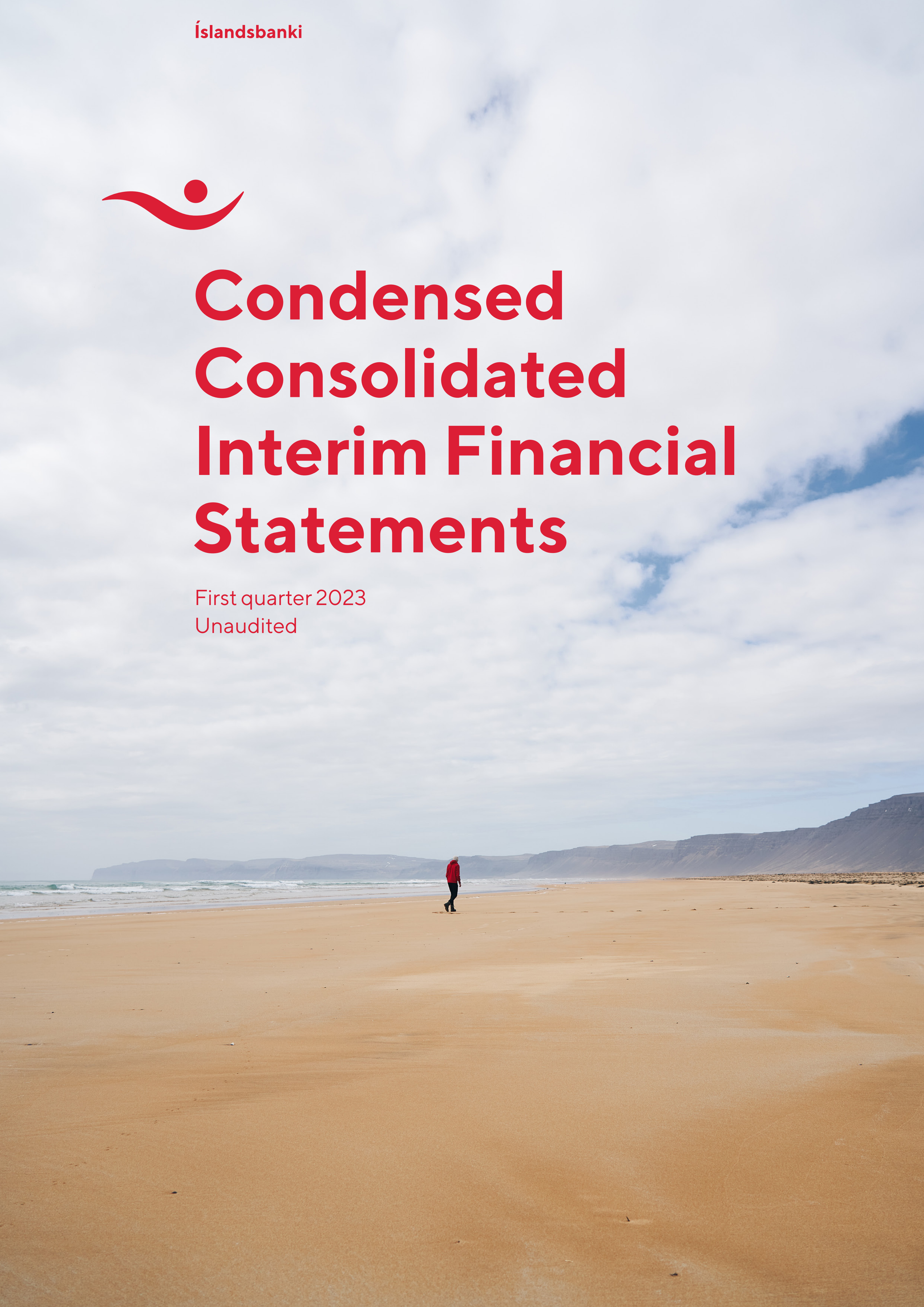
Íslandsbanki



Condensed Consolidated Interim Financial Statements

First quarter 2023
Unaudited

Contents

Factsheet 1Q23

Íslandsbanki

Insight

The Bank believes in moving Iceland forward by empowering its customers to succeed – reflecting a commitment to run a solid business that is a force for good in society. This is highlighted in the Bank's new strategy with Service, Data, Sustainability and Employees being the strategic priorities for the next two years.

Íslandsbanki's 1Q23 net profit amounted to ISK 6.2bn and return on equity was 11.4% which is above the Bank's financial targets. The Bank's operating income rose by 32.6% compared to 1Q22 and the growth in net interest income was 34.9%, compared to 1Q22. Net interest margin increased to 3.2% for the period, compared to 2.6% in 1Q22.

The cost-to-income ratio was within the Bank's targets and was 42.1%, due to strong revenue generation. Considerable cost increases, compared to the previous quarter, are mainly caused by contractual wage increases and non-recurring items. Loans to customers grew by 2.7% during the quarter and increase in deposits from customers amounted to ISK 10bn. Deposit margin was 2.2% for the period, having been 2.1% in 4Q22.

The Bank

12 branches

701 number of FTEs at Íslandsbanki at period end

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

Market share[1]

31% retail customers

38% SMEs

35% large companies

Sustainability 1Q23

- IS Haf fjárfestingar, a fund investing in sea related activities established
- Íslandsbanki purchased certified carbon units from Yggdrasill Carbon
- A report on the significance of SMEs in Iceland published in cooperation with Reykjavík Economics

Digital milestones 1Q23

- All debit cards have now been migrated to Paymentology's new card system
- Important milestone was reached with closing of the RB Mainframe
- Customers can subscribe to regular savings in the Íslandsbanki app

Ratings and certifications

S&P Global Ratings

BBB/A-2

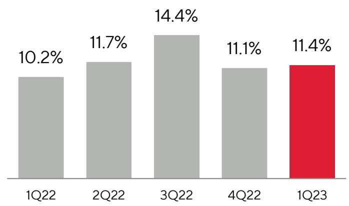
Stable outlook

EUROMONEY AWARDS FOR EXCELLENCE 2022 ICELAND BEST BANK

EQUAL PAY CERTIFICATE

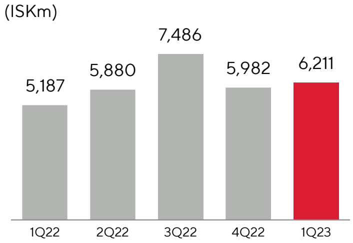
JAFNVÆGISVOG FKA 2022 VIÐURKENNING

Return on equity

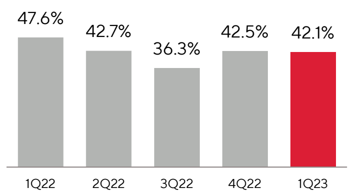


Profit after tax

(ISKm)

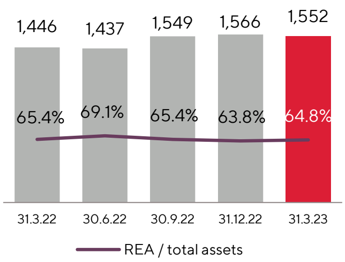


Cost-to-income ratio



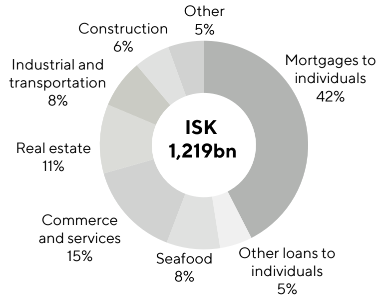
Total assets

(ISKbn)



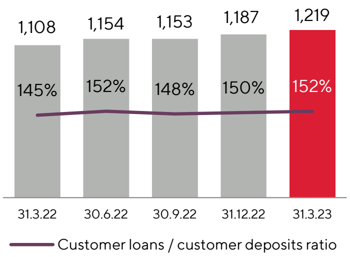
Loans to customers

(Sector split as of 31.3.23)

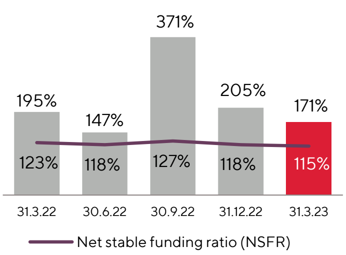


Loans to customers

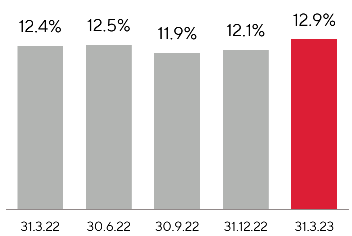
(ISKbn)



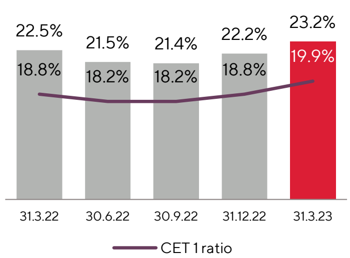
Total liquidity coverage ratio



Leverage ratio[2]



Total capital ratio[2]



1. Based on Gallup surveys regarding primary bank. 6 months rolling average for retail customers, February 2023 survey for SMEs and 2022 average for large companies.
2. Including 1Q22 profit for 31.3.22, 3Q22 profit for 30.9.22 and 1Q23 profit for 31.3.23.

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 31 March 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 Group's profit from operations for the first quarter of 2023 amounted to ISK 6,211 million and the return on equity was 11.4%, surpassing the Bank's target of over 10% ROE. At the end of the reporting period, the Group employed 740 full-time members of staff, including 701 within the Bank itself, and operated 12 branches.

Net interest income rose by 34.9% from the previous year, mainly due to the rising interest rate environment and its impact on the yield of the Bank's liquidity portfolio. As a result, the net interest margin increased from 2.6% to 3.2%. Net fee and commission income rose by 13.2%, with a strong performance in Allianz Ísland hf. and good growth in fees from cards and payment processing due to an increase in international travel. Net financial income amounted to ISK 538 million due to positive impact from a rise in the ISK yield curve on derivative hedges. Salaries and related expenses increased by 15.7% between years due to general wage increases, accrued salaries and redundancy costs. Other operating expenses increased by 27.8%, which is explained by higher inflation, renovation of the Bank's headquarters, strategic advisory costs, and more activity in Allianz Ísland. The Group's cost-to-income ratio fell from 47.6% to 42.1% between years and was well below the 45% target. Net impairments amounted to ISK 675 million and the cost-of-risk ratio amounted to 0.23% for the quarter. The Group's loan book grew by 2.7% during the quarter with growth across business units and particularly strong growth in Business Banking. The Group's ratio of non-performing loans remains at 1.7% at the end of the quarter.

At the end of 2022, the Bank received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland's (FSA) inspection into the 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). The findings indicate the FSA's view that the Bank may have violated certain laws and regulations applicable to the Bank's operations. The Bank has requested to enter into settlement proceedings and has already submitted its response to the preliminary findings. The Bank has already made changes to its rules and procedures following the Offering and will, subject to the outcome of its internal review and discussions with the FSA, continue to implement appropriate measures.

In February 2023, Íslandsbanki and Kvika banki hf. commenced discussions regarding a potential merger between the two banks. Íslandsbanki believes that a combination of the two companies could offer opportunities for increased operational efficiency and value creation, providing customers with a wider range of products, increased services, and lower costs. A successful combination would increase Íslandsbanki's balance sheet by about 20% and Kvika's insurance operations would diversify the Bank's income base, providing benefits to shareholders and customers of both companies. Both parties have appointed foreign financial advisors and domestic legal advisors. The companies and advisors are currently assessing the synergies to be gained from the merger, as well as assessing the position of the merged company in the market. During the second quarter of 2023 the financial advisors will submit their analysis on the proposed merger, following which the companies will make decisions on the next steps in the process. The premises for the discussions and its execution have been reported to the Competition Authority, and the parties aim to make the most of pre-notification discussions with the Competition Authority in accordance with recent rules to this effect.

Capital and funding

Deposits from customers remain the Bank's largest source of funding and rose by 1.3% during the quarter. The largest increase came from Personal Banking, where deposits increased by 4.3%. There was considerable volatility in the international banking markets in the first quarter of 2023. This has had a negative impact on funding markets and funding costs. The Bank is a regular issuer of covered bonds in the domestic market and issued ISK 8.5 billion in the first quarter, the Bank also issued ISK 1.6 billion senior unsecured domestically in the first quarter and a private placement amounting to SEK 500 million in April.

The Bank paid dividends of ISK 6.15 per share, totalling approximately ISK 12.3 billion, to its shareholders in March 2023 in line with its dividend policy of 50% of the previous year earnings. The Group remains well capitalised, with a total capital ratio of 22.9%, well above the regulatory requirement of 19.9%, which will increase by 0.5 percentage points in the first quarter of 2024 as a result of the countercyclical buffer increasing from 2.0% to 2.5%. The Bank has updated its CET1 capital target from a fixed number of 16.5% to a range based on the size of the management buffer. The updated target for the management buffer is 100-300 basis points on top of regulatory requirements. Based on the current capital requirements and taking into account the increase in the countercyclical buffer, the CET1 target range is 16.8-18.8%.

Due to volatility in the global economy and capital markets the Bank has been careful regarding buybacks of its own shares. The Bank announced in February its plans for an ISK 5 billion buyback program. The Bank bought back own shares amounting to about ISK 0.9 billion in the first quarter and, subject to market conditions, plans to continue with the plan over the next few months.

Directors' Report

Outlook

The Icelandic economy has moved rather swiftly from the COVID-induced recession in 2020 to operating at full capacity. GDP growth measured 6.4% in 2022, buoyed by strong growth in exports and private consumption. The outlook is for significantly slower growth in 2023, with the 3.4% growth forecast by Íslandsbanki Research driven to a large degree by continued increase in exports while domestic demand growth is expected to moderate considerably year-on-year.

The rebound in tourism has been the main pillar of recent export growth and the sector has broadly recovered from the impact of the COVID-19 pandemic. The outlook is that foreign tourists to Iceland are likely to exceed 2.1 million in 2023, making it the second-largest year ever in Icelandic tourism.

Inflation has spiked recently in Iceland, as it has in other OECD countries. Domestic inflation peaked in February at 10.2% and eased to 9.9% in April. It is relatively broad-based, with domestic cost pressures rising and the impact of housing costs and global cost pressures abating. The outlook is for global costs to subside and the domestic housing market to stabilise. The recent appreciation of the ISK has lowered imported inflation, and the outlook is for headline inflation to fall to 7.4% by the fourth quarter of 2023.

The Central Bank has continued its rate hike process in the first quarter of 2023, bringing its main policy rate to 7.5% as of end-March. Some further tightening is expected in the second quarter and Research expects the policy rate to peak at 8.0% by mid-year and stay at that level for the remainder of the year.

Despite the turbulence in the international economy and capital markets, the outlook for the Bank's operations in 2023 remains favourable. The tourism sector continues to recover, and unemployment remains low in Iceland. Higher inflation and wage increases are impacting the Bank's cost base and is offset by higher interest income. The Bank expects profitability to be in in the range of 10-11% in 2023, assuming normalised impairments, and the cost-to-income ratio is expected to be in the range of 40-45%, below the Bank's target to be below 45%. Furthermore, the Bank plans to optimise its capital structure before year-end 2024, subject to market conditions and the economic environment.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has the second largest shareholder base of any 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 under 13 thousand shareholders, where 91.4% of the Bank's shares were owned by domestic parties and 8.6% by international investors. Apart from the Government, pension funds and insurance companies were the largest investor group, owning 36.3% of the outstanding shares.

For further information on the Bank's shareholders see Note 33.

Directors' Report

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 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 31 March 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 31 March 2023.

Kópavogur, 4 May 2023

Board of Directors:

Finnur Árnason, Chairman

Guðrún Þorgeirsdóttir, Vice-Chairman

Agnar Tómas Möller

Anna Þórðardóttir

Ari Daníelsson

Frosti Ólafsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Birna Einarsdóttir

Consolidated Interim Income Statement

	Notes	2023 1.1-31.3	2022 1.1-31.3
Interest income calculated using the effective interest rate method		30,070	17,592
Other interest income		2,093	1,205
Interest expense		(19,740)	(9,588)
Net interest income	5	12,423	9,209
Fee and commission income		4,393	3,823
Fee and commission expense		(924)	(759)
Net fee and commission income	6	3,469	3,064
Net financial income (expense)	7	538	(95)
Net foreign exchange gain	8	244	166
Other operating income	9	43	265
Other net operating income		825	336
Total operating income		16,717	12,609
Salaries and related expenses	10	(3,960)	(3,422)
Other operating expenses	11	(3,082)	(2,412)
Contribution to the Depositors' and Investors' Guarantee Fund		-	(165)
Bank tax		(462)	(430)
Total operating expenses		(7,504)	(6,429)
Profit before net impairment on financial assets		9,213	6,180
Net impairment on financial assets	12	(675)	483
Profit before tax		8,538	6,663
Income tax expense	13	(2,335)	(1,463)
Profit for the period from continuing operations		6,203	5,200
Discontinued operations held for sale, net of income tax		8	(13)
Profit for the period		6,211	5,187

Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf.	14	3.11	2.60

The notes on pages 12 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2023 1.1-31.3	2022 1.1-31.3
Profit for the period	6,211	5,187
Net gain (loss) on financial liabilities	(1,513)	203
Items that will not be reclassified to the income statement	(1,513)	203
Foreign currency translation	-	1
Items that may subsequently be reclassified to the income statement	-	1
Other comprehensive income (expense) for the period, net of tax	(1,513)	204
Comprehensive income for the period	4,698	5,391

The notes on pages 12 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2023	31.12.2022
Assets			
Cash and balances with Central Bank	19	67,764	94,424
Loans to credit institutions	20	81,331	110,364
Bonds and debt instruments	15	127,254	130,804
Derivatives	21	5,605	7,461
Loans to customers	22	1,218,999	1,186,639
Shares and equity instruments	15	13,839	15,868
Investments in associates	24	3,853	3,844
Property and equipment		6,734	6,752
Intangible assets		3,252	3,279
Other assets	25	22,191	6,072
Non-current assets and disposal groups held for sale		708	728
Total Assets		1,551,530	1,566,235
Liabilities			
Deposits from Central Bank and credit institutions	26	13,694	15,269
Deposits from customers	27	800,071	789,897
Derivative instruments and short positions	21	12,745	10,804
Debt issued and other borrowed funds	29	438,605	468,270
Subordinated loans	30	33,839	34,392
Tax liabilities		13,206	12,128
Other liabilities	31	28,985	16,601
Total Liabilities		1,341,145	1,347,361
Equity			
Share capital		9,963	10,000
Share premium		55,000	55,000
Reserves		7,676	9,158
Retained earnings		137,746	144,716
Total Equity		210,385	218,874
Total Liabilities and Equity		1,551,530	1,566,235

The notes on pages 12 to 55 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							5,187	5,187
Net gain (loss) on financial liabilities					413		(210)	203
Foreign currency translation						1		1
Comprehensive income for the period	-	-	-	-	413	1	4,977	5,391
Dividends paid							(11,900)	(11,900)
Restricted due to capitalised development costs				(73)			73	-
Restricted due to fair value changes				176			(176)	-
Restricted due to associates				2			(2)	-
Equity as at 31 March 2022	10,000	55,000	2,500	4,745	(641)	1	125,596	197,201
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							6,211	6,211
Net loss on financial liabilities					(1,513)			(1,513)
Comprehensive income (expense) for the period	-	-	-	-	(1,513)	-	6,211	4,698
Dividends paid							(12,254)	(12,254)
Purchase of treasury shares	(37)						(896)	(933)
Restricted due to capitalised development costs				(73)			73	-
Restricted due to fair value changes				123			(123)	-
Restricted due to associates				(19)			19	-
Equity as at 31 March 2023	9,963	55,000	2,500	4,901	273	2	137,746	210,385

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 31 March 2023, the Bank's paid-up share capital stood 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. The dividends were paid on 27 March 2023.

The notes on pages 12 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

		2023	2022
		1.1-31.3	1.1-31.3
Profit for the period		6,211	5,187
Non-cash items included in profit for the period*		(8,340)	(9,374)
Changes in operating assets and liabilities*		(11,404)	(33,600)
Interest received		22,688	15,156
Interest paid**		(12,432)	(6,194)
Dividends received		144	673
Paid bank tax		(429)	(405)
Paid income tax and special financial activities tax		(923)	(975)
Net cash used in operating activities		(4,485)	(29,532)
Net investment in subsidiaries and associates		-	225
Proceeds from sales of property and equipment		2	9
Purchase of property and equipment		(94)	(31)
Purchase of intangible assets		(131)	(106)
Net cash provided by (used in) investing activities		(223)	97
Proceeds from borrowings		26,180	59,481
Repayment and repurchases of borrowings		(53,174)	(48,626)
Repayment of lease liabilities		(125)	(113)
Dividends paid		(12,254)	(11,701)
Purchase of treasury shares		(933)	-
Net cash provided by financing activities		(40,306)	(959)
Net increase in cash and cash equivalents		(45,014)	(30,394)
Effects of foreign exchange rate changes		(59)	(72)
Cash and cash equivalents at the beginning of the year		139,035	130,597
Cash and cash equivalents at period-end		93,962	100,131
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,939	3,538
Unrestricted balances with Central Bank	19	54,267	64,987
Bank accounts	20	35,756	31,606
Cash and cash equivalents at year-end		93,962	100,131

*For further breakdown see the following page.

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

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

The notes on pages 12 to 55 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 year

	2023 1.1-31.3	2022 1.1-31.3
Net interest income	(12,423)	(9,209)
Depreciation, amortisation, and write-offs	374	339
Share of profit and gain from sale of associates	(9)	(160)
Net impairment on financial assets	705	(449)
Foreign exchange gain	(244)	(166)
Net gain from sales of property and equipment	(1)	(2)
Unrealised fair value gain recognised in profit or loss	451	(1,661)
Discontinued operations held for sale, net of income tax	(8)	13
Bank tax	462	430
Income tax expense	2,335	1,463
Other changes	18	28
Total	(8,340)	(9,374)

Changes in operating assets and liabilities

	2023 1.1-31.3	2022 1.1-31.3
Mandatory reserve and pledged balances with Central Bank	437	(17)
Loans to credit institutions	7,652	(24,784)
Bonds and debt instruments	3,771	1,243
Loans to customers	(30,439)	(23,949)
Shares and equity instruments	2,019	2,275
Other assets	(16,107)	(5,393)
Non-current assets and liabilities held for sale	30	(340)
Deposits from Central Bank and credit institutions	(1,446)	(2,154)
Deposits from customers	10,711	19,547
Derivative instruments and short positions	(201)	(3,771)
Other liabilities	12,169	3,743
Total	(11,404)	(33,600)

Significant non-cash transactions

Significant non-cash transactions 1 January to 31 March 2023
During the period the Group did not have any significant non-cash transactions.

Significant non-cash transactions 1 January to 31 March 2022
The Bank paid dividends to shareholders amounting to ISK 11,900 million, of which ISK 199 million were withheld for capital income tax due in the second quarter 2022.

The notes on pages 12 to 55 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 31 March 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 4 May 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 31 March 2023 the exchange rate of the ISK against the USD was 136.37 and for the EUR 148.30 (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 first quarter of 2023, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in February and an updated forecast for inflation in March. 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 %	Estimate 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026
Economic growth (YoY real GDP change)	6.4	3.4	3.4	2.9	2.4
Housing prices in Iceland (average YoY change)	20.7	4.1	2.6	4.0	3.5
Purchasing power (average YoY change)	0.0	0.5	2.2	2.1	1.6
ISK exchange rate index (average YoY change)	(3.1)	3.5	(4.3)	(1.7)	0.0
Policy rate, Central Bank of Iceland (average per year)	4.2	7.2	7.0	6.0	5.2
Inflation (average per year)	8.3	8.0	4.5	3.3	2.8
Capital formation (YoY real change)	6.9	3.3	4.5	3.8	2.5
thereof capital formation in industry	15.2	0.7	3.9	3.8	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 320 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 170 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), IT, Risk Management, Compliance, and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (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 31 March 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)	4,252	4,174	3,133	906	(77)	12,388	35	12,423
Net fee and commission income (expense)	956	549	1,134	15	(1)	2,653	816	3,469
Other net operating income	6	12	209	521	52	800	25	825
Total operating income	5,214	4,735	4,476	1,442	(26)	15,841	876	16,717
Salaries and related expenses	(637)	(564)	(529)	(77)	(1,871)	(3,678)	(282)	(3,960)
Other operating expenses	(653)	(305)	(278)	(102)	(1,528)	(2,866)	(216)	(3,082)
Bank tax	(205)	(107)	(137)	(10)	(3)	(462)	-	(462)
Net impairment on financial assets	(157)	(615)	52	45	-	(675)	-	(675)
Cost allocation	(1,433)	(1,116)	(992)	123	3,418	-	-	-
Profit (loss) before tax	2,129	2,028	2,592	1,421	(10)	8,160	378	8,538
Income tax income (expense)	(607)	(555)	(710)	(395)	2	(2,265)	(70)	(2,335)
Profit (loss) for the period from continuing operations	1,522	1,473	1,882	1,026	(8)	5,895	308	6,203
Net segment revenue from external customers	22,571	6,669	13,910	(27,537)	228	15,841	876	16,717
Net segment revenue from other segments	(17,357)	(1,934)	(9,434)	28,979	(254)	-	-	-
Fee and commission income	1,758	560	1,153	104	1	3,576	817	4,393
Depreciation, amortisation, and write-offs	(43)	(15)	-	-	(313)	(371)	(3)	(374)
At 31 March 2023								
Loans to customers	560,548	292,775	365,661	15	-	1,218,999	-	1,218,999
Other assets	4,111	2,182	12,714	303,561	9,517	332,085	446	332,531
Total segment assets	564,659	294,957	378,375	303,576	9,517	1,551,084	446	1,551,530
Deposits from customers	377,685	232,523	169,617	23,297	-	803,122	(3,051)	800,071
Other liabilities	2,431	1,505	13,959	515,781	6,095	539,771	1,303	541,074
Total segment liabilities	380,116	234,028	183,576	539,078	6,095	1,342,893	(1,748)	1,341,145
Allocated equity	39,712	42,644	64,532	60,358	946	208,192	2,194	210,385
Risk exposure amount	259,324	279,477	405,069	53,488	6,273	1,003,631	1,347	1,004,978

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 31 March 2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	3,291	3,133	2,416	403	(47)	9,196	13	9,209
Net fee and commission income (expense)	847	518	1,072	(67)	-	2,370	694	3,064
Other net operating income	8	9	222	70	49	358	(22)	336
Total operating income	4,146	3,660	3,710	406	2	11,924	685	12,609
Salaries and related expenses	(600)	(483)	(447)	(71)	(1,605)	(3,206)	(216)	(3,422)
Other operating expenses	(598)	(271)	(245)	(124)	(1,074)	(2,312)	(100)	(2,412)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(32)	(4)	-	-	(165)	-	(165)
Bank tax	(189)	(89)	(127)	(22)	(3)	(430)	-	(430)
Net impairment on financial assets	(67)	413	203	(10)	-	539	(56)	483
Cost allocation	(1,171)	(847)	(814)	148	2,684	-	-	-
Profit before tax	1,392	2,351	2,276	327	4	6,350	313	6,663
Income tax income (expense)	(411)	(634)	(625)	281	(2)	(1,391)	(72)	(1,463)
Profit for the period from continuing operations	981	1,717	1,651	608	2	4,959	241	5,200
Net segment revenue from external customers	7,530	4,075	5,052	(4,765)	32	11,924	685	12,609
Net segment revenue from other segments	(3,384)	(415)	(1,342)	5,171	(30)	-	-	-
Fee and commission income	1,395	531	1,121	79	-	3,126	697	3,823
Depreciation, amortisation, and write-offs	(43)	(14)	(1)	-	(277)	(335)	(4)	(339)
At 31 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 31 March 2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	16	16	-	35
Net fee and commission income (expense)	390	453	(8)	(19)	816
Other net operating income	49	9	83	(116)	25
Total operating income	442	478	91	(135)	876
Salaries and related expenses	(186)	(78)	(18)	-	(282)
Other operating expenses	(55)	(229)	(66)	134	(216)
Net impairment on financial assets	(1)	1	-	-	-
Profit (loss) before tax	200	172	7	(1)	378
Income tax expense	(40)	(30)	-	-	(70)
Profit (loss) for the period from continuing operations	160	142	7	(1)	308
Net segment revenue from external customers	516	442	-	(82)	876
Net segment revenue from other segments	(74)	36	91	(53)	-
Fee and commission income	526	453	-	(162)	817
Depreciation, amortisation, and write-offs	-	-	(1)	(2)	(3)
At 31 March 2023					
Total assets	2,620	2,108	5,451	(9,733)	446
Total liabilities	339	725	101	(2,913)	(1,748)
Total equity	2,281	1,383	5,350	(6,820)	2,194

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

5. Net interest income

	2023 1.1-31.3	2022 1.1-31.3
Cash and balances with Central Bank	1,226	398
Loans to credit institutions	504	18
Loans to customers	28,340	17,176
Financial assets mandatorily at fair value through profit or loss	2,092	1,203
Other assets	1	2
Interest income	32,163	18,797
Deposits from Central Bank and credit institutions	(33)	(40)
Deposits from customers	(10,202)	(3,472)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(140)	(170)
Debt issued and other borrowed funds at amortised cost	(7,258)	(4,937)
Subordinated loans	(799)	(279)
Lease liabilities	(20)	(21)
Other liabilities	(1,288)	(669)
Interest expense	(19,740)	(9,588)
Net interest income	12,423	9,209

6. Net fee and commission income

	2023 1.1-31.3	2022 1.1-31.3
Asset management	739	787
Investment banking and brokerage	826	892
Payment processing	1,749	1,233
Loans and guarantees	554	556
Other fee and commission income	525	355
Fee and commission income	4,393	3,823
Brokerage	(107)	(107)
Clearing and settlement	(815)	(561)
Other fee and commission expense	(2)	(91)
Fee and commission expense	(924)	(759)
Net fee and commission income	3,469	3,064

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 income (expense)

	2023 1.1-31.3	2022 1.1-31.3
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss	1,049	(1,683)
Net gain (loss) on financial liabilities designated as at fair value through profit or loss	(680)	1,588
Net gain on fair value hedges	61	-
Net gain on derecognition of financial liabilities measured at amortised cost	108	-
Net financial income (expense)	538	(95)

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

	2023 1.1-31.3	2022 1.1-31.3
Net loss on bonds and related derivatives	(693)	(1,082)
Net loss on shares and related derivatives	(50)	(517)
Dividend income	144	673
Net gain on debt issued and related derivatives	175	122
Net gain on economic hedging and other derivatives	962	709
Net financial income (expense)	538	(95)

8. Net foreign exchange gain

	2023 1.1-31.3	2022 1.1-31.3
Cash and balances with Central Bank	(59)	(72)
Loans at amortised cost	(8,490)	(7,192)
Financial assets mandatorily at fair value through profit or loss	(5,498)	(3,888)
Other assets	4	(4)
Net foreign exchange loss for assets	(14,043)	(11,156)
Deposits	4,331	3,032
Debt issued and other borrowed funds designated as at fair value through profit or loss	1,924	3,646
Debt issued and other borrowed funds at amortised cost	7,204	3,016
Subordinated loans	828	1,628
Net foreign exchange gain for liabilities	14,287	11,322
Net foreign exchange gain	244	166

9. Other operating income

	2023 1.1-31.3	2022 1.1-31.3
Net gain from sale of associates	-	158
Share of profit of associates, net of income tax	9	2
Legal fees	12	13
Rental income	17	9
Other net operating income	5	83
Other operating income	43	265

Amounts are in ISK million

10. Salaries and related expenses

	2023 1.1-31.3	2022 1.1-31.3
Salaries	3,044	2,621
Contributions to pension funds	455	409
Social security charges and financial activities tax*	409	356
Other salary-related expenses	52	36
Salaries and related expenses	3,960	3,422

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

11. Other operating expenses

	2023 1.1-31.3	2022 1.1-31.3
Professional services	725	409
Software and IT expenses	1,264	1,160
Real estate and office equipment	216	123
Depreciation, amortisation, and write-offs	374	339
Other administrative expenses	503	381
Other operating expenses	3,082	2,412

12. Net impairment on financial assets

	2023 1.1-31.3	2022 1.1-31.3
Net change in expected credit losses, on-balance sheet items	(459)	607
Net change in expected credit losses, off-balance sheet items	(216)	(124)
Net impairment on financial assets	(675)	483

Amounts are in ISK million

13. 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 first quarter 2023 is 27.3% (first quarter 2022: 21.9%).

	2023 1.1-31.3	2022 1.1-31.3
Current tax expense excluding discontinued operations	2,149	695
Special financial activities tax	602	128
Adjustments in prior year's calculated income tax	-	1
Changes in deferred tax assets and deferred tax liabilities	(416)	639
Income tax recognised in the income statement	2,335	1,463
Income tax recognised in other comprehensive income	-	(73)

	2023 1.1-31.3		2022 1.1-31.3	
Profit before tax	8,538		6,663	
20% income tax calculated on the profit for the period	1,708	20.0%	1,333	20.0%
Special financial activities tax	602	7.1%	128	1.9%
Income not subject to tax	(80)	(0.9%)	(98)	(1.5%)
Non-deductible expenses	110	1.3%	91	1.4%
Other differences	(5)	(0.1%)	9	0.1%
Effective income tax expense	2,335	27.3%	1,463	21.9%

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

14. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2023 1.1-31.3	2022 1.1-31.3	2023 1.1-31.3	2022 1.1-31.3	2023 1.1-31.3	2022 1.1-31.3
Profit (loss) attributable to shareholders of the Bank	6,203	5,200	8	(13)	6,211	5,187
Weighted average number of outstanding shares	1,998	2,000	1,998	2,000	1,998	2,000
Basic earnings per share	3.11	2.60	-	(0.01)	3.11	2.59

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

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 31 March 2023	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	67,764	67,764
Loans to credit institutions	-	-	-	81,331	81,331
Listed bonds and debt instruments	123,403	-	-	-	123,403
Listed bonds and debt instruments used for economic hedging	1,764	-	-	-	1,764
Unlisted bonds and debt instruments	2,087	-	-	-	2,087
Derivatives	5,605	-	-	-	5,605
Loans to customers	-	-	-	1,218,999	1,218,999
Listed shares and equity instruments	2,852	-	-	-	2,852
Listed shares and equity instruments used for economic hedging	8,724	-	-	-	8,724
Unlisted shares and equity instruments	2,263	-	-	-	2,263
Other financial assets	-	-	-	21,314	21,314
Total financial assets	146,698	-	-	1,389,408	1,536,106
Deposits from Central Bank and credit institutions	-	-	-	13,694	13,694
Deposits from customers	-	-	-	800,071	800,071
Derivative instruments and short positions	11,882	863	-	-	12,745
Debt issued and other borrowed funds	-	43,670	83,381	311,554	438,605
Subordinated loans	-	-	-	33,839	33,839
Other financial liabilities	-	-	-	24,518	24,518
Total financial liabilities	11,882	44,533	83,381	1,183,676	1,323,472

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

16. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 March 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, and types of inputs used in the fair value measurements during the period.

At 31 March 2023	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	125,167	-	2,087	127,254
Derivatives	-	5,605	-	5,605
Shares and equity instruments	11,576	-	2,263	13,839
Total financial assets	136,743	5,605	4,350	146,698
Short positions	1,626	-	-	1,626
Derivative instruments	-	11,119	-	11,119
Debt issued and other borrowed funds designated as at FVTPL	83,381	-	-	83,381
Total financial liabilities	85,007	11,119	-	96,126

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
Net gain on financial instruments recognised in profit or loss	55	18
Fair value at 31 March 2023	2,087	2,263

Amounts are in ISK million

16. 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 before tax would have been affected if one or more of the inputs for fair value measurement in Level 3 were changed.

At 31 March 2023 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 bonds and debt instruments	2,087	16	5	(2)	(5)
Level 3 shares and equity instruments	2,263	1,952	1,138	(88)	(202)

At 31 December 2022 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavourable	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)

17. Financial instruments not carried at fair value

Assets

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

For "Cash and balances with Central Bank", "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 16.

Amounts are in ISK million

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

At 31 March 2023	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	67,764	-	67,764	67,764
Loans to credit institutions	-	81,331	-	81,331	81,331
Loans to customers	-	-	1,199,786	1,199,786	1,218,999
Other financial assets	-	21,314	-	21,314	21,314
Total financial assets	-	170,409	1,199,786	1,370,195	1,389,408
Deposits from Central Bank and credit institutions	-	13,568	-	13,568	13,694
Deposits from customers	-	800,054	-	800,054	800,071
Debt issued and other borrowed funds	217,965	88,632	-	306,597	311,554
Subordinated loans	-	32,445	-	32,445	33,839
Other financial liabilities	-	24,518	-	24,518	24,518
Total financial liabilities	217,965	959,217	-	1,177,182	1,183,676

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.

18. Offsetting financial assets and financial liabilities

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

At 31 March 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	31.3.2023	31.12.2022
Net financial assets	5,605	7,461
Amounts not set off but subject to master netting arrangements and similar agreements	(3,941)	(6,382)
- Financial liabilities	(719)	(856)
- Cash collateral received	(2,834)	(4,962)
- Financial instruments collateral received	(388)	(564)
Net amount after consideration of potential effect of netting arrangements	1,664	1,079

Derivative instruments and short positions	31.3.2023	31.12.2022
Net financial liabilities	12,745	10,804
Amounts not set off but subject to master netting arrangements and similar agreements	(7,138)	(7,486)
- Financial assets	(719)	(856)
- Cash collateral pledged	(6,419)	(6,630)
Net amount after consideration of potential effect of netting arrangements	5,607	3,318

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

19. Cash and balances with Central Bank

	31.3.2023	31.12.2022
Cash on hand	3,939	3,563
Unrestricted balances with Central Bank	54,267	80,866
Cash and unrestricted balances with Central Bank	58,206	84,429
Balances pledged as collateral to Central Bank	483	483
Mandatory reserve deposits with Central Bank	9,075	9,512
Cash and balances with Central Bank	67,764	94,424

20. Loans to credit institutions

	31.3.2023	31.12.2022
Money market loans	45,552	55,742
Bank accounts	35,756	54,606
Other loans	23	16
Loans to credit institutions	81,331	110,364

21. Derivative instruments and short positions

At 31 March 2023	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,986	47,992	8,040	170,026
Cross-currency interest rate swaps	109	16,434	271	16,237
Equity forwards	581	7,322	131	3,009
Foreign exchange forwards	328	10,274	624	23,798
Foreign exchange swaps	468	33,728	2,050	85,045
Bond forwards	133	2,988	3	1,037
Derivatives	5,605	118,738	11,119	299,152
Short positions in listed bonds	-	-	1,626	1,840
Total	5,605	118,738	12,745	300,992

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

21. 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 29) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2023 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 863 million (2022: negative ISK 1,596 million) and their total notional amount was ISK 44,490 million (2022: ISK 90,900 million).

22. Loans to customers

At 31 March 2023	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	570,768	5,369	5,451	(1,657)	(169)	(605)	579,157
Commerce and services	164,686	15,450	4,027	(1,099)	(1,726)	(856)	180,482
Construction	60,189	8,441	455	(707)	(235)	(42)	68,101
Energy	10,454	-	-	(51)	-	-	10,403
Financial services	2,100	1	-	(8)	-	-	2,093
Industrial and transportation	84,254	1,695	8,429	(278)	(51)	(2,362)	91,687
Investment companies	40,159	1,696	325	(535)	(65)	(32)	41,548
Public sector and non-profit organisations	13,240	496	1	(27)	(3)	-	13,707
Real estate	126,193	2,771	2,539	(497)	(86)	(298)	130,622
Seafood	100,300	895	137	(92)	(9)	(32)	101,199
Loans to customers	1,172,343	36,814	21,364	(4,951)	(2,344)	(4,227)	1,218,999

At 31 December 2022	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
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

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	109	-	-	109
Loans to customers	4,951	2,344	4,227	11,522
Other financial assets	6	4	-	10
Off-balance sheet loan commitments and financial guarantees	885	390	278	1,553
At 31 March 2023	5,954	2,738	4,505	13,197
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	293	(240)	(53)	-
Transfer to Stage 2	(280)	317	(37)	-
Transfer to Stage 3	(32)	(121)	153	-
Net remeasurement of loss allowance	(311)	130	(50)	(231)
New financial assets originated or purchased	749	29	302	1,080
Derecognitions and maturities	(104)	(6)	(229)	(339)
Write-offs*	-	-	(89)	(89)
Recoveries of amounts previously written off	-	-	31	31
Foreign exchange	-	-	(133)	(133)
Unwinding of interest	-	-	71	71
At 31 March 2023	4,951	2,344	4,227	11,522

*During the period financial assets amounting to ISK 75 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

23. 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	8	(5)	(3)	-
Transfer to Stage 2	(80)	81	(1)	-
Transfer to Stage 3	(1)	(1)	2	-
Net remeasurement of loss allowance	(145)	60	59	(26)
New loan commitments and financial guarantees	272	32	1	305
Derecognitions and maturities	(38)	(19)	(7)	(64)
At 31 March 2023	885	390	278	1,553
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

24. Investments in associates

		31.3.2023	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 3,421 million (CPI-linked, based on the CPI in March 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.

25. Other assets

	31.3.2023	31.12.2022
Receivables	1,356	1,682
Unsettled securities transactions	19,783	3,591
Accruals	211	166
Prepaid expenses	603	400
Deferred tax assets	120	116
Other assets	118	117
Other assets	22,191	6,072

Amounts are in ISK million

26. Deposits from Central Bank and credit institutions

	31.3.2023	31.12.2022
Deposits from credit institutions	13,598	15,105
Repurchase agreements with Central Bank	96	164
Deposits from Central Bank and credit institutions	13,694	15,269

27. Deposits from customers

	31.3.2023	31.12.2022
Demand deposits and deposits with maturity up to 3 months	709,064	697,025
Term deposits with maturity of more than 3 months	91,007	92,872
Deposits from customers	800,071	789,897

	31.3.2023		31.12.2022	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	9,643	1%	8,791	1%
Municipalities	10,205	1%	9,412	1%
Companies	392,648	49%	400,329	51%
Individuals	387,575	49%	371,365	47%
Deposits from customers	800,071	100%	789,897	100%

28. Pledged assets

	31.3.2023	31.12.2022
Loans to customers	432,308	402,958
Financial assets pledged as collateral with Central Bank	7,440	5,723
Loans to credit institutions	7,128	7,813
Cash and balances pledged against Covered Bonds	18,549	19,477
Pledged assets against liabilities	465,425	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.

Amounts are in ISK million

29. Debt issued and other borrowed funds

	First issued	Maturity	Maturity type	Interest	31.3.2023	31.12.2022
Covered bonds in ISK	2015	2023	Bullet	Fixed rates	34,196	38,970
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	29,984	26,992
Covered bonds in ISK	2022	2027	Bullet	Floating rates	4,055	3,311
Covered bonds in EUR*	2022	2027	Bullet	Fixed rates	43,670	43,875
Covered bonds in ISK - CPI-linked	2012	2024	Bullet	Fixed rates	42,128	41,346
Covered bonds in ISK - CPI-linked	2015	2026	Bullet	Fixed rates	33,755	32,555
Covered bonds in ISK - CPI-linked	2019	2028	Amortising	Fixed rates	32,977	33,456
Covered bonds in ISK - CPI-linked	2017	2030	Bullet	Fixed rates	30,868	29,812
Covered bonds					251,633	250,317
Senior unsecured bonds in EUR**	2020	2023	Bullet	Fixed rates	43,533	43,876
Senior unsecured bonds in EUR (callable 2023)*	2018	2024	Bullet	Fixed rates	-	5,704
Senior unsecured bonds in NOK	2019	2024	Bullet	Fixed rates	5,240	5,972
Senior unsecured bonds in ISK	2019	2024	Amortising	Floating rates	234	282
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	1,949	2,157
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	3,288	3,406
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	6,238	6,903
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	2,650	2,739
Senior unsecured bonds in SEK	2022	2024	Bullet	Floating rates	10,580	10,957
Senior unsecured bonds in ISK	2020	2025	Bullet	Fixed rates	1,239	1,228
Senior unsecured bonds in SEK	2021	2025	Bullet	Floating rates	5,916	6,130
Senior unsecured bonds in NOK	2021	2025	Bullet	Floating rates	9,735	10,778
Senior unsecured bonds in EUR**	2022	2025	Bullet	Fixed rates	39,848	39,561
Senior unsecured bonds in NOK	2022	2025	Bullet	Floating rates	18,338	20,318
Senior unsecured bonds in ISK	2022	2027	Amortising	Floating rates	3,573	3,763
Senior unsecured bonds in ISK	2022	2027	Bullet	Fixed rates	7,058	5,301
Unsecured bonds					159,419	169,075
Other secured loans					15,825	36,650
Other unsecured loans					11,728	12,228
Other borrowed funds					27,553	48,878
Debt issued and other borrowed funds					438,605	468,270

The Group repurchased own bonds during the period amounting to ISK 5,515 million (2022: ISK 79,026 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2023 the total carrying amount of the bond issuance amounted to ISK 43,670 million and included in the amount are fair value changes amounting to ISK 1,378 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 March 2023 the total carrying amount of the bonds amounted to ISK 83,381 million; included in the amount are negative fair value changes amounting to ISK 5,169 million. The carrying amount of the bonds at 31 March 2023 was ISK 6,155 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

30. Subordinated loans

	Issued	Maturity	Callable	Interest	31.3.2023	31.12.2022
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	6,588	6,820
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,550	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%	9,464	9,199
Tier 2 subordinated loans					24,128	24,330
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	9,711	10,062
Additional Tier 1 subordinated loans					9,711	10,062
Subordinated loans					33,839	34,392

31. Other liabilities

	31.3.2023	31.12.2022
Accruals	2,693	2,448
Lease liabilities	3,688	3,708
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,553	1,338
Withholding tax	1,789	2,921
Unsettled securities transactions	16,422	3,805
Sundry liabilities	2,840	2,381
Other liabilities	28,985	16,601

32. Custody assets

	31.3.2023	31.12.2022
Custody assets - not managed by the Group	3,357,761	3,278,816

Amounts are in ISK million

33. Íslandsbanki's shareholders

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

		31.3.2023	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	6.4%	6.3%
Capital Group	USA	3.8%	4.9%
Brú Pension Fund	Iceland	3.2%	3.1%
Stapi Pension Fund	Iceland	2.5%	2.4%
Vanguard	USA	2.1%	1.3%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.2%	1.2%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
RWC Asset Management LLP	UK	1.2%	1.2%
Almenni Pension Fund	Iceland	1.0%	1.0%
Íslandssjóðir hf. (Iceland Funds)	Iceland	1.0%	1.3%
Other shareholders		16.3%	17.7%
Total		100.0%	100.0%

At 31 March 2023 the number of shareholders of the Bank were 12,679 (year-end 2022: 13,079). At 31 March 2023, 91.4% of the Bank's shares were owned by domestic parties and 8.6% by international investors (2022: 91.0% domestic parties and 9.0% international investors).

At 31 March 2023 the Bank's employees and related parties of the employees, not including board members, held 0.17% of shares in the Bank (year-end 2022: 0.18%).

34. Related party

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

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

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

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

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

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

At 31 March 2023	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	-	402	464	(62)	75
Associated companies	3,162	5,047	3,554	4,655	6
Balances with related parties	3,162	5,449	4,018	4,593	83

Amounts are in ISK million

34. Related party (continued)

1 January - 31 March 2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	18	9	10	-
Associated companies	114	22	1	536
Transactions with related parties	132	31	11	536

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 - 31 March 2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	7	5	1	1
Associated companies	-	1	-	365
Transactions with related parties	7	6	1	366

At 31 March 2023 a total of ISK 1 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.

35. Provision and contingencies

Provision

Initial Findings of the Financial Supervisory Authority of the Central Bank of Iceland

On 9 January 2023 the Bank announced that it had 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 Bank's share capital that took place in March 2022 (the Offering). In the findings the FSA indicates its view that the Bank may have violated certain laws and regulations applicable to its operations. The FSA pointed out its powers to impose administrative fines and to conclude cases with a settlement. The Bank has requested that the case be concluded with a settlement. The management of the Bank takes the FSA's findings seriously. The Bank submitted its response to the FSA's findings in mid-February and expects the FSA's reactions in due course. Following the Offering, the Bank has made changes to its internal rules and procedures and will, subject to the outcome of its internal review and discussions with the FSA, continue to implement appropriate measures. The amount of the potential administrative fine has not been decided and is therefore uncertain. The Bank has, however, recognised an undisclosed provision based on its own internal estimate.

Amounts are in ISK million

35. Provision and contingencies (continued)

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. The Group has not recognised a provision in relation to this matter.

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. One of the cases was heard in the District Court of Reykjanes on 30 March 2023 and the Court's ruling is expected shortly. 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.

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-indexed 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 timing of the EFTA Court's advisory opinion is uncertain, as well as its impact on the case.

35. Provision and contingencies (continued)

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.

In the event of an unfavourable ruling and a subsequent finding that the affected loans should bear a fixed rate of interest instead of a variable interest rate, the Bank's interest rate risk would rise significantly which could lead to a significant financial loss in the event of adverse developments of interest rates in the capital markets. The Bank believes that this is a very unlikely scenario. 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.

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.

36. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the first quarter of 2023.

37. 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.

38. 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.

39. 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 1,588 million are subject to 100% Government guarantee, ISK 851 million to 85% Government guarantee and ISK 351 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.

39. Maximum credit exposure and collateral (continued)

At 31 March 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	67,764	-	-	-	-	-	-	-	67,764	3
Loans to credit institutions	81,331	-	-	-	-	-	-	-	81,331	109
Bonds and debt instruments	127,254	-	-	-	-	-	-	-	127,254	-
Derivatives	24,756	-	-	-	8,932	-	-	8,932	15,824	-
Loans to customers:	1,218,999	568,921	314,791	82,606	22,479	68,551	72,190	1,129,538	89,461	11,522
Individuals	579,157	519,106	9,638	11	181	16,172	173	545,281	33,876	2,431
- Thereof mortgages	517,625	514,235	2,575	-	172	-	-	516,982	643	954
Commerce and services	180,482	8,411	77,346	788	3,472	41,310	34,457	165,784	14,698	3,681
Construction	68,101	15,203	42,193	1	302	3,107	2,371	63,177	4,924	984
Energy	10,403	29	8,966	-	11	4	24	9,034	1,369	51
Financial services	2,093	-	737	-	-	-	1,146	1,883	210	8
Industrial and transportation	91,687	1,910	48,480	2,009	123	7,332	13,888	73,742	17,945	2,691
Investment companies	41,548	3,209	10,291	-	17,025	120	10,141	40,786	762	632
Public sector and non-profit organisations	13,707	49	752	-	-	25	18	844	12,863	30
Real estate	130,622	20,510	105,077	-	1,268	421	830	128,106	2,516	881
Seafood	101,199	494	11,311	79,797	97	60	9,142	100,901	298	133
Other financial assets	21,314	-	-	-	-	-	-	-	21,314	10
Off-balance sheet items:	211,409	7,057	36,514	8,607	2,056	1,046	22,986	78,266	133,143	1,553
Financial guarantees	19,612	-	6,784	78	1,463	-	2,812	11,137	8,475	450
Loan commitments	191,797	7,057	29,730	8,529	593	1,046	20,174	67,129	124,668	1,103
Total	1,752,827	575,978	351,305	91,213	33,467	69,597	95,176	1,216,736	536,091	13,197

Amounts are in ISK million

39. 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

40. 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 31 March 2023

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	496,195	619	-	496,814
Risk class 5-6	479,592	16,837	-	496,429
Risk class 7-8	180,405	15,063	-	195,468
Risk class 9	16,146	4,275	-	20,421
Risk class 10	-	-	21,364	21,364
Unrated	5	20	-	25
	1,172,343	36,814	21,364	1,230,521
Expected credit losses	(4,951)	(2,344)	(4,227)	(11,522)
Net carrying amount	1,167,392	34,470	17,137	1,218,999

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	101,709	2	-	101,711
Risk class 5-6	65,863	4,331	-	70,194
Risk class 7-8	25,426	10,977	-	36,403
Risk class 9	752	304	-	1,056
Risk class 10	-	-	1,688	1,688
Unrated	1,727	183	-	1,910
	195,477	15,797	1,688	212,962
Expected credit losses	(885)	(390)	(278)	(1,553)
Total	194,592	15,407	1,410	211,409

Amounts are in ISK million

40. 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

41. 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.

Amounts are in ISK million

41. Forbearance (continued)

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

At 31 March 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	2,010	2,632	1,313	5,955
Companies	18,162	18,024	8,449	44,635
Total	20,172	20,656	9,762	50,590

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(18)	(50)	(99)	(167)
Companies	(66)	(1,666)	(2,554)	(4,286)
Total	(84)	(1,716)	(2,653)	(4,453)

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

42. 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. The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of article (1)(a) of the Act on Financial Undertakings no. 161/2002, where groups of connected clients are defined. Since the Condensed Consolidated Interim Financial Statements for the first quarter of the year are not audited, the official capital is based on reviewed own fund items at 31 December 2022.

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group currently has four 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 31 March 2023

Groups of connected clients:	Before	After
Group 1	82%	9%
Group 2	12%	12%
Group 3	12%	12%
Group 4	11%	10%
Group 5	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%

43. Liquidity risk

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

44. Liquidity coverage and net stable funding ratio

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

The minimum LCR ratio that the Group is required to maintain is 100% for the total LCR and LCR in foreign currencies. For LCR in ISK, the requirement is 50%. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 31 March 2023 and at year-end 2022.

Net stable funding ratio	31.3.2023	31.12.2022
For all currencies	115%	118%
Foreign currencies	219%	198%

Liquidity coverage ratio	31.3.2023	31.12.2022
For all currencies	171%	205%
ISK	121%	109%
Foreign currencies	289%	492%

	For all currencies		ISK		Foreign currencies	
At 31 March 2023	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	168,331	168,331	142,604	142,604	25,727	25,727
Liquid assets level 2	45,330	37,439	45,306	37,439	24	-
Total liquid assets	213,661	205,770	187,910	180,043	25,751	25,727
Deposits	651,634	172,492	562,111	138,284	89,523	34,208
Debt issued	1,581	1,581	1,492	1,492	89	89
Other outflows	68,338	34,283	62,214	33,009	6,124	1,274
Total outflows	721,553	208,356	625,817	172,785	95,736	35,571
Short-term deposits with other banks**	69,796	62,668	1,027	4	68,769	62,664
Other inflows	44,067	25,400	42,265	24,064	1,802	1,336
Restrictions on inflows	-	-	-	-	-	(37,323)
Total inflows	113,863	88,068	43,292	24,068	70,571	26,677
Liquidity coverage ratio		171%		121%		289%
At 31 December 2022						
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. 266/2017 on liquidity ratio.

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

Amounts are in ISK million

44. 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 31 March 2023	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	96,653	14%	207,658	5%	83,264	387,575
Small and medium enterprises	60,332	13%	57,481	5%	8,917	126,730
Operational relationships	2,925	25%	-	5%	-	2,925
Corporations	130,732	40%	2,808	20%	38,147	171,687
Sovereigns, Central Bank, and public sector entities	12,440	40%	1,114	20%	792	14,346
Pension funds	33,024	100%	-	-	17,064	50,088
Domestic financial entities	40,266	100%	-	-	6,221	46,487
Foreign financial entities	6,201	100%	-	-	7,726	13,927
Total	382,573		269,061		162,131	813,765

	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

45. 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 31 March 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	30,321	37,443	-	-	-	-	67,764	67,764
Loans to credit institutions	28,503	52,828	-	-	-	-	81,331	81,331
Bonds and debt instruments	-	57,524	35,306	30,851	3,573	-	127,254	127,254
Derivatives	-	2,311	914	1,881	-	-	5,106	5,605
- Net settled derivatives	-	716	-	-	-	-	716	716
- Inflow	-	37,481	18,214	27,788	-	-	83,483	63,342
- Outflow	-	(35,886)	(17,300)	(25,907)	-	-	(79,093)	(58,453)
Loans to customers	208	86,324	139,584	328,327	664,556	-	1,218,999	1,218,999
Shares and equity instruments	-	-	-	-	-	13,839	13,839	13,839
Other financial assets	20,844	403	67	-	-	-	21,314	21,314
Total financial assets	79,876	236,833	175,871	361,059	668,129	13,839	1,535,607	1,536,106
Deposits from CB and credit institutions	4,190	4,067	5,530	-	-	-	13,787	13,694
Deposits from customers	613,754	125,322	48,460	24,339	36,244	-	848,119	800,071
Derivative instruments and short positions	-	4,481	3,420	3,881	2,978	-	14,760	12,745
- Net settled derivatives	-	133	-	-	-	-	133	133
- Inflow	-	(94,716)	(24,826)	(36,673)	-	-	(156,215)	(131,390)
- Outflow	-	98,977	28,246	40,205	-	-	167,428	142,376
- Short positions	-	87	-	349	2,978	-	3,414	1,626
Debt issued and other borrowed funds	-	12,384	111,618	465,372	50,404	-	639,778	438,605
Subordinated loans	-	529	1,427	20,516	35,530	-	58,002	33,839
Other financial liabilities	14,417	1,703	1,588	5,525	1,634	-	24,867	24,518
- Lease liabilities	-	141	396	1,866	1,634	-	4,037	3,688
- Other liabilities	14,417	1,562	1,192	3,659	-	-	20,830	20,830
Total financial liabilities	632,361	148,486	172,043	519,633	126,790	-	1,599,313	1,323,472
Total net financial assets and financial liab.	(552,485)	88,347	3,828	(158,574)	541,339	13,839	(63,706)	212,634

Amounts are in ISK million

45. 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 39 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

46. 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 21).

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.

47. Interest rate risk

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

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing and Construction Authority which are guaranteed by the Icelandic Government, domestic municipality bonds, and covered bonds issued by other Icelandic banks. Bonds and bills in the Group's liquidity portfolio are also categorised in the trading book. In the following table the total market value (MV) of long and short positions may not be the same as reported in Note 15 since netting between short and long positions is not applied here.

	31.3.2023			31.12.2022		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	2,846	6.14	(1.75)	3,446	6.39	(2.20)
Non-indexed	123,178	0.50	(6.20)	124,065	0.58	(7.17)
Total	126,024	0.63	(7.95)	127,511	0.74	(9.37)
Trading bonds and debt instruments, short positions						
Indexed	262	12.00	0.31	-	-	-
Non-indexed	1,007	6.00	0.58	282	5.04	0.14
Total	1,269	7.24	0.89	282	5.04	0.14
Net position of trading bonds and debt instruments	124,755	0.56	(7.06)	127,229	0.73	(9.23)

Amounts are in ISK million

47. 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.

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2023

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	16	319	(175)	(4,415)	2,848	(35)	(1,442)
ISK, non-indexed	20	66	(583)	(231)	1	50	(677)
EUR	227	(28)	102	103	-	-	404
SEK	48	-	-	-	-	-	48
USD	38	-	-	-	-	-	38
Other	74	1	(4)	-	-	-	71
Total	423	358	(660)	(4,543)	2,849	15	(1,558)

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

48. 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 31 March 2023	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	1,019	337	170	40	65	47	58	67	57	129	1,989
Loans to credit institutions	41,676	18,812	505	164	283	7,267	10,214	1,216	5	17	80,159
Bonds and debt instruments	14,030	5,374	5	-	-	1,306	3,880	-	-	-	24,595
Loans to customers	126,561	24,385	329	598	2,037	34	2,680	133	6,772	-	163,529
Shares and equity instruments	54	358	56	-	-	20	-	-	-	-	488
Other assets	72	906	58	-	-	16	39	11	17	-	1,119
Total assets	183,412	50,172	1,123	802	2,385	8,690	16,871	1,427	6,851	146	271,879
Deposits from credit institutions	7,815	1,626	22	-	-	-	7	-	-	-	9,470
Deposits from customers	40,060	34,754	6,038	502	273	822	4,820	12,571	285	15	100,140
Debt issued and other borrowed funds	149,474	11,728	-	-	-	22,434	41,500	-	-	-	225,136
Subordinated loans	-	-	-	-	-	22,849	-	-	-	-	22,849
Other liabilities	64	488	40	-	-	11	36	6	19	19	683
Total liabilities	197,413	48,596	6,100	502	273	46,116	46,363	12,577	304	34	358,278
Net on-balance sheet position	(14,001)	1,576	(4,977)	300	2,112	(37,426)	(29,492)	(11,150)	6,547	112	(86,399)
Net off-balance sheet position	15,163	(1,396)	4,952	(287)	(2,043)	37,266	29,448	11,172	(6,445)	(237)	87,593
Net position	1,162	180	(25)	13	69	(160)	(44)	22	102	(125)	1,194

Amounts are in ISK million

48. 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

49. 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 345 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2023	31.12.2022
Bonds and debt instruments	3,542	4,148
Loans to customers	298,594	282,521
Total CPI-linked assets	302,136	286,669
Deposits from customers	113,275	107,684
Debt issued and other borrowed funds	149,192	146,368
Off-balance sheet exposures	4,885	4,912
Financial liabilities	239	-
Total CPI-linked liabilities	267,591	258,964
CPI imbalance	34,545	27,705

50. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 March 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 1 July 2022 maintain an additional capital requirement of 2.6% of risk exposure amount. In September 2022 a countercyclical capital buffer of 2% was reintroduced in Iceland. The Group's overall capital requirement, taking into account capital buffers, is 19.9%. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

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

	31.3.2023	31.12.2022
Own funds		
Ordinary share capital	9,963	10,000
Share premium	55,000	55,000
Reserves	7,676	9,158
Retained earnings	137,746	144,716
First quarter profit	(6,211)	-
IFRS 9 reversal due to transitional rules	-	1,301
Fair value changes due to own credit standing	(273)	(1,786)
Foreseeable dividend payment and approved buyback*	(4,067)	(27,267)
Tax assets	(120)	(116)
Intangible assets	(3,252)	(3,279)
Insufficient coverage for non-performing exposures	(18)	-
CET1 capital	196,444	187,727

Amounts are in ISK million

50. Capital management (continued)

	31.3.2023	31.12.2022
Additional Tier 1 capital	9,711	10,062
Tier 1 capital	206,155	197,789
Tier 2 capital	24,128	24,330
Total capital base	230,283	222,119
Risk exposure amount		
Due to credit risk	900,897	893,110
Due to market risk	12,718	15,417
Due to credit valuation adjustment	3,155	2,756
Due to operational risk	88,208	88,208
Total risk exposure amount	1,004,978	999,491
Capital ratios		
CET 1 ratio	19.5%	18.8%
Tier 1 ratio	20.5%	19.8%
Total capital ratio	22.9%	22.2%
Capital ratios including first quarter profit**		
CET 1 ratio	19.9%	18.8%
Tier 1 ratio	20.8%	19.8%
Total capital ratio	23.2%	22.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,516,792	1,541,738
Off-balance sheet exposures	75,152	68,702
Derivative exposures	24,987	30,596
Leverage ratio total exposure measure	1,616,931	1,641,036
Tier 1 capital	206,155	197,789
Leverage ratio	12.7%	12.1%
Leverage ratio including first quarter profit**	12.9%	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 31 March 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 first quarter profit, ISK 3.1 billion has been subtracted from the capital base as is expected from the 50% dividend policy.

Amounts are in ISK million

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

In December 2021, the Icelandic Resolution Authority published its MREL policy for Icelandic banks and in September 2022 the Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby the MREL requirement based on the MREL policy.

The resolution plan stipulates that the MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA), both equal to the total SREP capital requirement of 10.6%, resulting in an MREL requirement of 21.2% of REA. No market confidence charge is applied in Iceland. 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.

	31.3.2023		31.12.2022	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	213,055	21.2%	211,892	21.2%
Combined buffer requirement	93,539	9.3%	93,028	9.3%
MREL including combined buffer requirement	306,594	30.5%	304,920	30.5%

	31.3.2023		31.12.2022	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	230,283	22.9%	222,119	22.2%
Eligible liabilities	103,572	10.3%	122,925	12.3%
Own funds and eligible liabilities	333,855	33.2%	345,044	34.5%

Amounts are in ISK million