Íslandsbanki

Condensed Consolidated Interim Financial Statements

First quarter 2021

Contents

Factsheet

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

12 branches

739 number of FTEs at Íslandsbanki at period end

Market share*

32% retail customers

38% SMEs

35% large companies

Sustainability

- Green mortgages product launched
- Íslandsbanki tops Reitun's ESG rankings with 90 points out of 100
- Íslandsbanki received environmental award from Ministry for the Environmental and Natural Resources

Digital milestones

- Carbon calculator introduced in the app
- Push notifications added to the app, replacing older services
- SmartId launched, next generation digital identity option not based on SIM card

Ratings and certifications

S&P Global Ratings

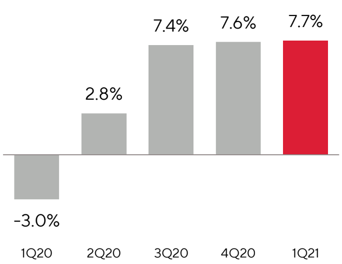
BBB/A-2

Stable outlook

EQUAL PAY CERTIFICATE 2018 - 2021

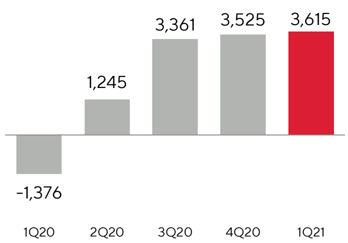
EXEMPLARY IN CORPORATE GOVERNANCE

Return on equity

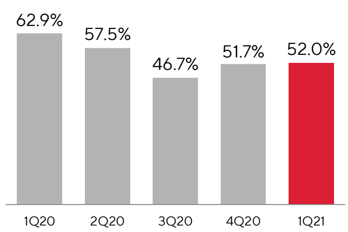


Profit (loss) after tax

(ISKm)

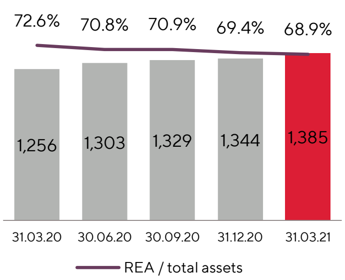


Cost / income ratio



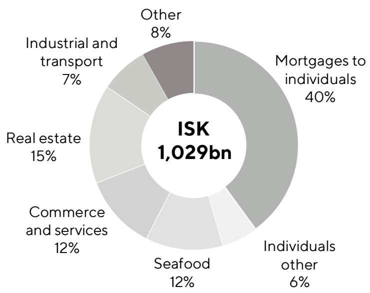
Total assets

(ISKbn)



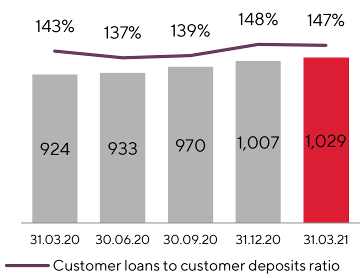
Loans to customers

(Sector split as of 31.03.21)

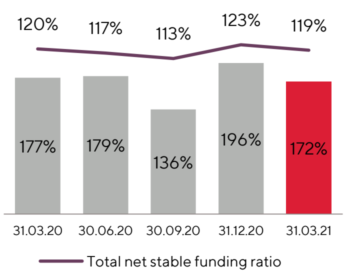


Loans to customers

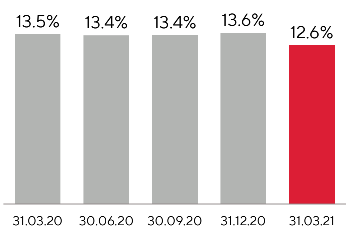
(ISKbn)



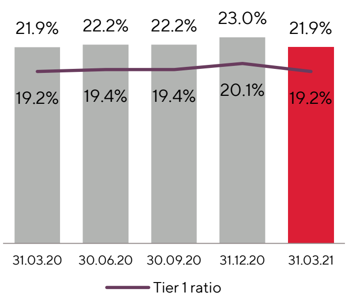
Total liquidity coverage ratio



Leverage ratio



Total capital ratio



The information above has not been reviewed or audited by the Bank's auditor.
*Based on Gallup surveys regarding primary bank.

Directors' Report

These are the condensed consolidated interim financial statements for the period 1 January to 31 March 2021 (“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 its operations for the reporting period amounted to ISK 3,615 million. At the end of the reporting period, the Group employed 774 full-time members of staff, including 739 within the Bank itself.

Net interest income decreased by 4.5% between years, as the lower interest rate environment resulted in the net interest margin decreasing from 2.8% to 2.4%. Net fee and commission income increased by 14.9%, well distributed accross business segments. Salaries and related expenses were up by 10.1% between years as a result of wage increases in line with the general wage agreements in Iceland, redundancy costs and accrued leave, while other operating expenses decreased by 6.8%. The Bank's cost to income ratio decreased from 62.9% to 52% between years. Net impairments amounted to ISK 518 million and decreased from 3,490 million in the first quarter of 2020, when expected credit losses increased substantially due to the COVID-19 pandemic.

The Group's loan book grew by 2.3% in the period as the demand for new mortgages and refinancing continues at a strong pace. The Bank's ratio of non-performing loans fell from 2.9% to 2.4% as one material exposure was fully repaid. Stage 2 loans under IFRS 9 are however still at 15.6% as the credit risk related to loans to the tourism industry was deemed in 2020 to have materially increased due to the COVID-19 pandemic. While considerable uncertainty remains for that industry, it is well placed to recover strongly as international travel resumes after the pandemic.

Customer deposits increased by 2.8% from year-end 2020 due to strong growth in retail deposits. The Bank continued its consistent issuance of ISK denominated covered bonds to fund the growth in the mortgage book and also issued several private placements in Norwegian and Swedish kronas to refinance maturing debt. The liquidity position of the Bank remains robust, with limited maturities of long-term debt in 2021. The Bank is also very well capitalised, with a total capital ratio of 21.9% at the end of the period, compared to the current 17% regulatory requirement, which was lowered as the counter-cyclical buffer was reduced from 2.0% to zero in 2020.

The COVID-19 pandemic continued to impact the operations of the Bank for the first quarter. Most of the employees in the headquarters are still working from home and customer access to branches has been somewhat restricted. Despite these unusual circumstances, the Bank has managed to be fully operational and the main focus continues to be to help and support our customers through these difficulties.

The Annual General Meeting ("AGM") for the operating year 2020 was held on 18 March 2021. At the AGM shareholders approved that the Bank would pay ISK 3.4 billion in dividend, which amounts to about 50% of the 2020 net income and is in line with the Bank's dividend policy. It was also approved that the Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for previous fiscal years could be suggested.

On 29 January 2021, the Minister of Finance and Economic Affairs made a formal decision to initiate the process of the sale of shares in Íslandsbanki in accordance with the ISFI (Icelandic State Financial Investments) proposal dated 17 December 2020.The ISFI is tasked with preparing Íslandsbanki for a listing on a local regulated stock market and the consequent sale of shares in a public offering (IPO) with the aim of a distributed ownership and the minimum of 25% of shares and a maximum of 35% of shares to be sold. Íslandsbanki has engaged ABN AMRO to act as an independent financial advisor to the Bank and ISFI has engaged their own advisors, joint global co-ordinators and bookrunners. Preparations for the IPO are well under way and the Minister of Finance and Economic Affairs has publicly stated that a listing is expected to take place in the summer of 2021, subject to market conditions.

The Bank has continued on its path to promote sustainability and in April 2021 the Bank joined 42 other leading banks to launch the net-zero banking alliance. The Bank has committed to becoming net-zero before 2040, in line with commitments by the Icelandic Government and 10 years earlier than commitments under the Paris agreement. In April, the Bank was also given the highest rating (90 out of 100 points) for sustainability that has been awarded by local ratings agency Reitun. Furthermore, the Bank has been awarded the Kuðungur (the Conch), the Ministry for the Environment and Natural Resources' environmental prize, for its outstanding work on environmental affairs in the past year.

Outlook

Given the size of the tourist sector as a source of almost 1/3 of export revenues and employer of around 14% of the labour force in 2019, the broad economic impact of the COVID-19 pandemic has been somewhat milder in Iceland than many feared. GDP contraction measured 6.6% in 2020, with the lions' share of the GDP decline due to a sharp fall in exports while domestic demand held up better than expected and a fall in imports offset the export decline to a degree. A combination of an effective economic policy and broadly successful health measures has mitigated the pandemic impact. Monetary conditions have been substantially eased and the government has introduced a raft of measures to support viable businesses and soften the impact from job loss or temporary closures on affected households. Furthermore, the general good health of balance sheets in both the private and public sectors has increased the scope for counter-cyclical economic policy and supported the resilience of households and corporates, even in the event of a temporary setback.

Directors' Report

The pace of economic recovery in 2021 will hinge on how rapidly travel conditions normalise and economic activity resumes on a global scale. The increasing pace of the rollout of vaccines so far has gradually increased the upside potential for economic rebound in Iceland. Assuming fading impact from COVID-19 over the coming months, there is a good probability of a return to healthy GDP growth in the latter half of 2021. The Bank's Chief economist expects GDP growth to average 3.2% in 2021, driven by increasing exports as well as a boost to public investment and moderate consumption growth. For 2022, the expected 5.0% GDP growth will be largely driven by increasing domestic demand and further normalisation of the export sector.

With expectations of a strong economic recovery in 2021 and re-opening of Iceland for international tourism, the Bank is well placed to benefit along with its clients. The Bank's capital and liquidity position remains strong and the underlying earnings can be expected to benefit from a movement towards normalised impairments. The Bank has updated its financial targets and the aim is now to achieve a return on equity of 8-10% and a cost-to-income ratio below 45% by 2023.

Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 31 March 2021 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union; the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these interim financial statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 31 March 2021. Furthermore, in our opinion the financial statements and the Director's report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2021.

Kópavogur, 5 May 2021

Board of Directors:

Hallgrímur Snorrason, Chairman

Heiðrún Jónsdóttir, Vice-Chairman

Anna Þórðardóttir

Árni Stefánsson

Frosti Ólafsson

Guðrún Þorgeirsdóttir

Jökull H. Úlfsson

Chief Executive Officer:

Birna Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Íslandsbanki hf.

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries as at March 31, 2021 which comprise of the Consolidated Interim Statement of Financial Position as at March 31, 2021 and the related Consolidated Interim Income Statement, the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and Consolidated Interim Statement of Cash Flows for the three months ended 31 March 2021 and explanatory notes. The Board of Directors and CEO are responsible for the preparation and fair presentation of these Condensed Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standard, IAS 34 Interim Financial Reporting as adopted by the EU. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 5 May 2021

Margrét Pétursdóttir

State Authorised Public Accountant

Ernst & Young ehf.

Borgartúni 30

105 Reykjavík

Consolidated Interim Income Statement

	Notes	2021 1.1-31.3	2020 1.1-31.3
Interest income*		12,784	13,645
Interest expense		(4,594)	(5,065)
Net interest income	5	8,190	8,580
Fee and commission income		3,307	2,763
Fee and commission expense		(445)	(272)
Net fee and commission income	6	2,862	2,491
Net financial income (expense)	7	293	(1,738)
Net foreign exchange gain	8	130	55
Other operating income	9	123	19
Other net operating income		546	(1,664)
Total operating income		11,598	9,407
Salaries and related expenses	10	(3,574)	(3,247)
Other operating expenses	11	(2,278)	(2,445)
Contribution to the Depositors' and Investors' Guarantee Fund		(183)	(228)
Bank tax		(410)	(359)
Total operating expenses		(6,445)	(6,279)
Profit before net impairment on financial assets		5,153	3,128
Net impairment on financial assets	12	(518)	(3,490)
Profit (loss) before tax		4,635	(362)
Income tax expense	13	(1,036)	(769)
Profit (loss) for the period from continuing operations		3,599	(1,131)
Discontinued operations, net of income tax	14	16	(245)
Profit (loss) for the period		3,615	(1,376)

Profit (loss) attributable to shareholders of Íslandsbanki hf.		3,617	(1,251)
Loss attributable to non-controlling interests		(2)	(125)
Profit (loss) for the period		3,615	(1,376)
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	15	0.36	(0.10)

*Of which interest income amounting to ISK 12,346 million (2020: ISK 13,092 million) is calculated using the effective interest method.

The first quarter 2020 results were not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2021 1.1-31.3	2020 1.1-31.3
Profit (loss) for the period	3,615	(1,376)
Net loss on financial assets	(59)	(309)
Net gain (loss) on financial liabilities	(196)	1,165
Items that will not be reclassified to the income statement	(255)	856
Foreign currency translation	34	-
Items that may subsequently be reclassified to the income statement	34	-
Other comprehensive income (expense) for the period, net of tax	(221)	856
Comprehensive income (expense) for the period	3,394	(520)

The first quarter 2020 results were not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2021	31.12.2020
Assets			
Cash and balances with Central Bank	20	88,748	78,948
Loans to credit institutions	21	103,333	89,920
Bonds and debt instruments	16	103,627	128,216
Derivatives	22	2,536	6,647
Loans to customers	23	1,029,415	1,006,717
Shares and equity instruments	16	25,763	14,851
Investments in associates	25	841	775
Property and equipment	26	7,191	7,341
Intangible assets		3,357	3,478
Other assets	27	17,566	4,125
Non-current assets and disposal groups held for sale	28	2,858	3,173
Total Assets		1,385,235	1,344,191
Liabilities			
Deposits from Central Bank and credit institutions	29	31,565	39,758
Deposits from customers	30	698,575	679,455
Derivative instruments and short positions	22	9,533	6,936
Debt issued and other borrowed funds	32	398,225	387,274
Subordinated loans	33	25,259	27,194
Tax liabilities		5,947	5,450
Other liabilities	35	30,660	11,920
Total Liabilities		1,199,764	1,157,987
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		6,353	6,181
Retained earnings		113,335	113,529
Total Shareholders' Equity		184,688	184,710
Non-controlling interests		783	1,494
Total Equity		185,471	186,204
Total Liabilities and Equity		1,385,235	1,344,191

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Fair value reserve	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Equity as at 1.1.2021	10,000	55,000	2,500	3,556	572	(238)	(209)	113,529	184,710	1,494	186,204
Profit (loss) for the period								3,617	3,617	(2)	3,615
Dividends paid								(3,400)	(3,400)		(3,400)
Net loss on financial assets					(38)				(38)	(21)	(59)
Net loss on financial liabilities						(196)			(196)		(196)
Foreign currency translation							18		18	16	34
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 31.3.2021	10,000	55,000	2,500	3,944	534	(434)	(191)	113,335	184,688	783	185,471
Equity as at 1.1.2020	10,000	55,000	2,500	3,525	1,432	(392)	-	105,569	177,634	2,428	180,062
Loss for the period								(1,251)	(1,251)	(125)	(1,376)
Net gain (loss) on financial assets					(219)			36	(183)	(126)	(309)
Net gain on financial liabilities						1,165		-	1,165		1,165
Restricted due to capitalised development costs				(73)				73	-		-
Restricted due to fair value changes				99				(99)	-		-
Restricted due to subsidiaries and associates				(21)				21	-		-
Equity as at 31.3.2020	10,000	55,000	2,500	3,530	1,213	773	-	104,349	177,365	2,177	179,542

Authorised share capital of the Bank is 10,000 million ordinary shares of ISK 1 each. At 31 March 2021 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Bank. The Bank has one class of ordinary shares which carry no right to fixed income. The Annual General Meeting ("AGM") for the operating year 2020 was held on 18 March 2021. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 3,400 million which is equivalent to ISK 0.34 per share (2019: none). The dividends were paid on 30 March 2021. It was also approved that the Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for previous fiscal years could be suggested.

The first quarter 2020 Statement of Changes in Equity was not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2021 1.1-31.3	2020 1.1-31.3
Profit (loss) for the period	3,615	(1,376)
Non-cash items included in profit (loss) for the period*	4,541	8,612
Changes in operating assets and liabilities*	(6,820)	(2,553)
Dividends received	29	12
Income tax and bank tax paid	(1,096)	(1,096)
Net cash provided by operating activities	269	3,599
Proceeds from sales of property and equipment	15	8
Purchase of property and equipment	(30)	(351)
Purchase of intangible assets	(19)	(28)
Net cash used in investing activities	(34)	(371)
Proceeds from borrowings	32,683	8,260
Repayment and repurchases of borrowings	(14,840)	(6,027)
Repayment of lease liabilities	(102)	(97)
Dividends paid	(2,652)	-
Subsidiary's capital decrease and share buyback paid to non-controlling interests	(704)	-
Net cash provided by financing activities	14,385	2,136
Net increase in cash and cash equivalents	14,620	5,364
Effects of foreign exchange rate changes	(54)	177
Cash and cash equivalents at the beginning of the year	115,668	152,481
Cash and cash equivalents at the end of the period	130,234	158,022

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	20	3,695	4,367
Cash balances with Central Bank	20	85,053	118,695
Bank accounts	21	51,225	37,649
Mandatory reserve, special restricted and pledged balances with Central Bank	20	(9,739)	(8,828)
Cash and cash equivalents attributable to discontinued operations		-	6,139
Cash and cash equivalents at the end of the period		130,234	158,022

*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 period and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the period.

Interest received from 1 January to 31 March 2021 amounted to ISK 12,578 million (2020: ISK 13,636 million) and interest paid in the same period 2021 amounted to ISK 4,198 million (2020: ISK 5,982 million). Interest is defined as having been paid when it has been deposited into the customer account and is available for the customer's disposal.

The first quarter 2020 Statement of Cash Flows was not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2021 1.1-31.3	2020 1.1-31.3
Depreciation, amortisation and write-offs	345	448
Share of loss (profit) and reversal of impairment of associates	(66)	19
Accrued interest and fair value changes on debt issued and subordinated loans	2,889	2,359
Net impairment on financial assets	556	3,272
Foreign exchange gain	(130)	(1)
Net gain from sales of property and equipment	(7)	(2)
Unrealised fair value loss (gain) recognised in profit or loss	(493)	1,320
Discontinued operations, net of income tax	(16)	29
Bank tax	410	359
Income tax	1,036	760
Other changes	17	49
Non-cash items included in profit (loss) for the period	4,541	8,612

Mandatory reserve, special restricted and pledged balances with Central Bank	(190)	6,451
Loans to credit institutions	(10,283)	(6,169)
Bonds and debt instruments	24,063	(13,828)
Loans to customers	(30,802)	(9,879)
Shares and equity instruments	(11,142)	2,594
Other assets	(12,615)	(4,656)
Non-current assets and liabilities held for sale	278	(17)
Deposits from Central Bank and credit institutions	(7,751)	1,763
Deposits from customers	21,379	16,860
Derivative instruments and short positions	2,890	3,874
Other liabilities	17,353	454
Changes in operating assets and liabilities	(6,820)	(2,553)

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.

Non-cash transactions 1 January to 31 March 2020

During the period the Bank repurchased own debt securities amounting to ISK 3,152 million with cash settlement after the period-end.

The first quarter 2020 Statement of Cash Flows was not reviewed or audited by the Bank's auditor.

The notes on pages 12 to 57 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

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

At the end of the period the Bank was wholly owned by the Icelandic Government. The shares are administered by the Icelandic State Financial Investments in accordance with Act no. 88/2009 on Icelandic State Financial Investments.

The interim financial statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 5 May 2021.

2. Basis of preparation

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

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

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

The interim financial statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except when otherwise indicated. At 31 March 2021 the exchange rate of the ISK against the USD was 126.31 and for the EUR 148.10 (year-end 2020: USD 127.21 and EUR 156.10).

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

Significant accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognised. Actual results may differ from those estimates.

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

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

Impairment of financial assets, changes from year-end 2020

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

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

The Group's Chief Economist provided three new macroeconomic forecasts on 27 January 2021 which take into account the effects of the COVID-19 pandemic. The base case is shown below while the more optimistic and pessimistic forecasts are available on the Bank’s website.

Notes to the Condensed Consolidated Interim Financial Statements

2. Cont'd

Change in economic indicators %	Estimate 2020	Forcast 2021	Forcast 2022	Forcast 2023	Forcast 2024
Economic growth	(8.7)	3.2	5.0	3.6	2.8
Housing prices in Iceland	6.4	6.5	4.7	4.4	3.5
Purchasing power	3.0	1.1	2.1	2.1	1.6
ISK exchange rate index	11.1	(1.6)	(3.3)	(3.2)	-
Policy rate, Central Bank of Iceland	1.5	0.8	1.5	2.6	3.3
Inflation	2.8	3.0	2.2	2.3	2.2
Capital formation	(10.5)	3.8	3.5	8.4	3.5
thereof capital formation in industry	(11.8)	5.6	9.3	5.8	3.0

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 45. Where the increase was found to be significant (groups 2 - 4), the exposure was transferred to Stage 2. In addition, an overlay factor was applied to the expected credit loss, comparable to an increase in up to three risk classes, and a higher haircut was applied to value of collateral for the higher impact groups in the more severe scenarios. The common risk factor in tourism was found to apply to loans to customers with a net carrying amount of ISK 93,780 million and the cumulative effect of the stage transfer and credit loss overlay amounted to ISK 7,729 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 10%-55%-35%, as this would best represent the probability-weighted average over all possible scenarios. When deciding on the appropriate weights for the three scenarios, management used sensitivity analysis that indicated that a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 550 million while a 5% shift from the baseline to the optimistic scenario would in decrease the allowance by ISK 250 million.

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

3. Changes to accounting policies

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

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

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

An operating segment is a distinguishable component of the Group, for which discrete financial information is available, that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Each operating segment is engaged in providing products or services which are subject to risk and return that are different from those of other operating segments. The accounting policies for the reportable segments are in line with the Group's accounting policies. The Group operates mainly in the Icelandic market.

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

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

Subsidiaries, eliminations and adjustments

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

4. 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								
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

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

4. Cont'd

1 January to 31 March 2020	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income	2,753	2,656	2,224	987	(65)	8,555	25	8,580
Net fee and commission income	809	466	916	(42)	1	2,150	341	2,491
Other net operating income	16	4	133	(1,848)	69	(1,626)	(38)	(1,664)
Total operating income	3,578	3,126	3,273	(903)	5	9,079	328	9,407
Salaries and related expenses	(611)	(453)	(412)	(80)	(1,501)	(3,057)	(190)	(3,247)
Other operating expenses	(596)	(281)	(233)	(53)	(1,134)	(2,297)	(148)	(2,445)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(75)	(23)	(1)	-	(228)	-	(228)
Bank tax	(121)	(87)	(130)	(17)	(4)	(359)	-	(359)
Net impairment on financial assets	(64)	(2,321)	(1,042)	(63)	-	(3,490)	-	(3,490)
Cost allocation	(1,195)	(741)	(805)	68	2,673	-	-	-
Profit (loss) before tax	862	(832)	628	(1,049)	39	(352)	(10)	(362)
Income tax expense	(256)	194	(197)	(471)	(12)	(742)	(27)	(769)
Profit (loss) for the period from continuing operations	606	(638)	431	(1,520)	27	(1,094)	(37)	(1,131)
Net segment revenue from external customers	4,128	3,574	4,725	(3,400)	52	9,079	328	9,407
Net segment revenue from other segments	(550)	(448)	(1,452)	2,497	(47)	-	-	-
Fee and commission income	1,233	473	915	16	1	2,638	125	2,763
Depreciation, amortisation and write-offs	(51)	(23)	(5)	-	(281)	(360)	(2)	(362)
At 31 March 2020								
Loans to customers	331,041	235,747	357,061	1	-	923,850	-	923,850
Other assets	3,146	3,427	2,651	294,526	10,814	314,564	17,277	331,841
Total segment assets	334,187	239,174	359,712	294,527	10,814	1,238,414	17,277	1,255,691
Deposits from customers	295,270	179,387	128,270	48,499	-	651,426	(3,631)	647,795
Other liabilities	579	2,108	3,699	402,620	6,064	415,070	13,284	428,354
Total segment liabilities	295,849	181,495	131,969	451,119	6,064	1,066,496	9,653	1,076,149
Allocated equity	30,780	39,945	60,599	39,471	1,123	171,918	7,624	179,542
Risk exposure amount	191,352	239,392	392,678	54,510	6,358	884,290	27,085	911,375

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Cont'd

Subsidiaries, eliminations & adjustments

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 cont. 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

1 January to 31 March 2020	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	11	5	9	-	25
Net fee and commission income	273	255	(8)	(179)	341
Other net operating income	(21)	19	(1)	(35)	(38)
Total operating income	263	279	-	(214)	328
Salaries and related expenses	(144)	(46)	-	-	(190)
Other operating expenses	(56)	(128)	-	36	(148)
Profit (loss) before tax	63	105	-	(178)	(10)
Income tax expense	(15)	(12)	-	-	(27)
Profit (loss) for the period from cont. operations	48	93	-	(178)	(37)
Net segment revenue from external customers	331	224	-	(227)	328
Net segment revenue from other segments	(68)	55	-	13	-
Fee and commission income	390	255	-	(520)	125
Depreciation, amortisation and write-offs	-	-	-	(2)	(2)
At 31 March 2020					
Total assets	2,731	1,297	25,792	(12,543)	17,277
Total liabilities	259	405	13,363	(4,374)	9,653
Total equity	2,472	892	12,429	(8,169)	7,624

Amounts are in ISK million

5. Net interest income

	2021 1.1-31.3	2020 1.1-31.3
Cash and balances with Central Bank	105	1,002
Loans at amortised cost	12,241	12,090
Financial assets mandatorily at fair value through profit or loss	436	551
Other assets	2	2
Total interest income	12,784	13,645
Deposits from Central Bank and credit institutions	(93)	(221)
Deposits from customers	(1,195)	(2,463)
Debt issued and other borrowed funds at fair value through profit or loss	(185)	(142)
Debt issued and other borrowed funds at amortised cost	(2,651)	(2,047)
Subordinated loans	(163)	(166)
Other interest expense*	(307)	(26)
Total interest expense	(4,594)	(5,065)
Net interest income	8,190	8,580

*Thereof is lease liabilities' interest expense amounting to ISK 20 million (2020: ISK 22 million).

6. Net fee and commission income

	2021 1.1-31.3	2020 1.1-31.3
Asset management	655	565
Investment banking and brokerage	660	571
Payment processing	945	814
Loans and guarantees	538	383
Other fee and commission income	509	430
Total fee and commission income	3,307	2,763
Brokerage	(90)	(53)
Clearing and settlement	(349)	(219)
Other fee and commission expense	(6)	-
Total fee and commission expense	(445)	(272)
Net fee and commission income	2,862	2,491

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

7. Net financial income (expense)

	2021 1.1-31.3	2020 1.1-31.3
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	181	(1,728)
Net gain (loss) on financial liabilities designated as at FVTPL	111	(6)
Net gain (loss) on fair value hedges	1	(4)
Net financial income (expense)	293	(1,738)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

8. Net foreign exchange gain

	2021 1.1-31.3	2020 1.1-31.3
Cash and balances with Central Bank	(54)	177
Financial assets mandatorily at fair value through profit or loss	(4,891)	1,378
Loans at amortised cost	(9,437)	29,750
Other assets	(2)	19
Net foreign exchange gain (loss) for assets	(14,384)	31,324
Deposits	2,700	(13,705)
Debt issued and other borrowed funds designated as at FVTPL	4,853	(7,084)
Debt issued and other borrowed funds at amortised cost	5,032	(8,700)
Subordinated loans	1,929	(1,780)
Net foreign exchange gain (loss) for liabilities	14,514	(31,269)
Net foreign exchange gain	130	55

9. Other operating income

	2021 1.1-31.3	2020 1.1-31.3
Share of profit (loss) of associates, net of income tax	6	(19)
Reversal of impairment for an associate	60	-
Legal fees	18	22
Rental income	11	10
Other net operating income	28	6
Other operating income	123	19

10. Salaries and related expenses

	2021 1.1-31.3	2020 1.1-31.3
Salaries	2,761	2,504
Contributions to pension funds	421	362
Social security charges and financial activities tax*	350	357
Other salary-related expenses	42	24
Salaries and related expenses	3,574	3,247

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

11. Other operating expenses

	2021 1.1-31.3	2020 1.1-31.3
Professional services	400	412
Software and IT expenses	1,038	1,100
Real estate and office equipment	162	136
Depreciation, amortisation and write-offs	345	362
Other administrative expenses	333	435
Other operating expenses	2,278	2,445

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

12. Net impairment on financial assets

	2021 1.1-31.3	2020 1.1-31.3
Expected credit losses, on-balance sheet items*	(455)	(3,339)
Expected credit losses, off-balance sheet items	(63)	(151)
Net impairment on financial assets	(518)	(3,490)

*The main changes in the expected credit loss allowance are: an increase related to the COVID-19 pandemic (ISK 960 million), a decrease due to a more favourable economic environment (ISK 363 million) and a decreased expected credit loss for a few customers (ISK 215 million). For further information see Note 2.

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2021 is 20% (2020: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first quarter 2021 is 22.4% (2020: negative 212.4%).

	2021 1.1-31.3	2020 1.1-31.3
Current tax expense excluding discontinued operations	1,450	1,467
Special financial activities tax	363	370
Difference in prior year's calculated income tax	2	-
Changes in deferred tax assets and deferred tax liabilities	(779)	(1,068)
Income tax recognised in the income statement	1,036	769

	2021 1.1-31.3		2020 1.1-31.3	
Profit (loss) before tax	4,635		(362)	
20% income tax calculated on the profit (loss) for the period	927	20.0%	(72)	20.0%
Special financial activities tax	363	7.8%	370	(102.2%)
Expenses (income) not subject to tax	(326)	(7.0%)	371	(102.5%)
Non-deductible expenses	82	1.8%	72	(20.0%)
Other differences	(10)	(0.2%)	28	(7.7%)
Effective income tax expense	1,036	22.4%	769	(212.4%)

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf.

14. Discontinued operations, net of income tax

	2021 1.1-31.3	2020 1.1-31.3
Net profit (loss) from foreclosed assets	27	(47)
Net loss from disposal groups held for sale	(6)	(217)
Income tax expense	(5)	19
Discontinued operations, net of income tax	16	(245)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

15. Earnings per share

	Discontinued operations			
	Excluded		Included	
	2021	2020	2021	2020
	1.1-31.3	1.1-31.3	1.1-31.3	1.1-31.3
Profit (loss) attributable to shareholders of the Bank	3,601	(1,006)	3,617	(1,251)
Weighted average number of outstanding shares	10,000	10,000	10,000	10,000
Basic earnings per share	0.36	(0.10)	0.36	(0.13)

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

16. Classification of financial assets and financial liabilities

At 31 March 2021	Mandatorily at FVTPL	Held for hedging	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	88,748	88,748
Loans to credit institutions	-	-	-	103,333	103,333
Listed bonds and debt instruments	68,567	-	-	-	68,567
Listed bonds and debt instruments used for economic hedging	35,033	-	-	-	35,033
Unlisted bonds and debt instruments	27	-	-	-	27
Derivatives	1,780	756	-	-	2,536
Loans to customers	-	-	-	1,029,415	1,029,415
Listed shares and equity instruments	4,624	-	-	-	4,624
Listed shares and equity instruments used for economic hedging	17,906	-	-	-	17,906
Unlisted shares and equity instruments	3,233	-	-	-	3,233
Other financial assets	-	-	-	16,298	16,298
Total financial assets	131,170	756	-	1,237,794	1,369,720
Deposits from Central Bank and credit institutions	-	-	-	31,565	31,565
Deposits from customers	-	-	-	698,575	698,575
Derivative instruments and short positions	9,533	-	-	-	9,533
Debt issued and other borrowed funds	-	45,104	89,903	263,218	398,225
Subordinated loans	-	-	-	25,259	25,259
Other financial liabilities	-	-	-	28,076	28,076
Total financial liabilities	9,533	45,104	89,903	1,046,693	1,191,233

Amounts are in ISK million

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

17. Fair value information for financial instruments

Financial instruments carried at fair value

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

The table below shows financial instruments carried at fair value at 31 March 2021 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

At 31 March 2021	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	103,600	-	27	103,627
Derivatives	-	2,536	-	2,536
Shares and equity instruments	22,475	2	3,286	25,763
Non-current assets and disposal groups held for sale	-	-	1,201	1,201
Total financial assets	126,075	2,538	4,514	133,127
Short positions	323	-	-	323
Derivative instruments	-	9,210	-	9,210
Debt issued and other borrowed funds designated as at FVTPL	89,903	-	-	89,903
Total financial liabilities	90,226	9,210	-	99,436

Amounts are in ISK million

17. Cont'd

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

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments	Non-current assets
Fair value at 1 January 2021	145	2,890	1,266
Purchases	-	116	-
Sales	(116)	-	-
Net gain (loss) on financial instruments recognised in profit or loss	(2)	280	-
Net loss on financial instruments recognised in other comprehensive income	-	-	(65)
Fair value at 31 March 2021	27	3,286	1,201

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

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

Valuation process

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

Valuation techniques

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

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17. Cont'd

Level 1: Fair value established from quoted market prices.

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

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

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

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

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

At 31 March 2021 the Group's Level 3 shares amounted to ISK 3,286 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted equities and specialised investments in Iceland totalling ISK 1,681 million. The Group receives information from fund managers which use valuation models for the valuation of these equities.

-Other Level 3 shares amount to ISK 1,605 million.

At 31 March 2021 the Group's Level 3 bonds amounted to ISK 27 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.

At 31 March 2021 the Group's Level 3 shares classified as an asset held for sale amounted to ISK 1,201 million:

The Group holds Series C preferred shares in Visa Inc. and at 31 March 2021 the valuation of the shares amounted to ISK 1,201 million, the shares were sold at the beginning of April 2021 for the valuation amount.

Sensitivity analysis for Level 3 assets

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

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

At 31 March 2021 **Effect on profit or (loss):**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	27	290	68	(13)	(27)
Level 3 Shares and equity instruments	3,286	3,020	1,384	(867)	(1,184)

At 31 December 2020 **Effect on profit or (loss):**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 Bonds and debt instruments	145	1,015	773	(132)	(145)
Level 3 Shares and equity instruments	2,890	1,897	539	(571)	(878)
Effect on comprehensive income:					
Level 3 Non-current assets and disposal groups held for sale	1,266	1,898	949	(633)	(1,266)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

18. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

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

At 31 March 2021	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	88,748	-	88,748	88,748
Loans to credit institutions	-	103,333	-	103,333	103,333
Loans to customers	-	-	1,034,331	1,034,331	1,029,415
Other financial assets	-	16,298	-	16,298	16,298
Total financial assets	-	208,379	1,034,331	1,242,710	1,237,794
Deposits from Central Bank and credit institutions	-	31,627	-	31,627	31,565
Deposits from customers	-	698,701	-	698,701	698,575
Debt issued and other borrowed funds	204,533	118,142	-	322,675	308,322
Subordinated loans	-	25,154	-	25,154	25,259
Other financial liabilities	-	28,076	-	28,076	28,076
Total financial liabilities	204,533	901,700	-	1,106,233	1,091,797

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

19. Offsetting financial assets and financial liabilities

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

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2021	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Reverse repurchase agreements ..	161	-	161	-	-	-	161	-	161
Derivatives	2,536	-	2,536	(890)	(1,426)	(56)	164	-	2,536
Total assets	2,697	-	2,697	(890)	(1,426)	(56)	325	-	2,697
At 31 December 2020									
Reverse repurchase agreements ..	898	-	898	-	-	-	898	-	898
Derivatives	6,647	-	6,647	(761)	(4,330)	(187)	1,369	-	6,647
Total assets	7,545	-	7,545	(761)	(4,330)	(187)	2,267	-	7,545

	Financial liabilities subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 March 2021	Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Repurchase agreements	106	-	106	-	-	-	106	-	106
Derivative instruments and short positions	9,533	-	9,533	(890)	(1,886)	-	6,757	-	9,533
Total liabilities	9,639	-	9,639	(890)	(1,886)	-	6,863	-	9,639
At 31 December 2020									
Derivative instruments and short positions	6,936	-	6,936	(761)	(504)	-	5,671	-	6,936

20. Cash and balances with Central Bank

	31.3.2021	31.12.2020
Cash on hand	3,695	3,814
Balances with Central Bank	75,314	65,585
Balances with Central Bank subject to special restrictions*	1,281	1,288
Included in cash and cash equivalents	80,290	70,687
Cash and balances pledged as collateral to Central Bank	588	288
Mandatory reserve deposits with Central Bank	7,870	7,973
Cash and balances with Central Bank	88,748	78,948

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

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21. Loans to credit institutions

	31.3.2021	31.12.2020
Money market loans	52,076	43,646
Bank accounts	51,225	46,269
Other loans	32	5
Loans to credit institutions	103,333	89,920

22. Derivative instruments and short positions

At 31 March 2021	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,164	120,795	3,324	109,670
Cross-currency interest rate swaps	118	4,340	1,222	42,491
Equity forwards	117	1,792	2,743	12,976
Foreign exchange forwards	339	11,730	908	17,850
Foreign exchange swaps	703	32,628	863	32,341
Foreign exchange options	-	-	2	25
Bond forwards	95	20,923	148	19,580
Derivatives	2,536	192,208	9,210	234,933
Short positions in listed bonds	-	-	323	227
Total	2,536	192,208	9,533	235,160

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

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 32) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2021 the total fair value of the interest rate swaps was positive and amounted to ISK 756 million (2020: ISK 1,008 million) and their total notional amount was ISK 44,430 million (2020: ISK 46,830).

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

23. Loans to customers

At 31 March 2021	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	454,004	10,230	6,673	(1,526)	(257)	(868)	468,256
Commerce and services	61,129	59,312	5,518	(588)	(3,077)	(2,378)	119,916
Construction	35,980	4,979	804	(282)	(149)	(146)	41,186
Energy	7,879	687	-	(18)	(5)	-	8,543
Financial services	1,419	-	-	(1)	-	-	1,418
Industrial and transportation	45,367	29,865	4,064	(236)	(805)	(1,993)	76,262
Investment companies	16,905	5,537	918	(295)	(433)	(295)	22,337
Public sector and non-profit organisations	10,321	98	109	(15)	(1)	(15)	10,497
Real estate	113,196	41,917	6,484	(530)	(2,028)	(1,588)	157,451
Seafood	122,794	942	139	(204)	(8)	(114)	123,549
Loans to customers	868,994	153,567	24,709	(3,695)	(6,763)	(7,397)	1,029,415

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

24. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	2	-	-	2
Loans to credit institutions	132	-	-	132
Loans to customers	3,695	6,763	7,397	17,855
Other financial assets	15	4	-	19
Off-balance sheet loan commitments and financial guarantees	363	553	202	1,118
At 31 March 2021	4,207	7,320	7,599	19,126
Cash and balances with Central Bank	2	-	-	2
Loans to credit institutions	109	-	-	109
Loans to customers	3,645	6,482	7,387	17,514
Other financial assets	15	4	-	19
Off-balance sheet loan commitments and financial guarantees	347	483	225	1,055
At 31 December 2020	4,118	6,969	7,612	18,699

Amounts are in ISK million

24. 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 2021	3,645	6,482	7,387	17,514
Transfer to Stage 1	235	(172)	(63)	-
Transfer to Stage 2	(106)	244	(138)	-
Transfer to Stage 3	(11)	(332)	343	-
Net remeasurement of loss allowance	(743)	221	(60)	(582)
New financial assets originated or purchased	761	393	102	1,256
Derecognitions and maturities	(86)	(73)	(106)	(265)
Write-offs	-	-	(187)	(187)
Recoveries of amounts previously written off	-	-	38	38
Foreign exchange	-	-	(17)	(17)
Unwinding of interest	-	-	98	98
At 31 March 2021	3,695	6,763	7,397	17,855

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	3,645	953	5,700	10,298
Transfer to Stage 1	3,577	(2,827)	(750)	-
Transfer to Stage 2	(1,743)	3,200	(1,457)	-
Transfer to Stage 3	(171)	(1,314)	1,485	-
Transfer to "Non-current assets and disposal groups held for sale"	(50)	(12)	(83)	(145)
Net remeasurement of loss allowance	(3,316)	6,024	1,201	3,909
New financial assets originated or purchased	2,104	597	2,516	5,217
Derecognitions and maturities	(401)	(139)	(404)	(944)
Write-offs	-	-	(1,498)	(1,498)
Recoveries of amounts previously written off	-	-	159	159
Foreign exchange	-	-	37	37
Unwinding of interest	-	-	481	481
At 31 December 2020	3,645	6,482	7,387	17,514

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	347	483	225	1,055
Transfer to Stage 1	26	(18)	(8)	-
Transfer to Stage 2	(4)	19	(15)	-
Transfer to Stage 3	(1)	(8)	9	-
Net remeasurement of loss allowance	(212)	68	(62)	(206)
New loan commitments and financial guarantees	288	57	79	424
Derecognitions and maturities	(81)	(48)	(26)	(155)
At 31 March 2021	363	553	202	1,118
At 1 January 2020	403	55	231	689
Transfer to Stage 1	230	(146)	(84)	-
Transfer to Stage 2	(74)	252	(178)	-
Transfer to Stage 3	(11)	(53)	64	-
Net remeasurement of loss allowance	(466)	269	103	(94)
New loan commitments and financial guarantees	376	166	128	670
Derecognitions and maturities	(111)	(60)	(39)	(210)
At 31 December 2020	347	483	225	1,055

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

25. Investments in subsidiaries and associates

Investments in subsidiaries		31.3.2021	31.12.2020
Íslandssjóðir hf., a fund management company, Hagasmári 3, 201 Kópavogur	Iceland	100%	100%
Allianz Ísland hf., an insurance agent, Dalshraun 3, 220 Hafnarfjörður	Iceland	100%	100%

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

Investments in associates		31.3.2021	31.12.2020
Auðkenni hf., an information security company, Borgartún 31, 105 Reykjavík	Iceland	23.8%	23.8%
JCC ehf., a cash centre service company, Sundaborg 15, 108 Reykjavík	Iceland	33.3%	33.3%
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%

26. Property and equipment

At 31 March 2021	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,058	4,729	3,119	10,906
Additions during the period	4	-	26	30
Disposals and write-offs during the period	-	-	(116)	(116)
Remeasurement	-	32	-	32
Historical cost	3,062	4,761	3,029	10,852
Balance at the beginning of the year	(1,340)	(906)	(1,319)	(3,565)
Depreciation during the period	(5)	(106)	(94)	(205)
Disposals and write-offs during the period	-	-	109	109
Accumulated depreciation	(1,345)	(1,012)	(1,304)	(3,661)
Carrying amount	1,717	3,749	1,725	7,191

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

Amounts are in ISK million

27. Other assets

	31.3.2021	31.12.2020
Receivables	1,876	1,767
Unsettled securities transactions	13,851	1,550
Accruals	192	200
Prepaid expenses	389	181
Deferred tax assets	1,087	259
Other assets	171	168
Other assets	17,566	4,125

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

	31.3.2021	31.12.2020
Repossessed collateral:		
Land and buildings	1,303	1,548
Industrial equipment and vehicles	15	7
Assets of disposal groups classified as held for sale	1,540	1,618
Non-current assets and disposal groups held for sale	2,858	3,173

29. Deposits from Central Bank and credit institutions

	31.3.2021	31.12.2020
Deposits from credit institutions	31,520	39,650
Repurchase agreements with Central Bank	45	108
Deposits from Central Bank and credit institutions	31,565	39,758

30. Deposits from customers

	31.3.2021	31.12.2020
Demand deposits and deposits with maturity up to 3 months	608,775	582,746
Term deposits with maturity of more than 3 months	89,800	96,709
Deposits from customers	698,575	679,455

Deposits from customers specified by owners	31.3.2021		31.12.2020	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	9,739	1%	8,145	1%
Municipalities	11,088	2%	7,561	1%
Companies	332,439	48%	326,799	48%
Individuals	345,309	49%	336,950	50%
Deposits from customers	698,575	100%	679,455	100%

Amounts are in ISK million

31. Pledged assets

	31.3.2021	31.12.2020
Financial assets pledged as collateral against liabilities	279,780	236,901
Financial assets pledged as collateral with the Central Bank	5,451	5,088
Financial assets pledged as collateral in foreign banks	1,924	167
Pledged assets against liabilities	287,155	242,156

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Bank has issued additional covered bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 March 2021 was ISK 33,477 million.

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

32. Debt issued and other borrowed funds

	Issued	Maturity		Interest	31.3.2021	31.12.2020
Covered bonds in ISK	2019-2020	2021	At maturity	Fixed rates	4,992	5,076
Covered bonds in ISK	2015-2020	2023	At maturity	Fixed rates	30,095	29,496
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	13,035	5,386
Covered bonds in ISK - CPI-linked	2015-2017	2022	At maturity	Fixed rates	19,250	19,228
Covered bonds in ISK - CPI-linked	2012-2018	2024	At maturity	Fixed rates	36,596	36,797
Covered bonds in ISK - CPI-linked	2015-2018	2026	At maturity	Fixed rates	28,986	28,571
Covered bonds in ISK - CPI-linked	2019-2020	2028	Amortising	Fixed rates	24,107	25,606
Covered bonds in ISK - CPI-linked	2017-2018	2030	At maturity	Fixed rates	26,588	26,285
Covered bonds					183,649	176,445
Senior unsecured bonds in SEK	2018	2021	At maturity	Fixed rates	-	1,553
Senior unsecured bonds in SEK	2018-2019	2021	At maturity	Floating rates	-	6,630
Senior unsecured bonds in SEK	2018	2021	At maturity	Floating rates	13,775	14,832
Senior unsecured bonds in EUR	2019	2021	At maturity	Floating rates	1,704	1,795
Senior unsecured bonds in SEK	2018	2022	At maturity	Floating rates	14,474	15,574
Senior unsecured bonds in EUR*	2019	2022	At maturity	Fixed rates	45,014	47,494
Senior unsecured bonds in NOK	2019	2022	At maturity	Floating rates	14,875	14,982
Senior unsecured bonds in EUR**	2018	2024	At maturity	Fixed rates	45,104	48,032
Senior unsecured bonds in NOK	2019	2024	At maturity	Fixed rates	5,966	6,187
Senior unsecured bonds in ISK	2019	2024	Monthly	Floating rates	2,493	2,664
Senior unsecured bonds in EUR*	2020	2023	At maturity	Fixed rates	44,889	46,944
Senior unsecured bonds in ISK	2020	2025	At maturity	Fixed rates	2,732	2,709
Senior unsecured bonds in NOK	2021	2024	At maturity	Floating rates	2,222	-
Senior unsecured bonds in SEK	2021	2024	At maturity	Floating rates	3,615	-
Senior unsecured bonds in NOK	2021	2025	At maturity	Floating rates	11,103	-
Senior unsecured bonds in SEK	2021	2025	At maturity	Floating rates	6,504	-
Bonds issued					214,470	209,396
Bills issued					-	1,433
Other debt securities					106	-
Debt issued and other borrowed funds					398,225	387,274

Amounts are in ISK million

32. Cont'd

*These bond issuances are classified as being designated as at fair value through profit or loss. At 31 March 2021 the total carrying amount of the bonds amounted to ISK 89,903 million and included in the amount are fair value changes amounting to ISK 754 million. The carrying amount of the bonds at 31 March 2021 was ISK 321 million higher than the contractual amount due at maturity.

**The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2021 the total carrying amount of the bond issuance amounted to ISK 45,104 million and included in the amount are fair value changes amounting to ISK 679 million.

The Bank did not repurchase own bonds during the period.

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

33. Subordinated loans

	Issued	Maturity		Interest	31.3.2021	31.12.2020
Loans which qualify as Tier 2 capital:						
Subordinated loans in SEK	2017	2027	At maturity	Floating, STIBOR + 2.0%	10,838	11,646
Subordinated loans in SEK	2018	2028	At maturity	Floating, STIBOR + 2.5%	7,223	7,775
Subordinated loans in SEK	2019	2029	At maturity	Floating, STIBOR + 3.9%	7,198	7,773
Subordinated loans					25,259	27,194

34. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2021	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.3.2021
Covered bonds in ISK	39,958	7,680	484	-	-	48,122
Covered bonds in ISK - CPI-linked	136,487	(2,715)	1,755	-	-	135,527
Senior unsecured bonds in ISK	5,373	(182)	34	-	-	5,225
Senior unsecured bonds FX	61,553	15,094	226	(2,635)	-	74,238
Senior unsecured bonds FX at fair value	94,438	-	185	(4,853)	133	89,903
Senior unsecured bonds used for hedging	48,032	(531)	145	(2,397)	(145)	45,104
Other borrowed funds	1,433	(1,334)	7	-	-	106
Subordinated loans	27,194	(169)	163	(1,929)	-	25,259
Total	414,468	17,843	2,999	(11,814)	(12)	423,484

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

Amounts are in ISK million

35. Other liabilities

	31.3.2021	31.12.2020
Accruals	2,638	2,311
Lease liabilities	3,892	3,962
Provision for effects of court rulings	288	288
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,118	1,055
Withholding tax	1,359	915
Unsettled securities transactions	19,137	1,379
Sundry liabilities	2,199	1,983
Non-current liabilities and disposal groups held for sale	29	27
Other liabilities	30,660	11,920

36. Custody assets

	31.3.2021	31.12.2020
Custody assets - not managed by the Group	2,972,371	2,863,328

37. Related party

Íslandsbanki is wholly owned by the Icelandic Government. The shares are administered by the Icelandic State Financial Investments (ISFI). As a result, the Icelandic Government and the Icelandic State Financial Investments are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

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

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

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

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

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

At 31 March 2021	Assets	Liabilities	Net balance	Commitments, guarantees & overdrafts
Shareholders with control over the Group	-	-	-	3
Board of Directors, key management personnel and other related parties	540	398	142	49
Associated companies	26	144	(118)	228
Balances with related parties	566	542	24	280

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

Amounts are in ISK million

37. Cont'd

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

1 January - 31 March 2020	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	2	-	-	-
Associated companies	-	1	-	414
Transactions with related parties	2	1	-	414

At 31 March 2021 total of ISK 9.2 million (at year-end 2020: none) were recognised as expected credit losses against balances outstanding, thereof ISK 2.4 million were recognised as Stage 1 expected credit losses and ISK 6.8 million were recognised as Stage 2 expected credit losses. No share option programmes were operated during the period.

38. Contingencies

Contingent liabilities

Borgun hf. – Landsbankinn hf. case

Borgun hf., a former subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun hf. in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun hf. during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun hf. sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun hf. and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun hf. is approximately ISK 1,930 million. Court appointed assessors presented their assessment in November 2019. A reassessment was demanded and senior assessors, appointed by the court. The senior assessors have not rendered their assessment. It is uncertain when a ruling is to be expected. In 2020, the Group closed an agreement on the sale of all its stake in Borgun hf. In that agreement Íslandsbanki undertook to reimburse 63.47% of losses incurred by Borgun hf. or the buyer as a result of an unfavourable outcome in the Landsbanki case. The Group has not recognised a provision as a result of this event.

39. Events after the reporting period

Íslandssjóðir hf., a wholly owned subsidiary of Íslandsbanki, is a fund management company that manages assets on behalf of customers. One of the assets under the management of Íslandssjóðir hf. is the alternative investment fund 105 Miðborg slhf., a limited partnership that is constructing a real estate project that includes residential housing, hotel and office facilities. In December 2017 Íslenskir aðalverktakar hf. (ÍAV) and 105 Miðborg slhf. signed a contract where ÍAV undertook to be the steering contractor for the first phase of the project. On 19 February 2021, 105 Miðborg slhf. terminated the agreement claiming default by ÍAV. On 3 May 2021, ÍAV filed a suit against both Miðborg slhf. and Íslandssjóðir hf., demanding payment of approximately ISK 3.8 billion for services allegedly rendered. 105 Miðborg slhf. has previously rejected ÍAV's claims and is currently preparing a counter suit against ÍAV. Íslandssjóðir hf. believes, and has previously stated, that the company is not directly involved in the dispute. Given that the suit was filed two days ago the Group has not had an opportunity to scrutinise the claims made in the suit. The Group has not recognised a provision as a result of this event.

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

Amounts are in ISK million

40. Risk management

Risk governance

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

41. 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.

Notes to the Condensed Consolidated Interim Financial Statements

42. Maximum credit exposure

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and loan commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated by adding potential future credit exposure to the positive market value of the contract.

The industry breakdown shows the credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

The Government guarantee schemes issued in response to the COVID-19 pandemic are presented in the line item “Loans to customers”. Of these, ISK 2,379 million are subject to 100% Government guarantee, ISK 1,065 million to 85% Government guarantee and ISK 542 million to 70% Government guarantee.

As a part of the agreement on the sale of Borgun hf. in 2020 the Group took on certain guarantees with regards to chargeback risk that Borgun hf. is exposed to through its operations, which at 31 March 2021 amounted to about ISK 134 million. These guarantees are not included in the table below.

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

At 31 March 2021	Individuals	Central governments	Commerce and services	Construction	Energy	Financial services	Industrial and transportation	Investment companies	Public sector and non-profit organisations	Real estate	Seafood	Total
Cash and balances with Central Bank	-	88,748	-	-	-	-	-	-	-	-	-	88,748
Loans to credit institutions	-	-	-	-	-	103,333	-	-	-	-	-	103,333
Bonds and debt instruments	-	82,771	664	-	456	18,890	-	9	136	701	-	103,627
Derivatives	-	80	131	7	13	4,880	185	780	-	176	306	6,558
Loans to customers:	468,256	-	119,916	41,186	8,543	1,418	76,262	22,337	10,497	157,451	123,549	1,029,415
Overdrafts	10,086	-	10,882	3,598	35	983	5,715	581	497	2,783	4,352	39,512
Credit cards	12,928	-	1,119	230	5	14	313	23	82	64	33	14,811
Mortgages	410,781	-	-	-	-	-	-	-	-	-	-	410,781
Capital leases	5,532	-	25,588	2,924	16	-	7,289	122	35	232	167	41,905
Government guarantee schemes	18	-	3,259	128	-	-	339	19	-	136	87	3,986
Other loans	28,911	-	79,068	34,306	8,487	421	62,606	21,592	9,883	154,236	118,910	518,420
Other financial assets	549	457	431	9	12	14,260	41	322	93	104	20	16,298
Off-balance sheet items:	34,912	-	49,227	13,637	307	7,525	26,428	1,260	5,079	15,728	16,847	170,950
Financial guarantees	474	-	5,713	6,847	5	447	2,304	17	5	1,889	577	18,278
Undrawn loan commitments	-	-	23,059	3,482	-	-	17,493	630	-	10,719	5,158	60,541
Undrawn overdrafts	9,589	-	15,711	2,481	271	6,833	5,488	409	3,774	2,809	10,915	58,280
Credit card commitments	24,849	-	4,744	827	31	245	1,143	204	1,300	311	197	33,851
Maximum credit exposure	503,717	172,056	170,369	54,839	9,331	150,306	102,916	24,708	15,805	174,160	140,722	1,518,929

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

42. Cont'd

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

43. Credit exposure covered by collateral

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

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

Amounts are in ISK million

43. Cont'd

Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. Collateral is allocated according to the gross carrying amount of loans and nominal off-balance sheet items, and is measured without including the effect of overcollateralisation. This means that if some loans have collateral values in excess of their gross carrying amount, then the excess is removed in order to reflect the Group's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the cover indicates. The maximum credit risk exposure is measured on net carrying value basis, and therefore collateral allocation can in some instances be higher. For capital leases the Group remains the owner of the leased object. In total ISK 37,135 million of the collateral are leased objects.

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

At 31 March 2021									
Collateral held against non credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Derivatives	6,558	-	-	3,059	-	-	3,059	3,499	-
Loans and commitments to customers:	1,182,642	742,792	100,687	6,292	48,613	99,026	997,410	185,232	11,374
Individuals	497,305	419,505	5	315	14,310	140	434,275	63,030	1,861
Commerce and services	165,809	60,538	158	914	24,640	27,536	113,786	52,023	4,093
Construction	54,135	37,756	3	1,432	2,236	2,317	43,744	10,391	542
Energy	8,850	6,519	-	8	13	12	6,552	2,298	23
Financial services	8,943	1,286	-	1	-	3,548	4,835	4,108	6
Industrial and transportation	100,586	38,279	7	499	7,047	29,932	75,764	24,822	1,169
Investment companies	22,973	8,117	-	1,956	78	11,754	21,905	1,068	739
Public sector and non-profit organisations	15,470	928	-	5	25	-	958	14,512	18
Real estate	168,205	154,135	-	571	191	2,769	157,666	10,539	2,698
Seafood	140,366	15,729	100,514	591	73	21,018	137,925	2,441	225
Total	1,189,200	742,792	100,687	9,351	48,613	99,026	1,000,469	188,731	11,374
Collateral held against credit-impaired exposures									
Loans and commitments to customers:	17,723	12,983	1,396	57	635	878	15,949	1,774	7,599
Individuals	5,863	5,184	17	4	135	4	5,344	519	902
Commerce and services	3,334	1,448	634	2	197	687	2,968	366	2,501
Construction	688	460	-	-	72	47	579	109	157
Industrial and transportation	2,104	435	733	5	216	129	1,518	586	2,005
Investment companies	624	608	-	-	6	-	614	10	295
Public sector and non-profit organisations	106	98	-	-	-	-	98	8	16
Real estate	4,974	4,731	6	46	7	11	4,801	173	1,608
Seafood	30	19	6	-	2	-	27	3	115
Total	17,723	12,983	1,396	57	635	878	15,949	1,774	7,599

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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At 31 December 2020 Collateral held against non credit-impaired exposures	Maximum exposure to credit risk	Real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Derivatives	9,913	-	-	5,318	-	-	5,318	4,595	-
Loans and commitments to customers:	1,136,660	706,096	95,947	11,869	49,504	102,673	966,089	170,571	10,957
Individuals	464,333	382,505	7	376	14,327	151	397,366	66,967	1,939
Commerce and services	149,751	61,610	157	659	25,444	32,211	120,081	29,670	4,029
Construction	54,812	41,329	11	1,297	2,108	2,249	46,994	7,818	570
Energy	8,989	6,545	-	1	14	14	6,574	2,415	25
Financial services	8,915	1,083	-	26	-	3,543	4,652	4,263	2
Industrial and transportation	102,499	39,750	12	178	7,088	29,500	76,528	25,971	1,127
Investment companies	21,626	6,903	-	1,891	79	11,125	19,998	1,628	709
Public sector and non-profit organisations	16,258	1,007	-	5	28	-	1,040	15,218	20
Real estate	173,328	149,991	-	7,424	343	1,157	158,915	14,413	2,280
Seafood	136,149	15,373	95,760	12	73	22,723	133,941	2,208	256
Total	1,146,573	706,096	95,947	17,187	49,504	102,673	971,407	175,166	10,957
Collateral held against credit-impaired exposures									
Loans and commitments to customers:	22,445	14,644	1,556	2,704	725	917	20,546	1,899	7,612
Individuals	6,739	5,973	21	3	144	4	6,145	594	935
Commerce and services	3,803	1,706	691	3	232	780	3,412	391	2,573
Construction	913	630	-	-	87	50	767	146	151
Industrial and transportation	2,118	431	810	51	246	71	1,609	509	1,922
Investment companies	3,345	714	-	2,611	6	-	3,331	14	284
Public sector and non-profit organisations	1	1	-	-	-	-	1	-	-
Real estate	5,383	5,082	5	36	7	12	5,142	241	1,565
Seafood	143	107	29	-	3	-	139	4	182
Total	22,445	14,644	1,556	2,704	725	917	20,546	1,899	7,612

Amounts are in ISK million

44. Credit quality of financial assets

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

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

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

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

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

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

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

At 31 March 2021

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	237,390	1,241	-	238,631
Risk class 5-6	360,529	60,086	-	420,615
Risk class 7-8	231,340	78,815	-	310,155
Risk class 9	39,338	13,294	-	52,632
Risk class 10	-	-	24,709	24,709
Unrated	397	131	-	528
	868,994	153,567	24,709	1,047,270
Expected credit losses	(3,695)	(6,763)	(7,397)	(17,855)
Net carrying amount	865,299	146,804	17,312	1,029,415

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	89,373	1,247	-	90,620
Risk class 5-6	44,195	7,094	-	51,289
Risk class 7-8	12,226	15,874	-	28,100
Risk class 9	915	337	-	1,252
Risk class 10	-	-	613	613
Unrated	120	74	-	194
	146,829	24,626	613	172,068
Expected credit losses	(363)	(553)	(202)	(1,118)
Total	146,466	24,073	411	170,950

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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At 31 March 2021	Risk class 1-4	Risk class 5-6	Risk class 7-8	Risk class 9	Risk class 10	Unrated	ECL	Total
Loans and commitments to customers:								
Individuals	106,041	195,238	161,438	36,439	6,770	5	(2,763)	503,168
Commerce and services	39,589	64,512	59,481	5,898	5,808	449	(6,594)	169,143
Construction	5,680	19,774	26,676	2,490	802	100	(699)	54,823
Energy	4,799	3,309	765	-	-	-	(23)	8,850
Financial services	5,432	2,976	526	-	-	15	(6)	8,943
Industrial and transportation	15,361	56,433	27,180	2,716	4,174	-	(3,174)	102,690
Investment companies	803	4,816	16,242	1,803	922	45	(1,034)	23,597
Public sector and non-profit organisations	13,969	1,234	258	-	121	28	(34)	15,576
Real estate	43,010	79,525	44,182	4,127	6,581	60	(4,306)	173,179
Seafood	94,567	44,087	1,507	411	144	20	(340)	140,396
Total	329,251	471,904	338,255	53,884	25,322	722	(18,973)	1,200,365

At 31 December 2020

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

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

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

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

Companies susceptible to the impact of COVID-19 were classified into four groups based on an assessment of how much an increase in credit risk these companies face in the short, medium and long term. In addition, to account for the material uncertainty in the operating environment of companies in the tourism industry, not reflected in their current risk class, they are further classified into four groups based on an assessment of how vulnerable they are to various assumptions on when tourists can be expected to start visiting Iceland again. The base case assumes around 700.000 tourists in Iceland in 2021.

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

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

At 31 March 2021

Loans to customers in the tourism industry:	Stage 1	Stage 2	Stage 3	Total
Group 1	2,334	16,007	-	18,341
Group 2	-	16,258	402	16,660
Group 3	-	57,843	3,158	61,001
Group 4	-	2,165	3,342	5,507
	2,334	92,273	6,902	101,509
Expected credit losses	(15)	(5,072)	(2,642)	(7,729)
Net carrying amount	2,319	87,201	4,260	93,780

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

	Stage 1	Stage 2	Stage 3	Total
Group 1	136	-	-	136
Group 2	-	13,445	38	13,483
Group 3	-	5,061	170	5,231
Group 4	-	323	21	344
	136	18,829	229	19,194
Expected credit losses	(3)	(510)	(102)	(615)
Total	133	18,319	127	18,579

Amounts are in ISK million

45. Cont'd

At 31 December 2020

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

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

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

46. Forbearance

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

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

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for a loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:
- All of the customer's facilities have to be considered performing; and
- The customer does not have any contract that is more than 30 days past due; and
- The probation period of two years has passed from the date of the forbearance event; and
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period

Because of the COVID-19 pandemic, the Group entered into an agreement with other financial institutions and lenders in Iceland to provide a moratorium for customers, uniformly executed across institutions. In the interim financial statements for the third quarter of 2020 the Group showed the extent of the payment moratoria granted by the Group under these initiatives. The agreement expired on 30 September 2020 and all moratoria under it has expired. Further extensions of moratoria has been granted on a case-by-case basis and is now classified as forbearance.

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

The following table provides a summary of the Group's forborne assets. The loans that previously were in payment moratorium and are now forborne are shown separately.

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At 31 March 2021	Stage 1	Stage 2	Stage 3	Total
Individuals	1,255	6,803	1,970	10,028
Companies	1,232	102,706	11,323	115,261
- In the tourism quasi-sector	-	65,177	5,505	70,682
- Other than the tourism quasi-sector	1,232	37,529	5,818	44,579
Gross carrying amount	2,487	109,509	13,293	125,289

	Stage 1	Stage 2	Stage 3	Total
Individuals	(12)	(145)	(179)	(336)
Companies	(11)	(4,658)	(4,320)	(8,989)
- In the tourism quasi-sector	-	(3,447)	(1,992)	(5,439)
- Other than the tourism quasi-sector	(11)	(1,211)	(2,328)	(3,550)
Expected credit losses	(23)	(4,803)	(4,499)	(9,325)

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

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

47. Assets obtained by taking possession of collateral

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

	31.3.2021	31.12.2020
Property and land	46	1,754
Industrial equipment and vehicles	40	86
Total	86	1,840

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

Amounts are in ISK million

48. Write-offs

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

Gross carrying amount written off and still subject to enforcement activity	2021 1.1-31.3	2020 1.1-31.3
Individuals	49	128
Companies	153	72
Total	202	200

49. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's capital base 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. 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 one large exposure. No large exposure is therefore above the maximum 25% single large exposure limit set by the law.

The following tables show the Group's large exposures as a percentage of the Group's capital base, before and after eligible credit risk mitigating effects.

At 31 March 2021

Groups of connected clients:	Before	After
Group 1	66%	-
Group 2	10%	10%

At 31 December 2020

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

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50. 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.

51. Liquidity coverage and Net stable funding ratio

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

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

Net stable funding ratio	31.3.2021	31.12.2020
For all currencies	119%	123%
Foreign currencies	182%	179%

Liquidity coverage ratio	31.3.2021	31.12.2020
For all currencies	172%	196%
Domestic currency	93%	95%
Foreign currencies	235%	463%

At 31 March 2021	For all currencies		Domestic currency		Foreign currencies	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	167,331	167,331	139,187	139,187	28,144	28,144
Liquid assets level 2	32,156	8,128	31,869	8,128	287	-
Total liquid assets	199,487	175,459	171,056	147,315	28,431	28,144
Deposits	551,904	140,607	480,014	114,757	71,890	25,850
Debt issued	16,082	16,082	971	971	15,110	15,110
Other outflows	116,720	59,092	86,789	52,227	29,931	6,865
Total outflows	684,706	215,781	567,774	167,955	116,931	47,825
Short-term deposits with other banks**	102,665	100,741	2,077	2,077	100,588	98,665
Other inflows	29,472	13,093	19,396	6,831	10,076	6,262
Restrictions on inflows	-	-	-	-	(22,966)	(69,058)
Total inflows	132,137	113,834	21,473	8,908	87,698	35,869
Liquidity coverage ratio		172%		93%		235%

Amounts are in ISK million

51. Cont'd

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

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

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

Deposits by liquidity coverage ratio category

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

At 31 March 2021	Deposits maturing within 30 days					
	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Retail	129,481	14%	248,146	5%	76,883	454,510
Operational relationships	2,762	25%	-	5%	-	2,762
Corporations	89,025	40%	2,213	20%	23,583	114,821
Sovereigns, Central Bank and public sector entities	8,993	40%	1,170	20%	21,142	31,305
Pension funds	34,344	100%	-	-	23,671	58,015
Domestic financial entities	32,228	100%	-	-	23,573	55,801
Foreign financial entities	3,542	100%	-	-	9,384	12,926
Total	300,375		251,529		178,236	730,140

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

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52. Maturity analysis of assets and liabilities

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

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

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

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

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

At 31 March 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	88,748	55,043	32,424	-	-	1,281	-	88,748
Loans to credit institutions	103,333	49,300	54,021	12	-	-	-	103,333
Bonds and debt instruments	103,627	-	21,034	25,949	50,102	6,542	-	103,627
Loans to customers	1,029,415	2,601	79,822	99,037	320,695	527,260	-	1,029,415
Shares and equity instruments	25,763	-	-	-	-	-	25,763	25,763
Other financial assets	16,298	14,916	761	613	8	-	-	16,298
Total financial assets	1,367,184	121,860	188,062	125,611	370,805	535,083	25,763	1,367,184
Deposits from CB and credit institutions	31,565	5,382	5,974	21,633	-	-	-	32,989
Deposits from customers	698,575	559,837	72,481	49,237	24,748	27,090	-	733,393
Debt issued and other borrowed funds	398,225	-	3,431	52,027	342,259	103,658	-	501,375
Subordinated loans	25,259	-	174	439	3,118	28,045	-	31,776
Other financial liabilities:	28,076	1,704	1,313	1,783	2,123	-	-	6,923
Lease liabilities	3,892	123	369	1,783	2,123	-	-	4,398
Other liabilities	24,184	1,581	944	-	-	-	-	2,525
Total financial liabilities	1,181,700	566,923	83,373	125,119	372,248	158,793	-	1,306,456

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	72,066	31,468	13,685	-	-	117,219
Outflow	-	(77,412)	(31,281)	(12,058)	-	-	(120,751)
Total	-	(5,346)	187	1,627	-	-	(3,532)
Net settled derivatives	-	401	-	-	-	-	401
Total derivative financial assets	-	(4,945)	187	1,627	-	-	(3,131)
Gross settled derivatives							
Inflow	-	94,860	49,817	40,588	-	-	185,265
Outflow	-	(93,203)	(51,462)	(43,923)	-	-	(188,588)
Total	-	1,657	(1,645)	(3,335)	-	-	(3,323)
Net settled derivatives	-	(4,273)	-	-	-	-	(4,273)
Total derivative financial liabilities	-	(2,616)	(1,645)	(3,335)	-	-	(7,596)
Total net financial assets and financial liabilities	(445,063)	102,360	2,324	3,519	376,289	25,763	65,192

Amounts are in ISK million

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

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

Amounts are in ISK million

52. Cont'd

Off-balance sheet liabilities

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

At 31 March 2021	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	18,278	-	-	-	-	-	18,278
Undrawn loan commitments	60,541	-	-	-	-	-	60,541
Undrawn overdrafts	58,280	-	-	-	-	-	58,280
Credit card commitments	33,851	-	-	-	-	-	33,851
Total off-balance sheet liabilities	170,950	-	-	-	-	-	170,950
At 31 December 2020							
Financial guarantees	23,189	-	-	-	-	-	23,189
Undrawn loan commitments	40,026	-	-	-	-	-	40,026
Undrawn overdrafts	56,746	-	-	-	-	-	56,746
Credit card commitments	32,427	-	-	-	-	-	32,427
Total off-balance sheet liabilities	152,388	-	-	-	-	-	152,388

53. 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.

54. Interest rate risk

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

Amounts are in ISK million

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Interest rate risk in the trading book

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

	31.3.2021			31.12.2020		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	4,222	1.93	(0.81)	4,103	1.87	(0.77)
Non-indexed	64,528	0.82	(5.30)	86,829	0.66	(5.70)
Total	68,750	0.89	(6.11)	90,932	0.71	(6.47)

	31.3.2021			31.12.2020		
Trading bonds and debt instruments, short positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	5	2.00	-	224	6.00	0.12
Non-indexed	136	5.00	0.07	351	5.00	0.17
Total	141	4.89	0.07	575	5.39	0.29
Net position of trading bonds and debt instruments	68,609	0.88	(6.04)	90,357	0.68	(6.18)

Interest rate risk in the banking book

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

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

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2021

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(1)	(98)	188	(2,844)	4,206	(1,042)	409
ISK, non-indexed	(32)	(14)	(59)	(1,201)	278	(5)	(1,033)
EUR	25	(101)	(793)	911	-	(1)	41
SEK	21	-	-	-	-	-	21
USD	1	12	-	-	-	(1)	12
Other	11	(5)	-	(9)	-	(6)	(9)
Total	25	(206)	(664)	(3,143)	4,484	(1,055)	(559)

At 31 December 2020

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

Amounts are in ISK million

55. 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.

Series C preferred shares in Visa Inc., which the Group holds, are included in the currency imbalance even though the shares are classified as held for sale.

At 31 March 2021	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	596	281	143	39	15	55	57	99	29	126	1,440
Loans to credit institutions	31,232	29,043	1,981	292	198	12,270	24,784	515	143	37	100,495
Bonds and debt instruments	14,095	3,789	9	-	-	2,896	5,924	-	-	-	26,713
Loans to customers	126,090	33,960	1,136	989	3,039	72	3,215	2,760	3,752	26	175,039
Shares and equity instruments	134	1,502	339	-	-	191	5	-	-	-	2,171
Other assets	3,506	475	2	-	-	67	-	-	-	-	4,050
Total assets	175,653	69,050	3,610	1,320	3,252	15,551	33,985	3,374	3,924	189	309,908
Deposits from credit institutions	8,501	529	25	-	-	-	8	1	-	-	9,064
Deposits from customers	33,258	27,726	4,910	438	320	958	2,952	1,829	417	29	72,837
Derivative instruments and short positions	1	-	-	-	-	9	-	-	-	-	10
Debt issued and other borrowed funds	135,690	-	-	-	-	38,368	34,165	-	-	-	208,223
Subordinated loans	-	-	-	-	-	25,259	-	-	-	-	25,259
Other liabilities	1,674	462	1	-	-	42	-	-	-	70	2,249
Total liabilities	179,124	28,717	4,936	438	320	64,636	37,125	1,830	417	99	317,642
Net on-balance sheet position	(3,471)	40,333	(1,326)	882	2,932	(49,085)	(3,140)	1,544	3,507	90	(7,734)
Net off-balance sheet position	3,992	(37,293)	1,433	(887)	(2,922)	49,037	3,056	(1,533)	(3,519)	(59)	11,305
Net position	521	3,040	107	(5)	10	(48)	(84)	11	(12)	31	3,571

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

55. Cont'd

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

Amounts are in ISK million

56. 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 251 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2021	31.12.2020
Bonds and debt instruments	4,927	4,684
Loans to customers	264,165	268,062
Total CPI-linked assets	269,092	272,746
Deposits from customers	92,404	90,353
Debt issued and other borrowed funds	135,527	136,487
Off-balance sheet exposures	16,025	19,725
Total CPI-linked liabilities	243,956	246,565
CPI imbalance	25,136	26,181

57. 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.

58. Capital management

The following tables show the capital base, the risk exposure amount, the resulting capital ratios, and the leverage ratio for the Group at 31 March 2021 and 31 December 2020.

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

EU regulation no. 2017/2395 regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, was ratified into Icelandic law in May 2020. The regulation allows for the phasing in of capital impacts due to IFRS 9, allowing institutions to include a predefined level of provisions as part of CET1 capital. Íslandsbanki has elected to make use of the transitional arrangements, which will add ISK 3.8 billion to CET1, corresponding to an increase of 40 basis points in the Group's capital ratio.

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, applicable as of 22 September 2020, the overall capital requirement is 17.0%. 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%.

Amounts are in ISK million

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	31.3.2021	31.12.2020
CET1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	6,353	6,181
Retained earnings	113,335	113,529
Non-controlling interests	783	1,494
IFRS 9 reversal due to transitional rules	3,853	5,164
Fair value changes due to own credit standing	434	238
Expected or proposed dividend payment	(1,725)	-
Tax assets	(1,087)	(259)
Intangible assets	(3,357)	(3,478)
Total CET1 capital	183,589	187,869
Tier 2 capital		
Qualifying subordinated loans	25,259	27,194
Total capital base	208,848	215,063
Risk exposure amount		
- due to credit risk	851,309	830,141
- due to market risk	17,447	16,626
Market risk, trading book	14,062	11,306
Currency risk	3,385	5,320
- due to credit valuation adjustment	930	1,728
- due to operational risk	85,026	85,026
Total risk exposure amount	954,712	933,521
Capital ratios		
Tier 1 ratio	19.2%	20.1%
Total capital ratio	21.9%	23.0%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,378,255	1,333,807
Off-balance sheet exposures	68,366	41,067
Derivative exposures	6,611	9,922
Leverage ratio total exposure measure	1,453,232	1,384,797
Tier 1 capital	183,589	187,869
Leverage ratio	12.6%	13.6%

Amounts are in ISK million

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