

Condensed Consolidated Interim Financial Statements

1 January – 31 March 2024

Unaudited



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Arion Bank

Highlights 31.03.2024



9.1%
Return on equity

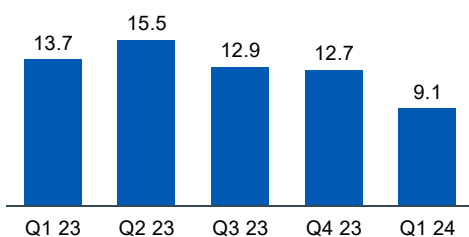


48.4%
Cost-to-core
income

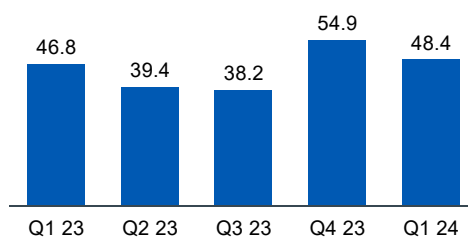


18.8%
CET1 ratio

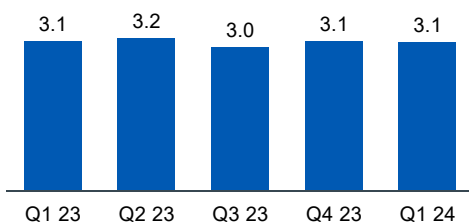
Return on equity (%)



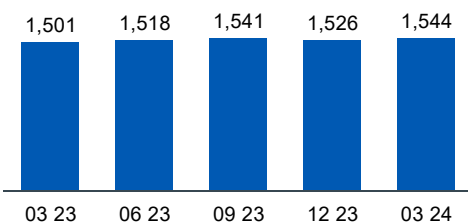
Cost-to-Core income ratio (%)



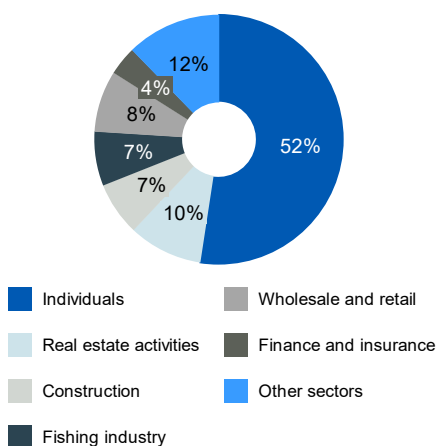
Net interest margin (%)



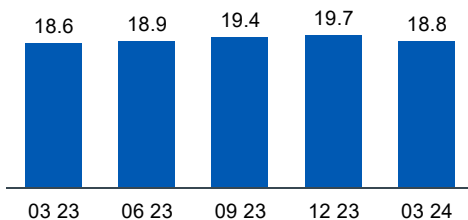
Total assets (ISK bn)



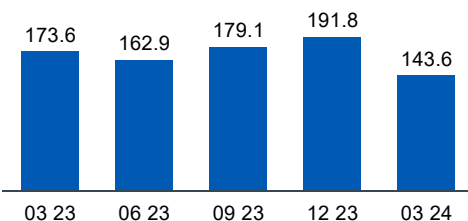
Loans to customers by sector (%)



CET1 ratio (%)



LCR ratio (%)



Moody's
Long term: A3
Covered bond: Aa2
Outlook: Stable



Endorsement and statement by the Board of Directors and the CEO



The Condensed Consolidated Interim Financial Statements of Arion Bank for the period 1 January to 31 March 2024 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 4.4 billion, return on equity was 9.1% and earnings per share ISK 3.07. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), decreased by 2.1%, compared with the previous year, mainly due to net commission income. Net interest income increased by 2.3%, compared with the first quarter in previous year, mainly due to inflation, while Net interest margin remains stable at 3.1%. The operation of the subsidiary Vördur improved compared with the first quarter in previous year with insurance revenues increasing by 17.8% while claims increased by 7.0%. Market conditions were challenging for net financial income during the first quarter of 2024, especially in equity holdings. Operating expenses, including operating expenses of the insurance operation, increased by 1.2% compared with the first quarter in previous year, which is well below the 7% rate of inflation. The cost-to-core income ratio was 48.4%, with expenses of the insurance operation included, compared with 46.8% for the first quarter 2023. Impairments were calculated at 11bps on annual basis for the first quarter, which is lower than expected for the Bank through the cycle but represents a negative change from the first quarter of 2023, partly due to additional impairments due to the volcanic activity in the vicinity of Grindavík. Income tax for the first quarter is unusually high due to unfavorable combination of income.

Balance Sheet

Arion Bank's balance sheet grew by 1.2% from year-end 2023. Loans to customers increased by 2.2% from year-end, with an 3.2% increase in corporate lending and 1.4% growth in loans to individuals, mainly mortgages. Deposits increased by 1.2%, primarily individuals and institutional investors. Total equity amounted to ISK 191,416 million at the end of March. The Group's capital ratio was 23.2% and the CET1 ratio was 18.8%. The ratios are determined on the basis of the unaudited net earnings in the quarter, and take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank's dividend policy as well as share buyback of up to ISK 5 billion as approved by the Board in March 2024. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 22.9% and the CET1 ratio was 18.6%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law. The liquidity position was also strong at period-end and well above the regulatory minimum.

Volcanic activity in the vicinity of Grindavík

Following the events near Grindavík starting in November 2023, Arion Bank offered to freeze the mortgages of its customers in Grindavík, and to waive interest and indexation on their loans until the end of April 2024. Since then, the Icelandic government has introduced measures involving mortgage lenders to support borrowers in the area. For information on Arion Bank's participation in the scheme see disclosure in Note 43.

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

New medium-term financial targets were introduced on the Capital Markets Day in March 2024.

	Actuals Q1 2024	Arion Bank's medium-term financial targets
Return on equity	9.1%	Exceed 13%
Core operating income / REA	6.6%	Exceed 7.2%
Insurance revenue growth (YoY)	13.5%	In excess of market growth (11.2% in 2023)
Combined ratio	103.9%	Below 95%
Cost-to-core income ratio	48.4%	Below 45%
CET1 ratio above regulatory capital requirements	350 bps	150- 250 bps management buffer (assumes fully utilized AT1) (-46.8 - 17.8% based on optimal capital requirements and optimal AT1 and T2 ratios)
Dividend pay-out ratio	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Endorsement and statement by the Board of Directors and the CEO



Economic outlook

Despite tightening financial conditions, persistent inflation, and seismic activity which has displaced 1% of the population, the Icelandic economy has remained remarkably resilient. According to preliminary figures from Statistics Iceland, GDP increased by 4.1% between years in 2023, outperforming our main trading partners by a significant margin. Growth was mainly driven by a positive contribution of foreign trade, which was bolstered by robust service exports. However, as the year progressed, economic activity lost pace quickly with private consumption declining by 2.3% between years in the fourth quarter, investment by 7.6%, and imports by 6%. The sharp drop in imports in the latter half of the year, coupled with continued exports growth, tipped the current account into a surplus for the first time since 2020, amounting to 1% of GDP.

Along with the publication of economic growth in 2023, Statistics Iceland revised the national accounts figures for the years 2020-2022. According to the revised estimate, GDP increased by 8.9% in 2022, marking the highest economic growth in half a century. The revision had a decisive impact on the Central Bank's monetary policy committee, which kept interest rates unchanged at 9.25% in March, in part due to stronger demand pressures than previously thought. Although analysts expect rate cuts this year, many have pushed back their expectations to later in the year and anticipate smaller reductions, as inflation expectations remain persistent, the labor market is tight and unemployment low. The signing of long-term private sector wage agreements in March was a positive development and reduced uncertainty, but as noted by the MPC, the tight labor market and still strong domestic demand could lead to a considerable wage drift and a perpetuate the wage-price spiral. Furthermore, the government is to a large extent footing the bill which is likely to ease the fiscal stance.

Inflation continued to decelerate in Q1, averaging 6.7% in Q1 compared to 7.9% in Q4 2023. This decline is somewhat attributable to base effects, although underlying inflation has eased as well. Arion Research expects inflation to continue on a downward trajectory, falling below 6% in the middle of the year. The inflation outlook remains uncertain, with tight labor market and rising housing prices fueling inflation, while slower domestic demand, as evidenced by 0.4% contraction in Icelander's payment card turnover between years in Q1, is pulling in the opposite direction. Analysts expect tight monetary stance to continue to hamper economic activity during the year, significantly slowing economic growth.

Outlook for the Bank

In recent years, the Arion Group has carefully followed a strategy designed to make it a leading company which drives the success of its customers and society as a whole. This vision builds on long-term business relationships, diverse services and strong teamwork which forms the basis for a seamless customer experience and sustainable value creation. The success of this approach is reflected in the Group's performance in recent years, and the Group is in an excellent position to maintain and consolidate these results in the future.

On 1 March, the management presented a strategic update at the Capital Markets Day which is held every second year for investors and other stakeholders. The key points were that Arion Bank operates on attractive markets, occupies a strong and leading position, has clear growth opportunities and has a proven track record in recent years of reaching its operating targets. These factors combine to give a positive outlook for the future.

Employees

The Group had 813 full-time equivalent positions at the end of the period, compared with 822 at the end of 2023.

Arion Bank and Vördur have in place an incentive scheme which came into effect in 2021 for employees of Arion Bank and Vördur. The scheme is in compliance with the FSA's rules on remuneration policies for financial institutions. The scheme is split into two parts. Firstly, employees can receive up to 10% of their fixed salary in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares in the Bank. Of this 25%, a total of 60% will be delivered immediately but is subject to a 3-year lock-up period. The remaining 40% is delivered in four to five years' time. The key metric used to determine whether remuneration will be paid for 2023, in part or in full, is whether the Bank's return on equity in the relevant year is higher than the weighted ROE of the Bank's main competitors. Stefnir has a special incentive scheme where other criteria are used as a basis. Since 2021 Arion Bank has had in place a share option plan for all employees of the Bank, and the subsidiaries Vördur and Stefnir, which is considered important for aligning the interests of employees with the long-term interests of the Bank. The share option plan was initially for five years and employees are entitled to buy shares for up to ISK 1,500,000 each year. The purchase price is determined by the Bank's average share price 10 days before the share option agreement is signed.

Funding and liquidity

In terms of funding and liquidity management the Group's liquidity position remains strong. The Bank's liquidity position was above the required minimum and the liquidity ratio at the end of March 2024 was 144%, with the minimum requirement being 100%.

The Bank continued to issue covered bonds in the domestic market. Total issuance was ISK 15.5 billion (of which ISK 4.0 billion was for the Bank's own account) in the first three months of 2024.

Endorsement and statement by the Board of Directors and the CEO



Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. The Bank aims in the medium term to maintain capital adequacy ratios 150-250bps above total regulatory requirements. The Bank's issuer rating from Moody's is A3 with a stable outlook and S&P recently upgraded the Bank's rating to BBB+ with a stable outlook. In April the Bank concluded a strategic review of its credit rating, going forward the Bank will operate with one international credit rating agency, Moody's.

In March 2024, the Bank paid a dividend of ISK 9.0 per share, approximately ISK 13.1 billion, as authorized by the Annual General Meeting. In addition to its authority to propose that the Bank pay dividends or other disbursements of equity, the Board is authorized to purchase up to 10% of the Bank's issued share capital.

In March 2024 Arion Bank announced a repurchase program. Under the program the Bank will repurchase 36.5 million shares for the total amount of up to ISK 5,000 million.

The Group's capital adequacy ratio on 31 March 2024 was 23.2% and the CET1 ratio was 18.8%, when the unaudited interim net earnings for the first quarter of 2024 are included. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy, as well as share buyback of up to ISK 5 billion as approved by the Board in March 2024. This compares to a regulatory capital requirement of 19.7%, including the combined buffer requirement.

Having temporarily vacated the 2% countercyclical capital buffer in March 2020, the Central Bank of Iceland reinstated the buffer at the same level, effective from 29 September 2022. In March 2023 the Central Bank announced that it would increase the countercyclical buffer to 2.5%, effective from 15 March 2024. The increase has now come into effect, increasing Arion Bank's total capital requirement by broadly the corresponding percentage.

The Bank's REA increased by ISK 26.6 billion in the first quarter of 2024. This was driven primarily by an increase of ISK 21.6 billion in the loan portfolio REA. REA changes for other risk factors were less material.

The Central Bank of Iceland's Resolution Authority approved Arion Bank's resolution plan on 17 October 2023. With the approval of the resolution plan, the Resolution Authority set the Bank's MREL requirement at 20.2% of the total risk exposure amount and 6% of the total exposure measure, based on year-end 2022 data. Arion Bank is in full compliance with the requirement. An MREL subordination requirement is expected to come into effect in Q3 2026.

Group ownership

Gildi líféyrissjóður was the largest shareholder in Arion Bank with a shareholding of 9.84% at the end of March. Arion Bank held 0.70% of its own shares at the end of March. The number of shareholders was 10,897 at the end of March, compared with 10,906 at the beginning of the year. Further information on Arion Bank's shareholders can be found in Note 37.

Risk management

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

Governance

At the Bank's AGM on 13 March 2024, five members were elected to serve on the Board of Directors until the next AGM, three women and two men. Paul Richard Horner was elected Chairman. Additionally, two Alternate Directors (one woman and one man) were elected. All Directors and Alternates are independent of Arion Bank, its management and major shareholders. The Board's composition as regards gender representation complies with statutory requirements, which stipulate that companies employing more than 50 people must ensure that the gender ratio of the board of directors and alternate board is no less than 40%.

Endorsement and statement by the Board of Directors and the CEO



Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 31 March 2024 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 31 March 2024 and its financial position as at 31 March 2024. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 31 March 2024 and confirm them by means of their signatures.

Reykjavík, 30 April 2024

Board of Directors

Paul Horner, Chairman

Kristín Pétursdóttir, Vice Chairman

Gunnar Sturluson

Liv Fiksdahl

Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason



Consolidated Interim Income Statement

	Notes	2024 1.1.-31.3.	2023 1.1.-31.3.
Interest income		33,638	29,168
Interest expense		(22,393)	(18,175)
Net interest income	6	11,245	10,993
Fee and commission income		4,336	5,286
Fee and commission expense		(971)	(842)
Net fee and commission income	7	3,365	4,444
Insurance revenue		4,667	3,962
Insurance service expenses		(4,882)	(4,698)
Insurance service results	8	(215)	(736)
Net financial income	9	29	794
Other operating income	10	50	14
Other net operating income		79	808
Operating income		14,474	15,509
Operating expenses	11	(6,554)	(6,440)
Bank levy	14	(460)	(449)
Net impairment	15	(315)	(52)
Earnings before income tax		7,145	8,568
Income tax expense	16	(2,704)	(2,287)
Net earnings from continuing operations		4,441	6,281
Discontinued operations held for sale, net of income tax	17	(9)	10
Net earnings		4,432	6,291
Attributable to			
Shareholders of Arion Bank hf.		4,444	6,284
Non-controlling interest		(12)	7
Net earnings		4,432	6,291
Earnings per share			
Basic earnings per share attributable to the shareholders of Arion Bank (ISK)	18	3.07	4.32
Diluted earnings per share attributable to the shareholders of Arion Bank (ISK)		3.00	4.10

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



Consolidated Interim Statement of Comprehensive Income

	Notes	2024 1.1.-31.3.	2023 1.1.-31.3.
Net earnings		4,432	6,291
Net change in FV of financial assets carried at FV through OCI, net of tax		102	113
Net realized loss (gain) on financial assets carried at FV through OCI, net of tax and reclassification from OCI equity reserve, transferred to the P/L	9	79	(118)
Changes to reserve for financial instruments at FV through OCI that is or may be reclassified subsequently to the Income Statement		181	(5)
Total comprehensive income		4,613	6,286
Attributable to			
Shareholders of Arion Bank		4,625	6,279
Non-controlling interest		(12)	7
Total comprehensive income		4,613	6,286
Comprehensive income per share			
	18		
Basic comprehensive income per share attributable to the shareholders of Arion Bank (ISK)		3.19	4.32
Diluted comprehensive income per share attributable to the shareholders of Arion Bank (ISK)		3.04	4.10

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Consolidated Interim Statement of Financial Position

Assets	Notes	31.3.2024	31.12.2023
Cash and balances with Central Bank	19	102,405	102,095
Loans to credit institutions	20	33,782	28,835
Loans to customers	21	1,178,700	1,152,789
Financial instruments	22-24	195,914	205,706
Investment property	24	9,542	9,493
Investments in associates	26	797	789
Intangible assets	27	7,885	8,051
Tax assets	28	39	39
Assets and disposal groups held for sale	29	64	62
Other assets	30	15,304	17,813
Total Assets		1,544,432	1,525,672
Liabilities			
Due to credit institutions and Central Bank	23	3,205	2,771
Deposits	23	802,068	792,710
Financial liabilities at fair value	23	10,778	11,646
Tax liabilities	28	11,732	11,169
Other liabilities	31	50,628	46,336
Borrowings	23,32	433,047	420,460
Subordinated liabilities	23,33	41,558	41,279
Total Liabilities		1,353,016	1,326,371
Equity			
	36		
Share capital and share premium		11,207	10,634
Other reserves		12,365	12,283
Retained earnings		167,353	175,881
Total Shareholders' Equity		190,925	198,798
Non-controlling interest		491	503
Total Equity		191,416	199,301
Total Liabilities and Equity		1,544,432	1,525,672

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves										Total share- holders' equity	Non- cont- rolling interest	Total equity
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop- ment cost	Debt invest- ments at fair value thr. OCI, unrealized	Statutory reserve	Retained earnings			
Equity 1 January 2024	1,446	9,188	409	825	7,772	1,462	880	(701)	1,637	175,881	198,799	503	199,302
Net earnings										4,444	4,444	(12)	4,432
Net change in fair value								102			102		102
Net realized loss transferred to P/L								79			79		79
Total comprehensive income	-	-	-	-	-	-	-	181	-	4,444	4,625	(12)	4,613
<i>Transactions with owners</i>													
Dividend paid										(13,058)	(13,058)		(13,058)
Share capital increase	1	110									111		111
Share option charge			41								41		41
Share option vested	3	280	(40)								243		243
Share option forfeited			(105)							105	-		-
Incentive scheme	1	164									165		165
Warrants exercised		14		(14)							-		-
Changes in reserves					(16)	64	(30)			(18)	-		-
Equity 31 March 2024	<u>1,451</u>	<u>9,756</u>	<u>305</u>	<u>811</u>	<u>7,756</u>	<u>1,526</u>	<u>850</u>	<u>(520)</u>	<u>1,637</u>	<u>167,353</u>	<u>190,925</u>	<u>491</u>	<u>191,416</u>

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves												
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized development cost	Debt investments at fair value thr. OCI, unrealized	Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
Equity 1 January 2023	1,466	11,906	339	828	6,308	1,941	1,002	(1,383)	1,637	163,263	187,307	649	187,956
Net earnings										6,284	6,284	7	6,291
Net change in fair value								113			113		113
Net realized gain transferred to P/L								(118)			(118)		(118)
Total comprehensive income	-	-	-	-	-	-	-	(5)	-	6,284	6,279	7	6,286
<i>Transactions with owners</i>													
Dividend paid										(12,357)	(12,357)		(12,357)
Purchase of treasury shares	(16)	(2,442)									(2,458)		(2,458)
Share option charge			59								59		59
Share option vested	1	295	(45)								251		251
Share option forfeited			(83)							83	-		-
Incentive scheme	1	194									195		195
Changes in reserves					437	(179)	(31)			(227)	-		-
Equity 31 March 2023	<u>1,452</u>	<u>9,953</u>	<u>270</u>	<u>828</u>	<u>6,745</u>	<u>1,762</u>	<u>971</u>	<u>(1,388)</u>	<u>1,637</u>	<u>157,046</u>	<u>179,276</u>	<u>656</u>	<u>179,932</u>
Net earnings										19,471	19,471	(25)	19,446
Net change in fair value								584			584		584
Net realized loss transferred to P/L								103			103		103
Total comprehensive income	-	-	-	-	-	-	-	687	-	19,471	20,158	(25)	20,133
<i>Transactions with owners</i>													
Share capital increase	-	27									27		27
Purchase of treasury shares	(6)	(795)									(801)		(801)
Share option charge			138								138		138
Warrants exercised		3		(3)							-		-
Liquidation of a subsidiary											-	(128)	(128)
Changes in reserves					1,027	(300)	(91)			(636)	-		-
Equity 31 December 2023	<u>1,446</u>	<u>9,188</u>	<u>408</u>	<u>825</u>	<u>7,772</u>	<u>1,462</u>	<u>880</u>	<u>(701)</u>	<u>1,637</u>	<u>175,881</u>	<u>198,798</u>	<u>503</u>	<u>199,301</u>

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



Consolidated Interim Statement of Cash flows

	2024 1.1.-31.3.	2023 1.1.-31.3.
Operating activities		
Net earnings	4,432	6,291
Non-cash items included in net earnings	(2,409)	(6,241)
<i>Changes in operating assets and liabilities</i>		
Loans to credit institutions, excluding bank accounts	44	(3,780)
Loans to customers	(19,302)	(26,076)
Financial instruments and financial liabilities at fair value	11,563	(12,423)
Other changes in operating assets and liabilities	6,070	23,587
Interest received	25,261	20,768
Interest paid	(4,965)	(4,695)
Dividend received	78	63
Income tax paid	(2,141)	(1,834)
Net cash from (used in) operating activities	18,631	(4,340)
Investing activities		
Acquisition of intangible assets	(82)	(62)
Proceeds from sale of property and equipment	6	-
Acquisition of property and equipment	(71)	(79)
Net cash used in investing activities	(147)	(141)
Financing activities		
Issued share capital	111	-
Dividend paid to shareholders of Arion Bank	(13,058)	(12,357)
Purchase of treasury stock	-	(2,458)
Proceeds from vested share option	243	251
Net cash used in financing activities	(12,704)	(14,564)
Net increase (decrease) in cash and cash equivalents	5,780	(19,045)
Cash and cash equivalents at beginning of the year	114,993	150,131
Effect of exchange rate changes on cash and cash equivalent	(438)	(1,237)
Cash and cash equivalents	120,335	129,849
Cash and cash equivalents		
Cash and balances with Central Bank	102,405	80,272
Bank accounts	33,615	57,080
Mandatory reserve deposit with Central Bank	(15,685)	(7,503)
Cash and cash equivalents	120,335	129,849

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Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Consolidated Financial Statements for the year ended 31 December 2023 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 30 April 2024.

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

Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions. The Condensed Consolidated Interim Financial Statements do not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with Arion Bank's Annual Consolidated Financial Statements for the year ended 31 December 2023. The Annual Consolidated Financial Statements are available on Arion Bank's website www.arionbanki.is.

The same accounting policies, presentation and methods of computation are followed in these Consolidated Interim Financial Statements as were applied in the Consolidated Financial Statements for the year ended 31 December 2023.

Basis of measurement

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

- bonds and debt instruments, shares and equity instruments, short positions in listed bonds and equities and derivatives. For details on the accounting policy, see Note 59 in the Annual Financial Statements 2023;
- investment properties are measured at fair value; and
- non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair value, less cost to sell.

Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 139.30 and 150.28 for EUR (31.12.2023: USD 135.82 and EUR 150.13).

Comparative figures

The Group adopted IFRS 17 Insurance contracts as of 1 January 2023 for the operation of the Bank's insurance subsidiary Vördur. As a result, the Group restated relevant comparative figures of the Consolidated Income Statement for the period 1 January to 31 March 2023. The effects on the Financial Statements for the period 1 January to 31 March 2023 was as follows. Relevant disclosures have been amended.

	2023 1.1.-31.3.	Impacts due to IFRS 17	Restated 2023 1.1.-31.3.
Interest income	29,233	(65)	29,168
Interest expense	(18,218)	43	(18,175)
Net interest income.....	11,015	(22)	10,993
Fee and commission income	5,286		5,286
Fee and commission expense	(933)	91	(842)
Net fee and commission income.....	4,353	91	4,444
Insurance revenue	118	3,844	3,962
Insurance service expenses	-	(4,698)	(4,698)
Insurance service results (Net insurance income).....	118	(854)	(736)
Net financial income	839	(45)	794
Other operating income	19	(5)	14
Other net operating income.....	858	(50)	808
Operating income.....	16,344	(835)	15,509
Operating expenses	(7,275)	835	(6,440)
Bank levy	(449)		(449)
Net impairment	(52)		(52)
Earnings before income tax.....	8,568	-	8,568
Income tax expense	(2,287)		(2,287)
Net earnings from continuing operations.....	6,281	-	6,281
Discontinued operations held for sale, net of income tax	10		10
Net earnings.....	6,291	0	6,291



Notes to the Condensed Consolidated Interim Financial Statements

2. Going concern assumption

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

3. Significant accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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

Impairment of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses in the statement of financial position. On a monthly basis expected credit losses for stages 1 and 2 are recalculated for each asset, the calculations are based on PD, LGD and EAD models. Stage 3 calculations are based on LGD and EAD parameters. In addition to the model outcomes, the assessment of expected credit losses is based on three key factors: management's assumptions regarding the development of macroeconomic factors over the next five years, how those factors affect each model and how to estimate a significant increase in credit risk. The assumptions for macroeconomic development are incorporated into each model for three scenarios: a base case, an optimistic case, and a pessimistic case. Management estimates the probability weight for each scenario used for calculations of the probability weighted expected credit losses. The amount of expected credit losses to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. Management has estimated factors to measure significant increase in credit risk from origination, by comparison of changes in PD values, annualized lifetime PD values, days past due and watch list. For further information see Note 59 in the Annual Financial Statements 2023.

Macroeconomic outlook

The Icelandic economy has proven resilient during a period of challenging conditions characterized by persistent high inflation and high interest rates following a sharp rise post-Covid. Having peaked at 10.2% in February 2023, inflation appears to be subsiding but at 7.7% it is still well above the Central Bank's inflation target of 2.5%. While private consumption has softened and unemployment begun to rise slightly, neither development is likely to accelerate in a materially adverse manner. Despite the increased cost of borrowing, demographic considerations have counteracted downward pressures on house prices resulting in only a modest reduction in real terms which is expected to continue in the near to medium term. Ongoing seismic and volcanic activity in the Reykjanes peninsula is a source of uncertainty and may necessitate material fiscal intervention by authorities.

Impairment of intangible assets

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

Revaluation of investment properties

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

4. The Group

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

	Operating activity	Currency	Equity interest	
			31.3.2024	31.12.2023
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vöðdur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

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



Notes to the Condensed Consolidated Interim Financial Statements

Operating segment reporting

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

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

5. Operating segments

Markets & Stefnir

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

Corporate & Investment Banking (CIB)

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

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

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

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

Retail Banking

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

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

Treasury

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

Other subsidiaries

Subsidiaries include the subsidiaries Landey ehf., which holds the main part of the Group's investment property and other smaller entities of the Group.

Supporting units

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



Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments, continued

1.1.-31.3.2024

Income Statement

	Markets and Stefir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi- aries excl. Stefir and Vödur	Supporting units and elimi- nations	Total
Net interest income	312	6,124	4,245	610	(60)	14	11,245
Net fee and commission income	1,354	933	855	125	51	47	3,365
Insurance service results	-	(151)	(107)	-	-	43	(215)
Net financial income	43	126	103	(243)	-	-	29
Other operating income	-	2	7	-	18	23	50
Operating income	1,709	7,034	5,103	492	9	127	14,474
Operating expenses	(618)	(394)	(778)	(229)	(68)	(4,467)	(6,554)
Allocated expenses	(654)	(1,255)	(2,110)	(342)	(31)	4,392	-
Bank levy	(11)	(150)	(214)	(85)	-	-	(460)
Net impairment	(11)	286	(589)	-	-	(1)	(315)
Earnings before income tax	415	5,521	1,412	(164)	(90)	51	7,145
Net seg. rev. from ext. customers	727	9,440	10,367	(6,228)	75	93	14,474
Net seg. rev. from other segments	982	(2,406)	(5,264)	6,720	(66)	34	-
Operating income	1,709	7,034	5,103	492	9	127	14,474

Balance Sheet

Loans to customers	8,136	551,358	620,373	-	-	(1,167)	1,178,700
Financial instruments	33,146	12,333	21,590	131,876	108	(3,139)	195,914
Other external assets	6,064	1,288	5,573	126,479	12,602	17,812	169,818
Internal assets	52,176	-	-	301,730	5,183	(359,089)	-
Total assets	99,522	564,979	647,536	560,085	17,893	(345,583)	1,544,432
Deposits	88,605	363,670	320,666	32,129	-	(3,002)	802,068
Other external liabilities	2,086	11,325	19,252	502,528	8,847	6,910	550,948
Internal liabilities	-	94,864	254,627	-	-	(349,491)	-
Total liabilities	90,691	469,859	594,545	534,657	8,847	(345,583)	1,353,016
Allocated equity	8,831	95,120	52,991	25,428	9,046	-	191,416



Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments, continued

1.1.-31.3.2023

Income Statement

	Markets and Stefir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi- aries excl. Stefir and Vördur	Supporting units and elimi- nations	Total
Net interest income	227	4,974	4,970	887	(65)	-	10,993
Net fee and commission income	1,562	1,528	987	161	98	108	4,444
Insurance service results	-	(159)	(526)	-	-	(51)	(736)
Net financial income	19	165	512	223	(124)	(1)	794
Other operating income	2	(10)	10	2	8	2	14
Operating income	1,810	6,498	5,953	1,273	(83)	58	15,509
Operating expenses	(595)	(330)	(886)	(221)	(116)	(4,292)	(6,440)
Allocated expenses	(589)	(1,041)	(2,245)	(346)	(20)	4,241	-
Bank levy	(11)	(146)	(209)	(83)	-	-	(449)
Net impairment	(2)	111	(188)	3	21	3	(52)
Earnings (loss) before income tax	613	5,092	2,425	626	(198)	10	8,568
Net seg. rev. from ext. customers	249	8,897	13,332	(6,960)	(3)	(6)	15,509
Net seg. rev. from other segments	1,561	(2,399)	(7,379)	8,233	(80)	64	-
Operating income	1,810	6,498	5,953	1,273	(83)	58	15,509

Balance Sheet

Loans to customers	3,669	462,599	648,334	153	74	(701)	1,114,128
Financial instruments	33,778	8,199	20,197	144,554	1,228	(2,960)	204,996
Other external assets	6,916	1,437	6,435	149,125	9,974	7,633	181,520
Internal assets	57,901	-	-	307,930	5,763	(371,594)	-
Total assets	102,264	472,235	674,966	601,762	17,039	(367,622)	1,500,644
Deposits	90,777	268,916	337,605	80,912	-	(3,187)	775,023
Other external liabilities	2,257	10,714	17,089	500,270	8,200	7,159	545,689
Internal liabilities	-	112,069	259,525	-	-	(371,594)	-
Total liabilities	93,034	391,699	614,219	581,182	8,200	(367,622)	1,320,712
Allocated equity	9,230	80,536	60,747	20,580	8,839	-	179,932

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



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

6. Net interest income

1.1.-31.3.2024	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
<i>Interest income</i>				
Cash and balances with Central Bank	1,997	-	-	1,997
Loans to credit institutions	310	-	-	310
Loans to customers	29,400	-	-	29,400
Securities	-	523	1,398	1,921
Other	10	-	-	10
Interest income	31,717	523	1,398	33,638
<i>Interest expense</i>				
Deposits	(13,705)	-	-	(13,705)
Borrowings	(5,996)	(1,609)	-	(7,605)
Subordinated liabilities	(896)	(146)	-	(1,042)
Other	(41)	-	-	(41)
Interest expense	(20,638)	(1,755)	-	(22,393)
Net interest income	11,079	(1,232)	1,398	11,245
 1.1.-31.3.2023				
<i>Interest income</i>				
Cash and balances with Central Bank	1,393	-	-	1,393
Loans to credit institutions	257	13	-	270
Loans to customers	26,387	-	-	26,387
Securities	-	232	819	1,051
Other	67	-	-	67
Interest income	28,104	245	819	29,168
<i>Interest expense</i>				
Deposits	(9,902)	-	-	(9,902)
Borrowings	(5,935)	(1,018)	-	(6,953)
Subordinated liabilities	(1,153)	(118)	-	(1,271)
Other	(49)	-	-	(49)
Interest expense	(17,039)	(1,136)	-	(18,175)
Net interest income	11,065	(891)	819	10,993

Net interest income calculated using the effective interest rate method were ISK 31,872 million during the period (3M 2023: ISK 28,031 million).

	2024 1.1.-31.3.	2023 1.1.-31.3.
<i>Interest spread</i>		
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%



Notes to the Condensed Consolidated Interim Financial Statements

7. Net fee and commission income

	1.1.-31.3.2024			1.1.-31.3.2023		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,313	(163)	1,150	1,491	(139)	1,352
Capital markets and corporate finance	422	(12)	410	666	(13)	653
Lending and financial guarantees	798	-	798	1,343	-	1,343
Collection and payment services	377	(24)	353	336	(6)	330
Cards and payment solution	1,212	(664)	548	1,224	(594)	630
Other	214	(186)	28	226	(189)	37
Commission expense from insurance operation	-	78	78	-	99	99
Net fee and commission income	4,336	(971)	3,365	5,286	(842)	4,444

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

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

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

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

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

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

8. Insurance service results

	2024 1.1.-31.3	2023 1.1.-31.3
Insurance revenue	4,667	3,962
Incurred claims	(3,925)	(3,669)
Service expenses	(885)	(901)
Insurance service expenses	(4,810)	(4,570)
Net expense from reinsurance contracts held	(72)	(128)
Insurance service results	(215)	(736)

Operation results of Vördur

Vördur's operation resulted in a loss of ISK 166 million for the first quarter of 2024 with a negative return on equity of 6.6%, compared with a loss of ISK 5 million in the first quarter of 2023 and a negative return on equity of 0.2%.

	2024 1.1.-31.3	2023 1.1.-31.3
Insurance service results	(215)	(736)
Insurance revenue elimination and reclassification	34	160
Insurance service results according to the Financial Statements of Vördur	(181)	(576)
Investment return	330	651
Net financial loss from insurance contracts	(303)	(43)
Total investment return	27	608
Other income	3	3
Earnings before income tax	(151)	35
Income tax	(15)	16
Net earnings	(166)	51

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	103.9%	115.4%
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Notes to the Condensed Consolidated Interim Financial Statements

9. Net financial income

	2024 1.1.-31.3.	2023 1.1.-31.3.
Net gain on financial assets and financial liabilities mandatorily measured		
at fair value through profit or loss	276	682
Gain on prepayments of borrowings	15	-
Net loss on fair value hedge of interest rate swap	(3)	(6)
Net realized (loss) gain on financial assets carried at fair value through OCI and		
reclassification from OCI equity reserve	(107)	159
Net financial loss from insurance contracts	(303)	(45)
Net foreign exchange gain	151	4
Net financial income	29	794
<i>Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss</i>		
Equity instruments	(382)	336
Debt instruments	761	266
Derivatives	(103)	80
Net gain on financial assets and financial liabilities		
mandatorily measured at fair value through profit or loss	276	682
<i>Net loss on fair value hedge of interest rate swap</i>		
Fair value change of interest rate swaps designated as hedging instruments	(330)	1,663
Fair value change on bonds issued by the Group attributable to interest rate risk	327	(1,669)
Net loss on fair value hedge of interest rate swap	(3)	(6)

10. Other operating income

	2024 1.1.-31.3.	2023 1.1.-31.3.
Fair value changes on investment property	4	5
Net gain (loss) on disposal of assets	1	(3)
Net loss on assets held for sale	-	(9)
Share of profit (loss) of associates	9	(17)
Other income	36	38
Other operating income	50	14

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



Notes to the Condensed Consolidated Interim Financial Statements

11. Operating expenses

	2024 1.1.-31.3.	2023 1.1.-31.3.
Salaries and related expenses	4,211	4,099
Other operating expenses	3,151	3,175
Operating expenses from insurance operation	(808)	(834)
Operating expenses	6,554	6,440

12. Personnel and salaries

	2024 1.1.-31.3.	2023 1.1.-31.3.
<i>Number of employees</i>		
Average number of full-time equivalent positions during the period	829	759
Full-time equivalent positions at the end of the period	813	781
<i>Salaries and related expenses</i>		
Salaries	3,276	3,136
Incentive scheme	(24)	(27)
Share-based payment expenses	42	59
Defined contribution pension plans	478	462
Salary-related expenses	439	469
Salaries and related expenses	4,211	4,099

Incentive schemes

During the first quarter the Group revised the provision for the incentive scheme which resulted in a ISK 31 million in provision, including salary-related expenses (Q1 2023: ISK 35 million). At the period end the Group's accrual for the incentive scheme payments amounted to ISK 939 million (31.12.2023: ISK 1,997 million).

Current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is split into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares in the Bank. Of this 25%, a total of 60% will be delivered immediately but is subject to a 3-year lock-up period. The remaining 40% is delivered in four to five years' time. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics are for example ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Stefnir hf. has a special incentive scheme where other criteria are used as a basis.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 42 million was recognised in the Income Statement during the period (Q1 2023: ISK 59 million). Estimated remaining expenses due the share option contracts are ISK 211 million and will be expensed over the next three years. For further information on the share option program, see Note 36.



Notes to the Condensed Consolidated Interim Financial Statements

13. Other operating expenses

	2024	2023
	1.1.-31.3.	1.1.-31.3.
IT expenses	1,292	1,188
Professional services	375	363
Marketing	268	301
Housing expenses	128	145
Other administration expenses	667	734
Depreciation and impairment of property and equipment	139	142
Depreciation of right of use asset	34	32
Amortization of intangible assets	248	270
Other operating expenses	3,151	3,175

14. Bank levy

The Bank levy is 0.838% on total debts excluding tax liabilities, in excess of ISK 50 billion. The tax is assessed on Financial Undertakings but non-financial subsidiaries are exempt from this tax.

15. Net impairment

	2024	2023
	1.1.-31.3.	1.1.-31.3.
<i>Net impairment on financial instruments and value changes on loans</i>		
Net impairment on loans to customers and financial institutions	(327)	(70)
Net impairment on other financial instruments at FVOCI	-	(1)
Other value changes of loans - corporates	9	5
Other value changes of loans - individuals	3	14
Net impairment	(315)	(52)
<i>Net impairment by customer type</i>		
Individuals	(594)	(114)
Corporates	279	62
Net impairment	(315)	(52)

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



Notes to the Condensed Consolidated Interim Financial Statements

16. Income tax expense

	2024 1.1.-31.3.	2023 1.1.-31.3.
Current tax expense	1,846	2,706
Deferred tax expense	858	(419)
Income tax expense	2,704	2,287

	2024 1.1.-31.3.	2023 1.1.-31.3.
<i>Reconciliation of effective tax rate</i>		
Earnings before income tax	7,145	8,568
Income tax using the Icelandic corporate tax rate	21.0% 1,500	20.0% 1,714
Additional 6% tax on Financial Undertakings	5.3% 379	7.8% 556
Non-deductible expenses	0.1% 10	0.2% 17
Tax exempt revenues / loss	8.1% 582	(1.1%) (81)
Non-deductible taxes (Bank levy)	1.3% 92	1.3% 90
Tax incentives not recognized in the Income Statement	(0.4%) (29)	0.0% 1
Other changes	2.4% 170	(0.1%) (10)
Effective tax rate	37.8% 2,704	26.7% 2,287

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

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

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

	2024 1.1.-31.3.	2023 1.1.-31.3.
Net (loss) gain from discontinued operations held for sale	(11)	10
Income tax expense	2	-
Discontinued operations held for sale, net of income tax	(9)	10

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

18. Earnings per share

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

	Continued operations		Discontinued operations		Net Earnings	
	2024 1.1.-31.3.	2023 1.1.-31.3.	2024 1.1.-31.3.	2023 1.1.-31.3.	2024 1.1.-31.3.	2023 1.1.-31.3.
Net earnings attributable to the shareholders of Arion Bank	4,453	6,274	(9)	10	4,444	6,284
Total compreh.income attributable to the shareholders	4,634	6,269	(9)	10	4,625	6,279
Weighted average number of outstanding shares (millions)	1,448	1,453	1,448	1,453	1,448	1,453
Weighted average number of outstanding shares including warrants and options (millions)	1,519	1,532	1,519	1,532	1,519	1,532
Basic earnings per share (ISK)	3.08	4.32	(0.01)	0.01	3.07	4.32
Diluted earnings per share (ISK)	2.93	4.10	(0.01)	0.01	3.00	4.10
Basic comprehensive income per share (ISK)	3.20	4.31	(0.01)	0.01	3.19	4.32
Diluted comprehensive income per share (ISK)	3.05	4.09	(0.01)	0.01	3.04	4.10



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Statement of Financial Position

19. Cash and balances with Central Bank

31.3.2024 31.12.2023

Cash on hand	2,938	4,190
Cash with Central Bank	83,782	82,179
Mandatory reserve deposit with Central Bank	15,685	15,726
Cash and balances with Central Bank	102,405	102,095

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations.

20. Loans to credit institutions

31.3.2024 31.12.2023

Bank accounts	33,615	28,624
Other loans	167	211
Loans to credit institutions	33,782	28,835

21. Loans to customers

	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
31.3.2024						
Overdrafts	13,294	12,617	47,702	46,804	60,996	59,421
Credit cards	16,781	16,545	2,138	2,087	18,919	18,632
Mortgage loans	559,986	558,692	66,097	65,650	626,083	624,342
Construction loans	-	-	45,223	45,000	45,223	45,000
Capital lease	2,086	2,062	6,847	6,797	8,933	8,859
Other loans	28,702	27,880	398,884	394,566	427,586	422,446
Loans to customers	620,849	617,796	566,891	560,904	1,187,740	1,178,700
31.12.2023						
Overdrafts	13,840	13,232	43,013	42,129	56,853	55,361
Credit cards	15,972	15,783	2,062	2,010	18,034	17,793
Mortgage loans	550,269	549,371	68,840	68,277	619,109	617,648
Construction loans	-	-	49,267	49,031	49,267	49,031
Capital lease	2,352	2,331	6,893	6,832	9,245	9,163
Other loans	29,184	28,427	379,648	375,366	408,832	403,793
Loans to customers	611,617	609,144	549,723	543,645	1,161,340	1,152,789

The total book value of pledged loans that were pledged against amounts borrowed was ISK 365 billion at the end of the period (31.12.2023: ISK 359 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

22. Financial instruments

31.3.2024 31.12.2023

Bonds and debt instruments	139,808	157,197
Shares and equity instruments with variable income	20,245	17,656
Derivatives	9,333	6,602
Securities used for economic hedging	26,528	24,251
Financial instruments	195,914	205,706



Notes to the Condensed Consolidated Interim Financial Statements

23. Financial assets and financial liabilities

31.3.2024

Financial assets

Loans

	Amortized cost	Fair value through OCI	Manda- torily at fair value thr. P/L	Total
Cash and balances with Central Bank	102,405	-	-	102,405
Loans to credit institutions	33,782	-	-	33,782
Loans to customers	1,178,700	-	-	1,178,700
Loans	1,314,887	-	-	1,314,887

Bonds and debt instruments

Listed	-	111,950	27,265	139,215
Unlisted	-	-	593	593
Bonds and debt instruments	-	111,950	27,858	139,808

Shares and equity instruments with variable income

Listed	-	-	9,319	9,319
Unlisted	-	-	10,299	10,299
Bond funds with variable income, unlisted	-	-	627	627
Shares and equity instruments with variable income	-	-	20,245	20,245

Derivatives

OTC derivatives	-	-	6,863	6,863
Derivatives used for hedge accounting	-	-	2,470	2,470
Derivatives	-	-	9,333	9,333

Securities used for economic hedging

Bonds and debt instruments, listed	-	-	2,532	2,532
Shares and equity instruments with variable income, listed	-	-	23,996	23,996
Securities used for economic hedging	-	-	26,528	26,528

Other financial assets

Accounts receivable	2,386	-	-	2,386
Other financial assets	7,184	-	-	7,184
Other financial assets	9,570	-	-	9,570
Financial assets	1,324,457	111,950	83,964	1,520,371

Financial liabilities

Due to credit institutions and Central Bank	3,205	-	-	3,205
Deposits	802,068	-	-	802,068
Borrowings *	433,047	-	-	433,047
Subordinated liabilities *	41,558	-	-	41,558
Short position in bonds	-	-	109	109
Derivatives	-	-	1,892	1,892
Derivatives used for hedge accounting	-	-	8,777	8,777
Other financial liabilities	19,383	-	-	19,383
Financial liabilities	1,299,261	-	10,778	1,310,039

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

23. Financial assets and financial liabilities, continued

31.12.2023

Financial assets

	Amortized cost	Fair value through OCI	Manda- torily at fair value thr. P/L	Total
Loans				
Cash and balances with Central Bank	102,095	-	-	102,095
Loans to credit institutions	28,835	-	-	28,835
Loans to customers	1,152,789	-	-	1,152,789
Loans	1,283,719	-	-	1,283,719
Bonds and debt instruments				
Listed	-	129,564	27,059	156,623
Unlisted	-	-	574	574
Bonds and debt instruments	-	129,564	27,633	157,197
Shares and equity instruments with variable income				
Listed	-	-	7,093	7,093
Unlisted	-	-	9,961	9,961
Bond funds with variable income, unlisted	-	-	602	602
Shares and equity instruments with variable income	-	-	17,656	17,656
Derivatives				
OTC derivatives	-	-	4,539	4,539
Derivatives used for hedge accounting	-	-	2,063	2,063
Derivatives	-	-	6,602	6,602
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,195	2,195
Shares and equity instruments with variable income, listed	-	-	22,056	22,056
Securities used for economic hedging	-	-	24,251	24,251
Other financial assets				
Accounts receivable	1,765	-	-	1,765
Other financial assets	10,423	-	-	10,423
Other financial assets	12,188	-	-	12,188
Financial assets	1,295,907	129,564	76,142	1,501,613

Financial liabilities

Due to credit institutions and Central Bank	2,771	-	-	2,771
Deposits	792,710	-	-	792,710
Borrowings *	420,460	-	-	420,460
Subordinated liabilities *	41,279	-	-	41,279
Short position in equity used for economic hedging	-	-	61	61
Derivatives	-	-	2,332	2,332
Derivatives used for hedge accounting	-	-	9,253	9,253
Other financial liabilities	10,790	-	-	10,790
Financial liabilities	1,268,010	-	11,646	1,279,656

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

23. Financial assets and financial liabilities, continued

	Fair value through OCI	Manda- torily at fair value thr. P/L	Total
<i>Bonds and debt instruments measured at fair value, specified by issuer</i>			
31.03.2024			
Financial and insurance activities	1,416	10,335	11,751
Public sector	110,534	14,155	124,689
Corporates	-	3,368	3,368
Bonds and debt instruments at fair value	111,950	27,858	139,808
31.12.2023			
Financial and insurance activities	1,386	10,363	11,749
Public sector	128,178	14,077	142,255
Corporates	-	3,193	3,193
Bonds and debt instruments at fair value	129,564	27,633	157,197

The total amount of pledged bonds was ISK 3.2 billion at the end of the period (31.12.2023: ISK 3.0 billion). Pledged bonds comprised Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

24. Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and

Level 3: valuation techniques which include significant inputs that are not based on observable market data.

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

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

31.3.2024				
<i>Assets at fair value</i>	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	135,945	3,836	27	139,808
Shares and equity instruments with variable income	9,015	7,426	3,804	20,245
Derivatives	-	6,863	-	6,863
Derivatives used for hedge accounting	-	2,470	-	2,470
Securities used for economic hedging	26,067	461	-	26,528
Investment property	-	-	9,542	9,542
Assets at fair value	171,027	21,056	13,373	205,456
<i>Liabilities at fair value</i>				
Short position in bonds	109	-	-	109
Derivatives	-	1,892	-	1,892
Derivatives used for hedge accounting	-	8,777	-	8,777
Liabilities at fair value	109	10,669	-	10,778



Notes to the Condensed Consolidated Interim Financial Statements

24. Fair value hierarchy, continued

31.12.2023

<i>Assets at fair value</i>	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	153,485	3,685	27	157,197
Shares and equity instruments with variable income	7,082	6,979	3,595	17,656
Derivatives	-	4,539	-	4,539
Derivatives used for hedge accounting	-	2,063	-	2,063
Securities used for economic hedging	23,848	403	-	24,251
Investment property	-	-	9,493	9,493
Assets at fair value	184,415	17,669	13,115	215,199
<i>Liabilities at fair value</i>				
Short position in equity used for economic hedging	61	-	-	61
Derivatives	-	2,332	-	2,332
Derivatives used for hedge accounting	-	9,253	-	9,253
Liabilities at fair value	61	11,585	-	11,646

There were no transfers between Level 1 and Level 2 during the period (2023: Transfers from Level 1 to Level 2 ISK 697 million).

Fair value of assets and liabilities

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

Methods for establishing fair value

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

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

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

24. Fair value hierarchy, continued

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

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

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

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

Movements in Level 3 assets measured at fair value

	Investment property	Financial assets		Total
		Bonds	Shares	
31.3.2024				
Balance at the beginning of the year	9,493	27	3,595	13,115
Net fair value changes	4	-	214	218
Additions	45	-	-	45
Disposals	-	-	(5)	(5)
Balance at the end of the period	9,542	27	3,804	13,373
31.12.2023				
Balance at the beginning of the year	7,862	102	1,932	9,896
Net fair value changes	1,569	(72)	652	2,149
Additions	62	-	1,858	1,920
Disposals	-	(3)	(975)	(978)
Transfers into Level 3	-	-	128	128
Balance at the end of the year	9,493	27	3,595	13,115

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

31.3.2024				
Net financial income	-	-	214	214
Other operating income	4	-	-	4
Effects recognized in the Income Statement	4	-	214	218
31.12.2023				
Net financial income	-	(72)	652	580
Other operating income	1,569	-	-	1,569
Effects recognized in the Income Statement	1,569	(72)	652	2,149



Notes to the Condensed Consolidated Interim Financial Statements

24. Fair value hierarchy, continued

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

31.3.2024	Carrying value	Fair value	Unrealized gain (loss)
<i>Financial assets not carried at fair value</i>			
Cash and balances with Central Bank	102,405	102,405	-
Loans to credit institutions	33,782	33,782	-
Loans to customers	1,178,700	1,172,522	(6,178)
Other financial assets	9,570	9,570	-
Financial assets not carried at fair value	1,324,457	1,318,279	(6,178)
<i>Financial liabilities not carried at fair value</i>			
Due to credit institutions and Central Bank	3,205	3,205	-
Deposits	802,068	802,068	-
Borrowings	433,047	427,240	5,807
Subordinated liabilities	41,558	40,512	1,046
Other financial liabilities	19,383	19,383	-
Financial liabilities not carried at fair value	1,299,261	1,292,408	6,853
<i>31.12.2023</i>			
<i>Financial assets not carried at fair value</i>			
Cash and balances with Central Bank	102,095	102,095	-
Loans to credit institutions	28,835	28,835	-
Loans to customers	1,152,789	1,145,363	(7,426)
Other financial assets	12,188	12,188	-
Financial assets not carried at fair value	1,295,907	1,288,481	(7,426)
<i>Financial liabilities not carried at fair value</i>			
Due to credit institutions and Central Bank	2,771	2,771	-
Deposits	792,710	792,710	-
Borrowings	420,460	419,008	1,452
Subordinated liabilities	41,279	41,154	125
Other financial liabilities	10,790	10,790	-
Financial liabilities not carried at fair value	1,268,010	1,266,433	1,577

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

Derivatives

31.3.2024	Notional value	Fair value	
		Assets	Liabilities
Forward exchange rate agreements	88,073	577	645
Fair value hedge of interest rate swap	236,296	6	6,313
Interest rate and exchange rate agreements	45,694	3,062	3,376
Bond swap agreements	4,280	127	10
Share swap agreements	29,909	5,561	325
Derivatives	404,252	9,333	10,669
<i>31.12.2023</i>			
Forward exchange rate agreements	54,756	414	236
Fair value hedge of interest rate swap	235,726	2,063	9,253
Interest rate and exchange rate agreements	47,377	998	1,017
Bond swap agreements	2,218	67	50
Share swap agreements	24,689	3,060	1,029
Derivatives	364,766	6,602	11,585



Notes to the Condensed Consolidated Interim Financial Statements

24. Fair value hierarchy, continued

Fair value hedge of interest rate swap

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

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

During 2024 the slope for the regression line was in all cases within the range of 0.90-1.18 and the regression coefficient was at least 0.97. During 2023, the slope of the regression line was in all cases within the range of 0.92-1.08 and the regression coefficient was at least 0.94. In all cases the effectiveness is within limits in 2024 and 2023.

		Maturity date	Fair value		Gain (loss)
			Assets	Liabilities	on FV changes
1.1.-31.3.2024	Notional				
Interest rates swaps - EUR	11,969	0-3 mth	-	77	131
Interest rates swaps - USD	13,930	1-5 years	-	699	64
Interest rates swaps - EUR	75,142	1-5 years	-	5,460	(296)
Interest rates swaps - EUR	45,085	1-5 years	-	2,541	141
Interest rates swaps - EUR	45,085	6-12 mth	6	-	42
Interest rates swaps - EUR	45,085	1-5 years	2,464	-	(412)
			2,470	8,777	(330)
1.1.-31.12.2023					
Interest rates swaps - EUR	-	-	-	-	76
Interest rates swaps - EUR	11,957	3-6 mth	-	228	650
Interest rates swaps - USD	13,582	1-5 years	-	534	354
Interest rates swaps - EUR	75,067	1-5 years	-	5,183	3,205
Interest rates swaps - EUR	45,040	1-5 years	-	2,725	1,617
Interest rates swaps - EUR	45,040	1-5 years	-	583	307
Interest rates swaps - EUR	45,040	1-5 years	2,063	-	436
			2,063	9,253	6,645

Hedged borrowings and subordinated liabilities

	Book value	Accumulated fair value		Gain (loss)
		Assets	Liabilities	on FV changes
1.1.-31.3.2024				
EUR 300 million - issued 2020 - 4 years	11,951	76	-	(130)
USD 100 million - issued 2020 - Perpetual	13,410	559	-	(63)
EUR 500 million - issued 2021 - 5 years	69,236	4,756	-	293
EUR 300 million - issued 2021 - 4 years	42,985	2,163	-	(142)
EUR 300 million - issued 2022 - 2 years	45,206	429	-	(43)
EUR 300 million - issued 2023 - 3 years	47,783	-	29	412
Hedged borrowings and subordinated liabilities	230,571	7,983	29	327
1.1.-31.12.2023				
EUR 300 million - issued 2018 - 5 years	-	-	-	(156)
EUR 300 million - issued 2020 - 4 years	11,776	206	-	(632)
USD 100 million - issued 2020 - Perpetual	13,216	608	-	(336)
EUR 500 million - issued 2021 - 5 years	69,338	4,455	-	(3,207)
EUR 300 million - issued 2021 - 4 years	42,740	2,303	-	(1,612)
EUR 300 million - issued 2022 - 2 years	44,552	471	-	(305)
EUR 300 million - issued 2023 - 3 years	47,326	(443)	-	(442)
Hedged borrowings and subordinated liabilities	228,948	7,600	-	(6,690)

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 90-118%.



Notes to the Condensed Consolidated Interim Financial Statements

25. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet		Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements	Total assets recognized on Balance Sheet, net
	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received			
31.3.2024								
Reverse repurchase agreements	16,848	(10,306)	6,542	10,306	-	16,848	-	6,542
Derivatives	2,802	-	2,802	(2,596)	-	206	6,531	9,333
Bank accounts netted against fin. liab. ...	7,602	-	7,602	(7,602)	-	-	-	7,602
Total assets	27,252	(10,306)	16,946	108	-	17,054	6,531	23,477
31.12.2023								
Reverse repurchase agreements	16,982	(10,164)	6,818	10,164	-	16,982	-	6,818
Derivatives	3,935	-	3,935	(2,452)	-	1,483	2,667	6,602
Bank accounts netted against fin. liab. ...	7,589	-	7,589	(7,589)	-	-	-	7,589
Total assets	28,506	(10,164)	18,342	123	-	18,465	2,667	21,009

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet		Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arrangements	Total liabilities recognized on balance sheet
	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged			
31.3.2024								
Repurchase agreements	-	(10,306)	(10,306)	10,306	-	-	-	(10,306)
Derivatives	10,095	-	10,095	(10,162)	-	(67)	574	10,669
Deposits netted against other assets	36	-	36	(36)	-	-	-	36
Total liabilities	10,131	(10,306)	(175)	108	-	(67)	574	399
31.12.2023								
Repurchase agreements	-	(10,164)	(10,164)	10,164	-	-	-	(10,164)
Derivatives	11,430	-	11,430	(9,700)	-	1,730	155	11,585
Deposits netted against other assets	341	-	341	(341)	-	-	-	341
Total liabilities	11,771	(10,164)	1,607	123	-	1,730	155	1,762

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

26. Investments in associates

	31.3.2024	31.12.2023
Carrying amount at the beginning of the year	789	787
Acquisitions / increased share capital	-	72
Share of profit (loss) of associates	9	(70)
Investment in associates	797	789

The Group's interest in its principal associates

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



Notes to the Condensed Consolidated Interim Financial Statements

27. Intangible assets

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

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

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

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

Policies applied to the Group's intangible assets

	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

	Goodwill	Infra- structure	Customer relationship and related agreements	Software	Total
31.3.2024					
Balance at the beginning of the year	730	2,383	487	4,451	8,051
Additions	-	-	-	82	82
Amortization	-	-	(15)	(233)	(248)
Intangible assets	730	2,383	472	4,300	7,885

31.12.2023					
Balance at the beginning of the year	730	2,383	547	5,123	8,783
Additions	-	-	-	470	470
Amortization	-	-	(60)	(1,142)	(1,202)
Intangible assets	730	2,383	487	4,451	8,051

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



Notes to the Condensed Consolidated Interim Financial Statements

28. Tax assets and tax liabilities

	31.3.2024		31.12.2023	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	8,932	-	9,227
Deferred tax	39	2,800	39	1,942
Tax assets and tax liabilities	39	11,732	39	11,169

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

31.3.2024 31.12.2023

Assets and disposal groups held for sale

Real estate	64	62
Assets and disposal groups held for sale	64	62

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

30. Other assets

31.3.2024 31.12.2023

Property and equipment	3,598	3,672
Right-of-use asset	886	872
Accounts receivable	2,386	1,765
Unsettled securities trading	4,195	7,781
Sundry assets	4,238	3,723
Other assets	15,304	17,813

31. Other liabilities

31.3.2024 31.12.2023

Accounts payable	1,878	1,274
Unsettled securities trading	7,859	2,474
Insurance contract liabilities*	21,569	20,196
Withholding tax	946	6,026
Bank levy	1,820	1,807
Accrued expenses	4,275	4,895
Prepaid income	1,554	1,547
Impairment of off-balance items	350	363
Lease liability	1,081	1,074
Sundry liabilities	9,296	6,680
Other liabilities	50,628	46,336

Insurance contract liabilities

Liabilities for remaining coverage	4,255	3,910
Liabilities for incurred claims	16,596	15,597
Risk adjustment	718	689
Insurance contract liabilities	21,569	20,196



Notes to the Condensed Consolidated Interim Financial Statements

32. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2024	31.12.2023
ARION CB 24 ISK 28,900 million	2019	2024	At maturity	Fixed, 6.00%	10,938	13,664
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed, CPI linked, 3.00%	52,026	50,880
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed, CPI linked, 2.00%	21,031	20,628
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed, CPI linked, 3.50%	39,132	38,239
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed, CPI linked, 2.50%	12,370	12,440
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed, EUR 0.05%	69,236	69,337
ARION CB 27, ISK 41,000 million	2022	2027	At maturity	Fixed, 5.50%	21,634	17,680
ARION CBI 30, ISK 11,260 million	2023	2030	At maturity	Fixed, CPI linked, 2.75%	18,223	10,204
Statutory covered bonds					244,590	233,072
EUR 300 million *	2020	2024	At maturity	Fixed, 0.625 %	11,951	11,776
NOK 250 million	2017	2027	At maturity	Fixed, 3.40%	3,316	3,425
EUR 300 million Green *	2021	2025	At maturity	Fixed, 0.375%	42,985	42,740
ARION 26 1222 Green (ISK 5,760m)	2021	2026	At maturity	Fixed, 4.70%	5,472	5,405
ARION 24 1020 Green (ISK 6,020m)	2022	2024	At maturity	Floating, REIBOR 3M +0.70%	6,105	6,105
EUR 300 million Green *	2022	2024	At maturity	Fixed, 4.875%	45,206	44,552
NOK 550 million	2022	2025	At maturity	Floating, OIBOR 3M +2.35%	7,123	7,417
SEK 230 million	2022	2025	At maturity	Floating, STIBOR 3M +2.35%	3,018	3,128
NOK 200 million	2023	2025	At maturity	Floating, OIBOR 3M + 2.55%	2,577	2,683
SEK 300 million	2023	2026	At maturity	Floating, STIBOR 3M + 3.00%	3,916	4,059
EUR 300 million*	2023	2026	At maturity	Fixed, 7.25%	47,783	47,326
Arion 28 1512, ISK 8,740 million	2023	2028	At maturity	Fixed, CPI linked, 4.35%	9,005	8,772
Senior unsecured bonds					188,457	187,388
Borrowings					433,047	420,460

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

The book value of listed bonds was ISK 433 billion at the end of the period (31.12.2023: ISK 420 billion). The market value of those bonds was ISK 427 billion (31.12.2023: ISK 419 billion). The Group repurchased own debts amounting to ISK 3 billion during the period with a net gain of ISK 15 million recognized in the Income Statement (Q1 2023: nil).

33. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	31.3.2024	31.12.2023
NOK 300 million	2019	2029	9 Jul '24	Floating, NIBOR +3.65%	3,932	4,096
SEK 225 million	2019	2029	20 Dec '24	Floating, 3 month STIBOR +3.70% .	2,939	3,046
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed, CPI linked, 3.875%	6,350	6,312
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed, 6.75%	893	908
EUR 5 million	2019	2031	6 Mar '26	Fixed, 3.24%	749	766
ARION T2I 33 9,860 million	2022	2033	15 Dec '28	Fixed, CPI linked, 4.95%	10,985	10,685
ARION T2 33 2,240 million	2022	2033	15 Dec '28	Fixed, 9.25%	2,300	2,249
Tier 2 subordinated liabilities					28,148	28,062
ARION AT1 USD 100 million *	2020	Perpetual	26 Mar '25	Fixed, 6.25%	13,410	13,217
Additional Tier 1 subordinated liabilities					13,410	13,217
Subordinated liabilities					41,558	41,279

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

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



Notes to the Condensed Consolidated Interim Financial Statements

34. Liabilities arising from financial activities

			Non-cash changes				At 31 March.
			Cash flows	Interest expenses	Foreign exchange	Effect from hedge	
1.1.-31.3.2024	At 1 Jan.						
Covered bonds in ISK - CPI linked.....	132,391	7,230	3,161	-	-	-	142,782
Covered bonds in ISK.....	31,344	791	437	-	-	-	32,572
Covered bonds in FX.....	69,337	(1,138)	822	(66)	281	-	69,236
Senior unsecured bonds in FX.....	167,106	(2,631)	2,718	636	46	-	167,875
Senior unsecured bonds in ISK.....	11,510	(167)	234	-	-	-	11,577
Senior unsecured bonds in ISK - CPI linked.....	8,772	-	233	-	-	-	9,005
Subordinated bond T2 in ISK - CPI linked.....	16,997	(120)	458	-	-	-	17,335
Subordinated bond T2 ISK.....	3,157	(31)	67	-	-	-	3,193
Subordinated bond T2 FX.....	7,908	(850)	293	269	-	-	7,620
Subordinated bond AT1 FX.....	13,217	378	224	(337)	(72)	-	13,410
Liabilities arising from financial activities.....	461,739	3,462	8,647	502	255	-	474,605
1.1.-31.12.2023							
Covered bonds in ISK - CPI linked.....	113,833	5,849	12,709	-	-	-	132,391
Covered bonds in ISK.....	32,794	(3,689)	2,239	-	-	-	31,344
Covered bonds in FX.....	66,231	(5,475)	5,681	(368)	3,268	-	69,337
Senior unsecured bonds in FX.....	168,261	(9,597)	5,858	(2,082)	4,666	-	167,106
Senior unsecured bonds in ISK.....	11,444	(778)	844	-	-	-	11,510
Senior unsecured bonds in ISK - CPI linked.....	-	8,740	32	-	-	-	8,772
Subordinated bond T2 in ISK - CPI linked.....	15,735	(750)	2,012	-	-	-	16,997
Subordinated bond T2 ISK.....	3,156	(266)	267	-	-	-	3,157
Subordinated bond T2 FX.....	15,044	(7,527)	937	(565)	19	-	7,908
Subordinated bond AT1 FX.....	13,396	(1,598)	1,437	(395)	377	-	13,217
Liabilities arising from financial activities.....	439,894	(15,091)	32,016	(3,410)	8,330	-	461,739

35. Pledged assets

	31.3.2024	31.12.2023
<i>Pledged assets against liabilities</i>		
Assets, pledged as collateral against borrowings	370,776	380,860
Assets pledged as a collateral against loans from banks and other financial liabilities	10,766	10,582
Pledged assets against liabilities	381,542	391,442
Thereof pledged assets against issued covered bonds held by the Bank	(85,947)	(86,682)
Assets against repoed issued bonds	15,199	16,585
Pledged assets against liabilities on balance	310,794	321,345

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 245 billion at year end (31.12.2023: ISK 233 billion).

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

The Group has issued covered bonds amounting to ISK 63 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2023: ISK 58 billion). Pledged assets against those covered bonds are ISK 76 billion (31.12.2023: ISK 70 billion).



Notes to the Condensed Consolidated Interim Financial Statements

36. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,461 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	Total 2024	Share capital	Own shares	Share premium	Total 2023
Balance at the beginning of the year	1,460	(14)	9,187	10,634	1,510	(45)	11,907	13,372
Issued share capital	1	-	110	111	-	-	27	27
Share capital reduction	-	-	-	-	(50)	50	-	-
Purchase of treasury shares	-	-	-	-	-	(22)	(3,238)	(3,260)
Share option vested	-	3	280	283	-	2	295	297
Incentive scheme	-	1	164	165	-	1	194	195
Warrants exercised	-	-	14	14	-	-	3	3
Balance at the end of the period	1,461	(10)	9,756	11,207	1,460	(14)	9,187	10,634

Own shares / issued share capital 0.70% 0.95%

In March 2024 the nominal value of Arion Bank's share capital was increased by ISK 905,897 in order to cover the exercising of issued warrants. Corresponding increase was made in December 2023, amounting to ISK 224,359. Arion Bank's share capital thus increased from ISK 1,460 million to ISK 1,461 million. At the AGM in March 2023 a motion was passed to reduce the Bank's share capital by ISK 50 million. The reduction was effective 25 April 2023 and Arion Bank's share capital was reduced from ISK 1,510 million to ISK 1,460 million.

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

Share options

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

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

	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 600,000) - employees of Arion Bank	5,190	2025-2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	5,175	2025-2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	3,493	2025-2026	153.75
Issued in 2024 (ISK 1,500,000) - employees of Arion Bank	1,618	2025-2026	155.75
Issued in 2023 (ISK 1,500,000) - employees of subsidiaries	2,183	2024-2026	140.56
	17,658		

Movements in share options during the period.

	31.3.2024		31.12.2023	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	24,435	136.3	30,882	143.2
Share options granted	1,618	155.8	16,349	153.8
Share options forfeited	(5,889)	149.4	(20,152)	168.2
Share options exercised, WAVG share price ISK 154.3 at exercise date (2023: 151.79)	(2,506)	96.7	(2,644)	95.5
Outstanding share options at the end of the period	17,658	135.2	24,435	136.2

No share options are exercisable at period end. Next exercise periods are in May 2024 and February 2025.

All outstanding share options, if exercised, represent approximately 1.2% of the total issued shares.

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

Warrants

The warrants reserve represents the consideration received for outstanding warrants. Arion Bank issued 54 million warrants on 9 March 2021. The purchase price of the warrants amounted to ISK 15.6 per warrant, resulting in a total sale price of ISK 842.4 million. The warrant issuing represented approximately 3% of the Bank's total share capital and the Bank is obliged to issue new shares when the warrants are exercised. Approximately 48.5% of the total issue was sold to around 150 employees of the Group and 51.5% to professional investors. The exercise period runs from Q4 2023 to Q3 2024. Number of outstanding warrants at the end of March 2024 were 52.9 million.



Notes to the Condensed Consolidated Interim Financial Statements

Other information

37. Shareholders of Arion Bank

31.3.2024 31.12.2023

Gildi lífeyrissjóður	9.84%	9.85%
Lífeyrissjóður starfsmanna ríkisins	9.47%	9.62%
Lífeyrissjóður verzlunarmanna	8.97%	9.02%
Stodir hf.	5.48%	5.38%
Brú lífeyrissjóður	4.77%	4.34%
Vanguard	3.85%	3.91%
Birta lífeyrissjóður	3.61%	3.58%
Frjálsi lífeyrissjóðurinn	3.56%	3.55%
Stapi lífeyrissjóður	2.89%	2.85%
Hvalur hf.	2.52%	2.52%
Festa lífeyrissjóður	2.50%	2.38%
Stefnir funds	2.29%	2.30%
Íslandsbanki hf.	2.13%	2.24%
Lífsvérk Pension fund	1.57%	1.23%
Almenn lífeyrissjóður	1.52%	1.52%
Íslandssjóðir	1.05%	0.65%
Landsbréf hf.	1.05%	0.98%
Sjóvá tryggingar	1.03%	1.09%
Landsbankinn hf.	0.83%	1.06%
Kvika banki hf.	0.08%	1.66%
Other shareholders with less than 1% shareholding	31.00%	30.26%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 0.96% in Arion Bank (31.12.2023: 0.83%). The Board of Directors and the members of the Bank's Executive Committee shareholding is as follows:

	31.3.2024		31.12.2023	
	Warrants / options	Number of shares	Warrants / options	Number of shares
Steinunn Kristín Thórdardóttir, Director	-	12,000	-	12,000
Benedikt Gíslason, CEO	985,811	2,593,450	997,947	2,561,783
Key management personnel* (nine / eight until 30.1.24)	3,955,990	1,090,427	4,038,815	971,648

Other key management personnel do not hold shares or warrants / options in Arion Bank.

* Key management personnel are defined in Note 42.

38. Legal matters

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

Contingent liabilities

Legal proceedings regarding damages

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



Notes to the Condensed Consolidated Interim Financial Statements

38. Legal matters, continued

On-site inspection by the Central Bank

The Financial Supervisory Authority of the Central Bank of Iceland (the "FSA") did an on-site inspection at the Bank in 2022 into AML/CTF procedures. Following the inspection, the FSA identified and reported deficiencies in the Bank's compliance with the relevant AML Act and regulations. In August 2023, following receipt of FSA's final report, the Bank requested that the matter be concluded by way of settlement. The matter is now pending with the FSA.

Consumer Association's class-action lawsuit

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

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

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

Other legal proceedings

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

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

39. Events after the reporting period

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



Notes to the Condensed Consolidated Interim Financial Statements

Off balance sheet information

40. Commitments

<i>Financial guarantees, unused credit facilities and undrawn loan commitments</i>	31.3.2024	31.12.2023
Financial guarantees	22,248	21,763
Unused overdrafts	61,175	61,951
Undrawn loan commitments	62,496	69,188
Financial guarantees, unused credit facilities and undrawn loan commitments	145,919	152,902

41. Assets under management and under custody

Assets under management	1,446,697	1,383,134
Assets under custody	1,208,055	1,233,011

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

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

Related party

42. Related party

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

Shareholders with significant influence are shareholders that have the power to participate in the financial and operating decisions of Arion Bank but do not control those policies. At the end of the period no shareholder was defined as related party with an influence over the Group (31.12.2023: none).

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

For information on the associated companies, see Note 26.

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

	Key management personnel		Associated companies	
	31.3.2024	31.12.2023	31.3.2024	31.12.2023
Loans	216	249	364	348
Other assets	2	2	-	-
Total assets	217	251	364	348
Deposits	(684)	(780)	(86)	(91)
Other liabilities	-	-	(39)	(37)
Total liabilities	(684)	(780)	(126)	(128)



Notes to the Condensed Consolidated Interim Financial Statements

Risk management disclosures

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

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

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

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

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

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

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

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

Further information on risk management and capital adequacy is provided in the Annual Financial Statements for 2023, in the Pillar 3 Risk Disclosures for 2023 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk

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

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

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

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

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

Exposure to credit risk

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

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

	Maximum exposure	Collateral				Total collateral
		Cash and securities	Real estate	Vessels	Other collateral	
31.3.2024						
Cash and balances with Central Bank	102,405	-	-	-	-	-
Loans to credit institutions at amortized cost	33,782	-	-	-	-	-
Loans to customers at amortized cost	1,178,700	26,219	885,573	53,380	120,147	1,085,319
Individuals	617,796	273	568,182	7	16,378	584,840
Mortgages	558,692	-	558,380	-	33	558,413
Other	59,104	273	9,802	7	16,345	26,427
Corporates	560,904	25,946	317,391	53,373	103,769	500,479
Real estate activities	113,290	2,989	107,578	20	882	111,469
Construction	81,946	477	73,131	27	3,795	77,430
Fishing industry	82,810	1,021	15,885	51,283	7,548	75,737
Information and communication technology	29,288	19	1,371	-	12,995	14,385
Wholesale and retail trade	94,062	74	50,021	3	32,932	83,030
Financial and insurance activities	44,314	20,265	7,320	-	15,848	43,433
Industry, energy and manufacturing	58,047	805	38,060	-	15,958	54,823
Transportation	8,951	-	1,207	774	4,609	6,590
Services	22,311	286	9,777	1,260	8,294	19,617
Public sector	13,992	10	2,134	6	196	2,346
Agriculture and forestry	11,893	-	10,907	-	712	11,619
Other assets with credit risk	9,570	-	-	-	-	-
Financial guarantees	22,248	1,949	4,243	299	7,207	13,698
Undrawn loan commitments and unused overdrafts	123,671	-	-	-	-	-
Fair value through OCI	111,950	-	-	-	-	-
Government bonds	110,534	-	-	-	-	-
Bonds issued by financial institutions and corporates	1,416	-	-	-	-	-
Balance at the end of the period	1,582,326	28,168	889,816	53,679	127,354	1,099,017
31.12.2023						
Cash and balances with Central Bank	102,095	-	-	-	-	-
Loans to credit institutions at amortized cost	28,835	-	-	-	-	-
Loans to customers at amortized cost	1,152,789	24,586	871,682	55,265	118,627	1,070,160
Individuals	609,144	329	558,862	16	17,026	576,233
Mortgages	549,371	15	548,962	-	33	549,010
Other	59,773	314	9,900	16	16,993	27,223
Corporates	543,645	24,257	312,820	55,249	101,601	493,927
Real estate activities	114,101	2,027	108,604	28	1,621	112,280
Construction	77,728	433	72,143	30	3,177	75,783
Fishing industry	82,772	972	14,085	53,137	11,188	79,382
Information and communication technology	26,012	65	1,422	-	12,912	14,399
Wholesale and retail trade	90,320	40	51,332	3	29,253	80,628
Financial and insurance activities	41,517	19,732	6,701	-	13,914	40,347
Industry, energy and manufacturing	54,796	791	34,318	22	16,531	51,662
Transportation	8,460	-	1,254	803	4,026	6,083
Services	22,191	187	10,265	1,220	8,071	19,743
Public sector	14,212	10	2,235	6	202	2,453
Agriculture and forestry	11,536	-	10,461	-	706	11,167
Other assets with credit risk	12,188	-	-	-	-	-
Financial guarantees	21,763	2,973	4,644	292	6,216	14,125
Undrawn loan commitments and unused overdrafts	131,139	-	-	-	-	-
Fair value through OCI	129,564	-	-	-	-	-
Government bonds	128,178	-	-	-	-	-
Bonds issued by financial institutions and corporates	1,386	-	-	-	-	-
Balance at the end of the year	1,578,373	27,559	876,326	55,557	124,843	1,084,285



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

LTV ratio for residential mortgage lending

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

			Thereof in Stage 3	
	31.03.2024	31.12.2023	31.03.2024	31.12.2023
Less than 50%	218,779	205,543	2,328	2,215
50-60%	105,730	105,773	1,504	888
60-70%	99,957	100,722	1,419	1,374
70-80%	75,273	75,783	1,354	1,166
80-90%	55,410	57,165	413	339
90-100%	3,034	3,332	155	130
More than 100%	1,803	1,951	248	305
Gross carrying amount at the end of the period	559,986	550,269	7,421	6,417

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

			Thereof in Stage 3	
	31.03.2024	31.12.2023	31.03.2024	31.12.2023
Less than 55%	497,973	487,095	6,341	5,457
55-70%	44,498	45,134	687	620
70-80%	12,937	13,198	217	183
80-90%	3,620	3,777	84	72
90-100%	595	642	40	41
More than 100%	363	423	52	44
Gross carrying amount at the end of the period	559,986	550,269	7,421	6,417

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 22,316 million (31.12.2023: ISK 19,857 million) with ISK 19,753 million in collateral (31.12.2023: ISK 17,465 million), thereof ISK 18,438 million in real estate (31.12.2023: 16,036 million).

Collateral repossessed

During the period, the Group took possession of assets due to foreclosures. The total value of real estate the Group took possession of during the period and still holds at the end of the period was ISK 2 million (31.12.2023: ISK 25 million) but nil in other assets (31.12.2023: nil). Assets acquired due to foreclosure are held for sale, see Note 29.



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

Large exposures

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

The Group had no large exposure at the end of the period (31.12.2023: no large exposure).

Credit quality

The Group uses internal credit ratings and external credit ratings, if available, to monitor credit risk. The Group's internal credit rating system rates customers through application of statistical models based on a variety of information that has been determined to be predictive of default. This includes demographic, behavioral, financial and economic data, coupled with qualitative expert judgment for large corporate exposures. Six exposure type models rate individuals' exposures – mortgages, consumer loans, auto loans, guarantees, loans to individuals for work purposes, and other loans. The models are validated annually and recalibrated and updated with current data with the aim of maintaining their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement. External ratings are primarily used for marketable securities and loans to credit institutions. For further information on the rating scales used, see Note 59 in the Annual Financial Statements 2023.

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

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



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

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

31.3.2024	Cash and balances with CB	Loans to credit institutions	Financial instru- ments at FVOCI
<i>Loans to credit institutions, securities and cash</i>			
Investment grade	102,405	33,782	111,953
Non-investment grade	-	-	-
Gross carrying amount	102,405	33,782	111,953
Loss allowance	-	-	(3)
Book value	102,405	33,782	111,950

Loans to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	425,938	1,077	-	6	427,021
Risk class 1 - (Grades BBB+ to BBB-)	332,239	879	-	117	333,235
Risk class 2 - (Grades BB+ to BB-)	220,034	25,196	-	11	245,241
Risk class 3 to 4 - (Grades B+ to CCC-)	93,044	66,824	-	51	159,919
Risk class 5 - (DD)	-	-	22,096	220	22,316
Unrated	7	1	-	-	8
Gross carrying amount	1,071,262	93,977	22,096	405	1,187,740
Loss allowance	(2,155)	(2,484)	(4,305)	(96)	(9,040)
Book value	1,069,107	91,493	17,791	309	1,178,700

Loans to customers - Individuals

Risk class 0 - (Grades AAA to A-)	323,973	503	-	6	324,482
Risk class 1 - (Grades BBB+ to BBB-)	212,776	779	-	117	213,672
Risk class 2 - (Grades BB+ to BB-)	36,995	16,062	-	11	53,068
Risk class 3 to 4 - (Grades B+ to CCC-)	10,237	9,813	-	51	20,101
Risk class 5 - (DD)	-	-	9,393	125	9,518
Unrated	7	1	-	-	8
Gross carrying amount	583,988	27,158	9,393	310	620,849
Loss allowance	(601)	(931)	(1,520)	(1)	(3,053)
Book value	583,387	26,227	7,873	309	617,796

Loans to customers - Corporates

Risk class 0 - (Grades AAA to A-)	101,965	574	-	-	102,539
Risk class 1 - (Grades BBB+ to BBB-)	119,463	100	-	-	119,563
Risk class 2 - (Grades BB+ to BB-)	183,039	9,134	-	-	192,173
Risk class 3 to 4 - (Grades B+ to CCC-)	82,807	57,011	-	-	139,818
Risk class 5 - (DD)	-	-	12,703	95	12,798
Gross carrying amount	487,274	66,819	12,703	95	566,891
Loss allowance	(1,554)	(1,553)	(2,785)	(95)	(5,987)
Book value	485,720	65,266	9,918	-	560,904

Loan commitments, guarantees and unused credit facilities

Risk class 0 to 1 (Grades AAA to BBB-)	82,456	37	-	-	82,493
Risk class 2 to 4 (Grades BB+ to CCC-)	50,512	3,346	469	-	54,327
Unrated	8,780	319	-	-	9,099
Nominal	141,748	3,702	469	-	145,919
Loss allowance	(244)	(103)	(2)	-	(349)
Nominal less loss allowance	141,504	3,599	467	-	145,570



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

31.12.2023	Cash and balances with CB	Loans to credit institutions	Financial instru- ments at FVOCI
<i>Loans to credit institutions, securities and cash</i>			
Investment grade	102,095	28,835	129,567
Non-investment grade	-	-	-
Gross carrying amount	102,095	28,835	129,567
Loss allowance	-	-	(3)
Book value	102,095	28,835	129,564

<i>Loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	407,636	4,102	-	6	411,744
Risk class 1 - (Grades BBB+ to BBB-)	321,459	997	-	162	322,618
Risk class 2 - (Grades BB+ to BB-)	229,165	27,870	-	23	257,058
Risk class 3 to 4 - (Grades B+ to CCC-)	90,096	59,724	-	5	149,825
Risk class 5 - (DD)	-	-	19,610	247	19,857
Unrated	238	-	-	-	238
Gross carrying amount	1,048,594	92,693	19,610	443	1,161,340
Loss allowance	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Book value	1,046,246	90,602	15,590	351	1,152,789

Loans to customers - Individuals

Risk class 0 - (Grades AAA to A-)	310,023	373	-	6	310,402
Risk class 1 - (Grades BBB+ to BBB-)	208,557	689	-	162	209,408
Risk class 2 - (Grades BB+ to BB-)	42,480	19,203	-	23	61,706
Risk class 3 to 4 - (Grades B+ to CCC-)	10,777	10,835	-	5	21,617
Risk class 5 - (DD)	-	-	8,320	156	8,476
Unrated	8	-	-	-	8
Gross carrying amount	571,845	31,100	8,320	352	611,617
Loss allowance	(559)	(532)	(1,381)	(1)	(2,473)
Book value	571,286	30,568	6,939	351	609,144

Loans to customers - Corporates

Risk class 0 - (Grades AAA to A-)	97,613	3,729	-	-	101,342
Risk class 1 - (Grades BBB+ to BBB-)	112,902	308	-	-	113,210
Risk class 2 - (Grades BB+ to BB-)	186,685	8,667	-	-	195,352
Risk class 3 to 4 - (Grades B+ to CCC-)	79,319	48,889	-	-	128,208
Risk class 5 - (DD)	-	-	11,290	91	11,381
Unrated	230	-	-	-	230
Gross carrying amount	476,749	61,593	11,290	91	549,723
Loss allowance	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Book value	474,960	60,034	8,651	-	543,645

Loan commitments, guarantees and unused credit facilities

Risk class 0 to 1 - (Grades AAA to BBB-)	91,232	30	-	-	91,262
Risk class 2 to 4 - (Grades BB+ to CCC-)	51,795	4,660	292	-	56,747
Unrated	4,893	-	-	-	4,893
Nominal	147,920	4,690	292	-	152,902
Loss allowance	(236)	(125)	(2)	-	(363)
Nominal less loss allowance	147,684	4,565	290	-	152,539



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

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

	Stage 1		Stage 2		Stage 3		
	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
31.3.2024							
Loans to credit instit., securities & cash	248,140	(3)	-	-	-	-	248,137
Loans to individuals	583,988	(601)	27,343	(931)	9,518	(1,521)	617,796
<i>Mortgages</i>	530,268	(216)	22,297	(700)	7,421	(378)	558,692
<i>Other</i>	53,720	(385)	5,046	(231)	2,097	(1,143)	59,104
Loans to corporates	487,274	(1,554)	66,819	(1,553)	12,798	(2,880)	560,904
<i>Real estate activities</i>	96,652	(294)	14,368	(261)	3,861	(1,036)	113,290
<i>Construction</i>	67,071	(297)	12,075	(155)	3,524	(272)	81,946
<i>Fishing industry</i>	76,902	(118)	5,388	(153)	1,577	(786)	82,810
<i>Information and communication technology</i>	28,120	(172)	1,358	(119)	191	(90)	29,288
<i>Wholesale and retail trade</i>	80,620	(233)	12,646	(363)	1,790	(398)	94,062
<i>Financial and insurance activities</i>	33,042	(200)	11,577	(205)	100	-	44,314
<i>Industry, energy and manufacturing</i>	56,085	(74)	1,677	(53)	484	(72)	58,047
<i>Transportation</i>	5,029	(17)	4,019	(94)	28	(14)	8,951
<i>Services</i>	18,912	(80)	2,741	(132)	1,051	(181)	22,311
<i>Public Sector</i>	13,724	(50)	320	(4)	3	(1)	13,992
<i>Agriculture and forestry</i>	11,117	(19)	650	(14)	189	(30)	11,893
Balance at the end of the period	1,319,402	(2,158)	94,162	(2,484)	22,316	(4,401)	1,426,837
31.12.2023							
Loans to credit instit., securities & cash	260,497	(3)	-	-	-	-	260,494
Loans to individuals	571,845	(559)	31,296	(532)	8,476	(1,382)	609,144
<i>Mortgages</i>	516,885	(233)	26,967	(351)	6,417	(314)	549,371
<i>Other</i>	54,960	(326)	4,329	(181)	2,059	(1,068)	59,773
Loans to corporates	476,749	(1,789)	61,593	(1,559)	11,381	(2,730)	543,645
<i>Real estate activities</i>	100,610	(327)	10,633	(233)	4,369	(951)	114,101
<i>Construction</i>	72,394	(386)	5,255	(52)	572	(55)	77,728
<i>Fishing industry</i>	73,245	(121)	8,922	(48)	1,519	(745)	82,772
<i>Information and communication technology</i>	24,621	(202)	1,636	(145)	179	(77)	26,012
<i>Wholesale and retail trade</i>	75,987	(252)	13,052	(466)	2,629	(630)	90,320
<i>Financial and insurance activities</i>	30,072	(214)	11,797	(261)	128	(5)	41,517
<i>Industry, energy and manufacturing</i>	52,771	(98)	1,811	(88)	458	(58)	54,796
<i>Transportation</i>	4,389	(19)	4,058	(89)	141	(20)	8,460
<i>Services</i>	18,521	(91)	3,017	(151)	1,052	(157)	22,191
<i>Public Sector</i>	14,075	(59)	200	(4)	1	(1)	14,212
<i>Agriculture and forestry</i>	10,064	(20)	1,212	(22)	333	(31)	11,536
Balance at the end of the year	1,309,091	(2,351)	92,889	(2,091)	19,857	(4,112)	1,413,283



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

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

Transfers of financial assets between impairment stages

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

Net remeasurement of loss allowance

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

New financial assets, originated or purchased

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

Derecognitions and maturities

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

Write-offs

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

31.03.2024

<i>Impairment loss allowance *</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(341)	309	32	-	-
Transfers to Stage 2 (lifetime ECL)	173	(208)	35	-	-
Transfers to Stage 3 (credit impaired financial assets)	17	76	(93)	-	-
Net remeasurement of loss allowance **	512	(611)	(399)	(4)	(502)
New financial assets, originated or purchased	(320)	(83)	(286)	-	(689)
Derecognitions and maturities	143	110	334	-	587
Write-offs ***	1	36	92	-	129
Impairment loss allowance ****	(2,399)	(2,587)	(4,307)	(96)	(9,389)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,402)	(2,587)	(4,307)	(96)	(9,392)

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

** During the period the loss allowance balance for stage 3 loans was raised by ISK 256 million due to unwinding of interest income.

*** During the period an amount of ISK 87 million was written off but is still subject to enforcement activities subject to Icelandic law.

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



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

<i>Impairment loss allowance for loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(312)	280	32	-	-
Transfers to Stage 2 (lifetime ECL)	166	(201)	35	-	-
Transfers to Stage 3 (credit impaired financial assets)	16	76	(92)	-	-
Net remeasurement of loss allowance	462	(605)	(400)	(4)	(547)
New financial assets, originated or purchased	(246)	(78)	(286)	-	(610)
Derecognitions and maturities	106	99	334	-	539
Write-offs	1	36	92	-	129
Total loss allowance for loans to customers	(2,155)	(2,484)	(4,305)	(96)	(9,040)

Impairment loss allowance for loans to customers - Individuals

Balance at the beginning of the year	(559)	(532)	(1,381)	(1)	(2,473)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(199)	177	22	-	-
Transfers to Stage 2 (lifetime ECL)	27	(33)	6	-	-
Transfers to Stage 3 (credit impaired financial assets)	9	62	(71)	-	-
Net remeasurement of loss allowance	152	(638)	(203)	-	(689)
New financial assets, originated or purchased	(60)	(30)	(8)	-	(98)
Derecognitions and maturities	28	28	48	-	104
Write-offs	1	35	67	-	103
Total loss allowance for loans to individuals	(601)	(931)	(1,520)	(1)	(3,053)

Impairment loss allowance for loans to customers - Corporates

Balance at the beginning of the year	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(113)	103	10	-	-
Transfers to Stage 2 (lifetime ECL)	139	(168)	29	-	-
Transfers to Stage 3 (credit impaired financial assets)	7	14	(21)	-	-
Net remeasurement of loss allowance	310	33	(197)	(4)	142
New financial assets, originated or purchased	(186)	(48)	(278)	-	(512)
Derecognitions and maturities	78	71	286	-	435
Write-offs	-	1	25	-	26
Total loss allowance for loans to corporates	(1,554)	(1,553)	(2,785)	(95)	(5,987)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities

Balance at the beginning of the year	(236)	(125)	(2)	-	(363)
Transfers					
Transfers to 12-month ECL	(29)	29	-	-	-
Transfers to lifetime ECL	7	(7)	-	-	-
Transfers to credit impaired	1	-	(1)	-	-
Net remeasurement of loss allowance	50	(6)	1	-	45
New financial commitments originated	(74)	(5)	-	-	(79)
Derecognitions and maturities	37	11	-	-	48
Total loss allowance for loan commit., guarantees, unused facilities	(244)	(103)	(2)	-	(349)



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

31.12.2023

<i>Impairment loss allowance *</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,685)	(1,612)	(2,937)	(131)	(7,365)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,530)	1,250	280	-	-
Transfers to Stage 2 (lifetime ECL)	436	(989)	553	-	-
Transfers to Stage 3 (credit impaired financial assets)	82	304	(386)	-	-
Net remeasurement of loss allowance **	2,111	(1,362)	(2,376)	39	(1,588)
New financial assets, originated or purchased	(1,749)	(339)	(313)	-	(2,401)
Derecognitions and maturities	679	511	513	-	1,703
Write-offs ***	72	21	644	-	737
Impairment loss allowance ****	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,587)	(2,216)	(4,022)	(92)	(8,917)

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

** During the year the loss allowance balance for stage 3 loans was raised by ISK 528 million due to unwinding of interest income.

*** During the year an amount of ISK 910 million was written off but is still subject to enforcement activities subject to Icelandic law.

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

<i>Impairment loss allowance for loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,334)	(1,519)	(2,932)	(131)	(6,916)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(1,437)	1,157	280	-	-
Transfers to Stage 2 (lifetime ECL)	420	(973)	553	-	-
Transfers to Stage 3 (credit impaired financial assets)	81	301	(382)	-	-
Net remeasurement of loss allowance	1,859	(1,294)	(2,380)	39	(1,776)
New financial assets, originated or purchased	(1,528)	(235)	(313)	-	(2,076)
Derecognitions and maturities	519	451	510	-	1,480
Write-offs	72	21	644	-	737
Total loss allowance for loans to customers	(2,348)	(2,091)	(4,020)	(92)	(8,551)

Impairment loss allowance for loans to customers - Individuals

Balance at the beginning of the year	(445)	(287)	(1,043)	-	(1,775)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(564)	426	138	-	-
Transfers to Stage 2 (lifetime ECL)	112	(155)	43	-	-
Transfers to Stage 3 (credit impaired financial assets)	19	190	(209)	-	-
Net remeasurement of loss allowance	438	(800)	(697)	(1)	(1,060)
New financial assets, originated or purchased	(233)	(114)	(152)	-	(499)
Derecognitions and maturities	113	188	264	-	565
Write-offs	1	20	275	-	296
Total loss allowance for loans to individuals	(559)	(532)	(1,381)	(1)	(2,473)



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance for loans to customers - Corporates</i>					
Balance at the beginning of the year	(1,889)	(1,232)	(1,889)	(131)	(5,141)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(873)	731	142	-	-
Transfers to Stage 2 (lifetime ECL)	308	(818)	510	-	-
Transfers to Stage 3 (credit impaired financial assets)	62	111	(173)	-	-
Net remeasurement of loss allowance	1,421	(494)	(1,683)	40	(716)
New financial assets, originated or purchased	(1,295)	(121)	(161)	-	(1,577)
Derecognitions and maturities	406	263	246	-	915
Write-offs	71	1	369	-	441
Total loss allowance for loans to corporates	(1,789)	(1,559)	(2,639)	(91)	(6,078)
<i>Impairment loss allowance for loan commitments, guarantees and unused credit facilities</i>					
Balance at the beginning of the year	(351)	(93)	(5)	-	(449)
Transfers					
Transfers to 12-month ECL	(93)	93	-	-	-
Transfers to lifetime ECL	16	(16)	-	-	-
Transfers to credit impaired	1	3	(4)	-	-
Net remeasurement of loss allowance	252	(68)	4	-	188
New financial commitments originated	(221)	(104)	-	-	(325)
Derecognitions and maturities	160	60	3	-	223
Total loss allowance for loan commit., guarantees, unused facilities	(236)	(125)	(2)	-	(363)

Macroeconomic forecast

The calculation of expected credit losses under IFRS 9 uses forward-looking information in the form of scenarios where the development of macro-economic variables is predicted. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios: base case 60%, pessimistic 30% and optimistic 10% (31.12.2023: base case 60%, pessimistic 30% and optimistic 10%). The macroeconomic forecast and scenario probability weights is done by the Bank's Chief Economist and approved by the Bank's Executive Risk Committee. The following table shows values used for IFRS 9 impairment calculations.

	Base case					
	2024	2025	2026			
Unemployment rate	4.5%	4.4%	4.2%			
Housing prices, year-on-year change	4.1%	4.8%	6.4%			
Private consumption, growth	1.5%	2.7%	3.0%			
GDP growth	2.1%	2.7%	2.6%			
Key interest rate	8.5%	6.8%	5.2%			
	Optimistic			Pessimistic		
	2024	2025	2026	2024	2025	2026
Unemployment rate	3.3%	3.7%	4.0%	6.2%	5.7%	4.4%
Housing prices, year-on-year change	8.6%	7.8%	6.9%	-2.4%	1.3%	7.4%
Private consumption, growth	4.3%	3.5%	3.3%	-2.2%	1.9%	2.4%
GDP growth	4.0%	3.1%	3.0%	-1.4%	2.5%	2.2%
Key interest rate	8.0%	6.1%	4.5%	9.0%	7.5%	5.9%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 3, Significant accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 2.1 billion, ISK 3.6 billion and ISK 8.7 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2023: ISK 1.5 billion, ISK 3.0 billion and ISK 8.8 billion, respectively).



Notes to the Condensed Consolidated Interim Financial Statements

43. Credit risk, continued

Forbearance

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

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
31.3.2024								
Individuals	2,913	(15)	2,345	(55)	4,248	(531)	9,506	(601)
Companies	3,467	(14)	2,809	(218)	2,717	(506)	8,993	(738)
<i>Tourism</i>	1,828	(9)	840	(74)	1,223	(196)	3,891	(279)
<i>Other than tourism</i>	1,639	(5)	1,969	(144)	1,494	(310)	5,102	(459)
Total	6,380	(29)	5,154	(273)	6,965	(1,037)	18,499	(1,339)
31.12.2023								
Individuals	2,614	(17)	2,001	(39)	3,873	(467)	8,488	(523)
Companies	3,432	(21)	13,242	(415)	2,659	(519)	19,333	(955)
<i>Tourism</i>	2,049	(15)	8,980	(376)	1,358	(254)	12,387	(645)
<i>Other than tourism</i>	1,383	(6)	4,262	(39)	1,301	(265)	6,946	(310)
Total	6,046	(38)	15,243	(454)	6,532	(986)	27,821	(1,478)

Volcanic activity in the vicinity of Grindavík

The volcanic events in the vicinity of Grindavík have an impact on the credit quality of a section of the Group's loan portfolio. The gross carrying amount of loans to borrowers domiciled in the area is ISK 7.3 billion, thereof ISK 5.4 billion to corporates and ISK 1.9 billion to individuals. Of the loans to corporates, ISK 3.0 billion is secured by fishing vessels with appurtenant quota which is not directly impacted by the events.

At the end of February, the Icelandic parliament passed legislation facilitating the purchase of residential properties from households that have been forced to relocate from Grindavík. Those who choose to sell their properties will be able to purchase new homes using their home equity and their mortgages will be paid up. The Bank participates in the measure by providing funding to the newly established property management company Þórkatla which will buy and manage the properties going forward. The Bank's exposure to Þórkatla will predominantly be in the form of senior debt that matches its mortgage exposure, which will be paid up as part of the process. The Bank will forfeit any recourse to the original borrower. While the government provides the majority of Þórkatla's equity, its contribution will also be in the form of senior debt, *pari passu* to the Bank's.

The Bank's valuation of residential mortgages to Grindavík is based on the assumption that borrowers will sell their properties to Þórkatla. The assessment of recovery is a scenario analysis which considers the likelihood of further payout from the Natural Catastrophe Insurance of Iceland due to past or future events and the likelihood of sale or lease of properties in the future if the town becomes habitable again. The analysis is based on feedback from geophysicists. The result for 31.3.2024 is a 25% impairment ratio on residential mortgages, all classified in Stage 2, or ISK 448m. The Bank's provisions for corporate exposures are ISK 196m at quarter end.



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk

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

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

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

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

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

Interest rate risk

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

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

Following the outbreak of Covid-19, the Central Bank of Iceland lowered interest rates to historic lows, resulting in a sharp increase in demand for non-indexed mortgages with floating rates in 2020 and 2021. Inflation in Iceland, measured at 6.8% at the end of Q1 2024, has exceeded the Central Bank's target of 2.5% since June 2020 and is expected to remain over the target throughout 2024 at least. The Central Bank has responded by increasing interest rates by 8.5% from its lowest value of 0.75% at the start of 2021. From the second half of 2021 to the start of 2022, this resulted in a sharp increase in demand for non-indexed fixed rate mortgages with corresponding increase in interest rate risk for the Bank. This risk exposure is receding as the bulk of those loans is subject to interest rate reset in 2024. Interest rate risk for indexed rates is however increasing due to new issuance of fixed-rate indexed covered bonds.

Interest rate risk

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

31.3.2024	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	102,405	-	-	-	-	102,405
Loans to credit institutions	33,782	-	-	-	-	33,782
Loans to customers	826,813	167,807	177,902	-	-	1,172,522
Bonds and debt instruments	82,421	20,342	20,273	8,214	8,558	139,808
Bonds and debt instruments used for hedging	415	-	913	321	883	2,532
Derivatives	152,374	69,092	182,432	-	-	403,898
Assets	1,198,210	257,241	381,520	8,535	9,441	1,854,947
Liabilities						
Due to credit institutions and Central Bank	3,205	-	-	-	-	3,205
Deposits	790,055	12,013	-	-	-	802,068
Derivatives	251,665	139,549	8,398	-	-	399,612
Borrowings	43,956	43,863	271,973	55,272	12,176	427,240
Subordinated liabilities	-	13,590	26,922	-	-	40,512
Liabilities	1,088,881	209,015	307,293	55,272	12,176	1,672,637
Net interest gap	109,329	48,226	74,227	(46,737)	(2,735)	182,310



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk, continued

31.12.2023	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	102,095	-	-	-	-	102,095
Loans to credit institutions	28,835	-	-	-	-	28,835
Loans to customers	782,864	170,223	191,527	749	-	1,145,363
Bonds and debt instruments	79,710	46,599	14,657	9,150	7,081	157,197
Bonds and debt instruments used for hedging		403	617	199	977	2,196
Derivatives	108,752	75,100	182,078	-	-	365,930
Assets	1,102,256	292,325	388,879	10,098	8,058	1,801,616
Liabilities						
Due to credit institutions and Central Bank	2,771	-	-	-	-	2,771
Deposits	785,509	7,201	-	-	-	792,710
Derivatives	221,119	134,951	8,389	-	-	364,459
Borrowings	22,775	68,633	268,304	46,906	12,390	419,008
Subordinated liabilities	-	7,005	34,149	-	-	41,154
Liabilities	1,032,174	217,790	310,842	46,906	12,390	1,620,102
Net interest gap	70,082	74,535	78,037	(36,808)	(4,332)	181,514

Sensitivity analysis of interest rate risk

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

	31.3.2024		31.12.2023	
	-100 bps	+100 bps	-100 bps	+100 bps
NPV change in the banking book				
ISK, CPI index-linked	(1,327)	1,365	(1,855)	1,721
ISK, Non index-linked	(1,936)	1,902	(1,487)	1,462
Foreign currencies	(521)	517	(418)	416
NPV change in the trading book				
ISK, CPI index-linked	80	(72)	133	(122)
ISK, Non index-linked	238	(223)	195	(185)
Foreign currencies	(36)	36	(31)	31



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk, continued

Indexation risk

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

Book value and maturity profile of indexed assets and liabilities

31.3.2024	Up to 1 year	1 to 5 years	Over 5 years	Total
<i>Assets, CPI index-linked</i>				
Loans to customers	13,267	92,351	302,115	407,733
Financial instruments	6,772	5,458	9,555	21,785
Assets, CPI index-linked	20,039	97,809	311,670	429,518
<i>Liabilities, CPI index-linked</i>				
Deposits	115,368	16,329	4,003	135,700
Borrowings	382	74,682	67,718	142,782
Subordinated liabilities	-	-	17,335	17,335
Other	-	-	1,042	1,042
Off-balance sheet position	1,504	128	-	1,632
Liabilities, CPI index-linked	117,254	91,139	90,098	298,491
Net on-balance sheet position	(95,711)	6,798	221,572	132,659
Net off-balance sheet position	(1,504)	(128)	-	(1,632)
CPI balance	(97,215)	6,670	221,572	131,027
CPI balance for prudential consolidation, excluding insurance operations *	(98,129)	1,211	212,044	115,125
 31.12.2023				
<i>Assets, CPI index-linked</i>				
Loans to customers	11,667	81,695	282,842	376,204
Financial instruments	7,813	5,028	8,797	21,638
Assets, CPI index-linked	19,480	86,723	291,639	397,842
<i>Liabilities, CPI index-linked</i>				
Deposits	111,523	16,253	3,939	131,715
Borrowings	373	81,870	58,920	141,163
Subordinated liabilities	-	-	16,997	16,997
Other	-	-	1,028	1,028
Off-balance sheet position	1,466	151	-	1,617
Liabilities, CPI indexed linked	113,362	98,274	80,884	292,520
Net on-balance sheet position	(92,416)	(11,400)	210,755	106,939
Net off-balance sheet position	(1,466)	(151)	-	(1,617)
CPI balance	(93,882)	(11,551)	210,755	105,322
CPI balance for prudential consolidation, excluding insurance operations *	(95,084)	(16,579)	201,957	90,296

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk, continued

Currency risk

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

Breakdown of assets and liabilities by currency

31.3.2024

<i>Financial assets</i>	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	101,210	368	259	130	140	28	270	102,405
Loans to credit institutions	959	14,073	12,078	1,816	1,686	676	2,494	33,782
Loans to customers	978,018	108,297	58,132	1,466	30,237	1,344	1,206	1,178,700
Financial instruments	108,425	65,828	13,526	216	290	7,524	105	195,914
Other financial assets	9,017	428	116	3	2	3	21	9,590
Financial assets	1,197,629	188,994	84,111	3,631	32,355	9,575	4,096	1,520,391
<i>Financial liabilities</i>								
Due to credit inst. and Central Bank	2,211	754	200	-	-	-	40	3,205
Deposits	709,841	37,202	46,913	3,242	1,559	1,610	1,701	802,068
Financial liabilities at fair value	1,162	8,095	1,290	-	38	163	30	10,778
Other financial liabilities	12,785	4,409	276	1,141	531	61	172	19,375
Borrowings	195,936	217,160	-	-	-	13,016	6,935	433,047
Subordinated liabilities	20,529	749	13,410	-	-	3,932	2,938	41,558
Financial liabilities	942,464	268,369	62,089	4,383	2,128	18,782	11,816	1,310,031
Net on-balance sheet position	255,165	(79,375)	22,022	(752)	30,227	(9,207)	(7,720)	
Net off-balance sheet position	(47,299)	83,582	(22,095)	597	(30,034)	9,183	6,066	
Net position *	207,866	4,207	(73)	(155)	193	(24)	(1,654)	
<i>Non-financial assets</i>								
Investment property	9,542	-	-	-	-	-	-	9,542
Investments in associates	797	-	-	-	-	-	-	797
Intangible assets	7,885	-	-	-	-	-	-	7,885
Tax assets	39	-	-	-	-	-	-	39
Assets and disposal groups								
held for sale	64	-	-	-	-	-	-	64
Other non financial assets	5,314	228	78	72	-	22	-	5,714
Non-financial assets	23,641	228	78	72	-	22	-	24,041
<i>Non-financial liabilities and equity</i>								
Tax liabilities	11,732	-	-	-	-	-	-	11,732
Other non-financial liabilities	31,197	44	3	-	1	1	7	31,253
Shareholders' equity	190,925	-	-	-	-	-	-	190,925
Non-controlling interest	491	-	-	-	-	-	-	491
Non-financial liabilities and equity	234,345	44	3	-	1	1	7	234,401
Management reporting								
of currency risk **	(2,838)	4,391	2	(83)	192	(3)	(1,661)	

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

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk, continued

31.12.2023

<i>Financial assets</i>	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	100,837	412	301	112	137	28	268	102,095
Loans to credit institutions	1,321	11,870	10,833	1,214	1,513	299	1,785	28,835
Loans to customers	961,822	105,897	52,705	1,150	28,602	1,327	1,286	1,152,789
Financial instruments	86,667	87,955	13,446	158	205	15,753	1,522	205,706
Other financial assets	5,107	264	6,808	-	5	4	-	12,188
Financial assets	1,155,754	206,398	84,093	2,634	30,462	17,411	4,861	1,501,613
<i>Financial liabilities</i>								
Due to credit inst. and Central Bank	2,096	185	432	-	-	-	58	2,771
Deposits	691,181	33,847	56,528	4,317	3,273	1,599	1,965	792,710
Financial liabilities at fair value	1,573	9,156	739	-	-	169	9	11,646
Other financial liabilities	6,156	1,426	2,024	250	538	138	258	10,790
Borrowings	184,019	215,728	-	-	-	13,526	7,187	420,460
Subordinated liabilities	20,155	766	13,217	-	-	4,096	3,045	41,279
Financial liabilities	905,180	261,108	72,940	4,567	3,811	19,528	12,522	1,279,656
Net on-balance sheet position	250,574	(54,710)	11,153	(1,933)	26,651	(2,117)	(7,661)	
Net off-balance sheet position	(32,394)	58,658	(11,253)	1,851	(26,069)	2,075	7,132	
Net position *	218,180	3,948	(100)	(82)	582	(42)	(529)	
<i>Non-financial assets</i>								
Investment property	9,493	-	-	-	-	-	-	9,493
Investments in associates	789	-	-	-	-	-	-	789
Intangible assets	8,051	-	-	-	-	-	-	8,051
Tax assets	39	-	-	-	-	-	-	39
Assets and disposal groups								
held for sale	62	-	-	-	-	-	-	62
Other non financial assets	5,201	233	78	85	1	27	-	5,625
Non-financial assets	23,635	233	78	85	1	27	-	24,059
<i>Non-financial liabilities and equity</i>								
Tax liabilities	11,169	-	-	-	-	-	-	11,169
Other non-financial liabilities	35,493	48	2	-	1	-	2	35,546
Shareholders' equity	198,798	-	-	-	-	-	-	198,798
Non-controlling interest	503	-	-	-	-	-	-	503
Non-financial liabilities and equity	245,963	48	2	-	1	-	2	246,016
Management reporting								
of currency risk **	(4,148)	4,133	(24)	3	582	(15)	(531)	

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

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Market risk, continued

Sensitivity analysis for currency risk

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

Currency	31.3.2024		31.12.2023	
	-10%	+10%	-10%	+10%
EUR	(439)	439	(413)	413
USD	(0)	0	2	(2)
GBP	8	(8)	(0)	0
DKK	(19)	19	(58)	58
NOK	0	(0)	2	(2)
Other	166	(166)	53	(53)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 30 and 23 respectively.

Sensitivity analysis for equity risk

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

Equity	31.3.2024		31.12.2023	
	-10%	+10%	-10%	+10%
Trading book - listed	(430)	430	(334)	334
Banking book - listed	(472)	472	(397)	397
Banking book - unlisted	(503)	503	(526)	526

Derivatives

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Liquidity and Funding risk

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

A primary source of funding for the Group is deposits from individuals, businesses and financial undertakings. The Group's liquidity risk stems from the fact that the maturity of loans exceeds the maturity of deposits, of which 69% is on-demand.

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

31.3.2024	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	910	85,810	15,935	-	-	-	102,655	102,405
Loans to credit institutions	25,964	7,805	13	-	-	-	33,782	33,782
Loans to customers	10,584	167,553	160,110	530,674	1,379,124	-	2,248,045	1,178,700
Financial instruments	9,231	89,610	17,998	26,128	13,614	44,241	200,822	195,914
<i>Derivatives - assets leg</i>	-	90,934	18,695	20,580	-	-	130,209	117,045
<i>Derivatives - liabilities leg</i>	-	(83,135)	(20,421)	(15,350)	-	-	(118,906)	(107,712)
<i>Other financial instruments</i>	9,231	81,811	19,724	20,898	13,614	44,241	189,519	186,581
Other financial assets	466	6,691	771	1,662	-	-	9,590	9,570
Financial assets	47,155	357,469	194,827	558,464	1,392,738	44,241	2,594,894	1,520,371
Financial liabilities								
Due to credit inst. and Central Bank	2,488	727	-	-	-	-	3,215	3,205
Deposits	559,180	202,166	22,873	17,001	4,933	-	806,153	802,068
Financial liabilities at fair value	-	3,227	4,024	15,384	-	-	22,635	10,778
<i>Derivatives - assets leg</i>	-	(43,929)	(5,781)	(13,789)	-	-	(63,499)	(61,193)
<i>Derivatives - liabilities leg</i>	-	47,047	9,805	29,173	-	-	86,025	71,862
<i>Short position in bonds</i>	-	109	-	-	-	-	109	109
Other financial liabilities	100	18,157	348	770	-	-	19,375	19,383
Borrowings	-	35,164	61,345	307,111	72,165	-	475,785	433,047
Subordinated liabilities	-	808	2,146	20,282	32,183	-	55,419	41,558
Financial liabilities	561,768	260,249	90,736	360,548	109,281	-	1,382,582	1,310,039
Net position for assets and liab.	(514,613)	97,220	104,091	197,916	1,283,457	44,241	1,212,312	210,332
Off-balance sheet items								
Financial guarantees	-	1,687	8,260	4,671	7,630	-	22,248	22,248
Unused overdraft	-	61,175	-	-	-	-	61,175	61,175
Undrawn loan commitments	-	40,440	15,555	6,501	-	-	62,496	62,496
Off-balance sheet items	-	103,302	23,815	11,172	7,630	-	145,919	145,919
Net contractual cash flow	(514,613)	(6,082)	80,276	186,744	1,275,827	44,241	1,066,393	64,413



Notes to the Condensed Consolidated Interim Financial Statements

45. Liquidity and Funding risk, continued

31.12.2023	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	2,556	83,848	16,227	-	-	-	102,631	102,095
Loans to credit institutions	20,977	7,842	16	-	-	-	28,835	28,835
Loans to customers	6,942	161,250	155,075	531,276	1,385,530	-	2,240,073	1,152,789
Financial instruments	9,376	81,687	47,647	17,548	13,463	39,711	209,432	205,706
<i>Derivatives - assets leg</i>	-	42,180	33,090	31,428	-	-	106,698	94,662
<i>Derivatives - liabilities leg</i>	-	(39,292)	(32,374)	(27,621)	-	-	(99,287)	(88,060)
<i>Other financial instruments</i>	9,376	78,799	46,931	13,741	13,463	39,711	202,021	199,104
Other financial assets	519	9,229	774	1,666	-	-	12,188	12,188
Financial assets	40,370	343,856	219,739	550,490	1,398,993	39,711	2,593,159	1,501,613
Financial liabilities								
Due to credit inst. and Central Bank	1,640	1,162	-	-	-	-	2,802	2,771
Deposits	561,728	191,128	21,724	16,906	-	-	791,486	792,710
Financial liabilities at fair value	-	3,791	5,726	16,209	-	-	25,726	11,646
<i>Derivatives - assets leg</i>	-	(30,271)	(10,276)	(4,118)	-	-	(44,665)	(39,726)
<i>Derivatives - liabilities leg</i>	-	34,001	16,002	20,327	-	-	70,330	51,311
<i>Short position in bonds used for hedging</i> ..	-	61	-	-	-	-	61	61
Other financial liabilities	76	9,640	340	734	-	-	10,790	10,790
Borrowings	-	1,191	92,107	304,564	63,417	-	461,279	420,460
Subordinated liabilities	-	1,291	1,776	20,326	32,471	-	55,864	41,279
Financial liabilities	563,444	208,203	121,673	358,739	95,888	-	1,347,947	1,279,656
Net position for assets and liab.	(523,074)	135,653	98,066	191,751	1,303,105	39,711	1,245,212	221,957
Off-balance sheet items								
Financial guarantees	-	4,005	6,629	3,711	7,418	-	21,763	21,763
Unused overdraft	-	61,951	-	-	-	-	61,951	61,951
Undrawn loan commitments	-	44,220	15,009	9,354	605	-	69,188	69,188
Off-balance sheet items	-	110,176	21,638	13,065	8,023	-	152,902	152,902
Net contractual cash flow	(523,074)	25,477	76,428	178,686	1,295,082	39,711	1,092,310	69,055

Net Stable Funding Ratio

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

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

	31.3.2024	31.12.2023
Available stable funding	1,185,348	1,167,158
Required stable funding	1,014,691	982,601
Net stable funding ratio	117%	119%



Notes to the Condensed Consolidated Interim Financial Statements

45. Liquidity and Funding risk, continued

Liquidity coverage ratio

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

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

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

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

	ISK	EUR	Total all currencies
31.3.2024			
Liquid assets level 1 *	141,076	61,587	208,808
Liquid assets level 2	10,653	-	10,653
Liquid assets	151,729	61,587	219,461
Deposits	140,983	14,491	174,020
Borrowings	10,482	-	10,673
Other cash outflows	5,432	11,050	10,606
Cash outflows	156,897	25,541	195,299
Short-term deposits with other banks **	-	6,249	20,430
Other cash inflows	15,701	3,029	22,054
Cash inflows	15,701	9,278	42,484
Liquidity coverage ratio (LCR) ***	107%	379%	144%
31.12.2023			
Liquid assets level 1 *	124,792	83,916	243,122
Liquid assets level 2	9,302	-	9,302
Liquid assets	134,094	83,916	252,424
Deposits	131,959	9,158	164,787
Borrowings	672	-	759
Other cash outflows	5,402	10,436	12,380
Cash outflows	138,033	19,594	177,926
Short-term deposits with other banks **	-	8,569	19,918
Other cash inflows	23,118	888	26,412
Cash inflows	23,118	9,457	46,330
Liquidity coverage ratio (LCR) ***	117%	828%	192%

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Liquidity and Funding risk, continued

Composition of liquid assets

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

	ISK	USD	EUR	Other	Total
31.3.2024					
Cash and balances with Central Bank	101,210	259	368	568	102,405
Short-term deposits with financial institutions	-	7,792	6,249	6,389	20,430
Domestic bonds eligible as collateral with Central Bank	47,545	-	-	-	47,545
Foreign government bonds	-	220	61,219	5,098	66,537
Liquidity reserve	148,755	8,271	67,836	12,055	236,917

31.12.2023

Cash and balances with Central Bank	100,837	301	412	545	102,095
Short-term deposits with financial institutions	-	6,961	8,569	4,388	19,918
Domestic bonds eligible as collateral with Central Bank	30,046	-	-	-	30,046
Foreign government bonds	-	18,888	83,504	14,675	117,067
Liquidity reserve	130,883	26,150	92,485	19,608	269,126

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights

	Deposits maturing within 30 days					Total deposits
	Less stable	Weight %	Stable	Weight %	Term deposits*	
31.3.2024						
Individuals	113,442	11%	124,715	5%	144,260	382,417
Small and medium enterprises	109,599	13%	17,070	6%	20,591	147,260
Operational relationship	7,091	25%	-	0%	-	7,091
Corporations	98,436	40%	16,163	21%	26,233	140,832
Sovereigns, central banks and PSE	22,796	40%	18	0	732	23,546
Pension funds	59,200	100%	-	-	14,287	73,487
Domestic financial entities	26,081	100%	-	-	3,352	29,433
Foreign financial entities	1,207	100%	-	-	-	1,207
Total	437,852		157,966		209,455	805,273
31.12.2023						
Individuals	107,999	10%	115,140	5%	146,109	369,248
Small and medium enterprises	106,030	10%	17,758	5%	19,827	143,615
Operational relationship	7,540	25%	-	5%	-	7,540
Corporations	116,348	40%	15,759	20%	22,679	154,786
Sovereigns, central banks and PSE	27,678	40%	15	0	753	28,446
Pension funds	47,390	100%	-	-	17,211	64,601
Domestic financial entities	20,521	100%	-	-	4,780	25,301
Foreign financial entities	1,944	100%	-	-	-	1,944
Total	435,450		148,672		211,359	795,481

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Capital management

Capital adequacy

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

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

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

<i>Own funds</i>	31.3.2024	31.12.2023
Total equity	191,416	199,301
Unaudited interim profit	(4,444)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(491)	(503)
Common Equity Tier 1 capital before regulatory adjustments	186,481	198,798
Intangible assets	(7,423)	(7,211)
Additional value adjustments	(216)	(227)
Foreseeable dividend and buyback **	(5,000)	(12,877)
Adjustment under IFRS 9 transitional arrangements as amended	511	952
Common Equity Tier 1 capital	174,353	179,435
Non-controlling interest eligible for inclusion in T1 capital	116	117
Additional Tier 1 capital	13,410	13,217
Tier 1 capital	187,879	192,769
Tier 2 instruments	28,148	28,062
Tier 2 instruments of financial sector entities (significant investments)	(1,279)	(1,247)
Tier 2 capital	26,869	26,815
Total own funds	214,748	219,584

Risk-weighted exposure amount (REA)

Credit risk, loans and off-balance sheet items	754,354	732,760
Credit risk, securities and other	52,996	52,032
Credit risk, derivatives and repos	9,641	7,442
Market risk due to currency imbalance	4,641	4,751
Market risk due to trading book positions	12,975	11,066
Credit valuation adjustment	3,713	3,680
Operational risk	98,740	98,740
Total risk-weighted exposure amount	937,060	910,471

Capital ratios

CET1 ratio	18.6%	19.7%
Tier 1 ratio	20.0%	21.2%
Capital adequacy ratio	22.9%	24.1%

Total own funds, including interim profit not eligible for inclusion	216,970	219,584
CET1 ratio, including interim profit not eligible for inclusion	18.8%	19.7%
Tier 1 ratio, including interim profit not eligible for inclusion	20.3%	21.2%
Capital adequacy ratio, including interim profit not eligible for inclusion	23.2%	24.1%

** On 31 March 2024, the deduction consists of a ISK 5bn buyback program approved by the Board and FSA. On 31 December 2023, the deduction consists of 50% of net earnings as per the Bank's dividend policy.

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Capital management, continued

<i>Capital ratios of the parent company</i>	31.3.2024	31.12.2023
CET1 ratio	18.8%	19.9%
Tier 1 ratio	20.2%	21.4%
Capital adequacy ratio	23.1%	24.3%

The following table outlines the implementation of the capital buffer requirements in accordance with the Icelandic Financial Undertakings Act No. 161/2002, as prescribed by the Financial Stability Council (FSC) and approved by the FSA. The countercyclical capital buffer was raised from 2.0% to 2.5% on 16 March 2024.

<i>Capital buffer requirement, % of REA</i>	31.3.2024	31.12.2023
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	2.0%	2.0%
Systemic risk buffer *	3.0%	3.0%
Countercyclical capital buffer *	2.5%	2.0%
Combined capital buffer requirement	10.0%	9.5%

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

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

<i>Capital requirement, % of REA</i>	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.2%	1.6%	2.1%
Combined buffer requirement *	9.6%	9.6%	9.6%
Regulatory capital requirement	15.3%	17.2%	19.7%
Available capital	18.6%	20.0%	22.9%

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

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

Leverage ratio

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

	31.3.2024	31.12.2023
On-balance sheet exposures	1,496,916	1,477,968
Derivative exposures	20,120	15,953
Repos	10,510	10,326
Off-balance sheet exposures	43,553	46,087
Total exposure	1,571,099	1,550,334
Tier 1 capital	187,879	192,769
Leverage ratio	12.0%	12.4%



Notes to the Condensed Consolidated Interim Financial Statements

46. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, as amended, which transposes BRRD I/II into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirements. In October 2023, the Icelandic Resolution Authority (IRA) presented the Group with the MREL requirements based on year-end 2022 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. The Bank expects an MREL subordination requirement to come into effect in Iceland on 1 August 2026.

	31.3.2024	31.12.2023
<i>Minimum requirement for own funds and eligible liabilities</i>		
Own funds	214,748	219,584
Eligible liabilities	122,619	124,955
Own funds and eligible liabilities	337,367	344,539
Combined buffer requirement (CBR)	89,958	83,763
Own funds and eligible liabilities not used for CBR	247,409	260,775
Risk-weighted exposure amount (REA)	937,060	910,471
Own funds and eligible liabilities not used for CBR (% REA)	26.4%	28.6%
MREL requirement (% REA)	20.2%	20.2%
Total exposure measure (TEM)	1,571,099	1,550,334
Own funds and eligible liabilities (% TEM)	21.5%	22.2%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur

Excess of assets over liabilities in accordance with Solvency II	10,608	10,232
Subordinated liabilities	1,254	1,263
Foreseeable dividends	-	-
Own funds	11,862	11,495
Solvency capital requirements (SCR)	8,630	8,294
SCR ratio	137.5%	138.6%

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

47. Operational risk

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

48. Sustainability risk

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

The Green Financing Framework

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

<i>Green Financing Instruments</i>	31.3.2024	31.12.2023
Deposits	28,114	25,477
Borrowings	99,769	98,801
Book value	127,883	124,278

Identified eligible green assets by category

Sustainable fishery and aquaculture	16,493	25,493
Renewable energy	442	429
Clean transportation	6,169	6,317
Green buildings	80,719	67,484
Energy efficiency	20,567	16,644
Pollution prevention and control and wastewater management	5,973	6,523
Book value	130,363	122,890



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