Arion Bank

Condensed Consolidated Interim Financial Statements

1 January – 30 June 2024

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Arion Bank
Highlights 30.06.2024

6M 10.2%
Return on equity

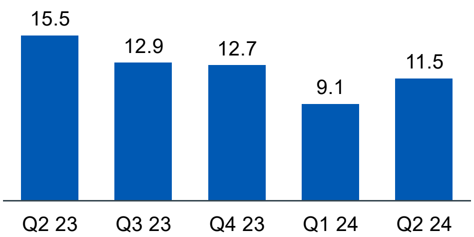
6M 47.2%
Cost-to-core income

18.5%
CET1 ratio

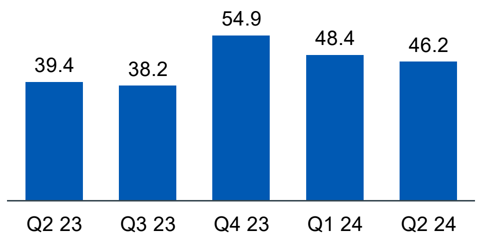
Moody's

Long term: **A3**
Covered bond: **Aa2**
Outlook: **Stable**

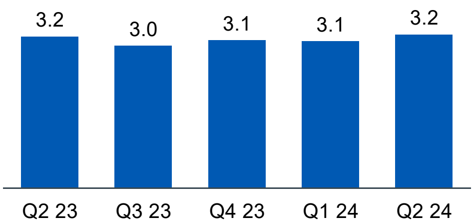
Return on equity (%)



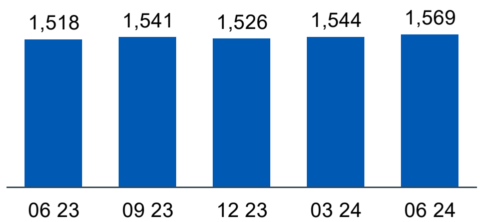
Cost-to-Core income ratio (%)



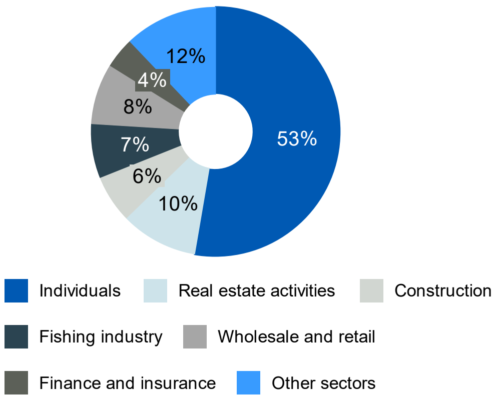
Net interest margin (%)



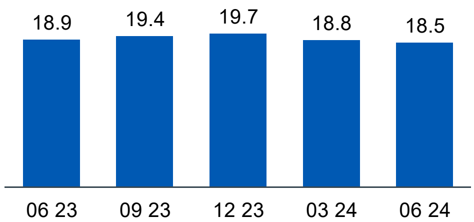
Total assets (ISK bn)



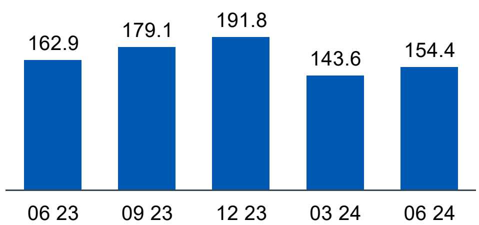
Loans to customers by sector (%)



CET1 ratio (%)



LCR ratio (%)



EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST DIGITAL BANK

EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST BANK

THE BANKER BANK OF THE YEAR 2023 ICELAND

UNEP FINANCE INITIATIVE PRINCIPLES FOR RESPONSIBLE BANKING

SUSTAINALYTICS ESG INDUSTRY TOP RATED 2023

Endorsement and statement
by the Board of Directors and the CEO

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

Operations during the period

Income Statement

Net earnings amounted to ISK 5.5 billion for the second quarter and ISK 9.9 billion for the first six months of the year. Return on equity was 11.5% for the quarter and 10.2% for the first six months. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 0.9% in the second quarter, compared with the previous year, mainly due to net interest income. Net interest income increased by 4.6%, compared with the second quarter in the previous year, while net interest margin remains stable at 3.2%. Insurance revenues continued to grow strongly, increasing by 12.8% between years, while claims increased by 53.3%, primarily due to a single fire related claim. Market conditions continued to be challenging for net financial income during the second quarter of 2024. Operating expenses, including operating expenses of the insurance operation, increased by 18.2% compared with the second quarter in the previous year, and were affected by a settlement fine of ISK 585 million paid to the regulator in the quarter as announced in a press release 28 June 2024. Inflation measured 7.0% between years. The cost-to-core income ratio was 46.2%, with expenses of the insurance operation included, compared with 39.4% for the second quarter of 2023. Impairments were calculated at 28bps on an annual basis for the second quarter. Income tax for the second quarter was high due to an unfavourable combination of income and expenses.

Balance Sheet

Arion Bank's balance sheet grew by 2.8% from year-end 2023. Loans to customers increased by 4.3% from year-end, with a 4.7% increase in corporate lending and 4.0% growth in loans to individuals, mainly mortgages. Deposits increased by 6.8%, primarily individuals and SME's. Total equity amounted to ISK 192,451 million at the end of June. The Group's capital ratio was 22.8% and the CET1 ratio 18.5%. The ratios take into account the deduction of 50% of net earnings as foreseeable dividend in line with the Bank’s dividend policy and a ISK 3.0 billion buyback program approved by the Board and FSA. The liquidity position was strong at period end and well above the regulatory minimum.

Volcanic activity in the vicinity of Grindavík

Following the events near Grindavík starting in November 2023, Arion Bank offered to freeze the mortgages of its customers in Grindavík, and to waive interest and indexation on their loans until the end of April 2024. Since then, the Icelandic government has introduced measures involving mortgage lenders to provide support to borrowers in the area. For information on Arion Bank's participation in the scheme see disclosure in Note 44.

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

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

	Actuals Q2 2024	Actuals 6M 2024	Arion Bank's medium-term financial targets
Return on equity	11.5%	10.2%	Exceed 13%
Core operating income / REA	7.3%	7.0%	Exceed 7.2%
Insurance revenue growth (YoY)	12.8%	13.9%	In excess of market growth (10.6% in Q1 2024)
Combined ratio	89.4%	96.5%	Below 95%
Cost-to-core income ratio	46.2%	47.2%	Below 45%
CET1 ratio above regulatory capital requirements	330 bps	330 bps	150-250 bps management buffer (assumes fully utilized AT1) (~16.7 - 17.7% based on management target buffer and optimal AT1 and T2 positions)
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

Economic outlook

Economic growth continues to subside following record growth in 2022, as the Central Bank of Iceland intensifies its efforts to cool down the economy and combat inflation. Although a 4% drop in GDP in Q1 compared to Q1 last year is somewhat misleading—it is mainly due to changes in inventories—the economy is clearly slowing down. Arion Research has lowered its forecast and now expects only 0.5% economic growth this year, primarily due to a disappointing first quarter and deteriorating prospects in the tourism sector, before bouncing back up to 2.4% next year and 3.3% in 2026.

Although domestic demand has rapidly declined, its resilience in the current high-interest rate environment has consistently surprised analysts. After a contraction in the second half of last year, most analysts expected a continued decline in the first half of this year. Therefore, growth in the first quarter caught analysts by surprise. Recent high-frequency indicators suggest continued growth in private consumption. Arion Research expects an upward trend in the coming quarters, given favorable labor market conditions, rapid population growth, declining inflation, and the prospect of interest rate cuts. While it is not likely, the upcoming interest rate adjustments on numerous mortgage loans in the coming months could hinder the growth of private consumption.

This unexpected robustness has mitigated the impact of tighter monetary policy, leading to repeated disappointments when new inflation-related statistics are released. Analysts and stakeholders have been anticipating a favorable environment for interest rate cuts, but the economy's stubborn strength has kept pushing these expectations further into the future.

The tourism industry is experiencing a slowdown in growth according to public data, although there have been some concerns about the data quality recently. Recent data shows a slight decrease in the number of tourists visiting Iceland, but more importantly, a larger drop in tourist consumption than expected. Overnight stay figures clearly indicate that tourists are staying for a shorter period than before, which usually means lower consumption per tourist. It's difficult to accurately estimate how much consumption is declining due to the deteriorating quality of the data. On a positive note, flight availability to the country appears quite stable, which is crucial for a small island nation like Iceland and hopefully indicates that the country has not fallen out of favor as a destination.

Although the tourism industry is facing challenges this year, the capelin shortage is affecting the fisheries sector, and heavy industry is struggling with electricity shortages, the export outlook is quite promising. This year, the pharmaceutical industry, aquaculture, and various innovation-driven activities are expected to have the highest growth. Next year, Arion Research anticipates a resurgence in the tourism and fisheries sectors. Moreover, if ambitious investment plans in aquaculture and pharmaceutical manufacturing come to fruition, growth could significantly exceed expectations.

Despite some easing, inflation remains as stubborn as the economy, with significant inflationary pressure still present. Inflation will likely stay above 4%, which is the upper limit of the inflation target, throughout the next year. According to the forecast of Arion Research, inflation will subside by the end of the year, which, all else being equal, would create room to reduce interest rates by half a percentage point in November without diminishing the level of monetary tightening. However, the Monetary Policy Committee has also stated that it might be better to wait longer before lowering rates and then take more significant steps, as interest rate cuts impact expectations. Therefore, the Central Bank may just as well decide to postpone rate cuts until February next year and then substantially ease the brakes.

Outlook for the Bank

In recent years, the Arion Group has carefully followed a strategy designed to make it a leading company which drives the success of its customers and society as a whole. This vision builds on long-term business relationships, diverse services and strong teamwork which form the basis for a seamless customer experience and sustainable value creation. The Group's performance over the last few years indicates that we are on the right track.

As in recent years, the operating environment continued to evolve in the first half of 2024. With this background, the Group benefits from its diverse revenue streams and sound infrastructure, while also retaining the flexibility to respond to the shifting environment. The economy has been impacted by inflation and elevated interest rates, and it is important to see recent signs indicating progress towards stabilizing the economy in the near term.

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

Employees

The Group had 817 full-time equivalent positions at the end of the period, compared with 822 at the end of 2023.

Funding and liquidity

In terms of funding and liquidity management the Group's liquidity position remains strong. The Bank's liquidity position was above the required minimum and the liquidity ratio at the end of June 2024 was 154%, with the minimum requirement being 100%.

In May the Bank issued EUR 300 million senior preferred notes. The notes have a maturity of 4.5 years and pay a coupon of 4.625% which corresponds to a spread of 175bp over mid-swaps. The deal was more than 8.5 times oversubscribed with orders received from more than 190 investors spanning over 25 countries across EMEA and APAC. Final books stood around EUR 2.6 billion. The strength of the orderbook allowed Arion Bank to print the tightest Icelandic bank EUR Senior Preferred instrument in over 2 years. The EUR 300m Senior Preferred Green notes due in December 2024 were fully prepaid in the quarter.

The Bank continued to issue covered bonds in the domestic market. The total issuance was ISK 17.2 billion (of which ISK 4.0 billion was for the Bank's own account) in the first six months of 2024. The total issuance of senior bonds in the series Arion 28 1512 was ISK 2,560 billion.

Capital adequacy and dividends

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

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

In March 2024, the Bank paid a dividend of ISK 9.0 per share, approximately ISK 13 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.

On 4 April, the Bank announced the launch of a share buyback program, under which it would repurchase 36.5 million shares for a total consideration of up to ISK 5,000 million. The program was successfully concluded on 11 July.

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

Endorsement and statement
by the Board of Directors and the CEO

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

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

The Group's capital adequacy ratio on 30 June 2024 was 22.8% and the CET1 ratio was 18.5%. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, as well as an ISK 3.0 billion buyback program. This compares to a regulatory capital requirement of 19.5%, including the combined buffer requirement. The Bank's REA increased by ISK 42.6 billion in Q2 2024. This was driven by an ISK 43.2 billion increase in the loan portfolio. REA changes for other factors were less material.

Arion Bank is in full compliance with its MREL requirement. The current requirement, which amounts to 20.2% of the total REA and 6% of the total exposure measure, was set in September 2023 and is based on the financial position at year-end 2022. Based on the recently revised Pillar 2 capital requirement, and on the Resolution Authority's published methodology, the Bank expects the MREL requirement to be re-set at 19.6% of total REA and 6% of total exposure measure in Q3 2024. An MREL subordination requirement of 13.5% is expected to come into effect in Q3 2026.

Group ownership

Gildi lífeyrissjódur was the largest shareholder in Arion Bank with a shareholding of 9.75% at the end of June and Arion Bank held 2.95% of its own shares. The number of shareholders was 10,481 at the end of June, compared with 10,906 at the beginning of the year. 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.

Governance

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

Endorsement of the Board of Directors and the Chief Executive Officer

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

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

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

Reykjavík, 25 July 2024

Board of Directors

Paul Horner, Chairman

Kristín Pétursdóttir, Vice Chairman

Gunnar Sturluson

Liv Fiksdahl

Steinunn Kristín Thórdardóttir

Chief Executive Officer

Benedikt Gíslason

Review Report
on the Condensed Consolidated Interim Financial Statements

To the Board of Directors and shareholders of Arion Bank hf.

We have reviewed the accompanying Condensed Consolidated Interim Statement of Financial Position of Arion Bank hf. and its subsidiaries (the "Group") as of 30 June 2024 and the related Condensed Consolidated Interim Income Statement, Condensed Consolidated Interim Statement of Comprehensive Income, Condensed Consolidated Interim Statement of Changes in Equity and Condensed Consolidated Interim Statement of Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

The management's and the Board of directors responsibility for the Condensed Consolidated interim Financial Statements

The Board of Directors and management are responsible for the preparation and fair presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

Auditor's Responsibility

Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Condensed Consolidated Interim Financial Statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements does not give a true and fair view of the financial position of the Group as at 30 June 2024, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

Confirmation of Endorsement and Statement by the Board of Directors and the CEO

Pursuant to the requirement of Paragraph 2 Article 104 of the Icelandic Act on Financial Statements No. 3/2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the CEO includes all information required by the Icelandic Act on Financial Statements that is not disclosed elsewhere in the Condensed Consolidated Interim Financial Statements.

Kópavogur, 25 July 2024

Deloitte ehf.

Gunnar Thorvardarson
State Authorized Public Accountant

Consolidated Interim Income Statement

	Notes	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Interest income		69,678	60,229	36,040	31,060
Interest expense		(46,485)	(37,809)	(24,092)	(19,634)
Net interest income	7	**23,193**	**22,420**	**11,948**	**11,426**
Fee and commission income		9,270	10,473	4,934	5,187
Fee and commission expense		(1,926)	(1,835)	(955)	(1,000)
Net fee and commission income	8	**7,344**	**8,638**	**3,979**	**4,187**
Insurance revenue		9,575	8,205	4,908	4,207
Insurance service expenses		(9,268)	(8,164)	(4,385)	(3,445)
Insurance service results	9	**307**	**41**	**523**	**762**
Net financial income	10	128	179	99	(617)
Other operating income	11	87	1,605	38	1,586
Other net operating income		**215**	**1,784**	**137**	**969**
Operating income		**31,059**	**32,883**	**16,587**	**17,344**
Operating expenses	12-14	(13,706)	(12,479)	(7,154)	(6,009)
Bank levy	15	(936)	(906)	(476)	(457)
Net impairment	16	(1,090)	(620)	(775)	(568)
Earnings before income tax		**15,327**	**18,878**	**8,182**	**10,310**
Income tax expense	17	(5,375)	(5,513)	(2,671)	(3,226)
Net earnings from continuing operations		**9,952**	**13,365**	**5,511**	**7,084**
Discontinued operations held for sale, net of income tax	18	(20)	17	(11)	7
Net earnings		**9,932**	**13,382**	**5,500**	**7,091**

Attributable to

Shareholders of Arion Bank hf.		9,949	13,366	5,505	7,082
Non-controlling interest		(17)	16	(5)	9
		9,932	**13,382**	**5,500**	**7,091**

Earnings per share

	Notes				
	19				
Basic earnings per share attrib. to the shareholders of Arion Bank (ISK)		6.92	9.17	3.86	4.84
Diluted earnings per share attrib. to the shareholders of Arion Bank (ISK)		7.00	8.67	3.68	4.58

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	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Net earnings		**9,932**	**13,382**	**5,500**	**7,091**
Net change in FV of financial assets carried at FV through OCI, net of tax		(20)	243	(122)	130
Net realized loss (gain) on financial assets carried at FV through OCI, net of tax and reclassification from OCI equity reserve, transferred to the P/L	10	98	(200)	19	(82)
Changes to reserve for financial instruments at FV through OCI that is or may be reclassified subsequently to the Income Statement		**78**	**43**	**(103)**	**48**
Total comprehensive income		**10,010**	**13,425**	**5,397**	**7,139**

Attributable to

	Notes	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Shareholders of Arion Bank		10,027	13,409	5,402	7,130
Non-controlling interest		(17)	16	(5)	9
Total comprehensive income		**10,010**	**13,425**	**5,397**	**7,139**

	Notes	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Comprehensive income per share	19				
Basic compreh. income per share attrib. to the shareholders of Arion Bank (ISK)		6.97	9.17	3.79	4.88
Diluted compreh. income per share attrib. to the shareholders of Arion Bank (ISK)		6.66	8.67	3.61	4.61

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

Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	30.6.2024	31.12.2023
Cash and balances with Central Bank	20	135,522	102,095
Loans to credit institutions	21	32,728	28,835
Loans to customers	22	1,202,616	1,152,789
Financial instruments	23-25	165,630	205,706
Investment property	25	9,633	9,493
Investments in associates	27	816	789
Intangible assets	28	7,864	8,051
Tax assets	29	39	39
Assets and disposal groups held for sale	30	68	62
Other assets	31	13,873	17,813
Total Assets		**1,568,789**	**1,525,672**

Liabilities			
Due to credit institutions and Central Bank	24	5,067	2,771
Deposits	24	846,686	792,710
Financial liabilities at fair value	24	9,715	11,646
Tax liabilities	29	12,166	11,169
Other liabilities	32	45,497	46,336
Borrowings	24,33	415,116	420,460
Subordinated liabilities	24,34	42,091	41,279
Total Liabilities		**1,376,338**	**1,326,371**

Equity	37		
Share capital and share premium		6,823	10,634
Other reserves		12,036	12,283
Retained earnings		173,107	175,881
Total Shareholders' Equity		**191,966**	**198,798**
Non-controlling interest		485	503
Total Equity		**192,451**	**199,301**
Total Liabilities and Equity		**1,568,789**	**1,525,672**

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

			Restricted reserves										
	Share capital	Share premium	Share option	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop- ment cost	Debt invest- ments at fair value thr. OCI, unrealized	Statutory reserve	Retained earnings	**Total share- holders' equity**	Non- cont- rolling interest	**Total equity**
Equity 1 January 2024	1,446	9,188	408	825	7,772	1,462	880	(701)	1,637	175,881	**198,798**	503	**199,301**
Net earnings										9,949	**9,949**	(17)	**9,932**
Net change in fair value								(20)			**(20)**		**(20)**
Net realized loss transferred to P/L								98			**98**		**98**
Total comprehensive income	-	-	-	-	-	-	-	78	-	9,949	**10,027**	(17)	**10,010**
Transactions with owners													
Dividend paid										(13,058)	**(13,058)**		**(13,058)**
Purchase of treasury shares	(33)	(4,509)									**(4,542)**		**(4,542)**
Share capital increase	2	248									**250**		**250**
Share option charge			82								**82**		**82**
Share option vested	4	280	(40)								**244**		**244**
Share option forfeited			(119)							119	**-**		**-**
Incentive scheme	1	164									**165**		**165**
Warrants excercised		32		(32)							**-**		**-**
Changes in reserves					185	(340)	(61)			216	**-**		**-**
Equity 30 June 2024	1,420	5,403	331	793	7,957	1,122	819	(623)	1,637	173,107	**191,966**	485	**192,451**

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	Warrants reserve	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Statutory reserve				
Equity 1 January 2023	1,466	11,906	339	828	6,308	1,941	1,002	(1,383)	1,637	163,263	**187,307**	649	**187,956**
Net earnings										13,366	**13,366**	16	**13,382**
Net change in fair value								243			**243**		**243**
Net realized gain transferred to P/L								(200)			**(200)**		**(200)**
Total comprehensive income	-	-	-	-	-	-	-	43	-	13,366	**13,409**	16	**13,425**
Transactions with owners													
Dividend paid										(12,358)	**(12,358)**		**(12,358)**
Purchase of treasury shares	(22)	(3,238)									**(3,260)**		**(3,260)**
Share option charge			106								**106**		**106**
Share option vested	2	295	(45)								**252**		**252**
Share option forfeited			(83)							83	**-**		**-**
Incentive scheme	1	194									**195**		**195**
Changes in reserves					820	106	(61)			(865)	**-**		**-**
Equity 30 June 2023	1,447	9,157	317	828	7,128	2,047	941	(1,340)	1,637	163,489	**185,651**	**665**	**186,316**
Net earnings										12,389	**12,389**	(34)	**12,355**
Net change in fair value								454			**454**		**454**
Net realized loss transferred to P/L								185			**185**		**185**
Total comprehensive income	-	-	-	-	-	-	-	639	-	12,389	**13,028**	(34)	**12,994**
Transactions with owners													
Share capital increase	-	27									**27**		**27**
Purchase of treasury shares	-	1									**1**		**1**
Share option charge			91								**91**		**91**
Warrants excercised		3		(3)							**-**		**-**
Liquidation of a subsidiary											**-**	(128)	**(128)**
Changes in reserves					644	(585)	(61)			2	**-**		**-**
Equity 31 December 2023	1,446	9,188	408	825	7,772	1,462	880	(701)	1,637	175,881	**198,798**	503	**199,301**

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

	2024 1.1.-30.6.	2023 1.1.-30.6.
Operating activities		
Net earnings	9,932	13,382
Non-cash items included in net earnings	(13,570)	(13,072)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	211	1,680
Loans to customers	(31,584)	(42,554)
Financial instruments and financial liabilities at fair value	40,382	(36,734)
Deposits	25,981	13,978
Borrowings	(17,263)	8,724
Other changes in operating assets and liabilities	(9,459)	(3,584)
Interest received	51,697	46,118
Interest paid	(10,184)	(12,908)
Dividend received	144	269
Income tax paid	226	(3,729)
Net cash from (used in) operating activities	**46,513**	**(28,430)**
Investing activities		
Acquisition of intangible assets	(310)	(239)
Acquisition of associates	-	(75)
Proceeds from sale of property and equipment	21	-
Acquisition of property and equipment	(157)	(116)
Net cash used in investing activities	**(446)**	**(430)**
Financing activities		
Issued share capital	250	-
Dividend paid to shareholders of Arion Bank	(13,058)	(12,357)
Purchase of treasury stock	(4,542)	(3,260)
Proceeds from vested share option	244	252
Net cash used in financing activities	**(17,106)**	**(15,365)**
Net increase (decrease) in cash and cash equivalents	28,961	(44,225)
Cash and cash equivalents at beginnning of the year	114,993	150,131
Effect of exchange rate changes on cash and cash equivalent	(236)	(1,420)
Cash and cash equivalents	**143,718**	**104,486**
Cash and cash equivalents		
Cash and balances with Central Bank	135,522	76,499
Bank accounts	32,728	43,171
Mandatory reserve deposit with Central Bank	(24,532)	(15,184)
Cash and cash equivalents	**143,718**	**104,486**

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 1 January to 30 June 2024 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 25 July 2024.

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

Statement of compliance

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

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

Basis of measurement

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

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

Functional and presentation currency

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 138.73 and 148.71 for EUR (31.12.2023: USD 135.82 and EUR 150.13).

2. Going concern assumption

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

3. Significant accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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

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

Impairment of financial assets

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

Macroeconomic outlook

Economic growth continues to decelerate following record expansion in 2022, as the Central Bank of Iceland intensifies its efforts to cool the economy and curb inflation. This year, growth is projected to be significantly lower than in the previous two years but will remain positive due to domestic demand, which, despite falling, has been more resilient than expected in the current high-interest rate environment. Private consumption appears stable, while the tourism sector is beginning to weaken, marked by a decline in tourist expenditure. Although inflation has been easing, it remains at 5.8%, well above the Central Bank's target of 2.5%. Despite the Central Bank's tighter monetary policy the labor market has shown remarkable resilience, with unemployment hitting a low of 2.5% in May.

Impairment of intangible assets

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

Revaluation of investment properties

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

4. The Group

Shares in the main subsidiaries in which Arion Bank holds a direct interest			Equity interest	
	Operating activity	Currency	30.6.2024	31.12.2023
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Bjargargata 1, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

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

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

Corporate & Investment Banking (CIB)

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

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

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

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

Retail Banking

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

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

Treasury

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

Other subsidiaries

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

Supporting units

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

5. Operating segments, continued

1.1.-30.6.2024 *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	608	12,728	8,098	1,837	(115)	37	23,193
Net fee and commission income	2,736	2,256	1,806	338	123	85	7,344
Insurance service results	-	(275)	444	-	-	138	307
Net financial income	15	755	152	(792)	-	(2)	128
Other operating income	1	3	8	-	44	31	87
Operating income	3,360	15,467	10,508	1,383	52	289	31,059
Operating expenses	(1,263)	(851)	(1,586)	(464)	(190)	(9,352)	(13,706)
Allocated expenses	(1,341)	(2,735)	(4,329)	(740)	(62)	9,207	-
Bank levy	(25)	(329)	(414)	(168)	-	-	(936)
Net impairment	(7)	(365)	(716)	(1)	-	(1)	(1,090)
Earnings before income tax	724	11,187	3,463	10	(200)	143	15,327
Net seg. rev. from ext. customers	1,212	20,372	22,251	(13,118)	180	162	31,059
Net seg. rev. from other segments	2,148	(4,905)	(11,743)	14,501	(128)	127	-
Operating income	3,360	15,467	10,508	1,383	52	289	31,059
Balance Sheet							
Loans to customers	5,798	558,674	637,701	4	-	439	1,202,616
Financial instruments	26,268	10,937	21,996	109,567	108	(3,246)	165,630
Other external assets	5,890	1,481	5,633	171,708	11,434	4,397	200,543
Internal assets	61,016	-	-	238,785	5,429	(305,230)	-
Total assets	98,972	571,092	665,330	520,064	16,971	(303,640)	1,568,789
Deposits	88,049	410,811	334,506	14,889	-	(1,569)	846,686
Other external liabilities	1,671	11,096	18,665	483,460	9,090	5,669	529,651
Internal liabilities	-	48,852	258,890	-	-	(307,742)	-
Total liabilities	89,720	470,759	612,061	498,349	9,090	(303,641)	1,376,338
Allocated equity	9,252	100,333	53,269	21,715	7,881	-	192,451

Amounts are in ISK millions

5. Operating segments, continued

1.1.-30.6.2023 *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	464	10,036	9,828	2,221	(133)	4	22,420
Net fee and commission income	3,022	2,757	2,135	364	144	216	8,638
Insurance service results	-	(308)	393	-	-	(44)	41
Net financial income	30	78	246	(182)	23	(16)	179
Other operating income	4	(6)	29	13	1,573	(8)	1,605
Operating income	3,520	12,557	12,631	2,416	1,607	152	32,883
Operating expenses	(1,241)	(604)	(1,826)	(380)	(206)	(8,222)	(12,479)
Allocated expenses	(1,125)	(2,034)	(4,293)	(640)	(14)	8,106	-
Bank levy	(24)	(292)	(414)	(176)	-	-	(906)
Net impairment	(13)	(224)	(469)	4	81	1	(620)
Earnings (loss) before income tax	1,117	9,403	5,629	1,224	1,468	37	18,878
Net seg. rev. from ext. customers	698	17,836	26,905	(14,308)	1,771	(19)	32,883
Net seg. rev. from other segments	2,822	(5,279)	(14,274)	16,724	(164)	171	-
Operating income	3,520	12,557	12,631	2,416	1,607	152	32,883
Balance Sheet							
Loans to customers	4,114	476,663	654,428	97	3	(684)	1,134,621
Financial instruments	26,417	8,550	20,093	173,646	152	(3,031)	225,827
Other external assets	5,780	1,497	6,314	108,233	12,811	23,143	157,778
Internal assets	63,032	-	-	292,165	5,935	(361,132)	-
Total assets	99,343	486,710	680,835	574,141	18,901	(341,704)	1,518,226
Deposits	89,371	297,140	337,879	58,978	-	(2,166)	781,202
Other external liabilities	1,636	9,648	17,016	492,093	8,721	21,594	550,708
Internal liabilities	-	96,590	264,542	-	-	(361,132)	-
Total liabilities	91,007	403,378	619,437	551,071	8,721	(341,704)	1,331,910
Allocated equity	8,336	83,332	61,398	23,070	10,180	-	186,316

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

Quarterly statements

6. Operations by quarters, unaudited

2024	Q1	Q2	Total
Net interest income	11,245	11,948	23,193
Net fee and commission income	3,365	3,979	7,344
Insurance service results	(216)	523	307
Net financial income	29	99	128
Other operating income	49	38	87
Operating income	14,472	16,587	31,059
Operating expenses	(6,552)	(7,154)	(13,706)
Bank levy	(460)	(476)	(936)
Net impairment	(315)	(775)	(1,090)
Earnings before income tax	7,145	8,182	15,327
Income tax expense	(2,704)	(2,671)	(5,375)
Net earnings from continuing operations	4,441	5,511	9,952
Discontinued operations, net of tax	(9)	(11)	(20)
Net earnings	4,432	5,500	9,932

2023			
Net interest income	10,994	11,426	22,420
Net fee and commission income	4,451	4,187	8,638
Insurance service results	(721)	762	41
Net financial income	796	(617)	179
Other operating income	19	1,586	1,605
Operating income	15,539	17,344	32,883
Operating expenses	(6,470)	(6,009)	(12,479)
Bank levy	(449)	(457)	(906)
Net impairment	(52)	(568)	(620)
Earnings before income tax	8,568	10,310	18,878
Income tax expense	(2,287)	(3,226)	(5,513)
Net earnings from continuing operations	6,281	7,084	13,365
Discontinued operations, net of tax	10	7	17
Net earnings	6,291	7,091	13,382

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Income Statement

7. Net interest income

1.1.-30.6.2024	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	4,018	-	-	4,018
Loans to credit institutions	664	-	-	664
Loans to customers	61,293	21	-	61,314
Securities	-	893	2,781	3,674
Other	8	-	-	8
Interest income	65,983	914	2,781	69,678
Interest expense				
Deposits	(28,336)	-	-	(28,336)
Borrowings	(12,785)	(3,120)	-	(15,905)
Subordinated liabilities	(1,870)	(294)	-	(2,164)
Other	(80)	-	-	(80)
Interest expense	(43,071)	(3,414)	-	(46,485)
Net interest income	22,912	(2,500)	2,781	23,193

1.1.-30.6.2023	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	2,700	-	-	2,700
Loans to credit institutions	630	13	-	643
Loans to customers	54,308	-	-	54,308
Securities	-	633	1,943	2,576
Other	2	-	-	2
Interest income	57,640	646	1,943	60,229
Interest expense				
Deposits	(21,392)	-	-	(21,392)
Borrowings	(11,656)	(2,174)	-	(13,830)
Subordinated liabilities	(2,243)	(248)	-	(2,491)
Other	(96)	-	-	(96)
Interest expense	(35,387)	(2,422)	-	(37,809)
Net interest income	22,253	(1,776)	1,943	22,420

Net interest income calculated using the effective interest rate method were ISK 66,256 million during the period (6M 2023: ISK 57,805 million).

Amounts are in ISK millions

7. Net interest income, continued

1.4.-30.6.2024	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	2,021	-	-	2,021
Loans to credit institutions	354	-	-	354
Loans to customers	31,889	21	-	31,910
Securities	-	370	1,383	1,753
Other	2	-	-	2
Interest income	34,266	391	1,383	36,040
Interest expense				
Deposits	(14,631)	-	-	(14,631)
Borrowings	(6,789)	(1,511)	-	(8,300)
Subordinated liabilities	(974)	(148)	-	(1,122)
Other	(39)	-	-	(39)
Interest expense	(22,433)	(1,659)	-	(24,092)
Net interest income	11,833	(1,268)	1,383	11,948

1.4.-30.6.2023	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	1,306	-	-	1,306
Loans to credit institutions	373	-	-	373
Loans to customers	27,921	-	-	27,921
Securities	-	336	1,124	1,460
Other	-	-	-	-
Interest income	29,600	336	1,124	31,060
Interest expense				
Deposits	(11,490)	-	-	(11,490)
Borrowings	(5,721)	(1,156)	-	(6,877)
Subordinated liabilities	(1,090)	(130)	-	(1,220)
Other	(47)	-	-	(47)
Interest expense	(18,348)	(1,286)	-	(19,634)
Net interest income	11,252	(950)	1,124	11,426

Net interest income calculated using the effective interest rate method were ISK 34,383 million during the second quarter (Q2 2023: ISK 29,774 million).

Interest spread	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	3.1%	3.1%	3.2%	3.2%

Amounts are in ISK millions

8. Net fee and commission income

	1.1.-30.6.2024			1.1.-30.6.2023		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	2,733	(280)	2,453	2,968	(294)	2,674
Capital markets and corporate finance	811	(18)	793	1,408	(20)	1,388
Lending and financial guarantees	1,939	-	1,939	2,258	-	2,258
Collection and payment services	782	(54)	728	728	(30)	698
Cards and payment solution	2,584	(1,359)	1,225	2,635	(1,291)	1,344
Other	421	(394)	27	476	(379)	97
Commission expense from insurance operation	-	179	179	-	179	179
Net fee and commission income	9,270	(1,926)	7,344	10,473	(1,835)	8,638

	1.4.-30.6.2024			1.4.-30.6.2023		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,420	(117)	1,303	1,477	(155)	1,322
Capital markets and corporate finance	389	(6)	383	742	(7)	735
Lending and financial guarantees	1,141	-	1,141	915	-	915
Collection and payment services	405	(30)	375	392	(24)	368
Cards and payment solution	1,372	(695)	677	1,411	(697)	714
Other	207	(208)	(1)	250	(197)	53
Commission expense from insurance operation	-	101	101	-	80	80
Net fee and commission income	4,934	(955)	3,979	5,187	(1,000)	4,187

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.

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

9. Insurance service results

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Insurance revenue	9,575	8,205	4,908	4,207
Incurred claims	(7,749)	(6,163)	(3,824)	(2,494)
Service expenses	(1,810)	(1,722)	(924)	(799)
Insurance service expenses	(9,559)	(7,885)	(4,748)	(3,293)
Net expense from reinsurance contracts held	291	(279)	363	(152)
Insurance service results	307	41	523	762

Operation results of Vördur

Vördur's operation resulted in a profit of ISK 241 million for the first six months of 2024 with a return on equity of 4.7%, compared with a profit of ISK 335 million for the same period 2023 and a return on equity of 6.9%.

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Insurance service results	307	41	523	728
Insurance revenue elimination and reclassification	29	229	(6)	173
Insurance service results according to the Financial Statements of Vördur	336	270	517	901
Investment return	576	397	246	(254)
Net financial loss from insurance contracts	(550)	(235)	(247)	(192)
Total investment return	26	163	(1)	(445)
Other income	6	5	3	3
Earnings before income tax	368	438	519	459
Income tax	(127)	(103)	(112)	(120)
Net earnings	241	335	407	339

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	96.5%	96.7%	89.4%	79.3%

Amounts are in ISK millions

10. Net financial income

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	1,256	48	980	(634)
Loss on prepayments of borrowings	(260)	(225)	(275)	(225)
Net loss on fair value hedge of interest rate swap	(303)	(86)	(300)	(80)
Net realized (loss) gain on financial assets carried at fair value through OCI and reclassification from OCI equity reserve	(133)	270	(26)	111
Net financial loss from insurance contracts	(550)	(235)	(247)	(192)
Net foreign exchange gain (loss)	118	407	(33)	403
Net financial income	128	179	99	(617)

Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss

Equity instruments	130	(488)	512	(824)
Debt instruments	1,041	579	280	313
Derivatives	85	(43)	188	(123)
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss	1,256	48	980	(634)

Net loss on fair value hedge of interest rate swap

Fair value change of interest rate swaps designated as hedging instruments	294	418	624	(1,245)
Fair value change on bonds issued by the Group attributable to interest rate risk	(597)	(504)	(924)	1,165
Net loss on fair value hedge of interest rate swap	(303)	(86)	(300)	(80)

11. Other operating income

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Fair value changes on investment property	12	1,563	2	1,558
Net gain (loss) on disposal of assets	2	(3)	(2)	-
Net (loss) gain on assets held for sale	(2)	(9)	8	-
Share of profit (loss) of associates	27	(20)	18	(3)
Other income	48	74	12	31
Other operating income	87	1,605	38	1,586

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

12. Operating expenses

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Salaries and related expenses	8,629	8,078	4,418	3,979
Other operating expenses	6,710	5,946	3,559	2,771
Operating expenses from insurance operation	(1,633)	(1,545)	(823)	(741)
Operating expenses	13,706	12,479	7,154	6,009

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

13. Personnel and salaries

Number of employees	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Average number of full-time equivalent positions during the period	825	785	821	786
Full-time equivalent positions at the end of the period	817	781	817	781

Salaries and related expenses				
Salaries	6,663	6,195	3,387	3,059
Incentive scheme	(24)	(30)	-	(3)
Share-based payment expenses	82	106	40	47
Defined contribution pension plans	973	912	495	450
Salary-related expenses	935	895	496	426
Salaries and related expenses	8,629	8,078	4,418	3,979

Incentive schemes

During the period the Group revised the provision for the incentive scheme which resulted in reversal of ISK 31 million in provision, including salary-related expenses (H1 2023: ISK 39 million). At the period end the Group's accrual for the incentive scheme payments amounted to ISK 994 million (31.12.2023: ISK 1,997 million).

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

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 82 million was recognised in the Income Statement during the period (H1 2023: ISK 106 million). Estimated remaining expenses due the share option contracts are ISK 204 million and will be expensed over the next three years. For further information on the share option program, see Note 37.

14. Other operating expenses

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
IT expenses	2,522	2,262	1,230	1,074
Professional services	709	588	334	225
Marketing	538	563	270	262
Housing expenses	260	304	132	159
Other administration expenses*	1,837	1,356	1,170	622
Depreciation and impairment of property and equipment	279	271	140	129
Depreciation of right of use asset	68	66	34	34
Amortization of intangible assets	497	536	249	266
Other operating expenses	6,710	5,946	3,559	2,771

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

Amounts are in ISK millions

15. Bank levy

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

16. Net impairment

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Net impairment on financial instruments and value changes on loans				
Net impairment on loans to customers and financial institutions	(1,107)	(675)	(780)	(605)
Net impairment on other financial instruments at FVOCI	(1)	1	(1)	2
Other value changes of loans - corporates	10	7	1	2
Other value changes of loans - individuals	8	47	5	33
Net impairment	(1,090)	(620)	(775)	(568)
Net impairment by customer type				
Individuals	(445)	(102)	149	12
Corporates	(645)	(518)	(924)	(580)
Net impairment	(1,090)	(620)	(775)	(568)

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

17. Income tax expense

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Current tax expense	4,604	5,241	2,758	2,535
Deferred tax expense	771	272	(87)	691
Income tax expense	5,375	5,513	2,671	3,226

Reconciliation of effective tax rate	2024 1.1.-30.6.		2023 1.1.-30.6.	
Earnings before income tax		15,327		18,878
Income tax using the Icelandic corporate tax rate	21.0%	3,219	20.0%	3,776
Additional 6% tax on Financial Undertakings	6.1%	939	5.7%	1,067
Non-deductible expenses	0.9%	142	0.0%	1
Tax exempt revenues / loss	4.7%	718	3.0%	569
Non-deductible taxes (Bank levy)	1.2%	187	1.0%	181
Tax incentives not recognized in the Income Statement	0.0%	6	(0.3%)	(49)
Other changes	1.1%	164	(0.2%)	(32)
Effective tax rate	35.1%	5,375	29.2%	5,513

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.

Amounts are in ISK millions

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

	2024 1.1.-30.6.	2023 1.1.-30.6.	2024 1.4.-30.6.	2023 1.4.-30.6.
Net (loss) gain from discontinued operations held for sale	(22)	15	(11)	5
Income tax expense	2	2	-	2
Discontinued operations held for sale, net of income tax	(20)	17	(11)	7

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

19. Earnings per share

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

	Continued operations		Discontinued operations		Net Earnings	
	2024	2023	2024	2023	2024	2023
1.1.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	9,969	13,349	(20)	17	9,949	13,366
Total compreh.income attributable to the shareholders	10,047	13,392	(20)	17	10,027	13,409
Weighted average number of outstanding shares (millions)	1,438	1,457	1,438	1,457	1,438	1,457
Weighted average number of outstanding shares including warrants and options (millions)	1,506	1,542	1,506	1,542	1,506	1,542
Basic earnings per share (ISK)	6.93	9.16	(0.01)	0.01	6.92	9.17
Diluted earnings per share (ISK)	6.62	8.66	(0.01)	0.01	7.00	8.67
Basic comprehensive income per share (ISK)	6.99	9.19	(0.01)	0.01	6.97	9.20
Diluted comprehensive income per share (ISK)	6.67	8.68	(0.01)	0.01	6.66	8.70
1.4.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	5,516	7,075	(11)	7	5,505	7,082
Total compreh.income attributable to the shareholders	5,413	7,123	(11)	7	5,402	7,130
Weighted average number of outstanding shares (millions)	1,426	1,462	1,426	1,462	1,426	1,462
Weighted average number of outstanding shares including warrants and options (millions)	1,495	1,547	1,495	1,547	1,495	1,547
Basic earnings per share (ISK)	3.87	4.84	(0.01)	0.00	3.86	4.84
Diluted earnings per share (ISK)	3.69	4.57	(0.01)	0.00	3.68	4.58
Basic comprehensive income per share (ISK)	3.80	4.87	(0.01)	0.00	3.79	4.88
Diluted comprehensive income per share (ISK)	3.62	4.60	(0.01)	0.00	3.61	4.61

Notes to the Consolidated Interim Statement of Financial Position

20. Cash and balances with Central Bank

	30.6.2024	31.12.2023
Cash on hand	3,455	4,190
Cash with Central Bank	107,535	82,179
Mandatory reserve deposit with Central Bank	24,532	15,726
Cash and balances with Central Bank	135,522	102,095

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

21. Loans to credit institutions

	30.6.2024	31.12.2023
Bank accounts	32,728	28,624
Other loans	-	211
Loans to credit institutions	32,728	28,835

22. Loans to customers

	Individuals		Corporates		Total	
30.6.2024	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	13,590	12,916	47,240	46,225	60,830	59,141
Credit cards	15,890	15,657	2,251	2,188	18,141	17,845
Loans to customers at fair value	-	-	1,562	1,171	1,562	1,171
Mortgage loans	576,185	575,229	66,072	65,419	642,257	640,648
Construction loans	-	-	45,346	45,093	45,346	45,093
Capital lease	1,782	1,760	7,314	7,236	9,096	8,996
Other loans	28,848	28,058	405,476	401,664	434,324	429,722
Loans to customers	636,295	633,620	575,261	568,996	1,211,556	1,202,616
31.12.2023						
Overdrafts	13,840	13,232	43,013	42,129	56,853	55,361
Credit cards	15,972	15,783	2,062	2,010	18,034	17,793
Mortgage loans	550,269	549,371	68,840	68,277	619,109	617,648
Construction loans	-	-	49,267	49,031	49,267	49,031
Capital lease	2,352	2,331	6,893	6,832	9,245	9,163
Other loans	29,184	28,427	379,648	375,366	408,832	403,793
Loans to customers	611,617	609,144	549,723	543,645	1,161,340	1,152,789

The total book value of pledged loans that were pledged against outstanding borrowings was ISK 289 billion at the end of the period (31.12.2023: ISK 359 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

23. Financial instruments

	30.6.2024	31.12.2023
Bonds and debt instruments	120,751	157,197
Shares and equity instruments with variable income	17,655	17,656
Derivatives	7,189	6,602
Securities used for economic hedging	20,035	24,251
Financial instruments	165,630	205,706

Amounts are in ISK millions

24. Financial assets and financial liabilities

30.6.2024

Financial assets	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	135,522	-	-	135,522
Loans to credit institutions	32,728	-	-	32,728
Loans to customers	1,201,445	-	1,171	1,202,616
Loans	1,369,695	-	1,171	1,370,866
Bonds and debt instruments				
Listed	-	91,391	28,789	120,180
Unlisted	-	-	571	571
Bonds and debt instruments	-	91,391	29,360	120,751
Shares and equity instruments with variable income				
Listed	-	-	9,678	9,678
Unlisted	-	-	7,411	7,411
Bond funds with variable income, unlisted	-	-	566	566
Shares and equity instruments with variable income	-	-	17,655	17,655
Derivatives				
OTC derivatives	-	-	7,169	7,169
Derivatives used for hedge accounting	-	-	20	20
Derivatives	-	-	7,189	7,189
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	2,141	2,141
Shares and equity instruments with variable income, listed	-	-	17,894	17,894
Securities used for economic hedging	-	-	20,035	20,035
Other financial assets				
Accounts receivable	2,407	-	-	2,407
Other financial assets	5,665	-	-	5,665
Other financial assets	8,072	-	-	8,072
Financial assets	1,377,767	91,391	75,410	1,544,568
Financial liabilities				
Due to credit institutions and Central Bank	5,067	-	-	5,067
Deposits	846,686	-	-	846,686
Borrowings *	415,116	-	-	415,116
Subordinated liabilities *	42,091	-	-	42,091
Derivatives	-	-	1,778	1,778
Derivatives used for hedge accounting	-	-	7,937	7,937
Other financial liabilities	12,850	-	-	12,850
Financial liabilities	1,321,810	-	9,715	1,331,525

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

24. Financial assets and financial liabilities, continued

31.12.2023

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

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

24. Financial assets and financial liabilities, continued

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

30.6.2024	Fair value through OCI	Manda-torily at fair value thr. P/L	Total
Financial and insurance activities	1,444	10,623	12,067
Public sector	89,947	15,215	105,162
Corporates	-	3,522	3,522
Bonds and debt instruments at fair value	91,391	29,360	120,751
31.12.2023			
Financial and insurance activities	1,386	10,363	11,749
Public sector	128,178	14,077	142,255
Corporates	-	3,193	3,193
Bonds and debt instruments at fair value	129,564	27,633	157,197

The total amount of pledged bonds was ISK 3.1 billion at the end of the period (31.12.2023: ISK 3.0 billion). Pledged bonds comprised Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

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

30.6.2024

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,171	1,171
Bonds and debt instruments	116,843	3,895	13	120,751
Shares and equity instruments with variable income	9,378	6,652	1,625	17,655
Derivatives	-	7,169	-	7,169
Derivatives used for hedge accounting	-	20	-	20
Securities used for economic hedging	19,991	44	-	20,035
Investment property	-	-	9,633	9,633
Assets at fair value	146,212	17,780	12,442	176,434
Derivatives	-	1,778	-	1,778
Derivatives used for hedge accounting	-	7,937	-	7,937
Liabilities at fair value	-	9,715	-	9,715

Amounts are in ISK millions

25. Fair value hierarchy, continued

31.12.2023

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

Liabilities at fair value	Level 1	Level 2	Level 3	Total
Short position in equity used for economic hedging	61	-	-	61
Derivatives	-	2,332	-	2,332
Derivatives used for hedge accounting	-	9,253	-	9,253
Liabilities at fair value	61	11,585	-	11,646

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

Fair value of assets and liabilities

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

Methods for establishing fair value

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

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

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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

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			
1.1.-30.6.2024	property	Loans	Bonds	Shares	Total
Balance at the beginning of the year	9,493	-	27	3,595	13,115
Net fair value changes	12	18	(13)	464	481
Additions	128	1,153	-	-	1,281
Disposals	-	-	(1)	(2,434)	(2,435)
Balance at the end of the period	9,633	1,171	13	1,625	12,442
1.1.-31.12.2023					
Balance at the beginning of the year	7,862	-	102	1,932	9,896
Net fair value changes	1,569	-	(72)	652	2,149
Additions	62	-	-	1,858	1,920
Disposals	-	-	(3)	(975)	(978)
Transfers into Level 3	-	-	-	128	128
Balance at the end of the year	9,493	-	27	3,595	13,115

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

1.1.-30.6.2024					
Net financial income	-	21	-	-	21
Net financial income	-	(3)	(13)	464	448
Other operating income	12	-	-	-	12
Effects recognized in the Income Statement	12	18	(13)	464	481
1.1.-31.12.2023					
Net financial income	-	-	(72)	652	580
Other operating income	1,569	-	-	-	1,569
Effects recognized in the Income Statement	1,569	-	(72)	652	2,149

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

30.6.2024 *Financial assets not carried at fair value*	Carrying value	Fair value	Unrealized gain (loss)
Cash and balances with Central Bank	135,522	135,522	-
Loans to credit institutions	32,728	32,728	-
Loans to customers	1,201,445	1,195,790	(5,655)
Other financial assets	8,072	8,072	-
Financial assets not carried at fair value	1,377,767	1,372,112	(5,655)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	5,067	5,067	-
Deposits	846,686	846,686	-
Borrowings	415,116	410,776	4,340
Subordinated liabilities	42,091	40,884	1,207
Other financial liabilities	12,850	12,850	-
Financial liabilities not carried at fair value	1,321,810	1,316,263	5,547
31.12.2023			
Financial assets not carried at fair value			
Cash and balances with Central Bank	102,095	102,095	-
Loans to credit institutions	28,835	28,835	-
Loans to customers	1,152,789	1,145,363	(7,426)
Other financial assets	12,188	12,188	-
Financial assets not carried at fair value	1,295,907	1,288,481	(7,426)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	2,771	2,771	-
Deposits	792,710	792,710	-
Borrowings	420,460	419,008	1,452
Subordinated liabilities	41,279	41,154	125
Other financial liabilities	10,790	10,790	-
Financial liabilities not carried at fair value	1,268,010	1,266,433	1,577

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

Derivatives

	Notional	Fair value	
30.6.2024	value	Assets	Liabilities
Forward exchange rate agreements	80,695	227	888
Fair value hedge of interest rate swap	224,846	30	8,011
Interest rate and exchange rate agreements	44,067	637	577
Bond swap agreements	2,770	95	6
Share swap agreements	24,516	5,614	233
Options - purchased agreements	1	586	-
Derivatives	376,895	7,189	9,715
31.12.2023			
Forward exchange rate agreements	54,756	414	236
Fair value hedge of interest rate swap	235,726	2,063	9,253
Interest rate and exchange rate agreements	47,377	998	1,017
Bond swap agreements	2,218	67	50
Share swap agreements	24,689	3,060	1,029
Derivatives	364,766	6,602	11,585

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

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

During 2024 the slope for the regression line was in all cases within the range of 0.92-1.05 and the regression coefficient was at least 0.95. During 2023, the slope of the regression line was in all cases within the range of 0.92-1.08 and the regression coefficient was at least 0.94. In all cases the effectiveness is within limits in 2024 and 2023.

1.1.-30.6.2024	Notional	Maturity date	Fair value Assets	Fair value Liabilities	Gain (loss) on FV changes
Interest rates swaps - EUR	-	-	-	-	213
Interest rates swaps - USD	13,873	1-5 years	-	396	144
Interest rates swaps - EUR	74,357	1-5 years	-	5,216	(131)
Interest rates swaps - EUR	44,614	1-5 years	-	2,089	524
Interest rates swaps - EUR	-	-	-	-	157
Interest rates swaps - EUR	44,614	1-5 years	-	142	(571)
Interest rates swaps - USD	2,774	1-5 years	20	-	6
Interest rates swaps - EUR	44,614	1-5 years	-	94	(48)
			20	7,937	294
1.1.-31.12.2023					
Interest rates swaps - EUR	-	-	-	-	76
Interest rates swaps - EUR	11,957	3-6 mth	-	228	650
Interest rates swaps - USD	13,582	1-5 years	-	534	354
Interest rates swaps - EUR	75,067	1-5 years	-	5,183	3,205
Interest rates swaps - EUR	45,040	1-5 years	-	2,725	1,617
Interest rates swaps - EUR	45,040	1-5 years	-	583	307
Interest rates swaps - EUR	45,040	1-5 years	2,063	-	436
			2,063	9,253	6,645

Hedged borrowings and subordinated liabilities

1.1.-30.6.2024	Book value	Accumulated fair value Assets	Accumulated fair value Liabilities	Gain (loss) on FV changes
EUR 300 million - issued 2020 - 4 years	-	-	-	(205)
USD 100 million - issued 2020 - Perpetual	13,659	476	-	(143)
EUR 500 million - issued 2021 - 5 years	68,804	4,541	-	130
EUR 300 million - issued 2021 - 4 years	42,977	1,760	-	(523)
EUR 300 million - issued 2022 - 2 years	-	-	-	(469)
EUR 300 million - issued 2023 - 3 years	44,709	128	-	571
USD 21 million - issued 2024 - 3 years	2,872	-	6	(6)
EUR 300 million - issued 2024 - 4 years	44,615	48	-	48
Hedged borrowings and subordinated liabilities	217,636	6,953	6	(597)
1.1.-31.12.2023				
EUR 300 million - issued 2018 - 5 years	-	-	-	(156)
EUR 300 million - issued 2020 - 4 years	11,776	206	-	(632)
USD 100 million - issued 2020 - Perpetual	13,216	608	-	(336)
EUR 500 million - issued 2021 - 5 years	69,338	4,455	-	(3,207)
EUR 300 million - issued 2021 - 4 years	42,740	2,303	-	(1,612)
EUR 300 million - issued 2022 - 2 years	44,552	471	-	(305)
EUR 300 million - issued 2023 - 3 years	47,326	(443)	-	(442)
Hedged borrowings and subordinated liabilities	228,948	7,600	-	(6,690)

The effectiveness of each hedge is measured regularly with linear regression. The relationship between fair value changes of an interest rate swap on the one hand and a borrowing on the other hand is examined. In all cases the effectiveness is within limits, or between 92-105%.

Amounts are in ISK millions

26. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

30.6.2024	Assets subject to netting arrangements: Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Netting potential not recognized in the Balance Sheet: 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	16,304	(10,109)	6,195	10,109	-	16,304	-	6,195
Derivatives	466	-	466	(31)	-	435	6,723	7,189
Bank accounts netted against fin. liab.	9,123	-	9,123	(9,123)	-	-	-	9,123
Total assets	25,893	(10,109)	15,784	955	-	16,739	6,723	22,507
31.12.2023								
Reverse repurchase agreements	16,982	(10,164)	6,818	10,164	-	16,982	-	6,818
Derivatives	3,935	-	3,935	(2,452)	-	1,483	2,667	6,602
Bank accounts netted against fin. liab.	7,589	-	7,589	(7,589)	-	-	-	7,589
Total assets	28,506	(10,164)	18,342	123	-	18,465	2,667	21,009

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

30.6.2024	Liabilities subject to netting arrangements: Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Netting potential not recognized in the Balance Sheet: Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet
Repurchase agreements	-	(10,109)	(10,109)	10,109	-	-	-	(10,109)
Derivatives	9,024	-	9,024	(9,154)	-	(130)	691	9,715
Deposist netted agains other assets	-	-	-	-	-	-	-	-
Total liabilities	9,024	(10,109)	(1,085)	955	-	(130)	691	(394)
31.12.2023								
Repurchase agreements	-	(10,164)	(10,164)	10,164	-	-	-	(10,164)
Derivatives	11,430	-	11,430	(9,700)	-	1,730	155	11,585
Deposist netted agains other assets	341	-	341	(341)	-	-	-	341
Total liabilities	11,771	(10,164)	1,607	123	-	1,730	155	1,762

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

27. Investments in associates

	30.6.2024	31.12.2023
Carrying amount at the beginning of the year	789	787
Acquisitions / increased share capital	-	72
Share of profit (loss) of associates	27	(70)
Investment in associates	816	789

The Group's interest in its principal associates

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

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 expenses of implementation.

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

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

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

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

1.1.-30.6.2024	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	487	4,451	8,051
Additions	-	-	-	310	310
Amortization	-	-	(30)	(467)	(497)
Balance at the end of the period	730	2,383	457	4,294	7,864

1.1.-31.12.2023	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	547	5,123	8,783
Additions	-	-	-	470	470
Amortization	-	-	(60)	(1,142)	(1,202)
Balance at the end of the year	730	2,383	487	4,451	8,051

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

29. Tax assets and tax liabilities

	30.6.2024		31.12.2023	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	9,453	-	9,227
Deferred tax	39	2,713	39	1,942
Tax assets and tax liabilities	39	12,166	39	11,169

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

	30.6.2024	31.12.2023
Assets and disposal groups held for sale		
Real estate and other assets	68	62
Assets and disposal groups held for sale	68	62

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

31. Other assets

	30.6.2024	31.12.2023
Property and equipment	3,531	3,672
Right-of-use asset	867	872
Accounts receivable	2,407	1,765
Unsettled securities trading	2,072	7,781
Sundry assets	4,995	3,723
Other assets	13,873	17,813

32. Other liabilities

	30.6.2024	31.12.2023
Accounts payable	2,091	1,274
Unsettled securities trading	4,015	2,474
Insurance contract liabilities	22,449	20,196
Withholding tax	1,168	6,026
Bank levy	1,850	1,807
Accrued expenses	4,591	4,895
Prepaid income	1,535	1,547
Impairment of off-balance items	426	363
Lease liability	1,054	1,074
Sundry liabilities	6,318	6,680
Other liabilities	45,497	46,336

Insurance contract liabilities

Liabilities for remaining coverage	4,491	3,910
Liabilities for incurred claims	17,216	15,597
Risk adjustment	742	689
Insurance contract liabilities	22,449	20,196

Amounts are in ISK millions

33. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	30.6.2024	31.12.2023
ARION CB 24 ISK 28,900 million	2019	2024	At maturity	Fixed, 6.00%	-	13,664
ARION CBI 25, ISK 37,940 million	2017	2025	At maturity	Fixed, CPI linked, 3.00%	52,653	50,880
ARION CBI 26 ISK 17,080 million	2019	2026	At maturity	Fixed, CPI linked, 2.00%	21,329	20,628
ARION CB EUR 500 million *	2021	2026	At maturity	Fixed, EUR 0.05%	68,804	69,337
ARION CB 27, ISK 48,840 million	2022	2027	At maturity	Fixed, 5.50%	21,409	17,680
ARION CBI 29, ISK 27,200 million	2014	2029	At maturity	Fixed, CPI linked, 3.50%	39,522	38,239
ARION CBI 30, ISK 20,660 million	2023	2030	At maturity	Fixed, CPI linked, 2.75%	20,158	10,204
ARION CBI 48, ISK 11,680 million	2018	2048	Amortizing	Fixed, CPI linked, 2.50%	12,702	12,440
Statutory covered bonds					236,577	233,072
EUR 300 million *	2020	2024	At maturity	Fixed, 0.625 %		11,776
EUR 300 million Green *	2022	2024	At maturity	Fixed, 4.875%	-	44,552
ARION 24 1020 Green (ISK 6,020m)	2022	2024	At maturity	Floating, REIBOR 3M +0.70%	6,104	6,105
EUR 300 million Green *	2021	2025	At maturity	Fixed, 0.375%	42,977	42,740
NOK 550 million	2022	2025	At maturity	Floating, OIBOR 3M +2.35%	7,202	7,417
SEK 230 million	2022	2025	At maturity	Floating, STIBOR 3M +2.35%	3,031	3,128
NOK 200 million	2023	2025	At maturity	Floating, OIBOR 3M + 2.55%	2,605	2,683
ARION 26 1222 Green (ISK 5,760m)	2021	2026	At maturity	Fixed, 4.70%	5,540	5,405
SEK 300 million	2023	2026	At maturity	Floating, STIBOR 3M + 3.00%	3,934	4,059
EUR 300 million*	2023	2026	At maturity	Fixed, 7.25%	44,709	47,326
USD 21 million*	2024	2027	At maturity	Fixed, 6.25%	2,872	-
NOK 250 million	2017	2027	At maturity	Fixed, 3.40%	3,270	3,425
Arion 28 1512, ISK 11,300 million	2023	2028	At maturity	Fixed, CPI linked, 4.35%	11,679	8,772
EUR 300 million*	2024	2028	At maturity	Fixed, 4.625%	44,615	-
Senior unsecured bonds					178,539	187,388
Borrowings					415,116	420,460

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

The book value of listed bonds was ISK 415 billion at the end of the period (31.12.2023: ISK 420 billion). The market value of those bonds was ISK 411 billion (31.12.2023: ISK 419 billion). The Group repurchased own debts amounting to ISK 43 billion during the period with a net loss of ISK 260 million recognized in the Income Statement (H1 2023: ISK 225 million).

34. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.6.2024	31.12.2023
NOK 300 million	2019	2029	9 Jul '24	Floating, NIBOR +3.65%	3,976	4,096
SEK 225 million	2019	2029	20 Dec '24	Floating, 3 mth STIBOR +3.70%	2,951	3,046
ARION T2I 30 ISK 4,800 million	2019	2030	4 Jan '25	Fixed, CPI linked, 3.875%	6,537	6,312
ARION T2 30 ISK 880 million	2019	2030	4 Jan '25	Fixed, 6.75%	908	908
EUR 5 million	2019	2031	6 Mar '26	Fixed, 3.24%	747	766
ARION T2I 33 9,860 million	2022	2033	15 Dec '28	Fixed, CPI linked, 4.95%	11,064	10,685
ARION T2 33 2,240 million	2022	2033	15 Dec '28	Fixed, 9.25%	2,249	2,249
Tier 2 subordinated liabilities					28,432	28,062
ARION AT1 USD 100 million *	2020	Perpetual	26 Mar '25	Fixed, 6.25%	13,659	13,217
Additional Tier 1 subordinated liabilities					13,659	13,217
Subordinated liabilities					42,091	41,279

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

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

Amounts are in ISK millions

35. Liabilities arising from financial activities

1.1.-30.6.2024	At 1 Jan.	Cash flows	Non-cash changes: Interest expenses	Non-cash changes: Foreign exchange	Non-cash changes: Effect from hedge	At period end
Covered bonds in ISK - CPI linked	132,391	6,934	7,039	-	-	146,364
Covered bonds in ISK	31,344	(10,780)	845	-	-	21,409
Covered bonds in FX	69,337	(2,927)	1,634	655	105	68,804
Senior unsecured bonds in FX	167,106	(18,646)	5,404	1,921	(569)	155,216
Senior unsecured bonds in ISK	11,510	(332)	466	-	-	11,644
Senior unsecured bonds in ISK - CPI linked	8,772	2,390	517	-	-	11,679
Subordinated bond T2 in ISK - CPI linked	16,997	(393)	997	-	-	17,601
Subordinated bond T2 ISK	3,157	(133)	133	-	-	3,157
Subordinated bond T2 FX	7,908	(743)	292	217	-	7,674
Subordinated bond AT1 FX	13,217	143	742	(283)	(160)	13,659
Liabilities arising from financial activities	461,739	(24,487)	18,069	2,510	(624)	457,207

1.1.-31.12.2023	At 1 Jan.	Cash flows	Interest expenses	Foreign exchange	Effect from hedge	At period end
Covered bonds in ISK - CPI linked	113,833	5,849	12,709	-	-	132,391
Covered bonds in ISK	32,794	(3,689)	2,239	-	-	31,344
Covered bonds in FX	66,231	(5,475)	5,681	(368)	3,268	69,337
Senior unsecured bonds in FX	168,261	(9,597)	5,858	(2,082)	4,666	167,106
Senior unsecured bonds in ISK	11,444	(778)	844	-	-	11,510
Senior unsecured bonds in ISK - CPI linked	-	8,740	32	-	-	8,772
Subordinated bond T2 in ISK - CPI linked	15,735	(750)	2,012	-	-	16,997
Subordinated bond T2 ISK	3,156	(266)	267	-	-	3,157
Subordinated bond T2 FX	15,044	(7,527)	937	(565)	19	7,908
Subordinated bond AT1 FX	13,396	(1,598)	1,437	(395)	377	13,217
Liabilities arising from financial activities	439,894	(15,091)	32,016	(3,410)	8,330	461,739

36. Pledged assets

Pledged assets against liabilities	30.6.2024	31.12.2023
Assets, pledged as collateral against borrowings	360,189	380,860
Assets pledged as a collateral against loans from banks and other financial liabilities	12,205	10,582
Pledged assets against liabilities	372,394	391,442
Thereof pledged assets against issued covered bonds held by the Bank	(82,818)	(86,682)
Assets against repoed issued bonds	15,399	16,585
Pledged assets against liabilities on balance	304,975	321,345

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 237 billion at period end (31.12.2023: ISK 233 billion).

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

The Group has issued covered bonds amounting to ISK 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 (31.12.2023: ISK 58 billion). Pledged assets against those covered bonds are ISK 67 billion (31.12.2023: ISK 70 billion).

Amounts are in ISK millions

37. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,462 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	Total 2024	Share capital	Own shares	Share premium	Total 2023
Balance at the beginning of the year	1,460	(14)	9,188	10,634	1,510	(45)	11,907	13,372
Issued share capital	2	-	248	250	-	-	27	27
Share capital reduction	-	-	-	-	(50)	50	-	-
Purchase of treasury shares	-	(33)	(4,509)	(4,542)	-	(22)	(3,238)	(3,260)
Share option vested	-	4	280	283	-	2	295	297
Incentive scheme	-	1	164	165	-	1	194	195
Warrants excercised	-	-	32	32	-	-	3	3
Balance at the end of the period	1,462	(42)	5,403	6,823	1,460	(14)	9,187	10,634
Own shares / issued share capital		2.95%				0.95%		

In 2024 the nominal value of Arion Bank's share capital was increased by ISK 2,111,023 in order to cover the exercising of issued warrants. Corresponding increase was made in December 2023, amounting to ISK 224.359. Arion Bank's share capital thus increased from ISK 1.460 million to ISK 1.462 million. At the AGM 2023 a motion was passed to reduce the Bank's share capital by ISK 50 million. The reduction was effective 25 April 2023 and Arion Bank's share capital was reduced from ISK 1,510 million to ISK 1,460 million.

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In 2024 the FSA authorized the Bank to initiate share buy-back programs in Iceland and Sweden amounting up to a total of 36,500,000 shares or up to ISK 5 billion. In 2022 the FSA authorized a buyback program amounting up to a total of 57.3 million shares or up to ISK 10 billion. The Program ended 1 June 2023.

Share options

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

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

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

Movements in share options during the period.	30.6.2024		31.12.2023	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	24,435	136.3	30,882	143.2
Share options granted	1,953	153.6	16,349	153.8
Share options forfeited	(6,766)	148.2	(20,152)	168.2
Share options exercised, WAVG share price ISK 154.3 at exercise date (2023: 151.79)	(2,506)	96.7	(2,644)	95.5
Outstanding share options at the end of the period	17,116	135.1	24,435	136.2

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

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

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

Amounts are in ISK millions

37. Equity, continued

Warrants

The warrants reserve represents the consideration received for outstanding warrants. Arion Bank issued 54 million warrants on 9 March 2021. The purchase price of the warrants amounted to ISK 15.6 per warrant, resulting in a total sale price of ISK 842.4 million. The warrant issuing represented approximately 3% of the Bank's total share capital and the Bank is obliged to issue new shares when the warrants are exercised. Approximately 48.5% of the total issue was sold to around 150 employees of the Group and 51.5% to professional investors. The exercise period runs from Q4 2023 to Q3 2024. Number of outstanding warrants at the end of June 2024 were 51.7 million.

Other information

38. Shareholders of Arion Bank

	30.6.2024	31.12.2023
Gildi lífeyrissjódur	9.75%	9.85%
Lífeyrissjódur starfsmanna ríkisins	9.36%	9.62%
Lífeyrissjódur verzlunarmanna	9.07%	9.02%
Stodir hf.	5.47%	5.38%
Brú lífeyrissjódur	5.20%	4.34%
Vanguard	3.84%	3.91%
Birta lífeyrissjódur	3.61%	3.58%
Frjálsi lífeyrissjódurinn	3.61%	3.55%
Arion banki hf.	2.95%	0.95%
Stapi lífeyrissjódur	2.80%	2.85%
Hvalur hf.	2.51%	2.52%
Festa lífeyrissjódur	2.50%	2.38%
Stefnir funds	1.97%	2.30%
Íslandsbanki hf.	1.68%	2.24%
Lífsverk Pension fund	1.57%	1.23%
Almenni lífeyrissjódur	1.51%	1.52%
Íslandssjódir	0.77%	0.65%
Landsbréf hf.	0.69%	0.98%
Sjóvá tryggingar	0.77%	1.09%
Landsbankinn hf.	0.78%	1.06%
Kvika banki hf.	0.11%	1.66%
Other shareholders with less than 1% shareholding	29.46%	29.31%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 0.93% in Arion Bank (31.12.2023: 0.83%). The Board of Directors and the members of the Bank's Executive Committee shareholding is as follows:

	30.6.2024		31.12.2023	
	Warrants / options	Number of shares	Warrants / options	Number of shares
Steinunn Kristín Thórdardóttir, Director	-	12,000	-	12,000
Benedikt Gíslason, CEO	985,811	2,593,450	997,947	2,561,783
Key management personnel* (nine / eight until 30.1.24)	3,955,990	1,090,427	4,038,815	971,648

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

* Key management personnel are defined in Note 43.

Amounts are in ISK millions

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 made any provision.

Consumer Association‘s class-action lawsuit

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

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

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

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

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

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

The Bank has however made a preliminary assessment of potential impact of an adverse ruling in Icelandic courts on the Bank´s loan portfolio, considering different scenarios, that leads to the approximate amount of ISK 13 billion. The preliminary assessment does not include an assessment of the impact on the Bank´s interest rate risk should an adverse final court ruling be that the initial contractual interest rates be applied throughout the duration of the respective loans.

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

39. Legal matters, continued

Other legal proceedings

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

Legal matters concluded

On-site inspection by the Central Bank

The Financial Supervisory Authority of the Central Bank of Iceland (the “FSA”) did an on-site inspection at the Bank in 2022 into AML/CTF procedures. Following the inspection, the FSA identified and reported deficiencies in the Bank's compliance with the relevant AML Act and regulations. In August 2023, following receipt of FSA´s final report, the Bank requested that the matter be concluded by way of settlement. The matter has been concluded with the FSA by means of settlement where the Bank agreed to paying a fine of ISK 585 million.

TravelCo Nordic

The estate of TravelCo Nordic filed a case against TravelCo hf. and the Bank in Denmark claiming payment in solidum in the amount of DKK 58.1 million plus interest. The bankruptcy estate alleged that the Bank, as owner of Heimsferdir ehf. and Terra Nova Sól ehf., contrived the sale of the companies to its subsidiary, Sólbjarg ehf., without real payment. The transaction the bankruptcy estate is referring to is in fact the legal and lawful enforcement of security (i.e. share pledges) by the Bank over the shares in Heimsferdir hf. and Terra Nova Sól ehf. following a default on a facilities agreement to TravelCo hf. as borrower. Following the enforcement, the Bank moved the companies to its holding company, Sólbjarg ehf., and the Bank remained the beneficial owner of the companies. With a judgement in April 2024 the Bank was acquitted of the estate's claim.

40. Events after the reporting period

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

Off balance sheet information

41. Commitments

Financial guarantees, unused credit facilities and undrawn loan commitments	30.6.2024	31.12.2023
Financial guarantees	23,297	21,763
Unused overdrafts	72,679	61,951
Undrawn loan commitments	79,112	69,188
Financial guarantees, unused credit facilities and undrawn loan commitments	175,088	152,902

42. Assets under management and under custody

	30.6.2024	31.12.2023
Assets under management	1,522,263	1,383,134
Assets under custody	1,202,606	1,233,011

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

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

Related party

43. Related party

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

Shareholders with significant influence are shareholders that have the power to participate in the 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 (31.12.2023: none).

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

For information on the associated companies, see Note 27.

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

	Key management personnel		Associated companies	
	30.6.2024	31.12.2023	30.6.2024	31.12.2023
Loans	208	249	391	348
Other assets	2	2	-	-
Total assets	211	251	391	348
Deposits	(1,512)	(780)	(162)	(91)
Other liabilities	-	-	(23)	(37)
Total liabilities	(1,512)	(780)	(185)	(128)

Amounts are in ISK millions

Risk management disclosures

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

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

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

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

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

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

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

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

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

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				
30.6.2024	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	135,522	-	-	-	-	-
Loans to credit institutions at amortized cost	32,728	-	-	-	-	-
Loans to customers at amortized cost	1,201,445	23,921	910,322	57,554	125,887	1,117,684
Individuals	*633,620*	*415*	*584,221*	*2*	*16,143*	*600,781*
Mortgages	*575,229*	*89*	*574,731*	*-*	*33*	*574,853*
Other	*58,391*	*326*	*9,490*	*2*	*16,110*	*25,928*
Corporates	*567,825*	*23,506*	*326,101*	*57,552*	*109,744*	*516,903*
Real estate activities	*120,711*	*1,384*	*116,080*	*20*	*1,567*	*119,051*
Construction	*74,737*	*294*	*67,836*	*6*	*3,836*	*71,972*
Fishing industry	*84,671*	*1,156*	*14,302*	*55,465*	*12,795*	*83,718*
Information and communication technology	*29,879*	*50*	*1,384*	*-*	*12,110*	*13,544*
Wholesale and retail trade	*94,976*	*209*	*54,504*	*3*	*30,348*	*85,064*
Financial and insurance activities	*48,381*	*19,259*	*8,303*	*-*	*19,295*	*46,857*
Industry, energy and manufacturing	*58,465*	*841*	*38,397*	*21*	*15,648*	*54,907*
Transportation	*8,853*	*1*	*1,232*	*746*	*4,515*	*6,494*
Services	*23,299*	*301*	*10,519*	*1,285*	*8,648*	*20,753*
Public sector	*11,590*	*11*	*2,270*	*6*	*252*	*2,539*
Agriculture and forestry	*12,263*	*-*	*11,274*	*-*	*730*	*12,004*
Other assets with credit risk	8,072	-	-	-	-	-
Financial guarantees	23,297	2,807	4,816	305	6,452	14,380
Undrawn loan commitments and unused overdrafts	151,791	-	-	-	-	-
Fair value through OCI	91,391	-	-	-	-	-
Government bonds	*89,947*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*1,444*	-	-	-	-	-
Balance at the end of the period	1,644,246	26,728	915,138	57,859	132,339	1,132,064
31.12.2023						
Cash and balances with Central Bank	102,095	-	-	-	-	-
Loans to credit institutions at amortized cost	28,835	-	-	-	-	-
Loans to customers at amortized cost	1,152,789	24,586	871,682	55,265	118,627	1,070,160
Individuals	*609,144*	*329*	*558,862*	*16*	*17,026*	*576,233*
Mortgages	*549,371*	*15*	*548,962*	*-*	*33*	*549,010*
Other	*59,773*	*314*	*9,900*	*16*	*16,993*	*27,223*
Corporates	*543,645*	*24,257*	*312,820*	*55,249*	*101,601*	*493,927*
Real estate activities	*114,101*	*2,027*	*108,604*	*28*	*1,621*	*112,280*
Construction	*77,728*	*433*	*72,143*	*30*	*3,177*	*75,783*
Fishing industry	*82,772*	*972*	*14,085*	*53,137*	*11,188*	*79,382*
Information and communication technology	*26,012*	*65*	*1,422*	*-*	*12,912*	*14,399*
Wholesale and retail trade	*90,320*	*40*	*51,332*	*3*	*29,253*	*80,628*
Financial and insurance activities	*41,517*	*19,732*	*6,701*	*-*	*13,914*	*40,347*
Industry, energy and manufacturing	*54,796*	*791*	*34,318*	*22*	*16,531*	*51,662*
Transportation	*8,460*	*-*	*1,254*	*803*	*4,026*	*6,083*
Services	*22,191*	*187*	*10,265*	*1,220*	*8,071*	*19,743*
Public sector	*14,212*	*10*	*2,235*	*6*	*202*	*2,453*
Agriculture and forestry	*11,536*	*-*	*10,461*	*-*	*706*	*11,167*
Other assets with credit risk	12,188	-	-	-	-	-
Financial guarantees	21,763	2,973	4,644	292	6,216	14,125
Undrawn loan commitments and unused overdrafts	131,139	-	-	-	-	-
Fair value through OCI	129,564	-	-	-	-	-
Government bonds	*128,178*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*1,386*	-	-	-	-	-
Balance at the end of the year	1,578,373	27,559	876,326	55,557	124,843	1,084,285

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	
	30.6.2024	31.12.2023	30.6.2024	31.12.2023
Less than 50%	229,510	205,543	2,539	2,215
50-60%	108,319	105,773	1,508	888
60-70%	98,276	100,722	1,381	1,374
70-80%	77,481	75,783	1,240	1,166
80-90%	57,439	57,165	500	339
90-100%	3,161	3,332	227	130
More than 100%	1,999	1,951	231	305
Gross carrying amount at the end of the period	576,185	550,269	7,626	6,417

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

			Thereof in Stage 3	
	30.6.2024	31.12.2023	30.6.2024	31.12.2023
Less than 55%	513,235	487,095	6,517	5,457
55-70%	45,022	45,134	700	620
70-80%	13,086	13,198	224	183
80-90%	3,757	3,777	92	72
90-100%	602	642	50	41
More than 100%	483	423	43	44
Gross carrying amount at the end of the period	576,185	550,269	7,626	6,417

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 25,369 million (31.12.2023: ISK 19,857 million) with ISK 23,220 million in collateral (31.12.2023: ISK 17,465 million), thereof ISK 22,409 million in real estate (31.12.2023: 16,036 million).

Collateral repossessed

During the period, the Group took possession of assets due to foreclosures. At the end of the period the Group holds no real estate it took possession of during the period (31.12.2023: ISK 25 million) but still holds ISK 9 million in other assets at period end (31.12.2023: nil). 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 (31.12.2023: no large exposure).

Credit quality

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

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

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

44. Credit risk, continued

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

30.6.2024	Cash and balances with CB	Loans to credit institutions	Financial instru-ments at FVOCI
Loans to credit institutions, securities and cash			
Investment grade	135,522	32,728	91,395
Non-investment grade	-	-	-
Gross carrying amount	135,522	32,728	91,395
Loss allowance	-	-	(4)
Book value	135,522	32,728	91,391

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	436,909	458	-	6	437,373
Risk class 1 - (Grades BBB+ to BBB-)	346,670	508	-	126	347,304
Risk class 2 - (Grades BB+ to BB-)	219,687	24,436	-	39	244,162
Risk class 3 to 4 - (Grades B+ to CCC-)	90,476	65,677	-	16	156,169
Risk class 5 - (DD)	-	-	25,247	122	25,369
Unrated	7	1	-	-	8
Gross carrying amount	1,093,749	91,080	25,247	309	1,210,385
Loss allowance	(2,209)	(2,357)	(4,373)	(1)	(8,940)
Book value	1,091,540	88,723	20,874	308	1,201,445
Loans to customers - Individuals					
Risk class 0 - (Grades AAA to A-)	332,477	267	-	6	332,750
Risk class 1 - (Grades BBB+ to BBB-)	217,155	443	-	126	217,724
Risk class 2 - (Grades BB+ to BB-)	39,011	15,916	-	39	54,966
Risk class 3 to 4 - (Grades B+ to CCC-)	10,766	10,481	-	16	21,263
Risk class 5 - (DD)	-	-	9,462	122	9,584
Unrated	7	1	-	-	8
Gross carrying amount	599,416	27,108	9,462	309	636,295
Loss allowance	(576)	(539)	(1,559)	(1)	(2,675)
Book value	598,840	26,569	7,903	308	633,620
Loans to customers - Corporates					
Risk class 0 - (Grades AAA to A-)	104,432	191	-	-	104,623
Risk class 1 - (Grades BBB+ to BBB-)	129,515	65	-	-	129,580
Risk class 2 - (Grades BB+ to BB-)	180,676	8,520	-	-	189,196
Risk class 3 to 4 - (Grades B+ to CCC-)	79,710	55,196	-	-	134,906
Risk class 5 - (DD)	-	-	15,785	-	15,785
Gross carrying amount	494,333	63,972	15,785	-	574,090
Loss allowance	(1,633)	(1,818)	(2,814)	-	(6,265)
Book value	492,700	62,154	12,971	-	567,825
Loan commitments, guarantees and unused credit facilities					
Risk class 0 to 1 (Grades AAA to BBB-)	97,251	20	-	-	97,271
Risk class 2 to 4 (Grades BB+ to CCC-)	64,238	4,856	348	-	69,442
Unrated	8,374	-	-	-	8,374
Nominal	169,863	4,876	348	-	175,087
Loss allowance	(300)	(124)	(2)	-	(426)
Nominal less loss allowance	169,563	4,752	346	-	174,661

Amounts are in ISK millions

44. Credit risk, continued

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

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

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		
30.6.2024	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	259,645	(4)	-	-	-	-	259,641
Loans to individuals	599,416	(576)	27,295	(539)	9,584	(1,560)	633,620
Mortgages	*545,942*	*(194)*	*22,617*	*(327)*	*7,626*	*(435)*	*575,229*
Other	*53,474*	*(382)*	*4,678*	*(212)*	*1,958*	*(1,125)*	*58,391*
Loans to corporates	494,333	(1,633)	63,972	(1,818)	15,785	(2,814)	567,825
Real estate activities	*105,608*	*(269)*	*10,969*	*(190)*	*5,706*	*(1,113)*	*120,711*
Construction	*62,915*	*(334)*	*8,533*	*(99)*	*4,185*	*(463)*	*74,737*
Fishing industry	*76,993*	*(51)*	*7,314*	*(344)*	*1,065*	*(306)*	*84,671*
Information and communication technology	*28,288*	*(208)*	*1,772*	*(120)*	*196*	*(49)*	*29,879*
Wholesale and retail trade	*80,742*	*(255)*	*12,726*	*(561)*	*2,891*	*(567)*	*94,976*
Financial and insurance activities	*37,012*	*(250)*	*11,793*	*(230)*	*56*	*-*	*48,381*
Industry, energy and manufacturing	*56,804*	*(76)*	*1,436*	*(18)*	*395*	*(76)*	*58,465*
Transportation	*3,435*	*(10)*	*5,506*	*(101)*	*31*	*(8)*	*8,853*
Services	*20,162*	*(123)*	*2,537*	*(117)*	*1,041*	*(201)*	*23,299*
Public Sector	*11,318*	*(35)*	*311*	*(10)*	*7*	*(1)*	*11,590*
Agriculture and forestry	*11,056*	*(22)*	*1,075*	*(28)*	*212*	*(30)*	*12,263*
Balance at the end of the period	1,353,394	(2,213)	91,267	(2,357)	25,369	(4,374)	1,461,086

31.12.2023							
Loans to credit instit., securities & cash	260,497	(3)	-	-	-	-	260,494
Loans to individuals	571,845	(559)	31,296	(532)	8,476	(1,382)	609,144
Mortgages	*516,885*	*(233)*	*26,967*	*(351)*	*6,417*	*(314)*	*549,371*
Other	*54,960*	*(326)*	*4,329*	*(181)*	*2,059*	*(1,068)*	*59,773*
Loans to corporates	476,749	(1,789)	61,593	(1,559)	11,381	(2,730)	543,645
Real estate activities	*100,610*	*(327)*	*10,633*	*(233)*	*4,369*	*(951)*	*114,101*
Construction	*72,394*	*(386)*	*5,255*	*(52)*	*572*	*(55)*	*77,728*
Fishing industry	*73,245*	*(121)*	*8,922*	*(48)*	*1,519*	*(745)*	*82,772*
Information and communication technology	*24,621*	*(202)*	*1,636*	*(145)*	*179*	*(77)*	*26,012*
Wholesale and retail trade	*75,987*	*(252)*	*13,052*	*(466)*	*2,629*	*(630)*	*90,320*
Financial and insurance activities	*30,072*	*(214)*	*11,797*	*(261)*	*128*	*(5)*	*41,517*
Industry, energy and manufacturing	*52,771*	*(98)*	*1,811*	*(88)*	*458*	*(58)*	*54,796*
Transportation	*4,389*	*(19)*	*4,058*	*(89)*	*141*	*(20)*	*8,460*
Services	*18,521*	*(91)*	*3,017*	*(151)*	*1,052*	*(157)*	*22,191*
Public Sector	*14,075*	*(59)*	*200*	*(4)*	*1*	*(1)*	*14,212*
Agriculture and forestry	*10,064*	*(20)*	*1,212*	*(22)*	*333*	*(31)*	*11,536*
Balance at the end of the year	1,309,091	(2,351)	92,889	(2,091)	19,857	(4,112)	1,413,283

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 period.

Derecognitions and maturities

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

Write-offs

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

30.6.2024

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)	(437)	382	55	-	-
Transfers to Stage 2 (lifetime ECL)	140	(285)	145	-	-
Transfers to Stage 3 (credit impaired financial assets)	100	125	(225)	-	-
Net remeasurement of loss allowance **	515	(568)	(1,150)	-	(1,203)
New financial assets, originated or purchased	(565)	(180)	(505)	-	(1,250)
Derecognitions and maturities	319	184	602	91	1,196
Write-offs ***	3	77	725	-	805
Impairment loss allowance ******	**(2,509)**	**(2,481)**	**(4,375)**	**(1)**	**(9,366)**
Impairment loss allowances for assets only carrying 12-month ECL	(4)	-	-	-	(4)
Total impairment loss allowance	**(2,513)**	**(2,481)**	**(4,375)**	**(1)**	**(9,370)**

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

** During the period the loss allowance balance for stage 3 loans was raised by ISK 544 million due to unwinding of interest income.

*** During the period an amount of ISK 716 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	(2,348)	(2,091)	(4,020)	(92)	(8,551)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(415)	360	55	-	-
Transfers to Stage 2 (lifetime ECL)	134	(279)	145	-	-
Transfers to Stage 3 (credit impaired financial assets)	99	125	(224)	-	-
Net remeasurement of loss allowance	477	(551)	(1,151)	-	(1,225)
New financial assets, originated or purchased	(427)	(159)	(505)	-	(1,091)
Derecognitions and maturities	268	161	602	91	1,122
Write-offs	3	77	725	-	805
Total loss allowance for loans to customers	(2,209)	(2,357)	(4,373)	(1)	(8,940)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
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)	(244)	215	29	-	-
Transfers to Stage 2 (lifetime ECL)	34	(130)	96	-	-
Transfers to Stage 3 (credit impaired financial assets)	22	72	(94)	-	-
Net remeasurement of loss allowance	227	(188)	(384)	-	(345)
New financial assets, originated or purchased	(111)	(59)	(45)	-	(215)
Derecognitions and maturities	52	7	118	-	177
Write-offs	3	76	102	-	181
Total loss allowance for loans to individuals	(576)	(539)	(1,559)	(1)	(2,675)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
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)	(171)	145	26	-	-
Transfers to Stage 2 (lifetime ECL)	100	(149)	49	-	-
Transfers to Stage 3 (credit impaired financial assets)	77	53	(130)	-	-
Net remeasurement of loss allowance	250	(363)	(767)	-	(880)
New financial assets, originated or purchased	(316)	(100)	(460)	-	(876)
Derecognitions and maturities	216	154	484	91	945
Write-offs	-	1	623	-	624
Total loss allowance for loans to corporates	(1,633)	(1,818)	(2,814)	-	(6,265)

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	(236)	(125)	(2)	-	(363)
Transfers					
Transfers to 12-month ECL	(22)	22	-	-	-
Transfers to lifetime ECL	6	(6)	-	-	-
Transfers to credit impaired	1	-	(1)	-	-
Net remeasurement of loss allowance	38	(17)	1	-	22
New financial commitments originated	(138)	(21)	-	-	(159)
Derecognitions and maturities	51	23	-	-	74
Total loss allowance for loan commit., guarantees, unused facilities	(300)	(124)	(2)	-	(426)

Amounts are in ISK millions

44. Credit risk, continued

31.12.2023

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

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Condensed Consolidated Interim Financial Statements. Following a change in approach from 30.06.2024, the amounts represent the difference between the loss allowance at

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

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

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

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

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

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

Macroeconomic forecast

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

	Base case		
	2024	2025	2026
Unemployment rate	4.3%	4.4%	4.1%
Housing prices, year-on-year change	7.1%	5.9%	6.0%
Private consumption, growth	0.8%	2.4%	2.8%
GDP growth	1.3%	2.5%	2.8%
Key interest rate	8.4%	6.8%	5.2%

	Optimistic			Pessimistic		
	2024	2025	2026	2024	2025	2026
Unemployment rate	3.5%	3.3%	3.8%	5.3%	5.6%	4.3%
Housing prices, year-on-year change	12.3%	8.9%	6.3%	2.9%	-0.2%	8.0%
Private consumption, growth	3.6%	3.5%	3.1%	-2.0%	1.8%	2.6%
GDP growth	4.1%	3.2%	3.0%	-1.4%	2.4%	2.2%
Key interest rate	7.8%	5.9%	4.3%	9.1%	7.7%	6.1%

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 1.8 billion, ISK 3.6 billion and ISK 8.6 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2023: ISK 1.5 billion, ISK 3.0 billion and ISK 8.8 billion, respectively).

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	
30.6.2024	Gross carrying amount	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance	Gross carrying carrying	Loss allowance
Individuals	3,080	(18)	3,014	(45)	4,522	(524)	10,616	(587)
Companies	2,949	(17)	6,779	(371)	5,488	(977)	15,216	(1,365)
Tourism	1,923	(11)	900	(55)	1,237	(350)	4,060	(416)
Other than tourism	1,026	(6)	5,879	(316)	4,251	(627)	11,156	(949)
Total	6,029	(35)	9,793	(416)	10,010	(1,501)	25,832	(1,952)
31.12.2023								
Individuals	2,614	(17)	2,001	(39)	3,873	(467)	8,488	(523)
Companies	3,432	(21)	13,242	(415)	2,659	(519)	19,333	(955)
Tourism	2,049	(15)	8,980	(376)	1,358	(254)	12,387	(645)
Other than tourism	1,383	(6)	4,262	(39)	1,301	(265)	6,946	(310)
Total	6,046	(38)	15,243	(454)	6,532	(986)	27,821	(1,478)

Volcanic activity in the vicinity of Grindavík

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

As a result of this arrangement, the Bank’s exposure increasingly shifts to Þórkatla. Having stood at ISK 1.8 billion prior to the launch of the repurchasing scheme, the Bank's residential mortgage exposure in the affected area has now been reduced to ISK 226 million, with a commensurate increase in the exposure to Þórkatla (ISK 1.56 billion). Exposure to corporates is ISK 4.87 billion.

The Bank's valuation of residential mortgages in Grindavík is based on the assumption that borrowers will sell their properties to Þórkatla, as has largely been the case. The assessment of recovery is a scenario analysis which considers the likelihood of further payout from the Natural Catastrophe Fund of Iceland due to past or future events and the likelihood of sale or lease of properties in the future if Grindavík becomes habitable again. The analysis is based on input from geophysicists. The result for 30.06.2024 is a 25% impairment ratio on the remaining residential mortgages and a 25% negative change in fair value on the Bank’s exposure to Þórkatla (ISK 390 million). The impairment on the corporate portfolio is ISK 500 million as much of that portfolio is unaffected by the volcanic events.

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 balance sheet as well as in market making activities and position taking in bonds, equities, currencies, derivatives and other commitments which are marked to market.

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

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

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

Interest rate risk

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

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

Following the outbreak of Covid-19, the Central Bank of Iceland lowered interest rates to historic lows, resulting in a sharp increase in demand for non-indexed mortgages with floating rates in 2020 and 2021. Inflation in Iceland, measured at 5.8% at the end of Q2 2024, has exceeded the Central Bank’s target of 2.5% since June 2020 and is expected to remain over the target throughout 2025 at least. The Central Bank has responded by increasing interest rates by 8.5% from its lowest value of 0.75% at the start of 2021. From the second half of 2021 to the start of 2022, this resulted in a sharp increase in demand for non-indexed fixed rate mortgages with corresponding increase in interest rate risk for the Bank. This risk exposure is receding as the bulk of those loans is subject to interest rate reset in 2024. Interest rate risk for indexed rates is however increasing due to new issuance of fixed-rate indexed covered bonds.

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 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.

30.6.2024	Up to 3	3-12	1-5	5-10	Over 10	
Assets	months	months	years	years	years	Total
Balances with Central Bank	135,522	-	-	-	-	135,522
Loans to credit institutions	32,728	-	-	-	-	32,728
Loans to customers	825,200	194,091	176,499	-	-	1,195,790
Bonds and debt instruments	48,490	38,957	15,799	12,383	5,122	120,751
Bonds and debt instruments used for hedging	-	-	568	904	669	2,141
Derivatives	106,086	20,238	250,404	-	-	376,728
Assets	1,148,026	253,286	443,270	13,287	5,791	1,863,660
Liabilities						
Due to credit institutions and Central Bank	5,067	-	-	-	-	5,067
Deposits	828,249	18,437	-	-	-	846,686
Derivatives	232,285	134,408	4,960	-	-	371,653
Borrowings	22,096	53,923	264,372	57,845	12,540	410,776
Subordinated liabilities	3,813	9,987	27,084	-	-	40,884
Liabilities	1,091,510	216,755	296,416	57,845	12,540	1,675,066
Net interest gap	56,516	36,531	146,854	(44,558)	(6,749)	188,594

Amounts are in ISK millions

45. Market risk, continued

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

Sensitivity analysis of interest rate risk

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

	30.6.2024		31.12.2023	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(1,119)	1,166	(1,855)	1,721
ISK, Non index-linked	(2,077)	2,045	(1,487)	1,462
Foreign currencies	241	(215)	(418)	416
NPV change in the trading book				
ISK, CPI index-linked	141	(129)	133	(122)
ISK, Non index-linked	174	(167)	195	(185)
Foreign currencies	(27)	27	(31)	31

Amounts are in ISK millions

45. Market risk, continued

Indexation risk

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

Book value and maturity profile of indexed assets and liabilities

30.6.2024	Up to 1	1 to 5	Over 5	
Assets, CPI index-linked	year	years	years	Total
Loans to customers	12,690	100,662	329,352	442,704
Financial instruments	6,671	6,278	10,054	23,003
Assets, CPI index-linked	19,361	106,940	339,406	465,707
Liabilities, CPI index-linked				
Deposits	107,002	16,416	4,101	127,519
Borrowings	53,045	34,676	70,321	158,042
Subordinated liabilities	-	-	17,601	17,601
Other	-	-	1,052	1,052
Off-balance sheet position	102	105	-	207
Liabilities, CPI index-linked	160,149	51,197	93,075	304,421
Net on-balance sheet position	(140,686)	55,848	246,331	161,493
Net off-balance sheet position	(102)	(105)	-	(207)
CPI balance	(140,788)	55,743	246,331	161,286
CPI balance for prudential consolidation, excluding insurance operations *	(141,068)	49,464	236,303	144,701

31.12.2023				
Assets, CPI index-linked				
Loans to customers	11,667	81,695	282,842	376,204
Financial instruments	7,813	5,028	8,797	21,638
Assets, CPI index-linked	19,480	86,723	291,639	397,842
Liabilities, CPI index-linked				
Deposits	111,523	16,253	3,939	131,715
Borrowings	373	81,870	58,920	141,163
Subordinated liabilities	-	-	16,997	16,997
Other	-	-	1,028	1,028
Off-balance sheet position	1,466	151	-	1,617
Liabilities, CPI indexed linked	113,362	98,274	80,884	292,520
Net on-balance sheet position	(92,416)	(11,400)	210,755	106,939
Net off-balance sheet position	(1,466)	(151)	-	(1,617)
CPI balance	(93,882)	(11,551)	210,755	105,322
CPI balance for prudential consolidation, excluding insurance operations *	(95,084)	(16,579)	201,957	90,296

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

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

30.6.2024 *Financial assets*	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	134,173	442	360	127	138	28	254	135,522
Loans to credit institutions	400	10,460	16,223	1,371	1,028	1,630	1,616	32,728
Loans to customers	997,542	120,670	58,724	1,487	21,757	1,363	1,073	1,202,616
Financial instruments	96,251	50,770	7,609	252	327	10,246	175	165,630
Other financial assets	7,869	143	44	3	1	-	12	8,072
Financial assets	1,236,235	182,485	82,960	3,240	23,251	13,267	3,130	1,544,568
Financial liabilities								
Due to credit inst. and Central Bank	3,206	1,652	173	-	-	-	36	5,067
Deposits	745,538	40,139	51,270	3,707	3,072	1,170	1,790	846,686
Financial liabilities at fair value	1,028	7,620	772	-	48	239	8	9,715
Other financial liabilities	8,641	1,762	1,365	200	459	207	216	12,850
Borrowings	191,096	201,104	2,872	-	-	13,077	6,967	415,116
Subordinated liabilities	20,759	747	13,659	-	-	3,976	2,950	42,091
Financial liabilities	970,268	253,024	70,111	3,907	3,579	18,669	11,967	1,331,525
Net on-balance sheet position	265,967	(70,539)	12,849	(667)	19,672	(5,402)	(8,837)	
Net off-balance sheet position	(51,662)	69,664	(12,690)	526	(19,435)	5,278	8,319	
Net position *	214,305	(875)	159	(141)	237	(124)	(518)	
Non-financial assets								
Investment property	9,633	-	-	-	-	-	-	9,633
Investments in associates	816	-	-	-	-	-	-	816
Intangible assets	7,864	-	-	-	-	-	-	7,864
Tax assets	39	-	-	-	-	-	-	39
Assets and disposal groups held for sale	68	-	-	-	-	-	-	68
Other non financial assets	5,415	267	53	47	-	25	(6)	5,801
Non-financial assets	23,835	267	53	47	-	25	(6)	24,221
Non-financial liabilities and equity								
Tax liabilities	12,166	-	-	-	-	-	-	12,166
Other non-financial liabilities	32,537	40	70	-	-	-	-	32,647
Shareholders' equity	191,966	-	-	-	-	-	-	191,966
Non-controlling interest	485	-	-	-	-	-	-	485
Non-financial liabilities and equity	237,154	40	70	-	-	-	-	237,264
Management reporting of currency risk **	986	(648)	142	(94)	237	(99)	(524)	

* 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

31.12.2023 *Financial assets*	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	100,837	412	301	112	137	28	268	102,095
Loans to credit institutions	1,321	11,870	10,833	1,214	1,513	299	1,785	28,835
Loans to customers	961,822	105,897	52,705	1,150	28,602	1,327	1,286	1,152,789
Financial instruments	86,667	87,955	13,446	158	205	15,753	1,522	205,706
Other financial assets	5,107	264	6,808	-	5	4	-	12,188
Financial assets	1,155,754	206,398	84,093	2,634	30,462	17,411	4,861	1,501,613
Financial liabilities								
Due to credit inst. and Central Bank	2,096	185	432	-	-	-	58	2,771
Deposits	691,181	33,847	56,528	4,317	3,273	1,599	1,965	792,710
Financial liabilities at fair value	1,573	9,156	739	-	-	169	9	11,646
Other financial liabilities	6,156	1,426	2,024	250	538	138	258	10,790
Borrowings	184,019	215,728	-	-	-	13,526	7,187	420,460
Subordinated liabilities	20,155	766	13,217	-	-	4,096	3,045	41,279
Financial liabilities	905,180	261,108	72,940	4,567	3,811	19,528	12,522	1,279,656
Net on-balance sheet position	250,574	(54,710)	11,153	(1,933)	26,651	(2,117)	(7,661)	
Net off-balance sheet position	(32,394)	58,658	(11,253)	1,851	(26,069)	2,075	7,132	
Net position *	218,180	3,948	(100)	(82)	582	(42)	(529)	
Non-financial assets								
Investment property	9,493	-	-	-	-	-	-	9,493
Investments in associates	789	-	-	-	-	-	-	789
Intangible assets	8,051	-	-	-	-	-	-	8,051
Tax assets	39	-	-	-	-	-	-	39
Assets and disposal groups held for sale	62	-	-	-	-	-	-	62
Other non financial assets	5,201	233	78	85	1	27	-	5,625
Non-financial assets	23,635	233	78	85	1	27	-	24,059
Non-financial liabilities and equity								
Tax liabilities	11,169	-	-	-	-	-	-	11,169
Other non-financial liabilities	35,493	48	2	-	1	-	2	35,546
Shareholders' equity	198,798	-	-	-	-	-	-	198,798
Non-controlling interest	503	-	-	-	-	-	-	503
Non-financial liabilities and equity	245,963	48	2	-	1	-	2	246,016
Management reporting of currency risk **	(4,148)	4,133	(24)	3	582	(15)	(531)	

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

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

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).

	30.6.2024		31.12.2023	
Currency	-10%	+10%	-10%	+10%
EUR	65	(65)	(413)	413
USD	(14)	14	2	(2)
GBP	9	(9)	(0)	0
DKK	(24)	24	(58)	58
NOK	10	(10)	2	(2)
Other	52	(52)	53	(53)

Equity risk

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

	30.6.2024		31.12.2023	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(438)	438	(334)	334
Banking book - listed	(500)	500	(397)	397
Banking book - unlisted	(308)	308	(526)	526

Derivatives

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

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 70% is on-demand.

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

30.6.2024 *Financial assets*	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Cash and balances with CB	17,870	93,195	24,923	-	-	-	135,988	135,522
Loans to credit institutions	23,570	9,149	9	-	-	-	32,728	32,728
Loans to customers	6,497	165,295	183,933	526,667	1,411,235	-	2,293,627	1,202,616
Financial instruments	9,889	53,418	28,351	27,584	13,660	35,549	168,451	165,630
Derivatives - assets leg	-	*44,734*	*7,276*	*25,161*	-	-	*77,171*	*74,075*
Derivatives - liabilities leg	-	*(38,802)*	*(6,321)*	*(24,390)*	-	-	*(69,513)*	*(66,887)*
Other financial instruments	*9,889*	*47,486*	*27,396*	*26,813*	*13,660*	*35,549*	*160,793*	*158,442*
Other financial assets	477	4,328	1,489	1,778	-	-	8,072	8,072
Financial assets	58,303	325,385	238,705	556,029	1,424,895	35,549	2,638,866	1,544,568
Financial liabilities								
Due to credit inst. and Central Bank	3,282	1,785	-	-	-	-	5,067	5,067
Deposits	600,935	197,242	32,479	17,151	5,048	-	852,855	846,686
Financial liabilities at fair value	-	2,876	4,244	15,089	-	-	22,209	9,715
Derivatives - assets leg	-	*(54,000)*	*(12,846)*	*(39,888)*	-	-	*(106,734)*	*(88,333)*
Derivatives - liabilities leg	-	*56,876*	*17,090*	*54,977*	-	-	*128,943*	*98,048*
Short position in bonds	-	-	-	-	-	-	-	-
Other financial liabilities	207	11,317	512	814	-	-	12,850	12,850
Borrowings	-	1,504	74,422	309,556	74,382	-	459,864	415,116
Subordinated liabilities	-	1,256	1,570	19,027	32,022	-	53,875	42,091
Financial liabilities	604,424	215,980	113,227	361,637	111,452	-	1,406,720	1,331,525
Net position for assets and liab.	(546,121)	109,405	125,478	194,392	1,313,443	35,549	1,232,146	213,043
Off-balance sheet items								
Financial guarantees	-	890	9,278	4,838	8,291	-	23,297	23,297
Unused overdraft	-	72,679	-	-	-	-	72,679	72,679
Undrawn loan commitments	-	51,169	20,919	7,024	-	-	79,112	79,112
Off-balance sheet items	-	124,738	30,197	11,862	8,291	-	175,088	175,088
Net contractual cash flow	(546,121)	(15,333)	95,281	182,530	1,305,152	35,549	1,057,058	37,955

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

46. Liquidity and Funding risk, continued

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

Net Stable Funding Ratio

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

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

	30.6.2024	31.12.2023
Available stable funding	1,213,150	1,167,158
Required stable funding	1,008,761	982,601
Net stable funding ratio	120%	119%

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. Following a rule change that came into effect at the start of 2023, there is no minimum requirement for the aggregate position in all foreign currencies.

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

30.6.2024	ISK	EUR	Total all currencies
Liquid assets level 1 *	162,476	49,102	226,431
Liquid assets level 2	10,698	-	10,698
Liquid assets	173,174	49,102	237,129
Deposits	146,185	17,609	186,701
Borrowings	685	168	4,837
Other cash outflows	12,044	11,703	18,512
Cash outflows	158,914	29,480	210,050
Short-term deposits with other banks **	-	6,050	21,535
Other cash inflows	30,008	1,533	34,895
Cash inflows	30,008	7,583	56,430
Liquidity coverage ratio (LCR) ***	134%	224%	154%

31.12.2023	ISK	EUR	Total all currencies
Liquid assets level 1 *	124,792	83,916	243,122
Liquid assets level 2	9,302	-	9,302
Liquid assets	134,094	83,916	252,424
Deposits	131,959	9,158	164,787
Borrowings	672	-	759
Other cash outflows	5,402	10,436	12,380
Cash outflows	138,033	19,594	177,926
Short-term deposits with other banks **	-	8,569	19,918
Other cash inflows	23,118	888	26,412
Cash inflows	23,118	9,457	46,330
Liquidity coverage ratio (LCR) ***	117%	828%	192%

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

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

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

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.

30.6.2024	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	134,173	360	442	547	135,522
Short-term deposits with financial institutions	-	10,226	6,050	5,259	21,535
Domestic bonds eligible as collateral with Central Bank	40,939	-	-	-	40,939
Foreign government bonds	-	6,193	48,660	7,703	62,556
Liquidity reserve	175,112	16,779	55,152	13,509	260,552
31.12.2023					
Cash and balances with Central Bank	100,837	301	412	545	102,095
Short-term deposits with financial institutions	-	6,961	8,569	4,388	19,918
Domestic bonds eligible as collateral with Central Bank	30,046	-	-	-	30,046
Foreign government bonds	-	18,888	83,504	14,675	117,067
Liquidity reserve	130,883	26,150	92,485	19,608	269,126

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights	Deposits maturing within 30 days					
30.6.2024	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	118,771	11%	117,960	5%	159,525	396,256
Small and medium enterprises	121,985	13%	17,862	6%	23,450	163,297
Operational relationship	5,852	25%	-	-	-	5,852
Corporations	112,171	41%	16,317	21%	27,602	156,090
Sovereigns, central banks and PSE	14,041	40%	17	20%	1,721	15,779
Pension funds	71,532	100%	-	-	17,505	89,037
Domestic financial entities	21,110	100%	-	-	2,209	23,319
Foreign financial entities	2,123	100%	-	-	-	2,123
Total	467,585		152,156		232,012	851,753
31.12.2023						
Individuals	107,999	10%	115,140	5%	146,109	369,248
Small and medium enterprises	106,030	10%	17,758	5%	19,827	143,615
Operational relationship	7,540	25%	-	-	-	7,540
Corporations	116,348	40%	15,759	20%	22,679	154,786
Sovereigns, central banks and PSE	27,678	40%	15	20%	753	28,446
Pension funds	47,390	100%	-	-	17,211	64,601
Domestic financial entities	20,521	100%	-	-	4,780	25,301
Foreign financial entities	1,944	100%	-	-	-	1,944
Total	435,450		148,672		211,359	795,481

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

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.

Own funds	30.6.2024	31.12.2023
Total equity	192,451	199,301
Non-controlling interest not eligible for inclusion in CET1 capital	(485)	(503)
Common Equity Tier 1 capital before regulatory adjustments	191,966	198,798
Intangible assets	(7,539)	(7,211)
Additional value adjustments	(186)	(227)
Foreseeable dividend and buyback **	(7,933)	(12,877)
Adjustment under IFRS 9 transitional arrangements as amended	512	952
Insufficient coverage for non-performing exposures	(175)	-
Common Equity Tier 1 capital	176,645	179,435
Non-controlling interest eligible for inclusion in T1 capital	121	117
Additional Tier 1 capital	13,659	13,217
Tier 1 capital	190,425	192,769
Tier 2 instruments	28,432	28,062
Tier 2 instruments of financial sector entities (significant investments)	(1,291)	(1,247)
Tier 2 capital	27,141	26,815
Total own funds	217,566	219,584
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	775,820	732,760
Credit risk, securities and other	51,782	52,032
Credit risk, derivatives and repos	7,588	7,442
Market risk due to currency imbalance	1,389	4,751
Market risk due to trading book positions	13,526	11,066
Credit valuation adjustment	4,177	3,680
Operational risk	98,740	98,740
Total risk-weighted exposure amount	953,022	910,471
Capital ratios		
CET1 ratio	18.5%	19.7%
Tier 1 ratio	20.0%	21.2%
Capital adequacy ratio	22.8%	24.1%

** On 30 June 2024, the deduction consists of 50% of profits as per the Bank's dividend policy and an ISK 3.0bn buyback program approved by the Board and FSA. On 31 December 2023, the deduction consists of 50% of net earnings as per the Bank's dividend policy.

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

Amounts are in ISK millions

47. Capital management, continued

Capital ratios of the parent company	30.6.2024	31.12.2023
CET1 ratio	18.7%	19.9%
Tier 1 ratio	20.2%	21.4%
Capital adequacy ratio	23.0%	24.3%

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

Capital buffer requirement, % of REA	30.6.2024	31.12.2023
Capital conservation buffer	2.5%	2.5%
Capital buffer for systematically important institutions	2.0%	2.0%
Systemic risk buffer *	3.0%	3.0%
Countercyclical capital buffer *	2.5%	2.0%
Combined capital buffer requirement	10.0%	9.5%

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

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

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.0%	1.4%	1.8%
Combined buffer requirement *	9.7%	9.7%	9.7%
Regulatory capital requirement	15.2%	17.1%	19.5%
Available capital	18.5%	20.0%	22.8%

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

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

Leverage ratio

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

	30.6.2024	31.12.2023
On-balance sheet exposures	1,523,807	1,477,968
Derivative exposures	17,478	15,953
Repos	10,107	10,326
Off-balance sheet exposures	50,138	46,087
Total exposure	1,601,530	1,550,334
Tier 1 capital	190,425	192,769
Leverage ratio	11.9%	12.4%

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 2023, the Icelandic Resolution Authority presented the Group with the MREL requirements based on year-end 2022 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. The Bank expects an MREL subordination requirement to come into effect in Iceland on 1 August 2026.

Minimum requirement for own funds and eligible liabilities	30.6.2024	31.12.2023
Own funds	217,566	219,584
Eligible liabilities	169,831	124,955
Own funds and eligible liabilities	387,397	344,539
Combined buffer requirement (CBR)	92,443	83,763
Own funds and eligible liabilities not used for CBR	294,954	260,775
Risk-weighted exposure amount (REA)	953,022	910,471
Own funds and eligible liabilities not used for CBR (% REA)	30.9%	28.6%
MREL requirement (% REA)	20.2%	20.2%
Total exposure measure (TEM)	1,601,530	1,550,334
Own funds and eligible liabilities (% TEM)	24.2%	22.2%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur		
Excess of assets over liabilities in accordance with Solvency II	10,459	10,232
Subordinated liabilities	1,308	1,263
Foreseeable dividends	-	-
Own funds	11,767	11,495
Solvency capital requirements (SCR)	8,362	8,294
SCR ratio	140.7%	138.6%

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

48. Operational risk

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

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

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

Amounts are in ISK millions

49. Sustainability risk

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

The Green Financing Framework

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

Green Financing Instruments	30.6.2024	31.12.2023
Deposits	35,370	25,477
Borrowings	54,621	98,801
Book value	89,991	124,278

Identified eligible green assets by category	30.6.2024	31.12.2023
Sustainable fishery and aquaculture	22,855	25,493
Renewable energy	446	429
Clean transportation	6,147	6,317
Green buildings	80,451	67,484
Energy efficiency	20,507	16,644
Pollution prevention and control and wastewater management	6,788	6,523
Book value	137,194	122,890

Amounts are in ISK millions

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