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

Consolidated Financial Statements

2023

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Highlights

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ÍSLENSKA ÁNÆGJUVOGIN 2023
ÍSLENSKA ÁNÆGJUVOGIN 2022
ÍSLENSKA ÁNÆGJUVOGIN 2021
ÍSLENSKA ÁNÆGJUVOGIN 2020
ÍSLENSKA ÁNÆGJUVOGIN 2019

Credit rating

BBB
with positive outlook

S&P Global Ratings

ESG risk rating

SUSTAINALYTICS

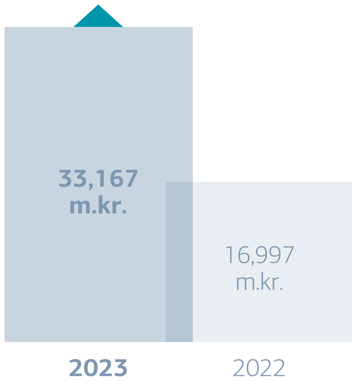
Sustainalytics considers Landsbankinn at exceedingly low risk of experiencing material financial impacts from ESG factors.

BREEAM certification

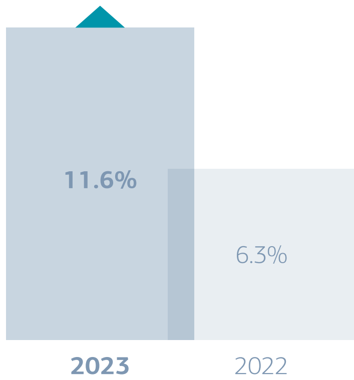
BREEAM ★★★★ EXCELLENT

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

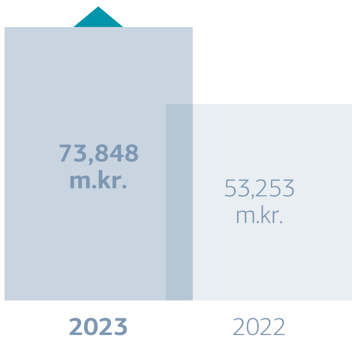
Profit



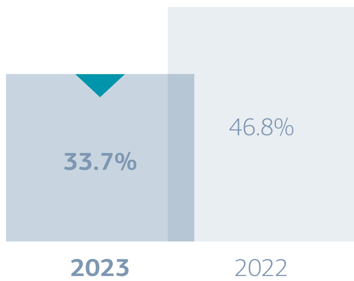
Return on equity



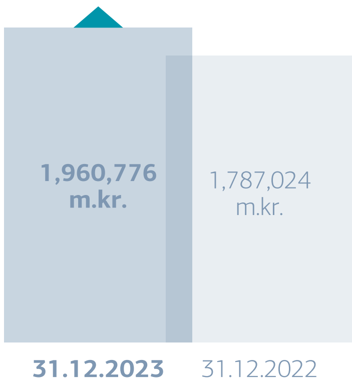
Total operating income



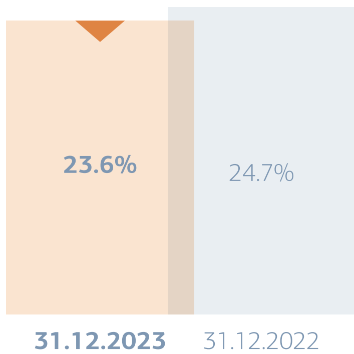
Cost-income ratio



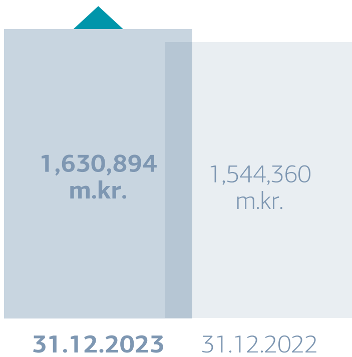
Total assets



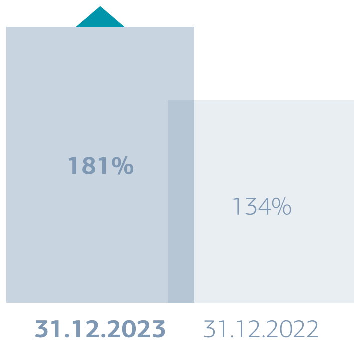
Total capital ratio



Loans and advances to customers



Total liquidity coverage ratio (LCR)



Report of the Board of Directors and the CEO

The Board of Directors and CEO of Landsbankinn hf. (“Landsbankinn” or the “Bank”) submit this report together with the audited Consolidated Financial Statements of Landsbankinn hf. for the year 2023, which include the accounts of the Bank and its subsidiaries (collectively referred to as the “Group”).

About the Bank

Landsbankinn is a leading financial institution in Iceland, offering universal financial services to individuals, corporates and investors. Landsbankinn’s purpose is to be trusted bank for the future.

The strategy Landsbankinn, an ever-smarter bank, aims to simplify life for customers by offering more accessible, secure and also personal banking services. The strategy is achieved by emphasising sound operation of the Bank, building on the use of technology, the ability and will to evolve and develop the Bank’s success-driven corporate culture. The strategy is supported by four pillars: satisfied customers, continuous development, passion for success and positive impact. The strategy responds to changes in society, the opportunities and challenges technological developments offer and the Bank’s ambition to make life simpler for customers and the Bank itself a desirable workplace that has a positive impact on Icelandic society.

The strategy is followed up by common goals set by the Board of Directors, executives and employees. Landsbankinn has in recent years achieved a great deal of success in altering its service and increasing the weight of self-service, improved access to banking service through its app and a new approach to branch and service centre activities. In order to develop and evolve, the Bank must be technically strong, its operation sound and employee involvement ensured.

Landsbankinn was ranked highest by banking customers in the Icelandic Performance Satisfaction Index 2023. This is the fifth year in a row that the Bank receives this recognition. Customer satisfaction is reflected in the increase in market share, both on the retail and corporate side. Image and reputation are an important part of the customer experience.

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

Financial performance in 2023

Consolidated profit amounted to ISK 33,167 million in 2023 (2022: ISK 16,997 million). Return on equity was 11.6% (2022: 6.3%) and the Bank’s cost-income ratio was 33.7% (2022: 46.8%). Net interest income increased by 24% between years, to ISK 57,559 million. Net fee and commission income increased by 5.0% between years, to ISK 11,153 million. Net gain on financial assets and liabilities at fair value was ISK 6,719 million (2022: ISK 7,963 million net loss), most of which is due to an increase in the fair value of listed bonds. Net credit impairment charges were ISK 3,120 million in the year (2022: ISK 2,473 million net release), thereof ISK 1,670 million collective allowance related to natural disaster on the Reykjanes peninsula. The difference between years is mainly the result of non-performing loans and the aforementioned natural disaster plus an unusual net release last year caused by the reversal of a collective allowance after economic uncertainty created by Covid-19 had eased. Salaries and related expenses amounted to ISK 15,866 million in 2023, up by 9.6% between years, mainly as a result of contractual wage increases. The average number of full-time equivalent positions during the year in 2023 was 849 (2022: 843).

At year-end 2023, consolidated total equity amounted to ISK 303,754 million and total assets amounted to ISK 1,960,776 million, with the balance sheet growing by 9.7%, or ISK 174 billion, between years. The Group’s capital adequacy ratio, calculated according to the Act on Financial Undertakings, was 23.6% at year-end 2023 (2022: 24.7%)¸well above current regulatory requirements.

The Bank anticipates that return on equity in 2024 will be 11-13%. Main risks are described in the section Risk factors below.

Funding

Customer deposits are the Bank’s primary source of funding. Total customer deposits grew by ISK 81 billion, or 8.3% between years, and amounted to ISK 1,049 billion at year-end 2023. EMTN-issuance on international capital markets and issuance of covered bonds on the domestic and international capital market has been the Bank’s main source of market funding. The carrying amount of such funding increased by ISK 34 billion in 2023. Issuance on international markets was successful and the demand and terms reflect improved access to international credit markets following some setback in access to capital markets by smaller issuers during the post pandemic period.

In September 2023, the Bank exercised its call option and fully redeemed Landsbankinn’s EUR 100 million callable subordinated Tier 2 bond series maturing in September 2028.

In March 2023, the Bank concluded an auction of new inflation-indexed series of Tier 2 bonds in the amount of ISK 12,000 million. The bonds have a 10NC5 structure and are callable on each subsequent interest payment date.

Credit rating

In November 2023, S&P confirmed Landsbankinn's credit rating of BBB/A-2 and revised the outlook from stable to positive. The positive outlook reflects S&P's expectation that economic risks facing Iceland's banks are receding.

In the same month, S&P raised its rating on covered bonds issued by Landsbankinn. The upgrade brings the rating to A+ from A and outlook is revised from positive to stable. The upgrade followed S&P's announcement earlier in November, raising the sovereign ratings for Iceland. The decision is also supported by Iceland's effective resolution regime and the potential jurisdictional support and the portfolio of assets backing the bonds.

Risk factors

In general, the Bank's risk measurements and assessment of material risk factors are positive with a stable outlook. Loans past due in the Bank's portfolio remain historically low, its capital ratio is strong and all key risk factors are generally within risk appetite at year-end 2023.

Credit risk continues to be the most significant risk in the Bank's operation, amounting to 89% of the Bank's total risk-weighted exposure amount (RWEA). The carrying amount of loans to customers increased by ISK 87 billion in 2023.

The second most significant risk in the Bank's operation is operational risk. The Bank has placed great emphasis on defending its customers from cyberattacks. The Bank has been certified under the ISO 27001 information security standard for over 15 years and the certification is one of the main pillars of the its cybersecurity.

The Bank's liquidity position is strong at year-end 2023. The aggregate liquidity coverage ratio (LCR) was 181%, 129% in ISK and 1,499% in EUR.

The Bank's market risk, measured as the ratio of risk-weighted assets (RWA) to total RWEA was 1.6% at year end (year-end 2022: 1.7%) and has been well within risk appetite throughout 2023.

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

Further information about the Group's risk and capital management is included in notes to the Consolidated Financial Statements and in the Bank's Pillar III Risk Report for 2023, both published to the Bank's website, www.landsbankinn.is.

Equity and capital management

In June 2023, the Financial Supervisory Authority of the Central Bank of Iceland notified Landsbankinn of the results of the annual Supervisory Review and Evaluation Process (SREP) and its decision on the Group's capital requirements. The Group is required to maintain a total minimum capital of 10.8% of its risk exposure amount (REA) at each time as of 30 June 2023, with the requirement under Pillar II-R decreasing by 0.6 percentage points from the previous SREP. The Group's total capital requirement is thus 20.2% of REA at the end of the year 2023 and is comprised of a minimum capital requirement of 8.0%, a 2.8% additional capital requirement and a total capital buffer requirement of 9.4% (see Note 47).

In October 2023, the Central Bank of Iceland's Resolution Authority announced its latest MREL decision for the Bank. The MREL decision entails that the Bank must satisfy a 21.6% MREL requirement, as a percentage of total risk-weighted exposure amount (TREA) (see Note 49).

Around mid-March 2023, the Financial Stability Committee (FSC) of the Central Bank of Iceland decided to raise the countercyclical capital buffer (CCyB) from 2.0% to 2.5%, with an effective date twelve months later, i.e. on 16 March 2024. The FSC reasoned, inter alia, that even though the banks are resilient, external risks are growing, both on the assets side and on the liabilities side due to conditions on asset markets and funding markets, respectively. The main drivers of the increase in cyclical systemic risk are the surge in real estate prices and high inflation levels, which affect household debt service and repayment capacity. Inflation has proven persistent, both domestically and internationally, and interest rate levels are high. Market funding of the domestic banking system has grown more expensive and elevated uncertainty on international funding markets has pushed credit spreads upwards. Fixed interest rate terms on non-indexed loans will expire in the coming two years. The FSC concluded that there was reason for the banks to further strengthen their resilience by holding sufficient capital.

The Bank's aim is to maintain a total capital ratio above 22% at any given time and be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 48).

Dividends

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

Dividends (continued)

The 2023 Annual General Meeting (AGM) of Landsbankinn, held on 23 March, approved the motion of the Board of Directors to pay shareholders a dividend of ISK 0.36 per share for the fiscal year 2022 in two instalments. The first payment of ISK 0.18 per share was made to shareholders on 29 March 2023 and the second payment of ISK 0.18 per share on 20 September 2023. The total dividend amounts to ISK 8,504 million, the equivalent of about 50% of the profit for the year 2022.

The AGM in March renewed the authorisation of the Bank to acquire up to 10% of the nominal value of own shares. This authorisation is valid until the 2024 AGM.

The Board of Directors intends to propose to the 2024 AGM, scheduled to be held on 20 March this year, that the Bank pay a dividend of ISK 16,535 million to shareholders in accordance with the dividend policy. Calculation of the Group's capital ratios as at year-end 2023 already reflects this foreseeable dividend payment.

Economic developments

Economic growth slowed down significantly as the year 2023 progressed. Growth measured 7.0% in the first quarter, 4.7% in the second and a mere 1.1% in the third quarter. Domestic demand contracted between years in the third quarter, private consumption by 1.7% and capital formation by 4.3%. Growth was due almost solely to contracting import.

The year 2023 was the second largest tourist year from the beginning, with 2.2 million tourists visiting Iceland. Travellers from the US remain the largest customer group of the Icelandic hospitality industry by far, with British visitors helping to equalise seasonal fluctuations with frequent visits in winter.

Inflation measured 6.7% in January 2024, receding by an entire percentage point between months. The slow-down in the economy helps alleviate inflationary pressure and Landsbankinn Economic Research expects that inflation will continue to recede in coming months, down to around 5% in April. Housing prices were not as determining a driver of inflation in 2023 as in 2022.

The key interest rate of the Central Bank of Iceland was raised by 3.25 percentage points in 2023, from 6% at the beginning of the year to 9.25% at year end. Interest rate hikes have certainly helped dampen inflation, first by having a cooling effect on the housing market and now increasingly by reducing general demand in the economy.

Population growth has never been as high as in the past two years, with the rapid tension that descended on the labour market post-pandemic blowing up demand for foreign labour and with restrictions lifted on international travel. Unemployment decreased rapidly and hit a low at 2.8% in July 2023. It then rose moving into fall in line with cyclical changes and measured 3.6% in December.

Economic development in coming months is shrouded in uncertainty, depending largely on the outcome of collective bargaining and the resulting impact on inflation expectations. Collective bargaining agreements for a major part of the labour market are up for re-negotiation soon. The social partners appear more in sync than the previous year and have encouraged the authorities to step in to facilitate negotiations and help keep wage increases conservative. Economic development in Iceland also depends largely on the international outlook, where uncertainty caused by conflicts and war can still have a major impact.

Ownership

Shareholders of the Bank at year-end 2023 numbered 849 as compared with 851 the previous year. The ten largest shareholders at year-end 2023 were as follows:

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

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

Ownership (continued)

The 2023 AGM renewed the authorisation of the Bank to acquire own shares of up to 10% of the nominal value of Landsbankinn's share capital. The objective of the buyback programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner. The authorisation is valid until the forthcoming 2024 AGM. The authorisation was not exercised in the accounting year of 2023.

Governance

It is Landsbankinn's aim to promote good corporate governance for the overall benefit of the Bank, its shareholders, customers and the community. The Bank's governance is based on the Icelandic laws and regulations that pertain to its operation and apply to financial institutions and the financial market.

In accordance with the seventh paragraph of Article 54 of Act No. 161/2002, on Financial Undertakings, the Bank shall comply with recognised guidelines on corporate governance. The "Guidelines on Corporate Governance", published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers have become the accepted standard and the most recent edition was published 1 July 2021 (6th ed.). The Bank complies with the Guidelines with the exception of that it has not adopted a policy to ensure diversity among directors, executives and key managers, and that the AGM has not appointed a Nomination Committee. Further details are disclosed in Sections 2 and 5 of the Bank's annual corporate governance statement for 2023.

Landsbankinn's corporate governance statement for 2023 has been reviewed by the Board of Directors, the Audit Committee, and the CEO. Further information about the Bank's governance practices is disclosed in the statement, published as an unaudited appendix to the 2023 Consolidated Financial Statements of the Bank on its website, www.landsbankinn.is.

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

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

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

The Board of Directors of Landsbankinn was re-elected in its entirety at the Bank's 2023 AGM. Helga Björk Eiríksdóttir was re-elected Chairman of the Board. Other re-elected Directors of the Board are: Berglind Svavarsdóttir, who is also Vice-chairman, Elín H. Jónsdóttir, Guðbrandur Sigurðsson, Guðrún Ó. Blöndal, Helgi F. Arnarson and Thorvaldur Jacobsen. Re-elected alternates are: Sigríður Olgeirsdóttir and Sigurður Jón Björnsson.

The Board of Directors of Landsbankinn holds ultimate authority on all questions between shareholders' meetings and is responsible for the Bank's activities and operations as provided for by law, its Articles of Association and other rules relevant to the company's operation. The Board of Directors ensures that control of accounting and financial management is satisfactory. There are four sub-committees to the Board of Directors: The Audit Committee, the Remuneration Committee, the Risk Committee and the Sustainability Committee. The Sustainability Committee is a new sub-committee of the Board and contributes to and enhances the Board's discussions and strategic decision-making on sustainability.

The Board of Directors hires the CEO and Internal Auditor. The Bank's CEO hires managing directors who are each in charge of a division and, together with the CEO, form the Bank's Executive Board. Currently, three women and five men sit on the Executive Board and respectively make up 37.5% and 62.5% of the Board. Bank's CEO is responsible for the Bank's day-to-day operations and is authorised to take decisions on all questions not entrusted to others by law, the Bank's Articles of Association or decisions by the Board of Directors. Landsbankinn's Executive Board is a forum for consultation and decision-making by the CEO and managing directors. The CEO has also appointed four cross-disciplinary standing committees with the aim of ensuring collaboration and implementation of the Bank's strategy: The Credit Committee, the Risk & Finance Committee (RAFC), the Operational Risk Committee and the Project Committee.

The Board of Directors underwent a performance evaluation in December 2023 and January 2024. The activities and work of the Board of Directors in 2023 were evaluated. Also up for evaluation was information disclosure, strategy development and future vision, the performance of Directors, exchange of opinions, the work of sub-committees of the Board and the performance of the Chairman.

No remarks were received from supervisory entities in 2023 concerning violations of laws or regulations leading to penalties. Information about main legal proceedings involving Landsbankinn is included in the notes to the Consolidated Financial Statements.

Sustainability

Landsbankinn has worked systematically on sustainability issues since its initial disclosure on sustainability in 2011. The Bank's approach has since evolved and, in 2021, a new Sustainability Policy was implemented across all divisions. In 2023, the Policy was again revised, sharpening the focus on the sustainability goals the Bank has set to maximise its positive impact. Landsbankinn is working on including a sustainability risk assessment in investment decisions, especially as regards responsible investment and lending, as defined in the Sustainability Policy. Landsbankinn has adopted eight sustainability goals based on its Sustainability Policy.

In 2023, a new sub-committee of the Board of Directors was formed. The Sustainability Committee is tasked with reviewing sustainability issues. With this step, the Bank has integrated sustainability in its strategy as the Committee's main responsibilities are to formulate a sustainability strategy, develop and standardise sustainability metrics, review disclosure and publication of sustainability data, compliance with laws and rules on sustainability, and ensure continuous education of the Board on sustainability concerns.

Publication of the Sustainable Finance Framework was part of the Bank's sustainable journey and it sets out criteria for the funding of environmental and social initiatives. It was initially published in January 2021 and was most recently updated now in January 2024. The Framework is based on ICMA's guidelines, the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines and its categories were compared with the requirements set out in the EU Taxonomy. It is published with a second-party opinion by Sustainalytics and clearly defines the projects that contribute to sustainability and ensures transparency. An annual impact report on sustainable funding contains a review of the loans the Bank's green bond issuance funds and information about which categories of the Framework they fit into. The impact report is verified by a third party (Deloitte) who confirms the accuracy of information disclosed in the report and compliance with the criteria of the Sustainable Finance Framework.

The Bank takes a new step by including in its sustainability accounts for the first time information about its green asset ratio (GAR) in accordance with Regulation (EU) No. 2020/852 which entered into effect in Iceland 1 June 2023. The object of GAR disclosure is to show the weight of sustainability in a balance sheet as defined in the EU Taxonomy. This disclosure will initially be limited, mainly because of lack of data and because key sectors, such as fisheries and seafood, have to date not been defined under the Taxonomy.

The Bank assesses carbon emission from its loan portfolio using the PCAF methodology and the emission accounts are verified with limited assurance by Deloitte. Landsbankinn maintains and publishes emission accounts in its Annual and Sustainability Report. The Annual and Sustainability Report is published in accordance with the principles of the Global Reporting Initiative (GRI) and the emission accounts are kept in accordance with the Greenhouse Gas Protocol. Both the Annual and Sustainability Report and the emission accounts are verified by Deloitte. Emissions from the Bank's loan and asset portfolios are not included in its carbon equalisation. The Bank aims to reduce emissions under Scope 1, i.e. its direct emissions, by around 80% by 2025 compared with 2018 emissions and by around 100% in 2030. Landsbankinn has agreed to maintain its carbon neutral status under CarbonNeutral® from 2020 onwards.

According to Sustainalytics' ESG risk rating, Landsbankinn continues to lead the field on an international level. The Bank scored 8.5 in the 2023 ESG risk assessment, its lowest score yet on a scale of 1 to 100 where the goal is to achieve as low a rating as possible. Sustainalytics considers Landsbankinn at negligible risk of experiencing material financial impacts from ESG factors. Landsbankinn also received an excellent score in an ESG risk rating by Reitun, or 90 out of 100 in class A3.

Detailed information on sustainability is provided in Landsbankinn's sustainability accounts, published alongside the Group's annual financial statements for 2023 on the Bank's website, www.landsbankinn.is.

Human resources

In 2023, the Bank moved its activities and 600 employees from 14 office buildings in central Reykjavík and other locations to new headquarters at Reykjastræti 6 in Reykjavík city centre. The move was successful and there is great satisfaction among employees as all facilities are top notch. Emphasis was placed on cultivating a positive corporate culture that inevitably changes when such a large step is taken. Corporate culture is constantly evolving and the work environment is a large and important influence on both culture and success.

A new Human Resources Policy was implemented in 2023 and the Bank's Code of Conduct revised. The aim of implementing a new Human Resources Policy in 2023 was to better reflect the new work environment and contribute to momentum and drive. The Policy is based on work sessions with employees that aimed at clarifying what an attractive workplace is, the corporate culture Landsbankinn wishes to maintain, how to foster employee welfare and a good work environment. An updated Code of Conduct was introduced at year-end 2023. The revised version is based on a solid tradition and aims to make the Code more accessible to employees and modernise its presentation. The Code of Conduct is a guideline for professional and ethical behaviour.

Equality has long been emphasised at the Bank and work is based on a clear equality policy and plan. At Landsbankinn, all individuals are given equal opportunities for job development and are measured by their own worth. The Bank has maintained equal pay certification since early 2019. Landsbankinn aims to close the wage gap as nearly as possible at 0%, taking care that it never exceeds 2.5% in either direction. The gendered wage gap was 1.1-1.8% in 2023. Discrimination based on gender, race, sexual orientation, religion or nationality is never tolerated. Revision of the equality policy began in 2023 to ensure that it aligns with modern development and reflects the workplace. A work group comprised of employees from the Bank's various divisions was formed for this purpose.

Compliance

Landsbankinn places great emphasis on complying with laws and rules in all respects and on sound and proper business practices. The regulatory environment on the financial market is complex and has undergone considerable changes in recent years. Landsbankinn has in place appropriate procedures to monitor regulatory developments and respond to changed demands in a timely manner.

The Bank's Compliance function provides its other units with supervision and support to fulfil appropriate requirements. Employees receive regular training and instruction about current legal requirements and additional instruction when change occurs, in addition to having ready access to advice within the Bank.

In December 2023, the FSA published a transparency notification that is the result of a review carried out in April 2022 on Landsbankinn's anti-money laundering and terrorist financing measures. Certain remarks were made as regards the Bank's defences but the FSA did not see reason to fine or otherwise penalise the Bank. The Bank agrees with the remarks and has already taken corrective action in most instances, in response to the FSA's demands. Stringent and detailed demands are made of the Bank as relates to money laundering and terrorist financing and emphasis is placed on compliance. The Compliance function emphasises increasing oversight and improving efficiency in measures to protect customer against fraud. Work continued on increasing efficiency in internal control with risk-based action and stepping-up data utilisation. This process continues in 2024. Various improvements were made to the Bank's measures to combat money laundering and terrorist financing, as well as the Bank's measures to prevent conflict of interest.

Privacy

The Bank continues to place great emphasis on the protection of personal data in all its operation. This includes implementing appropriate requirements about privacy and data protection throughout the Bank's rules and work processes, as well as ensuring that employees receive regular training and instruction about privacy and the processing of personal data. A revised ESG risk rating from Sustainalytics concluded that the Bank's processes and information disclosure on privacy and data protection were exemplary.

Other matters

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

Following seismic activity in Grindavík and a volcanic activity in the vicinity of the town in late 2023, Landsbankinn applied unusual measures to Grindavík customers. Having first offered all retail customers with mortgages a six-month payment deferral, it was decided to cancel interest and inflation-indexation on Grindavík mortgages for a three-month period. In January 2024, there was another eruption even closer to the town and it was decided to extend the cancellation period for another three months.

In the third quarter of 2023, Landsbankinn finished moving its activities to new headquarters at Reykjastræti 6 in Reykjavík. Construction cost of the entire building for the Bank is estimated at ISK 16.5 billion. The sales value of real estate assets is estimated at around ISK 7.8 billion and annual savings of around ISK 600 million are achieved in operating efficiencies. The total square area of the building is 21,500 m2, including 16,500 m2 designated as office and commercial space, and the Bank utilises around 60%, or 10,000 m2, for own purposes.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn for 2023 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) accounting standards, as adopted by the European Union and compliant with applicable Icelandic laws and regulations.

In our opinion, the Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, its consolidated financial performance and consolidated cash flows for the year 2023. Furthermore, the Consolidated Financial Statements, including the report of the Board of Directors and the CEO, describe the principal risks and uncertainties facing the Group.

The Board of Directors and Chief Executive Officer of the Bank endorse the Consolidated Financial Statements of Landsbankinn for the year 2023 with their electronic signatures. The Board of Directors and the CEO recommend that the Annual General Meeting of Landsbankinn approve the Consolidated Financial Statements.

Reykjavík, 1 February 2024

Board of Directors

Helga Björk Eiríksdóttir, Chairman of the Board
Berglind Svavarsdóttir, Vice-chairman
Elín H. Jónsdóttir
Guðbrandur Sigurðsson
Guðrún Ó. Blöndal
Helgi F. Arnarsson
Þorvaldur Jacobsen

Chief Executive Officer

Lilja Björk Einarsdóttir

Independent Auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Landsbankinn hf. and its subsidiaries (the group) for the year 2023, excluding the Board of Directors and CEO report.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at December 31, 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS accounting standards as adopted by the European Union (EU), and applicable articles in Icelandic law on annual accounts.

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

The consolidated financial statements comprise

- Report of the Board of Directors and CEO
- Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the Year ended 31 December 2023
- Consolidated Statement of Financial Position as at 31 December 2023
- Consolidated Statement of Changes in Equity for the Year ended 31 December 2023
- Consolidated Statement of Cash Flows for the Year ended 31 December 2023
- Notes to the consolidated financial statements, which include material accounting policies and other explanatory information

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

Basis for opinion

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

Independence

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

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

The non-audit services that we have provided to the group and its subsidiaries, in the year from 1 January 2023 to 31 December 2023, are disclosed in note 13 to the consolidated financial statements.

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

Key Audit Matters

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

Key audit matter	Audit procedures
Impairment allowance of loans to customers *Refer to the Note 83.11 (g) "Material accounting Policies - Impairment of financial assets", Note 3 (b) "Critical accounting estimates and judgements in applying accounting policies - Impairment losses on loans and advances", Note 24 "Loans and advances to customers" and Note 60 "Impairment allowance on loans and advances".* Allowance for impairment on loans and advances to customers amounted to ISK 11.374 million at 31 December 2023. Loans and advances to customers amounted to ISK 1.630.894 million or 83% of total assets as at 31 December 2023, against which impairment allowances have been recorded. The amount of impairment allowance is based on assumptions, many of which are subject to management's assessment. In assessing expected credit losses (ECL), the Group uses a forward-looking model in accordance with International Financial Reporting Standard no. 9, Financial Instruments (IFRS 9). Important criteria for evaluation are: - probability of default and future cash flows of customers; - how changes in economic factors affect expected credit losses; and - assessment of collateral - Post-model-adjustments to reflect uncertainties not captured in the ECL models Given the high level of judgement involved in determining impairment, and the significance of loans and advances to customers of the Group's balance sheet, we consider the impairment allowance to be a key audit matter.	Our audit included a combination of testing of internal controls over financial reporting in the Groups lending processes and substantive testing of impairment allowances. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. We performed tests of the Group's impairment models and evaluated the methodology and challenged assumptions for calculating the ECL models. We reviewed the Group's models and utilised PwC's model experts in reviewing the ECL models in accordance with the requirements set out in IFRS 9. Our audit procedures included, among other: - verification of assumptions used in the ECL models to assess the probability of defaults and future customer cash flows; - verification of registrations and assessments of collateral used in the calculation of the ECL models; - testing of key reconciliations, validations and approvals in regards to impairment; - sample testing of loans to substantiate the assumptions used in the ECL models, including an examination of the assumptions used to classify loans into relevant stages together with an assessment of collateral and credit rating; - we involved PwC model experts to independantly reperform the calculation of ECL models for a sample of loans; - sample testing of stage 3 loans that are individually assessed to verify whether appropriate criteria are used in determining the value of the loans, including the value of collateral and the assessment of future customers' cash flows; - evaluation of the assumptions used to develop the post-model-adjustments to reflect uncertainties not captured in the ECL models and reviewed that governance procedures have been performed. We assessed the disclosures related to impairment allowance.

Key audit matter	Audit procedures
Valuation of Level 3 financial instruments - unlisted shares Refer to Note 83.11 (f) "Material accounting policies - Fair value measurement", Note 3 (c) "Critical accounting estimates and judgements in applying accounting policies - Valuation of financial instruments", Note 15 "Classification and fair values of financial assets and liabilities" Financial assets measured at fair value amounted to ISK 190.257 million, which is a total of 10% of total assets on 31 December 2023. A significant part of the financial assets are listed on the market as of the balance sheet reporting date. Unlisted shares are categorised within Level 3 of the fair value hierarchy. The value of these shares amounts to ISK 10.168 million or 0,5% of total assets at the end of 2023. The portion of the portfolio that required special attention in our audit refers to unlisted shares. These financial instruments are valued based on models and certain assumptions that are not observable by third parties. Therefore, this item is a key audit matter. Valuation methods can include recent transactions with unrelated parties, a reference to the fair value of comparable financial instruments, discounted cash flows, price formation models or other valuation techniques that indicate a reliable valuation of other transactions on the market.	Our audit included a combination of testing of internal controls over financial reporting in the Group valuation processes and substantive testing unlisted shares categorised as Level 3 financial instruments. Our audit procedures included, among other: - We obtained an understanding of and evaluated the investment process. The methodology and criteria for valuation were reviewed and compared with common criteria for comparable assets. - We reviewed and evaluated data inputs on which calculations and assumptions of valuation methods were based. - We recalculated a sample of unlisted shares and utilised PwC valuation experts in the assessment of the valuation of the unlisted shares. - We reviewed the classification of shares in the fair value hierarchy. We assessed the disclosures related to the valuation of level 3 financial instruments.

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

The Board of Directors and the CEO are responsible for other information. The other information comprises of highlights on page 1, Report of the Board of Directors and the CEO, consolidated key figures notes 84 to 86 and appendix about the corporate governance statement and appendix about Green Asset Ratio (GAR) report, which we obtained prior to the date of this auditor’s report.

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

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

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

Responsibilities of the Board of Directors and the CEO

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

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

Reykjavík, 1 February 2024

PricewaterhouseCoopers ehf.

Arna G. Tryggvadóttir
State authorized public accountant

Consolidated Income Statement for the Year ended 31 December 2023

Notes		2023	2022
	Interest income	150,848	102,009
	Interest expense	(93,289)	(55,545)
6	**Net interest income**	**57,559**	**46,464**
	Fee and commission income	15,977	15,343
	Fee and commission expense	(4,824)	(4,720)
7	**Net fee and commission income**	**11,153**	**10,623**
8	Net gain (loss) on financial assets and liabilities at FVTPL	6,719	(7,963)
9	Net foreign exchange gain	560	100
10	Net impairment changes	(3,120)	2,473
11	Other income and (expenses)	977	1,556
	Net other operating income	**5,136**	**(3,834)**
	Total operating income	**73,848**	**53,253**
12	Salaries and related expenses	(15,866)	(14,474)
13	Other operating expenses	(10,092)	(9,289)
83.9	Tax on liabilities of financial institutions	(2,290)	(2,097)
	Total operating expenses	**(28,248)**	**(25,860)**
	Profit before tax	**45,600**	**27,393**
14	Income tax	(12,433)	(10,396)
	Profit for the year	**33,167**	**16,997**
	Profit for the year attributable to:		
	Owners of the Bank	33,167	16,997
	Non-controlling interests	0	0
	Profit for the year	**33,167**	**16,997**
	Earnings per share:		
37	Basic and diluted earnings per share from operations (ISK)	**1.40**	**0.72**

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2023

Notes		2023	2022
	Profit for the year	33,167	16,997
	Other comprehensive income for the year, after tax	0	0
	Total comprehensive income for the year	**33,167**	**16,997**

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

Landsbankinn hf. Consolidated Financial Statements 2023 13 All amounts are in ISK million

Consolidated Statement of Financial Position as at 31 December 2023

Notes		2023	2022
	Assets		
19, 69	Cash and balances with Central Bank	75,350	42,216
20	Bonds and debt instruments	148,182	125,265
21	Equities and equity instruments	19,012	19,106
22	Derivative instruments	7,459	3,073
23, 69	Loans and advances to financial institutions	54,101	28,621
24, 69	Loans and advances to customers	1,630,894	1,544,360
25	Investments in equity-accounted associates	1,849	1,950
26	Property and equipment	14,768	13,060
27	Intangible assets	1,472	1,729
28	Other assets	6,828	7,136
29	Assets classified as held for sale	861	508
	Total assets	**1,960,776**	**1,787,024**
	Liabilities		
30	Due to financial institutions and Central Bank	29,968	6,634
31	Deposits from customers	1,048,537	967,863
22	Derivative instruments and short positions	2,788	1,478
32, 69	Borrowings	513,687	476,864
33	Tax liabilities	14,647	12,480
34	Other liabilities	27,219	20,861
35	Subordinated liabilities	20,176	21,753
	Total liabilities	**1,657,022**	**1,507,933**
36	**Equity**		
	Share capital	23,621	23,621
	Share premium	120,593	120,593
	Reserves	11,432	11,986
	Retained earnings	148,108	122,891
	Total equity attributable to owners of the Bank	**303,754**	**279,091**
	Non-controlling interests	0	0
	Total equity	**303,754**	**279,091**
	Total liabilities and equity	**1,960,776**	**1,787,024**

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

Landsbankinn hf. Consolidated Financial Statements 2023 14 All amounts are in ISK million

Consolidated Statement of Changes in Equity for the Year ended 31 December 2023

Notes		Attributable to owners of the Bank								
				Reserves*						
	Change in equity for the year 2023	**Share capital**	**Share premium**	**Statutory reserve**	**Unrealised gains in subsidiaries and equity-accounted associates reserve**	**Fair value changes of financial assets designated at FVTPL**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
	Balance as at 1 January 2023	23,621	120,593	6,000	2,774	3,212	122,891	279,091		279,091
	Profit for the year						33,167	33,167		33,167
	Transferred (from) to restricted reserves				803	(1,357)	554	0		0
	Dividends allocated						(8,504)	(8,504)		(8,504)
36	**Balance as at 31 December 2023**	**23,621**	**120,593**	**6,000**	**3,577**	**1,855**	**148,108**	**303,754**	**0**	**303,754**
	Change in equity for the year 2022									
	Balance as at 1 January 2022	23,621	120,594	6,000	5,272	12,319	114,839	282,645		282,645
	Profit for the year						16,997	16,997		16,997
	Transferred (from) to restricted reserves				(2,498)	(9,107)	11,605	0		0
	Purchase of own shares		(2)					(2)		(2)
	Dividends allocated						(20,550)	(20,550)		(20,550)
36	**Balance as at 31 December 2022**	**23,621**	**120,593**	**6,000**	**2,774**	**3,212**	**122,891**	**279,091**	**0**	**279,091**

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

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

Landsbankinn hf. Consolidated Financial Statements 2023 15 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2023

Notes		2023	2022
	Operating activities		
	Profit for the year	33,167	16,997
	Adjustments for non-cash items included in profit for the year	(45,649)	(27,479)
	Changes in operating assets and liabilities	(20,635)	(10,915)
	Interest received	131,453	84,609
	Interest paid	(81,355)	(47,051)
	Dividends received	302	241
	Tax on liabilities of financial institutions paid	(2,109)	(2,013)
	Income tax and special income tax on financial institutions paid	(10,450)	(6,798)
	Net cash from operating activities	**4,724**	**7,591**
	Investing activities		
26	Purchase of property and equipment	(2,445)	(6,716)
26	Proceeds from sale of property and equipment	15	6,675
27	Purchase of intangible assets	(61)	(179)
	Sale of equity-accounted associates	-	242
	Investing activities	**(2,491)**	**22**
	Financing activities		
32	Proceeds from borrowings	141,246	59,976
32	Repayment of borrowings	(116,542)	(76,915)
	Rent paid	(564)	(695)
35	Procceds from subordinated liabilities	12,000	-
35	Repayment of subordinated liabilities	(14,400)	-
36	Purchase of own shares	-	(2)
36	Dividends paid	(8,504)	(20,550)
	Financing activities	**13,236**	**(38,186)**
	Cash and cash equivalents as at the beginning of the year	52,636	84,388
	Net change in cash and cash equivalents	15,469	(30,573)
	Effect of exchange rate changes on cash and cash equivalents held	(630)	(1,179)
	Cash and cash equivalents as at the end of the year	**67,475**	**52,636**

	Cash and cash equivalents is specified as follows:		
19	Cash and balances with Central Bank	75,350	42,216
23	Bank accounts with financial institutions	17,821	21,759
19	Mandatory and special restricted balances with Central Bank	(25,696)	(11,339)
	Cash and cash equivalents as at the end of the year	**67,475**	**52,636**

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

Landsbankinn hf. Consolidated Financial Statements 2023 16 All amounts are in ISK million

Consolidated Statement of Cash Flows for the Year ended 31 December 2023

Notes		2023	2022
	Adjustments for non-cash items included in profit for the year		
6	Net interest income	(57,559)	(46,464)
8	Net (gain) loss on financial assets and liabilities at FVTPL	(6,719)	7,963
9	Net foreign exchange loss	70	1,079
10, 60	Net impairment changes	3,120	(2,473)
11	Gain on sale of property and equipment	(74)	(572)
11	Net income on repossessions	(654)	(547)
13	Depreciation and amortisation	1,550	1,425
11	Share of profit of equity-accounted associates	(106)	(233)
	Profit on sale of associates	-	(150)
83.9	Tax on liabilities of financial institutions	2,290	2,097
14	Income tax	12,433	10,396
		(45,649)	**(27,479)**
	Changes in operating assets and liabilities		
	Change in reserve requirement with Central Bank	(14,357)	1,959
	Change in bonds and equities	(14,900)	29,858
	Change in loans and advances to financial institutions	(26,334)	26,250
	Change in loans and advances to customers	(75,484)	(124,938)
	Change in other assets	(5,415)	(1,446)
	Change in assets classified as held for sale	238	912
	Change in due to financial institutions and Central Bank	23,044	(3,792)
	Change in deposits from customers	81,936	61,621
	Change in deferred tax liability	138	(58)
	Change in other liabilities	10,499	(1,281)
		(20,635)	**(10,915)**

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

Landsbankinn hf. Consolidated Financial Statements 2023 17 All amounts are in ISK million

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Notes to the Consolidated Financial Statements

General

1. Reporting entity

Landsbankinn hf. (hereinafter referred to as the "Bank" or "Landsbankinn") was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings. The Bank is subject to supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities. The registered address of the Bank's office is Reykjastræti 6, Reykjavík. Landsbankinn operates an extensive branch network in Iceland, comprised of 34 branches and service points at year-end 2023.

The Consolidated Financial Statements of the Bank for the year ended 31 December 2023 include the Bank and its subsidiaries (collectively referred to as the "Group" and individually as "Group entities"). The Group's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

2. Basis of preparation

These Consolidated Financial Statements for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standard (IFRS) accounting standards, as adopted by the European Union. The Consolidated Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

The Consolidated Financial Statements were approved and authorised for publication by the Board of Directors and the CEO of Landsbankinn on 1 February 2024.

Material accounting policies are summarised in Note 83.

Going concern

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

Functional and presentation currency

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

3. Critical accounting estimates and judgements in applying accounting policies

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

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

(a) Classification of financial instruments

Financial instruments under IFRS 9 are accounted for according to their classification. Professional judgement is applied and determination of the appropriate classification depends on the contractual cash flows of the financial asset (the Solely Payments of Principal and Interest (SPPI) test) and the objective of the business model within which the financial instrument is held. For further details on the accounting for these instruments under IFRS 9, see Note 83.11.

(b) Impairment losses on loans and advances

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

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

Expected credit loss depends on whether the credit risk has increased significantly since initial recognition. A significant increase in credit risk is defined in Note 83.11(g). If the credit risk has not increased significantly, the loss allowance equals the expected credit losses resulting from loss events that are possible within the next 12 months (Stage 1). If the credit risk has increased significantly, the allowance measured equals the lifetime expected credit losses (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

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

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

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

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

Effect of natural disaster on the Reykjanes penisula on the financial statements

The Bank responded to the damages caused by seismic and volcanic activity in the town of Grindavík in various ways, including as a party to an agreement, concluded under the auspices of the Icelandic Financial Services Association, to cancel interest and inflation-indexation of mortgages lent to the inhabitants of Grindavík. This cancellation was limited to interest and indexation on loans in the maximum amount of ISK 50 million and includes interest and indexation on payments as well as accrued indexation on the total loan balance during a three- month period. At year-end 2023, the Bank has therefore recognised a provision of ISK 245 million as a result of the cancellation.

On 18 January 2024, the Bank extended the cancellation period by another three months. The expected provision for this extension amounts to another ISK 245 million in addition to the ISK 245 million provision at year-end 2023.

This was an unusual and unprecedented action, as lenders carry no legal obligation to recompense customers for damages caused by natural disaster. Going forward, the Bank cannot be expected to respond in a similar manner. The legal and contractual obligation rests with insurance firms, Natural Catastrophe Insurance Iceland (NTI) and, as the case may be, Icelandic authorities. Pricing of mortgages does not factor in the cost of natural disaster. The Bank nevertheless has a certain scope to respond in extraordinary circumstances, if it is deemed in the interest of the Bank and its customers. That was the case here.

The Bank has also offered retail customers a mortgage payment holiday for up to six months. Cancellation of interest and indexation for six months and a payment holiday for six months has been applied to the largest part of Grindavík mortgages. Corporate customers in Grindavík have also been offered a temporary payment holiday in response to the situation, yet only a small part had taken advantage of the solution at year-end 2023.

Landsbankinn operates a branch in Grindavík. It has been closed since 13 November 2023. Service to the Bank's customers has been diverted to other branches, the Customer Service Centre and digital channels. All employees of the Grindavík branch continue in the Bank's employ, variously through remote work or other branches.

Credit risk on Grindavík customers

The majority of corporate loans are to the travel and hospitality sector, and the fisheries and seafood sector. Retail lending is mainly in the form of mortgages secured on real estate in Grindavík. The table shows by customer type the Bank's maximum exposure to credit risk for Grindavík at year-end 2023.

As at 31 December 2023	Book value	Off balance sheet	Maximum credit risk exposure
Public entities	-	3	3
Individuals	13,308	608	13,916
Mortgages	12,141	-	12,141
Other	1,167	608	1,775
Corporates	36,234	4,129	40,363
Total	49,542	4,740	54,282

Collateral types securing the above loans are disclosed in the table below. The value of each underlying collateral cannot exceed the gross carrying amount of loans secured by the collateral.

As at 31 December 2023	Real estate*	Vessels	Deposits	Securities	Other	Total
Public entities	-	-	-	-	-	0
Individuals	13,147	-	1	-	362	13,510
Mortgages	12,735	-	1	-	136	12,872
Other	412	-	-	-	226	638
Corporates	16,700	14,439	291	4,363	960	36,753
Total	29,847	14,439	292	4,363	1,322	50,263

* Real estate valuation is based mainly on official property valuation at year-end 2023, published by the Icelandic Housing and Construction Authorityor estimated market value. In most cases, the fire insurance value of real estate in Grindavík, published by the same authority, is higher than the aforementioned valuation.

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Notes to the Consolidated Financial Statements

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

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

Assessment of expected credit loss

There is considerable uncertainty about seismic and volcanic activity in the region going forward, as well as the final impact of such events. The same holds for the final impact on customers and the Bank's loan portfolio. Icelandic authorities have taken action to support individuals and companies in Grindavík and have promised on-going support. The scope of such action may impact the financial position of the Bank's customers. All real estate in Iceland is insured, by the Natural catastrophe insurance of Iceland, against direct damages caused by natural disasters.

The Bank has assessed the need for impairment in response to natural disaster on the Reykjanes peninsula and has made allowance in the amount of ISK 1,836 million at year-end 2023. Of this amount, ISK 1,670 million is a collective allowance or post-model adjustment, made for increased risk not adequately captured under general impairment assessment. For the purpose of the collective allowance assessment of loans to Grindavík customers, loans are grouped on the basis of similar risk characteristics. The assessment is made using expert judgement, that considers the potential impact on payment capacity and collateral value, using different scenarios capturing potential further developments and the eventual severity of the natural disaster.

Economic forecasts

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

The following table shows certain key economic variables used to calculate the ECL allowance. At the reporting date, the baseline forecast of Landsbankinn Economic Research projects 3,2% GDP growth in 2023. The forecasts for the upside, baseline and downside scenarios show averages for the 12-month outlook and to the medium-term forecast horizon. The upside scenario is given 10% weight (31 December 2022: 15%), the baseline 70% weight (31 December 2022: 70%) and the downside scenario 20% weight (31 December 2022: 15%). The scenarios were approved by the Bank's Valuation Team on 18 December 2023.

	Upside scenario		Base case senario		Downside scenario	
As at 31 December 2023	**Next 12 Months**	**Remainder of the Forecast year**	**Next 12 Months**	**Remainder of the Forecast year**	**Next 12 Months**	**Remainder of the Forecast year**
GDP growth	7.0%	9.5%	2.1%	2.5%	(2.8%)	(4.6%)
Unemployment rate	2.2%	1.2%	3.9%	4.3%	5.5%	7.5%
Base rate	7.0%	2.0%	8.8%	6.2%	10.5%	10.3%
Inflation	4.0%	1.0%	6.5%	5.3%	9.1%	9.5%
EUR/ISK exchange rate,	133.1	106.8	149.3	146.5	165.6	186.1
Housing Price index, y/y	11.3%	17.2%	3.9%	4.4%	(3.4%)	(8.4%)
Household indebtedness	42.5%	31.2%	51.6%	52.6%	60.8%	73.9%

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

	2023			2022		
	Upside scenario	**Base senario**	**Downside senario**	**Upside scenario**	**Base senario**	**Downside senario**
Allowance for impairment (Stage 1 and Stage 2)	4,335	5,882	8,336	3,482	5,439	8,584
Proportion of assets in Stage 2	3.7%	4.2%	5.2%	3.1%	3.6%	5.3%

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Notes to the Consolidated Financial Statements

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

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

Economic forecasts (continued)

	Reported under IFRS 9	
	2023	**2023**
Allowance for impairment (stage 1 and stage 2)	6,217	5,615

(c) Valuation of financial instruments

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

(d) Determination of control over investees

Management applies professional judgement to determine whether the control indicators set out in Note 83.1 Consolidation and non-controling interests, indicate that the Group controls an investee.

4. Changes in accounting policies

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

Interest rate benchmark reform

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

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

At year-end 2023, the IBOR reform had been completed in respect of currencies to which the Group has exposure except for USD, which had been partially completed. Reform of the remaining exposures of USD LIBOR is scheduled to be completed in autumn 2024. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

As at 31 December 2023	Currency	Benchmark before reform	Benchmark after reform	Status
	CHF	CHF LIBOR	SONAR	Completed
	GBP	GBP LIBOR	SONIA	Completed
	EUR	EURIBOR	EURIBOR, €STR	Completed
	JPY	JPY LIBOR	TONAR	Completed
	USD	USD LIBOR	SOFR	In progress

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

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

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

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4. Changes in accounting policies (continued)

The following table shows the total amounts of unreformed financial assets and those with appropriate fallback language as at year-end 2023. The amounts of financial assets are shown at their gross carrying amounts.

As at 31 December 2023	Amount with appropriate fallback clause	Total amount of unreformed contracts
Loans and advances to customers	280,934	755

5. Operating segments

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

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

• **Personal Banking** offers individuals and small and medium-sized companies outside the capital city region comprehensive financial services and advice. The emphasis is on digital service channels and self-service solutions, both through online banking and Bank's app, together with conventional service through the Bank's branch network and Customer Service Centre.

• **Corporate Banking** offers municipalities, institutions, larger companies and SMEs in the capital region financial service and advice, emphasising digital service channels and self-service solutions such as corporate online banking and Bank's app.

• **Asset Management & Capital Markets** offers brokerage service in securities, currencies and derivatives, in addition to comprehensive asset management. Landsbréf hf., the Bank's subsidiary, is included in Asset Management & Capital Markets' segment reporting.

• **Treasury and Market Making** are units undir the **Finance** division. These units are responsible for the Bank's funding, liquidity management, internal pricing of capital and market-making in currency, bonds and equities. Treasury also manages the FX, interest rate and indexation risk of the Bank within the parameters of its risk appetite.

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

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

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

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

Revenue from transactions with any single external customer was within 10% of the Group's total revenue during the year from 1 January to 31 December 2023 and the corresponding period in 2022.

Notes to the Consolidated Financial Statements

5. Operating segments (continued)

1 January - 31 December 2023	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other divisions	Recon-ciliation	Total
Net interest income	18,944	22,324	513	15,435	385	(42)	**57,559**
Net fee and commission income	3,548	3,062	4,924	(297)	76	(160)	**11,153**
Net impairment changes	(1,793)	(1,333)	1	5	-	-	**(3,120)**
Other net operating income (expenses)	99	21	296	7,009	846	(15)	**8,256**
Total operating income (expenses)	**20,798**	**24,074**	**5,734**	**22,152**	**1,307**	**(217)**	**73,848**
Operating expenses	(7,316)	(3,383)	(2,323)	(938)	(12,170)	172	**(25,958)**
Tax on liabilities of financial institutions	(920)	(472)	(7)	(882)	(9)	-	**(2,290)**
Profit (loss) before cost allocation and tax	**12,562**	**20,219**	**3,404**	**20,332**	**(10,872)**	**(45)**	**45,600**
Allocated expenses	(4,667)	(3,126)	(1,224)	(1,093)	10,110	-	**0**
Profit (loss) before tax	**7,895**	**17,093**	**2,180**	**19,239**	**(762)**	**(45)**	**45,600**
Income tax	(2,267)	(4,516)	(425)	(5,496)	271	-	**(12,433)**
Profit (loss) for the year	**5,628**	**12,577**	**1,755**	**13,743**	**(491)**	**(45)**	**33,167**
Net revenue (expenses) from external customers	34,799	52,112	6,187	(19,869)	836	-	**74,065**
Net revenue (expenses) from other segments	(14,001)	(28,038)	(453)	42,021	471	-	**0**
Total operating income (expenses)	**20,798**	**24,074**	**5,734**	**22,152**	**1,307**	**0**	**74,065**
As at 31 December 2023							
Total assets	**872,537**	**752,041**	**11,281**	**751,659**	**21,143**	**(447,885)**	**1,960,776**
Total liabilities	**817,838**	**625,602**	**7,000**	**637,385**	**17,082**	**(447,885)**	**1,657,022**
Allocated capital	**54,699**	**126,439**	**4,281**	**114,274**	**4,061**		**303,754**

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

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Notes to the Consolidated Income Statement

6. Net interest income

See accounting policy in Note 83.5.

	2023			2022		
Interest income	Amortised cost	Designated at FVTPL	Total	Amortised cost	Designated at FVTPL	Total
Cash and balances with Central Bank	6,803	-	6,803	2,772	-	2,772
Loans and advances to financial institutions	1,803	-	1,803	255	-	255
Loans and advances to customers	140,677	1,407	142,084	97,570	1,277	98,847
Other interest income	42	116	158	116	19	135
Total	**149,325**	**1,523**	**150,848**	**100,713**	**1,296**	**102,009**
Interest expense						
Due to financial institutions and Central Bank	(867)	-	(867)	(84)	-	(84)
Deposits from customers	(61,861)	-	(61,861)	(30,649)	-	(30,649)
Borrowings	(22,321)	(3,160)	(25,481)	(20,393)	(477)	(20,870)
Other interest expense	(110)	(2,657)	(2,767)	(66)	(2,604)	(2,670)
Subordinated liabilities	(2,313)	-	(2,313)	(1,272)	-	(1,272)
Total	**(87,472)**	**(5,817)**	**(93,289)**	**(52,464)**	**(3,081)**	**(55,545)**
Net interest income	**61,853**	**(4,294)**	**57,559**	**48,249**	**(1,785)**	**46,464**

Net interest income, calculated based on the effective interest rate method, amounted to ISK 57,559 million in the year ended 2023 as compared with ISK 46,464 million for the year ended 2022.

7. Net fee and commission income

See accounting policy in Note 83.6.

	2023			2022		
	Fee and commission income	Fee and commission expense	Net fee and commission income	Fee and commission income	Fee and commission expense	Net fee and commission income
Capital Markets	6,136	(674)	5,462	6,188	(717)	5,471
Loans and guarantees	1,350	-	1,350	1,306	-	1,306
Payment cards	6,229	(3,012)	3,217	5,825	(2,967)	2,858
Collection and payment services	1,034	(206)	828	964	(196)	768
Other	1,228	(932)	296	1,060	(840)	220
Total	**15,977**	**(4,824)**	**11,153**	**15,343**	**(4,720)**	**10,623**

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

See accounting policy in Note 83.7.

Net gain (loss) on financial assets and liabilities at FVTPL	2023	2022
Bonds and debt instruments	6,947	934
Equities and equity instruments	(1,112)	(10,450)
Derivatives and underlying hedges	740	1,473
Loans and advances to customers	29	7
Net gain on fair value hedges	115	73
Total	**6,719**	**(7,963)**

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

Dividend income	2023	2022
Net gain on financial assets in the trading book	50	63
Net gain on financial assets in the banking book	180	131
Total	**230**	**194**

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Notes to the Consolidated Financial Statements

9. Net foreign exchange gain (loss)

See accounting policy in Note 83.8.

Assets	2023	2022
Cash and balances with Central Bank	16	49
Bonds and debt instruments	269	229
Equities and equity instruments	(1)	(4)
Derivative instruments	(799)	(3,457)
Loans and advances to financial institutions	3,030	1,092
Loans and advances to customers	(5,506)	12,312
Other assets	(1,509)	(1,204)
Total	**(4,500)**	**9,017**
Liabilities		
Due to financial institutions and Central Bank	(202)	-
Deposits from customers	1,434	(5,894)
Borrowings	2,977	(2,594)
Other liabilities	84	(39)
Subordinated liabilities	767	(390)
Total	**5,060**	**(8,917)**
Net foreign exchange gain	**560**	**100**

The net foreign exchange difference recognised in the income statement in 2023 arousing on financial instruments not measured at FVTPL, amounted to a loss of ISK 3,969 million on financial assets (2022: gain of ISK 12,249 million) and a gain of ISK 5,060 million on financial liabilities (2022: loss of ISK 8,917 million).

10. Net impairment changes

See accounting policy in Note 83.11 (g).

	2023	2022
Net impairment changes of loans to customers	(2,972)	2,434
Net impairment changes of other financial assets and provision for litigations	(148)	39
Net impairment changes of financial assets	**(3,120)**	**2,473**
Net impairment changes by customer type		
Public entities	4	(2)
Individuals	(1,644)	(83)
Corporates	(1,480)	2,558
Net impairment changes of financial assets	**(3,120)**	**2,473**

11. Other income and (expenses)

	Notes	2023	2022
Share of profit of equity-accounted associates	25	106	233
Gain on sale of property and equipment	26	74	401
Net income on repossessions	29	654	547
Other		143	375
Total		**977**	**1,556**

12. Salaries and related expenses

See accounting policy in Note 83.33.

	2023	2022
Salaries	12,203	11,096
Contributions to defined pension plans	1,890	1,706
Social security contributions	888	837
Special financial activities tax on salaries	769	725
Other related expenses	116	110
Total	**15,866**	**14,474**

Average number of full-time equivalent positions during the year	849	843
Number of full-time equivalent positions at the year-end	817	831

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Notes to the Consolidated Financial Statements

13. Other operating expenses

	2023	2022
Information technology	3,304	2,796
Real estate and fixtures	1,073	920
Advertising and marketing	749	692
Operating lease rentals	40	24
FSA supervisory expenses	626	559
Contribution to the Debtors' Ombudsman	92	91
Audit and related services	187	171
Other professional services	520	526
Depreciation and amortisation	1,550	1,425
Contribution to the Depositors’ and Investors’ Guarantee Fund	-	211
Other operating expenses	1,951	1,874
Total	**10,092**	**9,289**

Audit and related services	**2023**	**2022**
Audit and reviews of financial statements - PwC	138	141
Other audit-related services - PwC	32	29
Other audit-related services - Others	17	1
Total	**187**	**171**

Depreciation and amortisation	**Notes**	**2023**	**2022**
Amortisation of property and equipment	26	730	571
Depreciation of intangible assets	27	318	231
Amortisation of Right-of-use assets	39	502	623
Total		**1,550**	**1,425**

14. Income tax

See accounting policy in Note 83.10.

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

	2023	2022
Current tax expense	(9,538)	(8,080)
Special income tax on financial institutions	(2,741)	(2,304)
Difference of prior year's imposed and calculated income tax	(17)	(5)
Origination and reversal of temporary differences due to deferred tax assets/liabilities	(137)	(7)
Total	**(12,433)**	**(10,396)**

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

		2023		2022
Profit before income tax		45,600		27,393
Income tax calculated using the domestic corporate income tax rate	20.0%	(9,120)	20.0%	(5,479)
Special income tax on financial institutions	6.0%	(2,741)	8.4%	(2,304)
Income not subject to tax	(0.1%)	55	(0.5%)	137
Non-deductible expenses	1.3%	(610)	10.0%	(2,745)
Other	0.0%	(17)	0.0%	(5)
Effective income tax	**27.3%**	**(12,433)**	**38.0%**	**(10,396)**

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Notes to the Consolidated Statement of Financial Position

15. Classification and fair values of financial assets and liabilities

See accounting policy in Note 83.11 (b).

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

• Financial assets measured at amortised cost.
• Financial assets measured at fair value through profit or loss.
• Financial liabilities measured at amortised cost.
• Financial liabilities measured at fair value through profit or loss.

The following table shows the classification of the Group’s financial assets and liabilities according to IFRS 9 and their fair values as at 31 December 2023:

		Carrying amount					Fair value			
As at 31 December 2023	**Notes**	**Amortised cost**	**Trading book**	**Banking book**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	20	-	18,105	130,077	-	148,182	147,255	26	901	148,182
Equities and equity instruments	21	-	7,934	11,078	-	19,012	8,844	-	10,168	19,012
Derivative instruments	22	-	7,459	-	-	7,459	-	7,459	-	7,459
Loans and advances to customers	24	-	15,604	-	-	15,604	-	-	15,604	15,604
		0	**49,102**	**141,155**	**0**	**190,257**	**156,099**	**7,485**	**26,673**	**190,257**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	75,350	-	-	-	75,350	-	75,350	-	75,350
Loans and advances to financial institutions	23	54,101	-	-	-	54,101	-	54,101	-	54,101
Loans and advances to customers	24	1,615,290	-	-	-	1,615,290	-	1,598,034	-	1,598,034
Other financial assets		5,263	-	-	-	5,263	-	5,263	-	5,263
		1,750,004	**0**	**0**	**0**	**1,750,004**	**0**	**1,732,748**	**0**	**1,732,748**
Financial liabilities measured at fair value										
Derivative instruments	22	-	1,533	-	-	1,533	-	1,533	-	1,533
Short positions	22	-	1,255	-	-	1,255	1,255	-	-	1,255
		0	**2,788**	**0**	**0**	**2,788**	**1,255**	**1,533**	**0**	**2,788**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	29,968	29,968	-	29,968	-	29,968
Deposits from customers	31	-	-	-	1,048,537	1,048,537	-	1,048,265	-	1,048,265
Borrowings	32	-	-	-	513,687	513,687	-	498,074	-	498,074
Other financial liabilities		-	-	-	10,718	10,718	-	10,718	-	10,718
Subordinated liabilities	35	-	-	-	20,176	20,176	-	19,673	-	19,673
		0	**0**	**0**	**1,623,086**	**1,623,086**	**0**	**1,606,698**	**0**	**1,606,698**

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

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

		Carrying amount					Fair value			
As at 31 December 2022	**Notes**	**Amortised cost**	**Trading book**	**Banking book**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Bonds and debt instruments	20	-	34,619	90,646	-	125,265	124,228	24	1,013	125,265
Equities and equity instruments	21	-	7,362	11,744	-	19,106	8,265	-	10,841	19,106
Derivative instruments	22	-	3,073	-	-	3,073	-	3,073	-	3,073
Loans and advances to customers	24	-	17,964	-	-	17,964	-	-	17,964	17,964
		0	**63,018**	**102,390**	**0**	**165,408**	**132,493**	**3,097**	**29,818**	**165,408**
Financial assets not measured at fair value										
Cash and balances with Central Bank	19	42,216	-	-	-	42,216	-	42,216	-	42,216
Loans and advances to financial institutions	23	28,621	-	-	-	28,621	-	28,621	-	28,621
Loans and advances to customers	24	1,526,396	-	-	-	1,526,396	-	1,511,209	-	1,511,209
Other financial assets		5,895	-	-	-	5,895	-	5,895	-	5,895
		1,603,128	**0**	**0**	**0**	**1,603,128**	**0**	**1,587,941**	**0**	**1,587,941**
Financial liabilities measured at fair value										
Derivative instruments	22	-	1,478	-	-	1,478	-	1,478	-	1,478
		-	**1,478**	**0**	**0**	**1,478**	**0**	**1,478**	**0**	**1,478**
Financial liabilities not measured at fair value										
Due to financial institutions and Central Bank	30	-	-	-	6,634	6,634	-	6,634	-	6,634
Deposits from customers	31	-	-	-	967,863	967,863	-	967,507	-	967,507
Borrowings	32	-	-	-	476,864	476,864	-	465,185	-	465,185
Other financial liabilities		-	-	-	9,714	9,714	-	9,714	-	9,714
Subordinated liabilities	35	-	-	-	21,753	21,753	-	22,153	-	22,153
		0	**0**	**0**	**1,482,828**	**1,482,828**	**0**	**1,471,193**	**0**	**1,471,193**

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16. Fair value of financial assets and liabilities

See accounting policy in Note 83.11 (f).

Valuation framework

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

Transfers between Levels

In 2023 and 2022, there were no transfers between Level 1, Level 2 and Level 3. The following tables show the reconciliation of fair value measurement in Level 3 for the year 2023 and 2022:

1 January - 31 December 2023	**Bonds and debt instruments**	**Equities and equity instruments**	**Loans and advances to customers**	**Total financial assets**
Carrying amount as at 1 January 2023	1,013	10,841	17,964	29,818
Net gain (loss) on financial assets and liabilities at FVTPL	44	(906)	29	(833)
Net foreign exchange loss	-	-	(78)	(78)
Purchases	28	1,129	220,048	221,205
Sales	(200)	(743)	-	(943)
Settlements	16	-	(222,359)	(222,343)
Dividend received	-	(153)	-	(153)
Carrying amount as at 31 December 2023	**901**	**10,168**	**15,604**	**26,673**
1 January - 31 December 2022				
Carrying amount as at 1 January 2022	467	20,594	22,142	43,203
Net gain (loss) on financial assets and liabilities at FVTPL	31	(9,990)	7	(9,952)
Net foreign exchange (loss) gain	(3)	1	56	54
Purchases	583	565	272,575	273,723
Sales	-	(132)	-	(132)
Settlements	(65)	-	(276,816)	(276,881)
Dividend received	-	(197)	-	(197)
Carrying amount as at 31 December 2022	**1,013**	**10,841**	**17,964**	**29,818**

The following table shows the line items in the Consolidated Income Statement where gains (losses) on financial assets and liabilities categorised in Level 3 and held by the Group at year end 2023 and 2022 were recognised:

1 January - 31 December 2023	**Bonds and debt instruments**	**Equities and equity instruments**	**Loans and advances to customers**	**Total**
Net gain on financial assets and liabilities at FVTPL realised	9	277	29	315
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	35	(1,258)	-	(1,223)
Net foreign exchange loss	-	-	(78)	(78)
Total	**44**	**(981)**	**(49)**	**(986)**
1 January - 31 December 2022				
Net gain on financial assets and liabilities at FVTPL realised	10	164	7	181
Net gain (loss) on financial assets and liabilities at FVTPL unrealised	21	(10,155)	-	(10,134)
Net foreign exchange (loss) gain	(2)	1	56	55
Total	**29**	**(9,990)**	**63**	**(9,898)**

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17. Unobservable inputs in fair value measurement

See accounting policy in Note 83.11 (f).

The following table summarises the valuation techniques together with the significant unobservable inputs used to calculate the fair value of Level 3 assets at year-end 2023 and 2022. The range of values indicates the highest and lowest level input used in the valuation technique and, as such, only reflects the characteristics of the instruments as opposed to the level of uncertainty in their valuation.

As at 31 December 2023	Level 3 Assets	Significant unobservable inputs	Valuation technique	Higher	Lower	Favourable	Unfavourable
Bonds and debt instruments	15	Recovery rates	See 1) below	5%	-5%	1	(1)
	886	Bond prices	See 1) below	5%	-5%	44	(44)
Equities and equity instruments							
Equities - Banking book	10,168	Instrument Price	See 2) below	5%	-5%	836	(849)
Loans and advances to customers	15,604	probability of default	See 3) below	1%	-1%	5	(19)
Total	**25,787**					**886**	**(913)**

As at 31 December 2022	Level 3 Assets	Significant unobservable inputs	Valuation technique	Higher	Lower	Favourable	Unfavourable
Bonds and debt instruments	16	Recovery rates	See 1) below	5%	-5%	1	(1)
	997	Bond prices	See 1) below	5%	-5%	50	(50)
Equities and equity instruments							
Equities - Banking book	10,841	Instrument Price	See 2) below	5%	-5%	819	(819)
Loans and advances to customers	17,964	probability of default	See 3) below	1%	-1%	10	(13)
Total	**29,818**					**880**	**(883)**

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

1. Fair value of corporate bonds and claims on financial institutions in winding-up proceedings and other insolvent assets is estimated on expected recovery. Reference is also made to prices in recent transactions.

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

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

18. Expected credit loss

See accounting policy in Note 83.11.

	31.12.2023			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	-	-	-	0
Loans and advances to customers	(3,670)	(2,122)	(5,582)	(11,374)
Other financial assets	(47)	-	(1)	(48)
Expected credit loss, off-balance sheet items	(379)	(46)	(104)	(529)
Total	**(4,096)**	**(2,168)**	**(5,687)**	**(11,951)**

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

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19. Cash and balances with Central Bank

See accounting policy in Note 83.12.

	2023	2022
Cash on hand	5,052	4,986
Unrestricted balances with Central Bank	44,602	25,891
Total cash and unrestricted balances with Central Bank	**49,654**	**30,877**
Restricted balances with Central Bank - fixed reserve requirement	23,797	10,960
Cash and balances pledged as collateral to the Central Bank	1,899	379
Total restricted balances with Central Bank	**25,696**	**11,339**
Total cash and balances with Central Bank	**75,350**	**42,216**

20. Bonds and debt instruments

See accounting policy in Note 83.13.

	2023			2022		
Bonds and debt instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	15,138	53,178	68,316	34,619	48,688	83,307
Unlisted	-	1,443	1,443	-	1,894	1,894
	15,138	**54,621**	**69,759**	**34,619**	**50,582**	**85,201**
Foreign						
Listed	2,967	75,456	78,423	-	40,064	40,064
	2,967	**75,456**	**78,423**	**0**	**40,064**	**40,064**
Total bonds	**18,105**	**130,077**	**148,182**	**34,619**	**90,646**	**125,265**

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

21. Equities and equity instruments

See accounting policy in Note 83.14.

	2023			2022		
Equities and equity instruments	**Trading book**	**Banking book**	**Total**	**Trading book**	**Banking book**	**Total**
Domestic						
Listed	7,374	366	7,740	7,286	359	7,645
Unlisted	-	10,429	10,429	32	11,064	11,096
	7,374	**10,795**	**18,169**	**7,318**	**11,423**	**18,741**
Foreign						
Listed	560	258	818	44	296	340
Unlisted	-	25	25	-	25	25
	560	**283**	**843**	**44**	**321**	**365**
Total equities	**7,934**	**11,078**	**19,012**	**7,362**	**11,744**	**19,106**

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

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

At year-end 2023, outstanding commitments of the Group in share subscriptions amounted to ISK 441 million (2022: ISK 1,020 million) altogether in six entities (2022: six entities). The entities invested in by the Group are required to redeem its shareholders with proceeds from the sale of assets.

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22. Derivative instruments and short positions

See accounting policy in Note 83.15.

Trading

Foreign exchange derivatives	2023 Notional amount	2023 Fair value Assets	2023 Fair value Liabilities	2022 Notional amount	2022 Fair value Assets	2022 Fair value Liabilities
Currency forwards	48,317	319	378	49,544	1,471	182
Cross-currency interest rate swaps	-	-	-	734	76	-
	48,317	**319**	**378**	**50,278**	**1,547**	**182**
Interest rate derivatives						
Interest rate swaps	-	-	-	1,071	-	4
Total return swaps	5,458	16	7	29,981	57	10
	5,458	**16**	**7**	**31,052**	**57**	**14**
Equity derivatives						
Equity forwards	276	1	1	185	27	-
Total return swaps	100	-	260	4,403	161	61
Equity options	63	-	5	40	-	-
	439	**1**	**266**	**4,628**	**188**	**61**
Total derivative instruments	**54,214**	**336**	**651**	**85,958**	**1,792**	**257**
Short positions						
Listed bonds	1,501	-	1,255	-	-	-
Total short positions	**1,501**	**0**	**1,255**	**0**	**0**	**0**
Total	**55,715**	**336**	**1,906**	**85,958**	**1,792**	**257**

Risk management

Foreign exchange derivatives	2023 Notional amount	2023 Fair value Assets	2023 Fair value Liabilities	2022 Notional amount	2022 Fair value Assets	2022 Fair value Liabilities
Currency forwards	71,020	2,454	304	62,427	1,277	311
	71,020	**2,454**	**304**	**62,427**	**1,277**	**311**
Interest rate derivatives						
Interest rate swaps	2,000	-	578	3,071	4	590
	2,000	**0**	**578**	**3,071**	**4**	**590**
Fair value hedging						
Interest rate swaps	90,054	4,669	-	45,450	-	320
	90,054	**4,669**	**0**	**45,450**	**0**	**320**
Total	**163,074**	**7,123**	**882**	**110,948**	**1,281**	**1,221**
Total derivative instruments and short positions	**218,789**	**7,459**	**2,788**	**196,906**	**3,073**	**1,478**

Fair value hedging

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

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

During the period from 1 January 2023 to 31 December 2023, the slope of the regression line was in all cases within the range of 0.91 and 0.98 (for a 95% confidence level) and the regression coefficient was at least 1.00 (R^2). During the period from 1 January 2022 to 31 December 2022, the slope of the regression line is in all cases within the range of 0.89 and 0.93 (for a 95% confidence level) and the regression coefficient was at least 0.86 (R^2). In all cases the effectiveness is within limits during the year 2023 and 2022.

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22. Derivative instruments and short positions (continued)

Fair value hedging (continued)

As at 31 December 2023	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	-	-	-	-	-	-	322
Interest rate swaps - EUR	45,027	-	45,027	-	1,669	-	1,685
Interest rate swaps - EUR	45,027	-	45,027	-	3,000	-	2,985
Total	**90,054**	**0**	**90,054**	**0**	**4,669**	**0**	**4,992**
Average fixed interest rate - EUR			5.31%				

As at 31 December 2023	Carrying amount of the hedged item: Assets	Carrying amount of the hedged item: Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item: Assets	Accumulated amount of fair value hedge adjustments on the hedged item: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
LBANK 1.00 5/23	-	-	-	-	(301)
LBANK 6.375 3/27	-	46,671	-	955	(1,623)
LBANK 4.25 3/28 CB	-	47,945	-	1,534	(2,953)
Total EMTN hedged borrowings	**0**	**94,616**	**0**	**2,489**	**(4,877)**

As at 31 December 2022	Notional amount of the hedging instrument	Maturity date: 3-12 months	Maturity date: 1-5 years	Maturity date: >5 years	Fair value of the hedging derivatives: Assets	Fair value of the hedging derivatives: Liabilities	Gains (losses) on changes in fair value used for calculating hedge ineffectiveness
Interest rate swaps - EUR	45,450	45,450	-	-	-	320	(1,072)
Total	**45,450**	**45,450**	**0**	**0**	**0**	**320**	**(1,072)**
Average fixed interest rate - EUR		1.00%					

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

23. Loans and advances to financial institutions

See accounting policy in Note 83.19.

	2023	2022
Bank accounts with financial institutions	17,821	21,759
Money market loans	35,164	5,836
Other loans	1,116	1,026
Allowance for impairment	-	-
Total	**54,101**	**28,621**

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24. Loans and advances to customers

See accounting policy in Note 83.19.

	2023	2022
Loans and advances to customers at amortised cost	1,626,664	1,536,391
Allowance for impairment	(11,374)	(9,995)
Total	**1,615,290**	**1,526,396**
Loans and advances to customers at FVTPL	15,604	17,964
Total	**1,630,894**	**1,544,360**

Loans and advances to customers at amortised cost

	31.12.2023			31.12.2022		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	11,453	(4)	11,449	10,525	(6)	10,519
Individuals	821,480	(2,382)	819,098	791,342	(1,327)	790,015
Mortgage lending	732,230	(1,246)	730,984	705,819	(563)	705,256
Other	89,250	(1,136)	88,114	85,523	(764)	84,759
Corporates	793,731	(8,988)	784,743	734,524	(8,662)	725,862
Total	**1,626,664**	**(11,374)**	**1,615,290**	**1,536,391**	**(9,995)**	**1,526,396**

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

25. Investments in associates

See accounting policy in Note 83.3.

The Group's interest in its principal associates	2023	2022
Greiðslumiðlun Íslands ehf. Katrínartúni 4, Reykjavík	47.9%	47.9%
Keahótel ehf. Hafnarstræti 94, 600 Akureyri*	0.0%	35.0%
Reiknistofa bankanna hf. Dalvegi 30, Kópavogur	37.1%	37.1%

*Reclassification to Assets classified as held for sale

Investments in equity-accounted associates	2023	2022
Carrying amount as at the beginning of the year	1,815	1,722
Sale	-	(242)
Share of profit of equity-accounted associates	106	233
Dividends paid	(72)	(48)
Gain of disposal of associates	-	150
Total	**1,849**	**1,815**

Investments in associates designated at fair value through profit or loss	2023	2022
Carrying amount as at the end of the year	0	135
Total	**0**	**135**
Total	**1,849**	**1,950**

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Notes to the Consolidated Financial Statements

26. Property and equipment

See accounting policy in Note 83.20.

	2023			2022		
	Buildings	Fixtures, equipment and vehicles	Total	Buildings	Fixtures, equipment and vehicles	Total
Carrying amount as at the beginning of the	11,356	1,704	13,060	11,235	1,784	13,019
Additions during the year	1,236	1,214	2,450	4,508	443	4,951
Sold during the year	-	(12)	(12)	(4,336)	(3)	(4,339)
Depreciation	(169)	(561)	(730)	(51)	(520)	(571)
Carrying amount as at 31 December	**12,423**	**2,345**	**14,768**	**11,356**	**1,704**	**13,060**
Gross carrying amount	13,416	8,330	21,746	12,180	7,128	19,308
Accumulated depreciation	(993)	(5,985)	(6,978)	(824)	(5,424)	(6,248)
Carrying amount as at 31 December	**12,423**	**2,345**	**14,768**	**11,356**	**1,704**	**13,060**
Depreciation rates	2-4%	10-33%		2-4%	10-33%	

Official assessment value of buildings	2023	2022
Property valuation	10,240	7,175
Fire insurance value	10,911	10,163

27. Intangible assets

See accounting policy in Note 83.21.

	2023		2022	
	Hard- and software licences	Total	Hard- and software licences	Total
Carrying amount as at the beginning of the year	1,729	1,729	1,781	1,781
Additions during the year	61	61	179	179
Amortisation	(318)	(318)	(231)	(231)
Carrying amount as at 31 December	**1,472**	**1,472**	**1,729**	**1,729**
Gross carrying amount	5,683	5,683	5,621	5,621
Accumulated amortisation	(4,211)	(4,211)	(3,892)	(3,892)
Carrying amount as at 31 December	**1,472**	**1,472**	**1,729**	**1,729**
Annual amortisation rates	20-33%	20-33%	20-33%	20-33%

28. Other assets

	Note	2023	2022
Unsettled securities trading		2,205	2,396
Other accounts receivable		1,160	1,578
Right-of-use assets	39	1,898	1,921
Sundry assets		1,565	1,241
Total		**6,828**	**7,136**

29. Assets and liabilities classified as held for sale

Assets classified as held for sale

	2023	2022
Repossessed collateral	201	451
Assets of subsidiaries classified as held for sale	660	57
Total	**861**	**508**

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

Repossessed collateral

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

Repossessed collateral	2023	2022
Real estate	261	507
Equipment and vehicles	-	1
Investment in associate	600	-
Total	**861**	**508**

Repossessed collateral	2023	2022
Carrying amount as at the beginning of the year	508	905
Repossessed during the year	87	296
Disposed of during the year	(431)	(1,290)
Reclassified from associates to assets classified as held-for-sale	600	-
Impairment and gain of sale	97	597
Carrying amount as at year end	**861**	**508**

Liabilities associated with assets classified as held for sale

	2023	2022
Liabilities of disposal groups	-	-
Total	**0**	**0**

30. Due to financial institutions and Central Bank

See accounting policy in Note 83.22.

	2023	2022
Loans and repurchase agreements with Central Bank	119	107
Loans and deposits from financial institutions	29,849	6,527
Total	**29,968**	**6,634**

31. Deposits from customers

See accounting policy in Note 83.22.

	2023	2022
Demand deposits	712,145	657,999
Term deposits	336,392	309,864
Total	**1,048,537**	**967,863**

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Notes to the Consolidated Financial Statements

32. Borrowings

See accounting policy in Note 83.23.

Secured borrowings

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	31.12.2023	31.12.2022
LBANK CB 23, ISK 35,820 million	23.11.2023	At maturity	Fixed 5.0%	-	44,867
LBANK CBI 24, ISK 38,080 million	15.11.2024	At maturity	Fixed 3.0%, CPI-indexed	52,712	49,045
LBANK CB 25, ISK 39,660 million	17.09.2025	At maturity	Fixed 3.4%	39,704	38,502
LBANK CBI 26, ISK 11,120 million	20.11.2026	At maturity	Fixed 1.5%, CPI-indexed	14,373	13,355
LBANK CB 27, ISK 35,280 million	20.09.2027	At maturity	Fixed 4.6%	32,752	13,308
LBANK CBI 28, ISK 50,200 million	04.10.2028	At maturity	Fixed 3.0%, CPI-indexed	71,432	64,137
LBANK 4.25 3/28 CB, EUR 300 million*	16.03.2028	At maturity	Fixed 4.25%	47,945	-
LBANK CB 29, ISK 8,760 million	27.09.2029	At maturity	Fixed 8.2%	8,853	-
Total covered bonds				**267,771**	**223,214**

	31.12.2023	31.12.2022
Other secured loans	5,060	-
Total other secured loans	**5,060**	-
Total secured borrowings	**272,831**	**223,214**

Unsecured borrowings

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	31.12.2023	31.12.2022
LBANK 1.00 05/23, EUR 300 million*	30.05.2023	At maturity	FIXED 1.0%	-	45,283
LBANK FLOAT 10/23, NOK 248 million	19.10.2023	At maturity	NIBOR + 1.55%	-	7,271
LBANK FLOAT 10/23, SEK 460 million	19.10.2023	At maturity	STIBOR + 1.55%	-	6,850
LBANK FLOAT 01/24, SEK 850 million	19.01.2024	At maturity	STIBOR + 0.65%	11,574	11,626
LBANK 0.5 5/24, EUR 168 million	20.05.2024	At maturity	FIXED 0.5%	25,266	45,513
LBANK FLOAT 08/24, NOK 300 million	12.08.2024	At maturity	NIBOR + 2.0%	4,047	4,347
LBANK FLOAT 01/25, NOK 500 million	20.01.2025	At maturity	NIBOR + 0.79%	6,757	7,254
LBANK FLOAT 01/25, SEK 850 million	20.01.2025	At maturity	STIBOR + 0.8%	11,571	11,626
LBANK 0.375 5/25 GB, EUR 300 million	23.05.2025	At maturity	FIXED 0.375%	45,004	45,336
LBANK FLOAT 08/25, NOK 350 million	18.08.2025	At maturity	NIBOR + 2.35%	4,716	5,069
LBANK FLOAT 08/25, NOK 1,000 million	21.08.2025	At maturity	NIBOR + 3.05%	13,473	-
LBANK FLOAT 08/25, SEK 450 million	25.08.2025	At maturity	STIBOR + 3.5%	6,101	-
LBANK 0.75 5/26 GB, EUR 300 million	25.05.2026	At maturity	FIXED 0.75%	45,023	45,360
LBANK 6.375 3/27, EUR 300 million*	12.03.2027	At maturity	FIXED 6.375%	46,671	-
Total senior unsecured bonds				**220,203**	**235,535**

	31.12.2023	31.12.2022
Other unsecured loans	20,653	18,115
Total other unsecured loans	**20,653**	**18,115**
Total unsecured borrowings	**240,856**	**253,650**
Total borrowings As at 31 December 2023	**513,687**	**476,864**

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

Issued under the Bank's Sustainable Finance Framework.

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32. Borrowings (continued)

Change in liabilities due to financing activities

	As at 1.1.2023	Cash flow	Non-cash changes Accrued interest	Foreign exchange	Change in the fair value	As at 31.12.2023
Secured borrowings	223,214	(21,077)	17,689	-	-	219,826
Secured borrowings held to hedge long-term	-	43,282	1,364	346	2,953	47,945
Other secured loans	-	5,689	(7)	(622)	-	5,060
Senior unsecured bonds	190,252	(15,356)	2,102	(3,466)	-	173,532
Senior unsecured bonds held to hedge long-term borrowings	45,283	(4,839)	3,053	1,250	1,924	46,671
Other unsecured loans	18,115	1,649	1,374	(485)	-	20,653
Subordinated liabilities	21,753	(3,189)	2,379	(767)	-	20,176
Total	**498,617**	**6,159**	**27,954**	**(3,744)**	**4,877**	**533,863**

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

33. Deferred tax assets and liabilities

See accounting policy in Note 83.10.

	2023 Assets	2023 Liabilities	2022 Assets	2022 Liabilities
Tax liabilities	-	14,509	-	12,480
Deferred tax liabilities	-	138	-	-
Taxes in the Statement of Financial Position	**0**	**14,647**	**0**	**12,480**

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

	2023 Assets	2023 Liabilities	2023 Net	2022 Assets	2022 Liabilities	2022 Net
Property and equipment	-	(162)	(162)	-	(95)	(95)
Intangibles	-	(141)	(141)	-	(157)	(157)
Exchange rate-indexed assets and liabilities	-	(634)	(634)	-	(487)	(487)
Deferred foreign exchange differences	34	-	34	-	(10)	(10)
Other assets and liabilities	764	-	764	748	-	748
Tax losses carried forward	1	-	1	1	-	1
	799	**(937)**	**(138)**	**749**	**(749)**	**0**
Set-off of deferred tax assets together with liabilities of the same taxable entities	(799)	799	0	(749)	749	0
Deferred tax liabilitiess total	**0**	**(138)**	**(138)**	**0**	**0**	**0**

The deferred tax assets and liabilities are measured based on the tax rates and tax laws enacted by the end of 2023, according to which the domestic corporate income tax rate was 20% as at 31 December 2023 (2022: 20%).

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33. Deferred tax assets and liabilities (continued)

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

	Balance 1.1.2023	Recognised in income statement: Tax income (expense)	Balance as at 31.12.2023	Balance 1.1.2022	Recognised in income statement: Tax income (expense)	Balance as at 31.12.2022
Property and equipment	(95)	(67)	(162)	(111)	16	(95)
Intangibles	(157)	16	(141)	(180)	23	(157)
Foreign currency assets and liabilities	(487)	(147)	(634)	(536)	49	(487)
Deferred foreign exchange differences	(10)	44	34	92	(102)	(10)
Other assets and other liabilities	748	16	764	745	3	748
Tax losses carried forward	1	-	1	5	(4)	1
Total	**0**	**(138)**	**(138)**	**15**	**(15)**	**0**

34. Other liabilities

See accounting policy in Note 83.25.

	Note	2023	2022
Unsettled securities trading		6,723	6,141
Withholding tax		8,884	4,440
Accounts payable		1,939	1,484
Non-controlling interests - Funds		2,020	433
Lease liabilities	39	2,056	2,089
Provision for litigations		159	-
Sundry liabilities		5,438	6,274
Total		**27,219**	**20,861**

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

35. Subordinated liabilities

See accounting policy in Note 83.26.

Currency, outstanding nominal amount	Maturity	Maturity type	Terms of interest	31.12.2023	31.12.2022
LBANK 3.125 28NC23 T2, EUR 100 million	06.09.2028	At maturity	Fixed 3.125%	-	15,226
LBANK T2I 29, ISK 5,500 million	11.12.2029	At maturity	Fixed 3.85%, CPI-indexed	7,053	6,527
LBANK T2I 33, ISK 12,000 million	23.03.2033	At maturity	Fixed 4.95%, CPI-indexed	13,123	-
Total subordinated liabilities				**20,176**	**21,753**

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

36. Equity

See accounting policy in Note 83.27.

Share capital

As of 31 December 2023, ordinary shares authorised and issued by the Bank totalled 24 billion, while outstanding shares were 23,6 billion. Each share has a par value of ISK 1. Own shares numbered 379 million as at 31 December 2023, or 1.58% of issued shares. Each ordinary share conveys one vote at shareholders' meetings. All share capital is fully paid up.

The AGM of Landsbankinn, held on 23 March 2023, renewed the authorisation of the Bank to acquire own shares of up to 10% of the nominal value of its share capital and at a price determined by the internal value of the Bank's shares, according to its most recently published consolidated interim or annual financial statements prior to repurchase. The authorisation to purchase the Bank's own shares in accordance with the resolutions of the 2022 and 2023 AGMs has not been exercised in the accounting year of 2023.

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36. Equity (continued)

Share premium

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

Statutory reserve

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

Retained earnings

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

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

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

Dividend

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

Dividend policy

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

Restriction of dividend payments

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

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

Other notes

37. Earnings per share

See accounting policy in Note 83.28.

Profit for the year	**2023**	**2022**
Profit for the year attributable to owners of the Bank	33,167	16,997

Weighted average number of shares	**2023**	**2022**
Weighted average number of ordinary shares issued	24,000	24,000
Weighted average number of own shares	(379)	(379)
Weighted average number of shares outstanding	**23,621**	**23,621**
Basic and diluted earnings per share from operations (ISK)	**1.40**	**0.72**

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37. Earnings per share (continued)

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

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

38. Litigation

Material litigation cases against the Bank and its subsidiaries

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

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

In September 2018, the Icelandic Bankers’ Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. On 12 November 2021, the District Court of Reykjavík acquitted the Bank and the other defendants of all claims of the Pension Fund. On 24 March 2023, the Appeal Court confirmed the judgment of the District Court. On 16 June 2023, the Supreme Court decided to reject an application by the Pension Fund to appeal the judgment of the Appeal Court.

In December 2021, two individuals commenced litigation against the Bank claiming that an interest rate provision in two credit agreements, issued in 2006, should be deemed illegal and void since the provision allegedly does not stipulate under which circumstances the interest rate changes, as provided for in the Consumer Credit Act No. 121/1994, applicable at the time. The disputed interest rate provision was used in the Bank´s consumer credit agreements until 2013. The plaintiffs demand primarily that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 3,5 million plus interest. On 7 February 2023 the District Court accepted the plaintiffs´ claims of last resort of repayment based on the initial contractual interest rate and taking into account limitation years for claims, in the amount of around ISK 230,000 plus interest. The case has been appealed to the Appeal Court where the Bank submits that all claims by the plaintiffs should be rejected. It is the Bank´s assessment that should the judgment of the District Court be confirmed in a final judgment the maximum potential loss resulting from such an outcome will be ISK 159 million as regards the Bank´s loan portfolio with the same interest rate provision. The Bank has recognised a provision of that amount.

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

In December 2021 two individuals commenced litigation against the Bank claiming that an interest rate provision in a mortgage credit agreement, issued in 2019, should be deemed illegal and void since the provision allegedly does not stipulate conditions and procedure for interest rate changes, as provided for in the Consumer Mortgage Act No. 118/2016. The disputed interest rate provision in this case has been used in the Bank´s consumer and mortgage credit agreements from 2013. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 83,000 plus interest. In February 2022 the Bank submitted its written statement claiming that all claims by the plaintiffs should be rejected. On 23 March 2023, a hearing was held before the EFTA Court on a request by the District Court of Reykjavík for an advisory opinion as to whether the interest rate provision is contrary to the Mortgage Credit Directive 2014/17/EU and the Consumer Credit Directive 2008/48/EC. It is expected that the opinion will be delivered on the first quarter of 2024. The case will then be brought again before the District Court. It is the Bank´s preliminary assessment of the potential impact of an adverse ruling on the Bank´s loan portfolio with the same interest rate provision that the Bank´s financial loss, taking different scenarios into account, could amount to around ISK 8 billion. The preliminary assessment does not include an assessment of the impact on the Bank´s interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank´s interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

38. Litigation (continued)

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

In January 2017, the Bank commenced proceedings before the District Court of Reykjavík against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf., now Teya Iceland hf. (the Company), and the then CEO of the Company. The Bank maintains that when the Bank sold its 31.2% shareholding in the Company in 2014, the defendants were in possession of information about the shareholding of the Company in Visa Europe Ltd. that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. By judgment of 27 April 2023, the District Court acquitted the defendants of the claims made by the Bank. The Bank has appealed the case to the Appeal Court.

39. Leasing

The Group as a lessee

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

Right-of use assets	No. of right-of use assets	Remaining term	Average remaining term	No. with extension options	No. with inflation-indexed	No. with termination options
Real estate	26	1-21 years	4,5 years	21	25	16
ATM facilities	16	1-3 years	2 years	13	12	12

Lease assets

Right-of-use

The following table provides a breakdown of right-of-use assets disclosed under Other assets at year-end 2023 and 2022.

	31.12.2023			31.12.2022		
	Real estate	ATM facilities	Total	Real estate	ATM facilities	Total
Opening balance	1,904	17	1,921	1,955	24	1,979
New contracts	251	3	254	219	-	219
Amendments	72	3	75	159	4	163
Inflation-indexation	149	1	150	182	1	183
Amortisation	(490)	(12)	(502)	(611)	(12)	(623)
Total	**1,886**	**12**	**1,898**	**1,904**	**17**	**1,921**

Lease liabilities

The following table provides a breakdown of lease liabilities disclosed under Other liabilities at year-end 2023 and 2022.

	31.12.2023			31.12.2022		
	Real estate	ATM facilities	Total	Real estate	ATM facilities	Total
Opening balance	2,070	19	2,089	2,138	26	2,164
New contracts	252	3	255	219	-	219
Amendments	71	3	74	159	4	163
Inflation-indexation	149	1	150	182	1	183
Interest on lease liabilities	52	-	52	54	1	55
Lease expense	(551)	(13)	(564)	(682)	(13)	(695)
Total	**2,043**	**13**	**2,056**	**2,070**	**19**	**2,089**

The following table shows undiscounted expected cash flow of lease liabilities for the next several years as of year-end 2023.

	Due Date					
As at 31 December 2023	< 1 year	1 - 2 years	2 -3 years	3 - 4 years	4 - 5 years	> 5 years
Lease liabilities	445	342	278	265	223	827

	Due Date					
As at 31 December 2022	< 1 year	1 - 2 years	2 -3 years	3 - 4 years	4 - 5 years	> 5 years
Lease liabilities	495	366	290	231	223	696

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39. Leasing (continued)

The Group as a lessee (continued)

Lease expenses

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

	Note	2023	2022
Interest on lease liabilities	6	53	55
Expenses of leased assets outside the scope of IFRS 16	13	20	24

40. Fiduciary activities

The Group offers custodian, asset management, investment management and advisory services. These services require the Group to make decisions on the handling, acquisition or disposal of financial instruments. Assets under custody are not reported in the Consolidated Financial Statements, since they are assets held on behalf of customers, institutions and pension funds and are not assets of the Group. One aspect of these services is that the Group is involved in approving objectives and criteria for investing assets in its custody. As of 31 December 2023, financial assets managed by the Group amounted to ISK 645 billion (2022: ISK 615 billion). Custody accounts amounted to ISK 1,693 billion (2022: ISK 1.826 billion).

41. Interest in subsidiaries

See accounting policy in Note 83.1 (a).

The main subsidiaries held directly or indirectly by the Group As at 31 December 2023 were as detailed in the table below. This includes those subsidiaries that are most significant in the context of the Group's business.

Main subsidiaries as at 31 December 2023

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

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory framework. The Group did not have any material non-controlling interests as at 31 December 2023.

42. Consolidated structured entities

See accounting policy in Note 83.2.

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

Assets	2023	2022
Bonds and debt instruments	2,210	200
Equities and equity instruments	533	598
Other assets	-	3

Liabilities	2023	2022
Other liabilities	25	1
Non controlling interests	2,020	433

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

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43. Unconsolidated structured entities

See accounting policy in Note 83.2.

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

			Total assets	
Type of structured entity	**Nature and purpose**	**Interest held by the Group**	**2023**	**2022**
Investment funds	To generate fees from managing assets on behalf of third party investors.	Investment in units issued by fund	63,502	84,103
	These vehicles are financed through the issue of units to investors	Management fees		

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

	Carrying amount	
Investment securities	**2023**	**2022**
Investment funds	2,923	3,003
Total	2,923	3,003

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

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

	Carrying amount	
Off-balance sheet exposure 31 December	**2023**	**2022**
Financial guarantees	-	-
Undrawn overdraft and credit card facilities	3	17
Total	**3**	**17**

45. Related party transactions

Related parties

The Icelandic State Treasury, on behalf of the Icelandic State, holds 98.2% of shares in the Bank at year-end 2023. Government bodies and public institutions qualifying as related parties are the Ministry of Finance, the ISFI (Icelandic State Financial Investments), and entities and institutions related to them.

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

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

Transactions with the Icelandic government and government-related entities

The Group's products and services are offered to the Icelandic government and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Bank and other Group entities purchase products and services from government-related entities at market price and otherwise under generally accepted commercial terms. The nature of and amounts outstanding with public entities are disclosed in Note 53 under Public entities.

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45. Related party transactions (continued)

Transactions with other related parties

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

	2023		2022	
Loans in ISK million	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**	**Gross carrying amount as at 31 December**	**Highest amount outstanding during the year**
Key management personnel	556	636	549	615
Parties related to key management personnel	256	282	161	224
Associates	184	947	936	975
Other	288	825	18	19
Total	**1,284**	**2,690**	**1,664**	**1,833**

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

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

	2023		2022	
Deposits in ISK million	**Carrying amount**	**Highest amount outstanding during the year**	**Carrying amount**	**Highest amount outstanding during the year**
Key management personnel	82	191	53	189
Parties related to key management personnel	134	279	74	204
Associates	483	1,279	243	1,265
Other	14	126	6	16
Total	**713**	**1,875**	**376**	**1,674**

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

Guarantees in ISK million	Gross carrying amount as at 31 December 2023	Gross carrying amount as at 31 December 2022
Key management personnel	-	-
Parties related to key management personnel	-	-
Associates	-	509
Other	539	-
Total	**539**	**509**

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

Number of shares in ISK million	2023	2022
Key management personnel	2	2
Parties related to key management personnel	-	-
Associates	-	-
Total	**2**	**2**

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

45. Related party transactions (continued)

Transactions with other related parties (continued)

Effect on income statement

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

	2023		2022	
Interest income and expense	**Interest income**	**Interest expense**	**Interest income**	**Interest expense**
Key management personnel	30	6	25	1
Parties related to key management personnel	12	7	8	12
Associates	25	8	97	6
Other	2	16	1	5
Total	**69**	**37**	**131**	**24**

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

	2023		2022	
Other income and expense	**Other income**	**Other expense**	**Other income**	**Other expense**
Associates	-	1,715	-	1,608
Total	**0**	**1,715**	**0**	**1,608**

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

The following table presents the total amount of compensation to Directors, CEOs and Managing Directors for the year 2023:

Salary and benefits for the year 2023	Salary and benefits*	Defined contri-butions**	Total
Board of Directors	**76.2**	**9.7**	**85.9**
Helga Björk Eiríksdóttir, Chairman of the Board of Directors	18.0	1.9	19.9
Berglind Svavarsdóttir, Vice-chairman of the Board of Directors	10.3	1.4	11.7
Elín H. Jónsdóttir, Director	8.9	1.2	10.1
Guðbrandur Sigurðsson, Director	9.6	1.3	10.9
Guðrún Ó. Blöndal, Director	8.9	1.2	10.1
Helgi Friðjón Arnarson, Director	9.6	1.3	10.9
Þorvaldur Jacobsen, Director	8.9	1.2	10.1
Sigríður Olgeirsdóttir, Alternate Director	1.0	0.1	1.1
Sigurður Jón Björnsson, Alternate Director	1.0	0.1	1.1
CEO	**55.6**	**10.4**	**66.0**
Lilja Björk Einarsdóttir	55.6	10.4	66.0
Senior management and other key employees	**353.4**	**66.4**	**419.8**
Arinbjörn Ólafsson, Managing Director Information Technology	40.6	7.9	48.5
Árni Þór Þorbjörnsson, Managing Director Corporate Banking	40.6	7.6	48.2
Bergsteinn Ólafur Einarsson, Managing Director Risk Management	36.1	7.1	43.2
Eyrún Anna Einarsdóttir, Managing Director Asset Management & Capital Markets	36.1	6.8	42.9
Helgi Teitur Helgason, Managing Director Personal Banking	40.6	7.8	48.4
Hreiðar Bjarnason, Managing Director, CFO	47.3	9.0	56.3
Sara Pálsdóttir, Managing Director Communication & Culture	36.1	6.9	43.0
Two other key employees and one former key employee***	76.0	13.3	89.3
Total	**485.2**	**86.5**	**571.7**

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

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

***In 2023, one key employee retired. All contractual termination payments have been recognised in the income statement for the year 2023.

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45. Related party transactions (continued)

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

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

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

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

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

The Minister of Finance and the members of the Board of Directors of ISFI did not receive any salaries or similar payments from the Group during the year 2023. The Group did not enter into any transactions with these persons or close members of their families, other than normal banking transactions which were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

46. Events after the reporting year

No events have arisen after the reporting year of these financial statements that require amendments or additional disclosures in the Consolidated Financial Statements for the year ended 31 December 2023.

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Capital management

47. Capital requirements

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

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

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the Financial Stability Committee (FSC) of the Central Bank of Iceland. The FSC has defined the Bank as a systematically important financial institution in Iceland.

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

As at 31 December 2023	**CET1**	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.6%	2.1%	2.8%
Minimum requirement under Pillar I and Pillar II-R	**6.1%**	**8.1%**	**10.8%**
Systemic risk buffer (SRB)	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions (O-SII)	2.0%	2.0%	2.0%
Countercyclical capital buffer (CCyB)	2.0%	2.0%	2.0%
Capital conservation buffer (CCB)	2.5%	2.5%	2.5%
Combined buffer requirement (CBR)	**9.4%**	**9.4%**	**9.4%**
Total capital requirement	**15.5%**	**17.5%**	**20.2%**

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

	31.12.2022	**31.12.2023**	**16.3.2024**
Countercyclical capital buffer on domestic exposures	2.0%	2.0%	2.5%

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

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

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

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

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

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

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

Capital base	2023	2022
Share capital	23,621	23,621
Share premium	120,593	120,593
Reserves	11,432	11,986
Retained earnings	148,108	122,891
Total equity attributable to owners of the Bank	**303,754**	**279,091**
Intangible assets	(7)	(10)
Forseeable dividends*	(16,584)	(8,498)
Fair value hedges	(4,669)	320
Adjustment under IFRS 9 transitional arrangements	595	727
Insufficient coverage for non-performing exposures	(1,291)	-
Common equity Tier 1 capital (CET1)	**281,798**	**271,630**
Non-controlling interests	-	-
Tier 1 capital	**281,798**	**271,630**
Subordinated liabilities	20,176	21,753
Tier 2 capital	**20,176**	**21,753**
Total capital base	**301,974**	**293,383**

Risk-weighted exposure amount (RWEA)	2023	2022
Credit risk	1,144,477	1,071,091
Market risk	20,559	19,618
Operational risk	114,400	97,716
Total risk-weighted exposure amount	**1,279,436**	**1,188,425**

*The Board of Directors intends to propose to the Annual General Meeting (AGM), scheduled to be held in March 2024, that a dividend amounting to around 50% of the consolidated profit in 2023 will be paid to shareholders. The intended dividend proposal is account for in the calculation of the Bank´s capital base as at 31.12.2023, under the line item Foreseeable dividends.

	2023	2022
CET1 ratio	**22.0%**	**22.9%**
Tier 1 capital ratio	**22.0%**	**22.9%**
Total capital ratio	**23.6%**	**24.7%**
CET1 Ratio as if IFRS 9 transitional arrangements were not applied	**22.0%**	**22.8%**
Tier 1 capital ratio as if IFRS 9 transitional arrangements were not applied	**22.0%**	**22.8%**
Total capital ratio as if IFRS 9 transitional arrangements were not applied	**23.6%**	**24.6%**

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

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

On 17 October 2023 the Resolution Authority announced it's latest annual MREL decision for the Bank. The decision entails that the Bank must at all times maintain a minimum of 21.6% of MREL funds, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA). The Bank also expects the Resolution Authority to introduce a 13.5% Subordination Requirement in the second half of 2024.

Both the MREL and the Subordination Requirement must be met without regards to the combined buffer requirement (CBR), which must be seperately fullfilled alongside MREL and the Subordination Requirement.

The Bank must also maintain a minimum of 6,0% of MREL funds, as a percentage of the Bank´s Total Exposure Measure (TEM), which is equal to two times the Bank's miminum leverage ratio.

	31.12.2023		31.12.2022	
Own funds and eligible liabilities	**Amount**	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Common Equitiy Tier 1 (CET1)	281,798	22.0%	271,630	22.9%
Additional Tier 1 capital (AT1)	-	0.0%	-	0.0%
Tier 2 capital	20,176	1.6%	21,753	1.8%
Eligible liabilities	182,851	14.3%	187,114	15.7%
Sum of own funds and eligible liabilities	**484,825**	**37.9%**	**480,495**	**40.4%**
Recurring MREL requirement	(276,358)	(21.6%)	(268,091)	(22.6%)
Combined buffer requirement (CBR)	(120,267)	(9.4%)	(110,524)	(9.3%)
Sum of MREL and Combined Buffer Requirements	**(396,625)**	**(31.0%)**	**(378,615)**	**(31.9%)**
MREL Maximum Distributable Amount (M-MDA)	**88,200**	**6.9%**	**101,880**	**8.6%**

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

50. Leverage ratio

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

Leverage ratio	**2023**	**2022**
- On-balance sheet exposure (excluding derivatives and SFTs)	1,942,770	1,772,744
- Derivative instrument exposure	21,757	9,482
- Securities financing transaction exposures	11,598	12,325
- Off-balance sheet exposure	118,051	97,338
- Regulatory adjustments to Tier 1 capital	(20,665)	(7,461)
Total leverage exposure	**2,073,511**	**1,884,428**
Tier 1 capital	**281,798**	**271,630**
Leverage ratio	**13.6%**	**14.4%**
Leverage ratio as if IFRS 9 transitional arrangements were not applied	**13.6%**	**14.4%**

Risk management

51. Risk management

See furter information in Chapter 2 in the Group's Pillar III Risk Report for 2023.

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

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51. Risk management (continued)

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

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

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

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

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

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

The Risk Management Division is responsible for the Group's risk management framework. Subsidiaries of the Group have their own risk management functions from which the Risk Management Division receives information on exposures and collates it into Group exposure. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions within the Group and to external supervisory authorities. The Risk Management Division comprised six departments at year-end 2023.

Further information about the Group's risk and capital management is provided in the Group's Pillar III Risk Report for 2023, published alongside the Consolidated Financial Statements for 2023 on the Bank's website, www.landsbankinn.is.

Credit risk

52. Credit risk

See furter information in Chapter 4 in the Group's Pillar III Risk Report for 2023.

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

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

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

Credit risk

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

The following tables show the Group's maximum credit risk exposure as at year-end 2023 and 2022. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Consolidated Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, undrawn loan commitments, and undrawn overdraft and credit card facilities.

				Corporates											
As at 31 December 2023	**Financial institutions**	**Public entities ***	**Individuals**	**Fisheries**	**Real estate companies**	**Construction companies**	**Travel industry**	**Services, ITC**	**Retail**	**Manufactur-ing and energy**	**Holding companies**	**Agri-culture**	**Other**	**Maximum exposure**	**Carrying amount**
Cash and balances with Central Bank	-	75,350	-	-	-	-	-	-	-	-	-	-	-	**75,350**	**75,350**
Bonds and debt instruments	128	128,479	-	-	-	-	-	1,429	-	26	15	-	-	**130,077**	**148,182**
Equities and equity instruments	82	-	-	9	22	-	3	3,269	9	196	7,488	-	-	**11,078**	**19,012**
Derivative instruments	7,151	-	5	84	14	-	1	6	16	-	172	-	10	**7,459**	**7,459**
Loans and advances to financial institutions	54,101	-	-	-	-	-	-	-	-	-	-	-	-	**54,101**	**54,101**
Loans and advances to customers	-	11,449	819,151	190,233	176,428	132,177	107,693	62,100	64,178	32,536	27,739	7,210	-	**1,630,894**	**1,630,894**
Other assets	19,175	28	31	3	1,914	-	602	2,438	-	7	-	-	1,573	**25,771**	**25,778**
Total on-balance sheet exposure	**80,637**	**215,306**	**819,187**	**190,329**	**178,378**	**132,177**	**108,299**	**69,242**	**64,203**	**32,765**	**35,414**	**7,210**	**1,583**	**1,934,730**	**1,960,776**
Off-balance sheet exposure	**3**	**10,158**	**38,251**	**21,281**	**33,715**	**87,246**	**12,903**	**20,673**	**26,687**	**34,908**	**2,427**	**638**	**2,405**	**291,295**	
Financial guarantees and underwriting commitments	-	191	594	5,945	2,006	6,676	2,210	4,436	4,696	707	416	10	-	27,887	
Undrawn loan commitments	-	-	142	12,459	30,467	76,920	9,090	6,861	13,507	30,009	1,634	18	2,378	183,485	
Undrawn overdraft/credit card facilities	3	9,967	37,515	2,877	1,242	3,650	1,603	9,376	8,484	4,192	377	610	27	79,923	
Maximum exposure to credit risk	**80,640**	**225,464**	**857,438**	**211,610**	**212,093**	**219,423**	**121,202**	**89,915**	**90,890**	**67,673**	**37,841**	**7,848**	**3,988**	**2,226,025**	
Percentage of maximum exposure to credit risk	3.6%	10.1%	38.5%	9.5%	9.5%	9.9%	5.4%	4.0%	4.1%	3.0%	1.7%	0.4%	0.2%	100%	

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

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

As at 31 December 2022	Financial institutions	Public entities *	Individuals	Corporates										Maximum exposure	Carrying amount
				Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC	Retail	Manufactur-ing and energy	Holding companies	Agri-culture	Other		
Cash and balances with Central Bank	-	42,216	-	-	-	-	-	-	-	-	-	-	-	**42,216**	**42,216**
Bonds and debt instruments	190	88,562	-	-	-	-	-	1,878	-	-	15	-	-	**90,645**	**125,265**
Equities and equity instruments	109	-	-	49	37	-	6	2,368	6	184	9,017	-	-	**11,776**	**19,106**
Derivative instruments	1,307	-	14	174	201	2	5	6	5	75	1,061	-	223	**3,073**	**3,073**
Loans and advances to financial institutions	28,621	-	-	-	-	-	-	-	-	-	-	-	-	**28,621**	**28,621**
Loans and advances to customers	-	10,519	790,237	192,036	139,509	102,394	110,843	60,334	64,585	38,971	28,168	6,764	-	**1,544,360**	**1,544,360**
Other assets	19,111	27	3	3	1,961	-	2	1,972	-	52	-	-	1,242	**24,373**	**24,383**
Total on-balance sheet exposure	**49,338**	**141,324**	**790,254**	**192,262**	**141,708**	**102,396**	**110,856**	**66,558**	**64,596**	**39,282**	**38,261**	**6,764**	**1,465**	**1,745,064**	**1,787,024**
Off-balance sheet exposure	**1**	**9,098**	**37,389**	**24,151**	**17,744**	**73,678**	**8,458**	**18,192**	**24,996**	**23,645**	**1,388**	**905**	**26**	**239,671**	
Financial guarantees and underwriting commitments	-	-	587	7,376	2,394	5,176	2,218	3,095	5,878	782	959	152	-	28,617	
Undrawn loan commitments	-	-	625	13,889	14,113	65,095	4,741	5,629	11,934	19,409	69	62	-	135,566	
Undrawn overdraft/credit card facilities	1	9,098	36,177	2,886	1,237	3,407	1,499	9,468	7,184	3,454	360	691	26	75,488	
Maximum exposure to credit risk	**49,339**	**150,422**	**827,643**	**216,413**	**159,452**	**176,074**	**119,314**	**84,750**	**89,592**	**62,927**	**39,649**	**7,669**	**1,491**	**1,984,735**	
Percentage of maximum exposure to credit risk	2.5%	7.6%	41.7%	10.9%	8.0%	8.9%	6.0%	4.3%	4.5%	3.2%	2.0%	0.4%	0.1%	100.0%	

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

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54. Collateral and loan-to-value

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

	LTV ratio - Fully collateralised					LTV ratio - Partially collateralised				
As at 31 December 2023	**0% - 25%**	**25% - 50%**	**50% - 75%**	**75% - 100%**	**Total**	**>100%**	**Collateral value***	**Without collateral**	**Allowance for impairment**	**Carrying amount**
Financial institutions	**-**	**-**	**-**	**-**	**0**	**-**	**-**	**54,101**	**-**	**54,101**
Public entities	**21**	**261**	**17**	**20**	**319**	**1,518**	**763**	**9,616**	**(4)**	**11,449**
Individuals	**74,396**	**273,436**	**395,171**	**34,227**	**777,230**	**3,320**	**2,095**	**40,983**	**(2,382)**	**819,151**
Mortgages	67,684	259,198	374,457	29,501	730,840	1,125	578	265	(1,246)	730,984
Other	6,712	14,238	20,714	4,726	46,390	2,195	1,517	40,718	(1,136)	88,167
Corporates	**87,827**	**282,255**	**221,194**	**157,537**	**748,813**	**37,221**	**26,702**	**23,248**	**(8,988)**	**800,294**
Fisheries	49,564	103,956	14,463	22,255	190,238	550	380	2,216	(2,771)	190,233
Real estate companies	7,095	40,985	87,081	36,840	172,001	3,498	2,500	1,859	(930)	176,428
Construction companies	5,533	33,919	42,832	36,338	118,622	13,478	8,269	1,249	(1,172)	132,177
Travel industry	2,050	24,216	35,651	33,704	95,621	9,356	7,426	5,214	(2,498)	107,693
Services, IT and communications	7,756	21,217	11,604	12,946	53,523	3,283	2,520	6,019	(725)	62,100
Retail	9,276	34,398	12,078	5,841	61,593	2,011	1,406	904	(330)	64,178
Manufacturing and energy	1,415	5,032	11,788	5,148	23,383	4,383	3,852	5,152	(382)	32,536
Holding companies	4,165	15,664	3,524	3,767	27,120	369	205	414	(164)	27,739
Agriculture	973	2,868	2,173	698	6,712	293	144	221	(16)	7,210
Other	-	-	-	-	0	-	-	-	-	0
Total	**162,244**	**555,952**	**616,382**	**191,784**	**1,526,362**	**42,059**	**29,560**	**127,948**	**(11,374)**	**1,684,995**

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

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

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

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

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55. Collateral types

See furter information in Chapter 4.1.4 in the Group's Pillar III Risk Report for 2023.

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

As at 31 December 2023	Real estate	Vessels	Deposits	Securities	Other*	Total
Financial institutions	-	-	-	-	-	**0**
Public entities	**1,058**	-	**1**	-	**22**	**1,081**
Individuals	**757,315**	**48**	**149**	**3,897**	**17,695**	**779,104**
Mortgages	724,692	11	120	64	6,315	731,202
Other	32,623	37	29	3,833	11,380	47,902
Corporates	**411,923**	**142,083**	**5,562**	**73,827**	**142,125**	**775,520**
Fisheries	8,457	138,894	600	17,325	25,344	190,620
Real estate companies	163,430	96	372	4,907	5,696	174,501
Construction companies	120,641	3	273	349	5,626	126,892
Travel industry	59,954	179	72	988	41,855	103,048
Services, IT and communications	24,445	2,828	405	8,446	19,919	56,043
Retail	15,433	-	147	15,955	31,465	63,000
Manufacturing and energy	12,373	83	3,373	-	11,405	27,234
Holding companies	1,110	-	319	25,857	39	27,325
Agriculture	6,080	-	1	-	776	6,857
Other	-	-	-	-	-	0
Total	**1,170,296**	**142,131**	**5,712**	**77,724**	**159,842**	**1,555,705**

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

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

56. Loans and advances by geographical area

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

As at 31 December 2023	Domestic	Foreign	Carrying amount
Loans and advances to financial institutions	169	53,932	54,101
Loans and advances to customers	1,599,507	31,387	1,630,894
Total	**1,599,676**	**85,319**	**1,684,995**

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

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57. Credit quality of loans and advances

See accounting policy in Note 83.11 (g).

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

	Gross carrying amount						
As at 31 December 2023	10-7	6-4	3-1	0	Unrated	Allowance for impairment	Carrying amount
Financial institutions	**54,101**	-	-	-	-	-	**54,101**
Public entities	**9,759**	**1,689**	1	4	-	(4)	**11,449**
Individuals	**610,078**	**189,683**	**15,113**	**4,939**	**1,720**	**(2,382)**	**819,151**
Mortgages	574,016	145,056	9,143	2,634	1,381	(1,246)	730,984
Other	36,062	44,627	5,970	2,305	339	(1,136)	88,167
Corporates	**181,215**	**568,546**	**42,047**	**17,474**	**0**	**(8,988)**	**800,294**
Fisheries	66,457	121,858	1,052	3,637	-	(2,771)	190,233
Real estate companies	2,541	162,952	9,277	2,588	-	(930)	176,428
Construction companies	14,692	109,734	6,638	2,285	-	(1,172)	132,177
Travel industry	24,562	67,645	11,327	6,657	-	(2,498)	107,693
Services, IT and communications	24,815	30,421	6,982	607	-	(725)	62,100
Retail	33,096	28,855	2,192	365	-	(330)	64,178
Manufacturing and energy	9,167	22,079	1,546	126	-	(382)	32,536
Holding companies	-	23,684	3,018	1,201	-	(164)	27,739
Agriculture	5,885	1,318	15	8	-	(16)	7,210
Other	-	-	-	-	-	-	0
Total	**855,153**	**759,918**	**57,161**	**22,417**	**1,720**	**(11,374)**	**1,684,995**

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

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58. Loans and advances by past due status

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

	Gross carrying amount							
		Days past due						
As at 31 December 2023	Not past due	1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	**54,101**	-	-	-	-	-	-	**54,101**
Public entities	**11,417**	**35**	**1**	-	-	-	**(4)**	**11,449**
Individuals	**809,837**	**2,869**	**1,422**	**4,302**	**1,021**	**2,082**	**(2,382)**	**819,151**
Mortgages	725,346	-	1,048	3,699	791	1,346	(1,246)	730,984
Other	84,491	2,869	374	603	230	736	(1,136)	88,167
Corporates	**790,377**	**2,499**	**6,383**	**3,584**	**2,917**	**3,522**	**(8,988)**	**800,294**
Fisheries	190,697	140	64	104	1,962	37	(2,771)	190,233
Real estate companies	174,107	205	1,667	448	296	635	(930)	176,428
Construction companies	131,710	1,068	43	144	13	371	(1,172)	132,177
Travel industry	102,003	246	2,776	2,527	556	2,083	(2,498)	107,693
Services, IT and communications	60,020	669	1,657	268	70	141	(725)	62,100
Retail	64,096	91	103	27	13	178	(330)	64,178
Manufacturing and energy	32,764	42	62	39	7	4	(382)	32,536
Holding companies	27,784	17	2	27	-	73	(164)	27,739
Agriculture	7,196	21	9	-	-	-	(16)	7,210
Other	-	-	-	-	-	-	-	0
Total	**1,665,732**	**5,403**	**7,806**	**7,886**	**3,938**	**5,604**	**(11,374)**	**1,684,995**

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

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59. Loans and advances by stage allocation

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

		Stage 1		Stage 2		Stage 3				
As at 31 December 2023	**Gross carrying amount**	**Gross carrying amount**	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Allowance for impairment**	**Fair Value**	**Carrying amount**
Financial institutions	**54,101**	**54,101**	-	-	-	-	-	-	-	**54,101**
Public entities	**11,453**	**11,372**	**(4)**	**77**	-	**4**	-	**(4)**	-	**11,449**
Individuals	**821,533**	**787,521**	**(1,119)**	**29,020**	**(482)**	**4,939**	**(781)**	**(2,382)**	**53**	**819,151**
Mortgages	732,230	711,881	(839)	17,715	(241)	2,634	(166)	(1,246)	-	730,984
Other	89,303	75,640	(280)	11,305	(241)	2,305	(615)	(1,136)	53	88,167
Corporates	**809,282**	**722,593**	**(2,547)**	**53,664**	**(1,640)**	**17,474**	**(4,801)**	**(8,988)**	**15,551**	**800,294**
Fisheries	193,004	182,930	(346)	678	(16)	3,637	(2,409)	(2,771)	5,759	190,233
Real estate companies	177,358	164,189	(341)	6,621	(152)	2,588	(437)	(930)	3,960	176,428
Construction companies	133,349	124,181	(617)	6,511	(203)	2,285	(352)	(1,172)	372	132,177
Travel industry	110,191	93,418	(352)	10,116	(793)	6,657	(1,353)	(2,498)	-	107,693
Services, IT and communications	62,825	58,097	(554)	3,772	(110)	607	(61)	(725)	349	62,100
Retail	64,508	60,700	(164)	3,111	(61)	365	(105)	(330)	332	64,178
Manufacturing and energy	32,918	20,119	(82)	12,673	(289)	126	(11)	(382)	-	32,536
Holding companies	27,903	11,752	(82)	10,171	(16)	1,201	(66)	(164)	4,779	27,739
Agriculture	7,226	7,207	(9)	11	-	8	(7)	(16)	-	7,210
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,696,369**	**1,575,587**	**(3,670)**	**82,761**	**(2,122)**	**22,417**	**(5,582)**	**(11,374)**	**15,604**	**1,684,995**

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59. Loans and advances by stage allocation (continued)

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

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60. Impairment allowance on loans and advances

See accounting policy in Note 83.11 (g).

The following tables show changes in the impairment allowance on loans and advances during the year 2023.

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2023 - Financial institutions	**0**	**0**	**0**	**0**
Changes in models/risk parameters	-	-	-	0
Balance As at 31 December 2023 - Financial institutions	**0**	**0**	**0**	**0**
- therof classified as deduction from gross carrying amounts	-	-	-	0
- therof classified as liabilities	-	-	-	0

	12-months ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	Total
Balance as at 1 January 2023 - Loans and advances to customers	**(4,006)**	**(1,609)**	**(5,005)**	**(10,620)**
New financial assets originated	(895)	(422)	(888)	(2,205)
Reversals due to financial assets that have been derecognised	696	219	1,008	1,923
Transfer to Stage 1 - 12-month ECL	(108)	103	5	0
Transfer to Stage 2 - Lifetime ECL	674	(845)	171	0
Transfer to Stage 3 - Lifetime ECL	858	489	(1,347)	0
Expected cancellation as a result of natural disaster	(77)	(3)	-	(80)
Changes in models/risk parameters	(1,191)	(108)	(843)	(2,142)
Provisions used to cover write-offs	-	8	1,213	1,221
Balance As at 31 December 2023 - Loans and advances to customers	**(4,049)**	**(2,168)**	**(5,686)**	**(11,903)**
- therof classified as deduction from gross carrying amounts	(3,670)	(2,122)	(5,582)	(11,374)
- therof classified as liabilities	(379)	(46)	(104)	(529)

	1.1-31.12.2023				
Net impairment on loans and advances	**Financial institutions**	**Public entities**	**Individuals**	**Corporates**	**Total**
New financial assets originated	-	(2)	(420)	(1,783)	(2,205)
Reversals due to financial assets that have been derecognised	-	-	159	1,764	1,923
Changes in models	-	10	134	1,570	1,714
Changes due to financial assets recognised in the opening balance	-	(5)	(1,064)	(2,787)	(3,856)
Cancellation as a result of natural disaster	-	-	(245)	-	(245)
Write-offs	-	-	(385)	(1,332)	(1,717)
Provisions used to cover write-offs	-	-	134	1,087	1,221
Recoveries	-	-	196	1	197
Translation difference	-	-	-	(4)	(4)
Total	**0**	**3**	**(1,491)**	**(1,484)**	**(2,972)**

The impact of cancellation of interest and inflation-indexation on mortgages effected in response to the natural disaster on the Reykjanes peninsula is in the amount of ISK 245 million. As at 31.12.2023, ISK 165 million had already been cancelled. A collective allowance of ISK 80 million has been charged under liabilities to meet the remainder of the cancellation for payments due in February 2024.

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60. Impairment allowance on loans and advances (continued)

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

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

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

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

61. Large exposures

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

As at 31 December 2023, the Group had three large exposures compared to four large exposures at year-end 2022. The largest exposure before credit risk mitigation is the Icelandic sovereign and the second largest exposure is a liquid asset in the form of commercial papers issued by the Dutch sovereign. The total ratio of large exposures, net of credit risk mitigation, was 9.4% at year-end 2023.

As at 31 December 2023	**Gross**	**Ratio of Tier 1 capital**	**Net**	**Ratio of Tier 1 capital**
Group 1	54,663	19.3%	216	0.1%
Group 2	50,650	17.9%	-	0.0%
Group 3	32,785	11.6%	26,298	9.3%
Total	**138,098**	**48.8%**	**26,514**	**9.4%**

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61. Large exposures (continued)

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

62. Bonds and debt instruments

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

Government bonds and treasury bills	2023	2022
Rated AAA	72,743	18,854
Rated AA- to AA+	2,712	21,209
Rated A- to A+	61,919	65,239
Rated BB+ and below	64	-
	137,438	**105,302**
Corporate bonds		
Rated A- to A+	817	1,655
Rated BBB- to BBB+	37	119
Unrated	5,562	7,417
	6,416	**9,191**
Covered bonds		
Rated BBB- to BBB+	4,328	10,772
	4,328	**10,772**
Total	**148,182**	**125,265**

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

As at 31 December 2023	Past due 0 - 90 days	Past due over 90 days	Carrying amount
Holding companies	-	12	12
Total	**0**	**12**	**12**
As at 31 December 2022			
Holding companies	-	13	13
Total	**0**	**13**	**13**

63. Derivative instruments

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

	2023			2022		
	Notional	Fair value		Notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Rated A- to A+	174,046	7,136	975	108,199	1,189	1,196
Rated BBB- to BBB+	1,446	4	1	7,452	105	25
Unrated	41,796	319	557	81,255	1,779	257
Total	**217,288**	**7,459**	**1,533**	**196,906**	**3,073**	**1,478**

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64. Offsetting financial assets and financial liabilities

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

As at 31 December 2023

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

	Financial assets subject to netting agreements			Netting not recognised on balance sheet				
Types of financial assets	**Financial assets**	**Financial liabilities**	**Net amount**	**Financial liabilities**	**Collateral received**	**Net financial assets subject to netting agreements**	**Financial assets not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	7,459	-	7,459	(453)	(5,473)	1,534	-	7,459

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

	Financial liabilities subject to netting agreements			Netting not recognised on balance sheet				
Types of financial liabilities	**Financial liabilities**	**Financial assets**	**Net amount**	**Financial assets**	**Collateral pledged**	**Net financial liabilities subject netting agreements**	**Financial liabilities not subject to netting agreements**	**Net amount on balance sheet**
Derivatives	(1,533)	-	(1,533)	(453)	426	(1,559)	-	(1,533)
Short positions	(1,255)	-	(1,255)	-	1,255	-	-	(1,255)
Total	**(2,788)**	**0**	**(2,788)**	**(453)**	**1,681**	**(1,559)**	**0**	**(2,788)**

As at 31 December 2022

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

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

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

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

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Liquidity risk

65. Liquidity risk

See further information in Chapter 6 in the Group’s Pillar III Risk Report for 2023.

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

66. Liquidity risk management

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

The Group follows guidelines No. 2/2010 from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) on best practice for managing liquidity of financial undertakings. The Central Bank's liquidity Rules No. 1520/2022 require the Group to maintain a total minimum liquidity coverage ratio (LCR) of 100% and a minimum LCR of 80% in euros. In addition, a minimum LCR of 50% is required in Icelandic króna as of 1 January 2023 (2022: 40%). Rules No. 750/2021 set requirements for a minimum 100% overall net stable funding ratio (NSFR). The Group submits monthly reports on its liquidity and funding position to the Central Bank.

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

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

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

The LCR is the key indicator for short-term liquidity risk, measuring the ratio of high-quality liquid assets to expected total net cash outflows over the next 30 days under a specified stress scenario. Financial institutions can at a maximum assume 75% of their estimated inflow net to their estimated outflow. This is intended to prevent their over-reliance on estimated inflow under stressed conditions. Calculations of the LCR as at 31 December 2023 and at year-end 2022 are shown in the following table:

	ISK		EUR		Liquidity coverage ratio total (LCR)	
Liquidity coverage ratio 31 December 2023	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Level 1 liquid assets	130,995	130,995	73,323	73,323	207,939	207,939
Level 2 liquid assets	15,203	10,602	216	183	15,418	10,785
Information items	-	-	-	-	-	-
Total liquid assets	**146,198**	**141,597**	**73,539**	**73,506**	**223,357**	**218,724**
Deposits	656,678	106,437	44,460	18,222	781,352	157,638
Borrowing	-	-	-	-	11,967	11,967
Other outflows	173,209	24,187	16,770	1,391	230,529	30,047
Total outflows (0-30 days)	**829,887**	**130,624**	**61,230**	**19,613**	**1,023,848**	**199,652**
Loans and advances to financial institutions	296	-	12,856	12,361	54,316	52,865
Other inflows	39,086	20,464	6,126	3,809	47,781	25,837
Limit on inflows	-	-	-	(1,461)	-	-
Total inflows (0-30 days)	**39,382**	**20,464**	**18,982**	**14,709**	**102,097**	**78,702**
Liquidity coverage ratio		**129%**		**1,499%**		**181%**

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66. Liquidity risk management (continued)

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

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

Liquidity reserves as at 31 December 2023	ISK	Foreign currencies	Total
Cash and balances with the Central Bank	71,964	1,487	73,451
Domestic bonds and debt instruments eligible as collateral with the Central Bank	74,234	216	74,450
Foreign government bonds with 0% risk weight	-	75,457	75,457
High quality liquidity assets	**146,198**	**77,160**	**223,358**
Loans and advances to financial institutions	296	54,020	54,316
Total liquidity reserves	**146,494**	**131,180**	**277,674**

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

The Group measures the net stable funding ratio (NSFR) as another key indicator of liquidity risk up to 12 months. The following table shows the values of the NSFR for foreign currencies and NSFR total at year-end 2023 and 2022.

	2023	2022
Net stable funding ratio FX	145%	132%
Net stable funding ratio total	123%	117%

The following table shows the Group's deposits categorised using the methodology of liquidity Rules No. 266/2017 on calculation of LCR, together with the division of guaranteed and unguaranteed deposits, in accordance with the Act on Deposit Guarantees and Investor-Compensation Scheme, No. 70/2020, amending Act No. 98/1999. Payments to each depositor shall equal the total amount of eligible deposits yet never a higher amount than the equivalent of EUR 100,000 in Icelandic króna. The deposit groups are categorised by maturity and applied run-off rate, which indicates their level of stickiness. Analysis of stickiness is the Bank's preferred method of measuring the stability of deposits under stressed conditions.

As at 31 December 2023	Run off rate	0-30 days	Over 30 days	Guaranteed	Unguaranteed	Total
Individuals	5% - 100%	423,132	153,040	430,169	146,001	576,172
Small and Medium Sized Corporates	5% - 100%	94,770	11,511	61,717	44,565	106,281
Operational deposits	5% - 25%	-	-	-	-	0
Large Corporates	20% - 40%	174,958	57,620	12,238	220,340	232,578
Public entities	20% - 40%	51,204	6,608	-	57,812	57,812
Financial customers	100%	33,782	52,468	-	86,250	86,250
Pledged deposits		18,201	1,211	2,742	16,671	19,412
Total deposits		**796,047**	**282,458**	**506,866**	**571,639**	**1,078,505**

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66. Liquidity risk management (continued)

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

67. Maturity analysis of financial assets and liabilities

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

The amounts in the maturity analyses as at year-end 2023 and 2022 are allocated to maturity buckets in respect of remaining contractual maturity (i.e. based on the timing of future cash flows according to contractual terms). For loans and advances in moratorium or in the process of liquidation, the Group estimates the amounts from the historical recovery rate. For bonds issued by companies in moratorium or in the process of liquidation the amounts presented are future cash flows estimated as their fair value at the reporting date. These bonds and loans all fall in the time span of 1-5 years.

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

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

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

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

The following table shows a maturity analysis of the Group's financial instruments as at 31 December 2023:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Due to financial institutions and Central Bank	(13,232)	(15,706)	-	-	-	-	(28,938)	(29,968)
Deposits from customers	(782,741)	(175,379)	(66,113)	(25,990)	(11,237)	-	(1,061,460)	(1,048,537)
Short positions	(48)	(51)	(24)	(783)	(4,009)	-	(4,915)	(1,255)
Borrowings	(11,846)	(3,886)	(101,783)	(447,842)	(18,832)	-	(584,189)	(513,687)
Other financial liabilities	(10,718)	-	-	-	-	-	(10,718)	(10,718)
Subordinated liabilities	-	(636)	(7,749)	(17,758)	-	-	(26,143)	(20,176)
Total	**(818,585)**	**(195,658)**	**(175,669)**	**(492,373)**	**(34,078)**	**0**	**(1,716,363)**	**(1,624,341)**
Derivative financial liabilities								
Trading								(651)
Inflow	18,538	8,684	1,226	-	-	-	28,448	
Outflow	(18,994)	(8,913)	(1,239)	-	-	-	(29,146)	
Risk management								(882)
Inflow	6,591	16,260	126	2,140	-	-	25,117	
Outflow	(6,691)	(16,471)	(40)	(2,935)	-	-	(26,137)	
Total	**(556)**	**(440)**	**73**	**(795)**	**0**	**0**	**(1,718)**	**(1,533)**
Non-derivative financial assets								
Cash and balances with Central Bank	75,350	-	-	-	-	-	75,350	75,350
Bonds and debt instruments	9,900	48,837	41,200	50,108	7,069	-	157,114	148,182
Equities and equity instruments	-	-	-	-	-	19,012	19,012	19,012
Loans and advances to financial institutions	54,101	-	-	-	-	-	54,101	54,101
Loans and advances to customers	71,773	112,544	306,125	681,066	1,921,460	-	3,092,968	1,630,894
Other financial assets	5,263	-	-	-	-	-	5,263	5,263
Total	**216,387**	**161,381**	**347,325**	**731,174**	**1,928,529**	**19,012**	**3,403,808**	**1,932,802**
Derivative financial assets								
Trading								336
Inflow	13,316	6,246	787	-	-	-	20,349	
Outflow	(13,083)	(6,146)	(784)	-	-	-	(20,013)	
Risk management								7,123
Inflow	22,189	29,375	2,307	106,320	-	-	160,191	
Outflow	(21,155)	(26,025)	(5,801)	(99,758)	-	-	(152,739)	
Total	**1,267**	**3,450**	**(3,491)**	**6,562**	**0**	**0**	**7,788**	**7,459**
Off-balance sheet items								
Financial guarantees and underwriting commitments	(661)	(701)	(6,330)	(10,706)	(9,048)	(441)	(27,887)	
Undrawn loan commitments	(183,485)	-	-	-	-	-	(183,485)	
Undrawn overdraft/credit card commitments	(79,923)	-	-	-	-	-	(79,923)	
Total	**(264,069)**	**(701)**	**(6,330)**	**(10,706)**	**(9,048)**	**(441)**	**(291,295)**	
Net liquidity position	**(865,556)**	**(31,968)**	**161,908**	**233,862**	**1,885,403**	**18,571**	**1,402,220**	**314,387**

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

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

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

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68. Maturity analysis of financial assets and liabilities by currency

The following table shows a maturity analysis of the Group's financial instruments by currency of denomination as at 31 December 2023:

Non-derivative financial liabilities	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Total in foreign currencies	(145,200)	(19,558)	(40,359)	(254,388)	(9,354)	-	(468,859)	(447,800)
ISK	(673,385)	(176,100)	(135,310)	(237,985)	(24,724)	-	(1,247,504)	(1,176,541)
Total	**(818,585)**	**(195,658)**	**(175,669)**	**(492,373)**	**(34,078)**	**0**	**(1,716,363)**	**(1,624,341)**
Derivative financial liabilities								
Total in foreign currencies	12,940	13,674	(64)	-	-	-	26,550	(687)
ISK	(13,496)	(14,114)	137	(795)	-	-	(28,268)	(846)
Total	**(556)**	**(440)**	**73**	**(795)**	**0**	**0**	**(1,718)**	**(1,533)**
Non-derivative financial assets								
Total in foreign currencies	74,254	85,041	125,930	146,404	4,492	384	436,505	411,477
ISK	142,133	76,340	221,395	584,770	1,924,037	18,628	2,967,303	1,521,325
Total	**216,387**	**161,381**	**347,325**	**731,174**	**1,928,529**	**19,012**	**3,403,808**	**1,932,802**
Derivative financial assets								
Total in foreign currencies	5,855	3,570	(3,001)	6,562	-	-	12,986	7,442
ISK	(4,588)	(120)	(490)	-	-	-	(5,198)	17
Total	**1,267**	**3,450**	**(3,491)**	**6,562**	**0**	**0**	**7,788**	**7,459**
Off-balance sheet items								
Total in foreign currencies	(46,329)	(131)	(3,511)	(2,303)	(4,810)	-	(57,084)	
ISK	(217,740)	(570)	(2,819)	(8,403)	(4,238)	(441)	(234,211)	
Total	**(264,069)**	**(701)**	**(6,330)**	**(10,706)**	**(9,048)**	**(441)**	**(291,295)**	
Net liquidity position in ISK	**(767,076)**	**(114,564)**	**82,913**	**337,587**	**1,895,075**	**18,187**	**1,452,122**	**343,955**
Net liquidity position in foreign currencies	**(98,480)**	**82,596**	**78,995**	**(103,725)**	**(9,672)**	**384**	**(49,902)**	**(29,568)**
Net liquidity position	**(865,556)**	**(31,968)**	**161,908**	**233,862**	**1,885,403**	**18,571**	**1,402,220**	**314,387**

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

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

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69. Encumbered assets

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

The Bank issues covered bonds in ISK and EUR for own use that can be sold later or used for securities lending and repurchase agreements. At year-end 2023, these bonds amounted to ISK 15 billion and EUR 250 million. Pledged assets against the bonds amounted to ISK 66 billion (31.12.2022: ISK 70,9 billion).

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

	Collateral pledged against			
As at 31 December 2023	**Covered bonds**	**Other**	**Un-encumbered**	**Total**
Cash and balances with Central Bank	8,328	1,899	65,123	75,350
Bonds and debt instruments	-	2,857	145,325	148,182
Equities and equity instruments	-	-	19,012	19,012
Derivative instruments	-	-	7,459	7,459
Loans and advances to financial institutions	-	1,035	53,066	54,101
Loans and advances to customers	403,637	-	1,227,257	1,630,894
Investments in equity-accounted associates	-	-	1,849	1,849
Property and equipment	-	5,060	9,708	14,768
Intangible assets	-	-	1,472	1,472
Other assets	-	-	6,828	6,828
Assets classified as held for sale	-	-	861	861
Total	**411,965**	**10,851**	**1,537,960**	**1,960,776**

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

Market risk

70. Market risk

See further information in Chapter 5 in the Group's Pillar III Risk Report for 2023.

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

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71. Market risk management

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

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

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

	2023	2022
Market risk factor	**% of RWEA**	**% of RWEA**
Equity price risk	0.4%	0.4%
Interest rate risk	0.6%	0.6%
CVA of derivatives	0.2%	0.0%
Foreign exchange risk	0.3%	0.6%
Total	**1.6%**	**1.7%**

72. Equity price risk

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

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

73. Interest rate risk

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

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

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73. Interest rate risk (continued)

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

As at 31 December 2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Cash and balances with Central Bank	75,350	-	-	-	75,350
Bonds and debt instruments	59,115	39,604	44,311	5,152	148,182
Derivative instruments	2,723	67	4,669	-	7,459
Loans and advances to financial institutions	54,101	-	-	-	54,101
Loans and advances to customers	1,113,528	221,782	280,317	15,267	1,630,894
Other financial assets	5,263	-	-	-	5,263
Total	**1,310,080**	**261,453**	**329,297**	**20,419**	**1,921,249**
Financial liabilities					
Due to financial institutions and Central Bank	(29,968)	-	-	-	(29,968)
Deposits from customers	(1,043,506)	(4,058)	(973)	-	(1,048,537)
Derivative instruments and short positions	(934)	(21)	(578)	(1,255)	(2,788)
Borrowings	(65,135)	(96,725)	(342,974)	(8,853)	(513,687)
Other financial liabilities	(10,718)	-	-	-	(10,718)
Subordinated liabilities	-	(7,053)	(13,123)	-	(20,176)
Total	**(1,150,261)**	**(107,857)**	**(357,648)**	**(10,108)**	**(1,625,874)**
Net on-balance sheet position	159,819	153,596	(28,351)	10,311	295,375
Derivatives held for hedging	(90,054)	-	90,054	-	
Net off-balance sheet position	2,000	-	(2,000)	-	
Total interest repricing gap	**71,765**	**153,596**	**59,703**	**10,311**	

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

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74. Sensitivity analysis of trading portfolios

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

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

	2023		2022	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(149)	159	(225)	242
ISK, CPI indexed	(235)	264	(308)	344
Total	**(384)**	**423**	**(533)**	**586**

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

	2023		2022	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	136	(136)	106	(106)
Other	-	-	3	(3)
Total	**136**	**(136)**	**109**	**(109)**

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

75. Sensitivity analysis of portfolios in the banking book

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

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

	2023		2022	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK, non-CPI indexed	(4,141)	4,405	(5,256)	5,574
ISK, CPI indexed	1,629	(1,651)	2,328	(2,458)
EUR	1,089	(1,109)	3,242	(3,355)
Other	47	(46)	(41)	42
Total	**(1,376)**	**1,599**	**273**	**(197)**

The following table shows how the Group's profit (loss) before tax would have been affected if the price of equities in the banking book at year end classified into Level 1 or Level 2 see Note 83.11 (f) changed by +/-5% and key unobservable inputs used in valuation of equities which are classified into Level 3 see Note 83.11 (f) changed also by +/- 5%.

	2023		2022	
Currency	**Increase**	**Decrease**	**Increase**	**Decrease**
ISK	347	(347)	327	(327)
Other	17	(17)	18	(18)
Total	**364**	**(364)**	**345**	**(345)**

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

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76. CPI indexation risk (all portfolios)

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

The following tables summarize the Group's CPI exposure by maturity dates at year-end 2023 and 2022, where CPI-linked financial assets and liabilities are disclosed by maturities at their carrying amounts.

As at 31 December 2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Financial assets					
Bonds and debt instruments	29	-	31,672	3,220	34,921
Derivative instruments	3	-	-	-	3
Loans and advances to customers	756	597	50,028	329,986	381,367
Total	**788**	**597**	**81,700**	**333,206**	**416,291**
Financial liabilities					
Deposits from customers	(96,763)	(55,228)	(21,631)	(5,993)	(179,615)
Derivative instruments and short positions	(4)	-	(578)	(340)	(922)
Borrowings	-	(52,712)	(85,805)	-	(138,517)
Subordinated liabilities	-	(7,053)	(13,123)	-	(20,176)
Total	**(96,767)**	**(114,993)**	**(121,137)**	**(6,333)**	**(339,230)**
Total on-balance sheet position	**(95,979)**	**(114,396)**	**(39,437)**	**326,873**	**77,061**
Off-balance sheet position					
Interest rate swaps	-	-	(2,000)	-	(2,000)
Total return swaps	(310)	-	-	-	(310)
Total off-balance sheet position	**(310)**	**0**	**(2,000)**	**0**	**(2,310)**
Total CPI indexation balance	**(96,289)**	**(114,396)**	**(41,437)**	**326,873**	**74,751**

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

Management of the Group's CPI indexation risk is supplemented by monitoring the sensitivity of the Group's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios. As an example, a 1 percentage point change in the CPI applied to the inflation risk exposures at year-end 2023, with no change in other variables, would have changed net interest income by ISK 747 million (31 December 2022: ISK 79 million).

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

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Currency risk

77. Currency risk (all portfolios)

See further information in Chapter 5 in the Group's Pillar III Risk Report for 2023.

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

The Group's combined net foreign exchange balance as at 31 December 2023 was +1.00% of the Group's total capital base (31.12.2022: +2.53%).

78. Concentration of currency risk

The following tables summarise the Group's exposure to currency risk at year-end 2023 and 2022. The off-balance sheet amounts shown are the notional amounts of the Group's derivative instruments. Amounts presented under assets and liabilities include all spot deals. When managing currency risk, the Group regards spot deals as non-derivative assets or liabilities.

As at 31 December 2023	EUR	GBP	USD	NOK	SEK	Other	Total
Assets							
Cash and balances with Central Bank	578	138	343	43	36	350	1,488
Bonds and debt instruments	72,974	-	2,712	-	-	-	75,686
Equities and equity instruments	79	-	305	-	-	-	384
Derivative instruments	6,703	30	661	47	1	1	7,443
Loans and advances to financial institutions	12,856	2,198	20,600	12,952	20	5,392	54,018
Loans and advances to customers	199,310	1,972	73,293	58	32	5,090	279,755
Other assets	64	2	18	2	2	59	147
Total	**292,564**	**4,340**	**97,932**	**13,102**	**91**	**10,892**	**418,921**
Liabilities							
Due to financial institutions and Central Bank	(21,013)	(8)	(1,278)	-	-	-	(22,299)
Deposits from customers	(39,512)	(5,888)	(72,132)	(3,551)	(989)	(5,764)	(127,836)
Derivative instruments and short positions	(518)	(6)	(146)	(1)	(1)	(10)	(682)
Borrowings	(209,909)	-	(25,642)	(28,993)	(29,246)	-	(293,790)
Other liabilities	(1,374)	(184)	(1,548)	(92)	(86)	(598)	(3,882)
Subordinated liabilities	-	-	-	-	-	-	0
Total	**(272,326)**	**(6,086)**	**(100,746)**	**(32,637)**	**(30,322)**	**(6,372)**	**(448,489)**
Net on-balance sheet position	20,238	(1,746)	(2,814)	(19,535)	(30,231)	4,520	**(29,568)**
Net off-balance sheet position	(17,461)	2,269	2,356	19,808	30,335	(4,705)	**32,602**
Net currency position	**2,777**	**523**	**(458)**	**273**	**104**	**(185)**	**3,034**

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

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79. Sensitivity to currency risk

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

	2023	
Currency (ISK million)	**-5%**	**+5%**
EUR	139	(139)
GBP	26	(26)
USD	(23)	23
NOK	14	(14)
SEK	5	(5)
Other	(9)	9
Total	**152**	**(152)**

	2022	
Currency (ISK million)	**-5%**	**+5%**
EUR	220	(220)
GBP	37	(37)
USD	46	(46)
JPY	8	(8)
CHF	3	(3)
Other	39	(39)
Total	**353**	**(353)**

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

80. Foreign exchange rates used

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

	As at 31 December 2023	As at 31 December 2022	% change	Average for 2023	Average for 2022
EUR/ISK	150.09	151.50	(0.9%)	148.85	142.48
GBP/ISK	173.21	170.72	1.5%	171.23	166.94
USD/ISK	135.88	141.93	(4.3%)	137.68	134.99
JPY/ISK	0.9635	1.0758	(10.4%)	0.9816	1.0370
CHF/ISK	161.49	153.45	5.2%	153.28	142.01
CAD/ISK	103.03	104.76	(1.7%)	102.14	103.58
DKK/ISK	20.135	20.373	(1.2%)	19.978	19.152
NOK/ISK	13.379	14.410	(7.2%)	13.113	14.111
SEK/ISK	13.487	13.619	(1.0%)	13.013	13.405

Sustainability risk

81. Sustainability risk

See further information in Chapter 8 in the Group's Pillar III Risk Report for 2023.

Sustainability risk is defined as risk that stems from the current or prospective impact of environmental, social and governance (ESG) factors on the Bank's counterparties or invested assets. Sustainability risk materialises through the amplification of traditional categories of financial risks.

The Bank's Sustainability Policy sets out the Bank's sustainability aims and describes its methods of implementing these in the operation. The Sustainability Policy of Landsbankinn was revised in 2023. Landsbankinn continues to work on the integration of sustainability risk in its risk framework, investment decisions and its internal assessment of capital and liquidity requirements.

In 2023, a new sub-committee of the Board of Directors was formed. The Sustainability Committee is tasked with reviewing sustainability issues. With this step, the Bank has integrated sustainability in its strategy as the Committee's main responsibilities are to formulate a sustainability strategy, develop and standardise sustainability metrics, disclosure and publication of sustainability data, compliance with laws and rules on sustainability, and ensuring continuous education of the Board on sustainability concerns.

Landsbankinn now publishes information about its green asset ratio for the first time in accordance with Regulation (EU) No. 2020/852 which entered into effect in Iceland 1 June 2023.

Detailed information on sustainability is disclosed in Landsbankinn's sustainability accounts for 2023, published alongside the Group's Annual Financial Statement for 2023 to the Bank's website, www.landsbankinn.is.

Operational risk

82. Operational risk

See further information in Chapter 7 in the Group’s Pillar III Risk Report for 2023.

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

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

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Material accounting policies

83. Material accounting policy information

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

As of the year 2023, the Group adopted amendments to IAS 1 regarding disclosure of accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of material, rather than significant accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies. Management reviewed the accounting policies and, in certain instances, made updates to the information disclosed in Note 83 Material accounting policy information (2022: Significant accounting policies) in line with the amendments.

83.1. Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

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

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

(b) Non-controlling interests

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

(c) Loss of control

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

83.2. Structured entities

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

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

83. Material accounting policies (continued)

83.2. Structured entities (continued)

When assessing whether to consolidate investment funds, the Group reviews all facts and circumstances to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed as such without cause, has variable returns through significant unit holdings and/or a guarantee, is able to influence the returns of the funds by exercising its power and the Group's aggregate interest is in each case not less than 25%.

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

83.3. Associates

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

Equity-accounted associates

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

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

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

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

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

Associates at fair value through profit or loss

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

83.4. Foreign currency translation

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

83. Material accounting policies (continued)

83.5. Net Interest income

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

Presentation

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

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

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

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

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

83.6. Net fee and commission income

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

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

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

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.6. Net fee and commission income (continued)

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

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

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

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

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

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

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

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

83.8. Net foreign exchange gain (loss)

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

83.9. Tax on liabilities of financial institutions

A special tax is levied on financial institutions under Act No. 155/2010, as subsequently amended. The tax is calculated as 0.145% (2022: 0.145%) of the carrying amount of total liabilities in excess of ISK 50,000 million at year-end as determined for tax purposes, excluding tax liabilities. The tax is a non-deductible expense. This special tax on liabilities of financial institutions is recognised separately in the income statement and is included in the statement of financial position in the line item “Tax liabilities”.

83.10. Income tax

(a) Income tax

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

Income tax for the operating year 2023 was recognised at the year-end corporate income tax rate of 20.0% (2022: 20.0%). An additional special income tax on financial institutions is recognised at the rate of 6% on an income tax base exceeding ISK 1,000 million in accordance with Act No. 165/2011, on Financial Activities Tax.

(b) Current tax

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

(c) Deferred tax

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

Deferred income tax is recognised in full as a liability, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined based on the domestic income tax laws and corporate income tax rates that have been enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax is included in the statement of financial position in the line item “Deferred tax assets”.

d) Joint taxation

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

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.11. Financial assets and liabilities

(a) Recognition and initial measurement

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

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

(b) Classification

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

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

Cash flow characteristics assessment

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

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

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

83. Material accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(c) Derecognition

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

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

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

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

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

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

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

d) Modification of financial assets and financial liabilities

Financial assets

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

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see note 83.11 (g)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, it first considers whether a portion of the asset should be written off before the modification takes place, see Note 83.11 (g) Write-off. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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

If such a modification is carried out because of financial difficulties of the borrower (see Note 83.11 (g)) then the gain or loss is presented together with impairment changes. In other cases, it is presented as interest income calculated using the effective interest rate method.

Restructured financial assets

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

83. Material accounting policies (continued)

83.11. Financial assets and liabilities (continued)

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

Restructured financial assets (continued)

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

Renegotiated loans

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

Financial liabilities

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

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

(e) Offsetting

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

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

(f) Fair value measurement

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

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

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

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

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(f) Fair value measurement (continued)

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

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

Fair value hierarchy

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

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

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

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

(g) Impairment of financial assets

Impairment process

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

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

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

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

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

83. Material accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Impairment process (continued)

The impairment process for each reporting year is as follows:

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

ECL calculation

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

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

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

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

Credit-impaired loans

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

- Past due: Total amount of obligors loans past due above the minimum amount threshold have been past due by more than 90 days.
- Unlikeliness to pay: Obligor fulfils other criteria of default and is therefore considered unlikely to pay.

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

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

Other factors that may indicate default are concessions to an obligor because of financial difficulties, breach of covenants of a credit obligation, termination of obligation and collateral has been called and notes on the operational viability of the customer in financial statements.

Significant increase in credit risk

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

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

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

83. Material accounting policies (continued)

83.11. Financial assets and liabilities (continued)

(g) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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

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

Rating system

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

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

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

Presentation of allowance

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

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

Write-off

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

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

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83. Material accounting policies (continued)

83.12. Cash and balances with Central Bank

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

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements, No. 585/2018. The reserve requirements fall into two categories: On the one hand, a fixed reserve requirement of 2% as of 21 June 2023 (previously 1%), bearing no interest and eligible as liquidity reserves and, on the other hand, an average maintenance level.

83.13. Bonds and debt instruments

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

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

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

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

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

83.14. Equities and equity instruments

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

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

83.15. Derivative instruments

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

Notes to the Consolidated Financial Statements

83. Significant accounting policies (continued)

83.16. Embedded derivatives

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

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

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

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

83.17. Hedge accounting

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

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

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

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

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

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

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

83.18. Short positions

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

83.19. Loans and advances

"Loans and advance" captions in the statement of financial position include:

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

83. Material accounting policies (continued)

83.19. Loans and advances (continued)

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

83.20. Property and equipment

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

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

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

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

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

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

83.21. Intangible assets

Computer software

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

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

Goodwill

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

83.22. Deposits

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

83.23. Borrowings

(a) Secured borrowings

Each covered bond series of the secured borrowings is issued under the Bank's EUR 2.5 billion Covered Bond Programme listed on Euronext Dublin. These are issued under a conditional licence from the Financial Supervisory Authority of the Central Bank of Iceland (FSA) and with reference to Act No. 11/2008 and Rules of the Central Bank of Iceland No. 190/2023. The Bank's ISK denominated covered bond series are listed and traded on Nasdaq Iceland and the Bank's FX denominated covered bond series are listed and traded on Euronext Dublin.

Other secured borrowings consist of individual secured loan agreements not issued under the Bank's funding programmes.

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

Landsbankinn hf. Consolidated Financial Statements 2023 93 All amounts are in ISK million

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.23. Borrowings (continued)

(b) unsecured borrowings

Unsecured borrowing consists of senior bonds denominated in foreign currencies and, when appropriate, marketable commercial papers denominated in ISK. The Bank's FX denominated bonds are issued under its 2 billion Euro Medium Term Note (EMTN) Programme and are listed and traded on the Euronext Dublin. The commercial papers on the other hand are issued under the Bank's ISK 50 billion Debt Issuance Programme and listed and traded on Nasdaq Iceland.

Other unsecured borrowings consist of individual unsecured loan agreements not issued under the Bank's funding programmes.

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

83.24. Sustainable Finance Framework

In addition to traditional funding programmes, the Bank has created a Sustainable Finance Framework for its funding of environmental and social projects. The Framework was first issued in January 2021. It was initially based on ICMA guidelines and more recently takes into account the EU Taxonomy for green and social funding. The Framework is issued with a second-party opinion from international rating agency Sustainalytics and sets out the criteria projects must meet to contribute to sustainability and ensures transparency. A sustainable finance impact report is published annually, providing an overview of the funding on which the Bank's green bond issuance is based as well as information on the relevant Framework categories. The impact report is reviewed by an independent third party (Deloitte) to ensure the accuracy of information disclosed in the report and that it meets the requirements of the Sustainable Finance Framework.

83.25. Other liabilities

Unpaid contributions to the Depositors' and Investors' Guarantee Fund

The Icelandic Financial Institutions' Guarantee Fund (TVF) is responsible for implementation of Act No. 98/1999 on Deposit Guarantees and Investor-Compensation Scheme. TVF is organised into three divisions, the Deposit Division, the Securities Division and the Resolution Fund, all of which shall have at their disposal certain minimum amounts, specified in the Act. Since the divisions already fulfil these requirements, the Bank made no contributions to TVF in 2023. At year-end 2023, no contributions to TVF were outstanding.

83.26. Subordinated liabilities

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

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

83.27. Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

83.28. Earnings per share

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

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.29. Repurchase and reverse repurchase agreements

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

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

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

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

83.30. Collateral swaps

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

83.31. Financial guarantees and loan commitments

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

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

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

83.32. Contingent liabilities and provisions

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

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

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

83.33. Employee benefits

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

Notes to the Consolidated Financial Statements

83. Material accounting policies (continued)

83.34. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed monthly by the Executive Board (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

83.35. New standards, amendments to standards and of standards

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

Notes to the Consolidated Financial Statements

Consolidated Key Figures

84. Operations by years

Operations	2023	2022	2021	2020	2019
Interest income	150,848	102,009	66,594	66,498	72,172
Interest expense	(93,289)	(55,545)	(27,641)	(28,424)	(32,502)
Net interest income	**57,559**	**46,464**	**38,953**	**38,074**	**39,670**
Fee and commission income	15,977	15,343	13,121	10,819	11,528
Fee and commission expense	(4,824)	(4,720)	(3,638)	(3,181)	(3,309)
Net fee and commission income	**11,153**	**10,623**	**9,483**	**7,638**	**8,219**
Net gain (loss) on financial assets and liabilities at FVTPL	6,719	(7,963)	5,980	4,257	7,993
Net foreign exchange gain (loss)	560	100	(86)	(278)	(584)
Net impairment changes	(3,120)	2,473	7,037	(12,020)	(4,827)
Other income and (expenses)	977	1,556	963	582	1,046
Net other operating income and (expenses)	**5,136**	**(3,834)**	**13,894**	**(7,459)**	**3,628**
Total operating income	**73,848**	**53,253**	**62,330**	**38,253**	**51,517**
Salaries and related expenses	(15,866)	(14,474)	(14,759)	(14,767)	(14,458)
Other operating expenses	(10,092)	(9,289)	(9,105)	(9,064)	(9,534)
Tax on liabilities of financial institutions	(2,290)	(2,097)	(2,013)	(1,815)	(4,204)
Total operating expenses	**(28,248)**	**(25,860)**	**(25,877)**	**(25,646)**	**(28,196)**
Profit before tax	**45,600**	**27,393**	**36,453**	**12,607**	**23,321**
Income tax	(12,433)	(10,396)	(7,534)	(2,086)	(5,086)
Profit for the year	**33,167**	**16,997**	**28,919**	**10,521**	**18,235**
Attributable to:					
Owners of the Bank	33,167	16,997	28,919	10,521	18,235
Non-controlling interests	-	-	-	-	-

Balance sheet	2023	2022	2021	2020	2019
Cash and cash balances with Central Bank	75,350	42,216	82,425	67,604	69,824
Bonds and debt instruments	148,182	125,265	150,435	119,330	115,262
Equities and equity instruments	19,012	19,106	33,347	26,808	30,019
Loans and advances to financial institutions	54,101	28,621	47,231	48,073	47,929
Loans and advances to customers	1,630,894	1,544,360	1,387,463	1,273,426	1,140,184
Other assets	32,376	26,948	27,992	27,298	22,088
Assets classified as held for sale	861	508	905	1,638	1,022
Total assets	**1,960,776**	**1,787,024**	**1,729,798**	**1,564,177**	**1,426,328**
Due to financial institutions and Central Bank	29,968	6,634	10,425	48,725	48,062
Deposits from customers	1,048,537	967,863	900,098	793,427	707,813
Borrowings	513,687	476,864	486,042	420,178	373,168
Other liabilities	44,654	34,819	29,803	22,226	30,470
Subordinated liabilities	20,176	21,753	20,785	21,366	19,081
Equity	303,754	279,091	282,645	258,255	247,734
Total liabilities and equity	**1,960,776**	**1,787,024**	**1,729,798**	**1,564,177**	**1,426,328**

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Notes to the Consolidated Financial Statements

Consolidated Key Figures

85. Operations by quarters

	2023				2022			
Operations	**Q4***	**Q3**	**Q2**	**Q1**	**Q4***	**Q3**	**Q2**	**Q1**
Interest income	39,728	38,134	38,407	34,579	26,984	28,677	25,247	21,101
Interest expense	(24,945)	(22,893)	(23,938)	(21,513)	(14,115)	(16,500)	(14,095)	(10,835)
Net interest income	**14,783**	**15,241**	**14,469**	**13,066**	**12,869**	**12,177**	**11,152**	**10,266**
Fee and commission income	4,334	3,600	3,851	4,192	4,013	3,657	4,052	3,621
Fee and commission expense	(1,268)	(1,264)	(1,148)	(1,144)	(1,268)	(1,201)	(1,269)	(982)
Net fee and commission income	**3,066**	**2,336**	**2,703**	**3,048**	**2,745**	**2,456**	**2,783**	**2,639**
Net gain (loss) on financial assets and liabilities at FVTPL	4,468	(292)	(714)	3,257	(108)	(3,054)	(2,707)	(2,094)
Net foreign exchange gain (loss)	84	372	40	64	(214)	285	21	8
Net impairment changes	(1,281)	(248)	520	(2,111)	(192)	2,622	(735)	778
Other income and (expenses)	715	127	139	(4)	466	369	328	393
Net other operating income (expenses)	**3,986**	**(41)**	**(15)**	**1,206**	**(48)**	**222**	**(3,093)**	**(915)**
Total operating income	**21,835**	**17,536**	**17,157**	**17,320**	**15,566**	**14,855**	**10,842**	**11,990**
Salaries and related expenses	(4,332)	(3,221)	(4,194)	(4,119)	(3,986)	(3,149)	(3,584)	(3,755)
Other operating expenses	(2,979)	(2,388)	(2,370)	(2,355)	(2,637)	(2,135)	(2,118)	(2,399)
Tax on liabilities of financial institutions	(527)	(643)	(550)	(570)	(535)	(547)	(505)	(510)
Total operating expenses	**(7,838)**	**(6,252)**	**(7,114)**	**(7,044)**	**(7,158)**	**(5,831)**	**(6,207)**	**(6,664)**
Profit before tax	**13,997**	**11,284**	**10,043**	**10,276**	**8,408**	**9,024**	**4,635**	**5,326**
Income tax	(3,213)	(3,374)	(3,326)	(2,520)	(2,731)	(3,261)	(2,294)	(2,110)
Profit for the period	**10,784**	**7,910**	**6,717**	**7,756**	**5,677**	**5,763**	**2,341**	**3,216**

Balance sheet	**31.12.2023**	**30.9.2023**	**30.6.2023**	**31.3.2023**	**31.12.2022**	**30.9.2022**	**30.6.2022**	**31.3.2022**
Cash and cash balances with Central Bank	75,350	114,774	106,299	96,986	42,216	93,799	84,895	68,406
Bonds and debt instruments	148,182	131,605	116,515	117,798	125,265	91,951	102,018	129,661
Equities and equity instruments	19,012	15,785	15,504	17,561	19,106	20,559	27,368	28,990
Loans and advances to financial institutions	54,101	83,244	31,628	78,355	28,621	42,706	36,119	58,179
Loans and advances to customers	1,630,894	1,599,871	1,595,392	1,576,589	1,544,360	1,496,347	1,445,399	1,416,504
Other assets	32,376	36,793	30,542	29,199	26,948	25,235	31,785	31,130
Assets classified as held for sale	861	331	489	505	508	531	559	774
Total assets	**1,960,776**	**1,982,403**	**1,896,369**	**1,916,993**	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**
Due to financial institutions and Central Bank	29,968	30,263	22,132	23,907	6,634	5,059	4,813	6,557
Deposits from customers	1,048,537	1,065,210	1,012,482	1,001,580	967,863	967,965	935,123	922,556
Borrowings	513,687	529,809	493,201	532,691	476,864	459,365	451,524	472,827
Other liabilities	44,654	44,195	48,796	46,532	34,819	44,596	48,483	45,870
Subordinated liabilities	20,176	19,955	34,698	33,940	21,753	20,729	20,550	20,524
Equity	303,754	292,971	285,060	278,343	279,091	273,414	267,650	265,310
Total liabilities and equity	**1,960,776**	**1,982,403**	**1,896,369**	**1,916,993**	**1,787,024**	**1,771,128**	**1,728,143**	**1,733,644**

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

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Notes to the Consolidated Financial Statements

Consolidated Key Figures

86. Key figures and ratios

	2023	2022	2022	2020	2019
Return on equity after taxes	11.6%	6.3%	10.8%	4.3%	7.5%
Cost-income ratio	33.7%	46.8%	43.2%	47.4%	42.6%
Operating expenses as a ratio of average total assets	1.4%	1.4%	1.4%	1.6%	1.7%
Return on assets	1.7%	1.0%	1.7%	0.7%	1.3%
Interest spread as ratio of average total assets	3.0%	2.7%	2.3%	2.5%	2.8%
Earnings per share	1.40	0.72	1.22	0.45	0.77
Total capital ratio	23.6%	24.7%	26.6%	25.1%	25.8%
CET1 ratio	22.0%	22.9%	24.8%	23.2%	23.9%
Minimum Requirement for Own Funds and Eligible Liabilities (MREL)	37.9%	40.4%	-	-	-
Leverage ratio	13.6%	14.4%	14.9%	15.4%	15.7%
Loans / deposits	155.5%	159.6%	154.1%	160.5%	161.1%
Deposits / total assets	53.5%	54.2%	52.0%	50.7%	49.6%
Liquidity coverage ratio total (LCR)	181%	134%	179%	154%	161%
Net stable funding ratio FX (NSFR)	145%	132%	142%	132%	143%
Average number of full-time equivalent positions during the year	849	843	890	921	950
Number of full-time positions at end of the year	817	813	816	878	893
Dividend per share	0.36	0.61	0.19	0.00	0.42

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

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Corporate Governance Statement for 2023

1 February 2024

UNAUDITED

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

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

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

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

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

This chapter of the annual report contains the corporate governance statement of Landsbankinn (hereafter "the Statement") with content presented in accordance with the requirements set out in the Guidelines on Corporate Governance.

2. Deviations from the Guidelines

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

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

Landsbankinn's activities are governed by the Act on Financial Undertakings, No. 161/2002, rules and guidelines of the Central Bank of Iceland, and various other statutory provisions concerning financial markets. The Bank also bases its activities on the European Banking Authority's Guidelines on Internal Governance for financial undertakings (EBA/GL/2021/05), cf. Article 16 of regulation (EC) No. 1093/2010, transposed into Icelandic law with Act No. 24/2017, on European Control Systems in the Financial Market. The Guidelines are available on the website of the Financial Supervisory Authority of the Central Bank of Iceland (https://www.fme.is/log-og-tilmaeli/ees-vidmidunarreglur/eba/nr/3909).

4. Main aspects of risk management and internal control

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

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

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

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

A more detailed description of risk management within the Bank is provided in a risk report published to the Bank's website.[1]

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

The first line of defence is provided by the operational management of business units who are responsible for ensuring that risk governance and internal control form in integral part of the Bank's daily operation. Management shall actively and regularly analyse and assess the risk posed to the operations under their purview. Management shall assess changes in the Bank's operating environment to identify any opportunities or risks to their unit, implement mitigating measures in processes, implement measures, monitor such measures and report on their effectiveness.

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

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

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

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

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

Landsbankinn's policy on human resources addresses diversity and employee collaboration. It states that the Bank is an attractive workplace where all have equal opportunities for job development and the value of each individual is recognised. Discrimination based on gender, race, sexual orientation, religion or nationality is never tolerated.

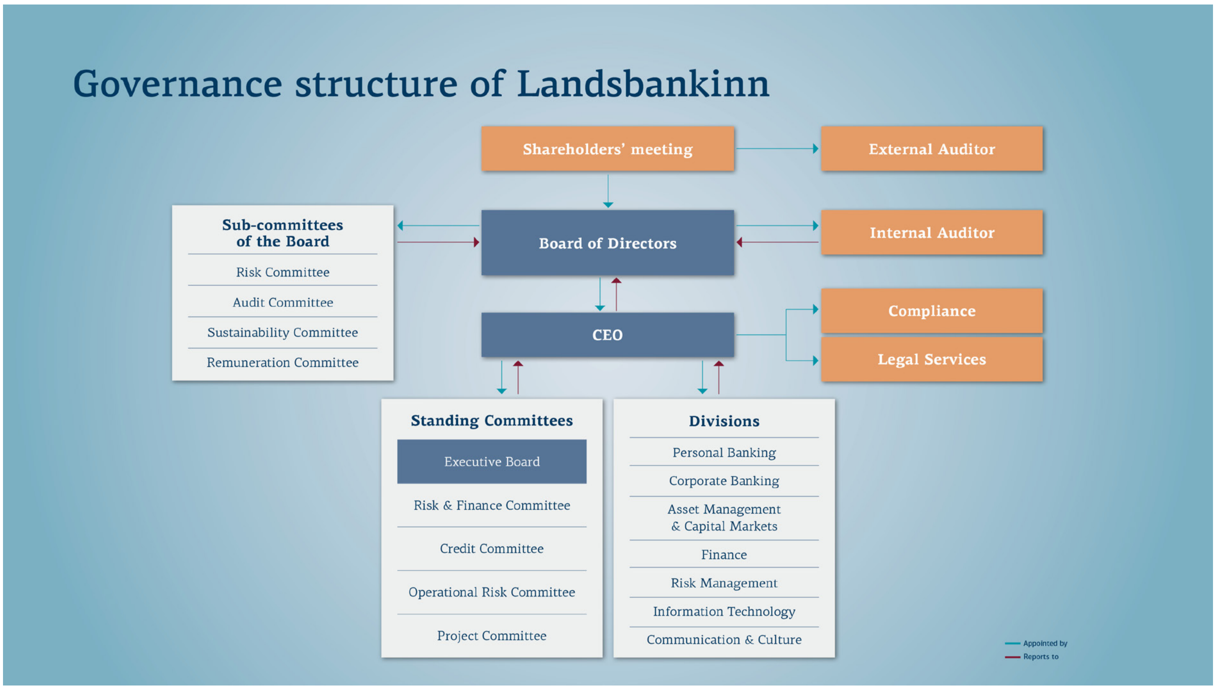
As a result, Landsbankinn has not adopted a special policy to ensure diversity among Directors of the Board, the Executive Board or key managers with regard for age, gender or educational or professional background.

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

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

There are four sub-committees to the Board of Directors: The Audit Committee, the Risk Committee, the Remuneration Committee and the Sustainability Committee. Amongst other duties, the committees prepare the Board's discussion of certain aspects of the Bank's activities and follow up on related matters in accordance with their rules of procedure.

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



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

7. Appointment to a Nomination Committee

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

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

The Board of Directors appoints members to its sub-committees. The committees were organised as follows in 2023. The Audit Committee is comprised of three Directors and one outside party with expert knowledge of accounting and auditing. The Risk Committee and the Remuneration Committee are each comprised of three Directors. The Sustainability Committee is a new sub-committee of the Board of Directors and is comprised of four Directors.

9. Information on the number of Board meetings, sub-committee meetings, and attendance

In 2023, the Board of Directors of Landsbankinn held a total of 24 meetings. The Audit Committee met 9 times; the Risk Committee 10 times; the Remuneration Committee 9 times; and the Sustainability Committee met 6 times. The table provides an overview of attendance.

	Term of office in 2023	Board of Directors	Audit Committee	Risk Com-mittee	Remunera-tion Committee	Sustaina-bility Committee
Meetings of the Board of Directors and sub-committees		24	9	10	9	6
Board of Directors						
Helga Björk Eiríksdóttir, Chairman	01.01 - 31.12	24			9	
Berglind Svavarsdóttir	01.01 - 31.12	22		8	4	
Elín H. Jónsdóttir	01.01 - 31.12	23		10		6
Guðbrandur Sigurðsson	01.01 - 31.12	23		10		
Guðrún Blöndal	01.01 - 31.12	24	9		9	6
Helgi Friðjón Arnarson	01.01 - 31.12	22	8			6
Thorvaldur Jacobsen	01.01 - 31.12	23	9		3	6
Sigríður Olgeirsdóttir, alternate	01.01 - 31.12	4				
Sigurður Jón Björnsson, alternate	01.01 - 31.12	4				
Audit Committee						
Hjörleifur Pálsson	01.01 - 31.12		9			

10. Rules of Procedure for the Board of Directors and its sub-committees

The Rules of Procedure for the Board of Directors are available on Landsbankinn's website.[2] Special procedural rules have been issued for the Audit Committee, the Risk Committee, the Remuneration Committee and the Sustainability Committee, and these rules are also available on the Bank's website.

11. Information about members of the Board of Directors

Members of the Board of Directors

Directors

Helga Björk Eiríksdóttir
Chairman

Helga Björk Eiríksdóttir was born in 1968. Helga Björk works in real estate development and consultancy Previously, she handled public relations for Marel and chaired the Board of Directors of Sparisjóður Svarfdæla. Helga Björk holds an MBA from the University of Edinburgh. She graduated from the University of Iceland in 1997 with a BA degree in English and Italian and completed a degree in journalism from the same institution in 1999. Helga Björk completed a degree in marketing and export management with the Department of Continuing Education at the University of Iceland in 2002 and has studied brokerage at Reykjavík University. She worked as an independent consultant in 2010-2012. In 2009 and 2010, she handled PR for the Resolution Committee and Winding-up Board of Kaupthing hf. Previously, Helga Björk spent eight years working as marketing and PR manager of Nasdaq OMX Iceland. Helga Björk has also worked in media, various other jobs and worked for sav-

2 https://www.landsbankinn.is/bankinn/um-bankann/stefna-og-skipulag/bankarad

ings bank Sparisjóður Svarfdæla at Dalvík for a longer period. Helga Björk was elected to the Board of Directors of Landsbankinn in April 2013. She is Chairman of the Board of Directors and chairs the Remuneration Committee

Berglind Svavarsdóttir
Vice-chairman of the Board

Berglind Svavarsdóttir was born in 1964. She is a Supreme Court Attorney and partner at Lögfræðistofa Reykjavíkur. Berglind is a law graduate of the University of Iceland 1989, was admitted to the bar as a District Court Attorney in 1995 and a Supreme Court Attorney in 2008. She received a management diploma from the University of Akureyri in 2006. She worked at the Directorate of Tax Investigations in Iceland in 1988-1989 for the District Commissioner at Húsavík in 1990-1996. Since then, she has managed law firms, either her own or as a partner. Berglind has held various executive and confidentiality positions. She was on the Board of Directors of Lögmannafélag Íslands in 2015-2021, three years thereof as chairman of the association. She was a member of the Winding-up Board of SPB hf. in 2009-2016. She chairs the Evangelical Lutheran Church of Iceland Complaints Board and the Election Rulings Committee. Berglind was elected to the Board of Directors in April 2016 and is its Vice-chairman.

Elín H. Jónsdóttir
Director

Elín H. Jónsdóttir was born in 1966. She is a lecturer and academic director of the MBL programme at the Faculty of Law Bifröst University. Elín is a law graduate of the University of Iceland 1993 and completed an LL.M. degree from Duke University in 1996. She was awarded an MBA from Stockholm School of Economics in 2018 and is a licensed securities broker. She worked in securities market regulation for the Financial Supervisory Authority in 2001-2005, as managing director at Arev Securities in 2005-2009, as Director of Icelandic State Financial Investments in 2010-2011, and as managing director of asset management at Íslandsbanki in 2014-2017. Elín has in addition worked as a consultant and teacher. She has served on the boards of various companies, including as chairman of the boards of Reginn Real Estate, Tryggingamiðstöðin and Borgun, and as a director on the boards of Promens, Icelandair and Skeljungur. Elín has also served on the board of directors of Kvennaathvafið, the Women's Shelter, in 2013-2020, and chaired the board of Kvennaathvarfið's construction company in 2017-2022. Elín was elected to the Board of Directors in March 2021 and is Chairman of the Sustainability Committee.

Guðbrandur Sigurðsson
Director

Guðbrandur Sigurðsson was born in 1961. He is managing director of Brynja leigufélag. Guðbrandur completed a BSc degree in food science in 1985 and an MBA from the University of Edinburgh in 1994. He worked for Íslenskar sjávarafurðir and its predecessors in 1985-1996 and was one of its managing directors when it was founded in 1991. He was managing director of ÚA and Brimir in 1996-2004. In 2005-2008, he was managing director of MS, managing director of Nýland ehf. in 2008-2010 and managing director of Plastprent ehf. in 2010-2012. He was later managing director of auditing firm PwC in Iceland between 2013-2016, managing director of Heimavellir hf. in 2016-2019, and managing director of Plastprent ehf. in 2019-2021. Guðbrandur has served on the boards of numerous companies and associations, including BL hf., Hagar hf. and Reitir hf. He currently sits on the Board of Directors of Talnakönnun hf. Guðbrandur was elected to the Board of Directors in April 2019 and is Chairman of the Risk Committee.

Guðrún Ó. Blöndal
Director

Guðrún Ó. Blöndal was born in 1960. Guðrún completed a cand.ocean. degree from the University of Iceland in 1990. Guðrún worked for Kaupthing in 1982-2002, first in asset management and later as marketing director, HR manager and head of the custody department until 2002. She was managing director of Arion custody, a subsidiary of Kaupthing, from its establishment in 2002 until it merged into Arion Bank in 2012. Guðrún has been a director of the board of Eimskipafélag Íslands hf. since 2018. In 2012-2013, she was a director of the boards of Framtakssjóður Íslands slhf., Reginn hf., Vörður tryggingar hf., Vörður líftryggingar hf. and Míla ehf. Guðrún was managing director of Nasdaq verðbréfamiðstöð hf. In 2013- 2018. Guðrún was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2021.

Helgi Friðjón Arnarson
Director

Helgi Friðjón Arnarson was born in 1957. He graduated with a cand.oecon. degree from the University of Iceland in 1983 and became a legally certified accountant in 1987. Helgi worked as a certified accountant and partner at KPMG in 1984-2020. His duties involved auditing and other services for financial undertakings and pension funds. He served as auditor of banks, savings banks, pension funds and other entities in the financial market for several years. Helgi has taught KPMG courses in auditing and financial reporting for financial undertakings, and courses for managers of financial undertakings preparing for eligibility assessments administered by the Financial Supervisory Authority of the Central Bank of Iceland. Helgi chairs the audit committee of Nova klúbburinn hf. He was elected to the Board of Directors in March 2021 and is Chairman of the Audit Committee.

Thorvaldur Jacobsen
Director

Thorvaldur Jacobsen was born in 1963. He is managing director of Landsnet's system administration division. Thorvaldur completed a degree in electrical engineering from the University of Iceland in 1987 and a degree in computer science from the same institution in 1988. He completed a master's degree in electrical engineering from the University of Texas at Austin in 1990. Thorvaldur worked for Opin kerfi as a sales manager in 1990-1996 and as a sales and marketing manager of Teymi in 1996-1999. He became managing director of Vísir.is ehf. in 1999 and led that company until 2001. Thorvaldur worked for the Nýherji Group for several years, first as managing director of communications solutions in 2001-2005 and later as managing director of core solutions in 2005-2008. He acted as CEO of Dansupport A/S (a Nýherji subsidiary in Denmark) for a six-month period in 2007-2008, was a managing director at Skyggni 2009-2011, managing director at UAB Baltic IT Services 2010-2012 (a Nýherji subsidiary in Lithuania) and finally managing director of operating solutions at Nýherji in 2011-2012. Thorvaldur was managing director of development at VÍS in 2012-2017 and worked for Valcon Consulting A/S in management consultancy and change control in 2017-2019. He has served on the boards of various companies and associations in his field. Thorvaldur was elected as alternate to the Board of Directors of Landsbankinn in March 2018 and became a regular member in April 2019.

Alternates

Sigríður Olgeirsdóttir
Alternate

Sigríður Olgeirsdóttir was born in 1960. Sigríður is a graduate of applied computing from EDB, Denmark in 1984, completed a course in business operation and administration from the Department of Continuing Education at the University of Iceland in 1991, holds an MBA from Reykjavík University 2005 and an AMP from Harvard Business School 2017. She has extensive management experience in the field of IT and the financial sector. She was director of services at Valka ehf. in 2019-2021, managing director of the operation and IT division at Íslandsbanki in 2010-2019, director of Humac ehf. in Iceland in 2007-2008, managing director of Skipti in 2006-2008, managing director of Ax hugbúnaðarhús in 2001-2006, managing director at Ax Business Intelligence A/S in Denmark in 1999-2001, and managing director and director of Tæknival in 1994-1999. Sigríður has sat on the boards of Penninn, Arion securities custody, Reitir, Auðkenni and Kerfi. She was also on the board of directors of Sensa and chairman of the audit committee of Kópavogsbær Civil Servants' Pension Fund. Sigríður has also sat on the boards of various IT undertakings in the Nordic countries. She currently chairs the board of Nova klúbburinn hf. and is on the boards of Íslandshótel hf., Fosshótel Reykjavík ehf. and Hagar hf. Sigríður sits on the nomination committee of Sjóvá Almennar tryggingar hf. Sigríður was elected as alternate to the Board of Directors in March 2021.

Sigurður Jón Björnsson
Alternate

Sigurður Jón Björnsson was born in 1966. He completed a cand.oecon. degree from the School of Accounting and Finance at the University of Iceland in 1994 and became a licensed securities broker in 2009. Following graduation, he worked as assistant sales manager for Íslensk Ameríska hf. in 1995-1997. He worked as head of finance, deputy managing director and analyst in investment banking at Framtak Fjárfestingarbanki hf. in He headed up the financial administration department of Air Atlanta in 2003-3006 and was CFO and deputy managing director of financial administration at Norðurál in 2006-2007. He worked as a corporate consultant at Capacent in 2007 and later became a partner at securities house Capacent Fjárfestingarráðgjöf, later Centra Fyrirtækjaráðgjöf hf. Alongside his consultancy role, Sigurður served as Compliance Officer for the securities house. Sigurður was CFO of the Housing Financing Fund in 2011-2017 and was, among other things, responsible for risk management at the fund in 2011-2015. Sigurður was chairman of the board of tech company Betware in Iceland from the company's establishment in 1998 and until it was sold to international parties in 2014. He has also served on the boards of companies Stoðir hf., Íslandsflug hf., Landsafl hf., IMSI Inc., and SPC Holding AS. Sigurður was elected as alternate to the Board of Directors in April 2019.

Committee members who are not Directors of the Board

Hjörleifur Pálsson
Member of the Audit Committee of the Board of Directors

Hjörleifur Pálsson was born in 1963. Hjörleifur completed a cand.ocean. degree from the University of Iceland in 1988. He became a certified public accountant in 1989 and worked as such until 2001. He was VP of Finance and CFO at Össur hf. 2001- 2013. Since 2013, Hjörleifur has sat on the boards of various companies and invested in and supported innovation and start-ups. He is currently a Director of the Board and Chairman of the Audit Committee and member of the Remuneration Committee of Lotus Pharmaceutical & Co., listed on the Taiwan stock exchange, a Director of the Board of Ankra ehf. (Feel Iceland), serves on the Board of Directors and as the Chairman of the Remuneration Committee of Festi hf., on the Board of Directors of Brunnur vaxtarsjóður slhf. and Brandr Global ehf. Hjörleifur chairs the Nomination Committee of Icelandair Group hf. and the Audit Committee of Harpa tónlistarhús ohf. Hjörleifur was the Chairman of the Board of Directors and the Board of Trustees at Reykjavik University for a period of several years and is a former Chairman of the Board of Directors at Sýn hf. (Vodafone Iceland). He became a member of the Audit Committee of the Board of Directors in May 2019.

12. Information on the independence of Directors of the company and of major shareholders

Regular and alternate members of the Board of Directors do not hold shares in Landsbankinn, neither directly nor indirectly through related parties. Regular and alternate members of the Board of Directors are independent of Landsbankinn and of major shareholders. They have no connected interests with the Bank's main customers or competitors, other than those mentioned in Section 11, or large shareholders in the Bank.

13. Key aspects of the performance assessment of the Board of Directors

The Board of Directors underwent a performance evaluation in December 2023 and January 2024. The activities and work of the Board of Directors in 2023 were evaluated. Also up for evaluation was information disclosure, strategy development and future vision, the performance of Directors, exchange of opinions, the work of sub-committees of the Board and the performance of the Chairman.

14. Information on the CEO and description of her main responsibilities

Lilja Björk Einarsdóttir took up the position of CEO of Landsbankinn on 15 March 2017.

Lilja graduated as a mechanical and industrial engineer from the University of Iceland in 1998 and achieved an MSc. in financial engineering from the University of Michigan, Ann Arbor, in 2003. In 2008-2016, Lilja directed the operation, asset management and recovery of assets of old Landsbanki Íslands, LBI ehf., in London. She was an independent consultant and director as of 2016 and until she was hired as CEO of Landsbankinn. In 2005-2008, she worked as a specialist and later Managing Director at Landsbanki Íslands hf. in London, responsible for the daily operation and development of support functions, amongst other things. Lilja previously worked for consulting firm Marsh & McLennan from 2003-2005 for such clients as the Ford Motor Company, as an expert in planning and creating risk models for the insurance and treasury departments. Lilja sits on the board of directors of the Icelandic Financial Services Association (SFF), the board of the Confederation of Icelandic Employers and the board of the Iceland Chamber of Commerce.

Lilja does not hold shares in the Bank and has no connected interests with its main customers, competitors or large shareholders.

The Bank’s CEO shall be responsible for the Bank’s day-to-day operation and shall be authorised to take decisions on all questions not entrusted to others by law, the Bank’s Articles of Association or decisions by the Board of Directors. Day-to-day operation does not include extraordinary actions or actions of major significance. Such actions can only be taken by special authorisation from the Board of Directors. The CEO shall ensure that the Bank's operation complies with laws, regulations and the Articles of Associations, and with Board decisions. She shall ensure that the Bank’s accounting complies with law and good business practice and that handling of the Bank’s assets is secure. The Bank’s CEO serves as spokesperson for the Bank on all business and administrative issues.

15. Disclosure of violations against laws and regulations as received from supervisory or adjudicating entities

No remarks were received from supervisory entities in 2023 concerning violations of laws or regulations leading to penalties.

Information about main legal proceedings involving Landsbankinn is included in the notes to the consolidated financial statements.

16. Organisation of communication between shareholders and the Board of Directors

At year-end 2023, shareholders in Landsbankinn numbered 849. The Board of Directors communicates with shareholders in accordance with law, the Bank's Articles of Association and the Board's Rules of Procedure. The Chairman of the Board directs its communications with shareholders. Members of the Board of Directors shall, in their duties and decision-making, safeguard the interests of the Bank and shareholders in accordance with the provisions of Act No. 2/1995, on Public Limited-liability Companies, Act No. 161/2002, on Financial Undertakings, and other rules and guidelines about the Bank's activities.

This Corporate Governance Statement was reviewed and approved by the Board of Directors of Landsbankinn hf. on 18 January 2024.

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Green asset ratio

February 2024

Disclosure of green asset ratio

This is Landsbankinn's initial publication of information about its green asset ratio (GAR) in accordance with the requirements of Regulation (EU) No. 2020/852 (the EU Taxonomy), transposed into Icelandic law with Act No. 25/2023, on disclosure on sustainability in the financial services and taxonomy for sustainable investment. The Act entered into effect domestically 1 June 2023. In-house preparation for compliance with this new legislation began at the Bank in good time for its entry into force, or at the end of 2021. The objective of the EU regulation is to direct funding to environmentally friendly business activities to contribute to the EU's goals on climate and environmental issues, especially the goals set under the EU Green Deal.

The GAR is mainly intended to disclose information to stakeholders on the weight of green assets in the Bank's asset portfolio. In order for an asset to qualify as aligned, it must meet the requirements of the EU Taxonomy and the commissioned delegated regulation. To date in Iceland, the GAR gives limited insight into the sustainability platform of financial undertakings. This is mainly because companies who are obligated under the Act to assess and disclose information on the extent to which their business activities are environmentally sustainable have not yet done so. In addition, Iceland has not implemented the EU regulations and standards against which the eligibility of assets as environmentally sustainable is to be judged. It should also be noted that technical screening criteria have only been defined for selected sectors. The EU is working on creating other sector screening criteria which can be expected to be adopted in Iceland as and when they are approved by the EU. The operation of companies for which screening criteria does not yet exist is not considered eligible and are as such excluded from the set of environmentally sustainable business activity in calculation of the GAR.

Assessment of eligible assets

Of the assets defined under the EU Taxonomy, the Bank only has information about funding of housing loans, renovation loans and vehicle loans for retail customers. For these three categories, the status of eligible housing loans and eligible renovation loans is disclosed as at 31.12.2023 while eligible vehicle loans to retail customers are disclosed for the period 1.06.2023-31.12.2023, as per the commissioned delegated regulation.

Voluntary disclosure

In order to elucidate the ratio of assets that may fall under the criteria of the Taxonomy, Landsbankinn also publishes a voluntary report that discloses assets of the Bank in sectors for which technical screening criteria exists, qualifying them as eligible assets. This report only includes the set of eligible assets based on the general industrial classification of economic activities within the European Communities (NACE) rather than information from the companies in question. There is no data available to assess the alignment of these companies with environmentally sustainable business activities, as such information must come directly from the companies.

Other

All information in the tables is in ISK millions, as in the Bank's annual financial statements. Another point to keep in mind is that various secondary EU legislation that refers to the Taxonomy has not been implemented in Iceland, further limiting the scope of disclosure in the GAR report.

Annex VI - Template for the KPIs of credit institutions

Template number	Name
0	Summary of KPIs
1	Assets for the calculation of GAR
2	GAR sector information
3	GAR KPI stock
4	GAR KPI flow
5	KPI off-balance sheet exposures
6	KPI on fees and commissions income from services other than lending and asset management
7	KPI Trading book portfolio

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

		Total environmentally sustainable assets	KPI****	KPI*****	% coverage (over total assets)***
Main KPI	**Green asset ratio (GAR) stock**	**0**	**0**	**0**	**88.7%**

		Total environmentally sustainable activities	KPI	KPI	% coverage (over total assets)
Additional KPIs	*GAR (flow)*	0	0	0	0
	*Trading book**	0	0	0	
	Financial guarantees	0	0	0	
	Assets under management	0	0	0	
	*Fees and commissions income***	0	0	0	

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

**Fees and commissions income from services other than lending and AuM

Instutitons shall dislcose forwardlooking information for this KPIs, including information in terms of targets, together with relevant explanations on the methodology applied.

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

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

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

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

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

1.Assets for the calculation of GAR

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Million ISK	Disclosure reference date T															
		Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/adaptation	Of which enabling
1	**GAR - Covered assets in both numerator and denominator**																
2	**Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation**	**1,061,976.7**	**791,903.4**	**0.0**	**0.0**	**0.0**	**0.0**	**624.0**	**0.0**	**0.0**	**0.0**	**0.0**	**792,527.4**	**0.0**	**0.0**	**0.0**	**0.0**
3	**Financial corporations**	**12,334.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
4	Credit institutions	177.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Debt securities, including UoP	95.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Equity instruments	81.5	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0
8	Other financial corporations	12,157.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	of which investment firms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Debt securities, including UoP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Equity instruments	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0
13	of which management companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Debt securities, including UoP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16	Equity instruments	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0
17	of which insurance undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18	Loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19	Debt securities, including UoP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Equity instruments	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0		0.0	0.0
21	**Non-financial corporations**	**216,467.3**	**54,903.6**	**0.0**	**0.0**	**0.0**	**0.0**	**624.0**	**0.0**	**0.0**	**0.0**	**0.0**	**55,527.6**	**0.0**	**0.0**	**0.0**	**0.0**
22	NFCs subject to NFRD disclosure obligations	216,467.3	54,903.6	0.0	0.0	0.0	0.0	624.0	0.0	0.0	0.0	0.0	55,527.6	0.0	0.0	0.0	0.0
23	Loans and advances	216,203.9	54,762.5	0.0	0.0	0.0	0.0	624.0	0.0	0.0	0.0	0.0	55,386.5	0.0	0.0	0.0	0.0
24	Debt securities, including UoP	26.4	26.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.4	0.0	0.0	0.0	0.0
25	Equity instruments	237.0	114.7	0.0		0.0	0.0	0.0	0.0		0.0	0.0	114.7	0.0		0.0	0.0
26	**Households**	**821,521.7**	**736,988.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**736,988.3**	**0.0**	**0.0**	**0.0**	**0.0**
27	of which loans collateralised by residential immovable property	732,230.7	732,230.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	732,230.7	0.0	0.0	0.0	0.0
28	of which building renovation loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
29	of which motor vehicle loans	4,878.4	4,757.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4,757.6	0.0	0.0	0.0	0.0
30	**Local governments financing**	11,453.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
31	Collateral obtained by taking possession: residential and commercial immovable properties	200.3	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.5	0.0	0.0	0.0	0.0
32	Other local government financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
33	**Other assets excluded from the numerator for GAR calculation (covered in the denominator)**	687,212.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
34	**Non-financial corporations**	592,924.5															
35	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	577,754.6															
36	Loans and advances	577,715.4															
37	of which loans collateralised by commercial immovable property	303,996.2															
38	of which building renovation loans	0.0															
39	Debt securities	0.0															
40	Equity instruments	39.3															
41	Non-EU country counterparties not subject to NFRD disclosure obligations	15,169.9															
42	Loans and advances	15,127.8															
43	Debt securities	0.0															
44	Equity instruments	42.2															
45	**Derivatives**	7,459.0															
46	**On demand interbank loans**	54,101.2															
47	**Cash and cash-related assets**	6,949.7															
48	**Other assets (e.g. Goodwill, commodities etc.)**	25,778.0															
49	**Total GAR assets**	1,749,189.1	791,903.4	0.0	0.0	0.0	0.0	624.0	0.0	0.0	0.0	0.0	792,527.4	0.0	0.0	0.0	0.0
50	**Other assets not covered for GAR calculation**																
51	**Sovereigns**	128,479.0															
52	**Central banks exposure**	68,400.3															
53	**Trading book**	26,036.5															
54	**Total assets**	1,972,104.8	791,903.4	0.0	0.0	0.0	0.0	624.0	0.0	0.0	0.0	0.0	792,527.4	0.0	0.0	0.0	0.0
Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																	
55	Financial guarantees	27,887.0	12,370.8	0.0	0.0	0.0	0.0	525.3	0.0	0.0	0.0	0.0	12,896.2	0.0	0.0	0.0	0.0
56	Assets under management	644,453.0	11,017.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11,017.9	0.0	0.0	0.0	0.0
57	Of which debt securities	107,453.1	6,148.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6,148.0	0.0	0.0	0.0	0.0
58	Of which equity instruments	32,843.8	4,869.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4,869.9	0.0	0.0	0.0	0.0

	q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
	Disclosure reference date T-1															
	Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
			Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/adaptation	Of which enabling

1. This template shall include information for loans and advances, debt securities and equity instruments in the banking book, towards financial corporates, non-financial corporates (NFC), including SMEs, households (including residential real estate, house renovation loans and motor vehicle loans only) and local governments/municipalities (house financing).

2. The following accounting categories of financial assets should be considered: Financial assets at amortised cost, financial assets at fair value through other comprehensive income, investments in subsidiaries, joint ventures and associates, financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss, and real estate collaterals obtained by credit institutions by taking possession in exchange in of cancellation of debts.

3. Banks with non-EU subsidiary should provide this information separately for exposures towards non-EU counterparties. For non-EU exposures, while there are additional challenges in terms of absence of common disclosure requirements and methodology, as the EU taxonomy and the NFRD apply only at EU level, given the relevance of these exposures for those credit institutions with non-EU subsidiaries, these institutions should disclose a separate GAR for non-EU exposures, on a best effort basis, in the form of estimates and ranges, using proxies, and explaining the assumptions, caveats and limitations

4. For motor vehicle loans, institutions shall only include those exposures generated after the date of application of the disclosure

2. GAR sector information

	a	b	c	e	f	h	i	k	l	n	o	q	r
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
	Breakdown by sector - NACE 4 digits level (code and label)	Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn ISK	Of which environmentally sustainable (CCM)	Mn ISK	Of which environmentally sustainable (CCM)	Mn ISK	Of which environmentally sustainable (CCA)	Mn ISK	Of which environmentally sustainable (CCA)	Mn ISK	Of which environmentally sustainable (CCM + CCA)	Mn ISK	Of which environmentally sustainable (CCM + CCA)
1	C2410	0.7	0			0	0			0.7	0		
2	C2442	4.3	0			0	0			4.3	0		
3	C2893	96.6	0			0	0			96.6	0		
4	D3511	11.2	0			0	0			11.2	0		
5	D3512	5.1	0			0	0			5.1	0		
6	D3513	2,920.0	0			0	0			2,920.0	0		
7	D3514	0.5	0			0	0			0.5	0		
8	D3530	1,018.2	0			0	0			1,018.2	0		
9	F4120	11.8	0			0	0			11.8	0		
10	H4939	528.8	0			0	0			528.8	0		
11	H5020	5,686.2	0			0	0			5,686.2	0		
12	H5223	3,859.3	0			0	0			3,859.3	0		
13	H5229	0.0	0			0	0			0.0	0		
14	H5310	767.5	0			0	0			767.5	0		
15	J6010	0.0	0			624.0	0			624.0	0		
16	J6120	8,402.4	0			0	0			8,402.4	0		
17	J6201	2.7	0			0	0			2.7	0		
18	J6202	829.4	0			0	0			829.4	0		
19	J6311	8.6	0			0	0			8.6	0		
20	K6512	19.8	0			0	0			19.8	0		
21	L6820	19,418.7	0			0	0			19,418.7	0		
22	M7112	4.1	0			0	0			4.1	0		
23	M7211	1.4	0			0	0			1.4	0		
24	N7711	11,306.5	0			0	0			11,306.5	0		

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

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

3. GAR KPI stock

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

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
		Disclosure reference date T																Disclosure reference date T-1															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)						Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
	% (compared to total covered assets in the denominator)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)						Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
1	**GAR - Covered assets in both numerator and denominator**																																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	**74.57**	**0**	**0**	**0**	**0**	**0.06**	**0**	**0**	**0**	**0**	**74.57**	**0**	**0**	**0**	**0**	**0**																
3	**Financial corporations**	**0.00**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0**																
4	Credit institutions	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
5	Loans and advances	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
6	Debt securities, including UoP	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
7	Equity instruments	0.00	0	0		0	0.00	0	0		0	0.00	0	0		0	0																
8	Other financial corporations	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
9	of which investment firms	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
10	Loans and advances	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
11	Debt securities, including UoP	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
12	Equity instruments	0.00	0	0		0	0.00	0	0		0	0.00	0	0		0	0																
13	of which management companies	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
14	Loans and advances	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
15	Debt securities, including UoP	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
16	Equity instruments	0.00	0	0		0	0.00	0	0		0	0.00	0	0		0	0																
17	of which insurance undertakings	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
18	Loans and advances	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
19	Debt securities, including UoP	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
20	Equity instruments	0.00	0	0		0	0.00	0	0		0	0.00	0	0		0	0																
21	**Non-financial corporations**	**25.36**	**0**	**0**	**0**	**0**	**0.29**	**0**	**0**	**0**	**0**	**25.36**	**0**	**0**	**0**	**0**	**0**																
22	NFCs subject to NFRD disclosure obligations	25.36	0	0	0	0	0.29	0	0	0	0	25.36	0	0	0	0	0																
23	Loans and advances	25.33	0	0	0	0	0.29	0	0	0	0	25.33	0	0	0	0	0																
24	Debt securities, including UoP	100.00	0	0	0	0	0.00	0	0	0	0	100.00	0	0	0	0	0																
25	Equity instruments	48.40	0	0		0	0.00	0	0		0	48.40	0	0		0	0																
26	**Households**	**89.71**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**89.71**	**0**	**0**	**0**	**0**	**0**																
27	of which loans collateralised by residential immovable property	100.00	0	0	0	0	0.00	0	0	0	0	100.00	0	0	0	0	0																
28	of which building renovation loans	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
29	of which motor vehicle loans	97.52	0	0	0	0	0.00	0	0	0	0	97.52	0	0	0	0	0																
30	**Local governments financing**	**0.00**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0.00**	**0**	**0**	**0**	**0**	**0**																
31	Collateral obtained by taking possession: residential and commercial immovable properties	5.73	0	0	0	0	0.00	0	0	0	0	5.73	0	0	0	0	0																
32	Other local government financing	0.00	0	0	0	0	0.00	0	0	0	0	0.00	0	0	0	0	0																
49	**Total GAR assets**	45.27					0.04					45.31																					

4. GAR KPI flow

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

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

5. KPI off-balance sheet exposures

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
% (compared to total eligible off-balance sheet assets)		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling
1	Financial guarantees (FinGuar KPI)	0.71	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.00	0.74	0.00	0.00	0.00	0.00
2	Assets under management (AuM KPI)	0.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.63	0.00	0.00	0.00	0.00

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

6. KPI on fees and commissions inclome from services other than lending and asset management

		a	b	c	e	f	g	h	j	k	l	m	n	o	p	q	r	s	t	u	v	w	x	y	z	aa	ab
			F&C KPI - Disclosure reference date T													F&C KPI - Disclosure reference date T-1											
		Total (Million ISK)	**Climate Change Mitigation (CCM)**				**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				Total (Million ISK)	**Climate Change Mitigation (CCM)**				**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**			
			Of which towards taxonomy relevant sectors (%)				Of which towards taxonomy relevant sectors (%)				Of which towards taxonomy relevant sectors (%)					Of which towards taxonomy relevant sectors (%)				Of which towards taxonomy relevant sectors (%)				Of which towards taxonomy relevant sectors (%)			
				Of which environmentally sustainable				Of which environmentally sustainable				Of which environmentally sustainable					Of which environmentally sustainable				Of which environmentally sustainable				Of which environmentally sustainable		
					Of which transitional	Of which enabling			Of which adaptation	Of which enabling			Of which adaptation	Of which enabling				Of which transitional	Of which enabling			Of which adaptation	Of which enabling			Of which transitional/adaptation	Of which enabling
1	**Fees and Commission income from NFRD corporates - Services other than lending**																										
2	Services towards financial corporations																										
3	Credit institutions																										
4	Other financial corporations																										
5	of which investment firms																										
6	of which management companies																										
7	of which insurance insurance unertakings																										
8	Non-financial corporations																										
9	**Counterparties not subject to NFRD disclosure obligations, including third-country counterparties**																										

1. Institutions shall dislcose in this tempalte infroamtion on the percentage (%) of fees and Commission income towards taxonomy relevant sectors and environmentally sustainable (with breakdown for transitional/adaptation and enabling activities) compared to total fees and commission informe from NFRD corporates for services other than lending and asset management

7. KPI Trading book portfolio

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v
			Climate Change Mitigation (CCM)							Climate Change Adaptation (CCA)							TOTAL (CCM + CCA)						
		Fair value	Absolute purchases		Absolute sales		Absolute purchases plus absolute sales		Trading KPI	Absolute purchases		Absolute sales		Absolute purchases plus absolute sales		Trading KPI	Absolute purchases		Absolute sales		Absolute purchases plus absolute sales		Trading KPI
				Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)			Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)			Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)		Of which environmentally sustainable (Taxonomy-aligned)	
1	**Financial assets held for trading (debt securities and equity holdings) - NFRD corporates**																						
2	Financial corporations																						
3	Credit institutions																						
4	Debt securities																						
5	Equity instruments																						
6	Other financial corporations																						
7	of which investment firms																						
8	Debt securities																						
9	Equity instruments																						
10	of which asset managers																						
11	Debt securities																						
12	Equity instruments																						
13	of which insurance companies																						
14	Debt securities																						
15	Equity instruments																						
16	NFCs subject to NFRD disclosure obligations																						
17	Debt securities																						
18	Equity instruments																						
19	**Counterparties not subject to NFRD disclosure obligations, including third-country counterparties**																						
20	Debt securities																						
21	Equity instruments																						

Undirritunarsíða

Undirritað af
Berglind Svavarsdóttir

Undirritað af:
Berglind Svavarsdóttir
0212644239
Dags: 01.02.2024
Tími: 10:16:37
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Elín H Jónsdóttir

Undirritað af:
Elín H Jónsdóttir
1308666039
Dags: 01.02.2024
Tími: 10:20:35
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Guðbrandur Sigurðsson

Undirritað af:
Guðbrandur Sigurðsson
0205618239
Dags: 01.02.2024
Tími: 10:24:36
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Guðrún Blöndal

Undirritað af:
Guðrún Blöndal
2703603869
Dags: 01.02.2024
Tími: 10:22:26
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Helga Björk Eiríksdóttir

Undirritað af:
Helga Björk Eiríksdóttir
2212683939
Dags: 01.02.2024
Tími: 10:31:59
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Helgi Friðjón Arnarson

Undirritað af:
Helgi Friðjón Arnarson
0306572339
Dags: 01.02.2024
Tími: 10:10:54
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Lilja Björk Einarsdóttir

Undirritað af:
Lilja Björk Einarsdóttir
0408733339
Dags: 01.02.2024
Tími: 10:30:39
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af
Þorvaldur Jacobsen

Undirritað af:
Þorvaldur Jacobsen
2112632029
Dags: 01.02.2024
Tími: 10:09:38
Ástæða: Ársreikningur samstæðu 2023 enska
Signet ID: 89e0280a-9445-4b4a-acb9-2460b493504c

Undirritað af:
Arna Guðrún Tryggvadóttir
0802783499
Dags: 01.02.2024
Tími: 10:39:42
Ástæða: Ársreikningur samstæðu 2023 enska_undirritaður
Signet ID: 1ed29f2f-9e67-42ed-a96e-7657611b3fec