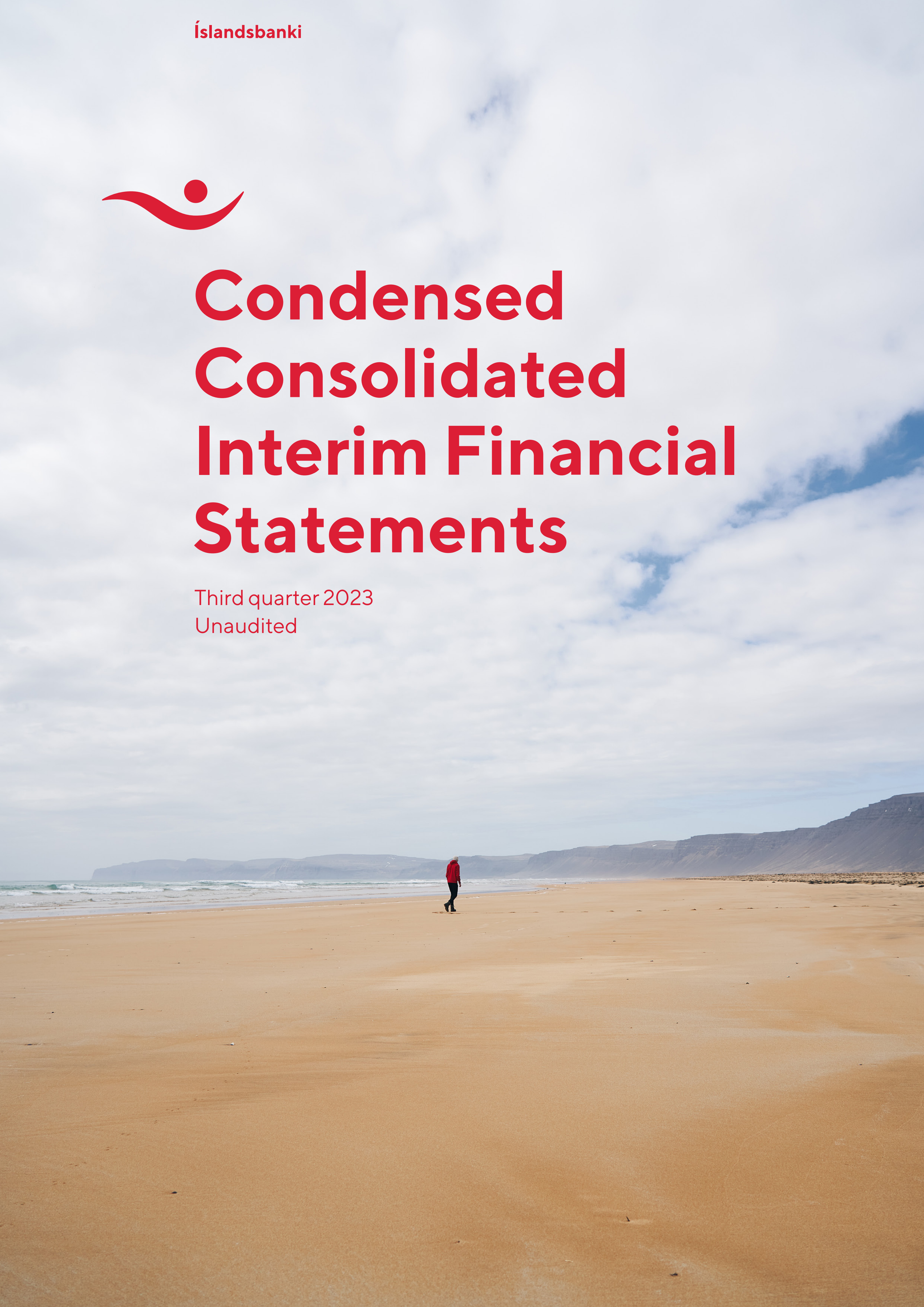
Íslandsbanki

Condensed Consolidated Interim Financial Statements

Third quarter 2023
Unaudited



Contents

Factsheet 3Q23

Íslandsbanki

Insight

Íslandsbanki's 3Q23 net profit amounted to ISK 6.0bn and annualised return on equity was 11.0% which is above the Bank's financial targets, and within the updated guidance of being between 10.7-11.7%. Net interest income rose by 4.7% compared to 3Q22 and the growth in the Bank's operating income was 6.5%, compared to 3Q22.

The cost-to-income ratio was 39.0% for the period which is in accordance with the Bank's financial target of being below 45% and lower than the Bank's guidance of the ratio being between 40-45%.

Loans to customers decreased by 2.2% during the quarter while deposits from customers increased by ISK 47.5bn. Net interest margin was 2.9% for the period, compared to 3.0% in 3Q22. Deposit margin was 2.0% for the period, having been 2.1% in 3Q22.

During a shareholder meeting held on 28 July 2023 changes were made to the Bank's Board of Directors. Four new members were elected, including a new chairman.

The Bank

12 branches

716 number of FTEs at Íslandsbanki at period end

The Bank's shares are listed on the Nasdaq Iceland Main Market

Market share[1]

30% retail customers

39% SMEs

35% large companies

Sustainability 3Q23

IS HAF fjárfestingar concluded its first two investments in companies working in sea related fields

Íslandsbanki's Entrepreneurs' Fund opened for new grant applications

The Sustainable Financial Disclosure Regulation and EU Taxonomy regulation came into force

Ratings and certifications

Moody's
A3 Stable outlook

S&P Global Ratings
BBB/A-2
Stable outlook

JAFNVÆGISVOG FKA 2023 VIÐURKENNING

EQUAL PAY CERTIFICATE

EUROMONEY AWARDS FOR EXCELLENCE 2023 ICELAND BEST BANK

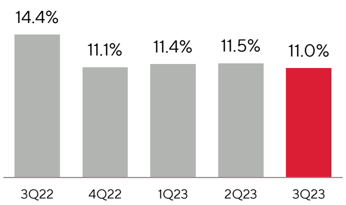
Digital milestones 3Q23

Equity trading is now available in the app for legal entities

The "My banking" user portal gives customers easy access to Íslandsbanki services

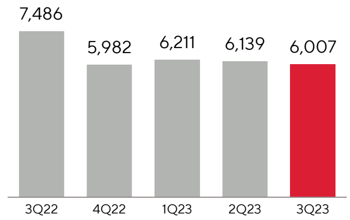
Customers can now log out of all devices with one click in case of a suspected security threat

Return on equity

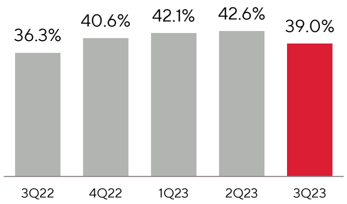


Profit after tax

(ISKm)

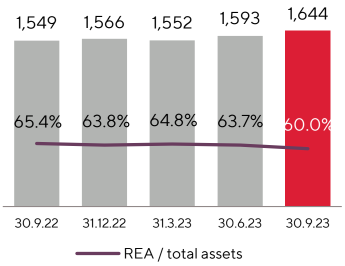


Cost-to-income ratio[2]



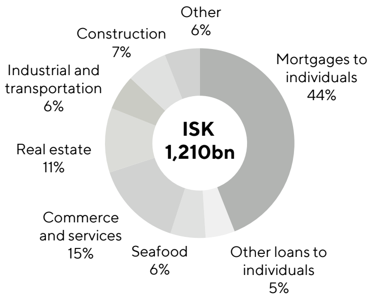
Total assets

(ISKbn)



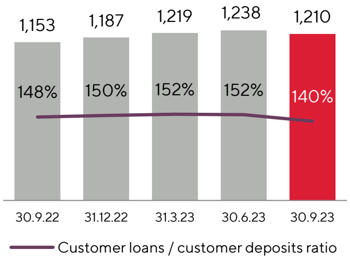
Loans to customers

(Sector split as of 30.9.23)

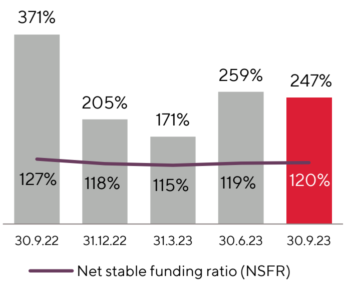


Loans to customers

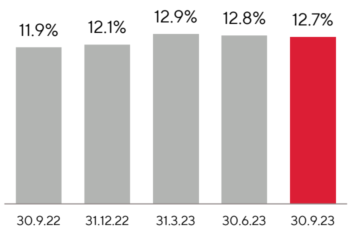
(ISKbn)



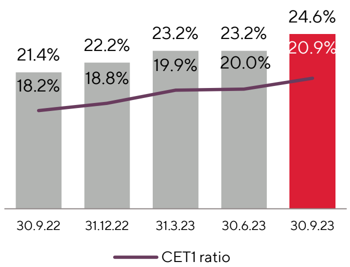
Liquidity coverage ratio



Leverage ratio[3]



Total capital ratio[3]



The information above has not been reviewed or audited by the Group's auditor.
1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, average of last two Gallup surveys conducted in Q1 and Q2 for SMEs and 2022 average for large companies.
2. C/I ratio for 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 included a provision of ISK 300m made in connection with an administrative fine, the C/I ratio has been restated so it excludes the provision.
3. Including 3Q22 profit for 30.9.22, 1Q23 profit for 31.3.23 and 3Q23 proift for 30.9.23

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 30 September 2023. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in the reporting period

The profit from the Group's operations for the reporting period amounted to ISK 18,357 million and the return on equity was 11.3%. At the end of the reporting period, the Group employed 756 full-time members of staff, including 716 within the Bank itself, and operated 12 branches.

A high interest rate environment continues to contribute to the growth in net interest income that rose by 19.8% between years. Net interest income decreased from the second to the third quarter mainly due to loss on the CPI imbalance and higher FX funding cost in the third quarter. The net interest margin increased from 2.8% to 3.1% between years but was 3.2% for the first half of 2023. Net fee and commission income increased by 4.5% from the previous year. Increase in net fees from payment processing is the largest contributor whereas fees from investment banking and brokerage decreased due to rough market conditions. Fees from the Bank's subsidiary Allianz Ísland hf. continue to maintain strong momentum. Salaries and related expenses increased 14.5% between years mainly because of general wage increases, accrued salaries and redundancy costs. Other operating expenses rose 17.2% mostly due to higher inflation, investments in data infrastructure and strategic advisory and consultancy cost. In addition, an administrative fine from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) caused an increase in total operating expenses for the nine-month period compared to the same period last year. Despite the development in the cost base year-on-year the Group's cost-to-income ratio, adjusted for the fine, was 41.3% for the first nine months of 2023 compared to 41.9% for the corresponding period last year and within the financial guidance of 40-45%. Net impairment on financial assets amounted to ISK 13 million compared to net impairment reversals of ISK 2,223 million for the first nine months of 2022.

Mortgages still account for the largest single part of the Bank's loan portfolio. A high interest rate environment has caused a shift from variable non-index linked mortgage portfolio to CPI-linked mortgages. The Group's loan book decreased between the second and third quarter but grew by 2.0% from year-end 2022. The Group's ratio of non-performing loans was 1.8% at the end of the reporting period.

Settlement Agreement with the Financial Supervisory Authority of the Central Bank of Iceland

Following a settlement agreement with the FSA related to the FSA's inspection into the Bank's execution of the Offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki, the Bank agreed to pay a fine in the amount of ISK 1,160 million and undertook to carry out certain remedial measures. The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter. Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. Jón Guðni Ómarsson, who has served as CFO from 2011, was appointed CEO. A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. Four new individuals were elected to the Bank's Board of Directors at the meeting, including Linda Jónsdóttir who was elected as Chairman. The Board is committed to have Íslandsbanki comply with the Settlement and the Bank has been working diligently towards that objective.

For further information on this matter see Note 12.

Capital and funding

Deposits remain the Bank's largest source of funding. Deposits from customers were up ISK 74 billion or 9.4% from year-end 2022 with reported growth across all business units.

On 30 August the Bank announced that Moody's Investor Services (Moody's) assigned an A3 issuer rating to Íslandsbanki. The rating has a stable outlook and demonstrates Íslandsbanki's strong capitalisation and good recurring profitability. At the time of the announcement the rating was the highest of the Icelandic banks. Additionally, Moody's assigned A2 long-term and P-1 short-term foreign and local currency deposit ratings. Íslandsbanki therefore became the first Icelandic bank to acquire a single A rating since 2008.

In the third quarter of 2023, Íslandsbanki issued an ISK 9.6 billion Tier 2 bond replacing an SEK 500 million bond that was called in August. Total demand in the Tier 2 issue amounted to ISK 13.66 billion. The Bank also sold ISK 2.7 billion of covered bonds locally whilst also buying back ISK 6.5 billion of covered bonds in the quarter. During the quarter, credit spreads on the Bank's outstanding foreign currency bonds tightened sharply. Íslandsbanki's liquidity position is strong, well above regulatory requirements and internal limits.

Directors' Report

The Bank's capital position remains solid, the total capital ratio was 24.6% at the end of the reporting period. According to the conclusion of the annual assessment of risk in the operations of systematically important financial institutions by means of the Supervisory Review and Evaluation Process (SREP) carried out by the FSA, the Bank shall from 30 June 2023 maintain an additional capital requirement of 2.4% of risk-weighted assets, a decrease of 0.2 percentage points from the previous assessment.

The Bank's total capital requirement, considering the capital buffers, therefore decreases from 19.9% to 19.7%. The Bank has updated its CET1 target to a buffer of 100-300 basis points on top of regulatory requirements hence the Bank's CET1 target range is 16.2-18.2% based on the size of the management buffer and will increase by 0.5 percentage points in the first quarter of 2024 as a result of an increase in the countercyclical buffer. On 18 October the Central Bank's Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby updated the MREL-Requirement. The MREL-Requirement, including the combined buffer requirement, is 30.1% of the Bank's Risk Exposure Amount (REA). The updated requirement applies from the date of the announcement.

The Bank plans to continue with the buyback program announced in February. The plan is to buy back shares for approximately ISK 4 billion in the coming few months and to complete its capital optimisation before year-end 2024, subject to market conditions.

Outlook

The growth of the Icelandic economy is moderating after a post-COVID surge in 2022. In the second quarter of 2023, Iceland witnessed a 4.5% GDP growth, predominantly fuelled by a surge in tourism. In 2023 to September, some 1.7 million foreign nationals have travelled through Keflavík Airport, an increase of over a third year-on-year. Increasing export revenues from tourism, supported by a more moderate growth in other export revenues, have combined with slower import growth to improve the current account after two years of deficits. The current account deficit measured only ISK 4 billion in the first half of 2023 and the Bank's Chief Economist expects a small current account surplus in the second half.

The previously robust private consumption growth decelerated to 0.5% year-on-year in the second quarter, translating to a 2.8% decline when adjusted for population growth. Investments rose by 1.6%, attributed to a 7.5% surge in business investments, but both residential and public investments fell. The Bank's Chief Economist predicts a 2.2% GDP growth for 2023, with exports taking over from domestic demand as the primary driver of growth.

Iceland's labour market is still characterised by strong demand, with 40% of major companies indicating a worker shortage in the third quarter. The influx of foreign workers, now constituting 23% of the labour force, has helped mitigate the excess labour demand. Unemployment measured 3.0% in August and is projected to average 3.2% for the year. Wages are rising rapidly, with an anticipated average growth of 9.3% this year. Hence, despite high inflation, real wages are expected to witness marginal growth.

Inflation, though decreased from its 10.2% peak in February, remains high at 8.0% in September. The moderation in inflation is due to both a slowdown in imported inflation and the cooling of the Icelandic housing market. House prices in September increased by just 2.3% year-on-year, a notable decrease from the previous year's double-digit growth.

To address persistent inflation and economic overheating, the Central Bank increased its main policy rate to 9.25% in August. The Central Bank's MPC, in its August assembly, balanced the effects of higher rates on economic activities against soaring inflation and a demanding labour market. The MPC's forward guidance transitioned from a hawkish tone to a more neutral one. It is anticipated the policy rate will max out at 9.5% in the fourth quarter, remaining at that level until the second quarter of 2024.

The Bank maintains its guidance for return on equity for the year 2023 of 10.7-11.7% assuming normalised through-the-cycle annual impairment level of 25-30 basis points on the Bank's loan portfolio for the last quarter of 2023.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. The Icelandic Government is the largest shareholder with 42.7% of outstanding shares. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009. At the end of the period the Bank had just below 12,000 shareholders, where 89.9% of the Bank's shares were owned by domestic parties and 10.1% by international investors. Apart from the Government, pension funds and insurance companies were the largest investor group, owning 36.9% of the outstanding shares. For further information on the Bank's shareholders see Note 34.

Directors' Report

Other matters

On 29 June 2023 Íslandsbanki received a letter from the Board of Directors of Kvika whereby it was announced that Kvika had decided to end merger discussions which had been ongoing since February 2023. The Board of Directors of Íslandsbanki agreed with the conclusion to discontinue merger discussions.

The FSA conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in the Bank's AML measures. The Bank has not challenged the FSA's findings and has already made improvements to its AML framework. Fight against financial crime is an important part of Íslandsbanki's corporate responsibility and work to that end is a high priority within the Bank. The matter could result in a settlement and a fine. The Bank has not recognised a provision in relation to this matter. For further information see Note 36.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2023 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 September 2023.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2023.

Kópavogur, 26 October 2023

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Anna Þórðardóttir

Frosti Ólafsson

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Chief Executive Officer:

Jón Guðni Ómarsson

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 calculated using the effective interest rate method		93,821	64,749	31,290	25,380
Other interest income		7,601	4,323	3,006	1,666
Interest expense		(64,541)	(38,294)	(22,450)	(15,731)
Net interest income	5	36,881	30,778	11,846	11,315
Fee and commission income		13,457	12,424	4,388	4,322
Fee and commission expense		(2,996)	(2,409)	(988)	(805)
Net fee and commission income	6	10,461	10,015	3,400	3,517
Net financial expense	7	(214)	(358)	(193)	(471)
Net foreign exchange gain	8	468	305	176	64
Other operating income	9	312	435	248	111
Other net operating income		566	382	231	(296)
Total operating income		47,908	41,175	15,477	14,536
Salaries and related expenses	10	(11,142)	(9,734)	(3,353)	(2,916)
Other operating expenses	11	(8,631)	(7,366)	(2,687)	(2,357)
Administrative fine	12	(860)	-	-	-
Contribution to the Depositors' and Investors' Guarantee Fund		-	(165)	-	-
Bank tax		(1,469)	(1,377)	(522)	(535)
Total operating expenses		(22,102)	(18,642)	(6,562)	(5,808)
Profit before net impairment on financial assets		25,806	22,533	8,915	8,728
Net impairment on financial assets	13	(13)	2,223	(583)	1,165
Profit before tax		25,793	24,756	8,332	9,893
Income tax expense	14	(7,461)	(6,319)	(2,334)	(2,525)
Profit for the period from continuing operations		18,332	18,437	5,998	7,368
Discontinued operations held for sale, net of income tax		25	116	9	118
Profit for the period		18,357	18,553	6,007	7,486

	Notes	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	15	9.19	9.22	3.01	3.68

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

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Profit for the period	18,357	18,553	6,007	7,486
Net gain (loss) on financial liabilities	(4,348)	1,253	(1,835)	466
Items that will not be reclassified to the income statement	(4,348)	1,253	(1,835)	466
Foreign currency translation	(2)	(3)	(2)	(1)
Items that may subsequently be reclassified to the income statement	(2)	(3)	(2)	(1)
Other comprehensive income (expense) for the period, net of tax	(4,350)	1,250	(1,837)	465
Comprehensive income for the period	14,007	19,803	4,170	7,951

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

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.9.2023	31.12.2022
Assets			
Cash and balances with Central Bank	20	84,332	94,424
Loans to credit institutions	21	117,699	110,364
Bonds and debt instruments	16	178,830	130,804
Derivatives	22	5,581	7,461
Loans to customers	23	1,210,499	1,186,639
Shares and equity instruments	16	13,270	15,868
Investments in associates	25	3,841	3,844
Property and equipment		6,528	6,752
Intangible assets		3,120	3,279
Other assets	26	19,156	6,072
Non-current assets and disposal groups held for sale		744	728
Total Assets		1,643,600	1,566,235
Liabilities			
Deposits from Central Bank and credit institutions	27	15,159	15,269
Deposits from customers	28	864,189	789,897
Derivative instruments and short positions	22	10,797	10,804
Debt issued and other borrowed funds	30	451,701	468,270
Subordinated loans	31	36,517	34,392
Tax liabilities		16,323	12,128
Other liabilities	32	29,220	16,601
Total Liabilities		1,423,906	1,347,361
Equity			
Share capital		9,963	10,000
Share premium		55,000	55,000
Reserves		4,598	9,158
Retained earnings		150,133	144,716
Total Equity		219,694	218,874
Total Liabilities and Equity		1,643,600	1,566,235

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

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2022	10,000	55,000	2,500	4,640	(1,054)	-	132,624	203,710
Profit for the period							18,553	18,553
Net gain (loss) on financial liabilities					1,566		(313)	1,253
Foreign currency translation						(3)		(3)
Comprehensive income (expense) for the period	-	-	-	-	1,566	(3)	18,240	19,803
Dividends paid							(11,900)	(11,900)
Restricted due to capitalised development costs				(218)			218	-
Restricted due to fair value changes				370			(370)	-
Restricted due to associates				118			(118)	-
Equity as at 30 September 2022	10,000	55,000	2,500	4,910	512	(3)	138,694	211,613
Equity as at 1 January 2023	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Profit for the period							18,357	18,357
Net loss on financial liabilities					(3,921)		(427)	(4,348)
Foreign currency translation						(2)		(2)
Comprehensive income (expense) for the period	-	-	-	-	(3,921)	(2)	17,930	14,007
Dividends paid							(12,254)	(12,254)
Purchase of treasury shares	(37)						(896)	(933)
Restricted due to capitalised development costs				(217)			217	-
Restricted due to fair value changes				(413)			413	-
Restricted due to associates				(7)			7	-
Equity as at 30 September 2023	9,963	55,000	2,500	4,233	(2,135)	-	150,133	219,694

The Bank's authorised and issued share capital consists of 2,000 million ordinary shares with a par value of ISK 5 each. Íslandsbanki bought back approximately 7.5 million own shares for ISK 933 million during the first quarter of 2023. As of 30 September 2023, the Bank's paid-up share capital totalled ISK 65,000 million, and the total stated share capital amounted to ISK 64,963 million. The Bank has a single class of ordinary shares that do not carry any rights to fixed income. The Annual General Meeting (AGM) for the 2022 operating year took place on 16 March 2023. During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 6.15 per share, totalling approximately ISK 12,300 million (2022: ISK 5.95 per share). The dividends were paid on 27 March 2023.

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

Financial Statements third quarter 2023 9 Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	2023 1.1-30.9	2022 1.1-30.9
Profit for the period	18,357	18,553
Non-cash items included in profit for the period*	(26,732)	(29,280)
Changes in operating assets and liabilities*	(39,526)	(66,300)
Interest received	78,012	56,207
Interest paid**	(40,599)	(26,459)
Dividends received	286	907
Paid bank tax	(1,145)	(1,080)
Paid income tax and special financial activities tax	(2,508)	(2,603)
Net cash used in operating activities	(13,855)	(50,055)
Net investment in subsidiaries and associates	-	(1,103)
Proceeds from sales of property and equipment	361	16
Purchase of property and equipment	(246)	(94)
Purchase of intangible assets	(312)	(328)
Net cash used in investing activities	(197)	(1,509)
Proceeds from borrowings	100,412	147,713
Repayment and repurchases of borrowings	(112,509)	(79,846)
Repayment of lease liabilities	(383)	(351)
Dividends paid	(12,254)	(11,900)
Purchase of treasury shares	(933)	-
Net cash provided by (used in) financing activities	(25,667)	55,616
Net increase in cash and cash equivalents	(39,719)	4,052
Effects of foreign exchange rate changes	(99)	(68)
Cash and cash equivalents at the beginning of the year	139,035	130,597
Cash and cash equivalents at the end of the period	99,217	134,581

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	20	4,252	3,682
Unrestricted balances with Central Bank	20	59,730	59,819
Bank accounts	21	35,235	71,080
Cash and cash equivalents at the end of the period		99,217	134,581

*For further breakdown see the following page.

**Interest is defined as having been paid when it has been deposited into the customer's account and is available for the customer's disposal.

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

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

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2023 1.1-30.9	2022 1.1-30.9
Net interest income	(36,881)	(30,778)
Depreciation, amortisation, and write-offs	1,130	1,036
Share of loss (profit) and gain from sale of associates	3	(280)
Net impairment on financial assets	78	(2,124)
Foreign exchange gain	(468)	(305)
Net gain from sales of property and equipment	(212)	(6)
Unrealised fair value gain (loss) recognised in profit or loss	732	(4,396)
Discontinued operations held for sale, net of income tax	(25)	(116)
Bank tax	1,469	1,377
Income tax expense	7,461	6,319
Other changes	(19)	(7)
Total	(26,732)	(29,280)

Changes in operating assets and liabilities

	2023 1.1-30.9	2022 1.1-30.9
Mandatory reserve and pledged balances with Central Bank	(10,355)	(808)
Loans to credit institutions	(29,986)	(49,115)
Bonds and debt instruments	(43,812)	4,706
Loans to customers	(15,206)	(55,183)
Shares and equity instruments	2,381	3,901
Other assets	(13,051)	(5,526)
Non-current assets and liabilities held for sale	15	(225)
Deposits from Central Bank and credit institutions	37	6,593
Deposits from customers	65,718	32,441
Derivative instruments and short positions	(5,886)	(9,771)
Other liabilities	10,619	6,687
Total	(39,526)	(66,300)

Significant non-cash transactions

Significant non-cash transactions 1 January to 30 September 2023
During the period the Group did not have any significant non-cash transactions.

Significant non-cash transactions 1 January to 30 September 2022
During the period the Group repurchased own debt securites amounting to ISK 1,922 million by issuing new debt.

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2023 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over eight other non-significant subsidiaries.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 26 October 2023.

2. Basis of preparation

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

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year 2022, as well as the unaudited Pillar 3 Report for the year 2022. Both are available on the Bank's website: www.islandsbanki.is.

The accounting policies and the basis of measurement are unchanged from those set out in Notes 2 and 61 in the Consolidated Financial Statements for the year 2022 except for the changes to accounting policies outlined below.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 September 2023 the exchange rate of the ISK against the USD was 136.78 and for the EUR 144.90 (at year-end 2022: USD 142.04 and EUR 151.50).

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

3. Significant accounting estimates and judgements

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

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

As described in Note 3 in the Consolidated Financial Statements for the year 2022, key sources of estimation uncertainty include the allowance for credit losses and the determination of fair value of financial instruments.

Impairment of financial assets, changes from year-end 2022

Note 61.4 in the Consolidated Financial Statements for the year 2022 contains a description of the Group's accounting policies for the impairment of financial assets. At the end of the third quarter of 2023, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast on 26 September 2023. The table below shows macroeconomic indicators from the new forecast.

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements (continued)

Change in economic indicators %	2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026
Economic growth (YoY real GDP change)	7.2	2.2	2.6	3.0	2.3
Housing prices in Iceland (average YoY change)	21.0	7.3	2.6	3.9	4.5
Purchasing power (average YoY change)	0.0	0.6	2.3	2.3	1.2
ISK exchange rate index (average YoY change)	(3.0)	1.4	(5.3)	(2.0)	1.0
Policy rate, Central Bank of Iceland (average per year)	4.2	8.2	8.9	7.2	5.2
Inflation (average per year)	8.3	8.7	5.4	3.7	3.3
Capital formation (YoY real change)	7.6	0.8	(0.6)	4.1	1.5
thereof capital formation in industry	15.0	2.7	(3.3)	4.4	2.5

The All Risk Committee determined that it was appropriate to keep the weights unchanged at 20%-50%-30% (good, base, bad), as this would best represent the probability-weighted average over all possible scenarios. When deciding on the appropriate weights for the three scenarios, management used sensitivity analysis that indicated that a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 330 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 220 million.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

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

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

The Bank has three main business segments: Personal Banking, Business Banking, and Corporate & Investment Banking. Operating segments pay and receive interest to and from Treasury to reflect the allocation of capital, funding costs, and the relevant risk premium. Capital allocation to the business units is based on the Pillar 1 regulatory capital requirement, the Pillar 2-R capital requirement calculated according to the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the combined buffer requirement as stipulated in the Act on Financial Undertakings no. 161/2002. Income tax and bank tax with breakdown for each segment is according to the current tax rates.

The Group comprises the following operating segments.

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

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

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. Assets and liabilities of subsidiaries, that are classified as non-current assets and disposal groups held for sale, are included in the column "Other subsidiaries". All inter-company eliminations are included in the column "Eliminations & adjustments".

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

4. Operating segments (continued)

1 January to 30 September 2023	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	13,157	13,356	10,293	204	(263)	36,747	134	36,881
Net fee and commission income (expense)	3,308	1,654	3,235	22	(21)	8,198	2,263	10,461
Other net operating income	131	77	1,066	58	320	1,652	(1,086)	566
Total operating income	16,596	15,087	14,594	284	36	46,597	1,311	47,908
Salaries and related expenses	(1,823)	(1,593)	(1,603)	(203)	(5,166)	(10,388)	(754)	(11,142)
Other operating expenses	(1,941)	(885)	(795)	(443)	(4,004)	(8,068)	(563)	(8,631)
Administrative fine	-	-	-	-	(860)	(860)	-	(860)
Bank tax	(625)	(331)	(378)	(125)	(10)	(1,469)	-	(1,469)
Net impairment on financial assets	(158)	(433)	548	31	-	(12)	(1)	(13)
Cost allocation	(3,836)	(2,986)	(2,646)	495	8,973	-	-	-
Profit (loss) before tax	8,213	8,859	9,720	39	(1,031)	25,800	(7)	25,793
Income tax income (expense)	(2,298)	(2,390)	(2,620)	(246)	260	(7,294)	(167)	(7,461)
Profit (loss) for the period from continuing operations	5,915	6,469	7,100	(207)	(771)	18,506	(174)	18,332
Net segment revenue from external customers	23,446	17,077	22,172	(16,369)	271	46,597	1,311	47,908
Net segment revenue from other segments	(6,850)	(1,990)	(7,578)	16,653	(235)	-	-	-
Fee and commission income	5,896	1,695	3,289	310	-	11,190	2,267	13,457
Depreciation, amortisation, and write-offs	(131)	(42)	(1)	-	(946)	(1,120)	(10)	(1,130)
At 30 September 2023								
Loans to customers	571,481	302,269	336,581	163	5	1,210,499	-	1,210,499
Other assets	3,534	2,088	10,708	407,422	9,264	433,016	85	433,101
Total segment assets	575,015	304,357	347,289	407,585	9,269	1,643,515	85	1,643,600
Deposits from customers	397,460	268,246	176,544	24,769	-	867,019	(2,830)	864,189
Other liabilities	1,848	1,685	15,391	533,936	5,651	558,511	1,206	559,717
Total segment liabilities	399,308	269,931	191,935	558,705	5,651	1,425,530	(1,624)	1,423,906
Allocated equity	41,502	45,994	62,107	67,273	1,109	217,985	1,709	219,694
Risk exposure amount	261,522	283,465	370,650	61,889	7,395	984,921	1,434	986,355

The individual segment balance sheet positions are with external customers, and exclude internal transactions thus explaining the differences in total assets, and total liabilities and equity.

Amounts are in ISK million

4. Operating segments (continued)

1 January to 30 September 2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	10,929	10,421	8,120	1,480	(179)	30,771	7	30,778
Net fee and commission income (expense)	3,016	1,617	3,387	(36)	(1)	7,983	2,032	10,015
Other net operating income	340	76	1,151	1,016	57	2,640	(2,258)	382
Total operating income	14,285	12,114	12,658	2,460	(123)	41,394	(219)	41,175
Salaries and related expenses	(1,733)	(1,354)	(1,268)	(204)	(4,561)	(9,120)	(614)	(9,734)
Other operating expenses	(1,826)	(771)	(727)	(378)	(3,307)	(7,009)	(357)	(7,366)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	-	-	(165)	-	(165)
Bank tax	(595)	(295)	(374)	(103)	(10)	(1,377)	-	(1,377)
Net impairment on financial assets	157	1,052	354	657	-	2,220	3	2,223
Cost allocation	(3,462)	(2,487)	(2,364)	424	7,889	-	-	-
Profit (loss) before tax	6,697	8,226	8,276	2,856	(112)	25,943	(1,187)	24,756
Income tax income (expense)	(1,897)	(2,217)	(2,249)	202	27	(6,134)	(185)	(6,319)
Profit (loss) for the period from continuing operations	4,800	6,009	6,027	3,058	(85)	19,809	(1,372)	18,437
Net segment revenue from external customers	26,232	13,377	17,811	(16,031)	5	41,394	(219)	41,175
Net segment revenue from other segments	(11,947)	(1,263)	(5,153)	18,491	(128)	-	-	-
Fee and commission income	4,941	1,653	3,532	263	-	10,389	2,035	12,424
Depreciation, amortisation, and write-offs	(128)	(43)	(1)	-	(852)	(1,024)	(12)	(1,036)
At 31 December 2022								
Loans to customers	552,181	278,823	354,787	848	-	1,186,639	-	1,186,639
Other assets	3,158	2,100	3,859	360,594	9,387	379,098	498	379,596
Total segment assets	555,339	280,923	358,646	361,442	9,387	1,565,737	498	1,566,235
Deposits from customers	361,994	244,645	164,390	21,529	-	792,558	(2,661)	789,897
Other liabilities	2,597	2,054	5,565	540,189	5,785	556,190	1,274	557,464
Total segment liabilities	364,591	246,699	169,955	561,718	5,785	1,348,748	(1,387)	1,347,361
Allocated equity	39,228	40,433	62,400	73,966	962	216,989	1,885	218,874
Risk exposure amount	255,938	263,011	404,917	67,970	6,107	997,943	1,548	999,491

Amounts are in ISK million

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 September 2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	8	65	60	1	134
Net fee and commission income (expense)	1,132	1,041	(23)	113	2,263
Other net operating income	(65)	(2)	221	(1,240)	(1,086)
Total operating income	1,075	1,104	258	(1,126)	1,311
Salaries and related expenses	(512)	(193)	(49)	-	(754)
Other operating expenses	(168)	(576)	(202)	383	(563)
Net impairment on financial assets	(1)	-	-	-	(1)
Profit (loss) before tax	394	335	7	(743)	(7)
Income tax expense	(79)	(88)	-	-	(167)
Profit (loss) for the period from continuing operations	315	247	7	(743)	(174)
Net segment revenue from external customers	1,306	1,151	4	(1,150)	1,311
Net segment revenue from other segments	(231)	(47)	254	24	-
Fee and commission income	1,548	1,041	-	(322)	2,267
Depreciation, amortisation, and write-offs	-	(2)	(2)	(6)	(10)
At 30 September 2023					
Total assets	2,063	2,094	5,434	(9,506)	85
Total liabilities	268	984	53	(2,929)	(1,624)
Total equity	1,795	1,110	5,381	(6,577)	1,709

1 January to 30 September 2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	6	19	31	(49)	7
Net fee and commission income (expense)	1,230	840	(23)	(15)	2,032
Other net operating income	(123)	7	193	(2,335)	(2,258)
Total operating income	1,113	866	201	(2,399)	(219)
Salaries and related expenses	(418)	(152)	(44)	-	(614)
Other operating expenses	(167)	(341)	(158)	309	(357)
Net impairment on financial assets	2	1	-	-	3
Profit (loss) before tax	530	374	(1)	(2,090)	(1,187)
Income tax expense	(106)	(79)	-	-	(185)
Profit (loss) for the period from continuing operations	424	295	(1)	(2,090)	(1,372)
Net segment revenue from external customers	1,324	853	4	(2,400)	(219)
Net segment revenue from other segments	(211)	13	197	1	-
Fee and commission income	1,632	840	-	(437)	2,035
Depreciation, amortisation, and write-offs	-	-	(5)	(7)	(12)
At 31 December 2022					
Total assets	2,472	1,926	5,469	(9,369)	498
Total liabilities	354	714	134	(2,589)	(1,387)
Total equity	2,118	1,212	5,335	(6,780)	1,885

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Cash and balances with Central Bank	4,040	1,710	1,438	921
Loans to credit institutions	2,248	221	1,051	151
Loans to customers	87,533	62,818	28,801	24,308
Financial assets mandatorily at fair value through profit or loss	7,597	4,319	3,004	1,665
Other assets	4	4	2	1
Interest income	101,422	69,072	34,296	27,046
Deposits from Central Bank and credit institutions	(156)	(228)	(52)	(136)
Deposits from customers	(35,579)	(15,970)	(13,180)	(7,374)
Debt issued and other borrowed funds designated as at FVTPL	(1,547)	(438)	(892)	(134)
Debt issued and other borrowed funds at amortised cost	(20,000)	(18,170)	(5,662)	(6,697)
Subordinated loans	(2,308)	(914)	(723)	(343)
Lease liabilities	(59)	(62)	(19)	(21)
Other liabilities	(4,892)	(2,512)	(1,922)	(1,026)
Interest expense	(64,541)	(38,294)	(22,450)	(15,731)
Net interest income	36,881	30,778	11,846	11,315

6. Net fee and commission income

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Asset management	2,142	2,259	691	709
Investment banking and brokerage	2,424	2,854	760	1,061
Payment processing	5,818	4,506	2,007	1,650
Loans and guarantees	1,685	1,766	554	563
Other fee and commission income	1,388	1,039	376	339
Fee and commission income	13,457	12,424	4,388	4,322
Brokerage	(349)	(357)	(91)	(106)
Clearing and settlement	(2,638)	(1,960)	(895)	(698)
Other fee and commission expense	(9)	(92)	(2)	(1)
Fee and commission expense	(2,996)	(2,409)	(988)	(805)
Net fee and commission income	10,461	10,015	3,400	3,517

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial expense

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	385	(5,274)	301	(2,490)
Net gain (loss) on financial liabilities designated as at FVTPL	(855)	4,937	(517)	2,034
Net gain (loss) on fair value hedges	18	(21)	(4)	(15)
Net gain on derecognition of financial liabilities measured at amortised cost	238	-	27	-
Net financial expense	(214)	(358)	(193)	(471)

The following table shows the categorisation of the net financial expense by type.

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Net loss on bonds and related derivatives	(1,482)	(2,253)	(422)	(195)
Net loss on shares and related derivatives	(676)	(925)	(323)	(38)
Dividend income	286	907	-	-
Net gain on debt issued and related derivatives	778	739	434	342
Net gain (loss) on economic hedging and other derivatives	880	1,174	118	(580)
Net financial expense	(214)	(358)	(193)	(471)

8. Net foreign exchange gain

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Cash and balances with Central Bank	(99)	(68)	(38)	30
Loans at amortised cost	(13,284)	(3,489)	(4,215)	5,433
Financial assets mandatorily at fair value through profit or loss	(8,297)	(8,742)	(628)	742
Other assets	2	(7)	(3)	-
Net foreign exchange gain (loss) for assets	(21,678)	(12,306)	(4,884)	6,205
Deposits	5,434	(1,251)	1,192	(4,380)
Debt issued and other borrowed funds designated as at fair value through profit or loss .	4,255	4,556	2,436	(1,174)
Debt issued and other borrowed funds at amortised cost	10,317	5,658	1,089	(635)
Subordinated loans	2,140	3,648	343	48
Net foreign exchange gain (loss) for liabilities	22,146	12,611	5,060	(6,141)
Net foreign exchange gain	468	305	176	64

9. Other operating income

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Net gain from sale of associates	-	158	-	-
Share of profit (loss) of associates, net of income tax	(3)	122	13	90
Gain from sales of property and equipment	208	3	205	-
Legal fees	40	34	14	9
Rental income	50	29	16	10
Other net operating income	17	89	-	2
Other operating income	312	435	248	111

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

10. Salaries and related expenses

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Salaries	8,573	7,474	2,585	2,237
Contributions to pension funds	1,286	1,145	382	343
Social security charges and financial activities tax*	1,188	1,048	379	329
Other salary-related expenses	95	67	7	7
Salaries and related expenses	11,142	9,734	3,353	2,916

*Financial activities tax calculated on salaries is 5.5% in 2023 (2022: 5.5%).

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. The agreement concluded with the former CEO is in full compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest Annual General Meeting, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 56.6 million. The former CEO also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements.

Ásmundur Tryggvason stepped down as Managing Director of Corporate & Investment Banking as of 1 July 2023. His resignation agreement is in full compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest Annual General Meeting, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 46.1 million. The former Managing Director also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements.

11. Other operating expenses

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Professional services	1,999	1,376	588	435
Software and IT expenses	3,566	3,336	1,123	1,067
Real estate and office equipment	488	376	132	120
Depreciation, amortisation, and write-offs	1,130	1,036	389	348
Other administrative expenses	1,448	1,242	455	387
Other operating expenses	8,631	7,366	2,687	2,357

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

12. Administrative fine

At year-end 2022, Íslandsbanki received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland's (FSA) inspection into the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki that took place in March 2022 (the Offering). On 22 June 2023 the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement).

The Settlement Agreement provides that the Bank admits, that in the preparation and execution of the Offering, it did not comply with applicable legal requirements and internal rules of the Bank on the provision of investment services, particularly in relation with recording of telephone communications, provision of information to clients in the Offering, investor classification requirements, and measures to prevent conflicts of interest e.g., segregation of duties and employees' transactions. The Settlement Agreement states that the Bank's implementation of corporate governance and internal controls as well as a risk-based approach to supervision of recordings of telephone communications were insufficient. Furthermore, the Settlement Agreement states that the Bank should have carried out a separate risk assessment regarding its role in the Offering. The Settlement Agreement also states that in provision of investment services in connection with the Offering the Bank did not, in all respects, satisfy its obligation to act honestly, fairly, and professionally and to promote market integrity.

Under the terms of the Settlement Agreement, the Bank agreed to pay a fine in the amount of ISK 1,160 million and admitted to having violated certain provisions of the Act on Markets in Financial Instruments no. 115/2021 and the Act on Financial Undertakings no. 161/2002 in connection with the Offering. Furthermore, the Bank undertook to carry out certain remedial measures within a specified period. The Bank will submit a report on the Bank's remedial measures to the FSA before 1 November 2023.

The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection into the execution of the Offering in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter.

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. The employment agreement stipulated a notice period of twelve months. The Bank expensed in salaries and related expenses all cost relating to the agreement in the second quarter. The Board of Directors of the Bank appointed Jón Guðni Ómarsson as CEO. Jón Guðni Ómarsson has been with the Bank and its predecessors from the year 2000 and has served as CFO since 2011. Ellert Hlöðversson was appointed CFO of Íslandsbanki on 16 October 2023. He assumes the role of CFO at the end of the year and Jón Guðni Ómarsson will continue as CFO of Íslandsbanki until then. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. His employment contract stipulated a notice period of twelve months. The Bank has expensed in salaries and related expenses all cost relating to the agreement in the third quarter of 2023. For further information see Note 10.

A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. Linda Jónsdóttir was elected the Chairman of the Board of Directors. For further information on changes to the Board of Directors see Note 35.

Notes to the Condensed Consolidated Interim Financial Statements

13. Net impairment on financial assets

	2023 1.1-30.9	2022 1.1-30.9	2023 1.7-30.9	2022 1.7-30.9
Net change in expected credit losses, on-balance sheet items	188	2,453	(422)	1,242
Net change in expected credit losses, off-balance sheet items	(201)	(305)	(161)	(77)
Changes in provision due to court rulings	-	75	-	-
Net impairment on financial assets	(13)	2,223	(583)	1,165

14. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2023 is 20% (2022: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the nine months ended 30 September 2023 is 28.9% (nine months ended 30 September 2022: 25.5%).

	2023 1.1-30.9	2022 1.1-30.9
Current tax expense excluding discontinued operations	5,880	3,946
Special financial activities tax	1,678	998
Adjustments in prior year's calculated income tax	(18)	(591)
Changes in deferred tax assets and deferred tax liabilities	(79)	1,966
Income tax recognised in the income statement	7,461	6,319
Income tax recognised in other comprehensive income	(143)	(110)

	2023 1.1-30.9		2022 1.1-30.9	
Profit before tax	25,793		24,756	
20% income tax calculated on the profit for the period	5,158	20.0%	4,951	20.0%
Special financial activities tax	1,678	6.5%	998	4.0%
Share in taxes of non-independent taxpayers	-	0.0%	150	0.6%
Adjustments in prior year's calculated income tax	(18)	(0.1%)	(455)	(1.8%)
Income not subject to tax	(57)	(0.2%)	(220)	(0.9%)
Non-deductible expenses	739	2.9%	878	3.5%
Other differences	(39)	(0.2%)	17	0.1%
Effective income tax expense	7,461	28.9%	6,319	25.5%

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

15. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2023 1.1-30.9	2022 1.1-30.9	2023 1.1-30.9	2022 1.1-30.9	2023 1.1-30.9	2022 1.1-30.9
Profit attributable to shareholders of the Bank	18,332	18,437	25	116	18,357	18,553
Weighted average number of outstanding shares	1,994	2,000	1,994	2,000	1,994	2,000
Basic earnings per share (ISK)	9.19	9.22	0.01	0.06	9.21	9.28

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2022: none).

Amounts are in ISK million

16. Classification of financial assets and financial liabilities

At 30 September 2023	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	84,332	84,332
Loans to credit institutions	-	-	-	117,699	117,699
Listed bonds and debt instruments	177,115	-	-	-	177,115
Listed bonds and debt instruments used for economic hedging	1,710	-	-	-	1,710
Unlisted bonds and debt instruments	5	-	-	-	5
Derivatives	5,581	-	-	-	5,581
Loans to customers	-	-	-	1,210,499	1,210,499
Listed shares and equity instruments	3,773	-	-	-	3,773
Listed shares and equity instruments used for economic hedging	7,637	-	-	-	7,637
Unlisted shares and equity instruments	1,860	-	-	-	1,860
Other financial assets	-	-	-	18,212	18,212
Total financial assets	197,681	-	-	1,430,742	1,628,423
Deposits from Central Bank and credit institutions	-	-	-	15,159	15,159
Deposits from customers	-	-	-	864,189	864,189
Derivative instruments and short positions	8,967	1,830	-	-	10,797
Debt issued and other borrowed funds	-	41,591	93,886	316,224	451,701
Subordinated loans	-	-	-	36,517	36,517
Other financial liabilities	-	-	-	25,219	25,219
Total financial liabilities	8,967	43,421	93,886	1,257,308	1,403,582

At 31 December 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	94,424	94,424
Loans to credit institutions	-	-	-	110,364	110,364
Listed bonds and debt instruments	125,318	-	-	-	125,318
Listed bonds and debt instruments used for economic hedging	3,454	-	-	-	3,454
Unlisted bonds and debt instruments	2,032	-	-	-	2,032
Derivatives	7,461	-	-	-	7,461
Loans to customers	-	-	-	1,186,639	1,186,639
Listed shares and equity instruments	3,221	-	-	-	3,221
Listed shares and equity instruments used for economic hedging	10,401	-	-	-	10,401
Unlisted shares and equity instruments	2,246	-	-	-	2,246
Other financial assets	-	-	-	5,411	5,411
Total financial assets	154,133	-	-	1,396,838	1,550,971
Deposits from Central Bank and credit institutions	-	-	-	15,269	15,269
Deposits from customers	-	-	-	789,897	789,897
Derivative instruments and short positions	9,208	1,596	-	-	10,804
Debt issued and other borrowed funds	-	49,579	83,437	335,254	468,270
Subordinated loans	-	-	-	34,392	34,392
Other financial liabilities	-	-	-	11,329	11,329
Total financial liabilities	9,208	51,175	83,437	1,186,141	1,329,961

Amounts are in ISK million

17. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 30 September 2023 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

There were no changes in the Group's valuation processes, valuation techniques, or types of inputs used in the fair value measurements during the period.

At 30 September 2023	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	178,825	-	5	178,830
Derivatives	-	5,581	-	5,581
Shares and equity instruments	11,410	-	1,860	13,270
Total financial assets	190,235	5,581	1,865	197,681
Short positions	608	-	-	608
Derivative instruments	-	10,189	-	10,189
Debt issued and other borrowed funds designated as at FVTPL	93,886	-	-	93,886
Total financial liabilities	94,494	10,189	-	104,683

At 31 December 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	128,772	-	2,032	130,804
Derivatives	-	7,461	-	7,461
Shares and equity instruments	13,623	-	2,245	15,868
Total financial assets	142,395	7,461	4,277	154,133
Short positions	285	-	-	285
Derivative instruments	-	10,519	-	10,519
Debt issued and other borrowed funds designated as at FVTPL	83,437	-	-	83,437
Total financial liabilities	83,722	10,519	-	94,241

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2023	2,032	2,245
Sales and share capital reduction	(2,127)	(375)
Purchases and share capitalisation increase	-	14
Net gain (loss) on financial instruments recognised in profit or loss	100	(24)
Fair value at 30 September 2023	5	1,860

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

17. Fair value information for financial instruments (continued)

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2022	50	4,052
Purchases	2,000	38
Sales and share capital reduction	(22)	(454)
Net gain on financial instruments recognised in profit or loss	4	347
Transfers to Level 1 or 2	-	(27)
Transfers to associates	-	(1,711)
Fair value at 31 December 2022	2,032	2,245

At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Sensitivity analysis for Level 3 assets

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

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

At 30 September 2023 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavour-able	Very unfavour-able
Level 3 bonds and debt instruments	5	16	5	(2)	(5)
Level 3 shares and equity instruments	1,860	1,640	1,050	(170)	(208)

At 31 December 2022 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavour-able	Very unfavour-able
Level 3 bonds and debt instruments	2,032	14	4	(4)	(7)
Level 3 shares and equity instruments	2,245	1,936	1,119	(109)	(224)

18. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

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

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18. Financial instruments not carried at fair value (continued)

At 30 September 2023	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	84,332	-	84,332	84,332
Loans to credit institutions	-	117,699	-	117,699	117,699
Loans to customers	-	-	1,191,468	1,191,468	1,210,499
Other financial assets	-	18,212	-	18,212	18,212
Total financial assets	-	220,243	1,191,468	1,411,711	1,430,742
Deposits from Central Bank and credit institutions	-	15,159	-	15,159	15,159
Deposits from customers	-	864,199	-	864,199	864,189
Debt issued and other borrowed funds	280,473	27,357	-	307,830	316,224
Subordinated loans	35,834	-	-	35,834	36,517
Other financial liabilities	-	25,219	-	25,219	25,219
Total financial liabilities	316,307	931,934	-	1,248,241	1,257,308

At 31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	94,424	-	94,424	94,424
Loans to credit institutions	-	110,364	-	110,364	110,364
Loans to customers	-	-	1,171,380	1,171,380	1,186,639
Other financial assets	-	5,411	-	5,411	5,411
Total financial assets	-	210,199	1,171,380	1,381,579	1,396,838
Deposits from Central Bank and credit institutions	-	15,108	-	15,108	15,269
Deposits from customers	-	789,938	-	789,938	789,897
Debt issued and other borrowed funds*	215,189	113,950	-	329,139	335,254
Subordinated loans	-	36,070	-	36,070	34,392
Other financial liabilities	-	11,329	-	11,329	11,329
Total financial liabilities	215,189	966,395	-	1,181,584	1,186,141

*Comparative figures have been changed with immaterial effects.

19. Offsetting financial assets and financial liabilities

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

At 30 September 2023, and at year-end 2022, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	30.9.2023	31.12.2022
Net financial assets	5,581	7,461
Amounts not set off but subject to master netting arrangements and similar agreements	(3,775)	(6,382)
- Financial liabilities	(662)	(856)
- Cash collateral received	(2,342)	(4,962)
- Financial instruments collateral received	(771)	(564)
Net amount after consideration of potential effect of netting arrangements	1,806	1,079

Derivative instruments and short positions	30.9.2023	31.12.2022
Net financial liabilities	10,797	10,804
Amounts not set off but subject to master netting arrangements and similar agreements	(6,966)	(7,486)
- Financial assets	(662)	(856)
- Cash collateral pledged	(6,304)	(6,630)
Net amount after consideration of potential effect of netting arrangements	3,831	3,318

Amounts are in ISK million

20. Cash and balances with Central Bank

	30.9.2023	31.12.2022
Cash on hand	4,252	3,563
Unrestricted balances with Central Bank	59,730	80,866
Cash and unrestricted balances with Central Bank	63,982	84,429
Balances pledged as collateral to Central Bank	483	483
Mandatory reserve deposits with Central Bank	19,867	9,512
Cash and balances with Central Bank	84,332	94,424

21. Loans to credit institutions

	30.9.2023	31.12.2022
Money market loans	82,405	55,742
Bank accounts	35,235	54,606
Other loans	59	16
Loans to credit institutions	117,699	110,364

22. Derivative instruments and short positions

At 30 September 2023	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,583	41,428	7,609	208,025
Cross-currency interest rate swaps	169	6,282	530	19,050
Equity forwards	1,104	7,246	55	1,452
Foreign exchange forwards	147	10,480	892	24,721
Foreign exchange swaps	392	25,273	1,077	38,909
Bond forwards	186	2,269	26	538
Derivatives	5,581	92,978	10,189	292,695
Short positions in listed bonds	-	-	608	716
Total	5,581	92,978	10,797	293,411

At 31 December 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,953	50,399	9,403	225,817
Cross-currency interest rate swaps	637	17,028	353	11,818
Equity forwards	765	8,389	130	3,486
Foreign exchange forwards	750	20,437	95	9,944
Foreign exchange swaps	1,221	38,733	537	46,487
Bond forwards	135	3,834	1	286
Derivatives	7,461	138,820	10,519	297,838
Short positions in listed bonds	-	-	285	332
Total	7,461	138,820	10,804	298,170

Amounts are in ISK million

22. Derivative instruments and short positions (continued)

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 30) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 September 2023 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 1,830 million (2022: negative ISK 1,596 million) and their total notional amount was ISK 43,470 million (2022: ISK 90,900 million).

23. Loans to customers

At 30 September 2023	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	579,922	7,341	6,013	(1,495)	(183)	(610)	590,988
Commerce and services	164,327	15,227	3,978	(947)	(892)	(597)	181,096
Construction	75,168	3,750	476	(834)	(86)	(67)	78,407
Energy	8,660	-	-	(106)	-	-	8,554
Financial services	627	1	-	(2)	-	-	626
Industrial and transportation	70,559	1,775	7,865	(220)	(53)	(2,281)	77,645
Investment companies	44,966	604	357	(597)	(15)	(40)	45,275
Public sector and non-profit organisations	17,497	10	2	(24)	(2)	(1)	17,482
Real estate	130,372	3,389	2,755	(449)	(373)	(334)	135,360
Seafood	74,685	128	851	(98)	(23)	(477)	75,066
Loans to customers	1,166,783	32,225	22,297	(4,772)	(1,627)	(4,407)	1,210,499

At 31 December 2022	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	562,460	5,134	5,256	(1,607)	(175)	(546)	570,522
Commerce and services	154,413	17,491	3,836	(974)	(1,703)	(841)	172,222
Construction	57,885	2,285	402	(654)	(66)	(37)	59,815
Energy	10,456	-	-	(45)	-	-	10,411
Financial services	2,641	1	-	(20)	-	-	2,622
Industrial and transportation	84,369	670	8,885	(303)	(19)	(2,524)	91,078
Investment companies	38,712	1,577	732	(409)	(210)	(66)	40,336
Public sector and non-profit organisations	10,857	219	1	(29)	(2)	-	11,046
Real estate	123,589	1,544	1,948	(493)	(57)	(234)	126,297
Seafood	101,491	854	63	(102)	(3)	(13)	102,290
Loans to customers	1,146,873	29,775	21,123	(4,636)	(2,235)	(4,261)	1,186,639

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

24. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	4	-	-	4
Loans to credit institutions	122	-	-	122
Loans to customers	4,772	1,627	4,407	10,806
Other financial assets	4	5	-	9
Off-balance sheet loan commitments and financial guarantees	868	154	517	1,539
At 30 September 2023	5,770	1,786	4,924	12,480
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	152	-	-	152
Loans to customers	4,636	2,235	4,261	11,132
Other financial assets	9	4	-	13
Off-balance sheet loan commitments and financial guarantees	869	242	227	1,338
At 31 December 2022	5,669	2,481	4,488	12,638

The following tables reconcile the opening and closing balances for accumulated expected credit losses for loans to customers, and off-balance sheet loan commitments and financial guarantees.

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	4,636	2,235	4,261	11,132
Transfer to Stage 1	1,394	(1,227)	(167)	-
Transfer to Stage 2	(700)	853	(153)	-
Transfer to Stage 3	(113)	(351)	464	-
Net remeasurement of loss allowance	(2,402)	14	39	(2,349)
New financial assets originated or purchased	2,438	182	676	3,296
Derecognitions and maturities	(481)	(78)	(592)	(1,151)
Write-offs*	-	(1)	(312)	(313)
Recoveries of amounts previously written off	-	-	65	65
Foreign exchange	-	-	(202)	(202)
Unwinding of interest	-	-	328	328
At 30 September 2023	4,772	1,627	4,407	10,806

*During the period financial assets amounting to ISK 298 million were written off but are still subject to enforcement activity.

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,830	3,804	5,931	13,565
Transfer to Stage 1	2,028	(1,743)	(285)	-
Transfer to Stage 2	(491)	936	(445)	-
Transfer to Stage 3	(117)	(460)	577	-
Net remeasurement of loss allowance	(3,196)	(308)	(1,436)	(4,940)
New financial assets originated or purchased	3,425	1,742	3,849	9,016
Derecognitions and maturities	(842)	(1,736)	(3,292)	(5,870)
Write-offs*	(1)	-	(1,079)	(1,080)
Recoveries of amounts previously written off	-	-	146	146
Foreign exchange	-	-	(115)	(115)
Unwinding of interest	-	-	410	410
At 31 December 2022	4,636	2,235	4,261	11,132

*During the year financial assets amounting to ISK 570 million were written off but are still subject to enforcement activity.

Amounts are in ISK million

24. Expected credit losses (continued)

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	869	242	227	1,338
Transfer to Stage 1	270	(244)	(26)	-
Transfer to Stage 2	(101)	130	(29)	-
Transfer to Stage 3	(11)	(12)	23	-
Net remeasurement of loss allowance	(498)	56	313	(129)
New loan commitments and financial guarantees	553	62	53	668
Derecognitions and maturities	(214)	(80)	(44)	(338)
At 30 September 2023	868	154	517	1,539
At 1 January 2022	545	298	158	1,001
Transfer to Stage 1	207	(158)	(49)	-
Transfer to Stage 2	(21)	68	(47)	-
Transfer to Stage 3	(7)	(32)	39	-
Net remeasurement of loss allowance	(424)	(185)	(91)	(700)
New loan commitments and financial guarantees	702	288	282	1,272
Derecognitions and maturities	(133)	(37)	(65)	(235)
At 31 December 2022	869	242	227	1,338

25. Investments in associates

		30.9.2023	31.12.2022
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	43.3%

Norðurturninn hf. shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,509 million (CPI-linked, based on the CPI in September 2023). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

26. Other assets

	30.9.2023	31.12.2022
Receivables	1,534	1,848
Unsettled securities transactions	16,719	3,591
Prepaid expenses	669	400
Deferred tax assets	114	116
Other assets	120	117
Other assets	19,156	6,072

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27. Deposits from Central Bank and credit institutions

	30.9.2023	31.12.2022
Deposits from credit institutions	15,076	15,105
Repurchase agreements with Central Bank	83	164
Deposits from Central Bank and credit institutions	15,159	15,269

28. Deposits from customers

	30.9.2023	31.12.2022
Demand deposits and deposits with maturity up to 3 months	777,154	697,025
Term deposits with maturity of more than 3 months	87,035	92,872
Deposits from customers	864,189	789,897

	30.9.2023		31.12.2022	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	21,678	3%	8,791	1%
Municipalities	10,554	1%	9,412	1%
Companies	417,581	48%	400,329	51%
Individuals	414,376	48%	371,365	47%
Deposits from customers	864,189	100%	789,897	100%

29. Pledged assets

	30.9.2023	31.12.2022
Loans to customers	443,823	402,958
Financial assets pledged as collateral with Central Bank	5,614	5,723
Loans to credit institutions	6,933	7,813
Cash and balances pledged against covered Bonds	18,625	19,477
Pledged assets against liabilities	474,995	435,971

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans.

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

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30. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.9.2023	31.12.2022
ISB CB 23 - ISK 22,500 million	2015	2023	Bullet	Fixed rates	23,139	38,970
ISB CB 27 - ISK 28,389 million	2020	2027	Amortising	Fixed rates	27,117	26,992
ISB CBF 27 - ISK 6,040 million	2022	2027	Bullet	Floating rates	6,071	3,311
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed rates	41,591	43,875
ISB CBI 24 - ISK 24,740 million	2012	2024	Bullet	Fixed rates	38,268	41,346
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed rates	34,934	32,555
ISB CBI 28 - ISK 23,463 million	2019	2028	Amortising	Fixed rates	30,989	33,456
ISB CBI 29 - ISK 14,720 million	2023	2029	Bullet	Fixed rates	15,241	-
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed rates	31,925	29,812
Covered bonds					249,275	250,317
EUR 49 million**	2020	2023	Bullet	Fixed rates	7,053	43,876
EUR 0 million(callable 2023)*	2018	2024	Bullet	Fixed rates	-	5,704
NOK 400 million	2019	2024	Bullet	Fixed rates	5,285	5,972
ISK 173 million	2019	2024	Amortising	Floating rates	159	282
NOK 150 million	2021	2024	Bullet	Floating rates	1,928	2,157
SEK 250 million	2021	2024	Bullet	Floating rates	3,142	3,406
NOK 475 million	2021	2024	Bullet	Floating rates	6,188	6,903
SEK 200 million	2021	2024	Bullet	Floating rates	2,539	2,739
SEK 800 million	2022	2024	Bullet	Floating rates	10,135	10,957
ISK 1,240 million	2020	2025	Bullet	Fixed rates	1,264	1,228
SEK 450 million	2021	2025	Bullet	Floating rates	5,655	6,130
NOK 750 million	2021	2025	Bullet	Floating rates	9,633	10,778
EUR 296 million**	2022	2025	Bullet	Fixed rates	40,514	39,561
NOK 1,400 million	2022	2025	Bullet	Floating rates	18,195	20,318
SEK 500 million	2023	2026	Bullet	Floating rates	6,376	-
EUR 300 million**	2023	2026	Bullet	Fixed rates	46,318	-
ISK 3,183 million	2022	2027	Amortising	Floating rates	3,191	3,763
ISK 6,940 million	2022	2027	Bullet	Fixed rates	7,334	5,301
Unsecured bonds					174,909	169,075
Other secured loans					15,756	36,650
Other unsecured loans					11,761	12,228
Other borrowed funds					27,517	48,878
Debt issued and other borrowed funds					451,701	468,270

The Group repurchased own bonds during the period amounting to ISK 58,793 million (2022: ISK 79,026 million).

*The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 September 2023 the total carrying amount of the bond issuance amounted to ISK 41,591 million and included in the amount are fair value changes amounting to ISK 1,784 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 30 September 2023 the total carrying amount of the bonds amounted to ISK 93,885 million; included in the amount are negative fair value changes amounting to ISK 1,292 million. The carrying amount of the bonds at 30 September 2023 was ISK 3,179 million lower than the contractual amount due at maturity.

The Group has issued additional bonds for its own use, e.g. for the purpose of securities lending and repurchase agreements. These bond amounts are not included in the total.

Amounts are in ISK million

31. Subordinated loans

	Issued	Maturity	Callable	Interest	30.9.2023	31.12.2022
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	-	6,820
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,262	6,785
Subordinated loans in ISK	2022	2033	2028	Fixed, 8.62%	1,526	1,526
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 4.86%	9,804	9,199
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 5.8%	9,646	-
Tier 2 subordinated loans					27,238	24,330
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	9,279	10,062
Additional Tier 1 subordinated loans					9,279	10,062
Subordinated loans					36,517	34,392

32. Other liabilities

	30.9.2023	31.12.2022
Accruals	2,449	2,448
Lease liabilities	3,663	3,708
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,539	1,338
Withholding tax	1,680	2,921
Unsettled securities transactions	17,748	3,805
Sundry liabilities	2,141	2,381
Other liabilities	29,220	16,601

33. Custody assets

	30.9.2023	31.12.2022
Custody assets - not managed by the Group	3,304,941	3,278,816

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

34. Íslandsbanki's shareholders

The following table shows the largest shareholders of Íslandsbanki, taking into consideration treasury shares in the ownership calculation.

		30.9.2023	31.12.2022
The Icelandic Government	Iceland	42.7%	42.5%
Gildi Pension Fund	Iceland	8.0%	6.8%
LSR Pension Fund	Iceland	7.8%	7.5%
Live Pension Fund	Iceland	6.6%	6.3%
Capital Group	USA	5.1%	4.9%
Brú Pension Fund	Iceland	3.2%	3.1%
Stapi Pension Fund	Iceland	2.6%	2.4%
Vanguard	USA	2.2%	1.3%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.5%	1.2%
RWC Asset Management LLP	UK	1.2%	1.2%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Almenni Pension Fund	Iceland	1.0%	1.0%
Festa Pension Fund	Iceland	1.0%	0.7%
Íslandssjóðir hf. (Iceland Funds)	Iceland	0.4%	1.3%
Other shareholders		13.9%	17.0%
Total		100.0%	100.0%

At 30 September 2023 the number of shareholders of the Bank were 11,866 (year-end 2022: 13,079). At 30 September 2023, 89.9% of the Bank's shares were owned by domestic parties and 10.1% by international investors (2022: 91.0% domestic parties and 9.0% international investors).

At 30 September 2023 the Bank's employees and related parties of the employees, not including board members, held 0.14% of shares in the Bank (year-end 2022: 0.18%).

35. Related party

The Board of Directors and key management personnel of the Bank, the Icelandic State Financial Investments (ISFI) and subsidiaries of the Bank, close family members of individuals referred to herein and legal entities controlled by them, are defined as related parties. The Group's associates are also defined as related parties.

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. For further information see Notes 10 and 12.

The Board of Directors of Íslandsbanki was changed on 28 July 2023 in a shareholder meeting held to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board.

The new Board of Directors is as follows: Linda Jónsdóttir, Chairman, Stefán Pétursson, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Frosti Ólafsson, Haukur Örn Birgisson and Helga Hlín Hákonardóttir.

The previous Board of Directors was as follows: Finnur Árnason, Chairman, Guðrún Þorgeirsdóttir, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Ari Daníelsson, Frosti Ólafsson and Valgerður Hrund Skúladóttir.

Íslandsbanki has a related party relationship with the Icelandic Government as the largest shareholder with significant influence over the Group. The shares are administered by ISFI. As a result, the Icelandic Government and the ISFI are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

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

All loans to employees are provided on general business terms of the Group.

Amounts are in ISK million

35. Related party (continued)

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

At 30 September 2023	Right of use asset	Other assets	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	521	494	27	68
Associated companies	3,211	5,006	3,694	4,523	7
Balances with related parties	3,211	5,527	4,188	4,550	75

1 January - 30 September 2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	55	24	4	15
Associated companies	395	68	2	1,465
Transactions with related parties	450	92	6	1,480

At 31 December 2022	Right of use asset	Other Assets	Liabilities	Net balance	Guarantees & loan com-mitments
Shareholders with significant influence over the Group	-	-	-	-	2
Board of Directors, key management personnel and other related parties ..	-	450	415	35	72
Associated companies	3,157	5,074	4,028	4,203	9
Balances with related parties	3,157	5,524	4,443	4,238	83

1 January - 30 September 2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	26	19	3	-
Associated companies	222	57	15	1,465
Transactions with related parties	248	76	18	1,465

At 30 September 2023 a total of ISK 2 million (at year-end 2022: ISK 3 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the period.

36. Contingencies

The Bank and its subsidiaries are parties to legal proceedings and regulatory matters that arise out of its normal business operations. Apart from the matters described below, the Group considers that none of these matters are material.

Contingent liabilities

Borgun hf. – Landsbankinn hf.

Borgun hf. (currently Teya Iceland hf.), a former subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun hf. in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun is approximately ISK 1,930 million.

On 11 March 2020, the Bank signed an agreement to sell its 63.47% stake in Borgun hf. to SaltPay Co Ltd. and concluded the sale on 7 July 2020. In the agreement the Bank undertook to reimburse 63.47% of losses incurred by Borgun or the buyer as a result of an unfavourable outcome in the Landsbankinn case, however such reimbursement was never to exceed the Bank's share in the purchase price.

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Group has not recognised a provision in relation to this matter.

Amounts are in ISK million

36. Contingencies (continued)

105 Miðborg slhf. – ÍAV hf.

In February 2021 the alternative investor fund 105 Miðborg slhf., operated by Íslandssjóðir hf. (Iceland Funds hf.), a wholly owned subsidiary of the Bank, terminated its contractor agreement with ÍAV hf., a contractor that had been retained for a real estate project at Kirkjusandur in the centre of Reykjavík. The main reason for the termination was the alleged non-performance and delays in the construction of one building on the premises. The contractor, ÍAV, has claimed approximately ISK 3,829 million in damages plus late payment interest and legal costs from 105 Miðborg and Iceland Funds for the alleged unlawful termination. The suit was filed on 11 May 2021 at the District Court of Reykjavík. Additionally, 105 Miðborg has filed a case against ÍAV claiming approximately ISK 3,878 million in damages plus late payment interest and legal costs due to alleged delays and significant breaches of contract. The Group owns an 8.25% stake in 105 Miðborg. The Group has not recognised a provision in relation to this matter.

The Consumers' Association of Iceland

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

Firstly, two of the cases were brought by customers owing CPI linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 4 to 6 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Bank. The plaintiff has appealed the judgement to the Court of Appeal.

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

In April 2022, the plaintiffs in two of the cases submitted claims that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement. On 13 December 2022, the District Court issued its rulings. In the case involving a CPI-linked mortgage, the Court rejected the plaintiff's request. In the case involving a non-index linked mortgage, the District Court decided to request an advisory opinion from the EFTA Court on part of the issues raised by the plaintiff. The case was heard before the EFTA Court on 13 June 2023. The timing of the EFTA Court's advisory opinion is uncertain, as well as its impact on the case.

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

It is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 6 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

The Bank has reviewed the terms of its mortgages, other loan contracts and the methods used for the setting and resetting of variable interest rates in light of the above claims. The Bank believes that the claims of the plaintiffs are unfounded and has not recognised a provision in relation to this matter.

36. Contingencies (continued)

EC Clear ehf.

In August 2021 EC Clear ehf., a former owner of a payment processing company, filed a suit jointly against the Bank and four other financial institutions claiming damages in the amount of ISK 923 million plus interest from June 2013, resulting from a breach of competition law that allegedly took place during the period from 2003 to 2013. This was the sixth time the case had been brought before the courts for this purpose, after previous cases had been dismissed. On 30 September 2022 the District Court of Reykjavík dismissed the case. On 10 January 2023 the Court of Appeal partly reversed the dismissal and ordered the District Court to hear the case in substance. The hearing of the case has not been decided. The Group has not recognised a provision in relation to this matter.

Onsite inspection by the FSA into the Bank's anti-money laundering measures

The Financial Supervisory Authority of the Central Bank of Iceland (FSA) conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in relation to the Bank's risk assessment framework, the risk assessment framework for individual customers and transactions as well as the performance of customer due diligence and regular monitoring of transactions. The Bank has not challenged the FSA's findings and has already made improvements to its AML framework. The matter could result in a settlement and a fine. The Bank has not recognised a provision in relation to this matter.

37. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the interim financial statements for the third quarter of 2023.

38. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2022 Report, which is available on the Bank's website: www.islandsbanki.is.

39. Credit risk

Credit risk is defined as current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any financial contract with the Group.

Credit concentration risk is the significantly increased risk that is driven by common underlying factors, e.g. industrial sector, economy, geographical location, type of financial instrument, or due to connections or relations among counterparties. This includes exposures to parties under common control and significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors. Credit risk arises principally from loans and advances to customers and other banks but also from balances with the Central Bank and off-balance sheet items such as financial guarantees, loan commitments and derivatives.

The Group has policies and procedures dedicated to accepting, measuring, and managing credit risk. The objective of the Group's credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Group's financial performance.

A thorough analysis of the counterparty's financial standing, analysis of past and estimated future cash flows as well as the borrower's general ability to repay its obligations forms the basis for all credit decisions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers, countries and industry segments. The Group measures and consolidates its credit risk for each counterparty or group of connected clients in accordance with internal and external criteria of connection between parties.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in borrower's assets. The principal collateral types for loans are properties, vehicles, equipment, vessels and securities. When applicable, other credit risk mitigants are employed.

40. Maximum credit exposure and collateral

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and credit commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated according to the original exposure method as described in Capital Requirements Regulation II (CRR II).

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

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 1,053 million are subject to 100% Government guarantee, ISK 716 million to 85% Government guarantee and ISK 273 million to 70% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. The total value of pledged assets can thus be higher than the cover indicates. For capital leases the Group remains the owner of the leased object.

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

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

40. Maximum credit exposure and collateral (continued)

At 30 September 2023 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	84,332	-	-	-	-	-	-	-	84,332	4
Loans to credit institutions	117,699	-	-	-	-	-	-	-	117,699	122
Bonds and debt instruments	178,830	-	-	-	-	-	-	-	178,830	-
Derivatives	21,028	-	-	-	8,730	-	-	8,730	12,298	-
Loans to customers:	1,210,499	594,760	305,116	61,918	20,563	75,455	70,233	1,128,045	82,454	10,806
Individuals	590,988	529,095	8,331	7	227	17,009	180	554,849	36,139	2,288
- Thereof mortgages	527,055	524,526	1,551	-	218	-	-	526,295	760	829
Commerce and services	181,096	14,656	69,498	676	3,251	46,414	33,918	168,413	12,683	2,436
Construction	78,407	22,682	45,586	97	118	3,271	2,463	74,217	4,190	987
Energy	8,554	30	4,851	-	-	3	87	4,971	3,583	106
Financial services	626	-	434	-	-	-	2	436	190	2
Industrial and transportation	77,645	2,065	47,556	1,937	51	8,069	13,501	73,179	4,466	2,554
Investment companies	45,275	3,803	11,672	-	16,825	196	12,111	44,607	668	652
Public sector and non-profit organisations	17,482	41	668	-	-	27	16	752	16,730	27
Real estate	135,360	21,898	108,966	-	85	368	896	132,213	3,147	1,156
Seafood	75,066	490	7,554	59,201	6	98	7,059	74,408	658	598
Other financial assets	18,212	-	-	-	-	-	-	-	18,212	9
Off-balance sheet items:	191,088	6,782	30,153	3,837	2,909	606	21,939	66,226	124,862	1,539
Financial guarantees	20,327	-	6,414	97	1,543	-	3,555	11,609	8,718	406
Loan commitments	170,761	6,782	23,739	3,740	1,366	606	18,384	54,617	116,144	1,133
Total	1,821,688	601,542	335,269	65,755	32,202	76,061	92,172	1,203,001	618,687	12,480

Maximum Credit Exposure for off-balance sheet items reflect the maximum amount, not taking into account the Group's ability to reduce its loan commitments before the current undrawn amount is fully utilised by the customer.

Amounts are in ISK million

40. Maximum credit exposure and collateral (continued)

At 31 December 2022 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	94,424	-	-	-	-	-	-	-	94,424	3
Loans to credit institutions	110,364	-	-	-	-	-	-	-	110,364	152
Bonds and debt instruments	130,804	-	-	-	-	-	-	-	130,804	-
Derivatives	25,264	-	-	-	11,733	-	-	11,733	13,531	-
Loans to customers:	1,186,639	557,263	306,469	82,645	20,744	63,889	69,383	1,100,393	86,246	11,132
Individuals	570,522	509,638	9,988	3	177	15,767	170	535,743	34,779	2,328
- Thereof mortgages	507,969	504,654	2,514	-	168	-	-	507,336	633	894
Commerce and services	172,222	8,356	76,739	788	2,932	37,908	32,473	159,196	13,026	3,518
Construction	59,815	14,395	35,787	1	186	2,911	2,298	55,578	4,237	757
Energy	10,411	57	8,862	-	9	5	25	8,958	1,453	45
Financial services	2,622	-	595	-	-	-	1,149	1,744	878	20
Industrial and transportation	91,078	1,954	48,834	2,203	109	6,660	13,147	72,907	18,171	2,846
Investment companies	40,336	3,006	10,432	-	16,975	102	9,226	39,741	595	685
Public sector and non-profit organisations	11,046	49	740	-	-	31	19	839	10,207	31
Real estate	126,297	19,349	103,126	-	265	427	671	123,838	2,459	784
Seafood	102,290	459	11,366	79,650	91	78	10,205	101,849	441	118
Other financial assets	5,411	-	-	-	-	-	-	-	5,411	13
Off-balance sheet items:	203,145	8,303	32,714	13,136	2,318	-	24,344	80,815	122,330	1,338
Financial guarantees	18,385	-	6,556	104	1,403	-	1,837	9,900	8,485	413
Loan commitments	184,760	8,303	26,158	13,032	915	-	22,507	70,915	113,845	925
Total	1,756,051	565,566	339,183	95,781	34,795	63,889	93,727	1,192,941	563,110	12,638

Amounts are in ISK million

41. Credit quality of financial assets

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

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

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

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

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

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2022 Report.

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

At 30 September 2023

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	519,789	774	-	520,563
Risk class 5-6	468,672	14,528	-	483,200
Risk class 7-8	163,042	12,056	-	175,098
Risk class 9	15,260	4,866	-	20,126
Risk class 10	-	-	22,297	22,297
Unrated	20	1	-	21
	1,166,783	32,225	22,297	1,221,305
Expected credit losses	(4,772)	(1,627)	(4,407)	(10,806)
Net carrying amount	1,162,011	30,598	17,890	1,210,499

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	95,942	1	-	95,943
Risk class 5-6	62,496	238	-	62,734
Risk class 7-8	24,282	3,521	-	27,803
Risk class 9	929	447	-	1,376
Risk class 10	-	-	2,969	2,969
Unrated	1,784	18	-	1,802
	185,433	4,225	2,969	192,627
Expected credit losses	(868)	(154)	(517)	(1,539)
Total	184,565	4,071	2,452	191,088

Amounts are in ISK million

41. Credit quality of financial assets (continued)

At 31 December 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	478,439	524	-	478,963
Risk class 5-6	473,451	14,804	-	488,255
Risk class 7-8	177,477	10,372	-	187,849
Risk class 9	17,425	4,035	-	21,460
Risk class 10	-	-	21,123	21,123
Unrated	81	40	-	121
	1,146,873	29,775	21,123	1,197,771
Expected credit losses	(4,636)	(2,235)	(4,261)	(11,132)
Net carrying amount	1,142,237	27,540	16,862	1,186,639

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	99,648	2	-	99,650
Risk class 5-6	66,519	328	-	66,847
Risk class 7-8	28,039	5,464	-	33,503
Risk class 9	706	428	-	1,134
Risk class 10	-	-	1,640	1,640
Unrated	1,484	180	45	1,709
	196,396	6,402	1,685	204,483
Expected credit losses	(869)	(242)	(227)	(1,338)
Total	195,527	6,160	1,458	203,145

42. Forbearance

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

The relationship between forbearance and stages is discussed in Note 61.4 in the Consolidated Financial Statements for the year 2022.

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

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42. Forbearance (continued)

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

At 30 September 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	1,729	4,200	1,533	7,462
Companies	3,463	13,955	7,466	24,884
Total	5,192	18,155	8,999	32,346

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(17)	(61)	(111)	(189)
Companies	(39)	(806)	(1,754)	(2,599)
Total	(56)	(867)	(1,865)	(2,788)

At 31 December 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,232	2,422	1,264	6,918
Companies	23,662	17,596	9,189	50,447
Total	26,894	20,018	10,453	57,365

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(20)	(46)	(98)	(164)
Companies	(86)	(1,783)	(2,766)	(4,635)
Total	(106)	(1,829)	(2,864)	(4,799)

Amounts are in ISK million

43. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by EU regulation no. 575/2013 on prudential requirements for financial undertakings (CRR). The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of CRR, where groups of connected clients are defined. Since the Condensed Consolidated Interim Financial Statements for the third quarter of the year are neither audited nor reviewed, the official capital is based on reviewed own fund items at 30 June 2023.

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group currently has three large exposures (at year-end 2022: five). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 30 September 2023

Groups of connected clients:	Before	After
Group 1	85%	2%
Group 2	15%	15%
Group 3	12%	12%
Group 4	10%	10%

At 31 December 2022

Groups of connected clients:	Before	After
Group 1	87%	9%
Group 2	13%	13%
Group 3	12%	12%
Group 4	11%	11%
Group 5	11%	11%
Group 6	11%	11%

44. Liquidity risk

The Group defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

The Group's main source of funding is customer deposits. Treasury is responsible for the Bank's funding and liquidity management in line with internal and regulatory limits and policies. Treasury manages the Bank's intraday liquidity. Risk Management, as the second line of defence, is responsible for independent reporting on the liquidity position to internal and external stakeholders and providing a holistic view on liquidity risk on a consolidated basis.

Amounts are in ISK million

45. Liquidity coverage and net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratios and the rules on funding ratios. In addition, the Group complies with the Financial Supervisory Authority of the Central Bank's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 1520/2022.

As of January 2023 rules no. 1520/2022 took effect. The minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. A new requirement for LCR in EUR is 80% and in ISK the requirement is 50%. There is no longer any minimum requirement for the aggregated position in foreign currencies. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 30 September 2023 and at year-end 2022.

Net stable funding ratio	30.9.2023	31.12.2022
For all currencies	120%	118%
Foreign currencies	290%	198%

Liquidity coverage ratio

	For all currencies		ISK		EUR	
At 30 September 2023	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	240,368	240,368	172,546	172,546	30,951	30,951
Liquid assets level 2	30,382	23,999	30,360	23,999	3	-
Total liquid assets	270,750	264,367	202,906	196,545	30,954	30,951
Deposits	692,620	172,572	589,271	131,607	42,122	15,328
Debt issued	23,483	23,483	23,253	23,253	-	-
Other outflows	63,258	32,441	58,060	31,778	2,928	612
Total outflows	779,361	228,496	670,584	186,638	45,050	15,940
Short-term deposits with other banks**	100,622	93,689	1,107	3	40,323	39,368
Other inflows	50,979	27,694	48,862	26,167	1,479	1,076
Restrictions on inflows	-	-	-	-	-	(28,488)
Total inflows	151,601	121,383	49,969	26,170	41,802	11,956
Liquidity coverage ratio		247%		122%		777%

	For all currencies		ISK		Foreign currencies	
At 31 December 2022	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	198,074	198,074	143,077	143,077	54,997	54,997
Liquid assets level 2	24,398	19,474	24,370	19,474	28	-
Total liquid assets	222,472	217,548	167,447	162,551	55,025	54,997
Deposits	656,669	180,302	561,212	142,739	95,457	37,563
Debt issued	6,157	6,157	294	294	5,863	5,863
Other outflows	64,880	35,224	59,652	33,932	5,228	1,292
Total outflows	727,706	221,683	621,158	176,965	106,548	44,718
Short-term deposits with other banks**	89,820	82,008	1,028	5	88,792	82,003
Other inflows	56,075	33,702	46,668	27,287	9,407	6,415
Restrictions on inflows	-	-	-	-	-	(54,878)
Total inflows	145,895	115,710	47,696	27,292	98,199	33,540
Liquidity coverage ratio		205%		109%		492%

*Level 1 liquid assets include cash and balances with the Central Bank, domestic bonds and foreign government bonds in accordance with rules no. 1520/2022 on liquidity ratio.

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

Amounts are in ISK million

45. Liquidity coverage and net stable funding ratio (continued)

Deposits by liquidity coverage ratio category

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

	Deposits maturing within 30 days					
At 30 September 2023	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	115,221	13%	217,771	5%	81,384	414,376
Small and medium enterprises	62,919	12%	59,907	5%	10,863	133,689
Operational relationships	3,806	25%	-	5%	-	3,806
Corporations	145,050	40%	3,107	20%	63,199	211,356
Sovereigns, Central Bank, and public sector entities	12,749	40%	1,149	20%	1,144	15,042
Pension funds	32,272	100%	-	-	16,521	48,793
Domestic financial entities	30,209	100%	-	-	8,052	38,261
Foreign financial entities	8,460	100%	-	-	5,565	14,025
Total	410,686		281,934		186,728	879,348

	Deposits maturing within 30 days					
At 31 December 2022	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	86,621	13%	205,538	5%	79,206	371,365
Small and medium enterprises	59,495	13%	59,942	5%	8,614	128,051
Operational relationships	4,133	25%	-	5%	-	4,133
Corporations	140,039	40%	3,242	20%	30,526	173,807
Sovereigns, Central Bank, and public sector entities	10,805	40%	1,116	20%	777	12,698
Pension funds	35,662	100%	-	-	16,398	52,060
Domestic financial entities	41,830	100%	-	-	5,177	47,007
Foreign financial entities	8,246	100%	-	-	7,799	16,045
Total	386,831		269,838		148,497	805,166

Amounts are in ISK million

46. Maturity analysis of financial assets and financial liabilities

The following tables show the maturity profile of the Group's financial assets and the undiscounted cash flows of its financial liabilities. Maturity classification of assets is based on contractual maturity.

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

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

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

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

At 30 September 2023	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	39,593	44,739	-	-	-	-	84,332	84,332
Loans to credit institutions	27,834	89,865	-	-	-	-	117,699	117,699
Bonds and debt instruments	-	72,521	89,500	14,471	2,338	-	178,830	178,830
Derivatives	-	3,043	1,490	1,221	-	-	5,754	5,581
- Net settled derivatives	-	1,281	-	-	-	-	1,281	1,281
- Inflow	-	31,596	16,779	12,135	-	-	60,510	45,594
- Outflow	-	(29,834)	(15,289)	(10,914)	-	-	(56,037)	(41,294)
Loans to customers	-	103,462	110,094	338,071	658,872	-	1,210,499	1,210,499
Shares and equity instruments	-	-	-	-	-	13,270	13,270	13,270
Other financial assets	17,683	489	40	-	-	-	18,212	18,212
Total financial assets	85,110	314,119	201,124	353,763	661,210	13,270	1,628,596	1,628,423
Deposits from CB and credit institutions	8,080	4,073	3,222	-	-	-	15,375	15,159
Deposits from customers	654,212	127,653	43,604	25,307	41,478	-	892,254	864,189
Derivative instruments and short positions	-	4,914	2,436	1,378	936	-	9,664	10,797
- Net settled derivatives	-	80	-	-	-	-	80	80
- Inflow	-	(53,099)	(20,354)	(38,982)	-	-	(112,435)	(91,025)
- Outflow	-	57,931	22,682	40,254	-	-	120,867	101,134
- Short positions	-	2	108	106	936	-	1,152	608
Debt issued and other borrowed funds	-	35,784	90,987	427,892	54,018	-	608,681	451,701
Subordinated loans	-	282	1,977	19,432	44,920	-	66,611	36,517
Other financial liabilities	19,234	1,433	1,472	1,979	1,399	-	25,517	25,219
- Lease liabilities	-	151	449	1,962	1,399	-	3,961	3,663
- Other liabilities	19,234	1,282	1,023	17	-	-	21,556	21,556
Total financial liabilities	681,526	174,139	143,698	475,988	142,751	-	1,618,102	1,403,582
Total net financial assets and financial liab.	(596,416)	139,980	57,426	(122,225)	518,459	13,270	10,494	224,841

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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

At 31 December 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	41,518	52,906	-	-	-	-	94,424	94,424
Loans to credit institutions	46,761	63,587	16	-	-	-	110,364	110,364
Bonds and debt instruments	-	50,429	46,570	28,940	4,865	-	130,804	130,804
Derivatives	-	3,062	1,619	2,260	-	-	6,941	7,461
- Net settled derivatives	-	897	-	-	-	-	897	897
- Inflow	-	41,940	24,587	29,827	-	-	96,354	81,324
- Outflow	-	(39,775)	(22,968)	(27,567)	-	-	(90,310)	(74,760)
Loans to customers	-	80,768	129,442	326,017	650,412	-	1,186,639	1,186,639
Shares and equity instruments	-	-	-	-	-	15,868	15,868	15,868
Other financial assets	4,968	288	155	-	-	-	5,411	5,411
Total financial assets	93,247	251,040	177,802	357,217	655,277	15,868	1,550,451	1,550,971
Deposits from CB and credit institutions	5,015	2,998	4,269	3,387	-	-	15,669	15,269
Deposits from customers*	610,507	123,946	52,453	23,018	33,858	-	843,782	789,897
Derivative instruments and short positions	-	1,366	4,220	4,504	509	-	10,599	10,804
- Net settled derivatives	-	134	-	-	-	-	134	134
- Inflow	-	(51,316)	(20,748)	(19,479)	-	-	(91,543)	(77,250)
- Outflow	-	52,533	24,968	23,923	-	-	101,424	87,635
- Short positions	-	15	-	60	509	-	584	285
Debt issued and other borrowed funds	-	12,384	111,618	465,372	50,404	-	639,778	468,270
Subordinated loans	-	529	1,427	20,516	35,530	-	58,002	34,392
Other financial liabilities	5,356	1,271	1,486	1,911	1,634	-	11,658	11,329
- Lease liabilities	-	141	396	1,866	1,634	-	4,037	3,708
- Other liabilities	5,356	1,130	1,090	45	-	-	7,621	7,621
Total financial liabilities	620,878	142,494	175,473	518,708	121,935	-	1,579,488	1,329,961
Total net financial assets and financial liab.	(527,631)	108,546	2,329	(161,491)	533,342	15,868	(29,037)	221,010

*Comparative figures have been changed with immaterial effects.

Off-balance sheet liabilities

Note 40 Maximum Credit Exposure and Collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Amounts are in ISK million

47. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 22).

Market risk within the Group can broadly be split into two categories, trading book and banking book. The trading book includes market risk exposures related, directly or indirectly, to the Group's short- and medium-term trading in securities, currencies and other capital market instruments and derivatives. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. The banking book includes market risk exposures related to securities held for long-term investment purposes, unlisted securities or holdings in subsidiaries or affiliates. A large part of the banking book market risk is due to mismatches in the composition of assets and liabilities, for example with respect to currencies, interest rates, CPI-indexation or other factors that can affect the Group's earnings or earnings volatility. These mismatches are reported to management and are subject to internal and regulatory limits.

48. Interest rate risk

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

Interest rate risk in the trading book

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

	30.9.2023			31.12.2022		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,205	7.36	(0.89)	3,446	6.39	(2.20)
Non-indexed	176,031	0.44	(7.74)	124,065	0.58	(7.17)
Total	177,236	0.49	(8.63)	127,511	0.74	(9.37)
Trading bonds and debt instruments, short positions						
Indexed	78	7.00	0.05	-	-	-
Non-indexed	554	9.00	0.52	282	5.04	0.14
Total	632	8.75	0.57	282	5.04	0.14
Net position of trading bonds and debt instruments	176,604	0.46	(8.06)	127,229	0.73	(9.23)

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48. Interest rate risk (continued)

Interest rate risk in the banking book

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

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset. The interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued where behavioral assumptions are applied.

Sensitivity analysis for interest rate risk in the banking book

At 30 September 2023

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	10	97	(503)	(3,233)	3,105	39	(485)
ISK, non-indexed	36	(171)	(574)	(33)	51	(9)	(700)
EUR	162	187	(13)	61	-	-	397
SEK	54	-	-	-	-	-	54
USD	34	-	-	-	-	-	34
Other	72	1	-	-	-	-	73
Total	368	114	(1,090)	(3,205)	3,156	30	(627)

At 31 December 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	12	(12)	220	(4,195)	2,860	(80)	(1,195)
ISK, non-indexed	23	232	(517)	(740)	1	46	(955)
EUR	103	218	(15)	(132)	-	-	174
SEK	51	-	-	-	-	-	51
USD	39	-	-	-	-	-	39
Other	79	-	3	(5)	-	-	77
Total	307	438	(309)	(5,072)	2,861	(34)	(1,809)

Amounts are in ISK million

49. Currency risk

Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in the currency composition of assets or liabilities.

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

Debt issued is presented in the analysis of the Group's foreign currency exposure as the nominal amount plus accrued interest. Some debt issues are measured at fair value in the Condensed Consolidated Interim Financial Statements. Therefore, the net position presented below does not match the book value net position thus affecting the foreign exchange difference recognised in the consolidated interim income statement.

At 30 September 2023	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	836	427	161	58	8	36	53	76	27	147	1,829
Loans to credit institutions	43,246	29,235	1,335	175	619	15,011	25,269	410	609	157	116,066
Bonds and debt instruments	30,118	20,812	5	-	-	7,450	11,373	-	-	-	69,758
Loans to customers	86,841	22,908	298	581	1,760	25	2,586	123	6,829	-	121,951
Shares and equity instruments	45	314	56	-	-	20	-	-	-	-	435
Other assets	311	80	-	-	-	4	25	-	-	-	420
Total assets	161,397	73,776	1,855	814	2,387	22,546	39,306	609	7,465	304	310,459
Deposits from credit institutions	7,175	544	19	9	-	3	7	1	-	-	7,758
Deposits from customers	40,471	67,727	3,945	547	192	697	3,185	1,913	252	46	118,975
Debt issued and other borrowed funds	154,082	11,761	-	-	-	27,848	41,229	-	-	-	234,920
Subordinated loans	-	-	-	-	-	15,541	-	-	-	-	15,541
Other liabilities	427	46	-	-	-	4	2,306	-	-	6	2,789
Total liabilities	202,155	80,078	3,964	556	192	44,093	46,727	1,914	252	52	379,983
Net on-balance sheet position	(40,758)	(6,302)	(2,109)	258	2,195	(21,547)	(7,421)	(1,305)	7,213	252	(69,524)
Net off-balance sheet position	44,626	5,577	2,159	(257)	(2,183)	21,397	7,332	1,402	(7,156)	(333)	72,564
Net position	3,868	(725)	50	1	12	(150)	(89)	97	57	(81)	3,040

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

49. Currency risk (continued)

At 31 December 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	462	284	126	36	7	43	47	78	31	139	1,253
Loans to credit institutions	35,515	37,533	2,565	534	816	5,220	20,790	4,855	1,321	146	109,295
Bonds and debt instruments	34,693	5,666	7	-	-	3,393	9,996	-	-	-	53,755
Loans to customers	127,658	25,155	348	657	2,193	40	2,946	140	7,073	-	166,210
Shares and equity instruments	127	350	78	-	-	1,025	-	-	-	-	1,580
Other assets	344	243	7	-	-	46	-	1	-	-	641
Total assets	198,799	69,231	3,131	1,227	3,016	9,767	33,779	5,074	8,425	285	332,734
Deposits from credit institutions	8,657	1,869	17	-	-	-	7	-	-	-	10,550
Deposits from customers	35,002	42,694	4,988	641	683	910	3,891	10,011	322	12	99,154
Debt issued and other borrowed funds	179,456	12,228	-	-	-	23,231	46,128	-	-	-	261,043
Subordinated loans	-	-	-	-	-	23,667	-	-	-	-	23,667
Other liabilities	254	200	7	-	-	1	-	1	-	-	463
Total liabilities	223,369	56,991	5,012	641	683	47,809	50,026	10,012	322	12	394,877
Net on-balance sheet position	(24,570)	12,240	(1,881)	586	2,333	(38,042)	(16,247)	(4,938)	8,103	273	(62,143)
Net off-balance sheet position	22,616	(11,542)	1,766	(576)	(2,394)	38,117	16,233	4,953	(8,244)	(377)	60,552
Net position	(1,954)	698	(115)	10	(61)	75	(14)	15	(141)	(104)	(1,591)

Amounts are in ISK million

50. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 633 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.9.2023	31.12.2022
Bonds and debt instruments	1,839	4,148
Loans to customers	351,843	282,521
Total CPI-linked assets	353,682	286,669
Deposits from customers	116,417	107,684
Debt issued and other borrowed funds	170,807	146,368
Off-balance sheet exposures	3,198	4,912
Financial liabilities	(6)	-
Total CPI-linked liabilities	290,416	258,964
CPI imbalance	63,266	27,705

51. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 30 September 2023 and 31 December 2022.

The Group's regulatory capital requirement is calculated according to EU regulation no. 575/2013 as implemented through the Act on Financial Undertakings no. 161/2002. Capital requirement calculations for credit risk, market risk and operational risk are based on the standardised approach.

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2023 maintain an additional capital requirement of 2.4% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.7%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

In March 2023, the Central Bank of Iceland Financial Stability Committee announced the decision to increase the countercyclical capital buffer rate from 2% to 2.5%, effective in March 2024, increasing the Bank's overall capital requirements to 20.2%.

The minimum leverage ratio for Icelandic financial institutions is 3%.

	30.9.2023	31.12.2022
Own funds		
Ordinary share capital	9,963	10,000
Share premium	55,000	55,000
Reserves	4,598	9,158
Retained earnings	150,133	144,716
Third quarter profit	(6,007)	-
IFRS 9 reversal due to transitional rules	-	1,301
Fair value changes due to own credit standing	2,135	(1,786)
Foreseeable dividend payment and approved buyback*	(10,242)	(27,267)
Tax assets	(114)	(116)
Intangible assets	(2,020)	(3,279)
Insufficient coverage for non-performing exposures	(1)	-
CET1 capital	203,445	187,727

Amounts are in ISK million

51. Capital management (continued)

	30.9.2023	31.12.2022
Additional Tier 1 capital	9,279	10,062
Tier 1 capital	212,724	197,789
Tier 2 capital	27,238	24,330
Total capital base	239,962	222,119
Risk exposure amount		
Due to credit risk	879,889	893,110
Due to market risk	15,776	15,417
Due to credit valuation adjustment	2,482	2,756
Due to operational risk	88,208	88,208
Total risk exposure amount	986,355	999,491
Capital ratios		
CET1 ratio	20.6%	18.8%
Tier 1 ratio	21.6%	19.8%
Total capital ratio	24.3%	22.2%
Capital ratios including third quarter profit**		
CET 1 ratio	20.9%	18.8%
Tier 1 ratio	21.9%	19.8%
Total capital ratio	24.6%	22.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,613,059	1,541,738
Off-balance sheet exposures	64,998	68,702
Derivative exposures	21,204	30,596
Leverage ratio total exposure measure	1,699,261	1,641,036
Tier 1 capital	212,724	197,789
Leverage ratio	12.5%	12.1%
Leverage ratio including third quarter profit**	12.7%	12.1%

*The Annual General Meeting (AGM) of Íslandsbanki hf. held on 16 March 2023 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 5 billion, which is within the 10% authorisation from the AGM. At 30 September 2023 ISK 4.1 billion remained of the approved buyback and is therefore deducted from CET1 capital.

**Where the capital and leverage ratios are shown including third quarter profit, ISK 3,003 million has been subtracted from the capital base as is expected from the 50% dividend policy.

Amounts are in ISK million

52. Minimum requirement for own funds and eligible liabilities (MREL)

The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is based on the Bank's resolution plan that is approved by the Icelandic Resolution Authority. The requirement can be met with the total capital base in addition to senior non-preferred and senior preferred debt with some conditions, such as having more than one year to maturity. This debt is referred to as eligible liabilities. The subordination requirement provided for in Bank Recovery and Resolution Directive II (BRRD II) has not been implemented in Iceland. No market confidence charge is applied in Iceland.

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 30 September 2023 the LAA and RCA were both equal to the total SREP capital requirement of 10.6%, resulting in an MREL requirement of 21.2% of REA. On 18 October 2023 a new MREL requirement took effect based on the latest SREP capital requirement of 10.4% resulting in an MREL requirement of 20.8% of REA.

	30.9.2023		31.12.2022	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	209,107	21.2%	211,892	21.2%
Combined buffer requirement	91,731	9.3%	93,028	9.3%
MREL including combined buffer requirement	300,838	30.5%	304,920	30.5%

	30.9.2023		31.12.2022	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	239,962	24.3%	222,119	22.2%
Eligible liabilities	146,588	14.9%	122,925	12.3%
Own funds and eligible liabilities	386,550	39.2%	345,044	34.5%

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