



Condensed Consolidated Interim Financial Statements

First quarter 2026

Unaudited

Contents

Factsheet	3
Directors' Report	4 - 8
Consolidated Interim Income Statement	9
Consolidated Interim Statement of Comprehensive Income	10
Consolidated Interim Statement of Financial Position	11
Consolidated Interim Statement of Changes in Equity	12 - 13
Consolidated Interim Statement of Cash Flows	14 - 15
Notes to the Condensed Consolidated Interim Financial Statements	16 - 49

Key figures 1Q26



Net profit
ISK 7.5bn



ROE
13.6%

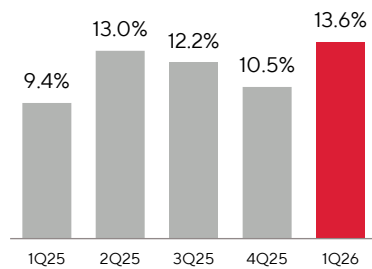


Cost-to-income
ratio **38.5%**

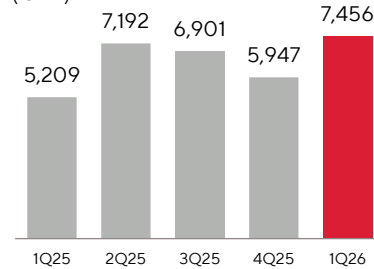


NIM
3.9%

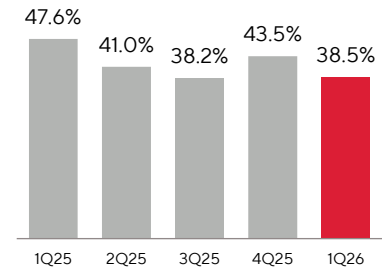
Return on equity



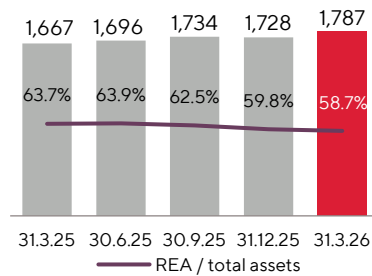
Profit after tax (ISKm)



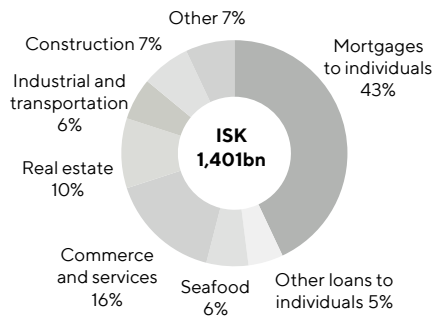
Cost-to-income ratio¹



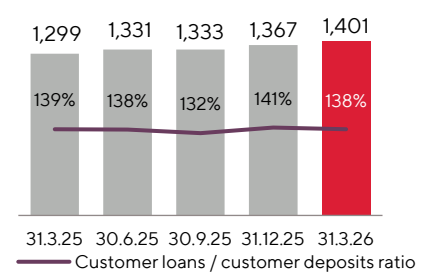
Total assets (ISKbn)



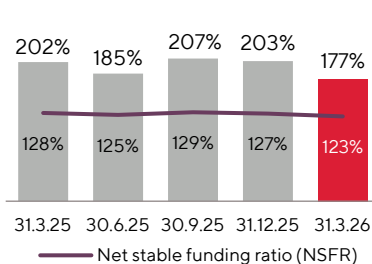
Loans to customers (Sector split as of 31.3.26)



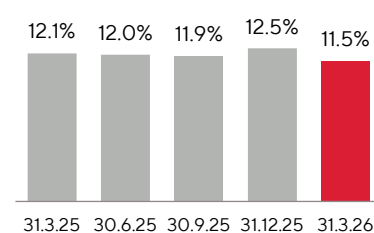
Loans to customers (ISKbn)



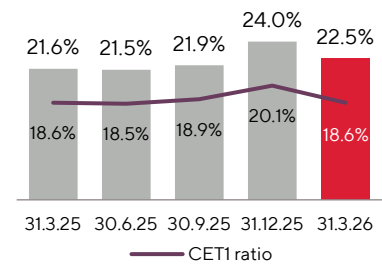
Liquidity coverage ratio



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

EQUAL PAY
CERTIFICATE
2025 - 2028

EQUALITY SCALE
FK A 2025
AWARD

1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an 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 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 31 March 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's core values are progressive thinking, collaboration, and professionalism. The Group aims to be 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.

Driven by the corporate vision to create value for the future with excellent service, Íslandsbanki's banking model is led by three business divisions that build and manage relationships with its customers. The Group maintains a strong market share through its efficient branch network across the country, supporting at the same time its customers' move to more digital services through its technically strong foundations. At the end of the reporting period the Group employed 758 full-time equivalents, 717 within the Bank, and 41 in subsidiaries, excluding subsidiaries which are held for sale.

Íslandsbanki has an A3 rating from Moody's Ratings (stable outlook) and a BBB+/A-2 rating from S&P Global Ratings (positive outlook). The Bank's shares are listed on Nasdaq Iceland Main Market.

Summary of the period

- The Group's profit for the reporting period amounted to ISK 7,456 million, corresponding to a return on equity of 13.6%, compared to a guidance of being around 12% for 2026 as a whole. The cost-to-income ratio was 38.5%, compared to a guidance of around 43% for 2026 as a whole.
- The excess capital position, measured to the midpoint of the management buffer, remains strong at ISK 29.2 billion at the end of the reporting period, including the remaining portion of the currently approved buyback programme and half of the profit for the first quarter of 2026, in accordance with the dividend policy. Share buybacks continue with the aim of reducing the capital position to the target level.
- The loan portfolio grew by 2.5%, or 10% on an annualised level, partly driven by international lending.
- Organisational changes implemented early in the second quarter to reinforce continued growth and development, as well as to increase efficiency.

Operating results progressing in line with guidance

The Bank's purpose is to empower our customers to be a force for good, while service and customer experience, data-driven operations, profitable growth, and retaining and maintaining the best team are the Bank's strategic themes. During the quarter, the Bank made considerable progress in supporting these strategic themes in its overall operations.

Firstly, the Bank announced organisational changes early in the second quarter. The objective was to simplify the governance structure and shorten communication channels, thereby enhancing the Bank's service to its customers and reinforcing continued growth and development. With the changes, a new support division, Strategy and culture, was established with the aim of enhancing collaboration between support functions and further developing the Bank's corporate culture. 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%. Additionally, the number of decision-making committees has been reduced from 11 to 4. 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, representing a 7% reduction in FTEs from year-end 2025. As of now, the Bank estimates that the changes will positively impact salaries and related expenses by around ISK 1 billion annually, and that financial impact will be fully realised in 2027.

Secondly, at the beginning of the year, a new loyalty service was introduced, designed to differentiate customers based on the number of products held and the volume of business conducted with the Bank. As a result, customers are offered more favourable rates depending on their deposit and lending volumes, more favourable fees depending on the number of services used, and incentives provided for customers to increase their business with the Bank. In addition, the Bank introduced a new online banking platform for corporates, providing a more modern environment and paving the way to provide additional services to SMEs and corporate customers. Furthermore, the Bank started operations in the acquiring space, introducing full-scale acquiring services for its SME and corporate customers in cooperation with Nets, a world-leading acquirer.

Investments have continued on the digital front. During the quarter, the Bank announced that it had incorporated Bank Bank ehf., a development centre fully owned by the Bank, with the aim to expedite IT development, with emphasis on utilising and incorporating AI in the Bank's day-to-day workflow.

Directors' Report

During the quarter, the Bank introduced a variable compensation plan applicable to all employees of the Bank, as permitted under Icelandic law. The financing of the scheme is contingent on the Group's return on equity. Under the plan, most employees can receive up to 10% of annual salaries as variable compensation. Furthermore, a limited number of employees who have the most influence on the Bank's performance and strategic execution are eligible to higher variable compensation of up to 25% of annual salaries, that is also contingent upon the achievement of various predefined financial and non-financial performance metrics. For those, variable compensation is payable in a combination of cash and shares in the Bank, subject to a predetermined vesting period, in order to further align the long-term interests of the Bank, its shareholders, and its employees.

In mid-February, the Bank announced the termination of merger discussions between the Bank and Skagi hf., which commenced in October 2025 with a signing of head of terms. Following the initial announcement in October last year, the parties worked towards the proposed merger, including the completion of due diligence, synergy assessment and merger notice preparations, as well as the drafting of a merger agreement. Whilst the Bank recognises that the proposed merger could have had positive impact on the Bank, including through the realisation of synergies, matters identified during the analysis and due diligence process, developments in the market value of both companies, and the expected increase in capital requirements imposed by the Central Bank of Iceland related to a bank's ownership in insurance undertaking, led to the conclusion that revisions to the preliminarily agreed exchange ratios would be required. An agreement on such changes was not reached, and the parties thus decided to discontinue the merger discussions. Regardless of termination of those merger discussions, the cooperation between the Bank and VÍS, the insurance subsidiary of Skagi remains in place.

Capital optimisation remains a focal point for the Bank. At the reporting date, the excess capital position, measured from the current CET1 level down to the midpoint of the management buffer, including the remaining portion of the currently approved buyback programme and half of the profit for the first quarter of 2026, in accordance with the dividend policy, amounted to ISK 29.2 billion. The Bank is currently engaged in buybacks and has distributed ISK 19.5 billion to shareholders in the quarter through both a dividend payment and buybacks of own shares.

Alongside the publication of the full-year results for 2025, the Bank introduced updated financial targets, where it set aim towards reaching a return on equity of over 13%, the cost-to-income ratio of being below 43% and reconfirmed its targets on dividend payout ratio and CET1 excess in line with previous targets. For the current year, the Bank guides towards a return on equity of around 12% and cost-to-income of around 43%. At the end of the first quarter of 2026, the financial position is as follows:

	Target for the medium term	1Q26 result	Guidance for year-end 2026
Return on equity	>13%	13.6%	~12%
Cost-to-income	<43%	38.5%	~43%
CET1 excess	100-300 bps	363 bps*	200 bps
Dividend payout ratio	50%	50%	50%

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

Core income grew by over 27% in the first quarter of 2026

The Group's profit for the reporting period amounted to ISK 7,456 million, compared to ISK 5,209 million in the previous year. This corresponds to a return on equity of 13.6% and 9.4%, respectively.

Net interest income amounted to ISK 17,100 million in the first quarter of 2026, growing by 32.2% year-on-year. This represents a 3.9% net interest margin compared to 3.2% in the previous year. This is mainly attributable to considerable inflation recognised as revenues in the quarter, whereas inflationary ticks amounted to 2.47% compared to 1.04% in the previous year. The CPI imbalance has remained stable of around ISK 200 billion for a few quarters but is expected to grow related to the maturity of ISB CBI 26 in May. As before, inflation is expected to remain seasonal where inflationary ticks tend to be higher in the first half of the year compared to the second half. This may result in fluctuations in the Bank's profits. In addition, the nominal fixed rate imbalance related to mortgages issued through the low-interest-rate environment following the pandemic has now fully subsided, providing the Bank with an uptick in margins.

Net fee and commission income in the quarter amounted to ISK 3,268 million, growing 6.6% from the previous year. While activity in the capital markets has reduced from the fourth quarter of 2025, the Bank's market share has remained strong in both equities and fixed income. Although being at comparable levels to the previous year, net fee and commission income from both investment banking and asset management was adversely affected by lower volumes and pressure in capital markets. However, the Bank saw considerable growth in fees related to lending and guarantees of around 30%. As in recent quarters, cards and payments remain the largest fee income stream. Overall, both total operating income and core operating income, defined as net interest income and net fee and commission income, grew by around 30% compared to the previous year.

Directors' Report

Salaries and related expenses rose by ISK 123 million between years, or by 2.7%, less than both inflation and general wage increases related to collective union bargaining agreements. The Bank expensed through salaries and related expenses expected costs related to the employee variable compensation plan which was implemented at the beginning of 2026. In the first quarter of 2026, the Bank expensed ISK 247 million related to the variable compensation plan, as well as ISK 58 million related to the share-based incentive scheme implemented in the third quarter of 2025. Thus, expenses related to variable remuneration amounted to ISK 305 million. Due to this, salaries and related expenses reduced by around 4% between years on a like-for-like basis. As stated in the Consolidated Financial Statements for 2025, the Bank expensed a one-off cost related to the dismantling of its employees' early retirement scheme, amounting to approximately ISK 800 million. Reduction of FTEs related to that will materialise over the course of 2026, positively impacting the run rate of salaries and related expenses going forward by around ISK 1 billion annually. Other operating expenses amounted to ISK 3,218 million, 311 million higher than in the previous year. The cost-to-income ratio was 38.5% in the quarter, improving considerably from the previous year's level of 47.6%.

During the quarter, net impairments amounted to ISK 1,219 million, compared to ISK 3 million in the previous year. Net impairments were therefore comparable in first quarter of 2026 to the fourth quarter of 2025 where net impairments amounted to ISK 1,087. The cost of risk during the quarter thus resulted in 35 basis points, higher than the Bank's through the cycle guidance of around 20-25 basis points. As in the previous quarter, net impairments are mainly attributable to individual credit cases related to borrower-specific circumstances, which the Bank does not believe to be reflective of its wider loan portfolio.

Focus on international lending accelerates lending growth while asset quality remains high

The Bank's balance sheet remains simple, with close to 80% of total assets residing within the Bank's loan portfolio. Mortgages constitute the largest portion, at around 43% – comparable to previous quarters – and the overall composition remains largely unchanged between years. During the quarter, the loan portfolio grew by ISK 34 billion, or around 2.5%. International lending, i.e. FX lending to borrowers residing outside of Iceland, contributed healthily to the growth, on the back of the Bank's increased emphasis on growth therein. Focus has mainly been on lending to infrastructure, in addition to the Bank's previous strategy of seafood-related lending. Following this shift in focus, considerable growth has been seen in this part of the loan book which has grown from being around 1.5% of the loan portfolio at the beginning of 2025 to 4.5% at the end of the first quarter of 2026. The Bank expects this part of the loan portfolio to be between 5-10% going forward.

Following the rate decision in November 2025, where the Central Bank cut rates by 25 basis points, rates were kept unchanged in February. However, as inflation continued to grow, the Central Bank resorted to hiking rates in its March decision by 25 basis points, bringing policy rates to 7.5%. The impact of this prolonged high-inflation and high-interest-rate environment has now become evident. The sale-time of residential housing has increased, reducing growth in mortgages and putting pressure on the construction sector. Despite this, asset quality remains high overall, evident on the Bank's disciplined underwriting standards. Stage 3 loans closed at 2.0% at the end of the first quarter of 2026, compared to a level of 1.5% coming into the year. This increase relates mainly to transfer of borrowers which were previously in Stage 2 to Stage 3, resulting in reduction of Stage 2 loans from 4.6% at the end of 2025 to 3.9% at the end of the first quarter of 2026. In addition, an exposure previously in Stage 3 came into foreclosure and is now held as a disposal group, which in turn reduced Stage 3 lending related to that. While exposures in both Stage 2 and Stage 3 are primarily related to individual borrower circumstances, the Bank notes that there are signs of increasing adverse economic impact on various sectors.

The Bank's needs for funding in 2026 to a large degree completed – MREL and LCR well above targets

Deposits remain the largest part of the Bank's funding base, as deposits from customers account for over 64% of the Group's liabilities. As before, concentration within the depositor base is limited.

Íslandsbanki's funding activities during the first quarter of 2026 were mainly in the domestic market through selling ISK 18 billion worth of covered bonds. The Bank, on the other hand, remained quiet in the foreign funding markets during the first quarter, after issuing two EUR 300 million senior preferred bonds in 2025 along with SEK 700 million and NOK 200 million AT1. The Bank's MREL, capital and liquidity ratios were well above targets coming into 2026 and remain so at the end of the first quarter.

During the first quarter of 2026, the Bank's credit spreads demonstrated resilience, remaining relatively stable despite significant market volatility. This stability is notable, as the spreads continued to move in tandem with the broader market trends throughout periods of turmoil. A key indicator of this performance is the Bank's new 7-year EUR 300 million senior preferred bond. Originally issued in November 2025 at mid-swaps plus 130 basis points, the bond was trading at mid-swaps plus 121 basis points at year-end 2025. By the end of the first quarter of 2026, the bond's credit spread had adjusted slightly to mid-swaps plus 123 basis points.

The Bank holds an A3 (stable outlook) issuer rating from Moody's Ratings and a BBB+/A-2 (positive outlook) from S&P Global Ratings.

Directors' Report

Capital distribution amounts to ISK 19.5 billion during the quarter; nevertheless, excess capital remains high

As in previous years, the Bank remained committed to its capital optimisation journey. In March, the AGM declared an ordinary dividend amounting to ISK 12.6 billion, equivalent to 50% of profit for the year 2025. In addition, the Bank announced a new share buyback programme in February amounting to ISK 15 billion, of which ISK 12.1 billion remains at the end of the reporting period. Overall, buybacks amounted to ISK 6.9 billion during the quarter, driven by both the newly announced buyback programme and previous programmes.

Following the implementation of the latest amendment to the Capital Requirements Regulation (CRR) into Icelandic law at year-end 2025, the Bank saw a considerable reduction in risk exposure amount (REA), thereby boosting capital ratios. Further revisions to the Bank's implementation resulted in additional capital release during the first quarter, boosting capital ratios. Conversely, the announcement of a new buyback programme resulted in a capital deduction during the quarter, despite a large portion of the programme yet to be utilised. Overall, the Bank's total capital ratio was 22.5% at the end of the reporting period, including half of the profit for the first quarter of 2026, in line with the Bank's dividend policy. The Bank's CET1 ratio was 18.6%, including half of the profit for the first quarter of 2026, in line with the Bank's dividend policy. Consequently, the Bank's excess capital position remains high, at ISK 29.2 billion, taking into account deducted but not yet completed buybacks and half of the profit for the first quarter of 2026, in line with the Bank's dividend policy.

The Bank iterates its intention to optimise its capital structure. As previously stated, capital optimisation measures may include internal and/or external growth, as well as increased share buybacks or extraordinary dividends, subject to market conditions.

Economic outlook

After contracting by 1.3% in 2024, the Icelandic economy returned to growth in 2025, with real GDP rising by 1.3% year-on-year. Growth was driven primarily by robust private consumption growth, supported by accumulated household savings and solid real wage gains, even as consumer sentiment weakened late in the year. Domestic demand outpaced headline GDP growth, although its contribution was partially offset by net trade, as imports rose sharply while export growth remained modest.

Looking ahead, the outlook is for slow GDP growth of 0.6% in 2026, as setbacks in key export sectors and high real interest rates weigh on activity. However, the outlook for exports has improved somewhat in recent months, increasing upside risks to the forecast. Total investment is expected to contract moderately although the investment trend will vary from sector to sector, reflecting the influence of large projects, while private consumption growth is likely to slow from 2025 as tighter financial conditions gradually feed through. Growth is expected to improve gradually in 2027-2028 as export sectors recover and interest rates decline.

Despite a sizeable current account deficit in 2025 and heightened global market volatility, the ISK has remained broadly stable in recent quarters. The deficit was driven largely by a surge in investment-related imports, while services exports and primary income provided important offsets. Íslandsbanki Research expects the current account deficit to narrow in 2026 as import growth subsides and services exports strengthen.

The ISK's resilience appears to be supported by Iceland's strong net international investment position, favourable interest rate differentials, and broadly balanced capital flows. Over the medium term, a gradual depreciation is likely, as the real exchange rate is assessed to be high and an increasingly challenging for export competitiveness.

Labour market conditions have eased compared to the post-pandemic peak, with numerous signs of softer labour demand and rising unemployment. At the same time, wage growth has remained relatively high, contributing to persistent domestic inflation pressures. Íslandsbanki Research expects labour market slack to persist in 2026, although pay increases are still projected to be sizeable.

Inflation has proven persistent and rose to 5.4% year-on-year in March 2026, compared to 4.5% at year-end 2025. Recent increases have been driven by a combination of strong wage growth relative to productivity, housing-related pressures, higher utility costs, and fuel price increases. While inflation is expected to ease gradually as demand cools, risks remain tilted to the upside given elevated inflation expectations and ongoing supply-side shocks.

The conflict in the Persian Gulf has increased near-term uncertainty for the Icelandic economy mainly through higher global energy prices and shipping costs, which can feed into domestic fuel prices, airfares, and broader imported inflation. Rising commodity and freight costs could slow the recent improvements in imported inflation and heighten the risk of second-round effects via inflation expectations and wage-setting, potentially prolonging restrictive monetary conditions.

In March, the Central Bank of Iceland's Monetary Policy Committee raised the key policy rate by 25 basis points to 7.5%, citing renewed inflation pressures, rising inflation expectations, and increased risks to near-term inflation following the escalation of the Persian Gulf conflict. A further rate hike in May seems likely, but subsequent policy decisions will depend on the evolution of inflation, inflation expectations, and activity indicators, with rate cuts expected to proceed only gradually once inflation shows clearer signs of easing.

Directors' Report

Outlook for the Group

The macroeconomic outlook deteriorated during the first quarter. Inflation is expected to remain high over the course of the year, and the Central Bank is expected to raise policy rates in May, followed by the flat development of policy rates in the coming months. The effects of this have become evident in the domestic loan demand, which is expected to remain low throughout the year. International loan growth is developing in line with expectations. This high inflation is, however, expected to yield higher net interest margins compared to the previous year, as the Bank assumes that its banking book is suitably priced in terms of real rates. Further, fluctuations are expected in the income statement in line with the seasonality of inflationary ticks.

Uncertainty remains for capital market volumes and overall activity in investment banking services. The Bank's market share and market position remain good, and the Bank is well positioned to reap the benefits of increased activity as it picks up.

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 of listed companies in Iceland. At the end of the reporting period the Bank had 24,549 shareholders (year-end 2025: 25,302), where 90.8% of the Bank's shares were owned by domestic parties, and 9.2% by international investors. Pension funds are the largest investor group, owning 46.1% of outstanding shares, while retail investors are the second largest investor group, owning 28.0% of outstanding shares, both figures taking into consideration treasury shares.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 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 31 March 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 31 March 2026.

Kópavogur, 7 May 2026

Board of Directors:

Heiðar Guðjónsson, Chairman

Stefán Pétursson, Vice-Chairman

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Margrét Pétursdóttir

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Consolidated Interim Income Statement

	Notes	2026 1.1-31.3	2025 1.1-31.3
Interest income calculated using the effective interest rate method		40,845	32,869
Other interest income		835	1,081
Interest expense		(24,580)	(21,011)
Net interest income	5	17,100	12,939
Fee and commission income		4,689	4,627
Fee and commission expense		(1,421)	(1,560)
Net fee and commission income	6	3,268	3,067
Net financial expense	7	(213)	(986)
Net foreign exchange gain	8	157	47
Other operating income	9	14	463
Other net operating income		(42)	(476)
Total operating income		20,326	15,530
Salaries and related expenses	10	(4,612)	(4,489)
Other operating expenses	11	(3,218)	(2,907)
Bank tax		(546)	(500)
Total operating expenses		(8,376)	(7,896)
Profit before net impairment on financial assets		11,950	7,634
Net impairment on financial assets	12	(1,219)	(3)
Profit before tax		10,731	7,631
Income tax expense	13	(3,275)	(2,422)
Profit for the period		7,456	5,209
Earnings per share	14		
Basic EPS attributable to shareholders of Íslandsbanki hf. (ISK)		4.26	2.77
Diluted EPS attributable to shareholders of Íslandsbanki hf. (ISK)		4.25	2.77

The notes on pages 16 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Comprehensive Income

	2026 1.1-31.3	2025 1.1-31.3
Profit for the period	7,456	5,209
Net changes in FV of fin. liab. attributable to changes in credit risk	178	(8)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk	(36)	9
Items that will not be reclassified to the income statement	142	1
Foreign currency translation	(3)	1
Net changes in fair value of debt instruments at FVOCI	(1,058)	67
Reclassification to the income statement of debt instruments at FVOCI	5	(2)
Changes in allowance for ECL of debt instruments at FVOCI	3	(4)
Tax related to debt instruments at FVOCI	273	(16)
Items that may subsequently be reclassified to the income statement	(780)	46
Other comprehensive income (expense) for the period, net of tax	(638)	47
Total comprehensive income for the period	6,818	5,256

The notes on pages 16 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Financial Position

	Notes	31.3.2026	31.12.2025
Assets			
Cash and balances with Central Bank	19	88,909	80,394
Loans to credit institutions	20	79,739	80,009
Bonds and debt instruments	15	164,093	151,959
Derivatives	21	4,052	5,304
Loans to customers	22	1,401,212	1,367,106
Shares and equity instruments	15	15,497	20,517
Other assets*	24	33,195	22,858
Total Assets		1,786,697	1,728,147
Liabilities			
Deposits from Central Bank and credit institutions	25	11,419	13,250
Deposits from customers	26	1,013,431	968,695
Derivative instruments and short positions	21	5,950	6,183
Debt issued and other borrowed funds	28	452,085	444,593
Subordinated loans	29	40,530	40,315
Tax liabilities		13,386	12,757
Other liabilities	30	37,178	16,995
Total Liabilities		1,573,979	1,502,788
Equity			
Share capital		8,657	8,900
Share premium		26,380	42,472
Reserves		6,321	7,201
Retained earnings		171,360	166,786
Total Equity		212,718	225,359
Total Liabilities and Equity		1,786,697	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 16 to 49 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 2025	9,473	55,000	2,500	2,829	1,067	648	192	(135)	1	155,780	227,355
Profit for the period										5,209	5,209
Net changes in FV of fin. liab. due to changes in credit risk								119		(127)	(8)
Tax on net changes in FV of fin. liab. due to changes in credit risk								(24)		33	9
Foreign currency translation									1		1
Net changes in fair value of debt instruments at FVOCI							67				67
Reclassification to the income statement of debt inst. at FVOCI							(2)				(2)
Changes in allowance for ECL of debt instruments at FVOCI							(4)				(4)
Tax related to debt instruments at FVOCI							(16)				(16)
Total comprehensive income for the period	-	-	-	-	-	-	45	95	1	5,115	5,256
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(105)									(2,509)	(2,614)
Reduction in share capital		(12,528)	(149)							12,677	-
Other changes to restricted reserves				(38)	(73)	690				(579)	-
Equity as at 31 March 2025	9,368	42,472	2,351	2,791	994	1,338	237	(40)	2	158,381	217,894

The notes on pages 16 to 49 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										7,456	7,456
Net changes in FV of fin. liab. due to changes in credit risk								178			178
Tax on net changes in FV of fin. liab. due to changes in credit risk								(36)			(36)
Foreign currency translation									(3)		(3)
Net changes in fair value of debt instruments at FVOCI							(1,058)				(1,058)
Reclassification to the income statement of debt inst. at FVOCI							5				5
Changes in allowance for ECL of debt instruments at FVOCI							3				3
Tax related to debt instruments at FVOCI							273				273
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(777)	142	(3)	7,456	6,818
Dividends										(12,604)	(12,604)
Purchase of treasury shares	(243)									(6,682)	(6,925)
Reduction in share capital		(16,092)	(159)							16,251	-
Equity-settled incentive scheme charge										10	10
Share option charge										60	60
Other changes to restricted reserves				(54)	(73)	44				83	-
Equity as at 31 March 2026	8,657	26,380	2,192	2,653	703	1,910	(366)	(771)	-	171,360	212,718

The Bank's authorised and issued share capital on 31 March 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.

During the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12,600 million, equivalent to ISK 7.28 per share (2025: ISK 6.46 per share). The dividends were paid on 8 April 2026. Íslandsbanki bought back 48.6 million own shares for ISK 6,925 million during the first quarter of 2026 (first quarter 2025: 21.1 million own shares for ISK 2,614 million). As of 31 March 2026 the Bank owned 21.9 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 quarter of 2026, ISK 0 million (first quarter 2025: negative ISK 94 million) was transferred to retained earnings upon the derecognition of financial liabilities designated at FVTPL.

The notes on pages 16 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements.

Consolidated Interim Statement of Cash Flows

	2026	2025	
	1.1-31.3	1.1-31.3	
Profit for the period	7,456	5,209	
Non-cash items included in profit for the period*	(12,303)	(10,040)	
Changes in operating assets and liabilities*	(1,581)	5,639	
Interest received	31,332	30,624	
Interest paid**	(15,855)	(14,979)	
Dividends received	137	295	
Bank tax paid	(475)	(477)	
Income tax and special financial activities tax paid	(2,452)	(2,433)	
Net cash provided by operating activities	6,259	13,838	
Purchase of investment property	(2)	(10)	
Proceeds from sales of property and equipment	12	-	
Purchase of property and equipment	(139)	(191)	
Additions of intangible assets	(270)	(125)	
Net cash used in investing activities	(399)	(326)	
Proceeds from borrowings	18,447	68,278	
Repayment and repurchases of borrowings	(8,109)	(29,863)	
Repayment of lease liabilities	(148)	(143)	
Purchase of treasury shares	(6,925)	(2,614)	
Net cash provided by financing activities	3,265	35,658	
Net increase in cash and cash equivalents	9,125	49,170	
Effects of foreign exchange rate changes	(950)	(2,211)	
Cash and cash equivalents at the beginning of the year	125,897	83,548	
Cash and cash equivalents at the end of the period	134,072	130,507	
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,235	2,940
Unrestricted balances with Central Bank	19	52,748	35,473
Money market loans and other loans to credit institutions	20	71,150	83,772
Bank accounts not pledged as collateral against derivative instruments	18, 20	6,939	8,322
Cash and cash equivalents at the end of the period		134,072	130,507

*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 16 to 49 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
	1.1-31.3	1.1-31.3
Net interest income	(17,100)	(12,939)
Unrealised fair value (gain) loss recognised in the income statement	(857)	102
Foreign exchange gain	(157)	(47)
Depreciation, amortisation, and write-offs	572	416
Bank tax	546	500
Net impairment on financial assets	1,339	11
Income tax expense	3,275	2,422
Other changes	79	(505)
Total	(12,303)	(10,040)

Changes in operating assets and liabilities

	2026	2025
	1.1-31.3	1.1-31.3
Mandatory reserve and pledged balances with Central Bank	784	(599)
Loans to credit institutions pledged as collateral against derivative instruments	(944)	1,571
Bonds and debt instruments	(13,356)	1,505
Loans to customers	(32,455)	(3,839)
Shares and equity instruments	5,019	3,890
Other assets	(4,899)	(9,404)
Deposits from Central Bank and credit institutions	(1,880)	1,786
Deposits from customers	42,243	7,785
Derivative instruments and short positions	(1,224)	(2,449)
Other liabilities	5,131	5,393
Total	(1,581)	5,639

The notes on pages 16 to 49 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements

Notes	Page	Notes	Page
General information			
1	Corporate information	17	
2	Basis of preparation	17	
3	Significant accounting estimates and judgements	18	
4	Operating segments	19	
Notes to the Consolidated Income Statement			
5	Net interest income	22	
6	Net fee and commission income	22	
7	Net financial expense	23	
8	Net foreign exchange gain	23	
9	Other operating income	24	
10	Salaries and related expenses	24	
11	Other operating expenses	25	
12	Net impairment on financial assets	25	
13	Income tax expense	25	
14	Earnings per share	26	
Notes to the Consolidated Statement of Financial Position			
15	Classification of financial assets and financial liabilities	27	
16-17	Fair value information for financial instruments	28	
18	Offsetting financial assets and financial liabilities	30	
19	Cash and balances with Central Bank	30	
20	Loans to credit institutions	30	
21	Derivative instruments and short positions	31	
22	Loans to customers	32	
23	Expected credit losses	32	
24	Other assets	34	
25	Deposits from Central Bank and credit institutions	34	
26	Deposits from customers	34	
27	Pledged assets	35	
28	Debt issued and other borrowed funds	36	
29	Subordinated loans	37	
30	Other liabilities	37	
Other Notes			
31	Custody assets	37	
32	Related party	38	
33	Legal proceedings	39	
34	Events after the reporting period	39	
Risk Management			
35	Risk management	39	
36-39	Credit risk	40	
40	Liquidity risk	45	
41-43	Market risk	46	
44-45	Capital management	48	

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 31 March 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 7 May 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 31 March 2026, the exchange rate of the ISK against the USD was 124.89 and for the EUR 143.60 (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 groups held for sale are presented in the line item "Other assets" as "Repossessed collateral", and the related liabilities are presented in the line item "Other liabilities" as "Liabilities of disposal groups classified as repossessed collateral". Income and expenses arising from disposal groups held for sale are presented under "Other operating income" as "Net expense from repossessed 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. 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 first quarter of 2026, the following changes have been made.

The Group's Chief Economist provided a new macroeconomic forecast in January and an updated inflation forecast in March 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)	1.3	0.6	2.8	3.0	2.5
Housing prices in Iceland (average YoY change)	5.2	3.8	6.4	7.2	3.5
Purchasing power (average YoY change)	3.7	2.5	2.3	1.2	1.9
ISK exchange rate index (average YoY change)	(4.3)	1.6	2.5	2.1	1.0
Policy rate, Central Bank of Iceland (average per year)	7.7	7.4	6.3	6.0	6.0
Inflation (average per year)	4.1	4.6	3.4	3.4	3.2
Capital formation (YoY real change)	4.0	(4.3)	1.2	3.5	2.2
- thereof capital formation in industry	7.5	(7.9)	0.7	2.5	1.5

The All Risk Committee determined it appropriate to keep the weights of forward-looking scenarios at 20%-50%-30% (optimistic, base, pessimistic) at the end of the first 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 300 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 130 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 31 March 2026, exposure to a few counterparties amounting to ISK 14.8 billion was subject to manual impairment, with the associated ECL totalling ISK 1.7 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 31 March 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)	5,497	5,192	3,834	2,696	(85)	17,134	(34)	17,100
Net fee and commission income (expense)	877	519	1,163	25	(9)	2,575	693	3,268
Other net operating income	33	(35)	227	(350)	77	(48)	6	(42)
Total operating income	6,407	5,676	5,224	2,371	(17)	19,661	665	20,326
Salaries and related expenses	(740)	(682)	(648)	(77)	(2,154)	(4,301)	(311)	(4,612)
Other operating expenses	(688)	(325)	(322)	(83)	(1,623)	(3,041)	(177)	(3,218)
Bank tax	(235)	(132)	(145)	(29)	(5)	(546)	-	(546)
Net impairment on financial assets	(139)	(922)	(213)	(10)	-	(1,284)	65	(1,219)
Cost allocation	(1,524)	(1,307)	(1,056)	96	3,791	-	-	-
Profit (loss) before tax	3,081	2,308	2,840	2,268	(8)	10,489	242	10,731
Income tax expense	(862)	(634)	(777)	(904)	-	(3,177)	(98)	(3,275)
Profit (loss) for the period	2,219	1,674	2,063	1,364	(8)	7,312	144	7,456
Net segment revenue from external customers	10,870	7,104	8,438	(6,806)	55	19,661	665	20,326
Net segment revenue from other segments	(4,463)	(1,428)	(3,214)	9,177	(72)	-	-	-
Fee and commission income	1,977	586	1,250	103	-	3,916	773	4,689
Depreciation, amortisation, and write-offs	(50)	(12)	(2)	-	(389)	(453)	(119)	(572)
At 31 March 2026								
Loans to customers	647,768	363,298	393,046	465	-	1,404,577	(3,365)	1,401,212
Other assets	3,088	1,747	5,733	357,302	10,187	378,057	7,428	385,485
Total segment assets	650,856	365,045	398,779	357,767	10,187	1,782,634	4,063	1,786,697
Deposits from customers	535,733	291,922	171,157	18,090	-	1,016,902	(3,471)	1,013,431
Other liabilities	2,612	1,571	9,286	536,535	6,558	556,562	3,986	560,548
Total segment liabilities	538,345	293,493	180,443	554,625	6,558	1,573,464	515	1,573,979
Allocated equity	36,987	53,796	74,268	42,688	1,431	209,170	3,548	212,718
Risk exposure amount	230,290	315,898	427,672	58,840	8,926	1,041,626	7,809	1,049,435

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 31 March 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)	4,550	4,847	3,553	45	(103)	12,892	47	12,939
Net fee and commission income (expense)	798	483	1,106	(135)	-	2,252	815	3,067
Other net operating income	19	(10)	540	(1,235)	48	(638)	162	(476)
Total operating income	5,367	5,320	5,199	(1,325)	(55)	14,506	1,024	15,530
Salaries and related expenses	(733)	(605)	(588)	(77)	(2,202)	(4,205)	(284)	(4,489)
Other operating expenses	(683)	(314)	(311)	(122)	(1,427)	(2,857)	(50)	(2,907)
Bank tax	(223)	(121)	(132)	(20)	(4)	(500)	-	(500)
Net impairment on financial assets	(148)	128	45	(27)	-	(2)	(1)	(3)
Cost allocation	(1,505)	(1,265)	(1,068)	154	3,684	-	-	-
Profit (loss) before tax	2,075	3,143	3,145	(1,417)	(4)	6,942	689	7,631
Income tax expense	(597)	(850)	(755)	(112)	-	(2,314)	(108)	(2,422)
Profit (loss) for the period	1,478	2,293	2,390	(1,529)	(4)	4,628	581	5,209
Net segment revenue from external customers	5,339	6,080	8,038	(4,983)	32	14,506	1,024	15,530
Net segment revenue from other segments	28	(760)	(2,839)	3,658	(87)	-	-	-
Fee and commission income	1,862	547	1,202	26	-	3,637	990	4,627
Depreciation, amortisation, and write-offs	(47)	(15)	(2)	-	(346)	(410)	(6)	(416)
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 31 March 2026	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	2	40	-	(76)	(34)
Net fee and commission income	351	341	-	1	693
Other net operating income	8	5	158	(165)	6
Total operating income	361	386	158	(240)	665
Salaries and related expenses	(210)	(66)	(35)	-	(311)
Other operating expenses	(70)	(60)	(130)	83	(177)
Net impairment on financial assets	-	-	-	65	65
Profit (loss) before tax	81	260	(7)	(92)	242
Income tax	(16)	(80)	(2)	-	(98)
Profit (loss) for the period	65	180	(9)	(92)	144
Net segment revenue from external customers	448	346	(138)	9	665
Net segment revenue from other segments	(87)	40	296	(249)	-
Fee and commission income	493	421	-	(141)	773
Depreciation, amortisation, and write-offs	-	-	(1)	(118)	(119)
At 31 March 2026					
Total assets	2,150	3,660	8,072	(9,819)	4,063
Total liabilities	340	1,233	5,667	(6,725)	515
Total equity	1,810	2,427	2,405	(3,094)	3,548

1 January to 31 March 2025	Íslands- sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	3	43	-	1	47
Net fee and commission income (expense)	377	448	-	(10)	815
Other net operating income	(62)	(23)	129	118	162
Total operating income	318	468	129	109	1,024
Salaries and related expenses	(198)	(71)	(15)	-	(284)
Other operating expenses	(67)	(46)	(111)	174	(50)
Net impairment on financial assets	(1)	-	-	-	(1)
Profit before tax	52	351	3	283	689
Income tax	(11)	(96)	(1)	-	(108)
Profit for the period	41	255	2	283	581
Net segment revenue from external customers	399	424	2	199	1,024
Net segment revenue from other segments	(81)	44	127	(90)	-
Fee and commission income	519	622	-	(151)	990
Depreciation, amortisation, and write-offs	-	(2)	(1)	(3)	(6)

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 1.1-31.3	2025 1.1-31.3
Cash and balances with Central Bank	777	495
Loans to credit institutions	494	752
Loans to customers	37,594	29,835
Financial assets mandatorily at fair value through other comprehensive income	1,980	1,787
Interest income calculated using the effective interest rate method	40,845	32,869
Financial assets mandatorily at fair value through profit or loss	833	1,079
Other assets	2	2
Other interest income	835	1,081
Deposits from Central Bank and credit institutions	(63)	(69)
Deposits from customers	(14,281)	(13,782)
Financial liabilities mandatorily at fair value through profit or loss	(709)	(851)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(813)	(88)
Debt issued and other borrowed funds at amortised cost	(7,597)	(5,493)
Subordinated loans	(1,099)	(706)
Lease liabilities	(17)	(18)
Other liabilities	(1)	(4)
Interest expense	(24,580)	(21,011)
Net interest income	17,100	12,939

6. Net fee and commission income

	2026 1.1-31.3	2025 1.1-31.3
Asset management	759	753
Investment banking and brokerage	829	782
Payment processing	1,960	1,896
Loans and guarantees	647	497
Other fee and commission income	494	699
Fee and commission income	4,689	4,627
Brokerage	(145)	(128)
Payment processing expenses	(1,176)	(1,127)
Other fee and commission expense	(100)	(305)
Fee and commission expense	(1,421)	(1,560)
Net fee and commission income	3,268	3,067

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

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial expense

	2026	2025
	1.1-31.3	1.1-31.3
Net loss on financial assets and financial liabilities mandatorily at FVTPL	(1,029)	(494)
Net gain (loss) on financial liabilities designated as at FVTPL	837	(456)
Net loss on fair value hedges	(12)	(39)
Net gain (loss) on derecognition of financial liabilities measured at amortised cost	(7)	3
Net loss on sale of debt instruments measured at FVOCI	(2)	-
Net financial expense	(213)	(986)

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

	2026	2025
	1.1-31.3	1.1-31.3
Fair value changes of the hedged items attributable to the hedged risk	807	144
Fair value changes of the hedging derivatives	(819)	(183)
Net loss on fair value hedges	(12)	(39)

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

	2026	2025
	1.1-31.3	1.1-31.3
Net gain (loss) on bonds and related derivatives	(39)	7
Net loss on shares and related derivatives	(292)	(1,097)
Dividend income	137	295
Net gain (loss) on debt issued and related derivatives	(64)	33
Net gain (loss) on economic hedging and other derivatives	47	(224)
Net loss on sale of debt instruments measured at FVOCI	(2)	-
Net financial expense	(213)	(986)

8. Net foreign exchange gain

	2026	2025
	1.1-31.3	1.1-31.3
Cash and balances with Central Bank	(33)	(17)
Loans at amortised cost	(4,950)	(4,432)
Financial assets mandatorily at fair value through profit or loss	(932)	2,612
Financial assets mandatorily at fair value through other comprehensive income	(1,249)	(182)
Other assets	(6)	(18)
Net foreign exchange loss for assets	(7,170)	(2,037)
Deposits	1,616	2,771
Debt issued and other borrowed funds designated as at fair value through profit or loss	2,208	598
Debt issued and other borrowed funds at amortised cost	3,051	(850)
Subordinated loans	452	(435)
Net foreign exchange gain for liabilities	7,327	2,084
Net foreign exchange gain	157	47

Notes to the Condensed Consolidated Interim Financial Statements

9. Other operating income

	2026	2025
	1.1-31.3	1.1-31.3
Fair value changes on investment property	(2)	290
Share of profit of associates, net of tax	44	156
Net expense from repossessed collateral	(68)	(4)
Gain from sales of property and equipment	4	-
Legal fees	15	16
Rental income	16	5
Other net operating income	5	-
Other operating income	14	463

10. Salaries and related expenses

	2026	2025
	1.1-31.3	1.1-31.3
Salaries	3,377	3,456
Incentive scheme expenses	191	-
Share-option programme expenses	58	-
Contributions to pension funds	551	531
Social security charges and financial activities tax	475	456
Other salary-related expenses	55	57
Capitalisation of salaries and related expenses in software development	(95)	(11)
Salaries and related expenses	4,612	4,489

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 participation, 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.

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 bonuses of up to 10% of their fixed annual salary settled in cash. For certain employees, including the Executive Committee and other key employees, bonuses 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.

Bonuses of up to 10% of annual base salary are settled in cash, bonuses between 10% and 20% are settled equally in cash and shares, while bonuses exceeding 20% (up to a maximum of 25%) are settled with 10% in cash and the remainder in shares. Bonuses awarded and settled in shares are deferred for a minimum period of four years (five years for the CEO and direct reports). Deferred bonuses remain 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

11. Other operating expenses

	2026	2025
	1.1-31.3	1.1-31.3
Professional services	486	476
Software and IT expenses	1,363	1,245
Real estate and office equipment	178	179
Depreciation, amortisation, and write-offs	572	416
Other administrative expenses	619	591
Other operating expenses	3,218	2,907

12. Net impairment on financial assets

	2026	2025
	1.1-31.3	1.1-31.3
Net change in expected credit losses, on-balance sheet items	(1,297)	16
Net change in expected credit losses, off-balance sheet items	78	(19)
Net impairment on financial assets	(1,219)	(3)

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 quarter 2026 is 30.5% (first quarter 2025: 31.7%).

	2026	2025
	1.1-31.3	1.1-31.3
Current tax expense	2,703	1,753
Special financial activities tax	777	482
Adjustments in prior year's calculated income tax	33	22
Changes in deferred tax assets and deferred tax liabilities	(238)	165
Income tax recognised in the income statement	3,275	2,422
Income tax recognised in other comprehensive income	(237)	7

	2026		2025	
	1.1-31.3		1.1-31.3	
Profit before tax	10,731		7,631	
Income tax calculated on the profit for the period	2,146	20.0%	1,526	20.0%
Special financial activities tax	777	7.2%	482	6.3%
Adjustments in prior year's calculated income tax	33	0.3%	22	0.3%
Income not subject to tax	(50)	(0.5%)	(169)	(2.2%)
Non-deductible expenses	353	3.3%	554	7.3%
Other differences	16	0.1%	7	0.1%
Effective income tax expense	3,275	30.5%	2,422	31.7%

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

Notes to the Condensed Consolidated Interim Financial Statements

14. Earnings per share

	2026	2025
	1.1-31.3	1.1-31.3
Profit attributable to shareholders of the Bank	7,456	5,209
Weighted average number of outstanding shares	1,752	1,883
Basic earnings per share (ISK)	4.26	2.77
Profit attributable to shareholders of the Bank	7,456	5,209
Weighted average number of outstanding shares	1,753	1,883
Diluted earnings per share (ISK)	4.25	2.77

In August 2025, the Group entered into equity-settled share option agreements. According to the plan, each option holder acquires the right to buy shares in Íslandsbanki of up to ISK 1.5 million once a year for five years, following the release of the Bank's half year results in the years 2026 through 2030. The 2026 and 2027 tranches of equity-settled share option agreements had a dilute effect on earnings per share in the first quarter of 2026. Although the 2028, 2029 and 2030 tranches are outstanding, they did not have a dilutive effect on earnings per share, as the average market price of the Bank's shares during the first quarter of 2026 was below the adjusted exercise price (which includes the fair value of services yet to be rendered under IFRS 2).

Notes to the Condensed Consolidated Interim Financial Statements

15. Classification of financial assets and financial liabilities

At 31 March 2026	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	88,909	88,909
Loans to credit institutions	-	-	-	79,739	79,739
Listed bonds and debt instruments	12,407	-	141,857	-	154,264
Listed bonds and debt instruments used for economic hedging	7,739	-	-	-	7,739
Unlisted bonds and debt instruments	2,090	-	-	-	2,090
Derivatives	3,794	258	-	-	4,052
Loans to customers	-	-	-	1,401,212	1,401,212
Listed shares and equity instruments	3,016	-	-	-	3,016
Listed shares and equity instruments used for economic hedging	9,727	-	-	-	9,727
Unlisted shares and equity instruments	2,754	-	-	-	2,754
Other financial assets	-	-	-	7,575	7,575
Total financial assets	41,527	258	141,857	1,577,435	1,761,077

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	11,419	11,419
Deposits from customers	-	-	-	1,013,431	1,013,431
Derivative instruments and short positions	5,950	-	-	-	5,950
Debt issued and other borrowed funds	-	86,445	87,007	278,633	452,085
Subordinated loans	-	-	-	40,530	40,530
Other financial liabilities	-	-	-	30,930	30,930
Total financial liabilities	5,950	86,445	87,007	1,374,943	1,554,345

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 31 March 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 31 March 2026	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	162,003	-	2,090	164,093
Derivatives	-	4,052	-	4,052
Shares and equity instruments	12,743	-	2,754	15,497
Total financial assets	174,746	4,052	4,844	183,642
Short positions	488	-	-	488
Derivative instruments	-	5,462	-	5,462
Debt issued and other borrowed funds designated as at FVTPL	87,007	-	-	87,007
Total financial liabilities	87,495	5,462	-	92,957

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
Settlements	(38)	-	(38)
Net loss on financial instruments recognised in the income statement	-	(45)	(45)
Fair value at 31 March 2026	2,090	2,754	4,844

	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 for 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 31 March 2026	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	88,909	-	88,909	88,909	-
Loans to credit institutions	-	79,739	-	79,739	79,739	-
Loans to customers	-	-	1,398,240	1,398,240	1,401,212	(2,972)
Other financial assets	-	7,575	-	7,575	7,575	-
Total financial assets	-	176,223	1,398,240	1,574,463	1,577,435	(2,972)
Deposits from Central Bank and credit institutions	-	11,419	-	11,419	11,419	-
Deposits from customers	-	1,013,463	-	1,013,463	1,013,431	32
Debt issued and other borrowed funds	263,696	10,704	-	274,400	278,633	(4,233)
Subordinated loans	40,598	-	-	40,598	40,530	68
Other financial liabilities	-	30,930	-	30,930	30,930	-
Total financial liabilities	304,294	1,066,516	-	1,370,810	1,374,943	(4,133)

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 31 March 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	31.3.2026	31.12.2025
Financial assets	4,052	5,304
Amounts not set off but subject to master netting arrangements and similar agreements	(3,647)	(5,003)
- Financial liabilities	(1,780)	(1,553)
- Cash collateral received	(1,291)	(3,216)
- Financial instruments collateral received	(576)	(234)
Net amount after consideration of potential effect of netting arrangements	405	301

Derivative instruments and short positions	31.3.2026	31.12.2025
Financial liabilities	5,950	6,183
Amounts not set off but subject to master netting arrangements and similar agreements	(3,376)	(2,349)
- Financial assets	(1,726)	(1,553)
- Cash collateral pledged	(1,650)	(796)
Net amount after consideration of potential effect of netting arrangements	2,574	3,834

19. Cash and balances with Central Bank

	31.3.2026	31.12.2025
Cash on hand	3,235	3,270
Unrestricted balances with Central Bank	52,748	43,414
Cash and unrestricted balances with Central Bank	55,983	46,684
Balances pledged as collateral to Central Bank	111	712
Mandatory reserve deposits with Central Bank	32,815	32,998
Cash and balances with Central Bank	88,909	80,394

20. Loans to credit institutions

	31.3.2026	31.12.2025
Money market loans	64,425	69,660
Bank accounts	8,589	7,247
Other loans	6,725	3,102
Loans to credit institutions	79,739	80,009

Notes to the Condensed Consolidated Interim Financial Statements

21. Derivative instruments and short positions

At 31 March 2026	Assets		Liabilities	
	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,616	183,983	2,158	93,263
Cross-currency interest rate swaps	-	-	541	15,195
Equity forwards	1,724	7,322	501	4,328
Equity options	-	-	-	1
Foreign exchange forwards	88	11,526	585	22,129
Foreign exchange swaps	320	23,211	1,663	72,364
Foreign exchange options	-	-	-	17
Bond forwards	304	7,515	14	3,501
Derivatives	4,052	233,557	5,462	210,798
Short positions in listed bonds	-	-	488	383
Total	4,052	233,557	5,950	211,181

At 31 December 2025	Assets		Liabilities	
	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 collaterals 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 31 March 2026 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 258 million (year-end 2025: ISK 1,771 million) and their total notional amount was ISK 86,160 million (year-end 2025: ISK 88,320 million).

Notes to the Condensed Consolidated Interim Financial Statements

22. Loans to customers

At 31 March 2026	Gross carrying amount			Expected credit losses			Net carrying amount
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Individuals	654,076	9,999	8,244	(764)	(179)	(559)	670,817
Commerce and services	207,796	11,972	12,291	(736)	(189)	(1,120)	230,014
Construction	84,099	19,654	1,273	(600)	(701)	(289)	103,436
Energy	17,161	544	-	(32)	(4)	-	17,669
Financial services	324	-	-	(1)	-	-	323
Industrial and transportation	83,501	4,072	884	(197)	(84)	(75)	88,101
Investment companies	43,514	3,689	343	(162)	(106)	(122)	47,156
Public sector and non-profit organisations	15,055	12	18	(23)	(2)	(4)	15,056
Real estate	132,010	4,622	4,634	(269)	(107)	(845)	140,045
Seafood	88,571	101	19	(88)	(1)	(7)	88,595
Loans to customers	1,326,107	54,665	27,706	(2,872)	(1,373)	(3,021)	1,401,212

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	17	-	-	17
Loans to credit institutions	62	-	-	62
Loans to customers	2,872	1,373	3,021	7,266
Other financial assets	7	2	-	9
Off-balance sheet loan commitments and financial guarantees	623	93	173	889
At 31 March 2026	3,581	1,468	3,194	8,243
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	202	(149)	(53)	-
Transfer to Stage 2	(102)	114	(12)	-
Transfer to Stage 3	(21)	(204)	225	-
Net remeasurement of loss allowance	(289)	418	763	892
New financial assets originated or purchased	486	32	147	665
Derecognitions and maturities	(147)	(42)	(1,634)	(1,823)
Write-offs*	-	-	(259)	(259)
Recoveries of amounts previously written off	-	-	42	42
Foreign exchange	-	-	(14)	(14)
Unwinding of interest	-	-	117	117
At 31 March 2026	2,872	1,373	3,021	7,266

*During the period financial assets amounting to ISK 293 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	38	(11)	(27)	-
Transfer to Stage 2	(14)	18	(4)	-
Transfer to Stage 3	(2)	(13)	15	-
Net remeasurement of loss allowance	(206)	(66)	3	(269)
New loan commitments and financial guarantees	153	5	74	232
Derecognitions and maturities	(28)	(4)	(9)	(41)
At 31 March 2026	623	93	173	889
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

	31.3.2026	31.12.2025
Reposessed collateral	7,183	1,749
Investments in associates*	5,429	5,384
Investment property*	2,900	2,900
Property and equipment*	5,007	4,702
Intangible assets*	2,749	2,682
Receivables	1,003	2,363
Unsettled securities transactions	6,651	1,151
Prepaid expenses	2,007	1,655
Deferred tax assets	148	151
Other assets	118	121
Other assets	33,195	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

	31.3.2026	31.12.2025
Deposits from credit institutions	11,282	13,041
Repurchase agreements with Central Bank	137	209
Deposits from Central Bank and credit institutions	11,419	13,250

26. Deposits from customers

	31.3.2026	31.12.2025
Demand deposits and deposits with maturity up to 3 months	897,863	854,319
Term deposits with maturity of more than 3 months	115,568	114,376
Deposits from customers	1,013,431	968,695

Deposits from customers specified by owners	31.3.2026		31.12.2025	
	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	11,775	1%	10,556	1%
Municipalities	9,032	1%	7,611	1%
Companies	447,361	44%	416,957	43%
Individuals	545,263	54%	533,571	55%
Deposits from customers	1,013,431	100%	968,695	100%

Notes to the Condensed Consolidated Interim Financial Statements

27. Pledged assets

	31.3.2026	31.12.2025
Loans to customers pledged as collateral against Covered Bonds	420,183	420,760
Cash and balances pledged as collateral against Covered Bonds	17,619	18,364
Loans to credit institutions and balances with Central Bank pledged as collateral against derivative instruments	2,089	1,483
Other financial assets pledged as collateral	5,920	7,229
Pledged assets against liabilities	445,811	447,836
Pledged assets against Covered Bonds held by the Bank	(149,209)	(160,225)
Pledged assets against liabilities on balance	296,602	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 31 March 2026 was ISK 124,722 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 as well as collateral against contracts with the Government Debt Management.

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	31.3.2026	31.12.2025
ISB CBI 26 - ISK 19,860 million	2015	07.05.2026	Bullet	Fixed CPI, 3.37%	26,270	27,337
ISB CBF 27 - ISK 8,940 million	2022	10.05.2027	Bullet	REIBOR 1M + 0.40%	8,973	8,974
ISB CB 27 - ISK 9,261 million	2020	16.09.2027	Amortising	Fixed, 2.50%	9,147	12,270
ISB CB - EUR 300 million*	2022	20.09.2027	Bullet	Fixed, 3.00%	43,407	44,531
ISB CBF 28 - ISK 4,520 million	2026	11.03.2028	Bullet	REIBOR 1M + 0.15%	4,534	-
ISB CBI 28 - ISK 11,226 million	2019	11.08.2028	Amortising	Fixed CPI, 2.20%	16,523	19,465
ISB CBI 29 - ISK 34,780 million	2023	10.05.2029	Bullet	Fixed CPI, 2.72%	40,755	39,441
ISB CBI 30 - ISK 23,040 million	2017	31.05.2030	Bullet	Fixed CPI, 3.00%	35,794	34,708
ISB CB 31 - ISK 19,680 million	2025	03.06.2031	Bullet	Fixed, 7.39%	21,080	13,094
ISB CBI 32 - ISK 18,520 million	2024	03.12.2032	Bullet	Fixed CPI, 3.44%	19,967	13,482
Covered bonds					226,450	213,302
SEK 434 million	2023	13.04.2026	Bullet	STIBOR 3M + 3.65%	5,762	5,975
SEK 500 million	2023	08.11.2026	Bullet	STIBOR 3M + 2.70%	6,603	6,846
NOK 498 million	2024	25.01.2027	Bullet	NIBOR 3M + 2.35%	6,446	6,265
SEK 498 million	2024	25.01.2027	Bullet	STIBOR 3M + 2.35%	6,246	6,823
NOK 200 million	2024	02.07.2027	Bullet	NIBOR 3M + 1.20%	2,593	2,521
SEK 300 million	2024	02.07.2027	Bullet	STIBOR 3M + 1.20%	3,965	4,111
NOK 200 million	2025	16.07.2027	Bullet	NIBOR 3M + 0.98%	2,587	2,515
SEK 200 million	2025	16.07.2027	Bullet	STIBOR 3M + 1.00%	2,639	2,737
ISK 2,667 million	2022	22.11.2027	Amortising	REIBOR 1M + 1.25%	2,679	3,080
ISK 6,940 million	2022	22.11.2027	Bullet	Fixed, 7.70%	7,099	6,964
EUR 300 million*	2024	27.03.2028	Bullet	Fixed, 4.625%	43,038	46,077
NOK 100 million	2025	17.07.2028	Bullet	NIBOR 3M + 1.19%	1,293	1,258
SEK 500 million	2025	17.07.2028	Bullet	STIBOR 3M + 1.20%	6,598	6,843
ISK 19,460 million	2023	21.12.2028	Bullet	Fixed CPI, 4.48%	21,986	21,232
EUR 300 million**	2025	20.09.2030	Bullet	Fixed, 3.875%	44,203	45,377
EUR 300 million**	2025	11.11.2032	Bullet	Fixed, 3.75%	42,804	44,039
ISK 7,600 million	2024	14.11.2036	Bullet	Fixed CPI, 3.5%	8,014	7,746
Unsecured bonds					214,555	220,409
Other secured loans					191	-
Other unsecured loans					10,889	10,882
Other borrowed funds					11,080	10,882
Debt issued and other borrowed funds					452,085	444,593

The Group repurchased own bonds during the period amounting to ISK 2,459 million (first quarter of 2025: 1,426 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 31 March 2026 the total carrying amount of these bond issuances amounted to ISK 86,445 million and included in the amount are fair value changes amounting to ISK 234 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 31 March 2026 the total carrying amount of the bonds amounted to ISK 87,007 million and included in the amount are fair value changes amounting to ISK 457 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	31.3.2026	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%	11,061	10,797
ISK 9,600 million	2023	12.09.2034	12.09.2029	Fixed CPI, 5.80%	11,196	10,776
Tier 2 subordinated loans					23,783	23,099
SEK 388 million	2021	Perpetual	28.09.2026	STIBOR 3M + 4.75%	5,077	5,262
NOK 200 million	2025	Perpetual	25.11.2030	NIBOR 3M + 3.58%	2,552	2,482
SEK 700 million	2025	Perpetual	25.11.2030	STIBOR 3M + 3.50%	9,118	9,472
Additional Tier 1 subordinated loans					16,747	17,216
Subordinated loans					40,530	40,315

30. Other liabilities

	31.3.2026	31.12.2025
Unpaid dividends	12,604	-
Liabilities of disposal groups classified as repossessed collateral	2,178	-
Accruals	4,048	3,655
Lease liabilities	3,313	3,036
Expected credit losses for off-balance sheet loan commitments and financial guarantees	889	966
Withholding tax	2,249	5,064
Unsettled securities transactions	7,946	1,623
Sundry liabilities	3,951	2,651
Other liabilities	37,178	16,995

31. Custody assets

	31.3.2026	31.12.2025
Custody assets - not managed by the Group	3,913,003	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.

At 31 March 2026	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net balance	& loan com- mitments
Board of Directors, key management personnel and other related parties ..	-	990	661	329	96
Associated companies	2,434	3,442	2,753	3,123	156
Balances with related parties	2,434	4,432	3,414	3,452	252

1 January to 31 March 2026	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	29	13	27	-
Associated companies	84	4	1	514
Transactions with related parties	113	17	28	514

At 31 December 2025	Right-of-use asset	Loans to customers	Liabilities	Guarantees Net balance	& loan com- mitments
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

1 January to 31 March 2025	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	18	9	1	2
Associated companies	122	9	1	503
Transactions with related parties	140	18	2	505

At 31 March 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 that arise out of its normal business operations. Since the Consolidated Financial Statements for the year 2025, there have been no material changes regarding these proceedings. The Group has two contingent liabilities, related to 105 Miðborg slhf. – ÍAV hf. and EC Clear ehf., for which no provisions have been recognised. All other matters are considered immaterial.

34. Events after the reporting period

The Board of Directors approved a new organisational structure for the Bank, effective from 28 April 2026. The associated redundancy costs of approximately ISK 260 million will be recognised in the second quarter 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 31 March 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	88,909	-	-	-	-	-	-	-	88,909	17
Loans to credit institutions	79,739	-	-	-	-	-	-	-	79,739	62
Bonds and debt instruments	141,857	-	-	-	-	-	32,518	32,518	109,339	-
Loans to customers:	1,401,212	715,629	314,123	64,420	25,080	90,107	104,283	1,313,642	87,570	7,266
Individuals	670,817	605,306	5,836	4	8	21,404	135	632,693	38,124	1,502
- Thereof mortgages	601,529	600,667	-	-	1	-	-	600,668	861	284
Commerce and services	230,014	15,362	82,893	301	8,185	57,823	50,277	214,841	15,173	2,045
Construction	103,436	54,130	39,017	35	361	3,282	3,778	100,603	2,833	1,590
Energy	17,669	3	10,938	-	-	128	3,683	14,752	2,917	36
Financial services	323	-	273	-	1	-	-	274	49	1
Industrial and transportation	88,101	1,277	50,873	-	37	6,857	20,694	79,738	8,363	356
Investment companies	47,156	2,354	17,028	-	15,456	263	7,890	42,991	4,165	390
Public sector and non-profit organisations	15,056	38	734	-	-	20	10	802	14,254	29
Real estate	140,045	36,886	100,336	-	957	200	385	138,764	1,281	1,221
Seafood	88,595	273	6,195	64,080	75	130	17,431	88,184	411	96
Other financial assets	7,575	-	-	-	-	-	-	-	7,575	9
Off-balance sheet items:	236,269	12,503	40,518	8,788	5,448	-	18,882	86,139	150,130	889
Financial guarantees	21,812	2,647	6,921	50	1,069	-	2,879	13,566	8,246	208
Loan commitments	214,457	9,856	33,597	8,738	4,379	-	16,003	72,573	141,884	681
Total	1,955,561	728,132	354,641	73,208	30,528	90,107	155,683	1,432,299	523,262	8,243

Maximum credit exposure for off-balance sheet items reflect 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	Residential	Commercial		Cash &	Vehicles &	Other	Total credit	Total credit	Associated
Collateral held against credit exposure	exposure to	real estate	real estate	Vessels	securities	equipment	collateral	exposure	exposure	ECL
	credit risk							covered by	not covered by	
								collateral	collateral	
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 reflect 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 31 March 2026

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	527,364	1,086	-	528,450
Risk class 5-6	607,372	15,192	-	622,564
Risk class 7-8	175,205	29,486	-	204,691
Risk class 9	15,665	8,008	-	23,673
Risk class 10	-	-	27,706	27,706
Unrated	501	893	-	1,394
	1,326,107	54,665	27,706	1,408,478
Expected credit losses	(2,872)	(1,373)	(3,021)	(7,266)
Net carrying amount	1,323,235	53,292	24,685	1,401,212

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	113,600	32	-	113,632
Risk class 5-6	75,219	746	-	75,965
Risk class 7-8	42,490	1,735	-	44,225
Risk class 9	1,443	195	-	1,638
Risk class 10	-	-	979	979
Unrated	529	190	-	719
	233,281	2,898	979	237,158
Expected credit losses	(623)	(93)	(173)	(889)
Total	232,658	2,805	806	236,269

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 31 March 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	3,310	(10)	6,478	(50)	2,715	(118)	12,503	(178)
Companies	1,877	(18)	16,041	(419)	8,801	(1,501)	26,719	(1,938)
Total	5,187	(28)	22,519	(469)	11,516	(1,619)	39,222	(2,116)

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 exposure at 31 March 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. Largest part of the exposure is due to the Government of Iceland's bonds in the Group's liquidity portfolio.

At 31 March 2026

Groups of connected clients:	Before	After
Group 1	94%	8%
Group 2	10%	10%
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 31 March 2026 and 31 December 2025.

Net stable funding ratio

	31.3.2026	31.12.2025
For all currencies	123%	127%

Liquidity coverage ratio

	31.3.2026	31.12.2025
For all currencies	177%	203%
ISK	141%	129%
EUR	411%	733%

The following tables show the composition of the Group's liquidity reserve.

At 31 March 2026

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	87,740	423	294	452	88,909
Foreign government bonds	-	24,633	-	-	24,633
Domestic bonds eligible as collateral with Central Bank	88,846	-	-	-	88,846
Foreign currency covered bonds	-	5,467	-	14,692	20,159
Level 2 liquid assets	39,026	3,674	1	352	43,053
High quality liquidity assets	215,612	34,197	295	15,496	265,600
Balance with financial institutions	1	40,288	26,085	2,071	68,445
Liquidity reserve	215,613	74,485	26,380	17,567	334,045

At 31 December 2025

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	78,036	594	313	480	79,423
Foreign government bonds	-	27,832	-	-	27,832
Domestic bonds eligible as collateral with Central Bank	71,617	-	-	-	71,617
Foreign currency covered bonds	-	8,780	-	10,606	19,386
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

Currency	31.3.2026		31.12.2025	
	Effect on profit before tax			
	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	127	(127)	61	(61)
ISK, non-indexed	46	(46)	60	(60)
Total	173	(173)	121	(121)

Interest rate risk in the banking book

Interest rate risk in the banking book arises from the Group's core banking activities. The main source of this type of interest rate risk is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time, reflecting the fact that the Group's assets and liabilities are of different maturities and are priced relative to different interest rates.

The following tables show the interest sensitivity of the Group's banking book from a parallel upward 100 basis points change in all yield curves, with all other variables held constant, categorised by the repricing date. The interest rate sensitivity in the banking book is estimated using contractual cash flows except for callable debt issued and applicable non-maturing deposits (NMDs) where behavioural assumptions are applied.

Sensitivity analysis for interest rate risk in the banking book

At 31 March 2026

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	38	(212)	(643)	(1,565)	1,329	384	(669)
ISK, non-indexed	167	(95)	(361)	(1,087)	485	(2)	(893)
EUR	82	150	(29)	(91)	(14)	-	98
USD	12	-	-	(1)	-	-	11
SEK	139	(3)	(25)	(131)	-	-	(20)
NOK	168	-	(17)	(33)	-	-	118
Other	(3)	-	-	-	-	-	(3)
Total	603	(160)	(1,075)	(2,908)	1,800	382	(1,358)

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	16	(83)	(724)	(723)	1,095	378	(41)
ISK, non-indexed	139	(106)	(394)	(530)	463	(2)	(430)
EUR	257	(120)	23	(125)	(6)	-	29
USD	6	-	-	(1)	-	-	5
SEK	141	-	(14)	(150)	-	-	(23)
NOK	193	(2)	(20)	(35)	-	-	136
Other	2	(11)	-	-	-	-	(9)
Total	754	(322)	(1,129)	(1,564)	1,552	376	(333)

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 31 March 2026

	EUR	USD	SEK	NOK	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	423	294	39	119	294	1,169
Loans to credit institutions	44,699	26,077	143	1,039	887	72,845
Bonds and debt instruments	36,775	150	10,294	7,480	-	54,699
Loans to customers	144,609	26,136	4,988	3,303	13,521	192,557
Shares and equity instruments	42	1,074	699	328	317	2,460
Other assets	-	29	-	-	19	48
Total assets	226,548	53,760	16,163	12,269	15,038	323,778
Deposits from credit institutions	261	541	7	95	52	956
Deposits from customers	64,585	49,222	1,424	4,176	11,531	130,938
Debt issued and other borrowed funds	175,506	10,870	31,805	12,907	-	231,088
Subordinated loans	-	-	14,195	2,552	-	16,747
Other liabilities	1,043	18	-	88	93	1,242
Total liabilities	241,395	60,651	47,431	19,818	11,676	380,971
Net on-balance sheet position	(14,847)	(6,891)	(31,268)	(7,549)	3,362	(57,193)
Net off-balance sheet position	15,112	7,059	31,164	7,613	(3,228)	57,720
Net position	265	168	(104)	64	134	527

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

Notes to the Condensed Consolidated Interim Financial Statements

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 2,010 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	31.3.2026	31.12.2025
Bonds and debt instruments	1,976	2,277
Loans to customers	518,609	507,694
Total CPI-linked assets	520,585	509,971
Deposits from customers	126,648	120,742
Debt issued and other borrowed funds	169,309	163,411
Subordinated loans	22,257	21,573
Off-balance sheet exposures	1,381	4,493
Short positions	26	180
Total CPI-linked liabilities	319,621	310,399
CPI imbalance	200,964	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 2025 maintain an additional capital requirement of 1.4% of the REA. The Group's overall capital requirement, taking into account capital buffers, is 19.1%. 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%.

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

	31.3.2026	31.12.2025
Own funds		
Ordinary share capital	8,657	8,900
Share premium	26,380	42,472
Reserves	6,321	7,201
Retained earnings	171,360	166,786
First quarter profit	(7,456)	-
Fair value changes due to own credit standing	771	913
Foreseeable dividend payment and approved buyback*	(12,121)	(16,671)
Tax assets	(148)	(151)
Intangible assets	(1,791)	(1,822)
Insufficient coverage for non-performing exposures	(24)	(52)
CET1 capital	191,949	207,576
Additional Tier 1 capital	16,747	17,216
Tier 1 capital	208,696	224,792
Tier 2 capital	23,783	23,099
Total capital base	232,479	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 31 March 2026, ISK 12.1 billion remained of approved buybacks and is therefore deducted from the CET1 capital.

Notes to the Condensed Consolidated Interim Financial Statements

44. Capital management (continued)

	31.3.2026	31.12.2025
Risk exposure amount		
Due to credit risk	954,541	939,768
Due to market risk	4,991	4,093
Due to credit valuation adjustment	1,351	1,375
Due to operational risk	88,552	88,552
Total risk exposure amount (REA)	1,049,435	1,033,788
Capital ratios		
CET1 ratio	18.3%	20.1%
Tier 1 ratio	19.9%	21.7%
Total capital ratio	22.2%	24.0%
Capital ratios including first quarter profit*		
CET1 ratio	18.6%	20.1%
Tier 1 ratio	20.2%	21.7%
Total capital ratio	22.5%	24.0%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,772,666	1,718,921
Off-balance sheet exposures	66,070	68,948
Derivative exposures	10,222	9,852
Total exposure measure (TEM)	1,848,958	1,797,721
Tier 1 capital	208,696	224,792
Leverage ratio	11.3%	12.5%
Leverage ratio including first quarter profit*	11.5%	12.5%

*Where the capital and leverage ratios are shown including first quarter profit, ISK 3,728 million has been subtracted from the capital base as is expected from the 50% dividend policy.

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 31 March 2026 the Group exceeds the future required subordination portion of the MREL.

The MREL is published irrespective of the value of the combined buffer requirement, which must be met in parallel with the MREL as a % of REA. Taking into account the Group's combined buffer requirement as at 31 March 2026, the resulting MREL as a % of REA requirement at 31 March 2026 was 28.5%.

	31.3.2026	31.12.2025
Own funds and eligible liabilities		
Own funds	232,479	247,891
Eligible liabilities	190,463	207,145
Own funds and eligible liabilities	422,942	455,036
Ratios of own funds and eligible liabilities		
Own funds and eligible liabilities as a % of REA	40.3%	44.0%
Own funds and eligible liabilities as a % of TEM	22.9%	25.3%

