Condensed Consolidated Interim Financial Statements

1 January to 30 June 2023

Contents

Arion Bank in brief

30.06.2023

14.5%
Return on equity

43.0%
Cost-to-core income

18.9%
CET1 ratio

Rating from S&P
Long term: BBB
Short term: A-2
Outlook: Negative

Rating from Moody's
Long term: Baa1
Deposit rating: A3
Outlook: Positive

The Banker
Bank of the Year 2022
ICELAND

ESG INDUSTRY TOP RATED 2023

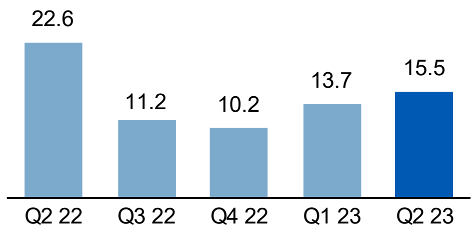
UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

- Arion Bank provides services to households, corporates, institutions and investors. The Bank has three business segments: Retail Banking, Corporate & Investment Banking (CIB), and Markets. The service offering is further augmented by the subsidiaries Stefnir and Vördur. Stefnir is an Icelandic fund management company, and Vördur is an insurance company providing non-life and life insurance
- Arion Bank plays an important role in the community through the financing of progressive and sustainable initiatives. Sustainability is a part of the Bank's day-to-day activities, its decision-making and processes
- The diverse service offering at Arion Bank means that the revenue base is broad and the loan portfolio is well diversified between retail and corporate customers
- The Bank is a market leader in digital solutions and innovation supported by the Bank's app, which has been awarded the best banking app in Iceland seven years in a row. Numerous new digital solutions have been launched in the past few years, enhancing service to customers and making the Bank's operations more efficient, which in the long term reduces operating expenses
- The Bank places a strong emphasis on customer experience, both in digital and face-to-face services, and meeting the financial needs of its customers via a customized product offering and quality financial services which contribute to the success of customers and society as a whole

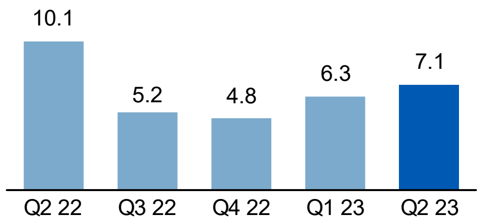
Key figures
(ISK m)

	6M 2023	6M 2022
Net earnings	13,382	15,985
ROE	14.5%	17.5%
Net interest margin	3.1%	3.1%
Cost to Core income ratio	43.0%	44.4%
Core operating income / REA	7.2%	6.8%
	30.06.2023	**31.12.2022**
Total assets	1,518,226	1,465,609
Loans to customers	1,134,621	1,084,757
Deposits	781,202	755,361
Borrowings	405,572	392,563
Total equity	186,316	187,956
Stage 3 gross	1.6%	1.2%
Leverage ratio	11.7%	11.8%
Number of employees	781	781
EUR/ISK	148.70	151.50

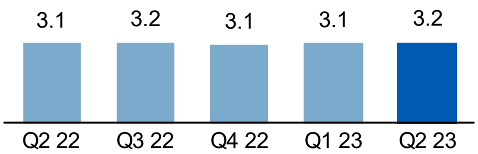
Return on equity (%)



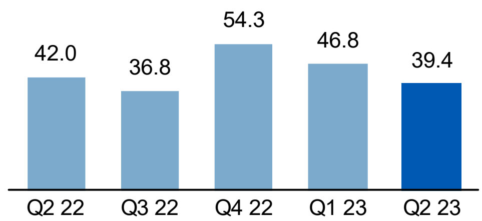
Net earnings (ISK billion)



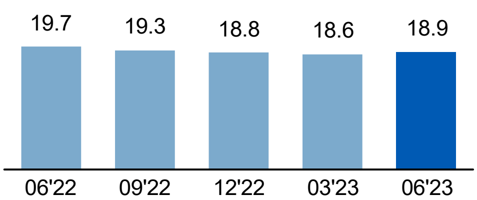
Net interest margin (%)



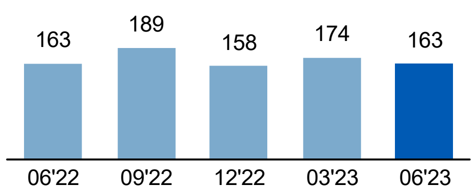
Cost-to-core income (%)



CET 1 ratio (%)



LCR ratio (%)



Endorsement and statement
by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period from 1 January to 30 June 2023 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 7.1 billion for the second quarter and ISK 13.4 billion for the first six months of the year. Return on equity was 15.5% for the quarter and 14.5% for the first six months. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 8.0% in the quarter and by 12.8% in the first half, compared with the previous year. There was strong growth in net interest income, compared with the previous year, mainly due to the increased base rate and 4.6% growth in the loan book from year-end 2022. The quarter was solid in all fee generating businesses. Insurance service results were strong with insurance revenues increasing by 12.6% between years. Other income was strong due to the ISK 1.6 billion revaluation of the investment property Blikastadir. Market conditions were challenging for net financial income during the quarter and it was impacted by market volatility. Operating expenses for the second quarter, including operating expenses of the insurance operation, increased slightly between years. The number of full-time employees was 781 at the end of June and has increased by 35 since the end of June 2022. The cost-to-core income ratio was 39.4% for the quarter and 42.0% for the first six months of the year.

Balance Sheet

The Bank's balance sheet grew by 3.6% from year-end 2022. Loans to customers increased by 4.6% from year-end, with a 7.9% increase in corporate lending and 1.8% growth in loans to individuals, mainly mortgages. Deposits increased by 3.4%. Total equity amounted to ISK 186,316 million at the end of June. The Group's capital ratio was 23.9% and the CET1 ratio 18.9%. The ratios take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank's dividend policy. The liquidity position was strong at period end and well above the regulatory minimum.

IFRS 17 Insurance contracts

The Group initially adopted IFRS 17 Insurance contracts on 1 January 2023, see Notes 1 and 3 for information on the impacts on the Consolidated Interim Financial Statements.

Arion Bank's medium-term financial targets compared with the operational results for the period

	Actuals Q2 2023	Actuals 6M 2023	Arion Bank's medium-term financial targets
Return on equity	15.5%	14.5%	Exceed 13%
Core operating income / REA	7.5%	7.2%	Exceed 6.7%
Insurance premium growth (YoY)	12.3%	10.1%	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3% (Premium growth in the domestic insurance market was 9.3% for Q1 2023 and 7.5% for 2022)
Cost-to-core income ratio	39.4%	43.0%	Below 48%
CET1 ratio	400 bps	400 bps	150-250 bps management buffer (~16.4 - 17.4% based on current capital requirements)
Dividend pay-out ratio	50%	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

After being disproportionally affected by the pandemic, Iceland's economy has now more or less caught up with its main trade partners. GDP growth in Q1 measured a huge 7%, primarily driven by private consumption and tourism. Tourism has now, by most measures, reached or exceeded the previous record levels of 2018. For example, overnight stays in May totalled 2.9 million, a 13% increase from the previous May record in 2018. After such a strong recovery the scope for extended double-digit growth is limited, and thus there are signs of slower tourism growth later this year. Private consumption is also slowing down, illustrated by a surprising 6% real decline in domestic payment card turnover. Arion Research still forecasts 5.1% growth this year but predicts a substantial slowdown in 2024, with 1.6% growth. Tighter monetary and fiscal policies will be key to slower growth, but timings are very uncertain. It is, for instance, possible that the effect will be felt earlier, with slower growth in 2023, but faster growth in 2024 instead.

Inflation dropped significantly in June, measuring 8.9%. After negative surprises in recent months, inflation in June and May has been broadly in line with expectations. Arion Research, along with other analysts, is forecasting inflation of around 8% by August and before it gradually declines to near target in 2025. The inflationary effects of imported goods and housing are diminishing, but domestic inflationary pressures have remained strong. The wage index rose by 9.6% year-on-year in May, which is inconsistent with the 2.5% inflation target in the long-term. There are also significant demand pressures arising from record immigration, which in turn is driven by very strong labor demand. The population increased by 3.6% in Q1 and preliminary numbers for May and June do not suggest a slowdown yet. This helps support GDP growth but puts pressure on the housing market which has not kept up with growing demand driven by demographics.

However, the housing market is still cooling. Arion Research forecasts stagnant prices for the remainder of 2023. The main reason for prices not rising in the current environment is twofold. Firstly, house prices have increased faster than household income over the past couple of years. Secondly, rising interest rates and tighter lending conditions, imposed by the Central Bank, have put a lid on demand. The Central Bank key rate was increased by 125 basis points in May and currently stands at 8.75%, compared to 4.75% a year ago. Arion Research still expects rates to go higher, as indicated in the latest Monetary Policy Committee (MPC) statement. The MPC's aim is to reduce inflation as much as possible before major collective wage agreements expire on 31 January 2024.

Outlook for the Bank

Arion Bank's operating performance for the first half of 2023 was solid and has continued the positive trajectory of the past few years. The Group benefits from diversified pillars in its operations which are all seasoned businesses with strong market positions.

The Bank has continued to manage its liquidity and funding position prudently in the ongoing volatile external market backdrop. During the quarter there was a successful EUR 300m senior preferred issuance which prefunded a maturity in May 2024, leaving a light maturity profile going forward.

The Group's capital position remains strong with a 400bps CET1 management buffer, well above the 150-250bps medium-term target. A key capital management driver in the near term will be the evolving external rating impact as outlined below.

The Icelandic economy has demonstrated its resilience through recent rapid changes to the inflationary and rate environment, and recent positive rating outlook upgrades from S&P and Moody's for the Icelandic sovereign support this position. It should, however, be expected that over time some of our clients will be impacted by these changes in the rate environment. Arion Bank is in a strong position to support our clients through this period with varied and proven products and services and a long-term strategic perspective. Loan provisioning has also continued to reflect the evolving external environment where IFRS9 model assumptions again worsened in the quarter, once more reflecting a conservative perspective despite risk indicators of credit quality remaining at healthy levels.

Funding and liquidity

In terms of funding and liquidity management the Group's liquidity position remains strong. The Bank's liquidity position was above the required minimum, and the liquidity ratio at the end of June 2023 was 163%, with the minimum requirement being 100%.

In May the Bank issued EUR 300 million senior preferred notes. The notes have a maturity of 3 years and pay a coupon of 7.25% which corresponds to a spread of 407 bps over mid-swaps.

Arion Bank continued to issue covered bonds in the domestic market. Total issuance was ISK 38.9 billion (of which ISK 22.6 billion was for the Bank's own account) in the first six months of 2023.

Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. In the medium term the Bank aims to maintain capital adequacy ratios 150-250bps above total regulatory requirements. In the near term however, capital thresholds as per external rating methodologies will impact the Bank's capital management. This is especially relevant for the Bank's BBB rating from Standard & Poor's, which revised its assessment of economic risk for the Icelandic banking sector in 2022. To maintain the current rating, the Bank in the near term will need to accumulate Tier 1 capital in excess of regulatory requirements or to 400-500bps of total risk-weighted exposure amount (REA). The Bank's issuer rating from Moody's is Baa1, one notch above that of S&P, with a positive outlook. The expectation is, however, that constructive economic development and/or positive impact of other rating factors will result in the convergence of capital benchmarks over the medium term.

In March 2023, the Bank paid a dividend of ISK 8.5 per share, approximately ISK 12.5 billion, based on the approval of the Annual General Meeting. The Board is authorized to purchase up to 10% of the Bank's issued share capital.

On 10 July, the FSA published the result of the Supervisory Review and Evaluation Process (SREP) for Arion Bank, based on financial information at year-end 2022. The additional capital requirement under Pillar 2 is set at 2.1% of REA, a decrease of 1.4pp from the previous year.

Having temporarily vacated the 2% countercyclical capital buffer in March 2020, the Central Bank of Iceland reinstated the buffer at the same level, effective from 29 September 2022. In March 2023 the Central Bank announced that it would increase the countercyclical buffer to 2.5%, effective from 15 March 2024. Other things being equal, this will increase Arion Bank's total capital requirement by the corresponding percentage.

Arion Bank's capital position is very strong and will remain so for the foreseeable future. This underpins the Bank's ability to support its customers and the Icelandic economy, as it faces challenging economic conditions owing to a number of factors including geopolitical tensions, continually rising interest rates, and high inflation.

The Group's capital adequacy ratio on 30 June 2023 was 23.9% and the CET1 ratio was 18.9%. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy. This compares to a regulatory capital requirement of 19.3%, including the combined buffer requirement.

The Bank's REA increased by ISK 28 billion in Q2 2023 or 3.2%. This was driven primarily by an increase of ISK 29 billion in the loan portfolio REA, partly offset by a ISK 2.3 billion decrease in the REA arising from credit valuation adjustment. REA changes for other factors were less material.

Arion Bank is in full compliance with its MREL requirement. The current requirement, which amounts to 23% of REA, was set in September 2022 and is based on the financial position at year-end 2021. Based on the recently revised Pillar 2 capital requirement, and on the Resolution Authority's published methodology, the Bank expects the MREL requirement to be re-set at 20.2% of REA in Q3 2023, which would indicate a 12.2% buffer based on current position.

Endorsement and statement
by the Board of Directors and the CEO

Group ownership

At the end of June 2023 Gildi lífeyrissjódur was the largest shareholder in Arion Bank with a shareholding of 9.87%. Arion Bank held 0.95% of its own shares at the end of June, see Note 39. The number of shareholders was 11,516 at the end of June, compared with 12,059 at the beginning of the year. Further information on Arion Bank's shareholders can be found in Note 38. At the AGM in March 2023 a motion was passed to reduce the company's share capital by ISK 50 million at nominal value, by cancelling the company's own shares. The reduction took place on 25 April 2023.

Governance

At the Bank’s AGM on 15 March 2023, six members were elected to serve on the Board of Directors until the next AGM, three women and three men. Additionally, two Alternate Directors (one woman and one man) were elected. All Directors and Alternates are independent of Arion Bank, its management and major shareholders. The Board’s composition as regards gender representation complies with statutory requirements, which stipulate that companies employing more than 50 people must ensure that the gender ratio of the board of directors and alternate board is no less than 40%.

Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 June 2023 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 30 June 2023 and its financial position as at 30 June 2023. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 June 2023 and confirm them by means of their signatures.

Reykjavík, 26 July 2023

Board of Directors

Brynjólfur Bjarnason, Chairman

Paul Richard Horner, Vice Chairman

Gunnar Sturluson

Kristín Pétursdóttir

Liv Fiksdahl

Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason

Review Report
on the Condensed Consolidated Interim Financial Statements

To the Board of Directors and shareholders of Arion Bank hf.

We have reviewed the accompanying Condensed Consolidated Interim Statement of Financial Position of Arion Bank hf. and its subsidiaries (the "Group") as of 30 June 2023 and the related Condensed Consolidated Interim Income Statement, Condensed Consolidated Interim Statement of Comprehensive Income, Condensed Consolidated Interim Statement of Changes in Equity and Condensed Consolidated Interim Statement of Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

The management's and the Board of directors responsibility for the Condensed Consolidated interim Financial Statements

The Board of Directors and management are responsible for the preparation and fair presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

Auditor's Responsibility

Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements does not give a true and fair view of the financial position of the Group as at 30 June 2023, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

Confirmation of Endorsement and Statement by the Board of Directors and the CEO

Pursuant to the requirement of Paragraph 2 Article 104 of the Icelandic Act on Financial Statements No. 3/2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the CEO includes all information required by the Icelandic Act on Financial Statements that is not disclosed elsewhere in the Condensed Consolidated Interim Financial Statements.

Kópavogur, 26 July 2023

Deloitte ehf.

Gunnar Thorvardarson
State Authorized Public Accountant

Consolidated Interim Income Statement

	Notes	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Interest income		60,229	38,036	31,060	20,610
Interest expense		(37,809)	(18,815)	(19,634)	(10,865)
Net interest income	8	**22,420**	**19,221**	**11,426**	**9,745**
Fee and commission income		10,473	8,958	5,187	4,972
Fee and commission expense		(1,835)	(820)	(1,000)	(390)
Net fee and commission income	9	**8,638**	**8,138**	**4,187**	**4,582**
Insurance revenue		8,205	7,428	4,207	3,736
Insurance service expenses		(8,164)	(7,068)	(3,445)	(2,812)
Insurance service results	10	**41**	**360**	**762**	**924**
Net financial income	11	179	(1,758)	(617)	(2,878)
Other operating income	12	1,605	1,164	1,586	732
Other net operating income		**1,784**	**(594)**	**969**	**(2,146)**
Operating income		**32,883**	**27,125**	**17,344**	**13,105**
Operating expenses	13	(12,479)	(11,633)	(6,009)	(6,056)
Bank levy	16	(906)	(809)	(457)	(416)
Net impairment	17	(620)	(309)	(568)	186
Earnings before income tax		**18,878**	**14,374**	**10,310**	**6,819**
Income tax expense	18	(5,513)	(5,304)	(3,226)	(3,588)
Net earnings from continuing operations		**13,365**	**9,070**	**7,084**	**3,231**
Discontinued operations held for sale, net of income tax	19	17	6,915	7	6,819
Net earnings		**13,382**	**15,985**	**7,091**	**10,050**

Attributable to

Shareholders of Arion Bank hf.		13,366	15,972	7,082	10,043
Non-controlling interest		16	13	9	7
Net earnings		**13,382**	**15,985**	**7,091**	**10,050**

Earnings per share

	Notes				
	20				
Basic earnings per share attributable to the shareholders of Arion Bank (ISK)		9.17	10.65	4.84	6.70
Diluted earnings per share attributable to the shareholders of Arion Bank (ISK)		8.67	10.08	4.58	6.37

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The six months results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

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

Amounts are in ISK millions

Consolidated Interim Statement of Comprehensive Income

	Notes	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Net earnings		**13,382**	**15,985**	**7,091**	**9,712**
Net change in FV of financial assets carried at FV through OCI, net of tax		243	(1,432)	130	(296)
Net realized gain on financial assets carried at FV through OCI, net of tax, and reclassification from OCI equity reserve, transferred to the P/L	11	(200)	1,427	(82)	1,406
Changes to reserve for financial instruments at FV through OCI		**43**	**(5)**	**48**	**1,110**
Exchange difference on translating foreign subsidiaries		-	(676)	-	(595)
Other comprehensive loss that is or may be reclassified subsequently to the Income Statement		**43**	**(681)**	**48**	**515**
Total comprehensive income		**13,425**	**15,304**	**7,139**	**10,227**

Attributable to

		2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Shareholders of Arion Bank		13,409	15,291	7,130	10,220
Non-controlling interest		16	13	9	7
Total comprehensive income		**13,425**	**15,304**	**7,139**	**10,227**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The six months results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

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

Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	30.06.2023	31.12.2022*
Cash and balances with Central Bank	21	76,499	114,118
Loans to credit institutions	22	43,428	45,501
Loans to customers	23	1,134,621	1,084,757
Financial instruments	24-26	225,827	193,329
Investment property	26	9,444	7,862
Investments in associates	28	842	787
Intangible assets	29	8,486	8,783
Tax assets	30	383	135
Assets and disposal groups held for sale	31	61	61
Other assets	32	18,635	10,276
Total Assets		**1,518,226**	**1,465,609**
Liabilities			
Due to credit institutions and Central Bank	25	21,702	11,697
Deposits	25	781,202	755,361
Financial liabilities at fair value	25	18,242	20,997
Tax liabilities	30	12,335	10,303
Other liabilities	33	46,379	39,401
Borrowings	25.34	405,572	392,563
Subordinated liabilities	25.35	46,478	47,331
Total Liabilities		**1,331,910**	**1,277,653**
Equity	38		
Share capital and share premium		10,604	13,372
Other reserves		11,558	10,672
Retained earnings		163,489	163,263
Total Shareholders' Equity		**185,651**	**187,307**
Non-controlling interest		665	649
Total Equity		**186,316**	**187,956**
Total Liabilities and Equity		**1,518,226**	**1,465,609**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

			Restricted reserves											
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop- ment cost	Debt invest- ments at fair value thr. OCI, unrealized	Statutory reserve	Foreign currency trans- lation reserve	Retained earnings	**Total share- holders' equity**	Non- cont- rolling interest	**Total equity**
Equity 1 January 2023	1,466	11,906	339	828	6,308	1,941	1,002	(1,383)	1,637	-	163,263	**187,307**	649	**187,956**
Net earnings											13,366	**13,366**	16	**13,382**
Net change in fair value								243				**243**		**243**
Net realized profit transf. to P/L and recl. from OCI equity reserve								(200)				**(200)**		**(200)**
Total comprehensive income	-	-	-	-	-	-	-	43	-	-	13,366	**13,409**	16	**13,425**
Transactions with owners														
Dividend paid											(12,358)	**(12,358)**		**(12,358)**
Purchase of treasury shares	(22)	(3,238)										**(3,260)**		**(3,260)**
Share option charge			106									**106**		**106**
Share option vested	2	295	(45)									**252**		**252**
Share option forfeited			(83)								83	**-**		**-**
Incentive scheme	1	194										**195**		**195**
Changes in reserves					820	106	(61)				(865)	**-**		**-**
Equity 30 June 2023	1,447	9,157	317	828	7,128	2,047	941	(1,340)	1,637	-	163,489	**185,651**	665	**186,316**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost
			Restricted reserves				
Equity 1 January 2022	1,518	21,166	99	828	7,245	3,166	1,124
Impact of adopting IFRS 17 1 Jan.							
Restated opening balance	1,518	21,166	99	828	7,245	3,166	1,124
Net earnings							
Net change in fair value							
Net realized loss transferred to P/L							
Translation difference							
Total comprehensive income	-	-	-	-	-	-	-
Transactions with owners							
Dividend paid							
Purchase of treasury shares	(23)	(4,245)					
Share option charge			123				
Share option vested	2	349	(38)				
Incentive scheme	1	184					
Changes in reserves					(1,538)	(1,120)	(61)
Equity 30 June 2022	1,497	17,454	183	827	5,706	2,045	1,062
Net earnings							
Net change in fair value							
Net realized loss transferred to P/L							
Translation difference							
Total comprehensive income	-	-	-	-	-	-	-
Transactions with owners							
Purchase of treasury shares	(35)	(5,548)					
Share option charge			156				
Share option vested	2	(0)	0				
Incentive scheme	0	(0)					
Changes in reserves					601	(105)	(61)
Equity 31 December 2022*	1,465	11,904	338	827	6,307	1,940	1,001

	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve	Foreign currency trans-lation reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
	Restricted reserves						
Equity 1 January 2022	(1,937)	1,637	676	158,403	**193,925**	673	**194,598**
Impact of adopting IFRS 17 1 Jan.				(917)	**(917)**		**(917)**
Restated opening balance	(1,937)	1,637	676	157,486	**193,008**	673	**193,681**
Net earnings				15,972	**15,972**	13	**15,985**
Net change in fair value	(1,432)				**(1,432)**		**(1,432)**
Net realized loss transferred to P/L	1,427				**1,427**		**1,427**
Translation difference			(676)		**(676)**		**(676)**
Total comprehensive income	(5)	-	(676)	15,972	**15,291**	13	**15,304**
Transactions with owners							
Dividend paid				(22,489)	**(22,489)**		**(22,489)**
Purchase of treasury shares					**(4,268)**		**(4,268)**
Share option charge					**123**		**123**
Share option vested					**313**		**313**
Incentive scheme					**185**		**185**
Changes in reserves				2,719	**-**		**-**
Equity 30 June 2022	(1,943)	1,636	(1)	153,687	**182,163**	685	**182,849**
Net earnings				10,010	**10,010**	(37)	**9,973**
Net change in fair value	433				**433**		**433**
Net realized loss transferred to P/L	126				**126**		**126**
Translation difference			-		**-**		**-**
Total comprehensive income	559	-	-	10,010	**10,569**	(37)	**10,532**
Transactions with owners							
Purchase of treasury shares					**(5,583)**		**(5,583)**
Share option charge					**156**		**156**
Share option vested					**2**		**2**
Incentive scheme					**(0)**		**(0)**
Changes in reserves				(435)	**-**		**-**
Equity 31 December 2022*	(1,384)	1,636	(1)	163,263	**187,307**	648	**187,956**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

	2023 1.1.-30.6.	2022* 1.1.-30.6.
Operating activities		
Net earnings	13,382	15,985
Non-cash items included in net earnings	(13,072)	(17,355)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	1,680	(56)
Loans to customers	(42,554)	(74,739)
Financial instruments and financial liabilities at fair value	(36,734)	18,374
Other changes in operating assets and liabilities	16,015	80,476
Interest received	46,118	32,405
Interest paid	(9,805)	(8,475)
Dividend received	269	57
Income tax paid	(3,729)	(1,805)
Net cash (to) from operating activities	**(28,430)**	**44,867**
Investing activities		
Proceeds from sale of subsidiary and associates	-	241
Acquisition of associates	(75)	(71)
Acquisition of intangible assets	(239)	(128)
Proceeds from sale of property and equipment	-	1,015
Acquisition of property and equipment	(116)	(185)
Net cash (to) from investing activities	**(430)**	**872**
Financing activities		
Proceeds from vested share option	252	352
Purchase of treasury stock	(3,260)	(4,269)
Dividend paid to shareholders of Arion Bank	(12,357)	(22,489)
	(15,365)	**(26,406)**
Net increase in cash and cash equivalents	(44,225)	19,333
Cash and cash equivalents at beginnning of the year	150,131	90,678
Effect of exchange rate changes on cash and cash equivalent	(1,420)	(975)
Cash and cash equivalents	**104,486**	**109,036**
Cash and cash equivalents		
Cash and balances with Central Bank	76,499	78,011
Bank accounts	43,171	38,250
Mandatory reserve deposit with Central Bank	(15,184)	(7,225)
Cash and cash equivalents	**104,486**	**109,036**

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The accompanying Notes are an integral part of these Consolidated Financial Statements

Amounts are in ISK millions

Notes to the Consolidated Financial Statements
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Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 June 2023 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 26 July 2023.

In preparing the Condensed Consolidated Interim Financial Statements, the Group has applied the concept of materiality to the presentation and level of disclosure. Only essential and mandatory information is disclosed which is relevant to an understanding by the reader of the Condensed Consolidated Interim Financial Statements.

Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and rules on Accounting for Credit Institutions.

The same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the Annual Financial Statements 2022.

Basis of measurement

The Condensed Consolidated Interim Financial Statements have been prepared on a historical cost basis except for the following:

- bonds and debt instruments, shares and equity instruments, short positions in listed bonds and equities and derivatives. For details on the accounting policy, see Note 58 in the Annual Financial Statements 2022;
- investment properties are measured at fair value; and
- non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair value, less cost to sell.

Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 136.25 and 148.70 for EUR (31.12.2022: USD 141.80 and EUR 151.50).

Comparative figures

The Group adopted IFRS 17 Insurance contracts as of 1 January 2023 for the operation of the Bank's insurance subsidiary Vördur. As a result, the Group has restated relevant comparative figures of the Consolidated Interim Income Statement for the period 1 January to 30 June 2022 and the Consolidated Statement of financial position as of 1 January 2022, see Note 3 for further details.

2. Going concern assumption

The Group's management has made an assessment of the ability to continue as a going concern and is satisfied that the Group has the resources to continue. In making this assessment, management has taken into consideration the risk exposures facing the Group, which are further described in the Risk Management Disclosures. The Condensed Consolidated Interim Financial Statements are prepared on a going concern basis.

3. Changes in accounting policies

Arion Bank initially adopted IFRS 17 Insurance contracts 1 January 2023. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not effective.

IFRS 17

The Group applies IFRS 17 Insurance Contracts from 1 January 2023 for its insurance subsidiary Vördur. IFRS 17 replaces IFRS 4 Insurance Contracts and sets out new principles for recognition, measurement, presentation and disclosures of insurance contracts and mainly results in reclassifications within the Consolidated Interim Financial Statements. The transition to IFRS 17 does not affect the Group's capital ratios.

The Group applied the full retrospective approach when adopting IFRS 17. Under the full retrospective approach the Group indentified, recognised and measured each group of insurance and reinsurance contract as if the standard had always been applied and recognises the net difference of ISK 917 million as a deduction of equity as of 1 January 2022, corresponding to ISK 375 million as of 1 January 2023. Amended interim disclosures have been provided for the year 2022, where applicable.

The effects of the adoption of IFRS 17 on the Consolidated Statement of Financial Position at 1 January 2022 is as follows.

	31.12.2021 IFRS 4	Impacts due to IFRS 17	01.01.2022 IFRS 17
Other assets	19,901	(3,154)	16,747
Other liabilities	37,151	(2,237)	34,914
Retained earnings	158,403	(917)	157,486

The Group has restated comparative figures in the Consolidated Interim Income Statement for the period 1 January to 30 June 2022 as follows.

	2022 1.1.-30.6. IFRS 4	Impacts due to IFRS 17	Restated 2022 1.1.-30.6. IFRS 17
Interest income	38,147	(111)	38,036
Interest expense	(18,815)	-	(18,815)
Net interest income	**19,332**	**(111)**	**19,221**
Fee and commission income	9,115	(157)	8,958
Fee and commission expense	(1,024)	204	(820)
Net fee and commission income	**8,091**	**47**	**8,138**
Insurance revenue	7,139	289	7,428
Insurance service expenses	(6,048)	(1,020)	(7,068)
Insurance service results (Net insurance income)	**1,091**	**(731)**	**360**
Net financial income	(1,920)	162	(1,758)
Other operating income	1,180	(16)	1,164
Other net operating income	**(740)**	**146**	**(594)**
Operating income	**27,774**	**(649)**	**27,125**
Operating expenses	(12,850)	1,217	(11,633)
Bank levy	(809)	-	(809)
Net impairment	(309)	-	(309)
Earnings before income tax	**13,806**	**568**	**14,374**
Income tax expense	(5,191)	(113)	(5,304)
Net earnings from continuing operations	**8,615**	**455**	**9,070**
Discontinued operations held for sale, net of income tax	6,915	-	6,915
Net earnings	**15,530**	**455**	**15,985**

Amounts are in ISK millions

4. Significant accounting estimates and judgements in applying accounting policies

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the Condensed Consolidated Interim Financial Statement were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses in the statement of financial position. On a monthly basis expected credit losses for stages 1 and 2 are recalculated for each asset, the calculations are based on PD, LGD and EAD models. Stage 3 calculations are based on LGD and EAD parameters. In addition to the model outcomes, the assessment of expected credit losses is based on three key factors: management's assumptions regarding the development of macroeconomic factors over the next five years, how those factors affect each model and how to estimate a significant increase in credit risk. The assumptions for macroeconomic development are incorporated into each model for three scenarios: a base case, an optimistic case, and a pessimistic case. Management estimates the probability weight for each scenario used for calculations of the probability weighted expected credit losses. The amount of expected credit losses to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. Management has estimated factors to measure significant increase in credit risk from origination, by comparison of changes in PD values, annualized lifetime PD values, days past due and watch list. For further information see Note 58 in the Annual Financial Statements 2022.

Macroeconomic outlook

The economic outlook in Iceland is generally positive. The tourism industry has continued its rapid recovery in 2023, with passenger arrival numbers surpassing those seen in 2019 and approaching those at the pre-Covid peak in 2018. Accounting for domestic tourism, that peak has already been surpassed. Unemployemt remains at low levels, and private consumption continues to grow despite persistent, high inflation and a rapid rise in interest rates. Having peaked at 10.2% in February 2023, inflation now appears to have begun subsiding but at 7.6% it is still well above the Central Bank's inflation target of 2.5%. The first half of 2023 has seen further softening of housing price growth, attributable to the increased cost of borrowing, while demographic considerations are likely to counteract downward pressures and contribute to ongoing demand.

Impairment of intangible assets

The carrying amounts of goodwill, infrastructure and customer relationship and related agreements are reviewed annually to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Consolidated Income Statement. The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of profit or loss. For investment properties, either a valuation methodology based on present value calculations is used, as there is a lack of comparable market data because of the nature of the properties, or the investment properties are valued by reference to transactions involving properties of a similar nature, location and condition.

5. The Group

Shares in the main subsidiaries in which Arion Bank holds a direct interest			Equity interest	
	Operating activity	Currency	30.6.2023	31.12.2022
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
VISA Ísland ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

Landey ehf. holds a 51% shareholding in its subsidiary Arnarland ehf. and recognizes minority interest accordingly.

Amounts are in ISK millions

Operating segment reporting

Segment information is presented in respect of the Group's operating segments and is based on the Group's management and internal reporting structure. The business units are segmented according to customers, products and services characteristics. Segment performance is evaluated based on earnings before tax.

Inter segment pricing is determined on an arm's length basis. Operating segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital, funding cost and relevant risk premium.

6. Operating segments

In line with the Group’s progression focuses on holistic customer journey optimization introduced a key part of the vision is to bring Vördur insurance company closer to the Bank for a more focused bancassurance offering. In 2022 the operation of Vördur was split into individuals and corporates and is presented as such as part of Corporate & Investment Banking and Retail banking, respectively.

Markets & Stefnir

Markets & Stefnir comprise Asset Management and Capital Markets. Asset Management manages financial assets on behalf of its customers according to a pre-determined investment strategy. Asset Management also administers pension funds. Asset management comprises Institutional Asset Management, Premia Service, Private Banking and Pension Fund Administration. The operation of Stefnir hf. is presented under the segment. Stefnir hf. is an independently operating financial company owned by Arion Bank and manages a broad range of mutual funds, investment funds and institutional investor funds. Markets also offers comprehensive selection off funds from some of the leading international fund management companies. Capital Markets is a securities brokerage and brokers listed securities transactions for the Bank’s international and domestic clients on all the world’s major securities exchanges.

Corporate & Investment Banking (CIB)

Corporate & Investment Banking provides comprehensive financial services to companies and investors with focus on meeting the needs of each client, both in Iceland and internationally. The division is divided into Corporate Banking and Corporate Finance.

Corporate Banking's experienced account managers specialize in key economic sectors such as retail and services, seafood, energy and real estate. The division serves companies ranging from SMEs to large cap´s and provides full range lending and insurance products, including guarantees, deposit accounts, payment solutions, and a variety of value-added digital solutions. The Corporate portfolio composition is diversified between sectors, customers and currencies which include international exposures, partly through syndicates with other Icelandic or international banks.

Arion Bank‘s Corporate Finance works closely with Corporate Banking and provides the Bank’s clients with comprehensive financial advisory services, with a key focus on M&A advisory, private placements, IPOs and other offerings of securities.

Retail Banking

Retail Banking provides a diverse range of financial services in 13 branches and service points across Iceland and offers digital solutions both in the Arion app and online banking. These services include deposits and loans, savings, payment cards, pensions, insurance, securities and funds. In order to improve efficiency the branch network is split into four regions, and smaller branches can therefore benefit from the strength of larger units within each region.

Treasury

Treasury is responsible for the Bank's funding, liquidity and asset-and-liability management. Treasury oversees the internal funds‘s transfer pricing and manages the relationship with investors, credit rating agencies and financial institutions. Market making activities in domestic securities and FX as well as FX brokerage sits within Treasury.

Other subsidiaries

Subsidiaries include the subsidiaries Landey ehf., which holds the main part of investment property of the Group and the holding companies VISA Ísland ehf. and other smaller entities of the Group. The subsidiaries Stakksberg and Sólbjarg (both subsidiaries of Eignabjarg) are classified as disposal groups held for sale in accordance with IFRS 5.

Supporting units

Supporting units include the Bank's headquarters which carry out support functions such as the CEO office, Risk Management, Finance (excluding Treasury), IT and Customer Experience. The information presented relating to the supporting units does not represent an operating segment. A significant proportion of expenses from support functions is allocated to operating segments in a separate line in the operating segment overview.

6. Operating segments, continued

1.1.-30.6.2023 *Income Statement*	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Net interest income	464	10,036	9,828	2,221	(133)	4	22,420
Net fee and commission income	3,022	2,757	2,135	364	144	216	8,638
Insurance service results	-	(308)	393	-	-	(44)	41
Net financial income	30	78	246	(182)	23	(16)	179
Other operating income	4	(6)	29	13	1,573	(8)	1,605
Operating income	3,520	12,557	12,631	2,416	1,607	152	32,883
Operating expenses	(1,241)	(604)	(1,826)	(380)	(206)	(8,222)	(12,479)
Allocated expenses	(1,125)	(2,034)	(4,293)	(640)	(14)	8,106	-
Bank levy	(24)	(292)	(414)	(176)	-	-	(906)
Net impairment	(13)	(224)	(469)	4	81	1	(620)
Earnings (loss) before income tax	1,117	9,403	5,629	1,224	1,468	37	18,878
Net seg. rev. from ext. customers	698	17,836	26,905	(14,308)	1,771	(19)	32,883
Net seg. rev. from other segments	2,822	(5,279)	(14,274)	16,724	(164)	171	-
Operating income	3,520	12,557	12,631	2,416	1,607	152	32,883
Balance Sheet							
Loans to customers	4,114	476,663	654,428	97	3	(684)	1,134,621
Financial instruments	26,417	8,550	20,093	173,646	152	(3,031)	225,827
Other external assets	5,780	1,497	6,314	108,233	12,811	23,143	157,778
Internal assets	63,032	-	-	292,165	5,935	(361,132)	-
Total assets	99,343	486,710	680,835	574,141	18,901	(341,704)	1,518,226
Deposits	89,371	297,140	337,879	58,978	-	(2,166)	781,202
Other external liabilities	1,636	9,648	17,016	492,093	8,721	21,594	550,708
Internal liabilities	-	96,590	264,542	-	-	(361,132)	-
Total liabilities	91,007	403,378	619,437	551,071	8,721	(341,704)	1,331,910
Allocated equity	8,336	83,332	61,398	23,070	10,180	-	186,316

Amounts are in ISK millions

6. Operating segments, continued

1.1.-30.6.2022 *	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Income Statement							
Net interest income	1,192	8,849	9,028	161	7	(16)	19,221
Net fee and commission income	3,009	3,321	2,101	364	61	(718)	8,138
Insurance service results	-	(131)	556	-	-	(65)	360
Net financial income	(102)	17	(218)	(1,800)	544	(199)	(1,758)
Other operating income	-	110	45	1	33	975	1,164
Operating income	4,099	12,166	11,512	(1,274)	645	(23)	27,125
Operating expenses	(1,057)	(898)	(1,659)	(298)	(108)	(7,613)	(11,633)
Allocated expenses	(975)	(1,827)	(3,583)	(614)	(2)	7,001	-
Bank levy	(34)	(253)	(379)	(143)	-	-	(809)
Net impairment	-	392	187	(1)	-	(887)	(309)
Earnings (loss) before income tax	2,033	9,580	6,078	(2,330)	535	(1,522)	14,374
Net seg. rev. from ext. customers	1,290	13,258	21,794	(10,674)	1,292	165	27,125
Net seg. rev. from other segments	2,809	(1,092)	(10,282)	9,400	(647)	(188)	-
Operating income	4,099	12,166	11,512	(1,274)	645	(23)	27,125
Balance Sheet							
Loans to customers	83	415,290	596,606	-	3	(1,316)	1,010,666
Financial instruments	46,938	7,837	19,295	129,025	3,328	(2,683)	203,740
Other external assets	5,580	4,758	9,339	105,257	10,318	33,703	168,955
Internal assets	38,656	-	-	253,339	17,981	(309,976)	-
Total assets	91,257	427,885	625,240	487,621	31,630	(280,272)	1,383,361
Deposits	79,343	269,408	310,817	69,101	-	(1,721)	726,948
Other external liabilities	3,659	12,834	18,968	384,836	21,380	31,425	473,102
Internal liabilities	-	72,205	237,771	-	-	(309,976)	-
Total liabilities	83,002	354,447	567,556	453,937	21,380	(280,272)	1,200,050
Allocated equity	8,255	73,438	57,684	33,684	10,250	-	183,311

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Income taxes and discontinued operations held for sale are excluded from the profit and loss segment information.

Amounts are in ISK millions

Notes to the Consolidated Income Statement

Quarterly statements

7. Operations by quarters, unaudited

2023	Q1	Q2	Total
Net interest income	10,994	11,426	22,420
Net fee and commission income	4,451	4,187	8,638
Insurance service results	(721)	762	41
Net financial income	796	(617)	179
Other operating income	19	1,586	1,605
Operating income	15,539	17,344	32,883
Operating expenses	(6,470)	(6,009)	(12,479)
Bank levy	(449)	(457)	(906)
Net impairment	(52)	(568)	(620)
Earnings before income tax	8,568	10,310	18,878
Income tax expense	(2,287)	(3,226)	(5,513)
Net earnings from continuing operations	6,281	7,084	13,365
Discontinued operations, net of tax	10	7	17
Net earnings	6,291	7,091	13,382

2022 *			
Net interest income	9,476	9,745	19,221
Net fee and commission income	3,556	4,582	8,138
Insurance service results	(564)	924	360
Net financial income	1,120	(2,878)	(1,758)
Other operating income	432	732	1,164
Operating income	14,020	13,105	27,125
Operating expenses	(5,577)	(6,056)	(11,633)
Bank levy	(393)	(416)	(809)
Net impairment	(495)	186	(309)
Earnings before income tax	7,555	6,819	14,374
Income tax expense	(1,716)	(3,588)	(5,304)
Net earnings from continuing operations	5,839	3,231	9,070
Discontinued operations, net of tax	96	6,819	6,915
Net earnings	5,935	10,050	15,985

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

The half-year results were reviewed by the Bank's auditors. Other quarterly statements and the split between quarters were not audited or reviewed by the Bank's auditors.

Amounts are in ISK millions

8. Net interest income

1.1.-30.6.2023	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	2,700	-	-	2,700
Loans to credit institutions	630	13	-	643
Loans to customers	54,308	-	-	54,308
Securities	-	633	1,943	2,576
Other	2	-	-	2
Interest income	57,640	646	1,943	60,229
Interest expense				
Deposits	(21,392)	-	-	(21,392)
Borrowings	(11,656)	(2,174)	-	(13,830)
Subordinated liabilities	(2,243)	(248)	-	(2,491)
Other	(96)	-	-	(96)
Interest expense	(35,387)	(2,422)	-	(37,809)
Net interest income	22,253	(1,776)	1,943	22,420

1.1.-30.6.2022 *	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	1,113	-	-	1,113
Loans to credit institutions	16	32	-	48
Loans to customers	35,416	-	-	35,416
Securities	-	209	1,243	1,452
Other	7	-	-	7
Interest income	36,552	241	1,243	38,036
Interest expense				
Deposits	(8,728)	-	-	(8,728)
Borrowings	(9,129)	180	-	(8,949)
Subordinated liabilities	(1,100)	53	-	(1,047)
Other	(91)	-	-	(91)
Interest expense	(19,048)	233	-	(18,815)
Net interest income	17,504	474	1,243	19,221

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net interest income calculated using the effective interest rate method were ISK 57,805 million during the period (6M 2022: ISK 20,821 million).

Amounts are in ISK millions

8. Net interest income, continued

1.4.-30.6.2023	Amortized	Fair value	Fair value	
Interest income	cost	thr. P/L	thr. OCI	Total
Cash and balances with Central Bank	1,306	-	-	1,306
Loans to credit institutions	373	-	-	373
Loans to customers	27,921	-	-	27,921
Securities	-	336	1,124	1,460
Other	-	-	-	-
Interest income	29,600	336	1,124	31,060
Interest expense				
Deposits	(11,490)	-	-	(11,490)
Borrowings	(5,721)	(1,156)	-	(6,877)
Subordinated liabilities	(1,090)	(130)	-	(1,220)
Other	(47)	-	-	(47)
Interest expense	(18,348)	(1,286)	-	(19,634)
Net interest income	11,252	(950)	1,124	11,426

1.4.-30.6.2022 *				
Interest income				
Cash and balances with Central Bank	721	-	-	721
Loans to credit institutions	6	17	-	23
Loans to customers	19,419	-	-	19,419
Securities	-	17	429	446
Other	1	-	-	1
Interest income	20,147	34	429	20,610
Interest expense				
Deposits	(5,250)	-	-	(5,250)
Borrowings	(5,172)	170	-	(5,002)
Subordinated liabilities	(580)	15	-	(565)
Other	(48)	-	-	(48)
Interest expense	(11,050)	185	-	(10,865)
Net interest income	9,097	219	429	9,745

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net interest income calculated using the effective interest rate method were ISK 29,774 million during the second quarter (Q2 2022: ISK 20,821 million).

	2023	2022	2023	2022
Interest spread	1.1.-30.6.	1.1.-30.6.	1.4.-30.6.	1.4.-30.6.
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%	3.2%	3.1%

Amounts are in ISK millions

9. Net fee and commission income

	1.1.-30.6.2023			1.1.-30.6.2022*		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	2,968	(294)	2,674	2,717	(301)	2,416
Capital markets and corporate finance	1,408	(20)	1,388	1,899	(24)	1,875
Lending and financial guarantees	2,258	-	2,258	2,507	-	2,507
Collection and payment services	728	(30)	698	731	(52)	679
Cards and payment solution	2,635	(1,291)	1,344	896	(267)	629
Other	476	(379)	97	208	(380)	(172)
Commission expense from insurance operation	-	179	179	-	204	204
Net fee and commission income	10,473	(1,835)	8,638	8,958	(820)	8,138

	1.4.-30.6.2023			1.4.-30.6.2022*		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,477	(155)	1,322	1,321	(142)	1,179
Capital markets and corporate finance	742	(7)	735	1,204	(15)	1,189
Lending and financial guarantees	915	-	915	1,461	-	1,461
Collection and payment services	392	(24)	368	391	(27)	364
Cards and payment solution	1,411	(697)	714	466	(123)	343
Other	250	(197)	53	129	(202)	(73)
Commission expense from insurance operation	-	80	80	-	118	118
Net fee and commission income	5,187	(1,000)	4,187	4,972	(390)	4,582

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Asset management fees are earned by the Group for trust and fiduciary activities where the Group holds or invests assets on behalf of the customers.

Fee and commission income from capital markets and corporate finance includes miscellaneous corporate finance services plus commission from capital markets relating to sales of shares, bonds, FX and derivatives.

Fee and commission income from lending and financial guarantees is mainly related to lending activities, extension fees, advisory services and documentation, notification and payment fees plus fees from the issuing of guarantees on behalf of customers.

Fee and commission income on collection and payment services is generated billing services, such as issuing invoices and payment collection notices, wire transfer services and other payment services.

Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees.

Other fee and commission income is mainly fees relating to sale, custody and market making on the Icelandic stock exchange.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

10. Insurance service results

	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Insurance revenue	8,205	7,428	4,207	3,736
Incurred claims	(6,163)	(5,613)	(2,494)	(2,112)
Administrative expenses related to insurance service	(1,722)	(1,421)	(799)	(712)
Insurance service expenses	(7,885)	(7,034)	(3,293)	(2,824)
Net expense from reinsurance contracts held	(279)	(34)	(152)	12
Insurance service results	41	360	762	924

Combined ratio

Combined ratio	96.7%	94.4%	79.3%	73.7%

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

11. Net financial income

	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	48	138	(634)	(974)
Loss on prepayments of borrowings	(225)	(67)	(225)	(32)
Net loss on fair value hedge of interest rate swap	(86)	(145)	(80)	(20)
Net realized gain (loss) on financial assets carried at fair value through OCI and reclassification from OCI equity reserve	270	(1,928)	111	(1,900)
Net financial income from insurance contracts	(235)	162	(192)	33
Net foreign exchange gain	407	82	403	15
Net financial income	179	(1,758)	(617)	(2,878)

Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss

Equity instruments	(488)	(616)	(824)	(1,240)
Debt instruments	579	(64)	313	(332)
Derivatives	(43)	818	(123)	598
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	48	138	(634)	(974)

Net loss on fair value hedge of interest rate swap

Fair value change of interest rate swaps designated as hedging instruments	418	(8,078)	(1,245)	(3,595)
Fair value change on bonds issued by the Group attributable to interest rate risk	(504)	7,933	1,165	3,575
Net loss on fair value hedge of interest rate swap	(86)	(145)	(80)	(20)

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

11. Net financial income, continued

Net realized loss on financial assets carried at fair value through OCI and reclassification from OCI equity reserve

During the second quarter of 2022, the Bank identified an immaterial error in accounting for certain treasury bonds, classified at fair value through OCI. From Q3 2019 the accounting for these bonds was not correct due to an implementation of a new system module at that time. The effective interest rate on these bonds was not correctly accounted for during this period which resulted in understated OCI, overstated income statement but with net zero effect on total equity. Management evaluated the impacts of the error for prior periods, both individually and in the aggregate, and determined that the correction of this error was not material to any of its previously issued Financial Statements for the impacted periods on either a quantitative or qualitative basis. This was also evaluated by the Bank's external auditors as well as by independent third-party advisors. The impact was considered immaterial for these applicable accounting periods with the Net Interest Margin impacted by 0bps to 10bps in a single quarter. The accumulative impact from Q3 2019 was ISK 1.9 billion which was reclassified from OCI to retained earnings through net financial income. Split between years, ISK 517 million from 2019-2020, ISK 1,042 million from 2021 and 321 million from Q1 2022. The impact in Q2 on net earnings after tax was ISK 1.4 billion but with zero effect on total equity.

12. Other operating income

	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Net (loss) gain on disposal of assets	(3)	714	-	540
Net (loss) gain on assets held for sale	(9)	107	-	97
Fair value changes on investment property	1,563	20	1,558	20
Share of profit of associates and profit from sale	(20)	226	(3)	22
Other income	74	97	31	53
Other operating income	1,605	1,164	1,586	732

Net (loss) gain on assets held for sale

Net (loss) income from real estates and other assets	(10)	114	-	101
Expense related to real estates and other assets	1	(7)	-	(4)
Net (loss) gain on assets held for sale	(9)	107	-	97

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Real estates and other assets classified as assets held for sale are generally the result of foreclosures on companies and individuals.

13. Operating expenses

	2023 1.1.-30.6.	2022 1.1.-30.6.	2023 1.4.-30.6.	2022 1.4.-30.6.
Salaries and related expenses	8,078	7,383	3,979	3,843
Other operating expenses	5,946	5,467	2,771	2,806
Operating expenses from insurance operation	(1,545)	(1,217)	(741)	(593)
Operating expenses	12,479	11,633	6,009	6,056

14. Personnel and salaries

Number of employees	2023 1.1.-30.6.	2022 1.1.-30.6.	2023 1.4.-30.6.	2022 1.4.-30.6.
Average number of full-time equivalent positions during the period	785	750	786	752
Full-time equivalent positions at the end of the period	781	746	781	763

Salaries and related expenses

Salaries	6,195	5,584	3,059	2,918
Incentive scheme	(30)	9	(3)	(5)
Share-based payment expenses	106	124	47	74
Defined contribution pension plans	912	835	450	437
Salary-related expenses	895	831	426	419
Salaries and related expenses	8,078	7,383	3,979	3,843

Amounts are in ISK millions

14. Personnel and salaries, continued

Incentive schemes

During the period the Group revised the provision for the incentive scheme which resulted in a ISK 39 million reversal of expenses, including salary-related expenses (6M 2022: ISK 11 million provision). At the end of the period the Group's accrual for the incentive scheme payments amounted to ISK 690 million (31.12.2022: ISK 1,997 million).

Current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is split into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares in the Bank which will be subject to a three-year lock-up period. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics are for example ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Corresponding metrics are for incentive scheme payment at Vördur, i.e. higher ROE than the Icelandic competitors and other internal measures. Stefnir hf. has a special incentive scheme where other criteria are used as a basis. No accrual was recognised in the Consolidated Income Statement for the year. Given that all criterion will be met the maximum total expense is estimated to be ISK 1.8 billion, including salary related expenses, or ISK 0.8 billion due to the Group subject to the 10% of their fixed salary and ISK 1.0 billion due to the Group subject to the 25% of their fixed salary.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 106 million was recognised in the Income Statement during the period (6M 2022: ISK 124 million). Estimated remaining expenses due the share option contracts are ISK 483 million and will be expensed over the next three years. For further information on the share option program, see Note 38.

15. Other operating expenses

	2023 1.1.-30.6.	2022 1.1.-30.6.	2023 1.4.-30.6.	2022 1.4.-30.6.
IT expenses	2,262	2,162	1,074	1,062
Professional services	588	516	225	291
Marketing	563	523	262	340
Housing expenses	304	344	159	194
Other administration expenses	1,356	925	622	497
Depositors' and Investors' Guarantee Fund	-	138	-	3
Depreciation of property and equipment	271	250	129	122
Depreciation of right of use asset	66	56	34	22
Amortization of intangible assets	536	553	266	275
Other operating expenses	5,946	5,467	2,771	2,806

16. Bank levy

The Bank levy is 0.145% on total debts excluding tax liabilities, in excess of ISK 50 billion. The tax is assessed on Financial Undertakings but non-financial subsidiaries are exempt from this tax.

17. Net impairment

	2023 1.1.-30.6.	2022 1.1.-30.6.	2023 1.4.-30.6.	2022 1.4.-30.6.
Net impairment on financial instruments and value changes on loans				
Net impairment on loans to customers and financial institutions	(675)	(513)	(605)	10
Net impairment on other financial instruments at FVOCI	1	1	2	-
Other value changes of loans - corporates	7	125	2	119
Other value changes of loans - individuals	47	78	33	57
Net impairment	(620)	(309)	(568)	186
Net impairment by customer type				
Individuals	(102)	275	12	240
Corporates	(518)	(584)	(580)	(54)
Net impairment	(620)	(309)	(568)	186

Other value changes of loans to individuals and corporates is mainly due to release of discount from loans acquired with discount during the years 2008 to 2013, both due to impairments and other discount rate than reflected in the interest rates of the loans. The discount release was primarily related to loans that were paid up during the year.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

18. Income tax expense

	2023 1.1.-30.6.	2022 1.1.-30.6.*	2023 1.4.-30.6.	2022 1.4.-30.6.*
Current tax expense	5,241	6,984	2,535	3,989
Deferred tax expense	272	(1,680)	691	(401)
Income tax expense	5,513	5,304	3,226	3,588

Reconciliation of effective tax rate	2023 1.1.-30.6.		2022 1.1.-30.6.*	
Earnings before income tax		18,878		14,374
Income tax using the Icelandic corporate tax rate	20.0%	3,776	20.0%	2,875
Additional 6% tax on Financial Undertakings	5.7%	1,067	10.8%	1,558
Non-deductible expenses	0.0%	1	0.2%	26
Tax exempt revenues / loss	3.0%	569	6.4%	913
Non-deductible taxes (Bank levy)	1.0%	181	1.1%	162
Tax incentives not recognized in the Income Statement	(0.3%)	(49)	0.1%	11
Other changes	(0.2%)	(32)	(1.7%)	(241)
Effective tax rate	29.2%	5,513	36.9%	5,304

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Financial undertakings pay 6% additional tax on taxable profit exceeding ISK 1 billion.

Tax exempt revenues / loss consist mainly of profit / loss from equity positions.

19. Discontinued operations held for sale, net of income tax

	2023 1.1.-30.6.	2022 1.1.-30.6.	2023 1.4.-30.6.	2022 1.4.-30.6.
Net gain from discontinued operations held for sale	15	7,068	5	6,959
Income tax expense	2	(153)	2	(140)
Discontinued operations held for sale, net of income tax	17	6,915	7	6,819

In June 2022 Arion Bank sold its 100% shareholding in Valitor hf. The financial effects from the sale, less cost to sell, was ISK 5.6 billion and was recognized in the Income Statement. The operating effects of Sólbjarg ehf. and Stakksberg ehf. in 2022, both subsidiaries of Eignabjarg, were mainly due to fair value changes of underlying assets.

20. Earnings per share

Basic earnings per share is based on net earnings attritutable to the shareholders of Arion Bank and the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of outstanding shares to assume conversion of all dilutive potential ordinary shares. Arion Bank has issued warrants and stock options that have dilutive effects.

	Continued operations		Discontinued operations		Net Earnings	
	2023	2022*	2023	2022*	2023	2022*
1.1.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	13,349	9,057	17	6,915	13,366	15,972
Weighted average number of outstanding shares (millions)	1,457	1,500	1,457	1,500	1,457	1,500
Weighted average number of outstanding shares including warrants and options (millions)	1,542	1,585	1,542	1,585	1,542	1,585
Basic earnings per share (ISK)	9.16	6.04	0.01	4.61	9.17	10.65
Diluted earnings per share (ISK)	8.66	5.71	0.01	4.36	8.67	10.08
1.4.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	7,075	3,224	7	6,819	7,082	10,043
Weighted average number of outstanding shares (millions)	1,462	1,499	1,462	1,499	1,462	1,499
Weighted average number of outstanding shares including warrants and options (millions)	1,547	1,584	1,547	1,577	1,547	1,577
Basic earnings per share (ISK)	4.84	2.15	0.00	4.55	4.84	6.70
Diluted earnings per share (ISK)	4.57	2.04	0.00	4.32	4.58	6.37

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Statement of Financial Position

21. Cash and balances with Central Bank

	30.6.2023	31.12.2022
Cash on hand	4,189	3,877
Cash with Central Bank	57,126	102,821
Mandatory reserve deposit with Central Bank	15,184	7,420
Cash and balances with Central Bank	76,499	114,118

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations. The minimum fixed reserve requirement of the Central Bank increased from 1% to 2% in May 2023.

22. Loans to credit institutions

	30.6.2023	31.12.2022
Bank accounts	43,171	43,433
Other loans	257	2,068
Loans to credit institutions	43,428	45,501

23. Loans to customers

	Individuals		Corporates		Total	
30.6.2023	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	13,988	13,467	40,673	39,857	54,661	53,324
Credit cards	15,754	15,587	1,927	1,886	17,681	17,473
Mortgage loans	530,958	530,147	66,118	65,749	597,076	595,896
Construction loans	-	-	39,382	39,159	39,382	39,159
Capital lease	3,170	3,151	6,640	6,596	9,810	9,747
Other loans	30,933	30,219	392,696	388,803	423,629	419,022
Loans to customers	594,803	592,571	547,436	542,050	1,142,239	1,134,621
31.12.2022						
Overdrafts	14,893	14,369	33,369	32,571	48,262	46,940
Credit cards	14,304	14,155	1,838	1,792	16,142	15,947
Mortgage loans	514,007	513,605	60,528	60,424	574,535	574,029
Construction loans	-	-	29,227	28,893	29,227	28,893
Capital lease	4,107	4,089	4,163	4,131	8,270	8,220
Other loans	36,835	36,153	378,402	374,575	415,237	410,728
Loans to customers	584,146	582,371	507,527	502,386	1,091,673	1,084,757

The total book value of pledged loans that were pledged against amounts borrowed was ISK 352 billion at the end of the period (31.12.2022: ISK 305 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

24. Financial instruments

	30.6.2023	31.12.2022
Bonds and debt instruments	180,190	138,174
Shares and equity instruments with variable income	14,976	17,733
Derivatives	9,281	9,516
Securities used for economic hedging	21,380	27,906
Financial instruments	225,827	193,329

Amounts are in ISK millions

25. Financial assets and financial liabilities

30.6.2023	Amortized cost	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	76,499	-	-	76,499
Loans to credit institutions	43,428	-	-	43,428
Loans to customers	1,134,621	-	-	1,134,621
Loans	1,254,548	-	-	1,254,548
Bonds and debt instruments				
Listed	-	153,239	26,351	179,590
Unlisted	-	-	600	600
Bonds and debt instruments	-	153,239	26,951	180,190
Shares and equity instruments with variable income				
Listed	-	-	5,575	5,575
Unlisted	-	-	8,583	8,583
Bond funds with variable income, unlisted	-	-	818	818
Shares and equity instruments with variable income	-	-	14,976	14,976
Derivatives				
OTC derivatives	-	-	9,281	9,281
Derivatives	-	-	9,281	9,281
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	3,161	3,161
Shares and equity instruments with variable income, listed	-	-	18,219	18,219
Securities used for economic hedging	-	-	21,380	21,380
Other financial assets				
Accounts receivable	1,840	-	-	1,840
Other financial assets	11,203	-	-	11,203
Other financial assets	13,043	-	-	13,043
Financial assets	1,267,591	153,239	72,588	1,493,418
Financial liabilities				
Due to credit institutions and Central Bank	21,702	-	-	21,702
Deposits	781,202	-	-	781,202
Borrowings *	405,572	-	-	405,572
Subordinated liabilities *	46,478	-	-	46,478
Short position in bonds	-	-	208	208
Derivatives	-	-	4,469	4,469
Derivatives used for hedge accounting	-	-	13,565	13,565
Other financial liabilities	18,275	-	-	18,275
Financial liabilities	1,273,229	-	18,242	1,291,471

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

31.12.2022*	Amortized cost	Fair value through OCI	Mandatorily at fair value thr. P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	114,118	-	-	114,118
Loans to credit institutions	43,433	-	2,068	45,501
Loans to customers	1,084,757	-	-	1,084,757
Loans	1,242,308	-	2,068	1,244,376
Bonds and debt instruments				
Listed	-	115,806	21,390	137,196
Unlisted	-	-	978	978
Bonds and debt instruments	-	115,806	22,368	138,174
Shares and equity instruments with variable income				
Listed	-	-	6,429	6,429
Unlisted	-	-	9,709	9,709
Bond funds with variable income, unlisted	-	-	1,595	1,595
Shares and equity instruments with variable income	-	-	17,733	17,733
Derivatives				
OTC derivatives	-	-	9,448	9,448
Derivatives used for hedge accounting	-	-	68	68
Derivatives	-	-	9,516	9,516
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	3,890	3,890
Shares and equity instruments with variable income, listed	-	-	24,016	24,016
Securities used for economic hedging	-	-	27,906	27,906
Other financial assets				
Accounts receivable	1,308	-	-	1,308
Other financial assets	3,412	-	-	3,412
Other financial assets	4,720	-	-	4,720
Financial assets	1,247,028	115,806	79,591	1,442,425
Financial liabilities				
Due to credit institutions and Central Bank	11,697	-	-	11,697
Deposits	755,361	-	-	755,361
Borrowings **	392,563	-	-	392,563
Subordinated liabilities **	47,331	-	-	47,331
Short position in equity used for economic hedging	-	-	11	11
Derivatives	-	-	4,730	4,730
Derivatives used for hedge accounting	-	-	16,256	16,256
Other financial liabilities	6,527	-	-	6,527
Financial liabilities	1,213,479	-	20,997	1,234,476

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

Bonds and debt instruments measured at fair value, specified by issuer

30.6.2023	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial and insurance activities	19,133	10,372	29,505
Public sector	134,106	13,646	147,752
Corporates	-	2,933	2,933
Bonds and debt instruments at fair value	153,239	26,951	180,190
31.12.2022			
Financial and insurance activities	18,898	9,967	28,865
Public sector	96,908	9,319	106,227
Corporates	-	3,082	3,082
Bonds and debt instruments at fair value	115,806	22,368	138,174

The total amount of pledged bonds was ISK 2.9 billion at the end of the period (31.12.2022: ISK 3.6 billion). Pledged bonds comprised Icelandic Government Bonds and Financial Institutions Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

26. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
Level 3: valuation techniques which include significant inputs that are not based on observable market data.

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Assets and liabilities recorded at fair value by level of the fair value hierarchy

30.6.2023

Assets at fair value	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	176,946	3,216	28	180,190
Shares and equity instruments with variable income	5,435	7,252	2,289	14,976
Derivatives	-	9,281	-	9,281
Securities used for economic hedging	21,380	-	-	21,380
Investment property	-	-	9,444	9,444
Assets at fair value	203,761	19,749	11,761	235,271
Liabilities at fair value				
Short position in bonds	208	-	-	208
Derivatives	-	4,469	-	4,469
Derivatives used for hedge accounting	-	13,565	-	13,565
Liabilities at fair value	208	18,034	-	18,242

Amounts are in ISK millions

26. Fair value hierarchy, continued

31.12.2022

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to credit institutions	-	2,068	-	2,068
Bonds and debt instruments	135,126	2,946	102	138,174
Shares and equity instruments with variable income	5,214	10,587	1,932	17,733
Derivatives	-	9,448	-	9,448
Derivatives used for hedge accounting	-	68	-	68
Securities used for economic hedging	27,906	-	-	27,906
Investment property	-	-	7,862	7,862
Assets at fair value	168,246	25,117	9,896	203,259

Liabilities at fair value	Level 1	Level 2	Level 3	Total
Short position in equity used for economic hedging	11	-	-	11
Derivatives	-	4,730	-	4,730
Derivatives used for hedge accounting	-	16,256	-	16,256
Liabilities at fair value	11	20,986	-	20,997

There was no transfer between Level 1 and Level 2 during the period (2022: Transfers from Level 1 to Level 2 ISK 1,098 million).

Fair value of assets and liabilities

The fair value of asset and liabilities is the amount at which the asset and liability could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used by the Group to measure assets and liabilities. If quoted prices for an asset fail to represent actual and regularly occurring transactions in active market transactions or if quoted prices are not available at all, fair value is established by using an appropriate valuation technique.

Methods for establishing fair value

The best evidence of the fair value of an asset and liability at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets.

In some cases, the carrying value of an asset in Note 24 is used as an approximation for the fair value of the asset. This is straight forward for cash and cash equivalents but is also used for short term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that feature interest close to or equal to market rates and expose the Group to little or no credit risk.

Level 1: Fair value established from quoted market prices

For listed and liquid stocks and bonds, certain financial derivatives and other market traded securities, the fair value is derived directly from quoted market prices. These instruments are disclosed under Financial instruments and Financial liabilities at fair value in the Statement of Financial Position.

Level 2: Fair value established using valuation techniques with observable market information

For assets and liabilities, for which the market is not active, the Group applies valuation techniques to attain a fair value using as much market information as available. Valuation techniques include using recent market transactions between knowledgeable and willing parties, if available, reference to current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models or other commonly accepted valuation techniques used by market participants to price the instrument.

For assets and liabilities for which quoted prices on active markets are not available, the fair value is derived using various valuation techniques. This applies in particular to OTC derivatives such as options, swaps, futures and unlisted equities but also some other assets and liabilities.

In most cases the valuation is based on theoretical financial models, such as the Black Scholes model or variations thereof. These techniques also include forward pricing and swap models using present value calculations.

Level 2 instruments include unlisted shares, unlisted funds with underlying bonds and equity holdings (share certificates), unlisted and less liquid listed bonds and all OTC derivatives.

Amounts are in ISK millions

26. Fair value hierarchy, continued

Level 3: Fair value established using valuation techniques with significant unobservable market information

In some cases there is little or no market data to rely on for fair value calculations. The most common valuation technique is present value calculations. Such calculations involve the estimation of future cash flow and the assessment of appropriate discount rate. The discount rate should both reflect current market rates and the uncertainty in the future cash flow. In such cases internal models and methods are used to calculate the fair value. The models may be statistical in nature, based on internal or external history of assets with similar characteristics and/or based on internal knowledge and experience. For example, the credit margin on most loans to customers which, is added to the current and suitable interest rate to arrive at an appropriate discount rate, is estimated using credit rating and loss parameters in case of default that have been derived from internal models.

Equity instruments that do not have a quoted market price are evaluated using methods and guidelines from pertinent international organizations. In most cases intrinsic value is the basis for the assessment but other factors, such as cash flow analysis, can also modify the results.

The Group applies management valuation for determining fair value of investment properties. Management valuation is either based on recent transactions and offers for similar assets or present value calculations which involve estimation of future cash flow and the assessment of appropriate discount rate.

Movements in Level 3 assets measured at fair value

	Investment	Financial assets		
30.6.2023	property	Bonds	Shares	Total
Balance at the beginning of the year	7,862	102	1,932	9,896
Net fair value changes	1,563	(73)	157	1,647
Additions	19	-	75	94
Disposals	-	(1)	(3)	(4)
Disposals	-	-	128	128
Balance at the end of the period	9,444	28	2,289	11,761
31.12.2022				
Balance at the beginning of the year	6,560	97	3,808	10,465
Net fair value changes	26	6	135	167
Additions	49	-	29	78
Disposals	(7)	(1)	(1,907)	(1,915)
Transfers from held for sale assets	1,234	-	-	1,234
Transfers out of Level 3	-	-	(133)	(133)
Balance at the end of the year	7,862	102	1,932	9,896

Line items where effects of Level 3 assets are recognized in the Income Statement

1.1.-30.6.2023				
Net financial income	-	(73)	157	84
Other operating income	1,563	-	-	1,563
Effects recognized in the Income Statement	1,563	(73)	157	1,647
1.1.-30.6.2022				
Net financial income	-	2	75	77
Other operating income	20	-	-	
Effects recognized in the Income Statement	-	2	75	77

Amounts are in ISK millions

26. Fair value hierarchy, continued

Carrying values and fair values of financial assets and financial liabilities not carried at fair value

30.6.2023 *Financial assets not carried at fair value*	Carrying value	Fair value	Unrealized gain (loss)
Cash and balances with Central Bank	76,499	76,499	-
Loans to credit institutions	43,428	43,428	-
Loans to customers	1,134,621	1,115,024	(19,597)
Other financial assets	13,043	13,043	-
Financial assets not carried at fair value	1,267,591	1,247,994	(19,597)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	21,702	21,702	-
Deposits	781,202	781,202	-
Borrowings	405,572	393,355	12,217
Subordinated liabilities	46,478	45,778	700
Other financial liabilities	18,275	18,275	-
Financial liabilities not carried at fair value	1,273,229	1,260,312	12,917
31.12.2022*			
Financial assets not carried at fair value			
Cash and balances with Central Bank	114,118	114,118	-
Loans to credit institutions	45,501	45,501	-
Loans to customers	1,084,757	1,017,671	(67,086)
Other financial assets	4,720	4,720	-
Financial assets not carried at fair value	1,249,096	1,182,010	(67,086)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	11,697	11,697	-
Deposits	755,361	755,361	-
Borrowings	392,563	381,426	11,137
Subordinated liabilities	47,331	48,310	(979)
Other financial liabilities	6,527	6,527	-
Financial liabilities not carried at fair value	1,213,479	1,203,321	10,158

Loans to customers largely bear variable interest rates. Those loans, including corporate loans, are presented at book value as they generally have a short duration and very limited interest rate risk. Loans with fixed interest rates, mainly retail mortgages, are estimated by using the discount cash flow method with the interest rates offered on new loans, taking into account loan to value. Defaulted loans are presented at book value as no future cash flow is expected on them. Instead they are written down according to their estimated potential recovery value.

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Derivatives	Notional	Fair value	
30.6.2023	value	Assets	Liabilities
Forward exchange rate agreements	82,955	773	403
Fair value hedge of interest rate swap	233,648	-	13,565
Interest rate and exchange rate agreements	69,857	3,273	3,682
Bond swap agreements	4,294	172	3
Share swap agreements	23,716	4,720	371
Options - purchased agreements, unlisted	3	343	10
Derivatives	414,473	9,281	18,034
31.12.2022			
Forward exchange rate agreements	73,127	2,383	168
Fair value hedge of interest rate swap	246,965	68	16,256
Interest rate and exchange rate agreements	93,206	2,737	3,540
Bond swap agreements	5,668	277	19
Share swap agreements	36,057	3,694	975
Options - purchased agreements, unlisted	5	357	28
Derivatives	455,028	9,516	20,986

Amounts are in ISK millions

26. Fair value hierarchy, continued

Fair value hedge of interest rate swap

The Group applies fair value hedge accounting only with respect to interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest, with identical cash flows to the borrowings. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR bonds, see Note 34, arising from changes in interest rates. On 1 January 2018 the Group adopted IFRS 9, but has elected to continue to apply the hedge accounting principles under IAS 39. For further information about the Group's hedge accounting policy, see Note 59 in the Annual Financial Statements 2022.

1.1. - 30.6.2023	Notional	Maturity date	Fair value Assets	Fair value Liabilities	Gain (loss) on FV changes
Interest rates swaps - EUR	-	-	-	-	76
Interest rates swaps - EUR	11,843	6-12 mth	-	528	380
Interest rates swaps - USD	13,625	1-5 years	-	845	42
Interest rates swaps - EUR	74,350	1-5 years	-	7,751	397
Interest rates swaps - EUR	44,610	1-5 years	-	3,803	359
Interest rates swaps - EUR	44,610	1-5 years	-	13	(221)
Interest rates swaps - EUR	44,610	1-5 years	-	625	(615)
			-	13,565	418
1.1. - 31.12.2022					
Interest rates swaps - EUR	20,680	0-3 mth	68	-	(747)
Interest rates swaps - EUR	45,451	1-5 years	-	2,332	(1,933)
Interest rates swaps - USD	14,180	1-5 years	-	908	(1,103)
Interest rates swaps - EUR	75,752	1-5 years	-	7,986	(6,911)
Interest rates swaps - EUR	45,451	1-5 years	-	4,151	(3,321)
Interest rates swaps - EUR	45,451	1-5 years	-	879	(840)
			68	16,256	(14,855)

Hedged borrowings and subordinated liabilities

1.1. - 30.6.2023	Book value	Accumulated fair value Assets	Accumulated fair value Liabilities	Gain (loss) on FV changes
EUR 300 million - issued 2018 - 5 years	-	-	-	(156)
EUR 300 million - issued 2020 - 4 years	11,326	476	-	(363)
USD 100 million - issued 2020 - Perpetual	12,931	918	-	(27)
EUR 500 million - issued 2021 - 5 years	65,671	7,205	-	(420)
EUR 300 million - issued 2021 - 4 years	41,120	3,538	-	(364)
EUR 300 million - issued 2022 - 2 years	44,637	993	-	220
EUR 300 million - issued 2023 - 3 years	44,175	606	-	606
Hedged borrowings and subordinated liabilities	219,860	13,736	-	(504)
1.1. - 31.12.2022				
EUR 500 million - issued 2017/18 - 5 years	20,672	156	-	13
EUR 300 million - issued 2018 - 5 years	43,181	2,363	-	1,930
EUR 300 million - issued 2020 - 4 years	13,396	1,001	-	1,024
USD 100 million - issued 2020 - Perpetual	66,231	7,765	-	6,927
EUR 300 million - issued 2021 - 5 years	41,404	3,973	-	3,288
EUR 300 million - issued 2021 - 4 years	44,557	792	-	766
Hedged borrowings and subordinated liabilities	229,441	16,050	-	13,947

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 95-108%.

Amounts are in ISK millions

27. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

30.6.2023	Assets subject to netting arrangements: Gross assets before nettings	Assets subject to netting arrangements: Nettings with gross liabilities	Assets subject to netting arrangements: Assets recognized on Balance Sheet, net	Netting potential not recognized in the Balance Sheet: Financial liabilities	Netting potential not recognized in the Balance Sheet: Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arr-angements	Total assets recognized on Balance Sheet, net
Reverse repurchase agreements	37,368	(30,362)	7,006	30,253	-	37,259	-	7,006
Derivatives	636	-	636	(522)	-	114	8,645	9,281
Total assets	38,004	(30,362)	7,642	29,731	-	37,373	8,645	16,287
31.12.2022								
Reverse repurchase agreements	17,781	(10,212)	7,569	10,212	-	17,781	-	7,569
Derivatives	842	-	842	(42)	-	800	8,674	9,516
Total assets	18,623	(10,212)	8,411	10,170	-	18,581	8,674	17,085

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

30.6.2023	Liabilities subject to netting arrangements: Gross liabilities before nettings	Liabilities subject to netting arrangements: Nettings with gross assets	Liabilities subject to netting arrangements: Liabilities recognized on Balance Sheet, net	Netting potential not recognized in the Balance Sheet: Financial assets	Netting potential not recognized in the Balance Sheet: Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet
Repurchase agreements	109	(30,362)	(30,253)	30,253	-	-	-	(30,253)
Derivatives	15,036	-	15,036	(522)	-	14,514	2,998	18,034
Total liabilities	15,145	(30,362)	(15,217)	29,731	-	14,514	2,998	(12,219)
31.12.2022								
Repurchase agreements	-	(10,212)	(10,212)	10,212	-	-	-	(10,212)
Derivatives	18,298	-	18,298	(42)	-	18,256	2,689	20,986
Total liabilities	18,298	(10,212)	8,086	10,170	-	18,256	2,689	10,774

Reverse repurchase agreements and repurchase agreements are recognized within the line items Financial instruments and Due to credit institutions and Central Bank respectively.

28. Investments in associates

	30.6.2023	31.12.2022
Carrying amount at the beginning of the year	787	668
Acquisitions / increased share capital	75	90
Disposals	-	(241)
Share of (loss) profit of associates and profit from sale	(20)	270
Investment in associates	842	787

The Group's interest in its principal associates

Bílafrágangur ehf., Lágmúli 5, Reykjavík, Iceland	33.4%	33.4%
Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	32.0%	49.0%
Reiknistofa bankanna hf., Katrínartún 2, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík	35.3%	35.3%

During second quarter of 2023 share capital of Háblær was increased. Arion Bank invested for ISK 75 million but the Banks shareholding decreased as other shareholders increased their shareholdings even further.

Amounts are in ISK millions

29. Intangible assets

Intangible assets comprise the following categories: Goodwill, which arises on business combinations; Infrastructure, Customer relationships and related agreements which are identified during the acquisition of subsidiaries and related to the activities of the businesses being acquired; and Software, which is acquired (i.e. software licenses) and expenses of implementation.

Infrastructure, which is capitalized as an intangible asset, is related to the asset management operation and branding of the insurance operation. The business activity is based on years of developing expertise and systems, during which a valuable platform has been created for future growth. An impairment test is performed annually.

Customer relationships and related agreements are connected to business relationships and agreements which the Bank acquired in subsidiaries. The asset is based on the assumption that business relationships and agreements generate regular payments and earnings to the relevant business segments. The lifetime of these agreements is based on the experience of the Group and the industry. As a result, these agreements are assessed as having an identified useful lifetime.

Acquired software and internally developed software is capitalized on the basis of the cost of acquiring and bringing the software into service. Expenditure on internally developed software is recognized as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and when it can reliably measure the costs to complete the development. The capitalized costs of internally developed software include external expenses directly attributable to developing the software and salary and salary related expenses of implementation of core systems. Capitalized costs of software are amortized over its useful life. Computer software licenses and internally developed software recognized as intangible assets are amortized over their useful life, which is estimated to be 3-10 years.

Policies applied to the Group's intangible assets	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

30.6.2023	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	547	5,123	8,783
Additions	-	-	-	239	239
Amortization	-	-	(30)	(506)	(536)
Intangible assets	730	2,383	517	4,856	8,486

31.12.2022	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	669	2,383	607	5,804	9,463
Additions	61	-	-	355	416
Amortization	-	-	(60)	(1,036)	(1,096)
Intangible assets	730	2,383	547	5,123	8,783

Goodwill related to the insurance operation is recognized among assets in the operating segments Corporate & Investment Banking and Retail Banking and in 2022 Leiguskjól acquired a subsidiary including ISK 61 million in goodwill wich is recognized in the operating segment Other subsidiaries, see Note 6.

30. Tax assets and tax liabilities

	30.6.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	9,983	-	8,471
Deferred tax	383	2,352	135	1,832
Tax assets and tax liabilities	383	12,335	135	10,303

Amounts are in ISK millions

31. Assets and disposal groups held for sale and associated liabilities

Assets and disposal groups held for sale	30.6.2023	31.12.2022
Real estate	61	61
Assets and disposal groups held for sale	61	61

Real estates and other assets classified as assets held for sale are generally the result of foreclosures on companies and individuals.

Sólbjarg ehf., a subsidiary of Eignabjarg ehf.

Sólbjarg ehf. is a holding company of the former TravelCo hf. tour operator group which included Terra Nova Sól ehf., Heimsferdir ehf. and TravelCo Nordic/Bravo Tours. All operations were sold during the years 2020-2022. Following the sale of the operation of Heimsferdir ehf. Sólbjarg became a minority shareholder in Ferdaskrifstofa Íslands ehf. through its ownership in Heimbjarg ehf. (former Heimsferdir ehf.). Sólbjarg sold its shares in Heimbjarg ehf. in Q2 2023 with minor effects on the Income Statement.

32. Other assets

	30.6.2023	31.12.2022*
Property and equipment	3,633	3,787
Right of use asset	706	745
Accounts receivable	1,840	1,308
Unsettled securities trading	8,443	860
Sundry assets	4,013	3,576
Other assets	18,635	10,276

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

33. Other liabilities

	30.6.2023	31.12.2022*
Accounts payable	1,700	1,013
Unsettled securities trading	8,737	1,844
Insurance contract liabilities	19,034	17,451
Withholding tax	805	2,637
Bank levy	1,900	1,761
Accrued expenses	3,956	4,776
Prepaid income	1,485	1,590
Impairment of off-balance items	301	449
Lease liability	924	970
Sundry liabilities	7,537	6,910
Other liabilities	46,379	39,401
Insurance contract liabilities		
Liabilities for remaining coverage	4,354	3,412
Liabilities for incurred claims	14,032	13,410
Risk adjustment	648	629
Insurance contract liabilities	19,034	17,451

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

34. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	30.6.2023	31.12.2022
ARION CB 24 ISK 28,900 million	2019	2024	At maturity	Fixed, 6.00%	25,557	25,736
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed, CPI linked, 3.00%	49,652	47,184
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed, CPI linked, 2.00%	20,167	19,219
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed, CPI linked, 3.50%	37,341	35,602
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed, CPI linked, 2.50%	12,297	11,828
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed, EUR 0.05%	65,671	66,231
ARION CB 27, ISK 41,000 million	2022	2027	At maturity	Fixed, 5.50%	17,562	7,058
ARION CBI 30, ISK 6,000 million	2023	2030	At maturity	Fixed, CPI linked, 2.75%	4,956	-
Statutory covered bonds					233,203	212,858
NOK 250 million	2017	2023	At maturity	Fixed, 3.02%	-	3,671
EUR 300 million *	2018	2023	At maturity	Fixed, 1.00%	-	20,672
EUR 300 million *	2020	2024	At maturity	Fixed, 0.625 %	11,326	43,181
NOK 250 million	2017	2027	At maturity	Fixed, 3.40%	3,198	3,680
EUR 300 million Green *	2021	2025	At maturity	Fixed, 0.375%	41,120	41,404
ARION 26 1222 Green (ISK 5,760m) ..	2021	2026	At maturity	Fixed, 4.70%	5,530	5,382
ARION 24 1020 Green (ISK 6,020m) ..	2022	2024	At maturity	Floating, REIBOR 3M +0.70%	6,086	6,062
EUR 300 million Green *	2022	2024	At maturity	Fixed, 4.875%	44,637	44,557
NOK 550 million	2022	2025	At maturity	Floating, OIBOR 3M +2.35%	7,032	7,952
SEK 230 million	2022	2025	At maturity	Floating, STIBOR 3M +2.35%	2,926	3,144
NOK 200 million	2023	2025	At maturity	Floating, Oibor 3M + 2,55%	2,546	-
SEK 300 million	2023	2026	At maturity	Floating, Stibor 3M + 3,0%	3,793	-
EUR 300 million*	2023	2026	At maturity	Fixed, 7.25%	44,175	-
Senior unsecured bonds					172,369	179,705
Borrowings					405,572	392,563

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26.

The book value of listed bonds was ISK 406 billion at the end of the period (31.12.2022: ISK 393 billion). The market value of those bonds was ISK 393 billion (31.12.2022: ISK 381 billion). The Group repurchased own debts amounting to ISK 33 billion during the period with a net loss of ISK 225 million recognized in the Income Statement (6M 2022: ISK 7 billion).

35. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.6.2023	31.12.2022
SEK 500 million	2018	2028	22 Nov '23	Floating, 3 month STIBOR +3.10% ..	6,348	6,822
NOK 300 million	2019	2029	9 Jul '24	Floating, NIBOR +3.65%	3,877	4,383
SEK 225 million	2019	2029	20 Dec '24	Floating, 3 month STIBOR +3.70% ..	2,849	3,066
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed, CPI linked, 3.875%	6,152	5,841
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed, 6.75%	908	908
EUR 5 million	2019	2031	6 Mar '26	Fixed, 3.24%	746	772
ARION T2I 33 9,860 million	2022	2033	15 Dec '28	Fixed, CPI linked, 4.95%	10,418	9,894
ARION T2 33 2,240 million	2022	2033	15 Dec '28	Fixed, 9.25%	2,249	2,249
Tier 2 subordinated liabilities					33,547	33,935
ARION AT1 USD 100 million *	2020	Perpetual	26 Mar '25	Fixed, 6.25%	12,931	13,396
Additional Tier 1 subordinated liabilities					12,931	13,396
Subordinated liabilities					46,478	47,331

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26.

Additional Tier 1 and Tier 2 subordinated liabilities are eligible as regulatory capital under the Icelandic Financial Undertakings Act No. 161/2002.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

36. Liabilities arising from financial activities

30.6.2023	1 Jan	Cash flows	Non-cash changes: Interest expenses	Non-cash changes: Foreign exchange	Non-cash changes: Effect from hedge	At period end
Covered bonds in ISK - CPI linked	113,833	2,938	7,642	-	-	124,413
Covered bonds in ISK	32,794	9,244	1,082	-	-	43,120
Covered bonds in FX	66,231	(915)	1,143	(1,233)	445	65,671
Senior unsecured bonds in FX	168,261	(7,562)	3,579	(4,994)	1,467	160,751
Senior unsecured bonds in ISK	11,444	(212)	384	-	-	11,616
Subordinated bond CPI T2 linked	15,735	(368)	1,203	-	-	16,570
Subordinated bond T2 ISK	3,156	(132)	133	-	-	3,157
Subordinated bond T2 FX	15,044	(463)	458	(1,218)	-	13,821
Subordinated bond AT1 FX	13,396	(718)	697	(488)	44	12,931
Liabilities arising from financial activities	439,894	1,812	16,321	(7,933)	1,956	452,050
31.12.2022						
Covered bonds in ISK - CPI linked	102,007	(814)	12,640	-	-	113,833
Covered bonds in ISK	57,512	(27,114)	2,396	-	-	32,794
Covered bonds in FX	43,624	26,690	386	2,515	(6,984)	66,231
Senior unsecured bonds in FX	149,970	17,949	2,044	4,278	(5,980)	168,261
Senior unsecured bonds in ISK	3,524	7,359	561	-	-	11,444
Subordinated bond CPI T2 linked	5,337	9,651	747	-	-	15,735
Subordinated bond T2 ISK	907	2,182	68	-	-	3,157
Subordinated bond T2 FX	15,619	(596)	643	(623)	-	15,043
Subordinated bond AT1 FX	13,225	(867)	880	1,149	(991)	13,396
Liabilities arising from financial activities	391,725	34,440	20,365	7,319	(13,955)	439,894

37. Pledged assets

Pledged assets against liabilities	30.6.2023	31.12.2022
Assets, pledged as collateral against borrowings	378,855	328,811
Assets, pledged as collateral against loans from the Central Bank, credit institutions and short positions	2,866	3,591
Pledged assets against liabilities	381,721	332,402
Thereof pledged assets against issued covered bonds held by the Bank	(98,237)	(70,850)
Assets against repoed issued bonds	41,094	17,029
Pledged assets against liabilities on balance	324,578	278,581

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 248 billion at period end (31.12.2022: ISK 213 billion).

The Group has pledged bonds against short term lending from the Central Bank of Iceland and against short positions, related to swap agreements, to hedge market risk of those assets.

The Group has issued covered bonds amounting to ISK 48 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2022: ISK 45 billion). Pledged assets against those covered bonds are ISK 57 billion (31.12.2022: ISK 54 billion).

Amounts are in ISK millions

38. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,460 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	Total 30.6.2023	Share capital	Own shares	Share premium	Total 31.12.2022
Balance at the beginning of the year ..	1,510	(45)	11,907	13,372	1,660	(142)	21,166	22,684
Share capital reduction	(50)	50	-	-	(150)	150	-	-
Purchase of treasury shares	-	(22)	(3,238)	(3,260)	-	(58)	(9,793)	(9,851)
Share option vested	-	2	295	297	-	4	349	353
Incentive scheme	-	1	194	195	-	1	184	185
Balance at the end of the period	1,460	(14)	9,157	10,604	1,510	(45)	11,907	13,372
Own shares / issued share capital		0.95%				3.01%		

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. On 5 September 2022 the FSA authorized a buyback program which amounts up to a total of 57.3 million shares or up to ISK 10 billion. During the first half of 2023 Arion Bank bought back own shares for ISK 3,260 million. The Program ended 1 June 2023.

At the AGM in March 2023 a motion was passed to reduce the Bank's share capital by ISK 50 million. The reduction was effective 25 April 2023 and Arion Bank's share capital was reduced from ISK 1,510 million to ISK 1,460 million. At the AGM in March 2022 a motion was passed to reduce the Bank's share capital by ISK 150 million. The reduction was effective 4 April 2022.

Share options

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting, under which employees may be granted options to purchase ordinary shares. The annual maximum purchase price for each employee is ISK 1.5 million, in line with Article 10 of the Income Tax Act no. 90/2003, at an exercise price determined by the Bank's average share price 10 days prior to issue date. The employee must remain continuously employed with Arion Bank until the expiring date. The options carry neither rights to dividends nor voting rights and are valued using the Black-Scholes pricing model.

The following share option contracts are in existence at period end.	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 600,000) - employees of Arion Bank	8,086	2024-2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	8,254	2024-2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	5,912	2024-2026	153.75
Issued in 2022 (ISK 1,500,000) - employees of subsidiaries	2,183	2023-2026	140.56
	24,435		

Movements in share options during the period.	30.6.2023		31.12.2022	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	30,882	143.2	19,728	95.5
Share options granted	16,349	153.8	17,362	180.3
Share options forfeited	(20,152)	168.2	(2,916)	95.5
Share options exercised, WAVG share price ISK 151.79 at exercise date (2022: 187.56)	(2,644)	95.5	(3,292)	95.5
Outstanding share options at the end of the period	24,435	136.2	30,882	143.2

No share options are exercisable at period end. Next exercise periods are in February and May 2024.

All outstanding share options, if exercised, represent approximately 1.7% of the total issued shares.

To meet the Bank's obligations on the basis of the share option plan, the Bank will issue new share capital or deliver treasury shares. Arion Bank has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of the employee stock options granted is measured by using the Black-Scholes model.

Warrants

The warrants reserve represents the consideration received for outstanding warrants. Arion Bank issued 54 million warrants on 9 March 2021. The purchase price of the warrants amounted to ISK 15.6 per warrant, resulting in a total sale price of ISK 842.4 million. The warrant issuing represents approximately 3% of the Bank's total share capital and the Bank is obliged to issue new shares when the warrants are exercised. Approximately 48.5% of the total issue was sold to around 150 employees of the Group and 51.5% to professional investors. The exercise period runs from Q4 2023 to Q3 2024.

Amounts are in ISK millions

Other information

39. Shareholders of Arion Bank

	30.6.2023	31.12.2022
Gildi lífeyrissjódur	9.87%	9.77%
Lífeyrissjódur starfsmanna ríkisins	9.62%	9.53%
Lífeyrissjódur verzlunarmanna	9.45%	9.14%
Stodir hf.	5.38%	5.20%
Brú lífeyrissjóður	3.96%	3.69%
Vanguard	3.89%	2.27%
Stefnir funds	3.64%	4.05%
Birta lífeyrissjódur	3.60%	3.47%
Stapi lífeyrissjódur	3.23%	3.02%
Frjálsi lífeyrissjódurinn	3.22%	3.17%
Hvalur hf.	2.52%	2.44%
Íslandsbanki hf.	2.11%	2.38%
Festa lífeyrissjódur	2.11%	1.92%
Almenni lífeyrissjódurinn	1.52%	1.47%
Kvika banki hf.	1.29%	1.82%
Landsbréf hf.	1.19%	1.43%
Lífsverk pension fund	1.15%	1.08%
Sjóvá tryggingar	1.15%	1.00%
Landsbankinn hf.	1.13%	1.21%
Arion banki hf.	0.95%	3.01%
Other shareholders with less than 1% shareholding	29.03%	28.96%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 0.84% in Arion Bank (31.12.2022: 0.65%). The Board of Directors and the members of the Bank's Executive Committee shareholding is as follows:

On 15 March 2023 the AGM approved to reduce the Bank’s share capital by ISK 50 million nominal value, amounting 50 million own shares, by cancelling the Bank’s own shares. The reduction was carried out on 25 April 2023. The Bank’s share capital therefore reduces from ISK 1,510 million to ISK 1,460 million which is divided into an equal number of shares and each share is accompanied by one vote.

	30.06.2023		31.12.2022	
	Warrants / options	Number of shares	Warrants / options	Number of shares
Steinunn Kristín Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	13,000	-	13,000
Benedikt Gíslason, CEO	997,947	2,561,783	1,006,482	2,506,283
Eight members of the Executive Committee (2022: eight)	4,038,815	971,648	4,945,258	787,751

Other members of the Board of Directors do not hold shares or warrants in Arion Bank.

Amounts are in ISK millions

40. Legal matters

The Group has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the likelihood and amount of loss reasonably estimated, the Group makes adjustments, if appropriate, to account for any adverse effects the claims may have on its financial standing. Should the Group conclude that it is to the detriment of the Group's case to disclose such potential amounts, relating to the legal claims raised, it elects not to do so. At the end of the period, the Group had several unresolved legal claims.

Contingent liabilities

Legal proceedings regarding damages

In a lawsuit brought in June 2013, Kortaþjónustan hf. claimed damages from Arion Bank hf., Íslandsbanki hf., Landsbankinn hf., Borgun hf. and Valitor hf. in the amount of ISK 1.2 billion plus interest. The lawsuit is a result of damage Kortaþjónustan hf. contended the five parties caused the company due to violations of the Competition Act. In June 2017 the Supreme Court dismissed the case on procedural grounds. Since then, Kortaþjónustan hf. and subsequently its largest shareholder EC-Clear have tried to initiate five lawsuits against the same defendants which have all been dismissed, the last one in March 2021. In September 2021 EC-Clear has once again brought the same matter of dispute, claiming damages in the amount of ISK 922 million plus interest, against the same defendants. In September 2022 the District Court dismissed the claims. EC-Clear appealed the dismissal but with a ruling in January 2023 the Court of Appeal rejected the District Court's ruling and ruled that the case should be heard on its merits by the District Court. Should the defendants be found liable for damages, they would be jointly responsible. Therefore, the Bank has not made any provision.

Consumer Association's class-action lawsuit

The Consumer Association of Iceland sent a letter to Arion Bank, Íslandsbanki and Landsbankinn in April 2020 urging the banks to review its contractual terms on variable rate mortgages to individuals. The letter called for revised terms and compensation to borrowers who, according to the Association, have suffered damage. The Association's argument is that standard contractual terms lack proper legal grounds, as parameters for interest rate decisions lack transparency and predictability, thus causing a contractual imbalance to the detriment of the consumer.

Arion Bank undertook a review of its contractual terms and processes for interest rate decisions in light of the letter, concluding that no changes were required and that the Association's arguments are unfounded. A reasoned response was sent to the Consumer Association in September 2020. According to information published on the Consumer Association's website, all three banks have rejected the Association's arguments.

The Consumer Association in May 2021 published an article on its website calling for participants in a class action lawsuit. The intention is to commence court proceedings against Icelandic credit institutions to provide court precedents for loans with variable rates. Arion Bank has received information requests from a legal firm representing approximately 1,200 individuals. One case has been filed against the Bank and with a judgement of the District Court of Reykjavík on the 7th of February 2023 the Bank was acquitted. The plaintiffs have been granted a right of appeal to the Court of Appeal. Considering the District Court's judgement as well as an outside opinion commissioned by the Bank on its legal position the Bank has not made any provision.

Administrative fine from Central Bank of Iceland

On 7 July 2020 the Financial Supervisory Authority of the Central Bank of Iceland (FSA) published its decision to impose an administrative fine on Arion Bank of ISK 87.7 million due to the Bank's alleged breach of an obligation to disclose insider information in a timely manner. The decision was published on FSA´s website. Arion Bank paid the fine but filed a claim with the district court of Reykjavik in October 2020 demanding that FSA's decision be annulled. With a judgment of the district court in April 2022 FSA was acquitted. The Bank appealed the ruling and with a judgement of the Court of Appeal in June 2023 the district court's ruling was confirmed.

Other legal proceedings

Since 2008 Arion Bank has formally been a party to proceedings in Luxembourg, commenced against the Luxembourg company R Capital S.á r.l. and its beneficial owner, Mr. Umberto Ronsisvalle, for the collection of EUR 6 million plus interest. During this time, Kaupthing ehf. has been the beneficial owner of the claim, with Arion Bank's involvement limited to being the formal party to the proceedings while enjoying indemnity from Kaupthing. The reason for the setup is a decision by the Icelandic Financial Supervisory Authority in 2009 during the split of Kaupthing to the "new" and "old" bank. In 2019, a counterclaim was made against Arion Bank in the proceedings, for the net sum of EUR 24 million plus interest, with the Bank continuing to enjoy full indemnity from Kaupthing. In September 2021, Kaupthing and Arion Bank agreed that all rights and liabilities in the Luxembourg proceedings would be transferred to Arion Bank. The Bank is still held harmless for any liabilities associated with the claims and has therefore not made any provision.

The estate of TravelCo Nordic has filed a case against TravelCo hf. and the Bank in Denmark claiming payment in solidum in the amount of DKK 58.1 million plus interest. The merits and arguments against the Bank are vague. The bankruptcy estate alleges that the Bank, as owner of Heimsferdir ehf. and Terra Nova Sól ehf., contrived the sale of the companies to its subsidiary, Sólbjarg ehf., without real payment. The transaction the bankruptcy estate is referring to is in fact the legal and lawful enforcement of security (i.e. share pledges) by the Bank over the shares in Heimsferdir hf. and Terra Nova Sól ehf. following a default on a facilities agreement to TravelCo hf. as borrower. Following the enforcement, the Bank moved the companies to its holding company, Sólbjarg ehf., and the Bank remained the beneficial owner of the companies. The Bank believes it likely that it will be acquitted of the estate's claim and has therefore not made any provision.

41. Events after the reporting period

No event has arisen after the reporting period and up to the approval of these Condensed Consolidated Interim Financial Statements that require additional disclosures.

Off balance sheet information

42. Commitments

Financial guarantees, unused credit facilities and undrawn loan commitments	30.6.2023	31.12.2022
Financial guarantees	23,299	20,312
Unused overdrafts	60,964	57,259
Undrawn loan commitments	92,409	105,888
Financial guarantees, unused credit facilities and undrawn loan commitments	176,672	183,459

43. Assets under management and under custody

Assets under management	1,332,413	1,298,289
Assets under custody	1,129,936	1,067,052

Assets under management represent the total market value of the financial assets which the Group manages on behalf of its customers.

The Group, acting as custodian, is responsible for safeguarding a firm's or individual's financial assets, hold in safekeeping securities such as stocks, bonds and securities funds, arrange the settlement of trades and movements of securities, process corporate actions such as income on bonds and dividends on shares; and pricing on securities.

Related party

44. Related party

Arion Bank defines related party as shareholders with significant influence over the Group, the key management personnel and the Group's associated companies.

Shareholders with significant influence are shareholders that have the power to participate in the finanical and operating decisions of Arion Bank but do not control those policies. At the end of the period no shareholder was defined as related party with an influence over the Group (31.12.2022: none).

The key management personnel includes the Board of Directors and the Executive Committee of Arion Bank, as well as their close family members and legal entities controlled by them. The Executive Committee consists of the CEO, Managing Directors of Retail banking, CIB, Markets, Finance, Risk, IT, Customer experience and head of General councel.

For information on the associated companies, see Note 28.

Transactions with related parties have been conducted on an arm's length basis. There have been no further guarantees provided or received for related party receivables or payables.

	Key management personnel		Associated companies	
	30.6.2023	31.12.2022	30.6.2023	31.12.2022
Loans	64	64	62	71
Other assets	2	2	-	-
Total assets	66	66	62	71
Deposits	(576)	(1,111)	(36)	(155)
Other liabilities	-	-	(34)	(27)
Total liabilities	(576)	(1,111)	(71)	(182)

Amounts are in ISK millions

Risk management disclosures

The Group faces various risks arising from its day to day operations. Managing risk is a core activity within the Group. The key to effective risk management is a process of on-going identification of significant risk, quantification of risk exposures, actions to limit risk and constant monitoring of risk. This process of risk management and the ability to evaluate, manage and correctly price the risk encountered is critical to the Group's continuing profitability, and ensures that the exposure to risk remains within acceptable levels.

The Board of Directors is ultimately responsible for the Bank's risk management framework and for ensuring that satisfactory risk policies and governance for controlling the Group's risk exposure are in place. Each subsidiary is responsible for its own risk management framework but adheres to the Bank's ownership policies which outline the Group's internal control policy, risk appetite and reporting mechanisms. The Board sets the risk appetite for the Bank, and in some cases the Group, which is translated into exposure limits and targets monitored by the Bank's Risk Management division.

The Chief Executive Officer (CEO) is responsible for sustaining an effective risk management framework, processes and controls as well as maintaining a high level of risk awareness among employees, making risk everyone's business.

The Bank operates several committees to manage risk. The Board Risk Committee (BRIC) is responsible for supervising the Bank's risk management framework, risk appetite and the internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP). The Board Credit Committee (BCC) approves certain proposals for credit origination, debt cancellation, underwriting and investments, while the Board of Directors is the supreme authority for cases which entail deviations from risk appetite or strategy. On the management level the CEO has established six primary risk committees. The Asset and Liability Committee (ALCO) is responsible for managing asset-liability mismatches, liquidity and funding risk, market risk, capital adequacy, and decides on underwriting and investment exposures. The Operational Risk Committee (ORCO) is responsible for managing operational risk, which includes information security, financial crimes, regulatory compliance and data management. The Arion Credit Committee (ACC) administers the Bank's credit rules and decides on the origination of credit while the Arion Composition and Debt Cancellation Committee (ADC) is the principal authority for debt cancellation, debt restructuring and composition agreements. ACC and ADC operate within limits set by the BCC. The Sustainability Committee ensures that the Bank's strategy and decision-making are aligned with the Bank's commitments in relation to the environmental, social and governance (ESG) agenda. The committee oversees the Bank's Green Financing Framework. Finally, the Executive Risk Committee (ERCO), chaired by the CRO, oversees the implementation of risk policies, ensures that the Bank's limit framework adheres to the risk appetite, reviews the Bank's ICAAP, ILAAP and stress testing, and approves economic scenarios, credit models and specific provisions under IFRS9. The Executive Committee is concerned with business and strategic risk.

The Bank's Internal Audit conducts independent reviews of the Bank's and several subsidiaries' operations, risk management framework, processes and measurements. Internal Audit discusses its results with management and reports its findings and recommendations to the Board Audit Committee (BAC) and to the Board of Directors.

The Bank's Compliance function is headed by the Compliance Officer. It is independent and centralized and the Compliance Officer reports directly to the CEO. The Compliance function manages the Bank's conduct and compliance risk, including risk relating to data protection and financial crime.

The Bank's Risk Management division is headed by the Chief Risk Officer. It is independent and centralized and the CRO reports directly to the CEO. The division is divided into four units: Risk Analysis, which is responsible for the quantification of risk on a portfolio level, including risk modeling and reporting; Risk Monitoring and Framework, which facilitates and monitors the management of risk and controls in the first line; Credit Analysis, which supports the Bank's credit transaction process and participates in credit decisions; and Security Team, headed by the Bank's Chief Security Officer, which facilitates and monitors information security risk management in the first line. The Bank's Risk Officer for Pension Funds reports to the CRO.

Arion Bank is a small bank in international context but classified as systemically important in Iceland. The Group operates in a small economy which is subject to sectoral concentration, fluctuations in capital flows, and exchange rate volatility. The Group’s most significant risks are credit risk, concentration risk, liquidity risk, interest rate risk, cyber risk, third party risk, business risk and sustainability risk. These risk factors are to the largest extent encountered within the parent company. Through the Bank's subsidiaries, the Group bears risk arising from insurance activities and fund management.

Further information on risk management and capital adequacy is provided in the Annual Financial Statements for 2022, in the Pillar 3 Risk Disclosures for 2022 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.

45. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

Credit risk arises anytime the Group commits its funds, resulting in capital or earnings being dependent on counterparty, issuer or borrower performance. Loans to customers are the largest source of credit risk. Credit risk is also inherent in other types of assets, such as loans to credit institutions, bonds, derivatives and off-balance sheet items such as commitments and guarantees.

Managing and analyzing the Group's loan portfolio is of utmost importance. Great emphasis is placed on the quality of the credit portfolio, by maintaining a strict credit process, by critically inspecting loan applications, by actively monitoring the credit portfolio and by identifying and reacting to possible problem loans at an early stage as well as by restructuring impaired credits.

The Group grants credit based on well-informed lending decisions and seeks to build business relationships with customers that have good repayment capacity and are backed by strong collateral. The risk level of each credit is considered in the pricing.

Credit risk is managed and controlled by setting limits on the amount of risk the Group is willing to accept for individual counterparties, group of connected clients, industries, geographies and loan types, and by monitoring exposures in relation to such limits. The Group seeks to limit its total credit risk through diversification of the loan portfolio across sectors and by limiting large exposures to groups of connected clients.

Exposure to credit risk

The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position before the effect of mitigation due to collateral agreements or other credit enhancements. The table also shows related collateral and credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the exposure type. The main types of collateral obtained are as follows:

- Real estate: Residential property, commercial real estate and land
- Cash and securities: Cash, treasury notes and bills, asset backed bonds, listed equity, and funds that consist of eligible securities
- Vessels: Ships with assigned fishing quota and other vessels
- Other collateral: Fixed and current assets including vehicles, equipment, inventory and trade receivables

The value of collateral is based on estimated market value. The valuation of real estate is based on market price, valuation model, or the opinion of internal or external specialists. The valuation of fishing vessels takes into account related fishing quotas. The quality of collateral is evaluated in the lending process with regards to specialization, location, age and condition and possibilities for reuse.

Collateral value is monitored and action is taken to remedy insufficient collateral coverage where the underlying agreement provides for such remedies. Collateral value is reviewed to ensure the adequacy of the allowance for impairment losses. Collateral values shown are capped by the related book value amount.

45. Credit risk, continued

Maximum exposure to credit risk and collateral held against different types of financial instruments subject to the impairment requirements of IFRS 9

		Collateral				
30.6.2023	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	76,499	-	-	-	-	-
Loans to credit institutions at amortized cost	43,428	-	-	-	-	-
Loans to customers at amortized cost	1,134,621	27,940	831,815	53,221	127,004	1,039,980
Individuals	*592,571*	*425*	*540,435*	*6*	*18,887*	*559,753*
Mortgages	*530,147*	*-*	*529,566*	*-*	*4*	*529,570*
Other	*62,424*	*425*	*10,869*	*6*	*18,883*	*30,183*
Corporates	*542,050*	*27,515*	*291,380*	*53,215*	*108,117*	*480,227*
Real estate activities	*112,089*	*2,559*	*105,431*	*8*	*1,124*	*109,122*
Construction	*69,725*	*274*	*62,607*	*44*	*2,917*	*65,842*
Fishing industry	*81,557*	*914*	*10,021*	*51,018*	*14,514*	*76,467*
Information and communication technology	*26,841*	*61*	*1,493*	*-*	*14,214*	*15,768*
Wholesale and retail trade	*94,563*	*920*	*49,492*	*3*	*34,123*	*84,538*
Financial and insurance activities	*43,296*	*21,428*	*6,823*	*-*	*13,792*	*42,043*
Industry, energy and manufacturing	*51,920*	*1,141*	*30,280*	*-*	*17,571*	*48,992*
Transportation	*14,323*	*55*	*1,069*	*924*	*3,943*	*5,991*
Services	*19,970*	*157*	*11,444*	*1,211*	*4,933*	*17,745*
Public sector	*12,302*	*6*	*2,124*	*7*	*208*	*2,345*
Agriculture and forestry	*15,464*	*-*	*10,596*	*-*	*778*	*11,374*
Other assets with credit risk	13,043	-	-	-	-	-
Financial guarantees	23,299	2,599	4,383	52	5,791	12,825
Undrawn loan commitments and unused overdrafts	153,373	-	-	-	-	-
Fair value through OCI	153,239	-	-	-	-	-
Government bonds	*134,106*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*19,133*	-	-	-	-	-
Balance at the end of the period	1,597,502	30,539	836,198	53,273	132,795	1,052,805

31.12.2022*	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	114,118	-	-	-	-	-
Loans to credit institutions at amortized cost	43,433	-	-	-	-	-
Loans to customers at amortized cost	1,084,757	26,285	796,745	51,717	104,911	979,658
Individuals	*582,371*	*517*	*531,300*	*16*	*18,919*	*550,752*
Mortgages	*513,605*	*9*	*513,252*	*-*	*32*	*513,293*
Other	*68,766*	*508*	*18,048*	*16*	*18,887*	*37,459*
Corporates	*502,386*	*25,768*	*265,445*	*51,701*	*85,992*	*428,906*
Real estate activities	*105,304*	*838*	*101,514*	*-*	*368*	*102,720*
Construction	*55,208*	*211*	*41,157*	*47*	*2,478*	*43,893*
Fishing industry	*91,427*	*1,123*	*14,278*	*49,501*	*13,023*	*77,925*
Information and communication technology	*24,622*	*110*	*1,441*	*-*	*14,775*	*16,326*
Wholesale and retail trade	*85,005*	*24*	*50,831*	*-*	*26,584*	*77,439*
Financial and insurance activities	*41,378*	*22,938*	*6,377*	*-*	*7,390*	*36,705*
Industry, energy and manufacturing	*44,154*	*295*	*25,635*	*-*	*13,219*	*39,149*
Transportation	*14,058*	*87*	*1,127*	*1,043*	*3,195*	*5,452*
Services	*19,155*	*131*	*11,007*	*1,104*	*3,904*	*16,146*
Public sector	*10,576*	*11*	*2,101*	*6*	*172*	*2,290*
Agriculture and forestry	*11,499*	*-*	*9,977*	*-*	*884*	*10,861*
Other assets with credit risk	4,720	-	-	-	-	-
Financial guarantees	20,312	2,378	3,872	37	3,288	9,575
Undrawn loan commitments and unused overdrafts	163,147	-	-	-	-	-
Fair value through OCI	115,806	-	-	-	-	-
Government bonds	*96,908*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*18,898*	-	-	-	-	-
Balance at the end of the year	1,546,293	28,663	800,617	51,754	108,199	989,233

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Amounts are in ISK millions

45. Credit risk, continued

LTV ratio for residential mortgage lending

The following table describes the loan to value (LTV) and impairment status of the Group's residential mortgage portfolio. LTV is calculated as the ratio of the total exposure of individual borrowers to the value of the pledged real estate without adjusting for possible costs of obtaining and selling the collateral. An exposure to a particular borrower appears in a single row in the table (whole-loan approach). The residential real estate valuation model used gives an estimate of current value on a monthly basis. This model is used when the observed market value becomes older than 2 years.

			Thereof credit impaired loans	
	30.6.2023	31.12.2022	30.6.2023	31.12.2022
Less than 50%	188,598	172,790	2,183	1,817
50-60%	95,559	91,201	964	511
60-70%	98,625	90,224	751	826
70-80%	75,502	86,856	606	408
80-90%	65,404	69,629	442	429
90-100%	5,136	2,111	301	153
More than 100%	2,129	1,171	279	118
Not classified	5	25	-	-
Gross carrying amount at the end of the period	530,958	514,007	5,526	4,262

The following table gives an alternative representation of the loan to value profile of the mortgage portfolio. Here, each exposure is split into pieces and each piece is placed into the appropriate LTV bucket. A single exposure can therefore be spread between several rows in the table (loan-splitting approach).

			Thereof credit impaired loans	
	30.6.2023	31.12.2022	30.6.2023	31.12.2022
Less than 55%	464,086	445,185	4,681	3,643
55-70%	46,554	48,024	491	380
70-80%	14,681	16,045	165	132
80-90%	4,334	3,895	90	65
90-100%	617	516	33	20
More than 100%	681	317	66	22
Not classified	5	25	-	-
Gross carrying amount at the end of the period	530,958	514,007	5,526	4,262

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 17,532 million (31.12.2022: ISK 12,903 million) with ISK 15,126 million in collateral (31.12.2022: ISK 10,627 million), thereof ISK 13,730 million in real estate (31.12.2022: 9,434 million).

Collateral repossessed

During the period, the Group took possession of no assets due to foreclosures (31.12.2022: nil) and nil in other assets (31.12.2022: nil). Assets aquired due to foreclosure are held for sale, see Note 31.

Amounts are in ISK millions

45. Credit risk, continued

Large exposures

A large exposure is defined as an exposure to a group of financially related borrowers which is equal to or exceeds 10% of the Group's Tier 1 capital according to the Financial Undertakings Act No. 161/2002. The legal maximum for individual large exposures is 25% of Tier 1 capital, net of eligible credit risk mitigation.

The Group had one large exposure at the end of the period (31.12.2022: two large exposures).

	30.06.2023		31.12.2022	
No.	Gross	Net	Gross	Net
1	10.4%	10.4%	11.5%	11.5%
2	<10%	<10%	10.3%	10.3%
Sum of large exposure gross and net > 10%	10.4%	10.4%	21.8%	21.8%

Credit quality

The Group uses internal credit ratings and external credit ratings, if available, to monitor credit risk. The Group's internal credit rating system rates customers through application of statistical models based on a variety of information that has been determined to be predictive of default. This includes demographic, behavioral, financial and economic data, coupled with qualitative expert judgment for large corporate exposures. Six exposure type models rate individuals' exposures – mortgages, consumer loans, auto loans, guarantees, loans to individuals for work purposes and other loans. The models are validated annually and recalibrated and updated with current data with the aim of maintaining their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement. External ratings are primarily used for marketable securities and loans to credit institutions. For further information on the rating scales used, see Note 58 in the Annual Financial Statements 2022.

The following tables show financial instruments subject to the impairment requirements of IFRS 9 broken down by rating scale, where risk class 5, DD, represents exposures in default. Assets carried at fair value through profit and loss are not subject to the impairment requirements of IFRS 9. The tables below sum up the gross carrying amount of assets by rating class and impairment stage. The gross carrying amount net of loss allowance is the book value of the underlying assets. For off-balance sheet exposures, the nominal amount is shown. FVOCI stands for fair value through other comprehensive income.

Exposures that are 'Unrated' are typically due to newly formed entities, entities for which the Bank's rating models are not applicable or no external rating is available.

Amounts are in ISK millions

45. Credit risk, continued

Credit quality profile for financial instruments subject to IFRS 9 impairment requirements

30.6.2022	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	76,499	43,428	153,244
Non-investment grade	-	-	-
Gross carrying amount	76,499	43,428	153,244
Loss allowance	-	-	(5)
Book value	76,499	43,428	153,239

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	415,457	491	-	1	415,949
Risk class 1 - (Grades BBB+ to BBB-)	321,905	373	-	116	322,394
Risk class 2 - (Grades BB+ to BB-)	214,655	30,567	-	67	245,289
Risk class 3 to 4 - (Grades B+ to CCC-)	100,685	40,374	-	2	141,061
Risk class 5 - (DD)	-	-	17,195	337	17,532
Unrated	13	1	-	-	14
Gross carrying amount	1,052,715	71,806	17,195	523	1,142,239
Loss allowance	(2,380)	(1,632)	(3,436)	(170)	(7,618)
Book value	1,050,335	70,174	13,759	353	1,134,621
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	303,504	257	-	1	303,762
Risk class 1 - (Grades BBB+ to BBB-)	211,632	348	-	116	212,096
Risk class 2 - (Grades BB+ to BB-)	37,495	11,201	-	67	48,763
Risk class 3 to 4 - (Grades B+ to CCC-)	11,753	11,051	-	2	22,806
Risk class 5 - (DD)	-	-	7,214	151	7,365
Unrated	10	1	-	-	11
Gross carrying amount	564,394	22,858	7,214	337	594,803
Loss allowance	(514)	(472)	(1,246)	-	(2,232)
Book value	563,880	22,386	5,968	337	592,571
Loans to customers - Corporates					
Risk class 0 - (Grades AAA to A-)	111,953	234	-	-	112,187
Risk class 1 - (Grades BBB+ to BBB-)	110,273	25	-	-	110,298
Risk class 2 - (Grades BB+ to BB-)	177,160	19,366	-	-	196,526
Risk class 3 to 4 - (Grades B+ to CCC-)	88,932	29,323	-	-	118,255
Risk class 5 - (DD)	-	-	9,981	186	10,167
Unrated	3	-	-	-	3
Gross carrying amount	488,321	48,948	9,981	186	547,436
Loss allowance	(1,866)	(1,160)	(2,190)	(170)	(5,386)
Book value	486,455	47,788	7,791	16	542,050
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 (Grades AAA to BBB-)	107,676	7	-	-	107,683
Risk class 2 to 4 (Grades BB+ to CCC-)	60,198	3,372	319	-	63,889
Unrated	5,098	2	-	-	5,100
Nominal	172,972	3,381	319	-	176,672
Loss allowance	(238)	(59)	(5)	-	(302)
Nominal less loss allowance	172,734	3,322	314	-	176,370

Amounts are in ISK millions

45. Credit risk, continued

31.12.2022	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	114,118	43,433	133,838
Non-investment grade	-	-	-
Gross carrying amount	114,118	43,433	133,838
Loss allowance	-	-	(13)
Book value	114,118	43,433	133,825

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	394,307	1,681	-	-	395,988
Risk class 1 - (Grades BBB+ to BBB-)	316,636	3,157	-	115	319,908
Risk class 2 - (Grades BB+ to BB-)	196,778	35,275	-	53	232,106
Risk class 3 to 4 - (Grades B+ to CCC-)	85,101	44,415	-	14	129,530
Risk class 5 - (DD)	-	-	12,561	341	12,902
Unrated	1,239	-	-	-	1,239
Gross carrying amount	994,061	84,528	12,561	523	1,091,673
Loss allowance	(2,334)	(1,519)	(2,932)	(131)	(6,916)
Book value	991,727	83,009	9,629	392	1,084,757
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	293,411	1,552	-	-	294,963
Risk class 1 - (Grades BBB+ to BBB-)	203,585	2,749	-	115	206,449
Risk class 2 - (Grades BB+ to BB-)	41,795	13,064	-	53	54,912
Risk class 3 to 4 - (Grades B+ to CCC-)	11,301	10,325	-	14	21,640
Risk class 5 - (DD)	-	-	5,861	161	6,022
Unrated	160	-	-	-	160
Gross carrying amount	550,252	27,690	5,861	343	584,146
Loss allowance	(445)	(287)	(1,043)	-	(1,775)
Book value	549,807	27,403	4,818	343	582,371
Loans to customers - Corporates					
Risk class 0 - (Grades AAA to A-)	100,896	129	-	-	101,025
Risk class 1 - (Grades BBB+ to BBB-)	113,051	408	-	-	113,459
Risk class 2 - (Grades BB+ to BB-)	154,983	22,211	-	-	177,194
Risk class 3 to 4 - (Grades B+ to CCC-)	73,800	34,090	-	-	107,890
Risk class 5 - (DD)	-	-	6,700	180	6,880
Unrated	1,079	-	-	-	1,079
Gross carrying amount	443,809	56,838	6,700	180	507,527
Loss allowance	(1,889)	(1,232)	(1,889)	(131)	(5,141)
Book value	441,920	55,606	4,811	49	502,386
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 - (Grades AAA to BBB-)	109,205	23	-	-	109,228
Risk class 2 to 4 - (Grades BB+ to CCC-)	60,752	9,110	271	-	70,133
Unrated	4,094	4	-	-	4,098
Nominal	174,051	9,137	271	-	183,459
Loss allowance	(351)	(93)	(5)	-	(449)
Nominal less loss allowance	173,700	9,044	266	-	183,010

Amounts are in ISK millions

45. Credit risk, continued

Sector split, gross carrying value and loss allowance for financial instruments subject to IFRS 9 impairment requirements

	Stage 1		Stage 2		Stage 3		
30.06.2023	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	273,171	(5)	-	-	-	-	273,166
Loans to individuals	564,394	(514)	23,044	(472)	7,365	(1,246)	592,571
Mortgages	*508,262*	*(229)*	*17,170*	*(266)*	*5,526*	*(316)*	*530,147*
Other	*56,132*	*(285)*	*5,874*	*(206)*	*1,839*	*(930)*	*62,424*
Loans to corporates	488,321	(1,866)	48,948	(1,160)	10,167	(2,360)	542,050
Real estate activities	*101,883*	*(336)*	*7,627*	*(93)*	*3,672*	*(664)*	*112,089*
Construction	*64,866*	*(332)*	*4,748*	*(58)*	*548*	*(47)*	*69,725*
Fishing industry	*78,393*	*(140)*	*2,971*	*(30)*	*455*	*(92)*	*81,557*
Information and communication technology	*24,560*	*(133)*	*2,380*	*(39)*	*134*	*(61)*	*26,841*
Wholesale and retail trade	*79,342*	*(397)*	*14,391*	*(616)*	*2,554*	*(711)*	*94,563*
Financial and insurance activities	*31,452*	*(201)*	*12,131*	*(211)*	*130*	*(5)*	*43,296*
Industry, energy and manufacturing	*50,672*	*(95)*	*1,078*	*(19)*	*304*	*(20)*	*51,920*
Transportation	*14,061*	*(73)*	*164*	*(2)*	*183*	*(10)*	*14,323*
Services	*16,967*	*(83)*	*2,039*	*(73)*	*1,802*	*(682)*	*19,970*
Public Sector	*12,217*	*(41)*	*125*	*(4)*	*7*	*(2)*	*12,302*
Agriculture and forestry	*13,908*	*(35)*	*1,294*	*(15)*	*378*	*(66)*	*15,464*
Balance at the end of the period	1,325,886	(2,385)	71,992	(1,632)	17,532	(3,606)	1,407,787
31.12.2022							
Loans to credit instit., securities & cash	273,362	(6)	-	-	-	-	273,356
Loans to individuals	550,252	(445)	27,872	(287)	6,022	(1,043)	582,371
Mortgages	*486,371*	*(116)*	*23,373*	*(125)*	*4,262*	*(160)*	*513,605*
Other	*63,881*	*(329)*	*4,499*	*(162)*	*1,760*	*(883)*	*68,766*
Loans to corporates	443,809	(1,889)	56,838	(1,232)	6,880	(2,020)	502,386
Real estate activities	*94,680*	*(213)*	*8,668*	*(87)*	*2,609*	*(353)*	*105,304*
Construction	*51,280*	*(401)*	*4,161*	*(74)*	*252*	*(10)*	*55,208*
Fishing industry	*81,810*	*(193)*	*9,633*	*(137)*	*368*	*(54)*	*91,427*
Information and communication technology	*21,372*	*(81)*	*3,410*	*(99)*	*49*	*(29)*	*24,622*
Wholesale and retail trade	*68,357*	*(321)*	*16,508*	*(499)*	*1,904*	*(944)*	*85,005*
Financial and insurance activities	*33,478*	*(247)*	*8,244*	*(171)*	*79*	*(5)*	*41,378*
Industry, energy and manufacturing	*41,992*	*(128)*	*2,286*	*(32)*	*42*	*(6)*	*44,154*
Transportation	*13,877*	*(73)*	*205*	*(6)*	*61*	*(6)*	*14,058*
Services	*16,183*	*(136)*	*2,421*	*(110)*	*1,385*	*(588)*	*19,155*
Public Sector	*10,323*	*(42)*	*299*	*(4)*	-	-	*10,576*
Agriculture and forestry	*10,457*	*(54)*	*1,003*	*(13)*	*131*	*(25)*	*11,499*
Balance at the end of the year	1,267,423	(2,340)	84,710	(1,519)	12,902	(3,063)	1,358,113

Amounts are in ISK millions

45. Credit risk, continued

The table below reconciles the opening and closing allowance balance for loans to customers and debt securities at amortized cost and FVOCI and loan commitments, guarantees and unused credit facilities by impairment stages. The reconciliation includes:

Transfers of financial assets between impairment stages

All transfers are presumed to occur before any corresponding remeasurement of the loss allowance.

Net remeasurement of loss allowance

Comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions, partial repayments and additional draws on existing facilities, inflation, changes in the measurement following a transfer between stages, effects of foreign exchange rate changes, impairment of interest income due to impaired debt instruments and unwinding of the time value discount due to the passage of time.

New financial assets, originated or purchased

Include purchases and originations and reflect the allowance related to assets newly recognized during the period.

Derecognitions and maturities

Reflect the allowance related to assets derecognized during the period without a credit loss being incurred, including those assets that were derecognized following a modification of terms.

Write-offs

The amount after net remeasurements of loss allowance written off during the period.

30.6.2023

*Impairment loss allowance **	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,678)	(1,612)	(2,937)	(131)	(7,358)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(857)	674	183	-	-
Transfers to Stage 2 (lifetime ECL)	143	(171)	28	-	-
Transfers to Stage 3 (credit impaired financial assets)	46	190	(236)	-	-
Net remeasurement of loss allowance **	1,337	(820)	(913)	(39)	(435)
New financial assets, originated or purchased	(980)	(114)	(181)	-	(1,275)
Derecognitions and maturities	371	158	255	-	784
Write-offs ***	-	4	360	-	364
Impairment loss allowance ******	(2,618)	(1,691)	(3,441)	(170)	(7,920)
Impairment loss allowances for assets only carrying 12-month ECL	(5)	-	-	-	(5)
Total impairment loss allowance	(2,623)	(1,691)	(3,441)	(170)	(7,925)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Consolidated Financial Statements.

** During the period the loss allowance balance for stage 3 loans was raised by ISK 262 million due to unwinding of interest income.

*** During the period an amount of ISK 334 million was written off but is still subject to enforcement activities subject to Icelandic law.

**** Loss allowance for all assets other than cash, bonds and loans to credit institutions.

Amounts are in ISK millions

45. Credit risk, continued

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,327)	(1,519)	(2,932)	(131)	(6,909)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(795)	612	183	-	-
Transfers to Stage 2 (lifetime ECL)	138	(166)	28	-	-
Transfers to Stage 3 (credit impaired financial assets)	45	188	(233)	-	-
Net remeasurement of loss allowance	1,139	(795)	(916)	(39)	(611)
New financial assets, originated or purchased	(854)	(87)	(181)	-	(1,122)
Derecognitions and maturities	274	131	255	-	660
Write-offs	-	4	360	-	364
Total loss allowance for loans to customers	(2,380)	(1,632)	(3,436)	(170)	(7,618)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(446)	(287)	(1,043)	-	(1,776)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(276)	205	71	-	-
Transfers to Stage 2 (lifetime ECL)	51	(70)	19	-	-
Transfers to Stage 3 (credit impaired financial assets)	12	103	(115)	-	-
Net remeasurement of loss allowance	185	(429)	(356)	-	(600)
New financial assets, originated or purchased	(97)	(34)	(25)	-	(156)
Derecognitions and maturities	57	37	92	-	186
Write-offs	-	3	111	-	114
Total loss allowance for loans to individuals	(514)	(472)	(1,246)	-	(2,232)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,881)	(1,232)	(1,889)	(131)	(5,133)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(519)	407	112	-	-
Transfers to Stage 2 (lifetime ECL)	87	(96)	9	-	-
Transfers to Stage 3 (credit impaired financial assets)	33	85	(118)	-	-
Net remeasurement of loss allowance	954	(366)	(560)	(39)	(11)
New financial assets, originated or purchased	(757)	(53)	(156)	-	(966)
Derecognitions and maturities	217	94	163	-	474
Write-offs	-	1	249	-	250
Total loss allowance for loans to corporates	(1,866)	(1,160)	(2,190)	(170)	(5,386)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(351)	(93)	(5)	-	(449)
Transfers					
Transfers to 12-month ECL	(62)	62	-	-	-
Transfers to lifetime ECL	5	(5)	-	-	-
Transfers to credit impaired	1	2	(3)	-	-
Net remeasurement of loss allowance	198	(25)	3	-	176
New financial commitments originated	(126)	(27)	-	-	(153)
Derecognitions and maturities	97	27	-	-	124
Total loss allowance for loan commit., guarantees, unused facilities	(238)	(59)	(5)	-	(302)

Amounts are in ISK millions

45. Credit risk, continued

31.12.2022

*Impairment loss allowance **	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,606)	(1,897)	(4,824)	(1)	(13,044)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,213)	929	284	-	-
Transfers to Stage 2 (lifetime ECL)	310	(891)	581	-	-
Transfers to Stage 3 (credit impaired financial assets)	42	169	(211)	-	-
Net remeasurement of loss allowance **	1,178	(121)	(1,065)	1	2,048
New financial assets, originated or purchased	(2,192)	(265)	(1,048)	(131)	(2,670)
Derecognitions and maturities	795	457	2,120	(166)	2,570
Write-offs ***	1	7	1,226	166	2,768
Impairment loss allowance ****	(2,685)	(1,612)	(2,937)	(131)	(8,328)
Impairment loss allowances for assets only carrying 12-month ECL	(6)	-	-	-	(13)
Total impairment loss allowance	(2,691)	(1,612)	(2,937)	(131)	(8,341)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Condensed Consolidated Interim Financial Statements.

** During the period the loss allowance balance for stage 3 loans was raised by ISK 468 million due to unwinding of interest income.

*** During the period an amount of ISK 2,059 million was written off but is still subject to enforcement activities subject to Icelandic law.

**** Loss allowance for all assets other than cash, bonds and loans to credit institutions.

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,313)	(1,806)	(4,480)	(1)	(7,600)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,044)	760	284	-	-
Transfers to Stage 2 (lifetime ECL)	289	(870)	581	-	-
Transfers to Stage 3 (credit impaired financial assets)	41	168	(209)	-	-
Net remeasurement of loss allowance	921	41	(777)	1	186
New financial assets, originated or purchased	(1,683)	(196)	(1,048)	(131)	(3,058)
Derecognitions and maturities	454	377	1,491	(166)	2,156
Write-offs	1	7	1,226	166	1,400
Total loss allowance for loans to customers	(2,334)	(1,519)	(2,932)	(131)	(6,916)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(492)	(246)	(1,151)	(1)	(1,890)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(525)	326	199	-	-
Transfers to Stage 2 (lifetime ECL)	92	(148)	56	-	-
Transfers to Stage 3 (credit impaired financial assets)	18	138	(156)	-	-
Net remeasurement of loss allowance	581	(378)	(474)	1	(270)
New financial assets, originated or purchased	(241)	(74)	(75)	-	(390)
Derecognitions and maturities	121	86	272	-	479
Write-offs	1	7	286	-	294
Total loss allowance for loans to individuals	(445)	(289)	(1,043)	-	(1,777)

Amounts are in ISK millions

45. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loans to customers - Corporates					
Balance at the beginning of the year	(821)	(1,560)	(3,329)	-	(5,710)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(520)	434	85	-	(1)
Transfers to Stage 2 (lifetime ECL)	197	(722)	525	-	-
Transfers to Stage 3 (credit impaired financial assets)	23	29	(53)	-	(1)
Net remeasurement of loss allowance	340	419	(303)	-	456
New financial assets, originated or purchased	(1,441)	(123)	(973)	(131)	(2,668)
Derecognitions and maturities	333	291	1,219	(166)	1,677
Write-offs	-	-	940	166	1,106
Total loss allowance for loans to corporates	(1,889)	(1,232)	(1,889)	(131)	(5,141)

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loan commitments, guarantees and unused credit facilities					
Balance at the beginning of the year	(293)	(91)	(344)	-	(728)
Transfers					
Transfers to 12-month ECL	(169)	169	-	-	-
Transfers to lifetime ECL	21	(21)	-	-	-
Transfers to credit impaired	1	1	(2)	-	-
Net remeasurement of loss allowance	257	(162)	(288)	-	(193)
New financial commitments originated	(509)	(69)	-	-	(578)
Derecognitions and maturities	341	80	629	-	1,050
Total loss allowance for loan commit., guarantees, unused facilities	(351)	(93)	(5)	-	(449)

Macroeconomic forecast

The calculation of expected credit losses under IFRS 9 uses forward-looking information in the form of scenarios where the development of macro-economic variables is predicted. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios: base case 60%, pessimistic 30% and optimistic 10% (31.12.2022: base case 65%, pessimistic 25% and optimistic 10%). The macroeconomic forecast and scenario probability weights is done by the Bank's Chief Economist and approved by the Bank's Executive Risk Committee. The following table shows values used for IFRS 9 impairment calculations.

	Base case		
	2023	2024	2025
Unemployment rate	3.7%	4.1%	4.0%
Housing prices	5.1%	0.9%	3.1%
Private consumption	3.9%	2.2%	2.5%
GDP	4.5%	2.3%	2.7%

	Optimistic			Pessimistic		
	2023	2024	2025	2023	2024	2025
Unemployment rate	2.8%	3.2%	3.4%	6.1%	6.0%	4.4%
Housing prices	6.9%	5.8%	5.9%	3.9%	-4.2%	1.0%
Private consumption	6.0%	3.4%	2.9%	1.4%	-0.8%	3.7%
GDP	5.7%	3.7%	2.9%	1.5%	-0.7%	3.4%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 4, Significant accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 1.2 billion, ISK 2.8 billion and ISK 8.4 billion for the optimistic, base case and pessimistic scenarios, respectively. At year end 2022 the corresponding calculated loss allowance was ISK 1.8 billion, ISK 3.1 billion and ISK 8.4 billion, respectively.

Amounts are in ISK millions

45. Credit risk, continued

Forbearance

The Group grants forbearance measures to facilities where the customer is facing temporary difficulties and needs measures which would not generally be available to customers. These forbearance measures include refinancing and renegotiations of loan terms, including loan extensions and adjustment of the payment schedule. After forbearance measures have been granted, the facility is classified as forborne for a period of at least 24 months. The forborne classification is not removed until the customer has demonstrated repayment capacity.

	Stage 1		Stage 2		Stage 3		Total	
30.06.2023	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance
Individuals	3,401	(12)	4,161	(89)	2,982	(353)	10,544	(454)
Companies	3,268	(30)	13,108	(612)	3,949	(1,126)	20,325	(1,768)
Tourism	1,636	(21)	11,215	(594)	2,885	(836)	15,736	(1,451)
Other than tourism	1,632	(9)	1,893	(18)	1,064	(290)	4,589	(317)
Total	6,669	(42)	17,269	(701)	6,931	(1,479)	30,869	(2,222)
31.12.2022								
Individuals	-	-	7,948	(42)	2,254	(257)	10,202	(299)
Companies	-	-	16,815	(606)	3,529	(1,259)	20,344	(1,865)
Tourism	-	-	13,100	(563)	2,511	(1,065)	15,611	(1,628)
Other than tourism	-	-	3,715	(43)	1,018	(194)	4,733	(237)
Total	-	-	24,763	(648)	5,783	(1,516)	30,546	(2,164)

Amounts are in ISK millions

46. Market risk

Market risk is the current or prospective risk that changes in financial market prices and rates adversely affect the Group's earnings and equity due to changes to the value and cash flows of its assets and liabilities.

Market risk arises from imbalances in the Group's balance sheet as well as in market making activities and position taking in bonds, equities, currencies, derivatives and other commitments which are marked to market.

The Group keeps close track of market risk and separates its exposures for the trading book and the banking book. Market risk in the trading book arises from market making activities and non-strategic derivatives positions arising from the Group's operations of meeting customers' investment and risk management needs. Market risk in the banking book arises from various mismatches in assets and liabilities in e.g. currencies, maturities and interest rates. Market risk in the trading book and in the banking book is managed separately.

Market risk allowance is set by the Board in the Bank's risk appetite and limit frameworks are in place for each trading desk. The Asset and Liability Committee (ALCO) is responsible for managing the Bank's overall market risk. Risk Management is responsible for measuring and monitoring market risk exposure, and reporting the exposure, usage and limit breaches.

The Group manages and limits market risk exposure in accordance with its risk appetite and strategic goals for net profit.

Interest rate risk

Interest rate risk arises from the possibility that changes in market rates adversely affect net interest income and fair value of interest-bearing instruments on the Group's balance sheet. The Group's operations are subject to interest rate risk due to mismatches in the fixing of interest rates between assets and liabilities, resulting in a repricing risk for the Group. The Group also faces interest basis risk between interest-bearing assets and interest-bearing liabilities due to different types of floating-rate indices in different currencies.

The Group's interest rate risk for foreign currencies is limited as foreign denominated assets predominantly have short fixing periods and the Group generally applies fair value hedging for its foreign denominated fixed rate borrowings. For domestic rates, longer fixing periods are more common.

At the beginning of the Covid-19 pandemic, the Icelandic Central Bank lowered interest rates to historic lows which resulted in sharp increase in demand for non-indexed mortgages with floating rates in 2020 and first half of 2021. Inflation in Iceland, currently at 8.9%, has exceeded the Central Bank’s target of 2.5% since June 2020 and is expected to remain over the target throughout 2023. The Central Bank has responded by increasing interest rates by 8% from its lowest value of 0.75% at the start of 2021. From the second half of 2021 to the start of 2022, this resulted in a sharp increase in demand for non-indexed fixed rate mortgages with corresponding increase in interest rate risk. The risk exposure has receded over the course of 2022 and into 2023 as the duration of these loans shortens and the demand for indexed loans resumes.

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 26, and are therefore different from the amounts shown in these Condensed Consolidated Interim Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

30.06.2023	Up to 3	3-12	1-5	5-10	Over 10	
Assets	months	months	years	years	years	Total
Balances with Central Bank	76,499	-	-	-	-	76,499
Loans to credit institutions	43,428	-	-	-	-	43,428
Loans to customers	749,756	125,824	237,225	2,218	-	1,115,023
Bonds and debt instruments	85,601	76,177	6,813	7,982	3,617	180,190
Bonds and debt instruments used for hedging		-	538	1,003	1,620	3,161
Derivatives	148,757	28,965	225,014	-	-	402,736
Assets	1,104,041	230,966	469,590	11,203	5,237	1,821,037
Liabilities						
Due to credit institutions and Central Bank	21,702	-	-	-	-	21,702
Deposits	777,786	3,387	30	-	-	781,203
Derivatives	303,830	87,210	8,369	-	-	399,409
Borrowings	20,907	34,698	287,072	38,925	11,755	393,357
Subordinated liabilities	-	6,133	27,440	12,206	-	45,779
Liabilities	1,124,225	131,428	322,911	51,131	11,755	1,641,450
Net interest gap	(20,184)	99,538	146,679	(39,928)	(6,518)	179,587

Amounts are in ISK millions

46. Market risk, continued

31.12.2022 *Assets*	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	114,118	-	-	-	-	114,118
Loans to credit institutions	45,501	-	-	-	-	45,501
Loans to customers	679,615	100,734	234,246	3,076	-	1,017,671
Bonds and debt instruments	79,754	43,433	7,181	5,682	2,124	138,174
Bonds and debt instruments used for hedging	-	23	1,890	664	1,313	3,890
Derivatives	127,576	71,983	231,337	-	-	430,896
Assets	1,046,564	216,173	474,654	9,422	3,437	1,750,250
Liabilities						
Due to credit institutions and Central Bank	11,697	-	-	-	-	11,697
Deposits	753,439	1,922	-	-	-	755,361
Derivatives	123,579	292,009	13,445	-	-	429,033
Borrowings	35,373	3,411	298,896	32,446	11,300	381,426
Subordinated liabilities	-	6,819	29,387	12,104	-	48,310
Liabilities	924,088	304,161	341,728	44,550	11,300	1,625,827
Net interest gap	122,476	(87,988)	132,926	(35,128)	(7,863)	124,423

Sensitivity analysis of interest rate risk

The following table shows the sensitivity of the Group's net present value (NPV) of interest-bearing assets and liabilities and variation of annual net interest income (NII), due to changes in interest rates by currencies. The variation is calculated on the basis of simultaneous parallel shifts upwards or downwards of yield curves. The choice of shifts is not an estimate of risk likelihood. Behavioral maturities are taken into account in the NPV calculations, including prepayment likelihood and expected behavior of non-maturing deposits. The change to NII is however primarily based on contractual interest rate adjustments where it is simplistically assumed that all rates are equally sensitive to the presumed change in market rates. Behavioral maturity assumptions are however applied for non-maturing deposits and a zero percentage floor is applied to deposit interest rates. Changes were made to the NII calculations in 2022, for the reference date. The interest rate shifts in both directions take account of the floor on interest rates so that when the floor has an effect then the shifts are restricted.

	30.06.2023		31.12.2022	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(3,555)	3,182	(1,994)	2,782
ISK, Non index-linked	(1,653)	1,614	(1,106)	886
Foreign currencies	2	11	(36)	32
NPV change in the trading book				
ISK, CPI index-linked	87	(78)	173	(156)
ISK, Non index-linked	438	(398)	211	(199)
Foreign currencies	0	(0)	(38)	38
NII change				
ISK, CPI index-linked	(1,536)	1,536	(947)	947
ISK, Non index-linked	(371)	359	(2,022)	981
Foreign currencies	(45)	44	(83)	71

Amounts are in ISK millions

46. Market risk, continued

Indexation risk

A significant part of the Group's balance sheet is linked to the Icelandic Consumer Price Index (CPI). For index-linked instruments, principal and interest payments are adjusted proportionally to the CPI. The Group is exposed to indexation risk as indexed assets exceed indexed liabilities. Financial instruments held for liquidity or market making purposes are assumed to be on demand.

Book value and maturity profile of indexed assets and liabilities

30.06.2023	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	10,590	50,196	234,006	294,792
Financial instruments	7,014	4,177	9,853	21,044
Assets, CPI index-linked	17,604	54,373	243,859	315,836
Liabilities, CPI index-linked				
Deposits	102,242	16,161	3,804	122,207
Borrowings	359	71,349	52,705	124,413
Subordinated liabilities	-	-	16,570	16,570
Other	84	256	1,487	1,827
Off-balance sheet position	2,015	198	-	2,213
Liabilities, CPI index-linked	104,700	87,964	74,566	267,230
Net on-balance sheet position	(85,081)	(33,393)	169,293	50,819
Net off-balance sheet position	(2,015)	(198)	-	(2,213)
CPI balance	(87,096)	(33,591)	169,293	48,606
CPI balance for prudential consolidation, excluding insurance operations *	(87,732)	(37,511)	159,844	34,599

31.12.2022	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	8,525	37,589	210,878	221,892
Financial instruments	5,208	3,435	9,684	15,843
Assets, CPI index-linked	13,733	41,024	220,562	237,735
Liabilities, CPI index-linked				
Deposits	89,217	20,240	3,493	97,234
Borrowings	336	67,836	45,661	102,007
Subordinated liabilities	-	-	15,735	5,337
Other	1,121	251	1,393	2,672
Off-balance sheet position	1,889	1,520	-	4,467
Liabilities, CPI indexed linked	92,563	89,847	66,282	211,717
Net on-balance sheet position	(76,941)	(47,303)	154,280	30,485
Net off-balance sheet position	(1,889)	(1,520)	-	(4,467)
CPI balance	(78,830)	(48,823)	154,280	26,018
CPI balance for prudential consolidation, excluding insurance operations *	(73,444)	(33,167)	124,030	17,419

* Consolidated situation as per EU Regulation No 575/2013 (CRR)

Amounts are in ISK millions

46. Market risk, continued

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Group is exposed to currency risk through a currency mismatch between assets and liabilities. Net exposures per currency are monitored centrally in the Bank.

Breakdown of assets and liabilities by currency

30.06.2023

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	74,922	642	414	160	85	37	239	76,499
Loans to credit institutions	1,077	19,405	16,725	2,455	788	638	2,340	43,428
Loans to customers	932,307	121,531	49,712	1,287	27,060	1,444	1,280	1,134,621
Financial instruments	113,098	81,863	14,904	170	390	13,972	1,430	225,827
Other financial assets	11,533	241	1,251	4	8	6	-	13,043
Financial assets	1,132,937	223,682	83,006	4,076	28,331	16,097	5,289	1,493,418
Financial liabilities								
Due to credit inst. and Central Bank	3,494	16,085	2,060	-	-	-	63	21,702
Deposits	674,109	33,915	60,435	4,538	3,301	2,274	2,630	781,202
Financial liabilities at fair value	1,445	15,040	1,400	6	1	331	19	18,242
Other financial liabilities	8,868	6,302	1,660	463	552	152	278	18,274
Borrowings	179,147	206,928	-	-	-	12,776	6,721	405,572
Subordinated liabilities	19,726	746	12,931	-	-	3,877	9,198	46,478
Financial liabilities	886,789	279,016	78,486	5,007	3,854	19,410	18,909	1,291,470
Net on-balance sheet position	246,148	(55,334)	4,520	(931)	24,477	(3,313)	(13,620)	
Net off-balance sheet position	(43,424)	56,133	(4,905)	843	(24,980)	3,308	13,025	
Net position *	202,725	799	(385)	(88)	(503)	(5)	(595)	
Non-financial assets								
Investment property	9,444	-	-	-	-	-	-	9,444
Investments in associates	842	-	-	-	-	-	-	842
Intangible assets	8,486	-	-	-	-	-	-	8,486
Tax assets	383	-	-	-	-	-	-	383
Assets and disposal groups held for sale	61	-	-	-	-	-	-	61
Other non financial assets	5,235	190	101	47	-	18	1	5,592
Non-financial assets	24,451	190	101	47	-	18	1	24,808
Non-financial liabilities and equity								
Tax liabilities	12,335	-	-	-	-	-	-	12,335
Other non-financial liabilities	28,106	35	(39)	1	1	-	1	28,105
Shareholders' equity	185,651	-	-	-	-	-	-	185,651
Non-controlling interest	665	-	-	-	-	-	-	665
Non-financial liabilities and equity	226,757	35	(39)	1	1	-	1	226,756
Management reporting of currency risk **	419	954	(245)	(42)	(504)	13	(595)	

* The net position of the currency risk is presented in accordance with IFRS.

** The management monitors currency risk with more assets and liabilities underlying as it is considered to be a more accurate measurement of the Group's currency exposure. The net position, as seen by the management, is the position used for managing the currency imbalance.

Amounts are in ISK millions

46. Market risk, continued

31.12.2022*

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	112,744	593	257	127	85	43	269	114,118
Loans to credit institutions	1,414	11,884	23,809	3,444	553	1,270	3,127	45,501
Loans to customers	888,036	114,378	51,053	1,551	27,965	146	1,628	1,084,757
Financial instruments	107,687	62,878	3,443	88	372	18,817	44	193,329
Other financial assets	4,292	274	123	11	4	-	1	4,705
Financial assets	1,114,173	190,007	78,685	5,221	28,979	20,276	5,069	1,442,410
Financial liabilities								
Due to credit inst. and Central Bank	9,777	252	231	9	2	-	1,426	11,697
Deposits	662,541	35,413	46,102	3,058	3,023	3,099	2,125	755,361
Financial liabilities at fair value	1,784	16,970	2,008	1	1	195	38	20,997
Other financial liabilities	2,227	1,234	1,775	257	223	589	222	6,527
Borrowings	158,071	216,045	-	-	-	15,303	3,144	392,563
Subordinated liabilities	18,891	772	13,396	-	-	4,383	9,889	47,331
Financial liabilities	853,291	270,686	63,512	3,325	3,249	23,569	16,844	1,234,476
Net on-balance sheet position	261,257	(80,679)	15,173	1,896	25,730	(3,293)	(11,775)	
Net off-balance sheet position	(51,950)	81,095	(15,967)	(1,950)	(25,649)	3,161	11,260	
Net position **	209,307	416	(794)	(54)	81	(132)	(515)	
Non-financial assets								
Investment property	7,862	-	-	-	-	-	-	7,862
Investments in associates	787	-	-	-	-	-	-	787
Intangible assets	8,783	-	-	-	-	-	-	8,783
Tax assets	135	-	-	-	-	-	-	135
Assets and disposal groups held for sale	61	-	-	-	-	-	-	61
Other non financial assets	5,275	128	66	86	-	11	6	5,572
Non-financial assets	22,903	128	66	86	-	11	6	23,200
Non-financial liabilities and equity								
Tax liabilities	10,303	-	-	-	-	-	-	10,303
Other non-financial liabilities	32,816	51	6	-	1	-	-	32,874
Shareholders' equity	187,307	-	-	-	-	-	-	187,307
Non-controlling interest	649	-	-	-	-	-	-	649
Non-financial liabilities and equity	231,075	51	6	-	1	-	-	231,133
Management reporting of currency risk ***	1,135	493	(734)	32	80	(121)	(509)	

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** The net position of the currency risk is presented in accordance with IFRS.

*** The management monitors currency risk with more assets and liabilities underlying as it is considered to be a more accurate measurement of the Group's currency exposure. The net position, as seen by the management, is the position used for managing the currency imbalance.

Amounts are in ISK millions

46. Market risk, continued

Sensitivity analysis for currency risk

The table below indicates the currencies to which the Group had significant exposure at the end of the year. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ISK, with all other variables held constant, on the Consolidated Income Statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the ISK would have resulted in an equivalent but opposite impact (+10% denotes a depreciation of the ISK).

	30.06.2023		31.12.2022	
Currency	-10%	+10%	-10%	+10%
EUR	(95)	95	(49)	49
USD	25	(25)	73	(73)
GBP	4	(4)	(3)	3
DKK	50	(50)	(8)	8
NOK	(1)	1	12	(12)
Other	60	(60)	51	(51)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 32 and 25 respectively.

Sensitivity analysis for equity risk

The analysis below calculates the effect of a reasonable possible movement in equity prices that affect the Consolidated Financial Statements. A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a potential net increase. Investments in associates are excluded. The result of value-at-risk calculations for the trading book are shown in the Group's Pillar 3 Risk Disclosures.

	30.06.2023		31.12.2022	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(218)	218	(165)	165
Banking book - listed	(339)	339	(477)	477
Banking book - unlisted	(395)	395	(430)	430

Derivatives

Derivatives are a part of the Group's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Group's risk appetite and monitored by Risk Management on a daily basis. The Group also uses derivatives to hedge market risk on its balance sheet. Note 26 provides a breakdown of the Group's derivative positions by type.

Amounts are in ISK millions

47. Liquidity and Funding risk

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

A primary source of funding for the Group is deposits from individuals, businesses and financial undertakings. The Group's liquidity risk stems from the fact that the maturity of loans exceeds the maturity of deposits, of which 75% is on-demand.

Liquidity risk is one of the Group's most significant risk factors and a great deal of emphasis is placed on managing it. The Asset and Liability Committee (ALCO) is responsible for managing liquidity and funding risk within the risk appetite set by the Board of Directors. The Bank's Treasury manages liquidity positions on a day-to-day basis. Risk Management measures, monitors and reports the Bank's liquidity and funding risk on a daily basis.

The Group's strategy in relation to liquidity risk is to actively manage its liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The Group seeks to maintain a stable funding profile which supports its business strategy and liquidity profile, ensuring that the Group can withstand periods of market turbulence, without reliance on volatile funding or external support.

Maturity analysis of assets and liabilities

The maturity analysis is based on contractual cash flows. The amounts are not discounted and include future interest payments, but CPI-linked amounts do not include accrued indexation due to future inflation. The total amount for each item is higher than the corresponding amount on the Group's balance sheet, since the amounts on the balance sheet are either at amortized cost and do not contain future interest payments, or at fair value where future cash flows have been discounted.

Contractual cash flows differ in many ways from expected cash flows. The difference is most significant for deposits on the liability side and bonds on the asset side. Deposits are always assumed to be withdrawn at the earliest possible date, despite the fact that a large part of the deposit base is considered to be stable funding where behavioral maturity considerably exceeds contractual maturity. Furthermore, although contractual cash flows are presented for bonds held by the Bank, a large portion of the bonds are a part of the Bank's liquidity buffer and are considered to be highly liquid and can be sold or pledged to the Central Bank of Iceland and thus converted into cash at very short notice.

Contractual cash flow of assets and liabilities

30.06.2023	On	Up to 3	3-12	1-5	Over 5	With no		Book
Financial assets	demand	months	months	years	years	maturity	Total	value
Cash and balances with CB	19,085	42,230	15,668	-	-	-	76,983	76,499
Loans to credit institutions	28,265	15,146	18	-	-	-	43,429	43,428
Loans to customers	8,071	163,455	148,121	515,861	1,278,238	-	2,113,746	1,134,621
Financial instruments	10,524	85,076	72,868	12,512	15,743	33,195	229,918	225,827
Derivatives - assets leg	-	*68,142*	*32,313*	*4,884*	*2,702*	-	*108,041*	*106,239*
Derivatives - liabilities leg	-	*(61,225)*	*(30,610)*	*(3,810)*	*(2,685)*	-	*(98,330)*	*(96,958)*
Other financial instruments	*10,524*	*78,159*	*71,165*	*11,438*	*15,726*	*33,195*	*220,207*	*216,546*
Other financial assets	306	10,530	558	1,649	-	-	13,043	13,043
Financial assets	66,251	316,437	237,233	530,022	1,293,981	33,195	2,477,119	1,493,418
Financial liabilities								
Due to credit inst. and Central Bank	2,855	18,968	-	-	-	-	21,823	21,702
Deposits	586,888	160,396	14,854	16,398	4,264	-	782,800	781,202
Financial liabilities at fair value	-	4,493	6,083	20,773	21	-	31,370	18,242
Derivatives - assets leg	-	*(37,903)*	*(29,381)*	*(27,170)*	*(917)*	-	*(95,371)*	*(77,563)*
Derivatives - liabilities leg	-	*42,188*	*35,464*	*47,943*	*938*	-	*126,533*	*95,597*
Short position in bonds	-	*208*	-	-	-	-	*208*	*208*
Other financial liabilities	185	16,665	368	1,057	-	-	18,275	18,275
Borrowings	-	1,397	52,573	337,881	57,690	-	449,541	405,572
Subordinated liabilities	-	1,358	2,089	21,984	38,822	-	64,253	46,478
Financial liabilities	589,928	203,277	75,967	398,093	100,797	-	1,368,062	1,291,471
Net position for assets and liab.	(523,677)	113,160	161,266	131,929	1,193,184	33,195	1,109,057	201,947
Off-balance sheet items								
Financial guarantees	-	2,701	8,477	4,861	7,260	-	23,299	23,299
Unused overdraft	-	60,964	-	-	-	-	60,964	60,964
Undrawn loan commitments	-	45,512	8,920	37,977	-	-	92,409	92,409
Off-balance sheet items	-	109,177	17,397	42,838	7,260	-	176,672	176,672
Net contractual cash flow	(523,677)	3,983	143,869	89,091	1,185,924	33,195	932,385	25,275

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

31.12.2022* *Financial assets*	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Cash and balances with CB	18,183	88,515	7,531	-	-	-	114,229	114,118
Loans to credit institutions	23,904	21,597	31	-	-	-	45,532	45,501
Loans to customers	2,282	139,996	147,972	470,458	1,138,049	-	1,898,757	1,084,757
Financial instruments	8,527	77,677	43,773	12,384	15,775	41,749	199,885	193,329
Derivatives - assets leg	-	*76,104*	*22,301*	*32,447*	-	-	*130,852*	*123,547*
Derivatives - liabilities leg	-	*(69,826)*	*(19,032)*	*(29,503)*	-	-	*(118,361)*	*(114,031)*
Other financial instruments	*8,527*	*71,399*	*40,504*	*9,440*	*15,775*	*41,749*	*187,394*	*183,813*
Other financial assets	488	858	2,611	763	-	-	4,720	4,720
Financial assets	53,384	328,643	201,918	483,605	1,153,824	41,749	2,263,123	1,442,425
Financial liabilities								
Due to credit inst. and Central Bank	7,233	4,484	-	-	-	-	11,717	11,697
Deposits	545,764	102,796	84,239	20,568	3,795	-	757,162	755,361
Financial liabilities at fair value	-	1,647	2,973	18,487	-	-	23,107	20,997
Derivatives - assets leg	-	*(25,891)*	*(25,670)*	*(12,131)*	-	-	*(63,692)*	*(62,420)*
Derivatives - liabilities leg	-	*27,527*	*28,643*	*30,618*	-	-	*86,788*	*83,406*
Short position in bonds used for hedging	-	*11*	-	-	-	-	*11*	*11*
Other financial liabilities	109	5,121	343	954	-	-	10,099	6,527
Borrowings	-	21,755	14,169	338,265	50,794	-	424,983	392,563
Subordinated liabilities	-	1,402	1,634	19,685	36,111	-	58,832	47,331
Financial liabilities	553,106	137,205	103,358	397,959	90,700	-	1,285,900	1,234,476
Net position for assets and liab.	(499,722)	191,438	98,560	85,646	1,063,124	41,749	977,223	207,949
Off-balance sheet items								
Financial guarantees	-	2,194	10,024	2,058	6,036	-	20,312	20,312
Unused overdraft	-	57,259	-	-	-	-	57,259	57,259
Undrawn loan commitments	-	47,464	27,308	27,686	3,430	-	105,888	105,888
Off-balance sheet items	-	106,917	37,332	29,744	9,466	-	183,459	183,459
Net contractual cash flow	(499,722)	84,521	61,228	55,902	1,053,658	41,749	793,764	24,490

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the amount of available stable funding (ASF) with the Group against the required stable funding (RSF) as per the definition of the Central Bank of Iceland rules No. 750/2021. In general, RSF is determined by applying different weights to different asset classes depending on the level of liquidity. ASF however is calculated by applying weights to the Group's liabilities depending on maturity and stickiness. The NSFR in total shall exceed 100%.

The NSFR calculations are based solely on figures for the parent company. The Bank's subsidiaries have negligible impact on the funding ratio.

	30.6.2023	31.12.2022
Available stable funding	1,155,347	1,109,623
Required stable funding	977,589	931,991
Net stable funding ratio	118%	119%

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) is one of the standards introduced in the Basel III Accord. The LCR is the result of a stress test that is designed to ensure that banks have the necessary assets on hand to withstand short-term liquidity disruptions. More precisely, LCR represents the balance between highly liquid assets and the expected net cash outflow of the Group in the next 30 days under stressed conditions.

To qualify as highly liquid assets under the LCR rules, assets must be non-pledged, liquid and easily priced on the market, traded on an active market and not issued by the Group or related entities.

As of January 2023 rules no. 266/2017 were replaced with rules no. 1520/2022 which reference the EU LCR regulations directly. The minimum requirement for the total LCR remains at 100% but the requirement for the LCR in ISK changed to 50% and there is no longer any minimum requirement for the aggregate position in all foreign currencies. Instead the bank is required to maintain an 80% minimum for the LCR in EUR.

The following table shows the breakdown for the Group's LCR calculations.

30.06.2023	ISK	EUR	Total
Liquid assets level 1 *	110,805	77,389	212,679
Liquid assets level 2	24,712	-	24,712
Liquid assets	135,517	77,389	237,391
Deposits	143,525	9,718	181,841
Borrowings	630	167	867
Other cash outflows	8,004	9,116	14,922
Cash outflows	152,159	19,001	197,630
Short-term deposits with other banks **	-	10,405	23,454
Other cash inflows	24,069	647	28,404
Cash inflows	24,069	11,052	51,858
Liquidity coverage ratio (LCR) ***	106%	974%	163%

31.12.2022	ISK	FX	Total
Liquid assets level 1 *	139,562	73,729	213,291
Liquid assets level 2	23,956	-	23,956
Liquid assets	163,518	73,729	237,247
Deposits	155,507	34,631	190,138
Borrowings	580	73	653
Other cash outflows	9,868	6,266	13,949
Cash outflows	165,955	40,970	204,740
Short-term deposits with other banks **	-	23,388	23,388
Other cash inflows	23,854	7,794	31,648
Cash inflows	23,854	31,182	55,036
Liquidity coverage ratio (LCR) ***	115%	720%	158%

* Level 1 assets include the Group's cash and balances with the Central Bank, domestic bonds eligible as collateral at the Central Bank and foreign government bonds which receive 100% weight.

** Short-term deposits with other banks are defined as cash inflows in LCR calculations.

*** LCR is defined as: LCR = Weighted liquid assets / (weighted cash outflows - weighted cash inflows) where weighted cash inflows are capped at 75% of weighted cash outflows.

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Composition of liquid assets

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

30.06.2023	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	74,922	414	642	521	76,499
Short-term deposits with financial institutions	-	7,163	10,405	5,886	23,454
Domestic bonds eligible as collateral with Central Bank	60,093	-	-	-	60,093
Foreign government bonds	-	10,959	76,747	12,586	100,292
Liquidity reserve	135,015	18,536	87,794	18,993	260,338
31.12.2022					
Cash and balances with Central Bank	112,744	257	593	524	114,118
Short-term deposits with financial institutions	-	14,125	4,456	4,807	23,388
Domestic bonds eligible as collateral with Central Bank	50,116	-	-	-	50,116
Foreign government bonds	-	-	55,915	16,435	72,350
Liquidity reserve	162,860	14,382	60,964	21,766	259,972

LCR deposit categorization

As per the LCR methodology, the Group's deposit base is split into different categories depending on customer type. A second categorization is used where term deposits refer to deposits with residual maturity greater than 30 days. Deposits that can be withdrawn within 30 days are marked stable if the customer has a business relationship with the Group and the amount is covered by the Deposit Insurance Scheme. Other deposit funds are considered less stable. A weight is attributed to each category, representing the expected outflow under stressed conditions, i.e. the level of stickiness.

The table below shows the breakdown of the Group's deposit base according to the LCR categorization, with the associated weighted average of the stressed outflow weights.

LCR categorization - amounts and LCR outflow weights	Deposits maturing within 30 days					
30.06.2023	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	94,878	11%	123,578	5%	124,538	342,994
Small and medium enterprises	93,555	10%	17,486	5%	17,665	128,706
Operational relationship	15,751	25%	-	5%	-	15,751
Corporations	133,144	40%	15,381	20%	16,629	165,154
Sovereigns, central banks and PSE	30,817	40%	-	-	859	31,676
Pension funds	52,502	100%	-	-	16,219	68,721
Domestic financial entities	27,445	100%	-	-	5,102	32,547
Foreign financial entities	2,229	100%	-	-	15,126	17,355
Total	450,321		156,445		196,138	802,904
31.12.2022						
Individuals	99,019	10%	117,733	5%	108,788	325,540
Small and medium enterprises	102,870	10%	16,972	5%	10,155	129,997
Operational relationship	14,801	25%	-	5%	-	14,801
Corporations	108,565	40%	15,493	20%	10,907	134,965
Sovereigns, central banks and PSE	43,869	40%	-	-	778	44,647
Pension funds	56,987	100%	-	-	14,561	71,548
Domestic financial entities	39,740	100%	-	-	4,913	44,653
Foreign financial entities	908	100%	-	-	-	908
Total	455,538		150,199		161,321	767,058

* Here term deposits refer to deposits with maturities greater than 30 days.

Amounts are in ISK millions

48. Capital management

Capital adequacy

The focus of capital management at the Group is to normalize the capital structure in the medium term and consequently maintain the Group's capitalization comfortably above regulatory requirements, including the Pillar 2 and combined capital buffer requirements.

The Group's capital ratios are calculated in accordance with the Icelandic Financial Undertakings Act No. 161/2002 with later changes, through which CRD V / CRR II have been adopted. The Group applies the standardized approach to calculate capital requirements for credit risk, including counterparty credit risk, credit valuation adjustment risk, market risk and operational risk.

The Group's consolidated situation as stipulated in CRR is the Group's accounting consolidation excluding insurance subsidiaries, in particular Vördur.

Own funds	30.06.2023	31.12.2022*
Total equity	186,316	187,956
Non-controlling interest not eligible for inclusion in CET1 capital	(665)	(649)
Common Equity Tier 1 capital before regulatory adjustments	185,651	187,307
Intangible assets	(6,888)	(6,425)
Additional value adjustments	(254)	(224)
Foreseeable dividend and buyback **	(6,683)	(15,980)
Adjustment under IFRS 9 transitional arrangements as amended	766	1,142
Common Equity Tier 1 capital	172,592	165,820
Non-controlling interest eligible for inclusion in T1 capital	102	105
Additional Tier 1 capital	12,931	13,396
Tier 1 capital	185,625	179,321
Tier 2 instruments	33,547	33,935
Tier 2 instruments of financial sector entities (significant investments)	(1,216)	(1,155)
Tier 2 capital	32,331	32,780
Total own funds	217,956	212,101
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	736,432	707,479
Credit risk, securities and other	56,425	56,714
Counterparty credit risk	15,923	14,645
Market risk due to currency imbalance	1,417	1,387
Market risk due to trading book positions	8,628	7,493
Credit valuation adjustment	3,709	6,010
Operational risk	89,166	89,166
Total risk-weighted exposure amount	911,700	882,894
Capital ratios		
CET1 ratio	18.9%	18.8%
Tier 1 ratio	20.4%	20.3%
Capital adequacy ratio	23.9%	24.0%

* Comparative figures have been restated in accordance with IFRS 17, see Notes 1 and 3 for further information.

** On 30 June 2023, the deduction consists of 50% of profits as per the Bank's dividend policy. On 31 December 2022, the foreseeable dividend and buyback corresponds to 50% of profits and the remaining part of the buyback authorized by the Central Bank in September 2022.

The Bank has opted to make use of the transitional arrangements for IFRS 9 and Covid-19 in its capital adequacy calculations and this is reflected in the Group's capital ratios. The transitional arrangements increase the capital adequacy ratio by 0.1 percentage points.

Amounts are in ISK millions

48. Capital management, continued

Capital ratios of the parent company	30.06.2023	31.12.2022
CET1 ratio	19.1%	18.8%
Tier 1 ratio	20.5%	20.3%
Capital adequacy ratio	24.0%	23.9%

The following table outlines the implementation of the capital buffer requirements in accordance with the Icelandic Financial Undertakings Act No. 161/2002, as prescribed by the Financial Stability Council (FSC) and approved by the FSA.

Capital buffer requirement, % of REA	30.06.2023	31.12.2022
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	2.0%	2.0%
Systemic risk buffer *	3.0%	3.0%
Countercyclical capital buffer *	2.0%	2.0%
Combined capital buffer requirement	9.5%	9.5%

The Bank carries out an ongoing process, the Internal Capital Adequacy Assessment Process (ICAAP), with the aim to ensure that the Group has in place sufficient risk management processes and systems to identify, manage and measure the Group's total risk exposure. The ICAAP is aimed at identifying and measuring the Group's risk across all risk types and ensure that the Group has sufficient capital in accordance with its risk profile. The FSA supervises the Group, receives the Group's internal estimation on the capital adequacy and sets the Pillar 2R capital requirements for the Group as a whole following the Supervisory Review and Evaluation Process (SREP). The Group's own funds exceed the FSA's SREP requirements.

The Pillar 1 and Pillar 2R capital requirements may comprise 56.25% CET1 capital, 18.75% AT1 capital and 25% Tier 2 capital.

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.2%	1.6%	2.1%
Combined buffer requirement *	9.2%	9.2%	9.2%
Regulatory capital requirement	14.9%	16.8%	19.3%
Available capital	18.9%	20.4%	23.9%

* The Icelandic buffer value shown. In the combined buffer requirement, the effective countercyclical capital buffer is determined by calculating the weighted average of the corresponding buffer levels of each country, the weights being the total risk-weighted exposures for credit risk against counterparties residing in those countries. The systemic risk buffer only applies to domestic exposures and is calculated using the same weighting method.

** The SREP result based on the Group's Financial Statement at 31 December 2022. The Pillar 2R requirement is 2.1% of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur.

Leverage ratio

The leverage ratio is seen as a complementary measure to the risk-based capital ratios. The ratio is calculated on the basis of the Group's consolidated situation as per the CRR, which excludes the Group's insurance subsidiaries. The minimum leverage ratio requirement is 3% as stated in the Icelandic Financial Undertakings Act No. 161/2002.

	30.06.2023	31.12.2022
On-balance sheet exposures	1,475,365	1,415,353
Derivative exposures	28,229	32,118
Securities financing transaction exposures	28,903	10,174
Off-balance sheet exposures	56,058	59,723
Total exposure	1,588,555	1,517,368
Tier 1 capital	185,625	179,321
Leverage ratio	11.7%	11.8%

Amounts are in ISK millions

48. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020 and subsequent amendments, which transpose BRRD I and aspects of BRRD II (relating to MREL) into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirement. In September 2022, the Icelandic Resolution Authority (IRA) presented the Group with the MREL requirement based on year-end 2021 financials. According to IRA's methodology, the requirement is calculated as a fraction of total REA but then converted into a fraction of own funds and eligible liabilities which represents the actual requirement. Both ratios are shown in the table below. An MREL subordination requirement has not been implemented in Iceland.

Minimum requirement for own funds and eligible liabilities	30.06.2023	31.12.2022
Own funds	217,956	212,101
Eligible liabilities	161,042	155,667
Own funds and eligible liabilities	378,998	367,768
Combined buffer requirement (CBR)	83,876	82,196
Own funds and eligible liabilities not used for CBR	295,121	285,572
Risk-weighted exposure amount (REA)	911,701	882,894
Own funds and eligible liabilities not used for CBR (% REA)	32.4%	32.3%
MREL requirement (% REA)	23.0%	23.0%
Total liabilities and own funds (TLOF)	1,503,388	1,442,423
Own funds and eligible liabilities not used for CBR (% TLOF)	19.6%	19.8%
MREL requirement (% TLOF)	14.7%	14.7%

Solvency II for insurance subsidiary Vördur	30.06.2023	31.12.2022
Excess of assets over liabilities in accordance with Solvency II	9,572	9,175
Subordinated liabilities	1,208	1,169
Foreseeable dividends	-	-
Own funds	10,780	10,344
Solvency capital requirements (SCR)	7,657	7,114
SCR ratio	140.8%	145.4%

The solvency capital requirement for the subsidiary Vördur is calculated in accordance with the Icelandic Insurance Companies Act.

49. Operational risk

Operational risk is the risk of direct or indirect loss, or damage to the Group's reputation resulting from inadequate or failed internal processes or systems, from human error or external events that affect the Group's image and operational earnings.

Each business unit within the Group is primarily responsible for taking and managing their own operational risk. Risk management is responsible for developing and maintaining tools for identifying, measuring, monitoring and reporting the Group's operational risk.

The Group uses the standardized approach for the calculation of capital requirements for operational risk.

Amounts are in ISK millions

50. Sustainability risk

Sustainability risk is the risk that certain activities or practices compromise the Bank's assets or reputation or the ability of future generations or segments of society to meet their own needs. This can be due to negative effects on the environment, natural or cultural resources or social conditions. The Bank's Sustainability Committee is responsible for reviewing the Bank's performance in relation to its commitments and policies in relation to environmental, social and governance (ESG) factors and aligning the Bank's strategy and risk appetite with them.

The Green Financing Framework

The Bank's Green Financing Framework was published in 2021. Undir this framework the Bank can issue Green Financing Instruments, including covered bonds, bonds, loans, commercial paper, repurchase agreements and deposits. The use of proceeds from these instruments is restricted to the financing of eligible assets as defined in the Framework. Eligible assets are divided into several eligible categories with inclusion and exclusion criteria. The Framework furthermore details the processes for identifying eligible assets, for reporting on use of the framework and for external review. Before the introduction of this framework the Bank had a framework for green deposits but these frameworks have been merged.

Green Financing Instruments	30.06.2023	31.12.2022
Deposits	26,306	21,274
Borrowings	97,372	97,405
Book value	123,678	118,679

Identified eligible green assets by category	30.06.2023	31.12.2022
Sustainable fishery and aquaculture	34,222	51,936
Renewable energy	106	-
Clean transportation	5,273	4,879
Green buildings	71,792	64,232
Energy efficiency	11,547	8,189
Pollution prevention and control and wastewater management	6,142	6,174
Book value	129,082	135,410

Amounts are in ISK millions

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