Consolidated Financial Statements

LANDSBANKINN HF. | KT. 471008-0280 | LANDSBANKINN.IS

2022

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Credit rating

BBB
with stable outlook

S&P Global Ratings

ESG risk rating

SUSTAINALYTICS

Sustainalytics considers Landsbankinn at exceedingly low risk of experiencing material financial impacts from ESG factors.

PCAF - carbon accounting

PCAF Partnership for Carbon Accounting Financials

We have for the first time assessed carbon emissions from our loan portfolio.

Profit

2022: **16,997 m.kr.**
2021: 28,919 m.kr.

Return on equity

2022: **6.3%**
2021: 10.8%

Total operating income

2022: **53,253 m.kr.**
2021: 62,330 m.kr.

Cost-income ratio

2022: **46.8%**
2021: 43.2%

Total assets

31.12.2022: **1,787,024 m.kr.**
31.12.2021: 1,729,798 m.kr.

Total capital ratio

31.12.2022: **24.7%**
31.12.2021: 26.6%

Loans and advances to customers

31.12.2022: **1,544,360 m.kr.**
31.12.2021: 1,387,463 m.kr.

Total liquidity coverage ratio (LCR)

31.12.2022: **134%**
31.12.2021: 179%

Report of the Board of Directors and the CEO

The Board of Directors and CEO of Landsbankinn hf. ("Landsbankinn" or the "Bank") submit this report together with the audited Consolidated Financial Statements of Landsbankinn hf. for the year 2022, which include the accounts of the Bank and its subsidiaries (collectively referred to as the "Group").

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors.

The Bank's strategy - Landsbankinn, an ever-smarter bank - is founded on the ideal of mutual trust and a personal approach to banking. Customer satisfaction comes first at Landsbankinn. Our focus is on ensuring sound operation and continued robust development of digital solutions. Our aim is to simplify life for our customers by making finance more approachable while simultaneously strengthening advisory service and education. Satisfied employees and a success-driven culture strengthen the Bank's operation and create opportunities for initiative.

Landsbankinn was ranked highest by banking customers in the Icelandic Performance Satisfaction Index 2022. This is the fourth year in a row that the Bank receives this recognition. Customer satisfaction is reflected in the Bank's increased market share, both on the retail and corporate side.

The Bank is one of the largest sponsors in Iceland. Grants were awarded to local communities throughout the country, in addition to allocations of scholarships, grants from the Community Fund and the Sustainability Fund. The Bank is an active produced of informative and educational material on issues pertaining to its operation and its customers' affairs. Emphasis is placed on encouraging a diverse selection of employees to write articles and give interviews. In addition, the Bank produces a podcast on economic affairs and hosts seminars, such as on cyber security for senior citizens.

The Bank is organised into seven divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets (including the subsidiary Landsbréf hf.), Finance & Operations, Risk Management, IT and Community. The results of the Group's four business segments are disclosed in Note 5, the business segments comprising Personal Banking, Corporate Banking, Asset Management & Capital Markets, and the Treasury and Market Making departments within Finance & Operations. The results of other divisions and departments of Finance & Operation are presented under "Other segments" in Note 5.

Financial performance in 2022

Consolidated profit amounted to ISK 16,997 million in 2022 (2021: ISK 28,919 million). Return on equity was 6.3% (2021: 10.8%) and the Bank's cost-income ratio was 46.8%. Net interest income increased by 19.3% between years to ISK 46.464 million. Net fee and commission income increased by 12.0% between years to ISK 10,623 million. Net loss on financial assets and liabilities at fair value was ISK 7,963 million (2021: ISK 5,980 million net gain), most of which is due to a decrease in fair value of an unlisted shareholding in Eyrir Invest hf., amounting to ISK 10,500 million in 2022 (2021: ISK 2,076 million increase). Net release of credit impairment was ISK 2,473 million in the year (2021: ISK 7,037 million net release). Salaries and related expenses amounted to ISK 14,474 million during the year. The average number of full-time equivalent positions during the year in 2022 was 843 (2021: 890) with cost per man-year down by just under 2%.

At year-end 2022, consolidated total equity amounted to ISK 279,091 million and total assets to ISK 1,787,024 million, with the balance sheet growing by 3.3%, or ISK 57 billion, between years. The Group's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 24.7% at year-end 2022 (2021: 26.6%).

Funding

Customer deposits are the Bank's primary source of funding. Total customer deposits grew by ISK 68 billion, or 7.5% between years, and amounted to ISK 968 billion at year-end 2022, largely non-indexed and on demand. CPI-indexed deposits amounted to ISK 160 billion at year-end 2022.

EMTN-issuance in international capital markets and issuance of covered bonds in the domestic capital market has been the Bank's main source of market funding. The carrying amount of such funding decreased by ISK 9 billion in 2022.

In January 2022, the Bank concluded two bond issuances with a maturity of 3 years under its EMTN programme, on the one hand in the amount of SEK 850 million and on the other hand NOK 500 million. The bonds were priced at a spread of 80bp and 79bp over interbank rates, respectively. In addition, the Bank issued bonds with a maturity of 2 years in the amount of SEK 850 million at a spread of 65bp over interbank rates.

In August 2022, the Bank concluded two bond issuances under its EMTN programme, on the one hand in the amount of NOK 300 million with a maturity of 2 years and on the other hand NOK 350 million with a maturity of 3 years. The bonds were priced at a spread of 200bp and 235bp over interbank rates, respectively.

In May 2022, S&P Global Ratings raised its rating on covered bonds issued by Landsbankinn. The upgrade is one notch, bringing the rating to A with stable outlook. The upgrade followed S&P's announcement that it considers Iceland's resolution regime to be sufficiently effective.

Funding (continued)

In July 2022, S&P affirmed the credit rating for Landsbankinn at BBB/A-2 with continued stable outlook. The announcement states that S&P has lowered the banking industry risk for Iceland in its assessment based on eased banking sector risk, resilience of profitability during the global pandemic and expectations of continued strong return on equity. Furthermore, S&P assumes a stable banking industry risk trend. S&P considers economic risk to have increased in Iceland due to a considerable housing price increase, resulting in a higher risk of negative impact. Conversely, S&P makes note of the sharp recovery in the tourism sector and improved asset quality in the corporate loan book. S&P views economic risk outlook as stable as opposed to the previous negative outlook.

Risk factors

In general, the Bank's risk measurements and assessment of material risk factors are positive with a stable outlook for most risk factors. Loans past due in the Bank's portfolio remain historically low, its capital ratio is strong and risk factors are generally within risk appetite at year-end 2022, having developed positively.

Credit risk continues to be the most significant risk in the Bank's operation. The carrying amount of loans to customers increased by ISK 157 billion in 2022, with growth in both the retail and corporate portfolios.

In 2022, net release of credit impairment was just under ISK 2.5 billion (2021: ISK 7 billion release). The main reason for this release is the reversal of a specific collective allowance for loans to the travel industry and other corporates with pandemic-related moratoria and lower defaults than expected.

The second most significant risk in the Bank's operation is operational risk, which includes numerous sub-risks. Cyberattacks aimed at customers in the form of phishing are a continual threat both domestically and globally and the Bank continues to emphasise defending its customers. In 2022, operational risk due to the war in Ukraine emerged as an additional threat. Risk related to the war is relevant for Iceland's ITC infrastructure and web connectivity with the rest of the world. The Bank has been certified under the ISO 27001 information security standard for 15 years. The certification along with staff and customer education on information security is one of the main pillars of the Bank's cybersecurity. More details are provided in the Bank's Pillar III risk report.

At year-end 2022, the Bank's total capital ratio of 24.7% was well above current regulatory requirement of 20.7%. The Bank's liquidity position, in total, in foreign currencies and position of individual currencies is well above regulatory requirements as well as the Bank's internal risk limits. The aggregate liquidity coverage ratio (LCR) was 134%, 99% in ISK and 351% in foreign currencies at year-end. Market risk increased during the year, driven by increased uncertainty and fluctuations in all markets, yet remains well within the Bank's risk appetite.

Risk factors in the Bank's operations are assessed using various measurements, depending on their scope and nature, and these measurements provide the foundation for risk limits, risk factor analysis, information disclosure and risk management. A common measurement for all risk factors is the Bank's internal assessment of economic capital (EC) which is meant to meet unexpected losses in the Bank's operations.

The Bank's internal EC assessment was ISK 103 billion at year-end 2022, decreasing by ISK 1 billion from the previous year. The Bank's risk-weighted exposure amount (RWEA) increased in 2022, in line with growth in the loan portfolio, and the ratio of EC to RWEA was 8.6% at year-end 2022 (2021: 9.1%).

Further information about the Group's risk and capital management is included in notes to the Consolidated Financial Statements and in the Bank's Pillar III Risk Report for 2022, both published to the Bank's website, www.landsbankinn.is.

Equity and capital management

At the end of September 2022, the Central Bank of Iceland's Resolution Authority announced its latest MREL decision for the Bank. The MREL decision entails that the Bank must satisfy a 22.8% MREL requirement, as a percentage of total risk-weighted exposure amount, which was equivalent to 14.9% of the Bank's total liabilities and own funds (TLOF) at year-end 2021. The Bank must meet the MREL requirement, as a percentage of TLOF, for the Bank's balance sheet position each quarter.

At the end of September 2021, the Financial Stability Committee of the Central Bank of Iceland decided to increase the countercyclical buffer (CCyB) of the domestic banks from 0% to 2%, in view of the build-up of cyclical systemic risk as a result of the combination of rapidly rising asset prices and increased household debt. The change entered into effect twelve months from the Committee's decision, at the end of the third quarter of 2022.

The Bank's aim is to maintain a total capital ratio above 22.0% at any given time and be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 49).

Dividends

According to Landsbankinn's current dividend policy, the Bank aims to pay regular dividends to shareholders, amounting in general to around 50% of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Dividends (continued)

The 2022 AGM of Landsbankinn, held on 23 March, approved the motion of the Board of Directors to pay shareholders a dividend of ISK 0.61 per share for the fiscal year 2021 in two instalments. The first payment of ISK 0.31 per share was made to shareholders on 30 March 2022 and the second payment of ISK 0.30 per share on 21 September 2022. In total, these dividend payments amounted to ISK 14,409 million. The AGM also approved payment of a special dividend of ISK 0.26 per share. The payment was made on 28 April 2022 and amounted to ISK 6,141 million. In total, the Bank paid ISK 20,550 million in dividends to its owners in 2022.

The Board of Directors intends to propose to the 2023 Annual General Meeting (AGM), scheduled to be held on 23 March, that a dividend of ISK 8,489 million in accordance with the dividend policy. Calculation of the Group's capital ratios as at year-end 2022 have been made to reflect this foreseeable dividend payment.

Economic outlook

Economic growth measured 7.3% in the third quarter of this year as compared to the same period last year, according to the national accounts of Statistics Iceland. Growth fluctuated during the year third quarter outstripped the second quarter (6.6%) but fell short of the first quarter (8.5%). Tourist arrivals grew quickly following the removal of all restrictions on travel and gatherings and economic growth was driven by the travel sector in 2022. The economic outlook in many of Iceland's main trading partner countries is bleak, not least due to the war in Ukraine, inflation and the energy crisis. Surveys show that Europeans are not inclined to prioritise travel. Influenced by a more positive economic outlook in that country, US nationals are better disposed towards travel and are by far the largest customer segment of the Icelandic travel sector.

12-month inflation in 2022 peaked at 9.9% in July and was 9.6% at the end of the year. In January 2023, inflation again reached the peak from July and measured 9.9%. Landsbankinn Economic Research expects inflation to recede slowly over the coming months and to fall below 9% in March 2023. Inflation has been driven mostly by rising prices in the real estate market which has now cooled down following rapid expansion from mid-year 2020. This is offset by the effect of imported inflation and uncertainty about exchange rate developments.

Inflation and the expectation for rising inflation has led to policy rate hikes. The CBI's policy rate was 6% at the end of 2022, up by 5.25 percentage points in the span of 18 months. Higher interest levels both domestically and internationally, soaring inflation and a darker economic outlook have put a damper on expectations in the equity market, which struggled in the past year. Decreases have not been as widespread and general since 2018 and 2011 before that. Domestic share prices fell by around 17%, the largest drop in one year since the international financial crisis in 2008. The US market lost 19%, also the sharpest drop since 2008. There was a strong correlation between the Icelandic stock market and international markets in 2022.

Progress has been good in collective bargaining of the member associations of the Icelandic Federation of Labour (ASÍ), reducing uncertainty about development in the labour market. Uncertainty about economic development in Iceland is mainly centred on international developments and whether or not the tourist industry will maintain its vigour. The past few months have shown that there is considerable willingness to travel to Iceland, despite economic setbacks in the global arena.

Ownership

Shareholders of the Bank at year-end 2022 numbered 851 as compared with 855 the previous year. The ten largest shareholders at year-end 2022 were as follows:

Shareholders		**Number of shares (In ISK million)**	**%**
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Municipality	3.5	0.01%
Vinnslustöðin hf.	Legal entity	1.8	0.01%
Helgi T. Helgason	Private individual	0.5	0,00%
Hreiðar Bjarnason	Private individual	0.5	0,00%
Árni Th. Thorbjörnsson	Private individual	0.5	0,00%
Steinthór Pálsson	Private individual	0.3	0,00%
Hjördís D. Vilhjálmsdóttir	Private individual	0.3	0,00%
Arinbjörn Ólafsson	Private individual	0.3	0,00%
Top 10 total		**23,580.0**	**98.25%**
Other shareholders		41.0	0.17%
Total shares outstanding		**23,621.0**	**98.42%**
Landsbankinn hf.	Own shares	379.0	1.58%
Total shares issued		**24,000.0**	**100.00%**

Icelandic State Financial Investments (ISFI) manages the State's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury) in accordance with Act No. 88/2009, on Icelandic State Financial Investments.

Ownership (continued)

In February 2022, the Bank’s Board of Directors announced its decision to exercise an authorisation to purchase the Bank’s own shares during a buyback period which extended from 7 February up to and including 21 February 2022. The authorisation is consistent with a resolution of the 2021 AGM, held on 24 March 2021, and a buyback programme set out by the Board of Directors on 10 June 2021. During the repurchase period, Landsbankinn acquired a total of 156,396 own shares at a share price of 11.9658, for a total purchase price of ISK 1.9 million and, at its conclusion, holds around 379 million own shares, or the equivalent of around 1.58% of issued shares.

The 2022 AGM renewed the authorisation of the Bank to acquire up to 10% of the nominal value of Landsbankinn’s share capital. The objective of the buyback programme is to reduce the Bank’s equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner. The authorisation is valid until the forthcoming 2023 AGM.

Governance

It is Landsbankinn’s aim to promote good corporate governance for the overall benefit of the Bank, its shareholders, customers and the community. In 2022, Stjórnvísi renewed the recognition of the Bank as a model of good corporate governance for the period 2021-2022. The Bank’s governance is based on the Icelandic laws and regulations that pertain to its operation and apply to financial institutions and the financial market.

In accordance with the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, the Bank shall comply with recognised guidelines on corporate governance. The “Guidelines on Corporate Governance”, published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers have become the accepted standard and the most recent edition was published 1 July 2021 (6th edition). The Bank complies with the Guidelines with the exception of the provision for a committee dedicated to ensuring diversity among directors, executives and key managers and in that the AGM has not appointed a Nomination Committee. Further details are disclosed in Sections 2 and 5 of the Bank’s annual corporate governance statement for 2022.

Landsbankinn’s corporate governance statement for 2022 has been reviewed by the Board of Directors, the Audit Committee, and the CEO. Further information about the Bank’s governance practices is disclosed in the statement, published as an unaudited appendix to the annual financial statement and to the Bank’s website, www.landsbankinn.is.

Landsbankinn also bases its governance practices on the European Banking Authority’s Guidelines on Internal Governance for financial undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market.

The Bank further complies with the State Ownership Policy for financial undertakings, published by Icelandic State Financial Investments and most recently revised in February 2020. The Policy sets out detailed requirements and the owner’s guidelines for the activities of financial institutions based on the main principles of the Policy, including on governance.

The Board of Directors of Landsbankinn is responsible for ensuring that corporate governance and the Bank's internal organisation contribute to the efficient and careful management of the Bank, segregation of duties and that conflict of interest is prevented. The Board of Directors is elected by the Annual General Meeting (AGM) and is comprised of seven directors and two alternates. Women make up 56% of the Board and men 44%, inclusive of alternates. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders.

Landsbankinn’s Board of Directors was re-elected in its entirety at the Bank’s 2022 AGM. Helga Björk Eiríksdóttir was re-elected chairman of the Board. Other re-elected directors are: Berglind Svavarsdóttir (Vice-chairman), Elín H. Jónsdóttir, Guðbrandur Sigurðsson, Guðrún Ó. Blöndal, Helgi F. Arnarson and Thorvaldur Jacobsen. Re-elected alternates are: Sigríður Olgeirsdóttir and Sigurður Jón Björnsson. Committee chairs are: Guðbrandur chairs the Risk Committee, Helgi chairs the Audit Committee and Helga Björk chairs the Remuneration Committee.

The Board of Directors of Landsbankinn holds ultimate authority on all questions between shareholders’ meetings. The Board of Directors bears ultimate responsibility for the Bank’s operation and strategy. Furthermore, the Board of Directors is ultimately responsible for the Bank’s activities as provided for by law, regulations, its Articles of Association and other rules relevant to the company’s operation. The Board of Directors approves the Bank’s risk policy, its risk appetite and risk management framework. The Board shall also ensure that effective internal controls are in place. The Board of Directors monitors the Bank’s general activities and ensures that control of accounting and financial management is satisfactory.

There are three sub-committees to the Board of Directors: The Audit Committee, the Risk Committee and the Remuneration Committee. The Board of Directors appoints members to its sub-committees. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee and the Remuneration Committee are each comprised of three Directors. The Audit Committee and the Risk Committee report to the Board in their advisory and supervisory capacity in risk governance and internal control, set out in detail in the rules of procedure for each sub-committee. The Risk Committee regularly discusses internal control and risk management. The Audit Committee regularly discusses the Bank’s accounting and evaluates its internal control processes.

The Board of Directors hires the CEO and the Chief Audit Executive. The CEO hires other executives to the Bank. The Bank has seven divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Risk Management, Finance & Operations, IT and Community. Each division is directed by a managing director who, together with the CEO, form the Bank’s Executive Board. Currently, three women and five men sit on the Executive Board and respectively make up 37.5% and 62.5% of the Board.

The Internal Audit function reports to the Board of Directors. The CEO’s Office, Legal Services and Compliance are directly responsible to the CEO.

Governance (continued)

The Bank's CEO is responsible for the Bank's day-to-day operations and is authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Landsbankinn's Executive Board is a forum for consultation and decision-making by the CEO and managing directors. The CEO has appointed four cross-disciplinary standing committees, made up of managing directors and other executives, with the aim of ensuring collaboration and implementation of the Bank's strategy: The Credit Committee, the Risk & Finance Committee (RAFC), the Operational Risk Committee and the Project Committee.

Executives and employees are responsible for internal control, risk culture and managing risks connected to their units. Emphasis is placed on ensuring that all employees are aware of and understand the risks in their work and that action to meet risk is based on informed decisions. The design of risk management processes, monitoring of exposures and surveillance of the effectiveness of internal control is under the auspices of Risk Management, Compliance and Internal Audit.

Sustainability

Work on sustainability at Landsbankinn is based on its Sustainability Policy, revised in 2021. The Bank works to achieve four of the UN Sustainable Development Goals (SDG) and the Principles for Responsible Banking from the United Nations Environment Programme Finance Initiative (UNEP-FI PRB). The Bank is committed to both domestic and international partnerships on sustainability and is an active participant in the development of PCAF's methodology to assess emissions from the credit and asset portfolios of financial undertakings.

In early 2022, the Bank published its initial impact report for green issuance the previous year. Companies who have been granted funding from the Bank for projects that meet the sustainability criteria set out in the Sustainable Finance Framework can receive the Bank's Sustainable Financing Label. In 2022, a total of 18 companies have received the Sustainable Financing Label.

Landsbankinn's equal pay system was re-certified in February 2022. One of the SDGs the Bank emphasises in its operation is nr. 5, on gender equality.

Landsbankinn made the terms on electric vehicle loans more favourable in 2022, to support the move away from fossil fuels. Allocations from Landsbankinn's Sustainability Fund emphasised supporting the development of solutions that expedite the switch from fossil fuels to power sources with a smaller carbon footprint. Six applicants were awarded grants at the inaugural allocation from the Fund in 2022.

Landsbankinn hosted a Sustainability Forum in fall of 2022. The aim of the Sustainability Forum was to create a platform for education and information sharing in the field of sustainability for both private individuals and businesses as part of the Bank's own sustainability work.

Landsbankinn maintained its "negligible risk" ESG rating when Sustainalytics updated its rating in 2022. The Bank was rated 9.9 on a scale to 100, where 1 is optimal. This means that Sustainalytics considers Landsbankinn at negligible risk of experiencing material financial impact from ESG factors. Landsbankinn also received an excellent score in an ESG risk rating by Reitun, or 90 out of 100.

Landsbankinn became a member of the Partnership for Biodiversity Accounting Financials (PBAF), an organisation that develops a standard to enable financial institutions to assess and disclose impact and dependencies on biodiversity of loans and investments.

The Bank assesses carbon emissions from its loan portfolio using the PCAF methodology and the emission accounts are audited with limited assurance by Deloitte. Landsbankinn maintains and publishes emission accounts in its Annual and Sustainability Report.

The Annual and Sustainability Report is published in accordance with principles of the Global Reporting Initiative (GRI) and the emission
Landsbankinn's operation has been carbon-neutralised for 2022 and the Bank renewed its international CarbonNeutral® company certification. Emissions from the Bank's loan and asset portfolios are not included in the offset.

The Bank has set goals for a reduction in its emissions, both from direct operations and indirect emissions from its loan book. The total volume of these emissions in 2022 is estimated at 281 ktCO2e (kilotons CO2 equivalents) (2021:260 ktCO2e). Direct emissions from the Bank's operation account for 0,33% (2021: 0.69%) of that figure.

Human resources and code of conduct

All restrictions imposed during Covid-19 were finally lifted in early 2022. At that point, many had worked remotely for a long period and both employers and employees were faced with a new reality of increased flexibility in the workplace. Landsbankinn adopted guidelines that allow for two days of remote work per week and also the option of longer remote-work periods for employees interested in working from overseas or different geographic locations domestically. A workplace audit carried out in spring revealed that the majority of employees, or around 89%, consider that they are able to collaborate effectively with colleagues when working remotely.

The Bank's educational programme in 2022 was designed to promote the psychological well-being and welfare of employees, emphasising these issues especially post pandemic. An integrated approach to both physical and psychological health was provided through such measures as increased access to healthcare professionals. Part of well-being in the workplace is ensuring that employees can balance work and home life. In 2022, surveys showed that 77% of employees consider that the workplace enables them to maintain that balance. In management training, special emphasis was placed on motivation and feedback, as staff attendance in offices changed after the pandemic, and supporting managers under changed conditions is important.

Human resources and code of conduct (continued)

As usual, the participation rate in learning was high and almost all employees attended some educational event during the year. Not counting obligatory instruction, 80% of employees attended some job-related education offered by the Bank during the year. The impending move of Landsbankinn to its newly built headquarters was a recurring theme during the year. A considerable effort was devoted to educating personnel and holding workshops in preparation for the changes involved in moving to a new and different work environment.

The Bank works methodically to ensure gender equality in the workplace. In 2022, the Bank adopted new guidelines on contributions to parental leave payments to ensure that full-time employees receive 80% of wages during parental leave. This step is intended to promote equal participation by all genders in childcare and attract young people to the workplace. Equality, human rights and the diversity of the human spectrum is considered at various levels of the Bank's operation, including in the hiring process, in ensuring equal job opportunities, collaborations and in deciding who represents the Bank. The Bank is working to attain equal representation at all levels among managers, aiming for a 40/60 ratio. Development has been positive in the recent past, with the ratio at all managerial levels combined is currently 48/52; 34/66 for department heads and the Executive Board.

Landsbankinn's equal pay system has achieved certification in the past four years. The system was reviewed in its entirety in January 2022 and re-certified. In 2022, the gendered wage gap has been measured monthly and has ranged between 0.5%-1.7%, with men earning the higher wage. Regression analysis based on wages as at 1 December 2022 reveals a 1.2% gender-based wage difference. Landsbankinn aims to close the gap as nearly as possible at 0%, taking care that it never exceeds 2.5% in either direction. Annual review of Landsbankinn's equal pay system by BSI will take place in February 2023.

Landsbankinn's code of conduct forms the basis of good business practices and ethics. The code is written from the perspective of employees at all levels and describes how their work practices and procedures are informed by integrity. The code outlines the employees' commitment to the community, the customer, the workplace, conflict of interest, professionalism, confidentiality and the Bank's reputation.

Compliance

In recent years, extensive effort has gone into implementing regulatory changes in the Bank. While meeting on-going challenges to comply with demands, the Bank also has regard for efficiency and improving customer service.

Landsbankinn reviews work processes and evaluates efficiency of internal control in an on-going manner. Continuing to build on and improve data utilisation has allowed the Bank to streamline processes for measures against money laundering and terrorist financing, both on the customer and employee side. The Bank has taken into use an updated risk assessment and control system for action to combat money laundering and terrorist financing and, in 2022, the focus has been on identifying the best methods of using the system's functions in control and supervision activity.

Privacy risk is managed in accordance with the Bank's data protection governance system and data protection is integrated in its product and service platform, ensuring customer privacy and data protection. No formal cases concerning customer complaints were escalated to the Bank by the Data Protection Authority in 2022. A revised ESG risk rating from Sustainalytics concluded that the Bank's processes and information disclosure on privacy and data protection to be exemplary.

Other matters

Landsbankinn's remuneration policy states that compensation to the CEO and key managers shall be competitive yet moderate and not leading. The Remuneration Committee is tasked with ensuring that compensation to key executives is within the framework of the remuneration policy and shall submit an annual report on the matter to the Board of Directors. The Bank's Remuneration Committee has submitted its report on compensation to key executives and considers their terms to be within the framework of the Bank's remuneration policy.

Construction of a new building to house the Bank has been on-going at Austurbakki in Reykjavík in the past few years and centralised activity is expected to move to the new building in the first quarter of this year. The aim is to achieve BREEAM certification with an "Excellent" rating for the building, in accordance with the Bank's Sustainability Policy. In 2022, the Bank sold part of the building to the National Treasury.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn for 2022 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and compliant with applicable Icelandic laws and regulations.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, its consolidated financial performance and consolidated cash flows for the year 2022. Furthermore, the Consolidated Financial Statements, including the report of the Board of Directors and the CEO, describe the principal risks and uncertainties facing the Group.

The Board of Directors and Chief Executive Officer of the Bank endorse the Consolidated Financial Statements of Landsbankinn for the year 2022 with their electronic signatures. The Board of Directors and the CEO recommend that the Annual General Meeting of Landsbankinn approve the Consolidated Financial Statements.

Reykjavík, 2 February 2023

Board of Directors

Helga Björk Eiríksdóttir, Chairman of the Board
Elín H. Jónsdóttir
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarsson
Sigurður Jón Björnsson
Þorvaldur Jacobsen

CEO

Lilja Björk Einarsdóttir

Independent Auditor's report

To the Board of Directors and the Shareholders of Landsbankinn hf.

Opinion

We have audited the accompanying consolidated financial statements of Landsbankinn hf. and its subsidiaries (the group) for the year 2022, excluding the Board of Directors and CEO report.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at December 31, 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

Our opinion is consistent with our additional report to the Audit Committee.

The consolidated financial statements comprise

- Report of the Board of Directors and CEO
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Year ended 31 December 2022
- Consolidated Statement of Financial Position as at 31 December 2022
- Consolidated Statement of Changes in Equity for the Year ended 31 December 2022
- Consolidated Statement of Cash Flows for the Year ended 31 December 2022
- Notes to the consolidated financial statements, which include significant accounting policies and other explanatory information

The Board of Directors and the CEO report and certain notes are excluded from the audit, refer to section reporting on other information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Independence

We are independent of the group in accordance with Icelandic laws on auditors and auditing and the code of ethics that apply to auditors in Iceland and relate to our audit of the group's consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the group and its subsidiaries are in accordance with the applicable law and regulations in Iceland and that we have not provided non-audit services that are prohibited under Article 5.1. of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 January 2022 to 31 December 2022, are disclosed in note 13 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit procedures
Impairment allowance of loans to customers *Refer to the Note 82.11 (g) "Significant accounting Policies - Impairment of financial assets", Note 3 (b) "Critical accounting estimates and judgements in applying accounting policies - Impairment losses on loans and advances", Note 24 "Loans and advances to customers" and Note 60 "Impairment allowance on loans and advances".* Allowance for impairment on loans and advances to customers amounted to ISK 9.995 million at 31 December 2022. Loans and advances to customers amounted to ISK 1.544.360 million or 86% of total assets as at 31 December 2022, against which impairment allowances have been recorded. The amount of impairment allowance is based on assumptions, many of which are subject to management's assessment. In assessing expected credit losses (ECL), the Group uses a forward-looking model in accordance with International Financial Reporting Standard no. 9, Financial Instruments (IFRS 9). Important criteria for evaluation are: - probability of default and future cash flows of customers; - how changes in economic factors affect expected credit losses; and - assessment of collateral - Post-model-adjustments to reflect uncertainties not captured in the ECL models Given the high level of judgement involved in determining impairment, and the significance of loans and advances to customers of the Group's balance sheet, we consider the impairment allowance to be a key audit matter.	Our audit included a combination of testing of internal controls over financial reporting in the Groups lending processes and substantive testing of impairment allowances. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. We performed tests of the Group's impairment models and evaluated the methodology and challenged assumptions for calculating the ECL models. We reviewed the Group's models and utilised PwC's model experts in reviewing the ECL models in accordance with the requirements set out in IFRS 9. Our audit procedures included, among other: - verification of assumptions used in the ECL models to assess the probability of defaults and future customer cash flows; - verification of registrations and assessments of collateral used in the calculation of the ECL models; - testing of key reconciliations, validations and approvals in regards to impairment; - sample testing of loans to substantiate the assumptions used in the ECL models, including an examination of the assumptions used to classify loans into relevant stages together with an assessment of collateral and credit rating; - we involved PwC model experts to independantly reperform the calculation of ECL models for a sample of loans; - sample testing of stage 3 loans that are individually assessed to verify whether appropriate criteria are used in determining the value of the loans, including the value of collateral and the assessment of future customers' cash flows. - evaluation of the assumptions used to develop the post-model-adjustments to reflect uncertainties not captured in the ECL models and reviewed that governance procedures have been performed. We assessed the disclosures related to impairment allowance.

Key audit matter	Audit procedures
Valuation of Level 3 financial instruments - unlisted shares Refer to Note 82.11 (f) "Significant accounting policies - Fair value measurement", Note 3 (c) "Critical accounting estimates and judgements in applying accounting policies - Valuation of financial instruments", Note 15 "Classification and fair values of financial assets and liabilities" Financial assets measured at fair value amounted to ISK 165.408 million, which is a total of 9% of total assets on 31 December 2022. A significant part of the financial assets are listed on the market as of the balance sheet reporting date. Unlisted shares are categorised within Level 3 of the fair value hierarchy. The value of these shares amounts to ISK 10.841 million or 0,6% of total assets at the end of 2022. The portion of the portfolio that required special attention in our audit refers to unlisted shares. These financial instruments are valued based on models and certain assumptions that are not observable by third parties. Therefore, this item is a key audit matter. Valuation methods can include recent transactions with unrelated parties, a reference to the fair value of comparable financial instruments, discounted cash flows, price formation models or other valuation techniques that indicate a reliable valuation of other transactions on the market.	Our audit included a combination of testing of internal controls over financial reporting in the Group valuation processes and substantive testing unlisted shares categorised as Level 3 financial instruments. Our audit procedures included, among other: - We obtained an understanding of and evaluated the investment process. The methodology and criteria for valuation were reviewed and compared with common criteria for comparable assets. - We reviewed and evaluated data inputs on which calculations and assumptions of valuation methods were based. - We recalculated a sample of unlisted shares and utilised PwC valuation experts in the assessment of the valuation of the unlisted shares. - We reviewed the classification of shares in the fair value hierarchy. We assessed the disclosures related to the valuation of level 3 financial instruments.

Reporting on other information including the Report of the Board of Directors and CEO

The Board of Directors and CEO are responsible for other information. The other information comprises of highlights on page 1, Report of the Board of Directors and CEO, consolidated key figures notes 83 to 85 and annex about the corporate governance statement, which we obtained prior to the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover other information, including the Report of the Board of Directors and CEO.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in other information that we obtained prior to the date of this auditor’s report. We have nothing to report in this respect.

With respect to the Board of Directors and CEO report we have, in accordance with article 104, of the Icelandic law on annual accounts reviewed that to the best of our knowledge, the report of the Board of Directors and CEO accompanying the consolidated financial statements includes applicable information in accordance with Icelandic law on annual accounts if not presented elsewhere in the consolidated financial statements.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and applicable articles in Icelandic law on annual accounts, and for such internal control as determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the groups' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so. The Group's management must provide appropriate explanations regarding its ability to continue as going concern, if applicable, and why management applies the presumption of going concern in the preparation and presentation of the consolidated financial statements.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the company on mandate of the Icelandic National Audit office in accordance with paragraph 7 of Act on the Auditor General and the auditing of government accounts no. 46/2016 at the company's annual general meeting on April 22nd, 2020. Our appointment has been renewed annually at the company's annual general meeting representing a total period of uninterrupted engagement appointment of three years.

Reykjavík, 2 February 2023

PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State authorized public accountant

Atli Þór Jóhannsson
State authorized public accountant

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Consolidated Income Statement for the Year ended 31 December 2022

Notes		2022	2021
	Interest income	102,009	66,594
	Interest expense	(55,545)	(27,641)
6	**Net interest income**	**46,464**	**38,953**
	Fee and commission income	15,343	13,121
	Fee and commission expense	(4,720)	(3,638)
7	**Net fee and commission income**	**10,623**	**9,483**
8	Net (loss) gain on financial assets and liabilities at FVTPL	(7,963)	5,980
9	Net foreign exchange gain (loss)	100	(86)
10	Net impairment changes	2,473	7,037
11	Other income and (expenses)	1,556	963
	Net other operating income	**(3,834)**	**13,894**
	Total operating income	**53,253**	**62,330**
12	Salaries and related expenses	(14,474)	(14,759)
13	Other operating expenses	(9,289)	(9,105)
82.9	Tax on liabilities of financial institutions	(2,097)	(2,013)
	Total operating expenses	**(25,860)**	**(25,877)**
	Profit before tax	**27,393**	**36,453**
14	Income tax	(10,396)	(7,534)
	Profit for the year	**16,997**	**28,919**
	Profit for the year attributable to:		
	Owners of the Bank	16,997	28,919
	Non-controlling interests	0	0
	Profit for the year	**16,997**	**28,919**
	Earnings per share:		
37	Basic and diluted earnings per share from operations (ISK)	**0.72**	**1.22**

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2022

Notes		2022	2021
	Profit for the year	16,997	28,919
	Other comprehensive income for the year, after tax	0	0
	Total comprehensive income for the year	**16,997**	**28,919**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2022 14 All amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2022

Notes		2022	2021
	Assets		
19, 69	Cash and balances with Central Bank	42,216	82,425
20	Bonds and debt instruments	125,265	150,435
21	Equities and equity instruments	19,106	33,347
22	Derivative instruments	3,073	1,233
23, 69	Loans and advances to financial institutions	28,621	47,231
24, 69	Loans and advances to customers	1,544,360	1,387,463
25	Investments in equity-accounted associates	1,950	1,857
26	Property and equipment	13,060	13,019
27	Intangible assets	1,729	1,781
33	Deferred tax assets	0	15
28	Other assets	7,136	10,087
29	Assets classified as held for sale	508	905
	Total assets	**1,787,024**	**1,729,798**
	Liabilities		
30	Due to financial institutions and Central Bank	6,634	10,425
31	Deposits from customers	967,863	900,098
22	Derivative instruments and short positions	1,478	4,562
32, 69	Borrowings	476,864	486,042
33	Tax liabilities	12,480	9,602
34	Other liabilities	20,861	15,609
29	Liabilities associated with assets classified as held for sale	0	30
35	Subordinated liabilities	21,753	20,785
	Total liabilities	**1,507,933**	**1,447,153**
36	**Equity**		
	Share capital	23,621	23,621
	Share premium	120,593	120,594
	Reserves	11,986	23,591
	Retained earnings	122,891	114,839
	Total equity attributable to owners of the Bank	**279,091**	**282,645**
	Non-controlling interests	0	0
	Total equity	**279,091**	**282,645**
	Total liabilities and equity	**1,787,024**	**1,729,798**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2022 15 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2022

Notes	Change in equity for the year 2022	Share capital	Share premium	Statutory reserve	Unrealised gains in subsidiaries and equity-accounted associates reserve	Fair value changes of financial assets designated at FVTPL	Retained earnings	Total	Non-controlling interests	Total
		Attributable to owners of the Bank								
				Reserves*						
	Balance as at 1 January 2022	23,621	120,594	6,000	5,272	12,319	114,839	282,645		282,645
	Profit for the year						16,997	16,997		16,997
	Transferred (from) to restricted reserves				(2,498)	(9,107)	11,605	0		0
	Purchase of own shares		(2)					(2)		(2)
	Dividends allocated						(20,550)	(20,550)		(20,550)
36	**Balance as at 31 December 2022**	**23,621**	**120,593**	**6,000**	**2,774**	**3,212**	**122,891**	**279,091**	**0**	**279,091**
	Change in equity for the year 2021									
	Balance as at 1 January 2021	23,625	120,630	6,000	3,659	9,591	94,750	258,255		258,255
	Profit for the year						28,919	28,919		28,919
	Transferred to (from) restricted reserves				1,613	2,728	(4,341)	0		0
	Purchase of own shares	(4)	(36)					(40)		(40)
	Dividends allocated						(4,489)	(4,489)		(4,489)
36	**Balance as at 31 December 2021**	**23,621**	**120,594**	**6,000**	**5,272**	**12,319**	**114,839**	**282,645**	**0**	**282,645**

*In accordance with Act. No. 2/1995, on Public Limited Companies and Act No. 3/2006, on Annual Financial Statements.

The accompanying notes are an integral part of these Consolidated Financial Statements.

All amounts ar in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2022

Notes		2022	2021
	Operating activities		
	Profit for the year	16,997	28,919
	Adjustments for non-cash items included in profit for the year	(27,479)	(42,611)
	Changes in operating assets and liabilities	(10,915)	(70,857)
	Interest received	84,609	63,844
	Interest paid	(47,051)	(24,744)
	Dividends received	241	242
	Income tax and special income tax on financial institutions paid	(6,798)	(2,043)
	Tax on liabilities of financial institutions paid	(2,013)	(1,816)
	Net cash from (used) in operating activities	**7,591**	**(49,066)**
	Investing activities		
	Acquisition of additional shares in associates	-	(30)
26	Purchase of property and equipment	(6,716)	(4,211)
26	Proceeds from sale of property and equipment	6,675	339
27	Purchase of intangible assets	(179)	(370)
	Sale of subsidiarie	242	146
	Investing activities	**22**	**(4,126)**
	Financing activities		
32	Proceeds from borrowings	59,976	132,194
32	Repayment of borrowings	(76,915)	(59,298)
	Rent paid	(695)	(648)
36	Purchase of own shares	(2)	(40)
36	Dividends paid	(20,550)	(4,489)
	Financing activities	**(38,186)**	**67,719**
	Cash and cash equivalents as at the beginning of the year	84,388	69,091
	Net change in cash and cash equivalents	(30,573)	14,527
	Effect of exchange rate changes on cash and cash equivalents held	(1,179)	770
	Cash and cash equivalents as at year end	**52,636**	**84,388**

	Cash and cash equivalents is specified as follows:		
19	Cash and balances with Central Bank	42,216	82,425
23	Bank accounts with financial institutions	21,759	15,261
19	Mandatory and special restricted balances with Central Bank	(11,339)	(13,298)
	Cash and cash equivalents as at year end	**52,636**	**84,388**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Landsbankinn hf. Consolidated Financial Statements 2022 17 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2022

Notes		2022	2021
	Adjustments for non-cash items included in profit for the year		
6	Net interest income	(46,464)	(38,953)
8	Net loss (gain) on financial assets and liabilities at FVTPL	7,963	(5,980)
9	Net foreign exchange loss (gain)	1,079	(684)
10, 60	Net impairment changes	(2,473)	(7,037)
11	Gain on sale of property and equipment	(572)	(287)
11	Net (income) expense on repossessions	(547)	(235)
13	Depreciation and amortisation	1,425	1,268
11, 25	Share of profit of equity-accounted associates	(233)	(228)
	Profit on sale of associates	(150)	(22)
82.9	Tax on liabilities of financial institutions	2,097	2,013
14	Income tax	10,396	7,534
		(27,479)	**(42,611)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	1,959	355
	Change in bonds and equities	29,858	(33,461)
	Change in loans and advances to financial institutions	26,250	(179)
	Change in loans and advances to customers	(124,938)	(112,935)
	Change in other assets	(1,446)	1,218
	Change in assets classified as held for sale	912	968
	Change in due to financial institutions and Central Bank	(3,792)	(38,299)
	Change in deposits from customers	61,621	108,092
	Change in deferred tax assets	(58)	8
	Change in other liabilities	(1,281)	3,376
		(10,915)	**(70,857)**

Change in liabilities due to financing activities

			Non-cash changes			
	As at 1.1.2022	**Cash flow**	**Accrued interest**	**Foreign exchange**	**Change in the fair value**	**As at 31.12.2022**
Secured borrowings	217,887	(12,346)	17,673	-	-	223,214
Senior unsecured bonds	181,905	6,165	2,031	151	-	190,252
Senior unsecured bonds held to hedge long-term borrowings	66,470	(21,433)	572	819	(1,145)	45,283
Other unsecured loans	19,780	(3,866)	577	1,624	-	18,115
Subordinated liabilities	20,785	(694)	1,272	390	-	21,753
Total	**506,827**	**(32,174)**	**22,125**	**2,984**	**(1,145)**	**498,617**

			Non-cash changes			
	As at 1.1.2021	**Cash flow**	**Accrued interest**	**Foreign exchange**	**Change in the fair value**	**As at 31.12.2021**
Secured borrowings	189,360	16,286	12,241	-	-	217,887
Senior unsecured bonds	116,196	71,022	1,708	(7,021)	-	181,905
Senior unsecured bonds held to hedge long-term borrowings	95,468	(23,394)	551	(5,180)	(975)	66,470
Other unsecured loans	19,152	(163)	305	486	-	19,780
Subordinated liabilities	21,366	(724)	986	(843)	-	20,785
Total	**441,542**	**63,027**	**15,791**	**(12,558)**	**(975)**	**506,827**

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Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

General

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings. The Bank is subject to supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities. The registered address of the Bank's office is Austurstræti 11, 155 Reykjavík. Landsbankinn operates an extensive branch network in Iceland, comprised of 35 branches and service points at year-end 2022.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2022 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Consolidated Financial Statements for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The Consolidated Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The Consolidated Financial Statements were approved and authorised for publication by the Board of Directors and the CEO of Landsbankinn on 2 February 2023.

Significant accounting policies are summarised in Note 82.

Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and it has a reasonable expectation that the Group has adequate resources to continue its operations. Accordingly, these Consolidated Financial Statements have been prepared on a going concern basis.

Functional and presentation currency

The functional currency of the Bank and its individual Group entities is Icelandic króna (ISK) and all amounts are presented in ISK, rounded to the nearest million unless otherwise stated.

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of the Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Classification of financial instruments

Financial instruments under IFRS 9 are accounted for according to their classification. Professional judgement is applied and determination of the appropriate classification depends on the contractual cash flows of the financial asset (the Solely Payments of Principal and Interest (SPPI) test) and the objective of the business model within which the financial instrument is held. For further details on the accounting for these instruments under IFRS 9, see Note 82.11.

(b) Impairment losses on loans and advances

Measurement of expected credit losses on loans, financial guarantees and loan commitments measured at amortised cost.

Measurement of expected credit losses (ECL) is based on the three-stage expected credit loss model under IFRS 9. Loss allowance is measured either at an amount equal to 12-month ECLs or lifetime ECLs.

Expected credit loss depends on whether the credit risk has increased significantly since initial recognition. A significant increase in credit risk is defined in Note 82.11(g). If the credit risk has not increased significantly, the loss allowance equals the expected credit losses resulting from loss events that are possible within the next 12 months (Stage 1). If the credit risk has increased significantly, the allowance measured equals the lifetime expected credit losses (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

Notes to the Consolidated Financial Statements

3. Critical accounting estimates and judgements in applying accounting policies (continued)

(b) Impairment losses on loans and advances (continued)

Measurement of expected credit losses on loans, financial guarantees and loan commitments measured at amortised cost (continued):

The expected credit loss is calculated for all loans as a function of PD, EAD and LGD, is discounted using the effective interest rate (EIR) and incorporates forward-looking information. The forward-looking information reflects the expectations of the Valuation Team, the Bank's Economic Research department, and involves the creation of scenarios of relevant economic variables, including an assessment of the probability for each scenario.

Measurement of expected credit losses (ECL)

Uncertainty about the final impact of the Covid-19 pandemic on the Bank's credit portfolio decreased significantly in 2022. As a result, the Bank considers that there is no longer need for specific collective provision, neither for impairment of loans to the travel sector (31 December 2021: ISK 2.1 billion) nor loans to other corporates (31 December 2021: ISK 199 million).

Economic forecasts

Landsbankinn Economic Research Department provides scenarios with forecasts on relevant economic variables and presents them to the Bank's Valuation Team. Economic Research creates a baseline scenario as well as a optimistic and pessimistic scenario, with the last two showing impact on impairment. In the optimistic scenario, economic indicators are altered to lessen the Bank's credit losses compared with the baseline scenario; to increase credit loss in the pessimistic scenario.

The following table shows certain key economic variables used to calculate the ECL allowance for Stages 1 and 2. At the reporting date, the baseline forecast of Landsbankinn Economic Research projects 6,9% GDP growth in 2023. The forecasts for the upside, baseline and downside scenarios show averages for the 12-month outlook and to the medium-term forecast horizon. The upside scenario is given 15% weight (31 December 2021: 20%), the baseline 70% weight (31 December 2021: 60%) and the downside scenario 15% weight (31 December 2021: 20%). The scenarios were approved by the Bank's Valuation Team on 19 December 2022.

	Upside scenario		Base case senario		Downside scenario	
As at 31 December 2022	**Next 12 Months**	**Remainder of the Forecast Period**	**Next 12 Months**	**Remainder of the Forecast Period**	**Next 12 Months**	**Remainder of the Forecast Period**
GDP growth	7.0%	9.2%	2.1%	2.5%	(2.8%)	(4.3%)
Unemployment rate	1.6%	1.0%	3.3%	3.4%	4.9%	6.5%
Base rate	4.1%	0.8%	5.6%	4.6%	7.5%	8.5%
Inflation	4.4%	(0.2%)	7.0%	4.0%	9.5%	8.1%
EUR/ISK exchange rate, average	128.9	98.6	145.0	136.3	161.1	174.0
Housing Price index, y/y change	13.1%	17.2%	6.0%	4.4%	(1.2%)	(8.4%)
Household indebtedness	40.3%	28.2%	49.7%	50.2%	59.1%	72.2%

	Upside scenario		Base case senario		Downside scenario	
As at 31 December 2021	**Next 12 Months**	**Remainder of the Forecast Period**	**Next 12 Months**	**Remainder of the Forecast Period**	**Next 12 Months**	**Remainder of the Forecast Period**
GDP growth	7.8%	4.1%	5.6%	1.9%	3.0%	(0.1%)
Unemployment rate	3.7%	2.5%	4.7%	3.8%	7.6%	6.1%
Base rate	3.4%	5.3%	2.9%	3.9%	2.3%	1.7%
Inflation	4.7%	3.5%	3.6%	2.6%	5.0%	2.5%
EUR/ISK exchange rate, average	143.1	136.0	145.3	139.3	161.3	150.0
Housing Price index, y/y change	12.9%	7.0%	10.2%	4.5%	7.9%	1.4%
Household indebtedness	52.7%	50.3%	53.1%	51.9%	54.7%	56.1%

	2022			2021		
	Upside scenario	**Base senario**	**Downside senario**	**Upside scenario**	**Base senario**	**Downside senario**
Allowance for impairment (Stage 1 and Stage 2)	3,482	5,439	8,584	6,005	6,273	7,152
Proportion of assets in Stage 2	3.1%	3.6%	5.3%	6.8%	6.9%	7.1%

	Reported under IFRS 9	
	2022	**2021**
Allowance for impairment (stage 1 and stage 2)	5,615	6,394

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3. Critical accounting estimates and judgements in applying accounting policies (continued)

(c) Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where observable market inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair value, they are validated and regularly reviewed by discrete and qualified in-house reviewers. All models are certified before use, and calibrated to ensure that the outputs reflect actual data and comparative market prices. Wherever practical, models are confined to observable data; however, areas such as volatility, correlation and credit risk, whether own or counterparty, require management to make estimates. Changing assumptions on these factors could affect the reported fair value of financial instruments.

(d) Determination of control over investees

Management applies professional judgement to determine whether the control indicators set out in Note 82.1 Consolidation and non-controling interests, indicate that the Group controls an investee.

4. Changes in significant accounting policies

The Group has no transactions that are affected by newly effective requirements of accounting standards.

Interest rate benchmark reform

A fundamental reform (referred to as the ‘IBOR reform’) of major interest rate benchmarks is being undertaken globally, replacing or reforming interbank offered rates (IBORs) with alternative, nearly risk-free rates (RFRs).

In 2021, the Group undertook amendments to financial instruments with contractual terms indexed to IBORs such that they incorporate new benchmark rates. Under the amended terms, the Bank may determine that the relevant IBOR benchmark rate will be replaced by a new rate, if available, or an alternative rate in the interbank market or foreign exchange and swap markets.

At year-end 2022, the IBOR reform has been completed in respect of currencies to which the Group has exposure with the exception of USD, which has been partially completed. The remaining IBOR exposure indexed to USD LIBOR will be fully completed around mid-2023. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

As at 31 December 2022	Currency	Benchmark before reform	Benchmark after reform	Status
	CHF	CHF LIBOR	SONAR	Completed
	GBP	GBP LIBOR	SONIA	Completed
	EUR	EURIBOR	EURIBOR, €STR	Completed
	JPY	JPY LIBOR	TONAR	Completed
	USD	USD LIBOR	SOFR	In progress

The main risks to which the Group has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

Total amounts of unreformed contracts, including those with an appropriate fallback clause

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an ‘unreformed contract’).

The following table shows the total amounts of unreformed financial assets and those with appropriate fallback language as at year-end 2022. The amounts of financial assets are shown at their gross carrying amounts.

As at 31 December 2022	Amount with appropriate fallback clause	Total amount of unreformed contracts
Loans and advances to customers	257,382	23,509

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5. Operating segments

Segment information for the Group is presented in accordance with internal reporting to the CEO and the managing directors, who are responsible for allocating resources to the reportable operating segments and assessing their financial performance.

The Bank is organised into seven divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Finance & Operations, Risk Management, IT and Community. The Group's operating segments are divided into four main business segments and other divisions. The business segments were as follows at the end of the reporting period:

• Personal Banking offers individuals and small and medium-sized companies outside the capital city region comprehensive financial services and advice. The emphasis is on digital service channels and self-service solutions, both through online banking and Bank's app, together with conventional service through the Bank's branch network and Customer Service Centre.
• Corporate Banking offers municipalities, institutions, larger companies and SMEs in the capital region financial service and advice, emphasising digital service channels and self-service solutions such as corporate online banking and Bank's app.
• Asset Management & Capital Markets offers brokerage service in securities, currencies and derivatives, in addition to comprehensive asset management. Landsbréf hf., the Bank's subsidiary, is included in Asset Management & Capital Markets' segment reporting.
• Treasury and Market Making are units undir the Finance & Operation division. These units are responsible for the Bank's funding, liquidity management, internal pricing of capital and market-making in currency, bonds and equities. Treasury also manages the FX, interest rate and indexation risk of the Bank within the parameters of its risk appetite.

Other divisions are Finance & Operations (with the exception of Treasury and Market Making), Risk Management, IT and Community. Also under other operating segments are the CEO's Office and Internal Audit.

Reconciliation consists of eliminations of internal transactions and operating items that cannot be allocated to any one segment.

Administrative expenses of the Group's other segments are allocated to appropriate business segments based on the underlying cost drivers. Expenses are allocated to the business units at market price level. Other divisions supply services to business units and transactions are settled at unit prices or, if possible, on an arm's-length basis by use and activity. Income tax is allocated to appropriate business segments based on the prevailing income tax rate. Tax on the Bank's liabilities is allocated to the income generating divisions based on the debt ratio.

The following table summarises each segment's financial performance as disclosed in the internal management reports on segment profits (loss). In these reports, all income statement items are reported on a net basis, including the total interest income and expense. Inter-segment pricing is determined on an arm's-length basis.

Revenue from transactions with any single external customer was within 10% of the Group's total revenue during the period from 1 January to 31 December 2022 and the corresponding period in 2021.

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5. Operating segments (continued)

1 January - 31 December 2022	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other divisions	Recon-ciliation	Total
Net interest income	16,512	19,298	739	9,819	(3)	99	46,464
Net fee and commission income	3,394	2,219	5,279	(255)	141	(155)	10,623
Net impairment changes	(21)	2,497	(1)	(2)	-	-	2,473
Other net operating income (expenses)	262	8	(289)	(7,432)	1,169	(25)	(6,307)
Total operating income (expenses)	**20,147**	**24,022**	**5,728**	**2,130**	**1,307**	**(81)**	**53,253**
Operating expenses	(6,560)	(3,210)	(2,026)	(954)	(11,192)	179	(23,763)
Tax on liabilities of financial institutions	(827)	(438)	(7)	(814)	(11)	-	(2,097)
Profit (loss) before cost allocation and tax	**12,760**	**20,374**	**3,695**	**362**	**(9,896)**	**98**	**27,393**
Allocated expenses	(4,323)	(2,901)	(1,109)	(1,017)	9,350	-	0
Profit (loss) before tax	**8,437**	**17,473**	**2,586**	**(655)**	**(546)**	**98**	**27,393**
Income tax	(2,317)	(4,604)	(992)	(2,637)	154	-	(10,396)
Profit (loss) for the year	**6,120**	**12,869**	**1,594**	**(3,292)**	**(392)**	**98**	**16,997**
Net revenue (expenses) from external customers	39,310	38,631	5,965	(31,810)	1,238	-	53,334
Net revenue (expenses) from other segments	(19,163)	(14,609)	(237)	33,940	69	-	0
Total operating income (expenses)	**20,147**	**24,022**	**5,728**	**2,130**	**1,307**	**0**	**53,334**
As at 31 December 2022							
Total assets	**839,566**	**698,709**	**10,264**	**693,941**	**19,375**	**(474,831)**	**1,787,024**
Total liabilities	**788,426**	**587,080**	**5,027**	**585,236**	**16,995**	**(474,831)**	**1,507,933**
Allocated capital	**51,140**	**111,629**	**5,237**	**108,705**	**2,380**	**0**	**279,091**

1 January - 31 December 2021	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other divisions	Recon-ciliation	Total
Net interest income	16,986	18,754	468	2,843	(62)	(36)	38,953
Net fee and commission income	3,072	1,612	5,388	(241)	(2)	(346)	9,483
Net impairment changes	1,424	5,596	-	13	4	-	7,037
Other net operating income (expenses)	238	100	559	5,305	670	(15)	6,857
Total operating income (expenses)	**21,720**	**26,062**	**6,415**	**7,920**	**610**	**(397)**	**62,330**
Operating expenses	(6,783)	(2,981)	(2,102)	(1,528)	(10,835)	365	(23,864)
Tax on liabilities of financial institutions	(845)	(370)	(8)	(776)	(14)	-	(2,013)
Profit (loss) before cost allocation and tax	**14,092**	**22,711**	**4,305**	**5,616**	**(10,239)**	**(32)**	**36,453**
Allocated expenses	(4,245)	(2,786)	(1,079)	(920)	9,030	-	0
Profit (loss) before tax	**9,847**	**19,925**	**3,226**	**4,696**	**(1,209)**	**(32)**	**36,453**
Income tax	(2,609)	(5,061)	264	(382)	254	-	(7,534)
Profit (loss) for the year	**7,238**	**14,864**	**3,490**	**4,314**	**(955)**	**(32)**	**28,919**
Net revenue (expenses) from external customers	33,555	34,762	6,338	(12,527)	599	-	62,727
Net revenue (expenses) from other segments	(11,835)	(8,700)	77	20,447	11	-	0
Total operating income (expenses)	**21,720**	**26,062**	**6,415**	**7,920**	**610**	**0**	**62,727**
As at 31 December 2021							
Total assets	**772,724**	**613,071**	**12,004**	**672,837**	**20,214**	**(361,052)**	**1,729,798**
Total liabilities	**728,841**	**491,925**	**7,259**	**559,966**	**20,214**	**(361,052)**	**1,447,153**
Allocated capital	**43,883**	**121,146**	**4,745**	**112,871**	**0**	**0**	**282,645**

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Notes to the Consolidated Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

See accounting policy in Note 82.5.

	2022			2021		
Interest income	**Amortised cost**	**FVTPL**	**Total**	**Amortised cost**	**FVTPL**	**Total**
Cash and balances with Central Bank	2,772	-	2,772	670	-	670
Bonds and debt instruments	-	-	0	24	-	24
Loans and advances to financial institutions	255	-	255	4	-	4
Loans and advances to customers	97,570	1,277	98,847	65,120	699	65,819
Other interest income	116	19	135	38	39	77
Total	**100,713**	**1,296**	**102,009**	**65,856**	**738**	**66,594**
Interest expense						
Due to financial institutions and Central Bank	(84)	-	(84)	(561)	-	(561)
Deposits from customers	(30,649)	-	(30,649)	(9,390)	-	(9,390)
Borrowings	(20,393)	(477)	(20,870)	(14,164)	(638)	(14,802)
Other interest expense	(66)	(2,604)	(2,670)	(43)	(1,860)	(1,903)
Subordinated liabilities	(1,272)	-	(1,272)	(985)	-	(985)
Total	**(52,464)**	**(3,081)**	**(55,545)**	**(25,143)**	**(2,498)**	**(27,641)**
Net interest income	**48,249**	**(1,785)**	**46,464**	**40,713**	**(1,760)**	**38,953**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 46,464 million for the year ended 2022 as compared with ISK 38,977 million for the year ended 2021.

7. Net fee and commission income

See accounting policy in Note 82.6.

	2022			2021		
	Fee and commission income	**Fee and commission expense**	**Net fee and commission income**	**Fee and commission income**	**Fee and commission expense**	**Net fee and commission income**
Capital Markets	6,188	(717)	5,471	5,864	(622)	5,242
Loans and guarantees	1,306	-	1,306	1,073	-	1,073
Payment cards	5,825	(2,967)	2,858	4,512	(2,083)	2,429
Collection and payment services	964	(196)	768	922	(196)	726
Other	1,060	(840)	220	750	(737)	13
Total	**15,343**	**(4,720)**	**10,623**	**13,121**	**(3,638)**	**9,483**

8. Net (loss) gain on financial assets and liabilities at FVTPL

See accounting policy in Note 82.7.

Net (loss) gain on financial assets and liabilities at FVTPL	**2022**	**2021**
Bonds and debt instruments	934	272
Equities and equity instruments	(10,450)	4,052
Derivatives and underlying hedges	1,473	1,473
Loans and advances to customers	7	95
Net gain on fair value hedges	73	88
Total	**(7,963)**	**5,980**

The dividend income below is recognised in the income statement in “Net (loss) gain on financial assets and liabilities at FVTPL”.

Dividend income	**2022**	**2021**
Net gain on financial assets in the trading book	63	29
Net gain on financial assets and liabilities in the banking book	131	213
Total	**194**	**242**

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Notes to the Consolidated Financial Statements

9. Net foreign exchange gain (loss)

See accounting policy in Note 82.8.

Assets	2022	2021
Cash and balances with Central Bank	49	(76)
Bonds and debt instruments	229	(809)
Equities and equity instruments	(4)	(7)
Derivative instruments	(3,457)	(2,641)
Loans and advances to financial institutions	1,092	(1,068)
Loans and advances to customers	12,312	(8,803)
Other assets	(1,204)	(867)
Total	**9,017**	**(14,271)**
Liabilities		
Deposits from customers	(5,894)	1,250
Borrowings	(2,594)	11,715
Other liabilities	(39)	377
Subordinated liabilities	(390)	843
Total	**(8,917)**	**14,185**
Net foreign exchange loss	**100**	**(86)**

The net foreign exchange difference recognised in the income statement in 2022 arousing on financial instruments not measured at FVTPL, amounted to a gain of ISK 12,249 million on financial assets (2021: loss of ISK 10,814 million) and a loss of ISK 8,917 million on financial liabilities (2021: gain of ISK 14,185 million).

10. Net impairment changes

See accounting policy in Note 82.11 (g).

	2022	2021
Net impairment changes of loans to customers	2,434	7,075
Net impairment changes of other financial assets	39	(38)
Net impairment changes of financial assets	**2,473**	**7,037**
Net impairment changes by customer type		
Public entities	(2)	41
Financial institutions	-	1
Individuals	(83)	1,325
Corporates	2,558	5,670
Net impairment changes of financial assets	**2,473**	**7,037**

11. Other income and expenses

	Notes	2022	2021
Share of profit of equity-accounted associates	25	233	228
Gain on sale of property and equipment	26	401	287
Net income (expense) on repossessions	29	547	235
Other		375	213
Total		**1,556**	**963**

12. Salaries and related expenses

See accounting policy in Note 82.37.

	2022	2021
Salaries	11,096	11,359
Contributions to defined pension plans	1,706	1,781
Social security contributions	837	794
Special financial activities tax on salaries	725	716
Other related expenses	110	109
Total	**14,474**	**14,759**
Average number of full-time equivalent positions during the year	843	890
Number of full-time equivalent positions at year-end	813	816

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13. Other operating expenses

	2022	2021
Information technology	2,796	2,626
Real estate and fixtures	920	954
Advertising and marketing	692	812
Operating lease rentals	24	10
FSA supervisory expenses	559	503
Contribution to the Debtors' Ombudsman	91	97
Audit and related services	171	160
Other professional services	526	446
Depreciation and amortisation	1,425	1,268
Contribution to the Depositors’ and Investors’ Guarantee Fund	211	816
Other operating expenses	1,874	1,413
Total	**9,289**	**9,105**

Audit and related services	**2022**	**2021**
Audit and reviews of financial statements - PWC	141	120
Other audit-related services - PWC	29	24
Other audit-related services - Others	1	16
Total	**171**	**160**

Depreciation and amortisation	**Notes**	**2022**	**2021**
Amortisation of property and equipment	26	571	414
Depreciation of intangible assets	27	231	285
Amortisation of Right-of-use assets	39	623	569
Total		**1,425**	**1,268**

14. Income tax

See accounting policy in Note 82.10.

Income tax recognised in the income statement is specified as follows:

	2022	2021
Current tax expense	(8,080)	(5,930)
Special income tax on financial institutions	(2,304)	(1,659)
Difference of prior year's imposed and calculated income tax	(5)	62
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(7)	(7)
Total	**(10,396)**	**(7,534)**

The tax on Group profit differs to the following extent from the amount that would theoretically arise by the domestic corporate income tax rate:

		2022		2021
Profit before income tax		27,393		36,453
Income tax calculated using the domestic corporate income tax rate	20.0%	(5,479)	20.0%	(7,291)
Special income tax on financial institutions	8.4%	(2,304)	4.6%	(1,659)
Income not subject to tax	(0.5%)	137	(4.7%)	1,718
Non-deductible expenses	10.0%	(2,745)	1.1%	(392)
Other	0.0%	(5)	(0.2%)	90
Effective income tax	**38.0%**	**(10,396)**	**20.7%**	**(7,534)**

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15. Classification and fair values of financial assets and liabilities

See accounting policy in Note 82.11 (b).

Under IFRS 9, financial assets must be classified into categories that reflects the cash flow characteristic of the assets and the objective of business model for managing the assets. Subsequent measurement of each category is specified below:

- Financial assets measured at amortised cost.
- Financial assets mandatorily measured at fair value through profit or loss.
- Financial assets designated at fair value through profit or loss.
- Financial liabilities measured at amortised cost.
- Financial liabilities measured at fair value through profit or loss.

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2022:

		Carrying amount					Fair value			
As at 31 December 2022	Notes	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Bonds and debt instruments	20	-	122,963	2,302	-	125,265	124,228	24	1,013	125,265
Equities and equity instruments	21	-	19,106	-	-	19,106	8,265	-	10,841	19,106
Derivative instruments	22	-	3,073	-	-	3,073	-	3,073	-	3,073
Loans and advances to customers	24	-	17,964	-	-	17,964	-	-	17,964	17,964
		0	**163,106**	**2,302**	**0**	**165,408**	**132,493**	**3,097**	**29,818**	**165,408**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	42,216	-	-	-	42,216	-	42,216	-	42,216
Loans and advances to financial institutions	23	28,621	-	-	-	28,621	-	28,621	-	28,621
Loans and advances to customers	24	1,526,396	-	-	-	1,526,396	-	1,511,209	-	1,511,209
Other financial assets		5,895	-	-	-	5,895	-	5,895	-	5,895
		1,603,128	**0**	**0**	**0**	**1,603,128**	**0**	**1,587,941**	**0**	**1,587,941**
Financial liabilities measured at fair value										
Derivative instruments	22	-	1,478	-	-	1,478	-	1,478	-	1,478
		0	**1,478**	**0**	**0**	**1,478**	**-**	**1,478**	**0**	**1,478**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	6,634	6,634	-	6,634	-	6,634
Deposits from customers	31	-	-	-	967,863	967,863	-	967,507	-	967,507
Borrowings	32	-	-	-	476,864	476,864	-	465,185	-	465,185
Other financial liabilities		-	-	-	9,714	9,714	-	9,714	-	9,714
Subordinated liabilities	35	-	-	-	21,753	21,753	-	22,153	-	22,153
		0	**0**	**0**	**1,482,828**	**1,482,828**	**0**	**1,471,193**	**0**	**1,471,193**

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15. Classification and fair values of financial assets and liabilities (continued)

The following table shows the classification of the Group's financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2021:

		Carrying amount					Fair value			
As at 31 December 2021	Notes	Amortised cost	Mandatorily at FVTPL	Designated at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value										
Bonds and debt instruments	20	-	148,201	2,234	-	150,435	149,939	29	467	150,435
Equities and equity instruments	21	-	33,347	-	-	33,347	12,753	-	20,594	33,347
Derivative instruments	22	-	1,233	-	-	1,233	-	1,233	-	1,233
Loans and advances to customers	24	-	22,142	-	-	22,142	-	-	22,142	22,142
		0	**204,923**	**2,234**	**0**	**207,157**	**162,692**	**1,262**	**43,203**	**207,157**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	82,425	-	-	-	82,425	-	82,425	-	82,425
Loans and advances to financial institutions	23	47,231	-	-	-	47,231	-	47,231	-	47,231
Loans and advances to customers	24	1,365,321	-	-	-	1,365,321	-	1,372,601	-	1,372,601
Other financial assets		8,800	-	-	-	8,800	-	8,800	-	8,800
		1,503,777	**0**	**0**	**0**	**1,503,777**	**0**	**1,511,057**	**0**	**1,511,057**
Financial liabilities measured at fair value										
Derivative instruments	22	-	1,946	-	-	1,946	-	1,946	-	1,946
Short positions	22	-	2,616	-	-	2,616	2,616	-	-	2,616
		0	**4,562**	**0**	**0**	**4,562**	**2,616**	**1,946**	**0**	**4,562**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	10,425	10,425	-	10,425	-	10,425
Deposits from customers	31	-	-	-	900,098	900,098	-	899,792	-	899,792
Borrowings	32	-	-	-	486,042	486,042	-	502,304	-	502,304
Other financial liabilities		-	-	-	9,195	9,195	-	9,195	-	9,195
Subordinated liabilities	35	-	-	-	20,785	20,785	-	21,217	-	21,217
		0	**0**	**0**	**1,426,545**	**1,426,545**	**0**	**1,442,933**	**0**	**1,442,933**

All amounts ar in ISK million

16. Fair value of financial assets and liabilities

See accounting policy in Note 82.11 (f).

Valuation framework

The Bank's Risk & Finance Committee oversees the Group's overall risk and is responsible for fair value measurements of financial assets and liabilities classified as Level 2 and 3 instruments. The Bank's Valuation group reports its valuation results to the Risk & Finance Committee for verification. The Valuation group is comprised of personnel from Risk Management, Treasury and Finance. The Valuation group holds monthly meetings to determine the value of Level 2 and Level 3 financial assets and liabilities.

Transfers between Levels

In 2022 and 2021, there were no transfers between Level 1, Level 2 and Level 3. The following tables show the reconciliation of fair value measurement in Level 3 for the year 2022 and 2021:

1 January - 31 December 2022	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
Carrying amount as at 1 January 2022	467	20,594	22,142	43,203
Net gain (loss) on financial assets and liabilities at FVTPL	31	(9,990)	7	(9,952)
Net foreign exchange (loss) gain	(3)	1	56	54
Purchases	583	565	272,575	273,723
Sales	-	(132)	-	(132)
Settlements	(65)	-	(276,816)	(276,881)
Dividend received	-	(197)	-	(197)
Carrying amount as at 31 December 2022	**1,013**	**10,841**	**17,964**	**29,818**
1 January - 31 December 2021				
Carrying amount as at 1 January 2021	581	17,490	16,515	34,586
Net gain on financial assets and liabilities at FVTPL	12	3,477	95	3,584
Net foreign exchange (loss) gain	(2)	(1)	18	15
Purchases	77	371	163,386	163,834
Sales	(200)	(527)	-	(727)
Settlements	(1)	-	(157,872)	(157,873)
Transfers out of Level 3	-	(3)	-	(3)
Dividend received	-	(213)	-	(213)
Carrying amount as at 31 December 2021	**467**	**20,594**	**22,142**	**43,203**

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group at year end 2022 and 2021 were recognised:

1 January - 31 December 2022	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
Net gain on financial assets and liabilities at FVTPL realised	10	164	7	181
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	21	(10,155)	-	(10,134)
Net foreign exchange (loss) gain	(2)	1	56	55
Total	**29**	**(9,990)**	**63**	**(9,898)**
1 January - 31 December 2021				
Net gain on financial assets and liabilities at FVTPL realised	25	121	95	241
Net (loss) gain on financial assets and liabilities at FVTPL unrealised	(13)	3,333	-	3,320
Net foreign exchange (loss) gain	(2)	(1)	18	15
Total	**10**	**3,453**	**113**	**3,576**

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Notes to the Consolidated Financial Statements

17. Unobservable inputs in fair value measurement

See accounting policy in Note 82.11 (f).

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 at year end 2022 and 2021.

As at 31 December 2022	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs Lower	Range of inputs Higher
Bonds and debt instruments	1,013	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	10,841	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	17,964	-	See 3) below	See 3) below	n/a	n/a
	29,818	**0**				

As at 31 December 2021	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs Lower	Range of inputs Higher
Bonds and debt instruments	467	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	20,594	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	22,142	-	See 3) below	See 3) below	n/a	n/a
	43,203	**0**				

A further description of the financial instruments categorised in Level 3 are as follows:

1. Fair value of corporate bonds and claims on financial institutions in winding-up proceedings and other insolvent assets is estimated on expected recovery. Reference is also made to prices in recent transactions. Given the nature of the valuation method, a range of key unobservable inputs is not available.

2. Equities and equity instruments classified as Level 3 assets, are unlisted and not traded in an active market and therefore subject to unobservable inputs for fair value measurements. Valuation using discounted cash flows, comparison of peer companies' multiples, analysis of financial position and results**,** outlook and recent transaction or intrinsic value after haircut, are the methods or inputs used to estimate fair value of investments in equities and equity instruments. Given the nature of the valuation method, the range of key unobservable inputs is not available.

3. Loans and advances to customers carried at FVTPL are classified as financial assets in Level 3. The valuation technique is based on significant non-observable inputs as loans and advances are unlisted and not traded in an active market. The valuation technique is based on available market data such as interest and inflation curves, probability of default and liquidity spread. Given the nature of the valuation method, the range of key unobservable inputs is not available.

The effect of unobservable inputs in fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different valuation methodologies and assumptions could lead to different estimates of fair value. The following tables show how profit (loss) before tax would have been affected if one or more of the inputs for fair value measurements in Level 3 were changed to likely alternatives at year-end 2022 and 2021:

	2022		2021	
Effect on profit before tax	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Bonds and debt instruments	51	(51)	1	(1)
Equities and equity instruments:				
Equities - Banking book	819	(819)	1,229	(1,217)
Loans and advances to customers	10	(13)	20	(20)
Total	**880**	**(883)**	**1,250**	**(1,238)**

The effect on profit (loss) was calculated as the difference between results generated using the same valuation methods but changing key unobservable inputs for bonds and equities by +/- 5% and +/- 1% for loans and advances to customers.

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18. Expected credit loss

See accounting policy in Note 82.11.

	31.12.2022			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(1)	-	-	(1)
Loans and advances to customers	(3,539)	(1,558)	(4,898)	(9,995)
Other financial assets	(48)	-	(4)	(52)
Expected credit loss, off-balance sheet items	(467)	(51)	(107)	(625)
Total	**(4,055)**	**(1,609)**	**(5,009)**	**(10,673)**

	31.12.2021			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	(1)	-	-	(1)
Loans and advances to customers	(1,845)	(4,098)	(7,880)	(13,823)
Other financial assets	(70)	-	(2)	(72)
Expected credit loss, off-balance sheet items	(329)	(122)	(99)	(550)
Total	**(2,245)**	**(4,220)**	**(7,981)**	**(14,446)**

19. Cash and balances with Central Bank

See accounting policy in Note 82.12.

	2022	2021
Cash on hand	4,986	5,274
Unrestricted balances with Central Bank	25,891	63,853
Total cash and unrestricted balances with Central Bank	**30,877**	**69,127**
Restricted balances with Central Bank - fixed reserve requirement	10,960	10,144
Cash and balances pledged as collateral to the Central Bank	379	3,154
Total restricted balances with Central Bank	**11,339**	**13,298**
Total cash and balances with Central Bank	**42,216**	**82,425**

20. Bonds and debt instruments

See accounting policy in Note 82.13.

	2022			2021		
Bonds and debt instruments	Mandatorily at FVTPL	Designated at FVTPL	Total	Mandatorily at FVTPL	Designated at FVTPL	Total
Domestic						
Listed	82,899	408	83,307	78,982	499	79,481
Unlisted	-	1,894	1,894	-	1,735	1,735
	82,899	**2,302**	**85,201**	**78,982**	**2,234**	**81,216**
Foreign						
Listed	40,064	-	40,064	69,219	-	69,219
	40,064	**0**	**40,064**	**69,219**	**0**	**69,219**
Total bonds	**122,963**	**2,302**	**125,265**	**148,201**	**2,234**	**150,435**

Bonds are classified as "domestic" or "foreign" according to issuers’ country of incorporation.

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21. Equities and equity instruments

See accounting policy in Note 82.14.

	2022			2021		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	7,286	359	7,645	11,071	511	11,582
Unlisted	32	11,064	11,096	-	20,893	20,893
	7,318	**11,423**	**18,741**	**11,071**	**21,404**	**32,475**
Foreign						
Listed	44	296	340	431	417	848
Unlisted	-	25	25	-	24	24
	44	**321**	**365**	**431**	**441**	**872**
Total equities	**7,362**	**11,744**	**19,106**	**11,502**	**21,845**	**33,347**

Equities are classified as "domestic" or "foreign" according to issuers' country of incorporation.

Part of the Bank's investments in equities are comprised of alternative investments in private equity funds, often established based on the assumption that they will be wound up within a set time frame (pre-determined lifetime). Within each fund's lifetime, there is a defined investment period during which the fund identifies suitable investments and draws on subscribed capital from its shareholders, including the Bank, followed by a transformation period during which the fund implements its value-enhancing changes for the companies it has invested in. When the lifetime period of a fund expires it is wound up and dissolved and shareholders realise their investment.

At year-end 2022, outstanding commitments of the Group in share subscriptions amounted to ISK 1.020 million (2021: ISK 3.952 million) altogether in six entities (2021: seven entities). The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

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22. Derivative instruments and short positions

See accounting policy in Note 82.15.

Trading

	2022			2021		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	**amount**	**Assets**	**Liabilities**	**amount**	**Assets**	**Liabilities**
Currency forwards	49,544	1,471	182	45,712	99	133
Cross-currency interest rate swaps	734	76	-	411	24	-
	50,278	**1,547**	**182**	**46,123**	**123**	**133**
Interest rate derivatives						
Interest rate swaps	1,071	-	4	1,187	8	-
Total return swaps	29,981	57	10	51,613	25	69
	31,052	**57**	**14**	**52,800**	**33**	**69**
Equity derivatives						
Equity forwards	185	27	-	107	-	5
Total return swaps	4,403	161	61	8,525	11	220
Equity options	40	-	-	-	-	-
	4,628	**188**	**61**	**8,632**	**11**	**225**
Total derivative instruments	**85,958**	**1,792**	**257**	**107,555**	**167**	**427**
Short positions						
Listed equities	-	-	-	-	-	434
Listed bonds	-	-	-	2,054	-	2,182
Total short positions	**0**	**0**	**0**	**2,054**	**0**	**2,616**
Total	**85,958**	**1,792**	**257**	**109,609**	**167**	**3,043**

Risk management

	2022			2021		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	**amount**	**Assets**	**Liabilities**	**amount**	**Assets**	**Liabilities**
Currency forwards	62,427	1,277	311	62,015	308	1,058
	62,427	**1,277**	**311**	**62,015**	**308**	**1,058**
Interest rate derivatives						
Interest rate swaps	3,071	4	590	3,187	-	461
	3,071	**4**	**590**	**3,187**	**0**	**461**
Fair value hedging						
Interest rate swaps	45,450	-	320	65,597	758	-
	45,450	**0**	**320**	**65,597**	**758**	**0**
Total	**110,948**	**1,281**	**1,221**	**176,725**	**1,066**	**1,519**
Total derivative instruments and short positions	**196,906**	**3,073**	**1,478**	**286,334**	**1,233**	**4,562**

Fair value hedging

Currently the Group applies hedge accounting only for fair value hedges of fixed interest risk on borrowings. The Group designates interest rate swaps as hedging instruments to hedge its interest rate exposure of fixed-rate EUR borrowings. The interest rate swaps and the borrowings have identical cash flows and under the interest rate swap the Group pays floating rates while receiving fixed rates. Thus the interest rate swaps hedge the fixed interest rate risk of the borrowings.

Linear regression is the method used to assess the effectiveness of each hedge. The relationship between daily fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined.

During the period from 1 January 2022 to 31 December 2022, the slope of the regression line was in all cases within the range of 0.89 and 0.93 (for a 95% confidence level) and the regression coefficient was at least 0.86 (R^2). During the period from 1 January 2021 to 31 December 2021, the slope of the regression line is in all cases within the range of 0.90 and 0.95 (for a 95% confidence level) and the regression coefficient was at least 0.86 (R^2). In all cases the effectiveness is within limits during the year 2022 and 2021.

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22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 31 December 2022	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	45,450	45,450	-	-	-	320	(1,072)
Total	**45,450**	**45,450**	**0**	**0**	**0**	**320**	**(1,072)**

Average fixed interest rate - EUR 1.00%

As at 31 December 2022	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 1.375 3/22	-	-	-	-	253
LBANK 1.00 5/23	-	45,283	453	-	892
Total EMTN hedged borrowings	**0**	**45,283**	**453**	**0**	**1,145**

As at 31 December 2021	Notional amount of the hedging instrument	Maturity date: Up to 3 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	65,597	21,317	44,280	-	758	-	(886)
Total	**65,597**	**21,317**	**44,280**	**0**	**758**	**0**	**(886)**

Average fixed interest rate - EUR 1,375% 1.00%

As at 31 December 2021	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 1.375 3/22	-	21,570	-	27	568
LBANK 1.00 5/23	-	44,900	-	346	406
Total EMTN hedged borrowings	**0**	**66,470**	**0**	**373**	**974**

23. Loans and advances to financial institutions

See accounting policy in Note 82.19.

	2022	2021
Bank accounts with financial institutions	21,759	15,261
Money market loans	5,836	29,552
Other loans	1,026	2,418
Allowance for impairment	-	-
Total	**28,621**	**47,231**

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24. Loans and advances to customers

See accounting policy in Note 82.19.

	2022	2021
Loans and advances to customers at amortised cost	1,536,391	1,379,144
Allowance for impairment	(9,995)	(13,823)
Total	**1,526,396**	**1,365,321**
Loans and advances to customers at FVTPL	17,964	22,142
Total	**1,544,360**	**1,387,463**

Loans and advances to customers at amortised cost

	31.12.2022			31.12.2021		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	10,525	(6)	10,519	3,898	(3)	3,895
Individuals	791,342	(1,327)	790,015	726,309	(1,359)	724,950
Mortgage lending	705,819	(563)	705,256	646,981	(466)	646,515
Other	85,523	(764)	84,759	79,328	(893)	78,435
Corporates	734,524	(8,662)	725,862	648,937	(12,461)	636,476
Total	**1,536,391**	**(9,995)**	**1,526,396**	**1,379,144**	**(13,823)**	**1,365,321**

Further disclosure on loans and advances to customers is provided in the risk management notes to these Consolidated Financial Statements.

25. Investments in associates

See accounting policy in Note 82.3.

The Group's interest in its principal associates	2022	2021
Auðkenni hf. Borgartúni 31, Reykjavík	0.0%	25.6%
Greiðslumiðlun Íslands ehf. Katrínartúni 4, Reykjavík	47.9%	47.9%
Keahótel ehf. Hafnarstræti 94, 600 Akureyri	35.0%	35.0%
Reiknistofa bankanna hf. Katrínartúni 2, Reykjavík	37.1%	37.2%

Investments in equity-accounted associates	2022	2021
Carrying amount as at the beginning of the year	1,722	1,587
Acquisitions	-	30
Disposals	(242)	(145)
Share of profit of equity-accounted associates	233	228
Dividends paid	(48)	-
Gain of disposal of associates	150	22
Total	**1,815**	**1,722**

Investments in associates designated at fair value through profit or loss	2022	2021
Carrying amount as at the end of the year	135	135
Total	**135**	**135**
Total	**1,950**	**1,857**

26. Property and equipment

See accounting policy in Note 82.20.

	2022			2021		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount as at the beginning of the	11,235	1,784	13,019	7,507	1,820	9,327
Additions during the year	4,508	443	4,951	3,876	335	4,211
Sold during the year	(4,336)	(3)	(4,339)	(95)	(10)	(105)
Depreciation	(51)	(520)	(571)	(53)	(361)	(414)
Carrying amount as at 31 December	**11,356**	**1,704**	**13,060**	**11,235**	**1,784**	**13,019**
Gross carrying amount	12,180	7,128	19,308	12,008	6,688	18,696
Accumulated depreciation	(824)	(5,424)	(6,248)	(773)	(4,904)	(5,677)
Carrying amount as at 31 December	**11,356**	**1,704**	**13,060**	**11,235**	**1,784**	**13,019**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

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26. Property and equipment (continued)

Official assessment value of buildings	**2022**	**2021**
Property valuation	7,175	5,936
Fire insurance value	10,163	9,897

On 29 September 2022, the Bank sold around six thousand square metres of office and service space in its new building at Austurbakki in Reykjavík, the so-called North Wing, to the National Treasury, along with a share in building and property rights and right to common areas. The sale price of the North Wing is ISK 5,981 million, subject to the final cost of final completion. The sale results to an ISK 4,216 million reduction in property and equipment. In addition, the Bank recognises liability for estimated cost of final completion in the amount of ISK 1,765 in its accounts.

27. Intangible assets

See accounting policy in Note 82.21.

	2022		**2021**	
	Hard- and software licences	**Total**	**Hard- and software licences**	**Total**
Carrying amount as at the beginning of the year	1,781	1,781	1,696	1,696
Additions during the year	179	179	370	370
Amortisation	(231)	(231)	(285)	(285)
Carrying amount as at 31 December	**1,729**	**1,729**	**1,781**	**1,781**
Gross carrying amount	5,621	5,621	5,442	5,442
Accumulated amortisation	(3,892)	(3,892)	(3,661)	(3,661)
Carrying amount as at 31 December	**1,729**	**1,729**	**1,781**	**1,781**
Annual amortisation rates	20-33%	20-33%	20-33%	20-33%

28. Other assets

	Note	**2022**	**2021**
Unsettled securities trading		2,396	2,111
Other accounts receivable		1,578	4,710
Right-of-use assets	39	1,921	1,979
Sundry assets		1,241	1,287
Total		**7,136**	**10,087**

29. Assets and liabilities classified as held for sale

See accounting policy in Note 82.25.

Assets classified as held for sale

	2022	**2021**
Repossessed collateral	451	905
Assets of subsidiaries classified as held for sale	57	-
Total	**508**	**905**

Repossessed collateral

Repossessed collateral consists mainly of property and equipment acquired by foreclosure on collateral securing loans and advances. The Group's policy is to pursue timely realisation of the repossessed collateral in an orderly manner. The Group generally does not use the non-cash repossessed collateral for its own operations. Repossessed collateral is recognised as assets of either the Bank or its subsidiary Hömlur ehf.

Repossessed collateral	**2022**	**2021**
Real estate	507	905
Equipment and vehicles	1	-
Total	**508**	**905**

Repossessed collateral	**2022**	**2021**
Carrying amount as at the beginning of the year	905	1,638
Repossessed during the year	296	752
Disposed of during the year	(1,290)	(1,845)
Impairment and gain of sale	597	360
Carrying amount as at year end	**508**	**905**

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29. Assets and liabilities classified as held for sale (continued)

Liabilities associated with assets classified as held for sale

	2022	2021
Liabilities of disposal groups	-	30
Total	**0**	**30**

30. Due to financial institutions and Central Bank

See accounting policy in Note 82.26.

	2022	2021
Loans and repurchase agreements with Central Bank	107	101
Loans and deposits from financial institutions	6,527	10,324
Total	**6,634**	**10,425**

31. Deposits from customers

See accounting policy in Note 82.26.

	2022	2021
Demand deposits	657,999	659,228
Term deposits	309,864	240,870
Total	**967,863**	**900,098**

32. Borrowings

See accounting policy in Note 82.27.

Secured borrowings

As at 31. December 2022	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	44,867
LBANK CBI 24	ISK	15.11.2024	38,080	CPI-indexed	Fixed 3.0%	49,045
LBANK CB 25	ISK	17.09.2025	38,560	Non-indexed	Fixed 3.4%	38,502
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	13,355
LBANK CB 27	ISK	20.09.2027	13,960	Non-indexed	Fixed 4.6%	13,308
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	64,137
Total covered bonds						**223,214**
Total secured borrowings						**223,214**

Unsecured borrowings

As at 31. December 2022	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	45,283
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,271
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	6,850
LBANK FLOAT 01/24	SEK	19.01.2024	SEK 850 million	STIBOR + 0,65%	11,626
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	45,513
LBANK FLOAT 08/24	NOK	12.08.2024	NOK 300 million	NIBOR + 2,0%	4,347
LBANK FLOAT 01/25	NOK	20.01.2025	NOK 500 million	NIBOR + 0,79%	7,254
LBANK FLOAT 01/25	SEK	20.01.2025	SEK 850 million	STIBOR + 0,8%	11,626
LBANK 0.375 5/25 GB**	EUR	23.05.2025	EUR 300 million	FIXED 0.375%	45,336
LBANK FLOAT 08/25	NOK	18.08.2025	NOK 350 million	NIBOR + 2,35%	5,069
LBANK 0.75 5/26 GB**	EUR	25.05.2026	EUR 300 million	FIXED 0.75%	45,360
Total senior unsecured bonds					**235,535**

As at 31. December 2022	Carrying amount
Other unsecured loans	18,115
Total other unsecured loans	**18,115**
Total unsecured borrowings	**253,650**
Total borrowings as at 31. December 2022	**476,864**

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.

**Issued under the Bank's Sustainable Finance Framework.

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32. Borrowings (continued)

Secured borrowings

As at 31. December 2021	Currency	Final maturity	Outstanding principal	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK CBI 22	ISK	28.04.2022	19,520	CPI-indexed	Fixed 3.0%	23,978
LBANK CB 23	ISK	23.11.2023	44,080	Non-indexed	Fixed 5.0%	45,492
LBANK CBI 24	ISK	15.11.2024	38,100	CPI-indexed	Fixed 3.0%	45,132
LBANK CB 25	ISK	17.09.2025	31,580	Non-indexed	Fixed 3.4%	31,935
LBANK CBI 26	ISK	20.11.2026	11,120	CPI-indexed	Fixed 1.5%	12,264
LBANK CBI 28	ISK	04.10.2028	48,280	CPI-indexed	Fixed 3.0%	59,086
Total covered bonds						**217,887**
Total secured borrowings						**217,887**

Unsecured borrowings

As at 31. December 2021	Currency	Final maturity	Outstanding principal	Contractual interest rate	Carrying amount
LBANK FLOAT 02/22	NOK	21.02.2022	NOK 1.000 million	NIBOR + 1,75%	14,815
LBANK FLOAT 02/22	SEK	21.02.2022	SEK 500 million	STIBOR + 1,75%	7,208
LBANK 1.375 03/22*	EUR	14.03.2022	EUR 144 million	FIXED 1.375%	21,570
LBANK FLOAT 08/22	SEK	02.08.2022	SEK 900 million	STIBOR + 0,75%	12,963
LBANK 1.00 05/23*	EUR	30.05.2023	EUR 300 million	FIXED 1.0%	44,900
LBANK FLOAT 10/23	NOK	19.10.2023	NOK 500 million	NIBOR + 1,55%	7,408
LBANK FLOAT 10/23	SEK	19.10.2023	SEK 500 million	STIBOR + 1,55%	7,205
LBANK 0.5 05/24	EUR	20.05.2024	EUR 300 million	FIXED 0.5%	44,287
LBANK 0.375 5/25 GB**	EUR	23.05.2025	EUR 300 million	FIXED 0.375%	44,080
LBANK 0.75 5/26 GB**	EUR	25.05.2026	EUR 300 million	FIXED 0.75%	43,939
Total senior unsecured borrowings					**248,375**

As at 31. December 2021	Carrying amount
Other unsecured loans	19,780
Total other unsecured loans	**19,780**
Total unsecured borrowings	**268,155**
Total borrowings as at 31. December 2021	**486,042**

* The Group applies hedge accounting to these bond issuances and uses for this purpose certain foreign currency denominated interest rate swaps as hedging instruments, see Note 22. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate EUR denominated bonds arising from changes in interest rates. The Group applies fair value hedge accounting to the hedging relationship.
**Issued under the Bank's Sustainable Finance Framework.

33. Deferred tax assets and liabilities

See accounting policy in Note 82.10.

	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Tax liabilities	-	12,480	-	9,602
Deferred tax assets	-	-	15	-
Taxes in the Statement of Financial Position	**0**	**12,480**	**15**	**9,602**

Recognised deferred tax assets and liabilities are attributable to the following:

	2022			2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment	-	(95)	(95)	-	(111)	(111)
Intangibles	-	(157)	(157)	-	(180)	(180)
Exchange rate-indexed assets and liabilities	-	(487)	(487)	-	(536)	(536)
Deferred foreign exchange differences	-	(10)	(10)	92	-	92
Other assets and liabilities	748	-	748	745	-	745
Tax losses carried forward	1	-	1	5	-	5
	749	**(749)**	**0**	**842**	**(827)**	**15**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(749)	749	0	(827)	827	0
Deferred tax liabilities / assets total	**0**	**0**	**0**	**15**	**0**	**15**

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33. Deferred tax assets and liabilities (continued)

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2022, according to which the domestic corporate income tax rate was 20% as at 31 December 2022 (2021: 20%).

The movements in temporary differences during the period were as follows:

2022	Balance 1.1	Recognised in income statement Tax income (expense)	Balance as at 31.12
Property and equipment	(111)	16	(95)
Intangibles	(180)	23	(157)
Foreign currency assets and liabilities	(536)	49	(487)
Deferred foreign exchange differences	92	(102)	(10)
Other assets and other liabilities	745	3	748
Tax losses carried forward	5	(4)	1
Total	**15**	**(15)**	**0**

2021	Balance 1.1	Recognised in income statement Tax income (expense)	Balance as at 31.12
Property and equipment	(124)	13	(111)
Intangibles	(201)	21	(180)
Foreign currency assets and liabilities	(444)	(92)	(536)
Deferred foreign exchange differences	118	(26)	92
Other assets and other liabilities	674	71	745
Tax losses carried forward	-	5	5
Total	**23**	**(8)**	**15**

34. Other liabilities

See accounting policy in Note 82.28.

	Note	2022	2021
Unsettled securities trading		6,141	5,473
Withholding tax		4,440	1,413
Accounts payable		1,484	1,349
Non-controlling interests - Funds		433	557
Lease liabilities	39	2,089	2,164
Sundry liabilities		6,274	4,653
Total		**20,861**	**15,609**

Unsettled securities transactions were settled in less than three days from the reporting date.

35. Subordinated liabilities

See accounting policy in Note 82.30.

As at 31.12.2022	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	15,226
LBANK T2I 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3,85%	6,527
Total subordinated liabilities						**21,753**

As at 31.12.2021	Currency	Final maturity	Remaining principal in currencies	Indexed/ Non-indexed	Contractual interest rate	Carrying amount
LBANK 3.125 28NC23 T2	EUR	06.09.2028	EUR 100 million		Fixed 3,125%	14,821
LBANK T2I 29	ISK	11.12.2029	ISK 5.520 million	CPI-indexed	Fixed 3,85%	5,964
Total subordinated liabilities						**20,785**

The Tier 2 subordinated bonds in EUR have a final maturity in September 2028, but are callable in September 2023. The bond series, LBANK T2I 29, has a final maturity in December 2029, but is callable in December 2024.

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36. Equity

See accounting policy in Note 82.31.

Share capital

As of 31 December 2022, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23.6 billion. Each share has a par value of ISK 1. Own shares numbered 379 million at year-end, or 1.58% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. All share capital is fully paid up.

On 4 February 2022, the Bank's Board of Directors announced its decision to exercise an authorisation to purchase the Bank's own shares during a buyback period which extended from 7 February up to and including 21 February 2022. The authorisation is consistent with a resolution of the Annual General Meeting on 24 March 2021 and a buyback programme formulated by the Board of Directors on 10 June 2021. During the repurchase period, the Bank acquired a total of 156,396 own shares at a share price of 11.9658, for a total purchase price of ISK 1.9 million.

The AGM of Landsbankinn, held on 23 March 2022, renewed the authorisation of the Bank to acquire up to 10% of the nominal value of Landsbankinn's share capital at a price determined by the internal value of the Bank's shares, according to its most recently published consolidated financial statements for an interim period or the year ended prior to repurchase. The objective of the buyback is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner. The authorisation is valid until the next AGM in 2023. Disposition of own shares purchased by the Bank under this authorisation is subject to approval by a shareholders' meeting. As yet, the authorisation to purchase the Bank's own shares in accordance with the resolution of the AGM on 23 March 2022 has not been exercised.

Share premium

Share premium represents the difference between the ISK amount received by the Bank when issuing share capital and the nominal amount of the shares issued, less costs directly attributable to issuing the new shares.

Statutory reserve

The statutory reserve is established in accordance with the Public Limited Companies Act, No. 2/1995, which stipulates that the Bank must allocate profits to the statutory reserve until the reserve is equal to one-quarter of the Bank's share capital.

Retained earnings

Act No. 3/2006, on Annual Financial Statements, with subsequent amendments, require *inter alia* the separation of retained earnings into two categories: restricted and unrestricted retained earnings. Unrestricted retained earnings consist of undistributed profits and losses accumulated by the Group since the foundation of the Bank, less transfers to the Bank's statutory reserve and restricted retained earnings. Restricted retained earnings are split into two categories:

1. Unrealised gains in subsidiaries and equity-accounted associates reserve; if the share of profit from subsidiaries or equity-accounted associates is in excess of dividend received, the Group transfers the difference to a restricted reserve in equity. If the Group's interest in subsidiaries or equity-accounted associates is sold or written off, the applicable amount recognised in the reserve is transferred to retained earnings.

2. Financial assets designated at fair value through profit or loss reserve. The Group transfers fair value changes arising from financial assets designated at fair value through profit or loss, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Dividend

The 2022 AGM of Landsbankinn, held on 23 March, approved the motion of the Board of Directors to pay shareholders a dividend of ISK 0.61 per share for the fiscal year 2021 in two instalments. The first payment of ISK 0.31 per share was made to shareholders on 30 March 2022 and the second payment of ISK 0.30 per share on 21 September 2022. In total, these dividend payments amount to ISK 14,409 million.

The AGM also approved payment of a special dividend of ISK 0.26 per share. The payment was made on 28 April 2022 and amounted to ISK 6,141 million in total.

Dividend policy

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to around 50% of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Restriction of dividend payments

According to the Public Limited Companies Act, No. 2/1995, it is only permissible to allocate as dividend profit in accordance with approved annual financial statements for the immediate past financial year, profit carried forward from previous years, and free funds after deducting loss which has not been met, and the funds which according to law or Articles of Association must be contributed to a reserve fund or for other use. Furthermore, under the amendment to Act No. 3/2006, on Annual Financial Statements, from June 2016 it is only permissible to allocate as dividend profit from unrestricted retained earnings.

Additionally, according to the Act on Financial Undertakings, No. 161/2002, the FSA can impose proportionate restrictions on the Bank's dividend payments, if the Bank's capital adequacy ratio falls below the total capital requirement plus capital buffers, see Note 47 Capital requirements.

Notes to the Consolidated Financial Statements

Other notes

37. Earnings per share

See accounting policy in Note 82.32.

Profit for the year	**2022**	**2021**
Profit for the year attributable to owners of the Bank	16,997	28,919

Weighted average number of shares	**2022**	**2021**
Weighted average number of ordinary shares issued	24,000	24,000
Weighted average number of own shares	(379)	(376)
Weighted average number of shares outstanding	**23,621**	**23,624**
Basic and diluted earnings per share from operations (ISK)	**0.72**	**1.22**

Diluted earnings per share, whether positive or negative, are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Bank's basic and diluted earnings per share are equal as the Bank has not issued any options, warrants, convertibles or other potential sources of dilution.

38. Litigation

Material litigation cases against the Bank and its subsidiaries

The Bank and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business and the operational procedures of the Bank or the Group, as the case may be. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

In August 2021, a former owner of a payment card company brought a case against the Bank and certain other financial institutions claiming tort liability in the amount of around ISK 923 million, plus interest, due to an alleged breach of competition rules in the determination of payment card interchange fees. This is the sixth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. On 30 September 2022 the District Court of Reykjavík dismissed the case on grounds of insufficient substantiation. On 10 January 2023 the Appeal Court partly annulled the dismissal and ordered the District Court to hear the case in substance. The timing of a final judgment is uncertain and whether it will have a financial impact on the Bank.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its assets at any time. On 12 November 2021 the District Court of Reykjavík acquitted the Bank and the other defendants of all claims of the Pension Fund. The Fund has appealed the case to the Appeal Court. The Appeal Court will hear the case on 27 February 2023. It is expected that the Appeal Court will give its judgment on the first half of 2023. The Bank excpects that the conclusions by the District Court will be confirmed.

Provisions on interest rates in consumer contract and mortgage credit agreements

In January 2022, an individual commenced litigation against the Bank claiming that a provision in a mortgage credit agreement issued in 2006 be deemed illegal and void as it allegedly does not specify under which conditions changes are made to the interest rate, as provided for in the Consumer Credit Act No. 121/1994, applicable at the time. The plaintiff demands, furthermore, an acknowledgement by the Court that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation and that the debt remaining in November 2020 amounted to an overpayment of around ISK 26,5 million. Alternatively, the plaintiff demands an acknowledgement that interests be recalculated in accordance with the initial interest rate of the credit agreement and that the debt remaining in November 2020 amounted to an overpayment of around ISK 2 million. The Bank delivered its written statement in April 2022 claiming dismissal of certain aspects of the plaintiff´s claims and rejection of other claims, alternatively all claims. On 21 November 2022, the District Court dismissed the case. In December, the case was again brought before the District Court. The timing of a final judgment is uncertain, whether it will have a financial impact on the Bank og what its legal precedent will be.

In December 2021, two individuals commenced litigation against the Bank claiming that an interest rate provision in two credit agreements, issued in 2006, should be deemed illegal and void since the provision allegedly does not stipulate under which circumstances the interest rate changes, as provided for in the Consumer Credit Act No. 121/1994, applicable at the time. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 3,5 million plus interest. In February 2022, the Bank submitted its written statement claiming that all claims by the plaintiffs should be rejected. The case was heard by the District Court on 17 January 2023. It is expected that the District Court will give its judgment in the first half of 2023. The timing of a final court judgment is uncertain, whether it will have a financial impact on the Bank og what its legal precedent will be.

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38. Litigation (continued)

Provisions on interest rates in consumer contract and mortgage credit agreements (continued)

In December 2021 two individuals commenced litigation against the Bank claiming that an interest rate provision in a mortgage credit agreement, issued in 2019, should be deemed illegal and void since the provision allegedly does not stipulate conditions and procedure for interest rate changes, as provided for in the Consumer Mortgage Act No. 118/2016. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 83.000 plus interest. In February 2022 the Bank submitted its written statement claiming that all claims by the plaintiffs should be rejected.

In March 2022 the plaintiffs submitted a claim 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 23 June 2022, the District Court rejected the request of the plaintiffs. In the case, however, the Court decided on own initiative to request an advisory opinion from the EFTA Court on certain issues. On 31 October 2022, the Appeal Court confirmed the decision of the District Court. The timing of a final judgment is uncertain, whether it will have a financial impact on the Bank og what its legal precedent will be.

Proceedings relating to the sale of the Bank´s shareholding in Borgun hf.

In January 2017, the Bank commenced proceedings before the District Court of Reykjavík against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf., now SaltPay IIB hf. (the Company), and the then CEO of the Company. The Bank considers the defendants to have been in possession of information about the shareholding of the Company in Visa Europe Ltd. at the time when the Bank sold its 31.2% shareholding in that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. The defendants have submitted their written defences, responding to the substance of the Bank's pleadings. At the request of the Bank, the District Court ruled on 10 September 2018 on the appointment of assessors to evaluate certain issues regarding the Company´s Annual Accounts. The assessors delivered their assessment on 22 October 2019. The assessors conclude, inter alia, that information on the existence of an option to buy and sell holdings of the Company in Visa Europe Ltd to Visa Inc., the terms of the option and possible payments to the Company based on the option had been of relevance for the drawing up, presentation and therefore the audit of the Annual Accounts of the Company for the year 2013. The Company should have provided information in its Annual Accounts for 2013 on its holding in Visa Europe Ltd. and that the Company was a principal member of Visa Europe Ltd. The Company should have informed about the option in the Annual Accounts for 2013 in accordance with the provisions of the international financial reporting standard IFRS 7 and informed about the uncertainty relating to the option in the Report of the Board of Directors in accordance with the Act on Annual Accounts No. 3/2006. Moreover, the assessors conclude that the Annual Accounts of the Company for the year 2013 did not fulfil all requirements of the Act on Annual Accounts and of international financial reporting standards as approved by the European Union at the time. At a request of the Company and another defendant the District Court appointment new assessors to review the assessment. The revised assessment was delivered in April 2021. The re-assessors concluded, inter alia, that information on the existence and terms of the option could have been of relevance for the drawing up, presentation and the audit of the Annual Accounts of the Company for the year 2013, that the directors of the Company had been obligated to provide information on the existence and, under circumstances, the terms of the option in the notes to the Annual Accounts, and that the Annual Accounts did not fulfil all requirements to inform about the holdings of the Company in Visa Europe Ltd and/or the option according to the laws and regulation applicable at the time. The main hearing of the case is expected to be in March 2023.

39. Leasing

See accounting policy in Note 82.23.

The Group as a lessee

The Group leases premises for centralised activity, branches and ATMs. The lease contracts are of variable duration, most having a lifetime of 3-5 years with an extension option. Further details are in the following table:

Right-of use assets	No. of right-of use assets	Remaining term	Average remaining term	No. with extension options	No. with inflation-indexed	No. with termination options
Real estate	25	0,25-10 years	4 years	20	24	13
ATM facilities	17	1-4 years	1,5 years	14	12	13

Lease assets

Right-of-use

The following table provides a breakdown of right-of-use assets disclosed under Other assets at year-end 2022 and 2021.

	31.12.2022			31.12.2021		
	Real estate	ATM facilities	Total	Real estate	ATM facilities	Total
Opening balance	1,955	24	1,979	2,345	24	2,369
New contracts	219	-	219	98	2	100
Amendments	159	4	163	(33)	9	(24)
Inflation-indexation	182	1	183	102	1	103
Amortisation	(611)	(12)	(623)	(557)	(12)	(569)
Total	**1,904**	**17**	**1,921**	**1,955**	**24**	**1,979**

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39. Leasing (continued)

The Group as a lessee (continued)

Lease liabilities

The following table provides a breakdown of lease liabilities disclosed under Other liabilities at year-end 2022 and 2021.

	31.12.2022			31.12.2021		
	Real estate	ATM facilities	Total	Real estate	ATM facilities	Total
Opening balance	2,138	26	2,164	2,541	26	2,567
New contracts	219	-	219	98	2	100
Amendments	159	4	163	(33)	9	(24)
Inflation-indexation	182	1	183	102	1	103
Interest on lease liabilities	54	1	55	65	1	66
Lease expense	(682)	(13)	(695)	(635)	(13)	(648)
Total	**2,070**	**19**	**2,089**	**2,138**	**26**	**2,164**

The following table shows undiscounted expected cash flow of lease liabilities for the next several years as of year-end 2022.

	Due Date					
	< 1 year	1 - 2 years	2 -3 years	3 - 4 years	4 - 5 years	> 5 years
Lease liabilities 31.12.2022	495	366	290	231	223	696

Lease expenses

The following table shows the Group's summarised lease expenses, including short-term leases and leases of low value assets.

	Note	2022	2021
Interest on lease liabilities	6	55	66
Expenses of leased assets outside the scope of IFRS 16	13	24	10

40. Fiduciary activities

See accounting policy in Note 82.38.

The Group offers custodian, asset management, investment management and advisory services. These services require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets under custody are not reported in the Consolidated Financial Statements, since they are assets held on behalf of customers, institutions and pension funds and are not assets of the Group. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2022, financial assets managed by the Group amounted to ISK 615 billion (2021: ISK 656 billion). Custody accounts amounted to ISK 1,826 billion (2021: ISK 1.822 billion).

41. Interest in subsidiaries

See accounting policy in Note 82.1 (a).

The main subsidiaries held directly or indirectly by the Group as at 31 December 2022 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

Main subsidiaries as at 31 December 2022

Company	Ownership interest	Activity
Eignarhaldsfélag Landsbankans ehf. (Iceland)	100%	Holding company
Landsbréf hf. (Iceland)	100%	Fund management company
Hömlur ehf. (Iceland)*	100%	Holding company

*Hömlur ehf. is a parent of a number of subsidiaries, which are neither individually nor combined significant in the context of the Group's business.

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 31 December 2022.

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42. Consolidated structured entities

See accounting policy in Note 82.2.

Assessment of control over an investee determines which structured entities are consolidated in the financial statements. Investees controlled by the Group are presented in the following balance sheet lines:

Assets	2022	2021
Bonds and debt instruments	200	354
Equities and equity instruments	598	820
Other assets	3	-

Liabilities	2022	2021
Other liabilities	1	33
Non controlling interests	433	557

The Bank holds the majority of the units in the investment funds managed by Landsbréf. These funds are consolidated in the Bank's Consolidated Financial Statements, with the exception that minority interests are recognised among Other liabilities instead of Equity. The reason for this distinction is that the holders of the units may request redemption of their shareholding and therefore the units do not meet the requirements of the definition of equity.

43. Unconsolidated structured entities

See accounting policy in Note 82.2.

In cases where the Group acts as an agent for the investor, it does not consolidate the investment funds of the principal. In cases where the Group holds investments in unconsolidated investment funds, the investments are classified as financial investments designated at fair value through profit or loss. The fair value of these investments represents the Group's maximum exposure to loss from investments in unconsolidated investment funds.

			Total assets	
Type of structured entity	Nature and purpose	Interest held by the Group	2022	2021
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investment in units issued by fund	84,103	92,044
	These vehicles are financed through the issue of units to investors	Management fees		

The following table shows an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The Group's maximum exposure to loss is the carrying amount of the assets held.

	Carrying amount	
Investment securities	2022	2021
Investment funds	3,003	2,877
Total	3,003	2,877

44. Guarantees / Off-balance sheet exposures within the Group

As at year end the off-balance sheet exposure to credit risk within the Group was as follows:

	Carrying amount	
Off-balance sheet exposure 31 December	2022	2021
Financial guarantees	-	-
Undrawn overdraft and credit card facilities	17	30
Total	**17**	**30**

45. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98.2% of shares in the Bank at year-end 2022. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

Transactions between the Bank and its subsidiaries meet the definition of related party transactions. All transactions with subsidiaries are eliminated on consolidation and are thus not disclosed in the Group's Consolidated Financial Statements. The main subsidiaries are summarised in Note 41 Interest in subsidiaries.

The key management personnel of the Bank and their close family members meet the definition of related parties and in some cases, the key management personnel of the Bank's subsidiaries. The key management personnel of the Bank are the members of the Board of Directors, the CEO, managing directors and other managers with the authority and responsibility to organise, manage and control the Bank's activities. The Minister for Finance and the Board of Directors of Icelandic State Financial Investments meet the definition of related parties due to the scope of their authority to influence Bank policy.

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45. Related party transactions (continued)

Transactions with the Icelandic government and government-related entities

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 Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature of and amounts outstanding with public entities are disclosed in Note 53 under Public entities.

Transactions with other related parties

The following table presents the total amounts of loans to key management personnel and parties related to them, loans to associates of the Group and other related parties:

	2022		2021	
Loans in ISK million	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Gross Carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	549	615	532	727
Parties related to key management personnel	161	224	181	283
Associates	936	975	939	949
Other	18	19	19	20
Total	**1,664**	**1,833**	**1,671**	**1,979**

Specific impairment allowance of ISK 274 million in Stage 3 is recognised in respect of the loans under the item Associates .

At the end of the year, financial guarantees granted to related parties amounted to ISK 508,7 million. These concern a financial guarantee granted by the Bank to one of its associates. The Bank concluded no lease contracts with related parties during the year.

The following table presents the total amounts of deposits received from key management personnel and parties related to them and associates of the Group:

	2022		2021	
Deposits in ISK million	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	53	189	48	351
Parties related to key management personnel	74	204	65	261
Associates	243	1,265	208	1,124
Other	6	16	8	308
Total	**376**	**1,674**	**329**	**2,044**

The following table presents the total amount of guarantees to key management personnel and parties related to them and associates of the Group:

Guarantees in ISK million	**Gross carrying amount as at 31 December 2022**	**Gross carrying amount as at 31 December 2021**
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	509	449
Total	**509**	**449**

The following table presents the total number of shares in the Bank owned by key management personnel and parties related to them and associates of the Group:

Number of shares in ISK million	**2022**	**2021**
Key management personnel	2	2
Parties related to key management personnel	-	-
Associates	-	-
Total	**2**	**2**

All of the above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

Notes to the Consolidated Financial Statements

45. Related party transactions (continued)

Transactions with other related parties (continued)

Effect on income statement

The following table presents the total amount of interest income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

	2022		2021	
Interest income and expense	**Interest income**	**Interest expense**	**Interest income**	**Interest expense**
Key management personnel	25	1	18	-
Parties related to key management personnel	8	12	4	-
Associates	97	6	17	1
Other	1	5	1	1
Total	**131**	**24**	**40**	**2**

The following table presents the total amount of other income and expense recognised by the Group in relation to key management personnel and parties related to them and associates of the Group:

	2022		2021	
Other income and expense	**Other income**	**Other expense**	**Other income**	**Other expense**
Associates	-	1,608	-	1,503
Total	**0**	**1,608**	**0**	**1,503**

All of the above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and collaterals, as those prevailing at the time for comparable transactions with third party counterparties.

Information about the Bank's sale of office and service space in its new building at Austurbakki in Reykjavik to the National Treasury is disclosed in Note 26.

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2022:

Salary and benefits for the year 2022	Salary and benefits*	Defined contri-butions**	Total
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	14.9	1.8	16.7
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	9.8	1.3	11.1
Elín H. Jónsdóttir, Director	8.4	1.1	9.5
Guðbrandur Sigurðsson, Director	9.0	1.2	10.2
Guðrún Ó. Blöndal, Director	8.4	1.1	9.5
Helgi Friðjón Arnarson, Director	9.0	1.2	10.2
Þorvaldur Jacobsen, Director	8.4	1.1	9.5
Sigríður Olgeirsdóttir, Alternate Director	1.1	0.2	1.3
Sigurður Jón Björnsson, Alternate Director	0.9	0.1	1.0
Lilja Björk Einarsdóttir, CEO	51.8	9.8	61.6
Arinbjörn Ólafsson, Managing Director Information Technology	38.6	7.4	46.0
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	38.6	7.2	45.8
Bergsteinn Ólafur Einarsson, Managing Director Risk Management	34.9	7.0	41.9
Eyrún Anna Einarsdóttir, Managing Director Asset Management & Capital Markets	34.7	6.5	41.2
Helgi Teitur Helgason, Managing Director Personal Banking	38.6	7.4	46.0
Hreiðar Bjarnason, Managing Director, CFO	38.6	7.2	45.8
Sara Pálsdóttir, Managing Director Community	32.2	6.1	38.3
Total	**377.9**	**67.7**	**445.6**

*Benefits are non-monetary benefits such as the use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

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Notes to the Consolidated Financial Statements

45. Related party transactions (continued)

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2021:

Salary and benefits for the year 2021	Salary and benefits*	Defined contri-butions**	Total
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	14.0	1.7	15.7
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	9.4	1.3	10.7
Elín H. Jónsdóttir, Director	6.1	0.8	6.9
Guðbrandur Sigurðsson, Director	8.4	1.1	9.5
Guðrún Ó. Blöndal, Director	7.8	1.0	8.8
Helgi Friðjón Arnarson, Director	6.5	0.9	7.4
Þorvaldur Jacobsen, Director	8.2	1.1	9.3
Sigríður Olgeirsdóttir, Alternate Director	0.9	0.1	1.0
Sigurður Jón Björnsson, Alternate Director	0.9	0.1	1.0
Einar Þór Bjarnason, Former Director	2.0	0.3	2.3
Sigríður Benediktsdóttir, Former Director	2.0	0.3	2.3
Lilja Björk Einarsdóttir, CEO	45.4	8.7	54.1
Arinbjörn Ólafsson, Managing Director Information Technology	40.2	7.7	47.9
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	41.7	8.0	49.7
Bergsteinn Ólafur Einarsson, Managing Director Risk Management	8.0	1.6	9.6
Eyrún Anna Einarsdóttir, Managing Director Asset Management & Capital	8.0	1.6	9.6
Helgi Teitur Helgason, Managing Director Personal Banking	36.2	6.9	43.1
Hreiðar Bjarnason, Managing Director, CFO	37.0	7.1	44.1
Sara Pálsdóttir, Managing Director Community	6.7	1.3	8.0
Two former Managing Director of the Bank's divisions***	99.4	19.5	118.9
Total	**388.8**	**71.1**	**459.9**

*Benefits are non-monetary benefits such as the use of cars owned by the Group.

**Includes both private and statutory contributions to independent pension funds without further obligation.

income statement for the year 2021.

In 2021 the total monthly average salary and benefits of the current CEO of the Bank amounted to ISK 3.8 million.

Transactions with the Minister of Finance and members of the Board of Directors of ISFI

The Minister of Finance and the members of the Board of Directors of ISFI did not receive any salaries or similar payments from the Group during the year 2021. The Group did not enter into any transactions with these persons or close members of their families, other than normal banking transactions which were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

46. Events after the reporting period

No events have arisen after the reporting period of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the year ended 31 December 2022.

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Capital management

47. Capital requirements

The Group’s capital management policies and practices aim to ensure that the Group has sufficient capital to cover the risks associated with its activities on a consolidated basis. The capital management framework of the Group comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Group regularly monitors and assesses its risk profile in key business areas on a consolidated basis and for the most important risk types. The Bank's risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

The Act on Financial Undertakins No 161/2002, implementing the Capital Requirements Directive 2013/36/EU (CRD IV), and Regulation (EU) No 575/2013 (CRR), as incorporated into Icelandic legislation and as amended, set out the legal requirements for the Group’s capital. The regulatory minimum capital requirement under Pillar I is 8% of Risk Weighted Exposure Amount (RWEA) for credit risk, market risk and operational risk. In conformity with Pillar II-R requirements, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP results are subsequently reviewed by the FSA in the Supervisory Review and Evaluation Process (SREP). The Group’s minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FSA, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel (FSC). The FSC has defined Landsbankinn as a systematically important financial institution in Iceland.

The Group’s most recent capital requirements, as determined by the FSA, are as follows (as a percentage of RWEA):

As at 31 December 2022	**CET1**	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.9%	2.6%	3.4%
Minimum requirement under Pillar I and Pillar II-R	**6.4%**	**8.6%**	**11.4%**
Systemic risk buffer (SRB)	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions (O-SII)	2.0%	2.0%	2.0%
Countercyclical capital buffer (CCyB)	1.9%	1.9%	1.9%
Capital conservation buffer (CCB)	2.5%	2.5%	2.5%
Combined buffer requirement (CBR)	**9.3%**	**9.3%**	**9.3%**
Total capital requirement	**15.7%**	**17.9%**	**20.7%**

The Bank aims to maintain at all times capital ratios well above FSA‘s minimum capital requirements. The Bank's target capital ratio includes a management buffer, in addition to FSA's capital requirements, that is defined in the Bank’s risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

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48. Capital base, risk-weighted exposure amount and capital ratios

The following table shows the Group’s capital base, risk exposure amount and capital ratios. The calculations are in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended and made part of the Icelandic legal order.

In accordance with EU Regulation No. 575/2013, the FSA has granted permission for verified interim profits and audited year-end profits to be included in the Group's capital base, net of any foreseeable charge or dividend. The permission is, inter alia, subject to the condition that an interim statement has been verified by the Group's auditors or that an annual statement has been audited by the Groups auditors.

Also in accordance with the aformentioned laws and regulations, the FSA has granted permission for the Group to apply IFRS 9 transitional arrangements. The Bank applies the dynamic approach in terms of the IFRS 9 transitional arrengement, whereby the transitional adjustment amount throughout the transition period is determined by recalculating it periodically to reflect the evolution of the Group's excpected credit loss provisions within the transition period.

The Group uses the standardised approach to calculate the risk exposure amount for credit risk and market risk, and the basic indicator approach for operational risk.

Capital base	**2022**	**2021**
Share capital	23,621	23,621
Share premium	120,593	120,594
Reserves	11,986	23,591
Retained earnings	122,891	114,839
Total equity attributable to owners of the Bank	**279,091**	**282,645**
Intangible assets	(10)	(14)
Deferred tax assets	-	(15)
Forseeable dividends*	(8,498)	-
Fair value hedges	320	(758)
Adjustment under IFRS 9 transitional arrangements	727	1,674
Common equity Tier 1 capital (CET1)	**271,630**	**283,532**
Non-controlling interests	-	-
Tier 1 capital	**271,630**	**283,532**
Subordinated liabilities	21,753	20,785
Tier 2 capital	**21,753**	**20,785**
Total capital base	**293,383**	**304,317**

Risk-weighted exposure amount (RWEA)		
Credit risk	1,071,091	1,032,889
Market risk	19,618	9,909
Operational risk	97,716	101,194
Total risk-weighted exposure amount	**1,188,425**	**1,143,992**

*The Board of Directors intends to propose to the Annual General Meeting (AGM), scheduled to be held in March 2023, that a dividend amounting to around 50% of the consolidated profit in 2022 will be paid to shareholders. The intended dividend proposal is account for in the calculation of the Bank´s capital base as at 31.12.2022, under the line item Foreseeable dividends.

CET1 ratio	**22.9%**	**24.8%**
Tier 1 capital ratio	**22.9%**	**24.8%**
Total capital ratio	**24.7%**	**26.6%**
CET1 Ratio as if IFRS 9 transitional arrangements were not applied	**22.8%**	**24.6%**
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	**22.8%**	**24.6%**
Total capital ratio as if IFRS 9 transitional arrangements were not applied	**24.6%**	**26.5%**

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49. Leverage ratio and MREL

The following table shows the Group's leverage ratio. The calculations are in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended and made part of the Icelandic legal order. A minimum leverage ratio of 3.0% is required.

Leverage ratio	**2022**	**2021**
- On-balance sheet exposure (excluding derivatives and SFTs)	1,772,744	1,711,930
- Derivative instrument exposure	9,482	8,799
- Securities financing transaction exposures	12,325	21,958
- Off-balance sheet exposure	97,338	160,994
- Regulatory adjustments to Tier 1 capital	(7,461)	887
Total leverage exposure	**1,884,428**	**1,904,568**
Tier 1 capital	**271,630**	**283,532**
Leverage ratio	**14.4%**	**14.9%**
Leverage ratio as if IFRS 9 transitional arrangements were not applied	**14.4%**	**14.8%**

Minimum Requirement for own funds and Eligible Liabilities (MREL)

Under the Act on Recovery and Resolution of Credit Institutions and Investment Firms, No. 70/2020, companies that fall under the scope of the Act shall at all times satisfy Minimum Requirements for own funds and Eligible Liabilities (MREL). On 29 September 2022 the Central Bank of Iceland's Resolution Authority announced it's latest MREL decision for the Bank. The MREL-decision entails that the Bank must satisfy a 22,8% MREL requirement, as a percentage of Total Risk-weighted Exposure Amount, which was equivalent to 14,9% of the Bank's Total Liabilities and Own Funds (TLOF) at year end 2021. The Bank must meet the MREL requirement, as a percentage of TLOF, for the Bank's balance sheet position each quarter.

MREL must be met without regards to the combined buffer requirement (CBR), which must be seperately fullfilled alongside MREL. No specific subordination requirement has yet been implemented into Icelandic law.

Own funds and eligible liabilities as at 31 December 2022	**Amount**	**Percentage of TLOF**	**Percentage of RWEA**
Common Equitiy Tier 1 (CET1)	271,628	15.1%	22.9%
Additional Tier 1 capital (AT1)	-	0.0%	0.0%
Tier 2 capital	21,753	1.2%	1.8%
Eligible liabilities	187,114	10.4%	15.7%
Sum of own funds and eligible liabilities	**480,495**	**26.7%**	**40.4%**
Recurring MREL requirement	(268,091)	(14.9%)	(22.6%)
Combined buffer requirement (CBR)	(110,524)	(6.1%)	(9.3%)
Sum of MREL and Combined Buffer Requirements	**(378,615)**	**(21.0%)**	**(31.9%)**
MREL Maximum Distributable Amount (M-MDA)	**101,880**	**5.7%**	**8.6%**

The MREL Maximum Distributable Amount (M-MDA) is the maximum amount that the bank is allowed to distribute via various actions, including dividend payments to shareholders, buy-back of own shares and payments of variable remuneration. These MREL restrictions are in addition to other own funds requirements.

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Economic capital

50. Economic capital framework

Economic capital (EC) is a risk measure which is applied to all material risks. It captures unexpected losses and reduction in value or income for which the Group needs to hold capital to avoid insolvency. It arises from the unexpected nature of losses as distinct from expected losses. EC is defined as the difference between unexpected losses and expected losses, where unexpected loss is defined as the 99.9% value-at-risk (VaR), with a one-year time horizon.

Further information about the Group's assessment of EC is provided in the Group's Pillar III Risk Report for 2022, published alongside the Consolidated Financial Statements for 2022 on the Bank's website, www.landsbankinn.is.

Economic capital ISK million	**2022**	**2021**
Credit risk - Loans to customers and credit institutions	65,881	66,341
Credit risk - Other assets	5,831	9,691
Market risk	2,820	1,670
Currency risk	2,656	540
Operational risk	7,817	8,096
Single name concentration risk	5,739	6,460
Industry concentration risk	-	1,003
Interest rate risk and inflation risk in the banking book	10,063	10,489
Business risk	-	-
Legal and regulatory risk	1,773	2
Total	**102,580**	**104,292**
EC/RWEA	8.6%	9.1%

	Weighted average			
Credit risk as at 31 December 2022	**Probability of default (PD)**	**Loss given default (LGD)**	**Exposure at default (EAD)**	**Economic capital (EC)**
Financial institutions	0.2%	45.0%	27,625	701
Public entities	1.3%	45.0%	10,610	178
Individuals	1.4%	23.4%	796,006	17,301
Corporates	2.2%	32.2%	858,128	47,701
Total EC	**1.8%**	**28.4%**	**1,692,369**	**65,881**
Credit risk as at 31 December 2021*				
Financial institutions	0.1%	45.0%	45,553	729
Public entities	1.9%	45.0%	3,992	72
Individuals	1.3%	23.3%	730,274	14,933
Corporates	3.0%	34.0%	762,941	50,606
Total EC	**2.1%**	**29.3%**	**1,542,760**	**66,341**

*comparative numbers have been restated to reflect reclassification of industry sectors.

Notes to the Consolidated Financial Statements

Risk management

51. Risk management

See furter information in Chapter 2 in the Group's Pillar III Risk Report for 2022.

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement, and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of potential risk factors in the Group's operations and undertakings. Risk measurement entails measuring identified risk for management and monitoring purposes. Finally, risk controls and limits promote compliance with rules and procedures, as well as adherence with the Group's risk appetite.

The objective of the Group's risk policies and procedures is to ensure that the risks in its operation are detected, measured, monitored and effectively managed. Exposure to risk is managed to ensure that it remains within limits and that the risk appetite adopted by the Group complies with regulatory requirements. To limit and manage fluctuations that might affect the Group's equity, liquidity and performance, the Group has adopted policies regarding the risk structure of its asset portfolio.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, risk appetite, and setting risk limits. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees.

Sub-committees of the Board of Directors provide important preparation for Board meetings. The purpose of sub-committees is to facilitate discussion and in-depth analysis of issues addressed by the Board and increase its efficacy. There are currently three sub-committees. The Audit Committee's role is to ensure the quality of the Group's financial statements and other financial information, as well as the independence of its auditors. The Risk Committee serves as advisor to the Board of Directors on the development of the Group's risk strategy and risk appetite. The Remuneration Committee's role is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the Board on the remuneration policy.

The Executive Board serves as a forum for discussion about business opportunities and challenges, approves funding for larger projects, and serves as a decision-making platform on matters that do not fall within the remit of other committees. The main role of the Executive Board is to ensure compliance of the Group's operation with laws, regulations, business plans and policies of the Bank at any given time. There are four sub-committees at the Executive Board level. The Credit Committee's main role is to ensure that the Group's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The Credit Committee is responsible for significant credit decisions, credit limits for customers, credit quality and large exposures. The Risk & Finance Committee primarily provides governance oversight of market and liquidity risk as well as formulating risk limits for these factors for the Board of Directors. The committee also has oversight of counterparty risk, reviews various rules and policies regarding risk, reviews ICAAP methodology and scenarios, and reviews the Group's market risk, liquidity risk and economic capital policies. The Operational Risk Committee is a forum for discussion and decisions on operational risk issues and review of the effective implementation of the operational risk policy of the Bank. The Project Committee selects, prioritises, oversees and supports the Group's major projects and digital transformation projects as well as promoting their success.

Compliance is an independent function which reports directly to the CEO and operates in accordance with terms of reference set out by the Board of Directors. The operation of Compliance is shaped by its independence from other units.

Internal Audit is an independent, objective assurance and consulting unit that is a part of the Group's organizational chart and an element of its internal control system.

The Risk Management Division is responsible for the Group's risk management framework. Subsidiaries of the Group have their own risk management functions from which the Risk Management Division receives information on exposures and collates it into Group exposure. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions within the Group and to external supervisory authorities. The Risk Management Division comprised six departments at year-end 2022.

Further information about the Group's risk and capital management is provided in the Group's Pillar III Risk Report for 2022, published alongside the Consolidated Financial Statements for 2022 on the Bank's website, www.landsbankinn.is.

Credit risk

52. Credit risk

See furter information in Chapter 4 in the Group's Pillar III Risk Report for 2022.

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

The Group's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit risk is the greatest single risk faced by the Group. It principally arises from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and the aforementioned settlement risk.

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53. Maximum exposure to credit risk and concentration by industry sectors

The following tables show the Group's maximum credit risk exposure as at year-end 2022 and 2021. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Consolidated Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, undrawn loan commitments, and undrawn overdraft and credit card facilities.

				Corporates											
As at 31 December 2022	**Financial institutions**	**Public entities ***	**Individuals**	**Fisheries**	**Real estate companies**	**Construction companies**	**Travel industry**	**Services, ITC ****	**Retail**	**Manufactur-ing and energy**	**Holding companies**	**Agri-culture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	42,216	-	-	-	-	-	-	-	-	-	-	-	**42,216**	**42,216**
Bonds and debt instruments	190	88,562	-	-	-	-	-	1,878	-	-	15	-	-	**90,645**	**125,265**
Equities and equity instruments	109	-	-	49	37	-	6	2,368	6	184	9,017	-	-	**11,776**	**19,106**
Derivative instruments	1,307	-	14	174	201	2	5	6	5	75	1,061	-	223	**3,073**	**3,073**
Loans and advances to financial institutions	28,621	-	-	-	-	-	-	-	-	-	-	-	-	**28,621**	**28,621**
Loans and advances to customers	-	10,519	790,237	192,036	139,509	102,394	110,843	60,334	64,585	38,971	28,168	6,764	-	**1,544,360**	**1,544,360**
Other assets	19,111	27	3	3	1,961	-	2	1,972	-	52	-	-	1,242	**24,373**	**24,383**
Total on-balance sheet exposure	**49,338**	**141,324**	**790,254**	**192,262**	**141,708**	**102,396**	**110,856**	**66,558**	**64,596**	**39,282**	**38,261**	**6,764**	**1,465**	**1,745,064**	**1,787,024**
Off-balance sheet exposure	**1**	**9,098**	**37,389**	**24,151**	**17,744**	**73,678**	**8,458**	**18,192**	**24,996**	**23,645**	**1,388**	**905**	**26**	**239,671**	
Financial guarantees and underwriting commitments	-	-	587	7,376	2,394	5,176	2,218	3,095	5,878	782	959	152	-	28,617	
Undrawn loan commitments	-	-	625	13,889	14,113	65,095	4,741	5,629	11,934	19,409	69	62	-	135,566	
Undrawn overdraft/credit card facilities	1	9,098	36,177	2,886	1,237	3,407	1,499	9,468	7,184	3,454	360	691	26	75,488	
Maximum exposure to credit risk	**49,339**	**150,422**	**827,643**	**216,413**	**159,452**	**176,074**	**119,314**	**84,750**	**89,592**	**62,927**	**39,649**	**7,669**	**1,491**	**1,984,735**	
Percentage of maximum exposure to credit risk	2.5%	7.6%	41.7%	10.9%	8.0%	8.9%	6.0%	4.3%	4.5%	3.2%	2.0%	0.4%	0.1%	100%	

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

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53. Maximum exposure to credit risk and concentration by industry sectors (continued)

As at 31 December 2021	Financial institutions	Public entities *	Individuals	Corporates										Maximum exposure	Carrying amount
				Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufactur-ing and energy	Holding companies	Agri-culture	Other		
Cash and balances with Central Bank	-	82,425	-	-	-	-	-	-	-	-	-	-	-	**82,425**	**82,425**
Bonds and debt instruments	179	98,539	-	-	61	-	-	1,722	-	30	13	-	-	**100,544**	**150,435**
Equities and equity instruments	135	-	-	51	57	-	9	2,346	12	170	19,068	-	-	**21,848**	**33,347**
Derivative instruments	1,068	-	-	2	1	31	-	12	17	-	-	-	102	**1,233**	**1,233**
Loans and advances to financial institutions	47,231	-	-	-	-	-	-	-	-	-	-	-	-	**47,231**	**47,231**
Loans and advances to customers	-	3,895	725,543	177,439	120,326	89,867	97,635	56,872	49,535	30,117	30,077	6,157	-	**1,387,463**	**1,387,463**
Other assets	19,695	29	2	3	1,984	-	2	4,618	-	15	1	-	1,288	**27,637**	**27,664**
Total on-balance sheet exposure	**68,308**	**184,888**	**725,545**	**177,495**	**122,429**	**89,898**	**97,646**	**65,570**	**49,564**	**30,332**	**49,159**	**6,157**	**1,390**	**1,668,381**	**1,729,798**
Off-balance sheet exposure	**1**	**8,004**	**33,096**	**18,061**	**15,355**	**67,611**	**16,516**	**20,439**	**24,385**	**16,077**	**1,126**	**574**	**26**	**221,271**	
Financial guarantees and underwriting commitments	-	-	562	6,406	1,475	4,700	2,145	3,149	3,207	4,110	965	70	-	26,789	
Undrawn loan commitments	-	2	-	9,413	12,817	60,277	13,061	8,431	14,965	8,346	-	196	-	127,508	
Undrawn overdraft/credit card facilities	1	8,002	32,534	2,242	1,063	2,634	1,310	8,859	6,213	3,621	161	308	26	66,974	
Maximum exposure to credit risk	**68,309**	**192,892**	**758,641**	**195,556**	**137,784**	**157,509**	**114,162**	**86,009**	**73,949**	**46,409**	**50,285**	**6,731**	**1,416**	**1,889,652**	
Percentage of maximum exposure to credit risk	3.6%	10.2%	40.1%	10.3%	7.3%	8.3%	6.0%	4.6%	3.9%	2.5%	2.7%	0.4%	0.1%	100.0%	

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

** ITC consists of corporations in the information, technology and communication industry sectors.

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54. Collateral and loan-to-value

The loan-to-value (LTV) ratio expresses the gross carrying amount of loans and advances as a percentage of the total value of the collateral. Loan-to-value is one of the key risk factors assessed when qualifying borrowers for a loan. The risk of default is always at the forefront of lending decisions, and the likelihood of a lender absorbing a loss in the foreclosure process increases as the collateral value decreases. A high LTV ratio indicates that there are smaller buffers to protect against price falls of a collateral or increases in a loan balance when repayments are not made and unpaid interest is added to the outstanding balance of the loan.

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2022	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value***	**Without collateral**	**Allowance for impairment**	**Carrying amount**
Financial institutions	-	-	-	2	2	-	-	28,619	-	28,621
Public entities	18	262	29	19	328	56	25	10,141	(6)	10,519
Individuals	**50,030**	**188,439**	**450,629**	**58,936**	**748,034**	**6,727**	**3,871**	**36,803**	**(1,327)**	**790,237**
Mortgages	42,038	175,652	430,595	53,086	701,371	4,071	2,236	377	(563)	705,256
Other	7,992	12,787	20,034	5,850	46,663	2,656	1,635	36,426	(764)	84,981
Corporates	**34,259**	**131,721**	**213,427**	**236,949**	**616,356**	**104,148**	**72,549**	**31,762**	**(8,662)**	**743,604**
Fisheries	14,041	35,315	85,376	37,747	172,479	18,957	12,100	1,004	(404)	192,036
Real estate companies	2,667	25,521	29,044	74,622	131,854	6,925	5,434	1,719	(989)	139,509
Construction companies	925	12,713	19,737	38,023	71,398	29,917	17,242	2,632	(1,553)	102,394
Travel industry	1,144	8,076	35,716	46,932	91,868	17,040	14,812	5,385	(3,450)	110,843
Services, IT and communications	1,905	10,686	14,690	16,606	43,887	10,359	8,326	6,454	(366)	60,334
Retail	6,903	29,819	5,779	12,948	55,449	8,378	6,046	1,683	(925)	64,585
Manufacturing and energy	817	2,095	10,171	6,668	19,751	7,695	4,561	12,303	(778)	38,971
Holding companies	5,081	5,530	10,617	2,179	23,407	4,590	3,916	348	(177)	28,168
Agriculture	776	1,966	2,297	1,224	6,263	287	112	234	(20)	6,764
Other	-	-	-	-	-	-	-	-	-	0
Total	**84,307**	**320,422**	**664,085**	**295,906**	**1,364,720**	**110,931**	**76,445**	**107,325**	**(9,995)**	**1,572,981**

*If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

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54. Collateral and loan-to-value (continued)

As at 31 December 2021	LTV ratio - Fully collateralised 0% - 25%	25% - 50%	50% - 75%	75% - 100%	Total	LTV ratio - Partially collateralised >100%	Collateral value*	Without collateral	Allowance for impairment	Carrying amount
Financial institutions	-	-	-	-	0	-	-	**47,231**	-	**47,231**
Public entities	**22**	**143**	**171**	**7**	**343**	**62**	**29**	**3,493**	**(3)**	**3,895**
Individuals	**46,322**	**167,153**	**438,265**	**39,057**	**690,797**	**3,279**	**1,853**	**32,826**	**(1,359)**	**725,543**
Mortgages	38,543	155,307	418,150	33,627	645,627	1,025	574	329	(466)	646,515
Other	7,779	11,846	20,115	5,430	45,170	2,254	1,279	32,497	(893)	79,028
Corporates	**26,460**	**150,916**	**183,256**	**173,828**	**534,460**	**107,979**	**84,658**	**28,047**	**(12,461)**	**658,025**
Fisheries	10,064	56,503	61,963	46,361	174,891	1,740	1,343	1,011	(203)	177,439
Real estate companies	3,026	20,777	56,098	29,864	109,765	9,692	7,887	2,192	(1,323)	120,326
Construction companies	635	6,799	15,339	16,332	39,105	49,897	40,166	2,437	(1,572)	89,867
Travel industry	1,097	7,351	21,162	51,663	81,273	18,103	15,784	5,208	(6,949)	97,635
Services, IT and communications	1,184	8,062	13,635	8,071	30,952	17,444	13,101	9,119	(643)	56,872
Retail	2,980	24,912	7,441	6,675	42,008	6,757	4,315	1,951	(1,181)	49,535
Manufacturing and energy	927	8,913	4,591	6,960	21,391	3,326	1,587	5,899	(499)	30,117
Holding companies	5,719	15,614	1,418	6,841	29,592	459	226	103	(77)	30,077
Agriculture	828	1,985	1,609	1,061	5,483	561	249	127	(14)	6,157
Other	-	-	-	-	-	-	-	-	-	-
Total	**72,804**	**318,212**	**621,692**	**212,892**	**1,225,600**	**111,320**	**86,540**	**111,597**	**(13,823)**	**1,434,694**

*If LTV is less than 100% the loan is considered fully secured. If LTV is greater than 100% the loan is partially collateralised and the respective collateral value is shown in the table.

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55. Collateral types

The following tables disclose the assignments of collateral values to claim values, whereby the value of each individual collateral item held cannot exceed the gross carrying amount of the corresponding individual claim. Changes in collateral value amounts between periods result either from changes in the underlying value of collateral or changes in the gross carrying amount of claim.

As at 31 December 2022	**Real estate**	**Vessels**	**Deposits**	**Securities**	**Other***	**Total**
Financial institutions	-	-	-	-	**2**	**2**
Public entities	**322**	-	**1**	-	**30**	**353**
Individuals	**731,735**	**65**	**241**	**3,340**	**16,247**	**751,628**
Mortgages	697,733	21	171	83	5,323	703,331
Other	34,002	44	70	3,257	10,924	48,297
Corporates	**365,814**	**145,477**	**1,941**	**67,281**	**108,394**	**688,907**
Fisheries	10,837	140,971	35	16,004	16,731	184,578
Real estate companies	131,306	98	619	3,916	1,351	137,290
Construction companies	85,014	10	146	188	3,282	88,640
Travel industry	69,557	684	115	658	35,667	106,681
Services, IT and communications	27,110	3,582	229	5,732	15,563	52,216
Retail	22,241	1	55	15,313	23,885	61,495
Manufacturing and energy	12,596	123	46	-	11,546	24,311
Holding companies	1,141	8	696	25,470	6	27,321
Agriculture	6,012	-	-	-	363	6,375
Other	-	-	-	-	-	0
Total	**1,097,871**	**145,542**	**2,183**	**70,621**	**124,673**	**1,440,890**

As at 31 December 2021	**Real estate**	**Vessels**	**Deposits**	**Securities**	**Other***	**Total**
Public entities	**335**	-	**2**	-	**36**	**373**
Individuals	**673,171**	**63**	**115**	**3,455**	**15,485**	**692,289**
Mortages	640,569	14	29	58	5,174	645,844
Other	32,602	49	86	3,397	10,311	46,445
Corporates	**325,539**	**134,081**	**1,958**	**71,713**	**85,826**	**619,117**
Fisheries	9,551	131,496	46	21,431	13,710	176,234
Real estate companies	108,951	81	676	6,371	1,572	117,651
Construction companies	76,319	12	307	35	2,597	79,270
Travel industry	66,319	704	173	103	29,758	97,057
Services, IT and communications	26,774	1,779	255	4,223	11,024	44,055
Retail	20,492	2	138	11,675	14,015	46,322
Manufacturing and energy	10,083	7	48	-	12,840	22,978
Holding companies	1,615	-	313	27,875	15	29,818
Agriculture	5,435	-	2	-	295	5,732
Other	-	-	-	-	-	0
Total	**999,045**	**134,144**	**2,075**	**75,168**	**101,347**	**1,311,779**

*Other includes collateral like financial claims, invoices, liquid assets, vehicles, machines, aircrafts and inventories.

56. Loans and advances by geographical area

The following tables show loans and advances by geographical segmentation. Geographical segmentation is based on the customer's legal residence rather than domicile.

As at 31 December 2022	**Domestic**	**Foreign**	**Carrying amount**
Loans and advances to financial institutions	234	28,387	28,621
Loans and advances to customers	1,512,245	32,115	1,544,360
Total	**1,512,479**	**60,502**	**1,572,981**

As at 31 December 2021	**Domestic**	**Foreign**	**Carrying amount**
Loans and advances to financial institutions	104	47,127	47,231
Loans and advances to customers	1,356,672	30,791	1,387,463
Total	**1,356,776**	**77,918**	**1,434,694**

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57. Credit quality of loans and advances

See accounting policy in Note 82.11 (g).

The following tables show the credit quality of loans and advances, measured by rating grade.

	Gross carrying amount						
As at 31 December 2022	10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**28,619**	**2**	-	-	-	-	**28,621**
Public entities	**190**	**10,329**	-	**6**	-	**(6)**	**10,519**
Individuals	**410,994**	**351,643**	**25,167**	**2,434**	**1,326**	**(1,327)**	**790,237**
Mortgages	379,459	304,848	18,995	1,443	1,074	(563)	705,256
Other	31,535	46,795	6,172	991	252	(764)	84,981
Corporates	**121,745**	**562,409**	**49,438**	**18,015**	**659**	**(8,662)**	**743,604**
Fisheries	37,561	139,758	15,117	4	-	(404)	192,036
Real estate companies	7,054	125,551	6,050	1,843	-	(989)	139,509
Construction companies	2,727	88,702	9,699	2,819	-	(1,553)	102,394
Travel industry	4,070	90,426	11,210	8,266	321	(3,450)	110,843
Services, IT and communications	14,025	44,277	2,219	179	-	(366)	60,334
Retail	33,099	29,598	1,894	919	-	(925)	64,585
Manufacturing and energy	21,921	13,511	423	3,894	-	(778)	38,971
Holding companies	20	25,574	2,331	82	338	(177)	28,168
Agriculture	1,268	5,012	495	9	-	(20)	6,764
Other	-	-	-	-	-	-	0
Total	**561,548**	**924,383**	**74,605**	**20,455**	**1,985**	**(9,995)**	**1,572,981**

	Gross carrying amount						
As at 31 December 2021	10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**47,231**	-	-	-	-	-	**47,231**
Public entities	**148**	**3,750**	-	-	-	**(3)**	**3,895**
Individuals	**371,025**	**329,427**	**22,809**	**2,738**	**903**	**(1,359)**	**725,543**
Mortgages	343,099	284,502	16,963	1,738	679	(466)	646,515
Other	27,926	44,925	5,846	1,000	224	(893)	79,028
Corporates	**80,664**	**491,799**	**67,916**	**29,267**	**840**	**(12,461)**	**658,025**
Fisheries	31,263	140,433	5,899	47	-	(203)	177,439
Real estate companies	954	107,092	9,518	3,442	643	(1,323)	120,326
Construction companies	2,548	73,603	6,377	8,911	-	(1,572)	89,867
Travel industry	309	62,650	29,232	12,271	122	(6,949)	97,635
Services, IT and communications	5,269	48,861	2,347	1,038	-	(643)	56,872
Retail	22,956	24,873	1,577	1,235	75	(1,181)	49,535
Manufacturing and energy	16,697	9,536	2,218	2,165	-	(499)	30,117
Holding companies	-	19,519	10,624	11	-	(77)	30,077
Agriculture	668	5,232	124	147	-	(14)	6,157
Other	-	-	-	-	-	-	0
Total	**499,068**	**824,976**	**90,725**	**32,005**	**1,743**	**(13,823)**	**1,434,694**

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58. Loans and advances by past due status

The following tables show the gross carrying amount of loans and advances by past due status.

	Gross carrying amount							
		Days past due						
As at 31 December 2022	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**28,621**	-	-	-	-	-	-	**28,621**
Public entities	**10,519**	**0**	**6**	-	-	-	**(6)**	**10,519**
Individuals	**783,338**	**2,645**	**1,179**	**2,548**	**657**	**1,197**	**(1,327)**	**790,237**
Mortgages	701,735	-	779	2,107	485	713	(563)	705,256
Other	81,603	2,645	400	441	172	484	(764)	84,981
Corporates	**739,206**	**1,965**	**4,616**	**1,076**	**1,595**	**3,808**	**(8,662)**	**743,604**
Fisheries	192,360	74	-	1	1	4	(404)	192,036
Real estate companies	138,604	83	856	297	285	373	(989)	139,509
Construction companies	102,496	218	966	108	1	158	(1,553)	102,394
Travel industry	107,656	157	2,325	518	1,209	2,428	(3,450)	110,843
Services, IT and communications	59,412	634	351	125	39	139	(366)	60,334
Retail	64,139	607	72	19	59	614	(925)	64,585
Manufacturing and energy	39,583	150	7	2	-	7	(778)	38,971
Holding companies	28,216	9	38	6	-	76	(177)	28,168
Agriculture	6,740	33	1	-	1	9	(20)	6,764
Other	-	-	-	-	-	-	-	0
Total	**1,561,684**	**4,610**	**5,801**	**3,624**	**2,252**	**5,005**	**(9,995)**	**1,572,981**

	Gross carrying amount							
		Days past due						
As at 31 December 2021	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**47,231**	-	-	-	-	-	**0**	**47,231**
Public entities	**3,869**	**29**	-	-	-	-	**(3)**	**3,895**
Individuals	**720,122**	**2,108**	**1,060**	**1,726**	**719**	**1,167**	**(1,359)**	**725,543**
Mortgages	643,594	-	716	1,420	585	666	(466)	646,515
Other	76,528	2,108	344	306	134	501	(893)	79,028
Corporations	**659,706**	**1,920**	**1,017**	**454**	**648**	**6,741**	**(12,461)**	**658,025**
Fisheries	177,415	190	24	2	-	11	(203)	177,439
Real estate companies	118,967	225	503	66	130	1,758	(1,323)	120,326
Construction companies	89,939	680	177	63	2	578	(1,572)	89,867
Travel industry	100,845	114	76	174	433	2,942	(6,949)	97,635
Services, IT and communications	56,752	258	187	15	26	277	(643)	56,872
Retail	49,100	381	19	98	55	1,063	(1,181)	49,535
Manufacturing and energy	30,422	37	20	25	-	112	(499)	30,117
Holding companies	30,136	6	10	-	2	-	(77)	30,077
Agriculture	6,130	29	1	11	-	-	(14)	6,157
Other	-	-	-	-	-	-	-	0
Total	**1,430,928**	**4,057**	**2,077**	**2,180**	**1,367**	**7,908**	**(13,823)**	**1,434,694**

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59. Loans and advances by stage allocation

The tables below show both the gross carrying amount of loans and advances and the related expected credit losses (ECLs) by industry sector and the three-stage criteria under IFRS 9.

		Stage 1		Stage 2		Stage 3				
As at 31 December 2022	**Gross carrying amount**	**Gross carrying amount**	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Allowance for impairment**	**Fair Value**	**Carrying amount**
Financial institutions	**28,621**	**28,621**	-	-	-	-	-	-	-	**28,621**
Public entities	**10,525**	**10,519**	**(6)**	-	-	**6**	-	**(6)**	-	**10,519**
Individuals	**791,564**	**759,931**	**(265)**	**28,977**	**(426)**	**2,434**	**(636)**	**(1,327)**	**222**	**790,237**
Mortgages	705,819	682,140	(152)	22,236	(280)	1,443	(131)	(563)	-	705,256
Other	85,745	77,791	(113)	6,741	(146)	991	(505)	(764)	222	84,981
Corporates	**752,266**	**679,680**	**(3,268)**	**36,829**	**(1,132)**	**18,015**	**(4,262)**	**(8,662)**	**17,742**	**743,604**
Fisheries	192,440	184,670	(386)	2,408	(17)	4	(1)	(404)	5,358	192,036
Real estate companies	140,498	128,946	(569)	5,917	(111)	1,843	(309)	(989)	3,792	139,509
Construction companies	103,947	94,541	(1,111)	6,251	(86)	2,819	(356)	(1,553)	336	102,394
Travel industry	114,293	88,528	(502)	17,499	(782)	8,266	(2,166)	(3,450)	-	110,843
Services, IT and communications	60,700	56,376	(257)	2,363	(84)	179	(25)	(366)	1,782	60,334
Retail	65,510	62,800	(219)	1,460	(27)	919	(679)	(925)	331	64,585
Manufacturing and energy	39,749	35,485	(88)	370	(7)	3,894	(683)	(778)	-	38,971
Holding companies	28,345	21,838	(128)	282	(11)	82	(38)	(177)	6,143	28,168
Agriculture	6,784	6,496	(8)	279	(7)	9	(5)	(20)	-	6,764
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,582,976**	**1,478,751**	**(3,539)**	**65,806**	**(1,558)**	**20,455**	**(4,898)**	**(9,995)**	**17,964**	**1,572,981**

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59. Loans and advances by stage allocation (continued)

		Stage 1		Stage 2		Stage 3				
As at 31 December 2021	**Gross carrying amount**	**Gross carrying amount**	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Allowance for impairment**	**Fair Value**	**Carrying amount**
Financial institutions	**47,231**	**47,231**	-	-	-	-	-	-	-	**47,231**
Public entities	**3,898**	**3,868**	**(3)**	**30**	-	-	-	**(3)**	-	**3,895**
Individuals	**726,902**	**696,781**	**(319)**	**26,790**	**(408)**	**2,738**	**(632)**	**(1,359)**	**593**	**725,543**
Mortgages	646,981	626,118	(137)	19,125	(214)	1,738	(115)	(466)	-	646,515
Other	79,921	70,663	(182)	7,665	(194)	1,000	(517)	(893)	593	79,028
Corporates	**670,486**	**539,869**	**(1,523)**	**79,801**	**(3,690)**	**29,267**	**(7,248)**	**(12,461)**	**21,549**	**658,025**
Fisheries	177,642	170,822	(158)	3,465	(19)	47	(26)	(203)	3,308	177,439
Real estate companies	121,649	104,590	(221)	7,190	(331)	3,442	(771)	(1,323)	6,427	120,326
Construction companies	91,439	78,640	(520)	3,512	(41)	8,911	(1,011)	(1,572)	376	89,867
Travel industry	104,584	40,383	(303)	51,930	(3,155)	12,271	(3,491)	(6,949)	-	97,635
Services, IT and communications	57,515	46,714	(171)	6,834	(64)	1,038	(408)	(643)	2,929	56,872
Retail	50,716	47,354	(68)	982	(19)	1,235	(1,094)	(1,181)	1,145	49,535
Manufacturing and energy	30,616	26,150	(21)	2,301	(38)	2,165	(440)	(499)	-	30,117
Holding companies	30,154	19,291	(52)	3,488	(20)	11	(5)	(77)	7,364	30,077
Agriculture	6,171	5,925	(9)	99	(3)	147	(2)	(14)	-	6,157
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,448,517**	**1,287,749**	**(1,845)**	**106,621**	**(4,098)**	**32,005**	**(7,880)**	**(13,823)**	**22,142**	**1,434,694**

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60. Impairment allowance on loans and advances

See accounting policy in Note 82.11 (g).

The following tables show changes in the impairment allowance on loans and advances during the year 2022.

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2022 - Financial institutions	**0**	**0**	**0**	**0**
Changes in models/risk parameters	-	-	-	0
Balance as at 31 December 2022 - Financial institutions	**0**	**0**	**0**	**0**
- therof classified as deduction from gross carrying amounts	-	-	-	0
- therof classified as liabilities	-	-	-	0

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2022 - Loans and advances to customers	**(2,174)**	**(4,220)**	**(7,979)**	**(14,373)**
New financial assets originated	(854)	(81)	(325)	(1,260)
Reversals due to financial assets that have been derecognised	337	1,001	1,228	2,566
Transfer to Stage 1 - 12-month ECL	(242)	229	13	0
Transfer to Stage 2 - Lifetime ECL	304	(496)	192	0
Transfer to Stage 3 - Lifetime ECL	155	339	(494)	0
Changes in models/risk parameters	(1,533)	1,611	1,084	1,162
Provisions used to cover write-offs	1	8	1,276	1,285
Balance as at 31 December 2022 - Loans and advances to customers	**(4,006)**	**(1,609)**	**(5,005)**	**(10,620)**
- therof classified as deduction from gross carrying amounts	(3,539)	(1,558)	(4,898)	(9,995)
- therof classified as liabilities	(467)	(51)	(107)	(625)

			1.1-31.12.2022		
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	(2)	(122)	(1,136)	(1,260)
Reversals due to financial assets that have been derecognised	-	-	258	2,308	2,566
Changes due to financial assets recognised in the opening balance	-	(1)	(197)	1,360	1,162
Write-offs	-	-	(289)	(1,326)	(1,615)
Provisions used to cover write-offs	-	-	99	1,186	1,285
Recoveries	-	-	150	81	231
Translation difference	-	-	-	65	65
Net impairment on loans and advances	**0**	**(3)**	**(101)**	**2,538**	**2,434**

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60. Impairment allowance on loans and advances (continued)

The following tables show changes in the impairment allowance of loans and advances during the year 2021.

	12-months Stage 1	Lifetime Stage 2	Lifetime Stage 3	Total
Balance as at 1 January 2021 - Financial institutions	**(1)**	**-**	**0**	**(1)**
Changes in models/risk parameters	1	-	-	1
Balance as at 31 December 2021 - Financial institutions	**0**	**0**	**0**	**0**
- therof classified as deduction from gross carrying amounts	-	-	-	0
- therof classified as liabilities	-	-	-	0

	12-months Stage 1	Lifetime Stage 2	Lifetime Stage 3	Total
Balance as at 1 January 2021 - Loans and advances to customers	**(4,224)**	**(6,969)**	**(14,110)**	**(25,303)**
New financial assets originated	(882)	(339)	(1,627)	(2,848)
Reversals due to financial assets that have been derecognised	1,141	1,118	2,501	4,760
Transfer to Stage 1 - 12-month ECL	(115)	105	10	0
Transfer to Stage 2 - Lifetime ECL	205	(262)	57	0
Transfer to Stage 3 - Lifetime ECL	174	387	(561)	0
Changes in models/risk parameters	1,525	1,730	1,518	4,773
Provisions used to cover write-offs	2	10	4,233	4,245
Balance as at 31 December 2021 - Loans and advances to customers	**(2,174)**	**(4,220)**	**(7,979)**	**(14,373)**
- therof classified as deduction from gross carrying amounts	(1,845)	(4,098)	(7,880)	(13,823)
- therof classified as liabilities	(329)	(122)	(99)	(550)

	1.1-31.12.2021				
	Financial institutions	Public entities	Individuals	Corporates	Total
New financial assets originated	-	-	(285)	(2,563)	(2,848)
Reversals due to financial assets that have been derecognised	-	1	500	4,259	4,760
Changes due to financial assets recognised in the opening balance	-	40	496	4,238	4,774
Write-offs	-	-	(468)	(4,214)	(4,682)
Provisions used to cover write-offs	-	-	246	3,999	4,245
Recoveries	-	-	855	139	994
Translation difference	-	-	-	(168)	(168)
Net impairment on loans and advances	**0**	**41**	**1,344**	**5,690**	**7,075**

61. Large exposures

Exposures to a client or a group of connected clients are classified as large exposures if their total exposures exceed 10% of the Group's Tier 1 capital. Large exposures are measured before (gross) and after (net) application of exemptions and credit risk mitigation. The legal maximum for a large exposure is 25% of Tier 1 capital, net of eligible credit risk mitigation.

The Group had four large exposures at year-end 2022 compared to five large exposures at year-end 2021. The largest exposure before credit risk mitigation is the Icelandic government. Total ratio of large exposures, net of credit risk mitigation, was 32,3% at year-end 2022.

As at 31 December 2022	Gross	Ratio of Tier 1 capital (Gross)	Net	Ratio of Tier 1 capital (Net)
Group 1	62,542	23.0%	209	0.1%
Group 2	34,853	12.8%	29,037	10.7%
Group 3	31,385	11.6%	31,188	11.5%
Group 4	27,173	10.0%	27,173	10.0%
Total	**155,953**	**57.4%**	**87,607**	**32.3%**

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61. Large exposures (continued)

As at 31 December 2021	Gross	Ratio of Tier 1 capital (Gross)	Net	Ratio of Tier 1 capital (Net)
Group 1	72,608	25.6%	7,271	2.6%
Group 2	41,182	14.5%	-	0.0%
Group 3	32,814	11.6%	32,195	11.4%
Group 4	31,328	11.0%	29,285	10.3%
Group 5	31,282	11.0%	24,982	8.8%
Samtals	**209,214**	**73.8%**	**93,733**	**33.1%**

62. Bonds and debt instruments

A breakdown of the Group's bond portfolio, by Standard & Poor's ratings, is as follows:

Government bonds and treasury bills	2022	2021
Rated AAA	18,854	41,182
Rated AA- to AA+	21,209	28,037
Rated A- to A+	65,239	62,316
Rated BB+ and below	-	622
	105,302	**132,157**
Corporate bonds		
Rated A- to A+	1,655	615
Rated BBB- to BBB+	119	135
Unrated	7,417	5,007
	9,191	**5,757**
Asset-backed securities		
Rated BBB- to BBB+	10,772	12,521
	10,772	**12,521**
Total	**125,265**	**150,435**

The following table shows the carrying amount of bonds for which the issuers have failed to make contractually due payments.

As at 31 December 2022	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	13	13
Total	**0**	**13**	**13**
As at 31 December 2021			
Holding companies	-	11	11
Total	**0**	**11**	**11**

63. Derivative instruments

The following table summarises the Group’s exposure in derivative instruments by Standard & Poor’s counterparty ratings:

	2022			2021		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Rated A- to A+	108,199	1,189	1,196	166,629	966	1,311
Rated BBB- to BBB+	7,452	105	25	13,043	100	211
Rated BB+ and below	-	-	-	2,252	16	6
Unrated	81,255	1,779	257	102,356	151	418
Total	**196,906**	**3,073**	**1,478**	**284,280**	**1,233**	**1,946**

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64. Offsetting financial assets and financial liabilities

The following table discloses the Group's net amounts of financial assets and financial liabilities which are subject to offsetting, enforceable master netting agreements and other similar agreements.

As at 31 December 2022

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	**Financial assets**	**Financial liabilities**	**Net amount**	**Financial liabilities**	**Collateral received**	**Net financial assets subject to netting agreements**	**Financial assets not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	3,073	-	3,073	(356)	(2,427)	291	-	3,073

Financial liabilities subject to offsetting, enforceable master netting arrangement and other similar agreements.

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	**Financial liabilities**	**Financial assets**	**Net amount**	**Financial assets**	**Collateral pledged**	**Net financial liabilities subject netting agreements**	**Financial liabilities not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	(1,478)	-	(1,478)	(356)	662	(1,171)	-	(1,478)
Total	**(1,478)**	**0**	**(1,478)**	**(356)**	**662**	**(1,171)**	**0**	**(1,478)**

As at 31 December 2021

Financial assets subject to offsetting, enforceable master netting arrangement and other similar agreements

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	**Financial assets**	**Financial liabilities**	**Net amount**	**Financial liabilities**	**Collateral received**	**Net financial assets subject to netting agreements**	**Financial assets not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	1,233	-	1,233	(343)	(1,224)	(334)	-	1,233

Financial liabilities subject to offsetting, enforceable master netting arrangement and other similar agreements.

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	**Financial liabilities**	**Financial assets**	**Net amount**	**Financial assets**	**Collateral pledged**	**Net financial liabilities subject to netting agreements**	**Financial liabilities not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	(1,946)	-	(1,946)	(343)	1,118	(1,171)	-	(1,946)
Short positions	(2,616)	-	(2,616)	-	2,616	-	-	(2,616)
Total	**(4,562)**	**0**	**(4,562)**	**(343)**	**3,734**	**(1,171)**	**0**	**(4,562)**

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Liquidity risk

65. Liquidity risk

See further information in Chapter 6 in the Group's Pillar III Risk Report for 2022.

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset, or that such a settlement involves excessive costs. Liquidity risk arises from mismatches in the timing of cash flows of financial assets and liabilities, which is inherent to the Group's operations and investments.

66. Liquidity risk management

The Bank's main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The objective of the LCR is to promote short-term resilience by ensuring that the Group has sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The objective of the NSFR is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities and to limit overreliance on short-term funding of long-term assets.

The Group follows guidelines No. 2/2010 from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) on best practice for managing liquidity of financial undertakings. The Central Bank's liquidity Rules No. 266/2017 require the Group to maintain a total minimum liquidity coverage ratio (LCR) of 100% and a minimum LCR of 100% in foreign currencies. In addition, a minimum LCR is required in Icelandic króna, 30% in 2021, 40% in 2022 and 50% as of 1 January 2023. Rules No. 750/2021 set requirements for a minimum 100% overall net stable funding ratio (NSFR). The Group submits monthly reports on its liquidity and funding position to the Central Bank of Iceland.

The Group monitors intraday liquidity risk, short-term 30-day liquidity risk, medium and longer-term liquidity risk and funding risk arising from mismatches of longer-term assets and liabilities.

The Group's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities, monitoring balance sheet liquidity, monitoring and managing the maturity profile of liabilities and off-balance sheet commitments, monitoring the concentration of liquidity risk in order to avoid undue reliance on large counterparties, projecting cash flows arising from future business, and maintaining liquidity and contingency plans which outline measures to be taken in the event of difficulties arising from liquidity crisis.

The Group conducts monthly stress tests by simulating the Group's liquidity coverage ratio (LCR). The simulation is repeated numerous times and provides an output distribution for the LCR for the next 30 days which is compared to the risk appetite.

The LCR is the key indicator for short-term liquidity risk, measuring the ratio of high-quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is intended to prevent their over-reliance on estimated inflow under stressed conditions. Calculations of the LCR at year-end 2022 and 2021 are shown in the following table:

	ISK		Foreign currencies		Total	
Liquidity coverage ratio 31 December 2022	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	105,599	105,599	41,891	41,891	147,490	147,490
Level 2 liquid assets	9,382	6,567	209	178	9,591	6,745
Information items	-	-	-	-	-	-
Total liquid assets	**114,981**	**112,166**	**42,100**	**42,069**	**157,081**	**154,235**
Deposits	613,731	111,581	110,033	42,332	723,763	153,913
Borrowing	-	-	528	528	528	528
Other outflows	132,096	17,804	49,158	5,078	181,255	22,881
Total outflows (0-30 days)	**745,827**	**129,385**	**159,719**	**47,938**	**905,546**	**177,322**
Loans and advances to financial institutions	296	-	28,408	27,546	28,704	27,546
Other inflows	32,510	16,321	28,545	17,969	61,055	34,290
Limit on inflows	-	-	-	(9,561)	-	-
Total inflows (0-30 days)	**32,806**	**16,321**	**56,953**	**35,954**	**89,759**	**61,836**
Liquidity coverage ratio		**99%**		**351%**		**134%**

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66. Liquidity risk management (continued)

	ISK		Foreign currencies		Total	
Liquidity coverage ratio 31 December 2021	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	139,388	139,388	71,156	71,156	210,545	210,544
Level 2 liquid assets	11,945	8,361	229	194	12,173	8,556
Information items	9,903	-	10	-	9,913	-
Total liquid assets	**161,236**	**147,749**	**71,395**	**71,350**	**232,631**	**219,100**
Deposits	604,555	122,046	115,772	47,492	720,326	169,538
Borrowing	-	-	142	142	142	142
Other outflows	124,953	17,319	34,638	3,716	159,592	21,035
Total outflows (0-30 days)	**729,508**	**139,365**	**150,552**	**51,350**	**880,060**	**190,715**
Loans and advances to financial institutions	10,438	-	47,128	44,651	57,566	44,651
Other inflows	33,640	16,323	13,773	7,198	47,412	23,521
Limit on inflows	-	-	-	(13,337)	-	-
Total inflows (0-30 days)	**44,078**	**16,323**	**60,901**	**38,512**	**104,978**	**68,172**
Liquidity coverage ratio		**120%**		**556%**		**179%**

The following table shows the composition of the Group's liquidity reserve which is comprised of high-quality liquid assets as defined in liquidity Rules No. 266/2017, as well as readily available loans and advances to financial institutions.

Liquidity reserves as at 31 December 2022	**ISK**	**Foreign currencies**	**Total**
Cash and balances with the Central Bank	40,010	1,828	41,838
Domestic bonds and debt instruments eligible as collateral with the Central Bank	74,971	209	75,180
Foreign government bonds with 0% risk weight	-	40,063	40,063
High quality liquidity assets	**114,981**	**42,100**	**157,081**
Loans and advances to financial institutions	296	28,408	28,704
Total liquidity reserves	**115,277**	**70,508**	**185,785**

Liquidity reserves as at 31 December 2021	**ISK**	**Foreign currencies**	**Total**
Cash and balances with the Central Bank	77,334	1,937	79,271
Domestic bonds and debt instruments eligible as collateral at the Central Bank	73,999	229	74,228
Foreign government bonds with 0% risk weight	-	69,219	69,219
High quality liquidity assets	**151,333**	**71,385**	**222,718**
Loans and advances to financial institutions	10,438	47,128	57,566
Total liquidity reserves	**161,771**	**118,513**	**280,284**

The Group measures the net stable funding ratio (NSFR) as another key indicator of liquidity risk up to 12 months. The following table shows the values of the NSFR for foreign currencies and NSFR total at year-end 2022 and 2021.

	2022	**2021**
Net stable funding ratio FX	132%	142%
Net stable funding ratio total	117%	121%

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66. Liquidity risk management (continued)

The following table shows the Group's deposits categorised based on the methodology set out in liquidity Rules No. 266/2017 on calculation of LCR. The deposit groups are categorised by maturity as well as applied run-off rate which indicates their level of stickiness. Analysis of stickiness is the Bank's preferred method of measuring the tendency of funding not to run off quickly under stressed conditions.

As at 31. December 2022	Run off rate	0-30 days	Over 30 days	Total
Individuals	5% - 100%	368,227	136,105	504,332
Small and Medium Sized Corporates	5% - 100%	94,086	8,877	102,963
Operational deposits	5% - 25%	-	-	-
Large Corporates	20% - 40%	182,734	54,171	236,905
Public entities	20% - 40%	42,089	4,659	46,748
Financial customers	100%	33,335	37,990	71,325
Pledged deposits		11,604	621	12,225
Total deposits		**732,075**	**242,423**	**974,498**

As at 31. December 2021	Run off rate	0-30 days	Over 30 days	Total
Individuals	5% - 100%	353,612	114,234	467,846
Small and Medium Sized Corporates	5% - 100%	88,358	6,121	94,479
Operational deposits	5% - 25%	-	-	-
Large Corporates	20% - 40%	185,594	33,970	219,564
Public entities	20% - 40%	38,926	2,231	41,157
Financial customers	100%	50,739	24,080	74,819
Pledged deposits		12,154	503	12,657
Total deposits		**729,383**	**181,139**	**910,522**

67. Maturity analysis of financial assets and liabilities

The following tables only take into account the contractual maturity of the Group's assets and liabilities but do not account for measures that the Group could take to convert assets into cash at hand, either through sale or participation in Central Bank operations. Further information on the Group's liquidity management can be found in Note 66.

The amounts in the maturity analyses as at year-end 2022 and 2021 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation, the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in the time span of 1-5 years.

Amounts presented in the maturity analyses are the undiscounted future cash flows receivable and payable by the Group, including both principal and interest cash flows. These amounts differ from the carrying amounts presented in the statement of financial position, which are based on discounted rather than undiscounted future cash flows. If an amount receivable or payable is not fixed, the amount presented in the maturity analysis has been determined by reference to the relevant interest rates curves, exchange rates and inflation prevailing at the reporting date. When there is a choice of when an amount shall be paid, future cash flows are calculated on the basis of the earliest date at which the Group can be required to pay. This applies, *inter alia* , to demand deposits which are included in the earliest time span. Where the Group is committed to have amounts available in instalments, each instalment is allocated to the earliest period in which the Group might be required to pay. Thus, undrawn loan commitments are included in the time span together with the earliest date at which such loans may be drawn. For financial guarantee contracts issued by the Group, the amount included is the maximum amount of guarantees, allocated to the earliest period in which the guarantees might be called.

The Group's expected cash flows on demand deposits vary significantly from the amounts presented in the maturity analysis. Demand deposits from customers have short contractual maturities but are considered a relatively stable financing source with expected maturity exceeding one year, and also it is not expected that every committed loan will be drawn down immediately. The Group conducts a monthly stress test to estimate the impact of fluctuating market conditions and deposit withdrawals.

Amounts presented in non-derivative financial assets and non-derivative financial liabilities include all spot deals. When managing liquidity risk, the Group regards spot deals as non-derivative assets or liabilities.

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

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2022:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(6,634)	-	-	-	-	-	(6,634)	(6,634)
Deposits from customers	(725,288)	(198,431)	(17,256)	(26,598)	(9,096)	-	(976,669)	(967,863)
Short positions	-	-	-	-	-	-	-	-
Borrowings	(388)	(171)	(122,051)	(327,968)	(81,636)	-	(532,214)	(476,864)
Other financial liabilities	(9,714)	-	-	-	-	-	(9,714)	(9,714)
Subordinated liabilities	-	-	(737)	(3,075)	(25,101)	-	(28,913)	(21,753)
Total	**(742,024)**	**(198,602)**	**(140,044)**	**(357,641)**	**(115,833)**	**0**	**(1,554,144)**	**(1,482,828)**
Derivative financial liabilities								
Trading								(257)
Inflow	8,752	4,862	685	-	-	-	14,299	
Outflow	(8,922)	(4,939)	(703)	-	-	-	(14,564)	
Risk management								(1,221)
Inflow	9,014	4,940	56,499	2,193	-	-	72,646	
Outflow	(9,170)	(5,354)	(56,571)	(2,946)	-	-	(74,041)	
Total	**(326)**	**(491)**	**(90)**	**(753)**	**0**	**0**	**(1,660)**	**(1,478)**
Non-derivative financial assets								
Cash and balances with Central Bank	42,216	-	-	-	-	-	42,216	42,216
Bonds and debt instruments	22,659	36,068	16,396	48,240	14,085	-	137,448	125,265
Equities and equity instruments	-	-	-	-	-	19,106	19,106	19,106
Loans and advances to financial institutions	28,621	-	-	-	-	-	28,621	28,621
Loans and advances to customers	76,297	93,052	249,996	660,555	1,770,130	-	2,850,030	1,544,360
Other financial assets	5,895	-	-	-	-	-	5,895	5,895
Total	**175,688**	**129,120**	**266,392**	**708,795**	**1,784,215**	**19,106**	**3,083,316**	**1,765,463**
Derivative financial assets								
Trading								1,792
Inflow	15,458	20,743	1,189	-	-	-	37,390	
Outflow	(14,644)	(19,908)	(1,162)	-	-	-	(35,714)	
Risk management								1,281
Inflow	14,575	21,772	3,628	-	-	-	39,975	
Outflow	(14,362)	(20,865)	(3,548)	-	-	-	(38,775)	
Total	**1,027**	**1,742**	**107**	**0**	**0**	**0**	**2,876**	**3,073**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(1,343)	(2,284)	(6,132)	(7,451)	(10,387)	(1,020)	(28,617)	
Undrawn loan commitments	(135,566)	-	-	-	-	-	(135,566)	
Undrawn overdraft/credit card commitments	(75,488)	-	-	-	-	-	(75,488)	
Total	**(212,397)**	**(2,284)**	**(6,132)**	**(7,451)**	**(10,387)**	**(1,020)**	**(239,671)**	
Net liquidity position	**(778,032)**	**(70,515)**	**120,233**	**342,950**	**1,657,995**	**18,086**	**1,290,717**	**284,230**

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

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2021:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(10,372)	-	-	-	-	-	(10,372)	(10,425)
Deposits from customers	(718,631)	(147,851)	(11,277)	(19,930)	(6,843)	-	(904,532)	(900,098)
Short positions	-	(31)	(7)	(2,001)	(744)	-	(2,783)	(2,616)
Borrowings	(69)	(43,790)	(48,345)	(367,744)	(76,214)	-	(536,162)	(486,042)
Other financial liabilities	(9,195)	-	-	-	-	-	(9,195)	(9,195)
Subordinated liabilities	-	-	(698)	(2,896)	(24,480)	-	(28,074)	(20,785)
Total	**(738,267)**	**(191,672)**	**(60,327)**	**(392,571)**	**(108,281)**	**0**	**(1,491,118)**	**(1,429,161)**
Derivative financial liabilities								
Trading								(427)
Inflow	8,458	9,477	2,701	-	-	-	20,636	
Outflow	(8,779)	(9,584)	(2,758)	-	-	-	(21,121)	
Riks management								(1,519)
Inflow	18,205	12,530	1,328	3,384	-	-	35,447	
Outflow	(18,753)	(13,048)	(1,341)	(3,885)	-	-	(37,027)	
Total	**(869)**	**(625)**	**(70)**	**(501)**	**0**	**0**	**(2,065)**	**(1,946)**
Non-derivative financial assets								
Cash and balances with Central Bank	82,425	-	-	-	-	-	82,425	82,425
Bonds and debt instruments	27,234	41,264	35,597	39,828	11,517	-	155,440	150,435
Equities and equity instruments	-	-	-	-	-	33,347	33,347	33,347
Loans and advances to financial institutions	47,128	-	-	-	-	-	47,128	47,231
Loans and advances to customers	69,923	54,628	195,785	573,244	1,484,240	-	2,377,820	1,387,463
Other financial assets	8,800	-	-	-	-	-	8,800	8,800
Total	**235,510**	**95,892**	**231,382**	**613,072**	**1,495,757**	**33,347**	**2,704,960**	**1,709,701**
Derivative financial assets								
Trading								167
Inflow	15,961	8,500	1,196	1,213	-	-	26,870	
Outflow	(15,875)	(8,478)	(1,153)	(1,210)	-	-	(26,716)	
Riks management								1,066
Inflow	13,315	83,778	443	44,723	-	-	142,259	
Outflow	(13,230)	(83,345)	(170)	(44,442)	-	-	(141,187)	
Total	**171**	**455**	**316**	**284**	**0**	**0**	**1,226**	**1,233**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(1,300)	(1,053)	(4,089)	(4,037)	(12,358)	(3,952)	(26,789)	
Undrawn loan commitments	(127,508)	-	-	-	-	-	(127,508)	
Undrawn overdraft/credit card commitments	(66,974)	-	-	-	-	-	(66,974)	
Total	**(195,782)**	**(1,053)**	**(4,089)**	**(4,037)**	**(12,358)**	**(3,952)**	**(221,271)**	
Net liquidity position	**(699,237)**	**(97,003)**	**167,212**	**216,247**	**1,375,118**	**29,395**	**991,732**	**279,827**

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68. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2022:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(112,284)	(6,470)	(71,854)	(192,650)	(15,624)	-	(398,882)	(406,826)
ISK	(629,740)	(192,132)	(68,190)	(164,991)	(100,209)	-	(1,155,262)	(1,076,002)
Total	**(742,024)**	**(198,602)**	**(140,044)**	**(357,641)**	**(115,833)**	**0**	**(1,554,144)**	**(1,482,828)**
Derivative financial liabilities								
Total in foreign currencies	6,554	2,129	(561)	-	-	-	8,122	(876)
ISK	(6,880)	(2,620)	471	(753)	-	-	(9,782)	(602)
Total	**(326)**	**(491)**	**(90)**	**(753)**	**0**	**0**	**(1,660)**	**(1,478)**
Non-derivative financial assets								
Total in foreign currencies	58,381	70,492	93,792	164,114	2,451	691	389,921	355,423
ISK	117,307	58,628	172,600	544,681	1,781,764	18,415	2,693,395	1,410,040
Total	**175,688**	**129,120**	**266,392**	**708,795**	**1,784,215**	**19,106**	**3,083,316**	**1,765,463**
Derivative financial assets								
Total in foreign currencies	11,484	20,881	1,220	-	-	-	33,585	2,828
ISK	(10,457)	(19,139)	(1,113)	-	-	-	(30,709)	245
Total	**1,027**	**1,742**	**107**	**0**	**0**	**0**	**2,876**	**3,073**
Off-balance sheet items								
Total in foreign currencies	(35,906)	(1,432)	(3,343)	(1,857)	(5,654)	-	(48,192)	
ISK	(176,491)	(852)	(2,789)	(5,594)	(4,733)	(1,020)	(191,479)	
Total	**(212,397)**	**(2,284)**	**(6,132)**	**(7,451)**	**(10,387)**	**(1,020)**	**(239,671)**	
Net liquidity position in ISK	**(706,261)**	**(156,115)**	**100,979**	**373,343**	**1,676,822**	**17,395**	**1,306,163**	**333,681**
Net liquidity position in foreign currencies	**(71,771)**	**85,600**	**19,254**	**(30,393)**	**(18,827)**	**691**	**(15,446)**	**(49,451)**
Net liquidity position	**(778,032)**	**(70,515)**	**120,233**	**342,950**	**1,657,995**	**18,086**	**1,290,717**	**284,230**

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2021:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(116,624)	(44,947)	(18,407)	(213,343)	(15,683)	-	(409,004)	(421,961)
ISK	(621,643)	(146,725)	(41,920)	(179,228)	(92,598)	-	(1,082,114)	(1,007,200)
Total	**(738,267)**	**(191,672)**	**(60,327)**	**(392,571)**	**(108,281)**	**0**	**(1,491,118)**	**(1,429,161)**
Derivative financial liabilities								
Total in foreign currencies	5,266	7,514	2,696	(1)	-	-	15,475	(1,197)
ISK	(6,135)	(8,139)	(2,766)	(500)	-	-	(17,540)	(749)
Total	**(869)**	**(625)**	**(70)**	**(501)**	**0**	**0**	**(2,065)**	**(1,946)**
Non-derivative financial assets								
Total in foreign currencies	85,784	58,910	82,313	160,912	2,703	916	391,538	369,649
ISK	149,726	36,982	149,069	452,160	1,493,054	32,431	2,313,422	1,340,052
Total	**235,510**	**95,892**	**231,382**	**613,072**	**1,495,757**	**33,347**	**2,704,960**	**1,709,701**
Derivative financial assets								
Total in foreign currencies	10,657	6,842	(240)	306	-	-	17,565	1,197
ISK	(10,486)	(6,387)	556	(22)	-	-	(16,339)	36
Total	**171**	**455**	**316**	**284**	**0**	**0**	**1,226**	**1,233**
Off-balance sheet items								
Total in foreign currencies	(31,193)	(381)	(2,589)	(887)	(6,205)	-	(41,255)	
ISK	(164,589)	(672)	(1,500)	(3,150)	(6,153)	(3,952)	(180,016)	
Total	**(195,782)**	**(1,053)**	**(4,089)**	**(4,037)**	**(12,358)**	**(3,952)**	**(221,271)**	
Net liquidity position in ISK	**(653,127)**	**(124,941)**	**103,439**	**269,260**	**1,394,303**	**28,479**	**1,017,413**	**(53,025)**
Net liquidity position in foreign currencies	**(46,110)**	**27,938**	**63,773**	**(53,013)**	**(19,185)**	**916**	**(25,681)**	**332,852**
Net liquidity position	**(699,237)**	**(97,003)**	**167,212**	**216,247**	**1,375,118**	**29,395**	**991,732**	**279,827**

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69. Encumbered assets

The Bank has pledged part of its loan portfolio as collateral to secure the covered bonds issued by the Bank in accordance with Icelandic laws and FSA rules. The Bank has also pledged assets as collateral to the Central Bank of Iceland to secure settlement in the Icelandic clearing systems, pledged assets as collateral to secure trading lines and credit support for GMRA and ISDA master agreements, as well as other pledges of similar nature.

The Group has issued covered bonds amounting to ISK 18 billion and EUR 250 million for its own use, that can be later sold or used for securities lending and repurchase agreements (31.12.2021: ISK 3 billion). Pledged assets against those covered bonds are ISK 70,9 billion (31.12.2021: ISK 3,8 billion).

The following tables show the Group’s total encumbered and unencumbered assets as at 31 December 2022 and 31 December 2021:

	Collateral pledged against			
As at 31 December 2022	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	2,217	379	39,620	42,216
Bonds and debt instruments	-	2,987	122,278	125,265
Equities and equity instruments	-	-	19,106	19,106
Derivative instruments	-	-	3,073	3,073
Loans and advances to financial institutions	-	813	27,808	28,621
Loans and advances to customers	354,575	-	1,189,785	1,544,360
Investments in equity-accounted associates	-	-	1,950	1,950
Property and equipment	-	-	13,060	13,060
Intangible assets	-	-	1,729	1,729
Other assets	-	-	7,136	7,136
Assets classified as held for sale	-	-	508	508
Total	**356,792**	**4,179**	**1,426,053**	**1,787,024**

	Collateral pledged against			
As at 31 December 2021	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	1,687	3,154	77,584	82,425
Bonds and debt instruments	-	-	150,435	150,435
Equities and equity instruments	-	-	33,347	33,347
Derivative instruments	-	-	1,233	1,233
Loans and advances to financial institutions	-	2,315	44,916	47,231
Loans and advances to customers	277,539	-	1,109,924	1,387,463
Investments in equity-accounted associates	-	-	1,857	1,857
Property and equipment	-	-	13,019	13,019
Intangible assets	-	-	1,781	1,781
Deferred tax assets	-	-	15	15
Other assets	-	-	10,087	10,087
Assets classified as held for sale	-	-	905	905
Total	**279,226**	**5,469**	**1,445,103**	**1,729,798**

Market risk

70. Market risk

See further information in Chapter 5 in the Group’s Pillar III Risk Report for 2022.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices. Other market risk is defined as equity price risk and inflation risk, each of which is disclosed in the following notes.

71. Market risk management

The Group separates its exposure to market risk into trading and banking book portfolios, managing each separately. Trading portfolios include positions arising from market-making, hedges for derivative sales and proprietary position-taking. Banking book portfolios include positions arising from the Group’s retail and commercial banking operations and proprietary position-taking as part of asset and liability management and funding transactions, managed by Treasury. Treasury is also responsible for daily liquidity management, creating exposure to market risk.

The Group uses risk-weighted exposure amounts (RWEA) and economic capital (EC) as a common denominator for measuring risk across different asset classes, including those assets subject to market risk. Risk-weighted exposure amounts are determined by applying specific risk weights to the Group’s assets, following capital requirements regulations.

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71. Market risk management (continued)

The following table summarises the Group's exposure to market risk as a percentage of RWEA at year-end 2022 and 2021. The Group uses the standardized approach to calculate risk-weighted exposure amounts of derivatives for credit valuation adjustment (CVA), according to capital requirement regulations.

Market risk factor	2022 % of RWEA	2021 % of RWEA
Equity price risk	0.4%	0.5%
Interest rate risk	0.6%	0.2%
CVA of derivatives	0.0%	0.0%
Foreign exchange risk	0.6%	0.2%
Total	**1.7%**	**0.9%**

72. Equity price risk

Equity price risk is the risk of equity value fluctuations due to open positions in equity instruments.

The Group's equity trading portfolio is comprised of proprietary trading positions and exposures due to market making, including equity derivatives and their hedging positions. The Group's banking book portfolio consists of domestic and foreign listed and unlisted equities as part of asset and liability management. Further details are disclosed in Note 21 and Notes 74-75.

73. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to changes in market interest rates.

Changes in interest rates for the Group's assets and liabilities, other than those in its trading portfolios, have an impact on its interest rate margin. This risk results primarily from duration mismatches between assets and liabilities. Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Group by Treasury and is monitored by Market Risk.

The following tables summarise the Group's exposure to interest rate risk. The tables include interest-bearing financial assets and liabilities at their carrying amounts, while off-balance sheet amounts are the notional amounts of the derivative instruments, see Note 22. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 31 December 2022	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	42,216	-	-	-	42,216
Bonds and debt instruments	59,681	14,746	39,481	11,357	125,265
Derivative instruments	3,073	-	-	-	3,073
Loans and advances to financial institutions	28,621	-	-	-	28,621
Loans and advances to customers	1,048,008	138,526	342,360	15,466	1,544,360
Other financial assets	5,895	-	-	-	5,895
Total	**1,187,494**	**153,272**	**381,841**	**26,823**	**1,749,430**
Financial liabilities					
Due to financial institutions and Central Bank	(6,634)	-	-	-	(6,634)
Deposits from customers	(962,839)	(2,619)	(2,405)	-	(967,863)
Derivative instruments and short positions	(1,478)	-	-	-	(1,478)
Borrowings	(61,281)	(100,922)	(250,524)	(64,137)	(476,864)
Other financial liabilities	(9,714)	-	-	-	(9,714)
Subordinated liabilities	-	(15,226)	(6,527)	-	(21,753)
Total	**(1,041,946)**	**(118,767)**	**(259,456)**	**(64,137)**	**(1,484,306)**
Net on-balance sheet position	145,548	34,505	122,385	(37,314)	265,124
Derivatives held for hedging	(45,450)	45,450	-	-	
Net off-balance sheet position	2,000	-	(2,000)	-	
Total interest repricing gap	**102,098**	**79,955**	**120,385**	**(37,314)**	

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73. Interest rate risk (continued)

As at 31 December 2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	82,425	-	-	-	82,425
Bonds and debt instruments	70,000	33,700	36,185	10,550	150,435
Derivative instruments	1,233	-	-	-	1,233
Loans and advances to financial institutions	47,231	-	-	-	47,231
Loans and advances to customers	1,018,799	104,486	247,771	16,407	1,387,463
Other financial assets	8,800	-	-	-	8,800
Total	**1,228,488**	**138,186**	**283,956**	**26,957**	**1,677,587**
Financial liabilities					
Due to financial institutions and Central Bank	(10,425)	-	-	-	(10,425)
Deposits from customers	(894,867)	(2,298)	(2,933)	-	(900,098)
Derivative instruments and short positions	(2,380)	-	(1,715)	(467)	(4,562)
Borrowings	(81,007)	(33,779)	(312,170)	(59,086)	(486,042)
Other financial liabilities	(9,195)	-	-	-	(9,195)
Subordinated liabilities	-	-	(20,785)	-	(20,785)
Total	**(997,874)**	**(36,077)**	**(337,603)**	**(59,553)**	**(1,431,107)**
Net on-balance sheet position	230,614	102,109	(53,647)	(32,596)	246,480
Derivatives held for hedging	(44,280)	-	44,280	-	
Net off-balance sheet position	2,000	-	(2,000)	-	
Total interest repricing gap	**188,334**	**102,109**	**(11,367)**	**(32,596)**	

74. Sensitivity analysis of trading portfolios

The management of market risk in the trading book is supplemented by monitoring sensitivity of the trading portfolios to various scenarios in equity prices and interest rates.

The following table shows the changes in the fair value for bonds for a +/-100 basis point parallel shift in all interest rate curves.

	2022		2021	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(225)	242	(132)	139
ISK, CPI indexed	(308)	344	(90)	102
Total	**(533)**	**586**	**(222)**	**241**

The following table shows how the Group's profit (loss) before tax would have been affected by a change of +/-5% in the price of equities and equity instruments in the trading book held by the Group at year end.

	2022		2021	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	106	(106)	111	(111)
Other	3	(3)	21	(21)
Total	**109**	**(109)**	**132**	**(132)**

The Group's equity would have been affected to the same extent as the income statement as profit/loss from sale of shares is nontaxable income/nondeductible expense.

75. Sensitivity analysis of portfolios in the banking book

The management of interest rate risk in the Group's banking book is supplemented by monitoring the sensitivity of the fair value of financial assets and liabilities to various interest rate scenarios. The Group employs a monthly stress test of the interest rate risk in the Group's banking book by shifting the interest rate curves for every currency and measuring the effect on economic value.

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75. Sensitivity analysis of portfolios in the banking book (continued)

The following table shows the changes in the fair value of financial assets and liabilities for a +/-100 basis point parallel shift in all interest rate curves.

	2022		2021	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(5,256)	5,574	(3,551)	3,717
ISK, CPI indexed	2,328	(2,458)	4,460	(4,808)
EUR	3,242	(3,355)	4,747	(4,948)
Other	(41)	42	(9)	10
Total	**273**	**(197)**	**5,647**	**(6,029)**

The following table shows how the Group's profit (loss) before tax would have been affected if the price of equities in the banking book at year end classified into Level 1 or Level 2 see Note 82.11 (f) changed by +/-5% and key unobservable inputs used in valuation of equities which are classified into Level 3 see Note 82.11 (f) changed also by +/- 5%.

	2022		2021	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	327	(327)	411	(411)
Other	18	(18)	24	(24)
Total	**345**	**(345)**	**435**	**(435)**

The Group's equity would have been affected to the same extent as the income statement as profit/loss from sale of shares is nontaxable income/nondeductible expense.

76. CPI indexation risk (all portfolios)

The consumer price index (CPI) indexation risk is the risk that the fair value or future cash flows of CPI-linked financial instruments may fluctuate due to changes in the Icelandic CPI. To mitigate imbalance in the Group's CPI-linked assets and liabilities, the Bank offers non-CPI-linked loans, CPI-linked deposits, CPI-linked covered bonds as well as CPI-linked interest rate swaps.

The following tables summarize the Group's CPI exposure by maturity dates at year-end 2022 and 2021, where CPI-linked financial assets and liabilities are disclosed by maturities at their carrying amounts.

As at 31 December 2022	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Carrying amount**
Financial assets					
Bonds and debt instruments	-	-	19,467	6,177	25,644
Derivative instruments	8	-	-	-	8
Loans and advances to customers	3,226	8,417	56,949	212,190	280,782
Total	**3,234**	**8,417**	**76,416**	**218,367**	**306,434**
Financial liabilities					
Deposits from customers	(92,543)	(5,076)	(21,023)	(41,791)	(160,433)
Derivative instruments and short positions	(7)	-	(590)	-	(597)
Borrowings	-	-	(62,400)	(64,137)	(126,537)
Subordinated liabilities	-	-	-	(6,527)	(6,527)
Total	**(92,550)**	**(5,076)**	**(84,013)**	**(112,455)**	**(294,094)**
Total on-balance sheet position	**(89,316)**	**3,341**	**(7,597)**	**105,912**	**12,340**
Off-balance sheet position					
Interest rate swaps	-	-	(2,000)	-	(2,000)
Total return swaps	(2,444)	-	-	-	(2,444)
Total off-balance sheet position	**(2,444)**	**0**	**(2,000)**	**0**	**(4,444)**
Total CPI indexation balance	**(91,760)**	**3,341**	**(9,597)**	**105,912**	**7,896**

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76. CPI indexation risk (all portfolios) (continued)

As at 31 December 2021	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	-	-	2,761	2,761
Loans and advances to customers	3,420	8,745	61,572	216,268	290,005
Total	**3,420**	**8,745**	**61,572**	**219,029**	**292,766**
Financial liabilities					
Deposits from customers	(78,214)	(2,483)	(15,144)	(39,949)	(135,790)
Derivative instruments and short positions	-	-	(1,715)	(582)	(2,297)
Borrowings	-	(23,978)	(57,396)	(59,086)	(140,460)
Subordinated liabilities	-	-	(5,964)	-	(5,964)
Total	**(78,214)**	**(26,461)**	**(80,219)**	**(99,617)**	**(284,511)**
Total on-balance sheet position	**(74,794)**	**(17,716)**	**(18,647)**	**119,412**	**8,255**
Off-balance sheet position					
Interest rate swaps	-	-	(2,456)	-	(2,456)
Total return swaps	(944)	-	-	-	(944)
Total off-balance sheet position	**(944)**	**0**	**(2,456)**	**0**	**(3,400)**
Total CPI indexation balance	**(75,738)**	**(17,716)**	**(21,103)**	**119,412**	**4,855**

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1 percentage point change in the CPI applied to the inflation risk exposures at year-end 2022, with no change in other variables, would have changed net interest income by ISK 79 million (31 December 2021: ISK 49 million).

Net increase/decrease in interest income would have affected retained earnings to the same extent as the income statement, net of income tax.

Currency risk

77. Currency risk (all portfolios)

The Group complies with Central Bank Rules No. 784/2018, on Foreign Exchange Balances. The Bank submits daily reports to the Central Bank on its foreign exchange balance and the Group submits these reports on monthly basis.

The Group's combined net foreign exchange balance as at 31 December 2022 was +2.53% of the Group's total capital base (31.12.2021: -0.38%).

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78. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at year-end 2022 and 2021. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments. Amounts presented under assets and liabilities include all spot deals. When managing currency risk, the Group regards spot deals as non-derivative assets or liabilities.

As at 31 December 2022	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	771	167	399	8	48	434	1,827
Bonds and debt instruments	19,077	-	21,209	-	-	-	40,286
Equities and equity instruments	53	19	605	-	-	14	691
Derivative instruments	1,482	63	1,257	-	-	27	2,829
Loans and advances to financial institutions	6,913	982	7,496	2,047	1,046	10,135	28,619
Loans and advances to customers	196,306	3,894	78,439	2,874	-	2,486	283,999
Other assets	109	5	1,010	-	1	105	1,230
Total	**224,711**	**5,130**	**110,415**	**4,929**	**1,095**	**13,201**	**359,481**
Liabilities							
Due to financial institutions and Central Bank	(598)	(24)	(88)	-	-	-	(710)
Deposits from customers	(57,749)	(8,161)	(44,230)	(304)	(979)	(6,493)	(117,916)
Derivative instruments and short positions	(433)	(205)	(212)	-	-	(25)	(875)
Borrowings	(181,492)	-	(18,010)	-	-	(54,043)	(253,545)
Other liabilities	(1,179)	(133)	(2,153)	(9)	(60)	(780)	(4,314)
Subordinated liabilities	(15,226)	-	-	-	-	-	(15,226)
Total	**(256,677)**	**(8,523)**	**(64,693)**	**(313)**	**(1,039)**	**(61,341)**	**(392,586)**
Net on-balance sheet position	(31,966)	(3,393)	45,722	4,616	56	(48,140)	(33,105)
Net off-balance sheet position	36,363	4,139	(44,808)	(4,459)	-	48,911	40,146
Net currency position	**4,397**	**746**	**914**	**157**	**56**	**771**	**7,041**

As at 31 December 2021	EUR	GBP	USD	JPY	CHF	Other	Total
Assets							
Cash and balances with Central Bank	677	183	440	9	55	573	1,937
Bonds and debt instruments	41,420	1	28,037	-	-	-	69,458
Equities and equity instruments	75	-	842	-	-	-	917
Derivative instruments	846	62	264	-	-	25	1,197
Loans and advances to financial institutions	10,698	869	10,395	259	742	24,165	47,128
Loans and advances to customers	179,512	3,875	62,035	945	-	3,843	250,210
Other assets	402	-	987	-	-	101	1,490
Total	**233,630**	**4,990**	**103,000**	**1,213**	**797**	**28,707**	**372,337**
Liabilities							
Due to financial institutions and Central Bank	(1,048)	(3)	(129)	-	-	-	(1,180)
Deposits from customers	(49,445)	(7,703)	(45,789)	(196)	(726)	(13,547)	(117,406)
Derivative instruments and short positions	(116)	(16)	(1,499)	-	-	-	(1,631)
Borrowings	(198,776)	-	(19,640)	-	-	(49,599)	(268,015)
Other liabilities	(968)	(84)	(863)	(6)	(10)	(736)	(2,667)
Subordinated liabilities	(14,821)	-	-	-	-	-	(14,821)
Total	**(265,174)**	**(7,806)**	**(67,920)**	**(202)**	**(736)**	**(63,882)**	**(405,720)**
Net on-balance sheet position	(31,544)	(2,816)	35,080	1,011	61	(35,175)	(33,383)
Net off-balance sheet position	29,740	3,192	(35,566)	(888)	(89)	35,886	32,275
Net currency position	**(1,804)**	**376**	**(486)**	**123**	**(28)**	**711**	**(1,108)**

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79. Sensitivity to currency risk

The following table shows how other net operating income would have been affected by a 5% depreciation/appreciation of the ISK against each foreign currency, with all other variables held constant. The sensitivity analysis is applied to the Group’s overall position in foreign currency on-balance sheet as disclosed in Note 78.

	2022		2021	
Currency (ISK million)	**-5%**	**+5%**	**-5%**	**+5%**
EUR	220	(220)	(90)	90
GBP	37	(37)	19	(19)
USD	46	(46)	(24)	24
JPY	8	(8)	6	(6)
CHF	3	(3)	(1)	1
Other	39	(39)	36	(36)
Total	**353**	**(353)**	**(54)**	**54**

The Group’s equity would have been affected to the same extent as the income statement, net of income tax. This is because the increase/decrease in other net operating income would have affected retained earnings.

80. Foreign exchange rates used

The following foreign exchange rates were used by the Group for the accounting year presented in these Financial Statements.

	As at 31 December 2022	As at 31 December 2021	% change	Average for 2022	Average for 2021
EUR/ISK	151.50	147.60	2.6%	142.48	150.05
GBP/ISK	170.72	175.77	(2.9%)	166.94	174.23
USD/ISK	141.93	130.41	8.8%	134.99	126.90
JPY/ISK	1.0758	1.1327	(5.0%)	1.0370	1.1555
CHF/ISK	153.45	142.86	7.4%	142.01	139.07
CAD/ISK	104.76	102.40	2.3%	103.58	101.06
DKK/ISK	20.373	19.847	2.7%	19.152	20.174
NOK/ISK	14.410	14.776	(2.5%)	14.111	14.718
SEK/ISK	13.619	14.393	(5.4%)	13.405	14.785

Operational risk

81. Operational risk

See further information in Chapter 7 in the Group’s Pillar III Risk Report for 2022.

Operational risk is the risk of financial losses resulting from fraud, the failure or inadequacy of internal processes or systems, from employee error or from external events. Operational risk includes legal risk but excludes reputational risk. It is therefore inherent in all areas of business activities.

Whereas the managing director of each division is responsible for that division’s operational risk, the daily management of operational risk is overseen by the general managers of each department. The Group establishes, maintains and coordinates its operational risk management framework. This framework complies with the Basel Committee's 2011 publication, "Principles for the Sound Management of Operational Risk". The Group ensures that operational risk management stays consistent throughout the Group by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit function. By managing operational risk in this manner, the Group intends to ensure that all of the Group’s business units are kept aware of any operational risk, that a robust monitoring system remains in place and that controls are implemented to minimize risk in an efficient and effective manner.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Accounting policies

82. Significant accounting policies

The Consolidated Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements, unless otherwise mentioned.

The principal accounting policies used in preparing these Consolidated Financial Statements are set out in Notes 82.1 to 82.40.

82.1. Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group is considered to have power over an entity when it has existing rights that give it the current ability to direct the relevant activities. For the Group to have power over an entity, it must have the practical ability to exercise those rights.

Where voting rights are not relevant in deciding whether the Group has power over an investee, the assessment of control is based on all facts and circumstances.

Subsidiaries are consolidated from the date control commences until the date control ceases.

The acquisition method is applied to account for business combinations through which the Group obtains control. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. An obligation to pay a contingent consideration that meets the definition of a financial instrument and is classified as equity, is not remeasured and settlement is accounted for within equity. Other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in fair value are recognised in profit or loss.

Intercompany transactions, balances, and unrealised gains on transactions between Group entities are eliminated in the Consolidated Financial Statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

(b) Non-controlling interests

Non-controlling interest is the proportionate share of profit or loss and net assets not attributable, directly or indirectly, to the Group. Non-controlling interests are presented specifically in the Income Statement and within equity in the Statement of Financial Position, separately from equity attributable to the owners of the Group. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

82.2. Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group acts as fund manager or investment advisor to a number of investment funds operated by a subsidiary of the Bank. The purpose of these investment funds is to generate fees from managing assets on behalf of third-party investors based on set investment strategies. These investment funds are financed through the issue of units to investors. The Group has no contractual obligation to provide financial support to these structured entities.

82. Significant accounting policies (continued)

82.2. Structured entities (continued)

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed as such without cause, has variable returns through significant unit holdings and/or a guarantee, is able to influence the returns of the funds by exercising its power and the Group's aggregate interest is in each case not less than 20%.

For further disclosure in respect of unconsolidated investment funds in which the Group acts as an agent, see Note 43 Unconsolidated structured entities.

82.3. Associates

Associates are entities in which the Group has significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, between 20% and 50% of the voting power of another entity. The Group accounts for investments in associates either using the equity method or as financial assets designated at fair value through profit or loss, as described further in this note.

Equity-accounted associates

Investments in associates accounted for using the equity method are initially recognised at cost or from the date on which significant influence is obtained. Goodwill relating to an investment in an associate is included in the carrying amount of the investment. Any excess of the Group's share of net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Group's share of the associate's profit or loss in the period which the investment is acquired. Investments in associates which are accounted for by the Group using the equity method are presented in the Consolidated Statement of Financial Position in the line "Investments in equity-accounted associates".

Because goodwill included in the carrying amount of an investment in an associate is not recognised separately, it is not separately tested for impairment in accordance with the requirements for goodwill impairment testing in IAS 36, Impairment of Assets. Instead, the entire carrying amount of the investment is tested for impairment under the standard by comparing its recoverable amount with its carrying amount, whenever the requirements of IFRS 9, Financial Instruments, indicate that the investment may be impaired.

The Group's share of its equity-accounted associates' post-acquisition profits or losses is recognised in the income statement and its share of movements in their reserves is recognised in the Group's equity reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associates. When the Group's share of loss in an associate equal or exceed its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the Group associates have been changed where this was necessary to ensure consistency with the accounting policies adopted by the Group.

Share of profit (loss) of equity-accounted associates is recognised in the line item "Other income and expenses" in the income statement.

Associates designated at fair value through profit or loss

The Group designates certain investments in associates upon initial recognition at fair value through profit or loss and they are accounted for in accordance with IFRS 9, Financial Instruments. The Group measures such investments at fair value, with changes in fair value recognised in the income statement in the relevant period in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL".

One investment in associate is accounted for in its entirety by the Group as financial assets designated at fair value through profit or loss and presented in the consolidated statement of financial position in the line "Investments in associates". This investment is a 35% share in Keahótel ehf.

82.4. Foreign currency translation

Transactions in a currency other than the functional currency, i.e. foreign currency, are translated initially into the functional currency at the spot exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are measured at amortised cost or fair value, as applicable, in their respective foreign currencies at the reporting date and are converted into the functional currency at the closing spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the reporting period, adjusted for effective interest and payments during the reporting period, and the amortised cost in foreign currency translated at the closing exchange rate at the end of the period. All foreign currency differences arising on currency translation are recognised in the line item "Net foreign exchange gain (loss)" in the income statement.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.5. Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees, and premiums and discounts that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition less principal repayments, plus or minus cumulative amortisation of any premium/discount using the effective interest method and, for financial assets, less any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date the amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation

Interest income calculated using the effective interest method presented in the income statement includes:

- Interest on financial assets and financial liabilities measured at amortised cost,
- interest on debt instruments measured at FVTPL; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Other interest income presented in the income statement includes interest income on finance leases.

Interest expense presented in the income statement and OCI includes financial liabilities measured at amortised cost.

Changes in the fair value of financial assets and financial liabilities at FVTPL, including interest income and interest expense, are presented in the income statement in "Net gain on financial assets and liabilities at FVTPL".

82.6. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate and recognised under interest income in the income statement.

Fee and commission income and expense are recognised in the income statement when an agreement with a customer meets all of the following criteria:

- The parties to the contract have approved the contract and are committed to perform their respective obligations.
- Performance obligations have been established for services to be transferred.
- The payment terms have been established for the services to be transferred.
- The transaction price can be allocated to each individual service in the agreement.
- It is probable that a consideration will be collected in exchange for the services that will be transferred to the customer.

The following applies to recognition of income for various types of fees and charges:

- Fees that are earned gradually as the services are performed, such as management fees in asset management, are recognised as income at the rate these services are delivered. In practice, these are on a straight-line basis.
- Fees attributable to a specific service or action are recognised as income when the service has been performed. Examples of such fees are brokerage and payment commission.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.7. Net (loss) gain on financial assets and liabilities at FVPL

Net gain (loss) on financial assets and liabilities is comprised of: 1) net gain (loss) on financial assets and liabilities designated at fair value through profit or loss and 2) net profit (loss) on fair value hedges.

1) The net gain (loss) on financial assets and liabilities designated at fair value through profit or loss includes:

- All realised and unrealised changes in fair value.
- Interest income on an accrual basis.
- Dividend income, which is recognised when the Group's right to receive payment is established.

2) The net profit (loss) on fair value hedges includes:

- All realised and unrealised changes in the fair value of hedging items.
- All realised and unrealised changes in the value of hedged instruments.
- Interest income/expense on an accrual basis that is included in the line item "Interest expense" in the income statement.

82.8. Net foreign exchange gain (loss)

Net foreign exchange gain (loss) includes all gains and losses arising from the settlement of transactions in foreign currencies and translation at month-end exchange rates of monetary assets and liabilities denominated in foreign currencies, including non-derivative financial assets and liabilities classified as held for trading and financial assets designated at fair value through profit or loss. Foreign exchange gains and losses arising from derivative financial assets and liabilities are included in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL" in the income statement, except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC equity derivatives which are included in the line item "Net foreign exchange (loss) gain" in the income statement.

82.9. Tax on liabilities of financial institutions

A special tax is levied on financial institutions under Act No. 155/2010, as subsequently amended. The tax is calculated as 0.145% (2021: 0.145%) of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The tax is a non-deductible expense. Tax on liabilities of financial institutions is recognised separately in the income statement and is included in the statement of financial position in the line item "Tax liabilities".

82.10. Income tax

(a) Income tax

Income tax is recognised based on the domestic income tax laws and corporate income tax rates that have been enacted at the reporting date. Income tax recognised in these Consolidated Financial Statements comprises current and deferred tax.

Income tax for the operating year 2022 was recognised at the year-end corporate income tax rate of 20.0% (2021: 20.0%) and an additional special income tax on financial institutions is recognised at the rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011, on Financial Activities Tax.

(b) Current tax

Current tax is the expected tax payable on the taxable income for the current year and, if applicable, adjustments to the tax payable or receivable in respect of previous years. Current tax is measured based on the domestic income tax laws and corporate income tax rates that have been enacted at the reporting date. Current tax is included in the statement of financial position in the line item "Tax liabilities".

(c) Deferred tax

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred income tax is recognised in full as a liability, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction affects neither the Group's accounting nor its taxable profit or loss. Deferred income tax is determined based on the domestic income tax laws and corporate income tax rates that have been enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is included in the statement of financial position in the line item "Deferred tax assets".

d) Joint taxation

The Bank is taxed jointly with its subsidiaries Landsbréf hf., Eignarhaldsfélag Landsbankans ehf., Blámi - fjárfestingafélag ehf., Hömlur ehf. and Hömlur fyrirtæki ehf.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities

(a) Recognition and initial measurement

The Group initially recognises loans and advances and deposits and borrowings on the date at which they originate. All other financial assets and liabilities are initially recognised on the date at which the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the date at which the Group committed itself to purchasing or selling the asset.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(b) Classification

On initial recognition, a financial asset is classified as measured at: Amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset as at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.
- The primary risks that affect the performance of the business model and its strategy for managing those risks.
- The methods by which the performance of assets in a portfolio is evaluated and reported to management.
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activities. Sales in themselves do not determine the business model and are not considered in isolation. Instead, sales provide evidence about how cash flows are realised.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, as is consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell.

Cash flow characteristics assessment

The SPPI test, which requires that the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest, is used to determine whether loans and advances granted to financial institutions and to customers are measured at amortised cost or at FVTPL.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities (continued)

(c) Derecognition

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or when the Group transfers the rights to receive contractual cash flows relating to the financial asset in a transaction which substantially transfers all the risks and rewards of ownership of the asset or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in the Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets, or a portion of them. In cases where all or substantially all of the risks and rewards are retained, transferred assets are not derecognised. Asset transfers whereby all or substantially all risks and rewards are retained include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing such servicing.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or when they expire.

d) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised see note 82.11 (g) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and,
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, it first considers whether a portion of the asset should be written off before the modification takes place, see Note 82.11 (g) Write-off. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, see Note 82.11 (g), then the gain or loss is presented together with impairment changes. In other cases, it is presented as interest income calculated using the effective interest rate method.

Restructured financial assets

As regards financial restructuring of customers, the Group has put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans.

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities (continued)

d) Modification of financial assets and financial liabilities (continued)

Restructured financial assets (continued)

The general rule is that when loan restructuring is significant enough to qualify for derecognition, a new loan is created and staging and impairment is carried out as if it was a new loan. The previous loan is derecognised.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than foreclose. This may involve extending the payment arrangements and an agreement providing for new loan terms. Loans which are impaired and whose terms are renegotiated are not considered to be new loans. Once the terms have been renegotiated these loans are no longer considered past due and any subsequent impairment is measured using the original effective interest rate as calculated before the modification of terms. Management of the Bank reviews renegotiated loans on an on-going basis to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to individual or collective impairment assessment. Loans which are not individually impaired and whose terms have been renegotiated are accounted for as new loans. Accordingly, the original loans are derecognised and the renegotiated loans are recognised as new loans.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new, modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(e) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and simultaneously settle the liability.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions, such as in the Group’s trading activity.

(f) Fair value measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which the Group has access at that date.

The fair value of a liability reflects its non-performance risk. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument, if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions at an arm’s-length basis. Where available, the relevant market's closing price determines the fair value of financial assets held for trading and of assets designated at fair value through profit or loss; this will generally be the last trading price. If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

If there is no active market for a financial instrument, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm’s-length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates every factor that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank has a valuation committee which estimates fair value by applying models and incorporating observable market information and professional judgement. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available, observable market data.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities (continued)

(f) Fair value measurement (continued)

Should the transaction price differ from the fair value of other observable, current market transactions in the same instrument or be based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a day 1 profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised in the income statement depending on the individual circumstances of the transaction but no later than when the inputs become observable, or when the instrument is derecognised.

The fair value of financial assets and liabilities is determined based on different methods and assumptions depending on what financial asset or liability is being valued. For all foreign currency financial assets and liabilities, the exchange rates used are from observable markets both for spot and forward contracts and futures in the major currencies.

Fair value hierarchy

The Group has used a valuation hierarchy for disclosure of inputs used to measure fair value of financial assets and liabilities. Fair value measurements of financial instruments are made on the basis of the following hierarchy:

• Level 1: Quoted market prices are used for assets and liabilities traded in active markets. Unadjusted quoted market prices are used as the measurement of fair value.
• Level 2: Valuation technique based on observable inputs. The most recent transaction prices in combination with generally accepted valuation methods are used to measure fair value of shares. The yield of actively traded bonds with the same duration is used as a benchmark for the valuation of bonds.
• Level 3: Valuation technique based on significant non-observable inputs. This category includes all financial instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have significant effect on the instrument's valuation.

For unlisted shares and bonds where there no market data is available, various generally accepted valuation techniques are used to measure fair value. Valuation using discounted cash flow, intrinsic value after haircut or a comparison of peer companies' multiples are the most commonly used methods to calculate fair value of unlisted shares, in addition to recent transactions and current market conditions. Valuation of loans and advances to customers is based on market data such as interest and inflation curves and probability of default.

Assumptions used in the valuation technique include risk-free and benchmark interest rates for estimating discount rates, credit spreads, bonds and equity prices, foreign currency exchange rates, market multipliers, volatilities and correlations, market conditions for estimating future growth and other market indicators.

(g) Impairment of financial assets

Impairment process

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and balances with Central Bank
- Loans and advances to financial institutions
- Loans and advances to customers
- Other assets
- Off-balance sheet credit exposures:
    - Financial guarantees and underwriting commitments
    - Undrawn loan commitments
    - Undrawn overdraft/credit card facilities

When measuring ECL, the Group uses a forward-looking model in compliance with IFRS 9. This requires considerable judgement over how changes in economic factors affect ECL. ECL reflects the present value of cash shortfalls due to possible default events either over the following twelve months or over the expected lifetime of a financial instrument, depending on credit deterioration from inception.

The Bank's Risk Management is responsible for assessing impairment on loans and advances and a Valuation Team, comprised of the CEO, the managing directors of Finance & Operation, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

In general, all impairment charges are loan-specific based on the aforementioned ECL models. If needed, the Valuation Team can assess and issue additional general impairment charges on the loan portfolio as a whole or part of it.

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Impairment process (continued)

The impairment process for each reporting period is as follows:

1. The Bank's Economic Research Department provides scenarios with forecasts on relevant economic variables and presents them to the Valuation Team.
2. The Valuation Team approves the scenarios and their respective weights for the reporting date.
3. Loans are classified for measurement by amortised cost (impairment) or the fair value approach.
4. Parameters for staging and ECL calculations are estimated.
5. Results from manual staging and ECL calculations for individually significant loans are applied.
6. Staging and ECL calculations are carried out for all loans that are subject to impairment.
7. The Valuation Team receives reports from Risk Management on the impairment results. The reports are reviewed by the Team and valuations are determined.
8. Results of staging and impairment are presented in the Group's annual and interim financial statements.

ECL calculation

IFRS 9 requires that the calculation of ECL reflect an unbiased, probability-weighted outcome. The calculation considers the time value of money and variable forward-looking scenarios which carry different weights based on reasonable and available information. In general, the calculation of ECL is based on the present value of the multiplication of the following parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Under IFRS 9, credit loss allowance on all loans is measured on each reporting date according to a three-stage expected credit loss model. Allowance is calculated as either the 12-month ECL or the lifetime ECL.

- Stage 1 – No significant increase in credit risk. Loans whose credit risk has not increased significantly shall be Stage 1 and the loss allowance measured as the 12-month ECL.
- Stage 2 – Significant increase in credit risk. Loans whose credit risk has increased significantly since initial recognition but are not credit-impaired shall be Stage 2 and the loss allowance measured as the lifetime ECL.
- Stage 3 – Credit-impaired. Loans where the obligor is in default or otherwise impaired shall be Stage 3 and the loss allowance measured as the lifetime ECL.

Movements between Stages 1 and 2 are based on whether an instrument's credit risk as measured at the reporting date has increased significantly relative to the credit risk measured at initial recognition. For the purpose of this assessment, credit risk is based on an instrument's lifetime PD, not the loss amounts.

Credit-impaired loans

A loan is credit-impaired if one or both of the following events have occurred:

- A loan that is more than 90 days past due is considered to be in default and therefore credit impaired.
- It is considered likely that an obligor cannot fully fulfil their obligations unless the Bank resorts to enforcement measures, such as foreclosure.

The following events are used as indicators of loan default. Events automatically leading to default are marked with an asterisk.

- Bankruptcy*
- Restructuring*
- Sale of an obligation to a third party
- Impairment: The Bank classifies the asset as Stage 3
- Legal collection*

Other factors that may indicate default are concessions to a customer because of financial difficulties and notes on the operational viability of the customer in financial statements.

Significant increase in credit risk

When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD as at the reporting date that was estimated at initial recognition.

82. Significant accounting policies (continued)

82.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

The framework aligns with the Group's internal credit risk management process, and includes a backstop based on delinquencies so that a significant increase in credit risk occurs no later than when contractual payments are more than 30 days past due. If a financial asset's credit rating at the reporting date does not comply with benchmarks set by the Group's risk appetite, this constitutes a significant increase in credit risk. In addition, the Group applies a low-risk criterion, which states that as long as the rating grade of an asset qualifies as investment grade, the asset will be categorised as Stage 1.

The estimation of whether credit risk has increased significantly for individually significant loans is carried out manually. Loans are initially assessed based on quantitative criteria and based on that assessment, staging is manually assessed using both quantitative and qualitative information.

Rating system

The rating system has an obligor rating scale which exclusively reflects quantification of the risk of obligor default, or credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors from 1 to 10, with 10 indicating the highest credit quality, and the grade 0 for defaulted obligors. The rating assignment is supported by rating models, where information such as industry classification, financial accounts and payment behaviour is considered.

The following table shows the Group's internal mapping from internal rating grade to S&P rating grades:

Internal rating grade	Standard & Poor's and Fitch	Moody's	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	Aaa/Aa1/Aa2/Aa3	0.00%	0.04%
9	A+/A/A-	A1/A2/A3	0.04%	0.10%
8	BBB+	Baa1	0.10%	0.21%
7	BBB/BBB-	Baa2/Baa3	0.21%	0.46%
6	BB+/BB	Ba1/Ba2	0.46%	0.99%
5	BB-	Ba3	0.99%	2.13%
4	B+	B1	2.13%	4.54%
3	B	B2	4.54%	9.39%
2	B-	B3	9.39%	18.42%
1	CCC/C	Caa1/Caa2/Caa3/Ca/C	18.43%	99.99%

Presentation of allowance

Allowance for impairment based on ECL is presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets.
- Loan commitments, overdrafts and financial guarantee contracts: as allowance for impairment classified as other liabilities.
- Where a financial instrument includes both a drawn and an undrawn component, the Group presents a combined impairment allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the impairment allowance over the gross amount of the drawn component is presented and classified with other liabilities.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to collection through enforcement in order to comply with the Group's procedures for recovery of amounts due.

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82. Significant accounting policies (continued)

82.12. Cash and balances with Central Bank

Cash and cash equivalents include notes and coins on hand, and balances held with the Central Bank. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position. The Group measures 12-month ECL for cash and cash equivalents measured at amortised cost that are determined to have low credit risk at the reporting date.

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements, No. 585/2018. The reserve requirements fall into two categories: On the one hand, a fixed reserve requirement of 1% bearing no interest and eligible as liquidity reserves and, on the other hand, an average maintenance level.

82.13. Bonds and debt instruments

Bonds and debt instruments are either measured at amortised cost or at fair value through profit or loss.

Bonds and debt instruments classified as financial assets at fair value through profit or loss (FVTPL) are recognised at fair value both initially and subsequent to initial recognition. These are either designated or mandatorily measured at FVTPL - fair value option. Transaction costs are recognised immediately as fees in the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL". Foreign exchange gains and losses are included in the line item "Net foreign exchange (loss) gain".

Bonds and debt instruments designated at FVTPL must have a reliably measurable fair value and the designation must eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (sometimes referred to as an "accounting mismatch"). This includes, inter alia, bonds held for trading purposes.

Bonds and debt instruments mandatorily measured at FVTPL are managed on a fair value basis but not held for trading or their cash flows do not represent solely payments of principal and interest.

Bonds and debt instruments classified at amortised cost are initially measured at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued inflation, in the case of inflation-indexed bonds, are included in the carrying amount of the bonds and recognised in the line item "Interest income" in the income statement. Bonds and debt instruments within a held-to-collect business model under which their contractual cash flows are solely payment of principal and interest are measured at amortised cost. The Group measures 12-month ECL allowances for bonds and debt instrument classified at amortised cost that are determined to have low credit risk at the reporting date.

82.14. Equities and equity instruments

Equities and equity instruments classified as financial assets at FVTPL are recognised at fair value both initially and subsequent to initial recognition. Transaction costs are recognised immediately as fees in the income statement. Gains and losses arising from changes in fair value are recognised directly in the income statement in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL". Foreign exchange gains and losses are included in the line item "Net foreign exchange (loss) gain".

Equities and equity instruments designated at FVTPL must have a reliably measurable fair value and the designation must eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (sometimes referred to as an "accounting mismatch"). This includes, inter alia, equities held for trading purposes.

82.15. Derivative instruments

Derivatives are initially recognised in the statement of financial position at fair value, with transaction costs recognised in the income statement. The fair value of derivative instruments is determined using valuation methods whose most significant input is volatility, which is obtained from broker quotations, pricing services or derived from option prices. Subsequently, derivatives continue to be carried at fair value, with all fair value changes recognised in the income statement in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL", except for fair value changes of derivative currency forwards and net foreign exchange differences arising from OTC currency options, which are included in the line item "Net foreign exchange (loss) gain" in the income statement. In the statement of financial position, derivatives with positive fair values are recognised as assets and derivatives with negative fair values as liabilities.

82. Significant accounting policies (continued)

82.16. Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is a component of a combined (hybrid) financial instrument that also includes a non-derivative host contract. The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contracts.

When a host contract is an asset within the scope of IFRS 9 and the contractual cash flows are SPPI a derivative embedded in the host contract is not separated from the host. Instead, the hybrid financial instrument is measured as a whole.

82.17. Hedge accounting

The Group has opted to continue to apply hedge accounting under IAS 39 as permitted as an accounting policy choice under IFRS 9.

On initial designation of the hedges, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at the inception of the hedge relationships and on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is also discontinued.

Any adjustments, up to the point of discontinuation, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Derivatives held for risk management purposes consist of all derivative assets and liabilities that are not classified as trading assets or liabilities. These include derivatives designated in hedging relationships and which are accounted for as fair value hedges in the statement of financial position.

The Group uses interest rate swaps that qualify and are designated as fair value hedges to hedge its exposure to changes in the fair values of some of its notes, issued under the Bank's Euro Medium Term Note (EMTN) programme. Such interest rate swaps are matched to specific issuances of the EMTN fixed-rate notes. The change in fair value of interest rate swaps together with change in the fair value of bonds attributable to interest rate risk is recognised immediately as net gain (loss) on fair value hedges in "Net gain (loss) on financial assets and financial liabilities at FVTPL" in the income statement. Accrued interest on both bonds and swaps is included in the line item "Interest expense".

The Group uses other derivatives, not designated in qualifying hedge relationships, to manage its exposure to foreign currency, interest rate, equity market and credit risk.

82.18. Short positions

Short positions are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. These obligations are initially recognised in the statement of financial position at fair value, with transaction costs recognised in the income statement. Subsequently, they continue to be carried at fair value, with all fair value changes recognised in the income statement as net gain on financial assets and liabilities held for trading in the line item "Net gain (loss) on financial assets and financial liabilities at FVTPL". The short positions are in Icelandic government bonds with readily available quoted market prices.

82.19. Loans and advances

'Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method,
- loans and advances mandatorily measured at FVTPL or designated as at FVTPL (these are measured at fair value with changes recognised immediately in profit or loss); and,
- finance lease receivables.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.19. Loans and advances (continued)

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

82.20. Property and equipment

All property and equipment is recognised at cost, less accumulated depreciation and any accumulated impairment losses. The cost includes expenditures directly attributable to acquiring these assets.

Subsequent costs are included in an asset's carrying amount only if it is probable that future economic benefits associated with the item will flow to the Group and if these costs can be reliably measured. All other repairs and maintenance are charged to the income statement of the financial period in which their costs are incurred.

Depreciation of any property and equipment is calculated using the straight-line method. This method is applied to the depreciable amount of the assets, which is their cost less their residual value over their estimated useful lives, as follows:

Buildings	25-50 years
Computer hardware	3 years
Other equipment and motor vehicles	3-10 years

An asset's residual value and useful life is reviewed annually and adjusted where appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the item "Other income and expenses" in the income statement.

82.21. Intangible assets

Computer software

Computer software is capitalised on the basis of cost to acquire or develop and bring into service. Computer software recognised as an intangible asset is amortised over its useful life, which is estimated to be 3-5 years.

The costs associated with maintaining computer software are recorded as expenses at the time they are incurred.

Goodwill

Goodwill is recognised as an asset only if acquired in a business combination. Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is generally reviewed for impairment annually, but more frequently if events or changes in circumstances indicate a potential impairment of the carrying amount of the goodwill.

82.22 Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss within other income.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Investment property is comprised of a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of 10 years. Subsequent renewals are negotiated with the lessee and historically the average renewal period is 4 years. Further information about these leases is included in Note 39.

82.23. Leases

Leases are reported in the Consolidated Financial Statements under IFRS 16 Leases. Exempted are short-term leases and leases of low value assets. At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

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82. Significant accounting policies (continued)

(a) When the Group is the lessee

The leases into which the Group enters as a lessee are primarily operating leases. Under IFRS 16, lessees are required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the obligation to make lease payments for the asset. The assets and liabilities are recognised in the Statement of Financial Position under Other assets and Other liabilities.

Initially, the lease liability and the right-of-use asset will be measured at the present value of the lease payments (defined as unavoidable payments). A right-of-use asset is then depreciated on a straight-line basis over the lease period and the depreciation charge is recognised under Other operating expenses in the income statement. The lease liability is measured at the present value of future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Interest expenses on lease liabilities are recognised in the income statement under Interest expenses. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in inflation or interest or exchange rate, change in contractual lease payments and extension of leases. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets.

Short-term leases and leases of low-value assets

Exempted from the requirement of IFRS 16 to recognise assets and liabilities for leases into which the Group enters as a lessee are leases with a lease term of 12 months or less or with low-value underlying assets. In such cases the Group recognises the lease payments under Other operating expenses in the income statement.

(b) When the Group is the lessor

When assets are held subject to a finance lease, the present value of lease payments is recognised as a receivable under Loans and advances to customers in the Statement of Financial Position. Capital income from such a lease is recognised as interest income in the income statement over the term of the lease, using a method that reflects a constant periodic rate of return on the Group’s net investment in the lease.

82.24. Impairment of non-financial assets

Non-financial assets with an indefinite useful life are not subject to amortisation but are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is either an asset’s fair value less selling costs or its value in use, whichever is higher. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). With the exception of goodwill, non-financial assets are reviewed at each reporting date for any possible reversal of impairment.

82.25. Assets and liabilities classified as held for sale

The Group classifies non-current assets (or groups of assets together with related liabilities) as held for sale when their carrying amount will be recovered principally through a sale transaction. These are usually acquired by foreclosure on collateral securing loans and advances, including assets and liabilities of subsidiaries over which the Group obtains control through foreclosure and/or financial restructuring.

A non-current asset (or group of assets together with related liabilities) is considered to be recovered principally through a sale transaction when the asset’s sale is highly probable and it is available for immediate sale in its present condition, subject to ordinary and customary terms on the sale of such assets. Management must be committed to the sale and must actively market the asset for sale at a price that is reasonable in relation to its current fair value. A further condition is that the sale is expected to qualify for recognition as completed within one year from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Additional net assets that become part of a disposal group, for example due to profits generated by the disposal group, increase the carrying amount of the disposal group but not in excess of the fair value less costs to sell of the disposal group as determined at each reporting date.

In the case of single assets classified by the Group as held for sale, the Group determines their fair value less costs to sell by reference to the current market price at each reporting date. In the case of subsidiaries classified as held for sale, the Group determines the fair value of disposal groups based on discounted cash flow methodologies. Cost to sell is deemed to be only the cost which is directly attributable to the disposal of the disposal groups, excluding finance costs and income tax expense.

82.26. Deposits

Deposits from customers and financial institutions are the primary source of funding for the Group. The deposits consist of demand deposits and term deposits. Deposits are initially measured at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.27. Borrowings

(a) Secured borrowings

Each covered bond series of the secured borrowings denominated in ISK is issued under the Bank's ISK 250,000 million Covered Bond Programme. These covered bonds are issued under a licence from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) and with reference to Act No. 11/2008 and FSA Rules No. 528/2008. All covered bond series are listed and traded on Nasdaq Iceland.

The covered bonds are initially measured at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued inflation, in the case of inflation-indexed bonds, are included in the carrying amount of the bonds and recognised in the line "Interest expense" in the income statement.

(b) unsecured borrowings

Unsecured borrowing consist of senior bonds denominated in foreign currencies and, when appropriate, marketable commercial papers denominated in ISK. The bonds are issued by the Bank under its EUR 2.000 million Euro Medium Term Note (EMTN) Programme and are listed and traded on the Irish Stock Exchange. The commercial papers on the other hand are issued under the Bank's ISK 50.000 million Debt Issuance Programme and listed and traded on Nasdaq Iceland.

The unsecured bonds and commercial papers are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the bonds and is recognised in the line "Interest expense" in the income statement. Foreign exchange gains and losses are included in the line "Net foreign exchange (loss) gain".

82.28. Other liabilities

Unpaid contributions to the Depositors' and Investors' Guarantee Fund

In 2022, Act No. 48/2022 entered into force, amending Act No. 98/1999, on Deposit Guarantees and Investor-Compensation Scheme. Prior to entry into force of the new Act, the Bank paid in 2022 a contribution to the Icelandic Depositors' and Investors' Guarantee Fund (TIF) for the first quarter of 2022. According to the new Act, the Icelandic Financial Institutions' Guarantee Fund (TVF) is responsible for implementation of Act No. 98/1999. TVF is organised into three divisions, the Deposit Division, the Securities Division and the Resolution Fund. According to the new Act, the divisions shall have at their disposal certain minimum amounts, specified in the Act. Since the divisions already fulfil these requirements, no further contributions were collected in 2022. At year-end 2022, no contributions to TVF were outstanding.

Under Act No. 70/2020, amending Act No. 98/1999, payments to each depositor shall equal the total amount of eligible deposits at the maximum equivalent of EUR 100,000 in Icelandic *króna* .

82.29. Pension liabilities

When the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands merged with Landsbankinn in 2015, the Bank took over pension obligations towards the former employees and part of the then current employees' pension obligations of these savings banks. The pension liability is calculated annually by an actuary. The increase in the liability in 2022 is expensed in the income statement and is included in salaries and related expenses.

82.30. Subordinated liabilities

Subordinated liabilities are comprised of Tier 2 subordinated bonds issued by the Bank, on the one hand in foreign currencies under its Euro Medium Term Note (EMTN) programme, and, on the other, in Icelandic króna under its Debt Issuance Programme. The subordinated liabilities share characteristics of equity in that they are subordinated to other Group liabilities and are included in equity in equity ratio calculations. The outstanding amounts of the subordinated liabilities are subject to regulatory amortisation whereby the amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity.

Subordinated liabilities are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest method. Accrued interest and accrued indexation are recognised as part of the carrying amount of subordinated liabilities.

82.31. Share capital

(a) Share issue costs

Cost directly attributable to the issue of new shares is presented separately in equity as a deduction from share premiums.

(b) Dividends on ordinary shares

Dividend on ordinary shares is recognised in equity during the period in which it is approved by the Bank's shareholders' meeting.

Notes to the Consolidated Financial Statements

82. Significant accounting policies (continued)

82.32. Earnings per share

Basic earnings per share (EPS) are calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the accounting period. Diluted EPS are determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

82.33. Repurchase and reverse repurchase agreements

Repurchase transactions consist of repo and reverse repo agreements with other banks. Repo transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in both cases.

Securities originally sold by the Bank under repurchase agreements continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of securities it sells under repurchase agreements. Inflows of liquidity from repo transactions are recognised in the financial statements of the Bank as financial liabilities to counterparties. Interest payments to counterparties are recognised as interest expense under net interest income. Inflows are measured either at fair value using the fair value option or at amortised cost.

Conversely, securities originally bought by the Bank under reverse repurchase agreements are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of securities bought by the Bank under repurchase agreements. Outflows of liquidity arising from reverse repos are accounted for as claims on counterparties. Interest receipts from counterparties in reverse repos are recognised as interest income under net interest income. Outflows are measured either at fair value using the fair value option or at amortised cost.

Repurchase agreements and reverse repurchase agreements are initially measured at fair value less transaction costs and subsequently either at fair value using the fair value option or at amortised cost.

82.34. Collateral swaps

Collateral swaps consist of collateral swaps with other banks whereby the collateral provided is in the form of securities. In essence, collateral swaps are a form of securities lending whereby the Bank borrows relatively liquid securities from another bank in exchange for a pledge of less liquid securities. The securities borrowed by the Bank from the counterparty are not recognised and measured as financial assets in the Bank's financial statements, as the counterparty retains all risks and rewards connected with the ownership of the securities. The securities lent to the counterparty by the Bank continue to be recognised and measured as financial assets in the Bank's financial statements, as the Bank retains all risks and rewards connected with the ownership of the securities. The Bank pays a fee to the lender to compensate for the risk of holding less liquid collateral. Interest and expenses from collateral swaps are recognised in net interest income. Collateral swaps are initially measured at fair value less transaction costs and subsequently at amortised cost.

82.35. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder of a financial guarantee for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments by the Group to provide credit under pre-specified terms and conditions.

The Group has issued no loan commitments that are measured at FVTPL.

82.36. Contingent liabilities and provisions

The Group does not recognise contingent liabilities as liabilities in the statement of financial position, other than contingent liabilities which are assumed in a business combination and which have a fair value that can be measured reliably. A contingent consideration transferred by the Group in a business combination is recognised at its acquisition-date fair value. The Group classifies the obligation to pay contingent considerations as liability or equity and accounts for changes in fair value in accordance with applicable IFRSs.

Provisions for expenditures, such as those related to legal claims or restructuring, are recognised as incurred when (i) the Group has as a result of past events a present legal or constructive obligation to pay, (ii) it is more likely than not that an outflow of resources will be required to settle the obligation, and (iii) the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected for settling the obligation. A pre-tax rate is used which reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in the provision due to the passage of time is recognised as interest expense.

82. Significant accounting policies (continued)

82.37. Employee benefits

All Group entities have defined contribution plans under which the entities pay a fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense in the income statement as incurred and are included in salaries and related expenses. The Group does not operate any defined benefit pension plan.

82.38. Fiduciary activities

The Group acts as a custodian, by holding or placing assets on behalf of individuals, institutions and pension funds, including various mutual funds managed by the Group. These assets are not reported in the Consolidated Financial Statements, since they are not assets of the Group.

82.39. Segment reporting

An operating segment is a component of the Group 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, whose operating results are reviewed monthly by the Executive Board (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

82.40. New standards, amendments to standards and

The International Accounting Standards Board (IASB) has issued new IFRS standards and made amendments to standards which have not yet taken effect. Those standards are not expected to have a significant impact on the Group’s Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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83. Operations by years

Operations	2022	2021	2020	2019	2018
Interest income	102,009	66,594	66,498	72,172	69,378
Interest expense	(55,545)	(27,641)	(28,424)	(32,502)	(28,564)
Net interest income	**46,464**	**38,953**	**38,074**	**39,670**	**40,814**
Fee and commission income	15,343	13,121	10,819	11,528	11,220
Fee and commission expense	(4,720)	(3,638)	(3,181)	(3,309)	(3,063)
Net fee and commission income	**10,623**	**9,483**	**7,638**	**8,219**	**8,157**
Net (loss) gain on financial assets and liabilities at FVTPL	(7,963)	5,980	4,257	7,993	1,654
Net foreign exchange gain (loss)	100	(86)	(278)	(584)	(1,497)
Net impairment changes	2,473	7,037	(12,020)	(4,827)	1,352
Other income and (expenses)	1,556	963	582	1,046	3,430
Net other operating income and (expenses)	**(3,834)**	**13,894**	**(7,459)**	**3,628**	**4,939**
Total operating income	**53,253**	**62,330**	**38,253**	**51,517**	**53,910**
Salaries and related expenses	(14,474)	(14,759)	(14,767)	(14,458)	(14,589)
Other operating expenses	(9,289)	(9,105)	(9,064)	(9,534)	(9,348)
Tax on liabilities of financial institutions	(2,097)	(2,013)	(1,815)	(4,204)	(3,860)
Total operating expenses	**(25,860)**	**(25,877)**	**(25,646)**	**(28,196)**	**(27,797)**
Profit before tax	**27,393**	**36,453**	**12,607**	**23,321**	**26,113**
Income tax	(10,396)	(7,534)	(2,086)	(5,086)	(6,853)
Profit for the year	**16,997**	**28,919**	**10,521**	**18,235**	**19,260**
Attributable to:					
Owners of the Bank	16,997	28,919	10,521	18,235	19,260
Non-controlling interests	-	-	-	-	-

Balance sheet	2022	2021	2020	2019	2018
Cash and cash balances with Central Bank	42,216	82,425	67,604	69,824	70,854
Bonds and debt instruments	125,265	150,435	119,330	115,262	77,058
Equities and equity instruments	19,106	33,347	26,808	30,019	23,547
Loans and advances to financial institutions	28,621	47,231	48,073	47,929	71,385
Loans and advances to customers	1,544,360	1,387,463	1,273,426	1,140,184	1,064,532
Other assets	26,948	27,992	27,298	22,088	17,335
Assets classified as held for sale	508	905	1,638	1,022	1,330
Total assets	**1,787,024**	**1,729,798**	**1,564,177**	**1,426,328**	**1,326,041**
Due to financial institutions and Central Bank	6,634	10,425	48,725	48,062	34,609
Deposits from customers	967,863	900,098	793,427	707,813	693,043
Borrowings	476,864	486,042	420,178	373,168	314,412
Other liabilities	34,819	29,803	22,226	30,470	31,027
Subordinated liabilities	21,753	20,785	21,366	19,081	13,340
Equity	279,091	282,645	258,255	247,734	239,610
Total liabilities and equity	**1,787,024**	**1,729,798**	**1,564,177**	**1,426,328**	**1,326,041**

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Notes to the Consolidated Financial Statements

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84. Operations by quarters

	2022				2021			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	26,984	28,677	25,247	21,101	18,520	15,646	18,096	14,332
Interest expense	(14,115)	(16,500)	(14,095)	(10,835)	(8,125)	(6,046)	(7,764)	(5,706)
Net interest income	**12,869**	**12,177**	**11,152**	**10,266**	**10,395**	**9,600**	**10,332**	**8,626**
Fee and commission income	4,013	3,657	4,052	3,621	3,632	3,417	3,197	2,875
Fee and commission expense	(1,268)	(1,201)	(1,269)	(982)	(1,039)	(895)	(883)	(821)
Net fee and commission income	**2,745**	**2,456**	**2,783**	**2,639**	**2,593**	**2,522**	**2,314**	**2,054**
Net (loss) gain on financial assets and liabilities at FVTPL	(108)	(3,054)	(2,707)	(2,094)	439	1,886	1,284	2,371
Net foreign exchange (loss) gain	(214)	285	21	8	(69)	55	(45)	(27)
Net impairment changes	(192)	2,622	(735)	778	3,247	1,008	293	2,489
Other income and (expenses)	466	369	328	393	112	275	330	246
Net other operating income (expenses)	**(48)**	**222**	**(3,093)**	**(915)**	**3,729**	**3,224**	**1,862**	**5,079**
Total operating income	**15,566**	**14,855**	**10,842**	**11,990**	**16,717**	**15,346**	**14,508**	**15,759**
Salaries and related expenses	(3,986)	(3,149)	(3,584)	(3,755)	(4,028)	(3,238)	(3,724)	(3,769)
Other operating expenses	(2,637)	(2,135)	(2,118)	(2,399)	(2,386)	(2,202)	(2,202)	(2,315)
Tax on liabilities of financial institutions	(535)	(547)	(505)	(510)	(508)	(525)	(513)	(467)
Total operating expenses	**(7,158)**	**(5,831)**	**(6,207)**	**(6,664)**	**(6,922)**	**(5,965)**	**(6,439)**	**(6,551)**
Profit before tax	**8,408**	**9,024**	**4,635**	**5,326**	**9,795**	**9,381**	**8,069**	**9,208**
Income tax	(2,731)	(3,261)	(2,294)	(2,110)	(2,473)	(1,889)	(1,582)	(1,590)
Profit for the period	**5,677**	**5,763**	**2,341**	**3,216**	**7,322**	**7,492**	**6,487**	**7,618**

Balance sheet	**31.12.2022**	**30.9.2022**	**30.6.2022**	**31.3.2022**	**31.12.2021**	**30.9.2021**	**30.6.2021**	**31.3.2021**
Cash and cash balances with Central Bank	42,216	93,799	84,895	68,406	82,425	92,043	89,342	59,937
Bonds and debt instruments	125,265	91,951	102,018	129,661	150,435	129,579	128,208	134,183
Equities and equity instruments	19,106	20,559	27,368	28,990	33,347	30,527	35,111	31,811
Loans and advances to financial institutions	28,621	42,706	36,119	58,179	47,231	59,363	64,245	55,234
Loans and advances to customers	1,544,360	1,496,347	1,445,399	1,416,504	1,387,463	1,375,536	1,328,031	1,287,448
Other assets	26,948	25,235	31,785	31,130	27,992	30,020	31,147	30,913
Assets classified as held for sale	508	531	559	774	905	1,290	1,213	1,426
Total assets	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**	**1,729,798**	**1,718,358**	**1,677,297**	**1,600,952**
Due to financial institutions and Central Bank	6,634	5,059	4,813	6,557	10,425	48,991	40,312	40,932
Deposits from customers	967,863	967,965	935,123	922,556	900,098	869,463	842,624	794,252
Borrowings	476,864	459,365	451,524	472,827	486,042	474,415	456,688	452,709
Other liabilities	34,819	44,596	48,483	45,870	29,803	29,047	48,913	30,825
Subordinated liabilities	21,753	20,729	20,550	20,524	20,785	21,099	20,889	20,850
Equity	279,091	273,414	267,650	265,310	282,645	275,343	267,871	261,384
Total liabilities and equity	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**	**1,729,798**	**1,718,358**	**1,677,297**	**1,600,952**

*The result for the first three quarters of the years 2022 and 2021 were reviewed by the Group's independent auditors.

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85. Key figures and ratios

	2022	2021	2020	2019	2018
Return on equity before taxes	10.1%	13.6%	5.1%	9.6%	11.1%
Return on equity after taxes	6.3%	10.8%	4.3%	7.5%	8.2%
Cost-income ratio	46.8%	43.2%	47.4%	42.6%	45.5%
Operating expenses as a ratio of average total assets	1.4%	1.4%	1.6%	1.7%	1.9%
Return on assets	1.0%	1.7%	0.7%	1.3%	1.5%
Interest spread as ratio of average total assets	2.7%	2.3%	2.5%	2.8%	3.2%
Earnings per share	0.72	1.22	0.45	0.77	0.81
Total capital ratio	24.7%	26.6%	25.1%	25.8%	24.9%
CET1 ratio	22.9%	24.8%	23.2%	23.9%	23.6%
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	40.4%	-	-	-	-
Leverage ratio	14.4%	14.9%	15.4%	15.7%	16.1%
Loans / deposits	159.6%	154.1%	160.5%	161.1%	153.6%
Deposits / total assets	54.2%	52.0%	50.7%	49.6%	52.3%
Liquidity coverage ratio total (LCR)	134%	179%	154%	161%	158%
Net stable funding ratio FX (NSFR)	132%	142%	132%	143%	166%
Average number of full-time equivalent positions during the year	843	890	921	950	961
Number of full-time positions at year-end	813	816	878	893	919
Dividend per share	0.61	0.19	0.00	0.42	1.05

Key figures and ratios	Definition
Return on equity before taxes	Profit (loss) before taxes / average total equity
Return on equity after taxes	Profit (loss) after taxes / average total equity
Cost-income ratio	(Total operating expenses - tax on liabilities of financial institutions) / (total net operating income - net valuation adjustments)
Operating expenses as a ratio of average total assets	(Total operating expenses - tax on liabilities of financial institutions) / average total assets
Return on assets	Profit (loss) for the year / average total assets
Interest spread	(Interest income - interest expenses) / average total assets
Earnings per share	Profit (loss) for the year attributable to owners of the Bank / Weighted average number of shares outstanding
Total capital ratio	Total capital base / risk-exposure amount
CET1 ratio	Common equity tier 1 capital (CET1) / Risk exposure amount
Common equity Tier 1 capital (CET1)	Total equity - adjustments according to CRR II
Additional common equity Tier 1 capital (AT1)	Capital instruments under Tier 1 other than (CET1)
Tier 1 capital (T1)	Common equity Tier 1 capital + additional common equity Tier 1 capital
Tier 2 capital (T2)	Subordinated liabilities - regulatory amortisation
Total capital base	CET1 + AT1 + T2
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	Total capital base + eligible liabilities / Total risk-weighted exposure amount
Leverage ratio	Tier 1 capital / (total assets + off balance sheet items)
Loans/ deposits	Loans and advances to customers/ deposits from customers
Deposits / total assets	Deposits from customers/ total assets
Liquidity coverage ratio (LCR)	High quality liquid assets / total net liquidity outflows over 30 days under stressed conditions
Net stable funding ratio FX (NSFR)	Available amount of stable funding / required amount of stable funding
Average number of full-time equivalent positions during the year	The average number of full-time employees in work during the year
Number of full-time positions at year-end	Number of full-time equivalent positions at year-end
Dividend per share	Dividends paid / number of shares outstanding

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Corporate Governance Statement for 2022

24 January 2023

UNAUDITED

The governance structure of Landsbankinn forms the foundation for solid relations between shareholders, the Board of Directors, executives, employees, customers and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Landsbankinn complies with recognised guidelines on corporate governance and publishes an annual statement on its governance practices in a dedicated chapter in its annual report.

In August 2022, Stjórnvísi renewed the recognition of Landsbankinn as a model of corporate governance for the period 2021-2022 based on a review undertaken by external advisors of the Bank‘s governance practices in March 2020. The review is based on the *Guidelines on Corporate Governance* published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers. The aim of the recognition is first and foremost to encourage debate and actions that promote good corporate governance.

1. References to the rules on corporate governance which the Bank complies with or is required to comply with by law and information about the accessibility of such rules are public information

According to the first paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, the Board of Directors of Landsbankinn is responsible for ensuring that corporate governance and the Bank‘s internal organisation contribute to the efficient and prudent management of the Bank, segregation of duties and for preventing conflict of interest. The same Article provides that the Board review governance practices annually and take appropriate action as necessary.

According to the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, Landsbankinn is required to comply with recognised guidelines on corporate governance and to publish a statement on the company‘s governance in a separate chapter in its annual financial statements or annual report. The Bank is also required to make information on its governance available on its website

The Bank complies with *the Guidelines on Corporate Governance* published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederation of Icelandic Employers 1 July 2021 (6th ed.). The Guidelines are available on the website of the Iceland Chamber of Commerce, http://leidbeiningar.is (hereafter “the Guidelines”).

This chapter of the Annual & Sustainability Report contains the corporate governance statement of Landsbankinn (hereafter “the Statement”) with content presented in accordance with the requirements set out in the Guidelines on Corporate Governance.

2 Deviations from the Guidelines

Landsbankinn complies with the provisions of the Guidelines with the exception of the provision for a committee dedicated to ensuring diversity among directors, executives and key managers. Details are provided in Section 5 of the Statement. As regards the provisions of the Guidelines about a Nomination Committee, it should be noted that a shareholders' meeting has not appointed a Nomination Committee as nomination of all directors falls under the scope of Article 7 of Act No. 88/2009, on Icelandic State Financial Investments. In accordance with the seventh paragraph of Article 53 of Act No. 161/2002, on Financial Undertakings, Landsbankinn has not appointed a Nomination Committee.

3 Other rules and guidelines that apply and are specific to the company's activities

Landsbankinn's activities are governed by the Act on Financial Undertakings, No. 161/2002, rules and guidelines of the Central Bank, and various other statutory provisions concerning financial markets. The Bank also bases its activities on the European Banking Authority's Guidelines on Internal Governance for financial undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market. The Guidelines are available on the website of the Financial Supervisory Authority of the Central Bank of Iceland (https://www.fme.is/log-og-tilmaeli/ees-vidmidunar-reglur/eba/nr/3076).

4 Main aspects of risk management and internal control

Effective risk management is one of the prerequisites of long-term profitability and stability in the Bank's operation. Risk management involves identification, assessment and control of risks in the Bank's operation and ensuring that an effective system is in place to meet risk. Communication of information about risk as a foundation of decision-making and a key aspect of effective risk management.

Internal control supports the Bank in achieving its objectives as regards performance, risk appetite, reliable financial information and compliance with laws and regulations. Analysis of the efficacy of internal control is based on a review of control weaknesses, risk management, supervisory activity, information and communication and management supervision.

The Board of Directors approves the risk policy, risk appetite and implementation of risk management. The Board of Directors is responsible for ensuring that an effective internal control system is in place.

Two sub-committees of the Board of Directors report to the Board in their advisory and supervisory capacity in risk governance and internal control, set out in detail in the rules of procedure for each sub-committee. The Risk Committee of the Board of Directors regularly discusses internal control and risk management. The Audit Committee regularly discusses the Bank's accounts and evaluates its internal control system.

A more detailed description of risk management within the Bank is provided on the following website.[1]

Implementation of internal control is determined by the nature of the controls and the implementing party.

The first line of defence is provided by the operational management of business units who are responsible for ensuring that risk governance and internal control form in integral part of the Bank's

1 https://www.landsbankinn.is/bankinn/fjarfestatengsl/skyrslur-og-uppgjor

daily operation. Management shall actively and regularly analyse and assess the risk posed to the operations under their purview. Management shall assess changes in the Bank's operating environment to identify any opportunities or risks to their unit, design mitigating measures for processes, implement and monitor such measures, and report on their effectiveness.

The second line of defence is the purview of Risk Management and Compliance, who carry out risk-based internal control in that managers and employees carry out their duties in accordance with the policies, rules and processes the Bank has adopted. These units, along with Legal Services, participate in shaping and implementing policies and methodologies in internal control based on the Bank's strategy.

The third line of defence is Internal Audit which is an independent control unit. The role of Internal Audit is to provide independent and objective confirmation and advice which should be value-adding and improve the Bank's operations. Internal Audit shall in a regular and disciplined manner provide assurance of the effectiveness of the first and second line of defence, advise on areas for improvement and evaluate and enhance the efficacy of the Bank's risk management, control measures and governance.

5 Description of the company's policy on diversity among directors, executives and key managers

Landsbankinn has not adopted a special policy to ensure diversity among Directors of the Board, the Executive Board or key managers with regard for age, gender or educational or professional background.

According to law, the Board of Icelandic State Financial Investments appoints a three-person Nomination Committee which nominates directors to represent the State on the Bank's Board of Directors. The Nomination Committee shall ensure as equal a gender balance as possible. The Nomination Committee works according to rules of procedure that include guidelines on the evaluation of the qualifications, education and experience of eligible individuals. These rules of procedure provide that the Committee shall nominate individuals with a varied background as regards education and qualification. The Committee shall consider the overall make-up and seek to avoid a homogeneous composition of the boards of financial undertakings.

The Bank's Equality Policy provides for equal rights and equal job opportunities and promotion. Landsbankinn's Human Resources Policy sets out the Bank's intention to attract talented and dependable individuals with varied backgrounds to join its team. Landsbankinn places special emphasis on four of the UN Sustainable Development Goals in its operation, as stated in the Bank's Sustainability Policy. These SDGs include a goal on equal rights and the Bank has set a goal of ensuring no less than 40% representation by either gender in its leadership in its Annual and Sustainability Report.

6 Composition and activities of the Board of Directors, sub-committees of the Board and the Executive Board

The Board of Directors consists of seven directors and two alternates. The Board of Directors is elected by the Annual General Meeting (AGM) and the term of office is one year. In electing members to the Board, the aim shall be to ensure a gender balance and that the Board as a whole possesses in-depth knowledge of banking activities. The Chairman of the Board is elected specifically by the AGM and the Directors elect a Vice-chairman from amongst their members. The Board of Directors of Landsbankinn holds ultimate authority on all questions between shareholders' meetings. The Board of Directors bears ultimate responsibility for the Bank's operation and strategy, its risk policy and for ensuring an active system of internal control. The Board of Directors is ultimately responsible for ensuring that the Bank's activities comply with laws, its Articles of Association and other rules relevant to the operation. The Board of Directors shall also monitor the Bank’s general activities and ensure that control of accounting and financial management is satisfactory. The Board adopts its own rules of procedure, providing in detail for its tasks.

There are three sub-committees to the Board of Directors: The Audit Committee, the Risk Committee and the Remuneration Committee. Amongst other duties, the committees prepare the Board’s discussion of certain aspects of the Bank‘s activities and follow up on related matters.

The Board of Directors hires the CEO and the Chief Audit Executive. The CEO hires other executives to the Bank. The Bank has 7 divisions: Personal Banking, Corporate Banking, Asset Management & Capital Markets, Risk Management, Finance & Operations, IT and the Community. Each division is directed by a managing director who, together with the CEO, form the Bank‘s Executive Board. The Internal Audit function reports to the Board of Directors. The CEO‘s Office, Legal Services and Compliance are directly responsible to the CEO.

Landsbankinn’s Executive Board is a forum for consultation and decision-making by the CEO and managing directors. The Executive Board sees to strategy formulation and shall ensure that Landsbankinn‘s operations accord with current laws and rules at each time. The CEO has appointed four cross-disciplinary standing committees with the aim of ensuring collaboration and implementation of the Bank‘s strategy: The Credit Committee, the Risk & Finance Committee (RAFC), the Operational Risk Committee and the Project Committee. The committees have appointed work groups and teams around specific subjects.

7 Appointment to a Nomination Committee

In accordance with the seventh paragraph of Article 53 of Act No. 161/2002, on Financial Undertakings, Landsbankinn has not appointed a Nomination Committee as nomination of all directors falls under the scope of the Act on Icelandic State Financial Investments.

8 Appointment to the sub-committees of the Board of Directors

The Board of Directors appoints members to its sub-committees. No change was made to the committee structure in 2022. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee and the Remuneration Committee are each comprised of three Directors.

9 Information on the number of Board meetings, sub-committee meetings, and attendance

In 2022, the Board of Directors of Landsbankinn held a total of 14 meetings. The Audit Committee met 9 times; the Risk Committee 11 times; and the Remuneration Committee Development Committee met 6 times. The table provides an overview of attendance.

	Term of office in 2022	Board of Directors	Audit Committee	Risk Committee	Remuneration Committee
Meetings of the Board of Directors and sub-committees		14	9	11	6
Board of Directors					
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	14			6
Berglind Svavarsdóttir	01.01 - 31.12	14		10	6
Elín H. Jónsdóttir	01.01 - 31.12	14		11	
Guðbrandur Sigurðsson	01.01 - 31.12	14		11	
Guðrún Blöndal	01.01 - 31.12	14	9		6
Helgi Friðjón Arnarson	01.01 - 31.12	13	9		
Thorvaldur Jacobsen	01.01 - 31.12	14	8		
Sigríður Olgeirsdóttir, alternate	01.01 - 31.12	4			
Sigurður Jón Björnsson, alternate	01.01 - 31.12	4			
Audit Committee					
Hjörleifur Pálsson, certified public accountant	01.01 - 31.12		9		

10 Rules of Procedure for the Board of Directors and its sub-committees

The Rules of Procedure for the Board of Directors are available on Landsbankinn's website.[2] Special procedural rules have been issued for the Audit Committee, the Risk Committee and the Remuneration Committee, and these rules are also available on the Bank's website.

11 Information about members of the Board of Directors

Directors of the Board are as follows:

Directors

Helga Björk Eiríksdóttir
Chairman

Helga Björk Eiríksdóttir was born in 1968. Helga Björk works in real estate development and consultancy Previously, she handled public relations for Marel and chaired the Board of Directors of Sparisjóður Svarfdæla. Helga Björk holds an MBA from the University of Edinburgh. She graduated from the University of Iceland in 1997 with a BA degree in English and Italian and completed a degree in journalism from the same institution in 1999. Helga Björk completed a degree in marketing and export management with the Department of Continuing Education at the University of Iceland in 2002 and has studied brokerage at Reykjavík University. She worked as an independent consultant in 2010-2012. In 2009 and 2010, she handled PR for the Resolution Committee and Winding-up Board of Kaupthing hf. Previously, Helga Björk spent eight years working as marketing and PR manager of Nasdaq OMX Iceland. Helga Björk has also worked in media, various other jobs and worked for savings bank Sparisjóður Svarfdæla at Dalvík for a longer period. Helga Björk was elected to the Board of Directors of Landsbankinn in April 2013. She is Chairman of the Board of Directors and chairs the Remuneration Committee.

2 https://www.landsbankinn.is/bankinn/um-bankann/stefna-og-skipulag/bankarad

Berglind Svavarsdóttir
Vice-chairman of the Board

Berglind Svavarsdóttir was born in 1964. She is a Supreme Court Attorney and partner at Lögfræðistofa Reykjavíkur. Berglind is a law graduate of the University of Iceland 1989, was admitted to the bar as a District Court Attorney in 1995 and a Supreme Court Attorney in 2008. Berglind holds a diploma in general management from the University of Akureyri 2006. She worked at the Directorate of Tax Investigations in Iceland in 1988-1989 and for the District Commissioner at Húsavík in 1990-1996. She was owner of a legal firm and real estate agency in 1996-2003, partner in Regula lögmannsstofa ehf. in 2003-2010, and partner in Acta lögmannsstofa in 2011-2016. The last firm merged with Lögfræðistofa Reykjavíkur on 1 April 2016. Berglind has held various executive and confidentiality positions. She was on the Board of Directors of Lögmannafélag Íslands in 2015-2021, three years thereof as chairman of the association. She was a member of the Winding-up Board of SPB hf. in 2009-2016. She chairs the Evangelical Lutheran Church of Iceland Complaints Board and the Election Rulings Committee. Berglind was elected to the Board of Directors in April 2016 and is its Vice-chairman.

Elín H. Jónsdóttir
Director

Elín H. Jónsdóttir was born in 1966. She is Dean of Law at Bifröst University. Elín is a law graduate of the University of Iceland 1993 and completed an LL.M. degree from Duke University in 1996. She was awarded an MBA from Stockholm School of Economics in 2018 and is a licensed securities broker. She worked in securities market regulation for the Financial Supervisory Authority in 2001-2005, as managing director at Arev Securities in 2005-2009, as Director of Icelandic State Financial Investments in 2010 to 2011, and as managing director of asset management at Íslandsbanki in 2014 to 2017. Elín has in addition worked as a consultant and teacher. She has sat on the boards of various companies, including Reginn Real Estate, Tryggingamiðstöðin, Promens, Icelandair, Borgun and Skeljungur. Elín also served on the board of directors of Kvennaathvafið, the Women's Shelter, in 2013-2020 She was elected to the Board of Directors in March 2021.

Guðbrandur Sigurðsson
Director

Guðbrandur Sigurðsson was born in 1961. He is managing director of Brynja leigufélag. Guðbrandur completed a BSc degree in food science in 1985 and an MBA from the University of Edinburgh in 1994. He worked for Íslenskar sjávarafurðir and its predecessors in 1985-1996 and was one of its managing directors when it was founded in 1991. He was managing director of ÚA and Brimir in 1996-2004. In 2005-2008, he was managing director of MS, managing director of Nýland ehf. in 2008-2010, and managing director of Plastprent ehf. in 2010-2012. He was later managing director of auditing firm PwC in Iceland between 2013-2016, managing director of Heimavellir hf. in 2016-2019, and managing director of Plastprent ehf. in 2019-21. Guðbrandur has served on the boards of numerous companies and associations, including BL hf., Hagar hf. and Reitir hf. He currently sits on the Board of Directors of Talnakönnun hf. Guðbrandur was elected to the Board of Directors in April 2019 and is Chairman of the Risk Committee.

Guðrún Ó. Blöndal
Director

Guðrún Ó. Blöndal was born in 1960. Guðrún completed a cand.ocean. degree from the University of Iceland in 1990. Guðrún worked for Kaupthing in 1982-2002, first in asset management and later as marketing director, HR manager and head of the custody department until 2002. She was managing director of Arion custody, a subsidiary of Kaupthing, from its establishment in 2002 until it merged into Arion Bank in 2012. Guðrún has been a director of the board of Eimskipafélag Íslands hf. since 2018. In 2012-2013, she was a director of the boards of Framtakssjóður Íslands slhf., Reginn hf., Vörður tryggingar hf., Vörður líftryggingar hf. and Míla ehf. Guðrún was managing director of Nasdaq verðbréfamiðstöð hf. from 2013 to 2018. Guðrún was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2021.

Helgi Friðjón Arnarson
Director

Helgi Friðjón Arnarson was born in 1957. He graduated with a cand.oecon. degree from the University of Iceland in 1983 and became a legally certified accountant in 1987. Helgi worked as a certified accountant and partner at KPMG in 1984-2020. His duties involved auditing and other services for financial undertakings and pension funds. He served as auditor of banks, savings banks, pension funds and other entities in the financial market for several years. Helgi has taught KPMG courses in auditing and financial reporting for financial undertakings, and courses for managers of financial undertakings preparing for eligibility assessments administered by the Financial Supervisory Authority. Helgi chairs the audit committee of Nova klúbburinn hf. He was elected to the Board of Directors in March 2021 and is Chairman of the Audit Committee.

Thorvaldur Jacobsen
Director

Thorvaldur Jacobsen was born in 1963. He is managing director of Landsnet's system administration division. Thorvaldur completed a degree in electrical engineering from the University of Iceland in 1987 and a degree in computer science from the same institution in 1988. He completed a master's degree in electrical engineering from the University of Texas at Austin in 1990. Thorvaldur worked for Opin kerfi as a sales manager in 1990-1996 and as a sales and marketing manager of Teymi in 1996-1999. He became managing director of Vísir.is ehf. in 1999 and led that company until 2001. Thorvaldur worked for the Nýherji Group for several years, first as managing director of communications solutions in 2001-2005 and later as managing director of core solutions in 2005-2008. He acted as CEO of Dansupport A/S (a Nýherji subsidiary in Denmark) for a six-month period in 2007-2008, was a managing director at Skyggni 2009-2011, managing director at UAB Baltic IT Services 2010-2012 (a Nýherji subsidiary in Lithuania), and finally managing director of operating solutions at Nýherji in 2011-2012. Thorvaldur was managing director of development at VÍS in 2012-2017 and worked for Valcon Consulting A/S in management consultancy and change control in 2017-2019. He has served on the boards of various companies and associations in his field. Thorvaldur was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2019.

Alternates

Sigríður Olgeirsdóttir
Alternate

Sigríður Olgeirsdóttir was born in 1960. Sigríður is a graduate of applied computing from EDB, Denmark in 1984, completed a course in business operation and administration from the Department of Continuing Education at the University of Iceland in 1991, holds an MBA from Reykjavík University 2005 and an AMP from Harvard Business School 2017. She has extensive management experience in the field of IT and the financial sector. She was director of services at Valka ehf. in 2019-2021, managing director of the operation and IT division at Íslandsbanki in 2010-2019, director of Humac ehf. in Iceland in 2007-2008, managing director of Skipti in 2006-2008, managing director of Ax hugbúnaðarhús in 2001-2006, managing director at Ax Business Intelligence A/S in

Denmark in 1999-2001, and managing director and director of Tæknival in 1994-1999. Sigríður has sat on the boards of Penninn, Arion securities custody, Reitir, Auðkenni and Kerfi. She was also on the board of directors of Sensa and chairman of the audit committee of Kópavogsbær Civil Servants' Pension Fund. Sigríður has sat on the boards of IT companies in the Nordic countries and is currently a director of now the board of Opin kerfi hf., Íslandshótel hf., Fosshótel Reykjavík ehf. and Hagar hf. Sigríður sits on the nomination committee of Sjóvá-Almennar tryggingar hf. Sigríður was elected as alternate to the Board of Directors in March 2021.

Sigurður Jón Björnsson
Alternate

Sigurður Jón Björnsson was born in 1966. He completed a cand.oecon. degree from the School of Accounting and Finance at the University of Iceland in 1994 and became a licensed securities broker in 2009. Following graduation, he worked as assistant sales manager for Íslensk Ameríska hf. in 1995-1997. He worked as head of finance, deputy managing director and analyst in investment banking at Framtak Fjárfestingarbanki hf. in 1997- 2003. He headed up the financial administration department of Air Atlanta in 2003-3006 and was CFO and deputy managing director of financial administration at Norðurál in 2006-2007. He worked as a corporate consultant at Capacent in 2007 and later became a partner at securities house Capacent Fjárfestingarráðgjöf, later Centra Fyrirtækjaráðgjöf hf. Alongside his consultancy role, Sigurður served as Compliance Officer for the securities house. Sigurður was CFO of the Housing Financing Fund in 2011-2017 and was, among other things, responsible for risk management at the fund in 2011-2015. Sigurður was chairman of the board of tech company Betware in Iceland from the company's establishment in 1998 and until it was sold to foreign parties in 2014. He has also served on the boards of companies Stoðir hf., Íslandsflug hf., Landsafl hf., IMSI Inc., and SPC Holding AS. Sigurður was elected as alternate to the Board of Directors in April 2019.

Committee members who are not Directors of the Board

Hjörleifur Pálsson
Member of the Audit Committee of the Board of Directors

Hjörleifur Pálsson was born in 1963. Hjörleifur completed a cand.ocean. degree from the University of Iceland in 1988. He became a certified public accountant in 1989 and worked as an auditor to 2001. He was managing director of finance at Össur hf. from 2001 to 2013. Since 2013, Hjörleifur has sat on the boards of various companies and invested in and supported start-ups. He is currently a director of the board of Festi hf., on the investment council of Akur fjárfestingar slhf., a director of the board of Brunnur vaxtarsjóður slhf., Lotus Pharmaceutical Co., Ltd in Taiwan and Ankra ehf. Hjörleifur chairs the nomination committee of Icelandair Group hf. He became a member of the Audit Committee of the Board of Directors in May 2019.

12 Information on the independence of Directors of the company and of major shareholders

Regular and alternate members of the Board of Directors do not hold shares in Landsbankinn, neither directly or indirectly through related parties. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders. They have no connected interests with the Bank‘s main customers or competitors, other than those mentioned in Section 11, or large shareholders in the Bank.

13 Key aspects of the performance assessment

The Board of Directors underwent a performance evaluation in December 2022 and January 2023. The activities and work of the Board of Directors in 2022 were evaluated. Also up for evaluation was information disclosure, strategy development and future vision, the performance of Directors, exchange of opinions, the work of sub-committees of the Board and the performance of the Chairman.

14 Information on the CEO and description of her main responsibilities

Lilja Björk Einarsdóttir took up the position of CEO of Landsbankinn on 15 March 2017.

Lilja graduated as a mechanical and industrial engineer from the University of Iceland in 1998 and achieved an MSc. in financial engineering from the University of Michigan, Ann Arbor, in 2003. In 2008 to 2016, Lilja directed the operation, asset management and recovery of assets of old Landsbanki Íslands, LBI ehf., in London. She was an independent consultant and director as of 2016 and until she was hired as CEO of Landsbankinn. In 2005 to 2008, she worked as a specialist and later Managing Director at Landsbanki Íslands hf. in London, responsible for the daily operation and development of support functions, amongst other things. Lilja previously worked for consulting firm Marsh & McLennan from 2003 to 2005 for such clients as the Ford Motor Company, as an expert in planning and creating risk models for the insurance and treasury departments. Lilja sits on the board of directors of the Icelandic Financial Services Association (SFF) and the board of the Iceland Chamber of Commerce.

Lilja does not hold shares in the Bank and has no connected interests with its main customers, competitors or large shareholders.

The Bank's CEO shall be responsible for the Bank's day-to-day operation and shall be authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Day-to-day operation does not include extraordinary actions or actions of major significance. Such actions can only be taken by special authorisation from the Board of Directors. The CEO shall ensure that the Bank‘s operation complies with laws, regulations and the Articles of Associations, and with Board decisions. She shall ensure that the Bank's accounting complies with law and good business practice and that handling of the Bank's assets is secure. The Bank's CEO serves as spokesperson for the Bank on all business and administrative issues.

15 Laws and rules

No remarks were received from supervisory entities in 2022 concerning violations of laws or rules leading to penalties.

16 Organisation of communication between shareholders and the Board of Directors

At year-end 2022, shareholders in Landsbankinn numbered 851. The Board of Directors communicates with shareholders in accordance with law, the Bank‘s Articles of Association and the Board‘s Rules of Procedure. The Chairman of the Board directs its communications with shareholders. Members of the Board of Directors shall, in their duties and decision-making, safeguard the interests of the Bank and shareholders in accordance with the provisions of Act No. 2/1995, on Public Limited-liability Companies, Act No. 161/2002, on Financial Undertakings, and other rules and guidelines about the Bank‘s activities.

Undirritunarsíða

Undirritað af
Elín H Jónsdóttir

Undirritað af:
Elín H Jónsdóttir
1308666039
Dags: 02.02.2023
Tími: 10:58:01
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 2e08052f-5fba-4704-af29-

Undirritað af
Guðbrandur Sigurðsson

Undirritað af:
Guðbrandur Sigurðsson
0205618239
Dags: 02.02.2023
Tími: 10:42:39
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 2e08052f-

Undirritað af
Guðrún Blöndal

Undirritað af:
Guðrún Blöndal
2703603869
Dags: 02.02.2023
Tími: 10:36:07
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 2e08052f-5fba-4704-af29-

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af:
Helga Björk Eiríksdóttir
2212683939
Dags: 02.02.2023
Tími: 10:43:15
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 2e08052f-5fba-4704-af29-

Undirritað af
Helgi Friðjón Arnarson

Undirritað af:
Helgi Friðjón Arnarson
0306572339
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Tími: 10:41:48
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
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Undirritað af
Lilja Björk Einarsdóttir

Undirritað af:
Lilja Björk Einarsdóttir
0408733339
Dags: 02.02.2023
Tími: 10:45:30
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
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Undirritað af
Sigurður Jón Björnsson

Undirritað af:
Sigurður Jón Björnsson
2203663919
Dags: 02.02.2023
Tími: 10:44:25
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 2e08052f-

Undirritað af
Þorvaldur Jacobsen

Undirritað af:
Þorvaldur Jacobsen
2112632029
Dags: 02.02.2023
Tími: 11:07:31
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
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Atli Þór Jóhannsson
1207883539
Dags: 02.02.2023
Tími: 11:13:01
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
Signet ID: 632878fe-f4ec-4bd7-a291-

Undirritað af:
Arna Guðrún Tryggvadóttir
0802783499
Dags: 02.02.2023
Tími: 11:38:55
Ástæða: Ársreikningur samstæðu_enska 31.12.2022
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