



Condensed Consolidated Interim Financial Statements

Third quarter 2026

Unaudited

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Key figures 9M 2026



Net profit
ISK 21.8bn



ROE
13.4%

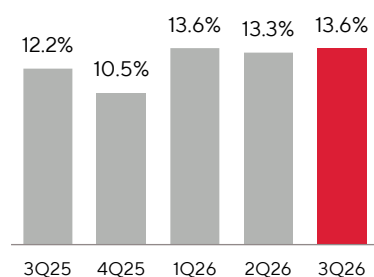


Cost-to-income
ratio **39.9%**

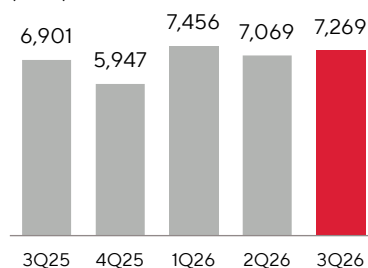


NIM
3.6%

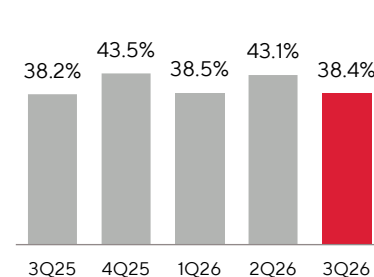
Return on equity



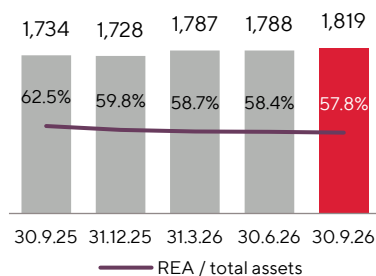
Profit after tax (ISKm)



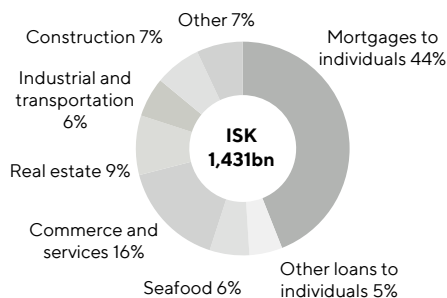
Cost-to-income ratio¹



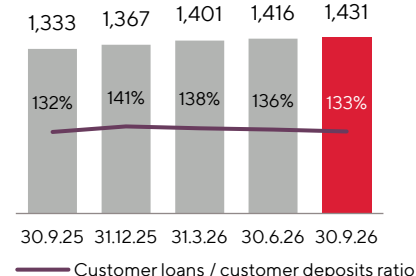
Total assets (ISKbn)



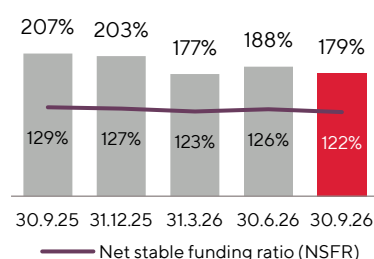
Loans to customers (Sector split as of 30.9.26)



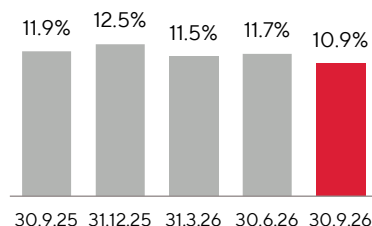
Loans to customers (ISKbn)



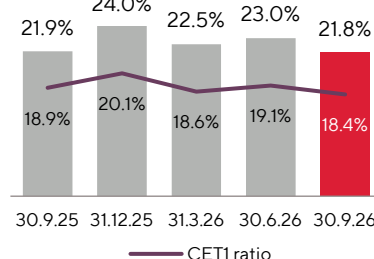
Liquidity coverage ratio



Leverage ratio²



Total capital ratio²



Ratings and certifications

MOODY'S
A3 Stable outlook

S&P Global
Ratings
BBB+/A-2
Positive outlook

ESG risk rating
Reitun
A3 Exceptional



The information above has not been reviewed or audited by the Group's auditor.

1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous years). C/I ratio for 3Q25 excludes a charge of ISK 550m within net interest income due to a provision for legal proceedings.

2. Including 3Q26 profit for 30.9.26, 1Q26 profit for 31.3.26 and 3Q25 profit for 30.9.25.

Directors' Report

The Board of Directors and the CEO of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") present this report together with the Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. and its subsidiaries (together referred to as "the Group") for the period 1 January to 30 September 2026.

Íslandsbanki is a customer-centric universal bank offering comprehensive financial services to individuals, corporations, and institutional investors in Iceland through various channels, including 12 branches. The Group seeks to move Iceland forward by empowering its customers to succeed and prioritising sustainability as an integral driver of its strategy and value creation. The Group is a force for good, with its corporate vision to create value for the future through excellent service, ultimately enhancing the financial health of its customers.

Key operating highlights for the first nine months of 2026

The Bank remains committed to its strategy of empowering its customers to be a force for good, with special emphasis on financial health. Against that backdrop, the Bank introduced a new loyalty service, designed to differentiate between customers based on the number of products held and the scope of their relationship with the Bank. Since its launch, the loyalty service has been well received, with strong customer adoption. Additionally, the Bank has introduced various new products and digital solutions, including in the acquiring space.

At the beginning of the year, the Bank introduced a new variable compensation scheme, applicable to all employees as permitted under Icelandic law. The scheme is contingent on the Group's return on equity. Under the scheme, most employees can receive up to 10% of their annual salary as variable compensation. Furthermore, a limited number of employees who have the most influence on the Bank's performance and strategic execution are eligible for higher variable compensation of up to 25% of their annual salary, which is also contingent upon the achievement of various predefined financial and non-financial performance metrics.

In April, the Bank announced organisational changes, with the objective of simplifying the governance structure, shortening communication channels, and thereby enhancing the Bank's service to its customers and reinforcing continued growth and development. As part of these organisational changes, the number of senior managers will be reduced by 15% in 2026, and the number of executive directors by 20%. In total, the number of FTEs will decrease by 50 over the course of the year, including reductions related to the dismantling of the early retirement scheme in the fourth quarter of 2025, as well as efficiency gains from increased automation and the use of artificial intelligence, representing a 7% reduction in FTEs from year-end 2025. The Bank estimates that the changes will positively impact salaries and related expenses by around ISK 1 billion annually, which will be fully realised in 2027.

Operating income improved compared to the previous year

The Group's profit for the reporting period amounted to ISK 21,794 million, compared to ISK 19,302 million in the same period of the previous year. This corresponds to a return on equity of 13.4% and 11.5%, respectively. For the third quarter, profit amounted to ISK 7,269 million, compared with ISK 6,901 million in the same period of the previous year. As before, nearly all income consists of core income, defined as net interest income and net fee and commission income. Core income year-to-date grew by 16%. The year-to-date net interest margin was 3.6%, compared with 3.2% in the same period of the previous year. This is mainly attributable to higher inflation year-on-year in addition to strong margin control on both deposits and lending. Net interest income amounted to ISK 48,196 million, representing year-on-year growth of more than 20%. As in previous quarters, low turnover in capital markets had an adverse impact on the Group's net fee and commission income. As a result, net fee and commission income decreased by 1% year-to-date compared with the previous year. Salaries and related expenses amounted to ISK 13,860 million, increasing by ISK 1,166 million year-on-year. Thereof, around ISK 370 million is attributable to redundancies, while a further ISK 1,029 million relates to the variable employee remuneration scheme. Overall, the cost-to-income ratio was 39.9% compared to 42.1% in the same period of the previous year. At the end of the reporting period, the Group employed 754 full-time equivalents, 717 within the Bank and 37 in subsidiaries, excluding subsidiaries held for sale.

Loan growth in line with through-the-cycle expectations and the capital position remains strong

At the end of the reporting period, the Group's loan portfolio amounted to ISK 1,431 billion, having grown year-to-date by over 6% on an annual basis. The composition of the loan book is broadly comparable to that of previous years. Overall credit quality remains high, as 93% of the loan book is covered by collateral and LTVs remain low. The NPL ratio increased from 1.5% at the beginning of the year to 2.4% at the end of the reporting period, mainly due to borrower-specific circumstances. As a result, impairment charges amounted to ISK 2,694 million for the first nine months, compared with impairment reversals of ISK 406 million in the same period of the previous year. Deposits from customers have grown by 11.3% year-to-date, from ISK 969 billion at year-end 2025 to ISK 1,078 billion at the end of the reporting period. The Group's capital position remains strong. At the end of the reporting period, the Group's CET1 ratio was 18.4%, including half of the profit for the third quarter of 2026, in line with the Group's dividend policy. The Group received authorisation from the Central Bank for share buybacks totalling up to ISK 10 billion. The buybacks had not commenced at the reporting date. Overall, excess capital available for distributions and/or growth amounted to ISK 22.3 billion at the end of the reporting period, taking into account deducted but not yet completed buybacks and the profit for the third quarter of 2026, in line with the Group's dividend policy. Distributions during the first nine months of the year amounted to ISK 31.5 billion through an ordinary dividend and buybacks.

Directors' Report

Operating results ahead of guidance

	Target for the medium term	3Q26 result	YTD result	Guidance for year-end 2026
Return on equity	>13%	13.6%	13.4%	>12.5%
Cost-to-income ratio	<43%	38.4%	39.9%	41-43%
CET1 excess	100-300 bps	315 bps*	315 bps*	~300 bps
Dividend payout ratio	50%	50%	50%	50%

*Including half of the profit for the third quarter of 2026, in accordance with the dividend policy.

Outlook for the Group

Following a continued softening of the macroeconomic outlook throughout the year, rates are now expected to have peaked. Inflation is expected to remain elevated throughout the remainder of the year but to moderate next year. Uncertainty, however, remains high and relates to both domestic and international developments. Against this backdrop, domestic loan growth is expected to remain subdued, but the Group's overall loan growth is expected to be around mid-single digits for the year as a whole, as international lending continues to provide additional growth opportunities. Despite high interest rate margins year-to-date, margins are expected to be muted over the fourth quarter due to a lower seasonal inflationary impact. The Bank further notes that, although high inflation may support higher net interest income in the short term, asset quality may deteriorate over the long term as a result. There also remains uncertainty regarding capital market volumes and overall activity in investment banking services. The Bank maintains its market share and market position and is well positioned to benefit from a recovery in activity.

In September, the Government announced plans to increase banking taxation. If the proposal is approved, the special bank tax rate will increase from the current rate of 0.145% to 0.254%. Based on the Bank's tax base as at 30 September 2026, the proposed tax increase would increase the Bank's special bank tax expense by ISK 1,671 million annually, or by approximately 75%. As the special bank tax is not deductible for income tax purposes, the increase would have a corresponding impact on the Bank's profit after tax, all else being equal. Taxation on Icelandic banks is currently among the highest in Europe, and further increases would adversely impact both the Group's profitability and competitiveness.

The Bank's equity and liquidity positions remain strong and well in excess of both regulatory and internal requirements. Capital optimisation is expected to continue throughout the year, subject to market conditions and regulatory approvals. As before, the Bank may allocate capital towards growth and/or distributions through dividends or share buybacks.

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange. The Bank has one of the largest shareholder bases among listed companies in Iceland. At the end of the reporting period, the Bank had 22,961 shareholders (year-end 2025: 25,302), with 90.8% of the Bank's shares owned by domestic parties and 9.2% by international investors. Pension funds are the largest investor group, holding 45.5% of outstanding shares, followed by retail investors with 28.7%, with both figures taking into consideration treasury shares.

Directors' Report

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2026 have been prepared on a going concern basis in accordance with the International Accounting Standard (IAS) 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

To the best of our knowledge, these Condensed Consolidated Interim Financial Statements provide a true and fair view of the Group's operating profits and cash flows in the reporting period and its financial position as of 30 September 2026.

The Board of Directors and the CEO have today discussed and approved the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2026.

Kópavogur, 29 October 2026

Board of Directors:

Heiðar Guðjónsson, Chairman

Stefán Pétursson, Vice-Chairman

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Margrét Pétursdóttir

Stefán Sigurðsson

Valgerður Hrunn Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Consolidated Interim Income Statement

	Notes	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Interest income calculated using the effective interest rate method		116,475	99,985	38,625	32,507
Other interest income		2,059	2,968	558	839
Interest expense		(70,338)	(62,873)	(23,368)	(20,086)
Net interest income	5	48,196	40,080	15,815	13,260
Fee and commission income		14,330	14,312	4,815	4,706
Fee and commission expense		(4,505)	(4,396)	(1,516)	(1,477)
Net fee and commission income	6	9,825	9,916	3,299	3,229
Net financial expense	7	(530)	(1,326)	(223)	(353)
Net foreign exchange gain	8	595	270	171	152
Other operating income	9	37	718	22	124
Other net operating income		102	(338)	(30)	(77)
Total operating income		58,123	49,658	19,084	16,412
Salaries and related expenses	10	(13,860)	(12,694)	(4,152)	(3,793)
Other operating expenses	11	(9,353)	(8,442)	(3,171)	(2,686)
Bank tax		(1,667)	(1,562)	(573)	(549)
Total operating expenses		(24,880)	(22,698)	(7,896)	(7,028)
Profit before net impairment on financial assets		33,243	26,960	11,188	9,384
Net impairment on financial assets	12	(2,694)	406	(1,021)	7
Profit before tax		30,549	27,366	10,167	9,391
Income tax expense	13	(8,755)	(8,064)	(2,898)	(2,490)
Profit for the period		21,794	19,302	7,269	6,901
Earnings per share	14				
Basic EPS attributable to shareholders of Íslandsbanki hf. (ISK)		12.80	10.33	4.39	3.73
Diluted EPS attributable to shareholders of Íslandsbanki hf. (ISK)		12.79	10.33	4.38	3.73

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Comprehensive Income

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Profit for the period	21,794	19,302	7,269	6,901
Net changes in FV of fin. liab. attributable to changes in credit risk	(343)	(620)	92	(132)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk ...	69	132	(18)	26
Items that will not be reclassified to the income statement	(274)	(488)	74	(106)
Foreign currency translation	(6)	-	(3)	-
Net changes in fair value of debt instruments at FVOCI	(1,425)	205	(274)	108
Reclassification to the income statement of debt instruments at FVOCI	18	(3)	-	-
Changes in allowance for ECL of debt instruments at FVOCI	3	(2)	(1)	-
Tax related to debt instruments at FVOCI	368	(52)	74	(28)
Items that may subsequently be reclassified to the income statement	(1,042)	148	(204)	80
Other comprehensive expense for the period, net of tax	(1,316)	(340)	(130)	(26)
Total comprehensive income for the period	20,478	18,962	7,139	6,875

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Financial Position

	Notes	30.9.2026	31.12.2025
Assets			
Cash and balances with Central Bank	19	88,676	80,394
Loans to credit institutions	20	78,121	80,009
Bonds and debt instruments	15	172,452	151,959
Derivatives	21	2,662	5,304
Loans to customers	22	1,431,038	1,367,106
Shares and equity instruments	15	11,755	20,517
Other assets*	24	34,759	22,858
Total Assets		1,819,463	1,728,147
Liabilities			
Deposits from Central Bank and credit institutions	25	21,429	13,250
Deposits from customers	26	1,078,259	968,695
Derivative instruments and short positions	21	8,181	6,183
Debt issued and other borrowed funds	28	423,013	444,593
Subordinated loans	29	36,459	40,315
Tax liabilities		14,868	12,757
Other liabilities	30	21,861	16,995
Total Liabilities		1,604,070	1,502,788
Equity			
Share capital		8,273	8,900
Share premium		26,380	42,472
Reserves		5,715	7,201
Retained earnings		175,025	166,786
Total Equity		215,393	225,359
Total Liabilities and Equity		1,819,463	1,728,147

*Comparative figures have been changed. In the context of materiality, the Group has determined that the line items "Investments in associates", "Investment property", "Property and equipment", and "Intangible assets" do not warrant separate presentation as line items in the Consolidated Interim Statement of Financial Position. Accordingly, these items have been reclassified and are now included within "Other assets".

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Changes in Equity

	Reserves										Total equity
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	
Equity as at 1 January 2025	9,473	55,000	2,500	2,829	1,067	648	192	(135)	1	155,780	227,355
Profit for the period										19,302	19,302
Net changes in FV of fin. liab. due to changes in credit risk								(487)		(133)	(620)
Tax on net changes in FV of fin. liab. due to changes in credit risk								97		35	132
Foreign currency translation											-
Net changes in fair value of debt instruments at FVOCI							205				205
Reclassification to the income statement of debt inst. at FVOCI							(3)				(3)
Changes in allowance for ECL of debt instruments at FVOCI							(2)				(2)
Tax related to debt instruments at FVOCI							(52)				(52)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	148	(390)	-	19,204	18,962
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(293)									(6,989)	(7,282)
Reduction in share capital		(12,528)	(149)							12,677	-
Share option charge										42	42
Other changes to restricted reserves				(212)	(219)	782				(351)	-
Equity as at 30 September 2025	9,180	42,472	2,351	2,617	848	1,430	340	(525)	1	168,260	226,974

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Changes in Equity

	Reserves										
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2026	8,900	42,472	2,351	2,707	776	1,866	411	(913)	3	166,786	225,359
Profit for the period										21,794	21,794
Net changes in FV of fin. liab. due to changes in credit risk								(343)			(343)
Tax on net changes in FV of fin. liab. due to changes in credit risk								69			69
Foreign currency translation									(6)		(6)
Net changes in fair value of debt instruments at FVOCI							(1,425)				(1,425)
Reclassification to the income statement of debt inst. at FVOCI							18				18
Changes in allowance for ECL of debt instruments at FVOCI							3				3
Tax related to debt instruments at FVOCI							368				368
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(1,036)	(274)	(6)	21,794	20,478
Dividends										(12,604)	(12,604)
Purchase of treasury shares	(659)									(18,216)	(18,875)
Reduction in share capital		(16,092)	(159)							16,251	-
Equity-settled incentive scheme charge										53	53
Share option charge										173	173
Share option exercised	32									777	809
Other changes to restricted reserves				3	(218)	204				11	-
Equity as at 30 September 2026	8,273	26,380	2,192	2,710	558	2,070	(625)	(1,187)	(3)	175,025	215,393

The Bank's authorised and issued share capital at 30 September 2026 consisted of 1,753,175,393 ordinary shares (year-end 2025: 1,880,470,770) with a par value of ISK 5 each. The Annual General Meeting (AGM) for the 2025 operating year took place on 19 March 2026 where shareholders approved the Board's proposal to reduce the Bank's share capital by cancelling the Bank's own shares by ISK 636,476,885 nominal value, equivalent to 127,295,377 shares, from ISK 9,402,353,850 to ISK 8,765,876,965 nominal value.

At the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12.6 billion, equivalent to ISK 7.28 per share (2025: ISK 6.46 per share). The dividends were paid on 8 April 2026. Íslandsbanki bought back 131.8 million own shares for ISK 18,875 million during the first nine months of 2026 (first nine months of 2025: 58.6 million own shares for ISK 7,282 million). As of 30 September 2026 the Bank owned 98.6 million own shares (year-end 2025: 100.5 million).

Upon derecognition (mainly repurchases) of financial liabilities designated at FVTPL, the amount accumulated in the liability credit risk reserve is transferred to retained earnings. In the first nine months of 2026, ISK 0 million (first nine months of 2025: negative ISK 98 million) was transferred to retained earnings upon the derecognition of financial liabilities designated at FVTPL.

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Cash Flows

	2026 1.1-30.9	2025 1.1-30.9
Profit for the period	21,794	19,302
Non-cash items included in profit for the period*	(36,387)	(29,890)
Changes in operating assets and liabilities*	17,327	48,379
Interest received	103,131	97,493
Interest paid**	(58,512)	(44,149)
Dividends received	404	1,024
Bank tax paid	(1,292)	(1,320)
Income tax and special financial activities tax paid	(6,526)	(6,780)
Net cash provided by operating activities	39,939	84,059
Purchase of investment property	(7)	(21)
Proceeds from sales of property and equipment	12	198
Purchase of property and equipment	(304)	(295)
Additions of intangible assets	(764)	(488)
Net cash used in investing activities	(1,063)	(606)
Proceeds from borrowings	57,397	81,237
Repayment and repurchases of borrowings	(59,921)	(42,996)
Repayment of lease liabilities	(463)	(439)
Dividends paid	(12,604)	(12,103)
Purchase of treasury shares	(18,875)	(7,282)
Proceeds from exercise of share options	809	-
Net cash provided by (used in) financing activities	(33,657)	18,417
Net increase (decrease) in cash and cash equivalents	5,219	101,870
Effects of foreign exchange rate changes	(3,960)	(5,235)
Cash and cash equivalents at the beginning of the year	125,897	83,548
Cash and cash equivalents at the end of the period	127,156	180,183
Reconciliation of cash and cash equivalents	Notes	
Cash on hand	19	3,316
Unrestricted balances with Central Bank	19	50,055
Money market loans and other loans to credit institutions	20	65,719
Bank accounts not pledged as collateral against derivative instruments	18, 20	8,066
Cash and cash equivalents at the end of the period		127,156

*For further breakdown see the following page.

**Interest is defined as having been paid when it has been deposited into the customer's account.

The Group has prepared its Consolidated Interim Statement of Cash Flows using the indirect method. The statement is based on the net profit after tax for the period and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the period.

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2026	2025
	1.1-30.9	1.1-30.9
Net interest income	(48,196)	(40,080)
Unrealised fair value (gain) loss recognised in the income statement	(2,763)	592
Foreign exchange gain	(595)	(270)
Depreciation, amortisation, and write-offs	1,509	1,274
Bank tax	1,667	1,562
Net impairment on financial assets	2,800	(363)
Income tax expense	8,755	8,064
Other changes	436	(669)
Total	(36,387)	(29,890)

Changes in operating assets and liabilities

	2026	2025
	1.1-30.9	1.1-30.9
Mandatory reserve and pledged balances with Central Bank	(1,595)	(1,492)
Loans to credit institutions pledged as collateral against derivative instruments	(3,657)	1,237
Bonds and debt instruments	(24,977)	4,315
Loans to customers	(68,558)	(36,713)
Shares and equity instruments	8,330	6,807
Other assets	(6,609)	(2,024)
Deposits from Central Bank and credit institutions	8,010	3,303
Deposits from customers	104,696	76,899
Derivative instruments and short positions	(655)	(2,311)
Other liabilities	2,342	(1,642)
Total	17,327	48,379

The notes on pages 14 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

Íslandsbanki hf., the parent company, was incorporated on 8 October 2008 and is a limited liability company domiciled in Iceland. The registered office is at Hagasmári 3, 201 Kópavogur, Iceland.

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 September 2026 comprise the financial statements of Íslandsbanki hf. ("the Bank" or "Íslandsbanki") and its subsidiaries, together referred to as "the Group". The Bank's main subsidiaries are Íslandssjóðir hf. (Iceland Funds) and Allianz Ísland hf. Additionally, Íslandsbanki has control over 12 other non-significant subsidiaries. All of the Bank's subsidiaries are wholly owned.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and the CEO of Íslandsbanki hf. on 29 October 2026.

2. Basis of preparation

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions, where applicable.

The Condensed Consolidated Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year 2025, as well as the unaudited Pillar 3 Report for the year 2025. Both are available on the Bank's website: www.islandsbanki.is.

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 September 2026, the exchange rate of the ISK against the USD was 120.65 and for the EUR 137.00 (year-end 2025: USD 125.20 and EUR 147.20).

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Therefore, the Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis.

Changes to accounting policies

The accounting policies are unchanged from those set out in Notes 3 and 62 in the Consolidated Financial Statements for the year 2025 except for the changes to accounting policies outlined below. The purpose of the following changes to accounting policies is to ensure a fairer presentation of the Condensed Consolidated Interim Financial Statements.

In the context of materiality, the Group has determined that the line items "Investments in associates", "Investment property", "Property and equipment", and "Intangible assets" do not warrant separate presentation as line items in the Consolidated Interim Statement of Financial Position. Accordingly, these items have been reclassified and are now included within "Other assets".

The Consolidated Financial Statements for the year 2025 do not include a separate accounting policy for disposal groups held for sale, as the Group did not hold any disposal groups classified as held for sale during the year. Assets of disposal groups classified as held for sale are presented in the line item "Other assets" as "Reposessed collateral", and the related liabilities are presented in the line item "Other liabilities" as "Liabilities of disposal groups classified as reposessed collateral". Income and expenses arising from disposal groups held for sale are presented under "Other operating income" as "Net income (expense) from reposessed collateral".

Basis of measurement

The Condensed Consolidated Interim Financial Statements are prepared on a historical cost basis with the following exemptions:

- Assets and liabilities measured at fair value: bonds and debt instruments, shares and equity instruments, investment property, short positions in listed bonds, derivative financial instruments, and certain debt issued by the Group.
- Recognised financial liabilities designated as hedged items in qualifying fair value hedge relationships are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.
- Investments in associates are accounted for using the equity method.

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements

In preparing these Condensed Consolidated Interim Financial Statements management has made judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management bases its judgements on previous experience and other factors that are considered reasonable under the circumstances, but actual results may differ from those estimates. Management continuously evaluates these judgements, estimates, and assumptions. Changes in accounting estimates are recognised when they occur. The key source of estimation uncertainty is the allowance for credit losses.

Impairment of financial assets

Note 62.3 in the Consolidated Financial Statements for the year 2025 contains a description of the Group's accounting policies for the impairment of financial assets. At the end of the third quarter of 2026, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in September 2026. The table below shows macroeconomic indicators from the new forecast that are used in the base case scenario.

Change in economic indicators %	2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029
Economic growth (YoY real GDP change)	1.1	1.2	1.8	2.3	2.5
Housing prices in Iceland (average YoY change)	5.3	1.8	2.8	7.5	6.0
Purchasing power (average YoY change)	3.7	0.8	1.4	1.3	1.9
ISK exchange rate index (average YoY change)	(4.3)	(1.1)	1.4	2.0	1.0
Policy rate, Central Bank of Iceland (average per year)	7.7	7.7	7.5	6.1	5.8
Inflation (average per year)	4.1	5.4	4.5	3.6	3.0
Capital formation (YoY real change)	4.8	0.3	(1.4)	2.0	3.1
- thereof capital formation in industry	7.8	2.4	(3.2)	0.3	3.0

The All Risk Committee determined it appropriate to keep the weights of forward-looking scenarios unchanged from year-end 2025 at 20%-50%-30% (optimistic, base, pessimistic) at the end of the third quarter. Management reviews the sensitivity analysis on the impact of shifting weights between scenarios when determining the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 290 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 120 million. Scenario weights can be scaled linearly, allowing a broader scope of analysis on the impairment allowance.

The impairment process is designed to be systematic so that it can be consistently applied. For the largest part of the loan portfolio, the Group employs an automatic process to assign facilities to stages and to estimate the ECL. For large or complex credit cases where the automatic process is not appropriate, alternative ECL calculations (referred to as "manual impairment") are proposed by experts. Each manual impairment is subsequently reviewed and approved or rejected by the Impairment Council. As of 30 September 2026, exposure to a few counterparties amounting to ISK 20.9 billion was subject to manual impairment, with the associated ECL totalling ISK 2.9 billion (year-end 2025: ISK 9.3 billion and ISK 2.7 billion, respectively).

The allowance for credit losses is further discussed in Notes 22-23 and in Notes 36-39 on risk management.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments

1 January to 30 September 2026	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	15,618	15,688	11,895	5,364	(253)	48,312	(116)	48,196
Net fee and commission income (expense)	2,775	1,565	3,358	171	(7)	7,862	1,963	9,825
Other net operating income	167	(33)	874	184	249	1,441	(1,339)	102
Total operating income	18,560	17,220	16,127	5,719	(11)	57,615	508	58,123
Salaries and related expenses	(2,220)	(2,001)	(1,917)	(217)	(6,575)	(12,930)	(930)	(13,860)
Other operating expenses	(2,052)	(982)	(968)	(311)	(4,769)	(9,082)	(271)	(9,353)
Bank tax	(744)	(391)	(434)	(87)	(11)	(1,667)	-	(1,667)
Net impairment on financial assets	(464)	(1,487)	(1,122)	(18)	-	(3,091)	397	(2,694)
Cost allocation	(4,620)	(3,864)	(3,233)	361	11,356	-	-	-
Profit (loss) before tax	8,460	8,495	8,453	5,447	(10)	30,845	(296)	30,549
Income tax expense	(2,393)	(2,310)	(2,319)	(1,527)	(1)	(8,550)	(205)	(8,755)
Profit (loss) for the period	6,067	6,185	6,134	3,920	(11)	22,295	(501)	21,794
Net segment revenue from external customers	27,514	20,818	24,494	(15,414)	203	57,615	508	58,123
Net segment revenue from other segments	(8,954)	(3,598)	(8,367)	21,133	(214)	-	-	-
Fee and commission income	6,308	1,781	3,666	331	-	12,086	2,244	14,330
Depreciation, amortisation, and write-offs	(167)	(36)	(6)	-	(1,173)	(1,382)	(127)	(1,509)
At 30 September 2026								
Loans to customers	682,026	357,461	394,243	597	-	1,434,327	(3,289)	1,431,038
Other assets	3,039	1,796	5,004	361,607	9,800	381,246	7,179	388,425
Total segment assets	685,065	359,257	399,247	362,204	9,800	1,815,573	3,890	1,819,463
Deposits from customers	555,983	300,703	203,823	20,804	-	1,081,313	(3,054)	1,078,259
Other liabilities	2,751	1,265	14,671	495,811	7,272	521,770	4,041	525,811
Total segment liabilities	558,734	301,968	218,494	516,615	7,272	1,603,083	987	1,604,070
Allocated equity	39,506	52,575	71,275	47,749	1,385	212,490	2,903	215,393
Risk exposure amount	243,928	309,398	422,489	62,203	8,392	1,046,410	5,464	1,051,874

The individual segment balance sheet positions are with external customers and exclude internal transactions, thus explaining the differences in total assets, and total liabilities and equity.

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

1 January to 30 September 2025	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	12,940	14,697	10,196	2,429	(309)	39,953	127	40,080
Net fee and commission income (expense)	2,862	1,507	3,563	(108)	(7)	7,817	2,099	9,916
Other net operating income	78	(11)	1,296	(1,101)	257	519	(857)	(338)
Total operating income	15,880	16,193	15,055	1,220	(59)	48,289	1,369	49,658
Salaries and related expenses	(2,057)	(1,739)	(1,718)	(239)	(6,116)	(11,869)	(825)	(12,694)
Other operating expenses	(2,012)	(933)	(915)	(353)	(4,118)	(8,331)	(111)	(8,442)
Bank tax	(692)	(371)	(389)	(99)	(11)	(1,562)	-	(1,562)
Net impairment on financial assets	(157)	685	(62)	(61)	-	405	1	406
Cost allocation	(4,164)	(3,529)	(3,019)	429	10,283	-	-	-
Profit (loss) before tax	6,798	10,306	8,952	897	(21)	26,932	434	27,366
Income tax expense	(1,948)	(2,776)	(2,426)	(558)	-	(7,708)	(356)	(8,064)
Profit (loss) for the period	4,850	7,530	6,526	339	(21)	19,224	78	19,302
Net segment revenue from external customers	18,345	19,198	23,657	(13,123)	212	48,289	1,369	49,658
Net segment revenue from other segments	(2,465)	(3,005)	(8,602)	14,343	(271)	-	-	-
Fee and commission income	6,091	1,697	3,858	174	-	11,820	2,492	14,312
Depreciation, amortisation, and write-offs	(150)	(40)	(8)	-	(1,065)	(1,263)	(11)	(1,274)
At 31 December 2025								
Loans to customers	630,788	346,943	387,476	1,899	-	1,367,106	-	1,367,106
Other assets	3,978	1,703	1,268	342,241	9,773	358,963	2,078	361,041
Total segment assets	634,766	348,646	388,744	344,140	9,773	1,726,069	2,078	1,728,147
Deposits from customers	524,781	288,142	148,732	10,160	-	971,815	(3,120)	968,695
Other liabilities	3,033	2,870	3,778	516,573	6,049	532,303	1,790	534,093
Total segment liabilities	527,814	291,012	152,510	526,733	6,049	1,504,118	(1,330)	1,502,788
Allocated equity	46,965	55,352	70,303	48,023	1,308	221,951	3,408	225,359
Risk exposure amount	221,633	306,872	430,188	60,696	8,542	1,027,931	5,857	1,033,788

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 September 2026	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	6	113	-	(235)	(116)
Net fee and commission income (expense)	998	968	-	(3)	1,963
Other net operating income	(42)	(3)	485	(1,779)	(1,339)
Total operating income	962	1,078	485	(2,017)	508
Salaries and related expenses	(657)	(200)	(73)	-	(930)
Other operating expenses	(201)	(152)	(385)	467	(271)
Net impairment on financial assets	-	-	-	397	397
Profit (loss) before tax	104	726	27	(1,153)	(296)
Income tax	(21)	(178)	(7)	1	(205)
Profit (loss) for the period	83	548	20	(1,152)	(501)
Net segment revenue from external customers	1,240	962	(622)	(1,072)	508
Net segment revenue from other segments	(278)	116	1,107	(945)	-
Fee and commission income	1,446	1,245	-	(447)	2,244
Depreciation, amortisation, and write-offs	-	-	(2)	(125)	(127)
At 30 September 2026					
Total assets	1,870	3,492	11,242	(12,714)	3,890
Total liabilities	299	1,298	5,585	(6,195)	987
Total equity	1,571	2,194	5,657	(6,519)	2,903

1 January to 30 September 2025	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	8	117	-	2	127
Net fee and commission income (expense)	1,069	1,049	-	(19)	2,099
Other net operating income	(129)	(25)	398	(1,101)	(857)
Total operating income	948	1,141	398	(1,118)	1,369
Salaries and related expenses	(571)	(199)	(55)	-	(825)
Other operating expenses	(189)	(134)	(319)	531	(111)
Net impairment on financial assets	-	1	-	-	1
Profit (loss) before tax	188	809	24	(587)	434
Income tax	(38)	(187)	(6)	(125)	(356)
Profit (loss) for the period	150	622	18	(712)	78
Net segment revenue from external customers	1,204	1,021	6	(862)	1,369
Net segment revenue from other segments	(256)	120	392	(256)	-
Fee and commission income	1,497	1,439	-	(444)	2,492
Depreciation, amortisation, and write-offs	-	(2)	-	(9)	(11)

At 31 December 2025					
Total assets	2,060	3,534	2,482	(5,998)	2,078
Total liabilities	316	1,288	65	(2,999)	(1,330)
Total equity	1,744	2,246	2,417	(2,999)	3,408

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Cash and balances with Central Bank	2,734	2,594	1,118	1,297
Loans to credit institutions	1,332	2,003	453	608
Loans to customers	106,173	90,924	34,920	29,427
Financial assets mandatorily at fair value through other comprehensive income	6,236	5,014	2,134	1,725
Provision for legal proceedings	-	(550)	-	(550)
Interest income calculated using the effective interest rate method	116,475	99,985	38,625	32,507
Financial assets mandatorily at fair value through profit or loss	2,055	2,963	558	837
Other assets	4	5	-	2
Other interest income	2,059	2,968	558	839
Deposits from Central Bank and credit institutions	(204)	(232)	(78)	(70)
Deposits from customers	(43,207)	(39,895)	(15,017)	(12,757)
Financial liabilities mandatorily at fair value through profit or loss	(1,979)	(2,168)	(519)	(638)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(2,441)	(925)	(808)	(418)
Debt issued and other borrowed funds at amortised cost	(19,455)	(17,333)	(5,977)	(5,466)
Subordinated loans	(2,994)	(2,243)	(949)	(717)
Lease liabilities	(54)	(54)	(19)	(18)
Other liabilities	(4)	(23)	(1)	(2)
Interest expense	(70,338)	(62,873)	(23,368)	(20,086)
Net interest income	48,196	40,080	15,815	13,260

6. Net fee and commission income

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Asset management	2,189	2,159	716	695
Investment banking and brokerage	2,499	2,663	829	790
Payment processing	6,285	6,093	2,135	2,085
Loans and guarantees	1,895	1,638	615	607
Other fee and commission income	1,462	1,759	520	529
Fee and commission income	14,330	14,312	4,815	4,706
Brokerage	(395)	(416)	(109)	(111)
Payment processing expenses	(3,759)	(3,421)	(1,291)	(1,231)
Other fee and commission expense	(351)	(559)	(116)	(135)
Fee and commission expense	(4,505)	(4,396)	(1,516)	(1,477)
Net fee and commission income	9,825	9,916	3,299	3,229

Fee and commission income by segment is disclosed in Note 4.

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial expense

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Net loss on financial assets and financial liabilities mandatorily at FVTPL	(3,443)	(765)	(3,087)	(548)
Net gain (loss) on financial liabilities designated as at FVTPL	3,133	(578)	2,872	171
Net loss on fair value hedges	(76)	(39)	(13)	(49)
Net gain (loss) on derecognition of financial liabilities measured at amortised cost	(128)	55	5	73
Net gain (loss) on sale of debt instruments measured at FVOCI	(16)	1	-	-
Net financial expense	(530)	(1,326)	(223)	(353)

The following table shows the categorisation of the net loss on fair value hedges.

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Fair value changes of the hedged items attributable to the hedged risk	1,271	137	582	350
Fair value changes of the hedging derivatives	(1,347)	(176)	(595)	(399)
Net loss on fair value hedges	(76)	(39)	(13)	(49)

The following table shows the categorisation of the net financial expense by type.

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Net gain (loss) on bonds and related derivatives	(7)	(280)	19	(182)
Net loss on shares and related derivatives	(617)	(1,692)	(85)	(153)
Dividend income	404	1,024	36	174
Net gain (loss) on debt issued and related derivatives	(306)	134	(226)	14
Net gain (loss) on economic hedging and other derivatives	12	(513)	33	(206)
Net gain (loss) on sale of debt instruments measured at FVOCI	(16)	1	-	-
Net financial expense	(530)	(1,326)	(223)	(353)

8. Net foreign exchange gain

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Cash and balances with Central Bank	(114)	(94)	(73)	(11)
Loans at amortised cost	(17,946)	(9,842)	(14,111)	(49)
Financial assets mandatorily at fair value through profit or loss	(3,395)	756	(2,414)	842
Financial assets mandatorily at fair value through other comprehensive income	(4,093)	(810)	(2,728)	78
Other assets	(14)	(20)	(8)	(4)
Net foreign exchange gain (loss) for assets	(25,562)	(10,010)	(19,334)	856
Deposits	7,770	7,961	6,868	167
Debt issued and other borrowed funds designated as at fair value through profit or loss	6,331	693	4,371	(64)
Debt issued and other borrowed funds at amortised cost	10,503	1,854	7,334	(717)
Subordinated loans	1,553	(228)	932	(90)
Net foreign exchange gain (loss) for liabilities	26,157	10,280	19,505	(704)
Net foreign exchange gain	595	270	171	152

Notes to the Condensed Consolidated Interim Financial Statements

9. Other operating income

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Fair value changes on investment property	(7)	279	(3)	(5)
Share of profit of associates, net of tax	204	247	92	99
Net income (expense) from repossessed collateral	(344)	(7)	(194)	9
Gain from sales of property and equipment	4	133	-	-
Legal fees	47	52	16	18
Rental income	18	14	6	3
Other net operating income	115	-	105	-
Other operating income	37	718	22	124

10. Salaries and related expenses

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Salaries	9,955	9,781	2,951	2,904
Incentive scheme expenses	796	-	273	-
Share-option programme expenses	173	42	52	42
Contributions to pension funds	1,641	1,512	491	452
Social security charges and financial activities tax	1,437	1,347	453	427
Other salary-related expenses	155	117	27	13
Capitalisation of salaries and related expenses in software development	(297)	(105)	(95)	(45)
Salaries and related expenses	13,860	12,694	4,152	3,793

Incentive scheme

An annual incentive scheme was implemented in early February 2026 for employees of the Group in accordance with Icelandic law and the Bank's remuneration policy. Employees working in Risk Management, Group Internal Audit, and Compliance are excluded from participating, as required by law. The purpose of the scheme is to promote alignment between the interests of shareholders, employees, customers, and other stakeholders, support sustainable long-term performance, and reinforce a performance-oriented culture.

Expenses associated with the incentive scheme, including contributions to pension funds, social security charges and financial activities tax, and other salary-related expenses, are recognised within the respective expense categories. Share-option programme expenses represent the total expense recognised in relation to the Group's share-option programme.

The financing of the scheme is contingent on the Group's return on equity. For 2026, the accrual range is a return on equity of 11.0-12.5%. Eligible employees may receive variable compensation of up to 10% of their fixed annual salary, settled in cash. For certain employees, including the Executive Committee and other key employees, variable compensation may amount to a maximum of 25% of annual base salary. For these employees, payments under the incentive scheme are contingent upon the achievement of various predefined financial and non-financial performance metrics.

Variable compensation of up to 10% of annual base salary is settled in cash, variable compensation between 10% and 20% is settled equally in cash and shares, while variable compensation exceeding 20% (up to a maximum of 25%) is settled as 10% of annual base salary in cash and the remainder in shares. Variable compensation awarded and settled in shares is deferred for a minimum period of four years (five years for the CEO and direct reports). Deferred variable compensation remains subject to malus and clawback provisions throughout the deferral period, in accordance with the Bank's remuneration policy and applicable regulations.

Following the end of the performance period, the Board of Directors assesses performance outcomes and determines final award levels. The Board is authorised to reduce or cancel variable remuneration, in whole or in part, in the event of unsatisfactory performance, breaches of internal rules or regulations, or a material deterioration in the financial position of the Group. Paid awards may be reclaimed for up to seven years in defined circumstances.

Notes to the Condensed Consolidated Interim Financial Statements

10. Salaries and related expenses (continued)

Share-option programme

The Group entered into share-option agreements with employees in August 2025, as described in Note 12 to the 2025 Consolidated Financial Statements.

The first exercise period under the programme followed the publication of the Bank's half-year results for 2026. Employees exercised options to purchase 6,397,210 shares at an exercise price of ISK 126.4 per share, for total consideration of ISK 809 million. The options were settled through the delivery of treasury shares acquired under previous share buyback programmes.

In August 2026, the Bank entered into share-option agreements under the same programme with 50 employees who were not parties to the original agreements. The agreements entitle each employee to purchase shares for up to ISK 1.5 million per year following the publication of the Bank's half-year results for 2027, 2028, 2029, and 2030, corresponding to a maximum of 518,650 shares per year in aggregate. The exercise price is ISK 144.6 per share, corresponding to the weighted average market price of the Bank's shares during the ten trading days preceding the grant date. The grant-date fair value of the options was measured using the Black-Scholes option-pricing model.

Share-option programme expense amounted to ISK 173 million for the first nine months of 2026 (first nine months of 2025: ISK 42 million), of which ISK 52 million was recognised in the third quarter (third quarter 2025: ISK 42 million). The Group estimates that the remaining expense under the programme through August 2030 will amount to ISK 370 million.

Following the publication of the half-year results for 2026, the CEO and seven other members of the Executive Committee exercised all options available to them in that exercise period. Each purchased 11,867 shares at ISK 126.4 per share, representing 94,936 shares in aggregate for total consideration of ISK 12 million. One member of the Executive Committee, who joined the Bank during the period and was therefore not a party to the original agreements, is among the 50 employees who entered into share-option agreements with the Bank in August 2026 on the terms described above.

11. Other operating expenses

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Professional services	1,388	1,339	455	365
Software and IT expenses	4,166	3,724	1,462	1,282
Real estate and office equipment	570	501	200	145
Depreciation, amortisation, and write-offs	1,509	1,274	470	436
Other administrative expenses	1,720	1,604	584	458
Other operating expenses	9,353	8,442	3,171	2,686

12. Net impairment on financial assets

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Net change in expected credit losses, on-balance-sheet items	(2,683)	522	(977)	109
Net change in expected credit losses, off-balance-sheet items	(11)	(116)	(44)	(102)
Net impairment on financial assets	(2,694)	406	(1,021)	7

Notes to the Condensed Consolidated Interim Financial Statements

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2026 is 20% (2025: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first nine months of 2026 is 28.7% (first nine months of 2025: 29.5%).

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Current tax expense	6,933	6,538	2,509	1,866
Special financial activities tax	1,979	1,851	707	525
Adjustments in prior year's calculated income tax	31	85	-	-
Changes in deferred tax assets and deferred tax liabilities	(188)	(410)	(318)	99
Income tax recognised in the income statement	8,755	8,064	2,898	2,490
Income tax recognised in other comprehensive income	(437)	(80)	(56)	2
	2026 1.1-30.9		2025 1.1-30.9	
Profit before tax	30,549		27,366	
Income tax calculated on the profit for the period	6,110	20.0%	5,473	20.0%
Special financial activities tax	1,979	6.5%	1,851	6.8%
Adjustments in prior year's calculated income tax	31	0.1%	85	0.3%
Income not subject to tax	(121)	(0.4%)	(279)	(1.0%)
Non-deductible expenses	698	2.3%	932	3.4%
Other differences	58	0.2%	2	0.0%
Effective income tax expense	8,755	28.7%	8,064	29.5%

The Bank is taxed jointly with its subsidiary Íslandssjóðir hf. (Iceland Funds).

14. Earnings per share

	2026 1.1-30.9	2025 1.1-30.9	2026 1.7-30.9	2025 1.7-30.9
Profit attributable to shareholders of the Bank	21,794	19,302	7,269	6,901
Weighted average number of outstanding shares	1,703	1,869	1,657	1,851
Basic earnings per share (ISK)	12.80	10.33	4.39	3.73
Profit attributable to shareholders of the Bank	21,794	19,302	7,269	6,901
Weighted average number of outstanding shares	1,704	1,869	1,658	1,851
Diluted earnings per share (ISK)	12.79	10.33	4.38	3.73

The Group has entered into equity-settled share option agreements with its employees, under which option holders may purchase Íslandsbanki shares with a value of up to ISK 1.5 million annually following the publication of the Bank's half-year results until 2030. The share options had a negligible dilutive effect on earnings per share for the first nine months and third quarter of 2026.

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 30 September 2026

	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	88,676	88,676
Loans to credit institutions	-	-	-	78,121	78,121
Listed bonds and debt instruments	7,496	-	147,651	-	155,147
Listed bonds and debt instruments used for economic hedging	15,215	-	-	-	15,215
Unlisted bonds and debt instruments	2,090	-	-	-	2,090
Derivatives	2,411	251	-	-	2,662
Loans to customers	-	-	-	1,431,038	1,431,038
Listed shares and equity instruments	3,012	-	-	-	3,012
Listed shares and equity instruments used for economic hedging	5,852	-	-	-	5,852
Unlisted shares and equity instruments	2,891	-	-	-	2,891
Other financial assets	-	-	-	7,939	7,939
Total financial assets	38,967	251	147,651	1,605,774	1,792,643

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	21,429	21,429
Deposits from customers	-	-	-	1,078,259	1,078,259
Derivative instruments and short positions	7,747	434	-	-	8,181
Debt issued and other borrowed funds	-	74,383	81,111	267,519	423,013
Subordinated loans	-	-	-	36,459	36,459
Other financial liabilities	-	-	-	15,220	15,220
Total financial liabilities	7,747	74,817	81,111	1,418,886	1,582,561

At 31 December 2025

	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	80,394	80,394
Loans to credit institutions	-	-	-	80,009	80,009
Listed bonds and debt instruments	11,149	-	132,559	-	143,708
Listed bonds and debt instruments used for economic hedging	6,123	-	-	-	6,123
Unlisted bonds and debt instruments	2,128	-	-	-	2,128
Derivatives	3,533	1,771	-	-	5,304
Loans to customers	-	-	-	1,367,106	1,367,106
Listed shares and equity instruments	3,200	-	-	-	3,200
Listed shares and equity instruments used for economic hedging	14,518	-	-	-	14,518
Unlisted shares and equity instruments	2,799	-	-	-	2,799
Other financial assets	-	-	-	3,452	3,452
Total financial assets	43,450	1,771	132,559	1,530,961	1,708,741

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	13,250	13,250
Deposits from customers	-	-	-	968,695	968,695
Derivative instruments and short positions	6,183	-	-	-	6,183
Debt issued and other borrowed funds	-	90,607	89,416	264,570	444,593
Subordinated loans	-	-	-	40,315	40,315
Other financial liabilities	-	-	-	10,309	10,309
Total financial liabilities	6,183	90,607	89,416	1,297,139	1,483,345

*For further information on hedge accounting see Notes 21 and 28.

Notes to the Condensed Consolidated Interim Financial Statements

16. Fair value information for financial instruments

Financial instruments carried at fair value

The following tables show financial instruments carried at fair value at 30 September 2026, categorised into three levels of the fair value hierarchy that reflect the type of inputs used in making the fair value measurements.

At the end of each reporting period, the Group determines whether transfers have occurred between levels in the hierarchy, by reassessing categorisation based on the lowest-level input that is significant to the fair value measurement as a whole. No transfers between levels took place during the period.

At 30 September 2026	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	170,362	-	2,090	172,452
Derivatives	-	2,662	-	2,662
Shares and equity instruments	8,864	-	2,891	11,755
Total financial assets	179,226	2,662	4,981	186,869

Short positions	1,338	-	-	1,338
Derivative instruments	-	6,843	-	6,843
Debt issued and other borrowed funds designated as at FVTPL	81,111	-	-	81,111
Total financial liabilities	82,449	6,843	-	89,292

At 31 December 2025	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	149,831	-	2,128	151,959
Derivatives	-	5,304	-	5,304
Shares and equity instruments	17,718	-	2,799	20,517
Total financial assets	167,549	5,304	4,927	177,780
Short positions	1,908	-	-	1,908
Derivative instruments	-	4,275	-	4,275
Debt issued and other borrowed funds designated as at FVTPL	89,416	-	-	89,416
Total financial liabilities	91,324	4,275	-	95,599

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2026	2,128	2,799	4,927
Sales and share capital decrease	-	(146)	(146)
Settlements	(38)	-	(38)
Purchases and share capital increase	-	358	358
Net loss on financial instruments recognised in the income statement	-	(120)	(120)
Fair value at 30 September 2026	2,090	2,891	4,981

	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2025	2,020	2,417	4,437
Purchases and share capital increase	42	209	251
Net gain on financial instruments recognised in the income statement	66	173	239
Fair value at 31 December 2025	2,128	2,799	4,927

Management has assessed that reasonably possible changes in the assumptions used in the valuation of Level 3 financial instruments would not have a significant impact on their fair value. Accordingly, no sensitivity analysis of Level 3 financial instruments is presented.

Notes to the Condensed Consolidated Interim Financial Statements

17. Financial instruments not carried at fair value

The following tables show the fair value measurement and classification of the Group's assets and liabilities not carried at fair value.

At 30 September 2026	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	88,676	-	88,676	88,676	-
Loans to credit institutions	-	78,121	-	78,121	78,121	-
Loans to customers	-	-	1,429,348	1,429,348	1,431,038	(1,690)
Other financial assets	-	7,939	-	7,939	7,939	-
Total financial assets	-	174,736	1,429,348	1,604,084	1,605,774	(1,690)
Deposits from Central Bank and credit institutions	-	21,429	-	21,429	21,429	-
Deposits from customers	-	1,078,241	-	1,078,241	1,078,259	(18)
Debt issued and other borrowed funds	249,848	10,538	-	260,386	267,519	(7,133)
Subordinated loans	36,641	-	-	36,641	36,459	182
Other financial liabilities	-	15,220	-	15,220	15,220	-
Total financial liabilities	286,489	1,125,428	-	1,411,917	1,418,886	(6,969)

At 31 December 2025	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	80,394	-	80,394	80,394	-
Loans to credit institutions	-	80,009	-	80,009	80,009	-
Loans to customers	-	-	1,364,031	1,364,031	1,367,106	(3,075)
Other financial assets	-	3,452	-	3,452	3,452	-
Total financial assets	-	163,855	1,364,031	1,527,886	1,530,961	(3,075)
Deposits from Central Bank and credit institutions	-	13,250	-	13,250	13,250	-
Deposits from customers	-	968,708	-	968,708	968,695	13
Debt issued and other borrowed funds	249,144	10,691	-	259,835	264,570	(4,735)
Subordinated loans	40,278	-	-	40,278	40,315	(37)
Other financial liabilities	-	10,309	-	10,309	10,309	-
Total financial liabilities	289,422	1,002,958	-	1,292,380	1,297,139	(4,759)

Notes to the Condensed Consolidated Interim Financial Statements

18. Offsetting financial assets and financial liabilities

The following tables show the reconciliation of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements.

At 30 September 2026 and year-end 2025, no netting occurred between financial assets and liabilities subject to enforceable master netting agreements and comparable arrangements, resulting in no offsetting.

Derivatives	30.9.2026	31.12.2025
Financial assets	2,662	5,304
Amounts not set off but subject to master netting arrangements and similar agreements	(2,653)	(5,003)
- Financial liabilities	(777)	(1,553)
- Cash collateral received	(1,021)	(3,216)
- Financial instruments collateral received	(855)	(234)
Net amount after consideration of potential effect of netting arrangements	9	301

Derivative instruments and short positions	30.9.2026	31.12.2025
Financial liabilities	8,181	6,183
Amounts not set off but subject to master netting arrangements and similar agreements	(5,113)	(2,349)
- Financial assets	(777)	(1,553)
- Cash collateral pledged	(4,336)	(796)
Net amount after consideration of potential effect of netting arrangements	3,068	3,834

19. Cash and balances with Central Bank

	30.9.2026	31.12.2025
Cash on hand	3,316	3,270
Unrestricted balances with Central Bank	50,055	43,414
Cash and unrestricted balances with Central Bank	53,371	46,684
Balances pledged as collateral to Central Bank	111	712
Mandatory reserve deposits with Central Bank	35,194	32,998
Cash and balances with Central Bank	88,676	80,394

20. Loans to credit institutions

	30.9.2026	31.12.2025
Money market loans	64,588	69,660
Bank accounts	12,402	7,247
Other loans	1,131	3,102
Loans to credit institutions	78,121	80,009

Notes to the Condensed Consolidated Interim Financial Statements

21. Derivative instruments and short positions

At 30 September 2026				
	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	486	58,835	3,947	131,150
Cross-currency interest rate swaps	152	8,069	771	23,324
Equity forwards	1,378	5,546	134	2,425
Foreign exchange forwards	99	7,171	665	12,982
Foreign exchange swaps	218	17,614	1,303	45,723
Bond forwards	329	8,150	23	10,427
Derivatives	2,662	105,385	6,843	226,031
Short positions in listed bonds	-	-	1,338	1,140
Total	2,662	105,385	8,181	227,171

At 31 December 2025				
	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	3,198	194,846	1,820	100,269
Cross-currency interest rate swaps	117	12,705	25	2,500
Equity forwards	1,239	6,522	1,231	8,223
Foreign exchange forwards	65	9,488	446	22,398
Foreign exchange swaps	490	44,409	712	30,602
Bond forwards	195	3,537	41	5,821
Derivatives	5,304	271,507	4,275	169,813
Short positions in listed bonds	-	-	1,908	1,891
Total	5,304	271,507	6,183	171,704

The Group uses derivatives to hedge currency exposure, interest rate risk in the banking book, and inflation risk. The Group carries relatively low indirect exposure due to margin trading with clients and the Group holds collateral for possible losses. Other derivatives in the Group held for trading or for other purposes are insignificant.

Short positions are in bonds issued by the Government of Iceland and bonds issued by municipalities, banks, and public companies. As a primary dealer the Group has access to securities lending facilities provided by the Central Bank and other issuers. The majority of the securities lending facilities have a maturity of less than a year.

The Group applies hedge accounting only with respect to certain EUR-denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed-rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR-denominated bonds (see Note 28) arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 September 2026 the total fair value of the interest rate swaps in the hedging relationship was negative and amounted to ISK 183 million (year-end 2025: positive ISK 1,771 million) and their total notional amount was ISK 75,934 million (year-end 2025: ISK 88,320 million).

Notes to the Condensed Consolidated Interim Financial Statements

22. Loans to customers

At 30 September 2026	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	688,927	11,658	8,044	(932)	(190)	(544)	706,963
Commerce and services	217,828	9,169	8,963	(760)	(198)	(1,026)	233,976
Construction	84,326	11,225	11,862	(653)	(287)	(1,697)	104,776
Energy	18,953	649	-	(43)	(5)	-	19,554
Financial services	305	-	-	-	-	-	305
Industrial and transportation	75,493	5,533	858	(250)	(97)	(94)	81,443
Investment companies	47,576	1,881	341	(218)	(71)	(131)	49,378
Public sector and non-profit organisations	14,438	4	18	(23)	(1)	(4)	14,432
Real estate	122,699	3,599	5,093	(234)	(37)	(955)	130,165
Seafood	89,908	188	50	(75)	(13)	(12)	90,046
Loans to customers	1,360,453	43,906	35,229	(3,188)	(899)	(4,463)	1,431,038

At 31 December 2025	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	638,416	8,986	7,277	(739)	(158)	(491)	653,291
Commerce and services	188,115	21,531	1,972	(729)	(263)	(385)	210,241
Construction	81,441	18,875	942	(522)	(447)	(299)	99,990
Energy	16,366	666	-	(27)	(4)	-	17,001
Financial services	119	-	-	-	-	-	119
Industrial and transportation	84,294	3,927	5,879	(201)	(81)	(1,800)	92,018
Investment companies	42,866	3,669	383	(147)	(114)	(60)	46,597
Public sector and non-profit organisations	16,683	1	18	(25)	-	(4)	16,673
Real estate	133,465	4,903	3,935	(248)	(134)	(654)	141,267
Seafood	89,519	485	19	(105)	(3)	(6)	89,909
Loans to customers	1,291,284	63,043	20,425	(2,743)	(1,204)	(3,699)	1,367,106

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	18	-	-	18
Loans to credit institutions	70	-	-	70
Loans to customers	3,188	899	4,463	8,550
Other financial assets	7	3	-	10
Off-balance-sheet loan commitments and financial guarantees	575	94	309	978
At 30 September 2026	3,858	996	4,772	9,626
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	57	-	-	57
Loans to customers	2,743	1,204	3,699	7,646
Other financial assets	13	3	-	16
Off-balance-sheet loan commitments and financial guarantees	682	164	121	967
At 31 December 2025	3,512	1,371	3,820	8,703

Notes to the Condensed Consolidated Interim Financial Statements

23. Expected credit losses (continued)

The following tables reconcile the opening and closing balances of accumulated expected credit losses for loans to customers, and off-balance-sheet loan commitments and financial guarantees.

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2026	2,743	1,204	3,699	7,646
Transfer to Stage 1	692	(538)	(154)	-
Transfer to Stage 2	(405)	477	(72)	-
Transfer to Stage 3	(58)	(963)	1,021	-
Net remeasurement of loss allowance	(729)	725	1,506	1,502
New financial assets originated or purchased	1,567	179	426	2,172
Derecognitions and maturities	(622)	(184)	(1,865)	(2,671)
Write-offs*	-	(1)	(475)	(476)
Recoveries of amounts previously written off	-	-	106	106
Foreign exchange	-	-	(7)	(7)
Unwinding of interest	-	-	278	278
At 30 September 2026	3,188	899	4,463	8,550

*During the period financial assets amounting to ISK 523 million were written off but are still subject to enforcement activity.

At 1 January 2025	3,496	975	3,349	7,820
Transfer to Stage 1	820	(663)	(157)	-
Transfer to Stage 2	(720)	866	(146)	-
Transfer to Stage 3	(80)	(360)	440	-
Net remeasurement of loss allowance	(2,421)	378	888	(1,155)
New financial assets originated or purchased	2,854	200	518	3,572
Derecognitions and maturities	(1,206)	(192)	(633)	(2,031)
Write-offs*	-	-	(1,008)	(1,008)
Recoveries of amounts previously written off	-	-	139	139
Foreign exchange	-	-	4	4
Unwinding of interest	-	-	305	305
At 31 December 2025	2,743	1,204	3,699	7,646

*During the year financial assets amounting to ISK 1,116 million were written off but are still subject to enforcement activity.

Off-balance-sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2026	682	164	121	967
Transfer to Stage 1	64	(24)	(40)	-
Transfer to Stage 2	(25)	33	(8)	-
Transfer to Stage 3	(3)	(18)	21	-
Net remeasurement of loss allowance	(351)	(55)	42	(364)
New loan commitments and financial guarantees	268	7	223	498
Derecognitions and maturities	(60)	(13)	(50)	(123)
At 30 September 2026	575	94	309	978
At 1 January 2025	565	32	314	911
Transfer to Stage 1	63	(35)	(28)	-
Transfer to Stage 2	(30)	51	(21)	-
Transfer to Stage 3	(4)	(4)	8	-
Net remeasurement of loss allowance	(462)	122	(90)	(430)
New loan commitments and financial guarantees	935	34	90	1,059
Derecognitions and maturities	(385)	(36)	(152)	(573)
At 31 December 2025	682	164	121	967

Notes to the Condensed Consolidated Interim Financial Statements

24. Other assets

	30.9.2026	31.12.2025
Reposessed collateral	8,407	1,749
Investments in associates*	5,590	5,384
Investment property*	2,900	2,900
Property and equipment*	4,923	4,702
Intangible assets*	2,844	2,682
Receivables	1,042	2,363
Unsettled securities transactions	6,984	1,151
Prepaid expenses	1,778	1,655
Deferred tax assets	166	151
Other assets	125	121
Other assets	34,759	22,858

*Comparative figures have been changed. In the context of materiality, the Group has determined that the line items "Investments in associates", "Investment property", "Property and equipment", and "Intangible assets" do not warrant separate presentation as line items in the Consolidated Interim Statement of Financial Position. Accordingly, these items have been reclassified and are now included within "Other assets".

25. Deposits from Central Bank and credit institutions

	30.9.2026	31.12.2025
Deposits from credit institutions	21,168	13,041
Repurchase agreements with Central Bank	261	209
Deposits from Central Bank and credit institutions	21,429	13,250

Notes to the Condensed Consolidated Interim Financial Statements

26. Deposits from customers

	30.9.2026	31.12.2025
Demand deposits and deposits with maturity up to 3 months	967,108	854,319
Term deposits with maturity of more than 3 months	111,151	114,376
Deposits from customers	1,078,259	968,695

Deposits from customers specified by owners	30.9.2026		31.12.2025	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	17,205	2%	10,556	1%
Municipalities	10,709	1%	7,611	1%
Companies	480,895	44%	416,957	43%
Individuals	569,450	53%	533,571	55%
Deposits from customers	1,078,259	100%	968,695	100%

27. Pledged assets

	30.9.2026	31.12.2025
Loans to customers pledged as collateral against Covered Bonds	395,234	420,760
Cash and balances pledged as collateral against Covered Bonds	14,754	18,364
Loans to credit institutions and balances with Central Bank pledged as collateral against derivative instruments	4,685	1,483
Other financial assets pledged as collateral	2,586	7,229
Pledged assets against liabilities	417,259	447,836
Pledged assets against Covered Bonds held by the Bank	(151,268)	(160,225)
Pledged assets against liabilities on balance	265,991	287,611

The Group has pledged assets against the issuance of Covered Bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 30 September 2026 was ISK 135,192 million (year-end 2025: ISK 131,212 million).

Other financial assets pledged as collateral are pledged with the Central Bank to ensure the clearing of the Icelandic payment system.

Notes to the Condensed Consolidated Interim Financial Statements

28. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.9.2026	31.12.2025
ISB CBI 26 - ISK 0 million	2015	07.05.2026	Bullet	Fixed CPI, 3.37%	-	27,337
ISB CBF 27 - ISK 8,940 million	2022	10.05.2027	Bullet	REIBOR 1M + 0.40%	8,978	8,974
ISB CB 27 - ISK 5,671 million	2020	16.09.2027	Amortising	Fixed, 2.50%	5,978	12,270
ISB CB - EUR 244 million*	2022	20.09.2027	Bullet	Fixed, 3.00%	32,787	44,531
ISB CBF 28 - ISK 6,620 million	2026	11.03.2028	Bullet	REIBOR 1M + 0.15%	6,630	-
ISB CBI 28 - ISK 8,981 million	2019	11.08.2028	Amortising	Fixed CPI, 2.20%	13,591	19,465
ISB CBI 29 - ISK 34,780 million	2023	10.05.2029	Bullet	Fixed CPI, 2.72%	41,553	39,441
ISB CBI 30 - ISK 23,040 million	2017	31.05.2030	Bullet	Fixed CPI, 3.00%	36,821	34,708
ISB CB 31 - ISK 19,960 million	2025	03.06.2031	Bullet	Fixed, 7.39%	20,479	13,094
ISB CBI 32 - ISK 23,460 million	2024	03.12.2032	Bullet	Fixed CPI, 3.44%	26,471	13,482
Covered bonds					193,288	213,302
SEK 0 million	2023	13.04.2026	Bullet	STIBOR 3M + 3.65%	-	5,975
SEK 329 million	2023	08.11.2026	Bullet	STIBOR 3M + 2.70%	4,005	6,846
NOK 328 million	2024	25.01.2027	Bullet	NIBOR 3M + 2.35%	4,171	6,265
SEK 80 million	2024	25.01.2027	Bullet	STIBOR 3M + 2.35%	974	6,823
NOK 200 million	2024	02.07.2027	Bullet	NIBOR 3M + 1.20%	2,549	2,521
SEK 300 million	2024	02.07.2027	Bullet	STIBOR 3M + 1.20%	3,655	4,111
NOK 200 million	2025	16.07.2027	Bullet	NIBOR 3M + 0.98%	2,542	2,515
SEK 200 million	2025	16.07.2027	Bullet	STIBOR 3M + 1.00%	2,433	2,737
ISK 1,867 million	2022	22.11.2027	Amortising	REIBOR 1M + 1.25%	1,876	3,080
ISK 6,940 million	2022	22.11.2027	Bullet	Fixed, 7.70%	7,376	6,964
EUR 300 million*	2024	27.03.2028	Bullet	Fixed, 4.625%	41,596	46,077
NOK 100 million	2025	17.07.2028	Bullet	NIBOR 3M + 1.19%	1,271	1,258
SEK 500 million	2025	17.07.2028	Bullet	STIBOR 3M + 1.20%	6,083	6,843
ISK 19,460 million	2023	21.12.2028	Bullet	Fixed CPI, 4.48%	23,138	21,232
NOK 600 million	2026	11.06.2029	Bullet	NIBOR 3M + 0.78%	7,548	-
SEK 1,400 million	2026	11.06.2029	Bullet	STIBOR 3M + 0.80%	16,922	-
EUR 300 million**	2025	20.09.2030	Bullet	Fixed, 3.875%	40,538	45,377
EUR 300 million**	2025	11.11.2032	Bullet	Fixed, 3.75%	40,573	44,039
ISK 7,600 million	2024	14.11.2036	Bullet	Fixed CPI, 3.50%	8,414	7,746
Unsecured bonds					215,664	220,409
Other secured loans					3,523	-
Other unsecured loans					10,538	10,882
Other borrowed funds					14,061	10,882
Debt issued and other borrowed funds					423,013	444,593

The Group repurchased own bonds during the period amounting to ISK 20,996 million (first nine months of 2025: ISK 10,192 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR-denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of these fixed-rate EUR-denominated bonds arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 September 2026 the total carrying amount of these bond issuances amounted to ISK 74,383 million and included in the amount are fair value changes amounting to ISK 721 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 30 September 2026 the total carrying amount of the bonds amounted to ISK 81,111 million and included in the amount are fair value changes amounting to ISK 2,233 million.

The Group has issued additional bonds for its own use, e.g. for the purpose of securities lending and repurchase agreements. These bond amounts are not included in the total.

Notes to the Condensed Consolidated Interim Financial Statements

29. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	First Callable	Interest	30.9.2026	31.12.2025
ISK 1,500 million	2022	17.04.2033	17.04.2028	Fixed, 8.62%	1,526	1,526
ISK 9,020 million	2022	17.04.2033	17.04.2028	Fixed CPI, 4.86%	11,392	10,797
ISK 9,600 million	2023	12.09.2034	12.09.2029	Fixed CPI, 5.80%	11,209	10,776
ISK 1,400 million	2026	24.09.2036	24.09.2031	REIBOR 1M + 1.02%	1,402	-
Tier 2 subordinated loans					25,529	23,099
SEK 0 million	2021	Perpetual	28.09.2026	STIBOR 3M + 4.75%	-	5,262
SEK 700 million	2025	Perpetual	25.11.2030	STIBOR 3M + 3.50%	8,422	9,472
NOK 200 million	2025	Perpetual	25.11.2030	NIBOR 3M + 3.58%	2,508	2,482
Additional Tier 1 subordinated loans					10,930	17,216
Subordinated loans					36,459	40,315

30. Other liabilities

	30.9.2026	31.12.2025
Liabilities of disposal groups classified as repossessed collateral	2,178	-
Accruals	4,512	3,655
Lease liabilities	3,288	3,036
Expected credit losses for off-balance-sheet loan commitments and financial guarantees	978	966
Withholding tax	2,459	5,064
Unsettled securities transactions	5,294	1,623
Sundry liabilities	3,152	2,651
Other liabilities	21,861	16,995

31. Custody assets

	30.9.2026	31.12.2025
Custody assets - not managed by the Group	4,139,063	3,802,565

Notes to the Condensed Consolidated Interim Financial Statements

32. Related party

The boards of directors, key management personnel, their close family members, and any legal entities controlled by these individuals of each of the Bank, and the Bank's subsidiaries, are defined as related parties. Transactions with related parties were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third party counterparties.

The following tables show the Group's balances and transactions with related parties.

	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net & loan com- balance mitments	
At 30 September 2026					
Board of Directors, key management personnel and other related parties ..	-	1,061	941	120	78
Associated companies	2,289	2,921	2,611	2,599	159
Balances with related parties	2,289	3,982	3,552	2,719	237

	Interest income	Interest expense	Other income	Other expense
1 January to 30 September 2026				
Board of Directors, key management personnel and other related parties	138	40	4	67
Associated companies	243	13	2	1,542
Transactions with related parties	381	53	6	1,609

	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net & loan com- balance mitments	
At 31 December 2025					
Board of Directors, key management personnel and other related parties ..	-	992	570	422	70
Associated companies	2,476	3,459	2,783	3,152	155
Balances with related parties	2,476	4,451	3,353	3,574	225

	Interest income	Interest expense	Other income	Other expense
1 January to 30 September 2025				
Board of Directors, key management personnel and other related parties	63	27	2	24
Associated companies	353	16	2	1,504
Transactions with related parties	416	43	4	1,528

At 30 September 2026 a total of ISK 1 million (year-end 2025: ISK 1 million) was recognised as Stage 1 expected credit losses on balances with related parties.

Notes to the Condensed Consolidated Interim Financial Statements

33. Legal proceedings

The Bank and its subsidiaries are parties to legal proceedings and regulatory matters arising in the ordinary course of business. At 30 September 2026, the Group had three contingent liabilities relating to such matters. Two of these relate to the proceedings involving 105 Miðborg slhf. – ÍAV hf. and EC Clear ehf., both of which have previously been disclosed in the Group's financial statements. No provisions have been recognised in respect of those matters. The third contingent liability relates to the proceedings described below.

Grenjar ehf.

In September 2026, Grenjar ehf. brought legal proceedings against the Bank, claiming damages of approximately ISK 2,546 million, together with late-payment interest and legal costs or, alternatively, the invalidation of the pledges and the return of properties. The claims relate to properties pledged by Grenjar as collateral for the obligations of Skaginn 3X ehf., which was formerly part of the same group. Following the bankruptcy of Skaginn 3X, Grenjar transferred the properties to the Bank. Grenjar alleges that the Bank breached its duties of care and disclosure. The Bank considers the claims to be unfounded and has not recognised a provision in respect of this matter.

34. Events after the reporting period

No events have arisen after the reporting period that require amendments or additional disclosures in the Condensed Consolidated Interim Financial Statements for the first nine months of 2026.

35. Risk management

Risk governance

The Group is exposed to various risk factors, and managing these risks is an integral part of its operations. More information about the Group's risk management and risk assessment processes is available in the unaudited Pillar 3 2025 Report, which is available on the Bank's website: www.islandsbanki.is.

Notes to the Condensed Consolidated Interim Financial Statements

36. Maximum credit exposure and collateral

The following tables show the maximum exposure to credit risk by collateral held against those exposures that are subject to IFRS 9 impairment requirements.

At 30 September 2026	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Collateral held against credit exposure										
Cash and balances with Central Bank	88,676	-	-	-	-	-	-	-	88,676	18
Loans to credit institutions	78,121	-	-	-	-	-	-	-	78,121	70
Bonds and debt instruments	147,651	-	-	-	-	-	31,484	31,484	116,167	-
Loans to customers:	1,431,038	735,612	312,620	62,129	44,013	99,576	75,805	1,329,755	101,283	8,550
Individuals	706,963	636,948	6,561	6	27	23,500	6	667,048	39,915	1,666
- Thereof mortgages	633,015	632,316	-	-	20	-	-	632,336	679	323
Commerce and services	233,976	15,270	87,575	633	27,076	58,062	29,908	218,524	15,452	1,984
Construction	104,776	52,125	40,232	28	139	4,973	4,043	101,540	3,236	2,637
Energy	19,554	30	11,221	-	-	112	3,887	15,250	4,304	48
Financial services	305	-	299	-	-	-	-	299	6	-
Industrial and transportation	81,443	1,284	42,017	4	71	11,502	15,251	70,129	11,314	441
Investment companies	49,378	2,940	19,949	-	13,928	932	3,788	41,537	7,841	420
Public sector and non-profit organisations	14,432	42	742	-	-	51	-	835	13,597	28
Real estate	130,165	26,673	97,917	-	2,681	281	91	127,643	2,522	1,226
Seafood	90,046	300	6,107	61,458	91	163	18,831	86,950	3,096	100
Other financial assets	7,939	-	-	-	-	-	-	-	7,939	10
Off-balance-sheet items:	230,844	16,603	39,044	6,758	10,114	-	16,071	88,590	142,254	978
Financial guarantees	21,638	1,883	7,557	50	19	-	2,701	12,210	9,428	214
Loan commitments	209,206	14,720	31,487	6,708	10,095	-	13,370	76,380	132,826	764
Total	1,984,269	752,215	351,664	68,887	54,127	99,576	123,360	1,449,829	534,440	9,626

Maximum credit exposure for off-balance-sheet items reflects the maximum amount, not taking into account the Group's ability to reduce its loan commitments before the current undrawn amount is fully utilised by the customer.

Notes to the Condensed Consolidated Interim Financial Statements

36. Maximum credit exposure and collateral (continued)

At 31 December 2025	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Collateral held against credit exposure										
Cash and balances with Central Bank	80,394	-	-	-	-	-	-	-	80,394	17
Loans to credit institutions	80,009	-	-	-	-	-	-	-	80,009	57
Bonds and debt instruments.....	132,559	-	-	-	-	-	34,844	34,844	97,715	-
Loans to customers:	1,367,106	698,066	314,558	66,424	43,835	82,152	77,806	1,282,841	84,265	7,646
Individuals	653,291	588,786	5,586	4	155	19,890	131	614,552	38,739	1,388
- Thereof mortgages	584,723	584,165	-	-	150	-	-	584,315	408	246
Commerce and services	210,241	15,741	79,270	824	20,153	50,597	31,001	197,586	12,655	1,377
Construction	99,990	53,907	35,571	41	784	3,326	3,817	97,446	2,544	1,268
Energy	17,001	3	10,731	-	3,162	137	-	14,033	2,968	31
Financial services	119	106	-	-	-	-	-	106	13	-
Industrial and transportation	92,018	1,139	57,328	-	4,219	7,558	17,965	88,209	3,809	2,082
Investment companies	46,597	2,256	16,565	-	14,362	275	7,014	40,472	6,125	321
Public sector and non-profit organisations	16,673	42	801	-	-	21	11	875	15,798	29
Real estate	141,267	35,814	102,693	-	948	214	392	140,061	1,206	1,036
Seafood	89,909	272	6,013	65,555	52	134	17,475	89,501	408	114
Other financial assets	3,452	-	-	-	-	-	-	-	3,452	16
Off-balance-sheet items:	239,817	16,321	41,341	8,041	13,865	11	19,170	98,749	141,068	967
Financial guarantees	22,246	2,303	7,399	5	1,446	-	3,404	14,557	7,689	297
Loan commitments	217,571	14,018	33,942	8,036	12,419	11	15,766	84,192	133,379	670
Total	1,903,337	714,387	355,899	74,465	57,700	82,163	131,820	1,416,434	486,903	8,703

Maximum credit exposure for off-balance-sheet items reflects the maximum amount, not taking into account the Group's ability to reduce its loan commitments before the current undrawn amount is fully utilised by the customer.

Notes to the Condensed Consolidated Interim Financial Statements

37. Credit quality of financial assets

The following tables provide the gross carrying amount of loans and credit risk exposure on loan commitments and financial guarantees. Amounts are broken down by risk class and the method by which their respective credit loss allowances (ECL) are calculated, i.e. Stage 1, 2 and 3.

The Group uses internal rating models to assess the default probability of corporate and retail customers. The models assign each customer to one of ten risk classes. One risk class is for customers in default (risk class 10), and nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned on customer level and not facility level.

Risk classes 1-4 represent low risk, risk classes 5-6 moderate risk, risk classes 7-8 increased risk, risk class 9 high risk, and risk class 10 represents customers that are in default. Unrated are customers that are yet to be rated.

At 30 September 2026

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	567,923	1,085	-	569,008
Risk class 5-6	597,479	8,148	-	605,627
Risk class 7-8	177,139	22,823	-	199,962
Risk class 9	16,468	10,100	-	26,568
Risk class 10	-	-	35,229	35,229
Unrated	1,444	1,750	-	3,194
	1,360,453	43,906	35,229	1,439,588
Expected credit losses	(3,188)	(899)	(4,463)	(8,550)
Net carrying amount	1,357,265	43,007	30,766	1,431,038

Off-balance-sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	103,236	79	-	103,315
Risk class 5-6	74,685	424	-	75,109
Risk class 7-8	44,634	2,424	-	47,058
Risk class 9	2,479	251	-	2,730
Risk class 10	-	-	2,073	2,073
Unrated	821	716	-	1,537
	225,855	3,894	2,073	231,822
Expected credit losses	(575)	(94)	(309)	(978)
Total	225,280	3,800	1,764	230,844

Notes to the Condensed Consolidated Interim Financial Statements

37. Credit quality of financial assets (continued)

At 31 December 2025

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	533,086	636	-	533,722
Risk class 5-6	576,190	15,204	-	591,394
Risk class 7-8	165,866	38,582	-	204,448
Risk class 9	15,726	8,328	-	24,054
Risk class 10	-	-	20,425	20,425
Unrated	416	293	-	709
	1,291,284	63,043	20,425	1,374,752
Expected credit losses	(2,743)	(1,204)	(3,699)	(7,646)
Net carrying amount	1,288,541	61,839	16,726	1,367,106

Off-balance-sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	112,979	14	-	112,993
Risk class 5-6	86,892	1,104	-	87,996
Risk class 7-8	34,834	2,099	-	36,933
Risk class 9	1,454	248	-	1,702
Risk class 10	-	-	698	698
Unrated	461	1	-	462
	236,620	3,466	698	240,784
Expected credit losses	(682)	(164)	(121)	(967)
Total	235,938	3,302	577	239,817

Notes to the Condensed Consolidated Interim Financial Statements

38. Forbearance

When restructuring or modification measures are believed to be more appropriate than collection procedures, the Group offers several debt relief measures and restructuring frameworks for customers in financial difficulties. These forbearance measures include temporary payment holidays, extension of loan terms, capitalisation of arrears, and waiving of covenants.

The relationship between forbearance and Stages is discussed in Note 62.3 in the Consolidated Financial Statements for the year 2025.

The following tables provide a summary of the Group's forborne assets.

At 30 September 2026

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	3,733	(17)	7,893	(49)	2,756	(128)	14,382	(194)
Companies	1,144	(14)	11,997	(332)	16,125	(2,847)	29,266	(3,193)
Total	4,877	(31)	19,890	(381)	18,881	(2,975)	43,648	(3,387)

At 31 December 2025

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	3,275	(9)	5,626	(40)	2,290	(117)	11,191	(166)
Companies	1,419	(7)	17,544	(347)	6,096	(1,285)	25,059	(1,639)
Total	4,694	(16)	23,170	(387)	8,386	(1,402)	36,250	(1,805)

39. Large exposures disclosure

When the Group's total exposure to a group of connected clients is 10% or higher of the Group's Tier 1 capital it is considered a large exposure. Both on-balance-sheet and off-balance-sheet items from all types of financial instruments are included in the exposure as defined by EU regulation no. 575/2013 on prudential requirements for financial undertakings (CRR). The Group has internal criteria that define connections between clients. These criteria reflect the Group's interpretation of CRR, where groups of connected clients are defined.

The exposure is evaluated both before and after credit risk mitigating effects according to the aforementioned regulation. After mitigating effects, the Group had three large exposures at 30 September 2026 (year-end 2025: one). No large exposure is above the maximum 25% large exposure limit set by the law.

The Group's largest exposure before eligible credit risk mitigating effects is the Government of Iceland. The largest part of the exposure is due to the Government of Iceland's bonds in the Group's liquidity portfolio.

At 30 September 2026

Groups of connected clients:	Before	After
Group 1	89%	8%
Group 2	11%	11%
Group 3	10%	10%
Group 4	10%	10%

At 31 December 2025

Groups of connected clients:	Before	After
Group 1	78%	8%
Group 2	11%	11%

Notes to the Condensed Consolidated Interim Financial Statements

40. Liquidity coverage and net stable funding ratio

Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Central Bank of Iceland, which is the main supervisory authority regarding liquidity risk, has incorporated the LCR and the NSFR based on the CRD IV standards into the rules on liquidity ratios and the rules on funding ratios. In addition, the Group complies with the liquidity coverage ratio rules no. 1520/2022.

According to the rules, the minimum LCR ratio that the Group is required to maintain remains 100% for the total LCR. The requirement for LCR in EUR is 80% and in ISK the requirement is 50%. The Group is required to maintain a 100% minimum NSFR ratio.

The following tables show the NSFR and the LCR for the Group at 30 September 2026 and 31 December 2025.

Net stable funding ratio

	30.9.2026	31.12.2025
For all currencies	122%	127%

Liquidity coverage ratio

	30.9.2026	31.12.2025
For all currencies	179%	203%
ISK	133%	129%
EUR	478%	733%

The following tables show the composition of the Group's liquidity reserve. Level 1 bonds and debt instruments in ISK are eligible as collateral with the Central Bank.

At 30 September 2026

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	87,048	625	304	368	88,345
Level 1 bonds and debt instruments	77,304	33,396	-	13,825	124,525
Level 2 liquid assets	39,438	3,528	11	277	43,254
High quality liquidity assets	203,790	37,549	315	14,470	256,124
Balance with financial institutions	3	40,202	30,349	2,133	72,687
Liquidity reserve	203,793	77,751	30,664	16,603	328,811

At 31 December 2025

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	78,036	594	313	480	79,423
Level 1 bonds and debt instruments	71,617	36,612	-	10,606	118,835
Level 2 liquid assets	37,302	3,916	1	225	41,444
High quality liquidity assets	186,955	41,122	314	11,311	239,702
Balance with financial institutions	2	42,069	24,969	2,663	69,703
Liquidity reserve	186,957	83,191	25,283	13,974	309,405

Notes to the Condensed Consolidated Interim Financial Statements

41. Interest rate risk

Interest rate risk is defined as the current or prospective risk to earnings or capital arising from adverse movements in interest rates.

Interest rate risk in the trading book

The following table shows the interest rate sensitivity of the Group's trading book from a parallel 100 basis points change in all yield curves.

Sensitivity analysis for trading bonds and debt instruments

Sensitivity analysis for trading bonds and debt instruments		30.9.2026		31.12.2025	
		Effect on profit before tax			
		Downward shift	Upward shift	Downward shift	Upward shift
Currency					
ISK, indexed		80	(80)	61	(61)
ISK, non-indexed		100	(100)	60	(60)
Total		180	(180)	121	(121)

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group's core banking activities and reflects the risk that changes in interest rates adversely affect the Group's earnings or the economic value of its assets, liabilities and off-balance-sheet positions. The exposure is primarily driven by differences in repricing dates and reference rates between assets and liabilities.

In the third quarter of 2026, the Group updated its methodology for calculating interest rate sensitivity in the banking book from a duration-based approach to a cash flow-based approach. The change improves the measurement accuracy by using cash flow revaluation rather than a duration-based approximation. Comparative figures have been restated to reflect the updated methodology.

Interest rate sensitivity in the banking book is estimated using contractual cash flows, adjusted for behavioural assumptions relating to applicable non-maturing deposits and prepayments, with callable debt issued assumed to be redeemed at the first applicable call date. Cash flows and other assumptions are held constant for the sensitivity calculation. The estimates are calculated as the change in present value resulting from a parallel 100-basis-point upward shift in all yield curves.

The following tables present the estimated change in the economic value of the banking book associated with a parallel upward shift of 100 basis points in all yield curves, categorised by repricing time band.

Sensitivity analysis for interest rate risk in the banking book

At 30 September 2026

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(26)	(419)	(608)	(1,346)	1,289	668	(442)
ISK, non-indexed	(17)	(250)	(142)	(1,291)	(50)	-	(1,750)
EUR	161	(133)	(118)	79	54	-	43
USD	(30)	(11)	-	-	-	-	(41)
SEK	19	(3)	(54)	(64)	-	-	(102)
NOK	(4)	(22)	(2)	(12)	-	-	(40)
Other	14	(2)	(6)	(217)	-	-	(211)
Total	117	(840)	(930)	(2,851)	1,293	668	(2,543)

At 31 December 2025

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	(26)	(155)	(825)	1,015	639	632	1,280
ISK, non-indexed	(33)	(110)	(327)	(457)	451	-	(476)
EUR	119	(142)	34	(86)	62	-	(13)
USD	(17)	(22)	-	-	-	-	(39)
SEK	38	(39)	(17)	(142)	-	-	(160)
NOK	2	(10)	(21)	(36)	-	-	(65)
Other	-	(23)	-	-	-	-	(23)
Total	83	(501)	(1,156)	294	1,152	632	504

Notes to the Condensed Consolidated Interim Financial Statements

42. Currency risk

The analysis of the Group's foreign currency exposure presented below is based on the contractual currency of the underlying balance sheet items. Debt issued designated at fair value through profit or loss to eliminate accounting mismatch is presented as nominal amount plus accrued interest, adjusted for accumulated fair value changes attributable to changes in credit risk. Additionally, there are off-balance-sheet items that carry currency risk and are included in the total currency imbalance. The off-balance-sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements.

At 30 September 2026

	EUR	USD	SEK	NOK	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	625	304	36	110	223	1,298
Loans to credit institutions	44,224	30,342	62	172	1,896	76,696
Bonds and debt instruments	40,484	-	9,470	7,318	-	57,272
Loans to customers	151,578	21,045	7,203	4,738	18,177	202,741
Shares and equity instruments	41	492	843	261	169	1,806
Other assets	-	164	-	-	185	349
Total assets	236,952	52,347	17,614	12,599	20,650	340,162
Deposits from credit institutions	496	922	5	96	49	1,568
Deposits from customers	76,877	47,570	683	3,450	9,237	137,817
Debt issued and other borrowed funds	163,756	10,503	34,085	18,069	-	226,413
Subordinated loans	-	-	8,422	2,508	-	10,930
Other liabilities	-	162	25	-	203	390
Total liabilities	241,129	59,157	43,220	24,123	9,489	377,118
Net on-balance-sheet position	(4,177)	(6,810)	(25,606)	(11,524)	11,161	(36,956)
Net off-balance-sheet position	1,557	7,333	25,455	11,606	(10,967)	34,984
Net position	(2,620)	523	(151)	82	194	(1,972)

At 31 December 2025

	EUR	USD	SEK	NOK	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	594	313	40	116	323	1,386
Loans to credit institutions	46,594	27,557	261	340	2,057	76,809
Bonds and debt instruments	42,698	331	8,256	7,022	-	58,307
Loans to customers	134,067	24,914	4,918	1,893	13,696	179,488
Shares and equity instruments	38	1,754	1,094	190	387	3,463
Other assets	83	114	-	-	-	197
Total assets	224,074	54,983	14,569	9,561	16,463	319,650
Deposits from credit institutions	2,121	1,354	6	60	52	3,593
Deposits from customers	47,569	42,668	1,071	5,120	10,893	107,321
Debt issued and other borrowed funds	180,530	10,903	33,340	12,545	-	237,318
Subordinated loans	-	-	14,734	2,482	-	17,216
Other liabilities	-	51	31	-	315	397
Total liabilities	230,220	54,976	49,182	20,207	11,260	365,845
Net on-balance-sheet position	(6,146)	7	(34,613)	(10,646)	5,203	(46,195)
Net off-balance-sheet position	7,282	(1,088)	34,847	10,561	(4,831)	46,771
Net position	1,136	(1,081)	234	(85)	372	576

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43. Inflation risk

The Group considers inflation risk to be the most significant market risk factor. The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 2,347 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.9.2026	31.12.2025
Bonds and debt instruments	1,343	2,277
Loans to customers	533,210	507,694
Total CPI-linked assets	534,553	509,971
Deposits from customers	125,584	120,742
Debt issued and other borrowed funds	149,988	163,411
Subordinated loans	22,601	21,573
Off-balance-sheet exposures	1,092	4,493
Short positions	569	180
Total CPI-linked liabilities	299,834	310,399
CPI imbalance	234,719	199,572

44. Capital management

The Group's regulatory capital requirement is calculated according to EU regulation no. 575/2013 as implemented into Icelandic law through the Act on Financial Undertakings no. 161/2002.

CRR 3 was implemented in Iceland in December 2025 and had a significant impact on the Group's risk exposure amount (REA) and capital ratios. In addition, in January 2026, the Central Bank approved the adoption of a loan splitting approach for exposures secured by mortgages, where the underlying collateral consists of income-producing real estate. The implementation of this approach led to a 2% reduction in the Group's REA.

Capital requirement calculations for credit risk, market risk and operational risk are based on the standardised approach, the simplified standardised approach is used for counterparty credit risk, and the reduced basic approach is used for the credit valuation adjustment.

According to the latest SREP report from the FSA, the Group shall as of 30 June 2026 maintain an additional capital requirement of 1.8% of the REA. The Group's overall capital requirement, taking into account capital buffers, is 19.5%. The Group's capital target includes a 1-3% management buffer on top of the overall capital requirement.

The minimum leverage ratio for Icelandic financial institutions is 3%.

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44. Capital management (continued)

The following tables show the capital base, the risk exposure amount (REA), the resulting capital ratios, and the leverage ratio for the Group at 30 September 2026 and 31 December 2025.

	30.9.2026	31.12.2025
Own funds		
Ordinary share capital	8,273	8,900
Share premium	26,380	42,472
Reserves	5,715	7,201
Retained earnings	175,025	166,786
Third quarter profit	(7,269)	-
Fair value changes due to own credit standing	1,187	913
Foreseeable dividend payment and approved buyback*	(17,434)	(16,671)
Tax assets	(166)	(151)
Intangible assets	(2,107)	(1,822)
Insufficient coverage for non-performing exposures	(53)	(52)
CET1 capital	189,551	207,576
Additional Tier 1 capital	10,930	17,216
Tier 1 capital	200,481	224,792
Tier 2 capital	25,529	23,099
Total capital base	226,010	247,891
*The Bank's AGM held on 19 March 2026 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. Furthermore, the Central Bank has granted the Bank permission to buy back own shares and reduce its share capital. At 30 September 2026, ISK 10 billion remained of approved buybacks and is therefore deducted from the CET1 capital.		
	30.9.2026	31.12.2025
Risk exposure amount		
Due to credit risk	956,397	939,768
Due to market risk	5,292	4,093
Due to credit valuation adjustment	1,633	1,375
Due to operational risk	88,552	88,552
Total risk exposure amount (REA)	1,051,874	1,033,788
Capital ratios		
CET1 ratio	18.0%	20.1%
Tier 1 ratio	19.1%	21.7%
Total capital ratio	21.5%	24.0%
Capital ratios including third quarter profit*		
CET1 ratio	18.4%	20.1%
Tier 1 ratio	19.4%	21.7%
Total capital ratio	21.8%	24.0%
Leverage ratio		
Exposure amount		
On-balance-sheet exposures	1,803,483	1,718,921
Off-balance-sheet exposures	60,588	68,948
Derivative exposures	7,596	9,852
Total exposure measure (TEM)	1,871,667	1,797,721
Tier 1 capital	200,481	224,792
Leverage ratio	10.7%	12.5%
Leverage ratio including third quarter profit*	10.9%	12.5%

*Where the capital and leverage ratios are shown including third quarter profit, ISK 3,635 million has been subtracted from the capital base as is expected from the 50% dividend policy.

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45. Minimum requirement for own funds and eligible liabilities (MREL)

The Group is required to meet the minimum requirement for own funds and eligible liabilities (MREL) at all times in accordance with Directive 2014/59/EU and Directive (EU) 2019/879 as implemented into Icelandic law by Act No. 70/2020 on the Resolution of Credit Institutions and Investment Firms. The Resolution Authority of the Central Bank of Iceland (the Resolution Authority) is responsible for determining the Group's MREL.

In the annual MREL decision from the Resolution Authority, the Group's MREL was set at 18.8% of the risk exposure amount (REA) and 6.0% of the total exposure measure (TEM). The decision further requires that from 4 October 2027 a portion of the Group's MREL must be met with subordinated instruments. The subordination portion of the MREL will be set at 13.5% of REA from 4 October 2027. At 30 September 2026 the Group exceeds the future required subordination portion of the MREL.

Following the annual review of the Group's MREL, the Group expects its MREL requirement as a percentage of REA to increase from 18.8% to 19.6%, reflecting the Group's updated total SREP own funds requirement of 9.8%. The updated requirement had not taken effect at 30 September 2026.

The MREL is published irrespective of the value of the combined buffer requirement, which must be met in parallel with the MREL as a percentage of REA. Taking into account the Group's combined buffer requirement as at 30 September 2026, the resulting MREL as a percentage of REA requirement at 30 September 2026 was 28.5%.

	30.9.2026	31.12.2025
Own funds and eligible liabilities		
Own funds	226,010	247,891
Eligible liabilities	198,582	207,145
Own funds and eligible liabilities	424,592	455,036
Ratios of own funds and eligible liabilities		
Own funds and eligible liabilities as a % of REA	40.4%	44.0%
Own funds and eligible liabilities as a % of TEM	22.7%	25.3%

