Íslandsbanki

# Condensed Consolidated Interim Financial Statements

Third quarter 2022
Unaudited

# Contents

# Factsheet 3Q22

Íslandsbanki

## Our profile

With a history that dates from 1875, Íslandsbanki is an Icelandic universal bank with a strong customer focus. The Bank believes in moving Iceland forward by empowering its customers to succeed – reflecting a commitment to run a solid business that is a force for good in society.

Driven by the ambition to be #1 for service, Íslandsbanki's banking model is led by three business divisions that build and manage relationships with its customers. Íslandsbanki maintains a strong market share with the most efficient branch network in the country, supporting at the same time its customers' move to more digital services.

The Bank operates in a highly attractive market and, with its technically strong foundations and robust balance sheet, is well positioned for the opportunities that lie ahead.

Íslandsbanki has a BBB/A-2 rating from S&P Global Ratings.

The Bank's shares are listed on the Nasdaq Iceland Main Market.

## The Bank

**12** branches

**704** number of FTEs at Íslandsbanki at period end

## Sustainability 3Q22

- Submitted net-zero sectorial pathways to the NZBA[1]
- Submitted CDP Climate change disclosures[2]
- Financed emissions for Iceland Funds measured, first of all Icelandic fund companies

## Digital milestones 3Q22

- Securities trading now available in app
- Íslandsbanki the first Icelandic bank to implement GoogleWallet™
- Íslandsbanki participated in the Fast Track programme with Copenhagen Fintech at the Nordic Fintech Week 2022

## Market share[3]

**31%** retail customers

**37%** SMEs

**35%** large companies

## Ratings and certifications

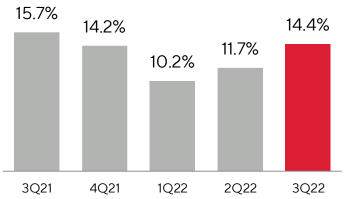
S&P Global Ratings

**BBB/A-2** Stable outlook

EQUAL PAY CERTIFICATE 2018 - 2021

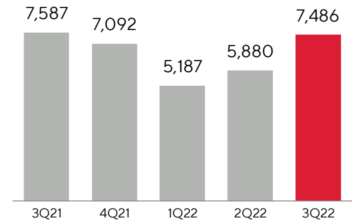
EXEMPLARY IN CORPORATE GOVERNANCE

## Return on equity

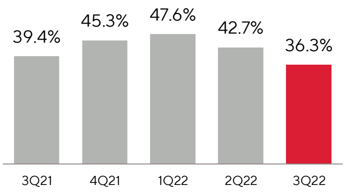



## Profit after tax

(ISKm)

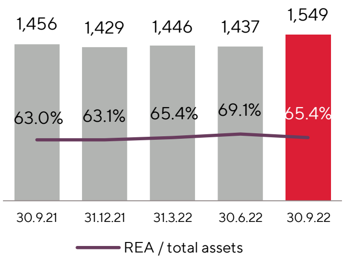



## Cost-to-income ratio



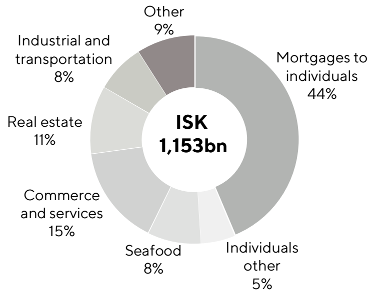

## Total assets

(ISKbn)



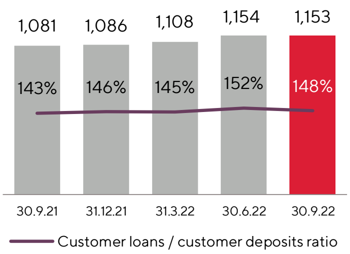

## Loans to customers

(Sector split as of 30.9.22)

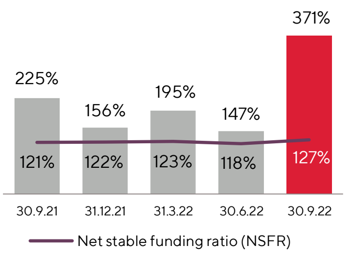



## Loans to customers

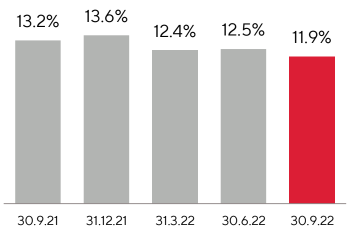
(ISKbn)



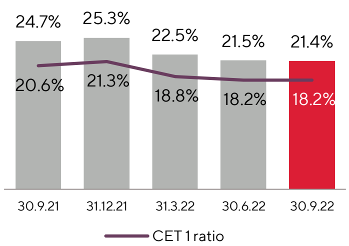

## Total liquidity coverage ratio




## Leverage ratio[4]




## Total capital ratio[4]




1. NZBA: Net Zero Banking Alliance. 2. CDP: Carbon Disclosure Project.
3. Based on Gallup surveys regarding primary bank. 12 months rolling average for retail customers, December 2021 survey for SMEs and 2021 average for large companies.
4. Including quarter profit for 30.9.21, 31.3.22 and 30.9.22.

# Directors' Report

These are the condensed consolidated interim financial statements for the period 1 January to 30 September 2022 ("the interim financial statements") of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries (together referred to as "the Group").

Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

## Operations in the reporting period

The Group's profit from operations for the first nine months of 2022 amounted to ISK 18,553 million and the return on equity was 12.1%, surpassing the Bank's target of over 10% ROE. At the end of the reporting period, the Group employed 742 full-time members of staff, including 704 within the Bank itself and operated 12 branches.

Net interest income for the first nine months of the year rose by 21.2% from the previous year, supported by balance sheet growth and a rising interest rate environment. As a result, the net interest margin increased from 2.4% to 2.8%. Net fee and commission income rose by 8.9%, with a strong performance in Allianz Ísland hf. and good growth in fees from cards and payment processing. Salaries and related expenses were reduced by 3.8% between years due to a 4.5% reduction in the number of FTEs. Other operating expenses increased by 0.8%. The Group's cost-to-income ratio fell from 46.6% to 41.9% between years. Net impairment reversals amounted to ISK 2,223 million, of which approximately ISK 750 million was a result of a court ruling regarding a fully impaired loan, coupled with the outlook for the tourism sector continuing to improve and outweighing the negative impact from increased inflation and international economic volatility.

The Group's loan book grew by 6.1% during the period due to continued strong growth in mortgages and loans to SMEs. The Group's ratio of non-performing loans decreased from 2.0% at year-end 2021 to 1.7% at the end of the period. Stage 2 loans under IFRS 9 have come down to 4.4% of the loan book, compared with 9.6% at year-end 2021, as the credit risk relating to loans to the tourism industry and related industries has come down substantially.

## Capital and funding

Deposits from customers rose by 5.1% during the first nine months of the year as deposits in Business Banking grew by 8.5% and deposits from credit institutions grew substantially. The Bank issued its inaugural FX Covered Bond transaction in September in the amount of EUR 300 million, which was successfully placed with investors in quite turbulent markets. In early October, the Bank issued ISK 10,520 million of Tier 2 bonds in the domestic market, the Bank's first of its kind in the domestic market. The liquidity position of the Bank remains robust with all liquidity ratios well above both internal targets and regulatory requirements.

The Group is well capitalised, with a total capital ratio of 21.4% at the end of the period, considering the ISK 15 billion capital distribution planned for in the coming few months. The Bank is exploring the most suitable option for the distribution, which will either be in the form of share buybacks or a special dividend. International capital markets have been extremely volatile over the past few months and the capital distribution is therefore subject to more stable market conditions. In light of the global economic uncertainty, the Central Bank of Iceland has asked the Icelandic banks to be careful in terms of capital distributions in the near term.

## Outlook

The Icelandic economy has largely recovered from the recession caused by the COVID-19 pandemic in 2020. Following 4.4% growth in 2021, the economy grew by 6.8% in the first half of 2022. Growth both in 2021 and the first half of 2022 was to a large degree propelled by buoyant domestic demand as well as a growing contribution of exports to total GDP growth. In particular, tourism has rebounded strongly year-to-date following a two-year slump as the pandemic raged.

Short-term economic trends and timely indicators point to continuing robust growth in the third quarter of 2022. The tourist sector had a strong high season with foreign tourist arrivals in the third quarter approaching 2019 levels. Card turnover figures, coupled with new car sales and departures from Keflavík airport, indicate that private consumption increased markedly in the period as improving employment levels and the use of accumulated savings during the pandemic offset the impact of a modest decline in real wages. The economy has also proven more resilient than European peers to impact from the Ukraine war, as domestic renewable energy supplies most of households' energy needs, and rising seafood prices have partly offset an increase in import prices.

Inflation peaked at 9.9% in July and decreased to 9.4% by October as the pace of price increases in the residential housing market slowed and imported inflation abated modestly. The Central Bank has raised its policy rate to 5.75% as of October but the bank's recent forward guidance indicates that its rate hike process may have concluded in October.

For 2022, the Bank's Chief Economist expects GDP growth to measure 7.3%. Exports look set to take over from domestic demand as the main catalyst of growth in coming quarters, with the continued recovery of tourism and a more moderate increase in other exports. Growing consumption and investment also continue to fuel GDP growth throughout 2022, albeit to a lesser extent than in recent quarters.

# Directors' Report

The outlook for the tourism industry has continued to improve and the industry had a fruitful summer of 2022. Global economic uncertainty and reduced purchasing power internationally can however have some impact on international travel in the near term. The housing market is expected to slow down in the coming months after steep price increases in the past few quarters and higher interest rates can have a negative impact on the repayment ability of some of our borrowers. The outlook for economic growth and low unemployment does however give cause for optimism regarding the outlook for impairments. The Bank has now updated its guidance for return on equity in 2022 to 11-13% and its cost-to-income ratio guidance to 41-44%.

The Icelandic Government sell down of shares in the Bank is being scrutinised in special reports from the National Audit Office and the Central Bank, both are expected to be issued before the end of the year. It is unclear when and how the Government will continue its planned sell down of its remaining shares in the Bank.

## Ownership

After a successful IPO in June 2021, the Bank has one of the largest shareholder base of any listed company in Iceland. The Icelandic Government sold a 22.5% stake in the Bank in an accelerated book building process at the end of March 2022 and as a result, the Government has now become a minority shareholder with a 42.5% stake. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009.

At the end of the first nine months of 2022, 91.9% of the Bank's shares were owned by domestic parties and 8.1% by international investors. Apart from the Government, pension funds and insurance companies were the largest investor group, owning 34.1% of the outstanding shares, where the largest pension funds have been gradually increasing their shareholding. Fund companies own 9.9% of the shares and individuals 7.0%. The global index provider FTSE Russell upgraded Iceland to Secondary Emerging Market status on 19 September 2022 and Íslandsbanki's securities are now eligible for the FTSE Total Cap Index.

For further information on the Bank's shareholders see Note 35.

## Statement by the Board of Directors and the CEO

The interim financial statements for the period 1 January to 30 September 2022 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union; 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 interim financial statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 September 2022.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2022.

Kópavogur, 27 October 2022

**Board of Directors:**

Finnur Árnason, Chairman

Guðrún Þorgeirsdóttir, Vice-Chairman

Anna Þórðardóttir

Ari Daníelsson

Frosti Ólafsson

Herdís Gunnarsdóttir

Tanya Zharov

**Chief Executive Officer:**

Birna Einarsdóttir

# Consolidated Interim Income Statement

| | Notes | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|---|
| Interest income calculated using the effective interest rate method .............. | | 64,749 | 40,905 | 25,380 | 13,631 |
| Other interest income ................................................................................... | | 4,323 | 1,550 | 1,666 | 687 |
| Interest expense .......................................................................................... | | ( 38,294) | ( 17,056) | ( 15,731) | ( 5,526) |
| **Net interest income** | 4 | 30,778 | 25,399 | 11,315 | 8,792 |
| Fee and commission income ........................................................................ | | 12,424 | 10,776 | 4,322 | 3,940 |
| Fee and commission expense ...................................................................... | | ( 2,409) | ( 1,580) | ( 805) | ( 513) |
| **Net fee and commission income** | 5 | 10,015 | 9,196 | 3,517 | 3,427 |
| Net financial income (expense) ..................................................................... | 6 | ( 358) | 1,853 | ( 471) | 941 |
| Net foreign exchange gain ........................................................................... | 7 | 305 | 320 | 64 | 95 |
| Other operating income ................................................................................ | 8 | 435 | 286 | 111 | 82 |
| **Other net operating income** | | 382 | 2,459 | ( 296) | 1,118 |
| **Total operating income** | | 41,175 | 37,054 | 14,536 | 13,337 |
| Salaries and related expenses ..................................................................... | 9 | ( 9,734) | ( 10,121) | ( 2,916) | ( 2,953) |
| Other operating expenses ............................................................................ | 10 | ( 7,366) | ( 7,307) | ( 2,357) | ( 2,135) |
| Contribution to the Depositors' and Investors' Guarantee Fund .................... | | ( 165) | ( 517) | - | ( 173) |
| Bank tax ........................................................................................................ | | ( 1,377) | ( 1,294) | ( 535) | ( 433) |
| **Total operating expenses** | | ( 18,642) | ( 19,239) | ( 5,808) | ( 5,694) |
| **Profit before net impairment on financial assets** | | 22,533 | 17,815 | 8,728 | 7,643 |
| Net impairment on financial assets ............................................................... | 11 | 2,223 | 2,379 | 1,165 | 1,757 |
| **Profit before tax** | | 24,756 | 20,194 | 9,893 | 9,400 |
| Income tax expense ..................................................................................... | 12 | ( 6,319) | ( 3,703) | ( 2,525) | ( 1,898) |
| **Profit for the period from continuing operations** | | 18,437 | 16,491 | 7,368 | 7,502 |
| Discontinued operations held for sale, net of income tax .............................. | 13 | 116 | 142 | 118 | 85 |
| **Profit for the period** | | 18,553 | 16,633 | 7,486 | 7,587 |
| Profit attributable to shareholders of Íslandsbanki hf. ................................... | | 18,553 | 16,638 | 7,486 | 7,588 |
| Loss attributable to non-controlling interests ................................................ | | - | ( 5) | - | ( 1) |
| **Profit for the period** | | 18,553 | 16,633 | 7,486 | 7,587 |
| **Earnings per share from continuing operations** | | | | | |
| Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. .................................................................. | 14 | 9.22 | 8.25 | 3.68 | 3.75 |

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

# Consolidated Interim Statement of Comprehensive Income

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Profit for the period ........................................................................................ | 18,553 | 16,633 | 7,486 | 7,587 |
| Net loss on financial assets .......................................................................... | - | ( 39) | - | - |
| Net gain (loss) on financial liabilities ............................................................. | 1,253 | ( 858) | 466 | ( 138) |
| **Items that will not be reclassified to the income statement** | 1,253 | ( 897) | 466 | ( 138) |
| Foreign currency translation ......................................................................... | ( 3) | 5 | ( 1) | 14 |
| **Items that may subsequently be reclassified to the income statement** | ( 3) | 5 | ( 1) | 14 |
| **Other comprehensive income (expense) for the period, net of tax** | 1,250 | ( 892) | 465 | ( 124) |
| **Comprehensive income for the period** | 19,803 | 15,741 | 7,951 | 7,463 |
| Comprehensive income attributable to shareholders of Íslandsbanki hf. ........ | 19,803 | 16,108 | 7,951 | 7,459 |
| Comprehensive income (expense) attributable to non-controlling interests .... | - | ( 367) | - | 4 |
| **Comprehensive income for the period** | 19,803 | 15,741 | 7,951 | 7,463 |

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

# Consolidated Interim Statement of Financial Position

| | Notes | 30.9.2022 | 31.12.2021 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Bank | 19 | 73,566 | 113,667 |
| Loans to credit institutions | 20 | 137,169 | 43,988 |
| Bonds and debt instruments | 15 | 127,454 | 132,289 |
| Derivatives | 21 | 6,895 | 2,445 |
| Loans to customers | 22 | 1,153,047 | 1,086,327 |
| Shares and equity instruments | 15 | 24,472 | 31,677 |
| Investments in associates | 24 | 3,925 | 939 |
| Property and equipment | 25 | 6,760 | 7,010 |
| Intangible assets | | 3,282 | 3,351 |
| Other assets | 26 | 11,303 | 5,784 |
| Non-current assets and disposal groups held for sale | 27 | 799 | 1,344 |
| **Total Assets** | | 1,548,672 | 1,428,821 |
| **Liabilities** | | | |
| Deposits from Central Bank and credit institutions | 28 | 19,912 | 13,384 |
| Deposits from customers | 29 | 781,614 | 744,036 |
| Derivative instruments and short positions | 21 | 13,996 | 9,467 |
| Debt issued and other borrowed funds | 31 | 458,969 | 402,226 |
| Subordinated loans | 32 | 32,156 | 35,762 |
| Tax liabilities | | 10,827 | 6,432 |
| Other liabilities | 33 | 19,585 | 12,848 |
| Non-current liabilities and disposal groups held for sale | | - | 956 |
| **Total Liabilities** | | 1,337,059 | 1,225,111 |
| **Equity** | | | |
| Share capital | | 10,000 | 10,000 |
| Share premium | | 55,000 | 55,000 |
| Reserves | | 7,919 | 6,086 |
| Retained earnings | | 138,694 | 132,624 |
| **Total Equity** | | 211,613 | 203,710 |
| **Total Liabilities and Equity** | | 1,548,672 | 1,428,821 |

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Statements third quarter 2022 7 Amounts are in ISK million

# Consolidated Interim Statement of Changes in Equity

| | Share capital | Share premium | Statutory reserve | Restricted reserves | Fair value reserve | Liability credit reserve | Foreign currency translation reserve | Retained earnings | Total shareholders' equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2021** | 10,000 | 55,000 | 2,500 | 3,556 | 572 | ( 238) | ( 209) | 113,529 | 184,710 | 1,494 | 186,204 |
| Profit (loss) for the period ............................................. | | | | | | | | 16,638 | 16,638 | ( 5) | 16,633 |
| Net gain (loss) on financial assets ................................ | | | | | ( 572) | | | 900 | 328 | ( 367) | ( 39) |
| Net loss on financial liabilities ....................................... | | | | | | ( 858) | | | ( 858) | | ( 858) |
| Foreign currency translation ........................................ | | | | | | | | | - | 5 | 5 |
| **Comprehensive income (expense) for the period** | - | - | - | - | ( 572) | ( 858) | - | 17,538 | 16,108 | ( 367) | 15,741 |
| Dividends paid ............................................................. | | | | | | | | ( 3,400) | ( 3,400) | | ( 3,400) |
| Restricted due to capitalised development costs ........... | | | | ( 218) | | | | 218 | - | | - |
| Restricted due to fair value changes ............................ | | | | 1,126 | | | | ( 1,126) | - | | - |
| Restricted due to associates ........................................ | | | | 79 | | | | ( 79) | - | | - |
| Changes in non-controlling interests ............................ | | | | | | | | (27) | (27) | (1,137) | ( 1,164) |
| **Equity as at 30 September 2021** | 10,000 | 55,000 | 2,500 | 4,543 | - | ( 1,096) | ( 209) | 126,653 | 197,391 | ( 10) | 197,381 |
| | | | | | | | | | | | |
| **Equity as at 1 January 2022** | 10,000 | 55,000 | 2,500 | 4,640 | - | ( 1,054) | - | 132,624 | 203,710 | - | 203,710 |
| Profit for the period ...................................................... | | | | | | | | 18,553 | 18,553 | | 18,553 |
| Net gain (loss) on financial liabilities ............................. | | | | | | 1,566 | | ( 313) | 1,253 | | 1,253 |
| Foreign currency translation ........................................ | | | | | | | ( 3) | | ( 3) | | ( 3) |
| **Comprehensive income (expense) for the period** | - | - | - | - | - | 1,566 | ( 3) | 18,240 | 19,803 | - | 19,803 |
| Dividends paid ............................................................. | | | | | | | | ( 11,900) | ( 11,900) | | ( 11,900) |
| Restricted due to capitalised development costs .......... | | | | ( 218) | | | | 218 | - | | - |
| Restricted due to fair value changes ............................ | | | | 370 | | | | ( 370) | - | | - |
| Restricted due to associates ........................................ | | | | 118 | | | | ( 118) | - | | - |
| **Equity as at 30 September 2022** | 10,000 | 55,000 | 2,500 | 4,910 | - | 512 | ( 3) | 138,694 | 211,613 | - | 211,613 |

Authorised share capital of the Bank is 2,000 million ordinary shares of ISK 5 each. At 30 September 2022 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Bank. The Bank has one class of ordinary shares which carry no right to fixed income. The Annual General Meeting (AGM) for the operating year 2021 was held on 17 March 2022. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 11,900 million which is equivalent to ISK 5.95 per share (2021: ISK 1.70 per share). The dividends were paid on 28 March 2022.

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

# Consolidated Interim Statement of Cash Flows

| | | 2022<br>1.1-30.9 | 2021<br>1.1.-30.9 |
|---|---|---|---|
| Profit for the period | | 18,553 | 16,633 |
| | | | |
| Non-cash items included in profit for the period* | | ( 29,280) | ( 23,418) |
| Changes in operating assets and liabilities* | | ( 66,300) | ( 17,941) |
| Interest received | | 56,207 | 42,587 |
| Interest paid | | ( 26,459) | ( 12,300) |
| Dividends received | | 907 | 54 |
| Paid income tax, special financial activities tax, and bank tax | | ( 3,683) | ( 4,517) |
| **Net cash (used in) provided by operating activities** | | ( 50,055) | 1,098 |
| | | | |
| Net investment in associated companies | | ( 1,103) | 568 |
| Proceeds from sales of property and equipment | | 16 | 25 |
| Purchase of property and equipment | | ( 94) | ( 124) |
| Purchase of intangible assets | | ( 328) | ( 183) |
| **Net cash (used in) provided by investing activities** | | ( 1,509) | 286 |
| | | | |
| Proceeds from borrowings | | 147,713 | 70,543 |
| Repayment and repurchases of borrowings | | ( 79,846) | ( 46,912) |
| Repayment of lease liabilities | | ( 351) | ( 315) |
| Dividends paid | | ( 11,900) | ( 3,400) |
| Subsidiary's capital decrease and share buyback paid to non-controlling interests | | - | ( 1,130) |
| **Net cash provided by financing activities** | | 55,616 | 18,786 |
| | | | |
| Net increase in cash and cash equivalents | | 4,052 | 20,170 |
| Effects of foreign exchange rate changes | | ( 68) | 19 |
| Cash and cash equivalents at the beginning of the year | | 130,597 | 115,668 |
| **Cash and cash equivalents at the end of the period** | | 134,581 | 135,857 |
| | | | |
| **Reconciliation of cash and cash equivalents** | Notes | | |
| Cash on hand | 19 | 3,682 | 3,775 |
| Cash balances with Central Bank | 19 | 69,884 | 106,458 |
| Bank accounts | 20 | 71,080 | 34,555 |
| Mandatory reserve, special restricted and pledged balances with Central Bank | 19 | ( 10,065) | ( 8,931) |
| **Cash and cash equivalents at the end of the period** | | 134,581 | 135,857 |

*For further breakdown see the following page.

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

Presentation of interest received and interest paid has been changed, comparative period information has therefore been restated.

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

# Consolidated Interim Statement of Cash Flows

## Non-cash items included in profit for the period

| | 2022<br>1.1-30.9 | 2021<br>1.1.-30.9 |
|---|---|---|
| Net interest income | ( 30,778) | ( 25,399) |
| Depreciation, amortisation, and write-offs | 1,036 | 1,033 |
| Share of profit, gain from sale and reversal of impairment of associates | ( 280) | ( 146) |
| Net impairment on financial assets | ( 2,124) | ( 2,124) |
| Foreign exchange gain | ( 305) | ( 358) |
| Net gain from sales of property and equipment | ( 6) | ( 14) |
| Unrealised fair value gain recognised in profit or loss | ( 4,396) | ( 1,283) |
| Discontinued operations held for sale, net of income tax | ( 116) | ( 142) |
| Bank tax | 1,377 | 1,294 |
| Income tax expense | 6,319 | 3,703 |
| Other changes | ( 7) | 18 |
| **Total** | ( 29,280) | ( 23,418) |

## Changes in operating assets and liabilities

| | 2022<br>1.1-30.9 | 2021<br>1.1.-30.6 |
|---|---|---|
| Mandatory reserve, special restricted and pledged balances with Central Bank | ( 808) | 618 |
| Loans to credit institutions | ( 49,115) | ( 2,835) |
| Bonds and debt instruments | 4,706 | 2,791 |
| Loans to customers | ( 55,183) | ( 74,411) |
| Shares and equity instruments | 3,901 | ( 16,550) |
| Other assets | ( 5,526) | ( 9,846) |
| Non-current assets and liabilities held for sale | ( 225) | 2,342 |
| Deposits from Central Bank and credit institutions | 6,593 | ( 19,028) |
| Deposits from customers | 32,441 | 75,374 |
| Derivative instruments and short positions | ( 9,771) | 3,057 |
| Other liabilities | 6,687 | 20,547 |
| **Total** | ( 66,300) | ( 17,941) |

## Significant non-cash transactions

**Significant non-cash transactions 1 January to 30 September 2022**
During the period the Group repurchased own debt securites amounting to ISK 1,922 million by issuing new debt.

**Significant non-cash transactions 1 January to 30 September 2021**
During the period the Group did not have any significant non-cash transactions.

The notes on pages 11 to 54 are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Statements third quarter 2022 10 Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

# Notes to the Condensed Consolidated Interim Financial Statements

## 1. Corporate information

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

The condensed consolidated interim financial statements for the period 1 January to 30 September 2022 ("the interim financial statements") 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 nine other non-significant subsidiaries.

The interim financial statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 27 October 2022.

## 2. Basis of preparation

The interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year 2021, as well as the unaudited Pillar 3 Report for the year 2021. Both are available on the Bank's website: www.islandsbanki.is.

The accounting policies and the basis of measurement are unchanged from those set out in Notes 2 and 66 in the consolidated financial statements for the year 2021 except for the changes to accounting policies outlined below.

The interim financial statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 September 2022 the exchange rate of the ISK against the USD was 144.55 and for the EUR 140.90 (at year-end 2021: USD 130.38 and EUR 147.60).

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.

### Significant accounting estimates and judgements

In preparing these interim financial statements management has made judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management bases its judgements on previous experience and other factors that are considered reasonable under the circumstances, but actual results may differ from those estimates.

Management continuously evaluates these judgements, estimates, and assumptions. Changes in accounting estimates are recognised when they occur.

As described in Note 3 in the consolidated financial statements for the year 2021, key sources of estimation uncertainty include the allowance for credit losses and the determination of fair value of financial instruments.

#### Impairment of financial assets, changes from year-end 2021

Note 66.4 in the consolidated financial statements for the year 2021 contains a description of the Group's accounting policies for the impairment of financial assets.

At the end of the third quarter of 2022, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast on 26 September 2022 where the outlook has deteriorated since the last forecast. The main reason for the rise in inflation is due to housing prices as well as imported inflation, partly due to the armed conflict in Ukraine. The following table shows macroeconomic indicators from the new forecast.

# Notes to the Condensed Consolidated Interim Financial Statements

2. Cont'd

| Change in economic indicators % | 2021 | Forecast 2022 | Forecast 2023 | Forecast 2024 | Forecast 2025 |
|---|---|---|---|---|---|
| Economic growth | 4.4 | 7.3 | 2.2 | 2.4 | 2.0 |
| Housing prices in Iceland | 12.5 | 20.7 | 7.1 | 3.7 | 3.5 |
| Purchasing power | 3.7 | (0.6) | 0.8 | 2.5 | 1.6 |
| ISK exchange rate index | ( 2.4) | ( 3.8) | ( 1.9) | ( 2.4) | (-0.3) |
| Policy rate, Central Bank of Iceland | 1.1 | 4.2 | 5.9 | 5.0 | 4.5 |
| Inflation | 4.4 | 8.2 | 6.3 | 3.9 | 3.3 |
| Capital formation | 12.3 | 10.2 | 0.3 | 2.1 | 0.9 |
| thereof capital formation in industry | 19.1 | 14.6 | (4.0) | 1.0 | 3.0 |

For the last two and a half years the Group has made temporary changes to the impairment model due to the COVID-19 pandemic. 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 COVID-19 pandemic created such circumstances for the tourism industry and therefore an adjustment was warranted.

Due to the general uncertainty in the operating environment of companies in the tourism industry, exposures were transferred to Stage 2 where the increase was estimated to be significant. At the end of the third quarter, however, the Group has found that the uncertainty with regards to the impact of the COVID-19 pandemic on the credit quality of the Group's credit exposures is greatly reduced following a strong tourist season. All of these companies have received an updated risk assessment and the general uncertainty no longer applies. It was therefore decided to remove the general overlay factor and the transfer to Stage 2 in cases where no other indicators had been activated. For significant exposures where an increase in ECL was deemed to be appropriate, the added impairment allowance is accounted for through individual assessment in a manual process.

Although the Group no longer applies temporary changes to the impairment model resulting from COVID-19, the All Risk Committee determined that it was still appropriate to keep the weights of the scenarios unchanged from last quarter. Generally the scenarios are weighted 25%-50%-25% (good, base, bad) but currently the weights are set at 20%-50%-30%, as this is found to best represent the probability-weighted average over all possible scenarios. When deciding on the appropriate weights for the three scenarios, management used sensitivity analysis that indicated that a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 300 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 160 million.

# Notes to the Condensed Consolidated Interim Financial Statements

## 3. 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 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, Marketing & Communications, Strategy & Sustainability, and Legal), IT, 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.

## Notes to the Condensed Consolidated Interim Financial Statements

3. Cont'd

| 1 January - 30 September 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) | 10,929 | 10,421 | 8,120 | 1,480 | ( 179) | 30,771 | 7 | 30,778 |
| Net fee and commission income (expense) | 3,016 | 1,617 | 3,387 | ( 36) | ( 1) | 7,983 | 2,032 | 10,015 |
| Other net operating income | 340 | 76 | 1,151 | 1,016 | 57 | 2,640 | ( 2,258) | 382 |
| Total operating income | 14,285 | 12,114 | 12,658 | 2,460 | ( 123) | 41,394 | ( 219) | 41,175 |
| Salaries and related expenses | ( 1,733) | ( 1,354) | ( 1,268) | ( 204) | ( 4,561) | ( 9,120) | ( 614) | ( 9,734) |
| Other operating expenses | ( 1,826) | ( 771) | ( 727) | ( 378) | ( 3,307) | ( 7,009) | ( 357) | ( 7,366) |
| Contribution to the Depositors' and Investors' Guarantee Fund | ( 129) | ( 33) | ( 3) | - | - | ( 165) | - | ( 165) |
| Bank tax | ( 595) | ( 295) | ( 374) | ( 103) | ( 10) | ( 1,377) | - | ( 1,377) |
| Net impairment on financial assets | 157 | 1,052 | 354 | 657 | - | 2,220 | 3 | 2,223 |
| Cost allocation | ( 3,462) | ( 2,487) | ( 2,364) | 424 | 7,889 | - | - | - |
| Profit (loss) before tax | 6,697 | 8,226 | 8,276 | 2,856 | ( 112) | 25,943 | ( 1,187) | 24,756 |
| Income tax income (expense) | ( 1,897) | ( 2,217) | ( 2,249) | 202 | 27 | ( 6,134) | ( 185) | ( 6,319) |
| **Profit (loss) for the period from continuing operations** | 4,800 | 6,009 | 6,027 | 3,058 | ( 85) | 19,809 | ( 1,372) | 18,437 |
| Net segment revenue from external customers | 26,232 | 13,377 | 17,811 | ( 16,031) | 5 | 41,394 | ( 219) | 41,175 |
| Net segment revenue from other segments | ( 11,947) | ( 1,263) | ( 5,153) | 18,491 | ( 128) | - | - | - |
| Fee and commission income | 4,941 | 1,653 | 3,532 | 263 | - | 10,389 | 2,035 | 12,424 |
| Depreciation, amortisation, and write-offs | ( 128) | ( 43) | ( 1) | - | ( 852) | ( 1,024) | ( 12) | ( 1,036) |
| **At 30 September 2022** | | | | | | | | |
| Loans to customers | 546,750 | 269,721 | 336,576 | - | - | 1,153,047 | - | 1,153,047 |
| Other assets | 3,320 | 2,044 | 6,986 | 373,774 | 9,619 | 395,743 | ( 118) | 395,625 |
| **Total segment assets** | 550,070 | 271,765 | 343,562 | 373,774 | 9,619 | 1,548,790 | ( 118) | 1,548,672 |
| Deposits from customers | 354,895 | 260,219 | 146,651 | 22,738 | - | 784,503 | ( 2,889) | 781,614 |
| Other liabilities | 1,343 | 1,501 | 8,799 | 537,004 | 5,438 | 554,085 | 1,360 | 555,445 |
| **Total segment liabilities** | 356,238 | 261,720 | 155,450 | 559,742 | 5,438 | 1,338,588 | ( 1,529) | 1,337,059 |
| Allocated equity | 41,828 | 39,699 | 64,303 | 63,422 | 950 | 210,202 | 1,411 | 211,613 |
| Risk exposure amount | 264,925 | 252,855 | 403,964 | 85,529 | 6,340 | 1,013,613 | ( 627) | 1,012,986 |

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

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

3. Cont'd

| 1 January - 30 September 2021 | Personal Banking | Business Banking | Corporate & Investment Banking | Treasury & Proprietary Trading | Cost centres | The Bank total | Subsidiaries, eliminations & adjustments | The Group total |
|---|---|---|---|---|---|---|---|---|
| Net interest income (expense) | 8,835 | 7,884 | 6,788 | 2,015 | ( 135) | 25,387 | 12 | 25,399 |
| Net fee and commission income (expense) | 2,739 | 1,590 | 3,358 | ( 88) | ( 62) | 7,537 | 1,659 | 9,196 |
| Other net operating income | 182 | 53 | 634 | 2,089 | 147 | 3,105 | ( 646) | 2,459 |
| Total operating income | 11,756 | 9,527 | 10,780 | 4,016 | ( 50) | 36,029 | 1,025 | 37,054 |
| Salaries and related expenses | ( 1,858) | ( 1,339) | ( 1,232) | ( 189) | ( 4,926) | ( 9,544) | ( 577) | ( 10,121) |
| Other operating expenses | ( 1,796) | ( 754) | ( 624) | ( 188) | ( 3,591) | ( 6,953) | ( 354) | ( 7,307) |
| Contribution to the Depositors' and Investors' Guarantee Fund | ( 405) | ( 101) | ( 11) | - | - | ( 517) | - | ( 517) |
| Bank tax | ( 542) | ( 258) | ( 387) | ( 97) | ( 10) | ( 1,294) | - | ( 1,294) |
| Net impairment on financial assets | 495 | 1,994 | ( 179) | 70 | - | 2,380 | ( 1) | 2,379 |
| Cost allocation | ( 3,358) | ( 2,361) | ( 2,339) | 237 | 7,821 | - | - | - |
| Profit (loss) before tax | 4,292 | 6,708 | 6,008 | 3,849 | ( 756) | 20,101 | 93 | 20,194 |
| Income tax income (expense) | ( 1,257) | ( 1,811) | ( 1,663) | 1,024 | 193 | ( 3,514) | ( 189) | ( 3,703) |
| **Profit (loss) for the period from continuing operations** | 3,035 | 4,897 | 4,345 | 4,873 | ( 563) | 16,587 | ( 96) | 16,491 |
| Net segment revenue from external customers | 19,157 | 10,986 | 14,926 | ( 9,076) | 36 | 36,029 | 1,025 | 37,054 |
| Net segment revenue from other segments | ( 7,401) | ( 1,459) | ( 4,146) | 13,092 | ( 86) | - | - | - |
| Fee and commission income | 3,984 | 1,607 | 3,425 | 96 | 2 | 9,114 | 1,662 | 10,776 |
| Depreciation, amortisation, and write-offs | ( 124) | ( 44) | ( 11) | - | ( 847) | ( 1,026) | ( 7) | ( 1,033) |
| **At 30 September 2021** | | | | | | | | |
| Loans to customers | 495,179 | 234,771 | 351,379 | 89 | - | 1,081,418 | - | 1,081,418 |
| Other assets | 3,463 | 2,197 | 4,595 | 355,019 | 9,583 | 374,857 | 97 | 374,954 |
| **Total segment assets** | 498,642 | 236,968 | 355,974 | 355,108 | 9,583 | 1,456,275 | 97 | 1,456,372 |
| Deposits from customers | 335,054 | 238,816 | 149,483 | 33,589 | - | 756,942 | ( 2,500) | 754,442 |
| Other liabilities | 1,174 | 1,309 | 9,562 | 485,768 | 5,656 | 503,469 | 1,080 | 504,549 |
| **Total segment liabilities** | 336,228 | 240,125 | 159,045 | 519,357 | 5,656 | 1,260,411 | ( 1,420) | 1,258,991 |
| Allocated equity | 36,652 | 34,578 | 63,878 | 59,698 | 1,058 | 195,864 | 1,517 | 197,381 |
| Risk exposure amount | 244,100 | 216,980 | 388,169 | 61,568 | 6,512 | 917,329 | 435 | 917,764 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

3. Cont'd

**Subsidiaries, eliminations & adjustments**

| **1 January - 30 September 2022** | Íslands- sjóðir hf. | Allianz Ísland hf. | Other subsidiaries | Eliminations & adjustments | Total |
|---|---|---|---|---|---|
| Net interest income | 6 | 19 | 31 | ( 49) | 7 |
| Net fee and commission income (expense) | 1,230 | 840 | ( 23) | ( 15) | 2,032 |
| Other net operating income | ( 123) | 7 | 193 | ( 2,335) | ( 2,258) |
| Total operating income | 1,113 | 866 | 201 | ( 2,399) | ( 219) |
| Salaries and related expenses | ( 418) | ( 152) | ( 44) | - | ( 614) |
| Other operating expenses | ( 167) | ( 341) | ( 158) | 309 | ( 357) |
| Net impairment on financial assets | 2 | 1 | - | - | 3 |
| Profit (loss) before tax | 530 | 374 | ( 1) | ( 2,090) | ( 1,187) |
| Income tax expense | ( 106) | ( 79) | - | - | ( 185) |
| **Profit (loss) for the period from continuing operations** | 424 | 295 | ( 1) | ( 2,090) | ( 1,372) |
| Net segment revenue from external customers | 1,324 | 853 | 4 | ( 2,400) | ( 219) |
| Net segment revenue from other segments | ( 211) | 13 | 197 | 1 | - |
| Fee and commission income | 1,632 | 840 | - | ( 437) | 2,035 |
| Depreciation, amortisation, and write-offs | - | - | ( 5) | ( 7) | ( 12) |
| **At 30 September 2022** | | | | | |
| Total assets | 2,453 | 1,518 | 5,407 | ( 9,496) | ( 118) |
| Total liabilities | 534 | 727 | 199 | ( 2,989) | ( 1,529) |
| Total equity | 1,919 | 791 | 5,208 | ( 6,507) | 1,411 |

| **1 January - 30 September 2021** | Íslands- sjóðir hf. | Allianz Ísland hf. | Other subsidiaries | Eliminations & adjustments | Total |
|---|---|---|---|---|---|
| Net interest income | - | 4 | 10 | ( 2) | 12 |
| Net fee and commission income (expense) | 1,189 | 512 | ( 23) | ( 19) | 1,659 |
| Other net operating income | 273 | 14 | 10 | ( 943) | ( 646) |
| Total operating income | 1,462 | 530 | ( 3) | ( 964) | 1,025 |
| Salaries and related expenses | ( 435) | ( 142) | - | - | ( 577) |
| Other operating expenses | ( 147) | ( 309) | ( 1) | 103 | ( 354) |
| Net impairment on financial assets | - | - | - | ( 1) | ( 1) |
| Profit (loss) before tax | 880 | 79 | ( 4) | ( 862) | 93 |
| Income tax expense | ( 175) | ( 2) | - | ( 12) | ( 189) |
| **Profit (loss) for the period from continuing operations** | 705 | 77 | ( 4) | ( 874) | ( 96) |
| Net segment revenue from external customers | 1,657 | 504 | - | ( 1,136) | 1,025 |
| Net segment revenue from other segments | ( 195) | 26 | ( 3) | 172 | - |
| Fee and commission income | 1,554 | 512 | - | ( 404) | 1,662 |
| Depreciation, amortisation, and write-offs | - | ( 1) | - | ( 6) | ( 7) |
| **At 30 September 2021** | | | | | |
| Total assets | 2,617 | 1,118 | 5,797 | ( 9,435) | 97 |
| Total liabilities | 415 | 676 | 37 | ( 2,548) | ( 1,420) |
| Total equity | 2,202 | 442 | 5,760 | ( 6,887) | 1,517 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 4. Net interest income

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Cash and balances with Central Bank | 1,710 | 556 | 921 | 298 |
| Loans to credit institutions | 221 | 103 | 151 | 61 |
| Loans to customers | 62,818 | 40,246 | 24,308 | 13,272 |
| Financial assets mandatorily at fair value through profit or loss | 4,319 | 1,544 | 1,665 | 684 |
| Other assets | 4 | 6 | 1 | 3 |
| **Interest income** | 69,072 | 42,455 | 27,046 | 14,318 |
| Deposits from Central Bank and credit institutions | ( 228) | ( 254) | ( 136) | ( 63) |
| Deposits from customers | ( 15,970) | ( 4,520) | ( 7,374) | ( 1,400) |
| Debt issued and other borrowed funds designated as at FVTPL | ( 438) | ( 547) | ( 134) | ( 183) |
| Debt issued and other borrowed funds at amortised cost | ( 18,170) | ( 9,966) | ( 6,697) | ( 3,219) |
| Subordinated loans | ( 914) | ( 518) | ( 343) | ( 179) |
| Lease liabilities | ( 62) | ( 63) | ( 21) | ( 20) |
| Other liabilities | ( 2,512) | ( 1,188) | ( 1,026) | ( 462) |
| **Interest expense** | ( 38,294) | ( 17,056) | ( 15,731) | ( 5,526) |
| **Net interest income** | 30,778 | 25,399 | 11,315 | 8,792 |

## 5. Net fee and commission income

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Asset management | 2,259 | 2,129 | 709 | 705 |
| Investment banking and brokerage | 2,854 | 2,688 | 1,061 | 1,119 |
| Payment processing | 4,506 | 3,339 | 1,650 | 1,240 |
| Loans and guarantees | 1,766 | 1,737 | 563 | 585 |
| Other fee and commission income | 1,039 | 883 | 339 | 291 |
| **Fee and commission income** | 12,424 | 10,776 | 4,322 | 3,940 |
| Brokerage | ( 357) | ( 317) | ( 106) | ( 91) |
| Clearing and settlement | ( 1,960) | ( 1,255) | ( 698) | ( 420) |
| Other fee and commission expense | ( 92) | ( 8) | ( 1) | ( 2) |
| **Fee and commission expense** | ( 2,409) | ( 1,580) | ( 805) | ( 513) |
| **Net fee and commission income** | 10,015 | 9,196 | 3,517 | 3,427 |

Fee and commission income by segment is disclosed in Note 3.

## 6. Net financial income (expense)

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL | ( 5,274) | 1,323 | ( 2,490) | 718 |
| Net gain on financial liabilities designated as at FVTPL | 4,937 | 522 | 2,034 | 220 |
| Net gain (loss) on fair value hedges | ( 21) | 8 | ( 15) | 3 |
| **Net financial income (expense)** | ( 358) | 1,853 | ( 471) | 941 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 6. Cont'd

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

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Shares and related derivatives | ( 925) | 690 | ( 38) | 559 |
| Dividend income | 907 | 54 | - | - |
| Bonds and related derivatives | ( 2,253) | 361 | ( 195) | ( 44) |
| Other derivatives | ( 3,003) | 218 | ( 2,257) | 203 |
| **Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL** | ( 5,274) | 1,323 | ( 2,490) | 718 |
| Debt issued and other borrowed funds designated as at FVTPL | 4,937 | 522 | 2,034 | 220 |
| **Net gain on financial liabilities designated as at FVTPL** | 4,937 | 522 | 2,034 | 220 |
| Clean fair value loss on interest rate swaps designated as hedging instruments | ( 1,775) | ( 346) | ( 1,418) | ( 82) |
| Fair value gain on bonds issued by the Group attributable to interest rate risk | 1,754 | 354 | 1,403 | 85 |
| **Net gain (loss) on fair value hedges** | ( 21) | 8 | ( 15) | 3 |

## 7. Net foreign exchange gain

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Cash and balances with Central Bank | ( 68) | ( 19) | 30 | 54 |
| Loans at amortised cost | ( 3,489) | ( 3,624) | 5,433 | 9,318 |
| Financial assets mandatorily at fair value through profit or loss | ( 8,742) | ( 4,632) | 742 | 553 |
| Other assets | ( 7) | ( 6) | - | - |
| **Net foreign exchange gain (loss) for assets** | ( 12,306) | ( 8,281) | 6,205 | 9,925 |
| Deposits | ( 1,251) | 1,155 | ( 4,380) | ( 3,377) |
| Debt issued and other borrowed funds designated as at FVTPL | 4,556 | 3,141 | ( 1,174) | ( 2,678) |
| Debt issued and other borrowed funds at amortised cost | 5,658 | 3,075 | ( 635) | ( 3,113) |
| Subordinated loans | 3,648 | 1,230 | 48 | ( 662) |
| **Net foreign exchange gain (loss) for liabilities** | 12,611 | 8,601 | ( 6,141) | ( 9,830) |
| **Net foreign exchange gain** | 305 | 320 | 64 | 95 |

## 8. Other operating income

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Net gain from sale of associates | 158 | - | - | - |
| Share of profit of associates, net of income tax | 122 | 88 | 90 | 43 |
| Reversal of impairment for an associate | - | 60 | - | - |
| Legal fees | 34 | 56 | 9 | 20 |
| Rental income | 29 | 30 | 10 | 10 |
| Other net operating income | 92 | 52 | 2 | 9 |
| **Other operating income** | 435 | 286 | 111 | 82 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 9. Salaries and related expenses

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Salaries | 7,474 | 7,794 | 2,237 | 2,268 |
| Contributions to pension funds | 1,145 | 1,206 | 343 | 354 |
| Social security charges and financial activities tax* | 1,048 | 1,042 | 329 | 323 |
| Other salary-related expenses | 67 | 79 | 7 | 8 |
| **Salaries and related expenses** | 9,734 | 10,121 | 2,916 | 2,953 |

*Financial activities tax calculated on salaries is 5.5% in 2022 (2021: 5.5%).

## 10. Other operating expenses

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Professional services | 1,376 | 1,674 | 435 | 348 |
| Software and IT expenses | 3,336 | 3,129 | 1,067 | 980 |
| Real estate and office equipment | 376 | 392 | 120 | 115 |
| Depreciation, amortisation, and write-offs | 1,036 | 1,033 | 348 | 346 |
| Other administrative expenses | 1,242 | 1,079 | 387 | 346 |
| **Other operating expenses** | 7,366 | 7,307 | 2,357 | 2,135 |

## 11. Net impairment on financial assets

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 | 2022<br>1.7-30.9 | 2021<br>1.7-30.9 |
|---|---|---|---|---|
| Net change in expected credit losses, on-balance sheet items | 2,453 | 2,316 | 1,242 | 1,747 |
| Net change in expected credit losses, off-balance sheet items | ( 305) | 63 | ( 77) | 10 |
| Changes in provision due to court rulings | 75 | - | - | - |
| **Net impairment on financial assets** | 2,223 | 2,379 | 1,165 | 1,757 |

## 12. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2022 is 20% (2021: 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 nine months ended 30 September 2022 is 25.6% (nine months ended 30 September 2021: 18.4%).

| | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 |
|---|---|---|
| Current tax expense excluding discontinued operations | 3,946 | 3,208 |
| Special financial activities tax | 998 | 846 |
| Adjustments in prior year's calculated income tax | ( 591) | 2 |
| Changes in deferred tax assets and deferred tax liabilities | 1,966 | ( 353) |
| **Income tax recognised in the income statement** | 6,319 | 3,703 |
| **Income tax recognised in other comprehensive income** | ( 110) | - |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 12. Cont'd

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | 1.1-30.9 | | 1.1-30.9 | |
| Profit before tax | 24,756 | | 20,194 | |
| 20% income tax calculated on the profit for the period | 4,951 | 20.0% | 4,039 | 20.0% |
| Special financial activities tax | 998 | 4.0% | 846 | 4.2% |
| Share in taxes of non-independent taxpayers | 150 | 0.6% | - | 0.0% |
| Adjustments in prior year's calculated income tax | ( 455) | ( 1.8%) | - | 0.0% |
| Income not subject to tax | ( 220) | ( 0.9%) | ( 1,436) | ( 7.1%) |
| Non-deductible expenses | 878 | 3.5% | 259 | 1.3% |
| Other differences | 17 | 0.1% | ( 5) | 0.0% |
| **Effective income tax expense** | 6,319 | 25.5% | 3,703 | 18.4% |

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

## 13. Discontinued operations held for sale, net of income tax

| | 2022 | 2021 | 2022 | 2021 |
|---|---|---|---|---|
| | 1.1-30.9 | 1.1-30.9 | 1.7-30.9 | 1.7-30.9 |
| Net gain (loss) from foreclosed assets | 3 | 15 | ( 20) | ( 17) |
| Net gain (loss) from disposal groups held for sale | ( 1) | 130 | 19 | 99 |
| Net gain from sale or dissolution of subsidiaries | 115 | - | 115 | - |
| Income tax expense | ( 1) | ( 3) | 4 | 3 |
| **Discontinued operations held for sale, net of income tax** | 116 | 142 | 118 | 85 |

## 14. Earnings per share

| | Continued operations | | Discontinued operations | | Profit for the period | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | 1.1-30.9 | 1.1-30.9 | 1.1-30.9 | 1.1-30.9 | 1.1-30.9 | 1.1-30.9 |
| Profit attributable to shareholders of the Bank | 18,437 | 16,496 | 116 | 142 | 18,553 | 16,638 |
| Weighted average number of outstanding shares | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| **Basic earnings per share** | 9.22 | 8.25 | 0.06 | 0.07 | 9.28 | 8.32 |

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 (2021: none).

Amounts are in ISK million

## 15. Classification of financial assets and financial liabilities

| At 30 September 2022 | Mandatorily at FVTPL | Hedge accounting | Designated as at FVTPL | Amortised cost | Carrying amount |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | - | - | - | 73,566 | 73,566 |
| Loans to credit institutions | - | - | - | 137,169 | 137,169 |
| Listed bonds and debt instruments | 117,576 | - | - | - | 117,576 |
| Listed bonds and debt instruments used for economic hedging | 9,847 | - | - | - | 9,847 |
| Unlisted bonds and debt instruments | 31 | - | - | - | 31 |
| Derivatives | 6,895 | - | - | - | 6,895 |
| Loans to customers | - | - | - | 1,153,047 | 1,153,047 |
| Listed shares and equity instruments | 4,024 | - | - | - | 4,024 |
| Listed shares and equity instruments used for economic hedging | 17,917 | - | - | - | 17,917 |
| Unlisted shares and equity instruments | 2,531 | - | - | - | 2,531 |
| Other financial assets | - | - | - | 10,530 | 10,530 |
| **Total financial assets** | 158,821 | - | - | 1,374,312 | 1,533,133 |
| | | | | | |
| Deposits from Central Bank and credit institutions | - | - | - | 19,912 | 19,912 |
| Deposits from customers | - | - | - | 781,614 | 781,614 |
| Derivative instruments and short positions | 12,686 | 1,310 | - | - | 13,996 |
| Debt issued and other borrowed funds | - | 83,321 | 78,817 | 296,831 | 458,969 |
| Subordinated loans | - | - | - | 32,156 | 32,156 |
| Other financial liabilities | - | - | - | 16,787 | 16,787 |
| **Total financial liabilities** | 12,686 | 84,631 | 78,817 | 1,147,300 | 1,323,434 |

| At 31 December 2021 | Mandatorily at FVTPL | Hedge accounting | Designated as at FVTPL | Amortised cost | Carrying amount |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | - | - | - | 113,667 | 113,667 |
| Loans to credit institutions | - | - | - | 43,988 | 43,988 |
| Listed bonds and debt instruments | 96,343 | - | - | - | 96,343 |
| Listed bonds and debt instruments used for economic hedging | 35,896 | - | - | - | 35,896 |
| Unlisted bonds and debt instruments | 50 | - | - | - | 50 |
| Derivatives | 1,900 | 545 | - | - | 2,445 |
| Loans to customers | - | - | - | 1,086,327 | 1,086,327 |
| Listed shares and equity instruments | 3,246 | - | - | - | 3,246 |
| Listed shares and equity instruments used for economic hedging | 24,406 | - | - | - | 24,406 |
| Unlisted shares and equity instruments | 4,025 | - | - | - | 4,025 |
| Other financial assets | - | - | - | 5,241 | 5,241 |
| **Total financial assets** | 165,866 | 545 | - | 1,249,223 | 1,415,634 |
| | | | | | |
| Deposits from Central Bank and credit institutions | - | - | - | 13,384 | 13,384 |
| Deposits from customers | - | - | - | 744,036 | 744,036 |
| Derivative instruments and short positions | 9,467 | - | - | - | 9,467 |
| Debt issued and other borrowed funds | - | 45,036 | 89,460 | 267,730 | 402,226 |
| Subordinated loans | - | - | - | 35,762 | 35,762 |
| Other financial liabilities | - | - | - | 9,681 | 9,681 |
| **Total financial liabilities** | 9,467 | 45,036 | 89,460 | 1,070,593 | 1,214,556 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 16. Fair value information for financial instruments

### Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 30 September 2022 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

| **At 30 September 2022** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Bonds and debt instruments | 127,422 | - | 32 | 127,454 |
| Derivatives | - | 6,895 | - | 6,895 |
| Shares and equity instruments | 21,940 | - | 2,532 | 24,472 |
| **Total financial assets** | 149,362 | 6,895 | 2,564 | 158,821 |
| Short positions | 133 | - | - | 133 |
| Derivative instruments | - | 13,863 | - | 13,863 |
| Debt issued and other borrowed funds designated as at FVTPL | 78,817 | - | - | 78,817 |
| **Total financial liabilities** | 78,950 | 13,863 | - | 92,813 |

| **At 31 December 2021** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Bonds and debt instruments | 132,239 | - | 50 | 132,289 |
| Derivatives | - | 2,445 | - | 2,445 |
| Shares and equity instruments | 27,625 | - | 4,052 | 31,677 |
| **Total financial assets** | 159,864 | 2,445 | 4,102 | 166,411 |
| Short positions | 1,951 | - | - | 1,951 |
| Derivative instruments | - | 7,516 | - | 7,516 |
| Debt issued and other borrowed funds designated as at FVTPL | 89,460 | - | - | 89,460 |
| **Total financial liabilities** | 91,411 | 7,516 | - | 98,927 |

| **Changes in Level 3 assets measured at fair value** | Bonds and debt instruments | Shares and equity instruments |
|---|---|---|
| Fair value at 1 January 2022 | 50 | 4,052 |
| Purchases | - | 27 |
| Share capital reduction | - | ( 181) |
| Net gain (loss) on financial instruments recognised in profit or loss | ( 18) | 371 |
| Transfers to Level 1 or 2 | - | ( 26) |
| Transfers to associates* | - | ( 1,711) |
| **Fair value at 30 September 2022** | 32 | 2,532 |

*For further information see Note 24.

Amounts are in ISK million

## 16. Cont'd

| | Bonds and debt instruments | Shares and equity instruments | Non-current assets |
|---|---|---|---|
| Fair value at 1 January 2021 | 145 | 2,890 | 1,266 |
| Purchases | 32 | 178 | - |
| Sales and share capital reduction | ( 116) | ( 186) | ( 1,201) |
| Net gain (loss) on financial instruments recognised in profit or loss | ( 11) | 1,170 | - |
| Net loss on financial instruments recognised in other comprehensive income | - | - | ( 65) |
| **Fair value at 31 December 2021** | 50 | 4,052 | - |

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.

*Valuation process*

The responsibility for the valuation of the fair value of financial instruments lies with the relevant business units. Each quarter, the business units present a valuation report to the Investment Committee for approval. The report and its assumptions are reviewed by Risk Management.

*Valuation techniques*

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. 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, net asset value (NAV) for investment fund units, expected recovery for distressed bonds, 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, equity and equity index prices and expected price volatilities and correlations. 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. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

*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.

*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.

At 30 September 2022 the Group's Level 3 shares amounted to ISK 2,532 million:

-These include shares in seven professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 2,252 million. The Group receives information from fund managers who use valuation models for the valuation of these shares.

-Other Level 3 shares amount to ISK 280 million.

At 30 September 2022 the Group's Level 3 bonds amounted to ISK 32 million:

-The majority of the amount in Level 3 bonds is estimated by discounting cash flow where the yield is the contractual currency's base rate with a premium that is decided by expert judgement on projected risk and financing cost.

Financial Statements third quarter 2022 24 Amounts are in ISK million

## 16. Cont'd

*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 shows how profit would have been affected if one or more of the inputs for fair value measurement in Level 3 were changed.

| **At 30 September 2022**<br>**Effect on profit:** | Carrying amount | Very favourable | Favourable | Unfavourable | Very unfavour-able |
|---|---|---|---|---|---|
| Level 3 bonds and debt instruments | 32 | 55 | 16 | ( 11) | ( 32) |
| Level 3 shares and equity instruments | 2,532 | 1,990 | 1,064 | ( 236) | ( 387) |

| **At 31 December 2021**<br>**Effect on profit:** | Carrying amount | Very favourable | Favourable | Unfavourable | Very unfavour-able |
|---|---|---|---|---|---|
| Level 3 bonds and debt instruments | 50 | 89 | 24 | ( 21) | ( 50) |
| Level 3 shares and equity instruments | 4,052 | 3,415 | 1,475 | ( 975) | ( 1,676) |

## 17. Financial instruments not carried at fair value

### Assets

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

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

### Liabilities

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

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

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

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

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

17. Cont'd

| At 30 September 2022 | Level 1 | Level 2 | Level 3 | Total fair value | Carrying amount |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | - | 73,566 | - | 73,566 | 73,566 |
| Loans to credit institutions | - | 137,169 | - | 137,169 | 137,169 |
| Loans to customers | - | - | 1,138,282 | 1,138,282 | 1,153,047 |
| Other financial assets | - | 10,530 | - | 10,530 | 10,530 |
| **Total financial assets** | - | 221,265 | 1,138,282 | 1,359,547 | 1,374,312 |
| Deposits from Central Bank and credit institutions | - | 19,763 | - | 19,763 | 19,912 |
| Deposits from customers | - | 781,639 | - | 781,639 | 781,614 |
| Debt issued and other borrowed funds | 212,517 | 160,633 | - | 373,150 | 380,152 |
| Subordinated loans | - | 33,865 | - | 33,865 | 32,156 |
| Other financial liabilities | - | 16,787 | - | 16,787 | 16,787 |
| **Total financial liabilities** | 212,517 | 1,012,687 | - | 1,225,204 | 1,230,621 |

| At 31 December 2021 | Level 1 | Level 2 | Level 3 | Total fair value | Carrying amount |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | - | 113,667 | - | 113,667 | 113,667 |
| Loans to credit institutions | - | 43,988 | - | 43,988 | 43,988 |
| Loans to customers | - | - | 1,089,920 | 1,089,920 | 1,086,327 |
| Other financial assets | - | 5,241 | - | 5,241 | 5,241 |
| **Total financial assets** | - | 162,896 | 1,089,920 | 1,252,816 | 1,249,223 |
| Deposits from Central Bank and credit institutions | - | 13,441 | - | 13,441 | 13,384 |
| Deposits from customers | - | 744,098 | - | 744,098 | 744,036 |
| Debt issued and other borrowed funds | 225,763 | 97,311 | - | 323,074 | 312,766 |
| Subordinated loans | - | 37,581 | - | 37,581 | 35,762 |
| Other financial liabilities | - | 9,681 | - | 9,681 | 9,681 |
| **Total financial liabilities** | 225,763 | 902,112 | - | 1,127,875 | 1,115,629 |

## 18. Offsetting financial assets and financial liabilities

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

| | Financial assets subject to netting arrangements | | | Amounts not set off but subject to master netting arrangements and similar agreements | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **At 30 September 2022** | Financial assets before netting | Netting with financial liabilities | Net financial assets | Financial liabilities | Cash collateral received | Financial instruments collateral received | Net amount after consideration of potential effect of netting arrangements | Assets outside the scope of offsetting disclosure requirements | Total financial assets recognised in the balance sheet |
| Derivatives | 6,895 | - | 6,895 | ( 1,625) | ( 3,363) | ( 774) | 1,133 | - | 6,895 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 18. Cont'd

| At 31 December 2021 | Financial assets subject to netting arrangements: Financial assets before netting | Netting with financial liabilities | Net financial assets | Amounts not set off but subject to master netting arrangements and similar agreements: Financial liabilities | Cash collateral received | Financial instruments collateral received | Net amount after consideration of potential effect of netting arrangements | Assets outside the scope of offsetting disclosure requirements | Total financial assets recognised in the balance sheet |
|---|---|---|---|---|---|---|---|---|---|
| Reverse repurchase agreements .. | 100 | - | 100 | - | - | - | 100 | - | 100 |
| Derivatives .................................. | 2,445 | - | 2,445 | ( 927) | ( 885) | ( 73) | 560 | - | 2,445 |
| **Total assets** | 2,545 | - | 2,545 | ( 927) | ( 885) | ( 73) | 660 | - | 2,545 |

| At 30 September 2022 | Financial liabilities subject to netting arrangements: Financial liabilities before netting | Netting with financial assets | Net financial liabilities | Amounts not set off but subject to master netting arrangements and similar agreements: Financial assets | Cash collateral pledged | Financial instruments collateral pledged | Net amount after consideration of potential effect of netting arrangements | Liabilities outside the scope of offsetting disclosure requirements | Total financial liabilities recognised in the balance sheet |
|---|---|---|---|---|---|---|---|---|---|
| Derivative instruments and short positions ............................. | 13,996 | - | 13,996 | ( 1,625) | ( 7,479) | - | 4,892 | - | 13,996 |
| **At 31 December 2021** | | | | | | | | | |
| Derivative instruments and short positions ............................. | 9,467 | - | 9,467 | ( 927) | ( 945) | - | 7,595 | - | 9,467 |

## 19. Cash and balances with Central Bank

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Cash on hand ..... | 3,682 | 3,882 |
| Balances with Central Bank ..... | 59,819 | 100,528 |
| **Included in cash and cash equivalents** | 63,501 | 104,410 |
| Balances pledged as collateral to Central Bank ..... | 590 | 589 |
| Mandatory reserve deposits with Central Bank ..... | 9,475 | 8,668 |
| **Cash and balances with Central Bank** | 73,566 | 113,667 |

## 20. Loans to credit institutions

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Money market loans ..... | 65,870 | 17,759 |
| Bank accounts ..... | 71,080 | 26,187 |
| Other loans ..... | 219 | 42 |
| **Loans to credit institutions** | 137,169 | 43,988 |

Amounts are in ISK million

## 21. Derivative instruments and short positions

| At 30 September 2022 | Assets | Notional values related to assets | Liabilities | Notional values related to liabilities |
|---|---|---|---|---|
| Interest rate swaps | 3,660 | 50,944 | 9,848 | 217,256 |
| Cross-currency interest rate swaps | - | - | 1,912 | 31,554 |
| Equity forwards | 1,258 | 12,166 | 945 | 7,129 |
| Foreign exchange forwards | 307 | 15,115 | 385 | 14,645 |
| Foreign exchange swaps | 1,271 | 40,681 | 770 | 21,936 |
| Foreign exchange options | - | - | - | 45 |
| Bond forwards | 399 | 10,202 | 3 | 1,698 |
| **Derivatives** | 6,895 | 129,108 | 13,863 | 294,263 |
| Short positions in listed bonds | - | - | 133 | 119 |
| **Total** | 6,895 | 129,108 | 13,996 | 294,382 |

| At 31 December 2021 | Assets | Notional values related to assets | Liabilities | Notional values related to liabilities |
|---|---|---|---|---|
| Interest rate swaps | 1,253 | 131,732 | 3,182 | 88,920 |
| Cross-currency interest rate swaps | 157 | 14,392 | 473 | 16,587 |
| Equity forwards | 126 | 5,693 | 2,958 | 16,591 |
| Foreign exchange forwards | 97 | 15,719 | 278 | 12,674 |
| Foreign exchange swaps | 359 | 33,914 | 599 | 42,795 |
| Bond forwards | 453 | 34,594 | 26 | 7,043 |
| **Derivatives** | 2,445 | 236,044 | 7,516 | 184,610 |
| Short positions in listed bonds | - | - | 1,951 | 1,447 |
| **Total** | 2,445 | 236,044 | 9,467 | 186,057 |

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 31) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 September 2022 the total fair value of the interest rate swaps was negative and amounted to ISK 1,310 million (2021: positive ISK 545 million) and their total notional amount was ISK 84,540 million (2021: ISK 44,280 million).

Amounts are in ISK million

## 22. Loans to customers

| At 30 September 2022 | Gross carrying amount | | | Expected credit losses | | | Net carrying amount |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Individuals | 557,148 | 5,454 | 4,670 | ( 1,351) | ( 169) | ( 469) | 565,283 |
| Commerce and services | 145,377 | 33,097 | 4,067 | ( 928) | ( 1,937) | ( 1,049) | 178,627 |
| Construction | 51,626 | 2,669 | 456 | ( 486) | ( 60) | ( 53) | 54,152 |
| Energy | 10,335 | - | - | ( 56) | - | - | 10,279 |
| Financial services | 2,074 | 1 | - | ( 5) | - | - | 2,070 |
| Industrial and transportation | 76,785 | 6,605 | 7,003 | ( 263) | ( 89) | ( 2,233) | 87,808 |
| Investment companies | 25,561 | 1,364 | 699 | ( 260) | ( 198) | ( 77) | 27,089 |
| Public sector and non-profit organisations | 10,125 | 236 | - | ( 22) | ( 1) | - | 10,338 |
| Real estate | 119,264 | 956 | 2,700 | ( 496) | ( 34) | ( 555) | 121,835 |
| Seafood | 94,682 | 916 | 67 | ( 83) | ( 4) | ( 12) | 95,566 |
| **Loans to customers** | 1,092,977 | 51,298 | 19,662 | ( 3,950) | ( 2,492) | ( 4,448) | 1,153,047 |

| At 31 December 2021 | Gross carrying amount | | | Expected credit losses | | | Net carrying amount |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Individuals | 510,024 | 7,197 | 5,704 | ( 1,368) | ( 199) | ( 625) | 520,733 |
| Commerce and services | 110,618 | 55,299 | 5,252 | ( 844) | ( 2,696) | ( 2,407) | 165,222 |
| Construction | 34,238 | 1,704 | 1,298 | ( 341) | ( 72) | ( 54) | 36,773 |
| Energy | 9,529 | - | - | ( 36) | - | - | 9,493 |
| Financial services | 1,980 | 1 | - | ( 3) | - | - | 1,978 |
| Industrial and transportation | 61,386 | 24,593 | 6,481 | ( 281) | ( 292) | ( 2,260) | 89,627 |
| Investment companies | 21,066 | 2,636 | 606 | ( 295) | ( 297) | ( 39) | 23,677 |
| Public sector and non-profit organisations | 9,862 | 144 | 1 | ( 18) | ( 1) | ( 1) | 9,987 |
| Real estate | 97,395 | 10,989 | 2,177 | ( 485) | ( 225) | ( 537) | 109,314 |
| Seafood | 116,451 | 3,204 | 57 | ( 159) | ( 22) | ( 8) | 119,523 |
| **Loans to customers** | 972,549 | 105,767 | 21,576 | ( 3,830) | ( 3,804) | ( 5,931) | 1,086,327 |

## 23. Expected credit losses

**Total allowances for expected credit losses**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Cash and balances with Central Bank | 2 | - | - | 2 |
| Loans to credit institutions | 180 | 1 | - | 181 |
| Loans to customers | 3,950 | 2,492 | 4,448 | 10,890 |
| Other financial assets | 9 | 3 | - | 12 |
| Off-balance sheet loan commitments and financial guarantees | 696 | 360 | 251 | 1,307 |
| **At 30 September 2022** | 4,837 | 2,856 | 4,699 | 12,392 |
| Cash and balances with Central Bank | 3 | - | - | 3 |
| Loans to credit institutions | 89 | - | - | 89 |
| Loans to customers | 3,830 | 3,804 | 5,931 | 13,565 |
| Other financial assets | 18 | 6 | - | 24 |
| Off-balance sheet loan commitments and financial guarantees | 545 | 298 | 158 | 1,001 |
| **At 31 December 2021** | 4,485 | 4,108 | 6,089 | 14,682 |

Amounts are in ISK million

## Notes to the Condensed Consolidated Interim Financial Statements

23. Cont'd

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 2022 | 3,830 | 3,804 | 5,931 | 13,565 |
| Transfer to Stage 1 | 1,475 | ( 1,227) | ( 248) | - |
| Transfer to Stage 2 | ( 336) | 651 | ( 315) | - |
| Transfer to Stage 3 | ( 64) | ( 372) | 436 | - |
| Net remeasurement of loss allowance | ( 2,763) | ( 375) | ( 1,348) | ( 4,486) |
| New financial assets originated or purchased | 2,458 | 1,735 | 2,201 | 6,394 |
| Derecognitions and maturities | ( 649) | ( 1,724) | ( 1,996) | ( 4,369) |
| Write-offs | ( 1) | - | ( 438) | ( 439) |
| Recoveries of amounts previously written off | - | - | 99 | 99 |
| Foreign exchange | - | - | ( 202) | ( 202) |
| Unwinding of interest | - | - | 328 | 328 |
| **At 30 September 2022** | 3,950 | 2,492 | 4,448 | 10,890 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2021 | 3,645 | 6,482 | 7,387 | 17,514 |
| Transfer to Stage 1 | 1,995 | ( 1,780) | ( 215) | - |
| Transfer to Stage 2 | ( 476) | 1,650 | ( 1,174) | - |
| Transfer to Stage 3 | ( 48) | ( 1,259) | 1,307 | - |
| Net remeasurement of loss allowance | ( 3,550) | ( 2,254) | ( 779) | ( 6,583) |
| New financial assets originated or purchased | 2,759 | 1,497 | 3,645 | 7,901 |
| Derecognitions and maturities | ( 495) | ( 529) | ( 3,695) | ( 4,719) |
| Write-offs | - | ( 3) | ( 1,206) | ( 1,209) |
| Recoveries of amounts previously written off | - | - | 293 | 293 |
| Foreign exchange | - | - | ( 44) | ( 44) |
| Unwinding of interest | - | - | 412 | 412 |
| **At 31 December 2021** | 3,830 | 3,804 | 5,931 | 13,565 |

**Off-balance sheet loan commitments and financial guarantees**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2022 | 545 | 298 | 158 | 1,001 |
| Transfer to Stage 1 | 160 | ( 115) | ( 45) | - |
| Transfer to Stage 2 | ( 7) | 50 | ( 43) | - |
| Transfer to Stage 3 | ( 1) | ( 32) | 33 | - |
| Net remeasurement of loss allowance | ( 427) | ( 106) | ( 29) | ( 562) |
| New loan commitments and financial guarantees | 533 | 288 | 202 | 1,023 |
| Derecognitions and maturities | ( 107) | ( 23) | ( 25) | ( 155) |
| **At 30 September 2022** | 696 | 360 | 251 | 1,307 |
| At 1 January 2021 | 347 | 483 | 225 | 1,055 |
| Transfer to Stage 1 | 132 | ( 114) | ( 18) | - |
| Transfer to Stage 2 | ( 28) | 92 | ( 64) | - |
| Transfer to Stage 3 | ( 4) | ( 16) | 20 | - |
| Net remeasurement of loss allowance | ( 491) | ( 292) | 2 | ( 781) |
| New loan commitments and financial guarantees | 673 | 242 | 29 | 944 |
| Derecognitions and maturities | ( 84) | ( 97) | ( 36) | ( 217) |
| **At 31 December 2021** | 545 | 298 | 158 | 1,001 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 24. Investments in associates

| | | 30.9.2022 | 31.12.2021 |
|---|---|---|---|
| Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík | Iceland | 30.1% | 30.1% |
| Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík | Iceland | 43.3% | 12.2% |
| Auðkenni ehf., an information security company, Borgartún 31, 105 Reykjavík | Iceland | 0.0% | 33.3% |
| JCC ehf., a cash centre service company, Sundaborg 15, 108 Reykjavík | Iceland | 0.0% | 30.1% |

At year-end 2021 Íslandsbanki owned shares in Norðurturninn hf. which was classified as shares and equity instruments (see Note 16). During the second quarter Íslandsbanki increased its share in Norðurturninn and now has significant influence over the company, therefore the company is now classified as an associate. The company's 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 3,273 million (CPI-linked, based on the CPI in September 2022). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

## 25. Property and equipment

| **At 30 September 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 period | 23 | 8 | 71 | 102 |
| Disposals and write-offs during the period | - | - | ( 28) | ( 28) |
| Remeasurement | - | 296 | - | 296 |
| **Historical cost** | 3,124 | 5,225 | 3,039 | 11,388 |
| Balance at the beginning of the year | ( 1,360) | ( 1,234) | ( 1,414) | ( 4,008) |
| Depreciation during the period | ( 13) | ( 354) | ( 270) | ( 637) |
| Disposals and write-offs during the period | - | - | 17 | 17 |
| **Accumulated depreciation** | ( 1,373) | ( 1,588) | ( 1,667) | ( 4,628) |
| **Carrying amount** | 1,751 | 3,637 | 1,372 | 6,760 |

| **At 31 December 2021** | Land and buildings | Right-of-use assets: Buildings | Fixtures, equipment & vehicles | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | 3,058 | 4,729 | 3,119 | 10,906 |
| Additions during the year | 43 | 133 | 163 | 339 |
| Disposals and write-offs during the year | - | ( 110) | ( 286) | ( 396) |
| Remeasurement | - | 169 | - | 169 |
| **Historical cost** | 3,101 | 4,921 | 2,996 | 11,018 |
| Balance at the beginning of the year | ( 1,340) | ( 906) | ( 1,319) | ( 3,565) |
| Depreciation during the year | ( 20) | ( 438) | ( 370) | ( 828) |
| Disposals and write-offs during the year | - | 110 | 275 | 385 |
| **Accumulated depreciation** | ( 1,360) | ( 1,234) | ( 1,414) | ( 4,008) |
| **Carrying amount** | 1,741 | 3,687 | 1,582 | 7,010 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 26. Other assets

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Receivables | 1,127 | 1,582 |
| Unsettled securities transactions | 9,018 | 3,412 |
| Accruals | 389 | 252 |
| Prepaid expenses | 557 | 332 |
| Deferred tax assets | 97 | 94 |
| Other assets | 115 | 112 |
| **Other assets** | 11,303 | 5,784 |

## 27. Non-current assets and disposal groups held for sale

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Repossessed collateral: land and buildings | 799 | 269 |
| Assets of disposal groups held for sale | - | 1,075 |
| **Non-current assets and disposal groups held for sale** | 799 | 1,344 |

## 28. Deposits from Central Bank and credit institutions

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Deposits from credit institutions | 19,811 | 13,233 |
| Repurchase agreements with Central Bank | 101 | 151 |
| **Deposits from Central Bank and credit institutions** | 19,912 | 13,384 |

## 29. Deposits from customers

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Demand deposits and deposits with maturity up to 3 months | 692,719 | 658,543 |
| Term deposits with maturity of more than 3 months | 88,895 | 85,493 |
| **Deposits from customers** | 781,614 | 744,036 |

| | 30.9.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| **Deposits from customers specified by owners** | Amount | % of total | Amount | % of total |
| Central government and state-owned enterprises | 11,716 | 1% | 10,750 | 1% |
| Municipalities | 9,971 | 1% | 7,125 | 1% |
| Companies | 395,808 | 51% | 371,893 | 50% |
| Individuals | 364,119 | 47% | 354,268 | 48% |
| **Deposits from customers** | 781,614 | 100% | 744,036 | 100% |

Amounts are in ISK million

## 30. Pledged assets

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Loans to customers | 392,358 | 289,544 |
| Financial assets pledged as collateral with Central Bank | 5,702 | 7,440 |
| Loans to credit institutions | 9,541 | 1,861 |
| Cash and balances with Central Bank pledged against Covered Bonds | 11,704 | 2,200 |
| **Pledged assets against liabilities** | 419,305 | 301,045 |

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 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.

## 31. Debt issued and other borrowed funds

| | First issued | Maturity | Maturity type | Interest | 30.9.2022 | 31.12.2021 |
|---|---|---|---|---|---|---|
| Covered bonds in ISK | 2015 | 2023 | Bullet | Fixed rates | 39,572 | 39,020 |
| Covered bonds in ISK | 2020 | 2027 | Amortising | Fixed rates | 26,719 | 25,750 |
| Covered bonds in ISK | 2022 | 2027 | Bullet | Floating rates | 3,309 | - |
| Covered bonds in ISK - CPI-linked | 2015 | 2022 | Bullet | Fixed rates | - | 18,722 |
| Covered bonds in ISK - CPI-linked | 2012 | 2024 | Bullet | Fixed rates | 40,807 | 38,231 |
| Covered bonds in ISK - CPI-linked | 2015 | 2026 | Bullet | Fixed rates | 32,501 | 29,833 |
| Covered bonds in ISK - CPI-linked | 2019 | 2028 | Amortising | Fixed rates | 33,984 | 25,902 |
| Covered bonds in ISK - CPI-linked | 2017 | 2030 | Bullet | Fixed rates | 29,742 | 27,363 |
| Covered bonds in EUR** | 2022 | 2027 | Bullet | Fixed rates | 40,899 | - |
| **Covered bonds** | | | | | 247,533 | 204,821 |
| Senior unsecured bonds in NOK | 2019 | 2022 | Bullet | Floating rates | - | 14,841 |
| Senior unsecured bonds in EUR* | 2019 | 2022 | Bullet | Fixed rates | - | 44,803 |
| Senior unsecured bonds in EUR* | 2020 | 2023 | Bullet | Fixed rates | 40,866 | 44,657 |
| Senior unsecured bonds in EUR (callable 2023)** | 2018 | 2024 | Bullet | Fixed rates | 42,422 | 45,036 |
| Senior unsecured bonds in NOK | 2019 | 2024 | Bullet | Fixed rates | 5,466 | 6,122 |
| Senior unsecured bonds in ISK | 2019 | 2024 | Amortising | Floating rates | 1,560 | 2,100 |
| Senior unsecured bonds in NOK | 2021 | 2024 | Bullet | Floating rates | 1,994 | 2,211 |
| Senior unsecured bonds in SEK | 2021 | 2024 | Bullet | Floating rates | 3,232 | 3,597 |
| Senior unsecured bonds in NOK | 2021 | 2024 | Bullet | Floating rates | 6,361 | 7,037 |
| Senior unsecured bonds in SEK | 2021 | 2024 | Bullet | Floating rates | 2,595 | 2,882 |
| Senior unsecured bonds in ISK | 2020 | 2025 | Bullet | Fixed rates | 6,799 | 6,603 |
| Senior unsecured bonds in SEK | 2021 | 2025 | Bullet | Floating rates | 5,816 | 6,472 |
| Senior unsecured bonds in NOK | 2021 | 2025 | Bullet | Floating rates | 9,960 | 11,044 |
| Senior unsecured bonds in EUR* | 2022 | 2025 | Bullet | Fixed rates | 37,951 | - |
| **Unsecured bonds** | | | | | 165,022 | 197,405 |
| Other secured loans | | | | | 33,945 | - |
| Other unsecured loans | | | | | 12,469 | - |
| **Other borrowed funds** | | | | | 46,414 | - |
| **Debt issued and other borrowed funds** | | | | | 458,969 | 402,226 |

The Group repurchased own bonds during the period amounting to ISK 32,419 million.

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## 31. Cont'd

*These bond issuances are classified as being designated as at fair value through profit or loss. At 30 September 2022 the total carrying amount of the bonds amounted to ISK 78,817 million; included in the amount are negative fair value changes amounting to ISK 5,983 million. The carrying amount of the bonds at 30 September 2022 was ISK 6,251 million lower than the contractual amount due at maturity.

**The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 30 September 2022 the total carrying amount of the bond issuance amounted to ISK 83,321 million and included in the amount are fair value changes amounting to ISK 1,394 million.

The Bank 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.

## 32. Subordinated loans

| | Issued | Maturity | Callable | Interest | 30.9.2022 | 31.12.2021 |
|---|---|---|---|---|---|---|
| Subordinated loans in SEK ........................................ | 2017 | 2027 | 2022 | Floating, STIBOR + 2.0% | 9,706 | 10,786 |
| Subordinated loans in SEK ........................................ | 2018 | 2028 | 2023 | Floating, STIBOR + 2.5% | 6,465 | 7,187 |
| Subordinated loans in SEK ........................................ | 2019 | 2029 | 2024 | Floating, STIBOR + 3.9% | 6,438 | 7,163 |
| **Tier 2 subordinated loans** | | | | | 22,609 | 25,136 |
| Subordinated loans in SEK ........................................ | 2021 | Perpetual | 2026 | Floating, STIBOR + 4.75% | 9,547 | 10,626 |
| **Additional Tier 1 subordinated loans** | | | | | 9,547 | 10,626 |
| **Subordinated loans** | | | | | 32,156 | 35,762 |

## 33. Other liabilities

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Accruals ........................................ | 2,158 | 2,463 |
| Lease liabilities ........................................ | 3,794 | 3,838 |
| Provision for effects of court rulings ........................................ | 118 | 288 |
| Expected credit losses for off-balance sheet loan commitments and financial guarantees ........................................ | 1,307 | 1,001 |
| Withholding tax ........................................ | 865 | 1,288 |
| Unsettled securities transactions ........................................ | 9,428 | 2,005 |
| Sundry liabilities ........................................ | 1,915 | 1,965 |
| **Other liabilities** | 19,585 | 12,848 |

## 34. Custody assets

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Custody assets - not managed by the Group ........................................ | 3,330,489 | 3,411,059 |

Amounts are in ISK million

## 35. Íslandsbanki's shareholders

The following table shows shareholders holding more than 1% of Íslandsbanki's shares.

| | | 30.9.2022 | 31.12.2021 |
|---|---|---|---|
| The Icelandic Government | Iceland | 42.5% | 65.0% |
| LSR Pension Fund | Iceland | 7.5% | 4.1% |
| Gildi Pension Fund | Iceland | 6.8% | 3.1% |
| Live Pension Fund | Iceland | 6.3% | 3.7% |
| Capital Group | USA | 4.9% | 4.4% |
| Brú Pension Fund | Iceland | 2.8% | 0.8% |
| Stapi Pension Fund | Iceland | 2.3% | 1.0% |
| RWC Asset Management LLP | UK | 1.3% | 0.8% |
| Birta Pension Fund | Iceland | 1.2% | 0.6% |
| Lífsverk Pension Fund | Iceland | 1.2% | 0.1% |
| Íslandssjóðir hf. (Iceland Funds) | Iceland | 1.2% | 0.9% |
| Arion Banki hf. | Iceland | 1.0% | 0.6% |
| Other shareholders | | 21.0% | 14.9% |
| **Total** | | 100.0% | 100.0% |

At 30 September 2022 the number of shareholders of the Bank were 13,559 (year-end 2021: 15,676). At 30 September 2022, 91.9% of the Bank's shares were owned by domestic parties and 8.1% by international investors (year-end 2021: 92.2% domestic parties and 7.8% international investors).

## 36. Related party

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 the Icelandic State Financial Investments (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 Board of Directors and key management personnel of the Bank, 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.

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.

All loans to employees are provided on general business terms of the Group and the balances do not reflect collaterals held by the Group.

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

| **At 30 September 2022** | Assets | Liabilities | Net balance | Commitments, guarantees & overdrafts |
|---|---|---|---|---|
| Shareholders with significant influence over the Group | - | - | - | 2 |
| Board of Directors, key management personnel and other related parties | 455 | 390 | 65 | 68 |
| Associated companies | 8,253 | 3,848 | 4,405 | 208 |
| **Balances with related parties** | 8,708 | 4,238 | 4,470 | 278 |

Amounts are in ISK million

36. Cont'd

| 1 January - 30 September 2022 | Interest income | Interest expense | Other income | Other expense |
|---|---|---|---|---|
| Board of Directors, key management personnel and other related parties | 26 | 19 | 3 | - |
| Associated companies | 222 | 57 | 15 | 1,465 |
| **Transactions with related parties** | 248 | 76 | 18 | 1,465 |

| At 31 December 2021 | Assets | Liabilities | Net balance | Commitments, guarantees & overdrafts |
|---|---|---|---|---|
| Shareholders with control over the Group | - | - | - | 2 |
| Board of Directors, key management personnel and other related parties | 356 | 413 | ( 57) | 57 |
| Associated companies | 3 | 478 | ( 475) | 206 |
| **Balances with related parties** | 359 | 891 | ( 532) | 265 |

| 1 January - 30 September 2021 | Interest income | Interest expense | Other income | Other expense |
|---|---|---|---|---|
| Board of Directors, key management personnel and other related parties | 10 | 7 | 1 | - |
| Associated companies | - | 6 | 1 | 1,172 |
| **Transactions with related parties** | 10 | 13 | 2 | 1,172 |

At 30 September 2022 a total of ISK 4 million (at year-end 2021: ISK 1 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the period.

## 37. Contingencies

### Contingent liabilities

#### Borgun hf. – Landsbankinn hf.

Borgun hf., (currently SaltPay IIB 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. Court appointed senior assessors presented their reassessment in April 2021 which corroborates the previous assessment of Borgun's obligation to disclose. Furthermore, the senior assessors estimated that Borgun's share in Visa as of 31 December 2013 would have amounted to at least ISK 387 million. The hearing of the case is scheduled in the first quarter of 2023.

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. The Group has not recognised a provision in relation to this matter.

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## 37. Cont'd

### 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 Group estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 3 to 5 billion.

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.

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.

In the event of an unfavourable ruling and a subsequent finding that the affected loans should bear a fixed rate of interest instead of a variable interest rate, the Bank's interest rate risk would rise significantly which could lead to a significant financial loss in the event of adverse developments of interest rates in the capital markets. The Group believes that this is a very unlikely scenario. The Group 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 Group 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 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 31 March 2022 the District Court of Reykjavík denied the plaintiff's demand to obtain an advisory opinion of the EFTA Court and to appoint independent assessors before the oral argumentation on the request for dismissal of the case takes place. That denial was confirmed by the Court of Appeal on 23 May 2022. On 30 September the District Court of Reykjavík dismissed the case. The Group has not recognised a provision in relation to this matter.

## 38. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the interim financial statements for the third quarter of 2022.

# Notes to the Condensed Consolidated Interim Financial Statements

## 39. Risk management

### Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2021 Report, which is available on the Bank's website: www.islandsbanki.is.

## 40. Credit risk

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

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

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

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

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

## 41. Maximum credit exposure and collateral

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the 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 loan commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated by multiplying the sum of potential future credit exposure and the positive market value of the contract by a factor 1.4. This multiplication factor along with a new method for calculating potential future credit exposure was introduced with the implementation of CRR II in Iceland, leading to an increase in maximum credit exposure due to derivatives.

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. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

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 2,027 million are subject to 100% Government guarantee, ISK 1,057 million to 85% Government guarantee and ISK 401 million to 70% 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 thus 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.

41. Cont'd

| **At 30 September 2022** <br> **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 | 73,566 | - | - | - | - | - | - | - | 73,566 | 2 |
| Loans to credit institutions | 137,169 | - | - | - | - | - | - | - | 137,169 | 181 |
| Bonds and debt instruments | 127,454 | - | - | - | - | - | - | - | 127,454 | - |
| Derivatives | 28,444 | - | - | - | 13,769 | - | - | 13,769 | 14,675 | - |
| Loans to customers | 1,153,047 | 547,735 | 294,118 | 78,348 | 14,231 | 61,008 | 57,700 | 1,053,140 | 99,907 | 10,890 |
| Individuals | 565,283 | 504,328 | 10,605 | 4 | 84 | 15,024 | 149 | 530,194 | 35,089 | 1,989 |
| - Thereof mortgages | 503,416 | 499,099 | 2,633 | - | 73 | - | - | 501,805 | 1,611 | 748 |
| Commerce and services | 178,627 | 9,195 | 75,316 | 2,191 | 3,217 | 36,932 | 23,443 | 150,294 | 28,333 | 3,914 |
| Construction | 54,152 | 12,919 | 32,974 | 1 | 250 | 2,502 | 2,347 | 50,993 | 3,159 | 599 |
| Energy | 10,279 | 71 | 8,641 | - | 18 | 5 | 27 | 8,762 | 1,517 | 56 |
| Financial services | 2,070 | - | 469 | - | 1 | - | 1,248 | 1,718 | 352 | 5 |
| Industrial and transportation | 87,808 | 1,543 | 48,628 | 2,110 | 104 | 6,017 | 11,820 | 70,222 | 17,586 | 2,585 |
| Investment companies | 27,089 | 1,536 | 6,325 | - | 10,400 | 67 | 8,020 | 26,348 | 741 | 535 |
| Public sector and non-profit organisations | 10,338 | 52 | 727 | - | - | 31 | 20 | 830 | 9,508 | 23 |
| Real estate | 121,835 | 17,757 | 99,832 | - | 111 | 346 | 912 | 118,958 | 2,877 | 1,085 |
| Seafood | 95,566 | 334 | 10,601 | 74,042 | 46 | 84 | 9,714 | 94,821 | 745 | 99 |
| Other financial assets | 10,530 | - | - | - | - | - | - | - | 10,530 | 12 |
| Off-balance sheet items: | 192,698 | 8,320 | 29,845 | 10,614 | 2,711 | 30 | 11,230 | 62,750 | 129,948 | 1,307 |
| Financial guarantees | 17,940 | - | 5,981 | 100 | 1,450 | - | 1,860 | 9,391 | 8,549 | 364 |
| Undrawn loan commitments | 76,199 | 8,320 | 12,341 | 4,685 | 804 | 30 | 2,958 | 29,138 | 47,061 | 670 |
| Undrawn overdrafts | 58,940 | - | 11,523 | 5,829 | 457 | - | 6,412 | 24,221 | 34,719 | 107 |
| Credit card commitments | 39,619 | - | - | - | - | - | - | - | 39,619 | 166 |
| **Total** | 1,722,908 | 556,055 | 323,963 | 88,962 | 30,711 | 61,038 | 68,930 | 1,129,659 | 593,249 | 12,392 |

Amounts are in ISK million

## Notes to the Condensed Consolidated Interim Financial Statements

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| At 31 December 2021<br>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 | 113,667 | - | - | - | - | - | - | - | 113,667 | 3 |
| Loans to credit institutions | 43,988 | - | - | - | - | - | - | - | 43,988 | 89 |
| Bonds and debt instruments | 132,289 | - | - | - | - | - | - | - | 132,289 | - |
| Derivatives | 21,547 | - | - | - | 9,722 | - | - | 9,722 | 11,825 | - |
| Loans to customers | 1,086,327 | 510,100 | 250,581 | 86,387 | 6,664 | 50,536 | 72,774 | 977,042 | 109,285 | 13,565 |
| Individuals | 520,733 | 460,898 | 9,317 | 21 | 205 | 15,756 | 198 | 486,395 | 34,338 | 2,192 |
| - Thereof mortgages | 457,800 | 454,684 | 1,417 | - | 194 | - | - | 456,295 | 1,505 | 1,023 |
| Commerce and services | 165,222 | 16,083 | 66,667 | 721 | 262 | 25,422 | 20,997 | 130,152 | 35,070 | 5,947 |
| Construction | 36,773 | 12,619 | 15,532 | 7 | 118 | 2,605 | 2,621 | 33,502 | 3,271 | 467 |
| Energy | 9,493 | 27 | 7,638 | - | 2 | 6 | 13 | 7,686 | 1,807 | 36 |
| Financial services | 1,978 | - | 475 | - | - | - | 1,472 | 1,947 | 31 | 3 |
| Industrial and transportation | 89,627 | 1,511 | 46,292 | 2,375 | 104 | 6,268 | 13,578 | 70,128 | 19,499 | 2,833 |
| Investment companies | 23,677 | 1,328 | 4,637 | - | 5,421 | 72 | 11,720 | 23,178 | 499 | 631 |
| Public sector and non-profit organisations | 9,987 | 85 | 738 | - | - | 45 | 3 | 871 | 9,116 | 20 |
| Real estate | 109,314 | 16,715 | 87,266 | - | 480 | 264 | 2,655 | 107,380 | 1,934 | 1,247 |
| Seafood | 119,523 | 834 | 12,019 | 83,263 | 72 | 98 | 19,517 | 115,803 | 3,720 | 189 |
| Other financial assets | 5,241 | - | - | - | - | - | - | - | 5,241 | 24 |
| Off-balance sheet items: | 164,262 | 4,230 | 32,611 | 12,306 | 1,902 | - | 20,515 | 71,564 | 92,698 | 1,001 |
| Financial guarantees | 18,830 | - | 6,614 | 370 | 1,434 | - | 1,503 | 9,921 | 8,909 | 453 |
| Undrawn loan commitments | 58,809 | 4,230 | 15,118 | 3,993 | 2 | - | 10,058 | 33,401 | 25,408 | 252 |
| Undrawn overdrafts | 56,573 | - | 9,512 | 7,874 | 351 | - | 8,505 | 26,242 | 30,331 | 172 |
| Credit card commitments | 30,050 | - | 1,367 | 69 | 115 | - | 449 | 2,000 | 28,050 | 124 |
| **Total** | 1,567,321 | 514,330 | 283,192 | 98,693 | 18,288 | 50,536 | 93,289 | 1,058,328 | 508,993 | 14,682 |

Amounts are in ISK million

## 42. Credit quality of financial assets

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

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

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

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

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

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2021 Report.

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

**At 30 September 2022**

| Loans to customers: | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Risk class 1-4 | 458,082 | 886 | - | 458,968 |
| Risk class 5-6 | 441,103 | 19,813 | - | 460,916 |
| Risk class 7-8 | 176,777 | 26,623 | - | 203,400 |
| Risk class 9 | 16,845 | 3,974 | - | 20,819 |
| Risk class 10 | - | - | 19,662 | 19,662 |
| Unrated | 170 | 2 | - | 172 |
| | 1,092,977 | 51,298 | 19,662 | 1,163,937 |
| Expected credit losses | ( 3,950) | ( 2,492) | ( 4,448) | ( 10,890) |
| **Net carrying amount** | 1,089,027 | 48,806 | 15,214 | 1,153,047 |

| Off-balance sheet loan commitments and financial guarantees: | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Risk class 1-4 | 94,310 | 274 | - | 94,584 |
| Risk class 5-6 | 53,089 | 5,736 | - | 58,825 |
| Risk class 7-8 | 29,355 | 6,708 | - | 36,063 |
| Risk class 9 | 630 | 294 | - | 924 |
| Risk class 10 | - | - | 2,063 | 2,063 |
| Unrated | 1,489 | 13 | 44 | 1,546 |
| | 178,873 | 13,025 | 2,107 | 194,005 |
| Expected credit losses | ( 696) | ( 360) | ( 251) | ( 1,307) |
| **Total** | 178,177 | 12,665 | 1,856 | 192,698 |

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## 42. Cont'd

**At 31 December 2021**

| Loans to customers: | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Risk class 1-4 | 398,524 | 1,775 | - | 400,299 |
| Risk class 5-6 | 377,063 | 42,650 | - | 419,713 |
| Risk class 7-8 | 180,421 | 53,444 | - | 233,865 |
| Risk class 9 | 16,445 | 7,889 | - | 24,334 |
| Risk class 10 | - | - | 21,576 | 21,576 |
| Unrated | 96 | 9 | - | 105 |
| | 972,549 | 105,767 | 21,576 | 1,099,892 |
| Expected credit losses | ( 3,830) | ( 3,804) | ( 5,931) | ( 13,565) |
| **Net carrying amount** | 968,719 | 101,963 | 15,645 | 1,086,327 |

| Off-balance sheet loan commitments and financial guarantees: | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Risk class 1-4 | 77,769 | 1,065 | - | 78,834 |
| Risk class 5-6 | 43,831 | 4,550 | - | 48,381 |
| Risk class 7-8 | 21,854 | 14,446 | - | 36,300 |
| Risk class 9 | 472 | 690 | - | 1,162 |
| Risk class 10 | - | - | 544 | 544 |
| Unrated | 38 | 4 | - | 42 |
| | 143,964 | 20,755 | 544 | 165,263 |
| Expected credit losses | ( 545) | ( 298) | ( 158) | ( 1,001) |
| **Total** | 143,419 | 20,457 | 386 | 164,262 |

## 43. Forbearance

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

The relationship between forbearance and stages is discussed in Note 66.4 in the consolidated financial statements for the year 2021.

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 tourism industry is an important economic sector in Iceland but due to the nature of the tourism business, its effects are not only limited to hotels, car rentals, and tour guides. The Group therefore monitors the tourism industry internally as a quasi-sector instead of a new separate sector.

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## 43. Cont'd

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

**At 30 September 2022**

| **Gross carrying amount** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Individuals | 5,238 | 2,020 | 1,059 | 8,317 |
| Companies | 20,264 | 32,937 | 7,455 | 60,656 |
| - In the tourism quasi-sector | 11,164 | 27,833 | 3,633 | 42,630 |
| - Other than the tourism quasi-sector | 9,100 | 5,104 | 3,822 | 18,026 |
| **Total** | 25,502 | 34,957 | 8,514 | 68,973 |

| **Expected credit losses** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Individuals | ( 21) | ( 52) | ( 87) | ( 160) |
| Companies | ( 130) | ( 1,890) | ( 2,675) | ( 4,695) |
| - In the tourism quasi-sector | ( 94) | ( 1,640) | ( 996) | ( 2,730) |
| - Other than the tourism quasi-sector | ( 36) | ( 250) | ( 1,679) | ( 1,965) |
| **Total** | ( 151) | ( 1,942) | ( 2,762) | ( 4,855) |

**At 31 December 2021**

| **Gross carrying amount** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Individuals | 3,920 | 3,989 | 1,453 | 9,362 |
| Companies | 17,500 | 68,081 | 9,076 | 94,657 |
| - In the tourism quasi-sector | 3,216 | 56,340 | 4,636 | 64,192 |
| - Other than the tourism quasi-sector | 14,284 | 11,741 | 4,440 | 30,465 |
| **Total** | 21,420 | 72,070 | 10,529 | 104,019 |

| **Expected credit losses** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Individuals | ( 25) | ( 78) | ( 135) | ( 238) |
| Companies | ( 102) | ( 2,719) | ( 3,543) | ( 6,364) |
| - In the tourism quasi-sector | ( 21) | ( 2,397) | ( 1,734) | ( 4,152) |
| - Other than the tourism quasi-sector | ( 81) | ( 322) | ( 1,809) | ( 2,212) |
| **Total** | ( 127) | ( 2,797) | ( 3,678) | ( 6,602) |

Amounts are in ISK million

## 44. Write-offs

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.

| **Gross carrying amount written off and still subject to enforcement activity*** | 2022<br>1.1-30.9 | 2021<br>1.1-30.9 |
|---|---|---|
| Individuals | 129 | 220 |
| Companies | 59 | 248 |
| **Total** | 188 | 468 |

*Comparative figures have been changed with immaterial effects.

## 45. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by regulation no. 233/2017 on prudential requirements for financial undertakings. The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of article (1)(a) of the Act on Financial Undertakings no. 161/2002, where groups of connected clients are defined. Since the interim financial statements for the third quarter of the year are not audited, the official capital is based on reviewed own fund items at 30 June 2022.

The exposure is evaluated both before and after credit risk mitigating effects. After mitigating effects, the Group currently has one large exposure. No large exposure is above the maximum 25% large exposure limit set by the law.

**At 30 September 2022**

| Groups of connected clients: | Before | After |
|---|---|---|
| Group 1 | 77% | 7% |
| Group 2 | 11% | 11% |

**At 31 December 2021**

| Group of connected clients: | Before | After |
|---|---|---|
| Group 1 | 100% | 7% |

## 46. Liquidity risk

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

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

Amounts are in ISK million

## 47. Liquidity coverage and net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratios and the rules on funding ratios. In addition, the Group complies with the Financial Supervisory Authority of the Central Bank's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 266/2017.

The minimum LCR ratio that the Group is required to maintain is 100% for the total LCR and LCR in foreign currencies. For LCR in ISK, the requirement is 40% in 2022 and 50% as of 2023. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 30 September 2022 and at year-end 2021.

| **Net stable funding ratio** | 30.9.2022 | 31.12.2021 |
|---|---|---|
| For all currencies | 127% | 122% |
| Foreign currencies | 257% | 157% |

| **Liquidity coverage ratio** | 30.9.2022 | 31.12.2021 |
|---|---|---|
| For all currencies | 371% | 156% |
| ISK | 119% | 141% |
| Foreign currencies | 421% | 235% |

| | For all currencies | | ISK | | Foreign currencies | |
|---|---|---|---|---|---|---|
| **At 30 September 2022** | Unweighted | Weighted | Unweighted | Weighted | Unweighted | Weighted |
| Liquid assets level 1* | 166,811 | 166,811 | 120,575 | 120,575 | 46,236 | 46,236 |
| Liquid assets level 2 | 25,912 | 20,120 | 25,875 | 20,120 | 37 | - |
| **Total liquid assets** | 192,723 | 186,931 | 146,450 | 140,695 | 46,273 | 46,236 |
| Deposits | 650,484 | 169,354 | 545,659 | 129,700 | 104,825 | 39,654 |
| Debt issued | 1,345 | 1,345 | 1,292 | 1,292 | 53 | 53 |
| Other outflows | 77,916 | 30,959 | 52,289 | 26,694 | 25,627 | 4,265 |
| **Total outflows** | 729,745 | 201,658 | 599,240 | 157,686 | 130,505 | 43,972 |
| Short-term deposits with other banks** | 123,328 | 113,786 | 1,029 | 5 | 122,299 | 113,781 |
| Other inflows | 63,014 | 43,938 | 55,639 | 39,264 | 7,375 | 4,674 |
| Restrictions on inflows | - | ( 6,482) | - | - | - | ( 85,476) |
| **Total inflows** | 186,342 | 151,242 | 56,668 | 39,269 | 129,674 | 32,979 |
| **Liquidity coverage ratio** | | 371% | | 119% | | 421% |
| **At 31 December 2021** | | | | | | |
| Liquid assets level 1* | 214,480 | 214,480 | 184,282 | 184,282 | 30,198 | 30,198 |
| Liquid assets level 2 | 45,559 | 16,404 | 41,415 | 16,404 | 4,144 | - |
| **Total liquid assets** | 260,039 | 230,884 | 225,697 | 200,686 | 34,342 | 30,198 |
| Deposits | 618,940 | 173,789 | 542,616 | 145,478 | 76,324 | 28,311 |
| Debt issued | 15,464 | 15,464 | 66 | 66 | 15,398 | 15,398 |
| Other outflows | 99,162 | 37,587 | 69,796 | 29,940 | 29,366 | 7,647 |
| **Total outflows** | 733,566 | 226,840 | 612,478 | 175,484 | 121,088 | 51,356 |
| Short-term deposits with other banks** | 43,997 | 42,135 | 3,040 | 2,118 | 40,957 | 40,017 |
| Other inflows | 51,161 | 36,692 | 43,385 | 30,540 | 7,776 | 6,152 |
| Restrictions on inflows | - | - | - | - | - | ( 7,653) |
| **Total inflows** | 95,158 | 78,827 | 46,425 | 32,658 | 48,733 | 38,516 |
| **Liquidity coverage ratio** | | 156% | | 141% | | 235% |

*Level 1 liquid assets include cash and balances with the Central Bank, domestic bonds and foreign government bonds in accordance with rules no. 266/2017 on liquidity ratio.

**Short-term deposits with other banks with maturity less than 30 days.

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## 47. Cont'd

### Deposits by liquidity coverage ratio category

The Group's deposits are categorised by counterparty according to the Liquidity Coverage Ratio (LCR) standard. The groups are listed in order of estimated stability and the respective LCR outflow weight. Deposits are also classified as stable if the customer has an established business relationship with the Bank and is covered by an effective insurance scheme.

| | Deposits maturing within 30 days | | | | | |
|---|---|---|---|---|---|---|
| **At 30 September 2022** | Less stable | Weight (%) | Stable | Weight (%) | Term deposits | Total deposits |
| Individuals | 89,191 | 14% | 198,563 | 5% | 76,365 | 364,119 |
| Small and medium enterprises | 67,599 | 13% | 57,962 | 5% | 6,768 | 132,329 |
| Operational relationships | 4,359 | 25% | - | 5% | - | 4,359 |
| Corporations | 144,830 | 40% | 3,295 | 20% | 30,872 | 178,997 |
| Sovereigns, Central Bank and public sector entities | 13,043 | 40% | 1,136 | 20% | 7,701 | 21,880 |
| Pension funds | 22,851 | 100% | - | - | 15,812 | 38,663 |
| Domestic financial entities | 42,852 | 100% | - | - | 5,862 | 48,714 |
| Foreign financial entities | 4,803 | 100% | - | - | 7,662 | 12,465 |
| **Total** | 389,528 | | 260,956 | | 151,042 | 801,526 |

| | Deposits maturing within 30 days | | | | | |
|---|---|---|---|---|---|---|
| **At 31 December 2021** | Less stable | Weight (%) | Stable | Weight (%) | Term deposits | Total deposits |
| Individuals | 78,319 | 13% | 204,340 | 5% | 66,643 | 349,302 |
| Small and medium enterprises | 58,774 | 12% | 57,685 | 5% | 6,185 | 122,644 |
| Operational relationships | 3,260 | 25% | - | 5% | - | 3,260 |
| Corporations | 110,682 | 40% | 2,913 | 20% | 29,279 | 142,874 |
| Sovereigns, Central Bank and public sector entities | 8,168 | 40% | 1,115 | 20% | 559 | 9,842 |
| Pension funds | 45,346 | 100% | - | - | 18,269 | 63,615 |
| Domestic financial entities | 41,894 | 100% | - | - | 12,522 | 54,416 |
| Foreign financial entities | 6,444 | 100% | - | - | 5,023 | 11,467 |
| **Total** | 352,887 | | 266,053 | | 138,480 | 757,420 |

## 48. Maturity analysis of financial assets and financial liabilities

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

Bonds and debt instruments are based on contractual maturity and therefore do not represent 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.

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# Notes to the Condensed Consolidated Interim Financial Statements

48. Cont'd

| **At 30 September 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 | 46,121 | 27,445 | - | - | - | - | 73,566 | 73,566 |
| Loans to credit institutions | 61,539 | 75,630 | - | - | - | - | 137,169 | 137,169 |
| Bonds and debt instruments | - | 25,072 | 58,964 | 38,189 | 5,229 | - | 127,454 | 127,454 |
| Derivatives | - | 3,752 | 1,833 | 2,482 | - | - | 8,067 | 6,895 |
| - Net settled derivatives | - | 1,666 | - | - | - | - | 1,666 | 1,666 |
| - Inflow | - | 40,333 | 23,410 | 13,326 | - | - | 77,069 | 60,065 |
| - Outflow | - | ( 38,247) | ( 21,577) | ( 10,844) | - | - | ( 70,668) | ( 54,836) |
| Loans to customers | 703 | 94,815 | 110,512 | 308,569 | 638,448 | - | 1,153,047 | 1,153,047 |
| Shares and equity instruments | - | - | - | - | - | 24,472 | 24,472 | 24,472 |
| Other financial assets | 10,084 | 335 | 111 | - | - | - | 10,530 | 10,530 |
| **Total financial assets** | 118,447 | 227,049 | 171,420 | 349,240 | 643,677 | 24,472 | 1,534,305 | 1,533,133 |
| | | | | | | | | |
| Deposits from CB and credit institutions | 4,426 | 8,888 | 1,867 | 5,140 | - | - | 20,321 | 19,912 |
| Deposits from customers | 655,977 | 66,765 | 40,631 | 33,345 | 33,175 | - | 829,893 | 781,614 |
| Derivatives instrument and short positions | - | 4,015 | 4,530 | 9,036 | ( 517) | - | 17,064 | 13,996 |
| - Net settled derivatives | - | 948 | - | - | - | - | 948 | 948 |
| - Inflow | - | ( 34,054) | ( 23,883) | ( 39,133) | ( 958) | - | ( 98,028) | ( 79,590) |
| - Outflow | - | 37,121 | 28,407 | 48,082 | 334 | - | 113,944 | 92,505 |
| - Short positions | - | - | 6 | 87 | 107 | - | 200 | 133 |
| Debt issued and other borrowed funds | - | 3,502 | 24,613 | 443,454 | 96,522 | - | 568,091 | 458,969 |
| Subordinated loans | - | 407 | 1,242 | 17,976 | 24,214 | - | 43,839 | 32,156 |
| Other financial liabilities | 10,855 | 1,170 | 1,422 | 1,964 | 1,723 | - | 17,134 | 16,787 |
| - Lease liabilities | - | 143 | 406 | 1,869 | 1,723 | - | 4,141 | 3,794 |
| - Other liabilities | 10,855 | 1,027 | 1,016 | 95 | - | - | 12,993 | 12,993 |
| **Total financial liabilities** | 671,258 | 84,747 | 74,305 | 510,915 | 155,117 | - | 1,496,342 | 1,323,434 |
| | | | | | | | | |
| **Total net financial assets and financial liab.** | ( 552,811) | 142,302 | 97,115 | ( 161,675) | 488,560 | 24,472 | 37,963 | 209,699 |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 48. Cont'd

| At 31 December 2021 | 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 | 39,278 | 74,389 | - | - | - | - | 113,667 | 113,667 |
| Loans to credit institutions | 24,327 | 19,661 | - | - | - | - | 43,988 | 43,988 |
| Bonds and debt instruments | - | 25,420 | 38,495 | 63,315 | 5,059 | - | 132,289 | 132,289 |
| Derivatives | - | ( 1,737) | 1,227 | 2,497 | - | - | 1,987 | 2,445 |
| - Net settled derivatives | - | 579 | - | - | - | - | 579 | 579 |
| - Inflow | - | 40,945 | 6,895 | 29,424 | - | - | 77,264 | 67,150 |
| - Outflow | - | ( 43,261) | ( 5,668) | ( 26,927) | - | - | ( 75,856) | ( 65,284) |
| Loans to customers | 1,153 | 89,452 | 114,436 | 304,623 | 576,663 | - | 1,086,327 | 1,086,327 |
| Shares and equity instruments | - | - | - | - | - | 31,677 | 31,677 | 31,677 |
| Other financial assets | 4,712 | 373 | 156 | - | - | - | 5,241 | 5,241 |
| **Total financial assets** | 69,470 | 207,558 | 154,314 | 370,435 | 581,722 | 31,677 | 1,415,176 | 1,415,634 |
| | | | | | | | | |
| Deposits from CB and credit institutions | 5,403 | 4,022 | - | 4,101 | - | - | 13,526 | 13,384 |
| Deposits from customers | 621,391 | 62,356 | 43,950 | 25,254 | 28,357 | - | 781,308 | 744,036 |
| Derivatives instrument and short positions | - | 5,683 | 1,429 | 5,368 | 1,454 | - | 13,934 | 9,467 |
| - Net settled derivatives | - | 2,986 | - | - | - | - | 2,986 | 2,986 |
| - Inflow | - | ( 55,405) | ( 18,216) | ( 33,280) | - | - | ( 106,901) | ( 85,961) |
| - Outflow | - | 58,086 | 19,486 | 36,950 | - | - | 114,522 | 90,492 |
| - Short positions | - | 16 | 159 | 1,698 | 1,454 | - | 3,327 | 1,951 |
| Debt issued and other borrowed funds | - | 22,948 | 78,045 | 315,021 | 54,676 | - | 470,690 | 402,226 |
| Subordinated loans | - | 292 | 732 | 16,784 | 27,285 | - | 45,093 | 35,762 |
| Other financial liabilities | 3,434 | 1,739 | 1,157 | 1,858 | 2,047 | - | 10,235 | 9,681 |
| - Lease liabilities | - | 129 | 387 | 1,829 | 2,047 | - | 4,392 | 3,838 |
| - Other liabilities | 3,434 | 1,610 | 770 | 29 | - | - | 5,843 | 5,843 |
| **Total financial liabilities** | 630,228 | 97,040 | 125,313 | 368,386 | 113,819 | - | 1,334,786 | 1,214,556 |
| **Total net financial assets and financial liab.** | ( 560,758) | 110,518 | 29,001 | 2,049 | 467,903 | 31,677 | 80,390 | 201,078 |

### Off-balance sheet liabilities

The following table 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 overdraft or credit card limits 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.

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Financial guarantees | 18,304 | 19,283 |
| Undrawn loan commitments | 76,869 | 59,061 |
| Undrawn overdrafts | 59,047 | 56,745 |
| Credit card commitments | 39,785 | 30,174 |
| **Off-balance sheet liabilities** | 194,005 | 165,263 |

Amounts are in ISK million

## 49. Market risk

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

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

## 50. Interest rate risk

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

### Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing and Construction Authority which are guaranteed by the Icelandic Government, domestic municipality bonds, and covered bonds issued by other Icelandic banks. Bonds and bills in the Group's liquidity portfolio are also categorised in the trading book. In the following table the total market value (MV) of long and short positions may not be the same as reported in Note 15 since netting between short and long positions is not applied here.

| | 30.9.2022 | | | 31.12.2021 | | |
|---|---|---|---|---|---|---|
| **Trading bonds and debt instruments, long positions** | MV | Duration | BPV | MV | Duration | BPV |
| Indexed | 4,127 | 7.76 | ( 3.20) | 548 | 6.59 | ( 0.36) |
| Non-indexed | 113,793 | 0.69 | ( 7.80) | 95,996 | 0.91 | ( 8.75) |
| **Total** | 117,920 | 0.94 | ( 11.00) | 96,544 | 0.94 | ( 9.11) |
| **Trading bonds and debt instruments, short positions** | | | | | | |
| Indexed | 465 | 5.00 | 0.25 | 215 | 9.00 | 0.20 |
| Non-indexed | 60 | 2.00 | 0.01 | 148 | 1.00 | 0.02 |
| **Total** | 525 | 4.66 | 0.26 | 363 | 5.74 | 0.22 |
| **Net position of trading bonds and debt instruments** | 117,395 | 0.92 | ( 10.74) | 96,181 | 0.92 | ( 8.89) |

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## 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.

**Sensitivity analysis for interest rate risk in the banking book***

**At 30 September 2022**

| Currency | 0-3 months | 3-12 months | 1-2 years | 2-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|---|
| ISK, indexed | 22 | ( 26) | 365 | ( 4,175) | 2,858 | ( 504) | (1,460) |
| ISK, non-indexed | 22 | ( 34) | ( 134) | ( 1,007) | ( 7) | ( 43) | (1,203) |
| EUR | 192 | 210 | 174 | ( 86) | - | - | 490 |
| SEK | 51 | ( 19) | - | - | - | - | 32 |
| USD | 42 | - | - | - | - | - | 42 |
| Other | 39 | ( 1) | 2 | ( 5) | - | - | 35 |
| **Total** | 368 | 130 | 407 | ( 5,273) | 2,851 | ( 547) | ( 2,064) |

**At 31 December 2021**

| Currency | 0-3 months | 3-12 months | 1-2 years | 2-5 years | 5-10 years | Over 10 years | Total |
|---|---|---|---|---|---|---|---|
| ISK, indexed | 6 | 121 | ( 117) | ( 2,428) | 2,858 | ( 670) | ( 230) |
| ISK, non-indexed | ( 34) | 2 | 502 | ( 2,071) | 745 | - | ( 856) |
| EUR | ( 18) | 25 | ( 518) | 582 | - | - | 71 |
| SEK | 64 | - | - | - | - | - | 64 |
| USD | - | ( 10) | - | - | - | - | ( 10) |
| Other | 39 | ( 12) | - | ( 5) | - | - | 22 |
| **Total** | 57 | 126 | ( 133) | ( 3,922) | 3,603 | ( 670) | ( 939) |

*Comparative figures have been changed with immaterial effects.

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## 51. Currency risk

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

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

| **At 30 September 2022** | EUR | USD | GBP | CHF | JPY | SEK | NOK | DKK | CAD | Other foreign currencies | Total foreign currencies |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 572 | 344 | 143 | 41 | 8 | 45 | 43 | 95 | 31 | 144 | 1,466 |
| Loans to credit institutions | 70,993 | 25,617 | 1,660 | 374 | 761 | 13,804 | 13,066 | 8,418 | 652 | 114 | 135,459 |
| Bonds and debt instruments | 26,600 | 5,720 | 13 | - | - | 3,210 | 9,241 | - | - | - | 44,784 |
| Loans to customers | 116,301 | 33,699 | 339 | 643 | 2,480 | 41 | 2,854 | 135 | 1,565 | - | 158,057 |
| Shares and equity instruments | 184 | 292 | 145 | - | - | 1,271 | - | - | - | - | 1,892 |
| Other assets | 101 | 82 | - | - | - | 26 | 54 | 1 | - | - | 264 |
| **Total assets** | 214,751 | 65,754 | 2,300 | 1,058 | 3,249 | 18,397 | 25,258 | 8,649 | 2,248 | 258 | 341,922 |
| Deposits from credit institutions | 7,185 | 1,704 | 15 | - | - | - | 7 | - | - | - | 8,911 |
| Deposits from customers | 42,277 | 45,791 | 3,924 | 625 | 438 | 1,071 | 3,840 | 9,589 | 388 | 9 | 107,952 |
| Debt issued and other borrowed funds | 203,813 | 12,469 | - | - | - | 11,643 | 23,781 | - | - | - | 251,706 |
| Subordinated loans | - | - | - | - | - | 32,156 | - | - | - | - | 32,156 |
| Other liabilities | 84 | 46 | - | - | - | 24 | 51 | 1 | - | 7 | 213 |
| **Total liabilities** | 253,359 | 60,010 | 3,939 | 625 | 438 | 44,894 | 27,679 | 9,590 | 388 | 16 | 400,938 |
| **Net on-balance sheet position** | ( 38,608) | 5,744 | ( 1,639) | 433 | 2,811 | ( 26,497) | ( 2,421) | ( 941) | 1,860 | 242 | ( 59,016) |
| **Net off-balance sheet position** | 37,491 | ( 6,400) | 1,564 | ( 427) | ( 2,815) | 26,333 | 2,426 | 909 | ( 1,859) | ( 371) | 56,851 |
| **Net position** | ( 1,117) | ( 656) | ( 75) | 6 | ( 4) | ( 164) | 5 | ( 32) | 1 | ( 129) | ( 2,165) |

Amounts are in ISK million

51. Cont'd

| **At 31 December 2021** | EUR | USD | GBP | CHF | JPY | SEK | NOK | DKK | CAD | Other foreign currencies | Total foreign currencies |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 659 | 350 | 183 | 43 | 15 | 47 | 65 | 89 | 26 | 164 | 1,641 |
| Loans to credit institutions | 12,297 | 15,080 | 967 | 400 | 724 | 261 | 10,095 | 331 | 586 | 189 | 40,930 |
| Bonds and debt instruments | 9,612 | 3,910 | 32 | - | - | 5,040 | 10,320 | - | - | - | 28,914 |
| Loans to customers | 124,674 | 41,409 | 1,071 | 994 | 2,903 | 59 | 3,263 | 3,011 | 3,863 | 20 | 181,267 |
| Shares and equity instruments | 2,311 | 386 | 343 | - | - | 1,881 | - | - | - | - | 4,921 |
| Other assets | 13 | 390 | - | - | - | 4 | - | 1 | - | - | 408 |
| **Total assets** | 149,566 | 61,525 | 2,596 | 1,437 | 3,642 | 7,292 | 23,743 | 3,432 | 4,475 | 373 | 258,081 |
| Deposits from credit institutions | 7,802 | 336 | 15 | - | - | - | 8 | 2 | - | - | 8,163 |
| Deposits from customers | 38,846 | 29,637 | 3,763 | 442 | 708 | 831 | 2,813 | 2,258 | 340 | 29 | 79,667 |
| Debt issued and other borrowed funds | 133,709 | - | - | - | - | 12,951 | 41,255 | - | - | - | 187,915 |
| Subordinated loans | - | - | - | - | - | 35,762 | - | - | - | - | 35,762 |
| Other liabilities | 629 | 226 | - | - | - | 3 | - | 43 | - | - | 901 |
| **Total liabilities** | 180,986 | 30,199 | 3,778 | 442 | 708 | 49,547 | 44,076 | 2,303 | 340 | 29 | 312,408 |
| **Net on-balance sheet position** | ( 31,420) | 31,326 | ( 1,182) | 995 | 2,934 | ( 42,255) | ( 20,333) | 1,129 | 4,135 | 344 | ( 54,327) |
| **Net off-balance sheet position** | 31,200 | ( 30,849) | 893 | ( 990) | ( 2,924) | 42,157 | 20,148 | ( 1,114) | ( 4,113) | ( 408) | 54,000 |
| **Net position** | ( 220) | 477 | ( 289) | 5 | 10 | ( 98) | ( 185) | 15 | 22 | ( 64) | ( 327) |

Amounts are in ISK million

# Notes to the Condensed Consolidated Interim Financial Statements

## 52. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 250 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| Bonds and debt instruments | 4,552 | 1,169 |
| Loans to customers | 271,004 | 247,426 |
| **Total CPI-linked assets** | 275,556 | 248,595 |
| Deposits from customers | 104,341 | 93,806 |
| Debt issued and other borrowed funds | 137,035 | 140,051 |
| Off-balance sheet exposures | 9,225 | 14,697 |
| **Total CPI-linked liabilities** | 250,601 | 248,554 |
| **CPI imbalance** | 24,955 | 41 |

## 53. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 30 September 2022 and 31 December 2021.

The Group's regulatory capital requirement is calculated according to CRD IV 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.

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 1 July 2022 maintain an additional capital requirement of 2.6% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.9%. In September 2022 a countercyclical capital buffer of 2% was reintroduced in Iceland. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

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

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| **Own funds** | | |
| Ordinary share capital | 10,000 | 10,000 |
| Share premium | 55,000 | 55,000 |
| Reserves | 7,919 | 6,086 |
| Retained earnings | 138,694 | 132,624 |
| Third quarter profit | ( 7,486) | - |
| IFRS 9 reversal due to transitional rules | 1,220 | 2,768 |
| Fair value changes due to own credit standing | ( 512) | 1,054 |
| Foreseeable dividend payment and approved buyback* | ( 20,533) | ( 11,863) |
| Tax assets | ( 97) | ( 94) |
| Intangible assets | ( 3,282) | ( 3,351) |
| **CET1 capital** | 180,923 | 192,224 |
| Additional Tier 1 capital | 9,547 | 10,626 |
| **Tier 1 capital** | 190,470 | 202,850 |
| Tier 2 capital | 22,609 | 25,136 |
| **Total capital base** | 213,079 | 227,986 |

Amounts are in ISK million

53. Cont'd

| | 30.9.2022 | 31.12.2021 |
|---|---|---|
| **Risk exposure amount** | | |
| Due to credit risk | 906,891 | 802,147 |
| Due to market risk | 21,343 | 17,100 |
| - Market risk, trading book | 19,171 | 16,223 |
| - Currency risk | 2,172 | 877 |
| Due to credit valuation adjustment | 4,182 | 1,829 |
| Due to operational risk | 80,570 | 80,570 |
| **Total risk exposure amount** | 1,012,986 | 901,646 |
| | | |
| **Capital ratios** | | |
| CET 1 ratio | 17,9% | 21.3% |
| Tier 1 ratio | 18,8% | 22.5% |
| Total capital ratio | 21,0% | 25.3% |
| **Capital ratios including third quarter profit**** | | |
| CET 1 ratio | 18,2% | 21.3% |
| Tier 1 ratio | 19,2% | 22.5% |
| Total capital ratio | 21,4% | 25.3% |
| | | |
| **Leverage ratio** | | |
| **Exposure amount** | | |
| On-balance sheet exposures | 1,539,107 | 1,422,930 |
| Off-balance sheet exposures | 64,985 | 49,220 |
| Derivative exposures | 29,438 | 21,615 |
| **Leverage ratio total exposure measure** | 1,633,529 | 1,493,765 |
| Tier 1 capital | 190,470 | 202,850 |
| **Leverage ratio** | 11.7% | 13.6% |
| **Leverage ratio including third quarter profit**** | 11.9% | 13.6% |

*The Annual General Meeting of Íslandsbanki hf. held on 17 March 2022 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 15 billion, which is within the 10% authorisation from the AGM. The approved amount of ISK 15 billion is subtracted from the capital base. The capital distribution is subject to market conditions. The target dividend payment amounting to 50% of the Group's profit for the first half of 2022 is also deducted from the capital base but since the third quarter profit is not yet included in the capital base there is no subtraction arising from the dividend policy.

**Where the capital and leverage ratios are shown including third quarter profit, ISK 3.743 million has been subtracted from the capital base as is expected from the 50% dividend policy.

Amounts are in ISK million

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