Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2024

Íslandsbanki hf. • Hagasmári 3 • 201 Kópavogur • Iceland • Reg.no. 491008-0160

Contents

Factsheet

Key figures 2Q24

Net profit **ISK 5.3bn**

ROE **9.7%**

Cost-to-income ratio **46.4%**

NIM **3.1%**

Sustainability 2Q24

- Íslandsbanki published a principle adverse impact statement for the first time
- The Bank's ESG rating from Reitun, a local rating agency, increased by 10 points from previous rating
- Emphasis on employee engagement with workshops and educational sessions

Digital milestones 2Q24

- App enhancements include connection with PayDay for SME and corporate clients to create claims from the app
- Digital campaign focusing on financial health of customers launched
- The Bank's digital car financing solution enhanced to enable multiple owners to apply jointly

Ratings and certifications

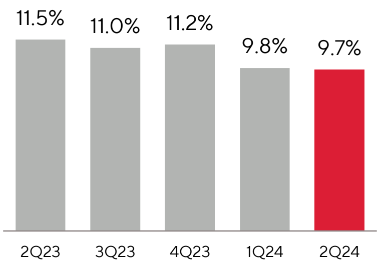
Moody's
A3 Stable outlook

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

EQUAL PAY CERTIFICATE

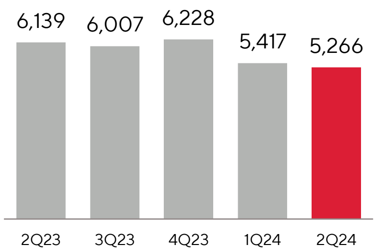
JAFNVÆGISVOG FKA 2023 VIÐURKENNING

Return on equity

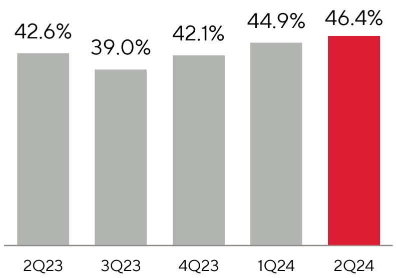


Profit after tax

(ISKm)

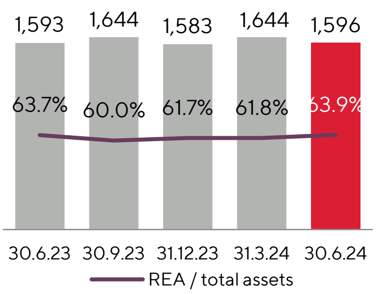


Cost-to-income ratio[1]



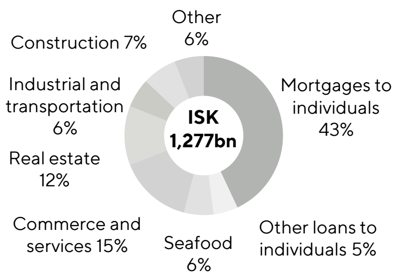
Total assets

(ISKbn)



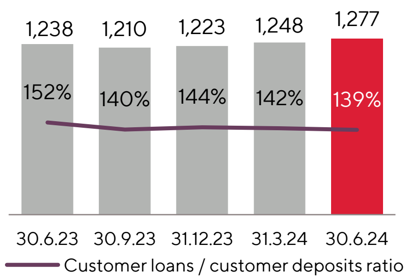
Loans to customers

(Sector split as of 30.6.24)

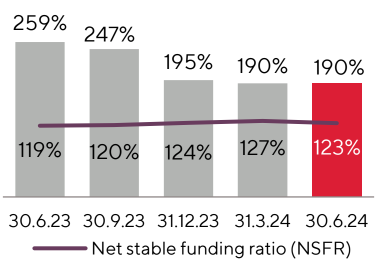


Loans to customers

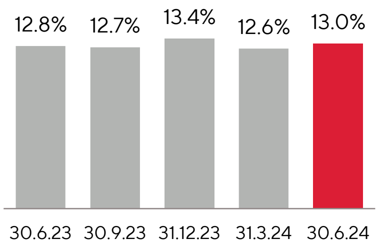
(ISKbn)



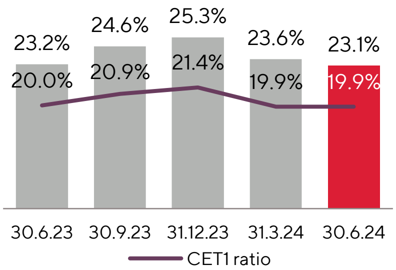
Total liquidity coverage ratio



Leverage ratio[2]



Total capital ratio[2]



The information above has not been reviewed or audited by the Group's auditor.
1. C/I ratio for 2Q24 excludes a charge of ISK 470m and C/I ratio 2Q23 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q23 included a provision of ISK 100m made in connection with an administrative fine, the C/I ratio has been restated so it excludes the provision.
2. Including 3Q23 profit for 30.9.23 and 1Q24 profit for 31.3.24.

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the reviewed Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 30 June 2024. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in the reporting period

The profit from the Group's operations in the first half of 2024 amounted to ISK 10,683 million and the return on equity was 9.8%, slightly below the Bank's target of being above 10%. At the end of the reporting period the Group employed 766 full-time members of staff, 726 in the Bank and 40 in subsidiaries. The Group operates 12 branches.

The net interest margin for the first half was 3.1% compared to a margin of 3.2% in the first half of 2023, where both CPI and fixed rate imbalances within the banking book contributed to the reduction. The Central Bank increased the fixed reserve requirements in April 2024 from 2% to 3% which has adverse effects on the year-on-year comparison, whereas costs related to that change are estimated around ISK 900 million on an annualised basis. Net fee and commission income was ISK 6,715 million in the first half, a reduction of ISK 346 million from previous year. The reduction is mainly due to a year-on year decline in net income on cards and payment processing owing to increased costs of services provided. Allianz Ísland hf. remained a strong contributor to the Group's net fee and commission income. In line with volatility on financial markets, asset management and investment banking revenues remained pressured. Reclassification of the Bank's former headquarters at Kirkjusandur 2 took place during the first half, from property and equipment to investment property. The Bank will, in the coming months, explore its strategic options with regards to the asset.

The cost-to-income ratio, adjusted for an administrative fine of ISK 470 million, was 45.6% for the first half of 2024 which is slightly above the Bank's target. This is mainly attributable to higher operating expenses. Salaries and related expenses rose by 6.5% year-on-year and amounted to ISK 8,298 million, mainly owing to an increase in FTEs due to the Bank's commitment to further strengthen its regulatory infrastructure and overall governance and general wage agreement increases. At the end of June 2024, the Group employed 766 full-time members of staff compared to 732 at the end of the second quarter of 2023. Other operating expenses rose by ISK 410 million and amounted to ISK 6,354 million, mainly related to inflation and IT expenses. Net impairments amounted to ISK 567 million, compared to impairment reversals of ISK 570 million in the first half of 2023. Annualised cost-of-risk was 0.09% for the first half of 2024.

Loans to customers grew by 4.3% in the first half of the year. Mortgages remain the largest part of the loan portfolio, or 43%, and LTVs remain at healthy levels. Asset quality remains strong; at period-end 1.8% of the gross carrying amount of loans to costumers were classified in Stage 3, flat from year-end 2023. As in the second half of 2023, conversion of loans from non-indexed loans to CPI-linked instruments has continued, and as a result the CPI imbalance has grown to ISK 204 billion, compared to a position of ISK 129 billion at year-end 2023. Due to this, net interest income will be subject to more volatility and remain under pressure, as inflation subsides, compared to a more neutral CPI position.

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

In the autumn of 2022, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) carried out an onsite inspection of the Bank's AML control framework pursuant to Act no. 140/2018 on Measures Against Money Laundering and Terrorist Financing (AML), following which the FSA identified certain shortcomings in relation to the Bank's AML measures. On 31 May 2024, the Bank announced that the Board of Directors had decided to accept the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement). The Settlement Agreement provides that the Bank accepts the FSA's conclusion that the Bank's shortcomings were many and related to various fundamentals in the Bank's AML control framework. Further, the breaches were deemed significant and to some extent a reiteration from previous FSA observations in 2021. By entering into the Settlement Agreement, the Bank has committed to carrying out appropriate remedial actions and pay a fine in the amount of ISK 570 million. In its 2023 Consolidated Financial Statements, the Bank had made an ISK 100 million provision and in the second quarter of 2024 recorded a charge of ISK 470 million in relation to the Settlement Agreement.

Funding

Deposits continue to remain the Bank's largest source of funding. Deposits from customers amounted to ISK 916 billion at the end of the first half of 2024 and increased by 7.7% from year-end, where Personal Banking was the largest contributor. Customer loans to customer deposits ratio closed at 139% compared to 144% at year-end 2023.

The Bank is also active on the wholesale funding market. In the first half of the year, the Bank saw continued tightening of spreads in the global capital markets, which was amply reflected in the Bank's secondary levels. During the reporting period, the Bank issued 3-year senior preferred green notes amounting to NOK 500 million and SEK 500 million in January and 4-year senior preferred notes amounting to EUR 300 million in March, an offering which was four times oversubscribed. In June the Bank issued NOK 200 million and SEK 300 million 3-year senior preferred deals, both at considerable tighter spreads than the issuances in January this year. Domestically the Bank issued senior preferred bonds in the amount of ISK 12,450 million and covered bonds to fund its mortgage book in the amount of ISK 8,330 million.

Directors' Report

In June, the Bank took the opportunity to tender for the repurchase of the entirety of the EUR 300 million 7.375% bonds due May 2026. This issue, launched in the second quarter of 2023 at a time of historically wide levels, bore a significant interest expense for the Bank. Given high liquidity levels, strong capital and ample MREL buffers the Bank was able to tender for the bond without the need for a direct replacement. The tender attracted a 91% take-up from holders, thus allowing the Bank to exercise its right to repurchase the entire issue. In June, the Bank exercised its option to call an SEK 500 million Tier 2 bond due 2029. This bond was repaid without immediate replacement. During the first half of the year the Bank also repurchased bonds amounting to NOK 700 million, SEK 472 million and EUR 74 million. The Bank's liquidity position is strong, well above both regulatory and internal limits.

In early April, S&P Global Ratings announced a rating action, raising the long-term issuer rating to BBB+ on stable outlook from BBB, on the back of receding economic imbalance, a reflection on the overall economic trends and strong position of the Bank and the banking sector. The Bank now holds an A3 issuer rating by Moody's Ratings and a BBB+/A-2 by S&P Global Ratings.

Capital

The Bank's capital position remains solid and well in excess of the regulatory requirements. The total capital ratio was 23.1% at the end of the first half of 2024. According to the conclusion of the annual assessment of risk in the operations of systematically important financial institutions by the Supervisory Review and Evaluation Process carried out by the FSA, the Bank shall from 30 June 2024 maintain an additional capital requirement of 1.8% of risk-weighted assets, a decrease of 0.6 percentage points from the previous assessment. The Bank's total capital requirement, taking into account the capital buffers as of 30 June 2024, therefore decreases from 20.3% to 19.7%. In parallel, the Bank's CET1 target range is 16.4-18.4% with the management CET1 buffer of 100-300 basis points on top of regulatory requirements, compared to a CET1 ratio of 19.9% at the end of the reporting period. The Bank assumes that MREL requirements will be reduced with this conclusion, but a decision has not been made by the Central Bank Resolution Authority. As of now, the MREL requirement stands at 30.6% compared to a MREL ratio of 35.6%.

The Bank's Annual General Meeting (AGM) held on 21 March 2024 approved a dividend payment of ISK 12.3 billion which was paid on 2 April 2024, in line with its dividend policy. Further, a traditional share buyback program was ongoing as well as buybacks using a reverse auction method. During the first half of 2024, the Bank purchased a total of 58,799,306 shares, or 2.93% of the share capital, for a total of ISK 5,974 million. At the end of the first half, the Bank owned a total of 79,190,137 shares, or 3.96% of its own share capital.

The Bank plans to continue its efforts to optimise its capital structure. The Bank's AGM authorised the Board of Directors to purchase a maximum of 10% of its own equity. Further, the Bank announced in parallel with its 2023 financial disclosure, after seeking approval by the regulator its intentions to initiate share buybacks amounting to ISK 10,000 million which is currently underway, following a previous ISK 5,000 million authorisation. At the reporting date ISK 6,716 million remained of the approved buyback. Further yet, proposals on extraordinary dividend and/or additional share buybacks may be introduced later in the year 2024. The Bank assumes to conclude its capital optimisation before year-end 2025, subject to market conditions.

Outlook

Iceland's GDP contracted by 4% year-on-year in the first quarter of 2024, marking the first such contraction in three years, largely due to a failed capelin catch which significantly impacted the export sector. Exports of goods and services shrank, with a notable downturn in services exports and a slight decline in goods exports, while imports grew. Despite this, investment showed resilience, particularly in the residential housing sector, and private consumption remained steady.

The economy is cooling after a period of strong growth, with a possible contraction in tourism and slower growth in private consumption contributing to the revised, more conservative forecasts. Looking ahead, Íslandsbanki Research forecasts modest growth this year, followed by a resurgence in the coming years. A GDP growth rate of 0.9% is predicted for this year, with the uncertainty increasingly tilted downwards due to a below-expectations high tourist season. This represents historically slow growth, marking a transition to a new business cycle, although most likely without annual GDP contraction. Next year, GDP growth is expected to reach 2.3%, driven by faster consumption and investment growth, along with a rebound in goods exports. For 2026, a 2.6% growth is anticipated, with increasing domestic demand outweighing slower export growth.

The road to disinflation has been bumpy in the first half of 2024. Although inflation remains high at 6.3% as of July 2024, it has declined markedly from the 7.7% measured at year-end 2023. Inflationary pressures have been rather broad although the housing market remains a primary driver. The Central Bank has indicated that it may lower the policy rate if inflation and inflation expectations fall significantly, aiming to keep the real policy rate broadly stable at the current level in the near term. A rate cut before year-end is still likely, with inflation expected to decrease to 5.4% by the end of the year, assuming economic conditions continue to cool.

Directors' Report

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. At the end of the period the Bank had over 11,000 shareholders, where 90.4% of the Bank's shares were owned by domestic parties and 9.6% by international investors. The Icelandic Government is the largest shareholder with 44.3% of outstanding shares, taking into consideration treasury shares. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009. Apart from the Government, pension funds are the largest investor group, owning 35.0% of the outstanding shares. For further information on the Bank's shareholders see Note 36.

In June, a bill was passed through Parliament on authorisation for the Minister of Finance and Economic Affairs to continue sell down of the stake currently owned by the Government. According to the legislation, an authorisation is now in place for a fully marketed offering with the aim to provide a full exit for the Government in one or more transactions. The Minister of Finance and Economic Affairs has publicly stated his intentions to utilise the authorisation. The Bank will not participate in the process in an advisory role, but will however support the transaction with the preparation of a prospectus and other material needed for an offering of this nature.

Statement by the Board of Directors and the CEO

The reviewed Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2024 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 June 2024.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2024.

Kópavogur, 25 July 2024

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Íslandsbanki hf. as at 30 June 2024, the condensed consolidated income statement and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the condensed interim financial statements (“the Condensed Consolidated Interim Financial Statements”). Management is responsible for the preparation and presentation of this Condensed Consolidated Interim Financial Statements in accordance with IAS 34 Interim Financial Reporting 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. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 25 July 2024

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Interim Income Statement

	Notes	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Interest income calculated using the effective interest rate method		71,781	62,531	37,619	32,461
Other interest income		3,852	4,595	1,391	2,502
Interest expense		(51,020)	(42,091)	(26,519)	(22,351)
Net interest income	5	24,613	25,035	12,491	12,612
Fee and commission income		9,133	9,069	4,664	4,676
Fee and commission expense		(2,418)	(2,008)	(1,245)	(1,084)
Net fee and commission income	6	6,715	7,061	3,419	3,592
Net financial expense	7	(735)	(21)	(499)	(559)
Net foreign exchange gain	8	370	292	174	48
Other operating income	9	1,143	64	45	21
Other net operating income		778	335	(280)	(490)
Total operating income		32,106	32,431	15,630	15,714
Salaries and related expenses	10	(8,298)	(7,789)	(4,130)	(3,829)
Other operating expenses	11	(6,354)	(5,944)	(3,126)	(2,862)
Administrative fines	12	(470)	(860)	(470)	(860)
Bank tax		(952)	(947)	(459)	(485)
Total operating expenses		(16,074)	(15,540)	(8,185)	(8,036)
Profit before net impairment on financial assets		16,032	16,891	7,445	7,678
Net impairment on financial assets	13	(567)	570	137	1,245
Profit before tax		15,465	17,461	7,582	8,923
Income tax expense	14	(4,871)	(5,127)	(2,403)	(2,792)
Profit for the period from continuing operations		10,594	12,334	5,179	6,131
Profit from discontinued operations held for sale, net of tax		89	16	87	8
Profit for the period		10,683	12,350	5,266	6,139
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	15	5.41	6.18	2.75	3.08

The half-year results were reviewed by the Bank's auditor. The splits between quarters were not reviewed or audited by the Bank's auditor.

The notes on pages 14 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Profit for the period	10,683	12,350	5,266	6,139
Net changes in FV of fin. liab. attributable to changes in credit risk	(847)	(3,185)	(305)	(1,294)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk ..	346	672	230	294
Items that will not be reclassified to the income statement	(501)	(2,513)	(75)	(1,000)
Foreign currency translation	(1)	-	(1)	-
Net changes in fair value of debt instruments at FVOCI	(149)	-	(129)	-
Reclassification to the income statment of debt instruments at FVOCI	2	-	2	-
Changes in allowance for ECL of debt instruments at FVOCI	16	-	3	-
Tax related to debt instruements at FVOCI	35	-	33	-
Items that may subsequently be reclassified to the income statement	(97)	-	(92)	-
Other comprehensive expense for the period, net of tax	(598)	(2,513)	(167)	(1,000)
Total comprehensive income for the period	10,085	9,837	5,099	5,139

The half-year results were reviewed by the Bank's auditor. The splits between quarters were not reviewed or audited by the Bank's auditor.

The notes on pages 14 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.6.2024	31.12.2023
Assets			
Cash and balances with Central Bank	20	84,981	87,504
Loans to credit institutions	21	46,599	73,475
Bonds and debt instruments	16	128,410	161,342
Derivatives	22	4,178	5,776
Loans to customers	23	1,276,608	1,223,426
Shares and equity instruments	16	19,496	13,241
Investments in associates	25	4,122	4,051
Investment property	26	2,100	-
Property and equipment	27	5,135	6,562
Intangible assets		2,715	2,930
Other assets	28	21,482	3,638
Non-current assets and disposal groups held for sale		70	749
Total Assets		1,595,896	1,582,694
Liabilities			
Deposits from Central Bank and credit institutions	29	10,466	16,149
Deposits from customers	30	916,127	850,709
Derivative instruments and short positions	22	4,647	5,090
Debt issued and other borrowed funds	32	384,747	417,573
Subordinated loans	33	32,133	38,155
Tax liabilities		14,060	13,107
Other liabilities	34	17,215	17,218
Total Liabilities		1,379,395	1,358,001
Equity			
Share capital		9,604	9,898
Share premium		55,000	55,000
Reserves		6,263	5,083
Retained earnings		145,634	154,712
Total Equity		216,501	224,693
Total Liabilities and Equity		1,595,896	1,582,694

The notes on pages 14 to 58 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 risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
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							12,350	12,350
Net changes in fair value of financial liabilities attributable to changes in credit risk					(2,608)		(577)	(3,185)
Tax related to net changes in fair value of financial liabilities attributable to changes in credit risk					522		150	672
Total comprehensive income (expense) for the period	-	-	-	-	(2,086)	-	11,923	9,837
Dividends							(12,254)	(12,254)
Purchase of treasury shares	(37)						(896)	(933)
Restricted due to capitalised development costs				(145)			145	-
Restricted due to fair value changes				(267)			267	-
Restricted due to associates				(18)			18	-
Equity as at 30 June 2023	9,963	55,000	2,500	4,440	(300)	2	143,919	215,524

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2024	9,898	55,000	2,500	4,407	(1,827)	3	154,712	224,693
Profit for the period							10,683	10,683
Net changes in fair value of financial liabilities attributable to changes in credit risk					1,670		(2,517)	(847)
Tax related to net changes in fair value of financial liabilities attributable to changes in credit risk					(334)		680	346
Foreign currency translation						(1)		(1)
Net changes in fair value of debt instruments at FVOCI				(149)				(149)
Reclassification to the income statment of debt instruments at FVOCI				2				2
Changes in allowance for expected credit losses of debt instruments at FVOCI				16				16
Tax related to debt instruments at FVOCI				35				35
Total comprehensive income (expense) for the period	-	-	-	(96)	1,336	(1)	8,846	10,085
Dividends							(12,303)	(12,303)
Purchase of treasury shares	(294)						(5,680)	(5,974)
Restricted due to capitalised development costs				(145)			145	-
Restricted due to fair value changes				14			(14)	-
Restricted due to associates				72			(72)	-
Equity as at 30 June 2024	9,604	55,000	2,500	4,252	(491)	2	145,634	216,501

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 58.8 million own shares for ISK 5,974 million during the first half of 2024. As of 30 June 2024, the Bank's paid-in share capital totalled ISK 65,000 million, and the total stated share capital amounted to ISK 64,604 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 2023 operating year took place on 21 March 2024. During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12,300 million, equivalent to ISK 6.26 per share (2023: ISK 6.15 per share). The dividends were paid on 2 April 2024.

The notes on pages 14 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

		2024 1.1-30.6	2023 1.1-30.6
Profit for the period		10,683	12,350
Non-cash items included in profit for the period*		(18,945)	(18,673)
Changes in operating assets and liabilities*		41,291	(51,206)
Interest received		57,392	49,761
Interest paid**		(41,853)	(25,701)
Dividends received		431	286
Paid bank tax		(949)	(858)
Paid income tax and special financial activities tax		(3,641)	(1,874)
Net cash provided by (used in) operating activities		44,409	(35,915)
Purchase of investment property		(52)	-
Proceeds from sales of property and equipment		96	7
Purchase of property and equipment		(162)	(145)
Purchase of intangible assets		(220)	(264)
Net cash used in investing activities		(338)	(402)
Proceeds from borrowings		71,216	93,415
Repayment and repurchases of borrowings		(116,872)	(100,849)
Repayment of lease liabilities		(283)	(253)
Dividends paid		(12,303)	(12,254)
Purchase of treasury shares		(5,974)	(933)
Net cash used in financing activities		(64,216)	(20,874)
Net decrease in cash and cash equivalents		(20,145)	(57,191)
Effects of foreign exchange rate changes		(28)	(61)
Cash and cash equivalents at the beginning of the year		86,472	139,035
Cash and cash equivalents at the end of the period		66,299	81,783
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	20	4,020	4,191
Unrestricted balances with Central Bank	20	51,053	54,415
Bank accounts	21	11,226	23,177
Cash and cash equivalents at the end of the period		66,299	81,783

*For further breakdown see the following page.

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

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

The notes on pages 14 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2024 1.1-30.6	2023 1.1-30.6
Net interest income	(24,613)	(25,035)
Unrealised fair value (gain) loss recognised in profit or loss	(248)	382
Foreign exchange gain	(370)	(292)
Fair value gain on investment property	(854)	-
Share of profit from associates	(72)	16
Net gain from sales of property and equipment	(29)	(3)
Depreciation, amortisation, and write-offs	887	741
Bank tax	952	947
Net impairment on financial assets	592	(523)
Income tax expense	4,871	5,127
Profit from discontinued operations held for sale, net of tax	(89)	(16)
Other changes	28	(17)
Total	(18,945)	(18,673)

Changes in operating assets and liabilities

	2024 1.1-30.6	2023 1.1-30.6
Mandatory reserve and pledged balances with Central Bank	(10,082)	(9,674)
Loans to credit institutions	18,690	(21,949)
Bonds and debt instruments	38,964	227
Loans to customers	(43,120)	(41,402)
Shares and equity instruments	(6,326)	3,300
Other assets	(4,146)	(9,891)
Non-current assets and liabilities held for sale	768	18
Deposits from Central Bank and credit institutions	(5,771)	(904)
Deposits from customers	52,976	22,512
Derivative instruments and short positions	(542)	(2,632)
Other liabilities	(120)	9,189
Total	41,291	(51,206)

The notes on pages 14 to 58 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2024 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. All of the Bank's subsidiaries are wholly owned.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 25 July 2024.

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 2023, as well as the unaudited Pillar 3 Report for the year 2023. Both are available on the Bank's website: www.islandsbanki.is.

The accounting policies are unchanged from those set out in Notes 3 and 62 in the Consolidated Financial Statements for the year 2023 except for the changes to accounting policies outlined below.

The following addition was made to the Group's accounting policies regarding the recognition of profit and loss of financial assets measured at fair value through profit or loss: For financial assets with significant uncertainty regarding the recoverability of interest, earned interest is not recognised.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 June 2024 the exchange rate of the ISK against the USD was 139.09 and for the EUR 148.90 (year-end 2023: USD 136.20 and EUR 150.50).

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.

Basis of measurement

The Condensed Consolidated Interim Financial Statements are prepared on a historical cost basis, except for the following assets and liabilities, which are measured at fair value: bonds and debt instruments, shares and equity instruments, investment property, short positions in listed bonds, derivative financial instruments, and certain debt issued by the Group.

Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

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 2023, key source of estimation uncertainty is the allowance for credit losses.

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements (continued)

Impairment of financial assets

Note 62.3 in the Consolidated Financial Statements for the year 2023 contains a description of the Group's accounting policies for the impairment of financial assets. At the end of the second quarter of 2024, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in May and an updated forecast for inflation in June. The table below shows macroeconomic indicators from the new forecast that are used in the base case scenario.

Change in economic indicators %	2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027
Economic growth (YoY real GDP change)	4.1	0.9	2.3	2.6	2.2
Housing prices in Iceland (average YoY change)	7.8	5.8	5.1	6.1	3.5
Purchasing power (average YoY change)	1.0	(0.3)	1.3	1.5	1.6
ISK exchange rate index (average YoY change)	2.6	(0.2)	(2.4)	(1.1)	1.0
Policy rate, Central Bank of Iceland (average per year)	8.1	9.1	7.5	5.5	5.0
Inflation (average per year)	8.7	6.1	3.8	3.1	2.8
Capital formation (YoY real change)	(0.6)	1.2	2.6	4.2	2.7
thereof capital formation in industry	0.9	1.6	3.0	4.5	2.5

The All Risk Committee decides which weights of forward-looking scenarios best reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic). However, it was determined appropriate to keep the weights at 20%-50%-30% at the end of the second quarter, as it was throughout last year, as this would best represent the probability-weighted average over all possible scenarios. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 330 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 230 million.

In addition, the Group continues to make temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula. The adjustments include classifying exposures amounting to ISK 2.5 billion (year-end 2023: ISK 5.2 billion) as Stage 2 instead of Stage 1 and applying higher haircuts to the values of collateral for these exposures. The Group also continues to apply a management overlay to the modelled ECL. Additional impairment allowance due to the seismic activity amounted to ISK 0.8 billion at 30 June 2024 (year-end 2023: ISK 1.7 billion). Exposure and additional impairment due to the seismic activity decreased in the second quarter of 2024 due to the purchase of the property company Þórkatla of residential housing within the urban area in Grindavík in accordance with Act no.16/2024 on the Purchase of Residential Property in Grindavík. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. The Bank's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss and does therefore not contribute to the impairment allowance. For further information see Note 17.

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

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. All inter-company eliminations are included in the column "Eliminations & adjustments".

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

4. Operating segments (continued)

1 January to 30 June 2024	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)	8,531	9,324	7,007	(100)	(268)	24,494	119	24,613
Net fee and commission income (expense)	1,836	1,121	2,182	11	(23)	5,127	1,588	6,715
Other net operating income	(37)	57	852	(161)	129	840	(62)	778
Total operating income	10,330	10,502	10,041	(250)	(162)	30,461	1,645	32,106
Salaries and related expenses	(1,413)	(1,220)	(1,131)	(156)	(3,832)	(7,752)	(546)	(8,298)
Other operating expenses	(1,451)	(697)	(625)	(238)	(2,971)	(5,982)	(372)	(6,354)
Administrative fine	-	-	-	-	(470)	(470)	-	(470)
Bank tax	(433)	(238)	(266)	(10)	(5)	(952)	-	(952)
Net impairment on financial assets	283	(1,471)	593	27	-	(568)	1	(567)
Cost allocation	(2,840)	(2,271)	(2,031)	283	6,859	-	-	-
Profit (loss) before tax	4,476	4,605	6,581	(344)	(581)	14,737	728	15,465
Income tax	(1,326)	(1,307)	(1,846)	(399)	153	(4,725)	(146)	(4,871)
Profit (loss) for the period from continuing operations	3,150	3,298	4,735	(743)	(428)	10,012	582	10,594
Net segment revenue from external customers	12,892	12,706	15,278	(10,405)	(10)	30,461	1,645	32,106
Net segment revenue from other segments	(2,562)	(2,204)	(5,237)	10,155	(152)	-	-	-
Fee and commission income	3,947	1,150	2,271	175	(1)	7,542	1,591	9,133
Depreciation, amortisation, and write-offs	(90)	(28)	(3)	-	(756)	(877)	(10)	(887)
At 30 June 2024								
Loans to customers	593,497	327,035	355,736	340	-	1,276,608	-	1,276,608
Other assets	3,494	2,064	10,965	293,970	7,934	318,427	861	319,288
Total segment assets	596,991	329,099	366,701	294,310	7,934	1,595,035	861	1,595,896
Deposits from customers	449,228	266,621	182,902	20,720	-	919,471	(3,344)	916,127
Other liabilities	2,480	2,230	7,538	443,974	5,594	461,816	1,452	463,268
Total segment liabilities	451,708	268,851	190,440	464,694	5,594	1,381,287	(1,892)	1,379,395
Allocated equity	44,040	53,276	65,039	50,354	1,039	213,748	2,753	216,501
Risk exposure amount	269,328	309,334	380,560	50,959	6,113	1,016,294	3,200	1,019,494

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

1 January to 30 June 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)	8,785	8,558	6,768	1,013	(170)	24,954	81	25,035
Net fee and commission income (expense)	2,076	1,118	2,286	4	(26)	5,458	1,603	7,061
Other net operating income	124	62	857	215	95	1,353	(1,018)	335
Total operating income	10,985	9,738	9,911	1,232	(101)	31,765	666	32,431
Salaries and related expenses	(1,269)	(1,136)	(1,056)	(140)	(3,651)	(7,252)	(537)	(7,789)
Other operating expenses	(1,306)	(591)	(545)	(353)	(2,754)	(5,549)	(395)	(5,944)
Administrative fine	-	-	-	-	(860)	(860)	-	(860)
Bank tax	(415)	(223)	(271)	(31)	(7)	(947)	-	(947)
Net impairment on financial assets	(95)	(356)	982	40	-	571	(1)	570
Cost allocation	(2,757)	(2,144)	(1,903)	386	6,418	-	-	-
Profit (loss) before tax	5,143	5,288	7,118	1,134	(955)	17,728	(267)	17,461
Income tax	(1,445)	(1,433)	(1,916)	(448)	241	(5,001)	(126)	(5,127)
Profit (loss) for the period from continuing operations	3,698	3,855	5,202	686	(714)	12,727	(393)	12,334
Net segment revenue from external customers	17,191	11,252	15,248	(11,982)	56	31,765	666	32,431
Net segment revenue from other segments	(6,206)	(1,514)	(5,337)	13,214	(157)	-	-	-
Fee and commission income	3,788	1,146	2,320	215	(5)	7,464	1,605	9,069
Depreciation, amortisation, and write-offs	(86)	(28)	-	-	(620)	(734)	(7)	(741)
At 31 December 2023								
Loans to customers	574,653	311,689	336,161	923	-	1,223,426	-	1,223,426
Other assets	3,176	2,210	889	343,823	8,716	358,814	454	359,268
Total segment assets	577,829	313,899	337,050	344,746	8,716	1,582,240	454	1,582,694
Deposits from customers	406,821	251,238	172,658	22,957	-	853,674	(2,965)	850,709
Other liabilities	3,720	3,828	5,370	487,357	5,768	506,043	1,249	507,292
Total segment liabilities	410,541	255,066	178,028	510,314	5,768	1,359,717	(1,716)	1,358,001
Allocated equity	41,160	47,210	63,033	69,975	1,145	222,523	2,170	224,693
Risk exposure amount	260,760	291,509	366,761	48,148	6,930	974,108	2,924	977,032

Amounts are in ISK million

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 June 2024	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	7	64	47	1	119
Net fee and commission income (expense)	668	942	(15)	(7)	1,588
Other net operating income	3	26	226	(317)	(62)
Total operating income	678	1,032	258	(323)	1,645
Salaries and related expenses	(382)	(123)	(41)	-	(546)
Other operating expenses	(124)	(394)	(195)	341	(372)
Net impairment on financial assets	1	-	-	-	1
Profit before tax	173	515	22	18	728
Income tax	(36)	(108)	(2)	-	(146)
Profit for the period from continuing operations	137	407	20	18	582
Net segment revenue from external customers	844	960	5	(164)	1,645
Net segment revenue from other segments	(166)	72	253	(159)	-
Fee and commission income	945	942	-	(296)	1,591
Depreciation, amortisation, and write-offs	-	(2)	(2)	(6)	(10)
At 30 June 2024					
Total assets	1,944	2,572	5,705	(9,360)	861
Total liabilities	328	1,115	99	(3,434)	(1,892)
Total equity	1,616	1,457	5,606	(5,926)	2,753

1 January to 30 June 2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	5	38	37	1	81
Net fee and commission income (expense)	765	739	(15)	114	1,603
Other net operating income	(9)	1	167	(1,177)	(1,018)
Total operating income	761	778	189	(1,062)	666
Salaries and related expenses	(367)	(135)	(35)	-	(537)
Other operating expenses	(113)	(405)	(135)	258	(395)
Net impairment on financial assets	(1)	-	-	-	(1)
Profit (loss) before tax	280	238	19	(804)	(267)
Income tax	(56)	(70)	-	-	(126)
Profit (loss) for the period from continuing operations	224	168	19	(804)	(393)
Net segment revenue from external customers	915	853	3	(1,105)	666
Net segment revenue from other segments	(154)	(75)	186	43	-
Fee and commission income	1,044	739	-	(178)	1,605
Depreciation, amortisation, and write-offs	-	(2)	(1)	(4)	(7)
At 31 December 2023					
Total assets	2,284	2,330	5,517	(9,677)	454
Total liabilities	292	879	100	(2,987)	(1,716)
Total equity	1,992	1,451	5,417	(6,690)	2,170

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Cash and balances with Central Bank	2,066	2,602	961	1,376
Loans to credit institutions	1,882	1,197	991	693
Loans to customers	65,647	58,732	34,137	30,392
Financial assets mandatorily at fair value through other comprehensive income	2,186	-	1,530	-
Interest income calculated using the effective interest rate method	71,781	62,531	37,619	32,461
Financial assets mandatorily at fair value through profit or loss	3,850	4,593	1,391	2,501
Other assets	2	2	-	1
Other interest income	3,852	4,595	1,391	2,502
Deposits from Central Bank and credit institutions	(196)	(104)	(107)	(71)
Deposits from customers	(31,423)	(22,399)	(16,217)	(12,197)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(1,763)	(655)	(866)	(515)
Debt issued and other borrowed funds at amortised cost	(12,273)	(14,338)	(6,570)	(7,080)
Subordinated loans	(2,081)	(1,585)	(1,124)	(786)
Lease liabilities	(39)	(40)	(19)	(20)
Other liabilities	(3,245)	(2,970)	(1,616)	(1,682)
Interest expense	(51,020)	(42,091)	(26,519)	(22,351)
Net interest income	24,613	25,035	12,491	12,612

6. Net fee and commission income

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Asset management	1,371	1,451	664	712
Investment banking and brokerage	1,667	1,664	874	838
Payment processing	3,984	3,811	2,118	2,062
Loans and guarantees	1,048	1,131	529	577
Other fee and commission income	1,063	1,012	479	487
Fee and commission income	9,133	9,069	4,664	4,676
Brokerage	(265)	(258)	(157)	(151)
Clearing and settlement	(2,147)	(1,743)	(1,085)	(928)
Other fee and commission expense	(6)	(7)	(3)	(5)
Fee and commission expense	(2,418)	(2,008)	(1,245)	(1,084)
Net fee and commission income	6,715	7,061	3,419	3,592

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial expense

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(830)	84	(274)	(965)
Net gain (loss) on financial liabilities designated as at FVTPL	70	(338)	(122)	342
Net gain (loss) on fair value hedges	11	22	(7)	(39)
Net gain (loss) on derecognition of financial liabilities measured at amortised cost	103	211	(90)	103
Net loss on derecognition of financial assets measured at amortised cost	(87)	-	(4)	-
Net loss on sale of debt instruments measured at FVOCI	(2)	-	(2)	-
Net financial expense	(735)	(21)	(499)	(559)

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

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Net loss on bonds and related derivatives	(255)	(1,060)	(198)	(367)
Net loss on shares and related derivatives	(661)	(353)	(366)	(303)
Dividend income	431	286	170	142
Net gain on debt issued and related derivatives	269	344	121	169
Net gain (loss) on economic hedging and other derivatives	(430)	762	(220)	(200)
Net loss on derecognition of financial assets measured at amortised cost	(87)	-	(4)	-
Net loss on sale of debt instruments measured at FVOCI	(2)	-	(2)	-
Net financial expense	(735)	(21)	(499)	(559)

8. Net foreign exchange gain

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Cash and balances with Central Bank	(28)	(61)	(11)	(2)
Loans at amortised cost	(1,833)	(9,069)	(574)	(579)
Financial assets mandatorily at fair value through profit or loss	(1,352)	(7,669)	748	(2,171)
Financial assets mandatorily at fair value through other comprehensive income	(66)	-	(168)	-
Other assets	20	5	21	1
Net foreign exchange gain (loss) for assets	(3,259)	(16,794)	16	(2,751)
Deposits	(458)	4,242	(41)	(89)
Debt issued and other borrowed funds designated as at fair value through profit or loss	935	1,819	534	(105)
Debt issued and other borrowed funds at amortised cost	2,663	9,228	(158)	2,024
Subordinated loans	489	1,797	(177)	969
Net foreign exchange gain for liabilities	3,629	17,086	158	2,799
Net foreign exchange gain	370	292	174	48

9. Other operating income

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Fair value changes on investment property	854	-	(52)	-
Share of profit (loss) of associates, net of tax	72	(16)	44	(25)
Gain from sales of property and equipment	29	3	3	2
Legal fees	30	26	16	14
Rental income	28	34	13	17
Other net operating income	130	17	21	13
Other operating income	1,143	64	45	21

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

10. Salaries and related expenses

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Salaries	6,377	5,988	3,171	2,944
Contributions to pension funds	972	904	486	449
Social security charges and financial activities tax*	861	809	442	400
Other salary-related expenses	88	88	31	36
Salaries and related expenses	8,298	7,789	4,130	3,829

*Financial activities tax calculated on salaries is 5.5% in 2024 (2023: 5.5%).

11. Other operating expenses

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Professional services	1,202	1,411	574	686
Software and IT expenses	2,664	2,443	1,326	1,179
Real estate and office equipment	359	356	177	140
Depreciation, amortisation, and write-offs	887	741	485	367
Other administrative expenses	1,242	993	564	490
Other operating expenses	6,354	5,944	3,126	2,862

12. Administrative fines

In the autumn of 2022, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) conducted an onsite inspection of the Bank's anti-money laundering (AML) measures as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in relation to the Bank's AML measures. On 31 May 2024 the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement).

The Settlement Agreement provides that the Bank accepts the FSA's conclusion that the Bank's shortcomings were many and related to various fundamentals in the Bank's AML control framework. Further, the breaches were deemed significant and to some extent a reiteration from previous FSA observations in 2021. By entering into the Settlement Agreement, the Bank committed to carry out appropriate remedial actions. The Bank has strengthened its regulatory infrastructure and overall governance.

Under the terms of the Settlement Agreement, the Bank agreed to pay a fine in the amount of ISK 570 million. The Bank recognised a provision of ISK 100 million in connection with the preliminary findings from the FSA's inspection of the Bank's AML measures in the 2023 Consolidated Financial Statements and in the second quarter of 2024 a charge of ISK 470 million has been recorded in relation to this matter.

In the second quarter of 2023 a charge of ISK 860 million was recorded in relation to the Settlement Agreement with the FSA in relation to the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki that took place in March 2022.

13. Net impairment on financial assets

	2024 1.1-30.6	2023 1.1-30.6	2024 1.4-30.6	2023 1.4-30.6
Net change in expected credit losses, on-balance sheet items	(321)	610	443	1,069
Net change in expected credit losses, off-balance sheet items	(246)	(40)	(306)	176
Net impairment on financial assets	(567)	570	137	1,245

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

14. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2024 is 21% (2023: 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 half 2024 is 31.5% (first half 2023: 29.4%).

	2024 1.1-30.6	2023 1.1-30.6
Current tax expense excluding discontinued operations	4,248	4,273
Special financial activities tax	1,147	1,222
Adjustments in prior year's calculated income tax	(12)	(18)
Changes in deferred tax assets and deferred tax liabilities	(512)	(350)
Income tax recognised in the income statement	4,871	5,127
Income tax recognised in other comprehensive income*	(381)	(672)

*Comparative figures have been changed with immaterial effects.

	2024 1.1-30.6		2023 1.1-30.6	
Profit before tax	15,465		17,461	
Income tax calculated on the profit for the period	3,248	21.0%	3,492	20.0%
Special financial activities tax	1,147	7.4%	1,222	7.0%
Adjustments in prior year's calculated income tax	(12)	(0.1%)	(18)	(0.1%)
Income not subject to tax	(309)	(2.0%)	(57)	(0.3%)
Non-deductible expenses	813	5.3%	517	3.0%
Other differences	(16)	(0.1%)	(29)	(0.2%)
Effective income tax expense	4,871	31.5%	5,127	29.4%

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

15. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2024 1.1-30.6	2023 1.1-30.6	2024 1.1-30.6	2023 1.1-30.6	2024 1.1-30.6	2023 1.1-30.6
Profit attributable to shareholders of the Bank	10,594	12,334	89	16	10,683	12,350
Weighted average number of outstanding shares	1,959	1,995	1,959	1,995	1,959	1,995
Basic earnings per share (ISK)	5.41	6.18	0.05	0.01	5.45	6.19

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 (first half 2023: none).

Amounts are in ISK million

16. Classification of financial assets and financial liabilities

At 30 June 2024	Mandatorily at FVTPL	Hedge accounting	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	84,981	84,981
Loans to credit institutions	-	-	-	46,599	46,599
Listed bonds and debt instruments*	31,608	-	90,455	-	122,063
Listed bonds and debt instruments used for economic hedging	4,674	-	-	-	4,674
Unlisted bonds and debt instruments	1,673	-	-	-	1,673
Derivatives	4,089	89	-	-	4,178
Loans to customers	-	-	-	1,276,608	1,276,608
Listed shares and equity instruments	4,621	-	-	-	4,621
Listed shares and equity instruments used for economic hedging	12,755	-	-	-	12,755
Unlisted shares and equity instruments	2,120	-	-	-	2,120
Other financial assets	-	-	-	20,190	20,190
Total financial assets	61,540	89	90,455	1,428,378	1,580,462

	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	10,466	10,466
Deposits from customers	-	-	-	916,127	916,127
Derivative instruments and short positions	4,433	214	-	-	4,647
Debt issued and other borrowed funds	-	89,381	36,456	258,910	384,747
Subordinated loans	-	-	-	32,133	32,133
Other financial liabilities	-	-	-	12,434	12,434
Total financial liabilities	4,433	89,595	36,456	1,230,070	1,360,554

*Listed bonds and debt instruments in the Bank's liquidity portfolio purchased from 1 January 2024 are classified as financial assets at fair value through other comprehensive income (FVOCI). Listed bonds and debt instruments in the Bank's liquidity portfolio purchased before 1 January 2024 are classified as financial assets at fair value through profit or loss (FVTPL).

At 31 December 2023	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	87,504	87,504
Loans to credit institutions	-	-	-	73,475	73,475
Listed bonds and debt instruments	157,592	-	-	-	157,592
Listed bonds and debt instruments used for economic hedging	3,750	-	-	-	3,750
Derivatives	5,776	-	-	-	5,776
Loans to customers	-	-	-	1,223,426	1,223,426
Listed shares and equity instruments	2,342	-	-	-	2,342
Listed shares and equity instruments used for economic hedging	8,997	-	-	-	8,997
Unlisted shares and equity instruments	1,902	-	-	-	1,902
Other financial assets	-	-	-	2,846	2,846
Total financial assets	180,359	-	-	1,387,251	1,567,610
Deposits from Central Bank and credit institutions	-	-	-	16,149	16,149
Deposits from customers	-	-	-	850,709	850,709
Derivative instruments and short positions	5,051	39	-	-	5,090
Debt issued and other borrowed funds	-	45,126	92,645	279,802	417,573
Subordinated loans	-	-	-	38,155	38,155
Other financial liabilities	-	-	-	8,879	8,879
Total financial liabilities	5,051	45,165	92,645	1,193,694	1,336,555

Amounts are in ISK million

17. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 30 June 2024 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

At 30 June 2024	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	126,737	-	1,673	128,410
Derivatives	-	4,178	-	4,178
Shares and equity instruments	17,376	-	2,120	19,496
Total financial assets	144,113	4,178	3,793	152,084
Short positions	898	-	-	898
Derivative instruments	-	3,749	-	3,749
Debt issued and other borrowed funds designated as at FVTPL*	32,347	4,109	-	36,456
Total financial liabilities	33,245	7,858	-	41,103

*During the quarter the Bank repurchased EUR denominated notes due in May 2026 on the basis of an any-or-all offer extended to the owners of the notes. Following the repurchase, a clean-up redemption option in respect of the outstanding amount of the notes was triggered. The clean-up redemption option allows the Bank to repurchase the remaining notes for the clean price of 100. The Bank stated on 27 June 2024 that it would exercise its clean-up redemption option and did so in July. Following this, the market price of the notes on the measurement date did not reflect the clean-up redemption option and therefore did not represent fair value at the measurement date. The valuation of the notes at 30 June 2024 is based on the clean-up redemption option price. Therefore, the notes, with a carrying amount of ISK 4,109 million, were transferred from Level 1 to Level 2 of the fair value hierarchy.

At 31 December 2023	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	161,342	-	-	161,342
Derivatives	-	5,776	-	5,776
Shares and equity instruments	11,339	-	1,902	13,241
Total financial assets	172,681	5,776	1,902	180,359
Short positions	640	-	-	640
Derivative instruments	-	4,450	-	4,450
Debt issued and other borrowed funds designated as at FVTPL	92,645	-	-	92,645
Total financial liabilities	93,285	4,450	-	97,735

Amounts are in ISK million

17. Fair value information for financial instruments (continued)

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2024	-	1,902
Purchases and share capital increase	-	154
Transfers from loans to customers*	1,673	-
Net gain on financial instruments recognised in profit or loss	-	64
Fair value at 30 June 2024	1,673	2,120

*Transfers from loans to customers is due to the Bank's claim on the property company Þórkatla. Þórkatla purchased residential housing within the urban area in Grindavík in accordance with Act no. 16/2024 on the Purchase of Residential Property in Grindavík in the second quarter of 2024. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. Since there is significant uncertainty regarding the recoverability of interest, earned interest is not recognised on the claim on Þórkatla. The nominal value including accrued interest of the claim was ISK 2,591 million at 30 June 2024. The claim on Þórkatla is highly sensitive to changes in fair value measurement inputs and is therefore included in the sensitivity analysis for Level 3 financial instruments. Significant unobservable input used in the valuation of the claim is the estimated value of residential housing in Grindavík purchased by Þórkatla.

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2023	2,032	2,245
Sales and share capital decrease	(2,188)	(380)
Purchases and share capital increase	-	52
Net gain (loss) on financial instruments recognised in profit or loss	156	(15)
Fair value at 31 December 2023	-	1,902

Sensitivity analysis for Level 3 financial instruments

The valuations of Level 3 financial instruments 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 illustrates how profit before tax would have been affected if one or more of the inputs for the fair value measurement were changed for Level 3 assets that are highly sensitive to changes in fair value measurement inputs.

	30.6.2024	31.12.2023
Very favourable	2,300	904
Favourable	1,388	217
Unfavourable	(904)	(187)
Very unfavourable	(1,463)	(217)

Amounts are in ISK million

18. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

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

At 30 June 2024	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	84,981	-	84,981	84,981
Loans to credit institutions	-	46,599	-	46,599	46,599
Loans to customers	-	-	1,263,934	1,263,934	1,276,608
Other financial assets	-	20,190	-	20,190	20,190
Total financial assets	-	151,770	1,263,934	1,415,704	1,428,378
Deposits from Central Bank and credit institutions	-	10,466	-	10,466	10,466
Deposits from customers	-	916,151	-	916,151	916,127
Debt issued and other borrowed funds	239,811	11,796	-	251,607	258,910
Subordinated loans	32,860	-	-	32,860	32,133
Other financial liabilities	-	12,434	-	12,434	12,434
Total financial liabilities	272,671	950,847	-	1,223,518	1,230,070

At 31 December 2023	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	87,504	-	87,504	87,504
Loans to credit institutions	-	73,475	-	73,475	73,475
Loans to customers	-	-	1,207,465	1,207,465	1,223,426
Other financial assets	-	2,846	-	2,846	2,846
Total financial assets	-	163,825	1,207,465	1,371,290	1,387,251
Deposits from Central Bank and credit institutions	-	16,148	-	16,148	16,149
Deposits from customers	-	850,729	-	850,729	850,709
Debt issued and other borrowed funds	244,967	28,077	-	273,044	279,802
Subordinated loans	37,414	-	-	37,414	38,155
Other financial liabilities	-	8,879	-	8,879	8,879
Total financial liabilities	282,381	903,833	-	1,186,214	1,193,694

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

19. Offsetting financial assets and financial liabilities

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

At 30 June 2024, and at year-end 2023, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	30.6.2024	31.12.2023
Net financial assets	4,178	5,776
Amounts not set off but subject to master netting arrangements and similar agreements	(2,785)	(4,404)
- Financial liabilities	(608)	(715)
- Cash collateral received	(907)	(3,589)
- Financial instruments collateral received	(1,270)	(100)
Net amount after consideration of potential effect of netting arrangements	1,393	1,372

Derivative instruments and short positions	30.6.2024	31.12.2023
Net financial liabilities	4,647	5,090
Amounts not set off but subject to master netting arrangements and similar agreements	(2,312)	(2,794)
- Financial assets	(608)	(715)
- Cash collateral pledged	(1,704)	(2,079)
Net amount after consideration of potential effect of netting arrangements	2,335	2,296

20. Cash and balances with Central Bank

	30.6.2024	31.12.2023
Cash on hand	4,020	3,653
Unrestricted balances with Central Bank	51,053	64,025
Cash and unrestricted balances with Central Bank	55,073	67,678
Balances pledged as collateral to Central Bank	483	484
Mandatory reserve deposits with Central Bank	29,425	19,342
Cash and balances with Central Bank	84,981	87,504

21. Loans to credit institutions

	30.6.2024	31.12.2023
Money market loans	33,988	53,882
Bank accounts	11,226	18,794
Other loans	1,385	799
Loans to credit institutions	46,599	73,475

Amounts are in ISK million

22. Derivative instruments and short positions

At 30 June 2024	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,694	74,379	1,790	144,209
Cross-currency interest rate swaps	106	12,360	130	7,087
Equity forwards	1,813	12,734	113	3,235
Foreign exchange forwards	64	6,720	476	25,707
Foreign exchange swaps	345	42,339	1,208	64,886
Bond forwards	156	3,936	32	3,284
Derivatives	4,178	152,468	3,749	248,408
Short positions in listed bonds	-	-	898	581
Total	4,178	152,468	4,647	248,989

At 31 December 2023	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,028	79,824	2,587	106,045
Cross-currency interest rate swaps	1,066	22,028	53	4,587
Equity forwards	350	1,463	494	7,507
Foreign exchange forwards	300	16,824	397	17,052
Foreign exchange swaps	888	32,776	891	42,192
Bond forwards	144	2,273	28	2,208
Derivatives	5,776	155,188	4,450	179,591
Short positions in listed bonds	-	-	640	663
Total	5,776	155,188	5,090	180,254

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 32) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 June 2024 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 125 million (year-end 2023: negative ISK 39 million) and their total notional amount was ISK 89,340 million (year-end 2023: ISK 45,150 million).

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

23. Loans to customers

At 30 June 2024	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	598,258	8,495	7,128	(1,034)	(507)	(720)	611,620
Commerce and services	179,845	10,169	2,834	(979)	(241)	(631)	190,997
Construction	90,372	1,634	497	(989)	(80)	(89)	91,345
Energy	7,677	395	-	(29)	(11)	-	8,032
Financial services	1,121	-	1	(1)	-	-	1,121
Industrial and transportation	72,790	1,370	9,349	(246)	(53)	(3,091)	80,119
Investment companies	35,812	5,003	336	(580)	(109)	(61)	40,401
Public sector and non-profit organisations	20,047	213	5	(18)	(3)	(2)	20,242
Real estate	152,786	5,027	2,586	(557)	(422)	(481)	158,939
Seafood	73,712	156	14	(83)	(4)	(3)	73,792
Loans to customers	1,232,420	32,462	22,750	(4,516)	(1,430)	(5,078)	1,276,608

At 31 December 2023	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	580,591	11,117	6,483	(1,407)	(1,539)	(614)	594,631
Commerce and services	167,219	14,416	3,335	(1,000)	(538)	(624)	182,808
Construction	77,720	2,986	402	(833)	(118)	(58)	80,099
Energy	7,624	393	-	(67)	(12)	-	7,938
Financial services	214	-	1	(1)	-	-	214
Industrial and transportation	67,612	1,869	9,156	(225)	(69)	(2,541)	75,802
Investment companies	41,219	5,131	345	(639)	(81)	(44)	45,931
Public sector and non-profit organisations	18,466	30	4	(16)	(7)	(1)	18,476
Real estate	138,571	4,252	2,529	(496)	(355)	(328)	144,173
Seafood	73,259	193	17	(104)	(8)	(3)	73,354
Loans to customers	1,172,495	40,387	22,272	(4,788)	(2,727)	(4,213)	1,223,426

24. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	50	-	-	50
Loans to customers	4,516	1,430	5,078	11,024
Other financial assets	30	3	-	33
Off-balance sheet loan commitments and financial guarantees	851	53	527	1,431
At 30 June 2024	5,465	1,486	5,605	12,556

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	90	-	-	90
Loans to customers	4,788	2,727	4,213	11,728
Other financial assets	4	4	-	8
Off-balance sheet loan commitments and financial guarantees	916	106	162	1,184
At 31 December 2023	5,816	2,837	4,375	13,028

Amounts are in ISK million

24. Expected credit losses (continued)

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 2024	4,788	2,727	4,213	11,728
Transfer to Stage 1	1,020	(943)	(77)	-
Transfer to Stage 2	(349)	582	(233)	-
Transfer to Stage 3	(104)	(250)	354	-
Net remeasurement of loss allowance	(2,142)	875	898	(369)
New financial assets originated or purchased	1,812	263	900	2,975
Derecognitions and maturities	(508)	(1,824)	(868)	(3,200)
Write-offs*	(1)	-	(276)	(277)
Recoveries of amounts previously written off	-	-	25	25
Foreign exchange	-	-	(36)	(36)
Unwinding of interest	-	-	178	178
At 30 June 2024	4,516	1,430	5,078	11,024

*During the period financial assets amounting to ISK 238 million were written off but are still subject to enforcement activity.

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	4,636	2,235	4,261	11,132
Transfer to Stage 1	1,747	(1,505)	(242)	-
Transfer to Stage 2	(893)	1,076	(183)	-
Transfer to Stage 3	(173)	(454)	627	-
Net remeasurement of loss allowance	(2,998)	1,213	374	(1,411)
New financial assets originated or purchased	3,278	292	1,010	4,580
Derecognitions and maturities	(809)	(129)	(1,031)	(1,969)
Write-offs*	-	(1)	(1,014)	(1,015)
Recoveries of amounts previously written off	-	-	160	160
Foreign exchange	-	-	(62)	(62)
Unwinding of interest	-	-	313	313
At 31 December 2023	4,788	2,727	4,213	11,728

*During the year financial assets amounting to ISK 956 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	916	106	162	1,184
Transfer to Stage 1	66	(57)	(9)	-
Transfer to Stage 2	(11)	13	(2)	-
Transfer to Stage 3	(4)	(3)	7	-
Net remeasurement of loss allowance	(305)	(7)	34	(278)
New loan commitments and financial guarantees	280	11	367	658
Derecognitions and maturities	(91)	(10)	(32)	(133)
At 30 June 2024	851	53	527	1,431

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	869	242	227	1,338
Transfer to Stage 1	491	(373)	(118)	-
Transfer to Stage 2	(112)	146	(34)	-
Transfer to Stage 3	(15)	(13)	28	-
Net remeasurement of loss allowance	(742)	124	353	(265)
New loan commitments and financial guarantees	693	74	59	826
Derecognitions and maturities	(268)	(94)	(353)	(715)
At 31 December 2023	916	106	162	1,184

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

25. Investments in associates

		30.6.2024	31.12.2023
Reiknistofa bankanna hf., an IT service centre company, Dalvegur 30, 201 Kópavogur	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 3,714 million (CPI-linked, based on the CPI in June 2024). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

26. Investment property

At 1 January 2024	-
Transfer from property and equipment	1,194
Additions during the period	52
Fair value changes	854
At 30 June 2024	2,100

Kirkjusandur 2, the Bank's former headquarters, was reclassified from property and equipment to investment property during the first quarter of 2024. The Group measures investment property at fair value. The fair value measurement of investment property uses significant unobservable inputs and is thus classified as Level 3 in the fair value hierarchy. The fair value of investment property is based on external valuations from independent valuers in addition to internal assumptions. Significant unobservable inputs used in the valuation of investment property are the estimated sale value per square metre of building rights, estimated demolition costs and a discount rate.

27. Property and equipment

At 30 June 2024	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,078	5,803	3,212	12,093
Additions during the period	42	-	120	162
Disposals and write-offs during the period	(82)	-	(12)	(94)
Remeasurement	-	127	-	127
Transfer to investment property	(2,412)	-	-	(2,412)
Historical cost	626	5,930	3,320	9,876
Balance at the beginning of the year	(1,365)	(2,228)	(1,938)	(5,531)
Depreciation during the period	(7)	(281)	(166)	(454)
Disposals and write-offs during the period	18	-	8	26
Transfer to investment property	1,218	-	-	1,218
Accumulated depreciation	(136)	(2,509)	(2,096)	(4,741)
Carrying amount	490	3,421	1,224	5,135

Amounts are in ISK million

27. Property and equipment (continued)

At 31 December 2023	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,213	5,263	3,112	11,588
Additions during the year	37	259	274	570
Disposals and write-offs during the year	(172)	-	(174)	(346)
Remeasurement	-	281	-	281
Historical cost	3,078	5,803	3,212	12,093
Balance at the beginning of the year	(1,378)	(1,712)	(1,746)	(4,836)
Depreciation during the year	(16)	(516)	(354)	(886)
Disposals and write-offs during the year	29	-	162	191
Accumulated depreciation	(1,365)	(2,228)	(1,938)	(5,531)
Carrying amount	1,713	3,575	1,274	6,562

28. Other assets

	30.6.2024	31.12.2023
Receivables	1,869	1,698
Unsettled securities transactions	18,392	1,195
Prepaid expenses	980	503
Deferred tax assets	122	122
Other assets	119	120
Other assets	21,482	3,638

29. Deposits from Central Bank and credit institutions

	30.6.2024	31.12.2023
Deposits from credit institutions	10,389	15,994
Repurchase agreements with Central Bank	77	155
Deposits from Central Bank and credit institutions	10,466	16,149

30. Deposits from customers

	30.6.2024	31.12.2023
Demand deposits and deposits with maturity up to 3 months	815,210	752,146
Term deposits with maturity of more than 3 months	100,917	98,563
Deposits from customers	916,127	850,709

Deposits from customers specified by owners	30.6.2024		31.12.2023	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	13,664	2%	18,204	2%
Municipalities	11,878	1%	9,514	1%
Companies	424,001	46%	398,489	47%
Individuals	466,584	51%	424,502	50%
Deposits from customers	916,127	100%	850,709	100%

Amounts are in ISK million

31. Pledged assets

	30.6.2024	31.12.2023
Loans to customers pledged as collateral against Covered Bonds	381,058	442,175
Cash and balances pledged as collateral against Covered Bonds	18,993	20,222
Financial assets pledged as collateral with the Central Bank	6,873	6,775
Loans to credit institutions pledged as collateral against derivative instruments	1,767	2,795
Pledged assets against liabilities	408,691	471,967
Pledged assets against Covered Bonds held by the Bank	(136,118)	(171,350)
Loans to customers pledged as collateral in repurchase agreements	-	23,656
Pledged assets against liabilities on balance	272,573	324,273

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 owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 30 June 2024 was ISK 111,254 million (year-end 2023: ISK 117,476 million).

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

Amounts are in ISK million

32. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.6.2024	31.12.2023
ISB CBI 24 - ISK 0 million	2012	2024	Bullet	Fixed, CPI - linked	-	17,051
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed, CPI - linked	36,304	35,093
ISB CB 27 - ISK 23,180 million	2020	2027	Amortising	Fixed	22,263	27,363
ISB CBF 27 - ISK 8,340 million	2022	2027	Bullet	Floating	8,378	7,461
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed	44,652	45,126
ISB CBI 28 - ISK 20,207 million	2019	2028	Amortising	Fixed, CPI - linked	28,140	31,564
ISB CBI 29 - ISK 25,480 million	2023	2029	Bullet	Fixed, CPI - linked	27,210	19,596
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed, CPI - linked	33,181	32,093
Covered bonds					200,128	215,347
NOK 0 million	2019	2024	Bullet	Fixed	-	1,940
ISK 62 million	2019	2024	Amortising	Floating	60	134
NOK 0 million	2021	2024	Bullet	Floating	-	2,005
SEK 0 million	2021	2024	Bullet	Floating	-	1,628
NOK 146 million	2021	2024	Bullet	Floating	1,932	1,980
SEK 116 million	2021	2024	Bullet	Floating	1,537	1,591
SEK 501 million	2022	2024	Bullet	Floating	6,623	7,289
ISK 1,240 million	2020	2025	Bullet	Fixed	1,257	1,233
SEK 10 million	2021	2025	Bullet	Floating	157	6,105
NOK 40 million	2021	2025	Bullet	Floating	514	9,884
EUR 222 million**	2022	2025	Bullet	Fixed	32,347	42,868
NOK 1,400 million	2022	2025	Bullet	Floating	18,463	18,916
SEK 500 million	2023	2026	Bullet	Floating	6,626	6,887
EUR 27 million**	2023	2026	Bullet	Fixed	4,109	49,777
SEK 500 million	2023	2026	Bullet	Floating	6,612	6,843
ISK 5,467 million	2022	2027	Amortising	Floating	5,499	3,000
ISK 6,940 million	2022	2027	Bullet	Fixed	7,204	6,937
SEK 500 million	2024	2027	Bullet	Floating	6,618	-
NOK 500 million	2024	2027	Bullet	Floating	6,604	-
NOK 200 million	2024	2027	Bullet	Floating	2,610	-
SEK 300 million	2024	2027	Bullet	Floating	3,928	-
ISK 14,260 million	2023	2028	Bullet	Fixed, CPI - linked	15,199	5,031
EUR 300 million*	2024	2028	Bullet	Fixed	44,729	-
Unsecured bonds					172,628	174,048
Other secured loans					-	16,459
Other unsecured loans					11,991	11,719
Other borrowed funds					11,991	28,178
Debt issued and other borrowed funds					384,747	417,573

The Group repurchased own bonds during the period amounting to ISK 71,967 million (2023: ISK 95,075 million).

*The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 22). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 June 2024 the total carrying amount of the bond issuance amounted to ISK 89,381 million and included in the amount are fair value changes amounting to ISK 1,179 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 30 June 2024 the total carrying amount of the bonds amounted to ISK 36,456 million; included in the amount are fair value changes amounting to ISK 1,127 million. The carrying amount of the bonds at 30 June 2024 was ISK 1,204 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

Notes to the Condensed Consolidated Interim Financial Statements

33. Subordinated loans

	Issued	Maturity	Callable	Interest	30.6.2024	31.12.2023
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	-	6,761
Subordinated loans in ISK	2022	2033	2028	Fixed, 8.62%	1,526	1,525
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 4.86%	10,287	9,935
Subordinated loans in ISK	2023	2034	2029	Fixed CPI, 5.8%	10,558	9,915
Tier 2 subordinated loans					22,371	28,136
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	9,762	10,019
Additional Tier 1 subordinated loans					9,762	10,019
Subordinated loans					32,133	38,155

34. Other liabilities

	30.6.2024	31.12.2023
Accruals	2,975	2,392
Lease liabilities	3,562	3,720
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,431	1,184
Withholding tax	2,580	6,192
Unsettled securities transactions	3,847	968
Sundry liabilities	2,820	2,762
Other liabilities	17,215	17,218

35. Custody assets

	30.6.2024	31.12.2023
Custody assets - not managed by the Group	3,705,958	3,565,465

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

36. Íslandsbanki's shareholders

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

		30.6.2024	31.12.2023
The Icelandic Government	Iceland	44.3%	42.9%
LSR Pension Fund	Iceland	8.1%	7.9%
Gildi Pension Fund	Iceland	7.5%	8.0%
Live Pension Fund	Iceland	5.9%	6.3%
Capital Group	USA	5.3%	5.6%
Brú Pension Fund	Iceland	3.5%	3.3%
Vanguard	USA	2.3%	2.3%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.5%	1.5%
Stapi Pension Fund	Iceland	1.4%	2.1%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Festa Pension Fund	Iceland	1.2%	1.0%
Almenni Pension Fund	Iceland	1.1%	1.0%
RWC Asset Management LLP	UK	1.0%	1.3%
Other shareholders		14.1%	14.0%
Total		100.0%	100.0%

At 30 June 2024 the number of shareholders of the Bank was 11,076 (year-end 2023: 11,552). At 30 June 2024, 90.4% of the Bank's shares were owned by domestic parties and 9.6% by international investors (year-end 2023: 89.4% domestic parties and 10.6% international investors). At 30 June 2024 the Bank's employees, board members and related parties of the employees and board members, held 0.13% of shares in the Bank (year-end 2023: 0.14%).

Beneficial owners

For domestic pension funds, domestic fund management entities and foreign shareholders, the board of directors of the relevant entity is considered as the beneficial owner. Information on the holdings of individual funds is published jointly under the name of their management company.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

37. Related party

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

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

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

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

At 30 June 2024	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	519	401	118	89
Associated companies	2,951	5,038	3,575	4,414	9
Balances with related parties	2,951	5,557	3,976	4,532	98

1 January to 30 June 2024	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	56	24	3	35
Associated companies	280	48	-	1,076
Transactions with related parties	336	72	3	1,111

At 31 December 2023	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	738	544	194	77
Associated companies	3,037	5,001	3,546	4,492	157
Balances with related parties	3,037	5,739	4,090	4,686	234

1 January to 30 June 2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	39	19	2	6
Associated companies	250	43	1	982
Transactions with related parties	289	62	3	988

At 30 June 2024 a total of ISK 17 million (year-end 2023: ISK 3 million) were recognised as Stage 1 expected credit losses of balances with related parties. Expected credit losses of balances with related parties are mostly related to loans to associated companies. No share option programmes were operated during the period.

Amounts are in ISK million

38. Contingencies

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

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Bank 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. 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 amount to around ISK 2 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Bank. The plaintiff has appealed the judgement to the Court of Appeal.

38. Contingencies (continued)

The Consumers' Association of Iceland (continued)

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. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes on policy rates during the same period. Following the publication of the EFTA Court's advisory opinion, the court case will continue in the Icelandic courts. It is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 12 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

It is disputed in all 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 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.

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 Bank has not recognised a provision in relation to this matter.

39. 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 half of 2024.

Notes to the Condensed Consolidated Interim Financial Statements

40. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2023 Report, which is available on the Bank's website: www.islandsbanki.is.

41. Credit risk

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

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

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

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

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

42. 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 Consolidated 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.

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.

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 441 million are subject to 100% Government guarantee and ISK 518 million to 85% 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 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 that are subject to IFRS 9 impairment requirements.

42. Maximum credit exposure and collateral (continued)

At 30 June 2024 — **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	84,981	-	-	-	-	-	-	-	84,981	18
Loans to credit institutions	46,599	-	-	-	-	-	-	-	46,599	50
Bonds and debt instruments	128,410	-	-	-	-	-	-	-	128,410	-
Loans to customers:	1,276,608	625,987	338,606	57,486	19,193	80,099	70,675	1,192,046	84,562	11,024
Individuals	611,620	550,265	7,643	4	606	16,141	173	574,832	36,788	2,261
- Thereof mortgages	548,995	546,145	1,486	-	600	-	-	548,231	764	752
Commerce and services	190,997	7,024	80,172	819	3,543	50,962	33,705	176,225	14,772	1,851
Construction	91,345	35,261	46,755	40	151	3,453	2,715	88,375	2,970	1,158
Energy	8,032	36	6,874	-	96	173	8	7,187	845	40
Financial services	1,121	-	60	-	997	-	-	1,057	64	1
Industrial and transportation	80,119	1,884	50,667	1,213	132	8,683	12,963	75,542	4,577	3,390
Investment companies	40,401	1,791	11,259	-	13,211	168	12,648	39,077	1,324	750
Public sector and non-profit organisations	20,242	60	770	-	-	7	10	847	19,395	23
Real estate	158,939	29,267	124,603	-	321	350	1,069	155,610	3,329	1,460
Seafood	73,792	399	9,803	55,410	136	162	7,384	73,294	498	90
Other financial assets	20,190	-	-	-	-	-	-	-	20,190	33
Off-balance sheet items:	191,318	10,402	30,384	5,297	7,490	902	18,729	73,204	118,114	1,431
Financial guarantees	20,394	-	6,843	94	2,671	-	2,295	11,903	8,491	360
Loan commitments	170,924	10,402	23,541	5,203	4,819	902	16,434	61,301	109,623	1,071
Total	1,748,106	636,389	368,990	62,783	26,683	81,001	89,404	1,265,250	482,856	12,556

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

Amounts are in ISK million

42. Maximum credit exposure and collateral (continued)

At 31 December 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	87,504	-	-	-	-	-	-	-	87,504	18
Loans to credit institutions	73,475	-	-	-	-	-	-	-	73,475	90
Bonds and debt instruments	161,342	-	-	-	-	-	-	-	161,342	-
Loans to customers:	1,223,426	606,706	307,978	60,466	23,517	76,787	66,315	1,141,769	81,657	11,728
Individuals	594,631	532,832	8,280	4	185	17,368	184	558,853	35,778	3,560
- Thereof mortgages	530,676	528,534	1,499	-	177	-	-	530,210	466	2,051
Commerce and services	182,808	14,159	71,111	753	3,969	47,061	31,546	168,599	14,209	2,162
Construction	80,099	25,822	45,510	76	367	3,543	2,389	77,707	2,392	1,009
Energy	7,938	30	6,623	-	1	10	21	6,685	1,253	79
Financial services	214	-	61	-	-	-	-	61	153	1
Industrial and transportation	75,802	2,122	47,248	1,829	316	8,084	12,073	71,672	4,130	2,835
Investment companies	45,931	4,018	11,646	-	18,521	198	11,200	45,583	348	764
Public sector and non-profit organisations	18,476	61	754	-	-	20	15	850	17,626	24
Real estate	144,173	27,169	110,037	-	94	368	1,363	139,031	5,142	1,179
Seafood	73,354	493	6,708	57,804	64	135	7,524	72,728	626	115
Other financial assets	2,846	-	-	-	-	-	-	-	2,846	8
Off-balance sheet items:	197,115	9,629	31,770	6,492	4,227	1,139	20,464	73,721	123,394	1,184
Financial guarantees	20,680	-	6,766	105	1,532	-	1,961	10,364	10,316	347
Loan commitments	176,435	9,629	25,004	6,387	2,695	1,139	18,503	63,357	113,078	837
Total	1,745,708	616,335	339,748	66,958	27,744	77,926	86,779	1,215,490	530,218	13,028

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

Amounts are in ISK million

43. 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 2023 Report.

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

At 30 June 2024

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	498,186	1,381	-	499,567
Risk class 5-6	531,363	10,776	-	542,139
Risk class 7-8	185,783	14,463	-	200,246
Risk class 9	16,562	5,791	-	22,353
Risk class 10	-	-	22,750	22,750
Unrated	526	51	-	577
	1,232,420	32,462	22,750	1,287,632
Expected credit losses	(4,516)	(1,430)	(5,078)	(11,024)
Net carrying amount	1,227,904	31,032	17,672	1,276,608

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	81,772	191	-	81,963
Risk class 5-6	71,380	577	-	71,957
Risk class 7-8	31,650	608	-	32,258
Risk class 9	959	177	-	1,136
Risk class 10	-	-	2,663	2,663
Unrated	2,754	18	-	2,772
	188,515	1,571	2,663	192,749
Expected credit losses	(851)	(53)	(527)	(1,431)
Total	187,664	1,518	2,136	191,318

Amounts are in ISK million

43. Credit quality of financial assets (continued)

At 31 December 2023

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	487,172	2,604	-	489,776
Risk class 5-6	485,438	17,968	-	503,406
Risk class 7-8	184,363	14,490	-	198,853
Risk class 9	15,519	5,324	-	20,843
Risk class 10	-	-	22,272	22,272
Unrated	3	1	-	4
	1,172,495	40,387	22,272	1,235,154
Expected credit losses	(4,788)	(2,727)	(4,213)	(11,728)
Net carrying amount	1,167,707	37,660	18,059	1,223,426

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	93,558	168	-	93,726
Risk class 5-6	71,681	417	-	72,098
Risk class 7-8	24,477	3,370	-	27,847
Risk class 9	961	447	-	1,408
Risk class 10	-	-	1,220	1,220
Unrated	1,983	17	-	2,000
	192,660	4,419	1,220	198,299
Expected credit losses	(916)	(106)	(162)	(1,184)
Total	191,744	4,313	1,058	197,115

Amounts are in ISK million

44. 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 62.3 in the Consolidated Financial Statements for the year 2023.

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.

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

At 30 June 2024

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	2,277	4,647	1,883	8,807
Companies	12,752	15,634	6,325	34,711
Total	15,029	20,281	8,208	43,518

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(12)	(61)	(117)	(190)
Companies	(61)	(417)	(2,108)	(2,586)
Total	(73)	(478)	(2,225)	(2,776)

At 31 December 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	1,975	4,323	1,650	7,948
Companies	2,136	16,853	5,230	24,219
Total	4,111	21,176	6,880	32,167

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(16)	(75)	(124)	(215)
Companies	(32)	(504)	(1,224)	(1,760)
Total	(48)	(579)	(1,348)	(1,975)

Amounts are in ISK million

45. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by EU regulation no. 575/2013 on prudential requirements for financial undertakings (CRR). The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of CRR, where groups of connected clients are defined.

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had five large exposures at 30 June 2024 (year-end 2023: two). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 30 June 2024

Groups of connected clients:	Before	After
Group 1	84%	6%
Group 2	11%	11%
Group 3	11%	11%
Group 4	10%	10%
Group 5	10%	10%
Group 6	10%	10%

At 31 December 2023

Groups of connected clients:	Before	After
Group 1	76%	2%
Group 2	15%	15%
Group 3	10%	10%

46. 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

47. 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 FSA's guidelines no. 2/2010 on best practices in liquidity management and the liquidity coverage ratio rules no. 1520/2022.

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

The following tables show the NSFR and the LCR for the Group at 30 June 2024 and year-end 2023.

Net stable funding ratio	30.6.2024	31.12.2023
For all currencies	123%	124%

Liquidity coverage ratio	30.6.2024	31.12.2023
For all currencies	190%	195%
ISK	129%	115%
EUR	575%	663%

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

At 30 June 2024	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	80,206	737	412	784	82,139
Foreign government bonds	-	12,260	10,306	6,355	28,921
Domestic bonds eligible as collateral with Central Bank	76,096	5,030	-	1,644	82,770
Level 2 liquid assets	29,328	2,392	-	19	31,739
High quality liquidity assets	185,630	20,419	10,718	8,802	225,569
Balance with financial institutions	199	14,156	21,972	8,641	44,968
Liquidity reserve	185,829	34,575	32,690	17,443	270,537

At 31 December 2023	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	83,563	487	290	665	85,005
Foreign government bonds	-	31,371	20,913	29,735	82,019
Domestic bonds eligible as collateral with Central Bank	73,995	-	-	-	73,995
Level 2 liquid assets	12,287	3	-	22	12,312
High quality liquidity assets	169,845	31,861	21,203	30,422	253,331
Balance with financial institutions	510	18,704	25,212	15,582	60,008
Liquidity reserve	170,355	50,565	46,415	46,004	313,339

Amounts are in ISK million

48. 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 their estimated liquidation time.

The tables show undiscounted contractual payments of principal and interest for the Group's financial assets and liabilities. Thus, the total figures for each asset or 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 assets or 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 derivatives, 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.

In 2024, the Group updated its methodology for the maturity analysis of financial assets. Financial assets are presented as undiscounted contractual payments of principal and interest instead of discounted amounts including impairment charges as presented on the balance sheet. Comparative figures have been updated to reflect the updated methodology.

At 30 June 2024	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	49,197	35,822	-	-	-	-	85,019	84,981
Loans to credit institutions	11,098	37,311	-	-	-	-	48,409	46,599
Bonds and debt instruments	-	32,756	48,737	52,051	4,177	-	137,721	128,410
Derivatives	-	3,923	(71)	1,444	-	-	5,296	4,178
- Net settled derivatives	-	2,032	-	-	-	-	2,032	2,032
- Inflow	-	44,099	11,060	27,012	-	-	82,171	64,912
- Outflow	-	(42,208)	(11,131)	(25,568)	-	-	(78,907)	(62,766)
Loans to customers	-	121,895	204,906	674,169	1,923,788	-	2,924,758	1,276,608
Shares and equity instruments	-	-	-	-	-	19,496	19,496	19,496
Other financial assets	19,230	387	573	-	-	-	20,190	20,190
Total financial assets	79,525	232,094	254,145	727,664	1,927,965	19,496	3,240,889	1,580,462
Deposits from CB and credit institutions	10,180	286	-	-	-	-	10,466	10,466
Deposits from customers	741,858	95,211	50,547	31,528	47,410	-	966,554	916,127
Derivative instruments and short positions	-	1,814	1,761	361	1,018	-	4,954	4,647
- Net settled derivatives	-	153	-	-	-	-	153	153
- Inflow	-	(78,757)	(26,504)	(13,189)	-	-	(118,450)	(105,251)
- Outflow	-	80,397	28,261	13,260	-	-	121,918	108,847
- Short positions	-	21	4	290	1,018	-	1,333	898
Debt issued and other borrowed funds	-	13,530	64,627	423,403	40,269	-	541,829	384,747
Subordinated loans	-	747	1,106	17,482	35,336	-	54,671	32,133
Other financial liabilities	5,828	1,944	1,706	2,058	1,165	-	12,701	12,434
- Lease liabilities	-	159	465	2,040	1,165	-	3,829	3,562
- Other liabilities	5,828	1,785	1,241	18	-	-	8,872	8,872
Total financial liabilities	757,866	113,532	119,747	474,832	125,198	-	1,591,175	1,360,554
Net financial assets and financial liab.	(678,341)	118,562	134,398	252,832	1,802,767	19,496	1,649,714	219,908

Amounts are in ISK million

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

At 31 December 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	40,011	47,509	-	-	-	-	87,520	87,504
Loans to credit institutions	18,911	58,056	-	-	-	-	76,967	73,475
Bonds and debt instruments	-	86,144	51,697	28,009	4,024	-	169,874	161,342
Derivatives	-	1,887	1,474	2,842	-	-	6,203	5,776
- Net settled derivatives	-	490	-	-	-	-	490	490
- Inflow	-	34,297	27,617	32,655	-	-	94,569	76,961
- Outflow	-	(32,900)	(26,143)	(29,813)	-	-	(88,856)	(71,675)
Loans to customers	-	113,793	183,557	644,034	1,915,795	-	2,857,179	1,223,426
Shares and equity instruments	-	-	-	-	-	13,241	13,241	13,241
Other financial assets	2,413	365	68	-	-	-	2,846	2,846
Total financial assets	61,335	307,754	236,796	674,885	1,919,819	13,241	3,213,830	1,567,610
Deposits from CB and credit institutions	7,611	7,028	1,564	-	-	-	16,203	16,149
Deposits from customers	668,448	88,729	46,467	35,530	43,896	-	883,070	850,709
Derivative instruments and short positions	-	2,042	2,103	2,115	913	-	7,173	5,090
- Net settled derivatives	-	391	-	-	-	-	391	391
- Inflow	-	(43,522)	(20,508)	(18,591)	-	-	(82,621)	(68,235)
- Outflow	-	45,161	22,578	20,407	-	-	88,146	72,294
- Short positions	-	12	33	299	913	-	1,257	640
Debt issued and other borrowed funds	-	18,071	35,902	430,196	70,359	-	554,528	417,573
Subordinated loans	-	290	2,026	20,525	44,852	-	67,693	38,155
Other financial liabilities	2,522	1,546	1,629	2,024	1,399	-	9,120	8,879
- Lease liabilities	-	151	449	1,962	1,399	-	3,961	3,720
- Other liabilities	2,522	1,395	1,180	62	-	-	5,159	5,159
Total financial liabilities	678,581	117,706	89,691	490,390	161,419	-	1,537,787	1,336,555
Net financial assets and financial liab.	(617,246)	190,048	147,105	184,495	1,758,400	13,241	1,676,043	231,055

*In 2024, the Group updated its methodology for the maturity analysis of financial assets. Financial assets are presented as undiscounted contractual payments of principal and interest instead of discounted amounts including impairment charges as presented on the balance sheet. Comparative figures have been updated to reflect the updated methodology.

Off-balance sheet liabilities

Note 42 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 financial guarantees and credit commitments 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

49. Market risk

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

Market risk within the Group can broadly be split into two categories, trading book and banking book (or non-trading 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.

50. 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, domestic municipality bonds, and covered bonds issued by other Icelandic banks. In the following tables the total market value (MV) of long and short positions may not be the same as reported in Note 16 since netting between short and long positions is not applied here.

	30.6.2024			31.12.2023		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	724	6.57	(0.48)	970	5.21	(0.51)
Non-indexed	3,450	3.89	(1.34)	1,166	2.99	(0.35)
Total	4,174	4.35	(1.82)	2,136	4.00	(0.86)
Trading bonds and debt instruments, short positions						
Indexed	164	1.62	0.03	45	6.71	0.03
Non-indexed	-	-	-	368	6.50	0.24
Total	164	1.62	0.03	413	6.52	0.27
Net position of trading bonds and debt instruments	4,010	4.46	(1.79)	1,723	3.40	(0.59)

Amounts are in ISK million

50. 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 upward 100 basis points change in all yield curves, with all other variables held constant, categorised by the repricing date. The interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued and applicable non-maturing deposits (NMDs) where behavioural assumptions are applied.

Sensitivity analysis for interest rate risk in the banking book

At 30 June 2024

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(11)	(70)	(453)	(1,848)	2,163	49	(170)
ISK, non-indexed	21	(392)	(582)	1,094	10	12	163
EUR	167	3	61	(233)	-	-	(2)
SEK	45	10	-	(9)	-	-	46
USD	13	(20)	-	-	-	-	(7)
Other	34	(4)	-	56	-	-	86
Total	269	(473)	(974)	(940)	2,173	61	116

At 31 December 2023

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	14	(64)	(948)	(2,761)	3,223	43	(493)
ISK, non-indexed	(28)	(276)	(794)	1,465	46	(4)	409
EUR	114	86	(5)	133	-	-	328
SEK	49	(54)	-	-	-	-	(5)
USD	9	(12)	-	-	-	-	(3)
Other	51	(47)	-	-	-	-	4
Total	209	(367)	(1,747)	(1,163)	3,269	39	240

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

51. 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.

In 2024, the Group updated its methodology for managing currency risk related to debt issued measured at fair value. The analysis of the Group's foreign currency exposure at 30 June 2024, reflects this change. Debt issued measured at fair value is presented at fair value instead of the nominal amount plus accrued interest. This better reflects foreign exchange differences recognised in the Group’s financial statements. Comparative figures have been updated to reflect the updated methodology.

At 30 June 2024	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	737	412	162	58	10	57	132	143	26	196	1,933
Loans to credit institutions	14,224	21,996	1,294	146	152	22	6,385	107	513	33	44,872
Bonds and debt instruments	19,924	10,309	-	-	-	2,737	5,571	-	-	-	38,541
Loans to customers	98,755	17,896	266	571	1,576	703	1,855	687	6,535	-	128,844
Shares and equity instruments	855	2,417	104	-	-	2,105	-	-	-	-	5,481
Other assets	47	392	-	-	-	3,928	2,610	-	-	-	6,977
Total assets	134,542	53,422	1,826	775	1,738	9,552	16,553	937	7,074	229	226,648
Deposits from credit institutions	260	327	26	-	30	4	-	2	1	-	650
Deposits from customers	36,156	57,248	3,771	481	195	614	2,535	2,062	237	22	103,321
Derivative instruments and short positions	5	4	-	-	-	-	-	-	-	-	9
Debt issued and other borrowed funds	128,794	12,110	-	-	-	32,145	30,200	-	-	-	203,249
Subordinated loans	-	-	-	-	-	9,762	-	-	-	-	9,762
Other liabilities	55	213	-	-	-	84	-	21	-	48	421
Total liabilities	165,270	69,902	3,797	481	225	42,609	32,735	2,085	238	70	317,412
Net on-balance sheet position	(30,728)	(16,480)	(1,971)	294	1,513	(33,057)	(16,182)	(1,148)	6,836	159	(90,764)
Net off-balance sheet position	30,612	16,684	1,966	(274)	(1,496)	32,743	16,109	1,259	(6,675)	(480)	90,448
Net position	(116)	204	(5)	20	17	(314)	(73)	111	161	(321)	(316)

Amounts are in ISK million

51. Currency risk (continued)

At 31 December 2023*	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	487	290	120	49	10	52	85	141	27	182	1,443
Loans to credit institutions	18,752	25,198	1,626	4,301	314	2,794	17,994	207	685	58	71,929
Bonds and debt instruments	31,377	20,919	-	-	-	17,920	11,812	-	-	-	82,028
Loans to customers	92,652	15,817	293	618	1,816	736	2,496	588	6,880	-	121,896
Shares and equity instruments	46	302	102	-	-	22	-	-	-	-	472
Other assets	221	38	-	-	-	-	-	-	-	-	259
Total assets	143,535	62,564	2,141	4,968	2,140	21,524	32,387	936	7,592	240	278,027
Deposits from credit institutions	7,731	995	20	-	-	4	-	1	-	-	8,751
Deposits from customers	38,255	48,952	4,322	545	445	767	4,459	1,440	204	24	99,413
Debt issued and other borrowed funds	156,076	11,719	-	-	-	30,343	34,725	-	-	-	232,863
Subordinated loans	-	-	-	-	-	16,780	-	-	-	-	16,780
Other liabilities	7	25	-	-	-	-	-	111	-	-	143
Total liabilities	202,069	61,691	4,342	545	445	47,894	39,184	1,552	204	24	357,950
Net on-balance sheet position	(58,534)	873	(2,201)	4,423	1,695	(26,370)	(6,797)	(616)	7,388	216	(79,923)
Net off-balance sheet position	60,795	1,091	2,270	(4,400)	(1,696)	26,007	6,918	693	(7,334)	(281)	84,063
Net position	2,261	1,964	69	23	(1)	(363)	121	77	54	(65)	4,140

*In 2024, the Group updated its methodology for managing currency risk related to debt issued measured at fair value. The analysis of the Group's foreign currency exposure at 31 June 2024, reflects this change. Debt issued measured at fair value is presented at fair value instead of the nominal amount plus accrued interest. This better reflects foreign exchange differences recognised in the Group's financial statements. Comparative figures have been updated to reflect the updated methodology.

Amounts are in ISK million

52. 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 2,041 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.6.2024	31.12.2023
Bonds and debt instruments	2,014	1,551
Loans to customers	477,342	405,910
Total CPI-linked assets	479,356	407,461
Deposits from customers	114,286	116,551
Debt issued and other borrowed funds	140,034	140,428
Subordinated loans	20,845	19,850
Off-balance sheet exposures	-	1,176
Short positions	141	11
Total CPI-linked liabilities	275,306	278,016
CPI imbalance	204,050	129,445

53. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 30 June 2024 and 31 December 2023.

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 wheras the simplified standardised approach is used for counterparty credit risk.

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2024 maintain an additional capital requirement of 1.8% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.7%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

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

	30.6.2024	31.12.2023
Own funds		
Ordinary share capital	9,604	9,898
Share premium	55,000	55,000
Reserves	6,263	5,083
Retained earnings	145,634	154,712
Fair value changes due to own credit standing	491	1,827
Foreseeable dividend payment and approved buyback*	(12,058)	(14,990)
Tax assets	(122)	(122)
Intangible assets	(1,821)	(1,922)
Insufficient coverage for non-performing exposures	(12)	(3)
CET1 capital	202,979	209,483
Additional Tier 1 capital	9,762	10,019
Tier 1 capital	212,741	219,502
Tier 2 capital	22,371	28,135
Total capital base	235,112	247,637

*The AGM of Íslandsbanki held on 21 March 2024 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 10 billion in addition to the previously approved ISK 5 billion, which is within the 10% authorisation from the AGM. At 30 June 2024 ISK 6,716 million remained of the approved buyback and is therefore deducted from CET1 capital.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

53. Capital management (continued)

	30.6.2024	31.12.2023
Risk exposure amount		
Due to credit risk	909,132	865,758
Due to market risk	9,411	10,360
Due to credit valuation adjustment	714	677
Due to operational risk	100,237	100,237
Total risk exposure amount	1,019,494	977,032
Capital ratios		
CET1 ratio	19.9%	21.4%
Tier 1 ratio	20.9%	22.5%
Total capital ratio	23.1%	25.3%

Leverage ratio

Exposure amount		
On-balance sheet exposures	1,558,656	1,571,430
Off-balance sheet exposures	51,041	53,224
Derivative exposures	21,663	11,246
Leverage ratio total exposure measure	1,631,360	1,635,900
Tier 1 capital	212,741	219,502
Leverage ratio	13.0%	13.4%

Amounts are in ISK million

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

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

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 30 June 2024 the LAA and RCA were both equal to the total SREP capital requirement for 2023 of 10.4%, resulting in an MREL requirement of 20.8% of REA.

	30.6.2024		31.12.2023	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	212,055	20.8%	203,223	20.8%
Combined buffer requirement	100,553	9.9%	91,450	9.4%
MREL including combined buffer requirement	312,608	30.7%	294,673	30.2%

	30.6.2024		31.12.2023	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	235,112	23.1%	247,637	25.3%
Eligible liabilities	127,454	12.5%	155,617	15.9%
Own funds and eligible liabilities	362,566	35.6%	403,254	41.3%

Amounts are in ISK million