First quarter 2026 results

Press release
6 May 2026

Arion Bank

Arion Bank – Q1 2026 results

Financial highlights for the first quarter of 2026

- Arion Bank reports net earnings attributable to shareholders of Arion Bank of ISK 7.3bn in Q1 2026, compared with ISK 6.4bn in Q1 2025
- Return on equity attributable to shareholders of Arion Bank was 13.9%, compared with 12.8% in Q1 2025
- Earnings per share were ISK 5.33, compared with ISK 4.59 in Q1 2025
- Net interest margin of 3.8%, compared with 3.1% in Q1 2025
- Net commission income was ISK 3.9bn, compared with ISK 4.5bn in Q1 2025
- Vördur contributed a standalone loss of ISK 0.1bn in Q1 2026, compared with a loss of ISK 0.6bn in the previous year
- Core income, defined as net interest income, net commission income and insurance service results (excluding opex of the insurance operation), increased by 20.3%, compared with Q1 2025
- Operating expenses increased by 13.0%, equivalent to ISK 855m, compared with Q1 2025, partly due to the reversed expense for the incentive scheme in Q1 2025
- Effective tax rate was 33.8% during the quarter
- Total cost-to-core income ratio was 40.0%, compared with 42.6% in Q1 2025
- Cost-to-income ratio was 38.3%, compared with 34.7% Q1 2025
- The balance sheet increased by 1.6% during the quarter
- Loans to customers increased by ISK 23.2bn or 1.7% during the quarter
- Share buybacks and dividend payments totalled ISK 20.7bn in the quarter
- The Bank's capital ratio was 22.5% and the CET1 ratio was 18.5% at the end of March. The ratios are determined on the basis of unaudited net earnings in the quarter and take into account the deduction of 50% of net earnings as foreseeable dividends in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 22.1% and the CET1 ratio was 18.1%. These ratios comfortably exceed the requirements made by the FSA and Icelandic law.

Benedikt Gíslason, CEO of Arion Bank

"The Bank's financial results in the first quarter are in line with expectations and targets. Arion Group's income is based on diverse sources, which has a stabilizing effect on earnings and improves risk diversification. The Group remains financially strong, with solid capital and liquidity positions, enabling us not only to further enhance our service to customers but also to address the challenges present in the external environment.

In articles I have published in recent months, I have pointed to opportunities to help bring about lower interest rates in Iceland. One such opportunity involved simplifying the financial system with the aim of reducing overall system costs. Unfortunately, it became clear last month, when preliminary discussions between Arion and Kvika with the Competition Authority regarding the proposed merger came to an end, that the Authority's stance on the merger was sufficiently negative for the merger not to proceed. It therefore became clear that the simplification of the financial system, which I believe would have been desirable and beneficial for customers and shareholders alike, will not materialize.

I have also highlighted the negative impact that Iceland-specific provisions in laws and regulations have on interest rate levels. In particular, this includes specific obligations and levies imposed on financial institutions in Iceland. Taxes on financial institutions are considerably higher in Iceland than in the countries we typically compare ourselves with, yet there are plans to increase them further. This will affect pricing and profitability across the banking sector. It is worth emphasizing that the shareholders of Icelandic banks are, to a significant extent, the general public, either directly or through pension funds and state ownership.

There are also significant opportunities in reducing the role of inflation indexation in Iceland; nowhere else in Europe are households subject to inflation indexation. While indexation certainly has its advantages, it nonetheless contributes to persistently high interest rates. I have pointed out that Denmark and the Netherlands have transitioned their strong pension systems away from guarantees of specific real returns and indexation towards more flexible entitlement frameworks that better reflect real value creation in the economy and distribute risk more fairly between generations. Changes in this direction would represent important first steps towards reducing the role of indexation. A constructive and meaningful discussion on this topic has emerged, which I welcome and hope will continue.

Due to high interest rates, there has in recent months been strong demand for inflation-linked residential mortgages, and lending to individuals increased somewhat during the quarter. From the Bank's perspective, a drawback of inflation-linked residential mortgages is that they are largely funded on a non-index-linked basis, for example through customer deposits. This leads to an imbalance on the Bank's balance sheet, where inflation-linked assets significantly exceed inflation-linked liabilities, and results in income volatility in line with inflation and indexation gains. Calculated indexation gains were substantial in the first quarter, as inflation was unusually high during the period. Indexation gains form part of net interest income, which was therefore unusually high in the quarter. However, this will even out over time. As before, our objective remains for the net interest margin to be around or slightly above three per cent on an annual basis.

It is safe to say that exciting times lie ahead as artificial intelligence continues to gain ground. The world is facing what may become some of the fastest and most far-reaching technological advances of recent decades, or even centuries. At Arion, we have been preparing for these changes ever since the first user-friendly language models became available. We are well positioned to harness this powerful technology with the aim of making our services even better and more personalized, so that they more effectively meet the needs and preferences of each individual customer."

Income Statement

In ISK millions	Q1 2026	Q1 2025	Δ	Δ %
Net interest income	16.303	12.166	4.137	34%
Net commission income	3.876	4.536	(660)	(15%)
Insurance service results	(66)	(31)	(35)	-
Net financial income	(767)	(951)	184	(19%)
Other operating income	114	3.321	(3.207)	-
Operating income	**19.460**	**19.041**	**419**	**2%**
Operating expenses	(7.456)	(6.601)	(855)	13%
Bank levy	(541)	(508)	(33)	6%
Net impairment	(391)	(378)	(13)	3%
Net earnings before income tax	**11.072**	**11.554**	**(482)**	**(4%)**
Income tax expense	(3.743)	(3.726)	(17)	0%
Net earnings from cont. operations	**7.329**	**7.828**	**(499)**	**(6%)**
Discontinued operations, net of tax	-	(11)	11	-
Net earnings	**7.329**	**7.817**	**(488)**	**(6%)**
Non-controlling interest	(11)	(1.396)	1.385	-
Net earnings attributable to shareholders	**7.318**	**6.421**	**897**	**14%**

KFI's		
Return on equity attributable to shareholders	13,9%	12,8%
Return on equity	13,9%	15,5%
Return on total assets (ROA)	1,7%	1,9%
Earnings per share (in ISK)	5,33	4,59
Total cost to core income ratio	40,0%	42,6%
Cost-to-income ratio	38,3%	34,7%
Net interest margin (NIM)	3,8%	3,1%
Core income / REA	8,2%	7,0%

Net interest income increased by 34.0%, compared with the first quarter of 2025. Fluctuations are mainly due to the impact of short-term inflation in the quarter. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.8% for the quarter, compared with 3.1% in the first quarter of 2025. The CPI imbalance was ISK 204bn at quarter-end and is on the same level as at year-end 2025. Average interest-bearing assets increased by 1.6%, compared with the first quarter of 2025. With increased corporate lending, the net interest margin is likely to trend above 3% annually, but fluctuations are expected to continue near term due to the CPI impact.

Net commission income was ISK 3.9bn, compared with ISK 4.5bn in the first quarter of the previous year. The CIB fees are lower than in recent quarters, reflecting the transactional nature of the fees. Asset management fees have remained solid and resilient, with Assets under Management and Supervision reaching ISK 1,979bn at period-end.

Insurance service results of Vördur were negative by ISK 66m during the quarter, after the elimination of intercompany transactions. Insurance revenues grew by 7.2% compared with the first quarter of 2025. The claims and reinsurance ratio was 80.2% in the quarter, compared with 80.5% in the same quarter last year. The combined ratio of Vördur for the first quarter was 100.8%, compared with 99.7% for the same period in 2025.

Net financial income was negative by ISK 767m for the quarter. There was a significant loss from equity holdings, both on listed and unlisted equities but a positive outcome from bonds. The investment portfolio of Vördur generated a net income of ISK 138m, which includes an adverse net impact from insurance contracts.

Operating expenses increased by 13.0% in the first quarter, compared with the same quarter in 2025. If the operating expenses of the insurance operation are included (post IFRS 17 cost related to the insurance business is accounted for through insurance service results), the increase was 12.9%, partly due to reversed expense for the incentive scheme in Q1 2025 of ISK 319m. Total cost-to-core income ratio was 40.0%, compared with 42.6% in the first quarter of 2025, when including the operating expenses of the insurance operation. Salary expenses increased by 17.7% compared with the first quarter of 2025 or ISK 754m, which primarily relates to the incentive scheme reversal and a 3.7% increase in the number of FTEs from the first quarter in 2025. FTEs at quarter-end were 901. The increase was primarily in IT, internal controls and subsidiaries.

Net impairment was ISK 391m in the first quarter of 2026, calculated as 12bps in the quarter on an annualized basis, the same as in the first quarter of 2025.

Income tax, as reported in the financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings of more than ISK 1bn. The effective income tax rate was 33.8% in the quarter. In general, the combination of income is the main driver behind the fluctuation in the effective tax rate.

Balance sheet

The balance sheet increased by 1.6% from year-end 2025 and the liquidity position remains strong.

Assets

In ISK millions	**31.03.2026**	**31.12.2025**	Δ	Δ %
Cash & balances with CB	109,583	150,111	(40,528)	(27%)
Loans to credit institutions	24,779	22,567	2,212	10%
Loans to customers	1,352,240	1,329,056	23,184	2%
Financial instruments	260,618	215,816	44,802	21%
Investment property	7,440	7,305	135	2%
Intangible assets	7,540	7,533	7	0%
Other assets	21,633	23,377	(1,744)	(7%)
Total assets	**1,783,833**	**1,755,765**	**28,068**	**2%**
KFI's				
REA / Total assets	58.4%	58.6%		
Share of stage 3 loans, gross	2.5%	2.4%		

Loans to customers increased by ISK 23bn or 1.7% from the end of 2025. Loans to corporates increased by 1.7% from year-end 2025 and loans to individuals increased by 1.8%. The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy.

The Bank's liquidity position is strong with the total LCR ratio of 229% and the ISK LCR ratio of 172%. This is reflected in the strong position in *Cash and balances with Central Bank*, *Loans to credit institutions* and *Financial instruments*, including bonds and debt instruments. The average duration of liquidity in the bond portfolio is less than one year and there is no HTM accounting.

Liabilities and equity

In ISK millions	31.03.2026	31.12.2025	Δ	Δ %
Due to credit institutions & CB	9,345	12,003	(2,658)	(22%)
Deposits from customers	936,806	921,182	15,624	2%
Other liabilities	73,610	66,849	6,761	10%
Borrowings	516,564	494,823	21,741	4%
Subordinated liabilities	42,984	43,517	(533)	(1%)
Total liabilities	**1,579,309**	**1,538,374**	**40,935**	**3%**
Shareholders equity	204,450	217,327	(12,877)	(6%)
Non-controlling interest	74	64	10	16%
Total equity	**204,524**	**217,391**	**(12,867)**	**(6%)**
Total liabilities and equity	**1,783,833**	**1,755,765**	**28,068**	**2%**
KFI's				
Loans to Deposits ratio	144.3%	144.3%		
CET 1 ratio	18.5%	18.4%		
Capital adequacy ratio	22.5%	22.5%		

Deposits from customers remain the most important source of funding for Arion Bank, with 60% of total liabilities in deposits. The increase from year-end 2025 has primarily been in stable LCR categories and term deposits, reflecting the strategic focus. In relative terms, the largest increase occurred in deposits from individuals following the launch of a new savings account, the "Rewards Account", which is available exclusively to members of Arion Rewards, the Bank's loyalty program.

The maturity profile of *Borrowings* is balanced. During the quarter the Bank issued EUR 300m European Covered Bond (Premium) with a maturity of 5 years. Alongside the new issuance the Bank concluded a tender on outstanding EUR 500m covered bond notes where EUR 300m of outstanding notes were tendered. The Bank also issued in SEK 850m and NOK 850m senior preferred notes, with a 3 and 5-year maturity.

Shareholders' equity increased due to the net earnings of ISK 7.3bn in the first quarter of 2026, which were offset by ISK 15.8bn dividend payment and ISK 4.9bn share buyback during the period. The leverage ratio was 11.2% at the end of the period, compared with 11.4% at the end of 2025, which is high by international standards.

For further information on the accounts please visit Arion Bank's website.

Medium-term financial targets of Arion Bank

	Q1 2026	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	13.9%	Exceed 13%
Core income / REA	8.2%	Exceed 7.2%
Insurance revenue growth (YoY)	7.2%	Exceed weighted average growth of competitors (3.9% in Q1 2026 YoY)
Combined ratio Vördur	100.8%	Below 95%
Total cost-to-core income ratio	40.0%	Below 45%
CET1 ratio above regulatory capital requirements	318 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Investor meeting / webcast in English on 7 May at 10:30 CET (8:30 GMT)

Arion Bank will be hosting a meeting at the Bank's headquarters in Borgartún 19, Reykjavík, on Thursday 7 May at 10:30 CET (8:30 GMT) where CEO Benedikt Gíslason and CFO Ólafur Hrafn Höskuldsson will present the financial results, and Chief Economist Erna Björg Sverrisdóttir will provide an update on the economic environment. The meeting will take place in English and will also be streamed live.

The webcast will be accessible live on Lumiconnect and a link is also available on the Bank's website under Investor Relations.

Participants attending virtually will be able to ask questions during the meeting through a message board on the same site. Answers will be provided by presenters at the end of the webcast.

Financial calendar

Arion Bank's financial calendar is available on the Bank's website.

For any further information please contact Theodór Fridbertsson, Investor Relations, tel.+354 856 6760, or Haraldur Eidsson, Head of Corporate Communications, tel. +354 856 7108.

Forward-looking statements

This release contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the release is based on company data available at the time of the release. Although Arion Bank believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. The most important factors that may cause such a difference for Arion Bank include, but are not limited to: a) the macroeconomic development, b) change in inflation, interest rate and foreign exchange rate levels, c) change in the competitive environment and d) change in the regulatory environment and other government actions. This release does not imply that Arion Bank has undertaken to revise any forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes after the date when this release was made. Arion Bank assumes no responsibility or liability for any reliance on any of the information contained herein. It is prohibited to distribute or publish any information in this release without Arion Bank's prior written consent.