LANDSBANKINN HF. | Reg. No. 471008-0280 | LANDSBANKINN.IS

Condensed Consolidated Interim Financial Statements

For the nine months ended 30 September 2023

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Credit rating

BBB
with stable outlook

S&P Global Ratings

ESG risk rating

SUSTAINALYTICS

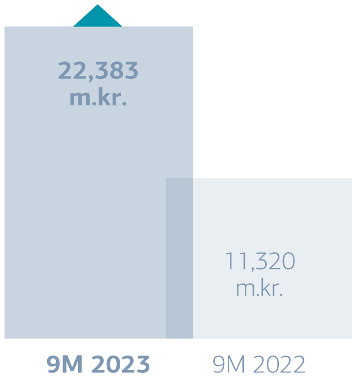
Sustainalytics considers Landsbankinn at exceedingly low risk of experiencing material financial impacts from ESG factors.

BREEAM certification

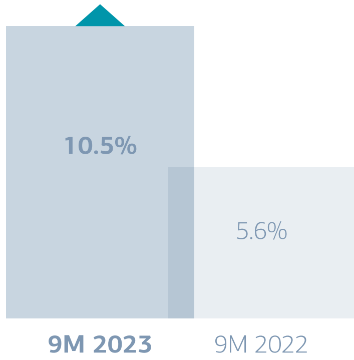
BREEAM EXCELLENT – CODE FOR A SUSTAINABLE BUILT ENVIRONMENT – BRE GLOBAL

Design of the Bank's new headquarters at Reykjastræti 6 was rated "excellent" under the BREEAM standard

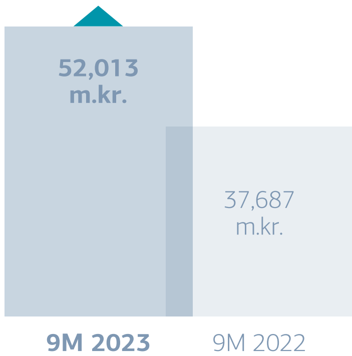
Profit



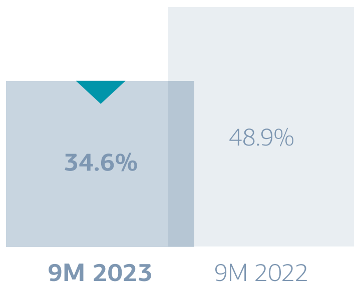
Return on equity



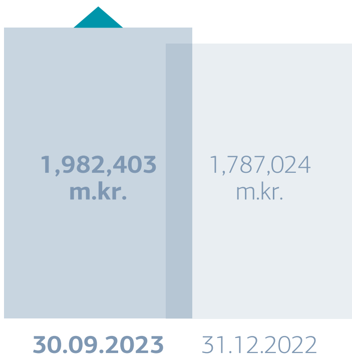
Total operating income



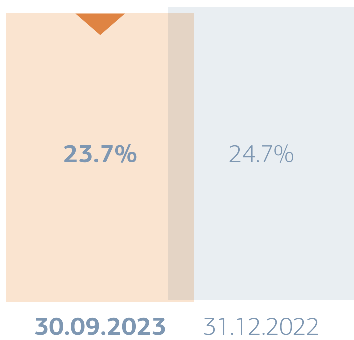
Cost-income ratio



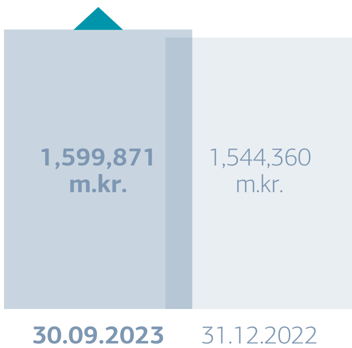
Total assets



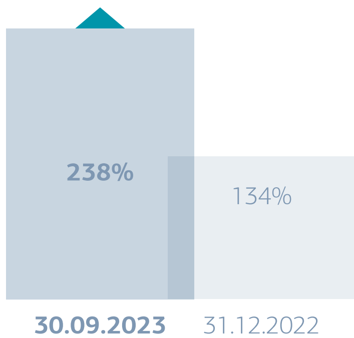
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

The Board of Directors and the CEO of Landsbankinn hf. ("Landsbankinn" or the "Bank") submit this report together with the reviewed Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months of 2023, which include the accounts of the Bank and its subsidiaries (the "Group").

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering universal 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 by making finance more accessible while simultaneously strengthening advisory service and education. Satisfied employees and a success-driven culture strengthen the Bank's operation and create opportunities for initiative.

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

Consolidated profit amounted to ISK 22,383 million for the first nine months of 2023 (9M 2022: ISK 11,320 million). Return on equity was 10.5% (9M 2022: 5.6%) and the Bank's cost-income ratio was 34.6% (9M 2022: 48.9%). Net interest income for the period was ISK 42,776 million, increasing by 27.3% between years. Net fee and commission income was ISK 8,087 million, up by 2.7% between years. Net profit on financial assets and liabilities at fair value was ISK 2,251 million (9M 2022: ISK 7,855 million net loss). Net impairment charges of financial assets were ISK 1,839 million during the period (9M 2022: ISK 2,665 million net release). The difference between years is mainly the result of downside development of economic variables this year used in the assessment of expected credit losses plus an unusual net release last year caused by the reversal of a specific collective allowance after economic uncertainty created by Covid-19 had eased. Salaries and related expenses were ISK 11,534 million, up by 10.0% between years, mainly as a result of contractual wage increases. The average number of full-time equivalent positions during the period was 816 (9M 2022: 798).

Consolidated total equity amounted to ISK 292,971 million at the end of the third quarter of 2023. Total assets were ISK 1,982,403 million, increasing by 10.9% from the beginning of the year. The Group's capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 23.7% at the end of the period (year-end 2022: 24.7%).

On 6 September 2023, the Bank exercised its call option and fully redeemed Landsbankinn's EUR 100 million (9M: ISK 14,580 million) callable subordinated Tier 2 bond series maturing in September 2028.

On 12 September 2023, the Bank concluded its third issuance of green bonds in the amount of EUR 300 million (9M 2023: ISK 43,449 million). The bonds have a 3,5-year tenor and bear a 6.375% fixed rate. They were sold at terms equivalent to a 313 basis point spread above mid-swap market rates. The issuance was highly over-subscribed and the terms reflect improved access to international credit markets as compared to the past 12 months. The bonds are issued under the Bank's EMTN programme with reference to its Sustainable Finance Framework, which has been reviewed by Sustainalytics.

Risk factors

The Bank's total capital ratio remains well above current regulatory requirements at the end of the third quarter of 2023. The Bank's risk-weighted exposure amount (RWEA) increased by 7.1% in the first nine months of the year and amounted to ISK 1,272 billion at the end of the period. Credit risk remains the most significant risk in the Bank's operations and was 91% of total RWEA at the end of the period. The carrying amount of loans to customers increased by ISK 56 billion in the first nine months of the year.

Credit risk factor measurements and assessments are positive with a stable outlook. These factors have not changed significantly from the beginning of the year and the weighted average probability of default in the Bank's loan portfolio was 1.9% at the end of the third quarter (year-end 2022: 1.8%). Expected credit loss (ECL) of financial assets increased in the first three quarters of the year and net credit impairment charges of loans to customers were ISK 1,682 million year-to-date. The main reasons for the charge are an increase in ECL in stages 1 and 2 due to changes in economic variables that lead to an increased probability of default for the portfolio.

The Bank's liquidity position is strong at the end of the third quarter. The aggregate liquidity coverage ratio (LCR) was 238%, 161% in ISK and 1227% in EUR. The Bank's market risk, measured as the ratio of risk-weighted assets (RWA) to total RWEA, is well within the Bank's risk appetite. Market risk measured 1,7% as at 30 September 2023 (year-end 2022: 1.7%). Total market risk has fluctuated somewhat this year to date, despite currently measuring the same as at year-end 2022. Underlying risk factors have changed, including an increase in interest rate risk as a result of increased bond position in the trading book and a decrease in foreign exchange risk.

Further information on the Group's risk and capital management is included in the notes to the Consolidated Financial Statements and the Pillar III report for the year 2022, supplemented with Pillar III additional disclosures for the third quarter of 2023, accessible on the Bank's website, www.landsbankinn.is.

Report of the Board of Directors and the CEO

Equity and dividend

The 2023 AGM of Landsbankinn, held on 23 March, approved the motion of the Board of Directors to pay shareholders a dividend of ISK 0.36 per share for the fiscal year 2022 in two instalments. The instalments, each of ISK 0.18 per share, were made to shareholders on 29 March and 20 September 2023. The total dividend amounts to ISK 8,504 million.

Economic outlook

Economic growth was 4.5% in the second quarter of 2023 and 5.8% in the first half of the year, according to preliminary figures from Statistics Iceland. Growth was driven by robust private consumption and the rapidly growing travel industry in the first half of the year. Growth of private consumption has contracted considerably since and the outlook is for less growth in the travel industry in the second half of the year as well. Overall, Landsbankinn Economic Research expects economic growth to decrease somewhat in the second half of this year and forecasts net 3.1% growth in 2023.

Inflation has receded somewhat since peaking at 10.2% in February of this year and is now 8% in September, four percentage points over the upper tolerance limit of the Central Bank of Iceland's (CBI) inflation target. The newest economic forecast from Landsbankinn Economic Research expects 7.8% inflation in October and more or less unchanged values for the remainder of the year, with a rather rapid decrease trend starting in 2024 with 6.4% inflation in January. In the longer term, Economic Research does not expect inflation to fall below the upper tolerance limit until early 2026.

The policy rate is currently 9.25% after the decision of the Monetary Policy Committee of the CBI to maintain unchanged rates at its October meeting. Economic Research expects the effect of interest rate hikes to manifest more clearly in the coming months, for economic tension to recede and put downward pressure on inflation. According to a recent macroeconomic forecast form Economic Research, interest rate hikes are over for now and the current interest rate level will be maintained until the second quarter of next year. This means that interest rates will be unchanged throughout the heaviest collective bargaining period this winter.

The main economic uncertainty centres on the outlook in the global economy in light of current conflict and wars, and the labour market going into collective bargaining. In the past few months, the tension in the labour market has slackened somewhat, with an increase in the number of business managers who consider the labour supply adequate. Unemployment levels are still relatively low and measured 3% in September. Economic Research expects that the high interest rate environment will increasingly diffuse tension in the labour market and for unemployment to rise slowly.

Other matters

In the third quarter, Landsbankinn finished moving its activities to new headquarters at Reykjastræti 6 in Reykjavík. The design of the building has been rated excellent according to the international BREEAM environmental standard. Final certification of the entire building will take place when construction and finishing is fully completed. The move to the new location has been successful, there is great satisfaction among the Bank's employees and all facilities are exceptional. Construction cost of the entire building for the Bank is estimated at ISK 16.5 billion. The total square area of the building is 21,500 m2, including 16,500 m2 designated as office and commercial space, and the Bank utilises around 60%, or 10,000 m2, for own purposes. The sales value of the parts of the building that the Bank will not utilise along with the sale of housing the Bank owns in Kvosin is estimated at around ISK 7.8 billion and annual savings of around ISK 600 million are achieved in operating efficiencies.

Report of the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months of 2023 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

In our opinion, the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial position of the Group as at 30 September 2023, its consolidated financial performance and consolidated cash flows for the first nine months of 2023. Furthermore, the Condensed Consolidated Interim Financial Statements, including the report of the Board of Directors and the CEO, describe the principal risks and uncertainties faced by the Group.

The Board of Directors and Chief Executive Officer of the Bank endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the first nine months of 2023 with their electronic signatures.

Reykjavík, 26 October 2023

Board of Directors

Helga Björk Eiríksdóttir, Chairman
Berglind Svavarsdóttir, Vice-Chairman
Elín H. Jónsdóttir
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarson
Thorvaldur Jacobsen

Chief Executive officer

Lilja Björk Einarsdóttir

Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors and Shareholders of Landsbanki hf.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Landsbankinn hf. as of 30 September 2023 which comprise of Report of the Board of Directors and the CEO, Condensed Consolidated Statement of Financial Position as of 30 September 2023 and the related Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the nine-months period then ended 30 September 2023 and other explanatory notes. The Board of Directors and CEO are responsible for the preparation and presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the EU and articles in Icelandic law on annual accounts that are applicable. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the EU.

Reykjavík, 26 October 2023

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorized Public Accountant

Condensed Consolidated Income Statement for the nine months ended 30 September 2023

Notes		2023 1.7-30.9	2022 1.7-30.9	2023 1.1-30.9	2022 1.1-30.9
	Interest income	38,134	28,677	111,120	75,025
	Interest expense	(22,893)	(16,500)	(68,344)	(41,430)
6	**Net interest income**	**15,241**	**12,177**	**42,776**	**33,595**
	Fee and commission income	3,600	3,657	11,643	11,330
	Fee and commission expense	(1,264)	(1,201)	(3,556)	(3,452)
7	**Net fee and commission income**	**2,336**	**2,456**	**8,087**	**7,878**
8	Net (loss) gain on financial assets and liabilities at FVTPL	(292)	(3,054)	2,251	(7,855)
	Net foreign exchange gain	372	285	476	314
9	Net impairment changes	(248)	2,622	(1,839)	2,665
10	Other income and (expenses)	127	369	262	1,090
	Net other operating income	**(41)**	**222**	**1,150**	**(3,786)**
	Total operating income	**17,536**	**14,855**	**52,013**	**37,687**
11	Salaries and related expenses	(3,221)	(3,149)	(11,534)	(10,488)
	Other operating expenses	(2,388)	(2,135)	(7,113)	(6,652)
	Tax on liabilities of financial institutions	(643)	(547)	(1,763)	(1,562)
	Total operating expenses	**(6,252)**	**(5,831)**	**(20,410)**	**(18,702)**
	Profit before tax	**11,284**	**9,024**	**31,603**	**18,985**
12	Income tax	(3,374)	(3,261)	(9,220)	(7,665)
	Profit for the period	**7,910**	**5,763**	**22,383**	**11,320**
	Profit for the period attributable to:				
	Owners of the Bank	7,910	5,763	22,383	11,320
	Non-controlling interests	0	0	0	0
	Profit for the period	**7,910**	**5,763**	**22,383**	**11,320**
	Earnings per share:				
29	Basic and diluted earnings per share from operations (ISK)	**0.33**	**0.24**	**0.95**	**0.48**

Condensed Consolidated Statement of Comprehensive Income for the nine months ended 30 September 2023

Notes		2023 1.7-30.9	2022 1.7-30.9	2023 1.1-30.9	2022 1.1-30.9
	Profit for the period	7,910	5,763	22,383	11,320
	Other comprehensive income for the period, after tax	0	0	0	0
	Total comprehensive income for the period	**7,910**	**5,763**	**22,383**	**11,320**

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

All amounts are in ISK million

Condensed Consolidated Statement of Financial Position as at 30 September 2023

Notes		30.9.2023	31.12.2022
	Assets		
17, 48	Cash and balances with Central Bank	114,774	42,216
18	Bonds and debt instruments	131,605	125,265
19	Equities and equity instruments	15,785	19,106
20	Derivative instruments	2,069	3,073
21, 48	Loans and advances to financial institutions	83,244	28,621
22, 48	Loans and advances to customers	1,599,871	1,544,360
	Investments in equity-accounted associates	1,967	1,950
	Property and equipment	14,561	13,060
	Intangible assets	1,598	1,729
23	Other assets	16,598	7,136
	Assets classified as held for sale	331	508
	Total assets	**1,982,403**	**1,787,024**
	Liabilities		
	Due to financial institutions and Central Bank	30,263	6,634
	Deposits from customers	1,065,210	967,863
20	Derivative instruments and short positions	1,945	1,478
24, 48	Borrowings	529,809	476,864
25	Tax liabilities	16,935	12,480
26	Other liabilities	25,315	20,861
27	Subordinated liabilities	19,955	21,753
	Total liabilities	**1,689,432**	**1,507,933**
28	**Equity**		
	Share capital	23,621	23,621
	Share premium	120,593	120,593
	Reserves	10,697	11,986
	Retained earnings	138,060	122,891
	Total equity attributable to owners of the Bank	**292,971**	**279,091**
	Non-controlling interests	0	0
	Total equity	**292,971**	**279,091**
	Total liabilities and equity	**1,982,403**	**1,787,024**

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

All amounts are in ISK million

Condensed Consolidated Statement of Changes in Equity for the nine months ended 30 September 2023

Notes	Change in equity for the nine months ended 30 September 2023	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 2023	23,621	120,593	6,000	2,774	3,212	122,891	279,091		279,091
	Profit for the period						22,383	22,383		22,383
	Transferred to (from) restricted reserves				(56)	(1,234)	1,290	0		0
	Dividends allocated						(8,504)	(8,504)		(8,504)
28	**Balance as at 30 September 2023**	**23,621**	**120,593**	**6,000**	**2,718**	**1,979**	**138,060**	**292,971**	**0**	**292,971**
	Change in equity for the nine months ended 30 September 2022									
	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 period						11,320	11,320		11,320
	Transferred to (from) restricted reserves				(2,674)	(8,452)	11,126	0		0
	Purchase of own shares		(2)					(2)		(2)
	Dividends allocated						(20,550)	(20,550)		(20,550)
28	**Balance as at 30 September 2022**	**23,621**	**120,593**	**6,000**	**2,598**	**3,867**	**116,735**	**273,414**	**0**	**273,414**

*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 Condensed Consolidated Interim Financial Statements.

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2023

Notes		2023 1.1-30.9	2022 1.1-30.9
	Operating activities		
	Profit for the period	22,383	11,320
	Adjustments for non-cash items included in profit for the period	(31,198)	(19,462)
	Changes in operating assets and liabilities	(39,284)	22,513
	Interest received	93,738	60,417
	Interest paid	(16,254)	(12,450)
	Dividends received	300	241
	Income tax and special income tax on financial institutions paid	(6,528)	(2,623)
	Net cash from operating activities	**23,157**	**59,956**
	Investing activities		
	Purchase of property and equipment	(1,904)	(3,261)
	Proceeds from sale of property and equipment	10	5,990
	Purchase of intangible assets	(43)	(126)
	Sale of equity-accounted associates	-	242
	Investing activities	**(1,937)**	**2,845**
	Financing activities		
24	Proceeds from borrowings	121,900	55,546
24	Repayment of borrowings	(70,031)	(76,880)
	Rent paid	(451)	(511)
27	Procceds from subordinated liabilities	12,000	-
27	Repayment of subordinated liabilities	(14,400)	-
28	Purchase of own shares	-	(2)
28	Dividends paid	(8,504)	(20,550)
	Financing activities	**40,514**	**(42,397)**
	Cash and cash equivalents as at the beginning of the period	52,636	84,388
	Net change in cash and cash equivalents	61,734	20,404
	Effect of exchange rate changes on cash and cash equivalents held	(630)	(4)
	Cash and cash equivalents as at the end of the period	**113,740**	**104,788**

Notes	**Cash and cash equivalents is specified as follows:**		
17	Cash and balances with Central Bank	114,774	93,799
21	Bank accounts with financial institutions	22,338	23,879
17	Mandatory and special restricted balances with Central Bank	(23,372)	(12,890)
	Cash and cash equivalents as at the end of the period	**113,740**	**104,788**

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

All amounts are in ISK million

Condensed Consolidated Statement of Cash Flows for the nine months ended 30 September 2023

Notes		2023 1.1-30.9	2022 1.1-30.9
	Adjustments for non-cash items included in profit for the period		
6	Net interest income	(42,776)	(33,595)
8	Net (gain) loss on financial assets and liabilities at FVTPL	(2,251)	7,855
	Net foreign exchange loss (gain)	154	(314)
	Net impairment changes	1,839	(2,665)
10	Gain on sale of property and equipment	(55)	(6)
10	Net income on repossessions	(13)	(545)
	Depreciation and amortisation	1,010	949
10	Share of profit of equity-accounted associates	(89)	(216)
	Profit on sale of associates	-	(152)
	Tax on liabilities of financial institutions	1,763	1,562
12	Income tax	9,220	7,665
		(31,198)	**(19,462)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	(12,032)	409
	Change in bonds and equities	(2,876)	61,947
	Change in loans and advances to financial institutions	(53,361)	10,907
	Change in loans and advances to customers	(50,412)	(91,759)
	Change in other assets	(11,902)	(5,345)
	Change in assets classified as held for sale	277	870
	Change in due to financial institutions and Central Bank	24,252	(5,382)
	Change in deposits from customers	64,258	46,976
	Change in deferred tax liability	79	107
	Change in other liabilities	2,433	3,783
		(39,284)	**22,513**

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim 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 Reykjastræti 6, Reykjavík. Landsbankinn operates an extensive branch network in Iceland, comprised of 34 branches and service points at the end of the reporting period.

The Condensed Consolidated Interim Financial Statements of the Bank for the nine months ended 30 September 2023 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 Condensed Consolidated Interim Financial Statements for the nine months 30 September 2023 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union. The Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements were approved and authorised for publication by the Board of Directors and the CEO of Landsbankinn on 26 October 2023.

The Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2022, which are available on the Bank's website, www.landsbankinn.is.

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 Condensed Consolidated Interim 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.

Use of extimates and judgements

The preparation of the Condensed Consolidated Interim 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.

3. Critical accounting estimates and judgements in applying accounting policies

The Condensed Consolidated Interim Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies are the same as those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2022.

4. 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.

4. Economic forecasts (continued)

The following table shows certain key economic variables used to calculate the ECL allowance. At the reporting date, the baseline forecast of Landsbankinn Economic Research projects 2,9% 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 10% weight (31 December 2022: 15%), the baseline 70% weight (31 December 2022: 70%) and the downside scenario 20% weight (31 December 2022: 15%). The scenarios were approved by the Bank's Valuation Team on 25 September 2023.

	Upside scenario		Base case senario		Downside scenario	
As at 30 September 2023	**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	6.4%	9.5%	1.6%	2.4%	(3.3%)	(4.6%)
Unemployment rate	2.4%	1.6%	4.1%	4.8%	5.7%	8.0%
Base rate	7.9%	3.0%	9.7%	7.1%	11.5%	11.2%
Inflation	3.6%	0.2%	6.1%	4.4%	8.6%	8.7%
EUR/ISK exchange	124.4	99.5	139.6	136.7	154.8	173.9
Housing Price index,	7.1%	16.2%	(0.2%)	3.4%	(7.4%)	(9.4%)
Household	43.4%	32.8%	52.6%	54.3%	61.8%	75.8%

	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	128.9	98.6	145.0	136.3	161.1	174.0
Housing Price index,	13.1%	17.2%	6.0%	4.4%	(1.2%)	(8.4%)
Household	40.3%	28.2%	49.7%	50.2%	59.1%	72.2%

	As at 30 September 2023			As at 31 December 2022		
	Upside scenario	**Base senario**	**Downside senario**	**Upside scenario**	**Base senario**	**Downside senario**
Allowance for impairment (Stage 1 and Stage 2)	4,198	6,194	9,240	3,482	5,439	8,584
Proportion of assets	3.3%	4.0%	6.1%	3.1%	3.6%	5.3%

	Reported under IFRS 9	
	As at 30 September 2023	**As at 31 December 2022**
Allowance for impairment (stage 1 and stage 2)	6,604	5,615

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

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 30 September 2023 and the corresponding period in 2022.

Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments (continued)

1 January - 30 September 2023	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other divisions	Recon-ciliation	Total
Net interest income	14,199	16,370	400	11,470	251	86	**42,776**
Net fee and commission income	2,485	2,152	3,662	(222)	122	(112)	**8,087**
Net impairment changes	(616)	(1,226)	-	3	-	-	**(1,839)**
Other net operating income (expenses)	80	(16)	(51)	2,842	148	(14)	**2,989**
Total operating income (expenses)	**16,148**	**17,280**	**4,011**	**14,093**	**521**	**(40)**	**52,013**
Operating expenses	(5,323)	(2,525)	(1,692)	(716)	(8,515)	124	**(18,647)**
Tax on liabilities of financial institutions	(687)	(377)	(5)	(687)	(7)	-	**(1,763)**
Profit (loss) before cost allocation and tax	**10,138**	**14,378**	**2,314**	**12,690**	**(8,001)**	**84**	**31,603**
Allocated expenses	(3,385)	(2,269)	(890)	(779)	7,323	-	**0**
Profit (loss) before tax	**6,753**	**12,109**	**1,424**	**11,911**	**(678)**	**84**	**31,603**
Income tax	(1,914)	(3,221)	(469)	(3,747)	131	-	**(9,220)**
Profit (loss) for the period	**4,839**	**8,888**	**955**	**8,164**	**(547)**	**84**	**22,383**
Net revenue (expenses) from external customers	27,312	38,038	4,326	(17,827)	204	-	**52,053**
Net revenue (expenses) from other segments	(11,164)	(20,758)	(315)	31,920	317	-	**0**
Total operating income (expenses)	**16,148**	**17,280**	**4,011**	**14,093**	**521**	**0**	**52,053**
As at 30 September 2023							
Total assets	**862,196**	**735,740**	**8,422**	**765,098**	**22,448**	**(411,501)**	**1,982,403**
Total liabilities	**808,849**	**610,390**	**4,671**	**658,402**	**18,621**	**(411,501)**	**1,689,432**
Allocated capital	**53,347**	**125,350**	**3,751**	**106,696**	**3,827**		**292,971**

1 January - 30 September 2022	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other divisions	Recon-ciliation	Total
Net interest income	12,268	14,312	577	6,344	(40)	134	**33,595**
Net fee and commission income	2,336	1,516	4,334	(199)	7	(116)	**7,878**
Net impairment changes	9	2,660	(1)	(3)	-	-	**2,665**
Other net operating income (expenses)	185	3	(393)	(6,998)	770	(18)	**(6,451)**
Total operating income (expenses)	**14,798**	**18,491**	**4,517**	**(856)**	**737**	**0**	**37,687**
Operating expenses	(4,865)	(2,353)	(1,484)	(731)	(7,842)	135	**(17,140)**
Tax on liabilities of financial institutions	(611)	(306)	(7)	(632)	(6)	-	**(1,562)**
Profit (loss) before cost allocation and tax	**9,322**	**15,832**	**3,026**	**(2,219)**	**(7,111)**	**135**	**18,985**
Allocated expenses	(3,168)	(2,140)	(816)	(729)	6,853	-	**0**
Profit (loss) before tax	**6,154**	**13,692**	**2,210**	**(2,948)**	**(258)**	**135**	**18,985**
Income tax	(1,684)	(3,579)	(890)	(1,603)	91	-	**(7,665)**
Profit (loss) for the period	**4,470**	**10,113**	**1,320**	**(4,551)**	**(167)**	**135**	**11,320**
Net revenue (expenses) from external customers	29,736	28,777	4,692	(26,240)	722	-	**37,687**
Net revenue (expenses) from other segments	(14,938)	(10,286)	(175)	25,384	15	-	**0**
Total operating income (expenses)	**14,798**	**18,491**	**4,517**	**(856)**	**737**	**0**	**37,687**
As at 30 September 2022							
Total assets	**830,388**	**657,636**	**12,058**	**733,777**	**18,130**	**(480,861)**	**1,771,128**
Total liabilities	**788,568**	**558,176**	**7,000**	**606,701**	**18,130**	**(480,861)**	**1,497,714**
Allocated capital	**41,820**	**99,460**	**5,058**	**127,076**	**-**		**273,414**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

	1.7-30.9.2023			1.7-30.9.2022		
Interest income	**Amortised cost**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Designated at FVTPL**	**Total**
Cash and balances with Central Bank	2,269	-	2,269	911	-	911
Loans and advances to financial institutions	474	-	474	51	-	51
Loans and advances to customers	34,959	339	35,298	27,295	384	27,679
Other interest income	69	24	93	34	2	36
Total	**37,771**	**363**	**38,134**	**28,291**	**386**	**28,677**
Interest expense						
Due to financial institutions and Central Bank	(271)	-	(271)	(22)	-	(22)
Deposits from customers	(15,742)	-	(15,742)	(9,420)	-	(9,420)
Borrowings	(5,065)	(433)	(5,498)	(5,639)	(105)	(5,744)
Other interest expense	(17)	(767)	(784)	(16)	(934)	(950)
Subordinated liabilities	(598)	-	(598)	(364)	-	(364)
Total	**(21,693)**	**(1,200)**	**(22,893)**	**(15,461)**	**(1,039)**	**(16,500)**
Net interest income	**16,078**	**(837)**	**15,241**	**12,830**	**(653)**	**12,177**

	1.1-30.9.2023			1.1-30.9.2022		
Interest income	**Amortised cost**	**Designated at FVTPL**	**Total**	**Amortised cost**	**Designated at FVTPL**	**Total**
Cash and balances with Central Bank	4,946	-	4,946	1,805	-	1,805
Loans and advances to financial institutions	1,200	-	1,200	58	-	58
Loans and advances to customers	103,689	1,084	104,773	72,088	923	73,011
Other interest income	112	89	201	146	5	151
Total	**109,947**	**1,173**	**111,120**	**74,097**	**928**	**75,025**
Interest expense						
Due to financial institutions and Central Bank	(569)	-	(569)	(77)	-	(77)
Deposits from customers	(44,416)	-	(44,416)	(21,665)	-	(21,665)
Borrowings	(17,578)	(1,803)	(19,381)	(16,426)	(244)	(16,670)
Other interest expense	(48)	(2,110)	(2,158)	(49)	(1,957)	(2,006)
Subordinated liabilities	(1,820)	-	(1,820)	(1,012)	-	(1,012)
Total	**(64,431)**	**(3,913)**	**(68,344)**	**(39,229)**	**(2,201)**	**(41,430)**
Net interest income	**45,516**	**(2,740)**	**42,776**	**34,868**	**(1,273)**	**33,595**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 42,776 million in the first nine months of 2023 as compared with ISK 33,595 million for the same period in 2022.

7. Net fee and commission income

	1.7-30.9.2023			1.7-30.9.2022		
	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	1,349	(168)	1,181	1,423	(198)	1,225
Loans and guarantees	302	-	302	235	-	235
Payment cards	1,357	(822)	535	1,458	(747)	711
Collection and payment services	254	(39)	215	242	-	242
Other	338	(235)	103	299	(256)	43
Total	**3,600**	**(1,264)**	**2,336**	**3,657**	**(1,201)**	**2,456**

All amounts are in ISK million

7. Net fee and commission income (continued)

	1.1-30.9.2023			1.1-30.9.2022		
	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	4,606	(501)	4,105	4,872	(550)	4,322
Loans and guarantees	924	-	924	852	-	852
Payment cards	4,416	(2,239)	2,177	4,136	(2,168)	1,968
Collection and payment services	778	(143)	635	716	(93)	623
Other	919	(673)	246	754	(641)	113
Total	**11,643**	**(3,556)**	**8,087**	**11,330**	**(3,452)**	**7,878**

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

	2023	2022	2023	2022
Net (loss) gain on financial assets and liabilities at FVTPL	**1.7-30.9**	**1.7-30.9**	**1.1-30.9**	**1.1-30.9**
Bonds and debt instruments	869	101	4,034	53
Equities and equity instruments	(1,098)	(3,631)	(2,258)	(8,987)
Derivatives and underlying hedges	27	439	510	1,015
Loans and advances to customers	(55)	22	(9)	-
Net gain on fair value hedges	(35)	15	(26)	64
Total	**(292)**	**(3,054)**	**2,251**	**(7,855)**

9. Net impairment changes

	2023 1.7-30.9	2022 1.7-30.9	2023 1.1-30.9	2022 1.1-30.9
Net impairment changes of loans to customers	(245)	2,600	(1,682)	2,643
Net impairment changes of other financial assets and provision for litigations	(3)	22	(157)	22
Net impairment changes of financial assets	**(248)**	**2,622**	**(1,839)**	**2,665**
Net impairment changes by customer type				
Public entities	(1)	-	(6)	(1)
Individuals	(278)	(90)	(622)	(140)
Corporates	31	2,712	(1,211)	2,806
Net impairment changes of financial assets	**(248)**	**2,622**	**(1,839)**	**2,665**

10. Other income and (expenses)

	2023 1.7-30.9	2022 1.7-30.9	2023 1.1-30.9	2022 1.1-30.9
Share of profit of equity-accounted associates	48	160	89	216
Gain on sale of property and equipment	19	-	55	-
Net income on repossessions	(6)	18	13	545
Other	66	191	105	329
Total	**127**	**369**	**262**	**1,090**

11. Salaries and related expenses

	2023 1.7-30.9	2022 1.7-30.9	2023 1.1-30.9	2022 1.1-30.9
Salaries	2,349	2,298	8,856	7,958
Contributions to defined pension plans	441	433	1,364	1,290
Social security contributions	216	208	658	620
Special financial activities tax on salaries	187	180	570	537
Other related expenses	28	30	86	83
Total	**3,221**	**3,149**	**11,534**	**10,488**
Average number of full-time equivalent positions during the period	816	811	816	798
Number of full-time equivalent positions at the end of the period	818	824	818	824

All amounts are in ISK million

12. Income tax

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

	2023 1.1-30.9	2022 1.1-30.9
Current tax expense	(7,116)	(5,906)
Special income tax on financial institutions	(2,025)	(1,652)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(79)	(107)
Total	**(9,220)**	**(7,665)**

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

		2023 1.1-30.9		2022 1.1-30.9
Profit before income tax		31,603		18,985
Income tax calculated using the domestic corporate income tax rate	20.0%	(6,321)	20.0%	(3,797)
Special income tax on financial institutions	6.4%	(2,025)	8.7%	(1,652)
Income not subject to tax	(0.2%)	54	(1.9%)	358
Non-deductible expenses	2.9%	(928)	13.5%	(2,572)
Other	0.0%	-	0.0%	(2)
Effective income tax	**29.2%**	**(9,220)**	**40.4%**	**(7,665)**

All amounts are in ISK million

Notes to the Condensed Consolidated Statement of Financial Position

13. Classification and fair values of financial assets and liabilities

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 30 September 2023:

		Carrying amount					Fair value			
As at 30 June 2023	**Notes**	**Amortised cost**	**Trading book**	**Banking book**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	18	-	21,238	110,367	-	131,605	130,708	25	872	131,605
Equities and equity instruments	19	-	15,785	-	-	15,785	6,776	-	9,009	15,785
Derivative instruments	20	-	2,069	-	-	2,069	-	2,069	-	2,069
Loans and advances to customers	22	-	15,290	-	-	15,290	-	-	15,290	15,290
		0	**54,382**	**110,367**	**0**	**164,749**	**137,484**	**2,094**	**25,171**	**164,749**
Financial assets not measured at fair value										
Cash and balances with Central Bank	17	114,774	-	-	-	114,774	-	114,774	-	114,774
Loans and advances to financial institutions	21	83,244	-	-	-	83,244	-	83,244	-	83,244
Loans and advances to customers	22	1,584,581	-	-	-	1,584,581	-	1,560,500	-	1,560,500
Other financial assets		15,533	-	-	-	15,533	-	15,533	-	15,533
		1,798,132	**0**	**0**	**0**	**1,798,132**	**0**	**1,774,051**	**0**	**1,774,051**
Financial liabilities measured at fair value										
Derivative instruments	20	-	1,529	-	-	1,529	-	1,529	-	1,529
Short positions	20	-	416	-	-	416	416	-	-	416
		0	**1,945**	**0**	**0**	**1,945**	**416**	**1,529**	**0**	**1,945**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank		-	-	-	30,263	30,263	-	30,263	-	30,263
Deposits from customers		-	-	-	1,065,210	1,065,210	-	1,064,888	-	1,064,888
Borrowings	24	-	-	-	529,809	529,809	-	506,797	-	506,797
Other financial liabilities		-	-	-	18,151	18,151	-	18,151	-	18,151
Subordinated liabilities	27	-	-	-	19,955	19,955	-	20,007	-	20,007
		0	**0**	**0**	**1,663,388**	**1,663,388**	**0**	**1,640,106**	**0**	**1,640,106**

All amounts are in ISK million

13. 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 2022:

		Carrying amount					Fair value			
As at 31 December 2022	**Notes**	**Amortised cost**	**Trading book**	**Banking book**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	18	-	122,963	2,302	-	125,265	124,228	24	1,013	125,265
Equities and equity instruments	19	-	19,106	-	-	19,106	8,265	-	10,841	19,106
Derivative instruments	20	-	3,073	-	-	3,073	-	3,073	-	3,073
Loans and advances to customers	22	-	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	17	42,216	-	-	-	42,216	-	42,216	-	42,216
Loans and advances to financial institutions	21	28,621	-	-	-	28,621	-	28,621	-	28,621
Loans and advances to customers	22	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	20	-	1,478	-	-	1,478	-	1,478	-	1,478
		-	**1,478**	**0**	**0**	**1,478**	**0**	**1,478**	**0**	**1,478**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank		-	-	-	6,634	6,634	-	6,634	-	6,634
Deposits from customers		-	-	-	967,863	967,863	-	967,507	-	967,507
Borrowings	24	-	-	-	476,864	476,864	-	465,185	-	465,185
Other financial liabilities		-	-	-	9,714	9,714	-	9,714	-	9,714
Subordinated liabilities	27	-	-	-	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**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

14. Fair value of financial assets and liabilities

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

During the period from 1 January to 30 September 2023 and 1 January to 30 September 2022, 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 nine months ended 30 September 2023 and for the year 2022:

1 January - 30 September 2023	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total financial assets
Carrying amount as at 1 January 2023	1,013	10,841	17,964	29,818
Net gain (loss) on financial assets and liabilities at FVTPL	22	(2,002)	(9)	(1,989)
Net foreign exchange (loss) gain	(1)	(1)	(55)	(57)
Purchases	28	869	170,423	171,320
Sales	(200)	(548)	-	(748)
Settlements	10	-	(173,033)	(173,023)
Dividend received	-	(150)	-	(150)
Carrying amount as at 30 September 2023	**872**	**9,009**	**15,290**	**25,171**
1 January - 31 December 2022				
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**

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 as at 30 September 2023 and 30 September 2022 were recognised:

1 January - 30 September 2023	Bonds and debt instruments	Equities and equity instruments	Loans and advances to customers	Total
Net gain on financial assets and liabilities at FVTPL realised	15	277	(8)	284
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	6	(2,281)	-	(2,275)
Net foreign exchange loss	(1)	(1)	(55)	(57)
Total	**20**	**(2,005)**	**(63)**	**(2,048)**
1 January - 30 September 2022				
Net gain (loss) on financial assets and liabilities at FVTPL realised	-	137	-	137
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	17	(8,546)	-	(8,529)
Net foreign exchange loss	(3)	(1)	-	(4)
Total	**14**	**(8,410)**	**0**	**(8,396)**

15. Unobservable inputs in fair value measurement

The following table summarises the unobservable inputs used in measuring fair value of financial assets and liabilities categorised in Level 3 as at 30 September 2023 and 31 December 2022.

					Range of inputs	
As at 30 September 2023	Assets	Liabilities	Valuation technique	Key un-observable inputs	Lower	Higher
Bonds and debt instruments	872	-	See 1) below	See 1) below	n/a	n/a
Equities and equity instruments	9,009	-	See 2) below	See 2) below	n/a	n/a
Loans and advances to customers	15,290	-	See 3) below	See 3) below	n/a	n/a
	25,171	**0**				

All amounts are in ISK million

15. Unobservable inputs in fair value measurement (continued)

As at 31 December 2022	Assets	Liabilities	Valuation technique	Key un-observable inputs	Range of inputs Lower	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**				

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 for the nine months ended 30 September 2023 and 30 September 2022:

	2023 1.1-30.9		2022 1.1-30.9	
Effect on profit before tax	**Favourable**	**Unfavourable**	**Favourable**	**Unfavourable**
Bonds and debt instruments	44	(44)	53	(53)
Equities and equity instruments:				
Equities - Banking book	737	(736)	788	(801)
Loans and advances to customers	27	(34)	20	(25)
Total	**808**	**(814)**	**861**	**(879)**

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.

16. Expected credit loss

	30.9.2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and balances with Central Bank	(1)	-	-	(1)
Loans and advances to customers	(4,143)	(1,836)	(4,294)	(10,273)
Other financial assets	(49)	-	(3)	(52)
Expected credit loss, off-balance sheet items	(560)	(65)	(77)	(702)
Total	**(4,753)**	**(1,901)**	**(4,374)**	**(11,028)**

	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)**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

17. Cash and balances with Central Bank

	30.9.2023	31.12.2022
Cash on hand	5,415	4,986
Unrestricted balances with Central Bank	85,987	25,891
Total cash and unrestricted balances with Central Bank	**91,402**	**30,877**
Restricted balances with Central Bank - fixed reserve requirement	23,076	10,960
Cash and balances pledged as collateral to the Central Bank	296	379
Total restricted balances with Central Bank	**23,372**	**11,339**
Total cash and balances with Central Bank	**114,774**	**42,216**

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 2% as of 21 June 2023, previously 1%, bearing no interest and eligible as liquidity reserves and, on the other hand, an average maintenance level.

18. Bonds and debt instruments

	30.9.2023			31.12.2022		
Bonds and debt instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	18,672	60,759	79,431	34,619	48,688	83,307
Unlisted	-	1,931	1,931	-	1,894	1,894
	18,672	**62,690**	**81,362**	**34,619**	**50,582**	**85,201**
Foreign						
Listed	2,566	47,677	50,243	-	40,064	40,064
	2,566	**47,677**	**50,243**	**0**	**40,064**	**40,064**
Total bonds	**21,238**	**110,367**	**131,605**	**34,619**	**90,646**	**125,265**

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

19. Equities and equity instruments

	30.9.2023			31.12.2022		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	5,858	318	6,176	7,286	359	7,645
Unlisted	-	9,245	9,245	32	11,064	11,096
	5,858	**9,563**	**15,421**	**7,318**	**11,423**	**18,741**
Foreign						
Listed	112	228	340	44	296	340
Unlisted	-	24	24	-	25	25
	112	**252**	**364**	**44**	**321**	**365**
Total equities	**5,970**	**9,815**	**15,785**	**7,362**	**11,744**	**19,106**

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.

As at 30 September 2023, outstanding commitments of the Group in share subscriptions amounted to ISK 650 million (31 December 2022: ISK 1,020 million) altogether in six entities (31 December 2022: six entities). The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

20. Derivative instruments and short positions

Trading

	30.9.2023			31.12.2022		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	63,941	558	319	49,544	1,471	182
Cross-currency interest rate swaps	-	-	-	734	76	-
	63,941	**558**	**319**	**50,278**	**1,547**	**182**
Interest rate derivatives						
Interest rate swaps	-	-	-	1,071	-	4
Total return swaps	5,924	20	19	29,981	57	10
	5,924	**20**	**19**	**31,052**	**57**	**14**
Equity derivatives						
Equity forwards	265	69	-	185	27	-
Total return swaps	905	138	11	4,403	161	61
Equity options	-	-	-	40	-	-
	1,170	**207**	**11**	**4,628**	**188**	**61**
Total derivative instruments	**71,035**	**785**	**349**	**85,958**	**1,792**	**257**
Short positions						
Listed bonds	392	-	416	-	-	-
Total short positions	**392**	**0**	**416**	**0**	**0**	**0**
Total	**71,427**	**785**	**765**	**85,958**	**1,792**	**257**

Risk management

	30.9.2023			31.12.2022		
	Notional	Fair value		Notional	Fair value	
Foreign exchange derivatives	amount	Assets	Liabilities	amount	Assets	Liabilities
Currency forwards	53,350	518	258	62,427	1,277	311
	53,350	**518**	**258**	**62,427**	**1,277**	**311**
Interest rate derivatives						
Interest rate swaps	2,000	-	542	3,071	4	590
	2,000	**0**	**542**	**3,071**	**4**	**590**
Fair value hedging						
Interest rate swaps	87,480	766	380	45,450	-	320
	87,480	**766**	**380**	**45,450**	**0**	**320**
Total	**142,830**	**1,284**	**1,180**	**110,948**	**1,281**	**1,221**
Total derivative instruments and short positions	**214,257**	**2,069**	**1,945**	**196,906**	**3,073**	**1,478**

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 2023 to 30 September 2023, the slope of the regression line was in all cases within the range of 0.89 and 0.98 (for a 95% confidence level) and the regression coefficient was at least 1.00 (R^2). During the period from 1 January 2022 to 30 September 2022, the slope of the regression line is in all cases within the range of 0.90 and 0.93 (for a 95% confidence level) and the regression coefficient was at least 0.90 (R^2). In all cases the effectiveness is within limits during the first nine months of 2023 and 2022.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

20. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 30 September 2023	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	43,740	-	43,740	-	766	-	776
Interest rate swaps - EUR	43,740	-	43,740	-	-	380	(374)
Total	**87,480**	**0**	**87,480**	**0**	**766**	**380**	**402**

Average fixed interest rate - EUR 5.31%

As at 30 September 2023	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 4.25 3/28 CB	-	44,456	152	-	(765)
LBANK 6.375 3/27	-	43,449	278	-	317
Total EMTN hedged borrowings	**0**	**87,905**	**430**	**0**	**(448)**

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 1.00 5/23	-	45,283	453	-	892
Total EMTN hedged borrowings	**0**	**45,283**	**453**	**0**	**892**

21. Loans and advances to financial institutions

	30.9.2023	31.12.2022
Bank accounts with financial institutions	22,338	21,759
Money market loans	58,948	5,836
Other loans	1,958	1,026
Allowance for impairment	-	-
Total	**83,244**	**28,621**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

22. Loans and advances to customers

	30.9.2023	31.12.2022
Loans and advances to customers at amortised cost	1,594,854	1,536,391
Allowance for impairment	(10,273)	(9,995)
Total	**1,584,581**	**1,526,396**
Loans and advances to customers at FVTPL	15,290	17,964
Total	**1,599,871**	**1,544,360**

Loans and advances to customers at amortised cost

	30.9.2023			31.12.2022		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	11,924	(11)	11,913	10,525	(6)	10,519
Individuals	811,306	(1,599)	809,707	791,342	(1,327)	790,015
Mortgage lending	723,203	(683)	722,520	705,819	(563)	705,256
Other	88,103	(916)	87,187	85,523	(764)	84,759
Corporates	771,624	(8,663)	762,961	734,524	(8,662)	725,862
Total	**1,594,854**	**(10,273)**	**1,584,581**	**1,536,391**	**(9,995)**	**1,526,396**

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

23. Other assets

	30.9.2023	31.12.2022
Unsettled securities trading	12,689	2,396
Other accounts receivable	1,162	1,578
Right-of-use assets	1,682	1,921
Sundry assets	1,065	1,241
Total	**16,598**	**7,136**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

24. Borrowings

Secured borrowings

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	30.9.2023	31.12.2022
LBANK CB 23, ISK 35,820 million	23.11.2023	At maturity	Fixed 5.0%	37,485	44,867
LBANK CBI 24, ISK 38,080 million	15.11.2024	At maturity	Fixed 3.0%, CPI-indexed	53,233	49,045
LBANK CB 25, ISK 39,660 million	17.09.2025	At maturity	Fixed 3.4%	39,316	38,502
LBANK CBI 26, ISK 11,120 million	20.11.2026	At maturity	Fixed 1.5%, CPI-indexed	14,352	13,355
LBANK CB 27, ISK 31,020 million	20.09.2027	At maturity	Fixed 4.6%	28,483	13,308
LBANK CBI 28, ISK 48,280 million	04.10.2028	At maturity	Fixed 3.0%, CPI-indexed	69,509	64,137
LBANK 4.25 3/28 CB, EUR 300 million*	16.03.2028	At maturity	Fixed 4.25%	44,456	-
LBANK CB 29, ISK 3,080 million	27.09.2029	At maturity	Fixed 8.2%	3,054	-
Total covered bonds				**289,888**	**223,214**

	30.9.2023	31.12.2022
Other secured loans	5,400	-
Total other secured loans	**5,400**	-
Total secured borrowings	**295,288**	**223,214**

Unsecured borrowings

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	30.9.2023	31.12.2022
LBANK 1.00 05/23, EUR 300 million*	30.05.2023	At maturity	FIXED 1.0%	-	45,283
LBANK FLOAT 10/23, NOK 248 million	19.10.2023	At maturity	NIBOR + 1.55%	3,244	7,271
LBANK FLOAT 10/23, SEK 460 million	19.10.2023	At maturity	STIBOR + 1.55%	5,880	6,850
LBANK FLOAT 01/24, SEK 850 million	19.01.2024	At maturity	STIBOR + 0.65%	10,845	11,626
LBANK 0.5 5/24, EUR 168 million	20.05.2024	At maturity	FIXED 0.5%	25,002	45,513
LBANK FLOAT 08/24, NOK 300 million	12.08.2024	At maturity	NIBOR + 2.0%	3,907	4,347
LBANK FLOAT 01/25, NOK 500 million	20.01.2025	At maturity	NIBOR + 0.79%	6,524	7,254
LBANK FLOAT 01/25, SEK 850 million	20.01.2025	At maturity	STIBOR + 0.8%	10,843	11,626
LBANK 0.375 5/25 GB, EUR 300 million	23.05.2025	At maturity	FIXED 0.375%	43,654	45,336
LBANK FLOAT 08/25, NOK 350 million	18.08.2025	At maturity	NIBOR + 2.35%	4,555	5,069
LBANK FLOAT 08/25, NOK 1,000 million	21.08.2025	At maturity	NIBOR + 3.05%	13,010	-
LBANK FLOAT 08/25, SEK 450 million	25.08.2025	At maturity	STIBOR + 3.5%	5,720	-
LBANK 0.75 5/26 GB, EUR 300 million	25.05.2026	At maturity	FIXED 0.75%	43,633	45,360
LBANK 6.375 3/27, EUR 300 million*	12.03.2027	At maturity	FIXED 6.375%	43,449	-
Total senior unsecured bonds				**220,266**	**235,535**

	30.9.2023	31.12.2022
Other unsecured loans	14,255	18,115
Total other unsecured loans	**14,255**	**18,115**
Total unsecured borrowings	**234,521**	**253,650**
Total borrowings As at 30 September 2023	**529,809**	**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 20. 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.

Change in liabilities due to financing activities

	As at 1.1.2023	Cash flow	Non-cash changes: Accrued interest	Non-cash changes: Foreign exchange	Non-cash changes: Change in the fair value	As at 30.9.2023
Secured borrowings	223,214	8,327	13,891	-	-	245,432
Secured borrowings held to hedge long-term	-	44,700	(41)	(968)	765	44,456
Other secured loans	-	5,689	-	(289)	-	5,400
Senior unsecured bonds	190,252	(2,394)	(1,569)	(9,472)	-	176,817
Senior unsecured bonds held to hedge long-term	45,283	(3,483)	1,704	(39)	(16)	43,449
Other unsecured loans	18,115	(4,356)	1,028	(532)	-	14,255
Subordinated liabilities	21,753	(2,850)	1,820	(768)	-	19,955
Total	**498,617**	**45,633**	**16,833**	**(12,068)**	**749**	**549,764**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

24. Borrowings (continued)

Change in liabilities due to financing activities (continued)

	As at 1.1.2022	Cash flow	Non-cash changes: Accrued interest	Foreign exchange	Change in the fair value	As at 30.9.2022
Secured borrowings	217,887	(11,130)	14,702	-	-	221,459
Senior unsecured bonds	181,905	6,477	1,330	(12,229)	-	177,483
Senior unsecured bonds held to hedge long-term	66,470	(21,201)	282	(2,245)	(1,278)	42,028
Other unsecured loans	19,780	(3,676)	354	1,937	-	18,395
Subordinated liabilities	20,785	(442)	1,010	(624)	-	20,729
Total	**506,827**	**(29,972)**	**17,678**	**(13,161)**	**(1,278)**	**480,094**

25. Deferred tax assets and liabilities

	30.9.2023 Assets	30.9.2023 Liabilities	31.12.2022 Assets	31.12.2022 Liabilities
Tax liabilities	-	16,857	-	12,480
Deferred tax liabilities	-	78	-	-
Taxes in the Statement of Financial Position	**0**	**16,935**	**0**	**12,480**

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

	30.9.2023 Assets	30.9.2023 Liabilities	30.9.2023 Net	31.12.2022 Assets	31.12.2022 Liabilities	31.12.2022 Net
Property and equipment	-	(122)	(122)	-	(95)	(95)
Intangibles	-	(143)	(143)	-	(157)	(157)
Exchange rate-indexed assets and liabilities	-	(579)	(579)	-	(487)	(487)
Deferred foreign exchange differences	13	-	13	-	(10)	(10)
Other assets and liabilities	751	-	751	748	-	748
Tax losses carried forward	2	-	2	1	-	1
	766	**(844)**	**(78)**	**749**	**(749)**	**0**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(766)	766	0	(749)	749	0
Deferred tax assets total	**0**	**(78)**	**(78)**	**0**	**0**	**0**

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

	Balance 1.1.2023	Recognised in income statement: Tax income (expense)	Balance as at 30.9.2023	Balance 1.1.2022	Recognised in income statement: Tax income (expense)	Balance as at 31.12.2022
Property and equipment	(95)	(27)	(122)	(111)	16	(95)
Intangibles	(157)	14	(143)	(180)	23	(157)
Foreign currency assets and liabilities	(487)	(92)	(579)	(536)	49	(487)
Deferred foreign exchange differences	(10)	23	13	92	(102)	(10)
Other assets and other liabilities	748	3	751	745	3	748
Tax losses carried forward	1	1	2	5	(4)	1
Total	**0**	**(78)**	**(78)**	**15**	**(15)**	**0**

26. Other liabilities

	30.9.2023	31.12.2022
Unsettled securities trading	14,889	6,141
Withholding tax	1,053	4,440
Accounts payable	1,419	1,484
Non-controlling interests - Funds	337	433
Lease liabilities	1,843	2,089
Provision for litigations	159	-
Sundry liabilities	5,615	6,274
Total	**25,315**	**20,861**

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

27. Subordinated liabilities

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	30.9.2023	31.12.2022
LBANK 3.125 28NC23 T2, EUR 100 million	06.09.2028	At maturity	Fixed 3.125%	-	15,226
LBANK T2I 29, ISK 5,500 million	11.12.2029	At maturity	Fixed 3.85%, CPI-indexed	7,160	6,527
LBANK T2I 33, ISK 12,000 million	23.03.2033	At maturity	Fixed 4.95%, CPI-indexed	12,795	-
Total subordinated liabilities				**19,955**	**21,753**

The subordinated Tier 2 bond series the Bank has issued are callable by the issuer in different years. The bond series LBANK T2I 29 is callable in December 2024. LBANK T2I 33 is callable in March 2028 and on each subsequent interest payment date.

28. Equity

Share capital

As of 30 September 2023, 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 as at 30 September 2023, or 1.58% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. All share capital is fully paid up.

The AGM of Landsbankinn, held on 23 March 2023, renewed the authorisation of the Bank to acquire up to 10% of the nominal value of its 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-end 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 2024. Disposition of own shares purchased by the Bank under this authorisation is subject to approval by a shareholders' meeting. The authorisation to purchase the Bank's own shares in accordance with the resolutions of the 2022 and 2023 AGMs has not been exercised this year to date.

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 2023 AGM of Landsbankinn, held on 23 March, approved the motion of the Board of Directors to pay shareholders a dividend of ISK 0.36 per share for the fiscal year 2022 in two instalments. The instalments, each of ISK 0.18 per share, were made to shareholders on 29 March and 20 September 2023. The total dividend amounts to ISK 8,504 million.

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.

All amounts are in ISK million

28. Equity (continued)

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 34 Capital requirements.

Other notes

29. Earnings per share

	2023	2022	2023	2022
Profit for the period	**1.7-30.9**	**1.7-30.9**	**1.1-30.9**	**1.1-30.9**
Profit for the preiod attributable to owners of the Bank	7,910	5,763	22,383	11,320

	2023	2022	2023	2022
Weighted average number of shares	**1.7-30.9**	**1.7-30.9**	**1.1-30.9**	**1.1-30.9**
Weighted average number of ordinary shares issued	24,000	24,000	24,000	24,000
Weighted average number of own shares	(379)	(379)	(379)	(379)
Weighted average number of shares outstanding	**23,621**	**23,621**	**23,621**	**23,621**
Basic and diluted earnings per share from operations (ISK)	**0.33**	**0.24**	**0.95**	**0.48**

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.

30. 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. On 26 January 2023, the District Court of Reykjavík decided, at the request of the plaintiff, to appoint assessors to assess certain issues regarding damages which the plaintiff maintains that the defendants have caused. The timing of a final judgment is uncertain and whether it will have a financial impact on the Bank. Should the plaintiff´s claims be acknowledged in a final court ruling, it is to be expected that a potential payment obligation will be divided between the defendants.

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. On 12 November 2021, the District Court of Reykjavík acquitted the Bank and the other defendants of all claims of the Pension Fund. On 24 March 2023, the Appeal Court confirmed the judgment of the District Court. On 16 June 2023, the Supreme Court decided to reject an application by the Pension Fund to appeal the judgment of the Appeal Court.

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 disputed interest rate provision was used in the Bank´s consumer credit agreements until 2013. The plaintiffs demand primarily 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. On 7 February 2023 the District Court accepted the plaintiffs´ claims of last resort of repayment based on the initial contractual interest rate and taking into account limitation periods for claims, in the amount of around ISK 230,000 plus interest. The case has been appealed to the Appeal Court where the Bank submits that all claims by the plaintiffs should be rejected. It is the Bank´s assessment that should the judgment of the District Court be confirmed in a final judgment the maximum potential loss resulting from such an outcome will be ISK 159 million as regards the Bank´s loan portfolio with the same interest rate provision. The Bank has recognised a provision of that amount.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

30. Litigation (continued)

Material litigation cases against the Bank and its subsidiaries (continued)

In December 2022, an individual commenced litigation against the Bank in a case which is similar to the above mentioned case. On 23 February 2023 the Bank delivered its written statement claiming that all claims by the plaintiff should be rejected.

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 disputed interest rate provision in this case has been used in the Bank´s consumer and mortgage credit agreements from 2013. 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. On 23 March 2023, a hearing was held before the EFTA Court on a request by the District Court of Reykjavík for an advisory opinion as to whether the interest rate provision is contrary to the Mortgage Credit Directive 2014/17/EU and the Consumer Credit Directive 2008/48/EC. It is expected that the opinion will be delivered on the fourth quarter of 2023. The case will then be brought again before the District Court. It is the Bank´s preliminary assessment of the potential impact of an adverse ruling on the Bank´s loan portfolio with the same interest rate provision that the Bank´s financial loss, taking different scenarios into account, could amount to around ISK 8 billion. The preliminary assessment does not include an assessment of the impact on the Bank´s interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank´s interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

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 Teya Iceland 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. By judgment of 27 April 2023, the District Court acquitted the defendants of the claims made by the Bank. The Bank has appealed the case to the Appeal Court.

31. Interest in subsidiaries

The main subsidiaries held directly or indirectly by the Group As at 30 September 2023 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 30 September 2023

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 fyrirtæki ehf.	100%	Holding company

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 30 September 2023.

32. Related party transactions

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 38 under Public entities.

All amounts are in ISK million

32. Related party transactions (continued)

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:

	30.9.2023		31.12.2022	
Loans in ISK million	**Gross carrying amount**	**Highest amount outstanding during the period**	**Gross carrying amount**	**Highest amount outstanding during the period**
Key management personnel	500	571	549	615
Parties related to key management personnel	207	229	161	224
Associates	819	947	936	975
Other	7	23	18	19
Total	**1,533**	**1,770**	**1,664**	**1,833**

No new guarantees were granted to related parties during the period. The Bank concluded no lease contracts with related parties during the period.

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

	30.9.2023		31.12.2022	
Deposits in ISK million	**Carrying amount**	**Highest amount outstanding during the period**	**Carrying amount**	**Highest amount outstanding during the period**
Key management personnel	80	151	53	189
Parties related to key management personnel	123	251	74	204
Associates	434	1,151	243	1,265
Other	315	512	6	16
Total	**952**	**2,065**	**376**	**1,674**

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.

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 30 September 2023**	**Gross carrying amount as at 31 December 2022**
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	535	509
Total	**535**	**509**

33. 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 Condensed Consolidated Financial Statements for the nine months ended 30 September 2023.

Capital management

34. 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 Financial Stability Committee (FSC) of the Central Bank of Iceland. The FSC has defined the Bank as a systematically important financial institution in Iceland.

The Group's most recent capital requirements are as follows (as a percentage of RWEA):

As at 30 September 2023	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.6%	2.1%	2.8%
Minimum requirement under Pillar I and Pillar II-R	**6.1%**	**8.1%**	**10.8%**
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)	2.0%	2.0%	2.0%
Capital conservation buffer (CCB)	2.5%	2.5%	2.5%
Combined buffer requirement (CBR)	**9.4%**	**9.4%**	**9.4%**
Total capital requirement	**15.5%**	**17.5%**	**20.2%**

On 15 March 2023 the Financial Stability Committy decided to increase the value of the countercyclical capital buffer from 2.0% to 2.5%, taking effect twelve months thereafter. As of the following dates, the countercyclical capital buffer on domestic exposures will therefore be, ceteris paribus:

	31.12.2022	30.9.2023	15.3.2024
Countercyclical capital buffer on domestic exposures	2.0%	2.0%	2.5%

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.

35. 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.

All amounts are in ISK million

35. Capital base, risk-weighted exposure amount and capital ratios (continued)

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	**30.9.2023**	**31.12.2022**
Share capital	23,621	23,621
Share premium	120,593	120,593
Reserves	10,697	11,986
Retained earnings	138,060	122,891
Total equity attributable to owners of the Bank	**292,971**	**279,091**
Intangible assets	(8)	(10)
Forseeable dividends*	(11,192)	(8,498)
Fair value hedges	(386)	320
Adjustment under IFRS 9 transitional arrangements	738	727
Common equity Tier 1 capital (CET1)	**282,123**	**271,630**
Non-controlling interests	-	-
Tier 1 capital	**282,123**	**271,630**
Subordinated liabilities	19,955	21,753
Tier 2 capital	**19,955**	**21,753**
Total capital base	**302,078**	**293,383**

Risk-weighted exposure amount (RWEA)		
Credit risk	1,153,120	1,071,091
Market risk	21,645	19,618
Operational risk	97,716	97,716
Total risk-weighted exposure amount	**1,272,481**	**1,188,425**

*Pursuant to the Bank's dividend policy, the foreseeable dividend corresponds to 50% of net earnings for the nine months of 2023.

CET1 ratio	**22.2%**	**22.9%**
Tier 1 capital ratio	**22.2%**	**22.9%**
Total capital ratio	**23.7%**	**24.7%**
CET1 Ratio as if IFRS 9 transitional arrangements were not applied	**22.1%**	**22.8%**
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	**22.1%**	**22.8%**
Total capital ratio as if IFRS 9 transitional arrangements were not applied	**23.7%**	**24.6%**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

36. Minimum Requirement for own funds and Eligible Liabilities (MREL)

The Act on Recovery and Resolution of Credit Institutions and Investment Firms No. 70/2020, as amended, implementing the Bank Recovery and Resolution Directive 2014/59/EU (BRRD) and Directive 2019/879 (BRRD II), provides for the determination by the Central Bank of Iceland's Resolution Authority of minimum requirement for own funds and eligible liabilities (MREL).

On 17 October 2023 the Resolution Authority announced it's latest MREL decision for the Bank. The decision entails that the Bank must at all times maintain a minimum of 21.6% of MREL funds, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA). MREL must be met without regards to the combined buffer requirement (CBR), which must be seperately fullfilled alongside MREL.

The Bank must also maintain a minimum of 6,0% of MREL funds, as a percentage of the Bank´s Total Exposure Measure (TEM), which is equal to two times the Bank's miminum leverage ratio. No specific subordination requirement has yet been implemented into Icelandic law.

	30.9.2023		31.12.2022	
Own funds and eligible liabilities	**Amount**	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Common Equitiy Tier 1 (CET1)	282,123	22.2%	271,630	22.9%
Additional Tier 1 capital (AT1)	-	0.0%	-	0.0%
Tier 2 capital	19,955	1.6%	21,753	1.8%
Eligible liabilities	178,719	14.0%	187,114	15.7%
Sum of own funds and eligible liabilities	**480,797**	**37.8%**	**480,495**	**40.4%**
Recurring MREL requirement	(290,126)	(22.8%)	(268,091)	(22.6%)
Combined buffer requirement (CBR)	(119,613)	(9.4%)	(110,524)	(9.3%)
Sum of MREL and Combined Buffer Requirements	**(409,739)**	**(32.2%)**	**(378,615)**	**(31.9%)**
MREL Maximum Distributable Amount (M-MDA)	**71,058**	**5.6%**	**101,880**	**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.

37. Leverage ratio

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	**30.9.2023**	**31.12.2022**
- On-balance sheet exposure (excluding derivatives and SFTs)	1,969,875	1,772,744
- Derivative instrument exposure	9,213	9,482
- Securities financing transaction exposures	11,499	12,325
- Off-balance sheet exposure	113,505	97,338
- Regulatory adjustments to Tier 1 capital	(10,848)	(7,461)
Total leverage exposure	**2,093,244**	**1,884,428**
Tier 1 capital	**282,123**	**271,630**
Leverage ratio	**13.5%**	**14.4%**
Leverage ratio as if IFRS 9 transitional arrangements were not applied	**13.4%**	**14.4%**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Credit risk

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

The following tables show the Group's maximum credit risk exposure as at 30 September 2023 and 31 December 2022. 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 30 September 2023	**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	-	114,774	-	-	-	-	-	-	-	-	-	-	-	**114,774**	**114,774**
Bonds and debt instruments	129	108,273	-	-	-	-	-	1,917	-	34	14	-	-	**110,367**	**131,605**
Equities and equity instruments	76	-	-	60	25	-	4	2,711	5	210	6,724	-	-	**9,815**	**15,785**
Derivative instruments	1,323	-	6	31	7	2	1	-	17	347	122	-	213	**2,069**	**2,069**
Loans and advances to financial institutions	83,244	-	-	-	-	-	-	-	-	-	-	-	-	**83,244**	**83,244**
Loans and advances to customers	-	11,913	809,762	186,742	153,952	130,543	107,377	63,231	72,192	28,476	28,477	7,206	-	**1,599,871**	**1,599,871**
Other assets	29,836	-	3	3	1,685	-	2	2,425	14	7	-	-	1,072	**35,047**	**35,055**
Total on-balance sheet exposure	**114,608**	**234,960**	**809,771**	**186,836**	**155,669**	**130,545**	**107,384**	**70,284**	**72,228**	**29,074**	**35,337**	**7,206**	**1,285**	**1,955,187**	**1,982,403**
Off-balance sheet exposure	**57**	**9,423**	**39,379**	**21,088**	**25,702**	**88,947**	**13,378**	**21,385**	**22,321**	**38,463**	**4,622**	**543**	**26**	**285,334**	
Financial guarantees and underwriting commitments	-	-	553	6,867	2,332	6,239	1,863	4,311	3,986	781	922	10	-	27,864	
Undrawn loan commitments	-	125	160	11,498	22,230	79,057	9,620	6,709	10,394	33,516	3,293	-	-	176,602	
Undrawn overdraft/credit card facilities	57	9,298	38,666	2,723	1,140	3,651	1,895	10,365	7,941	4,166	407	533	26	80,868	
Maximum exposure to credit risk	**114,665**	**244,383**	**849,150**	**207,924**	**181,371**	**219,492**	**120,762**	**91,669**	**94,549**	**67,537**	**39,959**	**7,749**	**1,311**	**2,240,521**	
Percentage of maximum exposure to credit risk	5.1%	10.9%	37.9%	9.3%	8.1%	9.8%	5.4%	4.1%	4.2%	3.0%	1.8%	0.3%	0.1%	100%	

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

All amounts are in ISK million

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

				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%	100.0%	

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

39. 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 30 September 2023	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value***	**Without collateral**	**Allowance for impairment**	**Carrying amount**
Financial institutions	-	-	-	-	**0**	-	-	**83,244**	-	**83,244**
Public entities	**17**	**256**	**22**	**20**	**315**	**1,555**	**746**	**10,054**	**(11)**	**11,913**
Individuals	**72,707**	**266,228**	**388,703**	**36,671**	**764,309**	**7,816**	**4,069**	**39,236**	**(1,599)**	**809,762**
Mortgages	65,170	250,429	370,597	31,424	717,620	5,174	2,200	409	(683)	722,520
Other	7,537	15,799	18,106	5,247	46,689	2,642	1,869	38,827	(916)	87,242
Corporates	**29,855**	**146,381**	**253,891**	**223,570**	**653,697**	**107,431**	**76,765**	**25,731**	**(8,663)**	**778,196**
Fisheries	7,706	27,162	94,508	42,203	171,579	13,094	9,824	3,415	(1,346)	186,742
Real estate companies	4,292	27,430	46,510	64,558	142,790	10,499	7,789	2,004	(1,341)	153,952
Construction companies	2,206	22,569	30,279	35,763	90,817	38,651	23,443	2,932	(1,857)	130,543
Travel industry	1,740	17,981	31,739	43,238	94,698	10,632	7,708	4,567	(2,520)	107,377
Services, IT and communications	2,242	10,576	18,137	9,124	40,079	17,507	16,163	6,082	(437)	63,231
Retail	5,978	28,604	14,652	16,286	65,520	5,913	4,164	1,282	(523)	72,192
Manufacturing and energy	838	2,422	5,286	8,162	16,708	7,280	5,038	4,877	(389)	28,476
Holding companies	4,174	6,671	11,189	2,818	24,852	3,503	2,471	354	(232)	28,477
Agriculture	679	2,966	1,591	1,418	6,654	352	165	218	(18)	7,206
Other	-	-	-	-	0	-	-	-	-	0
Total	**102,579**	**412,865**	**642,616**	**260,261**	**1,418,321**	**116,802**	**81,580**	**158,265**	**(10,273)**	**1,683,115**

*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.

All amounts are in ISK million

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

As at 31 December 2022	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	-	-	-	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	-	-	-	-	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.

All amounts are in ISK million

40. 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 30 September 2023	Real estate	Vessels	Deposits	Securities	Other*	Total
Financial institutions	-	-	-	-	-	**0**
Public entities	**1,035**	-	**1**	-	**23**	**1,059**
Individuals	**747,452**	**53**	**188**	**3,683**	**16,840**	**768,216**
Mortgages	714,021	12	138	42	5,446	719,659
Other	33,431	41	50	3,641	11,394	48,557
Corporates	**397,548**	**141,758**	**2,373**	**66,525**	**122,256**	**730,460**
Fisheries	7,953	137,516	442	16,094	19,397	181,402
Real estate companies	144,984	155	272	3,705	1,463	150,579
Construction companies	110,350	6	466	8	3,430	114,260
Travel industry	61,452	516	169	836	39,434	102,407
Services, IT and communications	29,792	3,423	302	5,830	16,894	56,241
Retail	21,481	1	24	15,507	32,671	69,684
Manufacturing and energy	13,005	141	40	-	8,559	21,745
Holding companies	2,131	-	647	24,545	1	27,324
Agriculture	6,400	-	11	-	407	6,818
Other	-	-	-	-	-	0
Total	**1,146,035**	**141,811**	**2,562**	**70,208**	**139,119**	**1,499,735**

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**
Mortages	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**

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

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

41. Credit quality of loans and advances

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

	Gross carrying amount						
As at 30 September 2023	**10-7**	**6-4**	**3-1**	**0**	**Unrated**	**Allowance for impairment**	**Carrying amount**
Financial institutions	**83,244**	-	-	-	-	-	**83,244**
Public entities	**235**	**11,684**	-	**5**	-	**(11)**	**11,913**
Individuals	**426,830**	**351,387**	**28,369**	**3,337**	**1,438**	**(1,599)**	**809,762**
Mortgages	394,802	303,300	21,873	2,043	1,185	(683)	722,520
Other	32,028	48,087	6,496	1,294	253	(916)	87,242
Corporates	**132,276**	**598,758**	**37,702**	**17,769**	**354**	**(8,663)**	**778,196**
Fisheries	46,517	137,210	878	3,483	-	(1,346)	186,742
Real estate companies	1,567	144,778	6,520	2,428	-	(1,341)	153,952
Construction companies	6,525	115,473	8,327	2,075	-	(1,857)	130,543
Travel industry	22,707	70,265	10,140	6,785	-	(2,520)	107,377
Services, IT and communications	11,188	49,030	3,056	394	-	(437)	63,231
Retail	33,896	37,438	931	450	-	(523)	72,192
Manufacturing and energy	9,052	13,398	4,378	2,037	-	(389)	28,476
Holding companies	-	24,911	3,336	108	354	(232)	28,477
Agriculture	824	6,255	136	9	-	(18)	7,206
Other	-	-	-	-	-	-	0
Total	**642,585**	**961,829**	**66,071**	**21,111**	**1,792**	**(10,273)**	**1,683,115**

	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**

All amounts are in ISK million

42. Loans and advances by past due status

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

As at 30 September 2023	Gross carrying amount							
		Days past due						
	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**83,244**	-	-	-	-	-	-	**83,244**
Public entities	**11,919**	-	-	**5**	-	-	**(11)**	**11,913**
Individuals	**801,270**	**2,876**	**3,780**	**422**	**1,027**	**1,986**	**(1,599)**	**809,762**
Mortgages	717,993	-	3,055	276	809	1,070	(683)	722,520
Other	83,277	2,876	725	146	218	916	(916)	87,242
Corporates	**772,631**	**3,264**	**3,969**	**2,862**	**1,509**	**2,624**	**(8,663)**	**778,196**
Fisheries	187,842	127	107	-	12	-	(1,346)	186,742
Real estate companies	153,175	193	975	49	55	846	(1,341)	153,952
Construction companies	129,923	676	317	34	833	617	(1,857)	130,543
Travel industry	103,906	378	2,066	2,450	561	536	(2,520)	107,377
Services, IT and communications	61,905	871	301	289	21	281	(437)	63,231
Retail	71,638	646	123	33	5	270	(523)	72,192
Manufacturing and energy	28,506	315	37	7	-	-	(389)	28,476
Holding companies	28,578	1	34	-	22	74	(232)	28,477
Agriculture	7,158	57	9	-	-	-	(18)	7,206
Other	-	-	-	-	-	-	-	0
Total	**1,669,064**	**6,140**	**7,749**	**3,289**	**2,536**	**4,610**	**(10,273)**	**1,683,115**

As at 31 December 2022	Gross carrying amount							
		Days past due						
	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**	-	**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**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

43. 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.

As at 30 September 2023	Gross carrying amount	Stage 1 Gross carrying amount	Stage 1 12-month ECL	Stage 2 Gross carrying amount	Stage 2 Lifetime ECL	Stage 3 Gross carrying amount	Stage 3 Lifetime ECL	Allowance for impairment	Fair Value	Carrying amount
Financial institutions	**83,244**	**83,244**	-	-	-	-	-	-	-	**83,244**
Public entities	**11,924**	**11,913**	**(11)**	6	-	5	-	**(11)**	-	**11,913**
Individuals	**811,361**	**769,975**	**(256)**	**37,994**	**(546)**	**3,337**	**(797)**	**(1,599)**	55	**809,762**
Mortgages	723,203	692,063	(157)	29,097	(352)	2,043	(174)	(683)	-	722,520
Other	88,158	77,912	(99)	8,897	(194)	1,294	(623)	(916)	55	87,242
Corporates	**786,859**	**711,763**	**(3,876)**	**42,092**	**(1,290)**	**17,769**	**(3,497)**	**(8,663)**	**15,235**	**778,196**
Fisheries	188,088	178,487	(443)	616	(20)	3,483	(883)	(1,346)	5,502	186,742
Real estate companies	155,293	141,612	(804)	7,060	(156)	2,428	(381)	(1,341)	4,193	153,952
Construction companies	132,400	121,975	(1,410)	7,989	(177)	2,075	(270)	(1,857)	361	130,543
Travel industry	109,897	91,688	(480)	11,424	(651)	6,785	(1,389)	(2,520)	-	107,377
Services, IT and communications	63,668	58,280	(291)	4,645	(95)	394	(51)	(437)	349	63,231
Retail	72,715	68,926	(236)	3,028	(51)	450	(236)	(523)	311	72,192
Manufacturing and energy	28,865	21,391	(60)	5,437	(96)	2,037	(233)	(389)	-	28,476
Holding companies	28,709	22,792	(144)	1,290	(40)	108	(48)	(232)	4,519	28,477
Agriculture	7,224	6,612	(8)	603	(4)	9	(6)	(18)	-	7,206
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,693,388**	**1,576,895**	**(4,143)**	**80,092**	**(1,836)**	**21,111**	**(4,294)**	**(10,273)**	**15,290**	**1,683,115**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

43. Loans and advances by stage allocation (continued)

As at 31 December 2022	Gross carrying amount	Stage 1 Gross carrying amount	Stage 1 12-month ECL	Stage 2 Gross carrying amount	Stage 2 Lifetime ECL	Stage 3 Gross carrying amount	Stage 3 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**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

44. Impairment allowance on loans and advances

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

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2023 - Financial institutions	**0**	**0**	**0**	**0**
Changes in models/risk parameters	-	-	-	0
Balance As at 30 September 2023 - 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 2023 - Loans and advances to customers	**(4,006)**	**(1,609)**	**(5,005)**	**(10,620)**
New financial assets originated	(1,006)	(318)	(330)	(1,654)
Reversals due to financial assets that have been derecognised	451	169	773	1,393
Transfer to Stage 1 - 12-month ECL	(134)	130	4	0
Transfer to Stage 2 - Lifetime ECL	436	(527)	91	0
Transfer to Stage 3 - Lifetime ECL	621	588	(1,209)	0
Changes in models/risk parameters	(1,065)	(338)	330	(1,073)
Provisions used to cover write-offs	-	4	975	979
Balance As at 30 September 2023 - Loans and advances to customers	**(4,703)**	**(1,901)**	**(4,371)**	**(10,975)**
- therof classified as deduction from gross carrying amounts	(4,143)	(1,836)	(4,294)	(10,273)
- therof classified as liabilities	(560)	(65)	(77)	(702)

	1.1-30.9.2023				
Net impairment on loans and advances	**Financial institutions**	**Public entities**	**Individuals**	**Corporates**	**Total**
New financial assets originated	-	(2)	(208)	(1,444)	(1,654)
Reversals due to financial assets that have been derecognised	-	-	130	1,263	1,393
Changes due to financial assets recognised in the opening balance	-	(4)	(313)	(756)	(1,073)
Write-offs	-	-	(267)	(1,098)	(1,365)
Provisions used to cover write-offs	-	-	116	863	979
Recoveries	-	-	76	(2)	74
Translation difference	-	-	-	(36)	(36)
Total	**0**	**(6)**	**(466)**	**(1,210)**	**(1,682)**

All amounts are in ISK million

44. Impairment allowance on loans and advances (continued)

The following tables show changes in the impairment allowance of 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				
Net impairment on loans and advances	**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
Total	**0**	**(3)**	**(101)**	**2,538**	**2,434**

45. 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 three large exposures As at 30 September 2023 compared to four large exposures at year-end 2022. The largest exposure before credit risk mitigation is the Icelandic government. Total ratio of large exposures, net of credit risk mitigation, was 8.7% as at 30 September 2023.

As at 30 September 2023	**Gross**	**Ratio of Tier 1 capital**	**Net**	**Ratio of Tier 1 capital**
Group 1	69,436	24.6%	203	0.1%
Group 2	47,677	16.9%	-	0.0%
Group 3	30,789	10.9%	24,284	8.6%
Total	**147,902**	**52.3%**	**24,487**	**8.7%**

All amounts are in ISK million

45. Large exposures (continued)

As at 31 December 2022	Gross	Ratio of Tier 1 capital	Net	Ratio of Tier 1 capital
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%**

Liquidity risk

46. Liquidity risk management

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. 1520/2022 require the Group to maintain a total minimum liquidity coverage ratio (LCR) of 100% and a minimum LCR of 80% in euros. In addition, a minimum LCR of 50% is required in Icelandic króna as of 1 January 2023 (2022: 40%). 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 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 As at 30 September 2023 and at year-end 2022 are shown in the following table:

	ISK		EUR		Liquidity coverage ratio total (LCR)	
Liquidity coverage ratio 30 September 2023	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	180,743	180,743	48,379	48,379	230,312	230,312
Level 2 liquid assets	11,153	7,807	203	173	11,356	7,980
Information items	-	-	-	-	-	-
Total liquid assets	**191,896**	**188,550**	**48,582**	**48,552**	**241,668**	**238,292**
Deposits	661,891	114,225	40,160	14,522	790,746	166,029
Borrowing	-	-	-	-	13,281	13,281
Other outflows	174,338	24,486	16,306	1,313	228,800	30,064
Total outflows (0-30 days)	**836,229**	**138,711**	**56,466**	**15,835**	**1,032,827**	**209,374**
Loans and advances to financial institutions	302	6	16,850	14,608	83,273	80,040
Other inflows	42,132	21,853	7,481	4,115	55,596	29,234
Limit on inflows	-	-	-	(6,848)	-	-
Total inflows (0-30 days)	**42,434**	**21,859**	**24,331**	**11,875**	**138,869**	**109,274**
Liquidity coverage ratio		**161%**		**1227%**		**238%**

	ISK		Foreign currencies		Liquidity coverage ratio total (LCR)	
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%**

All amounts are in ISK million

46. Liquidity risk management (continued)

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 30 September 2023	ISK	Foreign currencies	Total
Cash and balances with the Central Bank	112,586	1,892	114,478
Domestic bonds and debt instruments eligible as collateral with the Central Bank	79,310	203	79,513
Foreign government bonds with 0% risk weight	-	47,677	47,677
High quality liquidity assets	**191,896**	**49,772**	**241,668**
Loans and advances to financial institutions	302	82,971	83,273
Total liquidity reserves	**192,198**	**132,743**	**324,941**

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 at 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**

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 As at 30 September 2023 and 31 December 2022.

	As at 30 September 2023	As at 31 December 2022
Net stable funding ratio FX	150%	132%
Net stable funding ratio total	123%	117%

The following table shows the Group's deposits categorised using the methodology of liquidity Rules No. 266/2017 on calculation of LCR, together with the division of guaranteed and unguaranteed deposits, in accordance with the Act on Deposit Guarantees and Investor-Compensation Scheme, No. 70/2020, amending Act No. 98/1999. Payments to each depositor shall equal the total amount of eligible deposits yet never a higher amount than the equivalent of EUR 100,000 in Icelandic króna. The deposit groups are categorised by maturity and 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 30 September 2023	Run off rate	0-30 days	Over 30 days	Guaranteed	Unguaranteed	Total
Individuals	5% - 100%	407,010	155,377	416,347	146,040	562,387
Small and Medium Sized Corporates	5% - 100%	93,712	13,624	62,205	45,131	107,336
Operational deposits	5% - 25%	-	-	-	-	0
Large Corporates	20% - 40%	195,800	57,196	12,321	240,675	252,996
Public entities	20% - 40%	61,332	7,550	-	68,883	68,882
Financial customers	100%	54,496	35,144	-	89,640	89,640
Pledged deposits		13,263	969	2,470	11,761	14,232
Total deposits		**825,613**	**269,860**	**493,343**	**602,130**	**1,095,473**

As at 31 December 2022	Run off rate	0-30 days	Over 30 days	Guaranteed	Unguaranteed	Total
Individuals	5% - 100%	368,227	136,105	387,945	116,387	504,332
Small and Medium Sized Corporates	5% - 100%	94,086	8,877	59,053	43,910	102,963
Operational deposits	5% - 25%	-	-	-	-	0
Large Corporates	20% - 40%	182,734	54,171	11,081	225,825	236,905
Public entities	20% - 40%	42,089	4,659	-	46,748	46,748
Financial customers	100%	33,335	37,990	-	71,324	71,325
Pledged deposits		11,604	621	3,578	8,647	12,225
Total deposits		**732,075**	**242,423**	**461,657**	**512,841**	**974,498**

All amounts are in ISK million

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47. 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 46.

The amounts in the maturity analyses As at 30 September 2023 and 31 December 2022 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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47. Maturity analysis of financial assets and liabilities (continued)

The following table shows a maturity analysis of the Group's financial instruments as at 30 September 2023:

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	(29,832)	-	(62)	-	-	-	(29,894)	(30,263)
Deposits from customers	(795,035)	(201,529)	(42,721)	(27,650)	(10,697)	-	(1,077,632)	(1,065,210)
Short positions	-	-	(106)	(3,078)	(1,810)	-	(4,994)	(416)
Borrowings	(14,915)	(40,070)	(52,428)	(403,013)	(91,928)	-	(602,354)	(529,809)
Other financial liabilities	(18,151)	-	-	-	-	-	(18,151)	(18,151)
Subordinated liabilities	-	(272)	(638)	(4,112)	(32,300)	-	(37,322)	(19,955)
Total	**(857,933)**	**(241,871)**	**(95,955)**	**(437,853)**	**(136,735)**	**0**	**(1,770,347)**	**(1,663,804)**
Derivative financial liabilities								
Trading								(349)
Inflow	12,963	4,557	1,847	-	-	-	19,367	
Outflow	(13,191)	(4,670)	(1,855)	-	-	-	(19,716)	
Risk management								(1,180)
Inflow	7,686	10,186	1,525	54,300	-	-	73,697	
Outflow	(7,777)	(11,105)	(2,389)	(53,648)	-	-	(74,919)	
Total	**(319)**	**(1,032)**	**(872)**	**652**	**0**	**0**	**(1,571)**	**(1,529)**
Non-derivative financial assets								
Cash and balances with Central Bank	114,774	-	-	-	-	-	114,774	114,774
Bonds and debt instruments	299	53,557	29,543	50,985	15,101	-	149,485	131,605
Equities and equity instruments	-	-	-	-	-	15,785	15,785	15,785
Loans and advances to financial institutions	83,244	-	-	-	-	-	83,244	83,244
Loans and advances to customers	83,489	98,368	280,490	708,051	1,961,703	-	3,132,101	1,599,871
Other financial assets	15,533	-	-	-	-	-	15,533	15,533
Total	**297,339**	**151,925**	**310,033**	**759,036**	**1,976,804**	**15,785**	**3,510,922**	**1,960,812**
Derivative financial assets								
Trading								785
Inflow	26,512	17,107	349	-	-	-	43,968	
Outflow	(26,182)	(16,759)	(345)	-	-	-	(43,286)	
Risk management								1,284
Inflow	14,647	21,075	1,859	51,176	-	-	88,757	
Outflow	(14,435)	(21,372)	(1,611)	(50,002)	-	-	(87,420)	
Total	**542**	**51**	**252**	**1,174**	**0**	**0**	**2,019**	**2,069**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(277)	(1,318)	(6,558)	(9,473)	(9,588)	(650)	(27,864)	
Undrawn loan commitments	(176,602)	-	-	-	-	-	(176,602)	
Undrawn overdraft/credit card commitments	(80,868)	-	-	-	-	-	(80,868)	
Total	**(257,747)**	**(1,318)**	**(6,558)**	**(9,473)**	**(9,588)**	**(650)**	**(285,334)**	
Net liquidity position	**(818,118)**	**(92,245)**	**206,900**	**313,536**	**1,830,481**	**15,135**	**1,455,689**	**297,548**

All amounts are in ISK million

47. 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)
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)	
Riks 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)	
Riks 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**

All amounts are in ISK million

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48. 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.

At year-end 2022, the Group issued covered bonds for own use in the amount of ISK 18 billion and EUR 250 million, that can be sold at a later date or used for securities lending and repurchase agreements. Pledged assets against those covered bonds are ISK 68 billion (31.12.2022: ISK 70,9 billion).

The following tables show the Group's total encumbered and unencumbered assets as at 30 September 2023 and 31 December 2022:

	Collateral pledged against			
As at 30 September 2023	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	18,641	296	95,837	114,774
Bonds and debt instruments	-	3,056	128,549	131,605
Equities and equity instruments	-	-	15,785	15,785
Derivative instruments	-	-	2,069	2,069
Loans and advances to financial institutions	-	1,732	81,512	83,244
Loans and advances to customers	433,067	-	1,166,804	1,599,871
Investments in equity-accounted associates	-	-	1,967	1,967
Property and equipment	-	5,400	9,161	14,561
Intangible assets	-	-	1,598	1,598
Other assets	-	-	16,598	16,598
Assets classified as held for sale	-	-	331	331
Total	**451,708**	**10,484**	**1,520,211**	**1,982,403**

	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**

Market risk

49. Market risk management

The following table summarises the Group's exposure to market risk as a percentage of RWEA as at 30 September 2023 and 31 December 2022. The Group uses the standardized approach to calculate risk-weighted exposure amounts of derivatives for credit valuation adjustment (CVA), according to capital requirement regulations.

	30.9.2023	**31.12.2022**
Market risk factor	**% of RWEA**	**% of RWEA**
Equity price risk	0.4%	0.4%
Interest rate risk	0.8%	0.6%
CVA of derivatives	0.2%	0.0%
Foreign exchange risk	0.4%	0.6%
Total	**1.7%**	**1.7%**

All amounts are in ISK million

50. 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 19.

51. 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 20. The amounts presented are categorised by the earlier of either the contractual repricing or the maturity date.

As at 30 September 2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	114,774	-	-	-	114,774
Bonds and debt instruments	54,870	27,775	39,941	9,019	131,605
Derivative instruments	1,303	-	766	-	2,069
Loans and advances to financial institutions	83,244	-	-	-	83,244
Loans and advances to customers	1,112,345	159,898	312,349	15,279	1,599,871
Other financial assets	15,533	-	-	-	15,533
Total	**1,382,069**	**187,673**	**353,056**	**24,298**	**1,947,096**
Financial liabilities					
Due to financial institutions and Central Bank	(30,263)	-	-	-	(30,263)
Deposits from customers	(1,060,317)	(3,930)	(963)	-	(1,065,210)
Derivative instruments and short positions	(608)	-	(921)	(416)	(1,945)
Borrowings	(107,413)	(28,499)	(321,334)	(72,563)	(529,809)
Other financial liabilities	(18,151)	-	-	-	(18,151)
Subordinated liabilities	-	-	(19,955)	-	(19,955)
Total	**(1,216,752)**	**(32,429)**	**(343,173)**	**(72,979)**	**(1,665,333)**
Net on-balance sheet position	165,317	155,244	9,883	(48,681)	281,763
Derivatives held for hedging	(87,480)	-	87,480	-	
Net off-balance sheet position	2,000	-	(2,000)	-	
Total interest repricing gap	**79,837**	**155,244**	**95,363**	**(48,681)**	

All amounts are in ISK million

51. Interest rate risk (continued)

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)**	

52. 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 as at 30 September 2023 and 31 December 2022, where CPI-linked financial assets and liabilities are disclosed by maturities at their carrying amounts.

As at 30 September 2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	-	751	30,264	4,446	35,461
Derivative instruments	15	-	-	-	15
Loans and advances to customers	150	885	34,358	301,367	336,760
Total	**165**	**1,636**	**64,622**	**305,813**	**372,236**
Financial liabilities					
Deposits from customers	(95,247)	(51,099)	(22,829)	(5,849)	(175,024)
Derivative instruments and short positions	(4)	-	(542)	(35)	(581)
Borrowings	-	-	(67,585)	(69,509)	(137,094)
Subordinated liabilities	-	-	-	(19,955)	(19,955)
Total	**(95,251)**	**(51,099)**	**(90,956)**	**(95,348)**	**(332,654)**
Total on-balance sheet position	**(95,086)**	**(49,463)**	**(26,334)**	**210,465**	**39,582**
Off-balance sheet position					
Interest rate swaps	-	-	(2,000)	-	(2,000)
Total return swaps	1,041	-	-	-	1,041
Total off-balance sheet position	**1,041**	**0**	**(2,000)**	**0**	**(959)**
Total CPI indexation balance	**(94,045)**	**(49,463)**	**(28,334)**	**210,465**	**38,623**

All amounts are in ISK million

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

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 and short positions	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**

Currency risk

53. 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 30 September 2023 was +1.27% of the Group's total capital base (31.12.2022: +2.53%).

54. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk as at 30 September 2023 and 31 December 2022. 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 30 September 2023	EUR	GBP	USD	NOK	SEK	Other	Total
Assets							
Cash and balances with Central Bank	702	169	539	51	40	391	1,892
Bonds and debt instruments	47,894	-	-	-	-	-	47,894
Equities and equity instruments	88	-	243	-	-	4	335
Derivative instruments	1,323	13	492	2	2	1	1,833
Loans and advances to financial institutions	16,850	4,552	24,656	13,899	18,650	4,364	82,971
Loans and advances to customers	193,987	2,044	74,663	57	4	4,905	275,660
Other assets	102	3	36	1	1	73	216
Total	**260,946**	**6,781**	**100,629**	**14,010**	**18,697**	**9,738**	**410,801**
Liabilities							
Due to financial institutions and Central Bank	(25,558)	(10)	-	-	-	-	(25,568)
Deposits from customers	(41,535)	(6,111)	(76,378)	(3,391)	(1,647)	(7,120)	(136,182)
Derivative instruments and short positions	(611)	(21)	(294)	(13)	(11)	(7)	(957)
Borrowings	(200,194)	-	(19,548)	(31,240)	(33,288)	-	(284,270)
Other liabilities	(1,829)	(237)	(613)	(115)	(90)	(720)	(3,604)
Subordinated liabilities	-	-	-	-	-	-	0
Total	**(269,727)**	**(6,379)**	**(96,833)**	**(34,759)**	**(35,036)**	**(7,847)**	**(450,581)**
Net on-balance sheet position	(8,781)	402	3,796	(20,749)	(16,339)	1,891	**(39,780)**
Net off-balance sheet position	10,134	(22)	(1,581)	21,038	16,485	(2,425)	**43,629**
Net currency position	**1,353**	**380**	**2,215**	**289**	**146**	**(534)**	**3,849**

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

54. Concentration of currency risk (continued)

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**

55. Foreign exchange rates used

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

	As at 30 September 2023	As at 31 December 2022	% change	Average for 1.1-30.9 2023	Average for 1.1-30.9 2022
EUR/ISK	145.80	151.50	(3.8%)	148.68	140.93
GBP/ISK	168.21	170.72	(1.5%)	170.86	166.13
USD/ISK	137.77	141.93	(2.9%)	137.63	132.41
JPY/ISK	0.9223	1.0758	(14.3%)	0.9941	1.0399
CHF/ISK	150.70	153.45	(1.8%)	151.90	139.68
CAD/ISK	101.80	104.76	(2.8%)	102.23	102.95
DKK/ISK	19.546	20.373	(4.1%)	19.961	18.945
NOK/ISK	12.923	14.410	(10.3%)	13.179	14.065
SEK/ISK	12.645	13.619	(7.2%)	13.001	13.402

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

56. Operations by quarters

	2023			2022			
Operations	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	38,134	38,407	34,579	26,984	28,677	25,247	21,101
Interest expense	(22,893)	(23,938)	(21,513)	(14,115)	(16,500)	(14,095)	(10,835)
Net interest income	**15,241**	**14,469**	**13,066**	**12,869**	**12,177**	**11,152**	**10,266**
Fee and commission income	3,600	3,851	4,192	4,013	3,657	4,052	3,621
Fee and commission expense	(1,264)	(1,148)	(1,144)	(1,268)	(1,201)	(1,269)	(982)
Net fee and commission income	**2,336**	**2,703**	**3,048**	**2,745**	**2,456**	**2,783**	**2,639**
Net gain (loss) on financial assets and liabilities at FVTPL	(292)	(714)	3,257	(108)	(3,054)	(2,707)	(2,094)
Net foreign exchange gain (loss)	372	40	64	(214)	285	21	8
Net impairment changes	(248)	520	(2,111)	(192)	2,622	(735)	778
Other income and (expenses)	127	139	(4)	466	369	328	393
Net other operating income (expenses)	**(41)**	**(15)**	**1,206**	**(48)**	**222**	**(3,093)**	**(915)**
Total operating income	**17,536**	**17,157**	**17,320**	**15,566**	**14,855**	**10,842**	**11,990**
Salaries and related expenses	(3,221)	(4,194)	(4,119)	(3,986)	(3,149)	(3,584)	(3,755)
Other operating expenses	(2,388)	(2,370)	(2,355)	(2,637)	(2,135)	(2,118)	(2,399)
Tax on liabilities of financial institutions	(643)	(550)	(570)	(535)	(547)	(505)	(510)
Total operating expenses	**(6,252)**	**(7,114)**	**(7,044)**	**(7,158)**	**(5,831)**	**(6,207)**	**(6,664)**
Profit before tax	**11,284**	**10,043**	**10,276**	**8,408**	**9,024**	**4,635**	**5,326**
Income tax	(3,374)	(3,326)	(2,520)	(2,731)	(3,261)	(2,294)	(2,110)
Profit for the period	**7,910**	**6,717**	**7,756**	**5,677**	**5,763**	**2,341**	**3,216**

Balance sheet	**30.9.2023**	**30.6.2023**	**31.3.2023**	**31.12.2022**	**30.9.2022**	**30.6.2022**	**31.3.2022**
Cash and cash balances with Central Bank	114,774	106,299	96,986	42,216	93,799	84,895	68,406
Bonds and debt instruments	131,605	116,515	117,798	125,265	91,951	102,018	129,661
Equities and equity instruments	15,785	15,504	17,561	19,106	20,559	27,368	28,990
Loans and advances to financial institutions	83,244	31,628	78,355	28,621	42,706	36,119	58,179
Loans and advances to customers	1,599,871	1,595,392	1,576,589	1,544,360	1,496,347	1,445,399	1,416,504
Other assets	36,793	30,542	29,199	26,948	25,235	31,785	31,130
Assets classified as held for sale	331	489	505	508	531	559	774
Total assets	**1,982,403**	**1,896,369**	**1,916,993**	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**
Due to financial institutions and Central Bank	30,263	22,132	23,907	6,634	5,059	4,813	6,557
Deposits from customers	1,065,210	1,012,482	1,001,580	967,863	967,965	935,123	922,556
Borrowings	529,809	493,201	532,691	476,864	459,365	451,524	472,827
Other liabilities	44,195	48,796	46,532	34,819	44,596	48,483	45,870
Subordinated liabilities	19,955	34,698	33,940	21,753	20,729	20,550	20,524
Equity	292,971	285,060	278,343	279,091	273,414	267,650	265,310
Total liabilities and equity	**1,982,403**	**1,896,369**	**1,916,993**	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**

*The result for the first three quarter of the year 2023 and for the first three quarters of the year 2022 were reviewed by the Group's independent auditors.

All amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Consolidated Key Figures

57. Key figures and ratios

	2023			2022			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Return on equity before taxes	15.6%	14.3%	14.7%	12.2%	13.3%	7.0%	7.8%
Return on equity after taxes	10.9%	9.5%	11.1%	8.2%	8.5%	3.5%	4.7%
Cost-income ratio	31.5%	39.5%	33.3%	42.0%	43.2%	49.3%	54.9%
Operating expenses as a ratio of average total assets	1.2%	1.4%	1.4%	1.5%	1.2%	1.3%	1.4%
Return on assets	1.6%	1.4%	1.7%	1.3%	1.3%	0.5%	0.7%
Interest spread as ratio of average total assets	3.1%	3.0%	2.8%	2.9%	2.8%	2.6%	2.4%
Earnings per share	0.33	0.28	0.33	0.24	0.24	0.10	0.14
	30.9.2023	30.6.2023	31.3.2023	31.12.2022	30.9.2022	30.6.2022	31.3.2022
Total capital ratio	23.7%	25.3%	25.3%	24.7%	24.2%	24.9%	24.3%
CET1 ratio	22.2%	22.6%	22.6%	22.9%	22.5%	23.1%	22.6%
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	37.8%	35.5%	39.4%	40.4%	-	-	-
Leverage ratio	13.5%	13.9%	13.6%	14.4%	14.4%	14.1%	13.8%
Loans / deposits	150.2%	157.6%	157.4%	159.6%	154.6%	154.6%	153.5%
Deposits / total assets	53.7%	53.4%	52.2%	54.2%	54.7%	54.1%	53.2%
Liquidity coverage ratio total (LCR)	238%	165%	235%	134%	147%	144%	142%
Net stable funding ratio FX (NSFR)	150%	136%	145%	132%	142%	136%	143%
Average number of full-time equivalent positions during the peric	816	807	826	843	822	797	797
Number of full-time positions at end of the period	818	801	825	813	824	786	791

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 period / average total assets
Interest spread	(Interest income - interest expenses) / average total assets
Earnings per share	Profit (loss) for the period 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 period	The average number of full-time employees in work during the period
Number of full-time positions at end of the period	Number of full-time equivalent positions at end of the period

All amounts are in ISK million

Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af:
Berglind Svavarsdóttir
0212644239
Dags: 26.10.2023
Tími: 10:41:47
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Elín H Jónsdóttir

Undirritað af:
Elín H Jónsdóttir
1308666039
Dags: 26.10.2023
Tími: 10:43:34
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Guðbrandur Sigurðsson

Undirritað af:
Guðbrandur Sigurðsson
0205618239
Dags: 26.10.2023
Tími: 10:45:01
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Guðrún Blöndal

Undirritað af:
Guðrún Blöndal
2703603869
Dags: 26.10.2023
Tími: 10:33:51
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af:
Helga Björk Eiríksdóttir
2212683939
Dags: 26.10.2023
Tími: 10:42:24
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Helgi Friðjón Arnarson

Undirritað af:
Helgi Friðjón Arnarson
0306572339
Dags: 26.10.2023
Tími: 10:44:16
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Lilja Björk Einarsdóttir

Undirritað af:
Lilja Björk Einarsdóttir
0408733339
Dags: 26.10.2023
Tími: 10:45:59
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af
Þorvaldur Jacobsen

Undirritað af:
Þorvaldur Jacobsen
2112632029
Dags: 26.10.2023
Tími: 10:40:48
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023
Signet ID: 5715d997-8fc0-47ba-8020-19220f36c543

Undirritað af:
Arna Guðrún Tryggvadóttir
0802783499
Dags: 26.10.2023
Tími: 11:23:22
Ástæða:
Árshlutareikningur samstæðu enska 30.9.2023_undirritaður
Signet ID: 9c994a25-ae4e-44ab-916a-