Condensed Consolidated Interim Financial Statements

1 January to 30 September 2023

Contents

Arion Bank in brief

30.09.2023

13.9%
Return on equity

41.4%
Cost-to-core income

19.4%
CET1 ratio

Rating from S&P
Long term: BBB
Short term: A-2
Outlook: Negative

Rating from Moody's
Long term: A3
Deposit rating: A2
Outlook: Stable

The Banker
Bank of the Year 2022
ICELAND

ESG INDUSTRY TOP RATED

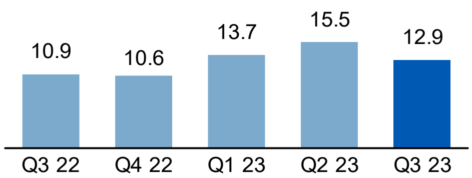
UNEP FINANCE INITIATIVE
PRINCIPLES FOR RESPONSIBLE BANKING

- Arion Bank provides services to households, corporates, institutions and investors. The Bank has three business segments: Retail Banking, Corporate & Investment Banking (CIB), and Markets. The service offering is further augmented by the subsidiaries Stefnir and Vördur. Stefnir is an Icelandic fund management company, and Vördur is an insurance company providing non-life and life insurance
- Arion Bank plays an important role in the community through the financing of progressive and sustainable initiatives. Sustainability is a part of the Bank's day-to-day activities, its decision-making and processes
- The diverse service offering at Arion Bank means that the revenue base is broad and the loan portfolio is well diversified between retail and corporate customers
- The Bank is a market leader in digital solutions and innovation supported by the Bank's app, which has been awarded the best banking app in Iceland seven years in a row. Numerous new digital solutions have been launched in the past few years, enhancing service to customers and making the Bank's operations more efficient, which in the long term reduces operating expenses
- The Bank places a strong emphasis on customer experience, both in digital and face-to-face services, and meeting the financial needs of its customers via a customized product offering and quality financial services which contribute to the success of customers and society as a whole

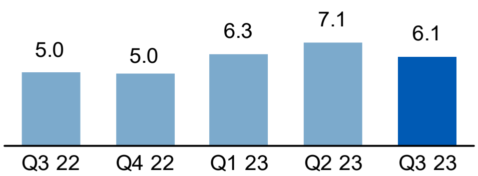
Key figures (ISK m)

	9M 2023	9M 2022
Net earnings	19,513	20,993
ROE	13.9%	15.2%
Net interest margin	3.1%	3.1%
Cost to Core income ratio	41.4%	42.0%
Core operating income / REA	7.2%	6.9%
	30.09.2023	**31.12.2022**
Total assets	1,540,669	1,465,609
Loans to customers	1,143,473	1,084,757
Deposits	806,331	755,361
Borrowings	407,895	392,563
Total equity	192,560	187,956
Stage 3 gross	1.6%	1.2%
Leverage ratio	11.8%	11.8%
Number of employees	800	781
EUR/ISK	145.7	151.5

Return on equity (%)

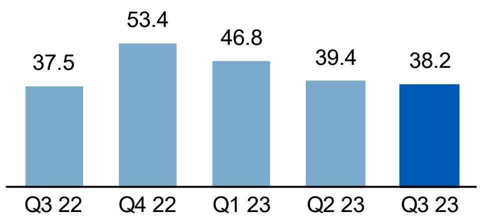


Net earnings (ISK billion)

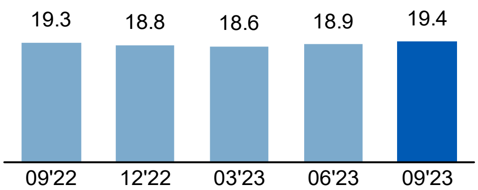


Net interest margin (%)

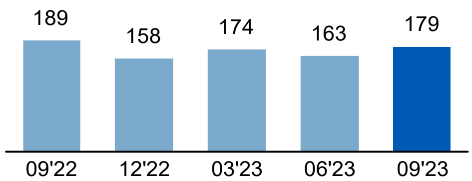
Cost-to-core income (%)



CET 1 ratio (%)



LCR ratio (%)



Endorsement and statement
by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period from 1 January to 30 September 2023 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 6.1 billion for the third quarter and ISK 19.5 billion for the first nine months of the year. Return on equity was 12.9% for the quarter and 13.9% for the first nine months. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), was stable in the quarter whereas there was an increase of 8.6% in the first nine months, compared with the previous year. Net interest income increased by 5.4% in the third quarter, compared with the same period the previous year, mainly due to a higher interest rate environment, while Net interest margin decreased to 3.0% due to lower inflation and increased funding cost. The quarter was generally solid for the fee generating businesses,although their overall performance was slightly down between quarters, mainly as a result of lending activities and lower fee from asset management and capital markets. Insurance service results were solid with insurance revenues increasing by 13% between years. Market conditions were challenging for net financial income during the quarter and it was impacted by market volatility. Operating expenses for the third quarter, including operating expenses of the insurance operation, increased by 4% between years. The number of full-time employees was 800 at the end of September and has increased by 23 since the end of September 2022. The cost-to-core income ratio was 38.2% for the quarter and 41.4% for the first nine months of the year, with expenses of insurance operation included.

Balance Sheet

The Bank's balance sheet grew by 5.1% from year-end 2022. Loans to customers increased by 5.4% from year-end, with a 7.9% increase in corporate lending and 3.3% growth in loans to individuals, mainly mortgages. Deposits increased by 6.7%. Total equity amounted to ISK 192.560 million at the end of September. The Group's capital ratio was 24.4% and the CET1 ratio was 19.4%. The ratios are determined on the basis of the unaudited net earnings in the quarter, and take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 24.1% and the CET1 ratio was 19.0%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law. The liquidity position was also strong at year-end and well above the regulatory minimum.

IFRS 17 Insurance contracts

The Group initially adopted IFRS 17 Insurance contracts on 1 January 2023, see Notes 1 and 3 for information on the impacts on the Consolidated Interim Financial Statements.

Arion Bank's medium-term financial targets compared with the operational results for the period

	Actuals Q3 2023	Actuals 9M 2023	Arion Bank's medium-term financial targets
Return on equity	12.9%	13.9%	Exceed 13%
Core operating income / REA	7.0%	7.2%	Exceed 6.7%
Insurance premium growth (YoY)	18.6%	12.9%	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3% (Premium growth in the domestic insurance market was 9.3% for Q1 2023 and 7.5% for 2022)
Cost-to-core income ratio	38.2%	41.4%	Below 48%
CET1 ratio	450 bps	450 bps	150-250 bps management buffer (~16.4 - 17.4% based on current capital requirements)
Dividend pay-out ratio	50%	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

Iceland continues to outgrow its trading partners with 4.2% annualized GDP growth in Q2, making it the third fastest growing economy in OECD. In the labour market, demand has remained strong, with the unemployment rate at 3.3% and total hours worked growing by more than 6% year-over-year in July and August. Nevertheless, there are signs of domestic demand slowing down in declining goods imports over the summer and continued decline in household real card turnover (1.2% in September). Therefore, Arion Research has revised its outlook from earlier this year for private consumption from 5% growth to 0.9% growth. The GDP outlook has been adjusted to a lesser extent, with growth now projected at 4.5% instead of 5.1%. While domestic demand is slowing, the decline in imports has outpaced Arion Research's expectations. The outlook for 2024 remains unchanged at 1.6% as tightening monetary policy is expected to depress investment and private consumption growth. The outlook for exports remains strong and domestic demand is expected to bounce back in 2025, resulting in 3.1% and 3% growth in 2025 and 2026 respectively. Relatively high GDP growth in those two years is in part due to rapid, albeit slowing, population growth.

Inflation continued to deaccelerate in Q3, although the signals from the most recent CPI numbers have been mixed. Firstly, the 12-month headline inflation rate has increased again to 8% in September after 7.6% inflation in July. Secondly, by some measures, underlying price increases have been moderate over the past few months, as argued by the Central Bank's monetary policy committee (MPC) following its decision to keep interest rates unchanged at its October meeting. Arion Research expects inflation to remain near 7-8% until early next year when it will moderate, resulting in an average inflation rate of 6.7% in 2024. The inflation outlook, overall, is highly uncertain and will largely hinge on the upcoming collective bargaining. With the risk of persistent inflation and inflation expectations Arion Research expects the MPC to hike rates by 50 basis point in November, taking the key rate to 9.75%.

Housing prices are not contributing as much to inflation as in 2021-2022, yet the housing market has remained stronger than expected with prices in the Capital Region increasing by 1.4% in September and evidence of continued increases in October. The situation in the housing market can currently be characterized as a tug of war, as highlighted in Arion Research's newly published economic outlook, where rising interest rates and costs are pulling towards lower prices while the near 4% population growth is fueling the demand side. In the outlook, housing prices are expected to increase by 2.7% in 2024 and 4.3% in 2025. With historically high prices and high interest rates, households have generally been moving towards indexed-linked loans, which carry significantly lower monthly payments, a trend Arion Research expects to continue.

Outlook for the Bank

Q3 was another solid quarter and concludes a strong first nine months of the year for the group. The Group continues to benefit from diversified pillars in its operations which are all seasoned businesses with strong market positions and are all carrying solid momentum.

The Icelandic economy is starting to slow in response to the rapidly rising interest rate environment and this has contributed to loan growth also slowing over past quarters. The Central Bank kept rates unchanged at its last meeting for the first time in a while which provides a level of optimism that the inflationary trends are starting to subside. For the economy the inflation and rate environments will continue to be the key drivers for our clients and in turn our operations over the coming year. A key milestone in this regard will be the upcoming union wage negotiations which hopefully will lead to a sustainable solution, which will in turn help the economy to successfully manage these key ongoing challenges.

Another near term driver for our business has been the evolving views from our rating agencies. Pleasingly Moody´s upgraded the Bank to A3 during the quarter, noting the Bank's sustained performance and shift towards a bancassurance business model over the past 18 months which has supported its profitability and capitalization, while maintaining strong asset quality. At the other end however, the S&P rating at BBB is on a negative outlook. This is a result of the agency's revised economic risk assessment for the Icelandic banking sector which was confirmed in a report early this year. The result of this was a significant c.2.5% increase in the capital requirements for the Icelandic banks to retain their "Very Strong" capital assessment, which is a key driver for the S&P rating. As a result of this, despite significant headroom above regulatory and Moody´s capital thresholds, capital optimization in the near term will be impacted by this position. The expectation is, however, that constructive economic developments and/or the positive impact of other rating factors will result in the convergence of capital thresholds over the medium term.

Finally, the current global geopolitical landscape, with very unfortunate developments in Ukraine and now Israel, is clearly adding to uncertainty over the smooth landing of the global economy over the coming years.

Funding and liquidity

In terms of funding and liquidity management the Group's liquidity position remains strong. The Bank's liquidity position was above the required minimum, and the liquidity coverage ratio at the end of September 2023 was 179%, with the minimum requirement being 100%.

In September Moody's upgraded Arion Bank's issuer rating to A-3. The long-term and short term deposit rating was upgraded to A-2. The outlook was changed to stable from positive.

Arion Bank continued to issue covered bonds in the domestic market. Total issuance was ISK 44.2 billion (of which ISK 22.6 billion was for the Bank's own account) in the first nine months of 2023.

Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. The Bank aims in the medium term to maintain capital adequacy ratios 150-250bps above total regulatory requirements. In the near term however, capital thresholds as per external rating methodologies will impact the Bank's capital management. This is especially relevant for the Bank's BBB rating from Standard & Poor's, which revised its assessment of economic risk for the Icelandic banking sector in 2022. To maintain the current rating, the Bank will need to accumulate Tier 1 capital in excess of regulatory requirements by 400-500bps of REA. The Bank's issuer rating from Moody's is A3 with stable outlook.

In March 2023, the Bank paid a dividend of ISK 8.5 per share, approximately ISK 12.5 billion, based on the approval of the Annual General Meeting. The Board of Directors has the authority to propose that the Bank pay dividends or other disbursements of equity and may convene a special shareholders' meeting later in the year to propose a payment. The Board is authorized to purchase up to 10% of the Bank's issued share capital.

On 10 July, the FSA published the result of the Supervisory Review and Evaluation Process (SREP) for Arion Bank, based on financial information at year-end 2022. The additional capital requirement under Pillar 2 is set at 2.1% of total risk-weighted exposure amount (REA), a decrease of 1.4pp from the previous year.

Having temporarily vacated the 2% countercyclical capital buffer in March 2020, the Central Bank of Iceland reinstated the buffer at the same level, effective from 29 September 2022. In March 2023 the Central Bank announced that it would increase the countercyclical buffer to 2.5%, effective from 15 March 2024. Other things being equal, this will increase Arion Bank's total capital requirement by the corresponding percentage.

Arion Bank's capital position is very strong and will remain so for the foreseeable future. This underpins the Bank's ability to support its customers and the Icelandic economy, as it faces challenging economic conditions owing to a number of factors, including geopolitical tensions, persistent high interest rates, and high inflation.

Endorsement and statement
by the Board of Directors and the CEO

The Group's capital adequacy ratio on 30 September 2023 was 24.4% and the CET1 ratio was 19.4%, when the unaudited interim net earnings for the third quarter of 2023 are included. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy. This compares to a total regulatory capital requirement of 19.3% and a CET1 requirement of 14.9%, including the combined buffer requirement.

The Bank's REA increased by ISK 3.5 billion in Q3 2023. This was driven primarily by an increase of ISK 2.4 billion in counterparty credit risk REA, partly offset by a ISK 1.5 billion decrease in REA arising from market risk owing to trading book positions. REA changes for other factors were less material.

The Central Bank of Iceland's Resolution Authority approved Arion Bank's resolution plan on 17 October 2023. With the approval of the resolution plan, the Resolution Authority set the Bank's MREL requirement at 20.2% of REA, based on year-end 2022 data. Arion Bank is in full compliance with the requirement.

Group ownership

At the end of September 2023 Gildi lífeyrissjódur was the largest shareholder in Arion Bank with a shareholding of 9.85%. Arion Bank held 0.95% of its own shares at the end of September, see Note 39. The number of shareholders was 11,180 at the end of September, compared with 12,059 at the beginning of the year. Further information on Arion Bank's shareholders can be found in Note 39. At the AGM in March 2023 a motion was passed to reduce the company's share capital by ISK 50 million at nominal value, by cancelling the company's own shares. The reduction took place on 25 April 2023.

Governance

At the Bank’s AGM on 15 March 2023, six members were elected to serve on the Board of Directors until the next AGM, three women and three men. Additionally, two Alternate Directors (one woman and one man) were elected. All Directors and Alternates are independent of Arion Bank, its management and major shareholders. The Board’s composition as regards gender representation complies with statutory requirements, which stipulate that companies employing more than 50 people must ensure that the gender ratio of the board of directors and alternate board is no less than 40%.

In September Birna Hlín Káradóttir, who has been General Counsel at Arion Bank since 2019, took up the role of managing a new division, Operations and Culture, which took over a range of projects which were previously the responsibility of other divisions. The new division also includes a new transformation team. The changes are designed to foster closer collaboration between support units, bring greater efficiency to operations, manage transformation projects more effectively, and bring a clearer focus on service and customer experience. The division will also play a key role in the continued development and shaping of Arion Bank’s corporate culture. Operations and Culture will incorporate human resources, back office, operations management, transformation and legal services.

Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2023 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 30 September 2023 and its financial position as at 30 September 2023. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2023 and confirm them by means of their signatures.

Reykjavík, 26 October 2023

Board of Directors

Brynjólfur Bjarnason, Chairman

Paul Richard Horner, Vice Chairman

Gunnar Sturluson

Kristín Pétursdóttir

Liv Fiksdahl

Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason

Consolidated Interim Income Statement

	Notes	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Interest income		90,655	61,715	30,426	23,446
Interest expense		(57,317)	(32,137)	(19,508)	(13,089)
Net interest income	8	**33,338**	**29,578**	**10,918**	**10,357**
Fee and commission income		15,238	13,731	4,765	4,773
Fee and commission expense		(2,752)	(1,536)	(917)	(716)
Net fee and commission income	9	**12,486**	**12,195**	**3,848**	**4,057**
Insurance revenue		12,655	11,167	4,450	3,739
Insurance service expenses		(12,219)	(10,320)	(4,055)	(3,252)
Insurance service results	10	**436**	**847**	**395**	**487**
Net financial income	11	(4)	(3,234)	(183)	(1,476)
Other operating income	12	1,613	1,262	8	98
Other net operating income		**1,609**	**(1,972)**	**(175)**	**(1,378)**
Operating income		**47,869**	**40,648**	**14,986**	**13,523**
Operating expenses	13	(17,871)	(16,855)	(5,392)	(5,222)
Bank levy	16	(1,374)	(1,253)	(468)	(444)
Net impairment	17	(1,361)	(267)	(741)	42
Earnings before income tax		**27,263**	**22,273**	**8,385**	**7,899**
Income tax expense	18	(7,787)	(8,189)	(2,274)	(2,885)
Net earnings from continuing operations		**19,476**	**14,084**	**6,111**	**5,014**
Discontinued operations held for sale, net of income tax	19	37	6,909	20	(6)
Net earnings		**19,513**	**20,993**	**6,131**	**5,008**

Attributable to

	Notes	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Shareholders of Arion Bank hf.		19,502	20,986	6,136	5,014
Non-controlling interest		11	7	(5)	(6)
Net earnings		**19,513**	**20,993**	**6,131**	**5,008**

Earnings per share

	Notes	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Earnings per share	20				
Basic earnings per share attributable to the shareholders of Arion Bank (ISK)		13.40	14.00	4.19	3.35
Diluted earnings per share attributable to the shareholders of Arion Bank (ISK)		13.00	13.25	3.96	3.17

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Comprehensive Income

	Notes	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Net earnings		**19,513**	**20,993**	**6,131**	**5,008**
Net change in FV of financial assets carried at FV through OCI, net of tax		302	(1,230)	59	202
Net realized gain on financial assets carried at FV through OCI, net of tax, and reclassification from OCI equity reserve, transferred to the P/L	11	(196)	1,449	4	22
Changes to reserve for financial instruments at FV through OCI		**106**	**219**	**63**	**224**
Exchange difference on translating foreign subsidiaries		-	(676)	-	-
Other comprehensive income (loss) that is or may be reclassified subsequently to the Income Statement		**106**	**(457)**	**63**	**224**
Total comprehensive income		**19,619**	**20,536**	**6,194**	**5,232**

Attributable to

Shareholders of Arion Bank		19,608	20,529	6,199	5,238
Non-controlling interest		11	7	(5)	(6)
Total comprehensive income		**19,619**	**20,536**	**6,194**	**5,232**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	30.09.2023	31.12.2022*
Cash and balances with Central Bank	21	80,288	114,118
Loans to credit institutions	22	51,302	45,501
Loans to customers	23	1,143,473	1,084,757
Financial instruments	24-26	221,012	193,329
Investment property	26	9,461	7,862
Investments in associates	28	844	787
Intangible assets	29	8,289	8,783
Tax assets	30	427	135
Assets and disposal groups held for sale	31	61	61
Other assets	32	25,512	10,276
Total Assets		**1,540,669**	**1,465,609**
Liabilities			
Due to credit institutions and Central Bank	25	13,144	11,697
Deposits	25	806,331	755,361
Financial liabilities at fair value	25	16,908	20,997
Tax liabilities	30	13,499	10,303
Other liabilities	33	43,479	39,401
Borrowings	25.34	407,895	392,563
Subordinated liabilities	25.35	46,853	47,331
Total Liabilities		**1,348,109**	**1,277,653**
Equity	38		
Share capital and share premium		10,604	13,372
Other reserves		11,785	10,672
Retained earnings		169,510	163,263
Total Shareholders' Equity		**191,899**	**187,307**
Non-controlling interest		661	649
Total Equity		**192,560**	**187,956**
Total Liabilities and Equity		**1,540,669**	**1,465,609**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Restricted reserves								Retained earnings	Total share-holders' equity	Non-cont-rolling interest	Total equity
			Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve	Foreign currency trans-lation reserve				
Equity 1 January 2023	1,466	11,906	339	828	6,308	1,941	1,002	(1,383)	1,637	-	163,264	**187,307**	649	**187,956**
Net earnings											19,502	**19,502**	11	**19,513**
Net change in fair value								302				**302**		**302**
Net realized profit transf. to P/L and recl. from OCI equity reserve								(196)				**(196)**		**(196)**
Total comprehensive income	-	-	-	-	-	-	-	106	-	-	19,502	**19,608**	11	**19,619**
Transactions with owners														
Dividend paid											(12,357)	**(12,357)**		**(12,357)**
Purchase of treasury shares	(22)	(3,238)										**(3,260)**		**(3,260)**
Share option charge			152									**152**		**152**
Share option vested	2	295	(45)									**252**		**252**
Share option forfeited			(83)								83	**-**		**-**
Incentive scheme	1	194										**195**		**195**
Changes in reserves					1,087	(12)	(92)				(983)	**-**		**-**
Equity 30 September 2023	1,447	9,157	363	828	7,395	1,929	910	(1,277)	1,637	-	169,510	**191,899**	661	**192,560**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

			Restricted reserves											
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve	Foreign currency trans-lation reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
Equity 1 January 2022	1,518	21,166	99	828	7,245	3,166	1,124	(1,937)	1,637	676	158,403	**193,925**	673	**194,598**
Impact of adopting IFRS 17 1 Jan. ...											(917)	**(917)**		**(917)**
Restated opening balance	1,518	21,166	99	828	7,245	3,166	1,124	(1,937)	1,637	676	157,486	**193,008**	673	**193,681**
Net earnings											20,986	**20,986**	7	**20,993**
Net change in fair value								(1,230)				**(1,230)**		**(1,230)**
Net realized loss transferred to P/L ...								1,449				**1,449**		**1,449**
Translation difference										(676)		**(676)**		**(676)**
Total comprehensive income	-	-	-	-	-	-	-	219	-	(676)	20,986	**20,529**	7	**20,536**
Transactions with owners														
Dividend paid											(22,489)	**(22,489)**		**(22,489)**
Purchase of treasury shares	(36)	(6,422)										**(6,458)**		**(6,458)**
Share option charge			201									**201**		**201**
Share option vested	3	349	(38)									**314**		**314**
Incentive scheme	1	184										**185**		**185**
Changes in reserves					(1,500)	(1,277)	(91)				2,868	**-**		**-**
Equity 30 September 2022	1,486	15,278	262	828	5,745	1,889	1,033	(1,719)	1,637	-	158,851	**185,290**	680	**185,970**
Net earnings											4,996	**4,996**	(31)	**4,965**
Net change in fair value								231				**231**		**231**
Net realized loss transferred to P/L ...								104				**104**		**104**
Total comprehensive income	-	-	-	-	-	-	-	335	-	-	4,996	**5,331**	(31)	**5,300**
Transactions with owners														
Purchase of treasury shares	(22)	(3,371)										**(3,393)**		**(3,393)**
Share option charge			78									**78**		**78**
Changes in reserves					563	52	(31)				(584)	**-**		**-**
Equity 31 December 2022*	1,465	11,906	339	828	6,308	1,941	1,002	(1,384)	1,637	-	163,264	**187,307**	649	**187,956**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

	2023 1.1.-30.9.	2022* 1.1.-30.9.
Operating activities		
Net earnings	19,513	20,993
Non-cash items included in net earnings	(20,684)	(21,919)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	1,817	170
Loans to customers	(47,382)	(95,239)
Financial instruments and financial liabilities at fair value	(41,880)	3,313
Other changes in operating assets and liabilities	25,883	94,684
Interest received	68,358	48,219
Interest paid	(18,747)	(13,798)
Dividend received	269	342
Income tax paid	(4,883)	(2,384)
Net cash (to) from operating activities	**(17,737)**	**34,381**
Investing activities		
Proceeds from sale of subsidiary and associates	-	15,825
Acquisition of associates	(72)	(90)
Acquisition of intangible assets	(306)	(169)
Proceeds from sale of property and equipment	-	1,071
Acquisition of property and equipment	(272)	(240)
Net cash (to) from investing activities	**(650)**	**16,397**
Financing activities		
Proceeds from vested share option	252	352
Purchase of treasury stock	(3,260)	(6,458)
Dividend paid to shareholders of Arion Bank	(12,357)	(22,489)
	(15,365)	**(28,595)**
Net increase (decrease) in cash and cash equivalents	(33,752)	22,183
Cash and cash equivalents at beginnning of the year	150,131	90,678
Effect of exchange rate changes on cash and cash equivalent	(829)	(1,211)
Cash and cash equivalents	**115,550**	**111,650**
Cash and cash equivalents		
Cash and balances with Central Bank	80,288	68,149
Bank accounts	51,087	50,703
Mandatory reserve deposit with Central Bank	(15,825)	(7,202)
Cash and cash equivalents	**115,550**	**111,650**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The accompanying Notes are an integral part of these Consolidated Financial Statements

Amounts are in ISK millions

Notes to the Consolidated Financial Statements
Contents

Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 September 2023 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 26 October 2023.

In preparing the Condensed Consolidated Interim Financial Statements, the Group has applied the concept of materiality to the presentation and level of disclosure. Only essential and mandatory information is disclosed which is relevant to an understanding by the reader of the Condensed Consolidated Interim Financial Statements.

Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and rules on Accounting for Credit Institutions.

The same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the Annual Financial Statements 2022.

Basis of measurement

The Condensed Consolidated Interim Financial Statements have been prepared on a historical cost basis except for the following:

- bonds and debt instruments, shares and equity instruments, short positions in listed bonds and equities and derivatives. For details on the accounting policy, see Note 58 in the Annual Financial Statements 2022;
- investment properties are measured at fair value; and
- non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair value, less cost to sell.

Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 137.65 and 145.71 for EUR (31.12.2022: USD 141.80 and EUR 151.50).

Comparative figures

The Group adopted IFRS 17 Insurance contracts as of 1 January 2023 for the operation of the Bank's insurance subsidiary Vördur. As a result, the Group has restated relevant comparative figures of the Consolidated Interim Income Statement for the period 1 January to 30 September 2022 and the Consolidated Statement of financial position as of 1 January 2022, see Note 3 for further details.

2. Going concern assumption

The Group's management has made an assessment of the ability to continue as a going concern and is satisfied that the Group has the resources to continue. In making this assessment, management has taken into consideration the risk exposures facing the Group, which are further described in the Risk Management Disclosures. The Condensed Consolidated Interim Financial Statements are prepared on a going concern basis.

Notes to the Condensed Consolidated Interim Financial Statements

3. Changes in accounting policies

Arion Bank initially adopted IFRS 17 Insurance contracts 1 January 2023. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not effective.

IFRS 17

The Group applies IFRS 17 Insurance Contracts from 1 January 2023 for its insurance subsidiary Vördur. IFRS 17 replaces IFRS 4 Insurance Contracts and sets out new principles for recognition, measurement, presentation and disclosures of insurance contracts and mainly results in reclassifications within the Consolidated Interim Financial Statements. The transition to IFRS 17 does not affect the Group's capital ratios.

The Group applied the full retrospective approach when adopting IFRS 17. Under the full retrospective approach the Group indentified, recognised and measured each group of insurance and reinsurance contract as if the standard had always been applied and recognises the net difference of ISK 917 million as a deduction of equity as of 1 January 2022, corresponding to ISK 375 million as of 1 January 2023. Amended interim disclosures have been provided for the year 2022, where applicable.

The effects of the adoption of IFRS 17 on the Consolidated Statement of Financial Position at 1 January 2022 is as follows.

	31.12.2021 IFRS 4	Impacts due to IFRS 17	01.01.2022 IFRS 17
Other assets	19,901	(3,154)	16,747
Other liabilities	37,151	(2,237)	34,914
Retained earnings	158,403	(917)	157,486

The Group has restated comparative figures in the Consolidated Interim Income Statement for the period 1 January to 30 September 2022 as follows.

	2022 1.1.-30.9. IFRS 4	Impacts due to IFRS 17	Restated 2022 1.1.-30.9. IFRS 17
Interest income	61,890	(175)	61,715
Interest expense	(32,137)	-	(32,137)
Net interest income	**29,753**	**(175)**	**29,578**
Fee and commission income	13,881	(150)	13,731
Fee and commission expense	(1,788)	252	(1,536)
Net fee and commission income	**12,093**	**102**	**12,195**
Insurance revenue	10,522	645	11,167
Insurance service expenses	(8,741)	(1,579)	(10,320)
Insurance service results (Net insurance income)	**1,781**	**(934)**	**847**
Net financial income	(3,252)	18	(3,234)
Other operating income	1,283	(21)	1,262
Other net operating income	**(1,969)**	**(3)**	**(1,972)**
Operating income	**41,658**	**(1,010)**	**40,648**
Operating expenses	(18,660)	1,805	(16,855)
Bank levy	(1,253)	-	(1,253)
Net impairment	(267)	-	(267)
Earnings before income tax	**21,478**	**795**	**22,273**
Income tax expense	(7,994)	(195)	(8,189)
Net earnings from continuing operations	**13,484**	**600**	**14,084**
Discontinued operations held for sale, net of income tax	6,909	-	6,909
Net earnings	**20,393**	**600**	**20,993**

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

4. Significant accounting estimates and judgements in applying accounting policies

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Condensed Consolidated Interim Financial Statement were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses in the statement of financial position. On a monthly basis expected credit losses for stages 1 and 2 are recalculated for each asset, the calculations are based on PD, LGD and EAD models. Stage 3 calculations are based on LGD and EAD parameters. In addition to the model outcomes, the assessment of expected credit losses is based on three key factors: management's assumptions regarding the development of macroeconomic factors over the next five years, how those factors affect each model and how to estimate a significant increase in credit risk. The assumptions for macroeconomic development are incorporated into each model for three scenarios: a base case, an optimistic case, and a pessimistic case. Management estimates the probability weight for each scenario used for calculations of the probability weighted expected credit losses. The amount of expected credit losses to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. Management has estimated factors to measure significant increase in credit risk from origination, by comparison of changes in PD values, annualized lifetime PD values, days past due and watch list. For further information see Note 58 in the Annual Financial Statements 2022.

Macroeconomic outlook

The economic outlook in Iceland remains broadly positive, but not without its challenges. Economic growth is expected to remain very strong in 2023 with export-driven, in particular tourist, industries the key contributors. Unemployment, seasonally adjusted at 3.2%, is as low as it has been since 2019 - in spite of a 4% increase in labor market participation compared to the previous year. Meanwhile, inflation has remained elevated, and persistent, high interest rates continue to have their effect on the economy. Growth is expected to slow materially in 2024 as private consumption plateaus and investment contracts. As inflation begins to subside and interest rates come down, the continued strength of export industries coupled with working-age population growth will contribute to a fairly swift rebound and a return to a higher level of economic growth from 2025.

Impairment of intangible assets

The carrying amounts of goodwill, infrastructure and customer relationship and related agreements are reviewed annually to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Consolidated Income Statement. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. For investment properties, either a valuation methodology based on present value calculations is used, as there is a lack of comparable market data because of the nature of the properties, or the investment properties are valued by reference to transactions involving properties of a similar nature, location and condition.

5. The Group

Shares in the main subsidiaries in which Arion Bank holds a direct interest			Equity interest	
	Operating activity	Currency	30.9.2023	31.12.2022
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
VISA Ísland ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

Landey ehf. holds a 51% shareholding in its subsidiary Arnarland ehf. and recognizes minority interest accordingly.

Amounts are in ISK millions

Operating segment reporting

Segment information is presented in respect of the Group's operating segments and is based on the Group's management and internal reporting structure. The business units are segmented according to customers, products and services characteristics. Segment performance is evaluated based on earnings before tax.

Inter segment pricing is determined on an arm's length basis. Operating segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital, funding cost and relevant risk premium.

6. Operating segments

In line with the Group’s progression focuses on holistic customer journey optimization introduced a key part of the vision is to bring Vördur insurance company closer to the Bank for a more focused bancassurance offering. In 2022 the operation of Vördur was split into individuals and corporates and is presented as such as part of Corporate & Investment Banking and Retail banking, respectively.

Markets & Stefnir

Markets & Stefnir comprise Asset Management and Capital Markets. Asset Management manages financial assets on behalf of its customers according to a pre-determined investment strategy. Asset Management also administers pension funds. Asset management comprises Institutional Asset Management, Premia Service for extensive banking clients, Private Banking and Pension Fund Administration. The operation of Stefnir hf. is presented under the segment. Stefnir hf. is an independently operating financial company owned by Arion Bank and manages a broad range of mutual funds, investment funds and institutional investor funds. Markets also offers comprehensive selection off funds from some of the leading international fund management companies. Capital Markets is a securities brokerage and brokers listed securities transactions for the Bank’s international and domestic clients on all the world’s major securities exchanges.

Corporate & Investment Banking (CIB)

Corporate & Investment Banking provides comprehensive financial services to companies and investors with focus on meeting the needs of each client, both in Iceland and internationally. The division is divided into Corporate Banking and Corporate Finance.

Corporate Banking's experienced account managers specialize in key economic sectors such as retail and services, seafood, energy and real estate. The division serves companies ranging from SMEs to large cap´s and provides full range lending and insurance products, including guarantees, deposit accounts, payment solutions, and a variety of value-added digital solutions. The Corporate portfolio composition is diversified between sectors, customers and currencies which include international exposures, partly through syndicates with other Icelandic or international banks.

Arion Bank‘s Corporate Finance works closely with Corporate Banking and provides the Bank’s clients with comprehensive financial advisory services, with a key focus on M&A advisory, private placements, IPOs and other offerings of securities.

Retail Banking

Retail Banking provides a diverse range of financial services in 13 branches and service points across Iceland and offers digital solutions both in the Arion app and online banking. These services include deposits and loans, savings, payment cards, pensions, insurance, securities and funds. In order to improve efficiency the branch network is split into four regions, and smaller branches can therefore benefit from the strength of larger units within each region.

Treasury

Treasury is responsible for the Bank's funding, liquidity and asset-and-liability management. Treasury oversees the internal funds‘s transfer pricing and manages the relationship with investors, credit rating agencies and financial institutions. Market making activities in domestic securities and FX as well as FX brokerage sits within Treasury.

Other subsidiaries

Subsidiaries include the subsidiaries Landey ehf., which holds the main part of the Group's investment property and the holding company VISA Ísland ehf. and other smaller entities of the Group. The subsidiaries Stakksberg and Sólbjarg (both subsidiaries of Eignabjarg) are classified as disposal groups held for sale in accordance with IFRS 5.

Supporting units

Supporting units include the Bank's headquarters which carry out support functions such as the CEO office, Risk Management, Finance (excluding Treasury), IT and Customer Experience. The information presented relating to the supporting units does not represent an operating segment. A significant proportion of expenses from support functions is allocated to operating segments in a separate line in the operating segment overview.

6. Operating segments, continued

1.1.-30.9.2023	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi- aries excl. Stefnir and Vördur	Supporting units and elimi- nations	Total
Income Statement							
Net interest income	747	15,307	14,696	2,770	(207)	25	33,338
Net fee and commission income	4,281	3,698	3,401	585	193	328	12,486
Insurance service results	-	(262)	750	-	-	(52)	436
Net financial income	19	245	152	(382)	(15)	(23)	(4)
Other operating income	5	(6)	47	3	1,575	(11)	1,613
Operating income	5,052	18,982	19,046	2,976	1,546	267	47,869
Operating expenses	(1,784)	(956)	(2,605)	(530)	(292)	(11,704)	(17,871)
Allocated expenses	(1,632)	(2,902)	(6,091)	(910)	(17)	11,552	-
Bank levy	(35)	(446)	(626)	(267)	-	-	(1,374)
Net impairment	(13)	(1,125)	(340)	6	108	3	(1,361)
Earnings before income tax	1,588	13,553	9,384	1,275	1,345	118	27,263
Net seg. rev. from ext. customers	1,456	27,128	37,769	(20,316)	1,799	33	47,869
Net seg. rev. from other segments	3,596	(8,146)	(18,723)	23,292	(253)	234	-
Operating income	5,052	18,982	19,046	2,976	1,546	267	47,869
Balance Sheet							
Loans to customers	4,585	475,002	664,429	88	3	(634)	1,143,473
Financial instruments	25,400	8,310	20,346	169,857	152	(3,053)	221,012
Other external assets	6,213	1,468	7,385	125,264	12,772	23,082	176,184
Internal assets	63,856	-	-	289,309	5,559	(358,724)	-
Total assets	100,054	484,780	692,160	584,518	18,486	(339,329)	1,540,669
Deposits	89,918	300,364	355,515	64,141	-	(3,607)	806,331
Other external liabilities	1,819	8,826	17,046	482,266	8,819	23,002	541,778
Internal liabilities	-	95,903	262,821	-	-	(358,724)	-
Total liabilities	91,737	405,093	635,382	546,407	8,819	(339,329)	1,348,109
Allocated equity	8,317	79,687	56,778	38,111	9,667	-	192,560

Amounts are in ISK millions

6. Operating segments, continued

1.1.-30.9.2022*	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Income Statement							
Net interest income	2,295	14,392	14,113	(1,151)	(7)	(64)	29,578
Net fee and commission income	4,443	4,203	3,553	549	(547)	(6)	12,195
Insurance service results	-	(298)	1,212	-	(2)	(65)	847
Net financial income	(110)	(145)	(729)	(2,661)	478	(67)	(3,234)
Other operating income	-	108	74	1	43	1,036	1,262
Operating income	6,628	18,260	18,223	(3,262)	(35)	834	40,648
Operating expenses	(1,490)	(1,186)	(2,511)	(494)	(198)	(10,976)	(16,855)
Allocated expenses	(1,417)	(2,651)	(5,346)	(884)	(31)	10,329	-
Bank levy	(50)	(396)	(584)	(223)	-	-	(1,253)
Net impairment	(1)	171	291	-	(39)	(689)	(267)
Earnings (loss) before income tax	3,670	14,198	10,073	(4,863)	(303)	(502)	22,273
Net seg. rev. from ext. customers	1,913	19,902	34,119	(16,945)	701	958	40,648
Net seg. rev. from other segments	4,715	(1,642)	(15,896)	13,683	(736)	(124)	-
Operating income	6,628	18,260	18,223	(3,262)	(35)	834	40,648
Balance Sheet							
Loans to customers	55	427,068	619,339	1	3	(1,314)	1,045,152
Financial instruments	42,349	7,843	19,233	153,301	3,268	(2,852)	223,142
Other external assets	5,726	4,550	9,216	103,063	10,396	26,641	159,592
Internal assets	39,855	-	-	277,866	18,756	(336,477)	-
Total assets	87,985	439,461	647,788	534,231	32,423	(314,002)	1,427,886
Deposits	75,728	263,545	321,702	80,785	-	(1,791)	739,969
Other external liabilities	3,310	12,405	19,734	420,022	21,893	24,266	501,630
Internal liabilities	-	88,687	247,790	-	-	(336,477)	-
Total liabilities	79,038	364,637	589,226	500,807	21,893	(314,002)	1,241,599
Allocated equity	8,947	74,824	58,562	33,424	10,530	-	186,287

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Income taxes and discontinued operations held for sale are excluded from the profit and loss segment information.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

Quarterly statements

7. Operations by quarters, unaudited

2023	Q1	Q2	Q3	Total
Net interest income	10,994	11,426	10,918	33,338
Net fee and commission income	4,451	4,187	3,848	12,486
Insurance service results	(721)	762	395	436
Net financial income	796	(617)	(183)	(4)
Other operating income	19	1,586	8	1,613
Operating income	15,539	17,344	14,986	47,869
Operating expenses	(6,470)	(6,009)	(5,392)	(17,871)
Bank levy	(449)	(457)	(468)	(1,374)
Net impairment	(52)	(568)	(741)	(1,361)
Earnings before income tax	8,568	10,310	8,385	27,263
Income tax expense	(2,287)	(3,226)	(2,274)	(7,787)
Net earnings from continuing operations	6,281	7,084	6,111	19,476
Discontinued operations, net of tax	10	7	20	37
Net earnings	6,291	7,091	6,131	19,513

2022*	Q1	Q2	Q3	9M	Q4	Total
Net interest income	9,476	9,745	10,357	29,578	10,706	40,284
Net fee and commission income	3,556	4,582	4,057	12,195	4,073	16,268
Insurance service results	(564)	924	487	847	(104)	743
Net financial income	1,120	(2,878)	(1,476)	(3,234)	(58)	(3,292)
Other operating income	432	732	98	1,262	61	1,323
Operating income	14,020	13,105	13,523	40,648	14,678	55,326
Operating expenses	(5,577)	(6,056)	(5,222)	(16,855)	(7,474)	(24,329)
Bank levy	(393)	(416)	(444)	(1,253)	(496)	(1,749)
Net impairment	(495)	186	42	(267)	411	144
Earnings before income tax	7,555	6,819	7,899	22,273	7,119	29,392
Income tax expense	(1,716)	(3,588)	(2,885)	(8,189)	(1,788)	(9,977)
Net earnings from continuing operations	5,839	3,231	5,014	14,084	5,331	19,415
Discontinued operations, net of tax	96	6,819	(6)	6,909	(366)	6,543
Net earnings	5,935	10,050	5,008	20,993	4,965	25,958

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The half-year results were reviewed by the Bank's auditors. Other quarterly statements and the split between quarters were not audited or reviewed by the Bank's auditors.

Amounts are in ISK millions

8. Net interest income

1.1.-30.9.2023	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	4,063	-	-	4,063
Loans to credit institutions	1,032	13	-	1,045
Loans to customers	80,948	-	-	80,948
Securities	-	1,081	3,504	4,585
Other	14	-	-	14
Interest income	86,057	1,094	3,504	90,655
Interest expense				
Deposits	(33,342)	-	-	(33,342)
Borrowings	(16,739)	(3,557)	-	(20,296)
Subordinated liabilities	(3,165)	(392)	-	(3,557)
Other	(122)	-	-	(122)
Interest expense	(53,368)	(3,949)	-	(57,317)
Net interest income	32,689	(2,855)	3,504	33,338

1.1.-30.9.2022*	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	2,106	-	-	2,106
Loans to credit institutions	64	53	-	117
Loans to customers	56,835	-	-	56,835
Securities	-	620	2,032	2,652
Other	5	-	-	5
Interest income	59,010	673	2,032	61,715
Interest expense				
Deposits	(15,886)	-	-	(15,886)
Borrowings	(14,398)	-	-	(14,398)
Subordinated liabilities	(1,724)	-	-	(1,724)
Other	(129)	-	-	(129)
Interest expense	(32,137)	-	-	(32,137)
Net interest income	26,873	673	2,032	29,578

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net interest income calculated using the effective interest rate method were ISK 86,692 million during the period (9M 2022: ISK 61,710 million).

Amounts are in ISK millions

8. Net interest income, continued

1.7.-30.9.2023 *Interest income*	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Cash and balances with Central Bank	1,363	-	-	1,363
Loans to credit institutions	402	-	-	402
Loans to customers	26,640	-	-	26,640
Securities	-	448	1,561	2,009
Other	12	-	-	12
Interest income	28,417	448	1,561	30,426
Interest expense				
Deposits	(11,950)	-	-	(11,950)
Borrowings	(5,083)	(1,383)	-	(6,466)
Subordinated liabilities	(922)	(144)	-	(1,066)
Other	(26)	-	-	(26)
Interest expense	(17,981)	(1,527)	-	(19,508)
Net interest income	10,436	(1,079)	1,561	10,918

1.7.-30.9.2022* *Interest income*				
Cash and balances with Central Bank	989	-	-	989
Loans to credit institutions	48	21	-	69
Loans to customers	21,419	-	-	21,419
Securities	-	178	789	967
Other	2	-	-	2
Interest income	22,458	199	789	23,446
Interest expense				
Deposits	(7,158)	-	-	(7,158)
Borrowings	(5,269)	-	-	(5,269)
Subordinated liabilities	(624)	-	-	(624)
Other	(38)	-	-	(38)
Interest expense	(13,089)	-	-	(13,089)
Net interest income	9,369	199	789	10,357

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net interest income calculated using the effective interest rate method were ISK 28,887 million during the third quarter (Q3 2022: ISK 23,448 million).

Interest spread	2023 1.1.-30.9.	2022 1.1.-30.9.	2023 1.7.-30.9.	2022 1.7.-30.9.
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%	3.0%	3.2%

Amounts are in ISK millions

9. Net fee and commission income

	1.1.-30.9.2023			1.1.-30.9.2022*		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	4,251	(437)	3,814	4,107	(436)	3,671
Capital markets and corporate finance	1,938	(26)	1,912	2,470	(34)	2,436
Lending and financial guarantees	3,096	-	3,096	3,381	-	3,381
Collection and payment services	1,185	(54)	1,131	1,144	(80)	1,064
Cards and payment solution	4,026	(1,951)	2,075	2,127	(711)	1,416
Other	742	(541)	201	502	(527)	(25)
Commission expense from insurance operation	-	257	257	-	252	252
Net fee and commission income	15,238	(2,752)	12,486	13,731	(1,536)	12,195

	1.7.-30.9.2023			1.7.-30.9.2022*		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,283	(143)	1,140	1,390	(135)	1,255
Capital markets and corporate finance	530	(7)	523	571	(10)	561
Lending and financial guarantees	839	-	839	874	-	874
Collection and payment services	458	(24)	434	413	(27)	386
Cards and payment solution	1,391	(660)	731	1,231	(444)	787
Other	264	(161)	103	294	(148)	146
Commission expense from insurance operation	-	78	78	-	48	48
Net fee and commission income	4,765	(917)	3,848	4,773	(716)	4,057

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Asset management fees are earned by the Group for trust and fiduciary activities where the Group holds or invests assets on behalf of the customers.

Fee and commission income from capital markets and corporate finance includes miscellaneous corporate finance services plus commission from capital markets relating to sales of shares, bonds, FX and derivatives.

Fee and commission income from lending and financial guarantees is mainly related to lending activities, extension fees, advisory services and documentation, notification and payment fees plus fees from the issuing of guarantees on behalf of customers.

Fee and commission income on collection and payment services is generated billing services, such as issuing invoices and payment collection notices, wire transfer services and other payment services.

Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees.

Other fee and commission income is mainly fees relating to sale, custody and market making on the Icelandic stock exchange.

Amounts are in ISK millions

10. Insurance service results

	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Insurance revenue	12,655	11,167	4,450	3,739
Incurred claims	(9,364)	(8,120)	(3,201)	(2,506)
Administrative expenses related to insurance service	(2,455)	(2,125)	(733)	(704)
Insurance service expenses	(11,819)	(10,245)	(3,934)	(3,210)
Net expense from reinsurance contracts held	(400)	(75)	(121)	(42)
Insurance service results	436	847	395	487

Combined ratio

Combined ratio	93.9%	89.8%	88.6%	81.2%

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

11. Net financial income

	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Net loss on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	(420)	(1,081)	(468)	(1,219)
(Loss) gain on prepayments of borrowings	(225)	14	-	81
Net (loss) gain on fair value hedge of interest rate swap	(47)	(340)	39	(195)
Net realized gain (loss) on financial assets carried at fair value through OCI and reclassification from OCI equity reserve	265	(1,958)	(5)	(30)
Net financial (loss) income from insurance contracts	(292)	18	(57)	(128)
Net foreign exchange gain	715	113	308	15
Net financial income	(4)	(3,234)	(183)	(1,476)

Net loss on financial assets and financial liabilities mandatorily measured at fair value through profit or loss

Equity instruments	(432)	(1,506)	56	(890)
Debt instruments	160	(519)	(419)	(455)
Derivatives	(148)	944	(105)	126
Net loss on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	(420)	(1,081)	(468)	(1,219)

Net loss on fair value hedge of interest rate swap

Fair value change of interest rate swaps designated as hedging instruments	1,573	(13,919)	1,155	(5,841)
Fair value change on bonds issued by the Group attributable to interest rate risk	(1,620)	13,579	(1,116)	5,646
Net loss on fair value hedge of interest rate swap	(47)	(340)	39	(195)

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

11. Net financial income, continued

Net realized loss on financial assets carried at fair value through OCI and reclassification from OCI equity reserve

During the second quarter of 2022, the Bank identified an immaterial error in accounting for certain treasury bonds, classified at fair value through OCI. From Q3 2019 the accounting for these bonds was not correct due to an implementation of a new system module at that time. The effective interest rate on these bonds was not correctly accounted for during this period which resulted in understated OCI, overstated income statement but with net zero effect on total equity. Management evaluated the impacts of the error for prior periods, both individually and in the aggregate, and determined that the correction of this error was not material to any of its previously issued Financial Statements for the impacted periods on either a quantitative or qualitative basis. This was also evaluated by the Bank's external auditors as well as by independent third-party advisors. The impact was considered immaterial for these applicable accounting periods with the Net Interest Margin impacted by 0bps to 10bps in a single quarter. The accumulative impact from Q3 2019 was ISK 1.9 billion which was reclassified from OCI to retained earnings through net financial income. Split between years, ISK 517 million from 2019-2020, ISK 1,042 million from 2021 and 321 million from Q1 2022. The impact in Q2 on net earnings after tax was ISK 1.4 billion but with zero effect on total equity.

12. Other operating income

	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Net (loss) gain on disposal of assets	(3)	722	-	8
Net (loss) gain on assets held for sale	(7)	130	2	23
Fair value changes on investment property	1,563	20	-	-
Share of (loss) profit of associates and profit from sale	(15)	226	5	-
Other income	75	164	1	67
Other operating income	1,613	1,262	8	98

Net (loss) gain on assets held for sale

Net (loss) income from real estates and other assets	(10)	137	(11)	23
Expense related to real estates and other assets	3	(7)	13	-
Net (loss) gain on assets held for sale	(7)	130	2	23

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Real estates and other assets classified as assets held for sale are generally the result of foreclosures on companies and individuals.

13. Operating expenses

	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Salaries and related expenses	11,363	10,483	3,285	3,100
Other operating expenses	8,705	8,177	2,758	2,709
Operating expenses from insurance operation	(2,197)	(1,805)	(651)	(587)
Operating expenses	17,871	16,855	5,392	5,222

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

14. Personnel and salaries

Number of employees	2023 1.1.-30.9.	2022 1.1.-30.9.	2023 1.7.-30.9.	2022 1.7.-30.9.
Average number of full-time equivalent positions during the period	787	752	791	757
Full-time equivalent positions at the end of the period	800	777	800	777

Salaries and related expenses

Salaries	8,680	7,916	2,485	2,332
Incentive scheme	(12)	19	20	10
Share-based payment expenses	151	201	45	77
Defined contribution pension plans	1,282	1,181	370	346
Salary-related expenses	1,262	1,166	365	335
Salaries and related expenses	11,363	10,483	3,285	3,100

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

14. Personnel and salaries, continued

Incentive schemes

During the period the Group revised the provision for the incentive scheme which resulted in a ISK 16 million reversal of expenses, including salary-related expenses (9M 2022: ISK 11 million provision). At the end of the period the Group's accrual for the incentive scheme payments amounted to ISK 729 million (31.12.2022: ISK 1,997 million).

Current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is split into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares in the Bank which will be subject to a three-year lock-up period. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics are for example ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Corresponding metrics are for incentive scheme payment at Vördur, i.e. higher ROE than the Icelandic competitors and other internal measures. Stefnir hf. has a special incentive scheme where other criteria are used as a basis. No accrual was recognised in the Consolidated Income Statement for the year. Given that all criterion will be met the maximum total expense is estimated to be ISK 1.8 billion, including salary related expenses, or ISK 0.8 billion due to the Group subject to the 10% of their fixed salary and ISK 1.0 billion due to the Group subject to the 25% of their fixed salary.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 151 million was recognised in the Income Statement during the period (9M 2022: ISK 201 million). Estimated remaining expenses due the share option contracts are ISK 412 million and will be expensed over the next three years. For further information on the share option program, see Note 38.

15. Other operating expenses

	2023 1.1.-30.9.	2022 1.1.-30.9.	2023 1.7.-30.9.	2022 1.7.-30.9.
IT expenses	3,383	3,272	1,121	1,110
Professional services	875	801	287	284
Marketing	862	827	299	304
Housing expenses	459	519	155	175
Other administration expenses	1,826	1,345	469	420
Depositors' and Investors' Guarantee Fund	-	138	-	-
Depreciation of property and equipment	400	373	129	123
Depreciation of right of use asset	100	86	34	30
Amortization of intangible assets	800	816	264	263
Other operating expenses	8,705	8,177	2,758	2,709

16. Bank levy

The Bank levy is 0.145% on total debts excluding tax liabilities, in excess of ISK 50 billion. The tax is assessed on Financial Undertakings but non-financial subsidiaries are exempt from this tax.

17. Net impairment

	2023 1.1.-30.9.	2022 1.1.-30.9.	2023 1.7.-30.9.	2022 1.7.-30.9.
Net impairment on financial instruments and value changes on loans				
Net impairment on loans to customers and financial institutions	(1,727)	(505)	(1,052)	8
Net impairment on other financial instruments at FVOCI	1	2	-	1
Other value changes of loans - corporates	23	132	16	7
Other value changes of loans - individuals	342	104	295	26
Net impairment	(1,361)	(267)	(741)	42

Net impairment by customer type

Individuals	(225)	267	(123)	(9)
Corporates	(1,136)	(534)	(618)	51
Net impairment	(1,361)	(267)	(741)	42

Other value changes of loans to individuals and corporates is mainly due to release of discount from loans acquired with discount during the years 2008 to 2013, both due to impairments and other discount rate than reflected in the interest rates of the loans. The discount release was primarily related to loans that were paid up during the year.

Amounts are in ISK millions

18. Income tax expense

	2023 1.1.-30.9.	2022 1.1.-30.9.*	2023 1.7.-30.9.	2022 1.7.-30.9.*
Current tax expense	7,393	11,427	2,152	4,442
Deferred tax expense	394	(3,238)	122	(1,557)
Income tax expense	7,787	8,189	2,274	2,885

Reconciliation of effective tax rate	2023 1.1.-30.9.		2022 1.1.-30.9.*	
Earnings before income tax		27,263		22,273
Income tax using the Icelandic corporate tax rate	20.0%	5,453	20.0%	4,455
Additional 6% tax on Financial Undertakings	5.6%	1,520	11.6%	2,577
Non-deductible expenses	0.2%	47	0.2%	42
Tax exempt revenues / loss	1.6%	425	2.0%	442
Non-deductible taxes (Bank levy)	1.0%	275	1.1%	251
Tax incentives not recognized in the Income Statement	(0.2%)	(54)	1.5%	337
Other changes	0.4%	121	0.4%	85
Effective tax rate	28.6%	7,787	36.8%	8,189

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Financial undertakings pay 6% additional tax on taxable profit exceeding ISK 1 billion.

Tax exempt revenues / loss consist mainly of profit / loss from equity positions.

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

	2023 1.1.-30.9.	2022 1.1.-30.9.	2023 1.7.-30.9.	2022 1.7.-30.9.
Net gain from discontinued operations held for sale	35	7,056	20	(12)
Income tax expense	2	(147)	-	6
Discontinued operations held for sale, net of income tax	37	6,909	20	(6)

In June 2022 Arion Bank sold its 100% shareholding in Valitor hf. The financial effects from the sale, less cost to sell, was ISK 5.6 billion and was recognized in the Income Statement. The operating effects of Sólbjarg ehf. and Stakksberg ehf. in 2022, both subsidiaries of Eignabjarg, were mainly due to fair value changes of underlying assets.

20. Earnings per share

Basic earnings per share is based on net earnings attritutable to the shareholders of Arion Bank and the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of outstanding shares to assume conversion of all dilutive potential ordinary shares. Arion Bank has issued warrants and stock options that have dilutive effects.

	Continued operations		Discontinued operations		Net Earnings	
	2023	2022*	2023	2022*	2023	2022*
1.1.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	19,465	14,077	37	6,909	19,502	20,986
Weighted average number of outstanding shares (millions)	1,455	1,499	1,455	1,499	1,455	1,499
Weighted average number of outstanding shares including warrants and options (millions)	1,540	1,584	1,540	1,584	1,540	1,584
Basic earnings per share (ISK)	13.38	9.39	0.03	4.61	13.40	14.00
Diluted earnings per share (ISK)	12.64	8.89	0.02	4.36	13.00	13.25
1.7.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	6,116	5,020	20	(6)	6,136	5,014
Weighted average number of outstanding shares (millions)	1,463	1,495	1,463	1,495	1,463	1,495
Weighted average number of outstanding shares including warrants and options (millions)	1,548	1,580	1,548	1,580	1,548	1,580
Basic earnings per share (ISK)	4.18	3.36	0.02	-	4.19	3.35
Diluted earnings per share (ISK)	3.95	3.18	0.02	-	3.96	3.17

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Notes to the Consolidated Statement of Financial Position

21. Cash and balances with Central Bank

	30.9.2023	31.12.2022
Cash on hand	4,310	3,877
Cash with Central Bank	60,153	102,821
Mandatory reserve deposit with Central Bank	15,825	7,420
Cash and balances with Central Bank	80,288	114,118

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations. The minimum fixed reserve requirement of the Central Bank increased from 1% to 2% in May 2023.

22. Loans to credit institutions

	30.9.2023	31.12.2022
Bank accounts	51,087	43,433
Other loans	215	2,068
Loans to credit institutions	51,302	45,501

23. Loans to customers

	Individuals		Corporates		Total	
30.9.2023	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	14,059	13,511	39,813	38,989	53,872	52,500
Credit cards	14,179	14,016	2,054	2,007	16,233	16,023
Mortgage loans	541,219	540,297	65,583	65,152	606,802	605,449
Construction loans	-	-	43,868	43,615	43,868	43,615
Capital lease	2,703	2,684	7,079	7,023	9,782	9,707
Other loans	31,690	30,955	389,864	385,224	421,554	416,179
Loans to customers	603,850	601,463	548,261	542,010	1,152,111	1,143,473
31.12.2022						
Overdrafts	14,893	14,369	33,369	32,571	48,262	46,940
Credit cards	14,304	14,155	1,838	1,792	16,142	15,947
Mortgage loans	514,007	513,605	60,528	60,424	574,535	574,029
Construction loans	-	-	29,227	28,893	29,227	28,893
Capital lease	4,107	4,089	4,163	4,131	8,270	8,220
Other loans	36,835	36,153	378,402	374,575	415,237	410,728
Loans to customers	584,146	582,371	507,527	502,386	1,091,673	1,084,757

The total book value of pledged loans that were pledged against amounts borrowed was ISK 334 billion at the end of the period (31.12.2022: ISK 305 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

24. Financial instruments

	30.9.2023	31.12.2022
Bonds and debt instruments	177,058	138,174
Shares and equity instruments with variable income	14,148	17,733
Derivatives	9,662	9,516
Securities used for economic hedging	20,144	27,906
Financial instruments	221,012	193,329

Amounts are in ISK millions

25. Financial assets and financial liabilities

30.9.2023	Amortized cost	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	80,288	-	-	80,288
Loans to credit institutions	51,302	-	-	51,302
Loans to customers	1,143,473	-	-	1,143,473
Loans	1,275,063	-	-	1,275,063
Bonds and debt instruments				
Listed	-	149,638	26,833	176,471
Unlisted	-	-	587	587
Bonds and debt instruments	-	149,638	27,420	177,058
Shares and equity instruments with variable income				
Listed	-	-	4,965	4,965
Unlisted	-	-	8,372	8,372
Bond funds with variable income, unlisted	-	-	811	811
Shares and equity instruments with variable income	-	-	14,148	14,148
Derivatives				
OTC derivatives	-	-	8,864	8,864
Derivatives used for hedge accounting	-	-	798	798
Derivatives	-	-	9,662	9,662
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,679	2,679
Shares and equity instruments with variable income, listed	-	-	17,465	17,465
Securities used for economic hedging	-	-	20,144	20,144
Other financial assets				
Accounts receivable	1,698	-	-	1,698
Other financial assets	18,214	-	-	18,214
Other financial assets	19,912	-	-	19,912
Financial assets	1,294,975	149,638	71,374	1,515,987
Financial liabilities				
Due to credit institutions and Central Bank	13,144	-	-	13,144
Deposits	806,331	-	-	806,331
Borrowings *	407,895	-	-	407,895
Subordinated liabilities *	46,853	-	-	46,853
Short position in bonds	-	-	80	80
Short position in bonds used for economic hedging	-	-	148	148
Derivatives	-	-	4,572	4,572
Derivatives used for hedge accounting	-	-	12,108	12,108
Other financial liabilities	15,447	-	-	15,447
Financial liabilities	1,289,670	-	16,908	1,306,578

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

31.12.2022*	Amortized cost	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	114,118	-	-	114,118
Loans to credit institutions	43,433	-	2,068	45,501
Loans to customers	1,084,757	-	-	1,084,757
Loans	1,242,308	-	2,068	1,244,376
Bonds and debt instruments				
Listed	-	115,806	21,390	137,196
Unlisted	-	-	978	978
Bonds and debt instruments	-	115,806	22,368	138,174
Shares and equity instruments with variable income				
Listed	-	-	6,429	6,429
Unlisted	-	-	9,709	9,709
Bond funds with variable income, unlisted	-	-	1,595	1,595
Shares and equity instruments with variable income	-	-	17,733	17,733
Derivatives				
OTC derivatives	-	-	9,448	9,448
Derivatives used for hedge accounting	-	-	68	68
Derivatives	-	-	9,516	9,516
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	3,890	3,890
Shares and equity instruments with variable income, listed	-	-	24,016	24,016
Securities used for economic hedging	-	-	27,906	27,906
Other financial assets				
Accounts receivable	1,308	-	-	1,308
Other financial assets	3,412	-	-	3,412
Other financial assets	4,720	-	-	4,720
Financial assets	1,247,028	115,806	79,591	1,442,425
Financial liabilities				
Due to credit institutions and Central Bank	11,697	-	-	11,697
Deposits	755,361	-	-	755,361
Borrowings **	392,563	-	-	392,563
Subordinated liabilities **	47,331	-	-	47,331
Short position in equity used for economic hedging	-	-	11	11
Derivatives	-	-	4,730	4,730
Derivatives used for hedge accounting	-	-	16,256	16,256
Other financial liabilities	6,527	-	-	6,527
Financial liabilities	1,213,479	-	20,997	1,234,476

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

Bonds and debt instruments measured at fair value, specified by issuer

30.9.2023	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial and insurance activities	19,428	10,398	29,826
Public sector	130,210	14,108	144,318
Corporates	-	2,914	2,914
Bonds and debt instruments at fair value	149,638	27,420	177,058
31.12.2022			
Financial and insurance activities	18,898	9,967	28,865
Public sector	96,908	9,319	106,227
Corporates	-	3,082	3,082
Bonds and debt instruments at fair value	115,806	22,368	138,174

The total amount of pledged bonds was ISK 3.0 billion at the end of the period (31.12.2022: ISK 3.6 billion). Pledged bonds comprised Icelandic Government Bonds and Financial Institutions Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

26. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
Level 3: valuation techniques which include significant inputs that are not based on observable market data.

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Assets and liabilities recorded at fair value by level of the fair value hierarchy

30.9.2023

Assets at fair value	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	173,320	3,710	28	177,058
Shares and equity instruments with variable income	4,953	6,805	2,390	14,148
Derivatives	-	8,864	-	8,864
Derivatives used for hedge accounting	-	798	-	798
Securities used for economic hedging	19,692	452	-	20,144
Investment property	-	-	9,461	9,461
Assets at fair value	197,965	20,629	11,879	230,473
Liabilities at fair value				
Short position in bonds	80	-	-	80
Short position in bonds, used for economic hedging	148	-	-	148
Derivatives	-	4,572	-	4,572
Derivatives used for hedge accounting	-	12,108	-	12,108
Liabilities at fair value	228	16,680	-	16,908

Amounts are in ISK millions

26. Fair value hierarchy, continued

31.12.2022

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to credit institutions	-	2,068	-	2,068
Bonds and debt instruments	135,126	2,946	102	138,174
Shares and equity instruments with variable income	5,214	10,587	1,932	17,733
Derivatives	-	9,448	-	9,448
Derivatives used for hedge accounting	-	68	-	68
Securities used for economic hedging	27,906	-	-	27,906
Investment property	-	-	7,862	7,862
Assets at fair value	168,246	25,117	9,896	203,259

Liabilities at fair value				
Short position in equity used for economic hedging	11	-	-	11
Derivatives	-	4,730	-	4,730
Derivatives used for hedge accounting	-	16,256	-	16,256
Liabilities at fair value	11	20,986	-	20,997

Transfers from Level 1 to Level 2 amounted to ISK 799 million during the period (2022: Transfers from Level 1 to Level 2 ISK 1,098 million).

Fair value of assets and liabilities

The fair value of asset and liabilities is the amount at which the asset and liability could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used by the Group to measure assets and liabilities. If quoted prices for an asset fail to represent actual and regularly occurring transactions in active market transactions or if quoted prices are not available at all, fair value is established by using an appropriate valuation technique.

Methods for establishing fair value

The best evidence of the fair value of an asset and liability at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets.

In some cases, the carrying value of an asset in Note 24 is used as an approximation for the fair value of the asset. This is straight forward for cash and cash equivalents but is also used for short term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that feature interest close to or equal to market rates and expose the Group to little or no credit risk.

Level 1: Fair value established from quoted market prices

For listed and liquid stocks and bonds, certain financial derivatives and other market traded securities, the fair value is derived directly from quoted market prices. These instruments are disclosed under Financial instruments and Financial liabilities at fair value in the Statement of Financial Position.

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

For assets and liabilities, for which the market is not active, the Group applies valuation techniques to attain a fair value using as much market information as available. Valuation techniques include using recent market transactions between knowledgeable and willing parties, if available, reference to current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models or other commonly accepted valuation techniques used by market participants to price the instrument.

For assets and liabilities for which quoted prices on active markets are not available, the fair value is derived using various valuation techniques. This applies in particular to OTC derivatives such as options, swaps, futures and unlisted equities but also some other assets and liabilities.

In most cases the valuation is based on theoretical financial models, such as the Black Scholes model or variations thereof. These techniques also include forward pricing and swap models using present value calculations.

Level 2 instruments include unlisted shares, unlisted funds with underlying bonds and equity holdings (share certificates), unlisted and less liquid listed bonds and all OTC derivatives.

Amounts are in ISK millions

26. Fair value hierarchy, continued

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

In some cases there is little or no market data to rely on for fair value calculations. The most common valuation technique is present value calculations. Such calculations involve the estimation of future cash flow and the assessment of appropriate discount rate. The discount rate should both reflect current market rates and the uncertainty in the future cash flow. In such cases internal models and methods are used to calculate the fair value. The models may be statistical in nature, based on internal or external history of assets with similar characteristics and/or based on internal knowledge and experience. For example, the credit margin on most loans to customers which, is added to the current and suitable interest rate to arrive at an appropriate discount rate, is estimated using credit rating and loss parameters in case of default that have been derived from internal models.

Equity instruments that do not have a quoted market price are evaluated using methods and guidelines from pertinent international organizations. In most cases intrinsic value is the basis for the assessment but other factors, such as cash flow analysis, can also modify the results.

The Group applies management valuation for determining fair value of investment properties. Management valuation is either based on recent transactions and offers for similar assets or present value calculations which involve estimation of future cash flow and the assessment of appropriate discount rate.

Movements in Level 3 assets measured at fair value

	Investment	Financial assets		
30.9.2023	property	Bonds	Shares	Total
Balance at the beginning of the year	7,862	102	1,932	9,896
Net fair value changes	1,563	(74)	259	1,748
Additions	36	-	75	111
Disposals	-	-	(4)	(4)
Transfers into Level 3	-	-	128	128
Balance at the end of the period	9,461	28	2,390	11,879
31.12.2022				
Balance at the beginning of the year	6,560	97	3,808	10,465
Net fair value changes	26	6	135	167
Additions	49	-	29	78
Disposals	(7)	(1)	(1,907)	(1,915)
Transfers from held for sale assets	1,234	-	-	1,234
Transfers out of Level 3	-	-	(133)	(133)
Balance at the end of the year	7,862	102	1,932	9,896

Line items where effects of Level 3 assets are recognized in the Income Statement

1.1.-30.9.2023				
Net financial income	-	(74)	259	185
Other operating income	1,563	-	-	1,563
Effects recognized in the Income Statement	1,563	(74)	259	1,748
1.1.-30.9.2022				
Net financial income	-	2	75	77
Other operating income	20	-	-	
Effects recognized in the Income Statement	-	2	75	77

Amounts are in ISK millions

26. Fair value hierarchy, continued

Carrying values and fair values of financial assets and financial liabilities not carried at fair value

30.9.2023	Carrying value	Fair value	Unrealized gain (loss)
Financial assets not carried at fair value			
Cash and balances with Central Bank	80,288	80,288	-
Loans to credit institutions	51,302	51,302	-
Loans to customers	1,143,473	1,126,494	(16,979)
Other financial assets	19,912	19,912	-
Financial assets not carried at fair value	1,294,975	1,277,996	(16,979)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	13,144	13,144	-
Deposits	806,331	806,331	-
Borrowings	407,895	395,406	12,489
Subordinated liabilities	46,853	45,051	1,802
Other financial liabilities	15,447	15,447	-
Financial liabilities not carried at fair value	1,289,670	1,275,379	14,291
31.12.2022*			
Financial assets not carried at fair value			
Cash and balances with Central Bank	114,118	114,118	-
Loans to credit institutions	45,501	45,501	-
Loans to customers	1,084,757	1,017,671	(67,086)
Other financial assets	4,720	4,720	-
Financial assets not carried at fair value	1,249,096	1,182,010	(67,086)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	11,697	11,697	-
Deposits	755,361	755,361	-
Borrowings	392,563	381,426	11,137
Subordinated liabilities	47,331	48,310	(979)
Other financial liabilities	6,527	6,527	-
Financial liabilities not carried at fair value	1,213,479	1,203,321	10,158

Loans to customers largely bear variable interest rates. Those loans, including corporate loans, are presented at book value as they generally have a short duration and very limited interest rate risk. Loans with fixed interest rates, mainly retail mortgages, are estimated by using the discount cash flow method with the interest rates offered on new loans, taking into account loan to value. Defaulted loans are presented at book value as no future cash flow is expected on them. Instead they are written down according to their estimated potential recovery value.

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Derivatives

	Notional	Fair value	
30.9.2023	value	Assets	Liabilities
Forward exchange rate agreements	48,797	833	292
Fair value hedge of interest rate swap	229,359	798	12,108
Interest rate and exchange rate agreements	66,802	2,827	4,013
Bond swap agreements	4,415	173	3
Share swap agreements	23,196	5,031	264
Derivatives	372,569	9,662	16,680
31.12.2022			
Forward exchange rate agreements	73,127	2,383	168
Fair value hedge of interest rate swap	246,965	68	16,256
Interest rate and exchange rate agreements	93,206	2,737	3,540
Bond swap agreements	5,668	277	19
Share swap agreements	36,057	3,694	975
Options - purchased agreements, unlisted	5	357	28
Derivatives	455,028	9,516	20,986

Amounts are in ISK millions

26. Fair value hierarchy, continued

Fair value hedge of interest rate swap

The Group applies fair value hedge accounting only with respect to interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest, with identical cash flows to the borrowings. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR bonds, see Note 34, arising from changes in interest rates. On 1 January 2018 the Group adopted IFRS 9, but has elected to continue to apply the hedge accounting principles under IAS 39. For further information about the Group's hedge accounting policy, see Note 59 in the Annual Financial Statements 2022.

	Notional	Maturity date	Fair value		Gain (loss) on FV
1.1. - 30.9.2023			Assets	Liabilities	changes
Interest rates swaps - EUR	-	-	-	-	76
Interest rates swaps - EUR	11,605	6-12 mth	-	379	504
Interest rates swaps - USD	13,765	1-5 years	-	986	115
Interest rates swaps - EUR	72,853	1-5 years	-	7,210	873
Interest rates swaps - EUR	43,712	1-5 years	-	3,533	729
Interest rates swaps - EUR	43,712	1-5 years	609	-	(131)
Interest rates swaps - EUR	43,712	1-5 years	189	-	(593)
			609	12,108	1,573
1.1. - 31.12.2022					
Interest rates swaps - EUR	20,680	0-3 mth	68	-	(747)
Interest rates swaps - EUR	45,451	1-5 years	-	2,332	(1,933)
Interest rates swaps - USD	14,180	1-5 years	-	908	(1,103)
Interest rates swaps - EUR	75,752	1-5 years	-	7,986	(6,911)
Interest rates swaps - EUR	45,451	1-5 years	-	4,151	(3,321)
Interest rates swaps - EUR	45,451	1-5 years	-	879	(840)
			68	16,256	(14,855)

Hedged borrowings and subordinated liabilities

	Book value	Accumulated fair value		Gain (loss) on FV
1.1. - 30.9.2023		Assets	Liabilities	changes
EUR 300 million - issued 2018 - 5 years	-	-	-	(156)
EUR 300 million - issued 2020 - 4 years	11,255	341	-	(487)
USD 100 million - issued 2020 - Perpetual	12,932	854	-	(98)
EUR 500 million - issued 2021 - 5 years	64,937	6,594	-	(875)
EUR 300 million - issued 2021 - 4 years	40,555	3,100	-	(725)
EUR 300 million - issued 2022 - 2 years	44,386	883	-	132
EUR 300 million - issued 2023 - 3 years	44,115	573	-	589
Hedged borrowings and subordinated liabilities	218,180	12,345	-	(1,620)
1.1. - 31.12.2022				
EUR 500 million - issued 2017/18 - 5 years	20,672	156	-	13
EUR 300 million - issued 2018 - 5 years	43,181	2,363	-	1,930
EUR 300 million - issued 2020 - 4 years	13,396	1,001	-	1,024
USD 100 million - issued 2020 - Perpetual	66,231	7,765	-	6,927
EUR 300 million - issued 2021 - 5 years	41,404	3,973	-	3,288
EUR 300 million - issued 2021 - 4 years	44,557	792	-	766
Hedged borrowings and subordinated liabilities	229,441	16,050	-	13,947

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 97-115%.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

27. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
30.9.2023	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arr-angements	Total assets recognized on Balance Sheet, net
Reverse repurchase agreements	17,165	(10,021)	7,144	9,996	-	17,140	-	7,144
Derivatives	3,554	-	3,554	(3,151)	-	403	6,108	9,662
Bank accounts netted against fin. liab. .	14,245	-	14,245	(14,245)	-	-	-	14,245
Total assets	34,964	(10,021)	24,943	(7,400)	-	17,543	6,108	31,051
31.12.2022								
Reverse repurchase agreements	17,781	(10,212)	7,569	10,187	-	17,756	-	7,569
Derivatives	2,642	-	2,642	(1,395)	-	1,247	6,874	9,516
Bank accounts netted against fin. liab. .	19,517	-	19,517	(19,517)		-		19,517
Total assets	39,940	(10,212)	29,728	(10,725)	-	19,003	6,874	36,602

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
30.9.2023	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet
Repurchase agreements	25	(10,021)	(9,996)	9,996	-	-	-	(9,996)
Derivatives	16,186	-	16,186	(14,441)	-	1,745	494	16,680
Deposist netted agains other assets	2,955	-	2,955	(2,955)	-	-	-	2,955
Total liabilities	19,166	(10,021)	9,145	(7,400)	-	1,745	494	9,639
31.12.2022								
Repurchase agreements	25	(10,212)	(10,187)	10,212	-	25	-	(10,187)
Derivatives	20,098	-	20,098	(19,559)	-	539	888	20,986
Deposist netted agains other assets	1,353		1,353	(1,353)		-		1,353
Total liabilities	21,476	(10,212)	11,264	(10,700)	-	564	888	12,152

Reverse repurchase agreements and repurchase agreements are recognized within the line items Financial instruments and Due to credit institutions and Central Bank respectively.

28. Investments in associates

	30.9.2023	31.12.2022
Carrying amount at the beginning of the year	787	668
Acquisitions / increased share capital	72	90
Disposals	-	(241)
Share of (loss) profit of associates and profit from sale	(15)	270
Investment in associates	844	787

The Group's interest in its principal associates

Bílafrágangur ehf., Lágmúli 5, Reykjavík, Iceland	33.4%	33.4%
Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	32.0%	49.0%
Reiknistofa bankanna hf., Katrínartún 2, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík	35.3%	35.3%

During second quarter of 2023 share capital of Háblær was increased. Arion Bank invested for ISK 75 million but the Banks shareholding decreased as other shareholders increased their shareholdings even further.

Amounts are in ISK millions

29. Intangible assets

Intangible assets comprise the following categories: Goodwill, which arises on business combinations; Infrastructure, Customer relationships and related agreements which are identified during the acquisition of subsidiaries and related to the activities of the businesses being acquired; and Software, which is acquired (i.e. software licenses) and expenses of implementation.

Infrastructure, which is capitalized as an intangible asset, is related to the asset management operation and branding of the insurance operation. The business activity is based on years of developing expertise and systems, during which a valuable platform has been created for future growth. An impairment test is performed annually.

Customer relationships and related agreements are connected to business relationships and agreements which the Bank acquired in subsidiaries. The asset is based on the assumption that business relationships and agreements generate regular payments and earnings to the relevant business segments. The lifetime of these agreements is based on the experience of the Group and the industry. As a result, these agreements are assessed as having an identified useful lifetime.

Acquired software and internally developed software is capitalized on the basis of the cost of acquiring and bringing the software into service. Expenditure on internally developed software is recognized as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and when it can reliably measure the costs to complete the development. The capitalized costs of internally developed software include external expenses directly attributable to developing the software and salary and salary related expenses of implementation of core systems. Capitalized costs of software are amortized over its useful life. Computer software licenses and internally developed software recognized as intangible assets are amortized over their useful life, which is estimated to be 3-10 years.

Policies applied to the Group's intangible assets	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

30.9.2023	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	547	5,123	8,783
Additions	-	-	-	306	306
Amortization	-	-	(45)	(755)	(800)
Intangible assets	730	2,383	502	4,674	8,289
31.12.2022					
Balance at the beginning of the year	669	2,383	607	5,804	9,463
Additions	61	-	-	355	416
Amortization	-	-	(60)	(1,036)	(1,096)
Intangible assets	730	2,383	547	5,123	8,783

Goodwill related to the insurance operation is recognized among assets in the operating segments Corporate & Investment Banking and Retail Banking and in 2022 Leiguskjól acquired a subsidiary including ISK 61 million in goodwill wich is recognized in the operating segment Other subsidiaries, see Note 6.

30. Tax assets and tax liabilities

	30.9.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	10,981	-	8,471
Deferred tax	427	2,518	135	1,832
Tax assets and tax liabilities	427	13,499	135	10,303

Amounts are in ISK millions

31. Assets and disposal groups held for sale and associated liabilities

Assets and disposal groups held for sale	30.9.2023	31.12.2022
Real estate	61	61
Assets and disposal groups held for sale	61	61

Real estates and other assets classified as assets held for sale are generally the result of foreclosures on companies and individuals.

Sólbjarg ehf., a subsidiary of Eignabjarg ehf.

Sólbjarg ehf. is a holding company of the former TravelCo hf. tour operator group which included Terra Nova Sól ehf., Heimsferdir ehf. and TravelCo Nordic/Bravo Tours. All operations were sold during the years 2020-2022. Following the sale of the operation of Heimsferdir ehf. Sólbjarg became a minority shareholder in Ferdaskrifstofa Íslands ehf. through its ownership in Heimbjarg ehf. (former Heimsferdir ehf.). Sólbjarg sold its shares in Heimbjarg ehf. in Q2 2023 with minor effects on the Income Statement.

32. Other assets

	30.9.2023	31.12.2022*
Property and equipment	3,659	3,787
Right of use asset	686	745
Accounts receivable	1,698	1,308
Unsettled securities trading	14,496	860
Sundry assets	4,973	3,576
Other assets	25,512	10,276

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

33. Other liabilities

	30.9.2023	31.12.2022*
Accounts payable	1,034	1,013
Unsettled securities trading	5,756	1,844
Insurance contract liabilities	19,409	17,451
Withholding tax	622	2,637
Bank levy	2,112	1,761
Accrued expenses	3,537	4,776
Prepaid income	1,456	1,590
Impairment of off-balance items	336	449
Lease liability	897	970
Sundry liabilities	8,320	6,910
Other liabilities	43,479	39,401

Insurance contract liabilities

Liabilities for remaining coverage	4,064	3,412
Liabilities for incurred claims	14,678	13,410
Risk adjustment	667	629
Insurance contract liabilities	19,409	17,451

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

34. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2023	31.12.2022
ARION CB 24 ISK 28,900 million	2019	2024	At maturity	Fixed, 6.00%	25,841	25,736
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed, CPI linked, 3.00%	50,610	47,184
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed, CPI linked, 2.00%	20,521	19,219
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed, CPI linked, 3.50%	38,092	35,602
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed, CPI linked, 2.50%	12,191	11,828
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed, EUR 0.05%	64,937	66,231
ARION CB 27, ISK 41,000 million	2022	2027	At maturity	Fixed, 5.50%	17,876	7,058
ARION CBI 30, ISK 7,020 million	2023	2030	At maturity	Fixed, CPI linked, 2.75%	6,069	-
Statutory covered bonds					236,137	212,858
NOK 250 million	2017	2023	At maturity	Fixed, 3.02%	-	3,671
EUR 300 million *	2018	2023	At maturity	Fixed, 1.00%	-	20,672
EUR 300 million *	2020	2024	At maturity	Fixed, 0.625 %	11,255	43,181
NOK 250 million	2017	2027	At maturity	Fixed, 3.40%	3,277	3,680
EUR 300 million Green *	2021	2025	At maturity	Fixed, 0.375%	40,555	41,404
ARION 26 1222 Green (ISK 5,760m)	2021	2026	At maturity	Fixed, 4.70%	5,601	5,382
ARION 24 1020 Green (ISK 6,020m)	2022	2024	At maturity	Floating, REIBOR 3M +0.70%	6,101	6,062
EUR 300 million Green *	2022	2024	At maturity	Fixed, 4.875%	44,386	44,557
NOK 550 million	2022	2025	At maturity	Floating, OIBOR 3M +2.35%	7,156	7,952
SEK 230 million	2022	2025	At maturity	Floating, STIBOR 3M +2.35%	2,927	3,144
NOK 200 million	2023	2025	At maturity	Floating, Oibor 3M + 2.55%	2,588	-
SEK 300 million	2023	2026	At maturity	Floating, Stibor 3M + 3.00%	3,797	-
EUR 300 million*	2023	2026	At maturity	Fixed, 7.25%	44,115	-
Senior unsecured bonds					171,758	179,705
Borrowings					407,895	392,563

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26.

The book value of listed bonds was ISK 408 billion at the end of the period (31.12.2022: ISK 393 billion). The market value of those bonds was ISK 395 billion (31.12.2022: ISK 381 billion). The Group repurchased own debts amounting to ISK 33 billion during the period with a net loss of ISK 225 million recognized in the Income Statement (9M 2022: ISK 14 million gain).

35. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.9.2023	31.12.2022
SEK 500 million	2018	2028	22 Nov '23	Floating, 3 month STIBOR +3.10%	6,351	6,822
NOK 300 million	2019	2029	9 Jul '24	Floating, NIBOR +3.65%	3,948	4,383
SEK 225 million	2019	2029	20 Dec '24	Floating, 3 month STIBOR +3.70%	2,849	3,066
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed, CPI linked, 3.875%	6,168	5,841
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed, 6.75%	893	908
EUR 5 million	2019	2031	6 Mar '26	Fixed, 3.24%	737	772
ARION T2I 33 9,860 million	2022	2033	15 Dec '28	Fixed, CPI linked, 4.95%	10,675	9,894
ARION T2 33 2,240 million	2022	2033	15 Dec '28	Fixed, 9.25%	2,300	2,249
Tier 2 subordinated liabilities					33,921	33,935
ARION AT1 USD 100 million *	2020	Perpetual	26 Mar '25	Fixed, 6.25%	12,932	13,396
Additional Tier 1 subordinated liabilities					12,932	13,396
Subordinated liabilities					46,853	47,331

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26.

Additional Tier 1 and Tier 2 subordinated liabilities are eligible as regulatory capital under the Icelandic Financial Undertakings Act No. 161/2002.

Amounts are in ISK millions

36. Liabilities arising from financial activities

			Non-cash changes			
30.9.2023	1 Jan	Cash flows	Interest expenses	Foreign exchange	Effect from hedge	At period end
Covered bonds in ISK - CPI linked	113,833	3,615	10,035	-	-	127,483
Covered bonds in ISK	32,794	9,243	1,680	-	-	43,717
Covered bonds in FX	66,231	(1,543)	1,879	(2,542)	912	64,937
Senior unsecured bonds in FX	168,261	(8,801)	6,093	(7,604)	2,107	160,056
Senior unsecured bonds in ISK	11,444	(351)	609	-	-	11,702
Subordinated bond CPI T2 linked	15,735	(487)	1,595	-	-	16,843
Subordinated bond T2 ISK	3,156	(163)	200	-	-	3,193
Subordinated bond T2 FX	15,044	(691)	705	(1,173)	-	13,885
Subordinated bond AT1 FX	13,396	(1,279)	1,057	(365)	123	12,932
Liabilities arising from financial activities	439,894	(457)	23,853	(11,684)	3,142	454,748
31.12.2022						
Covered bonds in ISK - CPI linked	102,007	(814)	12,640	-	-	113,833
Covered bonds in ISK	57,512	(27,114)	2,396	-	-	32,794
Covered bonds in FX	43,624	26,690	386	2,515	(6,984)	66,231
Senior unsecured bonds in FX	149,970	17,949	2,044	4,278	(5,980)	168,261
Senior unsecured bonds in ISK	3,524	7,359	561	-	-	11,444
Subordinated bond CPI T2 linked	5,337	9,651	747	-	-	15,735
Subordinated bond T2 ISK	907	2,182	68	-	-	3,157
Subordinated bond T2 FX	15,619	(596)	643	(623)	-	15,043
Subordinated bond AT1 FX	13,225	(867)	880	1,149	(991)	13,396
Liabilities arising from financial activities	391,725	34,440	20,365	7,319	(13,955)	439,894

37. Pledged assets

Pledged assets against liabilities	30.9.2023	31.12.2022
Assets, pledged as collateral against borrowings	356,502	328,811
Assets pledged as a collateral against loans from banks and other financial liabilities	17,289	23,108
Pledged assets against liabilities	373,791	351,919
Thereof pledged assets against issued covered bonds held by the Bank	(85,232)	(70,850)
Assets against repoed issued bonds	16,585	17,029
Pledged assets against liabilities on balance	305,144	298,098

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 236 billion at period end (31.12.2022: ISK 213 billion).

The Group has pledged bonds against short term lending from the Central Bank of Iceland and against short positions, related to swap agreements, to hedge market risk of those assets.

The Group has issued covered bonds amounting to ISK 57 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2022: ISK 45 billion). Pledged assets against those covered bonds are ISK 69 billion (31.12.2022: ISK 54 billion).

Amounts are in ISK millions

38. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,460 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	Total 30.9.2023	Share capital	Own shares	Share premium	Total 31.12.2022
Balance at the beginning of the year	1,510	(45)	11,907	13,372	1,660	(142)	21,166	22,684
Share capital reduction	(50)	50	-	-	(150)	150	-	-
Purchase of treasury shares	-	(22)	(3,238)	(3,260)	-	(58)	(9,793)	(9,851)
Share option vested	-	2	295	297	-	4	349	353
Incentive scheme	-	1	194	195	-	1	184	185
Balance at the end of the period	1,460	(14)	9,157	10,604	1,510	(45)	11,907	13,372
Own shares / issued share capital		0.95%				3.01%		

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. On 5 September 2022 the FSA authorized a buyback program which amounts up to a total of 57.3 million shares or up to ISK 10 billion. During the first half of 2023 Arion Bank bought back own shares for ISK 3,260 million. The Program ended 1 June 2023.

At the AGM in March 2023 a motion was passed to reduce the Bank's share capital by ISK 50 million. The reduction was effective 25 April 2023 and Arion Bank's share capital was reduced from ISK 1,510 million to ISK 1,460 million. At the AGM in March 2022 a motion was passed to reduce the Bank's share capital by ISK 150 million. The reduction was effective 4 April 2022.

Share options

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting, under which employees may be granted options to purchase ordinary shares. The annual maximum purchase price for each employee is ISK 1.5 million, in line with Article 10 of the Income Tax Act no. 90/2003, at an exercise price determined by the Bank's average share price 10 days prior to issue date. The employee must remain continuously employed with Arion Bank until the expiring date. The options carry neither rights to dividends nor voting rights and are valued using the Black-Scholes pricing model.

The following share option contracts are in existence at period end.	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 600,000) - employees of Arion Bank	8,086	2024-2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	8,254	2024-2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	5,912	2024-2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of subsidiaries	2,183	2024-2026	140.56
	24,435		

Movements in share options during the period.	30.9.2023		31.12.2022	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	30,882	143.2	19,728	95.5
Share options granted	16,349	153.8	17,362	180.3
Share options forfeited	(20,152)	168.2	(2,916)	95.5
Share options exercised, WAVG share price ISK 151.79 at exercise date (2022: 187.56) .	(2,644)	95.5	(3,292)	95.5
Outstanding share options at the end of the period	24,435	136.2	30,882	143.2

No share options are exercisable at period end. Next exercise periods are in February and May 2024.

All outstanding share options, if exercised, represent approximately 1.7% of the total issued shares.

To meet the Bank's obligations on the basis of the share option plan, the Bank will issue new share capital or deliver treasury shares. Arion Bank has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of the employee stock options granted is measured by using the Black-Scholes model.

Warrants

The warrants reserve represents the consideration received for outstanding warrants. Arion Bank issued 54 million warrants on 9 March 2021. The purchase price of the warrants amounted to ISK 15.6 per warrant, resulting in a total sale price of ISK 842.4 million. The warrant issuing represents approximately 3% of the Bank's total share capital and the Bank is obliged to issue new shares when the warrants are exercised. Approximately 48.5% of the total issue was sold to around 150 employees of the Group and 51.5% to professional investors. The exercise period runs from Q4 2023 to Q3 2024.

Amounts are in ISK millions

Other information

39. Shareholders of Arion Bank

	30.9.2023	31.12.2022
Gildi lífeyrissjódur	9.85%	9.77%
Lífeyrissjódur starfsmanna ríkisins	9.63%	9.53%
Lífeyrissjódur verzlunarmanna	9.30%	9.14%
Stodir hf.	5.38%	5.20%
Brú lífeyrissjódur	4.00%	3.69%
Vanguard	3.96%	2.27%
Birta lífeyrissjódur	3.60%	3.47%
Frjálsi lífeyrissjódurinn	3.44%	3.17%
Stapi lífeyrissjódur	3.16%	3.02%
Stefnir funds	2.67%	4.05%
Hvalur hf.	2.52%	2.44%
Íslandsbanki hf.	2.25%	2.38%
Festa lífeyrissjódur	2.20%	1.92%
Almenni lífeyrissjódur	1.52%	1.47%
Kvika banki hf.	1.50%	1.82%
Landsbankinn hf.	1.22%	1.21%
Landsbréf hf.	1.21%	1.43%
Lífsverk Pension fund	1.18%	1.08%
Sjóvá tryggingar	1.17%	1.00%
Arion banki hf.	0.95%	3.01%
Other shareholders with less than 1% shareholding	29.29%	28.96%
	100.0%	100.0%

On 15 March 2023 the AGM approved to reduce the Bank's share capital by ISK 50 million nominal value, amounting 50 million own shares, by cancelling the Bank's own shares. The reduction was carried out on 25 April 2023. The Bank's share capital therefore reduces from ISK 1,510 million to ISK 1,460 million which is divided into an equal number of shares and each share is accompanied by one vote.

At the end of the period the Group's employees held a shareholding of 0.81% in Arion Bank (31.12.2022: 0.65%). The Board of Directors and the members of the Bank's Executive Committee shareholding is as follows:

	30.09.2023		31.12.2022	
	Warrants / options	Number of shares	Warrants / options	Number of shares
Steinunn Kristín Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	13,000	-	13,000
Benedikt Gíslason, CEO	997,947	2,561,783	1,006,482	2,506,283
Eight members of the Executive Committee (2022: eight)	4,038,815	971,648	4,945,258	787,751

Other members of the Board of Directors do not hold shares or warrants in Arion Bank.

40. Legal matters

The Group has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the likelihood and amount of loss reasonably estimated, the Group makes adjustments, if appropriate, to account for any adverse effects the claims may have on its financial standing. Should the Group conclude that it is to the detriment of the Group's case to disclose such potential amounts, relating to the legal claims raised, it elects not to do so. At the end of the period, the Group had several unresolved legal claims.

Contingent liabilities

Legal proceedings regarding damages

In a lawsuit brought in June 2013, Kortaþjónustan hf. claimed damages from Arion Bank hf., Íslandsbanki hf., Landsbankinn hf., Borgun hf. and Valitor hf. in the amount of ISK 1.2 billion plus interest. The lawsuit is a result of damage Kortaþjónustan hf. contended the five parties caused the company due to violations of the Competition Act. In June 2017 the Supreme Court dismissed the case on procedural grounds. Since then, Kortaþjónustan hf. and subsequently its largest shareholder EC-Clear have tried to initiate five lawsuits against the same defendants which have all been dismissed, the last one in March 2021. In September 2021 EC-Clear has once again brought the same matter of dispute, claiming damages in the amount of ISK 922 million plus interest, against the same defendants. In September 2022 the District Court dismissed the claims. EC-Clear appealed the dismissal but with a ruling in January 2023 the Court of Appeal rejected the District Court's ruling and ruled that the case should be heard on its merits by the District Court. Should the defendants be found liable for damages, they would be jointly responsible. Therefore, the Bank has not made any provision.

Amounts are in ISK millions

40. Legal matters, continued

On-site inspection by the Central Bank

The Financial Supervisory Authority of the Central Bank of Iceland (the “FSA”) did an on-site inspection at the Bank in 2022. Following the inspection, the FSA identified and reported deficiencies in the Bank's compliance with the relevant Act and regulations. In August 2023, following receipt of FSA´s final report, the Bank requested that the matter be concluded by way of settlement. The matter is now pending with the FSA.

Consumer Association‘s class-action lawsuit

The Consumer Association of Iceland sent a letter to Arion Bank, Íslandsbanki and Landsbankinn in April 2020 urging the banks to review its contractual terms on variable rate mortgages to individuals. The letter called for revised terms and compensation to borrowers who, according to the Association, have suffered damage. The Association’s argument is that standard contractual terms lack proper legal grounds, as parameters for interest rate decisions lack transparency and predictability, thus causing a contractual imbalance to the detriment of the consumer.

Arion Bank undertook a review of its contractual terms and processes for interest rate decisions in light of the letter, concluding that no changes were required and that the Association’s arguments are unfounded. A reasoned response was sent to the Consumer Association in September 2020. According to information published on the Consumer Association’s website, all three banks have rejected the Association’s arguments.

The Consumer Association in May 2021 published an article on its website calling for participants in a class action lawsuit. The intention is to commence court proceedings against Icelandic credit institutions to provide court precedents for loans with variable rates. Arion Bank has received information requests from a legal firm representing approximately 1,200 individuals. One case has been filed against the Bank and with a judgement of the District Court of Reykjavík on the 7th of February 2023 the Bank was acquitted. The plaintiffs have appealed the judgement to the Court of Appeal. Considering the District Court’s judgement as well as an outside opinion commissioned by the Bank on its legal position the Bank has not made any provision.

Other legal proceedings

Since 2008 Arion Bank has formally been a party to proceedings in Luxembourg, commenced against the Luxembourg company R Capital S.á r.l. and its beneficial owner, Mr. Umberto Ronsisvalle, for the collection of EUR 6 million plus interest. During this time, Kaupthing ehf. has been the beneficial owner of the claim, with Arion Bank’s involvement limited to being the formal party to the proceedings while enjoying indemnity from Kaupthing. The reason for the setup is a decision by the Icelandic Financial Supervisory Authority in 2009 during the split of Kaupthing to the “new” and “old” bank. In 2019, a counterclaim was made against Arion Bank in the proceedings, for the net sum of EUR 24 million plus interest, with the Bank continuing to enjoy full indemnity from Kaupthing. In September 2021, Kaupthing and Arion Bank agreed that all rights and liabilities in the Luxembourg proceedings would be transferred to Arion Bank. The Bank is still held harmless for any liabilities associated with the claims and has therefore not made any provision.

The estate of TravelCo Nordic has filed a case against TravelCo hf. and the Bank in Denmark claiming payment in solidum in the amount of DKK 58.1 million plus interest. The merits and arguments against the Bank are vague. The bankruptcy estate alleges that the Bank, as owner of Heimsferdir ehf. and Terra Nova Sól ehf., contrived the sale of the companies to its subsidiary, Sólbjarg ehf., without real payment. The transaction the bankruptcy estate is referring to is in fact the legal and lawful enforcement of security (i.e. share pledges) by the Bank over the shares in Heimsferdir hf. and Terra Nova Sól ehf. following a default on a facilities agreement to TravelCo hf. as borrower. Following the enforcement, the Bank moved the companies to its holding company, Sólbjarg ehf., and the Bank remained the beneficial owner of the companies. The Bank believes it likely that it will be acquitted of the estate’s claim and has therefore not made any provision.

Legal matters concluded

Administrative fine from Central Bank of Iceland

On 7 July 2020 the Financial Supervisory Authority of the Central Bank of Iceland (FSA) published its decision to impose an administrative fine on Arion Bank of ISK 87.7 million due to the Bank’s alleged breach of an obligation to disclose insider information in a timely manner. The decision was published on FSA´s website. Arion Bank paid the fine but filed a claim with the district court of Reykjavik in October 2020 demanding that FSA’s decision be annulled. With a judgment of the district court in April 2022 FSA was acquitted. The Bank appealed the ruling and with a judgement of the Court of Appeal in June 2023 the district court’s ruling was confirmed.

41. Events after the reporting period

No event has arisen after the reporting period and up to the approval of these Condensed Consolidated Interim Financial Statements that require additional disclosures.

Off balance sheet information

42. Commitments

Financial guarantees, unused credit facilities and undrawn loan commitments	30.9.2023	31.12.2022
Financial guarantees	22,594	20,312
Unused overdrafts	64,506	57,259
Undrawn loan commitments	83,550	105,888
Financial guarantees, unused credit facilities and undrawn loan commitments	170,650	183,459

43. Assets under management and under custody

Assets under management	1,314,092	1,298,289
Assets under custody	1,250,071	1,067,052

Assets under management represent the total market value of the financial assets which the Group manages on behalf of its customers.

The Group, acting as custodian, is responsible for safeguarding a firm's or individual's financial assets, hold in safekeeping securities such as stocks, bonds and securities funds, arrange the settlement of trades and movements of securities, process corporate actions such as income on bonds and dividends on shares; and pricing on securities.

Related party

44. Related party

Arion Bank defines related party as shareholders with significant influence over the Group, the key management personnel and the Group's associated companies.

Shareholders with significant influence are shareholders that have the power to participate in the finanical and operating decisions of Arion Bank but do not control those policies. At the end of the period no shareholder was defined as related party with an influence over the Group (31.12.2022: none).

The key management personnel includes the Board of Directors and the Executive Committee of Arion Bank, as well as their close family members and legal entities controlled by them. The Executive Committee consists of the CEO, Managing Directors of Retail banking, CIB, Markets, Finance, Risk, IT, Customer experience and head of General councel.

For information on the associated companies, see Note 28.

Transactions with related parties have been conducted on an arm's length basis. There have been no further guarantees provided or received for related party receivables or payables.

	Key management personnel		Associated companies	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Loans	60	64	313	71
Other assets	2	2	-	-
Total assets	61	66	313	71
Deposits	(577)	(1,111)	(77)	(155)
Other liabilities	-	-	(18)	(27)
Total liabilities	(577)	(1,111)	(95)	(182)

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Risk management disclosures

The Group faces various risks arising from its day to day operations. Managing risk is a core activity within the Group. The key to effective risk management is a process of on-going identification of significant risk, quantification of risk exposures, actions to limit risk and constant monitoring of risk. This process of risk management and the ability to evaluate, manage and correctly price the risk encountered is critical to the Group's continuing profitability, and ensures that the exposure to risk remains within acceptable levels.

The Board of Directors is ultimately responsible for the Bank's risk management framework and for ensuring that satisfactory risk policies and governance for controlling the Group's risk exposure are in place. Each subsidiary is responsible for its own risk management framework but adheres to the Bank's ownership policies which outline the Group's internal control policy, risk appetite and reporting mechanisms. The Board sets the risk appetite for the Bank, and in some cases the Group, which is translated into exposure limits and targets monitored by the Bank's Risk Management division.

The Chief Executive Officer (CEO) is responsible for sustaining an effective risk management framework, processes and controls as well as maintaining a high level of risk awareness among employees, making risk everyone's business.

The Bank operates several committees to manage risk. The Board Risk Committee (BRIC) is responsible for supervising the Bank's risk management framework, risk appetite and the internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP). The Board Credit Committee (BCC) approves certain proposals for credit origination, debt cancellation, underwriting and investments, while the Board of Directors is the supreme authority for cases which entail deviations from risk appetite or strategy. On the management level the CEO has established six primary risk committees. The Asset and Liability Committee (ALCO) is responsible for managing asset-liability mismatches, liquidity and funding risk, market risk, capital adequacy, and decides on underwriting and investment exposures. The Operational Risk Committee (ORCO) is responsible for managing operational risk, which includes information security, financial crimes, regulatory compliance and data management. The Arion Credit Committee (ACC) administers the Bank's credit rules and decides on the origination of credit while the Arion Composition and Debt Cancellation Committee (ADC) is the principal authority for debt cancellation, debt restructuring and composition agreements. ACC and ADC operate within limits set by the BCC. The Sustainability Committee ensures that the Bank's strategy and decision-making are aligned with the Bank's commitments in relation to the environmental, social and governance (ESG) agenda. The committee oversees the Bank's Green Financing Framework. Finally, the Executive Risk Committee (ERCO), chaired by the CRO, oversees the implementation of risk policies, ensures that the Bank's limit framework adheres to the risk appetite, reviews the Bank's ICAAP, ILAAP and stress testing, and approves economic scenarios, credit models and specific provisions under IFRS9. The Executive Committee is concerned with business and strategic risk.

The Bank's Internal Audit conducts independent reviews of the Bank's and several subsidiaries' operations, risk management framework, processes and measurements. Internal Audit discusses its results with management and reports its findings and recommendations to the Board Audit Committee (BAC) and to the Board of Directors.

The Bank's Compliance function is headed by the Compliance Officer. It is independent and centralized and the Compliance Officer reports directly to the CEO. The Compliance function manages the Bank's conduct and compliance risk, including risk relating to data protection and financial crime.

The Bank's Risk Management division is headed by the Chief Risk Officer. It is independent and centralized and the CRO reports directly to the CEO. The division is divided into four units: Risk Analysis, which is responsible for the quantification of risk on a portfolio level, including risk modeling and reporting; Risk Monitoring and Framework, which facilitates and monitors the management of risk and controls in the first line; Credit Analysis, which supports the Bank's credit transaction process and participates in credit decisions; and Security Team, headed by the Bank's Chief Security Officer, which facilitates and monitors information security risk management in the first line. The Bank's Risk Officer for Pension Funds reports to the CRO.

Arion Bank is a small bank in an international context but classified as systemically important in Iceland. The Group operates in a small economy which is subject to sectoral concentration, fluctuations in capital flows, and exchange rate volatility. The Group’s most significant risks are credit risk, concentration risk, liquidity risk, interest rate risk, cyber risk, third party risk, business risk and sustainability risk. These risk factors are to the largest extent encountered within the parent company. Through the Bank's subsidiaries, the Group bears risk arising from insurance activities and fund management.

Further information on risk management and capital adequacy is provided in the Annual Financial Statements for 2022, in the Pillar 3 Risk Disclosures for 2022 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.

45. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

Credit risk arises when the Group commits its funds, resulting in capital or earnings being dependent on counterparty, issuer or borrower performance. Loans to customers are the largest source of credit risk. Credit risk is also inherent in other types of assets, such as loans to credit institutions, bonds, derivatives and off-balance sheet items such as commitments and guarantees.

Managing and analyzing the Group's loan portfolio is of utmost importance. Great emphasis is placed on the quality of the credit portfolio, by maintaining a strict credit process, by critically inspecting loan applications, by actively monitoring the credit portfolio and by identifying and reacting to possible problem loans at an early stage as well as by restructuring impaired credits.

The Group grants credit based on well-informed lending decisions and seeks to build business relationships with customers that have good repayment capacity and are backed by strong collateral. The risk level of each credit is considered in the pricing.

Credit risk is managed and controlled by setting limits on the amount of risk the Group is willing to accept for individual counterparties, group of connected clients, industries, geographies and loan types, and by monitoring exposures in relation to such limits. The Group seeks to limit its total credit risk through diversification of the loan portfolio across sectors and by limiting large exposures to groups of connected clients.

Exposure to credit risk

The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position before the effect of mitigation due to collateral agreements or other credit enhancements. The table also shows related collateral and credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the exposure type. The main types of collateral obtained are as follows:

- Real estate: Residential property, commercial real estate and land
- Cash and securities: Cash, treasury notes and bills, asset backed bonds, listed equity, and funds that consist of eligible securities
- Vessels: Ships with assigned fishing quota and other vessels
- Other collateral: Fixed and current assets including vehicles, equipment, inventory and trade receivables

The value of collateral is based on estimated market value. The valuation of real estate is based on market price, valuation model, or the opinion of internal or external specialists. The valuation of fishing vessels takes into account related fishing quotas. The quality of collateral is evaluated in the lending process with regards to specialization, location, age and condition and possibilities for reuse.

Collateral value is monitored and action is taken to remedy insufficient collateral coverage where the underlying agreement provides for such remedies. Collateral value is reviewed to ensure the adequacy of the allowance for impairment losses. Collateral values shown are capped by the related book value amount.

45. Credit risk, continued

Maximum exposure to credit risk and collateral held against different types of financial instruments subject to the impairment requirements of IFRS 9

		Collateral				
30.9.2023	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	80,288	-	-	-	-	-
Loans to credit institutions at amortized cost	51,302	-	-	-	-	-
Loans to customers at amortized cost	1,143,473	26,531	861,612	56,074	115,282	1,059,499
Individuals	*601,463*	*360*	*550,481*	*6*	*19,053*	*569,900*
Mortgages	*540,297*	*19*	*539,876*	*-*	*4*	*539,899*
Other	*61,166*	*341*	*10,605*	*6*	*19,049*	*30,001*
Corporates	*542,010*	*26,171*	*311,131*	*56,068*	*96,229*	*489,599*
Real estate activities	*113,609*	*2,259*	*108,594*	*28*	*971*	*111,852*
Construction	*75,099*	*592*	*68,840*	*35*	*3,133*	*72,600*
Fishing industry	*90,082*	*940*	*17,252*	*53,945*	*13,129*	*85,266*
Information and communication technology	*26,719*	*60*	*1,479*	*-*	*13,080*	*14,619*
Wholesale and retail trade	*88,226*	*85*	*51,200*	*3*	*26,181*	*77,469*
Financial and insurance activities	*41,728*	*21,222*	*6,307*	*-*	*13,070*	*40,599*
Industry, energy and manufacturing	*52,311*	*780*	*33,330*	*-*	*15,257*	*49,367*
Transportation	*8,237*	*7*	*1,093*	*847*	*3,973*	*5,920*
Services	*21,093*	*217*	*10,197*	*1,203*	*6,489*	*18,106*
Public sector	*12,998*	*9*	*2,112*	*7*	*207*	*2,335*
Agriculture and forestry	*11,908*	*-*	*10,727*	*-*	*739*	*11,466*
Other assets with credit risk	19,912	-	-	-	-	-
Financial guarantees	22,594	2,867	4,565	282	6,123	13,837
Undrawn loan commitments and unused overdrafts	148,056	-	-	-	-	-
Fair value through OCI	149,638	-	-	-	-	-
Government bonds	*130,210*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*19,428*	-	-	-	-	-
Balance at the end of the period	1,615,263	29,398	866,177	56,356	121,405	1,073,336

31.12.2022*	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	114,118	-	-	-	-	-
Loans to credit institutions at amortized cost	43,433	-	-	-	-	-
Loans to customers at amortized cost	1,084,757	26,285	796,745	51,717	104,911	979,658
Individuals	*582,371*	*517*	*531,300*	*16*	*18,919*	*550,752*
Mortgages	*513,605*	*9*	*513,252*	*-*	*32*	*513,293*
Other	*68,766*	*508*	*18,048*	*16*	*18,887*	*37,459*
Corporates	*502,386*	*25,768*	*265,445*	*51,701*	*85,992*	*428,906*
Real estate activities	*105,304*	*838*	*101,514*	*-*	*368*	*102,720*
Construction	*55,208*	*211*	*41,157*	*47*	*2,478*	*43,893*
Fishing industry	*91,427*	*1,123*	*14,278*	*49,501*	*13,023*	*77,925*
Information and communication technology	*24,622*	*110*	*1,441*	*-*	*14,775*	*16,326*
Wholesale and retail trade	*85,005*	*24*	*50,831*	*-*	*26,584*	*77,439*
Financial and insurance activities	*41,378*	*22,938*	*6,377*	*-*	*7,390*	*36,705*
Industry, energy and manufacturing	*44,154*	*295*	*25,635*	*-*	*13,219*	*39,149*
Transportation	*14,058*	*87*	*1,127*	*1,043*	*3,195*	*5,452*
Services	*19,155*	*131*	*11,007*	*1,104*	*3,904*	*16,146*
Public sector	*10,576*	*11*	*2,101*	*6*	*172*	*2,290*
Agriculture and forestry	*11,499*	*-*	*9,977*	*-*	*884*	*10,861*
Other assets with credit risk	4,720	-	-	-	-	-
Financial guarantees	20,312	2,378	3,872	37	3,288	9,575
Undrawn loan commitments and unused overdrafts	163,147	-	-	-	-	-
Fair value through OCI	115,806	-	-	-	-	-
Government bonds	*96,908*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*18,898*	-	-	-	-	-
Balance at the end of the year	1,546,293	28,663	800,617	51,754	108,199	989,233

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

45. Credit risk, continued

LTV ratio for residential mortgage lending

The following table describes the loan to value (LTV) and impairment status of the Group's residential mortgage portfolio. LTV is calculated as the ratio of the total exposure of individual borrowers to the value of the pledged real estate without adjusting for possible costs of obtaining and selling the collateral. An exposure to a particular borrower appears in a single row in the table (whole-loan approach). The residential real estate valuation model used gives an estimate of current value on a monthly basis. This model is used when the observed market value becomes older than 2 years.

			Thereof credit impaired loans	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Less than 50%	193,902	172,790	2,357	1,817
50-60%	99,966	91,201	679	511
60-70%	104,524	90,224	1,138	826
70-80%	76,256	86,856	690	408
80-90%	60,258	69,629	446	429
90-100%	4,163	2,111	167	153
More than 100%	2,150	1,171	265	118
Not classified	-	25	-	-
Gross carrying amount at the end of the period	541,219	514,007	5,742	4,262

The following table gives an alternative representation of the loan to value profile of the mortgage portfolio. Here, each exposure is split into pieces and each piece is placed into the appropriate LTV bucket. A single exposure can therefore be spread between several rows in the table (loan-splitting approach).

			Thereof credit impaired loans	
	30.9.2023	31.12.2022	30.9.2023	31.12.2022
Less than 55%	475,773	445,185	4,911	3,643
55-70%	46,454	48,024	497	380
70-80%	13,869	16,045	154	132
80-90%	3,984	3,895	77	65
90-100%	627	516	28	20
More than 100%	512	317	75	22
Not classified	-	25	-	-
Gross carrying amount at the end of the period	541,219	514,007	5,742	4,262

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 17,703 million (31.12.2022: ISK 12,903 million) with ISK 15,668 million in collateral (31.12.2022: ISK 10,627 million), thereof ISK 13,784 million in real estate (31.12.2022: 9,434 million).

Collateral repossessed

During the period, the Group took possession of no assets due to foreclosures (31.12.2022: nil) and nil in other assets (31.12.2022: nil). Assets aquired due to foreclosure are held for sale, see Note 31.

Amounts are in ISK millions

45. Credit risk, continued

Large exposures

A large exposure is defined as an exposure to a group of financially related borrowers which is equal to or exceeds 10% of the Group's Tier 1 capital according to the Financial Undertakings Act No. 161/2002. The legal maximum for individual large exposures is 25% of Tier 1 capital, net of eligible credit risk mitigation.

The Group had one large exposure at the end of the period (31.12.2022: two large exposures).

	30.09.2023		31.12.2022	
No.	Gross	Net	Gross	Net
1	10.1%	10.1%	11.5%	11.5%
2	<10%	<10%	10.3%	10.3%
Sum of large exposure gross and net > 10%	10.1%	10.1%	21.8%	21.8%

Credit quality

The Group uses internal credit ratings and external credit ratings, if available, to monitor credit risk. The Group's internal credit rating system rates customers through application of statistical models based on a variety of information that has been determined to be predictive of default. This includes demographic, behavioral, financial and economic data, coupled with qualitative expert judgment for large corporate exposures. Six exposure type models rate individuals' exposures – mortgages, consumer loans, auto loans, guarantees, loans to individuals for work purposes and other loans. The models are validated annually and recalibrated and updated with current data with the aim of maintaining their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement. External ratings are primarily used for marketable securities and loans to credit institutions. For further information on the rating scales used, see Note 58 in the Annual Financial Statements 2022.

The following tables show financial instruments subject to the impairment requirements of IFRS 9 broken down by rating scale, where risk class 5, DD, represents exposures in default. Assets carried at fair value through profit and loss are not subject to the impairment requirements of IFRS 9. The tables below sum up the gross carrying amount of assets by rating class and impairment stage. The gross carrying amount net of loss allowance is the book value of the underlying assets. For off-balance sheet exposures, the nominal amount is shown. FVOCI stands for fair value through other comprehensive income.

Exposures that are 'Unrated' are typically due to newly formed entities, entities for which the Bank's rating models are not applicable or no external rating is available.

Amounts are in ISK millions

45. Credit risk, continued

Credit quality profile for financial instruments subject to IFRS 9 impairment requirements

30.9.2022	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	80,288	51,302	149,641
Non-investment grade	-	-	-
Gross carrying amount	80,288	51,302	149,641
Loss allowance	-	-	(3)
Book value	80,288	51,302	149,638

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	407,569	190	-	6	407,765
Risk class 1 - (Grades BBB+ to BBB-)	317,162	4,919	-	159	322,240
Risk class 2 - (Grades BB+ to BB-)	224,117	31,788	-	21	255,926
Risk class 3 to 4 - (Grades B+ to CCC-)	88,047	60,081	-	5	148,133
Risk class 5 - (DD)	-	-	17,356	347	17,703
Unrated	343	1	-	-	344
Gross carrying amount	1,037,238	96,979	17,356	538	1,152,111
Loss allowance	(2,158)	(2,545)	(3,748)	(187)	(8,638)
Book value	1,035,080	94,434	13,608	351	1,143,473
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	303,429	190	-	6	303,625
Risk class 1 - (Grades BBB+ to BBB-)	207,130	159	-	159	207,448
Risk class 2 - (Grades BB+ to BB-)	42,593	18,636	-	21	61,250
Risk class 3 to 4 - (Grades B+ to CCC-)	11,593	12,368	-	5	23,966
Risk class 5 - (DD)	-	-	7,385	160	7,545
Unrated	15	1	-	-	16
Gross carrying amount	564,760	31,354	7,385	351	603,850
Loss allowance	(498)	(586)	(1,303)	-	(2,387)
Book value	564,262	30,768	6,082	351	601,463
Loans to customers - Corporates					
Risk class 0 - (Grades AAA to A-)	104,140	-	-	-	104,140
Risk class 1 - (Grades BBB+ to BBB-)	110,032	4,760	-	-	114,792
Risk class 2 - (Grades BB+ to BB-)	181,524	13,152	-	-	194,676
Risk class 3 to 4 - (Grades B+ to CCC-)	76,454	47,713	-	-	124,167
Risk class 5 - (DD)	-	-	9,971	187	10,158
Unrated	328	-	-	-	328
Gross carrying amount	472,478	65,625	9,971	187	548,261
Loss allowance	(1,660)	(1,959)	(2,445)	(187)	(6,251)
Book value	470,818	63,666	7,526	-	542,010
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 (Grades AAA to BBB-)	96,006	2,429	-	-	98,435
Risk class 2 to 4 (Grades BB+ to CCC-)	59,475	5,605	794	-	65,874
Unrated	6,341	-	-	-	6,341
Nominal	161,822	8,034	794	-	170,650
Loss allowance	(230)	(101)	(5)	-	(336)
Nominal less loss allowance	161,592	7,933	789	-	170,314

Amounts are in ISK millions

45. Credit risk, continued

31.12.2022	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	114,118	43,433	133,838
Non-investment grade	-	-	-
Gross carrying amount	114,118	43,433	133,838
Loss allowance	-	-	(13)
Book value	114,118	43,433	133,825

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	394,307	1,681	-	-	395,988
Risk class 1 - (Grades BBB+ to BBB-)	316,636	3,157	-	115	319,908
Risk class 2 - (Grades BB+ to BB-)	196,778	35,275	-	53	232,106
Risk class 3 to 4 - (Grades B+ to CCC-)	85,101	44,415	-	14	129,530
Risk class 5 - (DD)	-	-	12,561	341	12,902
Unrated	1,239	-	-	-	1,239
Gross carrying amount	994,061	84,528	12,561	523	1,091,673
Loss allowance	(2,334)	(1,519)	(2,932)	(131)	(6,916)
Book value	991,727	83,009	9,629	392	1,084,757
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	293,411	1,552	-	-	294,963
Risk class 1 - (Grades BBB+ to BBB-)	203,585	2,749	-	115	206,449
Risk class 2 - (Grades BB+ to BB-)	41,795	13,064	-	53	54,912
Risk class 3 to 4 - (Grades B+ to CCC-)	11,301	10,325	-	14	21,640
Risk class 5 - (DD)	-	-	5,861	161	6,022
Unrated	160	-	-	-	160
Gross carrying amount	550,252	27,690	5,861	343	584,146
Loss allowance	(445)	(287)	(1,043)	-	(1,775)
Book value	549,807	27,403	4,818	343	582,371
Loans to customers - Corporates					
Risk class 0 - (Grades AAA to A-)	100,896	129	-	-	101,025
Risk class 1 - (Grades BBB+ to BBB-)	113,051	408	-	-	113,459
Risk class 2 - (Grades BB+ to BB-)	154,983	22,211	-	-	177,194
Risk class 3 to 4 - (Grades B+ to CCC-)	73,800	34,090	-	-	107,890
Risk class 5 - (DD)	-	-	6,700	180	6,880
Unrated	1,079	-	-	-	1,079
Gross carrying amount	443,809	56,838	6,700	180	507,527
Loss allowance	(1,889)	(1,232)	(1,889)	(131)	(5,141)
Book value	441,920	55,606	4,811	49	502,386
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 - (Grades AAA to BBB-)	109,205	23	-	-	109,228
Risk class 2 to 4 - (Grades BB+ to CCC-)	60,752	9,110	271	-	70,133
Unrated	4,094	4	-	-	4,098
Nominal	174,051	9,137	271	-	183,459
Loss allowance	(351)	(93)	(5)	-	(449)
Nominal less loss allowance	173,700	9,044	266	-	183,010

Amounts are in ISK millions

45. Credit risk, continued

Sector split, gross carrying value and loss allowance for financial instruments subject to IFRS 9 impairment requirements

	Stage 1		Stage 2		Stage 3		
30.09.2023	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	281,231	(3)	-	-	-	-	281,228
Loans to individuals	564,760	(498)	31,545	(586)	7,545	(1,303)	601,463
Mortgages	*510,113*	*(235)*	*25,365*	*(358)*	*5,742*	*(330)*	*540,297*
Other	*54,647*	*(263)*	*6,180*	*(228)*	*1,803*	*(973)*	*61,166*
Loans to corporates	472,478	(1,660)	65,625	(1,959)	10,158	(2,632)	542,010
Real estate activities	*99,260*	*(292)*	*12,153*	*(159)*	*3,517*	*(870)*	*113,609*
Construction	*69,314*	*(362)*	*5,669*	*(95)*	*612*	*(39)*	*75,099*
Fishing industry	*79,859*	*(93)*	*9,938*	*(135)*	*1,297*	*(784)*	*90,082*
Information and communication technology	*25,322*	*(178)*	*1,599*	*(140)*	*181*	*(65)*	*26,719*
Wholesale and retail trade	*74,343*	*(273)*	*12,755*	*(545)*	*2,564*	*(618)*	*88,226*
Financial and insurance activities	*29,256*	*(196)*	*12,904*	*(360)*	*129*	*(5)*	*41,728*
Industry, energy and manufacturing	*50,161*	*(88)*	*1,923*	*(81)*	*420*	*(24)*	*52,311*
Transportation	*4,054*	*(19)*	*4,187*	*(103)*	*132*	*(14)*	*8,237*
Services	*17,742*	*(91)*	*3,082*	*(321)*	*849*	*(168)*	*21,093*
Public Sector	*12,801*	*(48)*	*248*	*(3)*	*1*	*(1)*	*12,998*
Agriculture and forestry	*10,366*	*(20)*	*1,167*	*(17)*	*456*	*(44)*	*11,908*
Balance at the end of the period	1,318,469	(2,161)	97,170	(2,545)	17,703	(3,935)	1,424,701

31.12.2022							
Loans to credit instit., securities & cash	273,362	(6)	-	-	-	-	273,356
Loans to individuals	550,252	(445)	27,872	(287)	6,022	(1,043)	582,371
Mortgages	*486,371*	*(116)*	*23,373*	*(125)*	*4,262*	*(160)*	*513,605*
Other	*63,881*	*(329)*	*4,499*	*(162)*	*1,760*	*(883)*	*68,766*
Loans to corporates	443,809	(1,889)	56,838	(1,232)	6,880	(2,020)	502,386
Real estate activities	*94,680*	*(213)*	*8,668*	*(87)*	*2,609*	*(353)*	*105,304*
Construction	*51,280*	*(401)*	*4,161*	*(74)*	*252*	*(10)*	*55,208*
Fishing industry	*81,810*	*(193)*	*9,633*	*(137)*	*368*	*(54)*	*91,427*
Information and communication technology	*21,372*	*(81)*	*3,410*	*(99)*	*49*	*(29)*	*24,622*
Wholesale and retail trade	*68,357*	*(321)*	*16,508*	*(499)*	*1,904*	*(944)*	*85,005*
Financial and insurance activities	*33,478*	*(247)*	*8,244*	*(171)*	*79*	*(5)*	*41,378*
Industry, energy and manufacturing	*41,992*	*(128)*	*2,286*	*(32)*	*42*	*(6)*	*44,154*
Transportation	*13,877*	*(73)*	*205*	*(6)*	*61*	*(6)*	*14,058*
Services	*16,183*	*(136)*	*2,421*	*(110)*	*1,385*	*(588)*	*19,155*
Public Sector	*10,323*	*(42)*	*299*	*(4)*	-	-	*10,576*
Agriculture and forestry	*10,457*	*(54)*	*1,003*	*(13)*	*131*	*(25)*	*11,499*
Balance at the end of the year	1,267,423	(2,340)	84,710	(1,519)	12,902	(3,063)	1,358,113

Amounts are in ISK millions

45. Credit risk, continued

The table below reconciles the opening and closing allowance balance for loans to customers and debt securities at amortized cost and FVOCI and loan commitments, guarantees and unused credit facilities by impairment stages. The reconciliation includes:

Transfers of financial assets between impairment stages

All transfers are presumed to occur before any corresponding remeasurement of the loss allowance.

Net remeasurement of loss allowance

Comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions, partial repayments and additional draws on existing facilities, inflation, changes in the measurement following a transfer between stages, effects of foreign exchange rate changes, impairment of interest income due to impaired debt instruments and unwinding of the time value discount due to the passage of time.

New financial assets, originated or purchased

Include purchases and originations and reflect the allowance related to assets newly recognized during the period.

Derecognitions and maturities

Reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.

Write-offs

The amount after net remeasurements of loss allowance written off during the period.

30.9.2023

*Impairment loss allowance **	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,678)	(1,612)	(2,937)	(131)	(7,358)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,104)	861	243	-	-
Transfers to Stage 2 (lifetime ECL)	330	(849)	519	-	-
Transfers to Stage 3 (credit impaired financial assets)	57	232	(289)	-	-
Net remeasurement of loss allowance **	1,752	(1,360)	(1,922)	(56)	(1,586)
New financial assets, originated or purchased	(1,292)	(209)	(198)	-	(1,699)
Derecognitions and maturities	546	286	361	-	1,193
Write-offs ***	1	5	470	-	476
Impairment loss allowance ****	(2,388)	(2,646)	(3,753)	(187)	(8,974)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,391)	(2,646)	(3,753)	(187)	(8,977)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Consolidated Financial Statements.

** During the period the loss allowance balance for stage 3 loans was raised by ISK 407 million due to unwinding of interest income.

*** During the period an amount of ISK 465 million was written off but is still subject to enforcement activities subject to Icelandic law.

**** Loss allowance for all assets other than cash, bonds and loans to credit institutions.

Amounts are in ISK millions

45. Credit risk, continued

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,327)	(1,519)	(2,932)	(131)	(6,909)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,033)	790	243	-	-
Transfers to Stage 2 (lifetime ECL)	317	(836)	519	-	-
Transfers to Stage 3 (credit impaired financial assets)	55	230	(285)	-	-
Net remeasurement of loss allowance	1,529	(1,301)	(1,926)	(56)	(1,754)
New financial assets, originated or purchased	(1,127)	(166)	(198)	-	(1,491)
Derecognitions and maturities	427	252	361	-	1,040
Write-offs	1	5	470	-	476
Total loss allowance for loans to customers	(2,158)	(2,545)	(3,748)	(187)	(8,638)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(446)	(287)	(1,043)	-	(1,776)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(409)	297	112	-	-
Transfers to Stage 2 (lifetime ECL)	84	(111)	27	-	-
Transfers to Stage 3 (credit impaired financial assets)	15	136	(151)	-	-
Net remeasurement of loss allowance	327	(631)	(518)	-	(822)
New financial assets, originated or purchased	(159)	(64)	(38)	-	(261)
Derecognitions and maturities	89	70	155	-	314
Write-offs	1	4	153	-	158
Total loss allowance for loans to individuals	(498)	(586)	(1,303)	-	(2,387)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,881)	(1,232)	(1,889)	(131)	(5,133)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(624)	493	131	-	-
Transfers to Stage 2 (lifetime ECL)	233	(725)	492	-	-
Transfers to Stage 3 (credit impaired financial assets)	40	94	(134)	-	-
Net remeasurement of loss allowance	1,202	(670)	(1,408)	(56)	(932)
New financial assets, originated or purchased	(968)	(102)	(160)	-	(1,230)
Derecognitions and maturities	338	182	206	-	726
Write-offs	-	1	317	-	318
Total loss allowance for loans to corporates	(1,660)	(1,959)	(2,445)	(187)	(6,251)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(351)	(93)	(5)	-	(449)
Transfers					
Transfers to 12-month ECL	(71)	71	-	-	-
Transfers to lifetime ECL	13	(13)	-	-	-
Transfers to credit impaired	2	2	(4)	-	-
Net remeasurement of loss allowance	223	(59)	4	-	168
New financial commitments originated	(165)	(43)	-	-	(208)
Derecognitions and maturities	119	34	-	-	153
Total loss allowance for loan commit., guarantees, unused facilities	(230)	(101)	(5)	-	(336)

Amounts are in ISK millions

45. Credit risk, continued

31.12.2022

Impairment loss allowance *	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,606)	(1,897)	(4,824)	(1)	(13,044)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,213)	929	284	-	-
Transfers to Stage 2 (lifetime ECL)	310	(891)	581	-	-
Transfers to Stage 3 (credit impaired financial assets)	42	169	(211)	-	-
Net remeasurement of loss allowance **	1,178	(121)	(1,065)	1	2,048
New financial assets, originated or purchased	(2,192)	(265)	(1,048)	(131)	(2,670)
Derecognitions and maturities	795	457	2,120	(166)	2,570
Write-offs ***	1	7	1,226	166	2,768
Impairment loss allowance ******	(2,685)	(1,612)	(2,937)	(131)	(8,328)
Impairment loss allowances for assets only carrying 12-month ECL	(6)	-	-	-	(13)
Total impairment loss allowance	(2,691)	(1,612)	(2,937)	(131)	(8,341)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Condensed Consolidated Interim Financial Statements.

** During the period the loss allowance balance for stage 3 loans was raised by ISK 468 million due to unwinding of interest income.

*** During the period an amount of ISK 2,059 million was written off but is still subject to enforcement activities subject to Icelandic law.

**** Loss allowance for all assets other than cash, bonds and loans to credit institutions.

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,313)	(1,806)	(4,480)	(1)	(7,600)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,044)	760	284	-	-
Transfers to Stage 2 (lifetime ECL)	289	(870)	581	-	-
Transfers to Stage 3 (credit impaired financial assets)	41	168	(209)	-	-
Net remeasurement of loss allowance	921	41	(777)	1	186
New financial assets, originated or purchased	(1,683)	(196)	(1,048)	(131)	(3,058)
Derecognitions and maturities	454	377	1,491	(166)	2,156
Write-offs	1	7	1,226	166	1,400
Total loss allowance for loans to customers	(2,334)	(1,519)	(2,932)	(131)	(6,916)

Impairment loss allowance for loans to customers - Individuals					
Balance at the beginning of the year	(492)	(246)	(1,151)	(1)	(1,890)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(525)	326	199	-	-
Transfers to Stage 2 (lifetime ECL)	92	(148)	56	-	-
Transfers to Stage 3 (credit impaired financial assets)	18	138	(156)	-	-
Net remeasurement of loss allowance	581	(378)	(474)	1	(270)
New financial assets, originated or purchased	(241)	(74)	(75)	-	(390)
Derecognitions and maturities	121	86	272	-	479
Write-offs	1	7	286	-	294
Total loss allowance for loans to individuals	(445)	(289)	(1,043)	-	(1,777)

Amounts are in ISK millions

45. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loans to customers - Corporates					
Balance at the beginning of the year	(821)	(1,560)	(3,329)	-	(5,710)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(520)	434	85	-	(1)
Transfers to Stage 2 (lifetime ECL)	197	(722)	525	-	-
Transfers to Stage 3 (credit impaired financial assets)	23	29	(53)	-	(1)
Net remeasurement of loss allowance	340	419	(303)	-	456
New financial assets, originated or purchased	(1,441)	(123)	(973)	(131)	(2,668)
Derecognitions and maturities	333	291	1,219	(166)	1,677
Write-offs	-	-	940	166	1,106
Total loss allowance for loans to corporates	(1,889)	(1,232)	(1,889)	(131)	(5,141)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(293)	(91)	(344)	-	(728)
Transfers					
Transfers to 12-month ECL	(169)	169	-	-	-
Transfers to lifetime ECL	21	(21)	-	-	-
Transfers to credit impaired	1	1	(2)	-	-
Net remeasurement of loss allowance	257	(162)	(288)	-	(193)
New financial commitments originated	(509)	(69)	-	-	(578)
Derecognitions and maturities	341	80	629	-	1,050
Total loss allowance for loan commit., guarantees, unused facilities	(351)	(93)	(5)	-	(449)

Macroeconomic forecast

The calculation of expected credit losses under IFRS 9 uses forward-looking information in the form of scenarios where the development of macro-economic variables is predicted. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios: base case 60%, pessimistic 30% and optimistic 10% (31.12.2022: base case 65%, pessimistic 25% and optimistic 10%). The macroeconomic forecast and scenario probability weights is done by the Bank's Chief Economist and approved by the Bank's Executive Risk Committee. The following table shows values used for IFRS 9 impairment calculations.

	Base case		
	2023	2024	2025
Unemployment rate	3.6%	4.1%	4.0%
Housing prices	5.0%	1.0%	3.3%
Private consumption	2.8%	2.3%	2.8%
GDP	3.9%	2.3%	2.7%

	Optimistic			Pessimistic		
	2023	2024	2025	2023	2024	2025
Unemployment rate	3.2%	3.1%	3.7%	4.6%	6.0%	5.3%
Housing prices	6.5%	4.5%	6.3%	3.0%	-5.1%	1.3%
Private consumption	4.4%	4.6%	2.5%	1.0%	-1.4%	2.3%
GDP	4.7%	4.1%	3.3%	1.9%	-1.3%	2.9%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 4, Significant accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 1.5 billion, ISK 3.3 billion and ISK 9.7 billion for the optimistic, base case and pessimistic scenarios, respectively. At year end 2022 the corresponding calculated loss allowance was ISK 1.8 billion, ISK 3.1 billion and ISK 8.4 billion, respectively.

Amounts are in ISK millions

45. Credit risk, continued

Forbearance

The Group grants forbearance measures to facilities where the customer is facing temporary difficulties and needs measures which would not generally be available to customers. These forbearance measures include refinancing and renegotiations of loan terms, including loan extensions and adjustment of the payment schedule. After forbearance measures have been granted, the facility is classified as forborne for a period of at least 24 months. The forborne classification is not removed until the customer has demonstrated repayment capacity.

	Stage 1		Stage 2		Stage 3		Total	
30.09.2023	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance
Individuals	2,618	(15)	3,891	(111)	3,106	(376)	9,615	(502)
Companies	3,537	(30)	12,138	(763)	2,368	(479)	18,043	(1,272)
Tourism	2,165	(24)	10,711	(752)	1,351	(249)	14,227	(1,025)
Other than tourism	1,372	(6)	1,427	(11)	1,017	(230)	3,816	(247)
Total	6,155	(45)	16,029	(874)	5,474	(855)	27,658	(1,774)
31.12.2022								
Individuals	-	-	7,948	(42)	2,254	(257)	10,202	(299)
Companies	-	-	16,815	(606)	3,529	(1,259)	20,344	(1,865)
Tourism	-	-	13,100	(563)	2,511	(1,065)	15,611	(1,628)
Other than tourism	-	-	3,715	(43)	1,018	(194)	4,733	(237)
Total	-	-	24,763	(648)	5,783	(1,516)	30,546	(2,164)

Amounts are in ISK millions

46. Market risk

Market risk is the current or prospective risk that changes in financial market prices and rates adversely affect the Group's earnings and equity due to changes to the value and cash flows of its assets and liabilities.

Market risk arises from imbalances in the Group's balance sheet as well as in market making activities and position taking in bonds, equities, currencies, derivatives and other commitments which are marked to market.

The Group tracks market risk closely and separates its exposures for the trading book and the banking book. Market risk in the trading book arises from market making activities and non-strategic derivatives positions arising from the Group's operations of meeting customers' investment and risk management needs. Market risk in the banking book arises from various mismatches in assets and liabilities in e.g. currencies, maturities and interest rates. Market risk in the trading book and in the banking book is managed separately.

Market risk allowance is set by the Board in the Bank's risk appetite and limit frameworks are in place for each trading desk. The Asset and Liability Committee (ALCO) is responsible for managing the Bank's overall market risk. Risk Management is responsible for measuring and monitoring market risk exposure, and reporting the exposure, usage and limit breaches.

The Group manages and limits market risk exposure in accordance with its risk appetite and strategic goals for net profit.

Interest rate risk

Interest rate risk arises from the possibility that changes in market rates adversely affect net interest income and fair value of interest-bearing instruments on the Group's balance sheet. The Group's operations are subject to interest rate risk due to mismatches in the fixing of interest rates between assets and liabilities, resulting in a repricing risk for the Group. The Group also faces interest basis risk between interest-bearing assets and interest-bearing liabilities due to different types of floating-rate indices in different currencies.

The Group's interest rate risk for foreign currencies is limited as foreign denominated assets predominantly have short fixing periods and the Group generally applies fair value hedging for its foreign denominated fixed rate borrowings. For domestic rates, longer fixing periods are more common.

At the beginning of the Covid-19 pandemic, the Icelandic Central Bank lowered interest rates to historic lows which resulted in sharp increase in demand for non-indexed mortgages with floating rates in 2020 and first half of 2021. Inflation in Iceland, currently at 8.0%, has exceeded the Central Bank’s target of 2.5% since June 2020 and is expected to remain over the target throughout 2023. The Central Bank has responded by increasing interest rates by 8.5% from its lowest value of 0.75% at the start of 2021. From the second half of 2021 to the start of 2022, this resulted in a sharp increase in demand for non-indexed fixed rate mortgages with corresponding increase in interest rate risk. The risk exposure receded over the course of 2022 and into 2023, as the duration of these loans shortens and the demand for indexed loans resumes.

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 26, and are therefore different from the amounts shown in these Condensed Consolidated Interim Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

30.09.2023 *Assets*	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	80,288	-	-	-	-	80,288
Loans to credit institutions	51,302	-	-	-	-	51,302
Loans to customers	776,005	131,707	215,374	3,408	-	1,126,494
Bonds and debt instruments	114,651	42,918	7,280	8,552	3,657	177,058
Bonds and debt instruments used for hedging		-	544	1,257	878	2,679
Derivatives	121,151	22,923	220,985	-	-	365,059
Assets	1,143,397	197,548	444,183	13,217	4,535	1,802,880
Liabilities						
Due to credit institutions and Central Bank	13,144	-	-	-	-	13,144
Deposits	801,153	5,178	-	-	-	806,331
Derivatives	269,575	83,420	8,247	-	-	361,242
Borrowings	21,141	34,952	286,795	40,828	11,690	395,406
Subordinated liabilities	6,000	3,720	23,103	12,228	-	45,051
Liabilities	1,111,013	127,270	318,145	53,056	11,690	1,621,174
Net interest gap	32,384	70,278	126,038	(39,839)	(7,155)	181,706

Amounts are in ISK millions

46. Market risk, continued

31.12.2022 *Assets*	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	114,118	-	-	-	-	114,118
Loans to credit institutions	45,501	-	-	-	-	45,501
Loans to customers	679,615	100,734	234,246	3,076	-	1,017,671
Bonds and debt instruments	79,754	43,433	7,181	5,682	2,124	138,174
Bonds and debt instruments used for hedging	-	23	1,890	664	1,313	3,890
Derivatives	127,576	71,983	231,337	-	-	430,896
Assets	1,046,564	216,173	474,654	9,422	3,437	1,750,250
Liabilities						
Due to credit institutions and Central Bank	11,697	-	-	-	-	11,697
Deposits	753,439	1,922	-	-	-	755,361
Derivatives	123,579	292,009	13,445	-	-	429,033
Borrowings	35,373	3,411	298,896	32,446	11,300	381,426
Subordinated liabilities	-	6,819	29,387	12,104	-	48,310
Liabilities	924,088	304,161	341,728	44,550	11,300	1,625,827
Net interest gap	122,476	(87,988)	132,926	(35,128)	(7,863)	124,423

Sensitivity analysis of interest rate risk

The following table shows the sensitivity of the Group's net present value (NPV) of interest-bearing assets and liabilities and variation of annual net interest income (NII), due to changes in interest rates by currencies. The variation is calculated on the basis of simultaneous parallel shifts upwards or downwards of yield curves. The choice of shifts is not an estimate of risk likelihood. Behavioral maturities are taken into account in the NPV calculations, including prepayment likelihood and expected behavior of non-maturing deposits. The change to NII is however primarily based on contractual interest rate adjustments where it is simplistically assumed that all rates are equally sensitive to the presumed change in market rates. Behavioral maturity assumptions are however applied for non-maturing deposits and a zero percentage floor is applied to deposit interest rates. Changes were made to the NII calculations in 2022, for the reference date. The interest rate shifts in both directions take account of the floor on interest rates so that when the floor has an effect then the shifts are restricted.

	30.09.2023		31.12.2022	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(4,159)	3,192	(1,994)	2,782
ISK, Non index-linked	(1,456)	1,424	(1,106)	886
Foreign currencies	(293)	297	(36)	32
NPV change in the trading book				
ISK, CPI index-linked	322	(293)	173	(156)
ISK, Non index-linked	311	(286)	211	(199)
Foreign currencies	(14)	14	(38)	38
NII change				
ISK, CPI index-linked	(1,515)	1,515	(947)	947
ISK, Non index-linked	(419)	409	(2,022)	981
Foreign currencies	(121)	121	(83)	71

Amounts are in ISK millions

46. Market risk, continued

Indexation risk

A significant part of the Group's balance sheet is linked to the Icelandic Consumer Price Index (CPI). For index-linked instruments, principal and interest payments are adjusted proportionally to the CPI. The Group is exposed to indexation risk as indexed assets exceed indexed liabilities. Financial instruments held for liquidity or market making purposes are assumed to be on demand.

Book value and maturity profile of indexed assets and liabilities

30.09.2023	Up to 1	1 to 5	Over 5	
Assets, CPI index-linked	year	years	years	Total
Loans to customers	11,592	61,832	256,112	329,536
Financial instruments	8,077	4,540	9,905	22,522
Assets, CPI index-linked	19,669	66,372	266,017	352,058
Liabilities, CPI index-linked				
Deposits	108,238	16,047	3,875	128,160
Borrowings	366	72,689	54,428	127,483
Subordinated liabilities	-	-	16,843	16,843
Other	919	251	1,444	2,614
Off-balance sheet position	2,047	174	-	2,221
Liabilities, CPI index-linked	111,570	89,161	76,590	277,321
Net on-balance sheet position	(89,854)	(22,615)	189,427	76,958
Net off-balance sheet position	(2,047)	(174)	-	(2,221)
CPI balance	(91,901)	(22,789)	189,427	74,737
CPI balance for prudential consolidation, excluding insurance operations *	(91,329)	(27,077)	179,880	61,473

31.12.2022				
Assets, CPI index-linked				
Loans to customers	8,525	37,589	210,878	256,992
Financial instruments	5,208	3,435	9,684	18,327
Assets, CPI index-linked	13,733	41,024	220,562	275,319
Liabilities, CPI index-linked				
Deposits	89,217	20,240	3,493	112,950
Borrowings	336	67,836	45,661	113,833
Subordinated liabilities	-	-	15,735	15,735
Other	1,121	251	1,393	2,765
Off-balance sheet position	1,889	1,520	-	3,409
Liabilities, CPI indexed linked	92,563	89,847	66,282	248,692
Net on-balance sheet position	(76,941)	(47,303)	154,280	30,036
Net off-balance sheet position	(1,889)	(1,520)	-	(3,409)
CPI balance	(78,830)	(48,823)	154,280	26,627
CPI balance for prudential consolidation, excluding insurance operations *	(77,727)	(52,007)	144,954	15,220

* Consolidated situation as per EU Regulation No 575/2013 (CRR)

Amounts are in ISK millions

46. Market risk, continued

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Group is exposed to currency risk through a currency mismatch between assets and liabilities. Net exposures per currency are monitored centrally in the Bank.

Breakdown of assets and liabilities by currency

30.09.2023

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	78,983	475	330	108	97	33	262	80,288
Loans to credit institutions	998	21,359	22,789	1,834	883	761	2,678	51,302
Loans to customers	946,389	113,384	53,142	1,719	25,971	1,627	1,241	1,143,473
Financial instruments	98,181	68,236	35,850	184	357	16,544	1,660	221,012
Other financial assets	8,496	11,313	63	11	34	(5)	13	19,925
Financial assets	1,133,047	214,767	112,174	3,856	27,342	18,960	5,854	1,516,000
Financial liabilities								
Due to credit inst. and Central Bank	2,804	5,263	5,028	-	-	-	49	13,144
Deposits	678,344	34,641	80,688	3,453	4,764	2,244	2,197	806,331
Financial liabilities at fair value	1,306	13,126	2,168	4	-	302	2	16,908
Other financial liabilities	9,917	2,456	1,275	462	660	306	373	15,448
Borrowings	182,902	205,249	-	-	-	13,021	6,723	407,895
Subordinated liabilities	20,037	737	12,931	-	-	3,948	9,200	46,853
Financial liabilities	895,310	261,472	102,090	3,919	5,424	19,821	18,544	1,306,579
Net on-balance sheet position	237,737	(46,705)	10,084	(63)	21,918	(861)	(12,690)	
Net off-balance sheet position	(28,043)	48,312	(11,254)	(65)	(21,895)	637	12,308	
Net position *	209,695	1,607	(1,170)	(128)	23	(224)	(382)	
Non-financial assets								
Investment property	9,461	-	-	-	-	-	-	9,461
Investments in associates	844	-	-	-	-	-	-	844
Intangible assets	8,289	-	-	-	-	-	-	8,289
Tax assets	427	-	-	-	-	-	-	427
Assets and disposal groups held for sale	61	-	-	-	-	-	-	61
Other non financial assets	5,269	219	77	20	-	14	(12)	5,587
Non-financial assets	24,351	219	77	20	-	14	(12)	24,669
Non-financial liabilities and equity								
Tax liabilities	13,499	-	-	-	-	-	-	13,499
Other non-financial liabilities	28,023	48	(40)	-	1	-	(1)	28,031
Shareholders' equity	191,899	-	-	-	-	-	-	191,899
Non-controlling interest	661	-	-	-	-	-	-	661
Non-financial liabilities and equity	234,082	48	(40)	-	1	-	(1)	234,090
Management reporting of currency risk **	(36)	1,778	(1,053)	(108)	22	(210)	(393)	

* The net position of the currency risk is presented in accordance with IFRS.

** The management monitors currency risk with more assets and liabilities underlying as it is considered to be a more accurate measurement of the Group's currency exposure. The net position, as seen by the management, is the position used for managing the currency imbalance.

Amounts are in ISK millions

46. Market risk, continued

31.12.2022*

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	112,744	593	257	127	85	43	269	114,118
Loans to credit institutions	1,414	11,884	23,809	3,444	553	1,270	3,127	45,501
Loans to customers	888,036	114,378	51,053	1,551	27,965	146	1,628	1,084,757
Financial instruments	107,687	62,878	3,443	88	372	18,817	44	193,329
Other financial assets	4,292	274	123	11	4	-	1	4,705
Financial assets	1,114,173	190,007	78,685	5,221	28,979	20,276	5,069	1,442,410
Financial liabilities								
Due to credit inst. and Central Bank	9,777	252	231	9	2	-	1,426	11,697
Deposits	662,541	35,413	46,102	3,058	3,023	3,099	2,125	755,361
Financial liabilities at fair value	1,784	16,970	2,008	1	1	195	38	20,997
Other financial liabilities	2,227	1,234	1,775	257	223	589	222	6,527
Borrowings	158,071	216,045	-	-	-	15,303	3,144	392,563
Subordinated liabilities	18,891	772	13,396	-	-	4,383	9,889	47,331
Financial liabilities	853,291	270,686	63,512	3,325	3,249	23,569	16,844	1,234,476
Net on-balance sheet position	261,257	(80,679)	15,173	1,896	25,730	(3,293)	(11,775)	
Net off-balance sheet position	(51,950)	81,095	(15,967)	(1,950)	(25,649)	3,161	11,260	
Net position **	209,307	416	(794)	(54)	81	(132)	(515)	
Non-financial assets								
Investment property	7,862	-	-	-	-	-	-	7,862
Investments in associates	787	-	-	-	-	-	-	787
Intangible assets	8,783	-	-	-	-	-	-	8,783
Tax assets	135	-	-	-	-	-	-	135
Assets and disposal groups held for sale	61	-	-	-	-	-	-	61
Other non financial assets	5,275	128	66	86	-	11	6	5,572
Non-financial assets	22,903	128	66	86	-	11	6	23,200
Non-financial liabilities and equity								
Tax liabilities	10,303	-	-	-	-	-	-	10,303
Other non-financial liabilities	32,816	51	6	-	1	-	-	32,874
Shareholders' equity	187,307	-	-	-	-	-	-	187,307
Non-controlling interest	649	-	-	-	-	-	-	649
Non-financial liabilities and equity	231,075	51	6	-	1	-	-	231,133
Management reporting of currency risk ***	1,135	493	(734)	32	80	(121)	(509)	

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** The net position of the currency risk is presented in accordance with IFRS.

*** The management monitors currency risk with more assets and liabilities underlying as it is considered to be a more accurate measurement of the Group's currency exposure. The net position, as seen by the management, is the position used for managing the currency imbalance.

Amounts are in ISK millions

46. Market risk, continued

Sensitivity analysis for currency risk

The table below indicates the currencies to which the Group had significant exposure at the end of the year. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ISK, with all other variables held constant, on the Consolidated Income Statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the ISK would have resulted in an equivalent but opposite impact (+10% denotes a depreciation of the ISK).

	30.09.2023		31.12.2022	
Currency	-10%	+10%	-10%	+10%
EUR	(178)	178	(49)	49
USD	105	(105)	73	(73)
GBP	11	(11)	(3)	3
DKK	(2)	2	(8)	8
NOK	21	(21)	12	(12)
Other	39	(39)	51	(51)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 32 and 25 respectively.

Sensitivity analysis for equity risk

The analysis below calculates the effect of a reasonable possible movement in equity prices that affect the Consolidated Financial Statements. A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a potential net increase. Investments in associates are excluded. The result of value-at-risk calculations for the trading book are shown in the Group's Pillar 3 Risk Disclosures.

	30.09.2023		31.12.2022	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(183)	183	(165)	165
Banking book - listed	(313)	313	(477)	477
Banking book - unlisted	(418)	418	(430)	430

Derivatives

Derivatives are a part of the Group's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Group's risk appetite and monitored by Risk Management on a daily basis. The Group also uses derivatives to hedge market risk on its balance sheet. Note 26 provides a breakdown of the Group's derivative positions by type.

Amounts are in ISK millions

47. Liquidity and Funding risk

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

A primary source of funding for the Group is deposits from individuals, businesses and financial undertakings. The Group's liquidity risk stems from the fact that the maturity of loans exceeds the maturity of deposits, of which 72% is on-demand.

Liquidity risk is one of the Group's most significant risk factors and a great deal of emphasis is placed on managing it. The Asset and Liability Committee (ALCO) is responsible for managing liquidity and funding risk within the risk appetite set by the Board of Directors. The Bank's Treasury manages liquidity positions on a day-to-day basis. Risk Management measures, monitors and reports the Bank's liquidity and funding risk on a daily basis.

The Group's strategy in relation to liquidity risk is to actively manage its liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The Group seeks to maintain a stable funding profile which supports its business strategy and liquidity profile, ensuring that the Group can withstand periods of market turbulence, without reliance on volatile funding or external support.

Maturity analysis of assets and liabilities

The maturity analysis is based on contractual cash flows. The amounts are not discounted and include future interest payments, but CPI-linked amounts do not include accrued indexation due to future inflation. The total amount for each item is higher than the corresponding amount on the Group's balance sheet, since the amounts on the balance sheet are either at amortized cost and do not contain future interest payments, or at fair value where future cash flows have been discounted.

Contractual cash flows differ in many ways from expected cash flows. The difference is most significant for deposits on the liability side and bonds on the asset side. Deposits are always assumed to be withdrawn at the earliest possible date, despite the fact that a large part of the deposit base is considered to be stable funding where behavioral maturity considerably exceeds contractual maturity. Furthermore, although contractual cash flows are presented for bonds held by the Bank, a large portion of the bonds are a part of the Bank's liquidity buffer and are considered to be highly liquid and can be sold or pledged to the Central Bank of Iceland and thus converted into cash at very short notice.

Contractual cash flow of assets and liabilities

30.09.2023	On	Up to 3	3-12	1-5	Over 5	With no		Book
Financial assets	demand	months	months	years	years	maturity	Total	value
Cash and balances with CB	14,577	49,885	16,356	-	-	-	80,818	80,288
Loans to credit institutions	37,028	14,255	19	-	-	-	51,302	51,302
Loans to customers	5,487	168,870	147,063	534,961	1,402,437	-	2,258,818	1,143,473
Financial instruments	11,015	113,266	39,103	15,846	14,890	31,612	225,732	221,012
Derivatives - assets leg	-	*64,386*	*30,072*	*26,359*	-	-	*120,817*	*105,345*
Derivatives - liabilities leg	-	*(56,309)*	*(30,892)*	*(22,919)*	-	-	*(110,120)*	*(95,683)*
Other financial instruments	*11,015*	*105,189*	*39,923*	*12,406*	*14,890*	*31,612*	*215,035*	*211,350*
Other financial assets	407	17,313	531	1,661	-	-	19,912	19,912
Financial assets	68,514	363,589	203,072	552,468	1,417,327	31,612	2,636,582	1,515,987
Financial liabilities								
Due to credit inst. and Central Bank	9,611	3,618	-	-	-	-	13,229	13,144
Deposits	584,395	182,591	21,098	16,437	4,379	-	808,900	806,331
Financial liabilities at fair value	-	5,089	5,018	20,278	-	-	30,385	16,908
Derivatives - assets leg	-	*(31,579)*	*(4,038)*	*(4,143)*	-	-	*(39,760)*	*(36,774)*
Derivatives - liabilities leg	-	*36,588*	*9,056*	*24,421*	-	-	*70,065*	*53,454*
Short position in bonds	-	*80*	-	-	-	-	*80*	*228*
Other financial liabilities	81	14,005	659	701	-	-	15,446	15,447
Borrowings	-	10,419	46,187	335,730	59,108	-	451,444	407,895
Subordinated liabilities	-	953	2,478	21,997	38,750	-	64,178	46,853
Financial liabilities	594,087	216,675	75,440	395,143	102,237	-	1,383,582	1,306,578
Net position for assets and liab.	(525,573)	146,914	127,632	157,325	1,315,090	31,612	1,253,000	209,409
Off-balance sheet items								
Financial guarantees	-	1,223	9,268	4,453	7,650	-	22,594	22,594
Unused overdraft	-	64,506	-	-	-	-	64,506	64,506
Undrawn loan commitments	-	53,486	18,889	10,016	1,159	-	83,550	83,550
Off-balance sheet items	-	119,215	28,157	14,469	8,809	-	170,650	170,650
Net contractual cash flow	(525,573)	27,699	99,475	142,856	1,306,281	31,612	1,082,350	38,759

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

31.12.2022* *Financial assets*	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Cash and balances with CB	18,183	88,515	7,531	-	-	-	114,229	114,118
Loans to credit institutions	23,904	21,597	31	-	-	-	45,532	45,501
Loans to customers	2,282	139,996	147,972	470,458	1,138,049	-	1,898,757	1,084,757
Financial instruments	8,527	77,677	43,773	12,384	15,775	41,749	199,885	193,329
Derivatives - assets leg	-	*76,104*	*22,301*	*32,447*	-	-	*130,852*	*123,547*
Derivatives - liabilities leg	-	*(69,826)*	*(19,032)*	*(29,503)*	-	-	*(118,361)*	*(114,031)*
Other financial instruments	*8,527*	*71,399*	*40,504*	*9,440*	*15,775*	*41,749*	*187,394*	*183,813*
Other financial assets	488	858	2,611	763	-	-	4,720	4,720
Financial assets	53,384	328,643	201,918	483,605	1,153,824	41,749	2,263,123	1,442,425
Financial liabilities								
Due to credit inst. and Central Bank	7,233	4,484	-	-	-	-	11,717	11,697
Deposits	545,764	102,796	84,239	20,568	3,795	-	757,162	755,361
Financial liabilities at fair value	-	1,647	2,973	18,487	-	-	23,107	20,997
Derivatives - assets leg	-	*(25,891)*	*(25,670)*	*(12,131)*	-	-	*(63,692)*	*(62,420)*
Derivatives - liabilities leg	-	*27,527*	*28,643*	*30,618*	-	-	*86,788*	*83,406*
Short position in bonds used for hedging	-	*11*	-	-	-	-	*11*	*11*
Other financial liabilities	109	5,121	343	954	-	-	10,099	6,527
Borrowings	-	21,755	14,169	338,265	50,794	-	424,983	392,563
Subordinated liabilities	-	1,402	1,634	19,685	36,111	-	58,832	47,331
Financial liabilities	553,106	137,205	103,358	397,959	90,700	-	1,285,900	1,234,476
Net position for assets and liab.	(499,722)	191,438	98,560	85,646	1,063,124	41,749	977,223	207,949
Off-balance sheet items								
Financial guarantees	-	2,194	10,024	2,058	6,036	-	20,312	20,312
Unused overdraft	-	57,259	-	-	-	-	57,259	57,259
Undrawn loan commitments	-	47,464	27,308	27,686	3,430	-	105,888	105,888
Off-balance sheet items	-	106,917	37,332	29,744	9,466	-	183,459	183,459
Net contractual cash flow	(499,722)	84,521	61,228	55,902	1,053,658	41,749	793,764	24,490

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the amount of available stable funding (ASF) with the Group against the required stable funding (RSF) as per the definition of the Central Bank of Iceland rules No. 750/2021. In general, RSF is determined by applying different weights to different asset classes depending on the level of liquidity. ASF however is calculated by applying weights to the Group's liabilities depending on maturity and stickiness. The NSFR in total shall exceed 100%.

The NSFR calculations are based solely on figures for the parent company. The Bank's subsidiaries have negligible impact on the funding ratio.

	30.9.2023	31.12.2022
Available stable funding	1,182,579	1,109,623
Required stable funding	971,343	931,991
Net stable funding ratio	122%	119%

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) is one of the standards introduced in the Basel III Accord. The LCR is the result of a stress test that is designed to ensure that banks have the necessary assets on hand to withstand short-term liquidity disruptions. More precisely, LCR represents the balance between highly liquid assets and the expected net cash outflow of the Group in the next 30 days under stressed conditions.

To qualify as highly liquid assets under the LCR rules, assets must be non-pledged, liquid and easily priced on the market, traded on an active market and not issued by the Group or related entities.

As of January 2023 rules no. 266/2017 were replaced with rules no. 1520/2022 which reference the EU LCR regulations directly. The minimum requirement for the total LCR remains at 100% but the requirement for the LCR in ISK changed to 50% and there is no longer any minimum requirement for the aggregate position in all foreign currencies. Instead the bank is required to maintain an 80% minimum for the LCR in EUR.

The following table shows the breakdown for the Group's LCR calculations.

30.09.2023	ISK	EUR	Total
Liquid assets level 1 *	99,561	74,432	225,025
Liquid assets level 2	23,777	-	23,777
Liquid assets	123,338	74,432	248,802
Deposits	137,384	9,158	187,470
Borrowings	2,799	36	2,915
Other cash outflows	9,687	9,648	14,500
Cash outflows	149,870	18,842	204,885
Short-term deposits with other banks **	-	12,369	29,092
Other cash inflows	30,880	3,304	36,837
Cash inflows	30,880	15,673	65,929
Liquidity coverage ratio (LCR) * **	104%	1580%	179%

31.12.2022	ISK	FX	Total
Liquid assets level 1 *	139,562	73,729	213,291
Liquid assets level 2	23,956	-	23,956
Liquid assets	163,518	73,729	237,247
Deposits	155,507	34,631	190,138
Borrowings	580	73	653
Other cash outflows	9,868	6,266	13,949
Cash outflows	165,955	40,970	204,740
Short-term deposits with other banks **	-	23,388	23,388
Other cash inflows	23,854	7,794	31,648
Cash inflows	23,854	31,182	55,036
Liquidity coverage ratio (LCR) * **	115%	720%	158%

* Level 1 assets include the Group's cash and balances with the Central Bank, domestic bonds eligible as collateral at the Central Bank and foreign government bonds which receive 100% weight.

** Short-term deposits with other banks are defined as cash inflows in LCR calculations.

*** LCR is defined as: LCR = Weighted liquid assets / (weighted cash outflows - weighted cash inflows) where weighted cash inflows are capped at 75% of weighted cash outflows.

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Composition of liquid assets

The following table shows the composition of the Group's liquidity buffer.

30.09.2023	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	78,983	330	475	500	80,288
Short-term deposits with financial institutions	-	10,953	12,369	5,770	29,092
Domestic bonds eligible as collateral with Central Bank	43,689	-	-	-	43,689
Foreign government bonds	-	34,827	73,957	15,370	124,154
Liquidity reserve	122,672	46,110	86,801	21,640	277,223
31.12.2022					
Cash and balances with Central Bank	112,744	257	593	524	114,118
Short-term deposits with financial institutions	-	14,125	4,456	4,807	23,388
Domestic bonds eligible as collateral with Central Bank	50,116	-	-	-	50,116
Foreign government bonds	-	-	55,915	16,435	72,350
Liquidity reserve	162,860	14,382	60,964	21,766	259,972

LCR deposit categorization

As per the LCR methodology, the Group's deposit base is split into different categories depending on customer type. A second categorization is used where term deposits refer to deposits with residual maturity greater than 30 days. Deposits that can be withdrawn within 30 days are marked stable if the customer has a business relationship with the Group and the amount is covered by the Deposit Insurance Scheme. Other deposit funds are considered less stable. A weight is attributed to each category, representing the expected outflow under stressed conditions, i.e. the level of stickiness.

The table below shows the breakdown of the Group's deposit base according to the LCR categorization, with the associated weighted average of the stressed outflow weights.

LCR categorization - amounts and LCR outflow weights	Deposits maturing within 30 days					
30.09.2023	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	111,591	11%	125,435	5%	120,869	357,895
Small and medium enterprises	105,257	10%	18,372	5%	20,999	144,628
Operational relationship	10,484	25%	-	5%	-	10,484
Corporations	120,133	40%	15,723	20%	19,886	155,742
Sovereigns, central banks and PSE	33,461	40%	18	-	924	34,403
Pension funds	50,588	100%	-	-	13,390	63,978
Domestic financial entities	39,891	100%	-	-	10,458	50,349
Foreign financial entities	1,996	100%	-	-	-	1,996
Total	473,401		159,548		186,526	819,475
31.12.2022						
Individuals	99,019	10%	117,733	5%	108,788	325,540
Small and medium enterprises	102,870	10%	16,972	5%	10,155	129,997
Operational relationship	14,801	25%	-	5%	-	14,801
Corporations	108,565	40%	15,493	20%	10,907	134,965
Sovereigns, central banks and PSE	43,869	40%	-	-	778	44,647
Pension funds	56,987	100%	-	-	14,561	71,548
Domestic financial entities	39,740	100%	-	-	4,913	44,653
Foreign financial entities	908	100%	-	-	-	908
Total	455,538		150,199		161,321	767,058

* Here term deposits refer to deposits with maturities greater than 30 days.

Amounts are in ISK millions

48. Capital management

Capital adequacy

The focus of capital management at the Group is to normalize the capital structure in the medium term and consequently maintain the Group's capitalization comfortably above regulatory requirements, including the Pillar 2 and combined capital buffer requirements.

The Group's capital ratios are calculated in accordance with the Icelandic Financial Undertakings Act No. 161/2002 with later changes, through which CRD V / CRR II have been adopted. The Group applies the standardized approach to calculate capital requirements for credit risk, including counterparty credit risk, credit valuation adjustment risk, market risk and operational risk.

The Group's consolidated situation as stipulated in CRR is the Group's accounting consolidation excluding insurance subsidiaries, in particular Vördur.

Own funds	30.09.2023	31.12.2022*
Total equity	192,560	187,956
Unaudited interim net earnings	(6,135)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(661)	(649)
Common Equity Tier 1 capital before regulatory adjustments	185,764	187,307
Intangible assets	(7,073)	(6,425)
Additional value adjustments	(247)	(224)
Foreseeable dividend and buyback **	(6,683)	(15,980)
Adjustment under IFRS 9 transitional arrangements as amended	1,041	1,142
Common Equity Tier 1 capital	172,802	165,820
Non-controlling interest eligible for inclusion in T1 capital	115	105
Additional Tier 1 capital	12,932	13,396
Tier 1 capital	185,849	179,321
Tier 2 instruments	33,921	33,935
Tier 2 instruments of financial sector entities (significant investments)	(1,242)	(1,155)
Tier 2 capital	32,679	32,780
Total own funds	218,528	212,101
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	737,824	707,479
Credit risk, securities and other	55,066	56,714
Counterparty credit risk	12,567	14,645
Market risk due to currency imbalance	1,907	1,387
Market risk due to trading book positions	7,165	7,493
Credit valuation adjustment	3,494	6,010
Operational risk	89,166	89,166
Total risk-weighted exposure amount	907,189	882,894
Capital ratios		
CET1 ratio	19.0%	18.8%
Tier 1 ratio	20.5%	20.3%
Capital adequacy ratio	24.1%	24.0%
Total own funds, including interim profit not eligible for inclusion	221,595	212,101
CET1 ratio, including interim profit not eligible for inclusion	19.4%	18.8%
Tier 1 ratio, including interim profit not eligible for inclusion	20.8%	20.3%
Capital adequacy ratio, including interim profit not eligible for inclusion	24.4%	24.0%

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** On 30 September 2023, the deduction consists of 50% of profits as per the Bank's dividend policy. On 31 December 2022, the foreseeable dividend and buyback corresponds to 50% of profits and the remaining part of the buyback authorized by the Central Bank in September 2022.

The Bank has opted to make use of the transitional arrangements for IFRS 9 and Covid-19 in its capital adequacy calculations and this is reflected in the Group's capital ratios. The transitional arrangements increase the capital adequacy ratio by 0.1 percentage points.

Amounts are in ISK millions

48. Capital management, continued

Capital ratios of the parent company	30.09.2023	31.12.2022
CET1 ratio	19.7%	18.8%
Tier 1 ratio	21.1%	20.3%
Capital adequacy ratio	24.7%	23.9%

The following table outlines the implementation of the capital buffer requirements in accordance with the Icelandic Financial Undertakings Act No. 161/2002, as prescribed by the Financial Stability Council (FSC) and approved by the FSA.

Capital buffer requirement, % of REA	30.09.2023	31.12.2022
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	2.0%	2.0%
Systemic risk buffer *	3.0%	3.0%
Countercyclical capital buffer *	2.0%	2.0%
Combined capital buffer requirement	9.5%	9.5%

The Bank carries out an ongoing process, the Internal Capital Adequacy Assessment Process (ICAAP), with the aim to ensure that the Group has in place sufficient risk management processes and systems to identify, manage and measure the Group's total risk exposure. The ICAAP is aimed at identifying and measuring the Group's risk across all risk types and ensure that the Group has sufficient capital in accordance with its risk profile. The FSA supervises the Group, receives the Group's internal estimation on the capital adequacy and sets the Pillar 2R capital requirements for the Group as a whole following the Supervisory Review and Evaluation Process (SREP). The Group's own funds exceed the FSA's SREP requirements.

The Pillar 1 and Pillar 2R capital requirements may comprise 56.25% CET1 capital, 18.75% AT1 capital and 25% Tier 2 capital.

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.2%	1.6%	2.1%
Combined buffer requirement *	9.2%	9.2%	9.2%
Regulatory capital requirement	14.9%	16.8%	19.3%
Available capital	19.0%	20.5%	24.1%

* The Icelandic buffer value shown. In the combined buffer requirement, the effective countercyclical capital buffer is determined by calculating the weighted average of the corresponding buffer levels of each country, the weights being the total risk-weighted exposures for credit risk against counterparties residing in those countries. The systemic risk buffer only applies to domestic exposures and is calculated using the same weighting method.

** The SREP result based on the Group's Financial Statement at 31 December 2022. The Pillar 2R requirement is 2.1% of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur.

Leverage ratio

The leverage ratio is seen as a complementary measure to the risk-based capital ratios. The ratio is calculated on the basis of the Group's consolidated situation as per the CRR, which excludes the Group's insurance subsidiaries. The minimum leverage ratio requirement is 3% as stated in the Icelandic Financial Undertakings Act No. 161/2002.

	30.09.2023	31.12.2022
On-balance sheet exposures	1,490,781	1,415,353
Derivative exposures	23,872	32,118
Securities financing transaction exposures	10,020	10,174
Off-balance sheet exposures	52,682	59,723
Total exposure	1,577,355	1,517,368
Tier 1 capital	185,849	179,321
Leverage ratio	11.8%	11.8%

Amounts are in ISK millions

48. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, as amended, which transposes BRRD I/II into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirements. In October 2023, the Icelandic Resolution Authority (IRA) presented the Group with the MREL requirements based on year-end 2022 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. An MREL subordination requirement has not been implemented in Iceland.

Minimum requirement for own funds and eligible liabilities	30.09.2023	31.12.2022
Own funds	218,528	212,101
Eligible liabilities	160,504	155,667
Own funds and eligible liabilities	379,032	367,768
Combined buffer requirement (CBR)	83,461	82,196
Own funds and eligible liabilities not used for CBR	295,570	285,572
Risk-weighted exposure amount (REA)	907,189	882,894
Own funds and eligible liabilities not used for CBR (% REA)	32.6%	32.3%
MREL requirement (% REA)	20.2%	23.0%
Total exposure measure (TEM)	1,577,355	1,517,368
Own funds and eligible liabilities not used for CBR (% TEM)	18.7%	18.8%
MREL requirement (% TEM)	6.0%	-

Solvency II for insurance subsidiary Vördur		
Excess of assets over liabilities in accordance with Solvency II	9,870	9,175
Subordinated liabilities	1,230	1,169
Foreseeable dividends	-	-
Own funds	11,100	10,344
Solvency capital requirements (SCR)	7,594	7,114
SCR ratio	146.2%	145.4%

The solvency capital requirement for the subsidiary Vördur is calculated in accordance with the Icelandic Insurance Companies Act.

49. Operational risk

Operational risk is the risk of direct or indirect loss, or damage to the Group's reputation resulting from inadequate or failed internal processes or systems, from human error or external events that affect the Group's image and operational earnings.

Each business unit within the Group is primarily responsible for taking and managing their own operational risk. Risk management is responsible for developing and maintaining tools for identifying, measuring, monitoring and reporting the Group's operational risk.

The Group uses the standardized approach for the calculation of capital requirements for operational risk.

Amounts are in ISK millions

50. Sustainability risk

Sustainability risk is the risk that certain activities or practices compromise the Bank's assets or reputation or the ability of future generations or segments of society to meet their own needs. This can be due to negative effects on the environment, natural or cultural resources or social conditions. The Bank's Sustainability Committee is responsible for reviewing the Bank's performance in relation to its commitments and policies in relation to environmental, social and governance (ESG) factors and aligning the Bank's strategy and risk appetite with them.

The Green Financing Framework

The Bank's Green Financing Framework was published in 2021. Under this framework the Bank can issue Green Financing Instruments, including covered bonds, bonds, loans, commercial paper, repurchase agreements and deposits. The use of proceeds from these instruments is restricted to the financing of eligible assets as defined in the Framework. Eligible assets are divided into several eligible categories with inclusion and exclusion criteria. The Framework furthermore details the processes for identifying eligible assets, for reporting on use of the framework and for external review. Before the introduction of this framework the Bank had a framework for green deposits but these frameworks have been merged.

Green Financing Instruments	30.09.2023	31.12.2022
Deposits	26,926	21,274
Borrowings	97,372	97,405
Book value	124,298	118,679

Identified eligible green assets by category		
Sustainable fishery and aquaculture	35,094	51,936
Renewable energy	106	-
Clean transportation	5,783	4,879
Green buildings	66,723	64,232
Energy efficiency	14,655	8,189
Pollution prevention and control and wastewater management	6,370	6,174
Book value	128,731	135,410

Amounts are in ISK millions

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