Íslandsbanki

Condensed Consolidated Interim Financial Statements

First half 2026

Íslandsbanki hf. • Hagasmári 3 • 201 Kópavogur • Iceland • Reg.no. 491008-0160

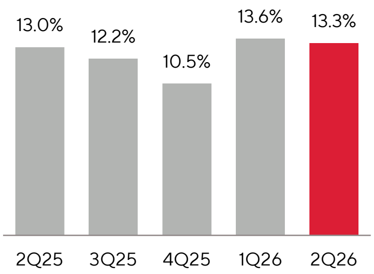
Contents

Factsheet

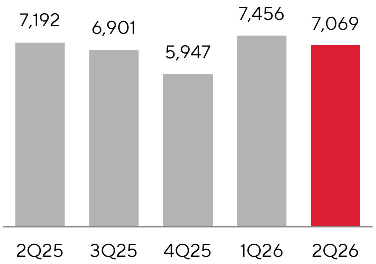
Key figures first half 2026

Net profit	ROE	Cost-to-income ratio	NIM
ISK 14.5bn	**13.4%**	**40.7%**	**3.7%**

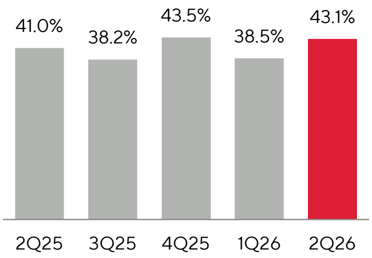
Return on equity



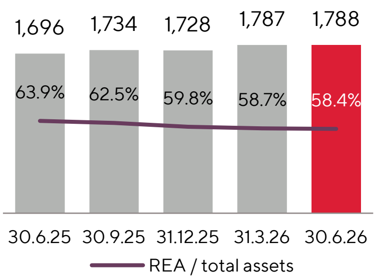
Profit after tax
(ISKm)



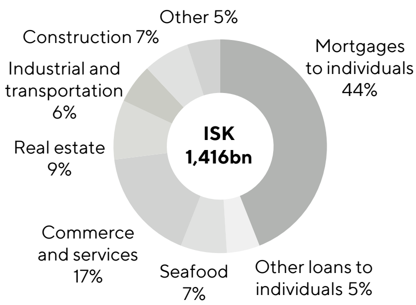
Cost-to-income ratio[1]



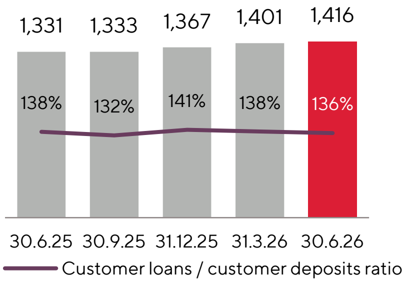
Total assets
(ISKbn)



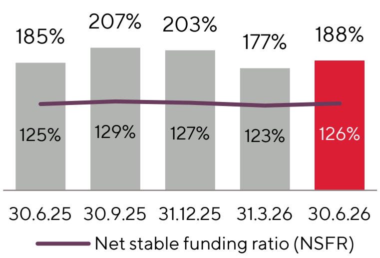
Loans to customers
(Sector split as of 30.6.26)



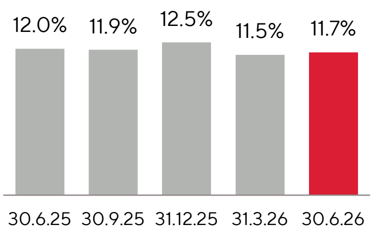
Loans to customers
(ISKbn)



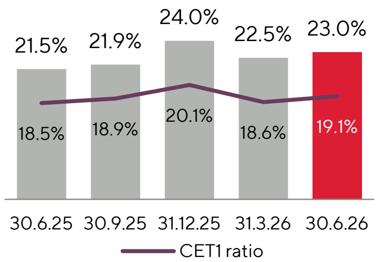
Liquidity coverage ratio



Leverage ratio[2]



Total capital ratio[2]



Ratings and certifications

Moody's A3 Stable outlook

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

ESG risk rating Reitun A3 Exceptional

EQUAL PAY CERTIFICATE 2025 - 2028

EQUALITY SCALE FKA 2025 AWARD

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

1. C/I ratio for 4Q25 excludes salary expenses of ISK 804m due to early retirement of employees and an income of ISK 237m within net interest income (ISK 550m reversed from charge in 3Q25 due to provision for legal proceedings and a charge of ISK 313m due to correction from previous years). C/I ratio for 3Q25 excludes a charge of ISK 550m within net interest income due to a provision for legal proceedings.
2. Including 1Q26 profit for 31.3.26 and 3Q25 profit for 30.9.25.

Directors' Report

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

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

Key operating highlights for the first half of 2026

During the first half of the year, the Bank remained focused on executing its strategy. A new loyalty service was introduced, designed to differentiate between customers based on the number of products held and the scope of their relationship with the Bank. In addition, the Bank launched various new digital solutions, including a new online banking platform providing additional services to SME and corporate clients. Further, the Bank introduced a new product offering in the acquiring space in cooperation with Nets (part of Nexi Group), a leading European payment solutions company.

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

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

Operating income improving compared to the previous year

The Group's profit for the reporting period amounted to ISK 14,525 million, compared to ISK 12,401 million in the previous year. This corresponds to a return on equity of 13.4% and 11.1%, respectively. Profit for the second quarter amounted to ISK 7,069 million, compared with ISK 7,192 million in the same period of the previous year. Core income, defined as net interest income and net fee and commission income, grew by 16.1% in the first half of the year. Net interest income amounted to ISK 32,381 million, compared to ISK 26,820 million in the previous year, where the net interest margin was 3.7% and 3.2% respectively. This was mainly due to higher inflation in the first half of 2026 compared to the previous year. Net fee and commission income was ISK 6,526 million in the first half of the year, comparable to the previous year. As in previous periods, lower turnover in capital markets had an adverse impact on the Group's net fee and commission income. Salaries amounted to ISK 9,708 million and grew by ISK 807 million over the first half of the year. In the first half of 2026, a total of around ISK 370 million was expensed related to redundancies. In addition, ISK 671 million was expensed related to the variable employee remuneration scheme, which was introduced at the beginning of 2026. At the end of the reporting period the Group employed 728 full-time equivalents, 691 within the Bank, and 37 in subsidiaries, excluding subsidiaries which are held for sale. The cost-to-income ratio decreased to 40.7% in the first half of 2026 compared to 44.1% in the previous year.

Healthy balance sheet growth while asset quality remains high

Over the first half of the year, the Group's loan portfolio grew by 3.6% to ISK 1,416 billion, or by over 7% on an annual basis. The composition of the loan book is broadly comparable to previous years. Overall credit quality remains high as in historical periods, as 94% of the loan book is covered by collateral and LTVs remain low. NPLs grew from 1.5% at the beginning of the year to 2.6% at the end of the first half. As a result, impairment charges for the first six months grew to ISK 1,673 million compared to impairment reversals of ISK 399 million in the previous year, mainly due to borrower-specific circumstances. Over the first half of the year deposits from customers grew by 7.2%, from ISK 969 billion at year-end 2025 to ISK 1,038 billion at the end of June 2026.

Directors' Report

Strong capital position – excess capital amounts to ISK 23.1 billion

The Group's capital position remains strong. As a result of the SREP process, the Group received an updated capital requirement towards the end of the first half of 2026. Following that, the Group is required to maintain a minimum CET1 position of 15.2%, bringing the Group's target CET1 level to 17.2%, including the midpoint of the management buffer. At the end of the reporting period, the CET1 position was 19.1%, 185 basis points in excess of the target. In addition, the Group had a total of ISK 3.9 billion in approved and uncompleted buybacks at the end of the period. Overall, the excess capital available for distributions and/or growth amounted to ISK 23.1 billion at the end of the reporting period. During the first half of the year, the Group distributed a total of ISK 27.8 billion through ordinary dividend and buybacks.

Operating results ahead of guidance

	Target for the medium term	2Q26 result	1H26 result	Updated guidance for year-end 2026
Return on equity	>13%	13.3%	13.4%	>12.5%
Cost-to-income	<43%	43.1%	40.7%	41-43%
CET1 excess	100-300 bps	385 bps	385 bps	200 bps
Dividend payout ratio	50%	50%	50%	50%

Outlook for the Group

The macroeconomic outlook deteriorated during the first half of the year. Inflation is expected to remain high throughout the year, and the Central Bank is expected to raise policy rates in August, followed by broadly unchanged policy rates in the coming months. Rate cuts are assumed to materialise during 2027. Due to this, domestic loan growth is assumed to remain subdued. However, international growth in the loan book will provide additional growth opportunities. Overall, the Group expects loan growth to be around mid-single digits in 2026 as a whole. High inflation is also expected to result in higher net interest margins compared to the previous year. In addition, fluctuations in the income statement are expected, in line with the seasonality of inflationary ticks which tend to be higher in the first half of the year compared to the second half. The Bank further notes that, although high inflation may support higher net interest income in the short term, asset quality may deteriorate over the long term as a result. Uncertainty remains regarding capital market volumes and overall activity in investment banking services. The Bank's market share and market position remain good, and the Bank is well positioned to reap the benefits of increased activity as it picks up.

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

Ownership

The shares of Íslandsbanki are listed on the Nasdaq Iceland stock exchange. The Bank has one of the largest shareholder bases of listed companies in Iceland. At the end of the reporting period, the Bank had 23,666 shareholders (year-end 2025: 25,302), with 91.4% of the Bank's shares owned by domestic parties, and 8.6% by international investors. Pension funds are the largest investor group, holding 44.2% of outstanding shares, followed by retail investors with 25.5% of outstanding shares, both figures taking into consideration treasury shares.

Directors' Report

Statement by the Board of Directors and the CEO

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

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

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

Kópavogur, 29 July 2026

Board of Directors:

Heiðar Guðjónsson, Chairman

Stefán Pétursson, Vice-Chairman

Haukur Örn Birgisson

Helga Hlín Hákonardóttir

Margrét Pétursdóttir

Stefán Sigurðsson

Valgerður Hrund Skúladóttir

Chief Executive Officer:

Jón Guðni Ómarsson

Independent Auditor's Review Report

To the Board of Directors and Shareholders of Íslandsbanki hf.

Introduction

We have reviewed the accompanying Consolidated Interim Statement of Financial Position of Íslandsbanki hf. as of 30 June 2026, the Consolidated Interim Income Statement and the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Changes in Equity and the Consolidated Interim Statement of Cash Flows for the six month period then ended, and Notes to the Condensed Consolidated Interim Financial Statements ("the Condensed Consolidated Interim Financial Statements"). Management is responsible for the preparation and presentation of these Condensed Consolidated Interim Financial Statements in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable. Our responsibility is to express a conclusion on these Condensed Consolidated Interim Financial Statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting and additional requirements in the Act on Annual Accounts, no. 3/2006; the Act on Financial Undertakings, no. 161/2002; and rules on accounting for credit institutions, where applicable.

Reykjavík, 29 July 2026

KPMG ehf.

Hrafnhildur Helgadóttir

Sigurjón Örn Arnarson

Consolidated Interim Income Statement

	Notes	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Interest income calculated using the effective interest rate method		77,850	67,478	37,005	34,609
Other interest income		1,501	2,129	666	1,048
Interest expense		(46,970)	(42,787)	(22,390)	(21,776)
Net interest income	5	32,381	26,820	15,281	13,881
Fee and commission income		9,515	9,606	4,826	4,979
Fee and commission expense		(2,989)	(2,919)	(1,568)	(1,359)
Net fee and commission income	6	6,526	6,687	3,258	3,620
Net financial income (expense)	7	(307)	(973)	(94)	13
Net foreign exchange gain	8	424	118	267	71
Other operating income	9	15	594	1	131
Other net operating income		132	(261)	174	215
Total operating income		39,039	33,246	18,713	17,716
Salaries and related expenses	10	(9,708)	(8,901)	(5,096)	(4,412)
Other operating expenses	11	(6,182)	(5,756)	(2,964)	(2,849)
Bank tax		(1,094)	(1,013)	(548)	(513)
Total operating expenses		(16,984)	(15,670)	(8,608)	(7,774)
Profit before net impairment on financial assets		22,055	17,576	10,105	9,942
Net impairment on financial assets	12	(1,673)	399	(454)	402
Profit before tax		20,382	17,975	9,651	10,344
Income tax expense	13	(5,857)	(5,574)	(2,582)	(3,152)
Profit for the period		14,525	12,401	7,069	7,192
Earnings per share	14				
Basic EPS attributable to shareholders of Íslandsbanki hf. (ISK)		8.41	6.60	4.15	3.84
Diluted EPS attributable to shareholders of Íslandsbanki hf. (ISK)		8.41	6.60	4.15	3.84

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Comprehensive Income

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Profit for the period	14,525	12,401	7,069	7,192
Net changes in FV of fin. liab. attributable to changes in credit risk	(435)	(488)	(613)	(480)
Tax related to net changes in FV of fin. liab. attrib. to changes in credit risk	87	106	123	97
Items that will not be reclassified to the income statement	(348)	(382)	(490)	(383)
Foreign currency translation	(3)	-	-	(1)
Net changes in fair value of debt instruments at FVOCI	(1,151)	97	(93)	30
Reclassification to the income statement of debt instruments at FVOCI	18	(3)	13	(1)
Changes in allowance for ECL of debt instruments at FVOCI	4	(2)	1	2
Tax related to debt instruments at FVOCI	294	(24)	21	(8)
Items that may subsequently be reclassified to the income statement	(838)	68	(58)	22
Other comprehensive expense for the period, net of tax	(1,186)	(314)	(548)	(361)
Total comprehensive income for the period	13,339	12,087	6,521	6,831

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	Notes	30.6.2026	31.12.2025
Assets			
Cash and balances with Central Bank	19	91,559	80,394
Loans to credit institutions	20	65,288	80,009
Bonds and debt instruments	15	166,740	151,959
Derivatives	21	4,047	5,304
Loans to customers	22	1,416,048	1,367,106
Shares and equity instruments	15	12,770	20,517
Other assets*	24	31,933	22,858
Total Assets		1,788,385	1,728,147
Liabilities			
Deposits from Central Bank and credit institutions	25	17,664	13,250
Deposits from customers	26	1,038,206	968,695
Derivative instruments and short positions	21	2,691	6,183
Debt issued and other borrowed funds	28	440,206	444,593
Subordinated loans	29	40,874	40,315
Tax liabilities		13,440	12,757
Other liabilities	30	24,209	16,995
Total Liabilities		1,577,290	1,502,788
Equity			
Share capital		8,371	8,900
Share premium		26,380	42,472
Reserves		5,774	7,201
Retained earnings		170,570	166,786
Total Equity		211,095	225,359
Total Liabilities and Equity		1,788,385	1,728,147

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

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Reserves: Statutory reserve	Reserves: Unrealised FV changes of financial assets in the banking book	Reserves: Capitalised development cost	Reserves: Unrealised gains in associates	Reserves: Reserve for debt instruments at FVOCI	Reserves: Liability credit risk reserve	Reserves: Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2025	9,473	55,000	2,500	2,829	1,067	648	192	(135)	1	155,780	227,355
Profit for the period										12,401	12,401
Net changes in FV of fin. liab. due to changes in credit risk								(355)		(133)	(488)
Tax on net changes in FV of fin. liab. due to changes in credit risk								71		35	106
Foreign currency translation											-
Net changes in fair value of debt instruments at FVOCI							97				97
Reclassification to the income statement of debt inst. at FVOCI							(3)				(3)
Changes in allowance for ECL of debt instruments at FVOCI							(2)				(2)
Tax related to debt instruments at FVOCI							(24)				(24)
Total comprehensive income for the period	-	-	-	-	-	-	68	(284)	-	12,303	12,087
Dividends										(12,103)	(12,103)
Purchase of treasury shares	(105)									(2,509)	(2,614)
Reduction in share capital		(12,528)	(149)							12,677	-
Other changes to restricted reserves				(140)	(147)	683				(396)	-
Equity as at 30 June 2025	9,368	42,472	2,351	2,689	920	1,331	260	(419)	1	165,752	224,725

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Changes in Equity

			Reserves								
	Share capital	Share premium	Statutory reserve	Unrealised FV changes of financial assets in the banking book	Capitalised development cost	Unrealised gains in associates	Reserve for debt instruments at FVOCI	Liability credit risk reserve	Foreign currency translation reserve	Retained earnings	Total equity
Equity as at 1 January 2026	8,900	42,472	2,351	2,707	776	1,866	411	(913)	3	166,786	225,359
Profit for the period										14,525	14,525
Net changes in FV of fin. liab. due to changes in credit risk								(435)			(435)
Tax on net changes in FV of fin. liab. due to changes in credit risk								87			87
Foreign currency translation									(3)		(3)
Net changes in fair value of debt instruments at FVOCI							(1,151)				(1,151)
Reclassification to the income statement of debt inst. at FVOCI							18				18
Changes in allowance for ECL of debt instruments at FVOCI							4				4
Tax related to debt instruments at FVOCI							294				294
Total comprehensive income (expense) for the period	-	-	-	-	-	-	(835)	(348)	(3)	14,525	13,339
Dividends										(12,604)	(12,604)
Purchase of treasury shares	(529)									(14,630)	(15,159)
Reduction in share capital		(16,092)	(159)							16,251	-
Equity-settled incentive scheme charge										35	35
Share option charge										125	125
Other changes to restricted reserves				(48)	(145)	111				82	-
Equity as at 30 June 2026	8,371	26,380	2,192	2,659	631	1,977	(424)	(1,261)	-	170,570	211,095

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

At the AGM, shareholders approved the Board's proposal to distribute dividends of ISK 12,600 million, equivalent to ISK 7.28 per share (2025: ISK 6.46 per share). The dividends were paid on 8 April 2026. Íslandsbanki bought back 105.8 million own shares for ISK 15,159 million during the first half of 2026 (first half 2025: 21.1 million own shares for ISK 2,614 million). As of 30 June 2026 the Bank owned 79.1 million own shares (year-end 2025: 100.5 million).

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

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

	Notes	2026 1.1-30.6	2025 1.1-30.6
Profit for the period		14,525	12,401
Non-cash items included in profit for the period*		(22,930)	(19,895)
Changes in operating assets and liabilities*		8,434	9,370
Interest received		66,974	63,992
Interest paid**		(41,719)	(29,057)
Dividends received		368	850
Bank tax paid		(949)	(1,002)
Income tax and special financial activities tax paid		(4,877)	(5,126)
Net cash provided by operating activities		19,826	31,533
Purchase of investment property		(4)	(16)
Proceeds from sales of property and equipment		12	192
Purchase of property and equipment		(189)	(252)
Additions of intangible assets		(536)	(304)
Net cash used in investing activities		(717)	(380)
Proceeds from borrowings		51,349	72,344
Repayment and repurchases of borrowings		(46,772)	(30,924)
Repayment of lease liabilities		(302)	(290)
Dividends paid		(12,604)	(12,103)
Purchase of treasury shares		(15,159)	(2,614)
Net cash provided by (used in) financing activities		(23,488)	26,413
Net increase (decrease) in cash and cash equivalents		(4,379)	57,566
Effects of foreign exchange rate changes		(444)	(5,232)
Cash and cash equivalents at the beginning of the year		125,897	83,548
Cash and cash equivalents at the end of the period		121,074	135,882
Reconciliation of cash and cash equivalents	Notes		
Cash on hand	19	3,605	3,537
Unrestricted balances with Central Bank	19	53,079	52,435
Money market loans and other loans to credit institutions	20	58,803	70,575
Bank accounts not pledged as collateral against derivative instruments	18, 20	5,587	9,335
Cash and cash equivalents at the end of the period		121,074	135,882

*For further breakdown see the following page.

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

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

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Consolidated Interim Statement of Cash Flows

Non-cash items included in profit for the period

	2026 1.1-30.6	2025 1.1-30.6
Net interest income	(32,381)	(26,820)
Unrealised fair value (gain) loss recognised in the income statement	(164)	618
Foreign exchange gain	(424)	(118)
Depreciation, amortisation, and write-offs	1,039	838
Bank tax	1,094	1,013
Net impairment on financial assets	1,770	(368)
Income tax expense	5,857	5,574
Other changes	279	(632)
Total	(22,930)	(19,895)

Changes in operating assets and liabilities

	2026 1.1-30.6	2025 1.1-30.6
Mandatory reserve and pledged balances with Central Bank	(1,165)	(337)
Loans to credit institutions pledged as collateral against derivative instruments	(217)	1,191
Bonds and debt instruments	(16,450)	5,413
Loans to customers	(45,333)	(36,389)
Shares and equity instruments	7,661	5,581
Other assets	(3,802)	(8,292)
Deposits from Central Bank and credit institutions	4,308	2,261
Deposits from customers	62,115	37,872
Derivative instruments and short positions	(3,519)	(1,267)
Other liabilities	4,836	3,337
Total	8,434	9,370

The notes on pages 15 to 48 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Corporate information

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

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

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

2. Basis of preparation

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

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

The Condensed Consolidated Interim Financial Statements are presented in Icelandic króna (ISK), which is the functional currency of Íslandsbanki hf. All amounts presented in ISK have been rounded to the nearest million, except where otherwise indicated. At 30 June 2026, the exchange rate of the ISK against the USD was 126.38 and for the EUR 144.00 (year-end 2025: USD 125.20 and EUR 147.20).

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

Changes to accounting policies

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

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

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

Basis of measurement

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

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

Notes to the Condensed Consolidated Interim Financial Statements

3. Significant accounting estimates and judgements

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

Impairment of financial assets

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

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

Change in economic indicators %	2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029
Economic growth (YoY real GDP change)	1.3	1.3	2.1	2.5	2.5
Housing prices in Iceland (average YoY change)	5.3	3.0	4.1	6.5	4.0
Purchasing power (average YoY change)	3.7	1.0	1.3	1.0	1.5
ISK exchange rate index (average YoY change)	(4.3)	(0.2)	2.9	2.1	1.0
Policy rate, Central Bank of Iceland (average per year)	7.7	7.7	7.1	6.1	5.8
Inflation (average per year)	4.1	5.1	4.4	3.8	3.5
Capital formation (YoY real change)	4.0	(3.9)	0.4	2.9	2.2
- thereof capital formation in industry	7.5	(5.6)	(0.8)	2.4	1.5

The All Risk Committee determined it appropriate to keep the weights of forward-looking scenarios unchanged from year-end 2025 at 20%-50%-30% (optimistic, base, pessimistic) at the end of the first half. Management reviews the sensitivity analysis on the impact of shifting weights between scenarios when determining the appropriate weights for the three scenarios. According to the analysis, a shift of 5% weight from the baseline to the pessimistic scenario would increase the impairment allowance by ISK 270 million, while a 5% shift from the baseline to the optimistic scenario would decrease the allowance by ISK 110 million. Scenario weights can be scaled linearly, allowing a broader scope of analysis on the impairment allowance.

The impairment process is designed to be systematic so that it can be consistently applied. For the largest part of the loan portfolio, the Group employs an automatic process to assign facilities to stages and to estimate the ECL. For large or complex credit cases where the automatic process is not appropriate, alternative ECL calculations (referred to as "manual impairment") are proposed by experts. Each manual impairment is subsequently reviewed and approved or rejected by the Impairment Council. As of 30 June 2026, exposure to a few counterparties amounting to ISK 22.8 billion was subject to manual impairment, with the associated ECL totalling ISK 2.7 billion (year-end 2025: ISK 9.3 billion and ISK 2.7 billion, respectively).

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

4. Operating segments

1 January to 30 June 2026	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	10,493	10,341	7,707	4,095	(175)	32,461	(80)	32,381
Net fee and commission income (expense)	1,837	1,052	2,311	55	(6)	5,249	1,277	6,526
Other net operating income	52	(22)	620	367	163	1,180	(1,048)	132
Total operating income	12,382	11,371	10,638	4,517	(18)	38,890	149	39,039
Salaries and related expenses	(1,529)	(1,392)	(1,333)	(149)	(4,607)	(9,010)	(698)	(9,708)
Other operating expenses	(1,328)	(641)	(635)	(212)	(3,132)	(5,948)	(234)	(6,182)
Bank tax	(485)	(261)	(290)	(51)	(7)	(1,094)	-	(1,094)
Net impairment on financial assets	(277)	(834)	(714)	(30)	-	(1,855)	182	(1,673)
Cost allocation	(3,141)	(2,639)	(2,221)	245	7,756	-	-	-
Profit (loss) before tax	5,622	5,604	5,445	4,320	(8)	20,983	(601)	20,382
Income tax expense	(1,587)	(1,525)	(1,495)	(1,145)	(1)	(5,753)	(104)	(5,857)
Profit (loss) for the period	4,035	4,079	3,950	3,175	(9)	15,230	(705)	14,525
Net segment revenue from external customers	18,974	14,089	16,569	(10,873)	131	38,890	149	39,039
Net segment revenue from other segments	(6,592)	(2,718)	(5,931)	15,390	(149)	-	-	-
Fee and commission income	4,166	1,192	2,499	192	-	8,049	1,466	9,515
Depreciation, amortisation, and write-offs	(108)	(24)	(4)	-	(780)	(916)	(123)	(1,039)
At 30 June 2026								
Loans to customers	665,330	358,890	395,271	-	-	1,419,491	(3,443)	1,416,048
Other assets	3,577	1,714	4,339	345,393	9,959	364,982	7,355	372,337
Total segment assets	668,907	360,604	399,610	345,393	9,959	1,784,473	3,912	1,788,385
Deposits from customers	550,448	290,008	180,332	20,297	-	1,041,085	(2,879)	1,038,206
Other liabilities	2,840	1,379	13,025	510,869	6,886	534,999	4,085	539,084
Total segment liabilities	553,288	291,387	193,357	531,166	6,886	1,576,084	1,206	1,577,290
Allocated equity	38,772	53,715	70,899	43,569	1,434	208,389	2,706	211,095
Risk exposure amount	237,169	311,920	421,363	59,453	8,686	1,038,591	5,122	1,043,713

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

Amounts are in ISK million

4. Operating segments (continued)

1 January to 30 June 2025	Personal Banking	Business Banking	Corporate & Investment Banking	Treasury & Proprietary Trading	Cost centres	The Bank total	Subsidiaries, eliminations & adjustments	The Group total
Net interest income (expense)	9,064	9,700	6,886	1,296	(210)	26,736	84	26,820
Net fee and commission income (expense)	1,915	992	2,451	(123)	(7)	5,228	1,459	6,687
Other net operating income	67	(30)	1,114	(838)	219	532	(793)	(261)
Total operating income	11,046	10,662	10,451	335	2	32,496	750	33,246
Salaries and related expenses	(1,429)	(1,216)	(1,162)	(145)	(4,381)	(8,333)	(568)	(8,901)
Other operating expenses	(1,344)	(612)	(603)	(266)	(2,841)	(5,666)	(90)	(5,756)
Bank tax	(456)	(253)	(267)	(30)	(7)	(1,013)	-	(1,013)
Net impairment on financial assets	(107)	720	(150)	(64)	-	399	-	399
Cost allocation	(2,929)	(2,482)	(2,128)	322	7,217	-	-	-
Profit (loss) before tax	4,781	6,819	6,141	152	(10)	17,883	92	17,975
Income tax expense	(1,362)	(1,837)	(1,666)	(420)	-	(5,285)	(289)	(5,574)
Profit (loss) for the period	3,419	4,982	4,475	(268)	(10)	12,598	(197)	12,401
Net segment revenue from external customers	12,794	12,700	16,259	(9,441)	184	32,496	750	33,246
Net segment revenue from other segments	(1,748)	(2,038)	(5,808)	9,776	(182)	-	-	-
Fee and commission income	3,978	1,119	2,658	118	(4)	7,869	1,737	9,606
Depreciation, amortisation, and write-offs	(98)	(28)	(5)	-	(699)	(830)	(8)	(838)
At 31 December 2025								
Loans to customers	630,788	346,943	387,476	1,899	-	1,367,106	-	1,367,106
Other assets	3,978	1,703	1,268	342,241	9,773	358,963	2,078	361,041
Total segment assets	634,766	348,646	388,744	344,140	9,773	1,726,069	2,078	1,728,147
Deposits from customers	524,781	288,142	148,732	10,160	-	971,815	(3,120)	968,695
Other liabilities	3,033	2,870	3,778	516,573	6,049	532,303	1,790	534,093
Total segment liabilities	527,814	291,012	152,510	526,733	6,049	1,504,118	(1,330)	1,502,788
Allocated equity	46,965	55,352	70,303	48,023	1,308	221,951	3,408	225,359
Risk exposure amount	221,633	306,872	430,188	60,696	8,542	1,027,931	5,857	1,033,788

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

4. Operating segments (continued)

Subsidiaries, eliminations & adjustments

1 January to 30 June 2026	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income (expense)	5	76	-	(161)	(80)
Net fee and commission income (expense)	673	606	-	(2)	1,277
Other net operating income	(20)	5	322	(1,355)	(1,048)
Total operating income	658	687	322	(1,518)	149
Salaries and related expenses	(514)	(134)	(50)	-	(698)
Other operating expenses	(132)	(115)	(259)	272	(234)
Net impairment on financial assets	-	-	-	182	182
Profit (loss) before tax	12	438	13	(1,064)	(601)
Income tax	(2)	(99)	(3)	-	(104)
Profit (loss) for the period	10	339	10	(1,064)	(705)
Net segment revenue from external customers	844	608	(338)	(965)	149
Net segment revenue from other segments	(186)	79	660	(553)	-
Fee and commission income	972	793	-	(299)	1,466
Depreciation, amortisation, and write-offs	-	-	(2)	(121)	(123)
At 30 June 2026					
Total assets	1,897	3,249	8,152	(9,386)	3,912
Total liabilities	402	1,264	5,722	(6,182)	1,206
Total equity	1,495	1,985	2,430	(3,204)	2,706

1 January to 30 June 2025	Íslands-sjóðir hf.	Allianz Ísland hf.	Other subsidiaries	Eliminations & adjustments	Total
Net interest income	5	78	-	1	84
Net fee and commission income (expense)	729	747	-	(17)	1,459
Other net operating income	(118)	(21)	260	(914)	(793)
Total operating income	616	804	260	(930)	750
Salaries and related expenses	(400)	(135)	(33)	-	(568)
Other operating expenses	(129)	(94)	(215)	348	(90)
Profit (loss) before tax	87	575	12	(582)	92
Income tax	(18)	(140)	(4)	(127)	(289)
Profit (loss) for the period	69	435	8	(709)	(197)
Net segment revenue from external customers	783	723	5	(761)	750
Net segment revenue from other segments	(167)	81	255	(169)	-
Fee and commission income	1,015	1,023	-	(301)	1,737
Depreciation, amortisation, and write-offs	-	(2)	(1)	(5)	(8)
At 31 December 2025					
Total assets	2,060	3,534	2,482	(5,998)	2,078
Total liabilities	316	1,288	65	(2,999)	(1,330)
Total equity	1,744	2,246	2,417	(2,999)	3,408

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

5. Net interest income

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Cash and balances with Central Bank	1,616	1,297	839	802
Loans to credit institutions	879	1,395	385	643
Loans to customers	71,253	61,497	33,659	31,662
Financial assets mandatorily at fair value through other comprehensive income	4,102	3,289	2,122	1,502
Interest income calculated using the effective interest rate method	77,850	67,478	37,005	34,609
Financial assets mandatorily at fair value through profit or loss	1,497	2,126	664	1,047
Other assets	4	3	2	1
Other interest income	1,501	2,129	666	1,048
Deposits from Central Bank and credit institutions	(126)	(162)	(63)	(93)
Deposits from customers	(28,190)	(27,138)	(13,909)	(13,356)
Financial liabilities mandatorily at fair value through profit or loss	(1,460)	(1,530)	(751)	(679)
Debt issued and other borrowed funds designated as at fair value through profit or loss	(1,633)	(507)	(820)	(419)
Debt issued and other borrowed funds at amortised cost	(13,478)	(11,867)	(5,881)	(6,374)
Subordinated loans	(2,045)	(1,526)	(946)	(820)
Lease liabilities	(35)	(36)	(18)	(18)
Other liabilities	(3)	(21)	(2)	(17)
Interest expense	(46,970)	(42,787)	(22,390)	(21,776)
Net interest income	32,381	26,820	15,281	13,881

6. Net fee and commission income

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Asset management	1,473	1,464	714	711
Investment banking and brokerage	1,670	1,873	841	1,091
Payment processing	4,150	4,008	2,190	2,112
Loans and guarantees	1,280	1,031	633	534
Other fee and commission income	942	1,230	448	531
Fee and commission income	9,515	9,606	4,826	4,979
Brokerage	(286)	(305)	(141)	(177)
Payment processing expenses	(2,468)	(2,190)	(1,292)	(1,063)
Other fee and commission expense	(235)	(424)	(135)	(119)
Fee and commission expense	(2,989)	(2,919)	(1,568)	(1,359)
Net fee and commission income	6,526	6,687	3,258	3,620

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

7. Net financial income (expense)

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Net gain (loss) on financial assets and financial liabilities mandatorily at FVTPL	(356)	(217)	673	277
Net gain (loss) on financial liabilities designated as at FVTPL	261	(749)	(576)	(293)
Net gain (loss) on fair value hedges	(63)	10	(51)	49
Net loss on derecognition of financial liabilities measured at amortised cost	(133)	(18)	(126)	(21)
Net gain (loss) on sale of debt instruments measured at FVOCI	(16)	1	(14)	1
Net financial income (expense)	(307)	(973)	(94)	13

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

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Fair value changes of the hedged items attributable to the hedged risk	689	(213)	(118)	(357)
Fair value changes of the hedging derivatives	(752)	223	67	406
Net gain (loss) on fair value hedges	(63)	10	(51)	49

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

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Net gain (loss) on bonds and related derivatives	(26)	(98)	13	(105)
Net loss on shares and related derivatives	(532)	(1,539)	(240)	(442)
Dividend income	368	850	231	555
Net gain (loss) on debt issued and related derivatives	(80)	120	(16)	87
Net loss on economic hedging and other derivatives	(21)	(307)	(68)	(84)
Net gain (loss) on sale of debt instruments measured at FVOCI	(16)	1	(14)	2
Net financial income (expense)	(307)	(973)	(94)	13

8. Net foreign exchange gain

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Cash and balances with Central Bank	(41)	(83)	(8)	(66)
Loans at amortised cost	(3,835)	(9,793)	1,115	(5,361)
Financial assets mandatorily at fair value through profit or loss	(981)	(86)	(49)	(2,698)
Financial assets mandatorily at fair value through other comprehensive income	(1,365)	(888)	(116)	(706)
Other assets	(6)	(16)	-	2
Net foreign exchange gain (loss) for assets	(6,228)	(10,866)	942	(8,829)
Deposits	902	7,794	(714)	5,023
Debt issued and other borrowed funds designated as at fair value through profit or loss	1,960	757	(248)	159
Debt issued and other borrowed funds at amortised cost	3,169	2,571	118	3,421
Subordinated loans	621	(138)	169	297
Net foreign exchange gain (loss) for liabilities	6,652	10,984	(675)	8,900
Net foreign exchange gain	424	118	267	71

Amounts are in ISK million

9. Other operating income

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Fair value changes on investment property	(4)	284	(2)	(6)
Share of profit (loss) of associates, net of tax	112	148	68	(8)
Net expense from repossessed collateral	(150)	(16)	(82)	(12)
Gain from sales of property and equipment	4	133	-	133
Legal fees	31	34	16	18
Rental income	12	11	(4)	6
Other net operating income	10	-	5	-
Other operating income	15	594	1	131

10. Salaries and related expenses

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Salaries	7,004	6,877	3,627	3,421
Incentive scheme expenses	523	-	332	-
Share-option programme expenses	121	-	63	-
Contributions to pension funds	1,150	1,060	599	529
Social security charges and financial activities tax	984	920	509	464
Other salary-related expenses	128	104	73	47
Capitalisation of salaries and related expenses in software development	(202)	(60)	(107)	(49)
Salaries and related expenses	9,708	8,901	5,096	4,412

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

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

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

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

11. Other operating expenses

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Professional services	933	974	447	498
Software and IT expenses	2,704	2,442	1,341	1,197
Real estate and office equipment	370	356	192	177
Depreciation, amortisation, and write-offs	1,039	838	467	422
Other administrative expenses	1,136	1,146	517	555
Other operating expenses	6,182	5,756	2,964	2,849

12. Net impairment on financial assets

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Net change in expected credit losses, on-balance sheet items	(1,706)	413	(409)	397
Net change in expected credit losses, off-balance sheet items	33	(14)	(45)	5
Net impairment on financial assets	(1,673)	399	(454)	402

13. Income tax expense

Recognised income tax is based on applicable tax laws. The income tax rate for legal entities in 2026 is 20% (2025: 20%). Special financial activities tax is calculated as 6% of the Bank's taxable profit exceeding ISK 1 billion in accordance with the Act on Financial Activities Tax no. 165/2011. The effective income tax rate in the Group's income statement for the first half 2026 is 28.7% (first half 2025: 31.0%).

	2026 1.1-30.6	2025 1.1-30.6	2026 1.4-30.6	2025 1.4-30.6
Current tax expense	4,424	4,672	1,721	2,919
Special financial activities tax	1,272	1,326	495	844
Adjustments in prior year's calculated income tax	31	85	(2)	63
Changes in deferred tax assets and deferred tax liabilities	130	(509)	368	(674)
Income tax recognised in the income statement	5,857	5,574	2,582	3,152
Income tax recognised in other comprehensive income	(381)	(82)	(144)	(89)

	2026 1.1-30.6		2025 1.1-30.6	
Profit before tax	20,382		17,975	
Income tax calculated on the profit for the period	4,077	20.0%	3,594	20.0%
Special financial activities tax	1,272	6.2%	1,326	7.4%
Adjustments in prior year's calculated income tax	31	0.2%	85	0.5%
Income not subject to tax	(110)	(0.5%)	(227)	(1.3%)
Non-deductible expenses	568	2.8%	792	4.4%
Other differences	19	0.1%	4	0.0%
Effective income tax expense	5,857	28.7%	5,574	31.0%

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

Amounts are in ISK million

14. Earnings per share

	2026	2025	2026	2025
	1.1-30.6	1.1-30.6	1.4-30.6	1.4-30.6
Profit attributable to shareholders of the Bank	14,525	12,401	7,069	7,192
Weighted average number of outstanding shares	1,727	1,878	1,702	1,874
Basic earnings per share (ISK)	8.41	6.60	4.15	3.84
Profit attributable to shareholders of the Bank	14,525	12,401	7,069	7,192
Weighted average number of outstanding shares	1,728	1,878	1,703	1,874
Diluted earnings per share (ISK)	8.41	6.60	4.15	3.84

In August 2025, the Group entered into equity-settled share option agreements. Under the plan, each option holder is entitled to purchase Íslandsbanki shares with a value of up to ISK 1.5 million once annually for five years, following the publication of the Bank's half-year results for the years 2026 to 2030. The equity-settled share option agreements had a negligible dilutive effect on earnings per share in the first half and second quarter of 2026.

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15. Classification of financial assets and financial liabilities

At 30 June 2026	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	91,559	91,559
Loans to credit institutions	-	-	-	65,288	65,288
Listed bonds and debt instruments	6,583	-	146,048	-	152,631
Listed bonds and debt instruments used for economic hedging	12,019	-	-	-	12,019
Unlisted bonds and debt instruments	2,090	-	-	-	2,090
Derivatives	3,173	874	-	-	4,047
Loans to customers	-	-	-	1,416,048	1,416,048
Listed shares and equity instruments	3,063	-	-	-	3,063
Listed shares and equity instruments used for economic hedging	6,629	-	-	-	6,629
Unlisted shares and equity instruments	3,078	-	-	-	3,078
Other financial assets	-	-	-	6,366	6,366
Total financial assets	36,635	874	146,048	1,579,261	1,762,818

	Mandatorily at FVTPL	Hedge accounting*	Designated as at FVTPL	Amortised cost	Carrying amount
Deposits from Central Bank and credit institutions	-	-	-	17,664	17,664
Deposits from customers	-	-	-	1,038,206	1,038,206
Derivative instruments and short positions	2,691	-	-	-	2,691
Debt issued and other borrowed funds	-	80,888	89,264	270,054	440,206
Subordinated loans	-	-	-	40,874	40,874
Other financial liabilities	-	-	-	17,394	17,394
Total financial liabilities	2,691	80,888	89,264	1,384,192	1,557,035

At 31 December 2025	Mandatorily at FVTPL	Hedge accounting*	Mandatorily at FVOCI	Amortised cost	Carrying amount
Cash and balances with Central Bank	-	-	-	80,394	80,394
Loans to credit institutions	-	-	-	80,009	80,009
Listed bonds and debt instruments	11,149	-	132,559	-	143,708
Listed bonds and debt instruments used for economic hedging	6,123	-	-	-	6,123
Unlisted bonds and debt instruments	2,128	-	-	-	2,128
Derivatives	3,533	1,771	-	-	5,304
Loans to customers	-	-	-	1,367,106	1,367,106
Listed shares and equity instruments	3,200	-	-	-	3,200
Listed shares and equity instruments used for economic hedging	14,518	-	-	-	14,518
Unlisted shares and equity instruments	2,799	-	-	-	2,799
Other financial assets	-	-	-	3,452	3,452
Total financial assets	43,450	1,771	132,559	1,530,961	1,708,741

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

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

16. Fair value information for financial instruments

Financial instruments carried at fair value

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

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

At 30 June 2026	Level 1	Level 2	Level 3	Total
Bonds and debt instruments	164,650	-	2,090	166,740
Derivatives	-	4,047	-	4,047
Shares and equity instruments	9,692	-	3,078	12,770
Total financial assets	174,342	4,047	5,168	183,557
Short positions	23	-	-	23
Derivative instruments	-	2,668	-	2,668
Debt issued and other borrowed funds designated as at FVTPL	89,264	-	-	89,264
Total financial liabilities	89,287	2,668	-	91,955

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

Changes in Level 3 financial instruments measured at fair value	Bonds and debt instruments	Shares and equity instruments	Total
Fair value at 1 January 2026	2,128	2,799	4,927
Settlements	(38)	-	(38)
Purchases and share capital increase	-	358	358
Net loss on financial instruments recognised in the income statement	-	(79)	(79)
Fair value at 30 June 2026	2,090	3,078	5,168

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

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

Amounts are in ISK million

17. Financial instruments not carried at fair value

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

At 30 June 2026	Level 1	Level 2	Level 3	Total fair value	Carrying amount	Difference
Cash and balances with Central Bank	-	91,559	-	91,559	91,559	-
Loans to credit institutions	-	65,288	-	65,288	65,288	-
Loans to customers	-	-	1,412,418	1,412,418	1,416,048	(3,630)
Other financial assets	-	6,366	-	6,366	6,366	-
Total financial assets	-	163,213	1,412,418	1,575,631	1,579,261	(3,630)
Deposits from Central Bank and credit institutions	-	17,664	-	17,664	17,664	-
Deposits from customers	-	1,038,181	-	1,038,181	1,038,206	(25)
Debt issued and other borrowed funds	253,469	10,855	-	264,324	270,054	(5,730)
Subordinated loans	41,257	-	-	41,257	40,874	383
Other financial liabilities	-	17,394	-	17,394	17,394	-
Total financial liabilities	294,726	1,084,094	-	1,378,820	1,384,192	(5,372)

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

Amounts are in ISK million

Notes to the Condensed Consolidated Interim Financial Statements

18. Offsetting financial assets and financial liabilities

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

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

Derivatives	30.6.2026	31.12.2025
Financial assets	4,047	5,304
Amounts not set off but subject to master netting arrangements and similar agreements	(3,946)	(5,003)
- Financial liabilities	(579)	(1,553)
- Cash collateral received	(2,802)	(3,216)
- Financial instruments collateral received	(565)	(234)
Net amount after consideration of potential effect of netting arrangements	101	301

Derivative instruments and short positions	30.6.2026	31.12.2025
Financial liabilities	2,691	6,183
Amounts not set off but subject to master netting arrangements and similar agreements	(1,477)	(2,349)
- Financial assets	(579)	(1,553)
- Cash collateral pledged	(898)	(796)
Net amount after consideration of potential effect of netting arrangements	1,214	3,834

19. Cash and balances with Central Bank

	30.6.2026	31.12.2025
Cash on hand	3,605	3,270
Unrestricted balances with Central Bank	53,079	43,414
Cash and unrestricted balances with Central Bank	56,684	46,684
Balances pledged as collateral to Central Bank	111	712
Mandatory reserve deposits with Central Bank	34,764	32,998
Cash and balances with Central Bank	91,559	80,394

20. Loans to credit institutions

	30.6.2026	31.12.2025
Money market loans	54,608	69,660
Bank accounts	6,485	7,247
Other loans	4,195	3,102
Loans to credit institutions	65,288	80,009

Amounts are in ISK million

21. Derivative instruments and short positions

At 30 June 2026	Assets	Notional values related to assets	Liabilities	Notional values related to liabilities
Interest rate swaps	1,602	148,961	378	50,680
Cross-currency interest rate swaps	244	8,336	527	15,089
Equity forwards	1,574	5,189	216	3,489
Foreign exchange forwards	108	11,100	314	14,712
Foreign exchange swaps	255	18,121	1,206	56,915
Foreign exchange options	-	-	-	16
Bond forwards	264	6,487	27	7,309
Derivatives	4,047	198,194	2,668	148,210
Short positions in listed bonds	-	-	23	20
Total	4,047	198,194	2,691	148,230

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

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

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

The Group applies hedge accounting only with respect to certain EUR-denominated interest rate swaps, whereby the Group pays floating rate interest and receives fixed rate interest. The interest rate swaps are hedging the exposure of changes in the fair value of certain fixed-rate EUR-denominated bonds (see Note 28) arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 June 2026 the total fair value of the interest rate swaps in the hedging relationship was positive and amounted to ISK 874 million (year-end 2025: ISK 1,771 million) and their total notional amount was ISK 79,814 million (year-end 2025: ISK 88,320 million).

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22. Loans to customers

At 30 June 2026	Gross carrying amount			Expected credit losses			Net carrying
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	amount
Individuals	671,923	10,449	8,701	(824)	(182)	(556)	689,511
Commerce and services	214,877	12,281	9,154	(802)	(184)	(914)	234,412
Construction	90,185	3,832	12,475	(663)	(61)	(1,337)	104,431
Energy	18,555	545	-	(37)	(1)	-	19,062
Financial services	294	-	-	-	-	-	294
Industrial and transportation	76,837	3,473	921	(217)	(58)	(105)	80,851
Investment companies	43,383	3,633	377	(172)	(89)	(120)	47,012
Public sector and non-profit organisations	14,014	2	18	(23)	-	(4)	14,007
Real estate	127,015	3,314	4,844	(210)	(65)	(916)	133,982
Seafood	92,494	109	20	(128)	(2)	(7)	92,486
Loans to customers	1,349,577	37,638	36,510	(3,076)	(642)	(3,959)	1,416,048

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

23. Expected credit losses

Total allowances for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	82	-	-	82
Loans to customers	3,076	642	3,959	7,677
Other financial assets	7	3	-	10
Off-balance sheet loan commitments and financial guarantees	642	76	215	933
At 30 June 2026	3,824	721	4,174	8,719
Cash and balances with Central Bank	17	-	-	17
Loans to credit institutions	57	-	-	57
Loans to customers	2,743	1,204	3,699	7,646
Other financial assets	13	3	-	16
Off-balance sheet loan commitments and financial guarantees	682	164	121	967
At 31 December 2025	3,512	1,371	3,820	8,703

Amounts are in ISK million

23. Expected credit losses (continued)

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

Loans to customers

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2026	2,743	1,204	3,699	7,646
Transfer to Stage 1	467	(373)	(94)	-
Transfer to Stage 2	(212)	231	(19)	-
Transfer to Stage 3	(38)	(842)	880	-
Net remeasurement of loss allowance	(524)	432	889	797
New financial assets originated or purchased	1,095	117	625	1,837
Derecognitions and maturities	(455)	(127)	(1,931)	(2,513)
Write-offs*	-	-	(393)	(393)
Recoveries of amounts previously written off	-	-	96	96
Foreign exchange	-	-	(15)	(15)
Unwinding of interest	-	-	222	222
At 30 June 2026	3,076	642	3,959	7,677

*During the period financial assets amounting to ISK 408 million were written off but are still subject to enforcement activity.

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

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

Off-balance sheet loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2026	682	164	121	967
Transfer to Stage 1	50	(18)	(32)	-
Transfer to Stage 2	(16)	21	(5)	-
Transfer to Stage 3	(3)	(15)	18	-
Net remeasurement of loss allowance	(237)	(76)	55	(258)
New loan commitments and financial guarantees	213	7	87	307
Derecognitions and maturities	(47)	(7)	(29)	(83)
At 30 June 2026	642	76	215	933

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2025	565	32	314	911
Transfer to Stage 1	63	(35)	(28)	-
Transfer to Stage 2	(30)	51	(21)	-
Transfer to Stage 3	(4)	(4)	8	-
Net remeasurement of loss allowance	(462)	122	(90)	(430)
New loan commitments and financial guarantees	935	34	90	1,059
Derecognitions and maturities	(385)	(36)	(152)	(573)
At 31 December 2025	682	164	121	967

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24. Other assets

	30.6.2026	31.12.2025
Repossessed collateral	7,176	1,749
Investments in associates*	5,496	5,384
Investment property*	2,900	2,900
Property and equipment*	4,833	4,702
Intangible assets*	2,813	2,682
Receivables	1,276	2,363
Unsettled securities transactions	5,174	1,151
Prepaid expenses	1,984	1,655
Deferred tax assets	162	151
Other assets	119	121
Other assets	31,933	22,858

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

25. Deposits from Central Bank and credit institutions

	30.6.2026	31.12.2025
Deposits from credit institutions	17,453	13,041
Repurchase agreements with Central Bank	211	209
Deposits from Central Bank and credit institutions	17,664	13,250

26. Deposits from customers

	30.6.2026	31.12.2025
Demand deposits and deposits with maturity up to 3 months	919,951	854,319
Term deposits with maturity of more than 3 months	118,255	114,376
Deposits from customers	1,038,206	968,695

	30.6.2026		31.12.2025	
Deposits from customers specified by owners	Amount	% of total	Amount	% of total
Central government and state-owned enterprises	12,158	1%	10,556	1%
Municipalities	8,506	1%	7,611	1%
Companies	454,482	44%	416,957	43%
Individuals	563,060	54%	533,571	55%
Deposits from customers	1,038,206	100%	968,695	100%

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27. Pledged assets

	30.6.2026	31.12.2025
Loans to customers pledged as collateral against Covered Bonds	402,485	420,760
Cash and balances pledged as collateral against Covered Bonds	18,144	18,364
Loans to credit institutions and balances with Central Bank pledged as collateral against derivative instruments	1,478	1,483
Other financial assets pledged as collateral	5,545	7,229
Pledged assets against liabilities	427,652	447,836
Pledged assets against Covered Bonds held by the Bank	(180,976)	(160,225)
Pledged assets against liabilities on balance	246,676	287,611

The Group has pledged assets against the issuance of Covered Bonds under Icelandic law, which are pledged on a pool of consumer mortgage loans. The Group owns Covered Bonds for its own use which accounts for a portion of the pledged assets. The carrying amount of these bonds at 30 June 2026 was ISK 164,307 million (year-end 2025: ISK 131,212 million).

Other financial assets pledged as collateral are pledged with the Central Bank to ensure the clearing of the Icelandic payment system as well as collateral against contracts with the Government Debt Management.

Amounts are in ISK million

28. Debt issued and other borrowed funds

Currency and outstanding nominal	First issued	Maturity	Maturity type	Interest	30.6.2026	31.12.2025
ISB CBI 26 - ISK 0 million	2015	07.05.2026	Bullet	Fixed CPI, 3.37%	-	27,337
ISB CBF 27 - ISK 8,940 million	2022	10.05.2027	Bullet	REIBOR 1M + 0.40%	8,976	8,974
ISB CB 27 - ISK 9,047 million	2020	16.09.2027	Amortising	Fixed, 2.50%	9,237	12,270
ISB CB - EUR 254 million*	2022	20.09.2027	Bullet	Fixed, 3.00%	37,213	44,531
ISB CBF 28 - ISK 6,220 million	2026	11.03.2028	Bullet	REIBOR 1M + 0.15%	6,222	-
ISB CBI 28 - ISK 11,226 million	2019	11.08.2028	Amortising	Fixed CPI, 2.20%	16,830	19,465
ISB CBI 29 - ISK 34,780 million	2023	10.05.2029	Bullet	Fixed CPI, 2.72%	40,593	39,441
ISB CBI 30 - ISK 23,040 million	2017	31.05.2030	Bullet	Fixed CPI, 3.00%	36,030	34,708
ISB CB 31 - ISK 19,920 million	2025	03.06.2031	Bullet	Fixed, 7.39%	20,080	13,094
ISB CBI 32 - ISK 23,460 million	2024	03.12.2032	Bullet	Fixed CPI, 3.44%	25,864	13,482
Covered bonds					**201,045**	**213,302**
SEK 0 million	2023	13.04.2026	Bullet	STIBOR 3M + 3.65%	-	5,975
SEK 329 million	2023	08.11.2026	Bullet	STIBOR 3M + 2.70%	4,300	6,846
NOK 328 million	2024	25.01.2027	Bullet	NIBOR 3M + 2.35%	4,224	6,265
SEK 80 million	2024	25.01.2027	Bullet	STIBOR 3M + 2.35%	1,028	6,823
NOK 200 million	2024	02.07.2027	Bullet	NIBOR 3M + 1.20%	2,579	2,521
SEK 300 million	2024	02.07.2027	Bullet	STIBOR 3M + 1.20%	3,926	4,111
NOK 200 million	2025	16.07.2027	Bullet	NIBOR 3M + 0.98%	2,574	2,515
SEK 200 million	2025	16.07.2027	Bullet	STIBOR 3M + 1.00%	2,612	2,737
ISK 2,266 million	2022	22.11.2027	Amortising	REIBOR 1M + 1.25%	2,275	3,080
ISK 6,940 million	2022	22.11.2027	Bullet	Fixed, 7.70%	7,236	6,964
EUR 300 million*	2024	27.03.2028	Bullet	Fixed, 4.625%	43,675	46,077
NOK 100 million	2025	17.07.2028	Bullet	NIBOR 3M + 1.19%	1,287	1,258
SEK 500 million	2025	17.07.2028	Bullet	STIBOR 3M + 1.20%	6,531	6,843
ISK 19,460 million	2023	21.12.2028	Bullet	Fixed CPI, 4.48%	22,551	21,232
NOK 600 million	2026	11.06.2029	Bullet	NIBOR 3M + 0.78%	7,646	-
SEK 1,400 million	2026	11.06.2029	Bullet	STIBOR 3M + 0.80%	18,165	-
EUR 300 million**	2025	20.09.2030	Bullet	Fixed, 3.875%	45,201	45,377
EUR 300 million**	2025	11.11.2032	Bullet	Fixed, 3.75%	44,063	44,039
ISK 7,600 million	2024	14.11.2036	Bullet	Fixed CPI, 3.5%	8,210	7,746
Unsecured bonds					**228,083**	**220,409**
Other secured loans					39	-
Other unsecured loans					11,039	10,882
Other borrowed funds					**11,078**	**10,882**
Debt issued and other borrowed funds					**440,206**	**444,593**

The Group repurchased own bonds during the period amounting to ISK 18,982 million (first half 2025: 2,326 million).

*The Group applies hedge accounting to these bond issuances and uses certain EUR-denominated interest rate swaps as hedging instruments (see Note 21). The interest rate swaps are hedging the exposure of the Group's changes in the fair value of these fixed-rate EUR-denominated bonds arising from changes in EURIBOR interest rates. The Group applies fair value hedge accounting to the hedging relationships. At 30 June 2026 the total carrying amount of these bond issuances amounted to ISK 80,888 million and included in the amount are fair value changes amounting to ISK 138 million.

**These bond issuances are classified as being designated at fair value through profit or loss to eliminate accounting mismatch. At 30 June 2026 the total carrying amount of the bonds amounted to ISK 89,264 million and included in the amount are negative fair value changes amounting to ISK 732 million.

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

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29. Subordinated loans

Currency and outstanding nominal	First issued	Maturity	First Callable	Interest	30.6.2026	31.12.2025
ISK 1,500 million	2022	17.04.2033	17.04.2028	Fixed, 8.62%	1,526	1,526
ISK 9,020 million	2022	17.04.2033	17.04.2028	Fixed CPI, 4.86%	11,223	10,797
ISK 9,600 million	2023	12.09.2034	12.09.2029	Fixed CPI, 5.80%	11,521	10,776
Tier 2 subordinated loans					24,270	23,099
SEK 388 million	2021	Perpetual	28.09.2026	STIBOR 3M + 4.75%	5,026	5,262
SEK 700 million	2025	Perpetual	25.11.2030	STIBOR 3M + 3.50%	9,039	9,472
NOK 200 million	2025	Perpetual	25.11.2030	NIBOR 3M + 3.58%	2,539	2,482
Additional Tier 1 subordinated loans					16,604	17,216
Subordinated loans					40,874	40,315

30. Other liabilities

	30.6.2026	31.12.2025
Liabilities of disposal groups classified as repossessed collateral	2,178	-
Accruals	4,945	3,655
Lease liabilities	3,204	3,036
Expected credit losses for off-balance sheet loan commitments and financial guarantees	933	966
Withholding tax	2,556	5,064
Unsettled securities transactions	6,635	1,623
Sundry liabilities	3,758	2,651
Other liabilities	24,209	16,995

31. Custody assets

	30.6.2026	31.12.2025
Custody assets - not managed by the Group	4,187,989	3,802,565

Amounts are in ISK million

32. Related party

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

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

At 30 June 2026	Right-of-use asset	Loans to customers	Liabilities	Net balance	Guarantees & loan com-mitments
Board of Directors, key management personnel and other related parties ..	-	1,080	785	295	95
Associated companies	2,362	2,937	2,810	2,489	157
Balances with related parties	2,362	4,017	3,595	2,784	252

1 January to 30 June 2026	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	75	25	1	10
Associated companies	166	8	2	1,026
Transactions with related parties	241	33	3	1,036

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

1 January to 30 June 2025	Interest income	Interest expense	Other income	Other expense
Board of Directors, key management personnel and other related parties	42	19	1	23
Associated companies	239	10	1	996
Transactions with related parties	281	29	2	1,019

At 30 June 2026 a total of ISK 2 million (year-end 2025: ISK 1 million) was recognised as Stage 1 expected credit losses on balances with related parties.

Amounts are in ISK million

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33. Legal proceedings

The Bank and its subsidiaries are parties to legal proceedings and regulatory matters that arise in the ordinary course of business. At 30 June 2026, the Group had two contingent liabilities relating to 105 Miðborg slhf. – ÍAV hf. and EC Clear ehf. No provisions have been recognised in respect of these matters.

34. Events after the reporting period

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

35. Risk management

Risk governance

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

36. Maximum credit exposure and collateral

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

At 30 June 2026 **Collateral held against credit exposure**	Maximum exposure to credit risk	Residential real estate	Commercial real estate	Vessels	Cash & securities	Vehicles & equipment	Other collateral	Total credit exposure covered by collateral	Total credit exposure not covered by collateral	Associated ECL
Cash and balances with Central Bank	91,559	-	-	-	-	-	-	-	91,559	17
Loans to credit institutions	65,288	-	-	-	-	-	-	-	65,288	82
Bonds and debt instruments	146,048	-	-	-	-	-	32,767	32,767	113,281	-
Loans to customers:	1,416,048	721,725	312,713	67,283	42,995	99,661	79,929	1,324,306	91,742	7,677
Individuals	689,511	621,718	6,474	1	8	22,510	6	650,717	38,794	1,562
- Thereof mortgages	617,736	617,015	-	-	1	-	-	617,016	720	292
Commerce and services	234,412	15,728	82,280	761	22,436	59,964	37,522	218,691	15,721	1,900
Construction	104,431	53,113	40,698	12	145	5,102	2,800	101,870	2,561	2,061
Energy	19,062	3	11,076	-	-	116	4,081	15,276	3,786	38
Financial services	294	-	286	-	1	-	-	287	7	-
Industrial and transportation	80,851	1,256	44,355	-	63	11,356	12,520	69,550	11,301	380
Investment companies	47,012	2,925	18,198	-	17,341	199	4,052	42,715	4,297	381
Public sector and non-profit organisations	14,007	44	728	-	-	34	-	806	13,201	27
Real estate	133,982	26,644	102,589	-	2,911	207	86	132,437	1,545	1,191
Seafood	92,486	294	6,029	66,509	90	173	18,862	91,957	529	137
Other financial assets	6,366	-	-	-	-	-	-	-	6,366	10
Off-balance sheet items:	237,890	10,436	41,642	5,957	9,235	12	17,344	84,626	153,264	933
Financial guarantees	22,083	1,836	7,871	50	11	-	2,556	12,324	9,759	196
Loan commitments	215,807	8,600	33,771	5,907	9,224	12	14,788	72,302	143,505	737
Total	1,963,199	732,161	354,355	73,240	52,230	99,673	130,040	1,441,699	521,500	8,719

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

Amounts are in ISK million

36. Maximum credit exposure and collateral (continued)

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

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

Amounts are in ISK million

37. Credit quality of financial assets

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

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

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

At 30 June 2026

Loans to customers:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	539,277	1,178	-	540,455
Risk class 5-6	621,179	10,508	-	631,687
Risk class 7-8	172,010	17,150	-	189,160
Risk class 9	16,636	8,721	-	25,357
Risk class 10	-	-	36,510	36,510
Unrated	475	81	-	556
	1,349,577	37,638	36,510	1,423,725
Expected credit losses	(3,076)	(642)	(3,959)	(7,677)
Net carrying amount	1,346,501	36,996	32,551	1,416,048

Off-balance sheet loan commitments and financial guarantees:	Stage 1	Stage 2	Stage 3	Total
Risk class 1-4	115,219	10	-	115,229
Risk class 5-6	75,036	913	-	75,949
Risk class 7-8	42,332	1,427	-	43,759
Risk class 9	1,520	179	-	1,699
Risk class 10	-	-	1,127	1,127
Unrated	871	189	-	1,060
	234,978	2,718	1,127	238,823
Expected credit losses	(642)	(76)	(215)	(933)
Total	234,336	2,642	912	237,890

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Notes to the Condensed Consolidated Interim Financial Statements

37. Credit quality of financial assets (continued)

At 31 December 2025

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

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

Amounts are in ISK million

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38. Forbearance

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

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

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

At 30 June 2026

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses	Gross carrying amount	Expected credit losses
Individuals	3,512	(12)	7,139	(45)	2,939	(125)	13,590	(182)
Companies	5,963	(39)	6,658	(110)	9,549	(1,707)	22,170	(1,856)
Total	9,475	(51)	13,797	(155)	12,488	(1,832)	35,760	(2,038)

At 31 December 2025

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

39. Large exposures disclosure

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

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

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

At 30 June 2026

Groups of connected clients:	Before	After
Group 1	93%	9%

At 31 December 2025

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

Amounts are in ISK million

40. Liquidity coverage and net stable funding ratio

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

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

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

Net stable funding ratio

	30.6.2026	31.12.2025
For all currencies	126%	127%

Liquidity coverage ratio

	30.6.2026	31.12.2025
For all currencies	188%	203%
ISK	151%	129%
EUR	532%	733%

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

At 30 June 2026

	ISK	EUR	USD	Other	Total
Cash and balances with Central Bank	89,687	829	355	431	91,302
Level 1 bonds and debt instruments	88,096	25,922	-	14,650	128,668
Level 2 liquid assets	39,044	3,721	6	292	43,063
High quality liquidity assets	216,827	30,472	361	15,373	263,033
Balance with financial institutions	2	39,533	10,914	1,955	52,404
Liquidity reserve	216,829	70,005	11,275	17,328	315,437

At 31 December 2025

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

Amounts are in ISK million

41. Interest rate risk

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

Interest rate risk in the trading book

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

Sensitivity analysis for trading bonds and debt instruments

	30.6.2026		31.12.2025	
	Effect on profit before tax			
Currency	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	119	(119)	61	(61)
ISK, non-indexed	61	(61)	60	(60)
Total	180	(180)	121	(121)

Interest rate risk in the banking book

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

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

Sensitivity analysis for interest rate risk in the banking book

At 30 June 2026

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	24	(274)	(519)	(2,745)	1,541	386	(1,587)
ISK, non-indexed	158	(173)	(142)	(1,262)	(177)	(2)	(1,598)
EUR	265	(38)	(130)	60	47	-	204
USD	13	-	-	(1)	-	-	12
SEK	165	(2)	(37)	(103)	-	-	23
NOK	141	-	(14)	(30)	-	-	97
Other	20	-	(1)	(95)	-	-	(76)
Total	786	(487)	(843)	(4,176)	1,411	384	(2,925)

At 31 December 2025

Currency	0-3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
ISK, indexed	16	(83)	(724)	(723)	1,095	378	(41)
ISK, non-indexed	139	(106)	(394)	(530)	463	(2)	(430)
EUR	257	(120)	23	(125)	(6)	-	29
USD	6	-	-	(1)	-	-	5
SEK	141	-	(14)	(150)	-	-	(23)
NOK	193	(2)	(20)	(35)	-	-	136
Other	2	(11)	-	-	-	-	(9)
Total	754	(322)	(1,129)	(1,564)	1,552	376	(333)

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42. Currency risk

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

At 30 June 2026

	EUR	USD	SEK	NOK	Other foreign currencies	Total foreign currencies
Cash and balances with Central Bank	829	355	38	119	274	1,615
Loans to credit institutions	48,057	10,870	68	75	1,810	60,880
Bonds and debt instruments	29,790	91	10,269	7,419	-	47,569
Loans to customers	151,396	25,381	7,729	3,353	15,509	203,368
Shares and equity instruments	42	297	929	265	261	1,794
Other assets	253	572	-	91	-	916
Total assets	230,367	37,566	19,033	11,322	17,854	316,142
Deposits from credit institutions	637	1,706	5	96	143	2,587
Deposits from customers	57,100	44,038	775	2,807	9,511	114,231
Debt issued and other borrowed funds	171,520	11,000	36,579	18,302	-	237,401
Subordinated loans	-	-	14,065	2,539	-	16,604
Other liabilities	-	395	70	8	68	541
Total liabilities	229,257	57,139	51,494	23,752	9,722	371,364
Net on-balance sheet position	1,110	(19,573)	(32,461)	(12,430)	8,132	(55,222)
Net off-balance sheet position	(4,360)	20,347	32,034	12,419	(7,448)	52,992
Net position	(3,250)	774	(427)	(11)	684	(2,230)

At 31 December 2025

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

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Notes to the Condensed Consolidated Interim Financial Statements

43. Inflation risk

The Group considers inflation risk to be the most significant market risk factor. The Group is exposed to inflation risk since the value of CPI-linked assets exceeds CPI-linked liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect profit and loss. A 1% increase in the index would lead to an ISK 2,310 million increase in profit before tax and a 1% decrease would lead to a corresponding decrease, other risk factors held constant.

	30.6.2026	31.12.2025
Bonds and debt instruments	2,951	2,277
Loans to customers	523,237	507,694
Total CPI-linked assets	526,188	509,971
Deposits from customers	121,333	120,742
Debt issued and other borrowed funds	150,078	163,411
Subordinated loans	22,744	21,573
Off-balance sheet exposures	998	4,493
Short positions	23	180
Total CPI-linked liabilities	295,176	310,399
CPI imbalance	231,012	199,572

44. Capital management

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

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

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

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

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

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

	30.6.2026	31.12.2025
Own funds		
Ordinary share capital	8,371	8,900
Share premium	26,380	42,472
Reserves	5,774	7,201
Retained earnings	170,570	166,786
Fair value changes due to own credit standing	1,261	913
Foreseeable dividend payment and approved buyback*	(11,149)	(16,671)
Tax assets	(162)	(151)
Intangible assets	(1,933)	(1,822)
Insufficient coverage for non-performing exposures	(31)	(52)
CET1 capital	199,081	207,576
Additional Tier 1 capital	16,604	17,216
Tier 1 capital	215,685	224,792
Tier 2 capital	24,270	23,099
Total capital base	239,955	247,891

*The Bank's AGM held on 19 March 2026 authorises the Board of Directors to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. Furthermore, the Central Bank has granted the Bank permission to buy back own shares and reduce its share capital. At 30 June 2026, ISK 3.9 billion remained of approved buybacks and is therefore deducted from the CET1 capital.

Amounts are in ISK million

44. Capital management (continued)

	30.6.2026	31.12.2025
Risk exposure amount		
Due to credit risk	947,909	939,768
Due to market risk	5,417	4,093
Due to credit valuation adjustment	1,835	1,375
Due to operational risk	88,552	88,552
Total risk exposure amount (REA)	1,043,713	1,033,788
Capital ratios		
CET1 ratio	19.1%	20.1%
Tier 1 ratio	20.7%	21.7%
Total capital ratio	23.0%	24.0%
Leverage ratio		
Exposure amount		
On-balance sheet exposures	1,776,164	1,718,921
Off-balance sheet exposures	62,644	68,948
Derivative exposures	8,298	9,852
Total exposure measure (TEM)	1,847,106	1,797,721
Tier 1 capital	215,685	224,792
Leverage ratio	11.7%	12.5%

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

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

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

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

	30.6.2026	31.12.2025
Own funds and eligible liabilities		
Own funds	239,955	247,891
Eligible liabilities	218,272	207,145
Own funds and eligible liabilities	458,227	455,036
Ratios of own funds and eligible liabilities		
Own funds and eligible liabilities as a % of REA	43.9%	44.0%
Own funds and eligible liabilities as a % of TEM	24.8%	25.3%

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