Íslandsbanki

Condensed Consolidated Interim Financial Statements

First quarter 2024

Unaudited

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

Contents

Factsheet

Key figures 1Q24

Net profit **ISK 5.4bn**

ROE **9.8%**

Cost-to-income ratio **44.9%**

NIM **3.0%**

Sustainability 1Q24

- The Bank issued senior preferred green notes in NOK and SEK
- Significant steps taken with regards to implementation of updated Sustainable Funding Framework
- Íslandsbanki purchased Icelandic carbon capture credits from Running Tide

Digital milestones 1Q24

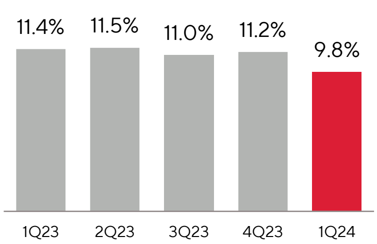
- App enhancements include loan prepayment option and additional debit card management functions
- Development of an internal Generative AI chatbot (in BETA) ongoing
- Further improvements to the Bank's digital car financing solution enables more user journeys

Ratings and certifications

Moody's **A3** Stable outlook

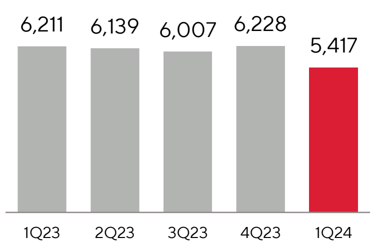
S&P Global Ratings **BBB+/A-2** Stable outlook

Return on equity

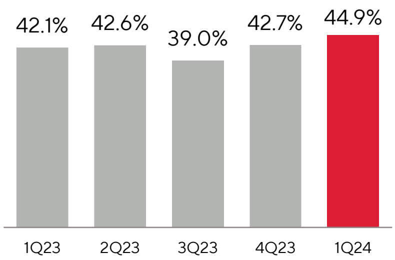


Profit after tax

(ISKm)

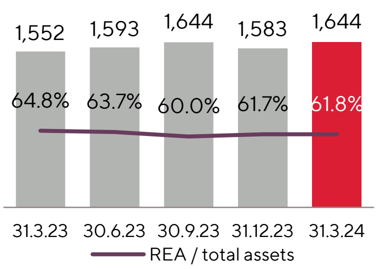


Cost-to-income ratio[1]



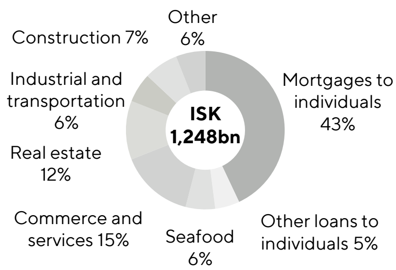
Total assets

(ISKbn)



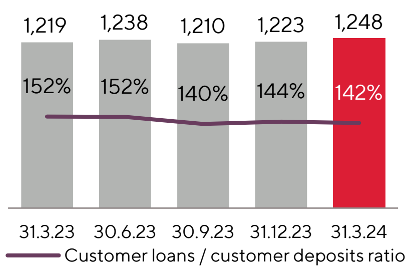
Loans to customers

(Sector split as of 31.3.24)

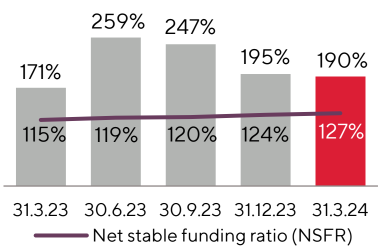


Loans to customers

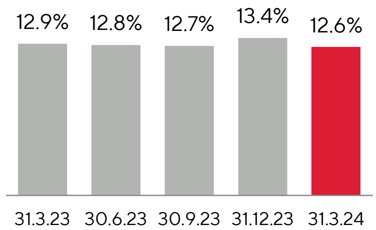
(ISKbn)



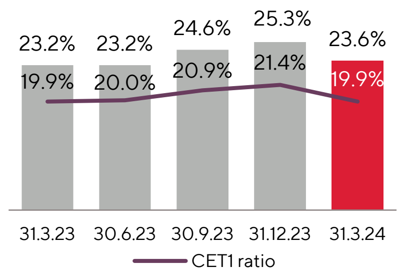
Total liquidity coverage ratio



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 2Q23 excludes a charge of ISK 860m due to an administrative fine.
2. Including 1Q23 profit for 31.3.23, 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 Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 31 March 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 for the first quarter of 2024 amounted to ISK 5,417 million and the return on equity was 9.8%, slightly below the Bank's target of being above 10%, as the quarter was cost heavy and pressure on net interest income played the largest part. At the end of first quarter 2024 the Group employed 775 full-time members of staff, including 735 within the Bank itself. The Group operates 12 branches.

The net interest margin for the first quarter was 3.0% compared to a margin of 3.2% in first quarter 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 June 2023 from 1% to 2% which has adverse effects on the year-on-year comparison. Net fee and commission income was ISK 3,296 million in the quarter compared to ISK 3,469 million in the first quarter of 2023. Net income on cards and payment processing was the largest contributor although increased costs of services provided resulted in a decline year-on-year. Further, 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 remained pressured. During the quarter Kirkjusandur 2, the Bank's former headquarters, was reclassified from property and equipment to investment property. The Group measures investment property at fair value. In parallel, revaluation was conducted increasing the value of the asset by ISK 906 million which is the lion's share of other operating income which amounted to ISK 1,098 million in the quarter compared to ISK 43 million in the first quarter of 2023. Overall, total operating income declined by 1.4% in the quarter year-on-year.

Salaries and related expenses rose by 5.3% year-on-year and amounted to ISK 4,168 million, mainly owing to an increase in FTEs due to the Bank's commitment to further strengthen its regulatory infrastructure and overall governance. At the end of the quarter, the Group's employees were 775 compared to 740 at the end of the first quarter of 2023. Other operating expenses rose by ISK 146 million, and amounted to ISK 3,228 million, mainly related to inflation and IT expenses. The cost-to-income ratio closed at 44.9%, within the financial guidance of 40-45%. Net impairments amounted to ISK 704 million, compared to ISK 675 million in the first quarter of 2023.

Loans to customers grew by 2.0% in the quarter. Mortgages remain the largest part of the loan portfolio, or 43%, and LTVs remain at healthy levels. Asset quality remains strong; at year-end 1.9% of the gross carrying amount of loans to costumers were classified in Stage 3, a slight growth from year-end 2023. As in the second half of 2023, conversion of loans from non-indexed loans to CPI-linked instruments has been ongoing, and as a result the CPI imbalance has grown to ISK 175 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, as inflation subsides, compared to a more neutral CPI position.

Funding

Deposits continue to remain the Bank's largest source of funding. Deposits from customers amounted to ISK 880 billion at the end of the first quarter of 2024, and increased by 3.4% year-on-year, where Personal Banking was the largest contributor. Customer loans to customer deposits ratio closed at 142% compared to 144% at year-end 2023.

During the quarter, volatility especially in global capital markets continued to subside and spreads continued to tighten. Domestically, the Bank issued domestic covered bonds to fund its mortgage loan portfolio amounting to ISK 5,900 million in January and ISK 5,320 million of senior preferred bonds in March. Internationally, 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. During the quarter, the Bank repurchased notes amounting to NOK 975 million, SEK 983 million and EUR 74 million. The Bank's liquidity position is strong, well above both regulatory and internal limits.

Immediately after the end of the quarter, on 4 April 2024, S&P Global Ratings (S&P) 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 Investor Services (Moody's) and a BBB+/A-2 by S&P.

Directors' Report

Capital

The Bank's capital position remains solid and well in excess of the regulatory requirements. The total capital ratio was 23.4% at the end of the quarter, compared to a 20.2% regulatory minimum, following a 0.5% increase in the countercyclical buffer during the quarter. MREL requirements remained unchanged during the quarter, or 30.6% of the Bank's REA, whereas the MREL ratio closed at 39.1%, well in excess of requirements.

The Bank's 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 share buyback program was ongoing. During the quarter, the Bank purchased a total of 14,624,407 shares, or 0.73% of the share capital, for a total of ISK 1,658 million. Prior to the first quarter 2024, the Bank had purchased a total of 20,390,831 shares or 1.02% of its share capital, for a total of ISK 2,310 million. At the end of the first quarter, the Bank owned a total of 35,015,238 shares, or 1.75% of its own share capital and the total purchase price has amounted to ISK 3,969 million.

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 following the conclusion of the current ISK 5,000 million buyback program which is underway. 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

After experiencing a significant slowdown in GDP growth from nearly 9% to less than 1% in 2023, the economy showed further signs of cooling in the first quarter of 2024 and is headed for a soft landing. This cooling is evident from a sharp contraction in new car sales, a real decline in payment card turnover, and a slowdown in the growth of various consumer imports, following a 1.6% real-term decline in private consumption in the second half of 2023. Similarly, investment, which shrank by nearly 5% in the same period, remains subdued.

Looking ahead to 2024, Íslandsbanki Research projects a modest GDP growth of 1.9%. The outlook, however, is clouded by increasing downside risks, particularly in the export sector. The tourism sector, a major contributor to Iceland's economy, faces uncertainties due to seismic activities on the Reykjanes peninsula, high prices, and reduced demand from key markets, in parallel with uncertainty in certain subsegments of the fisheries sector.

The labour market is relatively strong, though signs of rebalancing are emerging. Unemployment has risen slightly, and the share of large corporations reporting workforce shortages has dropped from over 50% to around 33%. Recent wage agreements across much of the private sector align relatively well with the Central Bank's inflation target. Meanwhile, negotiations continue in the public sector and other segments of the private job market. Concurrently, the Government has introduced a welfare package representing approximately 0.4% of annual GDP in additional expenses following a 1.7% GDP support package for homeowners affected by seismic activities.

Although inflation remains high at 6.0% as of April 2024, it has declined markedly from the 7.7% measured at year-end 2023. The housing market remains a primary driver, but inflationary pressures are rather broad. The Central Bank has maintained a policy rate of 9.25% since August 2023. While expressing concern over persistent inflation, the Central Bank has recently provided neutral forward guidance. Nevertheless, a rate cut later in the year is still likely, with inflation expected to decrease to 5.8% by July and near 5% by the end of the year, assuming economic conditions continue to cool.

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 89.7% of the Bank's shares were owned by domestic parties and 10.3% by international investors. The Icelandic Government is the largest shareholder with 43.3% of outstanding shares, including own 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 35.6% of the outstanding shares. For further information on the Bank's shareholders see Note 35.

In early April, a bill was proposed to congress on continued sell down of the stake currently owned by the Government. According to the draft bill, a fully marketed offering will be conducted with the aim to provide a full exit for the Government in one or more transactions. As of now, the bill is subject to congressional review, and it is unclear whether and/or when the bill will be passed into law. Should a transaction take place on the back of such law, the Bank will not participate in the process in an advisory role. The Bank will however support the transaction with preparation of a prospectus and other material needed for an offering of this nature.

Directors' Report

Other matters

The FSA conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in the Bank's AML measures. The Bank has not challenged the FSA's findings and has already made, and is continuing to make, improvements to its AML framework. Fight against financial crime is an important part of Íslandsbanki's corporate responsibility and work to that end is a high priority within the Bank. The matter could result in a settlement and a fine. The Bank has recognised an undisclosed provision in relation to this matter. For further information see Note 37.

On 4 April 2024, the Central Bank announced its decision to increase the fixed reserve requirement ratio from 2% to 3%, coming on top of its decision in June 2023 to increase the ratio from 1% to 2%. As a result, the Bank will be required to maintain additional funds at a non-interest-bearing account in the Central Bank, thus effectively reducing the yield on the Bank's liquidity portfolio. The effect of this recent change is estimated to be in excess of ISK 900 million annually, given the current rate environment.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 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 31 March 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 31 March 2024.

Kópavogur, 2 May 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

Consolidated Interim Income Statement

	Notes	2024 1.1-31.3	2023 1.1-31.3
Interest income calculated using the effective interest rate method		34,162	30,070
Other interest income		2,461	2,093
Interest expense		(24,501)	(19,740)
Net interest income	5	12,122	12,423
Fee and commission income		4,469	4,393
Fee and commission expense		(1,173)	(924)
Net fee and commission income	6	3,296	3,469
Net financial income (expense)	7	(236)	538
Net foreign exchange gain	8	196	244
Other operating income	9	1,098	43
Other net operating income		1,058	825
Total operating income		16,476	16,717
Salaries and related expenses	10	(4,168)	(3,960)
Other operating expenses	11	(3,228)	(3,082)
Bank tax		(493)	(462)
Total operating expenses		(7,889)	(7,504)
Profit before net impairment on financial assets		8,587	9,213
Net impairment on financial assets	12	(704)	(675)
Profit before tax		7,883	8,538
Income tax expense	13	(2,468)	(2,335)
Profit for the period from continuing operations		5,415	6,203
Profit from discontinued operations held for sale, net of tax		2	8
Profit for the period		5,417	6,211
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	14	2.75	3.11

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

Íslandsbanki hf. Condensed Consolidated Interim Financial Statements first quarter 2024 6 Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2024	2023
	1.1-31.3	1.1-31.3
Profit for the period	5,417	6,211
Net changes in fair value of financial liabilities attributable to changes in credit risk, net of tax	(426)	(1,513)
Items that will not be reclassified to the income statement	(426)	(1,513)
Net changes in fair value of debt instruments at FVOCI, net of tax	(15)	-
Changes in allowance for expected credit losses of debt instruments at FVOCI, net of tax	10	-
Items that may subsequently be reclassified to the income statement	(5)	-
Other comprehensive expense for the period, net of tax	(431)	(1,513)
Total comprehensive income for the period	4,986	4,698

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

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2024	31.12.2023
Assets			
Cash and balances with Central Bank	19	68,746	87,504
Loans to credit institutions	20	114,430	73,475
Bonds and debt instruments	15	156,091	161,342
Derivatives	21	5,138	5,776
Loans to customers	22	1,248,295	1,223,426
Shares and equity instruments	15	20,281	13,241
Investments in associates	24	4,079	4,051
Investment property	25	2,100	-
Property and equipment	26	5,240	6,562
Intangible assets		2,862	2,930
Other assets	27	15,719	3,638
Non-current assets and disposal groups held for sale		726	749
Total Assets		1,643,707	1,582,694
Liabilities			
Deposits from Central Bank and credit institutions	28	14,103	16,149
Deposits from customers	29	879,554	850,709
Derivative instruments and short positions	21	4,936	5,090
Debt issued and other borrowed funds	31	440,960	417,573
Subordinated loans	32	37,946	38,155
Tax liabilities		13,695	13,107
Other liabilities	33	36,795	17,218
Total Liabilities		1,427,989	1,358,001
Equity			
Share capital		9,825	9,898
Share premium		55,000	55,000
Reserves		4,831	5,083
Retained earnings		146,062	154,712
Total Equity		215,718	224,693
Total Liabilities and Equity		1,643,707	1,582,694

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

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Liability credit 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							6,211	6,211
Net changes in fair value of financial liabilities attributable to changes in credit risk, net of tax					(1,513)			(1,513)
Total comprehensive income (expense) for the period	-	-	-	-	(1,513)	-	6,211	4,698
Dividends							(12,254)	(12,254)
Purchase of treasury shares	(37)						(896)	(933)
Restricted due to capitalised development costs				(73)			73	-
Restricted due to fair value changes				123			(123)	-
Restricted due to associates				(19)			19	-
Equity as at 31 March 2023	9,963	55,000	2,500	4,901	273	2	137,746	210,385
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							5,417	5,417
Net changes in fair value of financial liabilities attributable to changes in credit risk, net of tax					(345)		(81)	(426)
Net changes in fair value of debt instruments at FVOCI, net of tax				(15)				(15)
Changes in allowance for expected credit losses of debt instruments at FVOCI, net of tax				10				10
Total comprehensive income (expense) for the period	-	-	-	(5)	(345)	-	5,336	4,986
Dividends							(12,303)	(12,303)
Purchase of treasury shares	(73)						(1,585)	(1,658)
Restricted due to capitalised development costs				(72)			72	-
Restricted due to fair value changes				142			(142)	-
Restricted due to associates				28			(28)	-
Equity as at 31 March 2024	9,825	55,000	2,500	4,500	(2,172)	3	146,062	215,718

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 14.6 million own shares for ISK 1,658 million during the first quarter of 2024. As of 31 March 2024, the Bank's paid-in share capital totalled ISK 65,000 million, and the total stated share capital amounted to ISK 64,825 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 12 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

		2024 1.1-31.3	2023 1.1-31.3
Profit for the period		5,417	6,211
Non-cash items included in profit for the period*		(9,704)	(8,340)
Changes in operating assets and liabilities*		(39,009)	(11,404)
Interest received		28,380	22,688
Interest paid**		(21,761)	(12,432)
Dividends received		261	144
Paid bank tax		(475)	(429)
Paid income tax and special financial activities tax		(1,814)	(923)
Net cash used in operating activities		(38,705)	(4,485)
Proceeds from sales of property and equipment		90	2
Purchase of property and equipment		(105)	(94)
Purchase of intangible assets		(108)	(131)
Net cash used in investing activities		(123)	(223)
Proceeds from borrowings		69,936	26,180
Repayment and repurchases of borrowings		(39,902)	(53,174)
Repayment of lease liabilities		(140)	(125)
Dividends paid		(12,303)	(12,254)
Purchase of treasury shares		(1,658)	(933)
Net cash provided by (used in) financing activities		15,933	(40,306)
Net decrease in cash and cash equivalents		(22,895)	(45,014)
Effects of foreign exchange rate changes		(17)	(59)
Cash and cash equivalents at the beginning of the year		86,472	139,035
Cash and cash equivalents at the end of the period		63,560	93,962
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,955	3,939
Unrestricted balances with Central Bank	19	45,971	54,267
Bank accounts	20	13,634	35,756
Cash and cash equivalents at the end of the period		63,560	93,962

*For further breakdown see the following page.

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

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

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

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2024 1.1-31.3	2023 1.1-31.3
Net interest income	(12,122)	(12,423)
Unrealised fair value gain (loss) recognised in profit or loss	(540)	451
Foreign exchange gain	(196)	(244)
Fair value changes on investment property	(906)	(1)
Share of profit and gain from sale of associates	(28)	(9)
Net gain from sales of property and equipment	(26)	(1)
Depreciation, amortisation, and write-offs	402	374
Bank tax	493	462
Net impairment on financial assets	719	705
Income tax expense	2,468	2,335
Profit from discontinued operations held for sale, net of tax	(2)	(8)
Other changes	34	18
Total	(9,704)	(8,340)

Changes in operating assets and liabilities

	2024 1.1-31.3	2023 1.1-31.3
Mandatory reserve and pledged balances with Central Bank	1,006	437
Loans to credit institutions	(46,817)	7,652
Bonds and debt instruments	7,018	3,771
Loans to customers	(20,323)	(30,439)
Shares and equity instruments	(7,019)	2,019
Other assets	(12,041)	(16,107)
Non-current assets and liabilities held for sale	25	30
Deposits from Central Bank and credit institutions	(2,082)	(1,446)
Deposits from customers	22,407	10,711
Derivative instruments and short positions	(867)	(201)
Other liabilities	19,684	12,169
Total	(39,009)	(11,404)

Significant non-cash transactions

Significant non-cash transactions 1 January to 31 March 2024

During the AGM for the 2023 operating year on 21 March 2024, shareholders approved the Board's proposal to distribute dividends of ISK 12,300 million. The dividends were paid on 2 April 2024.

Significant non-cash transactions 1 January to 31 March 2023

During the period the Group did not have any significant non-cash transactions.

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

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Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 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 2 May 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 Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 March 2024 the exchange rate of the ISK against the USD was 138.59 and for the EUR 149.90 (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 first quarter of 2024, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in February and an updated forecast for inflation in March. The table below shows macroeconomic indicators from the new forecast.

Change in economic indicators %	**Estimate 2023**	**Forecast 2024**	**Forecast 2025**	**Forecast 2026**	**Forecast 2027**
Economic growth (YoY real GDP change)	4.1	1.9	2.6	2.9	2.2
Housing prices in Iceland (average YoY change)	7.8	5.5	3.4	4.3	3.5
Purchasing power (average YoY change)	1.0	1.2	2.2	1.5	1.6
ISK exchange rate index (average YoY change)	4.9	(4.2)	(6.9)	(1.9)	1.8
Policy rate, Central Bank of Iceland (average per year)	8.1	8.8	7.2	5.2	5.3
Inflation (average per year)	8.7	5.2	3.2	3.0	2.8
Capital formation (YoY real change)	(2.6)	0.2	4.8	5.1	2.5
thereof capital formation in industry	0.3	(2.0)	5.5	4.8	2.5

The All Risk Committee decided to adjust the weights of the forward-looking scenarios to better 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 first quarter, as it was throughout last year, as this would best represent the probability-weighted average over all possible scenarions. 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 transferring exposures amounting to ISK 5.5 billion (year-end 2023: ISK 5.2 billion) from Stage 1 to Stage 2 and applying higher haircuts to the values of collateral for these exposures. In addition, the Group continues to apply a management overlay to the modelled ECL. Additional impairment allowance due to the seismic activity amounted to ISK 1.7 billion at 31 March 2024 (year-end 2023: ISK 1.7 billion).

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 31 March 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)	4,257	4,617	3,416	(40)	(187)	12,063	59	12,122
Net fee and commission income (expense)	802	546	1,108	1	(1)	2,456	840	3,296
Other net operating income	(76)	15	238	(70)	82	189	869	1,058
Total operating income	4,983	5,178	4,762	(109)	(106)	14,708	1,768	16,476
Salaries and related expenses	(679)	(584)	(575)	(81)	(1,988)	(3,907)	(261)	(4,168)
Other operating expenses	(713)	(337)	(322)	(91)	(1,535)	(2,998)	(230)	(3,228)
Bank tax	(214)	(116)	(129)	(31)	(3)	(493)	-	(493)
Net impairment on financial assets	(11)	(688)	48	(53)	-	(704)	-	(704)
Cost allocation	(1,466)	(1,163)	(1,021)	114	3,536	-	-	-
Profit (loss) before tax	1,900	2,290	2,763	(251)	(96)	6,606	1,277	7,883
Income tax	(571)	(650)	(781)	(415)	26	(2,391)	(77)	(2,468)
Profit (loss) for the period from continuing operations	1,329	1,640	1,982	(666)	(70)	4,215	1,200	5,415
Net segment revenue from external customers	5,986	6,109	7,200	(4,556)	(31)	14,708	1,768	16,476
Net segment revenue from other segments	(1,003)	(931)	(2,438)	4,447	(75)	-	-	-
Fee and commission income	1,847	560	1,162	59	-	3,628	841	4,469
Depreciation, amortisation, and write-offs	(46)	(15)	(1)	-	(336)	(398)	(4)	(402)
At 31 March 2024								
Loans to customers	584,006	317,437	346,400	452	-	1,248,295	-	1,248,295
Other assets	5,568	2,301	8,539	368,581	8,812	393,801	1,611	395,412
Total segment assets	589,574	319,738	354,939	369,033	8,812	1,642,096	1,611	1,643,707
Deposits from customers	426,821	252,380	188,093	15,401	-	882,695	(3,141)	879,554
Other liabilities	2,574	1,840	13,534	523,364	5,742	547,054	1,381	548,435
Total segment liabilities	429,395	254,220	201,627	538,765	5,742	1,429,749	(1,760)	1,427,989
Allocated equity	42,933	49,522	63,816	54,965	1,111	212,347	3,371	215,718
Risk exposure amount	267,450	300,457	376,013	60,935	6,922	1,011,777	3,384	1,015,161

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

Amounts are in ISK million

4. Operating segments (continued)

1 January to 31 March 2023	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	4,252	4,174	3,133	906	(77)	12,388	35	12,423
Net fee and commission income (expense)	956	549	1,134	15	(1)	2,653	816	3,469
Other net operating income	6	12	209	521	52	800	25	825
Total operating income	5,214	4,735	4,476	1,442	(26)	15,841	876	16,717
Salaries and related expenses	(637)	(564)	(529)	(77)	(1,871)	(3,678)	(282)	(3,960)
Other operating expenses	(653)	(305)	(278)	(102)	(1,528)	(2,866)	(216)	(3,082)
Bank tax	(205)	(107)	(137)	(10)	(3)	(462)	-	(462)
Net impairment on financial assets	(157)	(615)	52	45	-	(675)	-	(675)
Cost allocation	(1,433)	(1,116)	(992)	123	3,418	-	-	-
Profit (loss) before tax	2,129	2,028	2,592	1,421	(10)	8,160	378	8,538
Income tax	(607)	(555)	(710)	(395)	2	(2,265)	(70)	(2,335)
Profit (loss) for the period from continuing operations	1,522	1,473	1,882	1,026	(8)	5,895	308	6,203
Net segment revenue from external customers	22,571	6,669	13,910	(27,537)	228	15,841	876	16,717
Net segment revenue from other segments	(17,357)	(1,934)	(9,434)	28,979	(254)	-	-	-
Fee and commission income	1,758	560	1,153	104	1	3,576	817	4,393
Depreciation, amortisation, and write-offs	(43)	(15)	-	-	(313)	(371)	(3)	(374)
At 31 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 31 March 2024	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	31	24	1	59
Net fee and commission income (expense)	340	535	(7)	(28)	840
Other net operating income	21	-	106	742	869
Total operating income	364	566	123	715	1,768
Salaries and related expenses	(179)	(61)	(21)	-	(261)
Other operating expenses	(62)	(229)	(105)	166	(230)
Profit (loss) before tax	123	276	(3)	881	1,277
Income tax	(26)	(51)	-	-	(77)
Profit (loss) for the period from continuing operations	97	225	(3)	881	1,200
Net segment revenue from external customers	447	507	2	812	1,768
Net segment revenue from other segments	(83)	59	121	(97)	-
Fee and commission income	478	535	-	(172)	841
Depreciation, amortisation, and write-offs	-	-	(1)	(3)	(4)
At 31 March 2024					
Total assets	2,366	2,614	5,593	(8,962)	1,611
Total liabilities	276	878	104	(3,018)	(1,760)
Total equity	2,090	1,736	5,489	(5,944)	3,371

1 January to 31 March 2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	16	16	-	35
Net fee and commission income (expense)	390	453	(8)	(19)	816
Other net operating income	49	9	83	(116)	25
Total operating income	442	478	91	(135)	876
Salaries and related expenses	(186)	(78)	(18)	-	(282)
Other operating expenses	(55)	(229)	(66)	134	(216)
Net impairment on financial assets	(1)	1	-	-	-
Profit (loss) before tax	200	172	7	(1)	378
Income tax	(40)	(30)	-	-	(70)
Profit (loss) for the period from continuing operations	160	142	7	(1)	308
Net segment revenue from external customers	516	442	-	(82)	876
Net segment revenue from other segments	(74)	36	91	(53)	-
Fee and commission income	526	453	-	(162)	817
Depreciation, amortisation, and write-offs	-	-	(1)	(2)	(3)
At 31 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

5. Net interest income

	2024 1.1-31.3	2023 1.1-31.3
Cash and balances with Central Bank	1,105	1,226
Loans to credit institutions	891	504
Loans to customers	31,510	28,340
Financial assets mandatorily at fair value through other comprehensive income	656	-
Interest income calculated using the effective interest rate method	34,162	30,070
Financial assets mandatorily at fair value through profit or loss	2,459	2,092
Other assets	2	1
Other interest income	2,461	2,093
Deposits from Central Bank and credit institutions	(89)	(33)
Deposits from customers	(15,206)	(10,202)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(897)	(140)
Debt issued and other borrowed funds at amortised cost	(5,703)	(7,258)
Subordinated loans	(957)	(799)
Lease liabilities	(20)	(20)
Other liabilities	(1,629)	(1,288)
Interest expense	(24,501)	(19,740)
Net interest income	12,122	12,423

6. Net fee and commission income

	2024 1.1-31.3	2023 1.1-31.3
Asset management	707	739
Investment banking and brokerage	793	826
Payment processing	1,866	1,749
Loans and guarantees	519	554
Other fee and commission income	584	525
Fee and commission income	4,469	4,393
Brokerage	(108)	(107)
Clearing and settlement	(1,062)	(815)
Other fee and commission expense	(3)	(2)
Fee and commission expense	(1,173)	(924)
Net fee and commission income	3,296	3,469

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial income (expense)

	2024 1.1-31.3	2023 1.1-31.3
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(556)	1,049
Net gain (loss) on financial liabilities designated as at FVTPL	192	(680)
Net gain on fair value hedges	18	61
Net gain on derecognition of financial liabilities measured at amortised cost	193	108
Net loss on derecognition of financial assets measured at amortised cost	(83)	-
Net financial income (expense)	(236)	538

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

	2024 1.1-31.3	2023 1.1-31.3
Net loss on bonds and related derivatives	(57)	(693)
Net loss on shares and related derivatives	(295)	(50)
Dividend income	261	144
Net gain on debt issued and related derivatives	148	175
Net gain (loss) on economic hedging and other derivatives	(210)	962
Net loss on derecognition of financial assets measured at amortised cost	(83)	-
Net financial income (expense)	(236)	538

8. Net foreign exchange gain

	2024 1.1-31.3	2023 1.1-31.3
Cash and balances with Central Bank	(17)	(59)
Loans at amortised cost	(1,259)	(8,490)
Financial assets mandatorily at fair value through profit or loss	(2,100)	(5,498)
Financial assets mandatorily at fair value through other comprehensive income	102	-
Other assets	(1)	4
Net foreign exchange loss for assets	(3,275)	(14,043)
Deposits	(417)	4,331
Debt issued and other borrowed funds designated as at fair value through profit or loss	401	1,924
Debt issued and other borrowed funds at amortised cost	2,821	7,204
Subordinated loans	666	828
Net foreign exchange gain for liabilities	3,471	14,287
Net foreign exchange gain	196	244

9. Other operating income

	2024 1.1-31.3	2023 1.1-31.3
Fair value changes on investment property	906	-
Share of profit of associates, net of tax	28	9
Gain from sales of property and equipment	26	1
Legal fees	14	12
Rental income	15	17
Other net operating income	109	4
Other operating income	1,098	43

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

10. Salaries and related expenses

	2024 1.1-31.3	2023 1.1-31.3
Salaries	3,206	3,044
Contributions to pension funds	486	455
Social security charges and financial activities tax*	419	409
Other salary-related expenses	57	52
Salaries and related expenses	4,168	3,960

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

11. Other operating expenses

	2024 1.1-31.3	2023 1.1-31.3
Professional services	628	725
Software and IT expenses	1,338	1,264
Real estate and office equipment	182	216
Depreciation, amortisation, and write-offs	402	374
Other administrative expenses	678	503
Other operating expenses	3,228	3,082

12. Net impairment on financial assets

	2024 1.1-31.3	2023 1.1-31.3
Net change in expected credit losses, on-balance sheet items	(764)	(459)
Net change in expected credit losses, off-balance sheet items	60	(216)
Net impairment on financial assets	(704)	(675)

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

13. 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 quarter 2024 is 31.3% (first quarter 2023: 27.3%).

	2024 1.1-31.3	2023 1.1-31.3
Current tax expense excluding discontinued operations	2,264	2,149
Special financial activities tax	613	602
Adjustments in prior year's calculated income tax	(17)	-
Changes in deferred tax assets and deferred tax liabilities	(392)	(416)
Income tax recognised in the income statement	2,468	2,335
Income tax recognised in other comprehensive income*	(118)	68

*Comparative figures have been changed with immaterial effects.

	2024 1.1-31.3		2023 1.1-31.3	
Profit before tax	7,883		8,538	
Income tax calculated on the profit for the period	1,656	21.0%	1,708	20.0%
Special financial activities tax	613	7.8%	602	7.1%
Adjustments in prior year's calculated income tax	(17)	(0.2%)	-	0.0%
Income not subject to tax	(251)	(3.2%)	(80)	(0.9%)
Non-deductible expenses	464	5.9%	110	1.3%
Other differences	3	0.0%	(5)	(0.1%)
Effective income tax expense	2,468	31.3%	2,335	27.3%

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

14. Earnings per share

	Continued operations		Discontinued operations		Profit for the period	
	2024 1.1-31.3	2023 1.1-31.3	2024 1.1-31.3	2023 1.1-31.3	2024 1.1-31.3	2023 1.1-31.3
Profit attributable to shareholders of the Bank	5,415	6,203	2	8	5,417	6,211
Weighted average number of outstanding shares	1,971	1,998	1,971	1,998	1,971	1,998
Basic earnings per share (ISK)	2.75	3.11	0.00	0.00	2.75	3.11

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 quarter 2023: none).

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 31 March 2024	Mandatorily at FVTPL	Hedge accounting	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	68,746	68,746
Loans to credit institutions	-	-	-	114,430	114,430
Listed bonds and debt instruments*	74,923	-	74,214	-	149,137
Listed bonds and debt instruments used for economic hedging	6,954	-	-	-	6,954
Derivatives	5,016	122	-	-	5,138
Loans to customers	-	-	-	1,248,295	1,248,295
Listed shares and equity instruments	5,128	-	-	-	5,128
Listed shares and equity instruments used for economic hedging	13,132	-	-	-	13,132
Unlisted shares and equity instruments	2,021	-	-	-	2,021
Other financial assets	-	-	-	14,566	14,566
Total financial assets	107,174	122	74,214	1,446,037	1,627,547

	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	14,103	14,103
Deposits from customers	-	-	-	879,554	879,554
Derivative instruments and short positions	4,673	263	-	-	4,936
Debt issued and other borrowed funds	-	89,662	82,530	268,768	440,960
Subordinated loans	-	-	-	37,946	37,946
Other financial liabilities	-	-	-	32,619	32,619
Total financial liabilities	4,673	89,925	82,530	1,232,990	1,410,118

*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
Unlisted bonds and debt instruments	-	-	-	-	-
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

Notes to the Condensed Consolidated Interim Financial Statements

16. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 March 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 31 March 2024	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	156,091	-	-	156,091
Derivatives	-	5,138	-	5,138
Shares and equity instruments	18,260	-	2,021	20,281
Total financial assets	174,351	5,138	2,021	181,510
Short positions	63	-	-	63
Derivative instruments	-	4,873	-	4,873
Debt issued and other borrowed funds designated as at FVTPL	82,530	-	-	82,530
Total financial liabilities	82,593	4,873	-	87,466

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

Changes in Level 3 financial instruments measured at fair value	Shares and equity instruments
Fair value at 1 January 2024	1,902
Net gain on financial instruments recognised in profit or loss	119
Fair value at 31 March 2024	2,021

Amounts are in ISK million

16. Fair value information for financial instruments (continued)

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 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.

	31.3.2024	31.12.2023
Very favourable	904	904
Favourable	217	217
Unfavourable	(187)	(187)
Very unfavourable	(217)	(217)

Amounts are in ISK million

17. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 16.

At 31 March 2024	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	68,746	-	68,746	68,746
Loans to credit institutions	-	114,430	-	114,430	114,430
Loans to customers	-	-	1,233,747	1,233,747	1,248,295
Other financial assets	-	14,566	-	14,566	14,566
Total financial assets	-	197,742	1,233,747	1,431,489	1,446,037
Deposits from Central Bank and credit institutions	-	14,103	-	14,103	14,103
Deposits from customers	-	879,562	-	879,562	879,554
Debt issued and other borrowed funds	246,319	28,546	-	274,865	268,768
Subordinated loans	37,777	-	-	37,777	37,946
Other financial liabilities	-	32,619	-	32,619	32,619
Total financial liabilities	284,096	954,830	-	1,238,926	1,232,990

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

18. Offsetting financial assets and financial liabilities

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

At 31 March 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	31.3.2024	31.12.2023
Net financial assets	5,138	5,776
Amounts not set off but subject to master netting arrangements and similar agreements	(3,870)	(4,404)
- Financial liabilities	(502)	(715)
- Cash collateral received	(2,771)	(3,589)
- Financial instruments collateral received	(597)	(100)
Net amount after consideration of potential effect of netting arrangements	1,268	1,372

Derivative instruments and short positions	31.3.2024	31.12.2023
Net financial liabilities	4,936	5,090
Amounts not set off but subject to master netting arrangements and similar agreements	(3,401)	(2,794)
- Financial assets	(502)	(715)
- Cash collateral pledged	(2,899)	(2,079)
Net amount after consideration of potential effect of netting arrangements	1,535	2,296

19. Cash and balances with Central Bank

	31.3.2024	31.12.2023
Cash on hand	3,955	3,653
Unrestricted balances with Central Bank	45,971	64,025
Cash and unrestricted balances with Central Bank	49,926	67,678
Balances pledged as collateral to Central Bank	483	484
Mandatory reserve deposits with Central Bank	18,337	19,342
Cash and balances with Central Bank	68,746	87,504

20. Loans to credit institutions

	31.3.2024	31.12.2023
Money market loans	97,705	53,882
Bank accounts	13,634	18,794
Other loans	3,091	799
Loans to credit institutions	114,430	73,475

Amounts are in ISK million

21. Derivative instruments and short positions

At 31 March 2024	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	2,875	121,352	2,568	98,567
Cross-currency interest rate swaps	49	2,546	605	23,822
Equity forwards	1,585	13,394	80	2,119
Foreign exchange forwards	190	20,438	433	21,832
Foreign exchange swaps	307	36,600	1,150	55,334
Bond forwards	132	2,285	37	5,535
Derivatives	5,138	196,615	4,873	207,209
Short positions in listed bonds	-	-	63	65
Total	5,138	196,615	4,936	207,274

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 31) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2024 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 141 million (year-end 2023: negative ISK 39 million) and their total notional amount was ISK 89,940 million (year-end 2023: ISK 45,150 million).

Amounts are in ISK million

22. Loans to customers

At 31 March 2024	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
Individuals	588,228	11,745	6,767	(1,397)	(1,432)	(704)	603,207
Commerce and services	169,039	15,902	2,582	(949)	(467)	(612)	185,495
Construction	88,403	2,454	445	(1,028)	(99)	(101)	90,074
Energy	7,659	394	-	(61)	(11)	-	7,981
Financial services	1,087	-	-	(1)	-	-	1,086
Industrial and transportation	65,937	1,497	11,435	(198)	(53)	(2,936)	75,682
Investment companies	37,401	5,257	134	(601)	(106)	(51)	42,034
Public sector and non-profit organisations	20,707	208	3	(19)	(3)	(1)	20,895
Real estate	145,908	4,471	2,641	(508)	(388)	(468)	151,656
Seafood	70,044	247	10	(100)	(13)	(3)	70,185
Loans to customers	1,194,413	42,175	24,017	(4,862)	(2,572)	(4,876)	1,248,295

At 31 December 2023	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
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

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	133	1	-	134
Loans to customers	4,862	2,572	4,876	12,310
Other financial assets	4	4	-	8
Off-balance sheet loan commitments and financial guarantees	915	55	154	1,124
At 31 March 2024	5,931	2,632	5,030	13,593
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

23. 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	266	(230)	(36)	-
Transfer to Stage 2	(205)	141	64	-
Transfer to Stage 3	(51)	(135)	186	-
Net remeasurement of loss allowance	(675)	(52)	641	(86)
New financial assets originated or purchased	928	174	153	1,255
Derecognitions and maturities	(188)	(53)	(238)	(479)
Write-offs*	(1)	-	(145)	(146)
Recoveries of amounts previously written off	-	-	16	16
Foreign exchange	-	-	(61)	(61)
Unwinding of interest	-	-	83	83
At 31 March 2024	4,862	2,572	4,876	12,310

*During the period financial assets amounting to ISK 62 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	48	(45)	(3)	-
Transfer to Stage 2	(7)	7	-	-
Transfer to Stage 3	(1)	(2)	3	-
Net remeasurement of loss allowance	(186)	(10)	13	(183)
New loan commitments and financial guarantees	198	8	-	206
Derecognitions and maturities	(53)	(9)	(21)	(83)
At 31 March 2024	915	55	154	1,124

	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

24. Investments in associates

		31.3.2024	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 3,655 million (CPI-linked, based on the CPI in March 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.

25. Investment property

At 1 January 2024	-
Transfer from property and equipment	1,194
Fair value changes	906
At 31 March 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.

26. Property and equipment

At 31 March 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	-	63	105
Disposals and write-offs during the period	(82)	-	-	(82)
Remeasurement	-	57	-	57
Transfer to investment property	(2,412)	-	-	(2,412)
Historical cost	626	5,860	3,275	9,761
Balance at the beginning of the year	(1,365)	(2,228)	(1,938)	(5,531)
Depreciation during the period	(3)	(138)	(85)	(226)
Disposals and write-offs during the period	18	-	-	18
Transfer to investment property	1,218	-	-	1,218
Accumulated depreciation	(132)	(2,366)	(2,023)	(4,521)
Carrying amount	494	3,494	1,252	5,240

Amounts are in ISK million

26. 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

27. Other assets

	31.3.2024	31.12.2023
Receivables	3,670	1,698
Unsettled securities transactions	10,959	1,195
Prepaid expenses	842	503
Deferred tax assets	128	122
Other assets	120	120
Other assets	15,719	3,638

28. Deposits from Central Bank and credit institutions

	31.3.2024	31.12.2023
Deposits from credit institutions	14,037	15,994
Repurchase agreements with Central Bank	66	155
Deposits from Central Bank and credit institutions	14,103	16,149

29. Deposits from customers

	31.3.2024	31.12.2023
Demand deposits and deposits with maturity up to 3 months	784,825	752,146
Term deposits with maturity of more than 3 months	94,729	98,563
Deposits from customers	879,554	850,709

	31.3.2024		31.12.2023	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	17,599	2%	18,204	2%
Municipalities	9,495	1%	9,514	1%
Companies	409,016	47%	398,489	47%
Individuals	443,444	50%	424,502	50%
Deposits from customers	879,554	100%	850,709	100%

Amounts are in ISK million

30. Pledged assets

	31.3.2024	31.12.2023
Loans to customers pledged as collateral against covered bonds	381,281	442,175
Cash and balances pledged as collateral against covered bonds	18,627	20,222
Financial assets pledged as collateral with the Central Bank	8,719	6,775
Loans to credit institutions pledged as collateral against derivative instruments	4,016	2,795
Pledged assets against liabilities	412,643	471,967
Pledged assets against covered bonds held by the Bank	(129,753)	(171,350)
Loans to customers pledged as collateral in repurchase agreements	23,949	23,656
Pledged assets against liabilities on balance	306,839	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 31 March 2024 was ISK 82,805 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

31. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	31.3.2024	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	35,920	35,093
ISB CB 27 - ISK 23,180 million	2020	2027	Amortising	Fixed	22,111	27,363
ISB CBF 27 - ISK 7,420 million	2022	2027	Bullet	Floating	7,454	7,461
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed	44,817	45,126
ISB CBI 28 - ISK 20,207 million	2019	2028	Amortising	Fixed, CPI - linked	27,483	31,564
ISB CBI 29 - ISK 18,640 million	2023	2029	Bullet	Fixed, CPI - linked	26,194	19,596
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed, CPI - linked	32,808	32,093
Covered bonds					196,787	215,347
NOK 0 million	2019	2024	Bullet	Fixed	-	1,940
ISK 136 million	2019	2024	Amortising	Floating	97	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	1,897	1,980
SEK 116 million	2021	2024	Bullet	Floating	1,528	1,591
SEK 501 million	2022	2024	Bullet	Floating	6,583	7,289
ISK 1,240 million	2020	2025	Bullet	Fixed	1,245	1,233
SEK 400 million	2021	2025	Bullet	Floating	5,214	6,105
NOK 525 million	2021	2025	Bullet	Floating	6,718	9,884
EUR 223 million**	2022	2025	Bullet	Fixed	32,312	42,868
NOK 1,400 million	2022	2025	Bullet	Floating	18,130	18,916
SEK 500 million	2023	2026	Bullet	Floating	6,612	6,887
EUR 300 million**	2023	2026	Bullet	Fixed	50,217	49,777
SEK 500 million	2023	2026	Bullet	Floating	6,572	6,843
ISK 2,801 million	2022	2027	Amortising	Floating	2,809	3,000
ISK 6,940 million	2022	2027	Bullet	Fixed	7,071	6,937
SEK 500 million	2024	2027	Bullet	Floating	6,578	-
NOK 500 million	2024	2027	Bullet	Floating	6,487	-
ISK 10,340 million	2023	2028	Bullet	Fixed, CPI - linked	10,712	5,031
EUR 296 million*	2024	2028	Bullet	Fixed	44,845	-
Unsecured bonds					215,627	174,048
Other secured loans					16,615	16,459
Other unsecured loans					11,931	11,719
Other borrowed funds					28,546	28,178
Debt issued and other borrowed funds					440,960	417,573

The Group repurchased own bonds during the period amounting to ISK 19,343 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 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2024 the total carrying amount of the bond issuance amounted to ISK 89,662 million and included in the amount are fair value changes amounting to ISK 637 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 March 2024 the total carrying amount of the bonds amounted to ISK 82,529 million; included in the amount are negative fair value changes amounting to ISK 955 million. The carrying amount of the bonds at 31 March 2024 was ISK 569 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

32. Subordinated loans

	Issued	Maturity	Callable	Interest	31.3.2024	31.12.2023
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,496	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%	10,089	9,935
Subordinated loans in ISK	2023	2034	2029	Fixed CPI, 5.8%	10,211	9,915
Tier 2 subordinated loans					28,322	28,136
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	9,624	10,019
Additional Tier 1 subordinated loans					9,624	10,019
Subordinated loans					37,946	38,155

33. Other liabilities

	31.3.2024	31.12.2023
Unpaid dividends	12,303	-
Accruals	2,834	2,392
Lease liabilities	3,637	3,720
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,124	1,184
Withholding tax	2,209	6,192
Unsettled securities transactions	11,278	968
Sundry liabilities	3,410	2,762
Other liabilities	36,795	17,218

34. Custody assets

	31.3.2024	31.12.2023
Custody assets - not managed by the Group	3,704,295	3,565,465

Amounts are in ISK million

35. Íslandsbanki's shareholders

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

		31.3.2024	31.12.2023
The Icelandic Government	Iceland	43.3%	42.9%
Gildi Pension Fund	Iceland	8.0%	8.0%
LSR Pension Fund	Iceland	7.9%	7.9%
Live Pension Fund	Iceland	6.3%	6.3%
Capital Group	USA	5.7%	5.6%
Brú Pension Fund	Iceland	3.4%	3.3%
Vanguard	USA	2.3%	2.3%
Stapi Pension Fund	Iceland	1.7%	2.1%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.4%	1.5%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Festa Pension Fund	Iceland	1.2%	1.0%
RWC Asset Management LLP	UK	1.2%	1.3%
Almenni Pension Fund	Iceland	1.0%	1.0%
Other shareholders		13.8%	14.0%
Total		100.0%	100.0%

At 31 March 2024 the number of shareholders of the Bank was 11,273 (year-end 2023: 11,552). At 31 March 2024, 89.7% of the Bank's shares were owned by domestic parties and 10.3% by international investors (year-end 2023: 89.4% domestic parties and 10.6% international investors). At 31 March 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

36. 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 31 March 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 ..	-	779	554	225	80
Associated companies ...	2,990	4,702	3,455	4,237	157
Balances with related parties	2,990	5,481	4,009	4,462	237

1 January to 31 March 2024	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties ...	32	11	2	32
Associated companies ...	142	24	2	557
Transactions with related parties	174	35	4	589

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

At 31 March 2024 a total of ISK 21 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

Notes to the Condensed Consolidated Interim Financial Statements

37. Provision and 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.

Provision

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

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

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.

37. Provision and 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. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

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

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

It is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 9 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

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

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.

38. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024.

39. 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.

40. 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.

41. 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 572 million are subject to 100% Government guarantee and ISK 570 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.

41. Maximum credit exposure and collateral (continued)

At 31 March 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	68,746	-	-	-	-	-	-	-	68,746	17
Loans to credit institutions	114,430	-	-	-	-	-	-	-	114,430	134
Bonds and debt instruments	156,091	-	-	-	-	-	-	-	156,091	-
Loans to customers:	1,248,295	616,858	326,505	57,431	19,879	76,146	68,341	1,165,160	83,135	12,310
Individuals	603,207	542,101	7,822	5	439	16,717	183	567,267	35,940	3,533
- Thereof mortgages	540,341	537,743	1,462	-	434	-	-	539,639	702	1,974
Commerce and services	185,495	7,882	79,002	810	3,516	47,265	32,105	170,580	14,915	2,028
Construction	90,074	33,899	47,005	62	216	3,489	2,371	87,042	3,032	1,228
Energy	7,981	29	6,829	-	33	9	20	6,920	1,061	72
Financial services	1,086	-	61	-	998	-	-	1,059	27	1
Industrial and transportation	75,682	2,038	47,657	1,778	78	7,961	12,525	72,037	3,645	3,187
Investment companies	42,034	2,027	11,383	-	14,489	190	12,264	40,353	1,681	758
Public sector and non-profit organisations	20,895	60	757	-	-	8	11	836	20,059	23
Real estate	151,656	28,323	119,362	-	64	378	1,378	149,505	2,151	1,364
Seafood	70,185	499	6,627	54,776	46	129	7,484	69,561	624	116
Other financial assets	14,566	-	-	-	-	-	-	-	14,566	8
Off-balance sheet items:	189,354	9,617	24,113	8,499	6,761	1,166	19,933	70,089	119,265	1,124
Financial guarantees	20,195	-	7,011	104	2,775	-	2,287	12,177	8,018	302
Loan commitments	169,159	9,617	17,102	8,395	3,986	1,166	17,646	57,912	111,247	822
Total	1,791,482	626,475	350,618	65,930	26,640	77,312	88,274	1,235,249	556,233	13,593

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

41. 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

42. 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 31 March 2024

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	493,671	2,511	-	496,182
Risk class 5-6	497,047	18,320	-	515,367
Risk class 7-8	187,287	15,661	-	202,948
Risk class 9	16,248	5,630	-	21,878
Risk class 10	-	-	24,017	24,017
Unrated	160	53	-	213
	1,194,413	42,175	24,017	1,260,605
Expected credit losses	(4,862)	(2,572)	(4,876)	(12,310)
Net carrying amount	1,189,551	39,603	19,141	1,248,295

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	85,788	221	-	86,009
Risk class 5-6	66,339	869	-	67,208
Risk class 7-8	31,231	1,176	-	32,407
Risk class 9	878	161	-	1,039
Risk class 10	-	-	1,537	1,537
Unrated	2,260	18	-	2,278
	186,496	2,445	1,537	190,478
Expected credit losses	(915)	(55)	(154)	(1,124)
Total	185,581	2,390	1,383	189,354

Amounts are in ISK million

42. 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

43. 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 31 March 2024

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	2,244	4,464	1,796	8,504
Companies	2,246	20,790	5,614	28,650
Total	4,490	25,254	7,410	37,154

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(17)	(77)	(130)	(224)
Companies	(37)	(626)	(1,483)	(2,146)
Total	(54)	(703)	(1,613)	(2,370)

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

44. 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 31 March 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 31 March 2024

Groups of connected clients:	Before	After
Group 1	55%	4%
Group 2	16%	16%
Group 3	11%	11%
Group 4	11%	11%
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%

45. 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

46. 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 31 March 2024 and year-end 2023.

Net stable funding ratio	31.3.2024	31.12.2023
For all currencies	127%	124%

Liquidity coverage ratio	31.3.2024	31.12.2023
For all currencies	190%	195%
ISK	101%	115%
EUR	404%	663%

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

At 31 March 2024	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	64,275	680	325	687	65,967
Foreign government bonds	-	34,597	10,253	17,128	61,978
Domestic bonds eligible as collateral with Central Bank	76,271	689	-	-	76,960
Level 2 liquid assets	28,344	1,537	3	23	29,907
High quality liquidity assets	168,890	37,503	10,581	17,838	234,812
Balance with financial institutions	765	39,826	24,954	25,356	90,901
Liquidity reserve	169,655	77,329	35,535	43,194	325,713

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

47. 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 liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

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

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

At 31 March 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	33,843	34,903	-	-	-	-	68,746	68,746
Loans to credit institutions	9,720	98,718	5,992	-	-	-	114,430	114,430
Bonds and debt instruments	-	42,378	8,497	27,191	78,025	-	156,091	156,091
Derivatives	-	4,483	(1,885)	4,244	-	-	6,842	5,138
- Net settled derivatives	-	1,697	-	-	-	-	1,697	1,697
- Inflow	-	47,113	23,439	21,152	-	-	91,704	69,856
- Outflow	-	(44,327)	(25,324)	(16,908)	-	-	(86,559)	(66,415)
Loans to customers	777	92,815	132,950	351,776	669,977	-	1,248,295	1,248,295
Shares and equity instruments	-	-	-	-	-	20,281	20,281	20,281
Other financial assets	13,689	866	11	-	-	-	14,566	14,566
Total financial assets	58,029	274,163	145,565	383,211	748,002	20,281	1,629,251	1,627,547
Deposits from CB and credit institutions	10,102	4,018	-	-	-	-	14,120	14,103
Deposits from customers	689,634	100,029	42,159	34,585	46,157	-	912,564	879,554
Derivative instruments and short positions	-	2,823	1,798	1,368	913	-	6,902	4,936
- Net settled derivatives	-	124	-	-	-	-	124	124
- Inflow	-	(58,835)	(37,006)	(20,399)	-	-	(116,240)	(86,766)
- Outflow	-	61,522	38,771	21,468	-	-	121,761	91,515
- Short positions	-	12	33	299	913	-	1,257	63
Debt issued and other borrowed funds	-	18,071	35,902	430,196	70,359	-	554,528	440,960
Subordinated loans	-	290	2,026	20,525	44,852	-	67,693	37,946
Other financial liabilities	25,663	1,987	1,888	2,110	1,260	-	32,908	32,619
- Lease liabilities	-	162	464	2,040	1,260	-	3,926	3,637
- Other liabilities	25,663	1,825	1,424	70	-	-	28,982	28,982
Total financial liabilities	725,399	127,218	83,773	488,784	163,541	-	1,588,715	1,410,118
Net financial assets and financial liab.	(667,370)	146,945	61,792	(105,573)	584,461	20,281	40,536	217,429

Amounts are in ISK million

47. 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	47,493	-	-	-	-	87,504	87,504
Loans to credit institutions	16,086	57,389	-	-	-	-	73,475	73,475
Bonds and debt instruments	-	85,667	48,754	24,598	2,323	-	161,342	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	435	96,569	115,037	352,958	658,427	-	1,223,426	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	58,945	289,370	165,333	380,398	660,750	13,241	1,568,037	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.	(619,636)	171,664	75,642	(109,992)	499,331	13,241	30,250	231,055

Off-balance sheet liabilities

Note 41 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

48. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 21).

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

49. 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 15 since netting between short and long positions is not applied here.

		31.3.2024			31.12.2023	
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	1,448	6.99	(1.01)	970	5.21	(0.51)
Non-indexed	3,315	3.64	(1.21)	1,166	2.99	(0.35)
Total	4,763	4.66	(2.22)	2,136	4.00	(0.86)
Trading bonds and debt instruments, short positions						
Indexed	125	2.58	0.03	45	6.71	0.03
Non-indexed	231	6.79	0.16	368	6.50	0.24
Total	356	5.31	0.19	413	6.52	0.27
Net position of trading bonds and debt instruments	4,407	4.61	(2.03)	1,723	3.40	(0.59)

Amounts are in ISK million

49. 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 31 March 2024

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(7)	(52)	(1,055)	(2,520)	3,437	44	(153)
ISK, non-indexed	(8)	(219)	(850)	1,476	41	(1)	439
EUR	331	(183)	(4)	(206)	-	-	(62)
SEK	29	29	-	-	-	-	58
USD	32	(23)	-	-	-	-	9
Other	48	(23)	-	-	-	-	25
Total	425	(471)	(1,909)	(1,250)	3,478	43	316

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

50. 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 31 March 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 31 March 2024	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	680	325	165	52	7	55	91	141	24	152	1,692
Loans to credit institutions	53,663	27,714	424	125	171	10,635	16,717	28	259	354	110,090
Bonds and debt instruments	39,157	10,259	-	-	-	9,539	7,587	-	-	-	66,542
Loans to customers	90,923	17,563	280	572	1,699	703	2,410	711	6,691	-	121,552
Shares and equity instruments	1,087	2,731	103	-	-	2,377	-	2	-	-	6,300
Other assets	1,684	66	-	-	-	-	-	2	-	-	1,752
Total assets	187,194	58,658	972	749	1,877	23,309	26,805	884	6,974	506	307,928
Deposits from credit institutions	5,151	462	12	-	-	4	-	1	-	-	5,630
Deposits from customers	35,030	56,585	3,789	468	518	800	3,417	1,558	193	18	102,376
Derivative instruments and short positions	6	-	-	-	-	154	-	-	-	-	160
Debt issued and other borrowed funds	190,883	11,931	-	-	-	33,087	33,232	-	-	-	269,133
Subordinated loans	-	-	-	-	-	16,120	-	-	-	-	16,120
Other liabilities	1,718	39	-	5	-	-	60	339	-	-	2,161
Total liabilities	232,788	69,017	3,801	473	518	50,165	36,709	1,898	193	18	395,580
Net on-balance sheet position	(45,594)	(10,359)	(2,829)	276	1,359	(26,856)	(9,904)	(1,014)	6,781	488	(87,652)
Net off-balance sheet position	45,646	11,655	1,212	(246)	(1,365)	25,791	9,901	1,120	(6,738)	(1,036)	85,940
Net position	52	1,296	(1,617)	30	(6)	(1,065)	(3)	106	43	(548)	(1,712)

Amounts are in ISK million

50. 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 March 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

51. 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 1,753 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2024	31.12.2023
Bonds and debt instruments	1,963	1,551
Loans to customers	446,948	405,910
Total CPI-linked assets	448,911	407,461
Deposits from customers	119,035	116,551
Debt issued and other borrowed funds	133,117	140,428
Subordinated loans	20,300	19,850
Off-balance sheet exposures	1,163	1,176
Short positions	26	11
Total CPI-linked liabilities	273,641	278,016
CPI imbalance	175,270	129,445

52. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 March 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 2023 maintain an additional capital requirement of 2.4% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 20.2%. 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%.

	31.3.2024	31.12.2023
Own funds		
Ordinary share capital	9,825	9,898
Share premium	55,000	55,000
Reserves	4,831	5,083
Retained earnings	146,062	154,712
First quarter profit	(5,417)	-
Fair value changes due to own credit standing	2,172	1,827
Foreseeable dividend payment and approved buyback*	(11,032)	(14,990)
Tax assets	(128)	(122)
Intangible assets	(1,948)	(1,922)
Insufficient coverage for non-performing exposures	(2)	(3)
CET1 capital	199,363	209,483
Additional Tier 1 capital	9,624	10,019
Tier 1 capital	208,987	219,502
Tier 2 capital	28,322	28,135
Total capital base	237,309	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 31 March 2024 ISK 11,032 million remained of the approved buyback and is therefore deducted from CET1 capital.

Amounts are in ISK million

52. Capital management (continued)

	31.3.2024	31.12.2023
Risk exposure amount		
Due to credit risk	904,616	865,758
Due to market risk	9,615	10,360
Due to credit valuation adjustment	693	677
Due to operational risk	100,237	100,237
Total risk exposure amount	1,015,161	977,032
Capital ratios		
CET1 ratio	19.6%	21.4%
Tier 1 ratio	20.6%	22.5%
Total capital ratio	23.4%	25.3%
Capital ratios including first quarter profit*		
CET 1 ratio	19.9%	21.4%
Tier 1 ratio	20.9%	22.5%
Total capital ratio	23.6%	25.3%

Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,622,563	1,571,430
Off-balance sheet exposures	53,057	53,224
Derivative exposures	10,606	11,246
Leverage ratio total exposure measure	1,686,226	1,635,900
Tier 1 capital	208,987	219,502
Leverage ratio	12.4%	13.4%
Leverage ratio including first quarter profit*	12.6%	13.4%

*Where the capital and leverage ratios are shown including first quarter profit, ISK 2,709 million has been subtracted from the capital base as is expected from the 50% dividend policy.

Amounts are in ISK million

53. 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 31 March 2024 the LAA and RCA were both equal to the total SREP capital requirement of 10.4%, resulting in an MREL requirement of 20.8% of REA.

	31.3.2024		31.12.2023	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	211,153	20.8%	203,223	20.8%
Combined buffer requirement	99,625	9.8%	91,450	9.4%
MREL including combined buffer requirement	310,779	30.6%	294,673	30.2%

	31.3.2024		31.12.2023	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	237,309	23.4%	247,637	25.3%
Eligible liabilities	159,269	15.7%	155,617	15.9%
Own funds and eligible liabilities	396,578	39.1%	403,254	41.3%

Amounts are in ISK million