



Condensed Consolidated Interim Financial Statements

LANDSBANKINN HF | Reg. No. 471008-0280 | LANDSBANKINN.IS

For the three months ended 31 March 2021

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Highlights

Number one in performance satisfaction index



Credit rating

BBB
with stable outlook
S&P Global
Ratings

Best bank

EUROMONEY
AWARDS FOR EXCELLENCE
2020

The Banker
GLOBAL FINANCIAL INTELLIGENCE SINCE 1926

ESG risk rating



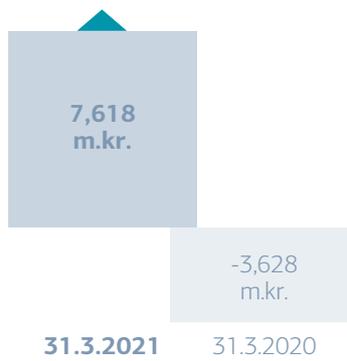
ESG risk rating at 13.5
(low risk).

Sustainable finance

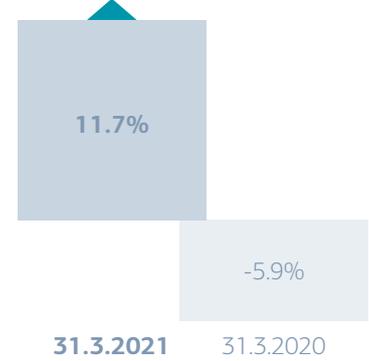


Landsbankinn published a sustainable finance framework in January 2021.

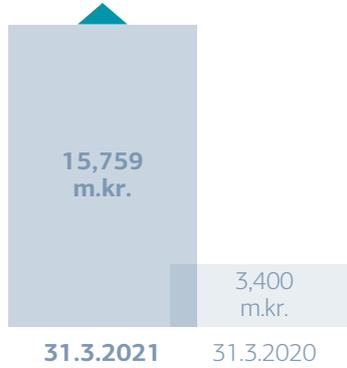
Profit (loss)



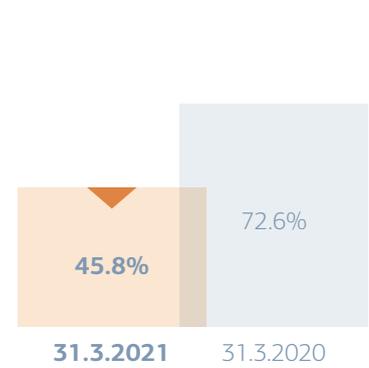
Return on equity



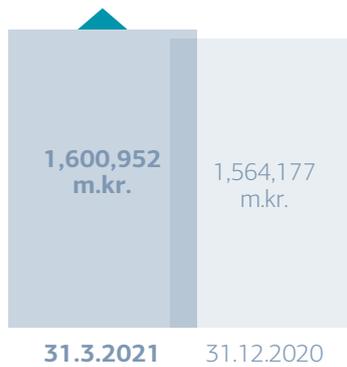
Total operating income



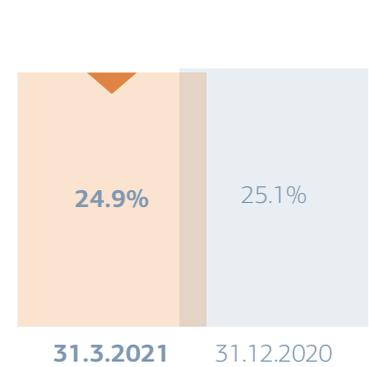
Cost-income ratio



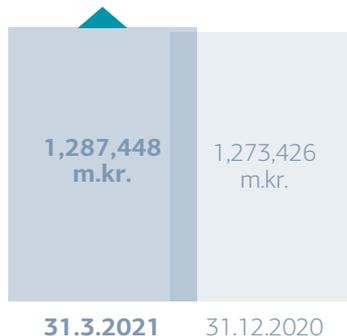
Total assets



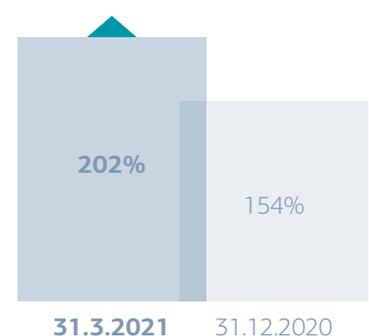
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

The Board of Directors and the CEO of Landsbankinn hf. (the "Bank" or "Landsbankinn") present this report together with the reviewed Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first three months of 2021, which is comprised of the Bank and its subsidiaries (collectively referred to as the "Group").

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering a wide range of financial services that suit the needs of our customers, individuals and businesses alike.

Towards the end of 2020, the Bank presented its new strategy under the headline Landsbankinn, an ever-smarter bank. The strategy is founded on the ideal of mutual trust and personal approach to banking. With us, customer satisfaction comes first, we are focused on ensuring sound operation and continue to develop digital solutions. Our aim is to simplify life for our customers by making finances more approachable while simultaneously strengthening advisory service and information provision. Satisfied employees and a success-driven culture will strengthen the Bank's operation and create opportunities for initiative.

For the purpose of attaining the goal of simplifying life for customers and creating more opportunities for internal collaboration, the Bank has been organised into the following divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management and IT. These divisions comprise the Bank's operating segments as of 1 January 2021 which together constitute the reportable segments presented in the Group's internal and external financial reporting (see Note 5).

Operations

Consolidated profit amounted to ISK 7,618 million for the first three months of 2021 as compared with a loss of ISK 3,628 for the same period the previous year. Net impairment gain on loans of ISK 2,489 million was recognised for the period as compared with a loss of ISK 5,244 million for the same period the year before. The reversal of impairment on loans is attributed to expected economic recovery and fewer defaults than anticipated at the time uncertainty around the COVID-19 pandemic was at its highest around mid-2020. Net interest income amounted to ISK 8,626 million for the period as compared with ISK 9,427 million for the same period the year before. Net gain on financial assets and liabilities at fair value rose considerably between years, from a loss of ISK 2,625 million the previous year to a gain of ISK 2,371 million. Net fee and commission income was ISK 2,054 million and salaries and related expenses were ISK 3,769 million, both fairly stable between years.

Consolidated total equity amounted to ISK 261,384 million and total assets to ISK 1,600,952 million at the end of the period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.9% at the end of the period as compared with 25.1% at the beginning of the year.

On 15 January 2021, S&P Global Ratings assigned a credit rating for covered bonds issued by Landsbankinn at A- with stable outlook. The credit rating for covered bonds issued by the Bank is two notches above the Bank's issuer credit rating. This is the first time an international rating agency issues a rating grade for the covered bonds of an Icelandic bank.

On 21 January 2021, the Bank published its first sustainable finance framework. The framework broadens our scope for financing green and social projects, such as switching to renewable energy sources, developing environmentally-friendly infrastructure and sustainable fisheries. It sets out clear criteria for the definition of sustainable projects and ensures transparency. Around 30% of the Bank's lending portfolio already fits the parameters of the framework. The framework has been reviewed by international rating agency Sustainalytics.

On 25 February 2021, the Bank completed its inaugural green bond issuance of EUR 300 million, or the equivalent of ISK 44,610 million at the end of the first quarter. The bonds bear 0.375% fixed rates and were sold at terms equivalent to an 87 basis point spread above EUR mid-swap market rates. These are 4.25Y bonds, maturing in May 2025. The issuance reached a broader investor group than before, including investors in alternatives who focus on sustainability. The bonds are issued under the Bank's EMTN programme with reference to its sustainable finance framework. The bonds have been admitted to trading on Euronext Dublin.

Risk factors

The Bank's risk profile remained stable during the first quarter of 2021. The effects of the COVID-19 pandemic on the Bank's travel industry portfolio remain uncertain, with the impact of the pandemic on other parts of the Bank's portfolio seeming milder than initially expected. The carrying amount of the Bank's credit portfolio grew by 1.1% during the period, largely due to an increase in the mortgage portfolio. Average probability of default decreased during the period and was 2.6% at the end of the first quarter, compared to 2.9% at year-end 2020. Impairment charges on loans to customers decreased during the period and a net impairment gain of ISK 2,499 million is recognised in the income statement. A decrease in expected credit loss (ECL) in stages 1 and 2 due to a more positive outlook for macroeconomic variables in the Bank's scenarios for ECL calculations, as well as fewer defaults than expected, are the main reasons for decreased impairment charges. At the end of the first quarter, the gross carrying amount of loans with active payment moratoria was ISK 97 billion. Of that amount, ISK 75 billion are loans to counterparties in the travel sector. Further information on payment moratoria measures can be found in Note 4 in the Consolidated Interim Financial Statements.

The Bank's liquidity position remains strong and strengthened even further during the first quarter of 2021. The total liquidity coverage ratio at the end of the first quarter was 202%, 120% in Icelandic króna and 477% in foreign currencies. Market risk remains modest and well within the Bank's risk appetite.

There is still uncertainty about the eventual impact of COVID-19 on the Bank's assets and operations as pandemic-related restrictions still negatively affect the economy. It is our opinion that this uncertainty will not impact the Bank as a going concern, which is supported by strong capital and liquidity positions and stable operations.

Further information on the Group's risk management is included in the notes to the Consolidated Financial Statements and the Pillar III report for the year 2020, supplemented with Pillar III additional disclosures for the first quarter of 2021, all accessible on the Bank's website, www.landsbankinn.is.

Report of the Board of Directors and the CEO

Economic outlook

Statistics Iceland's preliminary figures for 2020 indicate a 6.6% contraction in GDP. This is the second largest annual contraction since records began. An historic contraction in exports during the year, caused by the COVID-19 pandemic, is the main explanation. The COVID-19 vaccination campaign has gathered momentum in the past few months, both in Iceland and main trading partner countries. The outlook is for a robust economic turnaround in late summer with the subsidence of the pandemic and re-opening of the country to tourism. Registered unemployment was 12.8% in January, decreasing to 12.1% in March.

Inflation increased somewhat in the first quarter of the year, averaging 4.2%. Inflation is expected to subside as the year progresses and the effect of ISK depreciation in 2020 peters out.

Other matters

The AGM of Landsbankinn, held on 24 March 2021, approved the motion of the Board of Directors to pay a dividend of ISK 0.19 per share to shareholders for the operating year 2020. The total dividend on outstanding shares amounts to ISK 4,489 million and corresponds to about 43% of the consolidated profit in 2020 (and is 16% of the consolidated profit in 2019 and 2020). The dividend payment is in accordance with the maximum guidance for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021. The dividend was paid to shareholders on 31 March 2021.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first three months of 2021 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first three months of 2021, its consolidated financial position as at 31 March 2021, and its consolidated cash flows for the first three months of 2021.

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

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first three months of 2021.

Reykjavík, 6 May 2021

Board of Directors

Helga Björk Eiríksdóttir, Chairman
Berglind Svavarsdóttir, Vice-Chairman
Elín H. Jónsdóttir
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarson
Þorvaldur Jacobsen

Chief Executive officer

Lilja Björk Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Landsbanki hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Landsbankinn hf. as at March 31st 2021 which comprise of Report of the Board of Directors and the CEO, Condensed Consolidated Statement of Financial Position as at March 31st 2021 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the three-month period then ended March 31st 2021 and other explanatory notes. The Board of Directors and CEO are responsible for the preparation and presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 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 International Standards 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 International Accounting Standard 34 "Interim Financial Reporting", as adopted by the EU.

Reykjavík, 6 May 2021

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorized Public Accountant

Atli Þór Jóhannsson
State Authorized Public Accountant

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Condensed Consolidated Income Statement for the three months ended 31 March 2021

Notes		2021 1.1-31.3	2020 1.1-31.3
	Interest income	14,332	16,416
	Interest expense	(5,706)	(6,989)
6	Net interest income	8,626	9,427
	Fee and commission income	2,875	2,773
	Fee and commission expense	(821)	(828)
7	Net fee and commission income	2,054	1,945
8	Net gain (loss) on financial assets and liabilities at FVTPL	2,371	(2,625)
9	Net foreign exchange (loss) gain	(27)	85
10	Net impairment changes	2,489	(5,244)
11	Other income and (expenses)	246	(188)
	Net other operating income	5,079	(7,972)
	Total net operating income	15,759	3,400
12	Salaries and related expenses	(3,769)	(3,844)
13	Other operating expenses	(2,315)	(2,430)
	Tax on liabilities of financial institutions	(467)	(450)
	Total operating expenses	(6,551)	(6,724)
	Profit (loss) before tax	9,208	(3,324)
14	Income tax	(1,590)	(304)
	Profit (loss) for the period	7,618	(3,628)
	Profit (loss) for the year attributable to:		
	Owners of the Bank	7,618	(3,628)
	Non-controlling interests	0	0
	Profit (loss) for the period	7,618	(3,628)
	Earnings per share		
34	Basic and diluted earnings per share from operations (ISK)	0.32	(0.15)

Condensed Consolidated Statement of Comprehensive Income for the three months ended 31 March 2021

Notes		2021 1.1-31.3	2020 1.1-31.3
	Profit (loss) for the period	7,618	(3,628)
	Other comprehensive income for the period, after tax	0	0
	Total comprehensive income for the period	7,618	(3,628)

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

Condensed Consolidated Statement of Financial Position as at 31 March 2021

Notes		31.3.2021	31.12.2020
Assets			
19, 55	Cash and balances with Central Bank	59,937	67,604
20	Bonds and debt instruments	134,183	119,330
21	Equities and equity instruments	31,811	26,808
22	Derivative instruments	1,534	3,303
23, 55	Loans and advances to financial institutions	55,234	48,073
24, 55	Loans and advances to customers	1,287,448	1,273,426
	Investments in equity-accounted associates	1,806	1,722
	Property and equipment	10,232	9,327
	Intangible assets	1,837	1,696
30	Deferred tax assets	0	23
25	Other assets	15,504	11,227
26	Assets classified as held for sale	1,426	1,638
	Total assets	1,600,952	1,564,177
Liabilities			
27	Due to financial institutions and Central Bank	40,932	48,725
28	Deposits from customers	794,252	793,427
22	Derivative instruments and short positions	5,485	4,248
29, 55	Borrowings	452,709	420,178
30	Tax liabilities	3,628	3,919
31	Other liabilities	21,682	14,029
26	Liabilities associated with assets classified as held for sale	30	30
32	Subordinated liabilities	20,850	21,366
	Total liabilities	1,339,568	1,305,922
33	Equity		
	Share capital	23,625	23,625
	Share premium	120,630	120,630
	Reserves	21,572	19,250
	Retained earnings	95,557	94,750
	Total equity	261,384	258,255
	Total liabilities and equity	1,600,952	1,564,177

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

Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2021

Notes

	Attributable to owners of the Bank									Non-controlling interests	Total
	Share capital	Share premium	Statutory reserve	Reserves*			Retained earnings	Total			
				Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL						
Change in equity for the three months ended 31 March 2021											
Restated balance as at 1 January 2021	23,625	120,630	6,000	3,659	9,591	94,750	258,255			258,255	
Profit for the period						7,618	7,618			7,618	
Transferred to restricted retained earnings				338	1,984	(2,322)	0			0	
Dividends allocated						(4,489)	(4,489)			(4,489)	
33 Balance as at 31 March 2021	23,625	120,630	6,000	3,997	11,575	95,557	261,384	0		261,384	
Change in equity for the three months ended 31 March 2020											
Balance as at 1 January 2020	23,625	120,630	6,000	2,709	5,625	89,145	247,734			247,734	
Loss for the period						(3,628)	(3,628)			(3,628)	
Transferred to (from) restricted retained earnings				109	(1,779)	1,670	0			0	
33 Balance as at 31 March 2020	23,625	120,630	6,000	2,818	3,846	87,187	244,106	0		244,106	

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

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

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2021

Notes	2021 1.1-31.3	2020 1.1-31.3
Operating activities		
Profit (loss) for the period	7,618	(3,628)
Adjustments for non-cash items included in profit for the period	(11,884)	2,097
Changes in operating assets and liabilities	(45,070)	7,042
Interest received	12,690	16,316
Interest paid	(2,291)	(2,699)
Dividends received	21	31
Tax on liabilities of financial institutions paid	(2,326)	(1,795)
Net cash from (used in) operating activities	(41,242)	17,364
Investing activities		
Purchase of property and equipment	(1,017)	(594)
Proceeds from sale of property and equipment	21	-
Purchase of intangible assets	(211)	(12)
Investing activities	(1,207)	(606)
Financing activities		
Proceeds from borrowings	71,773	53,356
Repayment of borrowings	(30,533)	(45,198)
Rent paid	(158)	(141)
Dividends paid	(4,489)	-
Financing activities	36,593	8,017
Cash and cash equivalents as at the beginning of the period	69,091	70,704
Net change in cash and cash equivalents	(5,856)	24,775
Effect of exchange rate changes on cash and cash equivalents held	584	(2,683)
Cash and cash equivalents as at the end of the period	63,819	92,796
Cash and cash equivalents is specified as follows:		
19 Cash and balances with Central Bank	59,937	92,440
23 Bank accounts with financial institutions	19,025	18,537
19 Mandatory and special restricted balances with Central Bank	(15,143)	(18,181)
Cash and cash equivalents as at the end of the period	63,819	92,796

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

Condensed Consolidated Statement of Cash Flows for the three months ended 31 March 2021

Notes	2021 1.1-31.3	2020 1.1-31.3
Adjustments for non-cash items included in profit for the period		
6	(8,626)	(9,427)
8	(2,371)	2,625
9	(557)	2,598
10	(2,489)	5,244
	(14)	-
	(115)	40
	315	320
	(84)	(57)
	467	450
14	1,590	304
	(11,884)	2,097

Changes in operating assets and liabilities

Change in reserve requirement with Central Bank	(1,489)	7,378
Change in bonds and equities	(19,264)	12,539
Change in derivatives	-	35
Change in loans and advances to financial institutions	(4,790)	(23,294)
Change in loans and advances to customers	(19,043)	(24,334)
Change in other assets	(3,757)	(4,941)
Change in assets classified as held for sale	327	(275)
Change in due to financial institutions and Central Bank	(7,939)	(6,867)
Change in deposits from customers	2,252	28,434
Change in tax liability	27	20
Change in other liabilities	8,606	18,347
	(45,070)	7,042

Change in liabilities due to financing activities

	As at 1.1.2021	Non-cash changes				As at 31.3.2021
		Cash flow	Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	189,360	12,325	2,550	-	-	204,235
Senior unsecured bonds	116,196	28,250	536	(6,203)	-	138,779
Senior unsecured bonds held to hedge long-term borrowings	95,468	(99)	100	(4,429)	(589)	90,451
Other unsecured loans	19,154	93	77	(80)	-	19,244
Subordinated liabilities	21,366	-	217	(733)	-	20,850
Total	441,544	40,569	3,480	(11,445)	(589)	473,559

	As at 1.1.2020	Non-cash changes				As at 31.3.2020
		Cash flow	Accrued interest	Foreign exchange	Change in the fair value	
Secured borrowings	140,549	12,393	1,562	-	-	154,504
Senior unsecured bonds	122,705	(1,148)	(499)	13,933	-	134,991
Senior unsecured bonds held to hedge long-term borrowings	86,813	(996)	1,034	12,747	(140)	99,458
Commercial paper issued	3,605	(2,841)	30	-	-	794
Other unsecured loans	19,496	(167)	202	3,313	-	22,844
Subordinated liabilities	19,081	-	256	2,042	-	21,379
Total	392,249	7,241	2,585	32,035	(140)	433,970

The accompanying notes 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

General

1. Reporting entity

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

The Condensed Consolidated Interim Financial Statements of the Bank for the three months ended 31 March 2021 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union. The Condensed Consolidated Interim Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The issue of these Condensed Consolidated Interim Financial Statements was authorised by the Board of Directors and the CEO of the Bank on 6 May 2021.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2020, which are available on the Bank's website, www.landsbankinn.is.

Going concern

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

3. Critical accounting estimates and judgements in applying accounting policies

The Condensed Consolidated Interim Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2020.

4. Impact of COVID-19 on the Financial Statements

The Interim Financial Statements of the Group for the first three months of 2021 reflect the unprecedented conditions caused by the COVID-19 pandemic and related economic uncertainties.

Measurement of expected credit losses (ECL)

ECL assessment at the end of the first quarter of 2021 is based on different probability-weighted scenarios from the Bank's Economic Research department. Probability-weighted scenarios reflect both positive and negative uncertainties in economic development.

While the final impact of the COVID-19 pandemic on the Bank's credit portfolio is as yet uncertain, it is likely that a protracted period of lower income will put pressure on customers, many of whom have already been assigned lower credit grades by the Bank and their collateral revalued as a result of changed conditions. In response to the impact of COVID-19, the Bank has granted both businesses and individuals general measures in the form of payment moratoria and, at a later stage, special measures that include extended payment moratoria which qualify as forbearance were offered customers in need. The definitions of payment moratoria and forbearance are those of EBA's guidelines. Active measures at the reporting date apply to customers that are still on payment moratoria and qualify simultaneously as special measures and forbearance, as the general measures offered by the Bank expired in 2020.

Notes to the Condensed Consolidated Interim Financial Statements

4. Impact of COVID-19 on the Financial Statements (continued)

Measurement of expected credit losses (ECL), (continued)

In the first quarter, individually significant loans to companies with active COVID-19 measures were assessed manually for staging. The application of special COVID-19 measures is not in itself considered grounds for re-staging to Stage 3, yet such loans are all classified as having received debt forbearance. The Bank also specially assesses loans to customers in the travel sector for staging, as well as loans to customers with special measures and who are still on payment holiday at the end of the first quarter. These loans are subsequently moved to Stage 2, provided certain conditions are satisfied. This special reclassification moves loans valued at ISK 4.2 billion to Stage 2 at the end of the first quarter. The Bank has also assessed the need for a collective provision for these loans and recognised an ISK 1,495 million provision for loans to the travel sector; ISK 146 million for loans to other companies, and ISK 171 million for loans to individuals.

Maximum credit risk exposure to customers provided with special COVID-19 measures

The Bank has responded to the conditions created by the pandemic by providing various support measures to customers in need. Initially, general measures were provided under an agreement between the domestic banks and other lenders. Customers experiencing more severe difficulties were later offered special measures which include extended payment moratoria. In addition, a small part of the Bank's customers has been granted government-backed loans.

The government has introduced several relief programmes designed to help households and companies directly. These measures are directed at counteracting unemployment and temporary loss of personal income by supplementing wages lost because of reduced working hours with unemployment benefits. Companies that have lost revenues are offered revenue loss grants aimed to guarantee support to keep workers employed part-time. Companies can also apply for support and supplementary loans granted by credit institutions but government guaranteed. Companies which were required to close their doors have received special business closure grants. Companies can potentially seek payment respite for up to a year for financial distress caused by the pandemic. Lastly, relief grants are intended to ensure that companies can maintain necessary minimum activities during the pandemic, safeguard business relationships and stand ready to resume operations once the situation improves. All these government relief programmes are contingent on certain conditions.

The table below shows the Bank's credit risk exposure as at 31 March 2021 and 31 December 2020 for customers with special measures for a longer term or extending to the second half of 2021 due to continuing difficulties caused by COVID-19 and qualify as forbearance. The measures include payment holiday of principal or interest, or payment holiday of principal only. In the first quarter, there was a small increase in Stage 3 loans but a higher increase in Stage 2 loans because of individuals and companies granted special measures.

As at 31 March 2021

On-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Carrying amount
	Stage 1	Stage 2	Stage 3			
Individuals	3	3,457	211	(154)	-	3,517
Travel industry	9,584	63,314	7,842	(5,777)	-	74,963
Other corporates	116	17,023	1,290	(825)	738	18,342
Total	9,703	83,794	9,343	(6,756)	738	96,822

Off-balance sheet exposure	Gross carrying amount			Allowance for impairment	Fair value	Total
	Stage 1	Stage 2	Stage 3			
Individuals	-	58	1	-	-	59
Travel industry	449	11,292	104	(154)	-	11,691
Other corporates	-	388	13	(1)	-	400
Total	449	11,738	118	(155)	0	12,150
Maximum exposure to credit risk	10,152	95,532	9,461	(6,911)	738	108,972

As at 31 December 2020

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

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

The Bank has granted customers government-backed support and supplementary loans. The aim of such support and supplementary loans is to provide companies, especially SMEs, that are facing temporary operating problems due to COVID-19, with access to liquid funds. This reduces the impact of the pandemic on industry and employment. The Treasury guarantee is capped at 70% on supplementary loans, 100% on support loans in the maximum amount of ISK 10 million and 85% on support loans in the amount of ISK 10-40 million.

Notes to the Condensed Consolidated Interim Financial Statements

4. Impact of COVID-19 on the Financial Statements (continued)

As at 31 March 2021, the Bank has approved government-backed supplementary loans to just under 300 customers in the gross carrying amount of ISK 3.6 bn (31 December 2020: ISK 3.5 bn). In addition, the Bank has opened a credit line in the amount of ISK 7.6 bn (31 December 2020: ISK 7.6 bn), 90% government-backed, that is as yet undrawn at the end of the first quarter of 2021.

Economic forecasts

Landsbankinn's Economic Research Department provides scenarios with forecasts on relevant economic variables and presents them to the Bank's Valuation Team.

The following table shows certain key economic variables used to calculate expected credit loss (ECL) for stages 1 and 2. At the reporting date, the baseline forecast of Landsbankinn Economic Research projects 3.3% growth in GDP this year. The forecasts for the upside, baseline and downside scenarios show averages for the 12-month outlook and to the medium-term forecast horizon. The upside scenario is given 25% weight, the baseline 50% weight and the downside scenario 25% weight.

	Upside scenario		Base case scenario		Downside scenario	
	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
As at 31 March 2021						
GDP growth	9.1%	6.5%	6.8%	4.3%	4.3%	1.9%
Unemployment rate	5.7%	3.9%	7.1%	5.2%	10.1%	7.2%
Base rate	1.4%	3.1%	1.1%	1.9%	0.3%	0.6%
Inflation	3.4%	3.2%	3.2%	2.6%	3.4%	2.0%
EUR/ISK exchange rate, average	149.7	144.1	151.8	147.4	167.8	158.1
Housing Price index, y/y change	9.0%	6.1%	7.3%	4.1%	5.3%	1.3%

	Upside scenario		Base case scenario		Downside scenario	
	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period	Next 12 Months	Remainder of the Forecast Period
As at 31 December 2020						
GDP growth	5.5%	7.6%	3.3%	5.0%	0.9%	2.6%
Unemployment rate	7.1%	4.1%	8.4%	5.3%	10.9%	7.5%
Base rate	1.1%	2.9%	0.9%	1.8%	0.3%	0.6%
Inflation	3.3%	3.2%	3.3%	2.6%	3.5%	2.1%
EUR/ISK exchange rate, average	149.9	144.1	155.0	151.1	167.8	158.1
Housing Price index, y/y change	10.9%	5.5%	9.1%	3.4%	5.3%	1.3%

	1.1-31.3.2021			2020		
	Upside scenario	Base scenario	Downside scenario	Upside scenario	Base scenario	Downside scenario
Allowance for impairment (Stage 1 and Stage 2)	7,846	8,589	9,852	9,922	10,912	13,035
Proportion of assets in Stage 2	10.3%	10.4%	10.7%	10.8%	11.0%	11.4%

	Reported under IFRS 9	
	2021 1.1-31.3	2020
Allowance for impairment (Stage 1 and Stage 2)	8,719	11,196

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments

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

The financial reporting for business segments in the interim financial statements reflects for the first time organisational changes made towards year-end 2020. Comparison amounts for the same period the previous year have not been adjusted and reflect the former organisational structure. The Group is comprised of the four main business segments at the end of the reporting period:

- **Personal Banking** offers individuals and small and medium-sized companies outside the capital city region, comprehensive financial services and advice, emphasising digital service channels and self-service solutions, both through online banking and apps, together with conventional service through the Bank's branch network and Customer Service Centre.
- **Corporate Banking** offers municipalities, institutions, larger companies and SMEs in the capital region financial service and advice, emphasising digital service channels and self-service solutions such as corporate online banking.
- **Asset Management & Capital Markets** offers brokerage service in securities, currencies and derivatives, in addition to comprehensive asset management. Landsbréf hf., the Bank's subsidiary, is included in Asset Management & Capital Markets' segment reporting.
- **Treasury** and **Market Making** are units under the **Finance & Operation** division. These units are responsible for the Bank's funding, liquidity management, internal pricing of capital and market-making in currency, bonds and equities. Treasury also manages the FX, interest rate and indexation risk of the Bank within the parameters of its risk appetite.

After the organisational changes, the Bank has the following divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management and IT. Other operating segments include Finance & Operations (with the exception of Treasury and Market Making), Risk Management and IT. Also under other operating segments are the CEO's Office, incorporating Compliance and Legal Services, and the Community, incorporating HR, Marketing & Communication and Economic Research. While the Bank's Internal Audit function also falls under other segments, it is an independent unit directly responsible to the Board of Directors.

Reconciliation consists of eliminations of internal transactions and operating items that cannot be allocated to any one segment.

Administrative expenses of the Group's other segments are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Support functions supply services to business units and transactions are settled at unit prices or, if possible, on an arm's-length basis by use and activity. Income tax is allocated to appropriate business segments based on the prevailing income tax rate. Tax on the Bank's liabilities is allocated to the income generating divisions based on the prevailing tax rate, currently 0.145%.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss) before tax. In these reports, all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm's-length basis.

Revenue from transactions with any single external customer was within 10% of the Group's total revenue during the period from 1 January to 31 March 2021 and the corresponding period in 2020.

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments (continued)

	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other segments	Recon- ciliation	Total
1 January - 31 March 2021							
Net interest income	4,017	4,590	113	(77)	(17)	-	8,626
Net fee and commission income	615	295	1,237	(83)	90	(100)	2,054
Net impairment changes	477	2,012	(1)	1	-	-	2,489
Net other operating income (expenses)	75	57	100	2,203	159	(4)	2,590
Total operating income (expense)	5,184	6,954	1,449	2,044	232	(104)	15,759
Operating expenses	(1,680)	(721)	(520)	(204)	(3,064)	105	(6,084)
Tax on liabilities of financial institutions	(187)	(83)	(3)	(194)	-	-	(467)
Profit (loss) before cost allocation and tax	3,317	6,150	926	1,646	(2,832)	1	9,208
Allocated expenses	(1,109)	(708)	(278)	(229)	2,324	-	0
Profit (loss) before tax	2,208	5,442	648	1,417	(508)	1	9,208
Income tax	(559)	(1,316)	196	(13)	102	-	(1,590)
Profit (loss) for the period	1,649	4,126	844	1,404	(406)	1	7,618
Net revenue (expenses) from external customers	7,401	8,718	1,389	(1,874)	229	-	15,863
Net revenue (expenses) from other segments	(2,217)	(1,764)	60	3,918	3	-	0
Total operating income (expense)	5,184	6,954	1,449	2,044	232	0	15,863
As at 31 March 2021							
Total assets	667,563	627,192	14,623	656,722	2,770	(367,918)	1,600,952
Total liabilities	635,415	505,867	8,246	555,188	2,770	(367,918)	1,339,568
Allocated capital	32,148	121,325	6,377	101,534	-	-	261,384

	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
1 January - 31 March 2020							
Net interest income	4,315	4,830	653	(348)	(21)	(2)	9,427
Net fee and commission income	802	192	998	(109)	120	(58)	1,945
Net valuation adjustments and impairment	(1,140)	(4,097)	-	(7)	-	-	(5,244)
Net other operating income (expenses)	(148)	(390)	(744)	(1,422)	(19)	(5)	(2,728)
Total operating income (expense)	3,829	535	907	(1,886)	80	(65)	3,400
Operating expenses	(1,631)	(584)	(613)	(466)	(3,042)	62	(6,274)
Tax on liabilities of financial institutions	(138)	(153)	(5)	(150)	(4)	-	(450)
Profit (loss) before cost allocation and tax	2,060	(202)	289	(2,502)	(2,966)	(3)	(3,324)
Cost allocated from support functions to business segments	(1,058)	(656)	(360)	(189)	2,263	-	0
Profit (loss) before tax	1,002	(858)	(71)	(2,691)	(703)	(3)	(3,324)
Income tax	(264)	147	(499)	171	141	-	(304)
Profit (loss) for the period	738	(711)	(570)	(2,520)	(562)	(3)	(3,628)
Net revenue (expenses) from external customers	4,908	2,026	829	(4,378)	80	-	3,465
Net revenue (expenses) from other segments	(1,079)	(1,491)	78	2,492	-	-	0
Total operating income (expense)	3,829	535	907	(1,886)	80	0	3,465
As at 31 March 2020							
Total assets	515,108	646,642	23,230	620,474	13,373	(295,639)	1,523,188
Total liabilities	480,782	541,916	19,032	519,618	13,373	(295,639)	1,279,082
Allocated capital	34,326	104,726	4,198	100,856	-	-	244,106

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

	1.1-31.3.2021			1.1-31.3.2020		
	Amortised cost	FVTPL	Total	Amortised cost	FVTPL	Total
Interest income						
Cash and balances with Central Bank	77	-	77	545	-	545
Bonds and debt instruments	24	-	24	148	-	148
Loans and advances to financial institutions	2	-	2	72	-	72
Loans and advances to customers	14,060	157	14,217	14,324	189	14,513
Other interest income	2	10	12	550	588	1,138
Total	14,165	167	14,332	15,639	777	16,416
Interest expense						
Due to financial institutions and Central Bank	(148)	-	(148)	(261)	-	(261)
Deposits from customers	(1,625)	-	(1,625)	(3,029)	-	(3,029)
Borrowings	(3,161)	(100)	(3,261)	(2,493)	(665)	(3,158)
Other interest expense	(25)	(430)	(455)	(22)	(303)	(325)
Subordinated liabilities	(217)	-	(217)	(216)	-	(216)
Total	(5,176)	(530)	(5,706)	(6,021)	(968)	(6,989)
Net interest income	8,989	(363)	8,626	9,618	(191)	9,427

Net interest income, calculated based on the effective interest rate method, amounted to ISK 8,626 million in the first three months of 2021 as compared with ISK 9,426 for the same period in 2020.

7. Net fee and commission income

	1.1-31.3.2021			1.1-31.3.2020		
	Fee and commission income	Fee and commission expense	Net fee and commission income	Fee and commission income	Fee and commission expense	Net fee and commission income
Capital Markets	1,352	(160)	1,192	1,114	(153)	961
Loans and guarantees	243	-	243	258	-	258
Payment cards	916	(425)	491	979	(465)	514
Collection and payment services	216	(48)	168	226	(46)	180
Other	148	(188)	(40)	196	(164)	32
Total	2,875	(821)	2,054	2,773	(828)	1,945

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

	2021 1.1-31.3	2020 1.1-31.3
Net gain (loss) on financial assets and liabilities at FVTPL		
Bonds and debt instruments	102	254
Equities and equity instruments	1,940	(2,307)
Derivatives and underlying hedges	224	(273)
Loans and advances to customers	56	(402)
Net loss on fair value hedges	49	103
Total	2,371	(2,625)

Notes to the Condensed Consolidated Interim Financial Statements

9. Net foreign exchange (loss) gain

	2021	2020
	1.1-31.3	1.1-31.3
Assets		
Cash and balances with Central Bank	(7)	35
Bonds and debt instruments	(1,417)	10,460
Equities and equity instruments	(5)	9
Derivative instruments	(1,521)	(1,329)
Loans and advances to financial institutions	(1,505)	6,578
Loans and advances to customers	(9,210)	32,733
Other assets	(86)	593
Total	(13,751)	49,079
Liabilities		
Due to financial institutions and Central Bank	(1)	(44)
Deposits from customers	2,191	(16,805)
Borrowings	10,711	(29,993)
Other liabilities	89	(110)
Subordinated liabilities	734	(2,042)
Total	13,724	(48,994)
Net foreign exchange (loss) gain	(27)	85

10. Net impairment changes

	2021	2020
	1.1-31.3	1.1-31.3
Net impairment changes of loans to customers	2,499	(5,235)
Net impairment changes of other financial assets	(10)	(9)
Net impairment changes of financial assets	2,489	(5,244)
Net impairment changes by customer type		
Public entities	1	-
Financial institutions	-	1
Individuals	338	(434)
Corporates	2,150	(4,811)
Net impairment changes of financial assets	2,489	(5,244)

11. Other income and expenses

	2021	2020
	1.1-31.3	1.1-31.3
	Note	
Gain (loss) on repossessed collateral	26	115
Share of profit of equity-accounted associates		84
Other		47
Total		246
		(188)

12. Salaries and related expenses

	2021	2020
	1.1-31.3	1.1-31.3
Salaries	2,950	3,044
Contribution to defined pension plans	422	405
Social security contributions	194	197
Special financial activities tax on salaries	175	171
Other related expenses	28	27
Total	3,769	3,844
Average number of full-time equivalent positions during the period	892	912

Notes to the Condensed Consolidated Interim Financial Statements

13. Other operating expenses

	2021	2020
	1.1-31.3	1.1-31.3
Information technology	624	597
Real estate and fixtures	248	235
Advertising and marketing	210	184
FSA supervisory expenses	126	126
Contribution to the Debtor's Ombudsman	24	20
Audit and related services	43	57
Other professional services	177	216
Depreciation and amortisation	315	320
Contribution to the Depositors' and Investors' Guarantee Fund	200	271
Other operating expenses	348	404
Total	2,315	2,430

14. Income tax

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

	2021	2020
	1.1-31.3	1.1-31.3
Current tax expense	(1,264)	(236)
Special income tax on financial institutions	(299)	(7)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(27)	(61)
Total	(1,590)	(304)

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

	2021		2020	
		1.1-31.3		1.1-31.3
Profit (loss) before tax		9,675		(2,874)
Tax on liabilities of financial institutions		(467)		(450)
Profit (loss) before income tax		9,208		(3,324)
Income tax calculated using the domestic corporate income tax rate	20.0%	(1,842)	20.0%	665
Special income tax on financial institutions	3.3%	(299)	(0.2%)	(7)
Income not subject to tax	(7.0%)	646	1.1%	35
Non-deductible expenses	1.0%	(96)	(30.0%)	(997)
Other	0.0%	1	0.0%	-
Effective income tax	17.3%	(1,590)	(9.1%)	(304)

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Statement of Financial Position

15. Classification and fair values of financial assets and liabilities

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

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

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

As at 31 March 2021	Notes	Carrying amount				Total	Fair value			
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Cash and balances with Central Bank	19	-	84	-	-	84	-	84	-	84
Bonds and debt instruments	20	-	132,518	1,665	-	134,183	133,756	26	401	134,183
Equities and equity instruments	21	-	31,811	-	-	31,811	12,427	-	19,384	31,811
Derivative instruments	22	-	1,534	-	-	1,534	-	1,534	-	1,534
Loans and advances to customers	24	-	19,448	-	-	19,448	-	-	19,448	19,448
		0	185,395	1,665	0	187,060	146,183	1,644	39,233	187,060
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	59,853	-	-	-	59,853	-	59,853	-	59,853
Loans and advances to financial institutions	23	55,234	-	-	-	55,234	-	55,234	-	55,234
Loans and advances to customers	24	1,268,000	-	-	-	1,268,000	-	1,271,432	-	1,271,432
Other financial assets		14,344	-	-	-	14,344	-	14,344	-	14,344
		1,397,431	0	0	0	1,397,431	0	1,400,863	0	1,400,863
Financial liabilities measured at fair value										
Derivative instruments	22	-	4,534	-	-	4,534	-	4,534	-	4,534
Short positions	22	-	951	-	-	951	951	-	-	951
		0	5,485	0	0	5,485	951	4,534	0	5,485
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	27	-	-	-	40,932	40,932	-	40,932	-	40,932
Deposits from customers	28	-	-	-	794,252	794,252	-	794,003	-	794,003
Borrowings	29	-	-	-	452,709	452,709	-	470,464	-	470,464
Other financial liabilities		-	-	-	16,841	16,841	-	16,841	-	16,841
Subordinated liabilities	32	-	-	-	20,850	20,850	-	21,249	-	21,249
		0	0	0	1,325,584	1,325,584	0	1,343,489	0	1,343,489

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification and fair values of financial assets and liabilities (continued)

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2020:

As at 31 December 2020	Notes	Carrying amount				Fair value				
		Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Bonds and debt instruments	20	-	113,336	1,683	-	115,019	114,412	26	581	115,019
Equities and equity instruments	21	-	26,808	-	-	26,808	9,318	-	17,490	26,808
Derivative instruments	22	-	3,303	-	-	3,303	-	3,303	-	3,303
Loans and advances to customers	24	-	16,515	-	-	16,515	-	-	16,515	16,515
		0	159,962	1,683	0	161,645	123,730	3,329	34,586	161,645
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	67,604	-	-	-	67,604	-	67,604	-	67,604
Bonds and debt instruments	20	4,311	-	-	-	4,311	-	4,330	-	4,330
Loans and advances to financial institutions	23	48,073	-	-	-	48,073	-	48,073	-	48,073
Loans and advances to customers	24	1,256,911	-	-	-	1,256,911	-	1,261,094	-	1,261,094
Other financial assets		9,853	-	-	-	9,853	-	9,853	-	9,853
		1,386,752	0	0	0	1,386,752	0	1,390,954	0	1,390,954
Financial liabilities measured at fair value										
Derivative instruments	22	-	3,724	-	-	3,724	-	3,724	-	3,724
Short positions	22	-	524	-	-	524	523	-	-	523
		0	4,248	0	0	4,248	523	3,724	0	4,247
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	27	-	-	-	48,725	48,725	-	48,725	-	48,725
Deposits from customers	28	-	-	-	793,427	793,427	-	793,214	-	793,214
Borrowings	29	-	-	-	420,178	420,178	-	436,455	-	436,455
Other financial liabilities		-	-	-	8,127	8,127	-	8,127	-	8,127
Subordinated liabilities	32	-	-	-	21,366	21,366	-	21,567	-	21,567
		0	0	0	1,291,823	1,291,823	0	1,308,088	0	1,308,088

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Statement of Financial Position

16. Fair value of financial assets and liabilities

Valuation framework

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

Transfers between Levels

At the end of each reporting period the Group determines whether transfers of financial assets and financial liabilities measured at fair value have occurred between levels in the hierarchy by reviewing the classification. During the period from 1 January to 31 March 2021 and 1 January to 31 March 2020, there were no transfers between Level 1, Level 2 and Level 3.

The following tables show the reconciliation of fair value measurement in Level 3 for the three months ended 31 March 2021 and for the year 2020:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
1 January - 31 March 2021				
Carrying amount as at 1 January 2021	581	17,490	16,515	34,586
Net gain on financial assets and liabilities at FVTPL	6	1,899	56	1,961
Net foreign exchange gain (loss)	(1)	(1)	(11)	(13)
Purchases	15	222	22,886	23,123
Sales	(200)	(225)	-	(425)
Settlements	-	-	(19,998)	(19,998)
Dividend received	-	(1)	-	(1)
Carrying amount as at 31 March 2021	401	19,384	19,448	39,233
1 January - 31 December 2020				
Carrying amount as at 1 January 2020	150	17,080	14,679	31,909
Net gain (loss) on financial assets and liabilities at FVTPL	18	4,289	(1,730)	2,577
Net foreign exchange gain	(2)	3	(7)	(6)
Purchases	477	284	14,130	14,891
Sales	(61)	(3,438)	-	(3,499)
Settlements	(1)	(230)	(10,557)	(10,788)
Dividend received	-	(498)	-	(498)
Carrying amount as at 31 December 2020	581	17,490	16,515	34,586

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group as at 31 March 2021 and 31 March 2020, were recognised:

	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
1 January - 31 March 2021				
Net gain (loss) on financial assets and liabilities at FVTPL realised	-	(94)	-	(94)
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	6	1,994	56	2,056
Net foreign exchange gain (loss)	(1)	(1)	(11)	(13)
Total	5	1,899	45	1,949
1 January - 31 March 2020				
Net gain (loss) on financial assets and liabilities at FVTPL realised	1	-	-	1
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	10	(1,664)	(402)	(2,056)
Net foreign exchange gain (loss)	1	3	(8)	(4)
Total	12	(1,661)	(410)	(2,059)

17. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 31 March 2021 and 31 December 2020.

As at 31 March 2021	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs	
					Lower	Higher
Bonds and debt instruments	401	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	19,384	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	19,448	-	See 3) below	See 3) below	n/a	n/a
	39,233	0				

Notes to the Condensed Consolidated Interim Financial Statements

17. Unobservable inputs in fair value measurement (continued)

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

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

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

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

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

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit (loss) before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives for the three months ended 31 March 2021 and 31 March 2020:

Effect on profit before tax	2021 1.1-31.3		2020 1.1-31.3	
	Favourable	Unfavourable	Favourable	Unfavourable
Bonds and debt instruments	1	(1)	1	(1)
Equities and equity instruments:				
Equities	946	(959)	723	(724)
Mutual funds	232	(232)	261	(261)
Total equities and equity instruments	1,178	(1,191)	984	(985)
Loans and advances to customers	57	(30)	58	(77)
Total	1,236	(1,222)	1,043	(1,063)

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

18. Expected credit loss

	31.3.2021			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(15)	-	-	(15)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(2,201)	(6,009)	(13,580)	(21,790)
Other financial assets	(56)	-	-	(56)
Expected credit loss, off-balance sheet items	(273)	(235)	(118)	(626)
Total	(2,546)	(6,244)	(13,698)	(22,488)
	31.12.2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(12)	-	-	(12)
Bonds and debt instruments	(3)	-	-	(3)
Loans and advances to financial institutions	(1)	-	-	(1)
Loans and advances to customers	(3,831)	(6,636)	(14,007)	(24,474)
Other financial assets	(50)	-	-	(50)
Expected credit loss, off-balance sheet items	(395)	(333)	(103)	(831)
Total	(4,292)	(6,969)	(14,110)	(25,371)

Notes to the Condensed Consolidated Interim Financial Statements

19. Cash and balances with Central Bank

	31.3.2021	31.12.2020
Cash on hand	5.507	4.844
Unrestricted balances with Central Bank	39.287	49.106
Total cash and unrestricted balances with Central Bank	44.794	53.950
Restricted balances with Central Bank - fixed reserve requirement	8.831	9.143
Cash and balances pledged as collateral to the Central Bank	6.312	4.511
Total restricted balances with Central Bank	15.143	13.654
Total cash and balances with Central Bank	59.937	67.604

20. Bonds and debt instruments

Bonds and debt instruments	31.3.2021				31.12.2020			
	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Total	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Total
Domestic								
Listed	-	84.936	235	85.171	4.311	72.174	249	76.734
Unlisted	-	-	1.430	1.430	-	-	1.434	1.434
	0	84.936	1.665	86.601	4.311	72.174	1.683	78.168
Foreign								
Listed	-	47.582	-	47.582	-	41.162	-	41.162
	0	47.582	0	47.582	0	41.162	0	41.162
Total bonds	0	132.518	1.665	134.183	4.311	113.336	1.683	119.330

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

21. Equities and equity instruments

Equities and equity instruments	31.3.2021			31.12.2020		
	Trading book	Banking book	Total	Trading book	Banking book	Total
Domestic						
Listed	11.831	185	12.016	8.773	164	8.937
Unlisted	-	19.664	19.664	-	17.753	17.753
	11.831	19.849	31.680	8.773	17.917	26.690
Foreign						
Listed	15	99	114	2	98	100
Unlisted	-	17	17	-	18	18
	15	116	131	2	116	118
Total equities	11.846	19.965	31.811	8.775	18.033	26.808

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

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

As at 31 March 2021, outstanding commitments of the Group in share subscriptions amounted to ISK 817 million (31 December 2020: ISK 741 million) altogether in seven entities.

Notes to the Condensed Consolidated Interim Financial Statements

22. Derivative instruments and short positions

Trading

	31.3.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	26,519	114	151	8,579	126	57
Cross-currency interest rate swaps	914	68	-	1,148	134	-
	27,433	182	151	9,727	260	57
Interest rate derivatives						
Interest rate swaps	2,104	14	-	2,276	17	-
Total return swaps	54,640	75	69	33,331	18	51
	56,744	89	69	35,607	35	51
Equity derivatives						
Equity forwards	51	-	17	87	-	13
Total return swaps	11,035	48	403	6,386	8	524
Equity options	49	-	4	190	-	31
	11,135	48	424	6,663	8	568
Total derivative instruments	95,312	319	644	51,997	303	676
Short positions						
Listed bonds	807	-	951	880	-	524
Total short positions	807	0	951	880	0	524
Total	96,119	319	1,595	52,877	303	1,200

Risk management

	31.3.2021			31.12.2020		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	40,805	29	711	32,009	1,276	2
	40,805	29	711	32,009	1,276	2
Interest rate derivatives						
Interest rate swaps	29,605	83	3,179	29,777	81	3,046
	29,605	83	3,179	29,777	81	3,046
Fair value hedging						
Interest rate swaps	89,220	1,103	-	93,660	1,643	-
	89,220	1,103	0	93,660	1,643	0
Total	159,630	1,215	3,890	155,446	3,000	3,048
Total derivative instruments and short positions	255,749	1,534	5,485	208,323	3,303	4,248

Fair value hedging

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

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

During the period from 1 January 2021 to 31 March 2021, the slope of the regression line was in all cases within the range of 1.01 and 1.09 (for a 95% confidence level) and the regression coefficient was at least 0.89 (R^2). During the period from 1 January to 31 March 2020, the slope of the regression line is in all cases within the range of 0.88 and 1.00 (for a 95% confidence level) and the regression coefficient is at least 0.94 (R^2). In all cases the effectiveness is within limits during the period from 1 January to 31 March 2021 and 1 January to 31 March.

Notes to the Condensed Consolidated Interim Financial Statements

22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 31 March 2021	Notional amount of the hedging instrument	Maturity date			Fair value of the hedging derivatives		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		Up to 3 months	1-5 years	>5 years	Assets	Liabilities	
Interest rate swaps - EUR	89,220	44,610	44,610	-	1,103	-	(540)
Total	89,220	44,610	44,610	0	1,103	0	(540)

Average fixed interest rate - EUR 1.375% 1.00%

As at 31 March 2021	Carrying amount of the hedged item	Accumulated amount of fair value hedge adjustments on the hedged item		Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities	
LBANK 1.375 3/22	-	44,844	-	562
LBANK 1.00 5/23	-	45,607	-	27
Total EMTN hedged borrowings	0	90,451	0	589

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

Average fixed interest rate - EUR 1.19%

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

23. Loans and advances to financial institutions

	31.3.2021	31.12.2020
Bank accounts with financial institutions	19,025	15,141
Money market loans	34,412	32,210
Other loans	1,798	723
Allowance for impairment	(1)	(1)
Total	55,234	48,073

Notes to the Condensed Consolidated Interim Financial Statements

24. Loans and advances to customers

	31.3.2021	31.12.2020
Loans and advances to customers at amortised cost	1,289,790	1,281,386
Allowance for impairment	(21,790)	(24,475)
Total	1,268,000	1,256,911
Loans and advances to customers at FVTPL	19,448	16,515
Total	1,287,448	1,273,426

Loans and advances to customers at amortised cost

	31.3.2021			31.12.2020		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	3,995	(35)	3,960	4,169	(41)	4,128
Individuals	619,954	(2,007)	617,947	593,984	(2,307)	591,677
Mortgage lending	546,340	(989)	545,351	519,470	(1,221)	518,249
Other	73,614	(1,018)	72,596	74,514	(1,086)	73,428
Corporates	665,841	(19,748)	646,093	683,233	(22,127)	661,106
	1,289,790	(21,790)	1,268,000	1,281,386	(24,475)	1,256,911

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

25. Other assets

	31.3.2021	31.12.2020
Unsettled securities trading	6,440	1,892
Other accounts receivable	5,588	5,592
Right-of-use assets	2,316	2,369
Sundry assets	1,160	1,374
Total	15,504	11,227

26. Assets and liabilities classified as held for sale

Assets classified as held for sale

	31.3.2021	31.12.2020
Repossessed collateral	1,426	1,638
Total	1,426	1,638

Repossessed collateral

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

Repossessed collateral	31.3.2021	31.12.2020
Real estate	1,308	1,393
Equipment and vehicles	118	245
Total	1,426	1,638

Repossessed collateral	2021 1.1.-31.3	2020 1.1.-31.12
Carrying amount as at the beginning of the period	1,638	1,022
Repossessed during the period	152	1,625
Disposed of during the period	(552)	(1,092)
Impairment and gain of sale	188	83
Carrying amount as at the end of the period	1,426	1,638

Liabilities associated with assets classified as held for sale

	31.3.2021	31.12.2020
Liabilities of disposal groups	30	30
Total	30	30

Notes to the Condensed Consolidated Interim Financial Statements

27. Due to financial institutions and Central Bank

	31.3.2021	31.12.2020
Loans and repurchase agreements with Central Bank	36	-
Loans and deposits from financial institutions	40,896	48,725
Total	40,932	48,725

28. Deposits from customers

	31.3.2021	31.12.2020
Demand deposits	561,930	558,681
Term deposits	232,322	234,746
Total	794,252	793,427

29. Borrowings

Secured borrowings

As at 31.3.2021	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,860	Non-indexed	Fixed 5.5%	5,977
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	23,234
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	46,515
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	43,962
LBANK CB 25	ISK	17.09.2025	14,620	Non-indexed	Fixed 3.4%	15,113
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	11,880
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	57,554
Total covered bonds						204,235
Total secured borrowings						204,235

Unsecured borrowings

As at 31.3.2021	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1.75%	14,858
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1.75%	7,266
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	44,844
LBANK FLOAT 08/22	SEK	02.08.2022	SEK 900 million	STIBOR + 0.75%	13,073
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	45,607
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1.55%	7,432
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1.55%	7,264
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	44,631
LBANK 0.375 5/25 GB	EUR	23.05.2025	EUR 300 million	Fixed 0.375%	44,255
Total senior unsecured bonds					229,230

As at 31.3.2021	Carrying amount
Other unsecured loans	19,244
Total other unsecured loans	19,244
Total unsecured borrowings	248,474
Total borrowings as at 31.3.2021	452,709

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

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29. Borrowings (continued)

Secured borrowings

As at 31.12.2020	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 21	ISK	30.11.2021	5,860	Non-indexed	Fixed 5.5%	5,900
LBANK CBI 22	ISK	28.04.2022	19,540	CPI-indexed	Fixed 3.0%	22,846
LBANK CB 23	ISK	23.11.2023	37,800	Non-indexed	Fixed 5.0%	39,366
LBANK CBI 24	ISK	15.11.2024	38,120	CPI-indexed	Fixed 3.0%	43,311
LBANK CB 25	ISK	17.09.2025	10,240	Non-indexed	Fixed 3.4%	10,539
LBANK CBI 26	ISK	20.11.2026	10,140	CPI-indexed	Fixed 1.5%	10,678
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	56,720
Total covered bonds						189,360
Total secured borrowings						189,360

Unsecured borrowings

As at 31.12.2020	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 1.625 03/21	EUR	15.03.2021	EUR 200 million	FIXED 1.625%	31,429
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1,75%	14,939
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	7,789
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 300 million	FIXED 1.375%	47,614
LBANK 1.000 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	47,854
LBANKFL 1023	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,471
LBANKFL 1023	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	7,788
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	46,780
Total senior unsecured bonds					211,664

As at 31.12.2020	Currency	Final maturity	Outstanding	Indexed/	Carrying amount
Other unsecured loans					19,154
Total other unsecured loans					19,154
Total unsecured borrowings					230,818
Total borrowings as at 31.12.2020					420,178

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR and SEK denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

30. Deferred tax assets and liabilities

	31.3.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	3,624	-	3,919
Deferred tax assets / liabilities	-	4	23	-
Taxes in the Statement of Financial Position	0	3,628	23	3,919

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

	31.3.2021			31.12.2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(116)	(116)	-	(124)	(124)
Intangibles	-	(195)	(195)	-	(201)	(201)
Exchange rate-indexed assets and liabilities	-	(500)	(500)	-	(444)	(444)
Deferred foreign exchange differences	134	-	134	118	-	118
Other assets and liabilities	671	-	671	674	-	674
Tax losses carried forward	2	-	2	-	-	0
	807	(811)	(4)	792	(769)	23
Set-off of deferred tax assets together with liabilities of the same taxable entities	(807)	807	0	(769)	769	0
Deferred tax liabilities total	0	(4)	(4)	23	0	23

Notes to the Condensed Consolidated Interim Financial Statements

30. Deferred tax assets and liabilities (continued)

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

	Recognised in income statement	
	Balance as at 1.1	Tax income (expense)
As at 31.3.2021		
Property and equipment	(124)	8
Intangibles	(201)	6
Foreign currency denominated assets and liabilities	(444)	(56)
Deferred foreign exchange differences	118	16
Other assets and other liabilities	674	(3)
Tax losses carried forward	-	2
Total	23	(27)

	Recognised in income statement	
	Balance as at 1.1	Tax income (expense)
As at 31.12.2020		
Property and equipment	(151)	27
Intangibles	(303)	102
Foreign currency denominated assets and liabilities	(443)	(1)
Deferred foreign exchange differences	285	(167)
Other assets and other liabilities	632	42
Total	20	3

31. Other liabilities

	31.3.2021	31.12.2020
Unsettled securities trading	12,195	4,688
Withholding tax	555	1,475
Accounts payable	1,932	674
Contribution to the Depositors' and Investors' Guarantee Fund	200	198
Non-controlling interests - Funds	54	47
Lease liabilities	2,514	2,567
Sundry liabilities	4,232	4,380
Total	21,682	14,029

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

32. Subordinated liabilities

As at 31.3.2021	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non- indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3.125%	15,037
LBANK T21 29	ISK	11.12.2029	ISK 5,520 million	CPI-indexed	Fixed 3.85%	5,813
Total subordinated liabilities						20,850

As at 31.12.2020	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non- indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3.125%	15,661
LBANK T21 29	ISK	11.12.2029	ISK 5,520 million	CPI-indexed	Fixed 3.85%	5,705
Total subordinated liabilities						21,366

The Tier 2 subordinated bonds in EUR have a final maturity in September 2028, but are callable in September 2023. The bond series, LBANK T21 29, has a final maturity in December 2029, but is callable in December 2024.

Notes to the Condensed Consolidated Interim Financial Statements

33. Equity

Share capital

As of 31 March 2021, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion. Each share has a par value of ISK 1. Own shares numbered 375.5 million at the end of first quarter of 2021, or 1.56% of issued shares. Each ordinary share conveys one vote at general meetings of the Bank. All share capital is fully paid up.

Share premium

Share premium represents the difference between the ISK amount received by the Bank when issuing share capital and the nominal amount of the shares issued, less costs directly attributable to issuing the new shares.

Statutory reserve

The statutory reserve is established in accordance with the Public Limited Companies Act, No. 2/1995, which stipulates that the Bank must allocate profits to the statutory reserve until the reserve is equal to one-quarter of the Bank's share capital.

Retained earnings

Act No. 3/2006, on Annual Financial Statements, with subsequent amendments, require *inter alia* the separation of retained earnings into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings. Restricted retained earnings are split into two categories:

1. Unrealised gains in subsidiaries and equity-accounted associates reserve; if the share of profit from subsidiaries or equity-accounted associates is in excess of dividend received, the Group transfers the difference to a restricted reserve in equity. If the Group's interest in subsidiaries or equity-accounted associates is sold or written off, the applicable amount recognised in the reserve is transferred to retained earnings.
2. Financial assets designated at fair value through profit or loss reserve. The Group transfers fair value changes arising from financial assets designated at fair value through profit or loss, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Dividend

The AGM of Landsbankinn, held on 24 March 2021, approved the motion of the Board of Directors to pay a dividend of ISK 0.19 per share to shareholders for the operating year 2020. The total dividend of ISK 4,489 million corresponds to about 43% of the consolidated profit in 2020 (and is 16% of the consolidated profit in 2019 and 2020). The dividend payment is in accordance with the maximum guidance for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021. The dividend was paid to shareholders on 31 March 2021.

Dividend policy

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to around 50% of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Restriction of dividend payments

According to the Public Limited Companies Act, No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit carried forward from previous years, and free funds after deducting loss which has not been met, and the funds which according to law or Articles of Association must be contributed to a reserve fund or for other use. Furthermore, under the amendment to Act No. 3/2006, on Annual Financial Statements, from June 2016 it is only permissible to allocate as dividend profit from unrestricted retained earnings.

Additionally, according to the Act on Financial Undertakings, No. 161/2002, the Icelandic Financial Supervisory Authority can impose proportionate restrictions on the Bank's dividend payments, if the Bank's capital adequacy ratio falls below the total capital requirement plus capital buffers, see Note 39 Capital requirements.

Notes to the Condensed Consolidated Interim Financial Statements

Other notes

34. Earnings per share

	2021	2020
Profit (loss) for the period	1.1-31.3	1.1-31.3
Profit (loss) for the period attributable to owners of the Bank	7,618	(3,628)
	2021	2020
Weighted average number of shares	1.1-31.3	1.1-31.3
Weighted average number of ordinary shares issued	24,000	24,000
Weighted average number of own shares	(375)	(375)
Weighted average number of shares outstanding	23,625	23,625
Basic and diluted earnings per share from operations (ISK)	0.32	(0.15)

Diluted earnings per share, whether positive or negative, are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

35. Litigation

Material litigation cases against the Bank and its subsidiaries

The Bank and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

In April 2020, a former owner of a payment card company brought a case against the Bank and other financial undertakings claiming tort liability in the amount of around ISK 923 million, plus interest, due to an alleged breach of competition rules in the determination of payment card interchange fees. This was the fifth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. The Bank claimed the case should again be dismissed and rejected all claims of the plaintiff. In November 2020 the District Court of Reykjavik dismissed this new case on grounds of insufficient substantiation. On 26 March 2021 the Appeal Court, Landsréttur, confirmed the ruling of the District Court.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its assets at any time. On 24 April 2019 the District Court decided to dismiss all claims against the Bank due to procedural reasons. On 6 June 2019 the Appeal Court invalidated the decision of the District Court and ordered the case to be brought again before the District Court for substantive resolution. In November 2020 the District Court approved requests for the appointment of an assessor to evaluate certain actuarial issues regarding the case. The reports of the court appointed assessor were submitted in March and April 2021 by the parties which had requested them. It is expected that the submission of evidence in the case will be completed in the coming weeks and that a date will then be set for the main hearing of the case.

In March 2019, an Irish company commenced litigation before a German court claiming payment in the amount of around EUR 3,9 million (around ISK 593 million) plus interest due to alleged damages that the Irish company maintained that the Bank had caused the company in connection with the insolvency of a German company. The Irish company maintained that loans provided by Landsbanki Íslands in 2005 to a group of companies including the German company and in 2014 by Landsbankinn to the German company had caused the insolvency of the German company, and that the Bank, in order to strengthen the position of the Bank, had opposed the representatives of the German company to file for bankruptcy in 2013. The Irish company maintained that the Bank thereby had caused other lenders of the German company, including the Irish company, to suffer damages. At the end of December 2020, the Bank, the Irish company and the trustee on behalf of the bankruptcy estate signed an agreement providing for a settlement between the parties in all disputes concerning the bankruptcy estate. The Irish company formally withdrew the action in January 2021. In 2018, the Bank made allowance for expected losses relating to the loans. The settlement does not involve further losses of the Bank.

Notes to the Condensed Consolidated Interim Financial Statements

35. Litigation (continued)

Proceedings relating to the sale of the Bank's shareholding in Borgun hf.

In January 2017, the Bank commenced proceedings before the Reykjavik District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf., now SaltPay IIB hf. (SaltPay), and the then CEO of SaltPay. The Bank considers the defendants to have been in possession of information about the shareholding of SaltPay in Visa Europe Ltd. at the time when the Bank sold its 31.2% shareholding in SaltPay that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. The defendants have submitted their written defences, responding to the substance of the Bank's pleadings. At the request of the Bank, the District Court of Reykjavik ruled on 10 September 2018 on the appointment of assessors to evaluate certain issues regarding SaltPay's Annual Accounts. The assessors delivered their assessment on 22 October 2019. The assessors conclude, inter alia, that information on the existence of an option to buy and sell holdings of SaltPay in Visa Europe Ltd to Visa Inc., the terms of the option and possible payments to SaltPay based on the option had been of relevance for the drawing up, presentation and therefore the audit of the Annual Accounts of SaltPay for the year 2013. SaltPay should have provided information in its Annual Accounts for 2013 on its holding in Visa Europe Ltd. and that SaltPay was a principal member of Visa Europe Ltd. SaltPay should have informed about the option in the Annual Accounts for 2013 in accordance with the provisions of the international financial reporting standard IFRS 7 and informed about the uncertainty relating to the option in the Report of the Board of Directors in accordance with the Act on Annual Accounts No. 3/2006. Moreover, the assessors conclude that the Annual Accounts of SaltPay for the year 2013 did not fulfil all requirements of the Act on Annual Accounts and of international financial reporting standards as approved by the European Union at the time. At a hearing on 24 January 2020, SaltPay and another defendant presented a request for the appointment of new assessors to review the assessment. On 29 June 2020 the District Court of Reykjavik appointed re-assessors. The case has been postponed until the report has been completed.

36. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group as at 31 March 2021 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business. Landsbankinn operates an extensive branch network in Iceland, comprised of 36 branches and service points as at 31 March 2021.

Main subsidiaries as at 31 March 2021

Company	Ownership	
	interest	Activity
Eignarhaldsfélag Landsbankans ehf. (Iceland)	100%	Holding company
Landsbréf hf. (Iceland)	100%	Fund management company
Hömlur ehf. (Iceland)*	100%	Holding company

*Hömlur ehf. is a parent of a number of subsidiaries, which are neither individually nor combined significant in the context of the Group's business.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 31 March 2021.

37. Related party transactions

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature of and amounts outstanding with public entities are disclosed in Note 42, under Public entities.

Transactions with other related parties

The following table presents the total amounts of loans to key management personnel and parties related to them, loans to associates of the Group and other related parties:

Loans in ISK million	31.3.2021		31.12.2020	
	Gross carrying amount as at 31 March	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Key management personnel	422	438	419	493
Parties related to key management personnel	90	155	121	168
Associates	944	948	946	984
Other	19	20	20	22
Total	1,475	1,561	1,506	1,667

Specific impairment allowance of ISK 331 million in Stage 3 is recognised in respect of the loans under the item Associates .

Notes to the Condensed Consolidated Interim Financial Statements

37. Related party transactions (continued)

Transactions with other related parties (continued)

The Bank provided a financial guarantee of ISK 442 million to one of its associates during the period. The Bank made no lease contracts with related parties during the period.

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

	31.3.2021		31.12.2020	
	Gross carrying amount as at 31 March	Highest amount outstanding during the period	Gross carrying amount as at 31 December	Highest amount outstanding during the period
Deposits in ISK million				
Key management personnel	42	160	63	172
Parties related to key management personnel	94	124	64	127
Associates	511	1,107	766	1,261
Other	231	308	248	423
Total	878	1,699	1,141	1,983

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

	Gross carrying amount as at 31 March 2021	Gross carrying amount as at 31 December 2020
Guarantees in ISK million		
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	442	517
Total	442	517

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

38. Events after the reporting period

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

Notes to the Condensed Consolidated Interim Financial Statements

Capital management

39. Capital requirements

The Group's capital management policies and practices aim to ensure that the Group has sufficient capital to cover the risks associated with its activities on a consolidated basis. The capital management framework of the Group comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Group regularly monitors and assesses its risk profile in key business areas on a consolidated basis and for the most important risk types. The Bank's risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

The Group's capital requirements are defined in Icelandic law and regulations and by the Financial Supervisory Authority of the Central Bank of Iceland (FSA). The requirements are based on the European legal framework for capital requirements (CRD IV and CRR), implementing the Basel III capital framework. The regulatory minimum capital requirement under Pillar I is 8% of Risk Exposure Amount (REA) for credit risk, market risk and operational risk. In conformity with Pillar II-R requirements, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP results are subsequently reviewed by the FSA in the Supervisory Review and Evaluation Process (SREP). The Group's minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FSA, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC). The FSC has defined Landsbankinn as a systematically important financial institution in Iceland.

The Group's most recent capital requirements, as determined by the FSA, are as follows (as a percentage of REA):

As at 31.3.2021	CET1	Tier 1	Total
Pillar I	4,5%	6,0%	8,0%
Pillar II-R	1,9%	2,6%	3,4%
Minimum requirement under Pillar I and Pillar II-R	6,4%	8,6%	11,4%
Systemic risk buffer	2,89%	2,89%	2,89%
Capital buffer for systematically important institutions	2,00%	2,00%	2,00%
Countercyclical capital buffer	0,00%	0,00%	0,00%
Capital conservation buffer	2,50%	2,50%	2,50%
Combined buffer requirement	7,39%	7,39%	7,39%
Total capital requirement	13,8%	16,0%	18,8%

The Bank aims to maintain at all times capital ratios well above FSA's minimum capital requirements. The Bank's target capital ratio includes a management buffer, in addition to FSA's capital requirements, that is defined in the Bank's risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

The Group's capital requirements at 31.12.2020, as determined by the FSA, were as follows (as a percentage of REA):

As at 31.12.2020	CET1	Tier 1	Total
Pillar I	4,5%	6,0%	8,0%
Pillar II-R	1,9%	2,6%	3,4%
Minimum requirement under Pillar I and Pillar II-R	6,4%	8,6%	11,4%
Systemic risk buffer	2,88%	2,88%	2,88%
Capital buffer for systematically important institutions	2,00%	2,00%	2,00%
Countercyclical capital buffer	0,00%	0,00%	0,00%
Capital conservation buffer	2,50%	2,50%	2,50%
Combined buffer requirement	7,38%	7,38%	7,38%
Total capital requirement	13,8%	16,0%	18,8%

Notes to the Condensed Consolidated Interim Financial Statements

40. Capital base, risk exposure amount and capital ratios

The following table shows the Group's capital base, risk exposure amount and capital ratios. The calculations are in accordance with Chapter X of the Act on Financial Undertakings, No. 161/2002, and Regulation No. 233/2017, on prudential requirements for the operations of financial undertakings. Iceland has also adopted regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. Articles 500 and 501 (capital requirements relief for small and medium enterprises) took effect in Iceland on 1 January 2020.

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

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

	31.3.2021	31.12.2020
Capital base		
Share capital	23,625	23,625
Share premium	120,630	120,630
Reserves	21,572	19,250
Retained earnings	95,557	94,750
Total equity attributable to owners of the Bank	261,384	258,255
Intangible assets	(1,837)	(1,696)
Deferred tax assets	-	(23)
Fair value hedges	(1,103)	(1,643)
Foreseeable dividends*	(3,809)	-
Adjustment under IFRS 9 transitional arrangements	3,392	5,353
Common equity Tier 1 capital (CET1)	258,027	260,246
Non-controlling interests	-	-
Tier 1 capital	258,027	260,246
Subordinated liabilities	20,850	21,366
Tier 2 capital	20,850	21,366
Total capital base	278,877	281,612
Risk exposure amount (REA)		
Credit risk	1,014,945	1,010,588
Market risk	7,341	11,526
Operational risk**	99,485	99,485
Total risk exposure amount	1,121,771	1,121,599

*Pursuant to the Bank's dividend policy, the foreseeable dividend consists of 50% of net earnings for the three nine months of 2021.

**The amounts are updated on a yearly basis.

CET1 ratio	23.0%	23.2%
Tier 1 capital ratio	23.0%	23.2%
Total capital ratio	24.9%	25.1%
CET 1 Ratio as if IFRS 9 transitional arrangements were not applied	22.8%	22.7%
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	22.8%	22.7%
Total capital ratio as if IFRS 9 transitional arrangements were not applied	24.6%	24.6%

41. Leverage ratio

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

	31.3.2021	31.12.2020
Leverage ratio		
- On-balance sheet exposure (excluding derivatives)	1,592,076	1,556,541
- Derivative instrument exposure	5,077	5,944
- Securities financing transaction exposures	7,464	4,366
- Off-balance sheet exposure	142,263	130,089
- Regulatory adjustments to Tier 1 capital	(3,357)	(3,362)
Total leverage exposure	1,743,523	1,693,578
Tier 1 capital	258,027	260,246
Leverage ratio	14.8%	15.4%
Leverage ratio as if IFRS 9 transitional arrangements were not applied	14.6%	15.1%

Notes to the Condensed Consolidated Interim Financial Statements

Risk management

Credit risk

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

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

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

As at 31 March 2021	Corporations													Maximum exposure	Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
Cash and balances with Central Bank	-	59,937	-	-	-	-	-	-	-	-	-	-	-	59,937	59,937
Bonds and debt instruments	26	90,038	-	-	-	-	-	1,408	-	-	21	-	-	91,493	134,183
Equities and equity instruments	1	-	-	41	-	-	1	1,948	1	49	17,926	-	-	19,967	31,811
Derivative instruments	1,219	1	-	1	19	68	-	-	22	3	2	-	199	1,534	1,534
Loans and advances to financial institutions	55,234	-	-	-	-	-	-	-	-	-	-	-	-	55,234	55,234
Loans and advances to customers	-	3,960	618,396	180,123	129,569	76,060	95,235	67,767	55,508	26,375	28,090	6,365	-	1,287,448	1,287,448
Other assets	21,105	-	4	-	2,405	136	-	4,144	-	-	13	-	1,160	28,967	30,805
Total on-balance sheet exposure	77,585	153,936	618,400	180,165	131,993	76,264	95,236	75,267	55,531	26,427	46,052	6,365	1,359	1,544,580	1,600,952
Off-balance sheet exposure	1	6,848	33,071	20,802	20,634	45,392	16,540	18,554	20,523	17,513	2,662	317	38	202,895	
Financial guarantees and underwriting commitments	-	22	612	7,126	1,160	4,242	2,218	3,739	2,503	1,591	645	30	35	23,923	
Undrawn loan commitments	-	-	-	9,948	18,181	38,727	12,619	5,207	12,363	12,777	1,779	-	-	111,601	
Undrawn overdraft/credit card facilities	1	6,826	32,459	3,728	1,293	2,423	1,703	9,608	5,657	3,145	238	287	3	67,371	
Maximum exposure to credit risk	77,586	160,784	651,471	200,967	152,627	121,656	111,776	93,821	76,054	43,940	48,714	6,682	1,397	1,747,475	
Percentage of maximum exposure to credit risk	4.4%	9.2%	37.3%	11.5%	8.7%	7.0%	6.4%	5.4%	4.4%	2.5%	2.8%	0.4%	0.1%	100%	

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

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

Notes to the Condensed Consolidated Interim Financial Statements

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

As at 31 December 2020	Corporations													Maximum exposure	Carrying amount
	Financial institutions	Public entities*	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
Cash and balances with Central Bank	-	67,604	-	-	-	-	-	-	-	-	-	-	-	67,604	67,604
Bonds and debt instruments	26	79,204	-	-	-	-	-	1,412	-	4,560	22	-	-	85,224	119,330
Equities and equity instruments	1	-	-	41	-	-	1	1,655	1	49	16,285	-	-	18,033	26,808
Derivative instruments	3,000	-	-	15	2	134	-	-	71	-	5	-	75	3,302	3,303
Loans and advances to financial institutions	48,073	-	-	-	-	-	-	-	-	-	-	-	-	48,073	48,073
Loans and advances to customers	-	4,128	592,216	179,713	129,462	82,345	95,996	67,352	53,590	30,231	31,849	6,544	-	1,273,426	1,273,426
Other assets	15,864	26	65	-	2,430	1	-	4,129	-	-	24	-	1,375	23,914	25,633
Total on-balance sheet exposure	66,964	150,962	592,281	179,769	131,894	82,480	95,997	74,548	53,662	34,840	48,185	6,544	1,450	1,519,576	1,564,177
Off-balance sheet exposure	139	6,953	32,240	18,294	14,836	43,786	16,948	17,495	20,504	14,223	2,539	292	38	188,287	
Financial guarantees and underwriting commitments	138	44	645	7,188	1,461	4,395	2,762	2,716	2,640	1,379	665	1	35	24,069	
Undrawn loan commitments	-	-	-	9,028	11,633	36,740	12,642	5,821	12,651	9,510	1,513	17	-	99,555	
Undrawn overdraft/credit card facilities	1	6,909	31,595	2,078	1,742	2,651	1,544	8,958	5,213	3,334	361	274	3	64,663	
Maximum exposure to credit risk	67,103	157,915	624,521	198,063	146,730	126,266	112,945	92,043	74,166	49,063	50,724	6,836	1,488	1,707,863	
Percentage of maximum exposure to credit risk	3.9%	9.2%	36.6%	11.6%	8.6%	7.4%	6.6%	5.4%	4.3%	2.9%	3.0%	0.4%	0.1%	100.0%	

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

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

Notes to the Condensed Consolidated Interim Financial Statements

43. Collateral and loan-to-value

The loan-to-value (LTV) ratio expresses the gross carrying amount of loans and advances as a percentage of the total value of the collateral. Loan-to-value is one of the key risk factors assessed when qualifying borrowers for a loan. The risk of default is always at the forefront of lending decisions, and the likelihood of a lender absorbing a loss in the foreclosure process increases as the collateral value decreases. A high LTV indicates that there are smaller buffers to protect against price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance.

As at 31 March 2021	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised		Without collateral	Allowance for impairment	Carrying amount
	0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	>100%	Collateral value*			
Financial institutions	-	-	-	-	0	-	-	55,235	(1)	55,234
Public entities	24	131	166	-	321	75	40	3,599	(35)	3,960
Individuals	36,802	136,155	368,784	42,590	584,331	4,017	2,365	32,055	(2,007)	618,396
Mortgages	29,853	126,155	351,784	34,521	542,313	1,369	797	2,658	(989)	545,351
Other	6,949	10,000	17,000	8,069	42,018	2,648	1,568	29,397	(1,018)	73,045
Corporates	33,763	130,640	210,199	148,010	522,612	128,624	99,015	33,604	(19,748)	665,092
Fisheries	12,030	43,302	90,416	32,186	177,934	1,748	1,589	1,113	(672)	180,123
Real estate companies	2,138	8,823	68,978	19,264	99,203	28,535	22,059	3,916	(2,085)	129,569
Construction companies	1,519	6,995	14,416	19,784	42,714	34,058	29,126	1,468	(2,180)	76,060
Travel industry	1,196	11,119	13,455	48,976	74,746	24,174	19,783	4,897	(8,582)	95,235
Services, IT and communications	817	16,422	7,314	11,569	36,122	20,967	14,691	12,721	(2,043)	67,767
Retail	2,288	28,667	8,532	7,283	46,770	8,282	4,747	1,825	(1,369)	55,508
Manufacturing and energy	890	2,535	4,991	3,390	11,806	10,065	6,662	7,103	(2,599)	26,375
Holding companies	12,089	11,179	187	4,172	27,627	149	117	429	(115)	28,090
Agriculture	796	1,598	1,910	1,386	5,690	646	241	132	(103)	6,365
Other	-	-	-	-	-	-	-	-	-	-
Total	70,589	266,926	579,149	190,600	1,107,264	132,716	101,420	124,493	(21,791)	1,342,682

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

44. Collateral types

The following tables disclose the assignments of collateral values to claim values, whereby the value of each individual collateral item held cannot exceed the gross carrying amount of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the gross carrying amount.

As at 31 March 2021	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	320	-	2	-	18	340
Individuals	567,660	78	134	3,148	15,472	586,492
Mortgages	538,006	12	53	59	4,809	542,939
Other	29,654	66	81	3,089	10,663	43,553
Corporates	326,661	134,600	2,959	75,261	81,311	620,792
Fisheries	9,137	132,638	63	24,423	13,247	179,508
Real estate companies	115,845	52	802	2,056	2,489	121,244
Construction companies	68,457	8	678	41	2,653	71,837
Travel industry	65,882	771	488	207	26,531	93,879
Services, IT and communications	25,644	1,043	141	11,626	12,298	50,752
Retail	24,021	86	131	11,051	16,174	51,463
Manufacturing and energy	10,716	2	66	-	7,660	18,444
Holding companies	1,296	-	578	25,857	4	27,735
Agriculture	5,663	-	12	-	255	5,930
Other	-	-	-	-	-	-
Total	894,641	134,678	3,095	78,409	96,801	1,207,624
As at 31 December 2020	Real estate	Vessels	Deposits	Securities	Other*	Total
Public entities	293	-	1	-	14	308
Individuals	541,822	82	131	3,137	15,382	560,554
Mortgages	511,893	10	30	58	4,578	516,569
Other	29,929	72	101	3,079	10,804	43,985
Corporates	341,572	129,320	3,082	75,126	84,299	633,399
Fisheries	10,005	127,319	158	25,400	10,000	172,882
Real estate companies	121,135	50	649	668	1,644	124,146
Construction companies	75,537	18	964	36	2,677	79,232
Travel industry	65,818	750	399	205	27,493	94,665
Services, IT and communications	24,773	1,092	240	10,931	13,619	50,655
Retail	23,424	89	182	11,191	15,089	49,975
Manufacturing and energy	11,816	2	63	1	13,317	25,199
Holding companies	3,123	-	424	26,694	142	30,383
Agriculture	5,941	-	3	-	318	6,262
Other	-	-	-	-	-	-
Total	883,687	129,402	3,214	78,263	99,695	1,194,261

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

Notes to the Condensed Consolidated Interim Financial Statements

45. Credit quality of loans and advances

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

As at 31 March 2021	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	55,235	-	-	-	-	(1)	55,234
Public entities	203	3,783	9	-	-	(35)	3,960
Individuals	325,699	267,156	22,904	3,538	1,106	(2,007)	618,396
Mortgages	300,082	226,864	16,249	2,252	893	(989)	545,351
Other	25,617	40,292	6,655	1,286	213	(1,018)	73,045
Corporations	42,115	503,072	97,997	38,713	2,943	(19,748)	665,092
Fisheries	19,846	148,960	9,617	2,301	71	(672)	180,123
Real estate companies	406	114,683	11,780	4,681	104	(2,085)	129,569
Construction companies	735	57,417	11,928	8,160	-	(2,180)	76,060
Travel industry	927	36,630	51,413	14,847	-	(8,582)	95,235
Services, IT and communications	3,285	60,071	4,218	2,235	1	(2,043)	67,767
Retail	3,305	48,427	3,708	1,437	-	(1,369)	55,508
Manufacturing and energy	12,586	8,861	2,691	4,830	6	(2,599)	26,375
Holding companies	-	23,228	2,201	15	2,761	(115)	28,090
Agriculture	1,025	4,795	441	207	-	(103)	6,365
Other	-	-	-	-	-	-	-
Total	423,252	774,011	120,910	42,251	4,049	(21,791)	1,342,682

As at 31 December 2020	Gross carrying amount					Allowance for impairment	Carrying amount
	10-7	6-4	3-1	0	Unrated		
Financial institutions	48,057	-	-	-	17	(1)	48,073
Public entities	179	3,990	-	-	-	(41)	4,128
Individuals	313,257	251,820	24,400	4,117	929	(2,307)	592,216
Mortgages	287,369	211,528	17,109	2,735	729	(1,221)	518,249
Other	25,888	40,292	7,291	1,382	200	(1,086)	73,967
Corporates	63,930	480,168	117,569	35,568	1,974	(22,127)	677,082
Fisheries	25,230	143,113	11,508	1,098	-	(1,236)	179,713
Real estate companies	312	112,892	13,988	5,550	55	(3,335)	129,462
Construction companies	887	54,452	26,186	3,302	-	(2,482)	82,345
Travel industry	657	37,791	51,098	14,957	-	(8,507)	95,996
Services, IT and communications	3,354	58,613	4,163	3,461	-	(2,239)	67,352
Retail	21,601	26,824	4,655	1,910	-	(1,400)	53,590
Manufacturing and energy	10,937	13,823	3,084	4,919	8	(2,540)	30,231
Holding companies	60	27,630	2,484	8	1,911	(244)	31,849
Agriculture	892	5,030	403	363	-	(144)	6,544
Other	-	-	-	-	-	-	0
Total	425,423	735,978	141,969	39,685	2,920	(24,476)	1,321,499

Notes to the Condensed Consolidated Interim Financial Statements

46. Loans and advances by past due status

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

As at 31 March 2021	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	55,235	-	-	-	-	-	(1)	55,234
Public entities	3,986	-	-	-	9	-	(35)	3,960
Individuals	612,284	2,077	1,338	3,177	211	1,316	(2,007)	618,396
Mortgages	541,946	1	984	2,619	159	631	(989)	545,351
Other	70,338	2,076	354	558	52	685	(1,018)	73,045
Corporates	661,245	2,079	4,589	1,523	717	14,687	(19,748)	665,092
Fisheries	179,007	303	1,427	20	-	38	(672)	180,123
Real estate companies	128,766	223	998	570	126	971	(2,085)	129,569
Construction companies	75,189	223	1,216	242	15	1,355	(2,180)	76,060
Travel industry	97,142	332	201	61	121	5,960	(8,582)	95,235
Services, IT and communications	67,468	269	494	215	404	960	(2,043)	67,767
Retail	55,185	198	182	378	47	887	(1,369)	55,508
Manufacturing and energy	24,104	315	61	-	4	4,490	(2,599)	26,375
Holding companies	28,075	115	3	12	-	-	(115)	28,090
Agriculture	6,309	101	7	25	-	26	(103)	6,365
Other	-	-	-	-	-	-	-	0
Total	1,332,750	4,156	5,927	4,700	937	16,003	(21,791)	1,342,682

As at 31 December 2020	Gross carrying amount						Allowance for impairment	Carrying amount
	Days past due							
	Not past due	1-5	6-30	31-60	61-90	over 90		
Financial institutions	48,074	-	-	-	-	-	(1)	48,073
Public entities	4,169	-	-	-	-	-	(41)	4,128
Individuals	585,132	2,038	1,216	2,758	1,530	1,849	(2,307)	592,216
Mortgages	514,190	-	880	2,201	1,232	967	(1,221)	518,249
Other	70,942	2,038	336	557	298	882	(1,086)	73,967
Corporations	670,335	3,757	4,428	1,575	3,361	15,753	(22,127)	677,082
Fisheries	180,482	61	360	19	10	17	(1,236)	179,713
Real estate companies	129,662	144	788	624	308	1,271	(3,335)	129,462
Construction companies	80,973	126	2,234	128	37	1,329	(2,482)	82,345
Travel industry	93,261	124	699	374	2,334	7,711	(8,507)	95,996
Services, IT and communications	66,774	1,932	79	160	56	590	(2,239)	67,352
Retail	53,494	194	174	238	584	306	(1,400)	53,590
Manufacturing and energy	27,949	280	11	-	31	4,500	(2,540)	30,231
Holding companies	31,262	811	3	13	-	4	(244)	31,849
Agriculture	6,478	85	80	19	1	25	(144)	6,544
Other	-	-	-	-	-	-	-	0
Total	1,307,710	5,795	5,644	4,333	4,891	17,602	(24,476)	1,321,499

Notes to the Condensed Consolidated Interim Financial Statements

47. Loans and advances by stage allocation

The tables below show both gross carrying amount and expected credit loss (ECL) by industry sectors and the three-stage criteria under IFRS 9.

	Gross carrying amount	Stage 1		Stage 2		Stage 3		Allowance for impairment	Fair value	Carrying amount
		Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
As at 31 March 2021										
Financial institutions	55,235	55,235	(1)	-	-	-	-	(1)	-	55,234
Public entities	3,995	3,799	(31)	196	(4)	-	-	(35)	-	3,960
Individuals	620,403	582,516	(462)	33,900	(704)	3,538	(841)	(2,007)	449	618,396
Mortgages	546,340	520,755	(285)	23,333	(453)	2,252	(251)	(989)	-	545,351
Other	74,063	61,761	(177)	10,567	(251)	1,286	(590)	(1,018)	449	73,045
Corporates	684,840	509,671	(1,708)	117,457	(5,301)	38,713	(12,739)	(19,748)	18,999	665,092
Fisheries	180,795	171,811	(310)	3,784	(72)	2,301	(290)	(672)	2,899	180,123
Real estate companies	131,654	113,170	(425)	11,788	(654)	4,681	(1,006)	(2,085)	2,015	129,569
Construction companies	78,240	61,339	(360)	8,435	(122)	8,160	(1,698)	(2,180)	306	76,060
Travel industry	103,817	18,595	(196)	70,375	(3,957)	14,847	(4,429)	(8,582)	-	95,235
Services, IT and communications	69,810	48,653	(196)	11,383	(316)	2,235	(1,531)	(2,043)	7,539	67,767
Retail	56,877	49,435	(115)	3,967	(88)	1,437	(1,166)	(1,369)	2,038	55,508
Manufacturing and energy	28,974	21,635	(29)	2,509	(34)	4,830	(2,536)	(2,599)	-	26,375
Holding companies	28,205	19,176	(60)	4,812	(48)	15	(7)	(115)	4,202	28,090
Agriculture	6,468	5,857	(17)	404	(10)	207	(76)	(103)	-	6,365
Other	-	-	-	-	-	-	-	-	-	-
Total	1,364,473	1,151,221	(2,202)	151,553	(6,009)	42,251	(13,580)	(21,791)	19,448	1,342,682

Notes to the Condensed Consolidated Interim Financial Statements

47. Loans and advances by stage allocation (continued)

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

Notes to the Condensed Consolidated Interim Financial Statements

48. Impairment allowance on loans and advances

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

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

	12-months ECL	Lifetime ECL	Lifetime ECL	Total
	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2021 - Loans and advances to customers	(4,224)	(6,969)	(14,110)	(25,303)
New financial assets originated	(526)	(154)	(1,314)	(1,994)
Reversals due to financial assets that have been derecognised	800	748	801	2,349
Transfer to Stage 1 - 12-month ECL	(90)	75	15	0
Transfer to Stage 2 - Lifetime ECL	581	(738)	157	0
Transfer to Stage 3 - Lifetime ECL	31	310	(341)	0
Changes in models/risk parameters	954	483	743	2,180
Provisions used to cover write-offs	-	1	351	352
Balance as at 31 March 2021 - Loans and advances to customers	(2,474)	(6,244)	(13,698)	(22,416)
- thereof classified as deduction from gross carrying amounts	(2,201)	(6,009)	(13,580)	(21,790)
- thereof classified as liabilities	(273)	(235)	(118)	(626)

	1.1-31.3.2021				Total
	Financial institutions	Public entities	Individuals	Corporates	
New financial assets originated	-	(1)	(124)	(1,869)	(1,994)
Reversals due to financial assets that have been derecognised	-	1	153	2,195	2,349
Changes due to financial assets recognised in the opening balance	-	1	165	2,014	2,180
Write-offs	-	-	(171)	(286)	(457)
Provisions used to cover write-offs	-	-	109	243	352
Recoveries	-	-	207	36	243
Translation difference	-	-	-	(174)	(174)
Net impairment on loans and advances	0	1	339	2,159	2,499

Notes to the Condensed Consolidated Interim Financial Statements

48. Impairment allowance on loans and advances (continued)

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

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

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

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

49. Large exposures

As at 31 March 2021, four customer groups were rated as large exposures in accordance with rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's eligible capital. According to the rules, no exposure, after credit risk mitigation, may exceed 25% of the eligible capital. The following table shows the Group's large exposures after credit mitigation:

As at 31 March 2021	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's eligible capital	3	103,849
Large exposures between 0% and 10% of the Group's eligible capital	1	7,100
Total	4	110,949

Total ratio of large exposures to eligible capital 40%

As at 31 December 2020	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's eligible capital	3	104,514
Large exposures between 0% and 10% of the Group's eligible capital	1	7,134
Total	4	111,648

Total ratio of large exposures to eligible capital 40%

Notes to the Condensed Consolidated Interim Financial Statements

50. Bonds and debt instruments

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

	31.3.2021	31.12.2020
Government bonds and treasury bills		
Rated AAA	26,057	19,546
Rated AA- to AA+	21,525	21,616
Rated A- to A+	67,620	55,448
Rated BB+ and below	-	207
Rated BBB+ and below	207	26
	115,409	96,843
Corporate bonds		
Rated A- to A+	3,357	3,389
Rated BBB- to BBB+	-	4,311
Rated BB+ and below	-	-
Unrated	3,978	3,437
	7,335	11,137
Asset-backed securities		
Rated BBB- to BBB+	11,439	11,350
	11,439	11,350
Total	134,183	119,330

51. Offsetting financial assets and financial liabilities

The following table shows reconciliation of the net amounts of financial assets and financial liabilities. These are subject to offsetting, enforceable master netting agreements and other similar agreements.

As at 31 March 2021

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

Types of financial assets	Financial assets subject to netting agreements			Netting not recognised on balance sheet			Net financial assets subject to netting agreements	Financial assets not subject to netting agreements	Net amount on balance sheet
	Financial assets	Financial liabilities	Net amount	Financial liabilities	Collateral received				
Derivatives	1,534	-	1,534	(155)	(1,374)		5	-	1,534

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

Types of financial liabilities	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet			Net financial liabilities subject to netting agreements	Financial liabilities not subject to netting agreements	Net amount on balance sheet
	Financial liabilities	Financial assets	Net amount	Financial assets	Collateral pledged				
Derivatives	(4,534)	-	(4,534)	(155)	3,831		(858)	-	(4,534)
Short positions	(951)	-	(951)	-	951		-	-	(951)
Total	(5,485)	0	(5,485)	(155)	4,782		(858)	0	(5,485)

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51. Offsetting financial assets and financial liabilities (continued)

As at 31 December 2020

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

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

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

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

Liquidity risk

52. Liquidity risk management

The Group complies with liquidity rules set by the Central Bank of Iceland No. 266/2017. The Group also follows Central Bank Rules No. 1032/2014, on funding ratios in foreign currencies, as well as guidelines No. 2/2010 from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) on best practice for managing liquidity in banking organisation. The Central Bank's liquidity Rules No. 266/2017 require the Group to maintain a total liquidity coverage ratio (LCR) of 100% at a minimum and also a LCR in foreign currencies of 100% at a minimum. The Central Bank of Iceland made changes to Rules No. 266/2017 in December 2019, implementing a minimum requirement for liquidity ratio in Icelandic króna. The implementation of the new minimum requirement is according to a schedule set forth by the Central Bank which requires the Bank to have a minimum LCR-ISK of 30% as of 1 January 2020, 40% as of 1 January 2022 and 50% as of 1 January 2023. Rules No. 1032/2014 sets requirements for a minimum of 100% net stable funding ratio (NSFR) in foreign currencies. The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland.

The key indicator of short-term liquidity risk is measured by the LCR which shows the ratio of high quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. High quality liquid assets are comprised of cash at hand, balances with the Central Bank, assets eligible for repo transactions with the Central Bank, zero percent risk-weighted foreign government bonds and other assets that fulfill the requirements of liquid assets according to rules No. 266/2017. Estimated inflow and outflow weights, according to rules No. 266/2017, are applied to the total balance amount for each asset and liability group measured in the ratio, reflecting the next 30 calendar days. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is done so that financial institutions can not overly rely on their estimated inflow in times of stress. The calculations for the ratio as at 31 March 2021 and 31 December 2020 are shown in the following table:

Liquidity coverage ratio 31 March 2021	ISK		Foreign currencies		Total	
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	127,162	127,162	49,613	49,612	176,776	176,775
Level 2 liquid assets	6,608	4,626	235	200	6,843	4,826
Information items	8,816	-	186	-	9,002	-
Total liquid assets	142,586	131,788	50,034	49,812	192,621	181,601
Deposits	532,364	107,793	91,583	37,889	623,946	145,681
Borrowing	-	-	139	139	139	139
Other outflows	101,288	15,898	37,909	3,782	139,197	19,680
Total outflows (0-30 days)	633,652	123,691	129,631	41,810	763,282	165,500
Loans and advances to financial institutions	12,772	-	54,896	53,427	67,668	53,427
Other inflows	29,663	13,802	15,708	8,151	45,371	21,953
Limit on inflows	-	-	-	(30,221)	-	-
Total inflows (0-30 days)	42,435	13,802	70,604	31,357	113,039	75,380
Liquidity coverage ratio		120%		477%		202%

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52. Liquidity risk management (continued)

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

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

	ISK	Foreign currencies	Total
Liquidity reserves as at 31 March 2021			
Cash and balances with the Central Bank	51,595	2,031	53,625
Domestic bonds and debt instruments eligible as collateral at the Central Bank	82,175	235	82,412
Foreign government bonds with 0% risk weight	-	47,582	47,582
High quality liquidity assets	133,770	49,848	183,619
Loans and advances to financial institutions	12,772	54,896	67,668
Total liquidity reserves	146,542	104,744	251,287

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

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

	As at 31 March 2021	As at 31 December 2020
Net stable funding ratio FX	140%	132%
Net stable funding ratio total	118%	116%

53. Maturity analysis of financial assets and liabilities

The following tables only take into account the contractual maturity of the Group's assets and liabilities but do not account for measures that the Group could take to convert assets into cash at hand by liquidation, either through sale or participation in Central Bank operations. Further information on the Group's liquidity management can be found in Note 52.

The amounts in the maturity analyses as at 31 March 2021 and 31 December 2020 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation, the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in the time span of 1-5 years.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the statement of financial position, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analysis has been determined by reference to the relevant interest rates curves, exchange rates and inflation prevailing at the reporting date. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay, which is the worst-case scenario from Group perspective. An example of this is that demand deposits are included in the earliest time span. Where the Group is committed to have amounts available in installments, each installment is allocated to the earliest period in which the Group might be required to pay. Thus, undrawn loan commitments are included in the time span together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included in the maturity analysis is the guarantee's maximum amount, allocated to the earliest period in which the guarantee might be called.

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

The Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analysis. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and also it is not expected that every committed loan will be drawn down immediately. As mentioned in Note 52, the Group conducts a monthly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals as at 31. March 2021 and 31. December 2020. When managing liquidity risk the Group regards spot deals as non-derivative assets or liabilities.

The following table shows a maturity analysis of the Group's financial instruments as at 31 March 2021:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and								
Central Bank	(13,318)	(27,639)	-	-	-	-	(40,957)	(40,932)
Deposits from customers	(618,720)	(140,375)	(15,272)	(17,352)	(6,034)	-	(797,753)	(794,252)
Short positions	-	(25)	(18)	(1,489)	(197)	-	(1,729)	(951)
Borrowings	(740)	(835)	(79,951)	(330,752)	(87,143)	-	(499,421)	(452,709)
Other financial liabilities	(16,841)	-	-	-	-	-	(16,841)	(16,841)
Subordinated liabilities	-	-	(688)	(2,819)	(24,776)	-	(28,283)	(20,850)
Total	(649,619)	(168,874)	(95,929)	(352,412)	(118,150)	0	(1,384,984)	(1,326,535)
Derivative financial liabilities								
Trading								(644)
Inflow	12,729	4,399	906	-	-	-	18,034	
Outflow	(13,135)	(4,452)	(926)	-	-	-	(18,513)	
Risk management								(3,890)
Inflow	16,698	16,053	25,068	3,465	-	-	61,284	
Outflow	(17,028)	(17,348)	(27,728)	(3,925)	-	-	(66,029)	
Total	(736)	(1,348)	(2,680)	(460)	0	0	(5,224)	(4,534)
Non-derivative financial assets								
Cash and balances with								
Central Bank	59,937	-	-	-	-	-	59,937	59,937
Bonds and debt instruments	13,094	48,223	23,300	41,971	12,702	-	139,290	134,183
Equities and equity instruments	-	-	-	-	-	31,811	31,811	31,811
Loans and advances to financial institutions	54,558	-	-	-	-	-	54,558	55,234
Loans and advances to customers	72,099	49,919	189,427	525,839	1,370,914	-	2,208,198	1,287,448
Other financial assets	14,344	-	-	-	-	-	14,344	14,344
Total	214,032	98,142	212,727	567,810	1,383,616	31,811	2,508,138	1,582,957
Derivative financial assets								
Trading								319
Inflow	5,211	3,898	1,060	1,609	-	-	11,778	
Outflow	(5,053)	(3,071)	(959)	(1,587)	-	-	(10,670)	
Risk management								1,215
Inflow	3,620	4,265	45,807	45,502	-	-	99,194	
Outflow	(3,609)	(3,949)	(45,550)	(44,879)	-	-	(97,987)	
Total	169	1,143	358	645	0	0	2,315	1,534
Off-balance sheet items								
Financial guarantees and underwriting commitments	(500)	(2,242)	(4,583)	(4,101)	(11,680)	(817)	(23,923)	
Undrawn loan commitments	(111,601)	-	-	-	-	-	(111,601)	
Undrawn overdraft/credit card commitments	(67,371)	-	-	-	-	-	(67,371)	
Total	(179,472)	(2,242)	(4,583)	(4,101)	(11,680)	(817)	(202,895)	
Net liquidity position	(615,626)	(73,179)	109,893	211,482	1,253,786	30,994	917,350	253,422

Notes to the Condensed Consolidated Interim Financial Statements

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

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

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

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54. Maturity analysis of financial assets and liabilities by currency

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

	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Non-derivative financial liabilities								
Total in foreign currencies	(93,571)	(1,722)	(69,593)	(185,603)	(16,264)	-	(366,753)	(933,695)
ISK	(556,048)	(167,152)	(26,336)	(166,809)	(101,886)	-	(1,018,231)	(392,840)
Total	(649,619)	(168,874)	(95,929)	(352,412)	(118,150)	0	(1,384,984)	(1,326,535)
Derivative financial liabilities								
Total in foreign currencies	3,585	2,757	885	(5)	-	-	7,222	(894)
ISK	(4,321)	(4,105)	(3,565)	(455)	-	-	(12,446)	(3,640)
Total	(736)	(1,348)	(2,680)	(460)	0	0	(5,224)	(4,534)
Non-derivative financial assets								
Total in foreign currencies	91,518	42,666	77,604	156,012	4,115	289	372,204	1,231,908
ISK	122,514	55,476	135,123	411,798	1,379,501	31,522	2,135,934	351,049
Total	214,032	98,142	212,727	567,810	1,383,616	31,811	2,508,138	1,582,957
Derivative financial assets								
Total in foreign currencies	1,241	2,515	128	927	-	-	4,811	1,328
ISK	(1,072)	(1,372)	230	(282)	-	-	(2,496)	206
Total	169	1,143	358	645	0	0	2,315	1,534
Off-balance sheet items								
Total in foreign currencies	(33,541)	(1,696)	(1,943)	(1,030)	(6,595)	-	(44,805)	
ISK	(145,931)	(546)	(2,640)	(3,071)	(5,085)	(817)	(158,090)	
Total	(179,472)	(2,242)	(4,583)	(4,101)	(11,680)	(817)	(202,895)	
Net liquidity position in ISK	(584,858)	(117,699)	102,812	241,181	1,272,530	30,705	944,671	(45,225)
Net liquidity position in foreign currencies	(30,768)	44,520	7,081	(29,699)	(18,744)	289	(27,321)	298,647
Net liquidity position	(615,626)	(73,179)	109,893	211,482	1,253,786	30,994	917,350	253,422

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

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

Notes to the Condensed Consolidated Interim Financial Statements

55. Encumbered assets

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

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

	Collateral pledged against		Un-encumbered	Total
	Covered bonds	Other		
As at 31 March 2021				
Cash and balances with Central Bank	5,059	6,312	48,566	59,937
Bonds and debt instruments	-	-	134,183	134,183
Equities and equity instruments	-	-	31,811	31,811
Derivative instruments	-	-	1,534	1,534
Loans and advances to financial institutions	-	1,460	53,774	55,234
Loans and advances to customers	255,668	-	1,031,780	1,287,448
Investments in equity-accounted associates	-	-	1,806	1,806
Property and equipment	-	-	10,232	10,232
Intangible assets	-	-	1,837	1,837
Other assets	-	-	15,504	15,504
Assets classified as held for sale	-	-	1,426	1,426
Total	260,727	7,772	1,332,453	1,600,952

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

Market risk

56. Market risk management

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

Market risk factor	31.3.2021	31.12.2020
	% of REA	% of REA
Equity price risk	0.2%	0.3%
Interest rate risk	0.2%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.2%	0.4%
Total	0.7%	1.0%

The currency risk in the Group's trading portfolios is disclosed together with that in its non-trading portfolios in Notes 60-61.

57. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity-based instruments.

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and hedging positions, in listed ISK equities. The Group's banking book portfolio contains listed and unlisted equities as part of asset and liability management. Further details are disclosed in Note 21.

Notes to the Condensed Consolidated Interim Financial Statements

58. Interest rate risk

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 31 March 2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	59,937	-	-	-	59,937
Bonds and debt instruments	61,842	22,531	40,872	8,938	134,183
Derivative instruments	1,534	-	-	-	1,534
Loans and advances to financial institutions	55,234	-	-	-	55,234
Loans and advances to customers	1,020,660	111,167	133,050	22,571	1,287,448
Other financial assets	14,344	-	-	-	14,344
Total	1,213,551	133,698	173,922	31,509	1,552,680
Financial liabilities					
Due to financial institutions and Central Bank	(40,932)	-	-	-	(40,932)
Deposits from customers	(787,853)	(3,468)	(2,931)	-	(794,252)
Derivative instruments and short positions	(6,536)	2,002	(951)	-	(5,485)
Borrowings	(59,446)	(60,337)	(263,492)	(69,434)	(452,709)
Other financial liabilities	(16,841)	-	-	-	(16,841)
Subordinated liabilities	-	-	(20,850)	-	(20,850)
Total	(911,608)	(61,803)	(288,224)	(69,434)	(1,331,069)
Net on-balance sheet position	301,943	71,895	(114,302)	(37,925)	221,611
Derivatives held for hedging	(89,220)	44,610	44,610	0	0
Net off-balance sheet position	24,500	(22,500)	(2,000)	0	0
Total interest repricing gap	237,223	94,005	(71,692)	(37,925)	
As at 31 December 2020					
Financial assets					
Cash and balances with Central Bank	67,604	-	-	-	67,604
Bonds and debt instruments	57,071	21,199	33,530	7,530	119,330
Derivative instruments	3,303	-	-	-	3,303
Loans and advances to financial institutions	48,073	-	-	-	48,073
Loans and advances to customers	1,003,333	119,549	126,479	24,065	1,273,426
Other financial assets	9,853	-	-	-	9,853
Total	1,189,237	140,748	160,009	31,595	1,521,589
Financial liabilities					
Due to financial institutions and Central Bank	(48,725)	-	-	-	(48,725)
Deposits from customers	(787,612)	(3,073)	(2,742)	-	(793,427)
Derivative instruments and short positions	(3,725)	-	-	(523)	(4,248)
Borrowings	(79,014)	(15,456)	(258,310)	(67,398)	(420,178)
Other financial liabilities	(8,127)	-	-	-	(8,127)
Subordinated liabilities	-	-	(21,366)	-	(21,366)
Total	(927,203)	(18,529)	(282,418)	(67,921)	(1,296,071)
Net on-balance sheet position	262,034	122,219	(122,409)	(36,326)	225,518
Derivatives held for hedging	(93,660)	0	93,660	0	0
Net off-balance sheet position	26,501	(24,501)	(2,000)	0	0
Total interest repricing gap	194,875	97,718	(30,749)	(36,326)	

Notes to the Condensed Consolidated Interim Financial Statements

59. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-linked financial instruments may fluctuate due to changes in the Icelandic CPI. To mitigate imbalance in the Bank's CPI-linked assets and liabilities, the Bank offers non-CPI-linked loans, CPI-linked deposits, CPI-linked covered bonds as well as CPI-linked interest rate swaps.

CPI indexation risk is managed centrally within the Group by Treasury, and is monitored by Market Risk department within the Risk Management division. The following tables summarize the Group's CPI imbalance, where CPI-linked financial assets and liabilities are calculated at their carrying amounts and categorised at maturity date, as at 31 March 2021 and 31 December 2020.

	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
As at 31 March 2021					
Financial assets					
Bonds and debt instruments	341	-	3,334	5,207	8,882
Loans and advances to customers	6,206	11,049	80,624	262,059	359,938
Total	6,547	11,049	83,958	267,266	368,820
Financial liabilities					
Deposits from customers	(75,463)	(3,043)	(13,127)	(38,278)	(129,911)
Derivative instruments and short positions	-	-	(951)	(166)	(1,117)
Borrowings	-	-	(67,196)	(69,434)	(136,630)
Subordinated liabilities	-	-	(5,813)	-	(5,813)
Total	(75,463)	(3,043)	(87,087)	(107,878)	(273,471)
Total on-balance sheet position	(68,916)	8,006	(3,129)	159,388	95,349
Off-balance sheet position					
Interest rate swaps	-	(27,719)	(2,450)	-	(30,169)
Total return swaps	(6,850)	-	-	-	(6,850)
Guarantees	-	(54)	(96)	(2,907)	(3,058)
Total off-balance sheet position	(6,850)	(27,773)	(2,546)	(2,907)	(40,077)
Total CPI indexation balance	(75,766)	(19,767)	(5,675)	156,481	55,272
As at 31 December 2020					
Financial assets					
Bonds and debt instruments	-	187	3,708	5,540	9,435
Loans and advances to customers	4,553	13,031	71,264	278,251	367,099
Total	4,553	13,218	74,972	283,791	376,534
Financial liabilities					
Deposits from customers	(74,090)	(2,582)	(12,899)	(36,902)	(126,473)
Derivative instruments and short positions	-	-	-	(523)	(523)
Borrowings	-	-	(66,156)	(67,399)	(133,555)
Subordinated liabilities	-	-	(5,705)	-	(5,705)
Total	(74,090)	(2,582)	(84,760)	(104,824)	(266,256)
Total on-balance sheet position	(69,537)	10,636	(9,788)	178,967	110,278
Off-balance sheet position					
Interest rate swaps	-	(24,295)	(5,737)	-	(30,032)
Total return swaps	(8,527)	-	-	-	(8,527)
Guarantees	-	(54)	(96)	(3,295)	(3,445)
Total off-balance sheet position	(8,527)	(24,349)	(5,833)	(3,295)	(42,004)
Total CPI indexation balance	(78,064)	(13,713)	(15,621)	175,672	68,274

Notes to the Condensed Consolidated Interim Financial Statements

Currency risk

60. Currency risk (all portfolios)

The Group follows Central Bank Rules No. 784/2018, on Foreign Exchange Balances. The Rules stipulate that a foreign exchange balance (whether long or short) of a systemically important financial institution must always be within 10% of its capital base, in each currency and for all currencies combined, although the total foreign exchange balance should never exceed ISK 25,000 million. The Bank submits daily reports to the Central Bank on its foreign exchange balance and the Group submits monthly reports to the Central Bank on its foreign exchange balance.

The Group's combined net foreign exchange balance as at 31 March 2021 was + 0,52% of the Group's capital base (31.12.2020: +1.5%).

61. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 31 March 2021 and 31 December 2020. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments. Amounts presented under assets and liabilities include all spot deals. When managing currency risk, the Group regards spot deals as non-derivative assets or liabilities.

As at 31 March 2021	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	881	194	384	13	52	508	2,032
Bonds and debt instruments	26,306	3	21,525	-	-	-	47,834
Equities and equity instruments	105	-	167	-	-	17	289
Derivative instruments	1,194	22	43	-	-	69	1,328
Loans and advances to financial institutions	14,602	1,124	13,900	248	508	24,514	54,896
Loans and advances to customers	183,478	4,130	52,902	1,003	170	4,317	246,000
Other assets	2	5	2,106	-	-	8	2,121
Total	226,568	5,478	91,027	1,264	730	29,433	354,500
Liabilities							
Due to financial institutions and Central Bank	(1,071)	(3)	(12)	-	-	-	(1,086)
Deposits from customers	(36,873)	(4,350)	(45,245)	(843)	(696)	(5,781)	(93,788)
Derivative instruments and short positions	(99)	(36)	(735)	-	-	(21)	(891)
Borrowings	(179,337)	-	(19,068)	-	-	(49,893)	(248,298)
Other liabilities	(1,951)	(735)	(1,378)	(5)	(62)	(871)	(5,002)
Subordinated liabilities	(15,037)	-	-	-	-	-	(15,037)
Total	(234,368)	(5,124)	(66,438)	(848)	(758)	(56,566)	(364,102)
Net on-balance sheet position	(7,800)	354	24,589	416	(28)	(27,133)	(9,602)
Net off-balance sheet position	7,376	954	(23,876)	(421)	-	26,951	10,984
Net currency position	(424)	1,308	713	(5)	(28)	(182)	1,382
As at 31 December 2020							
Assets							
Cash and balances with Central Bank	434	188	416	14	55	374	1,481
Bonds and debt instruments	19,809	3	25,927	-	-	-	45,739
Equities and equity instruments	57	-	152	-	-	18	227
Derivative instruments	1,730	67	1,266	-	-	134	3,197
Loans and advances to financial institutions	19,072	2,614	7,450	125	987	17,479	47,727
Loans and advances to customers	188,235	4,280	54,582	1,081	187	3,404	251,769
Other assets	1	-	2,314	-	-	-	2,315
Total	229,338	7,152	92,107	1,220	1,229	21,409	352,455
Liabilities							
Due to financial institutions and Central Bank	(1,958)	(3)	(380)	-	-	-	(2,341)
Deposits from customers	(40,500)	(5,820)	(44,326)	(423)	(1,048)	(9,530)	(101,647)
Derivative instruments and short positions	(33)	(9)	(40)	-	-	-	(82)
Borrowings	(173,677)	-	(19,155)	-	-	(37,986)	(230,818)
Other liabilities	(950)	(146)	(425)	(7)	(7)	(502)	(2,037)
Subordinated liabilities	(15,661)	-	-	-	-	-	(15,661)
Total	(232,779)	(5,978)	(64,326)	(430)	(1,055)	(48,018)	(352,586)
Net on-balance sheet position	(3,441)	1,174	27,781	790	174	(26,609)	(131)
Net off-balance sheet position	4,374	(941)	(25,359)	(702)	-	26,698	4,070
Net currency position	933	233	2,422	88	174	89	3,939

Notes to the Condensed Consolidated Interim Financial Statements

62. Foreign exchange rates used

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

	As at 31 March 2021	As at 31 December 2020	% change	Average for 1.1-31.3 2021	Average for 1.1-31.3 2020
EUR/ISK	148.70	156.10	(4.7%)	153.65	142.10
GBP/ISK	174.66	173.54	0.6%	175.41	165.49
USD/ISK	126.62	127.16	(0.4%)	127.23	128.34
JPY/ISK	1.1448	1.2339	(7.2%)	1.1987	1.1871
CHF/ISK	134.45	144.39	(6.9%)	140.79	132.88
CAD/ISK	100.74	99.85	0.9%	100.31	95.43
DKK/ISK	19.993	20.980	(4.7%)	20.658	19.022
NOK/ISK	14.841	14.926	(0.6%)	14.875	13.549
SEK/ISK	14.522	15.572	(6.7%)	15.149	13.290

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

63. Operations by quarters

Operations	2021		2020		
	Q1	Q4*	Q3	Q2	Q1
Interest income	14,332	15,695	16,167	18,220	16,416
Interest expense	(5,706)	(6,001)	(6,726)	(8,708)	(6,989)
Net interest income	8,626	9,694	9,441	9,512	9,427
Fee and commission income	2,875	2,811	2,844	2,391	2,773
Fee and commission expense	(821)	(830)	(785)	(738)	(828)
Net fee and commission income	2,054	1,981	2,059	1,653	1,945
Net gain (loss) on financial assets and liabilities at FVTPL	2,371	5,056	(1,001)	2,827	(2,625)
Net foreign exchange gain (loss)	(27)	(52)	(52)	(259)	85
Net impairment changes	2,489	1,535	(120)	(8,191)	(5,244)
Other income and (expenses)	246	(137)	574	333	(188)
Net other operating income	5,079	6,402	(599)	(5,290)	(7,972)
Total operating income	15,759	18,077	10,901	5,875	3,400
Salaries and related expenses	(3,769)	(3,986)	(3,135)	(3,802)	(3,844)
Other operating expenses	(2,315)	(2,433)	(1,995)	(2,206)	(2,430)
Tax on liabilities of financial institutions	(467)	(400)	(540)	(425)	(450)
Total operating expenses	(6,551)	(6,819)	(5,670)	(6,433)	(6,724)
Profit (loss) before tax	9,208	11,258	5,231	(558)	(3,324)
Income tax	(1,590)	(1,436)	(1,245)	899	(304)
Profit (loss) for the period	7,618	9,822	3,986	341	(3,628)
Balance sheet	31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
Cash and cash balances with Central Bank	59,937	67,604	111,260	89,598	92,440
Bonds and debt instruments	134,183	119,330	104,895	104,758	116,568
Equities and equity instruments	31,811	26,808	25,445	26,794	25,923
Loans and advances to financial institutions	55,234	48,073	80,324	56,394	69,740
Loans and advances to customers	1,287,448	1,273,426	1,255,393	1,198,210	1,190,536
Other assets	30,913	27,298	31,268	23,913	26,851
Assets classified as held for sale	1,426	1,638	1,680	1,443	1,130
Total assets	1,600,952	1,564,177	1,610,265	1,501,110	1,523,188
Due to financial institutions and Central Bank	40,932	48,725	47,654	37,226	41,495
Deposits from customers	794,252	793,427	813,784	758,790	755,160
Borrowings	452,709	420,178	438,309	408,097	412,591
Other liabilities	30,795	22,196	40,096	30,993	48,427
Liabilities associated with assets classified as held for sale	30	30	30	30	30
Subordinated liabilities	20,850	21,366	21,959	21,527	21,379
Equity	261,384	258,255	248,433	244,447	244,106
Total liabilities and equity	1,600,952	1,564,177	1,610,265	1,501,110	1,523,188

*The first quarter result for the year 2021 and the first three quarter results for the year 2020 were reviewed by the Bank's independent auditors.

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

64. Key figures and ratios

	2021	2020			
	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	14.2%	17.8%	8.5%	-0.9%	-5.4%
Return on equity after taxes	11.7%	15.5%	6.5%	0.6%	-5.9%
Cost-income ratio	45.8%	38.8%	46.6%	42.7%	72.6%
Operating expenses as a ratio of average total assets	1.5%	1.6%	1.3%	1.6%	1.7%
Return on assets	1.9%	2.5%	1.0%	0.1%	-1.0%
Interest spread as a ratio of average of total assets	2.2%	2.4%	2.4%	2.5%	2.6%
Earnings per share	0.32	0.42	0.17	0.01	(0.15)
	31.3.2021	31.12.2020	30.9.2020	30.6.2020	31.3.2020
Total capital ratio	24.9%	25.1%	24.7%	24.9%	24.8%
CET1 ratio	23.0%	23.2%	22.7%	22.8%	22.7%
Leverage ratio	14.8%	15.4%	14.4%	14.9%	14.7%
Loans / deposits	162.1%	160.5%	154.3%	157.9%	157.7%
Deposits / total assets	49.6%	50.7%	50.5%	50.5%	49.6%
Liquidity coverage ratio total (LCR)	202%	154%	186%	191%	196%
Net stable funding ratio FX (NSFR)	140%	132%	116%	121%	127%
Number of full-time positions at the end of the period	869	878	884	872	886

Key figures and ratios

Definition

Return on equity before taxes	Profit (loss) before taxes / average total equity
Return on equity after taxes	Profit (loss) after taxes / average total equity
Cost / income ratio	(Total operating expenses - tax on liabilities of financial institutions) / (total net operating income - net valuation adjustments)
Operating expenses as a ratio of average total assets	(Total operating expenses - tax on liabilities of financial institutions) / average total assets
Return on assets	Profit (loss) for the period / average total assets
Interest spread	(Interest income / average total assets) - (interest expenses / average total liabilities)
Earnings per share	Profit (loss) for the period attributable to owners of the Bank / Weighted average number of shares outstanding
Total capital ratio	Total capital base / risk-exposure amount
CET1 ratio	Common equity tier 1 capital (CET1) / Risk exposure amount
Common equity Tier 1 capital (CET1)	Total equity - deductions (intangible assets, deferred tax assets)
Additional common equity Tier 1 capital (AT1)	Capital instruments under Tier 1 other than (CET1)
Tier 1 capital (T1)	Common equity Tier 1 capital + additional common equity Tier 1 capital
Tier 2 capital (T2)	Subordinated liabilities - regulatory amortisation
Total capital base	CET1 + AT1 + T2
Leverage ratio	Tier 1 capital / (total assets + off balance sheet items)
Loans / deposits	Loans and advances to customers/ deposits from customers
Deposits / total assets	Deposits from customers/ total assets
Liquidity coverage ratio total (LCR)	High quality liquid assets / total net liquidity outflows over 30 days under stressed conditions
Net stable funding ratio FX (NSFR)	Available amount of stable funding / required amount of stable funding
Number of full-time equivalent positions at the end of the period	Number of full-time equivalent positions at the end of the period

Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af
Elín Jónsdóttir

Undirritað af
Guðbrandur Sigurðsson

Undirritað af
Guðrún Blöndal

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af
Helgi Friðjón Arnarson

Undirritað af
Lilja Björk Einarsdóttir

Undirritað af
Þorvaldur Jacobsen