Íslandsbanki

Consolidated Financial Statements

2023

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

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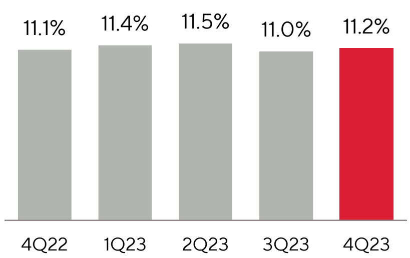
Ratings and certifications

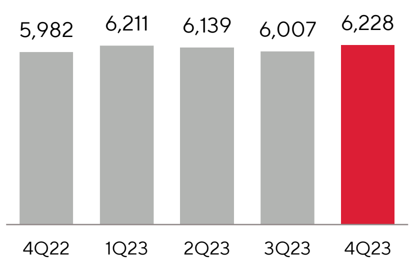
Moody's A3 Stable outlook

S&P Global Ratings BBB/A-2 Positive outlook

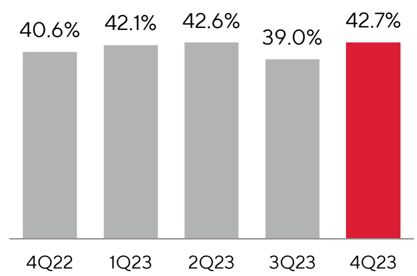
Return on equity



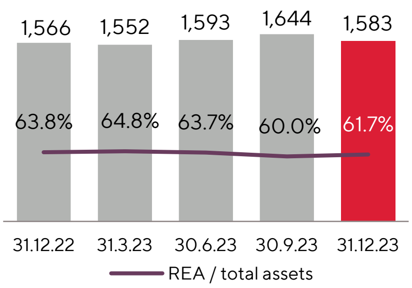
Profit after tax
(ISKm)



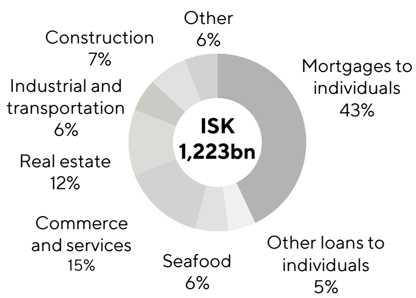
Cost-to-income ratio[2]



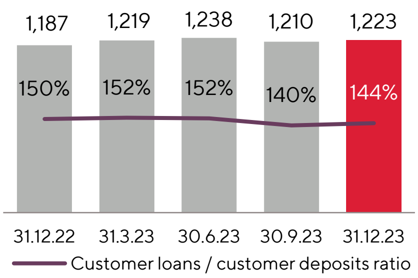
Total assets
(ISKbn)



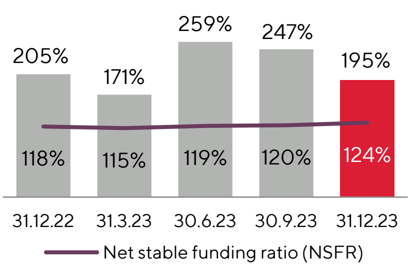
Loans to customers
(Sector split as of 31.12.23)



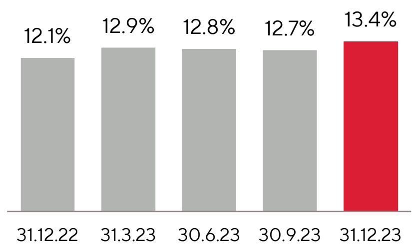
Loans to customers
(ISKbn)



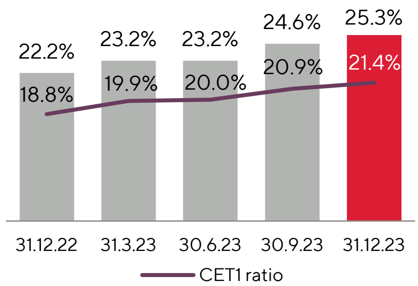
Total liquidity coverage ratio



Leverage ratio[3]



Total capital ratio[3]



The information above has not been reviewed or audited by the Group's auditor.
1. Individuals and small enterprises are out of scope.
2. C/I ratio for 2Q23 and 2023 excludes a charge of ISK 860m due to an administrative fine. C/I ratio for 4Q22 excludes a charge of ISK 300m due to an administrative fine.
3. Including 1Q23 profit for 31.3.23 and 3Q23 profit for 30.9.23.

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the audited Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the year 2023. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in 2023

The profit from the Group's operations for the year 2023 amounted to ISK 24,585 million and the return on equity was 11.3%, above the Bank's target of being above 10%. At year-end the Group employed 764 full-time members of staff, including 725 within the Bank itself, 56% female and 44% male. The Group operates 12 branches.

High interest rate environment and inflation, both domestically and internationally, impacted the Group's operations in 2023, although volatility and uncertainty in markets reduced throughout the year. As for 2023, on the whole delinquency rates have not been observably impacted and the overall financial health of the economy is good.

Net interest income rose by 12.7% between years and the net interest margin increased year-on-year from 2.9% to 3.0% of total assets, primarily on the back of the interest rate environment. However, the margin reduced from 3.2% in the first half of the year, compared to 2.9% in the second half of the year. This reduction is mainly on the back of loss related to higher CPI imbalance, related to a shift where customers have refinanced their loans from non-indexed linked loans to CPI-linked loans, which yielded less return as inflation kept reducing throughout the year. In addition, higher FX funding costs in the second half of the year also played a par. Net fee and commission income was ISK 14,234 million in 2023 compared to ISK 14,053 in 2022, where net income on cards and payment processing showed a healthy growth year-on-year. Further, Allianz Ísland hf. was a good contributor to the Group's net fee and commission income as revenue generation was strong. Asset management remained pressured due to uncertainty in domestic financial markets but recovered towards the end of the year and experienced net inflow, in line with overall market conditions. Overall, core income grew by 9.9% year-on-year. Salaries and related expenses increased by 11.5% between years mainly due to general wage increases and redundancy costs. Throughout the year additional employees were hired related to the Bank's commitment to further strengthen its regulatory infrastructure and overall governance. Other operating expenses rose by ISK 1,574 million and amounted to ISK 11,740 million, or by 15.5% from 2022 to 2023, mainly related to professional services, and software and IT expenses. The cost-to-income ratio, adjusted for the administrative fine regarding a settlement agreement with the Financial Supervisory Authority of the Central Bank of Iceland (FSA) related to the sale of a 22.5% stake in the Bank in 2022, remained flat between 2022 and 2023 or 41.6% which is within the financial guidance of 40-45%. Net impairments amounted to ISK 1,015 million in the year 2023, compared to impairment reversals in the previous year.

Loans to customers grew by 3.1% between years. Mortgages remain the largest part of the loan portfolio, or 43%, and LTVs remain at healthy levels. Asset quality remains strong; at year-end 1.8% of the gross carrying amount of loans to costumers were classified in Stage 3, same as year-end 2022.

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

Following a settlement agreement with the FSA related to the FSA's inspection into the Bank's execution of the Offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki, the Bank agreed to pay a fine in the amount of ISK 1,160 million and undertook to carry out certain remedial measures. The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter. Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. Jón Guðni Ómarsson, who served as CFO from 2011, was appointed CEO. A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto. On the same shareholder meeting, an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board was carried out, as the previous Board of Directors had stepped down, paving the way for a board election. Four new individuals were elected to the Bank's Board of Directors at the meeting, including Linda Jónsdóttir who was elected as Chairman. The Bank has since concluded all remedial measures related to the settlement agreement and emphasised on further strengthening its internal governance, for example by structural changes after which the Chief Compliance Officer has taken a seat within the Executive Committee.

For further information on this matter see Note 13.

Directors' Report

Funding

Deposits continue to remain the Bank's largest source of funding. Deposits from customers amounted to ISK 851 billion at year-end 2023, an increased by 7.7% year-on-year, where Personal Banking was the largest contributor. Customer loans to customer deposits ratio closed at 144% compared to 150% year-end 2022.

On 30 August the Bank announced that Moody's Investor Services (Moody's) assigned an A3 issuer rating to Íslandsbanki. The rating has a stable outlook and demonstrates Íslandsbanki's strong capitalisation and good recurring profitability. At the time of the announcement the rating was the highest of the Icelandic banks. Additionally, Moody's assigned A2 long-term and P-1 short-term foreign and local currency deposit ratings. On 17 November S&P Global Ratings (S&P) affirmed the Bank's ratings at BBB/A-2 and revised the outlook from stable to positive, a reflection on the overall economic trends and strong position of the Bank and the banking sector as a whole.

Volatility in markets adversely affected pricing, especially in the first half of the year. The Bank remained a regular issuer of domestic covered bonds to fund growth in the mortgage loan portfolio, issuing approximately ISK 31,000 million in the year 2023. In addition, the Bank issued a total of ISK 6,700 million, SEK 1,000 million and EUR 300 million of senior preferred bonds. Lastly, the Bank issued ISK 9,600 million of Tier 2 notes, replacing an older SEK 500 million Tier 2 bond which was called in August 2023. During the second half of the year, credit spreads on the Bank's outstanding bonds tightened considerably. Íslandsbanki's liquidity position is strong, well above regulatory requirements and internal limits.

Capital

The Group's capital position remains solid and well in excess of the regulatory requirements. The total capital ratio was 25.3% at the end of the year. According to the conclusion of the annual assessment of risk in the operations of systematically important financial institutions by means of the Supervisory Review and Evaluation Process (SREP) carried out by the FSA, the Bank shall from 30 June 2023 maintain an additional capital requirement of 2.4% of Risk Exposure Amount (REA), a decrease of 0.2 percentage points from the previous assessment. The Bank's total SREP capital requirement therefore decreases from 10.6% to 10.4%. With the combined capital buffer requirement of 9.4%, the overall capital requirement is 19.8%. The Bank has updated its CET1 target to a buffer of 100-300 basis points on top of regulatory requirements hence the Bank's CET1 target range is 16.2-18.2% based on the size of the management buffer and will increase by 0.5 percentage points in the first quarter of 2024 as a result of an increase in the countercyclical buffer.

On 18 October the Central Bank's Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby updated the MREL-Requirement. The MREL-Requirement, including the combined buffer requirement, is 30.2% of the Bank's REA. At year-end 2023 the MREL-ratio was 41.3%.

The Bank paid approximately ISK 12.3 billion in dividends to the Bank's shareholders in March 2023, in line with its dividend policy. During the year, the Bank bought back shares in line with the buyback programme announced in February, amounting to ISK 5,000 million. At year-end a total of 20.4 million shares had been purchased, or 1.02% of share capital. Total purchase price of those shares amounted to ISK 2,310 million. Subject to market conditions, the Bank assumes that the full amount of the buyback programme will be completed by the Bank's 2024 Annual General Meeting (AGM).

The Bank plans to continue its efforts to optimise its capital structure. At the 2024 AGM, the Bank will seek a renewed approval for a share buyback and initiate share buybacks amounting to ISK 10,000 million, subject to market conditions. Further, the Board of Directors will propose a dividend payment amounting to ISK 12,300 million during the same meeting. Further yet, proposals on extraordinary dividend and/or additional share buybacks may be introduced later in the year, subject to market conditions. The capital optimisation is assumed to be completed year-end 2025.

Outlook

The year 2023 was a pivotal year for Iceland's economy, marked by a shift in growth dynamics. Domestic demand growth moderated throughout the year, while services exports, especially in tourism, surged. The third quarter recorded the lowest quarterly GDP growth since early 2021 at 1.1%. This was primarily due to a 1.2% decline in domestic demand and a decrease in goods exports that weighed against a 7.3% increase in services exports and a 3% drop in imports.

Indications for the fourth quarter suggest a further slowdown in domestic demand, evidenced by payment card turnover, import data, and consumer and business sentiment surveys. Private consumption and investment appear to be contracting, following a 1.7% decrease in consumption in the third quarter. However, the tourism sector continued to thrive, with over 2.2 million visitors in 2023, up 29% from the previous year.

ISB Research estimates GDP growth of 3.0% for 2023, a significant drop from 7.2% growth in 2022, with exports overtaking domestic demand as the main growth driver. The labour market remains robust, although there has been some reduction in excess worker demand. A notable influx of foreign nationals was the main contributor to a 3% population growth for the second consecutive year, with unemployment averaging 3.2% and wages increasing by over 10% on average.

Directors' Report

Inflation declined slightly in the fourth quarter but remained high at 7.7% by year-end. A cooling housing market and reduced imported inflation aided this decline, while domestic cost pressures persisted. The Central Bank maintained a 9.25% interest rate in the fourth quarter, with indications of future monetary policy tightening.

Looking ahead to 2024, ISB Research anticipates a 1.9% GDP growth, led by services exports in the first half and bolstered by gradually increasing domestic demand growth as the year progresses. Inflation is expected to decrease throughout the year, accompanied by cautious monetary easing, as the economy continues to rebalance and demand pressures ease. For the next two years, GDP is forecasted to reach 2.6% and 2.9% respectively.

Following seismic activity in Reykjanes, a volcanic eruption occurred near the town of Grindavík in early 2024. As of now, the town of Grindavík (inhabitants approximately 3,700) remains uninhabitable, and the Government is exploring what measures will be needed to relieve this uncertainty. Currently the economic impact related to this is uncertain. The Bank's direct exposure to Grindavík is limited; only 0.4% of the gross carrying amount of loans to customers is covered by real estate in Grindavík. Due to this uncertainty, an impairment allowance amounting to ISK 1.7 billion has been recognised at year-end 2023.

The Bank's target of return on equity above 10% remains unchanged for the year 2024, assuming normalised through-the-cycle annual impairment level of 25-30 basis points on the Bank's loan portfolio, given its current composition. The cost-to-income ratio is expected to be in the range of 40-45%, in line with previous year and below the Bank's target of 45%. As the loan portfolio has shifted more towards CPI-linked products, net interest income will become more volatile and subject to month-by-month change in inflation.

Risk management

The Bank is exposed to various risks. The management of these risks is an integral part of the Bank's operations, and the Bank has focused on building up a responsible internal risk culture among the Bank's employees. The ultimate responsibility for ensuring an adequate risk management framework lies with the Board of Directors. The Board defines and communicates the acceptable level of risk through the Bank's risk management policies and the CEO is responsible for ensuring that risks are managed within those limits.

The Board and the CEO hereby declare that Íslandsbanki has an overall satisfactory risk management in relation to the Bank's profile and strategy.

The Bank's risk management framework and policies are discussed under Notes 45-61 to the Consolidated Financial Statements and in the unaudited Pillar 3 Report.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. At the end of 2023 the Bank had just over 11,500 shareholders, where 89.4% of the Bank's shares were owned by domestic parties and 10.6% by international investors. The Icelandic Government is the largest shareholder with 42.9% of outstanding shares. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009. Apart from the Government, pension funds are the largest investor group, owning 36.7% of the outstanding shares, thereof domestic pension funds 35.6%. For further information on the Bank's shareholders see Note 41.

Sustainability

Íslandsbanki aims to be a leader in the area of sustainable development and a catalyst for positive social action. Alongside its vision of creating value for the future, with excellent service, the Bank will focus on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank takes account of ESG criteria in its risk management and actively explores business opportunities related to sustainability. Íslandsbanki aims to increase the general public's financial knowledge and interest in the subject and, to this end, offers interesting and accessible seminars on finance and economics.

The Board of Directors approves the Sustainability Policy and sets the Bank's strategy and risk appetite in terms of sustainability risk. The Board is regularly updated on corporate sustainability matters and the usage of the Bank's Sustainable Financing Framework. The Corporate Governance and Human Resource sub-committee of the Board assists the Board in fulfilling its oversight responsibilities concerning sustainability.

The CEO is responsible for executing the strategy and has appointed a Sustainability Committee as a main building block of the governance structure. The Committee is the formal forum for discussions on all issues related to sustainability risk, sustainable procurement, and business opportunities. The Committee is independent from credit committees and needs to approve proposals for credit cases before they are included in the Sustainable Financing Framework. The Committee is chaired by the CEO and has senior representatives from the business units, Finance, Risk Management, and Strategy & Sustainability.

Directors' Report

The Sustainability Policy creates a comprehensive framework for its activities in the area of sustainability and maps out the Bank's policy for operations, responsible lending, investments, purchasing, and grants, as well as integrating with and supporting the Bank's other policies. In line with the Sustainability Policy, the Board of Directors has approved seven sustainability goals for its operations, to be completed by 2025. The goals are based on ESG criteria and supported by annual targets set by the business units as part of their five-year planning process.

The Sustainability Report for the year 2023 includes key information on the environmental, social and governance criteria for Íslandsbanki in accordance with the Nasdaq ESG guidelines from 2019 along with other relevant standards. The Bank emphasises increased flow of transparent information on sustainability. Auditing firm Deloitte ehf. was engaged to review and confirm with limited assurance the Bank's sustainability information disclosure in the Annual and Sustainability Report for 2023.

In accordance with local regulation, Íslandsbanki publishes in an unaudited appendix to the Consolidated Financial Statements information regarding the EU taxonomy, Green Asset Ratio. In 2023, the regulation entered into force for financial institutions and other non-financial institutions within its scope, and by that made it mandatory to publish information on the Bank's assets which meet the regulation's requirements, and can according to the taxonomy be considered as environmentally sustainable. Íslandsbanki must obtain this information directly from its customers or other public data sources, such as The Register of Annual Accounts, but as almost no such information has been published during the process of this financial statement, the Bank faces an impossibility regarding data. For that reason, no assets are defined as green or sustainable according to the EU taxonomy at year-end 2023. The Bank aims to work on data collection and conversations with major customers in 2024, with the aim that the disclosure for 2024 better reflects the actual situation. It is clear that the implementation into Icelandic legislation will influence the Bank's efforts in this regard.

Sustainability risk has been more effectively integrated into key processes relating to lending, investments, and product development during the year. At year-end, 93% of all credit risk exposure (excluding individuals and small enterprises which are not in scope) has been assessed with respect to ESG risk-related factors. More detailed coverage can be found in the Bank's Pillar 3 Report for 2023 which contains a separate chapter on sustainability risk and climate risk in compliance with TCFD (Task Force on Climate-related Financial Disclosures) criteria.

Collaboration with international and local partners with regards to sustainability is highly important. Over the years, Íslandsbanki has participated in international commitments and supported domestic cooperative efforts on sustainability. Being a part of international collaborations such as the UN Principles for Responsible Banking (UN PRB), the Nordic CEOs for a Sustainable Future and being a founding member of the Net-Zero Banking Alliance (NZBA) is particularly valuable and informative for a relatively small bank. On the other hand, being one of the largest companies in Iceland means that the Bank can contribute significantly towards domestic partnerships such as Festa - Center for Sustainability and IcelandSif, to name a few.

Environment

Íslandsbanki is committed to supporting Iceland's ambitious Climate Action Plan and the Paris Agreement Goals. To that end, the Bank announced in April 2021 its commitment to become net zero on financed emissions by 2040. The Bank's own operations have been carbon neutral for the past four years, and with this decision, its commitment will also extend to financed emissions which includes the carbon footprint of Íslandsbanki's entire loan and asset portfolio.

Íslandsbanki publishes information on financed emissions (in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard) for 2022 and 2023 in the Bank's Annual and Sustainability Report. The Bank publishes its objectives and performance in connection with climate issues. This includes a new target on emission reduction within the seafood sector. With that the Bank has published targets which account for 64% of total lending and 78% of total emissions from the loan portfolio in 2019. The Bank expects its financed emissions to shrink by 60% by 2030 and 85% by 2040. The Bank's objective of having a net-zero loan portfolio by 2040 is an ambitious but achievable goal in most sectors, although it is clear that transitioning to clean energy in air transport and cargo shipping by sea will probably take longer.

Social

Íslandsbanki strongly emphasises creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts. Because its human resources are its biggest resource, the Bank places strong emphasis on fostering employees' growth and development and contributing to their health and well-being.

As before, equal rights are uppermost in our minds, and we want Íslandsbanki to be a desirable workplace for people from wide-ranging backgrounds. One of Íslandsbanki's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. This ratio is considered in the hiring of management-level employees. As in previous years, the Bank received equal pay certification and was awarded professional certification under the ÍST 85:2012 standard for 2023. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

Directors' Report

Governance

The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to its operations, including those imposed by the Central Bank of Iceland and Nasdaq Iceland. The Bank's governance practices derive, inter alia, from the laws and regulations applicable to financial institutions and the financial market. The Bank complies with the Guidelines on Corporate Governance in accordance with paragraph 7 of article 54 of the Act on Financial Undertakings no. 161/2002. Each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Board of Directors follows the Corporate Governance Guidelines (6th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise, available on www.corporategovernance.is. Moreover, the Bank's governance practices are based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. article 16 of regulation (EC) no. 1093/2010, transposed into Icelandic law with Act no. 24/2017, on European Control Systems in the Financial Market.

Íslandsbanki has a Code of Conduct in place for employees and the Board of Directors which is available on the Bank's website. In addition, the Bank's Sustainability Policy emphasises these matters. The aim of the Code is to promote good operational practices, reporting of misconduct and actions to prevent conflict of interest. Employees confirm annually that they have read and understood the rules and commit their adherence to the rules. At the end of 2023, more than 99% of employees had confirmed the rules. The Bank emphasises respect for human rights and avoids business transactions where human rights are violated, including discrimination on the basis of gender, religion, or race according to the Sustainability Policy and the Suppliers' Code of Conduct. The Bank is committed to continue its active dialogue with suppliers on sustainability issues.

The Bank makes every effort to combat bribery and corruption. For that purpose, the Bank has e.g. implemented a policy on conflict of interest and rules on measures against conflict of interest in which there is a chapter on gifts and complimentary trips. The rules are intended to ensure that the impartiality and credibility of employees cannot be brought into question with respect to the treatment and handling of individual matters. Moreover, the Bank has a policy in place on actions against money laundering and terrorist financing. The Bank's policy on anti-money laundering takes a clear stance against payments on bribery and corruption. In practice, the Bank emphasises on being compliant with Act no. 140/2018 on measures against Money Laundering and Terrorist Financing which involves combating bribery and corruption.

The Board of Directors of Íslandsbanki is committed to excellence in its governance framework so that it complies with the best corporate governance practices in the financial market at all times. Following the Bank's settlement agreement with the FSA a comprehensive review of the Bank's internal rules and procedures was carried out in connection with the Bank's remedial measures. The Board believes that the Bank has adequately responded to the remedial requirements of the FSA according to the settlement. The actions taken are intended to strengthen the Bank's risk culture and ensure compliance with laws and regulations in the future. The Board will emphasise the follow-up of the effectiveness of the changes implemented and the development of a risk culture for the future so as to ensure that these aspects take root. The Board will also make sure that issues related to governance, risk management and internal control receive appropriate consideration in the Board.

At each AGM seven non-executive directors, and two alternate members, are elected to the Board for a term of one year. The Board undertakes the Bank's affairs and is responsible for setting the Bank's general strategy as well as instructing the CEO on its further implementation and execution. The Board has a supervisory role overseeing that the Bank's organisation and activities are at all times in accordance with relevant laws, regulations and good business practices. Furthermore, the Board shall monitor the execution of its policies, the sound control of accounting and financial management, and ensure that group internal audit, compliance, risk management and internal controls are effective at all times.

In accordance with the Bank's Articles of Association the Bank operates a Nomination Committee whose role is to nominate individuals to the Bank's Board of Directors at the AGM, or as the case may be at a shareholders' meeting where Board elections are on the agenda. The members of the Nomination Committee shall be three and they shall be elected for one year at a time by the Board of Directors. The Committee shall be independent in its work and the majority of the Committee's members shall be independent of the Bank and its management. Along with the Bank's Nomination Committee, the ISFI operates a special three-member Selection Committee which, on behalf of the State, nominates candidates for the supervisory boards or boards of directors of banks or undertakings that are managed by ISFI.

The Board has approved a policy on the suitability of the Board of Directors, the CEO and key function holders. The objective of the policy is that the Bank's Board of Directors, CEO, and key employees meet the relevant suitability requirements at all times and the framework for their appointment and/or employment is in accordance with the applicable legal requirements for the Bank's operation. The policy states, among other things, that the composition of the Board shall at any time be diverse, with regard to educational and professional background, gender and age. Human Resources reports annually to the Board on the Bank's actions in implementing the policy. Currently the Board consists of seven members, three women and four men. Board members are of various ages, born in the years 1960-1979. Board members have a broad range of education, e.g. in the fields of engineering, law, finance, management, auditing, business administration, and securities trading. Board members also have extensive industry experience in the areas of operations, finance, auditing, management, and consulting.

Directors' Report

The Board appoints three sub-committees, each one comprising Board members and operating under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of Board sub-committees are available on the Bank's website.

The CEO is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's Chief Compliance Officer and appoints members of the Executive Committee and other Senior Management Committees.

The Executive Committee, comprising eight members, including the CEO, is composed of four women and four men. Members of the Executive Committee were born in the years 1961-1982 and possess diverse education and extensive experience. The role of the Executive Committee is to maintain an overall view of the Bank's operations and to coordinate key aspects of its activities. The CEO ensures that the Board is regularly provided with accurate information on the Bank's finances, development, and operations.

The Bank's Finance division is responsible for the preparation of the Consolidated Financial Statements which are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. The Board's Audit Committee reviews the Group's annual and interim Consolidated Financial Statements before their submission for Board approval and endorsement. The Board's Audit Committee regularly discusses the Bank's financial statements and evaluates its internal control processes. Management reporting is generally presented to the Board 10 times a year. The external auditors review the half year Condensed Consolidated Interim Financial Statements and audit the annual Consolidated Financial Statements.

A more detailed description of Íslandsbanki's governance framework and associated practices can be found in the Bank's Corporate Governance Statement enclosed in an unaudited appendix to the Consolidated Financial Statements and on the Bank's website, www.islandsbanki.is.

Other matters

On 29 June 2023 Íslandsbanki received a letter from the Board of Directors of Kvika whereby it was announced that Kvika had decided to end merger discussions which had been ongoing since February 2023. The Board of Directors of Íslandsbanki agreed with the conclusion to discontinue merger discussions.

The FSA conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in the Bank's AML measures. The Bank has not challenged the FSA's findings and has already made, and is continuing to make, improvements to its AML framework. Fight against financial crime is an important part of Íslandsbanki's corporate responsibility and work to that end is a high priority within the Bank. The matter could result in a settlement and a fine. The Bank has recognised an undisclosed provision in relation to this matter. For further information see Note 43.

Directors' Report

Statement by the Board of Directors and the CEO

The audited Consolidated Financial Statements for the year ended 31 December 2023 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Consolidated Financial Statements provide a true and fair view of the Group's operating profits and cash flows in 2023 and its financial position as of 31 December 2023. Furthermore, in our opinion the financial statements and the Directors' Report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 identified as "549300PZMFIQR79Q0T97-2023-12-31-en.zip" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO have today discussed and approved the 2023 Consolidated Financial Statements of Íslandsbanki.

Kópavogur, 8 February 2024

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Anna Þórðardóttir

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Páll Grétar Steingrímsson

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditors' Report

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

Opinion

We have audited the Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (the Group) for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows for the year then ended, and the notes to the Consolidated Financial Statements, including a summary of material accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2023, and its Consolidated Financial Performance and its Consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

Our opinion in this report on the Consolidated Financial Statements is consistent with the content of the additional report that has been submitted to the audit committee in accordance with the EU Audit Regulation no. 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation no. 537/2014 Article 5.1 has been provided.

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

Independent Auditors' Report

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in the audit

Impairment charges for loans to customers

Key Audit Matters

Loans to customers represent ISK 1,223,426 million or 77% of total assets at 31 December 2023, thereof expected credit losses (ECL) of ISK 11,728 million have been recorded.

The determination of the provision for credit impairment is based on estimates and judgement by management. Key areas of judgement include:

- the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model;
- the identification of loans with significant deterioration in credit quality;
- assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows, forward-looking macroeconomic factors and valuation of collateral.

Due to the use of judgement and estimates and the relative size of loans to customers on the balance sheet, we consider the provision for expected credit losses (ECL) a Key Audit Matter.

How the matter was addressed in the audit

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Assessing the Group's expected credit loss model, focusing on the following areas:
  - alignment of the expected credit loss model and its underlying methodology with the requirements of IFRS 9;
  - approach to the incorporation of forward-looking macroeconomic factors;
- Testing of relevant controls relating, among others, to the:
  - data used to determine the provision for credit impairment, including transactional data captured at loan origination and ongoing internal credit quality assessment;
  - expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
  - review and approval of forward-looking macro-economic factors; and
  - registration and valuation of collateral used in the calculation of expected credit loss.
- Testing of a sample of loans and procedures to evaluate among others:
  - timely identification of loans with significant deterioration in credit quality;
  - expected loss calculation by re-performing and assessing the reasonableness of the ECL model calculations;
  - appropriateness of forward-looking macroeconomic factors; and

In addition, we assessed the disclosures in the consolidated financial statements. Refer to Notes 3 and 62.3 for credit impairment.

Reliability of information from IT systems relevant to financial reporting

Key Audit Matters

The Group is highly dependent on IT systems due to the significant number of transactions that are processed daily and due to the complexity of the various systems needed to support the Group's operations.

In the process of preparing the Consolidated Financial Statements the Group uses data from many complex IT systems. To ensure complete and accurate processing and reporting of financial data it is important that controls over appropriate access rights, system changes and transaction processing are designed and operate effectively.

Because of the importance of the data from the IT systems supporting the financial reporting we consider their reliability a Key Audit Matter.

How the matter was addressed in the audit

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Obtained an understanding of Group's IT systems and the IT-environment relevant for financial reporting
- Reviewed the design, implementation and effectiveness of control activities, as appropriate, related to change management, access management and computer operations for the systems considered important for the audit

Deloitte's IT specialists were involved in the audit.

Independent Auditors' Report

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the unaudited highlights, Directors' Report and unaudited Íslandsbanki's Corporate Governance Statement 2023 in appendix.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon except for confirmation regarding Directors' Report as stated below.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Act on Annual Accounts no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the Board of Directors includes all information required by the Icelandic Act on Annual Accounts that is not disclosed elsewhere in the Consolidated Financial Statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and the CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors shall supervise the preparation and presentation of the Consolidated Financial Statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

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

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

In addition to our work as the auditors of Íslandsbanki hf., Deloitte has provided the bank with permitted non-audit services. Deloitte has in place internal procedures in order to ensure its independence before acceptance of additional services. Deloitte has confirmed in writing to the Audit Committee that we are independent of Íslandsbanki hf.

Report on Other Legal and Regulatory Requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Íslandsbanki hf. we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 with the file name "549300PZMFIQR79Q0T97-2023- 12-31-en.zip" is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

Management is responsible for preparing the Consolidated Financial Statements in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the Consolidated Financial Statements in a XHTML format in accordance with EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the Consolidated Financial Statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 with the file name "549300PZMFIQR79Q0T97-2023-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Íslandsbanki hf. by the general meeting of shareholders on 31 January 2024.

Kópavogur, 8 February 2024

Deloitte ehf.

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Geir Steindórsson

State Authorised Public Accountant

Consolidated Income Statement

	Notes	2023	2022
Interest income calculated using the effective interest rate method		126,095	87,671
Other interest income		11,047	6,342
Interest expense		(88,531)	(50,887)
Net interest income	6	48,611	43,126
Fee and commission income		18,591	17,630
Fee and commission expense		(4,357)	(3,577)
Net fee and commission income	7	14,234	14,053
Net financial income (expense)	8	241	(1,257)
Net foreign exchange gain	9	581	881
Other operating income	10	570	433
Other net operating income		1,392	57
Total operating income		64,237	57,236
Salaries and related expenses	11	(15,003)	(13,452)
Other operating expenses*	12	(11,740)	(10,166)
Administrative fine*	13	(860)	(300)
Contribution to the Depositors' and Investors' Guarantee Fund		-	(165)
Bank tax		(1,871)	(1,858)
Total operating expenses		(29,474)	(25,941)
Profit before net impairment on financial assets		34,763	31,295
Net impairment on financial assets	14	(1,015)	1,576
Profit before tax		33,748	32,871
Income tax expense	15	(9,198)	(8,485)
Profit for the year from continuing operations		24,550	24,386
Discontinued operations held for sale, net of income tax		35	149
Profit for the year		24,585	24,535
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	16	12.32	12.19

*Comparative figures have been changed with immaterial effects. A provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine".

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 14 Amounts are in ISK million

Consolidated Statement of Comprehensive Income

	2023	2022
Profit for the year	24,585	24,535
Net gain (loss) on financial liabilities, net of tax	(4,203)	2,527
Items that will not be reclassified to the income statement	(4,203)	2,527
Foreign currency translation	1	2
Items that may subsequently be reclassified to the income statement	1	2
Other comprehensive income (expense) for the year, net of tax	(4,202)	2,529
Comprehensive income for the year	20,383	27,064

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 15 Amounts are in ISK million

Consolidated Statement of Financial Position

	Notes	31.12.2023	31.12.2022
Assets			
Cash and balances with Central Bank	21	87,504	94,424
Loans to credit institutions	22	73,475	110,364
Bonds and debt instruments	17	161,342	130,804
Derivatives	23	5,776	7,461
Loans to customers	24	1,223,426	1,186,639
Shares and equity instruments	17	13,241	15,868
Investments in associates	26	4,051	3,844
Property and equipment	27	6,562	6,752
Intangible assets	28	2,930	3,279
Other assets	29	3,638	6,072
Non-current assets and disposal groups held for sale	30	749	728
Total Assets		1,582,694	1,566,235
Liabilities			
Deposits from Central Bank and credit institutions	31	16,149	15,269
Deposits from customers	32	850,709	789,897
Derivative instruments and short positions	23	5,090	10,804
Debt issued and other borrowed funds	34	417,573	468,270
Subordinated loans	35	38,155	34,392
Tax liabilities	37	13,107	12,128
Other liabilities	38	17,218	16,601
Total Liabilities		1,358,001	1,347,361
Equity			
Share capital		9,898	10,000
Share premium		55,000	55,000
Reserves		5,083	9,158
Retained earnings		154,712	144,716
Total Equity		224,693	218,874
Total Liabilities and Equity		1,582,694	1,566,235

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 16 Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2022	10,000	55,000	2,500	4,640	(1,054)	-	132,624	203,710
Profit for the year							24,535	24,535
Net gain (loss) on financial liabilities, net of tax					2,840		(313)	2,527
Foreign currency translation						2		2
Comprehensive income for the year	-	-	-	-	2,840	2	24,222	27,064
Dividends paid							(11,900)	(11,900)
Restricted due to capitalised development costs				(292)			292	-
Restricted due to fair value changes				424			(424)	-
Restricted due to associates				98			(98)	-
Equity as at 31 December 2022	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Equity as at 1 January 2023	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Profit for the year							24,585	24,585
Net loss on financial liabilities, net of tax					(3,613)		(590)	(4,203)
Foreign currency translation						1		1
Comprehensive income (expense) for the year	-	-	-	-	(3,613)	1	23,995	20,383
Dividends paid							(12,254)	(12,254)
Purchase of treasury shares	(102)						(2,208)	(2,310)
Restricted due to capitalised development costs				(290)			290	-
Restricted due to fair value changes				(309)			309	-
Restricted due to associates				136			(136)	-
Equity as at 31 December 2023	9,898	55,000	2,500	4,407	(1,827)	3	154,712	224,693

The Bank's authorised and issued share capital consists of 2,000 million ordinary shares with a par value of ISK 5 each. Íslandsbanki bought back approximately 20.4 million own shares for ISK 2,310 million during 2023. As of 31 December 2023, the Bank's paid-up share capital totalled ISK 65,000 million, and the total stated share capital amounted to ISK 64,898 million. The Bank has a single class of ordinary shares that do not carry any rights to fixed income. The Annual General Meeting (AGM) for the 2022 operating year took place on 16 March 2023. During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 6.15 per share, totalling approximately ISK 12,300 million (2022: ISK 5.95 per share). The dividends were paid on 27 March 2023.

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 17 Amounts are in ISK million

Consolidated Statement of Cash Flows

	2023	2022
Profit for the year	24,585	24,535
Non-cash items included in profit for the year*	(33,442)	(39,076)
Changes in operating assets and liabilities*	11,199	(57,031)
Interest received	108,689	78,521
Interest paid**	(76,073)	(42,172)
Dividends received	286	1,049
Paid bank tax	(1,861)	(1,683)
Paid income tax and special financial activities tax	(7,165)	(3,582)
Net cash provided by (used in) operating activities	26,218	(39,439)
Net investment in subsidiaries and associates	-	(1,103)
Proceeds from sales of property and equipment	374	35
Purchase of property and equipment	(311)	(273)
Purchase of intangible assets	(385)	(470)
Net cash used in investing activities	(322)	(1,811)
Proceeds from borrowings	117,497	191,503
Repayment and repurchases of borrowings	(180,813)	(129,448)
Repayment of lease liabilities	(528)	(472)
Dividends paid	(12,254)	(11,900)
Purchase of treasury shares	(2,310)	-
Net cash provided by (used in) financing activities	(78,408)	49,683
Net increase (decrease) in cash and cash equivalents	(52,512)	8,433
Effects of foreign exchange rate changes	(51)	5
Cash and cash equivalents at the beginning of the year	139,035	130,597
Cash and cash equivalents at year-end	86,472	139,035

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	21	3,653	3,563
Unrestricted balances with Central Bank	21	64,025	80,866
Bank accounts	22	18,794	54,606
Cash and cash equivalents at year-end		86,472	139,035

*For further breakdown see the following page.

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

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

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 18 Amounts are in ISK million

Consolidated Statement of Cash Flows

Non-cash items included in profit for the year

	2023	2022
Net interest income	(48,611)	(43,126)
Depreciation, amortisation, and write-offs	1,620	1,400
Share of profit and gain from sale of associates	(207)	(198)
Net impairment on financial assets	1,190	(1,430)
Foreign exchange gain	(581)	(881)
Net gain from sales of property and equipment	(219)	(19)
Unrealised fair value gain (loss) recognised in profit or loss	2,322	(5,115)
Discontinued operations held for sale, net of income tax	(35)	(149)
Bank tax	1,871	1,858
Income tax expense	9,198	8,485
Other changes	10	99
Total	(33,442)	(39,076)

Changes in operating assets and liabilities

	2023	2022
Mandatory reserve and pledged balances with Central Bank	(9,831)	(738)
Loans to credit institutions	1,397	(32,284)
Bonds and debt instruments	(21,426)	4,557
Loans to customers	(23,058)	(78,415)
Shares and equity instruments	2,540	13,313
Other assets	2,442	(293)
Non-current assets and liabilities held for sale	23	(182)
Deposits from Central Bank and credit institutions	888	1,546
Deposits from customers	63,077	41,048
Derivative instruments and short positions	(5,590)	(9,207)
Other liabilities	737	3,624
Total	11,199	(57,031)

Significant non-cash transactions

Significant non-cash transactions 2023

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

Significant non-cash transactions 2022

During the year the Group repurchased own debt securites amounting to ISK 8,094 million by issuing new debt.

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 19 Amounts are in ISK million

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. Corporate information

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

The Consolidated Financial Statements for the year ended 2023 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over eight other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Group provides a wide range of financial services such as retail banking, corporate banking, investment banking, wealth management and asset financing. The Group operates mainly in the Icelandic market.

The Consolidated Financial Statements were written in English and approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 8 February 2024. In case of discrepancy between the English version and the Icelandic translation, the English original will prevail.

2. Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The Consolidated Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 December 2023 the exchange rate of the ISK against the USD was 136.20 and for the EUR 150.50 (at year-end 2022: USD 142.04 and EUR 151.50).

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Therefore, the Consolidated Financial Statements have been prepared on a going concern basis.

Basis of measurement

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

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

3. Significant accounting estimates and judgements

In preparing these Consolidated Financial Statements management has made judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management bases its judgements on previous experience and other factors that are considered reasonable under the circumstances, but actual results may differ from those estimates. Management continuously evaluates these judgements, estimates, and assumptions. Changes in accounting estimates are recognised when they occur.

Key source of estimation uncertainty is the allowance for credit losses.

Notes to the Consolidated Financial Statements

3. Significant accounting estimates and judgements (continued)

Impairment of financial assets

The main assumptions used for calculating the allowance for credit losses that are subject to significant judgement include the following:

- Probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- Macroeconomic variables for multiple scenarios built on available information
- Assessment of significant increase in credit risk (SICR)

The PD, LGD and EAD inputs used to estimate expected credit losses are modelled based on variables that are most closely related with credit losses in the relevant portfolio. This includes macroeconomic variables, demographic variables, variables related to past payment history among other variables. These variables are sourced both internally and externally. Significant judgements required for measuring expected credit loss (ECL) include the following:

- Determining criteria for assessing what constitutes a significant increase in credit risk
- Establishing the forward-looking scenarios and their relative weightings
- Choosing appropriate models and assumptions for the measurement of ECL

During the last quarter of 2023, the Group made temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula. The Group's impairment process allows for temporary changes to the impairment model to account for circumstances when it becomes evident that existing or expected risk factors have not been appropriately considered in the credit risk rating or modelling process. The seismic activity created such circumstances for loans to individuals and small companies in the town of Grindavík, and therefore adjustments were warranted. The adjustments include transferring exposures amounting to ISK 5.2 billion from Stage 1 to Stage 2 and applying higher haircuts to the values of collateral for these exposures. In addition, a management overlay was applied to the modelled ECL, resulting in a total additional impairment allowance of ISK 1.7 billion due to the seismic activity.

The All Risk Committee has decided to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at year-end 2023, as it had been throughout the year. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 320 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 220 million.

The allowance for credit losses is further discussed in Notes 24-25, in Notes 46-50 on risk management and in Note 62.3.

4. Changes to accounting policies

Amendments to IFRS standards that became effective from 1 January 2023 did not have a material impact on the Consolidated Financial Statements.

Changes to IFRS standards issued but not effective at the reporting date

Amendments to several IFRS standards have been issued but are not yet effective. The Group did not early adopt any of them and intends to adopt them when they become effective. The Group currently does not expect a material impact on its future Consolidated Financial Statements as a result of these changes.

Notes to the Consolidated Financial Statements

5. Operating segments

Segment information is presented in accordance with the Group's management and internal reporting structure. The segments' operating results are reported to the Board of Directors and the Chief Executive Officer, who are responsible for allocating resources to the reportable segments and assessing their financial performance.

An operating segment is a distinguishable component of the Group, for which discrete financial information is available, that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Each operating segment is engaged in providing products or services which are subject to risk and return that are different from those of other operating segments. The accounting policies for the reportable segments are in line with the Group's accounting policies. The Group operates mainly in the Icelandic market.

The Bank has three main business segments: Personal Banking, Business Banking, and Corporate & Investment Banking. Operating segments pay and receive interest to and from Treasury to reflect the allocation of capital, funding costs, and the relevant risk premium. Capital allocation to the business units is based on the Pillar 1 regulatory capital requirement, the Pillar 2-R capital requirement calculated according to the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the combined buffer requirement as stipulated in the Act on Financial Undertakings no. 161/2002. Income tax and bank tax with breakdown for each segment is according to the current tax rates.

The Group comprises the following operating segments.

Personal Banking

Personal Banking provides comprehensive financial services to individuals, such as lending, savings and payments. Íslandsbanki's customers are increasingly taking care of their day-to-day banking via digital solutions such as apps, the online bank and the secure web chat. Customers can also visit the Bank's efficient branch network for comprehensive consultancy services and contact the contact centre.

Business Banking

Business Banking provides small and medium-sized enterprises (SMEs) with comprehensive financial services and Ergo, the Bank's asset financing service, is also part of the division. Business Banking serves customers in business centres and branches close to their business. Via online banking and the app, customers have full overview of their business and day-to-day operations are easy to manage.

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors, and affluent individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage, and private banking services. The division is sector-focused, building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

Treasury and Proprietary Trading

Treasury is responsible for funding the Bank's operations and for managing the internal pricing framework. It is also responsible for the Bank's balance sheet management and for relations with debt investors, financial institutions, stock exchanges, and rating agencies. Equity that is not allocated to business units sits within Treasury. Proprietary Trading includes equity and debt investments in the trading book and the banking book.

Cost centres

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

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. Assets and liabilities of subsidiaries, that are classified as non-current assets and disposal groups held for sale, are included in the column "Other subsidiaries". All inter-company eliminations are included in the column "Eliminations & adjustments".

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

5. Operating segments (continued)

2023	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	17,410	17,980	13,854	(475)	(365)	48,404	207	48,611
Net fee and commission income (expense)	4,336	2,208	4,575	(8)	(36)	11,075	3,159	14,234
Other net operating income	70	90	1,284	565	374	2,383	(991)	1,392
Total operating income	21,816	20,278	19,713	82	(27)	61,862	2,375	64,237
Salaries and related expenses	(2,473)	(2,161)	(2,132)	(272)	(6,959)	(13,997)	(1,006)	(15,003)
Other operating expenses	(2,592)	(1,196)	(1,061)	(505)	(5,579)	(10,933)	(807)	(11,740)
Administrative fine	-	-	-	-	(860)	(860)	-	(860)
Bank tax	(838)	(454)	(489)	(77)	(13)	(1,871)	-	(1,871)
Net impairment on financial assets	(1,589)	(669)	1,163	80	-	(1,015)	-	(1,015)
Cost allocation	(5,225)	(4,058)	(3,569)	581	12,271	-	-	-
Profit (loss) before tax	9,099	11,740	13,625	(111)	(1,167)	33,186	562	33,748
Income tax income (expense)	(2,584)	(3,170)	(3,660)	203	291	(8,920)	(278)	(9,198)
Profit (loss) for the year from continuing operations	6,515	8,570	9,965	92	(876)	24,266	284	24,550
Net segment revenue from external customers	29,266	22,829	29,448	(19,989)	308	61,862	2,375	64,237
Net segment revenue from other segments	(7,450)	(2,551)	(9,735)	20,071	(335)	-	-	-
Fee and commission income	8,116	2,262	4,648	401	-	15,427	3,164	18,591
Depreciation, amortisation, and write-offs	(179)	(57)	(2)	-	(1,368)	(1,606)	(14)	(1,620)
At 31 December 2023								
Loans to customers	574,653	311,689	336,161	923	-	1,223,426	-	1,223,426
Other assets	3,176	2,210	889	343,823	8,716	358,814	454	359,268
Total segment assets	577,829	313,899	337,050	344,746	8,716	1,582,240	454	1,582,694
Deposits from customers	406,821	251,238	172,658	22,957	-	853,674	(2,965)	850,709
Other liabilities	3,720	3,828	5,370	487,357	5,768	506,043	1,249	507,292
Total segment liabilities	410,541	255,066	178,028	510,314	5,768	1,359,717	(1,716)	1,358,001
Allocated equity	41,160	47,210	63,033	69,975	1,145	222,523	2,170	224,693
Risk exposure amount	260,760	291,509	366,761	48,148	6,930	974,108	2,924	977,032

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

Amounts are in ISK million

5. Operating segments (continued)

2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,065	14,493	11,108	2,673	(260)	43,079	47	43,126
Net fee and commission income (expense)	4,334	2,174	4,557	(55)	(1)	11,009	3,044	14,053
Other net operating income	342	90	1,301	(402)	149	1,480	(1,423)	57
Total operating income	19,741	16,757	16,966	2,216	(112)	55,568	1,668	57,236
Salaries and related expenses	(2,355)	(1,900)	(1,819)	(289)	(6,253)	(12,616)	(836)	(13,452)
Other operating expenses	(2,446)	(1,072)	(971)	(467)	(4,598)	(9,554)	(612)	(10,166)
Administrative fine	-	-	-	-	(300)	(300)	-	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	-	-	(165)	-	(165)
Bank tax	(801)	(407)	(520)	(116)	(14)	(1,858)	-	(1,858)
Net impairment on financial assets	(300)	796	395	683	-	1,574	2	1,576
Cost allocation	(4,792)	(3,431)	(3,237)	551	10,909	-	-	-
Profit (loss) before tax	8,918	10,710	10,811	2,578	(368)	32,649	222	32,871
Income tax income (expense)	(2,528)	(2,891)	(2,946)	108	92	(8,165)	(320)	(8,485)
Profit (loss) for the year from continuing operations	6,390	7,819	7,865	2,686	(276)	24,484	(98)	24,386
Net segment revenue from external customers	33,261	18,158	23,790	(19,722)	81	55,568	1,668	57,236
Net segment revenue from other segments	(13,520)	(1,401)	(6,824)	21,938	(193)	-	-	-
Fee and commission income	7,282	2,223	4,709	367	-	14,581	3,049	17,630
Depreciation, amortisation, and write-offs	(172)	(57)	(1)	-	(1,155)	(1,385)	(15)	(1,400)
At 31 December 2022								
Loans to customers	552,181	278,823	354,787	848	-	1,186,639	-	1,186,639
Other assets	3,158	2,100	3,859	360,594	9,387	379,098	498	379,596
Total segment assets	555,339	280,923	358,646	361,442	9,387	1,565,737	498	1,566,235
Deposits from customers	361,994	244,645	164,390	21,529	-	792,558	(2,661)	789,897
Other liabilities	2,597	2,054	5,565	540,189	5,785	556,190	1,274	557,464
Total segment liabilities	364,591	246,699	169,955	561,718	5,785	1,348,748	(1,387)	1,347,361
Allocated equity	39,228	40,433	62,400	73,966	962	216,989	1,885	218,874
Risk exposure amount	255,938	263,011	404,917	67,970	6,107	997,943	1,548	999,491

Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

5. Operating segments (continued)

Subsidiaries, eliminations & adjustments

2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	11	105	89	2	207
Net fee and commission income (expense)	1,465	1,651	(30)	73	3,159
Other net operating income	74	(2)	295	(1,358)	(991)
Total operating income	1,550	1,754	354	(1,283)	2,375
Salaries and related expenses	(686)	(249)	(71)	-	(1,006)
Other operating expenses	(222)	(828)	(273)	516	(807)
Profit (loss) before tax	642	677	10	(767)	562
Income tax expense	(128)	(150)	-	-	(278)
Profit (loss) for the year from continuing operations	514	527	10	(767)	284
Net segment revenue from external customers	1,860	1,721	7	(1,213)	2,375
Net segment revenue from other segments	(310)	33	347	(70)	-
Fee and commission income	2,021	1,651	-	(508)	3,164
Depreciation, amortisation, and write-offs	-	(2)	(3)	(9)	(14)
At 31 December 2023					
Total assets	2,284	2,330	5,517	(9,677)	454
Total liabilities	292	879	100	(2,987)	(1,716)
Total equity	1,992	1,451	5,417	(6,690)	2,170

2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	9	34	52	(48)	47
Net fee and commission income (expense)	1,627	1,561	(30)	(114)	3,044
Other net operating income	(55)	11	270	(1,649)	(1,423)
Total operating income	1,581	1,606	292	(1,811)	1,668
Salaries and related expenses	(562)	(209)	(65)	-	(836)
Other operating expenses	(218)	(602)	(214)	422	(612)
Net impairment on financial assets	2	-	-	-	2
Profit (loss) before tax	803	795	13	(1,389)	222
Income tax expense	(178)	(142)	-	-	(320)
Profit (loss) for the year from continuing operations	625	653	13	(1,389)	(98)
Net segment revenue from external customers	1,855	1,479	11	(1,677)	1,668
Net segment revenue from other segments	(274)	127	281	(134)	-
Fee and commission income	2,171	1,561	-	(683)	3,049
Depreciation, amortisation, and write-offs	-	-	(6)	(9)	(15)
At 31 December 2022					
Total assets	2,472	1,926	5,469	(9,369)	498
Total liabilities	354	714	134	(2,589)	(1,387)
Total equity	2,118	1,212	5,335	(6,780)	1,885

Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

6. Net interest income

	2023	2022
Cash and balances with Central Bank	5,389	2,791
Loans to credit institutions	3,236	757
Loans to customers	117,470	84,123
Financial assets mandatorily at fair value through profit or loss	11,035	6,335
Other assets	12	7
Interest income	137,142	94,013
Deposits from Central Bank and credit institutions	(243)	(364)
Deposits from customers	(50,073)	(23,049)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(2,470)	(578)
Debt issued and other borrowed funds at amortised cost	(25,829)	(21,709)
Subordinated loans	(3,214)	(1,538)
Lease liabilities	(79)	(82)
Other liabilities	(6,623)	(3,567)
Interest expense	(88,531)	(50,887)
Net interest income	48,611	43,126

7. Net fee and commission income

	2023	2022
Asset management	2,908	3,154
Investment banking and brokerage	3,340	3,627
Payment processing	8,072	6,774
Loans and guarantees	2,251	2,350
Other fee and commission income	2,020	1,725
Fee and commission income	18,591	17,630
Brokerage	(496)	(484)
Clearing and settlement	(3,847)	(2,999)
Other fee and commission expense	(14)	(94)
Fee and commission expense	(4,357)	(3,577)
Net fee and commission income	14,234	14,053

Fee and commission income by segment is disclosed in Note 5.

Amounts are in ISK million

8. Net financial income (expense)

	2023	2022
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	2,610	(6,121)
Net gain (loss) on financial liabilities designated as at FVTPL	(2,511)	4,512
Net gain (loss) on fair value hedges	42	(56)
Net gain on derecognition of financial liabilities measured at amortised cost	170	408
Net loss on derecognition of financial assets measured at amortised cost	(70)	-
Net financial income (expense)	241	(1,257)

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

	2023	2022
Net loss on bonds and related derivatives	(1,062)	(2,735)
Net loss on shares and related derivatives	(537)	(1,051)
Dividend income	286	1,049
Net gain on debt issued and related derivatives	1,083	754
Net gain on economic hedging and other derivatives	541	726
Net loss on derecognition of financial assets measured at amortised cost	(70)	-
Net financial income (expense)	241	(1,257)

9. Net foreign exchange gain

	2023	2022
Cash and balances with Central Bank	(51)	5
Loans at amortised cost	(5,524)	11,647
Financial assets mandatorily at fair value through profit or loss	(2,153)	(1,078)
Other assets	(1)	(11)
Net foreign exchange gain (loss) for assets	(7,729)	10,563
Deposits	2,599	(4,782)
Debt issued and other borrowed funds designated as at fair value through profit or loss	375	(1,317)
Debt issued and other borrowed funds at amortised cost	4,444	(5,677)
Subordinated loans	892	2,094
Net foreign exchange gain (loss) for liabilities	8,310	(9,682)
Net foreign exchange gain	581	881

10. Other operating income

	2023	2022
Net gain from sale of associates	-	158
Share of profit of associates, net of income tax	207	40
Gain from sales of property and equipment	219	12
Legal fees	54	45
Rental income	63	44
Other net operating income	27	134
Other operating income	570	433

Amounts are in ISK million

Notes to the Consolidated Financial Statements

11. Personnel and salaries

	2023	2022
Salaries	11,545	10,332
Contributions to pension funds	1,734	1,594
Social security charges and financial activities tax*	1,591	1,423
Other salary-related expenses	133	103
Salaries and related expenses	15,003	13,452

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

	2023		2022	
	The Bank	The Group	The Bank	The Group
Average number of employees	731	770	730	772
Positions at year-end	725	764	700	739

Total amount of paid compensation for the Board of Directors, the CEO, and the Executive Committee is specified as follows:

	2023	2022
Linda Jónsdóttir, Chairman of the Board	5.7	-
Stefán Pétursson, Vice-Chairman of the Board	4.4	-
Agnar Tómas Möller, member of the Board	6.8	-
Anna Þórðardóttir, member of the Board	9.6	9.0
Haukur Örn Birgisson, member of the Board	3.8	-
Helga Hlín Hákonardóttir, member of the Board	4.1	-
Frosti Ólafsson, member of the Board	9.6	8.9
Finnur Árnason, former Chairman of the Board	8.3	9.5
Guðrún Þorgeirsdóttir, former Vice-Chairman of the Board	7.5	8.9
Ari Daníelsson, former member of the Board	5.1	6.4
Valgerður Hrund Skúladóttir, former member of the Board	3.4	-
Herdís Gunnarsdóttir, former member of the Board	2.4	2.5
Tanya Sharov, former member of the Board	2.1	6.4
Hallgrímur Snorrason, former Chairman of the Board	-	3.6
Heiðrún Jónsdóttir, former Vice-Chairman of the Board	-	7.6
Árni Stefánsson, former member of the Board	-	2.2
Jökull H. Úlfsson, former member of the Board	-	2.3
Alternate board members	0.3	0.6
Total salaries	73.1	67.9

Contribution to pension funds for the Board of Directors amounted to ISK 9.8 million in 2023 (2022: ISK 9.2 million).

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11. Personnel and salaries (continued)

	2023		2022	
	Total salaries	Pension funds contrib.	Total salaries	Pension funds contrib.
Jón Guðni Ómarsson, CEO*	50.5	7.2	46.9	6.6
Guðmundur Kristinn Birgisson, Chief Risk Officer	41.6	5.9	39.8	5.6
Riaan Dreyer, Managing Director of Digital & Data	44.9	6.7	42.7	6.4
Una Steinsdóttir, Managing Director of Business Banking	44.9	6.4	42.9	6.1
Kristín Hrönn Guðmundsdóttir, Managing Director of C&I Banking**	22.6	4.0	-	-
Barbara Inga Albertsdóttir, Chief Compliance Officer**	6.3	0.9	-	-
Sigríður Hrefna Hrafnkelsdóttir, former Managing Director**	48.5	6.9	41.1	5.7
Birna Einarsdóttir, former CEO***	29.7	6.4	48.3	11.5
Ásmundur Tryggvason, former Managing Director****	24.0	3.3	47.0	6.7
Total	313.0	47.7	308.7	48.6

Included in total salaries are non-monetary benefits such as the use of cars owned by the Group.

As of 1 January 2017, the Bank has not had an active remuneration policy in place as stated in the Bank's compensation policy. In 2023 there were no paid performance-based salaries (2022: none) and there were no unpaid performance-based salaries at year-end 2023. There were no share-based payments in the years 2023 and 2022.

*Jón Guðni Ómarsson was appointed CEO by the Bank's Board of Directors on 28 June 2023, succeeding Birna Einarsdóttir. Jón Guðni has been with the Bank and its predecessors from the year 2000 and served as CFO from 2011 until year-end 2023. Included in salaries for the year 2022 is an employment anniversary payment. The payment is in accordance with the collective agreement of the Confederation of Icelandic Bank and Finance Employees (SSF).

**On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking. On 1 November 2023 Barbara Inga Albertsdóttir was appointed Chief Compliance Officer. Sigríður Hrefna Hrafnkelsdóttir decided to resign her position as Managing Director of Personal Banking at the end of the year. A settlement of accrued holiday pay is included in the salaries of Sigríður Hrefna for the year 2023.

***Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. The agreement concluded with the former CEO is in compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest AGM, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 56.6 million. The former CEO also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements. The Bank expensed ISK 82.6 million in salaries and related expenses relating to the agreement in the second quarter of 2023.

****Ásmundur Tryggvason stepped down as Managing Director of Corporate & Investment Banking as of 1 July 2023. His resignation agreement is in compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest AGM, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 46.1 million. The former Managing Director also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements. The Bank expensed ISK 63.4 million in salaries and related expenses relating to the agreement in the third quarter of 2023. Included in salaries for the year 2022 is an employment anniversary payment. The payment is in accordance with the collective agreement of the Confederation of Icelandic Bank and Finance Employees (SSF).

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12. Other operating expenses

	2023	2022
Professional services	2,593	1,986
Software and IT expenses	4,733	4,389
Real estate and office equipment	654	565
Depreciation, amortisation, and write-offs	1,620	1,400
Other administrative expenses*	2,140	1,826
Other operating expenses	11,740	10,166

*Comparative figures have been changed with immaterial effects. A provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine".

Auditors' fees

Audit of the financial statements	105	81
Review of interim financial statements	22	20
Other services	10	7
Auditors' fees	137	108

13. Administrative fine

At year-end 2022, Íslandsbanki received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland's (FSA) inspection into the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki that took place in March 2022 (the Offering). On 22 June 2023 the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement).

The Settlement Agreement provides that the Bank admits, that in the preparation and execution of the Offering, it did not comply with applicable legal requirements and internal rules of the Bank on the provision of investment services, particularly in relation with recording of telephone communications, provision of information to clients in the Offering, investor classification requirements, and measures to prevent conflicts of interest e.g., segregation of duties and employees' transactions. The Settlement Agreement states that the Bank's implementation of corporate governance and internal controls as well as a risk-based approach to supervision of recordings of telephone communications were insufficient. Furthermore, the Settlement Agreement states that the Bank should have carried out a separate risk assessment regarding its role in the Offering. The Settlement Agreement also states that in provision of investment services in connection with the Offering the Bank did not, in all respects, satisfy its obligation to act honestly, fairly, and professionally and to promote market integrity.

Under the terms of the Settlement Agreement, the Bank agreed to pay a fine in the amount of ISK 1,160 million and admitted to having violated certain provisions of the Act on Markets in Financial Instruments no. 115/2021 and the Act on Financial Undertakings no. 161/2002 in connection with the Offering. Furthermore, the Bank undertook to carry out certain remedial measures within a specified period. The Bank's Chief Audit Executive reviewed the improvements and confirmed in an audit that the remedial requirements had been adequately met before 1 October 2023. The audit was confirmed by the Bank's Board at the end of October 2023 and sent to the FSA.

The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection into the execution of the Offering in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter.

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. Jón Guðni Ómarsson, who served as CFO from 2011, was appointed CEO. Ellert Hlöðversson was appointed CFO of Íslandsbanki on 16 October 2023 and assumed the role as of 1 January 2024. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. For further information see Note 11.

A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. Linda Jónsdóttir was elected the Chairman of the Board of Directors. For further information on changes to the Board of Directors see Note 42.

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14. Net impairment on financial assets

	2023	2022
Net change in expected credit losses, on-balance sheet items	(1,168)	1,837
Net change in expected credit losses, off-balance sheet items	153	(336)
Changes in provision due to court rulings	-	75
Net impairment on financial assets	(1,015)	1,576

15. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2023 is 20% (2022: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the year 2023 is 27.3% (2022: 25.8%).

	2023	2022
Current tax expense excluding discontinued operations	7,548	5,659
Special financial activities tax	2,083	1,396
Adjustments in prior year's calculated income tax	(191)	(472)
Changes in deferred tax assets and deferred tax liabilities	(242)	1,902
Income tax recognised in the income statement	9,198	8,485
Income tax recognised in other comprehensive income	(173)	(110)

	2023		2022	
Profit before tax	33,748		32,871	
20% income tax calculated on the profit for the year	6,750	20.0%	6,574	20.0%
Special financial activities tax	2,083	6.2%	1,396	4.2%
Share in taxes of non-independent taxpayers	-	0.0%	150	0.5%
Adjustments in prior year's calculated income tax	(191)	(0.6%)	(472)	(1.4%)
Income not subject to tax	(98)	(0.3%)	(386)	(1.2%)
Non-deductible expenses	666	2.0%	1,210	3.7%
Other differences	(12)	0.0%	13	0.0%
Effective income tax expense	9,198	27.3%	8,485	25.8%

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

16. Earnings per share

	Continued operations		Discontinued operations		Profit for the year	
	2023	2022	2023	2022	2023	2022
Profit attributable to shareholders of the Bank	24,550	24,386	35	149	24,585	24,535
Weighted average number of outstanding shares	1,992	2,000	1,992	2,000	1,992	2,000
Basic earnings per share (ISK)	12.32	12.19	0.02	0.07	12.34	12.27

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2022: none).

Amounts are in ISK million

17. Classification of financial assets and financial liabilities

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

At 31 December 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	94,424	94,424
Loans to credit institutions	-	-	-	110,364	110,364
Listed bonds and debt instruments	125,318	-	-	-	125,318
Listed bonds and debt instruments used for economic hedging	3,454	-	-	-	3,454
Unlisted bonds and debt instruments	2,032	-	-	-	2,032
Derivatives	7,461	-	-	-	7,461
Loans to customers	-	-	-	1,186,639	1,186,639
Listed shares and equity instruments	3,221	-	-	-	3,221
Listed shares and equity instruments used for economic hedging	10,401	-	-	-	10,401
Unlisted shares and equity instruments	2,246	-	-	-	2,246
Other financial assets	-	-	-	5,411	5,411
Total financial assets	154,133	-	-	1,396,838	1,550,971
Deposits from Central Bank and credit institutions	-	-	-	15,269	15,269
Deposits from customers	-	-	-	789,897	789,897
Derivative instruments and short positions	9,208	1,596	-	-	10,804
Debt issued and other borrowed funds	-	49,579	83,437	335,254	468,270
Subordinated loans	-	-	-	34,392	34,392
Other financial liabilities	-	-	-	11,329	11,329
Total financial liabilities	9,208	51,175	83,437	1,186,141	1,329,961

Amounts are in ISK million

18. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 December 2023 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

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

At 31 December 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	128,772	-	2,032	130,804
Derivatives	-	7,461	-	7,461
Shares and equity instruments	13,623	-	2,245	15,868
Total financial assets	142,395	7,461	4,277	154,133
Short positions	285	-	-	285
Derivative instruments	-	10,519	-	10,519
Debt issued and other borrowed funds designated as at FVTPL	83,437	-	-	83,437
Total financial liabilities	83,722	10,519	-	94,241

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2023	2,032	2,245
Sales and share capitalisation decrease	(2,188)	(380)
Purchases and share capitalisation increase	-	52
Net gain (loss) on financial instruments recognised in profit or loss	156	(15)
Fair value at 31 December 2023	-	1,902

Amounts are in ISK million

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18. Fair value information for financial instruments (continued)

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2022	50	4,052
Purchases	2,000	38
Sales and share capital reduction	(22)	(454)
Net gain on financial instruments recognised in profit or loss	4	347
Transfers to Level 1 or 2	-	(27)
Transfers to associates	-	(1,711)
Fair value at 31 December 2022	2,032	2,245

At 31 December 2023 the Group's Level 3 shares amounted to ISK 1,902 million:

- These include shares in five professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 1,636 million. The Group receives information from fund managers who use valuation models for the valuation of these shares.

- Other Level 3 shares amounted to ISK 266 million.

Sensitivity analysis for Level 3 assets

The valuations of Level 3 assets are in general uncertain and subject to various factors. The favourable and unfavourable scenarios can be considered as being likely movements in valuation within a year. The very favourable and very unfavourable scenarios are considered less likely, but not impossible and are not worst-case scenarios for some of the assets.

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

	31.12.2023	31.12.2022
Very favourable	904	1,936
Favourable	217	1,119
Unfavourable	(187)	(109)
Very unfavourable	(217)	(224)

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19. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 18.

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

At 31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	94,424	-	94,424	94,424
Loans to credit institutions	-	110,364	-	110,364	110,364
Loans to customers	-	-	1,171,380	1,171,380	1,186,639
Other financial assets	-	5,411	-	5,411	5,411
Total financial assets	-	210,199	1,171,380	1,381,579	1,396,838
Deposits from Central Bank and credit institutions	-	15,108	-	15,108	15,269
Deposits from customers	-	789,938	-	789,938	789,897
Debt issued and other borrowed funds*	215,189	113,950	-	329,139	335,254
Subordinated loans	-	36,070	-	36,070	34,392
Other financial liabilities	-	11,329	-	11,329	11,329
Total financial liabilities	215,189	966,395	-	1,181,584	1,186,141

*Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

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20. Offsetting financial assets and financial liabilities

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

At 31 December 2023, and at year-end 2022, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	31.12.2023	31.12.2022
Net financial assets	5,776	7,461
Amounts not set off but subject to master netting arrangements and similar agreements	(4,404)	(6,382)
- Financial liabilities	(715)	(856)
- Cash collateral received	(3,589)	(4,962)
- Financial instruments collateral received	(100)	(564)
Net amount after consideration of potential effect of netting arrangements	1,372	1,079

Derivative instruments and short positions	31.12.2023	31.12.2022
Net financial liabilities	5,090	10,804
Amounts not set off but subject to master netting arrangements and similar agreements	(2,794)	(7,486)
- Financial assets	(715)	(856)
- Cash collateral pledged	(2,079)	(6,630)
Net amount after consideration of potential effect of netting arrangements	2,296	3,318

21. Cash and balances with Central Bank

	31.12.2023	31.12.2022
Cash on hand	3,653	3,563
Unrestricted balances with Central Bank	64,025	80,866
Cash and unrestricted balances with Central Bank	67,678	84,429
Balances pledged as collateral to Central Bank	484	483
Mandatory reserve deposits with Central Bank	19,342	9,512
Cash and balances with Central Bank	87,504	94,424

22. Loans to credit institutions

	31.12.2023	31.12.2022
Money market loans	53,882	55,742
Bank accounts	18,794	54,606
Other loans	799	16
Loans to credit institutions	73,475	110,364

Amounts are in ISK million

23. Derivative instruments and short positions

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

At 31 December 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,953	50,399	9,403	225,817
Cross-currency interest rate swaps	637	17,028	353	11,818
Equity forwards	765	8,389	130	3,486
Foreign exchange forwards	750	20,437	95	9,944
Foreign exchange swaps	1,221	38,733	537	46,487
Bond forwards	135	3,834	1	286
Derivatives	7,461	138,820	10,519	297,838
Short positions in listed bonds	-	-	285	332
Total	7,461	138,820	10,804	298,170

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 34) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2023 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 39 million (2022: negative ISK 1,596 million) and their total notional amount was ISK 45,150 million (2022: ISK 90,900 million).

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24. Loans to customers

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

At 31 December 2022	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	562,460	5,134	5,256	(1,607)	(175)	(546)	570,522
Commerce and services	154,413	17,491	3,836	(974)	(1,703)	(841)	172,222
Construction	57,885	2,285	402	(654)	(66)	(37)	59,815
Energy	10,456	-	-	(45)	-	-	10,411
Financial services	2,641	1	-	(20)	-	-	2,622
Industrial and transportation	84,369	670	8,885	(303)	(19)	(2,524)	91,078
Investment companies	38,712	1,577	732	(409)	(210)	(66)	40,336
Public sector and non-profit organisations	10,857	219	1	(29)	(2)	-	11,046
Real estate	123,589	1,544	1,948	(493)	(57)	(234)	126,297
Seafood	101,491	854	63	(102)	(3)	(13)	102,290
Loans to customers	1,146,873	29,775	21,123	(4,636)	(2,235)	(4,261)	1,186,639

25. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	90	-	-	90
Loans to customers	4,788	2,727	4,213	11,728
Other financial assets	4	4	-	8
Off-balance sheet loan commitments and financial guarantees	916	106	162	1,184
At 31 December 2023	5,816	2,837	4,375	13,028
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	152	-	-	152
Loans to customers	4,636	2,235	4,261	11,132
Other financial assets	9	4	-	13
Off-balance sheet loan commitments and financial guarantees	869	242	227	1,338
At 31 December 2022	5,669	2,481	4,488	12,638

Amounts are in ISK million

25. Expected credit losses (continued)

The following tables reconcile the opening and closing balances for accumulated expected credit losses for loans to customers, and off-balance sheet loan commitments and financial guarantees.

Loans to customers

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

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

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,830	3,804	5,931	13,565
Transfer to Stage 1	2,028	(1,743)	(285)	-
Transfer to Stage 2	(491)	936	(445)	-
Transfer to Stage 3	(117)	(460)	577	-
Net remeasurement of loss allowance*	(3,196)	(308)	(1,615)	(5,119)
New financial assets originated or purchased*	3,425	1,742	1,341	6,508
Derecognitions and maturities*	(842)	(1,736)	(605)	(3,183)
Write-offs**	(1)	-	(1,079)	(1,080)
Recoveries of amounts previously written off	-	-	146	146
Foreign exchange	-	-	(115)	(115)
Unwinding of interest	-	-	410	410
At 31 December 2022	4,636	2,235	4,261	11,132

*Comparative figures have been changed with immaterial effects.

**During the year financial assets amounting to ISK 570 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	869	242	227	1,338
Transfer to Stage 1	491	(373)	(118)	-
Transfer to Stage 2	(112)	146	(34)	-
Transfer to Stage 3	(15)	(13)	28	-
Net remeasurement of loss allowance	(742)	124	353	(265)
New loan commitments and financial guarantees	693	74	59	826
Derecognitions and maturities	(268)	(94)	(353)	(715)
At 31 December 2023	916	106	162	1,184
At 1 January 2022	545	298	158	1,001
Transfer to Stage 1	207	(158)	(49)	-
Transfer to Stage 2	(21)	68	(47)	-
Transfer to Stage 3	(7)	(32)	39	-
Net remeasurement of loss allowance	(424)	(185)	(91)	(700)
New loan commitments and financial guarantees	702	288	282	1,272
Derecognitions and maturities	(133)	(37)	(65)	(235)
At 31 December 2022	869	242	227	1,338

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26. Investments in associates

		31.12.2023	31.12.2022
Reiknistofa bankanna hf., an IT service centre company, Dalvegur 30, 201 Kópavogur	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	43.3%

Norðurturninn hf. shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,584 million (CPI-linked, based on the CPI in December 2023). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

	2023	2022
Investments in associates at the beginning of the year	3,844	939
Additions during the year	-	1,328
Transfer from shares and equity instruments to associates	-	1,711
Sales of shares in associates	-	(174)
Share of profit of associates	207	40
Investments in associates at year-end	4,051	3,844

Summarised financial information in respect of the Group's associates is set out below:

	2023	2022
Revenue	6,613	7,088
Profit	439	360
Assets	17,141	16,921
Liabilities	(8,194)	(8,397)
Net assets	8,947	8,524
Group's share of net assets of associates	4,051	3,844

27. Property and equipment

At 31 December 2023	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,213	5,263	3,112	11,588
Additions during the year	37	259	274	570
Disposals and write-offs during the year	(172)	-	(174)	(346)
Remeasurement	-	281	-	281
Historical cost	3,078	5,803	3,212	12,093
Balance at the beginning of the year	(1,378)	(1,712)	(1,746)	(4,836)
Depreciation during the year	(16)	(516)	(354)	(886)
Disposals and write-offs during the year	29	-	162	191
Accumulated depreciation	(1,365)	(2,228)	(1,938)	(5,531)
Carrying amount	1,713	3,575	1,274	6,562
Depreciation rates	0-2%	8-50%	8-33%	
Official real estate value of land and buildings	1,511			
Insurance value of buildings	2,613			
Insurance value of fixtures, equipment and vehicles			2,027	

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27. Property and equipment (continued)

At 31 December 2022	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,101	4,921	2,996	11,018
Additions during the year	112	8	161	281
Disposals and write-offs during the year	-	-	(45)	(45)
Remeasurement	-	334	-	334
Historical cost	3,213	5,263	3,112	11,588
Balance at the beginning of the year	(1,360)	(1,234)	(1,414)	(4,008)
Depreciation during the year	(18)	(478)	(362)	(858)
Disposals and write-offs during the year	-	-	30	30
Accumulated depreciation	(1,378)	(1,712)	(1,746)	(4,836)
Carrying amount	1,835	3,551	1,366	6,752
Depreciation rates	0-2%	8-26%	8-33%	
Official real estate value of land and buildings	1,884			
Insurance value of buildings	2,752			
Insurance value of fixtures, equipment and vehicles			2,038	

28. Intangible assets

At 31 December 2023	Purchased software	Developed software	Total
Balance at the beginning of the year	2,249	3,183	5,432
Additions during the year	385	-	385
Write-offs during the year	(151)	-	(151)
Historical cost	2,483	3,183	5,666
Balance at the beginning of the year	(774)	(1,379)	(2,153)
Amortisation during the year	(416)	(318)	(734)
Write-offs during the year	151	-	151
Accumulated amortisation	(1,039)	(1,697)	(2,736)
Carrying amount	1,444	1,486	2,930
Amortisation rates	10-33%	10%	

At 31 December 2022	Purchased software	Developed software	Total
Balance at the beginning of the year	1,779	3,183	4,962
Additions during the year	470	-	470
Historical cost	2,249	3,183	5,432
Balance at the beginning of the year	(550)	(1,061)	(1,611)
Amortisation during the year	(224)	(318)	(542)
Accumulated amortisation	(774)	(1,379)	(2,153)
Carrying amount	1,475	1,804	3,279
Amortisation rates	10-25%	10%	

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29. Other assets

	31.12.2023	31.12.2022
Receivables	1,698	1,848
Unsettled securities transactions	1,195	3,591
Prepaid expenses	503	400
Deferred tax assets	122	116
Other assets	120	117
Other assets	3,638	6,072

30. Non-current assets and disposal groups held for sale

	31.12.2023	31.12.2022
Repossessed collateral:		
Land and buildings	725	723
Industrial equipment and vehicles	24	5
Non-current assets and disposal groups held for sale	749	728

31. Deposits from Central Bank and credit institutions

	31.12.2023	31.12.2022
Deposits from credit institutions	15,994	15,105
Repurchase agreements with Central Bank	155	164
Deposits from Central Bank and credit institutions	16,149	15,269

32. Deposits from customers

	31.12.2023	31.12.2022
Demand deposits and deposits with maturity up to 3 months	752,146	697,025
Term deposits with maturity of more than 3 months	98,563	92,872
Deposits from customers	850,709	789,897

	31.12.2023		31.12.2022	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	18,204	2%	8,791	1%
Municipalities	9,514	1%	9,412	1%
Companies	398,489	47%	400,329	51%
Individuals	424,502	50%	371,365	47%
Deposits from customers	850,709	100%	789,897	100%

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33. Pledged assets

	31.12.2023	31.12.2022
Loans to customers	442,175	402,958
Financial assets pledged as collateral with Central Bank	6,775	5,723
Loans to credit institutions	2,795	7,813
Cash and balances pledged against covered Bonds	20,222	19,477
Pledged assets against liabilities	471,967	435,971

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns covered bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 December 2023 was ISK 117,476 million (year-end 2022: ISK 24,682 million).

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

34. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	31.12.2023	31.12.2022
ISB CB 23 - ISK 0 million	2015	2023	Bullet	Fixed	-	38,970
ISB CBI 24 - ISK 10,800 million	2012	2024	Bullet	Fixed, CPI - linked	17,051	41,346
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed, CPI - linked	35,093	32,555
ISB CB 27 - ISK 28,389 million	2020	2027	Amortising	Fixed	27,363	26,992
ISB CBF 27 - ISK 7,420 million	2022	2027	Bullet	Floating	7,461	3,311
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed	45,126	43,875
ISB CBI 28 - ISK 23,463 million	2019	2028	Amortising	Fixed, CPI - linked	31,564	33,456
ISB CBI 29 - ISK 18,640 million	2023	2029	Bullet	Fixed, CPI - linked	19,596	-
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed, CPI - linked	32,093	29,812
Covered bonds					215,347	250,317
EUR 0 million**	2020	2023	Bullet	Fixed	-	43,876
EUR 0 million(callable 2023)*	2018	2024	Bullet	Fixed	-	5,704
NOK 140 million	2019	2024	Bullet	Fixed	1,940	5,972
ISK 136 million	2019	2024	Amortising	Floating	134	282
NOK 150 million	2021	2024	Bullet	Floating	2,005	2,157
SEK 120 million	2021	2024	Bullet	Floating	1,628	3,406
NOK 146 million	2021	2024	Bullet	Floating	1,980	6,903
SEK 116 million	2021	2024	Bullet	Floating	1,591	2,739
SEK 533 million	2022	2024	Bullet	Floating	7,289	10,957
ISK 1,240 million	2020	2025	Bullet	Fixed	1,233	1,228
SEK 450 million	2021	2025	Bullet	Floating	6,105	6,130
NOK 740 million	2021	2025	Bullet	Floating	9,884	10,778
EUR 296 million**	2022	2025	Bullet	Fixed	42,868	39,561
NOK 1,400 million	2022	2025	Bullet	Floating	18,916	20,318
SEK 500 million	2023	2026	Bullet	Floating	6,887	-
EUR 300 million**	2023	2026	Bullet	Fixed	49,777	-
SEK 500 million	2023	2026	Bullet	Floating	6,843	-
ISK 2,992 million	2022	2027	Amortising	Floating	3,000	3,763
ISK 6,940 million	2022	2027	Bullet	Fixed	6,937	5,301
ISK 5,020 million	2023	2028	Bullet	Fixed, CPI - linked	5,031	-
Unsecured bonds					174,048	169,075
Other secured loans					16,459	36,650
Other unsecured loans					11,719	12,228
Other borrowed funds					28,178	48,878
Debt issued and other borrowed funds					417,573	468,270

Amounts are in ISK million

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34. Debt issued and other borrowed funds (continued)

The Group repurchased own bonds during the year amounting to ISK 95,075 million (2022: ISK 79,026 million).

*The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 23). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2023 the total carrying amount of the bond issuance amounted to ISK 45,126 million and included in the amount are fair value changes amounting to ISK 271 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 December 2023 the total carrying amount of the bonds amounted to ISK 92,645 million; included in the amount are negative fair value changes amounting to ISK 1,282 million. The carrying amount of the bonds at 31 December 2023 was ISK 807 million lower than the contractual amount due at maturity.

The Group has issued additional bonds for its own use, e.g. for the purpose of securities lending and repurchase agreements. These bond amounts are not included in the total.

35. Subordinated loans

	Issued	Maturity	Callable	Interest	31.12.2023	31.12.2022
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	-	6,820
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,761	6,785
Subordinated loans in ISK	2022	2033	2028	Fixed, 8.62%	1,525	1,526
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 4.86%	9,935	9,199
Subordinated loans in ISK	2023	2034	2029	Fixed CPI, 5.8%	9,915	-
Tier 2 subordinated loans					28,136	24,330
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	10,019	10,062
Additional Tier 1 subordinated loans					10,019	10,062
Subordinated loans					38,155	34,392

36. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2023	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2023
Covered bonds in ISK	69,273	(36,896)	2,665	-	(219)	34,823
Covered bonds in ISK - CPI-linked	137,169	(16,816)	15,072	-	(28)	135,397
Senior unsecured bonds in ISK	10,575	(189)	918	-	-	11,304
Senior unsecured bonds in ISK - CPI-linked	-	5,020	11	-	-	5,031
Senior unsecured bonds FX	69,360	(5,121)	4,447	(3,695)	77	65,068
Senior unsecured bonds FX at fair value	83,437	(677)	2,470	(375)	7,791	92,646
Covered bonds in hedge accounting	43,875	(1,320)	1,373	(335)	1,533	45,126
Senior unsecured bonds in hedge accounting	5,703	(5,831)	9	113	6	-
Other borrowed funds	48,878	(21,507)	1,334	(527)	-	28,178
Subordinated loans	34,392	1,441	3,214	(892)	-	38,155
Total	502,662	(81,896)	31,513	(5,711)	9,160	455,728

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36. Changes in liabilities arising from financing activities (continued)

			Non-cash changes			
	1.1.2022	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2022
Covered bonds in ISK	64,770	1,855	2,609	-	39	69,273
Covered bonds in ISK - CPI-linked	140,051	(19,021)	16,109	-	30	137,169
Senior unsecured bonds in ISK	8,703	1,950	398	-	(476)	10,575
Senior unsecured bonds FX	54,206	15,284	1,258	(1,388)	-	69,360
Senior unsecured bonds FX at fair value	89,460	(279)	578	1,317	(7,639)	83,437
Covered bonds in hedge accounting	-	42,125	370	3,184	(1,804)	43,875
Senior unsecured bonds in hedge accounting	45,036	(39,992)	515	504	(360)	5,703
Other borrowed funds	-	45,051	450	3,377	-	48,878
Subordinated loans	35,762	(814)	1,538	(2,094)	-	34,392
Total	437,988	46,159	23,825	4,900	(10,210)	502,662

37. Tax assets and tax liabilities

	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	11,163	-	9,042
Deferred tax assets and tax liabilities	122	1,944	116	3,086
Tax in the balance sheet	122	13,107	116	12,128

	Assets	Liabilities
Deferred tax assets and tax liabilities 1.1.2022	94	536
Calculated income tax for 2022	22	7,593
Income tax payable in 2023	-	(5,668)
- thereof income tax recognised in other comprehensive income	-	110
Changes in deferred tax assets and deferred tax liabilities due to equity	-	625
Deferred tax assets and tax liabilities 31.12.2022	116	3,086
Calculated income tax for 2023	6	7,184
Income tax payable in 2024	-	(7,423)
- thereof income tax recognised in other comprehensive income	-	173
Changes in deferred tax assets and deferred tax liabilities due to equity	-	(903)
Deferred tax assets and tax liabilities 31.12.2023	122	1,944

				Balance at 31 December		
2023	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(876)	21	-	(855)	-	(855)
Intangible assets	(456)	71	-	(385)	-	(385)
Assets and liabilities in foreign currency	(479)	55	-	(424)	-	(424)
Deferred foreign exchange difference	(837)	10	-	(827)	-	(827)
Derivatives	750	(985)	-	(235)	-	(235)
Lease liabilities	733	8	-	741	741	-
Debt issued and other borrowed funds	(1,921)	1,059	903	41	41	-
Other items	116	6	-	122	122	-
	(2,970)	245	903	(1,822)	904	(2,726)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(782)	782
Deferred tax assets and tax liabilities	(2,970)	245	903	(1,822)	122	(1,944)

Amounts are in ISK million

37. Tax assets and tax liabilities (continued)

2022	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(930)	54	-	(876)	-	(876)
Intangible assets	(484)	28	-	(456)	-	(456)
Assets and liabilities in foreign currency	(376)	(103)	-	(479)	-	(479)
Deferred foreign exchange difference	(275)	(562)	-	(837)	-	(837)
Derivatives	595	155	-	750	750	-
Lease liabilities	758	(25)	-	733	733	-
Debt issued and other borrowed funds	176	(1,472)	(625)	(1,921)	-	(1,921)
Other items	94	22	-	116	116	-
	(442)	(1,903)	(625)	(2,970)	1,599	(4,569)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,483)	1,483
Deferred tax assets and tax liabilities	(442)	(1,903)	(625)	(2,970)	116	(3,086)

38. Other liabilities

	31.12.2023	31.12.2022
Accruals	2,392	2,448
Lease liabilities	3,720	3,708
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,184	1,338
Withholding tax	6,192	2,921
Unsettled securities transactions	968	3,805
Sundry liabilities	2,762	2,381
Other liabilities	17,218	16,601

39. Custody assets

	31.12.2023	31.12.2022
Custody assets - not managed by the Group	3,565,465	3,278,816

Amounts are in ISK million

40. Leases

The Group as a lessee

The Group's significant leases are leases for offices, branches, and storage. Most leases are CPI-linked real estate leases with duration of 5-10 years with extension options. Lease commitments are recognised on-balance sheet except for short-term leases and leases of low-value assets. During the year 2023 the total expense for leases of low-value assets and short-term leases amounted to ISK 61 million (2022: ISK 36 million), the total cash outflow for leases amounted to ISK 659 million (2022: ISK 584 million) and total interest expense from lease liabilities amounted to ISK 79 million (2022: ISK 82 million).

At year-end 2023 the Group recognised ISK 3,575 million in right-of-use assets which are presented in the line item "Property and equipment" and lease liabilities amounting to ISK 3,720 million which are presented in the line item "Other liabilities".

The Group as a lessor

Net investment in finance lease receivables

	31.12.2023	31.12.2022
Due within 1 year	27,401	20,263
Due in 1-2 years	21,231	16,463
Due in 2-3 years	17,895	13,667
Due in 3-4 years	11,271	10,697
Due in 4-5 years	3,287	3,102
Due in more than 5 years	2,607	2,636
Total gross investment in the lease	83,692	66,828
Due within 1 year	20,385	15,942
Due in 1-2 years	16,402	13,431
Due in 2-3 years	15,035	11,752
Due in 3-4 years	10,018	9,783
Due in 4-5 years	2,841	2,763
Due in more than 5 years	2,260	2,341
Total present value of lease payments*	66,941	56,012
Unearned interest income	16,751	10,816

*The Group presents finance lease receivables in the line item "Loans to customers".

Expected credit loss allowance	212	260
Interest income from finance lease receivables during the year	6,898	3,769

Amounts are in ISK million

41. Íslandsbanki's shareholders

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

		31.12.2023	31.12.2022
The Icelandic Government	Iceland	42.9%	42.5%
Gildi Pension Fund	Iceland	8.0%	6.8%
LSR Pension Fund	Iceland	7.9%	7.5%
Live Pension Fund	Iceland	6.3%	6.3%
Capital Group	USA	5.6%	4.9%
Brú Pension Fund	Iceland	3.3%	3.1%
Vanguard	USA	2.3%	1.3%
Stapi Pension Fund	Iceland	2.1%	2.4%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.5%	1.2%
RWC Asset Management LLP	UK	1.3%	1.2%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Almenni Pension Fund	Iceland	1.0%	1.0%
Festa Pension Fund	Iceland	1.0%	0.7%
Íslandssjóðir hf. (Iceland Funds)	Iceland	0.3%	1.3%
Other shareholders		13.7%	17.0%
Total		100.0%	100.0%

At 31 December 2023 the number of shareholders of the Bank was 11,552 (year-end 2022: 13,079). At 31 December 2023, 89.4% of the Bank's shares were owned by domestic parties and 10.6% by international investors (2022: 91.0% domestic parties and 9.0% international investors). At 31 December 2023 the Bank's employees, board members and related parties of the employees and board members, held 0.14% of shares in the Bank (year-end 2022: 0.22%).

Beneficial owners

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

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42. Related party

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

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. For further information see Notes 11 and 13.

The Board of Directors of Íslandsbanki was changed on 28 July 2023 in a shareholder meeting held to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. The new Board of Directors was elected as follows: Linda Jónsdóttir, Chairman, Stefán Pétursson, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Frosti Ólafsson, Haukur Örn Birgisson and Helga Hlín Hákonardóttir. Frosti Ólafsson resigned from the Board of Directors on 3 January 2024. Alternate board member Páll Grétar Steingrímsson joined the Board of Directors of Íslandsbanki following the resignation of Frosti Ólafsson.

The previous Board of Directors was as follows: Finnur Árnason, Chairman, Guðrún Þorgeirsdóttir, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Ari Daníelsson, Frosti Ólafsson and Valgerður Hrund Skúladóttir.

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

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

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

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

2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	76	34	7	36
Associated companies	544	27	3	2,035
Transactions with related parties	620	61	10	2,071

At 31 December 2022	Right of use asset	Other Assets	Liabilities	Net balance	Guarantees & loan commitments
Shareholders with significant influence over the Group	-	-	-	-	2
Board of Directors, key management personnel and other related parties	-	450	415	35	72
Associated companies	3,157	5,074	4,028	4,203	9
Balances with related parties	3,157	5,524	4,443	4,238	83

2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	34	219	4	-
Associated companies	326	81	26	1,993
Transactions with related parties	360	300	30	1,993

At 31 December 2023 a total of ISK 3 million (at year-end 2022: ISK 3 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the year. For related party remuneration see Note 11.

Amounts are in ISK million

Notes to the Consolidated Financial Statements

43. Provision and contingencies

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

Provision

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

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

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Bank has not recognised a provision in relation to this matter.

105 Miðborg slhf. – ÍAV hf.

In February 2021 the alternative investor fund 105 Miðborg slhf., operated by Íslandssjóðir hf. (Iceland Funds hf.), a wholly owned subsidiary of the Bank, terminated its contractor agreement with ÍAV hf., a contractor that had been retained for a real estate project at Kirkjusandur in the centre of Reykjavík. The main reason for the termination was the alleged non-performance and delays in the construction of one building on the premises. The contractor, ÍAV, has claimed approximately ISK 3,829 million in damages plus late payment interest and legal costs from 105 Miðborg and Iceland Funds for the alleged unlawful termination. The suit was filed on 11 May 2021 at the District Court of Reykjavík. Additionally, 105 Miðborg has filed a case against ÍAV claiming approximately ISK 3,878 million in damages plus late payment interest and legal costs due to alleged delays and significant breaches of contract. The Group owns an 8.25% stake in 105 Miðborg. The Group has not recognised a provision in relation to this matter.

The Consumers' Association of Iceland

In December 2021 three customers, sponsored by the Consumers' Association of Iceland, commenced litigation against the Bank, demanding that certain provisions of their residential mortgages, governing variable interest rates, be deemed illegal and unenforceable and demand the repayment of any overpaid interest.

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 2 to 3 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Bank. The plaintiff has appealed the judgement to the Court of Appeal.

43. Provision and contingencies (continued)

The Consumers' Association of Iceland (continued)

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

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

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

It is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 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.

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

EC Clear ehf.

In August 2021 EC Clear ehf., a former owner of a payment processing company, filed a suit jointly against the Bank and four other financial institutions claiming damages in the amount of ISK 923 million plus interest from June 2013, resulting from a breach of competition law that allegedly took place during the period from 2003 to 2013. This was the sixth time the case had been brought before the courts for this purpose, after previous cases had been dismissed. On 30 September 2022 the District Court of Reykjavík dismissed the case. On 10 January 2023 the Court of Appeal partly reversed the dismissal and ordered the District Court to hear the case in substance. The hearing of the case has not been decided. The Bank has not recognised a provision in relation to this matter.

44. Events after the reporting period

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

45. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. The Bank emphasises sound governance principles. The risk management and internal control framework of the Group is based on a three lines of defence model, as referred to in the European Banking Authority Guidelines on Internal Governance, and aims for informed decision-making and strong risk awareness. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Group's internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence comprises the Bank's internal control units, Risk management and Compliance; and the third line of defence is Group Internal Audit which gives the Board an independent assessment of the quality of corporate governance, risk management and internal controls.

The Group's management body has a dual structure. The Board of Directors of the Bank has a supervising role in setting and monitoring the execution of set policies, the sound control of accounting and financial management and ensuring that Group Internal Audit, Compliance and Risk Management are effective. The Chief Executive Officer (CEO), the Chief Risk Officer (CRO), other members of the senior management and the senior management committees are responsible for implementing risk management practices and internal monitoring in accordance with Board authorisation.

The ultimate responsibility for ensuring an adequate risk management and internal control framework at the Group lies with the Board of Directors. The Board defines and communicates the risk governance framework and the acceptable level of risk through risk management policies and the Risk Appetite Statement. To assist the Board in fulfilling its oversight responsibilities, the Board has appointed three board sub-committees.

The CEO is responsible for the day-to-day operations of the Bank, pursuant to set policies and resolutions of the Board. Moreover, it is the task of the CEO to ensure that the Group's operations are consistent with applicable legislation and the Group's Articles of Association which includes maintaining adequate and effective risk management and internal control functions. The CEO appoints the Chief Risk Officer, the Chief Compliance Officer as well as other members of the Executive Committee. The CEO also engages the members of the senior management committees.

The CRO heads the Risk Management function and is responsible for defining the daily tasks of the department and to assess the adequacy of its professional skills. In addition, the CRO is responsible for monitoring the risk management framework at the Group and for verifying that the Bank has the right resources and an appropriate organisation to manage its risks efficiently.

The CRO is selected and appointed by the CEO, subject to Board confirmation. The CRO reports directly to the Board and the Board Risk Committee on the overall risk profile of the Group and cannot be removed without the Board's prior approval.

The CRO is independent from the business units, is a member of the Executive Committee and reports directly to the CEO. The CRO provides an independent view on the Group's exposure to risk. The CRO has the right but not the responsibility to veto certain risk-taking decisions of the senior management committees if an internal control unit considers the proposal inconsistent with the Bank's risk appetite, policies or procedures.

Risk management is mandated to identify, understand, measure and monitor the risks that the Group is exposed to. It provides independent information, analyses and expert judgement on risk exposures, and advice on proposals and risk decisions made by the management and business or support units as to whether they are consistent with the risk appetite and risk polices set by the Board.

Where necessary, Risk management makes recommendations to senior management and the Board to improve or clarify risk policies, procedures and limits.

Risk Management provides a holistic view on risk, and compliance to limits to internal and external stakeholders, and ensures an appropriate escalation in the event of limit breaches.

Business and support units are, however, responsible for maintaining their independent view on the risks inherent in their operations and reporting to senior management any foreseeable breaches from limits, policies or strategic direction.

Risk management provides the senior management and the Board with all relevant risk related information to enable it to define the Bank's risk appetite.

The General Counsel is appointed by and reports directly to the CEO. The General Counsel provides legal advice to the Bank's senior management, including the Board of Directors, and manages the Bank's legal department which provides comprehensive legal advice to the Bank's business segments and support units.

The Chief Audit Executive (CAE) is appointed by the Board, reports directly to Board and directs Group Internal Audit with a mandate from the Board. The CAE is responsible for internal audit matters within the Group, including internal audit tasks which have been outsourced.

45. Risk management (continued)

The Chief Compliance Officer (CCO) is responsible for the Compliance function of the Bank, which sits within the second line of defence and acts independently within the Bank.

The CCO is appointed by the CEO, subject to Board confirmation and cannot be removed from post without the Board's prior approval. The Central Bank and the CAE shall be notified of the dismissal or departure of the CCO. The CCO acts as the Bank's Money Laundering Reporting Officer (MLRO).

Each employee is responsible for understanding the risk related to their day-to-day work, for knowing and understanding the respective internal and external rules and procedures, for using the alert procedures in the event of possible fraudulent activities and for conducting business in accordance with the Bank's code of conduct.

The Bank's senior management committee structure is twofold. Firstly the two executive committees, the Executive Committee and the All Risk Committee, that are responsible for the implementation of the Board approved business strategy, risk appetite and policies. Secondly the six business committees, the Asset and Liability Committee (ALCO), the Senior Credit Committee (SCC), the Investment Committee (IC), the Operational and Security Committee (OSC), the Sustainability Committee (SC), and the Digital Product Committee (DPC), which are responsible for the approval of business or operational proposals subject to internal rules and guidelines issued by the executive committees and the Board.

The members of the senior management committees are appointed by the CEO, and their mandate and rules of procedure are documented in a charter issued by the CEO.

More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2023 Report, which is available on the Bank's website: www.islandsbanki.is.

46. Credit risk

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

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

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

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

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

47. Maximum credit exposure and collateral

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the Consolidated Statement of Financial Position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and credit commitments, less provisions that have been made because of these items.

Collateral and other credit mitigants vary between types of obligors and credit facilities. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Group takes a charge over assets such as real estate, vessels, cash, and securities as well as other collateral including accounts receivables, inventory, vehicles, and equipment. Loans to government entities and to municipalities are more often than not unsecured.

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 828 million are subject to 100% Government guarantee and ISK 666 million to 85% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

Valuation of collateral is based on market price, official valuation for tax purposes or expert opinion of the Group's employees, depending on availability. In the case of fishing vessels the associated fishing quota is included in the valuation. The total value of pledged assets can be higher than the cover indicates. For capital leases the Group remains the owner of the leased object.

The industry breakdown under loans to customers shows the credit exposure by industry classification. The breakdown follows an internal industry classification which is based on the Icelandic ISAT2008 that derives from the European NACE Rev. 2 classification standard.

The following table shows the maximum exposure to credit risk by collateral held against those exposures that are subject to IFRS 9 impairment requirements.

47. Maximum credit exposure and collateral (continued)

At 31 December 2023 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	87,504	-	-	-	-	-	-	-	87,504	18
Loans to credit institutions	73,475	-	-	-	-	-	-	-	73,475	90
Bonds and debt instruments	161,342	-	-	-	-	-	-	-	161,342	-
Loans to customers:	1,223,426	606,706	307,978	60,466	23,517	76,787	66,315	1,141,769	81,657	11,728
Individuals	594,631	532,832	8,280	4	185	17,368	184	558,853	35,778	3,560
- Thereof mortgages	530,676	528,534	1,499	-	177	-	-	530,210	466	2,051
Commerce and services	182,808	14,159	71,111	753	3,969	47,061	31,546	168,599	14,209	2,162
Construction	80,099	25,822	45,510	76	367	3,543	2,389	77,707	2,392	1,009
Energy	7,938	30	6,623	-	1	10	21	6,685	1,253	79
Financial services	214	-	61	-	-	-	-	61	153	1
Industrial and transportation	75,802	2,122	47,248	1,829	316	8,084	12,073	71,672	4,130	2,835
Investment companies	45,931	4,018	11,646	-	18,521	198	11,200	45,583	348	764
Public sector and non-profit organisations	18,476	61	754	-	-	20	15	850	17,626	24
Real estate	144,173	27,169	110,037	-	94	368	1,363	139,031	5,142	1,179
Seafood	73,354	493	6,708	57,804	64	135	7,524	72,728	626	115
Other financial assets	2,846	-	-	-	-	-	-	-	2,846	8
Off-balance sheet items:	197,115	9,629	31,770	6,492	4,227	1,139	20,464	73,721	123,394	1,184
Financial guarantees	20,680	-	6,766	105	1,532	-	1,961	10,364	10,316	347
Loan commitments	176,435	9,629	25,004	6,387	2,695	1,139	18,503	63,357	113,078	837
Total	1,745,708	616,335	339,748	66,958	27,744	77,926	86,779	1,215,490	530,218	13,028

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

Amounts are in ISK million

47. Maximum credit exposure and collateral (continued)

At 31 December 2022 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	94,424	-	-	-	-	-	-	-	94,424	3
Loans to credit institutions	110,364	-	-	-	-	-	-	-	110,364	152
Bonds and debt instruments	130,804	-	-	-	-	-	-	-	130,804	-
Loans to customers:	1,186,639	557,263	306,469	82,645	20,744	63,889	69,383	1,100,393	86,246	11,132
Individuals	570,522	509,638	9,988	3	177	15,767	170	535,743	34,779	2,328
- Thereof mortgages	507,969	504,654	2,514	-	168	-	-	507,336	633	894
Commerce and services	172,222	8,356	76,739	788	2,932	37,908	32,473	159,196	13,026	3,518
Construction	59,815	14,395	35,787	1	186	2,911	2,298	55,578	4,237	757
Energy	10,411	57	8,862	-	9	5	25	8,958	1,453	45
Financial services	2,622	-	595	-	-	-	1,149	1,744	878	20
Industrial and transportation	91,078	1,954	48,834	2,203	109	6,660	13,147	72,907	18,171	2,846
Investment companies	40,336	3,006	10,432	-	16,975	102	9,226	39,741	595	685
Public sector and non-profit organisations	11,046	49	740	-	-	31	19	839	10,207	31
Real estate	126,297	19,349	103,126	-	265	427	671	123,838	2,459	784
Seafood	102,290	459	11,366	79,650	91	78	10,205	101,849	441	118
Other financial assets	5,411	-	-	-	-	-	-	-	5,411	13
Off-balance sheet items:	203,145	8,303	32,714	13,136	2,318	-	24,344	80,815	122,330	1,338
Financial guarantees	18,385	-	6,556	104	1,403	-	1,837	9,900	8,485	413
Loan commitments	184,760	8,303	26,158	13,032	915	-	22,507	70,915	113,845	925
Total	1,730,787	565,566	339,183	95,781	23,062	63,889	93,727	1,181,208	549,579	12,638

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

Amounts are in ISK million

48. Credit quality of financial assets

The following tables provide the gross carrying amount of loans and credit risk exposure on loan commitments and financial guarantees. Amounts are broken down by risk class and the method by which their respective credit loss allowances (ECL) are calculated, i.e. Stage 1, 2 and 3.

The Group uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

The rating of corporate customers is based on a company's most recent financial statements, together with a qualitative assessment of its management, market position and industry sector.

For retail customers the Group uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Group of less than ISK 150 million. These models are behavioural scoring models and use information about a customer's payment history, amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of his obligations within 12 months of the rating assessment.

Risk classes 1-4 represent low risk, risk classes 5-6 moderate risk, risk classes 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers that are in default. Unrated are loans that are yet to be rated.

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2023 Report.

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

At 31 December 2023

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

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

Amounts are in ISK million

48. Credit quality of financial assets (continued)

At 31 December 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	478,439	524	-	478,963
Risk class 5-6	473,451	14,804	-	488,255
Risk class 7-8	177,477	10,372	-	187,849
Risk class 9	17,425	4,035	-	21,460
Risk class 10	-	-	21,123	21,123
Unrated	81	40	-	121
	1,146,873	29,775	21,123	1,197,771
Expected credit losses	(4,636)	(2,235)	(4,261)	(11,132)
Net carrying amount	1,142,237	27,540	16,862	1,186,639

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	99,648	2	-	99,650
Risk class 5-6	66,519	328	-	66,847
Risk class 7-8	28,039	5,464	-	33,503
Risk class 9	706	428	-	1,134
Risk class 10	-	-	1,640	1,640
Unrated	1,484	180	45	1,709
	196,396	6,402	1,685	204,483
Expected credit losses	(869)	(242)	(227)	(1,338)
Total	195,527	6,160	1,458	203,145

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49. Forbearance

When restructuring or modification measures are believed to be more appropriate than collection procedures, the Group offers several debt relief measures and restructuring frameworks for customers in financial difficulties. These forbearance measures include temporary payment holidays, extension of loan terms, capitalisation of arrears, and waiving of covenants.

The relationship between forbearance and stages is discussed in Note 62.3.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for a loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:
- All of the customer's facilities have to be considered performing during the probation period; and
- The customer does not have any contract that is more than 30 days past due; and
- The probation period of two years has passed from the date of the forbearance event; and
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period.

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

At 31 December 2023

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

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

At 31 December 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,232	2,422	1,264	6,918
Companies	23,662	17,596	9,189	50,447
Total	26,894	20,018	10,453	57,365

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(20)	(46)	(98)	(164)
Companies	(86)	(1,783)	(2,766)	(4,635)
Total	(106)	(1,829)	(2,864)	(4,799)

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50. Large exposures disclosure

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

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had two large exposures at 31 December 2023 (year-end 2022: five). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 31 December 2023

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

At 31 December 2022

Groups of connected clients:	Before	After
Group 1	87%	9%
Group 2	13%	13%
Group 3	12%	12%
Group 4	11%	11%
Group 5	11%	11%
Group 6	11%	11%

51. Liquidity risk

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

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

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52. Liquidity coverage and net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratios and the rules on funding ratios. In addition, the Group complies with the FSA's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 1520/2022.

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

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

Net stable funding ratio	31.12.2023	31.12.2022
For all currencies	124%	118%

Liquidity coverage ratio	31.12.2023	31.12.2022
For all currencies	195%	205%
ISK	115%	109%
EUR	663%	792%

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

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

At 31 December 2022	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	85,381	462	284	506	86,633
Foreign government bonds	-	34,691	5,666	13,388	53,745
Domestic bonds eligible as collateral with Central Bank	57,696	-	-	-	57,696
Level 2 liquid assets	24,370	3	-	25	24,398
High quality liquidity assets	167,447	35,156	5,950	13,919	222,472
Balance with financial institutions	1,028	21,138	37,573	30,081	89,820
Liquidity reserve	168,475	56,294	43,523	44,000	312,292

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53. Maturity analysis of financial assets and financial liabilities

The following tables show the maturity profile of the Group's financial assets and the undiscounted cash flows of its financial liabilities. Maturity classification of assets is based on contractual maturity.

Bonds and debt instruments are based on contractual maturity and therefore do not represent the estimated liquidation time of the trading book.

The tables show undiscounted contractual payments of principal and interest for the Group's financial liabilities. Thus, the total figures for each liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts.

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

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

At 31 December 2023	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	40,011	47,493	-	-	-	-	87,504	87,504
Loans to credit institutions	16,086	57,389	-	-	-	-	73,475	73,475
Bonds and debt instruments	-	85,667	48,754	24,598	2,323	-	161,342	161,342
Derivatives	-	1,887	1,474	2,842	-	-	6,203	5,776
- Net settled derivatives	-	490	-	-	-	-	490	490
- Inflow	-	34,297	27,617	32,655	-	-	94,569	76,961
- Outflow	-	(32,900)	(26,143)	(29,813)	-	-	(88,856)	(71,675)
Loans to customers	435	96,569	115,037	352,958	658,427	-	1,223,426	1,223,426
Shares and equity instruments	-	-	-	-	-	13,241	13,241	13,241
Other financial assets	2,413	365	68	-	-	-	2,846	2,846
Total financial assets	58,945	289,370	165,333	380,398	660,750	13,241	1,568,037	1,567,610
Deposits from CB and credit institutions	7,611	7,028	1,564	-	-	-	16,203	16,149
Deposits from customers	668,448	88,729	46,467	35,530	43,896	-	883,070	850,709
Derivative instruments and short positions	-	2,042	2,103	2,115	913	-	7,173	5,090
- Net settled derivatives	-	391	-	-	-	-	391	391
- Inflow	-	(43,522)	(20,508)	(18,591)	-	-	(82,621)	(68,235)
- Outflow	-	45,161	22,578	20,407	-	-	88,146	72,294
- Short positions	-	12	33	299	913	-	1,257	640
Debt issued and other borrowed funds	-	18,071	35,902	430,196	70,359	-	554,528	417,573
Subordinated loans	-	290	2,026	20,525	44,852	-	67,693	38,155
Other financial liabilities	2,522	1,546	1,629	2,024	1,399	-	9,120	8,879
- Lease liabilities	-	151	449	1,962	1,399	-	3,961	3,720
- Other liabilities	2,522	1,395	1,180	62	-	-	5,159	5,159
Total financial liabilities	678,581	117,706	89,691	490,390	161,419	-	1,537,787	1,336,555
Net financial assets and financial liab.	(619,636)	171,664	75,642	(109,992)	499,331	13,241	30,250	231,055

Amounts are in ISK million

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

At 31 December 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	41,518	52,906	-	-	-	-	94,424	94,424
Loans to credit institutions	46,761	63,587	16	-	-	-	110,364	110,364
Bonds and debt instruments	-	50,429	46,570	28,940	4,865	-	130,804	130,804
Derivatives	-	3,062	1,619	2,260	-	-	6,941	7,461
- Net settled derivatives	-	897	-	-	-	-	897	897
- Inflow	-	41,940	24,587	29,827	-	-	96,354	81,324
- Outflow	-	(39,775)	(22,968)	(27,567)	-	-	(90,310)	(74,760)
Loans to customers	-	80,768	129,442	326,017	650,412	-	1,186,639	1,186,639
Shares and equity instruments	-	-	-	-	-	15,868	15,868	15,868
Other financial assets	4,968	288	155	-	-	-	5,411	5,411
Total financial assets	93,247	251,040	177,802	357,217	655,277	15,868	1,550,451	1,550,971
Deposits from CB and credit institutions	5,015	2,998	4,269	3,387	-	-	15,669	15,269
Deposits from customers*	610,507	123,946	52,453	23,018	33,858	-	843,782	789,897
Derivative instruments and short positions	-	1,366	4,220	4,504	509	-	10,599	10,804
- Net settled derivatives	-	134	-	-	-	-	134	134
- Inflow	-	(51,316)	(20,748)	(19,479)	-	-	(91,543)	(77,250)
- Outflow	-	52,533	24,968	23,923	-	-	101,424	87,635
- Short positions	-	15	-	60	509	-	584	285
Debt issued and other borrowed funds	-	12,384	111,618	465,372	50,404	-	639,778	468,270
Subordinated loans	-	529	1,427	20,516	35,530	-	58,002	34,392
Other financial liabilities	5,356	1,271	1,486	1,911	1,634	-	11,658	11,329
- Lease liabilities	-	141	396	1,866	1,634	-	4,037	3,708
- Other liabilities	5,356	1,130	1,090	45	-	-	7,621	7,621
Total financial liabilities	620,878	142,494	175,473	518,708	121,935	-	1,579,488	1,329,961
Net financial assets and financial liab.	(527,631)	108,546	2,329	(161,491)	533,342	15,868	(29,037)	221,010

*Comparative figures have been changed with immaterial effects.

Off-balance sheet liabilities

Note 47 Maximum Credit Exposure and Collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce financial guarantees and credit commitments before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

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54. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 23).

Market risk within the Group can broadly be split into two categories, trading book and banking book (or non-trading book). The trading book includes market risk exposures related, directly or indirectly, to the Group's short- and medium-term trading in securities, currencies and other capital market instruments and derivatives. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. The banking book includes market risk exposures related to securities held for long-term investment purposes, unlisted securities or holdings in subsidiaries or affiliates. A large part of the banking book market risk is due to mismatches in the composition of assets and liabilities, for example with respect to currencies, interest rates, CPI-indexation or other factors that can affect the Group's earnings or earnings volatility. These mismatches are reported to management and are subject to internal and regulatory limits.

55. Interest rate risk

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

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, domestic municipality bonds, and covered bonds issued by other Icelandic banks. In the following tables the total market value (MV) of long and short positions may not be the same as reported in Note 17 since netting between short and long positions is not applied here. Fixed income securities in the Bank's liquidity portfolio were reclassified from trading book to non-trading book in the fourth quarter of 2023.

	31.12.2023			31.12.2022		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	970	5.21	(0.51)	3,446	6.39	(2.20)
Non-indexed	1,166	2.99	(0.35)	124,065	0.58	(7.17)
Total	2,136	4.00	(0.86)	127,511	0.74	(9.37)
Trading bonds and debt instruments, short positions						
Indexed	45	6.71	0.03	-	-	-
Non-indexed	368	6.50	0.24	282	5.04	0.14
Total	413	6.52	0.27	282	5.04	0.14
Net position of trading bonds and debt instruments	1,723	3.40	(0.59)	127,229	0.73	(9.23)

The following table shows the interest rate sensitivity of the Group's trading book from a parallel 100 basis points change in all yield curves.

Sensitivity analysis for trading bonds and debt instruments	31.12.2023		31.12.2022	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	54	(54)	222	(222)
ISK, non-indexed	59	(59)	601	(601)
EUR	-	-	87	(87)
USD	-	-	4	(4)
Other total	-	-	39	(39)
Total	113	(113)	953	(953)

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55. Interest rate risk (continued)

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Group's assets and liabilities are of different maturities and are priced relative to different interest rates.

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset. From the fourth quarter of 2023 the interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued and applicable non-maturing deposits (NMDs) where behavioural assumptions are applied. Fixed income securities in the Bank's liquidity portfolio were reclassified from trading book to banking book in fourth quarter of 2023.

Sensitivity analysis for interest rate risk in the banking book

At 31 December 2023

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

At 31 December 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	12	(12)	220	(4,195)	2,860	(80)	(1,195)
ISK, non-indexed	23	232	(517)	(740)	1	46	(955)
EUR	103	218	(15)	(132)	-	-	174
SEK	51	-	-	-	-	-	51
USD	39	-	-	-	-	-	39
Other	79	-	3	(5)	-	-	77
Total	307	438	(309)	(5,072)	2,861	(34)	(1,809)

Amounts are in ISK million

56. Currency risk

Currency risk is the risk that earnings or capital may be negatively affected from the fluctuations of foreign exchange rates, due to transactions in foreign currencies or due to a mismatch in the currency composition of assets or liabilities.

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

Debt issued is presented in the analysis of the Group's foreign currency exposure as the nominal amount plus accrued interest. Some debt issues are measured at fair value in the Consolidated Financial Statements. Therefore, the net position presented below does not match the book value net position thus affecting the foreign exchange difference recognised in the Consolidated Income Statement.

At 31 December 2023	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	487	290	120	49	10	52	85	141	27	182	1,443
Loans to credit institutions	18,752	25,198	1,626	4,301	314	2,794	17,994	207	685	58	71,929
Bonds and debt instruments	31,377	20,919	-	-	-	17,920	11,812	-	-	-	82,028
Loans to customers	92,652	15,817	293	618	1,816	736	2,496	588	6,880	-	121,896
Shares and equity instruments	46	302	102	-	-	22	-	-	-	-	472
Other assets	221	38	-	-	-	-	-	-	-	-	259
Total assets	143,535	62,564	2,141	4,968	2,140	21,524	32,387	936	7,592	240	278,027
Deposits from credit institutions	7,731	995	20	-	-	4	-	1	-	-	8,751
Deposits from customers	38,255	48,952	4,322	545	445	767	4,459	1,440	204	24	99,413
Debt issued and other borrowed funds	154,069	11,719	-	-	-	30,343	34,725	-	-	-	230,856
Subordinated loans	-	-	-	-	-	16,780	-	-	-	-	16,780
Other liabilities	7	25	-	-	-	-	-	111	-	-	143
Total liabilities	200,062	61,691	4,342	545	445	47,894	39,184	1,552	204	24	355,943
Net on-balance sheet position	(56,527)	873	(2,201)	4,423	1,695	(26,370)	(6,797)	(616)	7,388	216	(77,916)
Net off-balance sheet position	60,795	1,091	2,270	(4,400)	(1,696)	26,007	6,918	693	(7,334)	(281)	84,063
Net position	4,268	1,964	69	23	(1)	(363)	121	77	54	(65)	6,147

Amounts are in ISK million

56. Currency risk (continued)

At 31 December 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	462	284	126	36	7	43	47	78	31	139	1,253
Loans to credit institutions	35,515	37,533	2,565	534	816	5,220	20,790	4,855	1,321	146	109,295
Bonds and debt instruments	34,693	5,666	7	-	-	3,393	9,996	-	-	-	53,755
Loans to customers	127,658	25,155	348	657	2,193	40	2,946	140	7,073	-	166,210
Shares and equity instruments	127	350	78	-	-	1,025	-	-	-	-	1,580
Other assets	344	243	7	-	-	46	-	1	-	-	641
Total assets	198,799	69,231	3,131	1,227	3,016	9,767	33,779	5,074	8,425	285	332,734
Deposits from credit institutions	8,657	1,869	17	-	-	-	7	-	-	-	10,550
Deposits from customers	35,002	42,694	4,988	641	683	910	3,891	10,011	322	12	99,154
Debt issued and other borrowed funds	179,456	12,228	-	-	-	23,231	46,128	-	-	-	261,043
Subordinated loans	-	-	-	-	-	23,667	-	-	-	-	23,667
Other liabilities	254	200	7	-	-	1	-	1	-	-	463
Total liabilities	223,369	56,991	5,012	641	683	47,809	50,026	10,012	322	12	394,877
Net on-balance sheet position	(24,570)	12,240	(1,881)	586	2,333	(38,042)	(16,247)	(4,938)	8,103	273	(62,143)
Net off-balance sheet position	22,616	(11,542)	1,766	(576)	(2,394)	38,117	16,233	4,953	(8,244)	(377)	60,552
Net position	(1,954)	698	(115)	10	(61)	75	(14)	15	(141)	(104)	(1,591)

Amounts are in ISK million

Notes to the Consolidated Financial Statements

56. Currency risk (continued)

The following table shows the effect of a 10% depreciation or appreciation of foreign exchange rates where the Group had positions at year-end, with all other variables held constant.

Sensitivity analysis for currency risk	31.12.2023		31.12.2022	
	Effect on profit before tax			
Currency	-10%	10%	-10%	10%
EUR	(427)	427	195	(195)
USD	(196)	196	(70)	70
GBP	(7)	7	12	(12)
CHF	(2)	2	(1)	1
JPY	-	-	6	(6)
SEK	36	(36)	(8)	8
NOK	(12)	12	1	(1)
DKK	(8)	8	(2)	2
CAD	(5)	5	14	(14)
Other foreign currencies	7	(7)	10	(10)
Total	(614)	614	157	(157)

57. Shares and equity instruments

The Group's equity exposure in the trading book arises from flow trading and market making with shares listed on the Nasdaq Iceland Stock Exchange. Shares and equity instruments in the banking book are classified as mandatorily at fair value through profit or loss or are classified as held for sale.

The following table shows how a 10% shift in equity prices would affect the Group's equity and net financial income. Securities used for hedging are excluded.

Sensitivity analysis for shares and equity instruments	31.12.2023		31.12.2022*	
	Effect on profit			
Portfolio	Downward shift	Upward shift	Downward shift	Upward shift
Trading book	(62)	62	(131)	131
Banking book	(178)	178	(215)	215
Total	(240)	240	(346)	346

*Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

58. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 1,294 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.12.2023	31.12.2022
Bonds and debt instruments	1,551	4,148
Loans to customers	405,910	282,521
Total CPI-linked assets	407,461	286,669
Deposits from customers	116,551	107,684
Debt issued and other borrowed funds	140,428	137,169
Subordinated loans	19,850	9,199
Off-balance sheet exposures	1,176	4,912
Short positions	11	-
Total CPI-linked liabilities	278,016	258,964
CPI imbalance	129,445	27,705

59. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 December 2023 and 31 December 2022.

The Group's regulatory capital requirement is calculated according to EU regulation no. 575/2013 as implemented through the Act on Financial Undertakings no. 161/2002. Capital requirement calculations for credit risk, market risk and operational risk are based on the standardised approach wheras the simplified standardised approach is used for counterparty credit risk.

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2023 maintain an additional capital requirement of 2.4% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.8%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

In March 2023, the Central Bank of Iceland Financial Stability Committee announced the decision to increase the countercyclical capital buffer rate from 2% to 2.5%, effective from 15 March 2024, increasing the Group's overall capital requirements to 20.3%.

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

	31.12.2023	31.12.2022
Own funds		
Ordinary share capital	9,898	10,000
Share premium	55,000	55,000
Reserves	5,083	9,158
Retained earnings	154,712	144,716
IFRS 9 reversal due to transitional rules	-	1,301
Fair value changes due to own credit standing	1,827	(1,786)
Foreseeable dividend payment and approved buyback*	(14,990)	(27,267)
Tax assets	(122)	(116)
Intangible assets	(1,922)	(3,279)
Insufficient coverage for non-performing exposures	(3)	-
CET1 capital	209,483	187,727
Additional Tier 1 capital	10,019	10,062
Tier 1 capital	219,502	197,789
Tier 2 capital	28,135	24,330
Total capital base	247,637	222,119

*The AGM of Íslandsbanki held on 16 March 2023 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2023 ISK 2.7 billion remained of the approved buyback and is therefore deducted from CET1 capital.

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59. Capital management (continued)

Risk exposure amount

Due to credit risk	865,758	893,110
Due to market risk	10,360	15,417
Due to credit valuation adjustment	677	2,756
Due to operational risk	100,237	88,208
Total risk exposure amount	977,032	999,491

Capital ratios

CET1 ratio	21.4%	18.8%
Tier 1 ratio	22.5%	19.8%
Total capital ratio	25.3%	22.2%

Leverage ratio

Exposure amount

On-balance sheet exposures	1,571,430	1,541,738
Off-balance sheet exposures	53,224	68,702
Derivative exposures	11,246	30,596
Leverage ratio total exposure measure	1,635,900	1,641,036
Tier 1 capital	219,502	197,789
Leverage ratio	13.4%	12.1%

Amounts are in ISK million

Notes to the Consolidated Financial Statements

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

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

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 31 December 2023 the LAA and RCA were both equal to the total SREP capital requirement of 10.4%, resulting in an MREL requirement of 20.8% of REA.

	31.12.2023		31.12.2022	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	203,223	20.8%	211,892	21.2%
Combined buffer requirement	91,450	9.4%	93,028	9.3%
MREL including combined buffer requirement	294,673	30.2%	304,920	30.5%

	31.12.2023		31.12.2022	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	247,637	25.3%	222,119	22.2%
Eligible liabilities	155,617	15.9%	122,925	12.3%
Own funds and eligible liabilities	403,254	41.3%	345,044	34.5%

61. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk, and compliance risk among other risk factors.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at Íslandsbanki lies with the Board of Directors. The Board has approved an Operational Risk Policy which outlines the Bank's framework for operational risk management. Risk Management is responsible for implementing the Bank's operational risk framework, for developing, maintaining the Operational Risk Policy, and for communicating the policy to the Bank's employees.

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Notes to the Consolidated Financial Statements

62. Material accounting policies

The accounting policies set out below have been applied consistently by the Group for the periods presented in these Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

62.1 Basis of consolidation

The Consolidated Financial Statements of the Group comprise the financial statements of Íslandsbanki hf., as the parent company, and its subsidiaries.

Consolidation

The Group consolidates its subsidiaries on the basis of control. The consolidation begins when the Group obtains control of the subsidiary and ceases when the Group no longer has control of the subsidiary.

In preparing the Consolidated Financial Statements, Íslandsbanki combines its financial statements with those of its subsidiaries, line by line, by adding together like items of assets, liabilities, equity, income, expenses, and cash flows. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group balances, income and expenses relating to transactions between group entities are eliminated in full on consolidation.

A change in the Group's ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

Control

Subsidiaries are defined as companies in which Íslandsbanki, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the Group evaluates a range of control factors, including:

- The purpose and design of the entity
- The relevant activities and how these are determined
- Whether the Group's rights result in the ability to direct the relevant activities
- Whether the Group has exposure or right to variable returns, and
- Whether the Group has the ability to use its power to affect its return

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, the Group may still exercise control with less than 50% shareholding, or may not be able to exercise control with over 50% of an entity's shares. When assessing whether the Group has power over the investment and therefore controls the variability of this return, the Group considers all relevant facts and circumstances, including the contractual arrangements with the other vote holders of the entity, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights.

The Group reassesses its control over subsidiaries on a regular basis.

Business combinations

The Group accounts for each business combination by applying the acquisition method. Under the acquisition method, the Group identifies itself as the acquirer, determines the acquisition date, recognises and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree, and recognises and measures any goodwill or gain from a bargain purchase.

Loss of control

If the Group loses control of a subsidiary, it derecognises the related assets, liabilities, non-controlling interests, and other components of equity, while any resultant gain or loss is recognised in profit or loss in the line item "Other operating income", or in the line item "Discontinued operations held for sale, net of income tax" if the subsidiary is classified as disposal group held for sale.

Any investment retained by the Group in the former subsidiary is recognised at its fair value at the date when control is lost.

Funds management

The Group acts as a manager for Undertakings for Collective Investment in Transferable Securities (UCITS) and investment funds as well as other funds for collective investment that accept capital from investors. Such funds are financed by issuing unit share certificates or shares. The Group does not have any contractual financial responsibility with respect to such custom units. The funds are not consolidated unless they are under the control of the Group.

The Group reviews all the facts and circumstances in order to decide if these funds should be consolidated. The Group is deemed to be a principal and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or guarantees, and is able to influence the returns of the funds by exercising its power.

Notes to the Consolidated Financial Statements

62.2 Investments in associates

Associates are entities over which the Group has significant influence to participate in the financial and operating policy decisions of an entity but does not have control over those policies. It is presumed that the Group has significant influence if the Group holds 20-50% of the voting power of an entity. Considerations made in determining significant influence are similar to those used to determine control over subsidiaries (see Note 62.1).

The Group accounts for its investments in associates using the equity method.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss in the line item "Other operating income".

Income and expenses from investments in associates are recognised in profit or loss in the line item "Other operating income".

62.3 Financial assets and financial liabilities

Recognition

The Group recognises a financial asset and a financial liability in its statement of financial position on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument, except for loans which are recognised on the date when cash is advanced by the Group to the borrowers. At initial recognition, the Group measures a financial asset or a financial liability at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Derecognition

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

The Group derecognises financial assets in the following circumstances:

- When the contractual rights to the cash flows from the financial assets expire, or
- When the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which:
  - The Group transfers substantially all the risks and rewards of ownership of the financial assets, or
  - The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it does not retain control of the financial assets.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position of the Group. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions and securities lending.

The Group does not derecognise from its Statement of Financial Position securities which the Group sells under agreements to repurchase at a specified future date ("repos") at a fixed price or at the sale price plus a lender's return. The Group recognises the cash received as a liability in its Statement of Financial Position. The difference between the sale and repurchase prices is recognised as interest expense over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of securities to counterparties is only reflected in the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

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

Modifications

Substantial modifications of terms of existing financial assets, or replacements with new ones with significantly different terms, result in the Group derecognising the original financial assets and recognising new financial assets at fair value.

Notes to the Consolidated Financial Statements

62.3 Financial assets and financial liabilities (continued)

Classification and measurement of financial assets

For the purpose of measuring its financial assets, the Group classifies them at inception in one of the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss
- Derivative assets in hedge accounting

The measurement basis of individual financial assets is determined based on an assessment of the cash flow characteristics of the assets and the business models under which they are managed.

The business models

The business models are determined by the Group's key management personnel in the way that assets are managed and their performance is reported to them. The Group determines its business models at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. This condition is not an instrument-by-instrument approach to classification, but is determined at a higher level of aggregation. The Group's business models fall into the following three categories: Held to collect, Held to collect and for sale, and Other fair value business models, where assets are held for trading or managed on a fair value basis and are neither Held to collect nor Held to collect and for sale.

Solely payments of principal and interest (SPPI)

Financial assets held within the business models Held to collect and Held to collect and for sale, are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which are consistent with a basic lending arrangement. Principal is the fair value of the financial asset at initial recognition and changes over the life of the financial asset, for example if there are repayments of principal. Interest relates to basic lending returns, including compensation for the time value of money and credit risk associated with the principal amount outstanding over a period of time. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, servicing or administrative costs), as well as a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets at amortised cost

A financial asset is classified as being subsequently measured at amortised cost if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows, i.e. Held to collect.

Financial assets at amortised cost are measured using the effective interest method. Amortised cost is calculated by taking into account the amount at which the assets are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums on acquisition and fees and costs that are an integral part of the effective interest rate), and minus any reduction for impairment. Accrued interest is included in the carrying amount of the financial asset in the Statement of Financial Position. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is classified as being subsequently measured at fair value through other comprehensive income if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows and sell, i.e. Held to collect and for sale.

Financial assets at fair value through other comprehensive income are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in other comprehensive income, except for interest earned which is recognised using the effective interest method in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item “Net foreign exchange gain (loss)”. Impairment and reversals of impairment are recognised in profit or loss in the line item "Net impairment on financial assets", offset due to impairment is then transferred to other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income does not affect the book value of the financial assets since the financial assets are measured at fair value. On derecognition fair value gains and losses are recycled to profit or loss.

Notes to the Consolidated Financial Statements

62.3 Financial assets and financial liabilities (continued)

For shares and equity instruments that are not held for trading, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses, including any related foreign exchange component, in other comprehensive income rather than profit or loss. This election is made on an instrument-by-instrument basis. Shares and equity instruments at FVOCI are not subject to an impairment assessment. Dividends are to be presented in profit or loss, as long as they represent a return on investment. On derecognition there is no recycling of fair value gains and losses to profit or loss.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets classified at fair value through profit or loss are all other financial assets which are not classified at amortised cost or at fair value through other comprehensive income. This includes financial assets classified mandatorily at fair value through profit or loss and financial assets which are irrevocably designated by the Group at initial recognition as at fair value through profit or loss that would otherwise meet the requirements to be measured at amortised cost or at FVOCI. The Group designates financial assets as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. During the year the Group did not classify any financial assets as designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in profit or loss in the line item “Net financial income (expense)”, except for interest earned, which is recognised in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)".

Derivative assets in hedge accounting
Derivative assets in hedge accounting consist of derivatives with positive fair value which are designated and accounted for as hedging instruments (see Note 62.6).

Classification and measurement of financial liabilities

For the purpose of measuring its financial liabilities, the Group classifies them at inception in one of the following categories, except for loan commitments and financial guarantees (see Note 62.8):

- Financial liabilities at amortised cost
- Financial liabilities mandatorily at fair value through profit or loss
- Financial liabilities designated as at fair value through profit or loss
- Derivative liabilities in hedge accounting

Financial liabilities at amortised cost
Financial liabilities at amortised cost are non-derivative financial liabilities. Financial liabilities at amortised cost include deposits, debt issued and other borrowed funds, and subordinated loans.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred, and subsequently are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the amount at which the financial liabilities are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums and fees and costs that are an integral part of the effective interest rate). Accrued interest is included in the carrying amount of the liabilities in the Statement of Financial Position.

The amortised cost of certain bonds issued by the Group, which are designated as hedged items in qualifying fair value hedge relationships, is adjusted for changes in the fair value of the bonds attributable to interest rate risk (see Note 62.6).

Financial liabilities mandatorily at fair value through profit or loss
Financial liabilities mandatorily at fair value through profit or loss are financial liabilities incurred principally for the purpose of generating profits from short-term price fluctuations or from the dealer's margin. Financial liabilities mandatorily at fair value through profit or loss consist of short positions in listed bonds and derivatives with negative fair value which are not classified as financial guarantees or are not designated as hedging instruments.

Financial liabilities mandatorily at fair value through profit or loss are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" on an accrual basis and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

62.3 Financial assets and financial liabilities (continued)

Financial liabilities designated as at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss are recognised at fair value and changes in fair value attributable to changes in the credit risk of those liabilities are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. The remaining fair value changes are included in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" using the contractual interest rate and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

The Group calculates the fair value attributable to changes in credit risk as the difference between the changes in fair value of the financial liability and the amount of changes in fair value attributable to changes in market interest rates. The change in fair value attributable to changes in market interest rates on financial liabilities is calculated by discounting contractual cash flows at the end of the period with the discount rate of the appropriate market interest rate.

Upon initial recognition, the Group determines if the recognition of gains and losses in other comprehensive income creates or enlarges an accounting mismatch in profit or loss, if applicable the whole fair value change is presented in profit or loss.

Derivative liabilities in hedge accounting

Derivative liabilities in hedge accounting consist of derivatives with negative fair value which are designated and accounted for as hedging instruments (see Note 62.6).

Reclassification

Financial assets are reclassified between measurement categories if the objective of the business model in which the financial assets are held changes after initial recognition and if the change is significant to the Group's operations.

Financial liabilities are not reclassified.

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of financial assets and financial liabilities using quoted prices in an active market for that instrument. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring transactions. The fair value is based on the most recent observed market prices at the reporting date.

If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes option pricing model and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Periodically, the Group tests the valuation techniques and calibrates against historical data and using prices from observable current market transactions for the same instrument, or based on other available observable market data.

Changes in the fair value of financial assets and financial liabilities are recognised in profit or loss in the line item "Net financial income (expense)".

The Group has an established control framework with respect to the measurement of fair values. The business unit owning the positions is responsible for their valuations and for submitting the valuation to the Bank's Investment Committee for approval. Risk Management provides an independent review of the results, the valuation methods used and of the use of significant unobservable inputs. The final decision on the validity of the valuation is in the hands of the Bank's Investment Committee.

Financial instruments carried at fair value are categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1: Fair Value Established from Quoted Market Prices

Financial instruments at this level are financial assets and financial liabilities containing actively traded bonds and shares that are listed either domestically or abroad.

Notes to the Consolidated Financial Statements

62.3 Financial assets and financial liabilities (continued)

Level 2: Fair Value Established Using Valuation Techniques with Observable Market Information

Financial instruments at this level are assets and liabilities containing domestic bonds, shares as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

Level 3: Fair Value Established Using Valuation Techniques Using Significant Unobservable Market Information

Financial instruments at this level contain primarily unlisted and illiquid shares and bonds. Unlisted shares and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

Impairment of financial assets

The impairment model of IFRS 9 is forward-looking and impairment under IFRS 9 should reflect a probability weighted average of possible outcomes. In addition, the expected credit loss model in IFRS 9 employs a dual measurement approach, under which the loss allowance for expected credit losses (ECL) is measured at each reporting date as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk (SICR) of the financial instrument since initial recognition. To satisfy the provisions of the IFRS 9 standard, a significant amount of modelling must be involved. The models which the Group uses for the calculation of the impairment amount are developed according to the Group's modelling framework. This framework imposes structure on the initial model development work, the model documentation including educational material as needed for users, the approval process for models, the implementation of models and the lifetime support for models, including validation and back-testing. The Group's impairment process, which encompasses all the steps needed to derive the appropriate impairment allowance for each accounting period, is documented and approved by the All Risk Committee.

Stage assignment

At each reporting date, all assets subject to the impairment methodology must be divided into three groups, termed "Stages", reflecting the extent of credit deterioration since initial recognition. This division then influences how the impairment is measured and how interest is recognised.

Stage 1

All assets that have not experienced a SICR are assigned to Stage 1. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from credit events occurring within 12 months of the reporting date (12-month ECL). Interest is recognised on the gross carrying amount of the assets.

Stage 2

Assets that the Group determines to have experienced a SICR, but are not credit-impaired, are classified as Stage 2. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from all credit events occurring within the expected lifetime of the assets (lifetime ECL). Interest is recognised on the gross carrying amount of the assets.

The Group's definition of a SICR is on the level of an individual asset. The Group assesses that there has been a SICR of an asset if the probability of a credit impairment event, i.e. transfer to Stage 3, occurring over the lifetime of the asset has increased significantly from the origination of the assets. For this purpose, origination does not refer to any modification events which have not resulted in derecognition of the asset. The assessment is based on a defined set of triggers. This includes, as a backstop, the trigger that the asset is more than thirty days past due. Other triggers are internal assessments of outlook, events such as forbearance events which are less severe than a credit event, external credit related information and a significant deterioration in risk assessment compared with the risk assessment done in relation to the origination of the asset. The definition of a SICR depends only on the probability of a credit event occurring, it does not take into account collateralisation, or any other information related to the expected loss arising from the event. As soon as all triggers for Stage 2 for a particular asset are no longer activated then the asset moves back to Stage 1. Additionally, assets are classified as forborne for two years after a forbearance event has occurred, but forbearance events only cause assets to be in Stage 2 for twelve months and then they migrate back to Stage 1 unless other triggers apply.

The Group does not employ the low credit risk exemption in the Stage assignment process. In alignment with its operating procedures, the Group has chosen as its accounting policy to measure the impairment allowance for lease receivables at an amount equal to the lifetime ECL only for those assets which have a SICR or are credit impaired. For other lease receivables the impairment allowance is equal to the 12-month ECL.

Notes to the Consolidated Financial Statements

62.3 Financial assets and financial liabilities (continued)

Stage 3

This Stage is for assets which are credit-impaired according to the Group's assessment. These assets are therefore experiencing an ongoing credit event. Thus, the 12-month ECL and lifetime ECL are the same amount, and this amount is recognised as impairment allowance. For assets in this Stage, interest is recognised on the net carrying amount of assets, i.e., net of impairment allowance.

The Group's definition of being credit-impaired is on a customer level, rather than on the level of an individual asset. According to the definition, a customer is credit-impaired when either of the following holds:

a) The Group assesses that it is unlikely that the customer can service all of their commitments to the Group in accordance with the terms of the agreements without recourse to default provisions in the agreements, or
b) The customer has been more than 90 days past due on material credit commitments

The assessment in point a) is made based on a defined set of triggers, which includes serious breach of covenants, serious registrations on an internal watchlist, initiation of serious collection actions and serious external credit related information. Furthermore, there is a defined set of conditions which must be satisfied so that customers that have been assessed as being credit impaired are no longer subject to this assessment. This includes probation periods and a view to the future outlook of the customer.

Expected credit loss (ECL)
The ECL for each asset is calculated using models for the probability of a credit impairment event occurring (PD), the loss percentage expected in case of such an event (LGD) and the outstanding amount at the time of the event (EAD). In its simplest form the ECL can be calculated as the product of these factors, however, for several reasons, the actual formula must be more complicated than this.

The PD models are either fully automated statistical models, expert models or hybrid models. For the models with a component involving expert input there is a process in place to ensure proper review of the model outcome and periodic reassessment of obligors. The inputs into the models include demographic variables, information from financial statements and past payment behaviour, among other variables.

The effect of the economy on the PD is accounted for with the use of scaling factors which map through-the-cycle PD values to point-in-time PD values. The Group has a model to predict these scaling factors based on an economic forecast. The economic forecast is provided by the Group's Chief Economist. The forecast predicts a range of macroeconomic indicators over a horizon of five years. The model is applied to a subset of these indicators and produces a set of scaling factors. The scaling factors are then reviewed by the All Risk Committee with respect to all of the indicators and any other relevant information available and the committee approves their use for the calculation of the impairment. This process is carried out at least quarterly.

The Group uses three economic scenarios. In addition to the base forecast, scaling factors are produced for good and bad cases. This is done in order to represent the whole range of possible future economic developments. The actual impairment allowance is the weighted average of the ECL in these different scenarios.

The All Risk Committee determined that it was appropriate to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at the end of year 2023, as it had been throughout the year.

The table below shows macroeconomic indicators of the Group's Chief Economist's macroeconomic forecast used in ECL calculations 31.12.2023.

Change in economic indicators %	Estimate 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027
Economic growth (YoY real GDP change)	2.2	2.6	3.0	2.3	2.4
Housing prices in Iceland (average YoY change)	7.3	2.6	3.9	4.5	3.5
Purchasing power (average YoY change)	0.6	2.3	2.3	1.2	1.2
ISK exchange rate index (YoY change in average)	1.4	(5.3)	(2.0)	1.0	1.0
Policy rate, Central Bank of Iceland (average per year)	8.2	8.9	7.2	5.2	4.5
Inflation (average per year)	8.7	5.4	3.7	3.3	3.2
Capital formation (YoY real change)	0.8	(0.6)	4.1	1.5	2.5
thereof capital formation in industry	2.7	(3.3)	4.4	2.5	2.5

62.3 Financial assets and financial liabilities (continued)

The LGD model considers several scenarios for how a facility may develop once a credit event has occurred. One possibility is that the facility cures without a loss. If not, the recoveries may be based on the seizing of collateral and to estimate such recoveries, several scenarios for the development of the value of the collateral are considered. Finally, there may be recoveries even though a formal collateral is not in place. These different recovery scenarios are weighted differently depending on the economic scenario under consideration. This leads to a non-linear interaction and thus a difference between the probability weighted average ECL and the ECL in the most likely scenario.

For EAD it is necessary to account for expected prepayments on term loans and for the expected utilisation of commitments such as credit cards, overdrafts, financial guarantees, and credit lines. The expected lifetime of agreements may also extend beyond the contractual lifetime for contracts which are generally extended.

Temporary changes were made to the impairment model in response to seismic activity in Reykjanes during the last quarter of 2023. For further information see Note 3.

Write-off policy
When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

The impairment process
In the Group's impairment framework, the Stage assignment and ECL for each financial asset is calculated from the aforementioned models. The outcome is reviewed by the business units and they can propose changes if they provide sufficient supporting material. The impairment and any proposals for changes are reviewed by an Impairment Council appointed by the All Risk Committee and the impairment allowance is approved by the All Risk Committee on a quarterly basis.

The principle of materiality applies to the above discussion on impairment, whereby exceptions related to non-materiality and immaterial adjustments are not discussed.

62.4 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position and at the reporting date the expected credit loss is considered to be low. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Cash and cash equivalents in the statement of cash flows consist of cash on hand, unrestricted balances with the Central Bank, demand deposits with credit institutions, and short-term loans to credit institutions. Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition.

62.5 Derivative financial instruments

Derivatives are primarily used in trading activities but are also used to manage the Group's exposure to various risks, such as interest rate risk, inflation risk, and currency risk. Derivatives are classified as financial assets or financial liabilities, measured at fair value and presented in the Statement of Financial Position in separate line items as assets or liabilities, depending on whether their fair value at the reporting date is positive (assets) or negative (liabilities).

The Group applies hedge accounting. Accordingly, some of the Group's derivative financial assets and financial liabilities are accounted for as financial assets or financial liabilities mandatorily at fair value through profit or loss while others are accounted for as derivative assets or liabilities in hedge accounting (see Note 62.3 and Note 62.6).

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments with the effect that some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. These embedded derivatives are measured and presented in the Consolidated Financial Statements as if they were free-standing derivatives. The Group accounts for an embedded derivative separately from the host contract when, the host contract is not an asset in the scope of IFRS 9, is not carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. When the Group is required to separate and account for embedded derivatives as if they were stand-alone contracts, the Group presents the fair value of the embedded derivatives in the Statement of Financial Position in the same line items in which the Group presents the related host contracts.

Notes to the Consolidated Financial Statements

62.6 Hedge accounting

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

On initial designation of the hedges, the Group formally documented the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at inception of the hedge relationships and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%. In the assessment the Group assumes that the benchmark interest rate is not altered as result of the transition to alternative benchmark interest rates.

The Group applies fair value hedge accounting with respect to designated hedging relationships consisting of certain fixed-rate euro denominated bonds issued by the Group as the hedged items and certain euro denominated interest rate swaps as the hedging instruments, whereby the Group pays floating rate interest and receives fixed rate interest. The hedging relationships are designated and accounted for as fair value hedges because the interest rate swaps are hedging the exposure of the Group to changes in the fair value of the bonds arising from changes in interest rates. The Group recognises the changes in the fair value of the interest rate swaps immediately in profit or loss together with the changes in the fair value of the bonds which are attributable to the interest rate risk. The changes in the clean fair value of the swaps and the bonds are included in the line item “Net financial income (expense)”, the accrued interest on the bonds and the swaps is included in the line item “Net interest income” and foreign exchange gains and losses on the bond are included in the line item "Net foreign exchange gain (loss)".

If a hedging derivative expires or is sold, terminated or exercised, or a hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting for the corresponding hedging relationship is discontinued permanently. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

62.7 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to separate non-lease components and account for lease and non-lease components of a contract as a single lease component.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises a lease liability and a right-of-use asset at the lease commencement date. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets in the line item "Property and equipment" and lease liabilities in the line item "Other liabilities" in the Statement of Financial Position. Maturity analysis of lease liabilities is disclosed in Note 53. Interest on lease liabilities is recognised in profit or loss in the line item "Net interest income". Depreciation of right-of-use assets is recognised in profit or loss in the line item "Other operating expenses".

The Group as a lessor

The Group classifies leases based on the substance of the arrangements and the extent of the transfer of risks and rewards incidental to ownership of the leased asset. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership.

When the Group is the lessor in a capital lease, the Group recognises a receivable equal to the net investment in the lease and presents it in the line item "Loans to customers" in the Statement of Financial Position. The Group applies its accounting policies for derecognition and impairment of financial assets also to its capital lease receivables. The Group recognises the finance income from capital lease receivables in profit or loss in the line item "Net interest income" over the period of the capital lease so as to give a constant periodic rate of return on the net investment in the capital lease.

When the Group is a lessor in arrangements which involve the legal form of capital leases, but which in substance do not involve leases, the Group classifies them within loans at amortised cost.

62.8 Loan commitments and financial guarantees

Loan commitments are firm commitments of the Group to provide credit under a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Expected credit loss of loan commitments (see Note 62.3) is recognised in the Statement of Financial Position in the line item "Other liabilities". Loan commitment fees received by the Group are recognised in profit or loss in the line item "Fee and commission income".

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are issued by the Group to credit institutions and other parties on behalf of its customers so that they can secure loans, overdrafts, and banking facilities.

Liabilities arising from financial guarantees issued by the Group are initially measured at their fair value, being the premium received. Subsequently the liabilities are carried at the higher of the amount representing the initial fair value of the guarantee and the expected credit loss allowance of the guarantee (see Note 62.3). Any changes in the liabilities arising from financial guarantees are recognised in profit or loss. The premium received is recognised in profit or loss in the line item "Fee and commission income" over the life of the guarantee.

62.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle the obligation with an outflow of resources, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When management assesses that disclosing all information regarding certain matters can be expected to affect their outcome, then such detailed disclosures are not included in the Consolidated Financial Statements.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

62.10 Employee benefits

All Group entities are required to pay, on a mandatory and contractual basis, contributions to public and private pension funds. The Group has no further payment obligations once these contributions have been paid. The Group recognises these contributions as salary related expenses when they become due.

Short-term employee benefits include salaries, cash bonuses, non-monetary benefits and compensated absences. Short-term employee benefit obligations are expensed by the Group as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group does not have a defined benefit pension plan or an active remuneration policy.

62.11 Equity

Share capital

The share capital disclosed in the Consolidated Financial Statements represents the total nominal value of ordinary shares issued by the Bank. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends on shares

Dividends payable to shareholders of the Bank are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders at the Bank's Annual General meeting. Dividends payable to non-controlling shareholders in subsidiaries are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders' meeting of the subsidiaries. Dividends declared after the reporting date are not recognised as a liability at the reporting date.

Statutory reserve

According to the Act on Public Limited Companies no. 2/1995 the statutory reserve shall amount to 25% of the share capital of the Bank.

62.11 Equity (continued)

Restricted reserves

The Group is to transfer, if applicable, certain amounts from retained earnings to restricted reserves which can therefore not be distributed as dividends to shareholders. These restricted reserves are specified as follows:

Restricted reserve due to capitalised development costs
When the Group capitalises development cost it transfers a corresponding amount from retained earnings to a restricted reserve. In the future the restricted amount is to be transferred back to retained earnings as the capitalised development cost is amortised in profit or loss.

Restricted reserve due to fair value changes of financial assets
The Group transfers fair value changes of financial assets at fair value through profit or loss, net of tax if applicable, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Restricted reserve due to unrealised profit of associates
If share of profit of an associated company is in excess of dividend received or which can be claimed, the Group transfers the difference to a restricted reserve in equity. If the Group's shareholding in an associate is sold or written off the applicable amount recognised in the reserve is transferred to retained earnings.

Fair value reserve

Fair value reserve comprises all unrealised gains or losses related to fair value changes of equity instruments classified at fair value through other comprehensive income. On derecognition of the equity instruments fair value changes are not reclassified to profit and loss.

Liability credit reserve

Changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss are recognised in liability credit reserve. On derecognition the fair value changes are not reclassified to profit or loss.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

62.12 Interest income and interest expense

For all financial assets and financial liabilities measured at amortised cost, interest income and interest expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

The effective interest rate is established on initial recognition of financial assets and financial liabilities and their carrying amount is subsequently adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or interest expense. For floating rate instruments, interest income or interest expense is generally recognised based on the current market rate plus or minus amortisation or accretion of the discount or premium based on the original effective interest rate.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset. For financial assets in Stage 1 and Stage 2 interest is recognised on the gross carrying amount of the assets and for financial assets in Stage 3 interest is recognised on the gross carrying amount of the assets, net of impairment allowance (see Note 62.3).

For financial assets and financial liabilities at fair value through profit and loss, interest income and interest expense are recognised through profit or loss on an accrual basis, except for financial liabilities designated as at fair value through profit or loss (see Note 62.3).

Accrued interest on interest rate swaps, which are designated and accounted for as hedging instruments in fair value hedges of the interest rate risk arising from certain fixed-rate euro denominated bonds issued by the Group (see Note 62.6), is recognised in profit or loss as an adjustment to the interest expense recognised for the bonds.

Notes to the Consolidated Financial Statements

62.13 Net fee and commission income

Fees and commissions are recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received for such services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees for loan commitments that are likely to be utilised are recognised as an adjustment to the effective interest rate of the loan. When a loan commitment is not expected to be utilised, fees are recognised in profit or loss on a straight-line basis over the commitment period.

Loan syndication fees are recognised as revenue in profit or loss when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning, and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Where it is assessed that the Group is acting as an agent, the consideration is presented on a net basis.

62.14 Net financial income (expense)

Net financial income (expense) consists of net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss, net gain (loss) on financial liabilities designated as at fair value through profit or loss, net gain (loss) on fair value hedges, and net gain (loss) on derecognition of financial liabilities measured at amortised cost.

Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss includes all realised and unrealised fair value changes of financial assets and financial liabilities classified by the Group as mandatorily at fair value through profit or loss, except for interest income and interest expense, which are included in the line item "Net interest income", and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)". Dividend income from financial assets is recognised in the income statement when the Group's right to receive payment is established.

Net gain (loss) on financial liabilities designated as at fair value through profit or loss
Net gain (loss) on financial liabilities designated as at fair value through profit or loss includes all realised and unrealised fair value changes of financial liabilities designated by the Group as at fair value through profit or loss, except for changes in fair value attributable to changes in credit risk which is recognised in other comprehensive income, interests incurred which are included in the line item "Net interest income", and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

Net gain (loss) on fair value hedges
Net gain (loss) on fair value hedges includes the changes in the clean fair value of interest rate swaps which are accounted for as hedging instruments in fair value hedges and the changes in the fair value of certain bonds, which are attributable to the interest rate risk of the bonds, and are accounted for as the hedged items in fair value hedges (see Note 62.6).

Net gain (loss) on derecognition of financial liabilities measured at amortised cost
Net gain (loss) on derecognition of financial liabilities measured at amortised cost includes the difference between the buyback price and the carrying amount of debt issued measured at amortised cost at the derecognition date.

62.15 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and non-current assets and disposal groups held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. If the carrying amount of an asset exceeds its estimated recoverable amount an impairment loss is recognised in profit or loss.

An impairment loss for non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements

62.16 Taxes

Income tax expense

Income tax expense comprises special financial activities tax, current tax and deferred tax and is disclosed as a separate line item in the income statement. Income tax expense from discontinued operations is included in the income statement in the line item "Discontinued operations held for sale, net of income tax". Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, consistent with the recognition of the underlying item to which it relates.

Bank tax

Bank tax is calculated as 0.145% (2022: 0.145%) of total liabilities at year-end as determined for tax purposes, in excess of ISK 50,000 million, excluding tax liabilities. The Bank tax is considered a non-deductible expense for the calculation of income tax. The Bank tax is shown in a separate line in the income statement and is included in the Statement of Financial Position in the line item "Tax liabilities".

Special financial activities tax

Special financial activities tax is calculated as 6% of taxable profit exceeding ISK 1,000 million. Special financial activities tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Current tax

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date. Current tax also includes any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are offset in the Statement of Financial Position if the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Deferred tax

Deferred tax is recognised based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred taxes are not recognised if it arises from the initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither the taxable profit nor the accounting profit. In addition, deferred taxes are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax is measured using tax rates enacted at the reporting date. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, this temporary change in tax rate impacts deferred tax calculations.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are included in the Statement of Financial Position in the line item "Tax liabilities" and deferred tax assets are included in the Statement of Financial Position in the line item "Other assets".

62.17 Offsetting

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

The Group presents income and expenses on a net basis in the income statement only when required or permitted by the accounting standards.

62.18 Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders of the Bank and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

Íslandsbanki's Corporate Governance Statement 2023

Unaudited

The Board of Directors of Íslandsbanki is committed to excellence in corporate governance and complying with the applicable regulatory standards and best international practices in the field of corporate governance.

The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to entities subject to the supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) as well as other applicable law and regulations, including those imposed by the FSA and Nasdaq Iceland, available at their respective websites, cb.is and nasdaqomxnordic.com. The applicable law includes, inter alia, the Act on Financial Undertakings no. 161/2002, the Act on Recovery and Resolution of Credit Institutions and Investment Firms no. 70/2020, the Act on Markets for Financial Instruments no. 115/2021, the Act on Payment Services no. 120/2011, the Act on Measures against Money Laundering and Terrorist Financing no. 140/2018, the Act on Sustainability Disclosure Requirements in the Financial Sector and a Classification System for Sustainable Investments no. 25/2023, the Act on Mortgage Credit to Consumers no. 118/2016, the Act on Consumer Credit no. 33/2013, the Act on Competition no. 44/2005 and the Act on Public Limited Companies no. 2/1995, which along with Íslandsbanki's Articles of Association lay the foundation for the Bank's existence and activities. The relevant laws are available on the Icelandic legislature's website, althingi.is.

According to paragraph 7 of article 54 of the Act on Financial Undertakings no. 161/2002 Íslandsbanki is required to comply with the accepted Guidelines on Corporate Governance. The Bank's compliance with Corporate Governance Guidelines issued by the Iceland Chamber of Commerce, Nasdaq Iceland and SA Business Iceland (hereinafter the Guidelines) is reviewed annually. The Guidelines provide that companies are to disclose any deviations from the Guidelines and explain the reasons for such deviations. There are no deviations from the Guidelines at Íslandsbanki. The Guidelines are available on corporategovernance.is.

Moreover, the Bank's governance practices are based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) no. 1093/2010, transposed into Icelandic law with Act no. 24/2017, on European Financial Supervisory System.

The Bank's shares are admitted to trading on the Nasdaq Main Market in Iceland. The Bank also regularly issues bonds on the regulated securities market in both Iceland and Ireland. The Bank is therefore subject to the disclosure obligation of issuers pursuant to the Act on the Disclosure and Information requirements of Issuers of Securities and Notifications on Major Holdings no. 20/2021 and the rules of the relevant stock exchange.

The Icelandic State Financial Investments (ISFI), on behalf of the Icelandic Government, is the largest shareholder of the Bank and holds 42.5%[1] of the Bank's shares, in accordance with the Act on Icelandic State Financial Investments no. 88/2009 and the Icelandic State Ownership Policy for financial undertakings. The Icelandic State's objective as owner is that its management of the Bank's assets and operations promote confidence in, and credibility of, the financial market, to promote competition in the financial market, and maximise long-term value for the Icelandic State Treasury, considering risk. In accordance with article 19 of the Act on Financial Undertakings no. 161/2002 the Bank publishes on its website a list of shareholders who own more than 1% of the Bank's shares.

Main Aspects of Risk Management and Internal Control

Internal Control

The risk management and internal control framework of the Bank is based on the three lines of defence model, as referred to in the European Banking Authority's Guidelines on Internal Governance, and aims for informed decision making and strong risk awareness throughout the Bank. The framework is intended to ensure efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with the applicable laws, regulations, supervisory requirements, and the Bank's internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence is comprised of the Bank's internal control units, Risk Management and Compliance; and the third line of defence is Group Internal Audit which keeps the Board informed of the quality of corporate governance, risk management and internal controls, including by performing independent and objective audits.

Risk Management

The Board of Directors approves the risk policy, risk appetite statement and procedure for risk management and ensures that internal procedures for risk management are revised at least annually.

The All Risk Committee, a Senior Management Committee, is comprised of the Chief Executive Officer (CEO), all the managing directors of the Bank and other members of management appointed by the CEO. The committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement. The All Risk Committee issues guidelines for risk assessment and individual risk thresholds or limits.

Further information on the Bank's risk management structure and internal control can be found in the Bank's unaudited Pillar 3 Report which is available on the Bank's website.

Audit and Accounting

The CEO ensures that the Board of Directors is provided with accurate information on the Bank's finances, development and operations on a regular basis and the Board Audit Committee assists the Board in fulfilling its oversight responsibilities concerning the financial reporting process and the system of internal control.

The Bank's Finance division is responsible for the preparation of the Group's Consolidated Financial Statements in line with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002, and rules on accounting for credit institutions. The Board's Audit Committee reviews annual and interim Consolidated Financial Statements before their submission for Board approval and endorsement. The Board's Audit Committee regularly discusses the Group's financial statements and evaluates its

[1] If the Bank's own shares are taken into account, the ISFI holds 42.9% of the Bank's shares.

internal control processes. Management reporting is generally presented to the Board 10 times a year. The external auditors review the half year Condensed Consolidated Financial Statements and audit the Consolidated Financial Statements.

The Consolidated Financial Statements are published on an annual basis and the Condensed Consolidated Financial Statements on a quarterly basis

The Annual General Meeting (AGM) elects an external audit firm in accordance with the Bank's Articles of Association. The Board's proposal to the AGM is based on the Audit Committee's proposal on the selection of an audit firm. Ernst & Young ehf. (EY), which was elected as the Bank's audit firm at the last AGM, voluntarily relinquished its license on 12 December 2023 and is therefore no longer operating as an audit firm. Former EY employees have joined Deloitte ehf. (Deloitte) and the same team that initiated the Bank's audit this fall will complete it under Deloitte's name. Since it was not found to be a legal merger of the audit firms, the Board decided to convene a special shareholders' meeting and propose Deloitte as the Bank's audit firm for the 2023 annual accounts. To ensure that the previously announced timeline for the publication of the Bank's audited annual accounts was not disturbed and continuity in the review that had already begun, a letter of engagement was signed with Deloitte for this service, subject to the approval of the shareholders' meeting. At the beginning of 2024, it was decided to start tendering auditing services for Íslandsbanki hf. and its subsidiaries. The result of the tender process will form the basis of the Audit Committee's proposal for the selection of an audit firm for the year 2024.

Group Internal Audit

The Board appoints the Chief Audit Executive, who is responsible for internal audit of the Bank and its subsidiaries. Group Internal Audit reports directly to the Board and operates independently from other departments in accordance with article 16 of the Act on Financial Undertakings no. 161/2002. The department evaluates and promotes improvements to the effectiveness of governance, risk management, and control processes. The responsibilities and authorisations of the Chief Audit Executive and Group Internal Audit are further outlined in the Group Internal Audit Charter.

Compliance

The Bank's Chief Compliance Officer (CCO) is hired by the CEO, subject to Board confirmation. The CCO is a part of the Bank's Executive Committee. The CCO's role is to supervise and to have an overview of compliance risk, which include financial crime risk, data protection, breach of conduct and changes in the relevant law. Additionally, the CCO is responsible for monitoring and assessing the Bank's operations regarding securities transactions. Furthermore, the CCO is responsible for assessing and monitoring the Bank's compliance with the Act on Measures against Money Laundering and Terrorist Financing no. 140/2018 and is the Bank's responsible officer under the US Foreign Account Tax Compliance Act (FATCA) and the OECD Common Reporting Standard (CRS).

Íslandsbanki Values, Sustainability and Code of Conduct

The Bank's purpose is being a force for good. Íslandsbanki's values are passion, professionalism, and collaboration and they are the pillars of the Bank's corporate culture, shaping the conduct and attitudes of its employees.

The Board approves a Code of Conduct for the Bank's employees. The aim of the Code is to promote good operational practices. The document is available on the Bank's website.

The Bank has in place a Sustainability Policy which is focused on making its operations exemplary in the Icelandic business environment, based on internationally recognised environmental, social, and governance criteria. The Bank aspires to be a leader in sustainable development.

The Bank has decided to focus particularly on four of the UN Sustainable Development Goals (SDGs) in its course of business: quality education; gender equality; industry, innovation and infrastructure; and climate action. Annually the Bank publishes an Annual and Sustainability Report that is based on the Nasdaq ESG guidelines, the applicable Global Reporting Initiative (GRI) metrics, the UN Principles for Responsible Banking (UN PRB), and the SDGs. Since 2009 Íslandsbanki has been a signatory to the UN Global Compact on social responsibility.

Board of Directors

At each AGM seven non-executive directors, and two alternate members, are elected to the Board for a term of one year. The Chairman of the Board is elected separately at the AGM or the shareholders' meeting. There are no limitations on duration of Board membership.

The Board undertakes the Bank's affairs in between shareholders' meetings unless otherwise provided by law or the Bank's Articles of Association. The Board is responsible for setting the Bank's general strategy and instructs the CEO on its further implementation and execution. The Board has a supervisory role in that it oversees that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations and good business practices. The CEO and Chief Audit Executive are hired by the Board.

The Rules of Procedure of the Board are adopted in accordance with article 70 of the Act on Public Limited Companies no. 2/1995 and article 54 of the Act on Financial Undertakings no. 161/2002. The Board's current Rules of Procedure are available on the Bank's website. According to the Bank's Articles of Association a Board meeting has a quorum if a majority of directors attend. The Board met 36 times in 2023, each time constituting a quorum.

The Articles of Association of the Bank provide that the ratio of each gender on the Board of Directors shall not be lower than 40%, currently the Board is comprised of four men and three women. The Board has approved a policy on the suitability of the Board of Directors, CEO and key function holders. The policy states, among other things, that the composition of the Board shall at any time be diverse, with regard to educational and professional background, gender and age.

The Board Sub-Committees

The Board sub-committees are three in total, and they operate under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of the Board sub-committees are available on the Bank's website. The Board appoints the members of the sub-committees as well as their chairman. When appointing the sub-committees, the Board shall take into account the expertise, skills and experience needed of a member to be appointed to the relevant sub-committee. All of the sub-committees are constituted of members of the Board.

The Board Audit Committee, comprising three Board members, assists the Board in fulfilling its oversight responsibilities concerning the financial reporting process, the system of internal control, the audit process and the Bank's process for monitoring compliance with the relevant laws and regulations and its Code of Conduct. The committee met 12 times in 2023, each time constituting a quorum.

The Board Risk Management Committee, comprising three Board members, assists the Board in providing oversight of senior management activities in managing risk relevant to the Bank's operations. The committee's responsibilities include the parent company, its subsidiaries, and the whole Group. The committee met nine times in 2023, each time constituting a quorum.

The Board Corporate Governance and Human Resource Committee, comprising three Board members, assists the Board in overseeing the development and the regular assessment of the Bank's approach to corporate governance issues and Board effectiveness. Furthermore, the committee assists the Board in fulfilling its oversight responsibilities concerning the Bank's Compensation Policy, implementation of the Bank's Sustainability Policy and issues concerning human resources. The committee met six times in 2023, each time constituting a quorum.

The structure and composition of Board sub-committees is illustrated below.

Members of the Board

Linda Jónsdóttir
(b. 1978)
Joined the Board as Chairman in July 2023

Main occupation: Chief Operating Officer at Marel hf. until 31 January 2024.
Work experience: CFO at Marel hf. (2014-2022). Director of Treasury, Finance and Investor Relations at Marel hf. (2009-2014). Senior Vice President of Treasury at Straumur Burðarás Investment Bank hf. (2005-2009). Director of Treasury and Financing at Burðarás hf. (2003-2005). Managing Director of Eimskipafélag Íslands pension fund (2002-2003). Manager of Treasury at Eimskip hf. (1999-2003).
Other directorships: University of Iceland Science Park (Board member). Has been a member of the boards of Icelandic Enterprise Investment Fund, Iceland Chamber of Commerce and Eimskipafélags Íslands pension fund.
Education: M.Sc. in Corporate Finance from Reykjavík University. Cand. oecon in Business Administration from the University of Iceland. Securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.
Shareholding and independence: Linda holds 12,659 shares in Íslandsbanki. Linda's spouse holds 12,659 shares in Íslandsbanki. Linda is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Member of the Corporate Governance and Human Resource Committee.

Stefán Pétursson
(b. 1963)
Joined the Board as Vice-Chairman in July 2023

Main Occupation: CFO of EpiEndo Pharmaceuticals ehf.
Work experience: CFO of Arion Bank hf. (2010-2021). Head of Financing, Executive Director of Finance and CFO at Landsvirkjun (1993-2010).
Other directorships: Has been on the boards of Landfestar ehf., Valitor hf., The Icelandic Depositors' and Investors' Guarantee Fund, Icelandic Chamber of Commerce, Landey ehf. and Hablaer and is a former Committee Member of ÍL Fund Projects Committee.
Education: MBA from Babson College in Boston. Cand. oecon in Business Administration from the University of Iceland.
Shareholding and independence: Stefán holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Member of the Board Risk Management Committee.

Agnar Tómas Möller (b. 1979)
Joined the Board in March 2023

Main occupation: Independent consultant.
Work experience: Fund Manager of bond funds at Kvika Asset Management hf. (2018-2022). Fund Manager of bond funds at GAMMA Capital Management hf. (2009-2018). Bonds broker at Kaupþing Bank hf. (2006-2008). Risk management at Kaupþing Bank hf. (2004-2006). Teacher at the School of Business Administration and the Faculty of Economics at the University of Iceland (2010-2014).
Other directorships: ATM ehf. (Board member). The Icelandic Chess Federation (Board member).
Education: M.Sc. in Industrial Engineering from the University of Iceland and studies towards a B.A. in history at the same university.
Shareholding and independence: Agnar holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Member of the Board Audit Committee and the Board Risk Management Committee.

Anna Þórðardóttir (b. 1960)
Joined the Board in April 2016.

Main Occupation: Professional director.
Work experience: Accountant at KPMG ehf. (1988-2015), partner from 1999.
Other directorships: The Icelandic Centre for Future Studies (Framtíðarsetur Íslands) (Board member). The Board Audit Committee of Reginn hf. (as Chairman). Has been on the boards of KPMG ehf., Institute of State Authorised Public Accountants and a member of the Board Audit Committee of Hagar hf.
Education: Cand. oecon. in Business Administration from the University of Iceland. Studied towards a cand. merc in Financial studies from Handelhøjskolen in Aarhus, Denmark. Chartered Accountant.
Shareholding and independence: Anna holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Chairman of the Board Audit Committee.

Haukur Örn Birgisson (b. 1978)
Joined the Board in July 2023.

Main Occupation: Supreme Court Attorney, owner, and Managing Director of FIRMA Legal.
Work experience: Supreme Court Attorney, owner, and Managing Director of Íslenska lögfræðistofan (2008-2023). Chairman of the Rehearing Committee (2017-2021). Acting Chairman of the Board and CEO of Inkasso ehf. (2010-2013). District Court Attorney and associate at Lex lögmannsstofa (2004-2008). District Court Attorney and associate at Nestor lögmenn (2004). Teacher in various legal courses in Reykjavík University, the University of Iceland, Verzlunarskóli Íslands and Menntaskólinn Hraðbraut.
Other directorships: Reparations Settlement Committee (as Chairman) and Administrative Committee of the International Golf Federation (Board member). Has been on the board of GAM Management hf., the Golf Union of Iceland (as President) and the European Golf Association (as President).
Education: Cand. jur. from the University of Iceland. Licenced Supreme Court Attorney.
Shareholding and independence: Haukur holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Chairman of the Board Corporate Governance and Human Resource Committee.

Helga Hlín Hákonardóttir (b. 1972)
Joined the Board in July 2023.

Main Occupation: Partner and consultant at Strategía.
Work experience: Founder and lawyer at Lixia lögmannsstofa (2011-2014). Co-founder and Managing Director of Legal at Saga Investment Bank hf. (2006-2011). Attorney at Straumur Burðarás Investment Bank hf. (2005-2006), Íslandsbanki hf. (2000-2005) and capital markets lawyer at Fjárfestingarbanki atvinnulífsins hf. (1998-2000) and the Iceland Stock Exchange (1996-1998).
Other directorships: Rue de Net (Board member). Has been on the boards of mark.is (as Chairman), Verðbréfaþing Ísland (as Alternate), Skeljungur hf., Summa Rekstrarfélag hf., Greiðsluveitan, Icelandic Chamber of Commerce, Festi hf., Krónan hf., Vís hf. (as Chairman), Lífís hf. (as Alternate), WOW air hf., Meniga Ltd. and on the The University Council of Akureyri University.
Education: Cand. jur. from the University of Iceland. Licenced District Court Attorney. Securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.
Shareholding and independence: Helga Hlín holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Chairman of the Board Risk Management Committee and member of the Board Corporate Governance and Human Resource Committee.

Páll Grétar Steingrímsson (b. 1965)
Joined the Board in January 2024.

Main Occupation: Independent consultant and director at Skrifstofuþjónusta Austurlands ehf.
Work experience: Accountant at Deloitte ehf. (1988-2021), partner from 1999.
Other directorships: The Board Audit Committee of Þorbjörn hf. (as Chairman). The Board Audit Committee of Hraðfrystihúsið Gunnvör hf. (as Chairman). The Board Audit Committee of the City of Reykjavík (as Alternate). Has been on the board of Deloitte ehf. and the Institute of State Authorised Public Accountants (as Vice-Chairman).
Education: Cand. oecon. in Business Administration from the University of Iceland. Chartered Accountant.
Shareholding and independence: Páll holds no shares in Íslandsbanki and is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank.
Sub-Committees: Member of the Board Audit Committee.

The alternate member of the Board is Herdís Gunnarsdóttir, since April 2016.

Structure and Composition of Board Sub-Committees

	Board Audit Committee	Board Risk Management Committee	Board Corporate Governance and HR Committee
Agnar Tómas Möller	Member	Member	
Anna Þórðardóttir	Chair		
Haukur Örn Birgisson			Chair
Helga Hlín Hákonardóttir		Chair	Member
Linda Jónsdóttir			Member
Páll Grétar Steingrímsson	Member		
Stefán Pétursson		Member	

Chair Member

Íslandsbanki's Nomination Committee and the ISFI Selection Committee

In accordance with the Bank's Articles of Association the Bank operates a Nomination Committee whose role is to nominate individuals to the Bank's Board of Directors at the AGM, or as the case may be at a shareholders' meeting where Board elections are on the agenda. The members of the Nomination Committee shall be three, elected for one year at a time by the Board of Directors. The Chairman of the Board shall always be one of three members of the Committee but shall not chair the committee. The other two Committee members shall be independent of the Bank and its day-to-day management. One of those Committee members shall further be independent of the Bank's shareholders who own a qualifying holding, or any such group of shareholders acting in concert and owning a combined qualifying holding.

The Nomination Committee consists of:

- Helga Valfells, Chairman
- Linda Jónsdóttir, Chairman of the Board of Íslandsbanki
- Hilmar Garðar Hjaltason

ISFI operates a special three-member Selection Committee which, on behalf of the State, nominates candidates for the supervisory boards or boards of directors of banks or undertakings that are managed by ISFI. According to the Relationship Agreement between the Bank and the ISFI the Bank's Nomination Committee and the ISFI Selection Committee shall ensure that when the Board of Directors is elected, the candidates for election to the Board of Directors meet the requirements on composition according to law, both as concerns breadth of experience as well as gender representation.

The Rules of Procedure of the Bank's Nomination Committee are published on the Bank's website.

Board Performance and Suitability Assessment

At least once a year, as provided for in the Board's Rules of Procedure, the Board assesses its work, procedures and practices as well as each of its members. This performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails an evaluation of the strengths and weaknesses of the Board's work and practices. This is, inter alia, based on the necessary number of Board directors, the Board structure in relation to knowledge and experience, Board procedure and practices. Furthermore, the Board annually assesses the collective suitability of the Board and individual Board members in accordance with the Board's Rules of Procedure and the Bank's policy on the assessment of the suitability of the Board of Directors, the CEO and key function holders.

This assessment was performed by the Board in December 2023. The Board assessed the collective suitability of the Board as well as the suitability of individual Board members and concluded that the Board and individual Board members possess sufficient experience and knowledge to fulfil the requirements of the Act on Financial Undertakings and the Bank's policy on the suitability of the Board of Directors, CEO, and key function holders.

The Chief Executive Officer

The CEO is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's CCO and appoints members of the Executive Committee and other Senior Management Committees.

Jón Guðni Ómarsson (b. 1976)
CEO since
28 June 2023.

Work experience: CFO of Íslandsbanki hf. (2011-2023). Head of Treasury at Íslandsbanki hf. from (2008-2011).
Education: M.Sc. in Quantitative and Computational Finance (QCF) from Georgia Institute of Technology and B.Sc. in Industrial Engineering from the University of Iceland. AMP from Harvard Business School. Chartered Financial Analyst (CFA). Securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.
Other directorships: None.
Shareholding and independence: Jón Guðni holds 44,506 shares in Íslandsbanki as well as having an indirect holding of 12,659 shares through Armis ehf. Jón Guðni's spouse holds 12,659 shares in Íslandsbanki. Jón Guðni is considered independent of the Bank and major shareholders. No interest ties with main customers or competitors of the Bank. No call-option agreements exist between the CEO and the Bank.

The Executive Committee

The Executive Committee consists of eight people, including the CEO: Jón Guðni Ómarsson, CEO since June 2023, Ellert Hlöðversson, Chief Financial Officer since January 2024, Barbara Inga Albertsdóttir, Chief Compliance Officer since November 2023, Guðmundur Kristinn Birgisson, Chief Risk Officer since October 2018, Kristín Hrönn Guðmundsdóttir, Managing Director of Corporate & Investment Banking since July 2023, Riaan Dreyer, Managing Director of Digital & Data since September 2019, Ólöf Jónsdóttir, Managing Director of Personal Banking since February 2024, and Una Steinsdóttir, Managing Director of Business Banking since May 2017.

Senior Management Committees

Senior Management Committees are advisory committees appointed by the CEO. Senior Management Committees are divided into Policy-Setting Committees, which implement Board policies, and Business Committees, which take a position on specific business matters. The committees are appointed by the CEO, who also approves their letter of mandate.

The Executive Committee and the **All Risk Committee** are considered Policy-Setting Committees and they take major decisions on the implementation of the policies set by the Board. Committee members include all of the Bank's

Managing Directors, as well as other members of senior management appointed by the CEO.

- **The Executive Committee** oversees and co-ordinates key aspects of the Bank's activities and has decision-making authority in matters assigned to it by the CEO, in accordance with policies, goals, and risk appetite as defined by the Board.

- **The All Risk Committee** takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

The Business Committees decide on individual business and operational matters in accordance with the rules and procedures issued by the Board, the Executive Committee and the All Risk Committee. The Bank's Business Committees are:

- **The Senior Credit Committee** decides on proposals on lending and is the formal venue for discussion and review of individual loan proposals.

- **The Asset and Liability Committee** decides on proposals regarding market risk, liquidity risk, funding, capital, and internal and external pricing.

- **The Investment Committee** decides on proposals regarding the purchase, sale and valuation of equity stakes and other investments of the Bank.

- **The Operational and Security Committee** decides on proposals regarding new products and services, continuous operation and material changes in systems and procedures.

- **The Sustainability Committee** is a formal forum for reviewing and discussing issues related to sustainability risk, sustainable procurement, and business opportunities.

- **The Digital Product Committee** is a formal forum for prioritisation of initiatives between product teams in line with the strategy and goals of the Bank.

Arrangement of Communications Between Shareholders and the Board

The Board communicates with shareholders in accordance with the relevant laws, the Bank's Articles of Association, and the Board's Rules of Procedure. Shareholders' meetings, the supreme authority of the Bank, are the general forum for informing and communicating with shareholders. All information that is defined as sensitive market information is disclosed to the market through the relevant regulated market's announcement system in accordance with the Bank's Disclosure and Communication Policy. The Bank also organises quarterly meetings for market participants where the CEO, CFO and representatives of investor relations present the Bank's Interim Financial Statements.

The Bank's Disclosure Committee assesses the Bank's event-specific disclosure obligations and decides on disclosure in accordance with the Bank's Rules on insider trading and management transactions. The Disclosure Committee consists of the CFO, the General Counsel, Executive Director of Treasury, Investor Relations and the CCO (without a vote).

Information on Infringements of Laws and Regulations Determined by the Appropriate Supervisory or Ruling Body

In June 2023 the FSA and the Bank made a Settlement Agreement regarding the execution of the offering by the Icelandic State of a 22.5% stake in the Bank's share capital. The Settlement Agreement provides that the Bank admits, that in the preparation and execution of the Offering, it did not comply with the certain applicable legal requirements and internal rules of the Bank on the provision of investment services, particularly in relation with recording of telephone communications, disclosures made to purchasers of shares in the Offering, investor classification requirements, and measures to prevent conflicts of interest e.g., segregation of duties and employees transactions. The Settlement Agreement states that the Bank's implementation of governance and internal controls as well as a risk-based approach to supervision of recordings of telephone communications were insufficient. Furthermore, the Settlement Agreement states that the Bank should have carried out a separate risk assessment regarding its role in the Offering. The Settlement Agreement also states that in executing the Offering the Bank did not, in all respects, satisfy its obligation to act honestly, fairly and professionally and to promote market integrity. In agreeing to the Settlement Agreement, the Bank agreed to pay a fine in the amount of ISK 1,160 million and admitted to having violated certain provisions of the Act on Markets in Financial Instruments no. 115/2021 and the Act on Financial Undertakings no. 161/2002 in connection with the Offering. In the appendix to the Settlement Agreement, the FSA put forward certain remedial requirements within a specified period. In accordance with FSA's requirements, the Bank's Chief Audit Executive reviewed the improvements and confirmed in an audit that the remedial requirements had been adequately met before 1 October 2023. The audit was confirmed by the Bank's Board at the end of October 2023 and sent to the FSA.

In the third quarter of 2022, the FSA conducted an inspection of the Bank's anti-money laundering (AML) measures and identified certain shortcomings. For further information see Note 43.

No other remarks were received from an appropriate supervisory or ruling body concerning violations of laws or regulations. Information on legal cases relating to Íslandsbanki can be found in the Notes to the Consolidated Financial Statements.

This Corporate Governance Statement was approved by Íslandsbanki's Board of Directors on 8 February 2024.

Green Asset Ratio

Unaudited

Template number	Name
0	Summary of KPIs
1	Assets for the calculation of GAR
2	GAR sector information
3	GAR KPI stock
4	GAR KPI flow
5	KPI off-balance sheet exposures

In accordance with local regulation, Íslandsbanki publishes in an unaudited appendix to the Consolidated Financial Statements information regarding the EU taxonomy, Green Asset Ratio. In 2023, the regulation entered into force for financial institutions and other non-financial institutions within its scope, and by that made it mandatory to publish information on the Bank's assets which meet the regulation's requirements, and can according to the taxonomy be considered as environmentally sustainable. Íslandsbanki must obtain this information directly from its customers or other public data sources, such as The Register of Annual Accounts, but as almost no such information has been published during the process of this financial statement, the Bank faces an impossibility regarding data. For that reason, no assets are defined as green or sustainable according to the EU taxonomy at year-end 2023. The Bank aims to work on data collection and conversations with major customers in 2024, with the aim that the disclosure for 2024 better reflects the actual situation. It is clear that the implementation into Icelandic legislation will influence the Bank's efforts in this regard.

0. Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements, and since Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy efficiency of buildings 2010/31/EU has has not been implemented in Iceland, the tables are empty.

		Total environmentally sustainable assets	**Main KPIs******	**Main KPIs*******	**% coverage (over total assets)*****
Main KPI	**Green asset ratio (GAR) stock**				

		Total environmentally sustainable activities	Main KPIs	Main KPIs	% coverage (over total assets)
Additional KPIs	*GAR (flow)*				
	GAR non-EU exposures				
	*Trading book**				
	Financial guarantees				
	Assets under management				
	*Fees and commissions income***				

* For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR.

** Fees and commissions income from services other than lending and AuM Instutitons shall dislcose forwardlooking information for this KPIs, including information in terms of targets, together with relevant explanations on the methodology applied.

*** % of assets covered by the KPI over banks´ total assets.

**** based on the Turnover KPI of the counterparty.

***** based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used.

Note 1: Across the reporting templates: cells shaded in black should not be reported.

Note 2: Fees and Commissions (sheet 6) and Trading Book (sheet 7) KPIs shall only apply starting 2026. SMEs´inclusion in these KPI will only apply subject to a positive result of an impact assessment.

1. Assets for the calculation of GAR

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements, and since Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy efficiency of buildings 2010/31/EU has has not been implemented in Iceland, the tables are empty.

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure reference date T														
	Million EUR	Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors				
				Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
1	**GAR - Eligible assets share in numerator and denominator**																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
3	**Financial corporations**																
4	Credit institutions																
5	Loans and advances																
6	Debt securities																
7	Equity instruments																
8	Other financial corporations																
9	of which investment firms																
10	Loans and advances																
11	Debt securities																
12	Equity instruments																
13	of which management companies																
14	Loans and advances																
15	Debt securities																
16	Equity instruments																
17	of which insurance undertakings																
18	Loans and advances																
19	Debt securities																
20	Equity instruments																
21	**Non-financial corporations**																
22	NFCs subject to NFRD disclosure obligations																
23	Loans and advances																
24	Debt securities																
25	Equity instruments																
26	**Households**																
27	of which loans collateralised by residential immovable property																
28	of which building renovation loans																
29	of which motor vehicle loans																
30	**Local governments - House financing**																
31	Collateral obtained by taking possession:																
32	Other local governmental funding																
33	**Other assets excluded from the numerator for the calculation of the proportion of green assets (which fall under the**																
34	Other corporations, non-financial																
35	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations																
36	Loans and advances																
37	of which loans collateralised by commercial immovable property																
38	of which building renovation loans																
39	Debt securities																
40	Equity instruments																
41	Counterparties outside the Union that are not subject to disclosure obligation under the NFRD																
42	Loans and advances																
43	Debt securities																
44	Equity instruments																
45	**Derivatives**																
46	**Interbank loans, payable when required**																
47	**Cash and cash equivalents**																
48	**Other assets**																
49	**Total GAR**																
50	**Other assets not eligible for GAR calculation**																
51	**Governments**																
52	**Central bank exposure**																
53	**Trading book**																
54	**Total assets**																
Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																	
55	Financial guarantees																
56	Assets under management																
57	Of which debt securities (NFRD obliged corporates)																
43	Of which equity instruments (NFRD obliged corporates)																

		q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
			Disclosure reference date T-1														
	Million EUR	Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors				
				Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
1	**GAR - Eligible assets share in numerator and denominator**																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
3	**Financial corporations**																
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6	Debt securities																
7	Equity instruments																
8	Other financial corporations																
9	of which investment firms																
10	Loans and advances																
11	Debt securities																
12	Equity instruments																
13	of which management companies																
14	Loans and advances																
15	Debt securities																
16	Equity instruments																
17	of which insurance undertakings																
18	Loans and advances																
19	Debt securities																
20	Equity instruments																
21	**Non-financial corporations**																
22	NFCs subject to NFRD disclosure obligations																
23	Loans and advances																
24	Debt securities																
25	Equity instruments																
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28	of which building renovation loans																
29	of which motor vehicle loans																
30	**Local governments - House financing**																
31	Collateral obtained by taking possession:																
32	Other local governmental funding																
33	**Other assets excluded from the numerator for the calculation of the proportion of green assets (which fall under the**																
34	Other corporations, non-financial																
35	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations																
36	Loans and advances																
37	of which loans collateralised by commercial immovable property																
38	of which building renovation loans																
39	Debt securities																
40	Equity instruments																
41	Counterparties outside the Union that are not subject to disclosure obligation under the NFRD																
42	Loans and advances																
43	Debt securities																
44	Equity instruments																
45	**Derivatives**																
46	**Interbank loans, payable when required**																
47	**Cash and cash equivalents**																
48	**Other assets**																
49	**Total GAR**																
50	**Other assets not eligible for GAR calculation**																
51	**Governments**																
52	**Central bank exposure**																
53	**Trading book**																
54	**Total assets**																
Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																	
55	Financial guarantees																
56	Assets under management																
57	Of which debt securities (NFRD obliged corporates)																
43	Of which equity instruments (NFRD obliged corporates)																

1. This template shall include information for loans and advances, debt securities and equity instruments in the banking book, towards financial corporates, non-financial corporates (NFC), including SMEs, households (including residential real estate, house renovation loans and motor vehicle loans only) and local governments/municipalities (house financing).
2. The following accounting categories of financial assets should be considered: Financial assets at amortised cost, financial assets at fair value through other comprehensive income, investments in subsidiaries, joint ventures and associates, financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss, and real estate collaterals obtained by credit institutions by taking possession in exchange in of cancellation of debts.
3. Banks with non-EU subsidiary should provide this information separately for exposures towards non-EU counterparties. For non-EU exposures, while there are additional challenges in terms of absence of common disclosure requirements and methodology, as the EU taxonomy and the NFRD apply only at EU level, given the relevance of these exposures for those credit institutions with non-EU subsidiaries, these institutions should disclose a separate GAR for non-EU exposures, on a best effort basis, in the form of estimates and ranges, using proxies, and explaining the assumptions, caveats and limitations.
4. For motor vehicle loans, institutions shall only include those exposures generated after the date of application of the disclosure.

2. GAR sector information

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements the tables are empty.

	a	b	c	e	f	h	i	k	l	n	o	q	r
	Breakdown by sector - NACE 4 digits level (code and label)	Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)
1													
2													
3													
4													
…													

1. Credit institutions shall disclose in this template information on exposures in the banking book towards those sectors covered by the Taxonomy (NACE sectors 4 levels of detail), using the relevant NACE Codes on the basis of the principal activity of the counterparty.

2. The counterparty NACE sector allocation shall be based exclusively on the nature of the immediate counterparty. The classification of the exposures incurred jointly by more than one obligor shall be done on the basis of the characteristics of the obligor that was the more relevant, or determinant, for the institution to grant the exposure. The distribution of jointly incurred exposures by NACE codes shall be driven by the characteristics of the more relevant or determinant obligor. Institutions shall disclose information by NACE codes with the level of disaggregation required in the template.

3. GAR KPI stock

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements, and since Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy efficiency of buildings 2010/31/EU has has not been implemented in Iceland, the tables are empty.

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
		Disclosure reference date T															Disclosure reference date T-1															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					Of which towards taxonomy relevant sectors					
	% (compared to total covered assets in the denominator)		Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling	Proportion of total assets covered
1	**TOTAL GAR**																															
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																															
3	**Financial corporations**																															
4	Credit institutions																															
5	Loans and advances																															
6	Debt securities																															
7	Equity instruments																															
8	Other financial corporations																															
9	of which investment firms																															
10	Loans and advances																															
11	Debt securities																															
12	Equity instruments																															
13	of which management companies																															
14	Loans and advances																															
15	Debt securities																															
16	Equity instruments																															
17	of which insurance undertakings																															
18	Loans and advances																															
19	Debt securities																															
20	Equity instruments																															
21	**Non-financial corporations**																															
22	NFCs subject to NFRD disclosure obligations																															
23	Loans and advances																															
24	Debt securities																															
25	Equity instruments																															
26	**Households**																															
27	of which loans collateralised by residential																															
28	of which building renovation loans																															
29	of which motor vehicle loans																															
30	**Local governments**																															
31	Collateral obtained by taking possession: residential and commercial immovable properties																															
32	Other local governmental funding																															
49	**Share of green assets**																															

1. Institution shall dislcose in this template the GAR KPIs on stock of loans calculated based on the data disclosed in template 1, on covered assets, and by applying the formulas proposed in this template.
2. Information on the GAR (green asset ratio of 'eligible' activities) shall be accompanied with information on the proportion of total assets covered by the GAR.
3. Credit institutions can, in addition to the information included in this template, showthe proportion of assets funding taxonomy relevant sectors that are environmetnallysustainable (Taxonomy-aligned). This information would enrich the information on theKPI on environmentatlly sustainable assets compared to total covered assets.

4. GAR KPI flow

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements, and since Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy efficiency of buildings 2010/31/EU has has not been implemented in Iceland, the tables are empty.

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	% (compared to flow of total eligible assets)	Disclosure reference date T															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of neweligible assets funding taxonomy relevant sectors					Proportion of total new assets covered
			Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable				
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
1	**GAR - Eligible assets**																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
3	**Financial corporations**																
4	Credit institutions																
5	Loans and advances																
6	Debt securities																
7	Equity instruments																
8	Other financial corporations																
9	of which investment firms																
10	Loans and advances																
11	Debt securities																
12	Equity instruments																
13	of which management companies																
14	Loans and advances																
15	Debt securities																
16	Equity instruments																
17	of which insurance undertakings																
18	Loans and advances																
19	Debt securities																
20	Equity instruments																
21	**Non-financial corporations**																
22	NFCs subject to NFRD disclosure obligations																
23	Loans and advances																
24	Debt securities																
25	Equity instruments																
26	**Households**																
27	of which loans collateralised by residential immovable property																
28	of which building renovation loans																
29	of which motor vehicle loans																
30	**Local governments**																
31	Collateral obtained by taking possession: residential and commercial immovable properties																
32	Other local governmental funding																
49	**Share of green assets**																

1. Institution shall dislcose in this template the GAR KPIs on flow of loans calculated (new loans on a net basis) based on the data disclosed in template 1, on covered assets, and by applying the formulas proposed in this template.

5. KPI off-balance sheet exposures

As the information to be published in the table is based on financial statements of companies which are not available at the time of the publication of the Consolidated Financial Statements the tables are empty.

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
% (compared to total eligible off-balance sheet assets)		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		Of which environmentally sustainable					Proportion of new assets funding taxonomy relevant sectors					Proportion of new assets funding taxonomy relevant sectors				
			Of which environmentally sustainable					Of which environmentally sustainable					Of which environmentally sustainable			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling
1	Financial guarantees (FinGuar KPI)															
2	Assets under management (AuM KPI)															

1. Institution shall dislcose in this template the KPIs for off-balance sheet exposures (financial guarantees and AuM) calculated based on the data disclosed in template 1, on covered assets, and by applying the formulas proposed in this template.