Risk and Capital Management 2024

Landsbankinn hf. Pillar III risk report 31.12.2024

Landsbankinn hf. in brief

Landsbankinn hf. (hereinafter referred to as the 'Bank' or 'Landsbankinn') was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings. The Bank is subject to supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities.

The registered address of the Bank's office is Reykjastræti 6, Reykjavík. Landsbankinn operates an extensive branch network in Iceland, comprised of 35 branches and service points at year-end 2024. The Bank's primary lines of business are corporate and personal banking, markets, asset management and other related financial services. The Group operates solely in Iceland.

The National Treasury of Iceland holds 98.2% of shares in the Bank. The Bank itself owns 1.6% of shares and other shareholders own 0.2% of shares in the Bank.

Contents

1 Introduction

Introduction

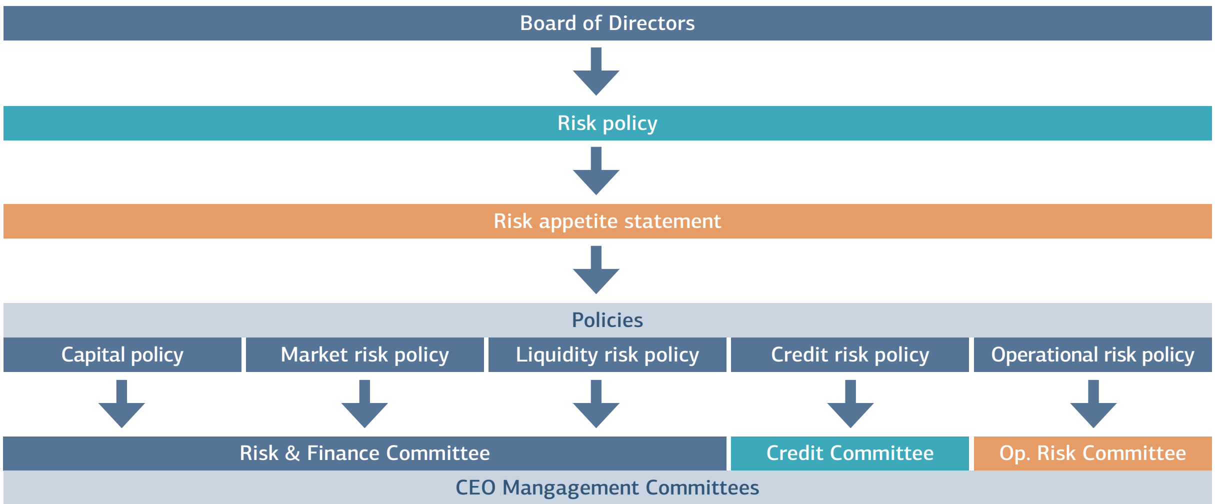
1.1 Declaration of the Board

Risk is inherent in the Bank's activities. It is managed through a process of on-going identification, measurement, management and monitoring, subject to internal limits and controls. Risk identification involves finding the origins and structures of possible risk factors in the Bank's operations and undertakings. Risk measurement entails measuring identified risk for management and monitoring purposes. Controls and limits promote compliance with rules and procedures, as well as adherence with the Bank's risk appetite.

The objective of the Bank's risk policies and procedures is to ensure that the risks in its operation are detected, measured, monitored and effectively managed, and that exposure to risk is managed to ensure that it remains within limits. Risk management policy is implemented through risk appetite, business strategy, and internal policies and limits that comply with the regulatory framework of the financial market.

The Board of Directors has reviewed the adequacy of the Bank's risk management arrangements, providing assurance that the risk management systems put in place are adequate regarding the Bank's profile and strategy, in accordance with Article 435 of Regulation EU 575/2013 (CRR).

Figure 1.1: Risk policy structure



1.2 Risk statement

The following statement has been approved by the Board of Directors and describes the Bank's overall risk profile. For key ratios and figures, refer to section 1.7 in this chapter, and for the interaction of the Bank's risk profile with risk tolerances set by the Board via the Bank's risk appetite, refer to section 2.4.

1.2.1 Executive summary

The year 2024 was characterised by challenging external conditions caused by on-going seismic and volcanic activity on the Reykjanes peninsula, political uncertainty both domestically and abroad, and persistent inflation and high real interest rates in Iceland. Despite these challenging conditions, the Bank's performance has been positive. The Bank took advantage of ready access to market funding and customer deposits grew by ISK 180 billion during the year. Additionally, the Bank's capital and liquidity positions are strong and well above regulatory requirements.

Lending growth was also considerable in 2024, amounting to ISK 177 billion. Demand for inflation-indexed loans increased significantly over the year, especially in mortgages to retail customers but also on the corporate side, widening the Bank's indexation imbalance. Default rates in the Bank's loan portfolio remain very low in historical terms, with minimal instances of payment difficulties among households and corporates.

Non-financial risk is a significant risk factor for the Bank's operations and has grown in scope, particularly from cybersecurity and general IT risk. The Bank is currently working on implementing the Digital Operational Resilience Act (DORA), which is expected to take effect in Iceland on 1 July 2025.

The Bank has prepared for the implementation of CRR III in 2025 and expects minimal changes to the overall amount of risk weighted assets due to these changes.

The Bank signed an agreement to purchase TM tryggingar hf. in 2024 and the Bank expects to finalise the purchase of TM in the first half of 2025, pending an approval by the Icelandic Competition Authority.

1.2.2 Capital position

The Bank's capital position remains strong at year-end 2024. The total capital ratio increased by 0.7 percentage points in 2024 and was 24.3% at year end. The Bank's minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements. The Pillar I requirement is 8% and the Pillar II-R requirement of 2.5% is based on the FSA's 2024 Supervisory Review and Evaluation Process (SREP). The effective capital buffer requirement was 9.9% at year-end 2024. In December 2024 the Financial Stability Committee (FSC) decided to lower the Systemic Risk Buffer from 3% to 2%. This reduction is based on the Committee's assessment that systemic risk has decreased since the buffer was first set in 2016. The FSC also decided in December 2024 to increase the capital buffer for systemically important financial institutions from 2% to 3%. This increase aims to better capture the risks posed to the economy by the size and scope of systemically important financial institutions. Taking effective capital buffers into account, the total capital requirement for the Bank was 20.4%. As the Bank's management has set a capital target of $\geq$22%, there is an implied management buffer of 1.6% and, as a result, excess capital of 2.3%, or ISK 33 billion.

The Bank's risk-weighted exposure amount (RWEA) was ISK 1,401 billion at year-end 2024 and increased by ISK 122 billion, or 9.5%, for the year. The increase was primarily due to lending growth. Credit risk remains the single largest risk factor, amounting to 89.5% of total RWEA.

1.2.3 Credit risk

Lending to customers increased by ISK 177 billion or 11% in 2024. Carrying amount of loans to individuals increased by ISK 68 billion, primarily due to an increase in mortgages. Carrying amount of loans to corporates increased by ISK 109 billion, driven by increased lending to construction and real estate companies. The loan portfolio to customers is composed of loans in Icelandic krona (83%) and loans in foreign currencies (17%). The ratio of indexed loans in Icelandic krona increased in 2024 from 23% to 33% as customers' demand for indexed loans has risen due to prolonged high interest rates for non-indexed loans. Interest rates for non-indexed loans have started to decrease by the end of 2024 as policy rates were lowered in October and November.

Credit risk metrics were all in line with the Bank's risk appetite throughout 2024 and at year-end. The total average PD, weighted by gross carrying amount, was 1.4% at year-end 2024 (2023: 1.5%) and weighted default rate remains low at 0.8% for 2024 (2023: 0.8%). Carrying amount of loans past due decreased in 2024 and ratio of the carrying amount of loans over 90 days past due was 0.2% at year-end 2024 (2023: 0.3%) while the ratio for loans past due by 6-90 days was 0.6% at year-end 2024 (2023: 1.0%). These are signs of resilience in the loan portfolio with regards to challenging high interest rates and inflation above target for the past two-to-three years.

In 2024, net impairment charges on loans and advances were ISK 2.8 billion or 0.17% of gross carrying amount of the loan portfolio at year-end 2023. The impairment charge is largely due to impairment on loans to customers affected by the continued seismic and volcanic activity in the vicinity of Grindavík.

Risk weighted exposure amount (RWEA) for credit risk increased by ISK 110 billion in 2024 and was ISK 1,254 billion at year-end (2023: ISK 1,144 billion). The increase was in line with increased lending as weighted average risk weight remain stable at 59% at year-end 2024 (2023: 58%). The Bank has prepared for the implementation of CRR III in 2025 and preliminary assessment indicates that overall RWEA for credit risk will remain stable or decrease slightly after implementation.

Credit concentration risk increased slightly in 2024 in relation to single name risk but remained in line with the Bank's risk appetite. The ratio of large exposures to Tier 1 was 18.6% at year-end 2024 (2023: 9.4%), the largest exposure being significantly lower than the external limit of 25%. Other measures of credit concentration risk remained relatively stable in 2024 and are in line with the Bank's risk appetite.

1.2.4 Market risk

The Bank's total market risk has decreased in 2024, and was 1.1% at year-end compared to 1.6% at year-end 2023, measured as the ratio of risk-weighted assets to total RWEA.

The composition of market risk changed over the year, with net position decreasing in bonds trading books and increasing in equities trading books. Despite the net FX balance showing large daily fluctuations, FX risk remained within limits.

Market conditions have been stable this year and the Bank has effectively managed its market risk, which has remained comfortably within the defined risk appetite.

The Bank's total CPI indexation balance continued to grow in 2024 as in the previous year, from ISK 75 billion to 267 billion between years, or 82% of equity. Inflation-linked mortgages grew by ISK 140 billion in 2024 compared to CPI-linked liabilities, which grew by ISK 15 billion in 2024. The Bank's aim is to keep the ratio below 80% of equity.

1.2.5 Liquidity risk and funding

Liquidity risk is one of the Bank's key risk factors and the Bank's policy is to sustain strong liquidity position in the near- and long term. The Banks's liquidity coverage ratio (LCR) at year-end 2024 was 164% across all currencies, 951% in EUR and 133% in ISK, well above regulatory requirements and the Bank's internal limits.

The Bank's funding rests on three main pillars: equity, deposits from customers and funding through borrowing. The largest part of the funding is the form of deposits from customers, which increased by 180 billion in 2024 and amounted to ISK 1,228 billion at year-end 2024.

The Bank continued to be an active issuer in the domestic bond market with regular covered bond issuance in 2024 in addition to issuing Tier 2 bonds in ISK over the year.

Activity in the international capital markets continued in 2024 with two senior preferred issuances in EUR and an inaugural senior non-preferred issuance. In September, the Bank was the first Icelandic bank to issue senior non-preferred bonds. The Bank issued bonds in the amount of SEK 1,000 million and NOK 250 million.

At year-end 2024, senior preferred bond issuance and senior non-preferred issuance in foreign currency amounted to ISK 257 billion, increasing by ISK 16 billion during the year.

Senior bond issuance in foreign currencies is the most important pillar in the Bank's international market funding. The bonds are issued under the Bank's EUR 2 billion EMTN programme. It increased by ISK 13 billion in 2024 and amounted to ISK 241 billion at year-end. Table 6.2 shows the Bank's EMTN issuance.

The Bank's credit rating was raised by one notch to BBB+/A-2 in April 2024 and then outlook was changed to positive as of November 2024.

1.2.6 Operational risk

In 2024, the number of operational incidents increased compared to the previous year. While there were no major operational disruptions, the Bank had to deal with the cybersecurity incident involving CrowdStrike in July. Cyber threats remain as a top priority for the Bank with a continued emphasis on enhancing the banks cyber resilience. Criminals are increasingly targeting the Banks customers through more sophisticated fraud schemes and cybercrime remains a critical concern, prompting the implementation of enhanced customer protection measures over the past year. In the last few years, the Bank´s framework for third-party risk management has been strengthened by enhancing procedures in place to vet third-party service providers.

1.2.7 Sustainability risk

The Bank continued to improve its risk framework regarding sustainability risk in 2024. This includes new internal rules on sustainability risk and implementation of an improved sustainability risk assessment for large corporate lending. The Bank has implemented a metric for sustainability risk into its risk appetite.

Assessment of impact and materiality of sustainability risk factors indicates that overall risk is low to medium. The largest impact of sustainability risk is on credit risk, funding risk and operational risk.

1.2.8 Economic outlook

Gross domestic product (GDP) decreased by 0.5% in the third quarter of last year, according to Statistics Iceland's latest national accounts. It is now estimated that the GDP has decreased by 1% during the first three quarters of 2024. However, it is important to note that these figures are preliminary and subject to revision by Statistics Iceland. The weaker performance of international trade in services was a major factor behind the contraction during the third quarter, including lower exports of tourism services and increased imports of financial services. Domestic demand grew by 0.8% between years, with public consumption and increased investment being the primary drivers of growth. Landsbankinn Economic Research expects final figures for economic growth in 2024 to be around -0,1% and forecasts growth of 2,3% in 2025.

The Central Bank's policy rate as at 31.12.2024 stands at 8.5%, having decreased by 0.75 percentage points since October. Landsbankinn Economic Research expects the Central Bank to continue a cautious approach and projects gradual rate cuts throughout 2027 as inflation subsides.

Inflation measured 4.8% in November and December, having dropped from 6.7% since the beginning of last year. Landsbankinn Economic Research expects inflation to drop gradually over the next months, down to 3.7% in April this year. The main source of uncertainty lies in the development of imputed rent as Statistics Iceland recently introduced a new method of estimating it.

Unemployment has remained rather low despite the cooling of the economy. It measured 3-4% last year and is projected to remain quite stable over the next months. Uncertainty in the labour market has somewhat decreased and the agreements in the public sector are based on a similar framework for wage increases as in the private sector. However, it is difficult to estimate the total scope of wage increases until the development of the wage index becomes clearer.

1.3 Regulatory background

The Basel III Accord, implemented in the European Union through the Capital Requirements Directive (CRD 2013/36/EU (the 'Directive')) and the Capital Requirements Regulation (CRR 2013/575/EU ('CRR')), establishes the regulatory capital framework across the EEA, governing the amount and nature of capital that must be maintained by credit institutions. The framework has been implemented into Icelandic law by amendments to the Act No. 161/2002 on Financial Undertakings. The amendments to Icelandic law incorporate, among other things, the CRD IV capital buffer requirements, disclosure requirements, minimum leverage ratio, supervisory review and evaluation process and capital definitions.

The final implementations of the Basel III Accords in the EU, amendments commonly referred to as CRRIII and CRDVI, came into effect on 1 January 2025 and are likely to follow shortly in Iceland. The Bank expects the amendments to be implemented to Icelandic law by 31 March 2025. The Bank expects that the impact on capital requirements will be minor and that the Bank will not be required to maintain higher capital levels.

The Basel framework consists of three 'Pillars':

- Pillar I defines the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar II requires the firm to assess whether its Pillar I capital is adequate to meet its risks (Internal Capital / Liquidity Adequacy Assessment Process, ICAAP/ILAAP) and is subject to annual review by the FSA in the Supervisory Review and Evaluation Process (SREP);
- Pillar III requires disclosure of specified information about the underlying risk management controls and capital position.

This publication, Risk and Capital Management 2024, reviews the Bank's organisation and processes relating the identification and management of the risk type characteristic of a financial group with its type of business concept. It also describes the Bank's risk position based on the requirements under Pillar III.

1.4 Disclaimer

This report is presented solely to explain the basis for preparation and disclosure of certain capital requirements and provide information about the management of certain risks. The report does not constitute any form of audited financial statement. The information it contains should not form the basis for any judgements about the Bank. The disclosures herein will only be subject to external verification to the extent that they are equivalent to those made under accounting requirements.

In the interest of simplifying text, Landsbankinn Group, which consists of the parent entity Landsbankinn and its subsidiaries, is referred to as the ‘Bank’ in the disclosures. Where necessary, a distinction is made in the report between the group and the parent. For further information, see Note No. 83.1 – Basis of consolidation in the Bank’s Consolidated Financial Statements for 2024 and Template EU LI3 in the Pillar III additional disclosures.

This publication, Risk and Capital Management 2024, has not been audited by external auditors. It does include information from the audited Consolidated Financial Statements 2024 and has been verified internally and approved by the Board of Directors. This publication has also been presented to and reviewed by the Board’s Risk Committee. There may be some discrepancies between this report and financial information in the Consolidated Financial Statements 2024, as the report has been prepared for the purpose of complying with the Basel Pillar III disclosure requirements, rather than in accordance with IFRS. In the case of such discrepancies, information in the Consolidated Financial Statements 2024 takes precedence.

All amounts are in ISK million unless otherwise stated.

1.5 Disclosure policy

In accordance with the Directive, the Bank has adopted a formal disclosure policy in that it will comply with the requirement to publicly disclose relevant information.

The rules state that one or more of the required disclosures may be omitted if it is believed that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. If a disclosure is considered immaterial, it will be stated in the relevant section.

One or more of the required disclosures may be omitted if the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine a competitive position. Information is considered confidential if there are obligations binding the Bank to confidentiality with customers and counterparties. If information is omitted for either of these reasons, it will be stated in the relevant section along with the rationale. Further general information on required disclosures will be published where appropriate.

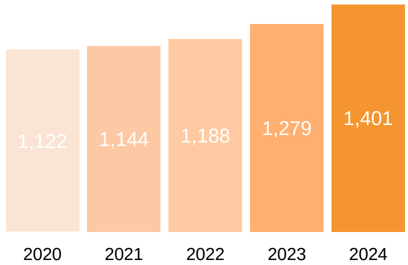
The disclosures are published annually on the Bank’s website.

1.6 Additional disclosures

Additional Pillar III disclosures required under CRR are included as an appendix to this report in the form of a spreadsheet. Table 10.1 in the appendix to this report lists the relevant templates included in the additional disclosures. The additional disclosures can be downloaded here: https://www.landsbankinn.is/en/the-bank/investor-relations/reports-and-financials.

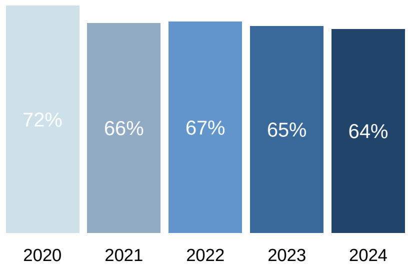
1.7 Risk metrics overview

Risk-weighted exposure amount (RWEA)



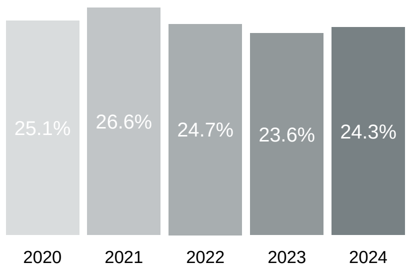
1,401 ISK bn

RWEA to total assets



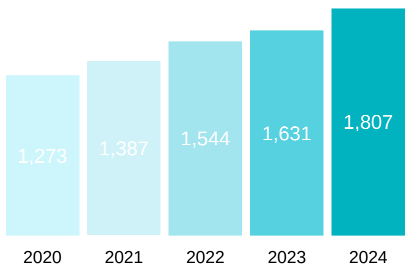
64%

Total capital ratio



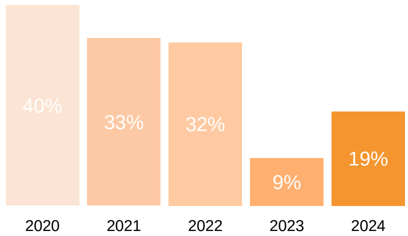
24.3%

Loans and advances to customers



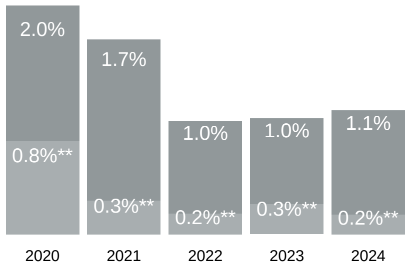
1,807 ISK bn

Large exposures to tier 1 capital*



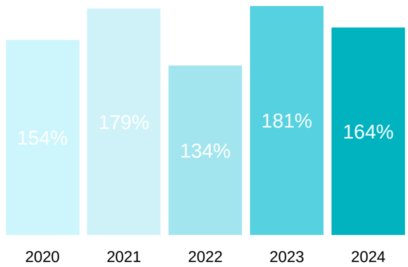
19%

Stage 3 loans



1.1%

Liquidity coverage ratio total



164%

* Up to and including 2020, large exposures were measured as a % of eligible capital.
** Of which 90 days past due.

2 Risk management

Risk management

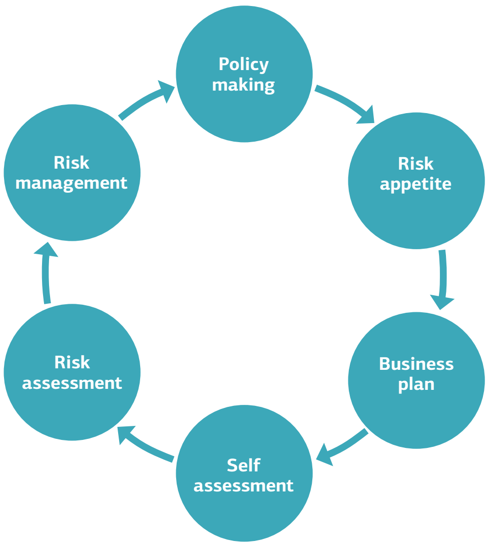
Risk management involves the identification, assessment and control of risk in the Bank's operation. The Bank adopts detailed risk rules and develops an effective internal governance structure to ensure a clear division of responsibility, management of risks and compliance to internal and external rules and regulations.

All pertinent risks in the operation are considered, both financial and non-financial. The Bank's management structure defines authorisations regarding decision making, risk taking, follow-up and monitoring.

The Board of Directors approves the Bank's risk appetite, which defines target levels for risk in the Bank's operation and is utilised for the management of risk taking within the Bank. Risk appetite shall be reviewed at least annually, or as needed, so that it reflects the Bank's targets regarding risk taking at any given time.

Risk management entails a process in which the Bank's risk appetite and business plan are intertwined. That process includes self assessment and risk assessment which are followed by further analysis and management of risk. The Bank's strategic planning takes risk appetite and risk management into account, making risk policy an integral part of its operation. Risk management is an ongoing process, the implementation of which is an integral part of a sound risk culture.

Figure 2.1: Risk management process



2.1 Risk policy

The Bank's risk policy is as follows:

The Bank's operations, risk diversification and decisions shall be in accordance with its risk appetite, sound business practices, financing, liquidity and equity position. The Bank seeks to ensure diversified and sound financing, high asset quality, and a sustainable risk profile. The Bank has set internal limits with the aim of maintaining a strong capital and liquidity position which, along with active risk management, are important to achieve long-term profitability and strong standing. In this manner, the Bank aims to minimise fluctuation in its operations and promote resilience.

Risk appetite defines the type and extent of risk that management is willing to take to meet the Bank's business objectives. In pursuit of its goals, the Bank only takes on risks that it understands and can measure, evaluate and manage.

The Bank seeks to maintain solid business relationships, having regard for its own position as well as that of its customers at all times, and with due regard to any internal connections between customers. The Bank pursues long-term business relationships and aims to minimise and contain reputational risk.

The Bank is obligated to comply with relevant laws and regulations in all its operations. The main focus areas within the Bank's risk culture are adherence to rules, integrity, ethical behaviour, professionalism and the promotion of risk awareness throughout the organisation.

2.2 Risk identification

The Bank defines material risk as any risk large enough to substantially impact the success of the enterprise.

The Bank is exposed to the following material risks:

- Credit risk
- Market risk
- Liquidity and funding risk
- Operational risk
- Concentration risk
- Sustainability risk
- Business and strategic risk

Table 2.1 provides a link between the Bank's business units and the material risks that they are exposed to. The risk significance is assessed within the context of the Bank as a whole and is measured based on allocation of capital within the Bank.

Table 2.1: Relative allocation of capital due to material risks to the Bank's business units

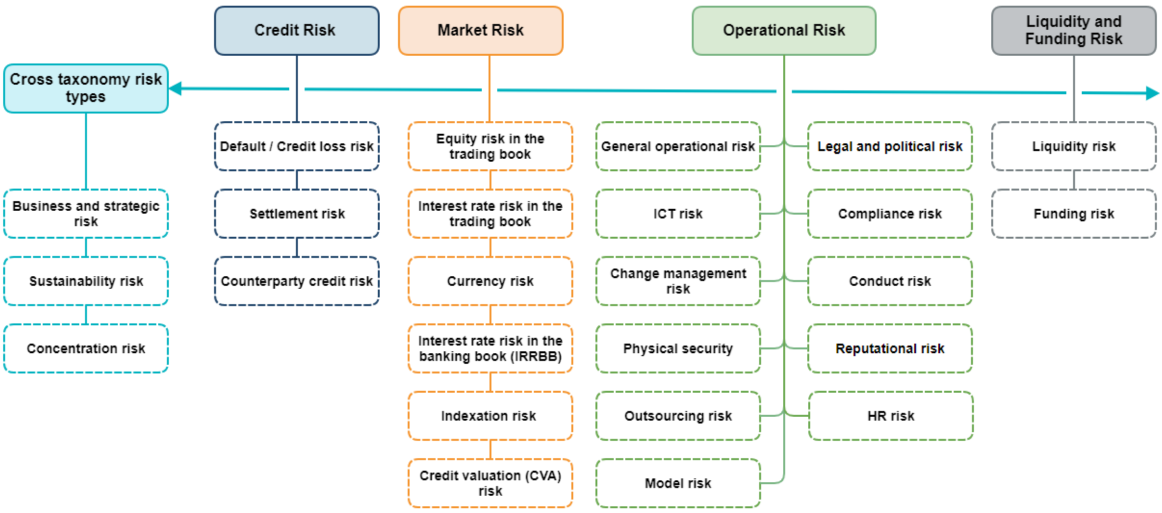
Material risk	**Personal Banking**	**Corporate Banking**	**Asset Management & Capital Markets**	**Treasury & Market Making**
Credit risk	High	High	Low	Low
Market risk	Low	Low	Medium	High
Liquidity & funding risk	n/a	n/a	n/a	High
Operational risk	Medium	Medium	High	Medium
Concentration risk	Low	High	Medium	Medium
Sustainability risk	Low	Medium	Low	Low
Business & strategic risk	Medium	Medium	Low	Low

The risk taxonomy in Figure 2.2 below has been developed to visualise the scope of capital and liquidity assessments. For each of these risk factors, several material risk subfactors are defined.

There is a subset of risk factors identified that can act as an amplifier to one or more of the Bank's material risk factors. These are called cross taxonomy risk factors and includes business and strategic risk, sustainability risk and concentration risk.

The taxonomy is reviewed annually as part of the ICAAP/ILAAP process, to ensure its relevance.

Figure 2.2: The Bank's risk taxonomy as of 31 December 2024.



2.3 Risk management structure

The Bank aims to operate in line with international best practice and guidelines on risk management. The Bank devotes substantial resources to developing and maintaining its risk management systems and operations. The Bank's commitment to sound risk culture and risk awareness is supported by regular employee risk training, both mandatory and additional optional training.

The Bank's risk management is based on policies and governance determined by the Board of Directors. These policies are implemented by the Bank's CEO through key risk management bodies and committees.

2.3.1 Risk committees

The Bank's risk management governance structure at year-end 2024 is shown in Tables 2.2 and 2.3.

Table 2.2: Sub-committees of the Board of Directors

Supervision by the Board of Directors and its sub-committees
Risk Committee
Audit Committee
Remuneration Committee

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, risk appetite, and setting risk limits. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The Board of Directors has three subcommittees, which play a major role in increasing the efficacy of Board meetings by preparing and analysing issues addressed by the Board.

- The Risk Committee advises the Board of Directors on the development of the Group's risk strategy and risk appetite.

Table 2.3: Key risk management bodies and committees

Committee	Chair	Other members
Executive Board	CEO	Managing Directors
Risk & Finance Committee	CEO	CFO, CRO, Head of Legal Services
Credit Committee	CEO	CRO, MD of Corporate Banking
Operational Risk Committee	CRO	MD of IT, Compliance Officer, Head of Operations, Head of Operational Risk
Project Committee	CEO	Managing Directors

- The Audit Committee's role is to ensure the quality of the Group's financial information – including financial statements – and the independence of its auditors.
- The Remuneration Committee's role is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the Board on the Group's remuneration policy.

The Executive Board ensures that Group operations comply with laws, regulations, business plans and policies at any given time. It discusses business opportunities and challenges, approves funding for larger projects and makes decisions on matters that do not fall within the remit of other committees. The Executive Board has four subcommittees.

- The Risk & Finance Committee oversees market risk, liquidity risk and counterparty credit risk, reviews their rules and policies and sets risk limits for the Board of Directors. The committee also reviews the ICAAP methodology and scenarios and the Group's economic capital policy.

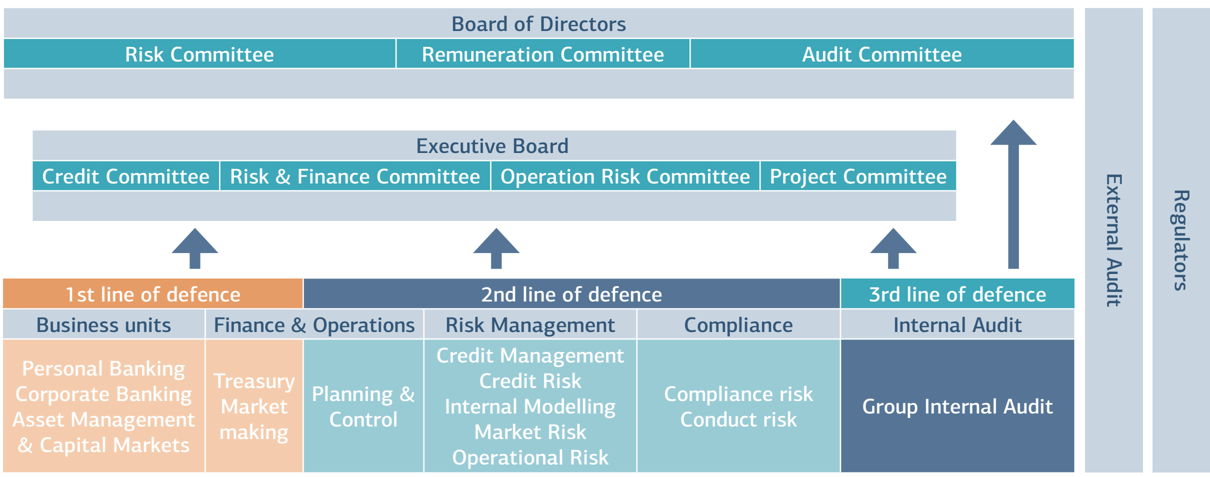
- The Credit Committee makes credit decisions and ensures that the Group's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The committee is also responsible for significant credit decisions, credit limits for customers, credit quality and large exposures.

- The Operational Risk Committee discusses and makes decisions on operational risk issues and reviews the effective implementation of the operational risk policy of the Bank.

- The Project Committee selects, prioritises and supports the Group's major projects to ensure their success.

Governance pertaining to specific risks is discussed in the relevant sections.

Figure 2.3: Risk management governance structure



2.3.2 Managing directors

Managing directors are responsible for the implementation of risk appetite and risk culture in their units based on the Bank's risk policy and business plan. Managers are responsible for risk-taking and risk management and for ensuring that risk within their units is assessed and measured, and information escalated to the relevant parties. Managers shall contribute to the development and maintenance of a healthy risk culture in their units, present the risk policy and ensure that employees are familiar with the rules that apply to their duties.

2.3.3 Risk Management

The Risk Management Division is responsible for the Bank's risk management framework and for comprehensive risk reporting on risk positions within the Bank and to external supervisory authorities. The division comprised five departments at year-end 2024. Subsidiaries of the Bank have their own risk management functions, from which the Risk Management Division receives information on exposures and collates into Bank exposure.

The Risk Management division comprised five departments at year-end 2024:

- Credit Management reviews and approves or vetoes credit decisions made by the Bank's business units when credit applications exceed the business unit's limits. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and does not exercise its veto rights. Credit applications exceeding the confirmation limits of Risk Management are referred to the Bank's Credit Committee. The department also oversees regular updates of the Bank's credit policies and other rules related to the credit process.

- Credit Risk is responsible for measuring and monitoring credit risk as well as for providing the Bank with systems and processes to measure, monitor and control credit risk in credit and policy decisions. Credit Risk is responsible for assessment, analysis and reporting on credit risk, economic capital and impairment. Credit Risk is also responsible for rules and procedures regarding credit risk, such as procedures for impairment measurement, credit mitigation and forbearance.

- Market Risk is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the banking book along with limit monitoring and reporting. The department develops and maintains the Bank's market risk models and maintains the Bank's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk within the Bank. Market Risk is also responsible for monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes, securities financing transactions as well as FX balance monitoring for the Bank.

- Operational Risk is responsible for ensuring centralised management of operational risk other than compliance and conduct risk. The department assists in mapping the Bank's operational risk in a comprehensive risk assessment and in executive assessment and analysis of operational and loss events. Operational Risk is involved in the design and testing of the Group's continuity plans. The department is responsible for ensuring compliance with the ISO 27001 standard for information security.

- Internal Risk Models provides the Bank with IRB and EC models and related processes to estimate credit risk and link the risk to equity and provides support during the implementation of those models and processes within the Bank. The department develops models for pre-approved limits in order to facilitate the automation of lending processes.

2.3.4 Compliance

Compliance is an independent control function which reports directly to the CEO and operates in accordance with the terms of reference set out by the Board of Directors.

Compliance is part of the Bank's second level control and is responsible for monitoring conduct and compliance and for coordinating measures against financial crimes.

Compliance advises management on actions necessary to ensure that the Bank operates in accordance with regulatory requirements and proper and sound business practices.

2.3.5 Internal Audit

Internal Audit is an independent and objective assurance and consulting unit, which is a part of the Group's organisational chart and internal control system. The Board of Directors has oversight of Internal Audit and appoints the Chief Audit Executive. The role of Internal Audit is to improve and protect the Bank's value with risk-based and objective verification, consultation and insight. Internal Audit evaluates and improves the risk management framework, systems, control and governance processes through systematic and disciplined practices, thus supporting the Bank in accomplishing its objectives. The Chief Audit Executive is responsible for ensuring that Internal Audit works in accordance with laws, recommendations from the FSA no. 3/2008, and standards and guidelines cited therein, including the benchmarks of the Institute of Internal Auditors (IIA).

2.3.6 General staff

All employees are responsible for carrying out their duties in accordance with external laws and rules, risk appetite, risk policy, rules and the Bank's procedures and ensure compliance with them at all times. Employees shall report any suspected breaches to their superior. Employees need to be familiar with the purpose and nature of the control measures they carry out. They must be mindful of the proper functionality of control measures and inform management should they consider control measures insufficient or control inadequate to support the Bank's objectives.

2.4 Risk measurement

The Bank regularly monitors and assesses its current risk profile. The risk appetite framework considers key risks relevant to the Bank's business activities by setting limits and target levels for risk. In addition, the Bank measures and monitors other risk indicators to support the management of key risk factors.

The Bank's risk appetite for 2024 has been reviewed, revised and implemented. Table 2.4 lists the risk appetite metrics, year-end values for the past three years and the status of the metrics in relation to tolerance levels set by the Board. A green status indicates that the value is in line with tolerance levels, yellow status indicates that the value is outside tolerance levels but within external limits and red status indicates that the value is outside of external limits. Monitoring and reporting on the Bank's risk appetite has been aligned with monitoring and reporting of recovery plan indicators according to the Bank Recovery and Resolution Directive (BRRD).

Table 2.4: Overview of risk appetite metrics

Risk category	Risk type	Metric	31.12.2024	31.12.2023	31.12.2022
Credit risk	Credit quality	Expected loss (% of total loans)	0.2%	0.3%	0.3%
		Probability of default	1.4%	1.6%	1.8%
		Economic capital due to credit risk	69.6%	68.0%	-
Concentration risk	Single name concentration	Large exposures (% of Tier 1 capital)*	18.6%	9.4%	32.3%
Market risk	Market risk	Economic capital due to market risk	5.2%	5.3%	-
Liquidity risk	Liquidity risk	Liquidity coverage ratio - Total	163.5%	180.9%	133.6%
		Liquidity coverage ratio - FX	-	447.1%	351.0%
		Liquidity coverage ratio - EUR	950.7%	1,499.6%	-
		Liquidity coverage ratio - ISK	132.6%	128.6%	99.2%
Funding risk	Funding	Net stable funding ratio - Total	124.5%	123.0%	116.6%
Capital risk	Capital adequacy ratio	Capital adequacy ratio	24.3%	23.6%	24.7%
Profitability	Profitability	Return on equity after taxes	12.1%	11.6%	6.3%
Sustainability risk	Green financing	Ratio of assets eligible for green financing	12.7%	9.1%	-
Operational risk	Operational risk	Economic capital due to operational risk	8.4%	7.5%	-

*In addition to monitoring large exposures as a % of Tier 1 capital, the Bank also monitors the largest single exposure as a % of Tier 1 capital. The goal is <18% and as at 31.12.2024, the largest exposure is well below that goal. External regulation mandates a ratio of <25%.

2.4.1 Stress testing and sensitivity analysis

Stress testing and sensitivity analysis are important tools used to quantify risk in severe, unlikely but plausible scenarios. This section provides an overview of stress testing and sensitivity analysis for different risk types within the Bank.

2.4.1.1 Capital and liquidity

Stress testing is an important part of the Bank's capital and liquidity planning process. Internal stress tests are used as an important risk management tool to determine how severe, unlikely but plausible changes in the business and macro environment affect the Bank's capital need and liquidity position. Stress tests reveal how the capital need and liquidity ratios vary during a stressed scenario, where impact on financial statements, regulatory capital requirements and capital ratios are tested. The stress testing process is divided into the following steps:

- Sensitivity analysis to determine the main risk drivers
- Scenario development and approval
- Scenario translation
  - Translation model to determine loan loss
  - Translation method to determine the effect on financial statements
  - Translation model to determine internal capital requirements
- Calculation
- Analysis and reporting
- Management actions

The Bank aims to develop dynamic, forward-focused scenarios that simultaneously cover key aspects of the Bank's operations, including system-wide interaction and feedback effects.

These scenarios, which include a baseline scenario, assume developments of key macro indicators over a three-year period. The scenarios demonstrate an alternative development of key economic variables induced by various shocks compared to the baseline macroeconomic forecast of the Bank's Economic Research department. Idiosyncratic events are also defined within the scenarios to stress specific asset classes or operations of the Bank.

The Bank uses a loan loss model which incorporates macroeconomic variables and produces probability of default (PD), default rates, as well as loss given default (LGD), which can be translated into loan losses for a given scenario. In addition to the loan loss model results, expert judgement is applied for loan loss on selected large exposures by industries affected within each scenario.

Scenario results are compared with the Bank's current business plan, risk appetite, and the Bank's solvency.

The effect on financial statements is translated and calculated with a resulting impact on the capital base and liquidity position. Capital assessment for the Bank is calculated for each scenario, as well as various risk metrics within the Bank's risk appetite. If the risk appetite constraints are violated, management actions are required within the scenario.

2.4.1.2 Credit risk

Stress testing is an important part of the Bank's capital planning process. Stress testing for credit risk is mainly applied as part of capital planning and focuses on measuring potential credit losses and effects on capital.

2.4.1.3 Market risk

The Bank conducts stress tests and sensitivity analysis pertaining to market risk on a regular and ad-hoc basis. Comprehensive market risk stress testing is conducted as part of the Bank's ICAAP/ILAAP once a year with a time horizon of three years. Other stress tests and sensitivity analyses of the Bank's trading and non-trading portfolios with regard to equity and interest rate risk and currency risk are made on a case-by-case basis.

2.4.1.4 Liquidity risk

Various stress tests have been constructed to try to efficiently model how different scenarios affect the Bank's liquidity position and liquidity risk. The stress tests are based on the Bank's balance sheet mixture and take the Bank's current operating environment into account. Key liquidity metrics are also mapped onto annual internal stress tests that are used as an important risk management tool in order to determine how severe, unlikely but plausible changes in the business and macro environment affect the capital need and liquidity position of the Bank. The Bank also performs other internal stress tests that may vary from time to time.

2.5 Risk monitoring

The Bank allocates considerable resources to ensure ongoing adherence with approved risk limits and for risk monitoring. The risk monitoring process combines active monitoring of risks, exposures and adherence to the Bank's risk framework and extensive risk reporting. The Bank has set guidelines for reporting to relevant management bodies, including the Board of Directors, Executive Board and all relevant committees on developments in risk measures and risk appetite.

The Bank has implemented a policy on risk data in compliance with BCBS 239 (Basel Committee on Banking Supervision's guideline 239). The policy defines which reports should be submitted where, the frequency of those submissions, and who is responsible for them.

Figure 2.4: Overview of risk reporting within the Bank

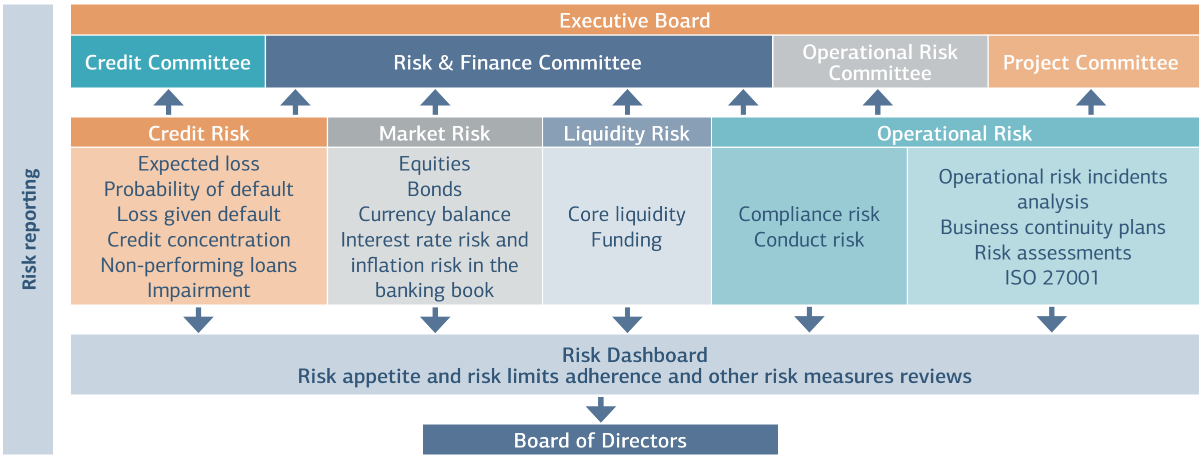


Table 2.5: Principal reporting to the Board of Directors

	Annual
Risk and capital management report	Pillar III disclosures.
ICAAP/ILAAP report	Evaluation of the risk profile and solvency need. The report contains conclusions drawn from stress testing, including the effect of various scenarios on expected losses and capital needs. The ICAAP/ILAAP report is subject to the FSA's Supervisory Review and Evaluation Process (SREP).
Recovery plan	The recovery plan focuses on measures to protect and restore the Bank's financial position, following a significant deterioration. It includes governance and decision-making processes, continuity of critical economic functions and core business lines, specification of trigger points to activate recovery options and internal and external communications.
Compliance report	Annual assessment of the role, independence, authorisations and work of Compliance and whether Compliance has sufficient funding to perform its duties. The report contains an assessment of compliance risk and conduct risk as well as an AML report and a data protection report.
	Semi-annual
Credit risk report	Thorough risk report providing analysis of such issues as development in risk appetite, past due loans, average exposure-weighted probability of default (PD), default rate vs. PD, distribution of loan portfolio in rating categories and migration analysis and other analysis of credit risk aspects.
Market & liquidity risk report	Thorough risk report summarising the Bank's liquidity risk and market risk exposures and any concerns regarding liquidity and/or market risk.
Operational risk report	Thorough risk report providing analysis of operational risk aspects.
	Monthly
Risk report	An aggregated report containing information on the Group's risk appetite and material from the credit, market, liquidity and operational risk reports.
Executive management report	An aggregated report containing risk related material such as risk appetite, internal capital and RAROC.
	Bi-weekly or more frequently
Market & liquidity risk report*	Market and liquidity risk report highlighting the Bank's market risk exposures, risk appetite, market risk limit utilisation and liquidity risk and any concerns regarding liquidity and/or market risk.

*Daily during adverse conditions

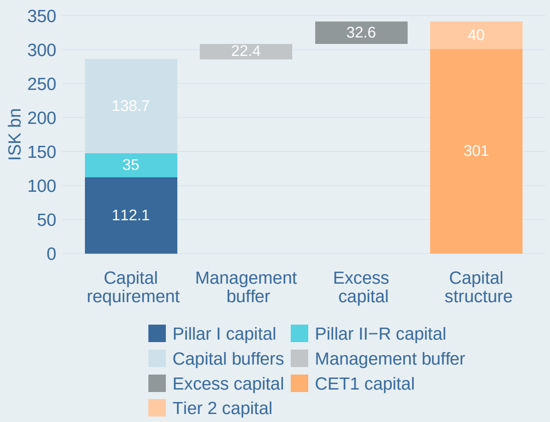
3 Capital management

Capital management

The purpose of the Bank's capital management is to support the Bank's strategy and ensure that it has sufficient capital to cover its risk at all times.

- The Bank's total capital ratio increased by 0.7 percentage points in 2024, to 24.3%.
- A regular dividend payment of ISK 0.70 per share in the total amount of ISK 16.5 billion was made in 2024.
- The Bank's Pillar II-R capital requirement decreased in the latest SREP, but remains in excess of the Bank's internal assessment of capital.
- Compared to the total capital requirement of 20.4%, and an implied management buffer of 1.6%, the Bank's excess capital was 2.3 percentage points or ISK 33 billion.

Capital position as at 31.12.2024



3.1 Capital management framework

The purpose of the Bank's capital management framework is to support the Bank's strategy and ensure that it has sufficient capital to cover its risks. The capital management framework of the Bank is comprised of four interdependent activities: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring.

The Bank uses standardised approaches in measuring the regulatory capital requirement for Pillar I risks and economic capital (EC) for capital management purposes.

The Bank's capital management governance structure at year-end 2024 is as follows:

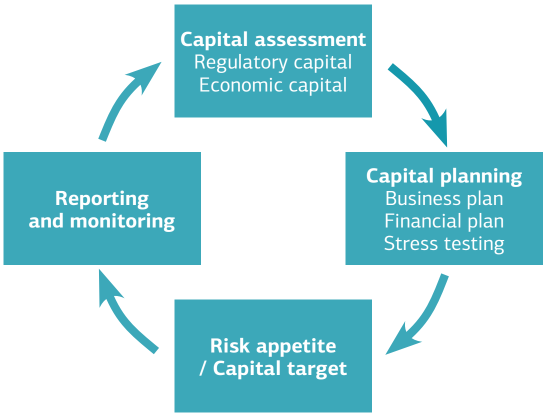
Board of Directors

The Board of Directors of Landsbankinn is responsible for reviewing and approving the Bank's business strategy and policy on aggregate exposure and determines the Bank's risk appetite. The Board of Directors approves the Bank's current funding programme and subordinated borrowings. The Board of Directors shall be actively involved in the design and implementation of stress tests and ensure that they are based on robust and efficient governance and methodology.

CEO, Risk & Finance Committee

The CEO is responsible for implementation of the capital management policy. The CEO has formed the Risk & Finance Committee to manage and oversee the implementation. The Committee is responsible for

Figure 3.1: Capital management framework



ensuring compliance with the policy in the development of the Bank's business and financial plans. The Risk & Finance Committee is responsible for the design and presentation of stress tests and scenarios.

Finance

The CFO is responsible for the day-to-day capital management and funding of the Bank and reports to the Risk & Finance Committee. The Finance Division is tasked with monitoring the risk-weighted asset base, the capital base and capital position at any given time. Finance participates in the design, implementation and development of the Bank's stress testing programme. The Division is also responsible for the Bank's recovery plan which is to ensure that banks are prepared to restore their viability in a timely manner even in periods of severe financial stress.

Finance is responsible to the Risk & Finance Committee for the management of the Bank's funding, both in ISK and foreign currency.

Risk Management

The CRO is responsible for risk assessment and monitoring of risk factors and reports to the Risk & Finance Committee. Risk Management is responsible for the EC framework and measurement, the Pillar III risk report and the ICAAP and ILAAP report. Risk Management also participates in the design, implementation and development of the Bank's stress testing programme.

Managing directors

The managing directors shall comply with the capital structure policy in their activities. This means, *inter alia*, that business decisions taken by these divisions shall comply with the business plan and budget, risk appetite and the Bank's current profitability target.

Internal Audit

Internal Audit shall regularly review and comment on the framework and work procedures related to the capital structure policy and, thereby, help ensure that the policy extends to and is proportional to the nature, scope and risk inherent in the Bank's operation.

3.2 Capital policy

The Bank has a policy on capital structure, the objective of which is to ensure appropriate management, efficiency and economic utilisation of the Bank's equity, while additionally ensuring that the Bank fulfils regulatory capital requirements. With active capital management, the Bank ensures that dividend payments are based on its dividend policy and do not exceed set limits, and that the Bank can at all times meet increased risk in its operating environment.

The total capital ratio target is reviewed annually. When setting the target, EC, Pillar I and II capital requirements, MREL requirements, regulatory capital buffers, the management capital buffer, risk appetite, and strategic objectives are considered. The Bank's aim is to maintain a capital ratio above the CBI's total capital requirement at any given time, plus a management buffer specified in the Bank's risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

The Bank´s dividend policy is to pay annually around 50% of the previous year's profit as dividend. In addition, and in line with the Bank's target capital and liquidity ratios, the aim is also to make special dividend payments to optimise the Bank's capital structure. The Bank paid a regular dividend of ISK 16.5 billion in 2024.

When determining the amount of dividend payments, the Board needs to maintain the Bank's strong financial position. The Board needs to consider internal and external risk, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements.

3.3 Capital position

The Bank's equity increased by ISK 20.9 billion in 2024 and amounted to ISK 324.6 billion at 31 December 2024 (2023: ISK 303.8 billion). The capital adequacy ratio is calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings. The Bank's total capital ratio increased by 0.7 percentage points in 2024, remaining strong at 24.3% as at 31 December 2024 (2023: 23.6%).

The capital base consists of 21.5% CET1 based on core equity only and 2.9% of Tier 2 capital, with five instruments in the form of subordinated liabilities.

The Bank's capital base calculations are in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended and made part of the Icelandic legal order. Table 3.1 shows the Bank's capital base.

3.3.1 CET1 capital - statutory deductions and transitional arrangements

CET1 capital consists of core equity less statutory deductions according to requirements of the FSA based on Chapter 10 of Act No. 161/2002.[1] The Bank makes deductions in order to determine its CET1 capital where applicable.

- Carrying amounts of intangible assets
- Foreseeable dividends in next year's operations

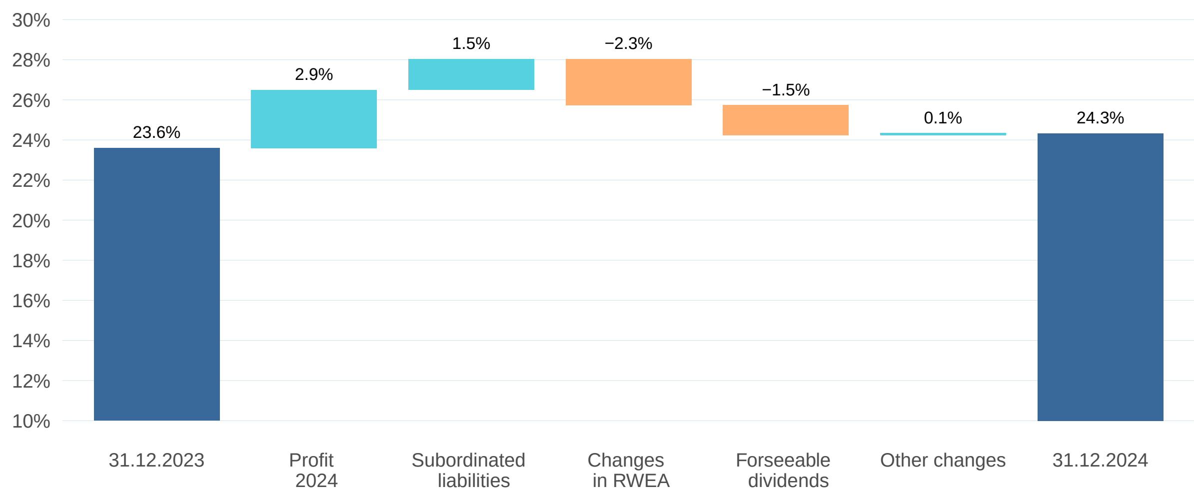
[1] See https://www.althingi.is/lagas/nuna/2002161.html

Table 3.1: Breakdown of the capital base (ISK m)

	31.12.2024	31.12.2023
Share capital	23,615	23,621
Share premium	120,516	120,593
Reserve	13,213	11,432
Retained earnings	167,305	148,108
Total equity attributable to owners of the Bank	**324,649**	**303,754**
Intangible assets	-3	-7
Foreseeable dividends*	-18,754	-16,584
Fair value hedges	-4,348	-4,669
Adjustment under IFRS 9 transitional arrangements	0	595
Insufficient coverage for non-performing exposures	-568	-1,291
CET1	**300,976**	**281,798**
Non-controlling interests	0	0
Tier 1 capital	**300,976**	**281,798**
Subordinated liabilities	39,989	20,176
Regulatory amortisation	-26	0
Tier 2 capital	**39,963**	**20,176**
Capital base	**340,939**	**301,974**
Risk exposure amount (RWEA)		
Credit risk	1,254,254	1,144,477
Market risk	15,399	20,559
Operational risk	131,388	114,400
Total RWEA	**1,401,041**	**1,279,436**
CET1 ratio	**21.5%**	**22.0%**
Total capital ratio	**24.3%**	**23.6%**

*The Board of Directors intends to propose that the annual general meeting (AGM) approve a dividend of ISK 18.8 billion, or 0.79 per share, to be paid to shareholders in 2025. The Bank's capital and capital ratio has been reduced by an amount equivalent to the dividend payment as foreseeable dividends in the consolidated financial statements for the year 2024.

Figure 3.2: Changes in the Bank's total capital ratio in 2024



Further to CET1 statutory deductions, the Bank makes transitional arrangements by mitigating the impact of the introduction of IFRS 9 on own funds based on regulation 452/2020 and deducts from CET1 capital due to insufficient coverage for non-performing exposures in accordance with Article 47c in CRR. The deduction is applicable for exposures originated after April 2019.

Further quantitative information regarding the Bank's capital position can be found in templates CC1, CC2 and CCA in the additional disclosures accompanying this report.

3.3.2 Tier 2 capital - Statutory deductions

Regulatory amortisation of Tier 2 instruments is determined in Article 64a of CRR, the deduction is applicable for exposures during the final five years of maturity of the instruments.

3.4 Capital assessment

3.4.1 Pillar I capital requirement

The regulatory minimum capital requirement (CR) under Pillar I of the Directive is 8% of risk-weighted exposure amount for credit risk, market risk and operational risk. The Bank uses the standardised approach in measuring Pillar I capital requirements for credit risk, counterparty credit risk and market risk. For operational risk, the Bank uses the basic indicator approach.

The Bank's risk-weighted exposure amount (RWEA) was ISK 1,401 billion at year-end 2024 and increased by ISK 122 billion, or 9.5%, for the year. The increase is largely due to credit growth. Accordingly, the Pillar I capital requirement for the Bank was ISK 112.1 billion as compared to ISK 102.3 billion at year-end 2023. Credit risk is the single largest risk type or 89.5% of total RWEA. Further quantitative information regarding the Bank's RWEA can be found in templates OV1, CR4-5, CCR1-3, MR1 and OR1 in the additional disclosures accompanying this report.

Table 3.2: Pillar I capital requirement and RWEA (ISK m)

	31.12.2024		31.12.2023	
	Pillar I	**RWEA**	**Pillar I**	**RWEA**
Credit risk	100,340	1,254,254	91,558	1,144,477
Market risk	1,232	15,399	1,645	20,559
Operational risk	10,511	131,388	9,152	114,400
Total capital requirement and RWEA	**112,083**	**1,401,041**	**102,355**	**1,279,436**

3.4.2 Pillar II capital requirement

The Bank's Pillar II-R requirement is determined via the CBI's Supervisory Review and Evaluation Process (SREP). The Pillar II-R requirement decreased from 2.8% to 2.5% in the 2024 SREP. The CBI can also issue a non-binding additional capital guidance based on stress test results (Pillar II-G). The result of the 2024 SREP did not yield a Pillar II-G guidance. The total Pillar II capital requirement was therefore 2.5% or ISK 35 billion at year-end 2024.

The Internal Capital Adequacy Assessment Process (ICAAP) is the Bank's own assessment of its capital need. The Bank uses internal models for the calculation of economic capital (EC) for material risk factors, for ICAAP, as well as using stress tests. For credit risk, which is the biggest risk factor in the Bank's operation, the Bank primarily uses the internal rating based (A-IRB) approach to assess its capital need.

The total Pillar II requirement as calculated by the Bank's internal models in 2024 is lower than the requirement set by the SREP. The difference lies mainly in the assessment of the capital need for credit risk. ICAAP and SREP form the foundation for the Bank's capital planning, including the business and financial plan for the next 3 years. Table 3.3 shows the results of the 2024 SREP compared to 2023.

Table 3.3: SREP results

		2024 % RWEA	2023 % RWEA
Pillar I	Credit risk	7.2%	7.2%
	Market risk	0.1%	0.1%
	Operational risk	0.7%	0.7%
	Minimum capital requirement	**8.0%**	**8.0%**
Pillar II	Credit, counterparty and concentration risk	1.0%	1.2%
	Market risk and IRRBB	1.2%	1.4%
	Other risk	0.3%	0.2%
	Additional P-II R	**2.5%**	**2.8%**
	Additional P-II G	**0.0%**	**0.0%**
	Minimum requirement under Pillar I and Pillar II-R	**10.5%**	**10.8%**

3.4.3 Capital buffers

CRD IV introduced a combined buffer requirement that applies in addition to the solvency need ratio. The combined buffer consists of a countercyclical buffer, a capital conservation buffer, O-SII buffer and a systemic risk buffer. Capital buffers must be funded with CET 1 capital.

The combined capital buffer requirement as determined by the Icelandic Financial Stability Committee (FSC) for SIFIs was 10.0% of RWEA at year-end 2024.

Table 3.4: Regulatory capital buffers

	29.9.2022	16.3.2024	4.12.2024	Effective capital buffers at year-end 2024
Systemic risk buffer	3.00%	3.00%	2.00%	1.90%
O-SII buffer	2.00%	2.00%	3.00%	3.00%
Countercyclical buffer	2.00%	2.50%	2.50%	2.50%
Capital conservation buffer	2.50%	2.50%	2.50%	2.50%
Combined capital buffer requirement	**9.50%**	**10.00%**	**10.00%**	**9.90%**

In December 2024 the FSC decided to lower the Systemic Risk Buffer from 3% to 2%. This reduction is based on the Committee's assessment that systemic risk has decreased since the buffer was first set in 2016. The FSC also decided in December 2024 to increase the capital buffer for systemically important financial institutions from 2% to 3%. This increase aims to better capture the risks posed to the economy by the size and scope of systemically important financial institutions.

The capital buffers are expressed as a proportion of consolidated RWEA. However, the systemic risk buffer only applies to domestic RWEA, meaning that the effective requirement for the buffer is somewhat lower than defined by the financial authorities, or 1.9% instead of 2.0%. The effective countercyclical capital buffer is determined using the weighted average of the prevailing capital buffer level in the countries where the Bank has exposure. The buffer is currently 2.5% in Iceland. Countercyclical buffers for foreign exposures, can raise or lower the effective buffer for the portfolio, based on their respective values. The effective countercyclical buffer was 2.5% at year-end 2024. Further quantitative information regarding the countercyclical capital buffer can be found in templates CCyB1 and CCyB2 in the additional disclosures accompanying this report.

The effective total regulatory capital buffer for the Bank at year-end 2024 was 9.9% of consolidated RWEA. Therefore, the Bank's total capital requirement at year-end 2024 is 20.4% of consolidated RWEA.

Table 3.5: Capital requirement

31.12.2024	**CET1**	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.4%	1.9%	2.5%
Minimum requirement under Pillar I and Pillar II-R	**5.9%**	**7.9%**	**10.5%**
Systemic risk buffer	1.9%	1.9%	1.9%
Capital buffer for systematically important financial institutions	3.0%	3.0%	3.0%
Countercyclical capital buffer	2.5%	2.5%	2.5%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirement	**9.9%**	**9.9%**	**9.9%**
Total capital requirement	**15.8%**	**17.8%**	**20.4%**

3.4.4 Capital target

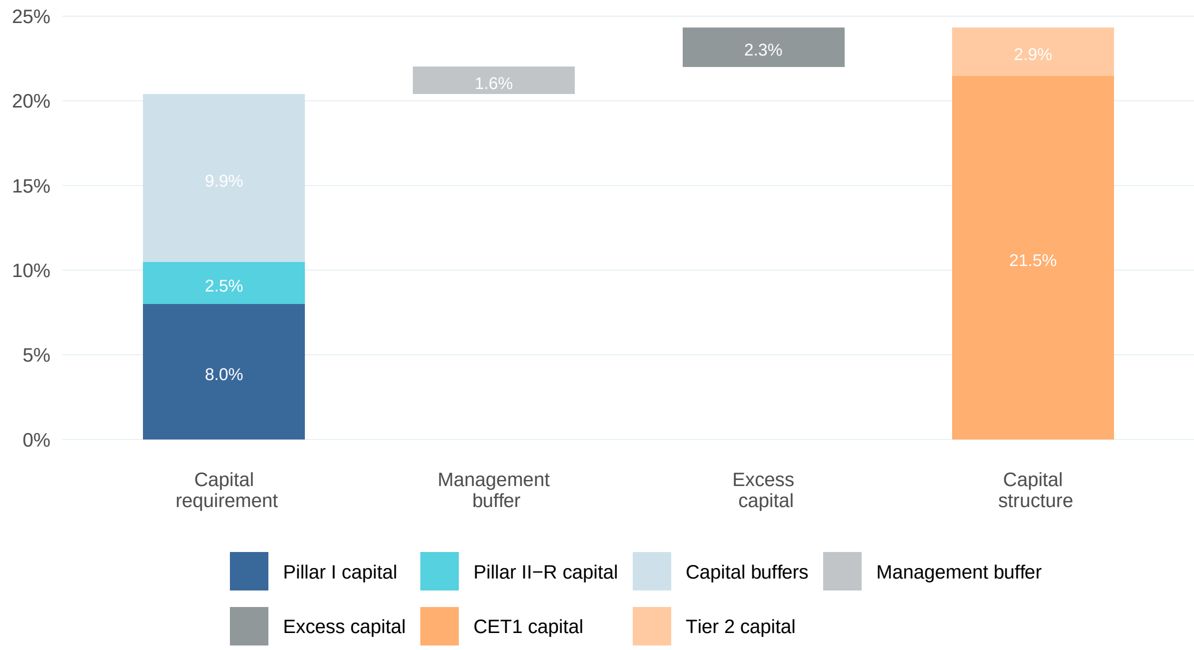
The Bank's capital target is based on the current regulatory capital requirement of 15.8% CET1 and 20.4% total capital ratio (TCR). In addition, the Bank defines a management buffer for the purpose of targeting and managing its capital position comfortably above the overall regulatory capital requirement. Determination of the management buffer is based on various current and forward-looking factors such as the economic and funding outlook, competitive issues, risk profile and business plan.

As shown in Table 3.6, the Bank's total target capital ratio is $\geq$ 22% and $\geq$ 18% for the CET1 ratio. Given the 20.4% TCR requirement, the Bank's current implied management buffer is 1.6%. The total capital ratio at year-end 2024 was 24.3%, hence the implied Bank's excess capital was 2.3% of RWEA, or ISK 33 billion.

Table 3.6: Capital ratio

	Target	**2024**	**2023**	**2021**	**Comment**
Total capital ratio	$\geq$22.0%	24.3%	23.6%	24.7%	Long-term goal
Common equity Tier 1	$\geq$18.0%	21.5%	22%	22.9%	Long-term goal
Dividend pay-out ratio	Around 50%	50%	50%	71%	The target dividend pay-out ratio is around 50% of the previous year's profit.

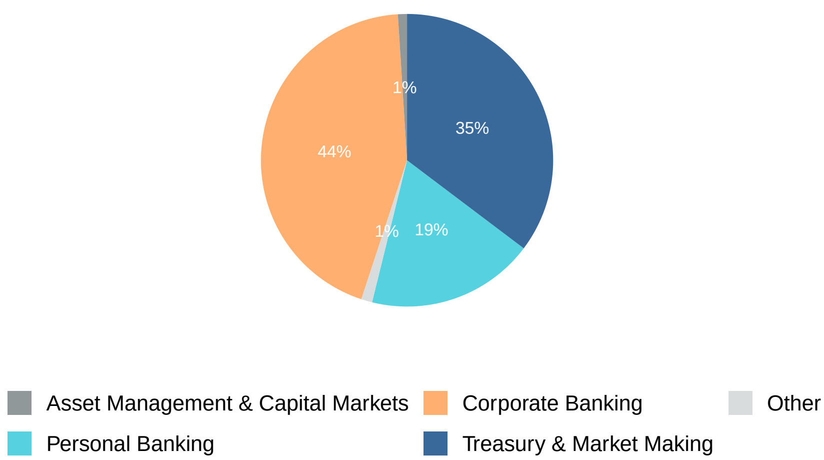
Figure 3.3: Capital structure (% RWEA) as at 31.12.2024



3.4.5 Capital allocation to business lines

The Bank makes an internal capital allocation across business divisions on the basis of each unit's contribution to the Bank's total risk as estimated by the Bank's EC model. Capital exceeding the Bank's minimum capital target and the management buffer is allocated to Treasury. Allocated capital plus retained earnings per business unit at year-end 2024 is shown in Figure 3.4.

Figure 3.4: Capital allocation per business line 31.12.2024



3.4.6 Risk-adjusted return on capital

To analyse the Bank's risk-adjusted profit and profitability, i.e. including the cost of risk, the measures risk-adjusted profit (RAP) and risk-adjusted return on capital (RAROC), are reported monthly to senior management. The objective of these metrics is to assess shareholder value creation and profitability in relation to the equity capital needed to cover the undertaken risks, i.e., the economic capital. The measures enable risk-based pricing, increase incentives to measure and manage risk appropriately, focus on long-term profit, and support the assessment of the Bank's optimal capital structure. These measures have been implemented throughout the Bank and are used in individual credit decisions for large corporate customers, as well as to determine the pricing of loan products for smaller corporate customers and individuals.

3.5 Leverage ratio

The Capital Requirements Regulation (CRR), as part of the Basel III framework, requires banks to measure, report and monitor their leverage ratios. The ratio is defined as CET1 capital as a percentage of total leverage exposure (see Table 3.7) and acts as a credible supplementary measure to the risk-based capital requirements.

A credible leverage ratio is one that ensures broad and adequate capture of both the on and off-balance sheet sources of the Bank's leverage, aimed at revealing hidden leverage on the Bank's balance sheets. The ratio reinforces the risk-based requirements with a simple non-risk based 'backstop' measure and is intended to restrict the build-up of leverage in the banking sector. The leverage ratio minimum requirement is 3%.

At year-end 2024, the Bank's leverage ratio was 13.2%. Figures 3.5 and 3.6 show the Bank's leverage ratio for the past five years. Despite trending downwards in this period, the ratio is still more than 4 times the minimum 3% requirement.

Table 3.7: Leverage ratio

	2024	**2023**
Tier 1 capital	300,976	281,799
Leverage exposure		
- On balance sheet exposure (excluding derivatives)	2,158,835	1,942,770
- Derivatives instrument exposure	6,062	21,757
- Securities financing transaction exposures	14,820	11,598
- Off balance sheet exposure	116,036	118,051
- Regulatory adjustments to Tier 1 capital	-23,673	-20,664
Total leverage exposure	**2,272,079**	**2,073,512**
Leverage ratio	**13.2%**	**13.6%**

In theory, if the Bank would want to decrease its leverage ratio and aim for the minimum of 3%, it would not be able to do so without breaching other regulated, or internal risk appetite ratios first. Furthermore, off-balance sheet exposures and derivative instrument exposures are not significant factors of the Bank's leverage ratio. The risk of excessive leverage is thus not considered a significant risk factor for the Bank. Leverage ratio is nevertheless a part of the Bank's risk appetite and is considered a relevant risk indicator both in the Bank's ICAAP/ILAAP, as well as within BRRD. The Bank has management actions in place to meet scenarios that would adversely affect the Bank's leverage ratio. Further quantitative information regarding the Bank's leverage ratio can be found in templates LR1, LR2 and LR3 in the additional disclosures accompanying this report.

Figure 3.5: Leverage ratio

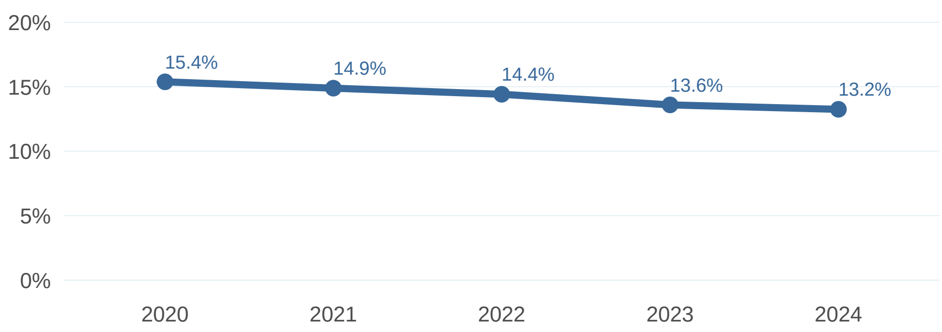
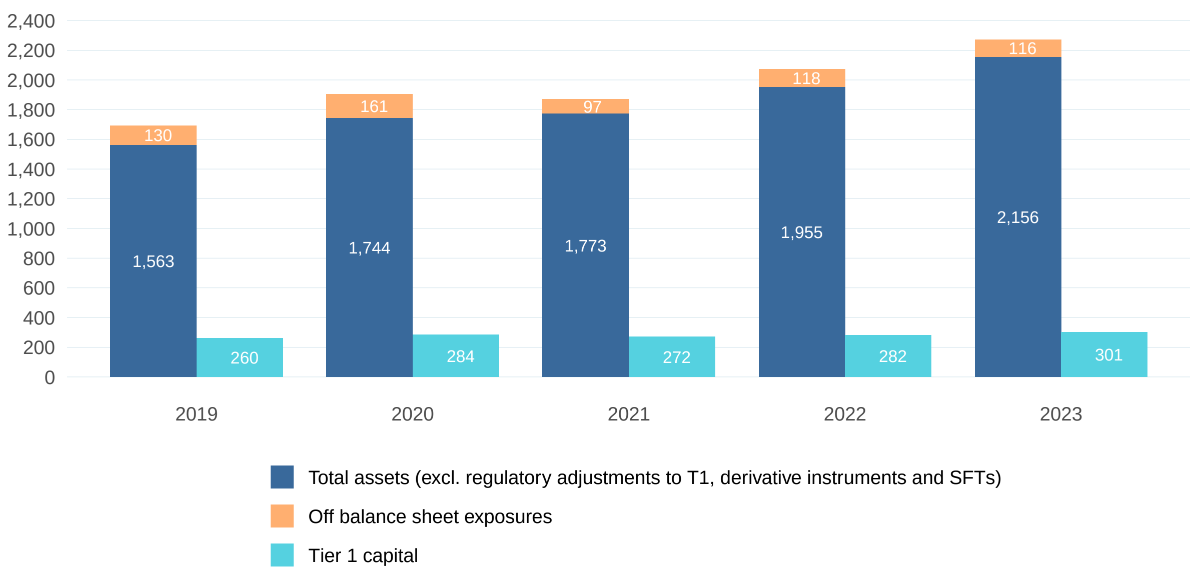


Figure 3.6: Leverage ratio breakdown (ISK bn)



3.6 Minimum requirement for own funds and eligible liabilities (MREL)

The Act on Recovery and Resolution of Credit Institutions and Investment Firms No. 70/2020, as amended, implementing the Bank Recovery and Resolution Directive 2014/59/EU (BRRD) and Directive 2019/879 (BRRD II), provides for the determination by the Central Bank of Iceland's Resolution Authority of minimum requirement for own funds and eligible liabilities (MREL).

On 4 October 2024 the Resolution Authority announced it's latest annual MREL decision for the Bank. The decision entails that the Bank must at all times maintain a minimum of 21.0% of MREL funds, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA) and a minimum of 6.0% as a percentage of the Bank's Total Exposure Measure (TEM).

The decision also introduces a new 13.5% MREL subordination requirement, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA), which must be fulfilled as of 4 October 2027.

The MREL-TREA and the MREL Subordination Requirements must be met without regards to the combined buffer requirement (CBR), which must be separately fullfilled alongside the MREL-TREA and the

MREL Subordination Requirement.

Further quantitative information regarding the Bank's MREL can be found in templates KM2, TLAC1 and TLAC3 in the additional disclosures accompanying this report.

Table 3.8: Minimum requirements for own funds and eligible liabilities (MREL)

	31.12.2024		31.12.2023	
Own funds and eligible liabilities	**Amount**	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Common Equity Tier 1 (CET1)	300,976	21.5%	281,798	22.0%
Additional Tier 1 capital (AT1)	-	0.0%	-	0.0%
Tier 2 capital	39,989	2.9%	20,176	1.6%
Eligible Senior Non-preferred bonds	15,640	1.1%	-	0.0%
Sum of Subordinated MREL funds	**356,605**	**25.5%**	**301,974**	**23.6%**
Eligible Senior Preferred liabilities	178,037	12.7%	182,851	14.3%
Sum of MREL funds	**534,642**	**38.2%**	**484,825**	**37.9%**
MREL-TEM Requirement				
Recurring MREL-TEM requirement	136,798	9.8%	124,411	9.7%
MREL-TREA Requirement				
Recurring MREL-TREA requirement	294,219	21.0%	276,358	21.6%
Combined Buffer Requirement (CBR)	138,703	9.9%	120,267	9.4%
Sum of MREL-TREA Total and Combined Buffer	**432,922**	**30.9%**	**396,625**	**31.0%**
MREL Subordination Requirement				
Recurring Subordination Requirement	189,141	13.5%	-	-
Combined Buffer Requirement (CBR)	138,703	9.9%	-	-
Sum of MREL Subordination and Combined Buffer Requirements	**327,844**	**23.4%**	-	-

The MREL maximum distributable amount (M-MDA) is the maximum amount that the Bank is allowed to distribute via various actions, including dividend payments to shareholders, buy-back of own shares and payments of variable remuneration. These MREL restrictions are in addition to other own funds requirements.

Table 3.9: Maximum distributable amount related to MREL

	31.12.2024		31.12.2023	
	Amount	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Total MREL funds above MREL-TEM Requirement	397,844	28.4%	360,414	28.2%
Total MREL funds above MREL-TREA Requirement	101,720	7.3%	88,200	6.9%
Subordinated MREL funds above MREL Subordination Requirement	28,761	2.1%	-	-
Maximum Distributable Amount related to MREL (M-MDA)	**28,761**	**2.1%**	**88,200**	**6.9%**

4 Credit risk

Credit risk

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

- The Bank's total risk-weighted exposure to credit risk was ISK 1,254 billion at year-end 2024, increasing by 9.6% from the previous year. Loans and advances to customers carry the most credit risk of the Bank's assets.
- Total credit exposure from lending to customers increased by 11% in 2024 and amounted to ISK 1,807 billion at year end.
- The Bank experienced high demand for indexed loans, both from corporates and individuals, in 2024.
- Probability of default, weighted by gross carrying amount, decreased to 1.4% at year-end 2024 (2023: 1.5%).
- Total expected credit loss was ISK 11.2 billion at year-end 2024 (2023: ISK 11.9 billion).
- Default rates in the credit portfolio remain at low levels, indicating resilience in the portfolio considering prolonged high interest rates.

4.1 Credit risk management

The Bank offers loans, credits, guarantees and other credit-related products as part of its business model and thus takes on credit risk. Regular risk reporting enables the on-going monitoring of the Bank's credit risk position relative to its risk appetite.

The credit risk appetite is converted by the business units to their specific key performance indicators (KPIs) in collaboration with Risk Management. Monitoring functions determine whether credit facilities are granted in accordance with the risk appetite. Risk Management monitors and challenges the performance and reports the progress to the Executive Board and the Board of Directors.

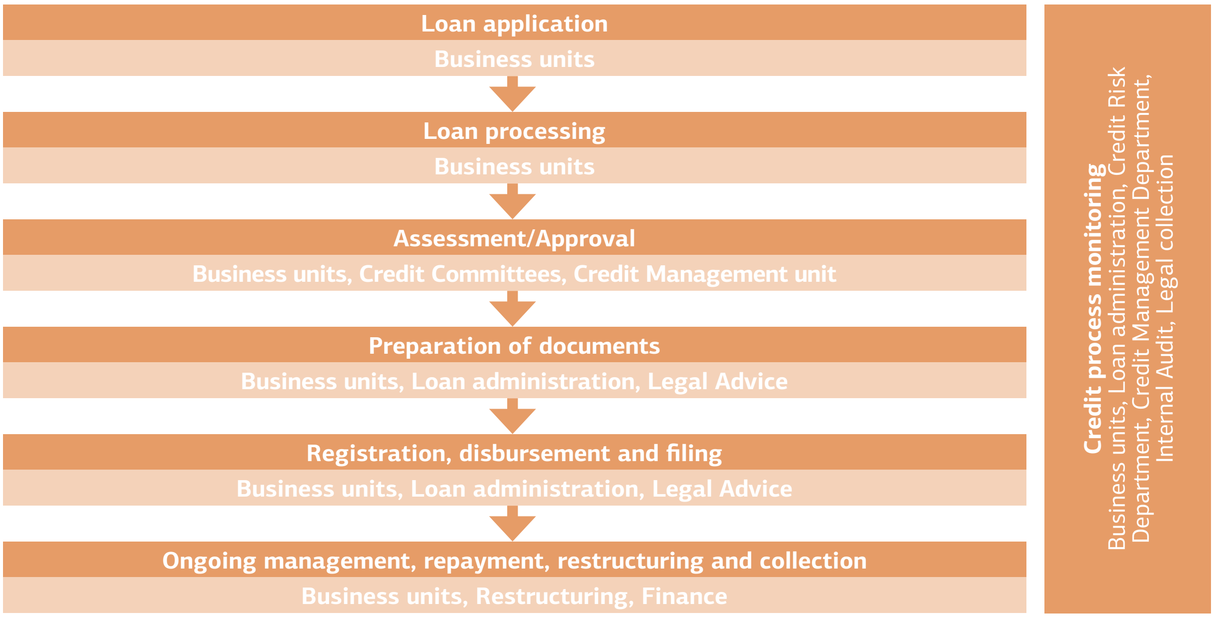
Credit risk is primarily managed through the credit process and the Bank's credit risk models which include PD, LGD and EAD modelling. The models are used for various purposes, such as in provisioning, internal assessment of capital and management reporting.

4.1.1 Identification

Credit risk is defined as the risk of loss if customers fail to fulfil contractual obligations and the estimated value of pledged collateral does not cover existing claims. The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligation to deliver cash, securities or other assets as contractually agreed. Settlement risk is deemed immaterial in the Bank's operations.

Credit risk is the greatest single risk faced by the Bank and arises principally from loans and advances to customers, but also from loans and advances to financial institutions, investments in bonds and debt instruments, investments in equity and equity instruments, commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and the aforementioned settlement risk along with other assets.

Figure 4.1: The credit process



4.1.2 Assessment

Credit risk is primarily measured in three main dimensions: probability of default (PD), loss given default (LGD) and exposure at default (EAD). To measure PD, the Bank has developed an internal rating system, including internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful differentiation of credit quality; and accurate and consistent quantitative estimates of default risk, i.e., probability of default (PD). Internal ratings and associated PD values are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

The rating system has an obligor rating scale which exclusively reflects quantification of the risk of obligor default, or credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors from 1 to 10, with 10 indicating the highest credit quality, and the grade 0 for defaulted obligors. The Bank's default definition is aligned with EBA's Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).

The internal rating system is used to assign ratings and calculate risk-weighted exposure amounts for the majority of the Bank's customers for economic capital. The PD assignment is supported by PD models, where information such as industry classification, financial accounts and payment behaviour is considered. The PD models are calibrated to accurately reflect the default risk under EBA/GL/2016/07. Additionally, external ratings from Standard & Poor's, Moody's and Fitch, are used for foreign credit institutions, and ratings from Creditinfo for new retail customers.

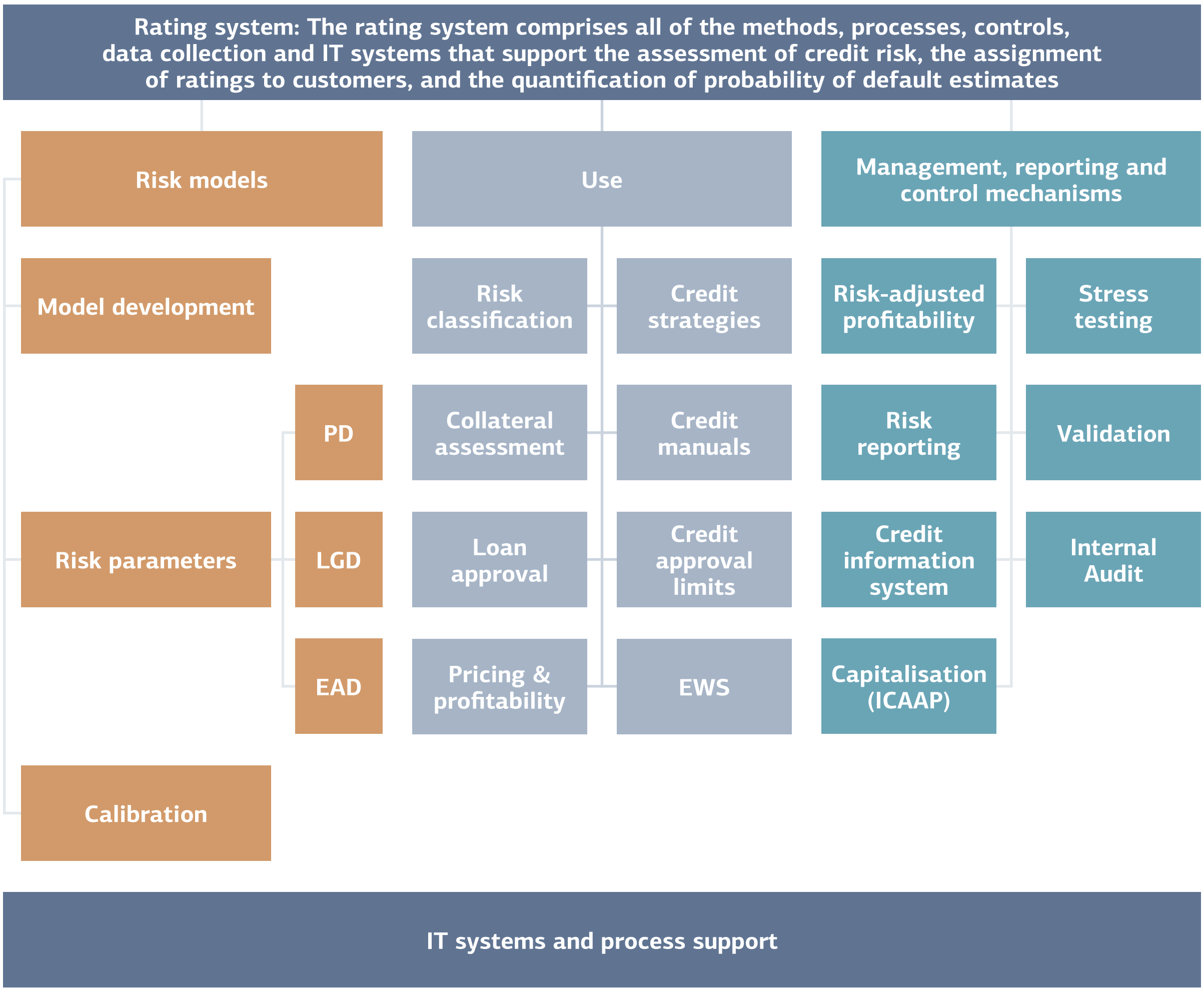
The rating assignment and approval is an integrated part of the credit approval process and assignment is updated at least annually, or when material information regarding the obligor or exposure becomes available.

The Bank's estimation and validation process includes quality controls to assess the performance of models, procedures and systems, and is designed to ensure the accuracy of risk parameters through adjustments where necessary.

Table 4.1: Internal mapping from internal rating grade to external rating agencies

Internal rating grade	Standard & Poor's and Fitch	Moody's	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	Aaa/Aa1/Aa2/Aa3	0.00%	0.04%
9	A+/A/A-	A1/A2/A3	0.04%	0.10%
8	BBB+	Baa1	0.10%	0.21%
7	BBB/BBB-	Baa2/Baa3	0.21%	0.46%
6	BB+/BB	Ba1/Ba2	0.46%	0.99%
5	BB-	Ba3	0.99%	2.13%
4	B+	B1	2.13%	4.54%
3	B	B2	4.54%	9.39%
2	B-	B3	9.39%	18.42%
1	CCC/C	Caa1/Caa2/Caa3/Ca/C	18.42%	99.99%

Figure 4.2: Rating system overview



Internal rating models are validated annually, both quantitatively and qualitatively. The quantitative validation includes statistical tests of the models' discriminatory power, i.e. the models' ability to distinguish default risk, and absolute accuracy, i.e. the ability to predict default levels.

The PD parameters are validated annually by a quantitative and qualitative assessment, and re-estimated when the validation deems it necessary. PD estimates are based on long-term observed default frequency in available internal data and adjusted through an add-on. The adjustment for the length of internal data available is embedded in the margin of conservatism which also includes an add-on to compensate for statistical uncertainty in the estimation.

LGD is measured using an internal LGD model for the internal assessment of economic capital and provisioning. The LGD model takes into account more types of collateral and is more sensitive to the collateralisation level than calculations defined in the Basel framework, under the standardised method, and is calibrated to internal historical loss data.

EAD is an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) when the borrower defaults. The Bank uses the standard approach for estimating RWEA and internal assessment of economic capital but uses internal models for provisioning.

4.1.3 Management and policy

The Bank's credit risk management objective is to ensure compliance with the Bank's credit policy, which entails that the only risk taken is one that the Bank understands, can evaluate, measure and manage.

The Bank's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within the Risk Management division and the business units. The Bank manages credit risk according to its risk appetite statement, credit policy and industry policies, approved by the Board of Directors, as well as detailed credit policies approved by the CEO. The risk appetite, credit policy and industry policies include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposure to certain industries. The CEO ensures that the risk policy is reflected in the Bank's internal framework of regulations and guidelines. The Bank's Managing Directors are responsible for ensuring that the Bank's business units execute the risk policy appropriately and the CEO is responsible for oversight of the entire process.

Figure 4.3: Credit risk management framework

Incremental credit authorisation levels are defined based on size of units, types of customers and the lending experience of credit officers. The Bank applies automatic credit approval processes for simpler and low-risk loans to customers. If a loan application does not fulfill requirements for automatic approval the credit decision is subject to approval by the appropriate credit authorisation level. Credit decisions exceeding authorisation levels of business units are subject to approval by Risk Management. The Corporate Banking Credit Committee has authorisation levels exceeding that of individual business unit managers and meets regularly to make credit decisions. Risk Management has veto powers over the decisions of the Corporate Banking Credit Committee and the Bank's Credit Committee. Credit decisions exceeding the authorisation levels of the Corporate Banking Credit Committee are subject to approval by the Bank's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors, which holds the highest credit authorisation within the Bank.

4.1.4 Mitigation

Mitigating risk in the credit portfolio is a key element of the Bank's credit policy, as well as an inherent part of the credit-decision process. Securing loans with collateral is the main method of mitigating credit risk, whereas for some loan products collateral is required by legislation, as in the mortgage finance market, or is standard market practice.

The most important types of collateral are real estate, vessels and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Bank's credit policy. Credit extended by the Bank may be secured on residential or commercial property, land, listed and unlisted securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, etc. The Bank also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

The Bank regularly assesses the market value of received collateral. The Bank estimates the value as the market value less a haircut. A haircut in this context is a discount factor which represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs during the period the asset is held for sale, external fees and loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Bank monitors the market value of mark-to-market collateral and may require additional collateral in accordance with the underlying loan agreements.

In order to further limit the credit risk arising from financial instruments, the Bank enters into netting agreements, under which the Bank is able to set off all contracts covered by the netting agreement against the debt in cases of default. The arrangements generally include all market transactions between the Bank and the customer.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Bank includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take price volatility and the expected costs of repossession and sale of the pledge into account.

4.1.4.1 Counterparty credit risk

Counterparty credit risk (CCR) is the risk arising from the possibility that the counterparty may default on amounts owned on derivative financial instruments and securities financing.

In order to mitigate this risk, the Bank chooses the counterparties for derivatives and margin trading based on stringent requirements. The Bank also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements and similar general netting agreements with financial counterparties. In the case of derivatives, amounts due to and from the Bank are offset when the Bank has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Collateral and margin requirements are in place for all derivative contracts and securities financing transactions the Bank enters into. Collateral management and monitoring are performed daily, and derivative contracts with customers are usually fully hedged.

The Bank's supervision system monitors both exposure and collateral value and calculates an intraday credit equivalent value for each derivative. It also issues margin calls and manages netting agreements.

Information on CCR can be found in templates CCRA and CCR1-CCR6 in the additional disclosures accompanying this report.

4.1.5 Control and monitoring

The Bank has set limits for large exposures as well as policies for exposure ratio for different portfolios to control the credit risk in the Bank's credit portfolio and ensure risk diversification. The credit risk decision process is controlled with limits set in the Bank's Credit rules approved by the Board of Directors. The rules set the limit for each credit decision party within the Bank where the credit approval authority is based on the underlying credit risk measured by exposure size, credit rating and colour classification code.

The credit risk monitoring process is based on regular reporting, monitoring systems and other manual monitoring. There is increased monitoring for significant exposures and for customers with indications of financial difficulties. One of the integral parts of the credit risk monitoring process is the early warning system.

The Bank monitors exposures to identify signs of weakness in customer earnings and liquidity, or other issues that could increase the Bank's credit risk, as soon as possible. To monitor customers, the Bank uses an early warning system, which is supplemental to ratings and classifies credit exposures to four credit risk groups (green, yellow, orange and red). The colour classification is as follows:

- The customer is considered as performing without signs of financial difficulties
- The customer shows indication of deteriorating financial strength, which could lead to financial difficulties
- The customer is or has been in financial difficulties or default
- The customer is in default and in legal collection and/or restructuring

The Credit Risk department within Risk Management and the Bank's business units are responsible for the colour classification of customers.

4.1.6 Impairment process

The Bank uses the three-stage expected credit loss model under IFRS 9. Allowance is calculated as the 12-month expected credit loss (ECL) or the lifetime expected credit loss.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through profit or loss:

- Cash and balances with Central Bank
- Bonds and debt instruments
- Loans and advances to financial institutions
- Loans and advances to customers
- Other assets

Off-balance sheet exposures:

- Financial guarantees and underwriting commitments
- Undrawn loan commitments
- Undrawn overdraft/credit card facilities

When measuring ECL, the Bank uses a forward-focused model in compliance with IFRS 9. This requires considerable judgement over how changes in economic factors affect ECL. ECL reflects the present value of cash shortfalls due to possible default events either over the following twelve months or over the expected life of a financial instrument, depending on credit deterioration from origination.

The Credit Risk Department is responsible for assessing impairment on loans and receivables and a Valuation Team, comprised of the CEO, the managing directors of Finance, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

In general, all impairment charges are loan-specific based on the aforementioned ECL models. If needed, the Valuation Team can assess and issue additional general impairment charges.

For further information on the Bank's impairment process, see Note 83.11(g) in the Bank's Annual Financial Statement 2024.

4.2 Credit portfolio

4.2.1 Risk-weighted exposure amount

The Bank's risk-weighted exposure amount (RWEA) for credit risk was ISK 1,254 billion at year-end 2024, which is an increase of 9.6% from the previous year. The increase is mostly in line with increased corporate and mortgage lending. Table 4.2 shows the RWEA for credit risk at year-end 2023 and 2024, broken down by exposure classes. Further quantitative information regarding RWEA for credit risk can be found in templates CR4 and CR5 in the additional disclosures accompanying this report.

Table 4.2: RWEA and Pillar I capital requirement for credit risk by exposure classes

	31.12.2024		31.12.2023	
	Pillar I	**RWEA**	**Pillar I**	**RWEA**
Central governments or central banks	3	42	3	43
Regional governments or local authorities	255	3,194	230	2,878
Public sector entities	82	1,027	221	2,758
Institutions	718	8,969	1,135	14,183
Corporates	56,538	706,724	51,571	644,640
Retail	7,518	93,970	7,767	97,091
Secured by mortgages on immovable property	26,974	337,172	24,007	300,086
Exposures in default	3,092	38,647	1,646	20,581
Items associated with particular high risk	3,116	38,949	2,816	35,206
CIUs	67	838	65	818
Equities and equity instruments	47	583	34	422
Other items	1,931	24,138	2,062	25,770
Credit risk	**100,340**	**1,254,254**	**91,558**	**1,144,477**

4.2.2 Credit exposure

The Bank's credit exposure is defined as balance sheet items and off-balance sheet items that carry credit risk. For on-balance sheet loans and advances, the exposure is calculated net of accumulated ECL for exposures measured at amortised cost, otherwise at fair value. Off-balance sheet amounts are the maximum amounts the Bank might have to pay out in guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

At year-end 2024, 89.5% of the Bank's RWEA was due to credit risk, most of which comes from lending activities. On the same date, total loans and advances amounted to ISK 1,847 billion (2023: ISK 1,685 billion), with ISK 1,807 billion coming from lending activities (2023: ISK 1,631 billion) and ISK 39 billion from loans and advances to financial institutions (2023: ISK 54 billion).

The maximum on-balance exposure to credit risk was ISK 2,144 billion at year-end 2024. ISK 1,807 billion was derived from loans and advances to customers, ISK 130 billion from cash and balances with the Central Bank, and ISK 118 billion from bonds and debt instruments. The total off-balance exposure at year-end 2024 was ISK 287 billion. ISK 175 billion was derived from undrawn loan commitments, ISK 84 billion from undrawn overdraft/credit card facilities and ISK 28 billion from financial guarantees and underwriting commitments. Further quantitative information regarding the Bank's credit portfolio can be found in templates CR1, CR1-A, CR2, CQ1, CQ3, CQ5, CQ7 and CR3 in the additional disclosures accompanying this report.

4.2.2.1 Credit exposure from lending activities

At year-end 2024, the Bank's total credit exposure from lending activities amounted to ISK 1,807 billion, increasing by 11% from ISK 1,631 billion at year-end 2023. The increased lending was in large part from CPI-indexed loans, both for mortgages and for corporate loans. The risk profile of the credit portfolio remained stable in 2024, despite challenges for customers relating to a prolonged period of high interest rates and inflation above target, reflecting the resilience of the portfolio to adverse external conditions. Refinancing to CPI-indexed loans and other non-forbearance related modifications allow customers to respond to a high-interest rate environment without a significant deterioration in credit quality.

The total average PD weighted by gross carrying amount was 1.4% at year-end 2024 (2023: 1.5%). Excluding loans to financial institutions, the average PD was 1.4% (2023: 1.6%). The average PD for individuals was 0.7% (2023: 0.8%) and the average PD for corporates was 2.1% (2023: 2.4%).

At year-end 2024, the total average LGD weighted by gross carrying amount, excluding loans to financial institutions, was 10.8% (2023: 10.4%). The average LGD for individuals was 6.9% (2023: 7.4%) and the average LGD for corporates was 14.7% (2023: 13.5%).

The carrying amount of loans in stage 3 net of accumulated ECL as a percentage of the total portfolio was 1.1% at year-end 2024 (2023: 1.0%). The ratio was 1.7% for corporates (2023: 1.6%) and 0.5% for individuals (2023: 0.5%). The ratio of the carrying amount of loans and advances to customers past due more than 90 days was 0.2% at year-end 2024 (2023: 0.3%).

The carrying amount of loans and advances to customers past due by 6-90 days decreased slightly in 2024. The ratio of loans past due by 6-90 days was 0.6% at year-end 2024 (2023: 1.0%). For individuals, the ratio was 0.7% (2023: 0.8%) and for corporates, the ratio was 0.6% (2023: 1.2%).

Figure 4.4: Probability of default (PD)

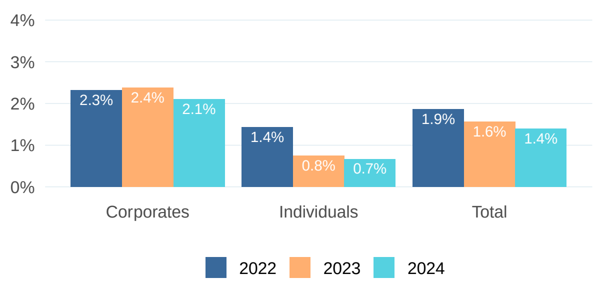


Figure 4.5: Loss given default (LGD)

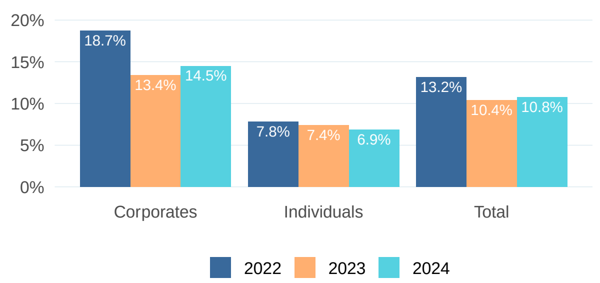


Figure 4.6: Stage 3 loans (% of total portfolio)

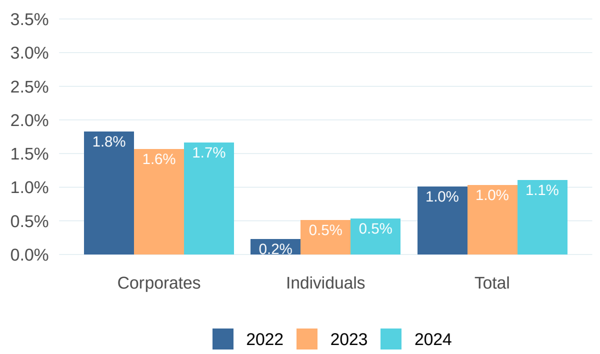


Figure 4.7: Ratio of loans past due 6-90 days

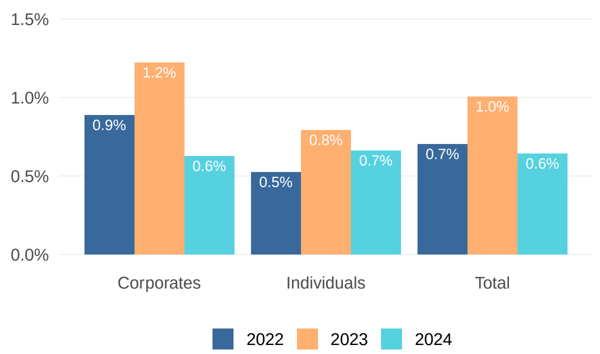


Table 4.3 shows the carrying amount of loans and advances by industry sectors along with key risk metric values. PD and LGD averages in the table are weighted by gross carrying amount, other ratios with carrying amount.

Table 4.3: Overview of credit risk measures by industries

As at 31 December 2024	Carrying amount	PD	LGD	Past due 6-90 days	Stage 2 loans	Stage 3 loans	Total ECL
Public entities	14,302	0.3%	5.0%	0.0%	0.3%	0.0%	-1
Individuals	**886,879**	**0.7%**	**6.9%**	**0.7%**	**2.6%**	**0.5%**	**-1,660**
Mortgages	803,873	0.6%	4.1%	0.6%	2.0%	0.5%	-489
Other	83,007	1.8%	33.5%	1.2%	8.7%	1.2%	-1,172
Corporates	**906,256**	**2.1%**	**14.7%**	**0.6%**	**7.4%**	**1.7%**	**-8,990**
Fisheries	195,754	1.4%	9.0%	0.2%	0.6%	0.8%	-2,783
Real estate companies	233,125	2.2%	11.1%	0.9%	2.1%	0.5%	-632
Construction companies	143,040	3.0%	15.4%	0.2%	5.7%	1.5%	-1,197
Travel industry	110,844	2.5%	17.7%	2.2%	21.2%	8.3%	-2,167
Retail	68,202	1.6%	16.6%	0.2%	6.6%	0.5%	-344
Services and ITC*	65,392	1.9%	23.2%	0.5%	8.4%	0.9%	-415
Manufacturing and energy	43,853	1.9%	31.3%	0.3%	7.7%	0.8%	-773
Holding companies	38,746	3.6%	17.3%	0.0%	40.6%	0.1%	-664
Agriculture	7,299	0.7%	10.2%	0.1%	1.2%	1.7%	-13
Other	1	38.0%	34.5%	99.9%	99.7%	0.0%	0
Total loans to customers	**1,807,437**	**1.4%**	**10.8%**	**0.6%**	**5.0%**	**1.1%**	**-10,651**
Financial institutions	39,346	0.0%	30.0%	0.0%	0.0%	0.0%	0
Total loans including financial institutions	**1,846,783**	**1.4%**	**11.2%**	**0.6%**	**4.9%**	**1.1%**	**-10,651**
As at 31 December 2023	**Carrying amount**	**PD**	**LGD**	**Past due 6-90 days**	**Stage 2 loans**	**Stage 3 loans**	**Total ECL**
Public entities	11,449	0.6%	5.0%	0.0%	0.7%	0.0%	-4
Individuals	**819,151**	**0.8%**	**7.4%**	**0.8%**	**3.5%**	**0.5%**	**-2,382**
Mortgages	730,985	0.6%	4.3%	0.7%	2.4%	0.3%	-1,246
Other	88,166	2.1%	32.5%	1.2%	12.5%	1.9%	-1,136
Corporates	**800,294**	**2.4%**	**13.5%**	**1.2%**	**6.5%**	**1.6%**	**-8,988**
Fisheries	190,233	1.4%	8.2%	0.1%	0.3%	0.6%	-2,771
Real estate companies	176,428	2.3%	9.4%	1.3%	3.7%	1.2%	-930
Construction companies	132,177	2.8%	16.0%	0.1%	4.8%	1.5%	-1,172
Travel industry	107,693	3.3%	17.4%	4.9%	8.7%	4.9%	-2,498
Retail	62,100	3.8%	21.7%	2.8%	5.9%	0.9%	-725
Services and ITC*	64,178	1.5%	19.3%	0.2%	4.8%	0.4%	-330
Manufacturing and energy	32,536	2.5%	18.5%	0.3%	38.1%	0.4%	-382
Holding companies	27,739	4.0%	13.4%	0.1%	36.6%	4.1%	-164
Agriculture	7,210	0.5%	7.9%	0.0%	0.1%	0.0%	-16
Other	0	4.0%	50.1%	0.0%	20.4%	0.0%	0
Total loans to customers	**1,630,894**	**1.6%**	**10.4%**	**1.0%**	**4.9%**	**1.0%**	**-11,374**
Financial institutions	54,101	0.0%	30.0%	0.0%	0.0%	0.0%	0
Total loans including financial institutions	**1,684,995**	**1.5%**	**11.0%**	**1.0%**	**4.8%**	**1.0%**	**-11,374**

*ITC consists of corporations in the information, technology and communication sectors

4.2.2.2 Credit exposures in Grindavík

The Bank's credit exposures in Grindavík, and therefore affected by the ongoing natural disaster in the area, amounted to ISK 45 billion at year-end 2024. Individuals who owned residential real estate in Grindavík had the option of selling their real estate to the state-established real estate company Thórkatla in 2024 and a vast majority has opted to do so. The Bank has issued a loan to Thórkatla to finance the company's procurement of real estate in Grindavík. Outstanding mortgages in Grindavík amounted to ISK 240 million at year end 2024 and the exposure to Thórkatla amounted to ISK 8.9 billion. The credit risk due to mortgage exposures in Grindavík has therefore mostly been transferred from individuals to Thórkatla. Exposure to other corporate entities in Grindavík amounted to ISK 36.6 billion at year end 2024. For further information on credit exposure in Grindavík, see the chapter on loan impairment and Note 3 in the Bank's consolidated financial statements for 2024.

4.2.2.3 Loans to corporates

The Bank's corporate loan portfolio is well diversified across sectors and is almost exclusively (97%) comprised of loans to domestic entities. The largest sectors are fisheries, real estate companies, construction companies and the travel industry.

The corporate portfolio grew by 13% in 2024 and loans and advances to corporate customers amounted to ISK 906 billion at year end. Corporate loans represent 51% of the Bank's loan portfolio. Credit quality, in terms of PD, in the corporate portfolio increased slightly in 2024, with the average PD value decreasing from 2.4% to 2.1%. The average LGD value for corporate loans increased in 2024 and was 14.7% at year end (2023: 13.5%). The ratio of corporate loans in stage 2 increased in 2024 and was 7.4% at year end (2023: 6.5%), while the ratio of corporate loans in stage 3 increased slightly and was 1.7% at year end (2023: 1.6%).

4.2.2.4 Loans to individuals

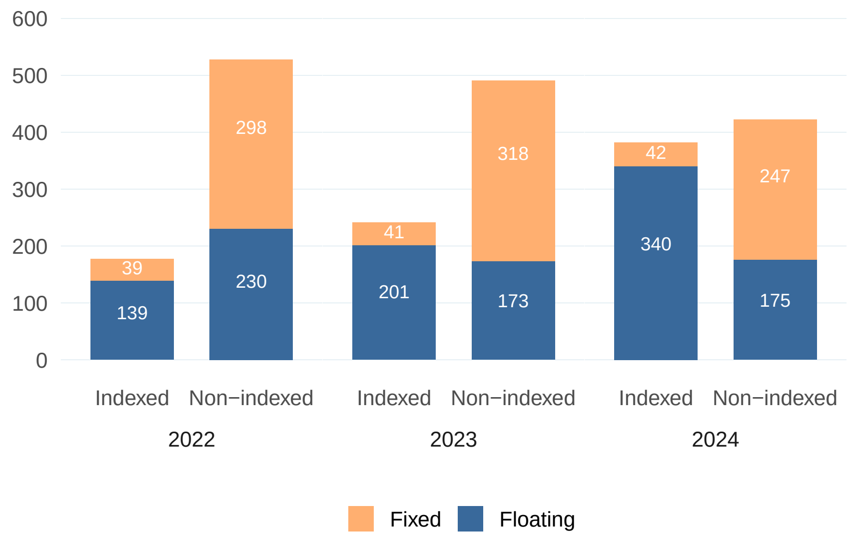
Loans to individuals comprise 49% of the Bank's loan portfolio. A majority of these loans are mortgages, secured by residential properties. Other loans to individuals include car loans, credit cards, overdrafts and other consumer loans.

4.2.2.4.1 Mortgages

The carrying amount of mortgages to individuals in the portfolio was ISK 804 billion at year-end 2024 (2023: ISK 731 billion). Non-indexed loans represented 53% of the carrying amount of the mortgage portfolio at year-end 2024 (2023: 67%). Fixed-rate, non-indexed mortgages amounted to ISK 247 billion at year-end 2024 (2023: ISK 317 billion). Customers can choose to fix rates on their mortgages for either a period of 3 or 5 years at a time. Indexed mortgages amounted to ISK 382 billion at year-end 2024 (2023: ISK 241 billion), of which ISK 340 billion were floating rate mortgages. Floating-rate, non-indexed mortgages amounted to ISK 175 billion at year-end 2024 (2023: ISK 173 billion).

The increase in indexed mortgages is driven by an increased demand from customers as interest rates on non-indexed mortgages remain high. The ratio of indexed mortgages as part of new lending was high in 2024, compared to previous years, and customers have increasingly chosen to refincance their mortgages from non-indexed mortgages to indexed mortgages to reduce their monthly mortgage payments. For most of the mortgage portfolio the loan-to-value ratio and payment capacity of customers remain strong as is reflected in low past due ratios.

Figure 4.8: Indexed vs. non-indexed mortgages (ISK bn)



All new mortgages must meet requirements for credit rating, payment capacity and collateralisation limits. These limits become more stringent as the loan amount increases. The Central Bank of Iceland has set rules on the maximum loan-to-value (LTV) ratio, i.e. the ratio of loan value to the value of the underlying collateral, of real estate loans to consumers. The current rules state that the maximum LTV for new mortgages is 80%, except for first-time buyers, where the maximum is 85%. The rules also include a payment capacity constraint, capping the monthly payment of mortgages to 35% of net monthly income (40% for first-time buyers). These limits were imposed to prevent unsustainable indebtedness for mortgage customers in the portfolio, in a market environment with high interest rates and rising housing prices. In 2024, the Bank lowered the maximum LTV for basic mortgages from 70% to 60%. Customers can still finance up to 80% by utilising an additional mortgage. The maximum duration of CPI-indexed mortgages was also reduced from 30 years to 25 years. As at 31.12.2024, CPI-indexed mortgages are only available with equal instalments. First-time buyers are exempt from these changes, they can still finance up to 85%, for up to 30 years and with equal payments. These changes reflect the Bank's efforts to prevent over indebtedness by customers and supporting the credit quality of the mortgage portfolio.

The weighted average LTV of mortgage loans decreased in 2024 and was 47.6% at year-end (2023: 50.7%). The decrease in LTV is in line with rising housing prices, as the value of real estate underlying the calculation is largely based on official property valuation, which increased by an average of 19.9% for the market as a whole in 2023, and a further 11.7% in 2024. If the LTV per customer is considered for the mortgage portfolio, 83% of the customers in the portfolio have an LTV of 70% and lower, and 98% have an LTV of 85% and lower. Figure 4.10 shows the gross carrying amount at year-end 2024 of indexed and non-indexed mortgages and the weighted-average LTV, as at year-end 2024, by year of loan origination. The figure shows the high demand for non-indexed mortgages in 2021 and 2022 due to favourable interest rates for non-indexed mortgages, and a resurgence of indexed loans from 2023 onwards. The figure also shows a high frequency of mortgage refinancing due to favourable refinancing costs. This leads to a high ratio of the mortgage portfolio being recently issued loans. The weighted-average LTV was 55.5% for loans issued in 2024, around 54.4% for loans issued in 2023 and lower for older loans.

The average PD value for mortgages remained stable in 2024 and was 0.6% at year end (2023: 0.6%).

Figure 4.9: Weighted average LTV - Mortgages

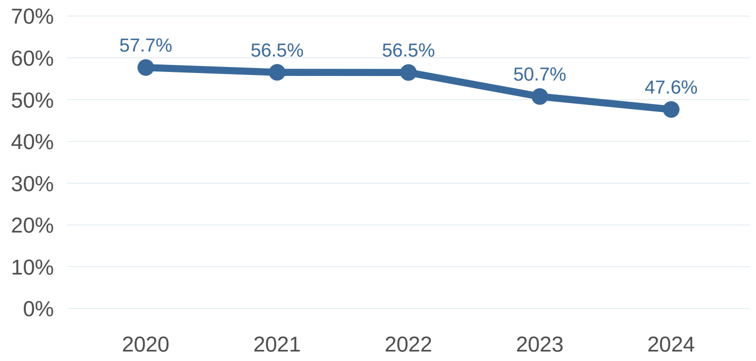
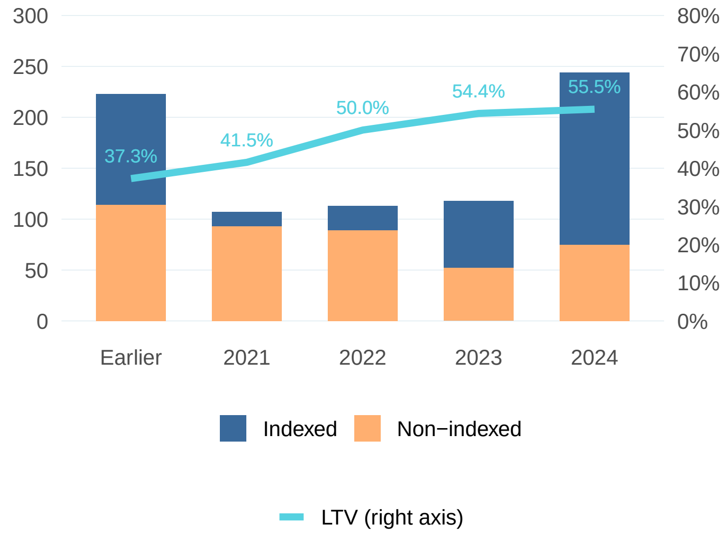
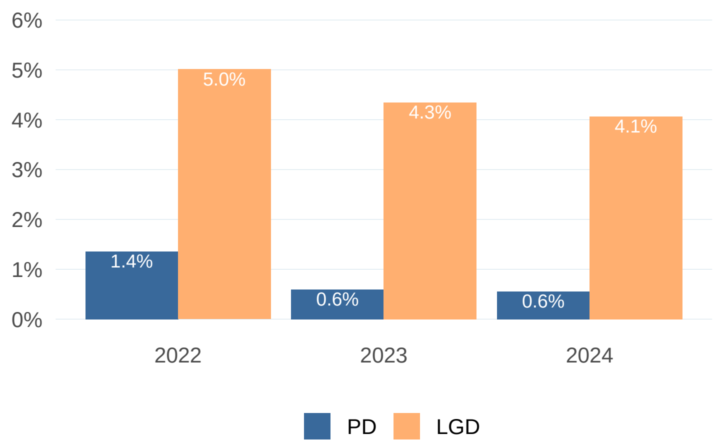


Figure 4.10: Gross carrying amount (ISK bn) and LTV of mortgages at 31.12.2024 by year of loan origination



Total ECL as a ratio of gross carrying amount for mortgages was 0.1% at year-end 2024 (2023: 0.2%). The default rate for mortgages, weighted by gross carrying amount, was 0.4% in 2024 (2023: 0.3%). Default rates and past due ratios have been very low in the mortgage portfolio for the past few years.

Figure 4.11: Average PD & LGD - Mortgages



4.2.3 Probability of default & migration analysis

Migration analysis in this section is based on the Bank's rating scale and PD estimates.

Figures 4.12 and 4.13 show the rating grade distribution of the loan portfolio for corporates and individuals.

Figure 4.12: Rating grade distribution - Corporates

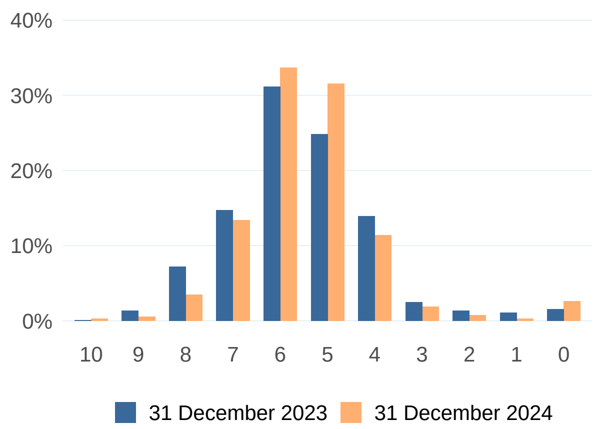
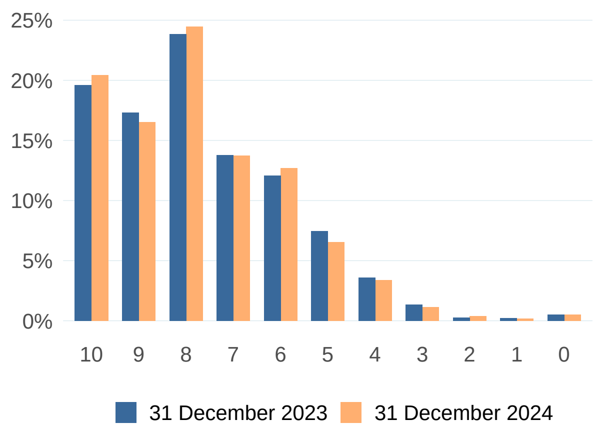


Figure 4.13: Rating grade distribution - Individuals



Figures 4.14 to 4.16 show the rating grade migration for corporates and individuals during 2024, based on existing customers at year-end 2023 and 2024.

Migration is shown both in terms of number of customers and exposure. Migration analysis does not include customers in default, i.e. customers with a credit rating of 0.

The rating and risk grade distribution changes primarily due to three factors: changes in rating grade for existing customers, or pure migration; different rating grade distribution of new customers and customers leaving the Bank compared to the rating grade distribution of existing customers during the comparison period, and; increased or decreased exposure per rating grade to existing customers.

Figure 4.14: Rating migration ratios in 2024

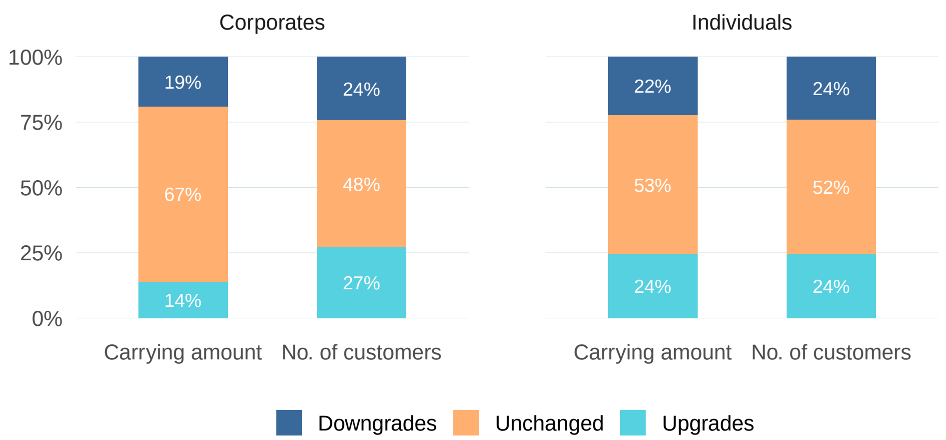


Figure 4.15: Rating migration of corporates in 2024

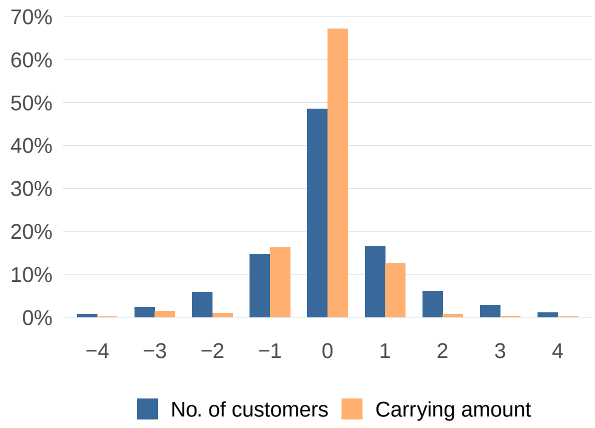
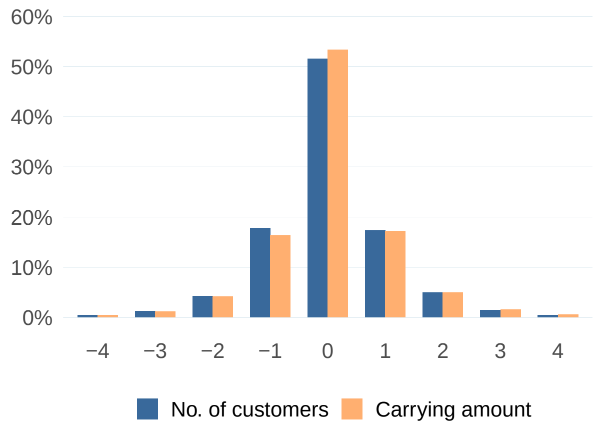
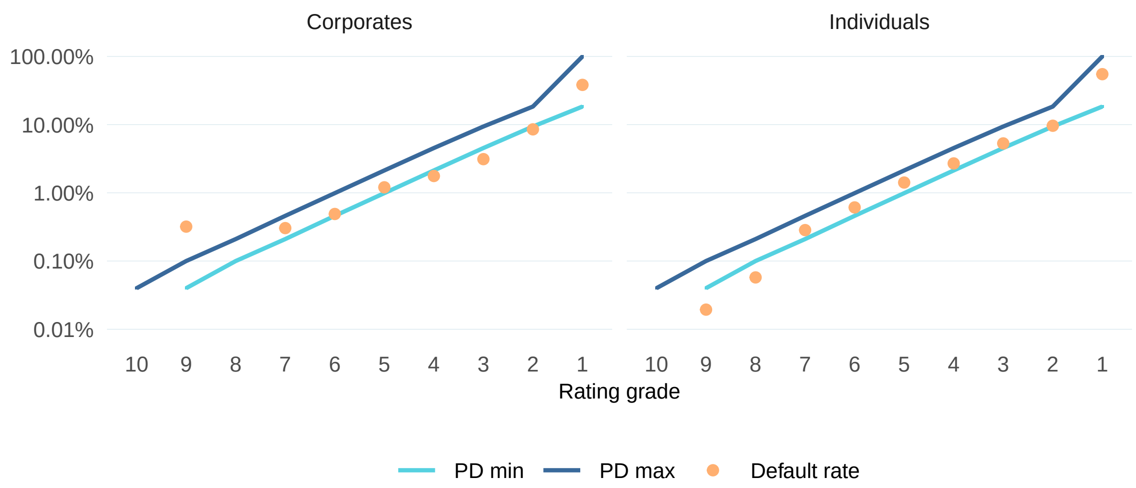


Figure 4.16: Rating migration of individuals in 2024



The default rate, measured by number of customers, was 2.1% for corporate customers in 2024, as compared to the estimated 3.3%. The default rate of individuals for 2024 was 0.8% as compared to the estimated 1.1%. Estimated default rates are based on the average through-the-cycle (TTC) PD values for each rating category at the start of the year. For most rating grades, both for individuals and corporates, the default rate was below the PD bands. For corporates in rating grade 9, the default rate was above the PD band, due to a single default in 2024. For all rating grades for individuals the default rate was below the PD band.

Figure 4.17: 12-month default rate vs. probability of default band



Figures 4.18 and 4.19 show a comparison between realised default rates and estimated PD values at the start of each year, weighted by gross carrying amount and number of customers, for both corporates and individuals. Realised default rates have been consistently below the estimated PD values both for corporates and individuals for the past four years.

Figure 4.18: Default rate vs. PD - Corporates

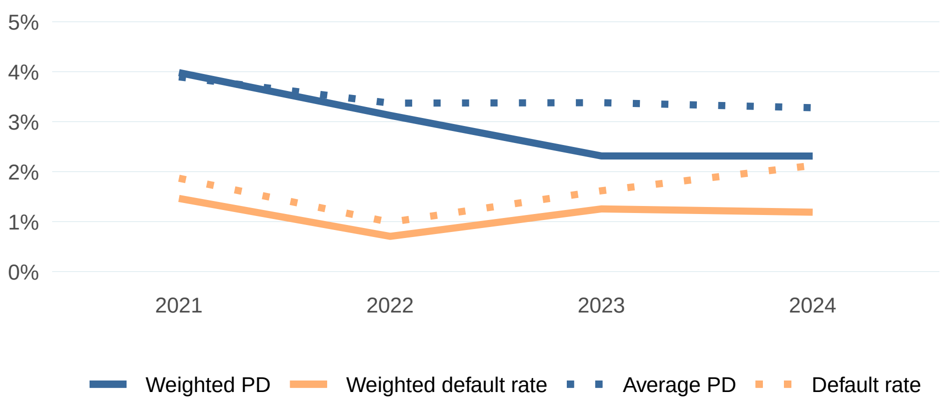
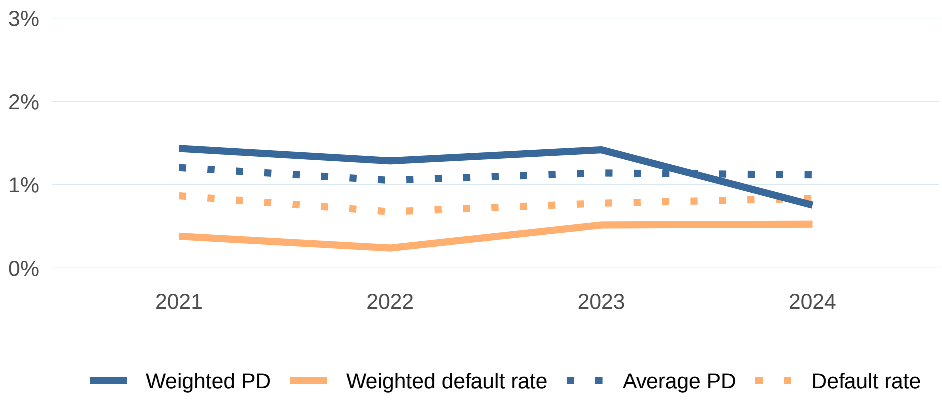


Figure 4.19: Default rate vs. PD - Individuals



4.2.4 Forbearance

The Bank adopts forbearance plans to assist customers in financial difficulty with the goal of protecting the Bank's long-term interests. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees and settlements.

Forbearance plans must comply with the Bank's credit policy. They are used as an instrument to maintain long-term customer relationships for customers with financial difficulties if there is a realistic possibility that the customer will be able to meet obligations again and are used for minimising loss in the event of default.

The Bank has implemented EBA's definition of loans subject to forbearance measures. Table 4.4 is based on EBA's definition where exposures with forbearance measures are divided into performing and non-performing loans.

The gross carrying amount of total exposures subject to forbearance measures decreased from ISK 46 billion at year-end 2023 to ISK 32 billion at year-end 2024, which is a decrease from 2.8% to 1.7% of the total portfolio. Of the ISK 14 billion decrease in forborne exposure, ISK 11 billion is due to loans to the travel industry which were granted COVID related payment moratoria in 2022.

Further quantitative information regarding forborne exposures can be found in template CQ1 in the additional disclosures accompanying this report.

Table 4.4: Exposures subject to forbearance (Gross carrying amount - ISK m)

	31.12.2024		31.12.2023	
	Performing	**Non-performing**	**Performing**	**Non-performing**
Modification	17,176	10,762	26,473	14,677
Refinancing	2,492	1,656	3,406	1,331
- of which: Under probation	4,041	0	7,337	0
Total	**19,668**	**12,418**	**29,878**	**16,008**

4.2.5 Loan impairment

Total expected credit loss (ECL) amounted to ISK 11.2 billion at year-end 2024 (thereof classified as deduction from gross carrying amounts: ISK 10.7 billion), as compared to ISK 11.9 billion at year-end 2023 (thereof classified as deduction from gross carrying amounts: ISK 11.4 billion). In 2024, a net impairment charge of ISK 2.8 billion was recognised in the Bank's income statement, as opposed to an ISK 3.0 billion charge in 2023. ECL increased in stage 2 and 3 in 2024 but decreased in stage 1. For individuals, the total ECL decreased by ISK 722 million while ECL in the corporate portfolio increased by ISK 1 million. Details on the development of ECL during the year can be found in note 60 in the Bank's annual financial statement for 2024.

Figure 4.20: Expected credit loss by stage (ISK bn)

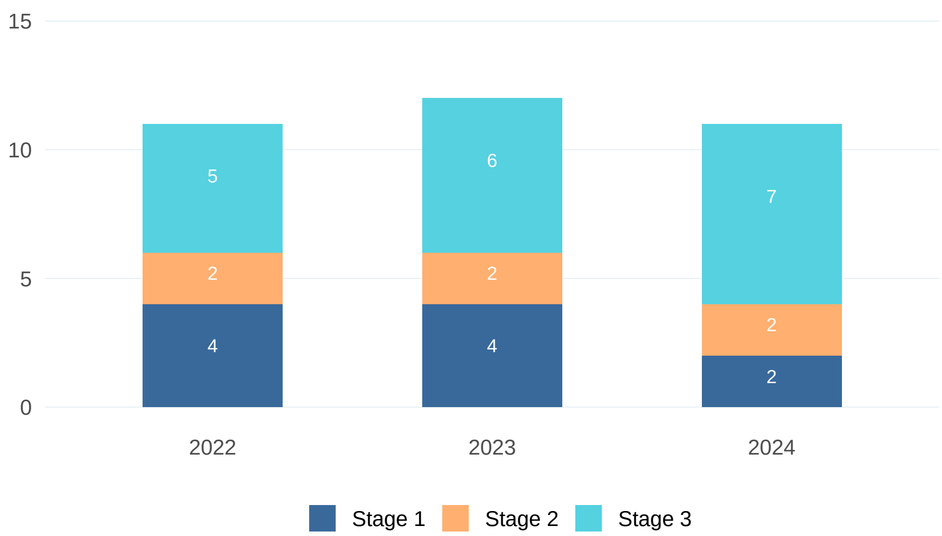


Figure 4.21: ECL to gross carrying amount - Stage 1

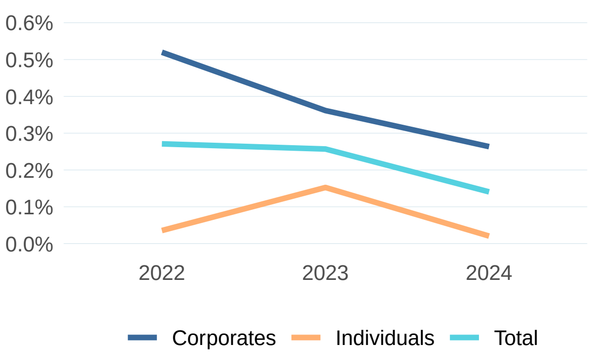


Figure 4.22: ECL to gross carrying amount - Stage 2

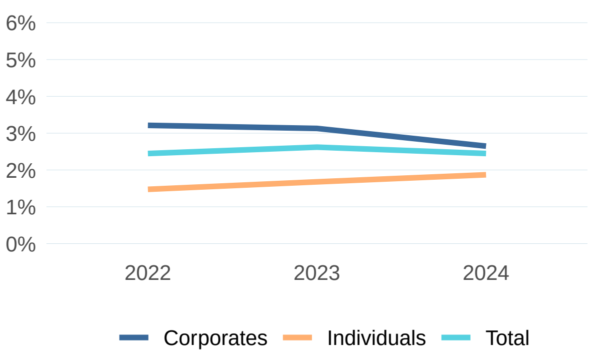


Figure 4.23: ECL to gross carrying amount - Stage 3

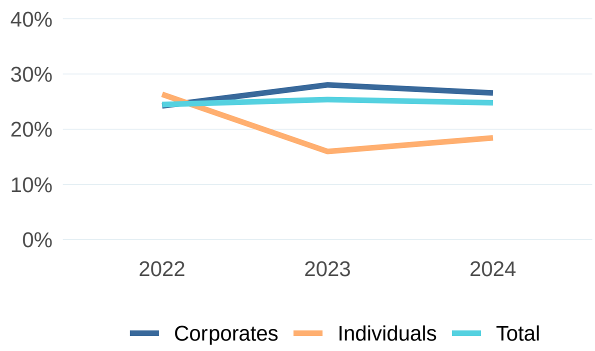
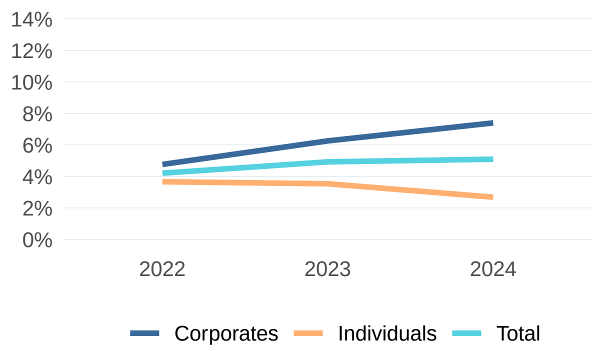


Figure 4.24: Gross carrying amount in stage 2



4.2.5.1 Effects of natural disaster on the Reykjanes peninsula on loan impairment

In response to the ongoing seismic and volcanic episode unfolding in the vicinity of Grindavík, Landsbankinn along with other banks and pension funds, agreed to participate in the State's establishment of real estate company Fasteignafélagið Thórkatla ehf. ("Thórkatla") for the purpose of purchasing residential housing in Grindavík and giving individuals who are legally domiciled in Grindavík the option of selling their properties to the company with pre-emption. The Bank also responded by being party to an agreement, concluded under the auspices of the Icelandic Financial Services Association, to cancel interest and inflation-indexation on housing mortgages of the Bank's customers in Grindavík. As at 31.12.2024, the majority of these mortgages has been paid up and the accompanied risk transferred to the Bank's loan to Fasteignafélagið Thórkatla ehf. A part of the Bank's Grindavík-based corporate customers sought temporary forbearance measures from the Bank, and a part of these measures still apply.

In 2024, the Bank performed a detailed risk assessment of loans to larger corporates in Grindavík on a quarterly basis and staging is based on that assessment. Non-defaulted loans to smaller Grindavík-based corporates are all classified as stage 2. Housing mortgages to retail customers in Grindavík remain stage 2 loans.

The Bank's loan to Thórkatla is recognised at fair value. Changes to the fair value of the loan are entered in the income statement under "Net gain on financial assets and liabilities at fair value". Therefore, the total effect of the natural disaster on the Bank's income statement is not solely through loan impairment. The total effect on loan impairment is an ISK 2.3 billion charge due to the transfer of mortgages to the fair value exposure to Thórkatla, an ISK 252 million charge due to the cancellation of interest and inflation-indexation on housing mortgages, an ISK 939 million reversal due to a reduction in collective allowance, an ISK 1.1 billion charge due to defaults, credit deterioration and other changes. Finally, an ISK 1.6 billion charge is recognised through the reduction in fair value of the exposure to Thórkatla. The total effect amounts to ISK 4.3 billion (of which ISK 2.7 billion through loan impairment). At year-end 2024 the carrying amount of the affected loans amounted to ISK 46.2 billion and total ECL was ISK 1.9 billion.

4.3 Credit concentration risk

Credit concentration risk includes (i) single name concentrations of large (connected) individual counterparties and (ii) significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type, or other.

Limit management for single name and segment concentrations is set, monitored and managed through the Bank's risk appetite and its limit management structure. The Bank's risk profile for concentration risk is reported monthly to the Executive Committee and the Board of Directors according to internal guidelines.

The Bank uses the identification of concentration risk in the credit portfolio as a credit risk management parameter. Concentration risk arises in the credit portfolio as an inevitable consequence of the Bank's business strategy. Concentration risk is credit risk related to the degree of diversification in the credit portfolio and includes both single name concentration risk and segment concentration risk.

According to CRR, exposures to a single customer or a group of related customers – after the deduction of particularly secure claims – may not exceed 25% of common equity tier 1 (CET1) capital. No exposure to a single customer or a group of related customers exceeded 25% in the year 2024 and, at year end, the largest single-customer exposure was well below 25%.

The Bank's risk profile for large exposures is monitored daily by Risk Management and reported monthly to the Executive Committee and the Board of Directors.

As for single name concentration, the Bank's Board of Directors sets portfolio limits for segment concentration in the Bank's risk appetite.

At year-end 2024, lending to individuals represented 49% of the Bank's total credit exposure (2023: 50%). Most of the demand from individuals is for mortgages, and the Bank's lending to individuals is therefore mostly secured by real estate.

The Bank's corporate credit exposures are primarily to Icelandic corporate customers. Companies in the fisheries, real estate, travel and construction sectors represent the largest exposure to single sectors.

Customers domiciled in Iceland accounted for 98% of the Bank's total credit exposure in 2024 (2023: 95%), excluding exposures to financial institutions. The majority of exposures to foreign counterparties relate to management of the Bank's foreign liquidity reserves and are classified as loans and advances to financial institutions.

The Bank estimates sector concentration risk as the difference between sector concentration for Iceland and the sector concentration in the Bank's portfolio. Figure 4.27 shows a comparison of industry concentration between the Bank's portfolio and the portfolios of all Icelandic banks. Data for Iceland is the CBI's most recent data, from November 2024. Note that this sector classification includes the travel industry as part of the services sector.

Figure 4.25: Exposures between 10% and 20% of Tier 1 capital

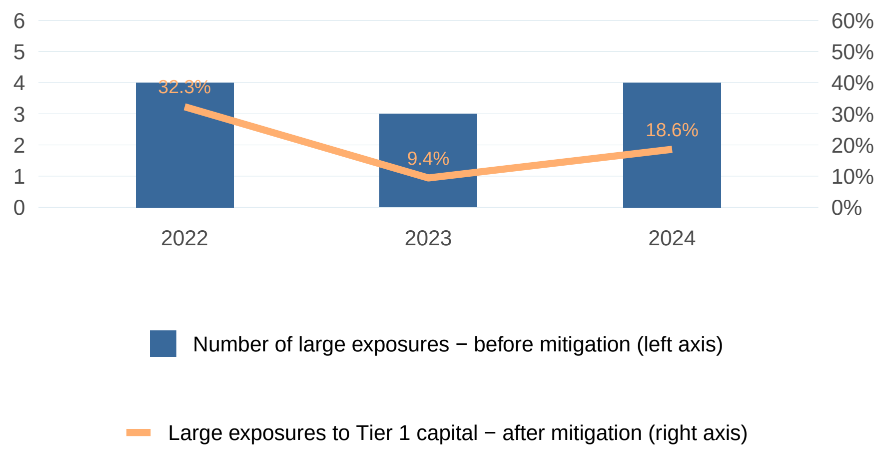


Figure 4.26: Loans and advances by geographical area (ISK bn)

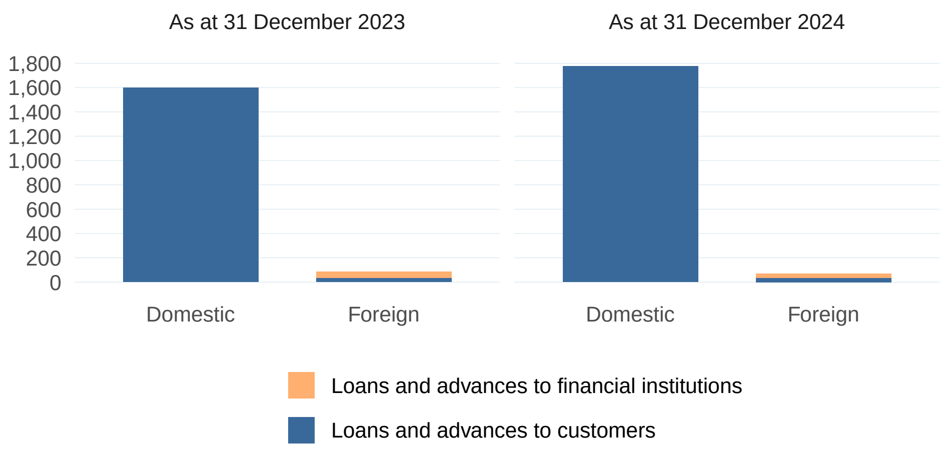


Figure 4.27: Industry concentration

*ITC consists of corporations in the information, technology and communication sectors

5 Market risk

Market risk

Market risk is the possibility of loss in financial instruments because of fluctuations in market prices. Market risk arises from open positions in currencies, equities and bonds. All are exposed to general and specific market movements and changing volatility levels in market rates and prices. This includes foreign exchange rates, equity prices, credit spreads, interest rates and inflation.

- RWEA of market risk decreased in 2024 from 1.6% to 1.1% of total RWEA.
- The biggest change was a decrease in bonds' net position.
- Despite the net FX balance showing large daily fluctuations, FX risk remained within limits.
- Market conditions have been stable this year and the Bank has effectively managed its market risk, which has remained comfortably within the defined risk appetite.

5.1 Governance, management and policy

The Bank's market risk management objective is to ensure compliance with the Bank's market risk policy, which entails that the only risk taken is one that the Bank understands and can evalute, measure and manage.

The Board of Directors is responsible for determining the Bank's market risk appetite. The CEO and the Risk & Finance Committee are responsible for developing market risk management policy and procedures and setting market risk limits. The Risk & Finance Committee ensures that the risk policy is reflected in the Bank's internal framework of regulations and guidelines. The Bank's Managing Directors are responsible for ensuring that the Bank's business units execute the risk policy appropriately and disclose, without delay, major concerns regarding market risk to the Risk & Finance Committee. Market risk is managed by Treasury, Market Making and Capital Markets. Together, the risk appetite and the market risk policy, approved by the Board of Directors, set the overall limits for market risk management within the Bank in accordance with the Bank's three lines of defence principle.

The aim of the market risk management process is to ensure that market risk levels are within the Bank's risk appetite and to limit the possibility of loss, while maintaining acceptable profitability. Market risk mitigation reflects the Bank's overall risk appetite by identifying the target level for market risk factors and limiting exposure accordingly. Other market risk mitigation plans are made on a case-by-case basis and involve hedging strategies and risk reduction through diversification.

5.2 Monitoring and reporting

Market risk is measured, monitored and reported on a daily, weekly and monthly basis. The market risk limits are monitored by the Market Risk department, with exceptions and breaches reported to the Risk & Finance Committee and other relevant parties as necessary. The department is also responsible for detecting and correcting any deficiencies in compliance to policies, processes and procedures.

Risk reports show the Bank's total risk in addition to summarising risk concentration in different business units and asset classes, as well as across other attributes, as appropriate, pursuant to the Bank's activities. Additional reports on market risk, risk appetite measurements and any concerns regarding market risk are sent to the Board of Directors on a regular basis.

Several indicators are used to assess market risk, including value-at-risk (VaR), profit and loss analysis, delta positions and net positions across different attributes, such as currencies and issuers. These risk measurements are supplemented by specific stress tests and scenario analyses as appropriate, taking the Bank's balance sheet composition and operating environment into account.

5.3 Exposure and measurement

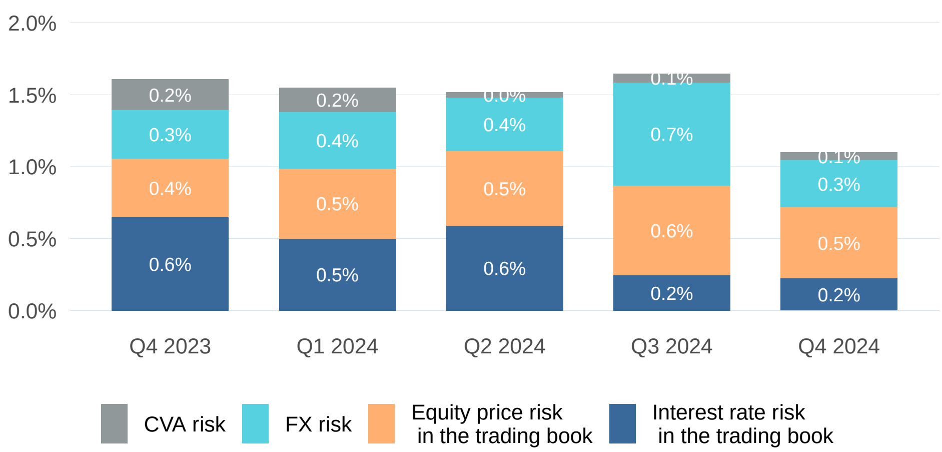
The Bank separates its exposure to market risk into trading and banking book portfolios, managing each separately. Pillar I capital requirements for market risk is composed of Interest rate and Equity price risk in the trading book, Foreign exchange risk and CVA risk, following Capital Requirements Regulation (CRR). Pillar II-R capital requirements for Interest rate and Equity price risk in the trading book and Foreign exchange risk are calculated using Value-at-Risk, according to the Central Bank's benchmark. It also specifies Pillar II capital requirements for Indexation risk and Interest rate and Equity risk in the banking book. Together, Pillar I and Pillar II-R capital requirements form Economic Capital (EC).

RWEA is 12.5 times the Pillar I capital requirement. The ratio of market risk RWEA to total RWEA was moderate and amounted to 1.1% at year-end 2024, compared to 1.6% at year-end 2023. Table 5.1 shows the Bank's net position in each market risk category and the corresponding RWEA. Table 5.1 and Figure 5.1 show the ratio of market risk RWEA to total RWEA.

Table 5.1: Market risk composition at year-end

	2024			2023		
	Net position	**RWEA**	**Ratio to RWEA**	**Net position**	**RWEA**	**Ratio to RWEA**
Interest rate risk in the trading book	8,313	3,115	0.2%	14,447	8,283	0.6%
Equity price risk in the trading book	3,455	6,917	0.5%	2,605	5,219	0.4%
Foreign exchange risk	3,257	4,602	0.3%	3,034	4,303	0.3%
CVA risk	4,144	764	0.1%	10,584	2,753	0.2%
Total	**19,169**	**15,399**	**1.1%**	**30,670**	**20,559**	**1.6%**

Figure 5.1: Market risk composition (Ratio to total RWEA)



5.3.1 Interest rate and equity price risk in the trading book

Trading portfolios include positions arising from proprietary trading and exposures due to market making, derivative sales and hedging. All equity- and bond-based derivative contracts are usually fully hedged with respect to market risk and are subject to strict limit requirements. Fixed income instruments in the trading book mainly comprise government bonds and covered bonds, while all equity instruments are listed on an exchange. This gives rise to interest rate and equity price risk, which is the possibility of loss due to fluctuations in interest rates and equity prices.

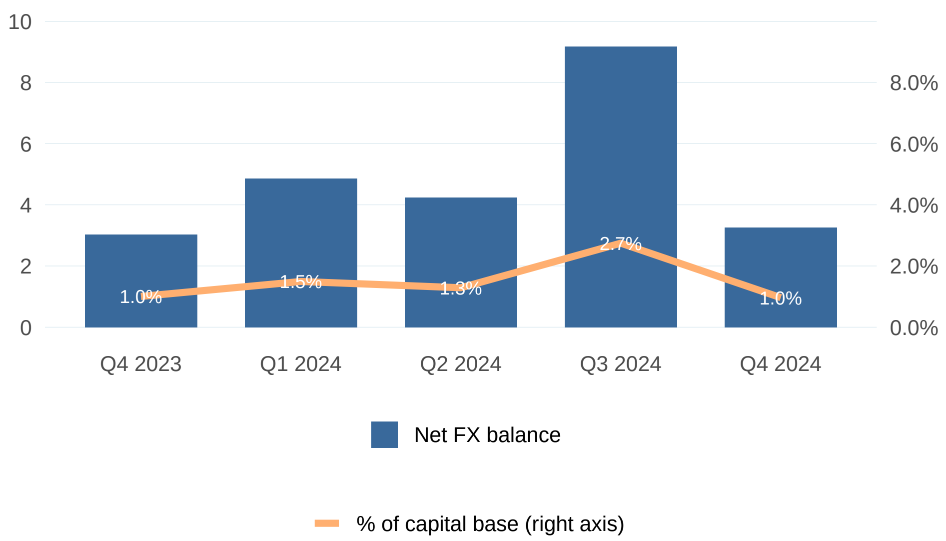
5.3.2 Foreign exchange risk

Foreign exchange risk is the possibility of loss in financial instruments denominated in foreign currencies due to fluctuations in foreign exchange rates. Foreign exchange risk within the Bank may arise from holding assets in one currency and liabilities in another, from spot or forward foreign exchange trades, from currency swaps or from other currency contracts that are not matched with an offsetting contract. The net FX balance can be seen in Table 5.2 and Figure 5.2.

Table 5.2: Net FX balance

	Net position at year-end	
	2024	**2023**
EUR	-228	2,777
GBP	452	523
USD	2,995	-456
NOK	326	271
SEK	163	104
Other	-451	-185
Total	**3,257**	**3,034**

Figure 5.2: Net FX balance (ISK bn)



5.3.3 Credit valuation adjustment

Credit valuation adjustment (CVA) is an adjustment to a derivative's price to account for a potential default of the counterparty. The Bank's derivative contracts are well collateralised, which reduces CVA. As a result, the Bank's CVA is considered immaterial. CVA halved in June 2024, when the bank switched from the Original exposure method to the Standardised approach for counterparty credit risk. Further information about the Bank's exposure to counterparty credit risk can be found in the additional disclosures accompanying this document (see also 4.1.4.1).

5.3.4 Interest rate risk in the banking book

Banking book portfolios include positions arising from the Bank's retail and commercial banking operations and Treasury's proprietary position-taking as part of asset and liability management and funding transactions. Treasury is also responsible for daily liquidity management, creating exposure to market risk. Interest rate risk in the banking book is part of market risk and consists of interest rate sensitive assets and liabilities, such as loans to customers, strategic investments, liquidity management instruments, funding instruments and deposits.

Interest rate risk in the banking book is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Changes in interest rates on the Bank's assets and liabilities impact its interest rate margin and/or the value of its equity. This risk is primarily the result of duration mismatch of assets and liabilities. Net positions of assets and liabilities in the banking book by the interest rate fixing period are shown in Table 5.3.

Table 5.3: Assets and liabilities in the banking book by interest rate fixing period

	Net position at year-end 2024				
	Up to 3 M	**3-12 M**	**1-5 Y**	**Over 5 Y**	**Total**
Total assets	1,634,013	226,410	247,993	20,104	2,128,520
Total liabilities	1,278,703	74,045	398,068	72,977	1,823,793
Net on-balance sheet position	355,310	152,365	-150,076	-52,873	304,727
Effect of derivatives held for risk management	-172,680	0	172,680	0	0
Net off-balance sheet position	2,000	-2,000	0	0	0
Total interest repricing gap	**184,630**	**150,365**	**22,604**	**-52,873**	**304,727**
	Net position at year-end 2023				
	Up to 3 M	**3-12 M**	**1-5 Y**	**Over 5 Y**	**Total**
Total assets	1,310,081	261,452	329,297	20,419	1,921,249
Total liabilities	1,150,261	107,856	357,649	10,108	1,625,874
Net on-balance sheet position	159,821	153,596	-28,352	10,311	295,375
Effect of derivatives held for risk management	-90,054	0	90,054	0	0
Net off-balance sheet position	2,000	0	-2,000	0	0
Total interest repricing gap	**71,767**	**153,596**	**59,702**	**10,311**	**295,375**

The Bank employs a daily stress test of the interest rate risk in the banking book by measuring the impact of shifting the relevant interest rates for every currency on the fair value of all interest-rate sensitive assets and liabilities in the banking book. Table 5.4 shows the sensitivity of the Bank's banking book fair value resulting from a 100 bps parallel shift up and down of all yield curves.

Equities and some bonds in the banking book are legacy positions obtained through corporate restructuring or acquired when the Bank was established in 2008. Capital reserved against these exposures is classified as credit risk.

Table 5.4: Interest rate risk (fair value sensitivity) in the banking book at year-end

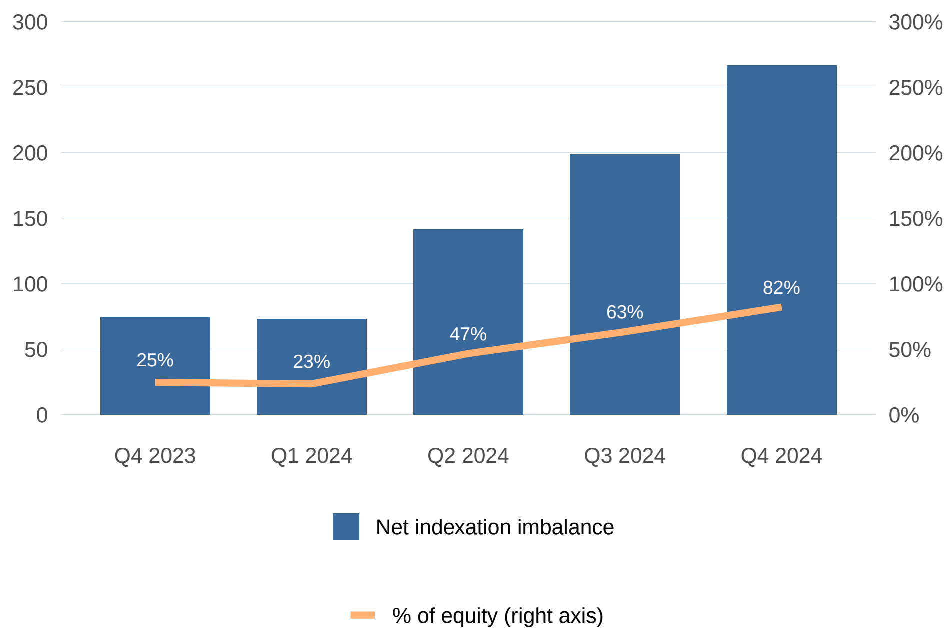
	2024		2023	
	+100 bps	-100 bps	+100 bps	-100 bps
ISK non-indexed	-2,513	2,640	-4,141	4,405
ISK indexed	3,888	-4,051	1,629	-1,651
EUR	16	-10	1,089	-1,109
SEK	39	-39	4	-3
USD	-138	148	20	-20
Other	23	-23	23	-23
Total	**1,315**	**-1,335**	**-1,376**	**1,598**

5.3.5 Indexation risk

Indexation risk is the possibility of loss in inflation-linked financial instruments due to fluctuations in the Icelandic consumer price index (CPI). Mismatched CPI-linked assets and liabilities expose the Bank to indexation risk. The Bank's total CPI indexation balance increased from ISK 75 billion to ISK 267 billion in 2024. The Bank's aim is to keep the ratio below 80% of equity.

The balance continued to grow in 2024 as in the previous year, with inflation-linked mortgages growing by ISK 140 billion in 2024. CPI-linked liabilities increased less, with borrowing, subordinated liabilities and customer deposits increasing by total ISK 15 billion. Further information about the Bank's market risk can be found in template MR1 in the additional disclosures accompanying this report.

Figure 5.3: Indexation imbalance



6 Liquidity risk

Liquidity risk

Liquidity risk is the possibility that the Bank will encounter difficulties in meeting obligations associated with its financial liability that are settled by delivering cash or another financial asset, or that such a settlement involves excessive costs. Liquidity risk arises from mismatches in the timing of cash flows of financial assets and liabilities, which is inherent to the Bank's operations and investments.

- Liquidity risk is identified as one of the Bank's key risk factors. The Bank's policy is to have a strong liquidity position near- and long-term. This is reflected in the Bank's risk appetite, business plan, internal liquidity management policies and rules.
- The Bank's liquidity position at year-end 2024 was well above regulatory requirements and the Bank's internal limits. At year-end 2024, the liquidity coverage ratio was 164% across all currencies, 951% in EUR and 133% in ISK (181%, 1,499% and 129% at year-end 2023, respectively).
- The largest part of the Bank's funding is in the form of deposits from customers, which increased by 180 billion in 2024 and amounted to ISK 1,228 billion at year-end.

6.1 Identification

The Board sets the liquidity management policy and the liquidity contingency plan of the Bank. Liquidity risk management refers to the internal policies and procedures, which ensure that quantitative and qualitative objectives, limits and reporting are established. The policy describes how the Bank identifies, evaluates, measures, monitors, manages and reports its liquidity. The policy clearly outlines the structure, responsibilities and controls for managing liquidity risk within the Bank. The contingency plan provides a framework for detecting an upcoming liquidity event with predefined early warnings and actions for preventing temporary or longer-term liquidity disruptions.

6.2 Assessment

The main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). They help the Bank monitor and manage its short-term and longer-term liquidity risk.

6.2.1 Liquidity coverage ratio

The Bank uses LCR as a key indicator for short-term liquidity risk. The objective of LCR is to promote short-term resilience, by ensuring that the Bank has sufficient high-quality liquid assets to withstand a significant stress scenario lasting 30 calendar days. LCR is calculated as the ratio of high-quality liquid assets to the expected total net outflow over the next 30 days, under a specified stress scenario. To prevent over-reliance on the estimated inflow, it can at most be 75% of the estimated outflow.

The Group follows guidelines No. 2/2010 from the Financial Supervisory Authority (FSA) of the Central Bank of Iceland (CBI) on best practice for managing the liquidity of financial undertakings. CBI's Rules No. 1520/2022 on LCR, require the Group to maintain a minimum LCR of 100% across all currencies, 80% in euros and 50% in Icelandic krona. The Group submits reports to the CBI on LCR monthly. Quantitative information on the Bank's LCR at year-end 2024 can be found in the additional disclosures accompanying this document.

Table 6.1 shows the Bank's deposit base at year-end 2024. Run-off rates are used to estimate deposit outflows under stressed conditions for the next 30 calendar days and are set according to CBI's Rules No. 1520/2022 on LCR. Figure 6.1 and Figure 6.2 show further breakdown of the Bank's deposit base.

Table 6.1: Total deposits by groups

As at 31 December 2024	**Run off rate**	**0-30 days**	**Over 30 days**	**Guaranteed**	**Unguaranteed**	**Total**
Individuals	5-100%	505,365	168,177	477,338	196,204	673,542
Small and medium sized corporates	5-100%	101,771	14,010	64,961	50,819	115,780
Operational deposits	5-25%	0	0	0	0	0
Large corporates	20-40%	212,627	66,565	12,344	266,848	279,192
Public entities	20-40%	58,635	6,870	0	65,505	65,505
Financial customers	100%	37,162	44,654	0	81,816	81,816
Pledged deposits		23,366	1,231	2,809	21,788	24,597
Total deposits		**938,926**	**301,507**	**557,453**	**682,980**	**1,240,433**

Figure 6.1: Total deposits by maturity

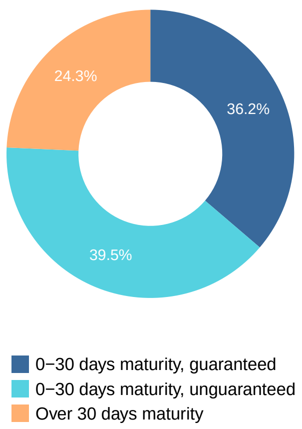
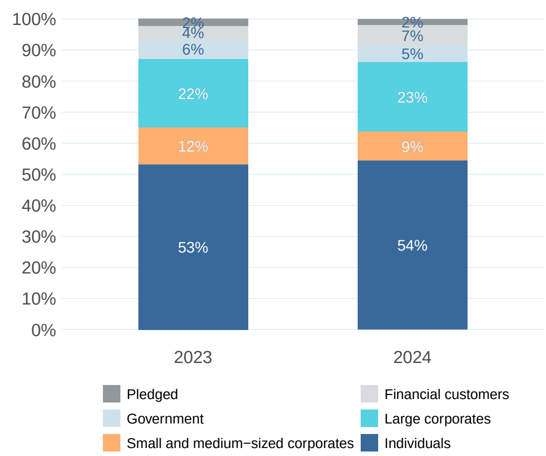


Figure 6.2: 0-30 days maturity deposits by groups*



*According to the Central Bank's Rules on Liquidity Coverage Requirements.

Figures 6.3, 6.4 and 6.5 show the development of the Bank's LCR across all currencies, in EUR and in ISK, respectively.

Figure 6.3: Liquidity coverage ratio (total)

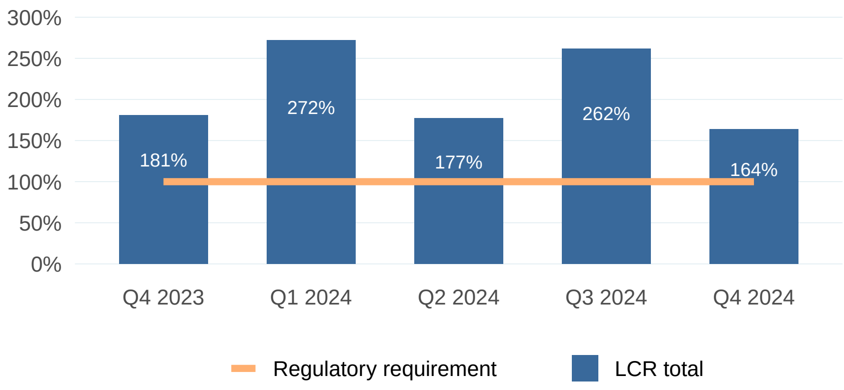


Figure 6.4: Liquidity coverage ratio (EUR)

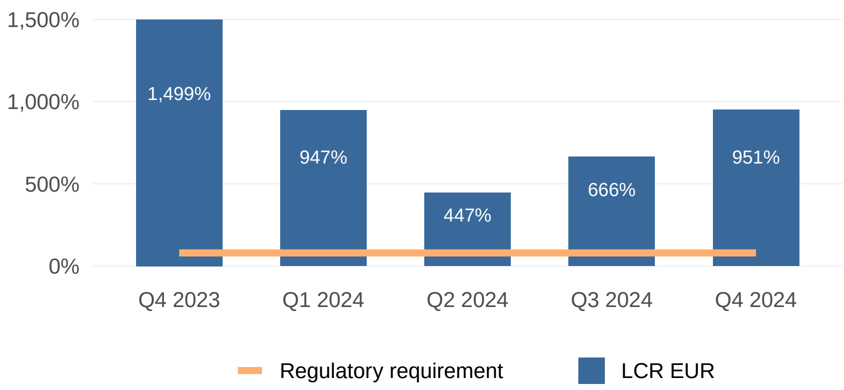
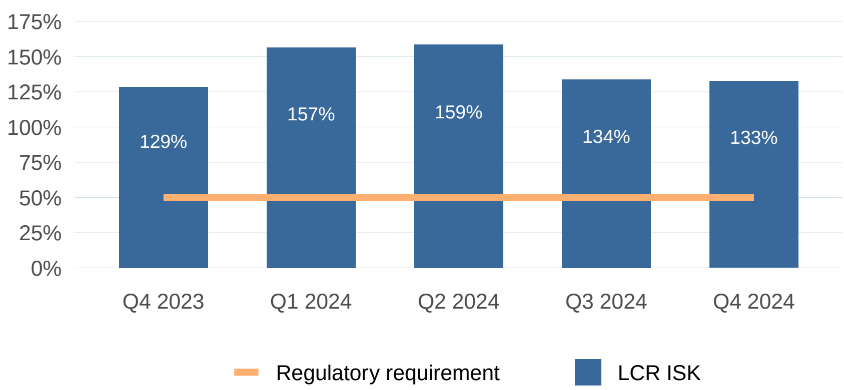


Figure 6.5: Liquidity coverage ratio (ISK)



6.2.2 Net stable funding ratio (NSFR)

The Bank uses NSFR as a key indicator for medium- to long-term liquidity risk. Its objective is to capture structural issues in the balance sheet over the next 12 months, with the aim to balance the maturity structure of assets and liabilities and to limit overreliance on short-term funding of long-term assets.

NSFR is defined as the ratio between the amount of available stable funding to the amount of required stable funding. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR. Required stable funding is a function of the liquidity characteristics and residual maturities of the various assets and off-balance sheet (OBS) exposures held by the Bank.

NSFR requirements are according to Regulation (EU) 575/2013 (CRR), as amended by Regulation (EU) 2019/876 (CRR II). The CBI's rules on the NSFR of credit institutions – most recently Rules No. 750/2021 – were repealed in 2023. The Group is required to maintain a minimum NSFR of 100% across all currencies at all times. The Group submits reports to the CBI on NSFR quarterly. At year-end 2024, the Bank's NSFR was 124% across all currencies and 143% in foreign currencies (123% and 145% at year-end 2023, respectively). Figures 6.6 and 6.7 show the development of the Bank's NSFR across all currencies and in foreign currencies, respectively.

Figure 6.6: Net stable funding ratio (total)

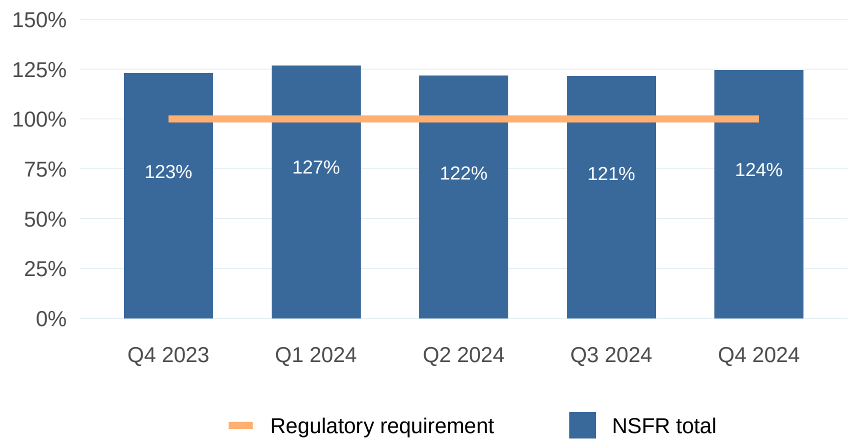
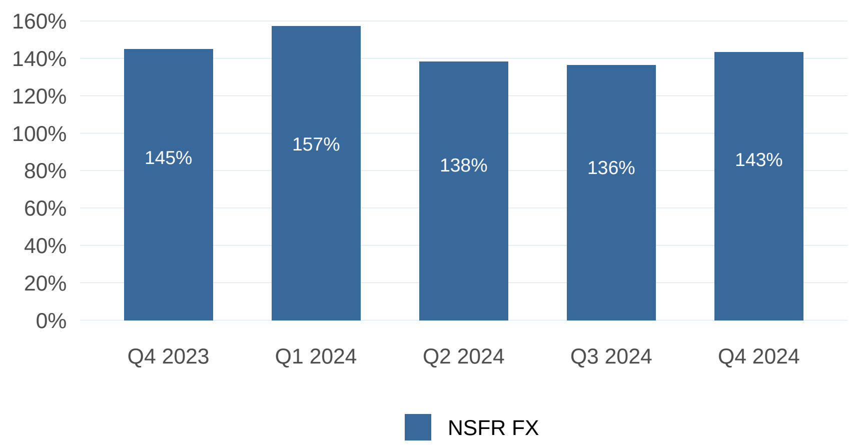


Figure 6.7: Net stable funding ratio (FX)



6.3 Management

The Bank's liquidity management policy requires that adequate level of unencumbered, high-quality liquid assets can readily be converted into cash. The Bank's liquidity management process entails procedures, measurements, monitoring and reporting of both short- and longer-term liquidity risk, as well as structural issues in the balance sheet. This three-way split can be seen in Figure 6.8, including the components of each part.

An integral part of the liquidity management process is to conduct forward-looking analysis, by taking the Bank's commitments to estimate future liquidity position. The Bank has implemented stringent stress tests, which have a realistic basis in the Bank's operating environment. This ensures that the Bank can meet financial obligations and sustain withdrawals of deposits in a timely manner and at a reasonable cost, even under stressed conditions.

The Bank's liquidity risk is managed centrally by Treasury, reported by Market Risk and monitored by the Risk & Finance Committee. The Bank's Internal Audit function assesses whether the liquidity management process is designed properly and is operating effectively.

Figure 6.8: Liquidity management process

Short-term liquidity risk

Intra-day
30-90 days (LCR)
Stress testing and scenario analysis

Longer-term liquidity risk

Medium to long-term (NSFR)
Cash flow projections
Stress testing and scenario analysis

Structural issues

Balance sheet mismatches and maturity profiling
Concentration of liquidity
Contingency planning

6.4 Control and monitoring

The Bank's Treasury Department is responsible for day-to-day liquidity management, which entails closely monitoring current trends and potential market developments that may present significant and complex challenges for the Bank's liquidity strategy. Liquidity risk is primarily controlled through limits set in the Bank's risk appetite and the Bank's liquidity management policy. Limit management is supplemented by regular monitoring and reporting of liquidity position under normal and stressed business conditions. The Market Risk department regularly evaluates the Bank's liquidity position and monitors internal and external events and factors that may affect the liquidity position.

6.4.1 Liquidity Contingency Plan

The Bank has a Liquidity Contingency Plan in place. It provides a framework for detecting an upcoming liquidity event, with predefined early warning indicators and actions for preventing temporary or longer-term liquidity disruptions. It includes a detailed action plan and procedures for managing a liquidity event, along with various management actions aimed at resolving liquidity disruptions.

It specifies ways to estimate the likelihood or imminence of a liquidity event or a confidence crisis. It ensures that early warning indicators are monitored – along with their defined warning and trigger levels – to detect potential liquidity problems. Internal early warning indicators show changes in the Bank's balance sheet composition, decreasing liquidity ratios, deposit outflows and a downward trend in financial ratios. External early warning indicators show rating downgrades, third party evaluations and market price fluctuations. The Bank determines up to four risk alert levels of stress for each early warning indicator. Higher level indicates the increasing likelihood of funds leaving and a liquidity event occurring.

The indicators are monitored weekly by the Risk & Finance Committee and reviewed at least annually by the Board of Directors.

6.5 Funding profile

The Bank continued to be an active issuer in the domestic bond market with regular covered bond issuance in 2024 in addition to issuing Tier 2 bonds in ISK.

Activity in the international capital markets continued in 2024 with two senior preferred issuances in euros and an inaugural senior non-preferred issuance in SEK and NOK.

The Bank's credit rating was raised by one notch to BBB+/A-2 in April and then outlook was changed to positive as of November 2024.

The Bank's covered bond program has been rated by S&P Global Ratings since January 2021. In November 2023 the covered bond rating was raised to A+ with a stable outlook.

6.5.1 Funding

The Bank's funding rests on three main pillars. Deposits from customers are the Bank's primary funding source. The Bank is also funded through borrowing in the form of bond issuance, both in the international markets in foreign currencies and in the domestic market in ISK. Furthermore, the Bank is funded with contributions from owners in the form of equity. Figures 6.9 and 6.10 show breakdowns of borrowings and funding profile.

Figure 6.9: Borrowings and subordinated liabilities (ISK bn)

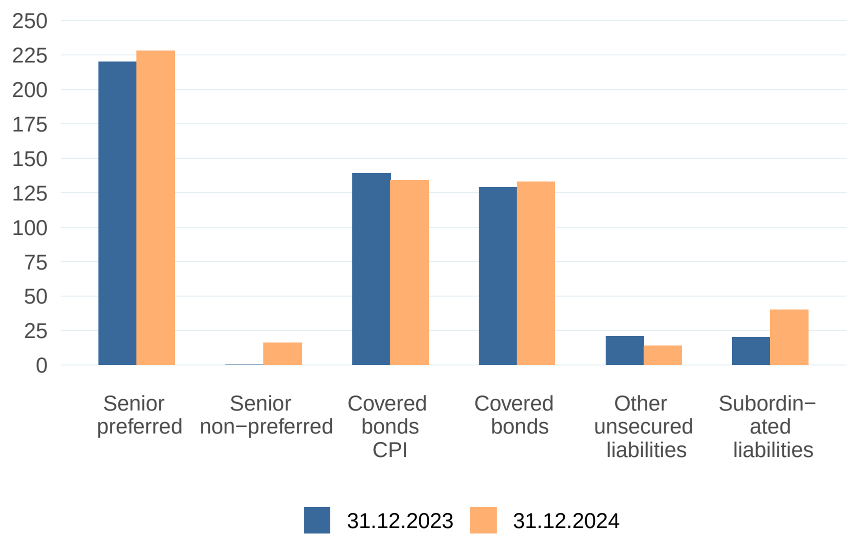
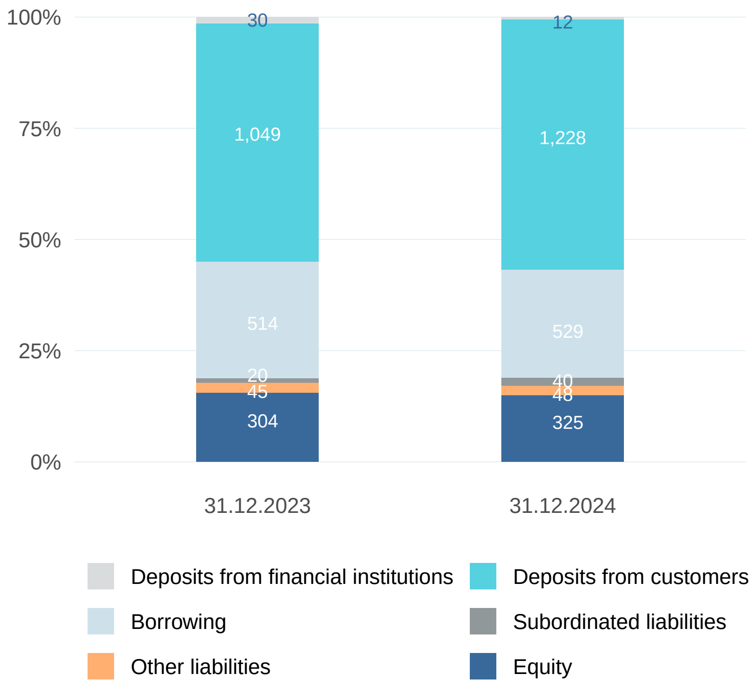


Figure 6.10: Funding profile (ISK bn)



6.5.2 Deposits from customers

The largest part of the Bank's funding is in the form of deposits from customers, which increased by ISK 180 billion in 2024 and amounted to ISK 1,228 billion at year-end. Inflation-linked deposits increased by ISK 2.8 billion in 2024 and amounted to ISK 182 billion at year-end 2024.

6.5.3 Borrowings

6.5.3.1 EMTN Programme and other loans

Senior bond issuance in foreign currencies is the most important pillar in the Bank's international market funding. The bonds are issued under the Bank's EUR 2 billion EMTN programme.

In March 2024, the Bank issued a long 4-year senior preferred green bond in the amount of EUR 300 million. Concurrent with the bond issuance the Bank offered to tender outstanding bonds in euros maturing in May 2024 and May 2025 resulting in a buyback of EUR 84 million and EUR 100m, respectively.

In September, the Bank was the first Icelandic bank to issue senior non-preferred bonds. The Bank issued bonds in the amount of SEK 1,000 million and NOK 250 million.

The Bank issued green 5-year senior preferred bonds for EUR 300 million in October, the fifth green bond issuance in euros. In conjunction with the issuance the bank offered to tender outstanding bonds maturing in May 2025 resulting in a buyback of EUR 125 million.

At year-end 2024, EMTN issuance and other unsecured loans amounted to ISK 257 billion, increasing by ISK 16 billion during the year. Table 6.2 shows the Bank's EMTN issuance.

Table 6.2: EMTN Programme

As at 31 December 2024	Currency	Final maturity	Outstanding principal	Contractual interest rate
Senior unsecured				
LBANK FLOAT 01/25	NOK	20.01.2025	452	NIBOR + 0.79%
LBANK FLOAT 01/25	SEK	20.01.2025	850	STIBOR + 0.80%
LBANK 0.375 5/25	EUR	23.05.2025	75	FIXED 0.375%
LBANK FLOAT 08/25	NOK	18.08.2025	350	NIBOR + 2.35%
LBANK FLOAT 08/25	NOK	21.08.2025	1,000	NIBOR + 3.05%
LBANK FLOAT 08/25	SEK	25.08.2025	450	STIBOR + 3.05%
LBANK 0.75 5/26	EUR	25.05.2026	300	FIXED 0.75%
LBANK 6.375 3/27	EUR	12.07.2027	300	FIXED 6.375%
LBANK 5.00 5/28	EUR	13.05.2028	300	FIXED 5.0%
LBANK 3.75 10/29	EUR	08.10.2029	300	FIXED 3.75%
Senior non-preferred				
LBANK 1.8 9/28	SEK	13.09.2028	1,000	STIBOR + 1.80%
LBANK 1.83 9/28	NOK	13.09.2028	250	NIBOR + 1.83%

6.5.3.2 Covered bonds

The size of the programme for covered bond issuance is EUR 3.5 billion and was increased from EUR 2.5 billion in 2024 and is listed on the Irish stock exchange, Euronext Dublin.

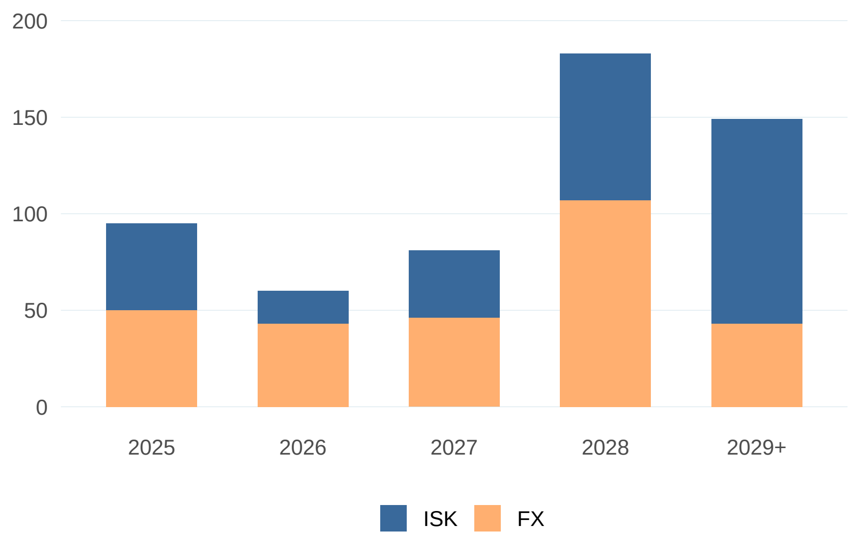
Regular auctions of covered bonds were held in 2024 where previously issued series were tapped and addition to issuance of a new inflation-linked series, LBANK CBI 30. The inflation-linked series LBANK CBI 24 matured in 2024. Agreements with market makers in the secondary market for covered bonds were renewed during the year.

At year-end 2024, outstanding covered bonds amounted to ISK 267 billion, decreasing by ISK 1 billion during the year.

Table 6.3: Covered bonds

As at 31 December 2024	Currency	Final maturity	Outstanding principal	Contractual interest rate
Non-indexed				
LBANK CB 25	ISK	17.09.2025	39,660	3.40%
LBANK CB 27	ISK	20.09.2027	35,280	4.60%
LBANK CB 28	EUR	16.03.2028	42,927	4.25%
LBANK CB 29	ISK	27.09.2029	13,120	8.20%
Indexed				
LBANK CBI 26	ISK	20.11.2026	11,120	1.50%
LBANK CBI 28	ISK	04.10.2028	50,200	3.00%
LBANK CBI 30	ISK	22.02.2030	41,920	3.50%

Figure 6.11: Maturity profile (ISK bn)



6.5.3.3 Commerical paper

No commercial paper auctions were held in 2024 under the ISK 50 billion debt issuance programme. There was no outstanding issuance of commercial paper at year-end 2024.

6.5.3.4 Subordinated bond issuance

In February, the Bank issued subordinated bonds that count toward Tier 2 capital for 11 years, callable in 6 years. The Bank issued inflation-linked bonds in the amount of ISK 12 billion and non-indexed for ISK 3 billion.

In December the Bank offered to buy back Tier 2 bonds maturing in 2029 resulting in a buyback of ISK 3.820 million.

The Bank issued subordinated bonds that count toward Tier 2 capital in December, inflation-linked bonds for 11.5 years, callable in 6.5 years in the amount of ISK 7,640 million.

Subordinated bond issuance under the Bank's debt issuance programme amounted to ISK 40 billion at year-end, increasing by ISK 20 billion from the previous year.

Table 6.4: Subordinated bond issuance

As at 31 December 2024	Currency	Final maturity	Outstanding principal	Contractual interest rate
Subordinated				
LBANK T2I 29	ISK	11.12.2029	1,700	FIXED 3.85%, CPI-indexed
LBANK T2I 33	ISK	23.03.2033	12,000	FIXED 4.95%, CPI-indexed
LBANK T2I 35	ISK	07.03.2035	12,000	FIXED 5.70%, CPI-indexed
LBANK T2 35	ISK	07.03.2035	3,000	FIXED 9.60%
LBANK T2I 36	ISK	19.06.2037	7,639	FIXED 5.06%, CPI-indexed

6.5.3.5 Equity

The Bank's equity increased by ISK 21 billion in 2024 and amounted to ISK 325 billion at year-end. The Bank paid ISK 16,530 million in dividends to shareholders in 2024. The Bank's total capital ratio was 24.3% at year-end 2024.

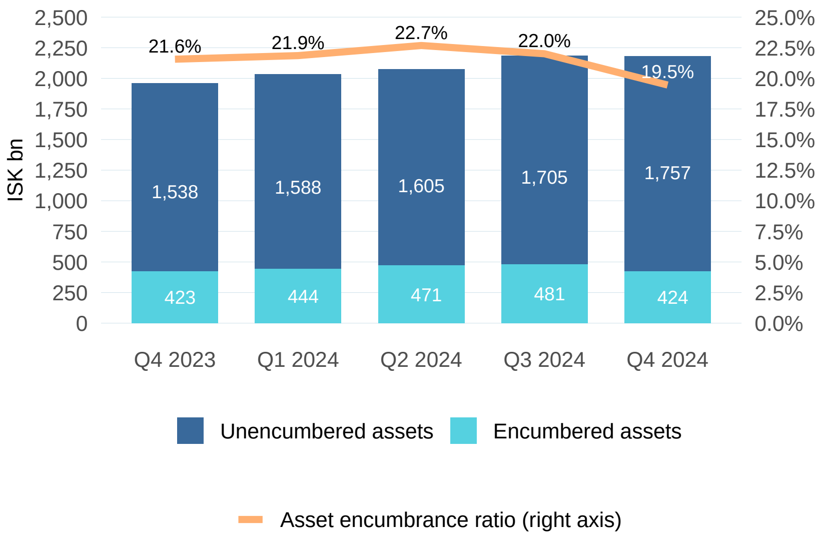
6.5.4 Asset encumbrance ratio

The Bank's liquidity and funding risk framework measures the ratio of encumbered assets to total assets. Encumbered assets are primarily comprised of loans and advances, which are pledged against covered bonds and secured bonds issued by the Bank, in accordance with Icelandic laws and FSA rules. Part of the covered bonds issued by the Bank, it can sell later or use for securities lending and repurchase agreements. At year-end 2024, these bonds amounted to ISK 15 billion and EUR 250 million. Pledged assets against the bonds amounted to ISK 64 billion (ISK 66 billion at year-end 2023).

The Bank has pledged assets as collateral to the Central Bank of Iceland, to secure settlement in the Icelandic clearing system. Furthermore, the Bank has pledged assets as collateral to secure trading lines and credit support for GMRA and ISDA master agreements, as well as other pledges of similar nature.

Figure 6.12 shows the Bank's asset encumbrance ratio, which remained low throughout 2024.

Figure 6.12: Asset encumbrance ratio



7 Operational risk

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

- The number of operational and loss incidents in 2024 increased compared to 2023.
- Continued emphasis on information and communications techonology (ICT) risk by the Bank and regulators.

7.1 Control

The Bank is exposed to operational risk through its activities. Loss may result from inadequate or failed internal processes, people and systems, or from external events.

The Board of Directors sets the Bank's policy regarding operational risk and risk appetite. The policy outlines the roles and responsibilities of stakeholders within the Bank, and the operational risk tolerance in terms of limits. The Operational Risk Committee is responsible for overseeing all operational risk and for approving rules that fall within the remit of the Operational Risk Committee.

The Bank identifies the types of operational risk to which it is exposed in order to better understand its operational risk profile and assess its vulnerability to these risks. The aim is to identify and assess the operational risk inherent in all existing or new material products, activities, processes and systems. Effective operational risk identification and assessment processes are crucial in establishing a framework for operational risk monitoring and control.

Operational risk has been categorised by Landsbankinn into eight separate subcategories and responsibilities for managing the risks posed by them are divided between the Operational Risk department, the Compliance department and the Legal Services department.

Figure 7.1: Operational risk categories

Operational Risk Department	Compliance Department	Legal services Department
ICT risk	**Compliance risk** is the exposure of the Bank to legal penalties and reputational damage if it fails to act in accordance with laws and regulations, internal policies and prescribed best practices.	Legal risk
Model risk		
Change management risk		
Physical security	**Conduct risk** involves the risk of financial loss due to human error, neglect or fraud in relation to the Bank's customers.	
Outsourcing risk		

7.1.1 General methods to measure operational risk

In order to understand the effects of the exposures to operational risks in general, the Bank continually assesses its operational risk. A number of tools are used to identify and assess operational risk.

- Self-assessment. The Bank assesses its operations and activities against a menu of potential risk vulnerabilities. This is done annually, and more often if there are material changes in the operational risk environment in any particular business unit.
- Risk mapping. This process involves mapping all reported incidents by risk type and to business units.
- Risk assessments on important IT systems and as a part of project management.
- Key risk indicators (KRIs) are statistics and/or metrics, which can provide insight into the Bank's risk position.

In total there were 73 loss events in 2024. The category of execution, delivery and process management has the largest number of loss events; 71 in 2024, the category of external fraud has 2 events.

The Bank categorises operational incidents into deviation from rules or processes, weakness in processes or systems, external circumstances, or security violations. The total number of incidents in 2024 was 237, 142 were due to transaction processing and 78 related to technology.

7.1.2 Mitigation

The Bank buys insurance to mitigate its operational risk. The insurance comprises of banker's comprehensive crime policy and cyber liability insurance policy.

Clear procedures are in place regarding the mitigating actions that result from self-assessment. There are separate procedures in place for how the Bank handles operational incidents and corrective and mitigating actions resulting from these incidents.

The architecture of the Bank's information systems is based on two mirrored data centres, primary and secondary, located in two different buildings linked with high-speed communication. This setup allows the Bank to run its core systems with access to mission critical data, even if one data centre (for instance the primary data centre) becomes unusable. In the event of a failure, core systems will automatically switch from one site (the failed one) to the other.

There are business continuity plans in place for all operations considered to be mission critical to the Bank. These plans are all tested on an annual basis, apart from the IT department's plan, which is tested more frequently.

7.1.3 Control and monitoring

Day-to-day management of operational risk is a part of every manager's responsibility, and they are further responsible for monitoring and controlling the operational risk in their departments. Managers evaluate operational risk through risk self-assessment, focusing on key risks identified with top-down management involvement.

Information security, physical security, education and training activities are important components of the management of operational risk, and close cooperation is maintained with the relevant departments involved in these processes. The Operational Risk department, Internal Audit and Compliance are key functions in the framework that the Bank has established to monitor and control operational risk. The Bank is certified in accordance with ISO 27001, the international standard on information security.

Incident reporting, auditing and follow-up is an important part of operational risk management, as the identification and remedial action helps to limit losses resulting from inadequate and failed processes. The Operational Risk department is responsible for business continuity management and for overseeing the Bank's disaster recovery plans.

In identifying operational risk, the Bank examines both internal and external factors that could adversely affect its performance and prevent the achievement of its objectives, such as:

- Risk culture, human resource management practices, organisational changes, and employee turnover.
- The nature of the Bank's customers, products, contractors, and activities, including sources of business, distribution mechanisms and volume of transactions.
- The design, implementation, review and operation of the processes and systems involved in the operating cycle of the Bank's products and activities.
- The external operating environment and industry trends, including political, legal, technological, and economic factors, as well as the competitive environment and market structure.

Operational risk measurements are reported to the Board in a comprehensive manner as part of regular reporting.

7.2 Management of operational risk subcategories

7.2.1 ICT risk

The Bank manages ICT risk by minimising the risk of loss through breaches of confidentiality, loss of integrity, and/or unavailability of data and systems. ICT risk includes the risk of breaches in data confidentiality through the exploitation of vulnerabilities. The Bank's framework for managing ICT risk is robust, leveraging its ISO 27001 certification, held since 2007, and adhering to the EBA Guidelines on ICT and Security Risk Management. As part of this framework, the Bank adopts a defence-in-depth approach to cyber defences, relying on layered security measures where each layer is monitored by multiple security systems.

A continuous vulnerability management programme is in place, including regular scans conducted by an external party. Complementing this, internal vulnerability scans are performed on internal and external systems, associated ports, services, and applications. These proactive measures are critical for maintaining a strong security posture.

The Bank places significant emphasis on fostering cultural awareness of cyber threats among employees. To this end, relevant materials on cybersecurity and awareness are actively shared with employees through Workplace from Meta. Additionally, the Bank utilises threat intelligence from external sources, such as NF CERT, to gain insights into emerging threats, enabling a preventative approach to potential risks.

In line with its comprehensive ICT risk management framework, the Bank has designated specific roles to oversee critical areas of information and cyber security. The Information Security Officer (ISO) is responsible for maintaining the ISO 27001 certification and managing the Information Security Management System (ISMS). Physical security is under the supervision of the Director of Facilities, while cybersecurity operations are overseen by the Cyber Security Officer within IT Operations. This clear allocation of responsibilities ensures accountability and a cohesive approach to managing ICT risk across the Bank.

The Bank is actively working on the implementation of the Digital Operational Resilience Act (DORA). As part of this effort, the current ISMS structure has been mapped onto the requirements outlined in DORA, and work is ongoing to ensure compliance with the regulation. This initiative underscores the Bank's commitment to continuously enhancing its operational resilience and aligning with evolving regulatory standards.

7.2.2 Model risk management

The Bank has a model risk management framework in place. A model inventory is used, where models that fulfil the Banks model definition are registered.

A risk assessment scorecard is used to categorise models into risk groups that controls the level of monitoring and controls applied to the models. The Operational Risk Committee approves the Bank's model rules and manages the Banks model risk.

7.2.3 Change management

The Bank has robust procedures in place to govern change management. Bank has a product approval process that is aligned with updated EBA guidelines on product governance. The updated version further strengthens the governance of new product approvals and has been fully implemented. The process includes provisions for life cycle management.

7.2.4 Physical security

The Bank's physical security manager is responsible for physical security in the Bank's operations. That includes integrating safety and security policies with the business operations. He is charged with evaluating safety and security plans for effectiveness and managing the emergency response team.

7.2.5 Outsourcing

The Bank has outsourcing rules that are in line with the EBA guidelines on outsourcing. This sets the standard for how the Bank manages outsourcing agreements and risks by identifying, assessing and controlling risks in relation to outsourcing.

7.2.6 Compliance risk

The Bank manages compliance risk in accordance with Operational Risk Policy. Based on the policy, the Bank has set in place a variety of organisational and managerial actions, e.g.:

- A process to identify, assess and mitigate compliance risk.
- An appropriate governance framework to effectively manage relations with regulatory authorities.
- A process to monitor and implement regulatory changes.
- Adopted suitable internal rules and work processes to promote compliance.
- Mandated management to promote compliance e.g. by leading by example, ensuring that employees are familiar with policies, rules and procedures relevant to their work and responsibilities, and take appropriate action in response to compliance violations.
- Training of management and employees.
- Reporting incidents.

Financial crime risk is managed in accordance with the Policy on Action against Financial Crime, which covers money laundering, terrorism financing, sanctions, bribery and corruption, fraud and market abuse.

Based on the policy, the Bank has set in place a variety of organisational and managerial actions, e.g.:

- A process to identify, assess and mitigate financial crime risk.
- A robust process for on-going customer due diligence.
- Advanced automated transaction monitoring.
- A process for investigating and reporting suspicious activities.
- Training of management and employees.
- Reporting incidents.

The Compliance department monitors compliance and submits a report to the Risk Committee every four months, and an annual report to the Board of Directors.

The Bank was not the subject of any fines, convictions or other forms of sanctions or convictions or the refusal/withdrawal of authorisation to conduct business in 2024.

7.2.7 Conduct risk

The Bank manages conduct risk in accordance with its Operational Risk Policy. Based on the Policy, the Bank has set in place a variety of organisational and managerial actions, e.g.:

- Adopted suitable internal policies and procedures, e.g. Code of Conduct, Policy on Action against Financial Crime, Conflict of Interest Policy, Policy on the Handling of Complaints, Rules on the Protection of Whistleblowers, and a Product Governance Framework.
- Adopted suitable work processes to minimise conduct risk, including robust complaints management procedures, procedures for managing conflicts of interest, and a secure process for reporting and handling internal alerts.
- Mandated management to promote a corporate culture that supports good conduct, e.g. to have an overview over possible conduct risk within each department and implement suitable measures to reduce the risk of human error, negligence or fraud, ensuring that employees are familiar with policies, procedures and processes relevant to their work and responsibilities and take appropriate action in response to misconduct.
- Training of management and employees.

Conduct risk is managed by the Compliance department and is included in a report to the Risk Committee every four months, and the annual Compliance report to the Board of Directors.

In January 2024, the Bank received the highest score amongst Icelandic banks according to the Icelandic Customer Satisfaction Index, for the fifth consecutive year. Landsbankinn has also received excellent ESG risk ratings in the past five years from rating agencies Sustainalytics and Reitun. Sustainalytics' most recent ESG risk rating considers the Bank at negligible risk of experiencing material financial impacts from ESG factors. The Bank scored 8.5 and ranks in the top 1% of banks operating in Europe who were reviewed by Sustainalytics.

There were no material incidents with regards to employee misconduct, customer complaints, conflicts of interest, or financial crime in 2024.

7.2.8 Legal risk

The Risk and Finance Committee has adopted Internal Rules for the Assessment of Legal and Political Risk for the Purpose of Calculating Economic Capital (EC). The objective of the Rules is to explain the internal procedures of the Bank for the assessment of legal and political risk. A complete list of open court cases in electronic form is submitted to the FSA once a year and made available more frequently upon request by the FSA. The Legal Services calculate the total possible requirement of EC under Pillar II linked to cases on the list, according to a methodology set out in the Rules. If considered appropriate, the Legal Services assess the legal precedent set by individual cases. Based on the assessment, the Legal Services may ask Risk Management to provide a financial assessment of the precedent in the context of calculating the Bank's EC. Such assessment may be different than the above standard methodology and may lead to additional EC requirements. Such an assessment has been made regarding contractual clauses on changes to variable interest rates in credit agreements. The notes to the Bank's financial statements provide a description of these and other open court cases against the Bank or its subsidiaries which the Bank considers as material in the sense that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

8 Sustainability risk

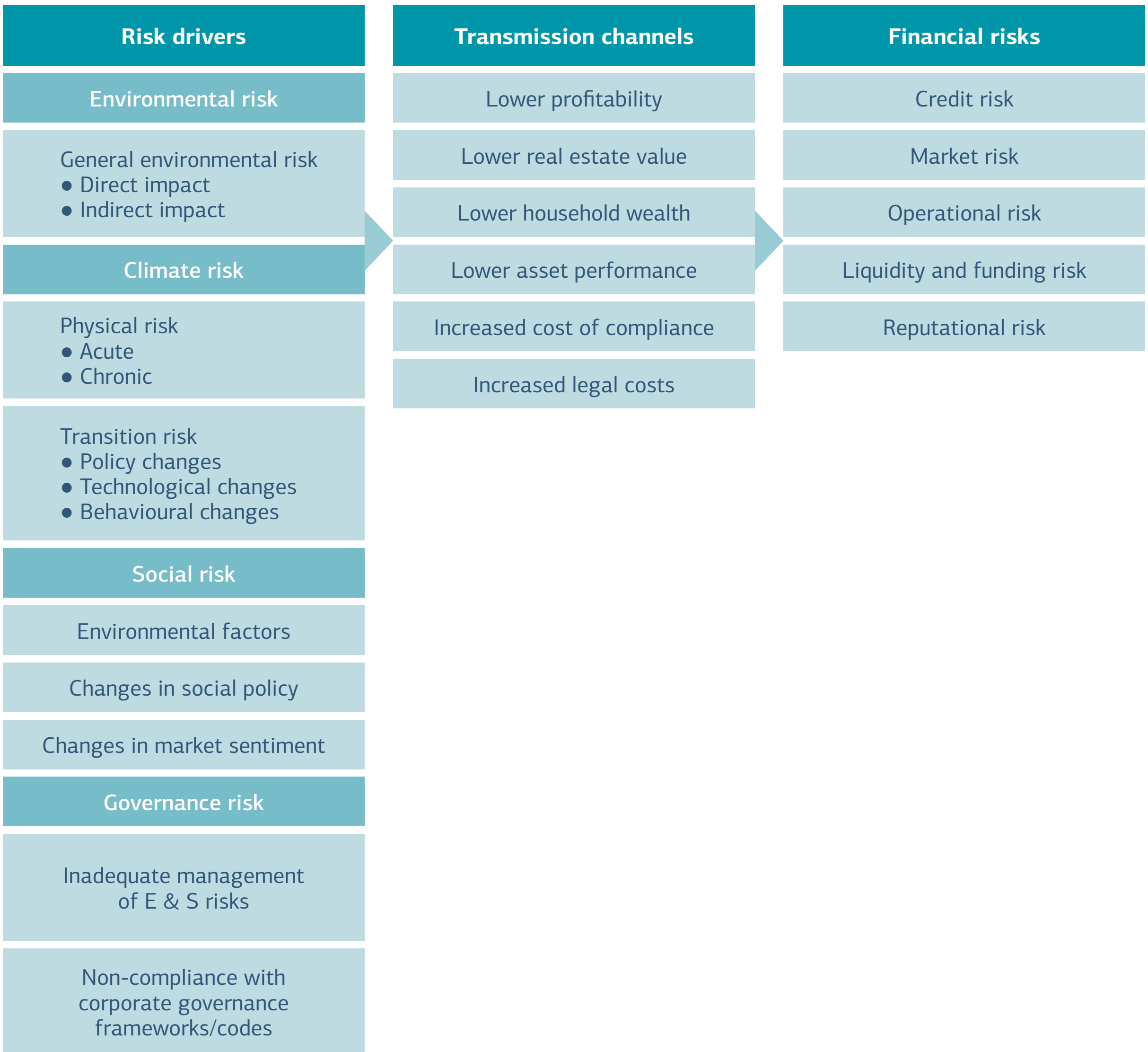
Sustainability risk

Sustainability risk is defined as risk that stems from the current or prospective impact of environmental, social and governance (ESG) factors on an institution's counterparties or invested assets. Sustainability risk materialises through the amplification of traditional categories of financial risks.

- In 2024, the Bank implemented rules on sustainability risk.
- In January, the Bank's science-based targets for the reduction of carbon emissions were approved.
- The Bank has implemented sustainability risk into its risk appetite by including the ratio of eligible assets under the Bank's green financing framework as a metric.
- The Bank has implemented an assessment of sustainability risk into the loan application process for large corporate loans.

Sustainability risk drivers can affect and amplify traditional financial risk factors such as credit and market risk via various transmission channels as shown in Figure 8.1.

Figure 8.1: Sustainability risk drivers



The Bank has assessed the impact and materiality of different sustainability risk factors on other material financial risk factors in its operations. The assessment underpins further implementation of sustainability-related assessments, measures and mitigants in the Bank's risk framework.

8.1 Management and policy

The Bank's Sustainability Policy sets out aims for sustainability and describes the Bank's methods of implementing these in its operation. The Board of Directors approves the Policy and the CEO is responsible for its implementation and realisation. The CEO is also responsible for monitoring implementation of the Policy and reports to the Board of Directors annually. Authority to approve and amend key points and principles lies with the Executive Board. The Managing Director of Finance is responsible for shaping, maintaining and presenting the Sustainability Policy. The Policy was reviewed and updated in 2024. The Bank has set itself eight sustainability goals based on its Sustainability Policy. For further information regarding the Policy, the Bank's sustainability goals and other sustainability issues, refer to the Bank's Sustainability Report for 2024.

Climate risk has been defined as a relevant risk factor in the Bank's Risk Policy. The Risk Management division is responsible for assessing, measuring and developing risk measures for relevant risk factors in the Policy. The Bank implemented sustainability risk into its risk appetite in 2024.

In 2024, the Bank implemented rules on sustainability risk into its risk management framework. The purpose of the rules is to prevent instability or unexpected losses due to sustainability risk. The goal of the rules is to enable the Bank to manage its exposure to sustainability risk in an efficient manner, according to the Bank's risk policy and risk appetite. The rules define a framework on the assessment, measurement and management of sustainability risk and its sub-factors and set benchmarks regarding the execution of sustainability risk management within the Bank. The rules are based on requirements laid out in CRR, guidelines from EBA on loan origination and monitoring, as well as on a report from EBA on management and supervision of ESG risks for credit institutions and investment firms.

The Bank's Risk & Finance Committee has formed a Sustainability Group under its auspices. The Group's role is to oversee the Bank's sustainability framework and compliance of the Bank's green financing schemes to the framework. The Bank produces annual public reports on various sustainability-related factors, such as carbon emissions (PCAF and Pillar III additional disclosures) and the Bank's progress on sustainability in a report to the Global Reporting Initiative (GRI).

Information about the governance structure for remuneration is presented in the Bank's Remuneration report in chapter 9. For further information on the Bank's governance as regards sustainability, refer to the Bank's Sustainability Policy and the Bank's corporate governance statement.

8.2 Control and monitoring

In 2024, the Bank assessed greenhouse gas (GHG) emissions from its credit portfolio, using the methodology of the Partnership for Carbon Accounting Financials (PCAF). The Bank has set science-based targets for carbon emissions and has committed to reaching carbon neutrality by 2040, in tandem with targets set by the Icelandic government. The Bank aims to reach this target in cooperation with its customers, assisting them in their sustainability journey, rather than directing business away from larger emitters. The Bank has published a PCAF report for the year 2023, disclosing information on total GHG emissions from the Bank's operation.

For corporate lending, the Bank has set itself sustainability guidelines. These guidelines influence the assessment of risk and compliance with the Bank's sustainability goals in credit decisions, applying both generally to corporate customers and specifically to certain sectors. These guidelines cover issues such as sound business practises, choice of suppliers, effect of climate change, waste management and more. In 2024, the Bank developed and implemented a sustainability risk assessment tool to be used for large corporate loans.

The Bank has established a green financing framework and included the ratio of eligible green assets, according to the framework, in the Bank's risk appetite for 2025.

8.3 Assessment

The Bank has assessed sustainability risk in relation to other material risks for the Bank. The largest impact of sustainability risk is on credit risk, funding risk and operational risk.

The effect of sustainability risk on financial risk factors, regarding capital and liquidity, is assessed in the Bank's Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP). No additional capital was allocated due to sustainability risk in the Bank's operation at year-end 2024.

When assessing the appropriate scope of risk management for each sub-risk factor of sustainability risk, the Bank takes existing risk mitigation into account, both in the Bank's external environment and the management of other risk factors in the Bank's operation. This includes but is not limited to conditions specific to Iceland, such as laws and regulations, infrastructure designed to mitigate natural disasters, Iceland's place in relation to the effects of climate change and the composition and nature of the Bank's customers.

When assessing sustainability risk, defining metrics and integrating sustainability risk into its risk management framework, the Bank emphasises the collection of readily available, accurate and high-quality data. These data can either be from external data vendors, collected internally or directly from the Bank's customers. Going forward, the Bank expects data on sustainability risk to become more available, more accurate and increase in quality. This will in turn lead to a more accurate assessment of sustainability risk.

8.3.1 Environmental risk

Environmental risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of environmental factors, such as natural disasters or climate change and other forms of environmental degradation, on its counterparties or invested assets. In this section, environmental risk is divided into general environmental risk, which comprises volcanic activity, earthquakes, landslides, avalanches or any other type of natural disaster, and climate risk, which comprises physical risk and transition risk. Physical risk can be further divided into acute and chronic physical risk.

8.3.1.1 General environmental risk

General environmental risk events are not uncommon in Iceland. The recent and ongoing seismic and volcanic activity on the Reykjanes peninsula is the latest such event, but other recent events include avalanches and landslides in East Iceland.

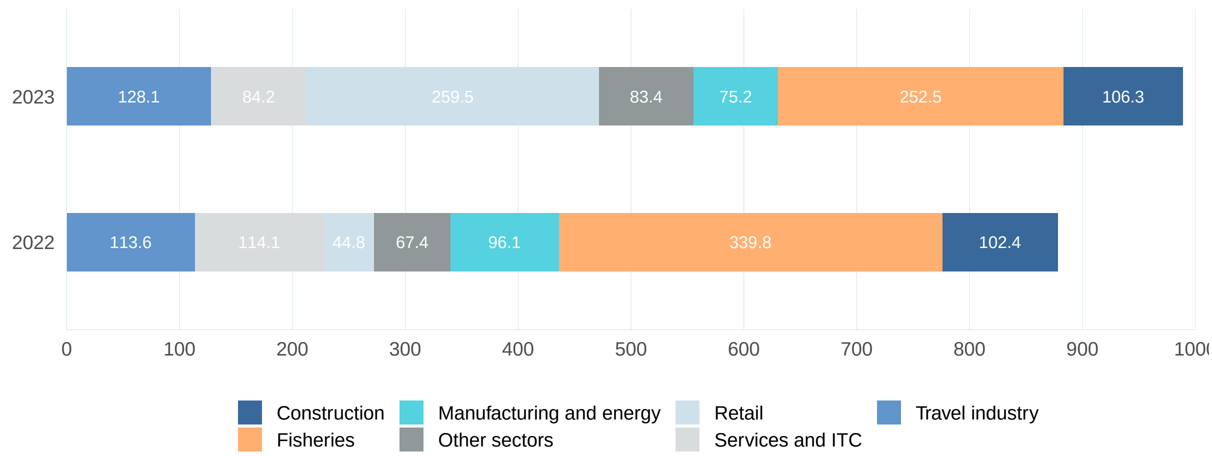
The biggest direct impact of general environmental risk events on the Bank is realised through damage to collateralised property. Due to the commonality of these events in Iceland, real estate is generally well insured against damages, both through regular insurance and via the National Catastrophe Insurance of Iceland (NTI).

Indirect impacts of environmental risk events can entail more uncertainty for the Bank and its customers. For example, temporary or permanent relocation of individuals from their primary residence or temporary loss of income for individuals and corporates due to operational challenges as a result of such risk events. These impacts of natural disasters can have a substantial impact on the Bank's customers and on the Bank, particularly via increased credit risk.

8.3.1.2 Climate risk

Total GHG emissions from the Bank's credit portfolio amounted to 989 kilotons of CO_2 equivalent ($ktCO_2e$) in 2023 (2022: 878 $ktCO_2e$). Of the total GHG emissions, 215 $ktCO_2e$ were scope 1 and scope 2 emissions, and 775 $ktCO_2e$ were scope 3 emissions. Figure 8.2 shows a breakdown of emissions by sector.

Figure 8.2: GHG emissions from the loan portfolio in $ktCO_2e$



8.3.1.3 Acute physical risk

Acute physical risk, as a subcategory of climate risk, arises from particular events, especially weather-related events such as storms, floods, fires or heatwaves or other environmental hazards that may damage production facilities and disrupt value chains, potentially having a negative financial impact on the Bank, its counterparties or invested assets.

An increase in acute physical events due to climate change would potentially impact credit risk for the Bank through the effect on collateral. Real estate is the single largest category of collateral in the Bank's portfolio, all of which is located in Iceland. Another plausible impact on credit risk is that physical risk events could lead to negative economic effects and/or direct negative effects on distinct counterparties or groups of counterparties of the Bank, leading to an increase in default rates.

Should the effects of acute physical events increase in commonality and seriousness, they might negatively impact asset prices and put increased pressure on the Bank's liquidity profile if individuals and corporates need to access cash as a response to physical catastrophes.

Acute physical events can impact the Bank's operational risk via potential damages to property and equipment, injuries to staff and system disruptions. The Bank utilises data centres in various locations to mitigate this risk. Acute physical events also impact the Bank's suppliers, increasing the importance of supplier monitoring.

The negative impact on the Bank's collateral of acute physical events increasing in commonality and seriousness is already partly mitigated through strong insurance coverage. The overall impact and materiality of acute physical risk on the Bank's credit risk is therefore considered low. Figure 8.3 shows the sectors of the Bank's credit portfolio where acute physical risk is considered non-trivial, according to the Bank's risk assessment. While the potential effect of increased frequency of acute physical events on asset prices and liquidity is not currently mitigated, market risk is a small part of the Bank's overall risk profile and the impact and materiality of acute physical risk on the Bank's market and liquidity risk is as result considered low. The impact and materiality of acute physical risk on the Bank's operational risk is considered low.

8.3.1.4 Chronic physical risk

Chronic physical risk arises from longer-term trends such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity. Such trends can potentially have a negative financial impact on the Bank, its counterparties or invested assets.

Through its exposure to the fisheries industry, the largest sector in the Bank's credit portfolio, the Bank is potentially exposed to chronic physical risk from the negative effect of rising temperatures and acidification on the marine ecosystem around Iceland. Rising sea levels can also potentially impact economic activity and/or real estate close to sea level.

The impact and materiality of chronic physical risk on the Bank's credit, market and liquidity risk is considered low in the short-term, but medium in the long-term. Figure 8.3 shows the sectors of the Bank's credit portfolio where chronic physical risk is considered non-trivial, according to the Bank's risk assessment.

8.3.1.5 Transition risk

Transition risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of the transition to an environmentally sustainable economy on its counterparties or invested assets. In a report on the management and supervision of ESG risks published in 2021, the European Banking Authority (EBA) states that transition risk is most affected by three drivers; policy, technology and consumer behaviour. First, climate-related policy action or potentially disordered mitigation strategies could have an impact on asset prices in carbon-intensive sectors. Second, technological changes may, for instance, make existing technologies obsolete or uncompetitive, changing their affordability and affecting the relative pricing of alternative products. Third, changes in the preferences and behaviour of consumers and investors could affect institutions.

Operational conditions in certain sectors of the economy can be sensitive to change in laws and regulations, market conditions and market sentiment. Carbon-heavy sectors, such as manufacturing or transportation, are examples of this, where potentially increased costs due to the rising price of carbon emission certificates can impact the operation of companies significantly. As Iceland is committed to reaching carbon neutrality by 2040, regulatory changes, increased taxes for carbon-heavy sectors or other measures that contribute to this national target can be expected.

This could potentially affect the Bank's credit and liquidity risk, as well as operational risk via conduct risk. As a result, the impact and materiality of transition risk on the Bank's credit, liquidity and operational risk is considered medium. The impact and materiality of transition risk on the Bank's market risk is considered low. Figure 8.3 shows the sectors of the Bank's credit portfolio where transition risk is considered non-trivial, according to the Bank's risk assessment. The assessment is based on the underlying materiality of each sector, i.e. the total exposure and total GHG emissions of each sector, the likelihood of each risk factor materialising and the effect and severity of the risk factor on each sector.

Figure 8.3: Sustainability risk drivers

			Transition risk			Physical risk	
Sector	% of portfolio	% of CO_2	Policy	Technology	Behaviour	Acute	Chronic
Construction	8.1%	11.7%	Moderate	Low	Low	Minimal	Minimal
Fisheries	11.8%	38.7%	Low	Low	Minimal	Low	Moderate
Motor vehicle loans to individuals	1.0%	0.9%	Moderate	Minimal	Minimal	Minimal	Minimal
Travel industry	6.7%	12.9%	Moderate	Low	Low	Minimal	Minimal
Services and ITC	3.8%	13.0%	Moderate	Low	Low	Minimal	Low
Agriculture	0.4%	4.9%	Low	Low	Low	Low	Low
Manufacturing and energy	2.0%	10.9%	Low	Low	Minimal	Minimal	Minimal
Mortgages	44.8%	0.2%	Minimal	Minimal	Minimal	Minimal	Minimal
Other sectors	21.3%	6.8%	Minimal	Minimal	Minimal	Minimal	Minimal

Minimal	
Low	
Moderate	
High	

8.3.2 Social risk

Social risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of social factors on its counterparties or invested assets.

These social risk factors include but are not limited to activities towards the community and society, employee relationships and labour standards, customer protection and product responsibility and human rights. The Bank's risk policy states that 'the Bank seeks to maintain sound business relationships, having regard for its own position as well as that of customers at each time, and with due regard for any internal connections between customers. The Bank pursues long-term business relationships and aims to avoid being linked to transactions that might damage its reputation.'

As previously mentioned, the Bank has set itself sustainability benchmarks for corporate lending, some of which pertain to social risk factors, such as:

- Considering potential risk factors in the counterparties' operational environment regarding inappropriate business practices, such as tax evasion, market dumping, competition infringements or other deviations from sound business practises.
- Human resource issues, such as equality, turnover of staff and number of staff in relation to the scope of operations.
- The collection of personal data, and security of such data.

The Bank can also be exposed to social risk in its own operation via reputational and conduct risk if it were to fail to adhere to laws, regulations and best practises regarding gender equality, inclusiveness, and health and safety in the workplace. Social conditions in Iceland rank among top conditions in the world in most areas and the Bank is well positioned as regards social issues. The Bank has implemented rules on gender ratios among managers, it has equal pay certification, and contributes to society through partnerships and charitable donations. The impact and materiality of social risk on the Bank's material risk factors in considered low.

8.3.3 Governance risk

Governance risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of governance factors on its counterparties or invested assets.

These governance factors include but are not limited to ethical considerations, strategy and risk management, inclusiveness, transparency, management of conflict of interest and internal communication of critical concerns. The credit assessment of corporate customers includes a qualitative assessment of various governance factors for the customer, such as the experience, competence and integrity of executives, finances and planning, and disclosure of information to the Bank. The Bank can also be exposed to governance risk in its own operation via reputational and conduct risk. The Bank has a sound governance structure, with an established three lines of defence setup of risk governance, strong internal audit and compliance departments, a clear remuneration policy and sustainability policy. The greatest potential impact governance risk could have on the Bank is via reputational risk and conduct risk.

The impact and materiality of governance risk on the Bank's material risk factors in considered low.

8.4 Additional disclosures

Further quantitative information regarding sustainability can be found in templates ESG1-10 in the additional disclosures accompanying this report.

9 Remuneration report

Remuneration report

The Bank emphasises hiring and employing exceptional personnel. The aim of its remuneration policy is to make the Bank a desirable workplace for qualified employees to ensure the Bank's competitiveness, continued development and acceptable profitability. The remuneration policy shall support sound operations in the long term and not encourage unreasonable risk taking. It is the Bank's aim that the terms of employment of executives and other employees are competitive but modest and not market leading. In determining terms of employment, responsibility and performance shall be taken into account, as well as equal rights perspectives. The remuneration policy applies to the Board of Directors, the Bank's Executive Board, and all employees of the Bank. The subsidiary of Landsbréf has its own remuneration policy and Remuneration Committee.

9.1 Governance

The remuneration policy of the Bank is approved by its Board of Directors and submitted to the Bank's Annual General Meeting for approval or rejection. The remuneration policy is reviewed annually, and any amendments shall be submitted to a shareholders' meeting for approval. The remuneration policy serves as an indicative guideline for the Bank and the Board of Directors. The Board of Directors shall note any deviations from the remuneration policy and substantiation thereof in the Board minutes. Deviations shall be presented to the Bank's next AGM.

The Remuneration Committee of the Bank is comprised of three Directors. The role of the Remuneration Committee is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the Board on the remuneration policy. The Committee reviews that the terms of employment of the Bank's executives are within the framework provided by the remuneration policy and report on its implementation yearly in connection with the Bank's AGM. The Committee shall monitor the developments of collective bargaining agreements, trends in salary expenses and number of employees. The Board of Directors has issued Rules of Procedure for the Committee, setting out its role and duties.

The Remuneration Committee members are the Chairman of the Board, which also chairs the Remuneration Committee and two other Directors of the Board. In 2024, the Remuneration Committee held 7 meetings. The Committee reviewed the remuneration policy in preparation for the 2024 AGM and made no significant changes.

9.2 Remuneration policy for the Bank's Board of Directors and CEO

Board members shall receive set monthly remuneration in accordance with the decision of the AGM each year, as provided for in Article 79 of Act No. 2/1995, on Public Limited Companies. In determining the remuneration amount, consideration shall be had for hours spent on the job, the responsibilities borne by Directors of the Board and the Company's performance. The Remuneration Committee prepares a proposal on Director's salary to the Board of Directors. The Board of Directors deliberates on the Committee's proposal and submits a final proposal on remuneration to the AGM. The Bank reimburses Directors domiciled outside the capital region for travel expenses. Board members may not conclude severance agreements with the Bank.

Salaries for the CEO and the Bank's key executives are determined by the Board and the CEO in accordance with the remuneration policy. The Bank publishes remuneration for Directors and key executives in its Annual Financial Statement. The Bank intends to achieve and maintain a gender balance of at least 60/40 at all levels of management. There are currently five male and two female Managing Directors, and the CEO is female. Members of the Bank's management body hold a total of 11 directorships in other entities.

Most employees in the Bank receive a fixed salary. The salary is evaluated regularly, mainly through collective bargaining. Mandatory pension contributions are made for all employees who also receive paid holiday, maternity and sick leave as provided for by law, collective agreements and general market terms.

The Bank does not offer variable remuneration or bonuses in accordance with its remuneration policy. Any decision to implement a variable remuneration scheme must be presented to a shareholders' meeting for approval.

In 2013, the Bank offered a one-off employee incentive scheme in an agreement made by the Minister of Finance on behalf of the State, Landsbankinn hf. and Landsbanki Íslands hf. dated 15 December 2009. The scheme was compliant with FSA rules on performance-linked remuneration by financial undertakings. As a result, a few hundred employees still hold shares in the Bank.

The Remuneration Committee performs an annual comparison with market data on the Bank's remuneration to ensure remuneration is in accordance with the remuneration policy. Further quantitative information regarding the Bank's remuneration can be found in templates REM1, REM2 and REM5 in the additional disclosures accompanying this report.

10 Appendix

Table 10.1: List of additional disclosures

Template name	Template code	Type	Disclosure frequency	Reference chapter
Risk management				
Institution risk management approach	OVA	Qualitative	Annual	Chapter 2
Disclosure on governance arrangements	OVB	Qualitative	Annual	Chapter 2
Key metrics and risk-weighted exposure amounts				
Overview of RWEAs	OV1	Quantitative	Quarterly	Chapter 3
Key metrics template	KM1	Quantitative	Quarterly	Chapter 1
ICAAP information	OVC	Qualitative	Annual	Chapter 3
Own funds				
Composition of regulatory own funds	CC1	Quantitative	Semi-annual	Chapter 3
Reconciliation of regulatory own funds to balance sheet in the audited financial statements	CC2	Quantitative	Semi-annual	Chapter 3
Main features of regulatory own funds instruments and eligible liabilities instruments	CCA	Quantitative	Annual	Chapter 3
Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs	IFRS 9-FL	Quantitative	Quarterly	Chapter 3
Countercyclical capital buffers				
Geographical distribution of credit exposures used in the countercyclical capital buffer	CCyB1	Quantitative	Semi-annual	Chapter 3
Amount of institution-specific countercyclical buffer	CCyB2	Quantitative	Semi-annual	Chapter 3
Scope of application				
Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories	LI1	Quantitative	Annual	Chapter 3
Main sources of differences between regulatory exposure amounts and carrying values in financial statements	LI2	Quantitative	Annual	Chapter 3
Outline of the differences in the scopes of consolidation (entity by entity)	LI3	Quantitative	Annual	Chapter 3
Explanations of differences between accounting and regulatory exposure amounts	LIA	Qualitative	Annual	Chapter 3

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Table 10.1 - Continued from previous page

Template name	Template code	Type	Disclosure frequency	Reference chapter
Other qualitative information on the scope of application	LIB	Qualitative	Annual	Chapter 3
Leverage ratio				
LRSum - Summary reconciliation of accounting assets and leverage ratio exposures	LR1	Quantitative	Semi-annual	Chapter 3
LRCom - Leverage ratio common disclosure	LR2	Quantitative	Semi-annual	Chapter 3
LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	LR3	Quantitative	Semi-annual	Chapter 3
Disclosure of LR qualitative information	LRA	Qualitative	Annual	Chapter 3
Liquidity requirements				
Liquidity risk management	LIQA	Qualitative	Annual	Chapter 6
Quantitative information of LCR	LIQ1	Quantitative	Quarterly	Chapter 6
Qualitative information on LCR, which complements template EU LIQ1	LIQB	Qualitative	Quarterly	Chapter 6
Net Stable Funding Ratio (NSFR)	LIQ2	Quantitative	Semi-annual	Chapter 6
Credit risk quality				
General qualitative information about credit risk	CRA	Qualitative	Annual	Chapter 4
Additional disclosure related to the credit quality of assets	CRB	Qualitative	Annual	Chapter 4
Performing and non-performing exposures and related provisions	CR1	Quantitative	Semi-annual	Chapter 4
Maturity of exposures	CR1-A	Quantitative	Semi-annual	Chapter 4
Changes in the stock of non-performing loans and advances	CR2	Quantitative	Semi-annual	Chapter 4
Credit quality of forborne exposures	CQ1	Quantitative	Semi-annual	Chapter 4
Credit quality of performing and non-performing exposures by past due days	CQ3	Quantitative	Semi-annual	Chapter 4
Credit quality of loans and advances to non-financial corporations by industry	CQ5	Quantitative	Semi-annual	Chapter 4
Collateral obtained by taking possession and execution processes	CQ7	Quantitative	Semi-annual	Chapter 4
Credit risk mitigation techniques				
Qualitative disclosure requirements related to CRM techniques	CRC	Qualitative	Annual	Chapter 4
CRM techniques overview - Disclosure of the use of credit risk mitigation techniques	CR3	Quantitative	Semi-annual	Chapter 4
Use of the standardised approach				

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Table 10.1 - Continued from previous page

Template name	Template code	Type	Disclosure frequency	Reference chapter
Qualitative disclosure requirements related to standardised approach	CRD	Qualitative	Annual	Chapter 4
Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects	CR4	Quantitative	Semi-annual	Chapter 4
Standardised approach	CR5	Quantitative	Semi-annual	Chapter 4
Counterparty credit risk				
Qualitative disclosure related to CCR	CCRA	Qualitative	Annual	Chapter 5
Analysis of CCR exposure by approach	CCR1	Quantitative	Semi-annual	Chapter 5
Transactions subject to own funds requirements for CVA risk	CCR2	Quantitative	Semi-annual	Chapter 5
Standardised approach - CCR exposures by regulatory exposure class and risk weights	CCR3	Quantitative	Semi-annual	Chapter 5
Composition of collateral for exposures to CCR	CCR5	Quantitative	Semi-annual	Chapter 5
Credit derivatives exposures	CCR6	Quantitative	Semi-annual	Chapter 5
Market risk				
Qualitative disclosure requirements related to market risk	MRA	Qualitative	Annual	Chapter 5
Market risk under the standardised approach	MR1	Quantitative	Semi-annual	Chapter 5
Operational risk				
Qualitative information on operational risk	ORA	Qualitative	Annual	Chapter 7
Operational risk own funds requirements and risk-weighted exposure amounts	OR1	Quantitative	Annual	Chapter 7
Encumbered assets				
Encumbered and unencumbered assets	AE1	Quantitative	Annual	Chapter 6
Collateral received and own debt securities issued	AE2	Quantitative	Annual	Chapter 6
Sources of encumbrance	AE3	Quantitative	Annual	Chapter 6
Accompanying narrative information	AE4	Quantitative	Annual	Chapter 6
Remuneration				
Remuneration policy	REMA	Qualitative	Annual	Chapter 9
Remuneration awarded for the financial year	REM1	Quantitative	Annual	Chapter 9
Special payments to staff whose professional activities have a material impact on the institutions' risk profile	REM2	Quantitative	Annual	Chapter 9
Information on remuneration of identified staff	REM5	Quantitative	Annual	Chapter 9
Interest rate risk of non-trading book activities				

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Table 10.1 - Continued from previous page

Template name	Template code	Type	Disclosure frequency	Reference chapter
Qualitative information on interest rate risks of non-trading book activities	IRRBBA	Qualitative	Annual	Chapter 5
Interest rate risk of non-trading book activities	IRRBB1	Quantitative	Semi-annual	Chapter 5
Environmental, social and governance risk				
Environmental risk	ESGA	Qualitative	Semi-annual	Chapter 8
Social risk	ESGB	Qualitative	Semi-annual	Chapter 8
Governance risk	ESGC	Qualitative	Semi-annual	Chapter 8
Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	ESG1	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral	ESG2	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Alignment metrics	ESG3	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	ESG4	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change physical risk: Exposures subject to physical risk	ESG5	Quantitative	Semi-annual	Chapter 8
Summary of GAR KPIs	ESG6	Quantitative	Semi-annual	Chapter 8
Mitigating actions: Assets for the calculation of GAR	ESG7	Quantitative	Semi-annual	Chapter 8
GAR (%)	ESG8	Quantitative	Semi-annual	Chapter 8
Mitigating actions: BTAR	ESG9	Quantitative	Semi-annual	Chapter 8
Other climate change mitigating actions that are not covered in the EU Taxonomy	ESG10	Quantitative	Semi-annual	Chapter 8
MREL				
Key metrics - MREL	KM2	Quantitative	Quarterly	Chapter 3
Composition - MREL	TLAC1	Quantitative	Quarterly	Chapter 3
Creditor ranking - resolution entity	TLAC3	Quantitative	Quarterly	Chapter 3