Condensed Consolidated Interim Financial Statements 30 September 2025

Arion Bank

Contents

Arion Bank
Highlights 30 September 2025

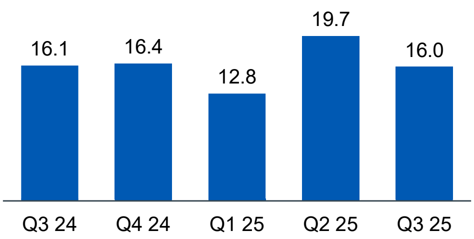
9M 16.0%
Return on Equity*

9M 38.3%
Total cost-to-core income

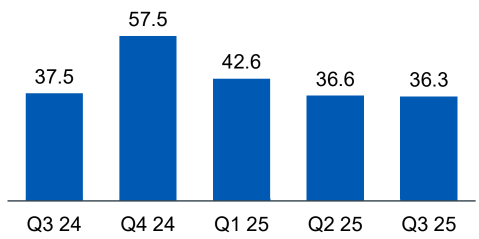
18.0%
CET1 ratio

Moody's
Long term: **A3**
Covered bond: **Aa1**
Outlook: **Stable**

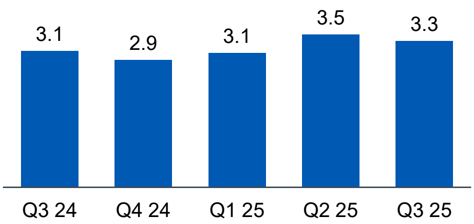
Return on equity* (%)



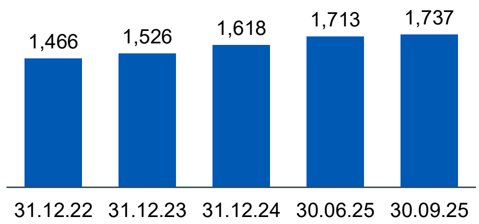
Total cost-to-Core income ratio (%)



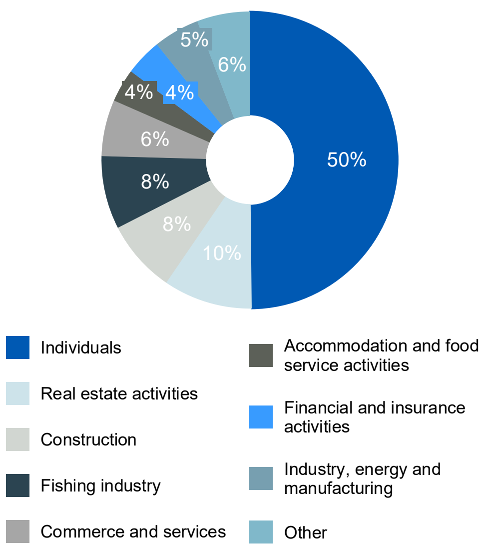
Net interest margin (%)



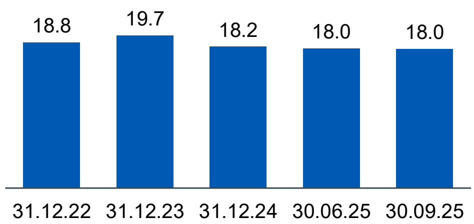
Total assets (ISK bn)



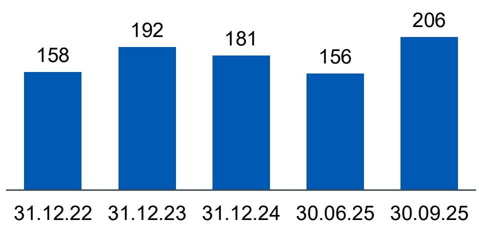
Loans to customers by sector



CET1 ratio (%)



LCR ratio (%)



EUROMONEY AWARDS FOR EXCELLENCE 2025 ICELAND BEST BANK

THE BANKER BANK OF THE YEAR 2024 ICELAND

UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING

SUSTAINALYTICS ESG INDUSTRY TOP RATED 2023

*Return on equity attributable to shareholders of Arion Bank

Endorsement and statement
by the Board of Directors and the CEO

The Consolidated Financial Statements of Arion Bank for the period ended 30 September 2025 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 attributable to the shareholders of Arion Bank amounted to ISK 8.2 billion for the third quarter and ISK 24.4 billion for the first nine months of the year. Net earnings amounted to ISK 8.2bn for the third quarter of 2024 and ISK 26.3bn for the first nine months. Return on equity attributable to the shareholders was 16.0% for both the quarter and for the first nine months. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 6.9%, compared with the third quarter in the previous year. Net interest income increased by 16.5% and the net interest margin was 3.3%, compared with 3.1% in the third quarter of 2024. Net commission income increased by 3.2% between years and the operation of Vördur improved from the third quarter in the previous year, contributing a standalone profit of ISK 0.7bn in the third quarter of 2025. Net financial income was ISK 0.5bn in the quarter. Operating expenses, including operating expenses of the insurance operation, remain relatively stable between years. The Group had 891 full-time equivalent positions at the end of September, compared with 858 at the end of 2024. Inflation measured 4.0% between years. The cost-to-income ratio was 32.6%, compared with 34.4% in the third quarter of 2024, while the total cost-to-core income ratio was 36.3%, compared with 37.5% in 2024. The effective income tax rate was 26.3% in the quarter.

Balance Sheet

Arion Bank's balance sheet grew by 7.3% from year-end 2024. Loans to customers increased by 5.8%, mainly loans to corporates, and deposits increased by 7.0%, primarily individuals, SMEs and corporates with low LCR outflow weight. Shareholders’ equity amounted to ISK 210,275 million at the end of the period. Capital distribution through dividends and the buy-backs of own shares amounted to ISK 22.1 billion in the first nine months of 2025.

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

	Q3 2025	9M 2025	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	16.0%	16.0%	Exceed 13%
Core operating income / REA	7.4%	7.5%	Exceed 7.2%
Insurance revenue growth (YoY)	4.7%	4.9%	In excess of market growth (5.4% in Q2 2025 YoY)
Combined ratio	88.2%	89.0%	Below 95%
Total cost-to-core income ratio	36.3%	38.3%	Below 45%
CET1 ratio above regulatory capital requirements	266 bps	266 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Arion Bank and Kvika enter merger discussions

On 4 July 2025, the Board of Directors of Arion Bank reiterated its interest from 27 May to the Board of Kvika banki hf. to enter merger negotiations. The aim of the merger is to combine the companies’ strengths and to create a robust financial institution which offers comprehensive services for its customers. The Board of Directors of Kvika has agreed to the request, and both parties have signed a letter of intent. It is proposed in the letter of intent that for its shares in Kvika shareholders will receive new shares in Arion Bank representing 26% of the merged entity, a total of 485,237,822 shares, representing a share price of ISK 19.17 per share in Kvika and a share price of ISK 174.5 per share in Arion Bank. The merger of the two banks is subject to both regulatory approval and the approval of shareholders’ meetings of both entities. The first steps involve due diligence reviews and merger negotiations between the companies, a process which is already underway. Preliminary discussions with the Icelandic Competition Authority have been initiated, where the aims of the merger and benefits resulting from it, both for customers and the Icelandic financial market, will be presented and discussed. The parties hope that the preliminary discussions, the finalization of contracts, and the due diligence review will be completed in the next few months. Assuming that the preliminary discussions with the Icelandic Competition Authority are successful, the merger will be formally announced to the regulators and will be submitted for approval at shareholders’ meetings of both companies. For further information, see press releases from 4 and 21 July.

Economic outlook

The Icelandic economy has faced material headwinds in 2025, following a 1% contraction in 2024. Statistics Iceland’s preliminary estimate shows GDP declined by 1.9% year-on-year in Q2, leaving output broadly flat over the first half. Despite this, the economy cannot yet be characterized as subdued: private consumption expanded by 3.1% and investment rose 8.3%, underscoring domestic resilience. The Q2 contraction was driven by a sharp deterioration in net trade. Imports surged 13.4% year-on-year - primarily in services and data center equipment - while goods exports edged lower. Notably, the rise in computer equipment imports has yet to translate into proportional business investment in the National Account’s Statistics, suggesting potential revisions ahead.

There seems to be a degree of internal tension within the Icelandic economy, where domestic demand - led by private consumption and the strong financial position of households - remains resilient, while several export sectors are facing notable challenges. This divergence can be partly attributed to the strength of the króna, which has shown persistent strength despite a major bankruptcy in the tourism industry, a reduction in fishing quotas and most recently, a significant reduction in aluminium production due to electrical equipment failure. Meanwhile, global uncertainty remains elevated, adding further strain on export industries. According to Arion Research, something will eventually have to give. Unemployment is expected to edge higher, and the króna is forecast to weaken over the coming year, potentially easing pressure on exporters.

The strength of the króna has supported the Central Bank of Iceland's inflation target, helping to suppress imported inflation. Yet, headline inflation has proven persistent, remaining above 4%. Consequently, monetary policy is expected to remain firm, although worsening economic outlook could move interest rate cuts closer in time. While progress in curbing inflation and anchoring expectations has been slower than anticipated, the policy stance is beginning to show tangible effects – most notably in the cooling of the housing market, where demand has softened and price growth has moderated. The tightening of access to inflation-indexed mortgages may accelerate cooling of the housing market.

Outlook for the Group

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 form the basis for a seamless customer experience and sustainable value creation. The Group's performance over the past few years, which has continued into the first nine months of 2025, indicates that we are on the right track. The proposed merger with Kvika Bank, which was announced earlier this year is a natural progression of this strategy and has strong potential to further enhance the operational performance and the service to our clients.

The external operating environment continues to evolve and pose 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 operating environment for the first nine months of 2025 has continued to be impacted by inflation, elevated interest rates, and international political uncertainty. Arion Bank remains in a strong position to manage the evolving operating environment, having strong and diverse revenue streams, a very strong capital position by international standards and robust liquidity and funding positions.

Funding and liquidity

The Group's liquidity position remains strong with an LCR at the end of the quarter of 206%.

The funding position remains strong and robust, as the Bank continued to be active in the international bond market in Q3 2025. The Bank has broad funding options with most of the 2025 FX funding plan completed. During the third quarter, the Bank issued EUR 300 million senior preferred notes. The notes have a 6-year maturity and pay a coupon of 3.50% which corresponds to a spread of 120 bps over mid-swaps.

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. In the medium term, the Bank aims to maintain capital adequacy ratios 150-250bps above total regulatory requirements. Arion Bank is currently rated A3 with a stable outlook from Moody's.

In March 2025, the Bank paid a dividend of ISK 11.5 per share, ISK 16.1 billion, as authorized by the Annual General Meeting. In addition to its authority to propose that the Bank pay dividends or other disbursements of equity, the Board is authorized to purchase up to 10% of the Bank's issued share capital. This authorization was not utilized during the third quarter.

The Group's capital adequacy ratio on 30 September 2025 was 21.9% and the CET1 ratio was 18.0%, when the unaudited interim net earnings for the third quarter of 2025 are included. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 21.5% and the CET1 ratio was 17.6%.This compares to a regulatory capital requirement of 19.6%, including the combined buffer requirement. The Bank's REA increased by ISK 27.8bn in the third quarter of 2025 driven primarily by an increase in the corporate loan portfolio. REA changes for other factors were less material.

The Bank's MREL requirements are 19.8% of REA, excluding own funds used to meet the combined buffer requirement, and 6.0% of TEM. The Bank comfortably exceeded both requirements at the end of Q3. An MREL subordination requirement of 13.5% will apply to the Bank from Q3 2027.

Ownership of Arion Bank

Gildi lífeyrissjódur was the largest shareholder in Arion Bank with a shareholding of 9.55% at the end of the period and Arion Bank held 2.59% of its own shares. The number of shareholders was 10,717 at the end of the period, compared with 10,200 at year-end 2024. Further information on Arion Bank's shareholders can be found in Note 38.

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.

Endorsement and statement
by the Board of Directors and the CEO

Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2025 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 2025 and its financial position as at 30 September 2025. 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 2025 and confirm them by means of their signatures.

Reykjavík, 29 October 2025

Board of Directors

Paul Horner, Chairman
Kristín Pétursdóttir, Vice Chairman
Gunnar Sturluson
Marianne Gjertsen Ebbesen
Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason

Consolidated Interim Income Statement

	Notes	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Interest income		100,647	102,888	32,832	33,210
Interest expense		(60,455)	(67,832)	(19,006)	(21,347)
Net interest income	7	**40,192**	**35,056**	**13,826**	**11,863**
Fee and commission income		16,016	14,014	4,994	4,744
Fee and commission expense		(2,924)	(2,790)	(991)	(864)
Net fee and commission income	8	**13,092**	**11,224**	**4,003**	**3,880**
Insurance revenue		15,338	14,642	5,293	5,067
Insurance service expenses		(13,673)	(12,803)	(4,663)	(3,535)
Insurance service results	9	**1,665**	**1,839**	**630**	**1,532**
Net financial income	10	(289)	652	483	524
Other operating income	11	4,690	(226)	45	(313)
Other net operating income		**4,401**	**426**	**528**	**211**
Operating income		**59,350**	**48,545**	**18,987**	**17,486**
Operating expenses	12-14	(19,492)	(19,727)	(6,194)	(6,021)
Bank levy	15	(1,559)	(1,436)	(530)	(500)
Net impairment	16	(1,359)	(2,044)	(1,128)	(954)
Earnings before income tax		**36,940**	**25,338**	**11,135**	**10,011**
Income tax expense	17	(10,638)	(7,489)	(2,928)	(2,114)
Net earnings from continuing operations		**26,302**	**17,849**	**8,207**	**7,897**
Discontinued operations held for sale, net of income tax	18	(19)	(26)	3	(6)
Net earnings		**26,283**	**17,823**	**8,210**	**7,891**

Attributable to

Shareholders of Arion Bank hf.		24,400	17,821	8,229	7,872
Non-controlling interest		1,883	2	(19)	19
Net earnings		**26,283**	**17,823**	**8,210**	**7,891**

Earnings per share

	Notes				
	19				
Basic earnings per share attributable to shareholders of Arion Bank (ISK)		17.55	12.45	5.95	5.62
Diluted earnings per share attributable to shareholders of Arion Bank (ISK)		17.41	12.31	5.90	5.56

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

Amounts are in ISK millions

Consolidated Interim Statement of Comprehensive Income

	Notes	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Net earnings		**26,283**	**9,932**	**8,210**	**7,891**
Net change in FV of financial assets carried at FV through OCI, net of tax		237	186	152	207
Net realized (gain) loss on financial assets carried at FV through OCI, net of tax transferred to the income statement	10	141	110	90	11
Changes to reserve for financial instruments at FV thr. OCI that is or may be reclassified subsequently to the income statement		**378**	**296**	**242**	**218**
Exchange difference on translating foreign subsidiaries		(2)	-	(2)	-
Other comprehensive income that is or may be reclassified subsequently to the Income Statement		**376**	**296**	**240**	**218**
Total comprehensive income		**26,659**	**10,228**	**8,450**	**8,109**

Attributable to

	Notes	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Shareholders of Arion Bank		24,776	18,117	8,469	8,090
Non-controlling interest		1,883	2	(19)	19
Total comprehensive income		**26,659**	**18,119**	**8,450**	**8,109**

	Notes	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Comprehensive income per share	19				
Basic compreh.income per share attrib. to shareholders of Arion Bank (ISK)		17.82	12.66	6.11	5.78
Diluted compreh.income per share attrib. to shareholders of Arion Bank (ISK)		17.68	12.51	6.06	5.71

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Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	30.09.2025	31.12.2024
Cash and balances with Central Bank	20	110,481	124,094
Loans to credit institutions	21	25,547	25,690
Loans to customers	22	1,301,708	1,230,058
Financial instruments	23-25	259,837	206,417
Investment property	25	13,833	9,387
Investments in associates	27	793	814
Intangible assets	28	7,681	7,688
Tax assets	29	7	2
Assets and disposal groups held for sale	30	81	111
Other assets	31	16,567	14,006
Total Assets		**1,736,535**	**1,618,267**

Liabilities			
Due to credit institutions and Central Bank	24	8,812	6,618
Deposits	24	917,226	857,443
Financial liabilities at fair value	24	3,211	8,394
Tax liabilities	29	15,617	11,060
Other liabilities	32	53,928	49,950
Borrowings	24,33	482,285	433,178
Subordinated liabilities	24,34	42,795	44,538
Total Liabilities		**1,523,874**	**1,411,181**

Equity			
Share capital and share premium	37	1,383	5,686
Other reserves		15,087	13,949
Retained earnings		193,805	186,947
Shareholders' Equity		**210,275**	**206,582**
Non-controlling interest		2,386	504
Total Equity		**212,661**	**207,086**
Total Liabilities and Equity		**1,736,535**	**1,618,267**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Restricted reserves							Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
			Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Foreign currency translation reserve	Statutory reserve				
Equity 1 January 2025	1,412	4,274	411	10,957	513	759	(328)	-	1,637	186,947	**206,582**	504	**207,086**
Net earnings										24,400	**24,400**	1,883	**26,283**
Net change in fair value							237				**237**		**237**
Net realized loss transferred to P/L							141				**141**		**141**
Net changes in reserves								(2)			**(2)**		**(2)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**378**	**(2)**	**-**	**24,400**	**24,775**	**1,883**	**26,658**
Transactions with owners													
Dividend paid										(16,114)	**(16,114)**		**(16,114)**
Purchase of treasury shares	(36)	(5,218)								(699)	**(5,953)**		**(5,953)**
Share option charge			68								**68**		**68**
Share option vested	6	715	(119)								**602**		**602**
Share option forfeited			(84)							84	**-**		**-**
Share option charge - incentive scheme			85								**85**		**85**
Incentive scheme	1	229									**230**		**230**
Net changes in reserves				2,279	(117)	(91)			(1,259)	(812)	**-**		**-**
Equity 30 September 2025	**1,383**	**-**	**361**	**13,236**	**396**	**668**	**50**	**(2)**	**378**	**193,805**	**210,275**	**2,386**	**212,661**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Restricted reserves							Retained earnings	Total share-holders' equity	Non-cont-rolling interest	Total equity
			Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Warrants reserve	Statutory reserve				
Equity 1 January 2024	1,446	9,188	409	7,772	1,462	880	(701)	825	1,637	175,881	**198,799**	503	**199,302**
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**
Transactions with owners													
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 excercised		816						(825)		9	**-**		**-**
Net changes in reserves				1,640	(803)	(91)				(746)	**-**		**-**
Equity 30 September 2024	**1,412**	**4,273**	**371**	**9,412**	**659**	**789**	**(405)**	**-**	**1,637**	**180,026**	**198,175**	**505**	**198,680**
Net earnings										8,290	**8,290**	(1)	**8,289**
Net change in fair value							88				**88**		**88**
Net realized loss transferred to P/L							(11)				**(11)**		**(11)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**77**	**-**	**-**	**8,290**	**8,367**	**(1)**	**8,366**
Transactions with owners													
Share option charge			40								**40**		**40**
Share option vested		-	-								**-**		**-**
Warrants excercised		-						-			**-**		**-**
Net changes in reserves				1,545	(146)	(30)				(1,369)	**-**		**-**
Equity 31 December 2024	**1,412**	**4,274**	**411**	**10,957**	**513**	**759**	**(328)**	**-**	**1,637**	**186,947**	**206,582**	**504**	**207,086**

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

	2025 1.1.-30.9.	2024 1.1.-30.9.
Operating activities		
Net earnings	26,283	17,823
Non-cash items included in net earnings	(29,488)	(25,041)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	(300)	211
Loans to customers	(56,040)	(39,377)
Financial instruments and financial liabilities at fair value	(44,952)	1,046
Deposits	45,555	22,053
Borrowings	48,523	(8,256)
Other changes in operating assets and liabilities	(7,096)	(13,880)
Interest received	72,238	74,670
Interest paid	(41,170)	(25,442)
Dividend received	187	144
Income tax paid	(6,086)	(5,737)
Net cash from (to) operating activities	**7,654**	**(1,786)**
Investing activities		
Acquisition of investment property	(91)	(174)
Proceeds from sale of investment property	447	-
Acquisition of property and equipment	(337)	(223)
Proceeds from sale of property and equipment	7	19
Decreased share capital and sale of associates	19	-
Dividend from associates	8	-
Acquisition of intangible assets	(752)	(517)
Net cash used in investing activities	**(699)**	**(895)**
Financing activities		
Dividend paid to shareholders of Arion Bank	(16,114)	(13,058)
Issued new share capital	-	6,240
Purchase of treasury stock	(5,953)	(12,452)
Issued subordinated liabilities	10,040	16,931
Settlement of subordinated liabilities	(8,769)	(3,896)
Repurchase of subordinated liabilities	-	(10,476)
Proceeds from vested share options	602	243
Net cash used in financing activities	**(20,194)**	**(16,468)**
Net decrease in cash and cash equivalents	(13,240)	(19,148)
Cash and cash equivalents at beginnning of the year	117,310	114,993
Effect of exchange rate changes on cash and cash equivalent	70	3,373
Cash and cash equivalents	**104,140**	**99,218**
Cash and cash equivalents		
Cash and balances with Central Bank	110,481	96,323
Bank accounts	25,247	32,772
Mandatory reserve deposit with Central Bank	(31,588)	(29,877)
Cash and cash equivalents	**104,140**	**99,218**

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements
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Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 September 2025 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 29 October 2025.

In preparing these 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 these Condensed Consolidated Interim Financial Statements.

Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), 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 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 2024.

Basis of measurement

These 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 2024;
- 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

These 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 121.29 and 142.42 for EUR (31.12.2024: USD 138.99 and EUR 143.89).

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. Material accounting estimates and judgements in applying accounting policies

The preparation of these 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.

3. Material 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 probability of default (PD), loss given default (LGD) and exposure at default (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 2024.

Macroeconomic outlook

Inflation remains above 4% and expectations have eased only slowly. The Central Bank's Monetary Policy Committee is therefore likely to keep rates on hold into next year. Despite a 1% contraction in 2024 and a Q2-2025 year-on-year dip driven by net trade, the economy hasn't stalled: private consumption remains firm, investment is up, and payment-card data point to resilient household demand. The stronger króna helps imported prices but squeezes exporters. Alongside softer tourism and lower fishing quotas, layoffs and slower hiring suggest a gradual cooling in the labor market. While not showing signs of distress, housing is easing with increased supply, softer demand, and slower price gains. In our baseline scenario, domestic demand delivers modest growth even as net exports subtract in the short run. Outcomes will depend chiefly on the króna’s path, the resilience of tourism bookings, and the impact of fishing quotas on supply.

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 income statement. For investment properties, either a valuation methodology based on present value calculations is used, as there is a lack of comparable market data because of the nature of the properties, or the investment properties are valued by reference to transactions involving properties of a similar nature, location and condition.

4. The Group

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

			Equity interest	
	Operating activity	Currency	30.9.2025	31.12.2024
Arion (Financial) Advisory Services Ltd, 30-32 Fleet Street, London, UK	Financail advisory	GBP	100.0%	-
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%

In June 2025 Arion Bank acquired all shareholdings in Arion (Financial) Advisory Services Ltd (formerly Arngrimsson Advisors Ltd), an entity offering financial advisory services for institutional investors investing in international markets. The acquisition was defined as asset purchase, mainly affecting other assets on the Balance sheet side whereas the effects on the Income Statement were mainly on net fee and commission income.

The shareholders of Arnarland ehf., which manages a 9-hectare plot of land in Arnarland, Iceland, have decided to put all of the company's shares up for sale. Arion Bank owns a 51% stake in Arnarland through its subsidiary Landey and recognizes a minority interest accordingly. The total assets of Arnarland amount to ISK 7,062 million, with ISK 6,662 million in investment property and ISK 400 million in other assets. Total liabilities amount to ISK 942 million, mainly deferred tax liabilities.

Amounts are in ISK millions

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 clients according to a pre-determined investment strategy. Asset Management also handles the operation and development of securities and pension funds. Asset Management comprises Institutional Asset Management, Premia Services and operations and development and sales and services. Premía Services are divided into three service streams: Premia; Premia - Private Banking; and Premia – Wealth Management and provide customers with comprehensive and personal financial services. 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 for investors. Markets also offer a comprehensive selection of funds from some of the leading international fund management companies, both through the Bank and the Bank's subsidiary Arion (Financial) Advisory Services Ltd. 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, Corporate Finance and Corporate Insurance.

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 12 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. The subsidiaries Stakksberg and Sólbjarg (both subsidiaries of Eignabjarg) are classified as disposal groups held for sale in accordance with IFRS 5.

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.

5. Operating segments, continued

1.1.-30.9.2025	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidiaries excl. Stefnir and Vördur	Supporting units and eliminations	Total
Income Statement							
Net interest income	1,006	21,800	11,606	5,895	(6)	(109)	40,192
Net fee and commission income	4,308	5,216	2,719	625	155	69	13,092
Insurance service results	-	(345)	1,728	-	(5)	287	1,665
Net financial income	(22)	(139)	(62)	(63)	20	(23)	(289)
Other operating income	2	13	24	2	4,634	15	4,690
Operating income	5,294	26,545	16,015	6,459	4,798	239	59,350
Operating expenses	(1,982)	(1,378)	(1,970)	(457)	(395)	(13,310)	(19,492)
Allocated expenses	(2,270)	(3,959)	(5,590)	(1,014)	(76)	12,909	-
Bank levy	(32)	(586)	(619)	(322)	-	-	(1,559)
Net impairment	22	(1,115)	(158)	(1)	-	(107)	(1,359)
Earnings before income tax	1,032	19,507	7,678	4,665	4,327	(269)	36,940
Net seg. rev. from ext. customers	4,345	28,546	21,437	(85)	4,820	287	59,350
Net seg. rev. from other segments	949	(2,001)	(5,422)	6,544	(22)	(48)	-
Operating income	5,294	26,545	16,015	6,459	4,798	239	59,350
Statement of financial position							
Loans to customers	7,858	653,105	640,221	4	-	520	1,301,708
Financial instruments	20,944	12,536	25,451	203,969	116	(3,179)	259,837
Other external assets	5,908	1,711	4,960	138,216	16,449	7,746	174,990
Internal assets	70,721	-	-	263,506	-	(334,227)	-
Total assets	105,431	667,352	670,632	605,695	16,565	(329,140)	1,736,535
Deposits	95,417	402,731	382,612	38,666	-	(2,200)	917,226
Other external liabilities	1,782	10,905	21,884	552,745	9,251	10,081	606,648
Internal liabilities	-	130,255	202,939	-	3,827	(337,021)	-
Total liabilities	97,199	543,891	607,435	591,411	13,078	(329,140)	1,523,874
Allocated equity	8,232	123,461	63,197	14,284	3,487	-	212,661

Amounts are in ISK millions

5. Operating segments, continued

1.1.-30.9.2024 *Income Statement*	Markets and Stefnir	CIB including insurance	Retail Banking including insurance	Treasury	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
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
Statement of financial position							
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

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Income Statement

Quarterly statements

6. Operations by quarters, unaudited

1.1.-30.9.2025	Q1	Q2	Q3	Total
Net interest income	12,166	14,200	13,826	40,192
Net fee and commission income	4,536	4,553	4,003	13,092
Insurance service results	(31)	1,066	630	1,665
Net financial income	(951)	179	483	(289)
Other operating income	3,321	1,324	45	4,690
Operating income	19,041	21,322	18,987	59,350
Operating expenses	(6,601)	(6,697)	(6,194)	(19,492)
Bank levy	(508)	(521)	(530)	(1,559)
Net impairment	(378)	147	(1,128)	(1,359)
Earnings before income tax	11,554	14,251	11,135	36,940
Income tax expense	(3,726)	(3,984)	(2,928)	(10,638)
Net earnings from continuing operations	7,828	10,267	8,207	26,302
Discontinued operations, net of tax	(11)	(11)	3	(19)
Net earnings	7,817	10,256	8,210	26,283

1.1.-30.9.2024	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

The half-year results were reviewed by the Bank's auditors. Other quarterly statements and the split between quarters were not audited or reviewed by the Bank's auditors.

Amounts are in ISK millions

7. Net interest income

1.1.-30.9.2025	Amortized	Fair value	Fair value	
Interest income	cost	thr. P/L	thr. OCI	Total
Cash and balances with Central Bank	4,928	-	-	4,928
Loans to credit institutions	681	-	-	681
Loans to customers	89,391	104	-	89,495
Securities	-	414	5,061	5,475
Other	68	-	-	68
Interest income	95,068	518	5,061	100,647
Interest expense				
Deposits	(37,534)	-	-	(37,534)
Borrowings	(18,517)	(1,522)	-	(20,039)
Subordinated liabilities	(2,496)	(280)	-	(2,776)
Other	(106)	-	-	(106)
Interest expense	(58,653)	(1,802)	-	(60,455)
Net interest income	36,415	(1,284)	5,061	40,192

1.1.-30.9.2024				
Interest income				
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

Net interest income calculated using the effective interest rate method were ISK 98,777 million (9M 2024: ISK 97,908 million).

Amounts are in ISK millions

7. Net interest income, continued

1.7.-30.9.2025	Amortized	Fair value	Fair value	
Interest income	cost	thr. P/L	thr. OCI	Total
Cash and balances with Central Bank	1,598	-	-	1,598
Loans to credit institutions	223	-	-	223
Loans to customers	29,316	32	-	29,348
Securities	-	188	1,457	1,645
Other	18	-	-	18
Interest income	31,155	220	1,457	32,832
Interest expense				
Deposits	(11,901)	-	-	(11,901)
Borrowings	(5,976)	(171)	-	(6,147)
Subordinated liabilities	(906)	(26)	-	(932)
Other	(26)	-	-	(26)
Interest expense	(18,809)	(197)	-	(19,006)
Net interest income	12,346	23	1,457	13,826

1.7.-30.9.2024	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
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

Net interest income calculated using the effective interest rate method were ISK 32,617 million during the quarter (Q3 2024: ISK 31,652 million).

Interest spread	2025	2024	2025	2024
	1.1.-30.9.	1.1.-30.9.	1.7.-30.9.	1.7.-30.9.
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.3%	3.1%	3.3%	3.1%

Amounts are in ISK millions

8. Net fee and commission income

	1.1.-30.9.2025			1.1.-30.9.2024		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	4,138	(359)	3,779	4,020	(411)	3,609
Capital markets and corporate finance	2,027	(27)	2,000	1,173	(26)	1,147
Lending and financial guarantees	3,861	-	3,861	3,135	-	3,135
Collection and payment services	1,095	(64)	1,031	1,201	(87)	1,114
Cards and payment solution	4,304	(2,048)	2,256	3,925	(1,950)	1,975
Other	591	(670)	(79)	560	(585)	(25)
Commission expense from insurance operation	-	244	244	-	269	269
Net fee and commission income	16,016	(2,924)	13,092	14,014	(2,790)	11,224

	1.7.-30.9.2025			1.7.-30.9.2024		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,449	(114)	1,335	1,287	(131)	1,156
Capital markets and corporate finance	555	(7)	548	362	(8)	354
Lending and financial guarantees	992	-	992	1,196	-	1,196
Collection and payment services	344	(19)	325	419	(33)	386
Cards and payment solution	1,466	(713)	753	1,341	(591)	750
Other	188	(214)	(26)	139	(191)	(52)
Commission expense from insurance operation	-	76	76	-	90	90
Net fee and commission income	4,994	(991)	4,003	4,744	(864)	3,880

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.

Amounts are in ISK millions

9. Insurance service results

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Insurance revenue	15,338	14,642	5,293	5,067
Incurred claims	(10,683)	(10,254)	(3,587)	(2,505)
Service expenses	(2,801)	(2,642)	(881)	(832)
Insurance service expenses	(13,484)	(12,896)	(4,468)	(3,337)
Net expense from reinsurance contracts held	(189)	93	(195)	(198)
Insurance service results	1,665	1,839	630	1,532

Operation results of Vördur

Vördur's operation resulted in a profit of ISK 896 million, with a return on equity of 8.4%, compared with a profit of ISK 1,977 million in the first nine monthsf of 2024 and a return on equity of 23.8%.

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Insurance service results	1,665	1,839	630	1,532
Insurance revenue elimination and reclassification	31	13	(7)	(16)
Insurance service results according to the Financial Statements of Vördur	1,696	1,852	623	1,516
Investment return	420	1,397	499	822
Net financial loss from insurance contracts	(845)	(836)	(271)	(286)
Total investment return	(425)	561	227	536
Other income	7	8	2	3
Earnings before income tax	1,278	2,421	853	2,055
Income tax	(382)	(444)	(155)	(318)
Net earnings	896	1,977	698	1,737

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	89.0%	87.4%	88.2%	69.6%

Amounts are in ISK millions

10. Net financial income

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Net gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	369	2,212	735	956
(Loss) gain on prepayments of borrowings	(15)	(209)	(16)	51
Net (loss) gain on fair value hedge of interest rate swap	(6)	(216)	49	87
Net realized loss on financial assets carried at fair value through OCI	(190)	(148)	(121)	(15)
Net financial loss from insurance contracts	(845)	(836)	(271)	(286)
Net foreign exchange gain (loss)	398	(151)	107	(269)
Net financial income	(289)	652	483	524

Net gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement

Equity instruments	(1,278)	866	187	736
Debt instruments	1,336	1,290	504	249
Derivatives	337	66	52	(19)
Loans	(26)	(10)	(8)	(10)
Net gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	369	2,212	735	956

Net (loss) gain on fair value hedge of interest rate swap

Fair value change of interest rate swaps designated as hedging instruments	2,449	4,714	402	4,420
Fair value change on bonds issued by the Group attributable to interest rate risk	(2,455)	(4,930)	(353)	(4,333)
Net (loss) gain on fair value hedge of interest rate swap	(6)	(216)	49	87

11. Other operating income

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Fair value changes on investment property	5,230	(340)	1	(352)
Realised loss on investment property	(428)	-	-	-
Net gain on assets held for sale	15	11	13	13
Share of profit of associates	6	43	15	16
Other income	(133)	60	16	10
Other operating income	4,690	(226)	45	(313)

Amounts are in ISK millions

12. Operating expenses

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Salaries and related expenses	12,779	12,406	3,908	3,777
Other operating expenses	9,271	9,695	3,093	2,985
Operating expenses from insurance operation	(2,558)	(2,374)	(807)	(741)
Operating expenses	19,492	19,727	6,194	6,021

13. Personnel and salaries

Number of employees	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Average number of full-time equivalent positions during the period	870	829	872	834
Full-time equivalent positions at the end of the period	891	851	891	851

Salaries and related expenses

Salaries	10,194	9,575	2,997	2,912
Incentive scheme	(173)	(43)	9	(19)
Share-based payment expenses	67	122	20	40
Defined contribution pension plans	1,495	1,395	441	422
Salary-related expenses	1,196	1,357	441	422
Salaries and related expenses	12,779	12,406	3,908	3,777

Incentive schemes

During the period the Group made a ISK 245 million reversal of provision for the incentive scheme, including salary-related expenses (9M 2024: ISK 56 million additonal provision). At period end the Group's accrual for the incentive scheme payments amounted to ISK 902 million (31.12.2024: ISK 2,853 million).

The 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 divided 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 or share options in the Bank. Of this 25%, a total of 20% will be settled instantly with cash, 40% will be settled instantly with shares subject to a 3-year lock-up period and the remaining 40% will be settled with shares or share options after 4-5 years or a total of 20% will be settled instantly with cash and the remaining 80% will be settled with share options after 4-5 years. Deferred incentive scheme payments from the fiscal years 2022-2024 will be settled in 2026-2030. 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 include 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 criteria 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 67 million was recognised in the Income Statement during the period (9M 2024: ISK 122 million). Estimated remaining expenses due the share option contracts are ISK 29 million and will be expensed over the next seven months. For further information on the share option program, see Note 37.

Amounts are in ISK millions

14. Other operating expenses

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
IT expenses	3,783	3,777	1,235	1,255
Professional services	1,017	998	400	289
Marketing	995	872	360	334
Housing expenses	390	371	121	111
Other administration expenses	1,825	2,417	576	580
Depreciation of property and equipment	382	421	108	142
Depreciation of right of use asset	120	104	41	36
Amortization of intangible assets	759	735	252	238
Other operating expenses	9,271	9,695	3,093	2,985

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

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Net impairment on financial instruments and value changes on loans				
Net impairment on loans to customers and financial institutions	(1,371)	(2,072)	(1,142)	(965)
Net impairment on other financial instruments at FVOCI	(4)	(2)	(1)	(1)
Other value changes of loans - corporates	-	11	-	1
Other value changes of loans - individuals	16	19	15	11
Net impairment	(1,359)	(2,044)	(1,128)	(954)
Net impairment by customer type				
Individuals	(155)	(513)	(473)	(68)
Corporates	(1,204)	(1,531)	(655)	(886)
Net impairment	(1,359)	(2,044)	(1,128)	(954)

Amounts are in ISK millions

17. Income tax expense

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Current tax expense	8,656	7,157	2,497	2,553
Deferred tax expense	1,982	332	431	(439)
Current tax expense	10,638	7,489	2,928	2,114

Reconciliation of effective tax rate

	2025 1.1.-30.9.		2024 1.1.-30.9.	
Earnings before income tax		36,940		25,338
Income tax using the Icelandic corporate tax rate	20.0%	7,388	21.0%	5,321
Additional 6% tax on Financial Undertakings	4.9%	1,824	5.6%	1,417
Non-deductible expenses	0.2%	67	0.6%	152
Tax exempt revenues / loss	3.1%	1,135	1.0%	261
Non-deductible taxes (Bank levy)	0.8%	312	1.1%	287
Effect of tax rates in foreign jurisdictions	0.0%	16	0.0%	-
Tax incentives not recognized in the Income Statement	(0.2%)	(64)	(0.2%)	(59)
Other changes	(0.1%)	(40)	0.4%	110
Effective tax rate	28.8%	10,638	29.6%	7,489

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.

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

	2025 1.1.-30.9.	2024 1.1.-30.9.	2025 1.7.-30.9.	2024 1.7.-30.9.
Net loss from discontinued operations held for sale	(19)	(26)	(8)	(6)
Income tax expense	-	-	-	-
Discontinued operations held for sale, net of income tax	(19)	(26)	(8)	(6)

Sólbjarg ehf., subsidiary of Eignabjarg is classified as held for sale.

Amounts are in ISK millions

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	
	2025	2024	2025	2024	2025	2024
1.1.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	24,419	17,847	(19)	(26)	24,400	17,821
Total comprehensive income attributable to the shareholders	24,795	18,143	(19)	(26)	24,776	18,117
Weighted average number of outstanding shares (millions)	1,390	1,431	1,390	1,431	1,390	1,431
Weighted average number of outstanding shares including options and warrants (2024) (millions)	1,402	1,448	1,402	1,448	1,402	1,448
Basic earnings per share (ISK)	17.56	12.47	(0.01)	(0.02)	17.55	12.45
Diluted earnings per share (ISK)	17.42	12.33	(0.01)	(0.02)	17.41	12.31
Basic comprehensive income per share (ISK)	17.83	12.68	(0.01)	(0.02)	17.82	12.66
Diluted comprehensive income per share (ISK)	17.69	12.53	(0.01)	(0.02)	17.68	12.51
1.7.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	8,226	7,878	3	(6)	8,229	7,872
Total compreh.income attributable to the shareholders	8,447	8,096	3	(6)	8,450	8,090
Weighted average number of outstanding shares (millions)	1,384	1,400	1,384	1,400	1,384	1,400
Weighted average number of outstanding shares including options and warrants (millions)	1,395	1,417	1,395	1,417	1,395	1,417
Basic earnings per share (ISK)	5.94	5.63	0.00	(0.00)	5.95	5.62
Diluted earnings per share (ISK)	5.90	5.56	0.00	(0.00)	5.90	5.56
Basic comprehensive income per share (ISK)	6.10	5.78	0.00	(0.00)	6.11	5.78
Diluted comprehensive income per share (ISK)	6.06	5.71	0.00	(0.00)	6.06	5.71

Notes to the Consolidated Interim Statement of Financial Position

20. Cash and balances with Central Bank

	30.9.2025	31.12.2024
Cash on hand	2,542	2,481
Cash with Central Bank	76,351	89,139
Mandatory reserve deposit with Central Bank	31,588	32,474
Cash and balances with Central Bank	110,481	124,094

The mandatory reserve deposit with the Central Bank is not available for the Group to use in its daily operations. The minimum interest-free fixed reserve requirement of the Central Bank is 3%.

21. Loans to credit institutions

	30.9.2025	31.12.2024
Bank accounts	25,247	25,690
Other loans	300	-
Loans to credit institutions	25,547	25,690

22. Loans to customers

	Individuals		Corporates		Total	
30.9.2025	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	15,300	14,612	47,955	46,658	63,255	61,270
Credit cards	18,158	17,884	2,586	2,503	20,744	20,387
Loans to customers at fair value	-	-	1,917	1,438	1,917	1,438
Mortgage loans	578,246	577,551	86,605	85,594	664,851	663,145
Construction loans	-	-	54,626	53,643	54,626	53,643
Capital lease	792	784	7,330	7,204	8,122	7,988
Other loans	38,201	37,230	460,806	456,607	499,007	493,837
Loans to customers	650,697	648,061	661,825	653,647	1,312,522	1,301,708
31.12.2024						
Overdrafts	14,575	13,925	42,233	41,222	56,808	55,147
Credit cards	16,873	16,647	2,297	2,230	19,170	18,877
Loans to customers at fair value	-	-	1,751	1,313	1,751	1,313
Mortgage loans	571,525	570,842	74,287	73,712	645,812	644,554
Construction loans	-	-	49,508	48,806	49,508	48,806
Capital lease	1,298	1,283	7,344	7,295	8,642	8,578
Other loans	37,627	36,707	420,530	416,076	458,157	452,783
Loans to customers	641,898	639,404	597,950	590,654	1,239,848	1,230,058

The total book value of pledged loans that were pledged against outstanding borrowings was ISK 307 billion at the end of the period (31.12.2024: ISK 304 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

23. Financial instruments

	30.9.2025	31.12.2024
Bonds and debt instruments	212,499	158,735
Shares and equity instruments with variable income	21,004	18,470
Derivatives	9,743	6,715
Securities used for economic hedging	16,591	22,497
Financial instruments	259,837	206,417

Amounts are in ISK millions

24. Financial assets and financial liabilities

30.9.2025

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	110,481	-	-	110,481
Loans to credit institutions	25,547	-	-	25,547
Loans to customers	1,300,270	-	1,438	1,301,708
Loans	1,436,298	-	1,438	1,437,736
Bonds and debt instruments				
Listed	-	177,499	34,709	212,208
Unlisted	-	-	291	291
Bonds and debt instruments	-	177,499	35,000	212,499
Shares and equity instruments with variable income				
Listed	-	-	11,789	11,789
Unlisted	-	-	8,159	8,159
Bond funds with variable income, unlisted	-	-	1,056	1,056
Shares and equity instruments with variable income	-	-	21,004	21,004
Derivatives				
OTC derivatives	-	-	5,515	5,515
Derivatives used for hedge accounting	-	-	4,228	4,228
Derivatives	-	-	9,743	9,743
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	3,295	3,295
Shares and equity instruments with variable income, listed	-	-	13,296	13,296
Securities used for economic hedging	-	-	16,591	16,591
Other financial assets				
Accounts receivable	3,381	-	-	3,381
Other financial assets	7,536	-	-	7,536
Other financial assets	10,917	-	-	10,917
Financial assets	1,447,215	177,499	83,776	1,708,490
Financial liabilities				
Due to credit institutions and Central Bank	8,812	-	-	8,812
Deposits	917,226	-	-	917,226
Borrowings *	482,285	-	-	482,285
Subordinated liabilities *	42,795	-	-	42,795
Derivatives	-	-	1,421	1,421
Derivatives used for hedge accounting	-	-	1,790	1,790
Other financial liabilities	20,939	-	-	20,939
Financial liabilities	1,472,057	-	3,211	1,475,268

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

24. Financial assets and financial liabilities, continued

31.12.2024

Financial assets	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	124,094	-	-	124,094
Loans to credit institutions	25,690	-	-	25,690
Loans to customers	1,228,745	-	1,313	1,230,058
Loans	1,378,529	-	1,313	1,379,842
Bonds and debt instruments				
Listed	-	126,898	31,217	158,115
Unlisted	-	-	620	620
Bonds and debt instruments	-	126,898	31,837	158,735
Shares and equity instruments with variable income				
Listed	-	-	11,499	11,499
Unlisted	-	-	6,291	6,291
Bond funds with variable income, unlisted	-	-	680	680
Shares and equity instruments with variable income	-	-	18,470	18,470
Derivatives				
OTC derivatives	-	-	3,685	3,685
Derivatives used for hedge accounting	-	-	3,030	3,030
Derivatives	-	-	6,715	6,715
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,664	2,664
Shares and equity instruments with variable income, listed	-	-	19,833	19,833
Securities used for economic hedging	-	-	22,497	22,497
Other financial assets				
Accounts receivable	2,552	-	-	2,552
Other financial assets	5,924	-	-	5,924
Other financial assets	8,476	-	-	8,476
Financial assets	1,387,005	126,898	80,832	1,594,735
Financial liabilities				
Due to credit institutions and Central Bank	6,618	-	-	6,618
Deposits	857,443	-	-	857,443
Borrowings *	433,178	-	-	433,178
Subordinated liabilities *	44,538	-	-	44,538
Derivatives	-	-	4,096	4,096
Derivatives used for hedge accounting	-	-	4,298	4,298
Other financial liabilities	10,631	-	-	10,631
Financial liabilities	1,352,408	-	8,394	1,360,802

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

24. Financial assets and financial liabilities, continued

Bonds and debt instruments measured at fair value, specified by issuer

30.9.2025	Fair value through OCI	Mandatorily at fair value thr. P/L	Total
Financial and insurance activities	-	9,808	9,808
Public sector	177,499	21,535	199,034
Corporates	-	3,657	3,657
Bonds and debt instruments at fair value	177,499	35,000	212,499
31.12.2024			
Financial and insurance activities	975	8,494	9,469
Public sector	125,923	20,257	146,180
Corporates	-	3,086	3,086
Bonds and debt instruments at fair value	126,898	31,837	158,735

The total amount of pledged bonds was ISK 3.4 billion at the end of the period (31.12.2024: ISK 3.1 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

30.9.2025

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,438	1,438
Bonds and debt instruments	208,815	3,681	3	212,499
Shares and equity instruments with variable income	11,438	5,536	4,030	21,004
Derivatives	-	5,515	-	5,515
Derivatives used for hedge accounting	-	4,228	-	4,228
Securities used for economic hedging	16,591	-	-	16,591
Investment property	-	-	13,833	13,833
Assets at fair value	236,844	18,960	19,304	275,108
Derivatives	-	1,421	-	1,421
Derivatives used for hedge accounting	-	1,790	-	1,790
Liabilities at fair value	-	3,211	-	3,211

Amounts are in ISK millions

25. Fair value hierarchy, continued

31.12.2024

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to credit institutions	-	-	1,313	1,313
Bonds and debt instruments	155,316	3,414	5	158,735
Shares and equity instruments with variable income	9,269	7,546	1,655	18,470
Derivatives	-	3,685	-	3,685
Derivatives used for hedge accounting	-	3,030	-	3,030
Securities used for economic hedging	21,585	912	-	22,497
Investment property	-	-	9,387	9,387
Assets at fair value	186,170	18,587	12,360	217,117

Liabilities at fair value				
Derivatives	-	4,096	-	4,096
Derivatives used for hedge accounting	-	4,298	-	4,298
Liabilities at fair value	-	8,394	-	8,394

There was no transfer between Level 1 and Level 2 during the period (2024: Transfers from Level 1 to Level 2 ISK 2,767 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.

Amounts are in ISK millions

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	Financial assets			
30.9.2025	property	Loans	Bonds	Shares	Total
Balance at the beginning of the year	9,387	1,358	5	1,655	12,405
Net fair value changes	5,230	80	-	(171)	5,139
Additions	91	-	-	2,549	2,640
Disposals	(875)	-	(2)	(3)	(880)
Balance at the end of the period	13,833	1,438	3	4,030	19,304
31.12.2024					
Balance at the beginning of the year	9,493	-	27	3,595	13,115
Net fair value changes	(339)	51	(20)	468	160
Additions	233	1,262	-	26	1,521
Disposals	-	-	(2)	(2,434)	(2,436)
Balance at the end of the year	9,387	1,313	5	1,655	12,360

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

	Investment	Financial assets			
1.1.-30.9.2025	property	Loans	Bonds	Shares	Total
Net interest income	-	106	-	-	106
Net financial income	-	(26)	-	(171)	(197)
Other operating income	4,802	-	-	-	4,802
Effects recognized in the Income Statement	4,802	80	-	(171)	4,711
1.1.-30.9.2024					
Net interest 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

Amounts are in ISK millions

25. Fair value hierarchy, continued

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

30.9.2025 *Financial assets not carried at fair value*	Carrying value	Fair value	Unrealized (loss) gain
Cash and balances with Central Bank	110,481	110,481	-
Loans to credit institutions	25,547	25,547	-
Loans to customers	1,300,270	1,300,132	(138)
Other financial assets	10,917	10,917	-
Financial assets not carried at fair value	1,447,215	1,447,077	(138)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	8,812	8,812	-
Deposits	917,226	917,226	-
Borrowings	482,285	486,787	(4,502)
Subordinated liabilities	42,795	49,665	(6,870)
Other financial liabilities	20,939	20,939	-
Financial liabilities not carried at fair value	1,472,057	1,483,429	(11,372)
31.12.2024			
Financial assets not carried at fair value			
Cash and balances with Central Bank	124,094	124,094	-
Loans to credit institutions	25,690	25,690	-
Loans to customers	1,228,745	1,222,223	(6,522)
Other financial assets	8,476	8,476	-
Financial assets not carried at fair value	1,387,005	1,380,483	(6,522)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	6,618	6,618	-
Deposits	857,443	857,443	-
Borrowings	433,178	429,199	3,979
Subordinated liabilities	44,538	48,226	(3,688)
Other financial liabilities	10,631	10,631	-
Financial liabilities not carried at fair value	1,352,408	1,352,117	291

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

	Notional	Fair value	
30.9.2025	value	Assets	Liabilities
Forward exchange rate agreements	55,606	143	824
Fair value hedge of interest rate swap	259,707	3,901	1,790
Interest rate and exchange rate agreements	41,970	1,090	324
Bond swap agreements	3,922	143	11
Share swap agreements	17,937	4,466	262
Derivatives	379,142	9,743	3,211
31.12.2024			
Forward exchange rate agreements	60,780	180	1,286
Fair value hedge of interest rate swap	235,504	3,030	4,297
Interest rate and exchange rate agreements	43,027	235	791
Bond swap agreements	3,243	87	2
Share swap agreements	20,789	2,596	2,018
Options - purchased agreements, unlisted	-	587	-
Derivatives	363,343	6,715	8,394

Amounts are in ISK millions

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 in EUR and USD, whereby the Group pays floating rate interest and receives fixed rate interest, with identical cash flows to the borrowings and subordinated liabilities. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR and USD bonds, see Notes 33 and 34, arising from changes in EURIBOR and SOFR benchmark 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 2025 the slope for the regression line was in all cases within the range of 0.94-1.03 and the regression coefficient was at least 0.98. During 2024, the slope of the regression line was in all cases within the range of 0.93-1.05 and the regression coefficient was at least 0.97. In all cases the effectiveness is within limits in 2025 and 2024.

	Notional	Maturity	Fair value		Gain (loss) on FV
1.1.-30.9.2025	Value	date	Assets	Liabilities	changes
Interest rates swaps - EUR	-	-	-	-	693
Interest rates swaps - EUR	71,211	1-5 years	-	1,659	1,028
Interest rates swaps - EUR	42,727	6-12 mth	1,064	-	(157)
Interest rates swaps - USD	2,426	1-5 years	167	-	32
Interest rates swaps - EUR	42,727	1-5 years	2,307	-	(242)
Interest rates swaps - USD	15,162	1-5 years	-	130	428
Interest rates swaps - EUR	42,727	1-5 years	362	-	47
Interest rates swaps - EUR	42,727	over 5 years	328	-	620
			4,228	1,789	2,449
1.1.-31.12.2024					
Interest rates swaps - EUR	-	-	-	-	213
Interest rates swaps - EUR	-	-	-	-	157
Interest rates swaps - USD	13,899	6-12 mth	-	94	441
Interest rates swaps - EUR	43,168	6-12 mth	-	988	1,621
Interest rates swaps - EUR	71,947	1-5 years	-	2,953	1,955
Interest rates swaps - EUR	43,168	1-5 years	1,977	-	(25)
Interest rates swaps - USD	2,780	1-5 years	27	-	26
Interest rates swaps - EUR	43,168	1-5 years	1,026	-	1,090
Interest rates swaps - USD	17,374	1-5 years	-	263	(611)
			3,030	4,298	4,867

Hedged borrowings and subordinated liabilities	Book	Accumulated fair value		Gain (loss) on FV
1.1.-30.9.2025	value	Assets	Liabilities	changes
EUR 300 million - issued 2021 - 4 years	-	-	-	(648)
EUR 500 million - issued 2021 - 5 years	69,447	1,356	-	(1,027)
EUR 300 million - issued 2022 - 2 years	43,118	-	58	(76)
EUR 300 million - issued 2023 - 3 years	44,022	-	238	155
USD 21 million - issued 2024 - 3 years	2,758	-	53	(33)
EUR 300 million - issued 2024 - 4 years	45,099	-	796	225
USD 125 million - issued 2024 - Perpetual	14,805	207	-	(437)
EUR 300 million - issued 2025 - 6 years	43,021	-	614	(614)
Hedged borrowings and subordinated liabilities	262,270	1,563	1,759	(2,455)
1.1.-31.12.2024				
EUR 300 million - issued 2020 - 4 years	-	-	-	(205)
USD 100 million - issued 2020 - Perpetual	3,150	-	-	(615)
EUR 500 million - issued 2021 - 5 years	68,775	2,395	-	(1,948)
EUR 300 million - issued 2021 - 4 years	42,597	646	-	(1,619)
EUR 300 million - issued 2022 - 2 years	-	-	-	(469)
EUR 300 million - issued 2023 - 3 years	45,384	-	397	24
USD 21 million - issued 2024 - 3 years	2,989	-	27	(27)
EUR 300 million - issued 2024 - 4 years	44,272	-	1,039	(1,087)
USD 125 million - issued 2024 - Perpetual	16,854	705	-	696
Hedged borrowings and subordinated liabilities	224,021	3,746	1,463	(5,250)

Amounts are in ISK millions

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				
30.9.2025	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 not subject to enforceable netting arr-angements	Total assets recognized on Balance Sheet, net
Reverse repurchase agreements	16,990	(10,668)	6,322	10,668	-	16,990	-	6,322
Derivatives	5,222	-	5,222	(1,357)	(2,863)	1,002	4,521	9,743
Total assets	22,212	(10,668)	11,544	9,311	(2,863)	17,992	4,521	16,065
31.12.2024								
Reverse repurchase agreements	16,469	(10,383)	6,086	10,383	-	16,469	-	6,086
Derivatives	4,523	-	4,523	(2,015)	(2,504)	4	2,192	6,715
Total assets	20,992	(10,383)	10,609	8,368	(2,504)	16,473	2,192	12,801

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
30.9.2025	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet, net
Repurchase agreements	16,135	(10,668)	5,467	10,668	-	16,135	-	5,467
Derivatives	2,966	-	2,966	(1,357)	(2,806)	(1,197)	245	3,211
Total liabilities	19,101	(10,668)	8,433	9,311	(2,806)	14,938	245	8,678
31.12.2024								
Repurchase agreements	15,926	(10,383)	5,543	(5,543)	-	-	-	5,543
Derivatives	7,131	-	7,131	(2,015)	(4,327)	789	1,263	8,394
Total liabilities	23,057	(10,383)	12,674	(7,558)	(4,327)	789	1,263	13,937

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

	30.9.2025	31.12.2024
Carrying amount at the beginning of the year	814	789
Decreased share capital and sale of associate	(19)	-
Dividend received	(8)	-
Share of profit of associates	6	25
Investment in associates	793	814

The Group's interest in its principal associates

Bílafrágangur ehf., Lágmúli 5, Reykjavík, Iceland	-	33.4%
Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Dalvegur 30, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík	35.3%	35.3%
Matorka ehf., Eyrartröð 12, Grindavik, Iceland	21.7%	-

In June Arion Bank sold its entire shareholding in Bílafrágangur ehf. with minor effects on the Income Statement.

Due to the financial difficulties experienced by Matorka ehf. following the seismic activity in Grindavík and subsequent composition agreements, Arion Bank obtained a 21.7% ownership share in the company at the end of March. This stake is currently valued at zero, but the company has outstanding loans from the Bank.

Amounts are in ISK millions

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 cost of implementation.

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

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

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

Policies applied to the Group's intangible assets	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

30.9.2025	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	427	4,148	7,688
Additions	-	-	-	752	752
Amortization	-	-	(45)	(714)	(759)
Balance at the end of the period	730	2,383	382	4,186	7,681
31.12.2024					
Balance at the beginning of the year	730	2,383	487	4,451	8,051
Additions	-	-	-	622	622
Amortization	-	-	(60)	(925)	(985)
Balance at the end of the period	730	2,383	427	4,148	7,688

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

29. Tax assets and tax liabilities

	30.9.2025		31.12.2024	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	12,457	-	9,887
Deferred tax	7	3,160	2	1,173
Tax assets and tax liabilities	7	15,617	2	11,060

30. Assets and disposal groups held for sale

	30.9.2025	31.12.2024
Real estate and other assets	81	111
Assets and disposal groups held for sale	81	111

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

31. Other assets

	30.9.2025	31.12.2024
Property and equipment	3,350	3,403
Right-of-use asset	787	808
Accounts receivable	3,381	2,552
Unsettled securities trading	2,894	2,342
Sundry assets	6,155	4,901
Other assets	16,567	14,006

32. Other liabilities

	30.9.2025	31.12.2024
Accounts payable	1,040	1,402
Unsettled securities trading	11,250	2,550
Insurance contract liabilities	22,834	21,478
Withholding tax	921	7,329
Bank levy	2,256	1,925
Accrued expenses	4,673	6,136
Prepaid income	1,384	1,475
Impairment of off-balance items	649	511
Lease liability	921	975
Sundry liabilities	8,000	6,169
Other liabilities	53,928	49,950
Insurance contract liabilities		
Liabilities for remaining coverage	4,134	3,851
Liabilities for incurred claims	17,827	16,819
Risk adjustment	874	808
Insurance contract liabilities	22,834	21,478

Amounts are in ISK millions

33. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2025	31.12.2024
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed CPI linked 3.00%	-	34,805
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed CPI linked 2.00%	22,629	21,775
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed EUR 0.05%	69,447	68,775
ARION CB 27, ISK 53,100 million	2022	2027	At maturity	Fixed 5.50%	26,340	25,652
ARION CBI 28, ISK 27,420 million	2024	2028	At maturity	Fixed CPI linked 4.25%	23,024	12,887
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed CPI linked 3.50%	41,648	39,939
ARION CBI 30, ISK 31,920 million	2023	2030	At maturity	Fixed CPI linked 2.75%	33,471	31,896
ARION CBI 31, ISK 3,040 million	2025	2031	Amortizing	Fixed CPI linked 3.65%	2,103	-
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed CPI linked 2.50%	12,635	12,663
Statutory covered bonds					231,297	248,392
EUR 300 million Green *	2021	2025	At maturity	Fixed 0.375%	-	42,597
NOK 550 million	2022	2025	At maturity	Floating NIBOR 3M +2.35%	-	6,783
SEK 230 million	2022	2025	At maturity	Floating STIBOR 3M +2.35%	-	2,906
NOK 200 million	2023	2025	At maturity	Floating NIBOR 3M +2.55%	-	2,451
ARION 26 1222 Green, ISK 5,760 million	2021	2026	At maturity	Fixed 4.70%	5,607	5,411
SEK 300 million	2023	2026	At maturity	Floating STIBOR 3M +3.00%	3,876	3,775
EUR 300 million*	2023	2026	At maturity	Fixed 7.25%	44,022	45,384
NOK 250 million	2017	2027	At maturity	Fixed 3.40%	3,084	3,129
USD 21 million*	2024	2027	At maturity	Fixed 6.25%	2,758	2,989
SEK 500 million Green	2024	2027	At maturity	Floating STIBOR 3M +1.20%	6,485	6,324
NOK 500 million Green	2024	2027	At maturity	Floating NIBOR 3M +1.20%	6,146	6,185
NOK 600 million Green	2025	2027	At maturity	Floating NIBOR 3M +1.17%	7,306	-
SEK 900 million Green	2025	2027	At maturity	Floating STIBOR 3M +1.20%	11,604	-
ARION 28 1512, ISK 16,920 million	2023	2028	At maturity	Fixed CPI linked 4.35%	18,449	12,580
EUR 300 million *	2024	2028	At maturity	Fixed 4.625%	45,099	44,272
SEK 250 million	2025	2028	At maturity	Floating STIBOR 3M +1.13%	3,241	-
USD 27 million	2025	2028	At maturity	Fixed 5.00%	2,874	-
NOK 350 million	2025	2028	At maturity	Floating NIBOR 3M +1.11%	4,298	-
EUR 300 million *	2025	2030	At maturity	Fixed 3.625%	43,118	-
EUR 300 million *	2025	2031	At maturity	Fixed 3.50%	43,021	-
Senior unsecured bonds					250,988	184,786
Borrowings					482,285	433,178

* 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 482 billion at the end of the period (31.12.2024: ISK 433 billion). The market value of those bonds was ISK 487 billion (31.12.2024: ISK 429 billion). The Group repurchased own debts amounting to ISK 9 billion during the period with a net loss of ISK 15 million recognized in the Income Statement (9M 2024: ISK 209 million loss).

Amounts are in ISK millions

34. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.9.2025	31.12.2024
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed CPI linked 3.875%	-	6,607
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed 6.75%	-	905
EUR 5 million	2019	2031	6 Mar '26	Fixed 3.24%	722	735
ARION T2I ISK 33 9,860 million	2022	2033	15 Dec '28	Fixed CPI linked 4.95%	11,745	11,195
ARION T2 33 ISK 2,240 million	2022	2033	15 Dec '28	Fixed 9.25%	2,300	2,249
SEK 225 million	2024	2034	20 Nov '29	Floating 3 mth STIBOR +2.65%	2,917	2,843
ARION T2I 36 ISK 10,040 million	2025	2036	2 Dec '31	Fixed CPI linked 5.00%	10,306	-
Tier 2 subordinated liabilities					**27,990**	**24,534**
ARION AT1 USD 100 million *	2020	Perpetual	26 Aug '25	Fixed 6.25%	-	3,150
ARION AT1 USD 125 million *	2024	Perpetual	24 Mar '30	Fixed 8.125%	14,805	16,854
Additional Tier 1 subordinated liabilities					**14,805**	**20,004**
Subordinated liabilities					**42,795**	**44,538**

* 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.

35. Liabilities arising from financial activities

			Non-cash changes			
1.1.-30.9.2025	At 1 Jan.	Net cash flows	Interest expenses	Foreign exchange	Effect from hedge	At period end
Covered bonds in ISK - CPI linked	153,965	(26,817)	8,362	-	-	135,510
Covered bonds in ISK	25,652	(729)	1,417	-	-	26,340
Covered bonds in FX	68,775	(1,208)	1,536	(720)	1,064	69,447
Senior unsecured bonds in FX	166,795	55,400	7,277	(3,485)	945	226,932
Senior unsecured bonds in ISK	5,411	(22)	218	-	-	5,607
Senior unsecured bonds in ISK - CPI linked	12,580	4,640	1,229	-	-	18,449
Subordinated bond T2 in ISK - CPI linked	17,802	3,099	1,150	-	-	22,051
Subordinated bond T2 ISK	3,153	(1,013)	160	-	-	2,300
Subordinated bond T2 FX	3,579	(139)	129	70	-	3,639
Subordinated bond AT1 FX	20,004	(4,797)	1,337	(2,185)	446	14,805
Liabilities arising from financial activities	**477,716**	**28,414**	**22,815**	**(6,320)**	**2,455**	**525,080**

1.1.-31.12.2024						
Covered bonds in ISK - CPI linked	132,391	10,580	10,994	-	-	153,965
Covered bonds in ISK	31,344	(7,455)	1,763	-	-	25,652
Covered bonds in FX	69,337	(4,660)	3,125	2,971	(1,998)	68,775
Senior unsecured bonds in FX	167,106	(15,407)	10,295	7,864	(3,063)	166,795
Senior unsecured bonds in ISK	11,510	(6,905)	806	-	-	5,411
Senior unsecured bonds in ISK - CPI linked	8,772	2,877	931	-	-	12,580
Subordinated bond T2 in ISK - CPI linked	16,997	(795)	1,600	-	-	17,802
Subordinated bond T2 ISK	3,157	(267)	264	-	-	3,154
Subordinated bond T2 FX	7,908	(5,099)	430	339	-	3,578
Subordinated bond AT1 FX	13,217	5,265	1,749	(421)	194	20,004
Liabilities arising from financial activities	**461,739**	**(21,866)**	**31,957**	**10,753**	**(4,867)**	**477,716**

Amounts are in ISK millions

36. Pledged assets

	30.9.2025	31.12.2024
Pledged assets against liabilities		
Assets, pledged as collateral against borrowings	384,181	398,505
Assets pledged as a collateral against loans from banks and other financial liabilities	6,020	7,452
Pledged assets against liabilities	390,201	405,957
Thereof pledged assets against issued covered bonds held by the Bank	(89,765)	(105,265)
Assets against repoed issued bonds	17,058	15,429
Pledged assets against liabilities on balance	317,494	316,121

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements undir Icelandic law. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 231 billion at period end (31.12.2024: ISK 248 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 to ensure the clearing of the Icelandic payment system. Moreover, it has pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

The Group has issued covered bonds amounting to ISK 58 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 (31.12.2024: ISK 78 billion). Pledged assets against those covered bonds are ISK 73 billion (31.12.2024: ISK 90 billion).

37. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,420 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the Annual General Meeting (AGM) and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	2025 total	Share capital	Own shares	Share premium	2024 total
Balance at the beginning of the year	1,513	(101)	4,273	5,686	1,460	(14)	9,188	10,634
Issued new share capital	-	-	-	-	53	-	6,187	6,240
Share capital reduction	(93)	93	-	-	-	-	-	-
Purchase of treasury shares	-	(36)	(5,218)	(5,254)	-	(90)	(12,362)	(12,452)
Share option vested	-	6	715	721	-	2	280	282
Incentive scheme	-	1	229	230	-	1	165	166
Transfers	-	-	-	-	-	-	-	-
Warrants excercised	-	-	-	-	-	-	816	816
Balance at the end of the period	1,420	(36)	-	1,383	1,513	(101)	4,273	5,686
Own shares / issued share capital		2.59%				6.65%		

The AGM of Arion Bank, held on 12 March 2025, approved to reduce the Bank's share capital by ISK 93,423,078 nominal value, by cancelling the Bank's own shares. The reduction was carried out on April 7 2025. 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.

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In April the FSA granted the Bank authorization to buy back own shares in Iceland and Sweden amounting up to a total of 19,867,500 shares and SDRs or up to ISK 3.0 billion. There are no ongoing programs at the end of September 2025. In 2024 the FSA authorized the Bank to initiate share buy-back programs in Iceland and Sweden amounting up to a total of 113.6 million shares or up to ISK 15.5 billion.

Amounts are in ISK millions

37. Equity, continued

Share options

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks AGM, 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.

In accordance with the current incentive scheme for Arion Bank hf. and Vördur, a limited group of employees can receive payments of up to 25% of the employees fixed salaries, of which 40% or 80% can be in the form of share options in the Bank. The share options are settled 4-5 years after granting. See Note 13 for further disclosures on the incentive scheme.

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	2,488	2026	95.50
Issued in 2023 (ISK 900,000) - employees of Arion Bank	2,306	2026	153.75
Issued in 2023 (ISK 1,500,000) - employees of Arion Bank	1,463	2026	153.75
Issued in 2024 (ISK 1,500,000) - employees of Arion Bank	751	2026	155.75
Issued in 2025 (ISK 1,500,000) - employees of Arion Bank	1,040	2026	174.56
Issued in 2023 (ISK 1,500,000) - employees of subsidiaries	583	2026	140.56
Issued in 2024 (ISK 1,500,000) - employees of subsidiaries	157	2026	143.36
Issued in 2025 (ISK 1,500,000) - employees of subsidiaries	164	2026	155.93
Issued in 2025 - incentive scheme - employees of Group	2,451	2028-2030	Indeterminate
	11,403		

Movements in share options during the period.	30.9.2025		31.12.2024	
	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	17,116	135.1	24,435	136.3
Share options granted	1,203	172.0	1,953	153.6
Share options forfeited	(4,523)	130.1	(6,766)	148.2
Share options exercised, WAVG share price ISK 169.5 at exercise date (2024: 154.3)	(4,844)	124.2	(2,506)	96.7
Outstanding share options pursuant to Icelandic income tax act	8,952	139.1	17,116	135.1
Share options granted - incentive scheme	2,451	Indeterminate		
Outstanding share options at the end of the period	11,403	Indeterminate		

No share options are exercisable at period end. Next exercise periods are in February and May 2026.

All outstanding share options, if exercised, represent approximately 0.6% 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.

Amounts are in ISK millions

Other information

38. Shareholders of Arion Bank

	30.9.2025	31.12.2024
Gildi pension fund	9.55%	9.17%
Lífeyrissjódur verzlunarmanna	9.45%	9.06%
Lífeyrissjódur starfsmanna ríkisins	9.24%	8.79%
Brú pension fund	5.57%	5.31%
Stodir hf.	5.07%	5.29%
Frjálsi pension fund	3.88%	3.60%
Vanguard	3.87%	3.59%
Birta pension fund	3.08%	3.15%
Stapi pension fund	3.04%	3.02%
Festa pension fund	2.61%	2.25%
Hvalur hf.	2.59%	2.43%
Arion banki hf.	2.59%	6.65%
Stefnir funds	2.42%	2.08%
Lífsverk pension fund	1.94%	1.51%
Almenni pension fund	1.81%	1.63%
Íslandsbanki hf.	1.52%	1.52%
Eaton Vance funds	1.39%	0.39%
Landsbréf hf.	1.19%	0.94%
Other shareholders with less than 1% shareholding	29.19%	29.62%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 2.59% in Arion Bank (31.12.2024: 1.15%). The Board of Directors and key management personnel shareholding is as follows:

	30.9.2025		31.12.2024	
	Options	Number of shares	Options	Number of shares
Steinunn K. Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	-	-	32,000
Benedikt Gíslason, CEO	12,136	3,181,575	24,273	3,133,450
Key management personnel*	627,353	3,328,222	189,171	3,138,856

* Key management personnel are defined in Note 43.

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, Kortaþjónustan 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 Kortaþjónustan 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, Kortaþjónustan 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 recorded any provision.

Amounts are in ISK millions

39. Legal matters, continued

Consumer Association's class-action lawsuit

The Consumer Association of Iceland sent a letter to Arion Bank, Íslandsbanki and Landsbankinn in April 2020 urging the banks to review their contractual terms on variable rate mortgages to individuals. The letter called for revised terms and compensation to borrowers who, according to the Association, had 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.

In response to 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 were unfounded. A response was sent to the Consumer Association in September 2020. According to information published on the Consumer Association's website, all three banks rejected the Association's arguments.

In May 2021, the Consumer Association published an article on its website calling for participants in a class action lawsuit. The intention was to commence court proceedings against the Icelandic banks to provide a legal precedent for loans with variable rates. Arion Bank received requests for information from a legal firm representing approximately 1,200 individuals. A case was filed against the Bank concerning an indexed loan and with a judgement of the District Court of Reykjavík on 7 February 2023, the Bank was acquitted. The plaintiffs appealed the judgement to the Court of Appeal and with a judgement in February 2025, the Court of Appeal confirmed the District Court's judgement. The judgement was appealed to the Supreme Court, and the hearing is scheduled for 17 November 2025. The Bank is also party to one other case, concerning a non-indexed loan, waiting to be heard by the District Court of Reykjavik.

Cases have also been filed against Landsbankinn and Íslandsbanki. A Supreme Court judgement in the case of Íslandsbanki was delivered in October 2025. The Supreme Court found that the disputed contractual clause permitting changes to interest rates was partially invalid and set the invalid terms aside. The only part of the terms that was considered valid was a reference to the Central Bank's policy rate. Íslandsbanki was, however, acquitted of the borrower's financial claim, on the grounds that the interest rate on their loan had increased less than the Central Bank's policy rate during the period covered by the dispute.

It should be noted that the terms of Arion Bank mortgages which contain provisions on variable interest rates differ from those which were the subject of the Supreme Court judgment in the case against Íslandsbanki. The terms of Arion Bank mortgages in respect of varying the interest rates are exhaustively listed, unlike the terms of the Íslandsbanki mortgages, and each reference or term is further defined by a brief explanation. Therefore, the impact of the judgement on Arion Bank's loans bearing non-indexed rates cannot be clearly asserted. Moreover, in the Bank's assessment, the argument the Supreme Court uses in Íslandsbanki's case, regarding reference to the Central Bank's policy rate, is also applicable to the terms of Arion Bank mortgages bearing non-indexed rates. This is considered to reduce the probability of worst-case scenarios being realized for non-indexed rate loans. The worst-case impact has been presented in previous statements as being up to ISK 24 billion pre-tax, thereof ISK 20 billion for non-indexed loans. If the Íslandsbanki verdict is applied to Arion Bank's non-indexed loans, the loss is estimated to be less than ISK 500 million pre-tax.

The aforementioned case brought against Arion Bank, which concerns the legality of terms concerning the Bank's authority to change interest rates on an indexed mortgage, is waiting to be heard by the Supreme Court. Both the District Court and the Appeal Court had considered the Bank's terms valid on previous instances. As mentioned above, the terms of Arion Bank mortgages which contain provisions on variable interest rates differ from those which were the subject of the Supreme Court judgment in the case against Íslandsbanki. Furthermore, as the terms of indexed loans do not, by their nature, refer to rates determined by the Central Bank, the precedent in the Íslandsbanki case cannot be applied. The assessment of those loans therefore remains unchanged. The Bank estimates a maximum loss of ISK 4.5 billion pre-tax in relation to indexed mortgages.

The assessment above assumes a four-year statute of limitations and does not include an estimation of the possible impact on the Bank's future earnings.

The Bank has not made any provision in respect of impending court cases, given the degree of ongoing uncertainty, but will keep this under review.

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 division of Kaupthing into 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

The sale of Arnarland ehf. was completed on 23 October 2025. Arion Bank owns a 51% stake in Arnarland through its subsidiary Landey and has recognized a minority interest accordingly. The sale will have minor effects on the Income Statement in the fourth quarter of 2025. See further disclosure in Note 4.

Off balance sheet information

41. Commitments

	30.9.2025	31.12.2024
Financial guarantees, unused credit facilities and undrawn loan commitments		
Financial guarantees	24,699	21,804
Unused overdrafts	83,940	74,270
Undrawn loan commitments	79,282	67,658
Financial guarantees, unused credit facilities and undrawn loan commitments	187,921	163,732

42. Assets under management, supervision and custody

	30.9.2025	31.12.2024
Assets under management	1,488,572	1,417,450
Assets under supervision	402,644	215,251
Assets under custody	1,150,337	1,699,260

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

Assets under supervision refer to the total market value of financial assets in non-proprietary funds that the Group administers 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 finanical 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 (31.12.2024: 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 compensation, pension and other transactions with the Board of Directors and the Executive Committee, see Notes 13 and 38.

For information on the Group's 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	
	30.9.2025	31.12.2024	30.9.2025	31.12.2024
Loans	2,191	229	948	340
Other assets	2	3	-	-
Total assets	2,193	232	948	340
Deposits	(1,326)	(1,385)	(10)	(157)
Other liabilities	(1)	-	(21)	(28)
Total liabilities	(1,327)	(1,385)	(31)	(186)
Interest income	19	15	39	16
Interest expenses	(49)	(53)	(6)	(2)
Commission income	14	10	-	4
Commission expenses	-	-	(74)	(105)
Other income	11	9	-	-
Other expenses	(2)	-	(1,361)	(1,311)
Net expenses	(7)	(19)	(1,402)	(1,398)

Amounts are in ISK millions

Risk management disclosures

Risk management is a core activity within the Group as it faces various risks arising from its day to day operations. 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, 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 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 crime, 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 and supports the Bank's quantification and management of sustainability risk; and Credit Risk supports the Bank's credit transaction process, participates in credit decisions and monitors credit quality. The Security Team monitors the effectiveness of the Bank’s defences against risks associated with IT security, physical security and external cyber fraud.

Arion Bank is a small bank in 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 2024, in the Pillar 3 Risk Disclosures for 2024 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.

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.

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				
30.9.2025	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	110,481	-	-	-	-	-
Loans to credit institutions at amortized cost	25,547	-	-	-	-	-
Loans to customers at amortized cost	1,300,270	14,821	970,484	66,670	128,301	1,180,276
Individuals	*648,061*	*121*	*590,527*	*27*	*20,881*	*611,556*
Mortgages	*577,551*	*89*	*577,012*	*-*	*-*	*577,101*
Other	*70,510*	*32*	*13,515*	*27*	*20,881*	*34,455*
Corporates	*652,209*	*14,700*	*379,957*	*66,643*	*107,420*	*568,720*
Real estate activities	*126,336*	*2,219*	*119,596*	*-*	*468*	*122,283*
Construction	*103,032*	*380*	*92,383*	*6*	*2,757*	*95,526*
Fishing industry	*103,402*	*1,306*	*23,931*	*58,893*	*11,965*	*96,095*
Commerce and services	*79,797*	*1,135*	*32,250*	*1,076*	*28,145*	*62,606*
Accommodation and food service activities	*47,099*	*14*	*45,521*	*-*	*247*	*45,782*
Financial and insurance activities	*52,277*	*8,807*	*12,775*	*3,941*	*18,343*	*43,866*
Industry, energy and manufacturing	*65,201*	*754*	*36,571*	*-*	*23,003*	*60,328*
Transportation	*16,846*	*33*	*1,225*	*2,716*	*9,371*	*13,345*
Information and communication technology	*36,477*	*42*	*1,761*	*-*	*12,191*	*13,994*
Public sector	*9,160*	*10*	*2,453*	*11*	*370*	*2,844*
Agriculture and forestry	*12,582*	*-*	*11,491*	*-*	*560*	*12,051*
Other assets with credit risk	10,917	-	-	-	-	-
Financial guarantees	24,699	2,300	5,166	268	6,753	14,487
Undrawn loan commitments and unused overdrafts	163,222	-	-	-	-	-
Fair value through OCI	177,499	-	-	-	-	-
Government bonds	*177,499*	-	-	-	-	-
Bonds issued by financial institutions and corporates	-	-	-	-	-	-
Balance at the end of the period	1,812,635	17,121	975,650	66,938	135,054	1,194,763
31.12.2024						
Cash and balances with Central Bank	124,094	-	-	-	-	-
Loans to credit institutions at amortized cost	25,690	-	-	-	-	-
Loans to customers at amortized cost	1,228,745	12,589	931,451	63,466	117,745	1,125,251
Individuals	*639,404*	*526*	*584,014*	*23*	*20,342*	*604,905*
Mortgages	*570,842*	*404*	*569,959*	*-*	*-*	*570,363*
Other	*68,562*	*122*	*14,055*	*23*	*20,342*	*34,542*
Corporates	*589,341*	*12,063*	*347,437*	*63,443*	*97,403*	*520,346*
Real estate activities	*117,929*	*1,610*	*113,229*	*-*	*1,582*	*116,421*
Construction	*84,419*	*198*	*74,662*	*17*	*4,104*	*78,981*
Fishing industry	*87,696*	*1,124*	*17,612*	*60,155*	*6,838*	*85,729*
Commerce and services	*74,814*	*899*	*28,035*	*1,235*	*31,004*	*61,173*
Accommodation and food service activities	*47,755*	*14*	*42,570*	*-*	*4,173*	*46,757*
Financial and insurance activities	*52,600*	*7,435*	*16,455*	*-*	*16,220*	*40,110*
Industry, energy and manufacturing	*61,481*	*750*	*38,534*	*-*	*17,607*	*56,891*
Transportation	*10,249*	*4*	*1,189*	*2,031*	*6,636*	*9,860*
Information and communication technology	*30,633*	*16*	*1,437*	*-*	*8,534*	*9,987*
Public sector	*9,509*	*13*	*2,224*	*5*	*187*	*2,429*
Agriculture and forestry	*12,256*	*-*	*11,490*	*-*	*518*	*12,008*
Other assets with credit risk	8,476	-	-	-	-	-
Financial guarantees	21,804	2,335	4,212	280	4,688	11,515
Undrawn loan commitments and unused overdrafts	141,928	-	-	-	-	-
Fair value through OCI	126,898	-	-	-	-	-
Government bonds	*125,923*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*975*	-	-	-	-	-
Balance at the end of the year	1,677,635	14,924	935,663	63,746	122,433	1,136,766

Amounts are in ISK millions

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	
	30.9.2025	31.12.2024	30.9.2025	31.12.2024
Less than 50%	218,420	233,652	2,535	2,647
50-60%	107,858	113,874	1,875	1,531
60-70%	102,769	96,331	1,610	1,185
70-80%	88,815	75,063	1,416	1,269
80-90%	56,321	48,341	806	344
90-100%	2,031	2,075	248	135
More than 100%	1,884	2,172	289	319
Not classified	148	17	-	-
Gross carrying amount	578,246	571,525	8,779	7,430

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	
	30.9.2025	31.12.2024	30.9.2025	31.12.2024
Less than 55%	514,605	514,309	7,579	6,484
55-70%	46,583	42,063	742	589
70-80%	12,921	11,461	236	165
80-90%	2,909	2,694	84	63
90-100%	419	434	30	27
More than 100%	661	560	108	102
Not classified	148	4	-	-
Gross carrying amount	578,246	571,525	8,779	7,430

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 30,889 million (31.12.2024: ISK 28,568 million) with ISK 28,282 million in collateral (31.12.2024: ISK 25,586 million), thereof ISK 25,598 million in real estate (31.12.2024: ISK 24,587 million).

Collateral repossessed

The Group took possession of assets due to foreclosures. The total value of real estate the Group took possession of during the period and still holds at the end of the period is ISK 3 million (31.12.2024: ISK 79 million). Assets aquired due to foreclosure are held for sale, see Note 30.

Amounts are in ISK millions

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 had no large exposure at the end of the period (31.12.2024: no large exposure).

Credit quality

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

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.

44. Credit risk, continued

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

30.9.2025	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	110,481	25,547	177,506
Non-investment grade	-	-	-
Gross carrying amount	110,481	25,547	177,506
Loss allowance	-	-	(7)
Book value	110,481	25,547	177,499

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	449,860	139	-	52	450,051
Risk class 1 - (Grades BBB+ to BBB-)	388,033	527	-	153	388,713
Risk class 2 - (Grades BB+ to BB-)	281,189	6,599	-	34	287,822
Risk class 3 to 4 - (Grades B+ to CCC-)	103,077	49,936	-	-	153,013
Risk class 5 - (DD)	-	-	30,396	494	30,890
Unrated	115	1	-	-	116
Gross carrying amount	1,222,274	57,202	30,396	733	1,310,605
Loss allowance	(2,642)	(1,496)	(6,009)	(188)	(10,335)
Book value	1,219,632	55,706	24,387	545	1,300,270
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	336,860	139	-	52	337,051
Risk class 1 - (Grades BBB+ to BBB-)	220,897	527	-	153	221,577
Risk class 2 - (Grades BB+ to BB-)	57,126	4,376	-	34	61,536
Risk class 3 to 4 - (Grades B+ to CCC-)	10,590	8,966	-	-	19,556
Risk class 5 - (DD)	-	-	10,762	208	10,970
Unrated	6	1	-	-	7
Gross carrying amount	625,479	14,009	10,762	447	650,697
Loss allowance	(608)	(317)	(1,709)	(2)	(2,636)
Book value	624,871	13,692	9,053	445	648,061
Loans to customers - Corporates and public sector entities					
Risk class 0 - (Grades AAA to A-)	113,000	-	-	-	113,000
Risk class 1 - (Grades BBB+ to BBB-)	167,136	-	-	-	167,136
Risk class 2 - (Grades BB+ to BB-)	224,063	2,223	-	-	226,286
Risk class 3 to 4 - (Grades B+ to CCC-)	92,487	40,970	-	-	133,457
Risk class 5 - (DD)	-	-	19,634	286	19,920
Gross carrying amount	596,795	43,193	19,634	286	659,908
Loss allowance	(2,034)	(1,179)	(4,300)	(186)	(7,699)
Book value	594,761	42,014	15,334	100	652,209
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 (Grades AAA to BBB-)	99,163	1	-	-	99,164
Risk class 2 to 4 (Grades BB+ to CCC-)	74,706	4,925	2,012	-	81,643
Unrated	7,114	-	-	-	7,114
Nominal	180,983	4,926	2,012	-	187,921
Loss allowance	(350)	(249)	(50)	-	(649)
Nominal less loss allowance	180,633	4,677	1,962	-	187,272

Amounts are in ISK millions

44. Credit risk, continued

31.12.2024 *Loans to credit institutions, securities and cash*	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Investment grade	124,094	25,690	126,901
Non-investment grade	-	-	-
Gross carrying amount	124,094	25,690	126,901
Loss allowance	-	-	(3)
Book value	124,094	25,690	126,898

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	436,790	93	-	52	436,935
Risk class 1 - (Grades BBB+ to BBB-)	323,053	1,783	-	155	324,991
Risk class 2 - (Grades BB+ to BB-)	250,011	26,076	-	32	276,119
Risk class 3 to 4 - (Grades B+ to CCC-)	108,985	62,430	-	24	171,439
Risk class 5 - (DD)	-	-	28,388	180	28,568
Unrated	45	-	-	-	45
Gross carrying amount	1,118,884	90,382	28,388	443	1,238,097
Loss allowance	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Book value	1,116,602	88,636	23,065	442	1,228,745
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	337,617	93	-	52	337,762
Risk class 1 - (Grades BBB+ to BBB-)	215,576	215	-	155	215,946
Risk class 2 - (Grades BB+ to BB-)	41,708	17,943	-	32	59,683
Risk class 3 to 4 - (Grades B+ to CCC-)	9,477	9,305	-	24	18,806
Risk class 5 - (DD)	-	-	9,514	180	9,694
Unrated	7	-	-	-	7
Gross carrying amount	604,385	27,556	9,514	443	641,898
Loss allowance	(545)	(410)	(1,538)	(1)	(2,494)
Book value	603,840	27,146	7,976	442	639,404
Loans to customers - Corporates and public sector entities					
Risk class 0 - (Grades AAA to A-)	99,173	-	-	-	99,173
Risk class 1 - (Grades BBB+ to BBB-)	107,477	1,568	-	-	109,045
Risk class 2 - (Grades BB+ to BB-)	208,303	8,133	-	-	216,436
Risk class 3 to 4 - (Grades B+ to CCC-)	99,508	53,125	-	-	152,633
Risk class 5 - (DD)	-	-	18,874	-	18,874
Unrated	230	-	-	-	230
Gross carrying amount	514,691	62,826	18,874	-	596,391
Loss allowance	(1,737)	(1,336)	(3,785)	-	(6,858)
Book value	512,954	61,490	15,089	-	589,533
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 - (Grades AAA to BBB-)	82,245	5	-	-	82,250
Risk class 2 to 4 - (Grades BB+ to CCC-)	71,991	5,370	544	-	77,905
Unrated	3,577	-	-	-	3,577
Nominal	157,813	5,375	544	-	163,732
Loss allowance	(399)	(112)	-	-	(511)
Nominal less loss allowance	157,414	5,263	544	-	163,221

Amounts are in ISK millions

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		
30.9.2025	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	313,534	(7)	-	-	-	-	313,527
Loans to individuals	625,479	(608)	14,249	(317)	10,969	(1,711)	648,061
Mortgages	*557,379*	*(187)*	*12,089*	*(144)*	*8,778*	*(364)*	*577,551*
Other	*68,100*	*(421)*	*2,160*	*(173)*	*2,191*	*(1,347)*	*70,510*
Loans to corporates and public sector entities	596,795	(2,034)	43,193	(1,179)	19,920	(4,486)	652,209
Real estate activities	*115,830*	*(275)*	*7,304*	*(76)*	*4,406*	*(853)*	*126,336*
Construction	*88,594*	*(463)*	*9,162*	*(130)*	*7,410*	*(1,541)*	*103,032*
Fishing industry	*101,417*	*(136)*	*875*	*(45)*	*2,032*	*(741)*	*103,402*
Commerce and services	*73,443*	*(313)*	*4,323*	*(224)*	*3,222*	*(654)*	*79,797*
Accommodation and food service activities	*35,996*	*(128)*	*10,477*	*(260)*	*1,274*	*(260)*	*47,099*
Financial and insurance activities	*47,960*	*(264)*	*4,581*	*(157)*	*189*	*(32)*	*52,277*
Industry, energy and manufacturing	*64,573*	*(88)*	*146*	*(11)*	*878*	*(297)*	*65,201*
Transportation	*12,685*	*(35)*	*4,322*	*(134)*	*30*	*(22)*	*16,846*
Information and communication technology	*35,710*	*(267)*	*1,008*	*(100)*	*204*	*(78)*	*36,477*
Public Sector	*8,828*	*(32)*	*346*	*(23)*	*41*	*-*	*9,160*
Agriculture and forestry	*11,759*	*(33)*	*649*	*(19)*	*234*	*(8)*	*12,582*
Balance at the end of the period	1,535,808	(2,649)	57,442	(1,496)	30,889	(6,197)	1,613,797

31.12.2024	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	276,685	(3)	-	-	-	-	276,682
Loans to individuals	604,385	(545)	27,819	(410)	9,694	(1,539)	639,404
Mortgages	*540,494*	*(162)*	*23,600*	*(229)*	*7,431*	*(292)*	*570,842*
Other	*63,891*	*(383)*	*4,219*	*(181)*	*2,263*	*(1,247)*	*68,562*
Loans to corporates and public sector entities	514,499	(1,737)	62,826	(1,336)	18,874	(3,785)	589,341
Real estate activities	*107,012*	*(239)*	*8,418*	*(62)*	*3,667*	*(867)*	*117,929*
Construction	*70,037*	*(342)*	*7,317*	*(93)*	*8,588*	*(1,088)*	*84,419*
Fishing industry	*79,542*	*(66)*	*6,992*	*(135)*	*2,427*	*(1,064)*	*87,696*
Commerce and services	*66,003*	*(279)*	*7,923*	*(160)*	*1,694*	*(367)*	*74,814*
Accommodation and food service activities	*34,515*	*(107)*	*12,408*	*(417)*	*1,544*	*(188)*	*47,755*
Financial and insurance activities	*41,791*	*(272)*	*11,235*	*(155)*	*1*	*-*	*52,600*
Industry, energy and manufacturing	*60,593*	*(101)*	*631*	*(48)*	*517*	*(111)*	*61,481*
Transportation	*6,119*	*(13)*	*4,207*	*(79)*	*23*	*(8)*	*10,249*
Information and communication technology	*28,960*	*(259)*	*1,981*	*(147)*	*162*	*(64)*	*30,633*
Public Sector	*9,145*	*(27)*	*344*	*(4)*	*51*	*-*	*9,509*
Agriculture and forestry	*10,782*	*(32)*	*1,370*	*(36)*	*200*	*(28)*	*12,256*
Balance at the end of the year	1,395,569	(2,285)	90,645	(1,746)	28,568	(5,324)	1,505,427

Amounts are in ISK millions

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 year.

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 year.

30.9.2025

Impairment loss allowance *	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,681)	(1,858)	(5,323)	(1)	(9,863)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(662)	541	121	-	-
Transfers to Stage 2 (lifetime ECL)	207	(267)	60	-	-
Transfers to Stage 3 (credit impaired financial assets)	46	226	(272)	-	-
Net remeasurement of loss allowance **	617	(380)	(1,792)	(1)	(1,556)
New financial assets, originated or purchased	(1,084)	(404)	(732)	(186)	(2,406)
Derecognitions and maturities	556	388	1,372	-	2,316
Write-offs ***	9	9	507	-	525
Impairment loss allowance ******	(2,992)	(1,745)	(6,059)	(188)	(10,984)
Impairment loss allowances for assets only carrying 12-month ECL	(7)	-	-	-	(7)
Total impairment loss allowance	(2,999)	(1,745)	(6,059)	(188)	(10,991)

* 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 30.6.2024, 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 reduced by ISK 725 million due to unwinding of interest income.

*** During the period an amount of ISK 342 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.

Amounts are in ISK millions

44. Credit risk, continued

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(621)	500	121	-	-
Transfers to Stage 2 (lifetime ECL)	150	(210)	60	-	-
Transfers to Stage 3 (credit impaired financial assets)	43	219	(262)	-	-
Net remeasurement of loss allowance	516	(295)	(1,752)	(1)	(1,532)
New financial assets, originated or purchased	(920)	(336)	(732)	(186)	(2,174)
Derecognitions and maturities	463	363	1,372	-	2,198
Write-offs	9	9	507	-	525
Total loss allowance for loans to customers	(2,642)	(1,496)	(6,009)	(188)	(10,335)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(545)	(410)	(1,538)	(1)	(2,494)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(249)	189	60	-	-
Transfers to Stage 2 (lifetime ECL)	35	(56)	21	-	-
Transfers to Stage 3 (credit impaired financial assets)	13	63	(76)	-	-
Net remeasurement of loss allowance	211	(132)	(381)	(1)	(303)
New financial assets, originated or purchased	(151)	(59)	(101)	-	(311)
Derecognitions and maturities	70	79	126	-	275
Write-offs	8	9	180	-	197
Total loss allowance for loans to individuals	(608)	(317)	(1,709)	(2)	(2,636)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(1,737)	(1,336)	(3,785)	-	(6,858)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(372)	311	61	-	-
Transfers to Stage 2 (lifetime ECL)	115	(154)	39	-	-
Transfers to Stage 3 (credit impaired financial assets)	30	156	(186)	-	-
Net remeasurement of loss allowance	305	(163)	(1,371)	-	(1,229)
New financial assets, originated or purchased	(769)	(277)	(631)	(186)	(1,863)
Derecognitions and maturities	393	284	1,246	-	1,923
Write-offs	1	-	327	-	328
Total loss allowance for loans to corporates	(2,034)	(1,179)	(4,300)	(186)	(7,699)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(399)	(112)	-	-	(511)
Transfers					
Transfers to 12-month ECL	(41)	41	-	-	-
Transfers to lifetime ECL	57	(57)	-	-	-
Transfers to credit impaired	3	7	(10)	-	-
Net remeasurement of loss allowance	101	(85)	(40)	-	(24)
New financial commitments originated	(164)	(68)	-	-	(232)
Derecognitions and maturities	93	25	-	-	118
Total loss allowance for loan commit., guarantees, unused facilities	(350)	(249)	(50)	-	(649)

Amounts are in ISK millions

44. Credit risk, continued

31.12.2024

Impairment loss allowance *	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,584)	(2,216)	(4,022)	(92)	(8,914)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(744)	536	208	-	-
Transfers to Stage 2 (lifetime ECL)	131	(178)	47	-	-
Transfers to Stage 3 (credit impaired financial assets)	94	140	(234)	-	-
Net remeasurement of loss allowance **	886	(263)	(2,494)	-	(1,871)
New financial assets, originated or purchased	(1,108)	(658)	(649)	-	(2,415)
Derecognitions and maturities	524	664	845	91	2,124
Write-offs ***	120	117	976	-	1,213
Impairment loss allowance ******	(2,681)	(1,858)	(5,323)	(1)	(9,863)
Impairment loss allowances for assets only carrying 12-month ECL	(3)	-	-	-	(3)
Total impairment loss allowance	(2,684)	(1,858)	(5,323)	(1)	(9,866)

* 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 reduced by ISK 487 million due to unwinding of interest income.

*** During the period an amount of ISK 258 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.

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(666)	458	208	-	-
Transfers to Stage 2 (lifetime ECL)	121	(168)	47	-	-
Transfers to Stage 3 (credit impaired financial assets)	90	138	(228)	-	-
Net remeasurement of loss allowance	792	(230)	(2,500)	-	(1,938)
New financial assets, originated or purchased	(829)	(606)	(649)	-	(2,084)
Derecognitions and maturities	438	636	843	91	2,008
Write-offs	120	117	976	-	1,213
Total loss allowance for loans to customers	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Impairment loss allowance for loans to customers - Individuals					
Balance at the beginning of the year	(559)	(532)	(1,381)	(1)	(2,473)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(290)	205	85	-	-
Transfers to Stage 2 (lifetime ECL)	26	(42)	16	-	-
Transfers to Stage 3 (credit impaired financial assets)	29	65	(94)	-	-
Net remeasurement of loss allowance	327	(152)	(551)	-	(376)
New financial assets, originated or purchased	(173)	(92)	(136)	-	(401)
Derecognitions and maturities	77	30	289	-	396
Write-offs	18	108	234	-	360
Total loss allowance for loans to individuals	(545)	(410)	(1,538)	(1)	(2,494)

Amounts are in ISK millions

44. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment loss allowance for loans to customers - Corporates					
Balance at the beginning of the year	(1,789)	(1,559)	(2,639)	(91)	(6,078)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(376)	253	123	-	-
Transfers to Stage 2 (lifetime ECL)	95	(126)	31	-	-
Transfers to Stage 3 (credit impaired financial assets)	61	73	(134)	-	-
Net remeasurement of loss allowance	465	(78)	(1,949)	-	(1,562)
New financial assets, originated or purchased	(656)	(514)	(513)	-	(1,683)
Derecognitions and maturities	361	606	554	91	1,612
Write-offs	102	9	742	-	853
Total loss allowance for loans to corporates	(1,737)	(1,336)	(3,785)	-	(6,858)
Impairment loss allowance for loan commitments, guarantees and unused credit facilities					
Balance at the beginning of the year	(236)	(125)	(2)	-	(363)
Transfers					
Transfers to 12-month ECL	(78)	78	-	-	-
Transfers to lifetime ECL	10	(10)	-	-	-
Transfers to credit impaired	4	2	(6)	-	-
Net remeasurement of loss allowance	94	(33)	6	-	67
New financial commitments originated	(279)	(52)	-	-	(331)
Derecognitions and maturities	86	28	2	-	116
Total loss allowance for loan commit., guarantees, unused facilities	(399)	(112)	-	-	(511)

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 25% and optimistic 15% (31.12.2024: 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		
	2025	2026	2027
Unemployment rate	4.2%	4.1%	3.8%
Housing prices, year-on-year change	5.8%	5.0%	4.5%
Private consumption, growth	2.8%	2.7%	2.8%
GDP growth	1.9%	2.4%	2.7%
Key interest rate	7.7%	6.7%	5.5%

	Optimistic			Pessimistic		
	2025	2026	2027	2025	2026	2027
Unemployment rate	3.6%	2.8%	2.9%	4.6%	6.2%	4.9%
Housing prices, year-on-year change	6.5%	10.9%	10.2%	4.6%	-1.7%	1.4%
Private consumption, growth	3.7%	3.8%	3.2%	0.7%	0.0%	1.9%
GDP growth	2.7%	3.3%	3.2%	-0.1%	-0.3%	1.8%
Key interest rate	7.6%	6.3%	5.0%	7.7%	7.1%	6.0%

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 3.7 billion and ISK 9.0 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2024: ISK 1.8 billion, ISK 3.3 billion and ISK 7.9 billion, respectively).

Amounts are in ISK millions

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 forborne for a period of at least 24 months. The forborne classification is not removed until the customer has demonstrated repayment capacity.

	Stage 1		Stage 2		Stage 3		Total	
30.9.2025	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance
Individuals	5,367	(11)	3,023	(52)	5,575	(622)	13,965	(685)
Companies	4,942	(36)	10,883	(205)	8,653	(1,938)	24,478	(2,179)
Tourism	2,038	(27)	9,006	(163)	1,050	(296)	12,094	(486)
Other than tourism	2,904	(9)	1,877	(42)	7,603	(1,642)	12,384	(1,693)
Total	10,309	(47)	13,906	(257)	14,228	(2,560)	38,443	(2,864)
31.12.2024								
Individuals	4,315	(13)	2,570	(26)	4,483	(465)	11,368	(504)
Companies	2,063	(10)	15,221	(403)	11,559	(2,239)	28,843	(2,652)
Tourism	826	(4)	12,494	(387)	1,255	(284)	14,575	(675)
Other than tourism	1,237	(6)	2,727	(16)	10,304	(1,955)	14,268	(1,977)
Total	6,378	(23)	17,791	(429)	16,042	(2,704)	40,211	(3,156)

Amounts are in ISK millions

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 statement of financial position 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 statement of financial position. 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.

The interest rate fixing profile for non-indexed assets and liabilities is largely matched and the duration of fixing has generally shortened as the bulk of fixed rate mortgages have been reset in 2024 to 2025 with the majority of customers refinancing to indexed loans as they offer lower monthly payments. The fixing duration of indexed liabilities is however greater than that of indexed assets, as covered bonds are fixed rate while indexed loans are predominantly floating rate.

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.

30.9.2025	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	110.481	-	-	-	-	110.481
Loans to credit institutions	25.547	-	-	-	-	25.547
Loans to customers	902.965	136.721	243.854	7.383	9.209	1.300.132
Bonds and debt instruments	77.579	73.924	48.286	8.723	3.987	212.499
Bonds and debt instruments used for hedging	-	472	377	1.213	1.233	3.295
Derivatives	110.312	53.027	177.900	42.727	-	383.966
Assets	1.226.884	264.144	470.417	60.046	14.429	2.035.920
Liabilities						
Due to credit institutions and Central Bank	8.812	-	-	-	-	8.812
Deposits	906.644	10.582	-	-	-	917.226
Derivatives	288.548	81.868	8.995	-	-	379.411
Borrowings	30.478	56.634	307.098	79.610	12.967	486.787
Subordinated liabilities	3.354	-	33.603	834	11.874	49.665
Liabilities	1.237.836	149.084	349.696	80.444	24.841	1.841.901
Net interest gap	(10.952)	115.060	120.721	(20.398)	(10.412)	194.019

Amounts are in ISK millions

45. Market risk, continued

31.12.2024 *Assets*	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Balances with Central Bank	124,094	-	-	-	-	124,094
Loans to credit institutions	25,690	-	-	-	-	25,690
Loans to customers	867,139	148,051	194,711	2,521	9,801	1,222,223
Bonds and debt instruments	102,606	22,938	14,916	13,551	4,724	158,735
Bonds and debt instruments used for hedging	-	1	1,014	979	670	2,664
Derivatives	105,825	77,146	181,495	-	-	364,466
Assets	1,225,354	248,136	392,136	17,051	15,195	1,897,872
Liabilities						
Due to credit institutions and Central Bank	6,618	-	-	-	-	6,618
Deposits	844,816	12,627	-	-	-	857,443
Derivatives	229,251	130,700	4,820	-	-	364,771
Borrowings	27,898	76,473	279,837	32,282	12,709	429,199
Subordinated liabilities	10,985	3,363	15,047	18,831	-	48,226
Liabilities	1,119,568	223,163	299,704	51,113	12,709	1,706,257
Net interest gap	105,786	24,973	92,432	(34,062)	2,486	191,615

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. The Bank's behavioral models were updated in Q1 2025.

	30.9.2025		31.12.2024	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(1,614)	1,565	(1,724)	1,652
ISK, Non index-linked	361	(346)	(2,181)	2,146
Foreign currencies	853	(804)	(229)	197
NPV change in the trading book				
ISK, CPI index-linked	205	(190)	137	(125)
ISK, Non index-linked	282	(266)	247	(234)
Foreign currencies	(27)	27	(33)	33

Amounts are in ISK millions

45. Market risk, continued

Indexation risk

A significant part of the Group's statement of financial position 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

30.9.2025	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	16,631	111,213	377,134	504,978
Financial instruments	7,912	4,168	10,053	22,133
Assets, CPI index-linked	24,543	115,381	387,187	527,111
Liabilities, CPI index-linked				
Deposits	114,027	13,250	4,368	131,645
Borrowings	424	107,557	45,977	153,958
Subordinated liabilities	-	-	22,051	22,051
Other	-	-	1,134	1,134
Off-balance sheet position	4,260	-	-	4,260
Liabilities, CPI index-linked	118,711	120,807	73,530	313,048
Net on-balance sheet position	(89,908)	(5,426)	313,657	218,323
Net off-balance sheet position	(4,260)	-	-	(4,260)
CPI balance	(94,168)	(5,426)	313,657	214,063
CPI balance for prudential consolidation, excluding insurance operations *	(98,333)	(9,186)	303,681	196,163

31.12.2024	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	14,792	107,828	357,789	480,409
Financial instruments	6,702	7,304	10,564	24,570
Assets, CPI index-linked	21,494	115,132	368,353	504,979
Liabilities, CPI index-linked				
Deposits	114,696	13,998	4,196	132,890
Borrowings	35,207	88,891	42,447	166,545
Subordinated liabilities	6,607	-	11,195	17,802
Other	-	-	1,122	1,122
Off-balance sheet position	105	54	-	159
Liabilities, CPI indexed linked	156,615	102,943	58,960	318,518
Net on-balance sheet position	(135,016)	12,243	309,393	186,620
Net off-balance sheet position	(105)	(54)	-	(159)
CPI balance	(135,121)	12,189	309,393	186,461
CPI balance for prudential consolidation, excluding insurance operations *	(135,223)	4,885	298,830	168,491

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

Amounts are in ISK millions

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

30.9.2025

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	109,636	482	167	80	-	20	96	110,481
Loans to credit institutions	402	9,075	11,102	1,163	1,301	500	2,004	25,547
Loans to customers	1,051,427	163,568	54,589	1,883	26,201	2,624	1,416	1,301,708
Financial instruments	123,333	90,773	7,666	199	94	16,486	21,286	259,837
Other financial assets	9,440	209	1,000	265	2	1	-	10,917
Financial assets	1,294,238	264,107	74,524	3,590	27,598	19,631	24,802	1,708,490
Financial liabilities								
Due to credit inst. and Central Bank	1,867	5,600	875	431	-	-	39	8,812
Deposits	822,664	41,451	43,163	5,250	1,876	1,330	1,492	917,226
Financial liabilities at fair value	1,122	1,783	139	-	-	109	58	3,211
Other financial liabilities	10,077	7,030	2,407	229	516	184	496	20,939
Borrowings	185,906	244,707	5,632	-	-	20,834	25,206	482,285
Subordinated liabilities	24,351	722	14,804	-	-	-	2,918	42,795
Financial liabilities	1,045,987	301,293	67,020	5,910	2,392	22,457	30,209	1,475,268
Net on-balance sheet position	248,251	(37,186)	7,504	(2,320)	25,206	(2,826)	(5,407)	
Net off-balance sheet position	(20,091)	42,388	(7,531)	2,477	(25,084)	2,974	4,867	
Net position *	228,160	5,202	(27)	157	122	148	(540)	
Non-financial assets								
Investment property	13,833	-	-	-	-	-	-	13,833
Investments in associates	793	-	-	-	-	-	-	793
Intangible assets	7,681	-	-	-	-	-	-	7,681
Tax assets	7	-	-	-	-	-	-	7
Assets and disposal groups held for sale	81	-	-	-	-	-	-	81
Other non financial assets	5,296	230	77	32	-	14	1	5,650
Non-financial assets	27,691	230	77	32	-	14	1	28,045
Non-financial liabilities and equity								
Tax liabilities	15,538	-	-	79	-	-	-	15,617
Other non-financial liabilities	32,936	49	3	1	-	1	(1)	32,989
Shareholders' equity	210,275	-	-	-	-	-	-	210,275
Non-controlling interest	2,386	-	-	-	-	-	-	2,386
Non-financial liabilities and equity	261,135	49	3	80	-	1	(1)	261,267
Management reporting of currency risk **	(5,284)	5,383	47	109	122	161	(538)	

* 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.

Amounts are in ISK millions

45. Market risk, continued

31.12.2024	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Financial assets								
Cash and balances with CB	123,395	355	189	62	-	20	73	124,094
Loans to credit institutions	170	9,022	12,501	567	718	419	2,293	25,690
Loans to customers	1,011,398	130,718	57,871	1,569	25,031	1,993	1,478	1,230,058
Financial instruments	124,920	43,854	11,698	212	120	12,854	12,759	206,417
Other financial assets	6,470	318	1,671	4	1	11	1	8,476
Financial assets	1,266,353	184,267	83,930	2,414	25,870	15,297	16,604	1,594,735
Financial liabilities								
Due to credit inst. and Central Bank	2,649	3,388	176	333	-	-	72	6,618
Deposits	763,140	35,697	47,448	5,218	3,383	1,282	1,275	857,443
Financial liabilities at fair value	2,961	4,006	1,082	10	-	219	116	8,394
Other financial liabilities	6,760	812	1,865	219	468	148	359	10,631
Borrowings	197,607	201,031	2,989	-	-	18,547	13,004	433,178
Subordinated liabilities	20,957	735	20,004	-	-	-	2,842	44,538
Financial liabilities	994,074	245,669	73,564	5,780	3,851	20,196	17,668	1,360,802
Net on-balance sheet position	272,279	(61,402)	10,366	(3,366)	22,019	(4,899)	(1,064)	
Net off-balance sheet position	(40,216)	63,377	(9,923)	3,266	(22,090)	4,925	661	
Net position *	232,063	1,975	443	(100)	(71)	26	(403)	
Non-financial assets								
Investment property	9,387	-	-	-	-	-	-	9,387
Investments in associates	814	-	-	-	-	-	-	814
Intangible assets	7,688	-	-	-	-	-	-	7,688
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups held for sale	111	-	-	-	-	-	-	111
Other non financial assets	5,004	294	100	105	1	27	-	5,531
Non-financial assets	23,006	294	100	105	1	27	-	23,533
Non-financial liabilities and equity								
Tax liabilities	11,060	-	-	-	-	-	-	11,060
Other non-financial liabilities	39,292	21	6	-	-	-	-	39,319
Shareholders' equity	206,582	-	-	-	-	-	-	206,582
Non-controlling interest	504	-	-	-	-	-	-	504
Non-financial liabilities and equity	257,438	21	6	-	-	-	-	257,465
Management reporting of currency risk **	(2,369)	2,248	537	5	(70)	53	(403)	

* 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.

Amounts are in ISK millions

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).

	30.9.2025		31.12.2024	
Currency	-10%	+10%	-10%	+10%
EUR	(538)	538	(225)	225
USD	(5)	5	(54)	54
GBP	(11)	11	(1)	1
DKK	(12)	12	7	(7)
NOK	(16)	16	(5)	5
Other	54	(54)	40	(40)

Equity risk

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

	30.9.2025		31.12.2024	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(441)	441	(374)	374
Banking book - listed	(704)	704	(740)	740
Banking book - unlisted	(531)	531	(286)	286

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 statement of financial position. Note 25 provides a breakdown of the Group's derivative positions by type.

Amounts are in ISK millions

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 68% 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 statement of financial position, 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

30.9.2025	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	15,801	63,092	31,588	-	-	-	110,481	110,481
Loans to credit institutions	22,605	2,938	4	-	-	-	25,547	25,547
Loans to customers	7,336	218,371	182,607	576,803	1,250,042	-	2,235,159	1,301,708
Financial instruments	13,637	83,364	49,883	80,931	7,071	34,301	269,187	259,837
Derivatives - assets leg	-	*53,218*	*32,239*	*33,720*	*10,052*	-	*129,229*	*100,935*
Derivatives - liabilities leg	-	*(46,829)*	*(30,582)*	*(28,008)*	*(9,792)*	-	*(115,211)*	*(91,193)*
Other financial instruments	*13,637*	*76,975*	*48,226*	*75,219*	*6,811*	*34,301*	*255,169*	*250,095*
Other financial assets	485	6,639	707	2,767	319	-	10,917	10,917
Financial assets	59,864	374,404	264,789	660,501	1,257,432	34,301	2,651,291	1,708,490
Financial liabilities								
Due to credit inst. and Central Bank	2,232	6,602	-	-	-	-	8,834	8,812
Deposits	623,795	251,981	26,060	13,935	5,500	-	921,271	917,226
Financial liabilities at fair value	-	1,623	1,132	3,265	-	-	6,020	3,211
Derivatives - assets leg	-	*(34,434)*	*(9,650)*	*(14,219)*	-	-	*(58,303)*	*(52,165)*
Derivatives - liabilities leg	-	*36,057*	*10,782*	*17,484*	-	-	*64,323*	*55,376*
Short pos. in bonds	-	-	-	-	-	-	-	-
Other financial liabilities	196	18,859	772	1,112	-	-	20,939	20,939
Borrowings	-	9,426	83,599	354,935	92,983	-	540,943	482,285
Subordinated liabilities	-	1,089	2,035	24,886	34,203	-	62,213	42,795
Financial liabilities	626,223	289,580	113,598	398,133	132,686	-	1,560,220	1,475,268
Net position for assets and liab.	(566,359)	84,824	151,191	262,368	1,124,746	34,301	1,091,071	233,222
Off-balance sheet items								
Financial guarantees	-	2,304	8,663	4,486	9,246	-	24,699	24,699
Unused overdraft	-	83,940	-	-	-	-	83,940	83,940
Undrawn loan commitments	-	45,415	23,264	10,603	-	-	79,282	79,282
Off-balance sheet items	-	131,659	31,927	15,089	9,246	-	187,921	187,921
Net contractual cash flow	(566,359)	(46,835)	119,264	247,279	1,115,500	34,301	903,150	45,301

Amounts are in ISK millions

46. Liquidity and Funding risk, continued

31.12.2024	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	25,480	66,140	32,474	-	-	-	124,094	124,094
Loans to credit institutions	23,019	2,659	11	-	-	-	25,689	25,690
Loans to customers	4,751	179,293	196,603	528,859	1,365,661	-	2,275,167	1,230,058
Financial instruments	11,706	103,642	22,860	19,680	14,150	38,304	210,342	206,417
Derivatives - assets leg	-	*33,378*	*10,632*	*46,199*	-	-	90,209	*74,009*
Derivatives - liabilities leg	-	*(31,243)*	*(9,205)*	*(41,502)*	-	-	(81,950)	*(67,294)*
Other financial instruments	*11,706*	*101,507*	*21,433*	*14,983*	*14,150*	*38,304*	202,083	*199,702*
Other financial assets	548	4,840	1,013	2,075	-	-	8,476	8,476
Financial assets	65,504	356,574	252,961	550,614	1,379,811	38,304	2,643,768	1,594,735
Financial liabilities								
Due to credit inst. and Central Bank	4,117	2,504	-	-	-	-	6,621	6,618
Deposits	587,107	135,946	118,596	14,674	5,282	-	861,605	857,443
Financial liabilities at fair value	-	3,698	5,277	6,160	-	-	15,135	8,394
Derivatives - assets leg	-	*(47,474)*	*(21,313)*	*(12,852)*	-	-	*(81,639)*	*(72,889)*
Derivatives - liabilities leg	-	*51,172*	*26,590*	*19,012*	-	-	*96,774*	*81,283*
Short position in bonds used for hedging	-	-	-	-	-	-	-	-
Other financial liabilities	99	9,339	292	901	-	-	10,631	10,631
Borrowings	-	3,974	102,645	326,115	45,775	-	478,509	433,178
Subordinated liabilities	-	1,630	4,788	9,377	45,352	-	61,147	44,538
Financial liabilities	591,323	157,091	231,598	357,227	96,409	-	1,433,648	1,360,802
Net position for assets and liab.	(531,459)	217,313	33,191	303,274	1,161,023	34,301	1,217,643	233,933
Off-balance sheet items								
Financial guarantees	-	1,921	8,221	3,847	7,815	-	21,804	21,804
Unused overdraft	-	74,270	-	-	-	-	74,270	74,270
Undrawn loan commitments	-	36,788	23,476	7,394	-	-	67,658	67,658
Off-balance sheet items	-	112,979	31,697	11,241	7,815	-	163,732	163,732
Net contractual cash flow	(525,819)	86,504	(10,334)	182,146	1,275,587	38,304	1,046,388	70,201

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.

	30.9.2025	31.12.2024
Available stable funding	1,369,372	1,223,464
Required stable funding	1,090,576	1,040,677
Net stable funding ratio	126%	118%

Amounts are in ISK millions

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. 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.

30.9.2025	ISK	EUR	Total all currencies
Liquid assets level 1 *	160,925	79,770	283,160
Liquid assets level 2	10,850	-	10,850
Liquid assets	171,775	79,770	294,010
Deposits	137,799	21,249	179,137
Borrowings	959	36	1,221
Other cash outflows	8,263	10,242	14,220
Cash outflows	147,021	31,527	194,578
Short-term deposits with other banks **	-	1,737	16,278
Other cash inflows	26,189	2,536	35,231
Cash inflows	26,189	4,273	51,509
Liquidity coverage ratio (LCR) ***	142%	293%	206%

31.12.2024	ISK	EUR	Total all currencies
Liquid assets level 1 *	180,898	39,790	253,753
Liquid assets level 2	10,753	-	10,753
Liquid assets	191,651	39,790	264,506
Deposits	138,492	14,537	176,642
Borrowings	7,919	-	8,079
Other cash outflows	9,012	10,009	14,657
Cash outflows	155,423	24,546	199,378
Short-term deposits with other banks **	1	6,935	22,051
Other cash inflows	25,264	2,588	30,882
Cash inflows	25,265	9,523	52,933
Liquidity coverage ratio (LCR) ***	147%	265%	181%

* 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.

Amounts are in ISK millions

46. Liquidity and Funding risk, continued

Composition of liquid assets

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

30.9.2025	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	109.636	167	482	196	110.481
Short-term deposits with financial institutions	-	10.365	1.737	4.176	16.278
Domestic bonds eligible as collateral with Central Bank	64.055	-	-	-	64.055
Foreign government bonds	-	7.256	79.289	34.844	121.389
Liquidity reserve	173.691	17.788	81.508	39.216	312.203
31.12.2024					
Cash and balances with Central Bank	123.395	189	355	155	124.094
Short-term deposits with financial institutions	1	11.507	6.935	3.608	22.051
Domestic bonds eligible as collateral with Central Bank	70.298	-	-	-	70.298
Foreign government bonds	-	10.394	39.435	22.183	72.012
Liquidity reserve	193.694	22.090	46.725	25.946	288.455

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					
30.9.2025	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	136.110	11%	119.867	5%	197.893	453.870
Small and medium enterprises	120.005	12%	19.904	5%	30.547	170.456
Operational relationship	4.633	25%	-	-	-	4.633
Corporations	106.952	41%	16.881	21%	32.655	156.488
Sovereigns, central banks and PSE	37.728	40%	14	20%	776	38.518
Pension funds	58.188	100%	-	-	18.370	76.558
Domestic financial entities	13.065	100%	-	-	3.464	16.529
Foreign financial entities	8.986	100%	-	-	-	8.986
Total	485.667		156.666		283.705	926.038
31.12.2024						
Individuals	121.798	11%	121.208	5%	178.686	421.692
Small and medium enterprises	114.856	12%	17.835	5%	28.483	161.174
Operational relationship	4.748	25%	-	-	-	4.748
Corporations	98.482	41%	16.561	21%	30.430	145.473
Sovereigns, central banks and PSE	19.262	40%	14	20%	1.091	20.367
Pension funds	70.477	100%	-	-	17.915	88.392
Domestic financial entities	18.510	100%	-	-	2.380	20.890
Foreign financial entities	1.325	100%	-	-	-	1.325
Total	449.458		155.618		258.985	864.061

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

Amounts are in ISK millions

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.

	30.9.2025	31.12.2024
Own funds		
Total equity	212,661	207,086
Unaudited interim profit	(8,229)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(2,386)	(504)
Common Equity Tier 1 capital before regulatory adjustments	202,046	206,582
Intangible assets	(7,413)	(7,390)
Additional value adjustments	(278)	(226)
Foreseeable dividend and buyback *	(8,086)	(19,000)
Adjustment under IFRS 9 transitional arrangements as amended	-	427
Insufficient coverage for non-performing exposures	(408)	(345)
Common Equity Tier 1 capital	185,861	180,048
Non-controlling interest eligible for inclusion in T1 capital	545	112
Additional Tier 1 capital	14,805	20,004
Tier 1 capital	201,211	200,164
Tier 2 instruments	27,990	24,534
Tier 2 instruments of financial sector entities (significant investments)	(1,366)	(1,306)
Tier 2 capital	26,624	23,228
Total own funds	227,835	223,392
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	854,973	798,562
Credit risk, securities and other	71,778	59,113
Credit risk, derivatives and repos	3,156	5,875
Market risk due to currency imbalance	5,833	2,947
Market risk due to trading book positions	14,654	12,846
Credit valuation adjustment	1,650	2,257
Operational risk	106,011	106,011
Total risk-weighted exposure amount	1,058,055	987,611
Capital ratios		
CET1 ratio	17.6%	18.2%
Tier 1 ratio	19.0%	20.3%
Capital adequacy ratio	21.5%	22.6%
Total own funds, including interim profit not eligible for inclusion	231,950	223,392
CET1 ratio, including interim profit not eligible for inclusion	18.0%	18.2%
Tier 1 ratio, including interim profit not eligible for inclusion	19.4%	20.3%
Capital adequacy ratio, including interim profit not eligible for inclusion	21.9%	22.6%

* On 30 September 2025, the deduction consists of 50% of audited/reviewed profits as per the Bank's dividend policy. On 31 December 2024, the deduction consists of a dividend payment of ISK 16 billion to be paid in Q1 2025 as approved by the Board, representing 61% of 2024 net earnings, and a ISK 3 billion buyback program approved by the Board and the FSA.

Amounts are in ISK millions

47. Capital management, continued

Capital ratios of the parent company	30.9.2025	31.12.2024
CET1 ratio	17.8%	18.5%
Tier 1 ratio	19.2%	20.5%
Capital adequacy ratio	21.8%	22.9%

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 Committee (FSC) and approved by the FSA. The countercyclical capital buffer was raised from 2.0% to 2.5% on 16 March 2024. In December 2024, the systemic risk buffer was lowered from 3% to 2% and the buffer for systemically important institutions raised from 2% to 3%.

Capital buffer requirement, % of REA	30.9.2025	31.12.2024
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	3.0%	3.0%
Systemic risk buffer *	2.0%	2.0%
Countercyclical capital buffer *	2.5%	2.5%
Combined capital buffer requirement	10.0%	10.0%

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.

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.1%	1.4%	1.9%
Combined buffer requirement *	9.7%	9.7%	9.7%
Regulatory capital requirement	15.3%	17.1%	19.6%
Available capital	17.6%	19.0%	21.5%

* 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 2024. The Pillar 2R requirement is 1.9% 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.

	30.9.2025	31.12.2024
On-balance sheet exposures	1,677,141	1,562,622
Derivative exposures	13,595	16,078
Repos	11,221	10,358
Off-balance sheet exposures	57,105	50,982
Total exposure	1,759,062	1,640,040
Tier 1 capital	201,211	200,164
Leverage ratio	11.4%	12.2%

Amounts are in ISK millions

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 2024 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 from Q3 2027.

Minimum requirement for own funds and eligible liabilities	30.9.2025	31.12.2024
Own funds	227,835	223,392
Eligible liabilities	203,090	130,048
Own funds and eligible liabilities	430,925	353,440
Combined buffer requirement (CBR)	102,631	96,786
Own funds and eligible liabilities not used for CBR	328,293	256,654
Risk-weighted exposure amount (REA)	1,058,055	987,611
Own funds and eligible liabilities not used for CBR (% REA)	31.0%	26.0%
MREL requirement (% REA)	19.8%	19.6%
Total exposure measure (TEM)	1,759,062	1,640,040
Own funds and eligible liabilities (% TEM)	24.5%	21.6%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur	30.9.2025	31.12.2024
Excess of assets over liabilities in accordance with Solvency II	15,827	14,468
Subordinated liabilities	1,360	1,323
Foreseeable dividends	-	-
Own funds	17,187	15,791
Solvency capital requirements (SCR)	9,655	9,347
SCR ratio	178.0%	168.9%

The solvency capital requirement for the subsidiary Vördur is calculated in accordance with the Icelandic Insurance Companies Act No 100/2016.

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.

Each business unit within the Group is responsible for managing their own operational risks. Risk management and Compliance support the first line through monitoring, complementary expertise, and by challenging the adequacy and effectiveness of risk management practices. The second line is responsible for developing and maintaining a framework for identifying, measuring, and reporting the Group's operational risk.

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

Amounts are in ISK millions

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 with respect 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. The following table excludes committed green exposures.

	30.9.2025	31.12.2024
Sustainable Financing Instruments		
Green deposits	29,110	28,802
Green borrowings	37,148	60,518
Book value	66,258	89,320
Identified eligible sustainable assets by category		
Sustainable marine value chains and marine ecosystem management	17,551	19,075
Sustainable forestry and agriculture	532	271
Renewable energy	546	608
Clean transportation	8,287	7,545
Green buildings	98,296	92,689
Energy efficiency	14,269	17,309
Sustainable waste and wastewater management	7,382	7,799
Green book value	146,863	145,296
Affordable housing	22,538	28,835
Education	1,715	2,374
Healthcare	1,628	1,146
Employment generation and alleviate unemployment	12,583	13,336
Social book value	38,464	45,691
Sustainable book value	185,327	190,987

Amounts are in ISK millions