Íslandsbanki

Condensed Consolidated Interim Financial Statements

First quarter 2025

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

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Factsheet

Key figures 1Q25

Net profit **ISK 5.2bn**

ROE **9.4%**

Cost-to-income ratio **47.6%**

NIM **3.2%**

Sustainability 1Q25

Successful issuance of a EUR 300 million green senior preferred notes with a maturity of 5.5 year

Íslandsbanki's sustainable assets amounted to ISK 117 billion at the end of 1Q25

Sustainability risk was integrated into the Bank's risk model for corporate lending

Digital milestones 1Q25

New app launched with many new features including promoting efficient budgeting and spend control

Real time notification when savings realised with Fríða loyalty program that helps creating a savings culture

Syndicated loans solution for corporate clients launched

Ratings and certifications

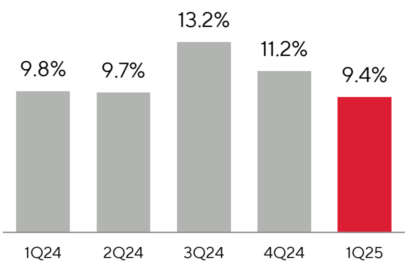
Moody's
A3 Stable outlook

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

EQUALITY SCALE FKA 2024 AWARD

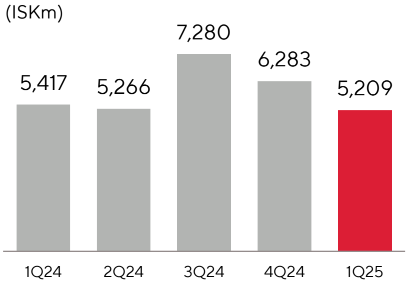
EQUAL PAY CERTIFICATE 2025 - 2028

Return on equity

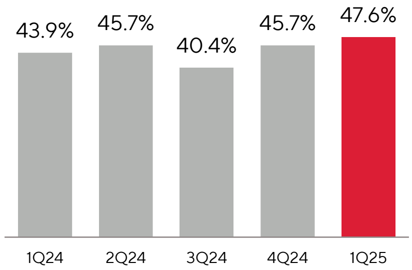


Profit after tax

(ISKm)

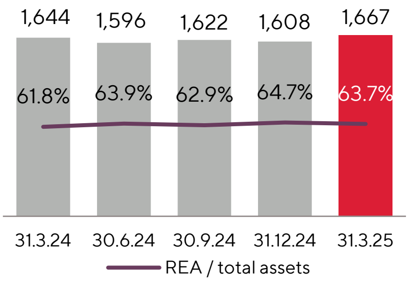


Cost-to-income ratio[1]



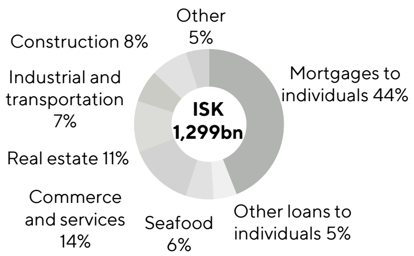
Total assets

(ISKbn)



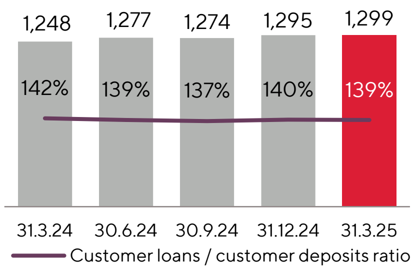
Loans to customers

(Sector split as of 31.3.25)

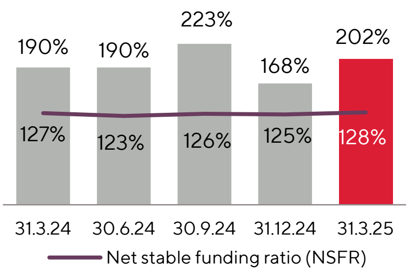


Loans to customers

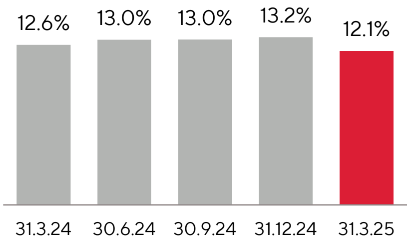
(ISKbn)



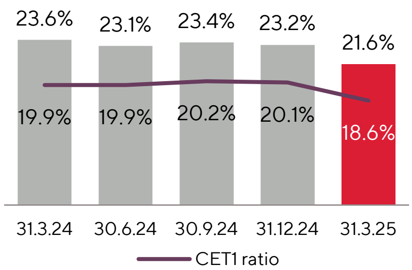
Total liquidity coverage ratio



Leverage ratio[2]



Total capital ratio[2]



The information above has not been reviewed or audited by the Group's auditor.
1.. Expenses of ISK 286m for 1Q24, ISK 210m for 2Q24, and ISK 269m for 3Q24 recognised in the line item "Other operating expenses" in the Group's Financial Statements have been reclassified in the line item "Fee and commission expense", C/I ratio has been restated accordingly. C/I ratio for 2Q24 excludes a charge of ISK 470m due to an administrative fine.
2. Including 1Q24 profit for 31.3.24.

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report with the reviewed Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 31 March 2025. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. As one of Iceland's largest banking and financial services groups, the Group has a strong domestic market share.

Operations in the reporting period

The profit from the Group's operations for the first quarter of 2025 amounted to ISK 5,209 million and the return on equity was 9.4%, below the Bank's target of being over 10%. At the end of the reporting period the Group employed 770 full-time equivalents, 731 in the Bank and 39 in subsidiaries. The Group operates 12 branches.

The Group's results were in line with expectations with regards to core operations in the first quarter of the year. Towards the end of the quarter, discussions on tariffs in an international context began to affect international capital markets. Domestic markets were also impacted, as the OMXI15GI dropped by 7.7% during the first quarter despite having increased by 3.4% in January alone. This decline adversely impacted the Bank's profits for the first quarter, primarily related to market-making activities and listed equity holdings. In addition, the composition of earnings resulted in a higher effective tax rate compared to previous quarters.

During the quarter, the Bank introduced a revised strategy, paving the way for further growth on the foundation to empower our customers to succeed and to further improve their financial health. Additionally, the Bank's values were revised where emphasis was placed on progressive thinking in addition to collaboration and professionalism. At the beginning of January, the Bank announced its entry into the insurance market through a bancassurance partnership with VÍS tryggingar hf., the second largest insurance company in Iceland. This will further enhance the Bank's customer service by offering both comprehensive banking and insurance services on a single platform. Rollout of this partnership is expected during the second quarter. Continued success has been achieved in investment banking, where the Bank has maintained its market-leading role in both equity turnover on capital markets as well as in overall securities turnover through the first quarter. Further, at the beginning of the year, the Board and the Bank set out to expand the Bank's operations and risk appetite. This has resulted in increased, yet cautious, focus towards additional lending abroad, with special emphasis on infrastructure projects. Many milestones have been achieved in the development of additional products and services. This includes the introduction of new lending products, the launch of new online channels, and emphasis on improving service experience for customers with added automation and digital channels.

On 31 March 2025, the Bank held its Annual General Meeting (AGM) where the Board of Directors was re-elected, and a dividend amounting to ISK 12.1 billion was declared. The dividend represents approximately 50% of the profit for 2024, in line with the Bank's dividend policy. Further, treasury shares held by the Bank were cancelled.

Inflation continued to subside during the first quarter, decreasing from 4.6% in January to 3.8% in March. Throughout the quarter, policy rates were cut twice, dropping from 8.5% at January's start to 7.75% by the end of March. In line with expectations, the CPI imbalance started to contract during the quarter, from ISK 193 billion to ISK 178 billion, driven by the issuance of CPI-linked wholesale funding and the transition in the loan book from CPI-linked loans to non-indexed loans. This positively influenced the net interest income which amounted to ISK 12,939 million during the quarter, marking a 6.7% increase from the previous year. The net interest margin stood at 3.2% in the first quarter of this year, compared to 3.0% in the first quarter of 2024.

Net fee and commission income increased by 1.9% year-on-year in the first quarter. A loss of ISK 986 million was recorded in net financial income in the first quarter, compared to a loss of ISK 236 million in the previous year, attributed to market-making operations, losses related to economic hedging, and the Group's own market positions. Other operating income totalled ISK 467 million, mainly arising from fair value adjustments of Kirkjusandur 2, the plot that contained the Bank's former headquarters.

Salaries and related expenses grew by 7.7% between years and amounted to ISK 4,489 million, mostly related to general wage increases and redundancies. Other operating expenses reduced by 1.2% year-on-year. The cost-to-income ratio was 47.6% during the quarter, compared to 43.9% for the first quarter of last year, primarily due to lower income attributable to the loss on net financial income. The Bank remains focused on its target of being below 45% cost-to-income ratio, although fluctuations can be seen between quarters. However, the cost-to-core-income ratio, where core income is defined as net interest income and net fee and commission income, was 46.2% during the first quarter compared to 47.0% in the previous year. The Bank has not put forth a target for cost-to-core-income as of now.

The net impairment charge on financial assets amounted to ISK 3 million, compared to ISK 704 million in the previous year. Despite the high inflationary and interest rate environment, asset quality remains both stable and strong, with Stage 3 loans closing at 1.8%, compared to 1.6% at year-end 2024. Loans to customers totalled ISK 1,299 billion, close to the year-end 2024 figures. Mortgages continue to represent the largest portion of the loan book or 44%. LTVs for both the mortgage book and other segments of the loan book remain healthy and stable. Additionally, deposits from customers increased by 1.1% over the quarter.

Directors' Report

Funding

The first quarter saw a slight spread compression of about 20 basis points in the Bank's secondary levels, before market unrest in the second quarter began. In January, the Bank issued 2.5-year and 3.5-year bonds in SEK and NOK for a combined SEK/NOK 1 billion. In March, the Bank concluded a 5.5-year green senior preferred bond offering of EUR 300 million at 140 basis points over mid-swaps. This marked the Bank's first green EUR bond, with net proceeds designated to finance or refinance, in whole or in part, green loans, as further described in the Bank's Sustainable Funding Framework. Domestically, the Bank sold ISK 9 billion of senior preferred bonds and ISK 3 billion of covered bonds through two transactions during the quarter.

The Bank holds an A3 (stable outlook) issuer rating from Moody's Ratings and a BBB+/A-2 (positive outlook) from S&P Global Ratings.

Capital

During the quarter, the Bank announced its intentions to buy back shares amounting to ISK 15 billion and that all regulatory approvals had been obtained. Consequently, ISK 15 billion was deducted from the capital base, reducing the Bank's capital ratio to 21.6% at the end of the quarter, down from 23.2% year-end 2024. The CET1 ratio closed at 18.6% compared to 20.1% at year-end 2024. The Group's latest Supervisory Review and Evaluation Process (SREP) resulted in a regulatory required CET1 ratio of 15.4% on top of which the Bank places a management buffer of 100-300 basis points. The capital position remains strong and significantly exceeds the regulatory requirements. The Group's excess CET1 position currently stands at 120 basis points, assuming a fully optimised capital structure and the midpoint of the management buffer.

The Bank expects CRR 3, an amendment to the current Capital Requirements Regulation (CRR) to be enacted into Icelandic law in the second quarter of 2025. As a result, the Bank assumes a considerable reduction in REA, or around 4-5% of the current REA. This is expected to positively impact capital ratios by around 1 percentage point, effectively increasing the Bank's excess CET1 position to 220 basis points, assuming a fully optimised capital structure and the midpoint of the management buffer.

In addition to declaring an ISK 12.1 billion dividend paid on 10 April 2025, the Bank's AGM held on 31 March 2025 approved the repurchasing of own shares up to 10% of outstanding share capital, complementing the conventional dividend in line with the Bank's dividend policy. Further, the AGM approved the cancellation of a total of 119,529,230 treasury shares acquired through various share repurchases leading up to the AGM. During the first quarter, the Bank purchased a total of 21,073,373 shares for a total of ISK 2,614 million. By the end of the quarter, the Bank held 6,920,000 shares, representing 0.4% of its own share capital.

The Bank intends to continue its efforts to optimise its capital structure, subject to market conditions. As of now, ISK 16 billion has been allocated to uncompleted share buybacks. Further optimisation efforts may include internal and/or external growth, as well as increased share buybacks or extraordinary dividends, subject to market conditions.

Economic outlook

The year 2024 was a year of adjustment for the Icelandic economy. Real gross domestic product (GDP) grew by 0.5% year-on-year, significantly more tepid growth than the 5.0% growth reported in 2023. Even so, domestic demand saw moderate growth in 2024. In particular, investment proved resilient, rising by 7.5% last year as robust private investment growth dwarfed a modest decline in public sector investment. However, negative contributions from net exports and inventory changes weighed on overall performance.

For the first quarter of 2025, timely indicators point to a continuation of the broad 2024 trends. Imports of investment goods grew apace while imports of consumer goods, card turnover data, new car registrations and travel statistics suggested ongoing private consumption growth. Furthermore, survey data points to a significant improvement in economic sentiment both among households and business executives. On the other hand, the goods trade deficit was substantial in the period while tourism saw a modest decline in the number of foreign visitors.

Inflation has continued subsiding, declining from 4.8% as of year-end 2024 to 3.8% in March 2025. The decline is due to global disinflation, a somewhat stronger Icelandic króna, a slower pace in wage increases and less excess demand in the housing market. Notably, despite a significant deficit in foreign trade in recent quarters, the króna has not weakened. This is mainly due to counteracting financial account inflows, particularly from Icelandic pension funds. Moderating inflation and more stable inflation expectations facilitated a continuation of the policy rate reduction cycle by the Central Bank, bringing the main rate from 8.5% at year-end 2024 to 7.75% by late March 2025.

Directors' Report

Íslandsbanki Research expects 2.2% GDP growth in 2025 as consumption growth picks up and exports resume moderate growth while investment is likely to remain broadly unchanged year-on-year. A combination of a cooling labour market, a more balanced housing market along with a relatively stable króna are likely to bring inflation down to 3.5% by year-end. This, combined with the expected emergence of a modest negative output gap, should pave the way for further easing of monetary policy, with the main policy rate expected to decline to 6.5% by year-end 2025.

Policy shifts in the global economy have raised the level of uncertainty drastically in the last few weeks, with an increased probability of trade barriers rising worldwide in the near-to-medium term. That uncertainty and possible eventual negative impact on global trade can be detrimental in the long term and could affect supply chains as well as consumer and business confidence, which could in turn affect inflation and demand for Icelandic goods and services, resulting in slower growth.

Outlook for the Group

As the economic environment continues to improve, the Bank expects overall operations to grow across the board. Lower rate environment is anticipated to continue to drive positive momentum for corporate investments as well as support strong asset quality. In addition, as inflation continues to subside and if policy rates will be reduced in line with macroeconomic outlook, pressure on interest rate margins is expected to alleviate for the medium term although fluctuations and pressure may be experienced in the short term. However, recent discussions on international tariffs have caused considerable volatility in both international and domestic capital markets and may have adverse effects on both economic growth and inflation worldwide. Both effects can adversely affect the Group's earnings and potentially asset quality in the medium term.

The Bank's equity and liquidity positions remain strong and well in excess of both regulatory and internal requirements. Capital optimisation continues to be a priority for the Bank, subject to market conditions. Capital optimisation may include organic and/or external growth, as well as disposals to shareholders via ordinary buyback programs, reverse auctions, or extraordinary dividends.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. At the end of the period the Bank had 9,886 shareholders (year-end 2024: 9,961), where 90.0% of the Bank's shares were owned by domestic parties and 10.0% by international investors. The Government of Iceland is the largest shareholder with 45.4% of outstanding shares, taking into consideration treasury shares. Apart from the Government, pension funds are the largest investor group, owning 34.4% of the outstanding shares. For further information on the Bank's shareholders see Note 32.

During the first quarter, a bill was proposed to the Parliament of Iceland amending the legislation on authorisation to the Ministry of Finance and Economic Affairs to continue a sell down of the stake currently owned by the Government. The amendment was approved by the Parliament at the beginning of May. According to the legislation, all authorisations are now in place for a fully marketed offering with the aim to provide a full exit for the Government in one or more transactions. The Minister of Finance and Economic Affairs has publicly stated his intentions to utilise the authorisation, subject to market conditions. Although the Bank will not participate in the process in an advisory role, it has actively supported the potential transaction throughout the recent months by amongst other compilation of a prospectus, due diligence proceedings and continuous investor engagement related activities, both domestically and internationally. The Bank will continue its support as it views such a transaction beneficial for the Bank as well as the entire shareholder base.

Directors' Report

Statement by the Board of Directors and the CEO

The reviewed Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2025 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 31 March 2025.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2025.

Kópavogur, 8 May 2025

Board of Directors:

Linda Jónsdóttir, Chairman

Agnar Tómas Möller

Helga Hlín Hákonardóttir

Herdís Gunnarsdóttir

Páll Grétar Steingrímsson

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Introduction

We have reviewed the accompanying Consolidated Interim Statement of Financial Position of Íslandsbanki hf. as of 31 March 2025, the Consolidated Interim Income Statement and the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and the Consolidated Interim Statement of Cash Flows for the three month period then ended, and Notes to the Condensed Consolidated Interim Financial Statements ("the Condensed Consolidated Interim Financial Statements"). Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. 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 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

Reykjavík, 8 May 2025

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Interim Income Statement

	Notes	2025 1.1-31.3	2024 1.1-31.3
Interest income calculated using the effective interest rate method		32,869	34,162
Other interest income		1,081	2,461
Interest expense		(21,011)	(24,501)
Net interest income	5	12,939	12,122
Fee and commission income		4,627	4,469
Fee and commission expense*		(1,560)	(1,459)
Net fee and commission income	6	3,067	3,010
Net financial expense	7	(986)	(236)
Net foreign exchange gain	8	47	196
Other operating income	9	467	1,098
Other net operating income		(472)	1,058
Total operating income		15,534	16,190
Salaries and related expenses	10	(4,489)	(4,168)
Other operating expenses*	11	(2,907)	(2,942)
Bank tax		(500)	(493)
Total operating expenses		(7,896)	(7,603)
Profit before net impairment on financial assets		7,638	8,587
Net impairment on financial assets	12	(3)	(704)
Profit before tax		7,635	7,883
Income tax expense	13	(2,423)	(2,468)
Profit for the period before profit from non-current assets		5,212	5,415
Profit (loss) from non-current assets held for sale, net of tax		(3)	2
Profit for the period		5,209	5,417
Earnings per share			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	14	2.77	2.75

*Comparative figures have been changed. Expenses of ISK 286 million recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024 were reclassified to the line item "Fee and commission expense".

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2025 1.1-31.3	2024 1.1-31.3
Profit for the period	5,209	5,417
Net changes in FV of fin. liab. attributable to changes in credit risk	(8)	(542)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk	9	116
Items that will not be reclassified to the income statement	1	(426)
Foreign currency translation	1	-
Net changes in fair value of debt instruments at FVOCI	67	(20)
Reclassification to the income statement of debt instruments at FVOCI	(2)	-
Changes in allowance for ECL of debt instruments at FVOCI	(4)	13
Tax related to debt instruments at FVOCI	(16)	2
Items that may subsequently be reclassified to the income statement	46	(5)
Other comprehensive income (expense) for the period, net of tax	47	(431)
Total comprehensive income for the period	5,256	4,986

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	31.3.2025	31.12.2024
Assets			
Cash and balances with Central Bank	19	69,944	65,716
Loans to credit institutions	20	92,259	50,486
Bonds and debt instruments	15	142,937	142,618
Derivatives	21	9,092	5,324
Loans to customers	22	1,298,849	1,295,388
Shares and equity instruments	15	20,606	24,330
Investments in associates		4,857	4,701
Investment property		2,900	2,600
Property and equipment		5,135	5,039
Intangible assets		2,636	2,684
Other assets	24	16,532	7,304
Non-current assets held for sale		1,682	1,617
Total Assets		1,667,429	1,607,807
Liabilities			
Deposits from Central Bank and credit institutions	25	14,374	12,535
Deposits from customers	26	936,779	926,846
Derivative instruments and short positions	21	6,677	7,306
Debt issued and other borrowed funds	28	407,266	367,586
Subordinated loans	29	32,502	31,695
Tax liabilities		12,912	12,916
Other liabilities	30	39,025	21,568
Total Liabilities		1,449,535	1,380,452
Equity			
Share capital		9,368	9,473
Share premium		42,472	55,000
Reserves		7,673	7,102
Retained earnings		158,381	155,780
Total Equity		217,894	227,355
Total Liabilities and Equity		1,667,429	1,607,807

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

			Reserves								
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2024	9,898	55,000	2,500	2,527	1,358	522	-	(1,827)	3	154,712	224,693
Profit for the period										5,417	5,417
Net changes in FV of fin. liab. due to changes in credit risk								(431)		(111)	(542)
Tax on net changes in FV of fin. liab. due to changes in credit risk								86		30	116
Net changes in fair value of debt instruments at FVOCI							(20)				(20)
Changes in allowance for ECL of debt instruments at FVOCI							13				13
Tax related to debt instruments at FVOCI							2				2
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(5)	(345)	-	5,336	4,986
Dividends										(12,303)	(12,303)
Purchase of treasury shares	(73)									(1,585)	(1,658)
Other changes to restricted reserves				142	(72)	28				(98)	-
Equity as at 31 March 2024	9,825	55,000	2,500	2,669	1,286	550	(5)	(2,172)	3	146,062	215,718

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

			Reserves								
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2025	9,473	55,000	2,500	2,829	1,067	648	192	(135)	1	155,780	227,355
Profit for the period										5,209	5,209
Net changes in FV of fin. liab. due to changes in credit risk								119		(127)	(8)
Tax on net changes in FV of fin. liab. due to changes in credit risk								(24)		33	9
Foreign currency translation									1		1
Net changes in fair value of debt instruments at FVOCI							67				67
Reclassification to the income statement of debt inst. at FVOCI							(2)				(2)
Changes in allowance for ECL of debt instruments at FVOCI							(4)				(4)
Tax related to debt instruments at FVOCI							(16)				(16)
Total comprehensive income for the period	-	-	-	-	-	-	45	95	1	5,115	5,256
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(105)									(2,509)	(2,614)
Reduction in share capital		(12,528)	(149)							12,677	-
Other changes to restricted reserves				(38)	(73)	690				(579)	-
Equity as at 31 March 2025	9,368	42,472	2,351	2,791	994	1,338	237	(40)	2	158,381	217,894

The Bank's authorised and issued share capital on 31 March 2025 consisted of 1,880,470,770 ordinary shares (year-end 2024: 2,000,000,000) with a par value of ISK 5 each. The Annual General Meeting (AGM) for the 2024 operating year took place on 31 March 2025 where shareholders approved the Board's proposal to reduce the Bank's share capital by cancelling the Bank's own shares by ISK 597,646,150 nominal value, equivalent to 119,529,230 shares, from ISK 10,000,000,000 to ISK 9,402,353,850 nominal value.

During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12,100 million, equivalent to ISK 6.46 per share (2024: ISK 6.26 per share). The dividends were paid on 10 April 2025.

Íslandsbanki bought back 21.1 million own shares for ISK 2,614 million during the first quarter of 2025 (first quarter 2024: 14.6 million own shares for ISK 1,658 million). As of 31 March 2025 the Bank owned 6.9 million own shares (year-end 2024: 105.4 million).

Upon derecognition (mainly repurchases) of financial liabilities designated at FVTPL the amount accumulated in liability credit risk reserve is transferred to retained earnings. In the first quarter of 2025 negative ISK 94 million (first quarter 2024: negative ISK 81 million) was transferred to retained earnings at derecognition of financial liabilities designated at FVTPL.

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

		2025 1.1-31.3	2024 1.1-31.3
Profit for the period		5,209	5,417
Non-cash items included in profit for the period*		(10,040)	(9,704)
Changes in operating assets and liabilities*		5,639	(5,339)
Interest received		30,624	28,380
Interest paid**		(14,979)	(21,761)
Dividends received		295	261
Paid bank tax		(477)	(475)
Paid income tax and special financial activities tax		(2,433)	(1,814)
Net cash provided by (used in) operating activities		**13,838**	**(5,035)**
Purchase of investment property		(10)	-
Proceeds from sales of property and equipment		-	90
Purchase of property and equipment		(191)	(105)
Additions of intangible assets		(125)	(108)
Net cash used in investing activities		**(326)**	**(123)**
Proceeds from borrowings		68,278	69,936
Repayment and repurchases of borrowings		(29,863)	(39,902)
Repayment of lease liabilities		(143)	(140)
Purchase of treasury shares		(2,614)	(1,658)
Net cash provided by financing activities		**35,658**	**28,236**
Net increase in cash and cash equivalents		49,170	23,078
Effects of foreign exchange rate changes		(2,211)	(695)
Cash and cash equivalents at the beginning of the year		83,548	139,074
Cash and cash equivalents at the end of the period		**130,507**	**161,457**
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	2,940	3,955
Unrestricted balances with Central Bank	19	35,473	45,971
Money market loans and other loans to credit institutions	20	83,772	100,796
Bank accounts not pledged as collateral against derivative instruments	18, 20	8,322	10,735
Cash and cash equivalents at the end of the period		**130,507**	**161,457**

*For further breakdown see the following page.

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

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

Comparative figures have been changed. The Group's accounting policies regarding the definition of cash and cash equivalents have been updated. This change was made to ensure a fairer presentation of the Consolidated Interim Statement of Cash Flows. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments. As a result, "Cash and cash equivalents at the beginning of the year" increase by ISK 34,964 million (2024: ISK 52,602 million) and "Cash and cash equivalents at the end of the period" increase by ISK 83,607 million (first quarter 2024: ISK 97,897 million). In addition, the change affects "Changes in operating assets and liabilities" and therefore "Net cash provided by (used in) operating activities" and "Net increase in cash and cash equivalents".

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2025 1.1-31.3	2024 1.1-31.3
Net interest income	(12,939)	(12,122)
Unrealised fair value loss recognised in the income statement	102	(540)
Foreign exchange gain	(47)	(196)
Fair value gain on investment property	(290)	(906)
Share of profit from associates	(156)	(28)
Net gain from sales of property and equipment	-	(26)
Depreciation, amortisation, and write-offs	416	402
Bank tax	500	493
Net impairment on financial assets	11	719
Income tax expense	2,423	2,468
Profit (loss) from non-current assets held for sale, net of tax	3	(2)
Other changes	(63)	34
Total	(10,040)	(9,704)

Changes in operating assets and liabilities

	2025 1.1-31.3	2024 1.1-31.3
Mandatory reserve and pledged balances with Central Bank	(599)	1,006
Loans to credit institutions pledged as collateral against derivative instruments	1,571	(844)
Bonds and debt instruments	1,505	7,018
Loans to customers	(3,839)	(20,323)
Shares and equity instruments	3,890	(7,019)
Other assets	(9,336)	(12,041)
Non-current assets held for sale	(68)	25
Deposits from Central Bank and credit institutions	1,786	(2,082)
Deposits from customers	7,785	22,407
Derivative instruments and short positions	(2,449)	(867)
Other liabilities	5,393	7,381
Total	5,639	(5,339)

The notes on pages 15 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2025 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over six other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 8 May 2025.

2. Basis of preparation

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

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year 2024, as well as the unaudited Pillar 3 Report for the year 2024. Both are available on the Bank's website: www.islandsbanki.is.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 March 2025 the exchange rate of the ISK against the USD was 131.95 and for the EUR 142.70 (year-end 2024: USD 138.20 and EUR 143.90).

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

Changes to accounting policies

The accounting policies are unchanged from those set out in Notes 3 and 64 in the Consolidated Financial Statements for the year 2024 except for the changes to accounting policies outlined below. The purpose of the following changes to accounting policies is to ensure a fairer presentation of the Condensed Consolidated Interim Financial Statements.

The presentation of the Group's restricted reserves has been updated in the Consolidated Interim Statement of Changes in Equity to provide a more detailed breakdown. The presentation for the prior period has been updated accordingly.

The Group's accounting policies regarding the definition of cash and cash equivalents have been updated. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments.

The presentation of interest expenses has been updated to provide a more detailed breakdown of expenses, for further information see Note 5.

Basis of measurement

The Condensed Consolidated Interim Financial Statements are prepared on a historical cost basis with the following exemptions:

- Assets and liabilities measured at fair value: bonds and debt instruments, shares and equity instruments, investment property, short positions in listed bonds, derivative financial instruments, and certain debt issued by the Group.
- Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.
- Investments in associates are accounted for using the equity method.

3. Significant accounting estimates and judgements

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

As described in Note 3 in the Consolidated Financial Statements for the year 2024, key source of estimation uncertainty is the allowance for credit losses.

Impairment of financial assets

Note 64.3 in the Consolidated Financial Statements for the year 2024 contains a description of the Group's accounting policies for the impairment of financial assets. At the end of the first quarter of 2025, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in January, and an updated forecast for inflation in March. The table below shows macroeconomic indicators from the new forecast that are used in the base case scenario.

Change in economic indicators %	2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Economic growth (YoY real GDP change)	0.5	2.2	2.5	2.6	2.4
Housing prices in Iceland (average YoY change)	5.8	6.1	5.4	5.8	3.5
Purchasing power (average YoY change)	0.7	1.4	1.7	1.2	1.4
ISK exchange rate index (average YoY change)	(0.1)	(2.8)	(1.2)	0.7	1.0
Policy rate, Central Bank of Iceland (average per year)	9.1	7.5	5.6	5.3	5.3
Inflation (average per year)	5.9	3.5	2.9	3.0	3.1
Capital formation (YoY real change)	7.5	0.2	3.8	2.9	2.9
- thereof capital formation in industry	6.7	(0.9)	4.0	2.8	2.8

The All Risk Committee determined it appropriate to keep the weights of forward-looking scenarios at 20%-50%-30% (optimistic, base, pessimistic) at the end of the first quarter. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 250 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 100 million. Scenario weights can be scaled linearly, allowing a broader scope of analysis on the impairment allowance.

The impairment process is designed to be systematic so that it can be consistently applied. For the largest part of the loan portfolio, the Group employs an automatic process to assign facilities to stages and to estimate the ECL. For large or complex credit cases where the automatic process may not be appropriate, alternative ECL calculations, referred to as "manual impairment", can be proposed by experts. Each manual impairment is subsequently reviewed and approved or rejected by the Impairment Council. As of 31 March 2025, exposure to a few counterparties amounting to ISK 9.4 billion was subject to manual impairment, with the associated ECL totalling ISK 1.9 billion (year-end 2024: ISK 7.5 billion and ISK 1.5 billion, respectively).

The management overlay to the modelled ECL due to seismic activity on the Reykjanes peninsula has been replaced with a manual impairment process on a case-by-case basis to more accurately capture the impairment for those exposures.

The allowance for credit losses is further discussed in Notes 22-23 and in Notes 37-41 on risk management.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors, and affluent individuals. Services include customised products and services such as lending and advisory, risk management, brokerage, and private banking services. The division services all sectors of the Icelandic economy with specialised expertise in the seafood, infrastructure, and tourism sectors. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

Treasury and Proprietary Trading

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

Cost centres

Cost centres comprise Digital & Data, Finance (excluding Treasury and Proprietary Trading), Risk Management, Compliance, CEO Office, Human Resources & Internal Services, Legal, and Marketing & Communications. Group Internal Audit is also a part of the cost centres; however, it operates independently from the Bank, with the Chief Audit Executive reporting directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. All inter-company eliminations are included in the column "Eliminations & adjustments".

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

4. Operating segments (continued)

1 January to 31 March 2025	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	4,550	4,847	3,553	45	(103)	12,892	47	12,939
Net fee and commission income (expense)	798	483	1,106	(135)	-	2,252	815	3,067
Other net operating income	9	7	538	(1,236)	48	(634)	162	(472)
Total operating income	5,357	5,337	5,197	(1,326)	(55)	14,510	1,024	15,534
Salaries and related expenses	(733)	(605)	(588)	(77)	(2,202)	(4,205)	(284)	(4,489)
Other operating expenses	(683)	(314)	(311)	(122)	(1,427)	(2,857)	(50)	(2,907)
Bank tax	(223)	(121)	(132)	(20)	(4)	(500)	-	(500)
Net impairment on financial assets	(148)	128	45	(27)	-	(2)	(1)	(3)
Cost allocation	(1,505)	(1,265)	(1,068)	154	3,684	-	-	-
Profit (loss) before tax	2,065	3,160	3,143	(1,418)	(4)	6,946	689	7,635
Income tax	(595)	(853)	(755)	(112)	-	(2,315)	(108)	(2,423)
Profit (loss) for the period before profit from non-current assets	1,470	2,307	2,388	(1,530)	(4)	4,631	581	5,212
Net segment revenue from external customers	5,329	6,097	8,036	(4,984)	32	14,510	1,024	15,534
Net segment revenue from other segments	28	(760)	(2,839)	3,658	(87)	-	-	-
Fee and commission income	1,862	547	1,202	26	-	3,637	990	4,627
Depreciation, amortisation, and write-offs	(47)	(15)	(2)	-	(346)	(410)	(6)	(416)
At 31 March 2025								
Loans to customers	613,323	333,238	351,919	369	-	1,298,849	-	1,298,849
Other assets	2,752	1,689	11,700	339,996	10,429	366,566	2,014	368,580
Total segment assets	616,075	334,927	363,619	340,365	10,429	1,665,415	2,014	1,667,429
Deposits from customers	494,371	270,901	143,883	30,841	-	939,996	(3,217)	936,779
Other liabilities	2,218	1,613	14,916	486,252	6,127	511,126	1,630	512,756
Total segment liabilities	496,589	272,514	158,799	517,093	6,127	1,451,122	(1,587)	1,449,535
Allocated equity	45,201	52,625	67,641	47,589	1,237	214,293	3,601	217,894
Risk exposure amount	278,100	318,267	390,546	61,709	8,653	1,057,275	4,628	1,061,903

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

Amounts are in ISK million

4. Operating segments (continued)

1 January to 31 March 2024	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	4,257	4,617	3,416	(40)	(187)	12,063	59	12,122
Net fee and commission income (expense)*	764	505	1,082	1	(1)	2,351	659	3,010
Other net operating income	(76)	15	238	(70)	82	189	869	1,058
Total operating income	4,945	5,137	4,736	(109)	(106)	14,603	1,587	16,190
Salaries and related expenses	(679)	(584)	(575)	(81)	(1,988)	(3,907)	(261)	(4,168)
Other operating expenses*	(675)	(296)	(296)	(91)	(1,535)	(2,893)	(49)	(2,942)
Bank tax	(214)	(116)	(129)	(31)	(3)	(493)	-	(493)
Net impairment on financial assets	(11)	(688)	48	(53)	-	(704)	-	(704)
Cost allocation	(1,466)	(1,163)	(1,021)	114	3,536	-	-	-
Profit (loss) before tax	1,900	2,290	2,763	(251)	(96)	6,606	1,277	7,883
Income tax	(571)	(650)	(781)	(415)	26	(2,391)	(77)	(2,468)
Profit (loss) for the period before profit from non-current assets	1,329	1,640	1,982	(666)	(70)	4,215	1,200	5,415
Net segment revenue from external customers*	5,948	6,068	7,174	(4,556)	(31)	14,603	1,587	16,190
Net segment revenue from other segments	(1,003)	(931)	(2,438)	4,447	(75)	-	-	-
Fee and commission income	1,847	560	1,162	59	-	3,628	841	4,469
Depreciation, amortisation, and write-offs	(46)	(15)	(1)	-	(336)	(398)	(4)	(402)
At 31 December 2024								
Loans to customers	608,766	323,824	362,692	106	-	1,295,388	-	1,295,388
Other assets	3,654	1,618	4,784	291,344	9,180	310,580	1,839	312,419
Total segment assets	612,420	325,442	367,476	291,450	9,180	1,605,968	1,839	1,607,807
Deposits from customers	486,235	277,186	147,394	18,820	-	929,635	(2,789)	926,846
Other liabilities	3,404	3,997	10,536	428,420	5,635	451,992	1,614	453,606
Total segment liabilities	489,639	281,183	157,930	447,240	5,635	1,381,627	(1,175)	1,380,452
Allocated equity	44,719	51,133	65,596	61,675	1,218	224,341	3,014	227,355
Risk exposure amount	275,836	308,573	394,601	50,434	7,108	1,036,552	4,420	1,040,972

*Expenses of ISK 286 million recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024 were reclassified to the line item "Net fee and commission income (expense)".

Amounts are in ISK million

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 31 March 2025	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	43	-	1	47
Net fee and commission income (expense)	377	448	-	(10)	815
Other net operating income	(62)	(23)	129	118	162
Total operating income	318	468	129	109	1,024
Salaries and related expenses	(198)	(71)	(15)	-	(284)
Other operating expenses	(67)	(46)	(111)	174	(50)
Net impairment on financial assets	(1)	-	-	-	(1)
Profit before tax	52	351	3	283	689
Income tax	(11)	(96)	(1)	-	(108)
Profit for the period before profit from non-current assets	41	255	2	283	581
Net segment revenue from external customers	399	424	2	199	1,024
Net segment revenue from other segments	(81)	44	127	(90)	-
Fee and commission income	519	622	-	(151)	990
Depreciation, amortisation, and write-offs	-	(2)	(1)	(3)	(6)
At 31 March 2025					
Total assets	2,258	3,399	2,478	(6,121)	2,014
Total liabilities	304	1,271	90	(3,252)	(1,587)
Total equity	1,954	2,128	2,388	(2,869)	3,601

1 January to 31 March 2024	Íslands-sjóðir hf.	Allianz Ísland hf.*	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	31	24	1	59
Net fee and commission income (expense)*	340	354	(7)	(28)	659
Other net operating income	21	-	106	742	869
Total operating income	364	385	123	715	1,587
Salaries and related expenses	(179)	(61)	(21)	-	(261)
Other operating expenses*	(62)	(48)	(105)	166	(49)
Profit (loss) before tax	123	276	(3)	881	1,277
Income tax	(26)	(51)	-	-	(77)
Profit for the period before profit from non-current assets	97	225	(3)	881	1,200
Net segment revenue from external customers*	447	326	2	812	1,587
Net segment revenue from other segments	(83)	59	121	(97)	-
Fee and commission income	478	535	-	(172)	841
Depreciation, amortisation, and write-offs	-	-	(1)	(3)	(4)
At 31 December 2024					
Total assets	2,198	3,102	2,401	(5,862)	1,839
Total liabilities	287	1,228	59	(2,749)	(1,175)
Total equity	1,911	1,874	2,342	(3,113)	3,014

*Comparative figures have been changed. Expenses of ISK 181 million recognised in the line item "Other operating expenses" for Allianz Ísland hf. in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024 were reclassified to the line item "Net fee and commission income (expense)".

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Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2025 1.1-31.3	2024 1.1-31.3
Cash and balances with Central Bank	495	1,105
Loans to credit institutions	752	891
Loans to customers	29,835	31,510
Financial assets mandatorily at fair value through other comprehensive income	1,787	656
Interest income calculated using the effective interest rate method	32,869	34,162
Financial assets mandatorily at fair value through profit or loss	1,079	2,459
Other assets	2	2
Other interest income	1,081	2,461
Deposits from Central Bank and credit institutions	(69)	(89)
Deposits from customers	(13,782)	(15,206)
Financial liabilites mandatorily at fair value through profit or loss*	(851)	(1,336)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(88)	(897)
Debt issued and other borrowed funds at amortised cost*	(5,493)	(5,900)
Subordinated loans	(706)	(957)
Lease liabilities	(18)	(20)
Other liabilities*	(4)	(96)
Interest expense	(21,011)	(24,501)
Net interest income	12,939	12,122

*The presentation of interest expense has been updated, and comparative figures have been changed accordingly. Expenses of ISK 1,533 million recognised in the line item "Other liabilities" in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024, have been reclassified to other line items, with ISK 1,336 million reclassified as "Financial liabilities mandatorily at fair value through profit or loss" and ISK 197 million reclassified as "Debt issued and other borrowed funds at amortised cost".

6. Net fee and commission income

	2025 1.1-31.3	2024 1.1-31.3
Asset management	753	707
Investment banking and brokerage	782	793
Payment processing	1,896	1,866
Loans and guarantees	497	519
Other fee and commission income	699	584
Fee and commission income	4,627	4,469
Brokerage	(128)	(108)
Payment processing expenses*	(1,127)	(1,147)
Other fee and commission expense*	(305)	(204)
Fee and commission expense	(1,560)	(1,459)
Net fee and commission income	3,067	3,010

*Comparative figures have been changed. Expenses of ISK 286 million recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024 were reclassified to the line item "Fee and commission expense" (ISK 85 million as "Payment processing expenses" and ISK 201 million as "Other fee and commission expense").

Fee and commission income by segment is disclosed in Note 4.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial expense

	2025 1.1-31.3	2024 1.1-31.3
Net loss on financial assets and financial liabilities mandatorily at FVTPL	(494)	(556)
Net gain (loss) on financial liabilities designated as at FVTPL	(456)	192
Net gain (loss) on fair value hedges	(39)	18
Net gain on derecognition of financial liabilities measured at amortised cost	3	193
Net loss on derecognition of financial assets measured at amortised cost	-	(83)
Net financial expense	(986)	(236)

The following table shows the categorisation of the net gain (loss) on fair value hedges.

	2025 1.1-31.3	2024 1.1-31.3
Fair value changes of the hedged items attributable to the hedged risk	144	367
Fair value changes of the hedging derivatives	(183)	(349)
Net gain (loss) on fair value hedges	(39)	18

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

	2025 1.1-31.3	2024 1.1-31.3
Net gain (loss) on bonds and related derivatives	7	(57)
Net loss on shares and related derivatives	(1,097)	(295)
Dividend income	295	261
Net gain on debt issued and related derivatives	33	148
Net loss on economic hedging and other derivatives	(224)	(210)
Net loss on derecognition of financial assets measured at amortised cost	-	(83)
Net financial expense	(986)	(236)

8. Net foreign exchange gain

	2025 1.1-31.3	2024 1.1-31.3
Cash and balances with Central Bank	(17)	(17)
Loans at amortised cost	(4,432)	(1,259)
Financial assets mandatorily at fair value through profit or loss	2,612	(2,100)
Financial assets mandatorily at fair value through other comprehensive income	(182)	102
Other assets	(18)	(1)
Net foreign exchange loss for assets	(2,037)	(3,275)
Deposits	2,771	(417)
Debt issued and other borrowed funds designated as at fair value through profit or loss	598	401
Debt issued and other borrowed funds at amortised cost	(850)	2,821
Subordinated loans	(435)	666
Net foreign exchange gain for liabilities	2,084	3,471
Net foreign exchange gain	47	196

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

9. Other operating income

	2025 1.1-31.3	2024 1.1-31.3
Fair value changes on investment property	290	906
Share of profit (loss) of associates, net of tax	156	28
Gain from sales of property and equipment	-	26
Legal fees	16	14
Rental income	5	15
Other net operating income	-	109
Other operating income	467	1,098

10. Salaries and related expenses

	2025 1.1-31.3	2024 1.1-31.3
Salaries	3,456	3,206
Contributions to pension funds	531	486
Social security charges and financial activities tax*	456	419
Other salary-related expenses	57	57
Capitalisation of salaries and related expenses in software development	(11)	-
Salaries and related expenses	4,489	4,168

*Financial activities tax calculated on salaries is 5.5% in 2025 (2024: 5.5%).

11. Other operating expenses

	2025 1.1-31.3	2024 1.1-31.3
Professional services*	476	447
Software and IT expenses*	1,245	1,233
Real estate and office equipment	179	182
Depreciation, amortisation, and write-offs	416	402
Other administrative expenses	591	678
Other operating expenses	2,907	2,942

*Comparative figures have been changed. Expenses of ISK 181 million recognised in the line item "Professional services" and expenses of ISK 105 million recognised in the line item "Software and IT expenses" in the Condensed Consolidated Interim Financial Statements for the first quarter of 2024 were reclassified to the line item "Fee and commission expense".

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

12. Net impairment on financial assets

	2025 1.1-31.3	2024 1.1-31.3
Net change in expected credit losses, on-balance sheet items	16	(764)
Net change in expected credit losses, off-balance sheet items	(19)	60
Net impairment on financial assets	(3)	(704)

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2025 is 20% (2024: 21%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first quarter 2025 is 31.7% (first quarter 2024: 31.3%).

	2025 1.1-31.3	2024 1.1-31.3
Current tax expense excluding tax from non-current assets held for sale	1,754	2,264
Special financial activities tax	482	613
Adjustments in prior year's calculated income tax	22	(17)
Changes in deferred tax assets and deferred tax liabilities	165	(392)
Income tax recognised in the income statement	2,423	2,468
Income tax recognised in other comprehensive income	7	(118)

	2025 1.1-31.3		2024 1.1-31.3	
Profit before tax	7,635		7,883	
Income tax calculated on the profit for the period	1,527	20.0%	1,656	21.0%
Special financial activities tax	482	6.3%	613	7.8%
Adjustments in prior years' calculated income tax	22	0.3%	(17)	(0.2%)
Income not subject to tax	(169)	(2.2%)	(251)	(3.2%)
Non-deductible expenses	554	7.3%	464	5.9%
Other differences	7	0.1%	3	0.0%
Effective income tax expense	2,423	31.7%	2,468	31.3%

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

14. Earnings per share

	2025 1.1-31.3	2024 1.1-31.3
Profit attributable to shareholders of the Bank	5,209	5,417
Weighted average number of outstanding shares	1,883	1,971
Basic earnings per share (ISK)	2.77	2.75

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (first quarter 2024: none).

Amounts are in ISK million

15. Classification of financial assets and financial liabilities

At 31 March 2025	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	69,944	69,944
Loans to credit institutions	-	-	-	92,259	92,259
Listed bonds and debt instruments**	26,520	-	103,978	-	130,498
Listed bonds and debt instruments used for economic hedging	10,419	-	-	-	10,419
Unlisted bonds and debt instruments	2,020	-	-	-	2,020
Derivatives	7,826	1,266	-	-	9,092
Loans to customers	-	-	-	1,298,849	1,298,849
Listed shares and equity instruments	6,156	-	-	-	6,156
Listed shares and equity instruments used for economic hedging	11,703	-	-	-	11,703
Unlisted shares and equity instruments	2,747	-	-	-	2,747
Other financial assets	-	-	-	14,317	14,317
Total financial assets	67,391	1,266	103,978	1,475,369	1,648,004

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	14,374	14,374
Deposits from customers	-	-	-	936,779	936,779
Derivative instruments and short positions	6,677	-	-	-	6,677
Debt issued and other borrowed funds	-	86,808	43,093	277,365	407,266
Subordinated loans	-	-	-	32,502	32,502
Other financial liabilities	-	-	-	35,061	35,061
Total financial liabilities	6,677	86,808	43,093	1,296,081	1,432,659

At 31 December 2024	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	65,716	65,716
Loans to credit institutions	-	-	-	50,486	50,486
Listed bonds and debt instruments**	24,293	-	111,908	-	136,201
Listed bonds and debt instruments used for economic hedging	4,397	-	-	-	4,397
Unlisted bonds and debt instruments	2,020	-	-	-	2,020
Derivatives	3,223	2,101	-	-	5,324
Loans to customers	-	-	-	1,295,388	1,295,388
Listed shares and equity instruments	6,079	-	-	-	6,079
Listed shares and equity instruments used for economic hedging	15,834	-	-	-	15,834
Unlisted shares and equity instruments	2,417	-	-	-	2,417
Other financial assets	-	-	-	6,306	6,306
Total financial assets	58,263	2,101	111,908	1,417,896	1,590,168

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	12,535	12,535
Deposits from customers	-	-	-	926,846	926,846
Derivative instruments and short positions	7,306	-	-	-	7,306
Debt issued and other borrowed funds	-	88,831	21,419	257,336	367,586
Subordinated loans	-	-	-	31,695	31,695
Other financial liabilities	-	-	-	13,530	13,530
Total financial liabilities	7,306	88,831	21,419	1,241,942	1,359,498

*For further information on hedge accounting see Notes 21 and 28.

**Listed bonds and debt instruments in the Bank's liquidity portfolio purchased from 1 January 2024 are classified as financial assets at fair value through other comprehensive income (FVOCI). Listed bonds and debt instruments in the Bank's liquidity portfolio purchased before 1 January 2024 are classified as financial assets at fair value through profit or loss (FVTPL).

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16. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following tables show financial instruments carried at fair value at 31 March 2025 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Financial instruments classfied as Level 2 contain only derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. Bond forwards and equity forwards are valued using standard models with key inputs observed from stock prices and funding rates.

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

At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole. No transfers between levels took place during the period.

At 31 March 2025	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	140,917	-	2,020	142,937
Derivatives	-	9,092	-	9,092
Shares and equity instruments	17,859	-	2,747	20,606
Total financial assets	158,776	9,092	4,767	172,635
Short positions	227	-	-	227
Derivative instruments	-	6,450	-	6,450
Debt issued and other borrowed funds designated as at FVTPL	43,093	-	-	43,093
Total financial liabilities	43,320	6,450	-	49,770

At 31 December 2024	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	140,598	-	2,020	142,618
Derivatives	-	5,324	-	5,324
Shares and equity instruments	21,913	-	2,417	24,330
Total financial assets	162,511	5,324	4,437	172,272
Short positions	130	-	-	130
Derivative instruments	-	7,176	-	7,176
Debt issued and other borrowed funds designated as at FVTPL	21,419	-	-	21,419
Total financial liabilities	21,549	7,176	-	28,725

Amounts are in ISK million

16. Fair value information for financial instruments (continued)

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2025	2,020	2,417	4,437
Net gain on financial instruments recognised in the income statement	-	330	330
Fair value at 31 March 2025	2,020	2,747	4,767

Bonds and debt instruments consist solely of the Bank's claim on the property company Þórkatla. Since there is significant uncertainty regarding the recoverability of interest, earned interest is not recognised on the claim on Þórkatla. The nominal value, including accrued interest, of the claim was ISK 3,483 million at 31 March 2025 (year-end 2024: ISK 3,422 million).

	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2024	-	1,902	1,902
Purchases and share capital increase	-	320	320
Transfers from loans to customers	2,189	-	2,189
Net gain (loss) on financial instruments recognised in profit or loss	(169)	195	26
Fair value at 31 December 2024	2,020	2,417	4,437

Sensitivity analysis for Level 3 financial instruments

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

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

Significant unobservable inputs used in the valuation of Level 3 bonds and debt instruments is the weighting of various scenarios regarding the development of Grindavík in the coming years, the estimated value of Þórkatla's residential housing, estimated rental income of Þórkatla's residential housing and discount rates. All Level 3 bonds and debt instruments are included in the sensitivity analysis.

Significant unobservable inputs used in the valuation of Level 3 shares and equity intstruments include discount rates and the expected price of certain industrial materials. The sensitvity analysis for Level 3 shares and equity instruments includes only financial instruments that are highly sensitive to changes in fair value measurement inputs. The fair value of Level 3 shares and equity instruments that are included in the sensitvity analysis amounted to ISK 888 million at 31 March 2025 (year-end 2024: ISK 274 million).

At 31 March 2025	Very favourable	Favourable	Unfavour-able	Very unfavour-able
Level 3 bonds and debt instruments	1,118	906	(1,288)	(1,507)
Level 3 shares and equity instruments	1,073	205	(416)	(734)

At 31 December 2024	Very favourable	Favourable	Unfavour-able	Very unfavour-able
Level 3 bonds and debt instruments	1,260	592	(588)	(1,464)
Level 3 shares and equity instruments	1,698	1,056	(206)	(236)

Amounts are in ISK million

17. Financial instruments not carried at fair value

Assets

The fair value of "Loans to customers" may differ from their net carrying amount because they may carry interest rates that differ from current market rates. Fair value is estimated by discounting future cash flows using interest rates that reflect current lending conditions for similar customers and products. These rates are derived from internal models, and therefore "Loans to customers" are classified as Level 3.

"Cash and balances with the Central Bank", "Loans to credit institutions", and "Other financial assets" are short-term in nature. As such, their fair value is considered to equal their carrying amount and they are classified as Level 2.

Liabilities

"Deposits from the Central Bank and credit institutions" and "Deposits from customers" generally carry floating interest rates or are repayable on demand. Most deposits fall into these categories and their carrying amount is therefore considered a good approximation of fair value. These instruments are classified as Level 2. For longer-term fixed rate deposits, fair value is estimated by discounting future cash flows using current market interest rates for similar deposits. These are also classified as Level 2, as the valuation relies on observable market interest rates.

"Debt issued and other borrowed funds" and "Subordinated loans" are measured at fair value based on quoted market prices when available and are classified as Level 1. Where no market prices exist, fair value is estimated using current funding premiums on comparable instruments, these are classified as Level 2. "Other financial liabilities", including unsettled transactions and lease-related payables, are short-term in nature. Their carrying amount approximates fair value and they are classified as Level 2.

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

At 31 March 2025	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	69,944	-	69,944	69,944	-
Loans to credit institutions	-	92,259	-	92,259	92,259	-
Loans to customers	-	-	1,289,711	1,289,711	1,298,849	(9,138)
Other financial assets	-	14,317	-	14,317	14,317	-
Total financial assets	-	176,520	1,289,711	1,466,231	1,475,369	(9,138)
Deposits from Central Bank and credit institutions	-	14,374	-	14,374	14,374	-
Deposits from customers	-	936,755	-	936,755	936,779	(24)
Debt issued and other borrowed funds	260,227	11,242	-	271,469	277,365	(5,896)
Subordinated loans	31,924	-	-	31,924	32,502	(578)
Other financial liabilities	-	35,061	-	35,061	35,061	-
Total financial liabilities	292,151	997,432	-	1,289,583	1,296,081	(6,498)

At 31 December 2024	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	65,716	-	65,716	65,716	-
Loans to credit institutions	-	50,486	-	50,486	50,486	-
Loans to customers	-	-	1,284,043	1,284,043	1,295,388	(11,345)
Other financial assets	-	6,306	-	6,306	6,306	-
Total financial assets	-	122,508	1,284,043	1,406,551	1,417,896	(11,345)
Deposits from Central Bank and credit institutions	-	12,535	-	12,535	12,535	-
Deposits from customers	-	926,805	-	926,805	926,846	(41)
Debt issued and other borrowed funds	240,465	11,918	-	252,383	257,336	(4,953)
Subordinated loans	31,391	-	-	31,391	31,695	(304)
Other financial liabilities	-	13,530	-	13,530	13,530	-
Total financial liabilities	271,856	964,788	-	1,236,644	1,241,942	(5,298)

Amounts are in ISK million

18. Offsetting financial assets and financial liabilities

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

At 31 March 2025, and at year-end 2024, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	31.3.2025	31.12.2024
Financial assets	9,092	5,324
Amounts not set off but subject to master netting arrangements and similar agreements	(8,295)	(4,701)
- Financial liabilities	(3,453)	(1,763)
- Cash collateral received	(4,552)	(2,937)
- Financial instruments collateral received	(290)	(1)
Net amount after consideration of potential effect of netting arrangements	797	623

Derivative instruments and short positions	31.3.2025	31.12.2024
Financial liabilities	6,677	7,306
Amounts not set off but subject to master netting arrangements and similar agreements	(3,618)	(3,485)
- Financial assets	(3,453)	(1,763)
- Cash collateral pledged	(165)	(1,722)
Net amount after consideration of potential effect of netting arrangements	3,059	3,821

19. Cash and balances with Central Bank

	31.3.2025	31.12.2024
Cash on hand	2,940	3,621
Unrestricted balances with Central Bank	35,473	31,163
Cash and unrestricted balances with Central Bank	38,413	34,784
Balances pledged as collateral to Central Bank	906	814
Mandatory reserve deposits with Central Bank	30,625	30,118
Cash and balances with Central Bank	69,944	65,716

20. Loans to credit institutions

	31.3.2025	31.12.2024
Money market loans	79,238	33,828
Bank accounts	8,487	13,800
Other loans	4,534	2,858
Loans to credit institutions	92,259	50,486

Amounts are in ISK million

21. Derivative instruments and short positions

At 31 March 2025	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,493	191,329	1,778	66,802
Cross-currency interest rate swaps	884	9,865	138	5,000
Equity forwards	1,207	7,559	470	5,497
Foreign exchange forwards	351	3,806	1,954	29,289
Foreign exchange swaps	2,976	70,661	2,101	34,478
Bond forwards	181	9,893	9	4,687
Derivatives	9,092	293,113	6,450	145,753
Short positions in listed bonds	-	-	227	222
Total	9,092	293,113	6,677	145,975

At 31 December 2024	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	4,013	155,075	1,663	108,054
Cross-currency interest rate swaps	23	2,444	1,006	17,147
Equity forwards	594	3,327	1,525	11,530
Foreign exchange forwards	12	2,232	1,027	26,771
Foreign exchange swaps	494	47,351	1,948	40,530
Bond forwards	188	5,423	7	1,075
Derivatives	5,324	215,852	7,176	205,107
Short positions in listed bonds	-	-	130	138
Total	5,324	215,852	7,306	205,245

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 28) arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 31 March 2025 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 1,266 million (year-end 2024: ISK 2,101 million) and their total notional amount was ISK 85,620 million (year-end 2024: ISK 86,340 million).

Amounts are in ISK million

22. Loans to customers

At 31 March 2025	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	616,825	7,071	7,635	(783)	(122)	(758)	629,868
Commerce and services	163,043	20,907	2,580	(737)	(266)	(738)	184,789
Construction	99,499	1,285	727	(768)	(21)	(109)	100,613
Energy	14,999	171	-	(42)	(1)	-	15,127
Financial services	1,000	-	-	(26)	-	-	974
Industrial and transportation	84,046	2,262	6,034	(237)	(21)	(1,315)	90,769
Investment companies	40,269	2,039	324	(324)	(20)	(95)	42,193
Public sector and non-profit organisations	15,872	267	1	(31)	(2)	(1)	16,106
Real estate	138,532	3,115	5,692	(348)	(112)	(772)	146,107
Seafood	70,325	2,068	15	(84)	(15)	(6)	72,303
Loans to customers	1,244,410	39,185	23,008	(3,380)	(580)	(3,794)	1,298,849

At 31 December 2024	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	611,882	7,811	7,187	(740)	(224)	(654)	625,262
Commerce and services	162,208	21,527	2,669	(735)	(292)	(710)	184,667
Construction	94,630	1,248	608	(801)	(30)	(97)	95,558
Energy	11,852	7	-	(59)	-	-	11,800
Financial services	733	-	1	(19)	-	-	715
Industrial and transportation	77,087	1,438	5,219	(213)	(37)	(1,071)	82,423
Investment companies	38,526	4,584	369	(367)	(58)	(94)	42,960
Public sector and non-profit organisations	20,115	345	6	(15)	(1)	(2)	20,448
Real estate	148,981	1,978	5,422	(423)	(328)	(717)	154,913
Seafood	74,656	2,113	6	(124)	(5)	(4)	76,642
Loans to customers	1,240,670	41,051	21,487	(3,496)	(975)	(3,349)	1,295,388

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	76	-	-	76
Loans to customers	3,380	580	3,794	7,754
Other financial assets	5	4	-	9
Off-balance sheet loan commitments and financial guarantees	634	39	256	929
At 31 March 2025	4,112	623	4,050	8,785
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	47	-	-	47
Loans to customers	3,496	975	3,349	7,820
Other financial assets	42	4	-	46
Off-balance sheet loan commitments and financial guarantees	565	32	314	911
At 31 December 2024	4,167	1,011	3,663	8,841

Amounts are in ISK million

23. Expected credit losses (continued)

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

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2025	3,496	975	3,349	7,820
Transfer to Stage 1	267	(231)	(36)	-
Transfer to Stage 2	(130)	160	(30)	-
Transfer to Stage 3	(21)	(161)	182	-
Net remeasurement of loss allowance	(590)	(169)	274	(485)
New financial assets originated or purchased	681	47	185	913
Derecognitions and maturities	(323)	(41)	(122)	(486)
Write-offs*	-	-	(99)	(99)
Recoveries of amounts previously written off	-	-	8	8
Foreign exchange	-	-	(3)	(3)
Unwinding of interest	-	-	86	86
At 31 March 2025	3,380	580	3,794	7,754

*During the period financial assets amounting to ISK 128 million were written off but are still subject to enforcement activity.

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	4,788	2,727	4,213	11,728
Transfer to Stage 1	1,537	(1,347)	(190)	-
Transfer to Stage 2	(616)	966	(350)	-
Transfer to Stage 3	(161)	(658)	819	-
Net remeasurement of loss allowance	(4,021)	1,309	(19)	(2,731)
New financial assets originated or purchased	3,100	419	1,229	4,748
Derecognitions and maturities	(1,130)	(2,440)	(2,077)	(5,647)
Write-offs*	(1)	(1)	(592)	(594)
Recoveries of amounts previously written off	-	-	68	68
Foreign exchange	-	-	(124)	(124)
Unwinding of interest	-	-	372	372
At 31 December 2024	3,496	975	3,349	7,820

*During the year financial assets amounting to ISK 560 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2025	565	32	314	911
Transfer to Stage 1	29	(26)	(3)	-
Transfer to Stage 2	(4)	11	(7)	-
Transfer to Stage 3	(1)	(3)	4	-
Net remeasurement of loss allowance	(91)	22	(30)	(99)
New loan commitments and financial guarantees	211	5	5	221
Derecognitions and maturities	(75)	(2)	(27)	(104)
At 31 March 2025	634	39	256	929

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	916	106	162	1,184
Transfer to Stage 1	119	(94)	(25)	-
Transfer to Stage 2	(15)	24	(9)	-
Transfer to Stage 3	(15)	(14)	29	-
Net remeasurement of loss allowance	(842)	(6)	(52)	(900)
New loan commitments and financial guarantees	565	35	467	1,067
Derecognitions and maturities	(163)	(19)	(258)	(440)
At 31 December 2024	565	32	314	911

Amounts are in ISK million

24. Other assets

	31.3.2025	31.12.2024
Receivables	1,350	2,250
Unsettled securities transactions	13,037	4,116
Prepaid expenses	1,896	648
Deferred tax assets	127	164
Other assets	122	126
Other assets	16,532	7,304

25. Deposits from Central Bank and credit institutions

	31.3.2025	31.12.2024
Deposits from credit institutions	14,266	12,351
Repurchase agreements with Central Bank	108	184
Deposits from Central Bank and credit institutions	14,374	12,535

26. Deposits from customers

	31.3.2025	31.12.2024
Demand deposits and deposits with maturity up to 3 months	831,458	809,009
Term deposits with maturity of more than 3 months	105,321	117,837
Deposits from customers	936,779	926,846

	31.3.2025		31.12.2024	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	9,294	1%	12,825	1%
Municipalities	11,336	1%	10,388	1%
Companies	413,183	44%	408,994	44%
Individuals	502,966	54%	494,639	54%
Deposits from customers	936,779	100%	926,846	100%

27. Pledged assets

	31.3.2025	31.12.2024
Loans to customers pledged as collateral against Covered Bonds	402,075	410,481
Cash and balances pledged as collateral against Covered Bonds	16,061	15,213
Financial assets pledged as collateral with the Central Bank	5,923	8,484
Loans to credit institutions pledged as collateral against derivative instruments	536	1,947
Pledged assets against liabilities	424,595	436,125
Pledged assets against Covered Bonds held by the Bank	(154,942)	(160,665)
Pledged assets against liabilities on balance	269,653	275,460

The Group has pledged assets against the issuance of Covered Bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 March 2025 was ISK 128,460 million (year-end 2024: ISK 133,643 million).

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

Amounts are in ISK million

28. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	31.3.2025	31.12.2024
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed CPI, 3.37%	36,776	36,710
ISB CB 27 - ISK 15,793 million	2020	2027	Amortising	Fixed, 2.50%	15,232	18,911
ISB CBF 27 - ISK 8,720 million	2022	2027	Bullet	REIBOR 1M + 0.40%	8,984	9,024
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed, 3.00%	43,490	43,563
ISB CBI 28 - ISK 13,144 million	2019	2028	Amortising	Fixed CPI, 2.20%	21,398	24,122
ISB CBI 29 - ISK 34,780 million	2023	2029	Bullet	Fixed CPI, 2.72%	38,467	37,758
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed CPI, 3.00%	34,109	33,541
ISB CBI 32 - ISK 6,240 million	2024	2032	Bullet	Fixed CPI, 3.44%	6,377	4,110
Covered bonds					204,833	207,739
ISK 1,240 million	2020	2025	Bullet	Fixed, 3.50%	1,250	1,238
SEK 0 million	2021	2025	Bullet	STIBOR 3M + 1.075%	-	151
NOK 0 million	2021	2025	Bullet	NIBOR 3M + 1.075%	-	481
EUR 0 million**	2022	2025	Bullet	Fixed, 0.75%	-	21,419
NOK 1,400 million	2022	2025	Bullet	NIBOR 3M + 4.75%	17,677	17,277
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 3.65%	6,658	6,344
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 2.70%	6,618	6,330
ISK 4,267 million	2022	2027	Amortising	REIBOR 1M + 1.25%	4,286	4,689
ISK 6,940 million	2022	2027	Bullet	Fixed, 7.70%	7,084	6,950
SEK 500 million	2024	2027	Bullet	STIBOR 3M + 2.35%	6,623	6,336
NOK 500 million	2024	2027	Bullet	NIBOR 3M + 2.35%	6,318	6,177
NOK 200 million	2024	2027	Bullet	NIBOR 3M + 1.20%	2,535	2,477
SEK 300 million	2024	2027	Bullet	STIBOR 3M + 1.20%	3,979	3,807
NOK 100 million	2025	2027	Bullet	NIBOR 3M + 1.20%	2,527	-
SEK 200 million	2025	2027	Bullet	STIBOR 3M + 1.20%	2,647	-
ISK 19,460 million	2023	2028	Bullet	Fixed CPI, 4.48%	20,913	15,039
EUR 300 million*	2024	2028	Bullet	Fixed, 4.625%	43,317	45,268
NOK 50 million	2025	2028	Bullet	NIBOR 3M + 1.20%	1,264	-
SEK 500 million	2025	2028	Bullet	STIBOR 3M + 1.20%	6,619	-
EUR 300 million**	2025	2030	Bullet	Fixed, 3.875%	43,093	-
ISK 7,600 million	2024	2036	Bullet	Fixed CPI, 3.5%	7,595	3,904
Unsecured bonds					191,003	147,887
Other unsecured loans					11,430	11,960
Other borrowed funds					11,430	11,960
Debt issued and other borrowed funds					407,266	367,586

The Group repurchased own bonds during the period amounting to ISK 1,426 million (first quarter of 2024: ISK 19,343 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of these fixed-rate EUR denominated bonds arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 31 March 2025 the total carrying amount of these bond issuances amounted to ISK 86,807 million and included in the amount are negative fair value changes amounting to ISK 761 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 31 March 2025 the total carrying amount of the bonds amounted to ISK 43,093 million and included in the amount are negative fair value changes amounting to ISK 344 million.

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

Amounts are in ISK million

29. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	Callable	Interest	31.3.2025	31.12.2024
ISK 1,500 million	2022	2033	2028	Fixed, 8.62%	1,526	1,526
ISK 9,020 million	2022	2033	2028	Fixed CPI, 4.86%	10,515	10,410
ISK 9,600 million	2023	2034	2029	Fixed CPI, 5.80%	10,643	10,388
Tier 2 subordinated loans					22,684	22,324
SEK 750 million	2021	Perpetual	2026	STIBOR 3M + 4.75%	9,818	9,371
Additional Tier 1 subordinated loans					9,818	9,371
Subordinated loans					32,502	31,695

30. Other liabilities

	31.3.2025	31.12.2024
Unpaid dividends	12,103	-
Accruals	3,163	2,741
Lease liabilities	3,396	3,391
Expected credit losses for off-balance sheet loan commitments and financial guarantees	929	910
Withholding tax	2,189	6,302
Unsettled securities transactions	13,367	5,298
Sundry liabilities	3,878	2,926
Other liabilities	39,025	21,568

31. Custody assets

	31.3.2025	31.12.2024
Custody assets - not managed by the Group	3,689,703	3,873,964

Amounts are in ISK million

32. Íslandsbanki's shareholders

The following information takes into consideration treasury shares in the ownership calculation.

		31.3.2025	31.12.2024
The Government of Iceland	Iceland	45.4%	44.9%
LSR Pension Fund	Iceland	7.9%	8.0%
Gildi Pension Fund	Iceland	7.1%	7.2%
Live Pension Fund	Iceland	5.9%	5.8%
Capital Group	USA	5.4%	5.3%
Brú Pension Fund	Iceland	4.0%	3.9%
Vanguard	USA	2.4%	2.4%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.6%	1.5%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Almenni Pension Fund	Iceland	1.1%	1.1%
Stapi Pension Fund	Iceland	1.0%	1.1%
Festa Pension Fund	Iceland	1.0%	1.2%
Other shareholders		14.4%	14.8%
Total		100.0%	100.0%

At 31 March 2025 the number of shareholders of the Bank was 9,886 (year-end 2024: 9,961) where 90.0% of the Bank's shares were owned by domestic parties and 10.0% by international investors (year-end 2024: 90.1% domestic parties and 9.9% international investors). The Bank's employees, board members and related parties of the employees and board members, held 0.13% of shares in the Bank (year-end 2024: 0.13%). Treasury shares amounted to 6.9 million shares, representing 0.37% of the issued share capital (year-end 2024: 105.4 million shares, or 5.27% of the issued share capital). The decrease in Treasury Shares during the period resulted from shareholders approving the Board's proposal at the AGM on 31 March 2025 to reduce the Bank's share capital, see further in the "Consolidated Interim Statement of Changes in Equity".

Beneficial owners

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

Amounts are in ISK million

33. Related party

Íslandsbanki has a related party relationship with the Government of Iceland, which is the largest shareholder and has significant influence over the Group. The shares were administered by the Icelandic State Financial Investments (IFSI) until it was dissolved on 1 January 2025. The shares are now administered by the Ministry of Finance and Economic Affairs. As a result, the Government of Iceland is defined as a related party, and the IFSI was defined as a related party until its dissolution. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

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

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

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

At 31 March 2025	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	848	549	299	74
Associated companies	2,714	4,506	3,276	3,944	156
Balances with related parties	2,714	5,354	3,825	4,243	230

1 January to 31 March 2025	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	18	9	1	2
Associated companies	122	9	1	503
Transactions with related parties	140	18	2	505

At 31 December 2024	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	840	640	200	73
Associated companies	2,786	4,703	3,624	3,865	157
Balances with related parties	2,786	5,543	4,264	4,065	230

1 January to 31 March 2024	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	32	11	2	32
Associated companies	142	24	2	557
Transactions with related parties	174	35	4	589

At 31 March 2025 a total of ISK 1 million (year-end 2024: ISK 1 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the period.

Amounts are in ISK million

34. Contingencies

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

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn appealed the judgement to the Court of Appeal, which confirmed the District Court's judgement on 20 February 2025. Landsbankinn has requested a permit to appeal that judgement to the Supreme Court. The Bank has not recognised a provision in relation to this matter.

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could amount to around ISK 1.4 billion. One of these cases concluded with a final judgment by the Court of Appeal on 13 February 2025, where all claims against the Bank were dismissed. The plaintiff in the other case has paused further proceedings, awaiting the Supreme Court's ruling in a case brought against another bank.

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes on policy rates during the same period. On 12 November 2024, the District Court of Reykjanes rendered a judgement in the case where all claims made by the plaintiffs against the Bank were dismissed. The plaintiffs have appealed the judgement and were granted permission to appeal directly to the Supreme Court without first going to the Court of Appeal.

Notes to the Condensed Consolidated Interim Financial Statements

34. Contingencies (continued)

The Consumers' Association of Iceland (continued)

Should the judgement be overturned on appeal, it is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 19 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank.

It is disputed in the case whether the terms of the Bank's mortgages, and the method used by the Bank to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

The Bank believes that the claims of the plaintiffs are unfounded and has not recognised a provision in relation to this matter.

EC Clear ehf.

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

35. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the first quarter of 2025.

36. Risk management

Risk governance

The Group is exposed to various risk factors, and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2024 Report, which is available on the Bank's website: www.islandsbanki.is.

37. Credit risk

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

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

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

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

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

38. Maximum credit exposure and collateral

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

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

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 158 million are subject to 100% Government guarantee and ISK 316 million to 85% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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

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

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

38. Maximum credit exposure and collateral (continued)

At 31 March 2025 Collateral held against credit exposure	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	69,944	-	-	-	-	-	-	-	69,944	17
Loans to credit institutions	92,259	-	-	-	-	-	-	-	92,259	76
Bonds and debt instruments	103,978	-	-	-	-	-	-	-	103,978	-
Loans to customers:	1,298,849	683,127	307,915	55,628	20,003	73,724	63,325	1,203,722	95,127	7,754
Individuals	629,868	572,538	5,215	2	275	14,867	145	593,042	36,826	1,663
- Thereof mortgages	568,882	567,969	-	-	270	-	-	568,239	643	286
Commerce and services	184,789	12,569	77,427	871	4,935	46,026	27,582	169,410	15,379	1,741
Construction	100,613	52,907	36,858	54	157	3,360	2,151	95,487	5,126	898
Energy	15,127	72	10,298	-	-	149	26	10,545	4,582	43
Financial services	974	174	-	-	3	-	-	177	797	26
Industrial and transportation	90,769	1,115	56,256	8	106	8,651	14,514	80,650	10,119	1,573
Investment companies	42,193	2,057	13,436	-	13,962	228	8,250	37,933	4,260	439
Public sector and non-profit organisations	16,106	40	780	-	-	25	6	851	15,255	34
Real estate	146,107	41,243	102,150	-	355	271	121	144,140	1,967	1,232
Seafood	72,303	412	5,495	54,693	210	147	10,530	71,487	816	105
Other financial assets	14,317	-	-	-	-	-	-	-	14,317	9
Off-balance sheet items:	204,950	20,617	31,381	8,291	12,459	195	12,563	85,506	119,444	929
Financial guarantees	20,480	1,435	5,733	5	1,420	-	1,974	10,567	9,913	320
Loan commitments	184,470	19,182	25,648	8,286	11,039	195	10,589	74,939	109,531	609
Total	1,784,297	703,744	339,296	63,919	32,462	73,919	75,888	1,289,228	495,069	8,785

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

Amounts are in ISK million

38. Maximum credit exposure and collateral (continued)

At 31 December 2024 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	65,716	-	-	-	-	-	-	-	65,716	17
Loans to credit institutions	50,486	-	-	-	-	-	-	-	50,486	47
Bonds and debt instruments	111,908	-	-	-	-	-	-	-	111,908	-
Loans to customers:	1,295,388	673,318	317,510	55,546	23,775	74,330	67,944	1,212,423	82,965	7,820
Individuals	625,262	567,776	5,322	2	336	14,998	153	588,587	36,675	1,618
- Thereof mortgages	563,753	562,998	-	-	330	-	-	563,328	425	328
Commerce and services	184,667	12,168	74,153	793	4,615	46,322	31,424	169,475	15,192	1,737
Construction	95,558	48,395	39,081	59	115	3,331	2,065	93,046	2,512	928
Energy	11,800	39	9,955	-	-	156	7	10,157	1,643	59
Financial services	715	154	-	-	540	-	-	694	21	19
Industrial and transportation	82,423	1,131	54,465	5	107	8,858	14,062	78,628	3,795	1,321
Investment companies	42,960	2,087	12,066	-	17,620	183	10,266	42,222	738	519
Public sector and non-profit organisations	20,448	60	815	-	-	14	7	896	19,552	18
Real estate	154,913	41,108	110,569	-	241	314	947	153,179	1,734	1,468
Seafood	76,642	400	11,084	54,687	201	154	9,013	75,539	1,103	133
Other financial assets	6,306	-	-	-	-	-	-	-	6,306	46
Off-balance sheet items:	192,203	19,918	28,813	4,517	13,110	182	12,782	79,322	112,881	911
Financial guarantees	21,051	1,283	6,015	30	2,977	-	2,330	12,635	8,416	291
Loan commitments	171,152	18,635	22,798	4,487	10,133	182	10,452	66,687	104,465	620
Total	1,722,007	693,236	346,323	60,063	36,885	74,512	80,726	1,291,745	430,262	8,841

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

Amounts are in ISK million

39. Credit quality of financial assets

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

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

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

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

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

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2024 Report.

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

At 31 March 2025

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	492,913	1,563	-	494,476
Risk class 5-6	557,094	7,018	-	564,112
Risk class 7-8	180,262	25,224	-	205,486
Risk class 9	13,901	5,198	-	19,099
Risk class 10	-	-	23,008	23,008
Unrated	240	182	-	422
	1,244,410	39,185	23,008	1,306,603
Expected credit losses	(3,380)	(580)	(3,794)	(7,754)
Net carrying amount	1,241,030	38,605	19,214	1,298,849

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	97,765	148	-	97,913
Risk class 5-6	74,317	408	-	74,725
Risk class 7-8	29,909	807	-	30,716
Risk class 9	601	69	-	670
Risk class 10	-	-	1,252	1,252
Unrated	598	5	-	603
	203,190	1,437	1,252	205,879
Expected credit losses	(634)	(39)	(256)	(929)
Total	202,556	1,398	996	204,950

Amounts are in ISK million

39. Credit quality of financial assets (continued)

At 31 December 2024

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	507,626	702	-	508,328
Risk class 5-6	545,101	10,258	-	555,359
Risk class 7-8	172,922	24,624	-	197,546
Risk class 9	14,919	5,291	-	20,210
Risk class 10	-	-	21,487	21,487
Unrated	102	176	-	278
	1,240,670	41,051	21,487	1,303,208
Expected credit losses	(3,496)	(975)	(3,349)	(7,820)
Net carrying amount	1,237,174	40,076	18,138	1,295,388

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	89,049	24	-	89,073
Risk class 5-6	76,133	410	-	76,543
Risk class 7-8	23,690	799	-	24,489
Risk class 9	721	90	-	811
Risk class 10	-	-	1,752	1,752
Unrated	438	8	-	446
	190,031	1,331	1,752	193,114
Expected credit losses	(565)	(32)	(314)	(911)
Total	189,466	1,299	1,438	192,203

Amounts are in ISK million

40. Forbearance

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

The relationship between forbearance and stages is discussed in Note 64.3 in the Consolidated Financial Statements for the year 2024.

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

The following tables provide a summary of the Group's forborne assets.

At 31 March 2025

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	3,188	(12)	4,211	(30)	2,308	(163)	9,707	(205)
Companies	1,661	(25)	12,544	(194)	6,312	(1,148)	20,517	(1,367)
Total	4,849	(37)	16,755	(224)	8,620	(1,311)	30,224	(1,572)

At 31 December 2024

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	2,811	(13)	4,249	(44)	2,027	(131)	9,087	(188)
Companies	1,929	(33)	14,690	(220)	6,424	(1,157)	23,043	(1,410)
Total	4,740	(46)	18,939	(264)	8,451	(1,288)	32,130	(1,598)

Amounts are in ISK million

41. Large exposures disclosure

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

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had four large exposures at 31 March 2025 (year-end 2024: two). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 31 March 2025

Groups of connected clients:	Before	After
Group 1	79%	6%
Group 2	10%	10%
Group 3	10%	10%
Group 4	10%	10%
Group 5	10%	10%

At 31 December 2024

Groups of connected clients:	Before	After
Group 1	81%	6%
Group 2	11%	11%
Group 3	10%	10%

42. Liquidity risk

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

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

Amounts are in ISK million

43. Liquidity coverage and net stable funding ratio

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

According to rules no. 1520/2022, the minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. The requirement for LCR in EUR is 80% and in ISK the requirement is 50%. The Group is required to maintain a 100% minimum NSFR ratio.

Net stable funding ratio

	31.3.2025	31.12.2024
For all currencies	128%	125%

Liquidity coverage ratio

	31.3.2025	31.12.2024
For all currencies	202%	168%
ISK	110%	126%
EUR	736%	449%

The following tables show the composition of the Group's liquidity reserve.

At 31 March 2025

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	67,863	384	287	489	69,023
Foreign government bonds	-	26,131	-	-	26,131
Domestic bonds eligible as collateral with Central Bank	75,179	5,691	-	8,010	88,880
Level 2 liquid assets	34,388	3,709	272	329	38,698
High quality liquidity assets	177,430	35,915	559	8,828	222,732
Balance with financial institutions	1	40,832	43,917	2,689	87,439
Liquidity reserve	177,431	76,747	44,476	11,517	310,171

At 31 December 2024

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	60,746	548	317	502	62,113
Foreign government bonds	-	7,843	3,446	862	12,151
Domestic bonds eligible as collateral with Central Bank	97,314	4,934	-	7,744	109,992
Level 2 liquid assets	32,515	3,888	21	437	36,861
High quality liquidity assets	190,575	17,213	3,784	9,545	221,117
Balance with financial institutions	107	24,009	20,929	2,176	47,221
Liquidity reserve	190,682	41,222	24,713	11,721	268,338

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

44. Maturity analysis of financial assets and financial liabilities

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

Bonds and debt instruments are based on contractual maturity and therefore do not represent their estimated liquidation time.

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

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

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

At 31 March 2025

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	62,718	7,226	-	-	-	-	69,944	69,944
Loans to credit institutions	8,294	84,896	-	-	-	-	93,190	92,259
Bonds and debt instruments	-	26,006	44,333	78,963	3,077	-	152,379	142,937
Derivatives	-	5,516	(481)	2,718	204	-	7,957	9,092
- Net settled derivatives	-	1,440	-	-	-	-	1,440	1,440
- Inflow	-	63,452	14,731	28,456	1,302	-	107,941	95,000
- Outflow	-	(59,376)	(15,212)	(25,738)	(1,098)	-	(101,424)	(87,348)
Loans to customers	-	130,704	171,509	668,019	1,803,006	-	2,773,238	1,298,849
Shares and equity instruments	-	-	-	-	-	20,606	20,606	20,606
Other financial assets	13,963	325	29	-	-	-	14,317	14,317
Total financial assets	84,975	254,673	215,390	749,700	1,806,287	20,606	3,131,631	1,648,004
Deposits from CB and credit institutions	9,313	5,064	-	-	-	-	14,377	14,374
Deposits from customers	762,667	91,830	58,230	25,918	49,494	-	988,139	936,779
Derivative instruments and short positions .	-	2,738	2,223	1,292	675	-	6,928	6,677
- Net settled derivatives	-	481	-	-	-	-	481	481
- Inflow	-	(27,313)	(53,277)	(12,048)	-	-	(92,638)	(81,739)
- Outflow	-	29,569	55,490	13,294	-	-	98,353	87,708
- Short positions	-	1	10	46	675	-	732	227
Debt issued and other borrowed funds	-	4,021	43,613	394,072	114,897	-	556,603	407,266
Subordinated loans	-	159	1,642	16,465	33,697	-	51,963	32,502
Other financial liabilities	28,007	2,304	1,934	2,121	938	-	35,304	35,061
- Lease liabilities	-	162	450	2,089	938	-	3,639	3,396
- Other liabilities	28,007	2,142	1,484	32	-	-	31,665	31,665
Total financial liabilities	799,987	106,116	107,642	439,868	199,701	-	1,653,314	1,432,659
Net financial assets and financial liab.	(715,012)	148,557	107,748	309,832	1,606,586	20,606	1,478,317	215,345

Amounts are in ISK million

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

At 31 December 2024

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	43,174	22,572	-	-	-	-	65,746	65,716
Loans to credit institutions	13,542	38,732	-	-	-	-	52,274	50,486
Bonds and debt instruments	-	37,837	37,480	75,968	3,977	-	155,262	142,618
Derivatives	-	2,070	(41)	2,181	-	-	4,210	5,324
- Net settled derivatives	-	782	-	-	-	-	782	782
- Inflow	-	52,343	6,714	16,193	1	-	75,251	63,291
- Outflow	-	(51,055)	(6,755)	(14,012)	(1)	-	(71,823)	(58,749)
Loans to customers	-	130,860	185,438	693,506	1,912,186	-	2,921,990	1,295,388
Shares and equity instruments	-	-	-	-	-	24,330	24,330	24,330
Other financial assets	5,873	389	44	-	-	-	6,306	6,306
Total financial assets	62,589	232,460	222,921	771,655	1,916,163	24,330	3,230,118	1,590,168
Deposits from CB and credit institutions	10,071	2,466	-	-	-	-	12,537	12,535
Deposits from customers	772,152	59,537	71,320	27,466	49,022	-	979,497	926,846
Derivative instruments and short positions .	-	3,904	2,121	967	282	-	7,274	7,306
- Net settled derivatives	-	1,532	-	-	-	-	1,532	1,532
- Inflow	-	(46,533)	(43,730)	(20,746)	(1)	-	(111,010)	(96,146)
- Outflow	-	48,900	45,848	21,679	1	-	116,428	101,790
- Short positions	-	5	3	34	282	-	324	130
Debt issued and other borrowed funds	-	33,410	38,179	382,618	52,024	-	506,231	367,586
Subordinated loans	-	330	1,449	16,457	34,182	-	52,418	31,695
Other financial liabilities	7,331	1,691	1,710	2,108	938	-	13,778	13,530
- Lease liabilities	-	162	450	2,089	938	-	3,639	3,391
- Other liabilities	7,331	1,529	1,260	19	-	-	10,139	10,139
Total financial liabilities	789,554	101,338	114,779	429,616	136,448	-	1,571,735	1,359,498
Net financial assets and financial liab.	(726,965)	131,122	108,142	342,039	1,779,715	24,330	1,658,383	230,670

Off-balance sheet liabilities

Note 38 Maximum credit exposure and collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce financial guarantees and credit commitments before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Amounts are in ISK million

45. Market risk

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

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

46. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates.

Interest rate risk in the trading book

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

Sensitivity analysis for trading bonds and debt instruments	31.3.2025		31.12.2024	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	75	(75)	73	(73)
ISK, non-indexed	102	(102)	83	(83)
Total	177	(177)	156	(156)

Amounts are in ISK million

46. Interest rate risk (continued)

Interest rate risk in the banking book

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

The following tables show the interest sensitivity of the Group's banking book from a parallel upward 100 basis points change in all yield curves, with all other variables held constant, categorised by the repricing date. The interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued and applicable non-maturing deposits (NMDs) where behavioural assumptions are applied.

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2025

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	6	(239)	(274)	(1,276)	2,677	(304)	590
ISK, non-indexed	92	(227)	(250)	200	(80)	39	(226)
EUR	171	22	(59)	(172)	(5)	-	(43)
SEK	45	-	-	(161)	-	-	(116)
NOK	62	(8)	(4)	(42)	-	-	8
USD	20	(1)	-	-	-	-	19
Total	396	(453)	(587)	(1,451)	2,592	(265)	232

At 31 December 2024

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	28	(261)	(173)	(1,456)	2,701	(331)	508
ISK, non-indexed	70	(327)	(379)	445	(48)	39	(200)
EUR	199	(12)	(55)	(156)	-	-	(24)
SEK	45	(4)	-	(163)	-	-	(122)
NOK	165	(13)	(4)	(45)	-	-	103
USD	16	-	-	-	-	-	16
Total	523	(617)	(611)	(1,375)	2,653	(292)	281

Amounts are in ISK million

47. Currency risk

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

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

At 31 March 2025	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	384	287	93	-	-	39	117	113	-	127	1,160
Loans to credit institutions	40,860	43,916	1,451	187	45	457	128	109	285	24	87,462
Bonds and debt instruments	36,763	334	-	-	-	5,253	6,063	-	-	-	48,413
Loans to customers	107,835	13,771	1	526	473	3	306	1,113	8,958	-	132,986
Shares and equity instruments	38	1,066	101	-	-	391	308	-	-	-	1,904
Other assets	3	140	49	-	-	4	-	1	-	-	197
Total assets	185,883	59,514	1,695	713	518	6,147	6,922	1,336	9,243	151	272,122
Deposits from credit institutions	2,308	3,216	20	3	-	6	2	2	21	-	5,578
Deposits from customers	42,322	48,630	5,319	517	318	888	2,409	1,611	216	73	102,303
Debt issued and other borrowed funds	129,264	11,489	-	-	-	33,143	30,324	-	-	-	204,220
Subordinated loans	-	-	-	-	-	9,819	-	-	-	-	9,819
Other liabilities	-	128	44	-	-	4	-	105	(4)	46	323
Total liabilities	173,894	63,463	5,383	520	318	43,860	32,735	1,718	233	119	322,243
Net on-balance sheet position	11,989	(3,949)	(3,688)	193	200	(37,713)	(25,813)	(382)	9,010	32	(50,121)
Net off-balance sheet position	(9,349)	4,853	3,846	(135)	(161)	37,572	26,062	398	(8,908)	(109)	54,069
Net position	2,640	904	158	58	39	(141)	249	16	102	(77)	3,948

Amounts are in ISK million

47. Currency risk (continued)

At 31 December 2024	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	633	367	121	-	-	37	114	114	-	161	1,547
Loans to credit institutions	24,060	20,956	1,400	85	183	22	34	57	256	134	47,187
Bonds and debt instruments	17,897	3,446	-	-	-	5,220	6,918	-	-	-	33,481
Loans to customers	102,983	15,816	231	548	1,546	6	455	621	9,090	-	131,296
Shares and equity instruments	44	1,616	102	-	-	362	-	-	-	-	2,124
Other assets	7	225	31	-	-	3	2	-	8	-	276
Total assets	145,624	42,426	1,885	633	1,729	5,650	7,523	792	9,354	295	215,911
Deposits from credit institutions	2,150	790	10	4	-	4	-	1	22	-	2,981
Deposits from customers	34,250	45,050	3,975	477	238	905	3,108	3,081	185	18	91,287
Debt issued and other borrowed funds	109,990	12,031	-	-	-	22,960	26,446	-	-	-	171,427
Subordinated loans	-	-	-	-	-	9,371	-	-	-	-	9,371
Other liabilities	1,008	190	31	-	-	40	2	201	16	25	1,513
Total liabilities	147,398	58,061	4,016	481	238	33,280	29,556	3,283	223	43	276,579
Net on-balance sheet position	(1,774)	(15,635)	(2,131)	152	1,491	(27,630)	(22,033)	(2,491)	9,131	252	(60,668)
Net off-balance sheet position	3,439	16,686	2,206	(130)	(1,479)	27,508	22,068	2,545	(9,067)	(246)	63,530
Net position	1,665	1,051	75	22	12	(122)	35	54	64	6	2,862

Amounts are in ISK million

48. Inflation risk

The Group considers inflation risk to be the most significant market risk factor. The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities by ISK 178,044 million at 31 March 2025 (year-end 2024: ISK 193,362 million). The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 1,780 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2025	31.12.2024
Bonds and debt instruments	2,993	3,905
Loans to customers	501,341	501,595
Total CPI-linked assets	504,334	505,500
Deposits from customers	122,479	119,588
Debt issued and other borrowed funds	165,635	155,184
Subordinated loans	21,158	20,798
Off-balance sheet exposures	16,940	16,521
Short positions	78	47
Total CPI-linked liabilities	326,290	312,138
CPI imbalance	178,044	193,362

49. Capital management

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

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2024 maintain an additional capital requirement of 1.8% of the risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.7%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

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

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

	31.3.2025	31.12.2024
Own funds		
Ordinary share capital	9,368	9,473
Share premium	42,472	55,000
Reserves	7,673	7,102
Retained earnings	158,381	155,780
Fair value changes due to own credit standing	40	135
Foreseeable dividend payment and approved buyback*	(18,627)	(15,760)
Tax assets	(127)	(164)
Intangible assets	(1,777)	(2,070)
Insufficient coverage for non-performing exposures	(29)	(17)
CET1 capital	197,374	209,479
Additional Tier 1 capital	9,819	9,371
Tier 1 capital	207,193	218,850
Tier 2 capital	22,684	22,324
Total capital base	229,877	241,174

*The Bank's AGM held on 31 March 2025 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. Furthermore, the Central Bank has granted the Bank permission buy back own shares and reduce its share capital. As of now, ISK 16 billion has been allocated to uncompleted share buybacks and is therefore deducted from the CET1 capital.

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49. Capital management (continued)

	31.3.2025	31.12.2024
Risk exposure amount		
Due to credit risk	941,470	922,533
Due to market risk	12,039	10,606
Due to credit valuation adjustment	1,275	714
Due to operational risk	107,119	107,119
Total risk exposure amount	1,061,903	1,040,972
Capital ratios		
CET1 ratio	18.6%	20.1%
Tier 1 ratio	19.5%	21.0%
Total capital ratio	21.6%	23.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,644,131	1,594,192
Off-balance sheet exposures	64,079	57,583
Derivative exposures	9,184	9,223
Leverage ratio total exposure measure	1,717,394	1,660,998
Tier 1 capital	207,193	218,850
Leverage ratio	12.1%	13.2%

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

The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is based on the Bank's resolution plan that is approved by the Icelandic Resolution Authority. The requirement can be met with the total capital base in addition to senior non-preferred and senior preferred debt with some conditions, such as having more than one year to maturity. This debt is referred to as eligible liabilities. No market confidence charge is applied in Iceland.

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 31 March 2025 the LAA and RCA were both equal to the total SREP capital requirement for 2024 of 9.8%, resulting in an MREL requirement of 19.6% of REA.

Minimum requirements for own funds and eligible liabilities

	31.3.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
MREL	208,133	19.6%	204,031	19.6%
Combined buffer requirement	104,645	9.9%	103,002	9.9%
MREL including combined buffer requirement	312,778	29.5%	307,033	29.5%

Own funds and eligible liabilities

	31.3.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
Own funds	229,877	21.6%	241,174	23.2%
Eligible liabilities	171,584	16.2%	106,878	10.3%
Own funds and eligible liabilities	401,461	37.8%	348,052	33.4%

Amounts are in ISK million