

Condensed Consolidated
Interim Financial Statements
30 September 2026

Unaudited



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Arion Bank highlights 30 September 2026



9M 2026 15.1%
Return on
Equity*



9M 2026 39.2%
Total cost-to-core
income

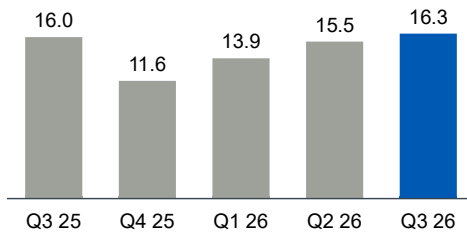


18.5%
CET1 ratio

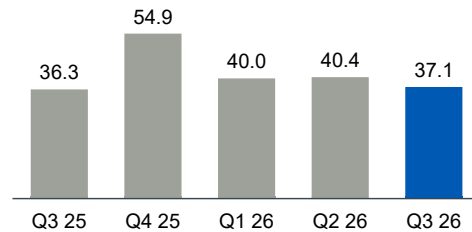
Moody's

Long term: **A3**
Covered bond: **Aa1**
Outlook: **Stable**

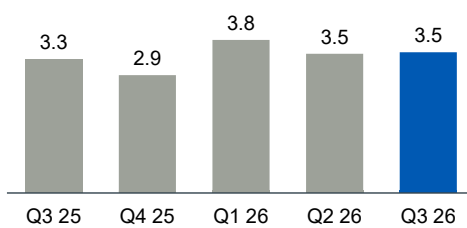
Return on equity* (%)



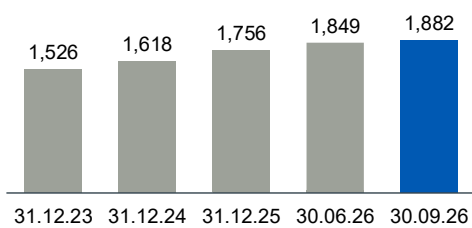
Total cost-to-Core income ratio (%)



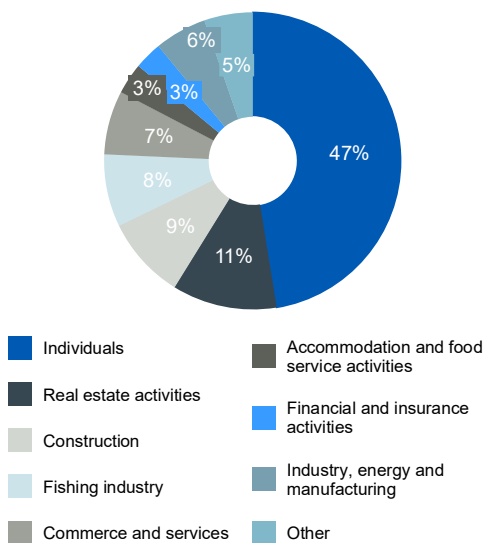
Net interest margin (%)



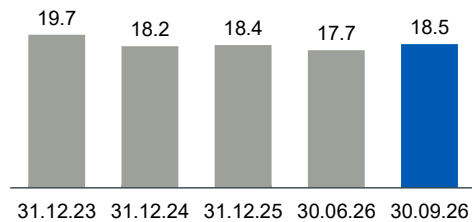
Total assets (ISK bn)



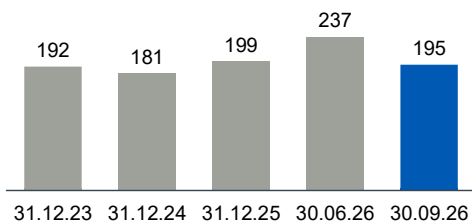
Loans to customers by sector



CET1 ratio (%)



LCR ratio (%)



PRINCIPLES FOR
RESPONSIBLE
BANKING



*Return on equity attributable to shareholders of Arion Bank

Endorsement and statement by the Board of Directors and the CEO



The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2026 include the Condensed Consolidated Interim Financial Statements of Arion Bank ("the Bank") and its subsidiaries, together referred to as "the Group".

Operations during the period

Income Statement

Net earnings amounted to ISK 8.7 billion for the third quarter and ISK 24.1 billion for the first nine months of the year. Net earnings amounted to ISK 8.2 billion for the third quarter of 2025 and ISK 26.3 billion for the first nine months, with ISK 24.4 billion attributable to the shareholders of Arion Bank. Return on equity was 16.3% for the third quarter and 15.1% for the first nine months of 2026. Earnings per share were ISK 6.42 for the quarter and ISK 17.79 for the first nine months of 2026, compared with ISK 5.95 and ISK 17.55 in the previous year. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 10.6%, compared with the third quarter of the previous year. Net interest income increased by 14.4%, compared with the third quarter of the previous year, and the net interest margin was 3.5%, compared with 3.3% in the third quarter of 2025. Net commission income decreased by 5.6% between years, with corporate and investment banking activity lower than in recent quarters, reflecting the more transactional nature of fees. The operation of Vördur contributed a standalone profit of ISK 0.4 billion in the quarter, compared with ISK 0.7 billion in the third quarter of 2025. Net financial income was negative by ISK 0.1 billion for the third quarter. Operating expenses, including operating expenses of the insurance operation, increased by 13.0% compared with the previous year or ISK 0.9 billion. The increase was partly driven by rise of ISK 0.6 billion in salary and related expenses due to the 3.5% collective wage increase from January 2026 and ISK 0.2 billion lay-off costs. Inflation in the third quarter measured 5.3% between years. The Group had 890 full-time equivalent positions at the end of September, compared with 901 at the end of 2025. The cost-to-income ratio in the third quarter was 34.3%, compared with 32.6% in the same quarter of 2025, while the total cost-to-core income ratio was 37.1%, compared with 36.3% in 2025. Impairments were calculated at 27bps for the quarter. The effective income tax rate was 26.6%.

A bill proposing an increase in the bank levy rate from 0.145% to 0.254% is currently under consideration by the Icelandic Parliament. If enacted, the increase would result in an estimated additional expense of approximately ISK 1,700 million for the financial year 2026. The full amount would be recognized in the fourth quarter of 2026. Had the additional expense been recognized in the third quarter, the ROE would have been 15.5% for the third quarter and 14.3% for the first nine months.

Balance Sheet

Arion Bank's balance sheet grew by 7.2% from year-end 2025. Loans to customers increased by 6.4%, where loans to individuals increased by 4.7% and loans to corporates by 8.1%. Deposits increased by 10.1%, primarily from individuals and SMEs with low LCR outflow weight. Shareholders' equity amounted to ISK 216.4 billion at the end of the period. Capital distribution amounted to ISK 25.6 billion in the first nine months of 2026, through dividends and buybacks of own shares.

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

	Q3 2026	9M 2026	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	16.3%	15.1%	Exceed 13%
Core operating income / REA	7.9%	8.0%	Exceed 7.2%
Insurance revenue growth (YoY)	4.4%	5.8%	Exceed weighted average growth of competitors (3.7% in H1 2026 YoY)
Combined ratio	85.7%	91.4%	Below 95%
Total cost-to-core income ratio	37.1%	39.2%	Below 45%
CET1 ratio above regulatory capital requirements	320 bps	320 bps	100-250 bps management buffer (~16.3 - 17.8%)
Dividend pay-out ratio	50%	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

The Icelandic economy continues to cool as the prolonged period of restrictive monetary policy works its way through to domestic demand. GDP was lower than expected in the second quarter, contracting by 1.1% year-on-year after growth of 3.8% in the first quarter. Net trade was the main drag, with exports falling by 7.3% on the back of a 13.8% decline in goods exports. Imports rose by 0.2%, supported by record investment in data centre-related industries. The export outlook for next year has improved slightly, supported by Iceland's position as a commodity exporter. Seafood prices are at record highs, aluminium prices remain elevated and the terms of trade have improved despite higher oil prices. Aluminium production is back at full capacity, and data centres are beginning to generate substantial export revenues, while salmon farming is heading for a record year. Fisheries, by contrast, face reduced catch quotas once again. Tourist arrivals are expected to be broadly unchanged, with the outlook depending largely on air capacity to Iceland.

Domestic demand is also losing momentum. Labour market slack has increased further, with private sector employment falling, firms scaling back hiring plans and unemployment rising to 4% from 3.5% a year ago. Household balance sheets remain relatively sound, but high interest rates, persistent inflation and falling real house prices are weighing on spending. Payment card turnover grew by just 0.7% year-on-year in Q3, down from 1.3% in Q2, pointing to weaker and potentially negative consumption growth ahead. The impact of tight monetary policy is most visible in the housing market, where a growing stock of unsold homes, longer selling times and falling real prices point to weakening demand amid high financing costs. Arion Research expects real house prices to keep declining until mid-2028.

Endorsement and statement by the Board of Directors and the CEO



Despite these clear signs of cooling, inflation has remained well above 5% throughout the year and has proved more persistent than expected, driven by higher public levies and rising oil prices amid the conflict in the Middle East. The strong króna has helped contain imported inflation, while wage growth continues to sustain domestic price pressures, particularly in services. There have, however, been positive developments. The major collective wage agreements have held and been extended, removing a key source of uncertainty, and companies and institutions have frozen prices or limited increases to the CBI's inflation target. Although inflation expectations remain elevated and poorly anchored, interest rates are expected to remain unchanged until next year, when inflation is set to fall rapidly, paving the way for rate cuts.

Outlook for the Group

In recent years, Arion has followed a strategy designed to drive leadership in our markets, the success of our customers and society as a whole. This vision builds on long-term client relationships, diverse products and services and strong teamwork which form the basis for a seamless customer experience and sustainable value creation. The Group's performance over the past few years, which has continued through the first nine months of 2026, indicates that we are on the right track.

The external operating environment continues to evolve. As before, Arion benefits from its strong capital, funding and liquidity position, diverse revenue streams and sound infrastructure, while also retaining the flexibility to respond to the shifting operating environment.

Funding and liquidity

The Group's liquidity position remains very strong, with an LCR of 195% at the end of the quarter.

The Bank's funding position remained strong throughout the quarter. There was no market issuance in the third quarter, as the Bank is comfortably placed and has already pre-financed all large maturities falling due in 2026. The next maturities are in the second half of 2027. The Bank continues to have access to both international and domestic debt capital markets, which it will use opportunistically as conditions allow.

Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. In the medium term, the Bank aims to maintain capital adequacy ratios 100-250bps above total regulatory requirements. Arion Bank is currently rated A3 with a stable outlook from Moody's.

In March 2026, the Bank paid a dividend of ISK 11.5 per share, ISK 15.8 billion, as authorized by the Annual General Meeting. In addition to its authority to propose that the Bank pay dividends or other disbursements of equity, the Board is authorized to purchase up to 10% of the Bank's issued share capital. During Q3, the Bank bought back shares in the amount of ISK 2.7 billion and thus concluded the FSA-approved buyback program that commenced during Q2.

The Group's capital adequacy ratio on 30 September 2026 was 22.4% and the CET1 ratio was 18.5%, when the unaudited interim net earnings for the third quarter of 2026 are included. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 21.9% and the CET1 ratio was 18.1%. This compares to a regulatory capital requirement of 19.7%, including the combined buffer requirement. The Bank's REA decreased by ISK 20.3 billion in the third quarter of 2026 driven primarily by a decrease in market risk and loan portfolio REA. Changes relating to other factors were less material.

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

Ownership of Arion Bank

Lífeyrissjóður verzlunarmanna was the largest shareholder in Arion Bank with a shareholding of 9.78% at the end of September, and Arion Bank held 2.88% of its own shares. The number of shareholders was 10,608 at the end of the period, compared with 10,703 at year-end 2025. Further information on Arion Bank's shareholders can be found in Note 39.

The Annual General Meeting (AGM) of Arion Bank, held on 11 March 2026, approved the reduction of the Bank's share capital by ISK 40 million nominal value, through the cancellation of the Bank's own shares. The reduction was carried out on 14 April 2026. Thus, the share capital of Arion Bank was reduced from ISK 1,420 million to ISK 1,380 million in April 2026. In 2025, the nominal value of Arion Bank's share capital was reduced by ISK 93,423,078.

Risk management

The Group faces various risks arising from its day-to-day operations as a financial institution. Managing risk is therefore a core activity within the Group. The key to effective risk management is a process of on-going identification of significant risk, quantification of risk exposure, actions to limit risk, and constant monitoring of risk. This process of risk management and the ability to manage and price risk factors is critical to the Group's continuing profitability as well as ensuring that the Group's exposure to risk remains within acceptable levels. The Board of Directors is ultimately responsible for the Bank's risk management framework, ensuring that satisfactory risk policies and governance structures for controlling the Bank's risk exposure are in place. The Group's risk management, its structure and main risk factors are described in the notes and in the Bank's unaudited Pillar 3 Risk Disclosures.

Endorsement and statement by the Board of Directors and the CEO



Endorsement of the Board of Directors and the Chief Executive Officer

The Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2026 have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards) IAS 34 Interim Financial Reporting as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

It is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance and cash flow of the Group for the period ended 30 September 2026 and its financial position as at 30 September 2026. Furthermore, in our opinion the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Arion Bank for the period ended 30 September 2026 and confirm them by means of their signatures.

Reykjavík, 28 October 2026

Board of Directors

Paul Horner, Chairman
Kristín Pétursdóttir, Vice Chairman
Gunnar Sturluson
Steinunn Kristín Thórdardóttir
Tómas Már Sigurdsson

Chief Executive Officer

Benedikt Gíslason



Consolidated Interim Income Statement

	Notes	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Interest income		117,647	100,647	39,299	32,832
Interest expense		(70,314)	(60,455)	(23,488)	(19,006)
Net interest income	8	47,333	40,192	15,811	13,826
Fee and commission income		14,929	16,016	4,919	4,994
Fee and commission expense		(3,289)	(2,924)	(1,142)	(991)
Net fee and commission income	9	11,640	13,092	3,777	4,003
Insurance revenue		16,246	15,338	5,534	5,293
Insurance service expenses		(14,853)	(13,673)	(4,730)	(4,663)
Insurance service results	10	1,393	1,665	804	630
Net financial income	11	(981)	(289)	(146)	483
Other operating income	12	446	4,690	181	45
Other net operating income		(535)	4,401	35	528
Operating income		59,831	59,350	20,427	18,987
Operating expenses	13-15	(21,888)	(19,492)	(7,003)	(6,194)
Bank levy	16	(1,711)	(1,559)	(588)	(530)
Net impairment	17	(2,047)	(1,359)	(977)	(1,128)
Earnings before income tax		34,185	36,940	11,859	11,135
Income tax expense	18	(10,100)	(10,638)	(3,153)	(2,928)
Net earnings from continuing operations		24,085	26,302	8,706	8,207
Discontinued operations held for sale, net of income tax	19	-	(19)	-	3
Net earnings		24,085	26,283	8,706	8,210
Attributable to					
Shareholders of Arion Bank hf.		24,078	24,400	8,706	8,229
Non-controlling interest		7	1,883	-	(19)
Net earnings		24,085	26,283	8,706	8,210
Earnings per share					
Basic earnings per share attributable to shareholders of Arion Bank (ISK)	20	17.79	17.55	6.42	5.95
Diluted earnings per share attributable to shareholders of Arion Bank (ISK)		17.24	17.41	6.22	5.90

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



Consolidated Interim Statement of Comprehensive Income

	Notes	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Net earnings		24,085	26,283	8,706	8,210
Net change in FV of financial assets carried at FV through OCI, net of tax		(431)	237	43	152
Net realized (profit) loss on financial assets carried at FV through OCI, net of tax transferred to the income statement	11	(31)	141	(16)	90
Changes to reserve for financial instruments at FV thr. OCI that is or may be reclassified subsequently to the income statement		(462)	378	27	242
Exchange difference on translating foreign subsidiaries		(18)	(2)	(21)	(2)
Other comprehensive income that is or may be reclassified subsequently to the Income Statement		(480)	376	6	240
Total comprehensive income		23,605	26,659	8,712	8,450
Attributable to					
Shareholders of Arion Bank		23,598	24,776	8,712	8,469
Non-controlling interest		7	1,883	-	(19)
Total comprehensive income		23,605	26,659	8,712	8,450
Comprehensive income per share					
	20				
Basic compreh. income per share attrib. to shareholders of Arion Bank (ISK)		17.43	17.82	6.43	6.12
Diluted compreh. income per share attrib. to shareholders of Arion Bank (ISK) ..		16.90	17.68	6.23	6.07

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



Consolidated Interim Statement of Financial Position

Assets	Notes	30.9.2026	31.12.2025
Cash and balances with Central Bank	21	107,895	150,111
Loans to credit institutions	22	78,288	22,567
Loans to customers	23	1,414,774	1,329,056
Financial instruments	24-26	241,963	215,816
Investment property	26	7,651	7,305
Investments in associates	28	870	760
Intangible assets	29	7,166	7,533
Tax assets	30	2	2
Assets and disposal groups held for sale	31	298	98
Other assets	32	23,484	22,517
Total Assets		1,882,391	1,755,765
Liabilities			
Due to credit institutions and Central Bank	25	16,303	12,003
Deposits	25	1,013,789	921,182
Financial liabilities at fair value	25	9,145	3,129
Tax liabilities	30	16,201	12,983
Other liabilities	33	58,142	50,736
Borrowings	25,34	509,773	494,823
Subordinated liabilities	25,35	42,540	43,518
Total Liabilities		1,665,893	1,538,374
Equity			
Share capital and share premium	38	1,340	1,383
Other reserves		11,852	14,382
Retained earnings		203,235	201,562
Shareholders' Equity		216,427	217,327
Non-controlling interest		71	64
Total Equity		216,498	217,391
Total Liabilities and Equity		1,882,391	1,755,765

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves										Total share- holders' equity	Non- cont- rolling interest	Total equity
	Share capital	Share premium	Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop- ment cost	Debt invest- ments at fair value thr. OCI, unrealized	Foreign currency translation reserve	Statutory reserve	Retained earnings			
Equity 1 January 2026	1,383	-	827	12,760	320	-	91	6	378	201,562	217,327	64	217,391
Net earnings										24,078	24,078	7	24,085
Net change in fair value							(431)				(431)		(431)
Net realized profit transferred to P/L							(31)				(31)		(31)
Net changes in reserves								(18)			(18)		(18)
Total comprehensive income	-	-	-	-	-	-	(462)	(18)	-	24,078	23,598	7	23,605
<i>Transactions with owners</i>													
Dividend paid										(15,768)	(15,768)		(15,768)
Purchase of treasury shares	(51)	(1,355)								(8,441)	(9,847)		(9,847)
Share option charge			54								54		54
Share option vested	6	1,039	(229)								816		816
Share option forfeited			(75)							75	-		-
Share option charge - incentive scheme			145								145		145
Incentive scheme	2	316	(217)								101		101
Net changes in reserves				(1,733)	5					1,729	1		1
Equity 30 September 2026	1,340	-	505	11,027	325	-	(371)	(12)	378	203,235	216,427	71	216,498

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



Consolidated Interim Statement of Changes in Equity

	Restricted reserves										Total share- holders' equity	Non- cont- rolling interest	Total equity
	Share capital	Share premium	Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop- ment cost	Debt invest- ments at fair value thr. OCI, unrealized	Foreign currency translation reserve	Statutory reserve	Retained earnings			
Equity 1 January 2025	1,412	4,274	411	10,957	513	759	(328)	-	1,637	186,947	206,582	504	207,086
Net earnings										24,400	24,400	1,883	26,283
Net change in fair value							237				237		237
Net realized loss transferred to P/L							141				141		141
Net changes in reserves								(2)			(2)		(2)
Total comprehensive income	-	-	-	-	-	-	378	(2)	-	24,400	24,776	1,883	26,659
<i>Transactions with owners</i>													
Dividend paid										(16,114)	(16,114)		(16,114)
Purchase of treasury shares	(36)	(5,218)								(699)	(5,953)		(5,953)
Net changes in share options	6	715	(135)							84	670		670
Share option charge - incentive scheme			85								85		85
Incentive scheme	1	229									230		230
Net changes in reserves				2,279	(117)	(91)			(1,259)	(812)	-		-
Equity 30 September 2025	1,384	-	361	13,237	396	668	50	(2)	378	193,807	210,276	2,387	212,662
Net earnings										6,226	6,226	(2)	6,224
Net change in fair value							20				20		20
Net realized loss transferred to P/L							21				21		21
Net changes in reserves								8			8		8
Total comprehensive income	-	-	-	-	-	-	41	8	-	6,226	6,275	(2)	6,273
<i>Transactions with owners</i>													
Net changes in share options			15							4	19		19
Share option charge - incentive scheme			451							304	755		755
Net changes in reserves				(476)	(76)	(668)				1,220	-		-
Sale of a subsidiary											-	(2,321)	(2,321)
Equity 31 December 2025	1,383	-	827	12,760	320	-	91	6	378	201,562	217,327	64	217,391

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



Consolidated Interim Statement of Cash flows

	2026 1.1.-30.9.	2025 1.1.-30.9.
Operating activities		
Net earnings	24,085	26,283
Non-cash items included in net earnings	(30,807)	(29,488)
Changes in operating assets and liabilities	(18,802)	(14,310)
Interest received	76,622	72,238
Interest paid	(41,524)	(41,170)
Dividend received	469	187
Income tax paid	(6,718)	(6,086)
Net cash from operating activities	3,325	7,654
Investing activities		
Acquisition of investment property	(48)	(91)
Proceeds from sale of investment property	-	447
Acquisition of property and equipment	(678)	(337)
Proceeds from sale of property and equipment	-	7
Dividend and decreased share capital of associates	-	27
Acquisition of intangible assets	(381)	(752)
Net cash used in investing activities	(1,107)	(699)
Financing activities		
Dividend paid to shareholders of Arion Bank	(15,768)	(16,114)
Purchase of treasury stock	(9,847)	(5,953)
Issued subordinated liabilities	-	10,040
Settlement of subordinated liabilities	(726)	(8,769)
Proceeds from vested share options	817	602
Net cash used in financing activities	(25,523)	(20,195)
Net decrease in cash and cash equivalents	(23,305)	(13,240)
Cash and cash equivalents at beginning of the year	138,548	117,310
Effect of exchange rate changes on cash and cash equivalent	(1,062)	70
Cash and cash equivalents	114,181	104,140

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

Notes to the Condensed Consolidated Interim Statement of Cash flows



	2026 1.1.-30.9.	2025 1.1.-30.9.
Non-cash items included in net earnings		
Net interest income	(47,332)	(40,190)
Net impairment	2,047	1,359
Income tax expense	10,100	10,638
Bank levy	1,711	1,559
Changes in provisions for unearned premiums and claims	1,428	1,280
Net foreign exchange gain	(72)	(396)
Net loss (gain) on financial instruments	501	(363)
Depreciation and amortization	1,227	1,261
Share of profit of associates	(110)	(6)
Net gain from investment property	(298)	(4,802)
Other changes	(9)	172
Non-cash items included in net earnings	(30,807)	(29,488)
Changes in operating assets and liabilities		
Mandatory reserve with Central Bank	(217)	886
Loans to credit institutions, excluding bank accounts	(37,655)	(300)
Loans to customers	(67,586)	(56,040)
Financial instruments and financial liabilities at fair value	(34,520)	(44,952)
Non-current assets and liabilities and disposal groups held for sale	(209)	11
Other assets	9,163	128
Due to credit institutions and Central Bank	4,274	2,116
Deposits	80,937	45,555
Borrowings	22,565	48,523
Other liabilities	4,446	(10,237)
Changes in operating assets and liabilities	(18,802)	(14,310)
Cash and cash equivalents		
Cash and balances with Central Bank	107,895	110,481
Bank accounts	40,106	25,247
Mandatory reserve deposit with Central Bank	(33,820)	(31,588)
Cash and cash equivalents	114,181	104,140

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

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim Financial Statements

General information

Arion Bank hf., the Parent Company, was established on 18 October 2008 and is incorporated and domiciled in Iceland. The registered office of Arion Bank hf. is located at Borgartún 19, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 September 2026 comprise the Parent Company and its subsidiaries (together referred to as "the Group").

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 28 October 2026.

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

Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard (IFRS Accounting Standards), IAS 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions. The Condensed Consolidated Interim Financial Statements do not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with Arion Bank's Annual Consolidated Financial Statements for the year ended 31 December 2025. The Annual Consolidated Financial Statements are available on Arion Bank's website www.arionbank.com.

The same accounting policies, presentation and methods of computation are followed in these Condensed Consolidated Interim Financial Statements as were applied in the Consolidated Financial Statements for the year 2025.

Basis of measurement

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

- bonds and debt instruments, shares and equity instruments, short positions in listed bonds and equities, derivatives and certain loans to customers. For details on the accounting policy, see Note 59 in the Annual Financial Statements 2025;
- investment properties are measured at fair value; and
- non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair value, less cost to sell.

Functional and presentation currency

These Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 121.21 and 140.81 for EUR (31.12.2025: USD 125.44 and EUR 147.28).

2. Going concern assumption

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

3. Changes in accounting policies

New standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended 30 September 2026, and have not been applied in preparing these Consolidated Financial Statements. Relevant to the Group's reporting is IFRS 18 Presentation and disclosures in financial statements.

IFRS 18 Presentation and disclosures in financial statements replaces IAS 1, carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. The standard requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and it also includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements (PFS) and the notes. The Group is currently working to identify all impacts the amendments will have on the primary Consolidated Financial Statements and Notes to the Consolidated Financial Statements. The initial expected impacts on Group's Consolidated Financial Statements are not expected to be material. A new disclosure will be added for management-defined performance measures as required by the standard. In addition to the adoption of IFRS 18, there are consequential amendments to several other standards that are not expected to have material impacts on the Consolidated Financial Statements. IFRS 18, and the amendments to the other standards, are effective for reporting periods beginning on or after 1 January 2027. IFRS 18 will apply retrospectively.



Notes to the Condensed Consolidated Interim Financial Statements

4. Material accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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

Impairment of financial assets

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

Macroeconomic outlook

The Icelandic economy continues to cool as restrictive monetary policy weighs on domestic demand. GDP surprised to the downside, contracting 1.1% year-on-year, with net trade the main drag. Imports rose 0.2%, supported by record data centre-related investment, while exports fell 7.3%, driven by a 13.8% decline in goods exports. Labour market slack is growing, with private sector employment falling, firms scaling back hiring and unemployment rising to 4% from 3.5% a year earlier. Although household finances remain relatively sound, high interest rates, persistent inflation and falling real house prices are weighing on consumption. Payment card turnover grew just 0.7% year-on-year in Q3, pointing to weaker, potentially negative, consumption growth ahead.

Inflation has remained well above 5% throughout the year, driven by higher public levies and oil prices amid the conflict in the Middle East. The strong króna has contained imported inflation, while wage growth has sustained domestic price pressures. On a positive note, the major collective wage agreements have held and been extended, and companies and institutions have frozen prices or limited increases to the CBI's inflation target. Despite elevated and poorly anchored inflation expectations, interest rates are unlikely to rise further, with most analysts expecting cuts next year.

Impairment of intangible assets

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

Revaluation of investment properties

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

5. The Group

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

	Operating activity	Currency	Equity interest	
			30.9.2026	31.12.2025
Arion (Financial) Advisory Services Ltd, 30-32 Fleet Street, London, UK	Financial service	GBP	100.0%	100.0%
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Sundagardar 2, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vöðdur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

In July 2026, Landey ehf. put all its shares in Blikastadir ehf. up for sale. The company manages a 98-hectare plot in Blikastadir, Iceland. At the end of September, the second phase of the sales process began, with bids of ISK 14–16 billion received. The bids remain subject to several conditions and, consequently, the valuation has not been updated. Blikastadir has total assets of ISK 7.6 billion, mainly investment property.



Notes to the Condensed Consolidated Interim Financial Statements

Operating segment reporting

Segment information is presented in respect of the Group's operating segments and is based on the Group's management and internal reporting structure. The business units are segmented according to customers, products and services characteristics. Segment performance is evaluated based on earnings before tax.

Inter segment pricing is determined on an arm's length basis. Operating segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital, funding cost and relevant risk premium.

6. Operating segments

Markets & Stefir

Markets & Stefir comprise Asset Management and Capital Markets. Asset Management manages financial assets on behalf of its clients according to a pre-determined investment strategy. Asset Management also handles the operation and development of securities and pension funds. Asset Management comprises Institutional Asset Management, Premia Services, development and operations, research, and sales and services. Premia Services are divided into three service streams: Premia; Premia - Private Banking; and Premia – Wealth Management and provide customers with comprehensive and personal financial services. Capital Markets is a securities brokerage and brokers listed securities transactions for the Bank's international and domestic clients on all the world's major securities exchanges. The operation of Stefir hf. is presented under the segment. Stefir hf. is an independently operating financial company owned by Arion Bank and manages a broad range of mutual funds, investment funds and institutional investor funds for investors. Markets also offer a comprehensive selection of funds from some of the leading international fund management companies, both through the Bank and the Bank's subsidiary Arion (Financial) Advisory Services Ltd.

Corporate & Investment Banking (CIB)

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

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

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

Retail Banking

Retail Banking provides a diverse range of financial services in 12 branches and service points across Iceland in addition to service centre and digital solutions both in the Arion app and online banking. These services include deposits and loans, savings, payment cards, pensions, securities and funds. In order to improve efficiency the branch network is split into four regions, and smaller branches can therefore benefit from the strength of larger units within each region.

Treasury

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

Vördur tryggingar hf.

Vördur is a comprehensive insurance company that services both individuals and companies and focuses on simple and convenient services. Vördur collaborates closely with Retail Banking and Corporate and Investment Banking on insurance sales and customer services.

Supporting units

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



Notes to the Condensed Consolidated Interim Financial Statements

6. Operating segments, continued

1.1.-30.9.2026

	Markets and Stefnir	CIB	Retail Banking	Treasury	Vördur	Subsidi- aries excl. Stefnir and	Supporting units and elimi- nations	Total
<i>Income Statement</i>								
Net interest income	1,119	26,036	14,067	6,236	(97)	97	(125)	47,333
Net fee and commission income	4,126	3,801	2,641	554	(156)	283	391	11,640
Insurance service results	-	-	-	-	1,444	-	(51)	1,393
Net financial income	(11)	7	-	(1,039)	28	72	(38)	(981)
Other operating income	1	1	(18)	-	6	318	138	446
Operating income	5,235	29,845	16,690	5,751	1,225	770	315	59,831
Operating expenses	(2,283)	(1,999)	(2,693)	(486)	992	(390)	(15,029)	(21,888)
Allocated expenses	(2,614)	(4,229)	(5,510)	(1,134)	(1,036)	(49)	14,572	-
Bank levy	(34)	(694)	(644)	(339)	-	-	-	(1,711)
Net impairment	(2)	(1,523)	(521)	1	-	-	(2)	(2,047)
Earnings before income tax	302	21,400	7,322	3,793	1,181	331	(144)	34,185
Net seg. rev. from ext. customers	1,047	40,490	35,247	(19,066)	1,031	764	318	59,831
Net seg. rev. from other segments	4,188	(10,645)	(18,557)	24,817	194	6	(3)	-
Operating income	5,235	29,845	16,690	5,751	1,225	770	315	59,831
<i>Statement of financial position</i>								
Loans to customers	11,236	731,633	670,363	-	-	-	1,542	1,414,774
Financial instruments	22,743	-	-	184,584	37,686	158	(3,208)	241,963
Other external assets	5,876	588	1,999	185,464	4,819	9,950	16,958	225,654
Internal assets	68,205	-	-	255,747	-	-	(323,952)	-
Total assets	108,060	732,221	672,362	625,795	42,505	10,108	(308,660)	1,882,391
Deposits	97,296	433,420	465,770	19,725	-	-	(2,422)	1,013,789
Other external liabilities	1,942	3,088	3,764	595,341	26,895	1,511	19,563	652,104
Internal liabilities	-	162,656	158,241	-	-	4,905	(325,802)	-
Total liabilities	99,238	599,164	627,775	615,066	26,895	6,416	(308,660)	1,665,893
Allocated equity	8,822	133,057	44,587	10,729	15,610	3,692	-	216,498



Notes to the Condensed Consolidated Interim Financial Statements

6. Operating segments, continued

1.1.-30.9.2025

	Markets and Stefnir	CIB	Retail Banking	Treasury	Subsidi- aries excl. Stefnir and Vördur	Supporting units and elimi- nations	Total
<i>Income Statement</i>							
Net interest income	1,006	21,824	11,648	5,895	(67)	(6)	40,192
Net fee and commission income	4,308	5,215	2,507	625	(131)	155	13,092
Insurance service results	-	-	-	-	1,727	(5)	1,665
Net financial income	(22)	5	-	(63)	(206)	20	(289)
Other operating income	2	11	18	2	7	4,634	4,690
Operating income	5,294	27,055	14,173	6,459	1,330	4,798	59,350
Operating expenses	(1,982)	(1,676)	(2,518)	(457)	848	(395)	(19,492)
Allocated expenses	(2,270)	(3,627)	(5,023)	(1,014)	(900)	(76)	-
Bank levy	(32)	(586)	(619)	(322)	-	-	(1,559)
Net impairment	22	(1,115)	(158)	(1)	-	-	(1,359)
Earnings before income tax	1,032	20,051	5,855	4,665	1,278	4,327	36,940
Net seg. rev. from ext. customers	2,174	34,618	30,662	(14,333)	1,121	4,865	59,350
Net seg. rev. from other segments	3,120	(7,563)	(16,489)	20,792	209	(67)	-
Operating income	5,294	27,055	14,173	6,459	1,330	4,798	59,350
<i>Statement of financial position</i>							
Loans to customers	7,858	653,105	640,221	4	-	-	1,301,708
Financial instruments	20,944	-	-	203,969	37,987	116	259,837
Other external assets	5,908	135	1,759	138,216	4,777	16,449	174,990
Internal assets	70,721	-	-	263,506	-	-	-
Total assets	105,431	653,240	641,980	605,695	42,764	16,565	1,736,535
Deposits	95,417	402,731	382,612	38,666	-	-	917,226
Other external liabilities	1,782	2,141	4,090	552,745	26,558	9,251	606,648
Internal liabilities	-	130,255	202,939	-	-	3,827	-
Total liabilities	97,199	535,127	589,641	591,411	26,558	13,078	1,523,874
Allocated equity	8,232	118,113	52,339	14,284	16,206	3,487	212,661

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



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Income Statement

Quarterly statements

7. Operations by quarters, unaudited

1.1.-30.9.2026	Q1	Q2	Q3	Total
Net interest income	16,303	15,219	15,811	47,333
Net fee and commission income	3,876	3,987	3,777	11,640
Insurance service results	(66)	655	804	1,393
Net financial income	(767)	(68)	(146)	(981)
Other operating income	114	151	181	446
Operating income	19,460	19,944	20,427	59,831
Operating expenses	(7,456)	(7,429)	(7,003)	(21,888)
Bank levy	(541)	(582)	(588)	(1,711)
Net impairment	(391)	(679)	(977)	(2,047)
Earnings before income tax	11,072	11,254	11,859	34,185
Income tax expense	(3,743)	(3,204)	(3,153)	(10,100)
Net earnings from continuing operations	7,329	8,050	8,706	24,085
Discontinued operations, net of tax	-	-	-	-
Net earnings	7,329	8,050	8,706	24,085
1.1.-30.9.2025				
Net interest income	12,166	14,200	13,826	40,192
Net fee and commission income	4,536	4,553	4,003	13,092
Insurance service results	(31)	1,066	630	1,665
Net financial income	(951)	179	483	(289)
Other operating income	3,321	1,324	45	4,690
Operating income	19,041	21,322	18,987	59,350
Operating expenses	(6,601)	(6,697)	(6,194)	(19,492)
Bank levy	(508)	(521)	(530)	(1,559)
Net impairment	(378)	147	(1,128)	(1,359)
Earnings before income tax	11,554	14,251	11,135	36,940
Income tax expense	(3,726)	(3,984)	(2,928)	(10,638)
Net earnings from continuing operations	7,828	10,267	8,207	26,302
Discontinued operations, net of tax	(11)	(11)	3	(19)
Net earnings	7,817	10,256	8,210	26,283

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



Notes to the Condensed Consolidated Interim Financial Statements

8. Net interest income

1.1.-30.9.2026	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
<i>Interest income</i>				
Cash and balances with Central Bank	4,842	-	-	4,842
Loans to credit institutions	769	-	-	769
Loans to customers	105,529	150	-	105,679
Securities	-	1,104	5,216	6,320
Other	37	-	-	37
Interest income	111,177	1,254	5,216	117,647
<i>Interest expense</i>				
Deposits	(42,005)	-	-	(42,005)
Borrowings	(24,267)	(594)	-	(24,861)
Subordinated liabilities	(3,283)	(30)	-	(3,313)
Other	(135)	-	-	(135)
Interest expense	(69,690)	(624)	-	(70,314)
Net interest income	41,487	630	5,216	47,333
 1.1.-30.9.2025				
<i>Interest income</i>				
Cash and balances with Central Bank	4,928	-	-	4,928
Loans to credit institutions	681	-	-	681
Loans to customers	89,391	104	-	89,495
Securities	-	414	5,061	5,475
Other	68	-	-	68
Interest income	95,068	518	5,061	100,647
<i>Interest expense</i>				
Deposits	(37,534)	-	-	(37,534)
Borrowings	(18,517)	(1,522)	-	(20,039)
Subordinated liabilities	(2,496)	(280)	-	(2,776)
Other	(106)	-	-	(106)
Interest expense	(58,653)	(1,802)	-	(60,455)
Net interest income	36,415	(1,284)	5,061	40,192

Net interest income calculated using the effective interest rate method were ISK 116,986 million (9M 2025: ISK 98,777 million).



Notes to the Condensed Consolidated Interim Financial Statements

8. Net interest income, continued

1.7.-30.9.2026	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
<i>Interest income</i>				
Cash and balances with Central Bank	1,558	-	-	1,558
Loans to credit institutions	277	-	-	277
Loans to customers	34,955	44	-	34,999
Securities	-	481	1,966	2,447
Other	18	-	-	18
Interest income	36,808	525	1,966	39,299

<i>Interest expense</i>				
Deposits	(14,445)	-	-	(14,445)
Borrowings	(7,589)	(351)	-	(7,940)
Subordinated liabilities	(1,031)	(34)	-	(1,065)
Other	(38)	-	-	(38)
Interest expense	(23,103)	(385)	-	(23,488)
Net interest income	13,705	140	1,966	15,811

1.7.-30.9.2025				
<i>Interest income</i>				
Cash and balances with Central Bank	1,598	-	-	1,598
Loans to credit institutions	223	-	-	223
Loans to customers	29,316	32	-	29,348
Securities	-	188	1,457	1,645
Other	18	-	-	18
Interest income	31,155	220	1,457	32,832

<i>Interest expense</i>				
Deposits	(11,901)	-	-	(11,901)
Borrowings	(5,976)	(171)	-	(6,147)
Subordinated liabilities	(906)	(26)	-	(932)
Other	(26)	-	-	(26)
Interest expense	(18,809)	(197)	-	(19,006)
Net interest income	12,346	23	1,457	13,826

Net interest income calculated using the effective interest rate method were ISK 38,896 million during the quarter (Q3 2025: ISK 32,617 million).

<i>Interest spread</i>	2026	2025	2026	2025
Interest spread (the ratio of net interest income to the average carrying amount of interest bearing assets)	1.1.-30.9. 3.6%	1.1.-30.9. 3.3%	1.7.-30.9. 3.5%	1.7.-30.9. 3.3%



Notes to the Condensed Consolidated Interim Financial Statements

9. Net fee and commission income

	1.1.-30.9.2026			1.1.-30.9.2025		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	4,217	(496)	3,721	4,138	(359)	3,779
Capital markets and corporate finance	1,363	(22)	1,341	2,027	(27)	2,000
Lending and financial guarantees	3,009	-	3,009	3,861	-	3,861
Collection and payment services	955	(54)	901	1,095	(64)	1,031
Cards and payment solution	4,872	(2,191)	2,681	4,304	(2,048)	2,256
Other	513	(865)	(352)	591	(670)	(79)
Commission expense from insurance operation	-	339	339	-	244	244
Net fee and commission income	14,929	(3,289)	11,640	16,016	(2,924)	13,092

	1.7.-30.9.2026			1.7.-30.9.2025		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,447	(188)	1,259	1,449	(114)	1,335
Capital markets and corporate finance	384	(5)	379	555	(7)	548
Lending and financial guarantees	990	-	990	992	-	992
Collection and payment services	321	(17)	304	344	(19)	325
Cards and payment solution	1,634	(758)	876	1,466	(713)	753
Other	143	(287)	(144)	188	(214)	(26)
Commission expense from insurance operation	-	113	113	-	76	76
Net fee and commission income	4,919	(1,142)	3,777	4,994	(991)	4,003

Asset management fees are earned by the Group for trust and fiduciary activities where the Group holds or invests assets on behalf of the customers.

Fee and commission income from capital markets and corporate finance includes miscellaneous corporate finance services plus commission from capital markets relating to sales of shares, bonds, FX and derivatives.

Fee and commission income from lending and financial guarantees is mainly related to lending activities, extension fees, advisory services and documentation, notification and payment fees plus fees from the issuing of guarantees on behalf of customers.

Fee and commission income on collection and payment services is from billing services, such as issuing invoices and payment collection notices, wire transfer services and other payment services.

Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees.

Other fee and commission income is mainly fees relating to sale, custody and market making on the Icelandic stock exchange.

Commission expense from insurance operation is transferred to insurance service results in accordance with IFRS 17.



Notes to the Condensed Consolidated Interim Financial Statements

10. Insurance service results

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Insurance revenue	16,246	15,338	5,534	5,293
Incurred claims	(11,074)	(10,683)	(3,426)	(3,587)
Service expenses	(3,233)	(2,801)	(1,021)	(881)
Insurance service expenses	(14,307)	(13,484)	(4,447)	(4,468)
Net (expense) income from reinsurance contracts held	(546)	(189)	(283)	(195)
Insurance service results	1,393	1,665	804	630

Operation results of Vördur

Vördur's operation resulted in a profit of ISK 760 million, with a return on equity of 7.4%, compared with a profit of ISK 896 million in 9M 2025 and a return on equity of 8.4%.

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Insurance service results	1,393	1,665	804	630
Insurance revenue elimination and reclassification	9	31	(14)	(7)
Insurance service results according to the Financial Statements of Vördur	1,402	1,696	790	623
Investment return	375	420	(18)	499
Net financial loss from insurance contracts	(601)	(845)	(232)	(271)
Total investment return	(226)	(425)	(250)	228
Other income	6	7	2	2
Earnings before income tax	1,181	1,278	542	853
Income tax	(421)	(382)	(190)	(155)
Net earnings	760	896	351	698

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	91.4%	89.0%	85.7%	88.2%
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Notes to the Condensed Consolidated Interim Financial Statements

11. Net financial income

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(408)	369	285	735
Gain on prepayments of borrowings	7	(15)	-	(16)
Net (loss) gain on fair value hedge of interest rate swap	(93)	(6)	(83)	49
Net realized gain (loss) on financial assets carried at fair value through OCI	42	(190)	21	(121)
Net financial loss from insurance contracts	(601)	(845)	(232)	(271)
Net foreign exchange gain (loss)	72	398	(137)	107
Net financial income	(981)	(289)	(146)	483

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

Equity instruments	(1,986)	(1,278)	(53)	187
Debt instruments	1,188	1,336	275	504
Derivatives	428	337	74	52
Loans	(38)	(26)	(11)	(8)
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(408)	369	285	735

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

Fair value change of interest rate swaps designated as hedging instruments	(6,954)	2,449	(5,892)	402
Fair value change on bonds issued by the Group attributable to interest rate risk	6,861	(2,455)	5,809	(353)
Net (loss) gain on fair value hedge of interest rate swap	(93)	(6)	(83)	49

12. Other operating income

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Fair value changes on investment property	298	5,230	102	1
Realised loss on investment property	-	(428)	-	-
Net (loss) gain on assets held for sale	(9)	15	(15)	13
Share of profit of associates	110	6	83	15
Other income	47	(133)	11	16
Other operating income	446	4,690	181	45

13. Operating expenses

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Salaries and related expenses	14,541	12,779	4,501	3,908
Other operating expenses	10,242	9,271	3,410	3,093
Operating expenses from insurance operation	(2,895)	(2,558)	(908)	(807)
Operating expenses	21,888	19,492	7,003	6,194



Notes to the Condensed Consolidated Interim Financial Statements

14. Personnel and salaries

	2026	2025	2026	2025
	1.1.-30.9.	1.1.-30.9.	1.7.-30.9.	1.7.-30.9.
<i>Number of employees</i>				
Average number of full-time equivalent positions during the period	896	870	896	872
Full-time equivalent positions at the end of the period	890	891	890	891
<i>Salaries and related expenses</i>				
Salaries	10,911	10,194	3,372	2,997
Incentive scheme, including salary related expenses	215	(245)	71	178
Share-based payment expenses	121	67	42	20
Defined contribution pension plans	1,714	1,551	540	497
Salary-related expenses	1,580	1,212	476	216
Salaries and related expenses	14,541	12,779	4,501	3,908

Incentive schemes

During the first nine months of 2026 the Group made a ISK 215 million provision for the incentive scheme, including salary-related expenses (9M 2025: ISK 245 million was revised). At the period end the Group's accrual for the incentive scheme payments amounted to ISK 247 million (31.12.2025: ISK 1,678 million). The estimated cost of the deferred part of the incentive scheme from the fiscal years 2023–2025, to be settled in 2027–2031, amounting to ISK 535 million, will be expensed on a proportional basis over the years leading up to their settlement.

The current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is divided into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares or share options in the Bank. Of this 25%, (i) a total of 20% will be settled instantly with cash, 40% will be settled instantly with shares subject to a 3-year lock-up period and the remaining 40% will be settled with shares or share options after 4-5 years or (ii) a total of 20% will be settled instantly with cash and the remaining 80% will be settled with share options after 4-5 years. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics include ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Stefir hf. has a special incentive scheme where other criteria are used as a basis. No accrual was recognised in the Income Statement due to the performance in 2026. Given that all criteria are expected to be met, the maximum total expense is estimated at ISK 2.0 billion, including salary-related expenses. This comprises ISK 1.0 billion for the group subject to the 10% fixed-salary limit and ISK 1.0 billion for the group subject to the 25% fixed-salary limit. The amount includes a deferred portion of ISK 0.4 billion, which is expensed over 4–5 years.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefir, approved at the Banks annual general meeting. A total expense of ISK 121 million was recognised in the Income Statement during the period (9M 2025: ISK 67 million). Estimated remaining expenses due the share option contracts are ISK 283 million and will be expensed over the next 5 years. For further information on the share option program, see Note 38.

15. Other operating expenses

	2026	2025	2026	2025
	1.1.-30.9.	1.1.-30.9.	1.7.-30.9.	1.7.-30.9.
IT expenses	4,220	3,783	1,434	1,235
Professional services	1,103	1,017	223	400
Marketing	1,112	995	367	360
Housing expenses	410	390	131	121
Other administration expenses *	2,170	1,825	833	576
Depreciation of property and equipment	366	382	134	108
Depreciation of right of use asset	113	120	38	41
Amortization of intangible assets	748	759	250	252
Other operating expenses	10,242	9,271	3,410	3,093

* Included ISK 280 million fine following settlement with the Financial supervision of the Central Bank in October 2026.



Notes to the Condensed Consolidated Interim Financial Statements

16. Bank levy

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

A bill proposing an increase in the bank levy rate from 0.145% to 0.254% is currently under consideration by the Icelandic Parliament. If enacted, the increase would result in an estimated additional expense of approximately ISK 1,700 million for the financial year 2026. The full amount would be recognized in the fourth quarter of 2026.

17. Net impairment

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
<i>Net impairment on financial instruments and value changes on loans</i>				
Net impairment on loans to customers and financial institutions	(2,058)	(1,371)	(978)	(1,142)
Net impairment on other financial instruments at FVOCI	-	(4)	-	(1)
Other value changes of loans	11	16	1	15
Net impairment	(2,047)	(1,359)	(977)	(1,128)
<i>Net impairment by customer type</i>				
Individuals	(493)	(155)	(205)	(473)
Corporates	(1,554)	(1,204)	(772)	(655)
Net impairment	(2,047)	(1,359)	(977)	(1,128)

18. Income tax expense

	2026 1.1.-30.9.	2025 1.1.-30.9.	2026 1.7.-30.9.	2025 1.7.-30.9.
Current tax expense	9,989	8,656	3,126	2,497
Deferred tax expense	111	1,982	27	431
Income tax expense	10,100	10,638	3,153	2,928
<i>Reconciliation of effective tax rate</i>				
	2026 1.1.-30.9.	2025 1.1.-30.9.		
Earnings before income tax	34,185	36,940		
Income tax using the Icelandic corporate tax rate	20.0%	6,837	20.0%	7,388
Additional 6% tax on Financial Undertakings	6.3%	2,157	4.9%	1,824
Non-deductible expenses	0.4%	136	0.2%	67
Tax exempt revenues / loss	1.9%	637	3.1%	1,135
Non-deductible taxes (Bank levy)	1.0%	342	0.8%	312
Effect of tax rates in foreign jurisdictions	0.0%	-	0.0%	16
Tax incentives not recognized in the Income Statement	(0.0%)	(8)	(0.2%)	(64)
Other changes	(0.0%)	(1)	(0.1%)	(40)
Effective tax rate	29.5%	10,100	28.8%	10,638

Financial undertakings pay 6% additional tax on taxable profit exceeding ISK 1 billion.

Tax exempt revenues / loss consist mainly of profit / loss from equity positions.



Notes to the Condensed Consolidated Interim Financial Statements

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

	2026	2025	2026	2025
	1.1.-30.9.	1.1.-30.9.	1.7.-30.9.	1.7.-30.9.
Net loss from discontinued operations held for sale	-	(19)	-	3
Discontinued operations held for sale, net of income tax	-	(19)	-	3

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

20. Earnings per share

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

	Continued operations		Discontinued operations		Net earnings	
	2026	2025	2026	2025	2026	2025
1.1.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	24,078	24,419	-	(19)	24,078	24,400
Total comprehensive income attributable to the shareholders	23,599	24,795	-	(19)	23,599	24,776
Weighted average number of outstanding shares (millions)	1,354	1,390	-	1,390	1,354	1,390
Weighted average number of outstanding shares, including options (millions)	1,396	1,402	-	1,402	1,396	1,402
Basic earnings per share (ISK)	17.79	17.56	-	(0.01)	17.79	17.55
Diluted earnings per share (ISK)	17.24	17.42	-	(0.01)	17.24	17.41
Basic comprehensive income per share (ISK)	17.43	17.83	-	(0.01)	17.43	17.82
Diluted comprehensive income per share (ISK)	16.90	17.69	-	(0.01)	16.90	17.68
1.7.-30.9.						
Net earnings attributable to the shareholders of Arion Bank	8,706	8,226	-	3	8,706	8,229
Total compreh.income attributable to the shareholders	8,713	8,466	-	3	8,713	8,469
Weighted average number of outstanding shares (millions)	1,356	1,384	-	1,384	1,356	1,384
Weighted average number of outstanding shares including options (millions)	1,399	1,395	-	1,395	1,399	1,395
Basic earnings per share (ISK)	6.42	5.94	-	0.00	6.42	5.95
Diluted earnings per share (ISK)	6.22	5.90	-	0.00	6.22	5.90
Basic comprehensive income per share (ISK)	6.43	6.12	-	0.00	6.43	6.12
Diluted comprehensive income per share (ISK)	6.23	6.07	-	0.00	6.23	6.07



Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Consolidated Interim Statement of Financial Position

21. Cash and balances with Central Bank

30.9.2026 31.12.2025

Cash on hand	2,521	2,022
Cash with Central Bank	71,554	114,486
Mandatory reserve deposit with Central Bank	33,820	33,603
Cash and balances with Central Bank	107,895	150,111

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

22. Loans to credit institutions

30.9.2026 31.12.2025

Bank accounts	40,106	22,040
Money market loans	38,182	527
Loans to credit institutions	78,288	22,567

23. Loans to customers

	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
30.9.2026						
Overdrafts	16,660	15,904	56,835	55,195	73,495	71,099
Credit cards	19,113	18,807	2,907	2,804	22,020	21,611
Loans to customers at fair value	-	-	2,085	1,564	2,085	1,564
Mortgage loans	606,462	605,546	109,927	108,077	716,389	713,623
Construction loans	-	-	88,574	87,255	88,574	87,255
Capital lease	426	420	7,685	7,511	8,111	7,931
Other loans	30,458	29,854	486,956	481,837	517,414	511,691
Loans to customers	673,119	670,531	754,969	744,243	1,428,088	1,414,774
31.12.2025						
Overdrafts	15,373	14,666	53,125	50,643	68,498	65,309
Credit cards	17,558	17,301	2,561	2,478	20,119	19,779
Loans to customers at fair value	-	-	1,933	1,450	1,933	1,450
Mortgage loans	577,492	576,828	91,007	89,765	668,499	666,593
Construction loans	-	-	57,705	56,224	57,705	56,224
Capital lease	681	674	7,174	7,046	7,855	7,720
Other loans	31,851	30,925	485,158	481,056	517,009	511,981
Loans to customers	642,955	640,394	698,663	688,662	1,341,618	1,329,056

The total book value of loans that were pledged against outstanding borrowings was ISK 302 billion at the end of the period (31.12.2025: ISK 286 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

24. Financial instruments

30.9.2026 31.12.2025

Bonds and debt instruments	192,807	170,985
Shares and equity instruments with variable income	24,420	21,260
Derivatives	7,584	8,624
Securities used for economic hedging	17,152	14,947
Financial instruments	241,963	215,816



Notes to the Condensed Consolidated Interim Financial Statements

25. Financial assets and financial liabilities

30.9.2026

<i>Financial assets</i>	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	107,895	-	-	107,895
Loans to credit institutions	78,288	-	-	78,288
Loans to customers	1,413,210	-	1,564	1,414,774
Loans	1,599,393	-	1,564	1,600,957
Bonds and debt instruments				
Listed	-	154,045	38,234	192,279
Unlisted	-	-	528	528
Bonds and debt instruments	-	154,045	38,762	192,807
Shares and equity instruments with variable income				
Listed	-	-	9,793	9,793
Unlisted	-	-	7,334	7,334
Bond funds with variable income, unlisted	-	-	7,293	7,293
Shares and equity instruments with variable income	-	-	24,420	24,420
Derivatives				
OTC derivatives	-	-	6,553	6,553
Derivatives used for hedge accounting	-	-	1,031	1,031
Derivatives	-	-	7,584	7,584
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	7,667	7,667
Shares and equity instruments with variable income, listed	-	-	9,485	9,485
Securities used for economic hedging	-	-	17,152	17,152
Other financial assets				
Accounts receivable	2,994	-	-	2,994
Other financial assets	14,070	-	-	14,070
Other financial assets	17,064	-	-	17,064
Financial assets	1,616,457	154,045	89,482	1,859,984
Financial liabilities				
Due to credit institutions and Central Bank	16,303	-	-	16,303
Deposits	1,013,789	-	-	1,013,789
Borrowings *	509,773	-	-	509,773
Subordinated liabilities *	42,540	-	-	42,540
Short positions in bonds	-	-	35	35
Derivatives	-	-	2,452	2,452
Derivatives used for hedge accounting	-	-	6,658	6,658
Other financial liabilities	23,251	-	-	23,251
Financial liabilities	1,605,656	-	9,145	1,614,801

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

25. Financial assets and financial liabilities, continued

31.12.2025

Financial assets

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	150,111	-	-	150,111
Loans to credit institutions	22,567	-	-	22,567
Loans to customers	1,327,606	-	1,450	1,329,056
Loans	1,500,284	-	1,450	1,501,734

Bonds and debt instruments

Listed	-	138,302	32,479	170,781
Unlisted	-	-	204	204
Bonds and debt instruments	-	138,302	32,683	170,985

Shares and equity instruments with variable income

Listed	-	-	11,499	11,499
Unlisted	-	-	9,008	9,008
Bond funds with variable income, unlisted	-	-	753	753
Shares and equity instruments with variable income	-	-	21,260	21,260

Derivatives

OTC derivatives	-	-	5,414	5,414
Derivatives used for hedge accounting	-	-	3,210	3,210
Derivatives	-	-	8,624	8,624

Securities used for economic hedging

Bonds and debt instruments, listed	-	-	1,732	1,732
Shares and equity instruments with variable income, listed	-	-	13,215	13,215
Securities used for economic hedging	-	-	14,947	14,947

Other financial assets

Accounts receivable	3,465	-	-	3,465
Other financial assets	13,566	-	-	13,566
Other financial assets	17,031	-	-	17,031
Financial assets	1,517,315	138,302	78,964	1,734,581

Financial liabilities

Due to credit institutions and Central Bank	12,003	-	-	12,003
Deposits	921,182	-	-	921,182
Borrowings *	494,823	-	-	494,823
Subordinated liabilities *	43,518	-	-	43,518
Derivatives	-	-	1,411	1,411
Derivatives used for hedge accounting	-	-	1,718	1,718
Other financial liabilities	11,792	-	-	11,792
Financial liabilities	1,483,318	-	3,129	1,486,447

* Including effect from hedge accounting derivatives.



Notes to the Condensed Consolidated Interim Financial Statements

25. Financial assets and financial liabilities, continued

	Fair value through OCI	Manda- torily at fair value thr. P/L	Total
<i>Bonds and debt instruments measured at fair value, specified by issuer</i>			
30.9.2026			
Financial and insurance activities	1,537	10,062	11,599
Public sector	152,508	24,244	176,752
Corporates	-	4,456	4,456
Bonds and debt instruments at fair value	154,045	38,762	192,807
31.12.2025			
Financial and insurance activities	1,434	8,667	10,101
Public sector	136,868	20,366	157,234
Corporates	-	3,650	3,650
Bonds and debt instruments at fair value	138,302	32,683	170,985

The total amount of pledged bonds was ISK 3.3 billion at the end of the period (31.12.2025: ISK 3.2 billion). Pledged bonds comprise Icelandic Government Bonds that were pledged against funding received and included in Due to credit institutions and Central Bank as well as short positions included in Financial liabilities at fair value.

26. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and

Level 3: valuation techniques which include significant inputs that are not based on observable market data.

For assets and liabilities that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Assets and liabilities recorded at fair value by level of the fair value hierarchy

30.9.2026				
<i>Assets at fair value</i>	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,564	1,564
Bonds and debt instruments	188,115	4,692	-	192,807
Shares and equity instruments with variable income	9,733	11,488	3,199	24,420
Derivatives	-	6,553	-	6,553
Derivatives used for hedge accounting	-	1,031	-	1,031
Securities used for economic hedging	17,152	-	-	17,152
Investment property	-	-	7,651	7,651
Assets at fair value	215,000	23,764	12,414	251,178
<i>Liabilities at fair value</i>				
Short positions in bonds	35	-	-	35
Derivatives	-	2,452	-	2,452
Derivatives used for hedge accounting	-	6,658	-	6,658
Liabilities at fair value	35	9,110	-	9,145



Notes to the Condensed Consolidated Interim Financial Statements

26. Fair value hierarchy, continued

31.12.2025

<i>Assets at fair value</i>	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,450	1,450
Bonds and debt instruments	167,250	3,732	3	170,985
Shares and equity instruments with variable income	11,201	6,055	4,004	21,260
Derivatives	-	5,414	-	5,414
Derivatives used for hedge accounting	-	3,210	-	3,210
Securities used for economic hedging	14,947	-	-	14,947
Investment property	-	-	7,305	7,305
Assets at fair value	193,398	18,411	12,762	224,571
<i>Liabilities at fair value</i>				
Derivatives	-	1,411	-	1,411
Derivatives used for hedge accounting	-	1,718	-	1,718
Liabilities at fair value	-	3,129	-	3,129

Transfers from Level 1 to Level 2 amounted to ISK 43 million during the period (2025: no transfers).

Fair value of assets and liabilities

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

Methods for establishing fair value

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

In some cases, the carrying value of an asset in Note 25 is used as an approximation for the fair value of the asset. This is straight forward for cash and cash equivalents but is also used for short term investments and borrowings to highly rated counterparties, such as credit institutions, on contracts that feature interest close to or equal to market rates and expose the Group to little or no credit risk.

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

26. Fair value hierarchy, continued

Level 3: Fair value established using valuation techniques with significant unobservable market information

In some cases there is little or no market data to rely on for fair value calculations. The most common valuation technique is present value calculations. Such calculations involve the estimation of future cash flow and the assessment of appropriate discount rate. The discount rate should both reflect current market rates and the uncertainty in the future cash flow. In such cases internal models and methods are used to calculate the fair value. The models may be statistical in nature, based on internal or external history of assets with similar characteristics and/or based on internal knowledge and experience. For example, the credit margin on most loans to customers which, is added to the current and suitable interest rate to arrive at an appropriate discount rate, is estimated using credit rating and loss parameters in case of default that have been derived from internal models.

Equity instruments that do not have a quoted market price are evaluated using methods and guidelines from pertinent international organizations. In most cases intrinsic value is the basis for the assessment but other factors, such as cash flow analysis, can also modify the results.

The Group applies management valuation for determining fair value of investment properties. Management valuation is either based on recent transactions and offers for similar assets or present value calculations which involve estimation of future cash flow and the assessment of appropriate discount rate.

Movements in Level 3 assets measured at fair value

	Investment property	Financial assets			Total
		Loans	Bonds	Shares	
30.9.2026					
Balance at the beginning of the year	7,305	1,450	3	4,003	12,762
Net fair value changes	298	114	(2)	(828)	(418)
Additions	48	-	-	24	72
Disposals	-	-	(1)	-	(1)
Balance at the end of the period	7,651	1,564	-	3,199	12,415
31.12.2025					
Balance at the beginning of the year	9,387	1,313	5	1,655	12,360
Net fair value changes	5,277	92	-	(218)	5,151
Additions	191	45	-	2,570	2,806
Disposals	(7,550)	-	(2)	(3)	(7,555)
Balance at the end of the year	7,305	1,450	3	4,004	12,762

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

	Investment property	Financial assets			Total
		Loans	Bonds	Shares	
30.9.2026					
Net interest income	-	152	-	-	152
Net financial income	-	(38)	(2)	(828)	(868)
Other operating income	298	-	-	-	298
Effects recognized in the Income Statement	298	114	(2)	(828)	(418)
31.12.2025					
Net interest income	-	122	-	-	122
Net financial income	-	(30)	-	(218)	(248)
Other operating income	4,848	-	-	-	4,848
Effects recognized in the Income Statement	4,848	92	-	(218)	4,722



Notes to the Condensed Consolidated Interim Financial Statements

26. Fair value hierarchy, continued

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

30.9.2026	Carrying value	Fair value	Unrealized (loss) gain
<i>Financial assets not carried at fair value</i>			
Cash and balances with Central Bank	107,895	107,895	-
Loans to credit institutions	78,288	78,288	-
Loans to customers	1,413,210	1,404,758	(8,452)
Other financial assets	17,064	17,064	-
Financial assets not carried at fair value	1,616,457	1,608,005	(8,452)
<i>Financial liabilities not carried at fair value</i>			
Due to credit institutions and Central Bank	16,303	16,303	-
Deposits	1,013,789	1,013,789	-
Borrowings	509,773	513,661	(3,888)
Subordinated liabilities	42,540	49,805	(7,265)
Other financial liabilities	23,251	23,251	-
Financial liabilities not carried at fair value	1,605,656	1,616,809	(11,153)
31.12.2025			
<i>Financial assets not carried at fair value</i>			
Cash and balances with Central Bank	150,111	150,111	-
Loans to credit institutions	22,567	22,567	-
Loans to customers	1,327,606	1,329,204	1,598
Other financial assets	17,031	17,031	-
Financial assets not carried at fair value	1,517,315	1,518,913	1,598
<i>Financial liabilities not carried at fair value</i>			
Due to credit institutions and Central Bank	12,003	12,003	-
Deposits	921,182	921,182	-
Borrowings	494,823	501,211	(6,388)
Subordinated liabilities	43,518	50,461	(6,943)
Other financial liabilities	11,792	11,792	-
Financial liabilities not carried at fair value	1,483,318	1,496,649	(13,331)

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

Derivatives

30.9.2026	Notional value	Fair value	
		Assets	Liabilities
Forward exchange rate agreements	75,621	208	1,010
Fair value hedge of interest rate swap	291,510	1,031	6,658
Interest rate and exchange rate agreements	45,672	388	940
Bond swap agreements	7,210	168	42
Share swap agreements	14,803	5,789	460
Derivatives	434,817	7,584	9,110
31.12.2025			
Forward exchange rate agreements	95,591	430	419
Fair value hedge of interest rate swap	268,565	3,210	1,718
Interest rate and exchange rate agreements	33,616	167	204
Bond swap agreements	1,882	70	5
Share swap agreements	18,025	4,747	783
Derivatives	417,679	8,624	3,129



Notes to the Condensed Consolidated Interim Financial Statements

26. Fair value hierarchy, continued

Fair value hedge of interest rate swap

The Group applies fair value hedge accounting only with respect to interest rate swaps in EUR and USD, whereby the Group pays floating rate interest and receives fixed rate interest, with identical cash flows to the borrowings and subordinated liabilities. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR and USD bonds, see Notes 34 and 35, arising from changes in EURIBOR and SOFR benchmark interest rates.

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

During the period the slope for the regression line was in all cases within the range of 0.92-1.03 and the coefficient of determination was at least 0.92. During 2025, the slope of the regression line was in all cases within the range of 0.95-1.24 and the correlation coefficient was at least 0.94. In all cases the effectiveness is within limits in 2026 and 2025.

	Notional Value	Maturity date	Fair value		Gain (loss) on FV changes
			Assets	Liabilities	
1.1.-30.9.2026					
Interest rates swaps - EUR	68,496	0-3 mth	-	338	1,033
Interest rates swaps - EUR	-	-	-	-	(151)
Interest rates swaps - USD	2,417	1-5 years	108	-	(59)
Interest rates swaps - EUR	41,098	1-5 years	923	-	(1,133)
Interest rates swaps - USD	15,107	1-5 years	-	703	(585)
Interest rates swaps - EUR	41,098	1-5 years	-	1,296	(1,423)
Interest rates swaps - EUR	41,098	1-5 years	-	2,300	(1,676)
Interest rates swaps - EUR	41,098	1-5 years	-	1,458	(1,976)
Interest rates swaps - EUR	41,098	1-5 years	-	563	(984)
			1,031	6,658	(6,954)
1.1.-31.12.2025					
Interest rates swaps - EUR	-	-	-	-	693
Interest rates swaps - EUR	73,640	6-12 mth	-	1,395	1,387
Interest rates swaps - EUR	44,184	3-6 mth	1,815	-	(248)
Interest rates swaps - USD	2,509	1-5 years	53	-	30
Interest rates swaps - EUR	44,184	1-5 years	656	-	(447)
Interest rates swaps - USD	15,680	1-5 years	178	-	422
Interest rates swaps - EUR	44,184	1-5 years	508	-	(229)
Interest rates swaps - EUR	44,184	over 5 years	-	323	(423)
			3,210	1,718	1,185

Hedged borrowings and subordinated liabilities

	Book value	Accumulated fair value		Gain (loss) on FV changes
		Assets	Liabilities	
1.1.-30.9.2026				
EUR 300 million - issued 2026 - 5 years	39,704	1,899	-	1,950
EUR 500 million - issued 2021 - 5 years	27,926	-	23	(1,028)
EUR 300 million - issued 2025 - 5 years	39,892	1,567	-	1,405
EUR 300 million - issued 2023 - 3 years	-	-	-	150
USD 21 million - issued 2024 - 3 years	2,858	5	-	58
EUR 300 million - issued 2024 - 4 years	42,150	511	-	1,121
USD 125 million - issued 2024 - Perpetual	14,215	780	-	581
EUR 300 million - issued 2025 - 6 years	38,842	2,016	-	1,655
EUR 300 million - issued 2026 - 3 years	40,587	952	-	969
Hedged borrowings and subordinated liabilities	246,174	7,730	23	6,861
1.1.-31.12.2025				
EUR 300 million - issued 2021 - 4 years	-	-	-	(648)
EUR 500 million - issued 2021 - 5 years	72,265	1,038	-	(1,391)
EUR 300 million - issued 2025 - 5 years	44,731	209	-	196
EUR 300 million - issued 2023 - 3 years	46,252	-	154	247
USD 21 million - issued 2024 - 3 years	2,893	-	53	(31)
EUR 300 million - issued 2024 - 4 years	44,916	-	622	427
USD 125 million - issued 2024 - Perpetual	15,635	218	-	(434)
EUR 300 million - issued 2025 - 6 years	43,835	423	-	436
Hedged borrowings and subordinated liabilities	270,527	1,888	829	(1,198)



Notes to the Condensed Consolidated Interim Financial Statements

27. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet			Assets not subject to enforceable netting arrangements	Total assets recognized on Balance Sheet, net
	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential		
30.9.2026								
Reverse repurchase agreements	17,855	(11,241)	6,614	11,241	-	17,855	-	6,614
Derivatives	2,037	-	2,037	(145)	(5,879)	(3,987)	5,547	7,584
Total assets	19,892	(11,241)	8,651	11,096	(5,879)	13,868	5,547	14,198
31.12.2025								
Reverse repurchase agreements	17,035	(10,789)	6,246	10,789	-	17,035	-	6,246
Derivatives	3,739	-	3,739	(1,486)	(5,602)	(3,349)	4,885	8,624
Total assets	20,774	(10,789)	9,985	9,303	(5,602)	13,686	4,885	14,870

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet			Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arrangements	Total liabilities recognized on balance sheet, net
	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged				
30.9.2026									
Repurchase agreements	16,922	(11,241)	5,681	11,241	-	16,922	-	-	5,681
Derivatives	8,438	-	8,438	(145)	(8,828)	(535)	672	-	9,110
Total liabilities	25,360	(11,241)	14,119	11,096	(8,828)	16,387	672	-	14,791
31.12.2025									
Repurchase agreements	16,579	(10,789)	5,790	10,789	-	16,579	-	-	5,790
Derivatives	2,555	-	2,555	(1,486)	(1,752)	(683)	574	-	3,129
Total liabilities	19,134	(10,789)	8,345	9,303	(1,752)	15,896	574	-	8,919

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

28. Investments in associates

	30.9.2026	31.12.2025
Carrying amount at the beginning of the year	760	814
Decreased share capital	-	(19)
Dividend received	-	(8)
Share of profit (loss) of associates	110	(27)
Investment in associates	870	760

The Group's interest in its principal associates

Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Dalvegur 30, Reykjavík, Iceland	24.8%	24.8%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík, Iceland	35.3%	35.3%
Matorka ehf., Eyrartröð 12, Grindavík, Iceland	19.5%	19.5%

In January 2026 Arion Bank obtained shares in Glassriver ehf. as a result of debt restructuring of the company. In August 2026 the entire shareholding was sold with no effects on the Income Statement.



Notes to the Condensed Consolidated Interim Financial Statements

29. Intangible assets

Intangible assets comprise the following categories: Goodwill, which arises on business combinations; Infrastructure, Customer relationships and related agreements which are identified during the acquisition of subsidiaries and related to the activities of the businesses being acquired; and Software, which is acquired (e.g. software licenses) and cost of implementation.

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

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

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

Policies applied to the Group's intangible assets

	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

	Goodwill	Infra- structure	Customer relationship and related agreements	Software	Total
1.1.-30.9.2026					
Balance at the beginning of the year	730	2,383	367	4,053	7,533
Additions	-	-	-	381	381
Amortization	-	-	(45)	(703)	(748)
Balance at the end of the period	730	2,383	322	3,731	7,166

1.1.-31.12.2025					
Balance at the beginning of the year	730	2,383	427	4,148	7,688
Additions	-	-	-	852	852
Amortization	-	-	(60)	(947)	(1,007)
Balance at the end of the year	730	2,383	367	4,053	7,533

Goodwill related to the insurance operation is recognized among assets in the operating segment Vördur and goodwill related to the subsidiary Leiguskiól is recognized in the operating segment Other subsidiaries, see Note 6.



Notes to the Condensed Consolidated Interim Financial Statements

30. Tax assets and tax liabilities

	30.9.2026		31.12.2025	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	13,845	-	10,738
Deferred tax	2	2,356	2	2,245
Tax assets and tax liabilities	2	16,201	2	12,983

31. Assets and disposal groups held for sale

	30.9.2026	31.12.2025
Real estate and other assets	298	98
Assets and disposal groups held for sale	298	98

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

32. Other assets

	30.9.2026	31.12.2025
Property and equipment	3,666	3,354
Right-of-use asset	876	745
Accounts receivable	2,995	3,465
Unsettled securities trading	9,930	9,174
Sundry assets	6,017	5,779
Other assets	23,484	22,517

33. Other liabilities

	30.9.2026	31.12.2025
Accounts payable	1,325	1,496
Unsettled securities trading	8,242	3,041
Insurance contract liabilities	23,639	22,435
Withholding tax	1,636	6,560
Bank levy	2,510	2,107
Accrued expenses	4,483	5,508
Prepaid income	1,646	1,466
Impairment of off-balance items	658	682
Lease liability	977	867
Sundry liabilities	13,026	6,574
Other liabilities	58,142	50,736

Insurance contract liabilities

Liabilities for remaining coverage	3,706	3,739
Liabilities for incurred claims	19,132	17,866
Risk adjustment	802	830
Insurance contract liabilities	23,639	22,435



Notes to the Condensed Consolidated Interim Financial Statements

34. Borrowings

	First issued	Maturity	Maturity type	Terms of interest	30.9.2026	31.12.2025
Currency, original nominal value						
ARION CBI 26 ISK 17,080 million	2019	10/2026	At maturity	Fixed CPI linked 2.00%	13,801	20,094
ARION CB EUR 500 million*	2021	10/2026	At maturity	Fixed 0.05%	27,926	72,265
ARION CB 27 ISK 53,100 million	2022	10/2027	At maturity	Fixed 5.50%	26,770	26,083
ARION CBI 28 ISK 27,420 million	2024	9/2028	At maturity	Fixed CPI linked 4.25%	24,314	23,286
ARION CBI 29 ISK 27,200 million	2014	12/2029	At maturity	Fixed CPI linked 3.50%	43,929	41,370
ARION CBI 30 ISK 31,920 million	2023	11/2030	At maturity	Fixed CPI linked 2.75%	35,704	33,421
ARION CB EUR 300 million*	2026	2/2031	At maturity	Fixed, 2.75 %	39,704	-
ARION CBI 31 ISK 26,300 million	2025	8/2031	At maturity	Fixed CPI linked 3.65%	27,172	8,299
ARION CBI 48 ISK 11,680 million	2018	1/2048	Amortizing	Fixed CPI linked 2.50%	12,916	12,732
Statutory covered bonds					252,236	237,550
SEK 300 million	2023	3/2026	At maturity	Floating STIBOR 3M +3.00%	-	4,091
EUR 300 million*	2023	5/2026	At maturity	Fixed 7.25%	-	46,252
ARION 26 1222 Green, ISK 5,760 million ..	2021	12/2026	At maturity	Fixed 4.70%	5,616	5,417
NOK 250 million	2017	4/2027	At maturity	Fixed 3.40%	3,189	3,182
SEK 500 million Green	2024	10/2027	At maturity	Floating STIBOR 3M +1.20%	6,079	6,840
NOK 500 million Green	2024	10/2027	At maturity	Floating NIBOR 3M +1.20%	6,366	6,288
USD 21 million*	2024	12/2027	At maturity	Fixed 6.25%	2,858	2,893
NOK 600 million Green	2025	12/2027	At maturity	Floating NIBOR 3M +1.17%	7,566	7,479
SEK 900 million Green	2025	12/2027	At maturity	Floating STIBOR 3M +1.20%	10,882	12,248
SEK 250 million	2025	1/2028	At maturity	Floating STIBOR 3M +1.13%	3,037	3,418
NOK 350 million	2025	1/2028	At maturity	Floating NIBOR 3M +1.11%	4,451	4,397
USD 27 million	2025	7/2028	At maturity	Fixed 5.00%	3,028	3,015
EUR 300 million *	2024	11/2028	At maturity	Fixed 4.625%	42,150	44,916
ARION 28 1512, ISK 16,920 million	2023	12/2028	At maturity	Fixed CPI linked 4.35%	19,504	18,271
NOK 550 million Green	2026	1/2029	At maturity	Floating, Nibor 3M + 0.80%	6,973	-
SEK 650 million Green	2026	1/2029	At maturity	Floating, Stibor 3M + 0.83%	7,878	-
EUR 300 million *	2026	11/2029	At maturity	Fixed 3.625%	40,587	-
EUR 300 million *	2025	5/2030	At maturity	Fixed 3.625%	39,892	44,731
EUR 300 million Green *	2025	9/2031	At maturity	Fixed 3.50%	38,842	43,835
NOK 300 million Green	2026	1/2031	At maturity	Floating, Nibor 3M + 1.05%	3,803	-
SEK 200 million Green	2026	1/2031	At maturity	Floating, Stibor 3M + 1.07%	2,423	-
Senior unsecured bonds					255,124	257,273
Other loans EUR - credit institutions	2026	7/2038	Amortizing	Floating, Euribor 3M + 0.614%	2,413	-
Other loans					2,413	-
Borrowings					509,773	494,823

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26. The interest rate swaps are hedging the Group's exposure to fair value changes of these fixed-rate bonds in EUR and USD arising from changes in interest rates.

The book value of listed bonds was ISK 507 billion at the end of the period (31.12.2025: ISK 495 billion). The market value of those bonds was ISK 511 billion (31.12.2025: ISK 501 billion). The Group repurchased own debts amounting to ISK 50 billion during the period with a net gain of ISK 7 million recognized in the Income Statement (9M 2025: ISK 15 million loss).



Notes to the Condensed Consolidated Interim Financial Statements

35. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.9.2026	31.12.2025
EUR 5 million	2019	1/2026	6 Mar '26	Fixed 3.24%	-	753
ARION T2I ISK 33 9,860 million	2022	12/2033	15 Dec '28	Fixed CPI linked 4.95%	12,404	11,613
ARION T2 33 ISK 2,240 million	2022	12/2033	15 Dec '28	Fixed 9.25%	2,300	2,249
SEK 225 million	2024	11/2034	20 Nov '29	Floating 3 mth STIBOR +2.65%	2,733	3,078
ARION T2I 36 ISK 10,040 million	2025	12/2036	2 Dec '31	Fixed CPI linked 5.00%	10,888	10,190
Tier 2 subordinated liabilities					28,325	27,883
ARION AT1 USD 125 million *	2024	Perpetual	24 Sep '29	Fixed 8.125%	14,215	15,635
Additional Tier 1 subordinated liabilities					14,215	15,635
Subordinated liabilities					42,540	43,518

* The Group applies fair value hedge accounting to these bond issuances and uses certain foreign currency denominated interest rate swaps as hedging instruments, see Note 26.

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

36. Liabilities arising from financial activities

		Net	Non-cash changes			
	At 1 Jan.	cash flows	Interest expenses	Foreign exchange	Effect from hedge	At period end
1.1.-30.9.2026						
Covered bonds in ISK - CPI linked.....	139,202	6,865	11,769	-	-	157,836
Covered bonds in ISK.....	26,083	(730)	1,417	-	-	26,770
Covered bonds in FX.....	72,265	(460)	2,074	(5,278)	(971)	67,630
Senior unsecured bonds in FX.....	233,585	12,999	7,726	(16,489)	(5,404)	232,417
Senior unsecured bonds in ISK.....	5,417	(83)	217	-	65	5,616
Senior unsecured bonds in ISK - CPI linked.....	18,271	(425)	1,658	-	-	19,504
Subordinated bond T2 in ISK - CPI linked.....	21,803	(562)	2,051	-	-	23,292
Subordinated bond T2 ISK.....	2,249	(105)	156	-	-	2,300
Subordinated bond T2 FX.....	3,831	(854)	111	(355)	-	2,733
Subordinated bond AT1 FX.....	15,635	(1,302)	995	(562)	(551)	14,215
Liabilities arising from financial activities.....	538,341	15,343	28,174	(22,684)	(6,861)	552,313
1.1.-31.12.2025						
Covered bonds in ISK - CPI linked.....	153,965	(24,357)	9,594	-	-	139,202
Covered bonds in ISK.....	25,652	(1,458)	1,889	-	-	26,083
Covered bonds in FX.....	68,775	(1,555)	1,958	1,648	1,439	72,265
Senior unsecured bonds in FX.....	166,795	53,098	9,843	4,552	(703)	233,585
Senior unsecured bonds in ISK.....	5,411	(285)	291	-	-	5,417
Senior unsecured bonds in ISK - CPI linked.....	12,580	4,237	1,454	-	-	18,271
Subordinated bond T2 in ISK - CPI linked.....	17,802	2,556	1,445	-	-	21,803
Subordinated bond T2 ISK.....	3,153	(1,116)	212	-	-	2,249
Subordinated bond T2 FX.....	3,579	(174)	171	255	-	3,831
Subordinated bond AT1 FX.....	20,004	(4,832)	1,684	(1,683)	462	15,635
Liabilities arising from financial activities.....	477,716	26,114	28,541	4,772	1,198	538,341

The net cash flow presented above comprise cash flows presented within both operating and financing activities in the statement of cash flows. Accordingly, these amounts should not be expected to reconcile directly to a single line item in the statement of cash flows.



Notes to the Condensed Consolidated Interim Financial Statements

37. Pledged assets

Pledged assets against liabilities

	30.9.2026	31.12.2025
Assets, pledged as collateral against borrowings	430,236	359,645
Assets pledged as a collateral against loans from banks and other financial liabilities	12,128	5,049
Pledged assets against liabilities	442,364	364,694
Thereof pledged assets against issued covered bonds held by the Bank	(139,556)	(85,549)
Assets against repoed issued bonds	16,227	15,727
Pledged assets against liabilities on balance	319,035	294,872

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements under Icelandic law. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 252 billion at period end (31.12.2025: ISK 238 billion).

The Group has pledged bonds against short term lending from the Central Bank of Iceland and against short positions, related to swap agreements, to hedge market risk of those assets to ensure the clearing of the Icelandic payment system. Moreover, it has pledged cash in foreign banks and financial institutions, mainly as collateral for trades under ISDA agreements to hedge market risk.

The Group has issued covered bonds amounting to ISK 108 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2025: ISK 61 billion). Pledged assets against those covered bonds are ISK 123 billion (31.12.2025: ISK 70 billion).

38. Equity

Share capital and share premium

According to the Bank's Articles of Association, total share capital amounts to ISK 1,380 million, with par value of ISK 1 per share. The holders of ordinary shares are entitled to receive dividends as approved by the AGM and are entitled to one vote per share at shareholders' meetings.

	Share capital	Own shares	Share premium	2026 total	Share capital	Own shares	Share premium	2025 total
Balance at the beginning of the year	1,420	(36)	-	1,383	1,513	(101)	4,273	5,686
Share capital reduction	(40)	40	-	-	(93)	93	-	-
Purchase of treasury shares	-	(51)	(1,355)	(1,406)	-	(36)	(5,218)	(5,254)
Share option vested	-	6	1,039	1,045	-	6	715	721
Incentive scheme	-	2	316	318	-	1	229	230
Balance at the end of the period	1,380	(40)	-	1,340	1,420	(36)	-	1,383
Own shares / issued share capital		2.88%				2.59%		

The AGM of Arion Bank, held on 11 March 2026, approved to reduce the Bank's share capital by ISK 40 million nominal value, by cancelling the Bank's own shares. Thus, the share capital of Arion Bank was reduced from ISK 1,420 million to ISK 1,380 million in April 2026. In 2025 the nominal value of Arion Bank's share capital was reduced by ISK 93 million nominal value.

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In January and May 2026, the FSA granted the Bank the authorization to buy back own shares in Iceland and Sweden amounting on each occasion to up to ISK 5.0 billion, or a total of ISK 10.0 billion. There are no ongoing programs at the end of September 2026. In 2025, the FSA authorized the Bank to initiate share buyback programs in Iceland and Sweden amounting to up to a total of 19.9 million shares or up to ISK 3.0 billion.



Notes to the Condensed Consolidated Interim Financial Statements

38. Equity, continued

Share options

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

In accordance with the current incentive scheme for Arion Bank hf. and Vördur, a limited group of employees can receive payments of up to 25% of the employees fixed salaries, of which 40% or 80% can be in the form of share options in the Bank. The share options are settled 4-5 years after granting. See Note 14 for further disclosures on the incentive scheme.

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

	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2024 - deferred remuneration contingent on specific conditions	1,281	2028-29	*
Issued in 2025 - incentive scheme - employees of Group	4,337	2028-30	**
Issued in 2025 - deferred remuneration contingent on specific conditions	776	2029-30	*
Issued in 2026 (ISK 1,500,000) - employees of the Group	31,411	2027-31	199.6
Issued in 2026 - incentive scheme - employees of Group	3,940	2029-31	**
Issued in 2026 - deferred remuneration contingent on specific conditions	898	2030-31	*
	<u>42,643</u>		

Movements in share options during the period.

	30.9.2026		31.12.2025	
	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
<i>Share options pursuant to Icelandic income tax act</i>				
Outstanding at the beginning of the year	8,952	139.1	17,116	135.1
Share options granted	31,411	199.6	1,203	172.0
Share options forfeited	(2,776)	162.8	(4,523)	130.1
Share options exercised, WAVG share price ISK 197.8 at exercise date (2025: 169.5)	(6,176)	132.1	(4,844)	124.2
Share options pursuant to Icelandic income tax act	<u>31,411</u>	<u>199.6</u>	<u>8,952</u>	<u>135.1</u>
<i>Share options - incentive scheme</i>				
Outstanding at the beginning of the year	4,338	-	-	-
Share options granted	3,940	-	4,562	-
Share options forfeited	-	-	(224)	-
Share options - incentive scheme	<u>8,278</u>	<u>**</u>	<u>4,338</u>	<u>**</u>
<i>Share options - deferred remuneration contingent on specific conditions</i>				
Outstanding at the beginning of the year	3,420	-	3,618	-
Share options granted	898	-	785	-
Share options forfeited	-	-	(9)	-
Share options exercised (deferred from 2023)	(1,364)	199.5	(974)	175.5
Share options - deferred remuneration contingent on specific conditions	<u>2,954</u>	<u>*</u>	<u>3,420</u>	<u>*</u>
Outstanding share options at the end of the period	<u>42,643</u>		<u>16,710</u>	

No share options are exercisable at period end. Next exercise period is in February 2027.

All outstanding share options, if exercised, represent approximately 3.1% of the total issued shares.

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

* Market price on payment date

** Market price on the contract date, plus annual interest of 5%, less any dividend payments up to the exercise date



Notes to the Condensed Consolidated Interim Financial Statements

Other information

39. Shareholders of Arion Bank

	30.9.2026	31.12.2025
Lífeyrissjóður verzlunarmanna	9.78%	9.56%
Lífeyrissjóður starfsmanna ríkisins	9.14%	9.24%
Gildi pension fund	7.52%	9.55%
Brú pension fund	5.30%	5.22%
Stodir hf.	5.00%	5.07%
Frjálsi lífeyrissjóðurinn	4.11%	4.07%
Vanguard	4.10%	3.97%
Almenni-Lífsvérk pension fund	3.62%	3.87%
Arion banki hf.	2.88%	2.59%
Birta pension fund	2.85%	2.97%
Festa pension fund	2.76%	2.61%
Frigus Invest ehf.	2.74%	0.00%
Hvalur hf.	2.66%	2.59%
Stapi pension fund	2.59%	2.92%
Stefnir funds	1.21%	1.73%
Kjálkanes ehf.	1.00%	0.97%
Landsbréf hf.	0.73%	1.05%
Íslandsbanki hf.	0.50%	1.44%
Other shareholders with less than 1% shareholding	31.50%	30.60%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 1.62% in Arion Bank (31.12.2025: 1.36%). The Board of Directors and key management personnel shareholding is as follows:

	30.9.2026		31.12.2025	
	Options	Number of shares	Options	Number of shares
Steinunn K. Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	49,173	-	49,933
Benedikt Gíslason, CEO	37,573	3,229,488	12,136	3,181,575
Key management personnel*	1,905,185	3,511,741	627,353	3,328,222

* Key management personnel are defined in Note 44.

40. Legal matters

The Group has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the likelihood and amount of loss reasonably estimated, the Group makes adjustments, if appropriate, to account for any adverse effects the claims may have on its financial standing. Should the Group conclude that it is to the detriment of the Group's case to disclose such potential amounts, relating to the legal claims raised, it elects not to do so. At the end of the period, the Group had several unresolved legal claims.

Contingent liabilities

Legal proceedings regarding damages

In a lawsuit brought in June 2013, Kortapjónustan hf. claimed damages from Arion Bank hf., Íslandsbanki hf., Landsbankinn hf., Borgun hf. and Valitor hf. in the amount of ISK 1.2 billion plus interest. The lawsuit is a result of damage which Kortapjónustan hf. contended the five parties had caused the company due to violations of the Competition Act. In June 2017, the Supreme Court dismissed the case on procedural grounds. Since then, Kortapjónustan hf. and subsequently its largest shareholder EC-Clear have tried to initiate five lawsuits against the same defendants which have all been dismissed, the last one in March 2021. In September 2021, EC-Clear once again brought an action concerning the same dispute, claiming damages in the amount of ISK 922 million plus interest, against the same defendants. In September 2022, the District Court dismissed the claims. EC-Clear appealed the dismissal but with a ruling in January 2023 the Court of Appeal rejected the District Court's ruling and ruled that the case should be heard on its merits by the District Court. Should the defendants be found liable for damages, they would be jointly responsible. Therefore, the Bank has not made any provision.



Notes to the Condensed Consolidated Interim Financial Statements

40. Legal matters, continued

Consumer Association's class-action lawsuit

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

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

In May 2021, the Consumer Association published an article on its website calling for participants in a class action lawsuit. The intention was to commence court proceedings against the Icelandic banks to provide a legal precedent for loans with variable rates. Arion Bank received requests for information from a legal firm representing approximately 1,200 individuals. A case was filed against the Bank concerning an indexed loan and with a judgement of the Supreme Court on 10 December 2025 the Bank was acquitted. The Supreme Court thereby upheld the judgments of the District Court and the Court of Appeal in the case.

The Bank is also party to a case concerning a non-indexed loan. With a judgement of the District Court of Reykjavik in October 2026, the Bank was acquitted. Cases regarding non-indexed loans were also filed against Landsbankinn and Íslandsbanki. Supreme Court judgements in cases for both banks were delivered in 2025. The Supreme Court found that the disputed contractual clause permitting changes to interest rates was partially invalid. The only part of the terms that was considered valid was a reference to the Central Bank's policy rate. Íslandsbanki and Landsbankinn were, however, acquitted of the borrower's financial claim.

It should be noted that the terms of Arion Bank mortgages which contain provisions on variable interest rates differ from those which were the subject of the Supreme Court judgment in the case against Íslandsbanki and Landsbankinn. The terms of Arion Bank mortgages in respect of varying the interest rates are exhaustively listed, unlike the terms of the Íslandsbanki and Landsbankinn mortgages, and each reference or term is further defined by a brief explanation. The terms of the Bank's non-indexed loans are similar to those addressed in the Bank's Supreme Court ruling, except that they also refer to interest rates set by the Central Bank. Therefore, the impact of the judgements in Íslandsbanki's and Landsbanki's case on Arion Bank's loans bearing non-indexed rates cannot be asserted with full certainty. Moreover, in the Bank's assessment, the argument the Supreme Court uses in Íslandsbanki's and Landsbankinn's cases, regarding reference to the Central Bank's policy rate, is also applicable to the terms of Arion Bank mortgages bearing non-indexed rates. If the Íslandsbanki and Landsbanki verdict is applied to Arion Bank's non-indexed loans, the loss is estimated to be less than ISK 500 million pre-tax.

The Bank has not made any provision in respect of impending court cases.

Other legal proceedings

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

Legal matters concluded

Settlement with the FSA regarding MAR and MiFID II

The Financial Supervisory Authority of the Central Bank of Iceland (FSA) commenced an investigation in April 2024 into the Bank's compliance with certain provisions of Act No. 60/2021 on measures against market abuse and Act No. 115/2021 on markets in financial instruments. Following receipt of the FSA's preliminary findings in March 2026, which identified deficiencies in the Bank's compliance, the Bank requested that the matter be concluded by way of settlement. The matter was concluded on 9 October 2026 by means of settlement under which the Bank agreed to pay a fine of ISK 280 million. The full amount was recognised as an expense in the third quarter of 2026.

41. Events after the reporting period

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



Notes to the Condensed Consolidated Interim Financial Statements

Off balance sheet information

42. Commitments

	30.9.2026	31.12.2025
<i>Financial guarantees, unused credit facilities and undrawn loan commitments</i>		
Financial guarantees	23,592	25,450
Unused overdrafts	88,829	90,187
Undrawn loan commitments	67,082	85,329
Financial guarantees, unused credit facilities and undrawn loan commitments	179,503	200,966

43. Assets under management, supervision and custody

	30.9.2026	31.12.2025
Assets under management	1,655,344	1,563,569
Assets under supervision	504,886	425,248
Assets under custody	1,222,794	1,107,656

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

Assets under supervision refer to the total market value of financial assets in non-proprietary funds that the Group administers on behalf of its customers.

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

Related party

44. Related party

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

Shareholders with significant influence are shareholders that have the power to participate in the financial and operating decisions of Arion Bank but do not control those policies. At the end of the period no shareholder was defined as related party with an influence over the Group (31.12.2025: none).

The key management personnel includes the Board of Directors, the Executive Committee of Arion Bank and heads of other internal control functions, as well as their close family members and legal entities controlled by them. The Executive Committee consists of the CEO, Managing Directors of Retail banking, CIB, Markets, Finance, Risk, IT and Operations & culture. For compensation, pension and other transactions with the Board of Directors and the Executive Committee, see Notes 14 and 39.

For information on the Group's associated companies, see Note 28.

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

	Key management personnel		Associated companies	
	30.9.2026	31.12.2025	30.9.2026	31.12.2025
Loans	5,044	3,940	1,026	1,072
Other assets	4	4	-	-
Total assets	5,048	3,944	1,026	1,072
Deposits	(3,044)	(995)	(12)	(10)
Other liabilities	(3)	-	(28)	(24)
Total liabilities	(3,047)	(995)	(40)	(33)



Notes to the Condensed Consolidated Interim Financial Statements

Risk management disclosures

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

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

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

The Bank operates several committees to manage risk. The Board Risk Committee (BRIC) is responsible for supervising the Bank's risk management framework, risk appetite and the internal capital and liquidity adequacy assessment processes (ICAAP/ILAAP). The Board of Directors is the supreme authority for cases which entail deviations from risk appetite or strategy. Five primary risk committees, appointed by the CEO, operate at the management level within a framework defined by the Board of Directors. The Asset and Liability Committee (ALCO) is responsible for managing asset-liability mismatches, liquidity and funding risk, market risk, capital adequacy, and decides on underwriting and investment exposures. The Operational Risk Committee (ORCO) is responsible for managing operational risk, which includes information security, financial crime, regulatory compliance and data management. The Arion Credit Committee (ACC) administers the Bank's credit rules and decides on the origination of credit while the Arion Composition and Debt Cancellation Committee (ADC) is the principal authority for debt cancellation, debt restructuring and composition agreements. Major credit decisions, including debt cancellation, are made by the Board of Directors. Finally, the Executive Risk Committee (ERCO), chaired by the CRO, oversees the implementation of risk policies, ensures that the Bank's limit framework adheres to the risk appetite, reviews the Bank's ICAAP, ILAAP and stress testing, and approves economic scenarios, credit models and specific provisions under IFRS9. The Executive Committee is concerned with business and strategic risk. In their coverage of risks, these committees take into account emerging risks and risk drivers that may amplify or otherwise impact the risks under consideration. These include, but are not limited to, sustainability, geopolitical and natural catastrophe risks.

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

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

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

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

Further information on risk management and capital adequacy is provided in the Annual Financial Statements for 2025, in the Pillar 3 Risk Disclosures for 2025 and in the quarterly Additional Pillar 3 Risk Disclosures. These documents are available on the Bank's website, www.arionbank.com.



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations.

Credit risk arises when the Group commits its funds, resulting in capital or earnings being dependent on counterparty, issuer or borrower performance. Loans to customers are the largest source of credit risk. Credit risk is also inherent in other types of assets, such as loans to credit institutions, bonds, derivatives and off-balance sheet items such as commitments and guarantees.

Managing and analyzing the Group's loan portfolio is of utmost importance. Great emphasis is placed on the quality of the credit portfolio, by maintaining a strict credit process, by critically inspecting loan applications, by actively monitoring the credit portfolio and by identifying and reacting to possible problem loans at an early stage as well as by restructuring impaired credits.

The Group grants credit based on well-informed lending decisions and seeks to build business relationships with customers that have good repayment capacity and are backed by strong collateral. The risk level of each credit is considered in the pricing.

Credit risk is managed and controlled by setting limits on the amount of risk the Group is willing to accept for individual counterparties, group of connected clients, industries, geographies and loan types, and by monitoring exposures in relation to such limits. The Group seeks to limit its total credit risk through diversification of the loan portfolio across sectors and by limiting large exposures to groups of connected clients.

Exposure to credit risk

The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position before the effect of mitigation due to collateral agreements or other credit enhancements. The table also shows related collateral and credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty and the exposure type. The main types of collateral obtained are as follows:

- Real estate: Residential property, commercial real estate and land
- Cash and securities: Cash, treasury notes and bills, asset backed bonds, listed equity, and funds that consist of eligible securities
- Vessels: Ships with assigned fishing quota and other vessels
- Other collateral: Fixed and current assets including vehicles, equipment, inventory and trade receivables

The value of collateral is based on estimated market value. The valuation of real estate is based on market price, valuation model, or the opinion of internal or external specialists. The valuation of fishing vessels takes into account related fishing quotas. The quality of collateral is evaluated in the lending process with regards to specialization, location, age and condition and possibilities for reuse.

Collateral value is monitored and action is taken to remedy insufficient collateral coverage where the underlying agreement provides for such remedies. Collateral value is reviewed to ensure the adequacy of the allowance for impairment losses. Collateral values shown are capped by the related book value amount.



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

Maximum exposure to credit risk and collateral held against different types of financial instruments subject to the impairment requirements of IFRS 9

	Maximum exposure	Collateral				
		Cash and securities	Real estate	Vessels	Other collateral	Total collateral
30.9.2026						
Cash and balances with Central Bank	107,895	-	-	-	-	-
Loans to credit institutions at amortized cost	78,288	-	-	-	-	-
Loans to customers at amortized cost	1,413,210	14,767	1,063,658	67,555	103,029	1,249,009
<i>Individuals</i>	670,531	156	617,765	5	13,484	631,410
Mortgages	605,546	105	604,821	-	-	604,926
Other	64,985	51	12,944	5	13,484	26,484
<i>Corporates</i>	742,679	14,611	445,893	67,550	89,545	617,599
Real estate activities	160,801	4,540	150,786	-	216	155,542
Construction	127,196	242	114,180	-	4,527	118,949
Fishing industry	111,514	1,290	34,021	53,029	13,865	102,205
Commerce and services	98,101	1,105	37,432	3,753	24,138	66,428
Accommodation and food service activities	47,573	92	44,748	-	288	45,128
Financial and insurance activities	42,838	6,606	9,881	-	17,667	34,154
Industry, energy and manufacturing	79,985	454	36,489	271	15,850	53,064
Transportation	26,243	38	1,355	10,467	9,023	20,883
Information and communication technology	23,107	235	1,587	-	3,334	5,156
Public sector	11,617	9	2,775	9	118	2,911
Agriculture and forestry	13,704	-	12,639	21	519	13,179
Other assets with credit risk	17,064	-	-	-	-	-
Financial guarantees	23,592	1,395	5,881	284	4,219	11,779
Undrawn loan commitments and unused overdrafts	155,911	-	-	-	-	-
Fair value through OCI	154,045	-	-	-	-	-
Government bonds	152,508	-	-	-	-	-
Bonds issued by financial institutions and corporates	1,537	-	-	-	-	-
Balance at the end of the period	1,950,005	16,162	1,069,539	67,839	107,248	1,260,788
31.12.2025						
Cash and balances with Central Bank	150,111	-	-	-	-	-
Loans to credit institutions at amortized cost	22,567	-	-	-	-	-
Loans to customers at amortized cost	1,327,606	15,816	982,047	65,647	111,401	1,174,911
<i>Individuals</i>	640,394	161	589,706	28	14,604	604,499
Mortgages	576,828	134	576,297	-	-	576,431
Other	63,566	27	13,409	28	14,604	28,068
<i>Corporates</i>	687,212	15,655	392,341	65,619	96,797	570,412
Real estate activities	126,000	2,168	118,383	11	294	120,856
Construction	108,071	222	98,010	6	2,886	101,124
Fishing industry	107,416	1,294	26,435	58,230	13,314	99,273
Commerce and services	87,036	1,554	36,263	1,063	25,114	63,994
Accommodation and food service activities	46,775	34	44,842	-	206	45,082
Financial and insurance activities	58,606	9,528	18,072	4,069	20,174	51,843
Industry, energy and manufacturing	69,908	532	32,288	-	18,288	51,108
Transportation	17,925	40	1,223	2,208	9,038	12,509
Information and communication technology	40,458	275	1,606	-	6,810	8,691
Public sector	11,354	8	2,678	11	104	2,801
Agriculture and forestry	13,663	-	12,541	21	569	13,131
Other assets with credit risk	17,031	-	-	-	-	-
Financial guarantees	25,450	1,348	4,989	274	6,597	13,208
Undrawn loan commitments and unused overdrafts	175,516	-	-	-	-	-
Fair value through OCI	138,302	-	-	-	-	-
Government bonds	136,868	-	-	-	-	-
Bonds issued by financial institutions and corporates	1,434	-	-	-	-	-
Balance at the end of the year	1,856,583	17,164	987,036	65,921	117,998	1,188,119



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

LTV ratio for residential mortgage lending

The following table describes the loan to value (LTV) and impairment status of the Group's residential mortgage portfolio. LTV is calculated as the ratio of the total exposure of individual borrowers to the value of the pledged real estate without adjusting for possible costs of obtaining and selling the collateral. An exposure to a particular borrower appears in a single row in the table (whole-loan approach). The residential real estate valuation model used gives an estimate of current value on a monthly basis. This model is used when the market transaction value becomes older than 2 years.

			Thereof in Stage 3	
	30.9.2026	31.12.2025	30.9.2026	31.12.2025
Less than 50%	218,717	223,975	2,711	2,832
50-60%	106,526	107,698	1,551	2,110
60-70%	110,016	102,661	1,349	1,587
70-80%	99,900	88,631	1,152	1,427
80-90%	64,797	51,163	807	708
90-100%	4,362	1,669	269	114
More than 100%	1,983	1,497	253	261
Not classified	161	198	34	5
Gross carrying amount	606,462	577,492	8,126	9,044

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

			Thereof in Stage 3	
	30.9.2026	31.12.2025	30.9.2026	31.12.2025
Less than 55%	534,405	516,063	6,951	7,925
55-70%	51,781	45,445	712	743
70-80%	15,050	12,363	246	230
80-90%	3,762	2,521	96	77
90-100%	541	385	48	41
More than 100%	762	517	39	23
Not classified	161	198	34	5
Gross carrying amount	606,462	577,492	8,126	9,044

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 35,917 million (31.12.2025: ISK 32,661 million) with ISK 30,338 million in collateral (31.12.2025: ISK 28,860 million), thereof ISK 27,247 million in real estate (31.12.2025: ISK 24,474 million).

Collateral repossessed

The Group has taken possession of assets due to foreclosures. The total value of real estate the Group took possession of and still holds was ISK 296 million at the end of the period (31.12.2025: ISK 98 million) and ISK 2 million in other assets (31.12.2025: nil). Assets acquired due to foreclosure are held for sale, see Note 31.



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

Large exposures

A large exposure is defined as an exposure to a group of financially related borrowers which is equal to or exceeds 10% of the Group's Tier 1 capital according to the Financial Undertakings Act No. 161/2002. The legal maximum for individual large exposures is 25% of Tier 1 capital, net of eligible credit risk mitigation.

The Group had no net large exposure at the end of the period (31.12.2025: no net large exposure).

Credit quality

The Group uses internal credit ratings and external credit ratings, if available, to monitor credit risk. The Group's internal credit rating system rates customers through application of statistical models based on a variety of information that has been determined to be predictive of default. This includes demographic, behavioral, financial and economic data, coupled with qualitative expert judgment for large corporate exposures. Six exposure type models rate individuals' exposures – mortgages, consumer loans, auto loans, guarantees, loans to individuals for work purposes, and other loans. The models are validated annually and recalibrated and updated with current data with the aim of maintaining their predictive power. Year-on-year changes in risk classification of loans may in part be due to model refinement. External ratings are primarily used for marketable securities and loans to credit institutions. For further information on the rating scales used, see Note 59 in the Annual Financial Statements 2025.

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

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

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

30.9.2026

<i>Loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	419,077	101	-	120	419,298
Risk class 1 - (Grades BBB+ to BBB-)	428,344	1,790	-	134	430,268
Risk class 2 - (Grades BB+ to BB-)	314,492	14,548	-	57	329,097
Risk class 3 to 4 - (Grades B+ to CCC-)	144,594	66,470	-	-	211,064
Risk class 5 - (DD)	-	-	35,463	454	35,917
Unrated	358	1	-	-	359
Gross carrying amount	1,306,865	82,910	35,463	765	1,426,003
Loss allowance	(3,199)	(1,899)	(7,487)	(208)	(12,793)
Book value	1,303,666	81,011	27,976	557	1,413,210

Loans to customers - Individuals

Risk class 0 - (Grades AAA to A-)	325,942	101	-	120	326,163
Risk class 1 - (Grades BBB+ to BBB-)	257,703	297	-	134	258,134
Risk class 2 - (Grades BB+ to BB-)	51,934	5,391	-	57	57,382
Risk class 3 to 4 - (Grades B+ to CCC-)	9,763	11,932	-	-	21,695
Risk class 5 - (DD)	-	-	9,562	148	9,710
Unrated	34	1	-	-	35
Gross carrying amount	645,376	17,722	9,562	459	673,119
Loss allowance	(792)	(507)	(1,287)	(2)	(2,588)
Book value	644,584	17,215	8,275	457	670,531

Loans to customers - Corporates and public sector entities

Risk class 0 - (Grades AAA to A-)	93,135	-	-	-	93,135
Risk class 1 - (Grades BBB+ to BBB-)	170,641	1,493	-	-	172,134
Risk class 2 - (Grades BB+ to BB-)	262,558	9,157	-	-	271,715
Risk class 3 to 4 - (Grades B+ to CCC-)	134,831	54,538	-	-	189,369
Risk class 5 - (DD)	-	-	25,901	306	26,207
Unrated	324	-	-	-	324
Gross carrying amount	661,489	65,188	25,901	306	752,884
Loss allowance	(2,407)	(1,392)	(6,200)	(206)	(10,205)
Book value	659,082	63,796	19,701	100	742,679

Loan commitments, guarantees and unused credit facilities

Risk class 0 to 1 (Grades AAA to BBB-)	90,572	217	-	-	90,789
Risk class 2 to 4 (Grades BB+ to CCC-)	76,817	6,587	584	-	83,988
Unrated	4,725	-	-	-	4,725
Nominal	172,114	6,804	584	-	179,502
Loss allowance	(353)	(285)	(20)	-	(658)
Nominal less loss allowance	171,761	6,519	564	-	178,844



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

31.12.2025

<i>Loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	441,647	256	-	117	442,020
Risk class 1 - (Grades BBB+ to BBB-)	413,457	1,827	-	124	415,408
Risk class 2 - (Grades BB+ to BB-)	289,610	6,889	-	63	296,562
Risk class 3 to 4 - (Grades B+ to CCC-)	105,819	46,753	-	23	152,595
Risk class 5 - (DD)	-	-	32,255	406	32,661
Unrated	439	-	-	-	439
Gross carrying amount	1,250,972	55,725	32,255	733	1,339,685
Loss allowance	(2,833)	(1,551)	(7,508)	(187)	(12,079)
Book value	1,248,139	54,174	24,747	546	1,327,606

Loans to customers - Individuals

Risk class 0 - (Grades AAA to A-)	345,978	256	-	117	346,351
Risk class 1 - (Grades BBB+ to BBB-)	216,374	518	-	124	217,016
Risk class 2 - (Grades BB+ to BB-)	46,562	4,108	-	63	50,733
Risk class 3 to 4 - (Grades B+ to CCC-)	8,883	8,932	-	23	17,838
Risk class 5 - (DD)	-	-	10,892	120	11,012
Unrated	5	-	-	-	5
Gross carrying amount	617,802	13,814	10,892	447	642,955
Loss allowance	(611)	(332)	(1,617)	(1)	(2,561)
Book value	617,191	13,482	9,275	446	640,394

Loans to customers - Corporates and public sector entities

Risk class 0 - (Grades AAA to A-)	95,669	-	-	-	95,669
Risk class 1 - (Grades BBB+ to BBB-)	197,083	1,309	-	-	198,392
Risk class 2 - (Grades BB+ to BB-)	243,048	2,781	-	-	245,829
Risk class 3 to 4 - (Grades B+ to CCC-)	96,936	37,821	-	-	134,757
Risk class 5 - (DD)	-	-	21,363	286	21,649
Unrated	434	-	-	-	434
Gross carrying amount	633,170	41,911	21,363	286	696,730
Loss allowance	(2,222)	(1,219)	(5,891)	(186)	(9,518)
Book value	630,948	40,692	15,472	100	687,212

Loan commitments, guarantees and unused credit facilities

Risk class 0 to 1 - (Grades AAA to BBB-)	114,147	46	-	-	114,193
Risk class 2 to 4 - (Grades BB+ to CCC-)	76,291	4,758	1,116	-	82,165
Unrated	4,608	-	-	-	4,608
Nominal	195,046	4,804	1,116	-	200,966
Loss allowance	(342)	(266)	(73)	-	(681)
Nominal less loss allowance	194,704	4,538	1,043	-	200,285



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

Sector split, gross carrying value and loss allowance for financial instruments subject to IFRS 9 impairment requirements

	Stage 1		Stage 2		Stage 3		Book value
	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	
30.9.2026							
Loans to credit instit., securities & cash	340,222	6	-	-	-	-	340,228
Loans to individuals	645,375	(791)	18,033	(507)	9,710	(1,289)	670,531
<i>Mortgages</i>	583,081	(299)	15,253	(237)	8,127	(380)	605,545
<i>Other</i>	62,294	(492)	2,780	(270)	1,583	(909)	64,986
Loans to corporates and public sector entities	661,489	(2,407)	65,188	(1,392)	26,207	(6,406)	742,679
<i>Real estate activities</i>	146,057	(323)	9,307	(251)	7,171	(1,160)	160,801
<i>Construction</i>	107,204	(467)	15,602	(251)	7,531	(2,423)	127,196
<i>Fishing industry</i>	99,026	(209)	10,400	(125)	3,085	(663)	111,514
<i>Commerce and services</i>	91,110	(440)	5,815	(159)	2,408	(633)	98,101
<i>Accommodation and food service activities</i>	36,949	(127)	8,276	(73)	3,049	(501)	47,573
<i>Financial and insurance activities</i>	37,942	(238)	3,937	(112)	1,607	(298)	42,838
<i>Industry, energy and manufacturing</i>	74,426	(231)	5,625	(169)	948	(614)	79,985
<i>Transportation</i>	22,224	(78)	4,275	(179)	13	(12)	26,243
<i>Information and communication technology</i>	22,686	(218)	540	(28)	204	(77)	23,107
<i>Public Sector</i>	11,116	(38)	516	(26)	63	(14)	11,617
<i>Agriculture and forestry</i>	12,749	(38)	895	(19)	128	(11)	13,704
Balance at the end of the period	1,647,086	(3,192)	83,221	(1,899)	35,917	(7,695)	1,753,438
31.12.2025							
Loans to credit instit., securities & cash	310,987	(7)	-	-	-	-	310,980
Loans to individuals	617,802	(611)	14,141	(332)	11,012	(1,618)	640,394
<i>Mortgages</i>	556,668	(201)	11,780	(123)	9,044	(340)	576,828
<i>Other</i>	61,134	(410)	2,361	(209)	1,968	(1,278)	63,566
Loans to corporates and public sector entities	633,170	(2,222)	41,911	(1,219)	21,649	(6,077)	687,212
<i>Real estate activities</i>	117,560	(237)	5,623	(68)	3,919	(797)	126,000
<i>Construction</i>	93,971	(475)	9,159	(279)	7,639	(1,944)	108,071
<i>Fishing industry</i>	105,252	(197)	1,086	(31)	1,934	(628)	107,416
<i>Commerce and services</i>	79,503	(331)	5,911	(212)	2,685	(520)	87,036
<i>Accommodation and food service activities</i>	35,122	(133)	10,897	(274)	1,653	(490)	46,775
<i>Financial and insurance activities</i>	55,466	(288)	3,433	(138)	191	(58)	58,606
<i>Industry, energy and manufacturing</i>	69,437	(168)	390	(46)	582	(287)	69,908
<i>Transportation</i>	14,596	(49)	3,440	(69)	22	(15)	17,925
<i>Information and communication technology</i>	38,092	(274)	1,255	(75)	2,792	(1,332)	40,458
<i>Public Sector</i>	11,299	(32)	53	(7)	41	-	11,354
<i>Agriculture and forestry</i>	12,872	(38)	664	(20)	191	(6)	13,663
Balance at the end of the year	1,561,959	(2,840)	56,052	(1,551)	32,661	(7,695)	1,638,586



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

The table below reconciles the opening and closing allowance balance for loans to customers and debt securities at amortized cost and FVOCI and loan commitments, guarantees and unused credit facilities by impairment stages. The reconciliation includes:

Transfers of financial assets between impairment stages

All transfers are presumed to occur before any corresponding remeasurement of the loss allowance.

Net remeasurement of loss allowance

Comprise the impact of changes in model inputs or assumptions, including changes in forward-looking macroeconomic conditions, partial repayments and additional draws on existing facilities, inflation, changes in the measurement following a transfer between stages, effects of foreign exchange rate changes, impairment of interest income due to impaired debt instruments and unwinding of the time value discount due to the passage of time.

New financial assets, originated or purchased

Include purchases and originations and reflect the allowance related to assets newly recognized during the year.

Derecognitions and maturities

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

Write-offs

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

30.9.2026

<i>Impairment loss allowance *</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(3,175)	(1,817)	(7,581)	(187)	(12,760)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(926)	727	199	-	-
Transfers to Stage 2 (lifetime ECL)	274	(601)	327	-	-
Transfers to Stage 3 (credit impaired financial assets)	80	197	(277)	-	-
Net remeasurement of loss allowance **	662	(341)	(2,433)	(21)	(2,133)
New financial assets, originated or purchased	(1,006)	(558)	(806)	-	(2,370)
Derecognitions and maturities	530	194	1,350	-	2,074
Write-offs ***	9	15	1,714	-	1,738
Impairment loss allowance ****	(3,552)	(2,184)	(7,507)	(208)	(13,451)
Impairment loss allowances for assets only carrying 12-month ECL	6	-	-	-	6
Total impairment loss allowance	(3,546)	(2,184)	(7,507)	(208)	(13,445)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Consolidated Financial Statements. The amounts represent the difference between the loss allowance at the beginning of the year and at the reporting date, ignoring other intra-period changes.

** During the period the loss allowance balance for stage 3 loans was reduced by ISK 913 million due to unwinding of interest income.

*** During the period an amount of ISK 202 million was written off but is still subject to enforcement activities subject to Icelandic law.

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



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

<i>Impairment loss allowance for loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,833)	(1,551)	(7,508)	(187)	(12,079)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(868)	669	199	-	-
Transfers to Stage 2 (lifetime ECL)	254	(581)	327	-	-
Transfers to Stage 3 (credit impaired financial assets)	80	163	(243)	-	-
Net remeasurement of loss allowance	591	(373)	(2,447)	(21)	(2,250)
New financial assets, originated or purchased	(868)	(408)	(806)	-	(2,082)
Derecognitions and maturities	436	167	1,277	-	1,880
Write-offs	9	15	1,714	-	1,738
Total loss allowance for loans to customers	(3,199)	(1,899)	(7,487)	(208)	(12,793)
<i>Impairment loss allowance for loans to customers - Individuals</i>					
Balance at the beginning of the year	(611)	(332)	(1,617)	(1)	(2,561)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(188)	113	75	-	-
Transfers to Stage 2 (lifetime ECL)	37	(133)	96	-	-
Transfers to Stage 3 (credit impaired financial assets)	8	58	(66)	-	-
Net remeasurement of loss allowance	51	(191)	(379)	(1)	(520)
New financial assets, originated or purchased	(159)	(76)	(145)	-	(380)
Derecognitions and maturities	61	40	519	-	620
Write-offs	9	14	230	-	253
Total loss allowance for loans to individuals	(792)	(507)	(1,287)	(2)	(2,588)
<i>Impairment loss allowance for loans to customers - Corporates</i>					
Balance at the beginning of the year	(2,222)	(1,219)	(5,891)	(186)	(9,518)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(680)	556	124	-	-
Transfers to Stage 2 (lifetime ECL)	217	(448)	231	-	-
Transfers to Stage 3 (credit impaired financial assets)	72	105	(177)	-	-
Net remeasurement of loss allowance	540	(182)	(2,068)	(20)	(1,730)
New financial assets, originated or purchased	(709)	(332)	(661)	-	(1,702)
Derecognitions and maturities	375	127	758	-	1,260
Write-offs	-	1	1,484	-	1,485
Total loss allowance for loans to corporates	(2,407)	(1,392)	(6,200)	(206)	(10,205)
<i>Impairment loss allowance for loan commitments, guarantees and unused credit facilities</i>					
Balance at the beginning of the year	(342)	(266)	(73)	-	(681)
Transfers					
Transfers to 12-month ECL	(58)	58	-	-	-
Transfers to lifetime ECL	20	(20)	-	-	-
Transfers to credit impaired	-	34	(34)	-	-
Net remeasurement of loss allowance	71	32	14	-	117
New financial commitments originated	(138)	(150)	-	-	(288)
Derecognitions and maturities	94	27	73	-	194
Total loss allowance for loan commit., guarantees, unused facilities	(353)	(285)	(20)	-	(658)



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

31.12.2025

<i>Impairment loss allowance *</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,681)	(1,858)	(5,323)	(1)	(9,863)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(697)	561	136	-	-
Transfers to Stage 2 (lifetime ECL)	193	(350)	157	-	-
Transfers to Stage 3 (credit impaired financial assets)	63	189	(252)	-	-
Net remeasurement of loss allowance **	644	(341)	(3,373)	-	(3,070)
New financial assets, originated or purchased	(1,458)	(408)	(1,141)	(186)	(3,193)
Derecognitions and maturities	731	363	1,527	-	2,621
Write-offs ***	30	27	688	-	745
Impairment loss allowance ****	(3,175)	(1,817)	(7,581)	(187)	(12,760)
Impairment loss allowances for assets only carrying 12-month ECL	(7)	-	-	-	(7)
Total impairment loss allowance	(3,182)	(1,817)	(7,581)	(187)	(12,767)

* These amounts are a combination of all impairments, including an allowance for loan commitments and guarantees presented as a liability in these Consolidated Financial Statements. The amounts represent the difference between the loss allowance at the beginning of the year and at the reporting date, ignoring other intra-period changes.

** During the year the loss allowance balance for stage 3 loans was reduced by ISK 995 million due to unwinding of interest income.

*** During the year an amount of ISK 547 million was written off but is still subject to enforcement activities subject to Icelandic law.

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

<i>Impairment loss allowance for loans to customers</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,282)	(1,746)	(5,323)	(1)	(9,352)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(655)	519	136	-	-
Transfers to Stage 2 (lifetime ECL)	138	(295)	157	-	-
Transfers to Stage 3 (credit impaired financial assets)	61	183	(244)	-	-
Net remeasurement of loss allowance	532	(203)	(3,308)	-	(2,979)
New financial assets, originated or purchased	(1,282)	(373)	(1,141)	(186)	(2,982)
Derecognitions and maturities	625	337	1,527	-	2,489
Write-offs	30	27	688	-	745
Total loss allowance for loans to customers	(2,833)	(1,551)	(7,508)	(187)	(12,079)

Impairment loss allowance for loans to customers - Individuals

Balance at the beginning of the year	(545)	(410)	(1,538)	(1)	(2,494)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(283)	199	84	-	-
Transfers to Stage 2 (lifetime ECL)	32	(58)	26	-	-
Transfers to Stage 3 (credit impaired financial assets)	12	54	(66)	-	-
Net remeasurement of loss allowance	254	(126)	(381)	-	(253)
New financial assets, originated or purchased	(189)	(82)	(124)	-	(395)
Derecognitions and maturities	78	66	151	-	295
Write-offs	30	25	231	-	286
Total loss allowance for loans to individuals	(611)	(332)	(1,617)	(1)	(2,561)



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

	Stage 1	Stage 2	Stage 3	POCI	Total
<i>Impairment loss allowance for loans to customers - Corporates</i>					
Balance at the beginning of the year	(1,737)	(1,336)	(3,785)	-	(6,858)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(372)	320	52	-	-
Transfers to Stage 2 (lifetime ECL)	106	(237)	131	-	-
Transfers to Stage 3 (credit impaired financial assets)	49	129	(178)	-	-
Net remeasurement of loss allowance	278	(77)	(2,927)	-	(2,726)
New financial assets, originated or purchased	(1,093)	(291)	(1,017)	(186)	(2,587)
Derecognitions and maturities	547	271	1,376	-	2,194
Write-offs	-	2	457	-	459
Total loss allowance for loans to corporates	(2,222)	(1,219)	(5,891)	(186)	(9,518)
<i>Impairment loss allowance for loan commitments, guarantees and unused credit facilities</i>					
Balance at the beginning of the year	(399)	(112)	-	-	(511)
Transfers					
Transfers to 12-month ECL	(42)	42	-	-	-
Transfers to lifetime ECL	55	(55)	-	-	-
Transfers to credit impaired	2	6	(8)	-	-
Net remeasurement of loss allowance	112	(138)	(65)	-	(91)
New financial commitments originated	(176)	(35)	-	-	(211)
Derecognitions and maturities	106	26	-	-	132
Total loss allowance for loan commit., guarantees, unused facilities	(342)	(266)	(73)	-	(681)

Macroeconomic forecast

The calculation of expected credit losses under IFRS 9 uses forward-looking information in the form of scenarios where the development of macro-economic variables is predicted. The expected credit loss is a probability-weighted average of the estimated forecasts over three scenarios: base case 60%, pessimistic 25% and optimistic 15% (31.12.2025: base case 60%, pessimistic 25% and optimistic 15%). The macroeconomic forecast and scenario probability weights is done by the Bank's Chief Economist and approved by the Bank's Executive Risk Committee. The following table shows values used for IFRS 9 impairment calculations.

	Base case		
	2026	2027	2028
Unemployment rate	5.9%	4.8%	4.1%
Housing prices, year-on-year change	2.5%	3.0%	5.3%
Private consumption, growth	1.1%	1.9%	2.7%
GDP growth	1.5%	1.9%	2.3%
Key interest rate	7.7%	7.3%	5.7%

	Optimistic			Pessimistic		
	2026	2027	2028	2026	2027	2028
Unemployment rate	5.5%	3.2%	3.2%	6.9%	6.7%	5.2%
Housing prices, year-on-year change	3.4%	8.8%	8.6%	1.6%	-1.3%	2.5%
Private consumption, growth	2.7%	3.3%	3.1%	-0.4%	-0.6%	1.8%
GDP growth	3.3%	3.1%	2.7%	-0.1%	-0.2%	1.8%
Key interest rate	7.6%	6.8%	5.2%	7.7%	7.7%	6.2%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 4, Material accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 2.5 billion, ISK 4.5 billion and ISK 10.7 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2025: ISK 2.2 billion, ISK 4.0 billion and ISK 9.1 billion, respectively).



Notes to the Condensed Consolidated Interim Financial Statements

45. Credit risk, continued

Forbearance

The Group grants forbearance measures to facilities where the customer is facing temporary difficulties and needs measures which would not generally be available to customers. These forbearance measures include refinancing and renegotiations of loan terms, including loan extensions and adjustment of the payment schedule. After forbearance measures have been granted, the facility is classified as forborne for a period of at least 24 months. The forborne classification is not removed until the customer has demonstrated repayment capacity.

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
30.9.2026								
Individuals	6,279	(34)	4,881	(123)	5,277	(642)	16,437	(799)
Companies	5,227	(26)	19,524	(262)	13,209	(3,014)	37,960	(3,302)
Total	11,506	(60)	24,405	(385)	18,486	(3,656)	54,397	(4,101)
31.12.2025								
Individuals	5,566	(15)	3,350	(53)	5,963	(678)	14,879	(746)
Companies	4,322	(31)	16,552	(302)	11,420	(3,351)	32,294	(3,684)
Total	9,888	(46)	19,902	(355)	17,383	(4,029)	47,173	(4,430)



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk

Market risk is the current or prospective risk that changes in financial market prices and rates adversely affect the Group's earnings and equity due to changes to the value and cash flows of its assets and liabilities.

Market risk arises from imbalances in the Group's statement of financial position as well as in market making activities and position taking in bonds, equities, currencies, derivatives and other commitments which are marked to market.

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

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

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

Interest rate risk

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

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

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

Interest rate risk

The following table shows the Group's interest-bearing assets and liabilities by interest fixing periods. The figures for loans to customers and borrowings are shown on a fair value basis, see Note 26, and are therefore different from the amounts shown in these Consolidated Financial Statements. Defaulted loans are presented at book value, which is based on the value of the underlying collateral, and are therefore assumed to be independent of interest adjustment periods and placed in the 'Up to 3 months' category.

30.9.2026	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	107,895	-	-	-	-	107,895
Loans to credit institutions	78,288	-	-	-	-	78,288
Loans to customers	922,120	204,011	269,442	630	8,555	1,404,758
Bonds and debt instruments	100,357	41,733	35,740	9,947	5,030	192,807
Bonds and debt instruments used for hedging	-	194	3,235	2,304	1,934	7,667
Derivatives	191,925	16,137	228,200	-	-	436,262
Assets	1,400,585	262,075	536,617	12,881	15,519	2,227,677
Liabilities						
Due to credit institutions and Central Bank	16,303	-	-	-	-	16,303
Deposits	1,004,600	9,189	-	-	-	1,013,789
Derivatives	415,447	11,291	4,000	-	-	430,738
Borrowings	108,103	3,150	389,375	-	13,033	513,661
Subordinated liabilities	3,131	-	34,177	-	12,497	49,805
Liabilities	1,547,584	23,630	427,552	-	25,530	2,024,296
Net interest gap	(146,999)	238,445	109,065	12,881	(10,011)	203,381



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk, continued

31.12.2025	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	150,111	-	-	-	-	150,111
Loans to credit institutions	22,567	-	-	-	-	22,567
Loans to customers	914,513	158,023	242,825	5,328	8,515	1,329,204
Bonds and debt instruments	56,829	56,544	45,016	7,406	5,190	170,985
Bonds and debt instruments used for hedging	451	41	328	627	285	1,732
Derivatives	139,972	131,248	110,295	44,184	-	425,699
Assets	1,284,443	345,856	398,464	57,545	13,990	2,100,298
Liabilities						
Due to credit institutions and Central Bank	12,003	-	-	-	-	12,003
Deposits	912,492	8,690	-	-	-	921,182
Derivatives	329,767	83,102	9,138	-	-	422,007
Borrowings	31,840	159,158	243,888	53,241	13,084	501,211
Subordinated liabilities	3,535	-	34,327	868	11,731	50,461
Liabilities	1,289,637	250,950	287,353	54,109	24,815	1,906,864
Net interest gap	(5,194)	94,906	111,111	3,436	(10,825)	193,434

Sensitivity analysis of interest rate risk

The following table shows the sensitivity of the Group's net present value (NPV) of interest-bearing assets and liabilities, due to changes in interest rates by currencies. The variation is calculated on the basis of simultaneous parallel shifts upwards or downwards of yield curves. The choice of shifts is not an estimate of risk likelihood. Behavioral maturities are taken into account in the NPV calculations, including prepayment likelihood and expected behavior of non-maturing deposits. The Bank's behavioral models were last updated in Q4 2025.

	30.9.2026		31.12.2025	
	-100 bps	+100 bps	-100 bps	+100 bps
NPV change in the banking book				
ISK, CPI index-linked	(1,636)	1,589	(1,781)	1,728
ISK, Non index-linked	1,397	(1,342)	638	(610)
Foreign currencies	278	(272)	45	(35)
NPV change in the trading book				
ISK, CPI index-linked	238	(217)	215	(194)
ISK, Non index-linked	369	(347)	339	(317)
Foreign currencies	(26)	26	(37)	37



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk, continued

Indexation risk

A significant part of the Group's statement of financial position is linked to the Icelandic Consumer Price Index (CPI). For index-linked instruments, principal and interest payments are adjusted proportionally to the CPI. The Group is exposed to indexation risk as indexed assets exceed indexed liabilities. Financial instruments held for liquidity or market making purposes are assumed to be on demand. A difference of -0.1pp between the expected and actual change in CPI from one month to the next would negatively affect the net interest income by ISK 243 million.

Book value and maturity profile of indexed assets and liabilities

30.9.2026	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	28,523	153,700	386,935	569,158
Financial instruments	4,509	9,270	4,879	18,658
Off-balance sheet position	-	3,043	-	3,043
Assets, CPI index-linked	33,032	166,013	391,814	590,859
Liabilities, CPI index-linked				
Deposits	125,033	12,576	4,608	142,217
Borrowings	14,261	152,583	10,496	177,340
Subordinated liabilities	-	-	23,292	23,292
Other	-	-	1,273	1,273
Liabilities, CPI index-linked	139,294	165,159	39,669	344,122
Net on-balance sheet position	(106,262)	(2,189)	352,145	243,694
Net off-balance sheet position	-	3,043	-	3,043
CPI balance	(106,262)	854	352,145	246,737
CPI balance for prudential consolidation, excluding insurance operations *	(106,572)	(7,988)	347,345	232,785
31.12.2025				
Assets, CPI index-linked				
Loans to customers	24,567	119,753	376,058	520,378
Financial instruments	6,335	8,772	5,137	20,244
Assets, CPI index-linked	30,902	128,525	381,195	540,622
Liabilities, CPI index-linked				
Deposits	118,029	12,687	4,371	135,087
Borrowings	20,522	118,169	18,782	157,473
Subordinated liabilities	-	-	21,803	21,803
Other	-	-	1,243	1,243
Off-balance sheet position	4,241	-	-	4,241
Liabilities, CPI indexed linked	142,792	130,856	46,199	319,847
Net on-balance sheet position	(107,649)	(2,331)	334,996	225,016
Net off-balance sheet position	(4,241)	-	-	(4,241)
CPI balance	(111,890)	(2,331)	334,996	220,775
CPI balance for prudential consolidation, excluding insurance operations *	(114,555)	(10,663)	329,939	204,721

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk, continued

Currency risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Group is exposed to currency risk through a currency mismatch between assets and liabilities. Net exposures per currency are monitored centrally in the Bank.

Breakdown of assets and liabilities by currency

30.9.2026

	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Financial assets								
Cash and balances with CB	107,255	293	170	88	-	21	68	107,895
Loans to credit institutions	240	48,944	23,905	1,484	1,068	554	2,093	78,288
Loans to customers	1,136,917	180,599	51,175	2,476	32,114	3,731	7,762	1,414,774
Financial instruments	151,674	69,764	10,031	1,104	76	9,081	233	241,963
Other financial assets	15,972	289	422	124	243	-	14	17,064
Financial assets	1,412,058	299,889	85,703	5,276	33,501	13,387	10,170	1,859,984
Financial liabilities								
Due to credit inst. and Central Bank	10,177	5,139	238	731	-	-	18	16,303
Deposits	894,728	46,389	59,899	5,701	2,288	3,460	1,324	1,013,789
Financial liabilities at fair value	1,211	6,201	716	276	609	50	82	9,145
Other financial liabilities	8,109	3,385	10,338	254	642	186	337	23,251
Borrowings	209,726	231,513	5,886	-	-	32,349	30,299	509,773
Subordinated liabilities	25,593	-	14,215	-	-	-	2,732	42,540
Financial liabilities	1,149,544	292,627	91,292	6,962	3,539	36,045	34,792	1,614,801
Net on-balance sheet position	262,514	7,262	(5,589)	(1,686)	29,962	(22,658)	(24,622)	
FX assets with underlying ISK bonds	7,242	(7,242)	-	-	-	-	-	
Net off-balance sheet position	(26,094)	2,381	4,576	2,083	(29,595)	22,585	24,064	
Net position *	243,662	2,401	(1,013)	397	367	(73)	(558)	
Non-financial assets								
Investment property	7,651	-	-	-	-	-	-	7,651
Investments in associates	870	-	-	-	-	-	-	870
Intangible assets	7,166	-	-	-	-	-	-	7,166
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups								
held for sale	298	-	-	-	-	-	-	298
Other non financial assets	6,055	218	104	32	1	18	(8)	6,420
Non-financial assets	22,042	218	104	32	1	18	(8)	22,407
Non-financial liabilities and equity								
Tax liabilities	16,167	-	-	34	-	-	-	16,201
Other non-financial liabilities	34,664	138	71	1	13	-	4	34,891
Shareholders' equity	216,427	-	-	-	-	-	-	216,427
Non-controlling interest	71	-	-	-	-	-	-	71
Non-financial liabilities and equity	267,329	138	71	35	13	-	4	267,590
Management reporting								
of currency risk **	(1,625)	2,481	(980)	394	355	(55)	(570)	

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

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk, continued

31.12.2025

	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Financial assets								
Cash and balances with CB	149,766	167	56	52	-	21	49	150,111
Loans to credit institutions	643	7,912	9,351	1,722	1,313	278	1,348	22,567
Loans to customers	1,066,903	181,591	42,317	2,250	31,848	2,729	1,418	1,329,056
Financial instruments	123,312	51,321	4,205	242	78	19,952	16,706	215,816
Other financial assets	15,611	324	990	103	2	1	-	17,031
Financial assets	1,356,235	241,315	56,919	4,369	33,241	22,981	19,521	1,734,581
Financial liabilities								
Due to credit inst. and Central Bank	6,075	3,556	1,560	770	-	-	42	12,003
Deposits	829,869	37,421	40,081	5,024	5,106	2,640	1,041	921,182
Financial liabilities at fair value	1,289	1,720	18	17	7	63	15	3,129
Other financial liabilities	6,277	3,023	1,781	181	245	66	219	11,792
Borrowings	188,973	251,999	5,908	-	-	21,347	26,596	494,823
Subordinated liabilities	24,052	753	15,635	-	-	-	3,078	43,518
Financial liabilities	1,056,535	298,472	64,983	5,992	5,358	24,116	30,991	1,486,447
Net on-balance sheet position	299,700	(57,157)	(8,064)	(1,623)	27,883	(1,135)	(11,470)	
Net off-balance sheet position	(52,267)	58,964	7,865	1,881	(28,441)	1,101	10,897	
Net position *	247,433	1,807	(199)	258	(558)	(34)	(573)	
Non-financial assets								
Investment property	7,305	-	-	-	-	-	-	7,305
Investments in associates	760	-	-	-	-	-	-	760
Intangible assets	7,533	-	-	-	-	-	-	7,533
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups								
held for sale	98	-	-	-	-	-	-	98
Other non financial assets	4,981	311	63	104	-	27	-	5,486
Non-financial assets	20,679	311	63	104	-	27	-	21,184
Non-financial liabilities and equity								
Tax liabilities	12,894	-	-	89	-	-	-	12,983
Other non-financial liabilities	38,827	103	12	-	-	-	2	38,944
Shareholders' equity	217,327	-	-	-	-	-	-	217,327
Non-controlling interest	64	-	-	-	-	-	-	64
Non-financial liabilities and equity	269,112	103	12	89	-	-	2	269,318
Management reporting								
of currency risk **	(1,000)	2,015	(148)	273	(558)	(7)	(575)	

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

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



Notes to the Condensed Consolidated Interim Financial Statements

46. Market risk, continued

Sensitivity analysis for currency risk

The table below indicates the currencies to which the Group had significant exposure at the end of the period. The analysis calculates the effect of a reasonably possible movement of the currency rate against the ISK, with all other variables held constant, on the Consolidated Income Statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the ISK would have resulted in an equivalent but opposite impact (+10% denotes a depreciation of the ISK).

Currency	30.9.2026		31.12.2025	
	-10%	+10%	-10%	+10%
EUR	(248)	248	(202)	202
USD	98	(98)	15	(15)
GBP	(39)	39	(27)	27
DKK	(36)	36	56	(56)
NOK	6	(6)	1	(1)
Other	57	(57)	58	(58)

Equity risk

Equity risk is the risk that the fair value of equities decreases. For information on assets seized and held for sale and equity exposures, see Notes 31 and 25 respectively.

Sensitivity analysis for equity risk

The analysis below calculates the effect of a reasonable possible movement in equity prices that affect the Consolidated Financial Statements. A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a potential net increase. Investments in associates are excluded. The result of value-at-risk calculations for the trading book are shown in the Group's Pillar 3 Risk Disclosures.

Equity	30.9.2026		31.12.2025	
	-10%	+10%	-10%	+10%
Trading book - listed	(281)	281	(367)	367
Banking book - listed	(698)	698	(759)	759
Banking book - unlisted	(499)	499	(594)	594

Derivatives

Derivatives are a part of the Group's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Group's risk appetite and monitored by Risk Management on a daily basis. The Group also uses derivatives to hedge market risk on its statement of financial position. Note 26 provides a breakdown of the Group's derivative positions by type.



Notes to the Condensed Consolidated Interim Financial Statements

47. Liquidity and Funding risk

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its liabilities when they fall due, or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

A primary source of funding for the Group is deposits from individuals, businesses and financial undertakings. The Group's liquidity risk stems from the fact that the maturity of loans exceeds the maturity of deposits, of which 69% is on-demand or has a term of less than 30 days.

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

30.9.2026	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	15,985	58,090	33,820	-	-	-	107,895	107,895
Loans to credit institutions	31,276	47,005	-	7	-	-	78,288	78,288
Loans to customers	11,616	223,475	239,598	631,529	1,271,031	-	2,377,249	1,414,774
Financial instruments	20,692	106,859	14,662	67,298	8,469	33,905	251,885	241,963
Derivatives - assets leg	-	47,224	2,302	31,952	-	-	81,478	72,826
Derivatives - liabilities leg	-	(39,343)	(3,318)	(28,091)	-	-	(70,752)	(65,242)
Other financial instruments	20,692	98,978	15,678	63,437	8,469	33,905	241,159	234,379
Other financial assets	397	13,010	891	2,557	209	-	17,064	17,064
Financial assets	79,966	448,439	288,971	701,391	1,279,709	33,905	2,832,381	1,859,984
Financial liabilities								
Due to credit inst. and Central Bank	10,427	5,879	-	-	-	-	16,306	16,303
Deposits	675,195	299,705	23,974	13,225	5,738	-	1,017,837	1,013,789
Financial liabilities at fair value	-	3,256	620	7,392	-	-	11,268	9,145
Derivatives - assets leg	-	(50,746)	(9,206)	(68,504)	-	-	(128,456)	(99,179)
Derivatives - liabilities leg	-	53,967	9,826	75,896	-	-	139,689	108,289
Short pos. in bonds	-	35	-	-	-	-	35	35
Other financial liabilities	140	21,064	692	1,355	-	-	23,251	23,251
Borrowings	-	57,934	16,216	481,250	15,399	-	570,799	509,773
Subordinated liabilities	-	1,135	2,018	23,174	33,298	-	59,625	42,540
Financial liabilities	685,762	388,973	43,520	526,396	54,435	-	1,699,086	1,614,801
Net position for assets and liab.	(605,796)	59,466	245,451	174,995	1,225,274	33,905	1,133,295	245,183
Off-balance sheet items								
Financial guarantees	-	964	7,097	6,004	9,527	-	23,592	23,592
Unused overdraft	-	88,829	-	-	-	-	88,829	88,829
Undrawn loan commitments	-	36,175	22,624	8,283	-	-	67,082	67,082
Off-balance sheet items	-	125,968	29,721	14,287	9,527	-	179,503	179,503
Net contractual cash flow	(605,796)	(66,502)	215,730	160,708	1,215,747	33,905	953,792	65,680



Notes to the Condensed Consolidated Interim Financial Statements

47. Liquidity and Funding risk, continued

31.12.2025	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	31,371	85,137	33,603	-	-	-	150,111	150,111
Loans to credit institutions	20,222	2,342	3	-	-	-	22,567	22,567
Loans to customers	6,193	194,928	206,108	606,114	1,213,624	-	2,226,967	1,329,056
Financial instruments	11,733	58,312	42,035	71,729	7,049	34,475	225,333	215,816
<i>Derivatives - assets leg</i>	-	54,751	38,482	38,081	-	-	131,314	107,477
<i>Derivatives - liabilities leg</i>	-	(50,757)	(33,310)	(35,221)	-	-	(119,288)	(98,853)
<i>Other financial instruments</i>	11,733	54,318	36,863	68,869	7,049	34,475	213,307	207,192
Other financial assets	689	12,358	413	3,232	339	-	17,031	17,031
Financial assets	70,208	353,077	282,162	681,075	1,221,012	34,475	2,642,009	1,734,581
Financial liabilities								
Due to credit inst. and Central Bank	6,405	5,602	-	-	-	-	12,007	12,003
Deposits	615,915	174,863	115,497	13,319	5,441	-	925,035	921,182
Financial liabilities at fair value	-	1,960	2,065	(187)	(115)	-	3,723	3,129
<i>Derivatives - assets leg</i>	-	(65,157)	(5,397)	(7,097)	(10,138)	-	(87,789)	(78,261)
<i>Derivatives - liabilities leg</i>	-	67,117	7,462	6,910	10,023	-	91,512	81,390
<i>Short position in bonds used for hedging</i>	-	-	-	-	-	-	-	-
Other financial liabilities	183	9,545	900	1,164	-	-	11,792	11,792
Borrowings	-	6,366	162,564	315,285	66,226	-	550,441	494,823
Subordinated liabilities	-	1,071	2,103	25,566	33,759	-	62,499	43,518
Financial liabilities	622,503	199,407	283,129	355,147	105,311	-	1,565,497	1,486,447
Net position for assets and liab.	(552,295)	153,670	(967)	325,928	1,115,701	34,475	1,076,512	248,134
Off-balance sheet items								
Financial guarantees	-	2,344	10,034	3,865	9,207	-	25,450	25,450
Unused overdraft	-	90,187	-	-	-	-	90,187	90,187
Undrawn loan commitments	-	38,891	29,913	16,525	-	-	85,329	85,329
Off-balance sheet items	-	131,422	39,947	20,390	9,207	-	200,966	200,966
Net contractual cash flow	(552,295)	22,248	(40,914)	305,538	1,106,494	34,475	875,546	47,168

Net Stable Funding Ratio

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

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

	30.9.2026	31.12.2025
Available stable funding	1,399,320	1,319,265
Required stable funding	1,194,769	1,115,682
Net stable funding ratio	117%	118%



Notes to the Condensed Consolidated Interim Financial Statements

47. Liquidity and Funding risk, continued

Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) is one of the standards introduced in the Basel III Accord. The LCR is the result of a stress test that is designed to ensure that banks have the necessary assets on hand to withstand short-term liquidity disruptions. More precisely, LCR represents the balance between highly liquid assets and the expected net cash outflow of the Group in the next 30 days under stressed conditions.

To qualify as highly liquid assets under the LCR rules, assets must be non-pledged, liquid and easily priced on the market, traded on an active market and not issued by the Group or related entities.

The minimum requirement for the total LCR is 100%, while the requirement for the LCR in ISK is 50% and 80% in EUR. There is no minimum requirement for the aggregate position in all foreign currencies.

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

	ISK	EUR	Total all currencies
30.9.2026*			
Liquid assets level 1 **	186,014	68,676	266,242
Liquid assets level 2	14,337	-	14,337
Liquid assets	200,351	68,676	280,579
Deposits	152,710	17,865	199,993
Borrowings	14,845	27,412	42,715
Other cash outflows	7,215	6,888	11,299
Cash outflows	174,770	52,165	254,007
Short-term deposits with other banks ***	-	41,874	63,183
Other cash inflows	36,661	3,724	46,743
Cash inflows	36,661	45,598	109,926
Liquidity coverage ratio (LCR) ****	145%	527%	195%
31.12.2025			
Liquid assets level 1 **	205,171	47,836	290,759
Liquid assets level 2	11,898	-	11,898
Liquid assets	217,069	47,836	302,657
Deposits	146,016	11,987	180,284
Borrowings	376	-	598
Other cash outflows	9,395	9,014	16,668
Cash outflows	155,787	21,001	197,550
Short-term deposits with other banks ***	-	4,874	18,089
Other cash inflows	24,805	2,917	31,822
Cash inflows	24,805	7,791	49,911
Liquidity coverage ratio (LCR) ****	166%	362%	205%

* Due to the reclassification of deposits (see *LCR categorization - amounts and LCR outflow weights*), comparability with the prior period is affected.

** Level 1 assets include the Group's cash and balances with the Central Bank, domestic bonds eligible as collateral at the Central Bank, CIUs with domestic bonds underlying and foreign government bonds which receive 95-100% weight.

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

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



Notes to the Condensed Consolidated Interim Financial Statements

47. Liquidity and Funding risk, continued

Composition of liquid assets

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

	ISK	USD	EUR	Other	Total
30.9.2026					
Cash and balances with Central Bank	107,255	170	293	177	107,895
Short-term deposits with financial institutions	-	17,182	41,874	4,127	63,183
Domestic bonds eligible as collateral with Central Bank and CIUs	95,626	-	7,252	-	102,878
Foreign government bonds	-	4,225	61,494	6,980	72,699
Liquidity reserve	202,881	21,577	110,913	11,284	346,655
31.12.2025					
Cash and balances with Central Bank	149,766	56	167	122	150,111
Short-term deposits with financial institutions	-	9,271	4,874	3,944	18,089
Domestic bonds eligible as collateral with Central Bank and CIUs	69,404	-	-	-	69,404
Foreign government bonds	-	3,762	47,669	33,811	85,242
Liquidity reserve	219,170	13,089	52,710	37,877	322,846

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights

LCR categorization - amounts and LCR outflow weights	Deposits maturing within 30 days					
	Less stable	Weight %	Stable	Weight %	Term deposits**	Total deposits
30.9.2026*						
Retail deposits	247,495	11%	157,291	5%	225,951	630,737
Operational relationship	3,117	25%	-	-	-	3,117
Corporations	197,858	41%	19,431	21%	63,365	280,654
Sovereigns, central banks and PSE	13,717	40%	9	20%	463	14,189
Pension funds	49,339	100%	-	-	19,714	69,053
Domestic financial entities	13,185	100%	-	-	3,160	16,345
Foreign financial entities	10,118	100%	-	-	-	10,118
Total	534,829		176,731		312,653	1,024,213
31.12.2025						
Individuals	142,436	12%	136,146	5%	200,648	479,230
Small and medium enterprises	119,944	12%	19,563	5%	30,998	170,505
Operational relationship	4,950	25%	-	-	-	4,950
Corporations	102,657	41%	17,125	20%	28,642	148,424
Sovereigns, central banks and PSE	16,229	40%	15	20%	1,051	17,295
Pension funds	62,076	100%	-	-	18,442	80,518
Domestic financial entities	23,521	100%	-	-	1,069	24,590
Foreign financial entities	2,071	100%	-	-	-	2,071
Total	473,883		172,849		280,850	927,583

* The *Small and medium enterprises* category has been removed, with the associated deposits reclassified under *Retail deposits* and *Corporations* in accordance with Art. 411(2) of Regulation (EU) No 575/2013 (CRR), affecting comparability with the prior period.

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



Notes to the Condensed Consolidated Interim Financial Statements

48. Capital management

Capital adequacy

The focus of capital management at the Group is to normalize the capital structure in the medium term and consequently maintain the Group's capitalization comfortably above regulatory requirements, including the Pillar 2 and combined capital buffer requirements.

The Group's capital ratios are calculated in accordance with the Icelandic Financial Undertakings Act No. 161/2002 with later changes, through which CRD V and CRR III have been adopted. The Group applies the standardized approach to calculate capital requirements for credit risk, including counterparty credit risk, and market risk and the basic approach for credit valuation adjustment risk.

The Group's consolidated situation as stipulated in CRR is the Group's accounting consolidation excluding insurance subsidiaries, in particular Vördur.

	30.9.2026	31.12.2025
<i>Own funds</i>		
Total equity	216,498	217,391
Unaudited interim profit	(8,706)	-
Non-controlling interest not eligible for inclusion in CET1 capital	(71)	(64)
Common Equity Tier 1 capital before regulatory adjustments	207,721	217,327
Intangible assets	(6,920)	(7,273)
Additional value adjustments	(260)	(228)
Foreseeable dividend and buyback *	(7,686)	(20,313)
Insufficient coverage for non-performing exposures	(304)	(314)
Common Equity Tier 1 capital	192,551	189,199
Additional Tier 1 capital	14,215	15,635
Tier 1 capital	206,766	204,834
Tier 2 instruments	28,325	27,883
Tier 2 instruments of financial sector entities (significant investments)	(1,443)	(1,355)
Tier 2 capital	26,882	26,528
Total own funds	233,648	231,362
<i>Risk-weighted exposure amount (REA)</i>		
Credit risk, loans and off-balance sheet items	899,002	862,862
Credit risk, securities and other	61,799	59,140
Credit risk, derivatives and repos	3,150	4,222
Market risk due to currency imbalance	-	2,309
Market risk due to trading book positions	14,513	13,516
Credit valuation adjustment	1,429	2,501
Operational risk	84,635	84,635
Total risk-weighted exposure amount	1,064,528	1,029,185
<i>Capital ratios</i>		
CET1 ratio	18.1%	18.4%
Tier 1 ratio	19.4%	19.9%
Capital adequacy ratio	21.9%	22.5%
 Total own funds, including interim profit not eligible for inclusion	 238,001	 231,362
CET1 ratio, including interim profit not eligible for inclusion	18.5%	18.4%
Tier 1 ratio, including interim profit not eligible for inclusion	19.8%	19.9%
Capital adequacy ratio, including interim profit not eligible for inclusion	22.4%	22.5%

* On 30 September 2026, the deduction consists of 50% of reviewed profits as per the Bank's dividend policy. On 31 December 2025, the deduction consists of 50% of audited profits as per the Bank's dividend policy and ISK 5 billion buyback program approved by the Board (in December 2025) and the FSA (in January 2026, after the accounting period end).



Notes to the Condensed Consolidated Interim Financial Statements

48. Capital management, continued

30.9.2026 31.12.2025

Capital ratios of the parent company

CET1 ratio	18.0%	18.3%
Tier 1 ratio	19.3%	19.8%
Capital adequacy ratio	21.9%	22.4%

The following table outlines the implementation of the capital buffer requirements in accordance with the Icelandic Financial Undertakings Act No. 161/2002, as prescribed by the Financial Stability Committee and approved by the FSA.

	30.9.2026		31.12.2025	
	Icelandic buffer	Effective buffer	Icelandic buffer	Effective buffer
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
Capital buffer for systematically important institutions	3.0%	3.0%	3.0%	3.0%
Systemic risk buffer *	2.0%	1.8%	2.0%	1.8%
Countercyclical capital buffer *	2.5%	2.4%	2.5%	2.4%
Combined capital buffer requirement	10.0%	9.7%	10.0%	9.7%

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

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

	CET1	Tier 1	Total
Capital requirement, % of REA			
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.1%	1.5%	2.0%
Combined capital buffer requirement *	9.7%	9.7%	9.7%
Regulatory capital requirement	15.3%	17.2%	19.7%
Available capital	18.1%	19.4%	21.9%

* The effective countercyclical capital buffer is the weighted average of the countercyclical capital buffer applicable for each country, the weights being the total own funds requirements for relevant credit exposures against counterparties residing in those countries. The systemic risk buffer only applies to domestic exposures and is calculated using the same weighting method.

** The SREP result based on the Group's Financial Statement at 31 December 2025. The Pillar 2R requirement is 2.0% of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur.

Leverage ratio

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

30.9.2026 31.12.2025

On-balance sheet exposures	1,827,739	1,696,618
Derivative exposures	13,526	12,582
Repos	11,440	11,181
Off-balance sheet exposures	62,294	71,258
Total exposure	1,914,999	1,791,639
Tier 1 capital	206,766	204,834
Leverage ratio	10.8%	11.4%



Notes to the Condensed Consolidated Interim Financial Statements

48. Capital management, continued

MREL

The Group must fulfil a minimum requirement for own funds and eligible liabilities (MREL) in accordance with the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020, as amended, which transposes BRRD I/II into Icelandic law. Own funds which are not used to fulfil the combined buffer requirement can be used towards the MREL requirements. In October 2025, the Icelandic Resolution Authority presented the Group with the MREL requirements based on year-end 2024 financials. The requirements are expressed as a fraction of total REA, and as a fraction of the total exposure measure. Both ratios are shown in the table below. An MREL subordination requirement of 13.5% REA will apply to the Bank from Q3 2027.

	30.9.2026	31.12.2025
<i>Minimum requirement for own funds and eligible liabilities</i>		
Own funds	233,648	231,362
Eligible liabilities	246,319	201,513
Own funds and eligible liabilities	479,967	432,875
Combined buffer requirement (CBR)	103,259	99,831
Own funds and eligible liabilities not used for CBR	376,708	333,044
Risk-weighted exposure amount (REA)	1,064,528	1,029,185
Own funds and eligible liabilities not used for CBR (% REA)	35.4%	32.4%
MREL requirement (% REA)	19.8%	19.8%
Total exposure measure (TEM)	1,914,999	1,791,639
Own funds and eligible liabilities (% TEM)	25.1%	24.2%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur

Excess of assets over liabilities in accordance with Solvency II	14,881	14,228
Subordinated liabilities	1,431	1,372
Foreseeable dividends	(775)	-
Own funds	15,537	15,600
Solvency capital requirements (SCR)	9,746	10,049
SCR ratio	159.4%	155.2%
SCR ratio before foreseeable dividends	167.4%	155.2%

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

49. Operational risk

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

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

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



Notes to the Condensed Consolidated Interim Financial Statements

50. Sustainability risk

Sustainability risk is a driver of other risk types, such as credit risk and market risk. It can materialize in the short term, the medium term and the long term. The Bank assesses both inside-out risks (negative impact from the Bank's operations on people and/or the environment) and outside-in risks (negative materialization of ESG factors on the Bank through their counterparties or invested assets). The Bank's Executive Committee is responsible for reviewing the Bank's performance with respect to its commitments and policies in relation to environmental, social and governance (ESG) factors and aligning the Bank's strategy and risk appetite with them.

Sustainable financing framework

The Bank's Sustainability Financing Framework applies to the Bank's financing, deposits and loans which are classed as environmentally and/or socially sustainable. The Sustainability Financing Framework includes social categories which define projects having a positive impact on society. Special importance is also given to the circular economy, and the classification of green projects has also been refined. Under this framework the Bank can issue Sustainable Financing Instruments including, but not limited to, covered bonds, bonds, loans, commercial paper, repurchase agreements and deposits. The use of proceeds from these instruments is restricted to the financing of eligible assets as defined in the Framework. Eligible assets are divided into several eligible categories with inclusion and exclusion criteria. The Framework details the processes for identifying eligible assets, for reporting on the use of the framework and for external review. The following table excludes committed green exposures.

	30.9.2026	31.12.2025
<i>Sustainable Financing Instruments</i>		
Green deposits	21,899	24,755
Green borrowings	98,173	38,272
Book value	120,072	63,027
<i>Identified eligible sustainable assets by category</i>		
Sustainable marine value chains and marine ecosystem management	24,066	18,000
Sustainable forestry and agriculture	580	534
Renewable energy	388	545
Clean transportation	5,586	8,875
Green buildings	100,330	97,512
Sustainable waste and wastewater management	7,519	7,914
Circular economy	1,663	-
Green book value	140,131	133,380
Affordable housing	18,333	20,958
Education	2,946	1,637
Healthcare	388	424
Employment generation and alleviate unemployment	12,917	14,447
Social book value	34,584	37,465
Sustainable book value	174,715	170,844



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