Condensed Consolidated Interim Financial Statements 31 March 2025

Arion Bank

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Arion Bank
Highlights 31 March 2025

12.8%
Return on Equity*

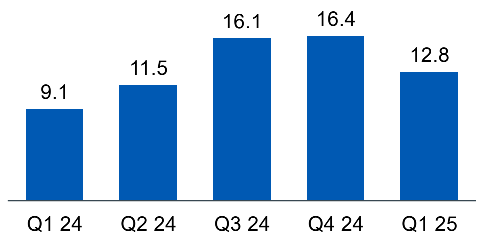
42.6%
Total cost-to-core income

18.3%
CET1 ratio

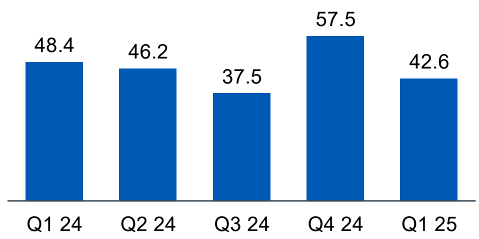
Moody's

Long term: **A3**
Covered bond: **Aa1**
Outlook: **Stable**

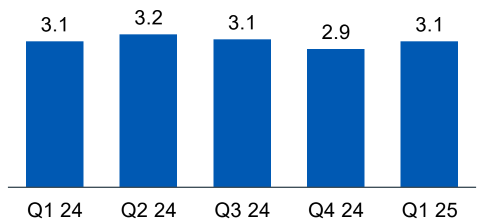
Return on equity* (%)



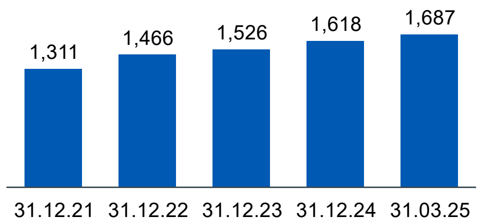
Total cost-to-Core income ratio (%)



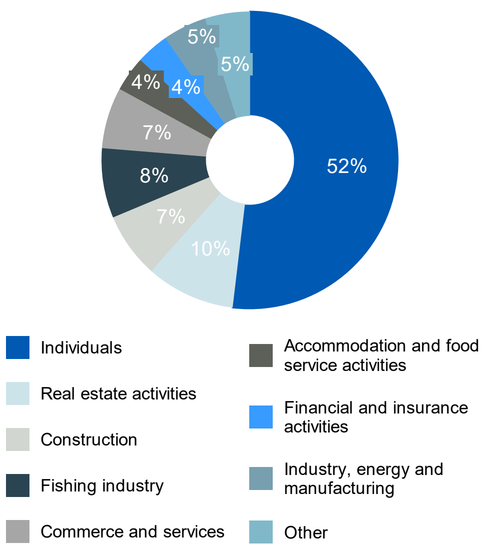
Net interest margin (%)



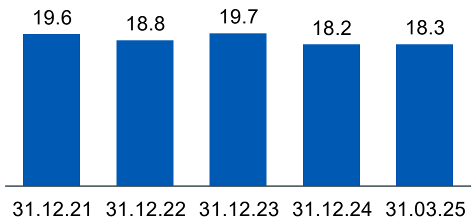
Total assets (ISK bn)



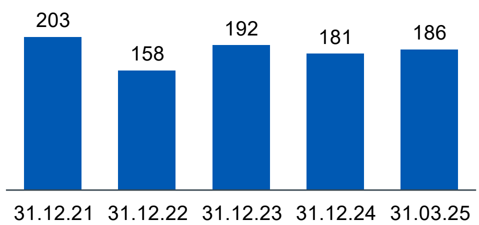
Loans to customers by sector



CET1 ratio (%)



LCR ratio (%)



EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST DIGITAL BANK

EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST BANK

THE BANKER BANK OF THE YEAR 2024 ICELAND

UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING

SUSTAINALYTICS ESG INDUSTRY TOP RATED 2023

*Return on equity attributable to shareholders of Arion Bank

Endorsement and statement
by the Board of Directors and the CEO

The Consolidated Financial Statements of Arion Bank for the period ended 31 March 2025 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 7.8bn, of which ISK 6.4bn were attributable to the shareholders of Arion Bank, compared with ISK 4.4bn in the first quarter of 2024. Return on equity was 15.5% in the quarter and 12.8% was attributable to the shareholders of Arion Bank, compared with 9.1% in the first quarter of 2024. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 15.4%, compared with the first quarter in the previous year. Net interest income increased by 8.2% and the net interest margin was 3.1%, the same as in the first quarter of 2024. Net commission income increased by 34.8% between years and the operation of Vördur improved from the first quarter in the previous year, contributing a standalone net loss of ISK 0.6bn in the first quarter of 2025. Net financial income was negative by ISK 1.0bn. Other operating income amounted to ISK 3.3bn, mainly due to fair value change of the investment property Arnarland. Operating expenses, including operating expenses of the insurance operation remain relatively stable between years. The Group had 867 full-time equivalent positions at the end of March, compared with 858 at the end of 2024. Inflation measured 4.2% between years. The cost-to-income ratio was 34.7%, compared with 45.3% in the first quarter 2024, while the total cost-to-core income ratio was 42.6%, compared with 48.4% in 2024. Impairments were calculated at 12bps for the period on annualized basis. The effective income tax rate was 32.2%.

Balance Sheet

Arion Bank's balance sheet grew by 4.2% from year-end 2024. Loans to customers increased by 0.3% and deposits by 3.2%, primarily individuals and SMEs. Shareholders' equity amounted to ISK 194,888m at the end of the period. Capital distribution amounted to ISK 19.1bn in the first quarter of 2025, through dividend and buy-back of own shares.

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

	Q1 2025	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	12.8%	Exceed 13%
Core operating income / REA	7.0%	Exceed 7.2%
Insurance revenue growth (YoY)	5.4%	In excess of market growth (5.8% in Q4 2024 YoY)
Combined ratio	99.7%	Below 95%
Total cost-to-core income ratio	42.6%	Below 45%
CET1 ratio above regulatory capital requirements	297 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

The Icelandic economy showed resilience and a positive trajectory in 2024. According to preliminary figures from the National Accounts, GDP increased by 0.5% in 2024, surpassing most analysts' expectations. Economic growth gained momentum throughout the year, peaking in the fourth quarter when growth reached 2.1%, driven in large part by investment. Although foreign trade made a negative contribution to GDP growth, primarily due to the surge in investment, exports rebounded in the fourth quarter, aided by a strong tourism sector. Despite a mixed performance in tourism at the beginning of the year, domestic activity is picking up, with rising consumer confidence, falling interest rates, and generally strong financial health. Given growing trade policy uncertainty, domestic demand is expected to drive future growth, with foreign trade contributing negatively. Arion Research forecasts 1.3% GDP growth in 2025.

The export outlook has worsened due to trade tensions. In 2024, 22% of Iceland's exports were directed to the United States, the majority of which were tourism-related services. Goods exports represent a smaller share, with only 12% of total goods exports going to the US. Consequently, the direct impact of a trade war is limited, particularly given Iceland's status as a commodity exporter. However, the indirect effects could be more substantial, with slower global growth potentially reducing demand for Icelandic exports.

The weaker export outlook, combined with a restrictive monetary policy, has subdued the labor market. Job growth has decelerated significantly, and unemployment has risen to 4.2% as of March. Reduced labor market pressure, alongside a strong króna, has alleviated inflationary pressures, with inflation falling to 3.8% by the end of the first quarter. This has paved the way for further rate cuts, with the Monetary Policy Committee lowering interest rates by 0.75 percentage points, from 8.5% to 7.75% in the first quarter. While additional cuts are expected, the Central Bank's inflation target of 2.5% means the battle is far from over.

Outlook for the Group

In recent years, Arion has followed a strategy designed to drive leadership in our markets, the success of our customers and society as a whole. This vision builds on long-term client relationships, diverse products and services and strong teamwork which forms the basis for a seamless customer experience and sustainable value creation. The Group's performance over the past few years indicates that we are on the right track.

The external operating environment continues to evolve and pose challenges. As before, Arion benefits from its diverse revenue streams and sound infrastructure, while also retaining the flexibility to respond to the shifting environment. The operating environment for the start of 2025 has continued to be impacted by inflation, elevated interest rates and international political uncertainty. Arion Bank remains in a strong position to manage the evolving operating environment, having strong and diverse revenue streams, a very strong capital position by international standards and robust liquidity and funding positions.

Endorsement and statement
by the Board of Directors and the CEO

Funding and liquidity

The Group’s liquidity position remains strong with an LCR at the end of the quarter of 186%.

The funding position is also robust and the Bank was active in the international bond market in the quarter. The Bank has broad funding options with majority of 2025 FX funding plan completed in Q1 2025. During the quarter the Bank issued EUR 300m senior preferred bond with a maturity of 5 years as well as SEK 250m and NOK 350m senior preferred notes, each with a three-year maturity. The Bank also continues to be a regular issuer in the domestic ISK market, issuing ISK 4.1bn in covered bonds and ISK 4.9bn in senior preferred format in the quarter.

Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. In the medium term, the Bank aims to maintain capital adequacy ratios 150-250bps above total regulatory requirements. Arion Bank is currently rated A3 with a stable outlook from Moody's.

In March 2025, the Bank paid a dividend of ISK 11.5 per share, ISK 16.1bn, as authorized by the Annual General Meeting. In addition to its authority to propose that the Bank pay dividends or other disbursements of equity, the Board was reauthorized to purchase up to 10% of the Bank's issued share capital. After the end of the reporting period, the Bank announced the launch of a repurchase program, under which the Bank will repurchase up to 19.9m shares and SDRs for the total amount of up to ISK 3bn.

The Group's capital adequacy ratio on 31 March 2025 was 21.5% and the CET1 ratio was 18.3%, when the unaudited interim net earnings for the first quarter of 2025 are included. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy. This compares to a regulatory capital requirement of 19.6%, including the combined buffer requirement. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 21.2% and the CET1 ratio was 17.9%. The Bank's REA increased by ISK 16.1bn in the first quarter of 2025 driven primarily by an increase in loan portfolio REA.

The Bank's MREL requirements are 19.6% of REA excluding own funds used to meet the combined buffer requirement and 6.0% of TEM. The Bank comfortably exceeded both at the end of Q1. An MREL subordination requirement of 13.5% will apply to the Bank from Q3 2026.

Arion Bank's ownership

Gildi lífeyrissjódur was the largest shareholder in Arion Bank with a shareholding of 9.10% at the end of the period and Arion Bank held 7.42% of its own shares. The number of shareholders was 10,477 at the end of the period, compared with 10,200 at year-end 2024. Further information on Arion Bank's shareholders can be found in Note 37.

Risk management

The Group faces various risks arising from its day-to-day operations as a financial institution. Managing risk is therefore a core activity within the Group. The key to effective risk management is a process of on-going identification of significant risk, quantification of risk exposure, actions to limit risk and constant monitoring of risk. This process of risk management and the ability to manage and price risk factors is critical to the Group's continuing profitability as well as ensuring that the Group's exposure to risk remains within acceptable levels. The Board of Directors is ultimately responsible for the Bank’s risk management framework and ensuring that satisfactory risk policies and governance structure for controlling the Bank’s risk exposure are in place. The Group’s risk management, its structure and main risk factors are described in the notes and in the Bank’s unaudited Pillar 3 Risk Disclosures.

Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 31 March 2025 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 31 March 2025 and its financial position as at 31 March 2025. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 31 March 2025 and confirm them by means of their signatures.

Reykjavík, 7 May 2025

Board of Directors

Paul Horner, Chairman
Kristín Pétursdóttir, Vice Chairman
Gunnar Sturluson
Marianne Gjertsen Ebbesen
Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason

Consolidated Interim Income Statement

	Notes	2025 1.1.-31.3.	2024 1.1.-31.3.
Interest income		32,682	33,638
Interest expense		(20,516)	(22,393)
Net interest income	6	**12,166**	**11,245**
Fee and commission income		5,456	4,336
Fee and commission expense		(920)	(971)
Net fee and commission income	7	**4,536**	**3,365**
Insurance revenue		4,911	4,667
Insurance service expenses		(4,942)	(4,882)
Insurance service results	8	**(31)**	**(215)**
Net financial income	9	(951)	29
Other operating income	10	3,321	50
Other net operating income		**2,370**	**79**
Operating income		**19,041**	**14,474**
Operating expenses	11-13	(6,601)	(6,554)
Bank levy	14	(508)	(460)
Net impairment	15	(378)	(315)
Earnings before income tax		**11,554**	**7,145**
Income tax expense	16	(3,726)	(2,704)
Net earnings from continuing operations		**7,828**	**4,441**
Discontinued operations held for sale, net of income tax	17	(11)	(9)
Net earnings		**7,817**	**4,432**

Attributable to

Shareholders of Arion Bank hf.		6,421	4,444
Non-controlling interest		1,396	(12)
Net earnings		**7,817**	**4,432**

Earnings per share

	Notes		
	18		
Basic earnings per share attribuatable to shareholders of Arion Bank (ISK)		4.59	3.07
Diluted earnings per share attributalbe to shareholders of Arion Bank (ISK)		4.55	2.93

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

Amounts are in ISK millions

Consolidated Interim Statement of Comprehensive Income

	Notes	2025 1.1.-31.3.	2024 1.1.-31.3.
Net earnings		**7,817**	**4,432**
Net change in FV of financial assets carried at FV through OCI, net of tax		118	102
Net realized (gain) loss on financial assets carried at FV through OCI, net of tax transferred to the income statement	9	(21)	79
Changes to reserve for financial instruments at FV through OCI that is or may be reclassified subsequently to the income statement		**97**	**181**
Total comprehensive income		**7,914**	**4,613**

Attributable to

	Notes	2025	2024
Shareholders of Arion Bank		6,518	4,625
Non-controlling interest		1,396	(12)
Total comprehensive income		**7,914**	**4,613**

Comprehensive income per share

	Notes	2025	2024
Comprehensive income per share	18		
Basic compreh. income per share attributable to shareholders of Arion Bank (ISK)		4.65	3.19
Diluted compreh. income per share attributable to shareholders of Arion Bank (ISK)		4.61	3.04

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

Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	31.3.2025	31.12.2024
Cash and balances with Central Bank	19	124,808	124,094
Loans to credit institutions	20	27,220	25,690
Loans to customers	21	1,234,006	1,230,058
Financial instruments	22-24	261,088	206,417
Investment property	24	12,857	9,387
Investments in associates	26	818	814
Intangible assets	27	8,018	7,688
Tax assets	28	3	2
Assets and disposal groups held for sale	29	97	111
Other assets	30	17,740	14,006
Total Assets		**1,686,655**	**1,618,267**

Liabilities			
Due to credit institutions and Central Bank	23	5,785	6,618
Deposits	23	884,606	857,443
Financial liabilities at fair value	23	6,475	8,394
Tax liabilities	28	12,413	11,060
Other liabilities	31	50,436	49,950
Borrowings	23,31	496,821	433,178
Subordinated liabilities	23,33	33,331	44,538
Total Liabilities		**1,489,867**	**1,411,181**

Equity			
Share capital and share premium	36	3,594	5,686
Other reserves		12,666	13,949
Retained earnings		178,628	186,947
Total Shareholders' Equity		**194,888**	**206,582**
Non-controlling interest		1,900	504
Total Equity		**196,788**	**207,086**
Total Liabilities and Equity		**1,686,655**	**1,618,267**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

			Restricted reserves										
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
Equity 1 January 2025	1,412	4,274	411	-	10,957	513	759	(328)	1,637	186,947	**206,582**	504	**207,086**
Net earnings										6,421	**6,421**	1,396	**7,817**
Net change in fair value								118			**118**		**118**
Net realized gain transferred to P/L								(21)			**(21)**		**(21)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**97**	**-**	**6,421**	**6,518**	**1,396**	**7,914**
Transactions with owners													
Dividend paid										(16,114)	**(16,114)**		**(16,114)**
Purchase of treasury shares	(17)	(2,982)									**(2,999)**		**(2,999)**
Share option charge			28								**28**		**28**
Share option vested	5	672	(119)								**558**		**558**
Share option forfeited			(84)							84	**-**		**-**
Share option charge - incentive scheme			85								**85**		**85**
Incentive scheme	1	229									**230**		**230**
Net changes in reserves					-	-	(31)		(1,259)	1,290	**-**		**-**
Equity 31 March 2025	**1,401**	**2,193**	**321**	**-**	**10,957**	**513**	**728**	**(231)**	**378**	**178,628**	**194,888**	**1,900**	**196,788**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

			Restricted reserves										
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
Equity 1 January 2024	1,446	9,188	409	825	7,772	1,462	880	(701)	1,637	175,881	**198,799**	503	**199,302**
Net earnings										4,444	**4,444**	(12)	**4,432**
Net change in fair value								102			**102**		**102**
Net realized loss transferred to P/L								79			**79**		**79**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**181**	**-**	**4,444**	**4,625**	**(12)**	**4,613**
Transactions with owners													
Dividend paid										(13,058)	**(13,058)**		**(13,058)**
Share capital increase	1	110									**111**		**111**
Share option charge			41								**41**		**41**
Share option vested	2	280	(40)								**242**		**242**
Share option forfeited			(105)							105	**-**		**-**
Incentive scheme	1	164									**165**		**165**
Warrants excercised		14		(14)							**-**		**-**
Net changes in reserves					(16)	64	(30)			(18)	**-**		**-**
Equity 31 March 2024	**1,450**	**9,756**	**305**	**811**	**7,756**	**1,526**	**850**	**(520)**	**1,637**	**167,353**	**190,925**	**491**	**191,415**
Net earnings										21,667	**21,667**	13	**21,680**
Net change in fair value								172			**172**		**172**
Net realized loss transferred to P/L								20			**20**		**20**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**192**	**-**	**21,667**	**21,859**	**13**	**21,872**
Transactions with owners													
Purchase of treasury shares	(90)	(12,362)									**(12,452)**		**(12,452)**
Share capital increase	52	6,077									**6,129**		**6,129**
Share option charge			121								**121**		**121**
Share option forfeited			(14)							14	**-**		**-**
Warrants excercised		802		(811)						9	**-**		**-**
Net changes in reserves					3,201	(1,013)	(91)			(2,097)	**-**		**-**
Equity 31 December 2024	**1,412**	**4,274**	**411**	**-**	**10,957**	**513**	**759**	**(328)**	**1,637**	**186,947**	**206,582**	**504**	**207,086**

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

	2025 1.1.-31.3.	2024 1.1.-31.3.
Operating activities		
Net earnings	7,817	4,432
Non-cash items included in net earnings	(13,856)	(2,409)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	(4,851)	44
Loans to customers	(579)	(19,302)
Financial instruments and financial liabilities at fair value	(49,455)	11,563
Deposits	22,663	(1,736)
Borrowings	57,399	317
Other changes in operating assets and liabilities	(8,082)	7,489
Interest received	25,313	25,261
Interest paid	(9,187)	(4,965)
Dividend received	116	78
Income tax paid	(2,374)	(2,141)
Net cash from operating activities	**24,924**	**18,631**
Investing activities		
Dividend from associates	8	-
Acquisition of investment property	(6)	-
Acquisition of intangible assets	(597)	(82)
Proceeds from sale of property and equipment	-	6
Acquisition of property and equipment	(139)	(71)
Net cash used in investing activities	**(734)**	**(147)**
Financing activities		
Dividend paid to shareholders of Arion Bank	(16,114)	(13,058)
Issued new share capital	-	111
Purchase of treasury stock	(2,999)	-
Settlement of subordinated liabilities	(8,769)	-
Proceeds from vested share options	558	243
Net cash used in financing activities	**(27,324)**	**(12,704)**
Net (decrease) increase in cash and cash equivalents	(3,134)	5,780
Cash and cash equivalents at beginnning of the year	117,310	114,993
Effect of exchange rate changes on cash and cash equivalent	104	(438)
Cash and cash equivalents	**114,280**	**120,335**
Cash and cash equivalents		
Cash and balances with Central Bank	124,808	102,405
Bank accounts	22,369	33,615
Mandatory reserve deposit with Central Bank	(32,897)	(15,685)
Cash and cash equivalents	**114,280**	**120,335**

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

Amounts are in ISK millions

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Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 31 March 2025 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 7 May 2025.

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

Statement of compliance

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

The same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the Consolidated Financial Statements for the year ended 31 December 2024.

Basis of measurement

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

- bonds and debt instruments, shares and equity instruments, short positions in listed bonds and equities, derivatives and certain loans to customers. For details on the accounting policy, see Note 59 in the Annual Financial Statements 2024;
- investment properties are measured at fair value; and
- non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair value, less cost to sell.

Functional and presentation currency

These Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 132.34 and 142.92 for EUR (31.12.2024: USD 138.99 and EUR 143.89).

2. Going concern assumption

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

3. Significant accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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

3. Significant accounting estimates and judgements in applying accounting policies, continued

Impairment of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses in the statement of financial position. On a monthly basis expected credit losses for stages 1 and 2 are recalculated for each asset, the calculations are based on probability of default (PD), loss given default (LGD) and exposure at default (EAD) models. Stage 3 calculations are based on LGD and EAD parameters. In addition to the model outcomes, the assessment of expected credit losses is based on three key factors: management's assumptions regarding the development of macroeconomic factors over the next five years, how those factors affect each model and how to estimate a significant increase in credit risk. The assumptions for macroeconomic development are incorporated into each model for three scenarios: a base case, an optimistic case, and a pessimistic case. Management estimates the probability weight for each scenario used for calculations of the probability weighted expected credit losses. The amount of expected credit losses to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. Management has estimated factors to measure significant increase in credit risk from origination, by comparison of changes in PD values, annualized lifetime PD values, days past due and watch list. For further information see Note 59 in the Annual Financial Statements 2024.

Macroeconomic outlook

Inflation has continued to decline, recently dropping below the Central Bank's upper target limit after more than a year of tight monetary policy. Importantly, this has occurred without triggering a recession, although economic growth remained modest at 0.6% last year according to preliminary data, subject to potential upward revisions. Growth is expected to pick up as monetary policy gradually normalizes next year. The labor market has softened slightly, with unemployment (currently at 4.2%) still moderate given economic conditions. Stronger private sector hiring intentions suggest underlying resilience.

Increased international trade barriers pose some risks to exports, but the overall economic impact should be limited. While trade tensions could put upward pressure on inflation, a weaker dollar and potential price cuts on Chinese goods may offset this. Although inflation has eased, it is expected to remain above target for some time, restricting the Central Bank’s room to significantly lower policy rates.

Impairment of intangible assets

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

Revaluation of investment properties

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

4. The Group

Shares in the main subsidiaries in which Arion Bank holds a direct interest

			Equity interest	
	Operating activity	Currency	31.03.2025	31.12.2024
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

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

Amounts are in ISK millions

Operating segment reporting

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

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

5. Operating segments

Markets & Stefnir

Markets & Stefnir comprise Asset Management and Capital Markets. Asset Management manages financial assets on behalf of its customers according to a pre-determined investment strategy. Asset Management also handles the operation and development of securities and pension funds. Asset management comprises Institutional Asset Management, Premia Services and operations and development and sales and services. Premía Services are divided into three service streams, Premia, Premia - Private banking and Premia - Treasury and provide customers with comprehensive and personal financial services. The operation of Stefnir hf. is presented under the segment. Stefnir hf. is an independently operating financial company owned by Arion Bank and manages a broad range of mutual funds, investment funds and institutional investor funds for investors. Markets also offers comprehensive selection off funds from some of the leading international fund management companies. Capital Markets is a securities brokerage and brokers listed securities transactions for the Bank’s international and domestic clients on all the world’s major securities exchanges.

Corporate & Investment Banking (CIB)

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

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

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

The corporate segment of the insurance subsidiary Vördur is part of Corporate & Investment Banking.

Retail Banking

Retail Banking provides a diverse range of financial services in 12 branches and service points across Iceland in addition to service centre and digital solutions both in the Arion app and online banking. These services include deposits and loans, savings, payment cards, pensions, insurance, securities and funds. In order to improve efficiency the branch network is split into four regions, and smaller branches can therefore benefit from the strength of larger units within each region.

The individuals segment of the insurance subsidiary Vördur is part of Retail Banking.

Treasury

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

Other subsidiaries

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

Supporting units

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

5. Operating segments, continued

1.1.-31.3.2025 *Income Statement*	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Net interest income	340	6,793	3,008	2,062	(2)	(35)	12,166
Net fee and commission income	1,415	1,907	941	182	70	21	4,536
Insurance service results	-	(232)	145	-	(7)	63	(31)
Net financial income	(9)	(248)	(374)	(316)	4	(8)	(951)
Other operating income	-	(1)	12	2	3,277	31	3,321
Operating income	1,746	8,219	3,732	1,930	3,342	72	19,041
Operating expenses	(635)	(440)	(637)	(141)	(133)	(4,615)	(6,601)
Allocated expenses	(802)	(1,361)	(1,993)	(351)	(32)	4,539	-
Bank levy	(11)	(194)	(209)	(94)	-	-	(508)
Net impairment	18	(597)	201	-	-	-	(378)
Earnings before income tax	316	5,627	1,094	1,344	3,177	(4)	11,554
Net seg. rev. from ext. customers	797	10,220	9,154	(4,614)	3,364	120	19,041
Net seg. rev. from other segments	949	(2,001)	(5,422)	6,544	(22)	(48)	-
Operating income	1,746	8,219	3,732	1,930	3,342	72	19,041
Balance Sheet							
Loans to customers	6,909	593,897	632,666	4	-	530	1,234,006
Financial instruments	22,713	11,905	24,171	205,149	119	(2,969)	261,088
Other external assets	2,549	1,715	5,151	157,016	14,719	10,411	191,561
Internal assets	80,340	-	-	214,038	4,218	(298,596)	-
Total assets	112,511	607,517	661,988	576,207	19,056	(290,624)	1,686,655
Deposits	101,708	395,412	368,131	21,848	-	(2,493)	884,606
Other external liabilities	1,905	11,086	21,930	552,623	8,665	9,052	605,261
Internal liabilities	-	84,237	212,946	-	-	(297,183)	-
Total liabilities	103,613	490,735	603,007	574,471	8,665	(290,624)	1,489,867
Allocated equity	8,898	116,782	58,981	1,736	10,391	-	196,788

Amounts are in ISK millions

5. Operating segments, continued

1.1.-31.3.2024 *Income Statement*	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Net interest income	312	6,124	4,245	610	(60)	14	11,245
Net fee and commission income	1,354	933	855	125	51	47	3,365
Insurance service results	-	(151)	(107)	-	-	43	(215)
Net financial income	43	126	103	(243)	-	-	29
Other operating income	-	2	7	-	18	23	50
Operating income	1,709	7,034	5,103	492	9	127	14,474
Operating expenses	(618)	(394)	(778)	(229)	(68)	(4,467)	(6,554)
Allocated expenses	(654)	(1,255)	(2,110)	(342)	(31)	4,392	-
Bank levy	(11)	(150)	(214)	(85)	-	-	(460)
Net impairment	(11)	286	(589)	-	-	(1)	(315)
Earnings before income tax	415	5,521	1,412	(164)	(90)	51	7,145
Net seg. rev. from ext. customers	727	9,440	10,367	(6,228)	75	93	14,474
Net seg. rev. from other segments	982	(2,406)	(5,264)	6,720	(66)	34	-
Operating income	1,709	7,034	5,103	492	9	127	14,474
Balance Sheet							
Loans to customers	8,136	551,358	620,373	-	-	(1,167)	1,178,700
Financial instruments	33,146	12,333	21,590	131,876	108	(3,139)	195,914
Other external assets	6,064	1,288	5,573	126,479	12,602	17,812	169,818
Internal assets	52,176	-	-	301,730	5,183	(359,089)	-
Total assets	99,522	564,979	647,536	560,085	17,893	(345,583)	1,544,432
Deposits	88,605	363,670	320,666	32,129	-	(3,002)	802,068
Other external liabilities	2,086	11,325	19,252	502,528	8,847	6,910	550,948
Internal liabilities	-	94,864	254,627	-	-	(349,491)	-
Total liabilities	90,691	469,859	594,545	534,657	8,847	(345,583)	1,353,016
Allocated equity	8,831	95,120	52,991	25,428	9,046	-	191,416

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Income Statement

6. Net interest income

1.1.-31.3.2025	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	1,865	-	-	1,865
Loans to credit institutions	274	-	-	274
Loans to customers	28,515	31	-	28,546
Securities	-	218	1,755	1,973
Other	24	-	-	24
Interest income	30,678	249	1,755	32,682
Interest expense				
Deposits	(12,810)	-	-	(12,810)
Borrowings	(5,916)	(788)	-	(6,704)
Subordinated liabilities	(791)	(177)	-	(968)
Other	(34)	-	-	(34)
Interest expense	(19,551)	(965)	-	(20,516)
Net interest income	11,127	(716)	1,755	12,166

1.1.-31.3.2024				
Interest income				
Cash and balances with Central Bank	1,997	-	-	1,997
Loans to credit institutions	310	-	-	310
Loans to customers	29,400	-	-	29,400
Securities	-	523	1,398	1,921
Other	10	-	-	10
Interest income	31,717	523	1,398	33,638
Interest expense				
Deposits	(13,705)	-	-	(13,705)
Borrowings	(5,996)	(1,609)	-	(7,605)
Subordinated liabilities	(896)	(146)	-	(1,042)
Other	(41)	-	-	(41)
Interest expense	(20,638)	(1,755)	-	(22,393)
Net interest income	11,079	(1,232)	1,398	11,245

Net interest income calculated using the effective interest rate method were ISK 31,693 million (3M 2024: ISK 31,872million).

Interest spread	2025 1.1.-31.3.	2024 1.1.-31.3.
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%

Amounts are in ISK millions

7. Net fee and commission income

	1.1.-31.3.2025			1.1.-31.3.2024		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,403	(138)	1,265	1,313	(163)	1,150
Capital markets and corporate finance	779	(11)	768	422	(12)	410
Lending and financial guarantees	1,315	-	1,315	798	-	798
Collection and payment services	358	(23)	335	377	(24)	353
Cards and payment solution	1,414	(631)	783	1,212	(664)	548
Other	187	(193)	(6)	214	(186)	28
Commission expense from insurance operation	-	76	76	-	78	78
Net fee and commission income	5,456	(920)	4,536	4,336	(971)	3,365

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

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

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

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

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

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

Commission expense from insurance operation is transferred to insurance service results in accordance with IFRS 17.

8. Insurance service results

	2025 1.1.-31.3.	2024 1.1.-31.3.
Insurance revenue	4,911	4,667
Incurred claims	(3,921)	(3,925)
Service expenses	(950)	(885)
Insurance service expenses	(4,871)	(4,810)
Net expense from reinsurance contracts held	(71)	(72)
Insurance service results	(31)	(215)

Operation results of Vördur

Vördur's operation resulted in a loss of ISK 641 million, with a negative return on equity of 19.1%, compared with a loss of ISK 166 million in the first quarter of 2024 and a negative return on equity of 6.6%.

	2025 1.1.-31.3.	2024 1.1.-31.3.
Insurance service results	(31)	(215)
Elimination and reclassification	45	34
Insurance service results according to the Financial Statements of Vördur	14	(181)
Investment return	(343)	330
Net financial loss from insurance contracts	(337)	(303)
Total investment return	(680)	27
Other income	2	3
Earnings before income tax	(664)	(151)
Income tax	23	(15)
Net earnings	(641)	(166)

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	99.7%	103.9%

Amounts are in ISK millions

9. Net financial income

	2025 1.1.-31.3.	2024 1.1.-31.3.
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(712)	276
Gain on prepayments of borrowings	1	15
Net loss on fair value hedge of interest rate swap	(24)	(3)
Net realized gain (loss) on financial assets carried at fair value through OCI	29	(107)
Net financial loss from insurance contracts	(337)	(303)
Net foreign exchange gain	92	151
Net financial income	(951)	29

Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement

Equity instruments	(1,185)	(382)
Debt instruments	386	761
Derivatives	95	(103)
Loans	(8)	-
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(712)	276

Net loss on fair value hedge of interest rate swap

Fair value change of interest rate swaps designated as hedging instruments	564	(330)
Fair value change on bonds issued by the Group attributable to interest rate risk	(588)	327
Net loss on fair value hedge of interest rate swap	(24)	(3)

10. Other operating income

	2025 1.1.-31.3.	2024 1.1.-31.3.
Fair value changes on investment property	3,464	4
Net gain on assets held for sale	3	-
Share of profit of associates	12	9
Other income	(158)	37
Other operating income	3,321	50

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

11. Operating expenses

	2025 1.1.-31.3.	2024 1.1.-31.3.
Salaries and related expenses	4,269	4,211
Other operating expenses	3,205	3,151
Operating expenses from insurance operation	(873)	(808)
Operating expenses	6,601	6,554

12. Personnel and salaries

Number of employees	2025 1.1.-31.3.	2024 1.1.-31.3.
Average number of full-time equivalent positions during the period	869	829
Full-time equivalent positions at the end of the period	867	813

Salaries and related expenses

Salaries	3,534	3,276
Incentive scheme	(100)	(24)
Share-based payment expenses	27	42
Defined contribution pension plans	517	478
Salary-related expenses	291	439
Salaries and related expenses	4,269	4,211

Incentive schemes

In 2025 the Group made a ISK 319 million reversal of provision for the incentive scheme, including salary-related expenses (Q1 2024: ISK 31 million reversal). At period end the Group's accrual for the incentive scheme payments amounted to ISK 842 million (31.12.2024: ISK 2,853 million).

The current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is divided into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares or share options in the Bank. Of this 25%, a total of 20% will be settled instantly with cash, 40% will be settled instantly with shares subject to a 3-year lock-up period and the remaining 40% will be settled with shares or share options after 4-5 years or a total of 20% will be settled instantly with cash and the remaining 80% will be settled with share options after 4-5 years. Deferred incentive scheme payments from the fiscal years 2022-2024 will be settled in 2026-2030. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics include ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Stefnir hf. has a special incentive scheme where other criteria are used as a basis.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 27 million was recognised in the Income Statement during the period (Q1 2024: ISK 42 million). Estimated remaining expenses due the share option contracts are ISK 98 million and will be expensed over the next two years. For further information on the share option program, see Note 36.

Amounts are in ISK millions

13. Other operating expenses

	2025 1.1.-31.3.	2024 1.1.-31.3.
IT expenses	1,332	1,292
Professional services	360	375
Marketing	299	268
Housing expenses	135	128
Other administration expenses	637	667
Depreciation and impairment of property and equipment	136	139
Depreciation of right of use asset	39	34
Amortization of intangible assets	267	248
Other operating expenses	3,205	3,151

14. Bank levy

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

15. Net impairment

	2025 1.1.-31.3.	2024 1.1.-31.3.
Net impairment on financial instruments and value changes on loans		
Net impairment on loans to customers and financial institutions	(376)	(327)
Net impairment on other financial instruments at FVOCI	(2)	-
Other value changes of loans - corporates	-	9
Other value changes of loans - individuals	-	3
Net impairment	(378)	(315)
Net impairment by customer type		
Individuals	211	(594)
Corporates	(589)	279
Net impairment	(378)	(315)

Amounts are in ISK millions

16. Income tax expense

	2025 1.1.-31.3.	2024 1.1.-31.3.
Current tax expense	2,276	1,846
Deferred tax expense	1,450	858
Current tax expense	3,726	2,704

Reconciliation of effective tax rate	2025 1.1.-31.3.		2024 1.1.-31.3.	
Earnings before income tax		11,554		7,145
Income tax using the Icelandic corporate tax rate	20.0%	2,311	21.0%	1,500
Additional 6% tax on Financial Undertakings	4.4%	507	5.3%	379
Non-deductible expenses	0.1%	10	0.1%	10
Tax exempt revenues / loss	6.9%	795	8.1%	582
Non-deductible taxes (Bank levy)	0.9%	102	1.3%	92
Tax incentives not recognized in the Income Statement	0.2%	22	(0.4%)	(29)
Other changes	(0.2%)	(21)	2.4%	170
Effective tax rate	32.2%	3,726	37.8%	2,704

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

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

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

	2025 1.1.-31.3.	2024 1.1.-31.3.
Net loss from discontinued operations held for sale	(11)	(11)
Income tax expense	-	2
Discontinued operations held for sale, net of income tax	(11)	(9)

Sólbjarg ehf. and Stakksberg ehf., subsidiaries of Eignabjarg, are classified as held for sale.

18. Earnings per share

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

	Continued operations		Discontinued operations		Net Earnings	
	2025 1.1.-31.3.	2024 1.1.-31.3.	2025 1.1.-31.3.	2024 1.1.-31.3.	2025 1.1.-31.3.	2024 1.1.-31.3.
Net earnings attributable to the shareholders of Arion Bank	6,432	4,453	(11)	(9)	6,421	4,444
Total comprehensive income attributable to the shareholders	6,529	4,634	(11)	(9)	6,518	4,625
Weighted average number of outstanding shares (millions)	1,400	1,448	1,400	1,448	1,400	1,448
Weighted average number of outstanding shares including options and warrants (2024) (millions)	1,412	1,519	1,412	1,519	1,412	1,519
Basic earnings per share (ISK)	4.59	3.08	(0.01)	(0.01)	4.59	3.07
Diluted earnings per share (ISK)	4.55	2.93	(0.01)	(0.01)	4.55	2.93
Basic comprehensive income per share (ISK)	4.66	3.20	(0.01)	(0.01)	4.65	3.19
Diluted comprehensive income per share (ISK)	4.62	3.05	(0.01)	(0.01)	4.61	3.04

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Statement of Financial Position

19. Cash and balances with Central Bank

	31.3.2025	31.12.2024
Cash on hand	1,922	2,481
Cash with Central Bank	89,989	89,139
Mandatory reserve deposit with Central Bank	32,897	32,474
Cash and balances with Central Bank	124,808	124,094

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations. The minimum interest-free fixed reserve requirement of the Central Bank is 3%.

20. Loans to credit institutions

	31.3.2025	31.12.2024
Bank accounts	22,369	25,690
Other loans	4,851	-
Loans to credit institutions	27,220	25,690

21. Loans to customers

	Individuals		Corporates		Total	
31.3.2025	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	14,755	14,158	49,506	48,245	64,261	62,403
Credit cards	17,192	16,985	2,385	2,317	19,577	19,302
Loans to customers at fair value	-	-	1,843	1,382	1,843	1,382
Mortgage loans	571,412	570,860	77,272	76,821	648,684	647,681
Construction loans	-	-	49,892	48,601	49,892	48,601
Capital lease	1,096	1,082	7,190	7,135	8,286	8,217
Other loans	37,414	36,528	413,443	409,892	450,857	446,420
Loans to customers	641,869	639,613	601,531	594,393	1,243,400	1,234,006
31.12.2024						
Overdrafts	14,575	13,925	42,233	41,222	56,808	55,147
Credit cards	16,873	16,647	2,297	2,230	19,170	18,877
Loans to customers at fair value	-	-	1,751	1,313	1,751	1,313
Mortgage loans	571,525	570,842	74,287	73,712	645,812	644,554
Construction loans	-	-	49,508	48,806	49,508	48,806
Capital lease	1,298	1,283	7,344	7,295	8,642	8,578
Other loans	37,627	36,707	420,092	416,076	457,719	452,783
Loans to customers	641,898	639,404	597,512	590,654	1,239,410	1,230,058

The total book value of pledged loans that were pledged against outstanding borrowings was ISK 304 billion at the end of the period (31.12.2024: ISK 304 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

22. Financial instruments

	31.3.2025	31.12.2024
Bonds and debt instruments	213,362	158,735
Shares and equity instruments with variable income	20,357	18,470
Derivatives	8,695	6,715
Securities used for economic hedging	18,674	22,497
Financial instruments	261,088	206,417

Amounts are in ISK millions

23. Financial assets and financial liabilities

31.3.2025

Financial assets	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	124,808	-	-	124,808
Loans to credit institutions	27,220	-	-	27,220
Loans to customers	1,232,624	-	1,382	1,234,006
Loans	1,384,652	-	1,382	1,386,034
Bonds and debt instruments				
Listed	-	180,241	32,575	212,816
Unlisted	-	-	546	546
Bonds and debt instruments	-	180,241	33,121	213,362
Shares and equity instruments with variable income				
Listed	-	-	11,633	11,633
Unlisted	-	-	7,892	7,892
Bond funds with variable income, unlisted	-	-	832	832
Shares and equity instruments with variable income	-	-	20,357	20,357
Derivatives				
OTC derivatives	-	-	4,526	4,526
Derivatives used for hedge accounting	-	-	4,169	4,169
Derivatives	-	-	8,695	8,695
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	3,224	3,224
Shares and equity instruments with variable income, listed	-	-	15,450	15,450
Securities used for economic hedging	-	-	18,674	18,674
Other financial assets				
Accounts receivable	2,470	-	-	2,470
Other financial assets	9,463	-	-	9,463
Other financial assets	11,933	-	-	11,933
Financial assets	1,396,585	180,241	82,229	1,659,055
Financial liabilities				
Due to credit institutions and Central Bank	5,785	-	-	5,785
Deposits	884,606	-	-	884,606
Borrowings *	496,821	-	-	496,821
Subordinated liabilities *	33,331	-	-	33,331
Short position in bonds	-	-	23	23
Derivatives	-	-	2,801	2,801
Derivatives used for hedge accounting	-	-	3,650	3,650
Other financial liabilities	17,379	-	-	17,379
Financial liabilities	1,437,922	-	6,474	1,444,396

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

23. Financial assets and financial liabilities, continued

31.12.2024

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	124,094	-	-	124,094
Loans to credit institutions	25,690	-	-	25,690
Loans to customers	1,228,745	-	1,313	1,230,058
Loans	1,378,529	-	1,313	1,379,842
Bonds and debt instruments				
Listed	-	126,898	31,217	158,115
Unlisted	-	-	620	620
Bonds and debt instruments	-	126,898	31,837	158,735
Shares and equity instruments with variable income				
Listed	-	-	11,499	11,499
Unlisted	-	-	6,291	6,291
Bond funds with variable income, unlisted	-	-	680	680
Shares and equity instruments with variable income	-	-	18,470	18,470
Derivatives				
OTC derivatives	-	-	3,685	3,685
Derivatives used for hedge accounting	-	-	3,030	3,030
Derivatives	-	-	6,715	6,715
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,664	2,664
Shares and equity instruments with variable income, listed	-	-	19,833	19,833
Securities used for economic hedging	-	-	22,497	22,497
Other financial assets				
Accounts receivable	2,552	-	-	2,552
Other financial assets	5,924	-	-	5,924
Other financial assets	8,476	-	-	8,476
Financial assets	1,387,005	126,898	80,832	1,594,735
Financial liabilities				
Due to credit institutions and Central Bank	6,618	-	-	6,618
Deposits	857,443	-	-	857,443
Borrowings *	433,178	-	-	433,178
Subordinated liabilities *	44,538	-	-	44,538
Derivatives	-	-	4,096	4,096
Derivatives used for hedge accounting	-	-	4,298	4,298
Other financial liabilities	10,631	-	-	10,631
Financial liabilities	1,352,408	-	8,394	1,360,802

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

23. Financial assets and financial liabilities, continued

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

31.03.2025	Fair value through OCI	Mandatorily at fair value thr. P/L	Total
Financial and insurance activities	997	9,112	10,109
Public sector	179,244	20,978	200,222
Corporates	-	3,031	3,031
Bonds and debt instruments at fair value	180,241	33,121	213,362
31.12.2024			
Financial and insurance activities	975	8,494	9,469
Public sector	125,923	20,257	146,180
Corporates	-	3,086	3,086
Bonds and debt instruments at fair value	126,898	31,837	158,735

The total amount of pledged bonds was ISK 3.2 billion at the end of the period (31.12.2024: ISK 3.1 billion). Pledged bonds comprise Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

24. Fair value hierarchy

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

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

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

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

31.3.2025

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,382	1,382
Bonds and debt instruments	209,978	3,379	5	213,362
Shares and equity instruments with variable income	11,284	5,032	4,041	20,357
Derivatives	-	4,526	-	4,526
Derivatives used for hedge accounting	-	4,169	-	4,169
Securities used for economic hedging	18,674	-	-	18,674
Investment property	-	-	12,857	12,857
Assets at fair value	239,936	17,106	18,285	275,327
Short position in bonds	23	-	-	23
Derivatives	-	2,801	-	2,801
Derivatives used for hedge accounting	-	3,650	-	3,650
Liabilities at fair value	23	6,451	-	6,474

Amounts are in ISK millions

24. Fair value hierarchy, continued

31.12.2024

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to credit institutions	-	-	1,313	1,313
Bonds and debt instruments	155,316	3,414	5	158,735
Shares and equity instruments with variable income	9,269	7,546	1,655	18,470
Derivatives	-	3,685	-	3,685
Derivatives used for hedge accounting	-	3,030	-	3,030
Securities used for economic hedging	21,585	912	-	22,497
Investment property	-	-	9,387	9,387
Assets at fair value	186,170	18,587	12,360	217,117

Liabilities at fair value				
Derivatives		4,096		4,096
Derivatives used for hedge accounting	-	4,298	-	4,298
Liabilities at fair value	-	8,394	-	8,394

There was no transfer between Level 1 and Level 2 during the period (2024: Transfers from Level 1 to Level 2 ISK 2,767 million).

Fair value of assets and liabilities

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

Methods for establishing fair value

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

In some cases, the carrying value of an asset in Note 23 is used as an approximation for the fair value of the asset. This is straight forward for cash and cash equivalents but is also used for short term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that feature interest close to or equal to market rates and expose the Group to little or no credit risk.

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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

Amounts are in ISK millions

24. Fair value hierarchy, continued

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

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

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

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

Movements in Level 3 assets measured at fair value

	Investment	Financial assets			
31.3.2025	property	Loans	Bonds	Shares	Total
Balance at the beginning of the year	9,387	1,358	5	1,655	12,405
Net fair value changes	3,464	24	-	(125)	3,363
Additions	6	-	-	2,515	2,521
Disposals	-	-	-	(4)	(4)
Balance at the end of the period	12,857	1,382	5	4,041	18,285
31.12.2024					
Balance at the beginning of the year	9,493	-	27	3,595	13,115
Net fair value changes	(339)	51	(20)	468	160
Additions	233	1,262	-	26	1,521
Disposals	-	-	(2)	(2,434)	(2,436)
Balance at the end of the period	9,387	1,313	5	1,655	12,360

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

	Investment	Financial assets			
1.1.-31.3.2025	property	Loans	Bonds	Shares	Total
Net interest income	-	31	-	-	31
Net financial income	-	(7)	-	(125)	(132)
Other operating income	3,464	-	-	-	3,464
Effects recognized in the Income Statement	3,464	24	-	(125)	3,363
1.1.-31.3.2024					
Net interest income	-	65	-	-	65
Net financial income	-	(14)	(20)	468	434
Other operating income	(339)	-	-	-	(339)
Effects recognized in the Income Statement	(339)	51	(20)	468	160

Amounts are in ISK millions

24. Fair value hierarchy, continued

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

31.3.2025 *Financial assets not carried at fair value*	Carrying value	Fair value	Unrealized (loss) gain
Cash and balances with Central Bank	124,808	124,808	-
Loans to credit institutions	27,220	27,220	-
Loans to customers	1,232,624	1,233,736	1,112
Other financial assets	11,933	11,933	-
Financial assets not carried at fair value	1,396,585	1,397,697	1,112
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	5,785	5,785	-
Deposits	884,606	884,606	-
Borrowings	496,821	492,818	4,003
Subordinated liabilities	33,331	37,942	(4,611)
Other financial liabilities	17,379	17,379	-
Financial liabilities not carried at fair value	1,437,922	1,438,530	(608)
31.12.2024			
Financial assets not carried at fair value			
Cash and balances with Central Bank	124,094	124,094	-
Loans to credit institutions	25,690	25,690	-
Loans to customers	1,228,745	1,222,223	(6,522)
Other financial assets	8,476	8,476	-
Financial assets not carried at fair value	1,387,005	1,380,483	(6,522)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	6,618	6,618	-
Deposits	857,443	857,443	-
Borrowings	433,178	429,199	3,979
Subordinated liabilities	44,538	48,226	(3,688)
Other financial liabilities	10,631	10,631	-
Financial liabilities not carried at fair value	1,352,408	1,352,117	291

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

Derivatives

	Notional	Fair value	
31.3.2025	value	Assets	Liabilities
Forward exchange rate agreements	66,976	223	1,369
Fair value hedge of interest rate swap	262,147	4,169	3,650
Interest rate and exchange rate agreements	55,652	185	573
Bond swap agreements	2,786	91	1
Share swap agreements	18,641	4,027	858
Options - purchased agreements	1	-	-
Derivatives	406,203	8,695	6,451
31.12.2024			
Forward exchange rate agreements	60,780	180	1,286
Fair value hedge of interest rate swap	235,504	3,030	4,297
Interest rate and exchange rate agreements	43,027	235	791
Bond swap agreements	3,243	87	2
Share swap agreements	20,789	2,596	2,018
Options - purchased agreements, unlisted	-	587	-
Derivatives	363,343	6,715	8,394

Amounts are in ISK millions

24. Fair value hierarchy, continued

Fair value hedge of interest rate swap

The Group applies fair value hedge accounting only with respect to interest rate swaps in EUR and USD, whereby the Group pays floating rate interest and receives fixed rate interest, with identical cash flows to the borrowings and subordinated liabilities. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR and USD bonds, see Notes 32 and 33, arising from changes in EURIBOR and SOFR benchmark interest rates.

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined.

During 2025 the slope for the regression line was in all cases within the range of 0.91-1.06 and the regression coefficient was at least 0.99. During 2024, the slope of the regression line was in all cases within the range of 0.93-1.05 and the regression coefficient was at least 0.94. In all cases the effectiveness is within limits in 2025 and 2024.

	Notional	Maturity	Fair value		Gain (loss) on FV
1.1.-31.3.2025	Value	date	Assets	Liabilities	changes
Interest rates swaps - EUR	42,875	3-6 mth	-	554	345
Interest rates swaps - EUR	71,458	1-5 years	-	2,507	330
Interest rates swaps - EUR	42,875	1-5 years	2,726	-	(42)
Interest rates swaps - USD	2,647	1-5 years	90	-	24
Interest rates swaps - EUR	42,875	1-5 years	1,353	-	(196)
Interest rates swaps - USD	16,542	1-5 years	-	385	212
Interest rates swaps - EUR	42,875	5>	-	204	(109)
			4,169	3,650	564
1.1.-31.12.2024					
Interest rates swaps - EUR	-	-	-	-	213
Interest rates swaps - EUR	-	-	-	-	157
Interest rates swaps - USD	13,899	6-12 mth	-	94	441
Interest rates swaps - EUR	43,168	6-12 mth	-	988	1,621
Interest rates swaps - EUR	71,947	1-5 years	-	2,953	1,955
Interest rates swaps - EUR	43,168	1-5 years	1,977	-	(25)
Interest rates swaps - USD	2,780	1-5 years	27	-	26
Interest rates swaps - EUR	43,168	1-5 years	1,026	-	1,090
Interest rates swaps - USD	17,374	1-5 years	-	263	(611)
			3,030	4,298	4,867

Hedged borrowings and subordinated liabilities

	Book	Accumulated fair value		Gain (loss) on FV
1.1.-31.3.2025	value	Assets	Liabilities	changes
EUR 500 million - issued 2021 - 5 years	68,757	2,053	-	(330)
EUR 300 million - issued 2021 - 4 years	42,706	302	-	(344)
EUR 300 million - issued 2022 - 2 years	42,700	98	-	94
EUR 300 million - issued 2023 - 3 years	45,816	-	354	42
USD 21 million - issued 2024 - 3 years	2,911	-	49	(24)
EUR 300 million - issued 2024 - 4 years	44,283	-	843	189
USD 125 million - issued 2024 - Perpetual	15,894	463	-	(215)
Hedged borrowings and subordinated liabilities	263,067	2,916	1,246	(588)
1.1.-31.3.2024				
EUR 300 million - issued 2020 - 4 years	-	-	-	(205)
USD 100 million - issued 2020 - Perpetual	3,150	-	-	(615)
EUR 500 million - issued 2021 - 5 years	68,775	2,395	-	(1,948)
EUR 300 million - issued 2021 - 4 years	42,597	646	-	(1,619)
EUR 300 million - issued 2022 - 2 years	-	-	-	(469)
EUR 300 million - issued 2023 - 3 years	45,384	-	397	24
USD 21 million - issued 2024 - 3 years	2,989	-	27	(27)
EUR 300 million - issued 2024 - 4 years	44,272	-	1,039	(1,087)
USD 125 million - issued 2024 - Perpetual	16,854	705	-	696
Hedged borrowings and subordinated liabilities	224,021	3,746	1,463	(5,250)

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 91-106%.

Amounts are in ISK millions

25. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
31.3.2025	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arr-angements	Total assets recognized on Balance Sheet, net
Reverse repurchase agreements	16,784	(10,419)	6,365	10,419	-	16,784	-	6,365
Derivatives	5,550	-	5,550	(3,899)	(3,655)	(2,004)	3,145	8,695
Total assets	22,334	(10,419)	11,915	6,520	(3,655)	14,780	3,145	15,060
31.12.2024								
Reverse repurchase agreements	16,469	(10,383)	6,086	10,383	-	16,469	-	6,086
Derivatives	4,523	-	4,523	(2,015)	(2,504)	4	2,192	6,715
Total assets	20,992	(10,383)	10,609	8,368	(2,504)	16,473	2,192	12,801

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
31.3.2025	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet, net
Repurchase agreements	16,084	(10,419)	5,665	10,419	-	16,084	-	5,665
Derivatives	6,053	-	6,053	(3,899)	(9,787)	(7,633)	398	6,451
Total liabilities	22,137	(10,419)	11,718	6,520	(9,787)	8,451	398	12,116
31.12.2024								
Repurchase agreements	15,926	(10,383)	5,543	(5,543)	-	-	-	5,543
Derivatives	7,131	-	7,131	(2,015)	(4,327)	789	1,263	8,394
Total liabilities	23,057	(10,383)	12,674	(7,558)	(4,327)	789	1,263	13,937

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

26. Investments in associates

	31.3.2025	31.12.2024
Carrying amount at the beginning of the year	814	789
Dividend received	(8)	-
Share of profit of associates	12	25
Investment in associates	818	814

The Group's interest in its principal associates

Bílafrágangur ehf., Lágmúli 5, Reykjavík, Iceland	33.4%	33.4%
Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Dalvegur 30, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík	35.3%	35.3%

Amounts are in ISK millions

27. Intangible assets

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

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

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

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

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

31.3.2025	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	427	4,148	7,688
Additions	-	-	-	597	597
Amortization	-	-	(15)	(252)	(267)
Balance at the end of the period	730	2,383	412	4,493	8,018

31.12.2024	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	487	4,451	8,051
Additions	-	-	-	622	622
Amortization	-	-	(60)	(925)	(985)
Balance at the end of the period	730	2,383	427	4,148	7,688

Goodwill related to the insurance operation is recognized among assets in the operating segments Corporate & Investment Banking and Retail Banking. Goodwill related to the subsidiary Leiguskjól is recognized in the operating segment Other subsidiaries, see Note 5.

Amounts are in ISK millions

28. Tax assets and tax liabilities

	31.3.2025		31.12.2024	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	9,789	-	9,887
Deferred tax	3	2,624	2	1,173
Tax assets and tax liabilities	3	12,413	2	11,060

29. Assets and disposal groups held for sale

	31.3.2025	31.12.2024
Real estate and other assets	97	111
Assets and disposal groups held for sale	97	111

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

30. Other assets

	31.3.2025	31.12.2024
Property and equipment	3,406	3,403
Right-of-use asset	847	808
Accounts receivable	2,470	2,552
Unsettled securities trading	4,298	2,342
Sundry assets	6,719	4,901
Other assets	17,740	14,006

31. Other liabilities

	31.3.2025	31.12.2024
Accounts payable	1,952	1,402
Unsettled securities trading	6,199	2,550
Insurance contract liabilities	22,561	21,478
Withholding tax	1,249	7,329
Bank levy	1,973	1,925
Accrued expenses	4,802	6,136
Prepaid income	1,470	1,475
Impairment of off-balance items	503	511
Lease liability	1,003	975
Sundry liabilities	8,724	6,169
Other liabilities	50,436	49,950

Insurance contract liabilities

	31.3.2025	31.12.2024
Liabilities for remaining coverage	4,438	3,851
Liabilities for incurred claims	17,266	16,819
Risk adjustment	857	808
Insurance contract liabilities	22,561	21,478

Amounts are in ISK millions

32. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2025	31.12.2024
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed CPI linked 3.00%	34,299	34,805
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed CPI linked 2.00%	22,088	21,775
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed EUR 0.05%	68,756	68,775
ARION CB 27, ISK 53,100 million	2022	2027	At maturity	Fixed 5.50%	26,124	25,652
ARION CBI 28, ISK 22,000 million	2024	2028	At maturity	Fixed CPI linked 4.25%	17,049	12,887
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed CPI linked 3.50%	40,662	39,939
ARION CBI 30, ISK 31,920 million	2023	2030	At maturity	Fixed CPI linked 2.75%	32,508	31,896
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed CPI linked 2.50%	12,511	12,663
Statutory covered bonds					253,997	248,392
EUR 300 million Green *	2021	2025	At maturity	Fixed 0.375%	42,706	42,597
NOK 550 million	2022	2025	At maturity	Floating NIBOR 3M +2.35%	6,965	6,783
SEK 230 million	2022	2025	At maturity	Floating STIBOR 3M +2.35%	3,040	2,906
NOK 200 million	2023	2025	At maturity	Floating NIBOR 3M +2.55%	-	2,451
ARION 26 1222 Green (ISK 5,760m)	2021	2026	At maturity	Fixed 4.70%	5,476	5,411
SEK 300 million	2023	2026	At maturity	Floating STIBOR 3M +3.00%	3,953	3,775
EUR 300 million*	2023	2026	At maturity	Fixed 7.25%	45,817	45,384
NOK 250 million	2017	2027	At maturity	Fixed 3.40%	3,240	3,129
USD 21 million*	2024	2027	At maturity	Fixed 6.25%	2,911	2,989
SEK 500 million Green	2024	2027	At maturity	Floating STIBOR 3M +1.20%	6,614	6,324
NOK 500 million Green	2024	2027	At maturity	Floating NIBOR 3M +1.20%	6,352	6,185
ARION 28 1512, ISK 16,920 million	2023	2028	At maturity	Fixed CPI linked 4.35%	17,975	12,580
EUR 300 million *	2024	2028	At maturity	Fixed 4.625%	44,283	44,272
SEK 250 million	2025	2028	At maturity	Floating STIBOR 3M +1.13%	3,305	-
USD 27 million	2025	2028	At maturity	Fixed 5.00%	3,045	-
NOK 350 million	2025	2028	At maturity	Floating NIBOR 3M +1.11%	4,442	-
EUR 300 million *	2025	2030	At maturity	Fixed 3.625%	42,700	-
Senior unsecured bonds					242,824	184,786
Borrowings					496,821	433,178

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 24. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate bonds in EUR arising from changes in interest rates.

The book value of listed bonds was ISK 497 billion at the end of the period (31.12.2024: ISK 433 billion). The market value of those bonds was ISK 493 billion (31.12.2024: ISK 429 billion). The Group repurchased own debts amounting to ISK 1 billion during the period with a net gain of ISK 1 million recognized in the Income Statement (Q1 2024: ISK 15 million gain).

33. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	31.3.2025	31.12.2024
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed CPI linked 3.875%	-	6,607
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed 6.75%	-	905
EUR 5 million	2019	2031	6 Mar '26	Fixed 3.24%	712	735
ARION T2I ISK 33 9,860 million	2022	2033	15 Dec '28	Fixed CPI linked 4.95%	11,450	11,195
ARION T2 33 ISK 2,240 million	2022	2033	15 Dec '28	Fixed 9.25%	2,300	2,249
SEK 225 million	2024	2034	20 Nov '29	Floating 3 mth STIBOR +2.65%	2,975	2,843
Tier 2 subordinated liabilities					17,437	24,534
ARION AT1 USD 100 million *	2020	Perpetual	26 Aug '25	Fixed 6.25%	-	3,150
ARION AT1 USD 125 million *	2024	Perpetual	24 Mar '30	Fixed 8.125%	15,894	16,854
Additional Tier 1 subordinated liabilities					15,894	20,004
Subordinated liabilities					33,331	44,538

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 24.

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

Amounts are in ISK millions

34. Liabilities arising from financial activities

1.1.-31.3.2025	At 1 Jan.	Net cash flows	Non-cash changes: Interest expenses	Non-cash changes: Foreign exchange	Non-cash changes: Effect from hedge	At period end
Covered bonds in ISK - CPI linked	153,965	2,372	2,780	-	-	159,117
Covered bonds in ISK	25,652	(3)	475	-	-	26,124
Covered bonds in FX	68,775	(743)	582	472	(330)	68,756
Senior unsecured bonds in FX	166,795	49,573	2,438	610	(43)	219,373
Senior unsecured bonds in ISK	5,411	(8)	73	-	-	5,476
Senior unsecured bonds in ISK - CPI linked	12,580	5,039	356	-	-	17,975
Subordinated bond T2 in ISK - CPI linked	17,802	(6,634)	282	-	-	11,450
Subordinated bond T2 ISK	3,153	(910)	57	-	-	2,300
Subordinated bond T2 FX	3,579	193	44	(129)	-	3,687
Subordinated bond AT1 FX	20,004	(5,320)	585	840	(215)	15,894
Liabilities arising from financial activities	477,716	43,559	7,672	1,793	(588)	530,152

1.1.-31.12.2024	At 1 Jan.	Net cash flows	Non-cash changes: Interest expenses	Non-cash changes: Foreign exchange	Non-cash changes: Effect from hedge	At period end
Covered bonds in ISK - CPI linked	132,391	10,580	10,994	-	-	153,965
Covered bonds in ISK	31,344	(7,455)	1,763	-	-	25,652
Covered bonds in FX	69,337	(4,660)	3,125	2,971	(1,998)	68,775
Senior unsecured bonds in FX	167,106	(15,407)	10,295	7,864	(3,063)	166,795
Senior unsecured bonds in ISK	11,510	(6,905)	806	-	-	5,411
Senior unsecured bonds in ISK - CPI linked	8,772	2,877	931	-	-	12,580
Subordinated bond T2 in ISK - CPI linked	16,997	(795)	1,600	-	-	17,802
Subordinated bond T2 ISK	3,157	(267)	264	-	-	3,154
Subordinated bond T2 FX	7,908	(5,099)	430	339	-	3,578
Subordinated bond AT1 FX	13,217	5,265	1,749	(421)	194	20,004
Liabilities arising from financial activities	461,739	(21,866)	31,957	10,753	(4,867)	477,716

35. Pledged assets

Pledged assets against liabilities	31.3.2025	31.12.2024
Assets, pledged as collateral against borrowings	398,015	398,505
Assets pledged as a collateral against loans from banks and other financial liabilities	5,965	7,452
Pledged assets against liabilities	403,980	405,957
Thereof pledged assets against issued covered bonds held by the Bank	(104,565)	(105,265)
Assets against repoed issued bonds	15,175	15,429
Pledged assets against liabilities on balance	314,590	316,121

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements undir Icelandic law. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 254 billion at period end (31.12.2024: ISK 248 billion).

The Group has pledged bonds against short term lending from the Central Bank of Iceland and against short positions, related to swap agreements, to hedge market risk of those assets to ensure the clearing of the Icelandic payment system. Moreover, it has pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

The Group has issued covered bonds amounting to ISK 79 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2024: ISK 78 billion). Pledged assets against those covered bonds are ISK 89 billion (31.12.2024: ISK 90 billion).

Amounts are in ISK millions

36. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,513 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	Total 2025	Share capital	Own shares	Share premium	Total 2024
Balance at the beginning of the year	1,513	(101)	4,273	5,686	1,460	(14)	9,188	10,634
Issued new share capital	-	-	-	-	53	-	6,187	6,240
Purchase of treasury shares	-	(17)	(2,982)	(2,999)	-	(90)	(12,362)	(12,452)
Share option vested	-	5	672	677	-	2	280	282
Incentive scheme	-	1	229	230	-	1	165	166
Warrants excercised	-	-	-	-	-	-	816	816
Balance at the end of the period	1,513	(111)	2,192	3,594	1,513	(101)	4,273	5,686
Own shares / issued share capital		7.42%				6.65%		

The AGM of Arion Bank, held on 12 March 2025, approved to reduce the Bank's share capital by ISK 93,423,078 nominal value, by cancelling the Bank's own shares. A request was sent to Nasdaq and the reduction was carried out after the reporting period, on April 7 2025. In 2024 the nominal value of Arion Bank's share capital was increased by ISK 53,198,719 in order to cover the exercising of issued warrants.

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In 2024 the FSA authorized the Bank to initiate share buy-back programs in Iceland and Sweden amounting up to a total of 113.6 million shares or up to ISK 15.5 billion. There are no ongoing programs at the end of March 2025.

Share options

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

The following share option contracts are in existence at period end.

	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 600,000) - employees of Arion Bank	2,488	2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	2,306	2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	1,463	2026	153.75
Issued in 2024 (ISK 1,500,000) - employees of Arion Bank	751	2026	155.75
Issued in 2025 (ISK 1,500,000) - employees of Arion Bank	1,040	2026	174.56
Issued in 2023 (ISK 1,500,000) - employees of subsidiaries	1,306	2025-2026	140.56
Issued in 2024 (ISK 1,500,000) - employees of subsidiaries	335	2025-2026	143.36
	9,690		

Movements in share options during the period.	31.3.2025		31.12.2024	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	17,116	135.1	24,435	136.3
Share options granted	1,040	174.6	1,953	153.6
Share options forfeited	(3,933)	149.6	(6,766)	148.2
Share options exercised, WAVG share price ISK 174.1 at exercise date (2024: 154.3)	(4,532)	123.1	(2,506)	96.7
Outstanding share options at the end of the period	9,690	139.0	17,116	135.1

No share options are exercisable at period end. Next exercise periods are in May 2025 and February 2026.

All outstanding share options, if exercised, represent approximately 0.6% of the total issued shares.

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Other information

37. Shareholders of Arion Bank

	31.3.2025	31.12.2024
Gildi lífeyrissjódur	9.10%	9.17%
Lífeyrissjódur verzlunarmanna	9.00%	9.06%
Lífeyrissjódur starfsmanna ríkisins	8.79%	8.79%
Arion banki hf.	7.42%	6.65%
Brú lífeyrissjódur	5.31%	5.31%
Stodir hf.	5.29%	5.29%
Vanguard	3.63%	3.59%
Frjálsi lífeyrissjódurinn	3.58%	3.60%
Birta lífeyrissjódur	3.15%	3.15%
Stapi lífeyrissjódur	2.78%	3.02%
Hvalur hf.	2.43%	2.43%
Festa lífeyrissjódur	2.41%	2.25%
Stefnir funds	2.24%	2.08%
Lífsverk lífeyrissjódur	1.82%	1.51%
Almenni lífeyrissjódur	1.70%	1.63%
Íslandsbanki hf.	1.17%	1.52%
Landsbréf hf.	1.08%	0.94%
Íslandssjódir	0.71%	1.01%
Other shareholders with less than 1% shareholding	28.38%	29.00%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 1.41% in Arion Bank (31.12.2024: 1.15%). The Board of Directors and key management personnel shareholding is as follows:

	31.3.2025		31.12.2024	
	Options	Number of shares	Warrants / options	Number of shares
Steinunn K. Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	32,000	-	32,000
Benedikt Gíslason, CEO	12,136	3,181,575	24,273	3,133,450
Key management personnel*	94,585	3,328,222	189,171	3,138,856

* Key management personnel are defined in Note 42.

38. Legal matters

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

Contingent liabilities

Legal proceedings regarding damages

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

Amounts are in ISK millions

38. Legal matters, continued

Consumer Association's class-action lawsuit

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

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

In May 2021, the Consumer Association published an article on its website calling for participants in a class action lawsuit. The intention is to commence court proceedings against the Icelandic banks to provide court precedent for loans with variable rates. Arion Bank has received requests for information from a legal firm representing approximately 1,200 individuals. One case was filed against the Bank and with a judgement of the District Court of Reykjavík on 7 February 2023, the Bank was acquitted. The plaintiffs have appealed the judgement to the Court of Appeal and a hearing was held in January of 2025, the Court of Appeal confirmed the district court's judgement. The judgment has been appealed to the Supreme Court.

Cases have also been filed against Landsbankinn and Íslandsbanki. In those cases, the District Court of Reykjavík approved to get an advisory opinion of the EFTA court regarding interpretation of certain provisions of EU directives concerning the legitimacy of the contractual terms on variable rate mortgages to individuals. In May of 2024, the EFTA court delivered an advisory opinion in forementioned cases. In short, the opinion was unfavourable to Landsbankinn and Íslandsbanki and stated that clauses such as those at issue, on changes of variable interest rate, must be regarded as unfair within the meaning of Article 3(1) of Directive 93/13/EEC. However, it would be only for the national courts to conduct a fairness assessment deciding the binding effects on the terms in dispute. In November 2024, the district court issued a verdict in the Íslandsbanki case and in March 2025, the district court issued a verdict in the Landsbankinn case, in which both Banks were acquitted of the consumer's claims.

Following the EFTA court opinion, the Bank requested an independent opinion on its legal position. The Bank still considers its legal position in the case to be strong. It is the Bank´s opinion that the clauses on variable interest rate in the Bank´s contracts as well as the clause in the court case of the Bank, varies from the clauses at dispute in the cases of Landsbankinn and Íslandsbanki.

The Bank has however made a preliminary assessment of potential impact of an adverse ruling in Icelandic courts on the Bank´s loan portfolio, considering different scenarios, that leads to the approximate amount of ISK 16-22 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 be applied throughout the duration of the respective loans.

Considering the above-mentioned District Court's judgements, an outside opinion commissioned by the Bank on its legal position and the unknown precedential effect of an eventual judgement by the Court of Appeal and the Supreme Court, the Bank has not made any provision.

Other legal proceedings

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

39. Events after the reporting period

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

Off balance sheet information

40. Commitments

	31.3.2025	31.12.2024
Financial guarantees, unused credit facilities and undrawn loan commitments		
Financial guarantees	25,383	21,804
Unused overdrafts	80,815	74,270
Undrawn loan commitments	101,156	67,658
Financial guarantees, unused credit facilities and undrawn loan commitments	207,354	163,732

41. Assets under management and under custody

	31.3.2025	31.12.2024
Assets under management	1,644,147	1,632,701
Assets under custody	1,287,653	1,699,260

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

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

Related party

42. Related party

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

Shareholders with significant influence are shareholders that have the power to participate in the finanical and operating decisions of Arion Bank but do not control those policies. At the end of the period no shareholder was defined as related party with an influence over the Group (31.12.2024: none).

The key management personnel includes the Board of Directors, the Executive Committee of Arion Bank and heads of other internal control functions, as well as their close family members and legal entities controlled by them. The Executive Committee consists of the CEO, Managing Directors of Retail banking, CIB, Markets, Finance, Risk, IT and Operations & culture. For compensation, pension and other transactions with the Board of Directors and the Executive Committee, see Notes 12 and 37.

For information on the Group's associated companies, see Note 26.

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

	Key management personnel		Associated companies	
	31.3.2025	31.12.2024	31.3.2025	31.12.2024
Loans	173	229	881	340
Other assets	3	3	-	-
Total assets	176	232	881	340
Deposits	(1,559)	(1,385)	(231)	(157)
Other liabilities	-	-	(20)	(28)
Total liabilities	(1,559)	(1,385)	(252)	(186)

Amounts are in ISK millions

Risk management disclosures

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

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

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

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

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

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

The Bank’s Risk Management division is headed by the Chief Risk Officer. It is independent and centralized and reports directly to the CEO. Risk Management is divided into four units. Balance Sheet Risk and Models is responsible for the quantification of risk on a portfolio level, including risk modelling and reporting; Operational and Sustainability Risk facilitates and monitors the management of risk and controls in the first line and supports the Bank's quantification and management of sustainability risk; and Credit Risk supports the Bank's credit transaction process, participates in credit decisions and monitors credit quality. The Security Team maintains and monitors the effectiveness of the Bank’s defences against risks associated with IT security, physical security and external cyber fraud.

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

Further information on risk management and capital adequacy is provided in the Annual Financial Statements for 2024, in the Pillar 3 Risk Disclosures for 2024 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.

43. Credit risk

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

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

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

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

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

Exposure to credit risk

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

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

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

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

43. Credit risk, continued

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

		Collateral				
31.3.2025	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	124,808	-	-	-	-	-
Loans to credit institutions at amortized cost	27,220	-	-	-	-	-
Loans to customers at amortized cost	1,232,624	12,675	935,371	49,727	113,041	1,110,814
Individuals	*639,613*	*294*	*583,862*	*22*	*20,409*	*604,587*
Mortgages	*570,860*	*204*	*570,205*	*-*	*-*	*570,409*
Other	*68,753*	*90*	*13,657*	*22*	*20,409*	*34,178*
Corporates	*593,011*	*12,381*	*351,509*	*49,705*	*92,632*	*506,227*
Real estate activities	*119,507*	*1,771*	*111,321*	*-*	*1,710*	*114,802*
Construction	*87,733*	*315*	*79,186*	*16*	*3,158*	*82,675*
Fishing industry	*93,572*	*1,175*	*19,257*	*46,882*	*9,922*	*77,236*
Commerce and services	*82,013*	*1,808*	*28,089*	*852*	*30,716*	*61,465*
Accommodation and food service activities	*47,182*	*71*	*45,651*	*-*	*182*	*45,904*
Financial and insurance activities	*44,129*	*6,541*	*14,115*	*-*	*17,617*	*38,273*
Industry, energy and manufacturing	*58,690*	*664*	*36,880*	*-*	*15,760*	*53,304*
Transportation	*10,865*	*1*	*1,280*	*1,943*	*6,423*	*9,647*
Information and communication technology	*28,066*	*23*	*1,520*	*-*	*6,529*	*8,072*
Public sector	*8,694*	*12*	*2,488*	*12*	*114*	*2,626*
Agriculture and forestry	*12,560*	*-*	*11,722*	*-*	*501*	*12,223*
Other assets with credit risk	11,933	-	-	-	-	-
Financial guarantees	25,383	2,425	5,433	286	5,652	13,796
Undrawn loan commitments and unused overdrafts	181,971	-	-	-	-	-
Fair value through OCI	180,241	-	-	-	-	-
Government bonds	*179,244*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*997*	-	-	-	-	-
Balance at the end of the period	1,784,180	15,100	940,804	50,013	118,693	1,124,610

31.12.2024	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	124,094	-	-	-	-	-
Loans to credit institutions at amortized cost	25,690	-	-	-	-	-
Loans to customers at amortized cost	1,228,745	12,589	931,451	63,466	117,745	1,125,251
Individuals	*639,404*	*526*	*584,014*	*23*	*20,342*	*604,905*
Mortgages	*570,842*	*404*	*569,959*	*-*	*-*	*570,363*
Other	*68,562*	*122*	*14,055*	*23*	*20,342*	*34,542*
Corporates	*589,341*	*12,063*	*347,437*	*63,443*	*97,403*	*520,346*
Real estate activities	*117,929*	*1,610*	*113,229*	*-*	*1,582*	*116,421*
Construction	*84,419*	*198*	*74,662*	*17*	*4,104*	*78,981*
Fishing industry	*87,696*	*1,124*	*17,612*	*60,155*	*6,838*	*85,729*
Commerce and services	*74,814*	*899*	*28,035*	*1,235*	*31,004*	*61,173*
Accommodation and food service activities	*47,755*	*14*	*42,570*	*-*	*4,173*	*46,757*
Financial and insurance activities	*52,600*	*7,435*	*16,455*	*-*	*16,220*	*40,110*
Industry, energy and manufacturing	*61,481*	*750*	*38,534*	*-*	*17,607*	*56,891*
Transportation	*10,249*	*4*	*1,189*	*2,031*	*6,636*	*9,860*
Information and communication technology	*30,633*	*16*	*1,437*	*-*	*8,534*	*9,987*
Public sector	*9,509*	*13*	*2,224*	*5*	*187*	*2,429*
Agriculture and forestry	*12,256*	*-*	*11,490*	*-*	*518*	*12,008*
Other assets with credit risk	8,476	-	-	-	-	-
Financial guarantees	21,804	2,335	4,212	280	4,688	11,515
Undrawn loan commitments and unused overdrafts	141,928	-	-	-	-	-
Fair value through OCI	126,898	-	-	-	-	-
Government bonds	*125,923*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*975*	-	-	-	-	-
Balance at the end of the year	1,677,635	14,924	935,663	63,746	122,433	1,136,766

Amounts are in ISK millions

43. Credit risk, continued

LTV ratio for residential mortgage lending

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

			Thereof in Stage 3	
	31.3.2025	31.12.2024	31.3.2025	31.12.2024
Less than 50%	232,661	233,652	2,497	2,647
50-60%	114,045	113,874	2,105	1,531
60-70%	97,117	96,331	1,253	1,185
70-80%	74,626	75,063	1,580	1,269
80-90%	49,190	48,341	292	344
90-100%	1,672	2,075	333	135
More than 100%	1,822	2,172	216	319
Not classified	279	17	-	-
Gross carrying amount	571,412	571,525	8,276	7,430

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

			Thereof in Stage 3	
	31.3.2025	31.12.2024	31.3.2025	31.12.2024
Less than 55%	514,638	514,309	7,184	6,484
55-70%	41,624	42,063	663	589
70-80%	11,064	11,461	199	165
80-90%	2,447	2,694	73	63
90-100%	387	434	45	27
More than 100%	973	560	112	102
Not classified	279	4	-	-
Gross carrying amount	571,412	571,525	8,276	7,430

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 30,658 million (31.12.2024: ISK 28,568 million) with ISK 28,148 million in collateral (31.12.2024: ISK 25,586 million), thereof ISK 27,630 million in real estate (31.12.2024: ISK 24,587 million).

Collateral repossessed

The Group took possession of assets due to foreclosures. The total value of real estate the Group took possession of during the period and still holds at the end of the period is ISK 3 million (31.12.2024: ISK 79 million). Assets aquired due to foreclosure are held for sale, see Note 29.

Amounts are in ISK millions

43. Credit risk, continued

Large exposures

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

The Group had no large exposure at the end of the period (31.12.2024: no large exposure).

Credit quality

The Group uses internal credit ratings and external credit ratings, if available, to monitor credit risk. The Group's internal credit rating system rates customers through application of statistical models based on a variety of information that has been determined to be predictive of default. This includes demographic, behavioral, financial and economic data, coupled with qualitative expert judgment for large corporate exposures. Six exposure type models rate individuals' exposures – mortgages, consumer loans, auto loans, guarantees, loans to individuals for work purposes, and other loans. The models are validated annually and recalibrated and updated with current data with the aim of maintaining their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement. External ratings are primarily used for marketable securities and loans to credit institutions. For further information on the rating scales used, see Note 59.

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

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

Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

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

31.3.2025	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	124,808	27,220	180,246
Non-investment grade	-	-	-
Gross carrying amount	124,808	27,220	180,246
Loss allowance	-	-	(5)
Book value	124,808	27,220	180,241

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	445,451	321	-	52	445,824
Risk class 1 - (Grades BBB+ to BBB-)	322,603	1,659	-	124	324,386
Risk class 2 - (Grades BB+ to BB-)	267,994	6,835	-	64	274,893
Risk class 3 to 4 - (Grades B+ to CCC-)	119,183	45,963	-	22	165,168
Risk class 5 - (DD)	-	-	30,477	181	30,658
Unrated	1,023	66	-	-	1,089
Gross carrying amount	1,156,254	54,844	30,477	443	1,242,018
Loss allowance	(2,439)	(1,523)	(5,431)	(1)	(9,394)
Book value	1,153,815	53,321	25,046	442	1,232,624
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	344,027	321	-	52	344,400
Risk class 1 - (Grades BBB+ to BBB-)	213,536	318	-	124	213,978
Risk class 2 - (Grades BB+ to BB-)	50,544	3,776	-	64	54,384
Risk class 3 to 4 - (Grades B+ to CCC-)	9,937	8,726	-	22	18,685
Risk class 5 - (DD)	-	-	10,231	181	10,412
Unrated	10	-	-	-	10
Gross carrying amount	618,054	13,141	10,231	443	641,869
Loss allowance	(479)	(240)	(1,536)	(1)	(2,256)
Book value	617,575	12,901	8,695	442	639,613
Loans to customers - Corporates and public sector entities					
Risk class 0 - (Grades AAA to A-)	101,424	-	-	-	101,424
Risk class 1 - (Grades BBB+ to BBB-)	109,067	1,341	-	-	110,408
Risk class 2 - (Grades BB+ to BB-)	217,450	3,059	-	-	220,509
Risk class 3 to 4 - (Grades B+ to CCC-)	109,246	37,237	-	-	146,483
Risk class 5 - (DD)	-	-	20,246	-	20,246
Gross carrying amount	538,200	41,703	20,246	-	600,149
Loss allowance	(1,960)	(1,283)	(3,895)	-	(7,138)
Book value	536,240	40,420	16,351	-	593,011
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 (Grades AAA to BBB-)	93,232	14	-	-	93,246
Risk class 2 to 4 (Grades BB+ to CCC-)	101,829	3,961	1,222	-	107,012
Unrated	7,096	-	-	-	7,096
Nominal	202,157	3,975	1,222	-	207,354
Loss allowance	(388)	(88)	(26)	-	(502)
Nominal less loss allowance	201,769	3,887	1,196	-	206,852

Amounts are in ISK millions

43. Credit risk, continued

31.12.2024	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	124,094	25,690	126,901
Non-investment grade	-	-	-
Gross carrying amount	124,094	25,690	126,901
Loss allowance	-	-	(3)
Book value	124,094	25,690	126,898

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	436,790	93	-	52	436,935
Risk class 1 - (Grades BBB+ to BBB-)	323,053	1,783	-	155	324,991
Risk class 2 - (Grades BB+ to BB-)	250,011	26,076	-	32	276,119
Risk class 3 to 4 - (Grades B+ to CCC-)	108,985	62,430	-	24	171,439
Risk class 5 - (DD)	-	-	28,388	180	28,568
Unrated	45	-	-	-	45
Gross carrying amount	1,118,884	90,382	28,388	443	1,238,097
Loss allowance	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Book value	1,116,602	88,636	23,065	442	1,228,745
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	337,617	93	-	52	337,762
Risk class 1 - (Grades BBB+ to BBB-)	215,576	215	-	155	215,946
Risk class 2 - (Grades BB+ to BB-)	41,708	17,943	-	32	59,683
Risk class 3 to 4 - (Grades B+ to CCC-)	9,477	9,305	-	24	18,806
Risk class 5 - (DD)	-	-	9,514	180	9,694
Unrated	7	-	-	-	7
Gross carrying amount	604,385	27,556	9,514	443	641,898
Loss allowance	(545)	(410)	(1,538)	(1)	(2,494)
Book value	603,840	27,146	7,976	442	639,404
Loans to customers - Corporates and public sector entities					
Risk class 0 - (Grades AAA to A-)	99,173	-	-	-	99,173
Risk class 1 - (Grades BBB+ to BBB-)	107,477	1,568	-	-	109,045
Risk class 2 - (Grades BB+ to BB-)	208,303	8,133	-	-	216,436
Risk class 3 to 4 - (Grades B+ to CCC-)	99,508	53,125	-	-	152,633
Risk class 5 - (DD)	-	-	18,874	-	18,874
Unrated	230	-	-	-	230
Gross carrying amount	514,691	62,826	18,874	-	596,391
Loss allowance	(1,737)	(1,336)	(3,785)	-	(6,858)
Book value	512,954	61,490	15,089	-	589,533
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 - (Grades AAA to BBB-)	82,245	5	-	-	82,250
Risk class 2 to 4 - (Grades BB+ to CCC-)	71,991	5,370	544	-	77,905
Unrated	3,577	-	-	-	3,577
Nominal	157,813	5,375	544	-	163,732
Loss allowance	(399)	(112)	-	-	(511)
Nominal less loss allowance	157,414	5,263	544	-	163,221

Amounts are in ISK millions

43. Credit risk, continued

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

	Stage 1		Stage 2		Stage 3		
31.3.2025	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	332,294	(25)	-	-	-	-	332,269
Loans to individuals	618,054	(479)	13,402	(240)	10,413	(1,537)	639,613
Mortgages	*551,783*	*(137)*	*11,352*	*(94)*	*8,276*	*(320)*	*570,860*
Other	*66,271*	*(342)*	*2,050*	*(146)*	*2,137*	*(1,217)*	*68,753*
Loans to corporates and public sector entities	538,200	(1,960)	41,703	(1,283)	20,246	(3,895)	593,011
Real estate activities	*110,072*	*(209)*	*6,549*	*(177)*	*4,055*	*(783)*	*119,507*
Construction	*73,461*	*(359)*	*5,529*	*(120)*	*10,879*	*(1,657)*	*87,733*
Fishing industry	*88,080*	*(248)*	*4,781*	*(150)*	*1,801*	*(692)*	*93,572*
Commerce and services	*78,150*	*(311)*	*3,044*	*(106)*	*1,616*	*(380)*	*82,013*
Accommodation and food service activities	*34,398*	*(73)*	*12,410*	*(454)*	*1,095*	*(194)*	*47,182*
Financial and insurance activities	*42,369*	*(382)*	*2,187*	*(47)*	*2*	*-*	*44,129*
Industry, energy and manufacturing	*57,926*	*(91)*	*493*	*(28)*	*481*	*(91)*	*58,690*
Transportation	*6,671*	*(17)*	*4,292*	*(91)*	*24*	*(14)*	*10,865*
Information and communication technology	*26,871*	*(207)*	*1,402*	*(88)*	*144*	*(56)*	*28,066*
Public Sector	*8,587*	*(23)*	*92*	*(2)*	*41*	*(1)*	*8,694*
Agriculture and forestry	*11,615*	*(40)*	*924*	*(20)*	*108*	*(27)*	*12,560*
Balance at the end of the period	1,488,548	(2,464)	55,105	(1,523)	30,659	(5,432)	1,564,893

31.12.2024							
Loans to credit instit., securities & cash	276,685	(3)	-	-	-	-	276,682
Loans to individuals	604,385	(545)	27,819	(410)	9,694	(1,539)	639,404
Mortgages	*540,494*	*(162)*	*23,600*	*(229)*	*7,431*	*(292)*	*570,842*
Other	*63,891*	*(383)*	*4,219*	*(181)*	*2,263*	*(1,247)*	*68,562*
Loans to corporates and public sector entities	514,499	(1,737)	62,826	(1,336)	18,874	(3,785)	589,341
Real estate activities	*107,012*	*(239)*	*8,418*	*(62)*	*3,667*	*(867)*	*117,929*
Construction	*70,037*	*(342)*	*7,317*	*(93)*	*8,588*	*(1,088)*	*84,419*
Fishing industry	*79,542*	*(66)*	*6,992*	*(135)*	*2,427*	*(1,064)*	*87,696*
Commerce and services	*66,003*	*(279)*	*7,923*	*(160)*	*1,694*	*(367)*	*74,814*
Accommodation and food service activities	*34,515*	*(107)*	*12,408*	*(417)*	*1,544*	*(188)*	*47,755*
Financial and insurance activities	*41,791*	*(272)*	*11,235*	*(155)*	*1*	*-*	*52,600*
Industry, energy and manufacturing	*60,593*	*(101)*	*631*	*(48)*	*517*	*(111)*	*61,481*
Transportation	*6,119*	*(13)*	*4,207*	*(79)*	*23*	*(8)*	*10,249*
Information and communication technology	*28,960*	*(259)*	*1,981*	*(147)*	*162*	*(64)*	*30,633*
Public Sector	*9,145*	*(27)*	*344*	*(4)*	*51*	*-*	*9,509*
Agriculture and forestry	*10,782*	*(32)*	*1,370*	*(36)*	*200*	*(28)*	*12,256*
Balance at the end of the year	1,395,569	(2,285)	90,645	(1,746)	28,568	(5,324)	1,505,427

Amounts are in ISK millions

43. Credit risk, continued

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

Transfers of financial assets between impairment stages

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

Net remeasurement of loss allowance

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

New financial assets, originated or purchased

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

Derecognitions and maturities

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

Write-offs

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

31.3.2025

Impairment loss allowance *	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,681)	(1,858)	(5,323)	(1)	(9,863)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(462)	365	97	-	-
Transfers to Stage 2 (lifetime ECL)	157	(161)	4	-	-
Transfers to Stage 3 (credit impaired financial assets)	9	118	(127)	-	-
Net remeasurement of loss allowance **	639	(256)	(547)	-	(164)
New financial assets, originated or purchased	(729)	(63)	(53)	-	(845)
Derecognitions and maturities	240	241	197	-	678
Write-offs ***	-	3	295	-	298
Impairment loss allowance ******	(2,827)	(1,611)	(5,457)	(1)	(9,896)
Impairment loss allowances for assets only carrying 12-month ECL	(5)	-	-	-	(5)
Total impairment loss allowance	(2,832)	(1,611)	(5,457)	(1)	(9,901)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Condensed Consolidated Interim Financial Statements. Following a change in approach from 30.06.2024, the amounts represent the difference between the loss allowance at the beginning of the year and at the reporting date, ignoring other intra-period changes. Comparative figures have been changed accordingly.

** During the period the loss allowance balance for stage 3 loans was reduced by ISK 242 million due to unwinding of interest income.

*** During the period an amount of ISK 141 million was written off but is still subject to enforcement activities subject to Icelandic law.

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

Amounts are in ISK millions

43. Credit risk, continued

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(427)	330	97	-	-
Transfers to Stage 2 (lifetime ECL)	143	(147)	4	-	-
Transfers to Stage 3 (credit impaired financial assets)	9	106	(115)	-	-
Net remeasurement of loss allowance	534	(242)	(533)	-	(241)
New financial assets, originated or purchased	(629)	(56)	(53)	-	(738)
Derecognitions and maturities	213	229	197	-	639
Write-offs	-	3	295	-	298
Total loss allowance for loans to customers	(2,439)	(1,523)	(5,431)	(1)	(9,394)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(545)	(410)	(1,538)	(1)	(2,494)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(215)	179	36	-	-
Transfers to Stage 2 (lifetime ECL)	34	(37)	3	-	-
Transfers to Stage 3 (credit impaired financial assets)	4	53	(57)	-	-
Net remeasurement of loss allowance	262	(61)	(86)	-	115
New financial assets, originated or purchased	(47)	(14)	(33)	-	(94)
Derecognitions and maturities	28	47	53	-	128
Write-offs	-	3	86	-	89
Total loss allowance for loans to individuals	(479)	(240)	(1,536)	(1)	(2,256)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,737)	(1,336)	(3,785)	-	(6,858)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(212)	151	61	-	-
Transfers to Stage 2 (lifetime ECL)	109	(110)	1	-	-
Transfers to Stage 3 (credit impaired financial assets)	5	53	(58)	-	-
Net remeasurement of loss allowance	272	(181)	(447)	-	(356)
New financial assets, originated or purchased	(582)	(42)	(20)	-	(644)
Derecognitions and maturities	185	182	144	-	511
Write-offs	-	-	209	-	209
Total loss allowance for loans to corporates	(1,960)	(1,283)	(3,895)	-	(7,138)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(399)	(112)	-	-	(511)
Transfers					
Transfers to 12-month ECL	(35)	35	-	-	-
Transfers to lifetime ECL	14	(14)	-	-	-
Transfers to credit impaired	-	12	(12)	-	-
Net remeasurement of loss allowance	105	(14)	(14)	-	77
New financial commitments originated	(100)	(7)	-	-	(107)
Derecognitions and maturities	27	12	-	-	39
Total loss allowance for loan commit., guarantees, unused facilities	(388)	(88)	(26)	-	(502)

Amounts are in ISK millions

43. Credit risk, continued

31.12.2024

*Impairment loss allowance **	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(744)	536	208	-	-
Transfers to Stage 2 (lifetime ECL)	131	(178)	47	-	-
Transfers to Stage 3 (credit impaired financial assets)	94	140	(234)	-	-
Net remeasurement of loss allowance **	886	(263)	(2,494)	-	(1,871)
New financial assets, originated or purchased	(1,108)	(658)	(649)	-	(2,415)
Derecognitions and maturities	524	664	845	91	2,124
Write-offs ***	120	117	976	-	1,213
Impairment loss allowance ****	(2,681)	(1,858)	(5,323)	(1)	(9,863)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,684)	(1,858)	(5,323)	(1)	(9,866)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Condensed Consolidated Interim Financial Statements. Following a change in approach from 30.06.2024, the amounts represent the difference between the loss allowance at the beginning of the year and at the reporting date, ignoring other intra-period changes. Comparative figures have been changed accordingly.

** During the period the loss allowance balance for stage 3 loans was raised by ISK 961 million due to unwinding of interest income.

*** During the period an amount of ISK 892 million was written off but is still subject to enforcement activities subject to Icelandic law.

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

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(666)	458	208	-	-
Transfers to Stage 2 (lifetime ECL)	121	(168)	47	-	-
Transfers to Stage 3 (credit impaired financial assets)	90	138	(228)	-	-
Net remeasurement of loss allowance	792	(230)	(2,500)	-	(1,938)
New financial assets, originated or purchased	(829)	(606)	(649)	-	(2,084)
Derecognitions and maturities	438	636	843	91	2,008
Write-offs	120	117	976	-	1,213
Total loss allowance for loans to customers	(2,282)	(1,746)	(5,323)	(1)	(9,352)

Impairment loss allowance for loans to customers - Individuals					
Balance at the beginning of the year	(559)	(532)	(1,381)	(1)	(2,473)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(290)	205	85	-	-
Transfers to Stage 2 (lifetime ECL)	26	(42)	16	-	-
Transfers to Stage 3 (credit impaired financial assets)	29	65	(94)	-	-
Net remeasurement of loss allowance	327	(152)	(551)	-	(376)
New financial assets, originated or purchased	(173)	(92)	(136)	-	(401)
Derecognitions and maturities	77	30	289	-	396
Write-offs	18	108	234	-	360
Total loss allowance for loans to individuals	(545)	(410)	(1,538)	(1)	(2,494)

Amounts are in ISK millions

43. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loans to customers - Corporates					
Balance at the beginning of the year	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(376)	253	123	-	-
Transfers to Stage 2 (lifetime ECL)	95	(126)	31	-	-
Transfers to Stage 3 (credit impaired financial assets)	61	73	(134)	-	-
Net remeasurement of loss allowance	465	(78)	(1,949)	-	(1,562)
New financial assets, originated or purchased	(656)	(514)	(513)	-	(1,683)
Derecognitions and maturities	361	606	554	91	1,612
Write-offs	102	9	742	-	853
Total loss allowance for loans to corporates	(1,737)	(1,336)	(3,785)	-	(6,858)

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loan commitments, guarantees and unused credit facilities					
Balance at the beginning of the year	(236)	(125)	(2)	-	(363)
Transfers					
Transfers to 12-month ECL	(78)	78	-	-	-
Transfers to lifetime ECL	10	(10)	-	-	-
Transfers to credit impaired	4	2	(6)	-	-
Net remeasurement of loss allowance	94	(33)	6	-	67
New financial commitments originated	(279)	(52)	-	-	(331)
Derecognitions and maturities	86	28	2	-	116
Total loss allowance for loan commit., guarantees, unused facilities	(399)	(112)	-	-	(511)

Macroeconomic forecast

The calculation of expected credit losses under IFRS 9 uses forward-looking information in the form of scenarios where the development of macro-economic variables is predicted. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios: base case 60%, pessimistic 25% and optimistic 15% (31.12.2024: base case 60%, pessimistic 30% and optimistic 10%). The macroeconomic forecast and scenario probability weights is done by the Bank's Chief Economist and approved by the Bank's Executive Risk Committee. The following table shows values used for IFRS 9 impairment calculations.

	Base case		
	2025	2026	2027
Unemployment rate	4.2%	4.1%	3.8%
Housing prices, year-on-year change	7.0%	5.1%	4.2%
Private consumption, growth	2.2%	2.7%	2.8%
GDP growth	2.0%	2.5%	2.7%
Key interest rate	7.2%	6.0%	4.8%

	Optimistic			Pessimistic		
	2025	2026	2027	2025	2026	2027
Unemployment rate	2.8%	3.0%	3.4%	5.6%	5.6%	4.4%
Housing prices, year-on-year change	8.5%	11.1%	6.3%	3.3%	-1.6%	3.0%
Private consumption, growth	3.8%	3.4%	3.1%	-0.6%	1.6%	2.4%
GDP growth	3.2%	3.0%	2.9%	-0.6%	1.5%	2.3%
Key interest rate	6.8%	5.5%	4.3%	7.6%	6.5%	5.3%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 3, Significant accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 2.0 billion, ISK 3.6 billion and ISK 7.9 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2024: ISK 1.8 billion, ISK 3.3 billion and ISK 7.9 billion, respectively).

Amounts are in ISK millions

43. Credit risk, continued

Forbearance

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

	Stage 1		Stage 2		Stage 3		Total	
31.3.2025	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance
Individuals	4,588	(8)	2,916	(34)	4,991	(481)	12,495	(523)
Companies	2,653	(18)	14,260	(375)	11,358	(2,009)	28,271	(2,402)
Tourism	800	(3)	11,880	(363)	1,267	(299)	13,947	(665)
Other than tourism	1,853	(15)	2,380	(12)	10,091	(1,710)	14,324	(1,737)
Total	7,241	(26)	17,176	(409)	16,349	(2,490)	40,766	(2,925)
31.12.2024								
Individuals	4,315	(13)	2,570	(26)	4,483	(465)	11,368	(504)
Companies	2,063	(10)	15,221	(403)	11,559	(2,239)	28,843	(2,652)
Tourism	826	(4)	12,494	(387)	1,255	(284)	14,575	(675)
Other than tourism	1,237	(6)	2,727	(16)	10,304	(1,955)	14,268	(1,977)
Total	6,378	(23)	17,791	(429)	16,042	(2,704)	40,211	(3,156)

Amounts are in ISK millions

44. Market risk

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

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

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

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

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

Interest rate risk

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

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

The interest rate fixing profile for non-indexed assets and liabilities is largely matched and the duration of fixing has generally shortened as the bulk of fixed rate mortgages are being reset in 2024 to 2025 with the majority of customers refinancing to indexed loans as they offer lower monthly payments. The fixing duration of indexed liabilities is however greater than that of indexed assets, as covered bonds are fixed rate while indexed loans are predominantly floating rate.

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 24, and are therefore different from the amounts shown in these Condensed Consolidated Interim Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

31.3.2025	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	124,808	-	-	-	-	124,808
Loans to credit institutions	27,220	-	-	-	-	27,220
Loans to customers	882,563	126,572	192,997	5,871	25,734	1,233,737
Bonds and debt instruments	85,363	88,144	21,083	13,163	5,609	213,362
Bonds and debt instruments used for hedging	-	489	786	1,289	660	3,224
Derivatives	115,985	71,293	179,539	42,875	-	409,692
Assets	1,235,939	286,498	394,405	63,198	32,003	2,012,043
Liabilities						
Due to credit institutions and Central Bank	5,785	-	-	-	-	5,785
Deposits	876,526	8,080	-	-	-	884,606
Derivatives	317,974	84,137	4,794	-	-	406,905
Borrowings	67,796	42,224	294,999	75,215	12,584	492,818
Subordinated liabilities	3,319	799	33,824	-	-	37,942
Liabilities	1,271,400	135,240	333,617	75,215	12,584	1,828,056
Net interest gap	(35,461)	151,258	60,788	(12,017)	19,419	183,987

Amounts are in ISK millions

44. Market risk, continued

31.12.2024	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	124,094	-	-	-	-	124,094
Loans to credit institutions	25,690	-	-	-	-	25,690
Loans to customers	867,139	148,051	194,711	2,521	9,801	1,222,223
Bonds and debt instruments	102,606	22,938	14,916	13,551	4,724	158,735
Bonds and debt instruments used for hedging	-	1	1,014	979	670	2,664
Derivatives	105,825	77,146	181,495	-	-	364,466
Assets	1,225,354	248,136	392,136	17,051	15,195	1,897,872
Liabilities						
Due to credit institutions and Central Bank	6,618	-	-	-	-	6,618
Deposits	844,816	12,627	-	-	-	857,443
Derivatives	229,251	130,700	4,820	-	-	364,771
Borrowings	27,898	76,473	279,837	32,282	12,709	429,199
Subordinated liabilities	10,985	3,363	15,047	18,831	-	48,226
Liabilities	1,119,568	223,163	299,704	51,113	12,709	1,706,257
Net interest gap	105,786	24,973	92,432	(34,062)	2,486	191,615

Sensitivity analysis of interest rate risk

The following table shows the sensitivity of the Group's net present value (NPV) of interest-bearing assets and liabilities, due to changes in interest rates by currencies. The variation is calculated on the basis of simultaneous parallel shifts upwards or downwards of yield curves. The choice of shifts is not an estimate of risk likelihood. Behavioral maturities are taken into account in the NPV calculations, including prepayment likelihood and expected behavior of non-maturing deposits. The Bank's behavioral models were updated in Q1 2025.

	31.3.2025		31.12.2024	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(1,641)	1,579	(1,724)	1,652
ISK, Non index-linked	73	(66)	(2,181)	2,146
Foreign currencies	915	(871)	(229)	197
NPV change in the trading book				
ISK, CPI index-linked	100	(91)	137	(125)
ISK, Non index-linked	302	(283)	247	(234)
Foreign currencies	(35)	35	(33)	33

Amounts are in ISK millions

44. Market risk, continued

Indexation risk

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

Book value and maturity profile of indexed assets and liabilities

31.3.2025	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	14,829	104,454	364,607	483,890
Financial instruments	5,148	7,617	11,351	24,116
Assets, CPI index-linked	19,977	112,071	375,958	508,006
Liabilities, CPI index-linked				
Deposits	117,370	13,783	4,181	135,334
Borrowings	34,707	99,513	42,872	177,092
Subordinated liabilities	-	-	11,450	11,450
Other	-	-	1,126	1,126
Off-balance sheet position	35	9	-	44
Liabilities, CPI index-linked	152,112	113,305	59,629	325,046
Net on-balance sheet position	(132,100)	(1,225)	316,329	183,004
Net off-balance sheet position	(35)	(9)	-	(44)
CPI balance	(132,135)	(1,234)	316,329	182,960
CPI balance for prudential consolidation, excluding insurance operations *	(132,238)	(8,850)	305,489	164,402

31.12.2024	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	14,792	107,828	357,789	480,409
Financial instruments	6,702	7,304	10,564	24,570
Assets, CPI index-linked	21,494	115,132	368,353	504,979
Liabilities, CPI index-linked				
Deposits	114,696	13,998	4,196	132,890
Borrowings	35,207	88,891	42,447	166,545
Subordinated liabilities	6,607	-	11,195	17,802
Other	-	-	1,122	1,122
Off-balance sheet position	105	54	-	159
Liabilities, CPI indexed linked	156,615	102,943	58,960	318,518
Net on-balance sheet position	(135,016)	12,243	309,393	186,620
Net off-balance sheet position	(105)	(54)	-	(159)
CPI balance	(135,121)	12,189	309,393	186,461
CPI balance for prudential consolidation, excluding insurance operations *	(135,223)	4,885	298,830	168,491

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

Amounts are in ISK millions

44. Market risk, continued

Currency risk

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

Breakdown of assets and liabilities by currency

31.3.2025

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	124,308	244	103	61	-	21	71	124,808
Loans to credit institutions	401	9,787	10,766	1,527	1,671	1,063	2,005	27,220
Loans to customers	1,019,368	132,849	50,219	1,159	26,858	2,067	1,486	1,234,006
Financial instruments	126,562	87,010	13,827	203	136	17,200	16,150	261,088
Other financial assets	9,969	693	1,263	6	2	-	-	11,933
Financial assets	1,280,608	230,583	76,178	2,956	28,667	20,351	19,712	1,659,055
Financial liabilities								
Due to credit inst. and Central Bank	1,405	1,906	2,405	13	-	-	56	5,785
Deposits	787,088	43,809	43,063	6,336	1,726	1,202	1,382	884,606
Financial liabilities at fair value	2,109	3,268	747	3	1	162	185	6,475
Other financial liabilities	11,093	2,407	2,549	299	570	117	344	17,379
Borrowings	208,694	244,259	5,956	-	-	21,000	16,912	496,821
Subordinated liabilities	13,751	712	15,894	-	-	-	2,974	33,331
Financial liabilities	1,024,140	296,361	70,614	6,651	2,297	22,481	21,853	1,444,397
Net on-balance sheet position	256,468	(65,778)	5,564	(3,695)	26,370	(2,130)	(2,141)	
Net off-balance sheet position	(43,133)	69,091	(6,779)	3,504	(26,251)	1,994	1,574	
Net position *	213,335	3,313	(1,215)	(191)	119	(136)	(567)	
Non-financial assets								
Investment property	12,857	-	-	-	-	-	-	12,857
Investments in associates	818	-	-	-	-	-	-	818
Intangible assets	8,018	-	-	-	-	-	-	8,018
Tax assets	3	-	-	-	-	-	-	3
Assets and disposal groups held for sale	97	-	-	-	-	-	-	97
Other non financial assets	5,404	227	72	82	1	21	-	5,807
Non-financial assets	27,197	227	72	82	1	21	-	27,600
Non-financial liabilities and equity								
Tax liabilities	12,413	-	-	-	-	-	-	12,413
Other non-financial liabilities	33,024	27	5	1	-	-	-	33,057
Shareholders' equity	194,888	-	-	-	-	-	-	194,888
Non-controlling interest	1,900	-	-	-	-	-	-	1,900
Non-financial liabilities and equity	242,225	27	5	1	-	-	-	242,258
Management reporting of currency risk **	(1,693)	3,513	(1,148)	(110)	120	(115)	(567)	

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

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

Amounts are in ISK millions

44. Market risk, continued

31.12.2024

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	123,395	355	189	62	-	20	73	124,094
Loans to credit institutions	170	9,022	12,501	567	718	419	2,293	25,690
Loans to customers	1,011,398	130,718	57,871	1,569	25,031	1,993	1,478	1,230,058
Financial instruments	124,920	43,854	11,698	212	120	12,854	12,759	206,417
Other financial assets	6,470	318	1,671	4	1	11	1	8,476
Financial assets	1,266,353	184,267	83,930	2,414	25,870	15,297	16,604	1,594,735
Financial liabilities								
Due to credit inst. and Central Bank	2,649	3,388	176	333	-	-	72	6,618
Deposits	763,140	35,697	47,448	5,218	3,383	1,282	1,275	857,443
Financial liabilities at fair value	2,961	4,006	1,082	10	-	219	116	8,394
Other financial liabilities	6,760	812	1,865	219	468	148	359	10,631
Borrowings	197,607	201,031	2,989	-	-	18,547	13,004	433,178
Subordinated liabilities	20,957	735	20,004	-	-	-	2,842	44,538
Financial liabilities	994,074	245,669	73,564	5,780	3,851	20,196	17,668	1,360,802
Net on-balance sheet position	272,279	(61,402)	10,366	(3,366)	22,019	(4,899)	(1,064)	
Net off-balance sheet position	(40,216)	63,377	(9,923)	3,266	(22,090)	4,925	661	
Net position *	232,063	1,975	443	(100)	(71)	26	(403)	
Non-financial assets								
Investment property	9,387	-	-	-	-	-	-	9,387
Investments in associates	814	-	-	-	-	-	-	814
Intangible assets	7,688	-	-	-	-	-	-	7,688
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups held for sale	111	-	-	-	-	-	-	111
Other non financial assets	5,004	294	100	105	1	27	-	5,531
Non-financial assets	23,006	294	100	105	1	27	-	23,533
Non-financial liabilities and equity								
Tax liabilities	11,060	-	-	-	-	-	-	11,060
Other non-financial liabilities	39,292	21	6	-	-	-	-	39,319
Shareholders' equity	206,582	-	-	-	-	-	-	206,582
Non-controlling interest	504	-	-	-	-	-	-	504
Non-financial liabilities and equity	257,438	21	6	-	-	-	-	257,465
Management reporting of currency risk **	(2,369)	2,248	537	5	(70)	53	(403)	

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

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

Amounts are in ISK millions

44. Market risk, continued

Sensitivity analysis for currency risk

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

	31.3.2025		31.12.2024	
Currency	-10%	+10%	-10%	+10%
EUR	(351)	351	(225)	225
USD	115	(115)	(54)	54
GBP	11	(11)	(1)	1
DKK	(12)	12	7	(7)
NOK	12	(12)	(5)	5
Other	57	(57)	40	(40)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 29 and 23 respectively.

Sensitivity analysis for equity risk

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

	31.3.2025		31.12.2024	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(447)	447	(374)	374
Banking book - listed	(683)	683	(740)	740
Banking book - unlisted	(530)	530	(286)	286

Derivatives

Derivatives are a part of the Group's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Group's risk appetite and monitored by Risk Management on a daily basis. The Group also uses derivatives to hedge market risk on its balance sheet. Note 24 provides a breakdown of the Group's derivative positions by type.

Amounts are in ISK millions

45. Liquidity and Funding risk

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

A primary source of funding for the Group is deposits from individuals, businesses and financial undertakings. The Group's liquidity risk stems from the fact that the maturity of loans exceeds the maturity of deposits, of which 68% is on-demand.

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

31.3.2025	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	12,792	79,119	32,897	-	-	-	124,808	124,808
Loans to credit institutions	19,609	7,601	10	-	-	-	27,220	27,220
Loans to customers	8,351	213,150	163,508	528,300	1,300,479	-	2,213,788	1,234,006
Financial instruments	12,505	92,348	63,669	50,646	14,049	35,807	269,024	261,088
Derivatives - assets leg	-	*50,669*	*3,830*	*45,634*	-	-	*100,133*	*84,372*
Derivatives - liabilities leg	-	*(43,431)*	*(6,178)*	*(37,971)*	-	-	*(87,580)*	*(75,677)*
Other financial instruments	*12,505*	*85,110*	*66,017*	*42,983*	*14,049*	*35,807*	*256,471*	*252,393*
Other financial assets	532	8,352	1,110	1,939	-	-	11,933	11,933
Financial assets	53,789	400,570	261,194	580,885	1,314,528	35,807	2,646,773	1,659,055
Financial liabilities								
Due to credit inst. and Central Bank	2,137	3,655	-	-	-	-	5,792	5,785
Deposits	608,853	243,979	16,586	14,459	5,270	-	889,147	884,606
Financial liabilities at fair value	-	3,563	3,976	5,631	(937)	-	12,233	6,475
Derivatives - assets leg	-	*(41,376)*	*(23,156)*	*(17,166)*	*(9,157)*	-	*(90,855)*	*(75,268)*
Derivatives - liabilities leg	-	*44,939*	*27,132*	*22,797*	*8,220*	-	*103,088*	*81,720*
Short pos. in bonds	-	*23*	-	-	-	-	*23*	*23*
Other financial liabilities	148	15,841	444	946	-	-	17,379	17,379
Borrowings	-	46,753	67,979	347,423	90,050	-	552,205	496,821
Subordinated liabilities	-	659	1,888	25,005	20,997	-	48,549	33,331
Financial liabilities	611,138	314,450	90,873	393,464	115,380	-	1,525,305	1,444,396
Net position for assets and liab.	(557,349)	86,120	170,321	187,421	1,199,148	35,807	1,121,468	214,659
Off-balance sheet items								
Financial guarantees	-	3,794	8,087	5,416	8,086	-	25,383	25,383
Unused overdraft	-	80,815	-	-	-	-	80,815	80,815
Undrawn loan commitments	-	43,258	11,259	46,639	-	-	101,156	101,156
Off-balance sheet items	-	127,867	19,346	52,055	8,086	-	207,354	207,354
Net contractual cash flow	(557,349)	(41,747)	150,975	135,366	1,191,062	35,807	914,114	7,305

Amounts are in ISK millions

45. Liquidity and Funding risk, continued

31.12.2024	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	25,480	66,140	32,474	-	-	-	124,094	124,094
Loans to credit institutions	23,019	2,659	11	-	-	-	25,689	25,690
Loans to customers	4,751	179,293	196,603	528,859	1,365,661	-	2,275,167	1,230,058
Financial instruments	11,706	103,642	22,860	19,680	14,150	38,304	210,342	206,417
Derivatives - assets leg	-	*33,378*	*10,632*	*46,199*	-	-	90,209	*74,009*
Derivatives - liabilities leg	-	*(31,243)*	*(9,205)*	*(41,502)*	-	-	(81,950)	*(67,294)*
Other financial instruments	*11,706*	*101,507*	*21,433*	*14,983*	*14,150*	*38,304*	202,083	*199,702*
Other financial assets	548	4,840	1,013	2,075	-	-	8,476	8,476
Financial assets	65,504	356,574	252,961	550,614	1,379,811	38,304	2,643,768	1,594,735
Financial liabilities								
Due to credit inst. and Central Bank	4,117	2,504	-	-	-	-	6,621	6,618
Deposits	587,107	135,946	118,596	14,674	5,282	-	861,605	857,443
Financial liabilities at fair value	-	3,698	5,277	6,160	-	-	15,135	8,394
Derivatives - assets leg	-	*(47,474)*	*(21,313)*	*(12,852)*	-	-	*(81,639)*	*(72,889)*
Derivatives - liabilities leg	-	*51,172*	*26,590*	*19,012*	-	-	*96,774*	*81,283*
Short position in bonds used for hedging	-	-	-	-	-	-	-	-
Other financial liabilities	99	9,339	292	901	-	-	10,631	10,631
Borrowings	-	3,974	102,645	326,115	45,775	-	478,509	433,178
Subordinated liabilities	-	1,630	4,788	9,377	45,352	-	61,147	44,538
Financial liabilities	591,323	157,091	231,598	357,227	96,409	-	1,433,648	1,360,802
Net position for assets and liab.	(537,534)	243,479	29,596	223,658	1,218,119	35,807	1,213,125	233,933
Off-balance sheet items								
Financial guarantees	-	1,921	8,221	3,847	7,815	-	21,804	21,804
Unused overdraft	-	74,270	-	-	-	-	74,270	74,270
Undrawn loan commitments	-	36,788	23,476	7,394	-	-	67,658	67,658
Off-balance sheet items	-	112,979	31,697	11,241	7,815	-	163,732	163,732
Net contractual cash flow	(525,819)	86,504	(10,334)	182,146	1,275,587	38,304	1,046,388	70,201

Net Stable Funding Ratio

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

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

	31.3.2025	31.12.2024
Available stable funding	1,287,272	1,223,464
Required stable funding	1,055,131	1,040,677
Net stable funding ratio	122%	118%

Amounts are in ISK millions

45. Liquidity and Funding risk, continued

Liquidity coverage ratio

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

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

The minimum requirement for the total LCR is 100%, while the requirement for the LCR in ISK is 50% and 80% in EUR. Following a rule change that came into effect at the start of 2023, there is no minimum requirement for the aggregate position in all foreign currencies.

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

31.3.2025	ISK	EUR	Total all currencies
Liquid assets level 1 *	181,683	82,586	307,441
Liquid assets level 2	11,340	-	11,340
Liquid assets	193,023	82,586	318,781
Deposits	134,644	16,472	172,542
Borrowings	35,613	-	35,966
Other cash outflows	7,472	11,268	16,379
Cash outflows	177,729	27,740	224,887
Short-term deposits with other banks **	-	7,353	23,571
Other cash inflows	25,761	2,064	30,277
Cash inflows	25,761	9,417	53,848
Liquidity coverage ratio (LCR) ***	127%	451%	186%

31.12.2024	ISK	EUR	Total all currencies
Liquid assets level 1 *	180,898	39,790	253,753
Liquid assets level 2	10,753	-	10,753
Liquid assets	191,651	39,790	264,506
Deposits	138,492	14,537	176,642
Borrowings	7,919	-	8,079
Other cash outflows	9,012	10,009	14,657
Cash outflows	155,423	24,546	199,378
Short-term deposits with other banks **	1	6,935	22,051
Other cash inflows	25,264	2,588	30,882
Cash inflows	25,265	9,523	52,933
Liquidity coverage ratio (LCR) ***	147%	265%	181%

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

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

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

Amounts are in ISK millions

45. Liquidity and Funding risk, continued

Composition of liquid assets

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

31.3.2025	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	124,308	103	244	153	124,808
Short-term deposits with financial institutions	-	10,528	7,353	5,690	23,571
Domestic bonds eligible as collateral with Central Bank	70,717	-	-	-	70,717
Foreign government bonds	-	13,043	82,342	29,872	125,257
Liquidity reserve	195,025	23,674	89,939	35,715	344,353
31.12.2024					
Cash and balances with Central Bank	123,395	189	355	155	124,094
Short-term deposits with financial institutions	1	11,507	6,935	3,608	22,051
Domestic bonds eligible as collateral with Central Bank	70,298	-	-	-	70,298
Foreign government bonds	-	10,394	39,435	22,183	72,012
Liquidity reserve	193,694	22,090	46,725	25,946	288,455

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights	Deposits maturing within 30 days					
31.3.2025	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	133,803	12%	112,124	5%	186,710	432,637
Small and medium enterprises	134,565	13%	16,965	5%	29,534	181,064
Operational relationship	5,133	25%	-	-	-	5,133
Corporations	111,092	41%	17,013	21%	23,507	151,612
Sovereigns, central banks and PSE	24,222	40%	17	20%	1,038	25,277
Pension funds	60,615	100%	-	-	18,021	78,636
Domestic financial entities	13,936	100%	-	-	735	14,671
Foreign financial entities	1,361	100%	-	-	-	1,361
Total	484,727		146,119		259,545	890,391
31.12.2024						
Individuals	121,798	11%	121,208	5%	178,686	421,692
Small and medium enterprises	114,856	12%	17,835	5%	28,483	161,174
Operational relationship	4,748	25%	-	0%	-	4,748
Corporations	98,482	41%	16,561	21%	30,430	145,473
Sovereigns, central banks and PSE	19,262	40%	14	20%	1,091	20,367
Pension funds	70,477	100%	-	-	17,915	88,392
Domestic financial entities	18,510	100%	-	-	2,380	20,890
Foreign financial entities	1,325	100%	-	-	-	1,325
Total	449,458		155,618		258,985	864,061

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

Amounts are in ISK millions

46. Capital management

Capital adequacy

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

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

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

	31.3.2025	31.12.2024
Own funds		
Total equity	196,788	207,086
Unaudited interim profit	(6,421)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(1,900)	(504)
Common Equity Tier 1 capital before regulatory adjustments	188,467	206,582
Intangible assets	(7,733)	(7,390)
Additional value adjustments	(282)	(226)
Foreseeable dividend and buyback *	-	(19,000)
Adjustment under IFRS 9 transitional arrangements as amended	-	427
Insufficient coverage for non-performing exposures	(278)	(345)
Common Equity Tier 1 capital	180,174	180,048
Non-controlling interest eligible for inclusion in T1 capital	427	112
Additional Tier 1 capital	15,894	20,004
Tier 1 capital	196,495	200,164
Tier 2 instruments	17,437	24,534
Tier 2 instruments of financial sector entities (significant investments)	(1,332)	(1,306)
Tier 2 capital	16,105	23,228
Total own funds	212,600	223,392
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	811,564	798,562
Credit risk, securities and other	64,025	59,113
Credit risk, derivatives and repos	3,358	5,875
Market risk due to currency imbalance	3,637	2,947
Market risk due to trading book positions	14,088	12,846
Credit valuation adjustment	1,075	2,257
Operational risk	106,011	106,011
Total risk-weighted exposure amount	1,003,758	987,611
Capital ratios		
CET1 ratio	17.9%	18.2%
Tier 1 ratio	19.6%	20.3%
Capital adequacy ratio	21.2%	22.6%
Total own funds, including interim profit not eligible for inclusion	215,811	223,392
CET1 ratio, including interim profit not eligible for inclusion	18.3%	18.2%
Tier 1 ratio, including interim profit not eligible for inclusion	19.9%	20.3%
Capital adequacy ratio, including interim profit not eligible for inclusion	21.5%	22.6%

* On 31 December 2024, the deduction consists of a dividend payment of ISK 16bn to be paid in Q1 2025 as approved by the Board, representing 61% of 2024 net earnings, and a ISK 3bn buyback program approved by the Board and the FSA.

The Bank opted to use transitional arrangements for IFRS 9 and Covid-19 in its capital adequacy calculations, which were reflected in the Group's capital ratios until the arrangements ended in Q4 2024. These arrangements increased the capital adequacy ratio by less than 0.1 percentage point.

Amounts are in ISK millions

46. Capital management, continued

Capital ratios of the parent company

	31.3.2025	31.12.2024
CET1 ratio	18.2%	18.5%
Tier 1 ratio	19.8%	20.5%
Capital adequacy ratio	21.4%	22.9%

The following table outlines the implementation of the capital buffer requirements in accordance with the Icelandic Financial Undertakings Act No. 161/2002, as prescribed by the Financial Stability Committee (FSC) and approved by the FSA. The countercyclical capital buffer was raised from 2.0% to 2.5% on 16 March 2024. In December 2024, the systemic risk buffer was lowered from 3% to 2% and the buffer for systemically important institutions raised from 2% to 3%.

Capital buffer requirement, % of REA

	31.3.2025	31.12.2024
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	3.0%	3.0%
Systemic risk buffer *	2.0%	2.0%
Countercyclical capital buffer *	2.5%	2.5%
Combined capital buffer requirement	10.0%	10.0%

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

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

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.0%	1.4%	1.8%
Combined buffer requirement *	9.8%	9.8%	9.8%
Regulatory capital requirement	15.3%	17.2%	19.6%
Available capital	17.9%	19.6%	21.2%

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

** The SREP result based on the Group's Financial Statement at 31 December 2023. The Pillar 2R requirement is 1.8% of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur.

Leverage ratio

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

	31.3.2025	31.12.2024
On-balance sheet exposures	1,638,402	1,562,622
Derivative exposures	11,412	16,078
Repos	11,137	10,358
Off-balance sheet exposures	64,439	50,982
Total exposure	1,725,390	1,640,040
Tier 1 capital	196,495	200,164
Leverage ratio	11.4%	12.2%

Amounts are in ISK millions

46. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, as amended, which transposes BRRD I/II into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirements. In October 2024, the Icelandic Resolution Authority presented the Group with the MREL requirements based on year-end 2023 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. An MREL subordination requirement of 13.5% REA will apply to the Bank from Q3 2027.

	31.3.2025	31.12.2024
Minimum requirement for own funds and eligible liabilities		
Own funds	212,600	223,392
Eligible liabilities	186,160	130,048
Own funds and eligible liabilities	398,760	353,440
Combined buffer requirement (CBR)	98,368	96,786
Own funds and eligible liabilities not used for CBR	300,392	256,654
Risk-weighted exposure amount (REA)	1,003,758	987,611
Own funds and eligible liabilities not used for CBR (% REA)	29.9%	26.0%
MREL requirement (% REA)	19.6%	19.6%
Total exposure measure (TEM)	1,725,390	1,640,040
Own funds and eligible liabilities (% TEM)	23.1%	21.6%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur

Excess of assets over liabilities in accordance with Solvency II	14,203	14,468
Subordinated liabilities	1,312	1,323
Foreseeable dividends	-	-
Own funds	15,515	15,791
Solvency capital requirements (SCR)	9,380	9,347
SCR ratio	165.4%	168.9%

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

47. Operational risk

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

Each business unit within the Group is responsible for managing their own operational risks. Risk management and Compliance support the first line through monitoring, complementary expertise, and by challenging the adequacy and effectiveness of risk management practices. The second line is responsible for developing and maintaining a framework for identifying, measuring, and reporting the Group's operational risk.

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

Amounts are in ISK millions

48. Sustainability risk

Sustainability risk is a driver of other risk types, such as credit risk and market risk. It can materialize in the short term, the medium term and the long term. The Bank assesses both inside-out risks (negative impact from the Bank's operations on people and/or the environment) and outside-in risks (negative materialization of ESG factors on the Bank through their counterparties or invested assets). The Bank‘s Sustainability Committee is responsible for reviewing the Bank‘s performance in relation to its commitments and policies in relation to environmental, social and governance (ESG) factors and aligning the Bank‘s strategy and risk appetite with them.

Sustainable financing framework

The Bank's Sustainability Financing Framework was published in August 2024 and applies to the Bank's financing, deposits and loans which are classed as environmentally and/or socially sustainable. The new framework replaces the Bank's Green Financing Framework published in 2021 which has been integral to the Bank's green lending programme and green bond issues. New features of the Sustainability Financing Framework include social categories which define projects having a positive impact on society. Added importance is also given to the circular economy, and the classification of green projects has also been refined. Under this framework the Bank can issue Sustainable Financing Instruments including, but not limited to, covered bonds, bonds, loans, commercial paper, repurchase agreements and deposits. The use of proceeds from these instruments is restricted to the financing of eligible assets as defined in the Framework. Eligible assets are divided into several eligible categories with inclusion and exclusion criteria. The Framework details the processes for identifying eligible assets, for reporting on the use of the framework and for external review. Before the introduction of the Green Financing Framework the Bank had a framework for green deposits, but these frameworks have now been merged. The following table excludes committed green exposures.

	31.3.2025	31.12.2024
Sustainable Financing Instruments		
Green deposits	39,270	28,802
Green borrowings	61,148	60,518
Book value	100,418	89,320
Identified eligible sustainable assets by category		
Sustainable marine value chains and marine ecosystem management	22,238	19,075
Sustainable forestry and agriculture	271	271
Renewable energy	612	608
Clean transportation	7,548	7,545
Green buildings	94,103	92,689
Energy efficiency	16,158	17,309
Sustainable waste and wastewater management	7,745	7,799
Green book value	148,675	145,296
Affordable housing	26,862	28,835
Education	2,227	2,374
Healthcare	1,224	1,146
Employment generation and alleviate unemployment	13,560	13,336
Social book value	43,873	45,691
Sustainable book value	192,548	190,987

Amounts are in ISK millions