IMPORTANT NOTICE

THIS OFFERING (THE "**OFFERING**") OF SHARES (THE "**OFFER SHARES**") IS AVAILABLE ONLY TO INVESTORS WHO ARE (1) LOCATED OUTSIDE THE UNITED STATES AND EITHER (A) "QUALIFIED INVESTORS" (AS DEFINED IN THE PROSPECTUS REGULATION (EU) 2017/1129, AS AMENDED, (THE "**PROSPECTUS REGULATION**")) IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA ("**EEA**"), OTHER THAN ICELAND (EACH, A "**RELEVANT MEMBER STATE**"), (B) A RELEVANT PERSON (AS DEFINED BELOW) IN THE UNITED KINGDOM OR (C) OUTSIDE THE EEA AND THE UNITED KINGDOM PROVIDED SUCH AVAILABILITY IS PERMITTED UNDER APPLICABLE SECURITIES LAWS OR (2) LOCATED IN THE UNITED STATES AND ARE A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") WITHIN THE MEANING OF RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**").

IMPORTANT: You must read the following before continuing. The following applies to the disclosure document dated 12 May 2025 which has been approved as a prospectus drafted pursuant to the rules of the Prospectus Regulation and implementing regulations (together, the "**Prospectus**") following this page and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of this Prospectus. In accessing this Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF, OR THE SOLICITATION OF AN OFFER TO BUY OR SUBSCRIBE FOR, SECURITIES TO ANY PERSON IN THE UNITED STATES, AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR IN ANY OTHER JURISDICTION, TO WHOM OR IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES, AND THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A TO A PERSON REASONABLY BELIEVED TO BE A QIB THAT (A) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE SECURITIES AND (B) IS ACQUIRING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT (AND NOT IN A PRE-ARRANGED TRANSACTION RESULTING IN THE RESALE OF SUCH SECURITIES IN THE UNITED STATES) OR (3) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT OR PURSUANT TO ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THERE WILL BE NO PUBLIC OFFER OF THE SECURITIES IN THE UNITED STATES.

IN MEMBER STATES OF THE EEA (OTHER THAN ICELAND) (EACH A "**RELEVANT MEMBER STATE**"), THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO AND DIRECTED ONLY AT PERSONS WHO ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(E) OF THE PROSPECTUS REGULATION ("**QUALIFIED INVESTORS**").

IN THE UNITED KINGDOM, THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED ONLY AT, "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2(E) OF THE PROSPECTUS REGULATION AS IT FORMS PART OF ASSIMILATED LAW IN THE UNITED KINGDOM BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 (AS AMENDED), WHO ARE ALSO: (I) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE "**ORDER**"); (II) HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER; AND (III) PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF SECURITIES MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS BEING REFERRED TO TOGETHER AS "**RELEVANT PERSONS**").

THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON (I) IN THE UNITED KINGDOM, BY PERSONS WHO ARE NOT RELEVANT PERSONS, AND (II) IN ANY RELEVANT MEMBER STATE, BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES, IS AVAILABLE ONLY: (I) IN THE UNITED KINGDOM TO RELEVANT PERSONS; AND (II) IN ANY RELEVANT MEMBER STATE, TO QUALIFIED INVESTORS, AND WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. IF YOU HAVE RECEIVED THIS DOCUMENT AND YOU ARE IN A RELEVANT MEMBER STATE AND YOU ARE NOT A QUALIFIED INVESTOR, OR IF YOU ARE IN THE UNITED KINGDOM AND ARE NOT A

RELEVANT PERSON, YOU MUST RETURN THIS DOCUMENT IMMEDIATELY TO THE BANK AND TAKE NO OTHER ACTION.

You have been sent the attached Prospectus on the basis that you have confirmed to Barclays Bank Ireland PLC, Citigroup Global Markets Europe AG and Kvika banki hf. (together the "**Joint Global Coordinators**" or "**Managers**"), or one of their registered/qualified affiliates, being the sender of the attached, that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and that:

(a) you are a person located:

(i) in a Relevant Member State, other than Iceland, who is a Qualified Investor and/or a Qualified Investor acting on behalf of Qualified Investors who are persons or entities located in a Relevant Member State, other than Iceland;

(ii) in the United Kingdom who is a Relevant Person and/or a Relevant Person acting on behalf of Relevant Persons who are persons or entities located in the United Kingdom; or

(iii) outside the EEA, the United Kingdom and the United States into whose possession this transmission and the attached Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and in reliance on Regulation S under the U.S. Securities Act; or

(b) you are a QIB seeking to acquire the securities referred to therein for your own account or for the account of another QIB in reliance on Rule 144A; or

(c) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may constitute or give rise to an offer of any securities to the public other than their offer or resale, in the United Kingdom, to relevant persons, and in any member state of the European Economic Area, to Qualified Investors.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The attached Prospectus is being provided to you on a confidential basis for informational use solely in connection with your consideration of the purchase of the securities referred to therein. Its use for any other purpose is not authorised, and you may not, nor are you authorised to, copy or reproduce this Prospectus in whole or in part in any manner whatsoever or deliver, distribute or forward this Prospectus or disclose any of its contents to any other person. Failure to comply with this directive may result in a violation of the U.S. Securities Act or the applicable laws of other jurisdictions. If you are not the intended recipient of this Prospectus, you are hereby notified that any dissemination, distribution or copying of this Prospectus is strictly prohibited.

This document does not constitute or contain any offer to sell or invitation to subscribe or make commitments for or in respect of any security in any jurisdiction where such an offer or invitation would be unlawful. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the Managers or any of their affiliates is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Managers or such affiliate on behalf of the Ministry of Finance and Economic Affairs of the Republic of Iceland (the "Selling Shareholder") in such jurisdiction.

The attached Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of Íslandsbanki hf. (the "**Bank**"), the Selling Shareholder or the Managers, or any person who controls any of them or any director, officer, personally liable partner, employee or agent of any of them, or any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. None of the Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the attached Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Bank, the Selling Shareholder or the Offer Shares. The Managers and each of their respective affiliates, each accordingly disclaims all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such Prospectus or any such statement. No representation or warranty express or implied, is made by any of the Managers or any of their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the attached Prospectus.

The Managers are acting exclusively for the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of the attached Prospectus) as their clients in relation to the Offering and will not be responsible to anyone other than the Selling Shareholder for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to in the attached Prospectus.

Restriction: Nothing in this electronic transmission constitutes, and this electronic transmission may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this Prospectus via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Íslandsbanki hf.

(Íslandsbanki hf., a limited company established under the laws of the Republic of Iceland)

Offering by the Ministry of Finance and Economic Affairs of up to 376,094,154 existing ordinary shares (assuming that the Volume Increase is not effected) with a nominal value of ISK 5 each

This is an offering by the Ministry of Finance and Economic Affairs on behalf of the Treasury of Iceland (the "**Ministry**" or the "**Selling Shareholder**") of up to 850,000,007 ordinary shares, admitted to trading on the regulated market of Nasdaq Iceland hf. (the "**Nasdaq Iceland**"), with a nominal value of Icelandic króna ("**Icelandic Króna**" or "**ISK**") 5 each in the share capital of Íslandsbanki hf. (the "**Bank**" or the "**Company**" and together with its consolidated subsidiaries, the "**Group**"), a limited company established under the laws of the Republic of Iceland ("**Iceland**") and governed by the laws of Iceland. The Bank is not offering any shares in the Offering (as described below) and will not receive any proceeds from the sale of the Offer Shares, the net proceeds of which will be received by the Selling Shareholder. In connection with the Offering, it is the intention of the Selling Shareholder to sell up to 376,094,154 shares in the Offering (the "**Base Volume**"); however, the Selling Shareholder has reserved the right to increase in its sole discretion the number of shares offered in the Offering by up to 473,905,853 shares (the "**Volume Increase**"). All the shares offered pursuant to the Offering are referred to as the "Offer Shares." Assuming that the Volume Increase is not effected, the Offer Shares will constitute up to 20.0% of the issued and outstanding ordinary shares, each with a par value of ISK 5. If the Volume Increase is effected, the Offer Shares will constitute up to 850,000,007 shares or up to 45.2% of the issued and outstanding shares (the "**Total Volume**").

The offering of the Offer Shares (the "**Offering**") consists of (a) a public offering in Iceland of the Offer Shares to institutional and retail investors and (ii) a private placement to certain institutional investors in various other jurisdictions. The Offer Shares are being offered (i) within the United States of America (the "**United States**" or "**U.S.**"), to persons reasonably believed to be "qualified institutional buyers" ("**QIBs**") as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state and other securities laws of the United States and (b) outside the United States, where all offers and sales of the Offer Shares will be made in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**").

The offer price of the Offer Shares in Tranche A was published on 13 May 2025 as an ad hoc announcement released on an electronic information dissemination system and on the Selling Shareholder's website (www.government.is/islandsbanki) and the Bank's website (www.islandsbanki.is).

INVESTING IN THE OFFER SHARES INVOLVES RISKS. SEE "*2. RISK FACTORS*" BEGINNING ON PAGE 8 OF THIS PROSPECTUS FOR A DESCRIPTION OF CERTAIN RISKS THAT SHOULD BE CAREFULLY CONSIDERED BEFORE INVESTING IN THE OFFER SHARES.

Offer Price for Tranche A: ISK 106.56 per Offer Share

The Offer Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission or any securities commission or other regulatory authority of any state or other jurisdiction of the United States, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this International Offering Circular. Any representation to the contrary is a criminal offence in the United States. The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold in the United States except to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. There will be no public offer of any Offer Shares in the United States or in any other jurisdictions, except Iceland. Prospective purchasers are hereby notified that the Bank, the Selling Shareholder and any other sellers of the Offer Shares are relying on an exemption from the registration requirements of Section 5 of the U.S. Securities Act, which may include Rule 144A or Regulation S.

This document comprises a prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (as amended) (the "Prospectus Regulation"), as implemented into Icelandic law through Act No. 14/2020 on the Prospectus to be Published when Securities are Offered to the Public or Admitted to Trading on a Regulated Market (the "Prospectus Act") (this "Prospectus"). This Prospectus has been drawn up as part of a simplified prospectus in accordance with Article 14 of the Prospectus Regulation, and the level of disclosure in this Prospectus complies with Annexes 3 (registration document for secondary issuances of equity securities) and 12 (securities note for secondary issuances of equity securities or of units issued by collective investment undertakings of the closed-end type) to the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 (the "Commission Delegated Regulation (EU) 2019/980"), supplementing the Prospectus Regulation. This Prospectus has been approved by the Financial Supervisory Authority (the "FSA") of the Central Bank of Iceland (*Seðlabanki Íslands*) (the "Central Bank of Iceland") as competent authority under the Prospectus Regulation. The FSA only approves this Prospectus as meeting the standard of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval of the FSA shall not be considered as an endorsement to the Bank or the quality of the Offer Shares. Investors shall make their own assessment as to the suitability of investing in the Offer Shares. This Prospectus is available at the FSA website (www.fme.is) and the Bank's website (www.islandsbanki.is) and will remain publicly available on the Bank's website for at least 10 years following the date hereof. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof or that the information contained herein is correct as at any time subsequent to such date. Information in this Prospectus is based on circumstances and facts on the date it is signed, unless otherwise specified, and is subject to change without notice. Unless otherwise explicitly stated, the source of information included in this Prospectus is the Bank.

Each purchaser of Offer Shares is deemed to have made certain representations and statements as described under "Selling and Transfer Restrictions" herein.

Barclays Bank Ireland PLC, Citigroup Global Markets Europe AG and Kvika banki hf. are acting as joint global coordinators (in such and any other capacity, the "**Joint Global Coordinators**" or "**Managers**") for the Offering. In connection with the Offering, Landsbankinn hf. ("**Landsbankinn"**) is acting as financial advisor to the Selling Shareholder, and is hereinafter referred to as the "**Financial Advisor**." The Joint Global Coordinators or their registered broker-dealer affiliates are severally offering the Offer Shares, subject to receipt and acceptance by them of orders and subject to their right to reject any order in whole or in part. All the shares of the Bank are dematerialised and kept in book entry form with the electronic register of Nasdaq CSD Iceland. The Joint Global Coordinators expect that the Bank's shares will be delivered through the facilities of Nasdaq CSD Iceland on or about 21 May 2025 against payment of the offer price and commissions (as applicable).

Joint Global Coordinators

Barclays | **Citigroup Global Markets Europe AG** | **Kvika banki hf.**

Joint Bookrunners

ABN AMRO | **Arctic Securities** | **Arctica Finance**

Arion banki | **J.P. Morgan** | **Landsbankinn**

UBS

This Prospectus is dated 12 May 2025

TABLE OF CONTENTS

1. SUMMARY

This summary is made in accordance with Article 7 of Regulation (EU) 2017/1129 of the European Parliament and of the Council (the "**Prospectus Regulation**") and Article 4 of Commission Delegated Regulation (EU) 2019/979 supplementing the Prospectus Regulation. This summary is comprised of four parts (a) Introduction and warnings (b) Key information about the Bank (c) Key information about the securities and (d) Key information about the offering.

1.1 Introduction and Warnings

This summary should be read as an introduction to the prospectus of Íslandsbanki hf. (the "**Bank**"), of which this summary is a part, dated 12 May 2025 (the "**Prospectus**"). Any decision to invest in the securities should be based on a consideration of the Prospectus as a whole by the investor. An investment in the Bank's securities involves inherent risk and an investor investing in the securities could lose all or part of its investment.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national law, bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability is only attached to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to help investors when considering whether to invest in such securities.

The Bank declares that the Prospectus, of which this summary is a part, was compiled in connection with the offering by the Ministry of Finance and Economic Affairs on behalf of the Treasury of Iceland (the "**Selling Shareholder**") of up to 376,094,154 ordinary shares in the Bank (the "**Base Volume**"); however, the Selling Shareholder has reserved the right to increase in its sole discretion the number of shares offered in the Offering by up to 473,905,853 shares (the "**Volume Increase**"). All the shares offered pursuant to the Offering are referred to as the "**Offer Shares**," admitted to trading on the regulated market of Nasdaq Iceland hf. ("**Nasdaq Iceland**") (the "**Offering**"). The use of the prospectus is not permitted for any other purpose.

Issuer	Íslandsbanki hf., ID No. 491008-0160
Issuer's address	Hagasmári 3, 201 Kópavogur, Iceland
ISIN	IS0000028538
Issuer's legal entity identifier (LEI)	549300PZMFIQR79Q0T97
Issuer's website	www.islandsbanki.is
Issuer's phone number	+354 440 4000
Selling shareholder	Ministry of Finance and Economic Affairs on behalf of Treasury of Iceland
Selling shareholder's legal entity identifier (LEI)	6488DCD3RC W325485J08
The competent authority approving the Prospectus	Fjármálaeftirlit Seðlabanka Íslands kt. 560269-4129 Kalkofnsvegur 1, 101 Reykjavík, Iceland email: lysingar@sedlabanki.is
Date of approval of this Prospectus	12 May 2025

1.2 Key information about the Bank

Who is the issuer of the securities?

The Bank is a public limited company established for an indefinite period on 9 October 2008 under the Public Limited Companies Act with ID number 491008-0160 in the Register of Enterprises of Iceland. The Bank is domiciled in Iceland, and its registered address is located at Hagasmári 3, 201 Kópavogur, Iceland. The Bank's telephone number is +354 440 4000. The Bank's legal entity identifier (LEI) is 549300PZMFIQR79Q0T97.

The Bank's ordinary shares (the "**Shares**") were admitted to trading on Nasdaq Iceland in June 2021, under the ticker symbol "ISB."

The Bank is licensed as a commercial bank in Iceland in accordance with Article 4 of the Financial Undertakings Act and offers comprehensive services to the retail and corporate sectors. The Bank is one of Iceland's three main banks and maintains a strong market share across the spectrum of banking services in the country. In 2024, the Bank had approximately 31% of the market share in Personal Banking (based on the number of customers with active deposits as percentage of people with domicile in Iceland (*source: National Registry of Iceland*)), 37% of the market share in Business Banking, (*source: Gallup survey*), 34% of the market share in Corporate & Investment Banking (*source: Gallup survey*) and 28% of the domestic fund market for retail investors (*source: Keldan ehf. and websites of the fund management companies*). Guided by the values of progressive thinking collaboration, and professionalism, the Bank seeks to be a force for good, with its corporate vision being to create value for the future through excellent service, and ultimately enhance the financial health of its customers.

As at the date of this Prospectus, the Icelandic state, through the Selling Shareholder, owns 45.2% of the Shares.

Set forth below are the members of the Bank's Board of Directors, their year of birth, the year of their initial election to the Board of Directors, their position and whether or not they are considered to be independent of the Bank and the Selling Shareholder pursuant to the Corporate Governance Guidelines and the corporate governance statement of the Bank (Icel. *stjórnarháttayfirlýsing*), as confirmed by the Bank's Board of Directors on 13 February 2025:

Name	**Position**	**Year of birth**	**Director since**	**Independent**
Linda Jónsdóttir	Chairman of the Board of Directors	1978	2023	Yes
Stefán Pétursson	Vice-Chairman of the Board of Directors	1963	2023	Yes
Agnar Tómas Möller	Member of the Board of Directors	1979	2023	Yes
Haukur Örn Birgisson	Member of the Board of Directors	1978	2023	Yes
Helga Hlín Hákonardóttir	Member of the Board of Directors	1972	2023	Yes
Stefán Sigurðsson	Member of the Board of Directors	1972	2024	Yes
Valgerður Hrund Skúladóttir	Member of the Board of Directors	1963	2024	Yes

Set forth below are the members of the Bank's Executive Committee, their year of birth and the year in which they were appointed to their current positions on the Executive Committee.

Name	**Position**	**Year of birth**	**Appointed**
Jón Guðni Ómarsson	Chief Executive Officer	1976	2023
Ellert Hlöðversson	Chief Financial Officer	1982	2024
Guðmundur Kristinn Birgisson	Chief Risk Officer	1967	2018
Barbara Inga Albertsdóttir	Chief Compliance Officer	1982	2023
Riaan Dreyer	Managing Director, Digital and Data	1975	2019
Ólöf Jónsdóttir	Managing Director, Personal Banking	1980	2024
Una Steinsdóttir	Managing Director, Business Banking	1966	2017
Kristín Hrönn Guðmundsdóttir	Managing Director, Corporate & Investment Banking	1976	2023

The Annual General Meeting elects an external audit firm in accordance with the Bank's Articles of Association. The Board's proposal to the Annual General Meeting is based on the Audit Committee's proposal on the selection of an audit firm.

The Annual General Meeting on 31 March 2025 voted to elect KPMG ehf. as the Bank's external auditors.

Key financial information regarding the Bank

Consolidated Income Statement Data

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(*ISK in millions*)				
Net interest income	12,939	12,122	47,265	48,611	43,126
Net fee and commission income(*)	3,067	3,010	13,122	13,283	14,053
Other net operating (expense) income	(472)	1,058	2,551	1,392	57
Total operating income	**15,534**	**16,190**	**62,938**	**63,286**	**57,236**
Total operating expenses(*)	(7,896)	(7,603)	(29,998)	(28,523)	(25,941)
Profit before net impairment on financial assets	**7,638**	**8,587**	**32,940**	**34,763**	**31,295**
Net impairment on financial assets	(3)	(704)	645	(1,015)	1,576
Profit before tax	**7,635**	**7,883**	**33,585**	**33,748**	**32,871**
Income tax expense	(2,423)	(2,468)	(9,426)	(9,198)	(8,485)
Profit for the period before profit from non-current assets	**5,212**	**5,415**	**24,159**	**24,550**	**24,386**
Profit from non-current assets held for sale, net of tax	(3)	2	87	35	149
Profit for the period	**5,209**	**5,417**	**24,246**	**24,585**	**24,535**
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of the Bank	**2.77**	**2.75**	**12.53**	**12.34**	**12.19**

(*) Comparative figures have been changed with immaterial effects: expenses of ISK 951 million recognised in the line item "Total operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income." No related comparative figures have been changed in the year 2022.

Consolidated Statement of Financial Position Data

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
	(*ISK in millions*)			
Assets				
Cash and balances with Central Bank	69,944	65,716	87,504	94,424
Loans to credit institutions	92,259	50,486	73,475	110,364
Bonds and debt instruments	142,937	142,618	161,342	130,804
Derivatives	9,092	5,324	5,776	7,461
Loans to customers	1,298,849	1,295,388	1,223,426	1,186,639
Shares and equity instruments	20,606	24,330	13,241	15,868
Investments in associates	4,857	4,701	4,051	3,844
Investment property	2,900	2,600	—	—
Property and equipment	5,135	5,039	6,562	6,752
Intangible assets	2,636	2,684	2,930	3,279
Other assets	16,532	7,304	3,638	6,072
Non-current assets held for sale	1,682	1,617	749	728
Total assets	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**
Liabilities				
Deposits from Central Bank and credit institutions	14,374	12,535	16,149	15,269
Deposits from customers	936,779	926,846	850,709	789,897
Derivative instruments and short positions	6,677	7,306	5,090	10,804
Debt issued and other borrowed funds	407,266	367,586	417,573	468,270
Subordinated loans	32,502	31,695	38,155	34,392
Tax liabilities	12,912	12,916	13,107	12,128
Other liabilities	39,025	21,568	17,218	16,601
Total liabilities	**1,449,535**	**1,380,452**	**1,358,001**	**1,347,361**
Equity				
Share capital	9,368	9,473	9,898	10,000
Share premium	42,472	55,000	55,000	55,000
Reserves	7,673	7,102	5,083	9,158
Retained earnings	158,381	155,780	154,712	144,716
Total equity	217,894	227,355	224,693	218,874
Total liabilities and equity	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**

Consolidated Statement of Cash Flows Data

	Three months ended 31 March		Year ended 31 December		
	2025(*)	2024(*)	2024	2023	2022
			(*ISK in millions*)		
Net cash (used in) provided by operating activities	13,838	(5,035)	32,044	26,218	(39,439)
Net cash (used in) provided by investing activities	(326)	(123)	(922)	(322)	(1,811)
Net cash (used in) provided by financing activities	35,658	28,236	(68,918)	(78,408)	49,683
Net increase (decrease) in cash and cash equivalents	**49,170**	**23,078**	(37,796)	(52,512)	8,433
Effects of foreign exchange rate changes	(2,211)	(695)	(92)	(51)	5
Cash and cash equivalents at the beginning of the year	83,548	139,074	86,472	139,035	130,597
Cash and cash equivalents at the end of the period	**130,507**	**161,457**	**48,584**	**86,472**	**139,035**

(*) Comparative figures have been changed: the Group's accounting policies regarding the definition of cash and cash equivalents have been updated. This change was made to ensure a fairer presentation of the Consolidated Interim Statement of Cash Flows. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments. As a result, "Cash and cash equivalents at the beginning of the year" increased by ISK 34,964 million in the three months ended 31 March 2025 (ISK 52,602 million in the three months ended 31 March 2024) and "Cash and cash equivalents at the end of the period" increased by ISK 83,607 million in the three months ended 31 March 2025 (ISK 97,897 million in the three months ended 31 March 2024). In addition, the change affects "Changes in operating assets and liabilities" and therefore "Net cash provided by (used in) operating activities" and "Net increase in cash and cash equivalents."

Key risks that are specific to the Bank

- The Bank is exposed to credit risk and may be unable to sufficiently assess credit risk of potential borrowers and may provide advances to customers that increase the Bank's credit risk exposure, and its customer loan portfolio also contains certain problem and impaired loans.
- Increases in the Bank's loan losses or allowances for loan losses may have an adverse effect on its results.
- The Bank could experience credit rating downgrades or loss of credit rating.
- The strength of the Icelandic economy remains vulnerable to a range of domestic and international economic and political factors.
- Systemic risk could adversely affect the Bank's business.
- The Bank is exposed to sustainability and climate-related risks.
- The Bank, its operations and its management may continue to come under the public spotlight from time to time for as long as the Icelandic State has an ownership interest in the Bank.
- Disruptions, dislocations, structural challenges and market volatility in financial markets could materially and adversely affect the Bank's banking and funding activities and could materially and adversely affect the Group's business, financial condition, results of operations and prospects.
- The Bank is subject to capital requirements and related regulations, which impose costs and may result in legal actions against the Bank.
- The Bank is subject to additional taxes beyond corporate income tax, which impose costs and competitive disadvantages.
- The Bank could face tax liabilities or competitive disadvantages in respect of VAT on some of its services.

1.3 Key information on the securities

What are the main features of the securities?

The securities' type, class and ISIN	The securities are shares in the Bank. The Bank's shares are all in one class and equal in all respects according to the Bank's Articles of Association. The shares in the Bank were issued in accordance with Act No. 2/1995 on Public Limited Companies. The shares are electronically registered at Nasdaq CSD Iceland in accordance with Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon. The shares are registered under the ticker symbol "ISB" and ISIN IS0000028538.
Currency of the securities issued	Icelandic króna (ISK).
The par value per share	The share capital of the Company amounts to ISK 9,402,353,850. The share capital is divided into 1,880,470,770 shares of ISK five (5) in nominal value, or multiples thereof.
The rights attached to the securities	All Shares have equal rights and no special rights are attached to any of the shares. One vote is attached to each Icelandic Króna of share capital in the Bank at shareholders' meetings. Shareholders' rights at any given time are subject to the Bank's Articles of Association and applicable legislation.
Relative seniority of the securities in the Company's capital structure in the event of insolvency	Upon liquidation or bankruptcy of a public limited company, shareholders are paid in proportion to their share capital holdings using the remainder of the public limited company's assets after all other creditors have had their valid claims paid.
Restrictions on the free transferability of the securities	The shares are freely transferrable unless otherwise stipulated by law, including Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon.
Dividend policy	Based on the then-applicable regulatory requirements, the Bank is targeting to pay out approximately 50% of earnings as a base dividend. The Bank focuses on excess capital to support further dividend payments, buybacks and/or ROE enhancing growth, either through organic or external growth. ***Special distributions and dividend capacity*** The Bank may pursue additional capital optimisation, either through growth or distributions. However, the speed and quantum of such special distributions, for example, in the form of a share buyback, tender offer or extraordinary dividend, would depend on a number of factors, including (but not limited to) management of foreign exchange imbalances, the Bank's liquidity position, access to capital markets, the capital requirements set by the FSA, recommendations from the European Banking Authority ("**EBA**") and more. The Bank's capital optimisation process, including through dividend distributions and its share repurchase programme, continues to be a focus point for the Bank, subject to market conditions.

Where are the securities traded?

The Shares are admitted to trading on Nasdaq Iceland, which is a regulated market.

Is there a guarantee attached to the securities?

No guarantee is attached to the securities.

What are the key risks that are specific to the securities?

- The market price of the Offer Shares may fluctuate and could fall below the Offer Price (as defined below).
- The Bank's ability to declare a dividend in the future is subject to a variety of factors.

- Depending on its level of shareholding, the Icelandic state may be able to exercise influence on the Bank, and its interests may conflict with those of the Bank's other shareholders.

1.4 Key information about the offering and admission to trading on a regulated market

Under which conditions and timetable can I invest in this security?

The Offering applies to already issued shares in the Bank held by the Selling Shareholder. The Selling Shareholder will closely consult with the Joint Global Coordinators and agree on the final number of the Offer Shares sold in the Offering. During the bookrunning period orders will be categorised in "Tranche A," "Tranche B" and "Tranche C" depending on the size of the order and the type of the investor based on objective criteria. Only individuals with Icelandic ID numbers (Icel. *kennitala*) shall be permitted to place orders in Tranche A. Individuals and other qualified investors may place orders in Tranche B while Tranche C is intended only for regulated professional investors submitting offers on their own account and who have assets of at least ISK 70 billion.

The Offering is conducted in accordance with, and subject to, the Act on the Disposition of the State's Holding in Íslandsbanki. The price at which the Offer Shares will be sold (the "**Offer Price**") will be determined for (i) Tranche A, ISK 106.56 as a fixed price, set at average price of the Shares over the last 15 days prior to the publication of the Prospectus, with a deviation of 5% below that price per Offer Share, (ii) Tranche B is expected to be at least ISK 106.56 per Offer Share and will be determined through a book-building process and (iii) Tranche C will be the same as that determined for Tranche B. The Offer Price will be set in ISK. The Offer Price for Tranche B shall be set at the lowest bid price that covers the Base Volume, however, the Offer Price for Tranche B may not be lower than the fixed price in Tranche A. The minimum amount of orders is restricted to Offer Shares with a purchase value of ISK 100,000 for Tranche A, ISK 2,000,000 for Tranche B, and ISK 300,000,000 for Tranche C. The maximum amount of orders in Tranche A is ISK 20,000,000, but no such maximum amount applies for orders in Tranche B or Tranche C other than as limited by the overall size of the Offering, *i.e.* the Total Volume taking the Volume Increase into account, as applicable.

Subject to any extension or postponement of the timetable for the Offering, the offer period in respect of the public offerings in Iceland begins on 13 May 2025 at 08:30 GMT and ends on 15 May 2025 at 17:00 GMT (the "**Offer Period**"). No orders will be accepted after the Offer Period has ended (unless the Selling Shareholder specifically decides to postpone the Offering or to extend it and in such cases a supplement to this Prospectus will be published, as applicable).

It is expected that the result of the Offering will be published on 15 May 2025 and posted on the Selling Shareholder's, the Bank's and Kvika's respective websites. Subsequently, information on the allocation of the Offer Shares to investors in the Offering (i.e. confirmation or reduction of subscriptions) will be sent to investors, expected on 16 May 2025. The final due date for payment of the allocated shares is then set for 20 May 2025 and paid Offer Shares are expected to be delivered to the investors within two business days after payment is received.

The Selling Shareholder reserves the right to cancel the Offering if orders are not received for at least the satisfactory number of the Offer Shares in the Offering, if it is not able to obtain a satisfactory Offer Price, or for any other reason in its sole discretion. If the Offering is cancelled pursuant to the above, all orders for Offer Shares in the Offering and allocations made on the basis thereof will be invalidated as a result. It will be publicly announced if the Offering is cancelled or if the Offer Period is extended or postponed, following which (other than in the case of cancellation of the Offering) a supplement to the Prospectus will be prepared, approved and published in accordance with Article 23 of the Prospectus Regulation and Article 5 of the Prospectus Act, as applicable. In such case (other than in the case of cancellation of the Offering), investors may be able to withdraw their orders. In the event that the Offering is cancelled, investors will not be entitled to receive any explanation or clarification of the reasons for such cancellation.

Investors in the public offering in Iceland can obtain information on the Offering and the order website from Kvika at www.kvika.is/islandsbanki. Further information on the Offering is available at tel. +354 540 3290 or via email islandsbanki-fyrirspurnir@kvika.is. Investors can obtain this information by phone or e-mail between 09:00 and 16:00 GMT during the Offer Period.

Why is the prospectus being produced?

This Prospectus is produced in connection with the secondary offering of shares in the Bank by the Selling Shareholder. The total cost borne by the Selling Shareholder is estimated to be ISK 900 million and consists of underwriting commissions, costs associated with the scrutiny and approval of the Prospectus including fees to its advisors and costs associated with the marketing and selling of the Offer Shares. The total cost borne by the Bank is estimated to be ISK 50 million and consists of certain legal fees, travel costs and miscellaneous expenses.

The Bank will not receive any proceeds from any sale of the Offer Shares by the Selling Shareholder, all of which will be paid to the Selling Shareholder. The gross proceeds from the Offering to be received by the Selling Shareholder will be approximately ISK 40,076.6 million (assuming that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected).

The aggregate underwriting commissions to be paid by the Selling Shareholder in connection with the Offering are expected to be up to approximately ISK 600 million (assuming that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected). The net proceeds to be received by the Selling Shareholder will be approximately ISK 39,176.6 million (assuming that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected).

The Bank, the Selling Shareholder and the Managers entered into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Offer Shares to be sold by the Selling Shareholder in the Offering. Subject to certain conditions set forth in the Underwriting Agreement, the Selling Shareholder has agreed to sell to the purchasers procured by the Managers or, failing which, to the Managers, and each of the Managers, severally, has agreed to procure purchasers for, or failing such procurement, each of the Managers has agreed to purchase from the Selling Shareholder, as the case may be, the percentage of the Offer Shares listed opposite such Manager's name below.

Manager	**Percentage Offered in the Offering**
Barclays Bank Ireland PLC	33.33%
Citigroup Global Markets Europe AG	33.33%
Kvika banki hf.	33.33%
ABN AMRO Bank N.V.(*)	0.00%
Arctic Securities AS(*)	0.00%
Arctica Finance hf. (*)	0.00%
Arion banki hf. (*)	0.00%
J.P. Morgan SE(*)	0.00%
Landsbankinn hf. (*)	0.00%
UBS Europe SE(*)	0.00%
Total	**100.00%**

(*) Acting as Manager but not underwriting any Offer Shares.

The Underwriting Agreement provides that the obligations of the Managers to procure purchasers for the Offer Shares or, failing which, the obligation of the Managers to purchase the Offer Shares, are subject to certain conditions and may be subject to termination by the Managers under certain customary circumstances. Should the Managers decide to terminate their several commitments, the Offering may be cancelled; if cancelled, no Offer Shares will be delivered. Pursuant to the Underwriting Agreement, the Bank will indemnify the Managers against certain liabilities and related costs or will contribute to payments that the Managers may be required to make as a result of any such liabilities. Under a participation agreement between the Bank and the Selling Shareholder, dated 27 August 2024, concerning the Bank's participation in the Offering, the Selling Shareholder has agreed to indemnify the Bank, its Board of Directors, executives, and employees from any claims, including those brought by the Managers, against the Bank or its personnel in connection with their role in the Offering. This indemnity does not apply to claims arising from intentional misconduct or gross negligence on the part of the indemnified party.

There are no material conflicts of interest pertaining to the offering of shares in the Bank.

2. RISK FACTORS

Any investment in the Offer Shares is subject to a number of risks. Prior to investing in the Offer Shares, prospective investors should carefully consider risk factors associated with any investment in the Offer Shares, the Bank's business and the industry in which it operates together with all other information contained in this Prospectus, including, in particular, the risk factors described below.

Prospective investors should note that the risks relating to the Bank, its industry and the Offer Shares summarised in "Summary" are the risks that the Bank believes to be the most relevant to an assessment by a prospective investor of whether to consider an investment in the Offer Shares. However, as the risks which the Bank faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in "Summary" but also, among other things, the risks and uncertainties described below.

The following list of material risk factors is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Offer Shares and should be used as guidance only. Additional risks and uncertainties relating to the Bank that are not currently known to it, or that the Bank currently deems not to be risks, may individually or cumulatively also have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations and, if any such risk should occur, the price of the Offer Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Offer Shares is suitable for them in light of the information in this Prospectus and their personal circumstances.

The Bank has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly within each category, beginning with those estimated to be most significant to the Bank. The order in which the categories of risk factors are presented does not necessarily reflect the probability of their occurrence or the magnitude of their potential impact, as the categories of risk factors mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual category for the Bank could be misguiding, as other categories of risks factors may materialise to a greater or lesser degree.

R1. RISKS RELATING TO BUSINESS AND INDUSTRY

R1.1 The Bank is exposed to credit risk and may be unable to sufficiently assess credit risk of potential borrowers and may provide advances to customers that increase the Bank's credit risk exposure, and its customer loan portfolio also contains certain problem and impaired loans

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Bank. The Bank is exposed to credit risk by offering credit products such as loans and guarantees. As at 31 March 2025, the Bank's maximum exposure to credit risk, including on-balance sheet and off-balance sheet items, amounted to ISK 1,784,297 million (ISK 1,722,007 million as at 31 December 2024). The two main risks relate to the borrower's ability and willingness to pay and in the event of default, the value and enforceability of any collateral if secured against the loan. The Bank's credit risk governance framework is intended to manage the Bank's credit risk exposure within the appetite approved by the Board. However, the risk remains that the Bank could become exposed to more credit risk than what it defines as acceptable. The Bank could, for example, miscalculate the risk attached to a particular loan application or the overall long-term financial viability of borrowers. There is a risk that the Bank could be exposed to too much credit risk if there is a dip in the Icelandic or global economy or customer affordability of loans could weaken due to increases in interest rates. In addition, the Bank's employees could fail to comply with the Bank's risk management policies and therefore sign the Bank up to riskier loans than would be permitted under the policies.

The Bank faces considerable concentration of loans and deposits in the geographic segment in which it operates. Geographically, the Bank's loans are largely concentrated in Iceland (98% of the Bank's loan portfolio as at 31 March 2025). This constitutes a significant risk to the Bank's operations, given the high correlation among exposures in Iceland's small and interlinked operating environment. With respect to liabilities, 96% of its deposits were from Icelandic depositors at 31 March 2025 (unchanged from 31 December 2024).

The Bank's portfolio of bonds and debt instruments, including the Bank's liquidity portfolio, also has a concentration of Icelandic credit risk, with 76% and 88% of the portfolio representing Icelandic government and private sector bonds held by the Bank at 31 March 2025 and 31 December 2024. Accordingly, the Bank is particularly exposed to any future downturn in the economy of Iceland.

Customers may experience difficulties in meeting their debt obligations should the economic conditions in Iceland become unfavourable, or should interest rates rise, or if issues arise in relation to a particular customer, group of customers or industry. Furthermore, if the Bank decides to enforce collateral or instigate bankruptcy proceedings against a customer who has failed to meet their obligations, this could negatively impact other customers of the Bank. For example, the Bank could have some customers who have equity in entities which fail to meet their repayment obligations, who will therefore be at risk of financial loss if the Bank takes enforcement action against the borrower. Adverse developments in the Icelandic economy could also negatively affect certain asset classes. Notably, if the Bank deems it necessary to enforce on a significant amount of loans secured by residential real estate and resell such properties, this could negatively affect the market value of such collateral, thereby risking the deterioration of the value of collateral for other loans in the Bank's portfolio.

In particular:

- as at 31 March 2025, 1.8% of the Bank's customer loan portfolio was classified as non-performing (*i.e.*, Stage 3) based on the gross carrying amount (1.6% as at 31 December 2024 and 1.8% as at 31 December 2023), and the Group's allowance for expected credit losses on its customer loan portfolio amounted to 0.6% as at 31 December 2024 and 1.0% as at 31 December 2023) of the total gross amount of the portfolio. The average LTV for mortgages was 54% as at 31 March 2025, compared to 54% as at 31 December 2024 and 57% as at 31 December 2023. The decrease is due to an increase in property values, with residential property in Iceland having appreciated by 13% between 2022 and 2024 (*source: Statistics Iceland*);

- the Bank has significant lending exposure to the real estate, commerce and services and seafood industry sectors, with exposure amounting to 11%, 14% and 6%, respectively, of the total net carrying value of the Bank's customer loan portfolio as at 31 March 2025 (12%, 14% and 6%, respectively, as at 31 December 2024); and

- as at 31 March 2025, the Bank had four large exposures, which, after eligible credit risk mitigating effects, amounted to 40% of capital base (increase from 21% as at 31 December 2024 due to a reduction in capital base). A large exposure is defined as an exposure to a group of connected clients that is 10% or more of the Bank's total capital base. The exposure is evaluated both before and after the application of eligible credit risk mitigating effects according to relevant rules. When assessing the exposure, both on-balance sheet items and off-balance sheet items from all types of financial instruments are included. The Bank has internal criteria that define connections between clients in line with Icelandic law and EBA guidelines, where groups of connected clients are defined.

Exposure to borrowers in countries other than Iceland amounted to ISK 165 billion as at 31 March 2025. This exposure relates mainly to the management of the Bank's foreign liquidity reserves. The Bank has no retail lending activities outside of Iceland but maintains a modestly sized portfolio of lending to companies in North America and Europe within its North Atlantic and infrastructure strategy. The overseas strategy is built on a heritage of servicing the core industries in Iceland, primarily focusing on the seafood industry.

The Bank's domestic and international portfolios of loans to borrowers in the seafood industry are dependent on both political and climate considerations, as political decisions on fishing quotas and the impact of climate change can have a significant adverse effect on the value of the collateral the Bank holds in respect of these loans. Other sectors comprising a large portion of the Bank's loan portfolio are also subject to political considerations. Most notably, the heavily regulated energy and infrastructure sectors can be affected by regulatory changes regarding the production, distribution and marketing of electric energy. As at 31 December 2024, the Bank's exposure to the energy sector was ISK 11.9 billion.

As at 31 March 2025, credit risk and credit concentration risk accounted for 83% of the total of SREP capital requirements. As at 31 March 2025, the Bank's maximum credit exposure to the Central Bank of Iceland was ISK 69,944 million.

To the extent that any of the instruments and strategies the Bank uses to hedge or otherwise manage its credit risk exposure are not effective, it may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk. The Bank's earnings will depend upon how accurate its critical accounting estimates prove and upon how effectively it determines and assesses the cost of credit and manages its risk concentrations.

R1.2 Increases in the Bank's loan losses or allowances for loan losses may have an adverse effect on its results

The Bank's banking businesses establish provisions for loan losses, which are reflected in the provision for credit losses on its income statement, in order to maintain its allowance for loan losses at a level which is deemed to be appropriate by management based upon an assessment of prior loss experience, the volume and type of lending being conducted by each entity, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. Although the Bank's management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgement, and the Bank's banking businesses may have to increase or decrease their provisions for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons, such as an inability to enforce contractual provisions, whether as a result of retroactive legislation, court rulings or otherwise. To the extent its assumptions or estimates used in establishing its valuation models for the fair value of its assets and liabilities or for its loan loss reserves prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material effect on the Bank's results of operations and financial condition.

The Bank's portfolio of loans to customers grew by 5.9% to ISK 1,295 billion on a net basis in 2024 after a 3.1% increase in 2023. While the Bank's business units monitor their respective loan portfolios and periodically re-assess customer performance, there is nonetheless an increased exposure to risk related to the increase in the loan portfolio. The Bank's risk exposure amount increased by ISK 64 billion (6.5%) during 2024. The largest factor contributing ISK 57 billion to the increase was credit risk. Further changes to the risk exposure amount are expected to materialise with the implementation of Basel IV, which is expected to be incorporated into Icelandic law in 2025. As of now, both the exact timing and extent of such changes are unclear, and although the Bank expects a reduction in risk exposure amount in the vicinity of 4.5%, there is a risk that the risk exposure amount may not reduce or grow following such implementation.

As a result of IFRS 9, the Bank must recognise credit losses on loans and other financial instruments based on expected losses in addition to incurred losses. Increased volatility in the Bank's income statement and to its regulatory capital ratios is expected to arise from the incurred credit loss impairment process because changes in counterparty credit quality could generate changes to expected loss levels on a more frequent basis. In addition, pursuant to IFRS 9, certain financial instruments may be classified at fair value, further increasing volatility in the Bank's consolidated income statement. An increase in credit loss provisions could have an impact on the Bank's lending activities and the potential for greater pro-cyclicality on lending and provisioning exists due to IFRS 9.

R1.3 The Bank could experience credit rating downgrades or loss of credit rating

The Bank has been assigned a BBB+/A-2 rating on a positive outlook by S&P Global Ratings and an A3 issuer rating, which is on a stable outlook, by Moody's Ratings. The international credit rating agencies rate the Bank by assessing its creditworthiness. The Bank's ratings are and will continue in part to be based on some factors which are outside of the Bank's control, such as the economic conditions affecting Iceland. The credit ratings are revised and updated periodically and there are no guarantees that the Bank will be able to maintain its current ratings. There is a risk that the rating agencies could reduce the Bank's credit rating or could change the way they calculate the credit ratings. The credit ratings should not prevent investors from performing their own analysis of the Bank. The Bank may decide to discontinue the services of one or both rating agencies, with or without replacement, which could result in there being only one rating in place or potentially none.

If a credit rating of the Bank or the rating of its financial instruments is downgraded, this could have an effect on the Bank's access to capital markets and particular financial instruments. The Bank's ability to retain clients could reduce, the Bank's funding costs could increase and there could be a negative impact on sales and marketing of products as a result of a downgrade. A downgrade in credit rating could require the Bank to provide more collateral in derivatives contracts and secured funding arrangements.

R1.4 The Bank is exposed to increasing competition

The banking sector in Iceland is largely dominated by the Bank, Arion Bank and Landsbankinn (the latter being almost wholly owned by the Icelandic State, and each of which is classified as a systemically important financial institution). Both Arion Bank and Landsbankinn have insurance companies, which may increase the level of competition that the Bank is exposed to in the market. The Bank has however sought to mitigate that exposure by entering into a strategic partnership with VÍS Insurance. Kvika provides these three large Icelandic banks with increased competition, while Indó—a new market participant—has to an extent disrupted the market for low-cost, simple retail products, and Síminn hf., an Icelandic telecommunication company, has introduced further competition through its Síminn Pay credit card solution. Other new entrants, including potential fintechs, could further challenge the Bank's position by offering innovative, low-cost banking solutions. Additionally, ongoing discussions regarding a new account-to-account payment system led by the Central Bank of Iceland could disrupt the Bank's revenue from transaction services by enabling direct, cost-efficient payment alternatives. Moreover, there are other market participants in the industry, such as pension funds, commercial banks, savings banks and the Housing and Construction Authority (formerly the Housing Financing Fund), whose role in the market as a lender has been reduced and is now responsible for implementation of government housing policies and acting as an intermediary for social housing funding, all of which the Bank competes with and which can impose a degree of pressure on the Bank's net interest margin. Moreover, as additional channels arise for new lending and other banking products, particularly in the online and payments spaces, the Bank faces increasing competition from these market participants.

Pension funds offer competitive interest rates to individuals for certain mortgage products, which is in part due to the fact that they are not subject to the Bank Levy and other taxes. Pension funds are also subject to fewer regulatory requirements, including lower LCR, capital, and supervisory standards, which provides them with a competitive advantage. There is no certainty that the Bank will be able to obtain funding at similarly low interest rates in order to maintain net interest margin. Although Icelandic pension funds do not directly accept deposits, they indirectly compete for the Bank's deposits, as a vast proportion of the population of Iceland's savings are held in pension funds rather than as bank deposits. As required by law, a significant portion of salaries, as well as a contribution by employers, goes into pension funds. Pension funds are purchasers of the Bank's covered bonds and therefore represent a significant source of the Bank's funding in Icelandic Króna. In addition, the Icelandic government introduced legislation in 2013 to promote competition between banks by making it easier for customers to move between banks. For example, the legislation removed stamp fees on collateral and limited prepayment fees on consumer loans, which has increased the rate of refinancing. Another source of new competition in the market has come by virtue of the introduction of an electronic notarisation process, which enables borrowers to electronically refinance their mortgages using only digital channels, thus increasing the likelihood that a borrower may refinance their mortgage with one of the Bank's competitors.

The Bank is under considerable regulatory scrutiny, which limits how competitive it can be, particularly as fintech companies and initiatives, innovative payment services providers and companies using blockchain and distributed ledger technologies may compete with the Bank because they are not subject to the same scrutiny from regulators. There is also a higher level of regulatory scrutiny for the Bank because it is a systemically important financial institution in Iceland. For example, the Icelandic Competition Authority (Icel. *Samkeppniseftirlitið*) (the "**ICA**") carried out an extensive investigation into the Bank, Arion Bank and Landsbankinn in relation to the alleged abuse of their dominant position in the market in relation to their mortgage loan arrangements. That investigation was concluded with a settlement with the ICA in which the Bank agreed to take certain measures, which have the objective of stimulating competition in banking services for individuals and small businesses. The measures also aim to reduce circumstances that could lead to tacit coordination in the market for retail banking services in Iceland to reduce the costs for customers in switching financial services providers. Under the Competition Act, a failure to implement or comply with measures agreed to in a settlement can lead to an investigation led by the ICA and could ultimately result in administrative fines being imposed.

The Bank could face increased competition from foreign banks and foreign financial, banking and payment services providers who wish to establish operations in Iceland, in particular with respect to the customers of Corporate & Investment Banking. Foreign banks and companies could have a competitive advantage in the market because they may not be subject to the stringent regulatory requirements which the Bank is subject to as a systemically important financial institution in Iceland and could have lower funding costs. Additionally, foreign banks and companies may have more resources available to them to provide wider-ranging services and at higher efficiency given the relatively small size of the Bank. Foreign banks and companies may also be able to focus more time and resources on business development and expanding their customer base and may be able to lend greater amounts to customers or absorb a larger reduction in margins. While these external foreign banks and companies have not acted aggressively in the Icelandic market in recent years, they still offer competitive margins on senior secured loans to the largest seafood companies.

In recent years, the Bank has also faced increased competition from financial technology companies ("**fintechs**"), such as Indó, which compete with the traditional Icelandic banks across the bank customer base. Such fintechs have had considerable success, particularly in the payments space, and generally operate on a much lower cost base than traditional Icelandic banks. The Bank's continued success will depend, in part, on its ability to respond to technological advancements and the resulting changes in consumer preferences. If the Bank fails to keep pace with technological advancements in the financial services sector quickly and effectively, it could affect the performance and features of its products and services and reduce its appeal to existing and potential customers, thereby adversely affecting its business, financial condition, results of operations and cash flows.

Equally, the investment banking and wealth and asset management markets are highly competitive with many active market participants. Alongside mergers in this regard and the further introduction of fintech and innovative initiatives challenging existing business models and technologies, this presents risk of exposure to the Bank in the form of increased competition.

The Bank expects to be able to continue to compete in the banking sector on the basis of its reputation, products and services on offer, local knowledge of the sector, ability to execute transactions and focus on innovation. If the Bank becomes unable to compete effectively in a market in which it has a significant presence, this could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R1.5 The Bank is exposed to Iceland's key industry sectors, particularly seafood, real estate, and tourism

Iceland's economy is largely made up of select number of industries. Exports accounted for 41.6% of Iceland's gross domestic product ("**GDP**") in 2024. Iceland's largest exports are tourism, marine and aluminium which accounted for 38%, 21% and 16%, respectively, of total exports in 2024 (*source: IMF, Statistics Iceland*).

Key risks in these industry sectors include:

- *Real Estate:* Increased real estate development follows an increase in the population of Iceland, which is also driven by net immigration. However, if there is a decline in the economy of Iceland or the demand for real estate decreases for another reason, this could have a material adverse effect on the real estate industry sector in Iceland. This could have an adverse effect on the value of real estate as an asset class, which, forming a large portion of the Bank's collateral, or of the assets that underlie such collateral, could leave the Bank with and undersecured loan portfolio, increasing exposure to losses in the event of borrower defaults. Moreover, such event could affect the value of mortgage-backed securities and have broader adverse implictions for the Bank and the economy of Iceland as a whole.

- *Commerce and services:* The sector covers a wide range of companies, including hotels, car rentals, car dealerships, retail stores and other service companies. A large part of the sector falls also under the scope of the tourism industry. Therefore, the sector is heavily dependent on the number of tourists that visit Iceland. The tourism industry is an important economic sector in Iceland, but due to the nature of tourism, its effects are not limited to hotels, car rentals and tour guides. The Bank therefore monitors the tourism industry internally as a quasi-sector instead of a separate sector. Additionally, the Bank's direct exposure to companies operating in the tourism industry sector is 8% of the loan portfolio as at 31 March 2025.

- *Seafood:* Iceland's seafood industry sector is focused on fishing, farming and processing seafood. The seafood industry is reliant on there being large sources of seafood species and international demand. If either decrease, or if there is a significant appreciation of Icelandic Króna, this could have a material adverse effect on Iceland's seafood industry sector. The seafood industry sector is also subject to political risks, such as decisions on fishing quotas, and climate change, both of which can have a material adverse effect on the sector.

Should the Bank experience a decline in any of these industry sectors for any reason, including natural disasters or other events outside the Bank's control, this could result in more non-performing loans (particularly in Corporate & Investment Banking), a reduced demand for mortgage loans (in Personal Banking and Business Banking) and also wider problems for the Icelandic economy.

R1.6 The Bank is exposed to a range of other typical financial institution market risks, including interest risk and equity price risks as well as inflation risk

The Bank is exposed to various market risks and may be impacted by events that affect the equity market in general. Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, inflation, equity prices and foreign exchange rates. Market risk is a key risk to the Bank's operations. The Bank's market risk strategy aims at maintaining a modest market risk profile.

Market risk

Market risk at the Bank is split into two categories: risk in the trading book and risk in the banking book. Market risk due to mismatches in assets and liabilities with respect to currencies, interest reset dates and the Consumer Price Index ("**CPI**") indexation falls in the banking book. Market risk in the banking book also includes exposures held for long-term investment purposes, in unlisted securities and holdings in subsidiaries or affiliates and liquidity management. Market risk exposures in the trading book arise in relation to short-term and medium-term trading in securities, mainly equities and government bonds, currencies and other capital market instruments. The positions are undertaken mainly as a part of the Bank's flow trading and as hedges against customers' derivatives contracts. The Bank is also exposed to currency risk in the trading book. The Bank has controls in place to limit its trading book exposure; however, these controls may not be effective in all circumstances and the Bank could experience material losses in its trading book. The Bank could also experience significant variations in its consolidated income statement and statement of financial position in the Consolidated Financial Statements due to movements in the market value of marked-to-market securities, for example, where the Bank has obtained derivative contracts which are marked to market in order to hedge certain assets and liabilities, while the value of the underlying assets and liabilities might be valued at amortised cost. The Group's asset management operations, within Bank's Corporate & Investment Banking and in the Bank's subsidiary Iceland Funds, are also subject to market risk as there could be fluctuations in the markets in which the asset management operations hold assets.

Inflation risk

The Bank considers inflation risk to be the most significant market risk factor currently in the banking book and is the largest contributor to the Bank's capital requirements due to market risk. The Bank is exposed to inflation risk when there is a disparity between its ISK-denominated assets and liabilities linked to the CPI. This risk arises due to the Bank's involvement in inflation-linked bonds and debt instruments, inflation-linked loans and deposits, and inflation-linked derivatives, and is primarily driven by monthly inflationary fluctuations. CPI changes accounted for in the third and fourth quarters of 2024 were 1.03% and 0.15%, respectively, with CPI percentage changes for the first quarter of 2025 amounting to 1.04%, expected to amount to 1.5% in the second quarter of 2025. As at 31 March 2025, the total amount of the Bank's CPI-linked assets was ISK 504,334 million and the total amount of its CPI-linked liabilities was ISK 326,290 million. A 1% increase in the index would lead to an ISK 1,780 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease in profit before tax, other risk factors held constant.

In times when there is very low inflation or deflation, CPI-linked assets would generate reduced net interest income, which could have a negative impact on the Bank's net interest margin. CPI-linked assets decrease in value during periods of very low inflation or of deflation.

The inflation imbalance decreased to ISK 178,044 million for the three months ended 31 March 2025, compared to ISK 193,362 million at the end of 2024. Inflation imbalance in the banking book has seen a significant rise in 2024, mainly due to growth in inflation-linked assets during the year. The rise in inflation risk is mainly due to customers having increasingly opted to refinance their loans from non-indexed to CPI-linked. Further, the

Bank is exposed to potential changes to the measurement of CPI which may provide additional volatility and/or losses.

The Central Bank of Iceland raised its policy rate four times in 2023 in response to rising inflation, from 6% to 9.25%, before starting to lower the rate again. Since 19 March 2025, the policy rate stood at 7.75%. If the Central Bank of Iceland maintains the policy rate at a high level as inflation slows down, this may have an adverse effect on the Bank by placing pressure on the Bank's net interest income and net interest margin in the short term.

The connection between inflationary movements and policy rates is crucial. As inflationary ticks decline, net interest income decreases. However, if the Central Bank of Iceland's policy rates reduce at the same pace, deposits will also decline, thus potentially offsetting the impact on interest expense. Therefore, the pressure on the Bank's net interest income depends on the relationship between inflationary ticks and policy rates.

The Bank uses risk management procedures in place to mitigate these risks; however, it cannot be guaranteed that they will be effective in all circumstances. Under certain circumstances, the Bank may be at risk of significant losses, which could impact its prospects and financial position. Furthermore, the Bank is exposed to potential fluctuation in the measurement of the CPI which may provide additional volatility and/or losses.

Interest rate risk

Interest rate risk in the Bank's banking book arises from the Bank's core banking activities, including fixed-rate mortgage loans, covered bond debts and fixed-term deposits. It represents the risk of loss from fluctuations in future cash flows or fair value of financial instruments as market rates change over time, reflecting that the Bank's assets and liabilities are of different maturities and are priced relative to different interest rates. The Bank also faces interest rate risk between its interest-earning assets and interest-bearing liabilities due to different floating rate calculations in different currencies. Interest rates are affected by factors beyond the Bank's control, such as economic conditions in Iceland and elsewhere.

The Bank's interest rate risk is mainly in ISK, both in CPI-linked and non-indexed linked assets. As at 31 March 2025, interest rate risk in the banking book was the second most significant market risk factor. The Bank utilises models for effective measurement of interest rate risk in the banking book.

Refinancing risk

The Bank is exposed to refinancing and prepayment risk in its mortgage portfolio. Interest rates in Iceland have stayed high over the past year and many of the Bank's customers fixed the interest rate on their mortgages at lower levels. Currently, prepayment risk for mortgages is not significant but might become in the future if interest rates start to decline as inflation subsides. This means that interest-earning assets (such as residential mortgage loans) may generate lower yields upon origination or refinancing and other loans and securities held may generate lower levels of interest income when compared to historical levels. It also means that the Bank's customers could make repayments at a faster rate than that at which the Bank extends new credit, thus forcing the Bank to reserve additional securities in its liquidity portfolio, generating lower yields than lent monies. It may become favourable for the Bank's customers to refinance their debts; therefore, the Bank may experience an increase in refinancing as interest rates decrease. The Bank is hence exposed to risk of further refinancing and lower interest rates would increase the risk of further refinancing. There can be no certainty that the Bank can obtain funding at similarly low interest rates in order to maintain net interest income.

Currency risk

Currency risk (or foreign exchange risk) occurs when financial instruments are not denominated in the Bank's reporting currency, particularly when there is a mismatch between the currency denomination of assets and liabilities. The Bank is exposed to currency risk by virtue of its spot positions in currencies, foreign exchange derivatives and foreign currency-denominated loans and deposits. Adverse movements in foreign exchange rates could negatively affect the Bank's earnings or capital, as a result of its total open position per currency and its total notional value in underlying derivatives.

ISK has historically experienced significant volatility relative to major currencies, such as the USD and EUR. This volatility is primarily driven by Iceland's small and open economy, fluctuations in global commodity prices (notably fish and aluminum exports), and shifts in international capital flows influenced by investor sentiment. Any depreciation in the ISK relative to the currencies in which the Bank holds investments or liabilities could adversely affect investment returns and increase the cost of servicing foreign debt obligations. A significant devaluation or increased volatility in the ISK could have a material adverse effect on the Bank's financial performance and operations.

The Bank complies with Rules No. 784/2018 on Foreign Exchange Balances, as set by the Central Bank of Iceland. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 10% of its capital base, in each currency and for all currencies combined. Furthermore, the Bank's total foreign exchange balance (whether long or short) shall not exceed ISK 25 billion. The Bank submits daily and monthly reports to the Central Bank of Iceland with information on its foreign exchange balance.

R1.7 The asset management operations of the Bank may fail to sustain or increase their level of assets under management and is subject to pressure on fee margins

The Bank earns predominantly fixed fees as a percentage of assets under management, as well as variable performance fees dependent on the performance of its funds and the market generally. The Bank's operations are therefore influenced by fluctuations in the market value of assets under management and the amounts of assets invested by customers. For the year ended 31 December 2024, the Bank generated ISK 2,864 million, or 21.8% of its net fee and commission income, from asset management. There is a risk that the Bank could see a decrease in net fee and commission income if there is a decline in the asset management operations of the Bank. Customers can usually withdraw assets (or reduce mandates) from the Bank's management on short notice, and may decide to do so if, for example, a fund or market is underperforming, or they are unhappy with the quality of the Bank's services. In addition, the Bank could lose customers if there is damage to the Bank's reputational or a potential conflict of interest arises. The Bank's previously successful mandates cannot be used to predict future success given changes continually take place in the market, economy, and employees, including key employees, can leave. In recent years, as a result of weakness and volatility in the Icelandic and global capital markets, the overall trend has been an increase in deposits. While the Bank is well positioned to capture a large portion of such deposits, these generate significantly lower fees for the Bank compared to asset management and financial intermediation, and, if such trends continue, this could have a material adverse effect on the Bank's revenue streams from asset management activities.

In addition, there is a high level of competition in this market which has put pressure on the Bank to reduce its fees, creating pressure on fee margins. The asset management industry has been impacted by the arrival of new competition from fintech companies. This has shaken up the market and put pressure on commissions in various financial services. The Bank will incur costs in responding to these changes in market conditions, and it will be required to employ people with expertise in new areas and look to expand and update its services and products. Whilst the Bank already manages a broad range of asset classes for retail, qualified and institutional investors, corporations and high net worth individuals, asset classes can fluctuate in popularity over time. There is a risk that a competitor of the Bank could develop new asset classes and categories of funds which the Bank is not about to offer, which may also have lower margins than those offered by the Bank, potentially resulting in asset outflows for the Bank.

Regulators were granted more extensive powers under MiFIR and MiFID II and they can impose higher fines on banks if there is an infringement of their requirements. MiFIR and MiFID II significantly extended the obligations that were in place under the previous regulations. It is important that the Bank keeps its activities under review and, where necessary, adjusts the manner in which it operates. The Bank also has to provide more information to customers about the costs and charges associated with their investment services. The Bank therefore faces significantly higher compliance costs and is subject to increasingly complex requirements.

R1.8 Price fluctuations of financial investments in the Bank's portfolio could materially affect the Bank's results of operations and financial condition

The Bank has a liquidity portfolio that includes mainly debt securities. If the price of these securities declines, this could substantially reduce the value of the Bank's securities portfolio. Although from 1 January 2024, securities added to the Bank's liquidity portfolio are measured at fair value through other comprehensive income ("**FVOCI**"), some of these securities are still measured at fair value through profit or loss ("**FVTPL**") at the end of each financial period. Declines in the market value of the portfolio could accordingly materially affect the Bank's profitability, even if those declines have not been realised through the sale of the relevant securities.

Price fluctuations could also materially affect the Bank's regulatory capital and the capital ratios that the Bank is required to maintain under applicable law.

The Bank is also subject to the equity risk in its trading portfolios and in its banking book. The Bank's equity risk arises from flow trading, market making, shares acquired through restructuring of companies, and strategic investments. Equity exposure in the trading book (excluding equity exposure for economic hedging purposes) increased in 2024 with an average position of ISK 3.3 billion compared to ISK 1.0 billion in 2023.

R1.9 The Bank is exposed to liquidity risk

Banks are exposed to liquidity risk, meaning uncertainty in the ability of the Bank in adverse economic conditions to access the funding needed to cover the Bank's obligations to its customers as they become due and to meet the maturity of the Bank's liabilities. This includes the risk of unanticipated increases in the cost of funding, the risk of not being able to structure maturity dates of liabilities, being unable to satisfy payment obligations and the risk of unexpected demand for customer loans. The Bank's liquidity risk policy assumes that the Bank always strives to exceed regulatory liquidity ratio limits. The Bank's main source in generating funding is from deposits from customers, which amounted to ISK 936,779 million as at 31 March 2025. Key measures for the assessment of liquidity risk are the LCR and NSFR. As at 31 March 2025, the Bank's LCR was 202% and the NSFR was 128% (in each case, given a baseline of 100%).

The Bank's funding model is built on few key principles designed to limit refinancing and liquidity risks and to optimise the funding costs and use of proceeds. The Bank has sought to diversify its funding profile and funding mix by issuing senior unsecured and Additional Tier 1 and Tier 2 bond issuances in various currencies and covered bonds in the domestic capital markets and diversifying its investor base. The Bank will continue its efforts to diversify its funding if its deposit base declines or fails to grow relative to any increases in its assets. There is an inherent limit to the scope for growth in deposits in light of Iceland's comparatively small economy and the competition for funding with other banks and with pension funds. See "*8 Industry Overview—8.2 The Banking Sector—Corporate & Investment Banking*." The Bank maintained a strong liquidity position throughout 2024, with the year-end balance of deposits from customers rising by ISK 76.1 billion from 2023 to 2024 and all regulatory and internal metrics above limits. This change was driven by an increase in Personal Banking (ISK 79.4 billion) and to a lesser extent deposits in Business Banking (ISK 25.9 billion) which was offset by a reduction in deposits in Corporate & Investment Banking (ISK 25.3 billion) and Treasury & Proprietary Trading (ISK 4.1 billion). This meant that the rise in deposits exceeded that of loans, therefore the loan-to-deposit ratio for households and non-financial corporations fell from 175% as at 31 December 2022 to 166% as at 31 December 2023 and 158% as at 31 December 2024, however remained relatively high due to the Bank's mortgage portfolio being funded through its covered bonds programme. Furthermore, the ability of the Bank to access both domestic and international capital markets will depend on market and economic conditions, the availability of credit, the volume of trading activities and the Bank's perceived credit strength. These and other factors could limit the Bank's ability to raise funding in the capital markets, which could cause an increase in its cost of funding or could have other material adverse effects on the Bank's business. The Bank has demonstrated market access in both good times and when markets are more problematic, largely due to the Bank's more conservative and prudent approach to managing liquidity risk. Its liquidity strategy assumes that the Bank is able to fulfil regulatory requirements, internal thresholds and can sustain a prolonged period of stress. The Bank cannot guarantee that opportunities for funding or access to markets will be available or successful.

If the Bank fails to match the maturity profiles of its assets and liabilities or ensure that its funding grows in line with growth in its customer loan portfolio, the Bank will be exposed to a material risk that it may be unable to repay its obligations under its funding instruments when due, or will only be able to do so at excessive cost, which could have a material adverse effect on the Bank's position.

R1.10 The Bank is exposed to operational risks

The Bank is reliant on processing complex transactions efficiently and accurately and therefore faces operational risks, such as systems failures, process errors, regulatory breaches and employee misconduct. The Bank currently considers its operational risk to be elevated. Errors can happen when transactions are recorded and processed; for example, there can be miscalculations or a breakdown in internal controls. For instance, a cybersecurity breach could disrupt online banking services, incorrect loan disbursements could lead to financial discrepancies, or unauthorised employee actions could breach client confidentiality. Given the volume of transactions the Bank processes, errors may occur multiple times before they are discovered and resolved, and there is no certainty that risk assessments made in advance will adequately estimate the costs of these errors. Errors or misconduct can have a particularly significant impact with respect to funds and portfolios managed by the Bank or its subsidiaries given the volume of assets under management in each fund. With billions of ISK in assets under management, even minor errors in fund operations could lead to substantial losses, trigger investor withdrawals, or attract regulatory sanctions, amplifying financial and reputational damage.

The top priorities of the Bank in relation to operational risk as at the date of this Prospectus are outsourcing risk and information and communication technology ("ICT") risk. Outsourcing risks stem from reliance on third-party vendors for critical functions like payment processing or cloud services, where vendor failures could disrupt operations. ICT risks include vulnerabilities in digital banking platforms or legacy systems, increasing the likelihood of cyberattacks or service outages. According to the Bank's SREP results, as determined by the Central Bank of Iceland, operational risk accounted for 10% of total SREP capital requirement of the Group in 2024, with only a minimal addition under Pillar 2. The Bank has implemented controls designed to detect, monitor and mitigate operational risks. However, some risks can be challenging to identify, such as evolving cybersecurity threats or intricate transaction chains, which can obscure proactive detection, and the recommendations and suggestions of the Bank's compliance and audit teams could be misunderstood and misinterpreted, for example, through inconsistent application of controls across departments, which can weaken the effectiveness of the controls. The Bank is already subject to a high degree of regulatory scrutiny. Failings in the internal controls could cause enhanced scrutiny, such as intensive audits or investigations by the Central Bank of Iceland, lead to fines, and erode customer trust and damage to the Bank's reputation, resulting in deposit outflows, financial losses or reduced market share.

R1.11 The Bank is exposed to deposit repricing and migration risk

The Bank faces the risk of deposit repricing pressure as customers reallocate funds from lower-yielding accounts to higher-yielding alternatives in response to rising interest rates or competitive market offerings. This migration, which is beginning to materialise, may result in a shift in the Bank's funding mix toward more expensive deposit categories, thereby increasing the overall cost of deposits.

Sustained or accelerating movement of balances into higher-yielding products could negatively impact the Bank's net interest margin and profitability. If competitive pressures or market conditions require the Bank to offer more attractive rates to retain or attract deposits, the Bank may experience reduced interest income relative to funding costs. Failure by the Bank to effectively manage this repricing and migration risk could adversely affect its financial performance.

R1.12 The Bank is exposed to risk of failure and breaches of the Bank's information technology systems

The Bank's information technology ("**IT**") systems must be reliable, secure and perform strongly as they are central to the Bank's operations. The Bank's reliance on automated systems to record and process transactions makes it vulnerable to system outages or issues, equipment malfunction, natural hazards, interference by employees, computer viruses, cyber-attacks and unsuccessful IT system updates and implementation. In a highly digital environment, there is also the risk that the Bank may develop or implement software solutions that are not suitable for its clients' needs, leading to operational inefficiencies, client dissatisfaction, and potential financial losses. These events could mean customers cannot access the Bank's services, leading to reputational damage for the Bank and potential claims from customers including breach of contract for customers seeking to recover significant damages they may incur as a result of a technology error, omission, malfunction or security breach. There is also the risk of theft of confidential information and fraud if the Bank is subject to cyber incidents, which have become increasingly sophisticated and could include, among others, unauthorised access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other similar events.

The Bank has been subject to attempted and sometimes successful cyber-attacks from external sources in recent years, including denial of service attacks, which attempt to interrupt service to clients and customers; hacking and malicious software installations, intended to gain unauthorised access to information systems or to disrupt those systems; data breaches due to unauthorised access to customer account data; and malicious software attacks on customer systems, in an attempt to gain unauthorised access to the Bank's systems or customer data under the guise of normal customer transactions. There can be no assurance that any cyber incidents will not occur again, and they could occur more frequently and on a more significant scale.

The Bank's insurance policies may not cover the Bank fully for all losses that may occur as a result of these events. A sustained failure of the Bank's IT systems, or of critical third-party systems, would have a significant impact on its operations and the confidence its customers have in the reliability and safety of its banking systems and could therefore adversely impact the Bank's financial position.

R1.13 The Group relies on third-party service providers

The Bank's operations are reliant on third-party service providers to supply a variety of services, technology and equipment that are central to significant portions of its operational and administrative processes, and is therefore exposed to the risk that external vendors may be unable to fulfil their contractual obligations to the Bank, or will be subject to the same risks of fraud or operational errors by their respective employees as the Bank is exposed to. The Bank is also exposed to the risk that its (or its vendors') business continuity and data security systems are inadequate. For example, the Bank relies on the Icelandic Banks' Data Centre, Reiknistofa bankanna ("**RB**"), for deposit account and payment infrastructure and on VÍS for insurance-related services.

Third-party service providers are key for the running of the Bank's IT systems; for example, the Bank has an outsourcing arrangement in place for elements of operations with Advania. Additionally, the Bank faces risks related to the volatility of software prices, which can increase significantly without notice. Such increases could adversely impact the Bank's profitability, particularly as replacing software systems or providers may be complex and costly. The Bank also currently relies on third-party service providers for other operations, including JCC in its cash centres, MasterCard and RB with respect to card issuing and payment services, and VÍS Insurance with respect to collaboration on customer service. Whilst the Bank has contractual protections in place with third-party service providers, the Bank does not have much (if any) control over how the third-party service providers run their business. Accordingly, the Bank faces the risk that their third-party service providers become insolvent, enter default or do not or poorly perform their contractual obligations. Third-party service providers could also decide to terminate their relationship with the Bank, for example, as a result of an inability to provide the required services to the Bank due to restructuring, a change in strategic director or otherwise. Either by virtue of its own decision, or due to a termination of service, the Bank may have to replace a third-party service provider on short notice which may be difficult if certain services are only available from a specific number of suppliers. Trying to find replacement service providers in a short timeframe or take other measures necessary to resolve problems could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, particularly if the Bank suffers disruption as a result of the transfer of functions to the new provider or if a new provider has a more limited service offering. In addition, the Bank is subject to EBA guidelines No. 2019/02 on outsourcing arrangements and FSA guidelines No. 1/2019 on risk related to the operation of information systems. Therefore, the Bank must also ensure that its service providers fulfil the relevant requirements.

There is also the risk that the Bank's third-party service providers fail to provide the products and services for which they have been contracted. They could lack the required capabilities, products or services or may be unable to perform their contractual obligations due to changes in regulatory requirements. Any failure of third-party service providers to deliver their contractual obligations on time or at all or their failure to act in compliance with applicable laws and regulations could result in reputational damage, claims, losses and damages to the Bank. The Bank seeks to control the risk with ongoing monitoring of performance, contractual terms, detailed requirements and external audit.

R1.14 Unauthorised disclosure of confidential information and personal data, whether through cyber security breaches, viruses or otherwise could expose the Bank to fines, liabilities and costly litigation and damage in reputation

The Bank must be able to transmit confidential information in a secured way in order to carry out its operations. Given the Bank is a financial institution, it is subject to a heightened risk that it will be the target of criminal activity such as fraud, theft and cyber-attacks. The Bank processes: (i) personal customer data such as customer names, addresses, credit and debit card numbers and bank account details; (ii) merchant data such as merchant names, addresses, sales data and bank account details; (iii) transaction data, both within Iceland and internationally, such as payment instructions, money transfers, securities trading and various other electronic communications; and (iv) other confidential information as part of its business. It is therefore critical that the Bank safeguards this confidential information and complies with strict data protection and privacy laws in the applicable jurisdictions in which it operates, including through the Bank's subsidiaries. The Bank is exposed to the enhanced data protection requirements under the GDPR and could need to make additional changes to its operations, and potentially incur additional costs, in order to continually comply with the GDPR. Failure to comply with the GDPR could subject the Bank to substantial fines.

The Bank cannot be certain that its existing security measures will prevent security breaches or cyber-attacks. This is a risk to the Bank because it could be held liable should it lose control of confidential information or if it is accessed by unauthorised third parties through cyber-attacks, errors in software development or failings of the Bank to upgrade software, internal security breaches or by unauthorised personnel gaining physical access to confidential information. The Bank could also be subject to reputational damage and lose customers, and may suffer financial loss as a result of having to pay compensation to customers, any fines implemented by regulators and any damages awarded against the Bank in legal proceedings relating to a data breach.

The Bank requires third-party service providers to agree to confidentiality provisions restricting such third parties from using or disclosing any such confidential information when entering into a contract with the Bank. However, these provisions may not prevent the unauthorised use, modification, destruction or disclosure of confidential information or allow the Bank to seek reimbursement from the third-party in case of a breach of confidentiality or data security obligations. Any unauthorised use, modification, destruction or disclosure of confidential information could also result in protracted and costly litigation or administrative fines for the Bank. Any of these or other factors could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R1.15 The Bank is subject to compliance risk which, if realised, could have an adverse impact on its results or reputation

The Bank defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer because of its failure to comply with applicable laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct. In 2023, compliance risk was elevated to level 1 risk in the Bank's risk taxonomy. That entailed expanding the scope of compliance risk where financial crime risk, data protection risk, conduct risk and regulatory compliance risk are now level 2 risk factors overseen by the compliance function. In 2023, the Bank implemented certain remedial measures to its compliance function pursuant to a settlement agreement it entered into with the FSA, concluding the FSA's inspection into the Bank's execution of an offering by the Icelandic state of the Shares in March 2022. The Bank is currently in process of implementing certain remedial measures to its compliance function pursuant to a settlement agreement it entered into with the FSA, concluding the FSA's inspection into the Bank's measures against money laundering in June 2024. See "*R4 Legal and Regulatory Risk—R4.7 The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences*."

R1.16 Shortfalls in the Bank's risk management methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

The Bank devotes significant resources to developing its risk management policies and procedures and expects to continue to do so in the future. However, there is a risk that the Bank's risk management strategies will not be fully effective in mitigating its risk exposure in all market environments and against all types of risk. The methods that the Bank uses to assess credit risk, market risk, liquidity risk, climate risk and operational risk may have limits. For example, some of the Bank's quantitative tools for managing risk are based upon historical market behaviour. These tools and metrics may not predict future risk exposures, and the Bank may be susceptible to losses which are significantly greater than its risk management measures indicate. In addition, new products and services that are offered through new digital channels, may impact the demographic composition of the Bank's customers. As a result, the Bank's current risk models might not be applicable and new risk factors might not be detected in a timely manner.

The risk management procedures the Bank has implemented may not be understood or communicated properly to employees. The procedures may therefore not be implemented correctly. In addition, because the Bank's risk management policies are under regular review, there could be a time lag between review and the implementation of updates. Unanticipated or incorrectly quantified risk exposures, and poor implementation of the risk management procedures, could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R1.17 The Bank relies on key members of management

The Bank is highly dependent on the talent of its key personnel, in particular its Chief Executive Officer and senior management, many of whom have been employed by the Bank for a substantial period of time. The loss of key members of its senior management or staff may significantly delay the Bank's ability to implement its business objectives and strategies and could have a material adverse effect on its business, financial condition and results of operations. In addition, there is competition between businesses in Iceland which could hinder the Bank's ability to recruit and retain new senior managers if competitors of the Bank are able to offer more competitive salaries and better incentivise individuals. Under its current remuneration policy, approved at the Bank's Annual General Meeting on 31 March 2025, the Bank is restricted from offering salary incentives. Specifically, the Bank is prohibited from entering into or approving any agreements that include performance-based incentives, where the final compensation amount is variable and not part of fixed remuneration. The Board of Directors has publicly announced its interest in the implementation of an incentive system and aims to propose such incentive system in the coming months. Should the Board of Directors wish to implement such an incentive system, a prior approval from the Bank's shareholders at a general meeting is required.

The managing directors for individual business and support divisions are responsible for the operational risk inherent in their business. This entails identifying the sources of operational risk in their operations, assessing whether the cost of avoiding the risk outweighs the benefits and ensuring that unacceptable operational risks are mitigated, and losses prevented. Due to the highly skilled nature of performing such tasks, there is an inherent risk to the proper functioning of the Bank's operations should certain members of management leave the Bank and suitable replacements are difficult to source. This creates an exposure for the Bank in such circumstances, as risk management is critical to monitoring the overall operational risk profile of the Bank, ensuring proper escalation and reporting of operational risk issues and providing independent views on the overall operation risk inherent in the Bank's operations.

R1.18 Public sentiment and political activity in Iceland could impair the Bank's operations

Due to the financial crisis in 2008 and the subsequent deep recession in Iceland, public sentiment towards the banking sector has at times been negative. The negative sentiment may have ultimately been reflected in political and legislative decisions which could have material adverse effects on the Bank.

On 9 January 2023, the Bank announced on Nasdaq Iceland that it had received preliminary findings from the FSA inspection into the execution of the offering by the Icelandic State of a 22.5% stake in the share capital of the Bank that took place in March 2022. On 22 June 2023 the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement.

Under the terms of the settlement agreement, the Bank agreed to pay a fine in the amount of ISK 1,160 million and admitted to having violated certain provisions of the Markets in Financial Instruments Act and the Financial Undertakings Act in connection with that offering. Furthermore, the Bank undertook to carry out certain remedial measures within a specified period. The Bank's Chief Audit Executive reviewed the improvements and confirmed in an audit that the remedial requirements had been adequately met before 1 October 2023. The audit was confirmed by the Bank's Board at the end of October 2023 and sent to the FSA in accordance with the settlement agreement.

Following the settlement agreement certain changes were made to the management of the Bank. Jón Guðni Ómarsson was appointed CEO by the Bank's Board of Directors on 28 June 2023, succeeding Birna Einarsdóttir. Jón Guðni has been with the Bank and its predecessors from the year 2000 and served as CFO from 2011 until year-end 2023. Ellert Hlöðversson was appointed CFO of the Bank on 16 October 2023 and assumed the role as of 1 January 2024. Ásmundur Tryggvason stepped down as Managing Director of Corporate & Investment Banking as of 1 July 2023 and Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking. On 1 November 2023 Barbara Inga Albertsdóttir was appointed Chief Compliance Officer, taking a seat in the Bank's Executive Committee to further accentuate the role of the Chief Compliance Officer within the Bank. In addition, various decision-making processes within the Bank may continue to be affected by perceived public sentiment and reputational risk due to the settlement agreement.

On 31 May 2024, the Bank announced that it had come to a settlement agreement with the FSA regarding an onsite inspection in the autumn of 2022 in relation to the Bank's AML control framework pursuant to Act No. 140/2018 on Measures Against Money Laundering and Terrorist Financing, following which the FSA identified certain shortcomings in relation to the Bank's AML measures. The Bank paid a ISK 570 million fine to the Icelandic state treasury. The settlement agreement provided that the Bank accepted the FSA's conclusion that the Bank's had many shortcomings related to various fundamentals in the Bank's AML control framework. By entering into the settlement agreement, the Bank committed to carrying out appropriate remedial actions. Following the settlement, the Bank carried out extensive remedial actions with support from an international advisory firm to review and strengthen the Bank's governance and internal procedures.

Any negative public sentiment in Iceland relating to the Bank's shareholders and other stakeholders, including professional financial and institutional investors, could also lead to a loss of customers or business opportunities for the Bank.

Moreover, even if the Bank's operations are otherwise successful and it is in a position to declare and pay a dividend in the ordinary course, the Bank's ability and willingness to declare and pay dividends, whether as a requirement of law or otherwise, may be affected if public sentiment opposes the payment of dividends, even in the event the Bank is legally permitted to pay dividends. See "*—R5 Risks Relating to the Offering and the Offer Shares—R5.2 The Bank's ability to declare a dividend in the future is subject to a variety of factors.*"

R1.19 The Bank relies on its reputation and brands and those of its subsidiaries

The success of the Bank's business depends significantly on the Bank's reputation with customers as well as the strength and appeal of the brand of the Bank. The Bank's reputation is one of its most important assets and its ability to attract and retain customers and staff and conduct business with its counterparties could be materially adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or perception that the Bank has failed to address, various issues that could give rise to reputational risk could cause harm to the Bank and its business prospects. Reputational issues could include:

- poor customer service or IT failures or interruptions that impact customer services and accounts (see "*—R1.12 The Bank is exposed to risk of failure and breaches of the Bank's information technology systems*");
- failure, or allegations of having failed, to maintain appropriate standards of customer privacy, customer service and record keeping and disclosure of confidential information (see "*—R1.14 Unauthorised disclosure of confidential information and personal data, whether through cyber security breaches, viruses or otherwise could expose the Bank to fines, liabilities and costly litigation and damage in reputation*");
- failure to appropriately address potential conflicts of interest and acting, or allegations of having acted, unethically in the conduct of its business;
- breaching, or allegations of having breached, legal and regulatory requirements, including anti-money laundering and anti-terrorism financing requirements (see *"—R4. Legal and Regulatory Risk—R4.7 The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences"* and *"—R4. Legal and Regulatory Risk—R4.8 The Bank may be subject to ongoing, pending or threatened legal proceedings and investigations by governmental authorities*");
- failure to properly identify legal, regulatory, compliance, reputational, credit, operational, liquidity and market risks inherent in the Bank's products and services (see *"—R1.6 The Bank is exposed to a range of other typical financial institution market risks, including interest risk and equity price risks as well as inflation risk"* and *"—R1.10 The Bank is exposed to operational risks*");
- third parties on whom the Bank relies for information, products and services failing to provide the required information, products and services;
- the overall high interest rate environment having an adverse effect on the general public's livelihood and creating the perception that the Bank bears responsibility;
- adverse impacts on customers of the Bank which had invested in or had exposures to companies whose loans are determined by the Bank to be non-performing loans, and experienced losses as a result; and
- generally poor business performance.

Failure to address these or any other relevant issues appropriately could damage the Bank's reputation and make customers, depositors and investors less willing to do business with the Bank, which may have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

In addition, the Bank believes that its brand and the brands Iceland Funds and Ergo are one of the key differentiators from competitors and provide a key competitive advantage. However, no assurance can be given that the Bank and its subsidiaries will be successful in further developing their respective brands and leveraging them into market share growth over competitors. Any circumstance that causes real or perceived damage to the Bank's brand or the brands of its subsidiaries, including the occurrence of any of the risks or events described in these "*2.Risk Factors,*" could have a material adverse effect on the Bank's ability to retain existing customers and attract new customers. An inability by the Bank or its subsidiaries to manage the risks to their brands could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R1.20 The Bank is exposed to strategic and competitive risks arising from its multifaceted relationship with the Icelandic pension funds

The Bank maintains a multifaceted and complex relationship with the Icelandic pension funds, which act simultaneously as significant stakeholders and counterparties across several dimensions of the Bank's operations. The pension funds are deposit holders, creditors through wholesale funding arrangements, shareholders, and customers of various financial services. At the same time, they are direct competitors to the Bank in key markets, most notably in residential mortgage lending, where pension funds have an active and growing presence. The Icelandic pension funds represent a significant portion of the domestic capital markets, accounting for approximately 46% and holding total assets amounting to almost double Iceland's GDP at year-end 2024 (source: Statistics Iceland), which amplifies their influence.

In addition, the Bank, through Allianz Insurance Iceland, provides life-savings investment products that to some extent compete with the offerings of the pension funds. Furthermore, Framtíðarauður, the private pension savings fund of Iceland Funds, a wholly owned subsidiary of the Bank, operates in direct competition with the pension funds in the broader pension savings market. This combination of interconnected roles introduces strategic, operational, and reputational complexities that could affect the Bank's financial performance, competitive positioning, and ability to manage potential conflicts of interest.

R1.21 The Bank may be unable to successfully implement its strategy or achieve its financial targets, or its strategy may not yield the anticipated benefits

The Bank's strategy and financial targets are based on assumptions and expectations, including in respect of macroeconomic developments, competition, interest rates, revenue, expenses and cost of risk and future demand for the Bank's services, which may prove to be incorrect. Also, the benefits and impact of the Bank's strategy could fall short of what the Bank anticipates. For example, the Bank might not be able to realise the full benefits of its further cost-savings or digital initiatives, which could result in less than expected customer satisfaction improvements and cost reductions and negatively impact revenues and operating results. As part of its capital optimisation strategy, the Bank may pursue mergers and acquisitions, which carry significant risks, including the potential failure of acquired or merged entities,unsuccessful integration, or inability to achieve anticipated synergies. Such opportunities may be limited, arise unexpectedly at short notice or without notice, or fail to materialise, and there is no certainty of success.

Since the global financial crisis in 2008, macroeconomic volatility has made it more difficult to predict GDP development in many economies, resulting in frequent modifications to growth expectations published by economic research institutions as well as in adjustments by market research specialists, sometimes giving rise to significant revisions to growth expectations for specific markets. As a result, many financial institutions, including the Bank, may find it difficult to accurately model and predict the prospects for their businesses and set viable financial targets, and it may be difficult for investors to use historical financial results as an indicator for future results. Any failure by the Bank to accurately predict macroeconomic developments, interest rates, revenue, expenses and cost of risk and/or future demand for the Bank's services could lead to misjudgements with respect to its strategy or financial targets and increase the risk of failed implementation or failure to achieve any of its targets. If the Bank's strategy is not implemented or is not implemented successfully, if the Bank fails to achieve its financial targets, or if the Bank's strategy does not yield the anticipated benefits, this could have a material adverse effect on the Group's business, prospects, financial position and/or results of operations. For additional information on the Bank's strategy, see "9. Business Overview—9.4 Strategy."

R1.22 The determination of the amount of allowances and impairments taken on the Bank's assets requires a degree of management judgement, and the incorrect determination of such allowances and impairments could have a material adverse effect on its business, results of operations, financial condition and prospects

The Bank's business requires management to develop models and apply judgement and assumptions which may prove incorrect. The determination of the amount of allowances, provisions and impairments under the Bank's accounting principles and policies with respect to certain assets vary by type and is based upon the Bank's periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such judgements also apply to other financial items such as goodwill and deferred tax assets. In considering impairments, management considers a wide range of factors and develops scenarios using its best judgement in evaluating the cause of the decline in the estimated fair value of the security or cash-generating unit and the prospects for near-term recovery, including probability of default. For certain asset classes, in particular in respect of loss provisioning for its residential mortgages and other loans, management's evaluation involves a variety of assumptions and estimates about operations and future earnings potential and relies heavily on the official tax evaluation of immovable property. To the extent that the Bank needs to take any additional impairments and/or allowances, it could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

R1.23 The Bank's insurance coverage may not adequately cover losses resulting from the risks for which it is insured

The Bank maintains customary insurance policies for the Bank's operations, including insurance for liquid assets, money transport and directors' and officers' liability. The Bank's business involves risks of liability in relation to litigation from customers, employees, third-party service providers and action taken by regulatory agencies, and there is a risk that these may not be adequately covered by the insurance or at all. Due to the nature of the Bank's operations and the nature of the risks that the Bank faces, there can be no assurance that the coverage that the Bank maintains is adequate which could have a material adverse effect on the Bank's operations and financial condition.

R1.24 The Bank may be unable to recruit or retain experienced and qualified personnel

The Bank needs qualified and experienced banking and management personnel in order to succeed and the ability to attract, train and motivate highly qualified personnel is key to the Bank's strategy. There is a lot of competition from both financial and non-financial services companies for experienced personnel, given Iceland's relatively small population. Particularly at senior levels, the Bank may not be able to offer the rates of compensation which are offered by larger international institutions or even smaller domestic competitors (which may be able to offer more flexible compensation plans), because the Bank may be restricted by law, its remuneration policy or to some extent by public opinion. Under its current remuneration policy, approved at the Bank's Annual General Meeting on 31 March 2025, the Bank is restricted from offering salary incentives. Specifically, the Bank is prohibited from entering into or approving any agreements that include performance-based incentives, where the final compensation amount is variable and not part of fixed remuneration. The Board of Directors has publicly announced its interest in the implementation of an incentive system and aims to propose such incentive system in the coming months. Should the Board of Directors wish to implement such an incentive system, prior approval from the Bank's shareholders at a general meeting is required. The loss of employees with knowledge of the industry and customers could have a negative impact on the Bank's success.

R1.25 The Bank is subject to the risk of labour disputes, work stoppages and increased labour costs

Most of the Bank's employees are represented by the Confederation of Icelandic Bank and Finance Employees. Although the Bank believes that its relations with its employees and with the Confederation of Icelandic Bank and Finance Employees are generally good, there can be no assurance that this will continue to be the case. A deterioration of relationships between the Bank and its employees and the Confederation of Icelandic Bank and Finance Employees could result in strikes or work stoppages. In addition, the Bank's relations with employees represented by the Confederation of Icelandic Bank and Finance Employees are governed by certain collective bargaining agreements. The most recent agreement with the Confederation of Icelandic Bank and Finance Employees has a term of three years and provides for a 3.25% salary increase in 2024, followed by a 3.5% increase in 2025 and 2026, respectively. The Bank may not be able to renegotiate satisfactory collective bargaining agreements when they expire, which could lead to, among other consequences, increased labour costs. Such renegotiation could also lead to disputes which may disrupt the Bank's operations. Any sustained labour dispute leading to a substantial interruption in the Bank's overall business, increased labour costs or changes to the terms of collective bargaining agreements could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank also relies on various external service providers, some of which may themselves be affected by labour disputes or work stoppages beyond the Bank's direct control. Disruptions affecting suppliers or third-party service providers could create operational challenges for the Bank, potentially impacting the availability or quality of critical services that support its activities. Indirect effects of external labour disputes could have implications for the Bank's operations, creating delays, additional costs, or interruptions that could adversely affect its business, financial condition and results of operations.

R1.26 The Bank may be subject to consequences due to mildew in former headquarters

The Bank's former headquarters at Kirkjusandur has been demolished after having been deemed unfit for habitation and other use due to mildew. In 2016, the Bank requested a building assessment and evaluation from EFLA consulting engineers regarding the indoor air quality of the building due to health-related issues of the employees of the Bank. During the assessment, it was revealed that serious faults were in the build-up and finishing of the building envelope. Samples of moisture-damaged building materials confirmed mould and/or bacterial growth. Approximately one-quarter of the Bank's employees were examined and most of them showed symptoms of illness that could be related to the moisture damage, bacteria and mould. Based on the findings from the assessments, sampling and research, EFLA could not recommend future use of the building without major renovation and recommended relocating the employees as soon as possible. EFLA concluded that it would be more efficient and safer to demolish the building as any sale or renting of the building could impose severe health risk to potential occupiers. The Bank moved its headquarters from Kirkjusandur to its current location at Norðurturn/Kópavogur in the autumn of 2016. Current and former employees of the Bank, who have suffered health problems due to the working conditions of the Bank prior to 2016, may seek damages from the Bank for incapacity for work and personal injury. The general limitation period for such claims is 10 years from the date on which the injured party obtained, or should have obtained, necessary knowledge of the damage and the person liable for the damage but may be extended in circumstances provided for in the Act No. 150/2007 on Limitation Periods for Claims.

R2. RISKS RELATING TO MACROECONOMIC AND OTHER BUSINESS CONDITIONS

R2.1 The strength of the Icelandic economy remains vulnerable to a range of domestic and international economic and political factors

Almost all of the Bank's business is conducted in Iceland. Therefore, its performance is influenced by business activity in Iceland and the strength of the Icelandic economy. Iceland's economy is influenced by economic and political factors on both a domestic and international scale. Iceland's economic growth rate has fluctuated recently, with GDP growth of 5.0% in 2021, 9.0% in 2022, 5.6% in 2023 and 0.5% in 2024 (*source: Statistics Iceland*). As a small, open economy, the strength of the Icelandic economy will always be susceptible to fluctuation.

There are various domestic factors that could impact the health of the Icelandic economy:

- *Fluctuations in the value of the Icelandic Króna*: In 2024, the Icelandic Króna appreciated by 0.5% against the U.S. dollar and depreciated by 4.5% against the Euro *(source: Central Bank of Iceland)*. There is a risk if there is a further depreciation of the Icelandic Króna, as an increase in the cost of imports could weaken consumer confidence and cause a decline in certain sectors, such as real estate. On the other hand, a large appreciation in the value of the Icelandic Króna could reduce the demand for Icelandic exports or services, including tourism, and could make Iceland less competitive than other economies and currencies;

- *Inflation*: While inflation is currently above the target rate of 2.5% per year set by the Central Bank of Iceland, the outlook is that the rate of inflation could reach the target by the end of year 2026 (*source: Central Bank of Iceland*). However, a combination of considerable increases in housing prices, rapid wage increases, and a further depreciation of the Icelandic Króna could result in a more persistent inflation pressure;

- *Lack of foreign direct investment*: There is no guarantee that there will be sufficient levels of foreign direct investment in Iceland, which may cause fiscal and balance of payments deficits and weaken Iceland's economic and fiscal position; and

- *Other factors*: Other domestic factors, such as political instability and public opinion (particularly surrounding public opinion of the financial sector) as well as levels of consumption, pose as significant risks for Iceland's economy.

Iceland's economy is also vulnerable to external factors outside of its control; for example, European and international politics. Given its size and the openness of the economy, Iceland is highly dependent on trade with external partners such as the European Union, therefore events such as the United Kingdom's exit from the European Union, and any consequential economic and political effects that exit has, could have a material adverse effect on Iceland's economy. The financial sector in Iceland is still largely funded by domestic deposits. Furthermore, a global recession would be likely to have an impact on the demand for, and the price of, Iceland's most important products and exports (such as tourism and seafood).

In addition, uncertainty in the global trade environment may affect Iceland's economy, with the U.S. tariffs announced on 1 February 2025 (25% on goods from Mexico and Canada, except 10% on Canadian energy, and an additional 10% on Chinese imports), followed by further tariffs on 12 March 2025 imposing a broader 25% levy on steel and aluminium imports from all countries, and culminating in the tariffs announced on 2 April 2025 (20% on goods from the European Union, an additional 34% on Chinese imports, and 10% on goods from Iceland, among others). In response, China announced additional tariffs of 34% on all U.S. goods, effective 10 April 2025. On 9 April 2025, the United States administration announced a 90-day suspension of additional tariffs beyond the base 10% rate for most countries, excluding China. The U.S. further escalated measures as to China by increasing tariffs on Chinese goods to a total of 145%. China retaliated by increasing tariffs on U.S. goods to 84%. Subsequently, on 11 April 2025, China further escalated the trade war by increasing tariffs on U.S. imports to 125%, effective 12 April 2025. These tariffs, alongside retaliatory actions like China's probes and tariffs on U.S. exports, amplify financial, geopolitical and macroeconomic volatility and threaten global economic activity. If these measures persist, they could negatively impact global economic activity, corporate profitability and asset valuations. For Iceland, a trade-dependent economy with imports accounting for 42.7% of its GDP in 2024 (source: Statistics Iceland), the combined effect could raise costs of raw materials and manufactured goods, fuelling inflation. The tariffs announced by the U.S. directly hit Icelandic exporters, potentially reducing export revenues and jobs, while higher import costs from disrupted supply chains could squeeze corporate profitability and consumer spending.

The occurrence of any of the above factors could adversely affect Iceland's economy, which in turn could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R2.2 Systemic risk could adversely affect the Bank's business

Concerns about, or a default by, one financial institution could lead to significant liquidity problems, losses or defaults by other financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between these institutions. This risk is sometimes referred to as "systemic risk" and may materially affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis, and could materially affect the Bank's business operations and results.

Systemic risk of the global financial industry is still at an elevated level, as demonstrated by recent challenges faced by regional banks in the United States, which created substantial volatility in international financing markets. High sovereign indebtedness, low capital levels at many banks and the high interconnectivity between the largest banks and certain economies are important factors that contribute to this systemic risk. Against this backdrop of the financial crisis, during which the lack of liquidity and high costs of funding relative to official rates in the interbank lending market reached unprecedented levels, the Bank is subject to the risk of deterioration of the commercial weakness or perceived weakness of other financial institutions within and outside Iceland. The ripple effects of concerns about, or a default or threatened default by, even a single financial institution can profoundly impact the global banking system, leading to significant market-wide liquidity issues and potential financial losses for many institutions, including the Bank.

R2.3 The Bank is exposed to sustainability and climate-related risks

The Bank defines sustainability risk as the risk of being directly or indirectly negatively affected by externalities within the areas of environmental, social, and governance considerations, such as climate change, biodiversity, anti-corruption, human rights, labour conditions, data privacy, or business ethics. Sustainability risk is a part of the Bank's risk taxonomy and entails both physical and transitional climate risk, as well as social and governance risk.

The Bank is exposed to climate-related risks in connection to its lending and investment activities, particularly given Iceland's geographical location. Climate-related risks consist of two major categories that are often called transition risks and physical risks. Transition risks include policy, legal, technology, reputational and market changes due to adoption of new requirements related to climate change and a transition to a low carbon economy. Physical risks are related to physical impacts of climate change such as extreme weather and long-term shifts in sea temperature and acidity.

Transition risks can disrupt the business models of the Bank's customers due to changes in demand for products and services. The expectation of impending changes in demand may also drive business decisions, and in sectors where this does not happen organically, tax incentives and disincentives are likely to play a role. For example, during the transition towards cleaner energy in the transport sector, tax incentives are expected to be given for cars which use cleaner energy, whereas carbon tax may be significantly increased.

The Bank's customers are exposed to physical risk related to climate change, for instance in the seafood industry where the availability of fish and shellfish might diminish due to temperature and acidity changes in the ocean around Iceland. In particular, changes in sea conditions, such as rising temperatures and altered marine ecosystems, could further affect the seafood sector by reducing fish stocks and disrupting supply chains. Additionally, global warming poses the risk of reducing glaciers, which could significantly impact domestic energy production, particularly hydropower, a critical energy source for Iceland. Physical risks can have a direct financial impact through damaged assets and supply chain disruptions. As awareness of the potential impact increases, exposed assets are liable to fall in value and increase insurance premiums. After conducting a basic analysis regarding the double materiality assessment as required by the Corporate Sustainability Reporting Directive ("**CSRD**") that came into effect in the European Union in 2024, but yet to be implemented in Iceland, four issues emerged as important: climate change, human capital, consumers and customers, and business ethics. The assessment highlighted that the Bank should prioritise and publish information on climate change and human resources. Additionally, the analysis indicated that the issues of consumers and customers and business ethics are also important to the Bank from both a risk management perspective and opportunities to have a positive impact beyond the Bank. In 2024, the Bank analysed further the impact, risks and opportunities, leading to results in line with the 2023 analysis. The Bank's 2024 Annual and Sustainability Report takes these results into account, but in 2025, the Bank plans to solicit stakeholders' perspectives on the results. Any of the foregoing climate-related risks could have a material adverse effect on the Bank's liquidity, results of operations, financial condition and prospects.

R2.4 Iceland's banking system has been subject to restructuring and is relatively small due to the small size of the Icelandic economy, which could limit opportunities for growth in the near term

The small size of the Icelandic economy and any changes to the Icelandic banking sector have affected and could continue to affect the Icelandic banks. Uncertainty about the quality of the loan assets held by the Bank, Arion Bank and Landsbankinn and the relatively high levels of non-performing loans on their balance sheets were historically a risk to the business, prospects, financial position and/or results of operations of the Icelandic banks. Although the levels of non-performing loans on the balance sheets of the Bank, Arion Bank and Landsbankinn have declined from 42% of total loans as at 31 December 2009 to 2% as at 31 December 2024 *(source: Central Bank of Iceland and the Bank, Arion Bank and Landsbankinn annual reports)*, no assurance can be given that the rate of non-performing loans will not increase in the future. Levels of non-performing loans, determination of loan values and the levels of write-offs will depend, in the medium term, on general economic developments and on the operating and financial condition of the particular borrowers as well as decisions by the Courts of Iceland affecting the value of loans linked to foreign currencies. Worldwide financial and economic developments, in particular financial and economic developments in the United Kingdom and the other European countries that constitute Iceland's main trading partners, may also have an effect.

Given the relatively small size of the Icelandic economy and the short period of time since the financial crisis in 2008, Icelandic households and businesses may be reluctant to engage in new borrowing activities and, as a result, the Icelandic banks may experience increased competition and consequently pressures on net interest income. In addition, the Bank has limited funding opportunities in Icelandic Króna, namely its ISK-denominated deposits, its senior unsecured bonds and its covered bond and domestic bond programmes, none of which are capable of fully funding the Bank's ISK corporate lending volumes. Consequently, the Bank's ability to increase its corporate lending is limited and will continue to be limited unless the Bank is able to find additional sources of funding in Icelandic Króna. It is also unlikely that the Bank, Arion Bank or Landsbankinn will grow significantly through international operations in the near future. Iceland's economy remains vulnerable to renewed disruptions, cessation or reversal of growth and a return to recession. Moreover, the Icelandic banks could also be adversely affected if other developments in the Icelandic economy or internationally result in slowing of growth in Iceland's economy or trigger a recession, any of which could in turn have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

R2.5 Catastrophic or unforeseen events such as acts of war, acts of terrorism, earthquakes, floods, other natural disasters, pandemic diseases or other geopolitical events may have a material adverse effect on the Bank

Catastrophic or unforeseen events, such as acts of war, including the ongoing conflicts in the Middle East, acts of terrorism, earthquakes, volcanic eruptions, floods, other natural disasters, pandemic diseases or other geopolitical events, and the subsequent responses to such events, may cause socio-economic and political uncertainties which may have a negative effect, directly or indirectly, on the economic conditions in Iceland and could result in substantial losses being suffered by the Bank. Such events and the losses and damage which may result are difficult to foresee and may relate to property, financial assets, data storage facilities, trading positions or key employees.

If the Bank's security, response and business continuity plans do not fully address such events or cannot be adequately implemented, such losses may increase. Unforeseen events may also lead to additional operating costs, such as higher insurance premiums. Insurance coverage for certain catastrophic or unforeseen events may also be unavailable or excluded from existing policies held by the Bank, and thus increase the risk to which the Bank is exposed.

Moreover, Iceland's economy is vulnerable to the effects of certain natural disasters, such as earthquakes and volcanoes, which have occurred in certain regions in recent years, as well as other forms of destructive weather. Following seismic activity in Reykjanes, a volcanic eruption occurred near the town of Grindavík in early 2024. As of now, the town of Grindavík (inhabitants approximately 3,700) remains uninhabitable, and the Government is exploring what measures will be needed to relieve this uncertainty. Currently the economic impact related to this is uncertain. Due to this uncertainty, the Bank has made temporary changes to the impairment model in the 2024 and 2023 financial years. The adjustments included classifying exposures amounting to ISK 1.2 billion as at 31 December 2024 (year-end 2023: ISK 5.2 billion) as Stage 2 instead of Stage 1 and applying higher haircuts to the values of collateral for these exposures. The Bank also applied a management overlay to the modelled expected credit losses. Additional allowances for expected credit losses due to the seismic activity amounted to ISK 0.6 billion as at 31 December 2024. The Bank no longer makes temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula since all customers affected have been assessed on a case-by-case basis. The management overlay to the modelled expected credit losses has thus since been replaced with a manual impairment on material exposures. Exposure and additional impairment due to the seismic activity decreased due to the purchase of the property company Fasteignafélagið Þórkatla ehf. ("**Þórkatla**") of residential housing within the urban area in Grindavík in accordance with the Act No.16/2024 on the Purchase of Residential Property in Grindavík. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. The Bank's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss and does therefore not contribute to the allowance for expected credit losses, although the current fair value assumes the same provision amount as when classified as loans to customers. Given that the Bank's claim on Þórkatla does not benefit from a government guarantee and carries 100% risk weight, the SREP may increase the Bank's Pillar 2 capital requirements. Deterioration in the investment environment and investment inflows as a result of domestic or external conditions, including adverse tax conditions, natural disasters, increased corruption, or weakened investor sentiment, could also limit future growth prospects. The occurrence of any catastrophic or unforeseen events may have a material adverse effect on the Bank's business, financial condition, results of operations, cash flows or prospects.

R2.6 The Russian invasion of Ukraine has created significant uncertainty and financial market volatility and could have adverse effects on the Icelandic, European and global economies

In late February 2022, Russia invaded Ukraine, significantly amplifying already existing geopolitical tensions among Russia, Ukraine and other countries in the region, and the West, including the United States. Russia's invasion, the responses of countries and political bodies, such as the EU and NATO, to Russia's actions, the larger overarching tensions, and Ukraine's military response and the potential for wider conflict have created significant uncertainty and financial market volatility and could have adverse effects on the Icelandic economy as well as the wider European and global economy, including the markets for commodities such as crude oil and natural gas. Following Russia's actions, many countries, including the United States, the UK, France, Germany and Canada, as well as the EU, issued broad-ranging economic sanctions against Russia. Such sanctions included, among other things, a prohibition on doing business with certain Russian companies, large financial institutions, officials and oligarchs; a commitment by certain countries and the EU to remove selected Russian banks from the Society for Worldwide Interbank Financial Telecommunications (SWIFT), the electronic banking network that connects banks globally; and restrictive measures to prevent the Russian Central Bank from undermining the impact of the sanctions.

The current sanctions (and potential further sanctions in response to continued Russian military activity) and other actions have continued to impact various sectors of the Russian economy, as well as the broader European and global economy, including financial and energy markets. However, the market impact in Iceland has remained moderate. According to Statistics Iceland, GDP growth in 2023 was 5.6%, down from 9.0% in 2022. In 2024, the lingering effects of the war—particularly global inflationary pressures, high interest rates, and weakened consumer sentiment—continued to influence private consumption and export growth. As a result, Iceland's GDP growth in 2024 was 0.5%, reflecting the ongoing economic challenges.

While diplomatic efforts have been ongoing, the conflict between Russia and Ukraine is currently unpredictable and has the potential to result in broadened military actions. The duration of ongoing hostilities and such sanctions and related events cannot be predicted. These factors, as well as uncertainty as to future relations between Russia, the European Union, Iceland and other countries in the West, or between Russia and the eastern European countries, may have a negative impact on the Bank's margins, business, financial condition or results of operations.

R2.7 The Bank is subject to counterparty risk which may have an adverse effect on its cost of funds

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Bank's businesses. Adverse changes in the credit quality of the Bank's borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or arising from systemic risks in the financial markets, could affect the recoverability and value of the Bank's assets and require an increase in its provision for bad and doubtful debts and other provisions. To the extent that any of the instruments and strategies the Bank uses to hedge or otherwise manage its exposure to credit risk are not effective, it may not be able to mitigate effectively its risk exposures in particular market environments or against particular types of risk. The Bank's earnings will depend upon how its critical accounting estimates prove accurate and upon how effectively it determines and assesses the cost of credit and manages its risk concentrations. To the extent its assessments of migrations in credit quality and of risk concentrations, or its assumptions or estimates used in establishing its valuation models for the fair value of its assets and liabilities or for its loan loss reserves, prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses.

The Bank's exposures to other financial institutions are substantial, some of which might become unable to satisfy their obligations to the Bank. Such counterparties might become subject to resolution procedures in their home jurisdictions, such as under Directive 2014/59/EU (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") for certain EU financial institutions or the United Kingdom Banking Act 2009 for certain UK financial institutions, which procedures might materially negatively impact the amount and/or timing of what the Group would receive from a financial counterparty should it be subject to resolution. BRRD was amended by BRRD II (Directive (EU) 2019/879). The main reform was to implement the Financial Stability Board's total loss absorbing capacity standards, as well as amendments to requirements on the contractual recognition of bail-in, and requirements on the contractual recognition of resolution stay powers.

R3. RISKS RELATING TO THE BUSINESS MODEL AND THE OWNERSHIP STRUCTURE OF THE BANK

R3.1 The Bank, its operations and its management may continue to come under the public spotlight from time to time for as long as the Icelandic state has an ownership interest in the Company

The Icelandic state remains, as at the date of this Prospectus, a major shareholder of the Bank, and as a result, the Bank, its operations and its management will continue to occupy the public spotlight and be subject to public scrutiny from time to time. It cannot be excluded that, in the future, the Bank will be in the public spotlight and face pressure to change aspects of its corporate governance, policies and certain operations or to review past practices. This may force the Group to spend potentially significant amounts of management time and incur significant expense.

R3.2 Disruptions, dislocations, structural challenges and market volatility in financial markets could materially and adversely affect the Bank's banking and funding activities and could materially and adversely affect the Bank's business, financial condition, results of operations and prospects

Financial markets can experience, sometimes sustained, periods of unpredictable movements, severe dislocations, liquidity disruptions and economic shocks. These market conditions could lead to volatility in the Bank's profitability and in (the composition of) its balance sheet caused by price changes and changes in the demand for some of the Bank's banking services and products. Such conditions could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. These market conditions may also impede the Bank's ability to raise sufficient funding and capital in a timely manner. This could result in, among other things, a delay in raising funding or capital, the issuance of capital and funding of different types or under different terms than otherwise would have been issued or realised, or the incurrence of additional or increased funding and capital costs compared to the costs borne in a more stable market environment. Furthermore, the Bank's hedging and other risk management strategies, such as balance sheet steering and interest rate management, may not be as effective at mitigating risks as such strategies would be under more normal market conditions. This could potentially lead to a decrease of the Bank's profitability, financial condition and financial flexibility.

Financial markets are susceptible to severe events characterised by rapid depreciation in asset values accompanied by a reduction in liquidity. Under such conditions, market participants are particularly exposed to the market behaviour of market participants simultaneously thereby on a large scale unwinding or adjusting positions, which may even further exacerbate rapid decreases in values of the Bank's assets or collateral held in its favour and which could cause liquidity tensions and disruptions. These market conditions may cause a decline in the profitability, an increase in unrealised losses in the Bank's various asset portfolios, and a reduction in unrealised gains in the Bank's various asset portfolios.

The economies in which the Group is active may continue to face structural challenges, which could contribute to renewed high volatility in both the debt and the equity markets. Any deterioration of the sovereign debt market in the Eurozone or elsewhere, or other economic shocks could materially and adversely affect the Bank's results of operations, financial condition and prospects, as well as the Bank's funding and capital transactions and hedging and other risk management strategies. Other events may also affect the financial markets, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events.

There is no assurance that market volatility will not result in a prolonged market decline, or that such market declines for other reasons will not occur in the future. Severe market events have historically been proven to be difficult or impossible to predict, and could lead to the Bank realising significant losses, especially if they were to persist for an extended period of time. Therefore, market volatility, liquidity disruptions, or market dislocations could materially and adversely affect the Bank's banking, capital and funding activities and could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

R3.3 Further reductions of the Icelandic State's interest in the Bank may result in a perception of increased risk by investors and customers, including depositors

Following the initial public offering of shares of the Bank in June 2021, Icelandic State Financial Investments ("**ISFI**") on behalf of the Treasury of Iceland held 65% of the Bank's share capital. On 22 March 2022, ISFI sold a 22.5% stake in the Bank through an accelerated book-building offering of Shares to qualified domestic and international investors. Following the completion and settlement of the transaction on 28 March 2022, the Selling Shareholder held 42.5% of the Bank's share capital. With a share capital reduction approved at the latest AGM the Selling Shareholder now holds 45.2% of the Bank's share capital. According to the Icelandic State Budget for the year 2025, the Icelandic State intends to sell its remaining shares in the Bank during 2024 and 2025. While the Selling Shareholder's intention to dispose of its stake in the Bank has been public for a substantial period of time, such sale may result in a perception of increased risk by investors, counterparties and clients, including depositors, with respect to the safety of customer deposits, the Bank's capital position, risk profile and the Bank's soundness in general as some investors and customers may have taken comfort from the Selling Shareholder's shareholding in the Bank.

This could lead to a general decrease in investor, counterparty and customer confidence, which may, for example, result in a reduction of customer deposits. The materialisation of any of these events could materially and adversely affect the market price of the Bank's securities and its business, financial condition and results of operations.

R4. LEGAL AND REGULATORY RISK

R4.1 The Bank is subject to capital requirements and related regulations, which impose costs and may result in legal actions against the Bank

The Bank's capital management framework is based on Directive 2013/36/EU ("**CRD IV**") and Regulation 575/2013/EU ("**CRR**"), which have already been implemented into Icelandic legislation. For more information on the Bank's capital requirements, see "*10 Regulatory Overview—10.1 Principal Legislation and Regulations—Capital Requirements Directive*."

Any failure by the Bank to maintain its existing or any increased regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which may have a material adverse effect on the Bank's profitability and results of operations and may also have other effects on the Bank's financial performance, with or without the intervention by regulators or the imposition of sanctions.

In Europe, the U.S. and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in Offer Shares exposures and/or on the incentives for certain investors to hold Offer Shares, and may thereby affect the liquidity of such securities. Investors in the Offer Shares are responsible for analysing their own regulatory position and none of the Bank or the Joint Global Coordinators make any representation to any prospective investor or purchaser of the Offer Shares regarding the treatment of their investment on the Settlement Date or at any time in the future.

In particular, it should be noted that the Basel Committee on Banking Supervision ("**BCBS**") has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as "**Basel III**"). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the liquidity coverage ratio and the net stable funding ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. In December 2017, BCBS published the final phase of the Basel III framework, which included (i) the standardised approach for credit risk, (ii) internal ratings-based approach for credit risk, (iii) minimum capital requirements for credit valuation adjustment risk, (iv) minimum capital requirements for operational risk, (v) output floor and (vi) leverage ratio. In addition, the BCBS published the revised minimum capital requirements for market risk in January 2019. As part of the European Union's banking package of 2021, and in order to implement the final phase of the Basel III Framework, the European Commission adopted, in October 2021, a proposal to amend Regulation (EU) No 575/2013 (the "**CRR III Proposal**") and a proposal to amend Directive 2013/36/EU ("**CRD VI Proposal**"). The CRR III Proposal and CRD VI Proposal include several European Union-specific deviations from the final phase of the Basel III Framework. On 19 June 2024, the final texts of the legislation implementing Basel IV in the European Union, CRR III and CRD VI were published in the Official Journal of the European Union. The new rules entered into force on 9 July 2024. The majority of the rules applied from 1 January 2025, with certain measures being phased in by 2033. Implementation of one element of the legislation, the Fundamental Review of the Trading Book, has been delayed until 1 January 2026. This new legislation contains a number of amendments to existing rules applicable to credit institutions within the European Union, including in particular: (i) the implementation of the above-mentioned final elements of the Basel III reforms, (ii) explicit rules on the management and supervision of environmental, social and governance ("**ESG**") risks and additional supervisory powers to assess ESG risks as part of regular supervisory reviews (including regular climate stress testing by both supervisors and credit institutions) and (iii) increased harmonisation of certain supervisory powers and tools.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

R4.2 The Bank is subject to additional taxes beyond corporate income tax, and certain reserve requirements which impose costs and competitive disadvantages

The Bank is subject to basic corporate income tax rate of 20%. However, for the operating year 2024 the corporate income tax rate was temporarily increased to 21%, dropping again to 20% for the operating year 2025. Moreover, the Bank is subject to several further taxes which apply to financial institutions in Iceland. These taxes increase the Bank's effective cost of funding, which can hinder its ability to compete effectively with lenders who are not subject to these taxes.

The Bank pays a significant amount of taxes in Iceland. The Bank pays corporate income tax, the Bank Levy, the Special Financial Activity Tax amounting to ISK 11,326 million in 2024 compared to ISK 11,069 million in 2023. In addition, the Group pays the Financial Activity Tax, which amounted to ISK 719 million in 2024, compared to ISK 651 million in 2023.

The Bank Levy is an annual levy mandated by Icelandic law under which the Group must currently pay a tax on total liabilities, as determined for tax purposes (excluding tax liabilities), in excess of ISK 50.0 billion, which is also in place for 2025. The Bank Levy for 2024 and 2023 was calculated as 0.145% on the total liabilities of the Bank in excess of ISK 50.0 billion. Non-financial subsidiaries are exempt from the Bank Levy. Whilst the Bank Levy was initially introduced in 2010 as a temporary measure there is no certainty as to whether it will be lowered, removed or increased going forward. The Financial Activity Tax is a 5.5% tax levied on all remuneration paid to employees. Under the Special Financial Activity Tax Act, the Bank is also subject to the Special Financial Activity Tax, calculated as 6% of taxable profit exceeding ISK 1.0 billion. The Bank Levy, the Financial Activity Tax and the Special Financial Activity Tax put the Bank at a competitive disadvantage to lenders who do not have to pay those taxes, such as international banks, domestic pension funds and the Housing and Construction Authority.

Further to the above, the Bank is subject to fixed reserve requirements set by the Central Bank of Iceland. On 2 April 2024, the Central Bank of Iceland's Monetary Policy Committee decided to increase the fixed reserve requirement ratio for credit institutions from 2% to 3% of the reserve base. This follows a prior increase from 1% to 2% in June 2023. As a result, the Bank is now required to hold additional funds in a non-interest-bearing account with the Central Bank of Iceland, which effectively reduces the yield on the Bank's liquidity portfolio. The impact of this change was estimated to exceed ISK 900 million annually, or ISK 1,800 in aggregate, given the interest rate environment at the time. There is a risk that the reserve base will be increased further or extended which may impact the Bank's liquidity.

In addition, there is the risk that there could be increases to the tax the Bank has to pay, and the tax authorities could refuse to issue or extend advanced tax rulings. The unavailability of tax rulings could also restrict the range of structured transactions the Bank can enter into with its customers. Additionally, further taxes, reserve requirements or levies could be introduced in the future. Any additional tax, reserve requirement or levy could increase the Bank's cost of funding and operating costs generally, impair the ability of the Bank to compete effectively with other lenders and/or decrease the Bank's lending volumes and margins and reduce the Bank's profitability.

R4.3 The Bank could face tax liabilities or competitive disadvantages in respect of VAT on some of its services

The services of banks, savings banks and other credit institutions are currently exempt from value added tax ("**VAT**") under the Value Added Tax Act No. 50/1988. The tax authorities in Iceland have historically construed the exemption to be limited to the services that banks and other credit institutions provide according to the Financial Undertakings Act.. While the Bank believes that its practices with respect to collection of VAT are in line with other financial institutions in Iceland, it cannot be guaranteed that the Icelandic tax authorities will not apply a stricter interpretation of the Value Added Tax Act in relation to certain services provided by the Bank. Should this occur, the Bank could be liable retroactively for six years' unpaid amounts, plus penalties and interest. Additionally, because banking services are generally exempt from VAT, the Bank cannot deduct VAT paid on goods and services purchased from third-party providers. This effectively increases the purchase price of goods and services for the Bank, as VAT must be expensed without any offsetting deduction, adding to the Bank's operational costs. To the extent that, going forward, the Bank decided, or was obliged, to start claiming VAT in respect of such services but its competitors did not, it would be at a competitive disadvantage and could be priced out of competing effectively for provision of certain services. However, the Bank would be able to claim input VAT of goods and services related to that particular service. Any of the foregoing could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

R4.4 Changes in tax laws or in their interpretation could harm the Bank's business

The Bank's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings.

The corporate income tax rate was temporarily increased from 20% to 21% for the operating income year 2024. The amendment was made with a temporary provision LXXVI. in the Income Tax Act and, therefore, only applied to the operating year 2024. In addition to the basic corporate income tax rate of 21% in Iceland for the operating year 2024, the Icelandic Parliament passed the Act on Special Tax on Financial Undertakings in December 2011, under which certain types of financial institutions, including the Bank, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. In 2013 the levy was increased and set at 0.376% of the total debt of the Bank excluding tax liabilities in excess of ISK 50 billion at the end of the year. Non-financial subsidiaries are exempt from this tax. The Act on Special Tax on Financial Undertakings was amended in March 2020 with the Act No. 25/2020 in relation to measures from the Icelandic government and the Central Bank of Iceland due to the COVID-19 pandemic reducing the levy to 0.145% in 2020, which still applies.

According to the Act on Tax on Financial Activities, certain types of financial institutions, including the Bank, are required to pay a special additional tax levied on all remuneration paid to employees. The levy is currently set at 5.5% of such remuneration. Additionally, according to Article 71 of the Income Tax Act, a special additional income tax on legal entities liable for taxation according to Article 2 of the Act on Tax on Financial Activities, which includes the Bank, is set at 6.0% on taxable income over ISK 1 billion, disregarding joint taxation and transferable losses. The aforementioned taxes and levies placed on the Bank increases the cost burden on the Bank and subjects it to a competitive disadvantage relative to other competitors, which are not subject to such taxes or levies. See further in "*12.2. Key Factors Affecting the Group's Business, Financial Position and Results of Operations*." The Bank may be subject to additional taxes or levies in the future, so there can be no assurance that additional taxes and levies could increase the Bank's cost of funding and operating costs generally, reduce the ability of the Bank to compete effectively with other lenders and/or decrease the Bank's lending volumes and margins any of which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations. Any such increase could have a material adverse effect on the financial condition of the Bank.

R4.5 The Bank faces risks arising from compliance with FATCA

Under sections 1471 through 1474 of the US Internal Revenue Code of 1986, as amended (the "Revenue Code") commonly referred to as the Foreign Account Tax Compliance Act ("FATCA"), the Bank is subject to the FATCA reporting regime, which may lead to a compliance risk. Some countries (including Iceland) have entered into, and other countries are expected to enter into, intergovernmental agreements with the United States to facilitate the reporting of information required under FATCA. Intergovernmental agreements often require financial institutions in those countries to report information on their U.S. account-holders to the taxing authorities of those countries, which will then pass the information on to the U.S. Internal Revenue Service. The Bank is a financial institution for the purposes of FATCA and the intergovernmental agreement between the United States and Iceland. An evaluation of FATCA compliance is scheduled for 2025 to ensure ongoing adherence. While the Board of Directors believes the Bank has taken all necessary steps to comply with FATCA and any legislation implementing the intergovernmental agreement between the United States and Iceland, if the Bank is deemed not to be FATCA compliant, it could face certain withholding penalties, which may lead to reputational damage, regulatory fines, loss of market share, financial losses and legal risk.

R4.6 Regulatory changes or enforcement initiatives could adversely affect the Bank's business

As a financial institution, the Bank, and its subsidiaries, must comply with a comprehensive set of laws and regulations. The legal and regulatory environment of the Bank is constantly changing, which requires the Bank to assign substantial resources into monitoring and implementing these changes to ensure full compliance. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, investor protection, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices. Banking and financial services laws, regulations and policies currently governing the Bank and its subsidiaries may change at any time in ways which have a material effect on the Bank's business. Furthermore, the Bank cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations may materially affect the way in which the Bank conducts its business, affect the products or services it may offer and the value of its assets. If it fails, or appears to fail, to appropriately address these changes or initiatives, its reputation could be harmed and it could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against it or subject it to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against the Bank, which could result, among other things, in suspension or revocation of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm its results of operations and financial condition.

In addition, existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted in ways unfavourable to the Bank's operations, which could adversely affect the way the Bank operates its business and its market reputation.

See "*10. Regulatory Overview—10.1 Principal Legislation and Regulations" and "10. Regulatory Overview—10.2 Upcoming Legislative Amendments*." For example, the Bank could incur significant costs and it could be required to make changes to its operations and management. Failure to comply with any of the above could expose the Bank to civil or criminal liability, reputational damage and sanctions, such as fines, having its licences, authorisations or permits revoked and put the Bank under closer regulatory scrutiny.

Recent changes in the political environment in Iceland could result in a policy shift with regards to laws and regulations affecting the Bank. On 21 December 2024, Prime Minister Kristrún Frostadóttir formed a new governmental coalition comprising the Social Democratic Alliance, the Liberal Reform Party, and the People's Party. This political transition may lead to the introduction of new laws, amendments to existing regulations, or changes in government policies that could directly or indirectly impact the Bank's operations, financial performance, or regulatory compliance.

Besides legislative changes, the Bank is impacted by industry-wide initiatives driven by regulatory trends, including new standards adopted as a result of the revised Payment Services Directive ("**Payment Services Directive 2**"). These initiatives, such as SEPA Instant Payments and Account-to-Account transfers, have been introduced to promote faster and more efficient payment solutions across the industry. While not direct legislative mandates, these developments require ongoing adaptation in the Bank's payment infrastructure, operational resources, and service offerings to remain competitive and compliant with evolving industry expectations, and may affect fees that the Bank can generate from foreign transactions due to increased harmonisation or lower-cost structures.

Legislative and regulatory changes all present a risk to the Bank in terms of compliance, and the costs on the Bank for doing so may have a negative impact on the Bank's business, prospects, financial position and/or results of operations.

R4.7 The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences

The Bank must adhere to the AML Act, the Freezing Act and laws that prohibit the Bank (or its employees or intermediaries) from making or offering improper payments to foreign governments, officials and political parties in order to win or keep business. Financial crime is continually evolving, and the expectations of regulators are increasing. The regulatory requirements applicable to the Bank are subject to change, and the Bank has to be proactive and adaptable in responding to these requirements.

Complying with these laws can be expensive and may require substantial technical capabilities, and require the Bank to, among other things, conduct customer due diligence regarding fiscal evasion, anti-money laundering, sanctions and politically exposed persons screening, keep client and supplier account and transaction information up to date and implement effective financial crime policies and procedures. The Bank relies on a comprehensive surveillance system designed to monitor and prevent unauthorised or non-compliant transactions. However, there is a risk that, due to potential technical errors, the system may fail to capture or stop all transactions as intended. Such failures could result from system malfunctions, software bugs, improper configuration, or external factors that impact the system's performance. If the surveillance system does not function properly, certain non-compliant transactions may go undetected, potentially leading to regulatory breaches, financial losses, or reputational damage. Although the Bank continuously monitors and updates its systems to minimise such risks, it cannot entirely eliminate the possibility of technical errors or failures.

The FSA carried out an onsite inspection in the autumn of 2022 in relation to the Bank's AML control framework pursuant to the AML Act, following which the FSA identified certain shortcomings in relation to the Bank's AML measures. The Bank announced this in its third quarter of 2023 financial results. It was further disclosed that the Bank had not challenged the FSA's findings and that the matter could result in a settlement and a fine. In the 2023 Consolidated Financial Statements it was disclosed that the Bank had recognised an undisclosed provision in relation to this matter.

On 31 May 2024, the Bank announced that the Board of Directors had decided to accept the FSA's offer to conclude the matter with a settlement agreement, which provided that the Bank accepted the FSA's conclusion that the Bank's shortcomings were many and related to various fundamentals in the Bank's AML control framework. Further, the breaches were deemed significant and to some extent a reiteration from previous FSA observations in 2021. By entering into the settlement agreement, the Bank committed to carrying out appropriate remedial actions and pay a fine in the amount of ISK 570 million. On 11 September 2024 the Bank completed its remedial actions. The Bank's internal auditor evaluated the remedial actions as per the terms of the settlement agreement as to whether the required remedies are adequate. The internal auditor sent a report of its findings to the FSA on 18 October 2024. If the FSA deems these remedial measures to be insufficient, they could impose further fines or remedial measures Although the Bank believes it has complied with the required remedies, there is no guarantee that the FSA will accept the remedies, in which case the FSA may render the settlement agreement void. Should that be the case, significant additional fines may be imposed, along with potential restrictions on operations, additional requirements for remedies and/or reduction or revocation of the Bank's operating license, any or all of which could have a significant effect on the Bank's operations and profits.

The Bank has carried out extensive remedies, with support from an international advisory firm, where the Bank's governance and internal procedures have been reviewed and strengthened. Significant investments have been made within the Bank's AML infrastructure and related technical solutions in addition to heightened focus from the Bank's management. However, the Bank cannot completely eliminate the risk of money laundering or bribery situations arising, for example by the acts of the Bank's employees, for which the Bank could be held responsible. Any such events can have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

Following a period in which Iceland was featured on the Financial Action Task Force's ("**FATF**") Grey List, Iceland was announced as having been removed from the Grey List in 2020. This came as a result of enacting further laws, rules and regulations to remove Iceland's status as a Grey List country, caused by previous legislature concerning money laundering and slow-moving monetary reform. While there is nevertheless a risk that any country may be placed on the Grey List, recent systemic changes undertaken within the Icelandic government have demonstrated a national determination to remain unlisted and continue to develop and strengthen its approach to tackling terror funding and money laundering.

R4.8 The Bank may be subject to ongoing, pending or threatened legal proceedings and investigations by governmental authorities

The Bank is at risk of claims being brought by various parties. Firstly, the Bank is a commercial bank and as such grants number of loans to consumers. Thereby the Bank is subject to the consumer legislation that imposes various obligations on the Bank, such as extensive information obligation. There is a risk that consumers bring a claim against the Bank for failing to properly inform them of risk and cost deriving from their borrowing, such as relating to interest or indexation. Secondly, given the Bank is a financial services firm and consultant to customers in respect of its Investment Banking division, the Bank could incur liability through its role in determining the price of companies, advising parties in corporate transactions and in disputes over the terms and conditions of trading arrangements. There is also the risk that counterparties could bring a claim against the Bank for failing to properly inform them of associated risks. Thirdly, the Bank could be subject to claims from current and former employees in relation to any alleged illegal dismissal, discrimination or harassment. In contrast, the Bank could experience financial loss or reputational damage as a result of illegal actions by employees or third-party service providers in the workplace. These risks can be unexposed for some time and it can be challenging to quantify the risk and scale of the issue. If any legal proceedings or investigations are determined adversely to the Bank, the Bank could be required to pay damages and/or fines and be subject to future restrictions on its business activities. This could adversely impact the Bank's financial position.

The Bank is involved in, or could be affected by, a number of ongoing, pending or threatened proceedings and is subject to routine inspections and investigations by governmental authorities, including, but not limited to:

Borgun hf. Landsbankinn

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

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

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

105 Miðborg slhf. - ÍAV hf.

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

The Consumers' Association of Iceland

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

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

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes on policy rates during the same period. On 12 November 2024, the District Court of Reykjanes rendered a judgement in the case where all claims made by the plaintiffs against the Bank were dismissed.

The plaintiffs have appealed the judgement and were granted permission to appeal directly to the Supreme Court without first going to the Court of Appeal. Should the judgement be overturned on appeal, it is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the greatest financial loss that the Bank could incur, taking different scenarios into account, could amount to around ISK 19 billion, primarily due to possible repayment of excess interest received. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk profile and future interest income should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date. Such a ruling, which the Bank regards as unlikely, could significantly impact the Bank's future revenues as, in the worst case scenario, mortgages currently bearing variable interest rates could be converted into fixed rate mortgages, exposing the Bank to significant interest risk if such mortgages no longer track developments in the interest rate environment.

It is disputed whether the terms of the Bank's mortgages, and the method used by the Bank to set variable interest rates, are in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit

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

EC Clear ehf.

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

For additional information on legal proceedings, see "*9. Business Overview—9.14 Legal Proceedings*."

R4.9 The Bank could incur unforeseen liabilities from prior and future acquisitions and disposals

As a core component of its growth strategy, the Bank actively pursues growth through acquisitions, among other means. The Bank may decide to acquire businesses in the future and doing so would expose various risks to the Bank. In doing so, the Bank may encounter challenges when trying to integrate the new business, and the combined business may not be as successful as planned. This in turn could cause key employees to leave the Bank if they are not satisfied with the changes to operations, which could have a negative impact on the Bank business, prospects, financial position and/or results of operations.

Acquisitions could also expose the Bank to unforeseen expenses, losses and tax liabilities, as well as obligations to employees, customers and business partners. The Bank will assess the potential value of the target before making the acquisition. However, the Bank cannot be certain that its due diligence assessment will be sufficient or will reveal all of the risks associated with the target or the full extent of any risks. This is because the Bank will have to rely on the resources available to it and possibly research carried out by third parties. In addition, it is possible for liabilities to arise which were not apparent at the time the target company was acquired. In order to mitigate these risks, the Bank will obtain warranties and indemnities from the seller. However, there is a risk that the warranties and indemnities might not cover all of the liabilities that arise following the acquisition, and the amounts agreed under the indemnities might not fully compensate the Bank for any diminution in the value of its interest in the business. The Bank could have difficulties enforcing warranties or indemnities against a seller for various reasons, for example, if the seller becomes insolvent or the limitation periods have expired.

The Bank may also dispose of part of its current business in the future, risking exposure to various risks. On a disposal of a part of the business or asset, the Bank may not be able to pass on all of the risks relating to the business or assets being sold to the buyer meaning the Bank can still be liable. Additionally, the Bank could also face damage to reputation and negative public opinion upon a disposal if, for example, the business or asset is sold at a perceived discount.

For further information regarding unforeseen liabilities relating to prior disposals, see "*—R4.8 The Bank may be subject to ongoing, pending or threatened legal proceedings and investigations by governmental authorities.*"

R4.10 The Bank has a high proportion of inflation-linked mortgage loans and there is a risk that legislation might be imposed which varies the terms of those loans in a manner that is adverse to the Bank

A high proportion of the Bank's mortgage loans are inflation-linked. Under these loans, the monthly repayment increases if and to the extent that inflation in Iceland increases. Following the financial crisis in 2008, inflation in Iceland increased significantly. This resulted in higher payments falling due under inflation-linked loans at the same time as borrowers faced lower wages and less purchasing power. There was significant debate in Iceland regarding these loans in the period preceding the parliamentary elections in April 2013. The Icelandic government announced at the end of November 2013 an action plan aimed at reducing the country's housing debt. On the basis of the action plan, the Icelandic Parliament passed Act No. 35/2014 and Act No. 40/2014. The objective of Act No. 35/2014 was to write down the principal of indexed residential mortgages and was financed by an increase in the Bank Levy (see "*12. Operating and Financial Review—12.2 Key Factors Affecting the Group's Business, Financial Position and Results of Operations*—Tax Developments "), which has increased the Bank's financial burden and decreased its profitability. Act No. 40/2014, which amended the Pension Act No. 129/1997, authorised households with residential mortgages, in the period between 1 July 2014 and 30 June 2017, to use payments which would otherwise go to a private pension fund to reduce the principal amount of their mortgages. This option has since been extended until 31 December 2025. This option is open to all residential mortgage holders, regardless of the form of their mortgage. There is a risk that additional legislation may be adopted or other government action taken to reduce the payment burden under inflation-linked mortgages. Should this occur, it would have a materially negative impact on the Bank's loan portfolio, financial condition and results of operations.

R4.11 Iceland's national implementation of the EEA rules may not be comprehensive in all circumstances

As a member state of the EEA, Iceland is obligated to implement parts of European Union law. A large amount of Icelandic legislation relating to the financial services industry, such as the legislation on financial undertakings, securities transactions and other legislation relating to financial markets, is implemented from EU law. If the state fails to draft national law in a way that conforms with EEA rules, Icelandic citizens may not be able to rely on national laws, and the Icelandic courts could be restricted from applying them unless the Icelandic legislation can be interpreted in a way which conforms with EU legislation. As a result, prospective investors may not, in all circumstances, enjoy the same legal protection they would expect as holders of securities issued by issuers in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation. Moreover, there can be errors in the implementation of EU law and in those cases, Icelandic law will be deemed to prevail in the Icelandic courts. Inconsistencies between EU law and Icelandic law can lead to uncertainty over which rules the Bank must follow, which can take up a lot of the Bank's resource and time in trying to identify which rules to follow.

There can be a delay before Icelandic law implements EU legislation, which could also feed into the Bank's uncertainty as to which rules it must comply with. Icelandic authorities may try to reduce uncertainty by working off requirements under the new EEA rules, which are in the process of being implemented. As a result, the Bank may be unable to rely on the precise wording of current statutes or draw guidance from legislative preparatory works. Working to comply with regulations which are changing can be resource intensive and exposes the Bank to a risk of non-compliance.

Additionally, Icelandic lawmakers have, on occasion, demonstrated a tendency to implement measures that are more stringent or comprehensive than those strictly required by the underlying EU legal instruments (gold-plating). This practice can result in a more burdensome regulatory environment compared to other EEA jurisdictions, potentially increasing compliance costs, administrative complexity, or legal uncertainty for the Bank. Future instances of gold-plating may adversely affect the Bank operations, financial condition, or strategic flexibility in the Icelandic market.

R4.12 Improving technological developments may lead to new and more detailed reporting and monitoring obligations of the financial industry. This could force the Bank to make significant investments and increase its compliance burden with a material adverse effect on the Bank's business, results of operations and financial condition

New technological developments lead, at least in theory, to increased knowledge within the financial industry about clients and their behaviour. Governmental authorities could decide to increasingly use the industry for achieving certain policy goals and for the enforcement of rules that strictly speaking do not regard the financial industry. To date, governments have invoked the assistance of the financial industry for purposes such as combating terrorism, preventing tax evasion and detecting signals of possible money laundering. In the future, as technological possibilities improve, governments and supervisory authorities could expect the industry to detect other unusual or illegal behaviours by clients, even though the systems being used in the industry may not have been designed to make such assessments.

If new, different or more detailed reporting or monitoring obligations of this nature were to be imposed on the Bank, then this could force it to make significant additional investments in technology or processes. For example, if the Bank were to be able to monitor transactions in new ways, more unusual transactions might possibly be detected as these are defined under current rules, which might then require the Bank to follow up on a greater number of signals of inappropriate transactions, which in turn requires more resources.

If as a result of improving technological means, governments and supervisory and other authorities impose new and more detailed reporting and monitoring obligations on the Bank, this could force it to make significant investments and increase its compliance burden with a material adverse effect on the Bank's business, reputation, results of operations and financial condition.

R4.13 Foreign exchange transactions, cross-border payments and the flow of capital between countries could be restricted to some extent in special circumstances

In response to the financial crisis, the Parliament of Iceland approved certain amendments to Act No. 87/1992 on Foreign Exchange, as amended that introduced capital controls in 2008 with the view of stabilising the foreign exchange rate of the Icelandic Króna. The capital controls effectively prohibited the cross-border transfer of funds, except in certain circumstances, such as the payment for goods or services and transfers permitted under applicable statutory exemptions. Therefore (unless expressly permitted) financial transactions resulting in cross-border currency transactions and including lending and borrowing between resident and non-resident parties, as well as currency derivatives of any kind and the acquisition by domestic parties of financial instruments denominated in foreign currency, were prohibited. As a result, the capital controls made it compulsory for Icelandic nationals and companies to repatriate all foreign currency not subject to those statutory exemptions.

The capital controls were removed with the Foreign Exchange Act that entered into force on 29 June 2021. The Act is based on the principle that foreign exchange transactions, cross-border payments and the flow of capital between countries should be free and unrestricted, but with the provision that certain protective measures may be applied, in order to protect economic stability or financial stability if it becomes necessary. These measures may be categorised as three types, i) an authorisation to impose a special reserve requirement due to the inflow of foreign currency, ii) an authorisation to set rules for lending by credit institutions linked to foreign currencies to entities that are not protected from currency risk, and iii) an authorisation to set rules that limit derivative transactions with the Icelandic króna against a foreign currency. On the basis of these authorisation, rules have only been established on the basis limiting derivative transactions with regulation no. 765/2021. Furthermore, the Central Bank of Iceland has the authority to set rules, with the approval of the Prime Ministry which, among other things, may limit or stop certain categories of capital movements or payments between countries, for up to 60 days, in addition to limiting foreign exchange transactions and imposing the obligation to return foreign currency. This authority is only valid in emergency situations that entail a significant risk of financial stability being disturbed by unrestrained capital movements and cannot be dealt with by other means.

Although no capital controls are in place in Iceland as of the date of this Prospectus, there is no guarantee that such controls will not be reintroduced in the future to protect the country's economic or financial stability.

R4.14 The Group's business operations require precise documentation, recordkeeping and archiving. Any failure to do so could cause the Group to violate regulatory requirements, could prevent it from adequately monitoring transactions and claims or litigation, and could preclude it from enforcing agreements in accordance with their intended terms, all with a potential material adverse effect on the Group's business, reputation, results of operations and financial condition

The Group's business operations require precise documentation, recordkeeping and archiving. Incomplete documentation, documentation not properly executed by counterparties, inadequate recordkeeping or archiving, including the ability to promptly reproduce the information stored in a demonstrable authentic, unchanged, unmodified or unaltered fashion, and the loss of documentation—both physical and electronic documentation—could materially and adversely affect the Group's business operations in a number of ways. Technical limitations, end of lifecycles, erroneous operational decisions, inadequate policies, human mistakes, outdated computer systems and programmes for the storage of older data, system failures, system decommissioning, underperforming third party service providers and inadequate and incomplete arrangements with third party service providers (including where the business continuity and data security of such third parties proves to be inadequate), may all lead to incomplete or inappropriate documentation or data, the loss or inaccessibility of documentation or data, and non-compliance with regulatory requirements.

The risk is further exacerbated by the increased use of technology and modern media for interacting with customers and entering into transactions with or selling products and services to them. For example, documentation and recordkeeping when clients use the internet or hand-held devices for entering into transactions with the Bank are in certain respects more complex (with electronic signatures having to be verified and pages visited and general terms accepted having to be stored) than with more traditional paper-based methods for entering into transactions. Furthermore, if client or transaction files are not complete, this could preclude the Bank from enforcing or performing agreements in accordance with their intended terms. Accordingly, if the Bank should fail in respect of proper documentation, recordkeeping and archiving, or in obtaining the right and complete information, this could not only lead to fines or other regulatory action, but also materially and adversely affect its business, reputation, results of operations and financial condition.

R5. RISKS RELATING TO THE OFFERING AND THE OFFER SHARES

R5.1 The market price of the Offer Shares may fluctuate and could fall below the Offer Price

The Bank cannot guarantee that the Offer Shares will trade at a price equal to or higher than the Offer Price. The Offer Price may not be indicative of the market price for the Shares during the Offer Period or following the Offering. The liquidity and trading price of the Shares may be highly volatile in response to factors including (but not limited to) adverse judicial or extrajudicial decisions, the Bank's real or perceived financial performance, large purchases or sales of the Shares, negative publicity, changes to legislation or regulations, macroeconomic conditions and the financial markets. Additionally, factors outside of the Bank's control, such as a potential attempted takeover of the Bank, could significantly impact the Share price by increasing volatility. Regardless of the Bank's performance and market conditions, fluctuations may occur and could have a negative impact on the market price of the Shares resulting in losses to investors. The Offer Price may bear no relationship to the price at which the Shares will trade upon the completion of the Offering.

R5.2 The Bank's ability to declare a dividend in the future is subject to a variety of factors

The Bank's shareholders will determine whether future dividends will be declared and paid following a proposal from the Board of Directors and will depend on various factors, including the evolution of the business, its financial condition, operating results, prospects/opportunities, capital requirements, the ability of its subsidiaries to pay dividends to the Bank, credit terms and any statutory restrictions or recommendations from the authorities. General public opinion can also impact the payment of dividends, and in the past, some companies have gone as far as to change their plans for paying dividends in light of negative opinion of the public. The Bank would also need to consider the potential for any dividend payment creating a large exposure for the Bank, defined as exposure to a single borrower or a group of financially related borrowers which exceeds 10% of the Bank's eligible capital.

Additionally, the Central Bank of Iceland imposes strict guidelines on the Bank regarding currency imbalance, liquidity and capital position. When considering if to declare and pay a dividend, the Bank must ensure that it holds sufficient funding sources in Icelandic Króna in order to make the payment and to still meet capital and liquidity requirements.

The Bank cannot guarantee that dividends will be payable or paid in the future, or that, if they are paid, that they will increase over time. See "*19. Shares and Share Capital—19.3 Dividends and Dividend Policy*."

R5.3 Depending on its level of shareholding, the Icelandic state may be able to exercise influence on the Bank, and its interests may conflict with those of the Bank's other shareholders

If the Selling Shareholder continues to retain a significant proportion of the Shares following the Offering and, consequently, an interest in the Bank, the Icelandic state and the government could have an influence on the Bank's management and affairs and on the outcome of matters submitted to its shareholders for approval. The interests of the Icelandic state may differ from or compete with those of the Bank's other shareholders.

However, the Selling Shareholder's stake is expected to be reduced to at least 25.2% following the Offering. As a result the Relationship Agreement between the Bank and the Selling Shareholder will automatically terminate, reducing the formal mechanisms through which the Icelandic state may influence the Bank. See "*18.3 Relationship Agreement*."

R5.4 Future offerings of debt or equity securities by the Bank may adversely affect the market price of the Shares

The Bank could in the future want to increase its capital resources by offering Shares, preference shares, or debt securities such as commercial paper, medium-term notes, senior or subordinated notes. If the Bank then later becomes insolvent, entities or individuals who hold preference shares or debt securities and other creditors would receive a distribution of the Bank's available assets before the holders of the Shares. Additionally, further equity offerings may dilute the voting rights of the Bank's existing shareholders and could potentially reduce the market price of the Shares. Additionally, the holders of Shares may be less likely to receive a dividend if preference shares have been issued.

R5.5 The sale of a substantial number of Shares, or the perception that such sales may occur, could negatively affect the market price of the Shares

The sale of a substantial number of Shares in the market before or after the Offering, or the perception that such sales may occur, could negatively affect the market price of the Shares. The public trading market price of the

Shares may decline below the Offer Price, in which case investors will suffer an immediate unrealised loss as a result. The Bank cannot assure investors that, after they purchase Offer Shares, they shall be able to sell them at a price equal to or greater than the Offer Price. Moreover, until the Offer Shares are credited with the Nasdaq CSD Iceland securities accounts designated in the relevant purchase application upon completion of the Offering, investors will be unable to sell Offer Shares at all.

Following the completion of the Offering, the Selling Shareholder may, subject to the lock-up arrangements in the Underwriting Agreement (see "*18. Major Shareholders—18.2 Lock-Up*"), dispose further Shares it holds in the Bank, including in the short term. It is noted that in accordance with the Icelandic State Budget for the year 2024, the Selling Shareholder will use all reasonable efforts to dispose its holdings in the Bank before 31 December 2025, while maintaining financial stability and ensuring that it receives fair value and subject to key requirements including the evaluation of conditions prevailing in the market. A disposal of Shares held by the Selling Shareholder may place a significant amount of downward pressure on the market price of the Shares.

R5.6 Risk of Share dilution

Issuing new shares can cause the value of existing shareholders' shares to reduce, and therefore dilute their proportion of ownership. The current Articles of Association, dated 21 March 2024, do not contain any capital increase authorisations but shareholders meeting can decide to increase the Bank's capital or grant the Board of Directors with such authorisation by amending the Articles of Association on a shareholder meeting. Amendments to the Articles of Association require approval of 2/3 majority of votes cast and shareholders controlling at least 2/3 of the share capital represented at the meeting.

R5.7 Risk relating to transferability of the Shares

The Shares are not subject to any restrictions on transferability on Nasdaq Iceland, and the Bank's Articles of Association, dated 21 March 2024, do not contain any restrictions on shareholders' rights to dispose of their shares in the Bank. However, the Articles state that qualifying holdings are subject to limitations under the Financial Undertakings Act, which contains rules on qualifying holdings in financial institutions. These state that if an investor wishes to acquire a qualifying holding of 10% or more in a financial undertaking such as the Bank, whether alone or with others, the party must notify the FSA in advance of its plans. Similarly, notification must be given to the FSA if an investor, whether alone or in concert with others, increases its shareholding so that it exceeds 20%, 30% or 50%, or becomes so large that the Bank is considered to be its subsidiary. Alternatively, if the owner of a qualifying holding wishes to reduce its shareholding so that it no longer owns a qualifying holding, the owner shall notify the FSA in advance, of the holding following such disposal. If the holding is below 20%, 30% or 50%, or to such an extent that the financial undertaking ceases to be a subsidiary of the undertaking concerned, this must also be notified. The same notification requirements apply if a proportional holding decreases as a result of an increase in share capital or guarantee capital.

The registration of liens and changes in ownership is subject to the Central Securities Depositories Act, as provided for in the Articles of Association.

R5.8 Preferential rights for U.S. and other non-Icelandic holders of the Shares may not be available

Existing holders of the Shares are usually entitled to preferential rights to subscribe for new Shares if the Bank increases its share capital unless shareholders waive such rights by passing a resolution at a general meeting of the shareholders. Holders of the Shares located in the United States cannot exercise any preferential right unless these rights and the Shares are registered under the U.S. Securities Act or an exemption from the registration requirements applies. The Bank is unlikely to file a registration statement and it cannot guarantee to prospective investors that an exemption from the registration requirements would be available to enable U.S. or other non-Icelandic holders of the Shares to exercise any preferential rights or, even if an exemption was available, that the Bank would make use of an exemption.

R5.9 Enforceability in Iceland of claims based on the United States federal securities laws

The Bank is a public limited company established under Icelandic law. The majority of the members of the Board of Directors, the Executive Committee and the Selling Shareholder reside outside the United States and a large proportion of the Bank's assets (and the assets of the members of the Board of Directors, the Executive Committee and the Selling Shareholder) are located outside the United States. Investors may not be able to effect service of process within the United States upon the Bank (or members of the Board of Directors, the Executive Committee or the Selling Shareholder) or to enforce in the United States courts any judgements against them obtained in those courts based upon the civil liability provisions of the United States federal securities laws. There is considerable doubt as to the enforceability in Iceland of claims based on the United States federal securities laws, whether by original actions or by seeking to enforce a judgement of a U.S. court.

R5.10 The Bank may be classified as a Passive Foreign Investment Company ("PFIC")

The Bank does not expect to be classified as a PFIC for U.S. federal income tax purposes for its taxable year ended on 31 December 2024, the current taxable year or in the foreseeable future taxable years, although there can be no assurances in this regard. The Bank's status as a PFIC in any year depends on its assets and activities in that year. Additionally, the determination is based in part on proposed regulations upon which taxpayers may rely, but which may be subject to change as and when adopted as final regulations. PFIC status is inherently factual in nature, may depend in part on fluctuations in the market price of the Bank's shares, is determined annually, and generally cannot be determined until the close of the taxable year. As a result, there can be no assurance that the Bank will not be considered a PFIC for any taxable year. Moreover, if the Bank is or becomes classified as a PFIC, it could have materially adverse consequences for U.S. investors in the Offer Shares. See "*23. Taxation—23.2 U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules*."

R5.11 Exchange rate fluctuations could have an adverse impact on the value of a non-Icelandic holder's Offer Shares and dividends

The share capital of the Bank is denominated and traded in Icelandic Króna. An investment in the Offer Shares by an investor whose principal currency is not Icelandic Króna exposes the investor to foreign currency exchange rate risk. Any depreciation of Icelandic Króna in relation to such foreign currency will reduce the value of the investment in the Offer Shares or any dividends in foreign currency terms.

Dividends are declared at the Annual General Meeting and paid in Icelandic Króna. The date for the payment of dividends in Iceland is decided by the shareholders at a general meeting (whether an Annual General Meeting or an extraordinary general meeting).

R5.12 Recovery and resolution regimes may affect the rights and remedies of holders of the Offer Shares

Directive 2014/59/EU (the "Bank Recovery and Resolution Directive" or "**BRRD**"), which came into force on 2 July 2014, permits competent authorities to intervene quickly should a bank be in difficulty, to ensure the continuity of the bank's critical financial and economic functions, and minimising the wider impact on the economy. The BRRD provides that it will be applied by the member states of the EEA have been obliged to apply it since 1 January 2015 (with the exception of the general bail-in resolution tool, which the member states of the EEA have been obliged to apply since 1 January 2016). The BRRD impacts how credit institutions and investment firms are managed and can also impact the rights of creditors. Measures taken to save the Bank could include strengthening of the Bank's capital by issuing Shares in a situation of financial distress and/or write down or conversion into equity of the Bank's indebtedness, either of which could result in dilution of the purchasers of the Offer Shares. The exercise of any power under the BRRD, or any suggestion of such exercise, could materially adversely affect the price or value of the Offer Shares.

R5.13 Nasdaq Iceland is less liquid than other major exchanges

The Shares are admitted to trading on Nasdaq Iceland. Nasdaq Iceland is less liquid than other major stock markets in Western Europe and the United States. In the three months ended 31 March 2025, the average daily volume on Nasdaq Iceland was ISK5.7 billion. On 31 March 2025, the total value of all shares listed on Nasdaq Iceland amounted to approximately ISK 3,239 billion. The Bank's market capitalisation as at 31 March 2025 amounted to ISK 233 billion, corresponding to approximately 7% of the total market capitalisation of all companies with equity securities admitted to trading on Nasdaq Iceland (*source: Bloomberg*). As a result, the holders of Shares may face difficulties engaging in share purchases and sales especially if they wish to engage in large-volume transactions. There can be no assurances about the future liquidity of the market for the Shares.

R5.14 The Bank may not be able to maintain a listing of the Shares on Nasdaq Iceland

The Bank's ordinary shares are listed on Nasdaq Iceland. The Bank must meet certain financial and liquidity criteria to maintain such listing. If the Bank violates Nasdaq Iceland's listing requirements, or if it fails to meet any of Nasdaq Iceland's listing standards, the Shares may be delisted. In addition, the Bank's Board of Directors may determine that the cost of maintaining its listing on a stock exchange outweighs the benefits of such listing. A delisting of the Shares from Nasdaq Iceland may materially impair the Bank's shareholders' ability to buy and sell the Shares and could have an adverse effect on the market price of, and the efficiency of the trading market for, the Shares. The delisting of the Shares could significantly impair its ability to raise capital.

3. IMPORTANT INFORMATION

This Prospectus has been approved by the FSA as competent authority under Regulation (EU) 2017/1129. The FSA only approves this Prospectus as meeting the standard of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval of the FSA shall not be considered as an endorsement to the Bank or the quality of the Offer Shares. Investors shall make their own assessment as to the suitability of investing in the Offer Shares. This Prospectus has been drawn up as part of a simplified prospectus in accordance with Article 14 of the Prospectus Regulation. This Prospectus is available at the FSA website (www.sedlabanki.is) and the Bank's website (www.islandsbanki.is) and will remain publicly available on the Bank's website for at least 10 years following the date hereof.

The distribution of this Prospectus and the offer, acceptance, delivery, transfer, exercise, purchase of or trade in the Offer Shares may, in certain jurisdictions, including, but not limited to, the United States, be restricted by law. Persons in possession of this Prospectus are required to inform themselves about, and to observe, such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus may not be used for, or in connection with and does not constitute an offer to sell or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation is not authorised or would be unlawful. Neither this Prospectus nor any related materials may be distributed or transmitted to, or published in, any jurisdiction except under circumstances that will result in compliance with any applicable laws or regulations.

None of the Bank, the members of the board of directors of the Bank (the "**Board of Directors**"), the executive committee of the Bank (the "**Executive Committee**"), the Selling Shareholder, the Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

All purchasers of the Offer Shares are deemed to acknowledge that (i) they have not relied on the Managers or any person affiliated with them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision and (ii) they have relied only on the information contained in this Prospectus, and that no person has been authorised to give any information or to make any representation concerning the Bank, the Selling Shareholder or the Offer Shares (other than as contained in this Prospectus) and that, if given or made, any such other information or representation has not been relied upon as having been authorised by the Bank, the Selling Shareholder or any of the Managers.

EXCEPT AS OTHERWISE SET FORTH IN THIS PROSPECTUS, THE OFFERING DESCRIBED IN THIS PROSPECTUS IS NOT BEING MADE TO INVESTORS IN THE UNITED STATES, CANADA, AUSTRALIA, JAPAN OR SOUTH AFRICA.

This Prospectus does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to acquire, the Offer Shares in any jurisdiction in which such an offer or solicitation is unlawful or would result in the Bank becoming subject to public company reporting obligations outside Iceland.

The distribution of this Prospectus, and the offer or sale of the Offer Shares, is restricted by law in certain jurisdictions. This Prospectus may only be used where it is legal to offer, solicit offers to purchase or sell the Offer Shares. Persons who obtain this Prospectus must inform themselves about and observe all such restrictions.

No action has been, or will be, taken to permit a public offer or sale of the Offer Shares or the possession or distribution of this Prospectus or any other material in relation to the Offering in any jurisdiction outside Iceland where action may be required for such purpose. Accordingly, neither this Prospectus nor any advertisement or any other related material may be distributed or published in any jurisdiction, except in compliance with any applicable laws and regulations. See "*25. Plan of Distribution and Transfer Restrictions—25.2 Selling and Transfer Restrictions*."

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and may not be offered or sold within the United States, unless the Offer Shares are registered under the U.S. Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. In the United States, the Offer Shares will be sold only to persons reasonably believed to be QIBs as defined in, and in reliance on, Rule 144A under the U.S. Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. All offers and sales of the Offer Shares outside the United States will be made in compliance with Regulation S under the U.S. Securities Act and in accordance with applicable law. See "*25. Plan of Distribution and Transfer Restrictions—25.2 Selling and Transfer Restrictions*." The Offer Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

European Economic Area

This Prospectus and the Offering are only addressed to, and directed at, persons in member states of the European Economic Area (the "**EEA**") who are "**Qualified Investors**" within the meaning of Article 2 (e) of the Prospectus Regulation. Save for in Iceland, the Offer Shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire the Offer Shares will be engaged in only with, (i) Qualified Investors, (ii) fewer than 150 natural or legal persons in a Relevant Member State (other than Qualified Investors), or (iii) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 1(4) of the Prospectus Regulation; *provided that* no such offer of the Offer Shares will result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Regulation or of a supplement to a prospectus pursuant to Article 23 of the Prospectus Regulation. This Prospectus and its contents should not be acted or relied upon in any member state of the EEA by persons who are not Qualified Investors.

This Prospectus has been prepared on the basis that all offers of the Offer Shares, other than the offers contemplated in Iceland, respectively, will be made pursuant to an exemption under the Prospectus Regulation, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the Offer Shares. Accordingly, any person making or intending to make any offer within the EEA of the Offer Shares that is the subject of the Offering contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Bank, the Selling Shareholder or any of the Managers to produce a prospectus for such offer. None of the Bank, the Selling Shareholder or the Managers has authorised, nor does the Bank, any of the Selling Shareholder or the Managers authorise, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Managers that constitute the final Offering of the Offer Shares contemplated in this Prospectus.

For the purposes of this provision, (a) the expression an "**offer to the public**" in relation to any Offer Shares in any member state of the EEA that has implemented the Prospectus Regulation (including Iceland) (each, a "**Relevant Member State**") means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase the Offer Shares, as the same may be varied in such Relevant Member State by any measure implementing the Prospectus Regulation in such Relevant Member State, (b) the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, and (c) the expressions "**Relevant Member State**," "**member states of the EEA**," "**any member state of the EEA**" and "**within the EEA**" do not include Iceland.

United Kingdom

This Prospectus and the Offering is addressed only to persons who are "qualified investors" within the meaning of Article 2(e) of Regulation (EU) 2017/1129 (as amended) as it forms part of assimilated law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") and who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (the "**FSMA**") (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. This Prospectus has been prepared on the basis that any offer of the Offer Shares referred to herein in the UK will be made pursuant to an exemption under the Prospectus Regulation as it forms part of assimilated law by virtue of the EUWA (the "**UK Prospectus Regulation**") from the requirement to publish a prospectus for offers of the securities referred to herein. Accordingly, any person making or intending to make an offer in the UK of Offer Shares which are the subject of the Offering only do so in circumstances in which no obligation arises for the Bank, the Selling Shareholder or any of the Managers to publish a prospectus pursuant to Article 3 of the UK Prospectus Regulation, in each case, in relation to such offer. Neither the Bank nor the Selling Shareholder nor any of the Managers have authorised, nor do they authorise, the making of any offer of Offer Shares in circumstances in which an obligation arises for the Bank, the Selling Shareholder or any of the Managers to publish a prospectus for such offer.

The Offer Shares described in the Prospectus are not intended to be offered, sold, distributed or otherwise made available to and should not be offered, sold, distributed or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of the UK Prospectus Regulation; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of assimilated law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of assimilated law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering, selling or distributing the Offer Shares or otherwise making them available to retail investors in the UK has been prepared and therefore offering, selling or distributing the Offer Shares or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notice to Certain Overseas Persons

The Offer Shares will not qualify for distribution under the relevant securities laws of Australia, Canada, the Republic of South Africa or Switzerland, nor has any prospectus in relation to the Offer Shares been lodged with, or registered by, the Australian Securities and Investments Commission or any regulatory authority in Australia, Canada, Japan, the Republic of South Africa or Switzerland. Accordingly, subject to certain exemptions, the Offer Shares may not be offered, sold, taken up, delivered or transferred in, into or from Australia, Canada, the Republic of South Africa, Switzerland or any other jurisdiction where to do so would constitute a breach of local securities laws or regulations (each a "**Restricted Jurisdiction**") or to or for the account or benefit of any national, resident or citizen of a Restricted Jurisdiction. This document does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or purchase, any Offer Shares to any person in a Restricted Jurisdiction and is not for distribution in, into or from a Restricted Jurisdiction.

4. PRESENTATION OF FINANCIAL AND OTHER INFORMATION

4.1 General

The content of this Prospectus is not to be considered or interpreted as legal, financial or tax advice. It is not intended to provide the basis for any credit or other evaluation and should not be considered as a recommendation by any of the Bank, the members of the Board of Directors, the Executive Committee, the Selling Shareholder, any of the Managers or any of their respective representatives that any recipient of this Prospectus should purchase any Offer Shares. The Managers are party to various agreements pertaining to the Offering and have entered or may enter into financing arrangements with the Bank, but this should not be considered as a recommendation by them to invest in the Offer Shares. Each prospective investor should consult his own stockbroker, bank manager, lawyer, auditor or other financial, legal or tax advisors before making any investment decision with respect to the Offer Shares to, among other things, consider such investment decision in light of his or her personal circumstances and to determine whether or not such prospective investor is eligible to purchase the Offer Shares.

Potential investors should rely only on the information contained in this Prospectus and any prospectus supplements announced in accordance with the provisions of the Prospectus Act. The Bank will not undertake to update this Prospectus, unless required pursuant to the provisions of the Prospectus Regulation, and therefore potential investors should not assume that the information in this Prospectus is accurate as at any date other than the date of this Prospectus. No person is, or has been, authorised to give any information or to make any representation in connection with the Offering, other than as contained in this Prospectus and, if given or made, any such other information or representation must not be relied upon as having been authorised by the Bank, the members of the Board of Directors, the Executive Committee, the Selling Shareholder, the Financial Advisor, any of the Managers or any of their respective representatives. The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof or that the information contained herein is correct as at any time subsequent to such date.

No representation or warranty, express or implied, is made or given by or on behalf of the Managers or any of their affiliates or any of their respective directors, officers or employees or any other person, as to the accuracy, completeness or fairness of the information or opinions contained in this Prospectus, and nothing in this Prospectus shall be relied upon as a promise or representation by the Managers or any of their respective affiliates as to the past or future. None of the Managers accepts any responsibility whatsoever for the content of this Prospectus or for any other statements made or purported to be made by either itself or on its behalf in connection with the Bank, the Selling Shareholder, the Offering or the Offer Shares. Accordingly, the Managers disclaim, to the fullest extent permitted by applicable law, all and any liability whether arising in tort, contract or otherwise, which they might otherwise have in respect of this Prospectus and/or any such statement.

The Managers are acting exclusively for the Selling Shareholder and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this Prospectus) as their clients in relation to the Offering and will not be responsible to anyone other than the Selling Shareholder for providing the protections afforded to their clients or for giving advice in relation to the Offering and the listing or any transaction, matter or arrangement referred to herein.

In connection with the Offering, the Managers and any of their respective affiliates, acting as investors for their own accounts, may acquire the Offer Shares and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Offer Shares and other securities of the Bank or related investments in connection with the Offering or otherwise.

Accordingly, references in this Prospectus to the Offer Shares being offered, acquired, placed or otherwise dealt in should be read as including any offer to, or acquisition, dealing or placing by, the Managers and any of their affiliates acting as investors for their own accounts. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

The Offer Price for Tranche A is ISK 106.56 per Offer Share. The Offer Price for Tranche B and Tranche C, as well as the number of the Offer Shares to be included in the Offering will be determined upon the finalisation of the book-building period (expected to occur on or about 15 May 2025) and will be announced through the publication of an announcement released on an electronic information dissemination system and on the Selling Shareholder's website (www.government.is/islandsbanki) and the Bank's website (www.islandsbanki.is).

4.2 Supplements

If a significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment of the Offer Shares arises or is noted between the date of this Prospectus being approved by the FSA and the end of the Offer Period, then a prospectus supplement shall be prepared, approved and published in accordance with Article 23 of the Prospectus Regulation and Article 5 of the Prospectus Act. The summary of the Prospectus and any translation thereof shall also be supplemented as applicable.

Investors who have already agreed to purchase the Offer Shares before such a supplement is published shall have the right, exercisable within two business days following the publication of a supplement, to withdraw their acceptances, provided that the significant new factor, material mistake or material inaccuracy referred to above arose or was noted before the closing of the Offer Period or delivery of the Offer Shares, whichever occurs first.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable, whether expressly, by implication or otherwise, be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall, except as so modified or superseded, no longer constitute a part of this Prospectus. For the avoidance of doubt, references in this paragraph to any supplement being published by the Bank do not include the pricing statement.

4.3 Potential Conflict of Interest

The Managers, the Financial Advisor and/or their respective affiliates have from time to time engaged, and may in the future engage, in commercial banking, investment banking and financial advisory and ancillary transactions in the ordinary course of their business with the Group (or any parties related to the Group) for which they have received or may receive customary compensation, fees and/or commissions. These services may include issuing or creating and trading in the Group's securities and financial products, acting with the Group in debt or equity syndicates, providing investment banking, corporate banking or lending services with and to the Group, credit and rate flows with the Group, securities financing set-ups, acting as payments provider for the Group, holding cash management accounts for the Group, providing treasury services, such as repo, securities finance and portfolio management for liquidity management purposes and providing trading services, such as credits, rates and foreign exchange, commercial paper and certificate of deposit services and fixed income and treasury sales. In addition, the Managers, the Financial Advisor and/or their respective affiliates, in the ordinary course of their business, hold, have held and/or may in the future hold a broad array of investments and actively trade the Group's debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, including securities in relation to which the Managers or the Financial Advisor may be exercising voting power over the Group's securities on behalf of third parties. The Managers, the Financial Advisor and/or their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of securities and/or financial instruments of the Group, its affiliates and/or affiliates of the Selling Shareholder and may hold or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the Offering, each of the Managers and/or any of their respective affiliates, acting as an investor for its own account, may take up the Offer Shares and, in that capacity may retain, purchase or sell for its own account such Offer Shares or related investments and may offer or sell such Offer Shares or related investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to the Offer Shares being offered or placed should be read as including any offering or placement of the Offer Shares to any of the Managers and/or any of their respective affiliates acting in such capacity. In addition, certain of the Managers and/or their respective affiliates may enter into financing arrangements (including swaps) with investors in connection with which the Managers and/or their respective affiliates may from time to time acquire, hold or dispose of the Offer Shares. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. As a result of acting in the capacities described above, the Managers may have interests that may not be aligned, or could potentially conflict, with interests of the investors in the Offer Shares and the Group.

4.4 Presentation of Financial Information

The consolidated financial information as at and for the years ended 31 December 2024, 2023 and 2022 has, unless otherwise stated and except for the below, been derived from the Bank's audited consolidated financial statements for the financial years ended 31 December 2024 (the "**2024 Consolidated Financial Statements**"), 2023 (the "**2023 Consolidated Financial Statements**") and 2022 (the "**2022 Consolidated Financial Statements**"), included in "27. *Consolidated Financial Statements*" (together, the "**Annual Consolidated Financial Statements**"), prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union, and additional requirements set forth in the Annual Accounts Act, the Financial Undertakings Act and Rules No. 532/2003 on Accounting for Credit Institutions. Financial information in this Prospectus is presented on a consolidated basis unless otherwise indicated.

The selected condensed consolidated interim financial information as at and for the three months ended 31 March 2025 has, unless otherwise stated, been derived from the Bank's unaudited condensed consolidated interim financial statements for the three months ended 31 March 2025 (the "**Interim Financial Statements**" and, together with the Annual Consolidated Financial Statements, the "**Consolidated Financial Statements**"), prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union and additional requirements in the Annual Accounts Act, the Financial Undertakings Act and Rules No. 532/2003 on Accounting for Credit Institutions.

The 2022 Consolidated Financial Statements have been audited by Ernst & Young ehf., the 2023 Consolidated Financial Statements have been audited by Deloitte ehf., and the 2024 Consolidated Financial Statements have been audited by KPMG ehf., the independent auditor of the Bank. The respective audit reports are included in this Prospectus.

With respect to the Interim Financial Statements, included herein, KPMG ehf., independent auditors, have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

4.5 Non-IFRS Information

This Prospectus contains certain financial measures that are not defined or recognised under IFRS, exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Bank's non-IFRS measures comprise:

- liquidity coverage ratio;
- net stable funding ratio;
- CET1 ratio (Common Equity Tier 1 ratio ("CET1 **ratio**"));
- loan-to-deposit ratio;
- REA density;
- net interest margin;
- net interest margin – Personal Banking;
- net interest margin – Business Banking;
- net interest margin – Corporate & Investment Banking;
- return on equity;

- cost-to-income ratio;
- cost-to-income ratio – Personal Banking (including cost allocation);
- cost-to-income ratio – Business Banking (including cost allocation);
- cost-to-income ratio – Corporate & Investment Banking (including cost allocation);
- total capital ratio;
- over-collateralisation;
- leverage ratio;
- dividend ratio;
- cost of risk; and
- asset encumbrance ratio.

(collectively, the "**Non-IFRS Information**").

The Bank uses these indicators in its business operations, among other things, to evaluate the performance of its operations, to develop budgets and to measure the Bank's performance against those budgets. The Bank believes the Non-IFRS Information to be useful supplemental tools to assist in evaluating operating performance because it considers the Non-IFRS Information to reflect its underlying business performance and believes that these measures provide additional useful information for prospective investors on its performance, enhance comparability from period to period and with other companies and are consistent with how business performance is measured internally.

The Non-IFRS Information and related measures are not measurements of performance or liquidity under IFRS and should not be considered by investors in isolation or as a substitute for measures of earnings, as an indicator of the Bank's operating performance or cash flows from operating activities as determined in accordance with IFRS or otherwise as a substitute for analysis of the Bank's operating results reported under IFRS. The Bank has presented these supplemental measures because they are used by the Bank to monitor the underlying performance of its business and operations. The Non-IFRS Information and related measures may not be comparable to similarly titled measures disclosed by other banks and have limitations as analytical tools. The Bank does not regard the Non-IFRS Information as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS. The Non-IFRS Information described in this Prospectus is unaudited and has not been prepared in accordance with IFRS or any other generally accepted accounting principles. In addition, the presentation of the Non-IFRS Information is not intended to and does not comply with the reporting requirements of the U.S. Securities and Exchange Commission. None of this financial information is subject to any audit or review by independent auditors.

For definitions of the non-IFRS measures included in the Non-IFRS Information, along with quantitative reconciliations to the most directly comparable amounts reported in accordance with IFRS, see "*11. Selected Consolidated Financial, Operating and Other Information—11.4* Certain Other Financial Information*.*"

4.6 Rounding

Certain figures in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances (a) the sum or percentage change of such numbers may not conform exactly to the total figure given and (b) the sum of the numbers in a column or row in certain tables may not conform exactly to the total figure given for that column or row.

4.7 Currency Presentation

The tables below set forth U.S. dollar versus ISK and euro versus ISK exchange rates as certified by the Central Bank of Iceland. The Bank does not represent that the ISK amounts referred to below could have been or could be converted into U.S. dollars or euro at any particular rate indicated or at any other rate. The rates below may differ from the rates used in "27. *Consolidated Financial Statements*" and other financial information appearing in this Prospectus.

The table below sets forth the high and low Central Bank of Iceland daily closing mid-rates for U.S. dollar versus ISK for each respective year and the rate at the end of the year. The average amounts set forth below under "Average" are calculated as the average of the Central Bank of Iceland's rates for U.S. dollar versus ISK on the last business day of each month for each respective year.

	Low	High	Average	End of Year
	(*ISK per U.S. dollar*)			
2020	121.9	147.5	135.3	127.2
2021	119.9	132.4	126.5	130.4
2022	124.0	148.6	135.4	142.0
2023	130.0	145.6	137.1	136.2
2024	134.5	141.7	137.8	138.2

The table below sets forth the high and low Central Bank of Iceland rates for U.S. dollar versus ISK for each month during the six full months prior to the date of this Prospectus.

	Low	High
	(*ISK per U.S. dollar*)	
November 2024	136.6	139.9
December 2024	137.7	139.6
January 2025	138.8	141.7
February 2025	138.6	142.7
March 2025	131.9	139.2
April 2025	126.3	133.2

The U.S. dollar versus ISK Central Bank of Iceland exchange rate on 12 May 2025 was ISK 131.9 per U.S.$1.00.

The table below sets forth the high and low Central Bank of Iceland daily closing mid-rates for euro versus ISK for each respective year and the rate at the end of the year. The average amounts set forth below under "Average" are calculated as the average of the Central Bank of Iceland rates for euro versus ISK on the last business day of each month for each respective year.

	Low	High	Average	End of Year
	(*ISK per euro*)			
2020	135.9	165.8	155.2	156.1
2021	145.9	157.2	149.4	147.6
2022	136.3	153.3	141.9	151.5
2023	141.9	157.1	148.5	150.5
2024	143.9	153.5	149.0	143.9

The table below sets forth the high and low Central Bank of Iceland rates for euro versus ISK for each month during the six full months prior to the date of this Prospectus.

	Low	High
	(*ISK per euro*)	
November 2024	144.3	149.1
December 2024	143.9	145.9
January 2025	143.9	146.7
February 2025	145.1	147.3
March 2025	142.3	147.3
April 2025	143.7	146.1

The euro versus ISK Central Bank of Iceland exchange rate on 12 May 2025 was ISK 146.5 per EUR 1.00.

4.8 Market Data

Certain information contained in this Prospectus relating to the financial services industry in which the Group operates as well as certain economic and industry data and forecasts used, and statements regarding the Group's market position made, in this Prospectus were extracted or derived from other third party reports, market research, government and other publicly available information and independent industry publications, as the case may be, including the research department of the Bank, Statistics Iceland, Eurostat, IMF, OECD, Ministry of Finance, Central Bank of Iceland, Isavia, Icelandic Tourist Board, Nasdaq Iceland hf., Keldan ehf., Gallup, Bloomberg and annual reports of Arion Bank and Landsbankinn. See "*8. Industry Overview*" and "*9. Business Overview*."

While the Bank believes the third-party information included herein to be reliable, the Bank has not independently verified such third-party information, and none of the Bank, the Managers or the Selling Shareholder make any representation or warranty as to the accuracy or completeness of such information as set forth in this Prospectus. The Bank confirms that such third-party information has been accurately reproduced and, as far as the Bank is aware and able to ascertain from information available from those publications, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, the accuracy of such third-party information is subject to availability and reliability of the data supporting such information and neither the information nor the underlying data has been independently verified. Additionally, the industry publications and other reports referred to above generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed and, in some instances, these reports and publications state expressly that they do not assume liability for such information. The Bank cannot therefore make any assurances regarding the accuracy and completeness of such information as it has not independently verified such information.

4.9 Enforcement of Civil Liabilities

The ability of shareholders in certain countries other than Iceland, in particular in the United States, to bring an action against the Bank may be limited by relevant law. The Bank is a public limited company established under the Public Limited Companies Act, with ID number 491008-0160 in the Register of Enterprises of Iceland and has its registered office in Kópavogur, Iceland.

The Lugano Convention is in force between the European Union and Iceland. The Lugano Convention and protocols 1, 2 and 3 are incorporated into Icelandic law with Act No. 7/2011. Subject to the conditions set forth in the Lugano Convention, it forms the basis on which international jurisdiction of the courts is determined, facilitates recognition of foreign judgements and sets out an expeditious procedure for securing the enforcement of judgements in Iceland.

Iceland, Denmark, Finland, Norway and Sweden have been parties to a convention on the recognition and enforcement of judgements since 1932 and to the Nordic Judgements Conventions. The Lugano Convention supersedes the Nordic Judgements Convention, subject to certain exceptions set forth in the Lugano Convention.

All members of the Board of Directors, the Executive Committee and other officers named herein are residents of countries other than the United States. All or a substantial portion of the assets of these persons are located outside the United States. The assets of the Bank are predominantly located outside the United States. As a result, it may be impossible or difficult for investors to effect service of process within the United States upon such persons or the Bank or to enforce in U.S. courts a judgement obtained in courts of other jurisdictions against them or the Bank.

The United States and Iceland do not currently have a treaty providing for reciprocal recognition and enforcement of judgements, other than arbitration awards according to the New York Convention 1958, in civil and commercial matters. Accordingly, a judgement rendered by a court in the United States will not be recognised and enforced by the Icelandic courts. It is a general principle of Icelandic law that foreign judgements do not have legal effect in Iceland unless such effect is provided for in legislation. Because Icelandic law does not provide that judgements rendered by a court in the United States will have specific legal effects in Iceland, such judgements will have limited relevance to the resolution of claims in Icelandic courts. Judgements rendered by a court in the United States can provide guidance on the interpretation of U.S. law to the extent that it governs the subject of the dispute and has probative value as to disputed facts, if the jurisdiction of the U.S. court has been based on grounds which are internationally acceptable, the defendant has been given a reasonable opportunity to defend the claims made and proper legal procedures have been observed and except to the extent that the foreign judgement contravenes Icelandic public policy.

4.10 No Incorporation of Website Information

The Bank's website is www.islandsbanki.is. Neither the contents of the Bank's website, nor any other website, forms a part of, nor is to be considered incorporated into, this Prospectus.

4.11 Forward-Looking Statements

This Prospectus contains forward-looking statements that reflect the Bank's intentions, beliefs or current expectations and projections about its future business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which it operates. Forward-looking statements involve all matters that are not historical facts. The Bank has tried to identify forward-looking statements by using words such as "may," "will," "would," "could," "should," "expects," "intends," "estimates," "anticipates," "projects," "believes," "hopes," "seeks," "plans," "aims," "objective," "potential," "goal," "strategy," "target," "continue," "annualised" and similar expressions or negatives thereof or other variations thereof or comparable terminology or by discussions of strategy that involve risks and uncertainties. Forward-looking statements may be found principally in sections of this Prospectus titled "*2. Risk Factors,*" "*8. Industry Overview*," "*9. Business Overview*," "*12. Operating and Financial Review*" and "*19. Shares and Share Capital —19.3 Dividends and Dividend Policy*" as well as elsewhere.

Forward-looking statements are based on the Bank's beliefs, assumptions and expectations regarding future events and trends that affect the Bank's future performance, considering all information currently available to the Bank, and are not guarantees of future performance. These beliefs, assumptions and expectations can change as a result of possible events or factors, not all of which are known to the Bank or are within its control. If a change occurs, the Bank's business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies or opportunities may vary materially from those expressed in, or suggested by, these forward-looking statements. In addition, forward-looking estimates and forecasts reproduced in this Prospectus from third-party reports could prove to be inaccurate. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties facing the Bank. Such risks, uncertainties and other important factors include, but are not limited to, those listed in the section of this Prospectus titled "*2. Risk Factors*."

The following include some but not all of the factors that could cause actual results or events to differ materially from the anticipated results or events:

- deterioration of the economic conditions or the banking system in Iceland, either as a result of political or economic factors, either domestic or international;
- exposure to credit risk and inability to sufficiently assess credit risk of potential borrowers;
- increases in the Bank's loan losses or allowances for loan losses;
- a credit rating downgrade or change in outlook;
- exposure to existing and increasing competition in Iceland as Iceland's economy recovers;
- exposure to Iceland's key industry sectors, in particular tourism, seafood, aluminium, energy and real estate;
- exposure to liquidity, maturity, foreign exchange, and market funding risks and various other typical financial institution market risks relating to interest rates, equity pricing and inflation;
- failure of the Group to sustain or increase its level of assets under management;
- pressure on fee margins;
- price fluctuations of financial investments in the Bank's portfolio;
- various operational risks, including risk of systems failures, human error, regulatory breaches and employee misconduct;
- failure or breach of the Bank's information technology systems;

- reliance on third-party service providers;
- unauthorised disclosure of confidential information and any resulting liability, litigation and reputational damage;
- regulatory and legal risks inherent in the Bank's businesses;
- exposure to unidentified, unanticipated or incorrectly quantified risks as a result of risk management methods;
- potential inability to recruit or retain experienced personnel or key members of management;
- an adverse shift in public sentiment and potential political or legislative action;
- damage to the reputation of the Bank, its subsidiaries or its shareholders;
- failure to implement the Bank's strategy or failure to achieve the anticipated benefits of this strategy;
- incorrect determination of the amount of allowances and impairments required;
- inadequate insurance coverage;
- labour disputes, work stoppages and increased labour costs;
- regulatory changes or precedence in respect of interest and indexation;
- existing customer loan portfolio exposure to problem and impaired loans;
- costs and competitive disadvantages resulting from the Bank Levy and other taxes;
- domestic economic constraints on near-term growth;
- ongoing legal proceedings and investigations by government authorities;
- restrictions on foreign exchange transactions, cross-border payments and the flow of capital between countries;
- violation of anti-money laundering or anti-bribery regulations;
- adverse changes to the Capital Requirements Directives;
- restriction, suspension or termination of relationships with key card scheme operators;
- incurrence of unforeseen liabilities from prior and future acquisitions and disposals; and
- inadequate implementation by Iceland of the EEA rules.

Should one or more of these risks or uncertainties materialise or should any of the assumptions underlying the above or other factors prove to be incorrect, the Bank's future business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies or opportunities could differ materially from those described herein as currently anticipated, believed, estimated or expected.

Investors or potential investors should not place undue reliance on the forward-looking statements in this Prospectus. The Bank urges investors to read the sections of this Prospectus titled "*2. Risk Factors*," "*8. Industry Overview*," "9. *Business Overview*" and "*12. Operating and Financial Review*" for a more complete discussion of the factors that could affect the Bank's future performance and the markets in which it operates. In light of the possible changes to the Bank's beliefs, assumptions and expectations, the forward-looking events described in this Prospectus may not occur. Additional risks currently not known to the Bank or that the Bank has not considered material as at the date of this Prospectus could also cause the forward-looking events discussed in this Prospectus not to occur. Forward-looking statements involve inherent risks and uncertainties and speak only as at the date they are made. The Bank undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

4.12 Available Information

The Bank is not currently subject to the periodic reporting and other information requirements of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), nor will it become subject to such requirements as a result of the Offering. At any time during this Offering and for so long as any Offer Shares are outstanding during any period in which the Bank is not subject to Section 13 or 15(d) of the U.S. Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Bank will, upon request, provide to any prospective purchaser of Offer Shares in the Offering, any holder or beneficial owner of the Offer Shares or to any prospective purchaser of Offer Shares designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act in order to permit compliance with Rule 144A in connection with resales of the Offer Shares for so long as any of the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act. Any such request should be addressed to the Bank at:

Íslandsbanki hf.
Hagasmári 3, 201 Kópavogur, Iceland
Telephone: +354 440 4000
Email: islandsbanki@islandsbanki.is

5. BACKGROUND AND REASONS AND USE OF PROCEEDS

5.1 Background and Reasons

Following the initial public offering of shares of the Bank in June 2021, the Selling Shareholder held 65% of the Bank's share capital. On 22 March 2022, the Selling Shareholder sold a 22.5% stake in the Bank through an accelerated book-building offering of Shares to qualified domestic and international investors. Following the completion and settlement of the transaction on 28 March 2022, the Selling Shareholder held 42.5% of the Bank's share capital. Following a capital reduction approved at the latest AGM, the Selling Shareholder now holds 45.2%.According to the Icelandic State Budget for the year 2024 the Icelandic state announced its intention to sell its remaining shares during 2024 and 2025.

On 22 June 2024, the Parliament passed a bill, on the disposition of the Selling Shareholder's holding, in the Bank, i.e., the Act on the Disposition of the State's Holding in Íslandsbanki. In order to reduce the financial risk of the Treasury of Iceland and to contribute to the objective of reducing the debt ratio of the Treasury of Iceland. Therefore, it was proposed to authorise the Minister to sell the remaining shares in the Bank under the supervision of the Ministry of Finance with a specific legislation to that end. The legislation authorises the Minister to dispose of the Selling Shareholder's remaining shares in the Bank subject to authorisation within the Icelandic State Budget through a fully marketed offering, open to both retail, qualified and institutional investors.

The new arrangement is intended to place greater emphasis on parliamentary involvement, increased transparency, equality as well as dissemination of information to the public. Furthermore, efficiency and objectivity are factors which should be considered when disposing of the Shares according to the Act. The Act lapses when the Selling Shareholder has disposed of all Shares in the Bank. The proposed sale process is in accordance with the provisions of the Act No. 80/2024 on the Disposition of the State's Holding in Íslandsbanki and the Government's Ownership Policy, as amended.

With a decision of the Minister and the Ministry of Finance on 12 May 2025 it was decided to initiate the Offering process pursuant to the Act on the Disposition of the State's Holding in Íslandsbanki.

The legislation sets out further details of the Offering, and for further details on the Offering, see "*24. Terms and Conditions of the Offering*."

5.2 Use of Proceeds

The Bank will not receive any proceeds from any sale of the Offer Shares by the Selling Shareholder, all of which will be paid to the Selling Shareholder. The gross proceeds from the Offering to be received by the Selling Shareholder will be approximately ISK 40,076.6 million (assuming that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected).

The aggregate underwriting commissions to be paid by the Selling Shareholder in connection with the Offering are expected to be up to approximately ISK 600 million (assuming that the Offer Price is set at ISK 106.56 and the Volume Increase is not effected). The total cost borne by the Selling Shareholder is estimated to be ISK 900 million and consists of underwriting commissions, costs associated with the scrutiny and approval of the Prospectus including fees to its advisors and costs associated with the marketing and selling of the Offer Shares. The total cost borne by the Bank is estimated to be ISK 50 million and consists of certain legal fees, travel costs and miscellaneous expenses.

The net proceeds to be received by the Selling Shareholder will be approximately ISK 39,176.6 million (assuming that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected).

See "*25. Plan of Distribution and Transfer Restrictions*."

5.3 Responsibility Statements

The Bank and the Board of Directors are responsible for the content of this Prospectus. The Bank and the Board of Directors hereby declare that, having taken all reasonable care to ensure that such is the case, the information in this Prospectus is, to the best of the Bank's and the Board of Directors' knowledge, in accordance with the facts and contains no omission likely to affect its import.

Kópavogur, 12 May 2025

For and on behalf of the Bank

/s/ Jón Guðni Ómarsson

Jón Guðni Ómarsson, CEO of Íslandsbanki

For and on behalf of the Board of Directors of the Bank

/s/ Linda Jónsdóttir

Linda Jónsdóttir, Chairman of the Board of Directors of the Bank

The Minister of Finance and Economic Affairs, on behalf of the Selling Shareholder declares that, having taken all reasonable care to ensure that such is the case, the information in this Prospectus regarding the Offer Price, the timing of the Offering, including payment and delivery of the Offer Shares, the description of the lock-up applicable to its Shares and the fees payable by it in relation to the Offering is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. The Selling Shareholder does not accept any responsibility for any other information contained in this Prospectus, nor has it separately verified any such other information.

Reykjavík, 12 May 2025

For and on behalf of the Selling Shareholder

/s/ Daði Már Kristófersson

Daði Már Kristófersson, Minister of Finance and Economic Affairs

5.4 Independent Auditor

The consolidated financial statements of the Bank for the year ended 31 December 2022 included in this Prospectus, have been audited by Ernst & Young ehf., independent auditors, as stated in their report appearing herein.

The consolidated financial statements of the Bank for the year ended 31 December 2023 included in this Prospectus, have been audited by Deloitte ehf., independent auditors, as stated in their report appearing herein.

The consolidated financial statements of the Bank for the year ended 31 December 2024 included in this Prospectus, have been audited by KPMG ehf., independent auditors, as stated in their reports appearing herein. The audit report covering the consolidated financial statements of the Bank for the year ended 31 December 2024 contains an other matter paragraph stating that the consolidated financial statements of the Group as at and for the year ended 31 December 2023 were audited by another auditor who expressed an unmodified opinion on those statements on 8 February 2024.

With respect to the unaudited condensed consolidated interim financial statements for the period ended 31 March 2025, included herein, KPMG ehf., independent auditors, have reported that they applied limited *procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.*

6. OFFER STATISTICS

Offer Price in Tranche A (per Share)[1]	ISK 106.56
Number of Shares issued and outstanding	1,880,470,770
Number of Shares held by the Bank	6,920,000
Number of the Offer Shares to be sold in the Offering[2]	Up to 376,094,154
Percentage of the issued share capital expected to be sold in the Offering	Up to 20.0%
Number of Offer Shares to constitute the Volume Increase	Up to 473,905,853
Estimated gross proceeds of the Offering[3]	ISK 40,076.6 million
Estimated net proceeds of the Offering[3][4]	ISK 39,176.6 million
Expected market capitalisation of the Bank at the Offer Price[5]	ISK 200.4 billion

(1) To the fullest extent permitted by law, applications received under the Offer are irrevocable, except as set out in this Prospectus, and are based on the amount the applicant wishes to invest and not the number of the Shares or the Offer Price. The Offer Price will be set in ISK. It is expected that the Pricing Statement containing the Offer Price and the number of the Shares which are the subject of the Offer will be published on or about 15 May 2025.

(2) Assumes that the Volume Increase is not effected.

(3) Assumes that the Offer Price is set at ISK 106.56 and that the Volume Increase is not effected.

(4) After deduction of commissions and expenses payable by the Selling Shareholder of approximately ISK 900 million. The Bank will not receive any portion of the proceeds from the Offering. No expenses will be charged to investors by the Company or the Selling Shareholder.

(5) Calculated based on the number of Shares outstanding and assumes that the Offer Price is set at ISK 106.56.

7. EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates (other than the publication date of the Prospectus) in the table below is indicative only and may be subject to change.

Prospectus published	13 May 2025
Opening of the Offering	13 May 2025[(2)]
Closing of the Offering	15 May 2025[(3)]
Determination and announcement of the Offer Price and number of the Offer Shares	15 May 2025
Results of allocations under the Offer notified to investors	16 May 2025
Final due date for payment by investors	20 May 2025
Settlement Date [(1)]	21 May 2025

(1) Delivery of Offer Shares is expected in most cases to occur by the Settlement Date. However, because the final due date for payment of the allocated Shares is set for 20 May 2025, and paid Offer Shares are expected to be delivered to the investors within two business days after payment is received, the estimated final date for delivery of the Offer Shares to investors is no later than 22 May 2025.

(2) Opening of the Offering is set at 08:30 GMT on 13 May 2025.

(3) Closing of the Offering is set at 17:00 GMT on 15 May 2025

8. INDUSTRY OVERVIEW

This Prospectus contains statistics, data and other information relating to the banking industry in which the Bank operates. Where indicated, the Bank has extracted or derived certain economic and industry data from third-party reports, market research, government reports and other publicly available information. Although the information has been accurately reproduced and the Bank believes the sources are reliable, none of the Bank, the Managers or the Selling Shareholder has independently verified and cannot give any assurance with respect to the accuracy and completeness of such information. As far as the Bank is aware and able to ascertain from other information published by such sources, no fact has been omitted which would render the reproduced information inaccurate or misleading.

8.1 The Icelandic Economy

Attractive society demographics and economy with very high GDP per capita

Iceland is a small open economy rich in natural resources, including hydroelectric power and geothermal energy, fishing stocks and unique landscapes, which provide the foundation for much of the country's economic output. The country has a population of approximately 390,000 people, and enjoys one of the highest standards of living globally. In 2024, Iceland had the seventh-highest GDP per capita in the world at approximately U.S.$84,000 (*source: Statistics Iceland, United Nations*), a result of factors such as a skilled workforce, a strong institutional framework and a Nordic economic model combining high economic freedom and social protections. The unemployment rate in Iceland, which has historically been low, measured on average 5.0% from January 2010 to January 2025. This is significantly lower than the average in the Eurozone (*source: Statistics Iceland, Organisation for Economic Co-operation and Development "**OECD**"*), and has contributed to relatively low economic inequality in the country.

Iceland's high ranking on a range of global environment, social and governance ("**ESG**") metrics are testament to the strength of the institutional framework, including:

- First in gender equality (*source: World Economic Forum*);
- Second in Societal Framework measuring Government Efficiency (*source: IMD*)
- Fourth in the Democracy Index (*source: The Economist*)
- Fourth in Health and Environment (*source: IMD)*

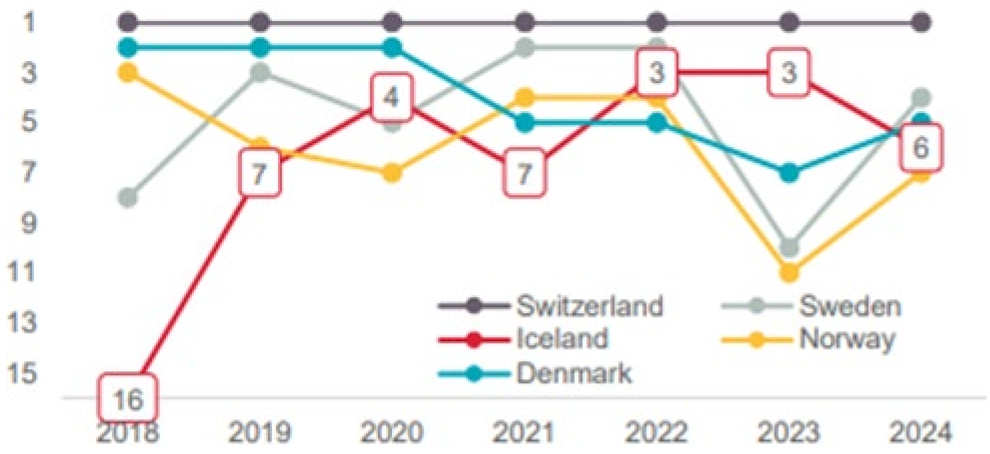
Iceland's key ESG objectives are to achieve carbon neutrality before 2040 and to cut greenhouse gas emissions by 40% before 2030 under the Paris Agreement.

The country enjoys strong social cohesion, with a long tradition of coalition governments spanning the political spectrum and public trust in government. Economic inequality is low compared to peers, with a Gini coefficient, a widely used measure of income distribution where lower values indicate greater equality, of 24.2 as at 2022 (source: *Statistics Iceland*).

Favourable Demographics and Ability to Attract and Retain Talent

Iceland benefits from favourable demographics and a relatively young population, with its working age population as share of total population well above OECD average. Furthermore, Iceland has a strong ability to attract and retain talent. From 2018-2024, the country has moved from #16 to #6 in the IMD World Talent Ranking (out of 67).

<u>World Talent Ranking</u> (*source: IMD*)



Solid economic foundations supporting future growth

Iceland is a rapidly growing economy with an average GDP growth per year of 3.3% from 2014 to 2024 compared to the EU average of 1.8% (*source: IMF*). Iceland's growth is supported by labour growth and productivity differentials. In addition, the country has a healthy investment-to-GDP ratio of 25.1% in June 2024, compared to the EU average 20.4% (*source: CEIC*). Iceland had a GDP of U.S.$33 billion in 2024 (*source: Statistics Iceland*) which makes it currently the smallest economy among member countries of the OECD.

Whilst Iceland was one of the least affluent countries in Western Europe until the middle of the twentieth century, rapid modernisation and industrialisation of key export sectors following the second world war laid the foundation for a rapid increase in the standard of living.

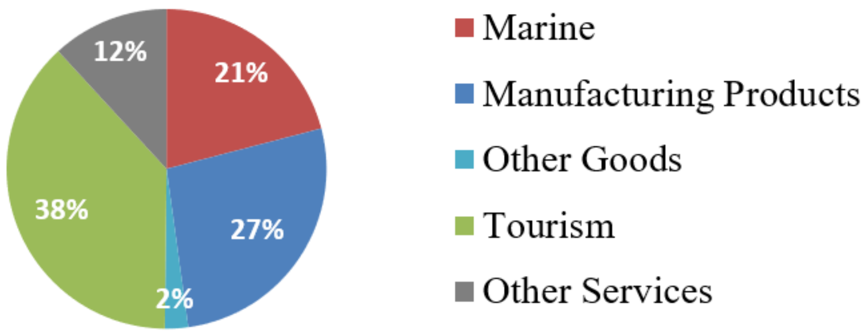
In 2008, Iceland suffered from a banking and currency crisis as part of the wider global financial crisis. Following reorganisation of domestic balance sheets, Iceland's economy has subsequently seen considerable growth over the last decade as part of its sustained recovery from the crisis.

The economy remained resilient to the twin shocks of the pandemic and energy price increases following the Ukraine war. Real GDP in Iceland increased in each of 2022, 2023 and 2024 by 9.0%, 5.6% and 0.5%, respectively, thanks in large part to rapid recovery in its tourism sector, which outpaced global rebound in travel, as well as its low energy import dependency ratio thanks to its domestic renewable energy sector (*source: Statistics Iceland)*.

Iceland's economy is highly export driven, with its natural resources providing the pillar of the main exporting sectors; tourism, marine products and energy-intensive industries, mostly aluminium production.

In 2024, exports of goods and services contributed approximately 41% to Iceland's GDP, with tourism and marine products amounting to 38% and 21% of exports, respectively as seen in the chart below which presents export contributions by industry in 2024 (*source*: *Statistics Iceland*).

Contribution by Industry as % of Total Exports in 2024 *(source: Statistics Iceland)*



Although export remains concentrated in a few key sectors, rapid growth in tourism has provided ongoing diversification away from goods and services over the last 15 years.

In the long term, areas of focus for Iceland will include increasing the diversification of its exports and ensuring continued government investment in infrastructure and education. These efforts will be essential to meet the demands of a growing tourism industry and to equip the economy for future challenges.

High quality fiscal profile rated A to A+/A1

Government gross debt as a percentage of GDP has been decreasing since its peak of 138.2% of GDP in 2011, measuring at 60.3% in December 2024, compared to 82.7% in the European Union (*source: IMF*). Private debt levels are also lower than in 2008, having come down significantly since 2010, and, more, than those in other Nordic countries.

Iceland has a strong framework for financial markets, including pro-active and well co-ordinated policy matrix with strong commitment to financial stability, as well as large degree of policy autonomy at times of crisis. Iceland's strong credit ratings of A+/A/A1 with S&P Global, Fitch and Moody's reflect the strength of the Icelandic economy, quality of policymaking and healthy public debt levels.

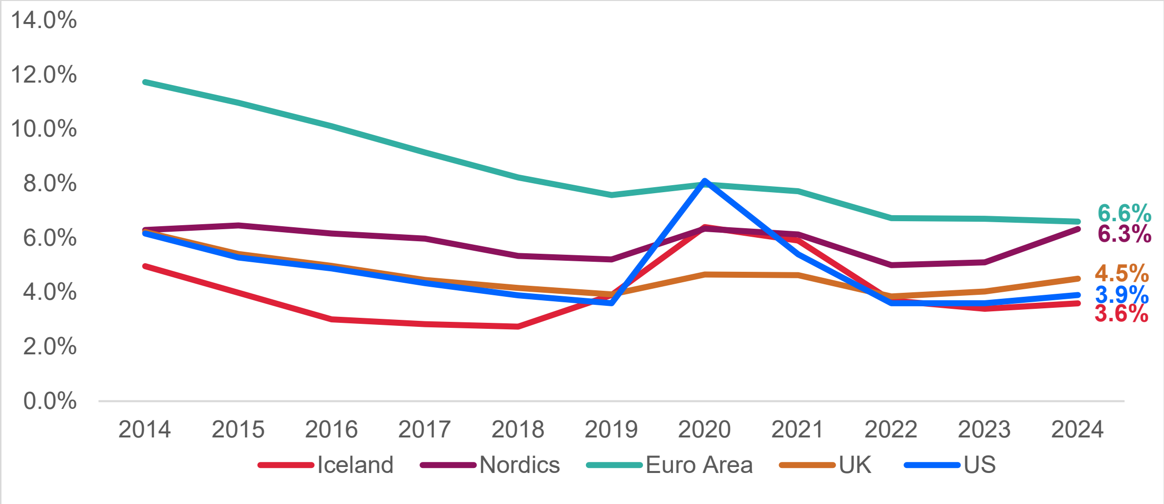
Strong net external position and stable FX reserve buffers

Iceland has a positive net international investment position of 42.25% GDP as at and for the year ended 31 December 2024 (*source: The Central Bank of Iceland*). The Icelandic Króna has remained stable over the past two years underpinned by a solid net external position and large unencumbered FX reserve buffers, exceeding reserve adequacy metrics by a healthy margin.

Labour and housing markets remain resilient

Iceland has a high labour market participation rate at 80% of the population aged 16 to 74 years, which is characterised by a relatively young population, with a median age of 37.8 years, compared to an EU average of 44.5 years, and 41% of the population between 25 to 34 year-olds having a tertiary education or equivalent (*source: Statistics Iceland, World Population Review, OECD*). In addition, the country has a low rate of unemployment, including when compared to the Nordics, UK, US and the Euro Area (*source: Statistics Iceland/Finland/Norway/Sweden, Eurostat, Fitch, Bureau of Labour Statistics)*.

Unemployment Rate (%) over the Last 10 Years *(source: Fitch Business Monitor International, OECD, Eurostat)*



Iceland also has a relatively resilient housing market, as evidenced by ongoing house price increases and low NPL ratios, even in the face of rising interest rates. Macroprudential policies aimed at limiting leverage in the housing market, rising wages and high levels of employment have all contributed markedly to the level of resilience, reducing the likelihood of a large price correction in real estate markets. Households is at a historically low level while robust population growth due to inward migration has supported underlying demand for housing. In addition, Iceland has a flexible mortgage market across different loan types.

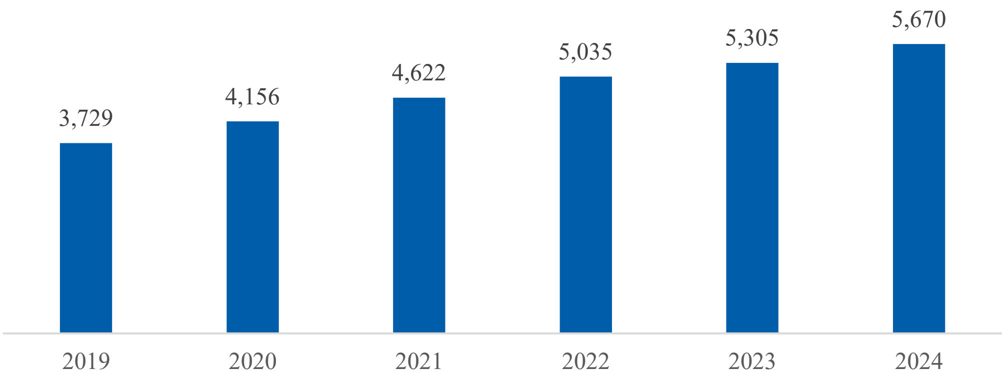
8.2 The Banking Sector

Iceland has a highly concentrated and stable banking sector, which is supported by (and indeed supports) Iceland's growing economy; centred around the Bank, Arion Bank (which is listed), Landsbankinn (owned by the Icelandic state) with the three banks having a combined market share of 65% of loans to households, 82% of loans to corporates and 99% of deposits from customers as at 31 December 2024 (*source: The Central Bank of Iceland and the Bank, Arion Bank and Landsbankinn annual reports*). Other banks include Kvika (primarily focused on investment banking and asset management services), Fossar Investment Bank (primarily focused on capital markets, corporate finance and asset management) and four small savings banks. International competition is limited to large corporates. Pension funds have a large presence as customers and buyers of bank and corporate debt, as well as competing in mortgages and corporate loans. The Bank is rated BBB+ with a positive outlook by S&P Global and A3 with a stable outlook by Moody's, respectively.

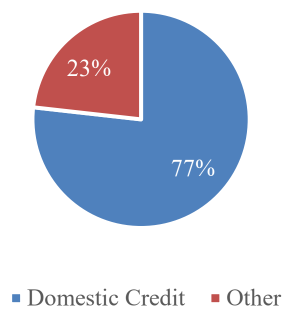
The Icelandic banks each have the following characteristics:

- relatively simple balance sheets, with the size of the balance sheets of the three main Icelandic banks as a percentage of Icelandic GDP reducing from approximately 702% as at 31 December 2007 to approximately 117% as at 31 December 2024 (*source: aggregated balance sheets of the Bank, Arion Bank and Landsbankinn*);
- primarily domestic focused;
- mainly deposit-funded;
- strongly capitalised compared to Nordic and other EU banks, with a relatively high average CET1 ratio of 20.0%, an average leverage ratio of 12.6% and an average risk weighted density of 63.4% as at 31 December 2024 (*source: the European Banking Authority*); and
- focus on digitalisation, 95% of individuals in Iceland using internet banking in 2021, the second highest in Europe (*source: Eurostat*).

Total Deposit Money Bank Assets, ISK in billions (*source: Central Bank of Iceland)*



Domestic Credit as Share of Total Deposit Money Bank Assets (as of June 2024) (*source: Central Bank of Iceland)*



Details of the industry overview of the Bank's divisions in the provision of its various products and services are set forth below.

Personal Banking

Personal Banking offers a full range of financial services for individuals and households, such as lending, savings and payments. Iceland has a technologically advanced population, with 99% of Icelanders using the internet, leading to the rapid adoption of digital solutions. The Icelandic personal banking market has been stable after the financial crisis of 2008, and achieved further growth as the Icelandic economy stabilised. Several factors have contributed, and are expected to continue to contribute, to an increasing demand for personal financing, including: (i) the increasing, relatively young population; (ii) high levels of education; (iii) high GDP; (iv) low debt levels; and (v) low unemployment rates.

The Bank's main competitors in the personal banking market are Arion Bank and Landsbankinn, with the Bank's market share of individual customers amounting to 31% as at 31 December 2024 (based on the number of customers with active deposits as percentage of people with domicile in Iceland (*source: National Registry of Iceland)*), while the Bank also competes with Kvika and Indó in the deposits and payments markets. As a result of the 2008 financial crisis, savings banks, which in any event had a smaller share of the banking system than the commercial banks, have largely disappeared, meaning that there are limited opportunities for consolidation in the market. There are some smaller savings banks which do continue to operate.

Mortgage loan market

In general, the trend of real estate prices in Iceland has been steadily rising and homeownership is notably high. The Bank's main competitors in the mortgage loan market are again Arion Bank and Landsbankinn, although pension funds have also entered and indeed impacted the market, with pension funds having a market share of approximately 25% as of December 2024 (*source: Central Bank of Iceland*). Since 2017, the Bank's total market share of mortgages has steadily increased from 18% to 21% (*source: Central Bank of Iceland, company report*) and the Bank now finances more households in Iceland than ever before.

The Bank entered the mortgage space in 2004. Prior to that, the Bank did not have a strong footprint in the housing lending market, which had been dominated by the Icelandic Housing Financing Fund (now the Housing and Construction Authority); by way of comparison, against its current market share of 4% (as of 2024), in

2004, the market share of the government in mortgage loans was approximately 42% (*source: Central Bank of Iceland*). The Housing and Construction Authority changed its role as a leading provider of mortgages following the financial crisis in 2008, and its role today is to sustain a stable housing market and to ensure that there is a professional housing industry.

Business Banking

Business Banking provides comprehensive banking services and versatile banking products on service platforms, to SMEs such as lending, savings products and payment solutions offered through branches, via online banking and app. The Business Banking sector is dominated by the Bank, Arion Bank and Landsbankinn.

SMEs are the backbone of the Icelandic economy, with SMEs supporting economic and social stability, and are important as regards to investment, innovation, and inventions. The Bank has been a market leader within the SME market, with 37% market share as at 31 December 2024 (*source: Gallup*).

Most of the SMEs in Iceland are located in the greater capital area. The Bank has strong positioning with 40% market share in the greater Reykjavik area (*source: Gallup*).

Asset-based financing market

In the leasing market, the Bank, along with its brand Ergo, is a market leader in sectors such as the financing of rental cars and the financing of registered equipment and machineries.

Within the leasing market, there are four dominant players: Islandsbanki (Ergo), Arion Bank, Landsbankinn and Kvika (Lykill). The individual part of the market has seen great competition in prices, funding cost and loan to value ratios.

Ergo had 39% of its loan portfolio in the form of green car loans at the end of 2024 (*source: the Bank Annual Report*). Iceland has a high proportion of new electric cars sold where it ranked third in Europe in 2023 *(source: European Environment Agency, based on share of electric vehicles in new car registrations)*.

Corporate & Investment Banking

Corporate & Investment Banking provides comprehensive universal financial and investment banking services to large companies, municipalities, institutional investors, and affluent individuals. The product and service offering are a comprehensive range of financial and investment banking services, including lending, securities and currency brokerage, corporate advisory services, private banking services and sales of hedging instruments.

The domestic large corporate banking market is serviced by the Bank, Arion Bank and Landsbankinn as well as foreign banks and institutions. The domestic segment, representing roughly two-thirds of the market, is dominated by the Bank and its two above-noted competitors. It is estimated that the remaining one-third of the market is held by foreign banks and institutions, as they have historically been strong lenders to the largest Icelandic listed companies with international operations as well as the large infrastructure, utilities, transportation and seafood companies.

The competitive environment of corporate banking has put pressure on margins historically, highlighting the importance of relying on experienced employees to combine lending income with fee and commission income for both corporate banking as well as other divisions within Corporate & Investment Banking.

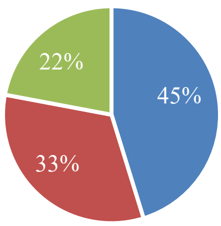
The Bank is one of three financial institutions, alongside Arion Bank and Landsbankinn, authorised to participate as market makers in the interbank foreign exchange market, in addition to the Central Bank of Iceland. This market is critical for Corporate & Investment Banking's currency brokerage and hedging instrument services, enabling the Bank to support clients with international operations and generate fee income in a competitive environment. The foreign exchange market is mainly governed by the Central Bank of Iceland's Rules No. 600/2020 on the Foreign Exchange Market.

Asset Management

The savings market in Iceland has historically been largely dominated and driven by pension funds. 45% of the financial system assets in Iceland is pension fund assets (source: Central Bank of Iceland). The Icelandic pension system operates a mandatory pension program and a mix of defined benefit and defined contribution systems. Assets held by pension funds were ISK 8,242 billion as of 31 December 2024, almost 180% of GDP (*source:*

Central Bank of Iceland, Statistics Iceland). The chart below provides a breakdown of financial asset ownership in Iceland by type of institution.

Pension Funds as Share of Total Financial System Assets as of June 2024 (*source: Central Bank of Iceland)*



The table below sets out selected statistical information on pension fund assets and deposits in Iceland (*source: Statistics Iceland, Central Bank of Iceland, United Nations* and *IMF*).

	As at 31 December				
	2020	2021	2022	2023	2024
			(*ISK in millions*)		
Population in Iceland	358,298	364,917	375,218	383,726	393,396
Pension funds assets	5,727,434	6,746,988	6,629,499	7,286,841	8,242,217
Pension fund deposits	199,051	192,809	178,010	158,336	189,881
Pension fund assets per capita	16.0	18.5	17.7	19.0	21.0
GDP per capita	7.5	9.1	10.8	10.9	11.7

The overall savings market has seen continued growth, greater international investment and broadening of product offerings.

Íslandssjóðir, or Iceland Funds, is the largest and oldest mutual fund manager in Iceland, with a domestic retail investors market share of 28% as at 31 December 2024 compared to 23% as at 31 December 2016 *(source: Keldan ehf. and websites of the fund management companies)*. Total assets under management have grown steadily and now total ISK 364 billion (as at 31 December 2024), consisting of discretionary asset management, alternative funds and domestic mutual funds.

Card and Electronic Payments

Around the beginning of the 21st century, every Icelandic citizen carried, on average, more than 2.5 plastic cards in their wallet. More recently, there has been a shift away from the use of such physical cards and towards the use of mobile apps and wearable payment methods. Indeed, the most popular payment method in Iceland is now Apple Pay, whilst payments made using Android phones and wearables are also starting to increase in volume.

8.3 Competition

The Icelandic banking sector, in particular the three main Icelandic banks, have a high overall market share for both corporate loans, due to the relatively small corporate bond market in Iceland, and mortgages, where the Housing and Construction Authority is reducing its participation in the mortgage market.

The Bank faces competition from the other large Icelandic banks, Kvika, five small savings banks, pension funds and smaller specialised institutions, as well as foreign banks without local operations in Iceland. The competition from foreign banks and lending institutions is most in the market for large companies. Further, the investment banking and wealth management markets are highly competitive with many active market participants. The Bank expects to compete on the basis of a number of factors, including transaction execution, its products and services, its ability to innovate, reputation, and price.

Details of the main competitors of the Bank's divisions and subsidiaries in the provision of its various products and services are set forth below.

Personal Banking

As at 31 December 2024, Personal Banking held a 31% market share for individual customers (based on the number of customers with active deposits as percentage of people with domicile in Iceland (source: National Registry of Iceland)). The Bank also has a good market share within credit cards, with a market share estimated to be around 37% as at 31 December 2024. The Bank's market share remains strong although it has been subject to pressure as a result of increased competition (*source: Central Bank of Iceland total market data*).

The main competitors of Personal Banking in the deposits market are Arion Bank, Landsbankinn and Kvika. Savings banks have largely disappeared since the financial crisis in 2008, although some smaller savings banks continue to operate. Personal Banking's strongest competition is in the mortgage loan market, in which Personal Banking's main competitors are Arion Bank and Landsbankinn.

There have been new market entrants that have disrupted the market with simplified product offerings and digital and technology development of external players could lead to customer exit.

Business Banking

As at 31 December 2024, according to a Gallup survey regarding primary banks, Business Banking held a 37% market share.

The main competitors of Business Banking in the SME market are Arion Bank, Landsbankinn and Kvika. Business Banking is the only division among these banks focusing solely on SMEs in line with the Bank's customer centric strategy. Landsbankinn has a corporate division and Arion Bank has a combined retail division for individuals and SMEs. Access to digital solutions has increased significantly in the recent years among all competitors for SMEs. The asset-based financing unit of the Bank, Ergo, operates within Business Banking.

Corporate & Investment Banking

At the end of 2024, Corporate & Investment Banking held a 34% market share of Iceland's 300 largest companies (*source: Frjáls verslun magazine*). The Bank also had the highest turnover in equities on Nasdaq Iceland for the year ended 31 December 2024. (*source: Nasdaq Iceland*).

Corporate & Investment Banking's main competitors in the corporate banking market are Arion Bank and Landsbankinn, with several other participants including pension funds (indirectly through investment in asset-backed securities), public funds (e.g., the Housing and Construction Authority), foreign lenders and smaller financial institutions (e.g., Kvika). Pension funds have increased margin pressure since 2013, and they mainly provide funding through investment in bonds and asset-backed debt instruments. Foreign banks also provide the Bank competition as they seek to enter the Icelandic corporate banking market. The investment banking market is characterised by price competition and competition in transaction terms, which requires constant focus on maintaining healthy margins.

Asset Management

The asset management industry sector is highly competitive and has moderate barriers to entry. Competition in the asset management industry sector is largely based on investment performance, the level of fees, the quality and diversity of products and services, name recognition and reputation, the effectiveness of distribution channels and the ability to develop new investment strategies and products to meet the changing needs of investors, particularly in this digital age.

Iceland Funds is a market leader in mutual funds in Iceland, as its current market share in mutual funds was around 28% as at 31 December 2024 based on assets under management of Icelandic fund management companies (*source: Keldan ehf. and websites of the fund management companies*). This has grown steadily from 23% as at 31 December 2016.

Iceland Funds has become one of the largest player in the individual market and its main competitors are Landsbréf, Stefnir, Kvika eignastýring, Akta and Skagi.

9. BUSINESS OVERVIEW

9.1 Overview

The Bank is a customer-centric universal bank, headquartered in its primary market, Iceland.

The Bank is licensed as a commercial bank in Iceland in accordance with Article 4 of the Financial Undertakings Act and offers comprehensive services to the retail and corporate sectors. The Bank is one of Iceland's three main banks and maintains a strong market share across the spectrum of banking services in the country. The Bank had approximately 31% of the market share in Personal Banking (based on the number of customers with active deposits as percentage of people with domicile in Iceland (*source: National Registry of Iceland*)). At year-end-2024, Business Banking had a market share of 37% and Corporate & Investment Banking had a market share of 34% (based on a Gallup survey among 300 companies according to the Frjáls verslun magazine). The Bank seeks to move Iceland forward by empowering its customers to succeed and prioritise sustainability as an integral driver of its strategy and value creation.

The Bank's core values are progressive thinking collaboration, and professionalism. The Bank seeks to be a force for good, with its corporate vision being to create value for the future through excellent service, and ultimately enhance the financial health of its customers

As at 31 March 2025, the Bank's total assets were ISK 1,667,429 million. Below is a summary of the Bank's income performance, presented in ISK millions.

	For the three months ended 31 March	For the year ended 31 December		
	2025	2024	2023	2022
Net interest income	12,939	47,265	48,611	43,126
Net fee and commission income(*)	3,067	13,122	13,283	14,053
Operating income(*)	15,534	62,938	63,286	57,236
Profit for the period	5,209	24,246	24,585	24,535

(*) Comparative figures have been changed with immaterial effects: expenses of ISK 951 million recognised in the line item "Total operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income." No related comparative figures have been changed in the year 2022.

9.2 History

Although the original Íslandsbanki hf. was founded in 1904 as the first privately-owned bank in Iceland, the Bank traces its roots back to 1875. Ever since, the Bank's history has been paved with mergers and acquisitions. Útvegsbanki Íslands took over Íslandsbanki's operations in 1930 and in 1990, Útvegsbanki Íslands, Alþýðubanki Íslands, Iðnaðarbanki Íslands and Verzlunarbanki Íslands merged into Íslandsbanki hf. In 2000, the Bank merged with The Icelandic Investment Bank ("**FBA**"), which was created through the merger of three state-owned credit funds, forming Íslandsbanki-FBA hf. As a result of the merger, the Bank further solidified its connections with the corporate sector, particularly in the seafood industry. In the years 2000 to 2007, the Bank expanded its business beyond Iceland by first lending to seafood enterprises in northern Europe and North America, and later through strategic acquisitions in the Nordic countries. In March 2006, the Bank was rebranded as Glitnir banki hf ("**Glitnir**").

As a result of the crisis of the Icelandic banking system in 2008 and pursuant to the Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. No. 125/2008 (usually referred to as the Emergency Act), in October of the same year, the Bank assumed the domestic assets and liabilities of Glitnir. The remainder of Glitnir's assets, which were mostly foreign assets, were left within Glitnir under the supervision of a Resolution Committee, which was appointed to maximise the recovery value of those assets for the benefit of its creditors. The Bank reverted to its previous brand name of Íslandsbanki hf. on 20 February 2009.

On 13 September 2009, Glitnir, on behalf of its creditors, and the Icelandic government reached an agreement on the settlement of the assets and liabilities the Bank had assumed as part of the restructuring. Under the agreement, the Resolution Committee acquired a 95% stake in the Bank. Glitnir therefore assumed majority control of the Bank and a new board of directors of the Bank was appointed on 25 January 2010. The 95% stake was owned by ISB Holding ehf., a holding company wholly owned by GLB Holding ehf. (a subsidiary of Glitnir banki hf.). In January 2016, Glitnir signed an agreement to deliver the 95% stake to the Icelandic government as part of the estate's stability contribution, effective following approval by the ICA on 11 March 2016.

In June 2011, the Bank announced that it had successfully won a public bid for the entire share capital of Byr hf., a local bank in Iceland. Byr hf. focused mainly on retail banking and was built on the foundation of an older savings bank, which became insolvent in April 2010. The shares were acquired from Byr hf.'s winding up committee and the Icelandic government. The acquisition price was ISK 6.6 billion. The acquisition agreement was executed on 29 November 2011, and the acquisition was completed in the first quarter of 2012.

In March 2011, the Bank acquired all shares of the credit card company, Kreditkort hf. and on 27 March, 2012, Kreditkort hf. was merged into the Bank.

Between 2017 and 2019, the Bank underwent a digital transformation. The Bank successfully replaced its core banking system, including an effective migration of an old legacy system to a global standardised core banking system ("**SOPRA**") for payments and deposits in 2018 and the Board approved an open banking strategy in 2018. Following that, the Bank replaced its lending platform with a new domestically written system, after which its entire core banking platform was replaced and modernised.

In June 2021, the Bank's shares were admitted to trading on the Nasdaq Main Market in Iceland.

9.3 Strengths

Attractive banking market with outlook for strong growth, with a proven track record of fast recovery and a positive interest rate environment

Iceland has a GDP per capita of $84,000 in 2024 (*source: Statistics Iceland, United Nations*), one of the highest in the world. Real GDP in Iceland increased by 9.0% in 2022 and 5.6% in 2023 and 0.5% in 2024, respectively (*source: Statistics Iceland*), while its unemployment rate has on average measured 5.0% in the period 2010-2024, significantly below many other countries, including Sweden, Ireland and the average in the Eurozone (*source: Statistics Iceland, OECD*). The unemployment rate for 2024 remained relatively stable at 3.6%, compared to 3.4% in 2023 and 3.7% in 2022. Government gross debt as a percentage of GDP has decreased since 2011 and the IMF projects that, following a temporary increase due to the impact of the COVID-19 pandemic, this will decrease from 77.5% in 2020 to 59.6% in 2024 (*source: Statistics Iceland, IMF*). Iceland also has a positive net international investment position of 42.5% GDP as at and for the year ended 31 December 2024 (source: The Central Bank of Iceland). Iceland's moderate leverage across the economy also increases the economy's resilience to shocks to the system and the rates environment remains highly attractive in comparison to other countries.

Furthermore, Iceland's strong economic base is supported by a modern legislative framework and public institutions. As a member of the EEA, Iceland adopts and incorporates EU legislation, including key financial services regulations, into Icelandic law. This means that Iceland's regulatory environment aligns closely with that of the EU, with EU directives and regulations covering a wide range of financial services, including banking, insurance, and investment services. This alignment provides Icelandic financial markets with a robust and transparent regulatory framework familiar to investors accustomed to EU standards, supporting cross-border market confidence and stability.

Furthermore, Iceland benefits from a diversified economy supported by four export pillars: tourism (i.e., as a source of foreign income), seafood, energy and other industrial goods and services. In 2024, exports contributed approximately 41.6% to Iceland's GDP. Iceland has benefited from an accelerated growth in tourism; following a significant decline as the pandemic shut down the sector for a significant portion of the years 2020 and 2021, the number of visiting tourists increased by nearly 150% in 2022, 30% in 2023 and 7% in 2024 (*source: Statistics Iceland, Isavia*), representing 8.1% of Iceland's GDP, analogous to the pre-COVID-19 period. This strong economic backdrop has supported Iceland's growing and stable banking sector. The sector is centred around the Bank, Arion Bank (which is publicly owned) and Landsbankinn (almost entirely owned by the Icelandic state), with the three banks having a combined market share of 96% in the banking sector as at 31 December 2024 (*source: European Banking Federation, 2024*).

Iceland also has highly attractive interest rates compared with the rest of Europe and the United States, with the OECD's short-term interest rate forecast for three-month money market rates for Iceland decreasing from 9.9% in the first quarter of 2024 to 7.5% by the fourth quarter of 2025. Since 19 March 2025, the Central Bank of

Iceland has set the key interest rate at 7.75%, which is consistent with this downward trend. In this respect, the Icelandic government base rate curves well above negative territory.

Finally, the Icelandic Króna is a currency underpinned by a solid net external position. For the period from 2009 to 2024, Iceland's current account balances remained relatively stable (as a proportion of Icelandic GDP) and net international investment positions increased (as a proportion of Icelandic GDP), especially when taking into account adjustments for the effects of failed financial institutions in the period from 2009 to 2015 (*Source: Central Bank of Iceland*).

The Bank considers itself a digital champion with a solid technical foundation

The Bank has a solid technical foundation, supported by next generation product systems and a product-centric delivery model, creating a modern, innovative and cost-efficient bank, with an cost-to-income ratio for the year ended 31 December 2024 of 43.9%—notably leaner than the global banking average of roughly 55% between 2017 and 2021 (*source: World Bank*), and with a view to continue in this direction.

The Bank is digitally connected with its customers and partners helping them to experience frictionless banking services, based on their needs. In 2018, the Bank successfully migrated to a global standardised core banking system for payments and deposits through SOPRA. Fróði, the Bank's friendly chatbot leveraging artificial intelligence, is constantly evolving and can now provide information to customers with electronic authentication, completing over half of all inquiries without human interference. In addition, the Bank has experienced a 47% increase in customer onboarding via its digital onboarding solution since 2020.

The loan domain has seen significant advances, with digital refinancing of loans, automatic loan provisioning and digital credit decisioning. Car loans are credit assessed and notarised digitally, substantially improving the car loan journey. The Bank has placed emphasis on digital solutions for corporate clients with digital corporate onboarding, overdraft and equity trading now available. Work on the new online bank is progressing, which will create a new and improved customer experience for corporates. Expense and receipt management in the application is further one of the improvements implemented with the aim of making life easier for the Bank's customers. During the year effort has been put into strengthening the Bank's data foundation, with the aim of being in the forefront when it comes to data excellence and AI innovation. The Bank has launched a new data driven sales and behavioural tracking platform, which will enable the Bank to leverage customer insights to improve service to customers.

Digital Direction

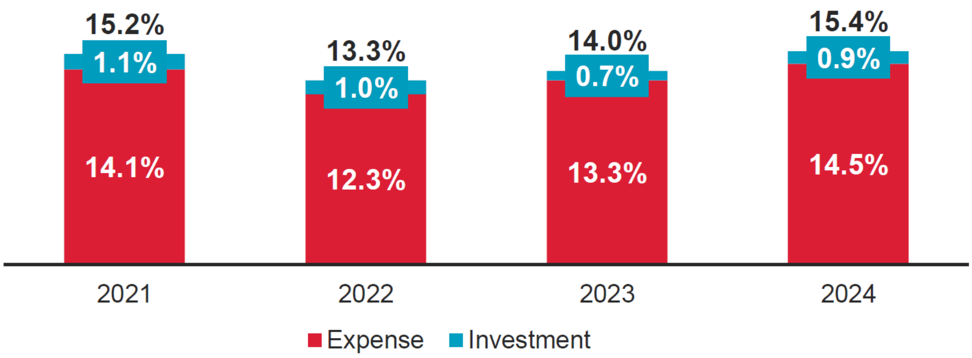
The Bank has a clear strategy to create value for the future for its customers and shareholders. The key elements of (1) differentiated proposition and (2) digital first service, with (3) data insights will be the driving force behind development of the Bank's digital products and services.

The Bank's digital platform, combined with its relatively lean branch network, supports demand for increased efficiency and customer willingness to use digital channels. In 2024:

- 95% of the Bank's retail customers are active in digital channels *(source: Annual and Sustainability Report 2024)*;
- 80% of notarisation requests for mortgage refinancing are now digital and the number of mortgage refinancing applications that are automatically processed has increased ten-fold (*source: Annual and Sustainability Report 2024*);
- 89% of card lifecycle management activities were executed using self service channels (*source: Annual and Sustainability Report 2024*);
- 89% of corporate accounts generated through the digital channels were fully automated (*source: Annual and Sustainability Report 2024*);
- 80% improvement in the processing time of car loan applications was achieved through the implementation of a new digital solution (*source: Annual and Sustainability Report 2024*);
- 10x increase was observed in automatic mortgage refinancing applications (*source: Annual and Sustainability Report 2024*).

In turn, this has allowed for the reduction in branch numbers to 12 branches, as compared to 34 for Landsbankinn and 12 for Arion Bank. The Bank believes that customer satisfaction and market share have not been negatively impacted by the changes in the branch network. It also maintains a presence in larger municipalities across Iceland.

The chart below illustrates the Bank's investment and expense in IT as a proportion of the sum of net interest income and net fee and commission income:



The Bank has a clean and robust balance sheet supported by strong loan and risk culture

The Bank believes that it has a clean and robust balance sheet, no legacy exposures and up-to-date core banking systems. As at 31 March 2025, its CET1 ratio, capital adequacy ratio and leverage ratio calculated in accordance with the definition set forth in the CRR were at 18.6%, 21.6% and 12.1%, respectively. Furthermore, the risk-weighted assets density of the Bank remained at high levels, as compared to banks in Norway, Denmark, Sweden, and Finland. This disparity stems from the Bank's adoption of the standardised approach to credit risk, in contrast to the internal ratings-based approach employed by Scandinavian banks. The Bank's risk exposure amount as a percentage of total assets amounted to 64%, 65%, 62% and 64%, as at 31 March 2025, and 31 December 2024, 2023 and 2022, respectively.

The Bank has a strong diversified loan portfolio with mortgages representing the largest loan category at 43.8% and no other sector reflecting more than 15% of the loan portfolio as at 31 March 2025. The Bank's diversified portfolio consists of loans to individual customers comprising 48.5% and loans to corporate customers comprising 51.5% as at 31 March 2025. As at 31 March 2025 and 31 December 2024, 2023 and 2022, non-performing loans based on gross carrying amount represented 1.8%, 1.6%, 1.8% and 1.8%, respectively, and the Group's allowance for expected credit losses (i.e., Stage 3) represented 0.6% as at 31 March 2025 (0.6%, 1.0% and 1.1% as at 31 December 2024, 2023 and 2022) of the total gross amount of the portfolio. The provisions for Stage 3 losses as a percentage of gross impaired loans (reserve coverage ratio) decreased from 20.1% as at 31 December 2022 to 18.9% as at 31 December 2023, 15.6% as at 31 December 2024, before increasing to 16.5% as at 31 March 2025. The Bank's low (compared to peers outside of Iceland) coverage ratio for facilities in Stage 3 is due to the fact that its loan portfolio is, to a large extent, well collateralised (92.7% as at 31 March 2025) resulting in lower loss given default ("**LGD**") estimates compared to a less well secured or unsecured portfolio. The Bank also benefits from a diversified funding structure that is largely based on deposits and complemented by wholesale funding in the form of various debt securities. The Bank has issuances of bonds under its covered bond facilities in the Icelandic market. As at 31 March 2025, deposits from customers comprised 58.2%, equity comprised 13.5%, bonds issued under covered bond facilities comprised 12.7%, senior unsecured debt comprised 12.6% and subordinated debt comprised 2.0% of the Bank's funding sources. The Bank has a robust liquidity position with limited near-term refinancing needs, with high quality liquid assets representing the second biggest segment on its balance sheet at ISK 222,732 billion (13.4% of total assets, surpassed only by mortgages) and its LCR equal to 202% as at 31 March 2025. The Bank is currently rated BBB+/A-2 with a positive outlook by S&P Global and has been assigned and A3 issuer rating with a stable outlook by Moody's Ratings.

As a result of these factors, the Bank has significant growth and/or dividend capacity in line with its medium-term target to reduce its CET1 ratio to approximately 18.6% as at 31 March 2025 from 19.6% as at 31 March 2024. However, the Bank's ability to distribute such dividends depends on several factors, including (but not limited to) its capital optimisation strategy and regulatory consents. The Bank's capital optimisation process, including through dividend distributions and its share repurchase programme continues to be a focus point for the Bank, subject to market conditions.

The Bank has an ingrained culture of service and risk mindfulness

The Bank's seasoned management team is complemented by a highly skilled and dedicated workforce, forming a cornerstone of its operational resilience and strategic success. High levels of employee satisfaction, cultivated through a supportive and dynamic work environment, foster an engaged workforce that consistently delivers exceptional service to clients. Embedded within this culture is a pervasive mindfulness of risk, which permeates all levels of the organization—from frontline staff to sensior leadership.

This robust risk culture is a key strength of the Bank, directly contributing to its prudent and efficient management of capital. Employees are trained to identify, assess, and mitigate risks proactively, aligning their day-to-day decisions with the Bank's overarching risk framework. This workforce-driven vigilance enhances the quality of the Bank's risk portfolio, as evidenced by its ability to maintain lower capital requirements compared to industry peers. As at 31 March 2025, the Bank's overall capital requirement equalled 19.7%, compared to 19.6% for Arion Bank and 20.4% for Landsbankinn.

The Bank is a leading relationship bank in Iceland with a differentiated and innovative approach

The Bank is a customer-centric universal bank focused on Iceland, with a state-of-the-art banking platform, providing its customers with a diverse range of financial products and services, through its three key business units, Personal Banking, Business Banking and Corporate & Investment Banking, as well as its strategic subsidiaries, in particular Iceland Funds. The Bank aims to respond to its customers' ever-growing needs and to provide innovative and helpful solutions through the Bank's services and products across its industries.

Personal Banking

Personal Banking offers a full range of financial services for individuals and households, such as lending, savings and payments, with a particular focus on digital and self-service solutions. As at 31 March 2025, Personal Banking had a market share of individual customers of 30%. The operating income of Personal Banking has remained steady from ISK 21,686 million in 2023 to ISK 19,813 million in 2024 and ISK 5,357 million as at 31 March 2025.

The key strengths of Personal Banking are:

- Strong market position with a stable financial performance. As at 31 December 2024, Personal Banking had an overall market share of 31% (based on the number of customers with active deposits as percentage of people with domicile in Iceland (source: National Registry of Iceland)).
- Demonstrated customer-centric approach and aiming for increasing customer satisfaction and loyalty with both personal and digital services. The Bank was the first bank in Iceland to launch an AI chatbot. Fróði was awarded the most likeable virtual agent for the second year in a row in 2024 at boost.ai's, Fróði's service provider, annual conference, Boost Camp.
- Growth model driven by optimised product offering and high-quality loan book. With the Bank's digital credit assessment journey the Bank has managed a market share in mortgage lending of 21% as at 31 December 2024 (*source: Central Bank of Iceland*).
- Strategic digital journey contributing to ROE as well as improved customer experience. Sales via digital channels are consistently increasing. The Bank has an exclusive contract with MasterCard, and maintains a strong market share in cards of 37%, where market share is stronger in credit cards as at 31 December 2024 (*source: Central Bank of Iceland*).
- The Bank has also provided digital offerings for its private pension plans to its customers.
- Strong financial performance with consistent track record and attractive outlook. The total mortgage portfolio grew by 5.3% from 31 March 2024 to 31 March 2025.
- Clear vision focused on new pillars and market trends for growth. Personal Banking has a proven track record of successfully implementing strategic initiatives while simultaneously being a steady low-risk contributor to the Group results.

Business Banking

Business Banking provides comprehensive banking services and versatile banking products to SMEs, such as lending, savings products and payment solutions. Additionally, the Bank provides asset-based financing services through its separate brand, Ergo. It generates operating income through the provision of credit products, deposits and other banking services, on which Business Banking earns interest income and fee and commission income. In 2024, the Business Banking had a total market share of 37% in Iceland and 40% in the greater Reykjavík area (*source: Gallup survey*). The operating income of Business Banking has grown steadily from ISK 16,757 million in 2022 to ISK20,145 million in 2023 and ISK 20,834 million in 2024.

The key strengths of Business Banking are:

- Business Banking has a robust business model and advanced service strategy. The Bank has a strong market share across different sectors and is considered the leader in the SME market with the highest net promoter score among its Icelandic peers (*source: Gallup survey*).
- The Bank emphasises and provides personal service, built on advanced and well-developed service strategy with productive, motivated and highly skilled staff responsible for high customer satisfaction.
- Operational efficiency through economies of scale and digital transformation. Business Banking offers access to banking through web, online bank, mobile app, API, chatbot, contact centre, business centres and branches. The Bank provides customers access to best-in-class technology and solutions, including electronic signatures, touchless payments, corporate on boarding through web and corporate mobile app.
- The Bank is well positioned to meet fast changing customer demand for sustainable products. The first sustainable lending product in the Bank was green financing through Ergo.
- Business Banking is highly profitable and has a strong credit culture with a well-diversified loan portfolio. The loan portfolio has historically exceeded GDP as SMEs continued to be an important source of investment, innovation and invention driving economic growth.

Corporate & Investment Banking

Corporate & Investment Banking provides universal financial and investment banking services to large companies, municipalities, institutional investors, and high net worth individuals. The product and service offering are a comprehensive range of financial and investment banking services, including lending, securities and currency brokerage, corporate advisory services, private banking services and sales of hedging instruments. The division generates operating income by providing credit products, deposits and investment banking services to corporate customers and institutional investors as well as asset management for high net worth individuals and institutional investors. The customer facing units within the division are: Corporate Banking, Foreign Exchange Sales, Derivatives Desk, Securities Sales, Corporate Finance and Asset Management. The operating income of Corporate & Investment Banking has increased from ISK 16,966 million in 2022 to ISK 19,630 million in 2023 and ISK 19,460 million for the year ended 31 December 2024.

The key strengths of Corporate & Investment Banking are:

- Extensive best-in-class products and services catering to a broad range of customers. The Bank is a leader in the corporate and investment banking market providing services in corporate banking, asset management, corporate finance, securities sales, derivatives and foreign exchange sales.
- It is staffed by experts with decades of financial experience. The Bank's Corporate & Investment Banking team has an average of 14 years of banking experience with the management team with 6 years of average tenure at their current post.
- Customer service is at the core of the division's culture and a focus on multi-product customers. According to a Gallup survey, 97% of the division's customers reported they were satisfied with the service of the Bank. According to the same survey, satisfaction with the service provided by the Bank's contact was 100%, with no one rating the contact as unsatisfactory (*source: Gallup survey*).
- Strong and healthy loan book to drive future earnings with a focus on strategic pricing to drive a further margin increase.
- Steady growth of fee and commission income in turbulent market conditions.

Track record of a significant growing income from core banking operations

The Bank has been able to generate steady and varied income through its diversified business model. Net interest income increased by 9.6% between 2022 and 2024, mainly due to effects of imbalances in the banking book. Net fee and commission income decreased by 6.6% between 2022 and 2024, mainly due to clearing and settlement and increased card expenses partly offset by an increase in new lending and refinancing and an increase in payment processing fees.

The table below sets forth the net interest income, the net fee and commission income, other net operating income, and the total operating income, as disclosed in the Consolidated Financial Statements.

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
			(*ISK in millions*)		
Net interest income	12,939	12,122	47,265	48,611	43,126
Net fee and commission income(*)	3,067	3,010	13,122	13,283	14,053
Other net operating (expense) income	(472)	1,058	2,551	1,392	57
Total operating income	**15,534**	**16,190**	**62,938**	**63,286**	**57,236**

(*) Comparative figures have been changed with immaterial effects: expenses of ISK 951 million recognised in the line item "Total operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income."

The table below sets forth the respective contributions of the Bank's products and services to fee and commission income, as disclosed in the Interim Financial Statements, for three months ended 31 March 2025.

Products and services	**Three months ended 31 March 2025**
Asset management	16.3%
Investment banking and brokerage	16.9%
Payment processing	41.0%
Loans and guarantees	10.7%
Other fee and commission income	15.1%

The table below sets forth the improvement the Bank has demonstrated in key metrics over the thirteen years from 2011 to 2024.

	As at and for the year ended 31 December		Change in Percentage (%) or Percentage Points (ppts)
	2011	2024	
Loans to customers (ISK billion)	564	1,295	129.6%
Loans per FTE (ISK million)	384	1,766	359.9%
Number of branches	21	12	42.9%
Net fee and commission income as a percentage of operating income	14.7%	20.8%	6.1 ppts
Loan to deposit ratio	115.6%	140%	24.4 ppts
CET1 ratio	19.1%	20.1%	1.0 ppts
Number of employees	1,470	772	47.5%

The Bank is a strong player in the Icelandic financial services industry with an ESG-ingrained culture

The Bank recognises that sustainability drives shareholder value and corporate longevity. The Bank's sustainability strategy and framework has resulted in an innovative product offering for its customers. Sustainable initiatives include:

- *Discounted green car financing offered by Ergo*. In 2024, 26% of vehicle loans were made through discounted green financing which offers customers a 0.75% discount in interest rates for the purchase of energy efficient vehicles. As at 31 December 2024, financing for 1,553 clean vehicles had been provided by Ergo, in compliance with the Bank's Sustainable Funding Framework.

- *Green savings*. The Green Bonds fund was introduced as a savings option for the Bank's customers in 2018 by Iceland Funds and was the first such fund in Iceland. As at 31 March 2025, 82.3% of the Green Bonds fund's holdings were green bonds, which are bonds that finance sustainable projects with a positive impact on the environment and the community.

- *Sustainable financing for companies*. Loans to companies for projects that fit the criteria of the Sustainable Funding Framework, for example, renewable energy and green buildings. At 31 March 2025, ISK 117 billion of corporate lending categorised as "sustainable" loans had been approved.

- *Net zero emissions by 2040*. In April 2021, the Bank announced target of achieving full carbon neutrality no later than 2040. The Bank's own operations have been carbon-neutral for the past two years, but with this decision, its targets will also extend to "financed emissions," which include the carbon footprint of the Bank's entire loan and asset portfolio. At the same time, the Bank commits to setting climate targets based on science-based targets and has already begun preparing a detailed plan providing for secondary objectives in line with that framework. Currently the Bank has published targets for maritime shipping, aviation, road transport, mortgages and the seafood sector within in its portfolio.

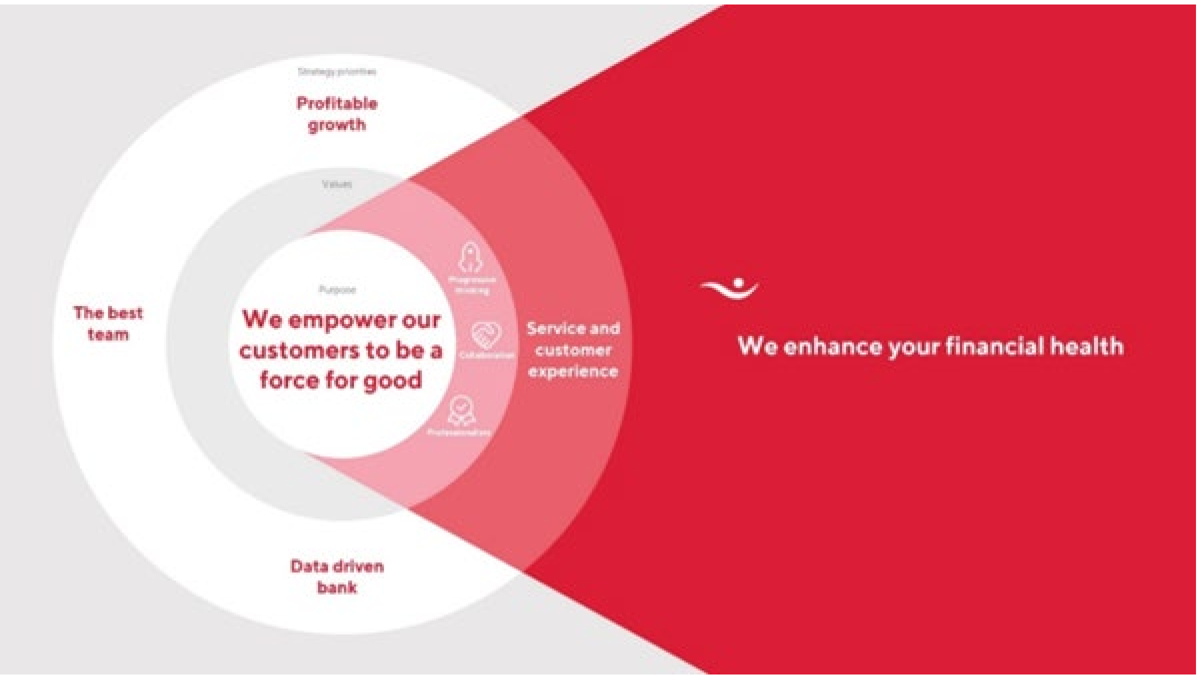
The Bank has received a strong ESG rating (84 out of 100 points) by Reitun, an Icelandic rating agency. The Bank's sustainability leadership has been demonstrated in being awarded the Icelandic Knowledge Award 2020 by FVH, the Association of Business and Economics Graduates in Iceland. Further, the Bank has been recognised for excellence in corporate governance several times by the Centre of Corporate Governance at the University of Iceland and by Stjórnvísi, an Icelandic business association focused on corporate governance best practices.

In addition to these accomplishments, the Bank has also been a leader in gender equality. 43% of the Bank's Board of Directors and 50% of its Executive Committee are women, in comparison to the global average of major banks of 20% and 18%, respectively, according to a Deloitte report on women in financial services from 2023. As in prior years, in 2024, the Bank received equal pay certification and was awarded professional certification under the IST 85:2012 Equal Pay Standard. Each year since 2018, the Bank has been awarded the Equality Scale by the Icelandic Association of Business Women, FKA.

9.4 Strategy

Islandsbanki's role is to empower its customers to be a force for good in society and create value for the future in a sustainable way—for its customers, shareholders, and employees, and for society as a whole. Furthermore, the Bank places particular emphasis on the financial health of its customers and will make every effort to strengthen it, through both educational efforts and product offerings.

The Bank's strategy is a balanced mix of (i) building a sustained competitive advantage and (ii) increasing efficiency.



All decisions are guided by the Bank's values: progressive thinking, collaboration, and professionalism.

- *Progressive thinking*: With progressive thinking, the Bank's people show initiative and always seek new solutions that will create value for their customers. The Bank's people are curious about new technology and ways to use it to enhance the service experience. They are enterprising, show courage, and make things happen.

- *Collaboration*: The Bank bases all of its work on trust and collaboration. It sides with its customers and is there for them at major turning points in their lives. The Bank's people are solutions-driven, and work together as a team to achieve its goals and those of its customers and society as a whole.
- *Professionalism*: The Bank's people are professional and thorough in their work. They listen to their customers, acquaint themselves well with their customers' situation, and share their expertise in order to strengthen their customers' financial health.

To support its strategic priorities, the Bank has defined four strategic themes, service and customer experience, a data-driven Bank, profitable growth and the best team. The Bank's strategic themes focus on creating value for the future by providing outstanding service.

Service and customer experience

Notwithstanding rapid changes in a fast-paced environment of financial services the emphasis on personal, data-driven service is at the heart of the Bank's service policy. Ready access to data and technology is the key to the Bank's ability to offer secure but flexible financial solutions tailored to each customer's needs. The Bank strives to provide its customers with outstanding personalised service that strengthens their financial health, creates trust, and builds valuable long-term relationships. The Bank's primary emphasis is on identifying and understanding the needs of different customers to meet their needs and enhance their banking experience.

The Bank offers secure, user-friendly digital financial solutions for all day-to-day banking needs and are available when our customers need more complex service.

A data-driven Bank

The Bank continues to focus on further evolution towards personal, guidance-centred service based on data analysis. Ever-increasing awareness of the importance of data quality and security can be seen throughout the Bank: in the revamped internal organisation of matters concerning data, the employment of data quality officers, and the adoption of a data quality monitoring process. The Bank is working systematically towards increased automation of marketing and custom-designed services and communications with customers, and the benefits have already begun to show in an improved service experience and stronger sales.

Profitable growth

The Bank is continuously seeking growth opportunities, with profitability as a guiding principle. Progressiveness and innovation are in the foreground, with emphasis on further development and projects that have a positive impact on the Bank's customers, shareholders, and employees, and on society as a whole. The Bank optimises its use of capital and thereby ensures efficiency in its operations.

The best team

The Bank's strengths lie in its diverse group of employees who make a concerted effort to serve the Bank's customers based on experience, inventiveness, and ambition. Human resources represent a vital asset, and fostering an environment that nurtures a dedicated and satisfied workforce is a key commitment. The core of the Bank's human resources policy is to ensure that the Bank is a place where employees have the opportunity to grow and develop in their careers. In order to fulfil this vision, the Bank has in its implementation of this strategic theme focused on a number of human resources-related topics, including health, education and training, and equality and diversity, all of which contribute to a modern work environment where employees feel secure.

The Bank published an updated Sustainable Funding Framework in early 2024, after the publication of the Bank's first Sustainable Financing Framework in 2022. The 2024 framework has been simplified and aims to reflect the latest market standards as well as to some extent the EU taxonomy. The framework is aimed at supporting the mobilisation of capital to sustainable projects and operations through offering sustainable loans for projects, including smaller hydropower plants, geothermal power plants, wind and solar power plants, and loans to schools, promoting job creation for women and disadvantaged groups. The Bank's processes and administrative structure relating to sustainability are strong and mandated by the Bank's Sustainability

Committee, to keep the Bank's determination to realise its ambitious sustainability objectives and be a leader in the field. The Bank has set out key sustainability goals for 2025, including:

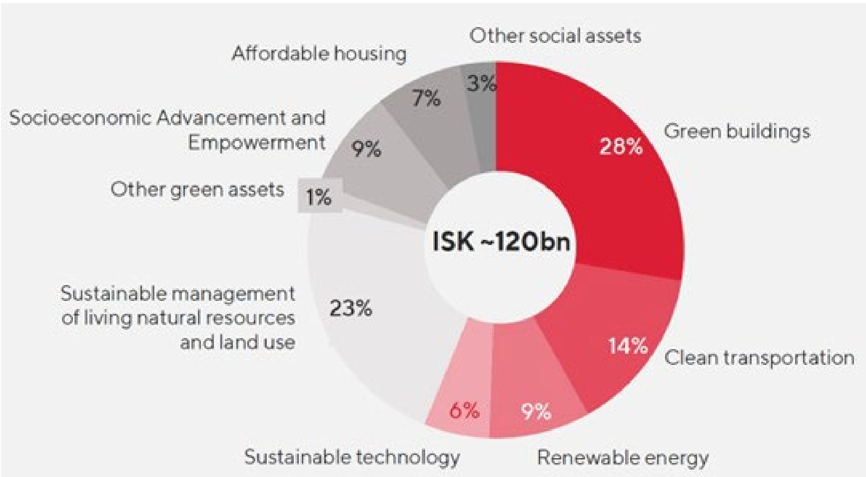
- becoming carbon neutral in its operations, which it achieved in 2019;
- offering customers green and sustainable products;
- balancing gender ratios through all of the Bank's operations;
- creating a working culture that celebrates diversity and inclusion;
- working with suppliers and partners that champion sustainability;
- assessing and publishing sustainability risk and defining internal decision-making; and
- placing special emphasis on four of the UN Sustainable Development Goals, which are 4: Quality Education; 5: Gender Equality; 9: Industry, Innovation and Infrastructure; and 13: Climate Action.

To ensure progress in line with its 2025 ambitions, the Bank sets sustainability goals to be achieved within each year until 2025. In 2024, the Bank's objectives are to incorporate sustainability risk into the Bank's risk model for corporate lending; balance the ratio between men's median and women's median salaries deliberately; and place even more emphasis on sustainability-related governance.

The Bank also has sustainable product offerings for customers including the green car financing offering through Ergo as well as the Green Bonds fund introduced as a savings option via Iceland Funds. Partnerships with Storebrand investment management provide customers the option of three investment funds, which are article 8 and 9 funds pursuant to the Sustainable Finance Disclosure Regulation, in Iceland.

Since 2021, the Bank has published an Allocation and Impact Report for the Bank's Sustainable Financing Framework. The report gives an overview of the impact of the eligible assets already approved under the Framework. The report for 2024 was integrated into the Annual and Sustainability report to gather all sustainability related information in one place.

The graph below illustrates the Bank's sustainability instruments and allocations in 2024, as well as the use of proceeds from the sustainability bonds issued. The Bank's sustainable assets and sustainable financing totalled ISK 120 billion and ISK 44 billion, respectively. The pie chart below shows the use of proceed split by project category as per the categories outlined in the Bank's Sustainable Financing Framework.



Finally, the Bank's strategy regarding gender equality has also been effective in ensuring gender equality at the management level, with a gender ratio in the Bank's management team where no gender exceeds 60%. The Bank's strategic ambition is to remain a global leader in gender equality across all operations, with plans to increase the number of women in IT and Corporate & Investment Banking. The Bank's gender equality policy seeks to ensure equal wages, and currently the adjusted gender pay gap at the Bank is 0.2%, which is below the 5% threshold set by the Icelandic Association of Business Women, FKA. The Bank takes systematic steps toward diversity, empowerment and equal rights of all groups in alignment with the Gender Autonomy Act, and the Bank has signed the UN Global Compact's Women's Empowerment Principles and is Iceland's main banking partner to UN Women in Iceland.

For more information on the Bank's sustainability efforts, see "—*9.3 Strengths.*"

9.5 Current Trading and Recent Trends

There has been no significant change in the financial position or the financial performance of the Group since 31 March 2025, the end of the last financial period for which financial information was prepared. Note is given to the fact that the Group has considerable CPI-linked assets in excess of liabilities. Due to this, net interest income and net interest margin can be volatile and subject to inflationary ticks on a month-by-month basis. Further, as inflation subsides, net interest income and net interest margin may become pressured if the overall rate environment does not decrease at the same pace. Capital markets have continued to be turbulent in April and May of 2025, both internationally and, to a larger degree, domestically. This can adversely affect the Group's operation and performance through various items such as net fee and commission income and net financial income, which turned a loss in the first quarter of 2025. The Group has, however, confirmed its financial targets of having a return of equity in excess of 10% and cost-to-income ratio below 45% (see "—*9.6 Financial Targets*"), both viewed for the year as whole, while volatility and fluctuations are likely to take place within the year. With regards to the financial targets, the Group assumes the current economic outlook which, due to the forward-looking nature of IFRS 9 accounting standards for impairments, can adversely change due to changes in the economy and items relating to specific borrowers, borrower groups, segments or sectors, thus adversely affecting the Groups performance and financial position.

Since the date of the last published financial statements there have been no material investments made by the Group, nor are any such material investments in progress and/or have any firm commitments already been made for such material commitments.

9.6 Financial Targets

The Board of Directors has adopted the following financial targets. For additional information on the Bank's dividend policy, see "*19. Shares and Share Capital—19.3 Dividends and Dividend Policy*."

The Bank's financial targets set forth below constitute forward-looking statements that are subject to considerable uncertainty. The financial targets are based upon a number of assumptions relating to, among other things, the development of the banking industry, business, results of operations and financial condition. None of the Bank's independent auditor, nor any other independent accountants, have applied, examined or performed any procedures with respect to the financial targets, nor have they expressed any opinion or any other form of assurance on the financial targets or their achievability. The financial targets constitute forward-looking statements and are not guarantees of future financial performance. The Bank's business, prospects, financial position and results of operations, and the development of the banking industry and the macroeconomic environment in which it operates, may differ materially from, and be more negative than, those assumed by the Bank when preparing the financial targets set forth below. The existence of the financial targets should not be interpreted as an assurance or guarantee that financial targets can or will be met by the Bank. While presented with numerical specificity, these financial targets are based upon a number of assumptions. The financial targets reflect the Bank's subjective judgements in many respects and thus are susceptible to multiple interpretations and periodic revisions based on actual experience and business, economic, financial and other developments. Accordingly, such assumptions may change or may not materialise at all. In addition, unanticipated events may materially or adversely affect the Bank's actual results or operations and financial performance in future periods, whether or not the Bank's assumptions relating to future periods prove to be correct. As a result, the Bank's ability to reach these financial targets is subject to uncertainties and contingencies, some of which are beyond its control, and no assurance can be given that the Bank will be able to reach these targets or that its financial position or results of operations will not be materially different from these financial targets. See "2. Risk Factors" and "4. Presentation of Financial and Other Information—4.11 Forward-Looking Statements."

None of the Bank, the Bank supervisory board or management board members, senior management or any of their respective affiliates, advisers, officers, directors or representatives can give any assurance that the financial targets will be realised or that actual results will not vary significantly from the financial targets. Investors should independently assess whether or not they believe the financial targets to be reasonable or achievable and should carefully evaluate whether investing in the Offer Shares is appropriate, bearing in mind personal circumstances and the information included in this Prospectus, particularly considering the information described in "2. Risk Factors." Also see "4. Presentation of Financial and Other Information—4.11 Forward-Looking Statements."

Return on equity

For the three months ended 31 March 2025, the Group's reported return on equity was 9.4% (10.9% for the year ended 31 December 2024). The Bank's target is to deliver a return on equity in excess of 10%. This is based on the average expected risk-free rates through the business cycle.

Cost-to-income ratio

The Bank targets an cost-to-income ratio of below 45%. For the three months ended 31 March 2025, this was 47.6%, compared to 43.9% in 2024, to 40.6% for 2023 and 41.6% for 2022. The Bank will rely on its continued investment in IT infrastructure and process efficiency to achieve these targets.

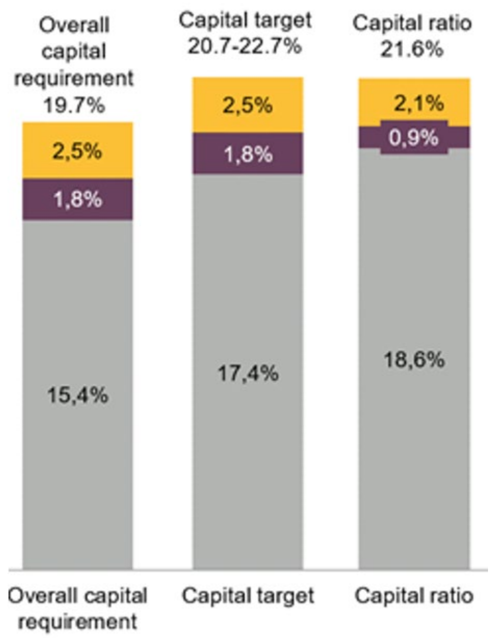
Capital ratios

CET1 capital ratio

The Bank's CET1 ratio as at 31 December 2022, 31 December 2023, 31 December 2024 and 31 March 2025 was 18.8%, 21.4%, 20.1% and 18.6%, respectively. Based on current regulatory requirements and management buffer of 100-300bps, the CET1 capital ratio target range of the Bank was 16.4%-18.4%, as at 31 March 2025. As a result, the Bank holds considerable excess CET1, or 1.2% in excess of its current CET1 target mid-point of range, assuming a fully optimised capital structure and the mid-point of the management buffer. The Bank is committed to optimising its capital structure, subject to market conditions. Such optimisation may include both growth (organic or external) or distribution to shareholders. The Bank announced on 5 February 2025 that it has been granted authorisation by the FSA of an amount up to ISK 15 billion market value, to buy back own shares and reduce its share capital. The Bank intends use the authorisation to set up a formal share repurchase program or for the purpose of offering shareholders generally to sell their shares to the Bank for example, through auction where equal treatment of shareholders is ensured. The Bank will announce the timing and execution of the repurchase of own shares under the aforementioned authorisation once a decision to that effect has been made.

The Bank's AGM on 31 March 2025 authorised the Board of Directors to purchase a maximum of 10% of its own equity. As of the date of this Prospectus, ISK 16 billion remains of the Central Bank's authorisation, which is within the AGM authorisation.

Applying the current regulatory requirements and minimum capital target of the Bank, as at 31 March 2025, the chart below outlines the additional scope for excess capital.

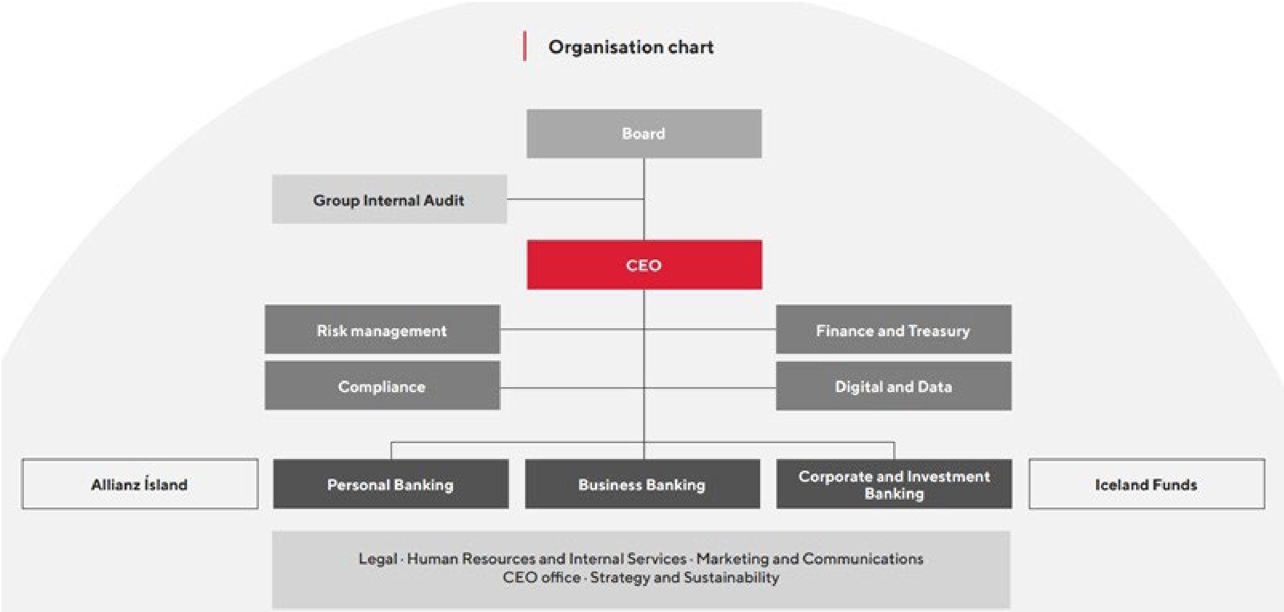


Dividend pay-out ratio

Based on the then-applicable regulatory requirements, the Bank is targeting to pay out approximately 50% of earnings as a base dividend. The Bank will focus on excess capital to support further dividend payments, buybacks and/or ROE enhancing growth. The Bank may provide additional capital return to approach capital targets over the short term, to be concluded by year-end 2025, subject to market conditions.

9.7 Business and Divisions

The organisational structure of the Bank is as follows:



The Bank has three main business units as follows:

Personal Banking offers a comprehensive range of financial services for individuals and households, including lending, savings, and payment solutions. Increasingly, customers are managing their everyday banking through digital channels like mobile apps, online banking, and secure web chat. For those seeking personalised advice, the Bank also provides access to a well-structured branch network for in-depth consultations, in addition to assistance from the contact centre.

Business Banking provides comprehensive banking services and versatile banking products to SMEs, such as lending, saving products and payment solutions. Business Banking operates through business centres in Norðurturn/Kópavogur and Akureyri and branches strategically located around Iceland. Ergo, the Bank's asset-based financing unit, is also a part of Business Banking. Customers also have full access to their business and day-to-day operations via online banking and app. The Business Banking contact centre is operated from Norðurturn/Kópavogur, the headquarter branch. According to Gallup surveys, the Bank has regularly been voted market leader in the previous ten years and consistently scored highest in service amongst peers according to the same surveys.

Corporate & Investment Banking provides comprehensive universal financial and investment banking services to large companies, municipalities, institutional investors, and high net worth individuals. The product and service offerings are a comprehensive range of financial and investment banking services, including lending, securities and currency brokerage, corporate advisory services, private banking services and sales of hedging instruments. The division is focused on building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, the division leverages its expertise in the domestic market and global contacts and has a special focus on the North Atlantic region and Europe within the fishing industry, infrastructure and leverage finance projects.

Other Divisions

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

Cost centres comprise the CEO's office (Human Resources & Internal Services, Legal, Marketing & Communications and Strategy & Sustainability), Digital & Data, Risk Management, Compliance and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. (Allianz Insurance Iceland) and other less significant subsidiaries.

The tables below set forth operating income, profit (loss) before tax, and total assets for each reportable segment and the total assets for each reportable segment as at the dates and for the periods indicated.

	As at and for the three months ended 31 March 2025 in ISK millions						
	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	Subsidiaries, eliminations and adjustments	Total
Operating income	5,357	5,337	5,197	(1,326)	(55)	1,024	15,534
Profit (loss) before tax	2,065	3,160	3,143	(1,418)	(4)	689	7,635
Total assets	616,075	334,927	363,619	340,365	10,429	2,014	1,667,429

	As at and for the year ended 31 December 2024 in ISK millions						
	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	Subsidiaries, eliminations and adjustments	Total
Operating income	19,813	20,834	19,460	676	(279)	2,434	62,938
Profit (loss) before tax	8,655	11,362	12,554	465	(652)	1,201	33,585
Total assets	612,420	325,442	367,476	291,450	9,180	1,839	1,607,807

	As at and for the year ended 31 December 2023 in ISK millions						
	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	Subsidiaries, eliminations and adjustments	Total
Operating income	21,686	20,145	19,630	82	(27)	1,770	63,286
Profit (loss) before tax	9,099	11,740	13,625	(111)	(1,167)	562	33,748
Total assets	577,829	313,899	337,050	344,746	8,716	454	1,582,694

	As at and for the year ended 31 December 2022 in ISK millions						
	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	Subsidiaries, eliminations and adjustments	Total
Operating income	19,741	16,757	16,966	2,216	(112)	1,668	57,236
Profit (loss) before tax	8,918	10,710	10,811	2,578	(368)	222	32,871
Total assets	555,339	280,923	358,646	361,442	9,387	498	1,566,235

Personal Banking

Overview

Personal Banking offers a comprehensive range of financial services for individuals and households, including lending, savings, and payment solutions. Key products include a wide range of loans and savings options for customers as well as simple and effective payment solutions. This includes savings, lending, insurance products, and different payment options via the Bank's various distribution channels, including the mobile app, online banking, branches, the contact centre, e-mail and the online chat bot function. Personal Banking customers can manage their banking needs 24/7 in distribution channels, such as ATMs, mobile app, online banking, and online chat bot functions. As at 31 December 2024, Personal Banking employed a total of 163 full-time employees. As at 31 December 2024, Personal Banking had more than 147,000 active customers (*i.e.* those that have been active in any of the Bank's distribution channels within the last 90 days), with 127,000 of them being active deposit customers. The Bank has provided funding for over 178,000 active mortgages in Iceland, supported by a team of 13 full-time employees (out of a total of 163 full-time employees in Personal Banking). Personal

Banking aims to simplify customers' daily financial activities by being their preferred financial partner, offering user-friendly digital experiences alongside a strong local branch network.

The chart below sets forth the organisational structure of the division.

As at 31 December 2024, the Bank holds a strong total market share of 31%, based on the number of customers with active deposits as percentage of people with domicile in Iceland, in line with 2023 (*source: National Registry of Iceland*).

Strategic Priorities

The mortgage portfolio is a fundamental aspect of the Bank's Personal Banking with 43.8% of the loan balance as mortgages as at 31 March 2025. Personal Banking aims to keep a remaining strong presence in the mortgage market. Personal Banking aims to be more cost efficient by lowering cost and increasing revenue.

Personal Banking aims to continue providing best-in-class mobile solutions and develop new and existing products with the goal of providing customers full digital coverage of all offerings. Personal Banking wants to be a force for good by strengthening its customers' financial health. This will be visible in product development and services.

Íslandsbanki entered into a partnership with VÍS Insurance at the start of the year and will launch the first step of the collaboration in the beginning of summer. Mutual customers will enjoy enhanced benefits and gain better oversight of their financial products and insurance in the Íslandsbanki app.

The Bank believes that Personal Banking is well-positioned to respond to rapidly evolving customer demand for sustainable products. Additionally, with competitive pricing and increased efficiency, the division has established the right foundation for balance sheet growth. Key future initiatives for the division include:

- Enhance digital capabilities to provide a comprehensive range of products and services through fully digital platforms, enabling customers to access and manage all offerings seamlessly online
- Increase the mortgage portfolio and digitalisation of the process
- Improve customer targeting by leveraging advanced data and analytics to better understand customer behaviours, preferences and needs
- Extend the current product offering through partnerships and open banking initiatives and finalise end to end digitalisation of key customer journeys

Customers

As at 31 March 2025, Personal Banking had 124,000 active customers and now finances more households in Iceland than it has before. Personal Banking enjoys a loyal and relatively stable customer base in Iceland. The Bank evaluates customer satisfaction using net promoter scores (NPS) and other traditional customer satisfaction metrics for its key services. These measurements help assess customer loyalty, service quality, and overall satisfaction with the most important aspects of the customer experience.

Products and Services

The table below sets forth the financial products and services offered by Personal Banking.

Loans	Savings Products	Payment Solutions
Mortgages (indexed, non-indexed, variable rates, fixed rates, first buyer add on)	Saving and checking accounts	Checking account / debit cards
Bonds (without insurance, under ISK 2.45 million, etc.)	Private pension plans (third-pillar pensions)	Credit card
Overdraft	Mutual funds	Debit card
		Pre-paid card
		Gift card
		Split-payments
		Apple Pay, Fitbit

Loans

Personal Banking offers a wide range of loans for individuals, from overdraft accounts to mortgages, with a fully digitised and automated credit assessment process. As at 31 March 2025, the Bank's loans to customers for Personal Banking was ISK 613 billion.

In 2020 the Central Bank of Iceland's interest rates were lowered by 2.25% to 0.75%. Low rates led to an increase in refinancing in the period 2020-2023 and, in turn, propelled significant profitable growth resulting in an increase of the Bank's market share in residential mortgages to 21% in 2024 compared to 19.2% in 2020 and 15.9% in 2019.

In the period between 2023 and 2024, the Central Bank of Iceland's policy rates were increased from 6.00% to 9.25% resulting in a shift in customer preference towards CPI-linked (indexed) mortgages. Since 19 March 2025, the policy rate stood at 7.75%.

As at 31 March 2025, mortgages represented 90.3% of all outstanding loans in Personal Banking. As at 31 March 2025, mortgages have increased by ISK 5.1 billion since 31 December 2024 which resulted in a 4.7% increase in the balance, as compared to the balance as at 31 March 2024. Since 2020, 87% of mortgages have been issued, driven by the low-interest rate environment during that time. Since 2024, 12% of the Bank's current mortgage portfolio has been issued (calculated as mortgage loans issued in 2024 divided by the total mortgage loan portfolio), partly due to the expiration of fixed-rate terms.

Due to the Central Bank of Iceland's interest rate hikes beginning in 2022, the CPI-linked (indexed) mortgage portfolio has grown considerably, representing 63% of the total mortgage portfolio as at 31 March 2025. This proportion could rise further as the high-interest rate environment has prompted households to seek more manageable debt service burdens, although recent and further rate cuts by the Central Bank of Iceland may change this trend. Personal Banking also offers mixed CPI-linked (indexed) and non-CPI-linked (non-indexed) mortgage loans, allowing customers to select the type of mortgage loan that best suits their risk appetite and repayment ability.

Bank customers can also apply for an unsecured digital loan of up to ISK 2.45 million within minutes using the Bank's mobile app, which streamlines the loan application process for convenience and speed. The digital loan portfolio stands at ISK 4.7 billion as at 31 March 2025.

Digitalisation has helped decrease overall time to process customer requests, which is an important factor as mortgage turnover has increased significantly. As at 31 March 2025, 92% of overdrafts and overdraft renewals applications were originated in digital channels.

Recent product developments include authorising eligible customers to put in place an interest payment ceiling for their non-indexed mortgage loans to cap their interest payments, whereby if the ceiling is utilised, the excess interest is applied to the loan principal.

Savings products

Personal banking offers saving options such as savings and checking accounts, private pension plans (third-pillar pensions) and mutual funds. In 2019, a fully automated onboarding and sales solution for customers was introduced, and as at 31 March 2025, 84% of new savings and checking accounts for new and existing customers were opened through digital channels. Customers have since early 2020, had the option to open custodian accounts through digital channels and start investing in funds and securities.

As at 31 March 2025, deposits of households in Iceland have increased by 2.2% in 2025 compared to 16.3% increase in the year ended 31 December 2024. This increase can be attributed to high Central Bank of Iceland's policy rates which encourages people to save more money in deposit accounts and to high inflation. Deposits in Personal Banking grew by 1.7% in the three months ended 31 March 2025, compared to 4.9% in the three months ended 31 March 2024.

The Bank's private pension plan assets grew by 2.7% from 31 December 2024 to 31 March 2025, while the number of customers increased by 1.9% over the same period. Over 95% of all such private pension plans are sold via digital channels. The Bank is also the only bank in Iceland that has partnered up with well-known international and respected fund and asset management companies such as Storebrand and Vanguard. In particular, the partnership with Storebrand offers sustainable investment options.

In 2022, the Bank introduced a new digital-only savings account, Ávöxtun. Thus far, it has been received well by the Bank's customers, with almost 60,000 Ávöxtun accounts opened as at 31 March 2025. In 2023, the Bank introduced a CPI-indexed version of the Ávöxtun account with a commitment period of only 90 days instead of the three years previously required for older types of savings accounts. It is well suited to individuals seeking higher returns on savings, but with a shorter commitment period.

Payment solutions

Personal Banking offers simple and effective payment solutions in the front ranks of payment market products. The Bank has a 37% share of the payment solutions market in cards, with its market share being stronger in credit cards than in debit cards, as new market entries have increased competition. The Bank's customers can access all services relating to payment cards through digital distribution channels, making the service a simple and natural part of their everyday lives. The industry has seen a significant behavioural shift from plastic cards to mobile and wearable payments. The Bank was the first bank in Iceland to enable payments with wearables. The Bank was also the first in Iceland to introduce the Google Pay payment solution to its customers and offer digital authentication for ATM login in 2022.

The Bank has an exclusive contract with MasterCard, which means that all debit cards, gift cards and credit cards issued by the Bank are MasterCard branded. Total card volume, calculated as total turnover from both debit and credit cards, in 2024 for the Bank was ISK 499 billion. The most popular payment method in Iceland is currently Apple Pay. As at 31 March 2025, 92% of payments in Personal Banking were contactless) and are likely to continue to increase in the future.

Other payment solutions allowing customers to change their credit limit and manage payment instalments have been successful as well.

The Bank's partnership with fintech company Meniga has brought added value to its customers. Through the collaboration with Meniga, the Bank launched the *Fríða* loyalty program, which offers personalised cashback deals each month and the ability to track one's carbon footprint. Together with the Icelandair points available through higher-tier credit cards, the Bank offers a unique dual loyalty program in Iceland, combining cashback benefits with travel rewards.

Contact centre

The contact centre opened in 1997 and acts as a one-stop shop for all customer inquiries. The contact centre focuses on providing advice and assistance to customers via phone, email, or chat, assisting on average 2,500 happy customers every day. The "help the customer to help themselves" initiative introduces customers to the full range of digital solutions offered by the Bank. If inquiries are too complex, the Bank employee will forward the call to a branch for further assistance.

Customers obtain direct access to technical specialists when they are facing issues and need guidance and support using the online bank, the Bank's mobile application and/or the ATMs. Average incoming phone calls per month have decreased 6.5% between 2023 and 2024 and average webchat traffic per month has increased 7.4% between 2023 and 2024. In addition, in 2020, the Bank launched an AI chatbot, Fróði, in collaboration with boost.ai, a Norwegian fintech partner, which allows customers to get tailor made answers 24/7, and now completes over half of all inquiries without human interference. Fróði is trained by employees in the contact centre and has been programmed to provide bank assistance and guidance to individuals and corporate customers, resulting in zero waiting time for those inquiries.

In 2018, Kreditkort hf.'s contact centre, which specialised in credit card issues, merged with the Bank's contact centre following the closure of Kreditkort hf., a wholly owned subsidiary of the Bank. As a result of the merger, the contact centre gained enhanced expertise, particularly with specialists in credit cards and claims/chargebacks. Currently, all claims and chargebacks are processed within the contact centre. Additionally, the centre provides support for the onboarding process.

In 2020, the Bank also introduced two priority telephone lines, one for senior citizens and another for mortgage-related inquiries.

A strong card fraud monitoring team has been established with the goal of detecting potential fraud and addressing any incidents that arise. The fraud watch team works closely with the Bank's emergency services, ensuring that customers can rely on and receive assistance 24/7.

Digital solutions

In 2018, an increased focus was put on digitalisation within Personal Banking to meet a growing demand in the market and improve both competitiveness and operational efficiency of the Bank. As a result, investments in physical services were reduced. Historically, the Bank has been at the forefront of retail banking technology in Iceland, it was the first to offer ATMs, online banking (eighth globally) and a mobile banking application. To prepare for a new era, the Bank's digital front-end solutions have been adapted to a modernised service driven architecture, which has allowed the Bank to act quickly to changes in customer demand and add new offerings to its main digital channels without extensive delays.

All key products (accounts, loans, investments and cards) can now be bought digitally through the Bank's onboarding solution, a digital way to offer products to new and existing customers. In 2024, retail customers visited the Bank's main digital channels (mobile bank app) over 30 million times and there were 121,000 90-day active customers (of whom 50,000 use the online bank on a regular basis), with the user numbers having increased at a CAGR of 13% between 2017 and 2024, and steadily growing month by month. Approximately 89% of all new product orders (accounts, loans and cards) are now processed via the Bank's digital channels.

Combined, the digital solutions capture all services that have historically been offered in the Bank's branch network and would allow the retail bank to operate without a physical presence. Partnering in areas such as loyalty systems, account aggregation, peer-to-peer, chatbot and more, has allowed the Bank to gain momentum in delivering state of the art services and meet customer demand for digital products.

Operations and distribution capabilities

The table below sets forth certain operational data for Personal Banking as at 31 December 2024:

Market share of individual customers	31%
Total number of active customers (individuals)	147,000
Total number of branches	12
Number of full-time employees(1)	163
Loans to customers	ISK 609 billion
Deposits from customers	ISK 486 billion

(1) Excluding temporary employees whose contracts terminated at 31 December2024.

Personal Banking generates operating income through the provision of financial products and services to retail customers, on which the Bank earns interest income and fee and commission income.

The table below contains numerical data for the periods under review on operating income, loan portfolio, and deposits.

	Three months ended 31 March		**Year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
			(ISK in millions)		
Personal banking operating income	5,357	4,983	19,813	21,686	19,741
Loans to customers	613,323	584,006	608,766	574,653	552,181
Deposits from customers	494,371	426,821	486,235	406,821	361,994

The table below contains the range of services available to Personal Banking's customers through online banking, the Bank's mobile application and ATMs.

Online Banking	Bank Mobile App	ATMs
Balance check	Balance check	Deposits and withdrawals ISK
Loans overview	Loans overview	Currency withdrawal USD, EUR, GBP and PLN
Unpaid bills	Unpaid bills	Balance check
Payments / transfers	Payments / transfers	Account statement
Payments scheduling	Credit / debit cards balance	Money transfer
International transfers	Change overdrafts	Pay unpaid bills
Credit / debit cards balance	Change credit card limits	PIN changes
Split payments credit cards	Split payments credit cards	
Freeze card / retrieve pin	Announcement of new bills	
Electronic documents	Freeze card / retrieve pin	
Account aggregation	Electronic documents	
Buy products – deposits	Account aggregation	
Brokerage account	Buy products loans / deposits / cards	
Pension account	Brokerage account	
	Pension account	
	Book Branch appointments	
	Fróði chat-bot	
	Access emergency phone	
	Loyalty programmes - Fríða / Icelandair	
	My spending target	
	My cases	
	Extra payments on loans	
	Transaction search	
	Fraud safety settings for debit cards	

Business Banking

Overview

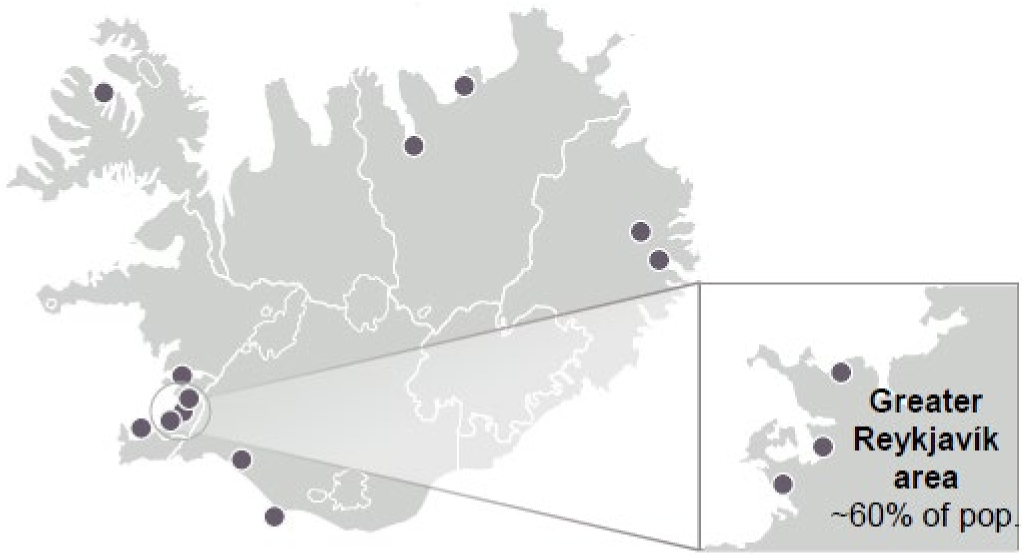
Business Banking provides comprehensive banking services and versatile banking products on service platforms to SMEs, such as lending, saving products and payment solutions offered through branches, via web services, online banking and mobile app. The Bank provides these services through Iceland's most efficient branch network, while also operating on its separate brand, Ergo, in the asset-based financing sector. Business Banking serves the growing SME group in Iceland and has built up strong local relationships and expertise over the years. The division's highly experienced employees provide personalised service in customers' local communities through business centres and branches, but customers also make effective use of the Bank's readily accessible digital solutions. For over 20 years, customers have been able to conduct their daily banking activities via the Bank's corporate online bank which is the largest distribution channel. The application usage has increased significantly during the last years as new features are being released to add even further to customer's needs. Furthermore, customers can open accounts and credit cards via the Bank's website. Business Banking has repeatedly received the highest rating in service surveys among peers.

Business Banking operates business centres and branches in several locations in Iceland. The business centres are located in the Bank's headquarters in Nordurturn, serving customers in the capital area, Akureyri serving customers in North and East Iceland and in Selfoss, serving Selfoss and Vestmannaeyjar. Business Banking offers self-service solutions and personalised advisory services, which results in readier access and better service to the Bank's customers. Service and advisory is located in Nordurturn, where advisors provide general services to companies in the greater Capital area, as well as handling telephone reception, online chat, and web services for the whole of Iceland.

The chart below sets forth the organisational structure of the division.

As at 31 December 2024, the Bank holds a strong total market share of 39% in all of Iceland and 43% in the Capital area (*source: Gallup survey*, *December 2024*), increased from 38% and 40% in 2023 (*source: Gallup survey, December 2023*). The Bank holds the highest net promoter score amongst peers, and 28% of new businesses say they would contact the Bank first if they were to start their business today (*source: Gallup survey, December 2024*). In addition, the Bank scores highest among peers regarding consultation according to the same survey. Ergo's market share is the largest in the country, with 38% for new registered equipment and machinery financing and 49% for new rental car financing in 2024 (*source: The Administration of Occupational Safety; Health; The Icelandic Transport Authority).*

The map below shows the location of the Bank's branches and SME business centres.



Strategic priorities

Business Banking has a track record of successfully implementing strategic initiatives via communication and service strategies. The Bank has a clear strategy for achieving further growth and enhancing efficiency in its operations with the specific areas at focus set forth below:

Maintaining a leading position on the market

Business Banking has been a market leader in service and has a clear strategy for maintaining its position in the market. The best-in-class service is built on advanced and well-developed communications- and service strategy, which includes a proactive approach, networking and targeted cross-selling. Business Banking has implemented new dashboards in order to support front line staff targeting the right customers and providing them with the relevant service, based on the Bank's segmentation model.

Strong risk culture and disciplined processes

Business Banking has a clearly defined risk appetite. Business Banking has a defined risk policy with targets and thresholds to manage concentration in the loan portfolio. The division has a strong risk culture with employees with an average experience in the banking sector of over 15 years. Pricing models are risk oriented and disciplined and lending decisions emphasise payment capacity over collateral. The loan portfolio is well diversified both in terms of segments and customers.

Focus on sustainability

Through the Bank's Sustainable Funding Framework and participation in green projects, the division is well positioned to meet fast changing customer demand for sustainable products. The first sustainable lending product in the Bank was green financing for car purchases launched in June 2020 through Ergo. In 2020, Tesla entered the Icelandic market and selected Ergo as its official partner in Iceland. As at year-end 2022, nearly 60% of loans from Business Banking had undergone an ESG risk assessment. By the end of 2024, that share had reached 88%.

Focus on future growth

The diversified loan book has experienced disciplined growth. Focus has been on certain target groups as well as organised cross-selling. Business Banking has had a clear structure of cross-selling with other divisions within the Bank which the Bank aims to continue to utilise. For example, through Corporate & Investment Banking and through Ergo, for products of the asset-based financing unit of Business Banking. The Bank focuses on maintaining long-term relationships with existing customers and attracting new customers with the aim of building new long-term relationships.

Improving customer experience

Business Banking relies on a relationship-based model with a proactive sales and multi-product approach driven by key performance indicators. The decentralised business model fuels growth in lending to SMEs by bringing the lending decisions closer to SME customers and resulting in faster processing times and a customised approach to individual lending decisions.

The Bank is working towards continuous improvement of service strategy and further development in digitalisation. The Bank has an ambitious roadmap for the next years, including integration of its on-boarding solution into its mobile application and online bank. The Bank will continue to work closely with its fintech partners with the aim of becoming more efficient in its automated solutions and data-driven analytics.

The Bank invested significant effort into developing a new Online bank for businesses, which launched in February 2025. The new Online bank is a user-friendly distribution channel for all daily banking services. Clear interaction will be between the Online bank and the Bank's other digital channels with the overall aim of offering each customer the right product at the right time.

The Bank has made it a priority to offer outstanding personalised service. The Bank has been aided in this effort through their digital services.

Customers

As at 31 December, 2024, Business Banking had an estimated 14,800 corporate customers, 9,000 association/non-profit customers and 8,000 customers of Ergo. Ergo's customer base is largely built on the Bank's customer base. Over 50% of Iceland's *outstanding companies* are served by Business Banking. *Outstanding companies* are measured by Creditinfo based on the company's strength and stability measures. The Bank measures customer satisfaction on the basis of net promoter score.

Business Banking categorises customers by specific segments and target groups to ensure customers receive both the right and appropriate service and products in line with their needs. The developed service strategy supports the maintenance of long-term client relationships.

Products and Services

Business Banking provides comprehensive financial products through its service platform with emphasis on a quality service to support customer growth.

A large part of creating exemplary service and strengthening the business relationship is to proactively contact the customers through visits and phone calls. The Bank conducts annual service surveys among its customers with follow-ups if necessary.

The table below sets forth the range of financial products and services offered by Business Banking.

Loans	**Savings Products**	**Payment Solutions**
Overdraft	On demand checking and savings accounts	Debit cards
Term loans	Term savings accounts	Credit cards
Construction loans		Collection services
Invoice financing (factoring)		Digital invoices
Guarantees and letter of credit		B2B web services
Asset-based financing: Green financing Hire purchase Car loans Car contracts Stock financing		Foreign payments (Swift / SEPA)

Additionally, cross-selling to other divisions within the Bank is an important role of Business Banking.

Loans

Business Banking offers loans that range from short- to long-term loans, asset-based financing and various other loan products.

Business Banking has grown its portfolio of loans to SMEs in recent years. Loans to SMEs increased from ISK 278.8 billion as at 31 December 2022 to ISK 311.7 billion as at 31 December 2023 and ISK 323.8 billion as at 31 December 2024. As at 31 December 2024, 92% of the loan portfolio originated in the period from 1 January 2019 to 31 December 2024, and the loan portfolio was split geographically with 57% of the portfolio originating in the Capital area and 43% originating in the rest of the country. As at 31 December 2024, 74% of the loan portfolio originated from the Bank's branches and 26% originated from Ergo.

Deposits

The Bank offers various saving options that suits the needs of the Business Banking customers, including regular savings accounts, on demand accounts, CPI-linked accounts, rates and foreign exchange accounts. In addition, the Bank offers fixed rate deposits where the funds are not accessible (locked) for a predetermined time which may vary from one to twelve months.

Deposits from SMEs grew by 10% in 2024 after steady growth in 2023 and 2022. The loan-to-deposit ratio was 117% at 31 December 2024. Total deposits as at 31 December 2024 were ISK 277.2 billion, compared to ISK 251 billion at 31 December 2023.

Payment solutions

The Bank offers its customers simple and effective payment services. Through an exclusive agreement with MasterCard, all debit, credit and gift cards issued by the Bank are MasterCard-branded and open for payments worldwide. Customers have used touchless payments on Android phones and Apple Pay for several years for all cards. Additionally, wearable devices such as Apple Watch, Garmin, and Fitbit can be used for touchless payments. These forms of payment, often referred to as tokenised payments, are increasingly replacing traditional plastic cards.

Various payment options are available through digital channels. Business Banking customers can transfer ISK funds between domestic accounts in real-time via the Bank's online banking and mobile app. They can also issue SEPA and SWIFT payments to almost any accredited bank worldwide through the online banking platform. Many customers utilise open banking Application Programming Interfaces ("APIs") to transfer funds, often in batch payments, through third-party providers such as accounting software solutions.

Collection services

Payment requests can be issued to anyone with an Icelandic social security number via the Online bank, and soon in the application as well. The payment request is sent to the online bank or mobile application of the payment request recipient. This is a very effective and efficient payment solution. In addition, the service provides the customer a good overview of its finance/status (e.g., overview of paid/unpaid accounts receivables, which is particularly beneficial to smaller businesses that do not have an accountant or accounting software).

Ergo

Ergo, the asset-based financing unit of the Bank, is a part of Business Banking and specialises in financing of motor vehicles, travel equipment and equipment and machineries for corporates and individuals. Ergo generated 16% of the Business Banking's operating income in 2024. With 40 years' experience in the asset leasing market, Ergo is determined to distinguish itself from its competitors by providing excellent, professional and rapid service to customers. Ergo's reputation as a market leader was further supported when Tesla selected Ergo as its official financing partner upon entering the Icelandic market in 2020. As at 31 December 2024, 26% of Business Banking loan portfolio originated from Ergo.

Supporting sustainability development, Ergo offers green financing, at favourable rates, encouraging the Bank's customers to accelerate energy exchange in cars and take advantage of the environmentally friendly options.

Ergo was the first to offer loans for electric bicycles and charging stations. Environmentally friendly cars with zero emissions in Ergo's individual loan portfolio amounted to 47.8% in 2024, as compared to 42% in 2023.

Digital solutions

The Bank has had digital solutions available for businesses since 2002. With changing customer demands, the Bank has put a larger emphasis on digital solutions. All corporate online banking users can access their daily business activities through the Bank's mobile application and customers are able to open accounts and credit cards via the Bank's website. In 2020, the Bank partnered with Payday, which offers financial solutions for small businesses, e.g., digital invoices. In 2020 the Bank also started offering digital signatures for various documents, serving customers while the branches were closed due to COVID-19. The Bank has also introduced a new onboarding solution that allows new Business Banking customers to commence their banking online and enables onboarding through the Bank's website. Strong focus has been placed on digital solutions for Ergo in recent years. An automated response feature for car loans for individuals was rolled out in March 2024, and the entire process from the lending decision to registration of loan documents has now been digitised. This represents significant streamlining for employees, collaborating companies, and not least, for customers. Ergo can now accept and approve car loan applications outside conventional opening hours. The Bank aims to continue improving customer experience in digital solutions while maintaining personal service.

Support to entrepreneurs

The Bank's Entrepreneurship Fund aims to encourage innovation and development and to support entrepreneurial projects that contribute to the four UN Sustainable Development Goals the Bank has decided to implement in its strategy: quality education, gender equality, climate action and innovation and infrastructure. The fund granted ISK 50 million to 14 sustainability-related innovation projects in 2024. As mentioned above, SMEs play a great role in the economy as important sources to investment, innovation, and inventions. The Chairman of the Board of the Entrepreneurship Fund is Una Steinsdóttir, Managing Director of Business Banking.

Operations and Distribution Capabilities

Business Banking generates operating income through the provision of financial products and services, on which the Bank earns interest income and fee and commission income. Operating income for Business Banking was ISK 16.8 billion, ISK 20 billion and ISK 21 billion for the years ended 31 December 2022, 2023 and 2024, respectively. As at 31 December 2022, 2023 and 2024, Business Banking's loans to customers amounted to ISK 278.8 billion, ISK 311.7 billion, and ISK 323.8 billion, respectively, and the total amount of deposits with Business Banking amounted to ISK 244.6 billion, ISK 251.2 billion and ISK 277.2 billion, respectively.

The table below sets forth certain operational data for Business Banking as at 31 December 2024.

Market share of SMEs (*source :Gallup survey, December 2024*)	39%
Total number of SMEs (including associations such as housing associations)	23,800
Total number of Ergo customers	8,000
Total loans outstanding	ISK 324 billion
Total deposits	ISK 277 billion

The table below sets forth the range of services available to Business Banking's customers through online banking, the Bank's mobile application and ATMs.

Online Banking	Bank Mobile App	ATMs
Accounts statements	Electronic overview	Deposits
Domestic and international payments and transactions	Money transfer	Balance check
Batch payments	Domestic payments or transactions	Pin change
Financial overview, incl. loans, deposits, accounts, cards, portfolios, etc	Retrieve pin	Withdrawals

Collection Service	Overview of loans, deposits and credit cards	Unpaid bills
Unpaid bills	Unpaid bills / pay bills	
Cash pooling	Open new accounts	
Securities trading (funds, equities)	Electronic documents	
Pension (401 K)	Freeze card	
Display of electronic documents	Balance check	
Access management	Electronic claims	
Approval process	Expense management	

Branches and banking centres

The Bank operates three business centres, one at its headquarters in Norðurturn/Kópavogur that services customers located in the greater capital area, one located in Akureyri that services customers located in the North and East Iceland and in Selfoss that services customers located in the south of Iceland. A contact centre is also located at headquarters, which provides service to Business Banking customers for the whole branch network. In addition to Business centre in Nordurturn, Business Banking operates in nine of the twelve strategically located branches, around the country to ensure that all Business Banking customers get the best service possible.

The Bank's branches offer access to self-service solutions and personalised advisory services provided by business managers and advisors.

Credit culture

The business centres and branches have a strong credit culture, emphasising the ability to repay and cash flow above collateral. Credit decisions are decentralised with appropriate involvement of managers and credit committees. Employees of Business Banking have an average experience in the banking sector of over 15 years. Business Banking operates on a risk oriented and disciplined pricing models. Business Banking has its own risk policy with diversity thresholds specified.

Corporate & Investment Banking

Overview

Corporate & Investment Banking was formed when the Bank merged Capital Markets, Asset Management and Corporate Banking into one division. The rationale for the merger was to create a division that could provide comprehensive services to large corporates and investors.

Corporate & Investment Banking provides comprehensive universal financial and investment banking services to large corporates, municipalities, institutional investors, and high net worth individuals. The Bank's experienced employees provide customised products and services to customers, including lending and advisory services, risk management products, securities and currency brokerage, asset management and private banking services. The Bank takes great pride in building and maintaining relationships across all industry divisions within Iceland. Outside Iceland, the Bank has been drawing on its expertise in the domestic market and global contacts mainly in the North Atlantic fishing industry with increasing focus on infrastructure and leverage finance projects focusing on the North Atlantic region and Europe. At the end of March 2025 the foreign portfolio represents 6.0% of Corporate & Investment Banking's loan portfolio. Building on its extensive experience of complex, wide-ranging projects, the Bank has led many of the largest transformational endeavours in the Icelandic economy in recent years.

The Bank is one of three market makers in the foreign exchange market along with Arion Bank and Landsbankinn. The Bank is a leader in the foreign exchange market due to strong business relations with the export industries, including seafood and tourism.

The Securities Sales unit enjoys a strong position in the market and the Bank is currently leading in the trading volume in equities in 2025 as well as leading in the combined trading volume for equities and marketable securities.

The Corporate Finance unit provides comprehensive investment banking advisory services to both companies and individuals, Corporate Finance has been an originator and participant in many of the largest transaction in the Icelandic market during the last years.

The Asset Management unit has offered asset management to institutional investors and high net worth individuals since 1986. The Asset Management division is one of the main distributors of Iceland Funds and has partnerships with two major global asset and fund managers, Vanguard and Storebrand.

Corporate & Investment Banking focuses on efficient and direct communications, emphasising cooperation across the departments within the division, to meet its customers' needs as effectively as possible. The division targets customers who utilise multiple products by providing a full range of financial and investment banking services to its target customers. The Bank focuses on maintaining long-term relationships with existing customers and attracting new customers with the aim of building new long-term relationships.

As at 31 December 2024, Corporate & Investment Banking had 76 full time employees in six business divisions and the support division Finance and Control. As at 31 December 2024, the employees within Corporate & Investment Banking had an average banking experience of 14 years.

Organisational structure

<u>Corporate Banking</u>

The Corporate Banking unit provides full range services with a focus on the largest 300 corporates in Iceland. Corporate Banking manages business relationships with these large corporates and large project specific transactions requiring more complex credit analysis and structuring. The unit is responsible for the Bank's complete product offering to these customers. It provides service to all sectors of the Icelandic economy although particular focus has historically been on the seafood sector, tourism, real estate and construction sectors with increasing focus on building and maintaining expertise in infrastructure development financing.

A team of 13 experienced relationship managers, with an average banking experience of 19 years, are responsible for the customer relationships with the support from six credit managers. Each relationship manager is responsible for a specific customer portfolio, knowing their business, industries and their service requirements.

Corporate Banking operates a relationship-based service model with a focus on proactive sales and a multi-product approach addressing each customer's financial needs. The direct relationship of a relationship manager with each customer is an important factor in providing proactive and tailored service to the customer base.

Corporate Banking generates operating income through the provision of credit products, deposits and other corporate services, on which Corporate Banking earns interest income and fee and commission income.

The Corporate Banking team has a proactive sales approach. Therefore, over the past few years it has been active in setting goals that are aimed at engaging with both current and prospective customers. Despite cyclicality in the domestic economy, experience has shown that aggressive goals in this area translate to increased business, not only lending, but also opportunities relating to other divisions of Corporate & Investment Banking.

Over the years, Corporate Banking has consistently and successfully delivered solutions to its customers' complex financial needs; whether by acting as a lead arranger in large syndicated loan transactions with foreign and/or domestic banks, participating in club transactions with fewer banks, bilateral lending agreements or utilising the Bank's Securities Sales to raise capital from the domestic bond or equity market.

Outside of Iceland the unit is responsible for the Bank's international lending which was originally approved by the Bank's Board of Directors in 2013 and most recently reaffirmed in early 2024. The strategy was initially intended to build up the Bank's international lending business by leveraging the Bank's traditional strength in the seafood industry. The strategy was intended to provide an additional channel for growth, reduce risk by diversifying the portfolio and provide attractive risk-adjusted returns. The Bank and its predecessors have been doing business in the North Atlantic region for more than 25 years and the Bank has developed strong relationships with many of the leading seafood companies in the region, which form the foundation for the strategy. In 2024 the Bank increased its focus on infrastructure and leverage finance projects in the North Atlantic region and Europe.

The international strategy has been successful. New lending has grown in line with plans, diversification has been achieved and the average margin on the international portfolio is higher than the domestic average. Although the international portfolio is smaller than expected, due in part to fast turnover in the portfolio, it accounts for a meaningful portion of the Bank's seafood portfolio at 31 December 2024. Total revenue and profitability related to the Bank's international strategy have been acceptable due to high turnover, attractive interest margins and healthy fees.

Foreign Exchange Sales

The Foreign Exchange Sales desk provides services related to foreign exchange and interest rate products. All customers' spot trades are conducted via the Foreign Exchange Sales desk. The Foreign Exchange Sales team is in direct contact with institutional investors, pension funds, large corporate customers and others trading sizeable amounts. Foreign Exchange Sales is also responsible for pricing cross currency rates in online banking and other systems used for spot execution for individuals, SMEs, etc. Foreign Exchange Sales works closely with customers in need of hedging currency and interest rate risk.

The experience and knowledge within the Foreign Exchange Sales team is high, with an average of 14 years of banking experience.

Derivatives Desk

The Derivatives Desk provides risk management products and market making services in cooperation with Foreign Exchange Sales and other divisions. The Bank is one of three market makers in the foreign exchange market, along with Arion Bank and Landsbankinn. The average experience of the employees on the Derivatives Desk is 23 years.

Securities Sales

The Securities Sales unit offers professional investors access to equity and bond markets and investments in derivatives, including forward contracts in stock and bond markets. The unit participates in share buybacks for listed companies and has managed issues of bonds both issued by the Bank, specifically the Bank's covered bonds, and primary issues for third parties. Securities Sales also operates a unit servicing individual investors with investments in funds and securities.

The Securities Sales desk is staffed by people with extensive experience in both the equity and bond markets, with employees having an average 8 years of experience.

Corporate Finance

The Bank's Corporate Finance team is one of the largest in Iceland, with the capacity to undertake large projects and see them through successfully. Corporate Finance enjoys the support of other units within Corporate & Investment Banking, such as investor relations through strong activities in the field of asset management and securities brokerage.

Asset Management

Asset Management is split into three units: Private Banking, Institutional Investors and Asset Servicing. The Bank's Private Banking and Institutional Investors units offer discretionary asset management and advisory services for large investors i.e. pension funds, high net worth individuals, investment companies, funds, and charities. Asset Servicing provides services to large institutions such as pension funds and private equity funds.

Asset Management generates operating income through interest income and management fees, which is calculated as a percentage of assets under management. The Asset Management unit has a long-term track record in providing high quality service and returns on investments to its 1,200 customers, 200 institutional customers and 1,000 high net worth customers. The employees' average experience is 20 years.

Strategic priorities

Corporate & Investment Banking has a clear strategy for maintaining its position in the market by offering the best in class products and services while focusing on business relations and the importance of knowing the Bank's customers' business and executing proactive service strategy. Continuing its multi-product customer focus and leverage existing relationships with large corporate customers to promote their tailored product and service offerings.

The division is committed to retaining its position as the leading investment bank in Iceland with its strong presence in Corporate Finance and the leading position in Foreign Exchange Sales and in Securities Sales with the trading volume across all asset classes on Nasdaq Iceland.

Corporate & Investment Banking is focused on its return on equity by disciplined pricing and efficient use of capital, with emphasis on fee generating projects and less capital-intensive lending products. This strategy is supported by strong credit culture and clearly defined risk appetite, building on a robust and diversified loan portfolio with the largest customers.

The Bank is continuously focused on increasing efficiency to enable more throughput at a stable cost. Digital solutions have been implemented and will be developed to increase efficiency and improve customer experience, for example, through onboarding of new customers. The Bank will continue to digitise areas that improve customer experience while maintaining personal service through the relationship management model.

Corporate & Investment Banking contributed to the Bank's sustainability goals by integrating sustainability products into its portfolio and actively seeking sustainability-related business opportunities as part of its business and product development strategy. The division has sustainability targets and performs ESG risk assessments on its credit exposures. In 2024, the division held 25 meetings with clients focused on sustainability and achieving net-zero emissions.

Customers

Corporate & Investment Banking provides a full range of financial and investment banking services to large companies, municipalities, institutional investors, and high net worth individuals.

Corporate & Investment Banking has a broad range of customers with long-lasting relationships. The customer base can be split into three categories: corporates, institutional investors and individuals. Customer service is the core of the Corporate & Investment Banking culture driving every interaction and decision to ensure that customers receive tailored solutions that meet their unique financial needs.

Products and Services

The table below sets forth the financial products and services offered by Corporate & Investment Banking.

Loans	Deposits	Foreign Exchange	Securities Sales	Corporate Finance	Asset Management
Term loans	On demand and term deposits	Foreign exchange spot	Equity spot trade	M&A	Discretionary asset management
Revolving credit facilities	Money market deposits	Foreign Exchange forward	Bond spot trade	Equity issuing, including IPO and public listings	Advisory
Construction loans		Foreign exchange swaps	Bond and equity forwards	Bond issuing and public listings	Asset servicing
Overdraft facilities		Interest rate swaps	Bond primary issues for the Bank and third parties	Valuation, restructuring and other related services	
Guarantees		Cross-currency interest rate swaps	Shares buybacks		
Revolving margin lending		Foreign Exchange options			

Corporate & Investment Banking also offers its customers day-to-day banking services via the Business Banking branch network.

Loans to customers

Corporate Banking offers loans that range from short- to long-term loans, revolvers, and construction finance to operating companies usually backed by collateral in fixed or floating assets. Corporate Banking has a very strong credit culture and has defined its own risk policy. Loans to corporate customers drive the operating income of Corporate & Investment Banking.

Corporate & Investment Banking's loans to customers amounted to ISK 362,692 million at 31 December 2024. The loan portfolio is 30.4% denominated in foreign currencies (foreign exchange), 42.7% denominated in non-indexed-linked (NIL) ISK and 26.8% denominated in indexed-linked (CPI) ISK. During 2024, new lending totalled ISK 71 billion and loan refinancing amounted to another ISK 42 billion.

Deposits

This division offers various saving options for large companies and institutional investors. The saving options are in various forms of deposits, both traditional and money market (i.e. on demand, CPI-linked and term deposits). Most products are available in ISK and foreign currency. In recent years deposits have gradually increased but on 1 July 2024 there were changes in Private Banking pursuant to which approximately ISK 15 billion of deposits were transferred from Private Banking to Personal and Business Banking. As at 31 December 2024, Corporate & Investment Banking's deposits from customers amounted to ISK 147,394 million.

Foreign Exchange Sales

The Foreign Exchange Sales desk provides service related to foreign exchange and interest rate products. Besides working on day-by-day spot trading, an important part of the entity's service is working with customers in need for hedging currency and interest rate risk. Unlike spot trading, hedging products have future cash flow or commitments to minimise risk in customers' business. Hedging is conducted with derivatives trading products and are at the same time an add-on service to customers that generates higher revenue for the Bank.

Hedging contracts are thoroughly monitored within the Bank, and the Bank maintains necessary collateral for each contract. Forward, swap and option contracts have a maximum duration of one year, but interest rate swaps and cross-currency interest rate swaps usually have a final maturity minimum of at least two years.

Derivatives Desk

The Derivatives Desk supports Foreign Exchange Sales and other divisions with market making and trading in currencies and risk management products such as IRS, CIRS and Foreign Exchange Options and manages the risk for the Bank in those products. The Derivatives Desk is one of three market makers in the ISK against other currencies and provides execution to domestic and foreign banks and manages the Bank's currency exposure.

Securities Sales

The Securities Sales offers professional investors access to share and bond markets and investments in derivatives, including forward contracts in stock and bond markets as listed in the table above. It participates in share buybacks for listed companies and has managed issues of bonds both issued by the Bank (specially the Bank's covered bonds) and primary issues for third parties.

Besides offering standard spot trading access to its customers for both equity and bonds, the Bank also offers forward contracts. The forward contracts are an important generating division and also support the revenue generating capability of the spot trade section.

The forward contracts are thoroughly monitored within the Bank, both in terms of the duration of each contract and to the allowable size of each forward portfolio. The term of the contracts is limited, and the margin requirements are constantly monitored.

Forward contracts are offered to customers for all the listed equity on the main market of the Icelandic Stock Exchange. The spectrum on bonds offered on forward contracts is somewhat limited, although it fully covers the most traded bonds. Bonds that are listed, but lack turnover in the secondary market, are excluded.

Securities Sales also operates a unit servicing individual customers of the Bank with investments in funds and securities, both via online systems and personal service.

Corporate Finance

Corporate Finance provides comprehensive investment banking advisory services to both companies and individuals, such as the acquisition and disposition of company shares, mergers and other changes in ownership structure. Furthermore, the unit provides advisory services in connection with public listings including the management of share offerings, the preparation of prospectus, and the admission of securities to trading on the exchange. Corporate Finance also assists companies in obtaining debt funding, whether through banks or through the issuance and sale of bonds to investors.

Asset Management

The Asset Management unit provides a full range of asset management products and services in cooperation with the Bank's subsidiary, Iceland Funds. Customers are institutional investors, such as pension funds and institutions and high net worth individuals. Asset Management is dedicated to building long-term relationships with its customers, and the average relationship is 20 years.

The Bank manages assets in a broad range of asset classes. Customers are provided investment policies according to the risk profile of each customer. The Bank's background in Asset Management has been conservative, and the focus is on long-term yield.

The Asset Management division provides discretionary asset management and advisory services.

The Asset Management division provides advanced services, such as a back office and a reporting tool for pension funds, to institutional investors and private equity funds. The customers have direct access to their portfolios and can view them directly in the Bank's security system.

Operations and Commercial Capabilities

Operating income for Corporate & Investment Banking was ISK 16,966 million, ISK 19,630 million, ISK 19,460 million and ISK 5,197 million for the years ended 31 December 2022, 2023 and 2024 and for the three months ended 31 March 2025, respectively. For the three months ended 31 March 2025, net interest income represented 68.4% of operating income, and net fee and commission income represented 21.3% of operating income.

As at 31 December 2022, 2023 and 2024, and 31 March 2025, Corporate & Investment Banking's loans to customers amounted to ISK 354,787 million, ISK 336,161 million ISK 362,692 million and ISK 351,919 million, respectively. Deposits from customers in Corporate & Investment Banking amounted to ISK 164,390 million, ISK 172,658 million and ISK 147,394 million and ISK 143,883 million, as at 31 December 2022, 2023 and 2024, and 31 March 2025, respectively.

Other Divisions and Subsidiaries

Subsidiaries

The Bank's significant subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf. (Allianz Insurance Iceland). In addition, the Bank has control over eight other non-significant subsidiaries.

Íslandssjóðir hf. (Iceland Funds)

Iceland Funds is the oldest and one of the largest fund management companies in Iceland, established in 1994. It is a wholly owned subsidiary of the Bank and its primary operations are fund management and discretionary asset management. Iceland Funds leverages the Bank's distribution network through private banking, retail banking and online banking.

Iceland Funds has a strong market share of approximately 28% as at February 2025 in the domestic mutual fund market (*source: keldan.is*). The long-term average market share is expected to be approximately 30%. Iceland Funds is the market leader in fixed income funds and the Bank expects Iceland Funds' equity fund market share to grow steadily.

In recent years, Iceland Funds has been one of the largest fund managers in the retail fund market, with competitors including Landsbréf and Stefnir, along with smaller fund managers, such as Kvika Eignastýring. Total assets under management were approximately ISK 345 billion as at 31 December 2024, generating annual revenues of approximately ISK 2,100 million. The company manages 23 funds for retail investors, including fixed income funds, equity funds, and balanced funds, as well as a diverse range of alternative and specialised investment funds. Approximately 12,000 investors and depositors choose to invest their money in the company's funds.

Iceland Funds has been recognised numerous times for outstanding governance and operations. Since 2013, Iceland Funds has been designated as an outstanding company by CreditInfo yearly. It has also been recognised for excellence in operations and excellence in corporate governance on a yearly basis (*source: Annual and Sustainability Report 2024*).

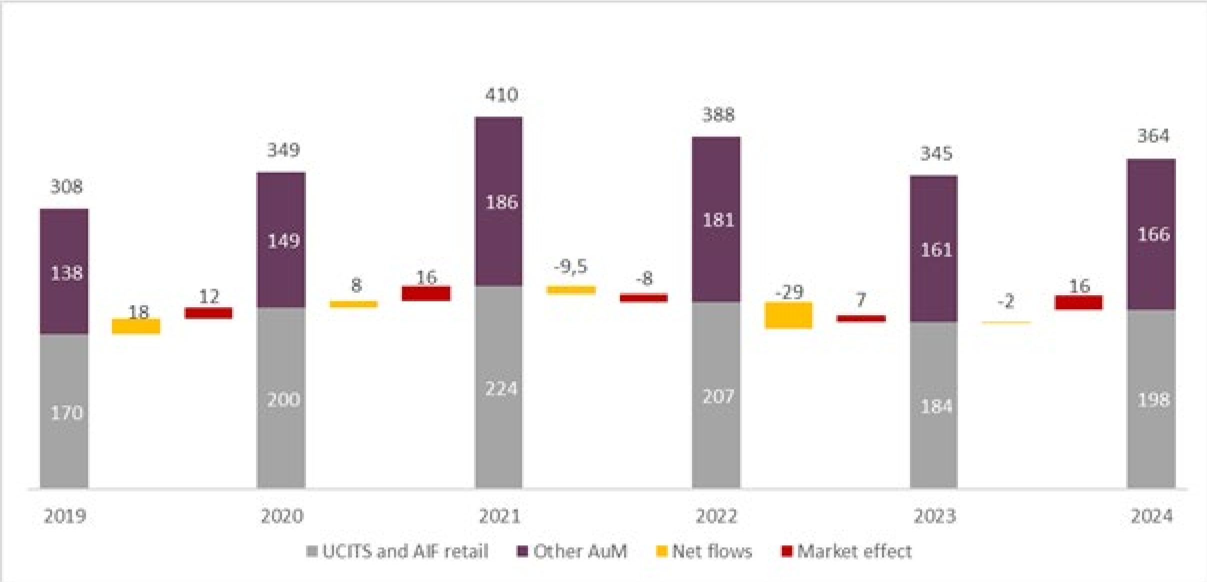
Operations

Iceland Funds' cost base is mostly fixed, consisting primarily of salary cost and service fees paid to the Bank, with the latter amounting to ISK 732 million annually and is approximately 35% of revenues. Iceland Funds' fee and commission income consists of approximately 80% of fund management fees that tend to be stable and grow in line with assets under management. The main drivers for growth will be access to new customers through the Banks sales channels, digitalisation and innovative product development that aligns with current trends in the market.

The table below sets forth the assets under management of Iceland Funds at the dates indicated.

	As at 31 December		
	2024	2023	2022
		(*ISK in billions*)	
Mutual funds	198	184	207
Alternative funds	42	41	34
Asset management	124	120	147
Total	364	345	388

The graph below presents the development of assets under management since 2019 indicating net flows and market effects relating to Mutual funds (ISK in billions).



Organisational structure

Iceland Funds manages 23 mutual funds, as well as alternative investment funds. Furthermore, Iceland Funds has risk management, business development and sustainability, operations and in-house legal advisory.

Business performance is driven through a highly skilled and experienced team of 23 investment professionals, with extensive experience in fund management and financial markets. The team has approximately 17 years of experience on average, and employee turnover has historically been low.

Iceland Funds has its own risk management division, which is responsible for the daily monitoring of fund investments, both according to investment strategy and applicable legal requirements, as well as daily monitoring of portfolios managed by the discretionary asset management team.

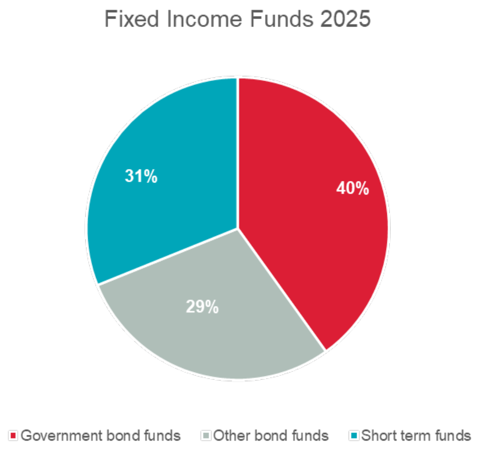
Since 2021, Iceland Funds has faced some outflow from mutual funds related to difficult economic environment, high interest rates and persistent inflation. However, this outflow has stabilised in recent months, shifting towards a steady inflow.

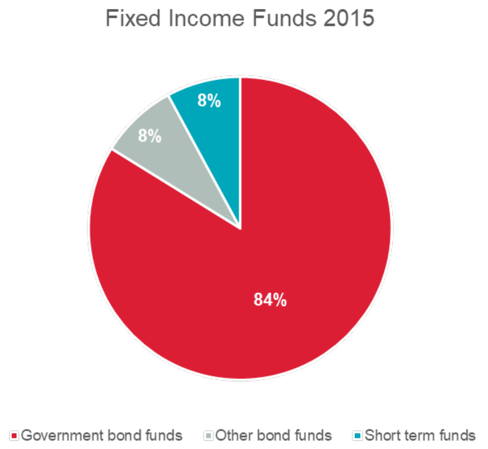
Fund Management Services

Iceland Funds' managers oversee funds that invest in bonds, stocks and other financial instruments and has a quality customer base of approximately 12,000 investors with strong customer retention. Success in asset management requires a good track record and long-term performance. The Iceland Funds mutual funds team has historically been among the top performers, across different asset classes (*source: keldan.is*).

Iceland Funds is a market leader in fixed income funds with market share of approximately 37% as at February 2025 and its eleven domestic fixed income funds invest primarily in bonds denominated in ISK. They can be either indexed or non-indexed bonds and with or without a government guarantee.

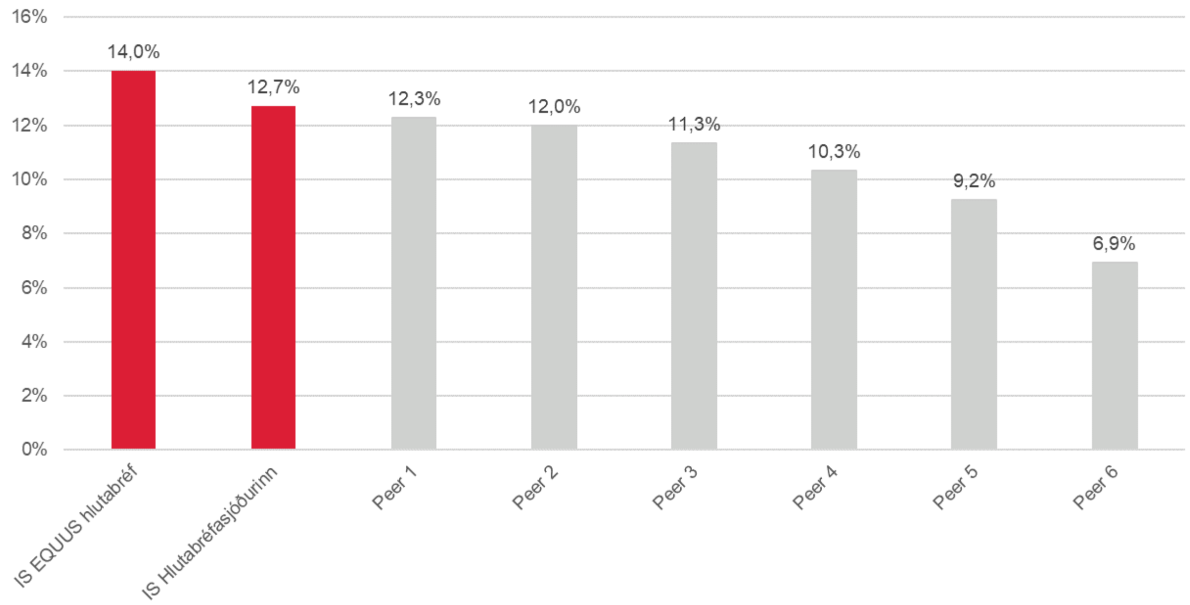
The graphs below show how product development in the last 10 years has resulted in a more diverse income base for the fixed income funds.





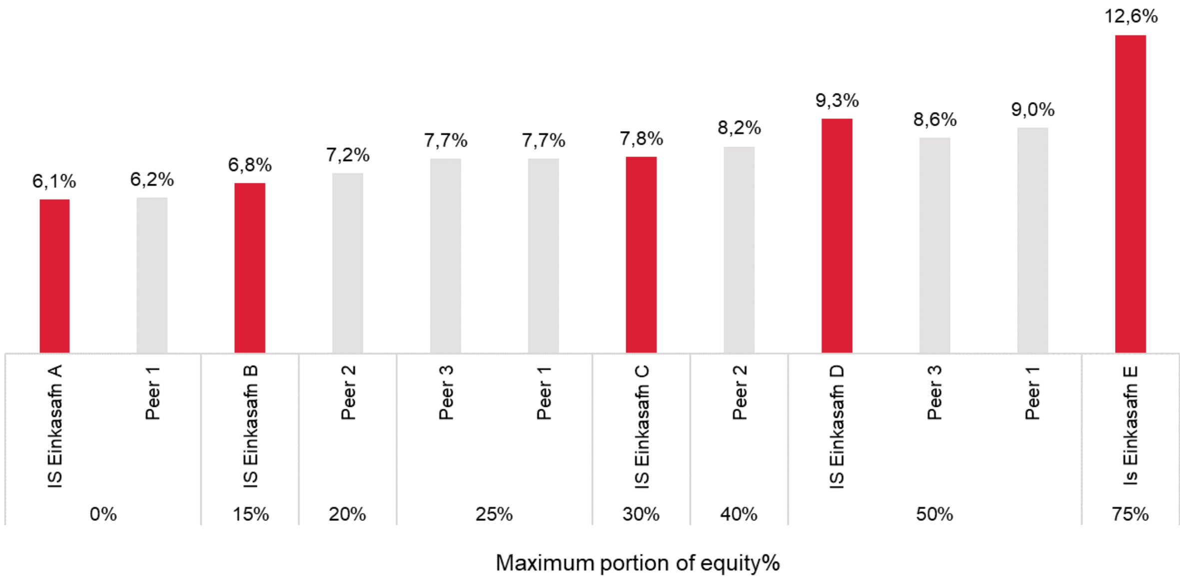
Iceland Funds' market share in Icelandic equities funds has increased from 15% to 22% in the last five years (2020-2025). The four equity funds invest primarily in domestic-based stocks aside from one fund that invests in other equity funds which invest in companies listed on global stock markets.

The graph below shows the five-year annual returns for Iceland Funds' two actively managed equity funds in comparison to peers in Iceland (*source: keldan.is*). The peers selected for comparison are all the actively managed equity funds with at least five years of operating history, sorted in order of returns. This comparison does not consider index funds.



The remaining eight balanced funds invest in a variety of different bonds, stocks and other securities, where risk is divided between various assets. The customer segmentation of Iceland Funds' assets under management consists of 40% individuals and 60% legal entities, and more specifically 62% retail clients and 38% professional clients.

The graph below shows the 10-year annual returns for Iceland Funds' balanced funds in comparison to peers in Iceland (*source: keldan.is*). The peers selected for comparison are all the balanced funds offered to private clients that are open and accessible through the Keldan information platform with at least ten years of operating history, sorted by equity investment strategy.



Iceland Funds is focused on offering the right solutions through product and business development. In 2015, the team identified a need in the market for covered bond funds which today amount to ISK 28 billion, making Iceland Funds a clear market leader in covered bond funds. In 2018, Iceland Funds set up the first green bond fund in Iceland, IS Green Bonds, as there was a growing interest from both institutional and retail investors to invest sustainably. In 2024, Iceland Funds set up a new fixed income investment fund that invests in highly liquid bonds and can use leverage for enhancing performance in favourable market conditions.

Discretionary Asset Management

Iceland Funds' strong Discretionary Asset Management team manages assets for individuals, public entities and institutional investors that have made asset management agreements with the Bank.

The team consists of portfolio managers with an average of over 23 years of experience in the field. Over the years, the team has developed a clear investment process based on fundamental analyses in both domestic and international markets. The investment process for global equity funds is based on a proprietary investment process focused on long-term risk adjusted returns. The team also manages assets for the Bank's private pension scheme.

The team has implemented responsible investing methods in all investment processes. The approach focuses on engagement with companies and asset managers and relies on observation lists to identify companies that do not meet the investment criteria. The team aims to limit holdings in these companies, allowing them to proactively align the portfolio with their values and objectives. The observation list for the global equities is updated twice a year and published on Iceland Funds' website.

The team works closely with the relationship managers at the Bank to service the customers and to build up long-term relationships and trust.

Alternative Investment Funds

Since 2013, Iceland Funds has built extensive expertise in private equity, real estate investment, property development and private debt. A dedicated team of seven experienced professionals manages the Iceland Funds' alternative investment portfolios, including Akur Private Equity Fund, FAST-3, 105 Miðborg, IS Corporate Credit Fund I & II, IS Kredit SPV 21, and IS Haf Private Equity Fund.

Responsible Investment Policy

Iceland Funds adheres to the principles of responsible investment across all its asset management activities. In 2018 Iceland Funds established IS Green Bonds, the first green bond fund in Iceland which is now classified as an article 8 fund in accordance with the Sustainable Finance Disclosure Regulation. Since its inception, IS Green Bonds has yielded annual returns of 5.5% and had ISK 3.2 billion of assets as at 28 February 2025.

Iceland Funds has been a member of the United Nations Principles for Responsible Investment ("UN PRI") since 2017 and is a founding member of Iceland Sustainable Investment Forum ("Iceland SIF") which was established in 2017 to promote awareness and debate about the methods of sustainable and responsible investment. Additionally, all employees have attended UN PRI's responsible investment courses.

Since 2013, the Icelandic Centre for Corporate Governance at the University of Iceland has recognised Iceland Funds for excellence in corporate governance and since the same year Iceland Funds has been designated as an outstanding company by CreditInfo annually.

Both the employees and management of Iceland Funds place a strong emphasis on incorporating good corporate governance, as well as environmental and social issues in the investments carried out by the company. Iceland Funds' primary obligation is to guarantee its customers good, long-term returns and the board of directors of Iceland Funds believes that a clear, responsible investment policy aligns with that objective.

Iceland Funds has published a yearly ESG report for its operations since 2019 and additionally a report on its financed emissions since 2022, covering its funds' financed emissions since 2020.

Allianz Ísland, hf., söluumboð (Allianz Insurance Iceland)

Allianz Insurance Iceland is a wholly owned subsidiary of the Bank. through the holding company Hringur – eignarhaldsfélag ehf Allianz Insurance Iceland sells personal insurance, i.e. life and pension insurance, accident insurance and health and sickness insurance as an agent for Allianz Lebensversicherung AG and Allianz Versicherung AG. Both Allianz Lebensversicherung AG and Allianz Versicherung AG have operating licences in Iceland according to Act no 100/2016 on insurance companies.

Other Divisions

The Bank has two support divisions.

Treasury and Proprietary Trading

Treasury is responsible for funding the Bank's operations and for managing the internal pricing framework. It is also responsible for the Bank's balance sheet management and for relations with debt investors, financial institutions, stock exchanges and rating agencies. Equity that is not allocated to business units sits within Treasury. Proprietary Trading includes equity and debt investments in the trading book and banking book. Treasury and Proprietary Trading had 10 full-time employees ("**FTEs**") as at 31 March 2025.

Cost centres

CEO Office

This cost centre consists of CEO Office, Human Resources and Internal Services, Marketing and Communications, Strategy and Sustainability and Legal. The CEO Office had 63 FTEs as at 31 March 2025.

Finance

Finance includes financial reporting and back office. Also included in Finance are Treasury and Proprietary Trading. Finance manages and oversees shareholding in the Bank's subsidiaries. Finance had 111 FTEs as at 31 March 2025.

Digital & Data

Digital & Data is responsible for the Bank's digital platforms, systems and software development, including online and mobile banking, websites, data & generative artificial intelligence platforms, and its hardware, such as data centres, telephone systems, ATMs and personal computers. Digital & Data had 150 FTEs as at 31 March 2025.

Risk Management

The Bank has an independent risk management function, Risk Management, headed by the Chief Risk Officer. Risk Management is responsible for ensuring efficient implementation of the Bank's risk strategy and policies, for verifying that the Bank has efficient risk management processes in place and that each key risk that the Bank faces is identified and properly managed by the relevant function. Risk Management had 21 FTEs as at 31 March 2025. For information on the activities of Risk Management, see "*15. Risk Management.*"

Internal Audit

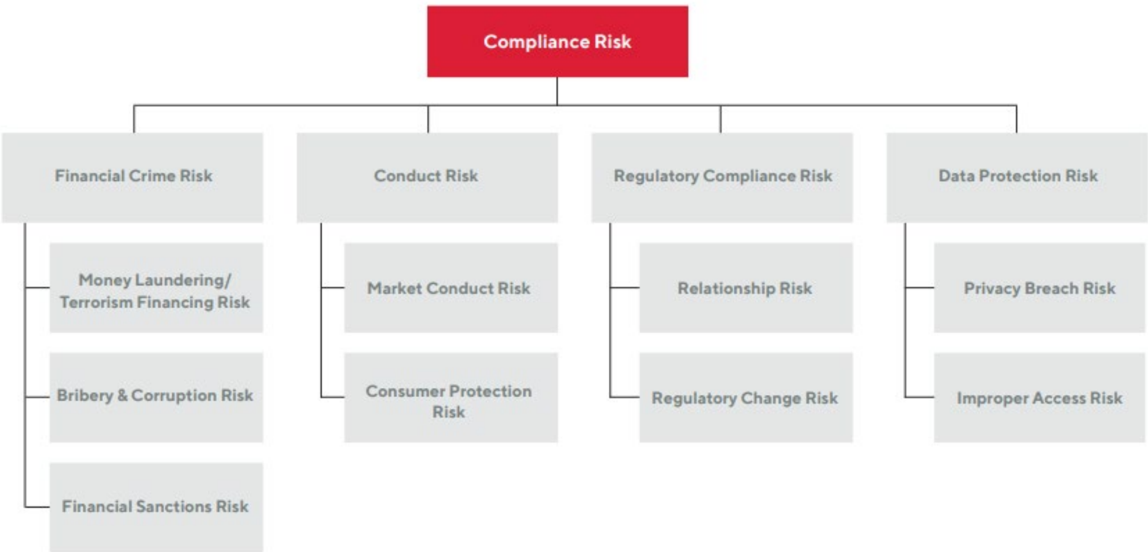
Group Internal Audit is an independent function headed by the Chief Audit Executive and is responsible for assessing whether the Group's risk management, internal control framework (including internal policies) and governance processes are effective and efficient and whether they comply with the relevant legal and regulatory requirements. Group Internal Audit is not responsible for internal control or its implementation but provides the Group with independent, objective assurance and consulting services designed to add value and improve the Group's operations.

The work of Group Internal Audit is performed in accordance with a risk-based audit plan approved by the Board's Audit Committee. Group Internal Audit is furthermore responsible for internal investigations on suspected fraudulent activities. Group Internal Audit reports directly to the Board on its findings and suggestions for material improvements to the risk management, controls and governance processes. All audit recommendations are subject to a formal follow-up procedure by the appropriate levels of management to ensure and report their resolution.

The Chief Audit Executive is appointed by the Board and reports directly to the Board. Group Internal Audit operates independently from other departments in accordance with Article 16 of the Financial Undertakings Act. The responsibilities and authorisations of the Chief Audit Executive and Group Internal Audit are further outlined in the Group Internal Audit Charter.

9.8 Compliance

The Bank has an independent compliance function headed by the Chief Compliance Officer. Compliance monitors compliance risk within the Bank. Compliance risks are classified as illustrated in the chart below, per the Bank's risk taxonomy:



Compliance undertakes its task in a variety of ways: with analysis, advisory services, provision of training and information, appraisals, and reporting. This is directed at developing sound business practices and preventing market abuse, insider trading, and conduct violations as well as working against financial crime and violations of personal data protection. Compliance is an independent monitoring unit in the Bank's second line of defence and reports directly to the CEO.

Major changes were made to its activities during 2023, as the unit was strengthened and enlarged significantly, the Chief Compliance Officer's position was designated a managing director's position, and a new director was hired to lead the expanded department. This demonstrates the Bank's recognition of the importance of the department and the work it carries out. The financial market regulatory framework and the requirements entailed in monitoring compliance have grown markedly in recent years. Priorities have changed, and the requirements are at once broader, more complex, and more stringent. At the same time, supervisory bodies' powers have been expanded, and the community as a whole makes more demands of financial institutions.

The Bank's personal data protection officer also sits within Compliance. Compliance is specifically responsible for regular monitoring and assessment of the suitability and efficacy of the Bank's measures, including new products and new services, concerning securities transactions and anti-money laundering in accordance with the AML Act, FATCA and the OECD Common Reporting Standards. Other compliance risk control processes and monitoring are managed and performed within the Risk Management subdivision as part of the operational risk management framework.

The Bank's Chief Compliance Officer is hired by the CEO, subject to Board confirmation, conferring the department's mandate and sits on the Executive Committee and the All Risk Committee, as well as acting in an advisory capacity for many other committees within the Bank. The Chief Compliance Officer is also the Bank's compliance officer in the sense of the Act on Measures against Market Abuse and is responsible for the Bank's anti-money laundering and terrorist financing measures.

9.9 Digital & Data

The Bank's Digital division is responsible for developing, operating and advising on its technology and communication systems and solutions, including digital banking, internally developed and third-party software, and hardware such as data centres, telephones, ATMs and personal computers.

Digital & Data had 150 FTEs as at 31 March 2025 consisting of six product teams comprised of technology and business specialists, along with supporting functions such as enterprise architecture, platforms, and business management and operations.

The reliability of the digital platforms are a key factor in the Bank's activities as a financial enterprise. The Bank's IT infrastructure is comprised of two data centres in two locations in Iceland (one owned by Reiknistofa bankanna and the other owned by Verne). All IT hardware is owned by the Bank, and approximately 98% of the servers are virtual, with a physical backup located in both data centres and in a third location for disaster recovery. The IT system serves all branches of the Bank.

The Digital & Data division maintains relationships with a wide range of blue-chip suppliers, including Microsoft, SAP, Swift, Reuters and Bloomberg. In addition, it has substantial in-house expertise, which allows for the development and integration of software internally.

Strong Technical Infrastructure

The Bank has invested in its technical infrastructure in recent years, creating a modern, innovative, highly scalable and cost-efficient bank. The Bank has:

- migrated to a global standardised core banking system (SOPRA) for payments and deposits;
- implemented a modern cloud and on-premises infrastructure, ensuring flexibility and scalability;
- implemented a standardised API platform integrated with a world-class identity/user management solution in support of a focused open banking strategy;
- consolidated the lending platforms in support of the automated loan application processes; and
- migrated onto a modern debit card management platform.

Furthermore, the Bank has placed an emphasis on the automatisation of internal development processes and on software quality in order to respond efficiently to the rapidly changing technology landscape. This work has shortened delivery times and enhanced operational security, whilst at the same time achieving increased cost efficiency and stability.

This streamlined infrastructure enables the Bank to place an even stronger emphasis on developing new solutions for its customers.

9.10 Digital Strategy

The Bank formulated a digital strategy that functions as the guidepost for digital product development and implementation of technology innovations. The strategy is based on five main pillars:

- Service first for customers and partners – delivering technical services (APIs) that will not only provide value-added capabilities to customers but also enable efficient partnering;
- Frictionless value chains – ensuring that digital processes provide end-to-end automation to ensure customer satisfaction and internal cost efficiencies;
- Relevant data and insights when needed – leveraging relevant data for customer insights, product offerings and innovation;
- Open and flexible products and pricing – digitising the Bank's product offerings to enable self-service and dynamic pricing with access to third-party offerings; and
- Cost-effective, optimised technical landscape – reducing operational cost, by renewing legacy systems through the use of new technology opportunities.

From a customer perspective, the key areas of focus include:

- World class digital distribution channels, underpinned by hyper-personalisation;
- Loyalty offerings that deliver real value to the Bank and our customers;
- Creating the branch of the future, combining digital and personal touch;
- Advanced digital solutions such as Expense Management and Work in Capital Management for SMEs;
- Targeted sales and service offerings using a world class data platform; and
- Leveraging generative artificial intelligence and traditional artificial intelligence to enrich digital solutions.

Product-Centric Delivery Model

The Bank has implemented a business and product centric delivery model, allowing for agility, quicker time to market and tailor-made solutions to meet changing customer demands. The delivery model is based on cross-functional product teams that prioritise initiatives in line with the Bank's strategy, executing in two-week sprints with the aim of delivering high business value frequently and lowering risk by delivering incremental changes rapidly.

Open Banking

Open banking is a regulatory and technological framework that mandates banks to provide secure, standardised access to customers' financial data through APIs for authorised third-party use, with consent.

The Bank has approved an open banking strategy, acknowledging that success in the open banking world requires strategic positioning beyond regulatory compliance. The key elements of the open banking strategy include the following:

- focusing on the lending product area;
- implementing Payment Services Directive 2 regulations, with a key focus on defining a comprehensive third-party commercial and support model; and
- optimising its mobile application to lay the foundation for open banking, including integrating an account aggregation and loyalty engine into the mobile app.

The Bank is also focused on its fintech partnerships and will continue to explore further opportunities. Its current partnerships include:

- Payday: offering small businesses an accounting and payroll service, integrated into the Bank's mobile banking app;
- Boost.ai: providing chatbot capabilities across all channels;
- Iceland's leading loan price comparison website: integrating the Bank's affordability and loan origination capabilities into its website.

Data Powerhouse

The Bank aims to offer better service empowered by data-driven insights. A data-centric culture ensures that targeted innovation is encouraged with the aim of solving real business problems. The strategy focuses on building a strong technical foundation, instilling a data-driven culture and building innovative solutions, such as a customer insight service.

The Bank has invested significantly in data governance, reporting and analytical capabilities over the last couple of years and will continue to improve data access in support of the increased data demand from the business.

The Bank will build a data-driven culture through data literacy and training initiatives, a collaboration platform for employees, and targeted recruitment strategies.

In addition, the Bank, has developed specific customer service focused data initiatives, such as customer analytics and lifetime value, personalised marketing, and recommendation engines and will continue developing these as the service offering evolves.

Finally, the Bank's Generative AI team completed the implementation of a secure platform to support the current use cases of tone of voice review, sentiment analysis, auto classification of service requests and voice enablement of the chat bot. Work has started on building more sophisticated internal models to support more complex processes.

Comprehensive Cyber Security

Cyber security plays a critical role in the digital growth of the Bank. The digital threat landscape is evolving, with the number of threats doubling over the last 12 months, and all threats successfully defended. The Bank has a comprehensive cyber security approach, focusing on:

- continuous technology updates and a refresh programme,
- state-of-the-art monitoring and control technologies,
- secure development practices, and
- guidelines, scientific risk assessment and management.

The Bank's Operational Risk Policy, Security Policy, Outsourcing Policy and IT Governance Policy form the basis of the measures used by the Bank to ensure the security of information, data systems and communication systems.

Despite increased threat levels resulting from external attacks and compromises, the Bank has successfully prevented data loss during the past five years.

9.11 Employees

During 2024, the average number of employees in the Group was 854 (compared to 770 in 2023 and 772 in 2022). As at 31 December 2022, the number of FTEs in the Bank was 700, which increased to 733 FTEs as at 31 December 2024 (772 FTEs in the Group).

As at 31 December 2024, approximately 56% of the Group's employees were female, and approximately 44% of the Group's employees were male, with the Executive Committee comprised of 50% female members and 50% male members. As at 31 December 2024, the management of the Bank were comprised of 32% female members and 68% male members, and the Board of Directors was comprised of 43% female members and 57% male members. The Bank aims to be a global leader in gender and pay equality.

As at 31 December 2024, 77% of the Group's employees had a bachelor or higher educational degree and 23% employees received some other form of education.

The Bank believes it has had exceptional employee engagement, with high employee satisfaction, productivity and engagement from the Bank's shared vision. Job satisfaction rates, based on yearly employee surveys, ranked at 4.30 out of 5 in 2022, 4.19 out of 5 in 2023 and 4.29 out of 5 in 2024. The reduction in job satisfaction rate in 2023 was due to general declining of employee morale caused by the scrutiny of the sale of a 22.5% stake in the share capital of the Bank that took place in March 2022.

9.12 Properties

The Bank operates its business through its network of branches, its cash centre and its headquarters, all of which are located in Iceland. The following table sets out the properties that are material to the Group's operations.

Site	Ownership	Location	Lease Termination
Headquarters	Leased	Hagasmári 3, 201 Kópavogur	30 November 2031
Records centre	Leased	Fossháls 17-25/Draghháls 18-26 110 Reykjavík	31 December 2029
Main branch 1	Leased	Hagasmári 3, 201 Kópavogur	28 February 2026
Main branch 2	Leased	Suðurlandsbraut 14, 108 Reykjavík	31 May 2027

9.13 Investments

As at the dates and for the periods indicated, the Bank had investments in the following associates:

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
Reiknistofa bankanna hf., an IT service centre company, Dalvegur 30, 201 Kópavogur	30.1%	30.1%	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate,Borgartún 26, 105Reykjavík	43.3%	43.3%	43.3%	43.3%

	For the three months ended 31 March	For the year ended 31 December		
	2025	2024	2023	2022
		(ISK in millions)		
Investments in associates at the beginning of the period	4,701	4,051	3,844	939
Additions during the period	—	—	—	1,328
Sales of shares in associates	—	—	—	(174)
Transfer from shares and equity instruments to associates	—	—	—	1,711
Share of profit of associates	156	650	207	40
Investments in associates at period-end	**4,857**	**4,701**	**4,051**	**3,844**

9.14 Legal Proceedings

Due to the nature of the business, litigation and other legal proceedings are a common occurrence in the banking industry. Once professional advice has been obtained and the amount of any possible loss has been reasonably estimated, the Bank takes appropriate steps to mitigate any adverse effects that a given claim may have on its financial standing. Except as described below, there are no governmental, legal or arbitration proceedings (including such proceedings that are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had, a significant effect on the Bank's and/or the Group's financial position or profitability.

Anti-money laundering proceedings

On 31 May 2024 the Bank announced it had settled a case with the Financial Supervisory Authority of the Central Bank of Iceland that started in 2022 as an onsite inspection on the Bank's measures against money laundering by paying an ISK 570 million fine to the State Treasury. The Bank recorded an ISK 470 million in the second quarter of 2024 in relation to this matter and had previously made a provision of ISK 100 million in its 2023 Consolidated Financial Statements. See "*2. Risk Factors—R4. Legal and Regulatory Risk—R4.7 The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences.*"

Borgun hf. - Landsbankinn

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

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

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

105 Miðborg slhf. - ÍAV hf.

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

The Consumers' Association of Iceland

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

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

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Bank believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Bank on the disputed mortgage have been less than changes on policy rates during the same period. On 12 November 2024, the District Court of Reykjanes rendered a judgement in the case where all claims made by the plaintiffs against the Bank were dismissed.

The plaintiffs have appealed the judgement and were granted permission to appeal directly to the Supreme Court without first going to the Court of Appeal. Should the judgement be overturned on appeal, the Bank's preliminary assessment is that the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 19 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank.

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

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

EC Clear ehf.

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

10. REGULATORY OVERVIEW

10.1 Principal Legislation and Regulations

In Iceland the Group is subject to financial services laws and regulations, corporate governance rules and administrative requirements overseen by various regulatory bodies. The nature and extent of the regulation vary, but such regulation typically will require a company carrying out specified activities to obtain authorisation from a regulator to carry on those activities and, consequently, to comply with various prudential and conduct of business rules, among other requirements.

Acts relevant to the operations of the Group include, but are not limited to, the Public Limited Companies Act, the Financial Undertakings Act, the Annual Accounts Act, the Markets in Financial Instruments Act, the Act on Measures Against Market Abuse, the Disclosure Requirements Act, the Deposit Guarantees Act, the Recovery and Resolution Act, the Payment Services Act, the E-money Act, Act No. 33/2013 on Consumer Credit, as amended, Act No. 118/2016 on Mortgage Credit to Consumers, as amended, the Pension Funds Act No. 129/1997, as amended, the Insurance Activities Act, the Foreign Exchange Act, the AML Act, the Interest Act, the Financial Activities Supervision Act, the Data Protection Act, the Prospectus Act, the European Financial Market Supervision System Act, the Competition Act, the Sustainability Disclosure Requirements and Classification System Act and the Private Limited Companies Act. In the context of a listing, as well as the Bank's custody services, the Central Securities Depositories Act No. 7/2020 is also relevant to the Group.

Financial Undertakings Act

The purpose of the Financial Undertakings Act is to ensure that financial undertakings operate in a sound and reasonable manner and act in the interests of customers, shareholders, guarantee capital owners and the national economy. It outlines the activities requiring an operating licence and the procedure to follow to obtain and hold an operating licence in addition to the rules on qualifying holdings and large exposures. The Group is licensed to operate as a commercial bank under the Financial Undertakings Act to carry out specific authorised activities and provide other services. As part of this licence, the Group may also carry out ancillary activities naturally linked to those authorised activities.

The Bank and its operations are further subject to regulations adopted by virtue of the Financial Undertakings Act, and rules and guidelines issued by the FSA, in addition to numerous other regulations overseeing the financial markets. The Act serves to supplement the Public Limited Companies Act in relation to the composition of the board of directors, corporate governance and employees with respect to the rules specific to financial undertakings. There are additional rules relating to risk management, liquidity, equity requirements, accounting, financial reorganisation and sanctions for breaches of certain provisions of the Financial Undertakings Act.

The Financial Undertakings Act also introduced a number of European Union instruments into Icelandic law. These instruments include: Directive (93/22/EEC) on investment services in the securities field; Directive (86/635/EEC) on the annual accounts and consolidated accounts of banks and other financial institutions; Directive (107/2001/EC) amending Directive (85/611/EEC); Directive (95/26/EC) amending a number of directives, with a view to reinforcing prudential supervision; Directive (2009/110/EC) on the taking up, pursuit and prudential supervision of the business of electronic money institution; the Payment Services Directive; the CRD IV and the CRR.

Pursuant to Iceland's obligations under the EEA Agreement, a number of amendments have been made to the Financial Undertakings Act since its enactment. These amendments include the implementation of Directive (2002/87/EC) on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate; Directive (2001/24/EC) on the reorganisation and winding up of credit institutions, MiFID, Directive (2014/59/EC) on Bank Recovery and Resolution, see "—*Bank Recovery and Resolution Directive*," Directive (2021/338/EC) known as MiFID II Quick Fix, as well as amendments to reflect the implementation of CRD IV. See "—*Capital Requirements Directive*."

The Financial Undertakings Act is supplemented by secondary legislation in the form of regulations and rules enacted by the executive branch of government.

Bank Recovery and Resolution Directive

The BRRD establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The purpose of the BRRD is to equip the relevant regulatory authorities with a range of powers so that they may intervene in an ailing or distressed entity so as to ensure its continuity and minimise any potential impact on the economy and financial system.

The provisions of the BRRD have been implemented into Icelandic law by means of a combination of legislative acts.

First, the passage of Act No. 54/2018, amending the Financial Undertakings Act and entry into force of Regulation No. 50/2019 on Recovery Plans of Credit Institutions and Investment Firms implemented the BRRD provisions focusing on recovery plans and timely intervention to prevent an economic shock to financial institutions operating in Iceland.

Second, the enactment of the Recovery and Resolution Act further amended the Financial Undertakings Act and implemented the parts of the BRRD that provide for the resolution process, from preventive measures and preparation, to decision-making and the implementation of each resolution. Under the Recovery and Resolution Act, the Central Bank of Iceland possesses powers of resolution and can take action and prepare and execute resolution procedures on behalf of credit institutions and investment firms. As the Resolution Authority, the Central Bank of Iceland oversees the preparation and implementation of each resolution and a special funding resource, the Resolution Fund, which is intended to finance the resolution process. Additionally, the Act also provides for the implementation of Minimum Requirement for own funds and Eligible Liabilities ("**MREL**") in Iceland and amended the amount guaranteed in the deposit guarantee scheme under which payments to each depositor are now guaranteed up to the equivalent of EUR 100,000 in ISK.

Further, the implementation of Directive 2017/2399/EU, with Act No. 38/2021, amended the Recovery and Resolution Act with regard to the position of unsecured debt instruments in the insolvency hierarchy. The Act further implemented conformation amendments to the Financial Undertakings Act and the Deposit Guarantees Act.

In addition, with Directive (EU) 2019/879 (the "**BRRD II**"), amending the BRRD as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms, along with Directive 98/26/EC, a comprehensive legislative package has been transposed which intends to reduce risks in the banking sector and the financial system, reinforce bank's ability to withstand potential shocks and strengthen the banking union.

In 2022 the Financial Undertakings Act was amended with the implementation of the remaining features of CRD IV, Directive (EU) 2019/878 amending Directive 2013/36/EU ("**CRD V**") and CRR II into Icelandic law. Simultaneously, some provisions of the BRRD II were transposed in order to enable full implementation of the CRR II. BRRD II was implemented into Icelandic law with Act No. 63/2023, amending the Recovery and Resolution Act.

Capital Requirements Directive

The Basel Committee on Banking Supervision issued the first version of the Basel III framework in December 2010 and a revised version in June 2012. The Basel III framework is an international regulatory framework for credit institutions and sets out revised capital and (minimum) liquidity requirements to reinforce capital standards. In addition, the framework includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In 2013, the European Parliament and the European Council adopted CRD IV (which consisted of both the CRR and the associated Capital Requirements Directives) for the implementation of the Basel III framework in the European Union with the aim of strengthening the regulation of the banking sector. CRD IV replaces the current Capital Requirements Directives.

The enactment of the CRD IV Directive into Icelandic law was subject to staggered implementation and has involved numerous amendments.

The first amendment was introduced on 9 July 2015 by Act No. 57/2015 which amended the Financial Undertakings Act and incorporates into Icelandic law the CRD IV Directive's provisions on capital buffers and regulation implementing the provisions of the CRR and other technical standards.

The second amendment, introduced on 13 September 2016 by Act No. 96/2016, amended the Financial Undertakings Act and incorporated the CRD IV's provisions on operating licences, initial capital, information obligations, leverage ratios, supervisory review and the evaluation process.

The third amendment, introduced on 19 May 2017 by Act No. 23/2017, includes an obligation on financial undertakings to establish effective and reliable mechanisms to enable employees to report potential or actual breaches of laws and/or regulations that apply to the undertakings.

The fourth amendment, introduced on 19 June 2018 by Act No. 54/2018, further amended the Financial Undertakings Act and introduced provisions on supervision and prudential requirements on a consolidated basis, co-operation with supervisors in other countries in the European Economic Area and a legal basis for the regulation on large exposures.

The fifth amendment, introduced on 18 February 2019 by Act No. 8/2019, amended the Financial Undertakings Act and included provisions regarding the board of directors and auditing. On 28 June 2022, the Act no. 38/2022 amending the Financial Undertakings Act and other legislation, entered into force. With the act, the CRR was transposed into Icelandic law in its entirety, together with other regulations amending the CRR, including CRR II. The Act also entailed the last implementations of CRD IV into Icelandic law, among changes empowering the FSA to revoke licenses for serious AML violations, enhancing record-keeping and cross-border supervisory cooperation, adjusting ownership regulations for financial institutions and introducing new requirements on remuneration and governance, among other changes.

Liquidity Coverage Ratio

The Central Bank of Iceland has set LCR Rules to implement the LCR Delegated Regulation. The LCR Rules replaced previous Rules No. 266/2017 and are based on liquidity standards introduced in the Basel III Accord, which began a global and phased implementation from October 2015. The LCR Delegated Regulation was implemented in its entirety by reference, cf. Article 4 of the LCR Rules.

The objective of the LCR Rules and the LCR Delegated Regulation is to promote the short-term resilience of the liquidity risk profile of banks. This objective is achieved by imposing on banks a requirement to have an adequate stock of unencumbered high-quality liquid assets that can be quickly and easily converted into cash (in private markets) to meet the bank's liquidity needs for a 30 calendar-day liquidity stress scenario. Therefore, the LCR is the balance between highly liquid assets and the anticipated net cash outflows of a bank in the following 30-day period under stressed conditions.

The LCR Rules contain two main principles regarding, on the one hand, the liquidity coverage ratio ("**LCR**") and, on the other hand, specific liquidity coverage requirements. First, the total amount of liquid assets held by credit institutions in all currencies combined must at all times be at least 100% of their net liquidity outflows in all currencies combined over the next 30 days under stressed conditions (as also stipulated in Article 4(2) of the LCR Delegated Regulation). Second, the total amount of liquid assets held by credit institutions in Icelandic Króna must at all times be at least 50% of their net liquidity outflows in Icelandic Króna over the next 30 days under stressed conditions. Additionally, the total amount of liquid assets held by credit institutions in euros must at all times be at least 80% of their net liquidity outflows in euros over the next 30 days under stressed conditions, if the institution's liabilities in euros amount to 10% or more of its total liabilities. Otherwise, the substantive rules regarding the LCR are contained in the LCR Delegated Regulation.

The LCR Delegated Regulation requires credit institutions to hold a sufficient amount of high-quality liquid assets, as further defined in the LCR Delegated Regulation, not only to meet their obligations as they fall due but also to cover potential outflows that may arise, for example, from deposit withdrawals, reduced access to funding for credit institutions, or increased collateral requirements or other cash outflows during a 30-day stress period.

Data Protection Act

The Data Protection Act implemented the General Data Protection Regulation (EU) (2016/679) ("**GDPR**") into Icelandic law. GDPR introduced significant changes to the data protection legislation in the European Union and by extension the Data Protection Act fundamentally amended the Icelandic data protection regime. These requirements include, but are not limited to, implementing certain policies and processes, developing an effective internal data protection management system and appointing a data protection officer. Noncompliance with the GDPR can result in DPA imposing fines, determined by the level of the infringement. The fines of DPA may range from ISK 100,000 to ISK 2.4 billion, or, in the case of companies, up to 4% of the company's annual worldwide turnover, whichever is higher, when the company has violated against certain provisions of the Data Protection Act, cf. article 46(3) of the act.

MiFID II and MiFIR

The Markets in Financial Instruments Act was enacted on 1 September 2021. The Act implemented MiFID II, as amended with Directive (EU) 2016/1034, and MiFIR, as amended with Regulation (EU) 2016/1033, into Icelandic law and repealed the legislation which reflected MiFID. Additionally, the Act implemented the Commission Delegated Regulation (EU) 2017/565 supplementing MiFID II as regards organisational requirements and operating conditions for investment firms, and defined terms for the purposes of that Directive, as amended, and Commission Delegated Regulation (EU) 2017/567 supplementing MiFIR with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions.

The purpose of MiFID II and MiFIR, and by extension the purpose of the Markets in Financial Instruments Act, is to address the need for a more robust legal framework for financial instruments to ensure transparency, strengthen investor protection, increase investor trust in the market for financial instruments and to improve the functioning of the financial markets in terms of their efficiency and resiliency. The legislation aims to fill regulatory gaps since the transposing of MiFID into Icelandic law and ensure that competent authorities have sufficient powers to carry out their tasks.

MiFID II and MiFIR take into account the technological developments and innovations since the entry into force of MiFID and have a wider scope. Among other things, the implementation of MiFID II led to changes in the organisational requirements of investment firms and implemented new types of trading venues. MiFIR accounts for increased transparency requirements compared to MiFID with respect to pre- and post- securities transaction and empowers competent authorities to intervene in the marketing, distribution or sale of certain financial instruments and structured deposits, provided that certain conditions are met. Such intervention powers can further extend to certain financial activities or operations in the financial market.

MAR

The Act on Measures Against Market Abuse entered into force on 1 September 2021. With the Act, MAR was directly transposed into Icelandic law as it applied in the EU at the time. MAR mainly deals with measures against market abuse and public disclosure of inside information by issuers, including the Bank. Public disclosure of inside information by issuers is essential to prevent insider dealing and to ensure investors are not deceived. Market abuse is a term which encompasses insider dealing, unlawful disclosure of inside information, and market manipulation. Such conduct prevents full and proper market transparency, which is a prerequisite for uniform competitive conditions and investor activity in integrated financial markets. MAR therefore prohibits insider dealing, unlawful disclosure of inside information, and market manipulation, and the regulation provides for minimum administrative sanctions in cases of violation.

MAR applies to all financial instruments traded on a regulated market, multilateral trading facility, or organised trading facility, and all types of conduct or actions that could affect such financial instruments, irrespective of whether the conduct or actions take place on a trading venue or not. The same is true of financial instruments for which a request has been filed for admittance to trading on a regulated market or trading facility.

In addition to MAR, EU has issued numerous ancillary instruments implementing various aspects of MAR. Most of these instruments have already been adopted in Iceland by ministerial regulations or rules of the Central Bank of Iceland, with certain amendments to MAR and other instruments expected to be adopted in due course.

Disclosure Requirements Act

The Disclosure Requirements Act entered into force on 1 May 2021. The purpose of the enactment was to transpose the amended Transparency Directive and break it out of Act No. 108/2007 on Securities Transactions (renamed as the Takeover Act), where it was previously reflected, into a separate legislation, and implement later amendments to the Transparency Directive and related secondary EU legislation. The purpose of the Act is to ensure the transparency of information regarding issuers of securities which have been admitted to trading on a regulated market and thereby protect the interests of investors and the efficiency of the market.

The legislation sets out provisions relating to major holding announcements and information disclosure requirements for issuers of listed securities with respect to periodic and other information. Among changes implemented into Icelandic law by the Disclosure Requirements Act was the definition of an issuer under the Act as it stipulates that an issuer can be, in addition to a legal person, a natural person which is an issuer of securities traded on a regulated market. Furthermore, the deadline for issuers to disclose half-yearly financial statements was extended by one month; from two months from the end of the relevant half-year period to three months. An issuer shall furthermore ensure that the half-yearly financial statements are available to the public for a period of a minimum ten years, instead of five years as used to apply under the Securities Transaction Act. Moreover, the deadline for major holdings announcements to the issuer and FSA was extended from no later than the trading day immediately following the date on which the notification requirement arose to a maximum of four trading days from the relevant transaction. The deadline for an issuer to disclose such information to the public was also extended from the trading day immediately following the date of receipt of an announcement to three trading days from such receipt.

Prospectus Act

The Prospectus Act transposed the Prospectus Regulation into Icelandic law, with minor adaptations resulting from the decision of the EEA Joint Committee No. 84/2019. The Prospectus Act is supplemented by secondary legislation in the form of regulations implementing the Commission Delegated Regulation (EU) 2019/980, as amended by the Commission Delegated Regulation (EU) 2020/1273 and the Commission Delegated Regulation (EU) 2019/979, as amended by the Commission Delegated Regulation (EU) 2020/1272. The Prospectus Act exempts the public offering of securities from the obligation to publish a prospectus where the total amount of the offering is lower than the equivalent of EUR 8,000,000 in Icelandic Króna and the offering is not subject to notification in accordance with Article 25 of the Prospectus Regulation. Where the total amount of the offering is between the equivalent of EUR 1,000,000 and EUR 8,000,000 in Icelandic Króna such exempt public offerings must however be notified to the FSA.

The Prospectus Act stipulates that the responsibility for the information provided in a prospectus lies with the issuer or the board, its executive or supervisory board, the bidder, the person requesting the admission of securities to trading on a regulated market or the guarantor, as applicable and identified in a prospectus. The Act provides that a financial undertaking so authorised under its operating license shall oversee the public offering of securities and admission to trading on a regulated market that are not exempt from the obligation to publish a prospectus. The FSA shall oversee the approval of prospectuses, and no prospectus may be published without the FSA's approval. In accordance with the EEA Agreement, the FSA and the EFTA Surveillance Authority shall carry out the relevant supervision in accordance with the Act.

European Financial Market Supervision System Act

For the purpose of legislating a harmonised European supervision system in the Icelandic financial market the Parliament enacted the European Financial Market Supervision System Act in May 2017. The supervision system is intended to protect the interests of the public and the financial market by promoting the stability and health of the financial system in the internal market of EEA. The Act transposed numerous EU regulations into Icelandic law, more specifically Regulation (EU) 1093/2010 of 24 November 2010, establishing EBA, Regulation (EU) 1094/2010 of 24 November 2010, establishing EIOPA, Regulation (EU) 1095/2010 of 24 November 2010, establishing ESMA and Regulation (EU) 1092/2010 of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board ("**ESRB**").

The European Financial Market Supervision System Act provides that the FSA and the EFTA Surveillance Authority shall carry out supervision in accordance with the Act, in line with the EEA Agreement, cf. Act No. 2/1993, and the agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice. Furthermore, the FSA, other authorities, individuals and legal entities may provide European supervisory bodies with information and data, as further provided in the Act or other acts, for the performance of supervision. This authorisation also covers data which is subject to confidentiality under the Financial Activities Supervision Act or on the basis of other laws.

Under Article 16 of the above EU regulations EBA, ESMA and EIOPA shall, with a view to establishing consistent, efficient and effective supervisory practices, and to ensuring the common, uniform and consistent application of EU law, issue guidelines and recommendations addressed to competent authorities or financial market participants. Financial market participants, such as the Bank, shall make every effort to comply with those guidelines and recommendations. The FSA publishes such guidelines on its homepage and the FSA proposes the guidelines as a basis for assessing compliance with applicable law and secondary legislation. This includes Article 19 of the Financial Undertakings Act which provides that financial undertakings shall operate in accordance with proper and sound business practices and customs on the financial market, as Rules No. 353/2022 further outlining obligations under Article 19 of the Act provide that compliance with such EU guidelines is among the factors that the FSA can use to assess whether the operations of financial undertakings are in accordance with proper and sound business practices and customs on the financial market.

Deposit Guarantees Act

Any party engaged in securities trading pursuant to Icelandic law and established in Iceland, such as commercial banks, savings banks and investment firms, are members of the Depositors' and Investors' Guarantee Fund according to the Deposit Guarantees Act. The Act is based on Directive 1994/19/EC on deposit guarantee schemes. See "*22. Icelandic Securities Market—22.5 Compensation Scheme for Investors.*"

Payment Services Act

The Payment Services Act entered into force on 1 November 2021. The purpose of the enactment was to transpose the Payment Services Directive 2 into Icelandic law, thereby repealing and replacing the Payment Services Act No. 120/2011, which had previously implemented the First Payment Service Directive and incorporated provisions from the Electronic Money Directive. Following the enactment of the Payment Services Act, the delegated EU Regulation 2018/389 on strong authentication and secure communication, along with regulatory technical standards on strong customer authentication and common and secure open standards of communication, was further transposed into Icelandic law.

The Payment Services Directive 2 sets out strict security controls for electronic payments and the protection of consumers' financial data. It increases the transparency of conditions and information requirements for payment services and sets out rules concerning the rights and obligations of users and providers of payment services. Additionally, the directive aims to open up the payment markets to new entrants, which, in turn, should lead to increased competition in the market.

The Payment Services Directive 2 is complemented by the EU Interchange Fee Regulation on interchange fees for card-based payment transactions, which places a limit on the fees charged between banks for card-based transactions. This new framework under the revised Payment Service Act aims to create a more secure, transparent, and competitive environment for payment services in Iceland.

Payment Accounts Act

The Payment Accounts Act No. 5/2023 implemented the Payment Accounts Directive. The Act applies to all payment service providers. It regulates how payment accounts are managed and provides certain protections for consumers. It mainly focuses on ensuring that individuals have access to essential banking services, promoting financial inclusion, transparency and consumer protection in the payment account sector.

E-money Act

The E-money Act implements the provisions of the Electronic Money Directive, as later amended by the Payment Services Directive 2. The Act applies to the issuance and handling of electronic money in Iceland and specifies which entities are permitted to engage in the issuance of electronic money. This includes credit institutions and electronic money institutions that are either subject to licensing and supervision by the FSA or hold a license issued in another member state. The Act aims to foster the development of innovative and secure electronic money services, provide market access to new companies, and promote effective competition among all market participants.

Foreign Exchange Act

The Foreign Exchange Act is based on the principle that foreign exchange transactions, cross-border payments and the flow of capital between countries should be unrestricted and free, while still allowing for certain protective measures to be applied if deemed necessary. These measures may take the form of macroeconomic prudential instruments or measures similar to the capital controls established in the wake of the bank collapse in 2008.

The Foreign Exchange Act reflects a growing consensus that the free flow of capital is not always beneficial in all circumstances. It grants the Central Bank of Iceland the authority to set rules in favour of macroeconomic prudence, enabling households and companies to benefit from capital flows between countries without creating systemic risks that could cause instability with associated risk for the same parties.

Among the measures authorised by the Foreign Exchange Act is the authority to set rules on special reserve requirements for the inflow of foreign currency. This is an authorisation to use control instruments to temper and influence the composition of capital inflows into the country, so-called capital flow management measures. Excessive capital inflows can disrupt the transmission of monetary policy and create a risk of financial instability.

The Foreign Exchange Act also maintains a measure that authorises the Central Bank of Iceland to impose restrictions on foreign currency lending to those not hedged against currency risk. This precautionary measure, which has been in force since mid-2017, is intended to prevent significant lending in foreign currencies to exposed parties, thereby avoiding creating systemic currency discrepancies in the economy. Under these circumstances, an unexpected depreciation of the Icelandic Króna would simultaneously increase the debt of the economy and reduce the value of mortgages, which could lead to collateral calls and trigger asset sales. Higher debt levels could also force a decrease in consumption and investment when the economy is already in a downturn and thus a significant slowdown in the economic turnaround following the shocks. Systemic currency imbalances in the economy, such as those in the mid-1990s, significantly reduce the economy's resilience to economic shocks and can have serious consequences for household and corporate balance sheets, as well as threaten financial stability. Restrictions on foreign currency lending are of a nature that the IMF has considered to be justified.

Furthermore, the Act includes provisions that allow the Central bank of Iceland to restrict derivative trading involving the Icelandic Króna against foreign currencies. This restriction has, in fact, been in force since the original imposition of the capital controls, but under the Foreign Exchange Act, derivatives trading for hedging purposes may continue, subject to the Central Bank of Iceland's confirmation that currency risk exists.

AML Act

On 1 January 2019, the AML Act came into force in part and fully entered into force on 1 January 2020, implementing the Fourth Money Laundering Directive and parts of the fifth Directive No. 2018/843. The remainder of the fifth Directive was implemented on 23 July 2020. The aim of the Directives was to align EU law with the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation, which were adopted by the Financial Action Task Force in 2012.

The focus of the AML Act is to combat money laundering and terrorist financing and do so by requiring parties who carry out activities that could be susceptible to money laundering and terrorist financing to obtain information about their customers and their business activities. Any knowledge of such illegal activities shall entail termination of the business relationship in question and must be reported to the competent authorities. The Act applies to financial undertakings such as the Bank, among others, and requires entities and individuals that fall under the scope of the Act (obliged parties) to follow a risk-based approach in order to identify, understand and mitigate the risks of money laundering and terrorist financing. The Act introduced major changes to previous Icelandic legislation related to anti money laundering and combating the financing of terrorism, such as with respect to the extended scope of the legislation to include new obliged parties, performance of risk assessment to determine the type of customer due diligence required, detailing provisions on politically exposed persons, increased access to information on customers and beneficial owners, increased authority of the relevant authorities, strengthening cooperation and coordination between competent authorities, along with supervision and sanctions.

Competition Act

The Competition Act applies to agreements, terms and actions with effect, or intended effect, in Iceland. The Competition Act is to a significant extent based on EU competition rules, especially Council Regulation (1/2003/EC) on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty as well as Council Regulation (139/2004/EC) on the control of concentration between undertakings. The objective of the Competition Act is to promote effective competition and thereby increase the efficiency of the factors of production of society. This objective shall be achieved by (i) preventing unreasonable barriers and restrictions on freedom of economic operation, (ii) preventing harmful oligopoly and restriction of competition, (iii) facilitating the entry of new competitors into the market, and (iv) promoting a healthy competitive environment for the benefit of consumers.

Insurance Activities Act

The Insurance Activities Act was enacted in October 2016 and applies to the Bank's subsidiary Allianz Insurance Iceland. The act transposed into Icelandic law the provisions of the Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (the "**Solvency II Directive**") as amended by Directive 2014/51/EU ("**Omnibus II Directive**"), except for provisions regarding EIOPA's powers and consolidated insurance companies. The rules on EIOPA's powers were implemented into the Insurance Activities Act in May 2018 when certain parts of the Omnibus II Directive were transposed into Icelandic law. Additional amendments have been made to the regime to further harmonise Icelandic legislation with EU insurance regime, including the direct transposition of Commission Delegated Regulation (EU) 2015/35 supplementing the Solvency II Directive.

EU Interchange Fee Regulation

Act No. 31/2019 implemented the EU Interchange Fee Regulation in September 2019. Under the EU Interchange Fee Regulation, interchange fees in the European Union have been capped at 0.3% of transaction value for credit cards and the lesser amount of 0.2% or EUR 0.05 per transaction for debit cards. EU member states may implement even lower caps.

Sustainability Disclosure Requirements and Classification System Act

The Act incorporated two EU regulations into Icelandic law, Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial service sector ("**SFDR**") and Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment ("**Taxonomy**"). The Act entered into force on 1 June 2023 and is retroactive from 1 January 2023. The SFDR applies to financial market participants and financial advisers concerning sustainability-related disclosures in the financial services sector. The rules require these entities to publish information on how sustainability risk is incorporated into investment decisions and financial advice, and whether and how the negative material impact on sustainability is taken into account. Sustainability risk is defined by the regulation as an environmental, social or governance event or condition that, if occurs, could cause a negative material impact on the value of the investment.

Other EU Instruments

In recent years various other European Union instruments have been transposed into Icelandic law and regulations. This includes the MCR, which was transposed into legislation with Act No 118/2016; the SSR, which was transposed into legislation with Act No. 55/2017; and the EMIR, which was transposed into legislation with Act No. 15/2018 and later amended to implement Regulation (EU) 2019/834 ("**EMIR Refit**") amending EMIR, the CSDR which was transposed into legislation with the Central Securities Depositories Act, Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers ("**AIFMD**"), which was transposed into legislation with Act No. 45/2020 on Alternative Investment Fund Managers and Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, which was transposed into legislation with Act No. 7/2021.

The Act on Key Information Documents for certain packaged Retail Investment Products, transposing Regulation (EU) 1286/2014 on key information documents for packaged retail and insurance-based investment products ("**PRIIPs Regulation**"), entered into force on 1 July 2021. The PRIIPs Regulation aims to increase the transparency and comparability of such investment products through the issue of a standardised short form disclosure document, or the PRIIPs Key Information Document. This is intended to make it easier for retail investors to understand and compare the key features, risk, rewards, and costs of different products falling within the scope of the regulation.

White Paper

In December 2018 the Icelandic Government published a white paper on the future vision of the Icelandic financial system. The purpose of the white paper was to create a basis for discussion, strategy and decision-making on issues concerning the financial system, its future structure and development. It touches upon various aspects of the financial system and highlights several factors of significance for its operations, its users, the government, and the regulatory authorities. The main conclusion of the white paper is that the future vision of the financial system should be built on three main pillars, which are the principal focus of the white paper; (i) good regulatory framework and robust supervision, (ii) efficiency in banking operations, and (iii) solid ownership of financial undertakings, contributing to sound and prudent operation based on long-term perspectives, noting that changes to the state's ownership of financial institutions will have a significant impact on the future of the financial system. The white paper was introduced in the government's public consultation portal and discussed by the parliament to receive feedback and comments before the commencement of work by the government on preparing proposals for legislative and regulatory changes based on the white paper.

10.2 Upcoming Legislative Amendments

As a part of Iceland's ongoing commitment to align with the EEA agreement, certain EU regulations and directives, including those related to financial markets, banking and securities, are expected to be incorporated in the near future. Among those are Directive (EU) 2022/2464 on corporate sustainability reporting ("**CSRD**"), Regulation (EU) 2022/2554 on digital operational resilience for the financial system ("**DORA**"), Regulation (EU) 2019/2033 on the prudential requirements of investment firms ("**IFR**"), Directive (EU) 2017/828 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement ("**SRD II**"), Directive (EU) 2024/1623 amending Regulation (EU) 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor ("**CRR III**"), Directive (EU) 2017/2402 laying down a general framework for securitisation ("**Securitisation regulation**"), and Directive (EU) 2019/2034 on the prudential supervision of investment firms ("**IFD**").

10.3 Principal Governmental Authorities

The primary regulatory and inspection bodies active in the Icelandic financial system are described below.

Central Bank of Iceland

The Central Bank of Iceland has a variety of functions, including responsibility for implementing a monetary policy that promotes price stability and foreign exchange reserves and upholding a sound and efficient financial system, including domestic and cross-border payment systems. The Central Bank of Iceland is largely governed by Act No. 92/2019 on the Central Bank. The Central Bank of Iceland imposes a reserve requirement on all credit institutions to ensure that they are able to meet fluctuations in their liquidity positions. The Central Bank of Iceland also oversees the surveillance of the capital controls and can grant specific exemptions to institutions that make an application. See "*2. Risk Factors—R1. Risks Relating to Business and Industry—R4.13 Foreign exchange transactions, cross-border payments and the flow of capital between countries could be restricted to some extent in special circumstances.*"

The FSA (as a part of the Central Bank of Iceland) is responsible for the supervision of the whole range of financial institutions, as well as insurance companies and pension funds. The FSA supervises the activities of the Bank as a commercial institution. Iceland has implemented a number of European Union instruments regarding financial institutions, and, accordingly, the FSA has extensive authority over such entities. The FSA is empowered to take various administrative measures, including imposing fines for violations of laws under its jurisdiction. The maximum amount of these fines depend on the law in question and the specific rule that has been breached. For example, fines can reach up to 10% of a group's total annual turnover for violations of certain provisions of the Financial Undertakings Act, or up to 15% for breaches of certain provisions of MAR. The FSA has concluded certain cases against the Bank with settlement agreements that the Bank has entered into. See "*2. Risk Factors—R1. Risks Relating to Business and Industry—R1.18 Public sentiment and political activity in Iceland could impair the Bank's operations "and "2. Risk Factors—R4. Legal and Regulatory Risk—R4.7 The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences.*"

The activities of the FSA are primarily governed by the Financial Activities Supervision Act and Act No. 99/1999 on the Payment of Costs for Public Supervision of Financial Activities, as amended.

Icelandic Competition Authority ("ICA")

The ICA is responsible for enforcing the requirements and prohibitions set out in the Competition Act and, as applicable, Articles 53 and 54 of the EEA Agreement. Its role includes deciding what measures should be taken against institutions that have engaged in anti-competitive behaviour, monitoring the levels of competition and trade practices in specific market sectors in Iceland and investigating the management and ownership of institutions. The ICA also has the power to provide exemptions on the basis of the powers detailed in the Competition Act.

The ICA's focus extends to all types and levels of business activities conducted by individuals, companies, public entities or other parties. The financial markets have received particular scrutiny by the ICA in recent years. In 2011 and 2013, the ICA published reports on the then-current state of financial services in Iceland, with a particular focus on the three major banks: the Bank, Arion Bank and Landsbankinn.

The Bank has made a few settlements with the ICA, concerning both activities in the Bank's daily operations as well as settlements relating to exemptions granted by the ICA from prohibition rules of the Competition Act concerning cooperation between companies. Following amendments to the Competition Act that entered into force on 1 January 2021, settlements falling in the latter category do not have the same effect as they did before the amendments entered into force and the cooperation is now subject to a self-assessment carried out by the relevant companies. See "*2. Risk Factors—R4. Legal and Regulatory Risk—R4.6 Regulatory changes or enforcement initiatives could adversely affect the Bank's business*." Other settlements concluded by the Bank with the ICA remain unaffected by this amendment. These settlements have the objectives of e.g. (i) stimulating competition in banking services for individuals and small businesses, (ii) ensuring that the Icelandic government's ownership stake in both the Bank and Landsbankinn will not negatively affect competition and (iii) changing the setup and operation of the credit card market. Under the Competition Act, a failure to implement or comply with measures agreed to in a settlement can lead to an investigation lead by the ICA and could ultimately result in administrative fines being imposed.

The ICA can impose administrative fines up to a maximum of 10% of an entity's total turnover of the previous business year of any undertaking or association of undertakings involved in a violation of the Competition Act. The ICA must consider the nature and extent of the violations, their duration and whether a violation has taken place on more than one occasion when determining the level of the fine. The ICA has the power to waive or reduce a fine if it deems a violation as insignificant or if an undertaking has the information or documents to the ICA concerning the violations on their own accord.

Data Protection Authority ("DPA")

The DPA exercises surveillance over processing of data as stipulated within the Data Protection Act. The DPA deals with specific cases on the basis of inquiries from public authorities or private individuals or legal entities, or cases taken up by the DPA on its own initiative. The DPA can impose administrative fines up to a maximum of ISK 2.4 billion or up to 4% of an entity's worldwide turnover of the previous financial year, whichever is higher, for violations of certain provisions of the Data Protection Act.

The decisions made by the DPA are final and may not be brought before any other administrative authority. However, the DPA's decision may be brought before courts and complaints concerning the administration of the DPA can be addressed to the Parliamentary Ombudsman.

Consumer Agency

The Consumer Agency is a public surveillance authority that operates on the basis of Act No. 62/2005 and is entrusted with market surveillance of business operators, good functioning and transparency of the markets in respect to safety and consumers legal rights. The Consumer Agency is also responsible for enforcement of legislation with regards to consumer rights.

The Consumer Agency receives notifications of possible breaches of general safety issues, legal rights of consumers and related legislation. The Consumer Agency has the authority to enforce various actions such as sales bans, recalls and fines. See "*2. Risk Factors—R4. Legal and Regulatory Risk—R4.8 The Bank may be subject to ongoing, pending or threatened legal proceedings and investigations by governmental authorities*."

11. SELECTED CONSOLIDATED FINANCIAL, OPERATING AND OTHER INFORMATION

The selected consolidated financial information of the Bank as at and for the years ended 31 December 2024, 2023 and 2022 has, unless otherwise stated, been derived from the Consolidated Financial Statements included elsewhere in this Prospectus.

The selected consolidated financial information set forth below should be read in conjunction with, and is qualified by reference to, "*12. Operating and Financial Review*" and "*27. Consolidated Financial Statements*." The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

The selected condensed consolidated interim financial information of the Bank as at and for the three months ended 31 March 2025 has, unless otherwise stated, been derived from Interim Financial Statements included elsewhere in this Prospectus.

11.1 Summary Consolidated Income Statement

	Three months ended 31 March		Year ended 31 December		
	2025	**2024**	**2024**	**2023**	**2022**
			(ISK in millions)		
Interest income calculated using the effective interest rate method	32,869	34,162	135,278	126,095	87,671
Other interest income	1,081	2,461	6,064	11,047	6,342
Interest expense	(21,011)	(24,501)	(94,077)	(88,531)	(50,887)
Net interest income	**12,939**	**12,122**	**47,265**	**48,611**	**43,126**
Fee and commission income	4,627	4,469	18,944	18,591	17,630
Fee and commission expense(*)	(1,560)	(1,459)	(5,822)	(5,308)	(3,577)
Net fee and commission income	**3,067**	**3,010**	**13,122**	**13,283**	**14,053**
Net financial (expense) income	(986)	(236)	(338)	241	(1,257)
Net foreign exchange gain	47	196	607	581	881
Other operating income	467	1,098	2,282	570	433
Other net operating (expense) income	**(472)**	**1,058**	**2,551**	**1,392**	**57**
Total operating income	**15,534**	**16,190**	**62,938**	**63,286**	**57,236**
Salaries and related expenses	(4,489)	(4,168)	(16,329)	(15,003)	(13,452)
Other operating expenses(*)	(2,907)	(2,942)	(11,299)	(10,689)	(10,166)
Administrative fine(*)	—	—	(470)	(960)	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(165)
Bank tax	(500)	(493)	(1,900)	(1,871)	(1,858)
Total operating expenses	**(7,896)**	**(7,603)**	**(29,998)**	**(28,523)**	**(25,941)**
Profit before net impairment on financial assets	**7,638**	**8,587**	**32,940**	**34,763**	**31,295**
Net impairment on financial assets	(3)	(704)	645	(1,015)	1,576
Profit before tax	**7,635**	**7,883**	**33,585**	**33,748**	**32,871**
Income tax expense	(2,423)	(2,468)	(9,426)	(9,198)	(8,485)
Profit for the period before profit from non-current assets	**5,212**	**5,415**	**24,159**	**24,550**	**24,386**
(Loss) profit from non-current assets held for sale, net of tax	(3)	2	87	35	149
Profit for the period	**5,209**	**5,417**	**24,246**	**24,585**	**24,535**
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of the Bank	2.77	2.75	12.53	12.34	12.19

(*) Comparative figures have been changed with immaterial effects: (i) expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense," (ii) a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fine" and (iii) provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine."

11.2 Summary Consolidated Statement of Financial Position

	As at 31 March	As at 31 December		
	2025	**2024**	**2023**	**2022**
		(ISK in millions)		
Assets				
Cash and balances with Central Bank	69,944	65,716	87,504	94,424
Loans to credit institutions	92,259	50,486	73,475	110,364
Bonds and debt instruments	142,937	142,618	161,342	130,804
Derivatives	9,092	5,324	5,776	7,461
Loans to customers	1,298,849	1,295,388	1,223,426	1,186,639
Shares and equity instruments	20,606	24,330	13,241	15,868
Investments in associates	4,857	4,701	4,051	3,844
Investment property	2,900	2,600	—	—
Property and equipment	5,135	5,039	6,562	6,752
Intangible assets	2,636	2,684	2,930	3,279
Other assets	16,532	7,304	3,638	6,072
Non-current assets held for sale	1,682	1,617	749	728
Total assets	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**
Liabilities				
Deposits from Central Bank and credit institutions	14,374	12,535	16,149	15,269
Deposits from customers	936,779	926,846	850,709	789,897
Derivative instruments and short positions	6,677	7,306	5,090	10,804
Debt issued and other borrowed funds	407,266	367,586	417,573	468,270
Subordinated loans	32,502	31,695	38,155	34,392
Tax liabilities	12,912	12,916	13,107	12,128
Other liabilities	39,025	21,568	17,218	16,601
Total liabilities	**1,449,535**	**1,380,452**	**1,358,001**	**1,347,361**
Equity				
Share capital	9,368	9,473	9,898	10,000
Share premium	42,472	55,000	55,000	55,000
Reserves	7,673	7,102	5,083	9,158
Retained earnings	**158,381**	155,780	154,712	144,716
Total equity	**217,894**	**227,355**	**224,693**	**218,874**
Total liabilities and equity	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**

11.3 Summary Consolidated Statement of Cash Flows

	Three months ended 31 March		Year ended 31 December		
	2025(*)	2024(*)	2024	2023	2022
			(ISK in millions)		
Profit for the period	5,209	5,417	24,246	24,585	24,535
Non-cash items included in profit for the period	(10,040)	(9,704)	(37,278)	(33,442)	(39,076)
Changes in operating assets and liabilities	5,639	(5,339)	26,936	11,199	(57,031)
Interest received	30,624	28,380	123,681	108,689	78,521
Interest paid	(14,979)	(21,761)	(94,687)	(76,073)	(42,172)
Dividends received	295	261	431	286	1,049
Paid bank tax	(477)	(475)	(1,871)	(1,861)	(1,683)
Paid income tax and special financial activities tax	(2,433)	(1,814)	(9,414)	(7,165)	(3,582)
Net cash (used in) provided by operating activities	**13,383**	**(5,035)**	**32,044**	**26,218**	**(39,439)**
Net investment in subsidiaries and associates	—	—	—	—	(1,103)
Purchase of investment property	(10)	—	(96)	—	—
Proceeds from sales of property and equipment	—	90	101	374	35
Purchase of property and equipment	(191)	(105)	(426)	(311)	(273)
Purchase of intangible assets	(125)	(108)	(501)	(385)	(470)
Net cash (used) provided by investing activities	**(326)**	**(123)**	**(922)**	**(322)**	**(1,811)**
Proceeds from borrowings	68,278	69,936	103,756	117,497	191,503
Repayment and repurchases of borrowings	(29,863)	(39,902)	(150,752)	(180,813)	(129,448)
Repayment of lease liabilities	(143)	(140)	(566)	(528)	(472)
Dividends paid	—	(12,303)	(12,303)	(12,254)	(11,900)
Purchase of treasury shares	(2,614)	(1,658)	(9,053)	(2,310)	—
Net cash (used in) provided by financing activities	**35,658**	**28,236**	**(68,918)**	**(78,408)**	**49,683**
Net increase (decrease) in cash and cash equivalents	49,170	23,078	(37,796)	(52,512)	8,433
Effects of foreign exchange rate changes	(2,211)	(695)	(92)	(51)	5
Cash and cash equivalents at the beginning of the year	83,548	139,074	86,472	139,035	130,597
Cash and cash equivalents at the end of the period	**130,507**	**161,457**	**48,584**	**86,472**	**139,035**
Reconciliation of cash and cash equivalents					
Cash on hand	2,940	3,955	3,621	3,653	3,563
Unrestricted balances with Central Bank	35,473	45,971	31,163	64,025	80,866
Bank accounts	—	13,634	13,800	18,794	54,606
Money market loans and other loans	83,772	100,796	—	—	—
Bank accounts not pledged as collateral against derivative instruments	8,322	10,735	—	—	—
Cash and cash equivalents at the end of the period	**130,507**	**161,457**	**48,584**	**86,472**	**139,035**
Net interest income	(12,939)	(12,122)	(47,265)	(48,611)	(43,126)
Depreciation, amortisation and write-offs	416	402	1,662	1,620	1,400
Share of profit from associates and net gain from dissolution of subsidiary	(156)	(28)	(688)	(207)	(198)
Fair value gain on investment property	(290)	(906)	(1,310)	—	—
Net impairment on financial assets	11	719	(578)	1,190	(1,430)
Foreign exchange gain	(47)	(196)	(607)	(581)	(881)
Net gain from sales of property and equipment	—	(26)	(24)	(219)	(19)
Unrealised fair value loss recognised in the income statement	102	(540)	190	2,322	(5,115)
Profit (loss) from non-current assets held for sale, net of tax	3	(2)	(87)	(35)	(149)
Bank tax	500	493	1,900	1,871	1,858
Income tax expense	2,423	2,468	9,426	9,198	8,485
Other changes	(63)	34	103	10	99
Non-cash items included in profit (loss) for the period	**(10,040)**	**(9,704)**	**(37,278)**	**(33,442)**	**(39,076)**
Mandatory reserve and pledged balances with Central Bank	(599)	1,006	(11,106)	(9,831)	(738)
Loans to credit institutions pledged as collateral against derivative instruments	1,571	(844)	15,854	1,397	(32,284)
Bonds and debt instruments	1,505	7,018	24,319	(21,426)	4,557
Loans to customers	3,839	(20,323)	(68,563)	(23,058)	(78,415)
Shares and equity instruments	3,890	(7,019)	(10,528)	2,540	13,313
Other assets	(9,336)	(12,041)	(3,580)	2,442	(293)
Non-current assets and liabilities held for sale	(68)	25	695	23	(182)
Deposits from Central Bank and credit institutions	1,786	(2,082)	(3,563)	888	1,546
Deposits from customers	7,785	22,407	78,098	63,077	41,048
Derivative instruments and short positions	(2,449)	(867)	426	(5,590)	(9,207)
Other liabilities	5,393	7,381	4,884	737	3,624
Changes in operating assets and liabilities	**5,639**	**(5,339)**	**26,936**	**11,199**	**(57,031)**

(*) Comparative figures have been changed: the Group's accounting policies regarding the definition of cash and cash equivalents have been updated. This change was made to ensure a fairer presentation of the Consolidated Interim Statement of Cash Flows. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments. As a result, "Cash and cash equivalents at the beginning of the year" increased by ISK 34,964 million in the three months ended 31 March 2025 (ISK 52,602 million in the three months ended 31 March 2024) and "Cash and cash equivalents at the end of the period" increased by ISK 83,607 million in the three months ended 31 March 2025 (ISK 97,897 million in the three months ended 31 March 2024). In addition, the change affects "Changes in operating assets and liabilities" and therefore "Net cash provided by (used in) operating activities" and "Net increase in cash and cash equivalents."

11.4 Certain Other Financial Information

The table below sets forth certain other financial information, including the Non-IFRS Information, as of and for the periods indicated, along with explanatory notes. This section should be read in conjunction with "*4. Presentation of Financial and Other Information—4.4. Presentation of Financial Information*" and "*4. Presentation of Financial and Other Information—4.5. Non-IFRS Information*." The Non-IFRS Information does not constitute measurements of performance or liquidity under IFRS or any other generally accepted accounting principles. Investors should not place undue reliance on this Non-IFRS Information and should not consider these measures as: (a) an alternative to profit from operating activities or profit as determined in accordance with IFRS, or as measures of operating performance; (b) an alternative to cash flows from operating, investing or financing activities, as determined in accordance with IFRS, or a measure of the Group's ability to meet cash needs; or (c) an alternative to any other measures of performance under IFRS. These measures are not indicative of the Group's historical operating results, nor are they meant to be predictive of future results. The Bank has presented these supplemental measures because they are used by the Bank to monitor the underlying performance of its business and operations. Since all companies do not calculate these measures in an identical manner, the Group's presentation may not be consistent with similar measures used by other companies. Certain of the financial information presented below is not subject to any audit or review by independent auditors.

	As at and for the three months ended 31 March		**As at and for the year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
Liquidity coverage ratio[(1)(**)]	202%	190%	168%	195%	205%
Net stable funding ratio[(2)(**)]	128%	127%	125%	124%	118%
CET1 ratio[(3)(**)]	18.6%	19.9%	20.1%	21.4%	18.8%
Loan-to-deposit ratio[(4)(*)]	139%	142%	140%	144%	150%
REA density[(5)(*)]	63.7%	61.8%	64.7%	61.7%	63.8%
Net interest margin[(6)(*)]	3.2%	3.0%	2.9%	3.1%	2.9%
Return on equity[(7)(*)]	9.4%	9.8%	10.9%	11.2%	11.8%
Cost-to-income ratio[(8)(*)]	47.6%	43.9%	43.9%	40.6%	41.6%
Total capital ratio[(9)(**)]	21.6%	23.6%	23.2%	25.3%	22.2%
Over-collateralisation[(10)(*)]	25.49%	32.02%	24.63%	30.26%	30.60%
Leverage ratio[(11)(**)]	12.1%	12.6%	13.2%	13.4%	12.1%
Dividend ratio[(12)(*)]	—	—	50.7%	49.8%	48.5%
Cost of risk[(13)(*)]	0.00%	0.23%	(0.05)%	0.08%	(0.14%)
Asset encumbrance ratio[(14)(**)]	18.1%	19.8%	19.0%	21.7%	26.5%

(*) Indicates Non-IFRS Information which is an alternative performance measure. Alternative Performance Measures, APMs, are financial measures of historical or future financial performance, financial position, or cash flows, other than those defined in the applicable financial reporting framework (IFRS) or in the EU Capital Requirements Regulation and Directive CRR/CRD IV. APMs are used by the Bank when relevant to assess and describe the Bank's financial situation and provide additional relevant information and tools to enable analysis of the Bank's performance. Return on equity provides relevant information on the performance in relation to different investment measurements. The cost-to-income ratio provides information on the Bank's cost efficiency. APMs related to lending provide information on provisions in relation to credit risk. All these measures may not be comparable to similarly titled measures used by other companies.

(**) Indicates Non-IFRS Information required by EU Capital Requirements Regulation No. 575/2013 (CRR).

(1) Liquidity coverage ratio, or LCR, is defined as the quotient of the weighted liquid assets divided by the difference between the weighted cash outflows and the weighted cash inflows, where weighted cash inflows are capped at 75% of weighted cash outflows. For additional information, see the note titled "Liquidity risk" in the Consolidated Financial Statements. It is defined in accordance with the CRD IV standards as reflected in the Rules on Liquidity Ratio and the Rules on Funding Ratio in Foreign Currencies of the Central Bank of Iceland. See also "*12. Operating and Financial Review—12.6 Liquidity*" *and "15. Risk Management—15.5 Liquidity and Funding Risk.*"

(2) Net stable funding ratio, or NSFR, is defined in accordance with the CRD IV standards as reflected in the Rules on Liquidity Ratio and the Rules on Funding Ratio in Foreign Currencies of the Central Bank of Iceland. The ratio measures the proportion of stable funding to long-term assets for a time horizon of over one year. In particular, the NSFR is structured to ensure that long-term assets are funded with at least a minimum amount of stable liabilities and thus to limit over-reliance on short-term wholesale funding. See also "*12. Operating and Financial Review—12.6 Liquidity*" *and "15. Risk Management—15.5 Liquidity and Funding Risk.*"

(3) CET1 ratio is defined as the Common Equity Tier 1 (CET1) capital expressed as a percentage of the total risk exposure amount. The Common Equity Tier 1 capital is defined in accordance with article 84a in Act No. 161/2002 on Financial Undertakings. The total risk exposure amount is defined in accordance with regulation No. 233/2017 on prudential requirements for financial undertakings. For a calculation of the CET1 ratio, see "*12. Operating and Financial Review—12.7 Capital Position*."

(4) Loan-to-deposit ratio is defined as quotient of loans to customers divided by deposits from customers. See also "*12. Operating and Financial Review—12.6 Liquidity*." Loan-to-deposit ratio is an important supplemental measure for securities analysts, investors, and other interested parties to evaluate the Bank's viability to cover withdrawals made by customers and in comparison with other banks. The table below present the Bank's loan-to-deposit ratio.

	As at 31 March		**As at 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
Loans to customers	1,298,849	1,248,295	1,295,388	1,223,426	1,186,639
Deposits from customers	939,779	879,554	926,846	850,709	789,897
Loan-to-deposit ratio	**139%**	**142%**	**140%**	**144%**	**150%**

(5) REA density is defined as risk exposure amount expressed as a percentage of total assets. For a calculation of REA density, see "*12. Operating and Financial Review—12.7 Capital Position*." The REA density is an important complementary measure reflecting the average risk weight for the Bank's assets when calculating the capital ratio.

	Three months ended 31 March		**Year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
REA	1,061,903	1,015,161	1,040,972	977,032	999,491
Total assets	1,667,429	1,643,707	1,607,807	1,582,694	1,566,235
REA density	**63.7%**	**61.8%**	**64.7%**	**61.7%**	**63.8%**

(6) Net interest margin is defined as net interest income for the period as a percentage of average assets. Since 1 January 2024, average assets are calculated as the average of the opening balance for the applicable period and closing balance for each quarter of the applicable period. For the periods prior to 1 January 2024, average assets were calculated as the average of the opening balance for the applicable period and closing balance for each month of the applicable period. Net interest margin is an important supplemental measure of the Bank's operating performance and it may be used by securities analysts, investors, and other interested parties in the evaluation of the Bank's performance in comparison with other banks. The tables below present net interest margin for the Bank and for Personal Banking, Business Banking and Corporate & Investment Banking.

	Three months ended 31 March		**Year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
Net interest income	12,939	12,122	47,265	48,611	43,126
Average assets	1,637,618	1,613,201	1,610,512	1,597,505	1,478,825
Net interest margin	**3.2%**	**3.0%**	**2.9%**	**3.1%**	**2.9%**

	Three months ended 31 March		**Year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
Net interest income	4,550	4,257	15,849	17,410	15,065
Average assets	613,589	582,765	595,719	570,597	537,526
Net interest margin – Personal Banking	**3.0%**	**2.9%**	**2.7%**	**3.1%**	**2.8%**

	Three months ended 31 March		**Year ended 31 December**		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
Net interest income	4,847	4,617	18,736	17,980	14,493
Average assets	329,560	315,425	322,147	301,209	260,415
Net interest margin – Business Banking	**5.9%**	**5.9%**	**5.8%**	**6.0%**	**5.6%**

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Net interest income	3,553	3,416	13,661	13,854	11,108
Average assets	371,820	374,117	359,527	362,609	352,221
Net interest margin – Corporate & Investment Banking	**3.8%**	**3.9%**	**3.8%**	**3.8%**	**3.2%**

(7) Return on equity is defined as profit for the period as a percentage of average total equity. Average total equity is calculated as the average of the opening balance for the applicable period and closing balance for each quarter of the applicable period. Return on equity is an important supplemental measure of the Bank's profitability and it may be used by securities analysts, investors, and other interested parties in the evaluation of the Bank's performance in comparison with other banks. The tables below present the return on equity for the Bank.

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Profit for the period	5,209	5,417	24,246	24,585	24,535
Average total equity	222,625	220,206	220,741	218,272	207,203
Return on equity	**9.4%**	**9.8%**	**10.9%**	**11.2%**	**11.8%**

(8) Cost-to-income ratio is calculated as (Salaries and related expenses + Other operating expenses + Contribution to the Depositors' and Investors' Guarantee Fund) / (Total operating income). Cost-to-income ratio is an important supplemental measure of the Bank's cost efficiency and it may be used by securities analysts, investors, and other interested parties in the evaluation of the Bank's performance in comparison with other banks. The tables below present the cost-to-income ratio for the Bank and cost-to-income ratio for Personal Banking, Business Banking and Corporate & Investment Banking (including cost allocation).

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Salaries and related expenses	(4,489)	(4,168)	(16,329)	(15,003)	(13,452)
Other operating expenses	(2,907)	(2,942)	(11,299)	(10,689)	(10,166)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(165)
Total costs	**(7,396)**	**(7,110)**	**(27,628)**	**(25,692)**	**(23,783)**
Total operating income	15,534	16,190	62,938	63,286	57,236
Total income	**15,534**	**16,190**	**62,938**	**63,286**	**57,236**
Cost-to-income ratio	**47.6%**	**43.9%**	**43.9%**	**40.6%**	**41.6%**

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Salaries and related expenses	(733)	(679)	(2,763)	(2,473)	(2,355)
Other operating expenses	(683)	(675)	(2,716)	(2,462)	(2,446)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(129)
Cost allocation	(1,505)	(1,466)	(5,450)	(5,225)	(4,792)
Total costs	**(2,921)**	**(2,820)**	**(10,929)**	**(10,160)**	**(9,722)**
Total operating income	5,357	4,945	19,813	21,686	19,741
Total income	**5,357**	**4,945**	**19,813**	**21,686**	**19,741**
Cost-to-income ratio – Personal Banking	**54.5%**	**57.0%**	**55.2%**	**46.8%**	**49.2%**

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Salaries and related expenses	(605)	(584)	(2,349)	(2,161)	(1,900)
Other operating expenses	(314)	(296)	(1,304)	(1,063)	(1,072)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(33)
Cost allocation	(1,265)	(1,163)	(4,364)	(4,058)	(3,431)
Total costs	**(2,184)**	**(2,043)**	**(8,017)**	**(7,282)**	**(6,436)**
Total operating income	5,337	5,137	20,834	20,145	16,757
Total income	**5,337**	**5,137**	**20,834**	**20,145**	**16,757**
Cost-to-income ratio – Business Banking	**40.9%**	**39.8%**	**38.5%**	**36.2%**	**38.4%**

	Three months ended 31 March		Year ended 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Salaries and related expenses	(588)	(575)	(2,273)	(2,131)	(1,819)
Other operating expenses	(311)	(296)	(1,204)	(978)	(971)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(3)
Cost allocation	(1,068)	(1,021)	(3,840)	(3,569)	(3,237)
Total costs	**(1,967)**	**(1,892)**	**(7,317)**	**(6,678)**	**(6,030)**
Total operating income	5,197	4,736	19,460	19,630	16,966
Total income	**5,197**	**4,736**	**19,460**	**19,630**	**16,966**
Cost-to-income ratio – Corporate & Investment Banking	**37.8%**	**39.9%**	**37.6%**	**34.1%**	**35.5%**

(9) Total capital ratio is defined as the own funds of the institution expressed as a percentage of the total risk exposure amount. For a calculation of the total capital ratio, see "*12. Operating and Financial Review—12.7 Capital Position*."

(10) Over-collateralisation is defined as the ratio of Cash account and loans in the cover pool eligible for calculation exceeding the value of Covered Bonds Issuance. See also "*12. Operating and Financial Review—12.5 Funding—Covered Bonds*."

	As at 31 March		As at 31 December		
	2025	2024	2024	2023	2022
	(ISK in millions, except percentages)				
Cash account and loans in cover pool	417,999	398,892	425,149	462,027	420,859
Covered bond issuance	333,093	302,156	341,135	354,701	322,246
Over-collateralisation	**25.49%**	**32.02%**	**24.63%**	**30.26%**	**30.60%**

(11) Leverage ratio is defined as Tier 1 capital as a ratio of total exposure.

(12) Dividend ratio is defined as dividend paid out as a percentage of profit (loss) for the period. See also "*19. Shares and Share Capital—19.3 Dividends and Dividend Policy*." Dividend ratio is an important information for shareholders, securities analysts, investors, and other interested parties to evaluate the total amount of dividend paid out to shareholders relative to the Bank's profit of the year and in comparison with other banks.

	Year ended 31 December		
	2024	2023	2022
	(*ISK in millions, except percentages*)		
Dividend paid out	(12,303)	(12,254)	(11,900)
Profit for the period	24,246	24,585	24,535
Dividend ratio	**50.7%**	**49.8%**	**48.5%**

(13) Cost of risk is defined as the net impairment charge on financial assets in a given period over average gross loans (representing the sum of gross loans at end of each quarter divided by the number of quarters) to customers as a percentage on the basis of gross carrying amount. The cost of risk measure reflects both actual and expected future loss of the credit portfolio.

	Three months ended 31 March		Year ended 31 December		
	2025	**2024**	**2024**	**2023**	**2022**
	(ISK in millions, except percentages)				
Net impairment on financial assets	3	704	(645)	1,015	(1,576)
Average gross loans to customers	1,304,906	1,247,880	1,269,181	1,216,463	1,148,832
Cost of risk	**0.00%**	**0.23%**	**(0.05)%**	**0.08%**	**(0.14%)**

(14) Asset encumbrance ratio is defined as the ratio of encumbered assets and collateral received relative to the total assets. See also "*22. Icelandic Securities Market—22.6 Transactions and Ownership Disclosure Requirements.*"

12. OPERATING AND FINANCIAL REVIEW

The following discussion of the financial condition and results of operations of the Bank should be read in conjunction with the Consolidated Financial Statements, together with the notes thereto and with the information relating to the business of the Bank included elsewhere in this Prospectus. In particular, this section should be read in conjunction with the financial information of the Group as set forth in "27. Consolidated Financial Statements" and the other financial information contained elsewhere in this Prospectus, including under "11. Selected Consolidated Financial, Operating and Other Information" and "14. Selected Statistical Information."

The following discussion includes forward-looking statements that reflect the current view of the Bank's management and involve risks and uncertainties. The actual results of the Bank could differ materially from those contained in any forward-looking statements as a result of factors discussed below and elsewhere in this Prospectus, particularly in "2. Risk Factors" and "4. Presentation of Financial and Other Information—4.11. Forward-Looking Statements." Prospective investors should read this Prospectus in its entirety and not just rely upon summarised information set forth in this Operating and Financial Review.

12.1 Overview

The Bank is licensed as a commercial bank in Iceland in accordance with Article 4 of the Financial Undertakings Act and offers comprehensive services to the retail and corporate sectors. The Bank is one of Iceland's three main banks and maintains a strong market share across the spectrum of banking services in the country. The Bank seeks to provide the highest quality services to consumers and corporations, with a focus on building value and retaining a strong sense of social responsibility. The Bank's core values are progressive thinking, collaboration, and professionalism. A majority of the Bank's employees believe that the Bank is a force for good and believe in the Bank's strategy. Employee satisfaction has been consistently high. For the three months ended 31 March 2025 and the years ended 31 December 2024, 2023 and 2022, respectively, the Group's net interest income was ISK 12,939 million, ISK 47,265 million, ISK 48,611 million and ISK 43,126 million; its net fee and commission income was ISK 3,067 million, ISK 13,122 million, ISK 13,283 million and ISK 14,053 million; its operating income was ISK 15,534 million, ISK 62,938 million, ISK 63,286 million and ISK 57,236 million; and its profits for the period were ISK 5,209 million, ISK 24,246 million, ISK 24,585 million and ISK 24,535 million. As at 31 March 2025, the Group's total assets were ISK 1,667,429 million.

12.2 Key Factors Affecting the Group's Business, Financial Position and Results of Operations

The Group's business, financial position and results of operations are affected by a number of factors, some of which are beyond its control. This section, which should be read in conjunction with "*2. Risk Factors,*" sets forth certain key factors that have affected the Group's business, financial position and results of operations during the periods under review and could affect the Group in the future.

Macroeconomic Environment in Iceland

The macroeconomic environment in Iceland impacts the Bank's financial position and results of operations, particularly with respect to the real estate and deposits markets, exchange rates, interest rates, inflation, and specific regulatory actions related to the economy.

The general performance of the Icelandic economy dictates employment levels, housing prices and levels of personal wealth and disposable income, which affect the Bank's performance. In the period 2015-2024, GDP increased annually in real terms by 3.3% on average, with GDP growth at 0.6% for 2024 (*source: IMF*).

Investment has recently been close to 29% of GDP, indicating a healthy investment level that facilitates future economic growth (*source: CEIC*). In 2015-2024, total capital formation increased by 14% per year on average, however increasing by 21% in 2024. Business investment increased in real terms by 14% per year on average in 2015-2024. In 2024, business investment increased by 13% (*source: Statistics Iceland*).

The labour market, which impacts the Bank's operations through the financial conditions of households, has historically been strong and flexible, with low unemployment and robust real wage growth in international context. In 2015-2024, unemployment averaged 4.2%, and the purchasing power of wages increased annually by an average of 1.4%. In 2024, unemployment decreased to an average of 3.4% for the year, to a large degree due to increased demand for labour in labour-intensive sectors like tourism, services and construction. However, the purchasing power of wages continued increasing 2024, growing by 1.9% on average from the previous year (*source: Statistics Iceland, IMF*).

The Central Bank of Iceland's policy rate has a significant impact on the Bank's performance. In the three years 2021-2023, the general trend for the policy rate has been increasing rates, with the Central Bank of Iceland raising its policy rate fifteen times, from 0.75% to 9.25%, in response to rising inflation, before starting to lower the rate again in October 2024. Since 19 March 2025, the policy rate stood at 7.75%. The high interest rate environment has resulted in borrowers increasingly opting to refinance their loans with CPI-linked instruments. This trend has led to an increase in the Bank's CPI imbalance, which may in the short term translate to volatility in the Bank's net interest income as a drop in CPI would therefore lower the Bank's yield from such loans, while it is uncertain how fast the Central Bank of Iceland's policy rates will decrease. Despite such pressures, the Bank believes it is well positioned to manage volatility in the medium- and long term.

Inflation and the exchange rate of the Icelandic Króna have a significant impact on the Bank's operations and balance sheet. After a long period of moderate inflation, recent years saw inflation rise significantly above the Central Bank of Iceland's 2.5% inflation target as worldwide inflation spiked in the wake of the COVID-19 pandemic and Russia's invasion of Ukraine. Since 2018, inflation has on average been 5.0% in Iceland, fluctuating between 1.7% and 10.2% in monthly terms through the end of 2023, although inflation has been on a declining trend in 2024. The medium-term trends in inflation are to a large degree dictated by domestic labour costs, residential housing prices and the exchange rate of the ISK as well as import prices.

The trend for residential housing prices has been positive in the past decade as the purchasing power of households has increased, the population has grown, the demand for short-term rentals by tourists has been significant, the supply for such short-term rentals has at times lagged demand and mortgage rates temporarily declined to all-time lows in 2020-2021. In 2015-2024, the prices of residential housing rose by 11% per year on average due to the aforementioned factors.

The ISK affects the Bank both directly and through its impact on inflation, purchasing power, international competitiveness of the export sector, and the relative value of ISK and foreign exchange assets economy-wide. As the external debt profile of the Icelandic economy has improved, the Central Bank of Iceland's foreign exchange reserves have increased, and the effectiveness of economic policy has increased, and the changes in the ISK exchange rate have become better correlated with underlying fundamentals, such as GDP growth, export trends and interest rate differentials. After its appreciation from 2015 to 2017, the ISK depreciated gradually in 2018-2019 as export growth slowed. In 2020, the ISK depreciated sharply when the pandemic hit services exports before stabilising at exchange rates broadly around 10% lower (in foreign exchange terms) than in the previous year. As the economy rebounded and exports recovered in 2022-2024, the ISK exchange rate appreciated once more by around 5.2% in trade-weighted terms.

Proportion of Net Fee and Commission Income

The Group targets to increase the proportion of its operating income attributable to net fee and commission income across each of its operating divisions. During the periods under review, Corporate & Investment Banking and Personal Banking were the two largest contributors to fee and commission income.

Net fee and commission income is primarily driven by transaction volumes, particularly for credit and debit cards, the markets for which have seen increasing competition in recent years that is expected to continue rising, but also for fees for the provisioning of loans and guarantees. Asset management services (including portfolio management and investment advice) and brokerage fees are also a primary fee and commission income for the Group. To a lesser degree, investment banking services, including corporate finance advisory, collection and payment services, and other services are primary fee and commission income for the Group. Net fee and commission income is impacted by economic developments in general (i.e., fewer payments and fewer fees overall as a result of lower economic activity) and the performance of capital markets in particular (lower numbers and volumes of transactions, resulting in decreased transaction and asset management fees). The Bank's net fee and commission income from asset management and investment banking services has been subject to pressure in recent years due to decreased activity in the capital markets as a result of, among other things, the prevailing high interest rate environment. However, as policy rates have begun to decline, activity on capital markets has recovered, paving the way for relieving pressure on net fee and commission income from asset management and investment banking services.

Net Interest Income, Net Interest Margin and Funding Mix

The Group's ability to increase net interest income for a given period is influenced by the margins it can generate on its lending, the margins paid on its deposits and the interest on its allocated equity. Margins are primarily driven by the rates that the Group charges on its lending relative to the cost of funding. The Group's principal lending activities are loans to customers (mortgage loans and other secured and unsecured loans to individual and corporate customers, primarily credit cards and overdraft facilities). Its principal funding activities occur through deposits and issuances of debt under the Bank's EMTN programme and the Bank's covered bond programme.

The Group uses net interest income over average assets to calculate its net interest margin. The average assets are calculated using end-of-quarter figures for a given period and the prior end-of-quarter figures. The Group's net interest income (and, consequently, net interest margin) depends on, among other things, the interest income that the Group earns on its lending, which in turn depends on the rates it charges on its loans and the upfront fees it charges to its borrowers, which are included in interest income. The cost of the Group's liabilities depends on the rate of interest paid on its sources of funding. Changes in the cost of deposits or other borrowings could have a significant impact on the Group's net interest income, net interest margin and profitability. Net interest margin has fluctuated during the periods under review, amounting to 3.2%, 2.9%, 3.0% and 2.9% for the three months ended 31 March 2025 and the years ended 31 December 2024, 2023 and 2022, respectively. The Bank expects that as policy rates continue to subside, yield on the liquidity book will subside, pressuring the overall net interest margin for the Group.

The Group's loan portfolio reflects its broad offering and is supplemented by a strong liquidity portfolio, a consistent factor in the Group's balance sheet management. All of the Group's liquidity ratios are above regulatory requirements and its own internal targets.

The Group is exposed to inflation risk, since assets linked to the CPI exceed liabilities linked to the CPI. The net carrying amount of all CPI-linked assets and liabilities changes according to changes in the CPI at any given time, and all changes in the CPI affect the Group's profit and loss through interest income. While historically the Bank's CPI imbalances have been moderate, the conversion of loans from non-indexed loans to CPI-linked instruments increased the Bank's CPI imbalance to ISK 178,044 million as at 31 March 2025, compared to a position of ISK 193,362 million as at 31 December 2024, as compared to ISK 129,445 million as at 31 December 2023. Due to this, net interest income will be subject to more volatility and remain under pressure, as inflation subsides if policy rates are not cut at the same rate, compared to a more neutral CPI position. The impact of such imbalance between the CPI-linked assets and liabilities on the financial statements of the Group depends on the level of inflation in Iceland and changes in the CPI. The impact is reflected in net interest income in the Group's consolidated income statement. In general, an increase of 1.0% in the rate of inflation in Iceland results in a corresponding increase of 1.0% of the net imbalance reflected in net interest income, other risk factors held constant. Although inflation remains high at 4.2% as at April 2025, it has declined markedly from the 7.7% measured at year-end 2023. See "—*12.6 Funding.*"

Cost and Efficiency Management

During the periods under review, the Bank has sought to reduce its administrative expenses, mainly through the streamlining of processes and the organisational structure, increased automatisation, the replacement of legacy systems, and a product-focused approach to digital development. During the periods under review, this has reflected the following:

- Between 2021 and 2022, employee reductions resulted in a reduction in personnel costs.
- In 2023 and 2024, additional FTEs were taken on as a part in strengthening the Bank's overall regulatory infrastructure, including in Compliance and related functions.
- As a result, the number of employees consistently decreased until 2023, since when some additions have taken place.

Regulatory Developments

The Group is subject to regulation at both local and international levels. Regulations are subject to constant change, and this environment has affected, and will continue to affect, the Group's results of operations in a number of ways. Principal European regulations that have had or could have an impact on the Group's results of operations include, but are not limited to the Basel III framework, implemented through the CRD IV and CRD V, the CRR and CRR II, the BRRD and MiFID II. Given the Group's small size relative to other financial services providers in Europe, its compliance costs relative to the size of its overall operations can be expected to be high.

See "*10. Regulatory Overview*," "*2. Risk Factors—R4. Legal and Regulatory Risk*," "*2. Risk Factors —R4. Legal and Regulatory Risk—R4.8 The Bank may be subject to ongoing, pending or threatened legal proceedings and investigations by governmental authorities*," and "*2. Risk Factors—R5. Risks Relating to the Offering and the Offer Shares—R5.12 Recovery and resolution regimes may affect the rights and remedies of holders of the Offer Shares*."

The key regulatory developments relating to the Group's financial position and results of operations during the periods under review are summarised below.

Tax Developments

The Bank Levy is an annual levy mandated by Icelandic law under which the Group must currently pay a tax on total liabilities, as determined for tax purposes (excluding tax liabilities), in excess of ISK 50,000 million. Therefore, as the Group's funding liabilities increase, the impact of the Bank Levy increases correspondingly, which affects the Group's earnings before tax. Non-financial subsidiaries of the Group are exempt from this tax. The Bank Levy was 0.145% for the years ended 31 December 2024, 2023 and 2022. See "*2. Risk Factors —R4. Legal and Regulatory Risk—R4.2 The Bank is subject to additional taxes beyond corporate income tax, and certain reserve requirements which impose costs and competitive disadvantages*."

Moreover, the corporate income tax rate was temporarily increased from 20% to 21% for the operating income year 2024. The amendment was made by means of a temporary provision. In the Income Tax Act and should, therefore, only apply to the operating year 2024. See "*2. Risk Factors—R4. Legal and Regulatory Risk—R4.4 Changes in tax laws or in their interpretation could harm the Bank's business."*

Additionally, according to the Act on Tax on Financial Activities, certain types of financial institutions, including the Bank, are required to pay a special additional tax levied on all remuneration paid to employees. The levy is currently set at 5.5% of such remuneration.

Under the Special Financial Activity Tax Act, the Bank is also subject to the Special Financial Activity Tax, calculated as 6% of taxable profit exceeding ISK 1.0 billion.

Growth of Customer Loan Portfolio and Impairment Losses

The Group's ability to increase the volume of loans it extends to customers has been an important factor contributing to growth in net interest income during the periods under review. The Group's customer loan portfolio has increased from ISK 1,186,639 million as at 31 December 2022 to ISK 1,223,426 million as at 31 December 2023 and ISK 1,295,388 million as at 31 December 2024.

The customer loan portfolio covers lending in Personal Banking (to individuals), Business Banking (to SMEs) and Corporate & Investment Banking (to larger corporates), with Personal Banking accounting for 47.0% of the customer loan portfolio, Business Banking accounting for 25.0% and Corporate & Investment Banking accounting for 28.0% of the customer loan portfolio as at 31 December 2024. Exposure to countries other than Iceland amounted to ISK 93.8 billion as at 31 December 2024. This exposure relates mainly to the management of the Bank's foreign liquidity reserves. The Bank has no retail lending activities outside of Iceland but maintains a modestly sized portfolio of lending to companies in the United States, Canada and Norway within its North Atlantic strategy. In terms of collateral, as at 31 December 2024, 75.0% of the Bank's credit risk exposure was collateralised and 94.1% of credit risk exposure attributable to loans to individuals were collateralised. The customer loan portfolio is also highly concentrated in Icelandic borrowers, albeit spread relatively evenly across individuals and companies and, with respect to companies, with a diverse spread across a range of industry sectors.

The Bank's definition of default has been designed so that it satisfies the requirements in the definition of Stage 3 according to IFRS 9, the definition of default according to article 178 of CRR and the definition of non-performing exposure used in FINREP and article 47 of CRR. Obligors are considered to be in default according to the current definition if, (a) in the opinion of the Bank it is unlikely that the obligor will fulfil the terms of their contract or (b) the obligor is more than 90 days past due on a material credit obligation. Defaults are defined on the obligor level rather than the facility level.

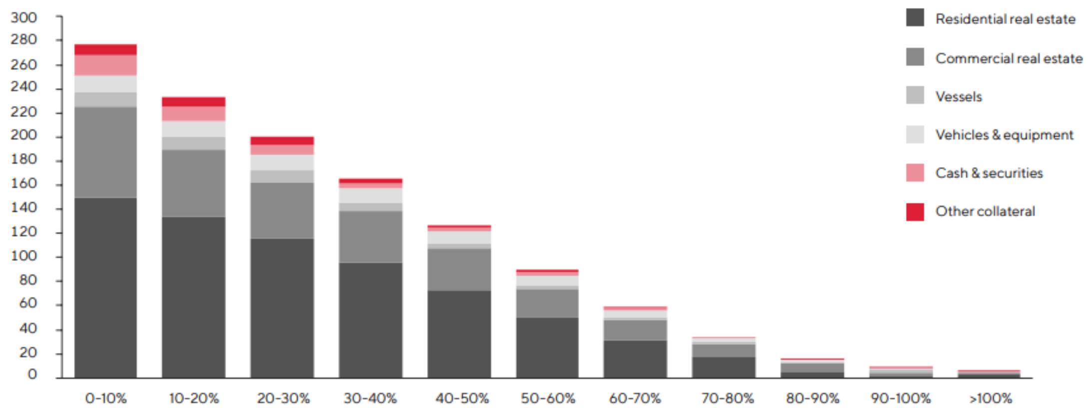
As at 31 March 2025, 3.0% and 1.8% of the loans to customers portfolio was classified Stage 2 and Stage 3, respectively, based on the gross carrying amount (3.3% and 1.9% as at 31 March 2024, 3.1% and 1.6% as at 31 December 2024, 3.3% and 1.8% as at 31 December 2023 and 2.5% and 1.8% as at 31 December 2022), and the Group's allowance for expected credit losses on its customer loan portfolio amounted to 0.7% (0.7% as at 31 December 2024, 1.0% as at 31 December 2023 and 1.1% as at 31 December 2022) of the total gross amount of the portfolio. The Bank's low (compared to peers outside of Iceland) coverage ratio for facilities in Stage 3 is due to the fact that its loan portfolio is, to a large extent, well collateralised (92.7% as at 31 March 2025) resulting in lower LGD estimates compared to a less well secured or unsecured portfolio.

Since 2020, the Bank's impairment allowance for expected credit loss has been subject to various significant effects in both directions. Firstly, in 2020 considerable management overlay was applied related to the COVID-19 pandemic and uncertainty related thereto. Over the course of the next years, those one-off impairments have for the most part been reversed as immaterial write-offs have materialised. In 2023, the Bank applied a second management overlay related to seismic activities and the small town of Grindavík (see "2. *Risk Factors—R2. Risks Relating to Macroeconomic and Other Business Conditions—R2.5 Catastrophic or unforeseen events such as acts of war, acts of terrorism, earthquakes, floods, other natural disasters, pandemic diseases or other geopolitical events may have a material adverse effect on the Bank*"). As of the date of this Prospectus, this overlay still applies. Overall, throughout the reference period, the quality of assets has been both low and stable, as indicated by low cost of risk and release of impairment allowance through changes to assumptions in models.

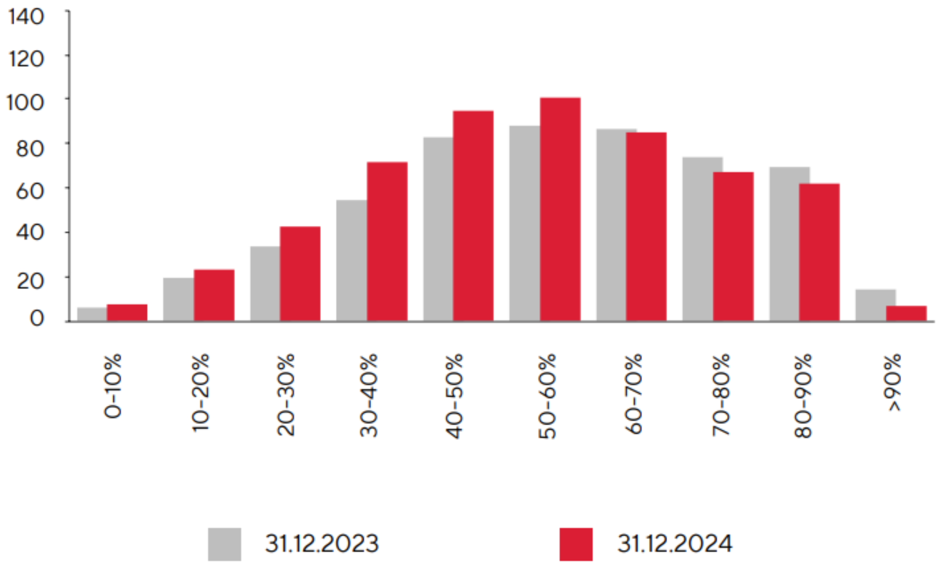
Positive developments reflect favourable economic conditions, prudence in lending operations and a successful restructuring of the Bank's loan portfolio over that period. Overall mortgage lending volumes have increased, with mortgage loans rising from ISK 507,969 million as at 31 December 2022 to ISK 530,676 million as at 31 December 2023 and ISK 563,753 million as at 31 December 2024. The percentage of loans to customers that are classified as non-performing has decreased from 1.8% as at 31 December 2022 and 1.8% as at 31 December 2023 to 1.6% as at 31 December 2024. The average LTV for mortgages to individuals was 54.0% as at 31 December 2024, compared to 57.0% as at 31 December 2023 and 60.0% as at 31 December 2022. The decrease was due to an increase in real estate valuations. Loans to customers classified as Stage 1 and Stage 2 that are subject to forbearance measures have also shown a marked decline.

The graphs below present the Bank's LTV distribution as at 31 December 2024, the gross carrying amount of mortgages classified Stage 2 and Stage 3 as a proportion of total mortgages as at 31 March 2025 and 2024, and as at 31 December 2024, 2023 and 2022, and the gross carrying amount of loans to customers (individuals and companies) classified Stage 1 and Stage 2 subject to forbearance measures as at 31 March 2025 and 2024, and as at 31 December 2024, 2023 and 2022.

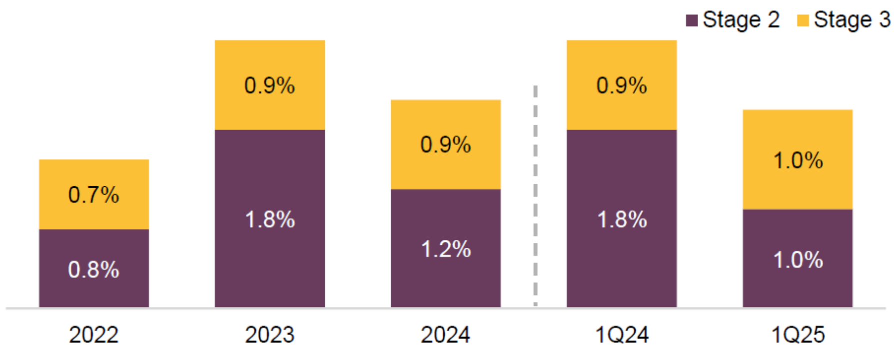
LTV distribution by underlying asset class
ISK in billions, by type of underlying asset as at 31 December 2024



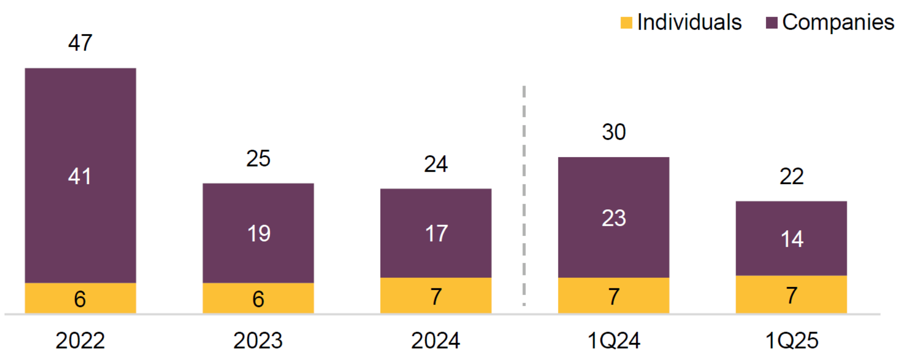
LTV distribution of mortgages to individuals
ISK in billions



Stage 2 and Stage 3 mortgages as a proportion of total mortgages



Gross carrying amount of forborne Stage 1 and Stage 2 loans
ISK in billions



Total allowances for expected credit losses of ISK 8,841 million have been recorded as at 31 December 2024, which included ISK 7,930 million for on-balance sheet items (0.5% of the total gross carrying amount of financial assets) and ISK 911 million for off-balance sheet items (0.5% of the off-balance sheet exposure). This was a decrease from 31 December 2023, where the total allowances for expected credit losses were ISK 13,028 million, including ISK 11,844 million for on-balance sheet items (0.8% of the total gross carrying amount of financial assets) and ISK 1,184 million for off-balance sheet items (0.6% of the off-balance sheet exposure). As at 31 December 2022, total allowances for expected credit losses were ISK 12,638 million. This included ISK 11,300 million for on-balance sheet items (0.7% of the total gross carrying amount of financial assets) and ISK 1,338 million for off-balance sheet items (0.7% of the off-balance sheet exposure).

For Stage 3, where assets are credit impaired according to the Group's assessments, the total allowances for expected credit losses was ISK 3,663 million as at 31 December 2024 (41.4% of the total allowances for expected credit losses). As at 31 December 2023, there was an allowance of ISK 4,375 million recorded in Stage 3 (33.6% of the total allowances for expected credit losses) and ISK 4,488 million as at 31 December 2022 (35.5% of the total allowances for expected credit losses). The Bank's low (compared to peers outside of Iceland) coverage ratio for facilities in Stage 3 is due to the fact that its loan portfolio is, to a large extent, well collateralised (92.7% as at 31 March 2025) resulting in lower LGD estimates compared to a less well secured or unsecured portfolio.

The net impairment reversal on financial assets was ISK 645 million in 2024, which included write-offs and recoveries of amounts previously written-off. Net impairment on financial assets was ISK 1,015 million in 2023 and a reversal of ISK 1,576 million in 2022.

12.3 Financial Position and Results of Operations

Summary Consolidated Statement of Financial Position

	As at 31 March	As at 31 December		
	2025	**2024**	**2023**	**2022**
		(ISK in millions)		
Assets				
Cash and balances with Central Bank	69,944	65,716	87,504	94,424
Loans to credit institutions	92,259	50,486	73,475	110,364
Bonds and debt instruments	142,93	142,618	161,342	130,804
Derivatives	9,092	5,324	5,776	7,461
Loans to customers	1,298,849	1,295,388	1,223,426	1,186,639
Shares and equity instruments	20,606	24,330	13,241	15,868
Investments in associates	4,857	4,701	4,051	3,844
Investment property	2,900	2,600	—	—
Property and equipment	5,135	5,039	6,562	6,752
Intangible assets	2,636	2,684	2,930	3,279
Other assets	16,532	7,304	3,638	6,072
Non-current assets held for sale	1,682	1,617	749	728
Total assets	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**
Liabilities				
Deposits from Central Bank and credit institutions	14,374	12,535	16,149	15,269
Deposits from customers	936,779	926,846	850,709	789,897
Derivative instruments and short positions	6,677	7,306	5,090	10,804
Debt issued and other borrowed funds	407,266	367,586	417,573	468,270
Subordinated loans	32,502	31,695	38,155	34,392
Tax liabilities	12,912	12,916	13,107	12,128
Other liabilities	39,025	21,568	17,218	16,601
Total liabilities	**1,449,535**	**1,380,452**	**1,358,001**	**1,347,361**
Equity				
Share capital	9,368	9,473	9,898	10,000
Share premium	42,472	55,000	55,000	55,000
Reserves	7,673	7,102	5,083	9,158
Retained earnings	158,381	155,780	154,712	144,716
Total equity	**217,894**	**227,355**	**224,693**	**218,874**
Total liabilities and equity	**1,667,429**	**1,607,807**	**1,582,694**	**1,566,235**

Explanation of Selected Line Items from the Consolidated Statement of Financial Position

Cash and Balances with Central Bank

Cash and balances with Central Bank include unrestricted balances with Central Bank, mandatory reserve deposits with Central Bank, balances pledged as collateral to Central Bank and cash on hand. Cash and balances with Central Bank are carried at amortised cost in the statement of financial position using the effective interest rate method, less any provision for impairment.

Loans to Credit Institutions

Loans to credit institutions include bank accounts, money market loans and other loans. These assets are recognised at amortised cost using the effective interest rate method, less any provision for impairment.

Financial Instruments

The Group's financial instruments include loans to customers, bonds and debt instruments, shares and equity instruments with variable income, derivatives and securities used for economic hedging. The Group uses derivatives to reduce exposure to various risks. Derivatives held for trading or for other purposes are insignificant. The Group undertakes the following types of derivative financial instruments transactions: (i) forward contracts for foreign exchange and securities (equities and bonds), (ii) foreign exchange and interest rate swaps and (iii) options for foreign exchange. The Group's financial instrument transactions are entered into for the purpose of eliminating risk from potential movements in interest rates, foreign exchange rates, equity exposures and indexation exposures inherent to the Group's assets, liabilities and positions.

Loans to Customers

Loans to customers include mortgage loans, overdrafts, credit card advances, capital leases and other loans. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market with respect to which the Group has no intention of trading the loan or receivable. For finance leases, the Group remains the owner of the leased object. Loans to customers comprise loans to both individuals and corporates and represent the substantial majority of the Group's assets. Within loans to customers, other loans are mainly loans to corporates, including leases, revolving credit facilities, factoring and other traditional loans. For additional information on the Group's loan portfolio, see "*14. Selected Statistical Information—Loan Portfolio.*"

Investments in Associates

At year-end 2024, the Group classified Reiknistofa bankanna hf. (an IT service centre company) and Norðurturninn hf. (a rental company of commercial real estate) as investments in associates.

Associates are entities over which the Group has significant influence to participate in the financial and operating policy decisions of the entity but does not have control over those policies. It is presumed that the Group has significant influence if the Group holds 20% to 50% of the voting power of an entity. Considerations made in determining significant influence are similar to those used to determine control over subsidiaries. The Group accounts for its investments in associates using the equity method. Under the equity method, investments in associates are initially recognised at cost. After the acquisition date, the carrying amount of each investment is adjusted to recognise changes in the Group's share of net assets. Distributions received from an associate reduce the carrying amount of the investment.

The financial statements of the Group include the Group's share of profit or loss and other comprehensive income of associates from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses of an associate exceeds its interest in the associate, the carrying amount of that associate is reduced to nil, and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of profits only after its share of profits equals the share of losses not recognised.

Upon a loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

For information on the Group's interest in its principal associates as at 31 December 2024, see "*21. Legal Considerations and Supplementary Information—21.2 Significant Subsidiaries and Principal Associates.*"

Property and Equipment

Property and equipment include buildings, right-of-use assets, vehicles, fixtures and equipment. Items of property and equipment are measured at cost, less accumulated depreciation and impairment losses.

Items of property and equipment are depreciated from the date they are available for use, except for land, which is not depreciated. The depreciable amount of each item of property and equipment is determined after deducting its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of property or equipment.

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Deposits

Deposits include deposits from the Central Bank of Iceland, deposits from credit institutions and deposits from customers. Deposits from customers include deposits from individuals, companies, financial institutions, central government and state-owned enterprises, and municipalities.

For additional information on the Group's deposits, see "*—12.5 Funding—Deposit Funding.*"

Debt Issued and Other Borrowed Funds

Debt issued and other borrowed funds include covered bonds and senior unsecured bonds.

For additional information on the Group's debt issued and other borrowed funds, see "*—12.5 Funding—Debt Issued and Other Borrowed Funds.*"

Subordinated Loans

Subordinated loans include the Bank's Tier 2 cand Additional Tier 1 capital, issued in 2021-2023 in ISK and Swedish króna (SEK) under the Bank's EMTN programme.

Key Changes to Financial Position as at 31 March 2025

Loans to credit institutions increased by ISK 41,773 million, to ISK 92,259 million as at 31 March 2025 from ISK 50,486 million as at 31 December 2024. This was primarily due to an increase in money market loans to ISK 79,238 million as at 31 March 2025 from ISK 33,828 million as at 31 December 2024.

Loans to customers increased by ISK 3,461 million, to ISK 1,298,849 million as at 31 March 2025 from ISK 1,295,388 million as at 31 December 2024. This increase was driven by an increase in the volume of loans to customers in the ordinary course of business.

The Bank's ratio of non-performing loans rose from 1.6% as at 31 December 2024 to 1.8% as at 31 March 2025 as certain customers were moved into Stage 3. The movement of these customers does not reflect an underlying structural issue with any correlated market segment or type of customers.

The Bank's distribution of loans between individuals and companies was largely unchanged (48.5% to individuals as at 31 March 2025 compared to 48.3% as at 31 December 2024). The increase was primarily in mortgages to individuals.

Financial assets increased by ISK 57,836 million, to ISK 1,648,004 million as at 31 March 2025 from ISK 1,590,168 million as at 31 December 2024. This increase was mainly due to growth in liquid assets following the issuance of a EUR 300 million bond under the Bank's EMTN programme in the first quarter of the 2025 financial year.

Other assets increased by ISK 9,228 million, to ISK 16,532 million as at 31 March 2025 from ISK 7,304 million as at 31 December 2024. This was primarily due to an increase in unsettled securities transactions by 8,921 ISK million, to 13,037 ISK million as at 31 March 2025 from ISK 4,116 million as at 31 December 2024.

Deposits from Central Bank and credit institutions increased by ISK 1,839 million, to ISK 14,374 million as at 31 March 2025 from ISK 12,535 million as at 31 December 2024. This was primarily due to the issuance of a EUR 300 million bond under the Bank's EMTN programme in the first quarter of the 2025 financial year.

Deposits from customers increased by ISK 9,933 million, to ISK 936,779 million as at 31 March 2025 from ISK 926,846 million as at 31 December 2024. This was primarily due to an increase in deposits in Personal Banking.

Debt issued and other borrowed funds increased by ISK 39,680 million, to ISK 407,266 million as at 31 March 2025 from ISK 367,586 million as at 31 December 2024 as the Bank issued a EUR 300 million bond under its EMTN programme during the quarter.

Other liabilities increased by ISK 17,457 million, to ISK 39,025 million as at 31 March 2025 from ISK 21,568 million as at 31 December 2024. This was primarily due to the dividend, which was declared on 31 March 2025 and became payable at 10 April 2025.

Changes in Assets as at 31 December 2024, 2023 and 2022

Loans to Credit Institutions

The table below sets forth the components of the loans to credit institutions as at the dates indicated.

	As at 31 December		
	2024	**2023**	**2022**
		(*ISK in millions*)	
Money market loans	33,828	53,882	55,742
Bank accounts	13,800	18,794	54,606
Other loans	2,858	799	16
Loans to credit institutions	**50,486**	**73,475**	**110,364**

Loans to credit institutions decreased by ISK 22,989 million, or 31.3%, to ISK 50,486 million as at 31 December 2024 from ISK 73,475 million as at 31 December 2023. This was primarily due to a decrease in money market loans and bank accounts.

Loans to credit institutions decreased by ISK 36,889 million, or 33.4%, to ISK 73,475 million as at 31 December 2023 from ISK 110,364 million as at 31 December 2022. This was primarily due to ISK 35,812 million decrease in foreign currency bank accounts and ISK 1,860 million decrease in money market loans.

Loans to Customers

The table below sets forth the Group's loans to customers as at the dates indicated.

	As at 31 December		
	2024	**2023**	**2022**
		(*ISK in millions*)	
Individuals	625,252	594,631	570,522
Thereof mortgage	563,753	530,676	507,969
Commerce and services	184,667	182,808	172,222
Construction	95,558	80,099	59,815
Energy	11,800	7,938	10,411
Financial services	715	214	2,622
Industrial and transportation	82,423	75,802	91,078
Investment companies	42,960	45,931	40,336
Public sector and non-profit organisations	20,448	18,476	11,046
Real estate	154,913	144,173	126,297
Seafood	76,642	73,354	102,290
Loans to customers	**1,295,388**	**1,223,426**	**1,186,639**

Loans to customers increased by ISK 71,962 million, to ISK 1,295,388 million as at 31 December 2024 from ISK 1,223,426 million as at 31 December 2023. This was primarily due to an increase in mortgage lending, lending to construction corporations and real estate corporations.

Loans to customers increased by ISK 36,787 million, or 3.1%, to ISK 1,223,426 million as at 31 December 2023 from ISK 1,186,639 million as at 31 December 2022. This increase was a result of new mortgages and loans to construction companies. For corporate loans, the increase was mainly in construction and real estate.

Mortgage loans increased by ISK 22,707 million. In 2023, new lending and refinancing amounted to ISK 121 billion for individuals and ISK 288 billion for companies.

Financial Assets

The table below sets forth the components of the financial assets as at the dates indicated.

	As at 31 December		
	2024	**2023**	**2022**
		(*ISK in millions*)	
Bonds and debt instruments	142,618	161,342	130,804
Shares and equity instruments	24,330	13,241	15,868
Derivatives	5,324	5,776	7,461
Financial assets	**172,272**	**180,359**	**154,133**

Financial assets decreased by ISK 8,087 million, or 4.5%, to ISK 172,272 million as at 31 December 2024 from ISK 180,359 million as at 31 December 2023. This decrease was primarily due to liability management and prepayment of unfavourable senior bonds issued at wide spreads.

Financial instruments increased by ISK 26,266 million, or 17.0%, to ISK 180,359 million as at 31 December 2023 from ISK 154,133 million as at 31 December 2022. This increase was primarily due to a shift in liquidity to bonds and debt instruments.

The OMX Iceland 15 Index (formerly known as the OMX Iceland 10 Index) increased by 18.3% during the year 2024.

Property and Equipment

Property and equipment decreased by ISK 1,523 million, or 23.2%, to ISK 5,039 million as at 31 December 2024 from ISK 6,562 million as at 31 December 2023. This decrease was primarily due to transfer of historical cost to investment property amounting to ISK 2,412 million, partly offset by a transfer of accumulated depreciation to investment property amounting to ISK 1,218 million.

Property and equipment decreased by ISK 190 million, or 2.8%, to ISK 6,562 million as at 31 December 2023 from ISK 6,752 million as at 31 December 2022.

Changes in property and equipment were immaterial during the period under review.

Investments in Associates

The table below sets forth the components of the investments in associates as at the dates indicated.

	As at 31 December		
	2024	**2023**	**2022**
		(*ISK in millions*)	
Investments in associates at the beginning of the year	4,051	3,844	939
Additions during the year	—	—	1,328
Transfer from shares and equity instruments to associates	—	—	1,711
Sales of shares in associates	—	—	(174)
Share of profit of associates	650	207	40
Investments in associates	**4,701**	**4,051**	**3,844**

Investments in associates increased by ISK 650 million, or 16.0%, to ISK 4,701 million as at 31 December 2024 from ISK 4,051 million as at 31 December 2023. This increase was primarily due to recognised share of profit in associates.

Investments in associates increased by ISK 207 million, or 5.4%, to ISK 4,051 million as at 31 December 2023 from ISK 3,844 million as at 31 December 2022. This increase was due to share of profit in associates. As at the date of this Prospectus, the Bank only holds shares in associates that are related to the Bank's operations.

Changes in Liabilities as at 31 December 2024, 2023 and 2022

Deposits

Deposits from customers and deposits from Central Bank and credit institutions increased by ISK 72,523 million, or 8.4%, to ISK 939,381 million as at 31 December 2024 from ISK 866,858 million as at 31 December 2023. This increase was primarily due to the high interest rate environment and increased savings for households and corporates.

Deposits from customers and deposits from Central Bank and credit institutions increased by ISK 61,692 million, or 7.7%, to ISK 866,858 million as at 31 December 2023 from ISK 805,166 million as at 31 December 2022. This increase was primarily in deposits from customers in Personal Banking, which increased by ISK 44,827 million, or 12.4%, and to a lesser extent deposits from customers in Corporate & Investment Banking, which increased by ISK 8,268 million, or 5.0%, and deposits from customers in Business, which increased by ISK6,593 million, or 2.7%.

Debt Issued and Other Borrowed Funds

Debt issued and other borrowed funds decreased by ISK 49,987 million, or 12.0%, to ISK 367,586 million as at 31 December 2024 from ISK 417,573 million as at 31 December 2023. This decrease was primarily due to liability management in the year.

Debt issued and other borrowed funds decreased by ISK 50,697 million, or 10.8%, to ISK 417,573 million as at 31 December 2023 from ISK 468,270 million as at 31 December 2022. This decrease was largely due a decrease in covered bonds due to a 2023 maturity as well as a reduction in other secured loans.

Summary Consolidated Income Statement

	Three months ended 31 March		Year ended 31 December		
	2025	**2024**	**2024**	**2023**	**2022**
			(ISK in millions)		
Interest income calculated using the effective interest rate method	32,869	34,162	135,278	126,095	87,671
Other interest income	1,081	2,461	6,064	11,047	6,342
Interest expense	(21,011)	(24,501)	(94,077)	(88,531)	(50,887)
Net interest income	**12,939**	**12,122**	**47,265**	**48,611**	**43,126**
Fee and commission income	4,627	4,469	18,944	18,591	17,630
Fee and commission expense(*)	(1,560)	(1,459)	(5,822)	(5,308)	(3,577)
Net fee and commission income	**3,067**	**3,010**	**13,122**	**13,283**	**14,053**
Net financial (expense) income	(986)	(236)	(338)	241	(1,257)
Net foreign exchange gain	47	196	607	581	881
Other operating income	467	1,098	2,282	570	433
Other net operating (expense) income	**(472)**	**1,058**	**2,551**	**1,392**	**57**
Total operating income	**15,534**	**16,190**	**62,938**	**63,286**	**57,236**
Salaries and related expenses	(4,489)	(4,168)	(16,329)	(15,003)	(13,452)
Other operating expenses(*)	(2,907)	(2,942)	(11,299)	(10,689)	(10,166)
Administrative fine(*)	—	—	(470)	(960)	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	—	—	—	—	(165)
Bank tax	(500)	(493)	(1,900)	(1,871)	(1,858)
Total operating expenses	**(7,896)**	**(7,603)**	**(29,998)**	**(28,523)**	**(25,941)**
Profit before net impairment on financial assets	**7,638**	**8,587**	**32,940**	**34,763**	**31,295**
Net impairment on financial assets	(3)	(704)	645	(1,015)	1,576
Profit before tax	**7,635**	**7,883**	**33,585**	**33,748**	**32,871**
Income tax expense	(2,423)	(2,468)	(9,426)	(9,198)	(8,485)
Profit for the period before profit from non-current assets	**5,212**	**5,415**	**24,159**	**24,550**	**24,386**
(Loss) profit from non-current assets held for sale, net of tax	(3)	2	87	35	149
Profit for the period	**5,209**	**5,417**	**24,246**	**24,585**	**24,535**
Earnings per share from continuing operations					
Basic and diluted earnings per share attributable to the shareholders of the Bank	2.77	2.75	12.53	12.34	12.19

(*) Comparative figures have been changed with immaterial effects: (i) expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense," (ii) a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fine" and (iii) provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine."

Explanation of Selected Line Items from the Consolidated Income Statement

Interest Income and Interest Expense

For all financial assets and financial liabilities measured at amortised cost, interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

The effective interest rate is established on initial recognition of financial assets and financial liabilities and their carrying amount is subsequently adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or interest expense. For floating rate instruments, interest income or interest expense is recognised based on the current market rate plus or minus amortisation or accretion of the discount or premium based on the original effective interest rate.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset. For financial assets in Stage 1 and Stage 2, interest is recognised on the gross carrying amount of the assets and, for financial assets in Stage 3, interest is recognised on the gross carrying amount of the assets, net of impairment allowance.

For financial assets and financial liabilities at fair value through profit and loss, interest income and interest expense are usually recognised on an accrual basis except for financial liabilities designated as at fair value through profit or loss.

Accrued interest on interest rate swaps, which are designated and accounted for as hedging instruments in fair value hedges of the interest rate risk arising from certain fixed-rate euro-denominated bonds issued by the Group, is recognised in profit or loss as an adjustment to the interest expense recognised for the bonds.

Net fee and Commission Income

Fees and commissions are recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received for such services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees for loan commitments that are likely to be utilised are recognised as an adjustment to the effective interest rate of the loan. When a loan commitment is not expected to be utilised, fees are recognised in profit or loss on a straight-line basis over the commitment period.

Loan syndication fees are recognised as revenue in profit or loss when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning, and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Where it is assessed that the Group is acting as an agent, the consideration is presented on a net basis.

Net Financial Income (Expense)

Net financial income (expense) consists of net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss, net gain (loss) on financial liabilities designated as at fair value through profit or loss, net gain (loss) on fair value hedges, net gain (loss) on derecognition of financial liabilities measured at amortised cost, and net gain (loss) on derecognition of financial assets measured at amortised cost.

Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss includes all realised and unrealised fair value changes of financial assets and financial liabilities classified by the Group as mandatorily at fair value through profit or loss, except for interest income and interest expense, which are included in the line item "Net interest income" and foreign exchange gains and losses, which are included in "Net foreign exchange gain (loss)."

Dividend income from financial assets is recognised in the income statement when the Group's right to receive payment is established.

Net gain (loss) on financial liabilities designated as at fair value through profit or loss includes all realised and unrealised fair value changes of financial liabilities designated by the Group as at fair value through profit or loss, except for changes in fair value attributable to changes in credit risk, which is recognised in other comprehensive income, interests incurred, which are included in "Net interest income," and foreign exchange gains and losses, which are included in "Net foreign exchange gain (loss)."

Net gain (loss) on fair value hedges includes the changes in the clean fair value of interest rate swaps which are accounted for as hedging instruments in fair value hedges, and the changes in the fair value of certain bonds, which are attributable to the interest rate risk of the bonds and are accounted for as the hedged items in fair value hedges.

Net gain (loss) on derecognition of financial liabilities measured at amortised cost includes the difference between the buyback price and the carrying amount of debt issued measured at amortised cost at the derecognition date.

Salaries and Related Expenses

All Group entities are required to pay, on a mandatory and contractual basis, contributions to public and private pension funds. The Group has no further payment obligations once these contributions have been paid. The Group recognises these contributions as salary related expenses when they become due.

Short-term employee benefits include salaries, cash bonuses, non-monetary benefits and compensated absences. Short-term employee benefit obligations are expensed by the Group as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group does not have a defined benefit pension plan or an active remuneration policy.

Bank Tax

Bank tax is calculated as 0.145% of total liabilities at year-end 2024, 2023 and 2022 as determined for tax purposes, in excess of ISK 50,000 million, excluding tax liabilities. The Bank tax is considered a non-deductible expense for the calculation of income tax. The Bank tax is shown in a separate line in the income statement and is included in the Statement of Financial Position in the line item "**Tax liabilities**."

Net Impairment on Financial Assets

The impairment model of IFRS 9 is forward-looking and should reflect a probability weighted average of possible outcomes. In addition, the expected credit loss model in IFRS 9 employs a dual measurement approach, under which the loss allowance for expected credit losses ("ECL") is measured at each reporting date as either

12-monthECL or lifetime ECL, depending on whether there has been a significant increase in credit risk ("**SICR**") of the financial instrument since initial recognition. The models which the Group uses for the calculation of the impairment amount are developed according to the Group's modelling framework. This framework imposes structure on the initial model development work, the model documentation, the approval process for models, the implementation of models and the lifetime support for models, including validation and back-testing. The Group's impairment process, which encompasses all the steps needed to derive the appropriate impairment allowance for each accounting period, is documented and approved by the All Risk Committee (the "**ARC**").

Stage Assignment

At each reporting date, all assets subject to the impairment methodology must be divided into three groups, termed "Stages," reflecting the extent of credit deterioration since initial recognition. This division then influences how the impairment is measured and how interest is recognised.

Stage 1

All assets that have not experienced a SICR are assigned to Stage 1. For these assets, an allowance for expected credit losses is recognised which is equal to the expected credit loss arising from credit events occurring within 12 months of the reporting date (12-month ECL). Interest is recognised on the gross carrying amount of the assets.

Stage 2

Assets that the Group determines to have experienced a SICR, but are not credit-impaired, are classified as Stage 2. For these assets, an allowance for expected credit losses is recognised which is equal to the expected credit loss arising from all credit events occurring within the expected lifetime of the assets (lifetime ECL). Interest is recognised on the gross carrying amount of the assets.

The Group defines a SICR as a situation where the financial position of the obligor has deteriorated so much from the time of origination that the Group would likely not extend the same credit under the same terms today. This definition applies at the individual asset level. For this purpose, origination does not refer to any modification events which have not resulted in derecognition of the asset. The assessment is based on a defined set of triggers. This includes, as a backstop, the trigger that the asset is more than thirty days past due. Other triggers are internal assessments of outlook, events such as forbearance events which are less severe than a credit event, external credit related information and a significant deterioration in risk assessment compared with the risk assessment done in relation to the origination of the asset. The definition of a SICR depends only on the probability of a credit event occurring, it does not take into account collateralisation, or any other information related to the expected loss arising from the event. As soon as all triggers for Stage 2 for a particular asset are no longer activated then the asset moves back to Stage 1. Additionally, assets are classified as forborne for two years after a forbearance event has occurred, but forbearance events only cause assets to be in Stage 2 for twelve months and then they migrate back to Stage 1 unless other triggers apply.

The Group does not employ the low credit risk exemption in the Stage assignment process. In alignment with its operating procedures, the Group has chosen as its accounting policy to measure the allowance for expected credit losses for lease receivables at an amount equal to the lifetime ECL only for those assets which have a SICR or are credit impaired. For other lease receivables the allowance for expected credit losses is equal to the 12-month ECL.

Stage 3

This Stage is for assets which are credit-impaired according to the Group's assessment. These assets are therefore experiencing an ongoing credit event and are considered to be in default. Thus, the 12-month ECL and lifetime ECL are the same amount, and this amount is recognised as an allowance for expected credit losses. For assets in this Stage, interest is recognised on the net carrying amount of assets, i.e., net of allowances for expected credit losses. The Group's definition of being credit-impaired is on a customer level, rather than on the level of an individual asset. According to the definition, a customer is credit-impaired when either of the following holds:

(a) the Group assesses that it is unlikely that the customer can service all of their commitments to the Group in accordance with the terms of the agreements without recourse to default provisions in the agreements; or
(b) the customer has been more than 90 days past due on material credit commitments.

The assessment in point a) is made based on a defined set of triggers, which includes serious breach of covenants, serious registrations on an internal watchlist, initiation of serious collection actions and serious external credit related information. Furthermore, there is a defined set of conditions which must be satisfied so that customers that have been assessed as being credit impaired are no longer subject to this assessment. This includes probation periods and a view to the future outlook of the customer.

Expected Credit Loss (ECL)

The ECL for each asset is calculated using models for the probability of a credit impairment event occurring (PD), the loss percentage expected in case of such an event (LGD) and the outstanding amount at the time of the event (EAD).

The PD models are either fully automated statistical models, expert models or hybrid models. For the models with a component involving expert input there is a process in place to ensure proper review of the model outcome and periodic reassessment of obligors. The inputs into the models include demographic variables, information from financial statements and past payment behaviour, among other variables.

The effect of the economy on the PD is accounted for with the use of scaling factors which map through-the-cycle PD values to point-in-time PD values. The Group has a model to predict these scaling factors based on an economic forecast. The economic forecast is provided by the Group's Chief Economist. The forecast predicts a range of macroeconomic indicators over a horizon of five years. The model is applied to a subset of these indicators and produces a set of scaling factors. The scaling factors are then reviewed by the ARC with respect to all of the indicators and any other relevant information available and the committee approves their use for the calculation of the impairment. This process is carried out at least quarterly.

The Group uses three economic scenarios. In addition to the base forecast, scaling factors are produced for good and bad cases. This is done in order to represent the whole range of possible future economic developments. The actual allowance for expected credit losses is the weighted average of the ECL in these different scenarios.

The ARC determined that it was appropriate to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at year-end 2024, as it had been throughout the year.

The LGD model considers several scenarios for how a facility may develop once a credit event has occurred. One possibility is that the facility cures without a loss. If not, the recoveries may be based on the seizing of collateral and to estimate such recoveries, several scenarios for the development of the value of the collateral are considered. Finally, there may be recoveries even though a formal collateral is not in place. These different recovery scenarios are weighted differently depending on the economic scenario under consideration. This leads to a non-linear interaction and thus a difference between the probability weighted average ECL and the ECL in the most likely scenario.

For EAD it is necessary to account for expected prepayments on term loans and for the expected utilisation of commitments such as credit cards, overdrafts, financial guarantees, and credit lines. The expected lifetime of agreements may also extend beyond the contractual lifetime for contracts which are generally extended.

Temporary changes have been made to the impairment model in response to seismic activity in Reykjanes since the last quarter of 2023. For further information, see *"—12.14. Significant Accounting Estimates and Judgements—Key Sources of Estimation Uncertainty—Impairment of Financial Assets.*"

Write-off Policy

When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

The Impairment Process

In the Group's impairment framework, the Stage assignment and ECL for each financial asset is calculated from the aforementioned models. The outcome is reviewed by the business units and they can propose changes if they provide sufficient supporting material. The impairment and any proposals for changes are reviewed by an Impairment Council appointed by the ARC and the impairment allowance is approved by the ARC on a quarterly basis.

The principle of materiality applies to the above discussion on impairment, whereby exceptions related to non-materiality and immaterial adjustments are not discussed.

Income Tax Expense

Income tax expense comprises special financial activities tax, current tax and deferred tax and is disclosed as a separate line item in the income statement. Income tax expense from non-current assets held for sale is included in the income statement in the line item "Profit (loss) from non-current assets held for sale, net of tax." Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, consistent with the recognition of the underlying item to which it relates.

Key Changes to Results of Operations for the Three Months ended 31 March 2025 and 2024

Interest income decreased by ISK 1,293 million, or 3.8%, to ISK 32,869 million for the three months ended 31 March 2025 from ISK 34,162 million for the three months ended 31 March 2024. This decrease was primarily due to the lower interest rate environment. Interest expense decreased by ISK 3,490 million, or 14.2%, to ISK 21,011 million for the three months ended 31 March 2025 from ISK 24,501 million for the three months ended 31 March 2024. This decrease was primarily due to the lower interest rate environment and reduction in wholesale funding.

Fee and commission income increased by ISK 158 million, or 3.5%, to ISK 4,627 million for the three months ended 31 March 2025 from ISK 4,469 million for the three months ended 31 March 2024. Fee and commission expense increased by ISK 101 million, or 6.9%, to ISK 1,560 million for the three months ended 31 March 2025 from ISK 1,459 million for the three months ended 31 March 2024. Net fee and commission income increased by 1.9% between years, well distributed across business segments.

Net financial expense increased by ISK 650 million, or 519.5%, to ISK 986 million for the three months ended 31 March 2025 from net financial expense of ISK 236 million for the three months ended 31 March 2024. Losses related to market making operations and equity positions were the main reasons for the change.

Other operating income decreased by ISK 631 million, or 57.5%, to ISK 467 million for the three months ended 31 March 2025 from ISK 1,098 million for the three months ended 31 March 2024. This decrease was primarily due to high revaluation of Kirkjusandur 2, a non-core asset, in the first quarter of 2024.

Salaries and related expenses increased by ISK 321 million, or 7.7%, to ISK 4,489 million for the three months ended 31 March 2025 from ISK 4,168 million for the three months ended 31 March 2024. This increase was primarily due to collective bargaining agreements and additional FTEs.

Other operating expenses decreased by ISK 35 million, or 1.1%, to ISK 2,907 million for the three months ended 31 March 2025 from ISK 2,942 million for the three months ended 31 March 2024.

Net impairment on financial assets decreased by ISK 701 million, or 99.6%, to ISK 3 million for the three months ended 31 March 2025 from ISK 704 million for the three months ended 31 March 2024. This decrease is mainly attributable to several distressed credit cases contributing to a net impairment charge during the three months ended 31 March 2024, whereas in the same period in 2025, the contribution from distressed credit cases was significantly lower.

Income tax expense decreased by ISK 45 million, or 1.8%, to ISK 2,423 million for the three months ended 31 March 2025 from ISK 2,468 million for the three months ended 31 March 2024. Income tax comprises 21% income tax on taxable profit (temporarily increased to 21% for the year ending 31 December 2024, up by 1% from 20% for the year ended 31 December 2023) and the Special Financial Activity Tax, which is calculated as 6% of taxable profit exceeding ISK 1.0 billion.

The effective income tax rate was 31.7% for the three months ended 31 March 2025, as compared to 31.3% for the three months ended 31 March 2024.

Profit (loss) from non-current assets held for sale, net of tax decreased by ISK 5 million, to a loss of ISK 3 million for the three months ended 31 March 2025 from a profit of ISK 2 million for the three months ended 31 March 2024.

Results of Operations for the years ended 31 December 2024, 2023 and 2022

Interest Income

The table below sets forth the components of the interest income for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Cash and balances with Central Bank	4,888	5,389	2,791
Loans to credit institutions	3,042	3,236	757
Loans to customers	121,730	117,470	84,123
Financial assets mandatorily at fair value through other comprehensive income	5,618	—	—
Financial assets mandatorily at fair value through profit or loss	6,020	11,035	6,335
Other assets	44	12	7
Interest income	**141,342**	**137,142**	**94,013**

Interest income increased by ISK 4,200 million, or 3.1%, to ISK 141,342 million for the year ended 31 December 2024 from ISK 137,142 million for the year ended 31 December 2023. This increase was primarily due to higher interest rate environment.

Interest income increased by ISK 43,129 million, or 45.9%, to ISK 137,142 million for the year ended 31 December 2023 from ISK 94,013 million for the year ended 31 December 2022. This increase was primarily due to the prevailing high interest rate environment and larger loan balance.

Interest Expense

The table below sets forth the components of the interest expense for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Deposits from Central Bank and credit institutions	(380)	(243)	(364)
Deposits from customers	(60,587)	(50,073)	(23,049)
Debt issued and other borrowed funds at fair value through profit or loss	(1,912)	(2,470)	(578)
Debt issued and other borrowed funds at amortised cost	(21,767)	(25,829)	(21,709)
Subordinated loans	(3,357)	(3,214)	(1,538)
Lease liabilities	(76)	(79)	(82)
Other interest expense	(5,998)	(6,623)	(3,567)
Interest expense	**(94,077)**	**(88,531)**	**(50,887)**

Interest expense increased by ISK 5,546 million, or 6.3%, to ISK 94,077 million for the year ended 31 December 2024 from ISK 88,531 million for the year ended 31 December 2023. This increase was primarily due to higher interest rate environment.

Interest expense increased by ISK 37,644 million, or 74.0%, to ISK 88,531 million for the year ended 31 December 2023 from ISK 50,887 million for the year ended 31 December 2022. This increase was primarily due to the prevailing high interest rate environment.

Fee and Commission Income

The table below sets forth the components of the fee and commission income for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Asset management	2,864	2,908	3,154
Investment banking and brokerage	3,337	3,340	3,627
Payment processing	8,390	8,072	6,774
Loans and guarantees	2,009	2,251	2,350
Other fee and commission income	2,344	2,020	1,725
Fee and commission income	**18,944**	**18,591**	**17,630**

Fee and commission income increased by ISK 353 million, or 1.9%, to ISK 18,944 million for the year ended 31 December 2024 from ISK 18,591 million for the year ended 31 December 2023. This increase was primarily due to payment processing fees and other fee and commission income, mainly from the Bank's subsidiary Allianz Island hf.

Fee and commission income increased by ISK 961 million, or 5.5%, to ISK 18,591 million for the year ended 31 December 2023 from ISK 17,630 million for the year ended 31 December 2022. This increase was primarily due to an increase in payment processing fees and in other fee and commission income.

Fee and Commission Expense

The table below sets forth the components of the fee and commission expense for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Brokerage	(536)	(496)	(484)
Payment processing expenses(*)	(4,564)	(4,119)	(2,999)
Other fee and commission expense(*)	(722)	(693)	(94)
Fee and commission expense	**(5,822)**	**(5,308)**	**(3,577)**

(*) Comparative figures have been changed with immaterial effects: (i) expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense" (ISK 272 million as "Payment processing expenses" and ISK 679 million as "Other fee and commission expense") (ii) a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fine" and (iii) provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine."

Fee and commission expense increased by ISK 514 million, or 9.7%, to ISK 5,822 million for the year ended 31 December 2024 from ISK 5,308 million for the year ended 31 December 2023. This increase was primarily due to higher cost of card services and settlement, as well as reclassification of costs.

Fee and commission expense increased by ISK 1,731 million, or 48.4%, to ISK 5,308 million for the year ended 31 December 2023 from ISK 3,577 million for the year ended 31 December 2022. This increase was primarily in clearing and settlement fees mainly related to payment processing.

Net Financial Income (Expense)

The table below sets forth the components of the net financial expense for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss	166	2,610	(6,121)
Net gain (loss) on financial liabilities designated as at fair value through profit or loss	(580)	(2,511)	4,512
Net gain (loss) on fair value hedges	63	42	(56)
Net gain on derecognition of financial liabilities measured at amortised cost	103	170	408
Net loss on derecognition of financial assets measured at amortised cost	(89)	(70)	—
Net loss on sale of debt instruments measured at fair value through other comprehensive income	(1)	—	—

Net financial income (expense)	**(338)**	**241**	**(1,257)**

Net financial income decreased by ISK 579 million to an expense of ISK 338 million for the year ended 31 December 2024 from an income of ISK 241 million for the year ended 31 December 2023. This decrease was primarily due to loss in the banking book compared to a gain in the previous year.

Net financial income increased by ISK 1,498 million, or 119.2%, to ISK 241 million for the year ended 31 December 2023 from a net expense of ISK 1,257 million for the year ended 31 December 2022. This increase was primarily due to gain in the banking book compared to loss in previous year.

Net Foreign Exchange Gain

The table below sets forth the components of the net foreign exchange gain for the periods indicated.

	Year ended 31 December		
	2024	**2023**	**2022**
	(*ISK in millions*)		
Cash and balances with Central Bank	(92)	(51)	5
Loans at amortised cost	(8,201)	(5,524)	11,647
Financial assets mandatorily at fair value through profit or loss	(3,673)	(2,153)	(1,078)
Financial assets mandatorily at fair value through other comprehensive income	(1,640)	—	—
Other assets	17	(1)	(11)
Net foreign exchange gain (loss) for assets	**(13,589)**	**(7,729)**	**10,563**
Deposits	2,512	2,599	(4,782)
Debt issued and other borrowed funds designated as at fair value through profit or loss	1,943	375	(1,317)
Debt issued and other borrowed funds at amortised cost	8,853	4,444	(5,677)
Subordinated loans	888	892	2,094
Net foreign exchange loss for liabilities	**14,196**	**8,310**	**(9,682)**
Net foreign exchange gain	**607**	**581**	**881**

Net foreign exchange gain increased by ISK 26 million, or 4.5%, to ISK 607 million for the year ended 31 December 2024 from ISK 581 million for the year ended 31 December 2023. This increase was due to the increase in most line items that constitute net foreign exchange.

Net foreign exchange gain decreased by ISK 300 million, or 34.1%, to ISK 581 million for the year ended 31 December 2023 from ISK 881 million for the year ended 31 December 2022. This was primarily due to loss from banking book compared to gain previous year.

Other Operating Income

The table below sets forth the components of the other operating income for the periods indicated.

	Year ended 31 December		
	2024	**2023**	**2022**
	(*ISK in millions*)		
Fair value changes on investment property	1,310	—	—
Net gain from dissolution of subsidiary	38	—	158
Share of profit of associates, net of income tax	650	207	40
Gain from sales of property and equipment	24	219	12
Legal fees	68	54	45
Rental income	41	63	44
Other net operating income	151	27	134
Other operating income	**2,282**	**570**	**433**

Other operating income increased by ISK 1,712 million, or 300.4%, to ISK 2,282 million for the year ended 31 December 2024 from ISK 570 million for the year ended 31 December 2023. This increase was primarily due to fair value changes to non core assets.

Other operating income increased by ISK 137 million, or 31.6%, to ISK 570 million for the year ended 31 December 2023 from ISK 433 million for the year ended 31 December 2022. This increase was primarily due to an increase in gain from sales of property and equipment and share of profit of associates.

Salaries and Related Expenses

The table below sets forth the components of the salaries and related expenses for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Salaries	12,590	11,545	10,322
Contributions to pension funds	1,916	1,734	1,594
Social security charges and financial activities tax	1,716	1,591	1,423
Other salary-related expenses	162	133	103
Capitalisation of salaries and related expenses in software development	(55)	—	—
Salaries and related expenses	**16,329**	**15,003**	**13,452**

Salaries and related expenses increased by ISK 1,326 million, or 8.8%, to ISK 16,329 million for the year ended 31 December 2024 from ISK 15,003 million for the year ended 31 December 2023. This increase was primarily due to general wage growth and increase in FTEs.

Salaries and related expenses increased by ISK 1,551 million, or 11.5%, to ISK 15,003 million for the year ended 31 December 2023 from ISK 13,452 million for the year ended 31 December 2022. This increase was mainly due to general wage growth, increase in FTEs and other factor. Full-time equivalent positions at year-end 2023 totalled 764 for the Group, 25 employees more than at year-end 2022.

Other Operating Expenses

The table below sets forth the components of the other operating expenses for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Professional services(*)	1,816	1,988	1,986
Software and IT expenses(*)	4,839	4,387	4,389
Real estate and office equipment	678	654	565
Depreciation, amortisation and write-offs	1,662	1,620	1,400
Other administrative expenses(*)	2,304	2,140	1,826
Other operating expenses	11,299	10,689	**10,166**

(*) Comparative figures have been changed with immaterial effects: (i) expenses of ISK 605 million were recognised in the line item "Professional services" and expenses of ISK 346 million were recognised in the line item "Software and IT expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense," (ii) a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fine" and (iii) provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine."

Other operating expenses increased by ISK 610 million, or 5.7%, to ISK 11,299 million for the year ended 31 December 2024 from ISK 10,689 million for the year ended 31 December 2023. This increase was for most line items and mostly related to inflation.

Other operating expenses increased by ISK 523 million, or 5.1%, to ISK 10,689 million for the year ended 31 December 2023 from ISK 10,166 million for the year ended 31 December 2022. This increase was for all line items but mostly from professional services.

Net Impairment on Financial Assets

The table below sets forth the components of the net impairment on financial assets for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Net change in expected credit losses, on-balance sheet items	371	(1,168)	1,837
Net change in expected credit losses, off-balance sheet items	274	153	(336)
Changes in provision due to court rulings	—	—	75
Net impairment on financial assets	**645**	**(1,015)**	**1,576**

Net impairment on financial assets decreased by ISK 1,660 million, or 163.5 %, to a reversal of ISK 645 million for the year ended 31 December 2024 from an impairment of ISK 1,015 million for the year ended 31 December 2023. This decrease was primarily due to changes in assumptions in impairment models.

Net impairment on financial assets increased by ISK 2,591 million, or 164.4%, to an impairment of ISK 1,015 million for the year ended 31 December 2023 from a reversal of ISK 1,576 million for the year ended 31 December 2022. The increase in net impairment was due to uncertainty following seismic activity affecting the town of Grindavík.

Income Tax Expense

The table below sets forth the components of the income tax expense for the periods indicated.

	Year ended 31 December		
	2024	2023	2022
		(*ISK in millions*)	
Current tax expense excluding tax from non-current assets held for sale	8,128	7,548	5,659
Special financial activities tax	2,164	2,083	1,396
Adjustments in prior year's calculated income tax	270	(191)	(472)
Changes in deferred tax assets and deferred tax liabilities	(1,136)	(242)	1,902
Income tax expense	**9,426**	**9,198**	**8,485**

Income tax expense increased by ISK 228 million, or 2.5%, to ISK 9,426 million for the year ended 31 December 2024 from ISK 9,198 million for the year ended 31 December 2023. Fluctuation in the effective tax rate is mainly due to a combination of dissimilar tax rates for different types of income. The tax base increase is mainly due to higher special finance activities tax. Income tax comprises 20.0% income tax on taxable profit and the Special Financial Activity Tax is calculated as 6% of taxable profit exceeding ISK 1 billion. The effective income tax rate was 28.1% in 2024, as compared to 27.3% in 2023.

Income tax expense increased by ISK 713 million, or 8.4%, to ISK 9,198 million for the year ended 31 December 2023 from ISK 8,485 million for the year ended 31 December 2022. Fluctuation in the effective tax rate is mainly due to a combination of dissimilar tax rates for different types of income. The tax base increase is mainly due to higher special finance activities tax. Income tax comprises 20.0% income tax on taxable profit and the Special Financial Activity Tax is calculated as 6% of taxable profit exceeding ISK 1 billion. The effective income tax rate was 27.3% in 2023, as compared to 25.8% in 2022.

To calculate the effective income tax rate for the Group (28.1%, 27.3% and 25.8% for the years ended 31 December 2024, 2023 and 2022, respectively), it is necessary to factor into earnings before tax any non-deductible expenses and taxes, tax-exempt revenue and other applicable changes, the calculation of which is set forth in the note titled "*Income tax expense*" in the Consolidated Financial Statements of the relevant year.

Segmental Analysis

Segment information is presented in accordance with the Group's management and internal reporting structure. The Bank has three main business divisions: Personal Banking, Business Banking and Corporate & Investment Banking. Operating divisions pay and receive interest to and from Treasury to reflect the allocation of capital, funding costs and the relevant risk premium. Capital allocation to the business divisions is based on the Pillar 1 regulatory capital requirement, the Pillar 2-R capital requirement calculated according to the Bank's ICAAP and the combined buffer requirement as stipulated in the Financial Undertakings Act. Income tax and bank tax with breakdown for each division is according to the current tax rates.

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

Business Banking provides SMEs with comprehensive financial services and Ergo, the Bank's asset-based financing unit, is also part of the division. Business Banking serves customers in business centres and branches close to their business. Via online banking and the Bank's app, customers have full overview of their business and day-to-day operations are easy to manage.

Corporate & Investment Banking provides comprehensive universal financial and investment banking services to large companies, municipalities, institutional investors, and high net worth individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage, and private banking services. The division is focused on building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, the Bank is leverages its expertise in the domestic market and global contacts and has a special focus on the North Atlantic region and Europe within the fishing industry, infrastructure and leverage finance projects.

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

Cost centres comprise the CEO's office (Human Resources & Internal Services, Legal, Marketing & Communications and Strategy & Sustainability), Digital & Data, Risk Management, Compliance and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is included in cost centres; however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries include Iceland Funds, Allianz Insurance Iceland and other less significant subsidiaries.

The tables below set forth certain information with respect to the Group's operating divisions for the periods indicated.

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

Year ended 31 December 2024 *(ISK in millions)*	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,849	18,736	13,661	(842)	(413)	46,991	274	47,265
Net fee and commission income (expense)	3,983	2,020	4,497	(21)	(98)	10,381	2,741	13,122
Other net operating (expense) income	(19)	78	1,302	1,539	232	3,132	(581)	2,551
Total operating income	19,813	20,834	19,460	676	(279)	60,504	2,434	62,938
Salaries and related expenses	(2,763)	(2,349)	(2,273)	(324)	(7,556)	(15,265)	(1,064)	(16,329)
Other operating expenses	(2,716)	(1,304)	(1,204)	(454)	(5,452)	(11,130)	(169)	(11,299)
Administrative fines	—	—	—	—	(470)	(470)	—	(470)
Bank tax	(889)	(471)	(533)	6	(13)	(1,900)	—	(1,900)
Net impairment on financial assets	660	(984)	944	25	—	645	—	645
Cost allocation	(5,450)	(4,364)	(3,840)	536	13,118	—	—	—
Profit (loss) before tax	8,655	11,362	12,554	465	(652)	32,384	1,201	33,585
Income tax expense	(2,576)	(3,195)	(3,521)	61	160	(9,071)	(355)	(9,426)
Profit (loss) for the year from non-current assets	**6,079**	**8,167**	**9,033**	**526**	**(492)**	**23,313**	**846**	**24,159**
Net segment revenue from external customers	20,450	23,874	30,022	(13,899)	57	60,504	2,434	62,938
Net segment revenue from other segments	(637)	(3,040)	(10,562)	14,575	(336)	—	—	—
Fee and commission income	8,307	2,244	4,741	281	(2)	15,571	3,373	18,944
Depreciation, amortisation and write-offs	(183)	(59)	(6)	—	(1,397)	(1,645)	(17)	(1,662)
At 31 December 2024								
Loans to customers	**608,766**	**323,824**	**362,692**	**106**	—	**1,295,388**	—	**1,295,388**
Other assets	3,654	1,618	4,784	291,344	9,180	310,580	1,839	312,419
Total segment assets	**612,420**	**325,442**	**367,476**	**291,450**	**9,180**	**1,605,968**	**1,839**	**1,607,807**
Deposits from customers	486,235	277,186	147,394	18,820	—	929,635	(2,789)	926,846
Other liabilities	3,404	3,997	10,536	428,420	5,635	451,992	1,614	453,606
Total segment liabilities	**489,639**	**281,183**	**157,930**	**447,240**	**5,635**	**1,381,627**	**(1,175)**	**1,380,452**
Allocated equity	44,719	51,133	65,596	61,675	1,218	224,341	3,014	227,355
Risk exposure amount	275,836	308,573	394,601	50,434	7,108	1,036,552	4,420	1,040,972

Year ended 31 December 2023 *(ISK in millions)*	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	17,410	17,980	13,854	(475)	(365)	48,404	207	48,611
Net fee and commission income (expense)[(*)]	4,206	2,075	4,492	(8)	(36)	10,729	2,554	13,283
Other net operating income (expense)	70	90	1,284	565	374	2,383	(991)	1,392
Total operating income (expense)	21,686	20,145	19,630	82	(27)	61,516	1,770	63,286
Salaries and related expenses	(2,473)	(2,161)	(2,132)	(272)	(6,959)	(13,997)	(1,006)	(15,003)
Other operating expenses[(*)]	(2,462)	(1,063)	(978)	(505)	(5,479)	(10,487)	(202)	(10,689)
Administrative fines[(*)]	—	—	—	—	(960)	(960)	—	(960)
Bank tax	(838)	(454)	(489)	(77)	(13)	(1,871)	—	(1,871)
Net impairment on financial assets	(1,589)	(669)	1,163	80	—	(1,015)	—	(1,015)
Cost allocation	(5,225)	(4,058)	(3,569)	581	12,271	—	—	—
Profit (loss) before tax	9,099	11,740	13,625	(111)	(1,167)	33,186	562	33,748
Income tax expense	(2,584)	(3,170)	(3,660)	203	291	(8,920)	(278)	(9,198)
Profit (loss) for the year from non-current assets	**6,515**	**8,570**	**9,965**	**92**	**(876)**	**24,266**	**284**	**24,550**
Net segment revenue from external customers[(*)]	29,136	22,696	29,365	(19,989)	308	61,516	1,770	63,286
Net segment revenue from other segments	(7,450)	(2,551)	(9,735)	20,071	(335)	—	—	—
Fee and commission income	8,116	2,262	4,648	401	—	15,427	3,164	18,591
Depreciation, amortisation and write-offs	(179)	(57)	(2)	—	(1,368)	(1,606)	(14)	(1,620)
At 31 December 2023								
Loans to customers	574,653	311,689	336,161	923	—	1,223,426	—	1,223,426
Other assets	3,176	2,210	889	343,823	8,716	358,814	454	359,268
Total segment assets	**577,829**	**313,899**	**337,050**	**344,746**	**8,716**	**1,582,240**	**454**	**1,582,694**
Deposits from customers	406,821	251,238	172,658	22,957	—	853,674	(2,965)	850,709
Other liabilities	3,720	3,828	5,370	487,357	5,768	506,043	1,249	507,292
Total segment liabilities	**410,541**	**255,066**	**178,028**	**510,314**	**5,768**	**1,359,717**	**(1,716)**	**1,358,001**
Allocated equity	41,160	47,210	63,033	69,975	1,145	222,523	2,170	224,693
Risk exposure amount	260,760	291,509	366,761	48,148	6,930	974,108	2,924	977,032

[(*)] Comparative figures have been changed with immaterial effects: (i) expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income (expense)" and (ii) a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fine."

Year ended 31 December 2022 (ISK in millions)	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,065	14,493	11,108	2,673	(260)	43,079	47	43,126
Net fee and commission income (expense)	4,334	2,174	4,557	(55)	(1)	11,009	3,044	14,053
Other net operating income (expense)	342	90	1,301	(402)	149	1,480	(1,423)	57
Total operating income (expense)	19,741	16,757	16,966	2,216	(112)	55,568	1,688	57,236
Salaries and related expenses	(2,355)	(1,900)	(1,819)	(289)	(6,253)	(12,616)	(836)	(13,452)
Other operating expenses(*)	(2,446)	(1,072)	(971)	(467)	(4,598)	(9,554)	(612)	(10,166)
Administrative fine(*)	—	—	—	—	(300)	(300)	—	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	—	—	(165)	—	(165)
Bank tax	(801)	(407)	(520)	(116)	(14)	(1,858)	—	(1,858)
Net impairment on financial assets	(300)	796	395	683	—	1,574	—	1,576
Cost allocation	(4,792)	(3,431)	(3,237)	551	10,909	—	—	—
Profit (loss) before tax	8,918	10,710	10,811	3,378	(368)	33,449	(578)	32,871
Income tax income (expense)	(2,528)	(2,891)	(2,946)	108	92	(8,165)	(320)	(8,485)
Profit (loss) for the year from non-current assets	**6,390**	**7,819**	**7,865**	**3,486**	**(276)**	**25,284**	**(898)**	**24,386**
Net segment revenue from external customers	33,261	18,158	23,790	(18,922)	81	56,368	868	57,236
Net segment revenue from other segments	(13,520)	(1,401)	(6,824)	21,938	(193)	—	—	—
Fee and commission income	7,282	2,223	4,709	367	—	14,581	3,049	17,630
Depreciation, amortisation and write-offs	(172)	(57)	(1)	—	(1,155)	(1,385)	(15)	(1,400)
At 31 December 2022								
Loans to customers	552,181	278,823	354,787	848	—	1,186,639	—	1,186,639
Other assets	3,158	2,100	3,859	360,594	9,387	379,098	498	379,596
Total segment assets	**555,339**	**280,923**	**358,646**	**361,442**	**9,387**	**1,565,737**	**498**	**1,566,235**
Deposits from customers	361,994	244,645	164,390	21,529	–	792,558	(2,661)	789,897
Other liabilities	2,597	2,054	5,565	540,189	5,785	556,190	1,274	557,464
Total segment liabilities	**364,591**	**246,699**	**169,955**	**561,718**	**5,785**	**1,348,748**	**(1,387)**	**1,347,361**
Allocated equity	39,228	40,433	62,400	73,966	962	216,989	1,885	218,874
Risk exposure amount	255,938	263,011	404,917	67,970	6,107	997,943	1,548	999,491

(*) Comparative figures have been changed with immaterial effects. A provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine."

Personal Banking

Operating income for Personal Banking decreased by ISK 1,873 million, or 8.6%, to ISK 19,813 million for the year ended 31 December 2024 from ISK 21,686 million for the year ended 31 December 2023. This decrease was primarily due to lower interest margin.

Operating income for Personal Banking increased by ISK 1,875 million, or 9.9%, to ISK 21,686 million for the year ended 31 December 2023 from ISK 19,741 million for the year ended 31 December 2022. This increase was primarily due to the rising interest rate environment.

The cost-to-income ratio for Personal Banking (including cost allocation) amounted to 49.2% in 2022, 46.8% in 2023 and 55.2% in 2024. The cost-to-income ratio in 2024 was impacted by the rising CPI and the high interest rate environment which causes lower margins on loans.

Loans in Personal Banking increased from ISK 552 billion as at 31 December 2022 to ISK 575 billion as at 31 December 2023 and ISK 609 billion as at 31 December 2024, while margins on loans amounted to 1.23% in 2022, 1.03% in 2023 and 1.06% in 2024. Expansion in the loan book has been driven by the increase in indexed mortgages.

The Bank anticipates continued loan growth on average in line with GDP, with mortgages expected to remain the main driver of loan book growth in Personal Banking.

Deposits in Personal Banking have typically grown in line with loans, increasing from ISK 362 billion as at 31 December 2022 to ISK 407 billion as at 31 December 2023 to ISK 486 billion as at 31 December 2024, resulting in loan to deposit ratios of 1.53% in 2022, 1.41% in 2023 and 1.25% in 2024.

Net impairments in Personal Banking amounted to a negative impairment of ISK 0.3 billion in 2022, a negative impairment of ISK 1.6 billion in 2023 and an impairment of ISK 0.7 billion in 2024.

Allocated equity increases to the division have been in line with growth of the loan book.

Business Banking

Operating income for Business Banking increased by ISK 689 million, or 3.4%, to ISK 20,834 million for the year ended 31 December 2024 from ISK 20,145 million for the year ended 31 December 2023. This increase was primarily due to increased interest income on allocated equity and a higher loan balance. Ergo generated 16% of Business Banking operating income in 2024.

Operating income for Business Banking increased by ISK 3,388 million, or 20.2%, to ISK 20,145 million for the year ended 31 December 2023 from ISK 16,757 million for the year ended 31 December 2022. This increase was primarily due to the rising interest rate environment as well as growth in the Bank's loan portfolio and deposits with high margins. Ergo generated 16% of Business Banking income in 2023.

The cost-to-income ratio for Business Banking (including cost allocation) amounted to 38.4% in 2022, 36.2% in 2023 and 38.5% in 2024, driven by higher operating income and increased efficiency. Digital transformation and structural changes with a stable cost base, lower FTEs and higher income are expected to contribute to further efficiency increases.

Operating income per FTE in Business Banking has increased from ISK 141 million in 2022 to ISK 165 million in 2023 and ISK 178 million in 2024, reflecting increased efficiency in Business Banking.

Loans in Business Banking increased from ISK 279 billion as at 31 December 2022 to ISK 312 billion as at 31 December 2023 and ISK 324 billion as at 31 December 2024. Net interest margin on loans developed from 3.0% in 2022 to 2.8% in 2023 and 2.7% in 2024.

The Bank anticipates that the strong economic foundation in Iceland will support future loan growth in line with nominal GDP.

Deposits in Business Banking have grown steadily from ISK 245 billion as at 31 December 2022 to ISK 251 billion as at 31 December 2023 and ISK 277 billion as at 31 December 2024. Net interest on deposits as a percentage of annual average deposits from customers developed from 2.2% in 2022 to 2.6% in 2023 and 2.4% in 2024.

Net impairments in Business Banking amounted to a positive impairment of ISK 0.8 billion in 2022, a negative impairment of ISK 0.7 billion in 2023 and a negative impairment of ISK 1.0 billion in 2024, with cost of risk amounting to 0.31% in 2022, 0.22% in 2023 and 0.31% in 2024. Cost of risk is expected to normalise going forward. Strong economic foundations and robust loan portfolio should enable resilient recovery.

Business Banking is a profitable business unit with healthy growth, cost efficiency and normalisation in loan impairments.

Corporate & Investment Banking

Operating income for Corporate & Investment Banking decreased by ISK 170 million, or 0.9%, to ISK 19,460 million for the year ended 31 December 2024 from ISK 19,630 million for the year ended 31 December 2023. This decrease was primarily due to lower interest margin.

Operating income for Corporate & Investment Banking increased by ISK 2,664 million, or 15.7%, to ISK 19,630 million for the year ended 31 December 2023 from ISK 16,966 million for the year ended 31 December 2022. This increase was primarily due to the rising interest rate environment.

Net interest margin on loans for Corporate & Investment Banking decreased from 2.11% in 2022 to 2.10% in 2023 and 2.08% in 2024. The challenge is to maintain net interest margin on loans at a similar level as for the year ended 31 December 2024. Net interest on deposits as a percentage of annual average deposits from customers for Corporate & Investment Banking increased from 0.89% in 2022 to 0.95% in 2023 and 0.92% in 2024. The Bank anticipates a modest net interest margin increase on deposits.

Net fee and commission income and other net operating income for the division has been overall stable with from ISK 5.9 billion in 2022 and ISK 5.8 billion in 2023 and 2024. Growth in most units offset by a turbulent period in corporate finance.

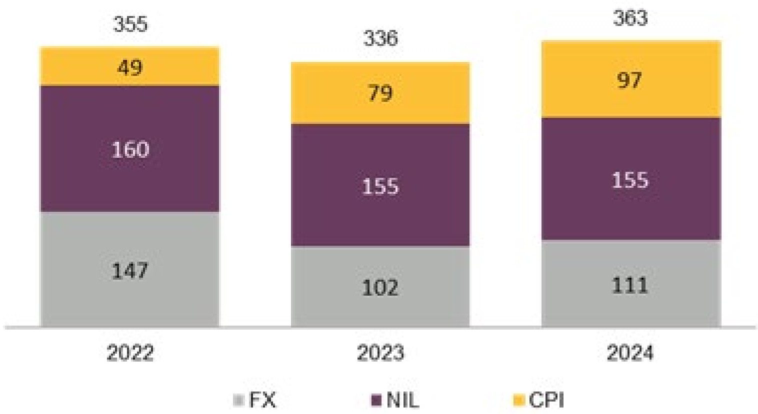
Net fee and commission income and other income for the division are expected to grow in line with growth somewhat more than GDP.

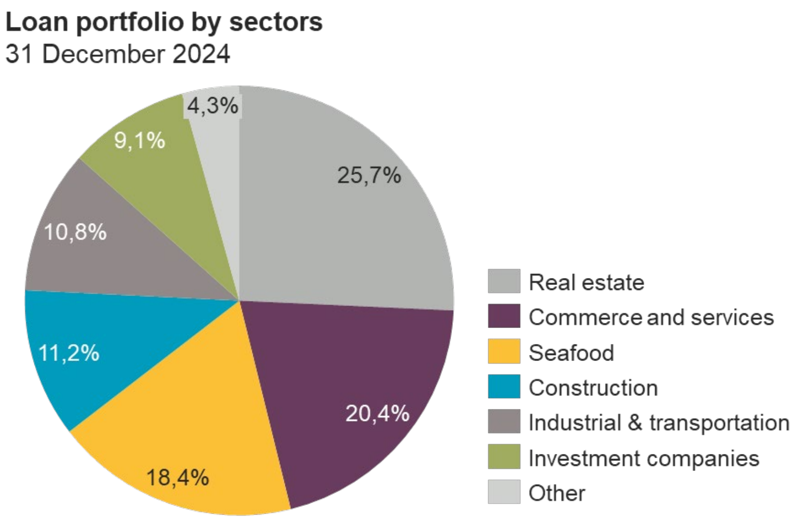
Total administrative expenses for the division increased from ISK 2.8 billion in 2022 to ISK 3.1 billion in 2023 and ISK 3.5 billion in 2024, of which ISK 1.8 billion, ISK 2.1 billion and ISK 2.3 billion, respectively, comprised salaries and related expenses.

The cost-to-income ratio for the division (including cost allocation) amounted to 35.5% in 2022, 34.1% in 2023 and 37.6% in 2024.

Loans in Corporate & Investment Banking decreased from ISK 355 billion as at 31 December 2022 to ISK 336 billion as at 31 December 2023 and ISK 363 billion as at 31 December 2024.Growth of the loan portfolio is expected to continue in line with GDP.

The graphs below present the breakdown of the loan portfolio for the division by structure (foreign exchange, ISK-non-index-linked and ISK-CPI-linked) in billions of ISK as at 31 December 2022, 2023 and 2024 and by sector as at 31 December 2024.[58]





Net impairments in Corporate & Investment Banking in the last three years have amounted to ISK 0.4 billion in 2022, ISK 1.2 billion in 2023 and ISK 0.9 billion in 2024. The positive impairments are attributable to positive recovery of the economy after the COVID-19 pandemic. The Bank' s cost of risk is expected to normalise going forward.

Treasury & Proprietary Trading

Operating income for Treasury & Proprietary Trading increased by ISK 594 million, or 724.4%, to ISK 676 million for the year ended 31 December 2024 from ISK 82 million for the year ended 31 December 2023. This increase was primarily due to market conditions.

Operating income for Treasury & Proprietary Trading decreased by ISK 2,134 million, or 96.3%, to ISK 82 million for the year ended 31 December 2023 from ISK 2,216 million for the year ended 31 December 2022. This decrease was primarily due to the prevailing high interest rate environment.

Cost Centres

Operating income for Cost centres decreased by ISK 252 million to negative ISK 279 million for the year ended 31 December 2024 from negative ISK 27 million for the year ended 31 December 2023.

Operating income for Cost centres increased by ISK 85 million, or 75.9%, to negative ISK 27 million for the year ended 31 December 2023 from negative ISK 112 million for the year ended 31 December 2022.

Subsidiaries, Eliminations & Adjustments

Operating income for subsidiaries, eliminations & adjustments increased by ISK 664 million, or 37.5%, to ISK 2,434 million for the year ended 31 December 2024 from ISK 1,770 million for the year ended 31 December 2023. This increase was primarily due to market conditions and favourable fee income for Allianz Insurance Iceland.

Operating income for subsidiaries, eliminations & adjustments increased by ISK 2 million to ISK 1,770 million for the year ended 31 December 2023 from ISK 1,668 million for the year ended 31 December 2022. This increase was primarily due to decreased intra-Group dividend payments.

12.4 Cash Flows

The table below sets forth the Group's cash flows for the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2025(*)	**2024(*)**	**2024**	**2023**	**2022**
			(ISK in millions)		
Net cash (used in) provided by operating activities	13,838	(5,035)	32,044	26,218	(39,439)
Net cash (used) provided by investing activities	(326)	(123)	(922)	(322)	(1,811)
Net cash (used in) provided by financing activities	35,658	28,236	(68,918)	(78,408)	49,683
Net increase (decrease) in cash and cash equivalents	**49,170**	**23,078**	**(37,796)**	**(52,512)**	**8,433**
Cash and cash equivalents at the beginning of the year	83,548	139,074	86,472	139,035	130,597
Effects of foreign exchange rate changes	(2,211)	(695)	(92)	(51)	5
Cash and cash equivalents at the end of the period	**130,507**	**161,457**	**48,584**	**86,472**	**139,035**

(*) Comparative figures have been changed: the Group's accounting policies regarding the definition of cash and cash equivalents have been updated. This change was made to ensure a fairer presentation of the Consolidated Interim Statement of Cash Flows. Previously, cash and cash equivalents in the statement of cash flows consisted of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. They now consist of cash on hand, unrestricted balances with the Central Bank, and loans to credit institutions, excluding loans to credit institutions pledged as collateral against derivative instruments. As a result, "Cash and cash equivalents at the beginning of the year" increased by ISK 34,964 million in the three months ended 31 March 2025 (ISK 52,602 million in the three months ended 31 March 2024) and "Cash and cash equivalents at the end of the period" increased by ISK 83,607 million in the three months ended 31 March 2025 (ISK 97,897 million in the three months ended 31 March 2024). In addition, the change affects "Changes in operating assets and liabilities" and therefore "Net cash provided by (used in) operating activities" and "Net increase in cash and cash equivalents."

Net cash (used in) provided by operating activities

Net cash provided by operating activities increased by ISK 18,873 million to an inflow of ISK 13,838 million for the three months ended 31 March 2025 from an outflow of ISK 5,035 million used for the three months ended 31 March 2024. This increase was primarily due to a decrease of paid interest of debt issued and other borrowed funds caused by the variability of regular payments and buybacks of debt issued and other borrowed funds.

Net cash provided by operating activities increased by ISK 5,826 million, or 22.2%, to ISK 32,044 million for the year ended 31 December 2024 from ISK 26,218 million for the year ended 31 December 2023. This increase was primarily due to changes in loans to costumers and deposits from customers.

Net cash provided by operating activities increased by ISK 65,657 million, or 166.5%, to positive ISK 26,218 million for the year ended 31 December 2023 from negative ISK 39,439 million for the year ended 31 December 2022. This increase was primarily due to changes in loans to customers and deposits from customers.

Net cash (used in) provided by investing activities

Net cash used in investing activities increased by ISK 203 million to ISK 326 million for the three months ended 31 March 2025 from ISK 123 million used for the three months ended 31 March 2024. This increase was primarily due to lower proceeds from sales of property and equipment along with higher outflows for the purchase of property and equipment.

Net cash used in investing activities decreased by ISK 600 million to ISK 922 million for the year ended 31 December 2024 from ISK 322 million for the year ended 31 December 2023. This decrease was primarily due to lower outflows for the purchase of property and equipment and intangible assets.

Net cash (used in) provided by investing activities increased by ISK 1,489 million, or 82.2%, to negative ISK 322 million for the year ended 31 December 2023 from negative ISK 1,811 million for the year ended 31 December 2022. This increase was primarily due to changes in net investment in subsidiaries and associates.

Net cash (used in) provided by financing activities

Net cash provided by financing activities increased by ISK 7,422 million, or 26.3%, to ISK 35,658 million for the three months ended 31 March 2025 from ISK 28,236 million provided in the three months ended 31 March 2024. This increase was primarily due to lower outflows for the repayment and repurchases of borrowings.

Net cash used in financing activities decreased by ISK 9,490 million, or 13.7%, to ISK 68,918 million for the year ended 31 December 2024 from ISK 78,408 million for the year ended 31 December 2023. This decrease was primarily due to changes in proceeds from, and repurchases of, borrowings.

Net cash (used in) provided by financing activities decreased by ISK 128,091 million, or 257.8%, to negative ISK 78,408 million for the year ended 31 December 2023 from positive ISK 49,683 million for the year ended 31 December 2022. This decrease was primarily due to changes in proceeds from and repurchases of borrowings.

12.5 Funding

The Group's funding activities are aimed towards funding the Bank's operations and ensuring compliance with the relevant external and internal liquidity and capital / MREL requirements and internal targets.

The Group's funding profile is strong and supports the Group's liquidity profile, helps to withstand stress scenarios for an extended period of time and does not rely on volatile funding or external support.

The Bank's main funding activities are mainly divided into two parts: market-based funding (i.e., the issuance of debt and capital instruments in the domestic and international capital markets) and deposit taking activities.

The Bank's main source of funding are deposits from customers and deposits from credit institutions. Deposits are made through savings accounts, current accounts, and money market deposits. The Group is focused on maintaining a large and stable deposit base originated from its customers. Deposits are expected to continue to form the core of the Group's funding profile in the future. However, there are external factors that might affect the Group's deposit base in the short to medium term, such as the increased availability of other investment opportunities for investors who currently hold deposits with the Group. Policy rate cuts, which affect deposit rates, can also cause depositors to invest in capital markets in the short-to-medium term, thus placing pressure on the Bank's deposit volumes.

Deposit Funding

The Group is partially funded with domestic deposits. The Group's total deposit base as at 31 March 2025 was ISK 951,153 million or 65.6% of its total liabilities. As at 31 March 2025, the aggregate amount of the Group's 10 largest deposits equalled 9% of the aggregate amount of the Group's total deposits as at such date.

In the periods under review, the Group has experienced a stable concentration of deposits.

The table below sets forth the composition of the Group's deposits from customers as at the dates indicated.

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
		(ISK in millions)		
Central government and state-owned enterprises	9,294	12,825	18,204	8,791
Municipalities	11,336	10,388	9,514	9,412
Companies	413,183	408,994	398,489	400,329
Individuals	502,966	494,639	424,502	371,365
Deposits from customers	**936,779**	**926,846**	**850,709**	**789,897**

Although the Group has a stable deposit base which it expects to grow over time, it continues to diversify its funding profile to reduce asset and liability mismatches and have a balanced maturity profile in order to manage its liquidity risk. For additional information on the Group's deposits, see "*15. Risk Management—15.5 Liquidity and Funding Risk.*"

Debt Issued and Other Borrowed Funds

The tables below set forth the Group's non-deposit debt issued and other borrowed funds as at the dates indicated:

Currency and outstanding nominal	**First Issued**	**Maturity**	**Maturity Type**	**Interest**	**As at 31 March**	**As at 31 December**		
					2025	**2024**	**2023**	**2022**
ISB CB 23 – ISK 0 million	2015	2023	Bullet	Fixed	—	—	—	38,970
ISB CBI 24 – ISK 0 million	2012	2024	Bullet	Fixed, CPI-Linked	—	—	17,051	41,346
ISB CBI 26 – ISK 24,500 million	2015	2026	Bullet	Fixed, CPI-Linked	36,776	36,710	35,093	32,555
ISB CB 27 – ISK 15,793 million	2020	2027	Amortising	Fixed	15,232	18,911	27,363	26,992
ISB CBF 27 – ISK 8,720 million	2022	2027	Bullet	Floating	8,984	9,024	7,461	3,311
ISB CB – EUR 300 million[(1)]	2022	2027	Bullet	Fixed	43,490	43,563	45,126	43,875
ISB CBNI 28 – ISK 13,144 million	2019	2028	Amortising	Fixed, CPI-Linked	21,398	24,122	31,564	33,456
ISB CBI 29 – ISK 34,780 million	2023	2029	Bullet	Fixed, CPI-Linked	38,467	37,758	19,596	–
ISB CBI 30 – ISK 23,040 million	2017	2030	Bullet	Fixed, CPI-Linked	34,109	33,541	32,093	29,812
ISB CBI 32 - ISK 6,240 million	2024	2032	Bullet	Fixed, CPI-Linked	6,377	4,110		
Covered bonds					204,833	**207,739**	**215,347**	**250,317**
EUR 0 million[(2)]	2020	2023	Bullet	Fixed	—	—	—	43,876
EUR 0 million (callable 2023)[(1)]	2018	2024	Bullet	Fixed	—	—	—	5,704
NOK 0 million	2019	2024	Bullet	Fixed	—	—	1,940	5,972
ISK 0 million	2019	2024	Amortising	Floating	—	—	134	282
NOK 0 million	2021	2024	Bullet	Floating	—	—	2,005	2,157
SEK 0 million	2021	2024	Bullet	Floating	—	—	1,628	3,406
NOK 0 million	2021	2024	Bullet	Floating	—	—	1,980	6,903
SEK 0 million	2021	2024	Bullet	Floating	—	—	1,591	2,739
SEK 0 million	2022	2024	Bullet	Floating	—	—	7,289	10,957
ISK 1,240 million	2020	2025	Bullet	Fixed	1,250	1,238	1,233	1,228
SEK 0 million	2021	2025	Bullet	Floating	—	151	6,105	6,130
NOK 0 million	2021	2025	Bullet	Floating	—	481	9,884	10,778
EUR 0 million[(2)]	2022	2025	Bullet	Fixed	—	21,419	42,868	39,561

NOK 1,400 million	2022	2025	Bullet	Floating	17,677	17,277	18,916	20,318
SEK 500 million	2023	2026	Bullet	Floating	6,658	6,344	6,887	—
EUR 0 million(2)	2023	2026	Bullet	Fixed	—	—	49,777	—
SEK 500 million	2023	2026	Bullet	Floating	6,618	6,330	6,843	—
ISK 4,667 million	2022	2027	Amortising	Floating	4,286	4,689	3,000	3,763
ISK 6,940 million	2022	2027	Bullet	Fixed	7,084	6,950	6,937	5,301
SEK 500 million	2024	2027	Bullet	Floating	6,623	6,336	—	—
NOK 500 million	2024	2027	Bullet	Floating	6,318	6,177	—	—
NOK 200 million	2024	2027	Bullet	Floating	2,535	2,477	—	—
SEK 300 million	2024	2027	Bullet	Floating	3,979	3,807	—	—
ISK 19,460 million	2023	2028	Bullet	Fixed, CPI-Linked	20,913	15,039	5,031	—
EUR 300 million(1)	2024	2028	Bullet	Fixed	43,317	45,268	—	—
ISK 7,600 million	2024	2036	Bullet	Fixed, CPI-Linked	7,595	3,904	—	—
NOK 100 million	2025	2027	Bullet	Floating	2,527	—	—	—
NOK 200 million	2025	2027	Bullet	Floating	2,647	—	—	—
NOK 50 million	2025	2028	Bullet	Floating	1,264	—	—	—
NOK 500 million	2025	2028	Bullet	Floating	6,619	—	—	—
NOK 300 million(2)	2025	2030	Bullet	Fixed	43,093	—	—	—
Unsecured bonds					191,003	**147,887**	**174,048**	**169,075**
Other secured loans					—	—	16,459	36,650
Other unsecured loans					11,430	11,960	11,719	12,228
Debt issued and other borrowed funds					**407,266**	**367,586**	**417,573**	**468,270**

(1) The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments. The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 March 2025 the total carrying amount of the bond issuance amounted to ISK 86,807 million and included in the amount are fair value changes amounting to ISK 761million.

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

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

Covered Bonds

The Bank has established a covered bond programme, issued under Act No. 11/2008, under which it issues covered bonds on a regular basis to finance its residential mortgage lending. The covered bonds may be either rated or unrated, have either fixed or floating interest rates, be denominated in local or foreign currency, and may be linked to CPI or not. As at 31 March 2025, the covered bonds covered 15,880 loans with an asset balance of ISK 401.9 billion and over-collateralisation of 25.49%. The Bank expects a majority of covered bonds issued in the short to medium term to be index linked given the preference of the borrowers for lower interest rates.

The covered bond issuance will depend largely on the Bank's mortgage loan growth, on deposit development as well as on upcoming maturities.

Euro Medium-Term Note programme

The Bank's U.S.$2.5 billion Euro Medium-Term Note ("**EMTN**") programme is the Bank's platform for funding in international and domestic markets, in both foreign currency and ISK.

Total unsecured debt issued under the EMTN increased by ISK 43 billion, or 29.2%, to ISK 191 billion as at March 31 2025 from ISK 148 billion as at 31 December 2024.

Future issuances of unsecured bonds will depend largely on the Bank's loan growth, on the Bank's MREL requirement and on upcoming maturities.

Subordinated Loans

Subordinated loans include Tier 2 and can be issued under the EMTN programme in foreign and domestic currency. The Bank's Tier 2 capital increased from ISK 24.3 billion as at 31 December 2022 to ISK 28.1 billion as at 31 December 2023, ISK 22.3 billion as at 31 December 2024 and ISK 22.7 billion as at 31 March 2025.

The Bank's Tier 2 issuance is denominated in ISK and SEK. The part of the total SREP capital requirement that can be met with tier 2 subordinated debt is currently fully utilised.

The Bank issued Additional Tier 1 subordinated loan in 2021, SEK 750 million.

The table below sets forth the Group's subordinated loans as at the dates indicated:

					As at 31 March	As at 31 December		
	Issued	**Maturity**	**Callable**	**Interest**	**2025**	**2024**	**2023**	**2022**
					(*ISK in millions*)			
Subordinated loans in SEK	2018	2028	2023	Floating	—	—	—	6,820
Subordinated loans in SEK	2019	2029	2024	Floating	—	—	6,761	6,785
Subordinated loans in ISK	2022	2033	2028	Fixed	1,526	1,526	1,525	1,526
Subordinated loans in ISK	2022	2033	2028	Fixed, CPI-Linked	10,515	10,410	9,935	9,199
Subordinated loans in ISK	2023	2034	2029	Fixed, CPI-Linked	10,643	10,388	9,915	—
Tier 2 subordinated loans					22,684	**22,324**	**28,136**	**24,330**
Subordinated loans in SEK	2021	Perpetual	2026	Floating	9,819	9,371	10,019	10,062
Additional Tier 1 subordinated loans					9,818	**9,371**	**10,019**	**10,062**
Subordinated loans					32,502	**31,695**	**38,155**	**34,392**

12.6 Liquidity

The Group defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds. Sound and efficient management of liquidity risk is a key factor to ensure the viability of the Bank's operations and to achieve and maintain a target credit rating. The Bank takes a conservative and prudent approach to managing liquidity risk and its liquidity strategy assumes that the Bank always fulfils regulatory requirements, internal thresholds and can sustain a prolonged period of stress.

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

See "*2. Risk Factors—R1 Risks Relating to Business and Industry—R1.9 The Bank is exposed to liquidity risk.*" For additional information on the composition of the Group's funding and deposit base, see "*—12.5 Funding" and "15. Risk Management—15.5 Liquidity and Funding Risk.*"

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

As of January 2023, the LCR Rules took effect. The minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. A new requirement for LCR in EUR is 80% and in ISK the requirement is 50%. There is no longer any minimum requirement for the aggregated position in foreign currencies. The Group is required to maintain a 100% minimum NSFR ratio.

The table below sets forth the LCR as at the dates indicated.

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
For all currencies	202%	168%	195%	205%
Domestic currency	110%	126%	115%	109%
Foreign currencies	736%	449%	663%	492%

The Group's liquidity reserve, (as defined in Note 43 of the Interim Financial Statements) measured as the total of liquid assets, amounted to ISK 310,171 million as at 31 March 2025, representing 33% of deposits as at 31 March 2025 (ISK 268,338 million as at 31 December 2024, ISK 313,339 million as at 31 December 2023 and ISK 312,292 million as at 31 December 2022). The Group's loan-to-deposit ratio as at 31 March 2025 was 139%, as compared to 140% as at 31 December 2024, 144% as at 31 December 2023 and 150% as at 31 December 2022.

The Group considers liquidity risk as a key risk factor and places emphasis on managing it. For additional information on the Group's liquidity, including liquidity risk, see "*15. Risk Management—15.5 Liquidity and Funding Risk.*"

12.7 Capital Position

The Bank aims at managing its capital position and the corresponding capital ratios at a comfortable margin above the overall regulatory capital requirement. This margin is referred to as the management buffer in the Bank's capital management framework. The size of the management buffer is based on factors such as views from the regulator through the SREP, volatility in the Bank's REA due to currency fluctuation, volatility in the Bank's REA due to uneven asset growth, the Bank's target rating, competitive issues, funding terms, uncertainty in the operating environment not accounted for in the ICAAP, and uncertainty in the regulatory environment. Currently the management buffer is 1%-3%. as defined in the Risk Appetite Statement set by the Board of Directors.

Capital Ratios

The Group's regulatory capital requirement is calculated according to CRR as implemented through the Financial Undertakings Act. Capital requirement calculations for credit risk, market risk and operational risk are based on the standardised approach whereas the simplified standardised approach is used for counterparty credit risk.

For additional information, see "*10 Regulatory Overview—10.1 Principal Legislation and Regulations—Capital Requirements Directive*."

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank of Iceland, the Bank shall as of 30 June 2024 maintain an additional capital requirement of 1.8% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.7%. The Group's capital target including the aforementioned 1-3% management buffer on top of the overall capital requirement is 20.7%-22.7%. At year-end 2024, the Bank's total capital ratio was 23.2%, which is 3.5% above the regulatory overall capital requirement. The corresponding CET1 ratio was 20.1%.

The European Union has introduced regulatory changes effective as of January 2025 to finalise the implementation of the Basel III framework. These changes, known as CRR III (Regulation (EU) 2024/1623), are expected to be incorporated into Icelandic legislation through the EEA Agreement later in 2025. The implementation of CRR III is expected to have a notable impact on the Bank's Risk Exposure Amount (REA) and capital ratios. Implementation of the CRR III is expected to reduce the Bank's REA by up to 4-5% at implementation and grow slightly through 2025, thus providing additional capital distribution or growth capacity. CRR III is therefore expected to increase the Bank's total capital ratio by 110bps to 24.3%, while the CET1 ratio is expected to grow by 100bps to 21.1%. The Bank has already conducted a comprehensive assessment of the expected impact of CRR III on its REA and capital ratio.

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

The table below sets out the capital ratios of the Group.

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
	(ISK in millions, except percentages)			
Ordinary share capital	9,368	9,473	9,898	10,000
Share premium	42,472	55,000	55,000	55,000
Reserves	7,673	7,102	5,083	9,158
Retained earnings	158,381	155,780	154,712	144,716
IFRS 9 reversal due to transitional rules	—	—	—	1,301
Fair value changes due to own credit standing	40	135	1,827	(1,786)
Foreseeable dividend payment and approved buyback(*)	(18,627)	(15,760)	(14,990)	(27,267)
Tax assets	(127)	(164)	(122)	(116)
Intangible assets	(1,777)	(2,070)	(1,922)	(3,279)
Insufficient coverage for non-performing exposures	(29)	(17)	(3)	—
Total CET1 capital	**197,374**	**209,479**	**209,483**	**187,727**
Additional Tier 1 capital	9,819	9,371	10,019	10,062
Tier 1 capital	**207,193**	**218,850**	**219,502**	**197,789**
Tier 2 capital	22,684	22,324	28,135	24,330
Total capital base	**229,877**	**241,174**	**247,637**	**222,119**
Risk exposure amount				
- due to credit risk	941,470	922,533	865,758	893,110
- due to market risk	12,039	10,606	10,360	15,417
- due to credit valuation adjustment	1,275	714	677	2,756
- due to operational risk	107,119	107,119	100,237	88,208
Total risk exposure amount	**1,061,903**	**1,040,972**	**977,032**	**999,491**
Capital ratios				
CET1 ratio	18.6%	20.1%	21.4%	18.8%
Tier 1 ratio	19.5%	21.0%	22.5%	19.8%
Total capital ratio	21.6%	23.2%	25.3%	22.2%

(*) The AGM of the Bank held on 16 March 2023 authorised the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2024 ISK 3.6 billion remained of the approved buyback and is therefore deducted from CET1 capital. The AGM of the Bank held on 31 March 2025 renewed the authorisation and the Central Bank granted the permission to buyback share capital of up to ISK 16 billion. At 31 March 2025 ISK 16 billion remained of the approved buyback.

As stated in "*9 Business Overview—9.6 Financial Targets*," the Bank has a target to reduce its CET1 ratio to approximately 16.4%-18.4% which it expects to have the most significant impact on achieving its long-term target to achieve a competitive return on equity (post-tax) exceeding 10%.

For additional information on the Group's capital requirements, see "*15. Risk Management—15.8 Capital Management.*"

Leverage Ratio

The leverage ratio is a measure supplementing the risk-based capital requirements. A lower leverage ratio indicates higher leverage. The leverage ratio is calculated by dividing Tier 1 capital by the sum of total assets and adjusted off-balance sheet exposures. According to law, the minimum leverage ratio is 3%.

Compared to its international peers, the Bank has a relatively simple balance sheet. As such, the Bank uses the standardised approach rather than the internal ratings-based approach to calculate its credit risk capital requirements, which means its risk weights are considerably higher than those of its international peers.

The leverage ratio is calculated on the basis of the Bank's consolidated exposures as stipulated by the CRR. The table below sets forth the calculation of the Group's leverage ratio as at the dates indicated.

	As at 31 March	As at 31 December		
	2025	2024	2023	2022
	(ISK in millions, except percentages)			
On-balance sheet exposures	1,644,131	1,594,192	1,571,430	1,541,738
Off-balance sheet exposures	64,079	57,583	53,224	68,702
Derivative exposures	9,184	9,223	11,246	30,596
Leverage ratio total exposure measure	**1,717,394**	**1,660,998**	**1,635,900**	**1,641,036**
Tier 1 capital	207,193	218,850	219,502	197,789
Leverage ratio	**12.1%**	**13.2%**	**13.4%**	**12.1%**

12.8 Capital Expenditures

Capital expenditures for the Bank during the periods under review comprise mainly expenditures on software.

The table below sets forth the components of the Group's capital expenditures for the periods indicated.

	Three months ended 31 March	Year ended 31 December		
Capital expenditures, ISK in millions	**2025**	**2024**	**2023**	**2022**
Purchased software	114	446	385	470
Developed software	11	55	—	—
Fixtures, equipment &vehicles	188	307	274	161
Land and buildings	2	119	37	112
Capital expenditures	**315**	**927**	**696**	**743**

12.9 Working Capital Statement

It is the assessment of the Board of Directors, for and on behalf of the Bank, that at the date of this Prospectus, the Bank has sufficient working capital to fulfil its requirements for the next 12 months.

12.10 Hedging and Derivatives

The Group uses derivatives to hedge interest rate risk in the banking book. Other derivatives held are for trading or for other purposes that are insignificant.

Derivatives are classified as financial assets or financial liabilities, measured at fair value, where changes in the fair value are reflected in the consolidated income statement. Derivatives are presented in the statement of financial position in separate line items as assets or liabilities, depending on whether their fair value at the reporting date is positive (assets) or negative (liabilities).

The Group applies fair hedge accounting to certain bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments. The interest rate swaps hedge the exposure of the Group's changes in the fair value of the fixed-rate EUR denominated bond arising from changes in the EURIBOR benchmark interest rates. For the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of the IBOR reform.

For additional information on the Group's derivatives, see the notes titled "*Classification of financial assets and financial liabilities,*", "*Fair value information for financial instruments*" and "*Offsetting financial assets and* *financial liabilities*" in the Consolidated Financial Statements. See also "*15. Risk Management—15.4 Market Risk.*"

12.11 Off-Balance Sheet Arrangements and Financial Commitments

The table below sets forth the guarantees, undrawn overdrafts, credit card commitments, and undrawn loans commitments which the Group has granted to customers as at the dates indicated.

	As at 31 March	As at 31 December		
	2025	**2024**	**2023**	**2022**
			(*ISK in millions*)	
Financial guarantees	20,480	21,051	20,680	18,385
Loan commitments	184,470	171,152	176,435	184,760
Off-balance sheet items	**204,950**	**192,203**	**197,115**	**203,145**

The Bank's exposure deriving from off-balance sheet items totalled ISK 205 billion as at 31 March 2025, compared to ISK192 billion as at 31 December 2024, ISK 197 billion as at 31 December 2023 and ISK 203 billion as at 31 December 2022.

12.12 Quantitative and Qualitative Disclosure about Market Risk

For quantitative and qualitative disclosure about market risk, see "*15. Risk Management—15.4 Market Risk.*"

12.13 Significant Accounting Estimates and Judgements

Key Sources of Estimation Uncertainty

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

Impairment of Financial Assets

The main assumptions used for calculating the allowance for credit losses that are subject to significant judgement include the following:

- Probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- Macroeconomic variables for multiple scenarios build on available information
- Assessment of significant increase in credit risk (SICR)

The PD, LGD and EAD inputs used to estimate expected credit losses are modelled based on variables that are most closely related with credit losses in the relevant portfolio. This includes macroeconomic variables, demographic variables, variables related to past payment history among other variables. These variables are sourced both internally and externally. Significant judgements required for measuring expected credit loss (ECL) include the following:

- Determining criteria for assessing what constitutes a significant increase in credit risk
- Establishing the forward-looking scenarios and their relative weightings
- Choosing appropriate models and assumptions for the measurement of ECL

During the last quarter of 2023, the Group made temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula. The Group's impairment process allows for temporary changes to the impairment model to account for circumstances when it becomes evident that existing or expected risk factors have not been appropriately considered in the credit risk rating or modelling process. The seismic activity created such circumstances for loans to individuals and small companies in the town of Grindavík, and therefore adjustments were warranted. The adjustments include transferring exposures amounting to ISK 5.2 billion from Stage 1 to Stage 2 and applying higher haircuts to the values of collateral for these exposures. In addition, a management overlay was applied to the modelled ECL, resulting in a total additional allowance for expected credit losses of ISK 1.7 billion due to the seismic activity. Exposure and additional impairment due to the seismic activity decreased to ISK 0.6 billion as at 31 December 2024 due to the purchase of the property company Þórkatla of residential housing within the urban area in Grindavík in accordance with the Act No.16/2024 on the Purchase of Residential Property in Grindavík. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. The Bank's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss and does therefore not contribute to the allowance for expected credit losses. The Bank no longer makes temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula since all customers affected have been assessed on a case-by-case basis. The management overlay to the modelled expected credit losses has thus since been replaced with a manual impairment on material exposures.

The ARC has decided to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at year-end 2024, as it had been throughout the year. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the allowance for expected credit losses by ISK 310 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 130 million.

For additional information on the allowance for credit losses, see Notes 25-26, 47-51 and 64.3 in the 2024 Consolidated Financial Statements.

Future Accounting Developments

Amendments to IFRS standards that became effective from 1 January 2024 did not have a material impact on the Consolidated Financial Statements.

Changes to IFRS standards issued but not effective at the reporting date

Two new IFRS standards and amendments to several IFRS standards have been issued but are not yet effective. The Group did not early adopt any of them and intends to adopt them when they become effective. The Group expects only the new IFRS standard, IFRS 18 - Presentation and Disclosures in Financial statements, to have a material impact on its future Consolidated Financial Statements as a result of these changes. IFRS 18 - Presentation and Disclosures in Financial statements will be effective from 1 January 2027 and introduces new requirements to the following:

- Presentation of specified categories and defined subtotals in the statement of profit or loss
- Provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements
- Improve aggregation and disaggregation.

13. CAPITALISATION AND INDEBTEDNESS

The table below sets forth the capitalisation and indebtedness of the Bank as at 31 March 2025. The information has been extracted from the unaudited condensed consolidated interim financial information or from the accounting records as at and for the three months ended 31 March 2025 and should be read in conjunction with "*12 Operating and Financial Review*" and "*11. Selected Consolidated Financial, Operating and Other Information*" as well as the Consolidated Financial Statements, together with the notes thereto, included elsewhere in this Prospectus.

	As at 31 March 2025
	(*ISK in millions*)
Total current debt[(1)]	**33,073**
Secured[(1)(2)]	12,204
Unguaranteed/unsecured[(1)(3)]	20,869
Total non-current debt (excluding current portion of long-term debt)[(1)]	**407,030**
Secured[(1)(4)]	192,629
Unguaranteed/unsecured[(1)(5)]	214,401
Shareholders' equity	**217,894**
(a) Share capital	9,368
(b) Share premium	42,472
(c) Reserve	7,673
(d) Retained earnings	158,381
Total	**657,997**

(1) Total current debt and total non-current debt (excluding current portion of long-term debt) amounting in aggregate to ISK 440,103 million as at 31 March 2025 comprises debt issued and other borrowed funds, subordinated loans, short positions in listed bonds, and repurchase agreements with the Central Bank. Secured debt solely comprises covered bonds.
(2) Current secured debt comprises of the short-term portion of covered bonds with a remaining maturity up to one year.
(3) Current unsecured debt comprises of senior unsecured debt and bank debt with maturity up to one year.
(4) Non-current secured debt comprises the long-term portion of covered bonds with a remaining maturity over one year.
(5) Non-current unsecured debt comprises of senior unsecured debt and subordinated loans with maturity over one year.

		As at 31 March 2025
		(*ISK in millions*)
(A)	Cash and balances with Central Bank[(1)]	38,413
(B)	Cash equivalents[(2)]	92,094
(C)	Trading securities excluding derivatives[(3)]	130,498
(D)	**Liquidity (A) + (B) + (C)**[(4)]	**261,005**
(E)	Current bank debt[(5)]	335
(F)	Current portion of non-current debt	32,738
(G)	**Current financial indebtedness (E) + (F)**[(6)]	**33,073**
(H)	**Net current financial indebtedness (G) – (D)**	**(227,932)**
(I)	Non-current bank loans	—
(J)	Non-current debt issued	395,600
(K)	Other non-current loans[(7)]	11,430
(L)	**Non-current financial indebtedness (I) + (J) + (K)**[(6)]	**407,030**
(M)	**Total financial indebtedness (H) + (L)**	**179,098**

(1) Cash and freely available balances at Central Bank.
(2) Bank accounts held at other credit institutions and money market loans to banks with a remaining maturity of three months or less.
(3) Securities in the liquidity portfolio and securities held for trading.
(4) Liquidity is not equal to the Bank's liquidity portfolio buffer held for liquidity contingency purposes.
(5) Current bank debt comprises short positions in listed bonds, and repurchase agreements with the Central Bank.
(6) Current financial indebtedness and non-current financial indebtedness amounting in aggregate to ISK 440,103 million at 31 March 2025 comprises debt issued and other borrowed funds, subordinated loans, short positions in listed bonds, and repurchase agreements with the Central Bank..
(7) Other non-current loans comprise other borrowed funds.

The Group has pledged assets against issued covered bonds in the form of cash and mortgage loans to individuals. Such pledged assets were a total of ISK 154,942 million at 31 March 2025.

Other than as disclosed in this Prospectus, there has been no material change in the capitalisation or indebtedness of the Bank since 31 March 2025.

14. SELECTED STATISTICAL INFORMATION

The statistical information presented below is derived from the Consolidated Financial Statements and the Group's financial reporting and management information systems. The statistical information below is unaudited.

Average Balance Sheet and Interest Information

The table below sets forth the average balances of the Group's interest-earning assets and interest-bearing liabilities, other assets and liabilities, the interest generated from such assets and liabilities and average return rate for the periods indicated. Average balances are calculated using month-end figures, including the prior year-end figures.

	Year ended 31 December								
	2024			2023			2022		
	Average balance	Interest	Yield (in %)	Average balance	Interest	Yield (in %)	Average balance	Interest	Yield (in %)
Assets	(*ISK millions unless otherwise stated*)								
Cash and balances with Central Bank	82,345	4,888	5.9%	82,460	5,389	6.5%	87,468	2,791	3.2%
Loans to credit institutions and customers	1,332,196	124,772	9.4%	1,311,588	120,706	9.2%	1,217,910	84,880	7.0%
Bonds and derivatives	142,971	11,638	8.1%	145,940	11,035	7.6%	125,945	6,335	5.0%
Other assets	13,390	44	0.3%	13,400	12	0.1%	9,291	7	0.1%
Total interest-earning assets	1,570,902	141,342	9.0%	1,553,388	137,142	8.8%	1,440,614	94,013	6.5%
Liabilities									
Total Deposits	(913,005)	(60,967)	6.7%	(839,217)	(50,316)	6.0%	(780,966)	(23,413)	3.0%
Other liabilities	(24,006)	(6,074)	25.3%	(23,576)	(6,702)	28.4%	(16,867)	(3,649)	21.6%
Borrowings	(398,336)	(23,679)	5.9%	(447,412)	(28,299)	6.3%	(426,013)	(22,287)	5.2%
Subordinated loans	(34,403)	(3,357)	9.8%	(35,201)	(3,214)	9.1%	(33,726)	(1,538)	4.6%
Total interest-bearing liabilities	**(1,369,750)**	**(94,077)**	**6.9%**	**(1,345,406)**	**(88,531)**	**6.6%**	**(1,257,572)**	**(50,887)**	**4.0%**

Investments in debt securities

As at 31 December 2024, all investments the Bank's investments in debt securities were classified at fair value. The table below sets forth the Bank's debt securities investment portfolio, as at 31 December 2024, indicating which were held at fair value through profit and loss and which were held for hedging purposes.

At 31 December 2024	**Mandatorily at FVTPL**	**Mandatorily at FVOCI**	**Carrying amount**
Listed bonds and debt instruments	24,293	111,908	136,201
Listed bonds and debt instruments used for economic hedging	4,397	—	4,397
Unlisted bonds and debt instruments	2,020	—	2,020
Total Debt Securities	**30,710**	**111,908**	**142,618**

Loan Portfolio

The table below sets forth the Bank's loan portfolio by maturity and sector, together with the split between fixed and floating interest rates for the loans with maturity over one year, as at 31 December 2024.

Loans and Commitments to Customers	**As at 31 December 2024**					
	<1 Year	**1-5 Years**	**5-15 Years**	**>15 Years**	**Fixed**	**Floating**
	(*ISK in millions*)					
Individuals	12,084	33,395	29,307	550,475	355,108	258,069
Commerce and Services	30,804	105,849	8,807	39,207	10,686	143,178
Construction	40,855	40,557	4,029	10,117	429	54,274
Energy	284	5,428	6,048	40	102	11,414
Financial Services	675	21	—	19	21	19

Industrial and Transportation....	25,128	17,710	22,553	17,031	1,119	56,176
Investment Companies.............	19,486	15,091	2,608	5,775	79	23,395
Public Sector and Non-Profit Organisations............................	6,062	5,904	7,584	899	177	14,209
Real Estate................................	17,192	86,745	5,682	45,295	4,705	133,017
Seafood....................................	13,514	37,300	25,229	599	63	63,065
Total..	**166,084**	**348,001**	**111,846**	**669,457**	**372,490**	**756,814**

Allowance for Credit Losses

The tables below set forth impairment charges broken down by Stage 1, Stage 2 and Stage 3 categories and the corresponding total loan balance for each of the sectors, as at 31 December 2024, 2023 and 2022. The information is derived from the Consolidated Financial Statements and from unaudited accounting records of the Bank (in relation to the breakdown of recoveries).

Loans and Commitments to Customers	As at 31 December 2024				
	Stage 1	Stage 2	Stage 3	Total impairments	Balance
			(*ISK in millions*)		
Individuals..	(740)	(224)	(654)	(1,618)	625,262
Commerce and Services........................	(735)	(292)	(710)	(1,737)	184,667
Construction...	(801)	(30)	(97)	(928)	95,558
Energy..	(59)	—	—	(59)	11,800
Financial Services.................................	(19)	—	—	(19)	715
Industrial and Transportation.................	(213)	(37)	(1,071)	(1,321)	82,423
Investment Companies..........................	(367)	(58)	(94)	(519)	42,960
Public Sector and Non-Profit Organisations	(15)	(1)	(2)	(18)	20,448
Real Estate..	(423)	(328)	(717)	(1,468)	154,913
Seafood..	(124)	(5)	(4)	(133)	76,642
Total...	**(3,496)**	**(975)**	**(3,349)**	**(7,820)**	**1,295,388**

Loans and Commitments to Customers	As at 31 December 2023				
	Stage 1	Stage 2	Stage 3	Total impairments	Balance
			(*ISK in millions*)		
Individuals...	(1,407)	(1,539)	(614)	(3,560)	594,631
Commerce and Services..............................	(1,000)	(538)	(624)	(2,162)	182,808
Construction..	(833)	(118)	(58)	(1,009)	80,099
Energy...	(67)	(12)	—	(79)	7,938
Financial Services..	(1)	—	—	(1)	214
Industrial and Transportation........................	(225)	(69)	(2,541)	(2,835)	75,802
Investment Companies.................................	(639)	(81)	(44)	(764)	45,931
Public Sector and Non-Profit Organisations.	(16)	(7)	(1)	(24)	18,476
Real Estate...	(496)	(355)	(328)	(1,179)	144,173
Seafood..	(104)	(8)	(3)	(115)	73,354
Total..	**(4,788)**	**(2,727)**	**(4,213)**	**(11,728)**	**1,223,426**

Loans and Commitments to Customers	As at 31 December 2022				
	Stage 1	Stage 2	Stage 3	Total impairments	Balance
			(*ISK in millions*)		
Individuals...	(1,607)	(175)	(546)	(2,328)	570,522
Commerce and Services..............................	(974)	(1,703)	(841)	(3,518)	172,222
Construction..	(654)	(66)	(37)	(757)	59,815
Energy...	(45)	—	—	(45)	10,411
Financial Services..	(20)	—	—	(20)	2,622
Industrial and Transportation........................	(303)	(19)	(2,524)	(2,846)	91,078
Investment Companies.................................	(409)	(210)	(66)	(685)	40,336
Public Sector and Non-Profit Organisations.	(29)	(2)	—	(31)	11,046
Real Estate...	(493)	(57)	(234)	(784)	126,297
Seafood..	(102)	(3)	(13)	(118)	102,290
Total..	**(4,636)**	**(2,235)**	**(4,261)**	**(11,132)**	**1,186,639**

Deposits

The tables below set forth deposit balances by time category, together with average rates paid, in each case broken down by customer type, as at 31 December 2024, 2023 and 2022.

	As at 31 December 2024							
	On demand	<3 months	3-6 months	6-12 months	>12 months	ISK	Average rate paid ISK-CPI	Foreign exchange
	(ISK in millions)							
Deposits from CB and credit institutions	39,651	10,104	4,253	2,761	—	5.39%	—	0.17%
Deposits from customers	718,998	52,176	54,810	7,617	49,011	4.94%	0.30%	0.32%
Retail	552,376	23,822	39,298	5,937	36,847	5.04%	0.32%	0.17%
Operational relationships	5,148	—	—	—	—	2.37%	—	1.68%
Corporations	112,454	28,032	9,629	405	1,126	4.89%	0.09%	0.98%
Sovereigns, Central Bank and public sector entities	12,481	196	864	—	—	5.96%	0.03%	0.09%
Pension funds	36,538	126	5,018	1,274	11,038	3.78%	0.76%	0.33%
Domestic financial entities	32,404	7,270	4,253	2,761	—	6.44%	—	0.27%
Foreign financial entities	12,481	196	864	—	—	0.55%	—	0.09%
Covered by depositors' guarantee scheme	361,660	9,137	25,404	3,454	31,152			

	As at 31 December 2023							
	On demand	<3 months	3-6 months	6-12 months	>12 months	ISK	Average rate paid ISK-CPI	Foreign exchange
	(ISK in millions)							
Deposits from CB and credit institutions	30,346	20,728	4,250	1,050	—	5.72%	—	0.44%
Deposits from customers	642,750	72,967	37,943	3,228	53,596	5.28%	0.21%	0.60%
Retail	458,743	29,959	30,261	3,150	38,366	5.36%	0.23%	0.23%
Operational relationships	4,394	—	—	—	—	2.65%	—	2.81%
Corporations	138,291	41,748	5,003	76	1,251	5.25%	0.05%	1.69%
Sovereigns, Central Bank and public sector entities	11,028	952	523	—	—	6.95%	0.02%	0.13%
Pension funds	30,294	308	2,156	1	13,979	4.25%	0.62%	0.48%
Domestic financial entities	25,001	14,016	2,745	1,050	—	7.28%	—	0.39%
Foreign financial entities	5,345	6,712	1,505	—	—	0.68%	—	0.63%
Covered by depositors' guarantee scheme	326,004	12,836	22,673	2,450	32,897			

	As at 31 December 2022							
	On demand	<3 months	3-6 months	6-12 months	>12 months	ISK	Average rate paid ISK-CPI	Foreign exchange
	(ISK in millions)							
Deposits from CB and credit institutions	36,091	14,056	4,224	5,430	3,251	3.16%	—	0.30%
Deposit from customers	600,669	54,334	33,261	12,455	41,395	2.74%	0.04%	0.39%
Retail	407,874	25,793	26,498	3,280	35,972	2.71%	0.04%	0.15%
Operational relationships	4,133	—	—	—	—	1.67%	—	1.46%
Corporations	141,116	27,590	3,965	115	1,022	2.76%	0.01%	1.08%
Sovereigns, Central Bank and public sector entities	11,885	632	181	—	—	3.99%	—	0.08%
Pension funds	35,662	319	2,617	9,061	4,401	2.81%	0.19%	0.37%
Domestic financial entities	30,621	10,874	2,255	3,257	—	4.24%	—	0.25%
Foreign financial entities	5,470	3,181	1,970	2,173	3,251	0.18%	—	0.43%
Covered by depositors' guarantee scheme	302,222	13,965	19,989	2,408	31,393			

15. RISK MANAGEMENT

15.1 Overview

Risk assessment and the prudent evaluation and pricing of risk are key elements in the Bank's operations. In turn, an efficient risk assessment framework forms the foundation of the Bank's risk and capital management strategy. The Bank's risk governance is based on a three lines of defence framework and aims for informed decision-making and strong risk awareness throughout the Bank.

15.2 Risk Governance and Organisation

The Bank is exposed to various risk factors and managing these risks is an integral part of the Bank's operations. The Bank emphasises sound governance principles. The risk management and internal control framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with the relevant laws, regulations, supervisory requirements and the Bank's internal rules and decisions.

Three Lines of Defence Model

The first line of defence consists of the Bank's business and support units. The business units take on risk through the extension of credit, through proprietary trading, and by providing other services to the Bank's customers. The primary responsibility for managing these risks lies with the business units. Each business unit shall have in place effective processes to identify, measure or assess, monitor, mitigate and report on the risks taken on by the unit. Support units, whose decisions have an impact on the Bank's operational risk and sustainability risk, are subject to the same requirements for risk identification and management as the Bank's business units.

The second line of defence comprises the Bank's risk management function and the compliance function. They are responsible for developing and maintaining an efficient internal framework to facilitate adequate control of risks, prudent conduct of business, reliability of financial and nonfinancial information reported or disclosed, and compliance with the relevant laws, regulations, supervisory requirements and the Bank's internal policies and procedures.

The third line of defence provides independent assurance to management and the Board of Directors of the effectiveness and completeness of the internal control framework, including both the first and the second line of defence. The third line of defence duties are performed by Group Internal Audit.

The Bank's management body has a dual structure. The Board of Directors has a supervising role in setting and monitoring the execution of policies, the sound control of accounting and financial management and ensuring that group internal audit, compliance and risk management are effective. The Chief Executive Officer ("**CEO**"), the Chief Risk Officer ("**CRO**") and other members of the senior management committees are responsible for implementing risk management practices and internal control in accordance with Board authorisation.

The Bank's committee structure is divided into two categories, executive committees and business committees. There are two executive committees, the Executive Board and All Risk Committee ("**ARC**"). They are responsible for overseeing the implementation of the business strategy, risk appetite and policies. The business committees are six in total, the Asset and Liability Committee ("**ALCO**"), the Senior Credit Committee ("**SCC**"), the Investment Committee ("**IC**"), Operations and Security Committee ("**OSC**"), Sustainability Committee ("**SCO**") and Digital Product Committee ("**DPC**"). They are responsible for the approval of business proposals and the Bank's operational framework and implementation subject to internal rules and guidelines issued by the executive committees and the Board. The members of all the senior management committees are appointed by the CEO, and each committee's mandate and rules of procedure is documented in a charter.

The ARC is responsible for reviewing and overseeing the implementation of risk management and internal control policies issued by the Board. ARC translates the Board-approved risk policies into risk limits or guidelines for individual business units, desks or portfolios and approves methods and assumptions used for calculating risk measures, capital and liquidity requirements and targets, impairment, and internal and external pricing. The committee reviews and confirms proposals regarding risk assessment, impairments and capital and liquidity requirements prior to submission to the Board of Directors for approval. The CRO chairs the ARC.

The Board defines the Bank's risk appetite, tolerance, and financial targets in the Risk Appetite Statement. The Risk Appetite Statement is intended to support the Bank's business strategy by defining high-level limits and targets for core factors in the Bank's risk profile and operations. The Risk Appetite Statement defines thresholds for both financial and non-financial risk.

The measures include target return on equity, target capitalisation level and capital composition, maximum credit losses, concentration limits, maximum amounts at risk for market risk and target liquidity ratios.

The Risk Appetite Statement is further implemented through risk policies, approved by the Board, and other rules, procedures and limits approved by ARC which provide more details specific to each risk type. In addition, the Risk Assessment Framework and the Stress Testing Framework, approved by the Board, describe the processes for identifying and assessing the risks inherent in the Bank's operations.

The table below presents key metrics from the Risk Appetite Statement.

	Metrics
Profitability	Long-term return on equity
	Cost-to-income ratio
	Target dividend ratio
Capital adequacy	CET1 capital ratio
	Total capital target
	MREL ratio threshold
Credit risk	Average annual credit losses
	Non-primary lending activity
	Concentration risk (20 largest groups as a percentage of total capital)
Market risk	Market risk (percentage of total capital)
	Market value of listed and unlisted equities
	Equity and bond underwriting exposures
Liquidity risk	Liquidity coverage ratio
	Net stable funding ratio
	Encumbrance ratio
Operational risk	Quarterly operational losses (percentage of Pillar 1 capital for operational risk)
	Key risk indicators for material sub-categories of operational risk
Compliance risk	Key risk indicators

Risk Monitoring and Reporting

Risk Management provides a holistic view on risk and compliance to limits, to internal and external stakeholders, and ensures an appropriate escalation in the event of limit breaches. Business and support units are, however, responsible for maintaining their independent view on the risks inherent in their operations, implementation of controls and other mitigating actions where needed, and reporting to senior management any present or foreseeable breaches from limits, policies or strategic direction.

Risk Management is responsible for providing ARC, the Board's Risk Management Committee and the Board with comprehensive and understandable information on the overall risk profile of the Group, including a comparison with the approved policies and limits. In addition, risk positions are reported to various business committees like the Asset and Liability Committee, Operations and Security Committee and the Sustainability Committee.

Internal Reporting	**Details**	**Frequency**
Risk Dashboard	The report provides a review of risk measures that summarise the main risk positions as compared to the risk appetite, internal tolerance and regulatory limits. This includes utilisation of limits set by the Board or Executive and Business Committees. The report also includes the status of the Bank's contingency indicators. On a quarterly basis the report includes an assessment of capital adequacy in light of changes in risk profile (ICAAP review).	Monthly

Internal Reporting	Details	Frequency
Compliance report...........	The report provides an overview of the main supervisory tasks of the compliance unit, identified deficiencies and reactions.	Annual
ICAAP report	The ICAAP report includes a detailed description of how the Bank identifies, measures and assesses its capital adequacy in relation to its risk profile and business model. The scope of the assessment encompasses all material risks to which the Bank and its subsidiaries are exposed.	Annual
ILAAP report (Internal Liquidity Adequacy Assessment Process)........	The ILAAP report includes a detailed description of how the Bank identifies, measures and assesses its liquidity adequacy in relation to its risk profile. The report also includes a forward looking analysis based on contractual inflows and outflows, planned issuance and new lending according to the Bank's business plan.	Annual
Recovery Plan..................	The document provides a comprehensive recovery plan for the Bank that sets out measures to be taken for the recovery of the Bank's financial position following a significant deterioration to restore financial stability.	Annual

Risk Taxonomy

The Bank maintains a risk taxonomy that identifies all material and key risks. Although credit risk accounts for most of the Bank's risk exposure amount, all material risks are measured and monitored in line with the process below.

15.3 Credit Risk

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

Credit concentration risk is the increase in risk that is driven by common underlying factors, such as sector, economy, geographical location, type of financial instrument, or due to connections or relations among counterparties. This includes large individual exposures to parties under common control and significant exposures to groups of counterparties whose probability of default is driven by common underlying factors.

The ultimate responsibility for ensuring an adequate credit risk management and internal control framework at the Bank lies with the Board of Directors. The Board defines the credit risk governance framework and the acceptable level of credit risk through the Risk Management and Internal Control Policy, the Risk Appetite Statement and the Credit Risk Policy.

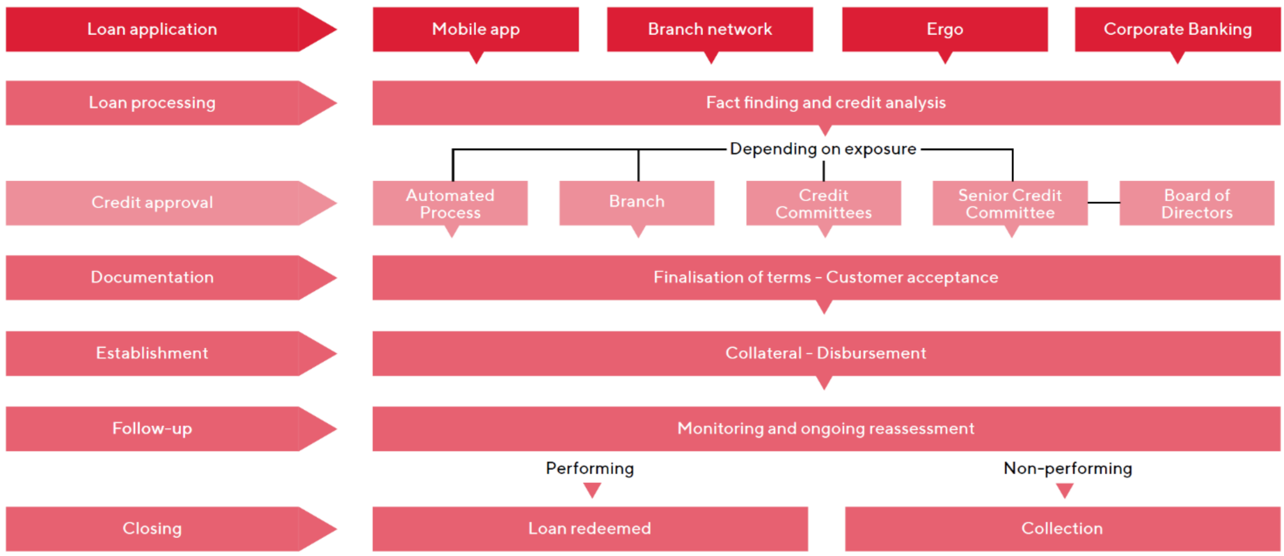
The Bank's strategy is to maintain a modest credit risk profile and it aims to have long-term average annual credit losses less than 0.9% of the loan portfolio, excluding the liquidity portfolio and the qualified retail mortgage portfolio. This risk appetite is reflected in the credit risk limit structure and guided through the use of credit risk assessment models.

Credit risk activities are controlled through exposure limits applied to counterparties, countries, sectors and products.

As the second line of defence, Risk Management monitors the adherence to credit risk limits and reports on credit risk to the ARC and to the Board of Directors, including current and prospective risk position compared to the risk appetite.

The Bank's credit process is based on a committee structure where the Senior Credit Committee has the authority to approve credit proposals within authorisation limits set by the Board of Directors. The Senior Credit Committee then appoints and allocates credit authorisation limits to its subcommittees and to individual employees such as branch managers and credit managers. Credit authorisation limits can have reference to the risk class of the counterparty or to specific credit products. Credit decisions for certain retail products, such as mortgages, overdrafts and credit cards to individuals, are partially based on an automated approval process.

The diagram below outlines the credit approval process, with clear lines of delegation of authority for credit decisions.



The Bank's Credit Rules outline the principles governing loans, guarantees and other products that expose the Bank to credit risk. Trust between the Bank and its customers is a prerequisite for all lending, as well as the customer's ability and willingness to repay in a timely manner. Sufficient collateral alone cannot justify lending to customers with insufficient payment capacity. The Bank's Sustainability Policy mandates that sustainability and ESG risk is evaluated in the credit granting and risk assessment process.

To mitigate risk, the Bank requires collateral that is appropriate for the product offered. For some products, such as relatively small overdrafts to individuals, no collateral is required, given that the customer's creditworthiness meets the Bank's criteria. Since the Bank does not seize collateral unless a borrower faces serious repayment difficulties, the valuation of collateral focuses on its future expected value at the time of default. The Bank has appointed a Collateral Council that reviews and proposes guidelines for the valuation of collateral and pledged assets. The objective is to ensure that the valuation of collateral is coordinated throughout the Bank.

As the first line of defence, the business units continuously monitor their loan portfolio and periodically re-assess customers' performance, based on both internal and external data. Collection procedures are set to be agile and swift to keep arrears at minimum. Loan covenants are monitored, and appropriate actions are taken to protect the Bank's interests if there are covenant breaches.

Measurement and Monitoring

Portfolio credit risk is measured both in terms of current events and possible future events. Current events include non-performing ratios, the scope of forbearance agreements and allowance for expected credit losses for defaulted facilities, while possible future events are captured by measurements such as the probability of default and the allowance for expected credit losses for non-defaulted facilities.

To ensure that the Bank charges an adequate interest rate and that it has sufficient capital reserves to ensure long-term sustainability, the Bank estimates expected and unexpected losses of its loan portfolio.

The long-term expected credit loss on the loan portfolio is covered by a part of the interest rate margin. Due to various underlying factors, the observed annual losses can fluctuate significantly around the long-term average, sometimes up to an order of magnitude. To be able to cover these unexpected losses at any time, the Bank holds a substantial capital buffer against these fluctuations. An adequate return on this capital buffer also needs to be covered by the interest rate margin.

Credit Concentration

The Bank monitors credit concentration risk which arises from the unequal and granular distribution of exposure to borrowers, industry sectors and geographic regions. The portfolio concentration is monitored and constrained by limits set in the Risk Appetite Statement.

Borrower Concentration

The Bank actively seeks to limit large exposures. A large exposure is defined as an exposure to a group of connected clients that is 10% or more of the Bank's Tier 1 capital. The exposure is evaluated both before and after application of eligible credit risk mitigating effects according to relevant rules. When assessing the exposure, both on-balance sheet items and off-balance sheet items from all types of financial instruments are included. The Bank has internal criteria which define groups of connected customers in line with Icelandic law and EBA guidelines.

After mitigating effects, the Group had four large exposures at 31 March 2025 amounting to 40% (year-end 2024: two). No large exposure is above the maximum 25% large exposure limit set by the law.

Industry Sector Concentration

The Bank has limits on both the exposure to any single economic industry sector as well as the aggregated exposure to the three largest economic industry sectors as a percentage of the Bank's total credit exposure. Exposure to individuals, as an economic industry sector, is also considered separately.

The tourism industry is an important economic sector in Iceland but due to the nature of tourism, its effects are not limited to hotels, car rentals and tour guides. The Bank therefore monitors the tourism industry internally as a quasi-sector instead of a new separate sector.

Geographic Concentration

Specific geographical limits are established to manage country risk. The geographical limits apply to the country from where the credit risk arises. Iceland is considered to be a home market and is as such not subject to geographical limits.

Most of the Bank's activities are in Iceland but the Bank maintains a certain amount of international activities. The overseas strategy is built on a heritage of servicing the core industries in Iceland, primarily focusing on the seafood industry. The strategy focuses on the North Atlantic region, including Canada, the United States and Norway.

Product Concentration and Collateral Concentration

The Bank regularly monitors product concentration and collateral concentration but neither type is currently considered to be material.

Settlement Risk

To mitigate settlement risk on counterparties, the Bank utilises the services of clearing houses and applies the general rule of delivery versus payment. If such a rule is not applicable due to the nature of the business relationship, a settlement limit is assigned to the counterparty to limit the risk.

Counterparty Credit Risk

Counterparty credit risk ("**CCR**") is the risk arising from the possibility that the counterparty may default on amounts owed on a derivative transaction.

The Bank takes on CCR when entering into derivatives transactions. This includes, but is not limited to, interest rate swaps, cross-currency swaps, equity and bond forwards and foreign exchange forwards and swaps.

The Bank actively uses derivatives to hedge currency, interest, and inflation exposures. Such derivatives contracts are generally subject to ISDA master agreements with a Credit Support Annex, or similar terms, with collateral in the form of cash and eligible bonds. Counterparties in these contracts are also subject to approved credit limits.

When setting credit limits for counterparties in derivatives contracts, the Bank follows the same process as for other credit risk credit exposures and, as for credit concentration risk in general, credit limits for counterparties are constrained by various concentration limits, many of which are defined in terms of the Bank's capital base.

Credit Risk Exposures

Credit risk exposure comprises both on-balance sheet and off-balance sheet items. Exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the Consolidated Financial Statements. The exposure for off-balance sheet items is the amount that the Bank might have to pay out against financial guarantees and loan commitments, less the impairment the Bank has made for these items, but before applying credit conversion factors ("**CCFs**"). The regulatory exposure amount under the credit risk framework for capital requirement purposes does not reconcile with the net carrying amount in the Consolidated Financial Statements mostly due to the contribution of off-balance sheet items. For capital requirement purposes, credit conversion factors are applied to guarantees and undrawn commitments. For derivative contracts, the exposure is calculated according to the simplified standardised method by adding potential future credit exposure to the replacement cost of the contract. The Bank currently has no direct credit exposure to securitisation.

The table below sets forth the Bank's main sources for credit risk at year-end 2024 and 2023 (ISK billion) on a consolidated basis.

Credit risk	**31.12.2024**	**31.12.2023**
Cash and balances with Central Bank	65,716	87,504
Loans to credit institutions	50,486	73,475
Bonds and debt instruments	111,908	—
Loans to customers	1,295,388	1,223,426
Other financial assets	6,306	2,846
Off-balance sheet items	192,203	197,115
Maximum credit exposure	**1,722,007**	**1,584,366**

The Bank's maximum exposure to credit risk deriving from off-balance sheet items totalled ISK 192 billion at year-end 2024 compared to ISK 197 billion the year before. For regulatory purposes, a CCF is applied to calculate the exposure under the credit risk framework. Calculated in this way, the regulatory credit exposure deriving from off-balance sheet items totalled ISK 58 billion at year-end 2024 compared to ISK 53 billion at year-end 2023. This adjustment lowers the exposure of undrawn loan that undrawn credit card limits and selected corporate credit lines have at year-end been assigned a revised CCF of 30% following an updated interpretation of commitments by ISK 134.6 billion after CCF.

The Bank uses derivatives to hedge currency, interest and inflation exposure. Exposure under the credit risk framework for derivatives amounted to ISK 9.2 billion at year-end 2024 compared to ISK 11.2 billion the year before. The method to calculate the exposure value for derivatives was changed in 2023 from the original exposure amount method to the simplified standardised approach.

Country Risk Exposure

Exposure to countries other than Iceland amounted to ISK 93.8 billion at year-end 2024 compared to ISK 187 billion the year before. This exposure relates mainly to the management of the Bank's foreign liquidity reserves. The Bank has no retail lending activities outside of Iceland but maintains a modestly sized portfolio of lending to companies in the United States, Canada and Norway within its North-Atlantic strategy. The exposure to companies within this portfolio was ISK 14.5 billion at year-end 2024.

Loans to Customers

Loans to customers, both individuals and companies, represent the largest part of the Bank's credit risk exposure. This section describes the portfolio of loans to customers and its development.

At year-end 2024 the net carrying amount of the portfolio of loans to customers was ISK 1,295 billion, having grown from ISK 1,223 billion at year-end 2023. This growth of 5.9% is mainly due to the increase in the mortgage portfolio which grew by ISK 33 billion, a part of which was due to strong growth in the housing market and partly due to refinancing of outstanding mortgages.

As a principle, the Bank aims to have the currency composition of loans to customers in balance with customer needs. In particular, loans to customers whose income is predominantly in ISK should be denominated in ISK. The Bank has in place rules regarding lending in foreign currency, ensuring management of this risk. Loans to customers are categorised into three currency types, Non-indexed ISK, Consumer Price Index linked ISK and Foreign currency.

Loans Covered by Collateral

Collateral and other credit risk mitigants vary between types of obligors and credit facilities. Loans to eligible credit institutions are usually unsecured. For loans to individuals, the principal collateral pledged is residential property against mortgages. Unsecured loans to individuals are mostly short-term consumer loans such as overdrafts and credit cards. In the case of large companies, pledged collateral includes real estate, fishing vessels, cash and securities, as well as other collaterals such as accounts receivable, inventory, vehicles and equipment. Loans to government entities and municipalities are generally unsecured. The measured credit risk exposure of loans is not affected by the pledged collateral.

In some cases, the Bank uses guarantees as credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in exposure to credit risk although they may strengthen its quality. The guarantees which the Bank accepts are from parties which have some association with the obligor, e.g., direct ownership. Thus, the Bank does not use general credit derivatives to mitigate credit risk. Covenants in loan agreements are also an important credit enhancement though they do not reduce credit exposure.

Valuation of collateral is based on market price, an official valuation from Registers Iceland, or the expert assessment of the Bank's employees, depending on availability. In the case of fishing vessels, the assigned fishing quota is included in the valuation, based on a valuation by the Bank's Collateral Council. Valuations can only be valid for a certain amount of time and must therefore be reassessed regularly. Since the price volatility differs between asset classes it is considered how the LTV distribution of the portfolio is split between these classes.

Risk Profile

Each obligor is assigned a risk class depending on how likely they are considered to default in the next twelve months. Note 49 to the 2024 Consolidated Financial Statements shows the breakdown of loans to customers, off-balance sheet loan commitments, and financial guarantees into risk class groups and stages.

According to IFRS 9, the allowance for expected credit losses, i.e. the difference between the gross and the net carrying amount, is the expected credit loss ("**ECL**"). The columns show the contribution to the ECL from the probability of default ("**PD**") and the loss given default ("**LGD**") as at 31 December 2024. For facilities in Stage 3, the PD does not apply since default has already occurred. Additionally, the LGD contribution is divided into the probability that the default will not cure, and thus lead to an economical loss (loss rate), and the expected size of the eventual economic loss (loss severity). Finally, for facilities in Stage 2, the loss allowance is equal to the expected loss for any events occurring during the lifetime of the facility, the contribution of this is shown in the column "Effect of lifetime loss" below.

Stage	Gross carrying amount	PD	LGD loss rate	LGD loss severity	Effect of lifetime loss	ECL
	(ISK billion)	(%)	(%)	(%)	(%)	(%)
Stage 1	1,240.7	4	34	21	100	0.3
Stage 2	41.1	13	39	22	210	2.4
Stage 3	21.5	100	76	20	100	15.6

The Bank monitors the non-performing loans ("**NPL**") ratio but due to the adoption of IFRS 9 it has been necessary to change the definition. The NPL ratio used by the Bank is based on the gross carrying amount of loans to customers that are in default (i.e., Stage 3). It is important to note that the NPL ratio may not be comparable between banks unless they use the exact same definition. The exposure amounts used to calculate the NPL ratio can be found in Note 49 in the 2024 Consolidated Financial Statements. The Bank's NPL ratio measured at 1.6% at year-end 2024, 0.2% lower than at year-end 2023.

15.4 Market Risk

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, inflation, equity prices and foreign exchange rates.

Market risk has been identified as one of the key risk factors in the Bank's operations. The Bank takes on market risk as a part of its business strategy and aims to maintain a moderate market risk profile. The objective of the Bank's market risk management framework is to manage and control market risk exposures and ensure that the market risk profile is within the Board's approved risk appetite.

Market risk at the Bank is split into two categories, trading book and banking book (non-trading book). Market risk due to mismatches in assets and liabilities with respect to currencies, interest reset dates and CPI-indexation falls in the banking book. Market risk in the banking book also includes exposures held for long-term investment purposes, positions in unlisted securities and holdings in subsidiaries or affiliates. Market risk exposures in the trading book are related to short-term trading in securities, currencies and other capital market instruments and derivatives. The positions are undertaken mainly as a part of the Bank's flow trading and as hedges against customers' derivatives contracts. In 2023, the Bank reclassified bond positions in the liquidity portfolio from trading book to banking book to reflect the portfolio's investment objectives more accurately.

The ultimate responsibility for ensuring an adequate market risk management and internal control framework at the Bank lies with the Board of Directors. The Board defines the market risk governance framework and the acceptable level of market risk through the Risk Management and Internal Control Policy, the Risk Appetite Statement and the Market Risk Policy.

The ARC is responsible for the review and implementation of the Market Risk Policy and the market risk appetite. The ALCO decides on individual proposals for assuming and pricing market risk on behalf of the Bank within the appetite and limits approved by the Board and ARC. The managing director of Corporate & Investment Banking and the CFO are responsible for the market risk taken on or owned by their units and for earning an acceptable level of return on these risks. The directors of business units that take on market risk on behalf of the Bank are responsible for identifying and managing the risk in their portfolios within limits approved by the Board, ARC or ALCO.

The Bank uses various tools to measure, monitor and limit market risk exposures. These tools include conventional risk measures, limits on notional and sensitivity measures. The Bank's overall market risk exposure is measured according to the Bank's Market Risk Measurement Framework ("**MRMF**") and the Risk Appetite Statement mandates that the Bank's market risk shall not exceed 15% of the Bank's capital base. The MRMF uses stress tests to calculate potential losses from extreme but plausible market events for each risk exposure, both for the current position of each portfolio, as well as the maximum position within the limits for the given portfolio. Limits are also set to manage the concentration risk towards single issuers or instruments, as well as to manage trading liquidity risk. The Bank is also exposed indirectly to market risk through customers' derivative positions. Those positions are subject to strict margin and monitoring requirements.

The business units, as the first line of defence, are responsible for continuous monitoring of the market risk inherent in their operations, for maintaining their view on these risks and for notifying senior management of any foreseeable breaches of limits, policies or strategic direction. Risk Management, as the second line of defence, monitors the overall market risk profile of the Group, ensures proper escalation of limit breaches and provides an independent view on all market risk taken on by the Group.

Equity Risk

Equity risk arises from flow trading, market making, shares acquired through restructuring of companies, and strategic investments.

The equity risk is managed through limits on aggregate market value and maximum exposure or market share in single securities. Equity risk includes bonds with equity-like features but excludes hedges against customers' equity forward positions.

Equity exposure in the trading book (excluding equity exposure for economic hedging purposes) increased in 2024 with an average position of ISK 3.3 billion compared to ISK 1.0 billion in 2023. Equity exposure in the banking book, including fair-value shares and shares held for sale increased in 2024, going from ISK 6.4 billion in year-end 2023 to ISK 8.0 billion in end of 2024. The Bank has no equity underwriting positions.

An overview of the equity instruments is presented in Note 58 to the 2024 Consolidated Financial Statements. For information on equity forward positions, see Note 24 to the 2024 Consolidated Financial Statements.

Interest Rate Risk

In 2023, the European Banking Authority ("**EBA**") published updated Guidelines and Regulatory Technical Standards ("**RTS**") on Interest Rate Risk in the Banking Book ("**IRRBB**"). These revisions incorporated a new Supervisory Outlier Test ("**SOT**") focusing on Net Interest Income ("**NII**"), enhancing the evaluation of NII variations under two interest rate stress scenarios. This development was part of a broader initiative, following consultations in 2021 and 2022, to capture and compare IRRBB exposures more accurately.

Pertinent to this update is Article 84 of the CRD V, which required the EBA to establish guidelines for identifying, managing, and mitigating IRRBB. Additionally, the EBA was directed to outline criteria for assessing and monitoring the Credit Spread Risk in the Banking Book ("**CSRBB**"). Unlike IRRBB, the assessment methodology for CSRBB largely remains within the discretion of individual banking institutions. A critical deadline for financial institutions was 30 June 2023, by which they were expected to have an internal risk management system for IRRBB in place. This requirement was aimed at bolstering the banking system's resilience against adverse financial shifts.

Furthermore, the changes in the Economic Value of Equity ("**EVE**") and Net Interest Income ("**NII**") are now reported through the template EU IRRBB1, aligning with six regulatory interest rate change scenarios for EVE (parallel shock up and down, steepener, flattener, short rates shock up and down) and two supervisory shock scenarios for NII (parallel shock up and down). These measures are part of the Additional Pillar 3 Disclosures, reflecting the ongoing evolution of banking regulation in response to dynamic financial landscapes.

IRRBB is evaluated and monitored on a monthly basis, both in light of contractual and behavioural assumptions.

In line with the new EBA guidelines on IRRBB, the Bank has integrated the new SOTs into its risk management framework. These tests extend analytical capabilities beyond the conventional parallel shock scenarios, enabling the Bank to comprehensively evaluate its exposure to interest rate risk under a variety of stress conditions. Notably, the SOT on NII provides a more granular and forward-looking assessment of IRRBB.

As of December 2023, the Bank implemented Non-Maturity Deposits ("**NMD**") modelling for providing a more accurate measure of interest rate risk in the banking book. Non-maturing deposits are savings and current accounts that do not have a contractual term, making their cash flows uncertain. By using statistical models, the Bank can gain insights into deposit behaviour and optimise its risk management strategies. The practice of using NMD modelling to measure interest rate risk is a widely accepted practice, with EBA providing guidelines.

To manage interest rate risk, the Bank also uses sensitivity measures like basis point value ("**BPV**"). The BPV measures the effect of a 1 basis point parallel upward shift in the yield curve on the fair value of the underlying position. By the end of 2023, the interest rate risk in the trading book was minimal due to the reclassification of the liquidity portfolio from the trading book to the banking book. The fair value effect of a 100 basis point parallel upward shift in yield curve turns to a positive effect when accounting for NMDs in the banking book.

IRRBB arises from core banking activities. It represents the risk of loss from fluctuations in future cash flows or fair value of financial instruments as market rates change over time, reflecting the fact that the Group's assets and liabilities are of different maturities and are priced relative to different interest rates. The main sources of interest rate risk in the banking book are fixed rate mortgage loans, covered bond debts and fixed-term deposits.

Interest rate risk in the banking book is managed by limits on the sensitivity of the fair value of the Bank's assets and liabilities to changes in market rates. All interest-bearing assets and liabilities are bucketed according to their next interest rate reset date, and the effect of a 100 basis points upward parallel shift on the interest rate exposure is measured. The sensitivity calculations are based on the duration of the underlying assets and liabilities. The calculations exclude non-performing loans since the valuation of such loans is based on the expected recovery and is not affected by changes in the underlying interest rates. An overview of the Bank's interest rate risk in the banking book is provided in Note 56 in the 2024 Consolidated Financial Statements.

In addition to a parallel shift in yield curves, the Group measures the effect of a so-called weighted adverse shift in yield curves. This entails that different weights are used to shift each yield curve in a direction that results in a loss for the Group, and the effect per yield curve is then added up to a single amount. Measured this way, interest rate risk in the banking book decreased in 2023, as the gap between non-index-linked assets and liabilities narrowed. Also, the interest rate sensitivity for index-linked assets and liabilities decreased significantly, although the banking book remains asset-heavy.

The introduction of a behavioural model allows for a duration extension of the Non-Interest Sensitive component of certain eligible client deposits. The maximum repricing term of NMDs is five years, with a weighted average maturity of 0.5 years.

Inflation Risk

The Bank is exposed to inflation risk since assets linked to the CPI exceed liabilities linked to the CPI. The net carrying amount of all CPI-linked assets and liabilities changes according to changes in the CPI at any given time, and all changes in the CPI impact the profit and loss via interest income. The inflation risk inherent in the trading book positions is captured through the interest rate risk of the positions. The inflation imbalance in the banking book saw a significant rise in 2023, primarily due to a growth in inflation-linked assets in the second half of the year. The rise in inflation imbalance in 2023 is mainly due to customers having increasingly opted to refinance their loans from non-indexed to CPI-linked.

Currency Risk

Currency risk arises when financial instruments are not denominated in the Group's reporting currency, especially if there is a mismatch in the currency denomination of assets and liabilities.

Currency risk is managed within regulatory and internal limits, with separate limits for the banking book and the trading book. The overall consolidated currency imbalance was ISK 2.9 billion at year-end 2024 compared to ISK 6.1 billion at year-end 2023.

Derivatives

The Bank offers various types of derivative products to its customers and uses derivatives to hedge risks on its own balance sheet. The main products offered to customers are interest rate swaps, cross-currency interest rate swaps, foreign exchange swaps, outright forwards as well as equity and bond forwards. The Bank uses derivatives to hedge imbalances with respect to currency exposure, interest rate risk and inflation risk in the banking book. For accounting purposes, these instruments are classified and measured at fair value. Other derivatives are insignificant.

All derivatives positions that carry direct market risk are subject to risk limits. The overall position in interest rate swaps and cross currency interest rate swaps is subject to both BPV and duration limits, while options are subject to several limits, including a limit on the open delta position in each underlying instrument.

At year-end 2024, the Bank's aggregate gross forward position in foreign currency against the ISK amounted to 26% of the Bank's total capital base, well within the regulatory limit of 50%.

15.5 Liquidity and Funding Risk

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

Sound and efficient management of liquidity risk is a key factor to ensure the viability of the Bank's operations and to achieve and maintain a target credit rating. The Bank takes a conservative and prudent approach to managing liquidity risk and its liquidity strategy assumes that the Bank always fulfils regulatory requirements, internal thresholds and can sustain a prolonged period of stress. Following are the key principles on which the Bank's liquidity risk management framework is based:

- clear responsibilities and ownership of liquidity risk and liquidity risk control;
- the definition, categorisation and management of liquid assets shall be clear;
- the Bank maintains a portfolio of liquid assets to be able to service its liabilities even if access to funding markets is impaired; and
- the Bank has in place a Liquidity and Capital Contingency Plan which is tested regularly.

The Bank's liquidity risk appetite is reflected in the liquidity risk framework and guided through the liquidity limit structure.

The ultimate responsibility for ensuring an adequate liquidity risk management and internal control framework at the Bank lies with the Board of Directors. The Board defines the liquidity risk governance framework and the acceptable level of liquidity risk through the Risk Management and Internal Control Policy, the Risk Appetite Statement and the Liquidity Risk Policy.

The ARC is responsible for the review and implementation of the Liquidity Risk Policy, Liquidity and Capital Contingency Plan and the liquidity risk appetite. The ALCO decides on individual proposals for internal and external pricing, subject to the policies and models approved by the Board and ARC. ALCO also reviews and approves investment policies for managing the Bank's liquid assets, reviews and approves the contingency stage assessment as part of the Bank's Liquidity and Capital Contingency Plan and reviews information about the liquidity position of the Bank with respect to targets and limits.

The CFO, as the managing director for Treasury, is responsible for ensuring the necessary resources and training of employees for understanding, identifying, measuring or assessing, monitoring, mitigating, and reporting on funding and liquidity risk. Treasury is responsible for the liquidity management of the Bank, in line with the internal and regulatory limits and policies, and the associated risks. Treasury is also responsible for the Bank's funding operations and the internal pricing framework.

The Bank complies with guidelines on liquidity management which are based on the Principles for Sound Liquidity Risk Management and Supervision, issued by the Basel Committee on Banking Supervision.

Measurement and Monitoring

Key measures for the assessment of liquidity risk are the LCR and net stable funding ratio ("**NSFR**") introduced by the Basel Committee on Banking Supervision in 2010 and incorporated into European law through CRD IV.

The Central Bank of Iceland has incorporated the LCR and the NSFR based on the CRD IV standards into the Rules on Credit Institutions' Minimum Net Stable Funding Ratios. The LC Rules require an 80% minimum liquidity ratio in euros for credit institutions whose euro-denominated liabilities equal 10% or more of their total liabilities. Concurrent with the introduction of these new requirements, the 100% liquidity ratio requirement for all foreign currencies combined has been abolished. In addition, credit institutions are required to satisfy at least 50% of their liquidity requirement in ISK.

The minimum of 100% for the overall NSFR was implemented in 2021 superseding the previous rules that required the Bank to maintain a 100% funding ratio in foreign currencies. In addition, the Central Bank of Iceland receives additional liquidity monitoring metrics ("**AMM**") to obtain a comprehensive view of the Bank's liquidity risk profile. The AMM cover a wide array of monitoring metrics, including a maturity ladder, funding concentration, concentration of counterbalancing capacity and rollover of funding.

According to the LCR Rules, the Bank submits monthly reports on the LCR and NSFR along with AMM reports. In addition to these regulatory measures, the Bank monitors several quantitative and qualitative liquidity measures, both static and forward-looking, to assess and quantify its liquidity position and thereby its liquidity risk. These include predefined triggers for the assessment of liquidity stage and forecasts of the development of the LCR. The assumptions for the internal liquidity measures are reviewed regularly.

Treasury, as a first line of defence, is responsible for continuous monitoring of the liquidity risk inherent in the Bank's operations and for notifying senior management of any foreseeable breaches from either internal thresholds, regulatory limits, or strategic direction. Risk Management, as the second line of defence, is responsible for providing an independent view on liquidity risk on a consolidated basis to internal and external stakeholders and for managing the annual Internal Liquidity Adequacy Assessment Process ("**ILAAP**"). The Bank's ILAAP report is approved by the Board of Directors and submitted to the Central Bank of Iceland which then reviews the report in its Supervisory Review and Evaluation Process ("**SREP**").

Liquidity Position

The Bank maintained a strong liquidity position throughout 2024 and all regulatory and internal metrics were above limits. The Bank continues to steer its liquidity ratios with the aim of reducing liquidity cost further while keeping the ratios comfortably above minimum requirements. The LCR ratio for the Bank in 2024 was 168%.

Funding

The Bank monitors the concentration of funding to avoid undue reliance on individual funding sources and continues to be predominantly funded by deposits, although borrowings through bond issuance amount to 29.8% of the total funding (*i.e.*, the sum of deposits from Central Bank and credit institutions, deposits from customers, debt issued and other borrowed funds, subordinated loans and total equity) as at 31 December 2024. The Bank has gradually increased its borrowing in recent years with the issuance of covered bonds and unsecured bonds in foreign and local currencies, as well as subordinated debt. Note 37 in the 2024 Consolidated Financial Statements gives an overview of the terms of outstanding bonds issued by the Bank at year-end.

A key metric for assessing the long-term viability of the Bank's funding structure is the NSFR. The ratio measures the proportion of stable funding to long-term assets for a time horizon of over one year. In particular, the NSFR is structured to ensure that long-term assets are funded with at least a minimum amount of stable liabilities and thus to limit overreliance on short-term wholesale funding. The NSFR for the Bank in 2024 was 125%.

The EU LIQ2 ("**EU LIQ2**") table in the Additional Pillar 3 Disclosure shows the breakdown of the Bank's positions underlying the NSFR at year-end 2023.

Deposits

The loan-to-deposit ratio for households and non-financial corporations was 158% at year-end 2024 compared to 166% at year-end 2023. The reduction is mainly due to growth in deposits to customers exceeding growth in loans to customers. The ratio is expected to remain in this range and deposits to continue to be the largest source of funding for the Bank in the years ahead.

The total deposit balance (representing the sum of deposits from central bank and credit institutions and deposits from customers) rose by ISK 73 billion over the course of the year 2024. The change was mainly due to an increase in retail deposits (ISK 98 billion) and to a lesser extent deposits from pension funds (ISK 7 billion) which was offset by a reduction in deposits from corporations (ISK 35 billion).

The proportion of term deposits decreased slightly in 2024 at 18% of total deposits at year-end 2024 compared to 19% at year-end 2023. The largest increase in term deposits came from retail deposits (ISK 6 billion). For an overview of deposits see EU LIQ2 in the Additional Pillar 3 Disclosure.

Deposit concentration is monitored since a substantial amount of the Bank's deposits are from relatively few counterparties. The Bank's highest deposit concentrations are in wholesale deposits from corporations, foreign and domestic financial institutions and pension funds. The deposit concentration in 2024 reduced from 10% to 8% of the Bank's deposits belonging to the 10 largest depositors and decreased from 26% to 22% belonging to the 100 largest depositors.

Asset Encumbrance

The asset encumbrance ratio is critical when monitoring the consequences of changes in funding sources and the ability to withstand funding stress. The Bank's asset encumbrance predominately consists of:

- loans and securities serving as collateral for covered bond issuance which is one of the Bank's strategic long-term funding sources;
- cash and securities as collateral for currency swap agreements; and
- Central Bank of Iceland term deposits for the payment system.

The Bank's asset encumbrance ratio was 19.0% at year-end 2024.

15.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The Bank's definition of operational risk includes reputational risk, legal risk, ICT and security risk, model risk, outsourcing risk, business and strategic risk, process risk, conduct risk and compliance risk. Compliance risk and conduct risk is managed and monitored within the Compliance function.

A healthy risk culture, supported by a clear risk appetite limit, is a key factor in a sound operational risk framework. The framework is maintained and developed further through staff training regarding policies, processes, risk strategy and the awareness of risk-taking by employees.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at the Bank lies with the Board of Directors which establishes both the Operational Risk Policy and the Risk Appetite for operational risk.

The operational risk management framework is based on the following principles:

- clear responsibilities and ownership of operational risk and operational risk controls;
- the Bank accepts no unnecessary operational risk, meaning that it only assumes operational risk when the cost of mitigating that risk and preventing possible losses outweighs the benefits;
- the Bank promotes a strong risk culture, emphasising compliance to internal and external laws and regulations;
- with the aim of ensuring business continuity and minimising customer impact the Bank shall have adequate processes, procedures, and resources to ensure quick discovery, analysis and termination of IT incidents; define and meet service-level objectives for digital solutions and protect information and data from loss of confidentiality;
- a key feature of the business continuity management framework is based on having clear overview of core business activities, and clear roles and responsibilities in regarding business continuity management, with regular testing of all business continuity plans;
- the Bank has no appetite for compliance risk that can lead to financial loss or reputational damage;
- a key feature of a strong risk culture is to foster a "no blame" environment where operational risk events are recognised and registered to enable continuous improvement to the Bank's operations; and
- the Bank takes appropriate measures, in all its operations, to ensure the safety and health of its customers and employees.

The ARC is responsible for the review and implementation of the operational risk framework. The OSC decides on individual proposals for assuming and mitigating operational risk on behalf of the Bank within the appetite and limits approved by the Board and ARC. The OSC also reviews and approves proposals for new products, services, outsourcing and other material changes within the Bank.

The managing directors for individual business and support units are responsible for the operational risk inherent in their business and reporting on their operational risk profile to the Operations and Security Committee. This entails identifying the sources of operational risk in their operations, assessing whether the cost of avoiding the risk outweighs the benefits and ensuring that unacceptable operational risks are mitigated, and losses prevented.

Risk Management is responsible for implementing the Bank's operational risk framework, for developing and maintaining the Operational Risk Policy and for communicating the policy to the Bank's employees. Key risk factors related to operational risk are addressed in other policies such as the Security Policy, Outsourcing Policy, Compliance Policy and New Products, Significant Changes and Product Governance Policy. These policies outline the risk management and internal controls specific to these risk categories.

Risk Management monitors the overall operational risk profile of the Bank, ensures proper escalation and reporting of operational risk issues and provides an independent view on the overall operational risk inherent in the Bank's operations. Furthermore, Risk Management is responsible for reporting on operational risk events and limit breaches to senior management, the Board of Directors and to the competent authorities in accordance with internal procedures and regulatory requirements.

The Bank maintains an operational risk insurance covering loss events where insurance is deemed to be a cost-effective mitigation of operational risk. The insurance coverage limits financial loss caused by serious unexpected events or legal liabilities that occur despite other operational risk management procedures. The Bank's insurance also offers coverage for wrongful act claims brought solely against directors and officers of the Bank.

15.7 Sustainability Risk

Sustainability risk is the risk of being directly or indirectly negatively affected by externalities within the areas of environmental, social, and governance considerations, such as climate change, biodiversity, anti-corruption, human rights, labour conditions, data privacy, or business ethics. These risks are often defined by the materiality of ESG risk categories most significant for the company and its stakeholders.

This chapter is based on implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449a CRR and recommendations from the Task Force on Climate-related Financial Disclosures ("**TCFD**") and thus, comprises sections on Governance, Strategy, Risk Management, and Metrics and Targets.

The Board of Directors has approved the Sustainability Policy and sets the Bank's strategy and risk appetite in terms of sustainability risk. The Board is regularly updated on corporate sustainability matters and the usage of the Bank's Sustainable Financing Framework. The Corporate Governance and Human Resource Committee subcommittee of the Board assists the Board in fulfilling its oversight responsibilities concerning sustainability. The monthly Risk Dashboard includes a section on current sustainability risk and the Bank's ICAAP methodology mandates a separate chapter on possible future sustainability risk, both are discussed at the Board-level.

The CEO is responsible for executing the strategy and has appointed a Sustainability Committee as a main building block of the governance structure. The Committee is the formal forum for discussions on all issues related to sustainability risk, sustainable procurement, and business opportunities related to sustainability. The Committee is independent from credit committees and needs to approve proposals for sustainable loans and investments before they are included in the Sustainable Financing Framework. The committee is chaired by the CEO and manned by the CFO, Head of Sustainability, senior representatives from business departments and Risk Management. A separate Sustainability Working Group consists of employees from different business areas and departments within the Bank, and mainly focuses on educating members on important issues around sustainability.

The Board sets the Risk Appetite Statement, which includes a qualitative statement on sustainability risk in line with the Bank's Sustainability Principles, as stated in the Sustainability Policy. When taking on new business or evaluating proposals, in relation to existing business relationships, the Bank shall aim for full alignment with the Sustainability Principles.

Sustainability risk is one of six main risk types according to the Bank's Risk Taxonomy and relevant sustainability risk issues are reviewed by the All Risk Committee and included in the Risk Assessment Framework.

15.8 Capital Management

Banks' capital is intended to provide a buffer for unexpected losses or volatility in earnings and thereby provide protection for depositors and other creditors as well as promoting stability of the financial system. The eligible capital for calculating the capital ratio is defined by law and further outlined in relevant rules and regulations. The applicable Icelandic laws defines both the type of eligible capital and restrictions to the reliance on specific instruments. The Bank's capital management framework is based on the CRD IV as transposed into Icelandic laws.

The Board of Directors is responsible for the Bank's capital management framework and for ensuring that the Bank's capitalisation is adequate in relation to the risk inherent in the operations considering the Bank's business strategy and operating environment. The Board defines the capital governance framework and the adequate capitalisation through the Risk Management and Internal Control Policy, the Risk Appetite Statement, Risk Assessment Framework, and the Capital Management and Pricing Policy.

In addition to the current internal requirement of adequate capitalisation, the Board has defined a long-term capital target as a part of the business strategy.

The ARC governs the capital management of the Bank in accordance with the risk appetite set by the Board and reviews proposals to the Board regarding issues related to capital management, including the dividend policy.

The ALCO is responsible for capital allocation to the business units within the framework set by the Board. ALCO reviews and approves the contingency stage assessment as a part of the Bank's Liquidity and Capital Contingency Plan ("**LCCP**") and reviews information about the capital adequacy position of the Bank with respect to business targets and risk limits.

Risk Management is responsible for internal and external reporting on the Bank's capital adequacy. Risk Management is also responsible for the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and for the calculations of the allocated capital to individual business units.

Treasury is responsible for the management of the Bank's capital in accordance with the targets set by the Board. Finance is responsible for reporting on the risk-adjusted performance down to individual business units.

Total Capital and Capital Ratios

At year-end 2024 the Bank's Common Equity Tier 1 ("**CET1**") capital amounted to ISK 209 billion, unchanged from year-end 2023. The ISK 24 billion profit for the year, from which the 50% target dividend payment is deducted from the capital base, contributed to an increase in CET1. However, this was offset by the Bank's ISK 9 billion repurchase of its own shares during the year.

The AGM of the Bank held on 21 March 2024 authorised the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank of Iceland furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 10 billion in addition to the previously approved ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2024, ISK 3.6 billion remained of the approved buyback and is therefore deducted from CET1 capital.

The Bank's Tier 2 capital decreased from ISK 28 billion as at 31 December 2023 to ISK 22 billion as at 31 December 2024. The Bank exercised the option to call the Tier 2 notes that were due August 2028, amounting to SEK 500 million (ISK 6.8 billion). In September 2023, the Bank launched CPI-linked Tier 2 issue of ISK 9.6 billion.

Capital	As at 31 December 2024	2023
	(*ISK in millions*)	
Common equity Tier 1 Capital	**209,479**	**209,483**
Ordinary share capital	9,473	9,898
Share premium	55,000	55,000
Reserves	7,102	5,083
Retained earnings	155,780	154,712
Fair value changes due to own credit standing	135	1,827
Foreseeable dividend payment and approved buyback(*)	(15,760)	(14,990)
Tax assets	(164)	(122)
Intangible assets	(2,070)	(1,922)
Insufficient coverage for non-performing exposures	**(17)**	**(3)**
Additional Tier 1 Capital	**9,371**	**10,019**
Tier 2 capital	22,324	28,135
Total capital base	**241,174**	**247,637**

* The AGM of the Bank held on 21 March 2024 authorised the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank of Iceland furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 10 billion in addition to the previously approved ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2024 ISK 3.6 billion remained of the approved buyback and is therefore deducted from CET1 capital.

The Bank's minimum capital requirements, the corresponding risk exposure amount (REA) under Pillar 1, and the resulting capital ratios are shown in the table below.

Capital requirements and REA	Minimum capital requirements (Pillar I)	REA	Minimum capital requirements (Pillar I)	REA
	As at 31 December			
	2024		2023	
	(*ISK in millions*)			
Credit risk	73,803	922,533	69,261	865,758
Central governments or central banks	125	1,566	—	—
Regional governments or local authorities	334	4,176	306	3,819
Public sector entities	—	—	—	6
Institutions	1,058	13,219	1,345	16,816
Corporates	44,512	556,398	41,476	518,452
Retail	7,631	95,389	7,531	94,137
Secured by real estate property	16,150	201,873	15,330	191,628
Exposure in default	1,914	23,922	1,768	22,095
Exposures associated with particularly high risk	274	3,423	228	2,853
Covered bonds	293	3,668	12	148
Collective investment undertakings	104	1,305	89	1,115
Equity	376	4,701	324	4,051
Other items	1,031	12,893	851	10,641
Market risk	848	10,606	829	10,360
Traded debt instruments	115	1,436	57	715
Shares and equity instruments	734	9,169	245	3,064
Currency risk	—	—	526	6,580
Credit valuation adjustment	57	714	54	677
Operational risk	8,570	107,119	8,019	100,237
Total	83,278	1,040,972	78,163	977,032
CET1 capital	—	209,479	—	209,483
Capital base	—	241,174	—	247,637
CET1 ratio	—	20.1%	—	21.4%
Total capital ratio	—	23.2%	—	25.3%

The REA increased by ISK 64 billion during 2024. REA due to operational risk increased in line with increased operating income as it is based on the average income for the past three years.

Changes in the loan portfolio contributed an ISK 57 billion increase. The average risk weight of the loan portfolio remained unchanged at 64%. The reduction in average risk weight is mostly because a larger segment of the loan portfolio is now classified in the real estate exposure class.

Capital Requirements

The Board of Directors sets minimum capital thresholds for the Bank, expressed as the ratio between capital and risk exposure amount. The minimum capital thresholds are intended to reduce the likelihood that the regulatory overall capital requirement is ever breached. The minimum is based on the results from ICAAP, the views expressed by the regulator through the SREP, implementation and announced changes of the capital buffers, and other factors such as uncertainties in the operating environment or other external factors. The following sections describe each component in more detail.

Pillar 1 Minimum Capital Requirements

The first pillar of the CRD IV defines the minimum capital requirements for credit risk, market risk, and operational risk. The minimum capital requirement under Pillar 1 is 8% of the risk exposure amount. For each of the Pillar 1 risk factors, the CRD IV allows for different methods to be used for calculating the minimum capital requirements and thereby REA.

The capital requirements and capital ratios are presented in terms of REA that is determined by multiplying the capital requirements for market risk and operational risk by 12.5 (the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of the risk weighted assets for credit risk.

Pillar 2 Required Add-On (Pillar 2-R)

In addition to the minimum capital requirements for credit risk, market risk and operational risk under Pillar 1, financial institutions are required to make their own assessment of the overall capital requirements in the ICAAP process. These additional capital requirements, taking into account the risk profile of the institution, are referred to as Pillar 2-R capital requirements. The sum of Pillar 1 and Pillar 2-R is referred to as total SREP capital requirement ("**TSCR**").

In the ICAAP 2024, the main factors contributing to additional capital requirements under Pillar 2-R were:

- **Additional capital requirements for risk factors underestimated under Pillar 1:** Credit risk and market risk.
- **Additional capital requirements for risk factors not addressed under Pillar 1:** Credit concentration risk, interest rate risk in the banking book (IRRBB), market risk arising from equities in the banking book, and the inflation imbalance.

The Pillar 2-R capital requirements are presented as a proportion of REA and come as an addition to the regulatory capital minimum of 8% under Pillar 1. The Bank's Pillar 2-R results are reviewed by the Central Bank of Iceland through the SREP. Based on the 2024 SREP, the additional capital required for the Bank under Pillar 2-R was 18% of REA, a decrease of 0.6 percentage points from 2023.

The table below sets forth the breakdown of the total SREP capital requirement. Based on the 2024 SREP, the additional capital required for the Bank under Pillar 2-R was 1.8% of REA, a decrease of 0.6 percentage points from 2023.

SREP capital requirement	2024	2023
Pillar 1	**8.0%**	**8.0%**
Credit risk	7.1%	7.1%
Market risk	0.1%	0.1%
Operational risk	0.8%	0.8%
Pillar 2-R	**1.8%**	**2.4%**
Credit risk	0.9%	1.0%
Market risk	0.8%	1.4%
Operational risk	0.1%	1.0%
Total SREP capital requirement	**9.8%**	**10.4%**

Combined Capital Buffer Requirement

Four capital buffers are introduced through the CRD IV and applicable for Icelandic financial institutions: (1) Capital conservation buffer, (2) institution specific countercyclical buffer, (3) buffer for systemically important institutions and (4) systemic risk buffer. Together these buffers form the combined buffer requirement. The capital buffers are generally intended to enhance banks' ability to withstand adverse changes in the environment and reduce fluctuations related to the business cycle.

The size of the capital conservation buffer is fixed by law at 2.5% while the size of the other capital buffers is stipulated in rules issued by the Central Bank of Iceland.

The Central Bank of Iceland financial stability committee decided to increase the countercyclical capital buffer ("**CCyB**") from 2% to 2.5%, effective from March 2024.

As the systemic risk buffer only applies to domestic exposures, the effective risk buffer rate is calculated by multiplying the proportion of the domestic credit risk exposure by the domestic systemic risk buffer rate.

The institution-specific countercyclical capital buffer rate applies to institution-wide total REA. The institution's specific buffer add-on amount is calculated as the weighted average of the countercyclical capital buffer rate applicable in jurisdictions in which an institution has private sector credit exposures, multiplied by the total risk exposure amount.

The sum of Pillar 1, Pillar 2-R and the combined capital buffers forms the overall capital requirement.

The table below shows combined buffer requirement for the Bank at year-end 2024 and 2023. The sum of Pillar 1, Pillar 2-R and the combined capital buffers forms the overall capital requirement.

	31.12.2024	31.12.2023
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	2.46%	1.97%
O-SII buffer	3.00%	2.00%
Systemic risk buffer	1.94%	2.89%
Combined buffer requirement	**9.90%**	**9.36%**

Pillar 2 Guidance for Stressed Conditions (Pillar 2-G)

The Pillar 2-G is based on future risk and is subject to the regulators' assessment of stress tests performed on the financial institutions (supervisory stress testing). The Central Bank of Iceland can add the Pillar 2-G as a capital reference if the results from the supervisory assessment indicate that a financial institution might not be able to meet the total SREP capital requirements over the projected economic cycle. Currently no Pillar 2-G is applicable for the Bank.

Management Buffer

The Bank aims at managing its capital position and the corresponding capital ratios at a comfortable margin above the overall regulatory capital requirement. This margin is referred to as the management buffer in the Bank's capital management framework. The size of the management buffer is based on factors such as views from the regulator through the SREP, volatility in the Bank's REA due to currency fluctuation, volatility in the Bank's REA due to uneven asset growth, the Bank's target rating, competitive issues, funding terms, uncertainty in the operating environment not accounted for in the ICAAP, and uncertainty in the regulatory environment. Currently the management buffer is 1%-3%. as defined in the Risk Appetite Statement set by the Board of Directors.

Capital Target

The Bank's capital target set by the Board of Directors assumes that the Bank keeps a management buffer of about 1%–3% in excess of the overall capital requirement resulting from the SREP. Based on the most recent SREP results, this translates to a target capital ratio of 16.4%-18.4%.

Capital Composition

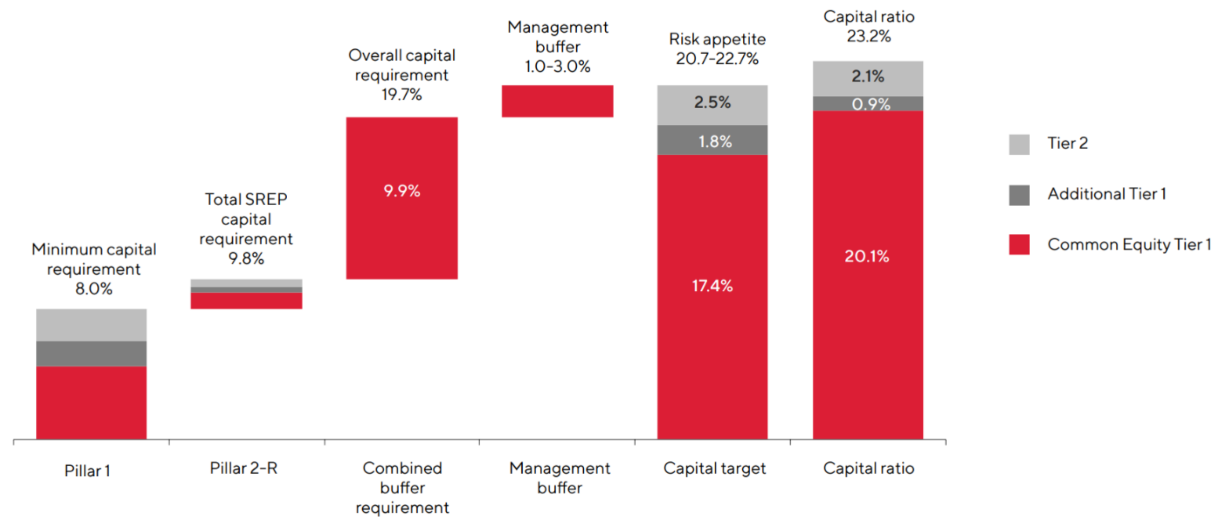
According to the CRD IV, the following restrictions apply to the composition of Pillar 1 capital:

- CET1 at a minimum 4.5% of REA.
- Tier 1 capital, including Additional Tier 1 ("**AT1**") capital, at a minimum 6.0% of REA.
- A total capital ratio including Tier 2 debt, at a minimum 8.0% of REA.

The capital held under Pillar 2-R is subject to the same proportional restrictions as capital held under Pillar 1, while the CRD IV capital buffers shall be comprised of CET1 capital only.

The chart below shows the Bank's current regulatory requirements from the 2024 SREP results and how they contribute to the Group's capital target as well as the composition of the Bank's capital, the minimum requirements for CET1 capital, and the resulting room for issuing AT1 or Tier 2 capital.

Exhibit 3.8. Regulatory requirements compared with Íslandsbanki's risk appetite as well as the composition of the Bank's current capital ratio.



15.9 Stress Testing

The Bank's stress testing framework aims at detecting the sensitivity of the Bank's operations to changes in the operating environment and to ensure that the Bank holds sufficient available capital and liquid funds to meet minimum requirements, even under stressed operational conditions.

The main types of stress tests performed at the Bank are:

- Sensitivity analyses provide information about key risks and enhance understanding about concentrations in one or several risk factors. Sensitivity analysis stresses one risk driver, with different degrees of severity, to assess the sensitivity of the Bank's operations to that particular risk driver.

- Reverse stress test consists of defining a significant and pre-defined negative outcome and then identifying causes and consequences that could lead to such an outcome. The purpose is to identify possible combinations of events and risk concentrations that might not be included in other stress tests performed within the Bank. Thus, the reverse stress test could reveal weaknesses in the Bank's operations that might otherwise be overlooked.

- Scenario analysis can be defined as multiple sensitivity analyses performed at the same time which assess the resilience of an institution. A stress scenario is supposed to be forward looking and identify possible events or changes in market conditions that could adversely impact the Bank. The scenario should address the main risk factors that the Bank may be exposed to. The scenario should be severe but plausible and at the same time be consistent internally as well as economically.

- Specific events: Under this type of stress testing, the Bank assesses specific current or imminent events that could have an extensive impact on its operations, the risk mitigating actions that can be taken to reduce the likelihood of these events materialising and to minimise the impact for the Bank.

- Reputational risk stress test: Qualitative stress testing due to reputational risk are performed by experts from across the Bank. The experts come up with a scenario that could damage the Bank's reputation and analyse how the scenario affects the Bank's reputation, the impact it has on different stakeholders, the likelihood that it would have this effect and discuss possible countermeasures. The discussions are documented and summarised in the Bank's ICAAP Stress Testing Results.

The key assumptions for a scenario analysis and other significant stress tests are developed in cooperation with the Bank's Chief Economist, business units, ARC and the Board. The results from stress tests are compared with the Bank's capital target, other risk appetite measures and risk limits. If the results indicate a breach in the Bank's capital targets or other risk appetite or strategic measures, remedial actions may be suggested, depending on the severity and likelihood of such a breach.

In addition, the Central Bank of Iceland conducts an annual stress test on Icelandic banks to examine the potential impact of hypothetical stress scenarios on the Icelandic banking system as a whole and certain Icelandic banking institutions. The stress scenario is designed with regard to the Central Bank of Iceland's assessment of current risks to financial stability in Iceland. The test is part of the Central Bank of Iceland's macroprudential supervision programme and includes a cyclical stress scenario.

Leverage Ratio

The leverage ratio is a measure supplementing the risk-based capital requirements. The leverage ratio is calculated by dividing Tier 1 capital by the sum of total assets and adjusted off-balance sheet exposures. According to law, the minimum leverage ratio is 3%. The leverage ratio is monitored monthly through the Risk dashboard. The level of the Bank's overall requirement as well as the current RWA density deter excessive leverage.

The table below shows the breakdown of the exposures and the leverage ratio. The leverage ratio was 13.2% at year-end 2024, compared to 13.4% at year-end 2023. The fall in exposure together with the increase in Tier 1 capital explain the rising leverage ratio. Template LR2 of the Additional Pillar 3 Disclosures shows the components of the leverage ratio calculations.

	As at 31 December	
	2024	**2023**
On-balance sheet exposures	1,594,192	1,571,430
Off-balance sheet exposures	57,583	53,224
Derivative exposures	9,223	11,246
Leverage ratio total exposure measure	1,660,998	1,635,900
Tier 1 capital	218,850	219,502
Leverage ratio	**13.2%**	**13.4%**

16. REGULATORY DISCLOSURES

Below is a summary of the information disclosed by the Bank under Regulation (EU) No. 596/2014 over the last 12 months which is relevant as at the date of the Prospectus, presented in a limited number of categories depending on their subject.

16.1 Disclosures Related to the Shareholding Structure of the Bank

- On 26 March 2025, the Bank announced the end of round of buybacks on the basis of the share repurchase program relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024.

  (For the detailed announcement, please refer to: https://view.news.eu.nasdaq.com/view?id=bfdd97770e312dc942bf0ec5d31d6bc66&lang=en&src=listed)

- On 19 February 2025, the Bank announced the end of round of buybacks on the basis of the share repurchase program relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/ab2f1a01f30e1f26629ddf7e9ef6559ed)

- On 5 February 2025, the Bank announced that the Financial Supervisory Authority of the Central Bank of Iceland had granted the Bank authorisation of an amount up to ISK 15 billion market value, to buy back own shares and reduce its share capital.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/adff219c08cc4a737ae469b222f88e9ac)

- On 22 January 2025, the Bank announced the end of round of buybacks on the basis of the share repurchase program relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a936c720aaed3b3158c6b36bffa00538b)

- On 17 December 2024, the Bank announced the end of round of buybacks on the basis of the share repurchase program relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a6eabe6a771430c61ae64b153377e7b8e)

- On 22 November 2024, the Bank announced the end of round of buybacks on the basis of the share repurchase program relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a229af03f71c8e03c32e2cc54bd0dca08)

- On 25 October 2024, the Bank announced the results of buybacks of own shares through reverse auction. The Bank decided to accept offers for 211,000 shares at the price of ISK 121.0 per share during the repurchase of own shares announced on 24 October 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a64425716912290c0ea369579f39a8c20)

- On 29 August 2024, the Bank announced the end of the round of buybacks on the basis of the share repurchase programme relating to its own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 14 June 2024 and initially announced on 17 February 2023.

(For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a58b2c89790cf37b1fccfb70c94e039d6)

- On 14 June 2024, the Bank announced the implementation of a share repurchase programme relating to own shares on the basis of an authorisation from the Annual General Meeting of the Bank, held on 21 March 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a99d7c989fc64e66fe5eb0a555dd8446c)

- On 14 June 2024, the Bank announced the end of the round of buybacks on the basis of the share repurchase programme relating to own shares in the amount of ISK 5 billion, with the purpose of reducing the Bank's share capital, whose implementation was announced on 22 March 2024 and initially announced on 17 February 2023.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/adbe76200701d1a9b2062657cddecb2e1)

- On 6 June 2024, the Bank announced its decision to purchase its own shares amounting to nearly ISK 2,000 million through accepting offers for 20,860,907 shares at the price of ISK 95.80 per share during the repurchase of own shares announced on 5 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a16f428460cd4c56f5c293bd23c2399d0)

- On 5 June 2024, the Bank announced that the Board of Directors had decided to make an offer to the Bank's shareholders to buy back their shares in the Bank through a reverse auction, for the total market value of up to ISK 3 billion.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/ab0092975c491e1830b0a1c9df229fe92)

16.2 Disclosures Related to Business Activities

- On 27 February 2025, the Bank announced it had declined merger discussions with Arion Bank. The Board of Directors of the Bank had received a letter on 14 February 2025 from the CEO and chairman of the board of directors of Arion Bank, where the request was made that the two banks initiate merger discussions.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a495ba82fea847c3a4871baa536fb991e)

- On 18 February 2025, the Bank announced the conclusion of a covered bond offering for a total amount of ISK 4,880 million. The index linked series ISB CBI 32 was sold for an amount of ISK 2,140 million at a yield of 3.35% All offers in the non-index linked series ISB CBF 27 were accepted. ISK 1,140 million at 1-month REIBOR + 0.40%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a2700d8f1ab379a3c992eda1d6331f379)

- On 12 February 2025, the Bank announced that it had entered into market making agreements with Kvika banki hf. and Fossar fjárfestingarbanki hf. for shares issued by the Bank that are listed on Nasdaq Iceland under the ticker symbol ISB.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a04ee3882e78488df1b148a3b57d1a7c6)

- On 21 January 2025, the Bank announced the conclusion of a senior preferred bond offering for a total amount of ISK 11,400 million. The index linked series ISB 28 1221 was sold for an amount of ISK

5,200 million at a yield of 4.58%. The green index linked series ISB 36 1114 GB was sold for an amount of ISK 3,600 million at a yield of 3.74%.

(For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/ab12eb5f55d4c78d50b1b5d6df04e15ef)

- On 26 November 2024, the Bank announced the conclusion of an offering of covered bonds for a total amount of ISK 4,100 million in the index linked series of ISB CBI 32 at a yield of 3.44%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/ac6fae1a803fe7e6f52e6b51807833a3d)

- On 21 November 2024, the Bank announced the results of a tender offer regarding EUR Senior Preferred Sustainability Notes due 25 March 2025.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/aeca176c7cffa980078ad84e0751d2cbb)

- On 7 November 2024, the Bank announced the conclusion of green senior preferred bond offering for a total amount of ISK 4,000 million in the index linked series ISB 36 1114 GB at a yield of 3.83%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/adce8f9d92a5eec71aec4066d5190ab40)

- On 1 October 2024, the Bank announced the conclusion of an offering of covered bonds for a total amount of ISK 4,900 million in the index linked series ISB CBI 29 at a yield of 4.30%. The non-index linked series ISB CBF 27 was sold for an amount of ISK 260 million at 1-month REIBOR + 0.385%.

  (For the detailed announcement, please refer to: *https://attachment.news.eu.nasdaq.com/ad4a9325cdf632757aca48cb83b7a25a3)*

- On 5 September 2024, the Bank announced the conclusion of an offering of covered bonds for a total amount of ISK 4,400 million in the index linked series ISB CBI 29 at a yield of 4.24%. The non-index linked series ISB CBF 27 was sold for an amount of ISK 380 million at 1-month REIBOR + 0.37%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/afe6bf4fb85da6a938d1ddf4814fac466)

- On 31 July 2024 the Bank announced that it had given notice to the holders of its EUR 300,000,000 7.375 per cent. Senior Preferred Notes due 17 May 2026 of full redemption.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a164e3a8545f12a4b0d4068880a7e33a1)

- On 27 June 2024, the Bank announced the results of a tender offer regarding outstanding EUR Senior Preferred Notes maturing in May 2026.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a4afc78d87baff3e64ae55bf092f0103a)

- On 21 June 2024, the Bank announced the conclusion of an offering of senior preferred bonds in the series ISB 28 1221 for an amount of ISK 3,920 million, at a yield of 4.46% and ISB GBF 27 1122 for an amount of ISK 4,180 million at 1-month REIBOR + 0.90%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a827a08b68d08f70c180f7e2f424d38fa)

- On 31 May 2024, the Bank announced the settlement of a case that started in 2022 as an onsite inspection on the Bank's measures against money laundering by the payment of an ISK 570 million fine to state treasury.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a36a06ce16ebb7c35407bd58b4f2b05f7)

- On 27 May 2024, the Bank announced that it had given notice to the holders of its SEK 500,000,000 Floating Tier 2 Notes due June 2029 of the Bank's intention to call in bonds in on the bonds' first call date, 26 June 2024.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/aeae82f8afc03cb99cc5cecdc610e0a5f)

- On 16 May 2024, the Bank announced the results of a tender offer regarding outstanding SEK and NOK notes maturing in March 2025.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/aaae0c4a982b400f3a4aae68f4fd661c2)

- On 13 May 2024, the Bank announced the conclusion of an offering of covered bonds for a total amount of ISK 1,860 million. The index linked series ISB CBI 29 was sold for an amount of ISK 940 million, at a yield of 3.74% and the non-index linked series ISB CBF 27 for an amount of ISK 920 million at 1-month REIBOR + 0.25%. In connection with the offering, the Bank also issued bonds in the index linked series ISB CBI 29 for an amount of ISK 10,000 million for its own use.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a110c69210d111b28e5ee2d96ec5149fe)

16.3 Disclosures Related to Corporate Governance of the Bank

- On 12 November 2024, the Bank announced that S&P Global Ratings had revised its rating outlook on the Bank to positive from stable, and affirmed its BBB+/A-2 long- and short-term issuer credit ratings and the A-/A-2 resolution counterparty ratings.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a47c044945ff8b75a82311e6838ecfb51)

- On 4 October 2024, the Bank announced the approval of a resolution plan and a decision by the FSA on the minimum requirement of own funds and eligible liabilities (MREL). The decision on the MREL is made by the Resolution Authority of the Central Bank of Iceland in relation to its annual review and update of the resolution plan. According to the decision, the MREL-TREA for the Bank is 19.6% and MREL-TEM is 6%. The subordinated part of the Bank's MREL is equivalent to 13.5% of TREA. The decision applies from the date of the announcement. The Bank is considered to fulfil the MREL from the outset.

  (For the detailed announcement, please refer to: https://attach ment.news.eu.nasdaq.com/a910c8aed85b3ba344a66271e68102630)

- On 28 June 2024, the Bank announced the conclusion of FSA's annual assessment of risk in the operations of systemically important financial institutions by means of a Supervisory Review and Evaluation Process (SREP). The FSA found that the Bank shall from 30 June 2024 maintain an additional capital requirement of 1.8% risk weighted-assets, a 0.6% decrease from the previous assessment. The Bank's total capital requirement, taking into account the capital buffer on 31 March 2024, decreased from 20.2% to 19.6%.

  (For the detailed announcement, please refer to: https://attachment.news.eu.nasdaq.com/a910c8aed85b3ba344a66271e68102630)

17. BOARD OF DIRECTORS, EXECUTIVE COMMITTEE, AUDITOR AND CORPORATE GOVERNANCE

The chart below illustrates the Bank's principal operating and support functions, including the Board of Directors and the Executive Committee, each of which is described in greater detail below.

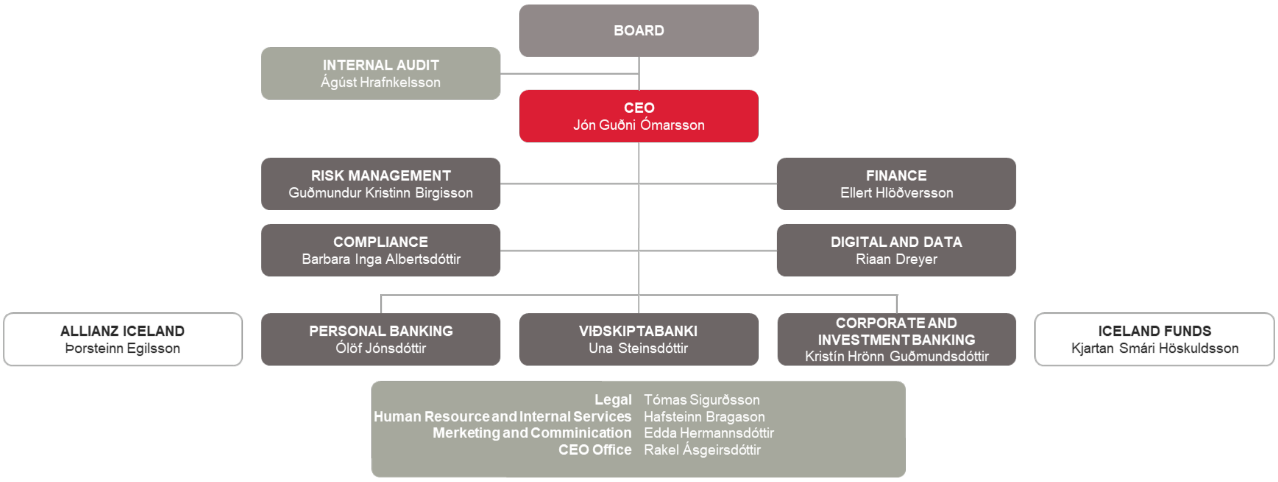
17.1 Board of Directors

Overview

The Bank's Board of Directors consists of seven directors, elected for a term of one year at each AGM of the Bank. Two alternate members are also appointed to each AGM for a term of one year. The Board of Directors appoints the Chief Executive Officer and the Chief Audit Executive. The Chief Executive Officer appoints the Managing Directors of the Bank.

The Board of Directors is responsible for setting out the Bank's general strategy and instructs the Chief Executive Officer on its implementation and execution. The Board of Directors has a supervisory role and is responsible for overseeing that the Bank's organisational structure and activities are in compliance with the relevant law, regulations and good business practices at all times.

According to the Board Rules of Procedure, at least four members of the Board of Directors are required to



constitute a quorum at meetings of the Board of Directors. If a principal member of the Board gives notice of her/his absence, the CEO's office shall summon an alternate member if necessary to constitute a quorum.

In accordance with the Bank's Articles of Association and Article 53 of the Financial Undertakings Act, the Bank operates a Nomination Committee, whose main role is to nominate individuals to the Bank's Board of Directors. The Nomination Committee consists of three members and two alternate members. Two of the members of the Nomination Committee and their alternate members are elected at the AGM, or at a shareholders' meeting, for one year at a time. The third member and his alternate are members of the Board and are appointed by the Board of Directors for one year at a time.

The Articles of Association of the Bank provide that the ratio of each gender on the Board of Directors shall not be lower than 40%, currently the Board of Directors is comprised of three women and four men. The Board of Directors has approved a policy on the suitability of the Board of Directors, the Chief Executive Officer and key function holders. The policy states, among other things, that the composition of the Board shall at all times be diverse, with regard to educational and professional background, gender and age.

At least once a year, pursuant to the Board Rules of Procedure, the Board of Directors assesses its work, procedures and practices as well as those of each of its members. This performance assessment is intended to improve working methods and increase the efficiency of the Board of Directors and entails an evaluation of the strengths and weaknesses of the Board of Directors' work and practices which is based on an assessment of the necessary number of board directors, the board structure in relation to knowledge and experience, board procedure and practices. Further, the Board of Directors annually assesses the collective suitability of the Board of Directors and individual members.

All members of the Board of Directors are considered independent from the Bank, its main clients, competitors and the Selling Shareholder.

The business address of each director is Íslandsbanki hf., Hagasmári 3, 201 Kópavogur, Iceland.

Set forth below are the members of the Bank's Board of Directors, their year of birth, the year of their initial election to the Board of Directors, their position and whether or not they are considered to be independent of the Bank and the Selling Shareholder pursuant to the Corporate Governance Guidelines and the corporate governance statement of the Bank (Icel. *stjórnarháttayfirlýsing*), as confirmed by the Bank's Board of Directors on 13 February 2025:

Name	Position	Year of birth	Director since	Independent
Linda Jónsdóttir	Chairman of the Board of Directors	1978	2023	Yes
Stefán Pétursson	Vice-Chairman of the Board of Directors	1963	2023	Yes
Agnar Tómas Möller	Member of the Board of Directors	1979	2023	Yes
Haukur Örn Birgisson	Member of the Board of Directors	1978	2023	Yes
Helga Hlín Hákonardóttir	Member of the Board of Directors	1972	2023	Yes
Stefán Sigurðsson	Member of the Board of Directors	1972	2024	Yes
Valgerður Hrund Skúladóttir	Member of the Board of Directors	1963	2024	Yes

Ms. Linda Jónsdóttir (Chairman of the Board of Directors)

Linda Jónsdóttir was the CFO and Deputy CEO of Sidekick Health, a digital care management platform from 2024 to 2025. She was the COO of Marel hf. from 2022-2024, the CFO from 2014-2022 and before that the Director of Treasury, Finance and Investor Relations from 2009-2014. Before her time at Marel, Linda was the Senior Vice President of Treasury at Straumur Burðarás Investment Bank hf. and the Director of Treasury and Financing at Burðarás. hf. Linda is a Board member of the University of Iceland Science Park and has also been on the Board of the Iceland Chamber of Commerce and the Iceland Enterprise Investment Fund. Linda has M.Sc. degree in Corporate Finance from Reykjavik University, a Cand. Oecon degree in Business Administration from University of Iceland, and is a licensed Securities broker by the Icelandic Ministry of Finance and Economic Affairs.

Mr. Stefán Pétursson (Vice-Chairman of the Board of Directors)

Stefán Pétursson is the CFO of EpiEndo Pharmaceuticals ehf. From 1993 to 2010 he worked for the National Power Company Landsvirkjun as head of funding, treasurer and CFO. From 2010 to 2021 Stefán was the CFO of Arion Bank. Stefán has served as the Chairman of the Board of the savings bank Afl sparisjóður and a director of Valitor hf, Landfestar ehf, the Icelandic Depositors Guarantee Fund and other entities. Stefán is a board member of Landsnet hf. He also served on the Board of the Iceland Chamber of Commerce, and is a former Committee Member of ÍL Fund Projects Committee. Stefán holds a Cand. Oecon. degree in business administration from the University of Iceland and an MBA degree from Babson College in Boston.

Mr. Agnar Tómas Möller (Member of the Board of Directors)

Agnar Tómas Möller is an independent investor. He previously worked for Kvika Asset management as bond fund manager from 2018-2022. From 2009 to 2018 he worked at GAMMA Capital Management hf, also managing bond funds, and prior to that he worked in bond brokerage at Kaupþing hf. bank in 2006-2008. Agnar holds a M.Sc. degree in Industrial Engineering from the University of Iceland and studies towards a B.A. in History at the same university. He is the sole board member and managing director of ATM ehf. and a board member of the Icelandic Chess Federation.

Mr. Haukur Örn Birgisson (Member of the Board of Directors)

Over the past two decades, Haukur Örn Birgisson has worked as an attorney, including as a self-employed attorney for 15 years. In his work, Haukur has protected the interests and provided advice to small and large companies, individuals, municipalities and foreign companies. Currently, Haukur is a Supreme Court attorney, owner and the managing director of Firma Legal slf. He managed the operations of Iceland Legal, as owner and managing director, since the foundation of the law firm in 2008 until 2023. Haukur serves as a Board member of the Administrative Committee of the International Golf Federation and is a member of the Executive Committee of the Open Championship. He has also been on the Board of GAM Management, the Golf Union of Iceland and the European Golf Association. Haukur holds a Cand. Jur. From the University of Iceland and is a Licensed Supreme Court Attorney.

Ms. Helga Hlín Hákonardóttir (Member of the Board of Directors)

Helga Hlín Hákonardóttir is a partner and consultant at Strategía ehf. She was previously a lawyer and founder at Lixia law firm from 2011-2014 and the Co-founder and Managing Director of Legal at Saga Investment Bank hf. from 2006-2011 Helga has also worked as an attorney at Straumur Burðarás Investment Bank hf., Íslandsbanki hf. and as a capital markets lawyer at Fjárfestingarbanki atvinnulífsins hf. Helga is a board member of Rue de net ehf. and has been on the Boards listed below (See "*Other Directorships*").Helga holds a Cand. Jur. From the University of Iceland and is a licensed District Court Attorney and a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Mr. Stefán Sigurðsson (Member of the Board of Directors)

Stefán Sigurðsson works as an independent advisor. He is currently the managing director and owner of Nordic Development ehf. He was the CEO of Sýn hf. from 2014-2019 and before that, from 2008-2014, the Managing Director of Wealth management at Íslandsbanki. hf. Stefán was the Executive Director and later Managing Director of Strategic Development at Glitnir and a Corporate Finance Associate at Glitnir in Denmark. Stefán was also the Chairman of the Board at Verðbréfamiðstöð Íslands hf. He is currently a Board member at Fólk Reykjavík ehf., ISAVIA ANS ehf, North Ventures ehf. and North Ranga ehf.. He has also served as a Board member at the Iceland Chamber of Commerce and Island Fund S.A. in Luxemburg. Stefán holds a MSc. degree in Economics from the University of Copenhagen and a B.Sc. degree in Economics from the University of Iceland.

Ms. Valgerður Hrund Skúladóttir (Member of the Board of Directors)

Valgerður Hrund Skúladóttir is the CEO of Sensa ehf. She was the Director of corporate services and holistic solutions at Tæknival hf. from 1994-2002 and the Head of the electrical department at Jóhann Ólafsson and Co. ehf. from 1989-1994. Valgerður is a Board member at Memento ehf., Reykjavik Forest Society and an alternate member at the Board of Business Iceland and the Classical Dance School. Previously, Valgerður has been on the boards of Confederation of Icelandic Employers, Staki Automation, Talenta, Síminn DK, Senda A/S and the Federation of Icelandic Industries. Valgerður holds an MBA degree from the University of Miami and a C.Sc. degree in Electrical Engineering from the University of Iceland.

Set forth below are the alternate members of the Bank's Board of Directors, their year of birth, the year of their initial election to the Board of Directors, their position and whether or not they are considered to be independent of the Bank and the Selling Shareholder pursuant to the Corporate Governance Guidelines and the corporate governance statement of the Bank (Icel. *stjórnarháttayfirlýsing*), as confirmed by the Bank's Board of Directors on 13 February 2025:

Name	Position	Year of birth	Director since	Independent
Páll Grétar Steingrímsson	Alternate Member of the Board of Directors	1965	2022	Yes
Herdís Gunnarsdóttir	Alternate Member of the Board of Directors	1968	2016	No

Ms. Herdís Gunnarsdóttir (Alternate Member of the Board of Directors)

Herdís Gunnarsdóttir is the director of The Quality and Supervisory Authority of Welfare. Herdís holds an MBA degree from the University of Iceland and an MSc and BSc in Nursing from the University of Iceland.

Mr. Páll Grétar Steingrímsson (Alternate Member of the Board of Directors)

Páll Grétar Steingrímsson was a partner at Deloitte from 1999-2021, where he also served as a director from 2007-2018. Páll holds a Cand. Oecon. degree in Business Administration from the University of Iceland and is a Certified Public Accountant.

Nomination Committee

The composition of the Nomination Committee is in accordance with Article 53 of the Financial Undertakings Act. The following members were elected to the Nomination Committee at the last AGM:

- Ms. Helga Valfells

- Mr. Hilmar Garðar Hjaltason

The elected alternate member of the Nomination Committee is Anna Rut Þráinsdóttir. Agnar Tómas Möller, a member of the Board of Directors, was appointed to the Nomination Committee by the Board of Directors. Haukur Örn Birgisson was appointed as his alternate.

Subcommittees of the Board of Directors

The Board of Directors has four subcommittees and they operate under the terms of a mandate letter from the Board of Directors as well as the Board Rules of Procedure. The Board of Directors appoint the members of the subcommittees as well as their chairman. When appointing the subcommittees, the Board of Directors consider the expertise, skills and experience needed of a member to be appointed to the relevant subcommittee. All of the subcommittees are comprised of members of the Board of Directors and the majority of the subcommittee members are independent from the Bank.

Sub-committees of the Board of Directors shall ensure that Directors receive regular and specific information on the main functions of the committees and at least once a year report to the Board on their work. All Directors shall have access to the minutes of sub-committees. The appointment of sub-committees does not free the Board of Directors from its responsibilities and the decision-making power rests with the Board of Directors at all times.

The table below sets forth the membership on each of the committees of the Board of Directors as at the date of this Prospectus.

The Board Audit Committee	The Board Risk Management Committee	The Board Corporate Governance and Human Resources Committee	The Innovation and Technology Committee
Stefán Pétursson, chairman	Helga Hlín Hákonardóttir, chairman	Haukur Örn Birgisson, chairman	Valgerður Hrund Skúladóttir, chairman
Linda Jónsdóttir	Stefán Pétursson	Helga Hlín Hákonardóttir	Stefán Sigurðsson
Valgerður Skúladóttir	Agnar Tómas Möller	Stefán Sigurðsson	Haukur Örn Birgisson
Páll Grétar Steingrímsson		Herdís Gunnarsdóttir	

The Board Audit Committee

The Board Audit Committee has four members, Linda Jónsdóttir, Stefán Pétursson Valgerður Skúladóttir and Páll Grétar Steingrímsson who serves as an external committee member. The Board Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities concerning the financial reporting process, system of internal control, the audit process and the Bank's process for monitoring compliance with the relevant laws and regulations and its code of conduct. The Board Audit Committee met 14 times during the year ended 31 December 2024.

The Board Risk Management Committee

The Board Risk Management Committee has three members Stefán Pétursson, Agnar Tómas Möller and Helga Hlín Hákonardóttir. The Board Risk Management Committee assists the Board of Directors in providing oversight of senior management activities in managing risk relevant to the Bank's operations. This includes credit risk, market risk, operational risk, liquidity risk, compliance risk and reputational risk. The committee's responsibilities extend to the Group. The Board Risk Management Committee met ten times during the year ended 31 December 2024.

The Board Corporate Governance and Human Resources Committee

The Board Corporate Governance and Human Resources Committee has four members Haukur Örn Birgisson, Helga Hlín Hákonardóttir, Stefán Sigurðsson and Herdís Gunnarsdóttir, who serves as an external committee member and assists the Board of Directors in overseeing the development and the regular assessment of the Bank's approach to corporate governance issues and board effectiveness. Furthermore, it is responsible for providing oversight regarding compensation and human resource issues. The Board Corporate Governance and Human Resources Committee met eight times during the year ended 31 December 2024.

The Board Innovation and Technology Committee

The Board Innovation and Technology Committee has three members Haukur Örn Birgisson, Stefán Sigurðsson and Valgerður Hrund Skúladóttir, and advises the Board of Directors on technology development, data security, and the implementation of technological solutions within the Bank, as well as the formulation and monitoring of the execution of the Bank's innovation policy. The Board Innovation and Technology Committee is a newly established committee.

Roles and responsibilities of the Board of Directors

The Board of Directors' tasks include, among others, as defined in the Board Rules of Procedure:

(a) The Board is responsible for the Bank's operations and policy, including its risk policy, and instructs the CEO on its implementation and execution.

(b) The Board shall take the lead, together with the CEO, in strategic planning, formation of the Bank's business plan, and the setting of goals and risk parameters for the Bank, for short and long term.

(c) The Board shall set and maintain a clear internal governance structure and internal control framework appropriate to the Bank's infrastructure, operations and risk factors in accordance with the applicable laws, regulations, decisions by the competent authorities or agreements regarding independence or administrative separation from subsidiaries.

(d) The Board monitors that the Bank's organisation and activities are at all times in accordance with the relevant law, regulations, good governance and business practices and rules set by the Board.

(e) The Board is responsible for the hire and dismissal of the Bank's CEO and decides his/her remuneration.

17.2 The Chief Executive Officer

The Chief Executive Officer is responsible for the day-to-day operations of the Bank and ensuring the Bank's compliance with its Articles of Association, policies, and applicable law. The CEO engages the Bank's Compliance Officer, subject to confirmation by the Board of Directors and appoints members of the Executive Committee and other Senior Management Committees.

Senior Management Committees

Senior Management Committees are advisory committees appointed by the CEO. Senior Management Committees are divided into Policy-Setting Committees, which implement Board policies, and Business Committees, which take a position on specific business matters. The committees are appointed by the CEO, who also approves their letter of mandate.

Policy-Setting Committees

The Executive Committee and the All Risk Committee are considered Policy-Setting Committees and they take major decisions on the implementation of the policies set by the Board.

17.3 Executive Committee

Overview

The Executive Committee, chaired by the Chief Executive Officer, is responsible for implementing the business strategy approved by the Board of Directors. The Executive Committee and the All Risk Committee are responsible for the implementation of the Board of Directors approved business strategy, risk appetite, policies and business committees.

Members of the Executive Committee

The table below sets forth the members of the Executive Committee, their year of birth and the year in which they were appointed to their current positions on the Executive Committee.

Name	Position	Year of birth	Appointed
Jón Guðni Ómarsson	Chief Executive Officer	1976	2023
Ellert Hlöðversson	Chief Financial Officer	1982	2024
Barbara Inga Albertsdóttir	Chief Compliance Officer	1982	2023
Guðmundur Kristinn Birgisson	Chief Risk Officer	1967	2018
Kristín Hrönn Guðmundsdóttir	Managing Director, Corporate & Investment Banking	1976	2023
Riaan Dreyer	Managing Director, Digital & Data	1975	2019
Ólöf Jónsdóttir	Managing Director, Personal Banking	1980	2024
Una Steinsdóttir	Managing Director, Business Banking	1966	2017

The business address of each member of the Executive Committee is Íslandsbanki hf., Hagasmári 3, 201 Kópavogur, Iceland.

The Executive Committee consists of the following eight members:

Mr. Jón Guðni Ómarsson, Chief Executive Officer

Before becoming CEO in 2023, Jón Guðni served as Chief Financial Officer of the Bank since 2011. He was previously the Head of Treasury at the Bank from 2008-2011. He has had various other roles within the Bank and its predecessors, including advising customers on hedging strategies and leading arrangements and participations in syndicated loans. He also worked as an ALM consultant at SunGard in Boston. Jón Guðni holds a B.Sc. degree in Industrial and Mechanical Engineering from the University of Iceland and a Master's degree in Quantitative and Computational Finance (QCF) from the Georgia Institute of Technology. He is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs as well as a member of the Iceland Chamber of Commerce and chairman of the board of directors for Finance Iceland.

Mr. Ellert Hlöðversson, Chief Financial Officer

Ellert Hlöðversson has extensive experience in the financial markets and has been with the Bank since 2010, most recently as Executive Director of the Bank's Corporate Finance. Prior to that he served as Executive Director of the Bank's Securities Brokerage and a director within the Bank's Corporate Finance team, where he led many of the largest advisory roles which the Bank engaged in, including mergers and integration of companies as well as various kinds of financing transactions. Ellert holds a B.Sc. degree in Electrical Engineering and an M.Sc. degree in Financial Engineering from the University of Iceland and is a security broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Ms. Barbara Inga Albertsdóttir, Chief Compliance Officer

Barbara Inga Albertsdottir joined the Bank in August 2023 and became the Chief Compliance Officer in November 2023. She joined the Bank from Deutsche Bank AG London where she served as the Global Head of Regulatory Change Adherence. Prior to that she worked for Wells Fargo in London as well as the UK Financial Conduct Authority and the Financial Supervisory Authority in Iceland. Barbara holds a BA and an M.L. degree in Law from the University of Iceland and an LL.M. in International Financial Law from King's College London.

Mr. Guðmundur Kristinn Birgisson, Chief Risk Officer

Guðmundur Kristinn Birgisson joined the Bank in 2011 as Executive Director of Risk Monitoring where he oversaw the implementation of the Bank's Operational Risk Management Framework and monitoring of the execution of credit processes. In 2017, he served as Executive Director of Lending in the Bank's Personal Banking division and, in 2018, he was appointed as the Chief Risk Officer of the Bank. Guðmundur holds a Ph.D. degree in Mathematics Education from Indiana University and a B.A. degree in Philosophy and Science from the University of Iceland.

Ms. Kristín Hrönn Guðmundsdóttir, Managing Director of Corporate & Investment Banking

Kristín Hrönn Guðmundsdóttir has over 20 years' experience as a manager in financial markets. Kristín Hrönn was Executive Director in Corporate Banking within Corporate and Investment Banking from 2013 to 2019 when she assumed the role of Executive Director of Finance, Operations and Strategic planning within Corporate and Investment Banking. She has further served as a member of the Bank's Credit Committees, Asset and Liability Committee and Investment Council. Kristín Hrönn has wide-ranging experience in Leveraged and Structured Finance and Private Equity both locally and in the London market. Kristín holds a BA degree in Economics from the University of Iceland, has completed an AMP Management Programme from IESE Business School in Barcelona and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Mr. Riaan Dreyer, Managing Director of Digital and Data

Riaan Dreyer has been with the Bank since 2019. Riaan has been in various Chief Information Officer roles in South Africa, most notably Standard Bank and Liberty Life before he relocated to Iceland in 2016. He then joined Iceland ehf. Meniga in 2016 after which he joined Arion Bank as the Head of Development from 2017 to 2019. Riaan holds a Master's degree in Information Technology from the University of Pretoria, South Africa and a Bachelor's degree in Actuarial Science and Economics. He has completed an AMP management programme from IESE Business School, Barcelona.

Ms. Ólöf Jónsdóttir, Managing Director of Personal Banking

Ólöf Jónsdóttir has extensive experience in the financial markets. She was Managing Director of Commercial Banking at Kvika and also held various different management positions within Kvika and led the innovation and development of fintech solutions there. Prior to that she worked for Auður Capital hf. and Virðing hf. from 2008 until its merger with Kvika. Ólöf has a B.Sc. degree in mechanical- and industrial engineering from the University of Iceland and an M.Sc. degree in Operations Research and Analytics from London School of Economics. Ólöf is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Ms. Una Steinsdóttir, Managing Director of Business Banking

Una Steinsdóttir joined the Bank in 1991 as a specialist in International Banking. Una has over 30 years of experience working for the Bank and its predecessors and has, among other things, worked in credit control and service management. Una was a branch manager in Keflavík for eight years from 1999 to 2007 until she was appointed Director of Retail Banking in 2007. She was then appointed Managing Director of Retail Banking for the Bank in October 2008. Una holds a Cand. Oecon degree in Business Administration from the University of Iceland and has completed an AMP management programme from IESE Business School, Barcelona.

All Risk Committee

The All Risk Committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement.

Business Committees

The business committees decide on individual business proposals in accordance with the rules and procedures issued by the All Risk Committee and the Board of Directors. All business proposals discussed by the business committees are initiated and owned by a business division and although authorisation is given by a committee, the business decision itself is made and owned by the business division.

The Senior Credit Committee: decides on proposals on lending and is the formal venue for discussion and review of individual loan proposals.

The Asset and Liability Committee: decides on proposals regarding market risk, liquidity risk, funding, capital and internal and external pricing.

The Investment Committee: decides on proposals regarding the purchase, sale and valuation of equity stakes and other investments of the Bank.

The Operational and Security Committee: decides on proposals regarding new products and services, continuous operation and material changes in systems and procedures.

The Sustainability Committee: is a formal forum for reviewing and discussing issues related to sustainability risk, sustainable procurement and business opportunities.

The Digital Product Committee: is a formal forum for prioritisation of initiatives between product teams in line with the strategy and goals of the Bank.

17.4 Other Information on the Board of Directors and the Executive Committee

Linda Jónsdóttir holds 12,659 shares in the Bank and her spouse holds 12,659 shares. Valgerður Hrund Skúladóttir holds 12,659 shares in the Bank. No other members of the Board own shares or options in the Bank, neither as a direct ownership nor through associated parties.

No member of the Board of Directors or the Executive Committee has been involved in bankruptcy, mandatory liquidation or bankruptcy administration in the past five years in their respective capacity as member of the Board of Directors or the Executive Committee. No member of the Board of Directors or the Executive Committee has been convicted in any case relating to fraud in the past five years. No member of the Board of Directors or the Executive Committee has in the past five years had any official public incrimination and/or sanctions by statutory or regulatory authorities. No member of the Board of Directors or the Executive Committee has in the past five years been banned by any court from membership of a company's administrative, management or control bodies or from holding management or general positions within a company.

Other Directorships

The table below sets forth the companies and partnerships (excluding the Bank) in which each member and alternate member of the Board of Directors and each member of the Executive Committee is, or has been, a member of the administrative, management or supervisory bodies (or partner) at any time in the previous five years and whether he or she is still a member.

Name	**Company / Partnership**	**Position**	**Position still held (Y/N)**
Agnar Tómas Möller	ATM ehf. The Icelandic Chess Federation	Managing Director and Director Director	Y Y
Barbara Inga Albertsdóttir			
Ellert Hlöðversson	Stúdíó KÁ ehf. Stúdíó Vík ehf. Myndaparty slf.	Chairman of the board of directors Chairman of the board of directors Director	Y Y N
Guðmundur Kristinn Birgisson	Sálarstyrkur ehf.	Chairman of the board of directors	Y
Haukur Örn Birgisson	Administrative Committee of the International Golf Federation GAM Management hf. The Golf Union of Iceland The European Golf Association	Director Director President President	Y N N N

Name	Company / Partnership	Position	Position still held (Y/N)
Helga Hlín Hákonardóttir	Mark.is hf. Hlín búð ehf. USH ehf. Lixia 1 ehf. Strategía ehf. Lixia slf. Rue de Net ehf. AÞ-Þrif ehf. Icelandic Weightlifting Federation Mark.is hf. Iceland Stock Exhange Skeljungur hf. Summa Rekstrarfélag hf. Greiðsluveitan ehf. Icelandic Chamber of Commerce Festi hf. Krónan hf. Vís hf. Lífís WOW air hf. Meniga Ltd. The University Council of Akureyri University	Director Director and managing director Director Director and on executive board Director Director Director Director President Chairman of the board of directors Alternate director Director Director Director Director Director Director Chairman of the board of directors Alternate director Director Director Member of council	N N Y Y Y Y Y Y N N N N N N N N N N N N N N
Herdís Gunnarsdóttir			
Jón Guðni Ómarsson	Armis ehf. Iceland Chamber of Commerce (Icel. Viðskiptaráð Íslands) Finance Iceland (Icel. Samtök fyrirtækja í fjármálaþjónustu)	Alternate director Member of the chamber Chairman of the board of directors	Y Y
Kristín Hrönn Guðmundsdóttir	Forskot - Afrekssjóður kylfinga	Chairman of the board of directors	Y
Linda Jónsdóttir	University of Iceland Science Park Icelandic Enterprise Investment Fund Iceland Chamber of Commerce Eimskipafélag Íslands Pension Fund	Director Director Director Director	Y N N N
Ólöf Jónsdóttir	Aur app ehf. Frumkvöðlauður Kvakkur ehf. Lykill Fjármögnun hf. LÝS-2 ehf. LÝS-3 ehf. Lýsing ehf. Skilum ehf. Straumur greiðslumiðlun hf.	Director Director Director and on executive board Executive board Director and on executive board Director and on executive board Director and on executive board Director Director	N N N N N N N N N
Riaan Dreyer	Reiknistofa bankanna hf. Isb Software Development Center Sp. z o.o.	Director Director	Y N
Stefán Pétursson	Landsnet hf. Margildi ehf. Landfestar ehf. Valitor hf. The Icelandic Depositors Guarantee Fund Landey ehf. Háblær ehf.	Director Director Director Director Director Director Director	Y N N N N N N

Name	Company / Partnership	Position	Position still held (Y/N)
Stefán Sigurðsson	Nordic Development ehf.	Managing Director	Y
	Verðbréfamiðstöð Íslands hf.	Chairman of the board of directors	N
	Fólk Reykjavík ehf.	Director	Y
	Isavia ANS ehf.	Director	Y
	North Ventures ehf.	Chairman of the board of directors	Y
	North Ranga ehf.	Chairman of the board of directors	Y
	Iceland's Chamber of Commerce	Director	N
	Island Fund S.A in Luxembourg	Director	N
Una Steinsdóttir	Íslenska óperan ses.	Director	N

17.5 Potential Conflict of Interest

The Bank has listed one situation as a possible conflict of interest situation:

- Herdís Gunnarsdóttir is not considered independent of the Bank and its major shareholders on account of her employment with the Icelandic Government which is a large shareholder of the Bank.
- Stefán Pétursson serves as a director on the boards of both the Bank and Landsnet hf., transmission system operator, in which the Icelandic Government is a major shareholder.
- Brynja Baldursdóttir, the spouse of Jón Guðni Ómarsson, serves as the Chairman of the Board of Directors of Landsvirkjun, the National Power Company of Iceland, which is wholly owned by the Icelandic Government.

Besides that, no member of the Board of Directors or the Executive Committee has any private interest that might conflict with the Bank's interests.

17.6 Independent Auditor

The Annual General Meeting elects an external audit firm in accordance with the Bank's Articles of Association. The Board's proposal to the AGM is based on the Audit Committee's proposal on the selection of an audit firm. The AGM on 31 March 2025 voted to elect KPMG ehf. as the Bank's auditing firm.

The Bank's finance division is responsible for the preparation of the Group's consolidated financial statements in line with the IFRS as adopted by the Annual Accounts Act, the Financial Undertakings Act and Rules No. 532/2003 on Accounting for Credit Institutions. The Board of Directors' Audit Committee gives its opinion on annual and interim consolidated financial statements before their submission for the Board of Directors approval and endorsement. The external auditors review the half year consolidated interim financial statements and audit the consolidated annual financial statements.

The consolidated financial statements are published annually and consolidated interim financial statements on quarterly basis. As is provided for in the Financial Undertakings Act and the Bank's Articles of Association, the Bank's external audit firm is elected at the Annual General Meeting.

See "*5. Background and Reason and Use of Proceeds—5.4 Independent Auditor.*"

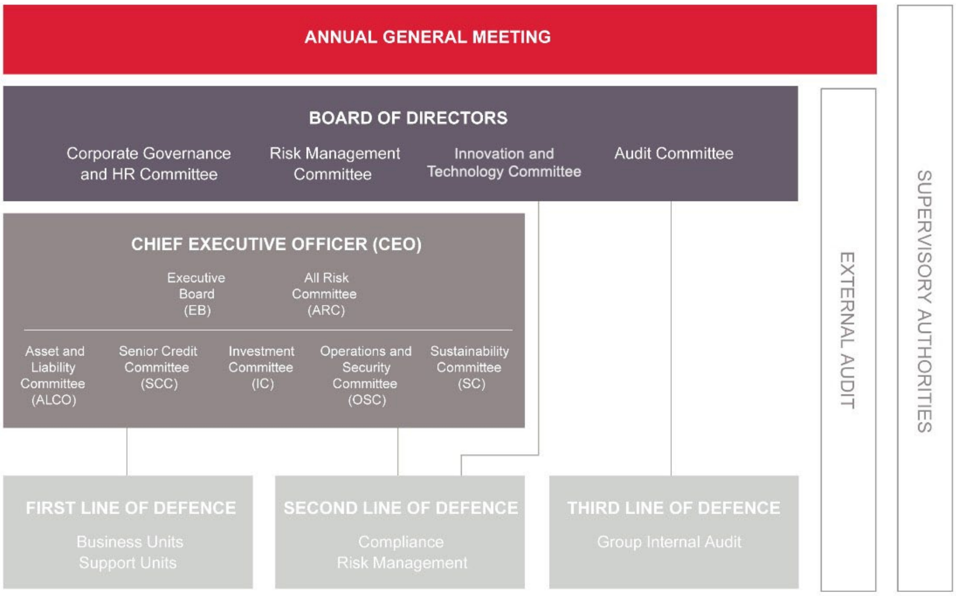
17.7 Corporate Governance

Pursuant to the Financial Undertakings Act, the Bank is obligated to comply with recognised guidelines on good corporate governance.

The Bank's governance practises are consistent with general corporate governance guidelines for entities regulated by official supervisors and regulatory instruments. The regulatory framework for corporate governance practices within the Bank consists of the law applicable to entities subject to the supervision of the FSA as well as other applicable law and regulations, including those imposed by the FSA and Nasdaq Iceland. The applicable law includes, *inter alia*, the Financial Undertakings Act, the Act on Recovery and Resolution of Credit Institutions and Investment Firms, the Act on Markets for Financial Instruments, the Act on Payment Services, the Act on Measures against Money Laundering and Terrorist Financing, the Act on Sustainability Disclosure Requirements in the Financial Sector and a Classification System for Sustainable Investments, the

Act on Mortgage Credit to Consumers, the Act on Consumer Credit, the Competition Act and the Public Limited Companies Act, which along with the Bank's Articles of Association lay the foundation for the Bank's existence and activities.

The Board of Directors follows the Icelandic Corporate Governance Guidelines, in accordance with Paragraph 7 of Article 54 of the Financial Undertakings Act. The Bank is in full compliance with the Corporate Governance Guidelines.



General Meetings

The supreme authority in the affairs of the Bank rests with the shareholders. Shareholders' meeting shall be convened with at least three weeks' notice and no more than four weeks' notice. Shareholders' meeting shall be convened by an advertisement in one or more reliable media and by electronic means, such as by e-mail or by publication on the Bank's website.

In addition to shareholders and their proxies, the auditor, directors and the CEO of the Bank have the right to attend shareholders' meetings. They shall have unrestricted rights to speak and submit motions at the meeting. Members of the Board's sub-committees and Nomination Committee, together with the Board candidates, shall also be allowed to attend shareholders' meetings and have the right to speak. The Board of Directors may also invite experts to attend individual shareholders' meetings and the Bank's employees.

The Annual General Meeting of the Company is held before the end of the month of April each year. The agenda of the Annual General Meeting of the Bank shall include the following items of business: (1) The report of the Board of Directors on the Company's operation and activities for the preceding year of operation; (2) Approval of the Company's annual financial statements and consolidated financial statements for the preceding year; (3) Decision as to how the Company's profit or loss during the preceding year of operation shall be handled; (4) Election of the Company's Board of Directors and alternate directors and the appointment of the Chairman of the Board; (5) Election of an audit firm; (6) Decision on the remuneration to the Board of Directors and compensation to the members of the Board's sub-committees; (7) Approval of the Company's remuneration policy; (8) Approval of the Company's Nomination Committees' rules of procedure; and (9) any other matters.

17.8 Internal Control, Risk Management, Auditing and Accounting

Internal Control

The risk management and internal control framework of the Bank is based on the three-lines-of-defence model, as referred to in the European Banking Authority's Guidelines on Internal Governance and aims for informed decision-making and strong risk awareness throughout the Bank. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Bank's internal rules. The first line of defence consists of the Bank's business and support divisions; the second line of defence is comprised of the Bank's internal control divisions, risk management and compliance; and the third line of defence is group internal audit which keeps the Board of Directors informed of the quality of corporate governance, risk management and internal controls, including by performing independent and objective audits.

Risk Management

The Board of Directors approves the risk policy, risk appetite statement and procedure for risk management and ensures that internal procedures for risk management are revised at least annually. The All Risk Committee, a Senior Management Committee, is comprised of the Chief Executive Officer, all the managing directors of the Bank and other members of management appointed by the Chief Executive Officer. The committee takes major decisions on implementation of the Bank's risk management and internal audit frameworks and conducts oversight to ensure that the Bank's risk profile is within the limits defined in the Board's risk appetite statement. The All Risk Committee issues guidelines for risk assessment and individual risk thresholds or limits.

Audit and accounting

The Chief Executive Officer ensures that the Board of Directors is provided with accurate information on the Bank's finances, development and operations on a regular basis. The Board Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities concerning the financial reporting process and the system of internal control. The Bank's finance division is responsible for the preparation of the Group's consolidated financial statements in line with IFRS as adopted by the European Union and additional requirements in the Annual Accounts Act, the Financial Undertakings Act and Rules No. 532/2003 on Accounting for Credit Institutions. The Board Audit Committee gives its opinion on annual and interim consolidated financial statements before their submission for the Board of Directors approval and endorsement The Board's Audit Committee regularly discusses the Group's financial statements and evaluates its internal control processes. Management reporting is generally presented to the Board 10 times a year. The external auditors review the half year consolidated interim financial statements and audit the annual consolidated financial statements.

The consolidated financial statements are published annually and consolidated interim financial statements on a quarterly basis. As is provided for in the Financial Undertakings Act and the Bank's Articles of Association, the Bank's external audit firm is elected at the Annual General Meeting.

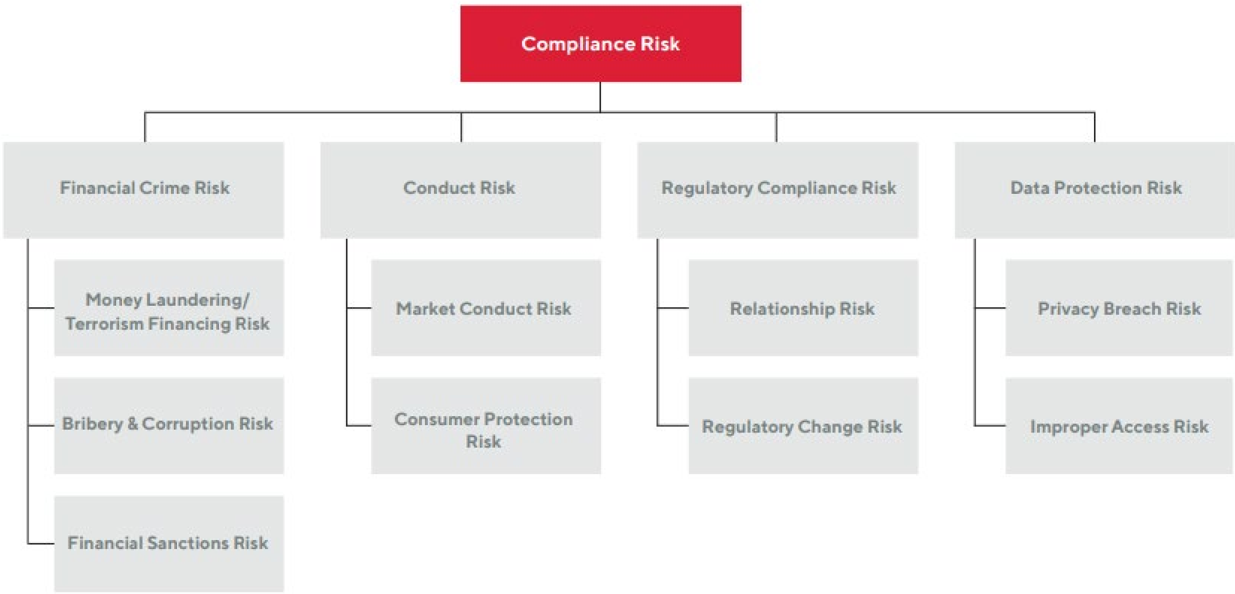
The current members of the Board Audit Committee Stefán Pétursson, Agnar Tómas Möller and Helga Hlín Hákonardóttir.

Group Internal Audit

The Chief Audit Executive is appointed by the Board of Directors, reports directly to the Board of Directors and directs the Group's Internal Audit with a mandate from the Board of Directors. Group Internal Audit operates independently from other departments in accordance with Article 16 of the Financial Undertakings Act. The department evaluates and promotes improvements to the effectiveness of governance, risk management and control processes. The Chief Audit Executive is engaged by the Board of Directors and is responsible for internal audit on a group basis.

Compliance

The Bank's Compliance Officer is hired by the Chief Executive Officer, subject to the Board of Directors confirmation. The Bank's Compliance Officer is a part of the Bank's Executive Committee and the All Risk Committee, as well as acting in an advisory capacity for some other committees within the Bank. The Bank's Compliance Officer's role is to monitor compliance risk. Within Compliance are two key units, Conduct Supervision and Anti-Financial Crime, which are led by Executive Directors responsible for the day-to-day operation of their units. In addition, the Bank's personal data protection officer is part of the Compliance department. Compliance monitors compliance risk within the Bank. The Compliance risk is structured in the following way as per the Banks risk taxonomy:



The Bank's Compliance function uses a risk-based approach in its practice and assesses relevant risk factors in the Bank's activities subject to the function's supervision, in accordance with its role of supervision. The Bank's Compliance Officer has a fourfold role based on the legal regime that the Bank is subject to:

- Compliance Officer of a licenced financial undertaking under the Financial Undertakings Act;
- Compliance Officer of a financial undertaking licensed to conclude securities transactions;
- Compliance Officer of an issuer of listed financial instruments; and
- Reporting Officer on Actions to Combat Money Laundering and Terrorist Financing (MLRO).

The Bank's Compliance Officer shall, among other things:

- carry out ongoing and specific supervision as to whether the Bank complies with laws and rules in providing services to clients in the area of securities trading;
- carry out ongoing and specific supervision as to whether the Bank and its relevant employees comply with laws and rules which apply to issuers of financial instruments regarding the information disclosure of the bank, treatment of inside information and insider trading; and
- carry out ongoing and specific supervision as to whether the Bank complies with laws and rules regarding actions to combat money laundering and terrorist financing concerning its clients.

Should an examination and/or assessment by the Bank's Compliance Officer reveal shortcomings in fulfilling the above-mentioned laws and rules, the Bank's Compliance Officer shall send comments, demand rectification and inform appropriate parties within the Bank, the Board of Directors and/or appropriate authorities in accordance with its mandate of duties approved by the Board of Directors.

The Bank's Compliance Officer reports to the Board of Directors yearly with an annual report on compliance issues or more often if deemed necessary. The report includes information on regarding the Bank's independence, finances, employees, authorities, and remedies. It also accounts for risk factors which are considered to arise from activities concerning securities transactions, issuance of listed financial instruments and actions to combat money laundering and terrorist financing.

The Bank's Compliance Officer informs the CEO on compliance issues as necessary.

The Chief Audit Executive of the Bank monitors the work of the compliance department.

17.9 Code of Conduct and Sustainability

The Board of Directors approved a Code of Conduct for the Bank's employees in September 2023. The aim of the code is to promote good operational practices.

The Bank seeks to work in harmony with the communities in which it operates and strives to have a positive impact on society. This participation in community programmes rests on the Bank's sustainability policy which is set out by the Board of Directors. The policy creates a comprehensive framework for the Bank's activities in the area of sustainability. It also maps out the Bank's Policy for environmental affairs and responsible lending, investments, purchasing and grants, as well as integrating with and supporting the Bank's other policies. The Bank's objective is to be a model of exemplary operations within the Icelandic business environment and international criteria related to environmental, social and governance factors (ESG or sustainability factors). The Bank therefore considers its financial objectives relating to profit and efficiency as well as ESG criteria in its operations. The Bank's sustainability objectives through 2025 have been approved by the Board of Directors. In addition, the Bank has decided to focus particularly on four of the UN Sustainable Development Goals during the course of its business: quality education; gender equality; industry innovation and infrastructure; and climate action. The Bank publishes an Annual and Sustainability Report in accordance with the Nasdaq ESG guidelines, the UN Global Compact, and the SDGs. Since 2009 the Bank has been a signatory to the UN Global Compact on social responsibility. The compact is a guide for companies on how to be socially responsible in practice.

17.10 Service Agreements, Remuneration and Entitlements of Members of the Board of Directors and Executive Committee

Remuneration Committee

Overview

The Bank's Corporate Governance and Human Resources Committee serves as the Bank's Remuneration Committee. The committee is responsible for the preparation of decisions regarding remuneration, including those which have implications for the risk and management of the Bank and which are to be taken by the management body. When preparing such decision, the committee takes into account the long-term interests of shareholders, investors and other stakeholders in the Bank and the public interest.

Remuneration Matters

The Bank's remuneration policy states that the remuneration committee of the Bank shall be comprised of three Directors of the Board. The role of the remuneration committee shall be to guide the Board of Directors and CEO in deciding on the terms of employment of senior management and overseeing the remuneration of senior officers in the risk management and compliance functions of the Bank. The committee submits a yearly report in connection with the Annual General Meeting of the Bank and in the Directors' Report in the Bank's Financial Statements, on the implementation of and compliance with the Bank's remuneration policy. Moreover, the committee shall monitor the developments of collective bargaining agreements, trends in salary expenses and number of employees. The Board of Directors has approved a mandate of appointment for the committee defining its role and responsibilities which is published on the Bank's website.

The Bank's remuneration policy was approved at the Bank's Annual General Meeting on 31 March 2025 pursuant to Article 79(a) of the Public Limited Companies Act and Article 57(a) of the Financial Undertakings Act. Article 57(b) of the Financial Undertakings Act implements the rules of CRD IV on variable remuneration awarded to employees that apply to the Bank. However, Article 57(b) of the Financial Undertakings Act, deviating from CRD IV, does not permit bonus payments to directors or employees working in risk management, internal auditing or compliance. The Bank's remuneration policy is reviewed annually and submitted to the Annual General Meeting for approval or rejection. Currently, the policy restricts bonus payments by the conclusion of agreements on salary incentives on terms defined by performance that do not form part of fixed remuneration, where the final amount or size is no exactly known beforehand, and if the Bank intends to set up a bonus payment system, the approval of the Bank's shareholders' meeting is required according to the rules.

Board of Directors

The table below sets forth the remuneration paid to members of the Board of Directors for the year ended 31 December 2024.

Name	Fixed remuneration	Additional remuneration	Total
Linda Jónsdóttir, Chairman of the Board	ISK 13.9 million	—	ISK 13.9 million
Stefán Pétursson, Vice-Chairman of the Board	ISK 13.1 million	—	ISK 13.1 million
Agnar Tómas Möller, member of the Board	ISK 9.3 million	—	ISK 9.3 million
Haukur Örn Birgisson, member of the Board	ISK 10.0 million	—	ISK 10.0 million
Helga Hlín Hákonardóttir, member of the Board	ISK 12.3 million	—	ISK 12.3 million
Stefán Sigurðsson member of the Board	ISK 7.0 million	—	ISK 7.0 million
Valgerður Hrund Skúladóttir, member of the Board	ISK 7.5 million	—	ISK 7.5 million
Páll Grétar Steingrímsson alternate member of the Board	ISK 2.8 million	—	ISK 2.8 million
Anna Þórðardóttir, former member of the Board	ISK 2.4 million	—	ISK 2.4 million
Herdís Gunnarsdóttir, alternate member of the Board	ISK 0.5 million	—	ISK 0.5 million

Executive Committee

The table below sets forth the remuneration paid to members of the Executive Committee for the year ended 31 December 2024.

Name	Total salaries	Contributions to pension funds
Jón Guðni Ómarsson*	ISK 58.0 million	ISK 8.4 million
Ellert Hlöðversson**	ISK 51.4 million	ISK 7.3 million
Barbara Inga Albertsdóttir	ISK 38.6 million	ISK 5.8 million
Guðmundur Kristinn Birgisson	ISK 42.7 million	ISK 6.2 million
Kristín Hrönn Guðmundsdóttir	ISK 55.8 million	ISK 8.3 million
Ólöf Jónsdóttir***	ISK 44.6 million	ISK 6.5 million
Riaan Dreyer	ISK 48.5 million	ISK 7.3 million
Una Steinsdóttir	ISK 47.0 million	ISK 6.8 million

---

* Jón Guðni Ómarsson was appointed CEO by the Bank's Board of Directors on 28 June 2023. Jón served as CFO from 2011 until year-end 2023.

** On 1 January 2024, Ellert Hlöðversson assumed the position of Chief Financial Officer.

*** On 1 February 2024 Ólöf Jónsdóttir assumed the position of Managing Director of Personal Banking.

Service Agreements

Board of Directors

Pursuant to article 3 of the Bank's remuneration policy the Bank may not conclude severance agreements with members of the Board of Directors other than what is provided in employment agreements, collective bargaining agreements and legal obligations.

Management

Pursuant to article 4 of the Bank's remuneration policy the Bank may not conclude agreements including severance payments with the CEO or senior management other than what is provided in employment agreements, collective bargaining agreements and legal obligations.

18. MAJOR SHAREHOLDERS

18.1 Shareholders

As at the date of this Prospectus, the Icelandic state, through the Selling Shareholder, owns 45.2% of the Bank's share capital, or 850,000,007 shares of ISK 5 in nominal value. The legal address of the Selling Shareholder is Lindargata Arnarhvoli, 101 Reykjavík, its registration number is 550169-2829, and its legal entity identifier (LEI) is 6488DCD3RCW325485J08. The following table sets forth the list of the Bank's shareholders who own more than 1% of the Bank's shares, based on information known by the Bank as at 12 May 2025.

Shareholders(1)	Number of Shares	Percentage holding(2)
Selling Shareholder............................	850,000,007	45.2%
LSR Pension Fund	145,957,041	7.76%
Gildi Pension Fund	133,547,218	7.10%
Live Pension Fund	107,530,488	5.72%
Capital Group.....................................	100,744,765	5.36%
Brú Pension Fund	74,123,798	3.94%
Vanguard	45,614,208	2.43%
Birta Pension Fund	29,775,040	1.58%
Frjálsi Pension Fund	29,085,985	1.55%
Lífsverk Pension Fund........................	23,039,700	1.23%
Almenni Pension Fund	20,916,117	1.11%
Stapi lífeyrissjóður	19,342,628	1.03%
Festa Pension Fund	18,957,940	1.01%

Notes:

(1) Information on shareholders and the size of their holding is based on information from Nasdaq CSD Iceland as the Bank's share register and information on beneficial owners is i.a. based on information available from public sources that are considered reliable. The information is complied and processed from various sources, including Monitor by Modular Finance AB and Morningstar. Note, in case of fund management entities, the beneficial owner of the company is not necessarily the beneficial owner of the underlying funds. Furthermore, information on the holdings of individual funds is published jointly under the name of their management company.

(2) Based on the Bank's Shareholder register published on its website as at https://www.islandsbanki.is/en/article/shareholders.

After completion of the Offering, the Selling Shareholder will continue to hold 25.2% of the issued Shares, assuming that the Volume Increase is not effected.

The table below sets forth certain information with respect to the ownership of the Shares immediately prior to the Offering on an actual basis and immediately after the Offering as (i) adjusted for the Offering assuming that the Volume Increase is not effected and (ii) as adjusted for the Offering assuming that the Volume Increase is effected:

Shareholder	Actual		As adjusted for the Offering if the Volume Increase is not effected		As adjusted for the Offering if the Volume Increase is effected in full	
	Number	%	Number	%	Number	%
Selling Shareholder.............	850,000,007	45.2	473,905,853	25.2	—	—
Current shareholders...........	1,030,470,763	54.8	1,030,470,763	54.8	1,030,470,763	54.8
New shareholders	—	—	376,094,154	20.0	850,000,007	45.2
Total...................................	1,880,470,770	100	1,880,470,770	100	1,880,470,770	100

In order to meet demand in Tranche C, the Selling Shareholder may increase the number of shares for sale in the Offering by effecting the Volume Increase. The Base Volume is the number of Offer Shares that are proposed to be sold according to this Prospectus, if the Volume Increase is not effected, while the Total Volume is the number of Offer Shares sold if the Volume Increase is effected. If there is sufficient demand, the Minister may increase the number of Offer Shares for sale, otherwise the number remains unchanged from the date of this Prospectus and the total quantity is then equal to the Base Volume.

18.2 Lock-Up

After completion of the Offering, the Selling Shareholder will continue to hold 25.2% of the Shares (assuming that the Volume Increase is not effected). Other than with respect to the Offer Shares that the Selling Shareholder will sell in the Offering, the Selling Shareholder will agree with the Managers not to divest its remaining Shares for a period of 90 days after the Offer Price has been paid, subject to certain exceptions. See "*25. Plan of Distribution and Transfer Restrictions—25.1 Plan of Distribution*."

18.3 Relationship Agreement

On 19 May 2021, ISFI and the Bank entered into an agreement, which came into effect on 22 June 2021, upon the Bank's shares being admitted to trading on a regulated market (the "**Relationship Agreement**"). The ISFI was dissolved pursuant to Amendment Act No. 129/2024, and as of 1 January 2025, all of ISFI's responsibilities and obligations were transferred to the Ministry. The Relationship Agreement is publicly available on the Bank's website. The Relationship Agreement governs the relationship between the Selling Shareholder and the Bank. It addresses key topics, including the impact of the Government's Ownership Policy on the Bank, operational guidelines for the Bank, and the protocols for communication between the Ministry and the Bank. The Relationship Agreement will terminate once the Selling Shareholder holds less than one-third of the Bank's outstanding shares. Following the Offering, the Selling Shareholder's stake will be reduced to at least 25.2%, leading to the automatic termination of the Relationship Agreement.

18.4 Participation Agreement

On 27 August 2024, the Selling Shareholder and the Bank entered into an agreement governing the Bank's participation in the Offering (the "**Participation Agreement**"). The agreement details the allocation and division of costs associated with consultants and defines the respective roles and responsibilities of the parties in relation to the Offering. Additionally, the Participation Agreement allows direct communication between the Selling Shareholder and the Bank. Further the parties agreed to limit the Bank's obligations to share information with its competitors in relation to the Offering. Under the Participation Agreement, the Selling Shareholder agrees to indemnify the Bank, including its Board of Directors, executives, and employees, from any claims, including those brought by the Managers under the Underwriting Agreement, arising in connection with the Bank's role in the Offering, except for claims resulting from intentional misconduct or gross negligence on the part of the indemnified party. The Participation Agreement will remain in force until the completion of the Offering.

19. SHARES AND SHARE CAPITAL

19.1 Share Capital Information

As at 31 March 2025, the authorised share capital of the Bank was ISK 9,402,353,850 represented by 1,880,470,770 Shares, each of the same class with a par value of ISK 5.00.

The Shares have been issued in accordance with Icelandic law, have been fully paid and are denominated in ISK. The rights associated with the Shares, including those set out in the Articles of Association of the Bank, can only be changed in accordance with the procedures set forth in the Public Limited Companies Act and section 7 of the Articles of Association requiring the approval of a minimum of two-thirds of the votes cast and also the approval of shareholders controlling at least two-thirds of the share capital in respect of which votes are represented at the shareholders' meeting.

The Shares are denominated in ISK. The Shares are electronically registered in book-entry form under the name of the relevant shareholder, or nominee pursuant to Article 42 of the Markets in Financial Instruments Act, with Nasdaq CSD Iceland in accordance with Central Securities Depositories Act and any subsequent rules based thereon.

The Shares are traded under the symbol "ISB" on Nasdaq Iceland and have the ISIN code IS0000028538.

19.2 Certain Rights Attached to the Shares

General Meetings and Voting Rights

The Annual General Meetings are held before the end of April each year. The supreme authority in the affairs of the Bank is in the hands of legitimate shareholder meetings. One vote is attached to each Icelandic Króna of share capital and therefore no shares carry different voting rights. Decisions at shareholder meetings are generally taken by majority vote.

Preferential Rights

No special rights are attached to the Shares of the Bank.

Pre-Emptive Rights and Increases of Share Capital

An increase in the share capital of the Bank may be authorised at a meeting of shareholders. Shareholders have pre-emptive rights to subscribe to new Shares issued in proportion to their holdings of the Shares and within the time limits specified in the resolution to increase the share capital. However, a meeting of shareholders can, by a two-thirds majority vote, waive pre-emptive rights to subscribe to new Shares, provided that there is no discrimination.

Action Required to Change the Rights of Shareholders

Each shareholder is under the obligation, without the necessity of any specific undertaking, to abide by the Bank's Articles of Association in their current form or as amended from time to time. Shareholders' liability for the Bank's affairs is limited to the share contribution of each shareholder. According to article 7.1 of the Articles of Association, they may be amended on a lawfully convened shareholders' meeting. Any proposals for amendments of the Bank's Articles of Association are required to be included in the meeting announcement. A decision to amend the Bank's Articles of Association requires the approval of two-thirds of the votes cast provided that the shareholders, controlling at least two-thirds of the total share capital, represented in the meeting participate in the vote, cf. Article 93 of the Public Limited Companies Act. According to Article 94 of the Public Limited Companies Act amendments to the Articles to Association that compromise the shareholders' right to dividends, increase obligations and limit transfer of shares require consent of all shareholders.

Repurchases of the Shares

The Annual General Meeting of the Bank held on 31 March 2025 authorised the Board of Directors, based on Article 55 of the Public Limited Companies Act, to acquire on behalf of the Bank up to 10% of the issued share capital of the Bank. As set out in Annex 1 of the Bank's Articles of Association, the authorisation shall be used to set up a formal share repurchase programme or for the purpose of offering shareholders generally to sell their shares to the Bank e.g., through auction where equal treatment of shareholders is to be ensured. The repurchase of shares under this authorisation is conditional upon the prior approval of the FSA in accordance with Article 77 of CRR. This authorisation remains in effect for 18 months after the Bank's Annual General Meeting in 2025. Previous authorisation to purchase own shares was cancelled with the approval of this authorisation. The cancellation did not affect any repurchase transactions initiated and published prior to that date.

As explained in an explanatory note, the Board of Director is authorised to approve a formal share repurchase program or to offer shareholders generally to sell their shares to the Bank, e.g. through auction where equal treatment of shareholders is ensured. Similar arguments are generally considered to apply to the repurchase of a Bank's own shares as to annual dividend payments, on the basis of the Bank's operating results. The aim of the proposal is to outline the Bank's shareholder return in a transparent manner alongside the Bank's dividend policy. Moreover, the objective of the authorisation is to optimise the Bank's capital structure. This authorisation to repurchase the Bank's own shares will be carried out in accordance with the applicable laws and regulations. Repurchase of the Bank's shares is subject to the prior approval of the FSA in accordance with Article 77 of CRR.

On 5 February 2025 the FSA granted the Bank authorisation to repurchase its own shares, up to a total market value of ISK 15 billion.

From the beginning of the share repurchase in February 2023 the Bank has repurchased a total of 126,449,230 own shares, or 6.32% of issued share capital, as stated in an announcement from the Bank on 26 March2025.

Cancellation of the Bank's Own Shares and reduction of share capital

At the Annual General Meeting on 31 March 2025, it was resolved to reduce the Bank's share capital by ISK 597,646,150 nominal value, equivalent to 119,529,230 shares, from ISK 10,000,000,000 nominal value to ISK 9,402,353,850 nominal value. The reduction was executed by cancelling the Bank's treasury shares amounting to the above-mentioned amount provided that all applicable legal conditions are met. Article 2.1 of the Bank's Articles of Association was amended accordingly.

The reduction of share capital by cancelling the Bank's own shares was approved by the FSA.

Rights to Dividend and Liquidation Proceeds

Payment of dividends is proposed by the Board of Directors and must be approved by the shareholders at a general meeting (whether an annual general meeting or an extraordinary general meeting). Dividends must be paid no later than six months after the date of the general meeting at which such dividends were approved. Any dividends declared are payable to the shareholders of record at the time of the payment of dividends. However, the general meeting may decide that the dividends will be payable to the shareholders of record on a different date, *provided that* the alternative date is stipulated in the general meeting's resolution on dividend payment and is notified to the market.

Dividends on the Shares will not be cumulative. Accordingly, if for any reason the Board of Directors does not declare a dividend on the Shares for a period prior to the related dividend payment date, that dividend will not accrue, and the Bank will have no obligation to pay a dividend for that dividend period on the applicable dividend payment date or at any time in the future.

There are no provisions in the Bank's Articles of Association regarding the expiration of the right to dividends that have not been collected. As a result, such rights lapse after four years from the date it becomes payable according to Act No. 150/2007 on the Limitation Periods for Claims and reverts to the Bank if not claimed within that period of time.

The date for the payment of dividends is decided by the shareholders at the general meeting. Dividends are declared at the general meeting and paid in Icelandic Króna. The Bank withholds Icelandic tax on dividends depending on the shareholder receiving the dividends. For more information on tax considerations, see "*23. Taxation.*"

In the event of liquidation of the Bank, shareholders are entitled to receive a proportional share of any remaining assets after the payment of the Bank's debt, taxes, preferential claims under the relevant insolvency laws and the liquidation expenses.

Share Capital Development

The Bank has not issued any Shares in the years ended 31 December 2022, 2023 and 2024. The Bank reduced the Share Capital in 2025 as further outlined above, see "*—Repurchases of the Shares—Cancellation of the Bank's Own Shares and reduction of share capital.*"

19.3 Dividends and Dividend Policy

Dividend Policy

Based on the then-applicable regulatory requirements, the Bank is targeting to pay out approximately 50% of earnings as a base dividend. The Bank will focus on excess capital to support further dividend payments, buybacks and/or ROE enhancing growth.

Special distributions and dividend capacity

The Bank may pursue additional capital optimisation. However, the speed and quantum of such special distributions, for example, in the form of a share buyback, tender offer or extraordinary dividend, would depend on a number of factors, including (but not limited to) management of foreign exchange imbalances, the Bank's liquidity position, access to capital markets, the capital requirements set by the FSA, recommendations from the European Banking Authority ("**EBA**") and more. The Bank's capital optimisation process, including through dividend distributions and its share repurchase programme, is a priority for the Bank, subject to market conditions.

Dividends Paid

The table below sets forth the amount of dividends paid by the Bank for 2022, 2023 and 2024.

	Year ended 31 December		
	2024	**2023**	**2022**
		(*ISK in millions*)	
Dividends paid	12,100	12,300	12,300
Dividends paid per Share	6.46	6.26	6.15

Since 2016, the Bank has delivered a consistent 50% ordinary dividend pay-out ratio, with the exception of 2020, when the COVID-19 pandemic necessitated a deviation from this policy. In addition, this was combined with further excess capital distributions in 2016 and 2018 of ISK 27 billion and ISK 6 billion, respectively.

Legal and Regulatory Requirements

The Public Limited Companies Act provides that it is only permissible to allocate as dividend profit in accordance with approved annual accounts for the immediately preceding fiscal year profit brought forward from previous years and disposable earnings after deducting any losses which have not been met and any monies which according to Icelandic laws and the Bank's Articles of Association shall be contributed to a reserve fund or for other use.

The Public Limited Companies Act further provides that a shareholders' meeting will decide upon the allocation of dividends after a company's board of directors has submitted proposals in that respect. The Public Limited Companies Act prohibits allocation of more dividends than the board of directors proposes or approves. Shareholders holding a total of at least 10.0% of the share capital may at an annual general meeting, *provided that* the company's board of directors be advised thereof, require an annual general meeting to decide upon the allocation of a sum as dividends amounting to at least 25.0% of the remainder of annual profits after any losses of previous years have been met and any amounts to be contributed to a reserve fund in accordance with Icelandic laws or the Bank's Articles of Association, or which cannot be allocated as dividends for other reasons, have been deducted. It is, however, not permissible to require allocation of more than the equivalent of 2.0% of the Bank's capital and reserves (equity).

The date of maturity of dividends shall be no later than six months after a decision relating to the allocation thereof has been made.

The Bank follows Nasdaq Iceland's proposals on dividend payments whereas the ex-dividend date shall be the business day immediately following the day the dividend proposal is approved, i.e. investors who purchase shares after the ex-dividend date or after will not receive the dividend payment. Payment of dividends is further to be made no later than 30 days after the record date. With the exception of dividend payments, shareholders are not entitled to any of the Bank's profits.

19.4 Restrictions on Ownership and Transfer of the Shares

The Bank's Articles of Association do not contain any limitations on the ability to transfer the Shares, and shareholders may pledge the Shares unless otherwise prohibited by law. Pre-emptive rights to new shares issued are transferable according to the Public Limited Companies Act.

However, special rules apply to qualifying holdings in financial institutions pursuant to Articles 40-49.k. of the Financial Undertakings Act. A "qualifying holding" is a direct or indirect holding in a financial undertaking which represents 10.0% or more of its share capital, guarantee capital or voting rights or any other holding which enables the exercise of a significant influence on the management of the financial institution. Those who intend to acquire a qualifying holding in a financial institution must seek in advance the approval of the FSA. In addition, the approval of the FSA is required when a party, alone or jointly with others, intends to increase its holding to such an extent that the direct or indirect ownership in the share capital, guarantee capital or voting rights reaches or exceeds 20.0%, 30.0% or 50.0% or comprises such a large portion that the financial institution may be regarded as its subsidiary company. If the owner of a "qualifying holding" intends to reduce its shareholding with the result that such owner will not subsequently own a "qualifying holding," the owner is required to report its intentions to the FSA in advance, together with information on the shareholding following such reduction. The same applies if the shareholding decreases below the specified levels (i.e., 20.0%, 30.0% or 50.0%) or to such an extent that the financial institution ceases to be a subsidiary of the parent company in question.

As a general rule, a person acquiring the Shares cannot exercise its rights as a shareholder until such person's name has been registered in the Bank's share registry or such person has announced and proven the ownership of the Shares. The electronic registration of securities is governed by the Central Securities Depositories Act.

A printout from Nasdaq CSD Iceland on the ownership of the Shares is considered a valid registration of the Shares. The Bank considers the share registry as full proof of ownership of the Shares and the rights attached to them. Dividends and all announcements to shareholders are sent to the parties registered in the Bank's share registry as owner of the Shares. The Bank has no liability if payments or announcements do not reach their recipients because a notification of change of address has not been delivered.

Rights to the Shares in electronic form must be registered with Nasdaq CSD Iceland. Share certificates may not be issued or endorsed for registered rights to the Shares in electronic form, and any such attempted transactions are void. Registration of the ownership of the Shares in electronic form with Nasdaq CSD Iceland, subsequent to Nasdaq CSD Iceland's final entry, formally gives a registered owner legal authorisation to the rights to which they are registered. Priority of incompatible rights is determined by the time stamp when a request from the Bank's data central on the registration reaches Nasdaq CSD Iceland.

20. ARTICLES OF ASSOCIATION

The following is an English translation of the Articles of Association of the Bank, approved at the annual general meeting of the Bank on 31 March 2025:

1. NAME, ADDRESS AND PURPOSE OF THE COMPANY

1.1 The Company is a public limited company.

1.2 The name of the Company is Íslandsbanki hf.

1.3 The domicile of the Company and legal venue are in Kópavogur.

1.4 The Company is a financial undertaking. The purpose of the Company is to operate a commercial bank and provide financial services. The Company may engage in any activities commercial banks may carry out pursuant to applicable laws and the Company's operating licenses, and any other activity normally related to such activities. The Company may engage in activities that are consistent with its operations and may take an ownership interest in other companies for such purpose.

2. SHARE CAPITAL OF THE COMPANY

2.1 The share capital of the Company amounts to ISK 9,402,353,850 – nine billion, four hundred two million, three hundred fifty-three thousand, eight hundred fifty Icelandic Krónur. The share capital is divided into 1,880,470,770 shares of ISK five (5) in nominal value, or multiples thereof. All of the Company's share capital is on a single class.

2.2 The Company's share capital may be increased by a resolution of a shareholders' meeting either through subscription for new shares or by issuance of bonus shares, such resolution requiring the same number of votes as required for the amendment of these Articles of Association. If the Board of Directors is granted the authority to issue new shares, the decision of the shareholders' meeting shall be recorded in a special Annex to these Articles of Association and such Annex shall be an integral part of the Articles during term of such authorisation.

2.3 Shareholders shall have pre-emptive rights to new shares in direct proportion to their shareholding. Should a shareholder not exercise its priority rights to new shares the entitlement of other shareholders shall be increased proportionally. Pre-emptive rights may be waived according to Article 34(3) of Act No. 2/1995, on Public Limited Companies.

2.4 Only a shareholders' meeting can resolve on the reduction of share capital, such resolution requiring the same number of votes as required for the amendments of these Articles of Association.

2.5 The Company may not grant loans or other credit against security in the form of shares issued by the Company itself.

2.6 The Company may purchase and hold its own shares to the extent authorised by law. If authorisation to purchase and hold own shares is granted by a shareholders' meeting, this must be recorded in a special Annex to these Articles of Association and such Annex shall be an integral part of the Articles during term of such authorisation.

2.7 The Company's shares are electronically registered in a securities depository as provided for by Act No. 7/2020, on Central Securities Depositories, Settlement and Electronic Registration of Title to Financial Instruments. A statement from the securities depository concerning title to shares in the Company constitutes a valid share register and a valid proof of title to shares in the Company. Any notices to the shareholders and allocation of rights, such as dividends, shall be addressed or allotted to the party recorded in the Company's register of shares as the owner of the respective shares.

2.8 No restrictions are placed on transactions with shares in the Company. Transactions with qualifying holdings are subject to the limitations of the Act No. 161/2002, on Financial Undertakings. Shares in the Company may be transferred or pledged unless otherwise provided for by law. Registration of lien rights and changes in ownership and their implementation are subject to Act No. 7/2020, on Central Securities Depositories, Settlement and Electronic Registration of Title to Financial Instruments.

2.9 Each shareholder is obligated to abide by these Articles of Association as they are at any given time. Shareholders bear no responsibility for the Company's obligations beyond their holding in the Company unless they assume such obligations through a specific legal instrument. This Article cannot be amended unless unanimously approved by all shareholders.

2.10 No special rights are attached to the shares in the Company. Shareholders shall not be subject to redemption of their shares unless otherwise provided for by law.

3. SHAREHOLDERS' MEETINGS

3.1 The supreme authority in the affairs of the Company is in the hands of lawful shareholders' meetings pursuant to statutory law and these Articles of Association. All shareholders are entitled to attend a shareholders' meeting, to address the meeting, and exercise their voting rights.

3.2 The Annual General Meeting of the Company shall be held before the end of the month of April each year.

3.3 The following items shall be on the agenda of the Annual General Meeting:

(i) The report of the Board of Directors on the Company's operations and activities for the preceding year of operation;

(ii) Approval of the Company's annual financial statements and consolidated financial statements for the preceding year of operation;

(iii) Decision as to how the Company's profit or loss during the preceding year of operation shall be handled;

(iv) Election of the Company's Board of Directors, alternate directors and the Chairman of the Board;

(v) Election of an auditor;

(vi) Decision on the remuneration to the Board of Directors and compensation to the members of the Board's sub-committees;

(vii) Approval of the Company's remuneration policy;

(viii) Approval of the Company's Nomination Committee's rules of procedure;

(ix) Other matters.

3.4 If so requested in writing at an Annual General Meeting by shareholders controlling at least one-third of share capital, a decision on items ii) and iii) of Art. 3.3 shall be postponed to a follow-up Annual General Meeting, to be held no sooner than one month and no later than two months after the Annual General Meeting. A further postponement cannot be requested.

3.5 A shareholder meeting shall be convened by the Board of Directors when the Board deems it necessary or at the request of the Company's auditor or shareholders, controlling at least 1/20 of the Company's share capital, submitted in writing and stating the business of the meeting. Upon receipt of a valid meeting request the Board of Directors shall convene a meeting within fourteen days.

3.6 Shareholders' meetings shall be convened with at least three (3) weeks' notice and no more than four (4) weeks' notice. Shareholders' meeting shall be convened by an advertisement in one or more reliable media and by electronic means, such as by e-mail or by publication on the Company's website. A follow-up shareholders' meeting shall be convened in the same manner and with the same notice as other shareholders' meetings.

3.7 Three weeks prior to the shareholders' meeting and on the day of the meeting the following information shall be accessible to the shareholders on the Company's website: (i) the meeting announcement, (ii) the total number of shares and votes as of the date the meeting was announced, (iii) documents to be presented to the shareholders' meeting, (iv) motions of the Company's Board of Directors or its committees, as the case may be, and (v) form of power of attorney.

3.8 The Board of Directors may decide to hold a shareholders' meeting by electronic means, either in full or in part, provided the technology to be used for the meeting is determined by the Board of Directors to be secure and fulfils the requirements of the Act No. 2/1995, on Public Limited Companies. A decision to hold a shareholders' meeting by electronic means shall be stated in the meeting announcement. The announcement shall also provide information on the necessary technical equipment which shareholders require to participate in the meeting, information as to how shareholders are to give notice of their participation, information as to how voting will take place and where shareholders can obtain instructions on telecommunications equipment, passwords for access to the meeting and other relevant information. If a shareholders' meeting is held in part or in full by electronic means, a password entered in the specified telecommunications equipment shall be equivalent to the signature of the respective shareholder and shall be considered confirmation of his participation in the shareholders' meeting.

3.9 Each shareholder is entitled to have a specific matter submitted to a convened shareholders' meeting, if he makes a written or electronic request for that to the Board of Directors with sufficient notice to allow the matter to be placed on the agenda of the meeting, however, no later than 10 days prior to the meeting. The request must be accompanied by grounds for the same or a draft resolution for the Board of Directors. Information on such request must be published on the Company's website no later than three days prior to the meeting together with the proposal and, as the case may be, the revised meeting agenda.

3.10 Matters which have not been included on the agenda of a shareholders' meeting cannot be resolved at the meeting without the consent of all the Company's shareholders but resolutions thereon may be passed as guidance of the Company's Board of Directors. Supplementary motions or amendments, legally submitted, may be raised at the meeting itself, however, despite not having been available to shareholders beforehand.

3.11 A shareholders' meeting shall be duly constituted, regardless of attendance, if it was lawfully convened and if one or more shareholders attend the meeting. The meeting may be held at a location other than the Company's head office.

3.12 In addition to shareholders and their proxies, the auditor, directors and the CEO of the Company (managing director pursuant to the Act No. 2/1995, on Public Limited Companies and Act No. 161/2002, on Financial Undertakings. They shall have unrestricted rights to speak and submit motions at the meeting. Members of the Board's sub-committees and Nomination Committee, together with the Board candidates, shall also be allowed to attend shareholders' meetings and have the right to speak. The Board of Directors may also invite experts to attend individual shareholders' meetings and the Bank's employees.

3.13 A shareholder may attend a meeting along with his advisor, but such advisor has neither the right to submit proposals nor to vote at shareholders' meetings. A shareholder is, however, authorised to allow his advisor to speak on his behalf. Any proxy attending a shareholders' meeting on behalf of a shareholder shall present a written or electric, and dated, power of attorney. The power of attorney shall be presented no later than at the meeting and shall be deemed valid only for attendance at that shareholders' meeting unless otherwise clearly stated in the power of attorney. A power of attorney may be revoked at any given time.

3.14 A meeting chairman elected by the shareholders' meeting will preside over the meeting. The meeting chairman shall resolve all disputes concerning lawfulness of the meeting in accordance with these Articles of Association and applicable law. The meeting chairman shall further decide on the process of debates, procedures of matters and voting. The meeting chairman appoints a secretary with the meetings' approval who shall keep minutes of the meeting. Minutes of meetings shall be recorded in the meeting record book and be considered fully valid proof of what took place at the shareholders' meeting. The minutes shall be read aloud prior to the conclusion of the meeting, if requested by shareholders, and any comments raised concerning them shall be recorded. The minutes shall be signed by the meeting chairman and the secretary.

3.15 At shareholders' meetings, each króna of share capital carries one vote. A simple majority of votes shall determine the outcome at shareholders' meetings, unless otherwise provided for by law or these Articles. Proposals are deemed rejected if they receive equal votes.

4. **BOARD OF DIRECTORS**

4.1 The Company's Board of Directors shall be comprised of seven (7) individuals and two (2) alternate directors. Statutory provisions shall apply concerning the eligibility of directors. Directors shall be elected at an Annual General Meeting for one year at a time.

4.2 The proportion of each gender among directors and alternate directors shall be at least 40%. The three (3) female candidates and three (3) male candidates who receive the most votes and the person who receives the most votes after the aforementioned candidates in the Board election shall be deemed as the rightfully elected Board members. The female candidate and the male candidate who receive the most votes in the election of alternate members shall be deemed as the rightfully elected alternate members of the Board. Should the aforementioned gender ratio not be reached, the election shall be postponed to a follow-up shareholders' meeting, which shall be convened within one month. Until a legitimate election has taken place, resulting in the required gender representation, the mandate of the previous directors and/or alternates as the case may be is extended accordingly.

4.3 Election of the Board of Directors shall be made by cumulative voting between individuals, cf. item c of Article 63(6) of the Act No. 2/1995, on Public Limited Companies.

4.4 The Company shall operate a Nomination Committee whose role is to nominate individuals to the Company's Board of Directors at the Company's Annual General Meeting, or as the case may be at a shareholders' meeting where an election to the Board is on the agenda. The Nomination Committee shall consist of three (3) members and two alternate members. Two of the members of the Nomination Committee and their alternate member shall be elected at the Company's Annual General Meeting, or at a shareholders' meeting, for one year at a time. The election of members of the Nomination Committee at a shareholders meeting shall be governed by the Articles of Association's rules on the election of members of the Board of Directors. The third member of the Nomination Committee and his alternate shall be members of the Board of Directors and are appointed by the Board of Directors, for one year at a time. The composition of the Nomination Committee and its role shall be in accordance with Article 53 of the Financial Undertakings Act. Those who intend to stand for election to the Nomination Committee shall notify the Board of Directors of their candidacy within the same notice as applies for declaring candidacy to the Board of Directors. Information on the appointment of the Nomination Committee shall be made available to the shareholders on the Company's website. The rules of procedure of the Nomination Committee shall be approved at a shareholders' meeting.

4.5 Those individuals who intend to stand for election as directors must give notice of their candidacy in writing to the Company's Nomination Committee no later than five days prior to the commencement of the shareholders' meeting at which the election is to take place. In their notification candidates must provide details including their name, identification number, address, principal employment, other directorships held, education, experience and holding in the Company. Disclosure shall also be made of interest connections with the Company's principal customers and competitors, as well as with shareholders holding more than 10% in the Company. Information on the candidates to the Board of Directors shall be made available to the shareholders at the Company's headquarters and published on the Company's website no later than two days before the shareholders' meeting.

4.6 The Chairman of the Board shall be elected separately at the Annual General Meeting or a shareholders' meeting. The Board shall allocate responsibility for other tasks.

4.7 The Company's Board of Directors constitutes the supreme authority in the affairs of the Company between shareholders' meetings. The Board of Directors shall implement rules of procedure where the Board's operations are further detailed.

4.8 The Company's Board of Directors shall hire the Company's CEO, determine the terms of the CEO's employment within the limits set by the remuneration policy adopted by a shareholders' meeting. Similarly, the Board of Directors dismisses the CEO from his position.

4.9 The Chairman of the Board convenes and presides at Board meetings. Meetings shall be held at the discretion of the Chairman. The Chairman shall also convene a meeting of the Board if requested by one or more members of the Board, or the CEO.

4.10 The CEO attends meetings of the Company's Board of Directors, at which the CEO is entitled to speak and make proposals, unless the Board decides otherwise in individual instances. The Company's auditors shall similarly be entitled to attend Board meetings.

4.11 A Board meeting has a quorum if a majority of directors attend. Major decisions, however, may not be taken without all directors having had the opportunity to discuss the matter if at all possible.

4.12 The signatures of a majority of directors bind the Company. The Board also grants power of procuration for the Company.

4.13 A decision of the Board of Directors is deemed to be approved if approved by majority of the Board members. In the event of a tie, the Chairman shall have the deciding vote. Important decisions may, however, not be made unless all members of the Board have had the opportunity, if possible, of discussing the matter. Minutes of the Board meeting shall be kept and confirmed by the Board members with their signatures. Directors may participate in meetings with the assistance of electronic media, if necessary.

4.14 In all other respects, the applicable legislation shall provide for the responsibilities, powers and tasks of the Board of Directors.

5. CHIEF EXECUTIVE OFFICER (CEO)

5.1 The Board shall hire the Company's CEO. The CEO has charge of the day-to-day operations of the Company, and in this respect the CEO shall observe the policy and directions of the Board of the Directors. Day-to-day operations do not include measures which are unusual or extraordinary. Such measures may only be made by the CEO pursuant to special authorisation from the Board of Directors of the Company unless it is impossible to wait for the decision of the Board of Directors without causing a serious disadvantage or risk for the Company's operations. In such cases, the CEO shall consult with the Chairman of the Board, as is possible, and the Board shall subsequently be notified of the measure without delay.

5.2 The CEO shall ensure that the accounts of the Company are kept in accordance with statutory law and accepted practices and that the handling of the property of the Company is secure. The CEO is required to provide information to the Company's Auditors as they consider necessary to discharge their functions.

5.3 The CEO shall serve as a managing director of the Company as provided for by law and may speak for the Company on issues falling within the CEO's mandate.

6. ACCOUNTING AND AUDITING

6.1 The Company's financial year shall be the calendar year. The Board of Directors shall prepare its annual financial statements and annual report for each financial year.

6.2 The annual financial statements, including the consolidated statements, shall be prepared and compiled in accordance with law, good accounting practice, and the financial reporting standards which the

Company has decided to follow, including with regard to assessments of various items in the financial statements, their presentation, breakdown, notes, and nomenclature.

6.3 The Company's Annual General Meeting shall elect an auditor for the Company in accordance with applicable law. The same party shall be elected as auditor of a parent company, affiliate and subsidiary if at all possible. The auditor shall audit the Company's accounts and shall have access to all the Company's accounts and documents for such purpose.

6.4 In other respects, the work and eligibility of the Company's auditor shall be governed by law.

7. AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION, MERGER, DIVISION AND DISSOLUTION

7.1 These Articles of Association may be amended at a legally constituted shareholders' meeting by a 2/3 majority of votes cast, and if approved by shareholders controlling at least 2/3 of the share capital represented at the meeting, provided no other proportion is required by law or these Articles of Association for approval.

7.2 If motions for amendments are to be dealt with at a shareholders' meeting an account must be given of the principal substance of such motions in the meeting announcement.

7.3 The provisions of the Act No. 2/1995, on Public Limited Companies, the Act on Resolution of Credit Institutions and Investment Firms No. 70/2020 and other acts as appropriate shall apply to the Company's winding-up, its merger with other companies or division into two or more legal entities. A decision on such a measure can only be taken by a shareholders' meeting by the same power of votes as is required for amendments to these Articles of Association.

7.4 The Company is authorised to issue the amount of new common equity tier 1 instruments, in accordance with the Act on Financial Undertakings No. 161/2002, required to enforce a decision of the Resolution Authority of the Central Bank of Iceland in accordance with Chapter IV of the Act on Resolution of Credit Institutions and Investment Firms No. 70/2020 or bail-in according to articles 54. and 55., according to part E of the same act. Articles 2.2 and 2.4 requiring shareholder approval for the increase and reduction in share capital, and Article 2.3 on pre-emptive rights of shareholders to new shares, shall not apply to changes in share capital in accordance with this Article 7.4. Moreover, Article 2.1 of these Articles of Association, regarding the Company's share capital, shall be updated without undue delay to reflect the relevant change in share capital in accordance with this Article 7.4 and does not require shareholders' approval.

8. MISCELLANEOUS PROVISIONS

8.1 The handling of any aspects not provided for in these Articles of Association shall be governed by the current provisions of the Act No. 2/1995, on Public Limited Companies, the Act No. 161/2002, on Financial Undertakings and Act on Resolution of Credit Institutions and Investment Firms No. 70/2020, and provisions of other legislation as applicable.

8.2 Annexes to the Articles of Association shall be deemed an integral part of it. The Articles of Association are in Icelandic and include an English translation. In the event of a discrepancy between the Icelandic text and the English translation, the Icelandic text shall prevail.

Annex No. 1 to the Articles of Association of Íslandsbanki hf. pursuant to Art. 2.6.

The Annual General Meeting of Íslandsbanki hf. held on 31 March 2025 authorises the Board of Directors, based on Article 55 of the Company Act no. 2/1995, to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The authorisation shall be used to set up a formal share repurchase programme or for the purpose of offering shareholders generally to sell their shares to the Bank e.g., through auction where equal treatment of shareholders is ensured. The repurchase of shares under this authorisation is conditional upon the prior approval of the Financial Supervisory Authority of the Central Bank of Iceland in accordance with Article

77 of Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).

This authorisation shall remain in effect for 18 months after the Bank's Annual General Meeting in 2025. Older authorisations to purchase own shares are cancelled with the approval of this authorisation. Such cancellation shall, however, not affect any repurchase transactions initiated and published prior to that date.

Approved at the Annual General Meeting of Íslandsbanki hf. on 31 March 2025.

21. LEGAL CONSIDERATIONS AND SUPPLEMENTARY INFORMATION

21.1 General Corporate Information

Íslandsbanki hf.is a public limited company established for an indefinite period on 9 October 2008 under the Public Limited Companies Act with ID number 491008-0160 in the Register of Enterprises of Iceland. The Bank is domiciled in Iceland, and its registered address is located at Hagasmári 3, 201 Kópavogur, Iceland. The Bank telephone number is +354 440 4000. The Bank's legal entity identifier (LEI) is 549300PZMFIQR79Q0T97.

21.2 Significant Subsidiaries and Principal Associates

The Bank is the parent of a number of wholly owned and majority owned subsidiaries. The table below sets forth details of the Bank's significant subsidiaries, in which it held a direct interest as at 31 March 2025.

Subsidiary	Country of Incorporation	Ownership(1)	Company Description
Íslandssjóðir hf. (Iceland Funds)	Iceland	100%	Fund management company
Allianz Ísland hf. (Allianz Insurance Iceland)	Iceland	100%	Insurance agent

(1) Ownership interests are held directly through the Bank or through wholly owned subsidiaries of the Bank. Additionally, the Bank has control over eight other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

Additionally, the Bank has control over eight other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The table below sets forth details of the Bank's interests in its principal associates as at 31 March 2025.

Associate	Ownership	Company Description
Reiknistofa bankanna hf. (RB)	30.1%	Banking infrastructure provider
Norðurturninn hf.	43.3%(1)	Lessor of commercial real estate

(1) Norðurturninn hf. shares are divided into two classes, Class A and Class B. Initially, Class B shares hold exclusive voting rights and receive all dividends up to ISK 3,584 million, adjusted for inflation based on the Consumer Price Index (CPI) as of December 2023. Once this threshold is reached, the rights of Class B shares are suspended, and Class A shares receive all voting rights and rights to dividend payments. Íslandsbanki holds 43.3% of Class B shares and 65% of Class A shares. Norðurturninn hf. owns the real estate at Hagasmári 3, where Íslandsbanki is the primary lessee, leasing more than half of the building for its headquarters.

21.3 Material Contracts

Presented below are material contracts (other than contracts entered into in the ordinary course of business), into which either the Bank or its subsidiaries has entered into within the two years immediately preceding the date of this Prospectus, as well as any other contract (other than contracts entered into in the ordinary course of business) that either the Bank or its subsidiaries has entered into that contains obligations or entitlements that are material to the Group as at the date of this Prospectus.

Participation Agreement

For a description of the participation agreement between the Bank and the Selling Shareholder entered into in relation to the Offering, see "*18. Major Shareholders—18.4 Participation Agreement*."

Underwriting Agreement

For a description of the underwriting agreement that the Bank, the Selling Shareholder and the Managers entered into in relation to the Offering, see "*25. Plan of Distribution and Transfer Restrictions—25.1 Plan of Distribution*."

21.4 Related Party Transactions

The Icelandic State owns 45.2% of outstanding Shares and has significant influence over the Bank as the largest shareholder. The Shares held by the Treasury of Iceland are administered by the Ministry of Finance. The shares were administered by the ISFI until it was dissolved on 1 January 2025. As a result, the Icelandic Government is defined as a related party, and the ISFI was defined as a related party until its dissolution.

The Board of Directors and key management personnel of the Bank, the Selling Shareholder and subsidiaries of the Bank are also defined as related parties of the Bank, as are close family members of individuals referred to above and legal entities controlled by them. The Bank's associates are also defined as related parties. The Group's products and services are offered to the Icelandic state and government-related entities in competition with other vendors and under generally accepted commercial terms. In a similar manner, the Group entities purchase products and services from government-related entities under generally accepted commercial terms. Transactions with related parties were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third-party counterparties.

Cash and balances with the Central Bank of Iceland are disclosed under Note 22 and deposits from the Central Bank of Iceland are disclosed under Note 32 of the 2024 Consolidated Financial Statements.

No related party transactions as set out in Regulation (EC) No 1606/2002 have been entered into since the date of the last financial statements.

For information regarding remuneration paid to the members of the Board of Directors and Executive Committee, see "*17. Board of Directors, Executive Committee, Auditor and Corporate Governance—17.10 Service Agreements, Remuneration and Entitlements of Members of the Board of Directors and Executive Committee*."

The Group has applied the partial exemption for government-related entities, as described in IAS 24, and does not disclose those transactions for purposes of the "Related party" note in the Consolidated Financial Statements.

For additional information in relation to the Bank's related party transactions, see the note titled "*Related party*" in the Consolidated Financial Statements.

21.5 Advisors

Barclays Bank Ireland PLC, Citigroup Global Markets Europe AG and Kvika banki hf. are acting as Joint Global Coordinators for the Offering. For information on certain services, among others, which the Managers have provided and may provide in the future to the Bank and the Selling Shareholder, see "*25. Plan of Distribution and Transfer Restrictions—25.1 Plan of Distribution*."

Landsbankinn hf. is acting as financial advisor to the Selling Shareholder in connection with the Offering.

Milbank LLP and BBA Fjeldco ehf. are the legal advisors to the Bank and the Selling Shareholder in connection with the Offering. White & Case LLP and LOGOS slf. are the Managers' legal advisors in connection with the Offering.

21.6 Costs Related to the Offering

The Selling Shareholder bears all cost associated with the Offering associated with the scrutiny and approval of the Prospectus, fees of the Managers, fees of the advisors to the Selling Shareholder and the Bank, and fees of the Bank's auditors which is necessary in connection with the Offering. The Selling Shareholder bears all costs associated with the marketing and selling of the Offer Shares. The Bank bears the costs of travel for its representatives in connection with the Offering and a share of advisory fees capped at ISK 25 million, subject to limited exceptions. The total cost borne by the Bank is estimated to be ISK 50 million.

21.7 Documents on Display

Copies of the following documents will be on display during ordinary office hours on weekdays for twelve months following the date of this Prospectus at the Bank's offices at Hagasmári 3, 201 Kópavogur, Iceland, or on the Bank's website at www.islandsbanki.is:

(a) the articles of association (with an English translation thereof) of the Bank;

(b) the Consolidated Financial Statements (with an English translation thereof), in each case, together with the audit reports prepared in connection therewith. The Bank currently prepares audited consolidated financial statements on an annual basis and unaudited interim consolidated financial statements on a quarterly basis; and

(c) a copy of this Prospectus.

22. ICELANDIC SECURITIES MARKET

The following describes the Icelandic securities market, including a brief summary of certain provisions of the laws and securities market regulations in Iceland in effect as at the date of this Prospectus. The summary is not intended to provide a comprehensive description of all such regulatory matters and should not be considered exhaustive. Moreover, the laws, rules, regulations and procedures summarised below may be amended or reinterpreted. See "10. Regulatory Overview—10.1 Principal Legislation and Regulations" and "10. Regulatory Overview—10.2 Upcoming Legislative Amendments."

22.1 Nasdaq Iceland

Nasdaq Iceland is a regulated market, as defined in the Markets in Financial Instruments Act and MiFID II, in Iceland, operated by Nasdaq Iceland hf. Shares trade on Nasdaq Iceland and all transactions, except for interest-bearing financial instruments, are executed through INET. Nasdaq Iceland is a part of the Nordic List, which comprises the main markets in Denmark, Finland, Iceland and Sweden. Companies on the Nordic List are mainly divided into three segments: large cap, mid cap and small cap, based on their average market value during the given review month. In addition, special purpose acquisition companies ("**SPACs**") are listed on a separate SPAC segment. Companies with a market value exceeding EUR 1 billion are in the large cap segment, while companies with a market value between EUR 150 million and EUR 1 billion are in the mid cap segment. Companies with a market value smaller than EUR 150 million belong to the small cap segment. Each segment is normally revised annually at year-end and the segments are reset, with adjustments taking effect on the first trading day in January, based on the average market capitalisation in November of the previous year. The market cap calculations are based on the total number of shares, i.e. both listed and non-listed shares, of a company. Companies whose market capitalisation has moved outside the reference values for their current classification are moved between segments according to the following rule: If their market cap is less than 50.0% of the minimum or more than 150.0% of the maximum threshold of their current segments they are transferred into a new segment with immediate effect. On the other hand, if their market cap is greater than 50.0% of the minimum or less than 150.0% of the maximum threshold of their current segment, they are subject to a transitional period and thus an additional review before transferring into a new segment. Furthermore, companies listed on the Nordic List (including on Nasdaq Iceland) are divided into industry sectors in accordance with the globally recognised standard, the Industry Classification Benchmark. This classification is based on the listed company's main operations, i.e. the business area that generates the most revenue for such listed company.

22.2 Trading in Securities on Nasdaq Iceland

Trading on Nasdaq Iceland is conducted on behalf of customers by duly authorised Icelandic and foreign banks and other securities brokers as well as the Central Bank of Iceland. While banks and brokers are permitted to act as principals in trading both on and off Nasdaq Iceland, they generally engage in transactions as agents. Clearing and settlement of trades take place through an electronic account-based security system administered by Nasdaq CSD Iceland.

Trading through INET comprises all securities admitted to trading on Nasdaq Iceland, except for certain interest-bearing financial instruments, such as bonds. Member firms of Nasdaq Iceland are able to operate from remote locations via computer access. The brokers' representatives are able to trade securities via workstations developed by Nasdaq Iceland or via their own electronic data processing systems that are linked to INET. The round lot for all securities traded on Nasdaq Iceland is one security. In INET, bids and offers are entered in the relevant order book and automatically matched to trades when price, volume and other order conditions are met. INET continuously broadcasts all trading information. The information is displayed in real time in the form of order books, market summaries, concluded trades, index information and different kinds of reports. A two-day settlement schedule (T+2) applies to securities trading.

In respect of equity securities, Nasdaq Iceland's trading hours are 09:30 a.m. to 3:30 p.m. GMT on business days.

In addition to official trading on Nasdaq Iceland through automatic order matching in INET, securities may also be traded off Nasdaq Iceland (i.e., outside INET) during and outside the official trading hours ("**manual trades**"). Ordinarily, manual trades during official trading hours must be entered into at a price within the volume weighted average spread reported in INET at the time of the trade or, for manual trades during the closing call, at the time prior to the closing call auction. Manual trades outside the official trading hours must normally be effected at a price within the volume weighted average spread reported in INET at the close of trading hours. However, in the absence of a spread and in situations where there is a change in the market conditions during the closing call or after the close of trading hours, manual trades outside the official trading hours must be effected at a price that takes into account the market situation at the time of the trade. Manual trades that qualify as large scale (EUR 50,000 to EUR 500,000, depending on the average daily turnover in the relevant security) may be effected without regard to any spread.

All manual trades must normally be reported in INET within three minutes from the time of the trade. Manual trades outside the official trading hours must be reported during the pre-trading session on the following exchange day and not later than 15 minutes prior to the opening of the trading hours.

22.3 Securities Market Regulations

The Nordic List (including the Nasdaq Iceland) is regulated under European Union directives, primarily MiFID II, which has been implemented through the Markets in Financial Instruments Act. Pursuant to the Act, Nasdaq Iceland hf. is authorised to operate a regulated market under the supervision of the FSA. The FSA is a governmental agency which has the task of supervising and monitoring the activities of regulated markets and market participants among other things. The FSA also issues regulations that supplement Icelandic securities market laws. For additional information regarding upcoming legislative changes, see "*10. Regulatory Overview—10.1 Principal Legislation and Regulations*" *and "10. Regulatory Overview—10.2 Upcoming Legislative Amendments*." Furthermore, pursuant to the Markets in Financial Instruments Act, Nasdaq Iceland hf. is required to have its own rules that govern the trading on Nasdaq Iceland, which ensure that any financial instruments admitted to trading on the market are capable of being traded in a fair, orderly and efficient manner and, in the case of securities, are freely negotiable. The Nasdaq Iceland Rules, based on European standards and European Union legislation, set forth admission requirements and disclosure rules for companies listed on Nasdaq Iceland. The objective of the regulatory system governing trading on and off Nasdaq Iceland is to achieve transparency, objectivity and equality of treatment among market participants. All trading information reported in INET is publicly available. Through its surveillance activities, Nasdaq Iceland ensures that issuers of securities and Nasdaq Iceland members abide by its rules. Nasdaq Iceland is furthermore required to notify the FSA of significant infringements of its rules or disorderly trading conditions or conduct that may indicate behaviour that is prohibited under MAR or system disruptions.

The Act on Measures against Market Abuse, implementing MAR, provides sanctions for insider trading and unlawful disclosure of inside information. MAR also contains provisions prohibiting market manipulation and makes illegal any actions (in relation to trading on trading venues or otherwise) intended to affect unduly the market price or other conditions of trading in financial instruments, or otherwise mislead buyers or sellers of such instruments, such as through spreading false or misleading information. Under Icelandic law, market manipulation may also constitute fraud. In cooperation with Nasdaq Iceland, the FSA enforces compliance with the Act on Measures against Market Abuse. Criminal offences are enforced in court by the Icelandic District Prosecutor (Icel. *Héraðssaksóknari*). Nasdaq Iceland monitors trading data for indications of unusual market activity and trading behaviour.

Subject to necessary consents and fulfilment of requirements thereof, the Bank may at some point want to change the current electronic registration of the Shares and register the Shares with Verðbréfamiðstöð Íslands hf., which is an authorised Central Securities Depository pursuant to the Central Securities Depositories Act. The Bank holds a 2.61% equity share in Verðbréfamiðstöð Íslands hf.

22.4 Securities Registration

Shares are registered in the account-based electronic securities system operated by Nasdaq CSD Iceland, the Icelandic branch of Nasdaq CSD SE, which operates in the Baltic countries as well as in Iceland. Nasdaq CSD SE is authorised to act as an operator of the Icelandic settlement system in accordance with the Central Securities Depositories Act. Shares administered by Nasdaq CSD Iceland are registered in book-entry form on securities accounts and no share certificates are issued. A statement from Nasdaq CSD Iceland concerning title to shares in a company constitutes an adequate share register and is valid proof of title to shares in that company. All transactions and other changes to accounts are entered in the system of Nasdaq CSD Iceland through banks or other securities institutions that have been approved as system participants by Nasdaq CSD Iceland.

Shares may be registered on securities accounts and subsequently entered in the register of shareholders, either in the name of the beneficial owner (owner registered shares) or in the name of a nominee authorised by Nasdaq CSD Iceland (nominee registered shares), in which case a note thereof is made in the securities system. The relationship between the nominee and the beneficial owner is governed by agreement. In order to exercise certain rights, for example participation at a general meeting of shareholders, those shareholders whose shares are registered in the name of a nominee must temporarily re-register the shares in their own names. Nominees are also required to report the holdings of underlying beneficial owners to Nasdaq CSD Iceland on a regular basis.

The rights attaching to shares that are eligible for dividends, rights issues or bonus issues accrue to those holders whose names are recorded in the register of shareholders at a particular record date, and the dividends are normally distributed to bank accounts as specified by the holders registered with Nasdaq CSD Iceland. The relevant record date must be specified in the resolution declaring a dividend or capital increase, or any similar matter in which shareholders have preferential rights. Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and other financial rights attaching to the shares, such as subscription rights in conjunction with rights offerings, as well as new shares subscribed through the exercise of subscription rights. Dividends are remitted in a single payment to the nominee who is responsible for the distribution of such dividends to the beneficial owner. A similar procedure is applied for subscription rights and newly issued shares.

22.5 Compensation Scheme for Investors

Pursuant to the Deposit Guarantees Act, commercial banks, savings banks, investment firms and certain other parties engaging in securities trading pursuant to Icelandic law and established in Iceland shall be members of the Depositors' and Investors' Guarantee Fund. Investor compensation is payable only if, in the opinion of the FSA, an institution is unable to render payment of the amount of securities or is declared bankrupt and it is impossible for the investor to recover its securities or cash. The investor compensation does not cover financial loss as a result of changes in value of shares and other securities.

Investor compensation covers securities handled by a member company of the compensation scheme on behalf of customers in the course of providing investment services, such as the purchase, sale and deposition of financial instruments. For the purposes of the scheme, securities refers to securities that are either in the custody or under the administration or supervision of a member company of the compensation scheme, which is under obligation to effect refunding or return thereof in accordance with existing laws or contracts.

There is no cap on the compensation that can be obtained by investors in securities, provided that the securities department of the compensation scheme is adequately financed. In the event that the assets are insufficient to pay the total amount of guaranteed securities and cash in the member companies concerned, payments from the securities department shall be divided among the claimants as follows: each claim up to EUR 20,887 will be paid in full (but only if sufficient funds are available to pay all claims up to EUR 20,887 and, if not, then claims will be paid in equal proportions) and any amount in excess of EUR 20,887 shall be paid in equal proportions depending on the extent of the department's assets. No further claims can be made against the Depositors' and Investors' Guarantee Fund at a later stage even if claimants have not been fully compensated for losses suffered.

22.6 Transactions and Ownership Disclosure Requirements

Under the Disclosure Requirements Act, which implements major parts of the Transparency Directive, as amended, a shareholder is required to notify both the company in which it holds shares and the FSA, as soon as possible, and no later than the four business days following the date on which the notification requirement arose, when its voting rights attached to the shares (including options for shares) reach, exceed or fall below 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 30.0%, 35.0%, 40.0%, 50.0%, 66 2/3rds % or 90.0% of the total number of votes in a company. For the purposes of calculating a person's or entity's shareholding, the shares and financial instruments directly held by the shareholder are included, in addition to those held by related parties, or third parties where there is a contractual arrangement in place with respect to voting rights if favour of the person or entity in questions. The Disclosure Requirements Act sets out a list of related parties whose shareholding must be aggregated for the purposes of the disclosure requirements and situations where third parties' shareholding is aggregated due to contractual arrangements. Related parties include, but are not limited to, subsidiaries, proxies and parties to shareholders' agreements.

22.7 Mandatory Bids and Squeeze-Out Proceedings

As the Bank's shares have been admitted to trading on Nasdaq Iceland, the Bank is subject to chapter X of the Takeover Act. Paragraph 1 of Article 100 of the aforementioned act states that if a party, directly or indirectly gains control of a company that has a class of shares which has been admitted to trading on a regulated market, that person shall no later than four weeks after the person knew or could be expected to have known about the mandatory bid obligation, or a decision on the bid was available, extend a takeover bid to other shareholders of the company, i.e. a bid to purchase their shares in the company.

Control of the Bank means that the party and any party acting in concert with it has acquired:

(a) in total at least 30% of the voting rights in the Bank;

(b) the right to control at least 30% of the voting rights in the Bank by virtue of an agreement with other shareholders; and

(c) the right to appoint or dismiss the majority of the members of the Bank's Board of Directors.

This applies where the increased holding is the result of a purchase, subscription, conversion or any other form of acquisition of shares in the target company (other than a public offer) or by establishing a close relationship. A related party can be an entity within the same corporate group as the buyer, a spouse, co-habitant or minor child, as well as any person or entity that cooperates with the buyer to obtain control over the company or with whom the buyer has reached an agreement regarding the coordinated exercise of voting rights with the aim of obtaining a long-term controlling influence on the company's management. An authorisation from the FSA is required to permit the acquirer (or the related party) to reduce its level of voting share ownership within the grace period of four weeks to below 30.0%.

Under the Public Limited Companies Act, a shareholder with shares representing more than 90.0% of all shares in a company and controls the corresponding number of votes has the right to redeem remaining shares in that company. In addition, any minority shareholder that possesses shares that may, pursuant to the Public Limited Companies Act, be redeemed by a majority shareholder is entitled to require such majority shareholder to redeem its shares.

23. TAXATION

The following is a summary of certain tax consequences that may arise from the Offering and is intended as general information only. The statements concerning Icelandic tax laws and U.S. federal income tax laws set forth below, including concerning the U.S.-Iceland Tax Treaty and the Nordic Tax Treaty, are based on the laws and regulations as at the date of this Prospectus and are subject to any changes in Icelandic or U.S. law or in the U.S.-Iceland Tax Treaty, or the Nordic Tax Treaty, occurring after such date, which changes may have retroactive effect.

23.1 Certain Tax Considerations in Iceland

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. Prospective investors who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers. Furthermore, prospective investors should note that the holding of beneficial ownership in Shares via an intermediary or the appointment of any person through which an investor holds the Shares may have tax implications; such holding via an intermediary is not explicitly addressed in Icelandic tax law, resulting in some uncertainties in respect of Icelandic withholding tax which might be applied to the beneficial owner rather than the intermediary.

Prospective investors of the Offer Shares are advised to consult with their tax advisers as to the consequences, under tax laws of Iceland and the countries of their respective citizenship, residence or domicile, of a purchase of the Offer Shares, which may have impact on the income received from the securities, including but not limited to, the consequences of receipt of dividend payments in respect of the Offer Shares and disposal or redemption of the Offer Shares.

The summary below is of a general nature based on the laws and practices as in effect in Iceland as at the date of this Prospectus. It should not be construed as providing specific advice regarding Icelandic taxation and is subject to any change in laws or practices in Iceland that may take effect after such date. It relates only to the position of persons who are both formal owners and the absolute beneficial owners of the Shares.

Shareholders Who Are Resident in Iceland for Tax Purposes

Owners of the Shares who are resident in Iceland for tax purposes are subject to income tax in Iceland on any income from the Shares in accordance with Icelandic tax laws. The applicable tax rate depends on the tax status of such owners. Subject to certain exemptions, the owners are subject to tax which the Bank is required to withhold at the rate of 22.0% on dividend payments made to the holders of the Shares. Exemptions from withholding tax, based on Act No. 94/1996 on Withholding of Tax on Financial Income, apply for public and private limited companies tax resident in Iceland in addition to domestic pension funds. Such withholding is generally considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder of the Shares.

Individuals who are resident in Iceland for tax purposes are subject to a final 22.0% tax on dividend payments in Iceland. Limited companies (e.g., ehf. and hf.), which are tax resident in Iceland, enjoy an effective participation exemption, allowing them to deduct the full amount of the dividend payments received.

Capital gains from the sale of the Shares are also subject to 22.0% tax in the case of individuals tax resident in Iceland subject to certain rights to deduct capital losses resulting from the sale of shares or similar assets. Limited companies (e.g., ehf. and hf.), which are tax resident in Iceland, enjoy an effective participation exemption, allowing them to deduct the full amount of the capital gains, as in the case of dividends while capital losses of such companies are not deductible.

Shareholders Who Are Not Resident in Iceland for Tax Purposes

Article 3(7) of the Income Tax Act provides that any income received from the Shares by any person or entity residing outside Iceland constitutes taxable income in Iceland. According to Article 70(7) of the Income Tax Act, the current tax rate on taxable income under Article 3(7) of the Income Tax Act amounts to 22.0% for individuals. According to the same article the tax rate amounts to 20.0% for legal entities. The Bank is required to withhold the applicable tax on any dividend payments. The tax rate applicable to income from any disposal of the Shares is also (i) 22.0% for individuals and (ii) 20.0% for legal entities.

The tax liability under Icelandic tax laws may be reduced under certain applicable tax treaties. If a qualifying holder of the Shares would like to take advantage of such applicable tax treaties by relief at source, such holder is required to obtain a confirmation from the Icelandic tax authorities regarding the applicable treaty protection and provide such confirmation to the Bank. The confirmation is obtained via a filing of Icelandic tax form RSK 5.42. The U.S.-Iceland Tax Treaty reduces the Icelandic tax rate on capital gains from any disposal of the Shares to 0.0% and Icelandic tax rate on dividend payments to 15.0% for individuals and legal entities and to 5.0% for legal entities only if the shareholding of such legal entities amounts to at least 10.0% of the issued Shares. The same reduction applies in case of the Nordic Tax Treaty with the exception that the dividend tax rate applicable to qualifying legal entities holding at least 10% of the issued share capital is reduced to 0.0%. Relief via a refund in line with an applicable tax treaty is carried out via a filing of Icelandic tax form RSK 5.43. Irrespective of the availability of any tax treaty protection, limited companies resident in the EEA, a state party to EFTA or in the Faroe Islands enjoy the effective statutory participation exemption which comparable Icelandic entities also enjoy, allowing them to deduct the full amount of the dividend payments and capital gains received. This exemption does not apply at source, but requires the filing of a tax return in Iceland to obtain a refund of taxes withheld.

There are no estate or inheritance taxes, succession duties or gift taxes imposed by the Icelandic government or any governmental authority in Iceland in respect of the Shares if, at the time of death of the holder of the Shares or transfer of the Shares, such holder or transferor was not a resident of Iceland and the recipient was not a resident of Iceland.

No Icelandic issue tax or stamp duty will be payable in connection with the Shares.

23.2 U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Offer Shares by U.S. Holders (as defined below) and does not address the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws. This summary is based upon the Code, the Treasury Regulations, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This summary does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, including, but not limited to, the impact of the Medicare tax on net investment income, or to holders subject to special rules, such as certain financial institutions, U.S. expatriates, insurance companies, individual retirement accounts, dealers in securities or currencies, traders in securities, U.S. Holders whose functional currency is not the U.S. dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships or other pass through entities and investors in such entities, persons liable for any alternative minimum tax, U.S. Holders that own (actually or constructively) 10% or more of the Bank voting stock, persons required for U.S. federal income tax purposes to accelerate the recognition of any item of gross income with respect to the Offer Shares as a result of such income being recognised on an applicable financial statement, U.S. Holders that are resident in or have a permanent establishment in a jurisdiction outside the United States and persons holding the Offer Shares as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction.

In addition, this summary is limited to U.S. Holders that acquire the Offer Shares pursuant to the Offering and who hold the Offer Shares as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of the Offer Shares that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation or any entity taxable as a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or if a valid election is in place to treat the trust as a U.S. person. If any entity treated as a partnership for U.S. federal income tax purposes holds the Offer Shares, the U.S. tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership considering an investment in the Offer Shares, and partners in such a partnership, should consult their tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Offer Shares.

Prospective purchasers of the Offer Shares should consult their tax advisors concerning the tax consequences of holding Offer Shares in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of other federal, state, local, non-U.S. or other tax laws and applicable tax treaties.

Distributions on the Offer Shares

Subject to the discussion in "*—Passive Foreign Investment Company Rules*," a distribution of cash or property with respect to the Offer Shares (including the amount of any taxes withheld) will generally be treated as a dividend to the extent paid out of the Bank's current or accumulated earnings and profits, as determined under U.S. federal income tax principles, and will be includible in the gross income of a U.S. Holder on the date the distribution is actually or constructively received. The Bank does not expect to maintain calculations of its earnings and profits under U.S. federal income tax principles and, therefore, U.S. Holders should expect that the entire amount of any distribution generally will be reported as dividend income for U.S. federal income tax purposes. Any such dividend income will not be eligible for the dividends-received deduction generally allowed to corporate U.S. Holders with respect to dividends received from other U.S. corporations. Subject to certain holding period requirements and other conditions, dividends paid to non-corporate U.S. Holders may be eligible for preferential rates of taxation if the dividends are "qualified dividends" for U.S. federal income tax purposes. Dividends received with respect to the Offer Shares will be qualified dividends if the Bank: (i) is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and (ii) was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC for U.S. federal income tax purposes.

The U.S.-Iceland Tax Treaty has been approved for the purposes of the qualified dividend rules and the Bank expects that it will generally be eligible for the benefits of the U.S.-Iceland Tax Treaty. In addition, the Bank believes that it was not a PFIC for its taxable year ended 31 December 2024 and, although no assurance can be given, it does not anticipate becoming a PFIC for its current taxable year or any foreseeable future taxable year. See "*—Passive Foreign Investment Company Rules*." Dividends paid in a currency other than U.S. dollars will be included in income in a U.S. dollar amount determined by reference to the exchange rate in effect on the date of actual or constructive receipt by the U.S. Holder (in the case of Offer Shares), whether or not the non-U.S. currency is converted into U.S. dollars at that time.

A U.S. Holder's tax basis in the non-U.S. currency received will equal the U.S. dollar amount included in income. Any gain or loss realised on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation and other applicable U.S. federal income tax purposes. If a dividend paid in non-U.S. currency is converted into U.S. dollars on the day the dividend is received, the U.S. Holder generally will not be required to recognise non-U.S. currency gain or loss in respect of the dividend.

For purposes of calculating the foreign tax credit, dividends paid on the Offer Shares will be treated as income from sources outside the United States and will generally constitute passive category income. The rules governing the foreign tax credit are complex. Treasury Regulations have imposed additional requirements that must be met for a foreign tax to be creditable, although IRS Notice 2023-55 and IRS Notice 2023-80 together provide temporary relief from certain of these requirements until the date when a notice or other guidance withdrawing or modifying this temporary relief is issued (or any later date specified in such notice or other guidance), if IRS Notice 2023-55 and IRS Notice 2023-80 are applied consistently to all foreign taxes paid during the relevant taxable year. Alternatively, a U.S. Holder may be able to take a deduction for Icelandic income tax, provided that the U.S. Holder has elected to deduct all otherwise creditable foreign income taxes paid or accrued for the relevant taxable year and certain other requirements are met. U.S. Holders should consult their own tax advisors regarding the tax consequences to it if Icelandic tax is withheld from dividends on the Offer Shares, including the availability of the foreign tax credit under its particular circumstances.

Sale, Exchange, Redemption, or Other Taxable Disposition of Offer Shares

Subject to the discussion in "*—Passive Foreign Investment Company Rules*" a U.S. Holder will generally recognise capital gain or loss on the sale, exchange, redemption or other taxable disposition of the Offer Shares in an amount equal to the difference between the amount realised upon the disposition and the U.S. Holder's adjusted tax basis in such Offer Shares. Any such capital gain or loss will be long-term if the U.S. Holder's holding period for the Offer Shares exceeds one year. The deductibility of capital losses may be subject to limitations. A U.S. Holder's tax basis in the Offer Shares generally will be the U.S. dollar value of the non-U.S. currency amount paid to purchase the Offer Shares determined by reference to the exchange rate on the date of purchase. If the Offer Shares are treated as traded on an established securities market, a cash basis U.S. Holder (or, if it elects, an accrual basis U.S. Holder) will determine the U.S. dollar value of the cost of such Offer Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

A U.S. Holder that receives a currency other than U.S. dollars on the sale or other taxable disposition of the Offer Shares generally will realise an amount equal to the U.S. dollar value of the non-U.S. currency received determined by reference to the exchange rate on the date of sale or other taxable disposition (or in the case of the Offer Shares traded on an established securities market that are sold by a cash basis or electing accrual basis taxpayer, the settlement date). A U.S. Holder will recognise foreign currency gain or loss if the U.S. dollar value of the currency received at the spot rate on the settlement date differs from the amount realised. A U.S. Holder will have a tax basis in the currency received equal to the U.S. dollar value of the currency on the settlement date. Any gain or loss realised on a subsequent conversion or other disposition of the non-U.S. currency for a different U.S. dollar amount will be exchange gain or loss and generally will be treated as U.S. source ordinary income or loss for foreign tax credit limitation and other applicable U.S. federal income tax purposes.

Passive Foreign Investment Company Rules

A non-U.S. corporation is classified as a PFIC for U.S. federal income tax purposes for each taxable year in which: (a) 75.0% or more of its gross income is passive income (as defined for U.S. federal income tax purposes) or (b) 50.0% or more (by value) of the average quarterly value of its gross assets either produce, or are held for the production of, passive income. For purposes of the PFIC provisions, passive income generally includes dividends, interest, royalties, rents and gains from some securities transactions.

The application of the PFIC rules to banks is unclear under present U.S. federal income tax law. Banks generally derive a substantial part of their income from assets that are interest bearing or that otherwise could be considered passive under the PFIC rules. The IRS issued proposed U.S. Treasury Regulations in 2021 (the "**2021 Final Regulations**"), and had previously issued a notice in 1989 (Notice 89-81, the "**Notice**") and proposed regulations in 1995 (as amended in 1998, the "**1998 Proposed Regulations**"), that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the "**active bank exception**"). The 2021 Final Regulations are proposed to be effective for taxable years of shareholders beginning on or after January 14, 2021, while the 1998 Proposed Regulations are proposed to be effective for taxable years beginning after December 31, 1994 and provide that taxpayers may apply the 1998 Proposed Regulations to a taxable year beginning after December 31, 1986, provided the 1998 Proposed Regulations are consistently applied to that taxable year and all subsequent taxable years.

The 2021 Final Regulations, the Notice, and the 1998 Proposed Regulations each have different requirements for qualifying as a foreign bank, and for determining the banking income that may be excluded from passive income under the active bank exception, but the preamble to the 2021 Final Regulations authorises taxpayers to rely upon the 2021 Final Regulations, 1998 Proposed Regulations or the Notice to determine whether income of a foreign bank may be treated as non-passive. Under both the 2021 Final Regulations and the 1998 Proposed Regulations, a qualifying foreign bank must be licensed in the country of its incorporation to do business as a bank and must also carry on one or more specified activities, including regularly receiving bank deposits from unrelated customers in the course of its banking business. While the 2021 Final Regulations are silent on this matter, under both the Notice and 1998 Proposed Regulations, loans made in the ordinary course of a banking business are not treated as passive assets. Under the Notice, however, interbank deposits are not treated as loans made in the ordinary course of a banking business, subject to certain exceptions. Under the 1998 Proposed Regulations, however, such deposits are treated as loans made in the ordinary course of a banking business, and, therefore, would not be treated as passive assets.

Although the rules for determining the PFIC status of a foreign bank under the Notice, the 2021 Final Regulations and the 1998 Proposed Regulations are not free from doubt, the Bank believes that it should qualify as an active bank under both the Notice and both the 1998 and 2021 Final Regulations, assuming that the 1998 Proposed Regulations and the 2021 Final Regulations are finalised in their current form, based upon the Bank's regulatory status under Icelandic law, its banking activities performed in the ordinary course of business (including lending and accepting deposits), the proportion of its income derived from activities that are "*bona fide*" banking activities for U.S. federal income tax purposes and its securities activities performed in the ordinary course of business. Accordingly, the Bank does not expect to be classified as a PFIC for U.S. federal income tax purposes for its taxable year ended on 31 December 2024, the current taxable year or in the foreseeable future taxable years, although there can be no assurances in this regard. The Bank's status as a PFIC in any year depends on its assets and activities in that year. Additionally, the determination is based in part on the 2021 Final Regulations and the 1998 Proposed Regulations which may be subject to change as and when adopted as final regulations.

If the Bank is considered a PFIC at any time that a U.S. Holder holds Offer Shares, unless a U.S. Holder is eligible to, and elects to be taxed annually on a mark to market basis with respect to the Offer Shares, as described below, any gain recognised by the U.S. Holder on a sale or other disposition of the Offer Shares, as well as the amount of an "excess distribution" (defined below) received by such holder, would be allocated ratably over the U.S. Holder's holding period for the Offer Shares. The amounts allocated to the taxable year of the sale or other disposition (or the taxable year of receipt, in the case of an excess distribution) and to any year before the Bank became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed. For purposes of these rules, an excess distribution is the amount by which any distribution received by a U.S. Holder on its shares in a taxable year exceeds 125% of the average of the annual distributions on the shares received during the preceding three years or the U.S. Holder's holding period, whichever is shorter. If the Bank is treated as a PFIC and, at any time, the Bank invests in non-U.S. corporations that are classified as PFICs ("**Subsidiary PFICs**"), U.S. Holders generally will be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interest in that Subsidiary PFIC. If the Bank is treated as a PFIC, a U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) the Company receives a distribution from, or disposes of all or part of its interest in, a Subsidiary PFIC or (2) the U.S. Holder disposes of all or part of its Offer Shares.

Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment as discussed below) of the Offer Shares, which in certain circumstances might mitigate the impact of the tax consequences. The Bank does not intend to provide the information necessary for U.S. Holders of the Offer Shares to make qualified electing fund elections, which, if available, would result in a tax treatment different from the general tax treatment for an investment in a PFIC described above.

A U.S. Holder of stock in a PFIC (but not a Subsidiary PFIC, as discussed below) may make a "mark to market" election, provided the PFIC stock is "marketable stock" as defined under applicable U.S. Treasury Regulations (i.e., "regularly traded" on a "qualified exchange" or "other market"). Under applicable U.S. Treasury Regulations, a "qualified exchange" includes a national securities exchange that is registered with the SEC or the national market system established under the Exchange Act, or a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, volume, listing, financial disclosure and other requirements. Under applicable U.S. Treasury Regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. The Bank cannot assure U.S. Holders that the Shares will be treated as "marketable stock" for any taxable year.

If a "mark-to-market'" election is available and a U.S. Holder validly makes such an election as of the beginning of the U.S. Holder's holding period, the U.S. Holder generally will not be subject to the adverse tax consequences relating to an excess distribution or gain described above. Instead, the U.S. Holder generally will be required to take into account the difference, if any, between the fair market value of, and its adjusted tax basis in, its Offer Shares at the end of each taxable year as ordinary income or, to the extent of any net mark-to-market gains previously included in income, ordinary loss, and to make corresponding adjustments to the tax basis of its Offer Shares. In addition, any gain from a sale, exchange or other disposition of Offer Shares will be treated as ordinary income, and any loss will be treated as ordinary loss to the extent of any net mark-to-market gains previously included in income. However, a mark-to-mark election with respect to Offer Shares will not apply with respect to interests in a Subsidiary PFIC. Each U.S. Holder should consult its own tax advisor with respect to the availability and tax consequences of a mark-to-market election with respect to Offer Shares and the U.S. Holder's indirect interest in a Subsidiary PFIC.

Under the PFIC rules, if the Bank was considered a PFIC at any time that a U.S. Holder holds the Offer Shares, the Bank would continue to be treated as a PFIC with respect to such holder's investment unless (i) the Bank ceases to be a PFIC and (ii) the U.S. Holder has made a "purging" election under the PFIC rules. Under the purging election, the U.S. Holder will be deemed to have sold such Offer Shares at their fair market value and any gain recognised on such deemed sale will be treated as an excess distribution, as described above. As a result of the purging election, the U.S. Holder will have additional basis (to the extent of any gain recognised on the deemed sale) and, solely for purposes of the PFIC rules, a new holding period in the Offer Shares.

If a U.S. Holder owns Offer Shares during any taxable year in which the Bank is a PFIC, such holder will generally be required to file an IRS Form 8621 annually with respect to the Bank, generally with the U.S. Holder's U.S. federal income tax return for that year unless specified exceptions apply. Significant penalties are imposed for failure to file IRS Form 8621, and the failure to file such form may suspend the running of the statute of limitations. U.S. Holders should consult their tax advisors regarding the application of the PFIC rules, and the availability of certain elections, to their investment in the Offer Shares.

Information Reporting and Backup Withholding Requirements

Dividends on the Offer Shares and proceeds from the sale or other taxable disposition of the Offer Shares by a U.S. paying agent or other U.S. intermediary, or made into the United States, generally will be reported to the IRS unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding generally will apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status. Any amount withheld may be credited against the U.S. Holder's U.S. federal income tax liability, if any, or refunded to the extent it exceeds the U.S. Holder's liability provided the required information is timely furnished to the IRS. Prospective investors should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for establishing an exemption. Certain U.S. Holders may be required to report to the IRS certain information relating to an interest in the Offer Shares unless such Offer Shares are held in accounts maintained by certain financial institutions. A U.S. Holder required to report such information must file a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with its tax return for each year in which it holds an interest in the Offer Shares. Penalties apply if a U.S. Holder is required to submit such information to the IRS and fails to do so. U.S. Holders should consult their tax advisors regarding the application of these rules in their particular circumstances.

24. TERMS AND CONDITIONS OF THE OFFERING

24.1 Act on the Disposition of the State's Holding in Íslandsbanki

The Offering is conducted in accordance with, and subject to, the Act on the Disposition of the State's Holding in Íslandsbanki. The primary objective of the Act is to enable the Selling Shareholder to divest in whole or in part of its holding in the Bank, under the terms and conditions specified in the legislation.

The Act authorises the Minister to dispose of the Selling Shareholder's remaining shares in the Bank, in whole or in part, subject to authorisation within the Icelandic State Budget (which has been provided for, for the year 2025), through a fully marketed offering, open to retail, qualified and institutional investor in accordance with points 5 and 14 of the first paragraph of Article 4 the Act on Markets in Financial Instruments. The legislation will cease to apply once the Selling Shareholder has divested of all its Shares in the Bank.

The guiding principles for such disposition are outlined in Article 3 of the Act on the Disposition of the State's Holding in Íslandsbanki whereas it states in the disposition of a holding, due consideration shall be given to transparency, efficiency, objectivity and equality, as provided for in the Public Finance Act No. 123/2015.

The legislation further sets out the terms and conditions of the Offering, as outlined in this section.

24.2 General Terms

The Offering applies to already issued shares in the Bank which are admitted to trading on Nasdaq Iceland and held by the Selling Shareholder, to be offered in the form of Offer Shares. The Selling Shareholder will closely consult with the Joint Global Coordinators and agree on the final number of the Offer Shares sold in the Offering. The number of Offer Shares will represent a maximum of 20.0% of the total issued and outstanding share capital of the Bank assuming that the Volume Increase is not effected. If the Volume Increase is fully effected, the Offer Shares will constitute up to 850,000,007 Shares or 45.2% of the issued and outstanding Shares.

All Offer Shares being sold to investors pursuant to the Offering will be sold at the Offer Price, for each Tranche respectively as set out below (See "*24.4. Offer Price and number of Offer Shares*"). The Offering is being made by way of:

(a) a public offering of the Offer Shares in Iceland to retail, qualified and institutional investors in accordance with the Prospectus Act, as described below; and

(b) an institutional offer of the Offer Shares: (i) to certain institutional investors outside the United States in reliance on Regulation S and in accordance with locally applicable laws and regulations; and (ii) in the United States, only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act (see "*25. Plan of Distribution and Transfer Restrictions*").

The Offering is made only in those jurisdictions where, and only to those persons to whom, offer and sales of the Offer Shares may be lawfully made. Investors participating in the Offering will be deemed to have confirmed they meet the requirements of the selling and transfer restrictions set out in this Prospectus. If in doubt, investors should consult their professional advisers.

It is expected that the result of the Offering will be published on 15 May 2025 and posted on each of the Selling Shareholder's, the Bank's and Kvika's websites and as an ad hoc announcement released on the Officially Appointed Mechanism for the central storage of regulated information in Iceland. Subsequently, information on the allocation of the Offer Shares to investors in the Offering (i.e. confirmation or reduction of subscriptions) will be sent to investors, expected on 16 May 2025. The final due date for payment of the allocated shares is then set for 20 May 2025 and paid Offer Shares are expected to be delivered to the investors within two business days after payment is received.

The Selling Shareholder reserves the right to cancel the Offering if orders are not received for at least a satisfactory number of the Offer Shares in the Offering, if it is not able to obtain a satisfactory Offer Price, or for any other reason in its sole discretion. In such an event the Selling Shareholder will publish an announcement thereof.

If the Offering is cancelled pursuant to the above, all orders for Offer Shares in the Offering and allocations made on the basis thereof will be invalidated as a result. It will be publicly announced if the Offering is cancelled or if the Offer Period is extended or postponed, following which (other than in the case of cancellation of the Offering) a supplement to this Prospectus will be prepared, approved and published in accordance with Article 23 of the Prospectus Regulation and Article 5 of the Prospectus Act, as applicable. In such case (other than in the case of cancellation of the Offering), investors may be able to withdraw their orders (see further "*24.10 Withdrawal Rights*"). In the event that the Offering is cancelled, investors will not be entitled to receive any explanation or clarification of the reasons for such cancellation.

Investors in the public offering in Iceland can obtain information on the Offering and the order website from Kvika at www.kvika.is/islandsbanki. Further information on the Offering is available at tel. +354 540 3290 or via email islandsbanki-fyrirspurnir@kvika.is. Investors can obtain this information by phone or e-mail between 09:00 and 16:00 GMT during the Offer Period.

24.3 Offer Period

Subject to any extension or postponement of the timetable for the Offering, the offer period in respect of the public offerings in Iceland begins on 13 2025 at 08:30 GMT and ends on 15 May 2025 at 17:00 GMT (the "**Offer Period**"). No orders will be accepted after the Offer Period has ended (unless the Selling Shareholder specifically decides to postpone the Offering or to extend it and in such cases a supplement to this Prospectus will be published, as applicable). The Selling Shareholder reserves the right to extend or postpone the Offer Period.

24.4 Offer Price and number of Offer Shares

The Offering is divided into Tranche A, Tranche B and Tranche C. Sales through Tranche A shall have priority when the Offer Shares are allocated, followed by Tranche B and then Tranche C.

The price at which the Offer Shares will be sold (the "**Offer Price**") is, for Tranche A, a fixed price per Offer Share, set at the average price of the Shares over the last 15 days prior to the publication of the Prospectus, with a deviation of 5% below that price. The Offer Price for Tranche A is ISK 106.56 per Offer Share.

The Offer Price for Tranche B will be set in ISK and determined through a book-building process using a Dutch auction mechanism where the Offer Price shall be the lowest price bid which covers the Base Volume, after deducting the aggregate of subscriptions in Tranche A. The Offer Price for Tranche B shall apply for all investors in Tranche B, regardless of whether they submitted a higher bid, and in no circumstances will the Offer Price exceed any accepted bid price. The Offer Price for Tranche B, however, may never be lower than the fixed price in Tranche A. If the aggregate of subscriptions in Tranche A and Tranche B do not cover the Base Volume, the Offer Price for Tranche B will be the same as that for Tranche A.

The Offer Price for Tranche C will be set in ISK and determined with reference to the Offer Price for Tranche B, as stipulated above. Investors submitting offers in Tranche C will be given the opportunity to increase their bid price to match the Offer Price for Tranche B.

The number of Offer Shares will represent a maximum of 20.0% of the total issued and outstanding share capital of the Bank assuming that the Volume Increase is not effected. If the Volume Increase is fully effected, the Offer Shares will constitute up to 850,000,007 Shares or 45.2% of the issued and outstanding Shares.

The Offer Price and number of Offer Shares will be determined by the Selling Shareholder in accordance with the Act on the Disposition of the State's Holding in Íslandsbanki, in consultation with the Joint Global Coordinators, after the end of the Offer Period, and subject in all cases to final approval by the Minister.

24.5 Subscriptions

In respect of the offering of the Offer Shares in Iceland, applications for acquisition of Shares should be made as described below. The minimum amount of orders is restricted to Offer Shares with a purchase value of ISK 100,000 for Tranche A, ISK 2,000,000 for Tranche B and ISK 300,000,000 for Tranche C.

Tranche A: Orders may be made in Tranche A for a minimum amount of ISK 100,000 and up to a maximum amount of ISK 20,000,000.

Only individuals with Icelandic ID numbers (Icel. *kennitala*) shall be permitted to place orders in Tranche A. All orders for Tranche A shall be registered electronically via a subscription system, which will be accessible on the website of Kvika at www.kvika.is/islandsbanki.

Tranche B: Orders may be made in Tranche B for a minimum amount of ISK 2,000,000 and orders over the size of ISK 20,000,000 are permitted. All investors (retail and qualified investors) shall be permitted to place orders in Tranche B.

Orders by investors with Icelandic ID numbers shall be registered either (i) electronically via a subscription system, which will be accessible on the website of Kvika at www.kvika.is/islandsbanki, or (ii) directly with the Managers and delivered to the Joint Global Coordinators. Orders from investors without Icelandic ID numbers shall be directly registered with the Managers and delivered to the Joint Global Coordinators, or directly registered with the Joint Global Coordinators. The Joint Global Coordinators reserve the right to demand sufficient proof of validation of the order.

Tranche C: Orders may be made in Tranche C for a minimum amount of ISK 300,000,000 and no maximum amount applies to orders. Only regulated professional investors submitting offers on their own account and who have assets of at least ISK 70 billion are permitted to place orders in Tranche C. Permitting participation in Tranche C outside of market soundings is contingent on the applicable criteria being sufficiently clear and restrictive to exclude parties outside a narrow group of professional investors subject to government supervision. In the European Economic Area, this includes parties that fall under Article 4(1)(14)(a) of the Act on Markets in Financial Instruments, and the corresponding provisions of MiFID II, *i.e.* item (1) of Section I of Annex II. The requirement that transactions be carried out on the investor's own account is intended to prevent parties, that do not meet the criteria, from indirectly participating in an offer in Tranche C. In terms of financial strength investors must exercise discretion over assets of ISK 70 billion or more.

Orders by investors shall be directly registered with the Joint Global Coordinators and Joint Global Bookrunners. The Joint Global Coordinators reserve the right to demand sufficient proof of validation of the order.

There is no maximum amount of orders for Tranche B and Tranche C, other than as limited by the overall size of the Offering.

Investors are entitled to cancel their subscriptions where their order was originally submitted, at any time prior to the end of the Offer Period (if applicable, as extended).

Orders subject to conditions will be void. The same applies to the orders of parties who have held a reported short position in the Bank within 30 days prior to the start of the Offering.

Electronic subscription system

In order to subscribe for Offer Shares via the electronic subscription system, investors have to register to the order website, through any of the following user identification numbers:

(a) electronic identification number on a smartphone;

(b) identification number or password requested via the order website that will be sent as a digital document to the investor's online bank, which may be in any Icelandic retail bank; or

(c) identification number and password which can be obtained from the Joint Global Coordinators by signing a witnessed application for a password or by any other method of verification which the Joint Global Coordinators consider satisfactory.

Electronic confirmation from the order website is required as valid proof of order or cancellation of order. Such confirmation will appear at the end of the registration process and in addition will be sent to the e-mail address provided by the investor.

24.6 Allocation

The allocation of the Offer Shares is expected to take place after termination of the Offer Period on or about 16 May 2025, subject to extension of the Offer Period.

On the date of allocation, retail investors that have received allocation in the Offering will be sent a notification by email informing them that final allocation can be viewed through the subscription system. Investors are responsible for ensuring that the e-mail address provided is valid and able to receive the necessary documentation.

On the date of allocation, the Joint Global Coordinators will notify qualified and institutional investors or the relevant financial intermediary regarding allocation of Offer Shares to them or their clients.

Those investors who have not been allocated Offer Shares will not receive a notification to that effect.

The allocation will be determined in accordance with the Act on the Disposition of the State's Holding in Íslandsbanki by the Selling Shareholder after consultation with the Joint Global Coordinators.

During the bookrunning period orders will be categorised in Tranche A, Tranche B and Tranche C depending on the size of the orders and the type of the investor. See further detailed above *"24.5 Subscriptions."*

In accordance with the Act on the Disposition of the State's Holding in Íslandsbanki, orders through Tranche A will have priority when the Offer Shares are allocated. There will be no pre-determined allocation of the Offer Shares between Tranche A, Tranche B and Tranche C.

Tranche A is intended only for individual investors with an Icelandic ID number, all investors (retail and qualified investors) may place orders in Tranche B while Tranche C is intended only for regulated professional investors submitting offers on their own account and who have assets of at least ISK 70 billion (see above "*24.5 Subscriptions.*" In the event of subscriptions exceeding the size of the Offering (oversubscription), orders in:

(a) Tranche A will be reduced on a pro rata basis, but only if the total subscriptions in Tranche A exceed (a) the Base Volume and the Volume Increase is not effected, or (b) the Total Volume and the Volume Increase is effected. However, no order will be reduced below ISK 2,000,000 unless necessary to meet demand;

(b) Tranche B will be reduced based solely on the bid price. If it becomes necessary to reduce the lowest orders accepted for the Base Volume, those orders will be reduced on a pro rata basis. If the Volume Increase is effected, the lowest orders accepted will be allotted in full in priority to allotments to Tranche C, at the same price; and

(c) Tranche C will be reduced on the basis of the following pre-determined criteria applying to active participation in the Offering process. Factors demonstrating active participation include the number of documented communications related to the Offering, written feedback or acknowledgements, and the extent of communication with the Bank's management team. It will be taken into consideration that the investor is not only following the process but actively participating and contributing to the success of the Offering. Other factors include bid amount, with higher bids being prioritised, timing of bids and communications indicating higher interest, and the quality of the investor. The assessment of an investor's quality will take into account whether the investor is long-term or short-term, the amount of assets under their control, their reputation and their anticipated ability and willingness to align their long-term interests with those of the Bank.

Allotment to investors who applied to purchase Offer Shares will be made on a systematic basis using the above criteria, in accordance with the Act on the Disposition of the State's Holding in Íslandsbanki. In the event that the Offering is over-subscribed, investors may receive fewer Offer Shares than they applied for.

The Joint Global Coordinators will consolidate all orders submitted by investors and inform the Selling Shareholder.

24.7 Payment

Payment will not be accepted by any other means than those stated in the payment instructions provided by the Joint Global Coordinators (the "**Payment Instructions**").

Payment shall be made at the latest before the closing time of banks in Iceland on the final due date. Investors are advised that the general opening hours of banks and other financial institutions are until 16:00 GMT on weekdays and that after 16:30 GMT it is not possible to make a payment exceeding ISK 10,000,000. However lower payments are possible via online banks until 21:00 GMT, provided that the amount is below other limits which may apply.

Payment will not be accepted by any other means than those stated in the Payment Instructions. Full payment must be made on or before the date stated in the Payment Instructions. Investors must pay the Offer Price in immediately available funds in full in ISK on or before 20 May 2025.

The Joint Global Coordinators reserve the right to:

- request investors for proof of funds for any submitted order. Failure to provide sufficient proof of funds can result in the order being invalidated;
- request information from investors to conclude any necessary know-your-customer (KYC) review. Failure to provide information necessary for KYC review may result in cancellation in full of such investors' orders or in investors not being able to trade or move the Offer Shares until the necessary information is provided;
- demand confirmation of investors' ability to pay and/or collateral for payment from investors. If investors do not agree to this demand from the Joint Global Coordinators before the close of the subscription period or before the end of any other deadline in relation to the Offering, the Joint Global Coordinators reserve the right to reject and invalidate the subscription of the investor, wholly or partly. The Joint Global Coordinators have sole discretion to decide whether confirmation of the ability to pay and/or collateral is sufficient.

If full payment is not made in due time according to the Payment Instructions, allotted Offer Shares may be withdrawn and sold to another party. In the event of such a transfer, should the selling price be less than the price in the Offering, the party who initially received allocation of Offer Shares in the Offering may be responsible for the difference.

After the final due date, the Selling Shareholder may, without warning or notification, invalidate allocations which remain uncollected at the end of the final due date. The Selling Shareholder is then entitled to retain Offer Shares which have not been paid for or decide a price at which to sell them to a third party. However, if the Selling Shareholder is unable to sell the unpaid Offer Shares to a third party at the same or higher price than they were allocated in the Offering, the Selling Shareholder reserves the right to demand that the investor to whom the Offer Shares were originally allocated to pay the difference between the sale value of the Offer Shares and the Offer Price. Any such investor will not be entitled to any compensation in the form of Offer Shares or other valuables. The Selling Shareholder reserves the right to validate unpaid orders and to collect allocations which are not paid satisfactorily and in such an event the Selling Shareholder's collection costs, as well as penalty interest from the final due date, are added to the purchase price of the uncollected Offer Shares. If payment fails to be made at the correct time (i.e. on the final due date) and in the correct manner (i.e., in full compliance with the Payment Instructions) the debt may be collected, potentially through Icelandic courts, in accordance with the applicable principles of contract law.

The responsibility for collection and settlement of all transactions of the Selling Shareholder in connection with the Offering lies with the Joint Global Coordinators. The investor will not incur any special costs in respect of the transaction by the Selling Shareholder or the Joint Global Coordinators. Investors are encouraged to consider whether any costs or fees will be charged by other parties in connection with the transaction.

Neither the Bank nor the Selling Shareholder are aware that individual shareholders or members of the Board of Directors or Executive Committee of the Bank intend to purchase shares in the Offering, nor whether any investor intends to purchase more than 5% of the Offering.

24.8 Conditions for participation in the Offering

Investors are entitled to submit an additional order or cancel an order already submitted, in order to change an order which they have confirmed and delivered in the Offering during the Offer Period. Multiple subscriptions by the same investor, in terms of national identification number, will be pooled together and treated as a single subscription for allocation purposes. All orders not cancelled during the Offer Period will bind the respective investor once the Offer Period terminates. Orders must be personally completed by the respective investors or by a person with the required authority or power of attorney from the investor. A person completing an order on the basis of power of attorney shall, if the power of attorney is not recognised by the principal, be deemed to have delivered the order in his/her own name. Participation in the Offering is open to persons (individuals who are 18 years of age and older, as well as legal entities) who are legally competent to manage their financial affairs and have the power to decide over their financial estate, with restrictions that may be imposed by law. As stipulated in the above conditions, if the person's estate has been declared bankrupt and such proceedings have not been completed before the end of the offer Period, that person may not participate in the Offering. Persons who are not otherwise legally competent to manage their financial affairs may not participate in the Offering. Neither the Managers nor the Bank will perform an individual review of an investor´s financial competence in accordance with the foregoing and it is the responsibility of each investor to confirm their own financial competence.

Orders will be deemed to be a request for a service regarding execution only, as per Article 45 (5) of the Act on Markets in Financial Instruments and the Managers are not obliged to assess whether participating in the Offering and buying Offer Shares in the Company is suitable for the investor and the investor does not enjoy protection in accordance with Article 45 of the Act on Markets in Financial Instruments.

By placing an order, investors declare that they have agreed to the terms of the Offering as set out in this Prospectus, read the information in this Prospectus, that they are aware of the conflicts of interest specified in the Prospectus and confirm that their participation in the Offering does not violate Icelandic law. Investors furthermore permit the Joint Global Coordinators to share necessary information on their respective identities and subscriptions among themselves, their advisors and service providers, for the sole purpose of ensuring the orderly progress, execution and closing of the Offering. Orders subject to conditions will be void. The same applies to the orders of parties who have held a reported short position in the Bank within 30 days prior to the start of the Offering. Further information on the data protection policies of the Joint Global Coordinators, the Bank and their service providers may be obtained at their respective websites.

Participation by employees of Kvika and its subsidiaries is subject to the Kvika's Employee Trading Policy, available on Kvika's website. The rules contain provisions which exclude certain employees, and related parties from participating in the Offering. In particular, the employees who have access to confidential information related to the Offering, or who are involved in the preparation, distribution, advice, or similar activities relating to the Offering, including the Heads of Corporate Finance and Market divisions. Additionally, Kvika's CEO and executive management is prohibited from participating in the Offering. Employees who are not subject to such exclusion, will be permitted to participate in the Offering, provided they submit offers before 11:00 GMT on the first day of the Offering, obtain prior approval from Kvika's Compliance Officer and otherwise comply with the Employee Trading Policy. In general, employees are subject to a minimal holding period of 30 days from any purchase of financial instruments.

Participation by employees of the Bank is subject to the Bank's Rules on Employee Trading in Financial Instruments which are available on the Bank's website. The rules contain provisions which exclude certain employees, and related parties from participating in the Offering, namely employees of Securities Trading and Securities Sales. In addition, the Bank has decided to limit further employees, and related parties participation so that members of the Board of Directors, members of the Executive Committee, members of the Disclosure Committee and employees within Asset Management are excluded for participating in the Offering. Employees who are not subject to such exclusion, and related parties, will be permitted to participate in the Offering through Tranche A for the duration of the Offering. In general, employees and related parties are subject to a minimal holding period of 30 days from any purchase of financial instruments.

24.9 Asset Management

Certain exemptions with respect to subscriptions in the Offering are granted to financial institutions which offer asset management services pursuant to Article 20(1.11) of the Financial Undertakings Act. These institutions may submit subscriptions on behalf of investors on a special subscription form which is obtainable from the Joint Global Coordinators. On the order form, each asset management will need to provide a breakdown list of names, Icelandic ID numbers and size of each investor order. The Joint Global Coordinators reserve the right to demand a satisfactory statement from a financial institution prior to any subscription, on a form obtainable from the Joint Global Coordinators, that it has the required authority or power of attorney from the investor in accordance with authority provided in a valid asset management agreement with the investor, in addition to a statement that the payment of the purchase price will be guaranteed by the financial institution. The financial institution shall specify in such subscriptions its preference either to receive one collective invoice for the price paid by all the investors or whether each investor shall receive individual invoice. Cancellation of subscriptions submitted by financial institutions as described above must be communicated to the Joint Global Coordinators via email, islandsbanki-fyrirspurnir@kvika.is.

If an asset management client has subscribed himself/herself on either of the subscription websites and an asset management service has as well submitted a subscription on his/her behalf, both subscriptions are valid. The Joint Global Coordinators will communicate to financial institutions that offer asset management the aggregate number of Offer Shares allocated to their retail investors. It is up to the financial institutions to notify their investors of their individual allocations.

24.10 Withdrawal Rights

If a significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment of the Offer Shares arises or is noted between the date of this Prospectus being approved by the FSA and the end of the Offer Period, or if the number of Offer Shares exceeds the maximum stated in this Prospectus, then a prospectus supplement shall be prepared, approved and published in accordance with Article 23 of the Prospectus Regulation and Article 5 of the Prospectus Act. The summary of the Prospectus shall also be supplemented as applicable.

Investors who have already agreed to purchase the Offer Shares before a supplement is published shall have the right, exercisable within two business days following the publication of a supplement, to withdraw their acceptances, provided that the significant new factor, material mistake or material inaccuracy referred to above arose or was noted before the closing of the Offer Period or delivery of the Offer Shares, whichever occurs first.

Statements contained in any supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable, whether expressly, by implication or otherwise, be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall, except as so modified or superseded, no longer constitute a part of this Prospectus. For the avoidance of doubt, references in this paragraph to any supplement being published by the Bank do not include the pricing statement.

24.11 Delivery of Offer Shares

When satisfactory payment has been received from the investor, the Offer Shares are estimated to be delivered to the investor with delivery taking place within two business days after payment has been received. Shares will be delivered electronically via Nasdaq CSD Iceland. Kvika (the "**Settlement Agent**") will request that the custodian which the investor specifies in its order, will deposit the Shares in a custody account held by the investor with the custodian.

If the investor does not own a custody account with the custodian specified in the subscription, the Settlement Agent will open a custody account in the name of the investor at the Settlement Agent (and at Nasdaq CSD Iceland) in order to deposit the investor's Shares in a custody account in accordance with the above. The Settlement Agent reserves the right to collect a fee from the investor for storing the Shares as per the Settlement Agent's list of fees and charges, which can be found on its website, https://kvika.is/bankasvid/vextir-og-verdskra. The investor may not trade or move the Shares delivered into the custody account opened (as described above) in their name unless they have previously provided the material and information requested by the Settlement Agent to open a custody account.

24.12 Securities Offering – Conflict of Interest Disclosure

Attention is drawn to the potential conflicts of interest that Kvika, as Joint Global Coordinator and Joint Bookrunner, may have in connection with the upcoming Offering. In Kvika's assessment, the measures currently in place are sufficient to manage any conflicts of interest that may arise as outlined below:

- Kvika's Corporate Finance department is responsible for managing the Offering, including marketing and sales efforts. The administration of the book-building process and IPO registration system (IPO.is) will be handled by Kvika Corporate Finance. Kvika will receive a fee from the Selling Shareholder, and the Corporate Finance fee is dependent on the sale proceeds of the shares sold in the Offering. Therefore, the higher the offering price and volume sold, the greater the fee earned by Corporate Finance. Kvika's role in the Offering is limited to providing advisory services and selling securities once the Offering commences. Other departments or subsidiaries of Kvika that provide services such as order receipt/transmission, order execution, investment advice, or asset management in relation to the Offering will do so on the same basis and terms as other market participants acting on behalf of their clients.

- Kvika is not required to assess the appropriateness of the investment for investors regarding the Shares sold in the Offering. Accordingly, investors will not benefit from protections under Act No. 115/2021 on Markets for Financial Instruments. Investors are encouraged to review all potential conflicts of interest described in this document.

24.13 Public Disclosure

Upon completion of the Offering, the Minister shall, notwithstanding the duty of confidentiality pursuant to Article 58 Financial Undertakings Act, publicly disclose detailed information about each transaction with Offer Shares, including ID numbers in cases where investors have an Icelandic ID number, and the names of the beneficial owners. In addition, the duty of confidentiality shall not restrict the necessary communication of information to the Joint Global Coordinators.

25. PLAN OF DISTRIBUTION AND TRANSFER RESTRICTIONS

25.1 Plan of Distribution

On 12 May 2025, the Bank, the Selling Shareholder and the Managers entered into an underwriting agreement (the "**Underwriting Agreement**") with respect to the Offer Shares to be sold by the Selling Shareholder in the Offering. Subject to certain conditions set forth in the Underwriting Agreement, the Selling Shareholder has agreed to sell to the purchasers procured by the Managers or, failing which, to the Managers, and each of the Managers, severally and not jointly or jointly and severally, has agreed to procure purchasers for, or failing such procurement, each of the Managers has agreed to purchase from the Selling Shareholder, as the case may be, the percentage of the Offer Shares listed opposite such Manager's name below.

Manager	Percentage Offered in the Offering
Barclays Bank Ireland PLC	33.33%
Citigroup Global Markets Europe AG	33.33%
Kvika banki hf.	33.33%
ABN AMRO Bank N.V.(*)	0.00%
Arctic Securities AS(*)	0.00%
Arctica Finance hf.(*)	0.00%
Arion banki hf.(*)	0.00%
J.P. Morgan SE(*)	0.00%
Landsbankinn hf.(*)	0.00%
UBS Europe SE(*)	0.00%
Total	**100.00%**

(*) Acting as Manager but not underwriting any Offer Shares.

The Underwriting Agreement provides that the obligations of the Managers to procure purchasers for the Offer Shares or, failing which, the obligation of the Managers to purchase the Offer Shares, are subject to certain conditions and may be subject to termination by the Managers under certain customary circumstances. Should the Managers decide to terminate their several commitments, the Offering may be cancelled; if cancelled, no Offer Shares will be delivered. Pursuant to the Underwriting Agreement, the Bank will indemnify the Managers against certain liabilities and related costs or will contribute to payments that the Managers may be required to make as a result of any such liabilities. Furthermore, pursuant to the Participation Agreement, the Selling Shareholder has agreed to indemnify the Bank, its Board of Directors, executives, and employees from any claims, including those brought by the Managers, against the Bank, its Board of Directors or its personnel in connection with their role in the Offering. This indemnity does not apply to claims arising from intentional misconduct or gross negligence on the part of the indemnified party.

Investors can expect the Offer Shares to be delivered to their accounts on or about 21 May 2025. The Offer Shares will be accepted for delivery to investors' securities accounts with Nasdaq CSD Iceland, against payment in immediately available funds. All dealing in the Offer Shares prior to settlement will be for the account and at the sole risk of the parties involved. It is expected that the Offer Price for Tranche B and Tranche C will be announced no later than 15 May 2025.

The market price of the Shares may fluctuate and may decline below the Offer Price. In connection with the Offering, the Managers and any affiliates acting as investors for their own account may take up the Offer Shares and in that capacity may retain, purchase or sell the Offer Shares for their own account and may offer or sell Shares other than in connection with the Offering, in accordance with applicable law in each case. The Managers do not anticipate disclosing the extent of any such investment or transaction, except in accordance with any legal or regulatory obligation to do so. No action has been or will be taken in any jurisdiction other than Iceland that would permit a public offering of the Offer Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Bank or the Offer Shares in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction. In certain jurisdictions the law restricts the distribution of this Prospectus or any offering material and the offer, sale or delivery of the Offer Shares. As a result, it is recommended that persons who may come into possession of this Prospectus or any offering material consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Prospectus may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. See "*—25.2 Selling and Transfer Restrictions*."

Each of the Bank and the Selling Shareholder has each agreed, subject to customary exemptions, that it will not, without the prior written consent of the Joint Global Coordinators, such consent not to be unreasonably withheld or delayed, during the period ending 90 days after the date of Settlement: (i) directly or indirectly, issue (in the case of the Bank), offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares or other shares of the Bank, or any securities convertible into or exercisable or exchangeable for Shares or other shares of the Bank, or request or demand that the Bank file (in the case of the Selling Shareholder) any registration statement under the U.S. Securities Act or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares or other shares of the Bank, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Ordinary Shares or other securities, in cash or otherwise.

Following consultation with the Managers, the Selling Shareholder will determine the allocation of Offer Shares to investors in Tranche B and Tranche C on the basis of a number of factors, including the following:

(i) the orders, in terms of price and quantity, received from potential retail, qualified and institutional investors and;

(ii) the criteria provided in the Act on the Disposition of the State's Holding in Íslandsbanki and this Prospectus;

The allocation of Offer Shares is subject to the final approval by the Minister.

The Managers and their affiliates have engaged in transactions with and performed various investment banking, commercial banking and other services for the Bank, the Selling Shareholder and their respective subsidiaries and affiliates in the past and may do so from time to time in the future and may be paid fees in connection with such services from time to time. Nevertheless, all services provided by the Managers, including in connection with the Offering, have been provided as an independent contractor and not as a fiduciary to the Bank or the Selling Shareholder. See "*4. Presentation of Financial and Other Information—4.3 Potential Conflict of Interest*." In connection with the Offering, and to the extent permitted by law and regulation to which they are subject, each of the Managers or their affiliates may take up a portion of the Offer Shares in the Offering as a principal position and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Managers or any of their respective affiliates acting in such capacity. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps, warrants or contracts for differences) with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Bank announced on 12 February 2025 that it had entered into market making agreements with Kvika and Fossar Investment Bank (the "**Market Makers**"). The agreements became effective on 17 February 2025, are valid for an indefinite period of time but terminable by either party with 14 days' prior notice. Pursuant to the market making contract, the Market Maker undertakes to place bids and offers for a minimum of 112,500 shares (nominal value) each at a price determined by each of the Market Makers, however not exceeding 3% deviation from the last transaction price. The bid-ask spread shall be determined with reference to the tick size table of Nasdaq Iceland as it is at any given time with the bid-ask spread as close to 1.5% as possible, but not below 1.45%. Notwithstanding that, the Market Makers are permitted to temporarily go below 1.45%, e.g., due to circumstances relative to the tick size table of Nasdaq Iceland. If the Market Makers execute transactions exceeding 675,000 shares each within a single trading day via automatic matching, commitments to maintain the maximum spread during that trading day are cancelled. In the event of price fluctuation within a trading day exceeding 5.0%, the Market Makers are permitted to widen the spread to a maximum of 3.0%. The Bank terminated its market making agreement with Arion with effect from the end of the day on 14 February 2025.

25.2 Selling and Transfer Restrictions

No action has been or will be taken in any jurisdiction other than Iceland that would permit a public offering of the Offer Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Bank or the Offer Shares in any jurisdiction where action for that purpose is required. In certain jurisdictions the distribution of this Prospectus and the offer of the Offer Shares may be restricted by law. Persons into whose possession this Prospectus comes should apprise themselves of and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States for offer or sale as part of their distribution and may not be offered or sold within the United States unless the Offer Shares are registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available. In the United States, the Offer Shares will be sold only to persons reasonably believed to be QIBs as defined in, and in reliance on, Rule 144A under the U.S. Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. All offers and sales of the Offer Shares outside the United States will be made in compliance with Regulation S under the U.S. Securities Act and in accordance with applicable law.

In addition, until the end of the 40th calendar day after commencement of the Offering, an offer or sale of the Offer Shares within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act. The Offering of the Offer Shares is being made in the United States through U.S. broker-dealer affiliates of the Managers.

Notice to U.S. Investors

Each purchaser of the Offer Shares within the United States will be deemed to have represented and agreed as follows:

(a) the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;

(b) the purchaser: (i) is, and the time of its purchase of any Offer Shares will be, a QIB or a broker-dealer acting for the account of a QIB and (ii) is acquiring the Offer Shares for its own account or for the accounts of one or more QIBs for which it is acting as duly authorised fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case, it hereby makes such acknowledgements, representations and agreements on behalf of such QIBs as well), in each case, for investment and not with a view to any resale or distribution (within the meaning of the United States securities laws) of any such Offer Shares;

(c) the purchaser understands and acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are being offered in the United States only in transactions not involving any public offering in the United States within the meaning of the U.S. Securities Act or which are exempt from the registration requirements of the U.S. Securities Act;

(d) the purchaser acknowledges that sellers of the Offer Shares may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A thereunder and that the Offer Shares may not be offered, sold, pledged or otherwise transferred, directly or indirectly, other than in accordance with paragraph (F) below;

(e) the purchaser and each other QIB, if any, for whose account it is acquiring the Offer Shares, in the normal course of business, invests in or purchases securities similar to the securities offered hereby, has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing any Offer Shares for an indefinite period of time and is able to bear such risk for an indefinite period;

(f) the purchaser has: (i) conducted its own investigation with respect to the Bank and the Offer Shares; (ii) received all information that it believes is necessary or appropriate in connection with an investment in the Offer Shares; and (iii) made its own assessment and has satisfied itself concerning the relevant tax, legal and other economic considerations relevant to an investment in the Offer Shares;

(g) the purchaser understands and agrees that the Offer Shares may be offered, sold, delivered, hypothecated, pledged or otherwise transferred only (i) pursuant to an effective registration statement under the U.S. Securities Act, (ii) to a person whom the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States, in an "offshore transaction" in compliance with Regulation S (and not in a pre-arranged transaction resulting in the resale of such Offer Shares into the United States) or (iv) in accordance with Rule 144 under the U.S. Securities Act, and, in each case, in accordance with all applicable securities laws of the United States, any state or territory thereof and any other relevant jurisdiction. The purchasers understands that the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares;

(h) the purchaser understands that for as the duration of the time that the Offer Shares are "restricted securities" within the meaning of the U.S. federal securities laws, no such Offer Shares may be deposited into any American depositary receipt facility established or maintained by a depositary bank, other than a Rule 144A restricted depositary receipt facility, and that such Offer Shares will not settle or trade through the facilities of The Depositary Trust Company or any other United States clearing system;

(i) none of the Selling Shareholder, the Managers or the Bank will recognise any offer, sale, pledge, delivery, hypothecation or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions;

(j) the purchaser has received a copy of this Prospectus and has had access to such financial and other information relating to the Bank as it considers necessary in connection with making its own investment decision to purchase the Offer Shares. The purchaser acknowledges that none of the Selling Shareholder, the Bank, the Managers or any of their respective representatives has made any representation to it with respect to the Bank or the allocation, offering or sale of any Offer Shares other than as set forth in this Prospectus, which has been delivered to it and upon which it is solely relying in making its investment decision with respect to the Offer Shares;

(k) the purchaser also acknowledges that it has made its own assessment regarding the U.S. federal income and other tax consequences of an investment in the Offer Shares; and

(l) the purchaser understands that these representations and undertakings are required in connection with the securities laws of the United States and acknowledges that the Bank, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. The purchaser undertakes to notify the Selling Shareholder, the Bank and the Managers promptly if, at any time prior to the purchase of the Offer Shares, any of the foregoing ceases to be true.

Notice to Investors Outside the United States

Each purchaser of the Offer Shares outside the United States will be deemed to have represented and agreed that it has received a copy of this Prospectus and such other information as it considers necessary to make an informed investment decision and as follows:

(a) the purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations;

(b) the purchaser understands and acknowledges that the Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and are being offered in the United States only in transactions not involving any public offering in the United States within the meaning of the U.S. Securities Act or which are exempt from the registration requirements of the U.S. Securities Act;

(c) the purchaser (and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares) was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the account or benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares or any economic interest therein to any person in the United States;

(d) the purchaser is not an affiliate of the Bank or a person acting on behalf of such affiliate;

(e) it has not been offered the Offer Shares by means of any "directed selling efforts" as defined in Regulation S;

(f) the purchaser understands the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Prospectus;

(g) the purchaser has (i) conducted its own investigation in relation to the Bank and the Offer Shares, (ii) received all information that it believes is necessary or appropriate in connection with an investment in the Offer Shares, and (iii) made its own assessment and has satisfied itself concerning the relevant tax, legal and other economic considerations relevant to an investment in the Offer Shares;

(h) none of the Selling Shareholder, the Managers or the Bank will recognise any offer, sale, pledge, delivery, hypothecation or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions;

(i) if it is acquiring any of the Offer Shares as a fiduciary or agent for one or more accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of such account;

(j) the purchaser has received a copy of this Prospectus and has had access to such financial and other information concerning the Bank as it deems necessary in connection with making its own investment decision to purchase the Offer Shares. The purchaser acknowledges that none of the Selling Shareholder, the Bank, the Managers or any of their respective representatives has made any representation to it with respect to the Bank or the allocation, offering or sale of any Offer Shares other than as pursuant to this Prospectus, which has been delivered to it and upon which it is solely relying in making its investment decision regarding the Offer Shares; and

(k) the purchaser acknowledges that the Selling Shareholder, the Bank, the Managers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and undertakes promptly to notify the Bank and the Managers if, at any time prior to the purchase of the Offer Shares, any of the foregoing ceases to be true.

European Economic Area

In relation to each Relevant Member State (including Iceland), no Offer Shares have been offered or will be offered pursuant to the offer to the public in such Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in such Relevant Member State or, where appropriate, approved in another Relevant Member State, all in accordance with the Prospectus Regulation, saving that offers of the Offer Shares may be made to the public in such Relevant Member State at any time under the following exemptions under the Prospectus Regulation, if they are implemented in such Relevant Member State:

(a) to any legal entity that is a Qualified Investor as defined under Article 2 of the Prospectus Regulation;

(b) to fewer than 150 natural or legal persons in a Relevant Member State (other than Qualified Investors within the meaning of the Prospectus Regulation) subject to obtaining the prior consent of the Joint Global Coordinators; or

(c) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 1(4) of the Prospectus Regulation; *provided that* no such offer of the Offer Shares will result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Regulation or of a supplement to a prospectus pursuant to Article 23 of the Prospectus Regulation. Each person in a Relevant Member State who acquires any Offer Shares or to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2 of the Prospectus Regulation.

For the purposes of this provision, (a) the phrase an "**offer to the public**" in relation to any Offer Shares in any Relevant Member State (including Iceland) means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares so as to enable an investor to decide to purchase the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Regulation in such Relevant Member State, (b) the phrase "**Prospectus Regulation**" means Regulation (EU) No 2017/1129 of the European Parliament.

United Kingdom

No Offer Shares have been offered or will be offered pursuant to the Offering to the public in the United Kingdom prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the FCA, except that Offer Shares may be offered to the public at any time:

(a) to any legal entity which is a qualified investor as defined under Article 2 of the UK Prospectus Regulation;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined under Article 2 of the UK Prospectus Regulation); or

(c) in any other circumstances falling within section 86 of FSMA,

provided that no such offer of Offer Shares shall result in a requirement for the publication of a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation. Each person in the United Kingdom who acquires any Offer Shares or to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2 of the UK Prospectus Regulation.

For these purposes, the expression "an offer to the public" in relation to any offer of Offer Shares in the United Kingdom means a communication in any form and by any means presenting sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares and the term the "UK Prospectus Regulation" means Regulation (EU) 2017/1129 (as amended), as it form part of assimilated law by virtue of the European Union (Withdrawal) Act 2018.

This document is being distributed to, and is directed only at (i) persons in the United Kingdom who are "qualified investors" (within the meaning of Article 2 of the UK Prospectus Regulation) and (a) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Promotion Order; and/or (b) who are high net worth entities falling within Article 49(2)(a) to (d) of the FPO; and (ii) other persons to whom it may otherwise be lawfully distributed (each a "relevant person"). Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with such persons. Persons who are not relevant persons should not rely on or act upon this document.

Certain Restricted Jurisdictions

NO OFFER SHARES HAVE BEEN OFFERED, SOLD, TAKEN UP, DELIVERED OR TRANSFERRED OR WILL BE OFFERED, SOLD, TAKEN UP, DELIVERED OR TRANSFERRED IN, INTO OR FROM AUSTRALIA, CANADA, THE REPUBLIC OF SOUTH AFRICA OR SWITZERLAND SUBJECT TO CERTAIN EXEMPTIONS UNDER THE RELEVANT SECURITIES LAWS OF AUSTRALIA, CANADA, THE REPUBLIC OF SOUTH AFRICA OR SWITZERLAND.

26. DEFINITIONS AND GLOSSARY

"**Act on Measures Against Market Abuse**" means Act No. 60/2021 on Measures against Market Abuse, as amended;

"**Act on Markets in Financial Instruments**" means Act No. 115/2021 on Markets in Financial Instruments, as amended;

"**Act on Tax on Financial Activities**" means Act No. 165/2011 on Tax on Financial Activities, as amended;

"**Act on the Disposition of the State's Holding in Íslandsbanki**" means Act No. 80/2024 on the Disposition of the State's Holding in Íslandsbanki hf., as amended;

"**Act on Special Tax on Financial Undertakings**" means Act No. 155/2010 on Special Tax on Financial Undertakings, as amended;

"**AGM**" means Annual General Meeting;

"**AIF**" means Alternative Investment Fund, a collective investment undertaking, as defined under the European Union Directive 2011/61/EU on Alternative Investment Fund Managers;

"**ALCO**" means the Bank's Asset and Liability Committee;

"**Allianz Insurance Iceland**" means Allianz Ísland hf.;

"**AML Act**" means Act No. 140/2018 on Measures against Money Laundering and the Financing of Terrorist Activities, as amended;

"**Annual Accounts Act**" means the requirements set forth in Act No. 3/2006 on Annual Accounts, as amended;

"**ARC**" means the Bank's All Risk Committee;

"**Arion Bank**" means Arion Bank hf., a public limited company established under the laws of the Republic of Iceland, with registration number 581008-0150, having its registered office at Borgartún 19, 105 Reykjavík, Iceland;

"**Articles of Association**" means the articles of association for Íslandsbanki hf.;

"**AuM**" means Assets under Management, referring to the total market value of assets that Iceland Fund manages on behalf of its clients or investors;

"**Bank**" or "**Company**" means Íslandsbanki hf., a public limited company established under the laws of the Republic of Iceland, with registration number 491008-0160 and LEI code 549300PZMFIQR79Q0T97, having its registered office at Hagasmári 3, 201 Kópavogur, Iceland;

"**Base Volume**" means the 376,094,154 shares to be sold by the Selling Shareholder in the Offering;

"**Bank Levy**" or "**Bank tax**" means the annual levy which, pursuant to the Parliament of Iceland passed Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including the Bank, are required to pay;

"**Board of Directors**" means the board of directors of the Bank;

"**Board Rules**" means the Rules of Procedure of the Board of Directors adopted in accordance with the Public Limited Companies Act and Article 54 of the Financial Undertakings Act;

"**BRRD**" means Directive 2014/59/EU;

"**Capital Requirements Directives**" means Directive 2006/48/EC relating to the taking up and pursuit of business of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions;

"**Central Bank of Iceland**" means the Central Bank of Iceland (*Seðlabanki Íslands*);

"**Central Securities Depositories Act**" means the Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments, as amended;

"**CET1 Ratio**" means Common Equity Tier 1 Ratio, a measure of a bank's core capital strength, calculated as the ratio of Common Equity Tier 1 Capital to its total Risk-Weighted Assets;

"**Commission Delegated Regulation (EU) 2019/980**" means Delegated Regulation (EU) 2019/980, supplementing the Prospectus Regulation as regards to the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admittd to trading on a regulated market;

"**Common Equity Tier 1 capital**" or "**CET1**" means Common Equity Tier 1 capital defined in accordance with article 84a in Act No. 161/2002 on Financial Undertakings;

"**Competition Act**" means Competition Act No. 44/2005, as amended;

"**Consolidated Financial Statements**" means the Bank's audited consolidated financial statements for the financial years ended 31 December 2022 to 2024;

"**Consumer Agency**" means the Icelandic Consumer Agency (*Neytendastofa*);

"**Corporate Governance Guidelines**" means Sixth edition of the Icelandic Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, SA—Business Iceland and Nasdaq Iceland dated 1 July 2021;

"**COVID-19**" means the outbreak of a strain of novel coronavirus disease which was declared a global pandemic by the World Health Organization on 11 March 2020;

"**CPI**" means the Consumer Price Index as published by Statistics Iceland;

"**CRD IV Directive**" or "**CRD IV**" means Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;

"**CRD V**" means Directive (EU) 2019/878 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measure;

"**Creditinfo**" means Creditinfo Group hf., a service provider for credit information and risk management solutions;

"**CRR**" means Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms;

"**CRR II**" means Regulation (EU) 2019/876 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No. 648/2012;

"**CSDR**" means Regulation (EU) 909/2014 on improving securities settlement in the European Union and on central securities depositories;

"**CSRD**" means Directive (EU) 2022/2464 on corporate sustainability reporting;

"**CSMAD**" means Directive 2014/57/EU on criminal sanctions for insider dealing and market manipulation;

"**Data Protection Act**" means Act No. 90/2018 on Protection of Privacy and Processing of Personal Data, as amended;

"**Deposit Guarantees Act**" means Act No. 98/1999 on Deposit Guarantees and Investor-Compensation Scheme, as amended;

"**Depositors' and Investors' Guarantee Fund**" means the fund established in Iceland pursuant to the provisions of the Deposit Guarantees Act and which guarantees a minimum level of protection to depositors in commercial and savings banks and to customers of companies engaging in securities trading pursuant to the relevant laws;

"**Disclosure Requirements Act**" means Act No. 20/2021 on Disclosure and Information Requirements of Issuers of Securities and Major Holding Notifications, as amended;

"**DPA**" means the Icelandic Data Protection Authority (Icel. *Persónuvernd*);

"**EBA**" means the European Banking Authority;

"**ECL**" means expected credit loss;

"**EFTA Court**" means the Court of Justice of the EEA EFTA states;

"**Electronic Money Directive**" means Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions;

"**EMIR**" means Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories;

"**E-Money Act**" means Act No. 17/2013 on Electronic Money Issuance, as amended;

"**Ergo**" means the asset-based financing unit of the Bank;

"**EU Interchange Fee Regulation"** means Regulation (EU) 2015/751 on interchange fees for card-based payment transactions;

"**EU LIQ2**" means Liquidity Coverage Ratio Disclosure, the standardised regulatory remplate required under the Capital Requirements Regulation, as amended;

"**European Economic Area**" or "**EEA**" means the European Economic Area consisting of the Member States of the European Union and the EEA EFTA States (Iceland, Liechtenstein and Norway);

"**European Financial Market Supervision System Act**" means Act No. 24/2017 on European Financial Market Supervision System, as amended;

"**Executive Committee**" means the Bank's Executive Committee;

"**FATCA**" means the US Foreign Account Tax Compliance Act;

"**Financial Activities Supervision Act**" means Act No. 87/1998 on Official Supervision of Financial Activities;

"**Financial Activity Tax**" means the additional 5.5% tax levied on all remuneration paid to employees which, pursuant to the Parliament of Iceland enacted Act No. 165/2011 on Financial Activities Tax, requires certain types of financial institutions, including the Bank, to pay;

"**Financial Advisor**" means Landsbankinn hf.;

"**Financial Undertakings Act**" means Act No. 161/2002 on Financial Undertakings, as amended;

"**First Banking Consolidation Directive**" means Directive 2000/12/EC relating to the taking up and pursuit of the business of credit institutions;

"**Foreign Exchange Act**" means Act No. 70/2021 on Foreign Exchange, as amended;

"**Fossar Investment Bank**" means Fossar Investment Bank hf., a public limited company established under the laws of the Republic of Iceland;

"**Fourth Money Laundering Directive**" means Directive (EU) 2015/849/EU on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing;

"**Freezing Ac**t" means Act No. 68/2023 on the International Enforcement and Freezing of Funds, as amended;

"**FSA**" means the Icelandic Financial Supervisory Authority (*Fjármálaeftirlitið*) of the Central Bank of Iceland;

"**GDPR**" means Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data;

"**Government's Ownership Policy**" means the government's ownership policy for financial undertakings dated in February 2020;

"**Group**" means the Bank and all its consolidated subsidiaries;

"**Housing and Construction Authority**" means *Húsnæðis- og mannvirkjastofnun/ÍLS sjóður* (formerly known as the Housing Financing Fund);

"**IAS 24**" means International Accounting Standard 24 – Related Party Disclosures;

"**IC**" means the Bank's Investment Committee;

"**ICA**" means the Icelandic Competition Authority (Icel. *Samkeppniseftirlitið*);

"**ICAAP**" means Internal Capital Adequacy Assessment Process;

"**Iceland**" means the country of the Republic of Iceland;

"**Iceland Funds**" means Íslandssjóðir hf., a subsidiary of the Bank;

"**Icelandic Króna**" or "**ISK**" means the legal currency of Iceland;

"**Iceland SIF**" means Iceland Sustainable Investment Forum;

"**IFRS**" means the International Financial Reporting Standards as adopted by the European Union;

"**IFRS 9**" means International Financial Reporting Standard No. 9 on Financial Instruments;

"**ISFI**" means the Icelandic State Financial Investments;

"**INAO**" means the Icelandic National Audit Office;

"**Income Tax Act**" means Income Tax Act No. 90/2003, as amended;

"**Indó**" means Indó Sparisjóður hf., a limited company established under the laws of the Republic of Iceland, and its consolidated subsidiaries, unless the context otherwise requires;

"**Insurance Activities Act**" means Act No. 100/2016 on Insurance Activities, as amended;

"**Interest Act**" means Act No. 38/2001 on Interest and Indexation, as amended;

"**IRS**" means the Internal Revenue Service of the United States;

"**Joint Bookrunners**" means ABN AMRO Bank N.V., Arctic Securities AS, Arctica Finance hf., Arion banki hf., J.P. Morgan AG, Landsbankinn hf. and UBS AG, who will place shares in the Offering;

"**Joint Global Coordinators**" means Barclays Bank Ireland PLC, Citigroup Global Markets Europe AG and Kvika banki hf., who are entrusted with the administration of order books, placing shares in the Offering, handling the arrangements for and management of the Offering;

"**Kvika**" means Kvika banki hf., a public limited company established under the laws of the Republic of Iceland, and its consolidated subsidiaries, unless the context otherwise requires;

"**Landsbankinn**" means Landsbankinn hf., a public limited company established under the laws of the Republic of Iceland, and its consolidated subsidiaries, unless the context otherwise requires;

"**LCR**" means liquidity coverage ratio;

"**LCR Delegated Regulation**" means Commission Delegated Regulation (EU) 2015/61 supplementing Regulation (EU) No 575/2013 with regard to liquidity coverage requirements for Credit Institutions, as amended by Commission Delegated Regulations (EU) 2018/1620 and 2022/786;

"**LCR Rules**" means the Rules on LCR No. 1520/2022 effective from 1 January 2023;

"**LGD**" means loss given default;

"**LTV**" means loan-to-value ratio;

"**Lugano Convention**" means the Lugano Convention on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters;

"**Managers**" means, collectively, the Joint Global Coordinators and the Joint Bookrunners;

"**MAR**" means Regulation (EU) 596/2014 on market abuse;

"**Markets in Financial Instruments Act**" means Act No. 115/2021 on Markets in Financial Instruments, as amended;

"**MCR**" means Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property;

"**Meniga**" means fintech company Meniga Iceland ehf.;

"**MiFID**" means Directive 2004/39/EC on markets in financial instruments;

"**MiFID II**" means Directive 2014/65/EU on markets in financial instruments, as amended;

"**MiFID II Product Governance Requirements**" means Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II and any applicable local implementing measures;

"**MiFIR**" means Regulation (EU) 600/2014 on markets in financial instruments;

"**Minister**" means the Icelandic Minister of Finance and Economic Affairs;

"**Ministry of Finance**" means the Ministry of Finance and Economic Affairs;

"**Nasdaq CSD SE**" means Nasdaq CSD SE, which operates securities settlement systems in Iceland, Latvia, Estonia and Lithuania;

"**Nasdaq CSD Iceland**" means the Icelandic branch of Nasdaq CSD SE, having its registered office at Laugavegur 182, 105 Reykjavík, Iceland;

"**Nasdaq Iceland**" means the main market of Nasdaq Iceland hf., which is a regulated market pursuant to the Markets in Financial Instruments Act and MiFID II;

"**Nasdaq Iceland hf.**" means Nasdaq Iceland hf. (Kauphöll Íslands hf.), the operating entity of Nasdaq Iceland;

"**Nasdaq Iceland Rules**" means the Nasdaq Nordic Main Market Rulebook for Issuers of Shares, effective from 1 January 2024 (harmonised part), setting forth listing requirements and disclosure rules for, *inter alia*, companies with shares admitted to trading on Nasdaq Iceland;

"**National Registry**" means Þjóðskrá Íslands, the National Registry of Iceland;

"**Non-IFRS Information**" means certain financial measures that are not defined or recognised under IFRS, comprising liquidity coverage ratio, net stable funding ratio, CET1 ratio, loan-to-deposit ratio, REA density, net interest margin, return on equity, cost-to-income ratio, total capital ratio, over-collateralisation, leverage ratio, dividend ratio, cost of risk, asset encumbrance ratio;

"**Nordic Tax Treaty**" means the Convention Between the Nordic Countries for the Avoidance of Double Taxation;

"**NPL**" or "non-performing loans" means loans to customers in Stage 3 as set out in Note 64.3 of the 2024 Consolidated Financial Statements;

"**NSFR**" means net stable funding ratio;

"**OECD Common Reporting Standards**" or "**OECD CRS**" means the Organisation for Economic Co-operation and Development Common Reporting Standards;

"**Offering**" means Offering of the Offer Shares, consisting of (a) a public offering of the Offer Shares in Iceland to retail, qualified and institutional investors in accordance with the Prospectus Act and (b) an institutional offer of the Offer Shares: (i) to certain institutional investors outside the United States in reliance on Regulation S and in accordance with locally applicable laws and regulations; and (ii) in the United States, only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act;

"**Offer Period**" means the period during which the Offering is open, expected to be from 08:30 GMT on 13 May 2025 to 17:00 GMT on 15 May 2025;

"**Offer Price**" means the price at which the Offer Shares will be sold;

"**Offer Shares**" means the ordinary shares in the form of existing Shares offered by the Selling Shareholder pursuant to this Prospectus;

"**Offshore Króna Assets**" means certain assets denominated in Icelandic Króna as defined in item 1 of Article 2(1) of the Króna Asset Act;

"**OSC**" means the Bank's Operations and Security Committee;

"**Participation Agreement**" means the participation agreement entered into by Bank and the Selling Shareholder with respect to the Offering;

"**Payment Services Act**" means Act No. 114/2021 on Payment Services, as amended;

"**Payment Services Directive**" means Directive 2007/64/EC on payment services in the internal market;

"**Payment Services Directive 2**" means Directive (EU) 2015/2366 on payment services in the internal market;

"**PD**" means probability of default;

"**PFIC**" means passive foreign investment company;

"**PRIIPs Regulation**" means Regulation (EU) 1286/2014 on key information documents for packaged retail and insurance-based investment products;

"**Private Limited Companies Act**" means Act No. 138/1994 respecting Private Limited Companies, as amended;

"**Prospectus**" means the offering document pursuant to which the Offer Shares are offered and sold in the Offering;

"**Prospectus Act**" means Act No. 14/2020 on the Prospectus to be Published when Securities are Offered to the Public or Admitted to Trading on a Regulated Market, as amended;

"**Prospectus Regulation**" means Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (as amended);

"**Public Limited Companies Act**" means Act No. 2/1995 respecting Public Limited Companies, as amended, under which the Bank was established as a public limited company;

"**QIB**" means qualified institutional buyers as defined in Rule 144A under the U.S. Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws;

"**Reiknistofa Bankanna**" or "**RB**" means Reiknistofa bankanna hf., (Icelandic Banks' Data Centre) a public limited company established under the laws of the Republic of Iceland, and its consolidated subsidiaries, unless the context otherwise requires;

"**REA density**" means Risk-Weighted Assets density, the ratio of a bank's Risk Weighted Assets to its total assets;

"**Recovery and Resolution Acts**" means Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms, as amended;

"**Regulation S**" means Regulation S under the U.S. Securities Act;

"**Relationship Agreement**" means the relationship agreement between ISFI and the Bank;

"**Relevant Member State**" means any member state of the EEA that has implemented the Prospectus Regulation;

"**ROE**" means return on equity;

"**Rule 144A**" means Rule 144A under the U.S. Securities Act;

"**SCC**" means the Bank's Senior Credit Committee;

"**Selling Shareholder**" means the Ministry of Finance and Economic Affairs on behalf of the Treasury of Iceland;

"**Settlement**" means delivery of the Offer Shares, which occurs after payment has been received;

"**Settlement Date**" means the date on which Settlement takes place;

"**Shareholder**" means a holder of Shares;

"**Shares**" means ordinary shares of the Bank, each with a par value of ISK 5.00;

"**Skagi**" means Skagi hf., a financial consolidation including independent subsidiaries Vís Insurance, Fossar Investment Bank and Íslensk verðbréf;

"**SME**" means small-to medium-sized enterprise customers of the Bank and/or its subsidiaries;

"**Special Financial Activity Tax**" means an additional tax of 6.0% which the Bank is subject to under the Income Tax Act as a financial institution in respect of taxable profit exceeding ISK 1.0 billion irrespective of joint taxation or carry-forward losses;

"**SREP**" means the Supervisory Review and Evaluation Process conducted by the Central Bank of Iceland;

"**SSR**" means Regulation (EU) 236/2012 on short selling and certain aspects of credit default swaps;

"**Stage 1**" means the definition of Stage 1 as set out in Note 64.3 of the 2024 Consolidated Financial Statements;

"**Stage 2**" means the definition of Stage 2 as set out in Note 64.3 of the 2024 Consolidated Financial Statements;

"**Stage 3**" means the definition of Stage 3 as set out in Note 64.3 of the 2024 Consolidated Financial Statements;

"**Surveillance and Court Agreement**" means Protocol 2 of the Agreement between the EEA EFTA states on the Establishment of a Surveillance Authority and a Court of Justice;

"**Sustainability Disclosure Requirements and Classification System Act**" means Act No. 25/2023 on Sustainability Disclosure Requirements in the Financial Sector and the establishment of a framework to facilitate sustainable investment, as amended;

"**Takeover Act**" means the Act No. 108/2007 on Takeovers, as amended;

"**Target Market Assessment**" means all distribution channels permitted by MiFID II;

"**The Code**" means U.S. Internal Revenue Code of 1986, as amended;

"**Transparency Directive**" means Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers with securities admitted to trading on a regulated market;

"**Treasury of Iceland**" means the Treasury of Iceland, reg. no 540269-6459, Katrínartúni 6, 105 Reykjavík;

"**Treasury Regulations**" means treasury regulations issued under the Code;

"**Total Volume**" means the total number of Offer Shares offered in the Offering, including those made available pursuant to a Volume Increase;

"**UCITS**" means Undertakings for Collective Investment in Transferable Securities;

"**Underwriting Agreement**" means the underwriting agreement entered into by Bank, the Selling Shareholder and the Managers with respect to the Offering;

"**United States**" or "**U.S.**" means the country of the United States of America;

"**U.S. – Iceland Tax Treaty**" means Convention and Protocol Between the United States of America and Iceland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income;

"**U.S. Securities Act of 1933**" or "**U.S. Securities Act**" means U.S. Securities Act of 1933, as amended;

"**Volume Increase**" means the increase in the number of Offer Shares offered in the Offering, if the Minister exercises his discretion to increase the size of the Offering in response to oversubscription; and

"**VÍS Insurance**" means VÍS tryggingar hf., an insurance company and a subsidiary of Skagi.

27. CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Interim Financial Statements

First quarter 2025

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

Directors' Report

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

Operations in the reporting period

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

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

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

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

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

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

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

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

Directors' Report

Funding

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

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

Capital

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

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

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

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

Economic outlook

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

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

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

Directors' Report

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

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

Outlook for the Group

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

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

Ownership

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

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

Directors' Report

Statement by the Board of Directors and the CEO

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

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

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

Kópavogur, 8 May 2025

Board of Directors:

Linda Jónsdóttir, Chairman

Agnar Tómas Möller

Helga Hlín Hákonardóttir

Herdís Gunnarsdóttir

Páll Grétar Steingrímsson

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Introduction

We have reviewed the accompanying Consolidated Interim Statement of Financial Position of Íslandsbanki hf. as of 31 March 2025, the Consolidated Interim Income Statement and the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and the Consolidated Interim Statement of Cash Flows for the three month period then ended, and Notes to the Condensed Consolidated Interim Financial Statements ("the Condensed Consolidated Interim Financial Statements"). Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

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

Reykjavík, 8 May 2025

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Interim Income Statement

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

Earnings per share			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	14	2.77	2.75

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

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

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

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

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

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

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

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

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

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

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

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

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

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

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

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

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

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

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

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

*For further breakdown see the following page.

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

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

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

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

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

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

Changes in operating assets and liabilities

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

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

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

2. Basis of preparation

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

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

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

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

Changes to accounting policies

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

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

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

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

Basis of measurement

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

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

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements

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

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

Impairment of financial assets

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

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

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

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

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

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

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

4. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

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

Subsidiaries, eliminations and adjustments

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

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

4. Operating segments (continued)

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

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

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

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

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

6. Net fee and commission income

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

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

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

Amounts are in ISK million

7. Net financial expense

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

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

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

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

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

8. Net foreign exchange gain

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

Amounts are in ISK million

9. Other operating income

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

10. Salaries and related expenses

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

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

11. Other operating expenses

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

12. Net impairment on financial assets

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

13. Income tax expense

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

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

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

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

14. Earnings per share

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

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

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

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

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

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

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

Amounts are in ISK million

16. Fair value information for financial instruments

Financial instruments carried at fair value

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

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

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

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

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

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

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

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

Íslandsbanki hf. Condensed Consolidated Interim Financial Statements first quarter 2025 27 Amounts are in ISK million

16. Fair value information for financial instruments (continued)

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

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

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

Sensitivity analysis for Level 3 financial instruments

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

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

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

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

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

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

Amounts are in ISK million

17. Financial instruments not carried at fair value

Assets

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

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

Liabilities

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

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

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

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

18. Offsetting financial assets and financial liabilities

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

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

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

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

19. Cash and balances with Central Bank

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

20. Loans to credit institutions

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

Amounts are in ISK million

21. Derivative instruments and short positions

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

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

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

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

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

Amounts are in ISK million

22. Loans to customers

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

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

23. Expected credit losses

Total allowances for expected credit losses

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

Amounts are in ISK million

23. Expected credit losses (continued)

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

Loans to customers

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

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

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

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

Off-balance sheet loan commitments and financial guarantees

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

24. Other assets

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

25. Deposits from Central Bank and credit institutions

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

26. Deposits from customers

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

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

27. Pledged assets

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

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

28. Debt issued and other borrowed funds

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

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

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

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

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

Amounts are in ISK million

29. Subordinated loans

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

30. Other liabilities

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

31. Custody assets

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

Amounts are in ISK million

32. Íslandsbanki's shareholders

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

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

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

Beneficial owners

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

Amounts are in ISK million

33. Related party

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

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

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

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

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

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

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

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

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

Amounts are in ISK million

34. Contingencies

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

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

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

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

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

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

34. Contingencies (continued)

The Consumers' Association of Iceland (continued)

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

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

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

EC Clear ehf.

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

35. Events after the reporting period

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

36. Risk management

Risk governance

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

37. Credit risk

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

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

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

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

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

38. Maximum credit exposure and collateral

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

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

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

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

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

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

38. Maximum credit exposure and collateral (continued)

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

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

Amounts are in ISK million

38. Maximum credit exposure and collateral (continued)

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

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

Amounts are in ISK million

39. Credit quality of financial assets

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

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

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

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

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

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

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

At 31 March 2025

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

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

Amounts are in ISK million

39. Credit quality of financial assets (continued)

At 31 December 2024

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

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

Amounts are in ISK million

40. Forbearance

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

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

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

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

At 31 March 2025

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

At 31 December 2024

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

Amounts are in ISK million

41. Large exposures disclosure

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

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

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

At 31 March 2025

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

At 31 December 2024

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

42. Liquidity risk

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

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

Amounts are in ISK million

43. Liquidity coverage and net stable funding ratio

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

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

Net stable funding ratio

	31.3.2025	31.12.2024
For all currencies	128%	125%

Liquidity coverage ratio

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

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

At 31 March 2025

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

At 31 December 2024

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

Amounts are in ISK million

44. Maturity analysis of financial assets and financial liabilities

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

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

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

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

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

At 31 March 2025

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

Amounts are in ISK million

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

At 31 December 2024

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

Off-balance sheet liabilities

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

Amounts are in ISK million

45. Market risk

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

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

46. Interest rate risk

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

Interest rate risk in the trading book

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

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

Amounts are in ISK million

46. Interest rate risk (continued)

Interest rate risk in the banking book

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

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

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2025

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

At 31 December 2024

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

Amounts are in ISK million

47. Currency risk

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

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

47. Currency risk (continued)

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

Amounts are in ISK million

48. Inflation risk

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

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

49. Capital management

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

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

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

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

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

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

Amounts are in ISK million

49. Capital management (continued)

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

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

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

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

Minimum requirements for own funds and eligible liabilities

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

Own funds and eligible liabilities

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

Amounts are in ISK million

Consolidated Financial Statements

2024

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

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the audited Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the year 2024. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in 2024

The Group's operations were in line with expectations in 2024, during an eventful year. At the beginning of the year, the Board and the Bank set out to expand the Bank's operations and risk appetite. This has resulted in increased, yet cautious, focus towards additional lending abroad, with special emphasis on infrastructure projects. Further, many milestones have been achieved in the development of additional products and services. This includes the introduction of new lending products, the launch of new online channels, and emphasis on improving service experience for customers with added automation and digital channels. In January 2025, the Bank introduced its steps into the insurance market with a cooperation agreement between Íslandsbanki and VÍS tryggingar hf., an Icelandic insurance company, which will allow the Bank's customers to access comprehensive banking and insurance services on a single platform. This cooperation is founded on the Bank's vision to promote financial health for its customers. Considerable success has also been achieved within investment banking services, where the Bank has taken a dominant role, generating the highest turnover in the markets for 10 out of 12 months, despite weak capital markets throughout the year.

Changes have also been implemented within the Bank to streamline operations, and the results have started to materialise. At the beginning of 2025, a revised strategy was introduced, paving the way for further growth based on the foundation to empower our customers to succeed and promoting their financial health. Additionally, the Bank's values were revised and emphasis placed on progressive thinking, in addition to collaboration and professionalism.

In the year 2024, the Group's profit amounted to ISK 24,246 million and the return on equity was 10.9%, compared to a target of over 10%. At year-end the Group employed 772 full-time equivalents, 733 in the Bank, 54% female and 46% male (50% female and 50% male within the executive board), and 39 in subsidiaries. The Group operates 12 branches.

Inflation subsided throughout the year, moving from 6.7% in January to 4.8% at the end of December, over a period of 12 months. Policy rate cuts by the Central Bank commenced in the latter half of the year, where rates were cut from a previous level of 9.25% to 8.5% at year-end 2024. This high inflation and interest rate environment has resulted in considerable changes in the composition of the Bank's loan book where customers have been refinancing from non-indexed to CPI-linked loans. As a result, the CPI imbalance has increased from ISK 129 billion at year-end 2023 to ISK 193 billion at year-end 2024. Reducing inflation, while policy rates remained high, has put pressure on net interest margins as the lending yield contracted at a faster pace than deposit costs. Conversely, the fixed rate imbalance, primarily related to the lending of fixed-rate mortgages in a lower interest rate environment, continued to decrease at a steady pace. The net interest margin contracted by 0.2 percentage points to 2.9% for the year 2024 as a whole, while fluctuating month-by-month throughout the year. Macroeconomic forecasts suggest that inflation will continue to subside, leading to further rate cuts, which should alleviate this pressure.

Net fee and commission income decreased by 1.2% year-on-year. This is mainly attributable to increasing costs related to cards and payment processing, both related to scheme fees. While investment banking and asset management revenues were adversely affected by soft capital markets in the first three quarters of the year, markets recovered considerably in the fourth quarter. Further reductions in inflation and policy rates are expected to continue to boost capital markets, paving the way for net fee and commission growth. Other operating income amounted to ISK 2,282 million in 2024, mainly related to fair value adjustments of Kirkjusandur 2, a plot which contained the Bank's former headquarters, as well as a share in the profit of Norðurturninn hf., an associate of the Bank, due to fair value adjustments of investment property.

The cost-to-income ratio, adjusted for administrative fines, was 43.9% in the year 2024, compared to 40.6% in 2023, which is primarily due to higher operating expenses. Salaries and related expenses grew by 8.8% between years and amounted to ISK 16,329 million, mainly owing to an increase in average FTEs between years, from 770 in 2023 to 799 in 2024, as well as general wage increases. Other operating expenses increased by 5.7% between years, which translates to 0.9% real growth year-on-year, mainly owing to increase in costs related to IT and software. During the year, the Bank placed increased emphasis on efficiency and automation, resulting in a reduction in FTEs towards the end of the year.

The Group updated the classification of expenses during the year. Certain expenses that would have been recognised as other operating expenses are now recognised as fee and commission expense, see Note 8. Year-on-year comparisons factor in the updated classification of expenses for both years.

Net impairment reversals on financial assets amounted to ISK 645 million compared to a net impairment charge of ISK 1,015 million in the previous year. Recalibration of models and revised macroeconomic forecast were the main drivers of impairment reversals. Despite the high inflationary and interest rate environment, asset quality remains both stable and strong where Stage 3 loans closed in at 1.6%, compared to a level of 1.8% at year-end 2023. Loans to customers grew by 5.9% year-on-year. As before, mortgages remain the largest part of the loan book or 44%. LTVs for both the mortgage book and other parts of the loan book remain both healthy and stable. Deposits increased by 8.9% over the year, reaching one of the highest levels recorded. The Group continues to maintain limited exposure to market risk, as in previous years.

Directors' Report

Settlement Agreement with the Financial Supervisory Authority of the Central Bank of Iceland

In the autumn of 2022, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) carried out an onsite inspection of the Bank's AML control framework pursuant to Act no. 140/2018 on Measures Against Money Laundering and Terrorist Financing (AML), following which the FSA identified certain shortcomings in relation to the Bank's AML measures. On 31 May 2024, the Bank announced that the Board of Directors had decided to accept the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement). The Settlement Agreement provides that the Bank accepts the FSA's conclusion that the Bank's shortcomings were many and related to various fundamentals in the Bank's AML control framework. Further, the breaches were deemed significant and to some extent a reiteration from previous FSA observations in 2021. By entering into the Settlement Agreement, the Bank committed to carrying out appropriate remedial actions and pay a fine in the amount of ISK 570 million. In its 2023 Consolidated Financial Statements, the Bank had made an ISK 100 million provision and in the second quarter of 2024 recorded a charge of ISK 470 million in relation to the Settlement Agreement.

At the beginning of October, the Bank submitted a report on its remedies related to the settlement with the FSA. The Bank has carried out remedies pursuant to the Settlement Agreement. The Bank acknowledges that AML is a continuous iterative process and is committed to continue to strengthen its infrastructure on this front.

Funding

Deposits continue to remain the Bank's largest source of funding. Deposits from customers amounted to ISK 927 billion at year-end 2024 and increased by 8.9% from year-end 2023, with retail deposits and those from SMEs being the largest contributors. The customer loans to customer deposits ratio closed at 140% compared to 144% at year-end 2023.

During 2024, the Bank issued senior preferred bonds several times across four currencies. In January, the Bank issued 3-year green-labelled notes amounting to NOK 500 million and SEK 500 million, followed by a EUR 300 million 4-year issue in March, which was four times oversubscribed. In June, the Bank issued NOK 200 million and SEK 300 million in 3-year transactions, both at considerably tighter spreads than the January issuances. The Bank issued a total of ISK 16 billion of senior preferred bonds in the domestic senior market in 2024 in three transactions, doubling the total outstanding volume to ISK 32 billion. At the end of the year, ISK-denominated senior preferred bonds accounted for 22% of the total senior preferred bonds outstanding. The continued development of the domestic ISK bond market is of substantial benefit to the Bank in that it reduces reliance on foreign capital markets, increases diversification and reduces the overall cost of funding.

Liability management was at the forefront across the whole year. During the fourth quarter, the Bank tendered to buy back outstanding bonds of its EUR 300 million senior preferred issue due March 2025, the second tender for that issue during the year. Leaving approximately EUR 149 million of the bond outstanding at year-end 2024. In late June 2024, the Bank launched a tender for its EUR 300 million senior issue maturing in May 2026. In total, 91% of the notes were tendered and the balance was “cleaned-up” in full. These liability management operations were executed without direct refinancing, enabled as they were by the Bank's strong capital and liquidity ratios and an ample MREL buffer, all of which remain well above regulatory requirements.

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

Capital

The Group's total capital ratio was 23.2% at the end of the year and remains solid and in excess of regulatory requirements, which according to the latest Supervisory Review and Evaluation Process (SREP) concluded in June 2024 are 19.7%, including all capital buffer requirements on the Bank. The latest SREP process resulted in a capital requirement reduction of 0.6 percentage points from the previous assessment. The Group's CET1 target range is currently 16.4-18.4%, including a management CET1 buffer of 100-300 basis points on top of regulatory CET1 requirements. The current CET1 ratio is 20.1% which is 270 basis points in excess of the CET1 target, assuming the midpoint of the management buffer.

There are foreseeable changes to the Capital Requirements Regulation (CRR) regarding the calculation of the Risk Exposure Amount (REA) due to amendments to the CRR. These changes are expected to be implemented in Iceland in 2025. The modifications to CRR will affect how REA is calculated across credit risk, market risk and operational risk. The Group has closely monitored the anticipated changes and prepared an updated product offering, taking these changes into account. As a result, the Group expects a considerable reduction in REA when the changes to the CRR come into effect. At the reporting date, those changes are expected to reduce REA by approximately 4.5%, from ISK 1,041 billion to ISK 994 billion. As such, this is expected to positively impact capital ratios whereas the year-end CET1 ratio would have been 21.1% at year-end 2024 and total capital ratio would have been 24.3%, should the foreseen changes to CRR have been in place.

Directors' Report

At the beginning of October 2024, the Resolution Authority of the Central Bank of Iceland approved the Bank's resolution plan and set a minimum requirement of own funds and eligible liabilities (MREL) requirement. According to the decision, the Bank must maintain an MREL ratio of 29.5%, including the combined capital buffer requirement, a reduction from the previous decision by 1.2 percentage points. The Group's current MREL ratio is 33.4%. Further, the Resolution Authority of the Central Bank also decided on a subordination requirement for the first time. In parallel, the Bank's subordination part is set at 23.4%, which will come into effect three years following the decision.

The Bank's Annual General Meeting (AGM) held on 21 March 2024 approved a dividend payment of ISK 12.3 billion which was paid on 2 April 2024. Additionally, the AGM approved repurchasing of own shares up to 10% of outstanding share capital, in addition to a conventional dividend in line with the Bank's dividend policy. During 2024, the Bank purchased a total of 84,985,026 shares, or 4.25% of the share capital for a total of ISK 9,053 million. At the end of the year, the Bank owned a total of 105,375,857 shares, or 5.27% of its own share capital.

The Bank plans to continue its efforts to optimise its capital structure, subject to market conditions. At the 2025 AGM, the Bank will seek a renewed approval for a share buyback up to 10% of outstanding share capital. In addition, the Bank will seek approval to reduce the share capital for all treasury shares at the date of the AGM. Further yet, the Board of Directors will propose a dividend payment amounting to ISK 12.1 billion, in line with its dividend policy, and reserves the right to propose extraordinary dividend and/or additional share buybacks later in the year, subject to market conditions.

Economic Outlook

The year 2024 was a year of adjustment for the Icelandic economy. Real gross domestic product (GDP) contracted by 1% year-on-year during the first three quarters, primarily driven by a decline in service exports, with reduced tourism revenues weighing heavily. However, in the final quarter, indications emerged that economic growth had resumed, supported by modest growth in tourism and resilience in domestic demand. The total number of foreign tourists increased by 2% year-on-year, despite a decline in the first half of the year.

Íslandsbanki Research estimates an overall contraction of 0.5% for 2024. While mild in most respects, the contraction marks a turning point in the economic cycle. Domestic demand saw modest growth, but unfavourable contributions from foreign trade and negative inventory changes related to the failed capelin season weighed on performance. Despite the slight contraction, the Icelandic economy remains robust, with low unemployment and generally strong financial positions for households and businesses.

Inflation eased significantly during the year, falling from 6.7% at the start of 2024 to 4.8% by year-end. The decline can be attributed to reduced demand pressures, improved housing market balance, slower wage growth, a stronger króna, and more stable prices for consumer goods and inputs globally. This trend, alongside lower inflation expectations and reduced economic pressures, allowed the Central Bank to begin a policy rate reduction cycle in the fourth quarter. Policy rates, which had been unchanged at 9.25% since spring 2023, were lowered to 8.5% in the final months of 2024. The Central Bank cut policy rates on 5 February 2025 to 8.0%.

Looking ahead, Íslandsbanki forecasts 2.2% GDP growth for 2025, driven by moderate growth in consumption and exports, while investment is expected to remain largely flat. Although tourism has been a key driver of export growth over the past 15 years, the focus in export growth is expected to shift toward sectors such as intellectual property industries and land-based aquaculture. Inflation is projected to decline further in the first half of the year, and the Central Bank is expected to continue its rate-cutting cycle throughout 2025. Íslandsbanki Research expects inflation to average 3.6% for the year, with policy rates anticipated to decline to 6.5% by year-end.

Outlook for the Group

As the economic environment continues to improve, the Bank expects overall operations to grow across the board. In particular, the recent reduction in policy rates has positively impacted capital markets, which are expected to respond positively to further rate cuts. Additionally, the lower rate environment is anticipated to provide positive momentum for corporate investments. However, as inflation subsides further, pressure on interest rate margins can be experienced, especially if policy rates are not cut at the same pace. Such effects are, however, expected to pass through in the near term. The Bank's equity and liquidity positions remain strong and well in excess of both regulatory and internal requirements. Capital optimisation continues to be a priority for the Bank, subject to market conditions. Capital optimisation may include organic and/or external growth, as well as disposals to shareholders via ordinary buyback programs, reverse auctions, or extraordinary dividends.

Directors' Report

Risk management

The Bank is exposed to various risks. The management of these risks is an integral part of the Bank's operations, and the Bank has focused on building up a responsible internal risk culture among the Bank's employees. The Board of Directors is the Bank's supreme governing body and has the final word on risk management within the Bank. The Board of Directors shall determine the outlines of the Bank's risk management and internal control framework, set the risk appetite, and decide on the principles and limits according to which risk shall be managed within the Bank. The CEO is responsible for ensuring that risks are managed within those limits.

The Board and the CEO hereby declare that Íslandsbanki has an overall satisfactory risk management in relation to the Bank's profile and strategy.

The Bank's risk management framework and policies are discussed under Notes 46-63 to the Consolidated Financial Statements and in the unaudited Pillar 3 Report.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. At year-end the Bank had 9,961 shareholders (year-end 2023: 11,551), where 90.1% of the Bank's shares were owned by domestic parties and 9.9% by international investors. The Icelandic Government is the largest shareholder with 44.9% of outstanding shares, taking into consideration treasury shares. Apart from the Government, pension funds are the largest investor group, owning 34.7% of the outstanding shares. For further information on the Bank's shareholders see Note 42.

We empower our customers to be a force for good

Íslandsbanki aims to be a leader in the area of sustainable development and a catalyst for positive social action. We are aware that sustainability is a long-term commitment and builds the foundation for a profitable value creation. Therefore, sustainability is now specified as a part of the Bank's purpose whilst it has been a strategic focus since 2019. The Bank's purpose is to empower our customers to be a force for good in the Icelandic community and create value for the future in a sustainable way for our customers, shareholders, employees and the whole community. The Bank focuses on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank takes account of ESG (environment, social and governance) criteria in its risk management and actively explores business opportunities related to sustainability. Íslandsbanki aims to increase the general public's financial knowledge and interest in the subject and, to this end, offers interesting and accessible seminars on finance and economics.

The Board of Directors approves the Sustainability Policy and sets the Bank's strategy and risk appetite in terms of sustainability risk. The Board is regularly updated on corporate sustainability matters and the usage of the Bank's Sustainable Funding Framework. The Corporate Governance and Human Resource sub-committee of the Board assists the Board in fulfilling its oversight responsibilities concerning sustainability.

The CEO is responsible for executing the strategy and has appointed a Sustainability Committee as a main building block of the governance structure. The Sustainability Committee is a formal forum for reviewing and discussing matters related to the Bank's sustainability strategy formulation and the Bank's commitments regarding sustainability. The Committee is independent from credit committees and needs to approve proposals for credit cases before they are included in the Sustainable Financing Framework. The CEO is a member of the committee, and it has senior representatives from the business units, Risk Management, and Strategy & Sustainability.

The Sustainability Policy creates a comprehensive framework for its activities in the area of sustainability and maps out the Bank's policy for operations, responsible lending, investments, purchasing, and grants, as well as integrating with and supporting the Bank's other policies. In line with the Sustainability Policy, the Board of Directors has approved seven sustainability goals for its operations, to be completed by 2025. The goals are based on ESG criteria and supported by annual targets set by the business units as part of their five-year planning process.

The Sustainability Report for the year 2024 includes key information on the environmental, social and governance criteria for Íslandsbanki, partly in accordance with the European Commission's ESRS (European Sustainability Reporting Standards) standards. The Bank emphasises increased flow of transparent information on sustainability. Auditing firm KPMG ehf. reviewed and confirmed with limited assurance the selected sustainability disclosure in the Annual and Sustainability Report for 2024.

In accordance with local regulation, Íslandsbanki publishes in an unaudited appendix to the Consolidated Financial Statements information regarding the EU taxonomy, Green Asset Ratio (GAR). In 2023, the regulation entered into force for financial institutions and other non-financial institutions within its scope, and by that made it mandatory to publish information on the Group's assets which meet the regulation's requirements, and can according to the taxonomy be considered as environmentally sustainable. At year-end 2024 the GAR was 0.20% based on turnover and 0.26% based on capex. The Bank gathers information on green assets through external data vendors.

Directors' Report

Sustainability risk has been more effectively integrated into key processes relating to lending, investments, and product development during the year. At year-end, 93% of all credit risk exposure equal to or exceeding ISK 150 million in loan commitments has been assessed with respect to ESG risk-related factors. More detailed coverage can be found in the Bank's Pillar 3 Report for 2024 which contains a separate chapter on sustainability risk and climate risk in compliance with TCFD (Task Force on Climate-related Financial Disclosures) criteria.

Collaboration with international and local partners with regards to sustainability is highly important. Over the years, Íslandsbanki has participated in international commitments and supported domestic cooperative efforts on sustainability. Being a part of international collaborations such as the UN Principles for Responsible Banking (UN PRB) and being a founding member of the Net-Zero Banking Alliance (NZBA) is particularly valuable and informative for a relatively small bank. On the other hand, being one of the largest companies in Iceland means that the Bank can contribute significantly towards domestic partnerships such as Festa - Center for Sustainability and IcelandSif, to name a few.

Environment

Íslandsbanki is committed to supporting Iceland's ambitious Climate Action Plan and the Paris Agreement Goals. To that end, the Bank announced in April 2021 its commitment to become net zero on financed emissions by 2040. The Bank's own operations have been carbon neutral for the past four years, and with this decision, its commitment will also extend to financed emissions which includes the carbon footprint of Íslandsbanki's entire loan and asset portfolio.

Íslandsbanki publishes information on financed emissions (in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard) for 2024 in the Bank's Annual and Sustainability Report, and a more detailed disclosure within the Bank's Pillar 3 Report. The Bank publishes its objectives and performance in connection with climate issues. This includes a new target on emission reduction within the seafood sector. With that the Bank has published targets which account for 64% of total lending and 78% of total emissions from the loan portfolio in 2019. The Bank expects its financed emissions to shrink by 60% by 2030 and by 85% by 2040. The Bank's objective of having a net-zero loan portfolio by 2040 is an ambitious but achievable goal in most sectors, although it is clear that transitioning to clean energy in air transport and cargo shipping by sea will probably take longer.

Social

Íslandsbanki strongly emphasises creating a constructive and healthy work environment. The Bank's values are progressive thinking, collaboration, and professionalism.

Equal rights remain important, and we want Íslandsbanki to be a desirable workplace for people from wide-ranging backgrounds. One of Íslandsbanki's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. This ratio is considered in the hiring of management-level employees. As in previous years, the Bank received equal pay certification and was awarded professional certification under the ÍST 85:2012 standard for 2024. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

Governance

The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to its operations, including those imposed by the Central Bank of Iceland and Nasdaq Iceland. The Bank's governance practices derive, inter alia, from the laws and regulations applicable to financial institutions and the financial market. The Bank complies with the Guidelines on Corporate Governance in accordance with paragraph 7 of article 54 of the Act on Financial Undertakings no. 161/2002. Each year the Bank conducts an appraisal to ensure that it remains consistent with the Guidelines. The Board of Directors follows the Corporate Governance Guidelines (6th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise, available on www.leidbeiningar.is. Moreover, the Bank's governance practices are based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. article 16 of regulation (EC) no. 1093/2010, transposed into Icelandic law with Act no. 24/2017, on European Control Systems in the Financial Market.

Íslandsbanki has a Code of Conduct in place for employees and the Board of Directors, which is available on the Bank's website. In addition, the Bank's Sustainability Policy emphasises these matters. The aim of the Code is to promote good operational practices, reporting of misconduct and actions to prevent conflict of interest. Employees confirm annually that they have read and understood the rules and commit their adherence to the rules. At the end of 2024, more than 99% of employees had confirmed the rules. The Bank emphasises respect for human rights and avoids business transactions where human rights are violated, including discrimination on the basis of gender, religion, or race according to the Sustainability Policy and the Suppliers' Code of Conduct. The Bank is committed to continue its active dialogue with suppliers on sustainability issues.

The Bank makes every effort to combat bribery and corruption. For that purpose, the Bank has e.g. implemented a policy on conflict of interest and rules on measures against conflict of interest in which there is a chapter on gifts and complimentary trips. The rules are intended to ensure that the impartiality and credibility of employees cannot be brought into question with respect to the treatment and handling of individual matters. Moreover, the Bank has a policy in place on actions against money laundering and terrorist financing, in which the Bank takes a clear stance against payments on bribery and corruption. In practice, the Bank emphasises on being compliant with Act no. 140/2018 on measures against Money Laundering and Terrorist Financing which involves combating bribery and corruption.

Directors' Report

The Board of Directors of Íslandsbanki is committed to excellence in its governance framework so that it complies with the best corporate governance practices in the financial market at all times. The Bank's internal regulatory framework is regularly reviewed with respect to relevant changes in the Bank's internal and external environment. The Board also emphasises the follow-up on the effective implementation of changes to the internal regulatory framework and the development of a strong risk culture. The Board makes sure that issues related to governance, risk management and internal control receive appropriate consideration in the Board.

At each AGM seven non-executive directors, and two alternate members, are elected to the Board for a term of one year. The Board undertakes the Bank's affairs and is responsible for setting the Bank's general strategy as well as instructing the CEO on its further implementation and execution. The Board has a supervisory role overseeing that the Bank's organisation and activities are at all times in accordance with relevant laws, regulations and good business practices. Furthermore, the Board shall monitor the execution of its policies, the sound control of accounting and financial management, and ensure that group internal audit, compliance, risk management and internal controls are effective at all times.

In accordance with the Bank's Articles of Association the Bank operates a Nomination Committee whose role is to nominate individuals to the Bank's Board of Directors at the AGM, or as the case may be at a shareholders' meeting where Board elections are on the agenda. The members of the Nomination Committee shall be three, along with two alternates. Two members of the Nomination Committee, along with one alternate, shall be elected at the AGM or other shareholders' meeting where the election of nomination committee members is on the agenda, for a term of one year. The third member of the Nomination Committee and their alternate shall be Board members of the Bank and are appointed by the Board for a term of one year. The composition and work of the Board shall be in accordance with article 53 of the Act on Financial Undertakings no. 161/2002.

The Board has approved a policy on the suitability of the Board of Directors, the CEO and key function holders. The objective of the policy is that the Bank's Board of Directors, CEO, and key employees meet the relevant suitability requirements at all times and the framework for their appointment and/or employment is in accordance with the applicable legal requirements for the Bank's operation. The policy states, among other things, that the composition of the Board and the Executive Committee shall at any time be diverse, with regard to educational and professional background, gender and age. Human Resources reports annually to the Board on the Bank's actions in implementing the policy. Currently the Board consists of seven members, three women and four men. Board members are of various ages, born in the years 1963-1979. Board members have a broad range of education, e.g. in the fields of engineering, law, finance, management, business administration, and securities trading. Board members also have extensive industry experience in the areas of operations, finance, information technology management, and consulting.

The Board appoints three sub-committees, each one comprising Board members along with one external committee member in the Board Audit Committee. These sub-committees operate under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of Board sub-committees are available on the Bank's website.

The CEO is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's Chief Compliance Officer and appoints members of the Executive Committee and other Senior Management Committees.

The Executive Committee, comprising eight members, including the CEO, is composed of four women and four men. Members of the Executive Committee were born in the years 1966-1982 and possess diverse education and extensive experience. The role of the Executive Committee is to maintain an overall view of the Bank's operations and to coordinate key aspects of its activities. The CEO ensures that the Board is regularly provided with accurate information on the Bank's finances, development, and operations.

The Bank's Finance division is responsible for the preparation of the Group's Consolidated Financial Statements in line with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002, and rules on accounting for credit institutions, where applicable. The Board's Audit Committee reviews the Group's annual and interim Consolidated Financial Statements before their submission for Board approval and endorsement. The Board's Audit Committee regularly discusses the Bank's financial statements and evaluates its internal control processes. Management reporting is generally presented to the Board at least 10 times a year. The external auditors review the half year Condensed Consolidated Interim Financial Statements and audit the annual Consolidated Financial Statements. The external auditors also reviewed the Bank's third quarter 2024 Condensed Consolidated Interim Financial Statements.

A more detailed description of Íslandsbanki's governance framework and associated practices can be found in the Bank's Corporate Governance Statement enclosed in an unaudited appendix to the Consolidated Financial Statements and on the Bank's website, www.islandsbanki.is.

Directors' Report

Statement by the Board of Directors and the CEO

The audited Consolidated Financial Statements for the year ended 31 December 2024 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Consolidated Financial Statements provide a true and fair view of the Group's operating profits and cash flows in 2024 and its financial position as of 31 December 2024. Furthermore, in our opinion the financial statements and the Directors' Report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2024 identified as "549300PZMFIQR79Q0T97-2024-12-31-en.zip" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO have today discussed and approved the 2024 Consolidated Financial Statements of Íslandsbanki.

Kópavogur, 13 February 2025

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Helga Hlín Hákonardóttir

Páll Grétar Steingrímsson

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Íslandsbanki hf. ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2024, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2023 were audited by another auditor who expressed an unmodified opinion on those statements on 8 February 2024.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting on 21 March 2024.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key Audit Matters	How the matter was addressed in the audit

Impairment charges for loans to customers

Loans to customers represent ISK 1,295,388 million or 81% of total assets at 31 December 2024. Expected credit losses (ECL) at year end is ISK 7,820 million.

The ECL provisions in the Group's loan portfolio represents management's best estimate of potential losses in the loan portfolio as at 31 December 2024.

The determination of the ECL provision is based on estimates and judgement by management. Key areas of judgement include:

- Assumptions used in the ECL model to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- The identification of loans with significant increase in credit risk.
- Valuation of collateral and assumptions regarding future cash flows on credit impaired loans to customers and off-balance sheet exposures.
- Effects of macroeconomic uncertainties on assumptions and judgements used by management.

Due to the use of judgement and estimates and the relative size of loans to customers, we consider the provision for expected credit losses (ECL) a Key Audit Matter.

Management has provided information regarding loan impairment charges and the ECL provision in notes 3, 15, 25, 26, 47-50 and 64.3.

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Testing of key controls in the lending process including credit decisions, credit review and rating classification.
- Tested controls consist of manual and automatic controls in application systems.
- Tested the key controls regarding the process of loan loss provisions.
- Reviewed the Group's principles based on IFRS 9 to assess whether the Group's application is reasonable.
- Reviewed managements calculations for previous years of loan loss provision and compared it to realised losses.
- Validated the input data in the models, including macroeconomic factors, and the accuracy of the calculations and evaluated management's assessments. In our audit, we have used our credit risk modelling specialists.

We have assessed the circumstances presented in the notes to the financial statements, if the information is sufficiently comprehensive as a description of management's assessment.

IT Systems

Due to the significant number of transactions that are processed, the Group's financial reporting is highly dependent on IT systems supporting automated accounting and reconciliation procedures. To ensure complete and accurate financial records, it is important that controls over appropriate access rights, program development and changes are designed properly and operate effectively.

Because of the importance of the data from the IT systems supporting the financial reporting we consider their reliability a Key Audit Matter.

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Obtained understanding of the Group's IT environment.
- Tested IT general controls over access rights management, change management and IT operations.
- Tested automated controls in the IT environment supporting financial reporting.

In performing the audit procedures over the IT systems, we used our IT specialists.

Independent Auditor's Report

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the unaudited factsheet accompanying these consolidated financial statements and the Annual and Sustainability Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

Report on Other Legal and Regulatory Requirements

Report on European Single Electronic Format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Íslandsbanki hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Íslandsbanki hf. for the year 2024 with the file name "549300PZMFIQR79Q0T97-2024-12-31-en.zip" is prepared, in all material respects, in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021 relating to requirements regarding European single electronic format Regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

The Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021. This includes preparing the consolidated financial statements in an XHTML format in accordance with EU Regulation 2019/815 on the European single electronic format (ESEF Regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF Regulation, whether due to fraud or error.

In our opinion, the consolidated financial statements of Íslandsbanki hf. for the year 2024 with the file name"549300PZMFIQR79Q0T97-2024-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Report on the Report of the Board of Directors and CEO

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the consolidated financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Hrafnhildur Helgadóttir.

Reykjavík, 13 February 2025

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Income Statement

	Notes	2024	2023
Interest income calculated using the effective interest rate method		135,278	126,095
Other interest income		6,064	11,047
Interest expense		(94,077)	(88,531)
Net interest income	7	47,265	48,611
Fee and commission income		18,944	18,591
Fee and commission expense*		(5,822)	(5,308)
Net fee and commission income	8	13,122	13,283
Net financial income (expense)	9	(338)	241
Net foreign exchange gain	10	607	581
Other operating income	11	2,282	570
Other net operating income		2,551	1,392
Total operating income		62,938	63,286
Salaries and related expenses	12	(16,329)	(15,003)
Other operating expenses*	13	(11,299)	(10,689)
Administrative fines*	14	(470)	(960)
Bank tax		(1,900)	(1,871)
Total operating expenses		(29,998)	(28,523)
Profit before net impairment on financial assets		32,940	34,763
Net impairment on financial assets	15	645	(1,015)
Profit before tax		33,585	33,748
Income tax expense	16	(9,426)	(9,198)
Profit for the year before profit from non-current assets		24,159	24,550
Profit from non-current assets held for sale, net of tax		87	35
Profit for the year		24,246	24,585
Earnings per share			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	17	12.53	12.34

*Comparative figures have been changed. Expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense". Additionally, a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fines".

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Comprehensive Income

	2024	2023
Profit for the year	24,246	24,585
Net changes in FV of fin. liab. attributable to changes in credit risk	(746)	(5,280)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk	328	1,077
Items that will not be reclassified to the income statement	(418)	(4,203)
Foreign currency translation	(2)	1
Net changes in fair value of debt instruments at FVOCI	240	-
Reclassification to the income statement of debt instruments at FVOCI	1	-
Changes in allowance for ECL of debt instruments at FVOCI	22	-
Tax related to debt instruments at FVOCI	(71)	-
Items that may subsequently be reclassified to the income statement	190	1
Other comprehensive expense for the year, net of tax	(228)	(4,202)
Total comprehensive income for the year	24,018	20,383

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Financial Position

	Notes	31.12.2024	31.12.2023
Assets			
Cash and balances with Central Bank	22	65,716	87,504
Loans to credit institutions	23	50,486	73,475
Bonds and debt instruments	18	142,618	161,342
Derivatives	24	5,324	5,776
Loans to customers	25	1,295,388	1,223,426
Shares and equity instruments	18	24,330	13,241
Investments in associates	27	4,701	4,051
Investment property	28	2,600	-
Property and equipment	29	5,039	6,562
Intangible assets	30	2,684	2,930
Other assets	31	7,304	3,638
Non-current assets held for sale		1,617	749
Total Assets		1,607,807	1,582,694
Liabilities			
Deposits from Central Bank and credit institutions	32	12,535	16,149
Deposits from customers	33	926,846	850,709
Derivative instruments and short positions	24	7,306	5,090
Debt issued and other borrowed funds	35	367,586	417,573
Subordinated loans	36	31,695	38,155
Tax liabilities	38	12,916	13,107
Other liabilities	39	21,568	17,218
Total Liabilities		1,380,452	1,358,001
Equity			
Share capital		9,473	9,898
Share premium		55,000	55,000
Reserves		7,102	5,083
Retained earnings		155,780	154,712
Total Equity		227,355	224,693
Total Liabilities and Equity		1,607,807	1,582,694

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Reserves: Statutory reserve	Reserves: Restricted reserves	Reserves: Liability credit risk reserve	Reserves: Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2023	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Profit for the year							24,585	24,585
Net changes in fair value of financial liabilities attributable to changes in credit risk					(4,516)		(764)	(5,280)
Tax related to net changes in fair value of financial liabilities attributable to changes in credit risk					903		174	1,077
Foreign currency translation						1		1
Total comprehensive income (expense) for the year	-	-	-	-	(3,613)	1	23,995	20,383
Dividends							(12,254)	(12,254)
Purchase of treasury shares	(102)						(2,208)	(2,310)
Restricted due to capitalised development costs				(290)			290	-
Restricted due to fair value changes				(309)			309	-
Restricted due to associates				136			(136)	-
Equity as at 31 December 2023	9,898	55,000	2,500	4,407	(1,827)	3	154,712	224,693

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Reserves: Statutory reserve	Reserves: Restricted reserves	Reserves: Liability credit risk reserve	Reserves: Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2024	9,898	55,000	2,500	4,407	(1,827)	3	154,712	224,693
Profit for the year							24,246	24,246
Net changes in fair value of financial liabilities attributable to changes in credit risk					2,115		(2,861)	(746)
Tax related to net changes in fair value of financial liabilities attributable to changes in credit risk					(423)		751	328
Foreign currency translation						(2)		(2)
Net changes in fair value of debt instruments at FVOCI				240				240
Reclassification to the income statement of debt instruments at FVOCI				1				1
Changes in allowance for expected credit losses of debt instruments at FVOCI				22				22
Tax related to debt instruments at FVOCI				(71)				(71)
Total comprehensive income (expense) for the year	-	-	-	192	1,692	(2)	22,136	24,018
Dividends							(12,303)	(12,303)
Purchase of treasury shares	(425)						(8,628)	(9,053)
Restricted due to capitalised development costs				(291)			291	-
Restricted due to fair value changes				302			(302)	-
Restricted due to associates				126			(126)	-
Equity as at 31 December 2024	9,473	55,000	2,500	4,736	(135)	1	155,780	227,355

The Bank's authorised and issued share capital consists of 2,000 million ordinary shares with a par value of ISK 5 each. Íslandsbanki bought back approximately 85.0 million own shares for ISK 9,053 million during 2024 (2023: 20.4 million own shares for ISK 2,310 million). At year-end the Bank owned 105.4 million own shares (year-end 2023: 20.4 million). The Annual General Meeting (AGM) for the 2023 operating year took place on 21 March 2024. During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12,300 million, equivalent to ISK 6.26 per share (2023: ISK 6.15 per share). The dividends were paid on 2 April 2024.

Upon derecognition (mainly repurchases) of financial liabilities designated at FVTPL the amount accumulated in liability credit risk reserve is transferred to retained earnings. In 2024 negative ISK 2,110 million (2023: negative ISK 590 million) were transferred to retained earnings at derecognition of financial liabilities designated at FVTPL.

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Cash Flows

	2024	2023
Profit for the year	24,246	24,585
Non-cash items included in profit for the year*	(37,278)	(33,442)
Changes in operating assets and liabilities*	26,936	11,199
Interest received	123,681	108,689
Interest paid**	(94,687)	(76,073)
Dividends received	431	286
Paid bank tax	(1,871)	(1,861)
Paid income tax and special financial activities tax	(9,414)	(7,165)
Net cash provided by operating activities	32,044	26,218
Purchase of investment property	(96)	-
Proceeds from sales of property and equipment	101	374
Purchase of property and equipment	(426)	(311)
Additions of intangible assets	(501)	(385)
Net cash used in investing activities	(922)	(322)
Proceeds from borrowings	103,756	117,497
Repayment and repurchases of borrowings	(150,752)	(180,813)
Repayment of lease liabilities	(566)	(528)
Dividends paid	(12,303)	(12,254)
Purchase of treasury shares	(9,053)	(2,310)
Net cash used in financing activities	(68,918)	(78,408)
Net decrease in cash and cash equivalents	(37,796)	(52,512)
Effects of foreign exchange rate changes	(92)	(51)
Cash and cash equivalents at the beginning of the year	86,472	139,035
Cash and cash equivalents at year-end	48,584	86,472

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	22	3,621	3,653
Unrestricted balances with Central Bank	22	31,163	64,025
Bank accounts	23	13,800	18,794
Cash and cash equivalents at year-end		48,584	86,472

*For further breakdown see the following page.

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

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

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Cash Flows

Non-cash items included in profit for the year

	2024	2023
Net interest income	(47,265)	(48,611)
Unrealised fair value loss recognised in the income statement	190	2,322
Foreign exchange gain	(607)	(581)
Fair value gain on investment property	(1,310)	-
Share of profit from associates and net gain from dissolution of subsidiary	(688)	(207)
Net gain from sales of property and equipment	(24)	(219)
Depreciation, amortisation, and write-offs	1,662	1,620
Bank tax	1,900	1,871
Net impairment on financial assets	(578)	1,190
Income tax expense	9,426	9,198
Profit from non-current assets held for sale, net of tax	(87)	(35)
Other changes	103	10
Total	(37,278)	(33,442)

Changes in operating assets and liabilities

	2024	2023
Mandatory reserve and pledged balances with Central Bank	(11,106)	(9,831)
Loans to credit institutions	15,854	1,397
Bonds and debt instruments	24,319	(21,426)
Loans to customers	(68,563)	(23,058)
Shares and equity instruments	(10,528)	2,540
Other assets	(3,580)	2,442
Non-current assets held for sale	695	23
Deposits from Central Bank and credit institutions	(3,563)	888
Deposits from customers	78,098	63,077
Derivative instruments and short positions	426	(5,590)
Other liabilities	4,884	737
Total	26,936	11,199

The notes on pages 21 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2024 20 Amounts are in ISK million

Notes to the Consolidated Financial Statements

1. Corporate information

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

The Consolidated Financial Statements for the year ended 2024 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over six other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Group provides a wide range of financial services such as retail banking, corporate banking, investment banking, wealth management and asset financing. The Group operates mainly in the Icelandic market.

The Consolidated Financial Statements were written in English and approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 13 February 2025. In case of discrepancy between the English version and the Icelandic translation, the English original will prevail.

2. Basis of preparation

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

The Consolidated Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 December 2024 the exchange rate of the ISK against the USD was 138.20 and for the EUR 143.90 (at year-end 2023: USD 136.20 and EUR 150.50).

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

Basis of measurement

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

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

3. Significant accounting estimates and judgements

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

3. Significant accounting estimates and judgements (continued)

Impairment of financial assets

The main assumptions used for calculating the allowance for credit losses include the following:

- Probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- Macroeconomic variables for multiple scenarios built on available information
- Assessment of significant increase in credit risk (SICR)

The PD, LGD and EAD inputs used to estimate expected credit losses are modelled based on variables that are most closely related with credit losses in the relevant portfolio. This includes macroeconomic variables, demographic variables, variables related to past payment history among other variables. These variables are sourced both internally and externally. Significant judgements required for measuring expected credit loss (ECL) include the following:

- Determining criteria for assessing what constitutes a significant increase in credit risk
- Establishing the forward-looking scenarios and their relative weightings
- Choosing appropriate models and assumptions for the measurement of ECL

The All Risk Committee decides which weights of forward-looking scenarios best reflect uncertainty in economic conditions for the Group's borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic). However, it was determined appropriate to keep the weights at 20%-50%-30% at year-end 2024, as it had been throughout the year, as this would best represent the probability-weighted average over all possible scenarios. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 310 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 130 million.

The impairment process is designed to be systematic so that it can be consistently applied. For the largest part of the loan portfolio, the Group employs an automatic process to assign facilities to stages and to estimate the ECL. For large or complex credit cases where the automatic process may not be appropriate, alternative ECL calculations, referred to as "manual impairment", can be proposed by experts. Each manual impairment is subsequently reviewed and approved or rejected by the Impairment Council. As of year-end 2024, exposure to a few counterparties amounting to ISK 7.5 billion was subject to manual impairment, with the associated ECL totalling ISK 1.5 billion (year-end 2023: ISK 19.8 billion and ISK 3.0 billion, respectively).

In addition, the Group continues to make temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula. The adjustments include classifying exposures amounting to ISK 1.2 billion (year-end 2023: ISK 5.2 billion) as Stage 2 and applying higher haircuts to the values of collateral for these exposures. The Group also continues to apply a management overlay to the modelled ECL. Additional impairment allowance due to the seismic activity amounted to ISK 0.6 billion at year-end 2024 (year-end 2023: ISK 1.7 billion). Exposure and additional impairment due to the seismic activity decreased during year 2024 due to the purchase of the property company Þórkatla of residential housing within the urban area in Grindavík in accordance with Act no.16/2024 on the Purchase of Residential Property in Grindavík. In parallel, the Group derecognised the loans and recognised a claim on Þórkatla instead. The Group's claim on Þórkatla is classified as bonds and debt instruments measured at fair value through profit and loss and is therefore not subject to impairment. For further information see Note 19.

The allowance for credit losses is further discussed in Notes 25-26, in Notes 47-51 on risk management and in Note 64.3.

4. Changes to accounting policies

Amendments to IFRS standards that became effective from 1 January 2024 did not have a material impact on the Consolidated Financial Statements.

Changes to IFRS standards issued but not effective at the reporting date

Two new IFRS standards and amendments to several IFRS standards have been issued but are not yet effective. The Group did not early adopt any of them and intends to adopt them when they become effective. The Group expects only the new IFRS standard, IFRS 18 - Presentation and Disclosures in Financial statements, to have a material impact on its future Consolidated Financial Statements as a result of these changes.

IFRS 18 - Presentation and Disclosures in Financial statements will be effective from 1 January 2027 and introduces new requirements to the following:

- Presentation of specified categories and defined subtotals in the statement of profit or loss
- Provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements
- Improve aggregation and disaggeration

5. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

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

Treasury and Proprietary Trading

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

Cost centres

Cost centres comprise the CEO's office (Human Resources & Internal Services, Legal, Marketing & Communications, and Strategy & Sustainability), Digital & Data, Risk Management, Compliance, and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres; however, it is independent from the Bank, and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

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

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

5. Operating segments (continued)

2024	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,849	18,736	13,661	(842)	(413)	46,991	274	47,265
Net fee and commission income (expense)	3,983	2,020	4,497	(21)	(98)	10,381	2,741	13,122
Other net operating income	(19)	78	1,302	1,539	232	3,132	(581)	2,551
Total operating income	19,813	20,834	19,460	676	(279)	60,504	2,434	62,938
Salaries and related expenses	(2,763)	(2,349)	(2,273)	(324)	(7,556)	(15,265)	(1,064)	(16,329)
Other operating expenses	(2,716)	(1,304)	(1,204)	(454)	(5,452)	(11,130)	(169)	(11,299)
Administrative fines	-	-	-	-	(470)	(470)	-	(470)
Bank tax	(889)	(471)	(533)	6	(13)	(1,900)	-	(1,900)
Net impairment on financial assets	660	(984)	944	25	-	645	-	645
Cost allocation	(5,450)	(4,364)	(3,840)	536	13,118	-	-	-
Profit (loss) before tax	8,655	11,362	12,554	465	(652)	32,384	1,201	33,585
Income tax	(2,576)	(3,195)	(3,521)	61	160	(9,071)	(355)	(9,426)
Profit (loss) for the year before profit from non-current assets	6,079	8,167	9,033	526	(492)	23,313	846	24,159
Net segment revenue from external customers	20,450	23,874	30,022	(13,899)	57	60,504	2,434	62,938
Net segment revenue from other segments	(637)	(3,040)	(10,562)	14,575	(336)	-	-	-
Fee and commission income	8,307	2,244	4,741	281	(2)	15,571	3,373	18,944
Depreciation, amortisation, and write-offs	(183)	(59)	(6)	-	(1,397)	(1,645)	(17)	(1,662)
At 31 December 2024								
Loans to customers	608,766	323,824	362,692	106	-	1,295,388	-	1,295,388
Other assets	3,654	1,618	4,784	291,344	9,180	310,580	1,839	312,419
Total segment assets	612,420	325,442	367,476	291,450	9,180	1,605,968	1,839	1,607,807
Deposits from customers	486,235	277,186	147,394	18,820	-	929,635	(2,789)	926,846
Other liabilities	3,404	3,997	10,536	428,420	5,635	451,992	1,614	453,606
Total segment liabilities	489,639	281,183	157,930	447,240	5,635	1,381,627	(1,175)	1,380,452
Allocated equity	44,719	51,133	65,596	61,675	1,218	224,341	3,014	227,355
Risk exposure amount	275,836	308,573	394,601	50,434	7,108	1,036,552	4,420	1,040,972

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

Amounts are in ISK million

5. Operating segments (continued)

2023	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	17,410	17,980	13,854	(475)	(365)	48,404	207	48,611
Net fee and commission income (expense)*	4,206	2,075	4,492	(8)	(36)	10,729	2,554	13,283
Other net operating income	70	90	1,284	565	374	2,383	(991)	1,392
Total operating income	21,686	20,145	19,630	82	(27)	61,516	1,770	63,286
Salaries and related expenses	(2,473)	(2,161)	(2,132)	(272)	(6,959)	(13,997)	(1,006)	(15,003)
Other operating expenses*	(2,462)	(1,063)	(978)	(505)	(5,479)	(10,487)	(202)	(10,689)
Administrative fines*	-	-	-	-	(960)	(960)	-	(960)
Bank tax	(838)	(454)	(489)	(77)	(13)	(1,871)	-	(1,871)
Net impairment on financial assets	(1,589)	(669)	1,163	80	-	(1,015)	-	(1,015)
Cost allocation	(5,225)	(4,058)	(3,569)	581	12,271	-	-	-
Profit (loss) before tax	9,099	11,740	13,625	(111)	(1,167)	33,186	562	33,748
Income tax	(2,584)	(3,170)	(3,660)	203	291	(8,920)	(278)	(9,198)
Profit (loss) for the year before profit from non-current assets	6,515	8,570	9,965	92	(876)	24,266	284	24,550
Net segment revenue from external customers*	29,136	22,696	29,365	(19,989)	308	61,516	1,770	63,286
Net segment revenue from other segments	(7,450)	(2,551)	(9,735)	20,071	(335)	-	-	-
Fee and commission income	8,116	2,262	4,648	401	-	15,427	3,164	18,591
Depreciation, amortisation, and write-offs	(179)	(57)	(2)	-	(1,368)	(1,606)	(14)	(1,620)
At 31 December 2023								
Loans to customers	574,653	311,689	336,161	923	-	1,223,426	-	1,223,426
Other assets	3,176	2,210	889	343,823	8,716	358,814	454	359,268
Total segment assets	577,829	313,899	337,050	344,746	8,716	1,582,240	454	1,582,694
Deposits from customers	406,821	251,238	172,658	22,957	-	853,674	(2,965)	850,709
Other liabilities	3,720	3,828	5,370	487,357	5,768	506,043	1,249	507,292
Total segment liabilities	410,541	255,066	178,028	510,314	5,768	1,359,717	(1,716)	1,358,001
Allocated equity	41,160	47,210	63,033	69,975	1,145	222,523	2,170	224,693
Risk exposure amount	260,760	291,509	366,761	48,148	6,930	974,108	2,924	977,032

*Expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income (expense)". Additionally, a provision of ISK 100 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fines".

Amounts are in ISK million

5. Operating segments (continued)

Subsidiaries, eliminations & adjustments

2024	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	16	163	91	4	274
Net fee and commission income (expense)	1,342	1,412	(45)	32	2,741
Other net operating income	177	35	473	(1,266)	(581)
Total operating income	1,535	1,610	519	(1,230)	2,434
Salaries and related expenses	(739)	(247)	(78)	-	(1,064)
Other operating expenses	(249)	(204)	(404)	688	(169)
Profit (loss) before tax	547	1,159	37	(542)	1,201
Income tax	(115)	(236)	(4)	-	(355)
Profit for the year before profit from non-current assets	432	923	33	(542)	846
Net segment revenue from external customers	1,906	1,463	11	(946)	2,434
Net segment revenue from other segments	(371)	147	508	(284)	-
Fee and commission income	1,897	2,040	-	(564)	3,373
Depreciation, amortisation, and write-offs	-	(2)	(4)	(11)	(17)
At 31 December 2024					
Total assets	2,198	3,102	2,401	(5,862)	1,839
Total liabilities	287	1,228	59	(2,749)	(1,175)
Total equity	1,911	1,874	2,342	(3,113)	3,014

2023	Íslands-sjóðir hf.	Allianz Ísland hf.*	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	11	105	89	2	207
Net fee and commission income (expense)	1,465	1,046	(30)	73	2,554
Other net operating income	74	(2)	295	(1,358)	(991)
Total operating income	1,550	1,149	354	(1,283)	1,770
Salaries and related expenses	(686)	(249)	(71)	-	(1,006)
Other operating expenses	(222)	(223)	(273)	516	(202)
Profit (loss) before tax	642	677	10	(767)	562
Income tax	(128)	(150)	-	-	(278)
Profit for the year before profit from non-current assets	514	527	10	(767)	284
Net segment revenue from external customers	1,860	1,116	7	(1,213)	1,770
Net segment revenue from other segments	(310)	33	347	(70)	-
Fee and commission income	2,021	1,651	-	(508)	3,164
Depreciation, amortisation, and write-offs	-	(2)	(3)	(9)	(14)
At 31 December 2023					
Total assets	2,284	2,330	5,517	(9,677)	454
Total liabilities	292	879	100	(2,987)	(1,716)
Total equity	1,992	1,451	5,417	(6,690)	2,170

*Comparative figures have been changed. Expenses of ISK 605 million recognised in the line item "Other operating expenses" for Allianz Ísland hf. in the 2023 Consolidated Financial Statements were restated in the line item "Net fee and commission income (expense)".

Amounts are in ISK million

Notes to the Consolidated Financial Statements

6. Quarterly statements (unaudited)

2024

	Q1	Q2	Q3	Q4	Total
Interest income calculated using the effective interest rate method	34,162	37,619	34,093	29,404	135,278
Other interest income	2,461	1,391	1,113	1,099	6,064
Interest expense	(24,501)	(26,519)	(23,429)	(19,628)	(94,077)
Fee and commission income	4,469	4,664	4,649	5,162	18,944
Fee and commission expense*	(1,459)	(1,455)	(1,353)	(1,555)	(5,822)
Net financial income (expense)	(236)	(499)	228	169	(338)
Net foreign exchange gain	196	174	124	113	607
Other operating income	1,098	45	357	782	2,282
Salaries and related expenses	(4,168)	(4,130)	(3,787)	(4,244)	(16,329)
Other operating expenses*	(2,942)	(2,916)	(2,585)	(2,856)	(11,299)
Administrative fines	-	(470)	-	-	(470)
Bank tax	(493)	(459)	(494)	(454)	(1,900)
Net impairment on financial assets	(704)	137	860	352	645
Profit before tax	7,883	7,582	9,776	8,344	33,585
Income tax expense	(2,468)	(2,403)	(2,497)	(2,058)	(9,426)
Profit for the period before profit from non-current assets held for sale	5,415	5,179	7,279	6,286	24,159
Profit (loss) from non-current assets held for sale, net of tax	2	87	1	(3)	87
Profit for the period	5,417	5,266	7,280	6,283	24,246

*Expenses of ISK 286 million for Q1, ISK 210 million for Q2, and ISK 269 million for Q3 recognised in the line item "Other operating expenses" in the Group's Interim Financial Statements of 2024 were restated in the line item "Fee and commission expense".

2023

	Q1	Q2	Q3	Q4	Total
Interest income calculated using the effective interest rate method	30,070	32,461	31,290	32,274	126,095
Other interest income	2,093	2,502	3,006	3,446	11,047
Interest expense	(19,740)	(22,351)	(22,450)	(23,990)	(88,531)
Fee and commission income	4,393	4,676	4,388	5,134	18,591
Fee and commission expense*	(1,197)	(1,266)	(1,205)	(1,640)	(5,308)
Net financial income (expense)	538	(559)	(193)	455	241
Net foreign exchange gain	244	48	176	113	581
Other operating income	43	21	248	258	570
Salaries and related expenses	(3,960)	(3,829)	(3,353)	(3,861)	(15,003)
Other operating expenses*	(2,809)	(2,680)	(2,470)	(2,730)	(10,689)
Administrative fines*	-	(860)	-	(100)	(960)
Bank tax	(462)	(485)	(522)	(402)	(1,871)
Net impairment on financial assets	(675)	1,245	(583)	(1,002)	(1,015)
Profit before tax	8,538	8,923	8,332	7,955	33,748
Income tax expense	(2,335)	(2,792)	(2,334)	(1,737)	(9,198)
Profit for the period before profit from non-current assets held for sale	6,203	6,131	5,998	6,218	24,550
Profit from non-current assets held for sale, net of tax	8	8	9	10	35
Profit for the period	6,211	6,139	6,007	6,228	24,585

*Expenses of ISK 273 million for Q1, ISK 182 million for Q2, ISK 217 million for Q3, and ISK 279 million for Q4 recognised in the line item "Other operating expenses" in 2023 were restated in the line item "Fee and commission expense". Additionally, a provision of ISK 100 million recognised in the line item "Other operating expenses" in Q4 2023 was restated in the line item "Administrative fines".

Amounts are in ISK million

7. Net interest income

	2024	2023
Cash and balances with Central Bank	4,888	5,389
Loans to credit institutions	3,042	3,236
Loans to customers	121,730	117,470
Financial assets mandatorily at fair value through other comprehensive income	5,618	-
Interest income calculated using the effective interest rate method	135,278	126,095
Financial assets mandatorily at fair value through profit or loss	6,020	11,035
Other assets	44	12
Other interest income	6,064	11,047
Deposits from Central Bank and credit institutions	(380)	(243)
Deposits from customers	(60,587)	(50,073)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(1,912)	(2,470)
Debt issued and other borrowed funds at amortised cost	(21,767)	(25,829)
Subordinated loans	(3,357)	(3,214)
Lease liabilities	(76)	(79)
Other liabilities	(5,998)	(6,623)
Interest expense	(94,077)	(88,531)
Net interest income	47,265	48,611

8. Net fee and commission income

	2024	2023
Asset management	2,864	2,908
Investment banking and brokerage	3,337	3,340
Payment processing	8,390	8,072
Loans and guarantees	2,009	2,251
Other fee and commission income	2,344	2,020
Fee and commission income	18,944	18,591
Brokerage	(536)	(496)
Payment processing expenses*	(4,564)	(4,119)
Other fee and commission expense*	(722)	(693)
Fee and commission expense	(5,822)	(5,308)
Net fee and commission income	13,122	13,283

*Comparative figures have been changed. Expenses of ISK 951 million recognised in the line item "Other operating expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense" (ISK 272 million as "Payment processing expenses" and ISK 679 million as "Other fee and commission expense").

Fee and commission income by segment is disclosed in Note 5.

Amounts are in ISK million

9. Net financial income (expense)

	2024	2023
Net gain on financial assets and financial liabilities mandatorily at FVTPL	166	2,610
Net loss on financial liabilities designated as at FVTPL	(580)	(2,511)
Net gain on fair value hedges	63	42
Net gain on derecognition of financial liabilities measured at amortised cost	103	170
Net loss on derecognition of financial assets measured at amortised cost	(89)	(70)
Net loss on sale of debt instruments measured at FVOCI	(1)	-
Net financial income (expense)	(338)	241

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

	2024	2023
Fair value changes of the hedged items attributable to the hedged risk	(1,175)	(1,539)
Fair value changes of the hedging derivatives	1,238	1,581
Net gain on fair value hedges	63	42

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

	2024	2023
Net loss on bonds and related derivatives	(304)	(1,062)
Net gain (loss) on shares and related derivatives	17	(537)
Dividend income	431	286
Net gain (loss) on debt issued and related derivatives	(88)	1,083
Net gain (loss) on economic hedging and other derivatives	(304)	541
Net loss on derecognition of financial assets measured at amortised cost	(89)	(70)
Net loss on sale of debt instruments measured at FVOCI	(1)	-
Net financial income (expense)	(338)	241

10. Net foreign exchange gain

	2024	2023
Cash and balances with Central Bank	(92)	(51)
Loans at amortised cost	(8,201)	(5,524)
Financial assets mandatorily at fair value through profit or loss	(3,673)	(2,153)
Financial assets mandatorily at fair value through other comprehensive income	(1,640)	-
Other assets	17	(1)
Net foreign exchange loss for assets	(13,589)	(7,729)
Deposits	2,512	2,599
Debt issued and other borrowed funds designated as at fair value through profit or loss	1,943	375
Debt issued and other borrowed funds at amortised cost	8,853	4,444
Subordinated loans	888	892
Net foreign exchange gain for liabilities	14,196	8,310
Net foreign exchange gain	607	581

Amounts are in ISK million

Notes to the Consolidated Financial Statements

11. Other operating income

	2024	2023
Fair value changes on investment property	1,310	-
Net gain from dissolution of subsidiary	38	-
Share of profit of associates, net of tax	650	207
Gain from sales of property and equipment	24	219
Legal fees	68	54
Rental income	41	63
Other net operating income	151	27
Other operating income	2,282	570

12. Personnel and salaries

	2024	2023
Salaries	12,590	11,545
Contributions to pension funds	1,916	1,734
Social security charges and financial activities tax*	1,716	1,591
Other salary-related expenses	162	133
Capitalisation of salaries and related expenses in software development	(55)	-
Salaries and related expenses	16,329	15,003

*Financial activities tax calculated on salaries is 5.5% in 2024 (2023: 5.5%).

	2024		2023	
	The Bank	The Group	The Bank	The Group
Average number of full-time equivalent positions during the year	759	799	731	770
Number of full-time equivalent positions at year-end	733	772	725	764

Total amount of paid compensation for the Board of Directors, the CEO, and the Executive Committee is specified as follows:

	2024	2023
Linda Jónsdóttir, Chairman of the Board	13.9	5.7
Stefán Pétursson, Vice-Chairman of the Board	13.1	4.4
Agnar Tómas Möller, member of the Board	9.3	6.8
Haukur Örn Birgisson, member of the Board	10.0	3.8
Helga Hlín Hákonardóttir, member of the Board	12.3	4.1
Stefán Sigurðsson, member of the Board	7.0	-
Valgerður Hrund Skúladóttir, member of the Board	7.5	3.4
Páll Grétar Steingrímsson, former member of the Board	2.8	0.3
Anna Þórðardóttir, former member of the Board	2.4	9.6
Frosti Ólafsson, former member of the Board	-	9.6
Finnur Árnason, former Chairman of the Board	-	8.3
Guðrún Þorgeirsdóttir, former Vice-Chairman of the Board	-	7.5
Ari Daníelsson, former member of the Board	-	5.1
Herdís Gunnarsdóttir, former member of the Board	0.5	2.4
Tanya Sharov, former member of the Board	-	2.1
Total salaries	78.8	73.1

Contribution to pension funds for the Board of Directors amounted to ISK 10.9 million in 2024 (2023: ISK 9.8 million).

Íslandsbanki hf. Consolidated Financial Statements 2024 31 Amounts are in ISK million

12. Personnel and salaries (continued)

	2024		2023	
	Total salaries	Pension funds contrib.	Total salaries	Pension funds contrib.
Jón Guðni Ómarsson, CEO*	58.0	8.4	50.5	7.2
Ellert Hlöðversson, Chief Financial Officer**	51.4	7.3	-	-
Barbara Inga Albertsdóttir, Chief Compliance Officer**	38.6	5.8	6.3	0.9
Guðmundur Kristinn Birgisson, Chief Risk Officer	42.7	6.2	41.6	5.9
Kristín Hrönn Guðmundsdóttir, Managing Director of C&I Banking**	55.8	8.3	22.6	4.0
Ólöf Jónsdóttir, Managing Director of Personal Banking**	44.6	6.5	-	-
Riaan Dreyer, Managing Director of Digital & Data	48.5	7.3	44.9	6.7
Una Steinsdóttir, Managing Director of Business Banking	47.0	6.8	44.9	6.4
Sigríður Hrefna Hrafnkelsdóttir, former Managing Director	-	-	48.5	6.9
Birna Einarsdóttir, former CEO	-	-	29.7	6.4
Ásmundur Tryggvason, former Managing Director	-	-	24.0	3.3
Total	386.6	56.6	313.0	47.7

Included in total salaries are non-monetary benefits such as the use of cars owned by the Group.

As of 1 January 2017, the Bank has not had an active remuneration policy in place as stated in the Bank's compensation policy. In 2024 there were no paid performance-based salaries (2023: none) and there were no unpaid performance-based salaries at year-end 2024. There were no share-based payments in the years 2024 and 2023.

*Jón Guðni Ómarsson was appointed CEO by the Bank's Board of Directors on 28 June 2023. Jón Guðni served as CFO until year-end 2023.

**On 1 January 2024 Ellert Hlöðversson assumed the position of Chief Financial Officer. On 1 November 2023 Barbara Inga Albertsdóttir was appointed Chief Compliance Officer. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking. On 1 February 2024 Ólöf Jónsdóttir assumed the position of Managing Director of Personal Banking.

Amounts are in ISK million

13. Other operating expenses

	2024	2023
Professional services*	1,816	1,988
Software and IT expenses*	4,839	4,387
Real estate and office equipment	678	654
Depreciation, amortisation, and write-offs	1,662	1,620
Other administrative expenses*	2,304	2,040
Other operating expenses	11,299	10,689

*Comparative figures have been changed. Expenses of ISK 605 million recognised in the line item "Professional services" and expenses of ISK 346 million recognised in the line item "Software and IT expenses" in the 2023 Consolidated Financial Statements were restated in the line item "Fee and commission expense". A provision of ISK 100 million recognised in the line item "Other administrative expenses" in the 2023 Consolidated Financial Statements was restated in the line item "Administrative fines".

Auditors' fees

Audit of the financial statements	131	105
Review of interim financial statements	25	22
Other services	3	10
Auditors' fees	159	137

14. Administrative fines

In the autumn of 2022, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) conducted an on-site inspection of the Bank's anti-money laundering (AML) measures as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in relation to the Bank's AML measures. On 31 May 2024, the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement).

The Settlement Agreement provides that the Bank accepts the FSA's conclusion that the Bank's shortcomings were numerous and related to various fundamentals in the Bank's AML control framework. Furthermore, the breaches were deemed significant and, to some extent, a reiteration of previous FSA observations in 2021. By entering into the Settlement Agreement, the Bank committed to carrying out appropriate remedial actions. The Bank has strengthened its regulatory infrastructure and overall governance.

Under the terms of the Settlement Agreement, the Bank agreed to pay a fine amounting to ISK 570 million. The Bank recognised a provision of ISK 100 million in connection with the preliminary findings from the FSA's inspection of the Bank's AML measures in the 2023 Consolidated Financial Statements. In 2024, a charge of ISK 470 million was recorded in relation to this matter.

In 2023, a charge of ISK 860 million was recorded in relation to the Settlement Agreement with the FSA concerning the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki, which took place in March 2022.

15. Net impairment on financial assets

	2024	2023
Net change in expected credit losses, on-balance sheet items	371	(1,168)
Net change in expected credit losses, off-balance sheet items	274	153
Net impairment on financial assets	645	(1,015)

Íslandsbanki hf. Consolidated Financial Statements 2024 33 F-85 Amounts are in ISK million

16. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2024 is 21% (2023: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the year 2024 is 28.1% (2023: 27.3%).

	2024	2023
Current tax expense excluding tax from non-current assets held for sale	8,128	7,548
Special financial activities tax	2,164	2,083
Adjustments in prior years' calculated income tax	270	(191)
Changes in deferred tax assets and deferred tax liabilities	(1,136)	(242)
Income tax recognised in the income statement	9,426	9,198
Income tax recognised in other comprehensive income*	(257)	(1,077)

*Comparative figures have been changed.

	2024		2023	
Profit before tax	33,585		33,748	
Income tax calculated on the profit for the year	7,053	21.0%	6,750	20.0%
Special financial activities tax	2,164	6.4%	2,083	6.2%
Adjustments in prior years' calculated income tax	270	0.8%	(191)	(0.6%)
Income not subject to tax	(1,059)	(3.2%)	(98)	(0.3%)
Non-deductible expenses	762	2.3%	666	2.0%
Other differences	236	0.7%	(12)	0.0%
Effective income tax expense	9,426	28.1%	9,198	27.3%

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

17. Earnings per share

	2024	2023
Profit attributable to shareholders of the Bank	24,246	24,585
Weighted average number of outstanding shares	1,934	1,992
Basic earnings per share (ISK)	12.53	12.34

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2023: none).

Amounts are in ISK million

18. Classification of financial assets and financial liabilities

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

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

*For further information on hedge accounting see Notes 24 and 35.

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

At 31 December 2023	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	87,504	87,504
Loans to credit institutions	-	-	-	73,475	73,475
Listed bonds and debt instruments	157,592	-	-	-	157,592
Listed bonds and debt instruments used for economic hedging	3,750	-	-	-	3,750
Derivatives	5,776	-	-	-	5,776
Loans to customers	-	-	-	1,223,426	1,223,426
Listed shares and equity instruments	2,342	-	-	-	2,342
Listed shares and equity instruments used for economic hedging	8,997	-	-	-	8,997
Unlisted shares and equity instruments	1,902	-	-	-	1,902
Other financial assets	-	-	-	2,846	2,846
Total financial assets	180,359	-	-	1,387,251	1,567,610

Deposits from Central Bank and credit institutions	-	-	-	16,149	16,149
Deposits from customers	-	-	-	850,709	850,709
Derivative instruments and short positions	5,051	39	-	-	5,090
Debt issued and other borrowed funds	-	45,126	92,645	279,802	417,573
Subordinated loans	-	-	-	38,155	38,155
Other financial liabilities	-	-	-	8,879	8,879
Total financial liabilities	5,051	45,165	92,645	1,193,694	1,336,555

Amounts are in ISK million

19. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 December 2024 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

At 31 December 2023	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	161,342	-	-	161,342
Derivatives	-	5,776	-	5,776
Shares and equity instruments	11,339	-	1,902	13,241
Total financial assets	172,681	5,776	1,902	180,359
Short positions	640	-	-	640
Derivative instruments	-	4,450	-	4,450
Debt issued and other borrowed funds designated as at FVTPL	92,645	-	-	92,645
Total financial liabilities	93,285	4,450	-	97,735

Íslandsbanki hf. Consolidated Financial Statements 2024 36 F-88 Amounts are in ISK million

19. Fair value information for financial instruments (continued)

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2024	-	1,902	1,902
Purchases and share capital increase	-	320	320
Transfers from loans to customers*	2,189	-	2,189
Net gain (loss) on financial instruments recognised in the income statement	(169)	195	26
Fair value at 31 December 2024	2,020	2,417	4,437

*Transfers from loans to customers are due to the Bank's claim on the property company Þórkatla. Þórkatla purchased residential housing within the urban area in Grindavík in accordance with Act no. 16/2024 on the Purchase of Residential Property in Grindavík in 2024. In parallel, the Bank derecognised the loans and recognised a claim on Þórkatla instead. Since there is significant uncertainty regarding the recoverability of interest, earned interest is not recognised on the claim on Þórkatla. The nominal value, including accrued interest, of the claim was ISK 3,422 million at 31 December 2024. The claim on Þórkatla is highly sensitive to changes in fair value measurement inputs and is therefore included in the sensitivity analysis for Level 3 financial instruments.

	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2023	2,032	2,245	4,277
Sales and share capital decrease	(2,188)	(380)	(2,568)
Purchases and share capital increase	-	52	52
Net gain (loss) on financial instruments recognised in profit or loss	156	(15)	141
Fair value at 31 December 2023	-	1,902	1,902

Sensitivity analysis for Level 3 financial instruments

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

The following table illustrates how profit before tax would have been affected if one or more of the inputs for the fair value measurement were changed for Level 3 financial instruments that are highly sensitive to changes in fair value measurement inputs. Significant unobservable inputs used in the valuation of Level 3 financial instruments include discount rates, the estimated value of Þórkatla's residential housing, the estimated rental income of Þórkatla's residential housing, operating cost of Þórkatla's residential housing, and the expected price of certain industrial materials.

	31.12.2024	31.12.2023
Very favourable	2,958	904
Favourable	1,648	217
Unfavourable	(794)	(187)
Very unfavourable	(1,700)	(217)

Amounts are in ISK million

20. Financial instruments not carried at fair value

Assets

The fair value of "Loans to customers" may differ from their net carrying amount because the interest rates they carry may not reflect the interest rates that similar new loans would carry. The fair value is estimated by subtracting from or adding to the net carrying amount of the loans the discounted interest rate difference calculated from the reporting date until the next interest reset or maturity, whichever comes first. Since the interest rate difference is estimated using internal models these assets are classified as Level 3.

For "Cash and balances with Central Bank", "Loans to credit institutions" and "Other financial assets" the fair value is adequately approximated by the carrying amount as they are short-term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. The fair value for longer term fixed rate deposits is calculated with a duration approach, using the difference in each liability's current interest rate from the rate that a similar deposit would carry today. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

Observed market value is used for the fair value of "Debt issued and other borrowed funds" where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Group's current funding premium on similar debt. These liabilities are classified as Level 2. The funding premium is based on the interest margin in the Group's issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

Other financial liabilities mainly include unsettled securities transactions and payments due to leasing contracts and they are classified as Level 2 since their value is not observable from active market prices. Due to the short-term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 19.

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

At 31 December 2023	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	87,504	-	87,504	87,504
Loans to credit institutions	-	73,475	-	73,475	73,475
Loans to customers	-	-	1,207,465	1,207,465	1,223,426
Other financial assets	-	2,846	-	2,846	2,846
Total financial assets	-	163,825	1,207,465	1,371,290	1,387,251
Deposits from Central Bank and credit institutions	-	16,148	-	16,148	16,149
Deposits from customers	-	850,729	-	850,729	850,709
Debt issued and other borrowed funds	244,967	28,077	-	273,044	279,802
Subordinated loans	37,414	-	-	37,414	38,155
Other financial liabilities	-	8,879	-	8,879	8,879
Total financial liabilities	282,381	903,833	-	1,186,214	1,193,694

Amounts are in ISK million

Notes to the Consolidated Financial Statements

21. Offsetting financial assets and financial liabilities

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

At 31 December 2024, and at year-end 2023, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	31.12.2024	31.12.2023
Financial assets	5,324	5,776
Amounts not set off but subject to master netting arrangements and similar agreements	(4,701)	(4,404)
- Financial liabilities	(1,763)	(715)
- Cash collateral received	(2,937)	(3,589)
- Financial instruments collateral received	(1)	(100)
Net amount after consideration of potential effect of netting arrangements	623	1,372

Derivative instruments and short positions	31.12.2024	31.12.2023
Financial liabilities	7,306	5,090
Amounts not set off but subject to master netting arrangements and similar agreements	(3,485)	(2,794)
- Financial assets	(1,763)	(715)
- Cash collateral pledged	(1,722)	(2,079)
Net amount after consideration of potential effect of netting arrangements	3,821	2,296

22. Cash and balances with Central Bank

	31.12.2024	31.12.2023
Cash on hand	3,621	3,653
Unrestricted balances with Central Bank	31,163	64,025
Cash and unrestricted balances with Central Bank	34,784	67,678
Balances pledged as collateral to Central Bank	814	484
Mandatory reserve deposits with Central Bank	30,118	19,342
Cash and balances with Central Bank	65,716	87,504

23. Loans to credit institutions

	31.12.2024	31.12.2023
Money market loans	33,828	53,882
Bank accounts	13,800	18,794
Other loans	2,858	799
Loans to credit institutions	50,486	73,475

Amounts are in ISK million

24. Derivative instruments and short positions

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

At 31 December 2023	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,028	79,824	2,587	106,045
Cross-currency interest rate swaps	1,066	22,028	53	4,587
Equity forwards	350	1,463	494	7,507
Foreign exchange forwards	300	16,824	397	17,052
Foreign exchange swaps	888	32,776	891	42,192
Bond forwards	144	2,273	28	2,208
Derivatives	5,776	155,188	4,450	179,591
Short positions in listed bonds	-	-	640	663
Total	5,776	155,188	5,090	180,254

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 35) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2024 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 2,101 million (2023: negative ISK 39 million) and their total notional amount was ISK 86,340 million (2023: ISK 45,150 million).

Íslandsbanki hf. Consolidated Financial Statements 2024 40 Amounts are in ISK million

Notes to the Consolidated Financial Statements

25. Loans to customers

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

At 31 December 2023	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	580,591	11,117	6,483	(1,407)	(1,539)	(614)	594,631
Commerce and services	167,219	14,416	3,335	(1,000)	(538)	(624)	182,808
Construction	77,720	2,986	402	(833)	(118)	(58)	80,099
Energy	7,624	393	-	(67)	(12)	-	7,938
Financial services	214	-	1	(1)	-	-	214
Industrial and transportation	67,612	1,869	9,156	(225)	(69)	(2,541)	75,802
Investment companies	41,219	5,131	345	(639)	(81)	(44)	45,931
Public sector and non-profit organisations	18,466	30	4	(16)	(7)	(1)	18,476
Real estate	138,571	4,252	2,529	(496)	(355)	(328)	144,173
Seafood	73,259	193	17	(104)	(8)	(3)	73,354
Loans to customers	1,172,495	40,387	22,272	(4,788)	(2,727)	(4,213)	1,223,426

26. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	47	-	-	47
Loans to customers	3,496	975	3,349	7,820
Other financial assets	42	4	-	46
Off-balance sheet loan commitments and financial guarantees	565	32	314	911
At 31 December 2024	4,167	1,011	3,663	8,841
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	90	-	-	90
Loans to customers	4,788	2,727	4,213	11,728
Other financial assets	4	4	-	8
Off-balance sheet loan commitments and financial guarantees	916	106	162	1,184
At 31 December 2023	5,816	2,837	4,375	13,028

Amounts are in ISK million

26. Expected credit losses (continued)

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

Loans to customers

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

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

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	4,636	2,235	4,261	11,132
Transfer to Stage 1	1,747	(1,505)	(242)	-
Transfer to Stage 2	(893)	1,076	(183)	-
Transfer to Stage 3	(173)	(454)	627	-
Net remeasurement of loss allowance	(2,998)	1,213	374	(1,411)
New financial assets originated or purchased	3,278	292	1,010	4,580
Derecognitions and maturities	(809)	(129)	(1,031)	(1,969)
Write-offs*	-	(1)	(1,014)	(1,015)
Recoveries of amounts previously written off	-	-	160	160
Foreign exchange	-	-	(62)	(62)
Unwinding of interest	-	-	313	313
At 31 December 2023	4,788	2,727	4,213	11,728

*During the year financial assets amounting to ISK 888 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	916	106	162	1,184
Transfer to Stage 1	119	(94)	(25)	-
Transfer to Stage 2	(15)	24	(9)	-
Transfer to Stage 3	(15)	(14)	29	-
Net remeasurement of loss allowance	(842)	(6)	(52)	(900)
New loan commitments and financial guarantees	565	35	467	1,067
Derecognitions and maturities	(163)	(19)	(258)	(440)
At 31 December 2024	565	32	314	911
At 1 January 2023	869	242	227	1,338
Transfer to Stage 1	491	(373)	(118)	-
Transfer to Stage 2	(112)	146	(34)	-
Transfer to Stage 3	(15)	(13)	28	-
Net remeasurement of loss allowance	(742)	124	353	(265)
New loan commitments and financial guarantees	693	74	59	826
Derecognitions and maturities	(268)	(94)	(353)	(715)
At 31 December 2023	916	106	162	1,184

Íslandsbanki hf. Consolidated Financial Statements 2024 42 Amounts are in ISK million

27. Investments in associates

		31.12.2024	31.12.2023
Reiknistofa bankanna hf., an IT service centre company, Dalvegur 30, 201 Kópavogur	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	43.3%

Norðurturninn hf. shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,755 million (CPI-linked, based on the CPI in December 2024). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

	2024	2023
Investments in associates at the beginning of the year	4,051	3,844
Share of profit of associates	650	207
Investments in associates at year-end	4,701	4,051

Summarised financial information in respect of the Group's associates is set out below:

	2024	2023
Revenue	6,786	6,613
Profit	1,175	439
Assets	18,404	17,141
Liabilities	(9,028)	(8,194)
Net assets	9,376	8,947
Group's share of net assets of associates	4,701	4,051

28. Investment property

At 1 January 2024	-
Transfer from property and equipment	1,194
Additions during the year	96
Fair value changes	1,310
At 31 December 2024	2,600

Kirkjusandur 2, the Bank's former headquarters, was reclassified from property and equipment to investment property during the first quarter of 2024. The Group measures investment property at fair value. The fair value measurement of investment property uses significant unobservable inputs and is thus classified as Level 3 in the fair value hierarchy. The fair value of investment property is based on external valuations from an independent valuer in addition to internal assumptions. Significant unobservable inputs used in the valuation of investment property are the estimated sale value per square metre of building rights, estimated demolition costs and a discount rate.

Amounts are in ISK million

29. Property and equipment

At 31 December 2024	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,078	5,803	3,212	12,093
Additions during the year	119	72	307	498
Disposals and write-offs during the year	(82)	(32)	(107)	(221)
Remeasurement	-	166	-	166
Transfer to investment property	(2,412)	-	-	(2,412)
Historical cost	703	6,009	3,412	10,124
Balance at the beginning of the year	(1,365)	(2,228)	(1,938)	(5,531)
Depreciation during the year	(12)	(569)	(334)	(915)
Disposals and write-offs during the year	18	32	93	143
Transfer to investment property	1,218	-	-	1,218
Accumulated depreciation	(141)	(2,765)	(2,179)	(5,085)
Carrying amount	562	3,244	1,233	5,039
Depreciation rates	0-2%	8-50%	8-33%	
Official real estate value of land and buildings	954			
Insurance value of buildings	1,894			
Insurance value of fixtures, equipment and vehicles			2,132	

At 31 December 2023	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,213	5,263	3,112	11,588
Additions during the year	37	259	274	570
Disposals and write-offs during the year	(172)	-	(174)	(346)
Remeasurement	-	281	-	281
Historical cost	3,078	5,803	3,212	12,093
Balance at the beginning of the year	(1,378)	(1,712)	(1,746)	(4,836)
Depreciation during the year	(16)	(516)	(354)	(886)
Disposals and write-offs during the year	29	-	162	191
Accumulated depreciation	(1,365)	(2,228)	(1,938)	(5,531)
Carrying amount	1,713	3,575	1,274	6,562
Depreciation rates	0-2%	8-50%	8-33%	
Official real estate value of land and buildings	1,511			
Insurance value of buildings	2,613			
Insurance value of fixtures, equipment and vehicles			2,027	

Amounts are in ISK million

Notes to the Consolidated Financial Statements

30. Intangible assets

At 31 December 2024	Purchased software	Developed software	Total
Balance at the beginning of the year	2,483	3,183	5,666
Additions during the year	446	55	501
Write-offs during the year	(311)	-	(311)
Historical cost	2,618	3,238	5,856
Balance at the beginning of the year	(1,039)	(1,697)	(2,736)
Amortisation during the year	(398)	(319)	(717)
Write-offs during the year	281	-	281
Accumulated amortisation	(1,156)	(2,016)	(3,172)
Carrying amount	1,462	1,222	2,684
Amortisation rates	10-33%	10-25%	

At 31 December 2023	Purchased software	Developed software	Total
Balance at the beginning of the year	2,249	3,183	5,432
Additions during the year	385	-	385
Write-offs during the year	(151)	-	(151)
Historical cost	2,483	3,183	5,666
Balance at the beginning of the year	(774)	(1,379)	(2,153)
Amortisation during the year	(416)	(318)	(734)
Write-offs during the year	151	-	151
Accumulated amortisation	(1,039)	(1,697)	(2,736)
Carrying amount	1,444	1,486	2,930
Amortisation rates	10-33%	10%	

31. Other assets

	31.12.2024	31.12.2023
Receivables	2,250	1,698
Unsettled securities transactions	4,116	1,195
Prepaid expenses	648	503
Deferred tax assets	164	122
Other assets	126	120
Other assets	7,304	3,638

Amounts are in ISK million

32. Deposits from Central Bank and credit institutions

	31.12.2024	31.12.2023
Deposits from credit institutions	12,351	15,994
Repurchase agreements with Central Bank	184	155
Deposits from Central Bank and credit institutions	12,535	16,149

33. Deposits from customers

	31.12.2024	31.12.2023
Demand deposits and deposits with maturity up to 3 months	809,009	752,146
Term deposits with maturity of more than 3 months	117,837	98,563
Deposits from customers	926,846	850,709

	31.12.2024		31.12.2023	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	12,825	1%	18,204	2%
Municipalities	10,388	1%	9,514	1%
Companies	408,994	44%	398,489	47%
Individuals	494,639	54%	424,502	50%
Deposits from customers	926,846	100%	850,709	100%

34. Pledged assets

	31.12.2024	31.12.2023
Loans to customers pledged as collateral against Covered Bonds	410,481	442,175
Cash and balances pledged as collateral against Covered Bonds	15,213	20,222
Financial assets pledged as collateral with the Central Bank	8,484	6,775
Loans to credit institutions pledged as collateral against derivative instruments	1,947	2,795
Pledged assets against liabilities	436,125	471,967
Pledged assets against Covered Bonds held by the Bank	(160,665)	(171,350)
Loans to customers pledged as collateral in repurchase agreements	-	23,656
Pledged assets against liabilities on balance	275,460	324,273

The Group has pledged assets against the issuance of Covered Bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 December 2024 was ISK 133,643 million (year-end 2023: ISK 117,476 million).

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

Amounts are in ISK million

35. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	31.12.2024	31.12.2023
ISB CBI 24 - ISK 0 million	2012	2024	Bullet	Fixed CPI, 3.45%	-	17,051
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed CPI, 3.37%	36,710	35,093
ISB CB 27 - ISK 19,869 million	2020	2027	Amortising	Fixed, 2.50%	18,911	27,363
ISB CBF 27 - ISK 8,720 million	2022	2027	Bullet	REIBOR 1M + 0.40%	9,024	7,461
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed, 3.00%	43,563	45,126
ISB CBI 28 - ISK 17,044 million	2019	2028	Amortising	Fixed CPI, 2.20%	24,122	31,564
ISB CBI 29 - ISK 29,880 million	2023	2029	Bullet	Fixed CPI, 2.72%	37,758	19,596
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed CPI, 3.00%	33,541	32,093
ISB CBI 32 - ISK 4,100 million	2024	2032	Bullet	Fixed CPI, 3.44%	4,110	-
Covered bonds					207,739	215,347
NOK 0 million	2019	2024	Bullet	Fixed, 3.95%	-	1,940
ISK 0 million	2019	2024	Amortising	REIBOR 1M + 0.90%	-	134
NOK 0 million	2021	2024	Bullet	NIBOR 3M + 0.875%	-	2,005
SEK 0 million	2021	2024	Bullet	STIBOR 3M + 0.85%	-	1,628
NOK 0 million	2021	2024	Bullet	NIBOR 3M + 0.80%	-	1,980
SEK 0 million	2021	2024	Bullet	STIBOR 3M + 0.80%	-	1,591
SEK 0 million	2022	2024	Bullet	STIBOR 3M + 4.25%	-	7,289
ISK 1,240 million	2020	2025	Bullet	Fixed, 3.50%	1,238	1,233
SEK 10 million	2021	2025	Bullet	STIBOR 3M + 1.075%	151	6,105
NOK 40 million	2021	2025	Bullet	NIBOR 3M + 1.075%	481	9,884
EUR 149 million**	2022	2025	Bullet	Fixed, 0.75%	21,419	42,868
NOK 1,400 million	2022	2025	Bullet	NIBOR 3M + 4.75%	17,277	18,916
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 3.65%	6,344	6,887
EUR 0 million**	2023	2026	Bullet	Fixed, 7.375%	-	49,777
SEK 500 million	2023	2026	Bullet	STIBOR 3M + 2.70%	6,330	6,843
ISK 4,667 million	2022	2027	Amortising	REIBOR 1M + 1.25%	4,689	3,000
ISK 6,940 million	2022	2027	Bullet	Fixed, 7.70%	6,950	6,937
SEK 500 million	2024	2027	Bullet	STIBOR 3M + 2.35%	6,336	-
NOK 500 million	2024	2027	Bullet	NIBOR 3M + 2.35%	6,177	-
NOK 200 million	2024	2027	Bullet	NIBOR 3M + 1.20%	2,477	-
SEK 300 million	2024	2027	Bullet	STIBOR 3M + 1.20%	3,807	-
ISK 14,260 million	2023	2028	Bullet	Fixed CPI, 4.48%	15,039	5,031
EUR 300 million*	2024	2028	Bullet	Fixed, 4.625%	45,268	-
ISK 4,000 million	2024	2036	Bullet	Fixed CPI, 3.5%	3,904	-
Unsecured bonds					147,887	174,048
Other secured loans					-	16,459
Other unsecured loans					11,960	11,719
Other borrowed funds					11,960	28,178
Debt issued and other borrowed funds					367,586	417,573

The Group repurchased own bonds during the year amounting to ISK 89,348 million (2023: ISK 95,075 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 24). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of these fixed-rate EUR denominated bonds arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2024 the total carrying amount of these bond issuances amounted to ISK 88,831 million and included in the amount are negative fair value changes amounting to ISK 904 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 31 December 2024 the total carrying amount of the bonds amounted to ISK 21,419 million and included in the amount are fair value changes amounting to ISK 73 million.

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

Amounts are in ISK million

36. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	Callable	Interest	31.12.2024	31.12.2023
SEK 0 million	2019	2029	2024	STIBOR 3M + 3.90%	-	6,761
ISK 1,500 million	2022	2033	2028	Fixed, 8.62%	1,526	1,525
ISK 9,020 million	2022	2033	2028	Fixed CPI, 4.86%	10,410	9,935
ISK 9,600 million	2023	2034	2029	Fixed CPI, 5.80%	10,388	9,915
Tier 2 subordinated loans					22,324	28,136
SEK 750 million	2021	Perpetual	2026	STIBOR 3M + 4.75%	9,371	10,019
Additional Tier 1 subordinated loans					9,371	10,019
Subordinated loans					31,695	38,155

37. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2024	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2024
Covered bonds in ISK	34,823	(8,210)	1,435	-	(113)	27,935
Covered bonds in ISK - CPI-linked	135,397	(8,595)	9,519	-	(80)	136,241
Senior unsecured bonds in ISK	11,304	547	1,026	-	-	12,877
Senior unsecured bonds in ISK - CPI-linked	5,031	12,865	1,047	-	-	18,943
Senior unsecured bonds FX	65,068	(15,309)	4,601	(5,046)	66	49,380
Senior unsecured bonds FX at fair value	92,646	(72,465)	1,912	(1,943)	1,270	21,420
Covered bonds in hedge accounting	45,126	(1,370)	1,379	(1,967)	395	43,563
Senior unsecured bonds in hedge accounting	-	44,834	1,622	(1,968)	780	45,268
Other borrowed funds	28,178	(17,485)	1,138	128	-	11,959
Subordinated loans	38,155	(8,952)	3,357	(888)	23	31,695
Total	455,728	(74,140)	27,036	(11,684)	2,341	399,281

			Non-cash changes			
	1.1.2023	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2023
Covered bonds in ISK	69,273	(36,896)	2,665	-	(219)	34,823
Covered bonds in ISK - CPI-linked	137,169	(16,816)	15,072	-	(28)	135,397
Senior unsecured bonds in ISK	10,575	(189)	918	-	-	11,304
Senior unsecured bonds in ISK - CPI-linked	-	5,020	11	-	-	5,031
Senior unsecured bonds FX	69,360	(5,121)	4,447	(3,695)	77	65,068
Senior unsecured bonds FX at fair value	83,437	(677)	2,470	(375)	7,791	92,646
Covered bonds in hedge accounting	43,875	(1,320)	1,373	(335)	1,533	45,126
Senior unsecured bonds in hedge accounting	5,703	(5,831)	9	113	6	-
Other borrowed funds	48,878	(21,507)	1,334	(527)	-	28,178
Subordinated loans	34,392	1,441	3,214	(892)	-	38,155
Total	502,662	(81,896)	31,513	(5,711)	9,160	455,728

Amounts are in ISK million

38. Tax assets and tax liabilities

	31.12.2024		31.12.2023	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	11,622	-	11,163
Deferred tax assets and tax liabilities	164	1,294	122	1,944
Tax in the balance sheet	164	12,916	122	13,107

	Assets	Liabilities
Deferred tax assets and tax liabilities 1.1.2023	116	3,086
Calculated income tax for 2023	6	7,184
Income tax payable in 2024	-	(7,423)
- thereof income tax recognised in other comprehensive income	-	173
Changes in deferred tax assets and deferred tax liabilities due to equity	-	(903)
Deferred tax assets and tax liabilities 31.12.2023	122	1,944
Calculated income tax for 2024	42	7,287
Income tax payable in 2025	-	(8,381)
- thereof income tax recognised in other comprehensive income	-	702
Changes in deferred tax assets and deferred tax liabilities due to equity	-	444
Deferred tax assets and tax liabilities 31.12.2024	164	1,294

				Balance at 31 December		
2024	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(855)	87	-	(768)	-	(768)
Intangible assets	(385)	88	-	(297)	-	(297)
Assets and liabilities in foreign currency	(424)	100	-	(324)	-	(324)
Deferred foreign exchange difference	(827)	(117)	-	(944)	-	(944)
Derivatives	(235)	508	-	273	273	-
Lease liabilities	741	(67)	-	674	674	-
Debt issued and other borrowed funds	41	529	(444)	126	126	-
Other items	122	8	-	130	130	-
	(1,822)	1,136	(444)	(1,130)	1,203	(2,333)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,039)	1,039
Deferred tax assets and tax liabilities	(1,822)	1,136	(444)	(1,130)	164	(1,294)

				Balance at 31 December		
2023	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(876)	21	-	(855)	-	(855)
Intangible assets	(456)	71	-	(385)	-	(385)
Assets and liabilities in foreign currency	(479)	55	-	(424)	-	(424)
Deferred foreign exchange difference	(837)	10	-	(827)	-	(827)
Derivatives	750	(985)	-	(235)	-	(235)
Lease liabilities	733	8	-	741	741	-
Debt issued and other borrowed funds	(1,921)	1,059	903	41	41	-
Other items	116	6	-	122	122	-
	(2,970)	245	903	(1,822)	904	(2,726)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(782)	782
Deferred tax assets and tax liabilities	(2,970)	245	903	(1,822)	122	(1,944)

Amounts are in ISK million

39. Other liabilities

	31.12.2024	31.12.2023
Accruals	2,741	2,392
Lease liabilities	3,391	3,720
Expected credit losses for off-balance sheet loan commitments and financial guarantees	910	1,184
Withholding tax	6,302	6,192
Unsettled securities transactions	5,298	968
Sundry liabilities	2,926	2,762
Other liabilities	21,568	17,218

40. Custody assets

	31.12.2024	31.12.2023
Custody assets - not managed by the Group	3,873,964	3,565,465

41. Leases

The Group as a lessee

The Group's significant leases are leases for offices, branches, and storage. Most leases are CPI-linked real estate leases with duration of 5-10 years with extension options. Lease commitments are recognised on-balance sheet except for short-term leases and leases of low-value assets. During the year 2024 the total expense for leases of low-value assets and short-term leases amounted to ISK 68 million (2023: ISK 61 million), the total cash outflow for leases amounted to ISK 709 million (2023: ISK 659 million) and total interest expense from lease liabilities amounted to ISK 76 million (2023: ISK 79 million).

At year-end 2024 the Group recognised ISK 3,244 million in right-of-use assets which are presented in the line item "Property and equipment" and lease liabilities amounting to ISK 3,391 million which are presented in the line item "Other liabilities".

The Group as a lessor

Net investment in finance lease receivables

	31.12.2024	31.12.2023
Due within 1 year	26,677	27,401
Due in 1-2 years	20,907	21,231
Due in 2-3 years	15,573	17,895
Due in 3-4 years	11,028	11,271
Due in 4-5 years	3,812	3,287
Due in more than 5 years	2,222	2,607
Total gross investment in the lease	80,219	83,692
Due within 1 year	20,339	20,385
Due in 1-2 years	16,687	16,402
Due in 2-3 years	13,054	15,035
Due in 3-4 years	9,866	10,018
Due in 4-5 years	3,397	2,841
Due in more than 5 years	1,937	2,260
Total present value of lease payments*	65,280	66,941
Unearned interest income	14,939	16,751

*The Group presents finance lease receivables in the line item "Loans to customers".

Expected credit loss allowance	354	212
Interest income from finance lease receivables during the year	7,912	6,898

Amounts are in ISK million

42. Íslandsbanki's shareholders

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

		31.12.2024	31.12.2023
The Icelandic Government	Iceland	44.9%	42.9%
LSR Pension Fund	Iceland	8.0%	7.9%
Gildi Pension Fund	Iceland	7.2%	8.0%
Live Pension Fund	Iceland	5.8%	6.3%
Capital Group	USA	5.3%	5.6%
Brú Pension Fund	Iceland	3.9%	3.3%
Vanguard	USA	2.4%	2.3%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.5%	1.5%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Festa Pension Fund	Iceland	1.2%	1.0%
Almenni Pension Fund	Iceland	1.1%	1.0%
Stapi Pension Fund	Iceland	1.1%	2.1%
RWC Asset Management LLP	UK	0.8%	1.3%
Other shareholders		14.0%	14.0%
Total		100.0%	100.0%

At 31 December 2024 the number of shareholders of the Bank was 9,961 (year-end 2023: 11,551) where 90.1% of the Bank's shares were owned by domestic parties and 9.9% by international investors (year-end 2023: 89.8% domestic parties and 10.2% international investors). The Bank's employees, board members and related parties of the employees and board members, held 0.13% of shares in the Bank (year-end 2023: 0.14%). Treasury shares amounted to 105.4 million shares, representing 5.27% of the issued share capital (year-end 2023: 20.4 million shares, or 1.02% of the issued share capital).

Beneficial owners

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

Amounts are in ISK million

43. Related party

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

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

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

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

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

2024	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	93	45	2	41
Associated companies	551	38	1	2,158
Transactions with related parties	644	83	3	2,199

At 31 December 2023	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan commitments
Board of Directors, key management personnel and other related parties ..	-	738	544	194	77
Associated companies	3,037	5,001	3,546	4,492	157
Balances with related parties	3,037	5,739	4,090	4,686	234

2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	76	34	7	36
Associated companies	544	27	3	2,035
Transactions with related parties	620	61	10	2,071

At 31 December 2024 a total of ISK 1 million (year-end 2023: ISK 3 million) were recognised as Stage 1 expected credit losses of balances with related parties. For related party remuneration see Note 12.

Amounts are in ISK million

Notes to the Consolidated Financial Statements

44. Contingencies

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

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Bank has not recognised a provision in relation to this matter.

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could amount to around ISK 2 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Bank. The plaintiff appealed the judgement to the Court of Appeal. On 17 January 2025, the case was heard before the Court of Appeal and is currently awaiting judgement.

44. Contingencies (continued)

The Consumers' Association of Iceland (continued)

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

Should the judgement be overturned on appeal, it is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 17 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank.

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

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

EC Clear ehf.

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

45. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Consolidated Financial Statements for 2024.

Notes to the Consolidated Financial Statements

46. Risk management

Risk governance

The Group is exposed to various risk factors, and managing these risks is an integral part of its operations. The Bank emphasises sound governance principles. The risk management and internal control framework of the Group is based on a three lines of defence model, as referred to in the European Banking Authority Guidelines on Internal Governance. This model aims for informed decision-making and strong risk awareness. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements, and the Group's internal rules.

The first line of defence consists of the Bank's business and support units. The second line of defence comprises the Bank's internal control units, Risk management and Compliance. The third line of defence is Group Internal Audit, which provides the Board of Directors with an independent assessment of the quality of corporate governance, risk management and internal controls.

The CEO is responsible for the day-to-day operations of the Bank, in accordance with set policies and resolutions of the Board. The CEO must also ensure that the Group's operations comply with applicable legislation and the Group's Articles of Association, including maintaining adequate and effective risk management and internal control functions. The CEO appoints the Chief Risk Officer, the Chief Compliance Officer, and other members of the Executive Committee. The CEO also engages the members of the senior management committees.

The Bank's senior management committee structure is twofold. Firstly, there are two executive committees, the Executive Committee and the All Risk Committee, which are responsible for implementing the Board-approved business strategy, risk appetite, and policies. Secondly there are six business committees: the Asset and Liability Committee (ALCO), the Senior Credit Committee (SCC), the Investment Committee (IC), the Operational and Security Committee (OSC), the Sustainability Committee (SC), and the Digital Product Committee (DPC), which are responsible for approving business or operational proposals subject to internal rules and guidelines issued by the executive committees and the Board. The members of the senior management committees are appointed by the CEO, and their mandate and rules of procedure are documented in a charter issued by the CEO.

The General Counsel is appointed by and reports directly to the CEO. The General Counsel provides legal advice to the Bank's senior management, including the Board of Directors, and manages the Bank's legal department, which provides comprehensive legal advice to the Bank's business segments and support units.

The CRO heads the Risk Management function and is responsible for defining the daily tasks of the department and assessing the adequacy of its professional skills. Additionally, the CRO is responsible for monitoring the risk management framework at the Group and verifying that the Bank has the appropriate resources and organisation to manage its risks efficiently. The CRO is selected and appointed by the CEO, subject to Board confirmation, and reports directly to the Board and the Board Risk Committee on the overall risk profile of the Group. The CRO cannot be removed without the Board's prior approval and is independent from the business units, being a member of the Executive Committee and reporting directly to the CEO. The CRO provides an independent view on the Group's exposure to risk and has the right, but not the responsibility, to veto certain risk-taking decisions of the senior management committees if an internal control unit considers the proposal inconsistent with the Bank's risk appetite, policies, or procedures.

Risk Management is mandated to identify, understand, measure, and monitor the risks that the Group is exposed to. It provides independent information, analyses, and expert judgement on risk exposures and advice on proposals and risk decisions made by the management and business or support units to ensure they are consistent with the risk appetite and risk policies set by the Board. Where necessary, Risk management makes recommendations to senior management and the Board to improve or clarify risk policies, procedures, and limits. Risk Management provides a holistic view of risk and compliance with limits to internal and external stakeholders and ensures appropriate escalation in the event of limit breaches. Business and support units are responsible for maintaining their independent view on the risks inherent in their operations and reporting to senior management any foreseeable breaches of limits, policies, or strategic direction. Risk management provides the senior management and the Board with all relevant risk-related information to enable them to define the Bank's risk appetite.

The Chief Compliance Officer (CCO) is responsible for the Compliance function of the Bank, which sits within the second line of defence and acts independently within the Bank. The CCO is appointed by the CEO, subject to Board confirmation, and cannot be removed from the post without the Board's prior approval. The Central Bank must be notified of the dismissal or departure of the CCO.

The Chief Audit Executive (CAE) is appointed by the Board, reports directly to Board, and directs Group Internal Audit with a mandate from the Board. The CAE is responsible for internal audit matters within the Group, including internal audit tasks that have been outsourced.

46. Risk management (continued)

The Group's management body has a dual structure. The Board of Directors of the Bank has a supervisory role in setting and monitoring the execution of policies, ensuring sound control of accounting and financial management, and ensuring that Group Internal Audit, Compliance and Risk Management are effective. The CEO, the Chief Risk Officer (CRO), other members of senior management, and the senior management committees are responsible for implementing risk management practices and internal monitoring in accordance with Board authorisation.

The Board defines and communicates the risk governance framework and the acceptable level of risk through risk management policies and the Risk Appetite Statement. To assist the Board in fulfilling its oversight responsibilities, the Board has appointed three board sub-committees.

Each employee is responsible for understanding the risk related to their day-to-day work, for knowing and understanding the respective internal and external rules and procedures, for using the alert procedures in the event of possible fraudulent activities, and for conducting business in accordance with the Bank's code of conduct.

More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2024 Report, which is available on the Bank's website: www.islandsbanki.is.

47. Credit risk

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

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

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

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

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

48. Maximum credit exposure and collateral

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

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

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 284 million are subject to 100% Government guarantee and ISK 385 million to 85% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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

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

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

48. Maximum credit exposure and collateral (continued)

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

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

Amounts are in ISK million

48. Maximum credit exposure and collateral (continued)

At 31 December 2023 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	87,504	-	-	-	-	-	-	-	87,504	18
Loans to credit institutions	73,475	-	-	-	-	-	-	-	73,475	90
Loans to customers:	1,223,426	606,706	307,978	60,466	23,517	76,787	66,315	1,141,769	81,657	11,728
Individuals	594,631	532,832	8,280	4	185	17,368	184	558,853	35,778	3,560
- Thereof mortgages	530,676	528,534	1,499	-	177	-	-	530,210	466	2,051
Commerce and services	182,808	14,159	71,111	753	3,969	47,061	31,546	168,599	14,209	2,162
Construction	80,099	25,822	45,510	76	367	3,543	2,389	77,707	2,392	1,009
Energy	7,938	30	6,623	-	1	10	21	6,685	1,253	79
Financial services	214	-	61	-	-	-	-	61	153	1
Industrial and transportation	75,802	2,122	47,248	1,829	316	8,084	12,073	71,672	4,130	2,835
Investment companies	45,931	4,018	11,646	-	18,521	198	11,200	45,583	348	764
Public sector and non-profit organisations	18,476	61	754	-	-	20	15	850	17,626	24
Real estate	144,173	27,169	110,037	-	94	368	1,363	139,031	5,142	1,179
Seafood	73,354	493	6,708	57,804	64	135	7,524	72,728	626	115
Other financial assets	2,846	-	-	-	-	-	-	-	2,846	8
Off-balance sheet items:	197,115	9,629	31,770	6,492	4,227	1,139	20,464	73,721	123,394	1,184
Financial guarantees	20,680	-	6,766	105	1,532	-	1,961	10,364	10,316	347
Loan commitments	176,435	9,629	25,004	6,387	2,695	1,139	18,503	63,357	113,078	837
Total	1,584,366	616,335	339,748	66,958	27,744	77,926	86,779	1,215,490	368,876	13,028

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

Amounts are in ISK million

49. Credit quality of financial assets

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

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

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

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

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

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

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

At 31 December 2024

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

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

Amounts are in ISK million

49. Credit quality of financial assets (continued)

At 31 December 2023

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	487,172	2,604	-	489,776
Risk class 5-6	485,438	17,968	-	503,406
Risk class 7-8	184,363	14,490	-	198,853
Risk class 9	15,519	5,324	-	20,843
Risk class 10	-	-	22,272	22,272
Unrated	3	1	-	4
	1,172,495	40,387	22,272	1,235,154
Expected credit losses	(4,788)	(2,727)	(4,213)	(11,728)
Net carrying amount	1,167,707	37,660	18,059	1,223,426

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	93,558	168	-	93,726
Risk class 5-6	71,681	417	-	72,098
Risk class 7-8	24,477	3,370	-	27,847
Risk class 9	961	447	-	1,408
Risk class 10	-	-	1,220	1,220
Unrated	1,983	17	-	2,000
	192,660	4,419	1,220	198,299
Expected credit losses	(916)	(106)	(162)	(1,184)
Total	191,744	4,313	1,058	197,115

Amounts are in ISK million

50. Forbearance

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

The relationship between forbearance and stages is discussed in Note 64.3.

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

The following table provides a summary of the Group's forborne assets.

At 31 December 2024

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	2,811	4,249	2,027	9,087
Companies	1,929	14,690	6,424	23,043
Total	4,740	18,939	8,451	32,130

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(13)	(44)	(131)	(188)
Companies	(33)	(220)	(1,157)	(1,410)
Total	(46)	(264)	(1,288)	(1,598)

At 31 December 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	1,975	4,323	1,650	7,948
Companies	2,136	16,853	5,230	24,219
Total	4,111	21,176	6,880	32,167

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(16)	(75)	(124)	(215)
Companies	(32)	(504)	(1,224)	(1,760)
Total	(48)	(579)	(1,348)	(1,975)

Amounts are in ISK million

51. Large exposures disclosure

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

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had two large exposures at 31 December 2024 (year-end 2023: two). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 31 December 2024

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

At 31 December 2023

Groups of connected clients:	Before	After
Group 1	76%	2%
Group 2	15%	15%
Group 3	10%	10%

52. Liquidity risk

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

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

Amounts are in ISK million

53. Liquidity coverage and net stable funding ratio

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

As of January 2023 rules no. 1520/2022 took effect. The minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. A new requirement for LCR in EUR is 80% and in ISK the requirement is 50%. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at year-end 2024 and 2023.

Net stable funding ratio	31.12.2024	31.12.2023
For all currencies	125%	124%

Liquidity coverage ratio	31.12.2024	31.12.2023
For all currencies	168%	195%
ISK	126%	115%
EUR	449%	663%

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

At 31 December 2024	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	60,746	548	317	502	62,113
Foreign government bonds	-	7,843	3,446	862	12,151
Domestic bonds eligible as collateral with Central Bank	97,314	4,934	-	7,744	109,992
Level 2 liquid assets	32,515	3,888	21	437	36,861
High quality liquidity assets	190,575	17,213	3,784	9,545	221,117
Balance with financial institutions	107	24,009	20,929	2,176	47,221
Liquidity reserve	190,682	41,222	24,713	11,721	268,338

At 31 December 2023	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	83,563	487	290	665	85,005
Foreign government bonds	-	31,371	20,913	29,735	82,019
Domestic bonds eligible as collateral with Central Bank	73,995	-	-	-	73,995
Level 2 liquid assets	12,287	3	-	22	12,312
High quality liquidity assets	169,845	31,861	21,203	30,422	253,331
Balance with financial institutions	510	18,704	25,212	15,582	60,008
Liquidity reserve	170,355	50,565	46,415	46,004	313,339

Amounts are in ISK million

54. Maturity analysis of financial assets and financial liabilities

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

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

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

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

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

In 2024, the Group updated its methodology for the maturity analysis of financial assets. Financial assets are now presented as undiscounted contractual payments of principal and interest, instead of discounted amounts including impairment charges as presented on the balance sheet. Comparative figures have been changed to reflect the updated methodology.

At 31 December 2024	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	43,174	22,572	-	-	-	-	65,746	65,716
Loans to credit institutions	13,542	38,732	-	-	-	-	52,274	50,486
Bonds and debt instruments	-	37,837	37,480	75,968	3,977	-	155,262	142,618
Derivatives	-	2,070	(41)	2,181	-	-	4,210	5,324
- Net settled derivatives	-	782	-	-	-	-	782	782
- Inflow	-	52,343	6,714	16,193	1	-	75,251	63,291
- Outflow	-	(51,055)	(6,755)	(14,012)	(1)	-	(71,823)	(58,749)
Loans to customers	-	130,860	185,438	693,506	1,912,186	-	2,921,990	1,295,388
Shares and equity instruments	-	-	-	-	-	24,330	24,330	24,330
Other financial assets	5,873	389	44	-	-	-	6,306	6,306
Total financial assets	62,589	232,460	222,921	771,655	1,916,163	24,330	3,230,118	1,590,168
Deposits from CB and credit institutions	10,071	2,466	-	-	-	-	12,537	12,535
Deposits from customers	772,152	59,537	71,320	27,466	49,022	-	979,497	926,846
Derivative instruments and short positions .	-	3,904	2,121	967	282	-	7,274	7,306
- Net settled derivatives	-	1,532	-	-	-	-	1,532	1,532
- Inflow	-	(46,533)	(43,730)	(20,746)	(1)	-	(111,010)	(96,146)
- Outflow	-	48,900	45,848	21,679	1	-	116,428	101,790
- Short positions	-	5	3	34	282	-	324	130
Debt issued and other borrowed funds	-	33,410	38,179	382,618	52,024	-	506,231	367,586
Subordinated loans	-	330	1,449	16,457	34,182	-	52,418	31,695
Other financial liabilities	7,331	1,691	1,710	2,108	938	-	13,778	13,530
- Lease liabilities	-	162	450	2,089	938	-	3,639	3,391
- Other liabilities	7,331	1,529	1,260	19	-	-	10,139	10,139
Total financial liabilities	789,554	101,338	114,779	429,616	136,448	-	1,571,735	1,359,498
Net financial assets and financial liab.	(726,965)	131,122	108,142	342,039	1,779,715	24,330	1,658,383	230,670

Amounts are in ISK million

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

At 31 December 2023*	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	40,011	47,509	-	-	-	-	87,520	87,504
Loans to credit institutions	18,911	58,056	-	-	-	-	76,967	73,475
Bonds and debt instruments	-	86,144	51,697	28,009	4,024	-	169,874	161,342
Derivatives	-	1,887	1,474	2,842	-	-	6,203	5,776
- Net settled derivatives	-	490	-	-	-	-	490	490
- Inflow	-	34,297	27,617	32,655	-	-	94,569	76,961
- Outflow	-	(32,900)	(26,143)	(29,813)	-	-	(88,856)	(71,675)
Loans to customers	-	113,793	183,557	644,034	1,915,795	-	2,857,179	1,223,426
Shares and equity instruments	-	-	-	-	-	13,241	13,241	13,241
Other financial assets	2,413	365	68	-	-	-	2,846	2,846
Total financial assets	61,335	307,754	236,796	674,885	1,919,819	13,241	3,213,830	1,567,610
Deposits from CB and credit institutions	7,611	7,028	1,564	-	-	-	16,203	16,149
Deposits from customers	668,448	88,729	46,467	35,530	43,896	-	883,070	850,709
Derivative instruments and short positions .	-	2,042	2,103	2,115	913	-	7,173	5,090
- Net settled derivatives	-	391	-	-	-	-	391	391
- Inflow	-	(43,522)	(20,508)	(18,591)	-	-	(82,621)	(68,235)
- Outflow	-	45,161	22,578	20,407	-	-	88,146	72,294
- Short positions	-	12	33	299	913	-	1,257	640
Debt issued and other borrowed funds	-	18,071	35,902	430,196	70,359	-	554,528	417,573
Subordinated loans	-	290	2,026	20,525	44,852	-	67,693	38,155
Other financial liabilities	2,522	1,546	1,629	2,024	1,399	-	9,120	8,879
- Lease liabilities	-	151	449	1,962	1,399	-	3,961	3,720
- Other liabilities	2,522	1,395	1,180	62	-	-	5,159	5,159
Total financial liabilities	678,581	117,706	89,691	490,390	161,419	-	1,537,787	1,336,555
Net financial assets and financial liab.	(617,246)	190,048	147,105	184,495	1,758,400	13,241	1,676,043	231,055

*In 2024, the Group updated its methodology for the maturity analysis of financial assets. Financial assets are now presented as undiscounted contractual payments of principal and interest, instead of discounted amounts including impairment charges as presented on the balance sheet. Comparative figures have been changed to reflect the updated methodology.

Off-balance sheet liabilities

Note 48 Maximum credit exposure and collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce financial guarantees and credit commitments before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Amounts are in ISK million

55. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 24).

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

56. Interest rate risk

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

Interest rate risk in the trading book

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

In the sensitivity analysis the effects on profit are shown before tax. The tax effects are equal to the Group's marginal tax rate. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, in addition the Group pays a special financial activities tax of 6% of taxable profit exceeding ISK 1,000 million.

To illustrate further, when using a 26% marginal tax rate, if the sensitivity analysis shows an ISK 100 million increase in profit before tax, the effects of profit after tax are ISK 74 million.

Sensitivity analysis for trading bonds and debt instruments	31.12.2024		31.12.2023	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	73	(73)	54	(54)
ISK, non-indexed	83	(83)	59	(59)
Total	156	(156)	113	(113)

Amounts are in ISK million

56. Interest rate risk (continued)

Interest rate risk in the banking book

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

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

In the sensitivity analysis the effects on profit are shown before tax. The tax effects are equal to the Group's marginal tax rate. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, in addition the Group pays a special financial activities tax of 6% of taxable profit exceeding ISK 1,000 million.

To illustrate further, when using a 26% marginal tax rate, if the sensitivity analysis shows an ISK 100 million increase in profit before tax, the effects of profit after tax are ISK 74 million.

Sensitivity analysis for interest rate risk in the banking book

At 31 December 2024

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

At 31 December 2023

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	14	(64)	(948)	(2,761)	3,223	43	(493)
ISK, non-indexed	(28)	(276)	(794)	1,465	46	(4)	409
EUR	114	86	(5)	133	-	-	328
SEK	49	(54)	-	-	-	-	(5)
USD	9	(12)	-	-	-	-	(3)
Other	51	(47)	-	-	-	-	4
Total	209	(367)	(1,747)	(1,163)	3,269	39	240

Amounts are in ISK million

57. Currency risk

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

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

In 2024, the Group updated its methodology for managing currency risk related to debt issued measured at fair value. The analysis of the Group's foreign currency exposure at 31 December 2024, reflects this change. Debt issued measured at fair value is presented at fair value instead of the nominal amount plus accrued interest. This better reflects foreign exchange differences recognised in the Group's financial statements. Comparative figures have been changed to reflect the updated methodology.

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

Amounts are in ISK million

57. Currency risk (continued)

At 31 December 2023*	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	487	290	120	49	10	52	85	141	27	182	1,443
Loans to credit institutions	18,752	25,198	1,626	4,301	314	2,794	17,994	207	685	58	71,929
Bonds and debt instruments	31,377	20,919	-	-	-	17,920	11,812	-	-	-	82,028
Loans to customers	92,652	15,817	293	618	1,816	736	2,496	588	6,880	-	121,896
Shares and equity instruments	46	302	102	-	-	22	-	-	-	-	472
Other assets	221	38	-	-	-	-	-	-	-	-	259
Total assets	143,535	62,564	2,141	4,968	2,140	21,524	32,387	936	7,592	240	278,027
Deposits from credit institutions	7,731	995	20	-	-	4	-	1	-	-	8,751
Deposits from customers	38,255	48,952	4,322	545	445	767	4,459	1,440	204	24	99,413
Debt issued and other borrowed funds	156,076	11,719	-	-	-	30,343	34,725	-	-	-	232,863
Subordinated loans	-	-	-	-	-	16,780	-	-	-	-	16,780
Other liabilities	7	25	-	-	-	-	-	111	-	-	143
Total liabilities	202,069	61,691	4,342	545	445	47,894	39,184	1,552	204	24	357,950
Net on-balance sheet position	(58,534)	873	(2,201)	4,423	1,695	(26,370)	(6,797)	(616)	7,388	216	(79,923)
Net off-balance sheet position	60,795	1,091	2,270	(4,400)	(1,696)	26,007	6,918	693	(7,334)	(281)	84,063
Net position	2,261	1,964	69	23	(1)	(363)	121	77	54	(65)	4,140

*In 2024, the Group updated its methodology for managing currency risk related to debt issued measured at fair value. The analysis of the Group's foreign currency exposure at 31 December 2024, reflects this change. Debt issued measured at fair value is presented at fair value instead of the nominal amount plus accrued interest. This better reflects foreign exchange differences recognised in the Group's financial statements. Comparative figures have been changed to reflect the updated methodology.

Amounts are in ISK million

57. Currency risk (continued)

The following table shows the effect of a 10% depreciation or appreciation of foreign exchange rates where the Group had positions at year-end, with all other variables held constant.

The effects of profit in the sensitivity analysis are shown before tax. The tax effects are equivalent to the Group's marginal tax rate. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, in addition the Group pays a special financial activities tax of 6% on taxable profit exceeding ISK 1,000 million.

To illustrate further, using a 26% marginal tax rate, if the sensitivity analysis shows an ISK 100 million increase in profit before tax, the increase in profit after tax would be ISK 74 million. However, since the Group records a deferred tax liability at the end of 2024 based on a 20% tax rate instead of a 26% tax rate, and exchange rate differences are recognised as taxable income or expenses over three years, the tax effects would appear over three years.

Sensitivity analysis for currency risk	31.12.2024		31.12.2023	
	Effect on profit before tax			
Currency	-10%	10%	-10%	10%
EUR	(167)	167	(427)	427
USD	(105)	105	(196)	196
GBP	(8)	8	(7)	7
CHF	(2)	2	(2)	2
JPY	(1)	1	-	-
SEK	12	(12)	36	(36)
NOK	(4)	4	(12)	12
DKK	(5)	5	(8)	8
CAD	(6)	6	(5)	5
Other foreign currencies	(1)	1	7	(7)
Total	(287)	287	(614)	614

58. Shares and equity instruments

The Group's equity exposure in the trading book arises from flow trading and market making with shares listed on the Nasdaq Iceland Stock Exchange. Shares and equity instruments in the banking book are classified as mandatorily at fair value through profit or loss or are classified as held for sale.

The following table shows how a 10% shift in equity prices would affect the Group's equity and net financial income. Securities used for hedging are excluded. The effects on profit shown in the sensitivity analysis are the same before and after tax.

Sensitivity analysis for shares and equity instruments	31.12.2024		31.12.2023	
	Effect on profit			
Portfolio	Downward shift	Upward shift	Downward shift	Upward shift
Trading book	(442)	442	(62)	62
Banking book	(228)	228	(178)	178
Total	(670)	670	(240)	240

Amounts are in ISK million

59. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 1,934 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

The effects of a change in the index on profit are shown before tax. The tax effects are equal to the Group's marginal tax rate. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, in addition the Group pays a special financial activities tax of 6% of taxable profit exceeding ISK 1,000 million.

	31.12.2024	31.12.2023
Bonds and debt instruments	3,905	1,551
Loans to customers	501,595	405,910
Total CPI-linked assets	505,500	407,461
Deposits from customers	119,588	116,551
Debt issued and other borrowed funds	155,184	140,428
Subordinated loans	20,798	19,850
Off-balance sheet exposures	16,521	1,176
Short positions	47	11
Total CPI-linked liabilities	312,138	278,016
CPI imbalance	193,362	129,445

60. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 December 2024 and 31 December 2023.

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

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

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

	31.12.2024	31.12.2023
Own funds		
Ordinary share capital	9,473	9,898
Share premium	55,000	55,000
Reserves	7,102	5,083
Retained earnings	155,780	154,712
Fair value changes due to own credit standing	135	1,827
Foreseeable dividend payment and approved buyback*	(15,760)	(14,990)
Tax assets	(164)	(122)
Intangible assets	(2,070)	(1,922)
Insufficient coverage for non-performing exposures	(17)	(3)
CET1 capital	209,479	209,483
Additional Tier 1 capital	9,371	10,019
Tier 1 capital	218,850	219,502
Tier 2 capital	22,324	28,135
Total capital base	241,174	247,637

*The AGM of Íslandsbanki held on 21 March 2024 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 10 billion in addition to the previously approved ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2024 ISK 3.6 billion remained of the approved buyback and is therefore deducted from CET1 capital.

Íslandsbanki hf. Consolidated Financial Statements 2024 72 Amounts are in ISK million

60. Capital management (continued)

	31.12.2024	31.12.2023
Risk exposure amount		
Due to credit risk	922,533	865,758
Due to market risk	10,606	10,360
Due to credit valuation adjustment	714	677
Due to operational risk	107,119	100,237
Total risk exposure amount	1,040,972	977,032
Capital ratios		
CET1 ratio	20.1%	21.4%
Tier 1 ratio	21.0%	22.5%
Total capital ratio	23.2%	25.3%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,594,192	1,571,430
Off-balance sheet exposures	57,583	53,224
Derivative exposures	9,223	11,246
Leverage ratio total exposure measure	1,660,998	1,635,900
Tier 1 capital	218,850	219,502
Leverage ratio	13.2%	13.4%

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

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

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

	31.12.2024		31.12.2023	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	204,031	19.6%	203,223	20.8%
Combined buffer requirement	103,002	9.9%	91,450	9.4%
MREL including combined buffer requirement	307,033	29.5%	294,673	30.2%

	31.12.2024		31.12.2023	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	241,174	23.2%	247,637	25.3%
Eligible liabilities	106,878	10.3%	155,617	15.9%
Own funds and eligible liabilities	348,052	33.4%	403,254	41.3%

Amounts are in ISK million

62. Effects of changes in regulation on capital requirements

The European Union has introduced regulatory changes effective from January 2025 to finalise the implementation of the Basel III framework. These changes to the capital requirement regulation, known as CRR 3, are expected to be incorporated into Icelandic regulations through the EEA Agreement later in the year 2025. The foreseeable changes to the regulation will modify the calculation of Risk Exposure Amount (REA) that in turn will impact capital ratios and certain disclosures, including the large exposure disclosure and the operating segment disclosure

Below are the estimated main effects of these changes on the Group, based on year-end 2024 amounts:

	Foreseeable CRR requirements	Current CRR requirements
Risk exposure amount		
Due to credit risk	896,371	922,533
Due to market risk	10,606	10,606
Due to credit valuation adjustment	714	714
Due to operational risk	85,944	107,119
Total risk exposure amount	993,635	1,040,972
CET1 ratio	21.1%	20.1%
Tier 1 ratio	22.0%	21.0%
Total capital ratio	24.3%	23.2%
MREL ratio	35.0%	33.4%

63. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk, and compliance risk among other risk factors.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at Íslandsbanki lies with the Board of Directors. The Board has approved an Operational Risk Policy which outlines the Bank's framework for operational risk management. Risk Management is responsible for implementing the Bank's operational risk framework, for developing, maintaining the Operational Risk Policy, and for communicating the policy to the Bank's employees.

Amounts are in ISK million

Notes to the Consolidated Financial Statements

64. Material accounting policies

The accounting policies set out below have been applied consistently by the Group for the periods presented in these Consolidated Financial Statements.

Contents

Notes to the Consolidated Financial Statements

64.1 Basis of consolidation

The Consolidated Financial Statements of the Group comprise the financial statements of Íslandsbanki hf., as the parent company, and its subsidiaries.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Business combinations

The Group accounts for business combinations under common control at book value. Under the book-value method, the Group measures assets and liabilities received in the combination at their existing book values.

The Group accounts for other business combination by applying the acquisition method. Under the acquisition method, the Group identifies itself as the acquirer, determines the acquisition date, recognises and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree, and recognises and measures any goodwill or gain from a bargain purchase.

Funds management

The Group acts as a manager for Undertakings for Collective Investment in Transferable Securities (UCITS) and investment funds as well as other funds for collective investment that accept capital from investors. Such funds are financed by issuing unit share certificates or shares. The Group does not have any contractual financial responsibility with respect to such custom units. The funds are not consolidated unless they are under the control of the Group.

The Group reviews all the facts and circumstances in order to decide if these funds should be consolidated. The Group is deemed to be a principal and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or guarantees, and is able to influence the returns of the funds by exercising its power.

64.2 Investments in associates

The Group accounts for its investments in associates using the equity method. Income and expenses from investments in associates are recognised in profit or loss in the line item "Other operating income".

64.3 Financial assets and financial liabilities

Recognition

The Group recognises a financial asset and a financial liability in its Statement of Financial Position on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument, except for loans which are recognised on the date when cash is advanced by the Group to the borrowers.

Derecognition

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position of the Group. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions and securities lending.

64.3 Financial assets and financial liabilities (continued)

The Group does not derecognise from its Statement of Financial Position securities which the Group sells under agreements to repurchase at a specified future date ("repos") at a fixed price or at the sale price plus a lender's return. The Group recognises the cash received as a liability in its Statement of Financial Position. The difference between the sale and repurchase prices is recognised as interest expense over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of securities to counterparties is only reflected in the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modifications

Substantial modifications of terms of existing financial assets, or replacements with new ones with significantly different terms, result in the Group derecognising the original financial assets and recognising new financial assets at fair value.

Classification and measurement of financial assets

For the purpose of measuring its financial assets, the Group classifies them at inception in one of the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss
- Derivative assets in hedge accounting

The measurement basis of individual financial assets is determined based on an assessment of the cash flow characteristics of the assets and the business models under which they are managed.

The business models

The business models are determined by the Group's key management personnel in the way that assets are managed, and their performance is reported to them. The Group determines its business models at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. This condition is not an instrument-by-instrument approach to classification, but is determined at a higher level of aggregation. The Group's business models fall into the following three categories: Held to collect, Held to collect and for sale, and Other fair value business models, where assets are held for trading or managed on a fair value basis and are neither Held to collect nor Held to collect and for sale.

Solely payments of principal and interest (SPPI)

Financial assets held within the business models Held to collect and Held to collect and for sale, are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which are consistent with a basic lending arrangement. Principal is the fair value of the financial asset at initial recognition and changes over the life of the financial asset, for example if there are repayments of principal. Interest relates to basic lending returns, including compensation for the time value of money and credit risk associated with the principal amount outstanding over a period of time. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, servicing or administrative costs), as well as a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets at amortised cost

A financial asset is classified as being subsequently measured at amortised cost if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows, i.e. Held to collect.

Financial assets at amortised cost are measured using the effective interest method. Amortised cost is calculated by taking into account the amount at which the assets are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums on acquisition and fees and costs that are an integral part of the effective interest rate), and minus any reduction for impairment. Accrued interest is included in the carrying amount of the financial asset in the Statement of Financial Position. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

64.3 Financial assets and financial liabilities (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is classified as being subsequently measured at fair value through other comprehensive income if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows and sell, i.e. Held to collect and for sale.

Financial assets at fair value through other comprehensive income are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in other comprehensive income, except for interest earned which is recognised using the effective interest method in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item “Net foreign exchange gain (loss)”. Impairment and reversals of impairment are recognised in profit or loss in the line item "Net impairment on financial assets", offset due to impairment is then transferred to other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income does not affect the book value of the financial assets since the financial assets are measured at fair value. On derecognition fair value gains and losses are recycled to profit or loss.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets classified at fair value through profit or loss are all other financial assets which are not classified at amortised cost or at fair value through other comprehensive income. During the year the Group did not classify any financial assets as designated at fair value through profit or loss.

Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest earned, which is recognised in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)".

Derivative assets in hedge accounting

Derivative assets in hedge accounting consist of derivatives with positive fair value which are designated and accounted for as hedging instruments (see Note 64.6).

Classification and measurement of financial liabilities

For the purpose of measuring its financial liabilities, the Group classifies them at inception in one of the following categories, except for loan commitments and financial guarantees (see Note 64.8):

- Financial liabilities at amortised cost
- Financial liabilities mandatorily at fair value through profit or loss
- Financial liabilities designated as at fair value through profit or loss
- Derivative liabilities in hedge accounting

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. Financial liabilities at amortised cost include deposits, debt issued and other borrowed funds, and subordinated loans.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred, and subsequently are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the amount at which the financial liabilities are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums and fees and costs that are an integral part of the effective interest rate). Accrued interest is included in the carrying amount of the liabilities in the Statement of Financial Position.

The amortised cost of certain bonds issued by the Group, which are designated as hedged items in qualifying fair value hedge relationships, is adjusted for changes in the fair value of the bonds attributable to interest rate risk (see Note 64.6).

Financial liabilities mandatorily at fair value through profit or loss

Financial liabilities mandatorily at fair value through profit or loss are financial liabilities incurred principally for the purpose of generating profits from short-term price fluctuations or from the dealer's margin. Financial liabilities mandatorily at fair value through profit or loss consist of short positions in listed bonds and derivatives with negative fair value which are not classified as financial guarantees or are not designated as hedging instruments.

Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" on an accrual basis and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

64.3 Financial assets and financial liabilities (continued)

Financial liabilities designated as at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss are recognised at fair value and changes in fair value attributable to changes in the credit risk of those liabilities are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. The remaining fair value changes are included in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" using the contractual interest rate and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

The Group calculates the fair value attributable to changes in credit risk as the difference between the changes in fair value of the financial liability and the amount of changes in fair value attributable to changes in market interest rates. The change in fair value attributable to changes in market interest rates on financial liabilities is calculated by discounting contractual cash flows at the end of the period with the discount rate of the appropriate market interest rate.

Upon initial recognition, the Group determines if the recognition of gains and losses in other comprehensive income creates or enlarges an accounting mismatch in profit or loss, if applicable the whole fair value change is presented in profit or loss.

Derivative liabilities in hedge accounting

Derivative liabilities in hedge accounting consist of derivatives with negative fair value which are designated and accounted for as hedging instruments (see Note 64.6).

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of financial assets and financial liabilities using quoted prices in an active market for that instrument. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring transactions. The fair value is based on the most recent observed market prices at the reporting date.

If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes option pricing model and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Periodically, the Group tests the valuation techniques and calibrates against historical data and using prices from observable current market transactions for the same instrument, or based on other available observable market data.

Changes in the fair value of financial assets and financial liabilities are recognised in profit or loss in the line item "Net financial income (expense)".

The Group has an established control framework with respect to the measurement of fair values. The business unit owning the positions is responsible for their valuations and for submitting the valuation to the Bank's Investment Committee for approval. Risk Management provides an independent review of the results, the valuation methods used and of the use of significant unobservable inputs. The final decision on the validity of the valuation is in the hands of the Bank's Investment Committee.

Financial instruments carried at fair value are categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1: Fair Value Established from Quoted Market Prices

Financial instruments at this level are financial assets and financial liabilities containing actively traded bonds and shares that are listed either domestically or abroad.

64.3 Financial assets and financial liabilities (continued)

Level 2: Fair Value Established Using Valuation Techniques with Observable Market Information

Financial instruments at this level are assets and liabilities containing domestic bonds, shares as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

Level 3: Fair Value Established Using Valuation Techniques Using Significant Unobservable Market Information

Financial instruments at this level contain primarily unlisted and illiquid shares and bonds. Unlisted shares and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

Impairment of financial assets

The impairment model of IFRS 9 is forward-looking and should reflect a probability weighted average of possible outcomes. In addition, the expected credit loss model in IFRS 9 employs a dual measurement approach, under which the loss allowance for expected credit losses (ECL) is measured at each reporting date as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk (SICR) of the financial instrument since initial recognition. The models which the Group uses for the calculation of the impairment amount are developed according to the Group's modelling framework. This framework imposes structure on the initial model development work, the model documentation, the approval process for models, the implementation of models and the lifetime support for models, including validation and back-testing. The Group's impairment process, which encompasses all the steps needed to derive the appropriate impairment allowance for each accounting period, is documented and approved by the All Risk Committee.

Stage assignment

At each reporting date, all assets subject to the impairment methodology must be divided into three groups, termed "Stages", reflecting the extent of credit deterioration since initial recognition. This division then determines how the impairment is measured and how interest is recognised.

Stage 1

All assets that have not experienced a SICR are assigned to Stage 1. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from credit events occurring within 12 months of the reporting date (12-month ECL). Interest is recognised on the gross carrying amount of the assets.

Stage 2

Assets that the Group determines to have experienced a SICR, but are not credit-impaired, are classified as Stage 2. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from all credit events occurring within the expected lifetime of the assets (lifetime ECL). Interest is recognised on the gross carrying amount of the assets.

The Group defines a SICR as a situation where the financial position of the obligor has deteriorated so much from the time of origination that the Group would likely not extend the same credit under the same terms today. Note that this definition applies at the individual asset level. For this purpose, origination does not refer to any modification events which have not resulted in derecognition of the asset. The assessment is based on a predefined set of triggers. This includes, as a backstop, the trigger that the asset is more than 30 days past due. Other triggers are internal assessments of outlook, events such as forbearance events which are less severe than a credit event, external credit related information and a significant deterioration in risk assessment compared with the risk assessment done in relation to the origination of the asset. The definition of a SICR depends only on the probability of a credit event occurring, it does not take into account collateralisation, or any other information related to the expected loss arising from the event. As soon as all triggers for Stage 2 for a particular asset are no longer activated then the asset moves back to Stage 1. Additionally, assets are classified as forborne for two years after a forbearance event has occurred, but forbearance events only cause assets to be in Stage 2 for twelve months and then they migrate back to Stage 1 unless other triggers apply.

The Group does not employ the low credit risk exemption in the Stage assignment process. In alignment with its operating procedures, the Group has chosen as its accounting policy to measure the impairment allowance for lease receivables at an amount equal to the lifetime ECL only for those assets which have a SICR or are credit impaired. For other lease receivables the impairment allowance is equal to the 12-month ECL.

64.3 Financial assets and financial liabilities (continued)

Stage 3

This Stage is for assets which are credit-impaired according to the Group's assessment. These assets are therefore experiencing an ongoing credit event and are considered to be in default. Thus, the 12-month ECL and lifetime ECL are the same amount, and this amount is recognised as impairment allowance. For assets in this Stage, interest is recognised on the net carrying amount of assets, i.e., net of impairment allowance.

The Group's definition of being credit-impaired is on a customer level, rather than on the level of an individual asset. According to the definition, a customer is credit-impaired when either of the following holds:

a) The Group assesses that it is unlikely that the customer can service all of their commitments to the Group in accordance with the terms of the agreements without recourse to default provisions in the agreements, or

b) The customer has been more than 90 days past due on material credit commitments

The assessment in point a) is made based on a defined set of triggers, which includes serious breach of covenants, serious registrations on an internal watchlist, initiation of serious collection actions and serious external credit related information. Furthermore, there is a defined set of conditions which must be satisfied so that customers that have been assessed as being credit impaired are no longer subject to this assessment. This includes probation periods and a view to the future outlook of the customer.

Expected credit loss (ECL)

The ECL for each asset is calculated using models for the probability of a credit impairment event occurring (PD), the loss percentage expected in case of such an event (LGD) and the outstanding amount at the time of the event (EAD).

The PD models are either fully automated statistical models, expert models or hybrid models. For the models with a component involving expert input there is a process in place to ensure proper review of the model outcome and periodic reassessment of obligors. The inputs into the models include demographic variables, information from financial statements and past payment behaviour, among other variables.

The effect of the economy on the PD is accounted for with the use of scaling factors which map through-the-cycle PD values to point-in-time PD values. The Group has a model to predict these scaling factors based on an economic forecast. The economic forecast is provided by the Group's Chief Economist. The forecast predicts a range of macroeconomic indicators over a horizon of five years. The model is applied to a subset of these indicators and produces a set of scaling factors. The scaling factors are then reviewed by the All Risk Committee with respect to all of the indicators and any other relevant information available and the committee approves their use for the calculation of the impairment. This process is carried out at least quarterly.

The Group uses three scenarios. In addition to the base case, scaling factors are produced for good and bad cases. This is done in order to represent a range of possible future developments. The actual impairment allowance is the weighted average of the ECL in these different scenarios.

The All Risk Committee determined that it was appropriate to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at year-end 2024, as it had been throughout the year.

The table below shows macroeconomic indicators of the Group's Chief Economist's macroeconomic forecast used for all cases in ECL calculations 31.12.2024.

Change in economic indicators %	Estimate 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Economic growth (YoY real GDP change)	0.3	1.2	2.5	2.5	2.4
Housing prices in Iceland (average YoY change)	10.7	7.0	6.1	3.5	3.5
Purchasing power (average YoY change)	(0.2)	1.8	1.9	1.5	1.4
ISK exchange rate index (YoY change in average)	0.0	0.2	(1.5)	1.0	1.0
Policy rate, Central Bank of Iceland (average per year)	9.1	7.5	5.7	5.5	5.0
Inflation (average per year)	5.9	3.3	2.8	2.7	3.1
Capital formation (YoY real change)	2.3	0.2	3.8	2.9	2.9
- thereof capital formation in industry	2.6	(0.9)	4.0	2.8	2.8

64.3 Financial assets and financial liabilities (continued)

The LGD model considers several scenarios for how a facility may develop once a credit event has occurred. One possibility is that the facility cures without a loss. If not, the recoveries may be based on the seizing of collateral and to estimate such recoveries, several scenarios for the development of the value of the collateral are considered. Finally, there may be recoveries even though a formal collateral is not in place. These different recovery scenarios are weighted differently depending on the economic scenario under consideration. This leads to a non-linear interaction and thus a difference between the probability weighted average ECL and the ECL in the most likely scenario.

For EAD it is necessary to account for expected prepayments on term loans and for the expected utilisation of commitments such as credit cards, overdrafts, financial guarantees, and credit lines. The expected lifetime of agreements may also extend beyond the contractual lifetime for contracts which are generally extended.

Temporary changes have been made to the impairment model in response to seismic activity in Reykjanes since the last quarter of 2023. For further information see Note 3.

Write-off policy

When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

The impairment process

In the Group's impairment framework, the Stage assignment and ECL for each financial asset is calculated from the aforementioned models. The outcome is reviewed by the business units, and they can propose changes if they provide sufficient supporting material. The impairment and any proposals for changes are reviewed by an Impairment Council appointed by the All Risk Committee and the impairment allowance is approved by the All Risk Committee on a quarterly basis.

The principle of materiality applies to the above discussion on impairment, whereby exceptions related to non-materiality and immaterial adjustments are not discussed.

64.4 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position and at the reporting date the expected credit loss is considered to be low.

Cash and cash equivalents in the statement of cash flows consist of cash on hand, unrestricted balances with the Central Bank, and demand deposits with credit institutions. Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition.

64.5 Derivative financial instruments

Derivatives are primarily used in trading activities but are also used to manage the Group's exposure to various risks, such as interest rate risk, inflation risk, and currency risk. Derivatives are classified as financial assets or financial liabilities, measured at fair value and presented in the Statement of Financial Position in separate line items as assets or liabilities, depending on whether their fair value at the reporting date is positive (assets) or negative (liabilities).

The Group applies hedge accounting. Accordingly, some of the Group's derivative financial assets and financial liabilities are accounted for as financial assets or financial liabilities mandatorily at fair value through profit or loss while others are accounted for as derivative assets or liabilities in hedge accounting (see Note 64.3 and Note 64.6).

64.6 Hedge accounting

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

On initial designation of the hedges, the Group formally documented the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at inception of the hedge relationships and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%. In the assessment the Group assumes that the benchmark interest rate is not altered as result of the transition to alternative benchmark interest rates.

The Group applies fair value hedge accounting with respect to designated hedging relationships consisting of certain fixed-rate Euro denominated bonds issued by the Group as the hedged items and certain Euro denominated interest rate swaps as the hedging instruments, whereby the Group pays floating rate interest and receives fixed rate interest. The hedging relationships are designated and accounted for as fair value hedges because the interest rate swaps are hedging the exposure of the Group to changes in the fair value of the bonds arising from changes in interest rates. The Group recognises the changes in the fair value of the interest rate swaps immediately in profit or loss together with the changes in the fair value of the bonds which are attributable to the interest rate risk. The changes in the clean fair value of the swaps and the bonds are included in the line item "Net financial income (expense) ", the accrued interest on the bonds and the swaps is included in the line item "Net interest income" and foreign exchange gains and losses on the bond are included in the line item "Net foreign exchange gain (loss)".

If a hedging derivative expires or is sold, terminated or exercised, or a hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting for the corresponding hedging relationship is discontinued permanently. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

64.7 Leases

The Group has elected not to separate non-lease components and account for lease and non-lease components of a contract as a single lease component.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises a lease liability and a right-of-use asset at the lease commencement date. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets in the line item "Property and equipment" and lease liabilities in the line item "Other liabilities" in the Statement of Financial Position. Maturity analysis of lease liabilities is disclosed in Note 54. Interest on lease liabilities is recognised in profit or loss in the line item "Net interest income". Depreciation of right-of-use assets is recognised in profit or loss in the line item "Other operating expenses".

The Group as a lessor

When the Group is the lessor in a finance lease, the Group recognises a receivable equal to the net investment in the lease and presents it in the line item "Loans to customers" in the Statement of Financial Position. The Group applies its accounting policies for derecognition and impairment of financial assets also to its finance lease receivables. The Group recognises the finance income from finance lease receivables in profit or loss in the line item "Net interest income" over the period of the finance lease so as to give a constant periodic rate of return on the net investment in the finance lease.

When the Group is a lessor in arrangements which involve the legal form of finance leases, but which in substance do not involve leases, the Group classifies them within loans at amortised cost.

64.8 Loan commitments and financial guarantees

Loan commitments are firm commitments of the Group to provide credit under a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Expected credit loss of loan commitments (see Note 64.3) is recognised in the Statement of Financial Position in the line item "Other liabilities". Loan commitment fees received by the Group are recognised in profit or loss in the line item "Fee and commission income".

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are issued by the Group to credit institutions and other parties on behalf of its customers so that they can secure loans, overdrafts, and banking facilities.

Liabilities arising from financial guarantees issued by the Group are initially measured at their fair value, being the premium received. Subsequently the liabilities are carried at the higher of the amount representing the initial fair value of the guarantee and the expected credit loss allowance of the guarantee (see Note 64.3). Any changes in the liabilities arising from financial guarantees are recognised in profit or loss. The premium received is recognised in profit or loss in the line item "Fee and commission income" over the life of the guarantee.

64.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle the obligation with an outflow of resources, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When management assesses that disclosing all information regarding certain matters can be expected to affect their outcome, then such detailed disclosures are not included in the Consolidated Financial Statements.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received, and the amount of the receivable can be measured reliably.

64.10 Employee benefits

All Group entities are required to pay, on a mandatory and contractual basis, contributions to public and private pension funds. The Group has no further payment obligations once these contributions have been paid. The Group recognises these contributions as salary related expenses when they become due.

Short-term employee benefits include salaries, cash bonuses, non-monetary benefits and compensated absences. Short-term employee benefit obligations are expensed by the Group as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group does not have a defined benefit pension plan or an active remuneration policy.

64.11 Equity

Share capital

The share capital disclosed in the Consolidated Financial Statements represents the total nominal value of ordinary shares issued by the Bank. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends on shares

Dividends payable to shareholders of the Bank are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders at the Bank's Annual General meeting. Dividends declared after the reporting date are not recognised as a liability at the reporting date.

64.11 Equity (continued)

Statutory reserve

According to the Act on Public Limited Companies no. 2/1995 the statutory reserve shall amount to 25% of the share capital of the Bank.

Restricted reserves

The Group is to transfer, if applicable, certain amounts from retained earnings to restricted reserves which can therefore not be distributed as dividends to shareholders. These restricted reserves are specified as follows:

Restricted reserve due to capitalised development costs
When the Group capitalises development cost it transfers a corresponding amount from retained earnings to a restricted reserve. In the future the restricted amount is to be transferred back to retained earnings as the capitalised development cost is amortised in profit or loss.

Restricted reserve due to fair value changes of financial assets
The Group transfers fair value changes of financial assets at fair value through profit or loss, net of tax if applicable, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Restricted reserve due to unrealised profit of associates
If share of profit of an associated company is in excess of dividend received or which can be claimed, the Group transfers the difference to a restricted reserve in equity. If the Group's shareholding in an associate is sold or written off the applicable amount recognised in the reserve is transferred to retained earnings.

Liability credit reserve

Changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss are recognised in liability credit reserve. On derecognition the fair value changes are not reclassified to profit or loss.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

64.12 Interest income and interest expense

For all financial assets and financial liabilities measured at amortised cost, interest income and interest expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

The effective interest rate is established on initial recognition of financial assets and financial liabilities and their carrying amount is subsequently adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or interest expense. For floating rate instruments, interest income or interest expense is recognised based on the current market rate plus or minus amortisation or accretion of the discount or premium based on the original effective interest rate.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset. For financial assets in Stage 1 and Stage 2 interest is recognised on the gross carrying amount of the assets and for financial assets in Stage 3 interest is recognised on the gross carrying amount of the assets, net of impairment allowance (see Note 64.3).

For financial assets and financial liabilities at fair value through profit and loss, interest income and interest expense are recognised through profit or loss on an accrual basis, except for financial liabilities designated as at fair value through profit or loss (see Note 64.3).

Accrued interest on interest rate swaps, which are designated and accounted for as hedging instruments in fair value hedges of the interest rate risk arising from certain fixed-rate Euro denominated bonds issued by the Group (see Note 64.6), is recognised in profit or loss as an adjustment to the interest expense recognised for the bonds.

64.13 Net fee and commission income

Fees and commissions are recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received for such services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees for loan commitments that are likely to be utilised are recognised as an adjustment to the effective interest rate of the loan. When a loan commitment is not expected to be utilised, fees are recognised in profit or loss on a straight-line basis over the commitment period.

Loan syndication fees are recognised as revenue in profit or loss when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning, and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Where it is assessed that the Group is acting as an agent, the consideration is presented on a net basis.

64.14 Net financial income (expense)

Net financial income (expense) consists of net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss, net gain (loss) on financial liabilities designated as at fair value through profit or loss, net gain (loss) on fair value hedges, net gain (loss) on derecognition of financial liabilities measured at amortised cost, net gain (loss) on derecognition of financial assets measured at amortised cost, and net gain (loss) on sale of debt instruments measured at fair value through other comprehensive income.

Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss includes all realised and unrealised fair value changes of financial assets and financial liabilities classified by the Group as mandatorily at fair value through profit or loss, except for interest income and interest expense, which are included in the line item "Net interest income", and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)". Dividend income from financial assets is recognised in the income statement when the Group's right to receive payment is established.

Net gain (loss) on financial liabilities designated as at fair value through profit or loss
Net gain (loss) on financial liabilities designated as at fair value through profit or loss includes all realised and unrealised fair value changes of financial liabilities designated by the Group as at fair value through profit or loss, except for changes in fair value attributable to changes in credit risk which is recognised in other comprehensive income, interests incurred which are included in the line item "Net interest income", and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

Net gain (loss) on fair value hedges

Net gain (loss) on fair value hedges includes the changes in the clean fair value of interest rate swaps which are accounted for as hedging instruments in fair value hedges and the changes in the fair value of certain bonds, which are attributable to the interest rate risk of the bonds, and are accounted for as the hedged items in fair value hedges (see Note 64.6).

Net gain (loss) on derecognition of financial liabilities measured at amortised cost

Net gain (loss) on derecognition of financial liabilities measured at amortised cost includes the difference between the buyback price and the carrying amount of debt issued measured at amortised cost at the derecognition date.

Net gain (loss) on derecognition of financial assets measured at amortised cost

Net gain (loss) on derecognition of financial assets measured at amortised cost includes the difference between the consideration received and the carrying amount of financial assets measured at amortised cost at the derecognition date.

Net gain (loss) on sale of debt instruments measured at fair value through other comprehensive income

Net gain (loss) on sale of debt instruments measured at fair value through other comprehensive income includes cumulative fair value gains and losses reclassified to profit or loss upon the sale of debt instruments measured at fair value through other comprehensive income.

64.15 Taxes

Income tax expense

Income tax expense comprises special financial activities tax, current tax and deferred tax and is disclosed as a separate line item in the income statement. Income tax expense from non-current assets held for sale is included in the income statement in the line item "Profit from non-current assets held for sale, net of income tax". Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, consistent with the recognition of the underlying item to which it relates.

Bank tax

Bank tax is calculated as 0.145% (2023: 0.145%) of total liabilities at year-end as determined for tax purposes, in excess of ISK 50,000 million, excluding tax liabilities. The Bank tax is considered a non-deductible expense for the calculation of income tax. The Bank tax is shown in a separate line in the income statement and is included in the Statement of Financial Position in the line item "Tax liabilities".

Special financial activities tax

Special financial activities tax is calculated as 6% of taxable profit exceeding ISK 1,000 million. Special financial activities tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Current tax

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date. Current tax also includes any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are offset in the Statement of Financial Position if the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Deferred tax

Deferred tax is recognised based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred taxes are not recognised if it arises from the initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither the taxable profit nor the accounting profit. In addition, deferred taxes are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax is measured using tax rates enacted at the reporting date. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, this temporary change in tax rate impacted deferred tax calculations at year-end 2023.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are included in the Statement of Financial Position in the line item "Tax liabilities" and deferred tax assets are included in the Statement of Financial Position in the line item "Other assets".

Íslandsbanki

Consolidated Financial Statements

2023

F-140

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

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the audited Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the year 2023. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in 2023

The profit from the Group's operations for the year 2023 amounted to ISK 24,585 million and the return on equity was 11.3%, above the Bank's target of being above 10%. At year-end the Group employed 764 full-time members of staff, including 725 within the Bank itself, 56% female and 44% male. The Group operates 12 branches.

High interest rate environment and inflation, both domestically and internationally, impacted the Group's operations in 2023, although volatility and uncertainty in markets reduced throughout the year. As for 2023, on the whole delinquency rates have not been observably impacted and the overall financial health of the economy is good.

Net interest income rose by 12.7% between years and the net interest margin increased year-on-year from 2.9% to 3.0% of total assets, primarily on the back of the interest rate environment. However, the margin reduced from 3.2% in the first half of the year, compared to 2.9% in the second half of the year. This reduction is mainly on the back of loss related to higher CPI imbalance, related to a shift where customers have refinanced their loans from non-indexed linked loans to CPI-linked loans, which yielded less return as inflation kept reducing throughout the year. In addition, higher FX funding costs in the second half of the year also played a par. Net fee and commission income was ISK 14,234 million in 2023 compared to ISK 14,053 in 2022, where net income on cards and payment processing showed a healthy growth year-on-year. Further, Allianz Ísland hf. was a good contributor to the Group's net fee and commission income as revenue generation was strong. Asset management remained pressured due to uncertainty in domestic financial markets but recovered towards the end of the year and experienced net inflow, in line with overall market conditions. Overall, core income grew by 9.9% year-on-year. Salaries and related expenses increased by 11.5% between years mainly due to general wage increases and redundancy costs. Throughout the year additional employees were hired related to the Bank's commitment to further strengthen its regulatory infrastructure and overall governance. Other operating expenses rose by ISK 1,574 million and amounted to ISK 11,740 million, or by 15.5% from 2022 to 2023, mainly related to professional services, and software and IT expenses. The cost-to-income ratio, adjusted for the administrative fine regarding a settlement agreement with the Financial Supervisory Authority of the Central Bank of Iceland (FSA) related to the sale of a 22.5% stake in the Bank in 2022, remained flat between 2022 and 2023 or 41.6% which is within the financial guidance of 40-45%. Net impairments amounted to ISK 1,015 million in the year 2023, compared to impairment reversals in the previous year.

Loans to customers grew by 3.1% between years. Mortgages remain the largest part of the loan portfolio, or 43%, and LTVs remain at healthy levels. Asset quality remains strong; at year-end 1.8% of the gross carrying amount of loans to costumers were classified in Stage 3, same as year-end 2022.

Settlement Agreement with the Financial Supervisory Authority of the Central Bank of Iceland

Following a settlement agreement with the FSA related to the FSA's inspection into the Bank's execution of the Offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki, the Bank agreed to pay a fine in the amount of ISK 1,160 million and undertook to carry out certain remedial measures. The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter. Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. Jón Guðni Ómarsson, who served as CFO from 2011, was appointed CEO. A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto. On the same shareholder meeting, an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board was carried out, as the previous Board of Directors had stepped down, paving the way for a board election. Four new individuals were elected to the Bank's Board of Directors at the meeting, including Linda Jónsdóttir who was elected as Chairman. The Bank has since concluded all remedial measures related to the settlement agreement and emphasised on further strengthening its internal governance, for example by structural changes after which the Chief Compliance Officer has taken a seat within the Executive Committee.

For further information on this matter see Note 13.

Directors' Report

Funding

Deposits continue to remain the Bank's largest source of funding. Deposits from customers amounted to ISK 851 billion at year-end 2023, an increased by 7.7% year-on-year, where Personal Banking was the largest contributor. Customer loans to customer deposits ratio closed at 144% compared to 150% year-end 2022.

On 30 August the Bank announced that Moody's Investor Services (Moody's) assigned an A3 issuer rating to Íslandsbanki. The rating has a stable outlook and demonstrates Íslandsbanki's strong capitalisation and good recurring profitability. At the time of the announcement the rating was the highest of the Icelandic banks. Additionally, Moody's assigned A2 long-term and P-1 short-term foreign and local currency deposit ratings. On 17 November S&P Global Ratings (S&P) affirmed the Bank's ratings at BBB/A-2 and revised the outlook from stable to positive, a reflection on the overall economic trends and strong position of the Bank and the banking sector as a whole.

Volatility in markets adversely affected pricing, especially in the first half of the year. The Bank remained a regular issuer of domestic covered bonds to fund growth in the mortgage loan portfolio, issuing approximately ISK 31,000 million in the year 2023. In addition, the Bank issued a total of ISK 6,700 million, SEK 1,000 million and EUR 300 million of senior preferred bonds. Lastly, the Bank issued ISK 9,600 million of Tier 2 notes, replacing an older SEK 500 million Tier 2 bond which was called in August 2023. During the second half of the year, credit spreads on the Bank's outstanding bonds tightened considerably. Íslandsbanki's liquidity position is strong, well above regulatory requirements and internal limits.

Capital

The Group's capital position remains solid and well in excess of the regulatory requirements. The total capital ratio was 25.3% at the end of the year. According to the conclusion of the annual assessment of risk in the operations of systematically important financial institutions by means of the Supervisory Review and Evaluation Process (SREP) carried out by the FSA, the Bank shall from 30 June 2023 maintain an additional capital requirement of 2.4% of Risk Exposure Amount (REA), a decrease of 0.2 percentage points from the previous assessment. The Bank's total SREP capital requirement therefore decreases from 10.6% to 10.4%. With the combined capital buffer requirement of 9.4%, the overall capital requirement is 19.8%. The Bank has updated its CET1 target to a buffer of 100-300 basis points on top of regulatory requirements hence the Bank's CET1 target range is 16.2-18.2% based on the size of the management buffer and will increase by 0.5 percentage points in the first quarter of 2024 as a result of an increase in the countercyclical buffer.

On 18 October the Central Bank's Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby updated the MREL-Requirement. The MREL-Requirement, including the combined buffer requirement, is 30.2% of the Bank's REA. At year-end 2023 the MREL-ratio was 41.3%.

The Bank paid approximately ISK 12.3 billion in dividends to the Bank's shareholders in March 2023, in line with its dividend policy. During the year, the Bank bought back shares in line with the buyback programme announced in February, amounting to ISK 5,000 million. At year-end a total of 20.4 million shares had been purchased, or 1.02% of share capital. Total purchase price of those shares amounted to ISK 2,310 million. Subject to market conditions, the Bank assumes that the full amount of the buyback programme will be completed by the Bank's 2024 Annual General Meeting (AGM).

The Bank plans to continue its efforts to optimise its capital structure. At the 2024 AGM, the Bank will seek a renewed approval for a share buyback and initiate share buybacks amounting to ISK 10,000 million, subject to market conditions. Further, the Board of Directors will propose a dividend payment amounting to ISK 12,300 million during the same meeting. Further yet, proposals on extraordinary dividend and/or additional share buybacks may be introduced later in the year, subject to market conditions. The capital optimisation is assumed to be completed year-end 2025.

Outlook

The year 2023 was a pivotal year for Iceland's economy, marked by a shift in growth dynamics. Domestic demand growth moderated throughout the year, while services exports, especially in tourism, surged. The third quarter recorded the lowest quarterly GDP growth since early 2021 at 1.1%. This was primarily due to a 1.2% decline in domestic demand and a decrease in goods exports that weighed against a 7.3% increase in services exports and a 3% drop in imports.

Indications for the fourth quarter suggest a further slowdown in domestic demand, evidenced by payment card turnover, import data, and consumer and business sentiment surveys. Private consumption and investment appear to be contracting, following a 1.7% decrease in consumption in the third quarter. However, the tourism sector continued to thrive, with over 2.2 million visitors in 2023, up 29% from the previous year.

ISB Research estimates GDP growth of 3.0% for 2023, a significant drop from 7.2% growth in 2022, with exports overtaking domestic demand as the main growth driver. The labour market remains robust, although there has been some reduction in excess worker demand. A notable influx of foreign nationals was the main contributor to a 3% population growth for the second consecutive year, with unemployment averaging 3.2% and wages increasing by over 10% on average.

Directors' Report

Inflation declined slightly in the fourth quarter but remained high at 7.7% by year-end. A cooling housing market and reduced imported inflation aided this decline, while domestic cost pressures persisted. The Central Bank maintained a 9.25% interest rate in the fourth quarter, with indications of future monetary policy tightening.

Looking ahead to 2024, ISB Research anticipates a 1.9% GDP growth, led by services exports in the first half and bolstered by gradually increasing domestic demand growth as the year progresses. Inflation is expected to decrease throughout the year, accompanied by cautious monetary easing, as the economy continues to rebalance and demand pressures ease. For the next two years, GDP is forecasted to reach 2.6% and 2.9% respectively.

Following seismic activity in Reykjanes, a volcanic eruption occurred near the town of Grindavík in early 2024. As of now, the town of Grindavík (inhabitants approximately 3,700) remains uninhabitable, and the Government is exploring what measures will be needed to relieve this uncertainty. Currently the economic impact related to this is uncertain. The Bank's direct exposure to Grindavík is limited; only 0.4% of the gross carrying amount of loans to customers is covered by real estate in Grindavík. Due to this uncertainty, an impairment allowance amounting to ISK 1.7 billion has been recognised at year-end 2023.

The Bank's target of return on equity above 10% remains unchanged for the year 2024, assuming normalised through-the-cycle annual impairment level of 25-30 basis points on the Bank's loan portfolio, given its current composition. The cost-to-income ratio is expected to be in the range of 40-45%, in line with previous year and below the Bank's target of 45%. As the loan portfolio has shifted more towards CPI-linked products, net interest income will become more volatile and subject to month-by-month change in inflation.

Risk management

The Bank is exposed to various risks. The management of these risks is an integral part of the Bank's operations, and the Bank has focused on building up a responsible internal risk culture among the Bank's employees. The ultimate responsibility for ensuring an adequate risk management framework lies with the Board of Directors. The Board defines and communicates the acceptable level of risk through the Bank's risk management policies and the CEO is responsible for ensuring that risks are managed within those limits.

The Board and the CEO hereby declare that Íslandsbanki has an overall satisfactory risk management in relation to the Bank's profile and strategy.

The Bank's risk management framework and policies are discussed under Notes 45-61 to the Consolidated Financial Statements and in the unaudited Pillar 3 Report.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has one of the largest shareholder bases of a listed company in Iceland. At the end of 2023 the Bank had just over 11,500 shareholders, where 89.4% of the Bank's shares were owned by domestic parties and 10.6% by international investors. The Icelandic Government is the largest shareholder with 42.9% of outstanding shares. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009. Apart from the Government, pension funds are the largest investor group, owning 36.7% of the outstanding shares, thereof domestic pension funds 35.6%. For further information on the Bank's shareholders see Note 41.

Sustainability

Íslandsbanki aims to be a leader in the area of sustainable development and a catalyst for positive social action. Alongside its vision of creating value for the future, with excellent service, the Bank will focus on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank takes account of ESG criteria in its risk management and actively explores business opportunities related to sustainability. Íslandsbanki aims to increase the general public's financial knowledge and interest in the subject and, to this end, offers interesting and accessible seminars on finance and economics.

The Board of Directors approves the Sustainability Policy and sets the Bank's strategy and risk appetite in terms of sustainability risk. The Board is regularly updated on corporate sustainability matters and the usage of the Bank's Sustainable Financing Framework. The Corporate Governance and Human Resource sub-committee of the Board assists the Board in fulfilling its oversight responsibilities concerning sustainability.

The CEO is responsible for executing the strategy and has appointed a Sustainability Committee as a main building block of the governance structure. The Committee is the formal forum for discussions on all issues related to sustainability risk, sustainable procurement, and business opportunities. The Committee is independent from credit committees and needs to approve proposals for credit cases before they are included in the Sustainable Financing Framework. The Committee is chaired by the CEO and has senior representatives from the business units, Finance, Risk Management, and Strategy & Sustainability.

Directors' Report

The Sustainability Policy creates a comprehensive framework for its activities in the area of sustainability and maps out the Bank's policy for operations, responsible lending, investments, purchasing, and grants, as well as integrating with and supporting the Bank's other policies. In line with the Sustainability Policy, the Board of Directors has approved seven sustainability goals for its operations, to be completed by 2025. The goals are based on ESG criteria and supported by annual targets set by the business units as part of their five-year planning process.

The Sustainability Report for the year 2023 includes key information on the environmental, social and governance criteria for Íslandsbanki in accordance with the Nasdaq ESG guidelines from 2019 along with other relevant standards. The Bank emphasises increased flow of transparent information on sustainability. Auditing firm Deloitte ehf. was engaged to review and confirm with limited assurance the Bank's sustainability information disclosure in the Annual and Sustainability Report for 2023.

In accordance with local regulation, Íslandsbanki publishes in an unaudited appendix to the Consolidated Financial Statements information regarding the EU taxonomy, Green Asset Ratio. In 2023, the regulation entered into force for financial institutions and other non-financial institutions within its scope, and by that made it mandatory to publish information on the Bank's assets which meet the regulation's requirements, and can according to the taxonomy be considered as environmentally sustainable. Íslandsbanki must obtain this information directly from its customers or other public data sources, such as The Register of Annual Accounts, but as almost no such information has been published during the process of this financial statement, the Bank faces an impossibility regarding data. For that reason, no assets are defined as green or sustainable according to the EU taxonomy at year-end 2023. The Bank aims to work on data collection and conversations with major customers in 2024, with the aim that the disclosure for 2024 better reflects the actual situation. It is clear that the implementation into Icelandic legislation will influence the Bank's efforts in this regard.

Sustainability risk has been more effectively integrated into key processes relating to lending, investments, and product development during the year. At year-end, 93% of all credit risk exposure (excluding individuals and small enterprises which are not in scope) has been assessed with respect to ESG risk-related factors. More detailed coverage can be found in the Bank's Pillar 3 Report for 2023 which contains a separate chapter on sustainability risk and climate risk in compliance with TCFD (Task Force on Climate-related Financial Disclosures) criteria.

Collaboration with international and local partners with regards to sustainability is highly important. Over the years, Íslandsbanki has participated in international commitments and supported domestic cooperative efforts on sustainability. Being a part of international collaborations such as the UN Principles for Responsible Banking (UN PRB), the Nordic CEOs for a Sustainable Future and being a founding member of the Net-Zero Banking Alliance (NZBA) is particularly valuable and informative for a relatively small bank. On the other hand, being one of the largest companies in Iceland means that the Bank can contribute significantly towards domestic partnerships such as Festa - Center for Sustainability and IcelandSif, to name a few.

Environment

Íslandsbanki is committed to supporting Iceland's ambitious Climate Action Plan and the Paris Agreement Goals. To that end, the Bank announced in April 2021 its commitment to become net zero on financed emissions by 2040. The Bank's own operations have been carbon neutral for the past four years, and with this decision, its commitment will also extend to financed emissions which includes the carbon footprint of Íslandsbanki's entire loan and asset portfolio.

Íslandsbanki publishes information on financed emissions (in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard) for 2022 and 2023 in the Bank's Annual and Sustainability Report. The Bank publishes its objectives and performance in connection with climate issues. This includes a new target on emission reduction within the seafood sector. With that the Bank has published targets which account for 64% of total lending and 78% of total emissions from the loan portfolio in 2019. The Bank expects its financed emissions to shrink by 60% by 2030 and 85% by 2040. The Bank's objective of having a net-zero loan portfolio by 2040 is an ambitious but achievable goal in most sectors, although it is clear that transitioning to clean energy in air transport and cargo shipping by sea will probably take longer.

Social

Íslandsbanki strongly emphasises creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts. Because its human resources are its biggest resource, the Bank places strong emphasis on fostering employees' growth and development and contributing to their health and well-being.

As before, equal rights are uppermost in our minds, and we want Íslandsbanki to be a desirable workplace for people from wide-ranging backgrounds. One of Íslandsbanki's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. This ratio is considered in the hiring of management-level employees. As in previous years, the Bank received equal pay certification and was awarded professional certification under the ÍST 85:2012 standard for 2023. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

Directors' Report

Governance

The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to its operations, including those imposed by the Central Bank of Iceland and Nasdaq Iceland. The Bank's governance practices derive, inter alia, from the laws and regulations applicable to financial institutions and the financial market. The Bank complies with the Guidelines on Corporate Governance in accordance with paragraph 7 of article 54 of the Act on Financial Undertakings no. 161/2002. Each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Board of Directors follows the Corporate Governance Guidelines (6th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA Confederation of Icelandic Enterprise, available on www.corporategovernance.is. Moreover, the Bank's governance practices are based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. article 16 of regulation (EC) no. 1093/2010, transposed into Icelandic law with Act no. 24/2017, on European Control Systems in the Financial Market.

Íslandsbanki has a Code of Conduct in place for employees and the Board of Directors which is available on the Bank's website. In addition, the Bank's Sustainability Policy emphasises these matters. The aim of the Code is to promote good operational practices, reporting of misconduct and actions to prevent conflict of interest. Employees confirm annually that they have read and understood the rules and commit their adherence to the rules. At the end of 2023, more than 99% of employees had confirmed the rules. The Bank emphasises respect for human rights and avoids business transactions where human rights are violated, including discrimination on the basis of gender, religion, or race according to the Sustainability Policy and the Suppliers' Code of Conduct. The Bank is committed to continue its active dialogue with suppliers on sustainability issues.

The Bank makes every effort to combat bribery and corruption. For that purpose, the Bank has e.g. implemented a policy on conflict of interest and rules on measures against conflict of interest in which there is a chapter on gifts and complimentary trips. The rules are intended to ensure that the impartiality and credibility of employees cannot be brought into question with respect to the treatment and handling of individual matters. Moreover, the Bank has a policy in place on actions against money laundering and terrorist financing. The Bank's policy on anti-money laundering takes a clear stance against payments on bribery and corruption. In practice, the Bank emphasises on being compliant with Act no. 140/2018 on measures against Money Laundering and Terrorist Financing which involves combating bribery and corruption.

The Board of Directors of Íslandsbanki is committed to excellence in its governance framework so that it complies with the best corporate governance practices in the financial market at all times. Following the Bank's settlement agreement with the FSA a comprehensive review of the Bank's internal rules and procedures was carried out in connection with the Bank's remedial measures. The Board believes that the Bank has adequately responded to the remedial requirements of the FSA according to the settlement. The actions taken are intended to strengthen the Bank's risk culture and ensure compliance with laws and regulations in the future. The Board will emphasise the follow-up of the effectiveness of the changes implemented and the development of a risk culture for the future so as to ensure that these aspects take root. The Board will also make sure that issues related to governance, risk management and internal control receive appropriate consideration in the Board.

At each AGM seven non-executive directors, and two alternate members, are elected to the Board for a term of one year. The Board undertakes the Bank's affairs and is responsible for setting the Bank's general strategy as well as instructing the CEO on its further implementation and execution. The Board has a supervisory role overseeing that the Bank's organisation and activities are at all times in accordance with relevant laws, regulations and good business practices. Furthermore, the Board shall monitor the execution of its policies, the sound control of accounting and financial management, and ensure that group internal audit, compliance, risk management and internal controls are effective at all times.

In accordance with the Bank's Articles of Association the Bank operates a Nomination Committee whose role is to nominate individuals to the Bank's Board of Directors at the AGM, or as the case may be at a shareholders' meeting where Board elections are on the agenda. The members of the Nomination Committee shall be three and they shall be elected for one year at a time by the Board of Directors. The Committee shall be independent in its work and the majority of the Committee's members shall be independent of the Bank and its management. Along with the Bank's Nomination Committee, the ISFI operates a special three-member Selection Committee which, on behalf of the State, nominates candidates for the supervisory boards or boards of directors of banks or undertakings that are managed by ISFI.

The Board has approved a policy on the suitability of the Board of Directors, the CEO and key function holders. The objective of the policy is that the Bank's Board of Directors, CEO, and key employees meet the relevant suitability requirements at all times and the framework for their appointment and/or employment is in accordance with the applicable legal requirements for the Bank's operation. The policy states, among other things, that the composition of the Board shall at any time be diverse, with regard to educational and professional background, gender and age. Human Resources reports annually to the Board on the Bank's actions in implementing the policy. Currently the Board consists of seven members, three women and four men. Board members are of various ages, born in the years 1960-1979. Board members have a broad range of education, e.g. in the fields of engineering, law, finance, management, auditing, business administration, and securities trading. Board members also have extensive industry experience in the areas of operations, finance, auditing, management, and consulting.

Directors' Report

The Board appoints three sub-committees, each one comprising Board members and operating under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of Board sub-committees are available on the Bank's website.

The CEO is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's Chief Compliance Officer and appoints members of the Executive Committee and other Senior Management Committees.

The Executive Committee, comprising eight members, including the CEO, is composed of four women and four men. Members of the Executive Committee were born in the years 1961-1982 and possess diverse education and extensive experience. The role of the Executive Committee is to maintain an overall view of the Bank's operations and to coordinate key aspects of its activities. The CEO ensures that the Board is regularly provided with accurate information on the Bank's finances, development, and operations.

The Bank's Finance division is responsible for the preparation of the Consolidated Financial Statements which are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. The Board's Audit Committee reviews the Group's annual and interim Consolidated Financial Statements before their submission for Board approval and endorsement. The Board's Audit Committee regularly discusses the Bank's financial statements and evaluates its internal control processes. Management reporting is generally presented to the Board 10 times a year. The external auditors review the half year Condensed Consolidated Interim Financial Statements and audit the annual Consolidated Financial Statements.

A more detailed description of Íslandsbanki's governance framework and associated practices can be found in the Bank's Corporate Governance Statement enclosed in an unaudited appendix to the Consolidated Financial Statements and on the Bank's website, www.islandsbanki.is.

Other matters

On 29 June 2023 Íslandsbanki received a letter from the Board of Directors of Kvika whereby it was announced that Kvika had decided to end merger discussions which had been ongoing since February 2023. The Board of Directors of Íslandsbanki agreed with the conclusion to discontinue merger discussions.

The FSA conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in the Bank's AML measures. The Bank has not challenged the FSA's findings and has already made, and is continuing to make, improvements to its AML framework. Fight against financial crime is an important part of Íslandsbanki's corporate responsibility and work to that end is a high priority within the Bank. The matter could result in a settlement and a fine. The Bank has recognised an undisclosed provision in relation to this matter. For further information see Note 43.

Directors' Report

Statement by the Board of Directors and the CEO

The audited Consolidated Financial Statements for the year ended 31 December 2023 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Consolidated Financial Statements provide a true and fair view of the Group's operating profits and cash flows in 2023 and its financial position as of 31 December 2023. Furthermore, in our opinion the financial statements and the Directors' Report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 identified as "549300PZMFIQR79Q0T97-2023-12-31-en.zip" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO have today discussed and approved the 2023 Consolidated Financial Statements of Íslandsbanki.

Kópavogur, 8 February 2024

Board of Directors:

Linda Jónsdóttir, Chairman

Stefán Pétursson, Vice-Chairman

Agnar Tómas Möller

Anna Þórðardóttir

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Páll Grétar Steingrímsson

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditors' Report

To the Shareholders and the Board of Directors of Íslandsbanki hf.

Opinion

We have audited the Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (the Group) for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows for the year then ended, and the notes to the Consolidated Financial Statements, including a summary of material accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of the Group as at 31 December 2023, and its Consolidated Financial Performance and its Consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

Our opinion in this report on the Consolidated Financial Statements is consistent with the content of the additional report that has been submitted to the audit committee in accordance with the EU Audit Regulation no. 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation no. 537/2014 Article 5.1 has been provided.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit

Impairment charges for loans to customers

Key Audit Matters

Loans to customers represent ISK 1,223,426 million or 77% of total assets at 31 December 2023, thereof expected credit losses (ECL) of ISK 11,728 million have been recorded.

The determination of the provision for credit impairment is based on estimates and judgement by management. Key areas of judgement include:

- the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model;
- the identification of loans with significant deterioration in credit quality;
- assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows, forward-looking macroeconomic factors and valuation of collateral.

Due to the use of judgement and estimates and the relative size of loans to customers on the balance sheet, we consider the provision for expected credit losses (ECL) a Key Audit Matter.

How the matter was addressed in the audit

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Assessing the Group's expected credit loss model, focusing on the following areas:
  - alignment of the expected credit loss model and its underlying methodology with the requirements of IFRS 9;
  - approach to the incorporation of forward-looking macroeconomic factors;
- Testing of relevant controls relating, among others, to the:
  - data used to determine the provision for credit impairment, including transactional data captured at loan origination and ongoing internal credit quality assessment;
  - expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
  - review and approval of forward-looking macro-economic factors; and
  - registration and valuation of collateral used in the calculation of expected credit loss.
- Testing of a sample of loans and procedures to evaluate among others:
  - timely identification of loans with significant deterioration in credit quality;
  - expected loss calculation by re-performing and assessing the reasonableness of the ECL model calculations;
  - appropriateness of forward-looking macroeconomic factors; and

In addition, we assessed the disclosures in the consolidated financial statements. Refer to Notes 3 and 62.3 for credit impairment.

Reliability of information from IT systems relevant to financial reporting

Key Audit Matters

The Group is highly dependent on IT systems due to the significant number of transactions that are processed daily and due to the complexity of the various systems needed to support the Group's operations.

In the process of preparing the Consolidated Financial Statements the Group uses data from many complex IT systems. To ensure complete and accurate processing and reporting of financial data it is important that controls over appropriate access rights, system changes and transaction processing are designed and operate effectively.

Because of the importance of the data from the IT systems supporting the financial reporting we consider their reliability a Key Audit Matter.

How the matter was addressed in the audit

Our procedures focused on the following to respond to the Key Audit Matter, among others:

- Obtained an understanding of Group's IT systems and the IT-environment relevant for financial reporting
- Reviewed the design, implementation and effectiveness of control activities, as appropriate, related to change management, access management and computer operations for the systems considered important for the audit

Deloitte's IT specialists were involved in the audit.

Independent Auditors' Report

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the unaudited highlights, Directors' Report and unaudited Íslandsbanki's Corporate Governance Statement 2023 in appendix.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon except for confirmation regarding Directors' Report as stated below.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Act on Annual Accounts no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the Board of Directors includes all information required by the Icelandic Act on Annual Accounts that is not disclosed elsewhere in the Consolidated Financial Statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors and the CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors shall supervise the preparation and presentation of the Consolidated Financial Statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with the International Standards on Auditing (ISAs), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

In addition to our work as the auditors of Íslandsbanki hf., Deloitte has provided the bank with permitted non-audit services. Deloitte has in place internal procedures in order to ensure its independence before acceptance of additional services. Deloitte has confirmed in writing to the Audit Committee that we are independent of Íslandsbanki hf.

Report on Other Legal and Regulatory Requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Íslandsbanki hf. we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 with the file name "549300PZMFIQR79Q0T97-2023- 12-31-en.zip" is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

Management is responsible for preparing the Consolidated Financial Statements in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the Consolidated Financial Statements in a XHTML format in accordance with EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the Consolidated Financial Statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2023 with the file name "549300PZMFIQR79Q0T97-2023-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Íslandsbanki hf. by the general meeting of shareholders on 31 January 2024.

Kópavogur, 8 February 2024

Deloitte ehf.

Geir Steindórsson

State Authorised Public Accountant

Consolidated Income Statement

	Notes	2023	2022
Interest income calculated using the effective interest rate method		126,095	87,671
Other interest income		11,047	6,342
Interest expense		(88,531)	(50,887)
Net interest income	6	48,611	43,126
Fee and commission income		18,591	17,630
Fee and commission expense		(4,357)	(3,577)
Net fee and commission income	7	14,234	14,053
Net financial income (expense)	8	241	(1,257)
Net foreign exchange gain	9	581	881
Other operating income	10	570	433
Other net operating income		1,392	57
Total operating income		64,237	57,236
Salaries and related expenses	11	(15,003)	(13,452)
Other operating expenses*	12	(11,740)	(10,166)
Administrative fine*	13	(860)	(300)
Contribution to the Depositors' and Investors' Guarantee Fund		-	(165)
Bank tax		(1,871)	(1,858)
Total operating expenses		(29,474)	(25,941)
Profit before net impairment on financial assets		34,763	31,295
Net impairment on financial assets	14	(1,015)	1,576
Profit before tax		33,748	32,871
Income tax expense	15	(9,198)	(8,485)
Profit for the year from continuing operations		24,550	24,386
Discontinued operations held for sale, net of income tax		35	149
Profit for the year		24,585	24,535
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf. (ISK)	16	12.32	12.19

*Comparative figures have been changed with immaterial effects. A provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine".

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 14 F-152 Amounts are in ISK million

Consolidated Statement of Comprehensive Income

	2023	2022
Profit for the year	24,585	24,535
Net gain (loss) on financial liabilities, net of tax	(4,203)	2,527
Items that will not be reclassified to the income statement	(4,203)	2,527
Foreign currency translation	1	2
Items that may subsequently be reclassified to the income statement	1	2
Other comprehensive income (expense) for the year, net of tax	(4,202)	2,529
Comprehensive income for the year	20,383	27,064

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 15 Amounts are in ISK million

Consolidated Statement of Financial Position

	Notes	31.12.2023	31.12.2022
Assets			
Cash and balances with Central Bank	21	87,504	94,424
Loans to credit institutions	22	73,475	110,364
Bonds and debt instruments	17	161,342	130,804
Derivatives	23	5,776	7,461
Loans to customers	24	1,223,426	1,186,639
Shares and equity instruments	17	13,241	15,868
Investments in associates	26	4,051	3,844
Property and equipment	27	6,562	6,752
Intangible assets	28	2,930	3,279
Other assets	29	3,638	6,072
Non-current assets and disposal groups held for sale	30	749	728
Total Assets		1,582,694	1,566,235
Liabilities			
Deposits from Central Bank and credit institutions	31	16,149	15,269
Deposits from customers	32	850,709	789,897
Derivative instruments and short positions	23	5,090	10,804
Debt issued and other borrowed funds	34	417,573	468,270
Subordinated loans	35	38,155	34,392
Tax liabilities	37	13,107	12,128
Other liabilities	38	17,218	16,601
Total Liabilities		1,358,001	1,347,361
Equity			
Share capital		9,898	10,000
Share premium		55,000	55,000
Reserves		5,083	9,158
Retained earnings		154,712	144,716
Total Equity		224,693	218,874
Total Liabilities and Equity		1,582,694	1,566,235

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2022	10,000	55,000	2,500	4,640	(1,054)	-	132,624	203,710
Profit for the year							24,535	24,535
Net gain (loss) on financial liabilities, net of tax					2,840		(313)	2,527
Foreign currency translation						2		2
Comprehensive income for the year	-	-	-	-	2,840	2	24,222	27,064
Dividends paid							(11,900)	(11,900)
Restricted due to capitalised development costs				(292)			292	-
Restricted due to fair value changes				424			(424)	-
Restricted due to associates				98			(98)	-
Equity as at 31 December 2022	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Equity as at 1 January 2023	10,000	55,000	2,500	4,870	1,786	2	144,716	218,874
Profit for the year							24,585	24,585
Net loss on financial liabilities, net of tax					(3,613)		(590)	(4,203)
Foreign currency translation						1		1
Comprehensive income (expense) for the year	-	-	-	-	(3,613)	1	23,995	20,383
Dividends paid							(12,254)	(12,254)
Purchase of treasury shares	(102)						(2,208)	(2,310)
Restricted due to capitalised development costs				(290)			290	-
Restricted due to fair value changes				(309)			309	-
Restricted due to associates				136			(136)	-
Equity as at 31 December 2023	9,898	55,000	2,500	4,407	(1,827)	3	154,712	224,693

The Bank's authorised and issued share capital consists of 2,000 million ordinary shares with a par value of ISK 5 each. Íslandsbanki bought back approximately 20.4 million own shares for ISK 2,310 million during 2023. As of 31 December 2023, the Bank's paid-up share capital totalled ISK 65,000 million, and the total stated share capital amounted to ISK 64,898 million. The Bank has a single class of ordinary shares that do not carry any rights to fixed income. The Annual General Meeting (AGM) for the 2022 operating year took place on 16 March 2023. During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 6.15 per share, totalling approximately ISK 12,300 million (2022: ISK 5.95 per share). The dividends were paid on 27 March 2023.

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 17 Amounts are in ISK million

Consolidated Statement of Cash Flows

	2023	2022
Profit for the year	24,585	24,535
Non-cash items included in profit for the year*	(33,442)	(39,076)
Changes in operating assets and liabilities*	11,199	(57,031)
Interest received	108,689	78,521
Interest paid**	(76,073)	(42,172)
Dividends received	286	1,049
Paid bank tax	(1,861)	(1,683)
Paid income tax and special financial activities tax	(7,165)	(3,582)
Net cash provided by (used in) operating activities	26,218	(39,439)
Net investment in subsidiaries and associates	-	(1,103)
Proceeds from sales of property and equipment	374	35
Purchase of property and equipment	(311)	(273)
Purchase of intangible assets	(385)	(470)
Net cash used in investing activities	(322)	(1,811)
Proceeds from borrowings	117,497	191,503
Repayment and repurchases of borrowings	(180,813)	(129,448)
Repayment of lease liabilities	(528)	(472)
Dividends paid	(12,254)	(11,900)
Purchase of treasury shares	(2,310)	-
Net cash provided by (used in) financing activities	(78,408)	49,683
Net increase (decrease) in cash and cash equivalents	(52,512)	8,433
Effects of foreign exchange rate changes	(51)	5
Cash and cash equivalents at the beginning of the year	139,035	130,597
Cash and cash equivalents at year-end	86,472	139,035

Reconciliation of cash and cash equivalents	Notes		
Cash on hand	21	3,653	3,563
Unrestricted balances with Central Bank	21	64,025	80,866
Bank accounts	22	18,794	54,606
Cash and cash equivalents at year-end		86,472	139,035

*For further breakdown see the following page.

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

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

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK million

Consolidated Statement of Cash Flows

Non-cash items included in profit for the year

	2023	2022
Net interest income	(48,611)	(43,126)
Depreciation, amortisation, and write-offs	1,620	1,400
Share of profit and gain from sale of associates	(207)	(198)
Net impairment on financial assets	1,190	(1,430)
Foreign exchange gain	(581)	(881)
Net gain from sales of property and equipment	(219)	(19)
Unrealised fair value gain (loss) recognised in profit or loss	2,322	(5,115)
Discontinued operations held for sale, net of income tax	(35)	(149)
Bank tax	1,871	1,858
Income tax expense	9,198	8,485
Other changes	10	99
Total	(33,442)	(39,076)

Changes in operating assets and liabilities

	2023	2022
Mandatory reserve and pledged balances with Central Bank	(9,831)	(738)
Loans to credit institutions	1,397	(32,284)
Bonds and debt instruments	(21,426)	4,557
Loans to customers	(23,058)	(78,415)
Shares and equity instruments	2,540	13,313
Other assets	2,442	(293)
Non-current assets and liabilities held for sale	23	(182)
Deposits from Central Bank and credit institutions	888	1,546
Deposits from customers	63,077	41,048
Derivative instruments and short positions	(5,590)	(9,207)
Other liabilities	737	3,624
Total	11,199	(57,031)

Significant non-cash transactions

Significant non-cash transactions 2023

During the year the Group did not have any significant non-cash transactions.

Significant non-cash transactions 2022

During the year the Group repurchased own debt securites amounting to ISK 8,094 million by issuing new debt.

The notes on pages 20 to 86 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2023 19 Amounts are in ISK million

Notes to the Consolidated Financial Statements

1. Corporate information

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

The Consolidated Financial Statements for the year ended 2023 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over eight other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Group provides a wide range of financial services such as retail banking, corporate banking, investment banking, wealth management and asset financing. The Group operates mainly in the Icelandic market.

The Consolidated Financial Statements were written in English and approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 8 February 2024. In case of discrepancy between the English version and the Icelandic translation, the English original will prevail.

2. Basis of preparation

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

The Consolidated Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 December 2023 the exchange rate of the ISK against the USD was 136.20 and for the EUR 150.50 (at year-end 2022: USD 142.04 and EUR 151.50).

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

Basis of measurement

The Consolidated Financial Statements are prepared on a historical cost basis, except for the following assets and liabilities, which are measured at fair value: bonds and debt instruments, shares and equity instruments, short positions in listed bonds, derivative financial instruments, and certain debt issued by the Group.

Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

3. Significant accounting estimates and judgements

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

Key source of estimation uncertainty is the allowance for credit losses.

3. Significant accounting estimates and judgements (continued)

Impairment of financial assets

The main assumptions used for calculating the allowance for credit losses that are subject to significant judgement include the following:

- Probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- Macroeconomic variables for multiple scenarios built on available information
- Assessment of significant increase in credit risk (SICR)

The PD, LGD and EAD inputs used to estimate expected credit losses are modelled based on variables that are most closely related with credit losses in the relevant portfolio. This includes macroeconomic variables, demographic variables, variables related to past payment history among other variables. These variables are sourced both internally and externally. Significant judgements required for measuring expected credit loss (ECL) include the following:

- Determining criteria for assessing what constitutes a significant increase in credit risk
- Establishing the forward-looking scenarios and their relative weightings
- Choosing appropriate models and assumptions for the measurement of ECL

During the last quarter of 2023, the Group made temporary changes to the impairment model due to seismic activity on the Reykjanes peninsula. The Group's impairment process allows for temporary changes to the impairment model to account for circumstances when it becomes evident that existing or expected risk factors have not been appropriately considered in the credit risk rating or modelling process. The seismic activity created such circumstances for loans to individuals and small companies in the town of Grindavík, and therefore adjustments were warranted. The adjustments include transferring exposures amounting to ISK 5.2 billion from Stage 1 to Stage 2 and applying higher haircuts to the values of collateral for these exposures. In addition, a management overlay was applied to the modelled ECL, resulting in a total additional impairment allowance of ISK 1.7 billion due to the seismic activity.

The All Risk Committee has decided to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at year-end 2023, as it had been throughout the year. Management used sensitivity analysis to determine the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 320 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 220 million.

The allowance for credit losses is further discussed in Notes 24-25, in Notes 46-50 on risk management and in Note 62.3.

4. Changes to accounting policies

Amendments to IFRS standards that became effective from 1 January 2023 did not have a material impact on the Consolidated Financial Statements.

Changes to IFRS standards issued but not effective at the reporting date

Amendments to several IFRS standards have been issued but are not yet effective. The Group did not early adopt any of them and intends to adopt them when they become effective. The Group currently does not expect a material impact on its future Consolidated Financial Statements as a result of these changes.

5. Operating segments

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

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

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

The Group comprises the following operating segments.

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors, and affluent individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage, and private banking services. The division is sector-focused, building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

Treasury and Proprietary Trading

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

Cost centres

Cost centres comprise the CEO's office (Human Resources & Internal Services, Legal, Marketing & Communications, and Strategy & Sustainability), Digital & Data, Risk Management, Compliance, and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. Assets and liabilities of subsidiaries, that are classified as non-current assets and disposal groups held for sale, are included in the column "Other subsidiaries". All inter-company eliminations are included in the column "Eliminations & adjustments".

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

5. Operating segments (continued)

2023	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	17,410	17,980	13,854	(475)	(365)	48,404	207	48,611
Net fee and commission income (expense)	4,336	2,208	4,575	(8)	(36)	11,075	3,159	14,234
Other net operating income	70	90	1,284	565	374	2,383	(991)	1,392
Total operating income	21,816	20,278	19,713	82	(27)	61,862	2,375	64,237
Salaries and related expenses	(2,473)	(2,161)	(2,132)	(272)	(6,959)	(13,997)	(1,006)	(15,003)
Other operating expenses	(2,592)	(1,196)	(1,061)	(505)	(5,579)	(10,933)	(807)	(11,740)
Administrative fine	-	-	-	-	(860)	(860)	-	(860)
Bank tax	(838)	(454)	(489)	(77)	(13)	(1,871)	-	(1,871)
Net impairment on financial assets	(1,589)	(669)	1,163	80	-	(1,015)	-	(1,015)
Cost allocation	(5,225)	(4,058)	(3,569)	581	12,271	-	-	-
Profit (loss) before tax	9,099	11,740	13,625	(111)	(1,167)	33,186	562	33,748
Income tax income (expense)	(2,584)	(3,170)	(3,660)	203	291	(8,920)	(278)	(9,198)
Profit (loss) for the year from continuing operations	6,515	8,570	9,965	92	(876)	24,266	284	24,550
Net segment revenue from external customers	29,266	22,829	29,448	(19,989)	308	61,862	2,375	64,237
Net segment revenue from other segments	(7,450)	(2,551)	(9,735)	20,071	(335)	-	-	-
Fee and commission income	8,116	2,262	4,648	401	-	15,427	3,164	18,591
Depreciation, amortisation, and write-offs	(179)	(57)	(2)	-	(1,368)	(1,606)	(14)	(1,620)
At 31 December 2023								
Loans to customers	574,653	311,689	336,161	923	-	1,223,426	-	1,223,426
Other assets	3,176	2,210	889	343,823	8,716	358,814	454	359,268
Total segment assets	577,829	313,899	337,050	344,746	8,716	1,582,240	454	1,582,694
Deposits from customers	406,821	251,238	172,658	22,957	-	853,674	(2,965)	850,709
Other liabilities	3,720	3,828	5,370	487,357	5,768	506,043	1,249	507,292
Total segment liabilities	410,541	255,066	178,028	510,314	5,768	1,359,717	(1,716)	1,358,001
Allocated equity	41,160	47,210	63,033	69,975	1,145	222,523	2,170	224,693
Risk exposure amount	260,760	291,509	366,761	48,148	6,930	974,108	2,924	977,032

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

Amounts are in ISK million

Notes to the Consolidated Financial Statements

5. Operating segments (continued)

2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,065	14,493	11,108	2,673	(260)	43,079	47	43,126
Net fee and commission income (expense)	4,334	2,174	4,557	(55)	(1)	11,009	3,044	14,053
Other net operating income	342	90	1,301	(402)	149	1,480	(1,423)	57
Total operating income	19,741	16,757	16,966	2,216	(112)	55,568	1,668	57,236
Salaries and related expenses	(2,355)	(1,900)	(1,819)	(289)	(6,253)	(12,616)	(836)	(13,452)
Other operating expenses	(2,446)	(1,072)	(971)	(467)	(4,598)	(9,554)	(612)	(10,166)
Administrative fine	-	-	-	-	(300)	(300)	-	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	-	-	(165)	-	(165)
Bank tax	(801)	(407)	(520)	(116)	(14)	(1,858)	-	(1,858)
Net impairment on financial assets	(300)	796	395	683	-	1,574	2	1,576
Cost allocation	(4,792)	(3,431)	(3,237)	551	10,909	-	-	-
Profit (loss) before tax	8,918	10,710	10,811	2,578	(368)	32,649	222	32,871
Income tax income (expense)	(2,528)	(2,891)	(2,946)	108	92	(8,165)	(320)	(8,485)
Profit (loss) for the year from continuing operations	6,390	7,819	7,865	2,686	(276)	24,484	(98)	24,386
Net segment revenue from external customers	33,261	18,158	23,790	(19,722)	81	55,568	1,668	57,236
Net segment revenue from other segments	(13,520)	(1,401)	(6,824)	21,938	(193)	-	-	-
Fee and commission income	7,282	2,223	4,709	367	-	14,581	3,049	17,630
Depreciation, amortisation, and write-offs	(172)	(57)	(1)	-	(1,155)	(1,385)	(15)	(1,400)
At 31 December 2022								
Loans to customers	552,181	278,823	354,787	848	-	1,186,639	-	1,186,639
Other assets	3,158	2,100	3,859	360,594	9,387	379,098	498	379,596
Total segment assets	555,339	280,923	358,646	361,442	9,387	1,565,737	498	1,566,235
Deposits from customers	361,994	244,645	164,390	21,529	-	792,558	(2,661)	789,897
Other liabilities	2,597	2,054	5,565	540,189	5,785	556,190	1,274	557,464
Total segment liabilities	364,591	246,699	169,955	561,718	5,785	1,348,748	(1,387)	1,347,361
Allocated equity	39,228	40,433	62,400	73,966	962	216,989	1,885	218,874
Risk exposure amount	255,938	263,011	404,917	67,970	6,107	997,943	1,548	999,491

Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

5. Operating segments (continued)

Subsidiaries, eliminations & adjustments

2023	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	11	105	89	2	207
Net fee and commission income (expense)	1,465	1,651	(30)	73	3,159
Other net operating income	74	(2)	295	(1,358)	(991)
Total operating income	1,550	1,754	354	(1,283)	2,375
Salaries and related expenses	(686)	(249)	(71)	-	(1,006)
Other operating expenses	(222)	(828)	(273)	516	(807)
Profit (loss) before tax	642	677	10	(767)	562
Income tax expense	(128)	(150)	-	-	(278)
Profit (loss) for the year from continuing operations	514	527	10	(767)	284
Net segment revenue from external customers	1,860	1,721	7	(1,213)	2,375
Net segment revenue from other segments	(310)	33	347	(70)	-
Fee and commission income	2,021	1,651	-	(508)	3,164
Depreciation, amortisation, and write-offs	-	(2)	(3)	(9)	(14)
At 31 December 2023					
Total assets	2,284	2,330	5,517	(9,677)	454
Total liabilities	292	879	100	(2,987)	(1,716)
Total equity	1,992	1,451	5,417	(6,690)	2,170

2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	9	34	52	(48)	47
Net fee and commission income (expense)	1,627	1,561	(30)	(114)	3,044
Other net operating income	(55)	11	270	(1,649)	(1,423)
Total operating income	1,581	1,606	292	(1,811)	1,668
Salaries and related expenses	(562)	(209)	(65)	-	(836)
Other operating expenses	(218)	(602)	(214)	422	(612)
Net impairment on financial assets	2	-	-	-	2
Profit (loss) before tax	803	795	13	(1,389)	222
Income tax expense	(178)	(142)	-	-	(320)
Profit (loss) for the year from continuing operations	625	653	13	(1,389)	(98)
Net segment revenue from external customers	1,855	1,479	11	(1,677)	1,668
Net segment revenue from other segments	(274)	127	281	(134)	-
Fee and commission income	2,171	1,561	-	(683)	3,049
Depreciation, amortisation, and write-offs	-	-	(6)	(9)	(15)
At 31 December 2022					
Total assets	2,472	1,926	5,469	(9,369)	498
Total liabilities	354	714	134	(2,589)	(1,387)
Total equity	2,118	1,212	5,335	(6,780)	1,885

Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

Notes to the Consolidated Financial Statements

6. Net interest income

	2023	2022
Cash and balances with Central Bank	5,389	2,791
Loans to credit institutions	3,236	757
Loans to customers	117,470	84,123
Financial assets mandatorily at fair value through profit or loss	11,035	6,335
Other assets	12	7
Interest income	137,142	94,013
Deposits from Central Bank and credit institutions	(243)	(364)
Deposits from customers	(50,073)	(23,049)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(2,470)	(578)
Debt issued and other borrowed funds at amortised cost	(25,829)	(21,709)
Subordinated loans	(3,214)	(1,538)
Lease liabilities	(79)	(82)
Other liabilities	(6,623)	(3,567)
Interest expense	(88,531)	(50,887)
Net interest income	48,611	43,126

7. Net fee and commission income

	2023	2022
Asset management	2,908	3,154
Investment banking and brokerage	3,340	3,627
Payment processing	8,072	6,774
Loans and guarantees	2,251	2,350
Other fee and commission income	2,020	1,725
Fee and commission income	18,591	17,630
Brokerage	(496)	(484)
Clearing and settlement	(3,847)	(2,999)
Other fee and commission expense	(14)	(94)
Fee and commission expense	(4,357)	(3,577)
Net fee and commission income	14,234	14,053

Fee and commission income by segment is disclosed in Note 5.

Amounts are in ISK million

8. Net financial income (expense)

	2023	2022
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	2,610	(6,121)
Net gain (loss) on financial liabilities designated as at FVTPL	(2,511)	4,512
Net gain (loss) on fair value hedges	42	(56)
Net gain on derecognition of financial liabilities measured at amortised cost	170	408
Net loss on derecognition of financial assets measured at amortised cost	(70)	-
Net financial income (expense)	241	(1,257)

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

	2023	2022
Net loss on bonds and related derivatives	(1,062)	(2,735)
Net loss on shares and related derivatives	(537)	(1,051)
Dividend income	286	1,049
Net gain on debt issued and related derivatives	1,083	754
Net gain on economic hedging and other derivatives	541	726
Net loss on derecognition of financial assets measured at amortised cost	(70)	-
Net financial income (expense)	241	(1,257)

9. Net foreign exchange gain

	2023	2022
Cash and balances with Central Bank	(51)	5
Loans at amortised cost	(5,524)	11,647
Financial assets mandatorily at fair value through profit or loss	(2,153)	(1,078)
Other assets	(1)	(11)
Net foreign exchange gain (loss) for assets	(7,729)	10,563
Deposits	2,599	(4,782)
Debt issued and other borrowed funds designated as at fair value through profit or loss	375	(1,317)
Debt issued and other borrowed funds at amortised cost	4,444	(5,677)
Subordinated loans	892	2,094
Net foreign exchange gain (loss) for liabilities	8,310	(9,682)
Net foreign exchange gain	581	881

10. Other operating income

	2023	2022
Net gain from sale of associates	-	158
Share of profit of associates, net of income tax	207	40
Gain from sales of property and equipment	219	12
Legal fees	54	45
Rental income	63	44
Other net operating income	27	134
Other operating income	570	433

Amounts are in ISK million

11. Personnel and salaries

	2023	2022
Salaries	11,545	10,332
Contributions to pension funds	1,734	1,594
Social security charges and financial activities tax*	1,591	1,423
Other salary-related expenses	133	103
Salaries and related expenses	15,003	13,452

*Financial activities tax calculated on salaries is 5.5% in 2023 (2022: 5.5%).

	2023		2022	
	The Bank	The Group	The Bank	The Group
Average number of employees	731	770	730	772
Positions at year-end	725	764	700	739

Total amount of paid compensation for the Board of Directors, the CEO, and the Executive Committee is specified as follows:

	2023	2022
Linda Jónsdóttir, Chairman of the Board	5.7	-
Stefán Pétursson, Vice-Chairman of the Board	4.4	-
Agnar Tómas Möller, member of the Board	6.8	-
Anna Þórðardóttir, member of the Board	9.6	9.0
Haukur Örn Birgisson, member of the Board	3.8	-
Helga Hlín Hákonardóttir, member of the Board	4.1	-
Frosti Ólafsson, member of the Board	9.6	8.9
Finnur Árnason, former Chairman of the Board	8.3	9.5
Guðrún Þorgeirsdóttir, former Vice-Chairman of the Board	7.5	8.9
Ari Daníelsson, former member of the Board	5.1	6.4
Valgerður Hrund Skúladóttir, former member of the Board	3.4	-
Herdís Gunnarsdóttir, former member of the Board	2.4	2.5
Tanya Sharov, former member of the Board	2.1	6.4
Hallgrímur Snorrason, former Chairman of the Board	-	3.6
Heiðrún Jónsdóttir, former Vice-Chairman of the Board	-	7.6
Árni Stefánsson, former member of the Board	-	2.2
Jökull H. Úlfsson, former member of the Board	-	2.3
Alternate board members	0.3	0.6
Total salaries	73.1	67.9

Contribution to pension funds for the Board of Directors amounted to ISK 9.8 million in 2023 (2022: ISK 9.2 million).

Amounts are in ISK million

11. Personnel and salaries (continued)

	2023		2022	
	Total salaries	Pension funds contrib.	Total salaries	Pension funds contrib.
Jón Guðni Ómarsson, CEO*	50.5	7.2	46.9	6.6
Guðmundur Kristinn Birgisson, Chief Risk Officer	41.6	5.9	39.8	5.6
Riaan Dreyer, Managing Director of Digital & Data	44.9	6.7	42.7	6.4
Una Steinsdóttir, Managing Director of Business Banking	44.9	6.4	42.9	6.1
Kristín Hrönn Guðmundsdóttir, Managing Director of C&I Banking**	22.6	4.0	-	-
Barbara Inga Albertsdóttir, Chief Compliance Officer**	6.3	0.9	-	-
Sigríður Hrefna Hrafnkelsdóttir, former Managing Director**	48.5	6.9	41.1	5.7
Birna Einarsdóttir, former CEO***	29.7	6.4	48.3	11.5
Ásmundur Tryggvason, former Managing Director****	24.0	3.3	47.0	6.7
Total	313.0	47.7	308.7	48.6

Included in total salaries are non-monetary benefits such as the use of cars owned by the Group.

As of 1 January 2017, the Bank has not had an active remuneration policy in place as stated in the Bank's compensation policy. In 2023 there were no paid performance-based salaries (2022: none) and there were no unpaid performance-based salaries at year-end 2023. There were no share-based payments in the years 2023 and 2022.

*Jón Guðni Ómarsson was appointed CEO by the Bank's Board of Directors on 28 June 2023, succeeding Birna Einarsdóttir. Jón Guðni has been with the Bank and its predecessors from the year 2000 and served as CFO from 2011 until year-end 2023. Included in salaries for the year 2022 is an employment anniversary payment. The payment is in accordance with the collective agreement of the Confederation of Icelandic Bank and Finance Employees (SSF).

**On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking. On 1 November 2023 Barbara Inga Albertsdóttir was appointed Chief Compliance Officer. Sigríður Hrefna Hrafnkelsdóttir decided to resign her position as Managing Director of Personal Banking at the end of the year. A settlement of accrued holiday pay is included in the salaries of Sigríður Hrefna for the year 2023.

***Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. The agreement concluded with the former CEO is in compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest AGM, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 56.6 million. The former CEO also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements. The Bank expensed ISK 82.6 million in salaries and related expenses relating to the agreement in the second quarter of 2023.

****Ásmundur Tryggvason stepped down as Managing Director of Corporate & Investment Banking as of 1 July 2023. His resignation agreement is in compliance with the underlying employment agreement, in accordance with the Bank's remuneration policy, as approved at the latest AGM, and the current Act on Financial Undertakings. The employment agreement stipulated a notice period of twelve months and wages and benefits for the period amount to ISK 46.1 million. The former Managing Director also maintains all rights regarding leave and pension during that period. Other provisions are standardised and in accordance with the employment agreement and relevant collective wage agreements. The Bank expensed ISK 63.4 million in salaries and related expenses relating to the agreement in the third quarter of 2023. Included in salaries for the year 2022 is an employment anniversary payment. The payment is in accordance with the collective agreement of the Confederation of Icelandic Bank and Finance Employees (SSF).

Amounts are in ISK million

12. Other operating expenses

	2023	2022
Professional services	2,593	1,986
Software and IT expenses	4,733	4,389
Real estate and office equipment	654	565
Depreciation, amortisation, and write-offs	1,620	1,400
Other administrative expenses*	2,140	1,826
Other operating expenses	11,740	10,166

*Comparative figures have been changed with immaterial effects. A provision of ISK 300 million recognised in the line item "Other operating expenses" in the 2022 Consolidated Financial Statements was restated in the line item "Administrative fine".

Auditors' fees

	2023	2022
Audit of the financial statements	105	81
Review of interim financial statements	22	20
Other services	10	7
Auditors' fees	137	108

13. Administrative fine

At year-end 2022, Íslandsbanki received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland's (FSA) inspection into the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki that took place in March 2022 (the Offering). On 22 June 2023 the Bank announced that the Board of Directors accepted the FSA's offer to conclude the matter with a settlement agreement (the Settlement Agreement).

The Settlement Agreement provides that the Bank admits, that in the preparation and execution of the Offering, it did not comply with applicable legal requirements and internal rules of the Bank on the provision of investment services, particularly in relation with recording of telephone communications, provision of information to clients in the Offering, investor classification requirements, and measures to prevent conflicts of interest e.g., segregation of duties and employees' transactions. The Settlement Agreement states that the Bank's implementation of corporate governance and internal controls as well as a risk-based approach to supervision of recordings of telephone communications were insufficient. Furthermore, the Settlement Agreement states that the Bank should have carried out a separate risk assessment regarding its role in the Offering. The Settlement Agreement also states that in provision of investment services in connection with the Offering the Bank did not, in all respects, satisfy its obligation to act honestly, fairly, and professionally and to promote market integrity.

Under the terms of the Settlement Agreement, the Bank agreed to pay a fine in the amount of ISK 1,160 million and admitted to having violated certain provisions of the Act on Markets in Financial Instruments no. 115/2021 and the Act on Financial Undertakings no. 161/2002 in connection with the Offering. Furthermore, the Bank undertook to carry out certain remedial measures within a specified period. The Bank's Chief Audit Executive reviewed the improvements and confirmed in an audit that the remedial requirements had been adequately met before 1 October 2023. The audit was confirmed by the Bank's Board at the end of October 2023 and sent to the FSA.

The Bank recognised a provision of ISK 300 million in connection with the preliminary findings from the FSA's inspection into the execution of the Offering in the 2022 Consolidated Financial Statements and in the second quarter of 2023 a charge of ISK 860 million was recorded in relation to this matter.

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. Jón Guðni Ómarsson, who served as CFO from 2011, was appointed CEO. Ellert Hlöðversson was appointed CFO of Íslandsbanki on 16 October 2023 and assumed the role as of 1 January 2024. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. For further information see Note 11.

A shareholder meeting was held on 28 July 2023 to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. Linda Jónsdóttir was elected the Chairman of the Board of Directors. For further information on changes to the Board of Directors see Note 42.

Amounts are in ISK million

14. Net impairment on financial assets

	2023	2022
Net change in expected credit losses, on-balance sheet items	(1,168)	1,837
Net change in expected credit losses, off-balance sheet items	153	(336)
Changes in provision due to court rulings	-	75
Net impairment on financial assets	(1,015)	1,576

15. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2023 is 20% (2022: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the year 2023 is 27.3% (2022: 25.8%).

	2023	2022
Current tax expense excluding discontinued operations	7,548	5,659
Special financial activities tax	2,083	1,396
Adjustments in prior year's calculated income tax	(191)	(472)
Changes in deferred tax assets and deferred tax liabilities	(242)	1,902
Income tax recognised in the income statement	9,198	8,485
Income tax recognised in other comprehensive income	(173)	(110)

	2023		2022	
Profit before tax	33,748		32,871	
20% income tax calculated on the profit for the year	6,750	20.0%	6,574	20.0%
Special financial activities tax	2,083	6.2%	1,396	4.2%
Share in taxes of non-independent taxpayers	-	0.0%	150	0.5%
Adjustments in prior year's calculated income tax	(191)	(0.6%)	(472)	(1.4%)
Income not subject to tax	(98)	(0.3%)	(386)	(1.2%)
Non-deductible expenses	666	2.0%	1,210	3.7%
Other differences	(12)	0.0%	13	0.0%
Effective income tax expense	9,198	27.3%	8,485	25.8%

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

16. Earnings per share

	Continued operations		Discontinued operations		Profit for the year	
	2023	2022	2023	2022	2023	2022
Profit attributable to shareholders of the Bank	24,550	24,386	35	149	24,585	24,535
Weighted average number of outstanding shares	1,992	2,000	1,992	2,000	1,992	2,000
Basic earnings per share (ISK)	12.32	12.19	0.02	0.07	12.34	12.27

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2022: none).

Amounts are in ISK million

Notes to the Consolidated Financial Statements

17. Classification of financial assets and financial liabilities

At 31 December 2023	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	87,504	87,504
Loans to credit institutions	-	-	-	73,475	73,475
Listed bonds and debt instruments	157,592	-	-	-	157,592
Listed bonds and debt instruments used for economic hedging	3,750	-	-	-	3,750
Unlisted bonds and debt instruments	-	-	-	-	-
Derivatives	5,776	-	-	-	5,776
Loans to customers	-	-	-	1,223,426	1,223,426
Listed shares and equity instruments	2,342	-	-	-	2,342
Listed shares and equity instruments used for economic hedging	8,997	-	-	-	8,997
Unlisted shares and equity instruments	1,902	-	-	-	1,902
Other financial assets	-	-	-	2,846	2,846
Total financial assets	180,359	-	-	1,387,251	1,567,610
Deposits from Central Bank and credit institutions	-	-	-	16,149	16,149
Deposits from customers	-	-	-	850,709	850,709
Derivative instruments and short positions	5,051	39	-	-	5,090
Debt issued and other borrowed funds	-	45,126	92,645	279,802	417,573
Subordinated loans	-	-	-	38,155	38,155
Other financial liabilities	-	-	-	8,879	8,879
Total financial liabilities	5,051	45,165	92,645	1,193,694	1,336,555

At 31 December 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	94,424	94,424
Loans to credit institutions	-	-	-	110,364	110,364
Listed bonds and debt instruments	125,318	-	-	-	125,318
Listed bonds and debt instruments used for economic hedging	3,454	-	-	-	3,454
Unlisted bonds and debt instruments	2,032	-	-	-	2,032
Derivatives	7,461	-	-	-	7,461
Loans to customers	-	-	-	1,186,639	1,186,639
Listed shares and equity instruments	3,221	-	-	-	3,221
Listed shares and equity instruments used for economic hedging	10,401	-	-	-	10,401
Unlisted shares and equity instruments	2,246	-	-	-	2,246
Other financial assets	-	-	-	5,411	5,411
Total financial assets	154,133	-	-	1,396,838	1,550,971
Deposits from Central Bank and credit institutions	-	-	-	15,269	15,269
Deposits from customers	-	-	-	789,897	789,897
Derivative instruments and short positions	9,208	1,596	-	-	10,804
Debt issued and other borrowed funds	-	49,579	83,437	335,254	468,270
Subordinated loans	-	-	-	34,392	34,392
Other financial liabilities	-	-	-	11,329	11,329
Total financial liabilities	9,208	51,175	83,437	1,186,141	1,329,961

Amounts are in ISK million

18. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 December 2023 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

At 31 December 2023	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	161,342	-	-	161,342
Derivatives	-	5,776	-	5,776
Shares and equity instruments	11,339	-	1,902	13,241
Total financial assets	172,681	5,776	1,902	180,359
Short positions	640	-	-	640
Derivative instruments	-	4,450	-	4,450
Debt issued and other borrowed funds designated as at FVTPL	92,645	-	-	92,645
Total financial liabilities	93,285	4,450	-	97,735

At 31 December 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	128,772	-	2,032	130,804
Derivatives	-	7,461	-	7,461
Shares and equity instruments	13,623	-	2,245	15,868
Total financial assets	142,395	7,461	4,277	154,133
Short positions	285	-	-	285
Derivative instruments	-	10,519	-	10,519
Debt issued and other borrowed funds designated as at FVTPL	83,437	-	-	83,437
Total financial liabilities	83,722	10,519	-	94,241

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2023	2,032	2,245
Sales and share capitalisation decrease	(2,188)	(380)
Purchases and share capitalisation increase	-	52
Net gain (loss) on financial instruments recognised in profit or loss	156	(15)
Fair value at 31 December 2023	-	1,902

Amounts are in ISK million

18. Fair value information for financial instruments (continued)

	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2022	50	4,052
Purchases	2,000	38
Sales and share capital reduction	(22)	(454)
Net gain on financial instruments recognised in profit or loss	4	347
Transfers to Level 1 or 2	-	(27)
Transfers to associates	-	(1,711)
Fair value at 31 December 2022	2,032	2,245

At 31 December 2023 the Group's Level 3 shares amounted to ISK 1,902 million:

- These include shares in five professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 1,636 million. The Group receives information from fund managers who use valuation models for the valuation of these shares.

- Other Level 3 shares amounted to ISK 266 million.

Sensitivity analysis for Level 3 assets

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

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

	31.12.2023	31.12.2022
Very favourable	904	1,936
Favourable	217	1,119
Unfavourable	(187)	(109)
Very unfavourable	(217)	(224)

Amounts are in ISK million

19. Financial instruments not carried at fair value

Assets

The fair value of "Loans to customers" may differ from their net carrying amount because the interest rates they carry may not reflect the interest rates that similar new loans would carry. The fair value is estimated by subtracting from or adding to the net carrying amount of the loans the discounted interest rate difference calculated from the reporting date until the next interest reset or maturity, whichever comes first. Since the interest rate difference is estimated using internal models these assets are classified as Level 3.

For "Cash and balances with Central Bank", "Loans to credit institutions" and "Other financial assets" the fair value is adequately approximated by the carrying amount as they are short-term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. The fair value for longer term fixed rate deposits is calculated with a duration approach, using the difference in each liability's current interest rate from the rate that a similar deposit would carry today. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

Observed market value is used for the fair value of "Debt issued and other borrowed funds" where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Group's current funding premium on similar debt. These liabilities are classified as Level 2. The funding premium is based on the interest margin in the Group's issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

Other financial liabilities mainly include unsettled securities transactions and payments due to leasing contracts and they are classified as Level 2 since their value is not observable from active market prices. Due to the short-term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 18.

At 31 December 2023	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	87,504	-	87,504	87,504
Loans to credit institutions	-	73,475	-	73,475	73,475
Loans to customers	-	-	1,207,465	1,207,465	1,223,426
Other financial assets	-	2,846	-	2,846	2,846
Total financial assets	-	163,825	1,207,465	1,371,290	1,387,251
Deposits from Central Bank and credit institutions	-	16,148	-	16,148	16,149
Deposits from customers	-	850,729	-	850,729	850,709
Debt issued and other borrowed funds	244,967	28,077	-	273,044	279,802
Subordinated loans	37,414	-	-	37,414	38,155
Other financial liabilities	-	8,879	-	8,879	8,879
Total financial liabilities	282,381	903,833	-	1,186,214	1,193,694

At 31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	94,424	-	94,424	94,424
Loans to credit institutions	-	110,364	-	110,364	110,364
Loans to customers	-	-	1,171,380	1,171,380	1,186,639
Other financial assets	-	5,411	-	5,411	5,411
Total financial assets	-	210,199	1,171,380	1,381,579	1,396,838
Deposits from Central Bank and credit institutions	-	15,108	-	15,108	15,269
Deposits from customers	-	789,938	-	789,938	789,897
Debt issued and other borrowed funds*	215,189	113,950	-	329,139	335,254
Subordinated loans	-	36,070	-	36,070	34,392
Other financial liabilities	-	11,329	-	11,329	11,329
Total financial liabilities	215,189	966,395	-	1,181,584	1,186,141

*Comparative figures have been changed with immaterial effects.

Íslandsbanki hf. Consolidated Financial Statements 2023 36 Amounts are in ISK million

20. Offsetting financial assets and financial liabilities

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

At 31 December 2023, and at year-end 2022, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	31.12.2023	31.12.2022
Net financial assets	5,776	7,461
Amounts not set off but subject to master netting arrangements and similar agreements	(4,404)	(6,382)
- Financial liabilities	(715)	(856)
- Cash collateral received	(3,589)	(4,962)
- Financial instruments collateral received	(100)	(564)
Net amount after consideration of potential effect of netting arrangements	1,372	1,079

Derivative instruments and short positions	31.12.2023	31.12.2022
Net financial liabilities	5,090	10,804
Amounts not set off but subject to master netting arrangements and similar agreements	(2,794)	(7,486)
- Financial assets	(715)	(856)
- Cash collateral pledged	(2,079)	(6,630)
Net amount after consideration of potential effect of netting arrangements	2,296	3,318

21. Cash and balances with Central Bank

	31.12.2023	31.12.2022
Cash on hand	3,653	3,563
Unrestricted balances with Central Bank	64,025	80,866
Cash and unrestricted balances with Central Bank	67,678	84,429
Balances pledged as collateral to Central Bank	484	483
Mandatory reserve deposits with Central Bank	19,342	9,512
Cash and balances with Central Bank	87,504	94,424

22. Loans to credit institutions

	31.12.2023	31.12.2022
Money market loans	53,882	55,742
Bank accounts	18,794	54,606
Other loans	799	16
Loans to credit institutions	73,475	110,364

Amounts are in ISK million

23. Derivative instruments and short positions

At 31 December 2023	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,028	79,824	2,587	106,045
Cross-currency interest rate swaps	1,066	22,028	53	4,587
Equity forwards	350	1,463	494	7,507
Foreign exchange forwards	300	16,824	397	17,052
Foreign exchange swaps	888	32,776	891	42,192
Bond forwards	144	2,273	28	2,208
Derivatives	5,776	155,188	4,450	179,591
Short positions in listed bonds	-	-	640	663
Total	5,776	155,188	5,090	180,254

At 31 December 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,953	50,399	9,403	225,817
Cross-currency interest rate swaps	637	17,028	353	11,818
Equity forwards	765	8,389	130	3,486
Foreign exchange forwards	750	20,437	95	9,944
Foreign exchange swaps	1,221	38,733	537	46,487
Bond forwards	135	3,834	1	286
Derivatives	7,461	138,820	10,519	297,838
Short positions in listed bonds	-	-	285	332
Total	7,461	138,820	10,804	298,170

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 34) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2023 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 39 million (2022: negative ISK 1,596 million) and their total notional amount was ISK 45,150 million (2022: ISK 90,900 million).

Amounts are in ISK million

24. Loans to customers

At 31 December 2023	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	580,591	11,117	6,483	(1,407)	(1,539)	(614)	594,631
Commerce and services	167,219	14,416	3,335	(1,000)	(538)	(624)	182,808
Construction	77,720	2,986	402	(833)	(118)	(58)	80,099
Energy	7,624	393	-	(67)	(12)	-	7,938
Financial services	214	-	1	(1)	-	-	214
Industrial and transportation	67,612	1,869	9,156	(225)	(69)	(2,541)	75,802
Investment companies	41,219	5,131	345	(639)	(81)	(44)	45,931
Public sector and non-profit organisations	18,466	30	4	(16)	(7)	(1)	18,476
Real estate	138,571	4,252	2,529	(496)	(355)	(328)	144,173
Seafood	73,259	193	17	(104)	(8)	(3)	73,354
Loans to customers	1,172,495	40,387	22,272	(4,788)	(2,727)	(4,213)	1,223,426

At 31 December 2022	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	562,460	5,134	5,256	(1,607)	(175)	(546)	570,522
Commerce and services	154,413	17,491	3,836	(974)	(1,703)	(841)	172,222
Construction	57,885	2,285	402	(654)	(66)	(37)	59,815
Energy	10,456	-	-	(45)	-	-	10,411
Financial services	2,641	1	-	(20)	-	-	2,622
Industrial and transportation	84,369	670	8,885	(303)	(19)	(2,524)	91,078
Investment companies	38,712	1,577	732	(409)	(210)	(66)	40,336
Public sector and non-profit organisations	10,857	219	1	(29)	(2)	-	11,046
Real estate	123,589	1,544	1,948	(493)	(57)	(234)	126,297
Seafood	101,491	854	63	(102)	(3)	(13)	102,290
Loans to customers	1,146,873	29,775	21,123	(4,636)	(2,235)	(4,261)	1,186,639

25. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	90	-	-	90
Loans to customers	4,788	2,727	4,213	11,728
Other financial assets	4	4	-	8
Off-balance sheet loan commitments and financial guarantees	916	106	162	1,184
At 31 December 2023	5,816	2,837	4,375	13,028
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	152	-	-	152
Loans to customers	4,636	2,235	4,261	11,132
Other financial assets	9	4	-	13
Off-balance sheet loan commitments and financial guarantees	869	242	227	1,338
At 31 December 2022	5,669	2,481	4,488	12,638

Amounts are in ISK million

25. Expected credit losses (continued)

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

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	4,636	2,235	4,261	11,132
Transfer to Stage 1	1,747	(1,505)	(242)	-
Transfer to Stage 2	(893)	1,076	(183)	-
Transfer to Stage 3	(173)	(454)	627	-
Net remeasurement of loss allowance	(2,998)	1,213	374	(1,411)
New financial assets originated or purchased	3,278	292	1,010	4,580
Derecognitions and maturities	(809)	(129)	(1,031)	(1,969)
Write-offs*	-	(1)	(1,014)	(1,015)
Recoveries of amounts previously written off	-	-	160	160
Foreign exchange	-	-	(62)	(62)
Unwinding of interest	-	-	313	313
At 31 December 2023	4,788	2,727	4,213	11,728

*During the year financial assets amounting to ISK 956 million were written off but are still subject to enforcement activity.

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,830	3,804	5,931	13,565
Transfer to Stage 1	2,028	(1,743)	(285)	-
Transfer to Stage 2	(491)	936	(445)	-
Transfer to Stage 3	(117)	(460)	577	-
Net remeasurement of loss allowance*	(3,196)	(308)	(1,615)	(5,119)
New financial assets originated or purchased*	3,425	1,742	1,341	6,508
Derecognitions and maturities*	(842)	(1,736)	(605)	(3,183)
Write-offs**	(1)	-	(1,079)	(1,080)
Recoveries of amounts previously written off	-	-	146	146
Foreign exchange	-	-	(115)	(115)
Unwinding of interest	-	-	410	410
At 31 December 2022	4,636	2,235	4,261	11,132

*Comparative figures have been changed with immaterial effects.

**During the year financial assets amounting to ISK 570 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2023	869	242	227	1,338
Transfer to Stage 1	491	(373)	(118)	-
Transfer to Stage 2	(112)	146	(34)	-
Transfer to Stage 3	(15)	(13)	28	-
Net remeasurement of loss allowance	(742)	124	353	(265)
New loan commitments and financial guarantees	693	74	59	826
Derecognitions and maturities	(268)	(94)	(353)	(715)
At 31 December 2023	916	106	162	1,184
At 1 January 2022	545	298	158	1,001
Transfer to Stage 1	207	(158)	(49)	-
Transfer to Stage 2	(21)	68	(47)	-
Transfer to Stage 3	(7)	(32)	39	-
Net remeasurement of loss allowance	(424)	(185)	(91)	(700)
New loan commitments and financial guarantees	702	288	282	1,272
Derecognitions and maturities	(133)	(37)	(65)	(235)
At 31 December 2022	869	242	227	1,338

Íslandsbanki hf. Consolidated Financial Statements 2023 40 Amounts are in ISK million

Notes to the Consolidated Financial Statements

26. Investments in associates

		31.12.2023	31.12.2022
Reiknistofa bankanna hf., an IT service centre company, Dalvegur 30, 201 Kópavogur	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	43.3%

Norðurturninn hf. shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,584 million (CPI-linked, based on the CPI in December 2023). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

	2023	2022
Investments in associates at the beginning of the year	3,844	939
Additions during the year	-	1,328
Transfer from shares and equity instruments to associates	-	1,711
Sales of shares in associates	-	(174)
Share of profit of associates	207	40
Investments in associates at year-end	4,051	3,844

Summarised financial information in respect of the Group's associates is set out below:

	2023	2022
Revenue	6,613	7,088
Profit	439	360
Assets	17,141	16,921
Liabilities	(8,194)	(8,397)
Net assets	8,947	8,524
Group's share of net assets of associates	4,051	3,844

27. Property and equipment

At 31 December 2023	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,213	5,263	3,112	11,588
Additions during the year	37	259	274	570
Disposals and write-offs during the year	(172)	-	(174)	(346)
Remeasurement	-	281	-	281
Historical cost	3,078	5,803	3,212	12,093
Balance at the beginning of the year	(1,378)	(1,712)	(1,746)	(4,836)
Depreciation during the year	(16)	(516)	(354)	(886)
Disposals and write-offs during the year	29	-	162	191
Accumulated depreciation	(1,365)	(2,228)	(1,938)	(5,531)
Carrying amount	1,713	3,575	1,274	6,562
Depreciation rates	0-2%	8-50%	8-33%	
Official real estate value of land and buildings	1,511			
Insurance value of buildings	2,613			
Insurance value of fixtures, equipment and vehicles			2,027	

Amounts are in ISK million

27. Property and equipment (continued)

At 31 December 2022	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,101	4,921	2,996	11,018
Additions during the year	112	8	161	281
Disposals and write-offs during the year	-	-	(45)	(45)
Remeasurement	-	334	-	334
Historical cost	3,213	5,263	3,112	11,588
Balance at the beginning of the year	(1,360)	(1,234)	(1,414)	(4,008)
Depreciation during the year	(18)	(478)	(362)	(858)
Disposals and write-offs during the year	-	-	30	30
Accumulated depreciation	(1,378)	(1,712)	(1,746)	(4,836)
Carrying amount	1,835	3,551	1,366	6,752
Depreciation rates	0-2%	8-26%	8-33%	
Official real estate value of land and buildings	1,884			
Insurance value of buildings	2,752			
Insurance value of fixtures, equipment and vehicles			2,038	

28. Intangible assets

At 31 December 2023	Purchased software	Developed software	Total
Balance at the beginning of the year	2,249	3,183	5,432
Additions during the year	385	-	385
Write-offs during the year	(151)	-	(151)
Historical cost	2,483	3,183	5,666
Balance at the beginning of the year	(774)	(1,379)	(2,153)
Amortisation during the year	(416)	(318)	(734)
Write-offs during the year	151	-	151
Accumulated amortisation	(1,039)	(1,697)	(2,736)
Carrying amount	1,444	1,486	2,930
Amortisation rates	10-33%	10%	

At 31 December 2022	Purchased software	Developed software	Total
Balance at the beginning of the year	1,779	3,183	4,962
Additions during the year	470	-	470
Historical cost	2,249	3,183	5,432
Balance at the beginning of the year	(550)	(1,061)	(1,611)
Amortisation during the year	(224)	(318)	(542)
Accumulated amortisation	(774)	(1,379)	(2,153)
Carrying amount	1,475	1,804	3,279
Amortisation rates	10-25%	10%	

Amounts are in ISK million

29. Other assets

	31.12.2023	31.12.2022
Receivables	1,698	1,848
Unsettled securities transactions	1,195	3,591
Prepaid expenses	503	400
Deferred tax assets	122	116
Other assets	120	117
Other assets	3,638	6,072

30. Non-current assets and disposal groups held for sale

	31.12.2023	31.12.2022
Repossessed collateral:		
Land and buildings	725	723
Industrial equipment and vehicles	24	5
Non-current assets and disposal groups held for sale	749	728

31. Deposits from Central Bank and credit institutions

	31.12.2023	31.12.2022
Deposits from credit institutions	15,994	15,105
Repurchase agreements with Central Bank	155	164
Deposits from Central Bank and credit institutions	16,149	15,269

32. Deposits from customers

	31.12.2023	31.12.2022
Demand deposits and deposits with maturity up to 3 months	752,146	697,025
Term deposits with maturity of more than 3 months	98,563	92,872
Deposits from customers	850,709	789,897

	31.12.2023		31.12.2022	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	18,204	2%	8,791	1%
Municipalities	9,514	1%	9,412	1%
Companies	398,489	47%	400,329	51%
Individuals	424,502	50%	371,365	47%
Deposits from customers	850,709	100%	789,897	100%

Amounts are in ISK million

33. Pledged assets

	31.12.2023	31.12.2022
Loans to customers	442,175	402,958
Financial assets pledged as collateral with Central Bank	6,775	5,723
Loans to credit institutions	2,795	7,813
Cash and balances pledged against covered Bonds	20,222	19,477
Pledged assets against liabilities	471,967	435,971

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns covered bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 December 2023 was ISK 117,476 million (year-end 2022: ISK 24,682 million).

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

34. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	31.12.2023	31.12.2022
ISB CB 23 - ISK 0 million	2015	2023	Bullet	Fixed	-	38,970
ISB CBI 24 - ISK 10,800 million	2012	2024	Bullet	Fixed, CPI - linked	17,051	41,346
ISB CBI 26 - ISK 24,500 million	2015	2026	Bullet	Fixed, CPI - linked	35,093	32,555
ISB CB 27 - ISK 28,389 million	2020	2027	Amortising	Fixed	27,363	26,992
ISB CBF 27 - ISK 7,420 million	2022	2027	Bullet	Floating	7,461	3,311
ISB CB - EUR 300 million*	2022	2027	Bullet	Fixed	45,126	43,875
ISB CBI 28 - ISK 23,463 million	2019	2028	Amortising	Fixed, CPI - linked	31,564	33,456
ISB CBI 29 - ISK 18,640 million	2023	2029	Bullet	Fixed, CPI - linked	19,596	-
ISB CBI 30 - ISK 23,040 million	2017	2030	Bullet	Fixed, CPI - linked	32,093	29,812
Covered bonds					215,347	250,317
EUR 0 million**	2020	2023	Bullet	Fixed	-	43,876
EUR 0 million(callable 2023)*	2018	2024	Bullet	Fixed	-	5,704
NOK 140 million	2019	2024	Bullet	Fixed	1,940	5,972
ISK 136 million	2019	2024	Amortising	Floating	134	282
NOK 150 million	2021	2024	Bullet	Floating	2,005	2,157
SEK 120 million	2021	2024	Bullet	Floating	1,628	3,406
NOK 146 million	2021	2024	Bullet	Floating	1,980	6,903
SEK 116 million	2021	2024	Bullet	Floating	1,591	2,739
SEK 533 million	2022	2024	Bullet	Floating	7,289	10,957
ISK 1,240 million	2020	2025	Bullet	Fixed	1,233	1,228
SEK 450 million	2021	2025	Bullet	Floating	6,105	6,130
NOK 740 million	2021	2025	Bullet	Floating	9,884	10,778
EUR 296 million**	2022	2025	Bullet	Fixed	42,868	39,561
NOK 1,400 million	2022	2025	Bullet	Floating	18,916	20,318
SEK 500 million	2023	2026	Bullet	Floating	6,887	-
EUR 300 million**	2023	2026	Bullet	Fixed	49,777	-
SEK 500 million	2023	2026	Bullet	Floating	6,843	-
ISK 2,992 million	2022	2027	Amortising	Floating	3,000	3,763
ISK 6,940 million	2022	2027	Bullet	Fixed	6,937	5,301
ISK 5,020 million	2023	2028	Bullet	Fixed, CPI - linked	5,031	-
Unsecured bonds					174,048	169,075
Other secured loans					16,459	36,650
Other unsecured loans					11,719	12,228
Other borrowed funds					28,178	48,878
Debt issued and other borrowed funds					417,573	468,270

Amounts are in ISK million

34. Debt issued and other borrowed funds (continued)

The Group repurchased own bonds during the year amounting to ISK 95,075 million (2022: ISK 79,026 million).

*The Group applies hedge accounting to this bond issuance and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 23). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2023 the total carrying amount of the bond issuance amounted to ISK 45,126 million and included in the amount are fair value changes amounting to ISK 271 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 December 2023 the total carrying amount of the bonds amounted to ISK 92,645 million; included in the amount are negative fair value changes amounting to ISK 1,282 million. The carrying amount of the bonds at 31 December 2023 was ISK 807 million lower than the contractual amount due at maturity.

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

35. Subordinated loans

	Issued	Maturity	Callable	Interest	31.12.2023	31.12.2022
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	-	6,820
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,761	6,785
Subordinated loans in ISK	2022	2033	2028	Fixed, 8.62%	1,525	1,526
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 4.86%	9,935	9,199
Subordinated loans in ISK	2023	2034	2029	Fixed CPI, 5.8%	9,915	-
Tier 2 subordinated loans					28,136	24,330
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	10,019	10,062
Additional Tier 1 subordinated loans					10,019	10,062
Subordinated loans					38,155	34,392

36. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2023	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2023
Covered bonds in ISK	69,273	(36,896)	2,665	-	(219)	34,823
Covered bonds in ISK - CPI-linked	137,169	(16,816)	15,072	-	(28)	135,397
Senior unsecured bonds in ISK	10,575	(189)	918	-	-	11,304
Senior unsecured bonds in ISK - CPI-linked	-	5,020	11	-	-	5,031
Senior unsecured bonds FX	69,360	(5,121)	4,447	(3,695)	77	65,068
Senior unsecured bonds FX at fair value	83,437	(677)	2,470	(375)	7,791	92,646
Covered bonds in hedge accounting	43,875	(1,320)	1,373	(335)	1,533	45,126
Senior unsecured bonds in hedge accounting	5,703	(5,831)	9	113	6	-
Other borrowed funds	48,878	(21,507)	1,334	(527)	-	28,178
Subordinated loans	34,392	1,441	3,214	(892)	-	38,155
Total	502,662	(81,896)	31,513	(5,711)	9,160	455,728

Íslandsbanki hf. Consolidated Financial Statements 2023 45 Amounts are in ISK million

36. Changes in liabilities arising from financing activities (continued)

	1.1.2022	Cash flows	Non-cash changes: Interest expense	Foreign exchange	Fair value changes	31.12.2022
Covered bonds in ISK	64,770	1,855	2,609	-	39	69,273
Covered bonds in ISK - CPI-linked	140,051	(19,021)	16,109	-	30	137,169
Senior unsecured bonds in ISK	8,703	1,950	398	-	(476)	10,575
Senior unsecured bonds FX	54,206	15,284	1,258	(1,388)	-	69,360
Senior unsecured bonds FX at fair value	89,460	(279)	578	1,317	(7,639)	83,437
Covered bonds in hedge accounting	-	42,125	370	3,184	(1,804)	43,875
Senior unsecured bonds in hedge accounting	45,036	(39,992)	515	504	(360)	5,703
Other borrowed funds	-	45,051	450	3,377	-	48,878
Subordinated loans	35,762	(814)	1,538	(2,094)	-	34,392
Total	437,988	46,159	23,825	4,900	(10,210)	502,662

37. Tax assets and tax liabilities

	31.12.2023 Assets	31.12.2023 Liabilities	31.12.2022 Assets	31.12.2022 Liabilities
Current tax	-	11,163	-	9,042
Deferred tax assets and tax liabilities	122	1,944	116	3,086
Tax in the balance sheet	122	13,107	116	12,128

	Assets	Liabilities
Deferred tax assets and tax liabilities 1.1.2022	94	536
Calculated income tax for 2022	22	7,593
Income tax payable in 2023	-	(5,668)
- thereof income tax recognised in other comprehensive income	-	110
Changes in deferred tax assets and deferred tax liabilities due to equity	-	625
Deferred tax assets and tax liabilities 31.12.2022	116	3,086
Calculated income tax for 2023	6	7,184
Income tax payable in 2024	-	(7,423)
- thereof income tax recognised in other comprehensive income	-	173
Changes in deferred tax assets and deferred tax liabilities due to equity	-	(903)
Deferred tax assets and tax liabilities 31.12.2023	122	1,944

2023	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Balance at 31 December: Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(876)	21	-	(855)	-	(855)
Intangible assets	(456)	71	-	(385)	-	(385)
Assets and liabilities in foreign currency	(479)	55	-	(424)	-	(424)
Deferred foreign exchange difference	(837)	10	-	(827)	-	(827)
Derivatives	750	(985)	-	(235)	-	(235)
Lease liabilities	733	8	-	741	741	-
Debt issued and other borrowed funds	(1,921)	1,059	903	41	41	-
Other items	116	6	-	122	122	-
	(2,970)	245	903	(1,822)	904	(2,726)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(782)	782
Deferred tax assets and tax liabilities	(2,970)	245	903	(1,822)	122	(1,944)

Amounts are in ISK million

37. Tax assets and tax liabilities (continued)

2022	Net balance at 1 January	Recognised in profit or loss	Recognised in equity	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(930)	54	-	(876)	-	(876)
Intangible assets	(484)	28	-	(456)	-	(456)
Assets and liabilities in foreign currency	(376)	(103)	-	(479)	-	(479)
Deferred foreign exchange difference	(275)	(562)	-	(837)	-	(837)
Derivatives	595	155	-	750	750	-
Lease liabilities	758	(25)	-	733	733	-
Debt issued and other borrowed funds	176	(1,472)	(625)	(1,921)	-	(1,921)
Other items	94	22	-	116	116	-
	(442)	(1,903)	(625)	(2,970)	1,599	(4,569)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,483)	1,483
Deferred tax assets and tax liabilities	(442)	(1,903)	(625)	(2,970)	116	(3,086)

38. Other liabilities

	31.12.2023	31.12.2022
Accruals	2,392	2,448
Lease liabilities	3,720	3,708
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,184	1,338
Withholding tax	6,192	2,921
Unsettled securities transactions	968	3,805
Sundry liabilities	2,762	2,381
Other liabilities	17,218	16,601

39. Custody assets

	31.12.2023	31.12.2022
Custody assets - not managed by the Group	3,565,465	3,278,816

Amounts are in ISK million

40. Leases

The Group as a lessee

The Group's significant leases are leases for offices, branches, and storage. Most leases are CPI-linked real estate leases with duration of 5-10 years with extension options. Lease commitments are recognised on-balance sheet except for short-term leases and leases of low-value assets. During the year 2023 the total expense for leases of low-value assets and short-term leases amounted to ISK 61 million (2022: ISK 36 million), the total cash outflow for leases amounted to ISK 659 million (2022: ISK 584 million) and total interest expense from lease liabilities amounted to ISK 79 million (2022: ISK 82 million).

At year-end 2023 the Group recognised ISK 3,575 million in right-of-use assets which are presented in the line item "Property and equipment" and lease liabilities amounting to ISK 3,720 million which are presented in the line item "Other liabilities".

The Group as a lessor

Net investment in finance lease receivables

	31.12.2023	31.12.2022
Due within 1 year	27,401	20,263
Due in 1-2 years	21,231	16,463
Due in 2-3 years	17,895	13,667
Due in 3-4 years	11,271	10,697
Due in 4-5 years	3,287	3,102
Due in more than 5 years	2,607	2,636
Total gross investment in the lease	83,692	66,828
Due within 1 year	20,385	15,942
Due in 1-2 years	16,402	13,431
Due in 2-3 years	15,035	11,752
Due in 3-4 years	10,018	9,783
Due in 4-5 years	2,841	2,763
Due in more than 5 years	2,260	2,341
Total present value of lease payments*	66,941	56,012
Unearned interest income	16,751	10,816

*The Group presents finance lease receivables in the line item "Loans to customers".

Expected credit loss allowance	212	260
Interest income from finance lease receivables during the year	6,898	3,769

Íslandsbanki hf. Consolidated Financial Statements 2023 48 Amounts are in ISK million

41. Íslandsbanki's shareholders

The following table shows the largest shareholders of Íslandsbanki, taking into consideration treasury shares in the ownership calculation.

		31.12.2023	31.12.2022
The Icelandic Government	Iceland	42.9%	42.5%
Gildi Pension Fund	Iceland	8.0%	6.8%
LSR Pension Fund	Iceland	7.9%	7.5%
Live Pension Fund	Iceland	6.3%	6.3%
Capital Group	USA	5.6%	4.9%
Brú Pension Fund	Iceland	3.3%	3.1%
Vanguard	USA	2.3%	1.3%
Stapi Pension Fund	Iceland	2.1%	2.4%
Birta Pension Fund	Iceland	1.6%	1.6%
Frjálsi Pension Fund	Iceland	1.5%	1.2%
RWC Asset Management LLP	UK	1.3%	1.2%
Lífsverk Pension Fund	Iceland	1.2%	1.2%
Almenni Pension Fund	Iceland	1.0%	1.0%
Festa Pension Fund	Iceland	1.0%	0.7%
Íslandssjóðir hf. (Iceland Funds)	Iceland	0.3%	1.3%
Other shareholders		13.7%	17.0%
Total		100.0%	100.0%

At 31 December 2023 the number of shareholders of the Bank was 11,552 (year-end 2022: 13,079). At 31 December 2023, 89.4% of the Bank's shares were owned by domestic parties and 10.6% by international investors (2022: 91.0% domestic parties and 9.0% international investors). At 31 December 2023 the Bank's employees, board members and related parties of the employees and board members, held 0.14% of shares in the Bank (year-end 2022: 0.22%).

Beneficial owners

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

Amounts are in ISK million

42. Related party

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

Birna Einarsdóttir and the Board of Directors of Íslandsbanki reached an agreement on the terms of her resignation as CEO of Íslandsbanki as of 28 June 2023. On 1 July 2023 Kristín Hrönn Guðmundsdóttir was appointed Managing Director of Corporate & Investment Banking, taking over from Ásmundur Tryggvason who stepped down. For further information see Notes 11 and 13.

The Board of Directors of Íslandsbanki was changed on 28 July 2023 in a shareholder meeting held to address the Settlement Agreement and the Bank's reaction thereto, and to carry out an election of members to the Board of Directors of the Bank, alternate directors, and the Chairman of the Board. The new Board of Directors was elected as follows: Linda Jónsdóttir, Chairman, Stefán Pétursson, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Frosti Ólafsson, Haukur Örn Birgisson and Helga Hlín Hákonardóttir. Frosti Ólafsson resigned from the Board of Directors on 3 January 2024. Alternate board member Páll Grétar Steingrímsson joined the Board of Directors of Íslandsbanki following the resignation of Frosti Ólafsson.

The previous Board of Directors was as follows: Finnur Árnason, Chairman, Guðrún Þorgeirsdóttir, Vice-Chairman, Agnar Tómas Möller, Anna Þórðardóttir, Ari Daníelsson, Frosti Ólafsson and Valgerður Hrund Skúladóttir.

Íslandsbanki has a related party relationship with the Icelandic Government as the largest shareholder with significant influence over the Group. The shares are administered by ISFI. As a result, the Icelandic Government and the ISFI are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

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

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

At 31 December 2023	Right of use asset	Other assets	Liabilities	Net balance	Guarantees & loan commitments
Board of Directors, key management personnel and other related parties	-	738	544	194	77
Associated companies	3,037	5,001	3,546	4,492	157
Balances with related parties	3,037	5,739	4,090	4,686	234

2023	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	76	34	7	36
Associated companies	544	27	3	2,035
Transactions with related parties	620	61	10	2,071

At 31 December 2022	Right of use asset	Other Assets	Liabilities	Net balance	Guarantees & loan commitments
Shareholders with significant influence over the Group	-	-	-	-	2
Board of Directors, key management personnel and other related parties	-	450	415	35	72
Associated companies	3,157	5,074	4,028	4,203	9
Balances with related parties	3,157	5,524	4,443	4,238	83

2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	34	219	4	-
Associated companies	326	81	26	1,993
Transactions with related parties	360	300	30	1,993

At 31 December 2023 a total of ISK 3 million (at year-end 2022: ISK 3 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the year. For related party remuneration see Note 11.

Amounts are in ISK million

43. Provision and contingencies

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

Provision

Onsite inspection by the FSA into the Bank's anti-money laundering measures

The Financial Supervisory Authority of the Central Bank of Iceland (FSA) conducted an onsite inspection of the Bank's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in relation to the Bank's risk assessment framework, the risk assessment framework for individual customers and transactions as well as the performance of customer due diligence and regular monitoring of transactions. The Bank has not challenged the FSA's findings and has already made, and is continuing to make, improvements to its AML framework. The matter could result in a settlement and a fine. The Bank has recognised an undisclosed provision in relation to this matter.

Contingent liabilities

Borgun hf. – Landsbankinn hf.

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

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

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Bank has not recognised a provision in relation to this matter.

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 2 to 3 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Bank. The plaintiff has appealed the judgement to the Court of Appeal.

43. Provision and contingencies (continued)

The Consumers' Association of Iceland (continued)

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

In April 2022, the plaintiffs in two of the cases submitted claims that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement. On 13 December 2022, the District Court issued its rulings. In the case involving a CPI-linked mortgage, the Court rejected the plaintiff's request. In the case involving a non-index linked mortgage, the District Court decided to request an advisory opinion from the EFTA Court on part of the issues raised by the plaintiff. The case was heard before the EFTA Court on 13 June 2023. The timing of the EFTA Court's advisory opinion is uncertain, as well as its impact on the case.

It is disputed in the three cases whether the terms of the Bank's mortgages, and the method used by the Bank to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable finding could therefore affect other loans to consumers bearing variable interest rates. Furthermore, the Bank has received information requests from a legal firm representing over 1,200 customers of Icelandic commercial banks and loan institutions, they deem to have a comparable right.

It is the Bank's preliminary assessment of the potential impact of an adverse ruling on the Bank's loan portfolio with the same interest rate provision that the Bank's financial loss, taking different scenarios into account, could amount to around ISK 8 billion. The preliminary assessment does not include an assessment of the impact on the Bank's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Bank regards as unlikely, would significantly increase the Bank's interest rate risk and could have a considerable negative financial impact on the Bank in times of increased market interest rates.

The Bank has reviewed the terms of its mortgages, other loan contracts and the methods used for the setting and resetting of variable interest rates in light of the above claims. The Bank believes that the claims of the plaintiffs are unfounded and has not recognised a provision in relation to this matter.

EC Clear ehf.

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

44. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Consolidated Financial Statements for 2023.

45. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. The Bank emphasises sound governance principles. The risk management and internal control framework of the Group is based on a three lines of defence model, as referred to in the European Banking Authority Guidelines on Internal Governance, and aims for informed decision-making and strong risk awareness. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Group's internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence comprises the Bank's internal control units, Risk management and Compliance; and the third line of defence is Group Internal Audit which gives the Board an independent assessment of the quality of corporate governance, risk management and internal controls.

The Group's management body has a dual structure. The Board of Directors of the Bank has a supervising role in setting and monitoring the execution of set policies, the sound control of accounting and financial management and ensuring that Group Internal Audit, Compliance and Risk Management are effective. The Chief Executive Officer (CEO), the Chief Risk Officer (CRO), other members of the senior management and the senior management committees are responsible for implementing risk management practices and internal monitoring in accordance with Board authorisation.

The ultimate responsibility for ensuring an adequate risk management and internal control framework at the Group lies with the Board of Directors. The Board defines and communicates the risk governance framework and the acceptable level of risk through risk management policies and the Risk Appetite Statement. To assist the Board in fulfilling its oversight responsibilities, the Board has appointed three board sub-committees.

The CEO is responsible for the day-to-day operations of the Bank, pursuant to set policies and resolutions of the Board. Moreover, it is the task of the CEO to ensure that the Group's operations are consistent with applicable legislation and the Group's Articles of Association which includes maintaining adequate and effective risk management and internal control functions. The CEO appoints the Chief Risk Officer, the Chief Compliance Officer as well as other members of the Executive Committee. The CEO also engages the members of the senior management committees.

The CRO heads the Risk Management function and is responsible for defining the daily tasks of the department and to assess the adequacy of its professional skills. In addition, the CRO is responsible for monitoring the risk management framework at the Group and for verifying that the Bank has the right resources and an appropriate organisation to manage its risks efficiently.

The CRO is selected and appointed by the CEO, subject to Board confirmation. The CRO reports directly to the Board and the Board Risk Committee on the overall risk profile of the Group and cannot be removed without the Board's prior approval.

The CRO is independent from the business units, is a member of the Executive Committee and reports directly to the CEO. The CRO provides an independent view on the Group's exposure to risk. The CRO has the right but not the responsibility to veto certain risk-taking decisions of the senior management committees if an internal control unit considers the proposal inconsistent with the Bank's risk appetite, policies or procedures.

Risk management is mandated to identify, understand, measure and monitor the risks that the Group is exposed to. It provides independent information, analyses and expert judgement on risk exposures, and advice on proposals and risk decisions made by the management and business or support units as to whether they are consistent with the risk appetite and risk polices set by the Board.

Where necessary, Risk management makes recommendations to senior management and the Board to improve or clarify risk policies, procedures and limits.

Risk Management provides a holistic view on risk, and compliance to limits to internal and external stakeholders, and ensures an appropriate escalation in the event of limit breaches.

Business and support units are, however, responsible for maintaining their independent view on the risks inherent in their operations and reporting to senior management any foreseeable breaches from limits, policies or strategic direction.

Risk management provides the senior management and the Board with all relevant risk related information to enable it to define the Bank's risk appetite.

The General Counsel is appointed by and reports directly to the CEO. The General Counsel provides legal advice to the Bank's senior management, including the Board of Directors, and manages the Bank's legal department which provides comprehensive legal advice to the Bank's business segments and support units.

The Chief Audit Executive (CAE) is appointed by the Board, reports directly to Board and directs Group Internal Audit with a mandate from the Board. The CAE is responsible for internal audit matters within the Group, including internal audit tasks which have been outsourced.

45. Risk management (continued)

The Chief Compliance Officer (CCO) is responsible for the Compliance function of the Bank, which sits within the second line of defence and acts independently within the Bank.

The CCO is appointed by the CEO, subject to Board confirmation and cannot be removed from post without the Board's prior approval. The Central Bank and the CAE shall be notified of the dismissal or departure of the CCO. The CCO acts as the Bank's Money Laundering Reporting Officer (MLRO).

Each employee is responsible for understanding the risk related to their day-to-day work, for knowing and understanding the respective internal and external rules and procedures, for using the alert procedures in the event of possible fraudulent activities and for conducting business in accordance with the Bank's code of conduct.

The Bank's senior management committee structure is twofold. Firstly the two executive committees, the Executive Committee and the All Risk Committee, that are responsible for the implementation of the Board approved business strategy, risk appetite and policies. Secondly the six business committees, the Asset and Liability Committee (ALCO), the Senior Credit Committee (SCC), the Investment Committee (IC), the Operational and Security Committee (OSC), the Sustainability Committee (SC), and the Digital Product Committee (DPC), which are responsible for the approval of business or operational proposals subject to internal rules and guidelines issued by the executive committees and the Board.

The members of the senior management committees are appointed by the CEO, and their mandate and rules of procedure are documented in a charter issued by the CEO.

More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2023 Report, which is available on the Bank's website: www.islandsbanki.is.

46. Credit risk

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

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

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

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

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

47. Maximum credit exposure and collateral

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

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

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 828 million are subject to 100% Government guarantee and ISK 666 million to 85% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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

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

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

47. Maximum credit exposure and collateral (continued)

At 31 December 2023 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	87,504	-	-	-	-	-	-	-	87,504	18
Loans to credit institutions	73,475	-	-	-	-	-	-	-	73,475	90
Bonds and debt instruments	161,342	-	-	-	-	-	-	-	161,342	-
Loans to customers:	1,223,426	606,706	307,978	60,466	23,517	76,787	66,315	1,141,769	81,657	11,728
Individuals	594,631	532,832	8,280	4	185	17,368	184	558,853	35,778	3,560
- Thereof mortgages	530,676	528,534	1,499	-	177	-	-	530,210	466	2,051
Commerce and services	182,808	14,159	71,111	753	3,969	47,061	31,546	168,599	14,209	2,162
Construction	80,099	25,822	45,510	76	367	3,543	2,389	77,707	2,392	1,009
Energy	7,938	30	6,623	-	1	10	21	6,685	1,253	79
Financial services	214	-	61	-	-	-	-	61	153	1
Industrial and transportation	75,802	2,122	47,248	1,829	316	8,084	12,073	71,672	4,130	2,835
Investment companies	45,931	4,018	11,646	-	18,521	198	11,200	45,583	348	764
Public sector and non-profit organisations	18,476	61	754	-	-	20	15	850	17,626	24
Real estate	144,173	27,169	110,037	-	94	368	1,363	139,031	5,142	1,179
Seafood	73,354	493	6,708	57,804	64	135	7,524	72,728	626	115
Other financial assets	2,846	-	-	-	-	-	-	-	2,846	8
Off-balance sheet items:	197,115	9,629	31,770	6,492	4,227	1,139	20,464	73,721	123,394	1,184
Financial guarantees	20,680	-	6,766	105	1,532	-	1,961	10,364	10,316	347
Loan commitments	176,435	9,629	25,004	6,387	2,695	1,139	18,503	63,357	113,078	837
Total	1,745,708	616,335	339,748	66,958	27,744	77,926	86,779	1,215,490	530,218	13,028

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

Íslandsbanki hf. Consolidated Financial Statements 2023 56 F-193 Amounts are in ISK million

47. Maximum credit exposure and collateral (continued)

At 31 December 2022 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	94,424	-	-	-	-	-	-	-	94,424	3
Loans to credit institutions	110,364	-	-	-	-	-	-	-	110,364	152
Bonds and debt instruments	130,804	-	-	-	-	-	-	-	130,804	-
Loans to customers:	1,186,639	557,263	306,469	82,645	20,744	63,889	69,383	1,100,393	86,246	11,132
Individuals	570,522	509,638	9,988	3	177	15,767	170	535,743	34,779	2,328
- Thereof mortgages	507,969	504,654	2,514	-	168	-	-	507,336	633	894
Commerce and services	172,222	8,356	76,739	788	2,932	37,908	32,473	159,196	13,026	3,518
Construction	59,815	14,395	35,787	1	186	2,911	2,298	55,578	4,237	757
Energy	10,411	57	8,862	-	9	5	25	8,958	1,453	45
Financial services	2,622	-	595	-	-	-	1,149	1,744	878	20
Industrial and transportation	91,078	1,954	48,834	2,203	109	6,660	13,147	72,907	18,171	2,846
Investment companies	40,336	3,006	10,432	-	16,975	102	9,226	39,741	595	685
Public sector and non-profit organisations	11,046	49	740	-	-	31	19	839	10,207	31
Real estate	126,297	19,349	103,126	-	265	427	671	123,838	2,459	784
Seafood	102,290	459	11,366	79,650	91	78	10,205	101,849	441	118
Other financial assets	5,411	-	-	-	-	-	-	-	5,411	13
Off-balance sheet items:	203,145	8,303	32,714	13,136	2,318	-	24,344	80,815	122,330	1,338
Financial guarantees	18,385	-	6,556	104	1,403	-	1,837	9,900	8,485	413
Loan commitments	184,760	8,303	26,158	13,032	915	-	22,507	70,915	113,845	925
Total	1,730,787	565,566	339,183	95,781	23,062	63,889	93,727	1,181,208	549,579	12,638

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

Amounts are in ISK million

48. Credit quality of financial assets

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

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

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

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

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

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2023 Report.

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

At 31 December 2023

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	487,172	2,604	-	489,776
Risk class 5-6	485,438	17,968	-	503,406
Risk class 7-8	184,363	14,490	-	198,853
Risk class 9	15,519	5,324	-	20,843
Risk class 10	-	-	22,272	22,272
Unrated	3	1	-	4
	1,172,495	40,387	22,272	1,235,154
Expected credit losses	(4,788)	(2,727)	(4,213)	(11,728)
Net carrying amount	1,167,707	37,660	18,059	1,223,426

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	93,558	168	-	93,726
Risk class 5-6	71,681	417	-	72,098
Risk class 7-8	24,477	3,370	-	27,847
Risk class 9	961	447	-	1,408
Risk class 10	-	-	1,220	1,220
Unrated	1,983	17	-	2,000
	192,660	4,419	1,220	198,299
Expected credit losses	(916)	(106)	(162)	(1,184)
Total	191,744	4,313	1,058	197,115

Íslandsbanki hf. Consolidated Financial Statements 2023 58 Amounts are in ISK million

48. Credit quality of financial assets (continued)

At 31 December 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	478,439	524	-	478,963
Risk class 5-6	473,451	14,804	-	488,255
Risk class 7-8	177,477	10,372	-	187,849
Risk class 9	17,425	4,035	-	21,460
Risk class 10	-	-	21,123	21,123
Unrated	81	40	-	121
	1,146,873	29,775	21,123	1,197,771
Expected credit losses	(4,636)	(2,235)	(4,261)	(11,132)
Net carrying amount	1,142,237	27,540	16,862	1,186,639

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	99,648	2	-	99,650
Risk class 5-6	66,519	328	-	66,847
Risk class 7-8	28,039	5,464	-	33,503
Risk class 9	706	428	-	1,134
Risk class 10	-	-	1,640	1,640
Unrated	1,484	180	45	1,709
	196,396	6,402	1,685	204,483
Expected credit losses	(869)	(242)	(227)	(1,338)
Total	195,527	6,160	1,458	203,145

Amounts are in ISK million

49. Forbearance

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

The relationship between forbearance and stages is discussed in Note 62.3.

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

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

The following table provides a summary of the Group's forborne assets.

At 31 December 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	1,975	4,323	1,650	7,948
Companies	2,136	16,853	5,230	24,219
Total	4,111	21,176	6,880	32,167

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(16)	(75)	(124)	(215)
Companies	(32)	(504)	(1,224)	(1,760)
Total	(48)	(579)	(1,348)	(1,975)

At 31 December 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,232	2,422	1,264	6,918
Companies	23,662	17,596	9,189	50,447
Total	26,894	20,018	10,453	57,365

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(20)	(46)	(98)	(164)
Companies	(86)	(1,783)	(2,766)	(4,635)
Total	(106)	(1,829)	(2,864)	(4,799)

Amounts are in ISK million

Notes to the Consolidated Financial Statements

50. Large exposures disclosure

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

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had two large exposures at 31 December 2023 (year-end 2022: five). No large exposure is above the maximum 25% large exposure limit set by the law.

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

At 31 December 2023

Groups of connected clients:	Before	After
Group 1	76%	2%
Group 2	15%	15%
Group 3	10%	10%

At 31 December 2022

Groups of connected clients:	Before	After
Group 1	87%	9%
Group 2	13%	13%
Group 3	12%	12%
Group 4	11%	11%
Group 5	11%	11%
Group 6	11%	11%

51. Liquidity risk

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

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

Amounts are in ISK million

Notes to the Consolidated Financial Statements

52. Liquidity coverage and net stable funding ratio

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

As of January 2023 rules no. 1520/2022 took effect. The minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. A new requirement for LCR in EUR is 80% and in ISK the requirement is 50%. There is no longer any minimum requirement for the aggregated position in foreign currencies. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at year-end 2023 and 2022.

Net stable funding ratio	31.12.2023	31.12.2022
For all currencies	124%	118%

Liquidity coverage ratio	31.12.2023	31.12.2022
For all currencies	195%	205%
ISK	115%	109%
EUR	663%	792%

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

At 31 December 2023	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	83,563	487	290	665	85,005
Foreign government bonds	-	31,371	20,913	29,735	82,019
Domestic bonds eligible as collateral with Central Bank	73,995	-	-	-	73,995
Level 2 liquid assets	12,287	3	-	22	12,312
High quality liquidity assets	169,845	31,861	21,203	30,422	253,331
Balance with financial institutions	510	18,704	25,212	15,582	60,008
Liquidity reserve	170,355	50,565	46,415	46,004	313,339

At 31 December 2022	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	85,381	462	284	506	86,633
Foreign government bonds	-	34,691	5,666	13,388	53,745
Domestic bonds eligible as collateral with Central Bank	57,696	-	-	-	57,696
Level 2 liquid assets	24,370	3	-	25	24,398
High quality liquidity assets	167,447	35,156	5,950	13,919	222,472
Balance with financial institutions	1,028	21,138	37,573	30,081	89,820
Liquidity reserve	168,475	56,294	43,523	44,000	312,292

Íslandsbanki hf. Consolidated Financial Statements 2023 62 Amounts are in ISK million

53. Maturity analysis of financial assets and financial liabilities

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

Bonds and debt instruments are based on contractual maturity and therefore do not represent the estimated liquidation time of the trading book.

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

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

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

At 31 December 2023	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	40,011	47,493	-	-	-	-	87,504	87,504
Loans to credit institutions	16,086	57,389	-	-	-	-	73,475	73,475
Bonds and debt instruments	-	85,667	48,754	24,598	2,323	-	161,342	161,342
Derivatives	-	1,887	1,474	2,842	-	-	6,203	5,776
- Net settled derivatives	-	490	-	-	-	-	490	490
- Inflow	-	34,297	27,617	32,655	-	-	94,569	76,961
- Outflow	-	(32,900)	(26,143)	(29,813)	-	-	(88,856)	(71,675)
Loans to customers	435	96,569	115,037	352,958	658,427	-	1,223,426	1,223,426
Shares and equity instruments	-	-	-	-	-	13,241	13,241	13,241
Other financial assets	2,413	365	68	-	-	-	2,846	2,846
Total financial assets	58,945	289,370	165,333	380,398	660,750	13,241	1,568,037	1,567,610
Deposits from CB and credit institutions	7,611	7,028	1,564	-	-	-	16,203	16,149
Deposits from customers	668,448	88,729	46,467	35,530	43,896	-	883,070	850,709
Derivative instruments and short positions	-	2,042	2,103	2,115	913	-	7,173	5,090
- Net settled derivatives	-	391	-	-	-	-	391	391
- Inflow	-	(43,522)	(20,508)	(18,591)	-	-	(82,621)	(68,235)
- Outflow	-	45,161	22,578	20,407	-	-	88,146	72,294
- Short positions	-	12	33	299	913	-	1,257	640
Debt issued and other borrowed funds	-	18,071	35,902	430,196	70,359	-	554,528	417,573
Subordinated loans	-	290	2,026	20,525	44,852	-	67,693	38,155
Other financial liabilities	2,522	1,546	1,629	2,024	1,399	-	9,120	8,879
- Lease liabilities	-	151	449	1,962	1,399	-	3,961	3,720
- Other liabilities	2,522	1,395	1,180	62	-	-	5,159	5,159
Total financial liabilities	678,581	117,706	89,691	490,390	161,419	-	1,537,787	1,336,555
Net financial assets and financial liab.	(619,636)	171,664	75,642	(109,992)	499,331	13,241	30,250	231,055

Amounts are in ISK million

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

At 31 December 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	41,518	52,906	-	-	-	-	94,424	94,424
Loans to credit institutions	46,761	63,587	16	-	-	-	110,364	110,364
Bonds and debt instruments	-	50,429	46,570	28,940	4,865	-	130,804	130,804
Derivatives	-	3,062	1,619	2,260	-	-	6,941	7,461
- Net settled derivatives	-	897	-	-	-	-	897	897
- Inflow	-	41,940	24,587	29,827	-	-	96,354	81,324
- Outflow	-	(39,775)	(22,968)	(27,567)	-	-	(90,310)	(74,760)
Loans to customers	-	80,768	129,442	326,017	650,412	-	1,186,639	1,186,639
Shares and equity instruments	-	-	-	-	-	15,868	15,868	15,868
Other financial assets	4,968	288	155	-	-	-	5,411	5,411
Total financial assets	93,247	251,040	177,802	357,217	655,277	15,868	1,550,451	1,550,971
Deposits from CB and credit institutions	5,015	2,998	4,269	3,387	-	-	15,669	15,269
Deposits from customers*	610,507	123,946	52,453	23,018	33,858	-	843,782	789,897
Derivative instruments and short positions	-	1,366	4,220	4,504	509	-	10,599	10,804
- Net settled derivatives	-	134	-	-	-	-	134	134
- Inflow	-	(51,316)	(20,748)	(19,479)	-	-	(91,543)	(77,250)
- Outflow	-	52,533	24,968	23,923	-	-	101,424	87,635
- Short positions	-	15	-	60	509	-	584	285
Debt issued and other borrowed funds	-	12,384	111,618	465,372	50,404	-	639,778	468,270
Subordinated loans	-	529	1,427	20,516	35,530	-	58,002	34,392
Other financial liabilities	5,356	1,271	1,486	1,911	1,634	-	11,658	11,329
- Lease liabilities	-	141	396	1,866	1,634	-	4,037	3,708
- Other liabilities	5,356	1,130	1,090	45	-	-	7,621	7,621
Total financial liabilities	620,878	142,494	175,473	518,708	121,935	-	1,579,488	1,329,961
Net financial assets and financial liab.	(527,631)	108,546	2,329	(161,491)	533,342	15,868	(29,037)	221,010

*Comparative figures have been changed with immaterial effects.

Off-balance sheet liabilities

Note 47 Maximum Credit Exposure and Collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce financial guarantees and credit commitments before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Amounts are in ISK million

54. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 23).

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

55. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates. Sensitivity measures like Basis Point Value (BPV) are used to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 percentage point upward parallel shift in the yield curve on the fair value of these exposures.

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, domestic municipality bonds, and covered bonds issued by other Icelandic banks. In the following tables the total market value (MV) of long and short positions may not be the same as reported in Note 17 since netting between short and long positions is not applied here. Fixed income securities in the Bank's liquidity portfolio were reclassified from trading book to non-trading book in the fourth quarter of 2023.

	31.12.2023			31.12.2022		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	970	5.21	(0.51)	3,446	6.39	(2.20)
Non-indexed	1,166	2.99	(0.35)	124,065	0.58	(7.17)
Total	2,136	4.00	(0.86)	127,511	0.74	(9.37)
Trading bonds and debt instruments, short positions						
Indexed	45	6.71	0.03	-	-	-
Non-indexed	368	6.50	0.24	282	5.04	0.14
Total	413	6.52	0.27	282	5.04	0.14
Net position of trading bonds and debt instruments	1,723	3.40	(0.59)	127,229	0.73	(9.23)

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

Sensitivity analysis for trading bonds and debt instruments	31.12.2023		31.12.2022	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	54	(54)	222	(222)
ISK, non-indexed	59	(59)	601	(601)
EUR	-	-	87	(87)
USD	-	-	4	(4)
Other total	-	-	39	(39)
Total	113	(113)	953	(953)

Íslandsbanki hf. Consolidated Financial Statements 2023 65 Amounts are in ISK million

55. Interest rate risk (continued)

Interest rate risk in the banking book

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

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset. From the fourth quarter of 2023 the interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued and applicable non-maturing deposits (NMDs) where behavioural assumptions are applied. Fixed income securities in the Bank's liquidity portfolio were reclassified from trading book to banking book in fourth quarter of 2023.

Sensitivity analysis for interest rate risk in the banking book

At 31 December 2023

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	14	(64)	(948)	(2,761)	3,223	43	(493)
ISK, non-indexed	(28)	(276)	(794)	1,465	46	(4)	409
EUR	114	86	(5)	133	-	-	328
SEK	49	(54)	-	-	-	-	(5)
USD	9	(12)	-	-	-	-	(3)
Other	51	(47)	-	-	-	-	4
Total	209	(367)	(1,747)	(1,163)	3,269	39	240

At 31 December 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	12	(12)	220	(4,195)	2,860	(80)	(1,195)
ISK, non-indexed	23	232	(517)	(740)	1	46	(955)
EUR	103	218	(15)	(132)	-	-	174
SEK	51	-	-	-	-	-	51
USD	39	-	-	-	-	-	39
Other	79	-	3	(5)	-	-	77
Total	307	438	(309)	(5,072)	2,861	(34)	(1,809)

Amounts are in ISK million

56. Currency risk

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

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

Debt issued is presented in the analysis of the Group's foreign currency exposure as the nominal amount plus accrued interest. Some debt issues are measured at fair value in the Consolidated Financial Statements. Therefore, the net position presented below does not match the book value net position thus affecting the foreign exchange difference recognised in the Consolidated Income Statement.

At 31 December 2023	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	487	290	120	49	10	52	85	141	27	182	1,443
Loans to credit institutions	18,752	25,198	1,626	4,301	314	2,794	17,994	207	685	58	71,929
Bonds and debt instruments	31,377	20,919	-	-	-	17,920	11,812	-	-	-	82,028
Loans to customers	92,652	15,817	293	618	1,816	736	2,496	588	6,880	-	121,896
Shares and equity instruments	46	302	102	-	-	22	-	-	-	-	472
Other assets	221	38	-	-	-	-	-	-	-	-	259
Total assets	143,535	62,564	2,141	4,968	2,140	21,524	32,387	936	7,592	240	278,027
Deposits from credit institutions	7,731	995	20	-	-	4	-	1	-	-	8,751
Deposits from customers	38,255	48,952	4,322	545	445	767	4,459	1,440	204	24	99,413
Debt issued and other borrowed funds	154,069	11,719	-	-	-	30,343	34,725	-	-	-	230,856
Subordinated loans	-	-	-	-	-	16,780	-	-	-	-	16,780
Other liabilities	7	25	-	-	-	-	-	111	-	-	143
Total liabilities	200,062	61,691	4,342	545	445	47,894	39,184	1,552	204	24	355,943
Net on-balance sheet position	(56,527)	873	(2,201)	4,423	1,695	(26,370)	(6,797)	(616)	7,388	216	(77,916)
Net off-balance sheet position	60,795	1,091	2,270	(4,400)	(1,696)	26,007	6,918	693	(7,334)	(281)	84,063
Net position	4,268	1,964	69	23	(1)	(363)	121	77	54	(65)	6,147

Amounts are in ISK million

56. Currency risk (continued)

At 31 December 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	462	284	126	36	7	43	47	78	31	139	1,253
Loans to credit institutions	35,515	37,533	2,565	534	816	5,220	20,790	4,855	1,321	146	109,295
Bonds and debt instruments	34,693	5,666	7	-	-	3,393	9,996	-	-	-	53,755
Loans to customers	127,658	25,155	348	657	2,193	40	2,946	140	7,073	-	166,210
Shares and equity instruments	127	350	78	-	-	1,025	-	-	-	-	1,580
Other assets	344	243	7	-	-	46	-	1	-	-	641
Total assets	198,799	69,231	3,131	1,227	3,016	9,767	33,779	5,074	8,425	285	332,734
Deposits from credit institutions	8,657	1,869	17	-	-	-	7	-	-	-	10,550
Deposits from customers	35,002	42,694	4,988	641	683	910	3,891	10,011	322	12	99,154
Debt issued and other borrowed funds	179,456	12,228	-	-	-	23,231	46,128	-	-	-	261,043
Subordinated loans	-	-	-	-	-	23,667	-	-	-	-	23,667
Other liabilities	254	200	7	-	-	1	-	1	-	-	463
Total liabilities	223,369	56,991	5,012	641	683	47,809	50,026	10,012	322	12	394,877
Net on-balance sheet position	(24,570)	12,240	(1,881)	586	2,333	(38,042)	(16,247)	(4,938)	8,103	273	(62,143)
Net off-balance sheet position	22,616	(11,542)	1,766	(576)	(2,394)	38,117	16,233	4,953	(8,244)	(377)	60,552
Net position	(1,954)	698	(115)	10	(61)	75	(14)	15	(141)	(104)	(1,591)

Amounts are in ISK million

56. Currency risk (continued)

The following table shows the effect of a 10% depreciation or appreciation of foreign exchange rates where the Group had positions at year-end, with all other variables held constant.

Sensitivity analysis for currency risk	31.12.2023		31.12.2022	
	Effect on profit before tax			
Currency	-10%	10%	-10%	10%
EUR	(427)	427	195	(195)
USD	(196)	196	(70)	70
GBP	(7)	7	12	(12)
CHF	(2)	2	(1)	1
JPY	-	-	6	(6)
SEK	36	(36)	(8)	8
NOK	(12)	12	1	(1)
DKK	(8)	8	(2)	2
CAD	(5)	5	14	(14)
Other foreign currencies	7	(7)	10	(10)
Total	(614)	614	157	(157)

57. Shares and equity instruments

The Group's equity exposure in the trading book arises from flow trading and market making with shares listed on the Nasdaq Iceland Stock Exchange. Shares and equity instruments in the banking book are classified as mandatorily at fair value through profit or loss or are classified as held for sale.

The following table shows how a 10% shift in equity prices would affect the Group's equity and net financial income. Securities used for hedging are excluded.

Sensitivity analysis for shares and equity instruments	31.12.2023		31.12.2022*	
	Effect on profit			
Portfolio	Downward shift	Upward shift	Downward shift	Upward shift
Trading book	(62)	62	(131)	131
Banking book	(178)	178	(215)	215
Total	(240)	240	(346)	346

*Comparative figures have been changed with immaterial effects.

Amounts are in ISK million

58. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 1,294 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.12.2023	31.12.2022
Bonds and debt instruments	1,551	4,148
Loans to customers	405,910	282,521
Total CPI-linked assets	407,461	286,669
Deposits from customers	116,551	107,684
Debt issued and other borrowed funds	140,428	137,169
Subordinated loans	19,850	9,199
Off-balance sheet exposures	1,176	4,912
Short positions	11	-
Total CPI-linked liabilities	278,016	258,964
CPI imbalance	129,445	27,705

59. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 December 2023 and 31 December 2022.

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

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 30 June 2023 maintain an additional capital requirement of 2.4% of risk exposure amount. The Group's overall capital requirement, taking into account capital buffers, is 19.8%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

In March 2023, the Central Bank of Iceland Financial Stability Committee announced the decision to increase the countercyclical capital buffer rate from 2% to 2.5%, effective from 15 March 2024, increasing the Group's overall capital requirements to 20.3%.

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

	31.12.2023	31.12.2022
Own funds		
Ordinary share capital	9,898	10,000
Share premium	55,000	55,000
Reserves	5,083	9,158
Retained earnings	154,712	144,716
IFRS 9 reversal due to transitional rules	-	1,301
Fair value changes due to own credit standing	1,827	(1,786)
Foreseeable dividend payment and approved buyback*	(14,990)	(27,267)
Tax assets	(122)	(116)
Intangible assets	(1,922)	(3,279)
Insufficient coverage for non-performing exposures	(3)	-
CET1 capital	209,483	187,727
Additional Tier 1 capital	10,019	10,062
Tier 1 capital	219,502	197,789
Tier 2 capital	28,135	24,330
Total capital base	247,637	222,119

*The AGM of Íslandsbanki held on 16 March 2023 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 5 billion, which is within the 10% authorisation from the AGM. At 31 December 2023 ISK 2.7 billion remained of the approved buyback and is therefore deducted from CET1 capital.

Amounts are in ISK million

59. Capital management (continued)

Risk exposure amount

Due to credit risk	865,758	893,110
Due to market risk	10,360	15,417
Due to credit valuation adjustment	677	2,756
Due to operational risk	100,237	88,208
Total risk exposure amount	977,032	999,491

Capital ratios

CET1 ratio	21.4%	18.8%
Tier 1 ratio	22.5%	19.8%
Total capital ratio	25.3%	22.2%

Leverage ratio

Exposure amount

On-balance sheet exposures	1,571,430	1,541,738
Off-balance sheet exposures	53,224	68,702
Derivative exposures	11,246	30,596
Leverage ratio total exposure measure	1,635,900	1,641,036
Tier 1 capital	219,502	197,789
Leverage ratio	13.4%	12.1%

Amounts are in ISK million

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

The minimum requirement for own funds and eligible liabilities (MREL) for Íslandsbanki is based on the Bank's resolution plan that is approved by the Icelandic Resolution Authority. The requirement can be met with the total capital base in addition to senior non-preferred and senior preferred debt with some conditions, such as having more than one year to maturity. This debt is referred to as eligible liabilities. The subordination requirement provided for in the Bank Recovery and Resolution Directive II (BRRD II) has not been implemented in Iceland. No market confidence charge is applied in Iceland.

The MREL requirement for Íslandsbanki is the sum of the loss absorption amount (LAA) and recapitalisation amount (RCA). At 31 December 2023 the LAA and RCA were both equal to the total SREP capital requirement of 10.4%, resulting in an MREL requirement of 20.8% of REA.

	31.12.2023		31.12.2022	
Minimum requirements for own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
MREL	203,223	20.8%	211,892	21.2%
Combined buffer requirement	91,450	9.4%	93,028	9.3%
MREL including combined buffer requirement	294,673	30.2%	304,920	30.5%

	31.12.2023		31.12.2022	
Own funds and eligible liabilities	Amount	% of REA	Amount	% of REA
Own funds	247,637	25.3%	222,119	22.2%
Eligible liabilities	155,617	15.9%	122,925	12.3%
Own funds and eligible liabilities	403,254	41.3%	345,044	34.5%

61. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk, and compliance risk among other risk factors.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at Íslandsbanki lies with the Board of Directors. The Board has approved an Operational Risk Policy which outlines the Bank's framework for operational risk management. Risk Management is responsible for implementing the Bank's operational risk framework, for developing, maintaining the Operational Risk Policy, and for communicating the policy to the Bank's employees.

Amounts are in ISK million

Notes to the Consolidated Financial Statements

62. Material accounting policies

The accounting policies set out below have been applied consistently by the Group for the periods presented in these Consolidated Financial Statements.

Contents

Notes to the Consolidated Financial Statements

62.1 Basis of consolidation

The Consolidated Financial Statements of the Group comprise the financial statements of Íslandsbanki hf., as the parent company, and its subsidiaries.

Consolidation

The Group consolidates its subsidiaries on the basis of control. The consolidation begins when the Group obtains control of the subsidiary and ceases when the Group no longer has control of the subsidiary.

In preparing the Consolidated Financial Statements, Íslandsbanki combines its financial statements with those of its subsidiaries, line by line, by adding together like items of assets, liabilities, equity, income, expenses, and cash flows. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group balances, income and expenses relating to transactions between group entities are eliminated in full on consolidation.

A change in the Group's ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

Control

Subsidiaries are defined as companies in which Íslandsbanki, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the Group evaluates a range of control factors, including:

- The purpose and design of the entity
- The relevant activities and how these are determined
- Whether the Group's rights result in the ability to direct the relevant activities
- Whether the Group has exposure or right to variable returns, and
- Whether the Group has the ability to use its power to affect its return

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, the Group may still exercise control with less than 50% shareholding, or may not be able to exercise control with over 50% of an entity's shares. When assessing whether the Group has power over the investment and therefore controls the variability of this return, the Group considers all relevant facts and circumstances, including the contractual arrangements with the other vote holders of the entity, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights.

The Group reassesses its control over subsidiaries on a regular basis.

Business combinations

The Group accounts for each business combination by applying the acquisition method. Under the acquisition method, the Group identifies itself as the acquirer, determines the acquisition date, recognises and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree, and recognises and measures any goodwill or gain from a bargain purchase.

Loss of control

If the Group loses control of a subsidiary, it derecognises the related assets, liabilities, non-controlling interests, and other components of equity, while any resultant gain or loss is recognised in profit or loss in the line item "Other operating income", or in the line item "Discontinued operations held for sale, net of income tax" if the subsidiary is classified as disposal group held for sale.

Any investment retained by the Group in the former subsidiary is recognised at its fair value at the date when control is lost.

Funds management

The Group acts as a manager for Undertakings for Collective Investment in Transferable Securities (UCITS) and investment funds as well as other funds for collective investment that accept capital from investors. Such funds are financed by issuing unit share certificates or shares. The Group does not have any contractual financial responsibility with respect to such custom units. The funds are not consolidated unless they are under the control of the Group.

The Group reviews all the facts and circumstances in order to decide if these funds should be consolidated. The Group is deemed to be a principal and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or guarantees, and is able to influence the returns of the funds by exercising its power.

62.2 Investments in associates

Associates are entities over which the Group has significant influence to participate in the financial and operating policy decisions of an entity but does not have control over those policies. It is presumed that the Group has significant influence if the Group holds 20-50% of the voting power of an entity. Considerations made in determining significant influence are similar to those used to determine control over subsidiaries (see Note 62.1).

The Group accounts for its investments in associates using the equity method.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss in the line item "Other operating income".

Income and expenses from investments in associates are recognised in profit or loss in the line item "Other operating income".

62.3 Financial assets and financial liabilities

Recognition

The Group recognises a financial asset and a financial liability in its statement of financial position on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument, except for loans which are recognised on the date when cash is advanced by the Group to the borrowers. At initial recognition, the Group measures a financial asset or a financial liability at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group derecognises financial assets in the following circumstances:

- When the contractual rights to the cash flows from the financial assets expire, or
- When the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which:
  - The Group transfers substantially all the risks and rewards of ownership of the financial assets, or
  - The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it does not retain control of the financial assets.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the Statement of Financial Position of the Group. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions and securities lending.

The Group does not derecognise from its Statement of Financial Position securities which the Group sells under agreements to repurchase at a specified future date ("repos") at a fixed price or at the sale price plus a lender's return. The Group recognises the cash received as a liability in its Statement of Financial Position. The difference between the sale and repurchase prices is recognised as interest expense over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of securities to counterparties is only reflected in the Statement of Financial Position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modifications

Substantial modifications of terms of existing financial assets, or replacements with new ones with significantly different terms, result in the Group derecognising the original financial assets and recognising new financial assets at fair value.

62.3 Financial assets and financial liabilities (continued)

Classification and measurement of financial assets

For the purpose of measuring its financial assets, the Group classifies them at inception in one of the following categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit or loss
- Derivative assets in hedge accounting

The measurement basis of individual financial assets is determined based on an assessment of the cash flow characteristics of the assets and the business models under which they are managed.

The business models

The business models are determined by the Group's key management personnel in the way that assets are managed and their performance is reported to them. The Group determines its business models at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. This condition is not an instrument-by-instrument approach to classification, but is determined at a higher level of aggregation. The Group's business models fall into the following three categories: Held to collect, Held to collect and for sale, and Other fair value business models, where assets are held for trading or managed on a fair value basis and are neither Held to collect nor Held to collect and for sale.

Solely payments of principal and interest (SPPI)

Financial assets held within the business models Held to collect and Held to collect and for sale, are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which are consistent with a basic lending arrangement. Principal is the fair value of the financial asset at initial recognition and changes over the life of the financial asset, for example if there are repayments of principal. Interest relates to basic lending returns, including compensation for the time value of money and credit risk associated with the principal amount outstanding over a period of time. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, servicing or administrative costs), as well as a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets at amortised cost

A financial asset is classified as being subsequently measured at amortised cost if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows, i.e. Held to collect.

Financial assets at amortised cost are measured using the effective interest method. Amortised cost is calculated by taking into account the amount at which the assets are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums on acquisition and fees and costs that are an integral part of the effective interest rate), and minus any reduction for impairment. Accrued interest is included in the carrying amount of the financial asset in the Statement of Financial Position. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is classified as being subsequently measured at fair value through other comprehensive income if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows and sell, i.e. Held to collect and for sale.

Financial assets at fair value through other comprehensive income are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in other comprehensive income, except for interest earned which is recognised using the effective interest method in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item “Net foreign exchange gain (loss)”. Impairment and reversals of impairment are recognised in profit or loss in the line item "Net impairment on financial assets", offset due to impairment is then transferred to other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income does not affect the book value of the financial assets since the financial assets are measured at fair value. On derecognition fair value gains and losses are recycled to profit or loss.

62.3 Financial assets and financial liabilities (continued)

For shares and equity instruments that are not held for trading, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses, including any related foreign exchange component, in other comprehensive income rather than profit or loss. This election is made on an instrument-by-instrument basis. Shares and equity instruments at FVOCI are not subject to an impairment assessment. Dividends are to be presented in profit or loss, as long as they represent a return on investment. On derecognition there is no recycling of fair value gains and losses to profit or loss.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets classified at fair value through profit or loss are all other financial assets which are not classified at amortised cost or at fair value through other comprehensive income. This includes financial assets classified mandatorily at fair value through profit or loss and financial assets which are irrevocably designated by the Group at initial recognition as at fair value through profit or loss that would otherwise meet the requirements to be measured at amortised cost or at FVOCI. The Group designates financial assets as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. During the year the Group did not classify any financial assets as designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in profit or loss in the line item “Net financial income (expense)”, except for interest earned, which is recognised in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)".

Derivative assets in hedge accounting
Derivative assets in hedge accounting consist of derivatives with positive fair value which are designated and accounted for as hedging instruments (see Note 62.6).

Classification and measurement of financial liabilities

For the purpose of measuring its financial liabilities, the Group classifies them at inception in one of the following categories, except for loan commitments and financial guarantees (see Note 62.8):

- Financial liabilities at amortised cost
- Financial liabilities mandatorily at fair value through profit or loss
- Financial liabilities designated as at fair value through profit or loss
- Derivative liabilities in hedge accounting

Financial liabilities at amortised cost
Financial liabilities at amortised cost are non-derivative financial liabilities. Financial liabilities at amortised cost include deposits, debt issued and other borrowed funds, and subordinated loans.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred, and subsequently are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the amount at which the financial liabilities are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums and fees and costs that are an integral part of the effective interest rate). Accrued interest is included in the carrying amount of the liabilities in the Statement of Financial Position.

The amortised cost of certain bonds issued by the Group, which are designated as hedged items in qualifying fair value hedge relationships, is adjusted for changes in the fair value of the bonds attributable to interest rate risk (see Note 62.6).

Financial liabilities mandatorily at fair value through profit or loss
Financial liabilities mandatorily at fair value through profit or loss are financial liabilities incurred principally for the purpose of generating profits from short-term price fluctuations or from the dealer's margin. Financial liabilities mandatorily at fair value through profit or loss consist of short positions in listed bonds and derivatives with negative fair value which are not classified as financial guarantees or are not designated as hedging instruments.

Financial liabilities mandatorily at fair value through profit or loss are initially recognised and subsequently measured at fair value in the Statement of Financial Position. Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" on an accrual basis and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

62.3 Financial assets and financial liabilities (continued)

Financial liabilities designated as at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss are recognised at fair value and changes in fair value attributable to changes in the credit risk of those liabilities are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. The remaining fair value changes are included in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" using the contractual interest rate and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

The Group calculates the fair value attributable to changes in credit risk as the difference between the changes in fair value of the financial liability and the amount of changes in fair value attributable to changes in market interest rates. The change in fair value attributable to changes in market interest rates on financial liabilities is calculated by discounting contractual cash flows at the end of the period with the discount rate of the appropriate market interest rate.

Upon initial recognition, the Group determines if the recognition of gains and losses in other comprehensive income creates or enlarges an accounting mismatch in profit or loss, if applicable the whole fair value change is presented in profit or loss.

Derivative liabilities in hedge accounting

Derivative liabilities in hedge accounting consist of derivatives with negative fair value which are designated and accounted for as hedging instruments (see Note 62.6).

Reclassification

Financial assets are reclassified between measurement categories if the objective of the business model in which the financial assets are held changes after initial recognition and if the change is significant to the Group's operations.

Financial liabilities are not reclassified.

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of financial assets and financial liabilities using quoted prices in an active market for that instrument. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring transactions. The fair value is based on the most recent observed market prices at the reporting date.

If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes option pricing model and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Periodically, the Group tests the valuation techniques and calibrates against historical data and using prices from observable current market transactions for the same instrument, or based on other available observable market data.

Changes in the fair value of financial assets and financial liabilities are recognised in profit or loss in the line item "Net financial income (expense)".

The Group has an established control framework with respect to the measurement of fair values. The business unit owning the positions is responsible for their valuations and for submitting the valuation to the Bank's Investment Committee for approval. Risk Management provides an independent review of the results, the valuation methods used and of the use of significant unobservable inputs. The final decision on the validity of the valuation is in the hands of the Bank's Investment Committee.

Financial instruments carried at fair value are categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1: Fair Value Established from Quoted Market Prices

Financial instruments at this level are financial assets and financial liabilities containing actively traded bonds and shares that are listed either domestically or abroad.

62.3 Financial assets and financial liabilities (continued)

Level 2: Fair Value Established Using Valuation Techniques with Observable Market Information

Financial instruments at this level are assets and liabilities containing domestic bonds, shares as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

Level 3: Fair Value Established Using Valuation Techniques Using Significant Unobservable Market Information

Financial instruments at this level contain primarily unlisted and illiquid shares and bonds. Unlisted shares and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

Impairment of financial assets

The impairment model of IFRS 9 is forward-looking and impairment under IFRS 9 should reflect a probability weighted average of possible outcomes. In addition, the expected credit loss model in IFRS 9 employs a dual measurement approach, under which the loss allowance for expected credit losses (ECL) is measured at each reporting date as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk (SICR) of the financial instrument since initial recognition. To satisfy the provisions of the IFRS 9 standard, a significant amount of modelling must be involved. The models which the Group uses for the calculation of the impairment amount are developed according to the Group's modelling framework. This framework imposes structure on the initial model development work, the model documentation including educational material as needed for users, the approval process for models, the implementation of models and the lifetime support for models, including validation and back-testing. The Group's impairment process, which encompasses all the steps needed to derive the appropriate impairment allowance for each accounting period, is documented and approved by the All Risk Committee.

Stage assignment

At each reporting date, all assets subject to the impairment methodology must be divided into three groups, termed "Stages", reflecting the extent of credit deterioration since initial recognition. This division then influences how the impairment is measured and how interest is recognised.

Stage 1

All assets that have not experienced a SICR are assigned to Stage 1. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from credit events occurring within 12 months of the reporting date (12-month ECL). Interest is recognised on the gross carrying amount of the assets.

Stage 2

Assets that the Group determines to have experienced a SICR, but are not credit-impaired, are classified as Stage 2. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from all credit events occurring within the expected lifetime of the assets (lifetime ECL). Interest is recognised on the gross carrying amount of the assets.

The Group's definition of a SICR is on the level of an individual asset. The Group assesses that there has been a SICR of an asset if the probability of a credit impairment event, i.e. transfer to Stage 3, occurring over the lifetime of the asset has increased significantly from the origination of the assets. For this purpose, origination does not refer to any modification events which have not resulted in derecognition of the asset. The assessment is based on a defined set of triggers. This includes, as a backstop, the trigger that the asset is more than thirty days past due. Other triggers are internal assessments of outlook, events such as forbearance events which are less severe than a credit event, external credit related information and a significant deterioration in risk assessment compared with the risk assessment done in relation to the origination of the asset. The definition of a SICR depends only on the probability of a credit event occurring, it does not take into account collateralisation, or any other information related to the expected loss arising from the event. As soon as all triggers for Stage 2 for a particular asset are no longer activated then the asset moves back to Stage 1. Additionally, assets are classified as forborne for two years after a forbearance event has occurred, but forbearance events only cause assets to be in Stage 2 for twelve months and then they migrate back to Stage 1 unless other triggers apply.

The Group does not employ the low credit risk exemption in the Stage assignment process. In alignment with its operating procedures, the Group has chosen as its accounting policy to measure the impairment allowance for lease receivables at an amount equal to the lifetime ECL only for those assets which have a SICR or are credit impaired. For other lease receivables the impairment allowance is equal to the 12-month ECL.

62.3 Financial assets and financial liabilities (continued)

Stage 3

This Stage is for assets which are credit-impaired according to the Group's assessment. These assets are therefore experiencing an ongoing credit event. Thus, the 12-month ECL and lifetime ECL are the same amount, and this amount is recognised as impairment allowance. For assets in this Stage, interest is recognised on the net carrying amount of assets, i.e., net of impairment allowance.

The Group's definition of being credit-impaired is on a customer level, rather than on the level of an individual asset. According to the definition, a customer is credit-impaired when either of the following holds:

a) The Group assesses that it is unlikely that the customer can service all of their commitments to the Group in accordance with the terms of the agreements without recourse to default provisions in the agreements, or
b) The customer has been more than 90 days past due on material credit commitments

The assessment in point a) is made based on a defined set of triggers, which includes serious breach of covenants, serious registrations on an internal watchlist, initiation of serious collection actions and serious external credit related information. Furthermore, there is a defined set of conditions which must be satisfied so that customers that have been assessed as being credit impaired are no longer subject to this assessment. This includes probation periods and a view to the future outlook of the customer.

Expected credit loss (ECL)
The ECL for each asset is calculated using models for the probability of a credit impairment event occurring (PD), the loss percentage expected in case of such an event (LGD) and the outstanding amount at the time of the event (EAD). In its simplest form the ECL can be calculated as the product of these factors, however, for several reasons, the actual formula must be more complicated than this.

The PD models are either fully automated statistical models, expert models or hybrid models. For the models with a component involving expert input there is a process in place to ensure proper review of the model outcome and periodic reassessment of obligors. The inputs into the models include demographic variables, information from financial statements and past payment behaviour, among other variables.

The effect of the economy on the PD is accounted for with the use of scaling factors which map through-the-cycle PD values to point-in-time PD values. The Group has a model to predict these scaling factors based on an economic forecast. The economic forecast is provided by the Group's Chief Economist. The forecast predicts a range of macroeconomic indicators over a horizon of five years. The model is applied to a subset of these indicators and produces a set of scaling factors. The scaling factors are then reviewed by the All Risk Committee with respect to all of the indicators and any other relevant information available and the committee approves their use for the calculation of the impairment. This process is carried out at least quarterly.

The Group uses three economic scenarios. In addition to the base forecast, scaling factors are produced for good and bad cases. This is done in order to represent the whole range of possible future economic developments. The actual impairment allowance is the weighted average of the ECL in these different scenarios.

The All Risk Committee determined that it was appropriate to adjust the weights of the forward-looking scenarios to better reflect uncertainty in economic conditions for borrowers and the ongoing uncertainty in global markets. The scenarios are usually weighted 25%-50%-25% (optimistic, base, pessimistic), but it was decided to keep using 20%-50%-30% at the end of year 2023, as it had been throughout the year.

The table below shows macroeconomic indicators of the Group's Chief Economist's macroeconomic forecast used in ECL calculations 31.12.2023.

Change in economic indicators %	Estimate 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027
Economic growth (YoY real GDP change)	2.2	2.6	3.0	2.3	2.4
Housing prices in Iceland (average YoY change)	7.3	2.6	3.9	4.5	3.5
Purchasing power (average YoY change)	0.6	2.3	2.3	1.2	1.2
ISK exchange rate index (YoY change in average)	1.4	(5.3)	(2.0)	1.0	1.0
Policy rate, Central Bank of Iceland (average per year)	8.2	8.9	7.2	5.2	4.5
Inflation (average per year)	8.7	5.4	3.7	3.3	3.2
Capital formation (YoY real change)	0.8	(0.6)	4.1	1.5	2.5
thereof capital formation in industry	2.7	(3.3)	4.4	2.5	2.5

62.3 Financial assets and financial liabilities (continued)

The LGD model considers several scenarios for how a facility may develop once a credit event has occurred. One possibility is that the facility cures without a loss. If not, the recoveries may be based on the seizing of collateral and to estimate such recoveries, several scenarios for the development of the value of the collateral are considered. Finally, there may be recoveries even though a formal collateral is not in place. These different recovery scenarios are weighted differently depending on the economic scenario under consideration. This leads to a non-linear interaction and thus a difference between the probability weighted average ECL and the ECL in the most likely scenario.

For EAD it is necessary to account for expected prepayments on term loans and for the expected utilisation of commitments such as credit cards, overdrafts, financial guarantees, and credit lines. The expected lifetime of agreements may also extend beyond the contractual lifetime for contracts which are generally extended.

Temporary changes were made to the impairment model in response to seismic activity in Reykjanes during the last quarter of 2023. For further information see Note 3.

Write-off policy
When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

The impairment process
In the Group's impairment framework, the Stage assignment and ECL for each financial asset is calculated from the aforementioned models. The outcome is reviewed by the business units and they can propose changes if they provide sufficient supporting material. The impairment and any proposals for changes are reviewed by an Impairment Council appointed by the All Risk Committee and the impairment allowance is approved by the All Risk Committee on a quarterly basis.

The principle of materiality applies to the above discussion on impairment, whereby exceptions related to non-materiality and immaterial adjustments are not discussed.

62.4 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position and at the reporting date the expected credit loss is considered to be low. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Cash and cash equivalents in the statement of cash flows consist of cash on hand, unrestricted balances with the Central Bank, demand deposits with credit institutions, and short-term loans to credit institutions. Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition.

62.5 Derivative financial instruments

Derivatives are primarily used in trading activities but are also used to manage the Group's exposure to various risks, such as interest rate risk, inflation risk, and currency risk. Derivatives are classified as financial assets or financial liabilities, measured at fair value and presented in the Statement of Financial Position in separate line items as assets or liabilities, depending on whether their fair value at the reporting date is positive (assets) or negative (liabilities).

The Group applies hedge accounting. Accordingly, some of the Group's derivative financial assets and financial liabilities are accounted for as financial assets or financial liabilities mandatorily at fair value through profit or loss while others are accounted for as derivative assets or liabilities in hedge accounting (see Note 62.3 and Note 62.6).

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments with the effect that some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. These embedded derivatives are measured and presented in the Consolidated Financial Statements as if they were free-standing derivatives. The Group accounts for an embedded derivative separately from the host contract when, the host contract is not an asset in the scope of IFRS 9, is not carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. When the Group is required to separate and account for embedded derivatives as if they were stand-alone contracts, the Group presents the fair value of the embedded derivatives in the Statement of Financial Position in the same line items in which the Group presents the related host contracts.

62.6 Hedge accounting

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

On initial designation of the hedges, the Group formally documented the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at inception of the hedge relationships and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%. In the assessment the Group assumes that the benchmark interest rate is not altered as result of the transition to alternative benchmark interest rates.

The Group applies fair value hedge accounting with respect to designated hedging relationships consisting of certain fixed-rate euro denominated bonds issued by the Group as the hedged items and certain euro denominated interest rate swaps as the hedging instruments, whereby the Group pays floating rate interest and receives fixed rate interest. The hedging relationships are designated and accounted for as fair value hedges because the interest rate swaps are hedging the exposure of the Group to changes in the fair value of the bonds arising from changes in interest rates. The Group recognises the changes in the fair value of the interest rate swaps immediately in profit or loss together with the changes in the fair value of the bonds which are attributable to the interest rate risk. The changes in the clean fair value of the swaps and the bonds are included in the line item “Net financial income (expense)”, the accrued interest on the bonds and the swaps is included in the line item “Net interest income” and foreign exchange gains and losses on the bond are included in the line item "Net foreign exchange gain (loss)".

If a hedging derivative expires or is sold, terminated or exercised, or a hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting for the corresponding hedging relationship is discontinued permanently. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

62.7 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to separate non-lease components and account for lease and non-lease components of a contract as a single lease component.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises a lease liability and a right-of-use asset at the lease commencement date. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets in the line item "Property and equipment" and lease liabilities in the line item "Other liabilities" in the Statement of Financial Position. Maturity analysis of lease liabilities is disclosed in Note 53. Interest on lease liabilities is recognised in profit or loss in the line item "Net interest income". Depreciation of right-of-use assets is recognised in profit or loss in the line item "Other operating expenses".

The Group as a lessor

The Group classifies leases based on the substance of the arrangements and the extent of the transfer of risks and rewards incidental to ownership of the leased asset. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership.

When the Group is the lessor in a capital lease, the Group recognises a receivable equal to the net investment in the lease and presents it in the line item "Loans to customers" in the Statement of Financial Position. The Group applies its accounting policies for derecognition and impairment of financial assets also to its capital lease receivables. The Group recognises the finance income from capital lease receivables in profit or loss in the line item "Net interest income" over the period of the capital lease so as to give a constant periodic rate of return on the net investment in the capital lease.

When the Group is a lessor in arrangements which involve the legal form of capital leases, but which in substance do not involve leases, the Group classifies them within loans at amortised cost.

62.8 Loan commitments and financial guarantees

Loan commitments are firm commitments of the Group to provide credit under a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Expected credit loss of loan commitments (see Note 62.3) is recognised in the Statement of Financial Position in the line item "Other liabilities". Loan commitment fees received by the Group are recognised in profit or loss in the line item "Fee and commission income".

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are issued by the Group to credit institutions and other parties on behalf of its customers so that they can secure loans, overdrafts, and banking facilities.

Liabilities arising from financial guarantees issued by the Group are initially measured at their fair value, being the premium received. Subsequently the liabilities are carried at the higher of the amount representing the initial fair value of the guarantee and the expected credit loss allowance of the guarantee (see Note 62.3). Any changes in the liabilities arising from financial guarantees are recognised in profit or loss. The premium received is recognised in profit or loss in the line item "Fee and commission income" over the life of the guarantee.

62.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle the obligation with an outflow of resources, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When management assesses that disclosing all information regarding certain matters can be expected to affect their outcome, then such detailed disclosures are not included in the Consolidated Financial Statements.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

62.10 Employee benefits

All Group entities are required to pay, on a mandatory and contractual basis, contributions to public and private pension funds. The Group has no further payment obligations once these contributions have been paid. The Group recognises these contributions as salary related expenses when they become due.

Short-term employee benefits include salaries, cash bonuses, non-monetary benefits and compensated absences. Short-term employee benefit obligations are expensed by the Group as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group does not have a defined benefit pension plan or an active remuneration policy.

62.11 Equity

Share capital

The share capital disclosed in the Consolidated Financial Statements represents the total nominal value of ordinary shares issued by the Bank. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends on shares

Dividends payable to shareholders of the Bank are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders at the Bank's Annual General meeting. Dividends payable to non-controlling shareholders in subsidiaries are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders' meeting of the subsidiaries. Dividends declared after the reporting date are not recognised as a liability at the reporting date.

Statutory reserve

According to the Act on Public Limited Companies no. 2/1995 the statutory reserve shall amount to 25% of the share capital of the Bank.

62.11 Equity (continued)

Restricted reserves

The Group is to transfer, if applicable, certain amounts from retained earnings to restricted reserves which can therefore not be distributed as dividends to shareholders. These restricted reserves are specified as follows:

Restricted reserve due to capitalised development costs

When the Group capitalises development cost it transfers a corresponding amount from retained earnings to a restricted reserve. In the future the restricted amount is to be transferred back to retained earnings as the capitalised development cost is amortised in profit or loss.

Restricted reserve due to fair value changes of financial assets

The Group transfers fair value changes of financial assets at fair value through profit or loss, net of tax if applicable, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Restricted reserve due to unrealised profit of associates

If share of profit of an associated company is in excess of dividend received or which can be claimed, the Group transfers the difference to a restricted reserve in equity. If the Group's shareholding in an associate is sold or written off the applicable amount recognised in the reserve is transferred to retained earnings.

Fair value reserve

Fair value reserve comprises all unrealised gains or losses related to fair value changes of equity instruments classified at fair value through other comprehensive income. On derecognition of the equity instruments fair value changes are not reclassified to profit and loss.

Liability credit reserve

Changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss are recognised in liability credit reserve. On derecognition the fair value changes are not reclassified to profit or loss.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

62.12 Interest income and interest expense

For all financial assets and financial liabilities measured at amortised cost, interest income and interest expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

The effective interest rate is established on initial recognition of financial assets and financial liabilities and their carrying amount is subsequently adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or interest expense. For floating rate instruments, interest income or interest expense is generally recognised based on the current market rate plus or minus amortisation or accretion of the discount or premium based on the original effective interest rate.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset. For financial assets in Stage 1 and Stage 2 interest is recognised on the gross carrying amount of the assets and for financial assets in Stage 3 interest is recognised on the gross carrying amount of the assets, net of impairment allowance (see Note 62.3).

For financial assets and financial liabilities at fair value through profit and loss, interest income and interest expense are recognised through profit or loss on an accrual basis, except for financial liabilities designated as at fair value through profit or loss (see Note 62.3).

Accrued interest on interest rate swaps, which are designated and accounted for as hedging instruments in fair value hedges of the interest rate risk arising from certain fixed-rate euro denominated bonds issued by the Group (see Note 62.6), is recognised in profit or loss as an adjustment to the interest expense recognised for the bonds.

62.13 Net fee and commission income

Fees and commissions are recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received for such services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees for loan commitments that are likely to be utilised are recognised as an adjustment to the effective interest rate of the loan. When a loan commitment is not expected to be utilised, fees are recognised in profit or loss on a straight-line basis over the commitment period.

Loan syndication fees are recognised as revenue in profit or loss when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning, and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Where it is assessed that the Group is acting as an agent, the consideration is presented on a net basis.

62.14 Net financial income (expense)

Net financial income (expense) consists of net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss, net gain (loss) on financial liabilities designated as at fair value through profit or loss, net gain (loss) on fair value hedges, and net gain (loss) on derecognition of financial liabilities measured at amortised cost.

Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss includes all realised and unrealised fair value changes of financial assets and financial liabilities classified by the Group as mandatorily at fair value through profit or loss, except for interest income and interest expense, which are included in the line item "Net interest income", and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)". Dividend income from financial assets is recognised in the income statement when the Group's right to receive payment is established.

Net gain (loss) on financial liabilities designated as at fair value through profit or loss
Net gain (loss) on financial liabilities designated as at fair value through profit or loss includes all realised and unrealised fair value changes of financial liabilities designated by the Group as at fair value through profit or loss, except for changes in fair value attributable to changes in credit risk which is recognised in other comprehensive income, interests incurred which are included in the line item "Net interest income", and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

Net gain (loss) on fair value hedges
Net gain (loss) on fair value hedges includes the changes in the clean fair value of interest rate swaps which are accounted for as hedging instruments in fair value hedges and the changes in the fair value of certain bonds, which are attributable to the interest rate risk of the bonds, and are accounted for as the hedged items in fair value hedges (see Note 62.6).

Net gain (loss) on derecognition of financial liabilities measured at amortised cost
Net gain (loss) on derecognition of financial liabilities measured at amortised cost includes the difference between the buyback price and the carrying amount of debt issued measured at amortised cost at the derecognition date.

62.15 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and non-current assets and disposal groups held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. If the carrying amount of an asset exceeds its estimated recoverable amount an impairment loss is recognised in profit or loss.

An impairment loss for non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

62.16 Taxes

Income tax expense

Income tax expense comprises special financial activities tax, current tax and deferred tax and is disclosed as a separate line item in the income statement. Income tax expense from discontinued operations is included in the income statement in the line item "Discontinued operations held for sale, net of income tax". Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, consistent with the recognition of the underlying item to which it relates.

Bank tax

Bank tax is calculated as 0.145% (2022: 0.145%) of total liabilities at year-end as determined for tax purposes, in excess of ISK 50,000 million, excluding tax liabilities. The Bank tax is considered a non-deductible expense for the calculation of income tax. The Bank tax is shown in a separate line in the income statement and is included in the Statement of Financial Position in the line item "Tax liabilities".

Special financial activities tax

Special financial activities tax is calculated as 6% of taxable profit exceeding ISK 1,000 million. Special financial activities tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Current tax

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date. Current tax also includes any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are offset in the Statement of Financial Position if the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current tax is included in the Statement of Financial Position in the line item "Tax liabilities".

Deferred tax

Deferred tax is recognised based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred taxes are not recognised if it arises from the initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither the taxable profit nor the accounting profit. In addition, deferred taxes are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax is measured using tax rates enacted at the reporting date. The enacted tax rate was temporarily increased from 20% to 21% for taxable income in 2024, this temporary change in tax rate impacts deferred tax calculations.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are included in the Statement of Financial Position in the line item "Tax liabilities" and deferred tax assets are included in the Statement of Financial Position in the line item "Other assets".

62.17 Offsetting

Financial assets and financial liabilities are set off and the net amount reported in the Statement of Financial Position when, and only when, the Group has a legal right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group presents income and expenses on a net basis in the income statement only when required or permitted by the accounting standards.

62.18 Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders of the Bank and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

Íslandsbanki

Consolidated Financial Statements

2022

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the audited Consolidated Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the year 2022. Íslandsbanki is a universal bank offering comprehensive financial services to households, corporations, and institutional investors in Iceland. The Group is one of Iceland's largest banking and financial services groups, with a strong domestic market share.

Operations in 2022

The Group's profit from operations for the year 2022 amounted to ISK 24,535 million and the return on equity was 11.8%, surpassing the Bank's target of over 10% ROE. At year-end, the Group employed 739 full-time members of staff, including 700 within the Bank itself, 57% female and 43% male, and operated 12 branches.

Operations in 2022 were impacted by the substantial volatility in the global economy and capital markets, growing inflation and rising interest rates, both domestically and internationally. This volatility has however so far had limited observable impact on delinquency rates and at the same time, the tourism industry has been recovering steadily from the COVID-19 pandemic and earnings and the financial standing in that industry have improved considerably.

The Government's sale of a 22.5% stake in the Bank in March 2022 has come under considerable public scrutiny. At year-end 2022, the Bank received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland (FSA), resulting from its inspection of the Bank's execution of the sale. In its findings, the FSA states, subject to the Bank's response, that the Bank may have violated certain laws and regulations applicable to the Bank's operations. The management of the Bank takes the FSA findings seriously and has already made relevant changes to its internal rules and procedures and will, subject to the outcome of its internal review and discussions with the FSA, continue to make appropriate changes. The amount of the potential administrative fine has not been decided and is therefore uncertain. The Bank has, however, recognised a provision based on its own internal estimate. For further information on this matter see Note 43.

Net interest income rose by 26.7% from the previous year, supported by balance sheet growth and a rising interest rate environment. As a result, the net interest margin increased from 2.4% to 2.9%. Net fee and commission income rose by 9.4%, with a strong performance in Allianz Ísland hf. and good growth in fees from cards and payment processing. Net financial income was adversely affected by the rising rates environment and a drop in the equities markets and was negative by ISK 1,257 million. Salaries and related expenses increased by only 0.4% between years due to a 2.7% reduction in the number of FTEs. Other operating expenses increased by 6.8%. The Group's cost-to-income ratio fell from 46.2% to 42.1% between years and was well below the 45% target. Net impairment reversals amounted to ISK 1,576 million, of which approximately ISK 750 million was a result of a favourable court ruling regarding a fully impaired loan, coupled with the outlook for the tourism sector continuing to improve and outweighing the negative impact from increased inflation and international economic volatility.

The Group's loan book grew by 9.2% during the year due to continued strong growth in mortgages and loans to SMEs. At the same time, growth in loans to larger corporates was kept at a more moderate pace of 2.3%. The Group's ratio of non-performing loans decreased from 2.0% at year-end 2021 to 1.8% at the end of 2022. Stage 2 loans under IFRS 9 have come down to 2.5% of the loan book, compared with 9.6% at year-end 2021, as the credit risk relating to loans to the tourism industry and related industries has come down substantially.

Capital and funding

Deposits from customers remain the Bank's largest source of funding and rose by 6.2% during the year. The largest increase came from deposits in Corporate and Investment Banking, while deposits in Personal Banking increased at a healthy 5.0% pace. The Bank was quite active in debt issuance during the year, although turbulence in the international funding markets had a considerable impact on the pricing and availability of funding. In the foreign markets the Bank issued its second sustainable note in the first quarter, followed by its inaugural FX Covered Bond transaction in September in the amount of EUR 300 million, which was successfully placed with investors in quite turbulent markets. In early October, the Bank issued ISK 10,520 million of Tier 2 bonds, the Bank's first of its kind in the domestic market. The liquidity position of the Bank remains robust with all liquidity ratios well above both internal targets and regulatory requirements.

The Bank paid ISK 11.9 billion in dividends to its shareholders in March 2022 in line with its dividend policy of 50% of the previous year earnings. The Group is well capitalised, with a total capital ratio of 22.2% and is well above the regulatory requirement of 19.9%, which increased from 17.8% during the year, mainly as a result of the countercyclical buffer increasing from zero to 2.0%. The CET1 capital ratio was 18.8% at the end of 2022, which is well above the Bank's financial target of approximately 16.5%. The capital ratios take into account the previously planned share buyback of ISK 15 billion. Due to volatility in the global economy and capital markets, the Central Bank of Iceland has asked the Icelandic banks to be careful in terms of capital distributions in the near term. The Bank is therefore planning to start its share buybacks with a standard ISK 5 billion buyback program, to be conducted over the next few months. The remaining ISK 10 billion will be added back to the Bank's capital buffers. The Bank will seek a renewed approval for share buybacks from the Bank's annual general meeting in March and is planning to optimise its capital structure before year-end 2024, in line with its target of approximately 16.5% CET1 capital ratio.

Directors' Report

Outlook

The Icelandic economy has broadly recovered from the COVID-19 induced recession at the start of the decade. GDP growth measured 7.3% year-on-year in the third quarter of 2022 and the 7.4% average growth for the year to September is the strongest reading for this period since 2007. Growth in the third quarter of 2022 was led by private consumption and exports, the latter largely due to a robust high season in tourism.

Recent economic trends in the fourth quarter of 2022 and timely indicators point to a slower growth in consumption and investment than in previous quarters. Card turnover figures and other data indicate a slowdown in consumption growth in November and December in particular, most likely affected by a drop in real wages, higher interest rates and dwindling impact from pent-up travel demand during the pandemic. On the other hand, tourism continued its upward trajectory in the fourth quarter and arrivals in that quarter were broadly on par with 2019 numbers. At just under 1.7 million, foreign tourist arrivals in 2022 were equal to 85% of arrivals in 2019. For the year 2022, the Bank's Chief Economist estimates GDP growth at 7.0%.

The economy has proven more resilient than European peers to impact from the war in Ukraine, as domestic renewable energy supplies most of households' energy needs and rising seafood prices have partly offset an increase in import prices.

Inflation rose back to 9.9% in January 2023 following a decline from 9.9% in July 2022 to a temporary nadir of 9.3% in November 2022. Despite the temporary setback in headline inflation, some factors in the high inflation in recent quarters show signs of abating. This holds true for the residential real estate market, where prices fell modestly both in November and December among signs that supply is increasing while demand is cooling. The Central Bank increased its policy rate by a total of 50 basis points in the fourth quarter and thereby its main policy rate was 6.0% at the end of 2022.

For 2023, the Bank's Chief Economist expects GDP growth to measure 3.4%. Exports will remain the main catalyst of growth this year due to continued growth in tourism and a moderate increase in other exports. Domestic demand, on the other hand, looks likely to grow at a more moderate pace compared to the two previous years.

On balance, the outlook for the Bank's operations in 2023 is favourable. Unemployment remains low in Iceland, with a good outlook for economic growth and a strong recovery in the tourism industry. Inflation however remains a challenge, impacting both the Bank's own cost base and that of its customers. The Bank expects profitability to be in line with its 10% target in 2023, assuming normalised impairments and the cost-to-income ratio is expected to be in the range of 40-45%, below the Bank's target to be below 45%. Furthermore, the Bank plans to optimise its capital structure before year-end 2024, subject to market conditions and the economic environment.

Risk management

The Bank is exposed to various risks. The management of these risks is an integral part of the Bank's operations, and the Bank has focused on building up a responsible internal risk culture among the Bank's employees. The ultimate responsibility for ensuring an adequate risk management framework lies with the Board of Directors. The Board defines and communicates the acceptable level of risk through the Bank's risk management policies and the CEO is responsible for ensuring that risks are managed within those limits.

The Board and the CEO hereby declare that Íslandsbanki has an overall satisfactory risk management in relation to the Bank's profile and strategy.

The Bank's risk management framework and policies are discussed under Notes 45-60 to the consolidated financial statements and in the unaudited Pillar 3 Report.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange and the Bank has the second largest shareholder base of any listed company in Iceland. The Icelandic Government sold a 22.5% stake in the Bank in an accelerated book building process at the end of March 2022 and as a result, the Government has now become a minority shareholder with a 42.5% stake. Shares held by the Government are administered by the Icelandic State Financial Investments (ISFI) in accordance with Act no. 88/2009.

At the end of 2022 the Bank had over 13 thousand shareholders, 91% of the Bank's shares were owned by domestic parties and 9% by international investors. Apart from the Government, pension funds and insurance companies were the largest investor group, owning 35.0% of the outstanding shares, where the largest pension funds have been gradually increasing their shareholding. Fund companies owned 10.9% of the shares and individuals 6.8%. The global index provider FTSE Russell upgraded Iceland to Secondary Emerging Market status on 19 September 2022 and Íslandsbanki's securities are now eligible for the FTSE Total Cap Index.

The Bank's shares outperformed the domestic stock market and were down by 5.1% in 2022, while the OMX10 index was down by 26.5%. Taking into account the dividend paid, the shareholder return was -0.4% for the year.

For further information on the Bank's shareholders see Note 41.

Directors' Report

Sustainability

Íslandsbanki aims to be a leader in the area of sustainable development and a force for good. Alongside its vision of being a leader in service to customers, the Bank will focus on integrating sustainability considerations into its activities, in addition to its profit objectives. The Bank takes account of ESG criteria in its risk management and actively explores business opportunities related to sustainability. Íslandsbanki aims to increase the general public's financial knowledge and interest in the subject and, to this end, offers interesting and accessible seminars on finance and economics.

The Board of Directors approves the Sustainability Policy and sets the Bank's strategy and risk appetite in terms of sustainability risk. The Board is regularly updated on corporate sustainability matters and the usage of the Bank's Sustainable Financing Framework. The Corporate Governance and Human Resource subcommittee of the Board assists the Board in fulfilling its oversight responsibilities concerning sustainability.

The CEO is responsible for executing the strategy and has appointed a Sustainability Committee as a main building block of the governance structure. The Committee is the formal forum for discussions on all issues related to sustainability risk, sustainable procurement, and business opportunities. The Committee is independent from credit committees and needs to approve proposals for credit cases before they are included in the Sustainable Financing Framework. The Committee is chaired by the CEO and has senior representatives from the business units, Finance, Risk Management, and Strategy and Sustainability.

The Sustainability Policy creates a comprehensive framework for its activities in the area of environmental affairs, respect for human rights, responsible lending, investments, purchasing, and grants, as well as integrating with and supporting the Bank's other policies. In line with the Sustainability Policy, the Board of Directors has approved seven sustainability goals for its operations, to be completed by 2025. The goals are based on ESG criteria and supported by annual targets set by business units as part of their five-year planning process.

The Sustainability Report for the year 2022 includes key information on the environmental, social and governance criteria for Íslandsbanki in accordance with the Nasdaq ESG guidelines from 2019. The Bank puts emphasis on an increased flow of transparent information on sustainability. Auditing firm Ernst & Young was engaged to review and confirm with limited assurance the Bank's sustainability information disclosure in the Annual and Sustainability report for 2022.

Sustainability risk has been more effectively integrated into key processes relating to lending, investments, and product development during the year. At year-end, 76% of all credit risk exposure (excluding individual banking and small enterprises which are not in scope) has been assessed with respect to ESG risk related factors. More detailed coverage can be found in the Bank's Pillar 3 Report for 2022 which contains a separate chapter on sustainability risk and climate risk in compliance with TCDF (Task Force on Climate-related Financial Disclosures) criteria.

Collaboration with international and local partners with regards to sustainability is highly important. Over the years, Íslandsbanki has participated in international commitments and supported domestic cooperative efforts on sustainability. Being a part of international collaborations such as the UN Principles for Responsible Banking (UN PRB), the Nordic CEOs for a Sustainable Future and most recently being a founding member of the Net-Zero Banking Alliance (NZBA) is particularly valuable and informative for a relatively small bank. On the other hand, being one of the largest companies in Iceland means that the Bank can contribute significantly towards domestic partnerships such as Festa - Center for Sustainability, IcelandSif and the Green Building Council Iceland, to name a few.

Environment

Íslandsbanki is committed to supporting Iceland's ambitious Climate Action Plan and the Paris Agreement Goals. To that end, the Bank announced in April 2021 its commitment to become net zero on financed emissions by 2040. The Bank's own operations have been carbon neutral for the past three years, and with this decision, its commitment will also extend to financed emissions which includes the carbon footprint of Íslandsbanki's entire loan and asset portfolio.

In 2022 Íslandsbanki published its first carbon neutrality report, On the Road to Net-Zero, which outlines the Bank's financed emissions (in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard), objectives and performance in connection with climate issues. Íslandsbanki published its targets for specific sectors in the report, which account for 61% of total lending and 71% of total emissions from the loan portfolio. The Bank expects its financed emissions to shrink by 60% by 2030 and 85% by 2040. Furthermore, the activities of Íslandssjóðir (Iceland Funds), the fund management company owned by Íslandsbanki, are included for the first time in measurements of financed emissions. The Bank's objective of having a net-zero loan portfolio by 2040 is an ambitious but achievable goal in most sectors, although it is clear that transitioning to clean energy in air transport and cargo shipping by sea will probably take longer.

Directors' Report

Social

Íslandsbanki strongly emphasises creating a constructive and healthy work environment with passion, professionalism, and collaboration as guideposts. Because its human resources are its biggest resource, the Bank places strong emphasis on fostering employees' growth and development and contributing to their health and well-being.

As before, equal rights are uppermost in our minds, and we want Íslandsbanki to be a desirable workplace for people from wide-ranging backgrounds. One of Íslandsbanki's most important sustainability targets is to ensure that no single gender accounts for more than 60% of the Bank's management team. This ratio is considered in the hiring of management-level employees. As in previous years, the Bank received equal pay certification and was awarded professional certification under the ÍST 85:2012 standard for 2022. According to the most recent equal pay appraisal, the unexplained pay gap for jobs of equal value is 0.2%.

Governance

The regulatory framework for corporate governance practices within Íslandsbanki consists of the law applicable to its operations, including those imposed by the Central Bank of Iceland and Nasdaq Iceland. The Bank's governance practices derive, inter alia, from the laws and regulations applicable to financial institutions and the financial market. The Bank complies with the Guidelines on Corporate Governance in accordance with paragraph 7 of article 54 of the Act on Financial Undertakings no. 161/2002. Each year the Bank conducts an appraisal to ensure that they remain consistent with the Guidelines. The Board of Directors follows the Corporate Governance Guidelines (6th ed.) issued by the Iceland Chamber of Commerce, Nasdaq Iceland, and SA-Business Iceland, available on www.corporategovernance.is. Moreover, the Bank's governance practices are based on the European Banking Authority's Guidelines on Internal Governance for Financial Undertakings (EBA/GL/2021/05), cf. article 16 of regulation (EC) no. 1093/2010, transposed into Icelandic law with Act no. 24/2017, on European Control Systems in the Financial Market.

Íslandsbanki has a Code of Conduct in place for employees and the Board of Directors which is available on the Bank's website. In addition, the Bank's Sustainability Policy emphasises these matters. The aim of the Code is to promote good operational practices, reporting of misconduct and actions to prevent conflict of interest. Employees confirm annually that they have read and understood the rules and commit their adherence to the rules. At the end of 2022, more than 99% of employees had confirmed the rules. The Bank emphasises respect for human rights and avoids business transactions where human rights are violated, including discrimination on the basis of gender, religion, or race according to the Sustainability Policy and the Suppliers' Code of Conduct. The Bank is committed to continue its active dialogue with suppliers on sustainability issues. In 2022, the Bank set up ten meetings with key suppliers to discuss enhancing sustainable and environmental business practices in the value chain.

The Bank makes every effort to combat bribery and corruption. For that purpose, the Bank has e.g. implemented a policy on conflict of interest and rules on measures against conflict of interest in which there is a chapter on gifts and complimentary trips. The rules are intended to ensure that the impartiality and credibility of employees cannot be brought into question with respect to the treatment and handling of individual matters. Moreover, the Bank has a policy in place on actions against money laundering and terrorist financing. The Bank's policy on anti-money laundering takes a clear stance against payments on bribery and corruption. In practice, the Bank emphasises on being compliant with Act no. 140/2018 on measures against money laundering and financing of terrorism which involves combating bribery and corruption.

The Board of Directors of Íslandsbanki is committed to excellence in its governance framework so that it complies with the best corporate governance practices in the financial market at all times.

At each Annual General Meeting (AGM) seven nonexecutive directors, and two alternate members, are elected to the Board for a term of one year. The Board undertakes the Bank's affairs and is responsible for setting the Bank's general strategy as well as instructing the CEO on its further implementation and execution. The Board has a supervisory role overseeing that the Bank's organisation and activities are at all times in accordance with relevant laws, regulations and good business practices. Furthermore, the Board shall monitor the execution of its policies, the sound control of accounting and financial management, and ensure that group internal audit, compliance, risk management and internal controls are effective at all times.

In accordance with the Bank's Articles of Association the Bank operates a Nomination Committee whose role is to nominate individuals to the Bank's Board of Directors at the AGM, or as the case may be at a shareholders' meeting where Board elections are on the agenda. The members of the Nomination Committee shall be three and they shall be elected for one year at a time by the Board of Directors. The Committee shall be independent in its work and the majority of the Committee's members shall be independent of the Bank and its management. Along with the Bank's Nomination Committee, the ISFI operates a special three-member Selection Committee which, on behalf of the State, nominates candidates for the supervisory boards or boards of directors of banks or undertakings that are managed by ISFI.

Directors' Report

The Board has approved a policy on the suitability of the Board of Directors, the CEO and key function holders. The objective of the policy is that the Bank's Board of Directors, CEO, and key employees meet the relevant suitability requirements at all times and the framework for their appointment and/or employment is in accordance with the applicable legal requirements for the Bank's operation. The policy states, among other things, that the composition of the Board shall at any time be diverse, with regard to educational and professional background, gender and age. Human Resources reports annually to the Board on the Bank's actions in implementing the policy. Currently the Board consists of seven members, four female and three male. Board members are of various ages, born in the years 1960-1982. Board members have a broad range of education, e.g. in the fields of economics, law, computer science, nursing, engineering, auditing, business administration, and securities trading. Board members also have extensive industry experience in the areas of operations, management, and consulting.

The Board appoints three subcommittees, each one comprising Board members and operating under the terms of a mandate letter from the Board as well as the Rules of Procedure of the Board. The mandate letters of Board subcommittees are available on the Bank's website.

The CEO is responsible for the day-to-day operations of the Bank and that the Bank's business is, at all times, in accordance with the Bank's Articles of Association, policies of the Board and the relevant law. The CEO engages the Bank's Compliance Officer and appoints members of the Executive Committee and other Senior Management Committees.

The Executive Committee, comprising seven members, including the CEO, is composed of three women and four men. Members of the Executive Committee were born in the years 1961-1976 and possess diverse education and extensive experience. The role of the Executive Committee is to maintain an overall view of the Bank's operations and to coordinate key aspects of its activities. The CEO ensures that the Board is regularly provided with accurate information on the Bank's finances, development, and operations.

The Bank's Finance division is responsible for the preparation of the consolidated financial statements which are prepared in accordance with the International Financial Reporting Standards (IFRS). The Board's Audit Committee reviews the Group's annual and interim consolidated financial statements before their submission for Board approval and endorsement. The Board's Audit Committee regularly discusses the Bank's financial statements and evaluates its internal control processes. Management reporting is generally presented to the Board 10 times a year. The external auditors review the second quarter interim consolidated financial statements and audit the annual consolidated financial statements.

A more detailed description of Íslandsbanki's governance framework and associated practices can be found in the Bank's Corporate Governance Statement enclosed in an unaudited appendix to the consolidated financial statements and on the Bank's website, www.islandsbanki.is.

Other matters

On 2 February 2023, Íslandsbanki received a letter from the Board of Directors of Kvika banki hf. requesting the Board of Directors of Íslandsbanki's position on commencing merger discussions between the two companies.

Directors' Report

Statement by the Board of Directors and the CEO

The audited consolidated financial statements for the year ended 31 December 2022 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these consolidated financial statements provide a true and fair view of the Group's operating profits and cash flows in 2022 and its financial position as of 31 December 2022. Furthermore, in our opinion the financial statements and the Directors' report give fair view of the main operational developments and achievements and describe the principal risks and uncertainties that the Group faces in its operations.

In our opinion, the Consolidated Financial Statements of Íslandsbanki hf. for the year 2022 identified as "549300PZMFIQR79Q0T97-2022-12-31-en.zip" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO have today discussed and approved the 2022 Consolidated Financial Statements of Íslandsbanki.

Kópavogur, 9 February 2023

Board of Directors:

Finnur Árnason, Chairman

Guðrún Þorgeirsdóttir, Vice-Chairman

Anna Þórðardóttir

Ari Daníelsson

Frosti Ólafsson

Herdís Gunnarsdóttir

Tanya Zharov

Chief Executive Officer:

Birna Einarsdóttir

Independent Auditor's Report

To the Board of Directors and shareholders of Íslandsbanki hf.

Opinion

We have audited the consolidated financial statements of Íslandsbanki hf. and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

Our opinion in this report on the consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of Íslandsbanki hf. on 25 March 2015 for the financial year 2015 and we have been reappointed every year since then.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Why significant	How our audit addressed the Key Audit Matter
Provision for expected credit losses (ECL)	

Loans to customers represent ISK 1,186,639 million or 76% of total assets at 31 December 2022, thereof expected credit losses (ECL) of ISK 11,132 million have been recorded.
 	
The determination of the provision for credit impairment is based on estimates and judgement by management. Key areas of judgement include:
 	
• the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model;
• the identification of loans with significant deterioration in credit quality;
• assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors.
 	
Due to the use of judgement and estimates and the relative size of loans to customers on the balance sheet, we consider the provision for expected credit losses (ECL) a Key Audit Matter.
	Our procedures focused on the following to respond to the Key Audit Matter, among others:
	
	• Assessing the Group's expected credit loss model, focusing on the following areas:
	  ◦ alignment of the expected credit loss model and its underlying methodology with the requirements of IFRS 9;
	  ◦ approach to the incorporation of forward-looking macroeconomic factors;
	
	• Testing the effectiveness of relevant controls relating, among others, to the:
	  ◦ data used to determine the provision for credit impairment, including transactional data captured at loan origination and ongoing internal credit quality assessment;
	  ◦ expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy;
	  ◦ review and approval of forward-looking macro-economic factors; and
	  ◦ registration and valuation of collateral used in the calculation of expected credit loss.
	
	• Testing of a sample of loans and procedures to evaluate among others:
	  ◦ timely identification of loans with significant deterioration in credit quality;
	  ◦ expected loss calculation by re-performing and assessing the reasonableness of the ECL model calculations;
	  ◦ appropriateness of forward-looking macroeconomic factors; and
	  ◦ COVID-19 pandemic effects of a sample of borrowers in the tourism and related industries and impact on collateral.
	
	In addition, we assessed the disclosures in the consolidated financial statements. Refer to Notes 3 and 61.4 for credit impairment.

Why significant	How our audit addressed the Key Audit Matter
Reliability of information from IT systems relevant to financial reporting	
The Group is highly dependent on IT systems due to the significant number of transactions that are processed daily and due to the complexity of the various systems needed to support the Group's operations. In the process of preparing the consolidated financial statements the Group uses data from many complex IT systems. To ensure complete and accurate processing and reporting of financial data it is important that controls over appropriate access rights and system changes are designed and operate effectively. Also, controls over transaction processing need to be designed and operate effectively. Because of the importance of the data from the IT systems supporting the financial reporting we consider their reliability a Key Audit Matter.	Our procedures focused on the following to respond to the Key Audit Matter, among others: • Obtained an understanding of the Group's IT systems and the IT-environment relevant for financial reporting. • Reviewed the design, implementation and effectiveness of control activities, as appropriate, related to change management, access management and computer operations for the systems considered important for the audit. EY IT specialists were involved in the audit.

Other information

This document also contains other information than the consolidated financial statements and our auditor's report thereon. The other information is: The unaudited highlights, Directors' Report, and unaudited Íslandsbanki's Corporate Governance Statement 2022 in appendix. Management and Board of Directors are responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon except for confirmation regarding Directors' Report as stated below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we, based on the work we have performed concerning this other information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of CEO and Board of Directors for the consolidated financial statements

The Chief Executive Officer (CEO) and Board of Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Act on Annual Accounts, Act on Financial Undertakings and rules on accounting for credit institutions, where applicable.

The CEO and Board of Directors are responsible for such internal control that management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Standards on Auditing (ISAs), we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the Key Audit Matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Íslandsbanki hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Íslandsbanki hf. for the year 2022 with the file name "549300PZMFIQR79Q0T97-2022-12-31-en.zip" is prepared, in all material respects, in compliance with act no. 20/2021 on disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

The Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with act no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the consolidated financial statements in a XHTML format in accordance with EU regulation 2019/815 on the ESEF regulation.

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, consolidated financial statements of Íslandsbanki hf. for the 2022 with the file name "549300PZMFIQR79Q0T97-2022-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Report on the Board of Directors Report

Pursuant to the legal requirements of Article 104, Paragraph 2 of the Icelandic Financial Statement Act no. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the consolidated financial statements includes all information required by the Icelandic Financial Statement Act.

Reykjavík, 9 February 2023

____

Geir Steindórsson
State Authorised Public Accountant

Ernst & Young ehf.
Borgartúni 30
105 Reykjavík

Consolidated Income Statement

	Notes	2022	2021
Interest income calculated using the effective interest rate method		87,671	56,220
Other interest income		6,342	2,405
Interest expense		(50,887)	(24,582)
Net interest income	6	43,126	34,043
Fee and commission income		17,630	15,167
Fee and commission expense		(3,577)	(2,318)
Net fee and commission income	7	14,053	12,849
Net financial income (expense)	8	(1,257)	2,499
Net foreign exchange gain	9	881	479
Other operating income	10	433	302
Other net operating income		57	3,280
Total operating income		57,236	50,172
Salaries and related expenses	11	(13,452)	(13,397)
Other operating expenses	12	(10,466)	(9,799)
Contribution to the Depositors' and Investors' Guarantee Fund		(165)	(688)
Bank tax		(1,858)	(1,683)
Total operating expenses		(25,941)	(25,567)
Profit before net impairment on financial assets		31,295	24,605
Net impairment on financial assets	13	1,576	3,018
Profit before tax		32,871	27,623
Income tax expense	14	(8,485)	(5,119)
Profit for the year from continuing operations		24,386	22,504
Discontinued operations held for sale, net of income tax	15	149	1,221
Profit for the year		24,535	23,725

	Notes	2022	2021
Profit attributable to shareholders of Íslandsbanki hf.		24,535	23,732
Loss attributable to non-controlling interests		-	(7)
Profit for the year		24,535	23,725
Earnings per share from continuing operations			
Basic and diluted earnings per share attributable to shareholders of Íslandsbanki hf.	16	12.19	11.26

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 14 Amounts are in ISK million

Consolidated Statement of Comprehensive Income

	2022	2021
Profit for the year	24,535	23,725
Net loss on financial assets	-	(39)
Net gain (loss) on financial liabilities	2,527	(816)
Items that will not be reclassified to the income statement	2,527	(855)
Foreign currency translation	2	329
Items that may subsequently be reclassified to the income statement	2	329
Other comprehensive income (expense) for the year, net of tax	2,529	(526)
Comprehensive income for the year	27,064	23,199
Comprehensive income attributable to shareholders of Íslandsbanki hf.	27,064	23,453
Comprehensive income (expense) attributable to non-controlling interests	-	(254)
Comprehensive income for the year	27,064	23,199

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 15 Amounts are in ISK million

Consolidated Statement of Financial Position

	Notes	31.12.2022	31.12.2021
Assets			
Cash and balances with Central Bank	21	94,424	113,667
Loans to credit institutions	22	110,364	43,988
Bonds and debt instruments	17	130,804	132,289
Derivatives	23	7,461	2,445
Loans to customers	24	1,186,639	1,086,327
Shares and equity instruments	17	15,868	31,677
Investments in associates	26	3,844	939
Property and equipment	27	6,752	7,010
Intangible assets	28	3,279	3,351
Other assets	29	6,072	5,784
Non-current assets and disposal groups held for sale	30	728	1,344
Total Assets		1,566,235	1,428,821
Liabilities			
Deposits from Central Bank and credit institutions	31	15,269	13,384
Deposits from customers	32	789,897	744,036
Derivative instruments and short positions	23	10,804	9,467
Debt issued and other borrowed funds	34	468,270	402,226
Subordinated loans	35	34,392	35,762
Tax liabilities	37	12,128	6,432
Other liabilities	38	16,601	12,848
Non-current liabilities and disposal groups held for sale	30	-	956
Total Liabilities		1,347,361	1,225,111
Equity			
Share capital		10,000	10,000
Share premium		55,000	55,000
Reserves		9,158	6,086
Retained earnings		144,716	132,624
Total Equity		218,874	203,710
Total Liabilities and Equity		1,566,235	1,428,821

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 16 Amounts are in ISK million

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory reserve	Restricted reserves	Fair value reserve	Liability credit reserve	Foreign currency translation reserve	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Equity as at 1 January 2021	10,000	55,000	2,500	3,556	572	(238)	(209)	113,529	184,710	1,494	186,204
Profit (loss) for the year								23,732	23,732	(7)	23,725
Net gain (loss) on financial assets					(572)			900	328	(367)	(39)
Net loss on financial liabilities						(816)			(816)		(816)
Foreign currency translation							209		209	120	329
Comprehensive income (expense) for the year	-	-	-	-	(572)	(816)	209	24,632	23,453	(254)	23,199
Dividends paid								(3,400)	(3,400)		(3,400)
Restricted due to capitalised development costs				(291)				291	-		-
Restricted due to fair value changes				1,318				(1,318)	-		-
Restricted due to associates				57				(57)	-		-
Dissolution of a subsidiary								(1,053)	(1,053)	(1,240)	(2,293)
Equity as at 31 December 2021	10,000	55,000	2,500	4,640	-	(1,054)	-	132,624	203,710	-	203,710
Equity as at 1 January 2022	10,000	55,000	2,500	4,640	-	(1,054)	-	132,624	203,710	-	203,710
Profit for the year								24,535	24,535		24,535
Net gain (loss) on financial liabilities						2,840		(313)	2,527		2,527
Foreign currency translation							2		2		2
Comprehensive income for the year	-	-	-	-	-	2,840	2	24,222	27,064	-	27,064
Dividends paid								(11,900)	(11,900)		(11,900)
Restricted due to capitalised development costs				(292)				292	-		-
Restricted due to fair value changes				424				(424)	-		-
Restricted due to associates				98				(98)	-		-
Equity as at 31 December 2022	10,000	55,000	2,500	4,870	-	1,786	2	144,716	218,874	-	218,874

Authorised and issued share capital of the Bank is 2,000 million ordinary shares of ISK 5 each. At 31 December 2022 paid up share capital totalled ISK 65,000 million which is the total stated share capital of the Bank. The Bank has one class of ordinary shares which carry no right to fixed income. The Annual General Meeting (AGM) for the operating year 2021 was held on 17 March 2022. At the AGM shareholders approved the Board's proposal to pay dividends to shareholders amounting to ISK 11,900 million which is equivalent to ISK 5.95 per share (2021: ISK 1.70 per share). The dividends were paid on 28 March 2022.

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 17 Amounts are in ISK million

Consolidated Statement of Cash Flows

		2022	2021
Profit for the year		24,535	23,725
Non-cash items included in profit for the year*		(39,076)	(32,764)
Changes in operating assets and liabilities*		(57,031)	(38,778)
Interest received		78,521	58,936
Interest paid**		(42,172)	(18,691)
Dividends received		1,049	54
Paid bank tax		(1,683)	(1,588)
Paid income tax and special financial activities tax		(3,582)	(3,794)
Net cash used in operating activities		(39,439)	(12,900)
Net investment in subsidiaries and associates		(1,103)	2,727
Proceeds from sales of property and equipment		35	29
Purchase of property and equipment		(273)	(206)
Purchase of intangible assets		(470)	(442)
Net cash provided by (used in) investing activities		(1,811)	2,108
Proceeds from borrowings		191,503	86,048
Repayment and repurchases of borrowings		(129,448)	(55,332)
Repayment of lease liabilities		(472)	(425)
Dividends paid		(11,900)	(3,400)
Subsidiary's capital decrease and share buyback paid to non-controlling interests		-	(1,130)
Net cash provided by financing activities		49,683	25,761
Net increase in cash and cash equivalents		8,433	14,969
Effects of foreign exchange rate changes		5	(40)
Cash and cash equivalents at the beginning of the year		130,597	115,668
Cash and cash equivalents at year-end		139,035	130,597
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	21	3,563	3,882
Unrestricted balances with Central Bank	21	80,866	100,528
Bank accounts	22	54,606	26,187
Cash and cash equivalents at year-end		139,035	130,597

*For further breakdown see the following page.

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

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

Presentation of interest received and interest paid has been changed, comparative figures have therefore been restated.

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 18 Amounts are in ISK million

Consolidated Statement of Cash Flows

Non-cash items included in profit for the year

	2022	2021
Net interest income	(43,126)	(34,032)
Depreciation, amortisation, and write-offs	1,400	1,395
Share of profit, gain from sale, and reversal of impairment of associates	(198)	(133)
Net impairment on financial assets	(1,430)	(2,723)
Foreign exchange gain	(881)	(479)
Net gain from sales of property and equipment	(19)	(18)
Unrealised fair value gain recognised in profit or loss	(5,115)	(2,371)
Discontinued operations held for sale, net of income tax	(149)	(1,221)
Bank tax	1,858	1,683
Income tax expense	8,485	5,119
Other changes	99	16
Total	(39,076)	(32,764)

Changes in operating assets and liabilities

	2022	2021
Mandatory reserve and pledged balances with Central Bank	(738)	292
Loans to credit institutions	(32,284)	25,827
Bonds and debt instruments	4,557	(7,914)
Loans to customers	(78,415)	(81,116)
Shares and equity instruments	13,313	(15,272)
Other assets	(293)	(2,411)
Non-current assets and liabilities held for sale	(182)	1,380
Deposits from Central Bank and credit institutions	1,546	(25,941)
Deposits from customers	41,048	66,551
Derivative instruments and short positions	(9,207)	(1,055)
Other liabilities	3,624	881
Total	(57,031)	(38,778)

Significant non-cash transactions

Significant non-cash transactions 2022

During the year the Group repurchased own debt securites amounting to ISK 8,094 million by issuing new debt.

Significant non-cash transactions 2021

During the year the Group repurchased own debt securites amounting to ISK 1,511 million by issuing new debt.

The notes on pages 20 to 87 are an integral part of these Consolidated Financial Statements.

Íslandsbanki hf. Consolidated Financial Statements 2022 19 Amounts are in ISK million

Notes to the Consolidated Financial Statements

1. Corporate information

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

The consolidated financial statements for the year ended 31 December 2022 ("the consolidated financial statements") comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf., additionally Íslandsbanki has control over nine other non-significant subsidiaries. All of the Bank's subsidiaries are wholly-owned.

The Group provides a wide range of financial services such as retail banking, corporate banking, investment banking, wealth management and asset financing. The Group operates mainly in the Icelandic market.

The consolidated financial statements were written in English and approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 9 February 2023. In case of discrepancy between the English version and the Icelandic translation, the English original will prevail.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

The consolidated financial statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 31 December 2022 the exchange rate of the ISK against the USD was 142.04 and for the EUR 151.50 (at year-end 2021: USD 130.38 and EUR 147.60).

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

Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for the following assets and liabilities, which are measured at fair value: bonds and debt instruments, shares and equity instruments, short positions in listed bonds, derivative financial instruments, and certain bonds issued by the Group.

Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

Non-current assets and disposal groups held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

3. Significant accounting estimates and judgements

In preparing these consolidated financial statements management has made judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management bases its judgements on previous experience and other factors that are considered reasonable under the circumstances, but actual results may differ from those estimates.

Management continuously evaluates these judgements, estimates, and assumptions. Changes in accounting estimates are recognised when they occur.

Key sources of estimation uncertainty include the allowance for credit losses and the determination of fair value of financial instruments.

3. Significant accounting estimates and judgements (continued)

Impairment of financial assets

The main assumptions used for calculating the allowance for credit losses that are subject to significant judgement include the following:

- Probability of default (PD), loss given default (LGD) and exposure at default (EAD)
- Macroeconomic variables for multiple scenarios built on available information
- Assessment of significant increase in credit risk (SIRC)

The PD, LGD and EAD inputs used to estimate expected credit losses are modelled based on variables that are most closely related with credit losses in the relevant portfolio. This includes macroeconomic variables, demographic variables, variables related to past payment history among other variables. These variables are sourced both internally and externally. Significant judgements required for measuring expected credit loss (ECL) include the following:

- Determining criteria for assessing what constitutes a significant increase in credit risk
- Establishing the forward-looking scenarios and their relative weightings
- Choosing appropriate models and assumptions for the measurement of ECL

For the first half of 2022 the Group made temporary changes to the impairment model due to the COVID-19 pandemic. The Group's impairment process allows for temporary changes to the impairment model to account for circumstances when it becomes evident that existing or expected risk factors have not been appropriately considered in the credit risk rating or modelling process. The COVID-19 pandemic created such circumstances for the tourism industry and therefore an adjustment was warranted.

Due to the general uncertainty in the operating environment of companies in the tourism industry, exposures were transferred to Stage 2 where the increase was estimated to be significant. At the end of the third quarter, however, the Group found that the uncertainty with regards to the impact of the COVID-19 pandemic on the credit quality of the Group's credit exposures had greatly reduced following a strong tourist season. Now that three years have passed since the pandemic started, all of these companies have received an updated risk assessment and the general uncertainty no longer applies. It was therefore decided to remove the general overlay factor and the transfer to Stage 2 in cases where no other indicators had been activated. For significant exposures where an increase in ECL was deemed to be appropriate, the added impairment allowance is accounted for through individual assessment in a manual process.

The All Risk Committee has determined it to be appropriate to adjust the weights of the scenarios following the COVID-19 pandemic and more recently the unrest following the war in Ukraine. Generally the scenarios are weighted 25%-50%-25% (good, base, bad) but the current weights are 20%-50%-30%. When deciding on the appropriate weights for the three scenarios, management used sensitivity analysis that indicated that a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 300 million while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 160 million.

The allowance for credit losses is further discussed in Notes 24-25, in Notes 46-50 on risk management and in Note 61.4.

Fair value of financial instruments

The objective of the fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date under current market conditions. The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. Where an active market or quoted prices are not available the fair value of financial instruments are decided upon by using valuation techniques. Financial instruments measured at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Level 3 financial assets are measured at fair value using valuation techniques based on significant unobservable inputs. The valuation of Level 3 financial assets is a subjective area as the assumption on which the valuation is based on is not easily observable and subject to management's assessment. Changes made to the evaluation criteria could have a significant impact on the Group's results and financial position. The valuation methods are discussed in Notes 18-19 and in Note 61.4.

4. Changes to accounting policies

Amendments to IFRS standards that became effective from 1 January 2022 did not have a material impact on the consolidated financial statements.

Changes to IFRS standards issued but not effective at the reporting date

A new IFRS standard and amendments to several IFRS standards have been issued but are not yet effective. The Group did not early adopt any of them and intends to adopt them when they become effective. The Group currently does not expect a material impact on its future consolidated financial statements as a result of these changes.

Notes to the Consolidated Financial Statements

5. Operating segments

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

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

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

The Group comprises the following operating segments:

Personal Banking

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

Business Banking

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

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors, and affluent individuals. Services include customised products and services to customers including lending and advisory, risk management, brokerage, and private banking services. The division is sector-focused, building and maintaining relationships with key customer segments within Iceland. Outside of Iceland, Íslandsbanki has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

Treasury and Proprietary Trading

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

Cost centres

Cost centres comprise the CEO's office (Human Resources, Marketing & Communications, Strategy & Sustainability, and Legal), IT, Risk Management, Compliance, and Finance excluding Treasury and Proprietary Trading. Group Internal Audit is also included in cost centres, however, it is independent from the Bank and the Chief Audit Executive reports directly to the Bank's Board of Directors.

Subsidiaries, eliminations and adjustments

Subsidiaries include Íslandssjóðir hf. (Iceland Funds), Allianz Ísland hf. and other less significant subsidiaries. Assets and liabilities of subsidiaries, that are classified as non-current assets and disposal groups held for sale, are included in the column "Other subsidiaries". All inter-company eliminations are included in the column "Eliminations & adjustments".

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

5. Operating segments (continued)

2022	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,065	14,493	11,108	2,673	(260)	43,079	47	43,126
Net fee and commission income (expense)	4,334	2,174	4,557	(55)	(1)	11,009	3,044	14,053
Other net operating income	342	90	1,301	398	149	2,280	(2,223)	57
Total operating income	19,741	16,757	16,966	3,016	(112)	56,368	868	57,236
Salaries and related expenses	(2,355)	(1,900)	(1,819)	(289)	(6,253)	(12,616)	(836)	(13,452)
Other operating expenses	(2,446)	(1,072)	(971)	(467)	(4,898)	(9,854)	(612)	(10,466)
Contribution to the Depositors' and Investors' Guarantee Fund	(129)	(33)	(3)	-	-	(165)	-	(165)
Bank tax	(801)	(407)	(520)	(116)	(14)	(1,858)	-	(1,858)
Net impairment on financial assets	(300)	796	395	683	-	1,574	2	1,576
Cost allocation	(4,792)	(3,431)	(3,237)	551	10,909	-	-	-
Profit (loss) before tax	8,918	10,710	10,811	3,378	(368)	33,449	(578)	32,871
Income tax income (expense)	(2,528)	(2,891)	(2,946)	108	92	(8,165)	(320)	(8,485)
Profit (loss) for the year from continuing operations	6,390	7,819	7,865	3,486	(276)	25,284	(898)	24,386
Net segment revenue from external customers	33,261	18,158	23,790	(18,922)	81	56,368	868	57,236
Net segment revenue from other segments	(13,520)	(1,401)	(6,824)	21,938	(193)	-	-	-
Fee and commission income	7,282	2,223	4,709	367	-	14,581	3,049	17,630
Depreciation, amortisation, and write-offs	(172)	(57)	(1)	-	(1,155)	(1,385)	(15)	(1,400)
At 31 December 2022								
Loans to customers	552,181	278,823	354,787	848	-	1,186,639	-	1,186,639
Other assets	3,158	2,100	3,859	360,594	9,387	379,098	498	379,596
Total segment assets	555,339	280,923	358,646	361,442	9,387	1,565,737	498	1,566,235
Deposits from customers	361,994	244,645	164,390	21,529	-	792,558	(2,661)	789,897
Other liabilities	2,597	2,054	5,565	540,189	5,785	556,190	1,274	557,464
Total segment liabilities	364,591	246,699	169,955	561,718	5,785	1,348,748	(1,387)	1,347,361
Allocated equity	39,228	40,433	62,400	73,966	962	216,989	1,885	218,874
Risk exposure amount	255,938	263,011	404,917	67,970	6,107	997,943	1,548	999,491

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

Íslandsbanki hf. Consolidated Financial Statements 2022 24 Amounts are in ISK million

Notes to the Consolidated Financial Statements

5. Operating segments (continued)

2021	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	12,027	10,867	9,282	2,034	(178)	34,032	11	34,043
Net fee and commission income (expense)	3,850	2,111	4,384	(72)	(62)	10,211	2,638	12,849
Other net operating income	189	61	759	2,694	203	3,906	(626)	3,280
Total operating income	16,066	13,039	14,425	4,656	(37)	48,149	2,023	50,172
Salaries and related expenses	(2,388)	(1,815)	(1,689)	(256)	(6,465)	(12,613)	(784)	(13,397)
Other operating expenses	(2,354)	(1,037)	(797)	(235)	(4,854)	(9,277)	(522)	(9,799)
Contribution to the Depositors' and Investors' Guarantee Fund	(538)	(135)	(15)	-	-	(688)	-	(688)
Bank tax	(723)	(344)	(516)	(86)	(14)	(1,683)	-	(1,683)
Net impairment on financial assets	318	2,401	121	94	4	2,938	80	3,018
Cost allocation	(4,539)	(3,113)	(3,170)	320	10,502	-	-	-
Profit (loss) before tax	5,842	8,996	8,359	4,493	(864)	26,826	797	27,623
Income tax income (expense)	(1,707)	(2,428)	(2,308)	1,421	221	(4,801)	(318)	(5,119)
Profit (loss) for the year from continuing operations	4,135	6,568	6,051	5,914	(643)	22,025	479	22,504
Net segment revenue from external customers	26,175	14,806	19,843	(12,748)	73	48,149	2,023	50,172
Net segment revenue from other segments	(10,109)	(1,767)	(5,418)	17,404	(110)	-	-	-
Fee and commission income	5,669	2,136	4,486	231	2	12,524	2,643	15,167
Depreciation, amortisation, and write-offs	(166)	(58)	(15)	-	(1,145)	(1,384)	(11)	(1,395)
At 31 December 2021								
Loans to customers	502,354	237,388	346,835	59	-	1,086,636	(309)	1,086,327
Other assets	3,609	2,004	1,335	325,158	9,108	341,214	1,280	342,494
Total segment assets	505,963	239,392	348,170	325,217	9,108	1,427,850	971	1,428,821
Deposits from customers	344,776	239,871	141,204	21,477	-	747,328	(3,292)	744,036
Other liabilities	1,603	1,630	4,728	465,397	5,711	479,069	2,006	481,075
Total segment liabilities	346,379	241,501	145,932	486,874	5,711	1,226,397	(1,286)	1,225,111
Allocated equity	37,549	33,738	59,055	70,217	894	201,453	2,257	203,710
Risk exposure amount	247,970	211,814	376,896	56,983	5,903	899,566	2,080	901,646

Íslandsbanki hf. Consolidated Financial Statements 2022 25 Amounts are in ISK million

5. Operating segments (continued)

Subsidiaries, eliminations & adjustments

2022	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	9	34	52	(48)	47
Net fee and commission income (expense)	1,627	1,561	(30)	(114)	3,044
Other net operating income	(55)	11	270	(2,449)	(2,223)
Total operating income	1,581	1,606	292	(2,611)	868
Salaries and related expenses	(562)	(209)	(65)	-	(836)
Other operating expenses	(218)	(602)	(214)	422	(612)
Net impairment on financial assets	2	-	-	-	2
Profit (loss) before tax	803	795	13	(2,189)	(578)
Income tax expense	(178)	(142)	-	-	(320)
Profit (loss) for the year from continuing operations	625	653	13	(2,189)	(898)
Net segment revenue from external customers	1,855	1,479	11	(2,477)	868
Net segment revenue from other segments	(274)	127	281	(134)	-
Fee and commission income	2,171	1,561	-	(683)	3,049
Depreciation, amortisation, and write-offs	-	-	(6)	(9)	(15)
At 31 December 2022					
Total assets	2,472	1,926	5,469	(9,369)	498
Total liabilities	354	714	134	(2,589)	(1,387)
Total equity	2,118	1,212	5,335	(6,780)	1,885

2021	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	1	6	15	(11)	11
Net fee and commission income (expense)	1,733	938	(30)	(3)	2,638
Other net operating income	338	16	38	(1,018)	(626)
Total operating income	2,072	960	23	(1,032)	2,023
Salaries and related expenses	(590)	(191)	(3)	-	(784)
Other operating expenses	(197)	(455)	(40)	170	(522)
Net impairment on financial assets	-	-	-	80	80
Profit (loss) before tax	1,285	314	(20)	(782)	797
Income tax expense	(256)	(62)	-	-	(318)
Profit (loss) for the year from continuing operations	1,029	252	(20)	(782)	479
Net segment revenue from external customers	2,332	952	-	(1,261)	2,023
Net segment revenue from other segments	(260)	8	23	229	-
Fee and commission income	2,226	938	-	(521)	2,643
Depreciation, amortisation, and write-offs	-	(1)	(1)	(9)	(11)
At 31 December 2021					
Total assets	2,926	1,333	7,285	(10,573)	971
Total liabilities	401	716	1,386	(3,789)	(1,286)
Total equity	2,525	617	5,899	(6,784)	2,257

Íslandsbanki hf. Consolidated Financial Statements 2022 26 Amounts are in ISK million

6. Net interest income

	2022	2021
Cash and balances with Central Bank	2,791	948
Loans to credit institutions	757	128
Loans to customers	84,123	55,144
Financial assets mandatorily at fair value through profit or loss	6,335	2,388
Other assets	7	17
Interest income	94,013	58,625
Deposits from Central Bank and credit institutions	(364)	(306)
Deposits from customers	(23,049)	(6,815)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(578)	(729)
Debt issued and other borrowed funds at amortised cost	(21,709)	(14,104)
Subordinated loans	(1,538)	(829)
Lease liabilities	(82)	(84)
Other liabilities	(3,567)	(1,715)
Interest expense	(50,887)	(24,582)
Net interest income	43,126	34,043

Net interest margin on total assets 2.9% (2021: 2.4%)

7. Net fee and commission income

	2022	2021
Asset management	3,154	3,100
Investment banking and brokerage	3,627	3,544
Payment processing	6,774	4,979
Loans and guarantees	2,350	2,212
Other fee and commission income	1,725	1,332
Fee and commission income	17,630	15,167
Brokerage	(484)	(471)
Clearing and settlement	(2,999)	(1,834)
Other fee and commission expense	(94)	(13)
Fee and commission expense	(3,577)	(2,318)
Net fee and commission income	14,053	12,849

Fee and commission income by segment is disclosed in Note 5.

Íslandsbanki hf. Consolidated Financial Statements 2022 27 Amounts are in ISK million

8. Net financial income (expense)

	2022	2021
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss	(6,121)	1,641
Net gain on financial liabilities designated as at fair value through profit or loss	4,512	845
Net gain (loss) on fair value hedges	(56)	13
Net gain on derecognition of financial liabilities measured at amortised cost	408	-
Net financial income (expense)	(1,257)	2,499

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

	2022	2021
Net gain (loss) on bonds and related derivatives	(2,735)	56
Net gain (loss) on shares and related derivatives	(1,051)	1,086
Dividend income	1,049	54
Net gain on debt issued and related derivatives	754	913
Net gain on other derivatives	726	390
Net financial income (expense)	(1,257)	2,499

9. Net foreign exchange gain

	2022	2021
Cash and balances with Central Bank	5	(40)
Loans at amortised cost	11,647	(6,515)
Financial assets mandatorily at fair value through profit or loss	(1,078)	(7,435)
Other assets	(11)	(8)
Net foreign exchange gain (loss) for assets	10,563	(13,998)
Deposits	(4,782)	2,273
Debt issued and other borrowed funds designated as at fair value through profit or loss	(1,317)	5,148
Debt issued and other borrowed funds at amortised cost	(5,677)	4,695
Subordinated loans	2,094	2,361
Net foreign exchange gain (loss) for liabilities	(9,682)	14,477
Net foreign exchange gain	881	479

10. Other operating income

	2022	2021
Net gain from sale of associates	158	-
Share of profit of associates, net of income tax	40	73
Reversal of impairment for an associate	-	60
Legal fees	45	69
Rental income	44	41
Other net operating income	146	59
Other operating income	433	302

Íslandsbanki hf. Consolidated Financial Statements 2022 28 Amounts are in ISK million

11. Personnel and salaries

	2022	2021
Salaries	10,332	10,307
Contributions to pension funds	1,594	1,605
Social security charges and financial activities tax*	1,423	1,382
Other salary-related expenses	103	103
Salaries and related expenses	13,452	13,397

*Financial activities tax calculated on salaries is 5.5% in 2022 (2021: 5.5%).

	2022		2021	
	The Bank	The Group	The Bank	The Group
Average number of employees	730	772	759	794
Positions at year-end	700	739	702	735

Total amount of compensation to the Board of Directors, the CEO, and Executive Board are specified as follows:

	2022	2021
Finnur Árnason, Chairman of the Board	9.5	-
Guðrún Þorgeirsdóttir, Vice-Chairman of the Board	8.9	8.0
Anna Þórðardóttir, member of the Board	9.0	8.5
Ari Daníelsson, member of the Board	6.4	-
Frosti Ólafsson, member of the Board	8.9	8.0
Herdís Gunnarsdóttir, member of the Board*	2.5	4.5
Tanya Sharov, member of the Board	6.4	-
Hallgrímur Snorrason, former Chairman of the Board	3.6	11.9
Heiðrún Jónsdóttir, former Vice-Chairman of the Board	7.6	9.8
Árni Stefánsson, former member of the Board	2.2	8.5
Jökull H. Úlfsson, former member of the Board	2.3	6.1
Alternate board members	0.6	0.6
Total salaries	67.9	65.9

Contribution to pension funds for the Board of Directors amounted to ISK 9.2 million in 2022 (2021: ISK 8.5 million).

*Member of the Board since October 2022 (2021: January - March).

Íslandsbanki hf. Consolidated Financial Statements 2022 29 Amounts are in ISK million

11. Personnel and salaries (continued)

	2022		2021	
	Fixed salaries & benefits	Pension funds contrib.	Fixed salaries & benefits*	Pension funds contrib.
Birna Einarsdóttir, CEO	48.3	11.5	46.1	11.6
Ásmundur Tryggvason, Managing Director of Corporate & Investment Banking**	47.0	6.7	40.1	6.1
Guðmundur Kristinn Birgisson, Chief Risk Officer	39.8	5.6	36.7	5.3
Jón Guðni Ómarsson, Chief Financial Officer**	46.9	6.6	38.9	6.2
Riaan Dreyer, Managing Director of Information Technology	42.7	6.4	39.4	6.1
Sigríður Hrefna Hrafnkelsdóttir, Managing Director of Personal Banking	41.1	5.7	37.9	5.2
Una Steinsdóttir, Managing Director of Business Banking	42.9	6.1	39.5	5.5
Total	308.7	48.6	278.6	46.0

Benefits are non-monetary benefits such as the use of cars owned by the Group.

As of 1 January 2017, the Bank has not had an active remuneration policy in place as stated in the Bank's compensation policy. In 2022 there were no paid performance-based salaries (2021: none) and there were no unpaid performance-based salaries at year-end 2022. There were no share-based payments in the years 2022 and 2021.

*Many employees of the Bank were subject to additional workload during 2021 because of the Bank's IPO and listing of shares on Nasdaq Iceland. In total, the Bank paid ISK 110.3 million to employees for overtime, of which the Bank's CEO received a payment of ISK 10.9 million and other members of the executive board received ISK 30.3 million. Contributions to pension funds for overtime payments amounted to ISK 1.7 million for the Bank's CEO and ISK 3.4 million for other members of the executive board. The overtime payments are not included in the table above.

**Included in salaries for the year 2022 are employment anniversary payments. The payments are in accordance with the collective agreement of the Confederation of Icelandic Bank and Finance Employees (SSF).

12. Other operating expenses

	2022	2021
Professional services	1,986	2,153
Software and IT expenses	4,389	4,214
Real estate and office equipment	565	556
Depreciation, amortisation, and write-offs	1,400	1,395
Other administrative expenses	2,126	1,481
Other operating expenses	10,466	9,799

Auditors' fees

	2022	2021
Audit of the financial statements	81	95
Review of interim financial statements	20	31
Other services	7	8
Auditors' fees	108	134

13. Net impairment on financial assets

	2022	2021
Net change in expected credit losses, on-balance sheet items	1,837	2,964
Net change in expected credit losses, off-balance sheet items	(336)	54
Changes in provision due to court rulings	75	-
Net impairment on financial assets	1,576	3,018

Íslandsbanki hf. Consolidated Financial Statements 2022 30 Amounts are in ISK million

14. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2022 is 20% (2021: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the year 2022 is 25.8% (2021: 18.5%).

	2022	2021
Current tax expense excluding discontinued operations	5,659	3,339
Special financial activities tax	1,396	853
Adjustments in prior year's calculated income tax	(472)	24
Changes in deferred tax assets and deferred tax liabilities	1,902	903
Income tax recognised in the income statement	8,485	5,119
Income tax recognised in other comprehensive income	(110)	-

	2022		2021	
Profit before tax	32,871		27,623	
20% income tax calculated on the profit for the year	6,574	20.0%	5,525	20.0%
Special financial activities tax	1,396	4.2%	853	3.1%
Share in taxes of non-independent taxpayers	150	0.5%	-	0.0%
Adjustments in prior year's calculated income tax	(472)	(1.4%)	-	0.0%
Income not subject to tax	(386)	(1.2%)	(1,611)	(5.8%)
Non-deductible expenses	1,210	3.7%	338	1.2%
Other differences	13	0.0%	14	0.00%
Effective income tax expense	8,485	25.8%	5,119	18.5%

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

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

	2022	2021
Net gain from foreclosed assets	45	191
Net gain (loss) from disposal groups held for sale	(1)	473
Net gain from sale or dissolution of subsidiaries	114	687
Income tax expense	(9)	(130)
Discontinued operations held for sale, net of income tax	149	1,221

16. Earnings per share

	Continued operations		Discontinued operations		Profit for the year	
	2022	2021	2022	2021	2022	2021
Profit attributable to shareholders of the Bank	24,386	22,511	149	1,221	24,535	23,732
Weighted average number of outstanding shares	2,000	2,000	2,000	2,000	2,000	2,000
Basic earnings per share	12.19	11.26	0.07	0.61	12.27	11.87

The Group's basic and diluted earnings per share are equal as the Group has not issued any options, warrants, convertibles, or other financial instruments that dilute earnings per share (2021: none).

Íslandsbanki hf. Consolidated Financial Statements 2022 31 Amounts are in ISK million

17. Classification of financial assets and financial liabilities

At 31 December 2022	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	94,424	94,424
Loans to credit institutions	-	-	-	110,364	110,364
Listed bonds and debt instruments	125,318	-	-	-	125,318
Listed bonds and debt instruments used for economic hedging	3,454	-	-	-	3,454
Unlisted bonds and debt instruments	2,032	-	-	-	2,032
Derivatives	7,461	-	-	-	7,461
Loans to customers	-	-	-	1,186,639	1,186,639
Listed shares and equity instruments	3,221	-	-	-	3,221
Listed shares and equity instruments used for economic hedging	10,401	-	-	-	10,401
Unlisted shares and equity instruments	2,246	-	-	-	2,246
Other financial assets	-	-	-	5,411	5,411
Total financial assets	154,133	-	-	1,396,838	1,550,971
Deposits from Central Bank and credit institutions	-	-	-	15,269	15,269
Deposits from customers	-	-	-	789,897	789,897
Derivative instruments and short positions	9,208	1,596	-	-	10,804
Debt issued and other borrowed funds	-	49,579	83,437	335,254	468,270
Subordinated loans	-	-	-	34,392	34,392
Other financial liabilities	-	-	-	11,329	11,329
Total financial liabilities	9,208	51,175	83,437	1,186,141	1,329,961

At 31 December 2021	Mandatorily at FVTPL	Hedge accounting	Designated as at FVTPL	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	113,667	113,667
Loans to credit institutions	-	-	-	43,988	43,988
Listed bonds and debt instruments	96,343	-	-	-	96,343
Listed bonds and debt instruments used for economic hedging	35,896	-	-	-	35,896
Unlisted bonds and debt instruments	50	-	-	-	50
Derivatives	1,900	545	-	-	2,445
Loans to customers	-	-	-	1,086,327	1,086,327
Listed shares and equity instruments	3,246	-	-	-	3,246
Listed shares and equity instruments used for economic hedging	24,406	-	-	-	24,406
Unlisted shares and equity instruments	4,025	-	-	-	4,025
Other financial assets	-	-	-	5,241	5,241
Total financial assets	165,866	545	-	1,249,223	1,415,634
Deposits from Central Bank and credit institutions	-	-	-	13,384	13,384
Deposits from customers	-	-	-	744,036	744,036
Derivative instruments and short positions	9,467	-	-	-	9,467
Debt issued and other borrowed funds	-	45,036	89,460	267,730	402,226
Subordinated loans	-	-	-	35,762	35,762
Other financial liabilities	-	-	-	9,681	9,681
Total financial liabilities	9,467	45,036	89,460	1,070,593	1,214,556

Íslandsbanki hf. Consolidated Financial Statements 2022 32 Amounts are in ISK million

18. Fair value information for financial instruments

Financial instruments carried at fair value

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

The following table shows financial instruments carried at fair value at 31 December 2022 categorised into three levels of fair value hierarchy that reflect the type of inputs used in making the fair value measurements. The different levels have been defined as follows:

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

Level 2: Valuation techniques based on observable inputs other than the quoted prices included in Level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

At 31 December 2022	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	128,772	-	2,032	130,804
Derivatives	-	7,461	-	7,461
Shares and equity instruments	13,623	-	2,245	15,868
Total financial assets	142,395	7,461	4,277	154,133
Short positions	285	-	-	285
Derivative instruments	-	10,519	-	10,519
Debt issued and other borrowed funds designated as at FVTPL	83,437	-	-	83,437
Total financial liabilities	83,722	10,519	-	94,241

At 31 December 2021	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	132,239	-	50	132,289
Derivatives	-	2,445	-	2,445
Shares and equity instruments	27,625	-	4,052	31,677
Total financial assets	159,864	2,445	4,102	166,411
Short positions	1,951	-	-	1,951
Derivative instruments	-	7,516	-	7,516
Debt issued and other borrowed funds designated as at FVTPL	89,460	-	-	89,460
Total financial liabilities	91,411	7,516	-	98,927

Changes in Level 3 assets measured at fair value	Bonds and debt instruments	Shares and equity instruments
Fair value at 1 January 2022	50	4,052
Purchases	2,000	38
Sales and share capital reduction	(22)	(454)
Net gain on financial instruments recognised in profit or loss	4	347
Transfers to Level 1 or 2	-	(27)
Transfers to associates*	-	(1,711)
Fair value at 31 December 2022	2,032	2,245

*For further information on investments in associates see Note 26.

Íslandsbanki hf. Consolidated Financial Statements 2022 33 Amounts are in ISK million

18. Fair value information for financial instruments (continued)

	Bonds and debt instruments	Shares and equity instruments	Non-current assets
Fair value at 1 January 2021	145	2,890	1,266
Purchases	32	178	-
Sales and share capital reduction	(116)	(186)	(1,201)
Net gain (loss) on financial instruments recognised in profit or loss	(11)	1,170	-
Net loss on financial instruments recognised in other comprehensive income	-	-	(65)
Fair value at 31 December 2021	50	4,052	-

At the end of each reporting period the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole.

Valuation process

The responsibility for the valuation of the fair value of financial instruments lies with the relevant business units. Each quarter, the business units present a valuation report to the Investment Committee for approval. The report and its assumptions are reviewed by Risk Management.

Valuation techniques

Where applicable, fair values are determined using quoted prices in active markets for identical assets and liabilities. If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, net asset value (NAV) for investment fund units, expected recovery for distressed bonds, Black-Scholes option pricing model and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate. In some cases, where significant inputs into these models are not observable, expert judgement and estimation for these inputs are required.

Level 1: Fair value established from quoted market prices

Financial instruments at this level are financial assets and financial liabilities containing actively traded bonds and shares that are listed either domestically or abroad.

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

Financial instruments at this level are assets and liabilities containing domestic bonds, shares as well as derivatives. For interest rate derivatives contracts such as interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS) the Group calculates the net present value of estimated future cash flows based on yield curves with key inputs such as interest swap rates and forward-rate agreements (FRAs) rates. Foreign-currency forwards and foreign-currency swaps are valued using the FX spot rate adjusted for forward pricing points that can be obtained from market sources. These products are classified as Level 2. Bond forwards and equity forwards are also classified as Level 2 as they are valued using standard models with key inputs observed from stock prices, estimated dividend rates and funding rates.

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

Financial instruments at this level contain primarily unlisted and illiquid shares and bonds. Unlisted shares and bonds are initially recorded at their transaction price but are revalued each quarter based on the models as described above.

At 31 December 2022 the Group's Level 3 shares amounted to ISK 2,245 million:

- These include shares in seven professional investment funds and investment companies investing in unlisted shares and specialised investments in Iceland totalling ISK 2,023 million. The Group receives information from fund managers who use valuation models for the valuation of these shares.

- Other Level 3 shares amount to ISK 222 million.

At 31 December 2022 the Group's Level 3 bonds amounted to ISK 2,032 million:

- The majority of the amount in Level 3 bonds is estimated by discounting cash flow where the yield is the contractual currency's base rate with a premium that is decided by expert judgement on projected risk and financing cost.

Íslandsbanki hf. Consolidated Financial Statements 2022 34 Amounts are in ISK million

18. Fair value information for financial instruments (continued)

Sensitivity analysis for Level 3 assets

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

The following table shows how profit before tax would have been affected if one or more of the inputs for the fair value measurement in Level 3 were changed.

At 31 December 2022 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 bonds and debt instruments	2,032	14	4	(4)	(7)
Level 3 shares and equity instruments	2,245	1,936	1,119	(109)	(224)

At 31 December 2021 **Effect on profit:**	Carrying amount	Very favourable	Favourable	Unfavourable	Very unfavour-able
Level 3 bonds and debt instruments	50	89	24	(21)	(50)
Level 3 shares and equity instruments	4,052	3,415	1,475	(975)	(1,676)

19. Financial instruments not carried at fair value

Assets

The fair value of "Loans to customers" may differ from their net carrying amount because the interest rates they carry may not reflect the interest rates that similar new loans would carry. The fair value is estimated by subtracting from or adding to the net carrying amount of the loans the discounted interest rate difference calculated from the reporting date until the next interest reset or maturity, whichever comes first. Since the interest rate difference is estimated using internal models these assets are classified as Level 3.

For "Cash and balances with Central Bank", "Loans to credit institutions" and "Other financial assets" the fair value is adequately approximated by the carrying amount as they are short-term in nature. They are thus classified as Level 2.

Liabilities

The fair value of a financial liability with a demand feature, such as a demand deposit, is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Most deposits are on demand or carry floating interest rates and as such their carrying amount is considered a good approximation of their fair value. The fair value for longer term fixed rate deposits is calculated with a duration approach, using the difference in each liability's current interest rate from the rate that a similar deposit would carry today. All deposits are classified as Level 2 based on the use of observable market interest rates to estimate the fair value.

Observed market value is used for the fair value of "Debt issued and other borrowed funds" where it is available. Issued bonds and bills with quoted market prices are classified as Level 1. If there is no quoted market price the fair value of the debt is valued in the same manner as deposits if it carries a fixed rate. If the debt carries a floating rate its fair value is estimated by comparing the margin with the Group's current funding premium on similar debt. These liabilities are classified as Level 2. The funding premium is based on the interest margin in the Group's issued papers including covered bonds, commercial papers as well as foreign currency denominated bonds.

Other financial liabilities mainly include unsettled securities transactions and payments due to leasing contracts and they are classified as Level 2 since their value is not observable from active market prices. Due to the short-term nature of these liabilities their carrying amount is considered a good approximation of their fair value.

The following table shows the fair value measurement and classification of the Group's assets and liabilities not carried at fair value. The different levels are defined in Note 18.

Íslandsbanki hf. Consolidated Financial Statements 2022 35 Amounts are in ISK million

Notes to the Consolidated Financial Statements

19. Financial instruments not carried at fair value (continued)

At 31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	94,424	-	94,424	94,424
Loans to credit institutions	-	110,364	-	110,364	110,364
Loans to customers	-	-	1,171,380	1,171,380	1,186,639
Other financial assets	-	5,411	-	5,411	5,411
Total financial assets	-	210,199	1,171,380	1,381,579	1,396,838
Deposits from Central Bank and credit institutions	-	15,108	-	15,108	15,269
Deposits from customers	-	789,938	-	789,938	789,897
Debt issued and other borrowed funds	215,189	163,529	-	378,718	384,833
Subordinated loans	-	36,070	-	36,070	34,392
Other financial liabilities	-	11,329	-	11,329	11,329
Total financial liabilities	215,189	1,015,974	-	1,231,163	1,235,720

At 31 December 2021	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Cash and balances with Central Bank	-	113,667	-	113,667	113,667
Loans to credit institutions	-	43,988	-	43,988	43,988
Loans to customers	-	-	1,089,920	1,089,920	1,086,327
Other financial assets	-	5,241	-	5,241	5,241
Total financial assets	-	162,896	1,089,920	1,252,816	1,249,223
Deposits from Central Bank and credit institutions	-	13,441	-	13,441	13,384
Deposits from customers	-	744,098	-	744,098	744,036
Debt issued and other borrowed funds	225,763	97,311	-	323,074	312,766
Subordinated loans	-	37,581	-	37,581	35,762
Other financial liabilities	-	9,681	-	9,681	9,681
Total financial liabilities	225,763	902,112	-	1,127,875	1,115,629

20. Offsetting financial assets and financial liabilities

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

	Financial assets subject to netting arrangements			Amounts not set off but subject to master netting arrangements and similar agreements					
At 31 December 2022	Financial assets before netting	Netting with financial liabilities	Net financial assets	Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Derivatives	7,461	-	7,461	(856)	(4,962)	(564)	1,079	-	7,461

Íslandsbanki hf. Consolidated Financial Statements 2022 36 Amounts are in ISK million

Notes to the Consolidated Financial Statements

20. Offsetting financial assets and financial liabilities (continued)

At 31 December 2021	Financial assets subject to netting arrangements: Financial assets before netting	Netting with financial liabilities	Net financial assets	Amounts not set off but subject to master netting arrangements and similar agreements: Financial liabilities	Cash collateral received	Financial instruments collateral received	Net amount after consideration of potential effect of netting arrangements	Assets outside the scope of offsetting disclosure requirements	Total financial assets recognised in the balance sheet
Reverse repurchase agreements ..	100	-	100	-	-	-	100	-	100
Derivatives	2,445	-	2,445	(927)	(885)	(73)	560	-	2,445
Total assets	2,545	-	2,545	(927)	(885)	(73)	660	-	2,545

At 31 December 2022	Financial liabilities subject to netting arrangements: Financial liabilities before netting	Netting with financial assets	Net financial liabilities	Amounts not set off but subject to master netting arrangements and similar agreements: Financial assets	Cash collateral pledged	Financial instruments collateral pledged	Net amount after consideration of potential effect of netting arrangements	Liabilities outside the scope of offsetting disclosure requirements	Total financial liabilities recognised in the balance sheet
Derivative instruments and short positions	10,804	-	10,804	(856)	(6,630)	-	3,318	-	10,804
At 31 December 2021									
Derivative instruments and short positions	9,467	-	9,467	(927)	(945)	-	7,595	-	9,467

21. Cash and balances with Central Bank

	31.12.2022	31.12.2021
Cash on hand	3,563	3,882
Unrestricted balances with Central Bank	80,866	100,528
Cash and unrestricted balances with Central Bank	84,429	104,410
Balances pledged as collateral to Central Bank	483	589
Mandatory reserve deposits with Central Bank	9,512	8,668
Cash and balances with Central Bank	94,424	113,667

22. Loans to credit institutions

	31.12.2022	31.12.2021
Money market loans	55,742	17,759
Bank accounts	54,606	26,187
Other loans	16	42
Loans to credit institutions	110,364	43,988

Íslandsbanki hf. Consolidated Financial Statements 2022 37 Amounts are in ISK million

23. Derivative instruments and short positions

At 31 December 2022	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,953	50,399	9,403	225,817
Cross-currency interest rate swaps	637	17,028	353	11,818
Equity forwards	765	8,389	130	3,486
Foreign exchange forwards	750	20,437	95	9,944
Foreign exchange swaps	1,221	38,733	537	46,487
Bond forwards	135	3,834	1	286
Derivatives	7,461	138,820	10,519	297,838
Short positions in listed bonds	-	-	285	332
Total	7,461	138,820	10,804	298,170

At 31 December 2021	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,253	131,732	3,182	88,920
Cross-currency interest rate swaps	157	14,392	473	16,587
Equity forwards	126	5,693	2,958	16,591
Foreign exchange forwards	97	15,719	278	12,674
Foreign exchange swaps	359	33,914	599	42,795
Bond forwards	453	34,594	26	7,043
Derivatives	2,445	236,044	7,516	184,610
Short positions in listed bonds	-	-	1,951	1,447
Total	2,445	236,044	9,467	186,057

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

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

The Group applies hedge accounting only with respect to certain EUR denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR denominated bonds (see Note 34) arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2022 the total fair value of the interest rate swaps was negative and amounted to ISK 1,596 million (2021: positive ISK 545 million) and their total notional amount was ISK 90,900 million (2021: ISK 44,280 million).

Íslandsbanki hf. Consolidated Financial Statements 2022 38 Amounts are in ISK million

24. Loans to customers

At 31 December 2022	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
Individuals	562,460	5,134	5,256	(1,607)	(175)	(546)	570,522
Commerce and services	154,413	17,491	3,836	(974)	(1,703)	(841)	172,222
Construction	57,885	2,285	402	(654)	(66)	(37)	59,815
Energy	10,456	-	-	(45)	-	-	10,411
Financial services	2,641	1	-	(20)	-	-	2,622
Industrial and transportation	84,369	670	8,885	(303)	(19)	(2,524)	91,078
Investment companies	38,712	1,577	732	(409)	(210)	(66)	40,336
Public sector and non-profit organisations	10,857	219	1	(29)	(2)	-	11,046
Real estate	123,589	1,544	1,948	(493)	(57)	(234)	126,297
Seafood	101,491	854	63	(102)	(3)	(13)	102,290
Loans to customers	1,146,873	29,775	21,123	(4,636)	(2,235)	(4,261)	1,186,639

At 31 December 2021	Gross carrying amount Stage 1	Stage 2	Stage 3	Expected credit losses Stage 1	Stage 2	Stage 3	Net carrying amount
Individuals	510,024	7,197	5,704	(1,368)	(199)	(625)	520,733
Commerce and services	110,618	55,299	5,252	(844)	(2,696)	(2,407)	165,222
Construction	34,238	1,704	1,298	(341)	(72)	(54)	36,773
Energy	9,529	-	-	(36)	-	-	9,493
Financial services	1,980	1	-	(3)	-	-	1,978
Industrial and transportation	61,386	24,593	6,481	(281)	(292)	(2,260)	89,627
Investment companies	21,066	2,636	606	(295)	(297)	(39)	23,677
Public sector and non-profit organisations	9,862	144	1	(18)	(1)	(1)	9,987
Real estate	97,395	10,989	2,177	(485)	(225)	(537)	109,314
Seafood	116,451	3,204	57	(159)	(22)	(8)	119,523
Loans to customers	972,549	105,767	21,576	(3,830)	(3,804)	(5,931)	1,086,327

25. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	152	-	-	152
Loans to customers	4,636	2,235	4,261	11,132
Other financial assets	9	4	-	13
Off-balance sheet loan commitments and financial guarantees	869	242	227	1,338
At 31 December 2022	5,669	2,481	4,488	12,638
Cash and balances with Central Bank	3	-	-	3
Loans to credit institutions	89	-	-	89
Loans to customers	3,830	3,804	5,931	13,565
Other financial assets	18	6	-	24
Off-balance sheet loan commitments and financial guarantees	545	298	158	1,001
At 31 December 2021	4,485	4,108	6,089	14,682

Íslandsbanki hf. Consolidated Financial Statements 2022 39 Amounts are in ISK million

25. Expected credit losses (continued)

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

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	3,830	3,804	5,931	13,565
Transfer to Stage 1	2,028	(1,743)	(285)	-
Transfer to Stage 2	(491)	936	(445)	-
Transfer to Stage 3	(117)	(460)	577	-
Net remeasurement of loss allowance	(3,196)	(308)	(1,436)	(4,940)
New financial assets originated or purchased	3,425	1,742	3,849	9,016
Derecognitions and maturities	(842)	(1,736)	(3,292)	(5,870)
Write-offs*	(1)	-	(1,079)	(1,080)
Recoveries of amounts previously written off	-	-	146	146
Foreign exchange	-	-	(115)	(115)
Unwinding of interest	-	-	410	410
At 31 December 2022	4,636	2,235	4,261	11,132

*During the year financial assets amounting to ISK 570 million were written off but are still subject to enforcement activity.

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	3,645	6,482	7,387	17,514
Transfer to Stage 1	1,995	(1,780)	(215)	-
Transfer to Stage 2	(476)	1,650	(1,174)	-
Transfer to Stage 3	(48)	(1,259)	1,307	-
Net remeasurement of loss allowance	(3,550)	(2,254)	(779)	(6,583)
New financial assets originated or purchased	2,759	1,497	3,645	7,901
Derecognitions and maturities	(495)	(529)	(3,695)	(4,719)
Write-offs*	-	(3)	(1,206)	(1,209)
Recoveries of amounts previously written off	-	-	293	293
Foreign exchange	-	-	(44)	(44)
Unwinding of interest	-	-	412	412
At 31 December 2021	3,830	3,804	5,931	13,565

*During the year financial assets amounting to ISK 759 million were written off but are still subject to enforcement activity.

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	545	298	158	1,001
Transfer to Stage 1	207	(158)	(49)	-
Transfer to Stage 2	(21)	68	(47)	-
Transfer to Stage 3	(7)	(32)	39	-
Net remeasurement of loss allowance	(424)	(185)	(91)	(700)
New loan commitments and financial guarantees	702	288	282	1,272
Derecognitions and maturities	(133)	(37)	(65)	(235)
At 31 December 2022	869	242	227	1,338
At 1 January 2021	347	483	225	1,055
Transfer to Stage 1	132	(114)	(18)	-
Transfer to Stage 2	(28)	92	(64)	-
Transfer to Stage 3	(4)	(16)	20	-
Net remeasurement of loss allowance	(491)	(292)	2	(781)
New loan commitments and financial guarantees	673	242	29	944
Derecognitions and maturities	(84)	(97)	(36)	(217)
At 31 December 2021	545	298	158	1,001

Íslandsbanki hf. Consolidated Financial Statements 2022 40 Amounts are in ISK million

26. Investments in associates

		31.12.2022	31.12.2021
Reiknistofa bankanna hf., an IT service centre company, Katrínartún 2, 105 Reykjavík	Iceland	30.1%	30.1%
Norðurturninn hf., a rental company of commercial real estate, Borgartún 26, 105 Reykjavík	Iceland	43.3%	12.2%
Auðkenni ehf., an information security company, Borgartún 31, 105 Reykjavík	Iceland	0.0%	23.8%
JCC ehf., a cash centre service company, Sundaborg 15, 108 Reykjavík	Iceland	0.0%	33.3%

At year-end 2021 Íslandsbanki owned shares in Norðurturninn hf. which were classified as shares and equity instruments (see Note 18). During the year Íslandsbanki increased its share in Norðurturninn and subsequently obtained significant influence over the company. The company has since been classified as an associate. The company's shares are divided into two categories, Class A shares and Class B shares. Class B shares hold all the voting rights and receive all dividends up to ISK 3,327 million (CPI-linked, based on the CPI in December 2022). After Class B shareholders have received that amount the class is then suspended, and Class A shares receive all the voting rights and the rights to dividend payments. Íslandsbanki owns 43.3% of Class B shares and 65.0% of Class A shares. Norðurturninn owns the real estate Hagasmári 3, where the Bank is the principal lessee and rents over half the building for its headquarters.

	2022	2021
Investments in associates at the beginning of the year	939	775
Additions during the year	1,328	31
Transfer from shares and equity instruments to associates	1,711	-
Sales of shares in associates	(174)	-
Share of profit of associates	40	73
Reversal of impairment	-	60
Investments in associates at year-end	3,844	939

Summarised financial information in respect of the Group's associates is set out below:

Revenue	7,088	5,661
Profit	360	286
Assets	16,921	5,522
Liabilities	(8,397)	(2,590)
Net assets	8,524	2,932
Group's share of net assets of associates	3,844	939

Íslandsbanki hf. Consolidated Financial Statements 2022 41 Amounts are in ISK million

27. Property and equipment

At 31 December 2022	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,101	4,921	2,996	11,018
Additions during the year	112	8	161	281
Disposals and write-offs during the year	-	-	(45)	(45)
Remeasurement	-	334	-	334
Historical cost	3,213	5,263	3,112	11,588
Balance at the beginning of the year	(1,360)	(1,234)	(1,414)	(4,008)
Depreciation during the year	(18)	(478)	(362)	(858)
Disposals and write-offs during the year	-	-	30	30
Accumulated depreciation	(1,378)	(1,712)	(1,746)	(4,836)
Carrying amount	1,835	3,551	1,366	6,752
Annual depreciation rates	0-2%	8-26%	8-33%	
Official real estate value of land and buildings	1,884			
Insurance value of buildings	2,752			
Insurance value of fixtures, equipment and vehicles			2,038	

At 31 December 2021	Land and buildings	Right-of-use assets: Buildings	Fixtures, equipment & vehicles	Total
Balance at the beginning of the year	3,058	4,729	3,119	10,906
Additions during the year	43	133	163	339
Disposals and write-offs during the year	-	(110)	(286)	(396)
Remeasurement	-	169	-	169
Historical cost	3,101	4,921	2,996	11,018
Balance at the beginning of the year	(1,340)	(906)	(1,319)	(3,565)
Depreciation during the year	(20)	(438)	(370)	(828)
Disposals and write-offs during the year	-	110	275	385
Accumulated depreciation	(1,360)	(1,234)	(1,414)	(4,008)
Carrying amount	1,741	3,687	1,582	7,010
Annual depreciation rates	0-2%	8-32%	8-33%	
Official real estate value of land and buildings	1,589			
Insurance value of buildings	2,486			
Insurance value of fixtures, equipment and vehicles			1,985	

Íslandsbanki hf. Consolidated Financial Statements 2022 42 Amounts are in ISK million

28. Intangible assets

At 31 December 2022	Purchased software	Developed software	Total
Balance at the beginning of the year	1,579	3,383	4,962
Additions during the year	470	-	470
Historical cost	2,049	3,383	5,432
Balance at the beginning of the year	(359)	(1,252)	(1,611)
Amortisation during the year	(232)	(310)	(542)
Accumulated amortisation	(591)	(1,562)	(2,153)
Carrying amount	1,458	1,821	3,279
Amortisation rates	10-25%	10%	

At 31 December 2021	Purchased software	Developed software	Total
Balance at the beginning of the year	1,623	3,383	5,006
Additions during the year	442	-	442
Write-offs during the year	(486)	-	(486)
Historical cost	1,579	3,383	4,962
Balance at the beginning of the year	(636)	(892)	(1,528)
Amortisation during the year	(190)	(360)	(550)
Write-offs during the year	467	-	467
Accumulated amortisation	(359)	(1,252)	(1,611)
Carrying amount	1,220	2,131	3,351
Amortisation rates	10-25%	10%	

29. Other assets

	31.12.2022	31.12.2021
Receivables	1,682	1,582
Unsettled securities transactions	3,591	3,412
Accruals	166	252
Prepaid expenses	400	332
Deferred tax assets	116	94
Other assets	117	112
Other assets	6,072	5,784

30. Non-current assets and disposal groups held for sale

	31.12.2022	31.12.2021
Repossessed collateral:		
Land and buildings	723	269
Industrial equipment and vehicles	5	-
Assets of disposal groups held for sale	-	1,075
Non-current assets and disposal groups held for sale	728	1,344

At year-end 2021 the Group classified the assets and liabilities of Miðengi ehf. (100%) and Reykjavík DC hf. (100%) as assets and liabilities of disposal groups held for sale. In 2022 the group sold Reykjavík DC hf. and reclassified Miðengi ehf. as a subsidiary.

Íslandsbanki hf. Consolidated Financial Statements 2022 43 Amounts are in ISK million

31. Deposits from Central Bank and credit institutions

	31.12.2022	31.12.2021
Deposits from credit institutions	15,105	13,233
Repurchase agreements with Central Bank	164	151
Deposits from Central Bank and credit institutions	15,269	13,384

32. Deposits from customers

	31.12.2022	31.12.2021
Demand deposits and deposits with maturity up to 3 months	697,025	658,543
Term deposits with maturity of more than 3 months	92,872	85,493
Deposits from customers	789,897	744,036

	31.12.2022		31.12.2021	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	8,791	1%	10,750	1%
Municipalities	9,412	1%	7,125	1%
Companies	400,329	51%	371,893	50%
Individuals	371,365	47%	354,268	48%
Deposits from customers	789,897	100%	744,036	100%

33. Pledged assets

	31.12.2022	31.12.2021
Loans to customers	402,958	289,544
Financial assets pledged as collateral with Central Bank	5,723	7,440
Loans to credit institutions	7,813	1,861
Cash and balances pledged against Covered Bonds	19,477	2,200
Pledged assets against liabilities	435,971	301,045

The Group has pledged assets against the issuance of covered bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns covered bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 31 December 2022 was ISK 24,682 million (year-end 2021: ISK 23,650 million).

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

Íslandsbanki hf. Consolidated Financial Statements 2022 44 Amounts are in ISK million

34. Debt issued and other borrowed funds

	First issued	Maturity	Maturity type	Interest	31.12.2022	31.12.2021
Covered bonds in ISK	2015	2023	Bullet	Fixed rates	38,970	39,020
Covered bonds in ISK	2020	2027	Amortising	Fixed rates	26,992	25,750
Covered bonds in ISK	2022	2027	Bullet	Floating rates	3,311	-
Covered bonds in ISK - CPI-linked	2015	2022	Bullet	Fixed rates	-	18,722
Covered bonds in ISK - CPI-linked	2012	2024	Bullet	Fixed rates	41,346	38,231
Covered bonds in ISK - CPI-linked	2015	2026	Bullet	Fixed rates	32,555	29,833
Covered bonds in ISK - CPI-linked	2019	2028	Amortising	Fixed rates	33,456	25,902
Covered bonds in ISK - CPI-linked	2017	2030	Bullet	Fixed rates	29,812	27,363
Covered bonds in EUR*	2022	2027	Bullet	Fixed rates	43,875	-
Covered bonds					250,317	204,821
Senior unsecured bonds in NOK	2019	2022	Bullet	Floating rates	-	14,841
Senior unsecured bonds in EUR**	2019	2022	Bullet	Fixed rates	-	44,803
Senior unsecured bonds in EUR**	2020	2023	Bullet	Fixed rates	43,876	44,657
Senior unsecured bonds in EUR (callable 2023)*	2018	2024	Bullet	Fixed rates	5,704	45,036
Senior unsecured bonds in NOK	2019	2024	Bullet	Fixed rates	5,972	6,122
Senior unsecured bonds in ISK	2019	2024	Amortising	Floating rates	282	2,100
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	2,157	2,211
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	3,406	3,597
Senior unsecured bonds in NOK	2021	2024	Bullet	Floating rates	6,903	7,037
Senior unsecured bonds in SEK	2021	2024	Bullet	Floating rates	2,739	2,882
Senior unsecured bonds in SEK	2022	2024	Bullet	Floating rates	10,957	-
Senior unsecured bonds in ISK	2020	2025	Bullet	Fixed rates	1,228	6,603
Senior unsecured bonds in SEK	2021	2025	Bullet	Floating rates	6,130	6,472
Senior unsecured bonds in NOK	2021	2025	Bullet	Floating rates	10,778	11,044
Senior unsecured bonds in EUR**	2022	2025	Bullet	Fixed rates	39,561	-
Senior unsecured bonds in NOK	2022	2025	Bullet	Floating rates	20,318	-
Senior unsecured bonds in ISK	2022	2027	Amortising	Floating rates	3,763	-
Senior unsecured bonds in ISK	2022	2027	Bullet	Fixed rates	5,301	-
Unsecured bonds					169,075	197,405
Other secured loans					36,650	-
Other unsecured loans					12,228	-
Other borrowed funds					48,878	-
Debt issued and other borrowed funds					468,270	402,226

The Group repurchased own bonds during the year amounting to ISK 79,026 million (2021: ISK 16,384 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR denominated interest rate swaps as hedging instruments (see Note 23). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of this fixed-rate EUR denominated bond arising from changes in EURIBOR benchmark interest rates. The Group applies fair value hedge accounting to the hedging relationships and for the purpose of evaluating whether the hedging relationship is expected to be highly effective, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform. At 31 December 2022 the total carrying amount of the bond issuance amounted to ISK 49,579 million and included in the amount are fair value changes amounting to ISK 1,810 million.

**These bond issuances are classified as being designated as at fair value through profit or loss. At 31 December 2022 the total carrying amount of the bonds amounted to ISK 83,437 million; included in the amount are negative fair value changes amounting to ISK 7,733 million. The carrying amount of the bonds at 31 December 2022 was ISK 8,031 million lower than the contractual amount due at maturity.

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

Íslandsbanki hf. Consolidated Financial Statements 2022 45 Amounts are in ISK million

35. Subordinated loans

	Issued	Maturity	Callable	Interest	31.12.2022	31.12.2021
Subordinated loans in SEK	2017	2027	2022	Floating, STIBOR + 2.0%	-	10,786
Subordinated loans in SEK	2018	2028	2023	Floating, STIBOR + 2.5%	6,820	7,187
Subordinated loans in SEK	2019	2029	2024	Floating, STIBOR + 3.9%	6,785	7,163
Subordinated loans in ISK	2022	2033	2028	Fixed, 8,62%	1,526	-
Subordinated loans in ISK	2022	2033	2028	Fixed CPI, 4,86%	9,199	-
Tier 2 subordinated loans					24,330	25,136
Subordinated loans in SEK	2021	Perpetual	2026	Floating, STIBOR + 4.75%	10,062	10,626
Additional Tier 1 subordinated loans					10,062	10,626
Subordinated loans					34,392	35,762

36. Changes in liabilities arising from financing activities

			Non-cash changes			
	1.1.2022	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2022
Covered bonds in ISK	64,770	1,855	2,609	-	39	69,273
Covered bonds in ISK - CPI-linked	140,051	(19,021)	16,109	-	30	137,169
Senior unsecured bonds in ISK	8,703	1,950	398	-	(477)	10,574
Senior unsecured bonds FX	54,206	15,284	1,258	(1,388)	-	69,360
Senior unsecured bonds FX at fair value	89,460	(279)	578	1,317	(7,639)	83,437
Covered bonds in hedge accounting	-	42,125	370	3,184	(1,804)	43,875
Senior unsecured bonds in hedge accounting	45,036	(39,992)	515	504	(359)	5,704
Other borrowed funds	-	45,051	450	3,377	-	48,878
Subordinated loans	35,762	(814)	1,538	(2,094)	-	34,392
Total	437,988	46,159	23,825	4,900	(10,210)	502,662

			Non-cash changes			
	1.1.2021	Cash flows	Interest expense	Foreign exchange	Fair value changes	31.12.2021
Covered bonds in ISK	39,958	22,380	2,432	-	-	64,770
Covered bonds in ISK - CPI-linked	136,487	(6,467)	10,031	-	-	140,051
Senior unsecured bonds in ISK	5,373	3,202	128	-	-	8,703
Senior unsecured bonds FX	61,553	(6,158)	960	(2,149)	-	54,206
Senior unsecured bonds FX at fair value	94,438	(734)	729	(5,148)	175	89,460
Senior unsecured bonds in hedge accounting	48,032	(525)	545	(2,546)	(470)	45,036
Other borrowed funds	1,433	(1,441)	8	-	-	-
Subordinated loans	27,194	10,100	829	(2,361)	-	35,762
Total	414,468	20,357	15,662	(12,204)	(295)	437,988

Íslandsbanki hf. Consolidated Financial Statements 2022 46 Amounts are in ISK million

37. Tax assets and tax liabilities

	31.12.2022 Assets	31.12.2022 Liabilities	31.12.2021 Assets	31.12.2021 Liabilities
Current tax	-	9,042	-	5,896
Deferred tax assets and tax liabilities	116	3,086	94	536
Tax in the balance sheet	116	12,128	94	6,432

	Assets	Liabilities
Deferred tax assets and tax liabilities 1.1.2021	259	2
Calculated income tax for 2021	(165)	4,099
Income tax payable in 2022	-	(3,361)
Changes in deferred tax assets and deferred tax liabilities due to equity	-	(204)
Deferred tax assets and tax liabilities 31.12.2021	94	536
Calculated income tax for 2022	22	7,593
Income tax payable in 2023	-	(5,668)
- thereof income tax recognised in other comprehensive income	-	110
Changes in deferred tax assets and deferred tax liabilities due to equity	-	625
Deferred tax assets and tax liabilities 31.12.2022	116	3,086

2022	Net balance at 1 January	Recognised in profit or (loss)	Recognised in equity	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(930)	54	-	(876)	-	(876)
Intangible assets	(484)	28	-	(456)	-	(456)
Assets and liabilities in foreign currency	(376)	(103)	-	(479)	-	(479)
Deferred foreign exchange difference	(275)	(562)	-	(837)	-	(837)
Derivatives	595	155	-	750	750	-
Lease liabilities	758	(25)	-	733	733	-
Debt issued and other borrowed funds	176	(1,472)	(625)	(1,921)	-	(1,921)
Other items	94	22	-	116	116	-
	(442)	(1,903)	(625)	(2,970)	1,599	(4,569)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,483)	1,483
Tax assets (liabilities)	(442)	(1,903)	(625)	(2,970)	116	(3,086)

2021	Net balance at 1 January	Recognised in profit or (loss)	Recognised in equity	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property and equipment	(978)	48	-	(930)	-	(930)
Intangible assets	(490)	6	-	(484)	-	(484)
Assets and liabilities in foreign currency	(420)	44	-	(376)	-	(376)
Deferred foreign exchange difference	1,105	(1,380)	-	(275)	-	(275)
Derivatives	(90)	685	-	595	595	-
Lease liabilities	797	(39)	-	758	758	-
Debt issued and other borrowed funds	240	(268)	204	176	176	-
Other items	93	1	-	94	94	-
	257	(903)	204	(442)	1,623	(2,065)
Set-off of deferred tax assets together with liabilities of the same taxable entities					(1,529)	1,529
Tax assets (liabilities)	257	(903)	204	(442)	94	(536)

Íslandsbanki hf. Consolidated Financial Statements 2022 47 Amounts are in ISK million

38. Other liabilities

	31.12.2022	31.12.2021
Accruals	2,448	2,463
Lease liabilities	3,708	3,838
Expected credit losses for off-balance sheet loan commitments and financial guarantees	1,338	1,001
Withholding tax	2,921	1,288
Unsettled securities transactions	3,805	2,005
Sundry liabilities	2,381	2,253
Other liabilities	16,601	12,848

39. Custody assets

	31.12.2022	31.12.2021
Custody assets - not managed by the Group	3,278,816	3,411,059

40. Leases

The Group as a lessee

The Group's significant leases are leases for offices, branches, and storage. Most leases are CPI-linked real estate leases with duration of 5-10 years with extension options. Lease commitments are recognised on-balance sheet except for short-term leases and leases of low-value assets. During the year 2022 the total expense for leases of low-value assets and short-term leases amounted to ISK 36 million (2021: ISK 22 million), the total cash outflow for leases amounted to ISK 584 million (2021: ISK 536 million) and total interest expense from lease liabilities amounted to ISK 82 million (2021: ISK 84 million).

At year-end 2022 the Group recognised ISK 3,551 million in right-of-use assets which are presented in the line item "Property and equipment" and lease liabilities amounting to ISK 3,708 million which are presented in the line item "Other liabilities".

The Group as a lessor

Net investment in finance lease receivables

	31.12.2022	31.12.2021
Due within 1 year	20,263	14,680
Due in 1-5 years	43,929	32,954
Due in more than 5 years	2,636	2,512
Total gross investment in the lease	66,828	50,146
Due within 1 year	15,942	12,562
Due in 1-5 years	37,729	29,738
Due in more than 5 years	2,341	2,279
Total present value of lease payments*	56,012	44,579
Unearned interest income	10,816	5,567

*The Group presents finance lease receivables in the line item "Loans to customers".

Expected credit loss allowance	260	424
Interest income from finance lease receivables during the year	3,769	2,191

Íslandsbanki hf. Consolidated Financial Statements 2022 48 Amounts are in ISK million

41. Íslandsbanki's shareholders

The following table shows the largest shareholders of Íslandsbanki.		31.12.2022	31.12.2021
The Icelandic Government	Iceland	42.5%	65.0%
LSR Pension Fund	Iceland	7.5%	4.1%
Gildi Pension Fund	Iceland	6.8%	3.1%
Live Pension Fund	Iceland	6.3%	3.7%
Capital Group	USA	4.9%	4.4%
Brú Pension Fund	Iceland	3.1%	0.8%
Stapi Pension Fund	Iceland	2.4%	1.0%
Birta Pension Fund	Iceland	1.6%	0.6%
Íslandssjóðir hf. (Iceland Funds)	Iceland	1.3%	0.9%
Vanguard	USA	1.3%	0.0%
RWC Asset Management LLP	UK	1.2%	0.8%
Frjálsi Pension Fund	Iceland	1.2%	0.3%
Lífsverk Pension Fund	Iceland	1.2%	0.1%
Almenni Pension Fund	Iceland	1.0%	0.8%
Other shareholders		17.7%	14.4%
Total		100.0%	100.0%

At 31 December 2022 the number of shareholders of the Bank were 13,079 (year-end 2021: 15,676). At 31 December 2022, 91.0% of the Bank's shares were owned by domestic parties and 9.0% by international investors (year-end 2021: 92.2% domestic parties and 7.8% international investors).

At 31 December 2022 the Bank's employees and related parties of the employees, not including board members, held 0.18% of shares in the Bank (year-end 2021: 0.22%).

42. Related party

The Icelandic Government is the largest shareholder of Íslandsbanki and has significant influence over the Group. The shares are administered by the Icelandic State Financial Investments (ISFI). As a result, the Icelandic Government and the ISFI are defined as related parties. The Group has applied the partial exemption for government-related entities, as described in IAS 24.

The Board of Directors and key management personnel of the Bank, ISFI and subsidiaries of the Bank, close family members of individuals referred to herein and legal entities controlled by them, are defined as related parties.

The Group's associates are also defined as related parties.

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

All loans to employees are provided on general business terms of the Group.

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

At 31 December 2022	Right of use asset	Other assets	Liabilities	Net balance	Guarantees & loan commitments
Shareholders with significant influence over the Group	-	-	-	-	2
Board of Directors, key management personnel and other related parties	-	450	415	35	72
Associated companies	3,157	5,074	4,028	4,203	9
Balances with related parties	3,157	5,524	4,443	4,238	83

Íslandsbanki hf. Consolidated Financial Statements 2022 49 Amounts are in ISK million

42. Related party (continued)

1 January - 31 December 2022	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	34	219	4	-
Associated companies	326	81	26	1,993
Transactions with related parties	360	300	30	1,993

At 31 December 2021	Assets	Liabilities	Net balance	Guarantees & loan commitments
Shareholders with control over the Group	-	-	-	2
Board of Directors, key management personnel and other related parties	356	413	(57)	57
Associated companies	3	478	(475)	206
Balances with related parties	359	891	(532)	265

1 January - 31 December 2021	Interest income	Interest expense	Other income	Other expense
Shareholders with control over the Group	-	-	281	-
Board of Directors, key management personnel and other related parties	23	10	2	7
Associated companies	1	-	2	1,468
Transactions with related parties	24	10	285	1,475

At 31 December 2022 a total of ISK 3 million (at year-end 2021: ISK 1 million) were recognised as Stage 1 expected credit losses of balances with related parties. No share option programmes were operated during the year. For related party remuneration see Note 11.

43. Provision and contingencies

Provision

Initial Findings of the Financial Supervisory Authority of the Central Bank of Iceland

On 9 January 2023 the Bank announced that it had received the preliminary findings from the Financial Supervisory Authority of the Central Bank of Iceland's (FSA) inspection into the Bank's execution of the offering by the Icelandic State of a 22.5% stake in the Bank's share capital that took place in March 2022 (the Offering). In the findings the FSA indicates its view that the Bank may have violated certain laws and regulations applicable to its operations. The FSA pointed out its powers to impose administrative fines and to conclude cases with a settlement. The Bank has requested that the case be concluded with a settlement. The management of the Bank takes the FSA's findings seriously. The Bank has responded to certain sections in the preliminary findings and will complete a response to the FSA by mid-February and expects the FSA's response in due course. Following the Offering, the Bank has made changes to its internal rules and procedures and will, subject to the outcome of its internal review and discussions with the FSA, continue to implement appropriate measures. The amount of the potential administrative fine has not been decided and is therefore uncertain. The Bank has, however, recognised an undisclosed provision based on its own internal estimate.

Íslandsbanki hf. Consolidated Financial Statements 2022 50 Amounts are in ISK million

43. Provision and contingencies (continued)

Contingent liabilities

Borgun hf. – Landsbankinn hf.

Borgun hf., (currently SaltPay IIB hf.) a former subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun hf. in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun is approximately ISK 1,930 million. Court appointed senior assessors presented their reassessment in April 2021 which corroborates the previous assessment of Borgun's obligation to disclose. Furthermore, the senior assessors estimated that Borgun's share in Visa as of 31 December 2013 would have amounted to at least ISK 387 million. The hearing of the case is scheduled in the first quarter of 2023.

On 11 March 2020, the Bank signed an agreement to sell its 63.47% stake in Borgun hf. to SaltPay Co Ltd. and concluded the sale on 7 July 2020. In the agreement the Bank undertook to reimburse 63.47% of losses incurred by Borgun or the buyer as a result of an unfavourable outcome in the Landsbankinn case, however such reimbursement was never to exceed the Bank's share in the purchase price. The Group has not recognised a provision in relation to this matter.

105 Miðborg slhf. – ÍAV hf.

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

The Consumers' Association of Iceland

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

Firstly, two of the cases were brought by customers owing CPI linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Bank to reset interest rates. Following that judgement, the Bank repaid its customers any interest that the Bank had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Bank's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Bank estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 4 to 6 billion.

Secondly, a case has been brought against the Bank by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Bank as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

In April 2022, the plaintiffs in two of the cases submitted claims that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement. On 13 December 2022, the District Court issued its rulings. In the case involving a CPI linked mortgage, the Court rejected the plaintiff's request. In the case involving a non-indexed linked mortgage, the District Court decided to request an advisory opinion from the EFTA Court on part of the issues raised by the plaintiff. The timing of the EFTA Court's advisory opinion is uncertain, as well as its impact on the case.

It is disputed in the three cases whether the terms of the Bank's mortgages, and the method used by the Bank to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable finding could therefore affect other loans to consumers bearing variable interest rates. Furthermore, the Bank has received information requests from a legal firm representing over 1,200 customers of Icelandic commercial banks and loan institutions, they deem to have a comparable right.

43. Provision and contingencies (continued)

In the event of an unfavourable ruling and a subsequent finding that the affected loans should bear a fixed rate of interest instead of a variable interest rate, the Bank's interest rate risk would rise significantly which could lead to a significant financial loss in the event of adverse developments of interest rates in the capital markets. The Bank believes that this is a very unlikely scenario. The Bank has reviewed the terms of its mortgages, other loan contracts and the methods used for the setting and resetting of variable interest rates in light of the above claims. The Bank believes that the claims of the plaintiffs are unfounded and has not recognised a provision in relation to this matter.

EC Clear ehf.

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

44. Events after the reporting period

On 2 February 2023, Íslandsbanki received a letter from the Board of Directors of Kvika banki hf. requesting the Board of Directors of Íslandsbanki's position on commencing merger discussions between the two companies.

45. Risk management

Risk governance

The Group is exposed to various risk factors and managing these risks is an integral part of its operations. The Bank emphasises sound governance principles. The risk management and internal control framework of the Group is based on a three lines of defence model, as referred to in the European Banking Authority Guidelines on Internal Governance, and aims for informed decision-making and strong risk awareness. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with laws, regulations, supervisory requirements and the Group’s internal rules.

The first line of defence consists of the Bank's business and support units; the second line of defence comprises the Bank's internal control units, Risk management and Compliance; and the third line of defence is Internal Audit which gives the Board an independent assessment of the quality of corporate governance, risk management and internal controls.

The Group's management body has a dual structure. The Board of Directors of the Bank has a supervising role in setting and monitoring the execution of set policies, the sound control of accounting and financial management and ensuring that Group Internal audit, Compliance and Risk management are effective. The Chief Executive Officer (CEO), the Chief Risk Officer (CRO), other members of the senior management and the senior management committees are responsible for implementing risk management practises and internal monitoring in accordance with Board authorisation.

The ultimate responsibility for ensuring an adequate risk management and internal control framework at the Group lies with the Board of Directors. The Board defines and communicates the risk governance framework and the acceptable level of risk through risk management policies and the Risk Appetite Statement. To assist the Board in fulfilling its oversight responsibilities, the Board has appointed three board subcommittees.

The CEO is responsible for the day-to-day operations of the Bank, pursuant to set policies and resolutions of the Board. Moreover, it is the task of the CEO to ensure that the Group's operations are consistent with applicable legislation and the Group's Articles of Association which includes maintaining adequate and effective risk management and internal control functions. The CEO appoints the Chief Risk Officer, the Compliance Officer as well as other members of the Executive Board. The CEO also engages the members of the senior management committees.

The CRO heads the Risk management function and is responsible for defining the daily tasks of the department and to assess the adequacy of its professional skills. In addition, the CRO is responsible for monitoring the risk management framework at the Group and for verifying that the Bank has the right resources and an appropriate organisation to manage its risks efficiently.

The CRO is selected and appointed by the CEO, subject to Board confirmation. The CRO reports directly to the Board and the Board Risk Committee on the overall risk profile of the Group and cannot be removed without the Board's prior approval.

45. Risk management (continued)

The CRO is independent from the business units, is a member of the Executive Board and reports directly to the CEO. The CRO provides an independent view on the Group's exposure to risk. The CRO has the right but not the responsibility to veto certain risk-taking decisions of the senior management committees if an internal control unit considers the proposal inconsistent with the Bank's risk appetite, policies or procedures.

Risk management is mandated to identify, understand, measure and monitor the risks that the Group is exposed to. It provides independent information, analyses and expert judgement on risk exposures, and advice on proposals and risk decisions made by the management and business or support units as to whether they are consistent with the risk appetite and risk polices set by the Board.

Where necessary, Risk management makes recommendations to senior management and the Board to improve or clarify risk policies, procedures and limits.

Risk Management provides a holistic view on risk, and compliance to limits to internal and external stakeholders, and ensures an appropriate escalation in the event of limit breaches.

Business and support units are, however, responsible for maintaining their independent view on the risks inherent in their operations and reporting to senior management any foreseeable breaches from limits, policies or strategic direction.

Risk management provides the senior management and the Board with all relevant risk related information to enable it to define the Bank's risk appetite.

The General Counsel is appointed by and reports directly to the CEO. The General Counsel provides legal advice to the Bank's senior management, including the Board of Directors, and manages the Bank's legal department which provides comprehensive legal advice to the Bank's business segments and support units.

The Chief Audit Executive (CAE) is appointed by the Board, reports directly to Board and directs Group Internal Audit with a mandate from the Board. The CAE is responsible for internal audit matters within the Group, including internal audit tasks which have been outsourced.

The Compliance Officer heads the compliance function and is responsible for defining the daily tasks of the department and assessing the adequacy of its professional skills. The Compliance Officer is responsible for monitoring the compliance risk management framework for the Bank and maintaining oversight for compliance risk throughout the Bank.

The Bank's Compliance Officer is selected and engaged by the CEO, subject to Board confirmation. The Compliance Officer cannot be removed without the Board's prior approval. The Financial Supervisory Authority of the Central Bank and Chief Audit Executive shall be notified of the dismissal or departure of the Compliance Officer. The Compliance Officer reports directly to the Board on the overall compliance risk profile of the Bank.

Each employee is responsible for understanding the risk related to their day-to-day work, for knowing and understanding the respective internal and external rules and procedures, for using the alert procedures in the event of possible fraudulent activities and for conducting business in accordance with the Bank's code of conduct.

The Bank's senior management committee structure is twofold. Firstly the two executive committees, the Executive Board and the All Risk Committee, that are responsible for the implementation of the Board approved business strategy, risk appetite and policies. Secondly the six business committees, the Asset and Liability Committee (ALCO), the Senior Credit Committee (SCC), the Investment Committee (IC), the Operational and Security Committee (OSC), the Sustainability Committee (SC), and the Digital Product Committee (DPC), which are responsible for the approval of business or operational proposals subject to internal rules and guidelines issued by the executive committees and the Board.

The members of the senior management committees are appointed by the CEO, and their mandate and rules of procedure are documented in a charter issued by the CEO.

More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2022 Report, which is available on the Bank's website: www.islandsbanki.is.

46. Credit risk

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

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

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

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

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

47. Maximum credit exposure and collateral

The Group's credit risk exposure comprises both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position. The maximum exposure for off-balance sheet items is the amount that the Group might have to pay out against financial guarantees and credit commitments, less provisions that have been made because of these items. The maximum credit exposure for a derivative contract is calculated according to the original exposure method as described in CRR II.

Collateral and other credit mitigants vary between types of obligors and credit facilities. For loans to individuals the principal collateral taken is residential property against mortgages. In the case of corporate entities the Group takes a charge over assets such as real estate, vessels, cash, and securities as well as other collateral including accounts receivables, inventory, vehicles, and equipment. Loans to government entities and to municipalities are more often than not unsecured. Derivative exposures are generally made under ISDA master agreements with Credit Support Annex or corresponding terms with pledged collateral in the form of cash and government bonds.

In some cases the Group uses guarantees as a credit enhancement but since guarantees effectively transfer credit risk from one counterparty to another they do not represent a reduction in maximum exposure to credit risk. Exempt from this are Government guarantees issued in response to the COVID-19 pandemic which are shown under other collateral. Of these, ISK 1,838 million are subject to 100% Government guarantee, ISK 901 million to 85% Government guarantee and ISK 376 million to 70% Government guarantee. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure.

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

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

The following table shows the maximum exposure to credit risk by collateral held against those exposures.

47. Maximum credit exposure and collateral (continued)

At 31 December 2022 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	94,424	-	-	-	-	-	-	-	94,424	3
Loans to credit institutions	110,364	-	-	-	-	-	-	-	110,364	152
Bonds and debt instruments	130,804	-	-	-	-	-	-	-	130,804	-
Derivatives	25,264	-	-	-	11,733	-	-	11,733	13,531	-
Loans to customers:	1,186,639	557,263	306,469	82,645	20,744	63,889	69,383	1,100,393	86,246	11,132
Individuals	570,522	509,638	9,988	3	177	15,767	170	535,743	34,779	2,328
- Thereof mortgages	507,969	504,654	2,514	-	168	-	-	507,336	633	894
Commerce and services	172,222	8,356	76,739	788	2,932	37,908	32,473	159,196	13,026	3,518
Construction	59,815	14,395	35,787	1	186	2,911	2,298	55,578	4,237	757
Energy	10,411	57	8,862	-	9	5	25	8,958	1,453	45
Financial services	2,622	-	595	-	-	-	1,149	1,744	878	20
Industrial and transportation	91,078	1,954	48,834	2,203	109	6,660	13,147	72,907	18,171	2,846
Investment companies	40,336	3,006	10,432	-	16,975	102	9,226	39,741	595	685
Public sector and non-profit organisations	11,046	49	740	-	-	31	19	839	10,207	31
Real estate	126,297	19,349	103,126	-	265	427	671	123,838	2,459	784
Seafood	102,290	459	11,366	79,650	91	78	10,205	101,849	441	118
Other financial assets	5,411	-	-	-	-	-	-	-	5,411	13
Off-balance sheet items:	203,145	8,303	32,714	13,136	2,318	-	24,344	80,815	122,330	1,338
Financial guarantees	18,385	-	6,556	104	1,403	-	1,837	9,900	8,485	413
Loan commitments	184,760	8,303	26,158	13,032	915	-	22,507	70,915	113,845	925
Total	1,756,051	565,566	339,183	95,781	34,795	63,889	93,727	1,192,941	563,110	12,638

Íslandsbanki hf. Consolidated Financial Statements 2022 55 Amounts are in ISK million

47. Maximum credit exposure and collateral (continued)

At 31 December 2021 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	113,667	-	-	-	-	-	-	-	113,667	3
Loans to credit institutions	43,988	-	-	-	-	-	-	-	43,988	89
Bonds and debt instruments	132,289	-	-	-	-	-	-	-	132,289	-
Derivatives	21,547	-	-	-	9,722	-	-	9,722	11,825	-
Loans to customers:	1,086,327	510,100	250,581	86,387	6,664	50,536	72,774	977,042	109,285	13,565
Individuals	520,733	460,898	9,317	21	205	15,756	198	486,395	34,338	2,192
- Thereof mortgages	457,800	454,684	1,417	-	194	-	-	456,295	1,505	1,023
Commerce and services	165,222	16,083	66,667	721	262	25,422	20,997	130,152	35,070	5,947
Construction	36,773	12,619	15,532	7	118	2,605	2,621	33,502	3,271	467
Energy	9,493	27	7,638	-	2	6	13	7,686	1,807	36
Financial services	1,978	-	475	-	-	-	1,472	1,947	31	3
Industrial and transportation	89,627	1,511	46,292	2,375	104	6,268	13,578	70,128	19,499	2,833
Investment companies	23,677	1,328	4,637	-	5,421	72	11,720	23,178	499	631
Public sector and non-profit organisations	9,987	85	738	-	-	45	3	871	9,116	20
Real estate	109,314	16,715	87,266	-	480	264	2,655	107,380	1,934	1,247
Seafood	119,523	834	12,019	83,263	72	98	19,517	115,803	3,720	189
Other financial assets	5,241	-	-	-	-	-	-	-	5,241	24
Off-balance sheet items:	164,262	4,230	32,611	12,306	1,902	-	20,515	71,564	92,698	1,001
Financial guarantees	18,830	-	6,614	370	1,434	-	1,503	9,921	8,909	453
Loan commitments	145,432	4,230	25,997	11,936	468	-	19,012	61,643	83,789	548
Total	1,567,321	514,330	283,192	98,693	18,288	50,536	93,289	1,058,328	508,993	14,682

Íslandsbanki hf. Consolidated Financial Statements 2022 56 Amounts are in ISK million

48. Credit quality of financial assets

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

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

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

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

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

Further information on the risk classes, including the mapping from risk classes to the probability of default, can be found in Section 4.2.2 of the unaudited Pillar 3 2022 Report.

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

At 31 December 2022

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	478,439	524	-	478,963
Risk class 5-6	473,451	14,804	-	488,255
Risk class 7-8	177,477	10,372	-	187,849
Risk class 9	17,425	4,035	-	21,460
Risk class 10	-	-	21,123	21,123
Unrated	81	40	-	121
	1,146,873	29,775	21,123	1,197,771
Expected credit losses	(4,636)	(2,235)	(4,261)	(11,132)
Net carrying amount	1,142,237	27,540	16,862	1,186,639

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	99,648	2	-	99,650
Risk class 5-6	66,519	328	-	66,847
Risk class 7-8	28,039	5,464	-	33,503
Risk class 9	706	428	-	1,134
Risk class 10	-	-	1,640	1,640
Unrated	1,484	180	45	1,709
	196,396	6,402	1,685	204,483
Expected credit losses	(869)	(242)	(227)	(1,338)
Total	195,527	6,160	1,458	203,145

Íslandsbanki hf. Consolidated Financial Statements 2022 57 Amounts are in ISK million

48. Credit quality of financial assets (continued)

At 31 December 2021

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	398,524	1,775	-	400,299
Risk class 5-6	377,063	42,650	-	419,713
Risk class 7-8	180,421	53,444	-	233,865
Risk class 9	16,445	7,889	-	24,334
Risk class 10	-	-	21,576	21,576
Unrated	96	9	-	105
	972,549	105,767	21,576	1,099,892
Expected credit losses	(3,830)	(3,804)	(5,931)	(13,565)
Net carrying amount	968,719	101,963	15,645	1,086,327

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	77,769	1,065	-	78,834
Risk class 5-6	43,831	4,550	-	48,381
Risk class 7-8	21,854	14,446	-	36,300
Risk class 9	472	690	-	1,162
Risk class 10	-	-	544	544
Unrated	38	4	-	42
	143,964	20,755	544	165,263
Expected credit losses	(545)	(298)	(158)	(1,001)
Total	143,419	20,457	386	164,262

49. Forbearance

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

The relationship between forbearance and stages is discussed in Note 61.4.

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

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

Íslandsbanki hf. Consolidated Financial Statements 2022 58 Amounts are in ISK million

49. Forbearance (continued)

The following table provides a summary of the Group's forborne assets.

At 31 December 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,232	2,422	1,264	6,918
Companies	23,662	17,596	9,189	50,447
Total	26,894	20,018	10,453	57,365

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(20)	(46)	(98)	(164)
Companies	(86)	(1,783)	(2,766)	(4,635)
Total	(106)	(1,829)	(2,864)	(4,799)

At 31 December 2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Individuals	3,920	3,989	1,453	9,362
Companies	17,500	68,081	9,076	94,657
Total	21,420	72,070	10,529	104,019

Expected credit losses	Stage 1	Stage 2	Stage 3	Total
Individuals	(25)	(78)	(135)	(238)
Companies	(102)	(2,719)	(3,543)	(6,364)
Total	(127)	(2,797)	(3,678)	(6,602)

Íslandsbanki hf. Consolidated Financial Statements 2022 59 Amounts are in ISK million

50. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by EU regulation no. 575/2013 on prudential requirements for financial undertakings. The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of article (1)(a) of the Act on Financial Undertakings no. 161/2002, where groups of connected clients are defined.

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group currently has five large exposures. No large exposure is above the maximum 25% large exposure limit set by the law.

The Group's largest exposure before eligible credit risk mitigating effects is the Icelandic Government. Biggest part of the exposure is due to Icelandic Government Bonds in the Group's liquidity portfolio.

At 31 December 2022

Groups of connected clients:	Before	After
Group 1	87%	9%
Group 2	13%	13%
Group 3	12%	12%
Group 4	11%	11%
Group 5	11%	11%
Group 6	11%	11%

At 31 December 2021

Group of connected clients:	Before	After
Group 1	100%	7%

51. Liquidity risk

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

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

Íslandsbanki hf. Consolidated Financial Statements 2022 60 Amounts are in ISK million

52. Liquidity coverage and net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratios and the rules on funding ratios. In addition, the Group complies with the Financial Supervisory Authority of the Central Bank's guidelines no. 2/2010 on best practices in liquidity management and liquidity coverage ratio rules no. 266/2017.

The minimum LCR ratio that the Group is required to maintain is 100% for the total LCR and LCR in foreign currencies. For LCR in ISK, the requirement is 40% in 2022 and 50% as of 2023. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 31 December 2022 and at year-end 2021.

Net stable funding ratio	31.12.2022	31.12.2021
For all currencies	118%	122%
Foreign currencies	198%	157%

Liquidity coverage ratio	31.12.2022	31.12.2021
For all currencies	205%	156%
ISK	109%	141%
Foreign currencies	492%	235%

	For all currencies		ISK		Foreign currencies	
At 31 December 2022	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
Liquid assets level 1*	198,074	198,074	143,077	143,077	54,997	54,997
Liquid assets level 2	24,398	19,474	24,370	19,474	28	-
Total liquid assets	222,472	217,548	167,447	162,551	55,025	54,997
Deposits	656,669	180,302	561,212	142,739	95,457	37,563
Debt issued	6,157	6,157	294	294	5,863	5,863
Other outflows	64,880	35,224	59,652	33,932	5,228	1,292
Total outflows	727,706	221,683	621,158	176,965	106,548	44,718
Short-term deposits with other banks**	89,820	82,008	1,028	5	88,792	82,003
Other inflows	56,075	33,702	46,668	27,287	9,407	6,415
Restrictions on inflows	-	-	-	-	-	(54,878)
Total inflows	145,895	115,710	47,696	27,292	98,199	33,540
Liquidity coverage ratio		205%		109%		492%
At 31 December 2021						
Liquid assets level 1*	214,480	214,480	184,282	184,282	30,198	30,198
Liquid assets level 2	45,559	16,404	41,415	16,404	4,144	-
Total liquid assets	260,039	230,884	225,697	200,686	34,342	30,198
Deposits	618,940	173,789	542,616	145,478	76,324	28,311
Debt issued	15,464	15,464	66	66	15,398	15,398
Other outflows	99,162	37,587	69,796	29,940	29,366	7,647
Total outflows	733,566	226,840	612,478	175,484	121,088	51,356
Short-term deposits with other banks**	43,997	42,135	3,040	2,118	40,957	40,017
Other inflows	51,161	36,692	43,385	30,540	7,776	6,152
Restrictions on inflows	-	-	-	-	-	(7,653)
Total inflows	95,158	78,827	46,425	32,658	48,733	38,516
Liquidity coverage ratio		156%		141%		235%

*Level 1 liquid assets include cash and balances with the Central Bank, domestic bonds and foreign government bonds in accordance with rules no. 266/2017 on liquidity ratio.

**Short-term deposits with other banks with maturity less than 30 days.

Íslandsbanki hf. Consolidated Financial Statements 2022 61 Amounts are in ISK million

52. Liquidity coverage and net stable funding ratio (continued)

Deposits by liquidity coverage ratio category

The Group's deposits are categorised by counterparty according to the Liquidity Coverage Ratio (LCR) standard. The groups are listed in order of estimated stability and the respective LCR outflow weight. Deposits are also classified as stable if the customer has an established business relationship with the Bank and is covered by an effective insurance scheme.

	Deposits maturing within 30 days					
At 31 December 2022	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	86,621	13%	205,538	5%	79,206	371,365
Small and medium enterprises	59,495	13%	59,942	5%	8,614	128,051
Operational relationships	4,133	25%	-	5%	-	4,133
Corporations	140,039	40%	3,242	20%	30,526	173,807
Sovereigns, Central Bank, and public sector entities	10,805	40%	1,116	20%	777	12,698
Pension funds	35,662	100%	-	-	16,398	52,060
Domestic financial entities	41,830	100%	-	-	5,177	47,007
Foreign financial entities	8,246	100%	-	-	7,799	16,045
Total	386,831		269,838		148,497	805,166

	Deposits maturing within 30 days					
At 31 December 2021	Less stable	Weight (%)	Stable	Weight (%)	Term deposits	Total deposits
Individuals	78,319	13%	204,340	5%	66,643	349,302
Small and medium enterprises	58,774	12%	57,685	5%	6,185	122,644
Operational relationships	3,260	25%	-	5%	-	3,260
Corporations	110,682	40%	2,913	20%	29,279	142,874
Sovereigns, Central Bank, and public sector entities	8,168	40%	1,115	20%	559	9,842
Pension funds	45,346	100%	-	-	18,269	63,615
Domestic financial entities	41,894	100%	-	-	12,522	54,416
Foreign financial entities	6,444	100%	-	-	5,023	11,467
Total	352,887		266,053		138,480	757,420

Íslandsbanki hf. Consolidated Financial Statements 2022 62 Amounts are in ISK million

53. Maturity analysis of financial assets and financial liabilities

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

Bonds and debt instruments are based on contractual maturity and therefore do not represent the estimated liquidation time of the trading book.

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

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

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

At 31 December 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	41,518	52,906	-	-	-	-	94,424	94,424
Loans to credit institutions	46,761	63,587	16	-	-	-	110,364	110,364
Bonds and debt instruments	-	50,429	46,570	28,940	4,865	-	130,804	130,804
Derivatives	-	3,062	1,619	2,260	-	-	6,941	7,461
- Net settled derivatives	-	897	-	-	-	-	897	897
- Inflow	-	41,940	24,587	29,827	-	-	96,354	81,324
- Outflow	-	(39,775)	(22,968)	(27,567)	-	-	(90,310)	(74,760)
Loans to customers	-	80,768	129,442	326,017	650,412	-	1,186,639	1,186,639
Shares and equity instruments	-	-	-	-	-	15,868	15,868	15,868
Other financial assets	4,968	288	155	-	-	-	5,411	5,411
Total financial assets	93,247	251,040	177,802	357,217	655,277	15,868	1,550,451	1,550,971
Deposits from CB and credit institutions	5,015	2,998	4,269	3,387	-	-	15,669	15,269
Deposits from customers	668,869	66,203	52,453	23,018	33,858	-	844,401	789,897
Derivatives instrument and short positions	-	1,366	4,220	4,504	509	-	10,599	10,804
- Net settled derivatives	-	134	-	-	-	-	134	134
- Inflow	-	(51,316)	(20,748)	(19,479)	-	-	(91,543)	(77,250)
- Outflow	-	52,533	24,968	23,923	-	-	101,424	87,635
- Short positions	-	15	-	60	509	-	584	285
Debt issued and other borrowed funds	-	12,384	111,618	465,372	50,404	-	639,778	468,270
Subordinated loans	-	529	1,427	20,516	35,530	-	58,002	34,392
Other financial liabilities	5,356	1,271	1,486	1,911	1,634	-	11,658	11,329
- Lease liabilities	-	141	396	1,866	1,634	-	4,037	3,708
- Other liabilities	5,356	1,130	1,090	45	-	-	7,621	7,621
Total financial liabilities	679,240	84,751	175,473	518,708	121,935	-	1,580,107	1,329,961
Total net financial assets and financial liab.	(585,993)	166,289	2,329	(161,491)	533,342	15,868	(29,656)	221,010

Íslandsbanki hf. Consolidated Financial Statements 2022 63 Amounts are in ISK million

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

At 31 December 2021	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total	Carrying amount
Cash and balances with Central Bank	39,278	74,389	-	-	-	-	113,667	113,667
Loans to credit institutions	24,327	19,661	-	-	-	-	43,988	43,988
Bonds and debt instruments	-	25,420	38,495	63,315	5,059	-	132,289	132,289
Derivatives	-	(1,737)	1,227	2,497	-	-	1,987	2,445
- Net settled derivatives	-	579	-	-	-	-	579	579
- Inflow	-	40,945	6,895	29,424	-	-	77,264	67,150
- Outflow	-	(43,261)	(5,668)	(26,927)	-	-	(75,856)	(65,284)
Loans to customers	1,153	89,452	114,436	304,623	576,663	-	1,086,327	1,086,327
Shares and equity instruments	-	-	-	-	-	31,677	31,677	31,677
Other financial assets	4,712	373	156	-	-	-	5,241	5,241
Total financial assets	69,470	207,558	154,314	370,435	581,722	31,677	1,415,176	1,415,634
Deposits from CB and credit institutions	5,403	4,022	-	4,101	-	-	13,526	13,384
Deposits from customers	621,391	62,356	43,950	25,254	28,357	-	781,308	744,036
Derivatives instrument and short positions	-	5,682	1,429	5,368	1,454	-	13,933	9,467
- Net settled derivatives	-	2,985	-	-	-	-	2,985	2,985
- Inflow	-	(55,405)	(18,216)	(33,280)	-	-	(106,901)	(85,961)
- Outflow	-	58,086	19,486	36,950	-	-	114,522	90,492
- Short positions	-	16	159	1,698	1,454	-	3,327	1,951
Debt issued and other borrowed funds	-	22,948	78,045	315,021	54,676	-	470,690	402,226
Subordinated loans	-	292	732	16,784	27,285	-	45,093	35,762
Other financial liabilities	3,434	1,739	1,157	1,858	2,047	-	10,235	9,681
- Lease liabilities	-	129	387	1,829	2,047	-	4,392	3,838
- Other liabilities	3,434	1,610	770	29	-	-	5,843	5,843
Total financial liabilities	630,228	97,039	125,313	368,386	113,819	-	1,334,785	1,214,556
Total net financial assets and financial liab.	(560,758)	110,519	29,001	2,049	467,903	31,677	80,391	201,078

Off-balance sheet liabilities

Note 47 Maximum Credit Exposure and Collateral shows the amount of contractual obligations of off-balance sheet liabilities that the Group has taken towards customers, either by committing to lend out money in the future or as third party guarantees. The amounts shown reflect the maximum amount, not taking into account the Group's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations are all categorised as on demand since contractually, on a case-by-case basis, the Group could be required to fulfil these obligations instantaneously.

Íslandsbanki hf. Consolidated Financial Statements 2022 64 Amounts are in ISK million

54. Market risk

The Group defines market risk as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, foreign exchange rates, equity prices, CPI-indexation, and commodity prices. Sources of market risk are imbalances in the Group's balance sheet and open positions in bonds, currencies, and equities. Derivative contracts are also potential sources of market risk (see Note 23).

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

55. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates. Sensitivity measures like Basis Point Value (BPV) are used to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 percentage point upward parallel shift in the yield curve on the fair value of these exposures.

Interest rate risk in the trading book

The fixed income trading unit invests mainly in government bonds, bonds issued by the Housing and Construction Authority which are guaranteed by the Icelandic Government, domestic municipality bonds, and covered bonds issued by other Icelandic banks. Bonds and bills in the Group's liquidity portfolio are also categorised in the trading book. In the following table the total market value (MV) of long and short positions may not be the same as reported in Note 17 since netting between short and long positions is not applied here.

	31.12.2022			31.12.2021		
Trading bonds and debt instruments, long positions	MV	Duration	BPV	MV	Duration	BPV
Indexed	3,446	6.39	(2.20)	548	6.59	(0.36)
Non-indexed	124,065	0.58	(7.17)	95,996	0.91	(8.75)
Total	127,511	0.74	(9.37)	96,544	0.94	(9.11)
Trading bonds and debt instruments, short positions						
Indexed	-	-	-	215	9.00	0.20
Non-indexed	282	5.04	0.14	148	1.00	0.02
Total	282	5.04	0.14	363	5.74	0.22
Net position of trading bonds and debt instruments	127,229	0.73	(9.23)	96,181	0.92	(8.89)

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

Sensitivity analysis for trading bonds and debt instruments		31.12.2022		31.12.2021	
		Effect on profit or (loss)			
Currency	Parallel shift in yield curve (basis points)	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	100	222	(222)	57	(57)
ISK, non-indexed	100	601	(601)	781	(781)
EUR	100	87	(87)	35	(35)
USD	100	4	(4)	15	(15)
Other total	100	39	(39)	46	(46)
Total		953	(953)	934	(934)

Íslandsbanki hf. Consolidated Financial Statements 2022 65 Amounts are in ISK million

55. Interest rate risk (continued)

Interest rate risk in the banking book

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

The following table shows the interest sensitivity of the Group's banking book from a parallel 100 basis points change in all yield curves, with all other variables held constant, categorised by the date of next interest rate reset.

Sensitivity analysis for interest rate risk in the banking book*

At 31 December 2022

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	12	(12)	220	(4,195)	2,860	(80)	(1,195)
ISK, non-indexed	23	232	(517)	(740)	1	46	(955)
EUR	103	218	(15)	(132)	-	-	174
SEK	51	-	-	-	-	-	51
USD	39	-	-	-	-	-	39
Other	79	-	3	(5)	-	-	77
Total	307	438	(309)	(5,072)	2,861	(34)	(1,809)

At 31 December 2021

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	6	121	(117)	(2,428)	2,858	(670)	(230)
ISK, non-indexed	(34)	2	502	(2,071)	745	-	(856)
EUR	(18)	25	(518)	582	-	-	71
SEK	64	-	-	-	-	-	64
USD	-	(10)	-	-	-	-	(10)
Other	39	(12)	-	(5)	-	-	22
Total	57	126	(133)	(3,922)	3,603	(670)	(939)

*Comparative figures have been changed with immaterial effects.

Íslandsbanki hf. Consolidated Financial Statements 2022 66 Amounts are in ISK million

56. Currency risk

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

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

Debt issued is presented in the analysis of the Group's foreign currency exposure as the nominal amount plus accrued interest. Some debt issues are measured at fair value in the consolidated financial statements. Therefore, the net position presented below does not match the book value net position thus affecting the foreign exchange difference recognised in the consolidated income statement.

At 31 December 2022	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	462	284	126	36	7	43	47	78	31	139	1,253
Loans to credit institutions	35,515	37,533	2,565	534	816	5,220	20,790	4,855	1,321	146	109,295
Bonds and debt instruments	34,693	5,666	7	-	-	3,393	9,996	-	-	-	53,755
Loans to customers	127,658	25,155	348	657	2,193	40	2,946	140	7,073	-	166,210
Shares and equity instruments	127	350	78	-	-	1,025	-	-	-	-	1,580
Other assets	344	243	7	-	-	46	-	1	-	-	641
Total assets	198,799	69,231	3,131	1,227	3,016	9,767	33,779	5,074	8,425	285	332,734
Deposits from credit institutions	8,657	1,869	17	-	-	-	7	-	-	-	10,550
Deposits from customers	35,002	42,694	4,988	641	683	910	3,891	10,011	322	12	99,154
Debt issued and other borrowed funds	179,456	12,228	-	-	-	23,231	46,128	-	-	-	261,043
Subordinated loans	-	-	-	-	-	23,667	-	-	-	-	23,667
Other liabilities	254	200	7	-	-	1	-	1	-	-	463
Total liabilities	223,369	56,991	5,012	641	683	47,809	50,026	10,012	322	12	394,877
Net on-balance sheet position	(24,570)	12,240	(1,881)	586	2,333	(38,042)	(16,247)	(4,938)	8,103	273	(62,143)
Net off-balance sheet position	22,616	(11,542)	1,766	(576)	(2,394)	38,117	16,233	4,953	(8,244)	(377)	60,552
Net position	(1,954)	698	(115)	10	(61)	75	(14)	15	(141)	(104)	(1,591)

Amounts are in ISK million

56. Currency risk (continued)

At 31 December 2021	EUR	USD	GBP	CHF	JPY	SEK	NOK	DKK	CAD	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	659	350	183	43	15	47	65	89	26	164	1,641
Loans to credit institutions	12,297	15,080	967	400	724	261	10,095	331	586	189	40,930
Bonds and debt instruments	9,612	3,910	32	-	-	5,040	10,320	-	-	-	28,914
Loans to customers	124,674	41,409	1,071	994	2,903	59	3,263	3,011	3,863	20	181,267
Shares and equity instruments	2,311	386	343	-	-	1,881	-	-	-	-	4,921
Other assets	13	390	-	-	-	4	-	1	-	-	408
Total assets	149,566	61,525	2,596	1,437	3,642	7,292	23,743	3,432	4,475	373	258,081
Deposits from credit institutions	7,802	336	15	-	-	-	8	2	-	-	8,163
Deposits from customers	38,846	29,637	3,763	442	708	831	2,813	2,258	340	29	79,667
Debt issued and other borrowed funds	133,709	-	-	-	-	12,951	41,255	-	-	-	187,915
Subordinated loans	-	-	-	-	-	35,762	-	-	-	-	35,762
Other liabilities	629	226	-	-	-	3	-	43	-	-	901
Total liabilities	180,986	30,199	3,778	442	708	49,547	44,076	2,303	340	29	312,408
Net on-balance sheet position	(31,420)	31,326	(1,182)	995	2,934	(42,255)	(20,333)	1,129	4,135	344	(54,327)
Net off-balance sheet position	31,200	(30,849)	893	(990)	(2,924)	42,157	20,148	(1,114)	(4,113)	(408)	54,000
Net position	(220)	477	(289)	5	10	(98)	(185)	15	22	(64)	(327)

Íslandsbanki hf. Consolidated Financial Statements 2022 68 Amounts are in ISK million

56. Currency risk (continued)

The following table shows the effect of a 10% depreciation or appreciation of foreign exchange rates where the Group had positions at year-end, with all other variables held constant.

Sensitivity analysis for currency risk	31.12.2022		31.12.2021	
	Effect on profit or (loss)			
Currency	-10%	10%	-10%	10%
EUR	195	(195)	22	(22)
USD	(70)	70	(48)	48
GBP	12	(12)	29	(29)
CHF	(1)	1	(1)	1
JPY	6	(6)	(1)	1
SEK	(8)	8	10	(10)
NOK	1	(1)	19	(19)
DKK	(2)	2	(2)	2
CAD	14	(14)	(2)	2
Other foreign currencies	10	(10)	6	(6)
Total	157	(157)	32	(32)

57. Shares and equity instruments

The Group's equity exposure in the trading book arises from flow trading and market making with shares listed on the Nasdaq Iceland Stock Exchange. Shares and equity instruments in the banking book are classified as mandatorily at fair value through profit or loss or are classified as held for sale.

The following table shows how a 10% shift in equity prices would affect the Group's equity and net financial income. Securities used for hedging are excluded.

Sensitivity analysis for shares and equity instruments		31.12.2022		31.12.2021	
		Effect on profit or (loss)			
Portfolio	Change in equity prices	Downward shift	Upward shift	Downward shift	Upward shift
Trading book	10%	(135)	135	(123)	123
Banking book	10%	(413)	413	(605)	605
Total		(548)	548	(728)	728

58. Inflation risk

The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 277 million increase in the balance sheet and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.12.2022	31.12.2021
Bonds and debt instruments	4,148	1,169
Loans to customers	282,521	247,426
Total CPI-linked assets	286,669	248,595

Íslandsbanki hf. Consolidated Financial Statements 2022 69 Amounts are in ISK million

58. Inflation risk (continued)

	31.12.2022	31.12.2021
Deposits from customers	107,684	93,806
Debt issued and other borrowed funds	146,368	140,051
Off-balance sheet exposures	4,912	14,697
Total CPI-linked liabilities	258,964	248,554
CPI imbalance	27,705	41

59. Capital management

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 31 December 2022 and 31 December 2021.

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

The Group aims at managing its capital position and the corresponding capital ratios above the overall regulatory capital requirement. According to the latest SREP report from the Financial Supervisory Authority of the Central Bank, the Bank shall as of 1 July 2022 maintain an additional capital requirement of 2.6% of risk exposure amount. In September 2022 a countercyclical capital buffer of 2% was reintroduced in Iceland. The Group's overall capital requirement, taking into account capital buffers, is 19.9%. The Group's capital target includes a 0.5-2.0% management buffer on top of the overall capital requirement.

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

In December 2021, the Icelandic Resolution Authority published its MREL policy for Icelandic banks and in September 2022 the Resolution Authority announced that a resolution plan had been approved for Íslandsbanki and thereby the MREL requirement based on the MREL policy. Further information on MREL can be found in Section 3.7 of the unaudited Pillar 3 2022 Report.

	31.12.2022	31.12.2021
Own funds		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	9,158	6,086
Retained earnings	144,716	132,624
IFRS 9 reversal due to transitional rules	1,301	2,768
Fair value changes due to own credit standing	(1,786)	1,054
Foreseeable dividend payment and approved buyback*	(27,267)	(11,863)
Tax assets	(116)	(94)
Intangible assets	(3,279)	(3,351)
CET1 capital	187,727	192,224
Additional Tier 1 capital	10,062	10,626
Tier 1 capital	197,789	202,850
Tier 2 capital	24,330	25,136
Total capital base	222,119	227,986

Íslandsbanki hf. Consolidated Financial Statements 2022 70 Amounts are in ISK million

59. Capital management (continued)

	31.12.2022	31.12.2021
Risk exposure amount		
Due to credit risk	893,110	802,147
Due to market risk	15,417	17,100
Due to credit valuation adjustment	2,756	1,829
Due to operational risk	88,208	80,570
Total risk exposure amount	999,491	901,646
Capital ratios		
CET 1 ratio	18.8%	21.3%
Tier 1 ratio	19.8%	22.5%
Total capital ratio	22.2%	25.3%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,541,738	1,422,930
Off-balance sheet exposures	68,702	49,220
Derivative exposures	30,596	21,615
Leverage ratio total exposure measure	1,641,036	1,493,765
Tier 1 capital	197,789	202,850
Leverage ratio	12.1%	13.6%

*The Annual General Meeting of Íslandsbanki hf. held on 17 March 2022 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. The Central Bank has furthermore granted a permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 15 billion, which is within the 10% authorisation from the AGM. The approved amount of ISK 15 billion is subtracted from the capital base. The capital distribution is subject to market conditions. The target dividend payment amounting to 50% of the Group's profit for 2022 is also deducted.

60. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk, and compliance risk among other risk factors.

The ultimate responsibility for ensuring an adequate operational risk management and internal control framework at Íslandsbanki lies with the Board of Directors. The Board has approved an Operational Risk Policy which outlines the Bank's framework for operational risk management. Risk Management is responsible for implementing the Bank's operational risk framework, for developing, maintaining the Operational Risk Policy, and for communicating the policy to the Bank's employees.

Íslandsbanki hf. Consolidated Financial Statements 2022 71 Amounts are in ISK million

Notes to the Consolidated Financial Statements

61. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group for the periods presented in these consolidated financial statements.

Contents

Notes to the Consolidated Financial Statements

61.1 Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of Íslandsbanki hf., as the parent company, and its subsidiaries.

Consolidation

The Group consolidates its subsidiaries on the basis of control. The consolidation begins when the Group obtains control of the subsidiary and ceases when the Group no longer has control of the subsidiary.

In preparing the consolidated financial statements, Íslandsbanki combines its financial statements with those of its subsidiaries, line by line, by adding together like items of assets, liabilities, equity, income, expenses, and cash flows. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group balances, income and expenses relating to transactions between group entities are eliminated in full on consolidation. This also applies to subsidiaries classified as disposal groups held for sale (see Note 61.11).

A change in the Group's ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

Control

Subsidiaries are defined as companies in which Íslandsbanki, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the Group evaluates a range of control factors, including:

- The purpose and design of the entity
- The relevant activities and how these are determined
- Whether the Group's rights result in the ability to direct the relevant activities
- Whether the Group has exposure or right to variable returns, and
- Whether the Group has the ability to use its power to affect its return

Generally, there is a presumption that a majority of voting rights results in control. However, in individual circumstances, the Group may still exercise control with less than 50% shareholding, or may not be able to exercise control with over 50% of an entity's shares. When assessing whether the Group has power over the investment and therefore controls the variability of this return, the Group considers all relevant facts and circumstances, including the contractual arrangements with the other vote holders of the entity, rights arising from other contractual arrangements, the Group's voting rights and potential voting rights.

The Group reassesses its control over subsidiaries on a regular basis.

Business combinations

The Group accounts for each business combination by applying the acquisition method. Under the acquisition method, the Group identifies itself as the acquirer, determines the acquisition date, recognises and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree, and recognises and measures any goodwill or gain from a bargain purchase.

Non-controlling interests

Non-controlling interests represent equity in subsidiaries not attributable, directly or indirectly, to the Group.

For each business combination the Group measures non-controlling interests, at the acquisition date, at either fair value or their proportionate share of the acquiree's identifiable net assets.

The Group presents non-controlling interests within equity in the statement of financial position, separately from the equity attributable to equity holders of Íslandsbanki. Profit or loss and each component of other comprehensive income are attributed to equity holders of Íslandsbanki and to non-controlling interests even if this results in the non-controlling interests having a deficit balance. This also applies to subsidiaries classified as disposal groups held for sale.

Loss of control

If the Group loses control of a subsidiary, it derecognises the related assets, liabilities, non-controlling interests, and other components of equity, while any resultant gain or loss is recognised in profit or loss in the line item "Other operating income", or in the line item "Discontinued operations held for sale, net of income tax" if the subsidiary is classified as disposal group held for sale.

Any investment retained by the Group in the former subsidiary is recognised at its fair value at the date when control is lost.

61.1 Basis of consolidation (continued)

Funds management

The Group acts as a manager for Undertakings for Collective Investment in Transferable Securities (UCITS) and investment funds as well as other funds for collective investment that accept capital from investors. Such funds are financed by issuing unit share certificates or shares. The Group does not have any contractual financial responsibility with respect to such custom units. The funds are not consolidated unless they are under the control of the Group.

The Group reviews all the facts and circumstances in order to decide if these funds should be consolidated. The Group is deemed to be a principal and hence controls and consolidates the funds, when it acts as fund manager and cannot be removed without cause, has variable returns through significant unit holdings and/or guarantees, and is able to influence the returns of the funds by exercising its power.

61.2 Investments in associates

Associates are entities over which the Group has significant influence to participate in the financial and operating policy decisions of an entity but does not have control over those policies. It is presumed that the Group has significant influence if the Group holds 20-50% of the voting power of an entity. Considerations made in determining significant influence are similar to those used to determine control over subsidiaries (see Note 61.1).

The Group accounts for its investments in associates using the equity method. Under the equity method, investments in associates are initially recognised at cost. After the acquisition date the carrying amount of each investment is adjusted to recognise changes in the Group's share of net assets. Distributions received from an associate reduce the carrying amount of the investment. If goodwill is in place related to acquisitions of associates then it is included in the carrying amount of the investments and is not tested for impairment separately.

The consolidated financial statements of the Group include the Group's share of the profit or loss and other comprehensive income of associates, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses of an associate exceeds its interest in the associate, the carrying amount of that associate is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of profits only after its share of profits equals the share of losses not recognised.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in associates. At each reporting date, the Group determines whether there is objective evidence that individual investments in associates are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount, and the impairment loss is recognised in profit or loss.

Upon loss of significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss in the line item "Other operating income".

Income and expenses from investments in associates are recognised in profit or loss in the line item "Other operating income".

61.3 Foreign currencies

The financial statements of each of the Group's entities are measured using the functional currency of the respective entity.

Foreign currency transactions

On initial recognition transactions in foreign currencies are translated into functional currencies at the spot exchange rate at the date of the transactions. At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are retranslated into functional currencies using the closing rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using the exchange rate at the date when the fair value was determined.

All foreign currency differences arising on currency translation from one currency to another are recognised in profit or loss in the line item "Net foreign exchange gain (loss)".

61.4 Financial assets and financial liabilities

Recognition

The Group recognises a financial asset and a financial liability in its statement of financial position on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument, except for loans which are recognised on the date when cash is advanced by the Group to the borrowers. At initial recognition, the Group measures a financial asset or a financial liability at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group derecognises financial assets in the following circumstances:
• When the contractual rights to the cash flows from the financial assets expire, or
• When the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which:
- The Group transfers substantially all the risks and rewards of ownership of the financial assets, or
- The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it does not retain control of the financial assets.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position of the Group. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions and securities lending.

The Group does not derecognise from its statement of financial position securities which the Group sells under agreements to repurchase at a specified future date ("repos") at a fixed price or at the sale price plus a lender's return. The Group recognises the cash received as a liability in its statement of financial position. The difference between the sale and repurchase prices is recognised as interest expense over the life of the agreement using the effective interest method.

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modifications

Substantial modifications of terms of existing financial assets, or replacements with new ones with significantly different terms, result in the Group derecognising the original financial assets and recognising new financial assets at fair value.

Classification and measurement of financial assets

For the purpose of measuring its financial assets, the Group classifies them at inception in one of the following categories:
• Financial assets at amortised cost
• Financial assets at fair value through other comprehensive income
• Financial assets at fair value through profit or loss
• Derivative assets in hedge accounting

The measurement basis of individual financial assets is determined based on an assessment of the cash flow characteristics of the assets and the business models under which they are managed.

The business models

The business models are determined by the Group's key management personnel in the way that assets are managed and their performance is reported to them. The Group determines its business models at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. This condition is not an instrument-by-instrument approach to classification, but is determined at a higher level of aggregation. The Group's business models fall into the following three categories: Held to collect, Held to collect and for sale, and Other fair value business models, where assets are held for trading or managed on a fair value basis and are neither Held to collect nor Held to collect and for sale.

61.4 Financial assets and financial liabilities (continued)

Solely payments of principal and interest (SPPI)

Financial assets held within the business models Held to collect and Held to collect and for sale, are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which are consistent with a basic lending arrangement. Principal is the fair value of the financial asset at initial recognition and changes over the life of the financial asset, for example if there are repayments of principal. Interest relates to basic lending returns, including compensation for the time value of money and credit risk associated with the principal amount outstanding over a period of time. Interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, servicing or administrative costs), as well as a profit margin that is consistent with a basic lending arrangement.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets at amortised cost

A financial asset is classified as being subsequently measured at amortised cost if the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows, i.e. Held to collect.

Financial assets at amortised cost are measured using the effective interest method. Amortised cost is calculated by taking into account the amount at which the assets are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums on acquisition and fees and costs that are an integral part of the effective interest rate), and minus any reduction for impairment. Accrued interest is included in the carrying amount of the financial asset in the statement of financial position. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Financial assets at fair value through other comprehensive income (FVOCI)

For shares and equity instruments that are not held for trading, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses, including any related foreign exchange component, in other comprehensive income rather than profit or loss. This election is made on an instrument-by-instrument basis. Shares and equity instruments at FVOCI are not subject to an impairment assessment. Dividends are to be presented in profit or loss, as long as they represent a return on investment. On derecognition there is no recycling of fair value gains and losses to profit or loss.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets classified at fair value through profit or loss are all other financial assets which are not classified at amortised cost or at fair value through other comprehensive income. This includes financial assets classified mandatorily at fair value through profit or loss and financial assets which are irrevocably designated by the Group at initial recognition as at fair value through profit or loss that would otherwise meet the requirements to be measured at amortised cost or at FVOCI. The Group designates financial assets as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. During the year the Group did not classify any financial assets as designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the statement of financial position. Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest earned, which is recognised in the line item "Net interest income" and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)".

Derivative assets in hedge accounting

Derivative assets in hedge accounting consist of derivatives with positive fair value which are designated and accounted for as hedging instruments (see Note 61.7)

Classification and measurement of financial liabilities

For the purpose of measuring its financial liabilities, the Group classifies them at inception in one of the following categories, except for loan commitments and financial guarantees (see Note 61.12):

- Financial liabilities at amortised cost
- Financial liabilities mandatorily at fair value through profit or loss
- Financial liabilities designated as at fair value through profit or loss
- Derivative liabilities in hedge accounting

61.4 Financial assets and financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. Financial liabilities at amortised cost include deposits, debt issued and other borrowed funds, and subordinated loans.

Financial liabilities at amortised cost are recognised initially at fair value net of transaction costs incurred, and subsequently are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account the amount at which the financial liabilities are measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount (such as due to discounts or premiums and fees and costs that are an integral part of the effective interest rate). Accrued interest is included in the carrying amount of the liabilities in the statement of financial position.

The amortised cost of certain bonds issued by the Group, which are designated as hedged items in qualifying fair value hedge relationships, is adjusted for changes in the fair value of the bonds attributable to interest rate risk (see Note 61.7).

Financial liabilities mandatorily at fair value through profit or loss

Financial liabilities mandatorily at fair value through profit or loss are financial liabilities incurred principally for the purpose of generating profits from short-term price fluctuations or from the dealer's margin. Financial liabilities mandatorily at fair value through profit or loss consist of short positions in listed bonds and derivatives with negative fair value which are not classified as financial guarantees or are not designated as hedging instruments.

Financial liabilities mandatorily at fair value through profit or loss are initially recognised and subsequently measured at fair value in the statement of financial position. Changes in fair value are recognised in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" on an accrual basis and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

Financial liabilities designated as at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss are recognised at fair value and changes in fair value attributable to changes in the credit risk of those liabilities are recognised in other comprehensive income and are not subsequently reclassified to profit or loss. The remaining fair value changes are included in profit or loss in the line item "Net financial income (expense)", except for interest incurred, which is recognised in the line item "Net interest income" using the contractual interest rate and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

The Group calculates the fair value attributable to changes in credit risk as the difference between the changes in fair value of the financial liability and the amount of changes in fair value attributable to changes in market interest rates. The change in fair value attributable to changes in market interest rates on financial liabilities is calculated by discounting contractual cash flows at the end of the period with the discount rate of the appropriate market interest rate.

Upon initial recognition, the Group determines if the recognition of gains and losses in other comprehensive income creates or enlarges an accounting mismatch in profit or loss, if applicable the whole fair value change is presented in profit or loss.

Derivative liabilities in hedge accounting

Derivative liabilities in hedge accounting consist of derivatives with negative fair value which are designated and accounted for as hedging instruments (see Note 61.7).

Reclassification

Financial assets are reclassified between measurement categories if the objective of the business model in which the financial assets are held changes after initial recognition and if the change is significant to the Group's operations.
Financial liabilities are not reclassified.

Determination of fair value

The fair value of a financial instrument is the transaction price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Group measures the fair value of financial assets and financial liabilities using quoted prices in an active market for that instrument. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring transactions. The fair value is based on the most recent observed market prices at the reporting date.

61.4 Financial assets and financial liabilities (continued)

If a market for a financial instrument is not active, the Group establishes its fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes option pricing model and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate.

Periodically, the Group tests the valuation techniques and calibrates against historical data and using prices from observable current market transactions for the same instrument, or based on other available observable market data.

Changes in the fair value of financial assets and financial liabilities are recognised in profit or loss in the line item "Net financial income (expense)".

The Group has an established control framework with respect to the measurement of fair values. The business unit owning the positions is responsible for their valuations and for submitting the valuation to the Bank's Investment Committee for approval. Risk Management provides an independent review of the results, the valuation methods used and of the use of significant unobservable inputs. The final decision on the validity of the valuation is in the hands of the Bank's Investment Committee.

Impairment of financial assets

The impairment model of IFRS 9 is forward-looking and impairment under IFRS 9 should reflect a probability weighted average of possible outcomes. In addition, the expected credit loss model in IFRS 9 employs a dual measurement approach, under which the loss allowance for expected credit losses (ECL) is measured at each reporting date as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk (SICR) of the financial instrument since initial recognition. To satisfy the provisions of the IFRS 9 standard, a significant amount of modelling must be involved. The models which the Group uses for the calculation of the impairment amount are developed according to the Group's modelling framework. This framework imposes structure on the initial model development work, the model documentation including educational material as needed for users, the approval process for models, the implementation of models and the lifetime support for models, including validation and back-testing. The Group's impairment process, which encompasses all the steps needed to derive the appropriate impairment allowance for each accounting period, is documented and approved by the All Risk Committee

Stage assignment

At each reporting date, all assets subject to the impairment methodology must be divided into three groups, termed "Stages", reflecting the extent of credit deterioration since initial recognition. This division then influences how the impairment is measured and how interest is recognised.

Stage 1

All assets that have not experienced a SICR are assigned to Stage 1. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from credit events occurring within 12 months of the reporting date (12- month ECL). Interest is recognised on the gross carrying amount of the assets.

Stage 2

Assets that the Group determines to have experienced a SICR, but are not credit-impaired, are classified as Stage 2. For these assets, an impairment allowance is recognised which is equal to the expected credit loss arising from all credit events occurring within the expected lifetime of the assets (lifetime ECL). Interest is recognised on the gross carrying amount of the assets.

The Group's definition of a SICR is on the level of an individual asset. The Group assesses that there has been a significant increase in credit risk of an asset if the probability of a credit impairment event, i.e. transfer to Stage 3, occurring over the lifetime of the asset has increased significantly from the origination of the assets. For this purpose, origination does not refer to any modification events which have not resulted in derecognition of the asset. The assessment is based on a defined set of triggers. This includes, as a backstop, the trigger that the asset is more than thirty days past due. Other triggers are internal assessments of outlook, events such as forbearance events which are less severe than a credit event, external credit related information and a significant deterioration in risk assessment compared with the risk assessment done in relation to the origination of the asset. The definition of a SICR depends only on the probability of a credit event occurring, it does not take into account collateralisation, or any other information related to the expected loss arising from the event. As soon as all triggers for Stage 2 for a particular asset are no longer activated then the asset moves back to Stage 1. Additionally, assets are classified as forborne for two years after a forbearance event has occurred, but forbearance events only cause assets to be in Stage 2 for twelve months and then they migrate back to Stage 1 unless other triggers apply.

61.4 Financial assets and financial liabilities (continued)

The Group does not employ the low credit risk exemption in the Stage assignment process. In alignment with its operating procedures, the Group has chosen as its accounting policy to measure the impairment allowance for lease receivables at an amount equal to the lifetime ECL only for those assets which have a SICR or are credit impaired. For other lease receivables the impairment allowance is equal to the 12-month ECL.

Stage 3

This Stage is for assets which are credit-impaired according to the Group's assessment. These assets are therefore experiencing an ongoing credit event. Thus, the 12-month ECL and lifetime ECL are the same amount, and this amount is recognised as impairment allowance. For assets in this Stage, interest is recognised on the net carrying amount of assets, i.e., net of impairment allowance.

The Group's definition of being credit-impaired is on a customer level, rather than on the level of an individual asset. According to the definition, a customer is credit-impaired when either of the following holds:
a) The Group assesses that it is unlikely that the customer can service all of their commitments to the Group in accordance with the terms of the agreements without recourse to default provisions in the agreements, or
b) The customer has been more than 90 days past due on material credit commitments

The assessment in point a) is made based on a defined set of triggers, which includes serious breach of covenants, serious registrations on an internal watchlist, initiation of serious collection actions and serious external credit related information.

Furthermore, there is a defined set of conditions which must be satisfied so that customers that have been assessed as being credit-impaired are no longer subject to this assessment. This includes probation periods and a view to the future outlook of the customer.

Expected credit loss (ECL)

The ECL for each asset is calculated using models for the probability of a credit impairment event occurring (PD), the loss percentage expected in case of such an event (LGD) and the outstanding amount at the time of the event (EAD). In its simplest form the ECL can be calculated as the product of these factors, however, for several reasons, the actual formula must be more complicated than this.

The PD models are either fully automated statistical models, expert models or hybrid. For the models with a component involving expert input there is a process in place to ensure proper review of the model outcome and periodic reassessment of obligors. The inputs into the models include demographic variables, information from financial statements and past payment behaviour, among other variables.

The effect of the economy on the PD is accounted for with the use of scaling factors which map through-the-cycle PD values to point-in-time PD values. The Group has a model to predict these scaling factors based on an economic forecast. The economic forecast is provided by the Group's Chief Economist. The forecast predicts a range of macroeconomic indicators over a horizon of five years. The model is applied to a subset of these indicators and produces a set of scaling factors. The scaling factors are then reviewed by the All Risk Committee with respect to all of the indicators and any other relevant information available and the committee approves their use for the calculation of the impairment. This process is carried out at least quarterly.

The Group uses three economic scenarios. In addition to the base forecast, scaling factors are produced for a good and bad case. This is done in order to represent the whole range of possible future economic developments. The actual impairment allowance is the weighted average of the ECL in these different scenarios.

The All Risk Committee determined that it was appropriate to adjust the weights of the scenarios due to the COVID-19 pandemic and unrest following the war in Ukraine. Generally the scenarios are weighted 25%-50%-25% (good, base, bad) but it was determined appropriate to set the weights at 20%-50%-30%, as this would best represent the probability-weighted average over all possible scenarios.

The table below shows macroeconomic indicators of the Group's Chief Economist's macroeconomic forecast used in ECL calculations 31.12.2022.

Change in economic indicators %	**Estimate 2022**	**Forecast 2023**	**Forecast 2024**	**Forecast 2025**	**Forecast 2026**
Economic growth (YoY real GDP change)	7.3	2.2	2.4	2.0	2.1
Housing prices in Iceland (average YoY change)	21.1	8.1	2.9	3.5	3.5
Purchasing power (average YoY change)	-1.5	3.1	2.9	1.6	1.6
ISK exchange rate index (YoY change in average)	-3.1	3.3	-3.1	-0.3	0.0
Policy rate, Central Bank of Iceland (average per year)	4.2	5.9	5.0	4.5	4.0
Inflation (average per year)	8.3	6.3	3.9	3.3	2.8
Capital formation (YoY real change)	10.2	0.3	2.1	0.9	2.5
thereof capital formation in industry	14.6	-4.0	1.0	3.0	2.5

61.4 Financial assets and financial liabilities (continued)

The LGD model considers several scenarios for how a facility may develop once a credit event has occurred. One possibility is that the facility cures without a loss. If not, the recoveries may be based on the seizing of collateral and to estimate such recoveries, several scenarios for the development of the value of the collateral are considered. Finally, there may be recoveries even though a formal collateral is not in place. These different recovery scenarios are weighted differently depending on the economic scenario under consideration. This leads to a non-linear interaction and thus a difference between the probability weighted average ECL and the ECL in the most likely scenario.

For EAD it is necessary to account for expected prepayments on term loans and for the expected utilisation of commitments such as credit cards, overdrafts, financial guarantees, and credit lines. The expected lifetime of agreements may also extend beyond the contractual lifetime for contracts which are generally extended.

Temporary changes due to COVID-19 pandemic were suspended in the third quarter of 2022 as described in Note 3.

Write-off policy
When the Group has no reasonable expectations of recovering a credit exposure or when it is uneconomical to pursue legal collection, the financial asset is written off. A write-off does not change the debt obligation which is therefore still subject to enforcement activity. Any recoveries of amounts previously written off are credited to the income statement.

The impairment process
In the Group's impairment framework, the Stage assignment and ECL for each financial asset is calculated from the aforementioned models. The outcome is reviewed by the business units and they can propose changes if they provide sufficient supporting material. The impairment and any proposals for changes are reviewed by an Impairment Council appointed by the All Risk Committee and the impairment allowance is approved by the All Risk Committee on a quarterly basis.

The principle of materiality applies to the above discussion on impairment, whereby exceptions related to non-materiality and immaterial adjustments are not discussed.

61.5 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost in the statement of financial position and at the reporting date the expected credit loss is considered to be low. Impairment losses and reversals of impairment losses are recognised in profit or loss in the line item "Net impairment on financial assets".

Cash and cash equivalents in the statement of cash flows consist of cash on hand, unrestricted balances with the Central Bank, demand deposits with credit institutions, and short-term loans to credit institutions. Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition.

61.6 Derivative financial instruments

Derivatives are primarily used in trading activities but are also used to manage the Group's exposure to various risks, such as interest rate risk, inflation risk, and currency risk. Derivatives are classified as financial assets or financial liabilities, measured at fair value and presented in the statement of financial position in separate line items as assets or liabilities, depending on whether their fair value at the reporting date is positive (assets) or negative (liabilities).

The Group applies hedge accounting. Accordingly, some of the Group's derivative financial assets and financial liabilities are accounted for as financial assets or financial liabilities mandatorily at fair value through profit or loss while others are accounted for as derivative assets or liabilities in hedge accounting (see Note 61.4 and Note 61.7).

When derivatives are embedded in other financial instruments or host contracts, such combinations are known as hybrid instruments with the effect that some of the cash flows of a hybrid instrument vary in a way similar to a stand-alone derivative. These embedded derivatives are measured and presented in the consolidated financial statements as if they were free-standing derivatives. The Group accounts for an embedded derivative separately from the host contract when, the host contract is not an asset in the scope of IFRS 9, is not carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. When the Group is required to separate and account for embedded derivatives as if they were stand-alone contracts, the Group presents the fair value of the embedded derivatives in the statement of financial position in the same line items in which the Group presents the related host contracts.

61.7 Hedge accounting

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

On initial designation of the hedges, the Group formally documented the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group makes an assessment, both at inception of the hedge relationships and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within the range of 80-125%. In the assessment the Group assumes that the benchmark interest rate is not altered as result of the transition to alternative benchmark interest rates.

The Group applies fair value hedge accounting with respect to designated hedging relationships consisting of certain fixed-rate euro denominated bonds issued by the Group as the hedged items and certain euro denominated interest rate swaps as the hedging instruments, whereby the Group pays floating rate interest and receives fixed rate interest. The hedging relationships are designated and accounted for as fair value hedges because the interest rate swaps are hedging the exposure of the Group to changes in the fair value of the bonds arising from changes in interest rates. The Group recognises the changes in the fair value of the interest rate swaps immediately in profit or loss together with the changes in the fair value of the bonds which are attributable to the interest rate risk. The changes in the clean fair value of the swaps and the bonds are included in the line item “Net financial income (expense)”, the accrued interest on the bonds and the swaps is included in the line item “Net interest income” and foreign exchange gains and losses on the bond are included in the line item "Net foreign exchange gain (loss)".

If a hedging derivative expires or is sold, terminated or exercised, or a hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting for the corresponding hedging relationship is discontinued permanently. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

61.8 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses (see Note 61.19). Where parts of an item of property and equipment have different useful lives, those components are accounted for and depreciated as separate items of property and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will go to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as incurred.

Depreciation

Items of property and equipment are depreciated from the date they are available for use, except for land, which is not depreciated. The depreciable amount of each item of property and equipment is determined after deducting its residual value. Depreciation is recognised in profit or loss in the line item "Other operating expenses" on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The depreciation method, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

The estimated useful lives are as follows:

Buildings	50 years
Right-of-use-assets	1-10 years
Fixtures	6-12 years
Equipment	3-5 years
Vehicles	3 years

61.9 Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and impairment losses.

Expenditure on internally developed software is recognised 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 can reliably measure the costs to complete the development. The capitalised costs include all costs directly attributable to developing the software and capitalised borrowing costs. Internally developed software is carried at capitalised cost less accumulated amortisation and impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis over its estimated useful life from the date that it is available for use. The amortisation is recognised in profit or loss in the line item "Other operating expenses". The estimated useful life of software is three to ten years.

61.10 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has elected not to separate non-lease components and account for lease and non-lease components of a contract as a single lease component.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises a lease liability and a right-of-use asset at the lease commencement date. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments, both fixed and variable, discounted using the entity's incremental borrowing rate. The incremental borrowing rate is the rate of interest the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate is subject to estimation when no observable rates are available. The lease liability is measured at amortised cost using the effective interest method and remeasured when there is a change in future payments, e.g. arising from a change in an index or an assessment of whether extension or termination options will be exercised. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The lease term is determined by the Group as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. An assessment of whether the entity will exercise an extension or termination option is made by management annually. If the assessment of whether the Group will exercise an extension or termination option changes after the commencement date the lease liability is remeasured and a corresponding adjustment is made to the carrying amount of the right-of-use asset.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received. For any remeasurement of the lease liability a corresponding adjustment is made to the carrying amount of the right-of-use asset or recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The right-of-use-asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. Right-of-use assets are subject to impairment.

If a lease modification increases the scope of the lease by adding a right to use of one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increased scope and any adjustments to the price that reflects the circumstances of the particular contract, then the modification is accounted for as a separate lease. For lease modifications that are not accounted for as separate leases the lease term of the modified lease is redetermined and the lease liability remeasured using the revised lease payments and discounted using the incremental borrowing rate at the effective date of modification. Any adjustment of the lease liability is then correspondingly made to the right-of-use asset.

61.10 Leases (continued)

The Group presents right-of-use assets in the line item "Property and equipment" and lease liabilities in the line item "Other liabilities" in the statement of financial position. Maturity analysis of lease liabilities is disclosed in Note 53. Interest on lease liabilities is recognised in profit or loss in the line item "Net interest income". Depreciation of right-of-use assets is recognised in profit or loss in the line item "Other operating expenses".

The Group as a lessor

The Group classifies leases based on the substance of the arrangements and the extent of the transfer of risks and rewards incidental to ownership of the leased asset. A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership. A lease is classified as a finance lease if the lessor transfers substantially all the risks and rewards incidental to ownership.

When the Group is the lessor in a capital lease, the Group recognises a receivable equal to the net investment in the lease and presents it in the line item "Loans to customers" in the statement of financial position. The Group applies its accounting policies for derecognition and impairment of financial assets also to its capital lease receivables. The Group recognises the finance income from capital lease receivables in profit or loss in the line item "Net interest income" over the period of the capital lease so as to give a constant periodic rate of return on the net investment in the capital lease.

When the Group is a lessor in arrangements which involve the legal form of capital leases, but which in substance do not involve leases, the Group classifies them within loans at amortised cost.

61.11 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are either classified as held for sale when the Group expects to recover their carrying amount principally through a sale transaction rather than through continuing use or as held for distribution to owners when the Group is committed to distribute the asset, or disposal group, to the owners.

For this to be the case, the assets, or disposal groups, must be available for immediate sale, or distribution, in their present condition and their sale, or distribution, must be highly probable. The sale must only by subject to terms that are usual and customary for sales of such assets, or disposal groups.

Non-current assets and disposal groups are presented in a separate line in the statement of financial position. Non-controlling interests in a disposal group are presented within equity.

Immediately before the initial classification as held for sale or distribution the assets, or components of disposal groups, are remeasured in accordance with applicable accounting policies. Thereafter, the non-current assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell or costs to distribute.

Income and expenses of non-current assets and disposal groups held for sale are recognised in profit or loss in the line item "Discontinued operations held for sale, net of income tax" (see Note 61.21).

61.12 Loan commitments and financial guarantees

Loan commitments are firm commitments of the Group to provide credit under a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Expected credit loss of loan commitments (see Note 61.4) is recognised in the statement of financial position in the line item "Other liabilities". Loan commitment fees received by the Group are recognised in profit or loss in the line item "Fee and commission income".

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are issued by the Group to credit institutions and other parties on behalf of its customers so that they can secure loans, overdrafts, and banking facilities.

Liabilities arising from financial guarantees issued by the Group are initially measured at their fair value, being the premium received. Subsequently the liabilities are carried at the higher of the amount representing the initial fair value of the guarantee and the expected credit loss allowance of the guarantee (see Note 61.4). Any changes in the liabilities arising from financial guarantees are recognised in profit or loss. The premium received is recognised in profit or loss in the line item "Fee and commission income" over the life of the guarantee.

61.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle the obligation with an outflow of resources, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When management assesses that disclosing all information regarding certain matters can be expected to affect their outcome, then such detailed disclosures are not included in the consolidated financial statements.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

61.14 Employee benefits

All Group entities are required to pay, on a mandatory and contractual basis, contributions to public and private pension funds. The Group has no further payment obligations once these contributions have been paid. The Group recognises these contributions as salary related expenses when they become due.

Short-term employee benefits include salaries, cash bonuses, non-monetary benefits and compensated absences. Short-term employee benefit obligations are expensed by the Group as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group does not have a defined benefit pension plan or an active remuneration policy.

61.15 Equity

Share capital

The share capital disclosed in the consolidated financial statements represents the total nominal value of ordinary shares issued by the Bank. Incremental costs directly attributable to the issuance of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Dividends on shares

Dividends payable to shareholders of the Bank are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders at the Bank's Annual General meeting. Dividends payable to non-controlling shareholders in subsidiaries are recognised as a liability and deducted from equity in the period in which the dividends are approved by the shareholders' meeting of the subsidiaries. Dividends declared after the reporting date are not recognised as a liability at the reporting date.

Statutory reserve

According to the Act on Public Limited Companies no. 2/1995 the statutory reserve shall amount to 25% of the share capital of the Bank.

Restricted reserves

The Group is to transfer, if applicable, certain amounts from retained earnings to restricted reserves which can therefore not be distributed as dividends to shareholders. These restricted reserves are specified as follows:

Restricted reserve due to capitalised development costs

When the Group capitalises development cost it transfers a corresponding amount from retained earnings to a restricted reserve. In the future the restricted amount is to be transferred back to retained earnings as the capitalised development cost is amortised in profit or loss.

Restricted reserve due to fair value changes of financial assets

The Group transfers fair value changes of financial assets at fair value through profit or loss, net of tax if applicable, from retained earnings to a restricted reserve. Amounts recognised in the reserve are transferred back to retained earnings upon sale of the financial asset.

Restricted reserve due to unrealised profit of associates

If share of profit of an associated company is in excess of dividend received or which can be claimed, the Group transfers the difference to a restricted reserve in equity. If the Group's shareholding in an associate is sold or written off the applicable amount recognised in the reserve is transferred to retained earnings.

61.15 Equity (continued)

Fair value reserve

Fair value reserve comprises all unrealised gains or losses related to fair value changes of equity instruments classified at fair value through other comprehensive income. On derecognition of the equity instruments fair value changes are not reclassified to profit and loss.

Liability credit reserve

Changes in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss are recognised in liability credit reserve. On derecognition the fair value changes are not reclassified to profit or loss.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

61.16 Interest income and interest expense

For all financial assets and financial liabilities measured at amortised cost, interest income and interest expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

The effective interest rate is established on initial recognition of financial assets and financial liabilities and their carrying amount is subsequently adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or interest expense. For floating rate instruments, interest income or interest expense is generally recognised based on the current market rate plus or minus amortisation or accretion of the discount or premium based on the original effective interest rate.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset. For financial assets in Stage 1 and Stage 2 interest is recognised on the gross carrying amount of the assets and for financial assets in Stage 3 interest is recognised on the gross carrying amount of the assets, net of impairment allowance (see Note 61.4).

For financial assets and financial liabilities at fair value through profit and loss, interest income and interest expense are recognised through profit or loss on an accrual basis, except for financial liabilities designated as at fair value through profit or loss (see Note 61.4).

Accrued interest on interest rate swaps, which are designated and accounted for as hedging instruments in fair value hedges of the interest rate risk arising from certain fixed-rate euro denominated bonds issued by the Group (see Note 61.7), is recognised in profit or loss as an adjustment to the interest expense recognised for the bonds.

61.17 Net fee and commission income

Fees and commissions are recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received for such services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees for loan commitments that are likely to be utilised are recognised as an adjustment to the effective interest rate of the loan. When a loan commitment is not expected to be utilised, fees are recognised in profit or loss on a straight-line basis over the commitment period.

Loan syndication fees are recognised as revenue in profit or loss when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

Notes to the Consolidated Financial Statements

61.17 Net fee and commission income (continued)

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning, and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Where it is assessed that the Group is acting as an agent, the consideration is presented on a net basis.

61.18 Net financial income (expense)

Net financial income (expense) consists of net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss, net gain (loss) on financial liabilities designated as at fair value through profit or loss, net gain (loss) on fair value hedges, and net gain (loss) on derecognition of financial liabilities measured at amortised cost.

Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss
Net gain (loss) on financial assets and financial liabilities mandatorily at fair value through profit or loss includes all realised and unrealised fair value changes of financial assets and financial liabilities classified by the Group as mandatorily at fair value through profit or loss, except for interest income and interest expense, which are included in the line item "Net interest income", and foreign exchange gains and losses, which are included in the line item "Net foreign exchange gain (loss)". Dividend income from financial assets is recognised in the income statement when the Group's right to receive payment is established.

Net gain (loss) on financial liabilities designated as at fair value through profit or loss
Net gain (loss) on financial liabilities designated as at fair value through profit or loss includes all realised and unrealised fair value changes of financial liabilities designated by the Group as at fair value through profit or loss, except for changes in fair value attributable to changes in credit risk which is recognised in other comprehensive income, interests incurred which are included in the line item "Net interest income", and foreign exchange gains and losses which are included in the line item "Net foreign exchange gain (loss)".

Net gain (loss) on fair value hedges
Net gain (loss) on fair value hedges includes the changes in the clean fair value of interest rate swaps which are accounted for as hedging instruments in fair value hedges and the changes in the fair value of certain bonds, which are attributable to the interest rate risk of the bonds, and are accounted for as the hedged items in fair value hedges (see Note 61.7).

Net gain (loss) on derecognition of financial liabilities measured at amortised cost
Net gain (loss) on derecognition of financial liabilities measured at amortised cost includes the difference between the buyback price and the carrying amount of debt issued measured at amortised cost at the derecognition date.

61.19 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and non-current assets and disposal groups held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. If the carrying amount of an asset exceeds its estimated recoverable amount an impairment loss is recognised in profit or loss.

An impairment loss for non-financial assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

61.20 Taxes

Income tax expense

Income tax expense comprises special financial activities tax, current tax and deferred tax and is disclosed as a separate line item in the income statement. Income tax expense from discontinued operations is included in the income statement in the line item "Discontinued operations held for sale, net of income tax" (see Note 61.21). Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, consistent with the recognition of the underlying item to which it relates.

Bank tax

Bank tax is calculated as 0.145% (2021: 0.145%) of total liabilities at year-end as determined for tax purposes, in excess of ISK 50,000 million, excluding tax liabilities. The Bank tax is considered a non-deductible expense for the calculation of income tax. The Bank tax is shown in a separate line in the income statement and is included in the statement of financial position in the line item "Tax liabilities".

Special financial activities tax

Special financial activities tax is calculated as 6% of taxable profit exceeding ISK 1,000 million. Special financial activities tax is included in the statement of financial position in the line item "Tax liabilities".

Current tax

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date. Current tax also includes any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are offset in the statement of financial position if the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current tax is included in the statement of financial position in the line item "Tax liabilities".

Deferred tax

Deferred tax is recognised based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred taxes are not recognised if it arises from the initial recognition of an asset or liability, in a transaction other than a business combination, that at the time of the transaction affects neither the taxable profit nor the accounting profit. In addition, deferred taxes are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax is measured using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities are included in the statement of financial position in the line item "Tax liabilities" and deferred tax assets are included in the statement of financial position in the line item "Other assets". Deferred taxes that are part of discontinued operations (see Note 61.11) are included in the line items "Non-current assets and disposal groups held for sale" and " Non-current liabilities and disposal groups held for sale ", respectively, in the statement of financial position.

61.21 Discontinued operations held for sale, net of income tax

Discontinued operations held for sale, net of income tax, are disclosed as a separate line item in the income statement and consist of (i) profit or loss from foreclosed assets and disposal groups held for sale, (ii) gain or loss recognised on the measurement to fair value less costs to sell in excess of book value of foreclosed assets, (iii) profit or loss from sales of foreclosed assets and disposal groups held for sale, and (iv) income tax expense from discontinued operations.

61.22 Offsetting

Financial assets and financial liabilities are set off and the net amount reported in the statement of financial position when, and only when, the Group has a legal right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group presents income and expenses on a net basis in the income statement only when required or permitted by the accounting standards.

61.23 Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders of the Bank and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

THE BANK

Íslandsbanki hf.
Hagasmári 3
201 Kópavogur
Iceland

JOINT GLOBAL COORDINATORS

Barclays Bank Ireland PLC
One Molesworth Street
Dublin 2
Ireland
D02 RF29

Citigroup Global Markets Europe AG
Boersenplatz 9
60313 Frankfurt am Main
Germany

Kvika banki hf.
Katrínartún 2
105 Reykjavík
Iceland

JOINT BOOKRUNNERS

ABN AMRO Bank N.V.
Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

Arctic Securities AS
Haakon VIIs gate 5
0161 Oslo
Norway

Arctica Finance hf.
Höfðatorg, 15th floor
105 Reykjavík
Iceland

Arion banki hf.
Borgartún 19
105 Reykjavík
Iceland

J.P. Morgan SE
Taunustor 1 (TaunusTurm)
60310 Frankfurt am Main
Germany

Landsbankinn hf.
Austurstræti 11
155 Reykjavík
Iceland

UBS Europe SE
Bockenheimer Landstrasse 2-4
60306 Frankfurt am Main
Germany

FINANCIAL ADVISOR
TO THE SELLING SHAREHOLDER

Landsbankinn hf.
Reykjastræti 6
101 Reykjavík
Iceland

LEGAL ADVISORS TO THE BANK AND THE SELLING SHAREHOLDER

As to United States law	*As to Icelandic law*
Milbank LLP 100 Liverpool Street London EC2M 2AT United Kingdom	**BBA Fjeldco ehf.** Katrínartún 2, 105 Reykjavík Iceland

LEGAL ADVISORS TO THE MANAGERS

As to United States law	*As to Icelandic law*
White & Case LLP 5 Old Broad Street London EC2N 1DW United Kingdom	**LOGOS slf.** Efstaleiti 5 103 Reykjavík Iceland

INDEPENDENT AUDITOR

KPMG ehf.
Borgartún 27
105 Reykjavík
Iceland

Íslandsbanki
Key Investment Highlights

12 May 2025

This is Íslandsbanki

Clearly defined vision and values, with purpose to be a force for good

Vision and Values

To create value for the future
In a sustainable way

Progressive thinking
Collaboration
Professionalism

The Bank

FTEs
731
number of FTEs at Íslandsbanki at end of 1Q25

12 branches

Listed on Nasdaq Iceland as of June 2021

Market share[1]

30% retail customers

38% SMEs

34% large companies

28% domestic retail funds

Digital Bank[2]

95%
of Personal Banking customers are digitally active

89%
of corporate accounts through digital channels **fully automated**

10x
Increase in **automatic mortgage refinancing** applications

80%
of notarisation request for **mortgage refinancing are digital**

80%
Improvements in processing time of car loan applications through new digital solution

Lean Branch Network

Key Figures (as of 1Q25)

ROE (1Q25)	9.4%	LCR Group, all currencies	202%
Cost-to-income ratio (1Q25)	47.6%	NSFR Group, all currencies	128%
CET1 ratio	18.6%	Leverage ratio	12.1%
Total capital ratio	21.6%	Total assets	ISK 1,667bn

Ratings and certifications

Moody's
A3 Stable outlook

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

EQUALITY SCALE FKA 2024 AWARD

EQUAL PAY CERTIFICATE 2025 - 2028

Focus on Sustainability[2]

93%
of the Bank's credit risk exposure assessed with regards to ESG risk[3]

25
meetings on sustainability and carbon neutrality were held with customers of Corporate and Investment Banking

24%
Sustainable assets increased by 24% in 2024, to ISK 120bn at year-end

92%
Share of suppliers that have formally certified their compliance with the Suppliers Code of Conduct

Partner of Choice

Allianz
mastercard
storebrand
Vanguard

Notes: 1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SMEs on average market share from Gallup's last four corporate surveys the most recent one carried out during 1Q25 and for large companies the market share according to a Gallup survey at end of 2024 among top 300 companies according to Frjáls verslun magazine and for domestic retail funds, market share is based on information from Keldan and websites of the fund management companies at end of 2024. 2. 2024 achievements. 3. Individuals and small enterprises are out of scope.

Significant milestones achieved since 2008

Proven track record in achieving strategic objectives and targets fostered by the Bank's well-established strategy

1875

History stretching back to 1875 when the Savings Bank Sparisjóður Álftaneshrepps (one of Íslandsbanki's predecessors) was founded

1904

The original Íslandsbanki hf. was founded as the first privately owned bank in Iceland

2008

Back to banking basics

- Incorporated on 14 October 2008 with a clean balance sheet and no legacy exposures
- Since then, Íslandsbanki is one of the very few banks in Europe that has never had to raise additional equity

2011-2013

Consolidation

- Bolt-on acquisitions for future organic growth including Byr Savings Bank
- Successful integration and cost reduction without loss in market share
- Back to same number of branches as before the merger

2013 – 2016

Building a sustainable future

- Relationship banking model introduced
- Transparent, safe and simple business model focused on efficiency and minimising complexity
- Icelandic State Financial Investments (ISFI) ownership

2017-2019

Digital transformation

- Successful core banking system replacement including migration to global standardised core banking system (Sopra) for payments and deposits
- Strategic shift to open banking strategy

2021

IPO

- The Offering was multiple times oversubscribed at the final Offer Price, with substantial interest from both retail and institutional investors, resulting in total demand of ISK 486bn or USD 4.0bn
- The largest IPO in the history of Iceland

2023-2025

Strategic Priorities

- 4x strategic priorities set for 2023-2025, Service, Data, Sustainability and Employees
- Increased appetite for external growth included in the heading of the set strategy period: **Move forward and grow**

New strategy – progressive thinking and financial health

Key investment highlights

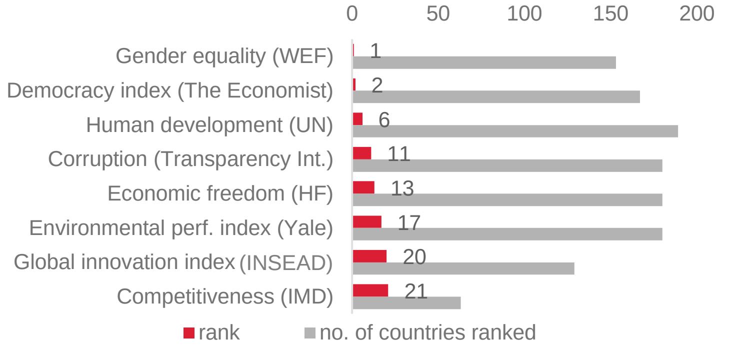
Customer-centric bank with state-of-the-art platform in a country with clear macro tailwinds

1. **Macro-economic landscape driving robust growth**
2. **Attractive banking sector dynamics supporting a positive growth outlook**
3. **Leading domestic universal bank with an established omnichannel model**
4. **Renewed technological infrastructure enables digital leadership**
5. **Solid financial foundation delivering growth and operational efficiencies**
6. **Clean and robust balance sheet built upon a conservative risk culture**
7. **Ample excess capital allows for rapid growth or capital return**
8. **Proven record of executing strategy & meeting attractive financial targets**

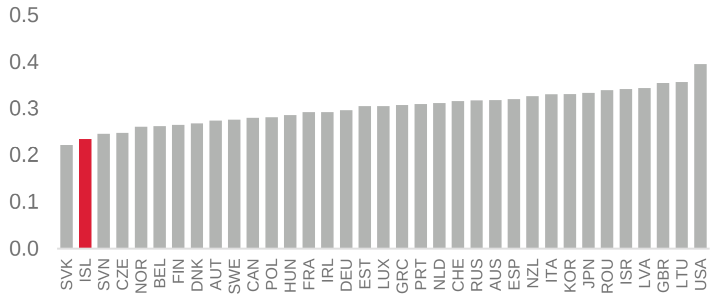
1 Macro-economic landscape driving robust growth

Icelanders enjoy high standards of living in a modern, open and egalitarian society

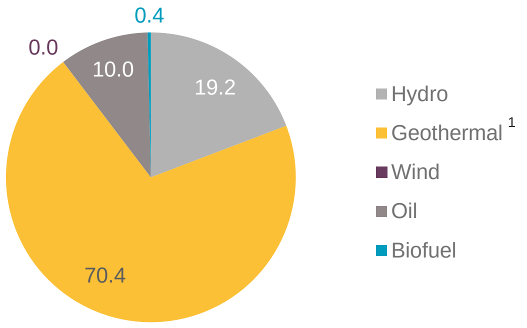
Iceland ranks highly on a variety of global development benchmarks



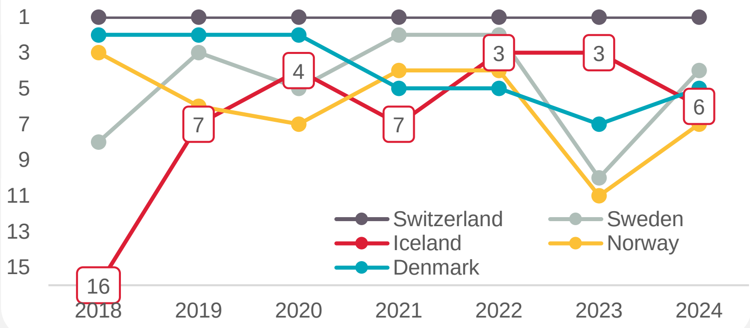
Income inequality is low compared to OECD peers
Gini coefficient, OECD, most recent data available



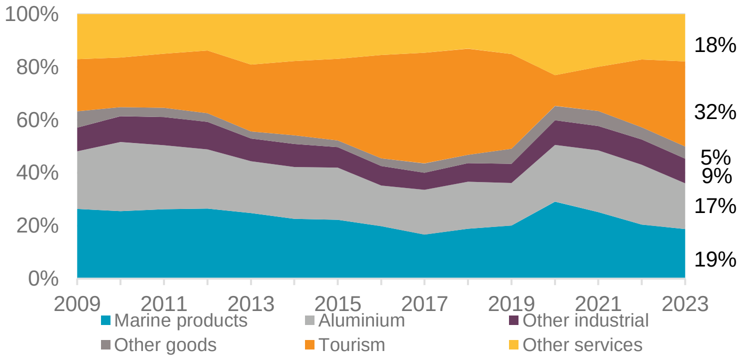
Sustainable energy usage is prevalent
Energy consumption by source, 2020



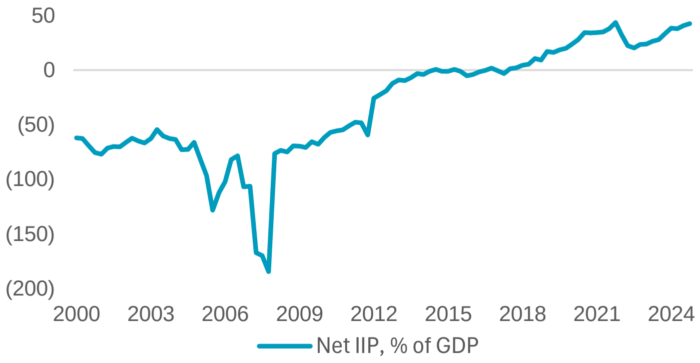
Iceland ranks highly in attracting/retaining talent
IMD World Talent Ranking 2018-2024



Export base has grown more diverse over time
Export contribution by industry



Net international investment position
% of GDP



Source: Statistics Iceland, OECD, IMF, WEF, IEP, The Economist, UN, Transparency Int., HF, Yale, INSEAD. Notes: 1. The main use of geothermal energy is for space heating, with the heat being distributed to buildings through extensive district-heating systems. About 85% of all houses in Iceland are heated with geothermal energy.

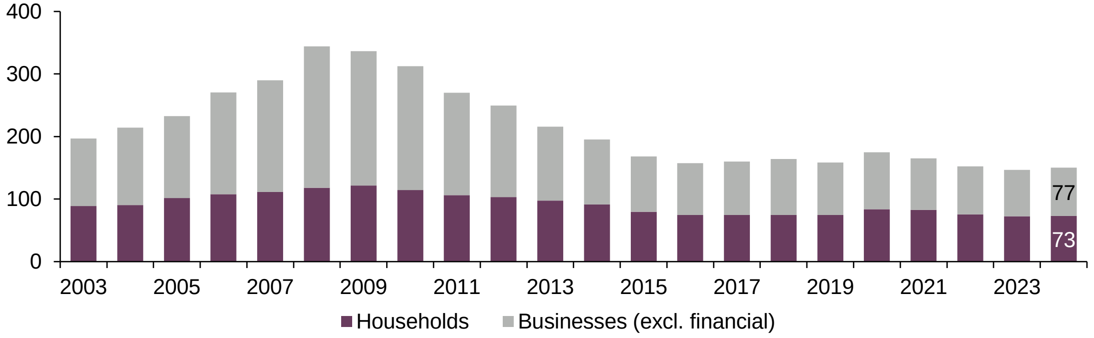
1

Macro-economic landscape driving robust growth

Private sector debt ratios are stable and public debt remains moderate in global context

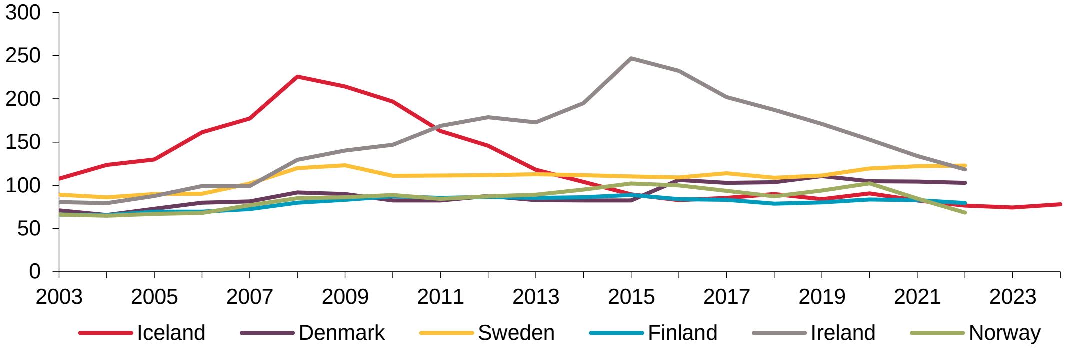
The Icelandic private sector has meaningfully de-levered over time

Private sector debt, % of GDP



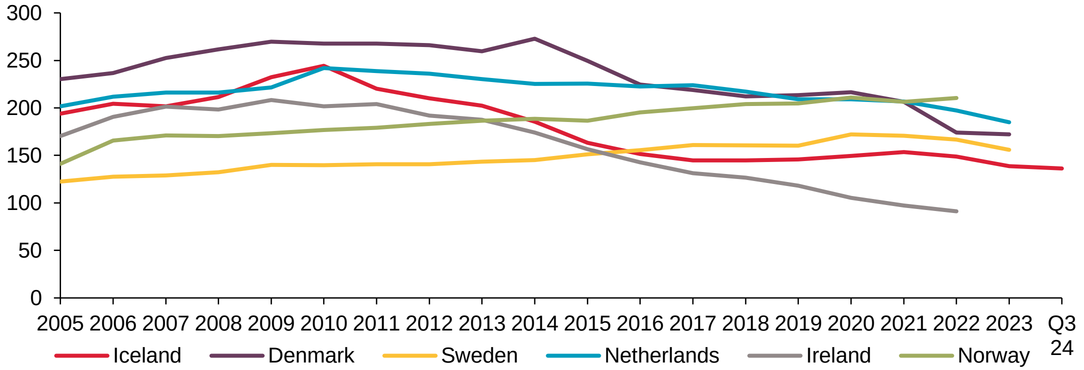
Stable corporate debt levels are comparing favorably against broader Nordics

Corporate debt, % of GDP



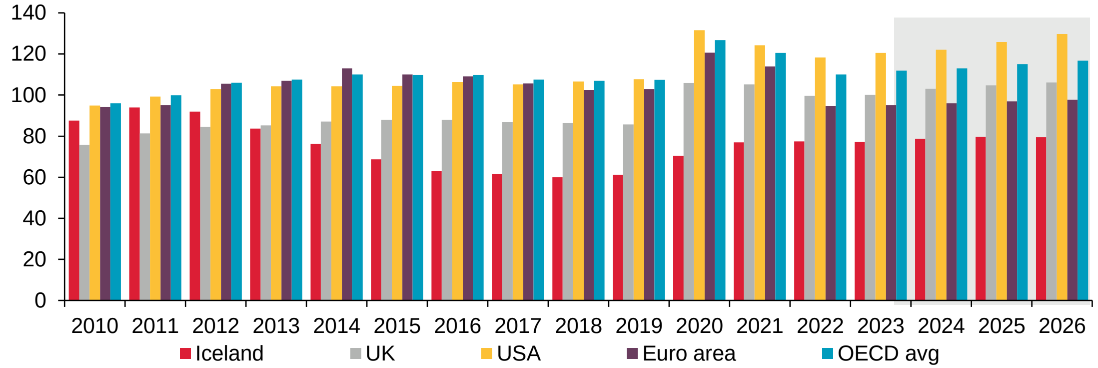
Lower household debt levels than broader Nordic countries

Household debt, % of disposable income



Public debt remains sustainable after pandemic

General government gross financial liabilities, % of GDP



Shaded areas indicate OECD forecasts. Source: Central Bank of Iceland, Eurostat, Statistics Iceland, OECD.

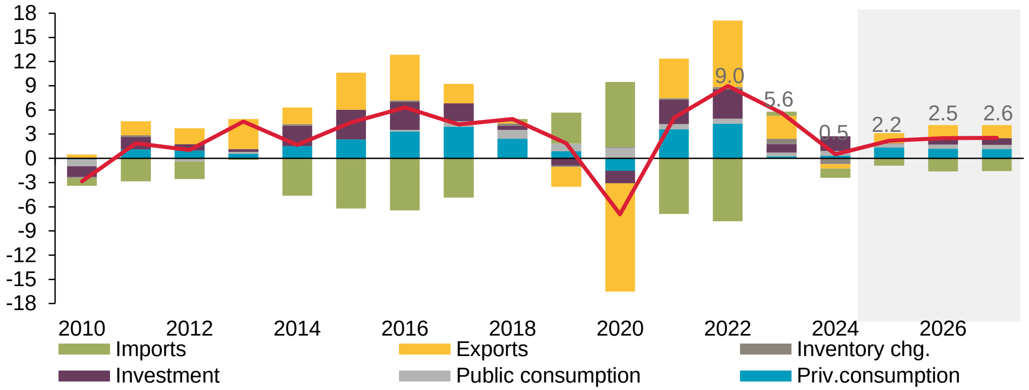
1

Macro-economic landscape driving robust growth

A new business cycle following mild GDP contraction likely to bring healthy growth

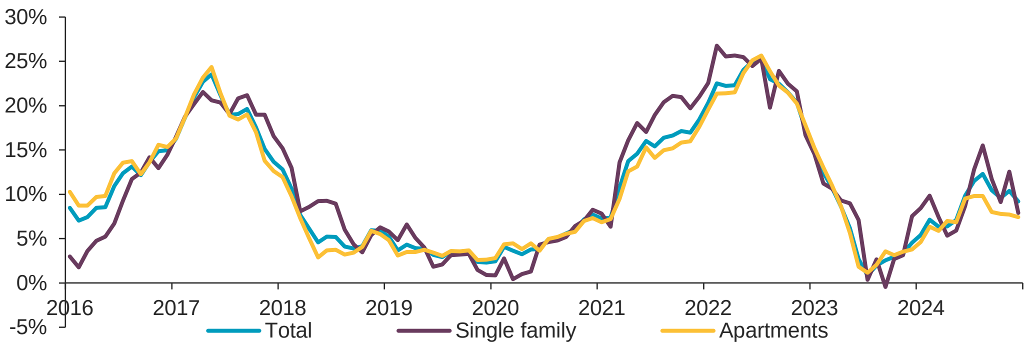
A fairly smooth upward path for the economy following mild contraction...

Real GDP and main subitems, YoY change, %



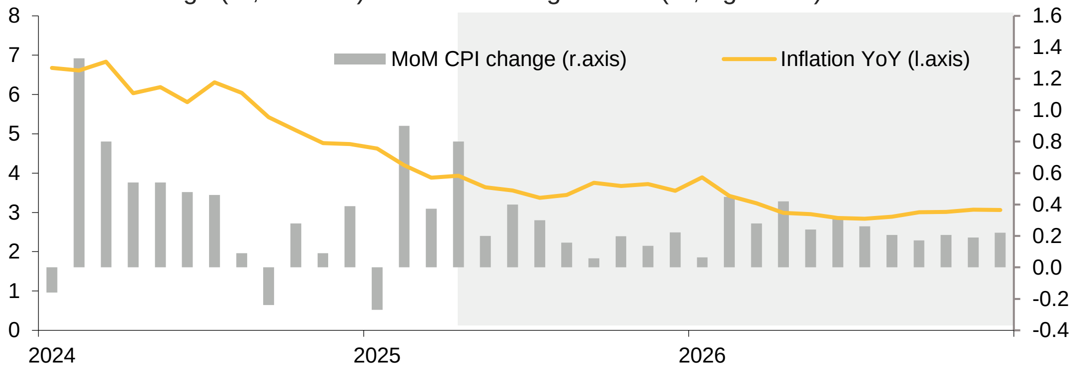
... and housing market remains resilient in the face of tight monetary policy

Year-on-year increase in residential house prices



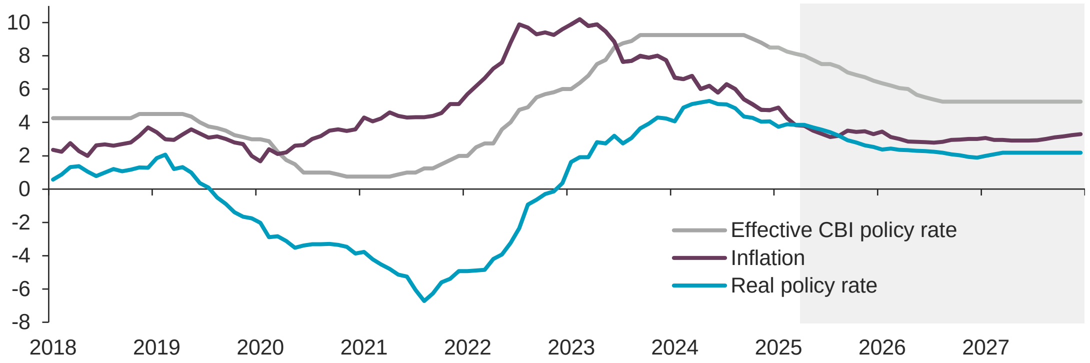
Inflation looks set to keep subsiding in the near term…

MoM CPI change (%, left axis) and 12m trailing inflation(%, right axis)



… facilitating further gradual rate cuts by the Central Bank

CBI policy rate and real policy rate, %



Shaded areas indicate forecasts. Sources: Central Bank of Iceland, Statistics Iceland, ÍSB Research.

2 Attractive banking sector dynamics supporting a positive growth outlook

The Icelandic banking sector is highly concentrated, but de-risked and well capitalised

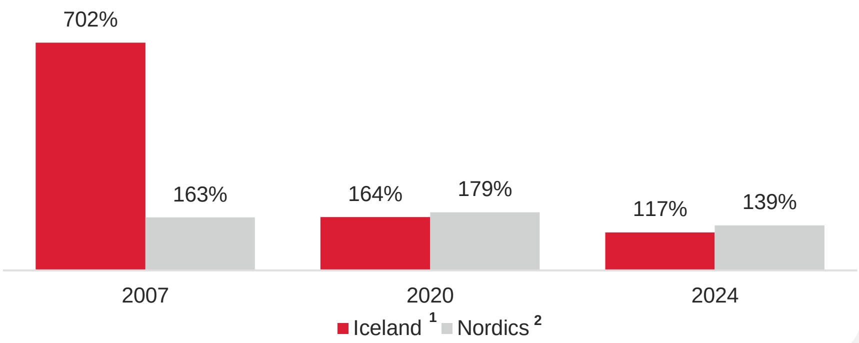
Credit system dominated by three universal banks

The credit system in Iceland is dominated by banks, which in turn consists mainly of three universal banks: Íslandsbanki, Landsbankinn, and Arion Banki

- Icelandic banks are rated by S&P (BBB+ / A-) and Moody's (A3) with positive or stable outlook
- Universal banks have high overall market shares for both corporate loans (due to relatively small corporate bond market) and mortgages
- Other banks include Kvika (primarily investment bank) and four small savings banks in rural areas
- International competition is limited to large corporates
- Icelandic banks are using the standardised approach to calculate REA
- Pension funds have a large presence as customers and buyers of bank debt, as well as competing in mortgages and corporate loans

Iceland has undergone an economic transformation

Size of balance sheet / GDP

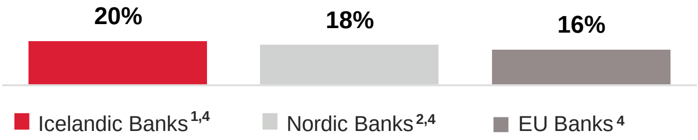


Icelandic banks are well capitalised compared to peers

31.12.24

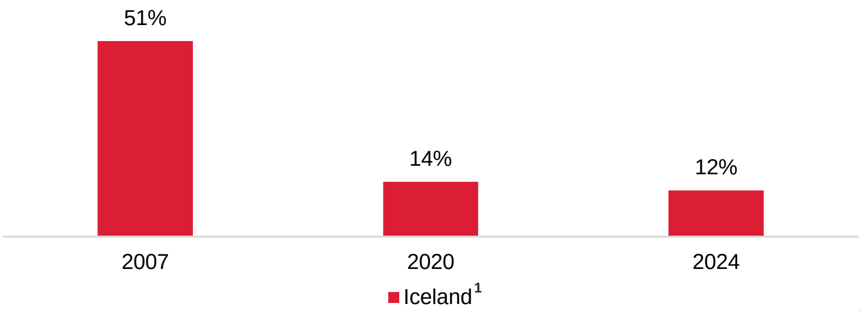
	Icelandic Banks[1,4]	Nordic Banks[2,4]	EU Banks[4]
Asset encumbrance ratio[3,4]	20%	21%	24%
REA density[4,5]	63%	26%	36%
Leverage ratio[4]	13%	6%	6%

CET1 ratio



Exposure to FX denominated lending reduced

FX denominated customer lending / total assets



Highlights

- **Iceland's economic transformation post-2008 financial crisis** has been demonstrated by the significant derisking and reduction in size of Icelandic banks' balance sheet to GDP ratio
- Icelandic banks' foreign currency denominated lending has also developed over time with **foreign currency denominated lending solely made to customers with underlying cashflows in foreign currency**, driving derisked lending and resulting in foreign currency denominated lending as a percentage of total assets **decreasing substantially from 2007 to 2024**
- Icelandic banks today are well capitalised with **strong CET1 capital positions, high REA density and lower asset encumbrance ratios** as compared to Nordic and European banks

Source: Central Bank of Iceland, European Banking Authority, Company Annual reports, S&P Global. Notes: 1. Aggregated balance sheets of Íslandsbanki, Arion Banki and Landsbankinn. 2. Aggregated balance sheets of Danske Bank, DNB, Handelsbanken, Nordea, SEB, Swedbank. 3. Calculated as Encumbered Assets / Total Assets. 4. Icelandic and Nordic banks based on arithmetic average. EU banks represents all constituents to EBA's quarterly risk dashboard and ratios are calculated as a weighted average as per EBA Q4 2024 risk dashboard. 5. REA density calculated as REA / Total Assets.

3 Leading domestic universal bank with an established omnichannel model

Leading domestic universal bank with recognised position across businesses and customer groups

% Total operating income 2024[3]

	33% Personal Banking	35% Business Banking	32% Corporate & Investment Banking	Iceland Funds[4]
Overview	**30% overall market share[1]** Providing a comprehensive set of financial services to individuals	**38% overall market share[1]** Leader in leasing and providing banking services to SMEs	**34% of Iceland's 300 largest companies[1]** Universal banking services for large companies, municipalities, institutional investors and HNWI	**~28% of the domestic fund market for retail investors[1]** The leading fund management company in Iceland
Key products	Wide range of loan, mortgage and savings products for retail customers Simple and effective payment solutions	Full range of loan, savings, payment and transaction services products for SMEs ergo Ergo specialises in asset financing for corporates and individuals	Comprehensive financial services to large corporates and investors Wide range of products within corporate finance, FX sales, derivatives, securities sales, and asset management	Asset management products for retail and professional investors Offers 23 mutual funds, 5 alternative funds and discretionary asset management
KPIs[2]	**ISK 609bn** Loans **ISK 19.8bn** Net operating income 80% NII, 20% NFCI **2.7%** NIM	**ISK 324bn** Loans **ISK 20.8bn** Net operating income 90% NII, 10% NFCI **5.9%** NIM	**ISK 363bn** Loans **ISK 19.5bn** Net operating income 70% NII, 23% NFCI, 7% Other **3.9%** NIM	**Allianz Ísland hf.[4]** Offers Icelanders pension savings, life and accident insurance • Allianz Ísland hf., a fully owned subsidiary of the Bank, offers Icelanders pension savings, life and accident insurance through Allianz Lebens- and Versicherungs AG
Strategy / Outlook	• Strong financial performance with focus on strengthening our customer financial health by offering personalized services and products	• Utilize Business Banking strengths in market share, services and cross selling to sustain strong and attractive ROE with balanced growth in loans and deposits across sectors and regions, with continued focus on efficiency and delivering top service	• Continued focus on balance sheet management and being the leading investment bank in Iceland	

Source: Company Information. Notes: 1. For retail customers, based on the number of customers with active deposits as percentage of people with domicile in Iceland, for SMEs on average market share from Gallup's last four corporate surveys the most recent one carried out during 1Q25 and for large companies the market share according to a Gallup survey at end of 2024 among top 300 companies according to Frjáls verslun magazine and for domestic retail funds, market share is based on information from Keldan and websites of the fund management companies at end of 2024 2. As of FY2024 segment reporting, due to internal cost and eliminations aggregated segments may not add up to group figures. 3. The total operating income split does not include treasury & proprietary trading, cost centres, subsidiaries, eliminations & adjustments (including Iceland Funds and Allianz Island). 4. Iceland Funds and Allianz Island hf. are wholly owned subsidiaries of Íslandsbanki.

3 Leading domestic universal bank with an established omnichannel model

Complementary customer touch points through both branch network and digital channels

API

Developer portal open for approved third parties

Website (sales funnel)

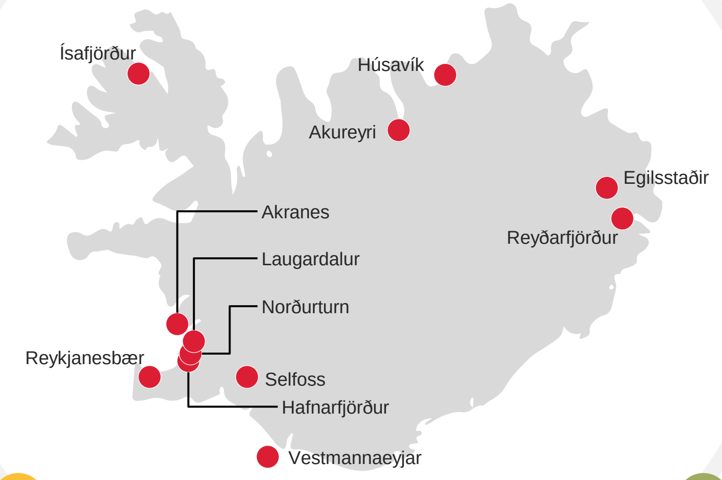
More than 58,000 customer onboardings[1] via the digital onboarding solution in 1Q25

Chatbot

Resolved 55% of all enquires in 1Q25 without human interference

Contact centre

On average over 788 happy customers assisted every day



Branch network

Branch Network

12 branches (vs. 34 branches for Landsbankinn and 12 branches for Arion Banki). Presence in large municipalities

App

Over 133,000 active customers use the app on a regular basis, with app user numbers growing at a 13% CAGR in 2017-2024

Online bank

Over 170,000 active customers use the online bank on a regular basis

Source: Company Information. Notes: 1. Onboardings doesn't not necessarily translate into completed product sales.

4

Renewed technological infrastructure enables digital leadership

Creating value for the future, with a digitalized, data driven and differentiated service offering without legacy IT

Major digital wins in 2024

80% improvements in **processing time** of car loan applications

1400 digital cards

80% of notarisation request for mortgage refinancing are **fully digital**

89% of corporate accounts through **digital channels** fully automated

10x increase in **automatic mortgage refinancing** applications

95% of Personal Banking customers are **digitally active**

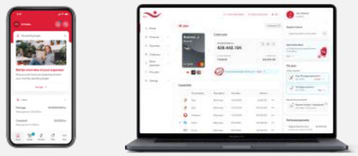
Positive momentum

Enhancing financial health relates to customers of the Bank

3x sales of saving products through digital touchpoints combined with personal service

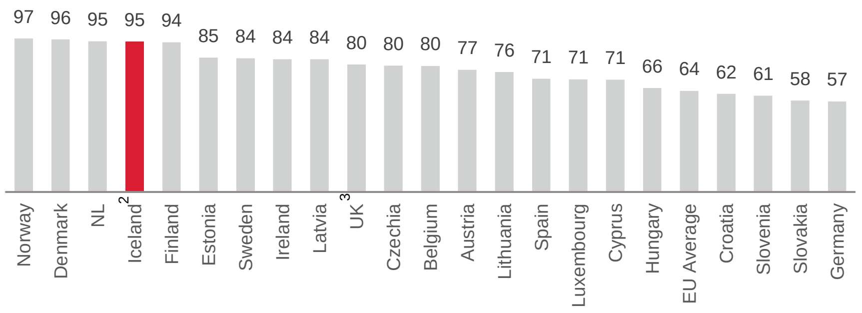
8x sales of credit cards with use of data in automatic digital journeys

New Online Banking and App launched utilising latest technology



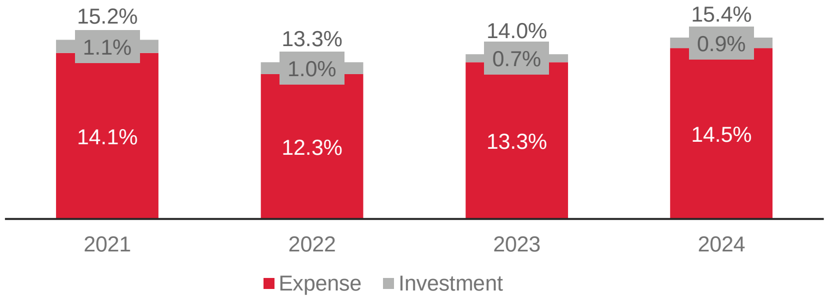
Digital banking activity is one of the highest in Europe[1]

Internet banking use (% of individuals), 2024



Continued investment in IT development

% IT investment and Expense relative to Core Income[4]



Highlights

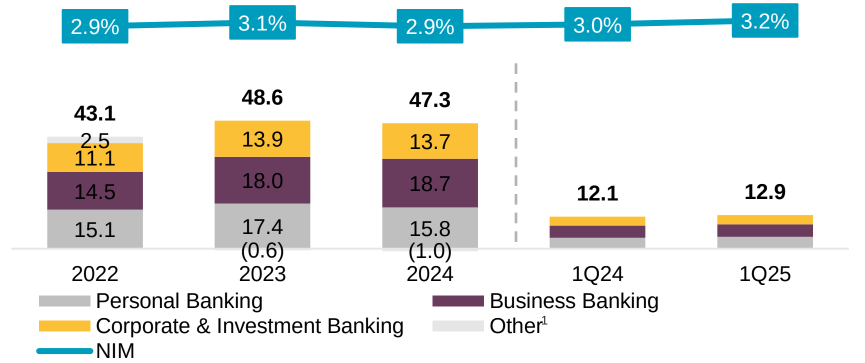
- In 2018, successfully migrated to a global **standardised core banking system for payments and deposits** through SOPRA
- Expedited digital transformation as a result of COVID-19
- At the end of 2021, the Bank implemented a significant **upgrade of its core infrastructure** and introduced a **new lending system, replacing all legacy IT systems**
- During 2023 significant investments were made to strengthen the data foundation, with the aim of being in the **forefront of data excellence and AI innovation**
- Subsequently launched a new data driven sales and behavioural tracking platform, enabling the Bank to **leverage customer insights to improve service to customers**
- **The transformation of data architecture and usage to drive business decisions** continues to be an ongoing focus for Íslandsbanki

Source: Company Information, Eurostat. Notes: 1. Eurostat. 2. Data as of 2021 as latest available. 3. Data as of 2020 as latest available. 4. Core Income = Net Interest Income + Net Fee and Commission Income.

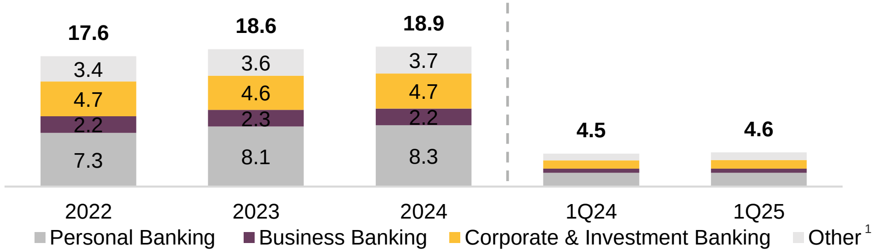
5 Solid financial foundation delivering growth and operational efficiencies

Simple operations where income is comprised near solely of interest and fees

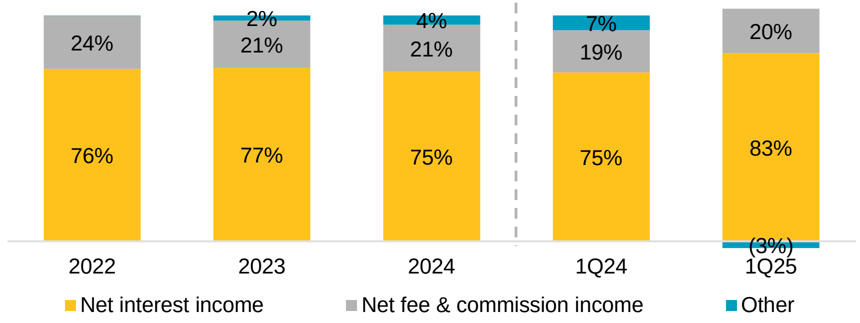
Net interest income
By business segments, ISKbn



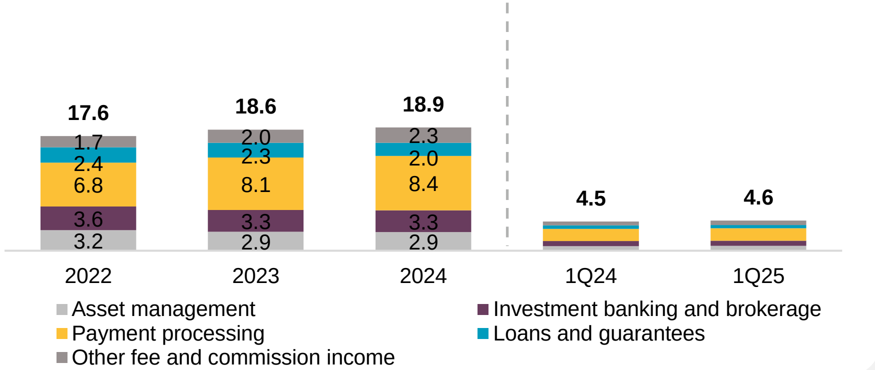
Fee and commission income
By business segments, ISKbn



Historical development of revenue composition
(%)



Fee and commission income
By income type, ISKbn



Highlights

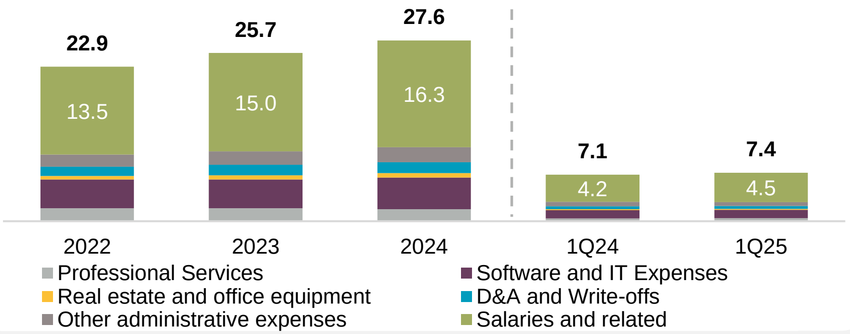
- **Policy rate cuts by Central Bank commenced in the latter half of 2024,** where rates were cut from a previous level of 9.25% to 8.5% at year-end 2024, and to 7.75% by March 2025
- CPI and nominal fixed rate Imbalances in the banking book may cause fluctuations in NII and NIM in the short term
- Revenues from investment banking and asset management affected by soft capital market throughout 2024 but recovered considerably in the fourth quarter
- Further **reductions in inflation and policy rates are expected to continue to boost capital markets**
- **Increased activity on the lending side is expected with lower interest rate environment,** providing growth in fees related to loans and guarantees

Source: Company Information. Notes: 1. Other includes Treasury & Prop Trading, Subsidiaries and eliminations and Cost Center.

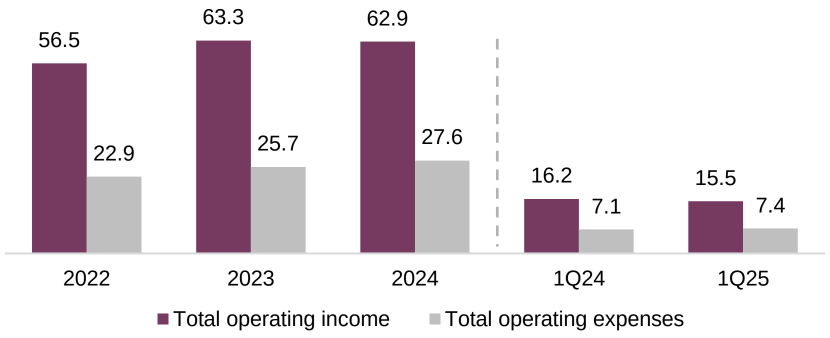
5 Solid financial foundation delivering growth and operational efficiencies

Track record of operational efficiency delivered on the back of increasing automation and data investments

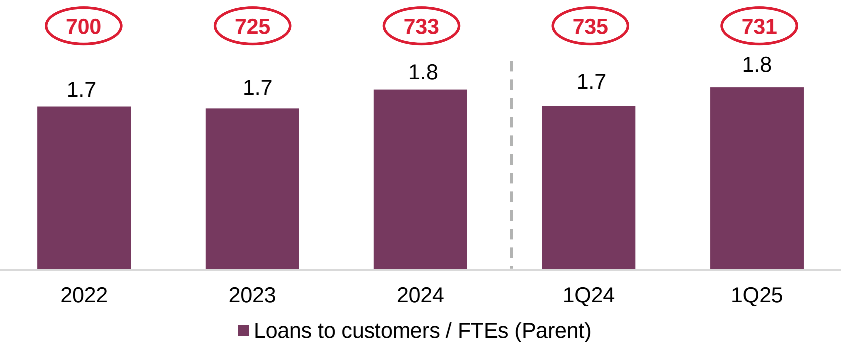
Total operating expenses[1]
By type, ISKbn



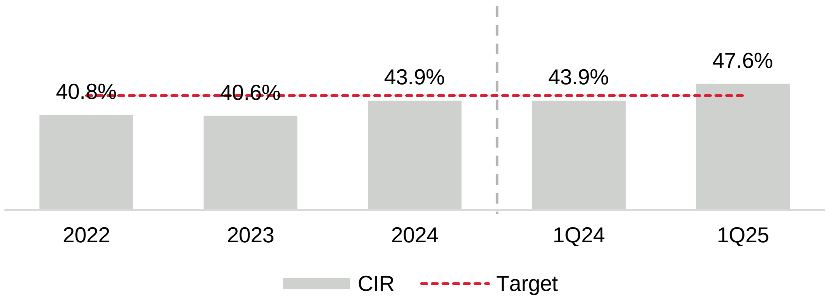
Total operating income and expenses[1]
ISKbn



Loans to customers / FTEs
ISKbn, (Number of FTEs[2])



Cost-to-income ratio[3]



Highlights

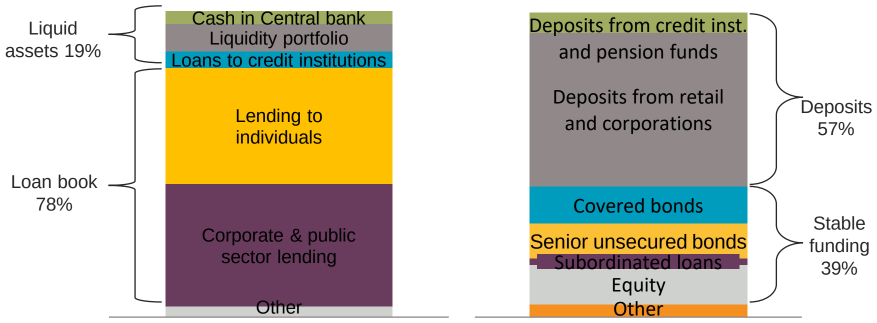
- **Track record of operational efficiency** delivered through cost **control measures and growth** in operational income
- The cost-to income ratio, adjusted for administrative fine was 43.9% in 2024 and **below set target of 45% CIR since 2022**
- Increases in operating expenses mainly **driven by increased personal cost as well as investments into IT, data and data infrastructure**
- Salaries and related expenses grew by 8.8% in 2024, mainly due to increase in average FTEs between years, related to a heightened focus governance and services, as well as inflation
- Slight increase in number of FTEs since 2022, however **meaningful increase in scale as measured by customer loans / FTE**

Source: Company Information. Notes: Comparative figures have been changed. Expenses recognised in the line item "Other operating expenses" in the Consolidated Financial Statements were restated in the line item "Fee and commission expense". Ratios have been restated accordingly. 1. Excluding bank tax, administrative fines, and contribution to depositors' and investors' guarantee fund. 2. Parent company FTEs. 3. Calculated as (administrative expenses + contribution to the depositors' and investors' guarantee fund – one-off items) / (total operating income – one-off items).

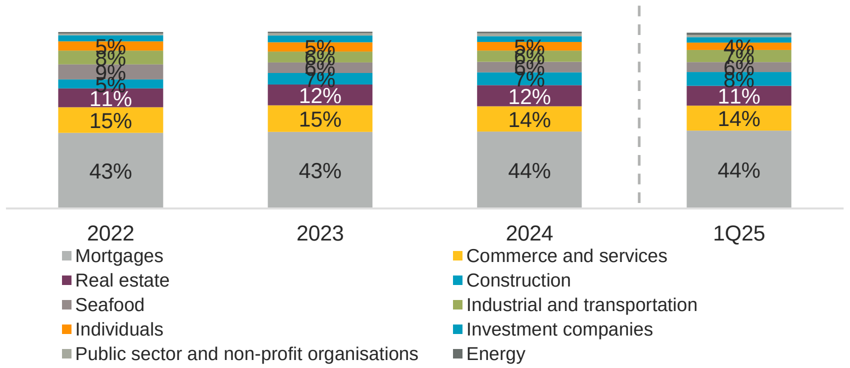
6 Clean and robust balance sheet built upon a conservative risk culture

Diversified loan and customer portfolio underpinned by conservative underwriting, high collateralisation and low LTVs

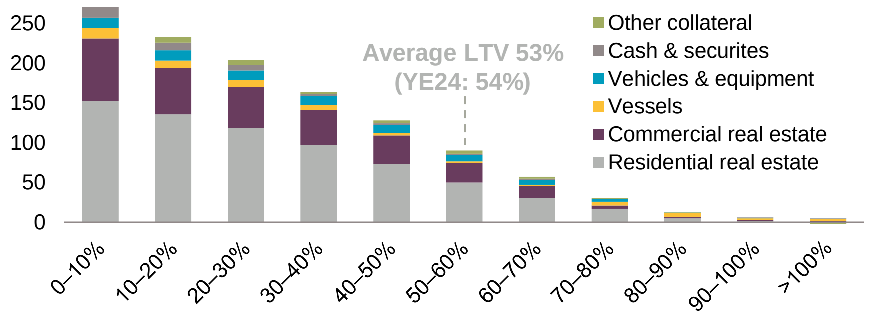
Simplified balance sheet structure
1Q25, ISK 1,667bn



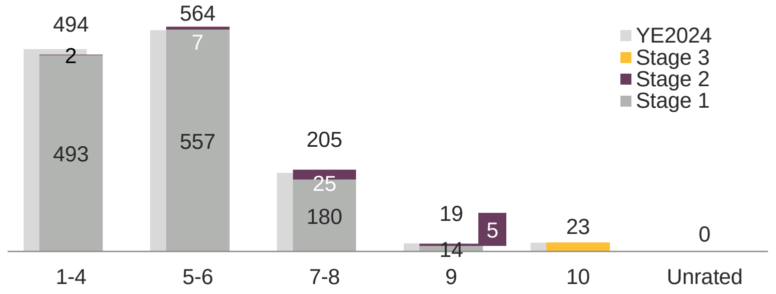
Loans to customers
By sector



LTV distribution by underlying asset class
1Q25, loan splitting approach, ISKbn



Loans to customers: gross carrying amount[1]
1Q25, risk class and impairment stage, ISKbn



Highlights

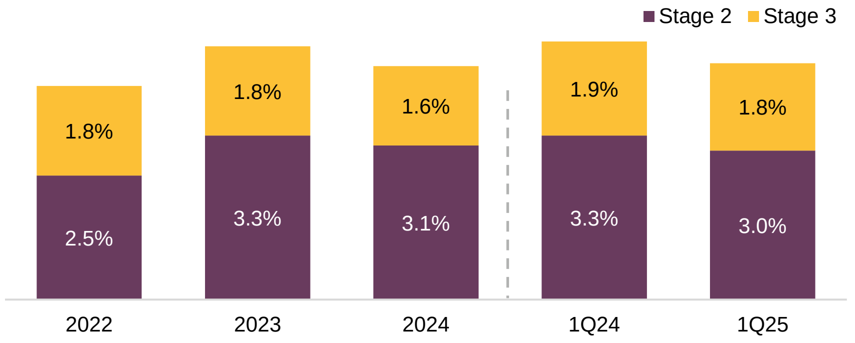
- Founded as a "new bank" in the aftermath of the global financial crisis with a **clean capital structure and no legacy balance sheet items**
- The loans to customers grew by 9.5% over the 2022-1Q25 period
- The credit quality of assets continues to be **robust due to strong risk management practices** and conservative lending policies
- Credit exposure fully covered by collateral is **ISK 1,204bn or 93% of loans to customers**
- LTVs reducing by 1ppt quarter on quarter and closes off at **53% across all types of securities**
- Liquid assets measured at fair value making up 19% of the balance sheet assets
- **Limited sector concentration where mortgages remain the largest part of the loan book** and the remaining part reflects the underlying economy in a healthy way
- **The equity risk exposure has been kept generally low**

Source: Company Information. Notes: 1. Risk class distribution at YE24 shown as comparison.

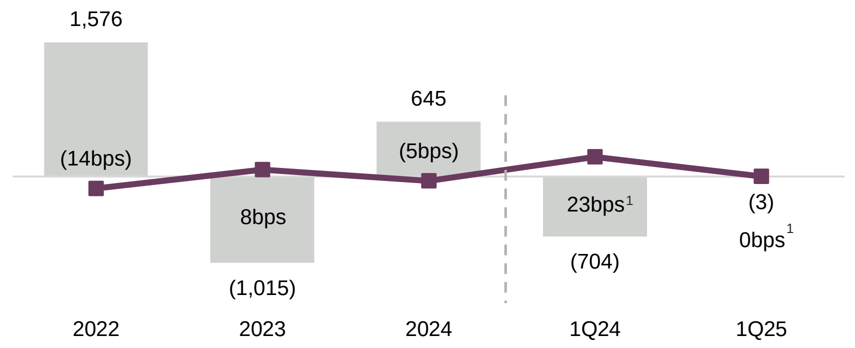
6 Clean and robust balance sheet built upon a conservative risk culture

Asset quality remains both strong and stable with limited signs of increasing delinquencies

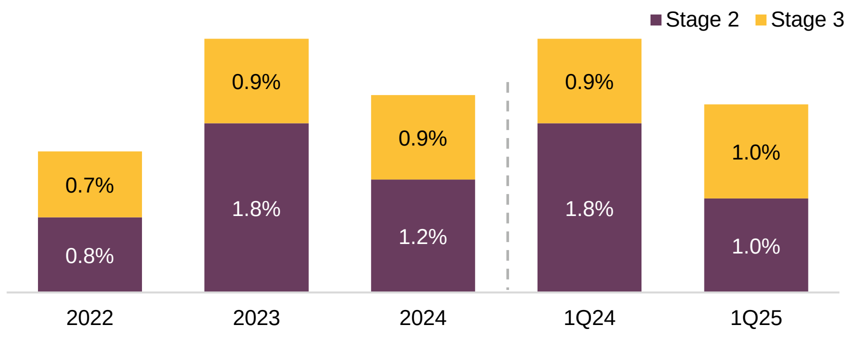
Loans to customers: Stage 2 and 3 (NPL)
Development of gross carrying amount as ratio of total loans



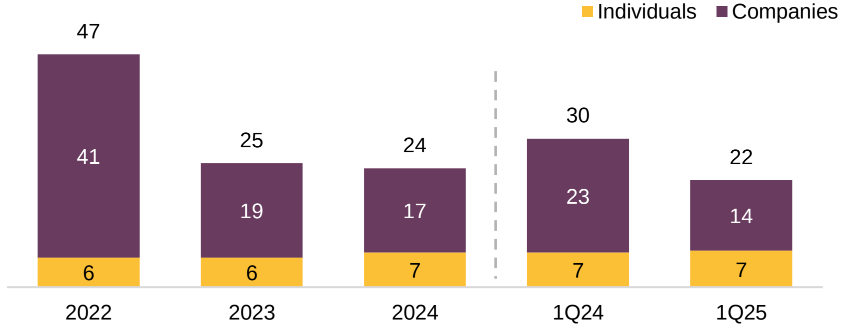
Net impairment on financial assets & cost of risk
By period, ISKm



Mortgages portfolio: Stage 2 and 3 (NPL)
Gross carrying amount as ratio of total mortgages



Performing loans with forbearance
Gross carrying amount, ISKbn



Highlights

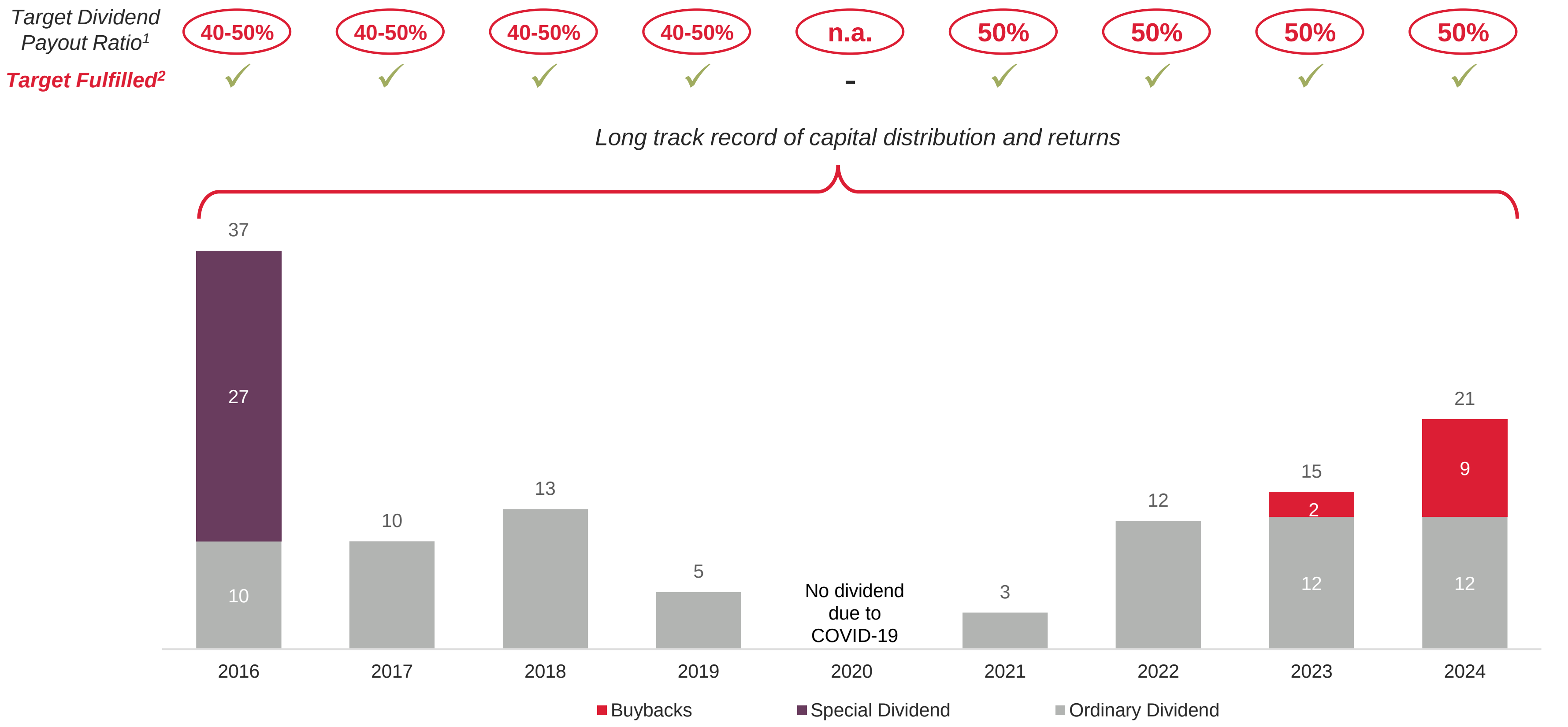
- **No signs of increased delinquencies materially affecting the loan book** despite high inflation and interest rate environment for prolonged period
- **Guidance for Cost of Risk is 25bps through the cycle**
- Conservative payment assessment for non-indexed variable rate mortgages in the low interest environment means that **households are well prepared for higher interest rate environment**
- For mortgages at origination, LTV is capped at 80% (85% for first time buyers) and debt service-to-income at 30% (35% for first-time buyers)

Source: Company Information. Notes: 1. Annualised cost of risk.

7 Ample excess capital allows for rapid growth or capital return

Strong and consistent underlying earnings resulting in attractive capital generation

Capital Distributions
ISKbn



Highlights

- **Proven track record** of capital distributions to Íslandsbanki's shareholders
- Since 2016, Íslandsbanki has **delivered in excess of ISK 117bn in capital return[3]** to shareholders
  - **c.74% of market capitalisation at IPO[4]**
- Increased focus on share **buyback programs since IPO**
  - The Bank repurchased **c. 4.3% of its share capital in 2024**
  - As of end Q1 2025, **the Bank held c. 0.4% of its share capital**
  - As of now, **ISK 16 billion has been allocated to uncompleted share buybacks**
  - Further optimisation efforts may include internal and/or external growth, as well as increased **share buybacks or extraordinary dividends, subject to market conditions**

Source: Company Information. Notes: 1. Ordinary dividends only. 2. Based on dividends paid as percentage of previous year's net income. 3. Defined as the accumulated sum of ordinary dividends, special dividends and share buybacks 2016-2024. 4. IPO value based on final offer price of ISK 79 per share, equivalent to c. ISK 158bn market capitalization.

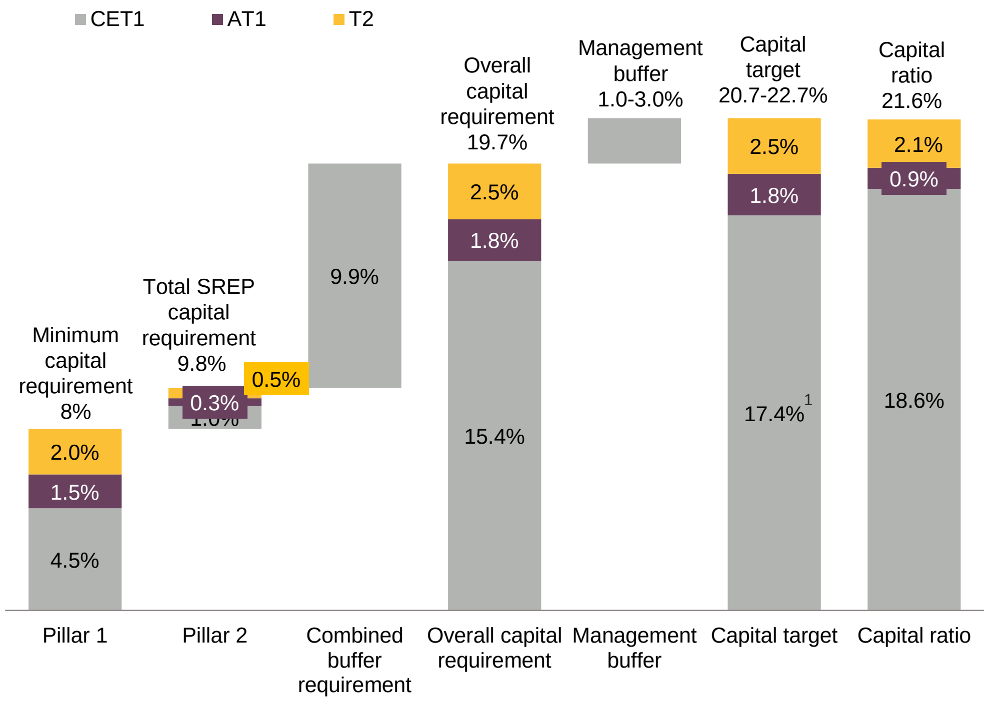
7

Ample excess capital allows for rapid growth or capital return

Strong capital position with significant buffers above regulatory requirement

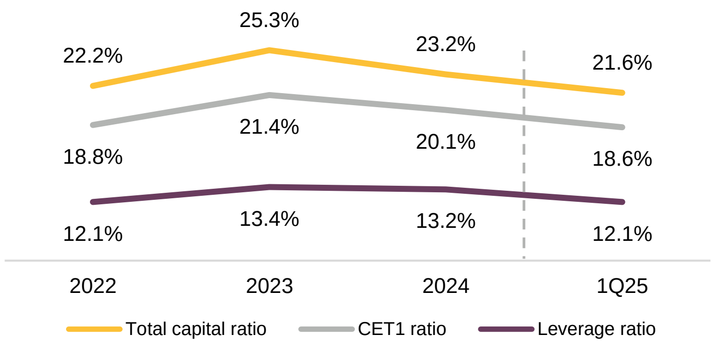
Current regulatory requirements and minimum capital target

1Q25, by capital composition



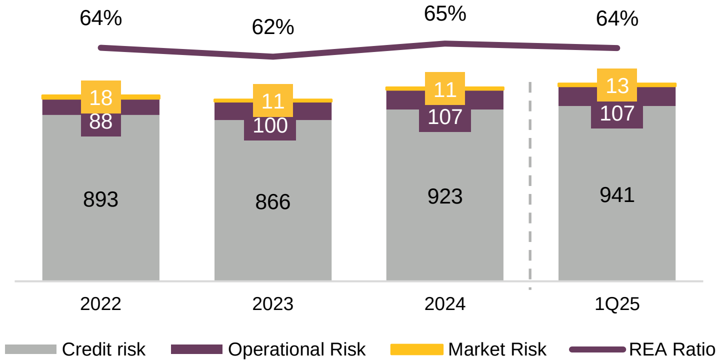
Capital and leverage ratios

% of Risk Exposure Amount (REA) (% of total exposure for leverage ratio)



REA[2] and REA ratio[3]

ISKbn



Highlights

- **Capital optimisation is a key priority** for the Bank
- Excess capital is strategically used, and capital optimisation is focused on:
  - Further earnings accretive opportunities through **strategic capital deployment, dividends and share buybacks**
- Implementation of CRR3 in 2025 expected to reduce **REA by 4-5% at implementation and grow slightly through 2025**
- Excess capital above management buffer[4] to be distributed
- Additional capital distribution or growth capacity post implementation of Basel IV in 2025

Source: Capital Requirement levels as stated by European Banking Authority, ISB Capital Ratios and other internal figures as stated by latest filings. Notes: 1. CET1 Capital target set at mid-point of management buffer. 2. REA = Risk Exposure Amount. 3. REA Ratio = REA / Total Assets. 4. Management buffer of 100-300bps applied to cover volatility in risk exposure amount and earnings.

8 Proven record of executing strategy & meeting attractive financial targets

Íslandsbanki's strong and experienced management has consistently delivered its strategic goals and met financial targets

Performance vs Financial Targets

	2021	2022	2023	2024
CIR <45%	46.2% ✗	40.8% ✓	40.6% ✓	43.9% ✓
ROE >10%	12.3% ✓	11.9% ✓	11.3% ✓	10.9% ✓
CET1 Buffer 100-300 bps[1]	620bps ✓	350bps ✓	570bps ✓	470bps ✓
Dividend Payout ratio ~50%	50.0% ✓	50.0% ✓	50.0% ✓	50.0% ✓

Successful delivery of past strategic plan

- ✓ Portfolio growth
- ✓ Revenue diversification
- ✓ Operational efficiencies
- ✓ Capital optimisation
- ✓ Shareholder returns

Source: Company Information. Notes: 1. The CET1 target was expressed as ~16.5% CET1 ratio for year 2021-2022, which was later revised to current 100-300 bps CET1 buffer.

8 Proven record of executing strategy & meeting attractive financial targets

Positive outlook with expectation of continued outperformance, driving further shareholder returns and capital optimisation

Financial Targets

	L3Y
>10% Return on equity	✓
<45% Cost-to-income ratio	✓
100-300bp CET1 capital buffer	✓
~50% Dividend payout ratio	✓

Guidance

- Loans to customers and revenue, in general **to grow** in line with nominal GDP through the business cycle
- **ROE in 2025** expected to be >10%, assuming for the year as a whole
- **C/I ratio** expected to be below 45% for the year
- Dividend policy assumes **50% of earnings** to be paid to shareholders
- Distribution of excess CET1 capital in the amount of **ISK 15bn planned** throughout 2025 through share buybacks
- Commitment to conclude **capital optimisation**, subject to market conditions

Highlights

- **Longstanding track record of meeting financial targets**, with all targets met during the last three years
  - Delivering Return on Equity **above 10%**
  - Holding the CIR ratio **below 45%**
  - **100-300bps CET capital buffer**, as measured by the Bank's CET1 ratio in excess of the regulatory CET1 requirement
  - Ordinary dividends policy of **~50% of net earnings**
- Íslandsbanki's **forward looking guidance** are focused on the same core pillars of **financial stability**

Source: Company Information.

DISCLAIMER

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN WHOLE OR IN PART, INTO OR WITHIN THE UNITED STATES, CANADA, AUSTRALIA, JAPAN AND ANY OTHER JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION.

This presentation has been prepared by Íslandsbanki hf. (the "Bank"), as its sole responsibility. For the purpose of this notice, "Presentation" shall mean and include this document, including printed or electronic copies, information provided or communicated during any presentation, any oral briefing by the Bank or the Managers (as defined below) that accompanies it, and any question-and-answer session that follows such briefing.

This Presentation is being provided to you solely for your information purposes, speaking as of the date hereof, and is subject to correction, update and change in its entirety, and no reliance may be placed on it for any purpose. This Presentation does not purport to contain all the information that may be required to evaluate the Bank or its financial position. Nothing contained in this Presentation shall constitute or form part of, or be construed as, an offer, invitation or recommendation to purchase, sell or subscribe for any securities in any jurisdiction or solicitation of any offer to purchase, sell or subscribe for any securities in any jurisdiction and neither the issue of the information nor anything contained herein shall form the basis of or be relied upon in connection with, or act as any inducement to enter into, any investment activity. The Bank makes no recommendation to purchase, sell or otherwise deal in shares in the Bank or any other securities or investments whatsoever. The price and value of securities can go down as well as up. Past performance is not a guide to future performance. The contents of this Presentation are not to be construed as legal, business, financial or tax advice. Each reader should consult his, her or its own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice.

This Presentation has not been independently verified and no representation, warranty or undertaking, express or implied, is made or given by or on behalf of the Bank or any of Barclays Bank Ireland, PLC, Citigroup Global Markets Europe AG, Kvika banki hf., ABN AMRO Bank N.V., Artic Securities AS, Artica Finance hf., Arion banki hf., J.P. Morgan SE, Landsbankinn hf. and UBS Europe SE (together, the "Managers") or any of their respective affiliates, directors, officers, employees, agents or advisers or any other person ("Associated Parties") as to the completeness, accuracy or fairness of the information or opinions contained in this Presentation and no responsibility, obligation or liability whatsoever is accepted or will be accepted by the Bank, the Managers or any of their Associated Parties for any loss howsoever arising, directly or indirectly, from any use of such information or opinions or otherwise arising in connection therewith.

This Presentation includes market, economic and industry data obtained from internal company surveys, market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys. As a result, none of the Bank, the Managers and their respective Associated Parties are able to verify such data or assume any responsibility for the correctness of any such data.

Certain information in this presentation and oral statements made in any meeting are forward-looking and relate to the Bank and its anticipated financial position, business strategy, events and courses of action. Words or phrases such as "anticipate," "objective," "may," "will," "might," "should," "could," "can," "intend," "expect," "believe," "estimate," "predict," "potential," "plan," "is designed to" or similar expressions suggest future outcomes. Forward-looking statements, financial projections and financial targets are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking statements, financial projections and financial targets. Although the Bank believes that the expectations reflected in the forward-looking statements and financial projections are reasonable, there can be no assurance that such expectations will prove to be correct. None of the Bank's independent auditor, nor any other independent accountants, have applied, examined or performed any procedures with respect to the financial targets, nor have they expressed any opinion or any other form of assurance on the financial targets or their achievability. The financial targets constitute forward-looking statements and are not guarantees of future financial performance. The Bank cannot guarantee future results, level of activity, performance or achievements, and there is no representation that the actual results achieved will be the same, in whole or in part, as those set out in the forward-looking statements, financial projections and financial targets.

None of the Bank, the Managers and their respective Associated Parties gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Presentation will actually occur, in part or in whole. Other than as required by applicable law, none of the Bank and the Managers assumes any obligation to update or provide any additional information in relation to such statements. Additionally, statements of the intentions or beliefs of the Bank's board of directors reflect the present intentions and beliefs of the board of directors as at the date of this Presentation and may be subject to change. Nothing in this Presentation is intended as a profit forecast or estimate for any period. Recipients of this Presentation should conduct their own investigation, evaluation and analysis of the business, data and property described in this Presentation.

This Presentation does not constitute an offer to sell, or a solicitation of an offer to purchase or subscribe for, securities in the United States. The securities referred to in this Presentation have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority or under the relevant securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, pledged, taken up, exercised, renounced, delivered, distributed or transferred, directly or indirectly, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. No public offering of the securities has been or will be made in the United States.

By attending or reading the Presentation, or accepting delivery of or accessing or reviewing this Presentation, the attendee and recipient agree to the terms contained herein and to be bound by the obligations, restrictions, limitations and conditions contained herein and to maintain absolute confidentiality regarding the information contained therein. In particular, you will be taken to have represented, agreed, warranted, undertaken and acknowledged to each of the Bank and the Managers, that: (i) you are able to receive this Presentation without breach of any applicable legal or regulatory restrictions; (ii) you are either (a) a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act), (b) are located outside of the United States (within the meaning of and pursuant to Regulation S of the Securities Act); (iii) you are located in a member state of the European Economic Area and are a "qualified investor" within the meaning of Article 2(e) of Regulation (EU) 2017/1129, as amended ("Qualified Investors"); (iv) you are located in the United Kingdom and are a "qualified investor" within the meaning of Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 who are (a) persons who have professional experience in matters relating to investments who fall within the definition of "investment professional" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), or (b) high net worth companies, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order; or (v) other persons to whom it can otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). Any investment or investment activity to which this communication relates is available only to and will only be engaged in with such person. This Presentation must not be acted on or relied on by persons who are not Relevant Persons.

You will also be taken to have represented, agreed, warranted, undertaken and acknowledged to each of the Bank and the Managers, that: (i) you have read and agree to be bound by the foregoing limitations including, without limitation, to maintain absolute confidentiality regarding the information disclosed in this Presentation; (ii) you are able to receive this document without contravention of any legal or regulatory restrictions applicable to you; (iii) you will not at any time have any discussion, correspondence or contact concerning this Presentation or the information contained herein with any of the directors, officers or employees of the Bank or its subsidiaries or affiliates without the prior written consent of the Bank; and (iv) you understand the legal and regulatory sanctions attached to the misuse, disclosure or improper circulation of this Presentation. Failure to comply with the restrictions in this paragraph may constitute a violation of securities laws.

Each of the Managers is acting exclusively for the Company and no-one else in relation to the Presentation and any related transaction and will not regard any other person as a client in relation thereto and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients nor for providing advice to any person in relation to any matter, transaction or arrangements referred to in this Presentation.