



Condensed Consolidated Interim Financial Statements

1 January – 30 September 2024



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Arion Bank

Highlights 30.09.2024



9M 12.2%
Return on equity



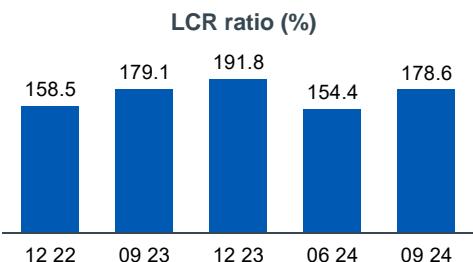
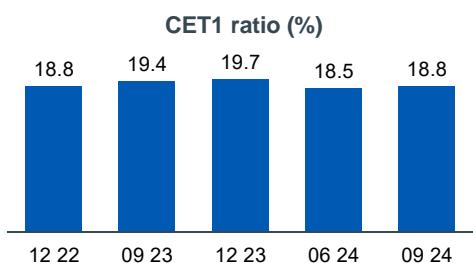
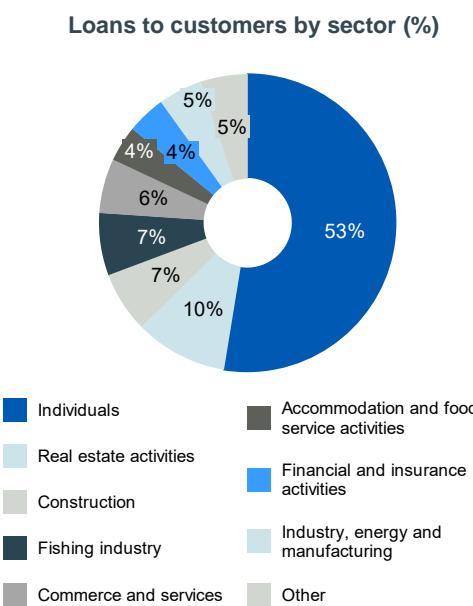
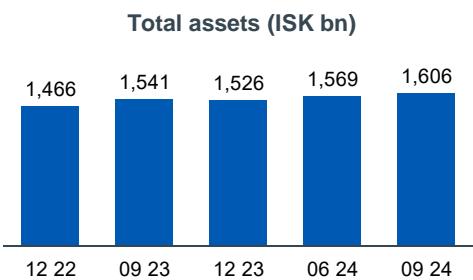
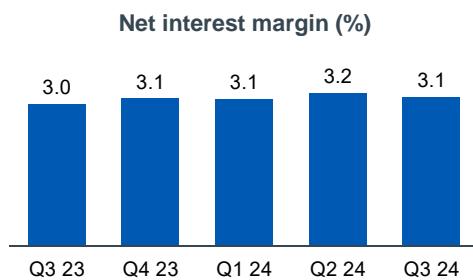
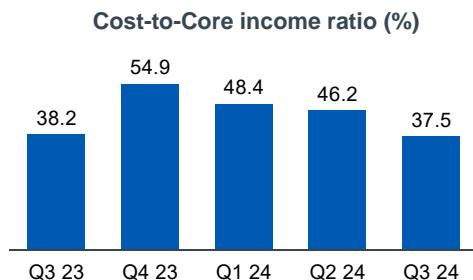
9M 43.8%
Cost-to-core income



18.8%
CET1 ratio

Moody's

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



PRINCIPLES FOR
RESPONSIBLE
BANKING



Endorsement and statement by the Board of Directors and the CEO



The Condensed Consolidated Interim Financial Statements of Arion Bank for the period 1 January to 30 September 2024 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 7.9 billion for the third quarter and ISK 17.8 billion for the first nine months of the year. Return on equity was 16.1% for the quarter and 12.2% for the first nine months. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 13.9% in the third quarter, compared with the previous year, mainly due to net interest income and insurance service results. Net interest income increased by 8.7%, compared with the third quarter in the previous year, and the net interest margin was 3.1%, compared with 3.0% in the corresponding period of 2023. The third quarter was the best quarter in the history of Vördur, contributing standalone net results of ISK 1.7 billion. Insurance revenues continued to grow, increasing by 10.4% between the third quarter 2023 and 2024, while claims decreased by 21.8%. Net financial income was solid in the core investment business in the third quarter of 2024. Other operating income was negatively affected by the ISK 355 million fair value change of the Helguvík development plot. Operating expenses, including operating expenses of the insurance operation, increased by 11.9% compared with the third quarter in the previous year. Inflation measured 6.1% between years. The cost-to-core income ratio was 37.5%, including expenses of the insurance operation, compared with 38.2% for the third quarter of 2023. Impairments were calculated at 31bps on an annual basis for the third quarter. Effective income tax rate for the third quarter was 21.1%.

Balance Sheet

Arion Bank's balance sheet grew by 2.4% from year-end 2023. Loans to customers increased by 5.9% from year-end, with a 6.6% increase in corporate lending and 5.2% growth in loans to individuals, mainly mortgages. Deposits increased by 7.0%, primarily individuals and SME's. Total equity amounted to ISK 198,680 million at the end of September. The Group's capital ratio was 23.2% and the CET1 ratio 18.8%. The ratios take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 22.8% and the CET1 ratio was 18.3%. The liquidity position was strong at period end and well above the regulatory minimum.

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

	Actuals Q3 2024	Actuals 9M 2024	Arion Bank's medium-term financial targets
Return on equity	16.1%	12.2%	Exceed 13%
Core operating income / REA	7.5%	7.1%	Exceed 7.2%
Insurance revenue growth (YoY)	10.4%	12.7%	In excess of market growth (10.3% in 6M 2024)
Combined ratio	70.0%	87.4%	Below 95%
Cost-to-core income ratio	37.5%	43.8%	Below 45%
CET1 ratio above regulatory capital requirements	355 bps	355 bps	150-250 bps management buffer (~16.7 - 17.7%)
Dividend pay-out ratio	50.0%	50.0%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

According to preliminary figures from Statistics Iceland, the Icelandic economy continued to contract in Q2, contrary to expectations. The biggest surprise was the 0.9% drop in private consumption between years, and the 2.2% contraction in exports. Analysts, including the Central Bank of Iceland, have however called the figures into question, partly due to the disconnect between economic growth and the increase in labor input. Nonetheless, it is undeniable that the economy has slowed, as monetary policy remains tight, and the country's competitiveness has deteriorated. Arion Research expects growth to resume in the second half of the year, but at a slow pace, reaching only 1.5% in 2025.

Although private consumption declined in Q2, payment card turnover has remained robust, reaching 3.7% year-over-year growth in Q3, in real terms, suggesting that demand has picked up again. However, other high-frequency indicators point in different directions, with overseas trips by Icelandic consumers declining slightly, and households growing more pessimistic. The enhanced transmission of monetary policy to households could have a notable impact in that sense, as access to indexed mortgages has been significantly restricted. Although Arion Research expects private consumption growth to perk up in the latter half of the year, as the position of households remains strong overall, consumption per capita is expected to continue to decline into next year.

The tourism sector has faced headwinds as well, as reflected in the reduction of jobs within the industry. Although the most recent data shows a slight uptick in the number of tourists visiting the country, their average stay has shortened and revenue per tourist has declined. With the Icelandic airlines facing a challenging environment, the growth in tourist arrivals is expected to remain modest in the coming quarters, adding further pressure on the industry's revenues.

With economic activity easing and labor market pressures slightly subsiding, inflation has come down, measuring 5.4% in September. Headline inflation, however, does not fully reflect underlying inflationary pressures, as one-off items stemming from government measures have had a significant impact. As a result, underlying inflation has not tapered off as quickly as headline inflation. Still, with inflation falling faster than anticipated and clear signs of a slowdown in the labor market, the Monetary Policy Committee decided to cut rates by 25 basis points in October, a move that caught analysts by surprise. Further rate cuts are expected in November, despite increasing political uncertainty, but with underlying demand pressures still remaining quite strong, analysts anticipate cautious steps and a tight monetary stance going forward.

Endorsement and statement by the Board of Directors and the CEO



Outlook for the Bank

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

The external operating environment continues to evolve and pose new challenges. As before, Arion benefits from its diverse revenue streams and sound infrastructure, while also retaining the flexibility to respond to the shifting environment. The economy in 2024 has been impacted by inflation and elevated interest rates. During the quarter it is important to see strong signs indicating progress towards stabilizing the economy in the near term. The reduced policy rates in the last meeting of the Central Bank were clear confirmation of this stabilization.

Arion Bank remains in a strong position to manage these changes in the external operating environment, having strong and diverse revenue streams, a very strong capital position by international standards and robust liquidity and funding position.

Employees

The Group had 851 full-time equivalent positions at the end of the period, compared with 822 at the end of 2023.

Funding and liquidity

In terms of funding and liquidity management the Group's liquidity position remains strong. The Bank's liquidity position was above the required minimum, and the liquidity ratio at the end of September 2024 was 179%, with the minimum requirement being 100%.

In September the Bank successfully issued a new USD-denominated Additional Tier 1 transaction for a total of \$125 million. The bond issue was oversubscribed with total demand of around \$250 million. Participation was diverse with orders received from over 35 unique investors across the UK, Europe, Asia and Iceland. The issuance strengthens the Bank's own funds and the maintenance of an optimal capital structure in line with the Bank's medium-term targets. The bonds have a fixed coupon of 8.125%. The notes will have a standalone and consolidated 5.125% CET1 trigger with equity conversion.

The Bank continued to issue bonds in the domestic market. Total covered bonds issuance in Q3 was ISK 15.52 billion in Q3 2024 and total senior preferred bonds issuance was ISK 0.76 billion.

Capital adequacy and dividends

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

Following a thorough review of its ratings needs, the Bank ended its rating relationship with S&P Global Ratings during Q2 and now operates with a sole credit rating from Moody's Ratings. Among the factors considered in the review were how peer banks of similar size in the Nordic region are rated, what ratings methodologies best support the Bank's future bancassurance model, and what investors and other stakeholders expect in terms of high quality, recognized ratings. Arion Bank is currently rated A3 with a stable outlook by Moody's.

In September 2024, the Bank issued a subordinated bond classified as AT1 own funds in the amount of USD 125m. Concurrently, the Bank launched a tender to buy back AT1 bonds issued in March 2020, and accepted offers for USD 77.7m. The remainder of that issuance, USD 22.3m, has its first call date in February 2025.

On 10 July, the FSA published the result of the Supervisory Review and Evaluation Process (SREP) for Arion Bank, based on financial information at year-end 2023. The additional capital requirement under Pillar 2 is set at 1.8% of total risk-weighted exposure amount (REA), a decrease of 0.3pp from the previous year.

Having temporarily vacated the 2% countercyclical capital buffer in March 2020, the Central Bank of Iceland reinstated the buffer at the same level in September of 2022. The buffer was increased further in March 2024 and now stands at 2.5% - the legal maximum.

Arion Bank's capital position is very strong and will remain so for the foreseeable future. This underpins the Bank's ability to support its customers and the Icelandic economy, as it faces challenging economic conditions owing to a number of factors including geopolitical tensions, high interest rates, and high inflation.

The Group's capital adequacy ratio on 30 September 2024 was 23.2% and the CET1 ratio was 18.8% when the unaudited interim net earnings for the third quarter of 2024 are included. This compares to a regulatory capital requirement of 19.5% and CET1 requirement of 15.2%, including the combined buffer requirement. The Bank's REA increased by ISK 16.9 billion in Q3 2024. This was driven by an ISK 17.8 billion increase in the book value of the loan portfolio. REA changes for other factors were less material.

The Resolution Authority of the Central Bank of Iceland presented the Bank with updated MREL requirements in October 2024, based on year-end 2023 financials. The MREL requirements are 19.6% of REA excluding own funds used to meet the combined buffer requirement and 6.0% of TEM. At the end of Q3, the levels for these ratios were 25.7% and 20.9%, respectively. Additionally, the Resolution Authority has introduced a subordinated MREL requirement of 13.5% which will apply to the Bank from 1 August 2026.

Group ownership

Gildi lífeyrissjóður was the largest shareholder in Arion Bank with a shareholding of 9.16% at the end of September and Arion Bank held 6.65% of its own shares. The number of shareholders was 10,251 at the end of September, compared with 10,906 at the beginning of the year. Further information on Arion Bank's shareholders can be found in Note 38.

Endorsement and statement by the Board of Directors and the CEO



Risk management

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

Governance

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

Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2024 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 30 September 2024 and its financial position as at 30 September 2024. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2024 and confirm them by means of their signatures.

Reykjavík, 30 October 2024

Board of Directors

Paul Horner, Chairman
Kristín Pétursdóttir, Vice Chairman
Gunnar Sturluson
Liv Fiksdahl
Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason



Consolidated Interim Income Statement

	Notes	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Interest income		102,888	90,655	33,210	30,426
Interest expense		(67,832)	(57,317)	(21,347)	(19,508)
Net interest income	7	35,056	33,338	11,863	10,918
Fee and commission income		14,014	15,238	4,744	4,765
Fee and commission expense		(2,790)	(2,752)	(864)	(917)
Net fee and commission income	8	11,224	12,486	3,880	3,848
Insurance revenue		14,642	12,655	5,067	4,450
Insurance service expenses		(12,803)	(12,219)	(3,535)	(4,055)
Insurance service results	9	1,839	436	1,532	395
Net financial income	10	652	(4)	524	(183)
Other operating income	11	(226)	1,613	(313)	8
Other net operating income		426	1,609	211	(175)
Operating income		48,545	47,869	17,486	14,986
Operating expenses	12-14	(19,727)	(17,871)	(6,021)	(5,392)
Bank levy	15	(1,436)	(1,374)	(500)	(468)
Net impairment	16	(2,044)	(1,361)	(954)	(741)
Earnings before income tax		25,338	27,263	10,011	8,385
Income tax expense	17	(7,489)	(7,787)	(2,114)	(2,274)
Net earnings from continuing operations		17,849	19,476	7,897	6,111
Discontinued operations held for sale, net of income tax	18	(26)	37	(6)	20
Net earnings		17,823	19,513	7,891	6,131
Attributable to					
Shareholders of Arion Bank hf.		17,821	19,502	7,872	6,136
Non-controlling interest		2	11	19	(5)
		17,823	19,513	7,891	6,131
Earnings per share					
Basic earnings per share attributable to shareholders of Arion Bank (ISK)	19	12.45	13.40	5.62	4.19
Diluted earnings per share attributable to shareholders of Arion Bank (ISK)		12.00	13.00	5.56	3.96

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



Consolidated Interim Statement of Comprehensive Income

	Notes	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Net earnings		17,823	19,513	7,891	6,131
Net change in FV of financial assets carried at FV through OCI, net of tax		186	302	207	59
Net realized loss (gain) on financial assets carried at FV through OCI, net of tax transferred to the income statement	10	110	(196)	11	4
Changes to reserve for financial instruments at FV through OCI that is or may be reclassified subsequently to the Income Statement		296	106	218	63
Total comprehensive income		18,119	19,619	8,109	6,194
Attributable to					
Shareholders of Arion Bank		18,117	19,608	8,090	6,199
Non-controlling interest		2	11	19	(5)
Total comprehensive income		18,119	19,619	8,109	6,194
Comprehensive income per share 19					
Basic compreh. income per share attributable to shareholders of Arion Bank (ISK)		12.66	13.48	5.78	4.24
Diluted compreh. income per share attributable to shareholders of Arion Bank (ISK)		12.51	12.73	5.71	4.00

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



Consolidated Interim Statement of Financial Position

Assets	Notes	30.9.2024	31.12.2023
Cash and balances with Central Bank	20	96,323	102,095
Loans to credit institutions	21	32,772	28,835
Loans to customers	22	1,220,424	1,152,789
Financial instruments	23-25	214,307	205,706
Investment property	25	9,327	9,493
Investments in associates	27	833	789
Intangible assets	28	7,833	8,051
Tax assets	29	2	39
Assets and disposal groups held for sale	30	34	62
Other assets	31	23,862	17,813
Total Assets		1,605,717	1,525,672
Liabilities			
Due to credit institutions and Central Bank	24	6,715	2,771
Deposits	24	848,434	792,710
Financial liabilities at fair value	24	7,095	11,646
Tax liabilities	29	12,884	11,169
Other liabilities	32	56,620	46,336
Borrowings	24,33	431,105	420,460
Subordinated liabilities	24,34	44,184	41,279
Total Liabilities		1,407,037	1,326,371
Equity		37	
Share capital and share premium		5,686	10,634
Other reserves		12,463	12,283
Retained earnings		180,026	175,881
Total Shareholders' Equity		198,175	198,798
Non-controlling interest		505	503
Total Equity		198,680	199,301
Total Liabilities and Equity		1,605,717	1,525,672

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves												Total equity		
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized development cost	Debt investments at fair value thr. OCI, unrealized			Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	
Equity 1 January 2024	1,446	9,188	408	825	7,772	1,462	880	(701)	1,637	175,881	198,798	503	199,301		
Net earnings										17,821	17,821	2	17,823		
Net change in fair value								186				186	186		
Net realized loss transferred to P/L								110				110	110		
Total comprehensive income	-	-	-	-	-	-	-	296	-	17,821	18,117	2	18,119		
<i>Transactions with owners</i>															
Dividend paid										(13,058)	(13,058)		(13,058)		
Purchase of treasury shares	(90)	(12,362)									(12,452)		(12,452)		
Share capital increase	53	6,187									6,240		6,240		
Share option charge			122								122		122		
Share option vested	3	280	(40)								243		243		
Share option forfeited			(119)						119	-	-		-		
Incentive scheme	1	164									165		165		
Warrants exercised		816	(825)							9	-		-		
Changes in reserves					1,640	(803)	(91)			(746)	-		-		
Equity 30 September 2024	1,413	4,273	371	-	9,412	659	789	(405)	1,637	180,026	198,175	505	198,680		

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves												Total equity	
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized development cost	Debt investments at fair value thr. OCI, unrealized		Statutory reserve	Retained earnings	Total share-holders' equity	Non-controlling interest	
Equity 1 January 2023	1,466	11,906	339	828	6,308	1,941	1,002	(1,383)	1,637	163,263	187,307	649	187,956	
Net earnings										19,502	19,502	11	19,513	
Net change in fair value								302			302		302	
Net realized gain transferred to P/L								(196)			(196)		(196)	
Total comprehensive income	-	-	-	-	-	-	-	106	-	19,502	19,608	11	19,619	
<i>Transactions with owners</i>														
Dividend paid										(12,357)	(12,357)		(12,357)	
Purchase of treasury shares	(22)	(3,238)									(3,260)		(3,260)	
Share option charge				152							152		152	
Share option vested	2	295		(45)							252		252	
Share option forfeited				(83)					83	-		-	-	
Incentive scheme	1	194									195		195	
Changes in reserves					1,087	(12)	(92)			(983)	-	-	-	
Equity 30 September 2023	1,447	9,157	363	828	7,395	1,929	910	(1,277)	1,637	169,508	191,897	660	192,557	
Net earnings										6,253	6,253	(29)	6,224	
Net change in fair value								395			395		395	
Net realized loss transferred to P/L								181			181		181	
Total comprehensive income	-	-	-	-	-	-	-	576	-	6,253	6,829	(29)	6,800	
<i>Transactions with owners</i>														
Share capital increase	-	27									27		27	
Purchase of treasury shares	-	1									1		1	
Share option charge			45								45		45	
Warrants exercised		3		(3)							-	-	-	
Liquidation of a subsidiary											-	(128)	(128)	
Changes in reserves					377	(467)	(30)			120	-	-	-	
Equity 31 December 2023	1,446	9,188	408	825	7,772	1,462	880	(701)	1,637	175,881	198,798	503	199,301	

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



Consolidated Interim Statement of Cash flows

	2024 1.1.-30.9.	2023 1.1.-30.9.
Operating activities		
Net earnings	17,823	19,513
Non-cash items included in net earnings	(25,041)	(20,684)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	211	1,817
Loans to customers	(39,377)	(47,382)
Financial instruments and financial liabilities at fair value	1,046	(41,880)
Deposits	22,053	30,898
Borrowings	(8,256)	8,509
Other changes in operating assets and liabilities	(13,880)	(13,524)
Interest received	74,670	68,358
Interest paid	(25,442)	(18,747)
Dividend received	144	269
Income tax paid	(5,737)	(4,883)
Net cash used in operating activities	(1,786)	(17,737)
Investing activities		
Acquisition of investment property	(174)	-
Acquisition of intangible assets	(517)	(306)
Increased share capital of associates	-	(72)
Proceeds from sale of property and equipment	19	-
Acquisition of property and equipment	(223)	(272)
Net cash used in investing activities	(895)	(650)
Financing activities		
Issued share capital	6,240	-
Dividend paid to shareholders of Arion Bank	(13,058)	(12,357)
Purchase of treasury stock	(12,452)	(3,260)
Repurchase of subordinated liabilities	(10,476)	-
Settlement of subordinated liabilities	(3,896)	-
Issued subordinated liabilities	16,931	-
Proceeds from vested share option	243	252
Net cash used in financing activities	(16,468)	(15,365)
Net decrease in cash and cash equivalents	(19,148)	(33,752)
Cash and cash equivalents at beginning of the year	114,993	150,131
Effect of exchange rate changes on cash and cash equivalent	3,373	(829)
Cash and cash equivalents	99,218	115,550
Cash and cash equivalents		
Cash and balances with Central Bank	96,323	80,288
Bank accounts	32,772	51,087
Mandatory reserve deposit with Central Bank	(29,877)	(15,825)
Cash and cash equivalents	99,218	115,550

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



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Loans to credit institutions	28	Capital management	70
Loans to customers	28	Operational risk	72
Financial instruments	28	Sustainability risk	73



Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2024 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

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

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

Statement of compliance

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

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

Basis of measurement

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

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

Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 137.92 and 152.92 for EUR (31.12.2023: USD 135.82 and EUR 150.13).

2. Going concern assumption

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

3. Significant accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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



Notes to the Condensed Consolidated Interim Financial Statements

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

Impairment of financial assets

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

Macroeconomic outlook

Following record expansion in 2022, economic growth continues to slow down. After contracting in the first part of the year, growth is expected to resume but at a slow pace, reaching only 1.5% in 2025—a smaller increase than previously forecasted due to weaker private consumption and a tougher-than-expected environment for the tourism sector. The job market, which had been resilient, has begun to worsen. Although inflation has eased further, it remains at 5.4%, well above the Central Bank's target of 2.5%. The economic slowdown and the drop in inflation have finally allowed the Central Bank to initiate its long-awaited interest rate cut, reducing rates by 0.25% in October and ending over a year of maintaining policy rates at 9.25%. A key factor enabling this rate cut was that CPI-indexed mortgage rates have started to catch up with higher real policy rates, and access to loans has tightened. This will put downward pressure on housing prices.

Impairment of intangible assets

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

Revaluation of investment properties

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

4. The Group

<i>Shares in the main subsidiaries in which Arion Bank holds a direct interest</i>			<i>Equity interest</i>	
	<i>Operating activity</i>	<i>Currency</i>	<i>30.9.2024</i>	<i>31.12.2023</i>
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

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



Notes to the Condensed Consolidated Interim Financial Statements

Operating segment reporting

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

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

5. Operating segments

Markets & Stefnir

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

Corporate & Investment Banking (CIB)

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

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

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

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

Retail Banking

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

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

Treasury

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

Other subsidiaries

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

Supporting units

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



Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments, continued

1.1.-30.9.2024	Markets and Stefnir	CIB including insurance	Retail including insurance	Treasury	Subsidiaries excl. Stefnir and Vördur	Supporting units and eliminations	Total
Income Statement							
Net interest income	905	19,641	12,033	2,593	(174)	58	35,056
Net fee and commission income	4,030	3,626	2,816	492	206	54	11,224
Insurance service results	-	(58)	1,649	-	-	248	1,839
Net financial income	68	1,013	611	(1,050)	20	(10)	652
Other operating income	2	5	27	-	(296)	36	(226)
Operating income	5,005	24,227	17,136	2,035	(244)	386	48,545
Operating expenses	(1,850)	(1,281)	(2,246)	(645)	(297)	(13,408)	(19,727)
Allocated expenses	(1,733)	(3,463)	(5,496)	(931)	(92)	11,715	-
Bank levy	(36)	(513)	(626)	(261)	-	-	(1,436)
Net impairment	-	(1,439)	(602)	(3)	-	-	(2,044)
Earnings before income tax	1,386	17,531	8,166	195	(633)	(1,307)	25,338
Net seg. rev. from ext. customers	2,061	31,363	33,138	(18,164)	(49)	196	48,545
Net seg. rev. from other segments	2,944	(7,136)	(16,002)	20,199	(195)	190	-
Operating income	5,005	24,227	17,136	2,035	(244)	386	48,545
Balance Sheet							
Loans to customers	4,813	571,470	643,670	7	-	464	1,220,424
Financial instruments	23,711	11,324	22,851	159,591	128	(3,298)	214,307
Other external assets	8,010	1,627	5,110	140,204	11,180	4,855	170,986
Internal assets	64,135	-	-	249,962	5,653	(319,750)	-
Total assets	100,669	584,421	671,631	549,764	16,961	(317,729)	1,605,717
Deposits	88,446	400,207	342,879	18,516	-	(1,614)	848,434
Other external liabilities	3,012	11,557	18,411	509,632	9,415	6,575	558,602
Internal liabilities	-	67,867	254,824	-	-	(322,691)	-
Total liabilities	91,458	479,631	616,114	528,148	9,415	(317,729)	1,407,037
Allocated equity	9,211	104,790	55,517	21,616	7,546	-	198,680



Notes to the Condensed Consolidated Interim Financial Statements

5. Operating segments, continued

1.1.-30.9.2023	Markets and Stefnir	CIB including insurance	Retail including insurance	Treasury	Subsidiaries excl. Stefnir and Vördur	Supporting units and eliminations	Total
Income Statement							
Net interest income	747	15,307	14,696	2,770	(207)	25	33,338
Net fee and commission income	4,281	3,698	3,401	585	193	328	12,486
Insurance service results	-	(262)	750	-	-	(52)	436
Net financial income	19	245	152	(382)	(15)	(23)	(4)
Other operating income	5	(6)	47	3	1,575	(11)	1,613
Operating income	5,052	18,982	19,046	2,976	1,546	267	47,869
Operating expenses	(1,784)	(956)	(2,605)	(530)	(292)	(11,704)	(17,871)
Allocated expenses	(1,632)	(2,902)	(6,091)	(910)	(17)	11,552	-
Bank levy	(35)	(446)	(626)	(267)	-	-	(1,374)
Net impairment	(13)	(1,125)	(340)	6	108	3	(1,361)
Earnings (loss) before income tax	1,588	13,553	9,384	1,275	1,345	118	27,263
Net seg. rev. from ext. customers	1,456	27,128	37,769	(20,316)	1,799	33	47,869
Net seg. rev. from other segments	3,596	(8,146)	(18,723)	23,292	(253)	234	-
Operating income	5,052	18,982	19,046	2,976	1,546	267	47,869
Balance Sheet							
Loans to customers	4,114	476,663	654,428	97	3	(684)	1,134,621
Financial instruments	26,417	8,550	20,093	173,646	152	(3,031)	225,827
Other external assets	5,780	1,497	6,314	108,233	12,811	23,143	157,778
Internal assets	63,032	-	-	292,165	5,935	(361,132)	-
Total assets	99,343	486,710	680,835	574,141	18,901	(341,704)	1,518,226
Deposits	89,371	297,140	337,879	58,978	-	(2,166)	781,202
Other external liabilities	1,636	9,648	17,016	492,093	8,721	21,594	550,708
Internal liabilities	-	96,590	264,542	-	-	(361,132)	-
Total liabilities	91,007	403,378	619,437	551,071	8,721	(341,704)	1,331,910
Allocated equity	8,336	83,332	61,398	23,070	10,180	-	186,316

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



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

Quarterly statements

6. Operations by quarters, unaudited

2024	Q1	Q2	Q3	Total
Net interest income	11,245	11,948	11,863	35,056
Net fee and commission income	3,365	3,979	3,880	11,224
Insurance service results	(216)	523	1,532	1,839
Net financial income	29	99	524	652
Other operating income	49	38	(313)	(226)
Operating income	14,472	16,587	17,486	48,545
Operating expenses	(6,552)	(7,154)	(6,021)	(19,727)
Bank levy	(460)	(476)	(500)	(1,436)
Net impairment	(315)	(775)	(954)	(2,044)
Earnings before income tax	7,145	8,182	10,011	25,338
Income tax expense	(2,704)	(2,671)	(2,114)	(7,489)
Net earnings from continuing operations	4,441	5,511	7,897	17,849
Discontinued operations, net of tax	(9)	(11)	(6)	(26)
Net earnings	4,432	5,500	7,891	17,823
2023				
Net interest income	10,994	11,426	10,918	33,338
Net fee and commission income	4,451	4,187	3,848	12,486
Insurance service results	(721)	762	395	436
Net financial income	796	(617)	(183)	(4)
Other operating income	19	1,586	8	1,613
Operating income	15,539	17,344	14,986	47,869
Operating expenses	(6,470)	(6,009)	(5,392)	(17,871)
Bank levy	(449)	(457)	(468)	(1,374)
Net impairment	(52)	(568)	(741)	(1,361)
Earnings before income tax	8,568	10,310	8,385	27,263
Income tax expense	(2,287)	(3,226)	(2,274)	(7,787)
Net earnings from continuing operations	6,281	7,084	6,111	19,476
Discontinued operations, net of tax	10	7	20	37
Net earnings	6,291	7,091	6,131	19,513



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

7. Net interest income

1.1.-30.9.2024

Interest income

	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Cash and balances with Central Bank	5,733	-	-	5,733
Loans to credit institutions	998	-	-	998
Loans to customers	90,523	50	-	90,573
Securities	-	1,218	4,307	5,525
Other	59	-	-	59
Interest income	97,313	1,268	4,307	102,888

Interest expense

Deposits	(41,876)	-	-	(41,876)
Borrowings	(18,297)	(4,472)	-	(22,769)
Subordinated liabilities	(2,633)	(449)	-	(3,082)
Other	(105)	-	-	(105)
Interest expense	(62,911)	(4,921)	-	(67,832)
Net interest income	34,402	(3,653)	4,307	35,056

1.1.-30.9.2023

Interest income

Cash and balances with Central Bank	4,063	-	-	4,063
Loans to credit institutions	1,032	13	-	1,045
Loans to customers	80,948	-	-	80,948
Securities	-	1,081	3,504	4,585
Other	14	-	-	14
Interest income	86,057	1,094	3,504	90,655

Interest expense

Deposits	(33,342)	-	-	(33,342)
Borrowings	(16,739)	(3,557)	-	(20,296)
Subordinated liabilities	(3,165)	(392)	-	(3,557)
Other	(122)	-	-	(122)
Interest expense	(53,368)	(3,949)	-	(57,317)
Net interest income	32,689	(2,855)	3,504	33,338

Net interest income calculated using the effective interest rate method were ISK 97,908 million during the period (9M 2023: ISK 86,692 million).



Notes to the Condensed Consolidated Interim Financial Statements

7. Net interest income, continued

1.7.-30.9.2024

Interest income

	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Cash and balances with Central Bank	1,715	-	-	1,715
Loans to credit institutions	334	-	-	334
Loans to customers	29,230	29	-	29,259
Securities	-	325	1,526	1,851
Other	51	-	-	51
Interest income	31,330	354	1,526	33,210

Interest expense

Deposits	(13,540)	-	-	(13,540)
Borrowings	(5,512)	(1,352)	-	(6,864)
Subordinated liabilities	(763)	(155)	-	(918)
Other	(25)	-	-	(25)
Interest expense	(19,840)	(1,507)	-	(21,347)
Net interest income	11,490	(1,153)	1,526	11,863

1.7.-30.9.2023

Interest income

Cash and balances with Central Bank	1,363	-	-	1,363
Loans to credit institutions	402	-	-	402
Loans to customers	26,640	-	-	26,640
Securities	-	448	1,561	2,009
Other	12	-	-	12
Interest income	28,417	448	1,561	30,426

Interest expense

Deposits	(11,950)	-	-	(11,950)
Borrowings	(5,083)	(1,383)	-	(6,466)
Subordinated liabilities	(922)	(144)	-	(1,066)
Other	(26)	-	-	(26)
Interest expense	(17,981)	(1,527)	-	(19,508)
Net interest income	10,436	(1,079)	1,561	10,918

Net interest income calculated using the effective interest rate method were ISK 31,652 million during the third quarter (Q3 2023: ISK 28,887 million).

	2024	2023	2024	2023
	1.1.-30.9.	1.1.-30.9.	1.7.-30.9.	1.7.-30.9.
Interest spread				
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%	3.1%	3.0%



Notes to the Condensed Consolidated Interim Financial Statements

8. Net fee and commission income

	1.1.-30.9.2024			1.1.-30.9.2023		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	4,020	(411)	3,609	4,251	(437)	3,814
Capital markets and corporate finance	1,173	(26)	1,147	1,938	(26)	1,912
Lending and financial guarantees	3,135	-	3,135	3,096	-	3,096
Collection and payment services	1,201	(87)	1,114	1,185	(54)	1,131
Cards and payment solution	3,925	(1,950)	1,975	4,026	(1,951)	2,075
Other	560	(585)	(25)	742	(541)	201
Commission expense from insurance operation	-	269	269	-	257	257
Net fee and commission income	14,014	(2,790)	11,224	15,238	(2,752)	12,486
	1.7.-30.9.2024			1.7.-30.9.2023		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,287	(131)	1,156	1,283	(143)	1,140
Capital markets and corporate finance	362	(8)	354	530	(7)	523
Lending and financial guarantees	1,196	-	1,196	839	-	839
Collection and payment services	419	(33)	386	458	(24)	434
Cards and payment solution	1,341	(591)	750	1,391	(660)	731
Other	139	(191)	(52)	264	(161)	103
Commission expense from insurance operation	-	90	90	-	78	78
Net fee and commission income	4,744	(864)	3,880	4,765	(917)	3,848

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

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

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

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

9. Insurance service results

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Insurance revenue	14,642	12,655	5,067	4,450
Incurred claims	(10,254)	(9,364)	(2,505)	(3,201)
Service expenses	(2,642)	(2,455)	(832)	(733)
Insurance service expenses	(12,896)	(11,819)	(3,337)	(3,934)
Net income (expense) from reinsurance contracts held	93	(400)	(198)	(121)
Insurance service results	1,839	436	1,532	395

Operation results of Vördur

Vördur's operation resulted in a profit of ISK 1,978 million for the first nine months of 2024 with a return on equity of 23.8%, compared with a profit of ISK 383 million for the same period 2023 and a return on equity of 5.3%.

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Insurance service results	1,839	436	1,532	395
Elimination and reclassification	13	354	(16)	125
Insurance service results according to the Financial Statements of Vördur	1,852	790	1,516	520
Investment return	1,397	22	822	(375)
Net financial loss from insurance contracts	(836)	(292)	(286)	(57)
Total investment return	562	(269)	536	(432)
Other income	8	8	3	3
Earnings before income tax	2,422	528	2,055	91
Income tax	(444)	(146)	(318)	(43)
Net earnings	1,978	383	1,737	48

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group

87.4% 93.9% 70.0% 88.6%



Notes to the Condensed Consolidated Interim Financial Statements

10. Net financial income

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	2,212	(420)	956	(468)
(Loss) gain on prepayments of borrowings	(209)	(225)	51	-
Net (loss) gain on fair value hedge of interest rate swap	(216)	(47)	87	39
Net realized (loss) gain on financial assets carried at fair value through OCI	(148)	265	(15)	(5)
Net financial loss from insurance contracts	(836)	(292)	(286)	(57)
Net foreign exchange (loss) gain	(151)	715	(269)	308
Net financial income	652	(4)	524	(183)
<i>Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss</i>				
Equity instruments	866	(432)	736	56
Debt instruments	1,290	160	249	(419)
Derivatives	66	(148)	(19)	(105)
Loans	(10)	-	(10)	-
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	2,212	(420)	956	(468)
<i>Net (loss) gain on fair value hedge of interest rate swap</i>				
Fair value change of interest rate swaps designated as hedging instruments	4,714	1,573	4,420	1,155
Fair value change on bonds issued by the Group attributable to interest rate risk	(4,930)	(1,620)	(4,333)	(1,116)
Net (loss) gain on fair value hedge of interest rate swap	(216)	(47)	87	39

11. Other operating income

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Fair value changes on investment property	(340)	(3)	-	-
Net gain (loss) on disposal of assets	2	(7)	13	2
Net gain (loss) on assets held for sale	11	1,563	(352)	-
Share of profit (loss) of associates	43	(15)	16	5
Other income	58	75	10	1
Other operating income	(226)	1,613	(313)	8

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

12. Operating expenses

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Salaries and related expenses	12,406	11,363	3,777	3,285
Other operating expenses	9,695	8,705	2,985	2,758
Operating expenses from insurance operation	(2,374)	(2,197)	(741)	(651)
Operating expenses	19,727	17,871	6,021	5,392



Notes to the Condensed Consolidated Interim Financial Statements

13. Personnel and salaries

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Number of employees				
Average number of full-time equivalent positions during the period	829	787	834	791
Full-time equivalent positions at the end of the period	851	800	851	800
Salaries and related expenses				
Salaries	9,575	8,680	2,912	2,485
Incentive scheme	(43)	(12)	(19)	20
Share-based payment expenses	122	151	40	45
Defined contribution pension plans	1,395	1,282	422	370
Salary-related expenses	1,357	1,262	422	365
Salaries and related expenses	12,406	11,363	3,777	3,285

Incentive schemes

During the period the Group revised the provision for the incentive scheme which resulted in reversal of ISK 56 million in provision, including salary-related expenses (9M 2023: ISK 16 million reversal). At period end the Group's accrual for the incentive scheme payments amounted to ISK 967 million (31.12.2023: ISK 1,997 million).

Current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is split into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares in the Bank. Of this 25%, a total of 60% will be delivered immediately but is subject to a 3-year lock-up period. The remaining 40% is delivered in four to five years' time. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics are for example ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Stefnir hf. has a special incentive scheme where other criteria are used as a basis. No accrual was recognised in the Income Statement for the period. Given that all criterion will be met the maximum total expense is estimated to be ISK 1.9 billion, including salary related expenses, or ISK 0.9 billion due to the group subject to the 10% of their fixed salary and ISK 1.0 billion due to the group subject to the 25% of their fixed salary.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 122 million was recognised in the Income Statement during the period (9M 2023: ISK 151 million). Estimated remaining expenses due the share option contracts are ISK 154 million and will be expensed over the next three years. For further information on the share option program, see Note 37.

14. Other operating expenses

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
IT expenses				
IT expenses	3,777	3,383	1,255	1,121
Professional services	998	875	289	287
Marketing	872	862	334	299
Housing expenses	371	459	111	155
Other administration expenses*	2,417	1,826	580	469
Depreciation and impairment of property and equipment	421	400	142	129
Depreciation of right of use asset	104	100	36	34
Amortization of intangible assets	735	800	238	264
Other operating expenses	9,695	8,705	2,985	2,758

* Included ISK 585 million fine following settlement with the Financial supervision of the Central Bank in June 2024.



Notes to the Condensed Consolidated Interim Financial Statements

15. Bank levy

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

16. Net impairment

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
<i>Net impairment on financial instruments and value changes on loans</i>				
Net impairment on loans to customers and financial institutions	(2,072)	(1,727)	(965)	(1,052)
Net impairment on other financial instruments at FVOCI	(2)	1	(1)	-
Other value changes of loans - corporates	11	23	1	16
Other value changes of loans - individuals	19	342	11	295
Net impairment	(2,044)	(1,361)	(954)	(741)
<i>Net impairment by customer type</i>				
Individuals	(513)	(225)	(68)	(123)
Corporates	(1,531)	(1,136)	(886)	(618)
Net impairment	(2,044)	(1,361)	(954)	(741)

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

17. Income tax expense

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Current tax expense	7,157	7,393	2,553	2,152
Deferred tax expense	332	394	(439)	122
Income tax expense	7,489	7,787	2,114	2,274

	2024 1.1.-30.9.	2023 1.1.-30.9.
<i>Reconciliation of effective tax rate</i>		
Earnings before income tax	25,338	27,263
Income tax using the Icelandic corporate tax rate	21.0%	20.0%
Additional 6% tax on Financial Undertakings	5.6%	5.6%
Non-deductible expenses	0.6%	0.2%
Tax exempt revenues / loss	1.0%	1.6%
Non-deductible taxes (Bank levy)	1.1%	1.0%
Tax incentives not recognized in the Income Statement	(0.2%)	(0.2%)
Other changes	0.4%	0.4%
Effective tax rate	29.6%	28.6%

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

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



Notes to the Condensed Consolidated Interim Financial Statements

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

	2024 1.1.-30.9.	2023 1.1.-30.9.	2024 1.7.-30.9.	2023 1.7.-30.9.
Net (loss) gain from discontinued operations held for sale	(26)	35	(6)	20
Income tax expense	-	2	-	-
Discontinued operations held for sale, net of income tax	(26)	37	(6)	20

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

19. Earnings per share

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

	Continued operations		Discontinued operations		Net Earnings	
	2024	2023	2024	2023	2024	2023
1.1.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	17,847	19,465	(26)	37	17,821	19,502
Total compreh.income attributable to the shareholders	18,143	19,571	(26)	37	18,117	19,608
Weighted average number of outstanding shares (millions)	1,431	1,455	1,431	1,455	1,431	1,455
Weighted average number of outstanding shares including options (millions)	1,448	1,540	1,448	1,540	1,448	1,540
Basic earnings per share (ISK)	12.47	13.38	(0.02)	0.03	12.45	13.40
Diluted earnings per share (ISK)	12.33	12.64	(0.02)	0.02	12.00	13.00
Basic comprehensive income per share (ISK)	12.68	13.45	(0.02)	0.03	12.66	13.48
Diluted comprehensive income per share (ISK)	12.53	12.71	(0.02)	0.02	12.51	12.73
1.7.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	7,878	6,116	(6)	20	7,872	6,136
Total compreh.income attributable to the shareholders	8,096	6,179	(6)	20	8,090	6,199
Weighted average number of outstanding shares (millions)	1,400	1,463	1,400	1,463	1,400	1,463
Weighted average number of outstanding shares including warrants and options (millions)	1,417	1,548	1,417	1,548	1,417	1,548
Basic earnings per share (ISK)	5.63	4.18	(0.00)	0.01	5.62	4.19
Diluted earnings per share (ISK)	5.56	3.95	(0.00)	0.01	5.56	3.96
Basic comprehensive income per share (ISK)	5.78	4.22	(0.00)	0.01	5.78	4.24
Diluted comprehensive income per share (ISK)	5.71	3.99	(0.00)	0.01	5.71	4.00



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Statement of Financial Position

20. Cash and balances with Central Bank

	30.9.2024	31.12.2023
Cash on hand	2,754	4,190
Cash with Central Bank	63,692	82,179
Mandatory reserve deposit with Central Bank	29,877	15,726
Cash and balances with Central Bank	96,323	102,095

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations. The minimum fixed reserve requirement of the Central Bank increased from 2% to 3% in May 2024, bearing nil interest.

21. Loans to credit institutions

	30.9.2024	31.12.2023
Bank accounts	32,772	28,624
Other loans	-	211
Loans to credit institutions	32,772	28,835

22. Loans to customers

	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
30.9.2024						
Overdrafts	14,268	13,572	43,433	42,490	57,701	56,062
Credit cards	17,533	17,270	2,427	2,357	19,960	19,627
Loans to customers at fair value	-	-	1,665	1,249	1,665	1,249
Mortgage loans	581,665	580,813	69,758	69,111	651,423	649,924
Construction loans	-	-	48,793	48,441	48,793	48,441
Capital lease	1,513	1,494	7,234	7,157	8,747	8,651
Other loans	28,575	27,790	413,429	408,680	442,004	436,470
Loans to customers	643,554	640,939	586,739	579,485	1,230,293	1,220,424
31.12.2023						
Overdrafts	13,840	13,232	43,013	42,129	56,853	55,361
Credit cards	15,972	15,783	2,062	2,010	18,034	17,793
Mortgage loans	550,269	549,371	68,840	68,277	619,109	617,648
Construction loans	-	-	49,267	49,031	49,267	49,031
Capital lease	2,352	2,331	6,893	6,832	9,245	9,163
Other loans	29,184	28,427	379,648	375,366	408,832	403,793
Loans to customers	611,617	609,144	549,723	543,645	1,161,340	1,152,789

The total book value of pledged loans that were pledged against outstanding borrowings was ISK 299 billion at the end of the period (31.12.2023: ISK 359 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

23. Financial instruments

	30.9.2024	31.12.2023
Bonds and debt instruments	169,586	157,197
Shares and equity instruments with variable income	16,857	17,656
Derivatives	8,886	6,602
Securities used for economic hedging	18,978	24,251
Financial instruments	214,307	205,706



Notes to the Condensed Consolidated Interim Financial Statements

24. Financial assets and financial liabilities

30.9.2024

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	96,323	-	-	96,323
Loans to credit institutions	32,772	-	-	32,772
Loans to customers	1,219,175	-	1,249	1,220,424
Loans	1,348,270	-	1,249	1,349,519
Bonds and debt instruments				
Listed	-	133,239	35,735	168,974
Unlisted	-	-	612	612
Bonds and debt instruments	-	133,239	36,347	169,586
Shares and equity instruments with variable income				
Listed	-	-	9,134	9,134
Unlisted	-	-	6,894	6,894
Bond funds with variable income, unlisted	-	-	829	829
Shares and equity instruments with variable income	-	-	16,857	16,857
Derivatives				
OTC derivatives	-	-	5,832	5,832
Derivatives used for hedge accounting	-	-	3,054	3,054
Derivatives	-	-	8,886	8,886
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,459	2,459
Shares and equity instruments with variable income, listed	-	-	16,519	16,519
Securities used for economic hedging	-	-	18,978	18,978
Other financial assets				
Accounts receivable	2,303	-	-	2,303
Other financial assets	15,890	-	-	15,890
Other financial assets	18,193	-	-	18,193
Financial assets	1,366,463	133,239	82,317	1,582,019
Financial liabilities				
Due to credit institutions and Central Bank	6,715	-	-	6,715
Deposits	848,434	-	-	848,434
Borrowings *	431,105	-	-	431,105
Subordinated liabilities *	44,184	-	-	44,184
Short position in bonds used for economic hedging	-	-	102	102
Derivatives	-	-	1,443	1,443
Derivatives used for hedge accounting	-	-	5,550	5,550
Other financial liabilities	24,993	-	-	24,993
Financial liabilities	1,355,431	-	7,095	1,362,526

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

24. Financial assets and financial liabilities, continued

31.12.2023

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	102,095	-	-	102,095
Loans to credit institutions	28,835	-	-	28,835
Loans to customers	1,152,789	-	-	1,152,789
Loans	1,283,719	-	-	1,283,719
Bonds and debt instruments				
Listed	-	129,564	27,059	156,623
Unlisted	-	-	574	574
Bonds and debt instruments	-	129,564	27,633	157,197
Shares and equity instruments with variable income				
Listed	-	-	7,093	7,093
Unlisted	-	-	9,961	9,961
Bond funds with variable income, unlisted	-	-	602	602
Shares and equity instruments with variable income	-	-	17,656	17,656
Derivatives				
OTC derivatives	-	-	4,539	4,539
Derivatives used for hedge accounting	-	-	2,063	2,063
Derivatives	-	-	6,602	6,602
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,195	2,195
Shares and equity instruments with variable income, listed	-	-	22,056	22,056
Securities used for economic hedging	-	-	24,251	24,251
Other financial assets				
Accounts receivable	1,765	-	-	1,765
Other financial assets	10,423	-	-	10,423
Other financial assets	12,188	-	-	12,188
Financial assets	1,295,907	129,564	76,142	1,501,613
Financial liabilities				
Due to credit institutions and Central Bank	2,771	-	-	2,771
Deposits	792,710	-	-	792,710
Borrowings *	420,460	-	-	420,460
Subordinated liabilities *	41,279	-	-	41,279
Short position in equity used for economic hedging	-	-	61	61
Derivatives	-	-	2,332	2,332
Derivatives used for hedge accounting	-	-	9,253	9,253
Other financial liabilities	10,790	-	-	10,790
Financial liabilities	1,268,010	-	11,646	1,279,656

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

24. Financial assets and financial liabilities, continued

		Fair value through OCI	Mandatorily at fair value thr. P/L	Total
<i>Bonds and debt instruments measured at fair value, specified by issuer</i>				
30.9.2024				
Financial and insurance activities	952	10,328	11,280	
Public sector	132,287	22,864	155,151	
Corporates	-	3,155	3,155	
Bonds and debt instruments at fair value	133,239	36,347	169,586	
31.12.2023				
Financial and insurance activities	1,386	10,363	11,749	
Public sector	128,178	14,077	142,255	
Corporates	-	3,193	3,193	
Bonds and debt instruments at fair value	129,564	27,633	157,197	

The total amount of pledged bonds was ISK 3.3 billion at the end of the period (31.12.2023: ISK 3.0 billion). Pledged bonds comprise Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

25. Fair value hierarchy

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

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

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

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

30.9.2024

	Level 1	Level 2	Level 3	Total
<i>Assets at fair value</i>				
Loans to customers	-	-	1,249	1,249
Bonds and debt instruments	166,040	3,541	5	169,586
Shares and equity instruments with variable income	8,815	6,410	1,632	16,857
Derivatives	-	5,832	-	5,832
Derivatives used for hedge accounting	-	3,054	-	3,054
Securities used for economic hedging	18,978	-	-	18,978
Investment property	-	-	9,327	9,327
Assets at fair value	193,833	18,837	12,213	224,883
Short position in bonds used for economic hedging	102	-	-	102
Derivatives	-	1,443	-	1,443
Derivatives used for hedge accounting	-	5,550	-	5,550
Liabilities at fair value	102	6,993	-	7,095



Notes to the Condensed Consolidated Interim Financial Statements

25. Fair value hierarchy, continued

31.12.2023

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

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

Fair value of assets and liabilities

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

Methods for establishing fair value

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

In some cases, the carrying value of an asset in Note 24 is used as an approximation for the fair value of the asset. This is straight forward for cash and cash equivalents but is also used for short term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that feature interest close to or equal to market rates and expose the Group to little or no credit risk.

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

25. Fair value hierarchy, continued

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

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

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

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

Movements in Level 3 assets measured at fair value

	Investment property	Financial assets			Total
		Loans	Bonds	Shares	
1.1.-30.9.2024					
Balance at the beginning of the year	9,493	-	27	3,595	13,115
Net fair value changes	(340)	41	(20)	469	150
Additions	174	1,208	-	-	1,382
Disposals	-	-	(2)	(2,432)	(2,434)
Balance at the end of the period	9,327	1,249	5	1,632	12,213

1.1.-31.12.2023

Balance at the beginning of the year	7,862	-	102	1,932	9,896
Net fair value changes	1,569	-	(72)	652	2,149
Additions	62	-	-	1,858	1,920
Disposals	-	-	(3)	(975)	(978)
Transfers into Level 3	-	-	-	128	128
Balance at the end of the year	9,493	-	27	3,595	13,115

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

	Investment property	Financial assets			Total
		Loans	Bonds	Shares	
1.1.-30.9.2024					
Net financial income	-	50	-	-	50
Net financial income	-	(9)	(20)	469	440
Other operating income	(340)	-	-	-	(340)
Effects recognized in the Income Statement	(340)	41	(20)	469	150

1.1.-31.12.2023

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



Notes to the Condensed Consolidated Interim Financial Statements

25. Fair value hierarchy, continued

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

30.9.2024	Carrying value	Fair value	Unrealized (loss) gain
<i>Financial assets not carried at fair value</i>			
Cash and balances with Central Bank	96,323	96,323	-
Loans to credit institutions	32,772	32,772	-
Loans to customers	1,219,175	1,202,439	(16,736)
Other financial assets	18,193	18,193	-
Financial assets not carried at fair value	1,366,463	1,349,727	(16,736)

Financial liabilities not carried at fair value

Due to credit institutions and Central Bank	6,715	6,715	-
Deposits	848,434	848,434	-
Borrowings	431,105	425,182	5,923
Subordinated liabilities	44,184	44,999	(815)
Other financial liabilities	24,993	24,993	-
Financial liabilities not carried at fair value	1,355,431	1,350,323	5,108

31.12.2023

Financial assets not carried at fair value

Cash and balances with Central Bank	102,095	102,095	-
Loans to credit institutions	28,835	28,835	-
Loans to customers	1,152,789	1,145,363	(7,426)
Other financial assets	12,188	12,188	-
Financial assets not carried at fair value	1,295,907	1,288,481	(7,426)

Financial liabilities not carried at fair value

Due to credit institutions and Central Bank	2,771	2,771	-
Deposits	792,710	792,710	-
Borrowings	420,460	419,008	1,452
Subordinated liabilities	41,279	41,154	125
Other financial liabilities	10,790	10,790	-
Financial liabilities not carried at fair value	1,268,010	1,266,433	1,577

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

Derivatives

30.9.2024	Notional value	Fair value	
		Assets	Liabilities
Forward exchange rate agreements	58,092	160	603
Fair value hedge of interest rate swap	243,811	3,054	5,550
Interest rate and exchange rate agreements	44,079	602	209
Bond swap agreements	3,065	106	2
Share swap agreements	20,729	4,394	629
Options - purchased agreements	1	570	-
Derivatives	369,777	8,886	6,993

31.12.2023

Forward exchange rate agreements	54,756	414	236
Fair value hedge of interest rate swap	235,726	2,063	9,253
Interest rate and exchange rate agreements	47,377	998	1,017
Bond swap agreements	2,218	67	50
Share swap agreements	24,689	3,060	1,029
Derivatives	364,766	6,602	11,585



Notes to the Condensed Consolidated Interim Financial Statements

25. Fair value hierarchy, continued

Fair value hedge of interest rate swap

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

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

During 2024 the slope for the regression line was in all cases within the range of 0.90-1.00 and the regression coefficient was at least 0.97. During 2023, the slope of the regression line was in all cases within the range of 0.92-1.08 and the regression coefficient was at least 0.94. In all cases the effectiveness is within limits in 2024 and 2023.

	Notional	Maturity date	Fair value		Gain (loss) on FV changes
			Assets	Liabilities	
1.1.-30.9.2024					
Interest rates swaps - EUR	-	-	-	-	213
Interest rates swaps - USD	13,509	6-12 mth	-	360	386
Interest rates swaps - EUR	75,255	1-5 years	-	2,530	1,596
Interest rates swaps - EUR	45,153	6-12 mth	-	2,566	1,181
Interest rates swaps - EUR	-	-	-	-	157
Interest rates swaps - EUR	45,153	1-5 years	1,250	-	(4)
Interest rates swaps - USD	2,702	1-5 years	150	-	96
Interest rates swaps - EUR	45,153	1-5 years	1,654	-	1,178
Interest rates swaps - USD	16,886	1-5 years	-	95	(89)
			3,054	5,551	4,714
1.1.-31.12.2023					
Interest rates swaps - EUR	-	-	-	-	76
Interest rates swaps - EUR	11,957	3-6 mth	-	228	650
Interest rates swaps - USD	13,582	1-5 years	-	534	354
Interest rates swaps - EUR	75,067	1-5 years	-	5,183	3,205
Interest rates swaps - EUR	45,040	1-5 years	-	2,725	1,617
Interest rates swaps - EUR	45,040	1-5 years	-	583	307
Interest rates swaps - EUR	45,040	1-5 years	2,063	-	436
			2,063	9,253	6,645

Hedged borrowings and subordinated liabilities

	Book value	Accumulated fair value		Gain (loss) on FV changes
		Assets	Liabilities	
1.1.-30.9.2024				
EUR 300 million - issued 2020 - 4 years	-	-	-	(205)
USD 100 million - issued 2020 - Perpetual	2,780	226	-	(385)
EUR 500 million - issued 2021 - 5 years	71,484	2,872	-	(1,596)
EUR 300 million - issued 2021 - 4 years	44,045	1,126	-	(1,181)
EUR 300 million - issued 2022 - 2 years	-	-	-	(469)
EUR 300 million - issued 2023 - 3 years	46,655	-	437	3
USD 21 million - issued 2024 - 3 years	2,930	-	95	(97)
EUR 300 million - issued 2024 - 4 years	46,921	-	1,175	(1,176)
USD 125 million - issued 2024 - Perpetual	16,584	176	-	176
Hedged borrowings and subordinated liabilities	231,399	4,400	1,707	(4,930)

1.1.-31.12.2023

EUR 300 million - issued 2018 - 5 years	-	-	-	(156)
EUR 300 million - issued 2020 - 4 years	11,776	206	-	(632)
USD 100 million - issued 2020 - Perpetual	13,216	608	-	(336)
EUR 500 million - issued 2021 - 5 years	69,338	4,455	-	(3,207)
EUR 300 million - issued 2021 - 4 years	42,740	2,303	-	(1,612)
EUR 300 million - issued 2022 - 2 years	44,552	471	-	(305)
EUR 300 million - issued 2023 - 3 years	47,326	-	443	(442)
Hedged borrowings and subordinated liabilities	228,948	8,043	443	(6,690)

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 90-100%.



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26. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet			Assets not subject to Total assets		
	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets enforceable	Netting arrangements	Total assets on Balance Sheet, net
30.9.2024									
Reverse repurchase agreements	16,690	(10,445)	6,245	10,445	-	16,690	-	-	6,245
Derivatives	3,423	-	3,423	(1,417)	-	2,006	5,463	8,886	
Bank accounts netted against fin. liab.	4,833	-	4,833	(4,833)	-	-	-	-	4,833
Total assets	24,946	(10,445)	14,501	4,195	-	18,696	5,463	19,964	
31.12.2023									
Reverse repurchase agreements	16,982	(10,164)	6,818	10,164	-	16,982	-	-	6,818
Derivatives	3,935	-	3,935	(2,452)	-	1,483	2,667	6,602	
Bank accounts netted against fin. liab.	7,589	-	7,589	(7,589)	-	-	-	-	7,589
Total assets	28,506	(10,164)	18,342	123	-	18,465	2,667	21,009	

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet			Liabilities not subject to Total liabilities		
	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged	Assets after consideration of netting potential	Assets enforceable	Netting arrangements	Total liabilities on balance sheet
30.9.2024									
Repurchase agreements	-	(10,445)	(10,445)	10,445	-	-	-	-	(10,445)
Derivatives	6,000	-	6,000	(6,190)	-	(190)	993	6,993	
Depositor netted against other assets	60	-	60	(60)	-	-	-	-	60
Total liabilities	6,060	(10,445)	(4,385)	4,195	-	(190)	993	(3,392)	
31.12.2023									
Repurchase agreements	-	(10,164)	(10,164)	10,164	-	-	-	-	(10,164)
Derivatives	11,430	-	11,430	(9,700)	-	1,730	155	11,585	
Depositor netted against other assets	341	-	341	(341)	-	-	-	-	341
Total liabilities	11,771	(10,164)	1,607	123	-	1,730	155	1,762	

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

27. Investments in associates

30.9.2024 31.12.2023

Carrying amount at the beginning of the year		789	787
Increased share capital		-	72
Share of profit (loss) of associates		43	(70)
Investment in associates		833	789

The Group's interest in its principal associates

Bílafrágangur ehf., Lágmúli 5, Reykjavík, Iceland	33.4%	33.4%
Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Katrínartún 2, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík	35.3%	35.3%



Notes to the Condensed Consolidated Interim Financial Statements

28. Intangible assets

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

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

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

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

<i>Policies applied to the Group's intangible assets</i>	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated
Customer relationship and related agreements			
1.1.-30.9.2024	Goodwill	Infra-structure	and related agreements
Balance at the beginning of the year	730	2,383	487
Additions	-	-	-
Amortization	-	-	(45)
Balance at the end of the period	730	2,383	442
Software			
1.1.-31.12.2023			Total
Balance at the beginning of the year	730	2,383	4,451
Additions	-	-	517
Amortization	-	-	(690)
Balance at the end of the year	730	2,383	4,278
Total			
Goodwill related to the insurance operation is recognized among assets in the operating segments Corporate & Investment Banking and Retail Banking. Goodwill related to the subsidiary Leiguskjól is recognized in the operating segment Other subsidiaries, see Note 5.			



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29. Tax assets and tax liabilities

	30.9.2024		31.12.2023	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	10,647	-	9,227
Deferred tax	2	2,237	39	1,942
Tax assets and tax liabilities	2	12,884	39	11,169

30. Assets and disposal groups held for sale

	30.9.2024	31.12.2023
Real estate and other assets	34	62
Assets and disposal groups held for sale	34	62

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

31. Other assets

	30.9.2024	31.12.2023
Property and equipment	3,455	3,672
Right-of-use asset	843	872
Accounts receivable	2,303	1,765
Unsettled securities trading	12,064	7,781
Sundry assets	5,197	3,723
Other assets	23,862	17,813

32. Other liabilities

	30.9.2024	31.12.2023
Accounts payable	1,069	1,274
Unsettled securities trading	15,906	2,474
Insurance contract liabilities	21,754	20,196
Withholding tax	918	6,026
Bank levy	2,053	1,807
Accrued expenses	4,389	4,895
Prepaid income	1,493	1,547
Impairment of off-balance items	610	363
Lease liability	1,021	1,074
Sundry liabilities	7,407	6,680
Other liabilities	56,620	46,336
<i>Insurance contract liabilities</i>		
Liabilities for remaining coverage	4,187	3,910
Liabilities for incurred claims	16,794	15,597
Risk adjustment	774	689
Insurance contract liabilities	21,754	20,196



Notes to the Condensed Consolidated Interim Financial Statements

33. Borrowings

	First issued	Maturity	type	Terms of interest	30.9.2024	31.12.2023
Currency, original nominal value						
ARION CB 24 ISK 28,900 million	2019	2024	At maturity	Fixed, 6.00%	-	13,664
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed, CPI linked, 3.00%	42,410	50,880
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed, CPI linked, 2.00%	21,666	20,628
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed, EUR 0.05%	71,484	69,337
ARION CB 27, ISK 53,100 million	2022	2027	At maturity	Fixed, 5.50%	25,832	17,680
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed, CPI linked, 3.50%	40,253	38,239
ARION CBI 30, ISK 31,920 million	2023	2030	At maturity	Fixed, CPI linked, 2.75%	31,933	10,204
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed, CPI linked, 2.50%	12,561	12,440
Statutory covered bonds					246,139	233,072
EUR 300 million *	2020	2024	At maturity	Fixed, 0.625 %	-	11,776
EUR 300 million Green *	2022	2024	At maturity	Fixed, 4.875%	-	44,552
ARION 24 1020 Green (ISK 6,020m)	2022	2024	At maturity	Floating, REIBOR 3M +0.70%	6,104	6,105
EUR 300 million Green *	2021	2025	At maturity	Fixed, 0.375%	44,045	42,740
NOK 550 million	2022	2025	At maturity	Floating, OIBOR 3M +2.35%	7,107	7,417
SEK 230 million	2022	2025	At maturity	Floating, STIBOR 3M +2.35%	3,083	3,128
NOK 200 million	2023	2025	At maturity	Floating, OIBOR 3M + 2.55%	2,568	2,683
ARION 26 1222 Green (ISK 5,760m)	2021	2026	At maturity	Fixed, 4.70%	5,602	5,405
SEK 300 million	2023	2026	At maturity	Floating, STIBOR 3M + 3.00%	4,002	4,059
EUR 300 million*	2023	2026	At maturity	Fixed, 7.25%	46,655	47,326
USD 21 million*	2024	2027	At maturity	Fixed, 6.25%	2,930	-
NOK 250 million	2017	2027	At maturity	Fixed, 3.40%	3,252	3,425
Arion 28 1512, ISK 12,060 million	2023	2028	At maturity	Fixed, CPI linked, 4.35%	12,698	8,772
EUR 300 million *	2024	2028	At maturity	Fixed, 4.625%	46,921	-
Senior unsecured bonds					184,966	187,388
Borrowings					431,105	420,460

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 25. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate bonds in EUR arising from changes in interest rates.

The book value of listed bonds was ISK 431 billion at the end of the period (31.12.2023: ISK 420 billion). The market value of those bonds was ISK 425 billion (31.12.2023: ISK 419 billion). The Group repurchased own debts amounting to ISK 54 billion during the period with a net loss of ISK 209 million recognized in the Income Statement (9M 2023: ISK 225 million).

34. Subordinated liabilities

	Issued	Maturity	First call date	Terms of interest	30.9.2024	31.12.2023
Currency, original nominal value						
NOK 300 million	2019	2029	9 Jul '24	Floating, NIBOR +3.65%	-	4,096
SEK 225 million	2019	2029	20 Dec '24	Floating, 3 mth STIBOR +3.70% ...	3,002	3,046
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed, CPI linked, 3.875%	6,544	6,312
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed, 6.75%	893	908
EUR 5 million	2019	2031	6 Mar '26	Fixed, 3.24%	762	766
ARION T2I 33 9,860 million	2022	2033	15 Dec '28	Fixed, CPI linked, 4.95%	11,319	10,685
ARION T2 33 2,240 million	2022	2033	15 Dec '28	Fixed, 9.25%	2,300	2,249
Tier 2 subordinated liabilities					24,820	28,062
ARION AT1 USD 100 million *	2020	Perpetual	26 Aug '25	Fixed, 6.25%	2,780	13,217
ARION AT1 USD 125 million *	2024	Perpetual	24 Mar '30	Fixed, 8.125%	16,584	-
Additional Tier 1 subordinated liabilities					19,364	13,217
Subordinated liabilities					44,184	41,279

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 25.

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



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35. Liabilities arising from financial activities

	At 1 Jan.	Non-cash changes					At period end
		Cash flows	Interest expenses	Foreign exchange from hedge	Effect		
1.1.-30.9.2024							
Covered bonds in ISK - CPI linked.....	132,391	6,755	9,677	-	-	148,823	
Covered bonds in ISK.....	31,344	(6,802)	1,290	-	-	25,832	
Covered bonds in FX.....	69,337	1,522	2,432	(174)	(1,633)	71,484	
Senior unsecured bonds in FX.....	167,106	(11,914)	7,897	469	(2,996)	160,562	
Senior unsecured bonds in ISK.....	11,510	(503)	699	-	-	11,706	
Senior unsecured bonds in ISK - CPI linked.....	8,772	3,152	774	-	-	12,698	
Subordinated bond T2 in ISK - CPI linked.....	16,997	(517)	1,383	-	-	17,863	
Subordinated bond T2 ISK.....	3,157	(164)	200	-	-	3,193	
Subordinated bond T2 FX.....	7,908	(4,668)	362	162	-	3,764	
Subordinated bond AT1 FX.....	13,217	4,956	1,137	139	(85)	19,364	
Liabilities arising from financial activities.....	461,739	(8,183)	25,851	596	(4,714)	475,289	
1.1.-31.12.2023							
Covered bonds in ISK - CPI linked.....	113,833	5,849	12,709	-	-	132,391	
Covered bonds in ISK.....	32,794	(3,689)	2,239	-	-	31,344	
Covered bonds in FX.....	66,231	(5,475)	5,681	(368)	3,268	69,337	
Senior unsecured bonds in FX.....	168,261	(9,597)	5,858	(2,082)	4,666	167,106	
Senior unsecured bonds in ISK.....	11,444	(778)	844	-	-	11,510	
Senior unsecured bonds in ISK - CPI linked.....	-	8,740	32	-	-	8,772	
Subordinated bond T2 in ISK - CPI linked.....	15,735	(750)	2,012	-	-	16,997	
Subordinated bond T2 ISK.....	3,156	(266)	267	-	-	3,157	
Subordinated bond T2 FX.....	15,044	(7,527)	937	(565)	19	7,908	
Subordinated bond AT1 FX.....	13,396	(1,598)	1,437	(395)	377	13,217	
Liabilities arising from financial activities.....	439,894	(15,091)	32,016	(3,410)	8,330	461,739	

36. Pledged assets

		30.9.2024	31.12.2023
<i>Pledged assets against liabilities</i>			
Assets, pledged as collateral against borrowings		378,617	380,860
Assets pledged as a collateral against loans from banks and other financial liabilities		8,092	10,582
Pledged assets against liabilities		386,709	391,442
Thereof pledged assets against issued covered bonds held by the Bank		(90,821)	(86,682)
Assets against repoed issued bonds		15,336	16,585
Pledged assets against liabilities on balance		311,224	321,345

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 246 billion at period end (31.12.2023: ISK 233 billion).

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

The Group has issued covered bonds amounting to ISK 65 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2023: ISK 58 billion). Pledged assets against those covered bonds are ISK 75 billion (31.12.2023: ISK 70 billion).



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37. Equity

Share capital and share premium

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

	Share capital	Own shares	Share premium	Total 2024	Share capital	Own shares	Share premium	Total 2023
Balance at the beginning of the year	1,460	(14)	9,188	10,634	1,510	(45)	11,907	13,372
Issued share capital	53	-	6,187	6,240	-	-	27	27
Share capital reduction	-	-	-	-	(50)	50	-	-
Purchase of treasury shares	-	(90)	(12,362)	(12,452)	-	(22)	(3,238)	(3,260)
Share option vested	-	3	280	282	-	2	295	297
Incentive scheme	-	1	164	165	-	1	194	195
Warrants excercised	-	-	816	816	-	-	3	3
Balance at the end of the period	1,513	(100)	4,273	5,686	1,460	(14)	9,187	10,634
Own shares / issued share capital			6.65%				0.95%	

In 2024 the nominal value of Arion Bank's share capital was increased by ISK 53,198,719 in order to cover the exercising of issued warrants. Corresponding increase was made in December 2023, amounting to ISK 224,359. Arion Bank's share capital thus increased from ISK 1,460 million to ISK 1,513 million in 2024. At the AGM 2023 a motion was passed to reduce the Bank's share capital by ISK 50 million. The reduction was effective 25 April 2023 and Arion Bank's share capital was reduced from ISK 1,510 million to ISK 1,460 million.

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In 2024 the FSA authorized the Bank to initiate share buy-back programs in Iceland and Sweden amounting up to a total of 94.2 million shares or up to ISK 12.5 billion, of which 38.5 million shares or up to ISK 5.0 billion were subject to conditions that it could only be used to buy back shares resulting from a share issuance due to exercise of outstanding warrants in August 2024. The program ended in September 2024. In 2022 the FSA authorized a buyback program amounting up to a total of 57.3 million shares or up to ISK 10 billion. The program ended in June 2023.

Share options

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

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

	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 600,000) - employees of Arion Bank	5,190	2025-2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	5,175	2025-2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	3,493	2025-2026	153.75
Issued in 2024 (ISK 1,500,000) - employees of Arion Bank	1,618	2025-2026	155.75
Issued in 2023 (ISK 1,500,000) - employees of subsidiaries	1,306	2025-2026	140.56
Issued in 2024 (ISK 1,500,000) - employees of subsidiaries	335	2025-2026	143.36
			17,116



Notes to the Condensed Consolidated Interim Financial Statements

37. Equity, continued

Movements in share options during the period.

		30.9.2024		31.12.2023	
		Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year		24,435	136.3	30,882	143.2
Share options granted		1,953	153.6	16,349	153.8
Share options forfeited		(6,766)	148.2	(20,152)	168.2
Share options exercised, WAVG share price ISK 154.3 at exercise date (2023: 151.79)		(2,506)	96.7	(2,644)	95.5
Outstanding share options at the end of the period		17,116	135.1	24,435	136.2

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

All outstanding share options, if exercised, represent approximately 1.1% of the total issued shares.

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

Warrants

The warrants reserve represents the consideration received for outstanding warrants. Arion Bank issued 54 million warrants on 9 March 2021. The purchase price of the warrants amounted to ISK 15.6 per warrant, resulting in a total sale price of ISK 842.4 million. The warrant issuing represented approximately 3% of the Bank's total share capital and the Bank was obliged to issue new shares when the warrants were exercised. Approximately 48.5% of the total issue was sold to around 150 employees of the Group and 51.5% to professional investors. The exercise period ran from Q4 2023 to Q3 2024. Arion Bank received notification of the exercising of warrants relating to a total of 51,087,696 new shares, amounting to ISK 6 billion, during the final exercise period which concluded on 24 August 2024. There are no outstanding warrants at the end of September 2024.



Notes to the Condensed Consolidated Interim Financial Statements

Other information

38. Shareholders of Arion Bank 30.9.2024 31.12.2023

Gildi lífeyrissjóður	9.16%	9.85%
Lífeyrissjódur starfsmanna ríkisins	8.98%	9.62%
Lífeyrissjódur verzlunarmanna	8.70%	9.02%
Arion banki hf.	6.65%	0.95%
Stodir hf.	5.29%	5.38%
Brú lífeyrissjódur	5.28%	4.34%
Vanguard	3.64%	3.91%
Frjálsí lífeyrissjódurinn	3.53%	3.55%
Birta lífeyrissjódur	3.40%	3.58%
Stapi lífeyrissjódur	2.82%	2.85%
Íslandsbanki hf.	2.65%	2.24%
Hvalur hf.	2.43%	2.52%
Festa lífeyrissjódur	2.41%	2.38%
Stefnir funds	2.22%	2.30%
Lifsverk Pension fund	1.51%	1.23%
Almenni lífeyrissjódur	1.46%	1.52%
Sjóvá tryggingar	0.70%	1.09%
Landsbankinn hf.	0.51%	1.06%
Kvika banki hf.	0.18%	1.66%
Other shareholders with less than 1% shareholding	28.50%	30.94%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 1.20% in Arion Bank (31.12.2023: 0.83%). The Board of Directors and key management personnel shareholding is as follows:

	30.9.2024		31.12.2023	
	Options	Number of shares	Warrants / options	Number of shares
Steinunn Kristín Thórdardóttir, Director	-	12,000	-	12,000
Benedikt Gíslason, CEO	24,273	3,133,450	997,947	2,561,783
Key management personnel* (nine / eight until 30.1.24)	189,171	3,138,856	4,038,815	971,648

* Key management personnel are defined in Note 43.



Notes to the Condensed Consolidated Interim Financial Statements

39. Legal matters

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

Contingent liabilities

Legal proceedings regarding damages

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

Consumer Association's class-action lawsuit

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

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

In May of 2021, the Consumer Association published an article on its website calling for participants in a class action lawsuit. The intention is to commence court proceedings against the Icelandic banks to provide court precedent for loans with variable rates. Arion Bank has received requests for information from a legal firm representing approximately 1,200 individuals.

One case has been filed against the Bank and with a judgement of the District Court of Reykjavík on 7 February 2023, the Bank was acquitted. The plaintiffs have appealed the judgement to the Court of Appeals and a hearing has been scheduled in November of 2024.

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

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

The Bank has however made a preliminary assessment of potential impact of an adverse ruling in Icelandic courts on the Bank's loan portfolio, considering different scenarios, that leads to the approximate amount of ISK 14-17 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 be applied throughout the duration of the respective loans.

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



Notes to the Condensed Consolidated Interim Financial Statements

39. Legal matters, continued

Other legal proceedings

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

40. Events after the reporting period

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



Notes to the Condensed Consolidated Interim Financial Statements

Off balance sheet information

41. Commitments

		30.9.2024	31.12.2023
<i>Financial guarantees, unused credit facilities and undrawn loan commitments</i>			
Financial guarantees	28,358	21,763	
Unused overdrafts	73,617	61,951	
Undrawn loan commitments	97,431	69,188	
Financial guarantees, unused credit facilities and undrawn loan commitments	199,406	152,902	

42. Assets under management and under custody

		30.9.2024	31.12.2023
Assets under management	1,576,674	1,383,134	
Assets under custody	1,385,915	1,233,011	

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

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

Related party

43. Related party

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

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

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

For information on the associated companies, see Note 27.

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

	Key management personnel	Associated companies	
	30.9.2024	31.12.2023	30.9.2024
Loans	242	249	343
Other assets	2	2	-
Total assets	244	251	343
Deposits	(1,577)	(780)	(165)
Other liabilities	-	-	(25)
Total liabilities	(1,577)	(780)	(190)
			(91)
			(37)
			(128)



Notes to the Condensed Consolidated Interim Financial Statements

Risk management disclosures

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

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

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

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

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

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk

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

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

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

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

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

Exposure to credit risk

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

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

		Collateral					
	30.9.2024	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	96,323	-	-	-	-	-	-
Loans to credit institutions at amortized cost	32,772	-	-	-	-	-	-
Loans to customers at amortized cost	1,219,175	27,356	927,887	57,431	117,693	1,130,367	
Individuals	640,939	540	589,661	2	15,772	605,975	
Mortgages	580,813	80	580,297	-	31	580,408	
Other	60,126	460	9,364	2	15,741	25,567	
Corporates	578,236	26,816	338,226	57,429	101,921	524,392	
Real estate activities	123,288	1,421	118,248	-	1,634	121,303	
Construction	80,552	281	70,672	18	3,938	74,909	
Fishing industry	82,583	1,143	14,582	55,407	9,342	80,474	
Commerce and services	72,318	902	28,347	1,251	31,426	61,926	
Accommodation and food service activities	47,448	22	42,023	-	4,424	46,469	
Financial and insurance activities	51,391	22,085	10,920	-	17,643	50,648	
Industry, energy and manufacturing	58,281	933	37,292	21	16,198	54,444	
Transportation	9,339	1	1,087	727	5,233	7,048	
Information and communication technology	29,213	18	1,312	-	11,155	12,485	
Public sector	11,268	10	2,176	5	222	2,413	
Agriculture and forestry	12,555	-	11,567	-	706	12,273	
Other assets with credit risk	18,193	-	-	-	-	-	-
Financial guarantees	28,358	10,811	4,394	306	5,066	20,577	
Undrawn loan commitments and unused overdrafts	171,048	-	-	-	-	-	-
Fair value through OCI	133,239	-	-	-	-	-	-
Government bonds	132,287	-	-	-	-	-	-
Bonds issued by financial institutions and corporates	952	-	-	-	-	-	-
Balance at the end of the period	1,699,108	38,167	932,281	57,737	122,759	1,150,944	
 31.12.2023							
Cash and balances with Central Bank	102,095	-	-	-	-	-	-
Loans to credit institutions at amortized cost	28,835	-	-	-	-	-	-
Loans to customers at amortized cost	1,152,789	24,586	871,682	55,265	118,627	1,070,160	
Individuals	609,144	329	558,862	16	17,026	576,233	
Mortgages	549,371	15	548,962	-	33	549,010	
Other	59,773	314	9,900	16	16,993	27,223	
Corporates	543,645	24,257	312,820	55,249	101,601	493,927	
Real estate activities	114,101	2,027	108,604	28	1,621	112,280	
Construction	77,728	433	72,143	30	3,177	75,783	
Fishing industry	82,772	972	14,085	53,137	11,188	79,382	
Commerce and services	66,143	213	23,447	1,223	32,549	57,432	
Accommodation and food service activities	46,368	14	38,150	-	4,775	42,939	
Financial and insurance activities	41,517	19,732	6,701	-	13,914	40,347	
Industry, energy and manufacturing	54,796	791	34,318	22	16,531	51,662	
Transportation	8,460	-	1,254	803	4,026	6,083	
Information and communication technology	26,012	65	1,422	-	12,912	14,399	
Public sector	14,212	10	2,235	6	202	2,453	
Agriculture and forestry	11,536	-	10,461	-	706	11,167	
Other assets with credit risk	12,188	-	-	-	-	-	-
Financial guarantees	21,763	2,973	4,644	292	6,216	14,125	
Undrawn loan commitments and unused overdrafts	131,139	-	-	-	-	-	-
Fair value through OCI	129,564	-	-	-	-	-	-
Government bonds	128,178	-	-	-	-	-	-
Bonds issued by financial institutions and corporates	1,386	-	-	-	-	-	-
Balance at the end of the year	1,578,373	27,559	876,326	55,557	124,843	1,084,285	



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

LTV ratio for residential mortgage lending

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

			Thereof in Stage 3	
	30.9.2024	31.12.2023	30.9.2024	31.12.2023
Less than 50%	238,240	205,543	2,486	2,215
50-60%	113,707	105,773	1,367	888
60-70%	99,026	100,722	1,514	1,374
70-80%	73,906	75,783	1,157	1,166
80-90%	52,925	57,165	389	339
90-100%	1,977	3,332	122	130
More than 100%	1,884	1,951	196	305
Gross carrying amount at the end of the period	581,665	550,269	7,231	6,417

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

			Thereof in Stage 3	
	30.9.2024	31.12.2023	30.9.2024	31.12.2023
Less than 55%	521,654	487,095	6,200	5,457
55-70%	43,488	45,134	647	620
70-80%	12,187	13,198	214	183
80-90%	3,276	3,777	82	72
90-100%	616	642	45	41
More than 100%	444	423	43	44
Gross carrying amount at the end of the period	581,665	550,269	7,231	6,417

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 29,852 million (31.12.2023: ISK 19,857 million) with ISK 27,847 million in collateral (31.12.2023: ISK 17,465 million), thereof ISK 26,442 million in real estate (31.12.2023: 16,036 million).

Collateral repossessed

During the period, the Group took possession of assets due to foreclosures. At the end of the period the Group holds no real estate it took possession of during the period (31.12.2023: ISK 25 million) and no other assets (31.12.2023: nil). Assets acquired due to foreclosure are held for sale, see Note 30.



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

Large exposures

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

The Group has one large exposure at the end of the period, totaling ISK 35.4 billion (17.9% of Tier 1 capital) before taking into account eligible credit risk mitigation (31.12.2023: No large exposure). The total exposure is ISK 30.4 billion (15.4% of Tier 1 capital) after taking into account eligible credit risk mitigation.

Credit quality

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

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

30.9.2024

Loans to credit institutions, securities and cash

	Cash and balances with CB	Loans to credit institutions	Financial instruments at FVOCI
Investment grade	96,323	32,772	133,244
Non-investment grade	-	-	-
Gross carrying amount	96,323	32,772	133,244
Loss allowance	-	-	(5)
Book value	96,323	32,772	133,239

Loans to customers

	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	428,488	562	-	53	429,103
Risk class 1 - (Grades BBB+ to BBB-)	324,408	2,554	-	79	327,041
Risk class 2 - (Grades BB+ to BB-)	238,637	28,641	-	3	267,281
Risk class 3 to 4 - (Grades B+ to CCC-)	105,869	68,747	-	52	174,668
Risk class 5 - (DD)	-	-	29,730	122	29,852
Unrated	1,098	1	-	-	1,099
Gross carrying amount	1,098,500	100,505	29,730	309	1,229,044
Loss allowance	(2,257)	(2,155)	(5,456)	(1)	(9,869)
Book value	1,096,243	98,350	24,274	308	1,219,175

Loans to customers - Individuals

Risk class 0 - (Grades AAA to A-)	331,265	253	-	53	331,571
Risk class 1 - (Grades BBB+ to BBB-)	219,461	362	-	79	219,902
Risk class 2 - (Grades BB+ to BB-)	40,340	19,983	-	3	60,326
Risk class 3 to 4 - (Grades B+ to CCC-)	11,556	10,909	-	52	22,517
Risk class 5 - (DD)	-	-	9,106	122	9,228
Unrated	9	1	-	-	10
Gross carrying amount	602,631	31,508	9,106	309	643,554
Loss allowance	(545)	(503)	(1,566)	(1)	(2,615)
Book value	602,086	31,005	7,540	308	640,939

Loans to customers - Corporates

Risk class 0 - (Grades AAA to A-)	97,223	309	-	-	97,532
Risk class 1 - (Grades BBB+ to BBB-)	104,947	2,192	-	-	107,139
Risk class 2 - (Grades BB+ to BB-)	198,297	8,658	-	-	206,955
Risk class 3 to 4 - (Grades B+ to CCC-)	94,313	57,838	-	-	152,151
Risk class 5 - (DD)	-	-	20,624	-	20,624
Gross carrying amount	495,869	68,997	20,624	-	585,490
Loss allowance	(1,712)	(1,652)	(3,890)	-	(7,254)
Book value	494,157	67,345	16,734	-	578,236

Loan commitments, guarantees and unused credit facilities

Risk class 0 to 1 (Grades AAA to BBB-)	83,875	11	-	-	83,886
Risk class 2 to 4 (Grades BB+ to CCC-)	103,805	6,477	688	-	110,970
Unrated	4,547	2	1	-	4,550
Nominal	192,227	6,490	689	-	199,406
Loss allowance	(479)	(131)	-	-	(610)
Nominal less loss allowance	191,748	6,359	689	-	198,796



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

					Financial instruments at FVOCI
		Cash and balances with CB	Loans to credit institutions		
31.12.2023					
<i>Loans to credit institutions, securities and cash</i>					
Investment grade	102,095		28,835		129,567
Non-investment grade	-		-		-
Gross carrying amount	102,095		28,835		129,567
Loss allowance	-		-		(3)
Book value	102,095		28,835		129,564
<i>Loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	407,636	4,102	-	6	411,744
Risk class 1 - (Grades BBB+ to BBB-)	321,459	997	-	162	322,618
Risk class 2 - (Grades BB+ to BB-)	229,165	27,870	-	23	257,058
Risk class 3 to 4 - (Grades B+ to CCC-)	90,096	59,724	-	5	149,825
Risk class 5 - (DD)	-	-	19,610	247	19,857
Unrated	238	-	-	-	238
Gross carrying amount	1,048,594	92,693	19,610	443	1,161,340
Loss allowance	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Book value	1,046,246	90,602	15,590	351	1,152,789
<i>Loans to customers - Individuals</i>					
Risk class 0 - (Grades AAA to A-)	310,023	373	-	6	310,402
Risk class 1 - (Grades BBB+ to BBB-)	208,557	689	-	162	209,408
Risk class 2 - (Grades BB+ to BB-)	42,480	19,203	-	23	61,706
Risk class 3 to 4 - (Grades B+ to CCC-)	10,777	10,835	-	5	21,617
Risk class 5 - (DD)	-	-	8,320	156	8,476
Unrated	8	-	-	-	8
Gross carrying amount	571,845	31,100	8,320	352	611,617
Loss allowance	(559)	(532)	(1,381)	(1)	(2,473)
Book value	571,286	30,568	6,939	351	609,144
<i>Loans to customers - Corporates</i>					
Risk class 0 - (Grades AAA to A-)	97,613	3,729	-	-	101,342
Risk class 1 - (Grades BBB+ to BBB-)	112,902	308	-	-	113,210
Risk class 2 - (Grades BB+ to BB-)	186,685	8,667	-	-	195,352
Risk class 3 to 4 - (Grades B+ to CCC-)	79,319	48,889	-	-	128,208
Risk class 5 - (DD)	-	-	11,290	91	11,381
Unrated	230	-	-	-	230
Gross carrying amount	476,749	61,593	11,290	91	549,723
Loss allowance	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Book value	474,960	60,034	8,651	-	543,645
<i>Loan commitments, guarantees and unused credit facilities</i>					
Risk class 0 to 1 - (Grades AAA to BBB-)	91,232	30	-	-	91,262
Risk class 2 to 4 - (Grades BB+ to CCC-)	51,795	4,660	292	-	56,747
Unrated	4,893	-	-	-	4,893
Nominal	147,920	4,690	292	-	152,902
Loss allowance	(236)	(125)	(2)	-	(363)
Nominal less loss allowance	147,684	4,565	290	-	152,539



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

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

	Stage 1		Stage 2		Stage 3			Book value
	Gross		Gross		Gross			
	Carrying amount	Loss allowance	Carrying amount	Loss allowance	Carrying amount	Loss allowance		
30.9.2024								
Loans to credit instit., securities & cash	262,339	(5)	-	-	-	-	-	262,334
Loans to individuals	602,631	(545)	31,695	(503)	9,228	(1,567)	640,939	
<i>Mortgages</i>	547,563	(166)	26,871	(259)	7,231	(427)	580,813	
<i>Other</i>	55,068	(379)	4,824	(244)	1,997	(1,140)	60,126	
Loans to corporates	495,869	(1,712)	68,997	(1,652)	20,624	(3,890)	578,236	
<i>Real estate activities</i>	110,180	(265)	9,341	(306)	5,510	(1,172)	123,288	
<i>Construction</i>	66,385	(350)	8,376	(123)	6,788	(524)	80,552	
<i>Fishing industry</i>	72,567	(93)	8,813	(203)	2,631	(1,132)	82,583	
<i>Commerce and services</i>	62,482	(290)	8,720	(128)	1,983	(449)	72,318	
<i>Accommodation and food service activities</i>	34,314	(95)	11,498	(393)	2,454	(330)	47,448	
<i>Financial and insurance activities</i>	38,710	(221)	13,006	(221)	130	(13)	51,391	
<i>Industry, energy and manufacturing</i>	56,118	(81)	1,865	(68)	612	(165)	58,281	
<i>Transportation</i>	5,906	(21)	3,495	(58)	24	(7)	9,339	
<i>Information and communication technology</i>	27,333	(234)	2,137	(124)	166	(65)	29,213	
<i>Public Sector</i>	10,863	(35)	389	(6)	58	(1)	11,268	
<i>Agriculture and forestry</i>	11,011	(27)	1,357	(22)	268	(32)	12,555	
Balance at the end of the period	1,360,839	(2,262)	100,692	(2,155)	29,852	(5,457)	1,481,509	
31.12.2023								
Loans to credit instit., securities & cash	260,497	(3)	-	-	-	-	-	260,494
Loans to individuals	571,845	(559)	31,296	(532)	8,476	(1,382)	609,144	
<i>Mortgages</i>	516,885	(233)	26,967	(351)	6,417	(314)	549,371	
<i>Other</i>	54,960	(326)	4,329	(181)	2,059	(1,068)	59,773	
Loans to corporates	476,749	(1,789)	61,593	(1,559)	11,381	(2,730)	543,645	
<i>Real estate activities</i>	100,610	(327)	10,633	(233)	4,369	(951)	114,101	
<i>Construction</i>	72,394	(386)	5,255	(52)	572	(55)	77,728	
<i>Fishing industry</i>	73,245	(121)	8,922	(48)	1,519	(745)	82,772	
<i>Commerce and services</i>	60,232	(195)	4,812	(192)	1,865	(379)	66,143	
<i>Accommodation and food service activities</i>	34,276	(148)	11,257	(425)	1,816	(408)	46,368	
<i>Financial and insurance activities</i>	30,072	(214)	11,797	(261)	128	(5)	41,517	
<i>Industry, energy and manufacturing</i>	52,771	(98)	1,811	(88)	458	(58)	54,796	
<i>Transportation</i>	4,389	(19)	4,058	(89)	141	(20)	8,460	
<i>Information and communication technology</i>	24,621	(202)	1,636	(145)	179	(77)	26,012	
<i>Public Sector</i>	14,075	(59)	200	(4)	1	(1)	14,212	
<i>Agriculture and forestry</i>	10,064	(20)	1,212	(22)	333	(31)	11,536	
Balance at the end of the year	1,309,091	(2,351)	92,889	(2,091)	19,857	(4,112)	1,413,283	



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

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

Transfers of financial assets between impairment stages

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

Net remeasurement of loss allowance

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

New financial assets, originated or purchased

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

Derecognitions and maturities

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

Write-offs

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

30.9.2024

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance *</i>					
Balance at the beginning of the year	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(659)	510	149	-	-
Transfers to Stage 2 (lifetime ECL)	197	(225)	28	-	-
Transfers to Stage 3 (credit impaired financial assets)	98	165	(263)	-	-
Net remeasurement of loss allowance **	879	(513)	(2,339)	-	(1,973)
New financial assets, originated or purchased	(1,081)	(624)	(517)	-	(2,222)
Derecognitions and maturities	410	545	737	91	1,783
Write-offs ***	4	72	771	-	847
Impairment loss allowance ****	(2,736)	(2,286)	(5,456)	(1)	(10,479)
Impairment loss allowances for assets only carrying 12-month ECL	(5)	-	-	-	(5)
Total impairment loss allowance	(2,741)	(2,286)	(5,456)	(1)	(10,484)

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

** During the period the loss allowance balance for stage 3 loans was raised by ISK 735 million due to unwinding of interest income.

*** During the period an amount of ISK 734 million was written off but is still subject to enforcement activities subject to Icelandic law.

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



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance for loans to customers</i>					
Balance at the beginning of the year	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(586)	437	149	-	-
Transfers to Stage 2 (lifetime ECL)	188	(216)	28	-	-
Transfers to Stage 3 (credit impaired financial assets)	96	164	(260)	-	-
Net remeasurement of loss allowance	777	(477)	(2,342)	-	(2,042)
New financial assets, originated or purchased	(730)	(563)	(517)	-	(1,810)
Derecognitions and maturities	342	519	735	91	1,687
Write-offs	4	72	771	-	847
Total loss allowance for loans to customers	(2,257)	(2,155)	(5,456)	(1)	(9,869)
<i>Impairment loss allowance for loans to customers - Individuals</i>					
Balance at the beginning of the year	(559)	(532)	(1,381)	(1)	(2,473)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(255)	191	64	-	-
Transfers to Stage 2 (lifetime ECL)	35	(51)	16	-	-
Transfers to Stage 3 (credit impaired financial assets)	26	68	(94)	-	-
Net remeasurement of loss allowance	269	(206)	(451)	-	(388)
New financial assets, originated or purchased	(135)	(77)	(94)	-	(306)
Derecognitions and maturities	70	33	237	-	340
Write-offs	4	71	137	-	212
Total loss allowance for loans to individuals	(545)	(503)	(1,566)	(1)	(2,615)
<i>Impairment loss allowance for loans to customers - Corporates</i>					
Balance at the beginning of the year	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(331)	246	85	-	-
Transfers to Stage 2 (lifetime ECL)	153	(165)	12	-	-
Transfers to Stage 3 (credit impaired financial assets)	70	96	(166)	-	-
Net remeasurement of loss allowance	508	(271)	(1,891)	-	(1,654)
New financial assets, originated or purchased	(595)	(486)	(423)	-	(1,504)
Derecognitions and maturities	272	486	498	91	1,347
Write-offs	-	1	634	-	635
Total loss allowance for loans to corporates	(1,712)	(1,652)	(3,890)	-	(7,254)
<i>Impairment loss allowance for loan commitments, guarantees and unused credit facilities</i>					
Balance at the beginning of the year	(236)	(125)	(2)	-	(363)
Transfers					
Transfers to 12-month ECL	(73)	73	-	-	-
Transfers to lifetime ECL	9	(9)	-	-	-
Transfers to credit impaired	2	1	(3)	-	-
Net remeasurement of loss allowance	102	(36)	3	-	69
New financial commitments originated	(351)	(61)	-	-	(412)
Derecognitions and maturities	68	26	2	-	96
Total loss allowance for loan commit., guarantees, unused facilities	(479)	(131)	-	-	(610)



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

31.12.2023

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance *</i>					
Balance at the beginning of the year	(2,685)	(1,612)	(2,937)	(131)	(7,365)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(601)	398	203	-	-
Transfers to Stage 2 (lifetime ECL)	158	(673)	515	-	-
Transfers to Stage 3 (credit impaired financial assets)	71	93	(164)	-	-
Net remeasurement of loss allowance **	926	(330)	(2,057)	39	(1,422)
New financial assets, originated or purchased	(1,033)	(436)	(471)	-	(1,940)
Derecognitions and maturities	551	284	233	-	1,068
Write-offs ***	29	60	656	-	745
Impairment loss allowance ****	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,587)	(2,216)	(4,022)	(92)	(8,917)

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

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

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

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

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance for loans to customers</i>					
Balance at the beginning of the year	(2,334)	(1,519)	(2,932)	(131)	(6,916)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(573)	370	203	-	-
Transfers to Stage 2 (lifetime ECL)	155	(670)	515	-	-
Transfers to Stage 3 (credit impaired financial assets)	70	92	(162)	-	-
Net remeasurement of loss allowance	802	(300)	(2,059)	39	(1,518)
New financial assets, originated or purchased	(923)	(358)	(471)	-	(1,752)
Derecognitions and maturities	426	234	230	-	890
Write-offs	29	60	656	-	745
Total loss allowance for loans to customers	(2,348)	(2,091)	(4,020)	(92)	(8,551)

Impairment loss allowance for loans to customers - Individuals

Balance at the beginning of the year	(445)	(287)	(1,043)	-	(1,775)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(201)	107	94	-	-
Transfers to Stage 2 (lifetime ECL)	24	(45)	21	-	-
Transfers to Stage 3 (credit impaired financial assets)	22	46	(68)	-	-
Net remeasurement of loss allowance	138	(283)	(594)	(1)	(740)
New financial assets, originated or purchased	(176)	(155)	(160)	-	(491)
Derecognitions and maturities	51	28	163	-	242
Write-offs	28	57	206	-	291
Total loss allowance for loans to individuals	(559)	(532)	(1,381)	(1)	(2,473)



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance for loans to customers - Corporates</i>					
Balance at the beginning of the year	(1,889)	(1,232)	(1,889)	(131)	(5,141)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(372)	263	109	-	-
Transfers to Stage 2 (lifetime ECL)	131	(625)	494	-	-
Transfers to Stage 3 (credit impaired financial assets)	48	46	(94)	-	-
Net remeasurement of loss allowance	664	(17)	(1,465)	40	(778)
New financial assets, originated or purchased	(747)	(203)	(311)	-	(1,261)
Derecognitions and maturities	375	206	67	-	648
Write-offs	1	3	450	-	454
Total loss allowance for loans to corporates	(1,789)	(1,559)	(2,639)	(91)	(6,078)
<i>Impairment loss allowance for loan commitments, guarantees and unused credit facilities</i>					
Balance at the beginning of the year	(351)	(93)	(5)	-	(449)
Transfers					
Transfers to 12-month ECL	(28)	28	-	-	-
Transfers to lifetime ECL	3	(3)	-	-	-
Transfers to credit impaired	1	1	(2)	-	-
Net remeasurement of loss allowance	124	(30)	2	-	96
New financial commitments originated	(110)	(78)	-	-	(188)
Derecognitions and maturities	125	50	3	-	178
Total loss allowance for loan commit., guarantees, unused facilities	(236)	(125)	(2)	-	(363)

Macroeconomic forecast

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

	Base case		
	2024	2025	2026
Unemployment rate	4.0%	4.5%	4.1%
Housing prices, year-on-year change	8.6%	5.9%	6.4%
Private consumption, growth	1.0%	2.0%	2.7%
GDP growth	0.7%	2.3%	2.8%
Key interest rate	9.0%	7.6%	5.7%
Optimistic			
	2024	2025	2026
Unemployment rate	3.5%	3.3%	3.8%
Housing prices, year-on-year change	10.6%	8.9%	6.7%
Private consumption, growth	3.8%	3.5%	3.0%
GDP growth	2.3%	2.1%	3.2%
Key interest rate	8.7%	6.9%	4.9%
Pessimistic			
	2024	2025	2026
Unemployment rate	4.9%	5.9%	4.3%
Housing prices, year-on-year change	7.6%	2.9%	5.9%
Private consumption, growth	-1.8%	1.3%	2.6%
GDP growth	-1.0%	2.1%	2.7%
Key interest rate	9.4%	8.4%	6.5%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 3, Significant accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 2.0 billion, ISK 2.8 billion and ISK 8.5 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2023: ISK 1.5 billion, ISK 3.0 billion and ISK 8.8 billion, respectively).



Notes to the Condensed Consolidated Interim Financial Statements

44. Credit risk, continued

Forbearance

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

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
30.9.2024								
Individuals	3,924	(21)	2,787	(37)	4,222	(511)	10,933	(569)
Companies	2,552	(12)	5,400	(88)	7,666	(1,837)	15,618	(1,937)
<i>Tourism</i>	1,673	(8)	905	(48)	1,396	(370)	3,974	(426)
<i>Other than tourism</i>	879	(4)	4,495	(40)	6,270	(1,467)	11,644	(1,511)
Total	6,476	(33)	8,187	(125)	11,888	(2,348)	26,551	(2,506)
31.12.2023								
Individuals	2,614	(17)	2,001	(39)	3,873	(467)	8,488	(523)
Companies	3,432	(21)	13,242	(415)	2,659	(519)	19,333	(955)
<i>Tourism</i>	2,049	(15)	8,980	(376)	1,358	(254)	12,387	(645)
<i>Other than tourism</i>	1,383	(6)	4,262	(39)	1,301	(265)	6,946	(310)
Total	6,046	(38)	15,243	(454)	6,532	(986)	27,821	(1,478)

Volcanic activity in the vicinity of Grindavík

At the end of February, legislation was passed facilitating the purchase of residential properties from households forced to relocate from Grindavík following volcanic events in the area. A large number of homeowners in Grindavík, including those who had been the Bank's borrowers, have taken the option to sell their properties to Fasteignafélagid Þórkatla, a property management company established on the basis of the legislation (hereafter Þórkatla). The Bank's exposure to Þórkatla is predominantly in the form of senior debt that matches the mortgage exposure - which is paid up as part of process, the Bank subsequently giving up any recourse to the original borrower. While the government provides the majority of Þórkatla's equity, its contribution is also in the form of senior debt, pari passu to the Bank's.

As a result of this arrangement, the Bank's exposure increasingly shifts to Þórkatla. Having stood at ISK 1.8 billion prior to the launch of the repurchasing scheme, the Bank's residential mortgage exposure in the affected area has now been reduced to ISK 157 million, with a commensurate increase in the exposure to Þórkatla (ISK 1.66 billion). Exposure to corporates is ISK 4,160 billion.

The Bank's valuation of residential mortgages in Grindavík is based on the assumption that borrowers will sell their properties to Þórkatla, as has largely been the case. The assessment of recovery for loans secured by residential property in Grindavík is a scenario analysis which considers the likelihood of further payout from the Natural Catastrophe Fund of Iceland due to past or future events and the likelihood of sale or lease of properties in the future if Grindavík becomes habitable again. The analysis is based on input from geophysicists. The result for 30.09.2024 is around 25% impairment and negative fair value change on the remaining residential mortgages and the Bank's exposure to Þórkatla, respectively (combined amount ISK 444 million). The impairment on the corporate portfolio is ISK 1,053 million.



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk

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

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

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

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

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

Interest rate risk

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

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

Following the outbreak of Covid-19, the Central Bank of Iceland lowered interest rates to historic lows, resulting in a sharp increase in demand for non-indexed mortgages with floating rates in 2020 and 2021. Inflation in Iceland, measured at 5.4% at the end of Q3 2024, has exceeded the Central Bank's target of 2.5% since June 2020 and is expected to remain over the target throughout 2025 at least. The Central Bank responded by increasing interest rates by 8.5% from its lowest value of 0.75% at the start of 2021, before reducing rates by 0.25% in October 2024. From the second half of 2021 to the start of 2022, this resulted in a sharp increase in demand for non-indexed fixed rate mortgages with corresponding increase in interest rate risk for the Bank. This risk exposure is receding as the bulk of those loans is subject to interest rate reset in 2024. Interest rate risk for indexed rates is however increasing due to new issuance of fixed-rate indexed covered bonds.

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 25, and are therefore different from the amounts shown in these Condensed Consolidated Interim Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
30.9.2024						
Assets						
Balances with Central Bank	96,323	-	-	-	-	96,323
Loans to credit institutions	32,772	-	-	-	-	32,772
Loans to customers	852,182	152,405	187,165	802	9,885	1,202,439
Bonds and debt instruments	70,336	60,890	18,562	14,384	5,414	169,586
Bonds and debt instruments used for hedging	-	-	766	1,093	600	2,459
Derivatives	95,602	72,060	188,435	-	-	356,097
Assets	1,147,215	285,355	394,928	16,279	15,899	1,859,676
Liabilities						
Due to credit institutions and Central Bank	6,715	-	-	-	-	6,715
Deposits	833,103	15,331	-	-	-	848,434
Derivatives	259,760	87,313	5,096	-	-	352,169
Borrowings	22,205	85,033	234,393	71,081	12,470	425,182
Subordinated liabilities	3,016	10,536	14,456	16,991	-	44,999
Liabilities	1,124,799	198,213	253,945	88,072	12,470	1,677,499
Net interest gap	22,416	87,142	140,983	(71,793)	3,429	182,177



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk, continued

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

Sensitivity analysis of interest rate risk

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

	30.9.2024		31.12.2023	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(1,070)	1,104	(1,855)	1,721
ISK, Non index-linked	(2,144)	2,109	(1,487)	1,462
Foreign currencies	(276)	279	(418)	416
NPV change in the trading book				
ISK, CPI index-linked	183	(167)	133	(122)
ISK, Non index-linked	418	(396)	195	(185)
Foreign currencies	(25)	25	(31)	31



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk, continued

Indexation risk

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

Book value and maturity profile of indexed assets and liabilities

30.9.2024	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	15,723	106,169	350,720	472,612
Financial instruments	7,123	7,345	9,659	24,127
Assets, CPI index-linked	22,846	113,514	360,379	496,739
 <i>Liabilities, CPI index-linked</i>				
Deposits	112,221	15,178	4,171	131,570
Borrowings	42,808	36,061	82,652	161,521
Subordinated liabilities	-	-	17,863	17,863
Other	-	-	1,049	1,049
Off-balance sheet position	104	80	-	184
Liabilities, CPI index-linked	155,133	51,319	105,735	312,187
 Net on-balance sheet position	(132,183)	62,275	254,644	184,736
Net off-balance sheet position	(104)	(80)	-	(184)
CPI balance	(132,287)	62,195	254,644	184,552
 CPI balance for prudential consolidation, excluding insurance operations *	(132,489)	54,849	245,013	167,374
 31.12.2023				
<i>Assets, CPI index-linked</i>				
Loans to customers	11,667	81,695	282,842	376,204
Financial instruments	7,813	5,028	8,797	21,638
Assets, CPI index-linked	19,480	86,723	291,639	397,842
 <i>Liabilities, CPI index-linked</i>				
Deposits	111,523	16,253	3,939	131,715
Borrowings	373	81,870	58,920	141,163
Subordinated liabilities	-	-	16,997	16,997
Other	-	-	1,028	1,028
Off-balance sheet position	1,466	151	-	1,617
Liabilities, CPI indexed linked	113,362	98,274	80,884	292,520
 Net on-balance sheet position	(92,416)	(11,400)	210,755	106,939
Net off-balance sheet position	(1,466)	(151)	-	(1,617)
CPI balance	(93,882)	(11,551)	210,755	105,322
 CPI balance for prudential consolidation, excluding insurance operations *	(95,084)	(16,579)	201,957	90,296

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk, continued

Currency risk

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

Breakdown of assets and liabilities by currency

30.9.2024

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	95,463	379	142	94	128	21	96	96,323
Loans to credit institutions	391	9,163	15,732	2,593	1,881	600	2,412	32,772
Loans to customers	1,013,437	125,961	54,578	1,330	21,938	2,058	1,122	1,220,424
Financial instruments	122,391	52,105	20,105	242	172	12,184	7,108	214,307
Other financial assets	11,288	6,832	55	4	1	1	12	18,193
Financial assets	1,242,970	194,440	90,612	4,263	24,120	14,864	10,750	1,582,019
<i>Financial liabilities</i>								
Due to credit inst. and Central Bank	2,824	3,278	219	343	-	-	51	6,715
Deposits	749,388	39,038	50,818	3,906	1,855	1,605	1,824	848,434
Financial liabilities at fair value	1,353	5,110	462	-	-	160	10	7,095
Other financial liabilities	12,700	9,179	1,775	278	587	221	253	24,993
Borrowings	199,059	209,104	2,930	-	-	12,928	7,084	431,105
Subordinated liabilities	21,057	762	19,364	-	-	-	3,001	44,184
Financial liabilities	986,381	266,471	75,568	4,527	2,442	14,914	12,223	1,362,526
Net on-balance sheet position	256,589	(72,031)	15,044	(264)	21,678	(50)	(1,473)	
Net off-balance sheet position	(36,670)	72,443	(15,307)	107	(21,582)	11	998	
Net position *	219,919	412	(263)	(157)	96	(39)	(475)	
<i>Non-financial assets</i>								
Investment property	9,327	-	-	-	-	-	-	9,327
Investments in associates	833	-	-	-	-	-	-	833
Intangible assets	7,833	-	-	-	-	-	-	7,833
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups								
held for sale	34	-	-	-	-	-	-	34
Other non financial assets	5,319	217	98	18	1	15	1	5,669
Non-financial assets	23,348	217	98	18	1	15	1	23,698
<i>Non-financial liabilities and equity</i>								
Tax liabilities	12,884	-	-	-	-	-	-	12,884
Other non-financial liabilities	31,606	18	2	-	1	-	-	31,627
Shareholders' equity	198,175	-	-	-	-	-	-	198,175
Non-controlling interest	505	-	-	-	-	-	-	505
Non-financial liabilities and equity	243,170	18	2	-	1	-	-	243,191
Management reporting								
of currency risk **	97	611	(167)	(139)	96	(24)	(474)	

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

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk, continued

31.12.2023

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Market risk, continued

Sensitivity analysis for currency risk

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

Currency	30.9.2024		31.12.2023	
	-10%	+10%	-10%	+10%
EUR	(61)	61	(413)	413
USD	17	(17)	2	(2)
GBP	14	(14)	(0)	0
DKK	(10)	10	(58)	58
NOK	2	(2)	2	(2)
Other	47	(47)	53	(53)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 31 and 24 respectively.

Sensitivity analysis for equity risk

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

Equity	30.9.2024		31.12.2023	
	-10%	+10%	-10%	+10%
Trading book - listed	(341)	341	(334)	334
Banking book - listed	(542)	542	(397)	397
Banking book - unlisted	(273)	273	(526)	526

Derivatives

Derivatives are a part of the Group's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Group's risk appetite and monitored by Risk Management on a daily basis. The Group also uses derivatives to hedge market risk on its balance sheet. Note 25 provides a breakdown of the Group's derivative positions by type.



Notes to the Condensed Consolidated Interim Financial Statements

46. Liquidity and Funding risk

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

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

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

30.9.2024	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	18,361	48,086	30,353	-	-	-	96,800	96,323
Loans to credit institutions	27,968	4,794	9	-	-	-	32,771	32,772
Loans to customers	8,344	176,449	170,367	604,152	1,371,138	-	2,330,450	1,220,424
Financial instruments	17,204	73,429	50,408	28,124	13,902	33,376	216,443	214,307
Derivatives - assets leg	-	37,293	11,360	61,342	-	-	109,995	91,006
Derivatives - liabilities leg	-	(33,049)	(10,747)	(57,587)	-	-	(101,383)	(82,120)
Other financial instruments	17,204	69,185	49,795	24,369	13,902	33,376	207,831	205,421
Other financial assets	493	14,427	865	2,408	-	-	18,193	18,193
Financial assets	72,370	317,185	252,002	634,684	1,385,040	33,376	2,694,657	1,582,019

Financial liabilities

Due to credit inst. and Central Bank	3,258	3,461	-	-	-	-	6,719	6,715
Deposits	587,107	210,196	34,503	15,788	5,123	-	852,717	848,434
Financial liabilities at fair value	-	3,152	5,544	8,713	-	-	17,409	7,095
Derivatives - assets leg	-	(41,994)	(10,653)	(12,847)	-	-	(65,494)	(57,069)
Derivatives - liabilities leg	-	45,146	16,197	21,560	-	-	82,903	64,062
Short pos. in bonds used for econ.hedging	-	102	-	-	-	-	102	102
Other financial liabilities	119	23,189	701	985	-	-	24,994	24,993
Borrowings	-	14,428	108,056	269,165	86,561	-	478,210	431,105
Subordinated liabilities	-	660	5,324	10,701	45,428	-	62,113	44,184
Financial liabilities	590,484	255,086	154,128	305,352	137,112	-	1,442,162	1,362,526
Net position for assets and liab.	(518,114)	62,099	97,874	329,332	1,247,928	33,376	1,252,495	219,493

Off-balance sheet items

Financial guarantees	-	1,027	8,136	11,979	7,216	-	28,358	28,358
Unused overdraft	-	73,617	-	-	-	-	73,617	73,617
Undrawn loan commitments	-	57,726	32,066	7,639	-	-	97,431	97,431
Off-balance sheet items	-	132,370	40,202	19,618	7,216	-	199,406	199,406
Net contractual cash flow	(518,114)	(70,271)	57,672	309,714	1,240,712	33,376	1,053,089	20,087



Notes to the Condensed Consolidated Interim Financial Statements

46. Liquidity and Funding risk, continued

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

Net Stable Funding Ratio

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

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

	30.9.2024	31.12.2023
Available stable funding	1,224,036	1,167,158
Required stable funding	1,038,818	982,601
Net stable funding ratio	118%	119%



Notes to the Condensed Consolidated Interim Financial Statements

46. Liquidity and Funding risk, continued

Liquidity coverage ratio

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

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

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

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

				Total all currencies
		ISK	EUR	
30.9.2024				
Liquid assets level 1 *	.....	152,949	46,810	235,287
Liquid assets level 2	.....	10,169	-	10,169
Liquid assets	.....	163,118	46,810	245,456
Deposits	.....	134,691	17,268	171,236
Borrowings	.....	8,085	38	8,123
Other cash outflows	.....	9,396	10,177	14,310
Cash outflows	.....	152,172	27,483	193,669
Short-term deposits with other banks **	.....	-	6,349	25,819
Other cash inflows	.....	27,514	1,586	30,448
Cash inflows	.....	27,514	7,935	56,267
Liquidity coverage ratio (LCR) *****	.....	131%	239%	179%
31.12.2023				
Liquid assets level 1 *	.....	124,792	83,916	243,122
Liquid assets level 2	.....	9,302	-	9,302
Liquid assets	.....	134,094	83,916	252,424
Deposits	.....	131,959	9,158	164,787
Borrowings	.....	672	-	759
Other cash outflows	.....	5,402	10,436	12,380
Cash outflows	.....	138,033	19,594	177,926
Short-term deposits with other banks **	.....	-	8,569	19,918
Other cash inflows	.....	23,118	888	26,412
Cash inflows	.....	23,118	9,457	46,330
Liquidity coverage ratio (LCR) *****	.....	117%	828%	192%

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Liquidity and Funding risk, continued

Composition of liquid assets

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

	ISK	USD	EUR	Other	Total
30.9.2024					
Cash and balances with Central Bank	95,463	142	379	339	96,323
Short-term deposits with financial institutions	-	12,662	6,349	6,808	25,819
Domestic bonds eligible as collateral with Central Bank	69,305	-	-	-	69,305
Foreign government bonds	-	18,806	46,431	16,386	81,623
Liquidity reserve	164,768	31,610	53,159	23,533	273,070
31.12.2023					
Cash and balances with Central Bank	100,837	301	412	545	102,095
Short-term deposits with financial institutions	-	6,961	8,569	4,388	19,918
Domestic bonds eligible as collateral with Central Bank	30,046	-	-	-	30,046
Foreign government bonds	-	18,888	83,504	14,675	117,067
Liquidity reserve	130,883	26,150	92,485	19,608	269,126

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights

	Deposits maturing within 30 days					
	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
30.9.2024						
Individuals	122,057	12%	113,862	5%	170,948	406,867
Small and medium enterprises	114,525	13%	18,962	6%	32,385	165,872
Operational relationship	7,066	25%	-	-	-	7,066
Corporations	111,924	41%	16,918	21%	29,115	157,957
Sovereigns, central banks and PSE	17,527	40%	16	20%	751	18,294
Pension funds	61,394	100%	-	-	17,902	79,296
Domestic financial entities	16,320	100%	-	-	1,923	18,243
Foreign financial entities	1,554	100%	-	-	-	1,554
Total	452,367		149,758		253,024	855,149

31.12.2023

Individuals	107,999	10%	115,140	5%	146,109	369,248
Small and medium enterprises	106,030	10%	17,758	5%	19,827	143,615
Operational relationship	7,540	25%	-	-	-	7,540
Corporations	116,348	40%	15,759	20%	22,679	154,786
Sovereigns, central banks and PSE	27,678	40%	15	20%	753	28,446
Pension funds	47,390	100%	-	-	17,211	64,601
Domestic financial entities	20,521	100%	-	-	4,780	25,301
Foreign financial entities	1,944	100%	-	-	-	1,944
Total	435,450		148,672		211,359	795,481

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



Notes to the Condensed Consolidated Interim Financial Statements

47. Capital management

Capital adequacy

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

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

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

	30.9.2024	31.12.2023
Own funds		
Total equity	198,680	199,301
Unaudited interim profit	(7,872)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(505)	(503)
Common Equity Tier 1 capital before regulatory adjustments	190,303	198,798
Intangible assets	(7,521)	(7,211)
Additional value adjustments	(232)	(227)
Foreseeable dividend and buyback **	(4,974)	(12,877)
Adjustment under IFRS 9 transitional arrangements as amended	518	952
Insufficient coverage for non-performing exposures	(142)	-
Common Equity Tier 1 capital	177,952	179,435
Non-controlling interest eligible for inclusion in T1 capital	132	117
Additional Tier 1 capital	19,364	13,217
Tier 1 capital	197,448	192,769
Tier 2 instruments	24,820	28,062
Tier 2 instruments of financial sector entities (significant investments)	(1,317)	(1,247)
Tier 2 capital	23,503	26,815
Total own funds	220,951	219,584

Risk-weighted exposure amount (REA)

Credit risk, loans and off-balance sheet items	791,680	732,760
Credit risk, securities and other	54,723	52,032
Credit risk, derivatives and repos	7,065	7,442
Market risk due to currency imbalance	844	4,751
Market risk due to trading book positions	14,441	11,066
Credit valuation adjustment	2,470	3,680
Operational risk	98,740	98,740
Total risk-weighted exposure amount	969,963	910,471

Capital ratios

CET1 ratio	18.3%	19.7%
Tier 1 ratio	20.4%	21.2%
Capital adequacy ratio	22.8%	24.1%
Total own funds, including interim profit not eligible for inclusion	224,887	219,584
CET1 ratio, including interim profit not eligible for inclusion	18.8%	19.7%
Tier 1 ratio, including interim profit not eligible for inclusion	20.8%	21.2%
Capital adequacy ratio, including interim profit not eligible for inclusion	23.2%	24.1%

** On 30 September 2024, the deduction consists of 50% of audited profits as per the Bank's dividend policy. On 31 December 2023, the deduction consists of 50% of net earnings as per the Bank's dividend policy.

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



Notes to the Condensed Consolidated Interim Financial Statements

47. Capital management, continued

<i>Capital ratios of the parent company</i>	30.9.2024	31.12.2023
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CET1 ratio	18.6%	19.9%
Tier 1 ratio	20.6%	21.4%
Capital adequacy ratio	23.0%	24.3%

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

<i>Capital buffer requirement, % of REA</i>	30.9.2024	31.12.2023
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Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	2.0%	2.0%
Systemic risk buffer *	3.0%	3.0%
Countercyclical capital buffer *	2.5%	2.0%
Combined capital buffer requirement	10.0%	9.5%

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

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

<i>Capital requirement, % of REA</i>	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.0%	1.4%	1.8%
Combined buffer requirement *	9.7%	9.7%	9.7%
Regulatory capital requirement	15.2%	17.1%	19.5%
Available capital	18.3%	20.4%	22.8%

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

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

Leverage ratio

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

	30.9.2024	31.12.2023
On-balance sheet exposures	1,554,679	1,477,968
Derivative exposures	18,741	15,953
Repos	10,430	10,326
Off-balance sheet exposures	58,955	46,087
Total exposure	1,642,805	1,550,334
Tier 1 capital	197,448	192,769
Leverage ratio	12.0%	12.4%



Notes to the Condensed Consolidated Interim Financial Statements

47. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, as amended, which transposes BRRD I/II into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirements. In October 2024, the Icelandic Resolution Authority presented the Group with the MREL requirements based on year-end 2023 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. An MREL subordination requirement of 13.5% REA will apply to the Bank on 1 August 2026.

<i>Minimum requirement for own funds and eligible liabilities</i>	30.9.2024	31.12.2023
Own funds	220,951	219,584
Eligible liabilities	122,060	124,955
Own funds and eligible liabilities	343,011	344,539
Combined buffer requirement (CBR)	94,086	83,763
Own funds and eligible liabilities not used for CBR	248,924	260,775
Risk-weighted exposure amount (REA)	969,963	910,471
Own funds and eligible liabilities not used for CBR (% REA)	25.7%	28.6%
MREL requirement (% REA)	19.6%	20.2%
Total exposure measure (TEM)	1,642,805	1,550,334
Own funds and eligible liabilities (% TEM)	20.9%	22.2%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur

Excess of assets over liabilities in accordance with Solvency II	11,718	10,232
Subordinated liabilities	1,307	1,263
Foreseeable dividends	-	-
Own funds	13,025	11,495
Solvency capital requirements (SCR)	8,884	8,294
SCR ratio	146.6%	138.6%

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

48. Operational risk

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

49. Sustainability risk

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

Sustainable financing framework

The Bank's Sustainability Financing Framework was published in August 2024 and applies to the Bank's financing, deposits and loans which are classed as environmentally and/or socially sustainable. The new framework replaces the Bank's Green Financing Framework published in 2021 which has been integral to the Bank's green lending programme and green bond issues. New features of the Sustainability Financing Framework include social categories which define projects having a positive impact on society. Added importance is also given to the circular economy, and the classification of green projects has also been refined. Under this framework the Bank can issue Sustainable Financing Instruments including, but not limited to, covered bonds, bonds, loans, commercial paper, repurchase agreements and deposits. The use of proceeds from these instruments is restricted to the financing of eligible assets as defined in the Framework. Eligible assets are divided into several eligible categories with inclusion and exclusion criteria. The Framework details the processes for identifying eligible assets, for reporting on the use of the framework and for external review. Before the introduction of the Green Financing Framework the Bank had a framework for green deposits, but these frameworks have now been merged. The following table excludes committed green exposures. Figures for 31.12.2023 are based on the Green Financing Framework while figures for 30.09.2024 are based on the Sustainability Financing Framework.

<i>Sustainable Financing Instruments</i>	30.9.2024	31.12.2023
Green deposits	26,765	25,477
Green borrowings	55,751	98,801
Book value	82,516	124,278

Identified eligible sustainable assets by category

Sustainable marine value chains and marine ecosystem management	19,676	25,493
Sustainable forestry and agriculture	212	-
Renewable energy	444	429
Clean transportation	7,741	6,317
Green buildings	93,632	67,484
Energy efficiency	17,142	16,644
Sustainable waste and wastewater management	6,646	6,523
Green book value	145,493	122,890
Affordable housing	31,295	-
Education	2,506	-
Healthcare	867	-
Employment generation and alleviate unemployment	13,954	-
Social book value	48,622	-
Sustainable book value	194,115	122,890