



Condensed Consolidated Interim Financial Statements

Third quarter 2025

Unaudited

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Key figures first nine months 2025



Net profit
ISK 19.3bn



ROE
11.5%

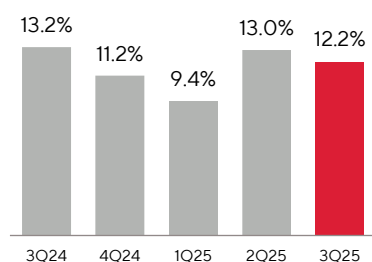


Cost-to-income
ratio **42.1%**

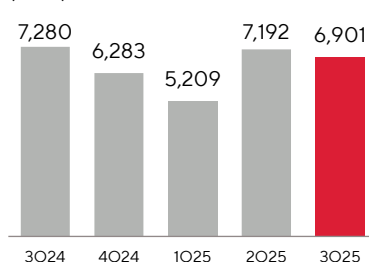


NIM
3.2%

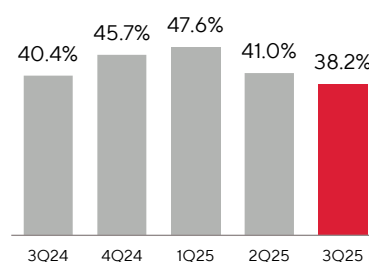
Return on equity



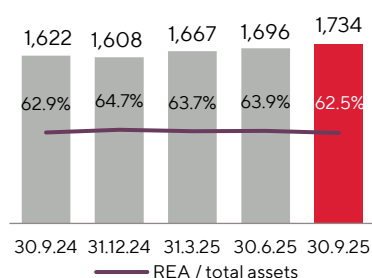
Profit after tax (ISKm)



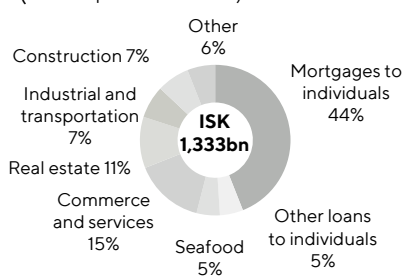
Cost-to-income ratio^{1,2}



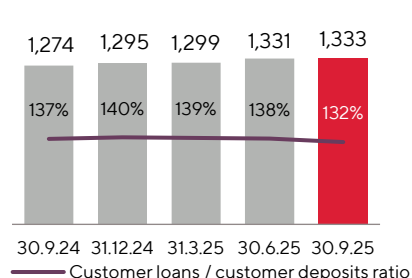
Total assets (ISKbn)



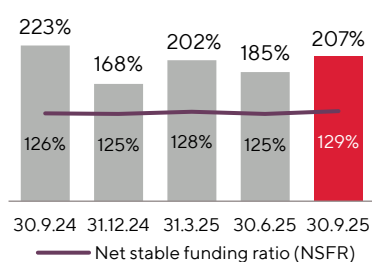
Loans to customers (Sector split as of 30.9.25)



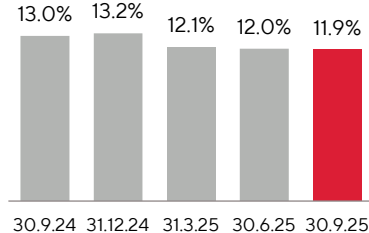
Loans to customers (ISKbn)



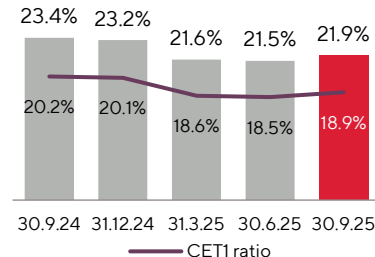
Total liquidity coverage ratio



Leverage ratio³



Total capital ratio^{3,4}



Ratings and certifications

MOODY'S
A3 Stable outlook

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

ESG risk rating

Reitun
A3 Exceptional



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

1. Expenses of 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.

2. C/I ratio for 3Q25 excludes a charge of 550m within net interest income due to a provision for legal proceedings.

3. Including 3Q25 profit for 30.9.25.

4. 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, 30.6.25 and 30.9.25 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 Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 30 September 2025. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. As one of Iceland's largest banking and financial services groups, the Group has a strong domestic market share.

Operations in the reporting period

The Group's profit for the reporting period amounted to ISK 19,302 million, thereof ISK 6,901 million in the third quarter. This corresponds to a return on equity of 11.5% and 12.2% respectively, meeting the Bank's target of exceeding 10%. At the end of the reporting period the Group employed 778 full-time equivalents, 736 within the Bank and 42 in subsidiaries. The Group operates a network of 12 branches.

Following a successful transaction in May, in which the Government of Iceland sold its entire stake, the Bank has returned to full private ownership. At the end of the reporting period the shareholder base comprised 28 thousand investors, where international investors held around 14% stake, domestic institutional investors over 40% and retail investors around 30%. The high demand in the sales process and the successful transaction was on the back of the Bank's effective strategy and its strong execution. The strong result of the transaction, where the Bank was well received by both retail and institutional investors, domestically and internationally, is a testament to the Bank's success. Following the transaction, the Bank's shareholder base widened considerably from approximately 10 thousand shareholders to over 35 thousand.

The Bank continued to deliver on its strategy in the third quarter, built on four pillars: attracting and maintaining the best team, data-driven decisions, service and customer experience, and profitable growth. With that in mind, the Bank invested in artificial intelligence and explored ways to integrate AI into daily operations, aiming to both enhance service and operational efficiency. Emphasis was also placed on maintaining a competitive advantage and growing market share across the field. The Bank remains the partner of choice for SMEs and introduced various new corporate solutions, including cash flow and expense management. Retail lending market share has grown year to date, while market share in investment banking services is both strong and stable, with the Bank holding the leading position in equity brokerage.

A shareholder meeting held on 30 June 2025 approved changes to the Bank's remuneration policy, which now includes an incentive scheme and a stock option plan. Subsequently, the Bank introduced stock options for all employees, except for employees of Group Internal Audit, to ensure alignment of interests of shareholders and employees, with nearly all employees choosing to participate. Furthermore, a variable compensation scheme is being developed and is expected to be implemented next year.

As in previous quarters, the Bank is considerably over capitalised and has in the past quarters stated its intention to optimise its capital structure through both organic growth, potential external growth and distributions to shareholders. As of now, the excess capital position amounts to approximately ISK 43 billion, assuming the midpoint of the management buffer on top of CET1 requirements. The Bank remains committed to its efforts now as before and has been active in buybacks throughout the third quarter, with buybacks amounting to approximately ISK 4.7 billion.

For the last few quarters, the Bank has emphasised its strategy for profitable growth and is pleased to report meaningful progress. Organically, the focus has been on expanding international lending—a strategy now yielding results—with the aim to grow international lending from the current levels to up to 10% of the total loan book in the medium term. This will diversify the loan portfolio and reduce geographical concentration. Growth will be achieved through partnership with international banks and arrangers, where the Bank is seeking both participation in infrastructure lending, on a broad scale, as well as higher margin loans including bridge financing. This ties well into the domestic operation where the Bank has been leading in infrastructure financing, exemplified by a recent announcement regarding Ölfusá Bridge, a domestic PPP bridge construction.

The Bank has also been actively pursuing external growth opportunities and announced at the beginning of the fourth quarter, that merger discussions had been initiated with Skagi hf., a domestic company in the financial services sector, and that head of terms had been agreed. According to the term sheet, Skagi will be fully merged with Íslandsbanki and the shareholders of Skagi will receive a total of 323,859,440 new shares in Íslandsbanki, which corresponds to around 15% of the issued share capital in the merged entity. The Bank sees numerous opportunities from the merger of the companies, which is in line with the Bank's strategy on external growth. Several opportunities are expected through greater integration of the banking and insurance activities for both individuals and companies, with the objective of enhancing the quality and efficiency of services. By this, the Bank expects the merged entity to provide valuable and attractive product offerings for its customers, paving the way for further growth. For the last year, VÍS (a subsidiary of Skagi) and the Bank have been in cooperation which has outperformed expectations giving confidence that the merging of the entities will prove successful. Both entities have strong asset management operations, which form the basis for continued growth in that market and add product offering to the Bank's current portfolio. The Bank believes that the merger will further strengthen the Bank's position as the leading investment bank. The merger will generate synergies, where the direct annual synergies are estimated to range between ISK 1,800 and 2,400 million. The Bank is confident that the merged company will be a leading player in the financial and insurance market, adding more power to both asset management and investment banking services. The merged company is further optimally placed to harvest both the benefits from the merger itself as well as for future growth. As of now, the merging process is progressing in line with expectations, and the Bank expects it to be concluded within 9-12 months.

Directors' Report

The Bank believes that the transaction is a favourable development for the Bank and its shareholders, in line with its strategy on profitable growth. The merger will increase the diversity of the Bank's revenue generation and weight of fee income. Additionally, the transaction is expected to lead to more efficient use of capital and support the profitability of the merged entity. As the merger is share based, the merged entity will continue to have significant excess capital, providing ability for further growth opportunities and/or distribution capacity to shareholders.

On 14 October 2025, the Supreme Court of Iceland delivered its judgement in a case concerning variable interest rates on a non-index linked home mortgage, a matter previously disclosed in the notes to the Bank's financial statements. The Court rejected the reimbursement claim against the Bank but ruled that the Bank's terms regarding interest rate changes in the underlying mortgage contract were invalid to the extent that they referenced factors other than the Central Bank of Iceland's policy rates. Although the Bank was cleared of the reimbursement claim in this specific case, the ruling may have implications for other mortgage contracts containing similar interest rate provisions. The Bank is currently reviewing the judgement and assessing its potential impact on other mortgage agreements. In the third quarter, the Bank recognised a provision of ISK 550 million through net interest income to account for potential customer claims.

Although the ruling concerns a non-index linked mortgage, it cannot be ruled out that the judgement or other pending judgements in cases regarding interest rate interpretation towards other lenders, may set a precedent regarding the interpretation of CPI-linked mortgages and other consumer loans. The Bank's best estimate, at this point in time, is that the potential impact of unfavourable court rulings affecting the Bank's CPI-linked home mortgages could be in the range of ISK 2-5 billion before tax, by applying the lowest market interest rates published by the Central Bank of Iceland and assuming a four-year statute of limitation. The Bank has not recognised a provision in relation to the matter.

Following the ruling, the Bank has implemented interim measures by temporarily removing CPI-linked home mortgages and non-index linked home mortgages with variable interest rates from its product offering. On 29 October 2025, the Government of Iceland announced that, in cooperation with the Central Bank of Iceland, efforts are underway to begin publishing a reference interest rate as soon as possible. The Bank will monitor these developments closely. The ruling has caused considerable and unacceptable uncertainty in the home mortgage market and in turn the residential real estate market, which is imperative to resolve.

Net interest income amounted to ISK 13,260 million in the quarter, growing by 12.6% year-on-year, which represents a 3.1% net interest margin compared to 2.9% in the previous year. This is both on the back of persistent inflation as well as subsiding effects of both CPI and nominal fixed rate imbalances in the banking book, both in line with expectations. The CPI imbalance remains stable compared to the second quarter and closed at ISK 182 billion at the end of the third quarter. Historically, inflation has tended to be lower in the second half of the year than in the first. As a result, net interest income and net interest margin may be impacted in the fourth quarter due to this seasonality.

Net fee and commission income for the third quarter amounted to ISK 3,229 million, remaining broadly in line with the same period last year. Year-on-year, net fee and commission income grew by ISK 401 million, or 4.2%, amounting to ISK 9,916 million. Overall, total operating income grew by 3.9% compared to the third quarter in the previous year and 4.8% year-on-year. Core operating income, defined as net interest income and net fee and commission income, for the third quarter grew by 9.4% compared to the same period last year.

Salaries and related expenses remained broadly flat between years and amounted to ISK 3,793 million during the quarter. Other operating expenses amounted to ISK 2,686 million during the quarter and grew by 3.9% compared to the same period last year. As a result, total administrative expenses amounted to ISK 6,479 million and grew by 1.7% compared to previous year, mainly owing to IT related expenses. For the first nine months, total administrative expenses increased by 0.7% year-on-year, due to an increase in salaries and related expenses. For the third quarter the cost-to-income ratio, adjusted for a provision for legal proceedings, was 38.2%, down from 40.4% for the third quarter of 2024, meeting the Bank's target of being below 45%. For the first nine months the cost-to-income ratio, adjusted for a provision for legal proceedings, was 42.1%.

During the quarter, net impairment reversals amounted to ISK 7 million, compared to impairment reversals of ISK 860 million in the previous year. For the first three quarters, the Bank has reversed impairments amounting to ISK 406 million. Despite the high-rate environment and persistent inflation, asset quality remains both stable and strong where Stage 3 loans closed off at 1.6%. Loans to customers totalled ISK 1,333 billion, reflecting a 2.9% growth from year-end 2024 figures. Mortgages continue to represent the largest portion of the loan book or 44%. LTVs for both the mortgage book and other segments of the loan book remain healthy and stable. Additionally, deposits from customers increased by 8.9% during the first three quarters and closed off at ISK 1,009 billion.

Funding

In terms of funding, the third quarter saw a very modest spread compression 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 106 basis points over mid-swaps. Domestically, the Bank sold ISK 8.9 billion of covered bonds during the third 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.

Directors' Report

Capital

The Bank continues its capital optimisation journey. The Bank bought back shares amounting to ISK 4,668 million in the third quarter. At the end of the reporting period, ISK 11,355 million remains of the ISK 16 billion allocated to buybacks with all necessary regulatory approvals being obtained. The ISK 16 billion has thus been deducted from the Bank's capital base. Consequently, the Bank's capital ratio was 21.5% at the end of the third 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 before year-end 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 overall capital requirement, taking into account the buffer requirement at the reporting date, therefore decreases from 19.7% to 19.2%.

At the end of the third quarter, the Bank's CET1 ratio was 18.9% (including the third quarter profit) compared to a regulatory minimum of 15.1% 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 amounts to approximately ISK 43 billion, assuming a fully optimised capital structure, the midpoint of the management buffer, the estimated impact of the CRR3 implementation, and pending buybacks, which have been deducted from the capital base as of the end of the reporting period. Further, the Bank expects the proposed merger with Skagi to be capital positive.

The Bank intends to continue to optimise its capital structure. 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 contraction of 1.0% in real GDP in 2024, Iceland's economy began a phase of moderate recovery in 2025. The first half of the year marked a cyclical turning point, with GDP growth of 0.3% supported by strong investment activity and a rebound in private consumption. Investment continued to be the main driver of growth, particularly in export-oriented sectors such as aquaculture and data centres, while consumption also contributed positively. However, robust imports—typical during investment booms—offset part of the gains. High-frequency indicators for the third quarter, including payment card turnover, Keflavík international airport departures, and new vehicle registrations, point to sustained domestic demand. Tourism, which had a weak start to the year, recovered notably during the summer season, although near-term prospects for the sector remain quite uncertain.

Labour market conditions have eased slightly, with registered unemployment measuring 3.4% on average in the third quarter, up 0.2 percentage points year-on-year. Employment levels remain stable as labour demand has eased, particularly in construction and tourism, while immigration has slowed. Despite these shifts, wage agreements and household savings continue to support private consumption.

Inflation, which had declined from a peak of 10.2% in early 2022 to 3.9% by March 2025, edged up slightly to 4.0% in the third quarter. Domestic inflation pressures persist due to a resilient housing market and buoyant wage growth, while imported inflation has eased thanks to global disinflation and a relatively strong ISK. The Central Bank of Iceland maintained its policy rate at 7.5% in October, signalling that further rate cuts are unlikely in the near term unless inflation aligns more closely with the 2.5% target.

Íslandsbanki Research forecasts GDP growth of 2.2% for 2025, driven by robust private consumption and stronger exports. Consumption is supported by real wage growth, a stable labour market, and accumulated household savings. Investment will remain strong, particularly in intellectual property-based exports and aquaculture. Export growth is expected to be moderate, with mature sectors stabilising and newer sectors expanding. Inflation is projected to average 4.1% in 2025, gradually declining thereafter, but remaining above target. The policy rate is expected to stay at 7.5% through the end of the year, with gradual easing beginning in the first half of 2026. The ISK is likely to remain relatively strong in the near term, supported by improvements in external trade and interest rate differentials. However, the high real exchange rate poses challenges for competitiveness, and a modest nominal depreciation is expected over the next year.

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 considered appropriate for the medium term. Net interest margins for the year are expected to remain largely in line with previous year's levels. However, short-term fluctuations can be expected, similar to those experienced in 2024 and to date in 2025. Annual lending growth is expected to be around nominal GDP on average through the business cycle. Strong loan growth has been evident this year and is expected to continue as the rate environment, both for real and nominal rates, continues to normalise.

Directors' Report

Following a strong second quarter in capital markets, volatility increased, and volumes reduced through the third quarter and into the fourth. Nevertheless, the Bank believes it is optimally positioned to capture 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. Overall, the Bank is committed to its target of a cost-to-income ratio below 45% which is expected to be met for the year.

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 27,806 shareholders (year-end 2024: 9,961), where 85.6% of the Bank's shares were owned by domestic parties, and 14.4% 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 39.2% of outstanding shares, while retail investors are the second largest investor group, owning 30.7% of outstanding shares, both figures taking into consideration treasury shares. For further information on the Bank's shareholders see Note 32.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 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 September 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 September 2025.

Kópavogur, 30 October 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

Consolidated Interim Income Statement

	Notes	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Interest income calculated using the effective interest rate method		99,985	105,874	32,507	34,093
Other interest income		2,968	4,965	839	1,113
Interest expense		(62,873)	(74,449)	(20,086)	(23,429)
Net interest income	5	40,080	36,390	13,260	11,777
Fee and commission income		14,312	13,782	4,706	4,649
Fee and commission expense*		(4,396)	(4,267)	(1,477)	(1,353)
Net fee and commission income	6	9,916	9,515	3,229	3,296
Net financial income (expense)	7	(1,326)	(507)	(353)	228
Net foreign exchange gain	8	270	494	152	124
Other operating income	9	725	1,500	115	357
Other net operating income		(331)	1,487	(86)	709
Total operating income		49,665	47,392	16,403	15,782
Salaries and related expenses	10	(12,694)	(12,085)	(3,793)	(3,787)
Other operating expenses*	11	(8,442)	(8,443)	(2,686)	(2,585)
Administrative fines		-	(470)	-	-
Bank tax		(1,562)	(1,446)	(549)	(494)
Total operating expenses		(22,698)	(22,444)	(7,028)	(6,866)
Profit before net impairment on financial assets		26,967	24,948	9,375	8,916
Net impairment on financial assets	12	406	293	7	860
Profit before tax		27,373	25,241	9,382	9,776
Income tax expense	13	(8,066)	(7,368)	(2,488)	(2,497)
Profit for the period before profit from non-current assets		19,307	17,873	6,894	7,279
Profit (loss) from non-current assets held for sale, net of tax		(5)	90	7	1
Profit for the period		19,302	17,963	6,901	7,280
Earnings per share					
Basic and diluted EPS attributable to shareholders of Íslandsbanki hf. (ISK) .	14	10.33	9.24	3.73	3.80

*Comparative figures have been changed. Expenses of ISK 765 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 269 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 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Comprehensive Income

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Profit for the period	19,302	17,963	6,901	7,280
Net changes in FV of fin. liab. attributable to changes in credit risk	(620)	(776)	(132)	71
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk ...	132	348	26	2
Items that will not be reclassified to the income statement	(488)	(428)	(106)	73
Foreign currency translation	-	2	-	3
Net changes in fair value of debt instruments at FVOCI	205	324	108	473
Reclassification to the income statement of debt instruments at FVOCI	(3)	2	-	-
Changes in allowance for ECL of debt instruments at FVOCI	(2)	18	-	2
Tax related to debt instruments at FVOCI	(52)	(93)	(28)	(128)
Items that may subsequently be reclassified to the income statement	148	253	80	350
Other comprehensive income (expense) for the period, net of tax	(340)	(175)	(26)	423
Total comprehensive income for the period	18,962	17,788	6,875	7,703

The notes on pages 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Financial Position

	Notes	30.9.2025	31.12.2024
Assets			
Cash and balances with Central Bank	19	114,055	65,716
Loans to credit institutions	20	99,117	50,486
Bonds and debt instruments	15	139,432	142,618
Derivatives	21	5,092	5,324
Loans to customers	22	1,333,234	1,295,388
Shares and equity instruments	15	16,815	24,330
Investments in associates		4,948	4,701
Investment property		2,900	2,600
Property and equipment		4,769	5,039
Intangible assets		2,632	2,684
Other assets	24	9,314	7,304
Non-current assets held for sale		1,748	1,617
Total Assets		1,734,056	1,607,807
Liabilities			
Deposits from Central Bank and credit institutions	25	15,972	12,535
Deposits from customers	26	1,008,919	926,846
Derivative instruments and short positions	21	5,599	7,306
Debt issued and other borrowed funds	28	409,170	367,586
Subordinated loans	29	32,550	31,695
Tax liabilities		14,544	12,916
Other liabilities	30	20,328	21,568
Total Liabilities		1,507,082	1,380,452
Equity			
Share capital		9,180	9,473
Share premium		42,472	55,000
Reserves		7,062	7,102
Retained earnings		168,260	155,780
Total Equity		226,974	227,355
Total Liabilities and Equity		1,734,056	1,607,807

The notes on pages 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

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										17,963	17,963
Net changes in FV of fin. liab. due to changes in credit risk								1,981		(2,757)	(776)
Tax on net changes in FV of fin. liab. due to changes in credit risk								(396)		744	348
Foreign currency translation									2		2
Net changes in fair value of debt instruments at FVOCI							324				324
Reclassification to the income statement of debt inst. at FVOCI							2				2
Changes in allowance for ECL of debt instruments at FVOCI							18				18
Tax related to debt instruments at FVOCI							(93)				(93)
Total comprehensive income for the period	-	-	-	-	-	-	251	1,585	2	15,950	17,788
Dividends										(12,303)	(12,303)
Purchase of treasury shares	(334)									(6,456)	(6,790)
Other changes to restricted reserves				61	(220)	449				(290)	-
Equity as at 30 September 2024	9,564	55,000	2,500	2,588	1,138	971	251	(242)	5	151,613	223,388

The notes on pages 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Changes in Equity

	Reserves									Retained earnings	Total equity
	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		
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										19,302	19,302
Net changes in FV of fin. liab. due to changes in credit risk								(487)		(133)	(620)
Tax on net changes in FV of fin. liab. due to changes in credit risk								97		35	132
Net changes in fair value of debt instruments at FVOCI							205				205
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							(52)				(52)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	148	(390)	-	19,204	18,962
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(293)									(6,989)	(7,282)
Reduction in share capital		(12,528)	(149)							12,677	-
Share option charge										42	42
Other changes to restricted reserves				(212)	(219)	782				(351)	-
Equity as at 30 September 2025	9,180	42,472	2,351	2,617	848	1,430	340	(525)	1	168,260	226,974

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

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

Íslandsbanki bought back 58.6 million own shares for ISK 7,282 million during the first nine months of 2025 (first nine months of 2024: 66.8 million own shares for ISK 6,790 million). As of 30 September 2025 the Bank owned 44.5 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. For the first nine months of 2025 negative ISK 98 million (first nine months of 2024: negative ISK 2,013 million) were transferred to retained earnings at derecognition of financial liabilities designated at FVTPL.

The notes on pages 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Cash Flows

	2025 1.1-30.9	2024 1.1-30.9
Profit for the period	19,302	17,963
Non-cash items included in profit for the period*	(29,890)	(28,291)
Changes in operating assets and liabilities*	48,379	41,352
Interest received	97,493	88,813
Interest paid**	(44,149)	(58,877)
Dividends received	1,024	431
Paid bank tax	(1,320)	(1,266)
Paid income tax and special financial activities tax	(6,780)	(4,859)
Net cash provided by operating activities	84,059	55,266
Purchase of investment property	(21)	(85)
Proceeds from sales of property and equipment	198	109
Purchase of property and equipment	(295)	(295)
Additions of intangible assets	(488)	(347)
Net cash used in investing activities	(606)	(618)
Proceeds from borrowings	81,237	99,863
Repayment and repurchases of borrowings	(42,996)	(140,090)
Repayment of lease liabilities	(439)	(424)
Dividends paid	(12,103)	(12,303)
Purchase of treasury shares	(7,282)	(6,790)
Net cash provided by (used in) financing activities	18,417	(59,744)
Net increase (decrease) in cash and cash equivalents	101,870	(5,096)
Effects of foreign exchange rate changes	(5,235)	(1,363)
Cash and cash equivalents at the beginning of the year	83,548	139,074
Cash and cash equivalents at the end of the period	180,183	132,615
Reconciliation of cash and cash equivalents	Notes	
Cash on hand	19	3,191
Unrestricted balances with Central Bank	19	78,440
Money market loans and other loans to credit institutions	20	81,062
Bank accounts not pledged as collateral against derivative instruments	18, 20	17,490
Cash and cash equivalents at the end of the period		180,183

*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 80,497 million (nine months ended 30 September 2024: ISK 50,413 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 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2025	2024
	1.1-30.9	1.1-30.9
Net interest income	(40,080)	(36,390)
Unrealised fair value (gain) loss recognised in the income statement	592	91
Foreign exchange gain	(270)	(494)
Fair value gain on investment property	(279)	(820)
Share of profit from associates	(247)	(438)
Share-based payment expenses	42	-
Net gain from sales of property and equipment	(133)	(29)
Depreciation, amortisation, and write-offs	1,274	1,272
Bank tax	1,562	1,446
Net impairment on financial assets	(363)	(233)
Income tax expense	8,066	7,368
Profit (loss) from non-current assets held for sale, net of tax	5	(90)
Other changes	(59)	26
Total	(29,890)	(28,291)

Changes in operating assets and liabilities

	2025	2024
	1.1-30.9	1.1-30.9
Mandatory reserve and pledged balances with Central Bank	(1,492)	(10,448)
Loans to credit institutions pledged as collateral against derivative instruments	1,237	1,949
Bonds and debt instruments	4,315	44,126
Loans to customers	(36,713)	(38,987)
Shares and equity instruments	6,807	(4,900)
Other assets	(1,888)	(15,003)
Non-current assets held for sale	(136)	706
Deposits from Central Bank and credit institutions	3,303	(4,780)
Deposits from customers	76,899	59,439
Derivative instruments and short positions	(2,311)	(1,005)
Other liabilities	(1,642)	10,255
Total	48,379	41,352

The notes on pages 14 to 56 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

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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 September 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 30 October 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 September 2025 the exchange rate of the ISK against the USD was 121.28 and for the EUR 142.40 (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 third quarter of 2025, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in September. 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)	(1.0)	2.2	1.7	2.4	2.4
Housing prices in Iceland (average YoY change)	8.1	5.2	4.2	4.6	3.5
Purchasing power (average YoY change)	0.7	3.6	1.4	1.5	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	7.7	7.0	5.8	5.5
Inflation (average per year)	5.9	4.1	3.9	3.7	3.3
Capital formation (YoY real change)	7.6	5.9	(3.6)	2.0	3.0
- thereof capital formation in industry	7.0	8.2	(6.8)	0.8	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 third 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 September 2025, exposure to a few counterparties amounting to ISK 9.5 billion was subject to manual impairment, with the associated ECL totalling ISK 1.6 billion (year-end 2024: ISK 7.5 billion and ISK 1.5 billion, respectively).

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

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

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

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

Subsidiaries, eliminations and adjustments

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

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

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

1 January to 30 September 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)	12,940	14,697	10,196	2,429	(309)	39,953	127	40,080
Net fee and commission income (expense)	2,862	1,507	3,563	(108)	(7)	7,817	2,099	9,916
Other net operating income	60	26	1,294	(1,101)	247	526	(857)	(331)
Total operating income	15,862	16,230	15,053	1,220	(69)	48,296	1,369	49,665
Salaries and related expenses	(2,057)	(1,739)	(1,718)	(239)	(6,116)	(11,869)	(825)	(12,694)
Other operating expenses	(2,012)	(933)	(915)	(353)	(4,118)	(8,331)	(111)	(8,442)
Bank tax	(692)	(371)	(389)	(99)	(11)	(1,562)	-	(1,562)
Net impairment on financial assets	(157)	685	(62)	(61)	-	405	1	406
Cost allocation	(4,164)	(3,529)	(3,019)	429	10,283	-	-	-
Profit (loss) before tax	6,780	10,343	8,950	897	(31)	26,939	434	27,373
Income tax	(1,943)	(2,786)	(2,426)	(558)	3	(7,710)	(356)	(8,066)
Profit (loss) for the period before profit from non-current assets	4,837	7,557	6,524	339	(28)	19,229	78	19,307
Net segment revenue from external customers	18,327	19,235	23,655	(13,123)	202	48,296	1,369	49,665
Net segment revenue from other segments	(2,465)	(3,005)	(8,602)	14,343	(271)	-	-	-
Fee and commission income	6,091	1,697	3,858	174	-	11,820	2,492	14,312
Depreciation, amortisation, and write-offs	(150)	(40)	(8)	-	(1,065)	(1,263)	(11)	(1,274)
At 30 September 2025								
Loans to customers	633,423	345,495	353,491	825	-	1,333,234	-	1,333,234
Other assets	3,386	1,396	4,292	380,028	9,857	398,959	1,863	400,822
Total segment assets	636,809	346,891	357,783	380,853	9,857	1,732,193	1,863	1,734,056
Deposits from customers	510,014	297,779	161,088	43,286	-	1,012,167	(3,248)	1,008,919
Other liabilities	2,448	1,560	8,161	478,027	5,948	496,144	2,019	498,163
Total segment liabilities	512,462	299,339	169,249	521,313	5,948	1,508,311	(1,229)	1,507,082
Allocated equity	47,032	55,858	67,466	52,223	1,303	223,882	3,092	226,974
Risk exposure amount	287,291	331,180	394,434	59,068	8,260	1,080,233	4,294	1,084,527

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.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

1 January to 30 September 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)	12,522	14,115	10,465	(555)	(342)	36,205	185	36,390
Net fee and commission income (expense)*	2,898	1,532	3,212	30	(97)	7,575	1,940	9,515
Other net operating income	(29)	66	1,082	296	180	1,595	(108)	1,487
Total operating income	15,391	15,713	14,759	(229)	(259)	45,375	2,017	47,392
Salaries and related expenses	(2,044)	(1,752)	(1,648)	(224)	(5,629)	(11,297)	(788)	(12,085)
Other operating expenses*	(2,022)	(920)	(884)	(371)	(4,138)	(8,335)	(108)	(8,443)
Administrative fines	-	-	-	-	(470)	(470)	-	(470)
Bank tax	(658)	(350)	(395)	(33)	(10)	(1,446)	-	(1,446)
Net impairment on financial assets	549	(1,103)	824	22	-	292	1	293
Cost allocation	(4,039)	(3,230)	(2,872)	432	9,709	-	-	-
Profit (loss) before tax	7,177	8,358	9,784	(403)	(797)	24,119	1,122	25,241
Income tax	(2,116)	(2,351)	(2,736)	(133)	200	(7,136)	(232)	(7,368)
Profit (loss) for the period before profit from non-current assets	5,061	6,007	7,048	(536)	(597)	16,983	890	17,873
Net segment revenue from external customers*	17,578	18,477	22,738	(13,407)	(11)	45,375	2,017	47,392
Net segment revenue from other segments	(2,187)	(2,764)	(7,979)	13,178	(248)	-	-	-
Fee and commission income	6,071	1,694	3,373	230	(2)	11,366	2,416	13,782
Depreciation, amortisation, and write-offs	(136)	(44)	(4)	-	(1,075)	(1,259)	(13)	(1,272)
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 765 million recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2024 were reclassified to the line item "Net fee and commission income (expense)".

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 September 2025

	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	8	117	-	2	127
Net fee and commission income (expense)	1,069	1,049	-	(19)	2,099
Other net operating income	(129)	(25)	398	(1,101)	(857)
Total operating income	948	1,141	398	(1,118)	1,369
Salaries and related expenses	(571)	(199)	(55)	-	(825)
Other operating expenses	(189)	(134)	(319)	531	(111)
Net impairment on financial assets	-	1	-	-	1
Profit (loss) before tax	188	809	24	(587)	434
Income tax	(38)	(187)	(6)	(125)	(356)
Profit for the period before profit from non-current assets	150	622	18	(712)	78
Net segment revenue from external customers	1,204	1,021	6	(862)	1,369
Net segment revenue from other segments	(256)	120	392	(256)	-
Fee and commission income	1,497	1,439	-	(444)	2,492
Depreciation, amortisation, and write-offs	-	(2)	-	(9)	(11)

At 30 September 2025

Total assets	1,940	3,398	2,492	(5,967)	1,863
Total liabilities	310	1,345	92	(2,976)	(1,229)
Total equity	1,630	2,053	2,400	(2,991)	3,092

1 January to 30 September 2024

	Íslands- sjóðir hf.	Allianz Ísland hf.*	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	13	101	69	2	185
Net fee and commission income (expense)*	994	983	(23)	(14)	1,940
Other net operating income	38	26	352	(524)	(108)
Total operating income	1,045	1,110	398	(536)	2,017
Salaries and related expenses	(546)	(184)	(58)	-	(788)
Other operating expenses*	(187)	(131)	(303)	513	(108)
Net impairment on financial assets	1	-	-	-	1
Profit (loss) before tax	313	795	37	(23)	1,122
Income tax	(65)	(166)	(1)	-	(232)
Profit for the period before profit from non-current assets	248	629	36	(23)	890
Net segment revenue from external customers*	1,289	994	7	(273)	2,017
Net segment revenue from other segments	(244)	116	391	(263)	-
Fee and commission income	1,409	1,456	-	(449)	2,416
Depreciation, amortisation, and write-offs	-	(2)	(3)	(8)	(13)

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 473 million recognised in the line item "Other operating expenses" for Allianz Ísland hf. in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2024 were reclassified to the line item "Net fee and commission income (expense)".

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Cash and balances with Central Bank	2,594	3,570	1,297	1,504
Loans to credit institutions	2,003	2,465	608	583
Loans to customers	90,924	95,998	29,427	30,351
Financial assets mandatorily at fair value through other comprehensive income	5,014	3,841	1,725	1,655
Provision for legal proceedings*	(550)	-	(550)	-
Interest income calculated using the effective interest rate method	99,985	105,874	32,507	34,093
Financial assets mandatorily at fair value through profit or loss	2,963	4,960	837	1,110
Other assets	5	5	2	3
Other interest income	2,968	4,965	839	1,113
Deposits from Central Bank and credit institutions	(232)	(280)	(70)	(84)
Deposits from customers	(39,895)	(46,960)	(12,757)	(15,537)
Financial liabilities mandatorily at fair value through profit or loss**	(2,168)	(3,847)	(638)	(1,225)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(925)	(1,859)	(418)	(96)
Debt issued and other borrowed funds at amortised cost**	(17,333)	(18,514)	(5,466)	(5,717)
Subordinated loans	(2,243)	(2,829)	(717)	(748)
Lease liabilities	(54)	(58)	(18)	(19)
Other liabilities**	(23)	(102)	(2)	(3)
Interest expense	(62,873)	(74,449)	(20,086)	(23,429)
Net interest income	40,080	36,390	13,260	11,777

*For further information on legal proceedings see Note 34.

**The presentation of interest expense has been updated, and comparative figures have been changed accordingly. Expenses of ISK 4,634 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 1,488 million) recognised in the line item "Other liabilities" in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2024, have been reclassified to other line items, with ISK 3,847 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 1,225 million) reclassified as "Financial liabilities mandatorily at fair value through profit or loss" and ISK 787 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 263 million) reclassified as "Debt issued and other borrowed funds at amortised cost".

Notes to the Condensed Consolidated Interim Financial Statements

6. Net fee and commission income

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Asset management	2,159	2,028	695	657
Investment banking and brokerage	2,663	2,454	790	787
Payment processing	6,093	6,112	2,085	2,128
Loans and guarantees	1,638	1,551	607	503
Other fee and commission income	1,759	1,637	529	574
Fee and commission income	14,312	13,782	4,706	4,649
Brokerage	(416)	(371)	(111)	(106)
Payment processing expenses*	(3,421)	(3,353)	(1,231)	(1,049)
Other fee and commission expense*	(559)	(543)	(135)	(198)
Fee and commission expense	(4,396)	(4,267)	(1,477)	(1,353)
Net fee and commission income	9,916	9,515	3,229	3,296

*Comparative figures have been changed. Expenses of ISK 765 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 269 million) recognised in the line item "Other operating expenses" in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2024 were reclassified in the line item "Fee and commission expense". For the nine months ended 30 September 2024 ISK 231 million (third quarter 2024: ISK 74 million) were reclassified as "Payment processing expenses" and for the nine months ended 30 September 2024 ISK 534 million (third quarter 2024: ISK 195 million) were reclassified as "Other fee and commission expense".

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

7. Net financial income (expense)

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(765)	(240)	(548)	590
Net gain (loss) on financial liabilities designated as at FVTPL	(578)	(310)	171	(380)
Net gain (loss) on fair value hedges	(39)	31	(49)	20
Net gain on derecognition of financial liabilities measured at amortised cost	55	103	73	-
Net loss on derecognition of financial assets measured at amortised cost	-	(89)	-	(2)
Net gain (loss) on sale of debt instruments measured at FVOCI	1	(2)	-	-
Net financial income (expense)	(1,326)	(507)	(353)	228

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

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Fair value changes of the hedged items attributable to the hedged risk	137	(1,235)	350	(2,144)
Fair value changes of the hedging derivatives	(176)	1,266	(399)	2,164
Net gain (loss) on fair value hedges	(39)	31	(49)	20

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

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Net gain (loss) on bonds and related derivatives	(280)	(162)	(182)	93
Net gain (loss) on shares and related derivatives	(1,692)	(499)	(153)	162
Dividend income	1,024	431	174	-
Net gain on debt issued and related derivatives	134	352	14	83
Net loss on economic hedging and other derivatives	(513)	(538)	(206)	(108)
Net loss on derecognition of financial assets measured at amortised cost	-	(89)	-	(2)
Net gain (loss) on sale of debt instruments measured at FVOCI	1	(2)	-	-
Net financial income (expense)	(1,326)	(507)	(353)	228

Notes to the Condensed Consolidated Interim Financial Statements

8. Net foreign exchange gain

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Cash and balances with Central Bank	(94)	(36)	(11)	(8)
Loans at amortised cost	(9,842)	(1,963)	(49)	(130)
Financial assets mandatorily at fair value through profit or loss	756	(1,033)	842	319
Financial assets mandatorily at fair value through other comprehensive income	(810)	(235)	78	(169)
Other assets	(20)	20	(4)	-
Net foreign exchange gain (loss) for assets	(10,010)	(3,247)	856	12
Deposits	7,961	944	167	1,402
Debt issued and other borrowed funds designated as at fair value through profit or loss	693	512	(64)	(423)
Debt issued and other borrowed funds at amortised cost	1,854	1,967	(717)	(696)
Subordinated loans	(228)	318	(90)	(171)
Net foreign exchange gain (loss) for liabilities	10,280	3,741	(704)	112
Net foreign exchange gain	270	494	152	124

9. Other operating income

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Fair value changes on investment property	279	820	(5)	(34)
Share of profit of associates, net of tax	247	438	99	366
Gain from sales of property and equipment	133	29	-	-
Legal fees	52	47	18	17
Rental income	14	34	3	6
Other net operating income	-	132	-	2
Other operating income	725	1,500	115	357

Notes to the Condensed Consolidated Interim Financial Statements

10. Salaries and related expenses

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Salaries	9,781	9,336	2,904	2,959
Share-based payment expenses	42	-	42	-
Contributions to pension funds	1,512	1,398	452	426
Social security charges and financial activities tax*	1,347	1,265	427	404
Other salary-related expenses	117	106	13	18
Capitalisation of salaries and related expenses in software development	(105)	(20)	(45)	(20)
Salaries and related expenses	12,694	12,085	3,793	3,787

*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.

The Directorate of Internal Revenue approved the share option plan on 21 July 2025. At the beginning of August share option agreements were concluded with employees in accordance with the approved share option plan. According to the plan the share option applies to all permanent employees of Íslandsbanki, except for employees of Group Internal Audit.

According to the plan each option holder acquires the right to buy shares in Íslandsbanki for up to ISK 1,500,000 once a year for five years, following the release of the Bank's half year results in 2026, 2027, 2028, 2029 and 2030, for the total maximum amount of ISK 7,500,000. The purchase price is the weighted average traded price in transactions with the Bank's shares 10 business days before the agreement date, being ISK 126.4 a share.

A total of 743 employees entered into option agreements on up to 8,817,181 shares per year based on 100% exercise of share options. The fair value of the options was determined on the grant date using the Black-Scholes option pricing model and expensed as salary costs in accordance with IFRS 2. The total expense recognised in August and September of 2025 amounted to ISK 42 million. The Group estimates that the total expenses related to the share option plan will amount to ISK 584 million, which will be recognised over the next five years, with the expenses being front-loaded.

11. Other operating expenses

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Professional services*	1,339	1,330	365	427
Software and IT expenses*	3,724	3,594	1,282	1,127
Real estate and office equipment	501	494	145	135
Depreciation, amortisation, and write-offs	1,274	1,272	436	385
Other administrative expenses	1,604	1,753	458	511
Other operating expenses	8,442	8,443	2,686	2,585

*Comparative figures have been changed. Expenses of ISK 473 million for the nine months ended 30 September 2024 (third quarter 2024: ISK 174 million) recognised in the line item "Professional services" and expenses of ISK 292 million in the nine months ended 30 September 2024 (third quarter 2024: ISK 95 million) recognised in the line item "Software and IT expenses" in the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2024 were reclassified in the line item "Fee and commission expense".

Notes to the Condensed Consolidated Interim Financial Statements

12. Net impairment on financial assets

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Net change in expected credit losses, on-balance sheet items	522	283	109	604
Net change in expected credit losses, off-balance sheet items	(116)	10	(102)	256
Net impairment on financial assets	406	293	7	860

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 nine months ended 30 September 2025 is 29.5% (nine months ended 30 September 2024: 29.2%).

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Current tax expense excluding tax from non-current assets held for sale	6,540	6,605	1,864	2,357
Special financial activities tax	1,851	1,780	525	633
Adjustments in prior year's calculated income tax	85	(12)	-	-
Changes in deferred tax assets and deferred tax liabilities	(410)	(1,005)	99	(493)
Income tax recognised in the income statement	8,066	7,368	2,488	2,497
Income tax recognised in other comprehensive income	(80)	(255)	2	126

	2025 1.1-30.9		2024 1.1-30.9	
Profit before tax	27,373		25,241	
Income tax calculated on the profit for the period	5,475	20.0%	5,301	21.0%
Special financial activities tax	1,851	6.8%	1,780	7.1%
Adjustments in prior year's calculated income tax	85	0.3%	(12)	0.0%
Income not subject to tax	(279)	(1.0%)	(388)	(1.5%)
Non-deductible expenses	932	3.4%	711	2.8%
Other differences	2	0.0%	(24)	(0.1%)
Effective income tax expense	8,066	29.5%	7,368	29.2%

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

14. Earnings per share

	2025 1.1-30.9	2024 1.1-30.9	2025 1.7-30.9	2024 1.7-30.9
Profit attributable to shareholders of the Bank	19,302	17,963	6,901	7,280
Weighted average number of outstanding shares	1,869	1,944	1,851	1,915
Basic earnings per share (ISK)	10.33	9.24	3.73	3.80

The Group's basic and diluted earnings per share are the same as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (nine months ended 30 September 2024: none). In August 2025, the Group entered into equity-settled share option agreements. Although these options are outstanding, they do not dilute earnings per share as the average market price of the Bank's shares during the period from 6 August to 30 September 2025 was below the adjusted exercise price (which includes the fair value of services yet to be rendered under IFRS 2). For further information on the Group's stock option plan see Note 10.

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 30 September 2025

	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	114,055	114,055
Loans to credit institutions	-	-	-	99,117	99,117
Listed bonds and debt instruments**	10,553	-	121,816	-	132,369
Listed bonds and debt instruments used for economic hedging	5,246	-	-	-	5,246
Unlisted bonds and debt instruments	1,817	-	-	-	1,817
Derivatives	3,697	1,395	-	-	5,092
Loans to customers	-	-	-	1,333,234	1,333,234
Listed shares and equity instruments	3,545	-	-	-	3,545
Listed shares and equity instruments used for economic hedging	10,745	-	-	-	10,745
Unlisted shares and equity instruments	2,525	-	-	-	2,525
Other financial assets	-	-	-	6,947	6,947
Total financial assets	38,128	1,395	121,816	1,553,353	1,714,692

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	15,972	15,972
Deposits from customers	-	-	-	1,008,919	1,008,919
Derivative instruments and short positions	5,599	-	-	-	5,599
Debt issued and other borrowed funds	-	87,021	43,726	278,423	409,170
Subordinated loans	-	-	-	32,550	32,550
Other financial liabilities	-	-	-	15,982	15,982
Total financial liabilities	5,599	87,021	43,726	1,351,846	1,488,192

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).

Notes to the Condensed Consolidated Interim Financial Statements

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 September 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 classified 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 September 2025	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	137,615	-	1,817	139,432
Derivatives	-	5,092	-	5,092
Shares and equity instruments	14,290	-	2,525	16,815
Total financial assets	151,905	5,092	4,342	161,339
Short positions	376	-	-	376
Derivative instruments	-	5,223	-	5,223
Debt issued and other borrowed funds designated as at FVTPL	43,726	-	-	43,726
Total financial liabilities	44,102	5,223	-	49,325

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

Notes to the Condensed Consolidated Interim Financial Statements

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	37	5	42
Net gain (loss) on financial instruments recognised in the income statement	(240)	103	(137)
Fair value at 30 September 2025	1,817	2,525	4,342

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 3,667 million at 30 September 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 446 million at 30 September 2025 (year-end 2024: ISK 274 million).

At 30 September 2025

	Very favourable	Favourable	Unfavourable	Very unfavourable
Level 3 bonds and debt instruments	1,359	1,147	(1,048)	(1,266)
Level 3 shares and equity instruments	560	110	(165)	(410)

At 31 December 2024

	Very favourable	Favourable	Unfavourable	Very unfavourable
Level 3 bonds and debt instruments	1,260	592	(588)	(1,464)
Level 3 shares and equity instruments	1,698	1,056	(206)	(236)

Notes to the Condensed Consolidated Interim Financial Statements

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 September 2025	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	114,055	-	114,055	114,055	-
Loans to credit institutions	-	99,117	-	99,117	99,117	-
Loans to customers	-	-	1,327,012	1,327,012	1,333,234	(6,222)
Other financial assets	-	6,947	-	6,947	6,947	-
Total financial assets	-	220,119	1,327,012	1,547,131	1,553,353	(6,222)
Deposits from Central Bank and credit institutions	-	15,972	-	15,972	15,972	-
Deposits from customers	-	1,008,933	-	1,008,933	1,008,919	14
Debt issued and other borrowed funds	262,403	10,332	-	272,735	278,423	(5,688)
Subordinated loans	32,566	-	-	32,566	32,550	16
Other financial liabilities	-	15,982	-	15,982	15,982	-
Total financial liabilities	294,969	1,051,219	-	1,346,188	1,351,846	(5,658)

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)

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 September 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	30.9.2025	31.12.2024
Financial assets	5,092	5,324
Amounts not set off but subject to master netting arrangements and similar agreements	(5,017)	(4,701)
- Financial liabilities	(1,847)	(1,763)
- Cash collateral received	(2,913)	(2,937)
- Financial instruments collateral received	(257)	(1)
Net amount after consideration of potential effect of netting arrangements	75	623
Derivative instruments and short positions	30.9.2025	31.12.2024
Financial liabilities	5,599	7,306
Amounts not set off but subject to master netting arrangements and similar agreements	(2,412)	(3,485)
- Financial assets	(1,847)	(1,763)
- Cash collateral pledged	(565)	(1,722)
Net amount after consideration of potential effect of netting arrangements	3,187	3,821

19. Cash and balances with Central Bank

	30.9.2025	31.12.2024
Cash on hand	3,191	3,621
Unrestricted balances with Central Bank	78,440	31,163
Cash and unrestricted balances with Central Bank	81,631	34,784
Balances pledged as collateral to Central Bank	906	814
Mandatory reserve deposits with Central Bank	31,518	30,118
Cash and balances with Central Bank	114,055	65,716

20. Loans to credit institutions

	30.9.2025	31.12.2024
Money market loans	77,774	33,828
Bank accounts	18,055	13,800
Other loans	3,288	2,858
Loans to credit institutions	99,117	50,486

Notes to the Condensed Consolidated Interim Financial Statements

21. Derivative instruments and short positions

At 30 September 2025				
	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	2,685	191,727	1,382	65,914
Cross-currency interest rate swaps	61	9,659	162	5,000
Equity forwards	1,166	6,896	544	4,885
Foreign exchange forwards	552	5,642	1,727	20,655
Foreign exchange swaps	424	39,941	1,397	54,006
Bond forwards	204	3,464	11	3,643
Derivatives	5,092	257,329	5,223	154,103
Short positions in listed bonds	-	-	376	353
Total	5,092	257,329	5,599	154,456

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 September 2025 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 1,395 million (year-end 2024: ISK 2,101 million) and their total notional amount was ISK 85,440 million (year-end 2024: ISK 86,340 million).

Notes to the Condensed Consolidated Interim Financial Statements

22. Loans to customers

At 30 September 2025	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	639,366	7,369	7,674	(755)	(132)	(557)	652,965
Commerce and services	169,631	23,142	2,177	(580)	(283)	(486)	193,601
Construction	91,050	6,884	1,218	(763)	(120)	(314)	97,955
Energy	16,383	174	-	(28)	(3)	-	16,526
Financial services	195	-	-	-	-	-	195
Industrial and transportation	86,408	2,162	5,728	(204)	(46)	(948)	93,100
Investment companies	39,759	3,271	360	(297)	(40)	(64)	42,989
Public sector and non-profit organisations	17,459	13	7	(35)	-	(2)	17,442
Real estate	139,629	2,731	4,227	(308)	(117)	(424)	145,738
Seafood	70,970	1,842	17	(86)	(16)	(4)	72,723
Loans to customers	1,270,850	47,588	21,408	(3,056)	(757)	(2,799)	1,333,234

At 31 December 2024	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
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	19	-	-	19
Loans to credit institutions	87	-	-	87
Loans to customers	3,056	757	2,799	6,612
Other financial assets	5	3	-	8
Off-balance sheet loan commitments and financial guarantees	788	26	213	1,027
At 30 September 2025	3,955	786	3,012	7,753
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

Notes to the Condensed Consolidated Interim Financial Statements

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	636	(514)	(122)	-
Transfer to Stage 2	(423)	519	(96)	-
Transfer to Stage 3	(59)	(311)	370	-
Net remeasurement of loss allowance	(1,631)	40	(165)	(1,756)
New financial assets originated or purchased	2,011	162	474	2,647
Derecognitions and maturities	(974)	(114)	(576)	(1,664)
Write-offs*	-	-	(720)	(720)
Recoveries of amounts previously written off	-	-	41	41
Foreign exchange	-	-	(4)	(4)
Unwinding of interest	-	-	248	248
At 30 September 2025	3,056	757	2,799	6,612

*During the period financial assets amounting to ISK 855 million were written off but are still subject to enforcement activity.

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	48	(29)	(19)	-
Transfer to Stage 2	(7)	22	(15)	-
Transfer to Stage 3	(3)	(4)	7	-
Net remeasurement of loss allowance	(349)	17	(109)	(441)
New loan commitments and financial guarantees	781	20	78	879
Derecognitions and maturities	(247)	(32)	(43)	(322)
At 30 September 2025	788	26	213	1,027
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

Notes to the Condensed Consolidated Interim Financial Statements

24. Other assets

	30.9.2025	31.12.2024
Receivables	1,069	2,250
Unsettled securities transactions	5,967	4,116
Prepaid expenses	1,909	648
Deferred tax assets	253	164
Other assets	116	126
Other assets	9,314	7,304

25. Deposits from Central Bank and credit institutions

	30.9.2025	31.12.2024
Deposits from credit institutions	15,824	12,351
Repurchase agreements with Central Bank	148	184
Deposits from Central Bank and credit institutions	15,972	12,535

26. Deposits from customers

	30.9.2025	31.12.2024
Demand deposits and deposits with maturity up to 3 months	896,663	809,009
Term deposits with maturity of more than 3 months	112,256	117,837
Deposits from customers	1,008,919	926,846

Deposits from customers specified by owners	30.9.2025		31.12.2024	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	21,834	2%	12,825	1%
Municipalities	18,642	2%	10,388	1%
Companies	449,518	45%	408,994	44%
Individuals	518,925	51%	494,639	54%
Deposits from customers	1,008,919	100%	926,846	100%

27. Pledged assets

	30.9.2025	31.12.2024
Loans to customers pledged as collateral against Covered Bonds	403,116	410,481
Cash and balances pledged as collateral against Covered Bonds	15,003	15,213
Financial assets pledged as collateral with the Central Bank	7,070	8,484
Loans to credit institutions pledged as collateral against derivative instruments	152	1,947
Pledged assets against liabilities	425,341	436,125
Pledged assets against Covered Bonds held by the Bank	(154,315)	(160,665)
Pledged assets against liabilities on balance	271,026	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 September 2025 was ISK 128,861 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.

Notes to the Condensed Consolidated Interim Financial Statements

28. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.9.2025	31.12.2024
ISB CBI 26 - ISK 19,860 million	2015	2026	Bullet	Fixed CPI, 3.37%	31,053	36,710
ISB CB 27 - ISK 13,069 million	2020	2027	Amortising	Fixed, 2.50%	11,850	18,911
ISB CBF 27 - ISK 8,940 million	2022	2027	Bullet	REIBOR 1M + 0.40%	8,973	9,024
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed, 3.00%	42,827	43,563
ISB CBI 28 - ISK 13,472 million	2019	2028	Amortising	Fixed CPI, 2.20%	19,665	24,122
ISB CBI 29 - ISK 34,780 million	2023	2029	Bullet	Fixed CPI, 2.72%	39,076	37,758
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed CPI, 3.00%	34,946	33,541
ISB CB 31 - ISK 7,960 million	2025	2031	Bullet	Fixed, 7.39%	8,117	-
ISB CBI 32 - ISK 10,560 million	2024	2032	Bullet	Fixed CPI, 3.44%	11,198	4,110
Covered bonds					207,705	207,739
ISK 1,240 million	2020	2025	Bullet	Fixed, 3.50%	1,274	1,238
SEK 0 million	2021	2025	Bullet	STIBOR 3M + 1.075%	-	151
NOK 0 million	2021	2025	Bullet	NIBOR 3M + 1.075%	-	481
EUR 0 million**	2022	2025	Bullet	Fixed, 0.75%	-	21,419
NOK 1,400 million	2022	2025	Bullet	NIBOR 3M + 4.75%	17,181	17,277
SEK 434 million	2023	2026	Bullet	STIBOR 3M + 3.65%	5,656	6,344
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 2.70%	6,483	6,330
ISK 3,467 million	2022	2027	Amortising	REIBOR 1M + 1.25%	3,481	4,689
ISK 6,940 million	2022	2027	Bullet	Fixed, 7.70%	7,361	6,950
SEK 500 million	2024	2027	Bullet	STIBOR 3M + 2.35%	6,487	6,336
NOK 500 million	2024	2027	Bullet	NIBOR 3M + 2.35%	6,140	6,177
NOK 200 million	2024	2027	Bullet	NIBOR 3M + 1.20%	2,461	2,477
SEK 300 million	2024	2027	Bullet	STIBOR 3M + 1.20%	3,894	3,807
NOK 200 million	2025	2027	Bullet	NIBOR 3M + 0.98%	2,454	-
SEK 200 million	2025	2027	Bullet	STIBOR 3M + 1.00%	2,591	-
ISK 19,460 million	2023	2028	Bullet	Fixed CPI, 4.48%	21,920	15,039
EUR 300 million*	2024	2028	Bullet	Fixed, 4.625%	44,193	45,268
NOK 100 million	2025	2028	Bullet	NIBOR 3M + 1.19%	1,227	-
SEK 500 million	2025	2028	Bullet	STIBOR 3M + 1.20%	6,478	-
EUR 300 million**	2025	2030	Bullet	Fixed, 3.875%	43,726	-
ISK 7,600 million	2024	2036	Bullet	Fixed CPI, 3.5%	7,942	3,904
Unsecured bonds					190,949	147,887
Other unsecured loans					10,516	11,960
Other borrowed funds					10,516	11,960
Debt issued and other borrowed funds					409,170	367,586

The Group repurchased own bonds during the period amounting to ISK 10,192 million (nine months ended 30 September 2024: ISK 76,088 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 September 2025 the total carrying amount of these bond issuances amounted to ISK 87,020 million and included in the amount are negative fair value changes amounting to ISK 766 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 30 September 2025 the total carrying amount of the bonds amounted to ISK 43,726 million and included in the amount are negative fair value changes amounting to ISK 1,072 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.

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29. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	Callable	Interest	30.9.2025	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%	10,786	10,410
ISK 9,600 million	2023	2034	2029	Fixed CPI, 5.80%	10,613	10,388
Tier 2 subordinated loans					22,925	22,324
SEK 750 million	2021	Perpetual	2026	STIBOR 3M + 4.75%	9,625	9,371
Additional Tier 1 subordinated loans					9,625	9,371
Subordinated loans					32,550	31,695

30. Other liabilities

	30.9.2025	31.12.2024
Accruals	3,001	2,741
Lease liabilities	3,183	3,391
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,027	910
Withholding tax	1,901	6,302
Unsettled securities transactions	8,091	5,298
Provision for legal proceedings*	550	-
Sundry liabilities	2,575	2,926
Other liabilities	20,328	21,568

*For further information on legal proceedings see Note 34.

31. Custody assets

	30.9.2025	31.12.2024
Custody assets - not managed by the Group	3,759,022	3,873,964

Notes to the Condensed Consolidated Interim Financial Statements

32. Íslandsbanki's shareholders

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

		30.9.2025	31.12.2024
LSR Pension Fund	Iceland	8.6%	8.0%
Gildi Pension Fund	Iceland	8.1%	7.2%
Live Pension Fund	Iceland	6.4%	5.8%
Capital Group	USA	5.5%	5.3%
Vanguard	USA	4.3%	2.4%
Brú Pension Fund	Iceland	4.2%	3.9%
Frjálsi Pension Fund	Iceland	2.3%	1.5%
Stapi Pension Fund	Iceland	1.8%	1.1%
Birta Pension Fund	Iceland	1.6%	1.6%
Lífsværk Pension Fund	Iceland	1.3%	1.2%
Fossar Investment Bank	Iceland	1.2%	0.3%
Kvika Bank	Iceland	1.2%	0.0%
Almenni Pension Fund	Iceland	1.2%	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		50.2%	14.3%
Total		100.0%	100.0%

At 30 September 2025 the number of shareholders of the Bank was 27,806 (year-end 2024: 9,961) where 85.6% of the Bank's shares were owned by domestic parties and 14.4% 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 0.40% of shares in the Bank (year-end 2024: 0.13%). Treasury shares amounted to 44.5 million shares, representing 2.36% of the issued share capital (year-end 2024: 105.4 million shares, or 5.27% of the issued share capital). Shareholders approved 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.

Notes to the Condensed Consolidated Interim Financial Statements

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.

	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net & loan com- balance mitments	
At 30 September 2025					
Board of Directors, key management personnel and other related parties ..	-	1,013	567	446	72
Associated companies	2,578	4,466	3,270	3,774	153
Balances with related parties	2,578	5,479	3,837	4,220	225

	Interest income	Interest expense	Other income	Other expense
1 January to 30 September 2025				
Board of Directors, key management personnel and other related parties	63	27	2	24
Associated companies	353	16	2	1,504
Transactions with related parties	416	43	4	1,528

	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net & loan com- balance mitments	
At 31 December 2024					
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

	Interest income	Interest expense	Other income	Other expense
1 January to 30 September 2024				
Board of Directors, key management personnel and other related parties	77	36	3	39
Associated companies	418	27	-	1,619
Transactions with related parties	495	63	3	1,658

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

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.

As has been disclosed in the Group's previous financial statements, Borgun hf. (currently Teya Iceland hf.), a former subsidiary of Íslandsbanki, was involved in a legal dispute with Landsbankinn hf. regarding the sale of shares in Borgun hf. The matter concerned a claim from Landsbankinn based on lack of information in Borgun's financial statements, that allegedly affected the value of Borgun during the sale of Landsbankinn's shares in Borgun. The District Court of Reykjavík rejected Landsbankinn's claims, a decision upheld by the Court of Appeal. The Supreme Court denied Landsbankinn's request for an appeal on 13 May 2025, thereby making the judgement of the Court of Appeal final. Therefore, this matter is concluded.

Provision and contingent liabilities

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 1.3 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 rejected. The plaintiff in the other case has paused further proceedings, awaiting the Supreme Court's ruling in a case brought against another bank. The Bank believes that the claims of the plaintiff are unfounded and has not recognised a provision in relation to this matter.

Secondly, a case was brought against the Bank by customers owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintained that the terms governing the variable interest rates were invalid and could 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 12 November 2024, the District Court of Reykjavík rendered a judgement in the case where all claims made by the plaintiffs against the Bank were rejected. The judgement was appealed directly to the Supreme Court, which gave its ruling on 14 October 2025 (case no. 55/2024). The Supreme Court partially invalidated the loan agreement terms concerning changes to the borrowing rate, insofar as it referred to factors other than the Central Bank of Iceland's policy rate. However, the Supreme Court rejected the plaintiffs' claims for the loan to bear fixed interest rates as well as rejecting all monetary claims, noting that the interest rate increases on their loan were less than the increases in the Central Bank's policy rates during the disputed period.

The Supreme Court's decision to reject the plaintiffs' claim for fixed interest rates substantially reduces the previously estimated maximum financial impact of ISK 21 billion on the Bank's loan portfolio of non-index linked mortgages bearing variable interest rates. The ruling clarifies that the Bank's discretion to increase interest rates under these terms is restricted. Although the judgement does not provide precise guidance on what consequences the judgement has for individual loans or the Bank's interest rate adjustments, the Bank has decided to recognise a provision amounting to ISK 550 million relating to potential claims from customers.

Although the Supreme Court ruling concerns a non-index linked mortgage, it cannot be ruled out that the judgement or other pending judgements in cases regarding interest rate interpretation towards other lenders, may set a precedent regarding the interpretation of CPI-linked mortgages and other consumer loans. At this stage, it is difficult to reliably assess the probability or the potential financial impact of an unfavourable outcome with respect to CPI-linked consumer loans. The Bank's best estimate, at this point in time, is that the potential impact of unfavourable court rulings affecting the Bank's CPI-linked home mortgages could be in the range of ISK 2-5 billion before tax, by applying the lowest market interest rates published by the Central Bank of Iceland and assuming a four-year statute of limitation. The Bank has not recognised a provision in relation to the matter.

Notes to the Condensed Consolidated Interim Financial Statements

34. Legal proceedings (continued)

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.

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

On 6 October 2025 Íslandsbanki announced that merger discussions had been initiated with Skagi hf., a domestic company in the financial services sector, and that head of terms had been agreed. According to the term sheet, Skagi will be fully merged with Íslandsbanki and the shareholders of Skagi will receive a total of 323,859,440 new shares in Íslandsbanki, which corresponds to around 15% of the issued share capital in the merged entity.

Notes to the Condensed Consolidated Interim Financial Statements

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 73 million are subject to 100% Government guarantee and ISK 230 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.

In the case of Covered Bonds in Bonds and debt instruments, the collateral consists of cash flows from mortgage pools and is therefore classified as other collateral.

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

Notes to the Condensed Consolidated Interim Financial Statements

38 Maximum credit exposure and collateral (continued)

At 30 September 2025	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
Collateral held against credit exposure										
Cash and balances with Central Bank	114,055	-	-	-	-	-	-	-	114,055	19
Loans to credit institutions	99,117	-	-	-	-	-	-	-	99,117	87
Bonds and debt instruments	121,816	-	-	-	-	-	30,458	30,458	91,358	-
Loans to customers:	1,333,234	701,949	313,442	55,276	40,634	80,139	57,790	1,249,230	84,004	6,612
Individuals	652,965	590,474	5,611	4	230	17,445	137	613,901	39,064	1,444
- Thereof mortgages	586,843	585,681	-	-	225	-	-	585,906	937	271
Commerce and services	193,601	13,542	79,521	872	9,828	49,866	26,994	180,623	12,978	1,349
Construction	97,955	55,955	31,678	46	298	3,391	4,171	95,539	2,416	1,197
Energy	16,526	3	10,764	-	3,057	149	-	13,973	2,553	31
Financial services	195	174	-	-	-	-	-	174	21	-
Industrial and transportation	93,100	1,202	58,125	6	6,215	8,583	15,190	89,321	3,779	1,198
Investment companies	42,989	1,918	14,068	-	18,175	295	4,076	38,532	4,457	401
Public sector and non-profit organisations	17,442	45	762	-	5	23	12	847	16,595	37
Real estate	145,738	38,337	104,526	-	1,249	245	446	144,803	935	849
Seafood	72,723	299	8,387	54,348	1,577	142	6,764	71,517	1,206	106
Other financial assets	6,947	-	-	-	-	-	-	-	6,947	8
Off-balance sheet items:	228,418	18,416	41,214	2,505	13,376	14	14,783	90,308	138,110	1,027
Financial guarantees	20,470	2,548	7,688	5	1,266	-	1,961	13,468	7,002	210
Loan commitments	207,948	15,868	33,526	2,500	12,110	14	12,822	76,840	131,108	817
Total	1,903,587	720,365	354,656	57,781	54,010	80,153	103,031	1,369,996	533,591	7,753

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.

Notes to the Condensed Consolidated Interim Financial Statements

38 Maximum credit exposure and collateral (continued)

At 31 December 2024	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
Collateral held against credit exposure										
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	-	-	-	-	-	29,925	29,925	81,983	-
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	110,651	1,321,670	400,337	8,841

*Comparative figures have been changed. Covered Bonds, classified as bonds and debt instruments, include cash flows from mortgage pools held as collateral, this collateral is now included as other collateral.

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.

Notes to the Condensed Consolidated Interim Financial Statements

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 September 2025

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	510,076	1,427	-	511,503
Risk class 5-6	545,666	12,924	-	558,590
Risk class 7-8	199,702	26,887	-	226,589
Risk class 9	14,841	6,171	-	21,012
Risk class 10	-	-	21,408	21,408
Unrated	565	179	-	744
	1,270,850	47,588	21,408	1,339,846
Expected credit losses	(3,056)	(757)	(2,799)	(6,612)
Net carrying amount	1,267,794	46,831	18,609	1,333,234

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	106,602	203	-	106,805
Risk class 5-6	75,769	453	-	76,222
Risk class 7-8	43,390	842	-	44,232
Risk class 9	506	79	-	585
Risk class 10	-	-	889	889
Unrated	697	15	-	712
	226,964	1,592	889	229,445
Expected credit losses	(788)	(26)	(213)	(1,027)
Total	226,176	1,566	676	228,418

Notes to the Condensed Consolidated Interim Financial Statements

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

Notes to the Condensed Consolidated Interim Financial Statements

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 September 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	3,306	(9)	4,513	(33)	2,409	(137)	10,228	(179)
Companies	1,426	(16)	17,994	(322)	6,470	(1,007)	25,890	(1,345)
Total	4,732	(25)	22,507	(355)	8,879	(1,144)	36,118	(1,524)

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)

Notes to the Condensed Consolidated Interim Financial Statements

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 two large exposures at 30 September 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 September 2025

Groups of connected clients:	Before	After
Group 1	96%	6%
Group 2	13%	13%
Group 3	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.

Notes to the Condensed Consolidated Interim Financial Statements

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

	30.9.2025	31.12.2024
For all currencies	129%	125%

Liquidity coverage ratio

	30.9.2025	31.12.2024
For all currencies	207%	168%
ISK	125%	126%
EUR	569%	449%

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

At 30 September 2025

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	112,279	641	352	384	113,656
Foreign government bonds	-	26,891	-	-	26,891
Domestic bonds eligible as collateral with Central Bank	67,694	6,653	-	10,252	84,599
Level 2 liquid assets	35,505	3,776	49	340	39,670
High quality liquidity assets	215,478	37,961	401	10,976	264,816
Balance with financial institutions	1	54,687	30,429	3,767	88,884
Liquidity reserve	215,479	92,648	30,830	14,743	353,700

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

Notes to the Condensed Consolidated Interim Financial Statements

44. Maturity analysis of financial assets and financial liabilities

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

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

The tables show undiscounted contractual payments of principal and interest for the Group's financial assets and liabilities. Thus, the total figures for each asset or liability class are higher than the respective balance sheet amount. Cash flows for payments of unknown nature, such as for floating rate, CPI-linked or foreign currency denominated instruments, are based on internal yield curves and forecasts. For dated financial assets or liabilities the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date.

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

At 30 September 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	70,224	43,831	-	-	-	-	114,055	114,055
Loans to credit institutions	17,685	81,902	-	-	-	-	99,587	99,117
Bonds and debt instruments	-	21,796	24,748	95,856	5,443	-	147,843	139,432
Derivatives	-	2,529	1,813	44	931	-	5,317	5,092
- Net settled derivatives	-	1,369	-	-	-	-	1,369	1,369
- Inflow	-	44,882	6,609	22,946	1,281	-	75,718	67,195
- Outflow	-	(43,722)	(4,796)	(22,902)	(350)	-	(71,770)	(63,472)
Loans to customers	-	146,812	176,728	683,633	1,944,800	-	2,951,973	1,333,234
Shares and equity instruments	-	-	-	-	-	16,815	16,815	16,815
Other financial assets	6,540	397	10	-	-	-	6,947	6,947
Total financial assets	94,449	297,267	203,299	779,533	1,951,174	16,815	3,342,537	1,714,692
Deposits from CB and credit institutions	13,275	2,699	-	-	-	-	15,974	15,972
Deposits from customers	825,709	90,917	64,059	27,940	53,801	-	1,062,426	1,008,919
Derivative instruments and short positions	-	3,143	2,127	606	830	-	6,706	5,599
- Net settled derivatives	-	556	-	-	-	-	556	556
- Inflow	-	(69,623)	(20,292)	(11,484)	(1)	-	(101,400)	(94,441)
- Outflow	-	72,208	22,398	11,550	1	-	106,157	99,108
- Short positions	-	2	21	540	830	-	1,393	376
Debt issued and other borrowed funds	-	23,286	63,043	373,233	90,922	-	550,484	409,170
Subordinated loans	-	162	1,637	15,181	35,153	-	52,133	32,550
Other financial liabilities	9,893	1,747	1,776	2,186	714	-	16,316	15,982
- Lease liabilities	-	164	477	2,162	714	-	3,517	3,183
- Other liabilities	9,893	1,583	1,299	24	-	-	12,799	12,799
Total financial liabilities	848,877	121,954	132,642	419,146	181,420	-	1,704,039	1,488,192
Net financial assets and financial liab.	(754,428)	175,313	70,657	360,387	1,769,754	16,815	1,638,498	226,500

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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.

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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	30.9.2025		31.12.2024	
	Effect on profit before tax			
	Downward shift	Upward shift	Downward shift	Upward shift
Currency				
ISK, indexed	82	(82)	73	(73)
ISK, non-indexed	30	(30)	83	(83)
Total	112	(112)	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 September 2025

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	31	(2)	(782)	290	1,318	383	1,238
ISK, non-indexed	138	(84)	(464)	(615)	166	37	(822)
EUR	76	167	(15)	(140)	-	-	88
SEK	33	-	-	(138)	-	-	(105)
NOK	213	-	(22)	(40)	-	-	151
USD	6	(1)	-	-	-	-	5
Total	497	80	(1,283)	(643)	1,484	420	555

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

Notes to the Condensed Consolidated Interim Financial Statements

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 September 2025

	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	641	352	98	-	-	38	113	-	-	134	1,376
Loans to credit institutions	57,601	34,073	1,133	453	14	465	473	241	12	970	95,435
Bonds and debt instruments	39,560	313	-	-	-	5,165	6,831	-	-	-	51,869
Loans to customers	113,450	17,456	1	518	806	1,554	2,103	1,784	5,047	-	142,719
Shares and equity instruments	38	743	96	-	-	453	304	-	-	-	1,634
Other assets	39	301	3	-	-	-	2	-	-	-	345
Total assets	211,329	53,238	1,331	971	820	7,675	9,826	2,025	5,059	1,104	293,378
Deposits from credit institutions	1,846	1,937	38	4	-	6	83	5	6	-	3,925
Deposits from customers	56,753	43,408	6,092	405	400	959	2,984	4,498	136	492	116,127
Derivative instruments and short positions	-	308	-	-	-	-	-	-	-	-	308
Debt issued and other borrowed funds	129,935	10,556	-	-	-	31,585	29,456	-	-	-	201,532
Subordinated loans	-	-	-	-	-	9,625	-	-	-	-	9,625
Other liabilities	149	299	3	-	-	-	2	110	-	-	563
Total liabilities	188,683	56,508	6,133	409	400	42,175	32,525	4,613	142	492	332,080
Net on-balance sheet position	22,646	(3,270)	(4,802)	562	420	(34,500)	(22,699)	(2,588)	4,917	612	(38,702)
Net off-balance sheet position	(21,648)	3,037	4,760	(532)	(368)	34,351	22,573	2,758	(4,900)	(660)	39,371
Net position	998	(233)	(42)	30	52	(149)	(126)	170	17	(48)	669

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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

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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 181,756 million at 30 September 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 1,818 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.9.2025	31.12.2024
Bonds and debt instruments	2,104	3,905
Loans to customers	503,993	501,595
Total CPI-linked assets	506,097	505,500
Deposits from customers	119,911	119,588
Debt issued and other borrowed funds	165,800	155,184
Subordinated loans	21,399	20,798
Off-balance sheet exposures	17,123	16,521
Short positions	108	47
Total CPI-linked liabilities	324,341	312,138
CPI imbalance	181,756	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 19.2%. 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.

	30.9.2025	31.12.2024
Own funds		
Ordinary share capital	9,180	9,473
Share premium	42,472	55,000
Reserves	7,062	7,102
Retained earnings	168,260	155,780
Third quarter profit	(6,901)	-
Fair value changes due to own credit standing	525	135
Foreseeable dividend payment and approved buyback*	(17,555)	(15,760)
Tax assets	(253)	(164)
Intangible assets	(1,647)	(2,070)
Insufficient coverage for non-performing exposures	(24)	(17)
CET1 capital	201,119	209,479
Additional Tier 1 capital	9,625	9,371
Tier 1 capital	210,744	218,850
Tier 2 capital	22,926	22,324
Total capital base	233,670	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 11,355 million has been allocated to uncompleted share buybacks and is therefore deducted from the CET1 capital.

Notes to the Condensed Consolidated Interim Financial Statements

49. Capital management (continued)

	30.9.2025	31.12.2024
Risk exposure amount		
Due to credit risk	970,472	922,533
Due to market risk	5,923	10,606
Due to credit valuation adjustment	1,013	714
Due to operational risk	107,119	107,119
Total risk exposure amount	1,084,527	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%
Capital ratios including third quarter profit*		
CET 1 ratio	18.9%	20.1%
Tier 1 ratio	19.8%	21.0%
Total capital ratio	21.9%	23.2%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,721,438	1,594,192
Off-balance sheet exposures	77,353	57,583
Derivative exposures	8,289	9,223
Leverage ratio total exposure measure	1,807,080	1,660,998
Tier 1 capital	210,744	218,850
Leverage ratio	11.7%	13.2%
Leverage ratio including third quarter profit*	11.9%	13.2%

*Where the capital and leverage ratios are shown including third quarter profit, ISK 3,451 million has been subtracted from the capital base as is expected from the 50% dividend policy.

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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 September 2025, both the LAA and RCA were equal to the total SREP capital requirement for 2024 of 9.8%, resulting in an MREL requirement of 19.6% of REA. However, a new resolution plan was approved for the Bank on 17 October 2025, where the MREL requirement is 18.8%, following the reduction in the SREP requirement earlier this year.

Minimum requirements for own funds and eligible liabilities

	30.9.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
MREL	212,567	19.6%	204,031	19.6%
Combined buffer requirement	106,284	9.8%	103,002	9.9%
MREL including combined buffer requirement	318,851	29.4%	307,033	29.5%

Own funds and eligible liabilities

	30.9.2025		31.12.2024	
	Amount	% of REA	Amount	% of REA
Own funds	233,670	21.5%	241,174	23.2%
Eligible liabilities	165,610	15.3%	106,878	10.3%
Own funds and eligible liabilities	399,280	36.8%	348,052	33.4%

