163,341	259	-	1,269,842	1,433,442
Deposits from Central Bank and credit institutions	-	-	-	10,949	10,949
Deposits from customers	-	-	-	761,471	761,471
Derivative instruments and short positions	11,013	-	-	-	11,013
Debt issued and other borrowed funds	-	42,807	98,237	265,801	406,845
Subordinated loans	-	-	-	34,139	34,139
Other financial liabilities	-	-	-	14,544	14,544
Total financial liabilities	11,013	42,807	98,237	1,086,904	1,238,961

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	-	-	-	5,573	5,573
Total financial assets	165,866	545	-	1,249,555	1,415,966
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	-	-	-	10,457	10,457
Total financial liabilities	9,467	45,036	89,460	1,071,369	1,215,332

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 31 March 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 31 March 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	130,662	-	38	130,700
Derivatives	-	4,245	-	4,245
Shares and equity instruments	24,570	-	4,085	28,655
Total financial assets	155,232	4,245	4,123	163,600
Short positions	905	-	-	905
Derivative instruments	-	10,108	-	10,108
Debt issued and other borrowed funds designated as at FVTPL	98,237	-	-	98,237
Total financial liabilities	99,142	10,108	-	109,250

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	-	4
Share capital reduction	-	(12)
Net gain (loss) on financial instruments recognised in profit or loss	(12)	68
Transfers to Level 1 or 2	-	(27)
Fair value at 31 March 2022	38	4,085

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 31 March 2022 the Group's Level 3 shares amounted to ISK 4,085 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 2,071 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 2,014 million.

At 31 March 2022 the Group's Level 3 bonds amounted to ISK 38 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.

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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 31 March 2022 **Effect on profit or (loss):**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	38	69	20	(14)	(38)
Level 3 Shares and equity instruments	4,085	3,117	1,334	(1,022)	(1,877)

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 31 March 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	77,799	-	77,799	77,799
Loans to credit institutions	-	73,220	-	73,220	73,220
Loans to customers	-	-	1,106,538	1,106,538	1,107,893
Other financial assets	-	10,930	-	10,930	10,930
Total financial assets	-	161,949	1,106,538	1,268,487	1,269,842
Deposits from Central Bank and credit institutions	-	11,003	-	11,003	10,949
Deposits from customers	-	761,515	-	761,515	761,471
Debt issued and other borrowed funds	233,507	89,235	-	322,742	308,608
Subordinated loans	-	34,539	-	34,539	34,139
Other financial liabilities	-	14,544	-	14,544	14,544
Total financial liabilities	233,507	910,836	-	1,144,343	1,129,711

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	-	5,573	-	5,573	5,573
Total financial assets	-	163,228	1,089,920	1,253,148	1,249,555
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	-	10,457	-	10,457	10,457
Total financial liabilities	225,763	902,888	-	1,128,651	1,116,405

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 31 March 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	4,245	-	4,245	(1,455)	(1,312)	(119)	1,359	-	4,245

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At 31 December 2021	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Reverse repurchase agreements ..	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

At 31 March 2022	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Derivative instruments and short positions	11,013	-	11,013	(1,455)	(2,276)	-	7,282	-	11,013
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

	31.3.2022	31.12.2021
Cash on hand	3,538	3,882
Balances with Central Bank	64,987	100,528
Included in cash and cash equivalents	68,525	104,410
Balances pledged as collateral to Central Bank	589	589
Mandatory reserve deposits with Central Bank	8,685	8,668
Cash and balances with Central Bank	77,799	113,667

20. Loans to credit institutions

	31.3.2022	31.12.2021
Money market loans	41,571	17,759
Bank accounts	31,606	26,187
Other loans	43	42
Loans to credit institutions	73,220	43,988

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21. Derivative instruments and short positions

At 31 March 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	2,190	95,594	4,553	182,252
Cross-currency interest rate swaps	247	16,484	631	15,584
Equity forwards	355	5,173	3,182	14,210
Foreign exchange forwards	72	6,816	845	27,040
Foreign exchange swaps	603	29,526	836	33,039
Bond forwards	778	24,344	61	3,145
Derivatives	4,245	177,937	10,108	275,270
Short positions in listed bonds	-	-	905	624
Total	4,245	177,937	11,013	275,894

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 31 March 2022 the total fair value of the interest rate swaps was positive and amounted to ISK 259 million (2021: ISK 545 million) and their total notional amount was ISK 42,600 million (2021: ISK 44,280 million).

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22. Loans to customers

At 31 March 2022	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
Individuals	527,165	5,671	5,617	(1,469)	(170)	(567)	536,247
Commerce and services	122,107	51,745	4,752	(936)	(2,477)	(2,106)	173,085
Construction	41,524	1,785	317	(414)	(67)	(30)	43,115
Energy	9,488	-	-	(38)	-	-	9,450
Financial services	1,867	1	-	(8)	-	-	1,860
Industrial and transportation	75,028	9,441	6,364	(298)	(170)	(2,194)	88,171
Investment companies	22,277	2,678	672	(229)	(229)	(45)	25,124
Public sector and non-profit organisations	9,697	105	1	(17)	(1)	(1)	9,784
Real estate	106,020	5,778	2,342	(473)	(116)	(520)	113,031
Seafood	105,280	2,812	62	(103)	(14)	(11)	108,026
Loans to customers	1,020,453	80,016	20,127	(3,985)	(3,244)	(5,474)	1,107,893

At 31 December 2021	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
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	2	-	-	2
Loans to credit institutions	127	-	-	127
Loans to customers	3,985	3,244	5,474	12,703
Other financial assets	13	5	-	18
Off-balance sheet loan commitments and financial guarantees	622	262	241	1,125
At 31 March 2022	4,749	3,511	5,715	13,975
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	284	(244)	(40)	-
Transfer to Stage 2	(79)	162	(83)	-
Transfer to Stage 3	(12)	(99)	111	-
Net remeasurement of loss allowance	(765)	(338)	(453)	(1,556)
New financial assets originated or purchased	975	80	1,200	2,255
Derecognitions and maturities	(248)	(121)	(1,075)	(1,444)
Write-offs	-	-	(237)	(237)
Recoveries of amounts previously written off	-	-	36	36
Foreign exchange	-	-	(9)	(9)
Unwinding of interest	-	-	93	93
At 31 March 2022	3,985	3,244	5,474	12,703

	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	12	(11)	(1)	-
Transfer to Stage 2	(2)	5	(3)	-
Transfer to Stage 3	-	(1)	1	-
Net remeasurement of loss allowance	(14)	(33)	(19)	(66)
New loan commitments and financial guarantees	106	16	108	230
Derecognitions and maturities	(25)	(12)	(3)	(40)
At 31 March 2022	622	262	241	1,125
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 subsidiaries and associates

Investments in subsidiaries		31.3.2022	31.12.2021
Íslandssjóðir hf., a fund management company, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
Allianz Ísland hf., an insurance agent, Dalshraun 3, 220 Hafnarfjörður	Iceland	100%	100%

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

Investments in associates		31.3.2022	31.12.2021
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%

25. Property and equipment

At 31 March 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	5	8	26	39
Disposals and write-offs during the period	-	-	(11)	(11)
Remeasurement	-	79	-	79
Historical cost	3,106	5,008	3,011	11,125
Balance at the beginning of the year	(1,360)	(1,234)	(1,414)	(4,008)
Depreciation during the period	(5)	(115)	(90)	(210)
Disposals and write-offs during the period	-	-	4	4
Accumulated depreciation	(1,365)	(1,349)	(1,500)	(4,214)
Carrying amount	1,741	3,659	1,511	6,911

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

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26. Other assets

	31.3.2022	31.12.2021
Receivables	1,120	1,582
Unsettled securities transactions	9,036	3,412
Accruals	272	252
Prepaid expenses	538	332
Deferred tax assets	93	94
Other assets	111	112
Other assets	11,170	5,784

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

	31.3.2022	31.12.2021
Repossessed collateral:		
Land and buildings	602	269
Assets of disposal groups held for sale	1,066	1,075
Non-current assets and disposal groups held for sale	1,668	1,344

28. Deposits from Central Bank and credit institutions

	31.3.2022	31.12.2021
Deposits from credit institutions	10,949	13,233
Repurchase agreements with Central Bank	-	151
Deposits from Central Bank and credit institutions	10,949	13,384

29. Deposits from customers

	31.3.2022	31.12.2021
Demand deposits and deposits with maturity up to 3 months	678,782	658,543
Term deposits with maturity of more than 3 months	82,689	85,493
Deposits from customers	761,471	744,036

	31.3.2022		31.12.2021	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	36,525	5%	10,750	1%
Municipalities	10,033	1%	7,125	1%
Companies	362,609	48%	371,893	50%
Individuals	352,304	46%	354,268	48%
Deposits from customers	761,471	100%	744,036	100%

Amounts are in ISK million

30. Pledged assets

	31.3.2022	31.12.2021
Loans to customers	293,239	289,544
Financial assets pledged as collateral with Central Bank	5,723	7,440
Loans to credit institutions	3,598	1,861
Cash and balances with Central Bank pledged against Covered Bonds	3,100	2,200
Pledged assets against liabilities	305,660	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		Interest	31.3.2022	31.12.2021
Covered bonds in ISK	2015	2023	At maturity	Fixed rates	39,171	39,020
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	26,033	25,750
Covered bonds in ISK	2022	2027	Amortising	Floating rates	2,211	-
Covered bonds in ISK - CPI-linked	2015	2022	At maturity	Fixed rates	18,968	18,722
Covered bonds in ISK - CPI-linked	2012	2024	At maturity	Fixed rates	38,038	38,231
Covered bonds in ISK - CPI-linked	2015	2026	At maturity	Fixed rates	30,692	29,833
Covered bonds in ISK - CPI-linked	2019	2028	Amortising	Fixed rates	24,546	25,902
Covered bonds in ISK - CPI-linked	2017	2030	At maturity	Fixed rates	28,112	27,363
Covered bonds					207,771	204,821
Senior unsecured bonds in NOK	2019	2022	At maturity	Floating rates	-	14,841
Senior unsecured bonds in EUR*	2019	2022	At maturity	Fixed rates	14,372	44,803
Senior unsecured bonds in EUR*	2020	2023	At maturity	Fixed rates	42,434	44,657
Senior unsecured bonds in EUR**	2018	2024	At maturity	Fixed rates	42,807	45,036
Senior unsecured bonds in NOK	2019	2024	At maturity	Fixed rates	5,887	6,122
Senior unsecured bonds in ISK	2019	2024	Amortising	Floating rates	1,920	2,100
Senior unsecured bonds in NOK	2021	2024	At maturity	Floating rates	2,188	2,211
Senior unsecured bonds in SEK	2021	2024	At maturity	Floating rates	3,433	3,597
Senior unsecured bonds in NOK	2021	2024	At maturity	Floating rates	6,971	7,037
Senior unsecured bonds in SEK	2021	2024	At maturity	Floating rates	2,751	2,882
Senior unsecured bonds in ISK	2020	2025	At maturity	Fixed rates	6,668	6,603
Senior unsecured bonds in SEK	2021	2025	At maturity	Floating rates	6,178	6,472
Senior unsecured bonds in NOK	2021	2025	At maturity	Floating rates	10,932	11,044
Senior unsecured bonds in EUR*	2022	2025	At maturity	Fixed rates	41,431	-
Unsecured bonds					187,972	197,405
Other unsecured loans					11,102	-
Other borrowed funds					11,102	-
Debt issued and other borrowed funds					406,845	402,226

The Group repurchased own bonds during the period amounting to ISK 29,596 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 31 March 2022 the total carrying amount of the bonds amounted to ISK 98,237 million and included in the amount are negative fair value changes amounting to ISK 1,123 million. The carrying amount of the bonds at 31 March 2022 was ISK 1,867 million lower than the contractual amount due at maturity.

**The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 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 31 March 2022 the total carrying amount of the bond issuance amounted to ISK 42,807 million and included in the amount are fair value changes amounting to ISK 173 million.

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

32. Subordinated loans

	Issued	Maturity	Callable	Interest	31.3.2022	31.12.2021
Subordinated loans in SEK	2017	2027	2022	Floating, STIBOR + 2.0%	6,861	10,786
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	6,837	7,187
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	10,296	7,163
Tier 2 subordinated loans					23,994	25,136
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	10,145	10,626
Additional Tier 1 subordinated loans					10,145	10,626
Subordinated loans					34,139	35,762

33. Other liabilities

	31.3.2022	31.12.2021
Accruals	2,776	2,463
Lease liabilities	3,812	3,838
Provision for effects of court rulings	193	288
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,125	1,001
Withholding tax	1,067	1,288
Unsettled securities transactions	5,377	2,005
Sundry liabilities	2,452	1,965
Other liabilities	16,802	12,848

34. Custody assets

	31.3.2022	31.12.2021
Custody assets - not managed by the Group	3,451,417	3,411,059

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

35. Íslandsbanki's shareholders

The following table shows shareholders holding more than 1% of Íslandsbanki's shares:		31.3.2022	31.12.2021
The Icelandic Government	Iceland	42.50%	65%
LSR Pension Fund	Iceland	6.03%	4.08%
Gildi Pension Fund	Iceland	5.07%	3.14%
Capital Group	USA	5.06%	4.35%
Live Pension Fund	Iceland	4.57%	3.67%
Brú Pension Fund	Iceland	2.01%	0.76%
Arion Banki hf.	Iceland	2.01%	0.59%
Stapi Pension Fund	Iceland	1.58%	1.03%
Iceland Funds	Iceland	1.56%	0.94%
Landsbankinn hf.	Iceland	1.48%	0.73%
RWC Asset Management LLP	UK	1.28%	0.77%
Lífsverk Pension Fund	Iceland	1.18%	0.13%
Jakob Valgeir ehf.*	Iceland	1.02%	-
Frjálsi Pension Fund	Iceland	1.02%	0.32%
Other shareholders		23.63%	14.49%
Total		100%	100%

At 31 March 2022 the number of shareholders of the Bank was around 15,300 (2021: around 15,700). At 31 March 2022, 91.2% of the Bank's shares were owned by domestic parties and 8.8% by international investors (2021: 92% domestic parties and 8% international investors).

At 31 March 2022 the Bank's employees and related parties of the employees, not including board members, held a shareholding of 0.26% in the Bank (2021: 0.22%).

*Beneficial owners: Björg Hildur Daðadóttir, Guðbjartur Flosason and Brynjólfur Flosason.

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 Icelandic State Financial Investments are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

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

The Group's associate is also defined as related party.

The Group's products and services are offered to the Icelandic Government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner the Group entities purchase products and services from government-related entities under generally accepted commercial terms. Transactions with related parties were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Cash and balances with the Central Bank are disclosed under Note 19 and Deposits from the Central Bank are disclosed under Note 28.

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 31 March 2022	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with significant influence over the Group	-	27,391	(27,391)	2
Board of Directors, key management personnel and other related parties	467	438	29	81
Associated companies	2	142	(140)	207
Balances with related parties	469	27,971	(27,502)	290

Amounts are in ISK million

36. Cont'd

1 January - 31 March 2022	Interest income	Interest expense	Other income	Other expense
Shareholders with significant influence over the Group	-	4	237	-
Board of Directors, key management personnel and other related parties	7	5	1	1
Associated companies	-	1	-	365
Transactions with related parties	7	10	238	366

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 - 31 March 2021	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	4	-	-	-
Associated companies	-	-	-	386
Transactions with related parties	4	-	-	386

At 31 March 2022 total of ISK 2 million (at year-end 2021: ISK 1 million) were recognised as Stage 1 expected credit losses. 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 that had been scheduled on 18 May 2022 was postponed and is now 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.

Amounts are in ISK million

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 case 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 cost 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 the court rules that certain provisions of their residential mortgages, governing variable interest rates, be deemed illegal and unenforceable and demand the repayment any of 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 the 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 case now brought to the courts, 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 court 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. Further to this 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, that 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 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 fifth case that had been brought before the courts for this purpose, after previous cases had been dismissed. On 31 March 2022 the District Court of Reykjavík 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. The date for the oral argumentation has not been set. The Group has not recognised a provision in respect of this matter.

38. Events after the reporting period

The Group stands to receive approximately ISK 700 million on a loan that had previously been fully written off, as a result of a favourable court ruling passed in the second quarter 2022.

Notes to the Condensed Consolidated Interim Financial Statements

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. Exception from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 2,363 million are subject to 100% Government guarantee, ISK 1,182 million to 85% Government guarantee and ISK 451 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 31 March 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	77,799	-	-	-	-	-	-	-	77,799	2
Loans to credit institutions	73,220	-	-	-	-	-	-	-	73,220	127
Bonds and debt instruments	130,700	-	-	-	-	-	-	-	130,700	-
Derivatives	24,325	-	-	-	11,874	-	-	11,874	12,451	-
Loans to customers:	1,107,893	526,152	261,237	79,248	10,615	51,070	75,665	1,003,987	103,906	12,703
Individuals	536,247	478,095	9,064	22	303	15,731	158	503,373	32,874	2,206
-thereof mortgages	475,366	471,964	1,462	-	227	-	-	473,653	1,713	987
Commerce and services	173,085	13,587	68,124	2,212	571	25,769	25,418	135,681	37,404	5,519
Construction	43,115	14,426	20,605	2	553	2,699	2,451	40,736	2,379	511
Energy	9,450	28	7,655	-	15	6	29	7,733	1,717	38
Financial services	1,860	-	469	-	1	-	1,295	1,765	95	8
Industrial and transportation	88,171	1,732	45,491	2,363	108	6,295	14,654	70,643	17,528	2,662
Investment companies	25,124	1,492	5,295	-	8,383	60	9,212	24,442	682	503
Public sector and non-profit organisations	9,784	56	719	-	-	49	3	827	8,957	19
Real estate	113,031	16,510	90,989	5	539	370	3,276	111,689	1,342	1,109
Seafood	108,026	226	12,826	74,644	142	91	19,169	107,098	928	128
Other financial assets	10,930	-	-	-	-	-	-	-	10,930	18
Off-balance sheet items:	160,751	3,677	25,077	9,986	4,750	5	14,288	57,783	102,968	1,125
Financial guarantees	17,486	-	6,491	51	1,413	-	1,727	9,682	7,804	428
Undrawn loan commitments	54,080	3,677	9,967	3,967	3,009	5	3,627	24,252	29,828	379
Undrawn overdrafts	50,928	-	8,619	5,968	328	-	8,931	23,846	27,082	123
Credit card commitments	38,257	-	-	-	-	-	3	3	38,254	195
Total	1,585,618	529,829	286,314	89,234	27,239	51,075	89,953	1,073,644	511,974	13,975

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	5,573	-	-	-	-	-	-	-	5,573	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	1,567,653	514,330	283,192	98,693	18,288	50,536	93,289	1,058,328	509,325	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 31 March 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	418,336	1,516	-	419,852
Risk class 5-6	405,613	21,009	-	426,622
Risk class 7-8	179,510	50,805	-	230,315
Risk class 9	16,626	6,454	-	23,080
Risk class 10	-	-	20,127	20,127
Unrated	368	232	-	600
	1,020,453	80,016	20,127	1,120,596
Expected credit losses	(3,985)	(3,244)	(5,474)	(12,703)
Net carrying amount	1,016,468	76,772	14,653	1,107,893

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	77,481	998	-	78,479
Risk class 5-6	45,821	3,383	-	49,204
Risk class 7-8	21,933	6,324	-	28,257
Risk class 9	610	565	-	1,175
Risk class 10	-	-	1,652	1,652
Unrated	2,962	107	40	3,109
	148,807	11,377	1,692	161,876
Expected credit losses	(622)	(262)	(241)	(1,125)
Total	148,185	11,115	1,451	160,751

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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 31 March 2022

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	42,388	8,151	-	50,539
Group 2	-	35,343	963	36,306
Group 3	-	13,615	1,650	15,265
Group 4	-	10	2,427	2,437
	42,388	57,119	5,040	104,547
Expected credit losses	(248)	(2,672)	(1,541)	(4,461)
Net carrying amount	42,140	54,447	3,499	100,086

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	3,692	5,667	-	9,359
Group 2	-	2,397	52	2,449
Group 3	-	831	19	850
Group 4	-	-	8	8
	3,692	8,895	79	12,666
Expected credit losses	(18)	(163)	(27)	(208)
Total	3,674	8,732	52	12,458

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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44. Cont'd

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

At 31 March 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	4,952	2,400	1,472	8,824
Companies	33,869	45,968	8,709	88,546
- In the tourism quasi-sector	19,018	38,902	4,347	62,267
- Other than the tourism quasi-sector	14,851	7,066	4,362	26,279
Total	38,821	48,368	10,181	97,370

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(28)	(51)	(106)	(185)
Companies	(108)	(2,304)	(3,153)	(5,565)
- In the tourism quasi-sector	(55)	(2,025)	(1,349)	(3,429)
- Other than the tourism quasi-sector	(53)	(279)	(1,804)	(2,136)
Total	(136)	(2,355)	(3,259)	(5,750)

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 1.1-31.3	2021 1.1-31.3
Individuals	42	49
Companies	298	153
Total	340	202

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. Since the interim financial statements for the first quarter of the year are not audited, the official capital is based on reviewed own fund items at 31 December 2021.

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.

The Group's largest exposure before eligible credit risk mitigating effects is the Icelandic Government. Biggest part of the exposure is due to Icelandic Government Bonds in the Group's liquidity portfolio.

At 31 March 2022

Groups of connected clients:	Before	After
Group 1	87%	7%
Group 2	10%	10%

At 31 December 2021

Groups 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.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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 31 March 2022 and at year-end 2021.

Net stable funding ratio	31.3.2022	31.12.2021
For all currencies	123%	122%
Foreign currencies	192%	157%

Liquidity coverage ratio	31.3.2022	31.12.2021
For all currencies	195%	156%
ISK	129%	141%
Foreign currencies	235%	235%

	For all currencies		ISK		Foreign currencies	
At 31 March 2022	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	175,226	175,226	147,409	147,409	27,817	27,817
Liquid assets level 2	22,005	17,405	21,964	17,405	41	-
Total liquid assets	197,231	192,631	169,373	164,814	27,858	27,817
Deposits	626,455	166,657	544,867	136,947	81,588	29,710
Debt issued	15,660	15,660	1,253	1,253	14,407	14,407
Other outflows	73,747	33,587	57,810	30,262	15,937	3,325
Total outflows	715,862	215,904	603,930	168,462	111,932	47,442
Short-term deposits with other banks**	72,971	69,373	3,132	2,120	69,839	67,253
Other inflows	65,777	47,899	53,111	38,332	12,666	9,567
Restrictions on inflows	-	-	-	-	-	(41,240)
Total inflows	138,748	117,272	56,243	40,452	82,505	35,580
Liquidity coverage ratio		195%		129%		235%
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

Notes to the Condensed Consolidated Interim Financial Statements

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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.

	Deposits maturing within 30 days					
At 31 March 2022	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	85,137	13%	192,303	5%	73,313	350,753
Small and medium enterprises	60,016	13%	55,272	5%	5,926	121,214
Operational relationships	3,233	25%	-	5%	-	3,233
Corporations	115,807	40%	3,102	20%	31,432	150,341
Sovereigns, Central Bank and public sector entities	38,069	40%	1,108	20%	810	39,987
Pension funds	34,437	100%	-	-	16,990	51,427
Domestic financial entities	32,907	100%	-	-	9,851	42,758
Foreign financial entities	5,064	100%	-	-	7,643	12,707
Total	374,670		251,785		145,965	772,420

	Deposits maturing within 30 days					
At 31 December 2021	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

Notes to the Condensed Consolidated Interim Financial Statements

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At 31 March 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	77,799	55,141	22,658	-	-	-	-	77,799
Loans to credit institutions	73,220	28,003	45,217	-	-	-	-	73,220
Bonds and debt instruments	130,700	-	26,734	40,542	59,280	4,144	-	130,700
Loans to customers	1,107,893	1,210	82,205	106,043	301,554	616,881	-	1,107,893
Shares and equity instruments	28,655	-	-	-	-	-	28,655	28,655
Other financial assets	10,930	10,210	382	338	-	-	-	10,930
Total financial assets	1,429,197	94,564	177,196	146,923	360,834	621,025	28,655	1,429,197
Deposits from CB and credit institutions	10,949	5,013	1,220	-	7,063	-	-	13,296
Deposits from customers	761,471	634,084	70,677	39,099	26,606	28,829	-	799,295
Debt issued and other borrowed funds	406,845	-	17,167	38,776	352,984	62,513	-	471,440
Subordinated loans	34,139	-	290	829	17,554	26,057	-	44,730
Other financial liabilities:	14,544	8,209	1,815	1,175	1,877	2,047	-	15,123
Lease liabilities	3,812	-	129	387	1,829	2,047	-	4,392
Other liabilities	10,732	8,209	1,687	788	48	-	-	10,732
Total financial liabilities	1,227,948	647,306	91,169	79,879	406,084	119,446	-	1,343,884

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	-	33,448	14,975	29,700	-	-	78,123
Outflow	-	(32,411)	(13,975)	(27,108)	-	-	(73,494)
Total	-	1,037	1,000	2,592	-	-	4,629
Net settled derivatives	-	996	-	-	-	-	996
Total derivative financial assets	-	2,033	1,000	2,592	-	-	5,625
Derivative financial liabilities							
Gross settled derivatives							
Inflow	-	49,943	19,840	33,922	-	-	103,705
Outflow	-	(51,819)	(21,897)	(38,949)	-	-	(112,665)
Total	-	(1,876)	(2,057)	(5,027)	-	-	(8,960)
Net settled derivatives	-	(3,172)	-	-	-	-	(3,172)
Total derivative financial liabilities	-	(5,048)	(2,057)	(5,027)	-	-	(12,132)
Total net financial assets and financial liabilities	(552,742)	93,108	70,101	(37,631)	501,579	28,655	103,070

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
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	5,573	5,044	373	156	-	-	-	5,573
Total financial assets	1,413,521	69,802	209,295	153,087	367,938	581,722	31,677	1,413,521

Amounts are in ISK million

49. Cont'd

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
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:	10,457	4,210	1,739	1,157	1,858	2,047	-	11,011
Lease liabilities	3,838	-	129	387	1,829	2,047	-	4,392
Other liabilities	6,619	4,210	1,610	770	29	-	-	6,619
Total financial liabilities	1,205,865	631,004	91,357	123,884	363,018	112,365	-	1,321,628

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	-	49,328	14,773	33,280	-	-	97,381
Outflow	-	(54,901)	(15,854)	(36,950)	-	-	(107,705)
Total	-	(5,573)	(1,081)	(3,670)	-	-	(10,324)
Net settled derivatives	-	(2,955)	-	-	-	-	(2,955)
Total derivative financial liabilities	-	(8,528)	(1,081)	(3,670)	-	-	(13,279)
Total net financial assets and financial liabilities	(561,202)	124,719	31,511	11,087	469,357	31,677	107,149

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 all fall into the first time bucket since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

At 31 March 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	17,914	-	-	-	-	-	17,914
Undrawn loan commitments	54,459	-	-	-	-	-	54,459
Undrawn overdrafts	51,051	-	-	-	-	-	51,051
Credit card commitments	38,452	-	-	-	-	-	38,452
Total off-balance sheet liabilities	161,876	-	-	-	-	-	161,876
At 31 December 2021							
Financial guarantees	19,283	-	-	-	-	-	19,283
Undrawn loan commitments	59,061	-	-	-	-	-	59,061
Undrawn overdrafts	56,745	-	-	-	-	-	56,745
Credit card commitments	30,174	-	-	-	-	-	30,174
Total off-balance sheet liabilities	165,263	-	-	-	-	-	165,263

Amounts are in ISK million

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.

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.

	31.3.2022			31.12.2021		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	655	6.51	(0.43)	548	6.59	(0.36)
Non-indexed	107,819	0.89	(9.58)	95,996	0.91	(8.75)
Total	108,474	0.92	(10.01)	96,544	0.94	(9.11)
Trading bonds and debt instruments, short positions						
Indexed	451	10.00	0.46	215	9.00	0.20
Non-indexed	93	13.00	0.12	148	1.00	0.02
Total	544	10.51	0.58	363	5.74	0.22
Net position of trading bonds and debt instruments	107,930	0.87	(9.43)	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 31 March 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	15	61	483	(3,438)	2,790	(582)	(671)
ISK, non-indexed	20	(3)	273	(2,033)	740	(55)	(1,058)
EUR	(3)	(170)	344	(1)	-	-	170
SEK	57	(18)	-	-	-	-	39
USD	30	-	-	-	-	-	30
Other	36	(5)	1	(6)	-	-	26
Total	155	(135)	1,101	(5,478)	3,530	(637)	(1,464)

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 31 March 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	585	252	136	36	8	47	56	79	25	175	1,399
Loans to credit institutions	18,687	28,768	823	577	406	7,321	12,294	780	119	96	69,871
Bonds and debt instruments	9,252	3,837	20	-	-	3,439	10,193	-	-	-	26,741
Loans to customers	120,716	35,433	1,000	945	2,660	52	3,246	2,494	3,843	-	170,389
Shares and equity instruments	319	359	218	-	-	1,290	-	-	-	-	2,186
Other assets	229	11	3	-	-	3	5	2	-	-	253
Total assets	149,788	68,660	2,200	1,558	3,074	12,152	25,794	3,355	3,987	271	270,839
Deposits from credit institutions	7,586	710	12	-	-	-	7	2	-	-	8,317
Deposits from customers	42,779	31,969	4,145	428	418	820	3,644	4,301	297	18	88,819
Derivative instruments and short positions	-	-	-	-	-	9	-	-	-	-	9
Debt issued and other borrowed funds	142,100	11,102	-	-	-	12,362	25,978	-	-	-	191,542
Subordinated loans	-	-	-	-	-	34,139	-	-	-	-	34,139
Other liabilities	138	8	1	-	-	1	5	2	-	-	155
Total liabilities	192,603	43,789	4,158	428	418	47,331	29,634	4,305	297	18	322,981
Net on-balance sheet position	(42,815)	24,871	(1,958)	1,130	2,656	(35,179)	(3,840)	(950)	3,690	253	(52,142)
Net off-balance sheet position	42,552	(24,288)	1,787	(1,131)	(2,650)	35,051	3,855	969	(3,875)	(391)	51,879
Net position	(263)	583	(171)	(1)	6	(128)	15	19	(185)	(138)	(263)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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 31 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2022	31.12.2021
Bonds and debt instruments	1,339	1,169
Loans to customers	252,245	247,426
Total CPI-linked assets	253,584	248,595
Deposits from customers	98,698	93,806
Debt issued and other borrowed funds	140,356	140,051
Off-balance sheet exposures	11,428	14,697
Total CPI-linked liabilities	250,482	248,554
CPI imbalance	3,102	41

54. Derivatives

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

55. 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 31 March 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 30 June 2021 maintain an additional capital requirement of 2.5% of risk exposure amount. The Group’s overall capital requirement, taking into account capital buffers, is 17.8%. 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%.

	31.3.2022	31.12.2021
Own funds		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	6,605	6,086
Retained earnings	125,596	132,624
First quarter profit	(5,187)	-
IFRS 9 reversal due to transitional rules	1,321	2,768
Fair value changes due to own credit standing	641	1,054
Forseeable dividend payment and approved buyback*	(15,000)	(11,863)
Tax assets	(93)	(94)
Intangible assets	(3,327)	(3,351)
CET1 capital	175,556	192,224

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55. Cont'd

	31.3.2022	31.12.2021
Additional Tier 1 capital	10,145	10,626
Tier 1 capital	185,701	202,850
Tier 2 capital	23,994	25,136
Total capital base	209,695	227,986
Risk exposure amount		
- due to credit risk	844,745	802,147
- due to market risk	16,628	17,100
Market risk, trading book	15,805	16,223
Currency risk	823	877
- due to credit valuation adjustment	3,378	1,829
- due to operational risk	80,570	80,570
Total risk exposure amount	945,321	901,646
Capital ratios		
CET 1 ratio	18.6%	21.3%
Tier 1 ratio	19.6%	22.5%
Total capital ratio	22.2%	25.3%
Capital ratios including first quarter profit*		
CET 1 ratio	18.8%	21.3%
Tier 1 ratio	19.9%	22.5%
Total capital ratio	22.5%	25.3%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,438,688	1,422,930
Off-balance sheet exposures	53,297	49,220
Derivative exposures	24,521	21,615
Leverage ratio total exposure measure	1,516,506	1,493,765
Tier 1 capital	185,701	202,850
Leverage ratio	12.2%	13.6%
Leverage ratio including first quarter profit*	12.4%	13.6%

*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 15bn, which is within the 10% authorisation from the AGM. The approved amount of ISK 15bn is subtracted from the capital base. The target dividend payment amounting to 50% of profit is normally deducted from the capital base but since the first quarter profit is not yet included in the capital base there is no subtraction arising from the dividend policy. However, where the capital ratios are shown including first quarter profit, ISK 2.594 million has been subtracted from the capital base as is expected from the 50% dividend policy.

Financial Statements first quarter 2022 55 Amounts are in ISK million

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