Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2025

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

Contents

Factsheet

Key figures first half 2025

Net profit **ISK 12.4bn**

ROE **11.1%**

Cost-to-income ratio **44.1%**

NIM **3.2%**

Sustainability 2Q25

Íslandsbanki received an ESG rating of A3 from Reitun, an Icelandic rating agency

Statement of principal adverse impact published

Íslandsbanki's sustainable assets amounted to ISK 110bn at end of 2Q25

Digital milestones 2Q25

Customers can reduce their overdraft in the app and Íslandsbanki x VÍS partnership introduced in distribution channels

New webs published for Ergo and Íslandssjóðir (Iceland Funds) and the Íslandsbanki web is now also available in Polish

Numerous PSD2 services supporting the FinTech ecosystem implemented; strengthening comprehensive services offered

Ratings and certifications

MOODY'S
A3 Stable outlook

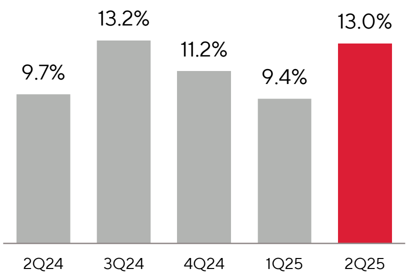
S&P Global Ratings
BBB+/A-2
Positive outlook

EQUALITY SCALE FKA 2024 AWARD

ESG risk rating
Reitun
A3 Exceptional

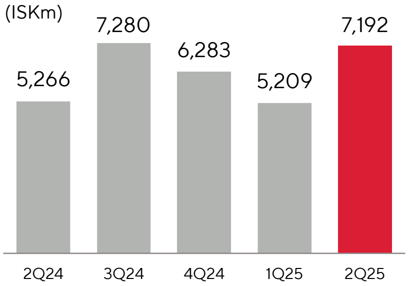
EQUAL PAY CERTIFICATE 2025 - 2028

Return on equity

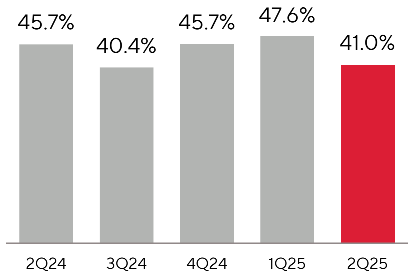


Profit after tax

(ISKm)

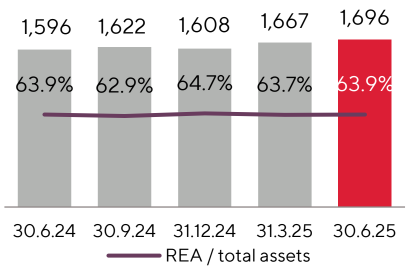


Cost-to-income ratio[1]



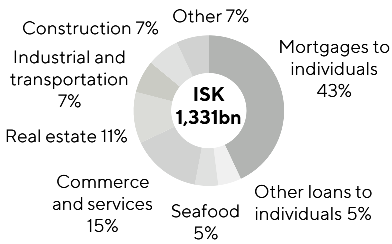
Total assets

(ISKbn)



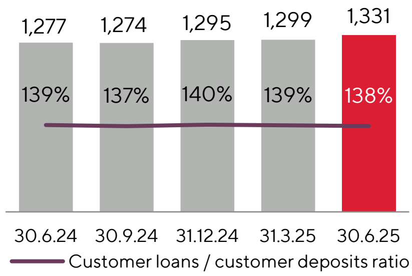
Loans to customers

(Sector split as of 30.6.25)

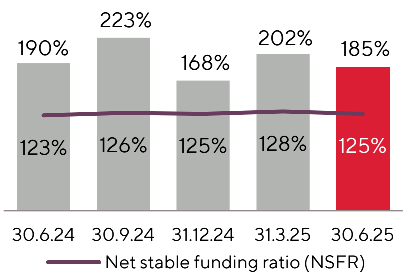


Loans to customers

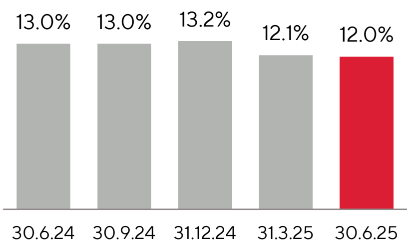
(ISKbn)



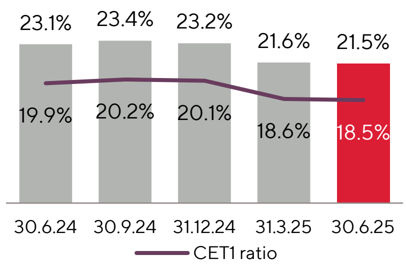
Total liquidity coverage ratio



Leverage ratio



Total capital ratio[2]



The information above has not been reviewed or audited by the Group's auditor.

1. Expenses of ISK 210m for 2Q24, and ISK 269m for 3Q24 recognised in the line item "Other operating expenses" in the Group's Financial Statements have been reclassified in the line item "Fee and commission expense", C/I ratio has been restated accordingly. C/I ratio for 2Q24 excludes a charge of ISK 470m due to an administrative fine.
2. In 1Q25 the Central Bank granted the Bank permission to buy back own shares and reduce its share capital, as a result capital ratios at 31.3.25 and 30.6.25 declined from year-end 2024.

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report with the reviewed Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 30 June 2025. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. As one of Iceland's largest banking and financial services groups, the Group has a strong domestic market share.

Operations in the reporting period

During the first half of 2025, the Group generated a profit of ISK 12,401 million, achieving a return on equity of 11.1%, meeting the Bank's target of exceeding 10%. For the second quarter, the Group generated a profit of ISK 7,192 million and a return on equity of 13.0% as all revenue lines were growing year-on-year. At the end of the reporting period the Group employed 760 full-time equivalents, 720 within the Bank and 40 in subsidiaries. The Group operates a network of 12 branches.

The first half of 2025 was an eventful period for Íslandsbanki. Towards the end of the first quarter, discussions on tariffs in an international context exerted downwards pressure on capital markets; nevertheless, market conditions strengthened and recovered during the second quarter. In May, following the recovery, the Minister of Finance and Economic Affairs launched a fully marketed offering of the Government of Iceland's stake in the Bank. The Government's intention was to sell a 20% stake in the Bank but following considerable demand from both retail and institutional investors, the Minister decided to upsize the offering to include the Government's entire stake. As a result, the full 45.4% stake was sold to a total of over 31 thousand investors, nearly all domestic retail investors. Subsequently, the Bank became entirely privately owned, with international investors holding around 16% of the share capital.

The strong demand and result of the offering can be attributed to the Bank's effective strategy and its strong execution. In January, the Bank formed a bancassurance partnership with VÍS tryggingar hf., the second-largest insurance company in Iceland. The main goal with the partnership was to enhance the Bank's customer service and since the rollout in the second quarter it has outperformed expectations. The Bank continued its investment in digital channels, launching a new online banking platform for corporates and an updated mobile app, along with implementing various digital enhancements to further improve service experience and efficiency. Investment banking continues to demonstrate its market leading position, evidenced by its strong turnover in capital markets as well as through advisory services, which have facilitated the completion of numerous milestone projects. The Bank's expansion into international lending has gained momentum as the Bank has participated in various infrastructure projects. The Bank remains the preferred choice for SMEs, underpinned by its strong service culture and industry-leading net promoter scores. At the end of the second quarter, the Bank received an A3 sustainability assessment from Reitun, an Icelandic ratings agency.

In the second quarter and again at the beginning of the third quarter, the Bank put forth merger proposals to the board of Kvika banki hf., a domestic financial institute. The Bank believes its proposals were both competitive and fair, considering the interests of the Bank's shareholders. Although this merger did not proceed, the Bank firmly believes that further consolidation within the Icelandic financial market can unlock value and opportunities for both shareholders and customers. The Bank believes that it is optimally positioned to further penetrate the domestic market through internal growth, both through loan growth as well as fee generating activities. In addition, the Bank can also see various opportunities for external growth internationally and will continue to explore options for external and internal growth, both domestically and internationally.

While inflation subsided through the first quarter, decreasing from 4.6% in January to 3.8% in March, it remained persistent in the second quarter reaching 4.2% in June. Policy rates were cut three times during the reporting period, reducing from 8.5% at January's start to 7.5% by the end of May. As inflation has subsided and policy rates have been reduced, the CPI imbalance has contracted in line with expectations, from ISK 193 billion at the beginning of the year to ISK 178 billion at the end of the reporting period. In parallel, the real rates within the banking book have increased as cost of deposits reduced in line with policy rate cuts. This positively impacted the net interest income which amounted to ISK 13,881 million for the second quarter, marking a 11.1% increase from the previous year. Year to date, net interest income has increased by 9.0% between years. The net interest margin was 3.2% for the first half of the year, while being 3.3% in the second quarter.

In the first half of 2025, Íslandsbanki recorded a net fee and commission income of ISK 6,687 million, representing a 7.5% increase compared to previous year's figure of ISK 6,219 million. Net financial expenses amounted to ISK 973 million in the first half of 2025 compared to expenses of ISK 735 million in the same period in the previous year. Other operating income for the first half of 2025 amounted to ISK 610 million, down from ISK 1,143 million in the same period last year. The figures in both periods primarily reflect the fair value adjustments of Kirkjusandur 2, the plot that housed the Bank's former headquarters, mainly related to changes in the interest rate environment and the expected time to a potential sale of the asset. Overall, operating income for the first half of 2025 grew by 5.2% year-on-year to ISK 33,262 million.

Salaries and related expenses rose by 7.3% year-on-year, amounting to ISK 8,901 million, mainly due to general wage increases and redundancies. Other operating expenses fell by 1.7% year-on-year. The cost-to-income ratio was 44.1% during the first half, down from 44.8% for the same period last year, successfully below the Bank's target of 45%. Cost-to-core-income ratio, where core income is defined as net interest income and net fee and commission income, was 43.7% for the first half compared to 45.9% in the previous year.

Directors' Report

The net impairment reversal on financial assets was ISK 399 million for the first half of 2025, compared to a charge of ISK 567 million in the previous year. Despite the high inflationary and interest rate environment, asset quality remains both stable and strong, with Stage 3 loans closing at 1.6%, same as at year-end 2024 and reducing from the first quarter of 2025. Loans to customers totalled ISK 1,331 billion, reflecting a 2.8% growth from year-end 2024 figures. Mortgages continue to represent the largest portion of the loan book or 43%. LTVs for both the mortgage book and other segments of the loan book remain healthy and stable. Additionally, deposits from customers increased by 4.2% during the first half of the year and closed off at ISK 966 billion.

Funding

The second quarter saw a very marked spread compression of about 25-30 basis points in the Bank's secondary levels. The Bank's 5.5-year EUR 300 million green senior preferred bonds, issued in March of 2025 at 140 basis points over mid-swaps are currently priced at around 110 basis points over mid-swaps. Following a successful wholesale funding in the first quarter which, to a large degree, prefunded the Bank's operation throughout the year, no bonds were issued on the international capital markets in the second quarter. Domestically, the Bank sold ISK 4.1 billion of covered bonds during the second quarter.

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

Capital

The Bank remains committed to its capital optimisation journey. The Bank bought back shares amounting to ISK 2,614 million in the first quarter. In the second quarter, buybacks were halted, in part due to the sale of shares by the Government of Iceland. Buybacks resumed in early July and are ongoing. As of now, the Bank has allocated ISK 16 billion to buybacks and obtained all necessary regulatory approvals, thus deducting the amount from its capital base. Consequently, the Bank's capital ratio was 21.5% at the end of the second quarter compared to 23.2% at year-end 2024.

Capital Requirements Regulation (CRR) 3, an amendment to the current CRR is now expected to be enacted into Icelandic law in the second half of 2025. As a result, the Bank assumes a considerable reduction in REA, around 6-7% of the current REA, which will have a favourable effect on capital ratios. In addition, the Group's latest Supervisory Review and Evaluation Process (SREP), published 30 June 2025, resulted in a considerable reduction of Pillar-2R requirements, reducing the required additional capital requirement by 0.4 percentage points from the previous assessment to 1.4%. The Bank's total capital requirement, taking into account the buffer requirement, therefore decreases from 19.7% to 19.3%.

At the end of the second quarter, the Bank's CET1 ratio was 18.5% compared to a regulatory minimum of 15.2% on top of which the Bank places a management buffer of 100-300 basis points. The Bank's excess capital position at the end of the reporting period therefore amounts to around ISK 40 billion, assuming a fully optimised capital structure, the midpoint of the management buffer, the assumed impact from the implementation of CRR3, as well as pending buybacks which have been deducted from the capital base as of the end of the reporting period.

The Bank intends to continue to optimise its capital structure, subject to market conditions as demonstrated by its activities in the second quarter, where the Bank proposed a merger to Kvika banki hf. The Bank firmly believes that additional consolidation within the Icelandic financial sector could unlock value for the shareholders of the Bank, its customers and the broader economy. As previously stated, capital optimisation measures may include internal and/or external growth, as well as increased share buybacks or extraordinary dividends, subject to market conditions.

Economic outlook

Following a period of slowing GDP growth in 2023, Statistics Iceland estimates that Iceland's GDP contracted in real terms by 0.7% in 2024. The year marked a cyclical turning point: exports weakened and private consumption was sluggish, while investment outperformed. In the first quarter of 2025, growth resumed with GDP growing year-on-year by 2.6%. Although this is fairly modest in Icelandic terms, it is the fastest single-quarter growth rate since the third quarter of 2023. Growth was primarily driven by a surge in investment, with support from consumption spending and exports. It was offset, however, by strong imports, as is often the case in Iceland during a boom in investment requiring large-scale importation of inputs.

For the second quarter of 2025, timely indicators point to a continuation of a robust GDP growth. Investment goods imports, payment card turnover, new car registrations and Keflavík international airport departure figures accord with an improvement in consumer sentiment and cautiously optimistic business executives in recent surveys, in indicating a healthy growth in domestic demand. Meanwhile, tourism has regained ground after a weak first quarter and prospects for the tourist high season are reasonably bright.

Directors' Report

Inflation has proved persistent in the second quarter, measuring 4.1% on average after subsiding considerably from a peak of 10.2% in early 2023 to 3.8% by March 2025. A remarkably buoyant housing market and ongoing wage cost pressures from a relatively strong labour market continue to drive domestic inflation while imported inflation has subsided to modest levels, helped by an appreciating ISK and global disinflation. Despite this, the Central Bank cut its policy rate from 7.75% to 7.5% in the second quarter although the Central Bank's Monetary Policy Committee warned that further interest rate cuts were conditional on inflation aligning better with the Central Bank's 2.5% inflation target.

Íslandsbanki Research expects 1.9% GDP growth in 2025, driven by rising private consumption, with continued support from investment and moderate export gains. Private consumption is likely to be supported by modest real wage rises, a stable labour market and significant accumulated household savings. Investment will, to a degree, be concentrated in export sectors such as server farms and land-based aquaculture while export growth rests on the dual pillars of moderate growth in mature industries and a more rapid growth in IP-based exports and farmed salmon. Inflation will likely remain close to the 4% mark, preventing the Central Bank from cutting its policy rate further before year-end. A high real exchange rate will pose challenges for external trade balance although foreign trade is likely to improve, supporting the ISK in the near term.

Outlook for the Group

Inflation has remained persistent, creating uncertainty around the timing and extent of further rate cuts. While a lower interest rate environment would further reduce pressure on interest rate margins through the CPI related imbalance, the current real rate in the banking book is deemed suitable for the medium term. For the current year as a whole, net interest margins are expected to be around the same levels as in the previous year. However, short-term fluctuations can be expected, similar to those experienced in 2024. Yearly lending growth is expected to be around nominal GDP on average through the business cycle. For the current year, strong loan growth has been evident which is expected to continue as the rate environment, both for real and nominal rates, continues to normalise.

Volatility on the capital markets has decreased considerably, and activities have increased, paving the way for various investment banking activities in the coming months. Further, more loan growth across segments is expected to positively translate into the Bank's net fee and commission income. Administrative expenses are expected to be seasonably low for the third quarter while the fourth typically stays higher. Overall, the Bank is committed to its target of a cost-to-income ratio below 45% which is expected to be met for the current year as a whole.

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

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange. The Bank has one of the largest shareholder bases of listed companies in Iceland. At the end of the reporting period the Bank had 31,703 shareholders (year-end 2024: 9,961), where 84.4% of the Bank's shares were owned by domestic parties, and 15.6% by international investors. Following the sale of the Government of Iceland's remaining shares in the Bank, pension funds are now the largest investor group, owning 35.9% of outstanding shares, while retail investors are the second largest investor group, owning 35.5% of outstanding shares, both figures taking into consideration treasury shares. For further information on the Bank's shareholders see Note 32.

Other matters

An extraordinary shareholder meeting of Íslandsbanki was held on 30 June 2025, where proposed amendments to the Bank's Remuneration Policy were approved. Two provisions were introduced under Article 7: the ability to establish a special incentive scheme for employees and the option to adopt a stock option plan in accordance with Article 10 of the Income Tax Act no. 90/2003. These changes aim to enhance the Bank's flexibility in rewarding performance and aligning employee incentives with the Bank's long-term goals. All necessary approvals for the stock option plan have been obtained.

Directors' Report

Statement by the Board of Directors and the CEO

The reviewed Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2025 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 June 2025.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2025.

Kópavogur, 31 July 2025

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Introduction

We have reviewed the accompanying Consolidated Interim Statement of Financial Position of Íslandsbanki hf. as of 30 June 2025, the Consolidated Interim Income Statement and the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and the Consolidated Interim Statement of Cash Flows for the six month period then ended, and Notes to the Condensed Consolidated Interim Financial Statements ("the Condensed Consolidated Interim Financial Statements"). Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 31 July 2025

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Interim Income Statement

	Notes	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Interest income calculated using the effective interest rate method		67,478	71,781	34,609	37,619
Other interest income		2,129	3,852	1,048	1,391
Interest expense		(42,787)	(51,020)	(21,776)	(26,519)
Net interest income	5	26,820	24,613	13,881	12,491
Fee and commission income		9,606	9,133	4,979	4,664
Fee and commission expense*		(2,919)	(2,914)	(1,359)	(1,455)
Net fee and commission income	6	6,687	6,219	3,620	3,209
Net financial income (expense)	7	(973)	(735)	13	(499)
Net foreign exchange gain	8	118	370	71	174
Other operating income	9	610	1,143	143	45
Other net operating income		(245)	778	227	(280)
Total operating income		33,262	31,610	17,728	15,420
Salaries and related expenses	10	(8,901)	(8,298)	(4,412)	(4,130)
Other operating expenses*	11	(5,756)	(5,858)	(2,849)	(2,916)
Administrative fines		-	(470)	-	(470)
Bank tax		(1,013)	(952)	(513)	(459)
Total operating expenses		(15,670)	(15,578)	(7,774)	(7,975)
Profit before net impairment on financial assets		17,592	16,032	9,954	7,445
Net impairment on financial assets	12	399	(567)	402	137
Profit before tax		17,991	15,465	10,356	7,582
Income tax expense	13	(5,578)	(4,871)	(3,155)	(2,403)
Profit for the period before profit from non-current assets		12,413	10,594	7,201	5,179
Profit (loss) from non-current assets held for sale, net of tax		(12)	89	(9)	87
Profit for the period		12,401	10,683	7,192	5,266
Earnings per share					
Basic and diluted EPS attributable to shareholders of Íslandsbanki hf. (ISK) .	14	6.60	5.45	3.84	2.71

*Comparative figures have been changed. Expenses of ISK 496 million in the first half of 2024 (second quarter 2024: ISK 210 million) recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements were reclassified to the line item "Fee and commission expense".

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Íslandsbanki hf. Condensed Consolidated Interim Financial Statements first half 2025 8 Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Profit for the period	12,401	10,683	7,192	5,266
Net changes in FV of fin. liab. attributable to changes in credit risk	(488)	(847)	(480)	(305)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk	106	346	97	230
Items that will not be reclassified to the income statement	(382)	(501)	(383)	(75)
Foreign currency translation	-	(1)	(1)	(1)
Net changes in fair value of debt instruments at FVOCI	97	(149)	30	(129)
Reclassification to the income statement of debt instruments at FVOCI	(3)	2	(1)	2
Changes in allowance for ECL of debt instruments at FVOCI	(2)	16	2	3
Tax related to debt instruments at FVOCI	(24)	35	(8)	33
Items that may subsequently be reclassified to the income statement	68	(97)	22	(92)
Other comprehensive income (expense) for the period, net of tax	(314)	(598)	(361)	(167)
Total comprehensive income for the period	12,087	10,085	6,831	5,099

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.6.2025	31.12.2024
Assets			
Cash and balances with Central Bank	19	87,241	65,716
Loans to credit institutions	20	80,481	50,486
Bonds and debt instruments	15	138,839	142,618
Derivatives	21	7,397	5,324
Loans to customers	22	1,331,288	1,295,388
Shares and equity instruments	15	18,158	24,330
Investments in associates		4,849	4,701
Investment property		2,900	2,600
Property and equipment		4,944	5,039
Intangible assets		2,637	2,684
Other assets	24	15,600	7,304
Non-current assets held for sale		1,700	1,617
Total Assets		1,696,034	1,607,807
Liabilities			
Deposits from Central Bank and credit institutions	25	14,876	12,535
Deposits from customers	26	966,075	926,846
Derivative instruments and short positions	21	8,502	7,306
Debt issued and other borrowed funds	28	411,009	367,586
Subordinated loans	29	32,687	31,695
Tax liabilities		13,403	12,916
Other liabilities	30	24,757	21,568
Total Liabilities		1,471,309	1,380,452
Equity			
Share capital		9,368	9,473
Share premium		42,472	55,000
Reserves		7,133	7,102
Retained earnings		165,752	155,780
Total Equity		224,725	227,355
Total Liabilities and Equity		1,696,034	1,607,807

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

			Reserves								
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2024	9,898	55,000	2,500	2,527	1,358	522	-	(1,827)	3	154,712	224,693
Profit for the period										10,683	10,683
Net changes in FV of fin. liab. due to changes in credit risk								1,670		(2,517)	(847)
Tax on net changes in FV of fin. liab. due to changes in credit risk								(334)		680	346
Foreign currency translation									(1)		(1)
Net changes in fair value of debt instruments at FVOCI							(149)				(149)
Reclassification to the income statement of debt inst. at FVOCI							2				2
Changes in allowance for ECL of debt instruments at FVOCI							16				16
Tax related to debt instruments at FVOCI							35				35
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(96)	1,336	(1)	8,846	10,085
Dividends										(12,303)	(12,303)
Purchase of treasury shares	(294)									(5,680)	(5,974)
Other changes to restricted reserves				14	(145)	72				59	-
Equity as at 30 June 2024	9,604	55,000	2,500	2,541	1,213	594	(96)	(491)	2	145,634	216,501

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

			Reserves								
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2025	9,473	55,000	2,500	2,829	1,067	648	192	(135)	1	155,780	227,355
Profit for the period										12,401	12,401
Net changes in FV of fin. liab. due to changes in credit risk								(355)		(133)	(488)
Tax on net changes in FV of fin. liab. due to changes in credit risk								71		35	106
Net changes in fair value of debt instruments at FVOCI							97				97
Reclassification to the income statement of debt inst. at FVOCI							(3)				(3)
Changes in allowance for ECL of debt instruments at FVOCI							(2)				(2)
Tax related to debt instruments at FVOCI							(24)				(24)
Total comprehensive income for the period	-	-	-	-	-	-	68	(284)	-	12,303	12,087
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(105)									(2,509)	(2,614)
Reduction in share capital		(12,528)	(149)							12,677	-
Other changes to restricted reserves				(140)	(147)	683				(396)	-
Equity as at 30 June 2025	9,368	42,472	2,351	2,689	920	1,331	260	(419)	1	165,752	224,725

The Bank's authorised and issued share capital on 30 June 2025 consisted of 1,880,470,770 ordinary shares (year-end 2024: 2,000,000,000) with a par value of ISK 5 each. The Annual General Meeting (AGM) for the 2024 operating year took place on 31 March 2025 where shareholders approved the Board's proposal to reduce the Bank's share capital by cancelling the Bank's own shares by ISK 597,646,150 nominal value, equivalent to 119,529,230 shares, from ISK 10,000,000,000 to ISK 9,402,353,850 nominal value.

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

Íslandsbanki bought back 21.1 million own shares for ISK 2,614 million during the first half of 2025 (first half 2024: 58.8 million own shares for ISK 5,974 million). As of 30 June 2025 the Bank owned 6.9 million own shares (year-end 2024: 105.4 million).

Upon derecognition (mainly repurchases) of financial liabilities designated at FVTPL the amount accumulated in liability credit risk reserve is transferred to retained earnings. In the first half of 2025 negative ISK 98 million (first half 2024: negative ISK 1,837 million) was transferred to retained earnings at derecognition of financial liabilities designated at FVTPL.

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	Notes	2025 1.1-30.6	2024 1.1-30.6
Profit for the period		12,401	10,683
Non-cash items included in profit for the period*		(19,895)	(18,945)
Changes in operating assets and liabilities*		9,370	22,897
Interest received		63,992	57,392
Interest paid**		(29,057)	(41,853)
Dividends received		850	431
Paid bank tax		(1,002)	(949)
Paid income tax and special financial activities tax		(5,126)	(3,641)
Net cash provided by operating activities		31,533	26,015
Purchase of investment property		(16)	(52)
Proceeds from sales of property and equipment		192	96
Purchase of property and equipment		(252)	(162)
Additions of intangible assets		(304)	(220)
Net cash used in investing activities		(380)	(338)
Proceeds from borrowings		72,344	71,216
Repayment and repurchases of borrowings		(30,924)	(116,872)
Repayment of lease liabilities		(290)	(283)
Dividends paid		(12,103)	(12,303)
Purchase of treasury shares		(2,614)	(5,974)
Net cash provided by (used in) financing activities		26,413	(64,216)
Net increase (decrease) in cash and cash equivalents		57,566	(38,539)
Effects of foreign exchange rate changes		(5,232)	(567)
Cash and cash equivalents at the beginning of the year		83,548	139,074
Cash and cash equivalents at the end of the period		135,882	99,968
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,537	4,020
Unrestricted balances with Central Bank	19	52,435	51,053
Money market loans and other loans to credit institutions	20	70,575	35,373
Bank accounts not pledged as collateral against derivative instruments	18, 20	9,335	9,522
Cash and cash equivalents at the end of the period		135,882	99,968

*For further breakdown see the following page.

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

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

Comparative figures have been changed. The Group's accounting policies regarding the definition of cash and cash equivalents have been updated. This change was made to ensure a fairer presentation of the Consolidated Interim Statement of Cash Flows. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments. As a result, "Cash and cash equivalents at the beginning of the year" increase by ISK 34,964 million (2024: ISK 52,602 million) and "Cash and cash equivalents at the end of the period" increase by ISK 83,607 million (first half 2024: ISK 33,669 million). In addition, the change affects "Changes in operating assets and liabilities" and therefore "Net cash provided by (used in) operating activities" and "Net increase in cash and cash equivalents".

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2025 1.1-30.6	2024 1.1-30.6
Net interest income	(26,820)	(24,613)
Unrealised fair value (gain) loss recognised in the income statement	618	(248)
Foreign exchange gain	(118)	(370)
Fair value gain on investment property	(284)	(854)
Share of profit from associates	(148)	(72)
Net gain from sales of property and equipment	(133)	(29)
Depreciation, amortisation, and write-offs	838	887
Bank tax	1,013	952
Net impairment on financial assets	(368)	592
Income tax expense	5,578	4,871
Profit (loss) from non-current assets held for sale, net of tax	12	(89)
Other changes	(83)	28
Total	(19,895)	(18,945)

Changes in operating assets and liabilities

	2025 1.1-30.6	2024 1.1-30.6
Mandatory reserve and pledged balances with Central Bank	(337)	(10,082)
Loans to credit institutions pledged as collateral against derivative instruments	1,191	296
Bonds and debt instruments	5,413	38,964
Loans to customers	(36,389)	(43,120)
Shares and equity instruments	5,581	(6,326)
Other assets	(8,197)	(4,146)
Non-current assets held for sale	(95)	768
Deposits from Central Bank and credit institutions	2,261	(5,771)
Deposits from customers	37,872	52,976
Derivative instruments and short positions	(1,267)	(542)
Other liabilities	3,337	(120)
Total	9,370	22,897

The notes on pages 15 to 55 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2025 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over six other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 31 July 2025.

2. Basis of preparation

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

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

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 June 2025 the exchange rate of the ISK against the USD was 121.33 and for the EUR 142.20 (year-end 2024: USD 138.20 and EUR 143.90).

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

Changes to accounting policies

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

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

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

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

Basis of measurement

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

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

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements

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

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

Impairment of financial assets

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

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

Change in economic indicators %	2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Economic growth (YoY real GDP change)	(0.7)	1.9	2.3	2.9	2.5
Housing prices in Iceland (average YoY change)	8.1	6.2	5.3	6.4	3.5
Purchasing power (average YoY change)	0.7	3.6	1.3	1.4	1.2
ISK exchange rate index (average YoY change)	(0.1)	(3.6)	(0.1)	1.8	1.0
Policy rate, Central Bank of Iceland (average per year)	9.1	7.6	6.0	5.3	5.3
Inflation (average per year)	5.9	4.0	3.6	3.6	3.2
Capital formation (YoY real change)	7.7	3.7	(2.2)	3.7	2.9
- thereof capital formation in industry	7.0	7.0	(5.0)	2.8	2.8

The All Risk Committee determined it appropriate to keep the weights of forward-looking scenarios at 20%-50%-30% (optimistic, base, pessimistic) at the end of the second quarter. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 240 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 90 million. Scenario weights can be scaled linearly, allowing a broader scope of analysis on the impairment allowance.

The impairment process is designed to be systematic so that it can be consistently applied. For the largest part of the loan portfolio, the Group employs an automatic process to assign facilities to stages and to estimate the ECL. For large or complex credit cases where the automatic process may not be appropriate, alternative ECL calculations, referred to as "manual impairment", can be proposed by experts. Each manual impairment is subsequently reviewed and approved or rejected by the Impairment Council. As of 30 June 2025, exposure to a few counterparties amounting to ISK 9.9 billion was subject to manual impairment, with the associated ECL totalling ISK 2.0 billion (year-end 2024: ISK 7.5 billion and ISK 1.5 billion, respectively).

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

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

4. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

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

Subsidiaries, eliminations and adjustments

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

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

4. Operating segments (continued)

1 January to 30 June 2025	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	9,064	9,700	6,886	1,296	(210)	26,736	84	26,820
Net fee and commission income (expense)	1,915	992	2,451	(123)	(7)	5,228	1,459	6,687
Other net operating income	49	15	1,112	(838)	210	548	(793)	(245)
Total operating income	11,028	10,707	10,449	335	(7)	32,512	750	33,262
Salaries and related expenses	(1,429)	(1,216)	(1,162)	(145)	(4,381)	(8,333)	(568)	(8,901)
Other operating expenses	(1,344)	(612)	(603)	(266)	(2,841)	(5,666)	(90)	(5,756)
Bank tax	(456)	(253)	(267)	(30)	(7)	(1,013)	-	(1,013)
Net impairment on financial assets	(107)	720	(150)	(64)	-	399	-	399
Cost allocation	(2,929)	(2,482)	(2,128)	322	7,217	-	-	-
Profit (loss) before tax	4,763	6,864	6,139	152	(19)	17,899	92	17,991
Income tax	(1,357)	(1,849)	(1,665)	(420)	2	(5,289)	(289)	(5,578)
Profit (loss) for the period before profit from non-current assets	3,406	5,015	4,474	(268)	(17)	12,610	(197)	12,413
Net segment revenue from external customers	12,776	12,745	16,257	(9,441)	175	32,512	750	33,262
Net segment revenue from other segments	(1,748)	(2,038)	(5,808)	9,776	(182)	-	-	-
Fee and commission income	3,978	1,119	2,658	118	(4)	7,869	1,737	9,606
Depreciation, amortisation, and write-offs	(98)	(28)	(5)	-	(699)	(830)	(8)	(838)
At 30 June 2025								
Loans to customers	623,995	348,007	359,232	54	-	1,331,288	-	1,331,288
Other assets	3,557	1,439	9,561	338,098	10,175	362,830	1,916	364,746
Total segment assets	627,552	349,446	368,793	338,152	10,175	1,694,118	1,916	1,696,034
Deposits from customers	500,276	283,434	153,988	31,169	-	968,867	(2,792)	966,075
Other liabilities	2,165	1,724	12,144	481,428	5,883	503,344	1,890	505,234
Total segment liabilities	502,441	285,158	166,132	512,597	5,883	1,472,211	(902)	1,471,309
Allocated equity	45,975	54,495	67,215	52,793	1,429	221,907	2,818	224,725
Risk exposure amount	282,323	331,199	400,451	57,634	8,321	1,079,928	4,564	1,084,492

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

Amounts are in ISK million

4. Operating segments (continued)

1 January to 30 June 2024	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	8,531	9,324	7,007	(100)	(268)	24,494	119	24,613
Net fee and commission income (expense)*	1,766	1,044	2,132	11	(23)	4,930	1,289	6,219
Other net operating income	(37)	57	852	(161)	129	840	(62)	778
Total operating income	10,260	10,425	9,991	(250)	(162)	30,264	1,346	31,610
Salaries and related expenses	(1,413)	(1,220)	(1,131)	(156)	(3,832)	(7,752)	(546)	(8,298)
Other operating expenses*	(1,381)	(620)	(575)	(238)	(2,971)	(5,785)	(73)	(5,858)
Administrative fines	-	-	-	-	(470)	(470)	-	(470)
Bank tax	(433)	(238)	(266)	(10)	(5)	(952)	-	(952)
Net impairment on financial assets	283	(1,471)	593	27	-	(568)	1	(567)
Cost allocation	(2,840)	(2,271)	(2,031)	283	6,859	-	-	-
Profit (loss) before tax	4,476	4,605	6,581	(344)	(581)	14,737	728	15,465
Income tax	(1,326)	(1,307)	(1,846)	(399)	153	(4,725)	(146)	(4,871)
Profit (loss) for the period before profit from non-current assets	3,150	3,298	4,735	(743)	(428)	10,012	582	10,594
Net segment revenue from external customers*	12,822	12,629	15,228	(10,405)	(10)	30,264	1,346	31,610
Net segment revenue from other segments	(2,562)	(2,204)	(5,237)	10,155	(152)	-	-	-
Fee and commission income	3,947	1,150	2,271	175	(1)	7,542	1,591	9,133
Depreciation, amortisation, and write-offs	(90)	(28)	(3)	-	(756)	(877)	(10)	(887)
At 31 December 2024								
Loans to customers	608,766	323,824	362,692	106	-	1,295,388	-	1,295,388
Other assets	3,654	1,618	4,784	291,344	9,180	310,580	1,839	312,419
Total segment assets	612,420	325,442	367,476	291,450	9,180	1,605,968	1,839	1,607,807
Deposits from customers	486,235	277,186	147,394	18,820	-	929,635	(2,789)	926,846
Other liabilities	3,404	3,997	10,536	428,420	5,635	451,992	1,614	453,606
Total segment liabilities	489,639	281,183	157,930	447,240	5,635	1,381,627	(1,175)	1,380,452
Allocated equity	44,719	51,133	65,596	61,675	1,218	224,341	3,014	227,355
Risk exposure amount	275,836	308,573	394,601	50,434	7,108	1,036,552	4,420	1,040,972

*Comparative figures have been changed. Expenses of ISK 496 million recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the first half of 2024 were reclassified to the line item "Net fee and commission income (expense)".

Amounts are in ISK million

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 June 2025	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	5	78	-	1	84
Net fee and commission income (expense)	729	747	-	(17)	1,459
Other net operating income	(118)	(21)	260	(914)	(793)
Total operating income	616	804	260	(930)	750
Salaries and related expenses	(400)	(135)	(33)	-	(568)
Other operating expenses	(129)	(94)	(215)	348	(90)
Profit (loss) before tax	87	575	12	(582)	92
Income tax	(18)	(140)	(4)	(127)	(289)
Profit for the period before profit from non-current assets	69	435	8	(709)	(197)
Net segment revenue from external customers	783	723	5	(761)	750
Net segment revenue from other segments	(167)	81	255	(169)	-
Fee and commission income	1,015	1,023	-	(301)	1,737
Depreciation, amortisation, and write-offs	-	(2)	(1)	(5)	(8)
At 30 June 2025					
Total assets	1,852	3,113	2,482	(5,531)	1,916
Total liabilities	304	1,246	92	(2,544)	(902)
Total equity	1,548	1,867	2,390	(2,987)	2,818

1 January to 30 June 2024	Íslands-sjóðir hf.	Allianz Ísland hf.*	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	7	64	47	1	119
Net fee and commission income (expense)*	668	643	(15)	(7)	1,289
Other net operating income	3	26	226	(317)	(62)
Total operating income	678	733	258	(323)	1,346
Salaries and related expenses	(382)	(123)	(41)	-	(546)
Other operating expenses*	(124)	(95)	(195)	341	(73)
Net impairment on financial assets	1	-	-	-	1
Profit before tax	173	515	22	18	728
Income tax	(36)	(108)	(2)	-	(146)
Profit for the period before profit from non-current assets	137	407	20	18	582
Net segment revenue from external customers*	844	661	5	(164)	1,346
Net segment revenue from other segments	(166)	72	253	(159)	-
Fee and commission income	945	942	-	(296)	1,591
Depreciation, amortisation, and write-offs	-	(2)	(2)	(6)	(10)
At 31 December 2024					
Total assets	2,198	3,102	2,401	(5,862)	1,839
Total liabilities	287	1,228	59	(2,749)	(1,175)
Total equity	1,911	1,874	2,342	(3,113)	3,014

*Comparative figures have been changed. Expenses of ISK 299 million recognised in the line item "Other operating expenses" for Allianz Ísland hf. in the Condensed Consolidated Interim Financial Statements for the first half of 2024 were reclassified to the line item "Net fee and commission income (expense)".

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Cash and balances with Central Bank	1,297	2,066	802	961
Loans to credit institutions	1,395	1,882	643	991
Loans to customers	61,497	65,647	31,662	34,137
Financial assets mandatorily at fair value through other comprehensive income	3,289	2,186	1,502	1,530
Interest income calculated using the effective interest rate method	67,478	71,781	34,609	37,619
Financial assets mandatorily at fair value through profit or loss	2,126	3,850	1,047	1,391
Other assets	3	2	1	-
Other interest income	2,129	3,852	1,048	1,391
Deposits from Central Bank and credit institutions	(162)	(196)	(93)	(107)
Deposits from customers	(27,138)	(31,423)	(13,356)	(16,217)
Financial liabilites mandatorily at fair value through profit or loss*	(1,530)	(2,622)	(679)	(1,286)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(507)	(1,763)	(419)	(866)
Debt issued and other borrowed funds at amortised cost*	(11,867)	(12,797)	(6,374)	(6,897)
Subordinated loans	(1,526)	(2,081)	(820)	(1,124)
Lease liabilities	(36)	(39)	(18)	(19)
Other liabilities*	(21)	(99)	(17)	(3)
Interest expense	(42,787)	(51,020)	(21,776)	(26,519)
Net interest income	26,820	24,613	13,881	12,491

*The presentation of interest expense has been updated, and comparative figures have been changed accordingly. Expenses of ISK 3,146 million in the first half of 2024 (second quarter 2024: ISK 1,613 million) recognised in the line item "Other liabilities" in the Condensed Consolidated Interim Financial Statements for the first half of 2024, have been reclassified to other line items, with ISK 2,622 million in the first half of 2024 (second quarter 2024: ISK 1,286 million) reclassified as "Financial liabilities mandatorily at fair value through profit or loss" and ISK 524 million in the first half of 2024 (second quarter 2024: ISK 327 million) reclassified as "Debt issued and other borrowed funds at amortised cost".

6. Net fee and commission income

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Asset management	1,464	1,371	711	664
Investment banking and brokerage	1,873	1,667	1,091	874
Payment processing	4,008	3,984	2,112	2,118
Loans and guarantees	1,031	1,048	534	529
Other fee and commission income	1,230	1,063	531	479
Fee and commission income	9,606	9,133	4,979	4,664
Brokerage	(305)	(265)	(177)	(157)
Payment processing expenses*	(2,190)	(2,304)	(1,063)	(1,157)
Other fee and commission expense*	(424)	(345)	(119)	(141)
Fee and commission expense	(2,919)	(2,914)	(1,359)	(1,455)
Net fee and commission income	6,687	6,219	3,620	3,209

*Comparative figures have been changed. Expenses of ISK 496 million in the first half of 2024 (second quarter 2024: ISK 210 million) recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the first half of 2024 were reclassified in the line item "Fee and commission expense". In the first half of 2024 ISK 157 million (second quarter 2024: ISK 72 million) were reclassified as "Payment processing expenses" and in the first half of 2024 ISK 339 million (second quarter 2024: ISK 138 million) were reclassified as "Other fee and commission expense".

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial income (expense)

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(217)	(830)	277	(274)
Net gain (loss) on financial liabilities designated as at FVTPL	(749)	70	(293)	(122)
Net gain (loss) on fair value hedges	10	11	49	(7)
Net gain (loss) on derecognition of financial liabilities measured at amortised cost	(18)	103	(21)	(90)
Net loss on derecognition of financial assets measured at amortised cost	-	(87)	-	(4)
Net gain (loss) on sale of debt instruments measured at FVOCI	1	(2)	1	(2)
Net financial income (expense)	(973)	(735)	13	(499)

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

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Fair value changes of the hedged items attributable to the hedged risk	(213)	909	(357)	542
Fair value changes of the hedging derivatives	223	(898)	406	(549)
Net gain (loss) on fair value hedges	10	11	49	(7)

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

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Net loss on bonds and related derivatives	(98)	(255)	(105)	(198)
Net loss on shares and related derivatives	(1,539)	(661)	(442)	(366)
Dividend income	850	431	555	170
Net gain on debt issued and related derivatives	120	269	87	121
Net loss on economic hedging and other derivatives	(307)	(430)	(84)	(220)
Net loss on derecognition of financial assets measured at amortised cost	-	(87)	-	(4)
Net gain (loss) on sale of debt instruments measured at FVOCI	1	(2)	2	(2)
Net financial income (expense)	(973)	(735)	13	(499)

8. Net foreign exchange gain

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Cash and balances with Central Bank	(83)	(28)	(66)	(11)
Loans at amortised cost	(9,793)	(1,833)	(5,361)	(574)
Financial assets mandatorily at fair value through profit or loss	(86)	(1,352)	(2,698)	748
Financial assets mandatorily at fair value through other comprehensive income	(888)	(66)	(706)	(168)
Other assets	(16)	20	2	21
Net foreign exchange gain (loss) for assets	(10,866)	(3,259)	(8,829)	16
Deposits	7,794	(458)	5,023	(41)
Debt issued and other borrowed funds designated as at fair value through profit or loss	757	935	159	534
Debt issued and other borrowed funds at amortised cost	2,571	2,663	3,421	(158)
Subordinated loans	(138)	489	297	(177)
Net foreign exchange gain for liabilities	10,984	3,629	8,900	158
Net foreign exchange gain	118	370	71	174

Amounts are in ISK million

9. Other operating income

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Fair value changes on investment property	284	854	(6)	(52)
Share of profit (loss) of associates, net of tax	148	72	(8)	44
Gain from sales of property and equipment	133	29	133	3
Legal fees	34	30	18	16
Rental income	11	28	6	13
Other net operating income	-	130	-	21
Other operating income	610	1,143	143	45

10. Salaries and related expenses

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Salaries	6,877	6,377	3,421	3,171
Contributions to pension funds	1,060	972	529	486
Social security charges and financial activities tax*	920	861	464	442
Other salary-related expenses	104	88	47	31
Capitalisation of salaries and related expenses in software development	(60)	-	(49)	-
Salaries and related expenses	8,901	8,298	4,412	4,130

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

An extraordinary shareholder meeting of Íslandsbanki was held on 30 June 2025, where proposed amendments to the Bank's Remuneration Policy were approved. Two provisions were introduced under Article 7: the ability to establish a special incentive scheme for employees and the option to adopt a stock option plan in accordance with Article 10 of the Income Tax Act no. 90/2003. These changes aim to enhance the Bank's flexibility in rewarding performance and aligning employee incentives with the Bank's long-term goals. All necessary approvals for the stock option plan have been obtained.

11. Other operating expenses

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Professional services*	974	903	498	456
Software and IT expenses*	2,442	2,467	1,197	1,234
Real estate and office equipment	356	359	177	177
Depreciation, amortisation, and write-offs	838	887	422	485
Other administrative expenses	1,146	1,242	555	564
Other operating expenses	5,756	5,858	2,849	2,916

*Comparative figures have been changed. Expenses of ISK 299 million in the first half of 2024 (second quarter of 2024: ISK 118 million) recognised in the line item "Professional services" and expenses of ISK 197 million in the first half of 2024 (second quarter of 2024: ISK 92 million) recognised in the line item "Software and IT expenses" in the Condensed Consolidated Interim Financial Statements for the first half of 2024 were reclassified in the line item "Fee and commission expense".

Amounts are in ISK million

12. Net impairment on financial assets

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Net change in expected credit losses, on-balance sheet items	413	(321)	397	443
Net change in expected credit losses, off-balance sheet items	(14)	(246)	5	(306)
Net impairment on financial assets	399	(567)	402	137

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2025 is 20% (2024: 21%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first half 2025 is 31.0% (first half 2024: 31.5%).

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Current tax expense excluding tax from non-current assets held for sale	4,676	4,248	2,922	1,984
Special financial activities tax	1,326	1,147	844	534
Adjustments in prior year's calculated income tax	85	(12)	63	5
Changes in deferred tax assets and deferred tax liabilities	(509)	(512)	(674)	(120)
Income tax recognised in the income statement	5,578	4,871	3,155	2,403
Income tax recognised in other comprehensive income	(82)	(381)	(89)	(263)

	2025 1.1-30.6		2024 1.1-30.6	
Profit before tax	17,991		15,465	
Income tax calculated on the profit for the period	3,598	20.0%	3,248	21.0%
Special financial activities tax	1,326	7.4%	1,147	7.4%
Adjustments in prior years' calculated income tax	85	0.5%	(12)	(0.1%)
Income not subject to tax	(227)	(1.3%)	(309)	(2.0%)
Non-deductible expenses	792	4.4%	813	5.3%
Other differences	4	0.0%	(16)	(0.1%)
Effective income tax expense	5,578	31.0%	4,871	31.5%

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

14. Earnings per share

	2025 1.1-30.6	2024 1.1-30.6	2025 1.4-30.6	2024 1.4-30.6
Profit attributable to shareholders of the Bank	12,401	10,683	7,192	5,266
Weighted average number of outstanding shares	1,878	1,959	1,874	1,946
Basic earnings per share (ISK)	6.60	5.45	3.84	2.71

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 30 June 2025	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	87,241	87,241
Loans to credit institutions	-	-	-	80,481	80,481
Listed bonds and debt instruments**	11,954	-	114,709	-	126,663
Listed bonds and debt instruments used for economic hedging	10,252	-	-	-	10,252
Unlisted bonds and debt instruments	1,924	-	-	-	1,924
Derivatives	5,183	2,214	-	-	7,397
Loans to customers	-	-	-	1,331,288	1,331,288
Listed shares and equity instruments	4,557	-	-	-	4,557
Listed shares and equity instruments used for economic hedging	11,035	-	-	-	11,035
Unlisted shares and equity instruments	2,566	-	-	-	2,566
Other financial assets	-	-	-	13,294	13,294
Total financial assets	47,471	2,214	114,709	1,512,304	1,676,698

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	14,876	14,876
Deposits from customers	-	-	-	966,075	966,075
Derivative instruments and short positions	8,502	-	-	-	8,502
Debt issued and other borrowed funds	-	87,688	44,120	279,201	411,009
Subordinated loans	-	-	-	32,687	32,687
Other financial liabilities	-	-	-	20,503	20,503
Total financial liabilities	8,502	87,688	44,120	1,313,342	1,453,652

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

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

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

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

Amounts are in ISK million

16. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following tables show financial instruments carried at fair value at 30 June 2025 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

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

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

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

At 30 June 2025	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	136,915	-	1,924	138,839
Derivatives	-	7,397	-	7,397
Shares and equity instruments	15,592	-	2,566	18,158
Total financial assets	152,507	7,397	4,490	164,394
Short positions	148	-	-	148
Derivative instruments	-	8,354	-	8,354
Debt issued and other borrowed funds designated as at FVTPL	44,120	-	-	44,120
Total financial liabilities	44,268	8,354	-	52,622

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

Amounts are in ISK million

16. Fair value information for financial instruments (continued)

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2025	2,020	2,417	4,437
Purchases and share capital increase	-	5	5
Net gain (loss) on financial instruments recognised in the income statement	(96)	144	48
Fair value at 30 June 2025	1,924	2,566	4,490

Bonds and debt instruments consist solely of the Bank's claim on the property company Þórkatla. Since there is significant uncertainty regarding the recoverability of interest, earned interest is not recognised on the claim on Þórkatla. The nominal value, including accrued interest, of the claim was ISK 3,566 million at 30 June 2025 (year-end 2024: ISK 3,422 million).

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

Sensitivity analysis for Level 3 financial instruments

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

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

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

Significant unobservable inputs used in the valuation of Level 3 shares and equity instruments include discount rates and the expected price of certain industrial materials. The sensitivity analysis for Level 3 shares and equity instruments includes only financial instruments that are highly sensitive to changes in fair value measurement inputs. The fair value of Level 3 shares and equity instruments that are included in the sensitivity analysis amounted to ISK 448 million at 30 June 2025 (year-end 2024: ISK 274 million).

At 30 June 2025	Very favourable	Favourable	Unfavour-able	Very unfavour-able
Level 3 bonds and debt instruments	1,214	1,002	(1,193)	(1,411)
Level 3 shares and equity instruments	537	97	(171)	(412)

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

Amounts are in ISK million

17. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

At 30 June 2025	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	87,241	-	87,241	87,241	-
Loans to credit institutions	-	80,481	-	80,481	80,481	-
Loans to customers	-	-	1,324,112	1,324,112	1,331,288	(7,176)
Other financial assets	-	13,294	-	13,294	13,294	-
Total financial assets	-	181,016	1,324,112	1,505,128	1,512,304	(7,176)
Deposits from Central Bank and credit institutions	-	14,876	-	14,876	14,876	-
Deposits from customers	-	966,078	-	966,078	966,075	3
Debt issued and other borrowed funds	264,435	10,328	-	274,763	279,201	(4,438)
Subordinated loans	32,226	-	-	32,226	32,687	(461)
Other financial liabilities	-	20,503	-	20,503	20,503	-
Total financial liabilities	296,661	1,011,785	-	1,308,446	1,313,342	(4,896)

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

18. Offsetting financial assets and financial liabilities

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

At 30 June 2025, and at year-end 2024, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	30.6.2025	31.12.2024
Financial assets	7,397	5,324
Amounts not set off but subject to master netting arrangements and similar agreements	(6,070)	(4,701)
- Financial liabilities	(3,246)	(1,763)
- Cash collateral received	(2,607)	(2,937)
- Financial instruments collateral received	(217)	(1)
Net amount after consideration of potential effect of netting arrangements	1,327	623

Derivative instruments and short positions	30.6.2025	31.12.2024
Financial liabilities	8,502	7,306
Amounts not set off but subject to master netting arrangements and similar agreements	(3,817)	(3,485)
- Financial assets	(3,246)	(1,763)
- Cash collateral pledged	(571)	(1,722)
Net amount after consideration of potential effect of netting arrangements	4,685	3,821

19. Cash and balances with Central Bank

	30.6.2025	31.12.2024
Cash on hand	3,537	3,621
Unrestricted balances with Central Bank	52,435	31,163
Cash and unrestricted balances with Central Bank	55,972	34,784
Balances pledged as collateral to Central Bank	906	814
Mandatory reserve deposits with Central Bank	30,363	30,118
Cash and balances with Central Bank	87,241	65,716

20. Loans to credit institutions

	30.6.2025	31.12.2024
Money market loans	67,106	33,828
Bank accounts	9,906	13,800
Other loans	3,469	2,858
Loans to credit institutions	80,481	50,486

Amounts are in ISK million

21. Derivative instruments and short positions

At 30 June 2025	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,897	191,967	976	66,770
Cross-currency interest rate swaps	129	9,568	151	5,000
Equity forwards	1,082	6,226	588	5,380
Foreign exchange forwards	585	6,966	2,693	29,923
Foreign exchange swaps	1,461	29,096	3,934	94,333
Bond forwards	243	8,846	12	3,184
Derivatives	7,397	252,669	8,354	204,590
Short positions in listed bonds	-	-	148	143
Total	7,397	252,669	8,502	204,733

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

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 28) arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 June 2025 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 2,214 million (year-end 2024: ISK 2,101 million) and their total notional amount was ISK 85,320 million (year-end 2024: ISK 86,340 million).

Amounts are in ISK million

22. Loans to customers

At 30 June 2025	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
Individuals	627,330	7,676	7,384	(711)	(139)	(672)	640,868
Commerce and services	177,191	22,928	2,433	(657)	(252)	(665)	200,978
Construction	91,741	6,485	687	(806)	(107)	(111)	97,889
Energy	15,629	168	-	(29)	(1)	-	15,767
Financial services	100	-	-	-	-	-	100
Industrial and transportation	88,439	1,631	6,450	(215)	(22)	(1,281)	95,002
Investment companies	40,785	3,129	366	(304)	(36)	(60)	43,880
Public sector and non-profit organisations	16,796	156	1	(30)	-	(1)	16,922
Real estate	141,282	2,823	4,242	(370)	(128)	(522)	147,327
Seafood	70,729	1,899	12	(73)	(7)	(5)	72,555
Loans to customers	1,270,022	46,895	21,575	(3,195)	(692)	(3,317)	1,331,288

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

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	111	-	-	111
Loans to customers	3,195	692	3,317	7,204
Other financial assets	5	4	-	9
Off-balance sheet loan commitments and financial guarantees	664	37	223	924
At 30 June 2025	3,992	733	3,540	8,265
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	47	-	-	47
Loans to customers	3,496	975	3,349	7,820
Other financial assets	42	4	-	46
Off-balance sheet loan commitments and financial guarantees	565	32	314	911
At 31 December 2024	4,167	1,011	3,663	8,841

Amounts are in ISK million

23. Expected credit losses (continued)

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

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2025	3,496	975	3,349	7,820
Transfer to Stage 1	437	(357)	(80)	-
Transfer to Stage 2	(314)	357	(43)	-
Transfer to Stage 3	(40)	(229)	269	-
Net remeasurement of loss allowance	(1,161)	(99)	35	(1,225)
New financial assets originated or purchased	1,479	111	254	1,844
Derecognitions and maturities	(702)	(66)	(392)	(1,160)
Write-offs*	-	-	(278)	(278)
Recoveries of amounts previously written off	-	-	30	30
Foreign exchange	-	-	(4)	(4)
Unwinding of interest	-	-	177	177
At 30 June 2025	3,195	692	3,317	7,204

*During the period financial assets amounting to ISK 303 million were written off but are still subject to enforcement activity.

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

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

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2025	565	32	314	911
Transfer to Stage 1	42	(27)	(15)	-
Transfer to Stage 2	(5)	17	(12)	-
Transfer to Stage 3	(3)	(4)	6	(1)
Net remeasurement of loss allowance	(230)	23	(55)	(262)
New loan commitments and financial guarantees	415	5	21	441
Derecognitions and maturities	(120)	(9)	(36)	(165)
At 30 June 2025	664	37	223	924

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

Amounts are in ISK million

24. Other assets

	30.6.2025	31.12.2024
Receivables	1,636	2,250
Unsettled securities transactions	11,737	4,116
Prepaid expenses	1,886	648
Deferred tax assets	223	164
Other assets	118	126
Other assets	15,600	7,304

25. Deposits from Central Bank and credit institutions

	30.6.2025	31.12.2024
Deposits from credit institutions	14,742	12,351
Repurchase agreements with Central Bank	134	184
Deposits from Central Bank and credit institutions	14,876	12,535

26. Deposits from customers

	30.6.2025	31.12.2024
Demand deposits and deposits with maturity up to 3 months	856,879	809,009
Term deposits with maturity of more than 3 months	109,196	117,837
Deposits from customers	966,075	926,846

	30.6.2025		31.12.2024	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	15,415	2%	12,825	1%
Municipalities	11,230	1%	10,388	1%
Companies	431,523	45%	408,994	44%
Individuals	507,907	52%	494,639	54%
Deposits from customers	966,075	100%	926,846	100%

27. Pledged assets

	30.6.2025	31.12.2024
Loans to customers pledged as collateral against Covered Bonds	406,253	410,481
Cash and balances pledged as collateral against Covered Bonds	14,764	15,213
Financial assets pledged as collateral with the Central Bank	6,373	8,484
Loans to credit institutions pledged as collateral against derivative instruments	1,099	1,947
Pledged assets against liabilities	428,489	436,125
Pledged assets against Covered Bonds held by the Bank	(153,553)	(160,665)
Pledged assets against liabilities on balance	274,936	275,460

The Group has pledged assets against the issuance of Covered Bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 30 June 2025 was ISK 127,934 million (year-end 2024: ISK 133,643 million).

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

Amounts are in ISK million

28. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.6.2025	31.12.2024
ISB CBI 26 - ISK 23,900 million	2015	2026	Bullet	Fixed CPI, 3.37%	36,711	36,710
ISB CB 27 - ISK 16,336 million	2020	2027	Amortising	Fixed, 2.50%	15,280	18,911
ISB CBF 27 - ISK 8,940 million	2022	2027	Bullet	REIBOR 1M + 0.40%	8,977	9,024
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed, 3.00%	43,860	43,563
ISB CBI 28 - ISK 15,407 million	2019	2028	Amortising	Fixed CPI, 2.20%	22,340	24,122
ISB CBI 29 - ISK 34,780 million	2023	2029	Bullet	Fixed CPI, 2.72%	38,345	37,758
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed CPI, 3.00%	34,357	33,541
ISB CB 31 - ISK 2,760 million	2025	2031	Bullet	Fixed, 7.39%	2,771	-
ISB CBI 32 - ISK 7,500 million	2024	2032	Bullet	Fixed CPI, 3.44%	7,840	4,110
Covered bonds					210,481	207,739
ISK 1,240 million	2020	2025	Bullet	Fixed, 3.50%	1,262	1,238
SEK 0 million	2021	2025	Bullet	STIBOR 3M + 1.075%	-	151
NOK 0 million	2021	2025	Bullet	NIBOR 3M + 1.075%	-	481
EUR 0 million**	2022	2025	Bullet	Fixed, 0.75%	-	21,419
NOK 1,400 million	2022	2025	Bullet	NIBOR 3M + 4.75%	16,999	17,277
SEK 434 million	2023	2026	Bullet	STIBOR 3M + 3.65%	5,603	6,344
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 2.70%	6,423	6,330
ISK 3,867 million	2022	2027	Amortising	REIBOR 1M + 1.25%	3,883	4,689
ISK 6,940 million	2022	2027	Bullet	Fixed, 7.70%	7,221	6,950
SEK 500 million	2024	2027	Bullet	STIBOR 3M + 2.35%	6,426	6,336
NOK 500 million	2024	2027	Bullet	NIBOR 3M + 2.35%	6,076	6,177
NOK 200 million	2024	2027	Bullet	NIBOR 3M + 1.20%	2,436	2,477
SEK 300 million	2024	2027	Bullet	STIBOR 3M + 1.20%	3,858	3,807
NOK 200 million	2025	2027	Bullet	NIBOR 3M + 1.20%	2,429	-
SEK 200 million	2025	2027	Bullet	STIBOR 3M + 1.20%	2,567	-
ISK 19,460 million	2023	2028	Bullet	Fixed CPI, 4.48%	21,465	15,039
EUR 300 million*	2024	2028	Bullet	Fixed, 4.625%	43,828	45,268
NOK 100 million	2025	2028	Bullet	NIBOR 3M + 1.20%	1,215	-
SEK 500 million	2025	2028	Bullet	STIBOR 3M + 1.20%	6,419	-
EUR 300 million**	2025	2030	Bullet	Fixed, 3.875%	44,120	-
ISK 7,600 million	2024	2036	Bullet	Fixed CPI, 3.50%	7,786	3,904
Unsecured bonds					190,016	147,887
Other unsecured loans					10,512	11,960
Other borrowed funds					10,512	11,960
Debt issued and other borrowed funds					411,009	367,586

The Group repurchased own bonds during the period amounting to ISK 2,326 million (first half 2024: ISK 71,967 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of these fixed-rate EUR denominated bonds arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 June 2025 the total carrying amount of these bond issuances amounted to ISK 87,688 million and included in the amount are negative fair value changes amounting to ISK 1,117 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 30 June 2025 the total carrying amount of the bonds amounted to ISK 44,120 million and included in the amount are negative fair value changes amounting to ISK 1,111 million.

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

29. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	Callable	Interest	30.6.2025	31.12.2024
ISK 1,500 million	2022	2033	2028	Fixed, 8.62%	1,526	1,526
ISK 9,020 million	2022	2033	2028	Fixed CPI, 4.86%	10,677	10,410
ISK 9,600 million	2023	2034	2029	Fixed CPI, 5.80%	10,959	10,388
Tier 2 subordinated loans					23,162	22,324
SEK 750 million	2021	Perpetual	2026	STIBOR 3M + 4.75%	9,525	9,371
Additional Tier 1 subordinated loans					9,525	9,371
Subordinated loans					32,687	31,695

30. Other liabilities

	30.6.2025	31.12.2024
Accruals	3,347	2,741
Lease liabilities	3,300	3,391
Expected credit losses for off-balance sheet loan commitments and financial guarantees	924	910
Withholding tax	2,530	6,302
Unsettled securities transactions	11,060	5,298
Sundry liabilities	3,596	2,926
Other liabilities	24,757	21,568

31. Custody assets

	30.6.2025	31.12.2024
Custody assets - not managed by the Group	3,625,704	3,873,964

Amounts are in ISK million

32. Íslandsbanki's shareholders

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

		30.6.2025	31.12.2024
LSR Pension Fund	Iceland	8.2%	8.0%
Gildi Pension Fund	Iceland	7.3%	7.2%
Live Pension Fund	Iceland	5.8%	5.8%
Capital Group	USA	5.4%	5.3%
Vanguard	USA	4.2%	2.4%
Brú Pension Fund	Iceland	4.0%	3.9%
Frjálsi Pension Fund	Iceland	2.1%	1.5%
Birta Pension Fund	Iceland	1.6%	1.6%
Stapi Pension Fund	Iceland	1.4%	1.1%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Almenni Pension Fund	Iceland	1.1%	1.1%
Eaton Vance	USA	1.1%	0.2%
Festa Pension Fund	Iceland	1.0%	1.2%
The Government of Iceland	Iceland	0.0%	44.9%
Other shareholders		55.6%	14.6%
Total		100.0%	100.0%

At 30 June 2025 the number of shareholders of the Bank was 31,703 (year-end 2024: 9,961) where 84.4% of the Bank's shares were owned by domestic parties and 15.6% by international investors (year-end 2024: 90.1% domestic parties and 9.9% international investors). The Bank's employees, board members and related parties of the employees and board members, held 0.45% of shares in the Bank (year-end 2024: 0.13%). Treasury shares amounted to 6.9 million shares, representing 0.37% of the issued share capital (year-end 2024: 105.4 million shares, or 5.27% of the issued share capital). The decrease in treasury shares during the period resulted from shareholders approving the Board's proposal at the AGM on 31 March 2025 to reduce the Bank's share capital, see further in the "Consolidated Interim Statement of Changes in Equity".

Beneficial owners

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

Amounts are in ISK million

33. Related party

Íslandsbanki had a related party relationship with the Government of Iceland, which was the largest shareholder and had significant influence over the Group until May 2025, when the Government of Iceland sold its remaining shareholding in the Bank. The shares were administered by the Icelandic State Financial Investments (ISFI) until its dissolution on 1 January 2025. After which, the shares were administered by the Ministry of Finance and Economic Affairs until the completion of the sell-down in May 2025.

As a result, the Government of Iceland and the ISFI (until its dissolution) were defined as related parties until the completion of the sell-down. The Group applied the partial exemption for government-related entities, as described in IAS 24 for the period in which the Government was a related party.

The boards of directors, key management personnel, their close family members, and any legal entities controlled by these individuals of each of the Bank, the Bank's subsidiaries, and the ISFI (until its dissolution), are defined as related parties.

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

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

At 30 June 2025	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	922	562	360	78
Associated companies	2,654	4,483	3,105	4,032	157
Balances with related parties	2,654	5,405	3,667	4,392	235

1 January to 30 June 2025	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	42	19	1	23
Associated companies	239	10	1	996
Transactions with related parties	281	29	2	1,019

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

1 January to 30 June 2024	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	56	24	3	35
Associated companies	280	48	-	1,076
Transactions with related parties	336	72	3	1,111

At 30 June 2025 a total of ISK 1 million (year-end 2024: ISK 1 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the period.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

34. Legal proceedings

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

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn appealed the judgement to the Court of Appeal, which confirmed the District Court's judgement on 20 February 2025. Following the judgement Landsbankinn requested a permit to appeal that judgement to the Supreme Court. On 13 May 2025 the Supreme Court denied the request for appeal, thus making the judgement of the Court of Appeal final in this matter.

Contingent liabilities

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

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

34. Legal proceedings (continued)

The Consumers' Association of Iceland (continued)

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes on policy rates during the same period. On 12 November 2024, the District Court of Reykjanes rendered a judgement in the case where all claims made by the plaintiffs against the Bank were dismissed. The plaintiffs have appealed the judgement and were granted permission to appeal directly to the Supreme Court without first going to the Court of Appeal. The case will be heard by the Supreme Court on 16 September 2025.

Should the judgement be overturned on appeal, it is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 21 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank.

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

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

EC Clear ehf.

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

35. Events after the reporting period

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

36. Risk management

Risk governance

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

37. Credit risk

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

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

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

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

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

38. Maximum credit exposure and collateral

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

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

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 123 million are subject to 100% Government guarantee and ISK 278 million to 85% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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

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

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

38 Maximum credit exposure and collateral (continued)

At 30 June 2025 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	87,241	-	-	-	-	-	-	-	87,241	17
Loans to credit institutions	80,481	-	-	-	-	-	-	-	80,481	111
Bonds and debt instruments	114,709	-	-	-	-	-	-	-	114,709	-
Loans to customers:	1,331,288	693,273	311,896	57,308	37,378	83,308	64,018	1,247,181	84,107	7,204
Individuals	640,868	580,895	5,387	5	334	15,112	146	601,879	38,989	1,522
- Thereof mortgages	577,891	576,294	-	-	327	-	-	576,621	1,270	254
Commerce and services	200,978	13,110	80,172	943	10,512	54,897	28,357	187,991	12,987	1,574
Construction	97,889	56,445	33,130	50	184	3,489	2,454	95,752	2,137	1,024
Energy	15,767	34	10,457	-	3,034	142	26	13,693	2,074	30
Financial services	100	83	-	-	-	-	-	83	17	-
Industrial and transportation	95,002	1,109	58,017	-	5,504	8,989	17,377	90,996	4,006	1,518
Investment companies	43,880	1,921	13,069	-	16,557	235	7,810	39,592	4,288	400
Public sector and non-profit organisations	16,922	44	766	-	5	24	7	846	16,076	31
Real estate	147,327	39,202	104,044	-	1,157	260	484	145,147	2,180	1,020
Seafood	72,555	430	6,854	56,310	91	160	7,357	71,202	1,353	85
Other financial assets	13,294	-	-	-	-	-	-	-	13,294	9
Off-balance sheet items:	223,262	19,388	37,168	7,194	11,613	144	15,500	91,007	132,255	924
Financial guarantees	20,893	1,868	7,281	5	1,524	-	1,740	12,418	8,475	276
Loan commitments	202,369	17,520	29,887	7,189	10,089	144	13,760	78,589	123,780	648
Total	1,850,275	712,661	349,064	64,502	48,991	83,452	79,518	1,338,188	512,087	8,265

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

Amounts are in ISK million

38 Maximum credit exposure and collateral (continued)

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

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

Amounts are in ISK million

39. Credit quality of financial assets

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

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

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

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

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

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

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

At 30 June 2025

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	505,277	1,519	-	506,796
Risk class 5-6	555,254	12,347	-	567,601
Risk class 7-8	194,185	27,154	-	221,339
Risk class 9	14,978	5,698	-	20,676
Risk class 10	-	-	21,575	21,575
Unrated	328	177	-	505
	1,270,022	46,895	21,575	1,338,492
Expected credit losses	(3,195)	(692)	(3,317)	(7,204)
Net carrying amount	1,266,827	46,203	18,258	1,331,288

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	104,433	94	-	104,527
Risk class 5-6	77,916	1,166	-	79,082
Risk class 7-8	37,036	627	-	37,663
Risk class 9	567	121	-	688
Risk class 10	-	-	1,050	1,050
Unrated	1,151	25	-	1,176
	221,103	2,033	1,050	224,186
Expected credit losses	(664)	(37)	(223)	(924)
Total	220,439	1,996	827	223,262

Amounts are in ISK million

39. Credit quality of financial assets (continued)

At 31 December 2024

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

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

Amounts are in ISK million

40. Forbearance

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

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

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for a loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of the customer's facilities have to be considered performing during the probation period; and
- The customer does not have any contract that is more than 30 days past due; and
- The probation period of two years has passed from the date of the forbearance event; and
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period.

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

At 30 June 2025

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	3,471	(11)	4,583	(33)	2,258	(160)	10,312	(204)
Companies	1,472	(23)	17,718	(287)	6,718	(1,119)	25,908	(1,429)
Total	4,943	(34)	22,301	(320)	8,976	(1,279)	36,220	(1,633)

At 31 December 2024

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

Amounts are in ISK million

41. Large exposures disclosure

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

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had four large exposures at 30 June 2025 (year-end 2024: two). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 30 June 2025

Groups of connected clients:	Before	After
Group 1	81%	6%
Group 2	12%	12%
Group 3	10%	10%
Group 4	10%	10%
Group 5	10%	10%

At 31 December 2024

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

42. Liquidity risk

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

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

Amounts are in ISK million

43. Liquidity coverage and net stable funding ratio

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

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

Net stable funding ratio

	30.6.2025	31.12.2024
For all currencies	125%	125%

Liquidity coverage ratio

	30.6.2025	31.12.2024
For all currencies	185%	168%
ISK	121%	126%
EUR	542%	449%

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

At 30 June 2025

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	84,468	778	405	466	86,117
Foreign government bonds	-	26,161	-	-	26,161
Domestic bonds eligible as collateral with Central Bank	65,201	5,762	-	8,461	79,424
Level 2 liquid assets	32,286	3,756	-	332	36,374
High quality liquidity assets	181,955	36,457	405	9,259	228,076
Balance with financial institutions	2	41,840	32,381	2,596	76,819
Liquidity reserve	181,957	78,297	32,786	11,855	304,895

At 31 December 2024

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

Amounts are in ISK million

44. Maturity analysis of financial assets and financial liabilities

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

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

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

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

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

At 30 June 2025

	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	60,159	27,066	-	-	-	-	87,225	87,241
Loans to credit institutions	9,766	72,092	-	-	-	-	81,858	80,481
Bonds and debt instruments	-	39,789	23,365	75,973	6,549	-	145,676	138,839
Derivatives	-	4,222	27	1,116	557	-	5,922	7,397
- Net settled derivatives	-	1,324	-	-	-	-	1,324	1,324
- Inflow	-	32,403	10,847	25,864	1,295	-	70,409	59,472
- Outflow	-	(29,505)	(10,820)	(24,748)	(738)	-	(65,811)	(53,399)
Loans to customers	2,433	120,894	190,286	685,183	1,822,468	-	2,821,264	1,331,288
Shares and equity instruments	-	-	-	-	-	18,158	18,158	18,158
Other financial assets	12,735	521	38	-	-	-	13,294	13,294
Total financial assets	85,093	264,584	213,716	762,272	1,829,574	18,158	3,173,397	1,676,698
Deposits from CB and credit institutions	11,071	3,808	-	-	-	-	14,879	14,876
Deposits from customers	800,393	81,108	63,207	25,382	49,386	-	1,019,476	966,075
Derivative instruments and short positions	-	4,392	3,923	15	251	-	8,581	8,502
- Net settled derivatives	-	646	-	-	-	-	646	646
- Inflow	-	(93,287)	(41,797)	(11,669)	-	-	(146,753)	(138,409)
- Outflow	-	97,032	45,718	11,671	-	-	154,421	146,117
- Short positions	-	1	2	13	251	-	267	148
Debt issued and other borrowed funds	-	10,735	80,873	381,657	80,465	-	553,730	411,009
Subordinated loans	-	772	989	15,926	33,980	-	51,667	32,687
Other financial liabilities	13,380	2,274	2,124	2,229	714	-	20,721	20,503
- Lease liabilities	-	165	477	2,162	714	-	3,518	3,300
- Other liabilities	13,380	2,109	1,647	67	-	-	17,203	17,203
Total financial liabilities	824,844	103,089	151,116	425,209	164,796	-	1,669,054	1,453,652
Net financial assets and financial liab.	(739,751)	161,495	62,600	337,063	1,664,778	18,158	1,504,343	223,046

Amounts are in ISK million

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

At 31 December 2024

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

Off-balance sheet liabilities

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

45. Market risk

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

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

Amounts are in ISK million

46. Interest rate risk

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

Interest rate risk in the trading book

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

Sensitivity analysis for trading bonds and debt instruments

	30.6.2025		31.12.2024	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	59	(59)	73	(73)
ISK, non-indexed	83	(83)	83	(83)
Total	142	(142)	156	(156)

Interest rate risk in the banking book

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

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

Sensitivity analysis for interest rate risk in the banking book

At 30 June 2025

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	15	87	(773)	267	1,167	(306)	457
ISK, non-indexed	130	(153)	(490)	243	(134)	38	(366)
EUR	209	(78)	(38)	(2,202)	2,107	-	(2)
SEK	38	-	-	(148)	-	-	(110)
NOK	53	-	(3)	(25)	-	-	25
USD	9	(1)	-	-	-	-	8
Total	454	(145)	(1,304)	(1,865)	3,140	(268)	12

At 31 December 2024

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

Amounts are in ISK million

47. Currency risk

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

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

At 30 June 2025	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	778	405	149	-	-	38	112	-	-	168	1,650
Loans to credit institutions	39,389	32,376	1,131	9	66	403	346	407	134	96	74,357
Bonds and debt instruments	38,579	313	-	-	-	6,760	7,282	-	-	-	52,934
Loans to customers	117,661	12,716	1	526	836	1,036	2,106	1,471	8,362	-	144,715
Shares and equity instruments	38	1,048	98	-	-	218	308	-	-	-	1,710
Other assets	7	1,294	29	-	1	33	-	-	9	-	1,373
Total assets	196,452	48,152	1,408	535	903	8,488	10,154	1,878	8,505	264	276,739
Deposits from credit institutions	1,876	2,379	11	4	-	6	207	5	21	-	4,509
Deposits from customers	53,523	47,435	5,110	436	367	1,034	3,467	4,606	146	28	116,152
Derivative instruments and short positions	-	316	-	-	-	-	-	-	-	-	316
Debt issued and other borrowed funds	130,498	10,559	-	-	-	31,293	29,153	-	-	-	201,503
Subordinated loans	-	-	-	-	-	9,525	-	-	-	-	9,525
Other liabilities	4	299	29	3	1	83	-	-	7	55	481
Total liabilities	185,901	60,988	5,150	443	368	41,941	32,827	4,611	174	83	332,486
Net on-balance sheet position	10,551	(12,836)	(3,742)	92	535	(33,453)	(22,673)	(2,733)	8,331	181	(55,747)
Net off-balance sheet position	(10,075)	12,662	3,742	(77)	(498)	33,104	22,447	2,729	(8,257)	(281)	55,496
Net position	476	(174)	-	15	37	(349)	(226)	(4)	74	(100)	(251)

Amounts are in ISK million

47. Currency risk (continued)

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

Amounts are in ISK million

48. Inflation risk

The Group considers inflation risk to be the most significant market risk factor. The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities by ISK 178,060 million at 30 June 2025 (year-end 2024: ISK 193,362 million). The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 1,781 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.6.2025	31.12.2024
Bonds and debt instruments	2,192	3,905
Loans to customers	501,323	501,595
Total CPI-linked assets	503,515	505,500
Deposits from customers	116,552	119,588
Debt issued and other borrowed funds	168,844	155,184
Subordinated loans	21,636	20,798
Off-balance sheet exposures	18,275	16,521
Short positions	148	47
Total CPI-linked liabilities	325,455	312,138
CPI imbalance	178,060	193,362

49. Capital management

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

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2025 maintain an additional capital requirement of 1.4% of the risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.3%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

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

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

	30.6.2025	31.12.2024
Own funds		
Ordinary share capital	9,368	9,473
Share premium	42,472	55,000
Reserves	7,133	7,102
Retained earnings	165,752	155,780
Fair value changes due to own credit standing	419	135
Foreseeable dividend payment and approved buyback*	(22,223)	(15,760)
Tax assets	(223)	(164)
Intangible assets	(1,875)	(2,070)
Insufficient coverage for non-performing exposures	(22)	(17)
CET1 capital	200,801	209,479
Additional Tier 1 capital	9,525	9,371
Tier 1 capital	210,326	218,850
Tier 2 capital	23,162	22,324
Total capital base	233,488	241,174

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

Amounts are in ISK million

49. Capital management (continued)

	30.6.2025	31.12.2024
Risk exposure amount		
Due to credit risk	966,801	922,533
Due to market risk	9,431	10,606
Due to credit valuation adjustment	1,141	714
Due to operational risk	107,119	107,119
Total risk exposure amount	1,084,492	1,040,972
Capital ratios		
CET1 ratio	18.5%	20.1%
Tier 1 ratio	19.4%	21.0%
Total capital ratio	21.5%	23.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,674,248	1,594,192
Off-balance sheet exposures	73,231	57,583
Derivative exposures	9,516	9,223
Leverage ratio total exposure measure	1,756,995	1,660,998
Tier 1 capital	210,326	218,850
Leverage ratio	12.0%	13.2%

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

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

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 30 June 2025 the LAA and RCA were both equal to the total SREP capital requirement for 2024 of 9.8%, resulting in an MREL requirement of 19.6% of REA.

Minimum requirements for own funds and eligible liabilities

	30.6.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
MREL	212,560	19.6%	204,031	19.6%
Combined buffer requirement	106,839	9.9%	103,002	9.9%
MREL including combined buffer requirement	319,399	29.5%	307,033	29.5%

Own funds and eligible liabilities

	30.6.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
Own funds	233,488	21.5%	241,174	23.2%
Eligible liabilities	164,713	15.2%	106,878	10.3%
Own funds and eligible liabilities	398,201	36.7%	348,052	33.4%

Amounts are in ISK million