Condensed Consolidated Interim Financial Statements 30 June 2026

Arion Bank

Contents

Arion Bank highlights 30 June 2026

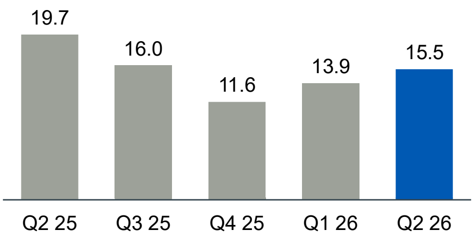
H1 2026 14.6%
Return on Equity*

H1 2026 40.2%
Total cost-to-core income

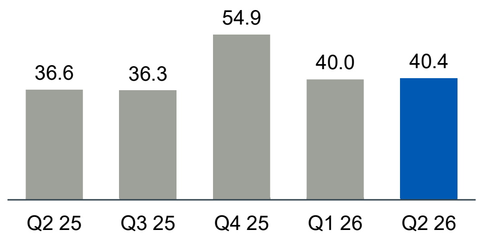
17.7%
CET1 ratio

Moody's
Long term: **A3**
Covered bond: **Aa1**
Outlook: **Stable**

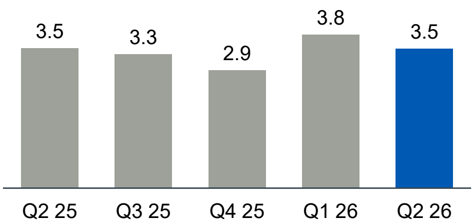
Return on equity* (%)



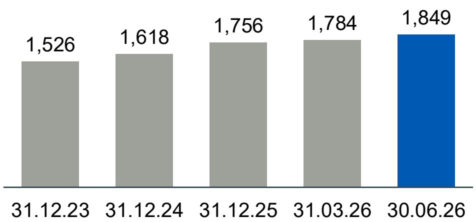
Total cost-to-Core income ratio (%)



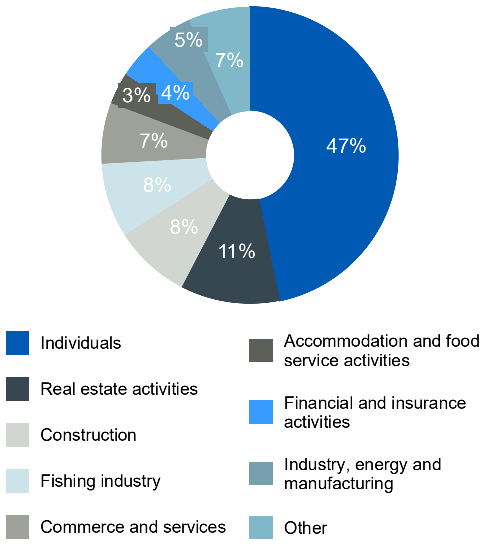
Net interest margin (%)



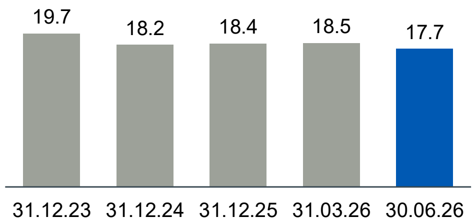
Total assets (ISK bn)



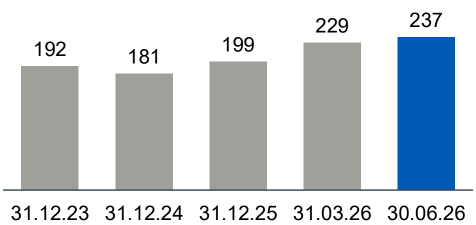
Loans to customers by sector



CET1 ratio (%)



LCR ratio (%)



*Return on equity attributable to shareholders of Arion Bank

Unaudited

Endorsement and statement
by the Board of Directors and the CEO

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

Operations during the period

Income Statement

Net earnings amounted to ISK 8.1 billion for the second quarter and ISK 15.4 billion for the first six months of the year. Net earnings amounted to ISK 10.3 billion for the second quarter of 2025 and ISK 18.1 billion for the first six months, with ISK 16.2 billion attributable to the shareholders of Arion Bank. Return on equity was 15.5% for the second quarter and 14.6% for the first six months of 2026. Earnings per share were ISK 5.92 for the quarter and ISK 11.25 for the first half of 2026, compared with ISK 6.59 and ISK 11.22 in 2025. Core income, defined as net interest income, net commission income and insurance service results (excluding opex), increased by 0.8%, compared with the second quarter of the previous year. Net interest income increased by 7.2%, compared with the second quarter of the previous year, and the net interest margin was 3.5%, the same as in the second quarter of 2025. Net commission income decreased by 12.4% between years, with corporate and investment banking activity lower than in recent quarters, reflecting the more transactional nature of fees. The operation of Vördur contributed a standalone profit of ISK 0.4 billion in the quarter, compared with ISK 0.2 billion in the second quarter of 2025. Net financial income was negative by ISK 0.1 billion and was impacted by challenging market conditions for equity holdings. Operating expenses, including operating expenses of the insurance operation, increased by 11.3% compared with the previous year or ISK 0.9 billion, partly due to an increase in salaries and related expenses of ISK 0.4 billion in line with a rise in the number of employees and the impact of a 3.5% rise in collective union wages effective from January 2026. Inflation in the second quarter measured 5.2% between years. The Group had 899 full-time equivalent positions at the end of June, which is close to the number at the end of 2025. The cost-to-income ratio in the second quarter was 37.2%, compared with 31.4% in the same quarter of 2025, while the total cost-to-core income ratio was 40.4%, compared with 36.6% in 2025. Impairments were calculated at 19bps for the quarter. The effective income tax rate was 28.5%, affected by a loss from equity holdings.

Balance Sheet

Arion Bank's balance sheet grew by 5.3% from year-end 2025. Loans to customers increased by 6.7%, where loans to individuals increased by 3.5% and loans to corporates by 9.6%. Deposits increased by 6.5%, primarily from individuals and SMEs with low LCR outflow weight. Shareholders' equity amounted to ISK 210.284 million at the end of the period. Capital distribution amounted to ISK 23.0 billion in the first half of 2026, through dividends and buy-backs of own shares.

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

	Q2 2026	6M 2026	Arion Bank's medium-term financial targets
Return on equity attributable to shareholders of Arion Bank	15.5%	14.6%	Exceed 13%
Core operating income / REA	7.9%	8.0%	Exceed 7.2%
Insurance revenue growth (YoY)	5.8%	6.5%	Exceed weighted average growth of competitors (3.7% in H1 2026 YoY)
Combined ratio	87.9%	94.3%	Below 95%
Total cost-to-core income ratio	40.4%	40.2%	Below 45%
CET1 ratio above regulatory capital requirements	242 bps	242 bps	150-250 bps management buffer (~16.8 - 17.8%)
Dividend pay-out ratio	50%	50%	Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both

Economic outlook

The Icelandic economy has continued to cool, reflecting the effects of a prolonged period of restrictive monetary policy. While GDP growth was higher than expected in the first quarter, up by 2.7% year-on-year, growth was largely driven by net exports rather than domestic demand. Data centers have played an increasingly important role in this development, with exports of data center services rising strongly, while related imports, although still elevated, have fallen from exceptionally high levels a year ago. The export outlook has also improved as aluminium production is recovering faster than previously anticipated. However, uncertainty surrounding tourism beyond the summer season remains, despite strong bookings around the August solar eclipse.

Domestic demand, meanwhile, is losing momentum. The labour market has softened, with slower job creation, declining private-sector employment and rising unemployment. Business sentiment has deteriorated, and firms have become increasingly cautious in their hiring plans. Although household balance sheets remain generally strong, high interest rates, persistent inflation and falling real house prices are weighing on spending decisions. Payment card turnover increased by 1.3% year-on-year in the second quarter, pointing to weaker consumption growth ahead.

Despite clear signs of economic cooling, inflation has remained above 5% throughout the year to date and has proved more persistent than previously expected. While the strength of the króna has helped contain imported inflation, strong wage growth continues to generate domestic price pressures, particularly in the service sector. The inflation outlook remains uncertain. Lower oil prices should help ease inflationary pressures, but inflation expectations have risen and remain poorly anchored, while the review clause in current wage agreements appears increasingly likely to be triggered later this year. While analysts remain divided on the near-term policy outlook, another rate hike in August appears slightly more likely than not. Even so, the effects of tight monetary policy are becoming increasingly evident, particularly in the housing market, where a growing stock of unsold homes, longer selling times and falling real prices point to weakening demand amid high financing costs.

Outlook for the Group

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

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

Funding and liquidity

The Group's liquidity position remains very strong with an LCR at the end of the quarter of 237%.

The Bank's funding position remained strong throughout the quarter, supported by continued access to both international and domestic debt capital markets. In May, Arion Bank successfully issued a EUR 300 million Green Senior Preferred bond with a 3.5-year maturity. In addition, the Bank remained an active issuer in the domestic ISK market, issuing ISK 7.7 billion of covered bonds during the quarter.

Capital adequacy and dividends

Arion Bank's dividend policy states that the Bank aims to pay 50% of net earnings in dividends and that additional dividend or share buybacks can be considered when the Bank's capital levels exceed the minimum regulatory requirements together with the Bank's management buffer. In the medium term, the Bank aims to maintain capital adequacy ratios 150-250bps above total regulatory requirements. Arion Bank is currently rated A3 with a stable outlook from Moody's.

In March 2026, the Bank paid a dividend of ISK 11.5 per share, ISK 15.8 billion, as authorized by the Annual General Meeting. In addition to its authority to propose that the Bank pay dividends or other disbursements of equity, the Board is authorized to purchase up to 10% of the Bank's issued share capital. In Q2, the Bank carried out buybacks in the amount of ISK 2.3 billion as part of a Board and FSA-approved buyback program up to a maximum of ISK 5 billion.

The Group's capital adequacy ratio on 30 June 2026 was 21.6% and the CET1 ratio was 17.7%. The ratios account for a deduction due to foreseeable dividend payments that represent 50% of net earnings, and the remaining balance of the buyback program noted above. This compares to a regulatory capital requirement of 19.7%, including the combined buffer requirement. The Bank's REA increased by ISK 43.8 billion in the second quarter of 2026, driven primarily by an increase in corporate loan portfolio. REA changes for other factors were less material.

The Bank's MREL requirements are 19.8% of REA excluding own funds used to meet the combined buffer requirement and 6.0% of TEM. The Bank comfortably exceeded both at the end of Q2. An MREL subordination requirement of 13.5% will apply to the Bank from Q3 2027.

Ownership of Arion Bank

Lífeyrissjódur verzlunarmanna was the largest shareholder in Arion Bank with a shareholding of 9.78% at the end of June and Arion Bank held 1.88% of its own shares. The number of shareholders was 10,743 at the end of the period, compared with 10,703 at year-end 2025. Further information on Arion Bank's shareholders can be found in Note 37.

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

Risk management

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

Endorsement and statement
by the Board of Directors and the CEO

Endorsement of the Board of Directors and the Chief Executive Officer

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

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

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

Reykjavík, 29 July 2026

Board of Directors

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

Deputy Chief Executive Officer

Ida Brá Benediktsdóttir

Review Report
on the Condensed Consolidated Interim Financial Statements

To the Board of Directors and shareholders of Arion Bank hf.

We have reviewed the accompanying Condensed Consolidated Interim Statement of Financial Position of Arion Bank hf. and its subsidiaries (the "Group") as of 30 June 2026 and the related Condensed Consolidated Interim Income Statement, Condensed Consolidated Interim Statement of Comprehensive Income, Condensed Consolidated Interim Statement of Changes in Equity and Condensed Consolidated Interim Statement of Cash Flows for the six-month period then ended, and a summary of material accounting policies and other explanatory notes.

Management's and Board of Directors responsibility for the Condensed Consolidated Interim Financial Statements

Management and Board of Directors are responsible for the preparation and fair presentation of this Condensed Consolidated Interim Financial Statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions and for such internal control as Management and Board of Directors determines is necessary to enable the preparation of the Condensed Consolidated Interim Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Condensed Consolidated Interim Financial Statements 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 does not give a true and fair view of the financial position of the Group as at 30 June 2026, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act, Financial Undertakings Act and Rules on Accounting for Credit Institutions.

Confirmation of Endorsement and Statement by the Board of Directors and the CEO

Pursuant to the requirement of Paragraph 2 Article 104 of the Icelandic Act on Financial Statements No. 3/2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the CEO includes all information required by the Icelandic Act on Financial Statements that is not disclosed elsewhere in the Condensed Consolidated Interim Financial Statements.

Kópavogur, 29 July 2026

Deloitte ehf.

Gunnar Thorvardarson
State Authorized Public Accountant

Signý Magnúsdóttir
State Authorized Public Accountant

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		78,348	67,815	37,612	35,133
Interest expense		(46,826)	(41,449)	(22,393)	(20,933)
Net interest income	8	**31,522**	**26,366**	**15,219**	**14,200**
Fee and commission income		10,010	11,022	5,143	5,566
Fee and commission expense		(2,147)	(1,933)	(1,156)	(1,013)
Net fee and commission income	9	**7,863**	**9,089**	**3,987**	**4,553**
Insurance revenue		10,712	10,045	5,437	5,134
Insurance service expenses		(10,123)	(9,010)	(4,782)	(4,068)
Insurance service results	10	**589**	**1,035**	**655**	**1,066**
Net financial income	11	(835)	(772)	(68)	179
Other operating income	12	265	4,645	151	1,324
Other net operating income		**(570)**	**3,873**	**83**	**1,503**
Operating income		**39,404**	**40,363**	**19,944**	**21,322**
Operating expenses	13-15	(14,885)	(13,298)	(7,429)	(6,697)
Bank levy	16	(1,123)	(1,029)	(582)	(521)
Net impairment	17	(1,070)	(231)	(679)	147
Earnings before income tax		**22,326**	**25,805**	**11,254**	**14,251**
Income tax expense	18	(6,947)	(7,710)	(3,204)	(3,984)
Net earnings from continuing operations		**15,379**	**18,095**	**8,050**	**10,267**
Discontinued operations held for sale, net of income tax	19	-	(22)	-	(11)
Net earnings		**15,379**	**18,073**	**8,050**	**10,256**

Attributable to

Shareholders of Arion Bank hf.		15,372	16,171	8,054	9,750
Non-controlling interest		7	1,902	(4)	506
Net earnings		**15,379**	**18,073**	**8,050**	**10,256**

Earnings per share

	20				
Basic earnings per share attributable to shareholders of Arion Bank (ISK)		11.25	11.22	5.92	6.59
Diluted earnings per share attributable to shareholders of Arion Bank (ISK)		11.25	11.14	5.92	6.53

*The six months results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

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

Amounts are in ISK millions

Consolidated Interim Statement of Comprehensive Income

	Notes	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Net earnings		**15,379**	**18,073**	**8,050**	**10,256**
Net change in FV of financial assets carried at FV through OCI, net of tax		(473)	85	(95)	(33)
Net realized loss on financial assets carried at FV through OCI, net of tax transferred to the income statement	11	(16)	51	(7)	72
Changes to reserve for financial instruments at FV thr. OCI that is or may be reclassified subsequently to the income statement		**(489)**	**136**	**(102)**	**39**
Exchange difference on translating foreign subsidiaries		3	-	4	-
Other comprehensive income that is or may be reclassified subsequently to the Income Statement		**(486)**	**136**	**(98)**	**39**
Total comprehensive income		**14,893**	**18,209**	**7,952**	**10,295**

Attributable to

	Notes	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Shareholders of Arion Bank		14,886	16,307	7,956	9,789
Non-controlling interest		7	1,902	(4)	506
Total comprehensive income		**14,893**	**18,209**	**7,952**	**10,295**

Comprehensive income per share

	Notes	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Comprehensive income per share	20				
Basic compreh. income per share attrib. to shareholders of Arion Bank (ISK)		10.89	11.32	5.84	7.89
Diluted compreh. income per share attrib. to shareholders of Arion Bank (ISK)		10.89	11.23	5.84	7.83

*The six months results were reviewed by the Bank's auditor. The quarterly statements and the split between quarters were not reviewed or audited by the Bank's auditor.

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

Amounts are in ISK millions

Consolidated Interim Statement of Financial Position

Assets	Notes	30.06.2026	31.12.2025
Cash and balances with Central Bank	21	114,477	150,111
Loans to credit institutions	22	24,715	22,567
Loans to customers	23	1,417,655	1,329,056
Financial instruments	24-26	254,426	215,816
Investment property	26	7,538	7,305
Investments in associates	28	788	760
Intangible assets	29	7,345	7,533
Tax assets	30	2	2
Assets and disposal groups held for sale	31	81	98
Other assets	32	21,548	22,517
Total Assets		**1,848,575**	**1,755,765**

Liabilities			
Due to credit institutions and Central Bank	25	9,329	12,003
Deposits	25	981,322	921,182
Financial liabilities at fair value	25	3,652	3,129
Tax liabilities	30	15,490	12,983
Other liabilities	33	61,846	50,736
Borrowings	25,34	523,261	494,823
Subordinated liabilities	25,35	43,321	43,518
Total Liabilities		**1,638,221**	**1,538,374**

Equity			
Share capital and share premium	38	1,354	1,383
Other reserves		13,722	14,382
Retained earnings		195,208	201,562
Shareholders' Equity		**210,284**	**217,327**
Non-controlling interest		70	64
Total Equity		**210,354**	**217,391**
Total Liabilities and Equity		**1,848,575**	**1,755,765**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Foreign currency translation reserve	Statutory reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
			Restricted reserves										
Equity 1 January 2026	1,383	-	827	12,760	320	-	91	6	378	201,562	**217,327**	64	**217,391**
Net earnings										15,372	**15,372**	7	**15,379**
Net change in fair value							(473)				**(473)**		**(473)**
Net realized profit transferred to P/L							(16)				**(16)**		**(16)**
Net changes in reserves								3			**3**		**3**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(489)**	**3**	**-**	**15,372**	**14,886**	**7**	**14,893**
Transactions with owners													
Dividend paid										(15,768)	**(15,768)**		**(15,768)**
Purchase of treasury shares	(37)	(1,356)								(5,806)	**(7,199)**		**(7,199)**
Share option charge			50								**50**		**50**
Share option vested	7	1,039	(229)								**817**		**817**
Share option forfeited			(75)							75	**-**		**-**
Share option charge - incentive scheme			70								**70**		**70**
Incentive scheme	1	317	(217)								**101**		**101**
Net changes in reserves				206	21					(227)	**-**		**-**
Equity 30 June 2026	**1,354**	**-**	**426**	**12,966**	**341**	**-**	**(398)**	**9**	**378**	**195,207**	**210,284**	**70**	**210,354**

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

Amounts are in ISK millions

Consolidated Interim Statement of Changes in Equity

			Restricted reserves										
	Share capital	Share premium	Share option	Gain in subs. & assoc., unrealized	Gain in securities, unrealized	Capitalized develop-ment cost	Debt invest-ments at fair value thr. OCI, unrealized	Foreign currency translation reserve	Statutory reserve	Retained earnings	**Total share-holders' equity**	Non-cont-rolling interest	**Total equity**
Equity 1 January 2025	1,412	4,274	411	10,957	513	759	(328)	-	1,637	186,947	**206,582**	504	**207,086**
Net earnings										16,171	**16,171**	1,901	**18,072**
Net change in fair value							85				**85**		**85**
Net realized loss transferred to P/L							51				**51**		**51**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**136**	**-**	**-**	**16,171**	**16,307**	**1,901**	**18,208**
Transactions with owners													
Dividend paid										(16,114)	**(16,114)**		**(16,114)**
Purchase of treasury shares	(36)	(5,218)								(699)	**(5,953)**		**(5,953)**
Net changes in share options	6	715	(154)							84	**651**		**651**
Share option charge - incentive scheme			85								**85**		**85**
Incentive scheme	1	229									**230**		**230**
Net changes in reserves				1,134	(118)	(61)			(1,259)	304	**-**		**-**
Equity 30 June 2025	**1,384**	**-**	**342**	**12,092**	**395**	**698**	**(192)**	**-**	**378**	**186,694**	**201,791**	**2,405**	**204,196**
Net earnings										14,455	**14,455**	(20)	**14,435**
Net change in fair value							172				**172**		**172**
Net realized loss transferred to P/L							111				**111**		**111**
Net changes in reserves								6			**6**		**6**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**283**	**6**	**-**	**14,455**	**14,744**	**(20)**	**14,724**
Transactions with owners													
Purchase of treasury shares											**-**		**-**
Net changes in share options			34							4	**38**		**38**
Share option charge - incentive scheme			451							304	**755**		**755**
Net changes in reserves				669	(75)	(698)				104	**-**		**-**
Sale of a subsidiary											**-**	(2,321)	**(2,321)**
Equity 31 December 2025	**1,383**	**-**	**827**	**12,760**	**320**	**-**	**91**	**6**	**378**	**201,562**	**217,327**	**64**	**217,391**

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

Amounts are in ISK millions

Consolidated Interim Statement of Cash flows

Operating activities	2026 1.1.-30.6.	2025 1.1.-30.6.
Net earnings	15,379	18,073
Non-cash items included in net earnings	(19,188)	(20,082)
Changes in operating assets and liabilities		
Loans to credit institutions, excluding bank accounts	357	-
Loans to customers	(68,489)	(36,450)
Financial instruments and financial liabilities at fair value	(42,050)	(22,405)
Deposits	49,149	34,464
Borrowings	23,967	40,774
Other changes in operating assets and liabilities	13,995	(7,251)
Interest received	50,750	50,893
Interest paid	(28,936)	(33,671)
Dividend received	284	173
Income tax paid	(4,285)	(4,621)
Net cash (used in) from operating activities	**(9,067)**	**19,897**
Investing activities		
Acquisition of investment property	(37)	(43)
Proceeds from sale of investment property	-	447
Acquisition of property and equipment	(369)	(191)
Dividend and decreased share capital of associates	-	27
Acquisition of intangible assets	(310)	(814)
Net cash used in investing activities	**(716)**	**(574)**
Financing activities		
Dividend paid to shareholders of Arion Bank	(15,768)	(16,114)
Purchase of treasury stock	(7,199)	(5,953)
Issued subordinated liabilities	-	10,040
Settlement of subordinated liabilities	(726)	(8,769)
Proceeds from vested share options	817	601
Net cash used in financing activities	**(22,875)**	**(20,195)**
Net decrease in cash and cash equivalents	(32,658)	(871)
Cash and cash equivalents at beginning of the year	138,548	117,310
Effect of exchange rate changes on cash and cash equivalent	441	(485)
Cash and cash equivalents	**106,331**	**115,954**
Cash and cash equivalents		
Cash and balances with Central Bank	114,477	114,114
Bank accounts	24,545	34,805
Mandatory reserve deposit with Central Bank	(32,691)	(32,965)
Cash and cash equivalents	**106,331**	**115,954**

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

Amounts are in ISK millions

Notes to the Condensed Consolidated Interim Financial Statements

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Notes to the Condensed Consolidated Interim Financial Statements

General information

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

1. Basis of preparation

The Condensed Consolidated Interim Financial Statements were approved and authorized for publication by the Board of Directors of Arion Bank on 29 July 2026.

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

Statement of compliance

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

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

Basis of measurement

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

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

Functional and presentation currency

These Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the Parent Company's functional currency, rounded to the nearest million, unless otherwise stated. At the end of the period the exchange rate of the ISK against USD was 125.98 and 143.81 for EUR (31.12.2025: USD 125.44 and EUR 147.28).

2. Going concern assumption

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

3. Changes in accounting policies

New standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2025, and have not been applied in preparing these Consolidated Financial Statements. Relevant to the Group's reporting is IFRS 18 Presentation and disclosures in financial statements.

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

4. Material accounting estimates and judgements in applying accounting policies

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

Estimates and assumptions

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

Impairment of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses in the statement of financial position. On a monthly basis expected credit losses for stages 1 and 2 are recalculated for each asset, the calculations are based on probability of default (PD), loss given default (LGD) and exposure at default (EAD) models. Stage 3 calculations are based on LGD and EAD parameters. In addition to the model outcomes, the assessment of expected credit losses is based on three key factors: management's assumptions regarding the development of macroeconomic factors over the next five years, how those factors affect each model and how to estimate a significant increase in credit risk. The assumptions for macroeconomic development are incorporated into each model for three scenarios: a base case, an optimistic case, and a pessimistic case. Management estimates the probability weight for each scenario used for calculations of the probability weighted expected credit losses. The amount of expected credit losses to be recognized is dependent on the Bank's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. Management has estimated factors to measure significant increase in credit risk from origination, by comparison of changes in PD values, annualized lifetime PD values, days past due and watch list. For further information see Note 59 in the Annual Financial Statements 2025.

Macroeconomic outlook

The Icelandic economy continues to cool as restrictive monetary policy weighs on domestic demand. GDP growth surprised on the upside in Q1, rising 2.7% year-on-year, but was driven mainly by net exports, supported by strong growth in data center service exports. The labour market has softened, with slower job creation, rising unemployment, currently at 4.0%, and weaker business sentiment. Although household finances remain relatively healthy, high interest rates, persistent inflation and falling real house prices are dampening consumer spending. Payment card turnover increased by 1.3% year-on-year in Q2, pointing to weaker consumption growth ahead. Inflation has remained above 5% throughout the year to date, reflecting strong wage-driven domestic price pressures despite lower imported inflation due to a stronger króna. Oil prices have continued to fluctuate, inflation expectations remain poorly anchored, having risen on some measures, and the review clause in current wage agreements appears increasingly likely to be triggered later this year. Although a rate hike in August appears slightly more likely than not, tighter policy is increasingly evident in the weakening housing market.

Impairment of intangible assets

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

Revaluation of investment properties

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

5. The Group

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

			Equity interest	
	Operating activity	Currency	30.6.2026	31.12.2025
Arion (Financial) Advisory Services Ltd, 30-32 Fleet Street, London, UK	Financial service	GBP	100.0%	100.0%
Eignabjarg ehf., Borgartún 19, Reykjavík, Iceland	Holding company	ISK	100.0%	100.0%
Landey ehf., Borgartún 19, Reykjavík, Iceland	Real estate	ISK	100.0%	100.0%
Leiguskjól ehf., Sundagardar 2, Reykjavík, Iceland	Rental guarantee	ISK	51.0%	51.0%
Stefnir hf., Borgartún 19, Reykjavík, Iceland	Asset management	ISK	100.0%	100.0%
Vördur tryggingar hf., Borgartún 19, Reykjavík, Iceland	Insurance	ISK	100.0%	100.0%

In July 2026 Landey ehf. decided to put all of the company's shares in Blikastadir ehf. up for sale. The company manages a 98-hectare plot of land in Blikastadir, Iceland. The total assets of Blikastadir amount to ISK 7.5 billion, mainly investment property.

Amounts are in ISK millions

Operating segment reporting

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

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

6. Operating segments

Markets & Stefnir

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

Corporate & Investment Banking (CIB)

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

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

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

Retail Banking

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

Treasury

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

Vördur tryggingar hf.

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

Supporting units

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

6. Operating segments, continued

1.1.-30.6.2026								
Income Statement	Markets and Stefnir	CIB	Retail Banking	Treasury	Vördur	Subsidi- aries excl. Stefnir and Vördur	Supporting units and elimi- nations	Total
Net interest income	745	16,805	9,222	4,862	(73)	65	(104)	31,522
Net fee and commission income	2,806	2,458	1,860	360	(109)	225	263	7,863
Insurance service results	-	-	-	-	635	-	(46)	589
Net financial income	(17)	7	-	(1,069)	199	72	(27)	(835)
Other operating income	1	2	(5)	-	4	208	55	265
Operating income	3,535	19,272	11,077	4,153	656	570	141	39,404
Operating expenses	(1,519)	(1,347)	(1,900)	(315)	674	(294)	(10,184)	(14,885)
Allocated expenses	(1,493)	(2,361)	(3,051)	(625)	(691)	(33)	8,254	-
Bank levy	(23)	(449)	(426)	(225)	-	-	-	(1,123)
Net impairment	(5)	(741)	(322)	(1)	-	-	(1)	(1,070)
Earnings before income tax	495	14,374	5,378	2,987	639	243	(1,790)	22,326
Net seg. rev. from ext. customers	551	26,533	24,829	(13,780)	527	557	187	39,404
Net seg. rev. from other segments	2,984	(7,261)	(13,752)	17,933	129	13	(46)	-
Operating income	3,535	19,272	11,077	4,153	656	570	141	39,404
Statement of financial position								
Loans to customers	10,009	743,668	662,457	-	-	-	1,521	1,417,655
Financial instruments	21,450	-	-	198,900	37,050	158	(3,132)	254,426
Other external assets	5,951	1,294	1,945	132,649	5,124	12,939	16,592	176,494
Internal assets	67,858	-	-	286,474	-	-	(354,332)	-
Total assets	105,268	744,962	664,402	618,023	42,174	13,097	(339,351)	1,848,575
Deposits	95,560	429,056	450,234	11,761	-	-	(5,289)	981,322
Other external liabilities	1,485	4,341	4,043	599,400	26,904	1,504	19,222	656,899
Internal liabilities	-	180,234	165,134	-	-	7,916	(353,284)	-
Total liabilities	97,045	613,631	619,411	611,161	26,904	9,420	(339,351)	1,638,221
Allocated equity	8,223	131,331	44,991	6,862	15,270	3,677	-	210,354

Amounts are in ISK millions

6. Operating segments, continued

1.1.-30.6.2025 *Income Statement*	Markets and Stefnir	CIB	Retail Banking	Treasury	Vördur	Subsidi-aries excl. Stefnir and Vördur	Supporting units and elimi-nations	Total
Net interest income	664	14,166	7,236	4,430	(44)	(4)	(82)	26,366
Net fee and commission income	2,880	3,890	1,662	385	(91)	90	273	9,089
Insurance service results	-	-	-	-	1,094	(5)	(54)	1,035
Net financial income	(24)	5	-	(234)	(508)	3	(14)	(772)
Other operating income	1	(2)	12	2	5	4,628	(1)	4,645
Operating income	3,521	18,059	8,910	4,583	456	4,712	122	40,363
Operating expenses	(1,345)	(1,159)	(1,717)	(288)	570	(279)	(9,080)	(13,298)
Allocated expenses	(1,311)	(2,043)	(2,866)	(575)	(600)	(61)	7,456	-
Bank levy	(22)	(385)	(413)	(209)	-	-	-	(1,029)
Net impairment	7	(270)	31	-	-	-	1	(231)
Earnings before income tax	850	14,202	3,945	3,511	426	4,372	(1,501)	25,805
Net seg. rev. from ext. customers	1,326	23,015	20,805	(9,999)	296	4,750	170	40,363
Net seg. rev. from other segments	2,195	(4,956)	(11,895)	14,582	160	(38)	(48)	-
Operating income	3,521	18,059	8,910	4,583	456	4,712	122	40,363
Statement of financial position								
Loans to customers	7,425	626,462	638,029	-	-	-	552	1,272,468
Financial instruments	21,811	-	-	183,161	36,252	116	(3,123)	238,217
Other external assets	5,682	297	1,704	165,157	5,410	16,373	7,837	202,460
Internal assets	70,717	-	-	247,020		-	(317,737)	-
Total assets	105,635	626,759	639,733	595,338	41,662	16,489	(312,471)	1,713,145
Deposits	96,001	402,601	371,007	31,550	-	-	(2,002)	899,157
Other external liabilities	1,568	2,113	4,535	556,170	26,141	8,973	10,293	609,793
Internal liabilities	-	106,117	210,472	-	-	4,173	(320,762)	-
Total liabilities	97,569	510,831	586,014	587,720	26,141	13,146	(312,471)	1,508,950
Allocated equity	8,066	115,928	53,719	7,618	15,521	3,343	-	204,195

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

Amounts are in ISK millions

Notes to the Consolidated Interim Income Statement

Quarterly statements

7. Operations by quarters, unaudited

1.1.-30.6.2026	Q1	Q2	Total
Net interest income	16,303	15,219	31,522
Net fee and commission income	3,876	3,987	7,863
Insurance service results	(66)	655	589
Net financial income	(767)	(68)	(835)
Other operating income	114	151	265
Operating income	19,460	19,944	39,404
Operating expenses	(7,456)	(7,429)	(14,885)
Bank levy	(541)	(582)	(1,123)
Net impairment	(391)	(679)	(1,070)
Earnings before income tax	11,072	11,254	22,326
Income tax expense	(3,743)	(3,204)	(6,947)
Net earnings from continuing operations	7,329	8,050	15,379
Discontinued operations, net of tax	-	-	-
Net earnings	7,329	8,050	15,379

1.1.-30.6.2025			
Net interest income	12,166	14,200	26,366
Net fee and commission income	4,536	4,553	9,089
Insurance service results	(31)	1,066	1,035
Net financial income	(951)	179	(772)
Other operating income	3,321	1,324	4,645
Operating income	19,041	21,322	40,363
Operating expenses	(6,601)	(6,697)	(13,298)
Bank levy	(508)	(521)	(1,029)
Net impairment	(378)	147	(231)
Earnings before income tax	11,554	14,251	25,805
Income tax expense	(3,726)	(3,984)	(7,710)
Net earnings from continuing operations	7,828	10,267	18,095
Discontinued operations, net of tax	(11)	(11)	(22)
Net earnings	7,817	10,256	18,073

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

Amounts are in ISK millions

8. Net interest income

1.1.-30.6.2026	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	3,284	-	-	3,284
Loans to credit institutions	492	-	-	492
Loans to customers	70,574	106	-	70,680
Securities	-	623	3,250	3,873
Other	19	-	-	19
Interest income	74,369	729	3,250	78,348
Interest expense				
Deposits	(27,560)	-	-	(27,560)
Borrowings	(16,678)	(243)	-	(16,921)
Subordinated liabilities	(2,252)	4	-	(2,248)
Other	(97)	-	-	(97)
Interest expense	(46,587)	(239)	-	(46,826)
Net interest income	27,782	490	3,250	31,522

1.1.-30.6.2025	Amortized cost	Fair value thr. P/L	Fair value thr. OCI	Total
Interest income				
Cash and balances with Central Bank	3,330	-	-	3,330
Loans to credit institutions	458	-	-	458
Loans to customers	60,116	31	-	60,147
Securities	-	226	3,604	3,830
Other	50	-	-	50
Interest income	63,954	257	3,604	67,815
Interest expense				
Deposits	(25,633)	-	-	(25,633)
Borrowings	(12,541)	(1,351)	-	(13,892)
Subordinated liabilities	(1,590)	(254)	-	(1,844)
Other	(80)	-	-	(80)
Interest expense	(39,844)	(1,605)	-	(41,449)
Net interest income	24,110	(1,348)	3,604	26,366

Net interest income calculated using the effective interest rate method were ISK 78,090 million (6M 2025: ISK 66,160 million).

Amounts are in ISK millions

8. Net interest income, continued

1.4.-30.6.2026	Amortized	Fair value	Fair value	
Interest income	cost	thr. P/L	thr. OCI	Total
Cash and balances with Central Bank	1,432	-	-	1,432
Loans to credit institutions	278	-	-	278
Loans to customers	33,697	48	-	33,745
Securities	-	481	1,668	2,149
Other	8	-	-	8
Interest income	35,415	529	1,668	37,612
Interest expense				
Deposits	(13,442)	-	-	(13,442)
Borrowings	(7,735)	(142)	-	(7,877)
Subordinated liabilities	(1,026)	-	-	(1,026)
Other	(48)	-	-	(48)
Interest expense	(22,251)	(142)	-	(22,393)
Net interest income	13,164	387	1,668	15,219

1.4.-30.6.2025				
Interest income				
Cash and balances with Central Bank	1,465	-	-	1,465
Loans to credit institutions	184	-	-	184
Loans to customers	31,601	-	-	31,601
Securities	-	8	1,849	1,857
Other	26	-	-	26
Interest income	33,276	8	1,849	35,133
Interest expense				
Deposits	(12,823)	-	-	(12,823)
Borrowings	(6,625)	(563)	-	(7,188)
Subordinated liabilities	(799)	(77)	-	(876)
Other	(46)	-	-	(46)
Interest expense	(20,293)	(640)	-	(20,933)
Net interest income	12,983	(632)	1,849	14,200

Net interest income calculated using the effective interest rate method were ISK 37,462 million during the quarter (Q2 2025: ISK 34,467 million).

Interest spread

	2026	2025	2026	2025
Interest spread (the ratio of net interest income to the average carrying amount	1.1.-30.6.	1.1.-30.6.	1.4.-30.6.	1.4.-30.6.
of interest bearing assets)	3.6%	3.3%	3.5%	3.5%

Amounts are in ISK millions

9. Net fee and commission income

	1.1.-30.6.2026			1.1.-30.6.2025		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	2,770	(308)	2,462	2,689	(245)	2,444
Capital markets and corporate finance	979	(17)	962	1,472	(20)	1,452
Lending and financial guarantees	2,019	-	2,019	2,869	-	2,869
Collection and payment services	634	(37)	597	751	(45)	706
Cards and payment solution	3,238	(1,433)	1,805	2,838	(1,335)	1,503
Other	370	(578)	(208)	403	(456)	(53)
Commission expense from insurance operation	-	226	226	-	168	168
Net fee and commission income	10,010	(2,147)	7,863	11,022	(1,933)	9,089

	1.4.-30.6.2026			1.4.-30.6.2025		
	Income	Expense	Net income	Income	Expense	Net income
Asset management	1,423	(172)	1,251	1,286	(107)	1,179
Capital markets and corporate finance	511	(7)	504	693	(9)	684
Lending and financial guarantees	1,056	-	1,056	1,554	-	1,554
Collection and payment services	315	(20)	295	393	(22)	371
Cards and payment solution	1,620	(748)	872	1,424	(704)	720
Other	218	(332)	(114)	216	(263)	(47)
Commission expense from insurance operation	-	123	123	-	92	92
Net fee and commission income	5,143	(1,156)	3,987	5,566	(1,013)	4,553

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

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

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

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

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

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

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

Amounts are in ISK millions

10. Insurance service results

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Insurance revenue	10,712	10,045	5,437	5,134
Incurred claims	(7,648)	(7,096)	(3,550)	(3,175)
Service expenses	(2,212)	(1,920)	(1,128)	(970)
Insurance service expenses	(9,860)	(9,016)	(4,678)	(4,145)
Net (expense) income from reinsurance contracts held	(263)	6	(104)	77
Insurance service results	589	1,035	655	1,066

Operation results of Vördur

Vördur's operation resulted in a profit of ISK 408 million, with a return on equity of 6.0%, compared with a profit of ISK 197 million in 6M 2025 and a return on equity of 2.8%.

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Insurance service results	589	1,035	655	1,066
Insurance revenue elimination and reclassification	23	37	(0)	(7)
Insurance service results according to the Financial Statements of Vördur	612	1,072	655	1,059
Investment return	393	(78)	230	265
Net financial loss from insurance contracts	(369)	(574)	(266)	(237)
Total investment return	24	(652)	(35)	28
Other income	4	5	2	3
Earnings before income tax	639	425	621	1,090
Income tax	(231)	(228)	(153)	(251)
Net earnings	408	197	468	839

Combined ratio

Combined ratio of Vördur, including insurance revenue from the Group	94.3%	89.4%	87.9%	79.4%

Amounts are in ISK millions

11. Net financial income

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(693)	(366)	53	346
Gain on prepayments of borrowings	7	1	-	-
Net (loss) gain on fair value hedge of interest rate swap	(10)	(55)	51	(31)
Net realized gain (loss) on financial assets carried at fair value through OCI	21	(69)	10	(98)
Net financial loss from insurance contracts	(369)	(574)	(266)	(237)
Net foreign exchange gain	209	291	84	199
Net financial income	(835)	(772)	(68)	179

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

Equity instruments	(1,933)	(1,465)	(397)	(280)
Debt instruments	913	832	285	446
Derivatives	354	285	177	190
Loans	(27)	(18)	(12)	(10)
Net (loss) gain on financial assets and financial liabilities mandatorily measured at fair value through the income statement	(693)	(366)	53	346

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

Fair value change of interest rate swaps designated as hedging instruments	(1,062)	2,047	1,760	1,483
Fair value change on bonds issued by the Group attributable to interest rate risk	1,052	(2,102)	(1,709)	(1,514)
Net (loss) gain on fair value hedge of interest rate swap	(10)	(55)	51	(31)

12. 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	196	5,229	92	1,765
Realised loss on investment property	-	(428)	-	(428)
Net gain (loss) on assets held for sale	6	2	15	(1)
Share of profit (loss) of associates	27	(9)	35	(21)
Other income	36	(149)	9	9
Other operating income	265	4,645	151	1,324

13. Operating expenses

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Salaries and related expenses	10,040	8,871	5,016	4,602
Other operating expenses	6,832	6,178	3,416	2,973
Operating expenses from insurance operation	(1,987)	(1,751)	(1,003)	(878)
Operating expenses	14,885	13,298	7,429	6,697

Amounts are in ISK millions

14. Personnel and salaries

Number of employees	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Average number of full-time equivalent positions during the period	897	869	896	869
Full-time equivalent positions at the end of the period	899	868	899	868

Salaries and related expenses				
Salaries	7,539	7,197	3,791	3,663
Incentive scheme	188	(423)	69	(104)
Share-based payment expenses	79	47	43	20
Defined contribution pension plans	1,174	1,054	536	472
Salary-related expenses	1,060	996	577	551
Salaries and related expenses	10,040	8,871	5,016	4,602

Incentive schemes

During the first six months of 2026 the Group made a ISK 188 million provision for the incentive scheme, including salary-related expenses (6M 2025: ISK 423 million was revised). At the period end the Group's accrual for the incentive scheme payments amounted to ISK 215 million (31.12.2025: ISK 1,678 million). The estimated cost of the deferred part of the incentive scheme from the fiscal years 2023–2025, to be settled in 2027–2031, amounting to ISK 581 million, will be expensed on a proportional basis over the years leading up to their settlement.

The current incentive scheme for Arion Bank hf. and Vördur came into effect in 2021. The scheme is in compliance with the FSA's rules on remuneration policy for financial institutions. The scheme is divided into two parts. Firstly, employees can receive up to 10% of their fixed salary for each fiscal year in the form of a cash payment. Secondly, a limited group can receive up to 25% of their fixed salary as a payment in the form of shares or share options in the Bank. Of this 25%, (i) a total of 20% will be settled instantly with cash, 40% will be settled instantly with shares subject to a 3-year lock-up period and the remaining 40% will be settled with shares or share options after 4-5 years or (ii) a total of 20% will be settled instantly with cash and the remaining 80% will be settled with share options after 4-5 years. The key metric used to determine whether incentive scheme payments will be paid by the Bank, in part or in full, is whether the Bank's return on equity is higher than the weighted ROE of the Bank's main competitors. Other supporting metrics include ROE and cost-to-income ratio vs target, compliance, staff NPS etc. Stefnir hf. has a special incentive scheme where other criteria are used as a basis. No accrual was recognised in the Income Statement due to the performance in 2026. Given that all criteria are expected to be met, the maximum total expense is estimated at ISK 2.0 billion, including salary-related expenses. This comprises ISK 1.0 billion for the group subject to the 10% fixed-salary limit and ISK 1.1 billion for the group subject to the 25% fixed-salary limit. The amount includes a deferred portion of ISK 0.4 billion, which is expensed over 4–5 years.

Share-based payment expense

Arion Bank has in place a share option plan for all employees of the Bank, Vördur and Stefnir, approved at the Banks annual general meeting. A total expense of ISK 79 million was recognised in the Income Statement during the period (6M 2025: ISK 47 million). Estimated remaining expenses due the share option contracts are ISK 324 million and will be expensed over the next 5 years. For further information on the share option program, see Note 38.

15. Other operating expenses

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
IT expenses	2,786	2,548	1,377	1,216
Professional services	880	617	404	257
Marketing	745	635	380	336
Housing expenses	279	269	146	134
Other administration expenses	1,337	1,249	703	612
Depreciation of property and equipment	232	274	120	138
Depreciation of right of use asset	75	79	35	40
Amortization of intangible assets	498	507	251	240
Other operating expenses	6,832	6,178	3,416	2,973

Amounts are in ISK millions

16. Bank levy

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

17. Net impairment

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Net impairment on financial instruments and value changes on loans				
Net impairment on loans to customers and financial institutions	(1,080)	(229)	(681)	147
Net impairment on other financial instruments at FVOCI	-	(3)	1	(1)
Other value changes of loans	10	1	1	1
Net impairment	(1,070)	(231)	(679)	147
Net impairment by customer type				
Individuals	(288)	318	(184)	107
Corporates	(782)	(549)	(495)	40
Net impairment	(1,070)	(231)	(679)	147

18. Income tax expense

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Current tax expense	6,863	6,159	3,343	3,883
Deferred tax expense	84	1,551	(139)	101
Current tax expense	6,947	7,710	3,204	3,984

Reconciliation of effective tax rate	2026 1.1.-30.6.		2025 1.1.-30.6.	
Earnings before income tax		22,326		25,805
Income tax using the Icelandic corporate tax rate	20.0%	4,465	20.0%	5,161
Additional 6% tax on Financial Undertakings	6.6%	1,484	5.1%	1,321
Non-deductible expenses	0.1%	12	0.1%	18
Tax exempt revenues / loss	3.4%	766	4.0%	1,029
Non-deductible taxes (Bank levy)	1.0%	225	0.8%	206
Tax incentives not recognized in the Income Statement	(0.0%)	(4)	(0.1%)	(23)
Other changes	(0.0%)	(1)	0.0%	(2)
Effective tax rate	31.1%	6,947	29.9%	7,710

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

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

Amounts are in ISK millions

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

	2026 1.1.-30.6.	2025 1.1.-30.6.	2026 1.4.-30.6.	2025 1.4.-30.6.
Net loss from discontinued operations held for sale	-	(22)	-	(11)
Discontinued operations held for sale, net of income tax	-	(22)	-	(11)

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

20. Earnings per share

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

	Continued operations		Discontinued operations		Net earnings	
	2026	2025	2026	2025	2026	2025
1.1.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	15,372	16,193	-	(22)	15,372	16,171
Total comprehensive income attributable to the shareholders	14,886	16,329	-	(22)	14,886	16,307
Weighted average number of outstanding shares (millions)	1,367	1,441	-	1,441	1,367	1,441
Weighted average number of outstanding shares, including options (millions)	1,367	1,452	-	1,452	1,367	1,452
Basic earnings per share (ISK)	11.25	11.24	-	(0.02)	11.25	11.22
Diluted earnings per share (ISK)	11.25	11.15	-	(0.02)	11.25	11.14
Basic comprehensive income per share (ISK)	10.89	11.34	-	(0.02)	10.89	11.32
Diluted comprehensive income per share (ISK)	10.89	11.25	-	(0.02)	10.89	11.23
1.4.-30.6.						
Net earnings attributable to the shareholders of Arion Bank	8,054	9,761	-	(11)	8,054	9,750
Total compreh.income attributable to the shareholders	7,952	11,693	-	(11)	7,952	11,682
Weighted average number of outstanding shares (millions)	1,361	1,480	-	1,480	1,361	1,480
Weighted average number of outstanding shares including options (millions)	1,361	1,492	-	1,492	1,361	1,492
Basic earnings per share (ISK)	5.92	6.60	-	(0.01)	5.92	6.59
Diluted earnings per share (ISK)	5.92	6.54	-	(0.01)	5.92	6.53
Basic comprehensive income per share (ISK)	5.84	7.90	-	(0.01)	5.84	7.89
Diluted comprehensive income per share (ISK)	5.84	7.84	-	(0.01)	5.84	7.83

Notes to the Consolidated Interim Statement of Financial Position

21. Cash and balances with Central Bank

	30.6.2026	31.12.2025
Cash on hand	2,512	2,022
Cash with Central Bank	79,274	114,486
Mandatory reserve deposit with Central Bank	32,691	33,603
Cash and balances with Central Bank	114,477	150,111

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

22. Loans to credit institutions

	30.6.2026	31.12.2025
Bank accounts	24,545	22,040
Other loans	170	527
Loans to credit institutions	24,715	22,567

23. Loans to customers

	Individuals		Corporates		Total	
30.6.2026	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Overdrafts	15,887	15,154	58,793	57,220	74,680	72,374
Credit cards	19,319	19,018	2,836	2,731	22,155	21,749
Loans to customers at fair value	-	-	2,040	1,530	2,040	1,530
Mortgage loans	598,783	597,969	106,964	105,727	705,747	703,696
Construction loans	-	-	69,679	68,208	69,679	68,208
Capital lease	513	506	7,780	7,655	8,293	8,161
Other loans	30,894	29,932	517,020	512,005	547,914	541,937
Loans to customers	665,396	662,579	765,112	755,076	1,430,508	1,417,655
31.12.2025						
Overdrafts	15,373	14,666	53,125	50,643	68,498	65,309
Credit cards	17,558	17,301	2,561	2,478	20,119	19,779
Loans to customers at fair value	-	-	1,933	1,450	1,933	1,450
Mortgage loans	577,492	576,828	91,007	89,765	668,499	666,593
Construction loans	-	-	57,705	56,224	57,705	56,224
Capital lease	681	674	7,174	7,046	7,855	7,720
Other loans	31,851	30,925	485,158	481,056	517,009	511,981
Loans to customers	642,955	640,394	698,663	688,662	1,341,618	1,329,056

The total book value of loans that were pledged against outstanding borrowings was ISK 304 billion at the end of the period (31.12.2025: ISK 286 billion). Pledged loans comprised mortgage loans to individuals.

Further analysis of loans is provided in Risk management disclosures.

24. Financial instruments

	30.6.2026	31.12.2025
Bonds and debt instruments	204,974	170,985
Shares and equity instruments with variable income	25,489	21,260
Derivatives	7,781	8,624
Securities used for economic hedging	16,182	14,947
Financial instruments	254,426	215,816

Amounts are in ISK millions

25. Financial assets and financial liabilities

30.6.2026

Financial assets	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Loans				
Cash and balances with Central Bank	114,477	-	-	114,477
Loans to credit institutions	24,715	-	-	24,715
Loans to customers	1,416,125	-	1,530	1,417,655
Loans	1,555,317	-	1,530	1,556,847
Bonds and debt instruments				
Listed	-	165,311	39,202	204,513
Unlisted	-	-	461	461
Bonds and debt instruments	-	165,311	39,663	204,974
Shares and equity instruments with variable income				
Listed	-	-	10,655	10,655
Unlisted	-	-	7,412	7,412
Bond funds with variable income, unlisted	-	-	7,422	7,422
Shares and equity instruments with variable income	-	-	25,489	25,489
Derivatives				
OTC derivatives	-	-	6,096	6,096
Derivatives used for hedge accounting	-	-	1,685	1,685
Derivatives	-	-	7,781	7,781
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	6,130	6,130
Shares and equity instruments with variable income, listed	-	-	10,052	10,052
Securities used for economic hedging	-	-	16,182	16,182
Other financial assets				
Accounts receivable	3,245	-	-	3,245
Other financial assets	12,078	-	-	12,078
Other financial assets	15,323	-	-	15,323
Financial assets	1,570,640	165,311	90,645	1,826,596
Financial liabilities				
Due to credit institutions and Central Bank	9,329	-	-	9,329
Deposits	981,322	-	-	981,322
Borrowings *	523,261	-	-	523,261
Subordinated liabilities *	43,321	-	-	43,321
Short positions in bonds	-	-	30	30
Derivatives	-	-	1,942	1,942
Derivatives used for hedge accounting	-	-	1,680	1,680
Other financial liabilities	26,766	-	-	26,766
Financial liabilities	1,583,999	-	3,652	1,587,651

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

31.12.2025

	Amortized cost	Fair value through OCI	Fair value through P/L	Total
Financial assets				
Loans				
Cash and balances with Central Bank	150,111	-	-	150,111
Loans to credit institutions	22,567	-	-	22,567
Loans to customers	1,327,606	-	1,450	1,329,056
Loans	1,500,284	-	1,450	1,501,734
Bonds and debt instruments				
Listed	-	138,302	32,479	170,781
Unlisted	-	-	204	204
Bonds and debt instruments	-	138,302	32,683	170,985
Shares and equity instruments with variable income				
Listed	-	-	11,499	11,499
Unlisted	-	-	9,008	9,008
Bond funds with variable income, unlisted	-	-	753	753
Shares and equity instruments with variable income	-	-	21,260	21,260
Derivatives				
OTC derivatives	-	-	5,414	5,414
Derivatives used for hedge accounting	-	-	3,210	3,210
Derivatives	-	-	8,624	8,624
Securities used for economic hedging				
Bonds and debt instruments, listed	-	-	1,732	1,732
Shares and equity instruments with variable income, listed	-	-	13,215	13,215
Securities used for economic hedging	-	-	14,947	14,947
Other financial assets				
Accounts receivable	3,465	-	-	3,465
Other financial assets	13,566	-	-	13,566
Other financial assets	17,031	-	-	17,031
Financial assets	1,517,315	138,302	78,964	1,734,581
Financial liabilities				
Due to credit institutions and Central Bank	12,003	-	-	12,003
Deposits	921,182	-	-	921,182
Borrowings *	494,823	-	-	494,823
Subordinated liabilities *	43,518	-	-	43,518
Derivatives	-	-	1,411	1,411
Derivatives used for hedge accounting	-	-	1,718	1,718
Other financial liabilities	11,792	-	-	11,792
Financial liabilities	1,483,318	-	3,129	1,486,447

* Including effect from hedge accounting derivatives.

Amounts are in ISK millions

25. Financial assets and financial liabilities, continued

Bonds and debt instruments measured at fair value, specified by issuer

30.6.2026	Fair value through OCI	Mandatorily at fair value thr. P/L	Total
Financial and insurance activities	1,615	10,119	11,734
Public sector	163,696	25,295	188,991
Corporates	-	4,249	4,249
Bonds and debt instruments at fair value	165,311	39,663	204,974

31.12.2025	Fair value through OCI	Mandatorily at fair value thr. P/L	Total
Financial and insurance activities	1,434	8,667	10,101
Public sector	136,868	20,366	157,234
Corporates	-	3,650	3,650
Bonds and debt instruments at fair value	138,302	32,683	170,985

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

26. Fair value hierarchy

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
Level 3: valuation techniques which include significant inputs that are not based on observable market data.

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

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

30.6.2026

Assets at fair value	Level 1	Level 2	Level 3	Total
Loans to customers	-	-	1,530	1,530
Bonds and debt instruments	200,132	4,842	-	204,974
Shares and equity instruments with variable income	10,595	11,655	3,239	25,489
Derivatives	-	6,096	-	6,096
Derivatives used for hedge accounting	-	1,685	-	1,685
Securities used for economic hedging	16,182	-	-	16,182
Investment property	-	-	7,538	7,538
Assets at fair value	226,909	24,278	12,307	263,494
Liabilities at fair value				
Short positions in bonds	30	-	-	30
Derivatives	-	1,942	-	1,942
Derivatives used for hedge accounting	-	1,680	-	1,680
Liabilities at fair value	30	3,622	-	3,652

Amounts are in ISK millions

26. Fair value hierarchy, continued

31.12.2025

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

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

Fair value of assets and liabilities

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

Methods for establishing fair value

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

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

Level 1: Fair value established from quoted market prices

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

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

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

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

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

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

Amounts are in ISK millions

26. Fair value hierarchy, continued

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

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

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

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

Movements in Level 3 assets measured at fair value

	Investment property	Financial assets			
30.6.2026		Loans	Bonds	Shares	Total
Balance at the beginning of the year	7,305	1,450	3	4,003	12,761
Net fair value changes	196	80	(2)	(788)	(514)
Additions	37	-	-	24	61
Disposals	-	-	(1)	-	(1)
Balance at the end of the period	7,538	1,530	-	3,239	12,307
31.12.2025					
Balance at the beginning of the year	9,387	1,313	5	1,655	12,360
Net fair value changes	5,277	92	-	(218)	5,151
Additions	191	45	-	2,570	2,806
Disposals	(7,550)	-	(2)	(3)	(7,555)
Balance at the end of the year	7,305	1,450	3	4,004	12,762

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

	Investment property	Financial assets			
30.6.2026		Loans	Bonds	Shares	Total
Net interest income	-	107	-	-	107
Net financial income	-	(27)	(2)	(788)	(817)
Other operating income	196	-	-	-	196
Effects recognized in the Income Statement	196	80	(2)	(788)	(514)
31.12.2025					
Net interest income	-	122	-	-	122
Net financial income	-	(30)	-	(218)	(248)
Other operating income	4,848	-	-	-	4,848
Effects recognized in the Income Statement	4,848	92	-	(218)	4,722

Amounts are in ISK millions

26. Fair value hierarchy, continued

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

30.6.2026	Carrying value	Fair value	Unrealized (loss) gain
Financial assets not carried at fair value			
Cash and balances with Central Bank	114,477	114,477	-
Loans to credit institutions	24,715	24,715	-
Loans to customers	1,416,125	1,409,469	(6,656)
Other financial assets	15,323	15,323	-
Financial assets not carried at fair value	1,570,640	1,563,984	(6,656)
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	9,329	9,329	-
Deposits	981,322	981,322	-
Borrowings	523,261	527,884	(4,623)
Subordinated liabilities	43,321	50,113	(6,792)
Other financial liabilities	26,766	26,766	-
Financial liabilities not carried at fair value	1,583,999	1,595,414	(11,415)
31.12.2025			
Financial assets not carried at fair value			
Cash and balances with Central Bank	150,111	150,111	-
Loans to credit institutions	22,567	22,567	-
Loans to customers	1,327,606	1,329,204	1,598
Other financial assets	17,031	17,031	-
Financial assets not carried at fair value	1,517,315	1,518,913	1,598
Financial liabilities not carried at fair value			
Due to credit institutions and Central Bank	12,003	12,003	-
Deposits	921,182	921,182	-
Borrowings	494,823	501,211	(6,388)
Subordinated liabilities	43,518	50,461	(6,943)
Other financial liabilities	11,792	11,792	-
Financial liabilities not carried at fair value	1,483,318	1,496,649	(13,331)

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

Derivatives

	Notional	Fair value	
30.6.2026	value	Assets	Liabilities
Forward exchange rate agreements	91,503	256	705
Fair value hedge of interest rate swap	305,887	1,685	1,681
Interest rate and exchange rate agreements	45,319	107	901
Bond swap agreements	6,093	125	51
Share swap agreements	16,189	5,608	284
Derivatives	464,992	7,781	3,622
31.12.2025			
Forward exchange rate agreements	95,591	430	419
Fair value hedge of interest rate swap	268,565	3,210	1,718
Interest rate and exchange rate agreements	33,616	167	204
Bond swap agreements	1,882	70	5
Share swap agreements	18,025	4,747	783
Derivatives	417,679	8,624	3,129

Amounts are in ISK millions

26. Fair value hierarchy, continued

Fair value hedge of interest rate swap

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

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

During the first six months of 2026 the slope for the regression line was in all cases within the range of 0.94-1.06 and the coefficient of determination was at least 0.94. During 2025, the slope of the regression line was in all cases within the range of 0.95-1.24 and the correlation coefficient was at least 0.94. In all cases the effectiveness is within limits in 2026 and 2025.

1.1.-30.6.2026	Notional Value	Maturity date	Fair value Assets	Fair value Liabilities	Gain (loss) on FV changes
Interest rates swaps - EUR	71,905	3-6 mth	-	694	658
Interest rates swaps - EUR	-	-	-	-	(151)
Interest rates swaps - USD	2,520	1-5 years	93	-	(39)
Interest rates swaps - EUR	43,143	1-5 years	1,214	-	(410)
Interest rates swaps - USD	15,747	1-5 years	-	70	(253)
Interest rates swaps - EUR	43,143	1-5 years	-	529	(230)
Interest rates swaps - EUR	43,143	over 5 years	292	-	(136)
Interest rates swaps - EUR	43,143	1-5 years	-	387	(573)
Interest rates swaps - EUR	43,143	1-5 years	86	-	72
			1,685	1,680	(1,062)
1.1.-31.12.2025					
Interest rates swaps - EUR	-	-	-	-	693
Interest rates swaps - EUR	73,640	6-12 mth	-	1,395	1,387
Interest rates swaps - EUR	44,184	3-6 mth	1,815	-	(248)
Interest rates swaps - USD	2,509	1-5 years	53	-	30
Interest rates swaps - EUR	44,184	1-5 years	656	-	(447)
Interest rates swaps - USD	15,680	1-5 years	178	-	422
Interest rates swaps - EUR	44,184	1-5 years	508	-	(229)
Interest rates swaps - EUR	44,184	over 5 years	-	323	(423)
			3,210	1,718	1,185

Hedged borrowings and subordinated liabilities

1.1.-30.6.2026	Book value	Accumulated fair value Assets	Accumulated fair value Liabilities	Gain (loss) on FV changes
EUR 300 million - issued 2021 - 4 years	42,797	569	-	566
EUR 500 million - issued 2021 - 5 years	28,818	359	-	(655)
EUR 300 million - issued 2025 - 5 years	42,685	435	-	229
EUR 300 million - issued 2023 - 3 years	-	-	-	150
USD 21 million - issued 2024 - 3 years	2,953	-	14	39
EUR 300 million - issued 2024 - 4 years	44,469	-	198	408
USD 125 million - issued 2024 - Perpetual	15,470	470	-	250
EUR 300 million - issued 2025 - 6 years	43,450	552	-	136
EUR 300 million - issued 2026 - 3 years	43,272	-	71	(71)
Hedged borrowings and subordinated liabilities	263,914	2,385	283	1,052
1.1.-31.12.2025				
EUR 300 million - issued 2020 - 4 years	-	-	-	(648)
USD 100 million - issued 2020 - Perpetual	72,265	1,038	-	(1,391)
EUR 500 million - issued 2021 - 5 years	44,731	209	-	196
EUR 300 million - issued 2021 - 4 years	46,252	-	154	247
EUR 300 million - issued 2022 - 2 years	2,893	-	53	(31)
EUR 300 million - issued 2023 - 3 years	44,916	-	622	427
USD 21 million - issued 2024 - 3 years	15,635	218	-	(434)
EUR 300 million - issued 2024 - 4 years	43,835	423	-	436
Hedged borrowings and subordinated liabilities	270,527	1,888	829	(1,198)

Amounts are in ISK millions

27. Offsetting financial assets and financial liabilities

Financial assets subject to enforceable master netting arrangements and similar arrangements

	Assets subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
30.6.2026	Gross assets before nettings	Nettings with gross liabilities	Assets recognized on Balance Sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arr-angements	Total assets recognized on Balance Sheet, net
Reverse repurchase agreements	17,002	(10,608)	6,394	10,608	-	17,002	-	6,394
Derivatives	2,719	-	2,719	(160)	(6,462)	(3,903)	5,062	7,781
Total assets	19,721	(10,608)	9,113	10,448	(6,462)	13,099	5,062	14,175
31.12.2025								
Reverse repurchase agreements	17,035	(10,789)	6,246	10,789	-	17,035	-	6,246
Derivatives	3,739	-	3,739	(1,486)	(5,602)	(3,349)	4,885	8,624
Total assets	20,774	(10,789)	9,985	9,303	(5,602)	13,686	4,885	14,870

Financial liabilities subject to enforceable master netting arrangements and similar arrangements

	Liabilities subject to netting arrangements			Netting potential not recognized in the Balance Sheet				
30.6.2026	Gross liabilities before nettings	Nettings with gross assets	Liabilities recognized on Balance Sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities not subject to enforceable netting arr-angements	Total liabilities recognized on balance sheet, net
Repurchase agreements	16,108	(10,608)	5,500	10,608	-	16,108	-	5,500
Derivatives	3,688	-	3,688	(160)	(3,019)	509	(66)	3,622
Total liabilities	19,796	(10,608)	9,188	10,448	(3,019)	16,617	(66)	9,122
31.12.2025								
Repurchase agreements	16,579	(10,789)	5,790	10,789	-	16,579	-	5,790
Derivatives	2,555	-	2,555	(1,486)	(1,752)	(683)	574	3,129
Total liabilities	19,134	(10,789)	8,345	9,303	(1,752)	15,896	574	8,919

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

28. Investments in associates

	30.6.2026	31.12.2025
Carrying amount at the beginning of the year	760	814
Decreased share capital	-	(19)
Dividend received	-	(8)
Share of profit (loss) of associates	27	(27)
Investment in associates	788	760

The Group's interest in its principal associates

Háblær ehf., Sudurlandsbraut 18, Reykjavík, Iceland	31.8%	31.8%
Reiknistofa bankanna hf., Dalvegur 30, Reykjavík, Iceland	23.0%	23.0%
SER eignarhaldsfélag ehf., Borgartún 19, Reykjavík, Iceland	35.3%	35.3%
Glassriver ehf., Grensásvegur 7, Reykjavík, Iceland	41.7%	-
Matorka ehf., Eyrartröd 12, Grindavik, Iceland	19.5%	19.5%

In 2026 Arion Bank obtained shares in Glassriver ehf. as a result of debt restructuring of the company.

Amounts are in ISK millions

29. Intangible assets

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

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

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

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

Policies applied to the Group's intangible assets	Goodwill and infrastructure	Customer relationship and related agreements	Software
Useful lives	Undefined	Finite 6-15 years and undefined	Finite 3-10 years
Amortization method	Impairment test	Straight-line basis over 6-15 years and impairment test	Straight-line basis over 3-10 years
Internally generated or acquired	Acquired	Acquired	Acquired and internally generated

1.1.-30.6.2026	Goodwill	Infra-structure	Customer relationship and related agreements	Software	Total
Balance at the beginning of the year	730	2,383	367	4,053	7,533
Additions	-	-	-	310	310
Amortization	-	-	(30)	(468)	(498)
Balance at the end of the period	730	2,383	337	3,895	7,345
1.1.-31.12.2025					
Balance at the beginning of the year	730	2,383	427	4,148	7,688
Additions	-	-	-	852	852
Amortization	-	-	(60)	(947)	(1,007)
Balance at the end of the year	730	2,383	367	4,053	7,533

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

Amounts are in ISK millions

30. Tax assets and tax liabilities

	30.6.2026		31.12.2025	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	13,161	-	10,738
Deferred tax	2	2,329	2	2,245
Tax assets and tax liabilities	2	15,490	2	12,983

31. Assets and disposal groups held for sale

	30.6.2026	31.12.2025
Real estate and other assets	81	98
Assets and disposal groups held for sale	81	98

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

32. Other assets

	30.6.2026	31.12.2025
Property and equipment	3,491	3,354
Right-of-use asset	798	745
Accounts receivable	3,245	3,465
Unsettled securities trading	6,704	9,174
Sundry assets	7,310	5,779
Other assets	21,548	22,517

33. Other liabilities

	30.6.2026	31.12.2025
Accounts payable	1,368	1,496
Unsettled securities trading	7,802	3,041
Insurance contract liabilities	23,632	22,435
Withholding tax	1,867	6,560
Bank levy	2,413	2,107
Accrued expenses	4,759	5,508
Prepaid income	1,505	1,466
Impairment of off-balance items	519	682
Lease liability	904	867
Sundry liabilities	17,077	6,574
Other liabilities	61,846	50,736

Insurance contract liabilities

	30.6.2026	31.12.2025
Liabilities for remaining coverage	4,007	3,739
Liabilities for incurred claims	18,739	17,866
Risk adjustment	886	830
Insurance contract liabilities	23,632	22,435

Amounts are in ISK millions

34. Borrowings

Currency, original nominal value	First issued	Maturity	Maturity type	Terms of interest	30.6.2026	31.12.2025
ARION CBI 26 ISK 17,080 million	2019	10/2026	At maturity	Fixed CPI linked 2.00%	13,540	20,094
ARION CB EUR 500 million*	2021	10/2026	At maturity	Fixed 0.05%	28,818	72,265
ARION CB 27 ISK 53,100 million	2022	10/2027	At maturity	Fixed 5.50%	26,298	26,083
ARION CBI 28 ISK 27,420 million	2024	9/2028	At maturity	Fixed CPI linked 4.25%	24,205	23,286
ARION CBI 29 ISK 27,200 million	2014	12/2029	At maturity	Fixed CPI linked 3.50%	42,937	41,370
ARION CBI 30 ISK 31,920 million	2023	11/2030	At maturity	Fixed CPI linked 2.75%	34,871	33,421
ARION CB EUR 300 million*	2026	2/2031	At maturity	Fixed, 2.75 %	42,797	-
ARION CBI 31 ISK 9,060 million	2025	8/2031	At maturity	Fixed CPI linked 3.65%	27,053	8,299
ARION CBI 48 ISK 11,680 million	2018	1/2048	Amortizing	Fixed CPI linked 2.50%	13,027	12,732
Statutory covered bonds					253,546	237,550
SEK 300 million	2023	3/2026	At maturity	Floating STIBOR 3M +3.00%	-	4,091
EUR 300 million*	2023	5/2026	At maturity	Fixed 7.25%	-	46,252
ARION 26 1222 Green, ISK 5,760 million	2021	12/2026	At maturity	Fixed 4.70%	5,551	5,417
NOK 250 million	2017	4/2027	At maturity	Fixed 3.40%	3,198	3,182
SEK 500 million Green	2024	10/2027	At maturity	Floating STIBOR 3M +1.20%	6,532	6,840
NOK 500 million Green	2024	10/2027	At maturity	Floating NIBOR 3M +1.20%	6,431	6,288
USD 21 million*	2024	12/2027	At maturity	Fixed 6.25%	2,953	2,893
NOK 600 million Green	2025	12/2027	At maturity	Floating NIBOR 3M +1.17%	7,649	7,479
SEK 900 million Green	2025	12/2027	At maturity	Floating STIBOR 3M +1.20%	11,689	12,248
SEK 250 million	2025	1/2028	At maturity	Floating STIBOR 3M +1.13%	3,264	3,418
NOK 350 million	2025	1/2028	At maturity	Floating NIBOR 3M +1.11%	4,498	4,397
USD 27 million	2025	7/2028	At maturity	Fixed 5.00%	3,114	3,015
EUR 300 million *	2024	11/2028	At maturity	Fixed 4.625%	44,469	44,916
ARION 28 1512, ISK 16,920 million	2023	12/2028	At maturity	Fixed CPI linked 4.35%	19,004	18,271
NOK 550 million Green	2026	1/2029	At maturity	Floating, Nibor 3M + 0.80%	7,047	-
SEK 650 million Green	2026	1/2029	At maturity	Floating, Stibor 3M + 0.83%	8,463	-
EUR 300 million *	2026	11/2029	At maturity	Fixed 3.625%	43,272	-
EUR 300 million *	2025	5/2030	At maturity	Fixed 3.625%	42,685	44,731
EUR 300 million Green *	2025	9/2031	At maturity	Fixed 3.50%	43,450	43,835
NOK 300 million Green	2026	1/2031	At maturity	Floating, Nibor 3M + 1.05%	3,843	-
SEK 200 million Green	2026	1/2031	At maturity	Floating, Stibor 3M + 1.07%	2,603	-
Senior unsecured bonds					269,715	257,273
Borrowings					523,261	494,823

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

The book value of listed bonds was ISK 523 billion at the end of the period (31.12.2025: ISK 495 billion). The market value of those bonds was ISK 528 billion (31.12.2025: ISK 501 billion). The Group repurchased own debts amounting to ISK 50 billion during the period with a net gain of ISK 7 million recognized in the Income Statement (H1 2025: ISK 1 million gain).

Amounts are in ISK millions

35. Subordinated liabilities

Currency, original nominal value	Issued	Maturity	First call date	Terms of interest	30.6.2026	31.12.2025
EUR 5 million	2019	1/2026	6 Mar '26	Fixed 3.24%	-	753
ARION T2I ISK 33 9,860 million	2022	12/2033	15 Dec '28	Fixed CPI linked 4.95%	12,072	11,613
ARION T2 33 ISK 2,240 million	2022	12/2033	15 Dec '28	Fixed 9.25%	2,249	2,249
SEK 225 million	2024	11/2034	20 Nov '29	Floating 3 mth STIBOR +2.65%	2,936	3,078
ARION T2I 36 ISK 10,040 million	2025	12/2036	2 Dec '31	Fixed CPI linked 5.00%	10,594	10,190
Tier 2 subordinated liabilities					27,851	27,883
ARION AT1 USD 125 million *	2024	Perpetual	24 Mar '30	Fixed 8.125%	15,470	15,635
Additional Tier 1 subordinated liabilities					15,470	15,635
Subordinated liabilities					43,321	43,518

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

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

36. Liabilities arising from financial activities

		Net	Non-cash changes			
1.1.-30.6.2026	At 1 Jan.	cash flows	Interest expenses	Foreign exchange	Effect from hedge	At period end
Covered bonds in ISK - CPI linked	139,202	8,301	8,130	-	-	155,633
Covered bonds in ISK	26,083	(730)	945	-	-	26,298
Covered bonds in FX	72,265	(41)	1,260	(1,893)	24	71,615
Senior unsecured bonds in FX	233,585	12,629	5,284	(5,369)	(969)	245,160
Senior unsecured bonds in ISK	5,417	(137)	148	-	123	5,551
Senior unsecured bonds in ISK - CPI linked	18,271	(421)	1,154	-	-	19,004
Subordinated bond T2 in ISK - CPI linked	21,803	(561)	1,424	-	-	22,666
Subordinated bond T2 ISK	2,249	(105)	105	-	-	2,249
Subordinated bond T2 FX	3,831	(819)	77	(153)	-	2,936
Subordinated bond AT1 FX	15,635	(646)	642	69	(230)	15,470
Liabilities arising from financial activities	538,341	17,470	19,169	(7,346)	(1,052)	566,582
1.1.-31.12.2025						
Covered bonds in ISK - CPI linked	153,965	(24,357)	9,594	-	-	139,202
Covered bonds in ISK	25,652	(1,458)	1,889	-	-	26,083
Covered bonds in FX	68,775	(1,555)	1,958	1,648	1,439	72,265
Senior unsecured bonds in FX	166,795	53,098	9,843	4,552	(703)	233,585
Senior unsecured bonds in ISK	5,411	(285)	291	-	-	5,417
Senior unsecured bonds in ISK - CPI linked	12,580	4,237	1,454	-	-	18,271
Subordinated bond T2 in ISK - CPI linked	17,802	2,556	1,445	-	-	21,803
Subordinated bond T2 ISK	3,153	(1,116)	212	-	-	2,249
Subordinated bond T2 FX	3,579	(174)	171	255	-	3,831
Subordinated bond AT1 FX	20,004	(4,832)	1,684	(1,683)	462	15,635
Liabilities arising from financial activities	477,716	26,114	28,541	4,772	1,198	538,341

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

Amounts are in ISK millions

37. Pledged assets

Pledged assets against liabilities

	30.6.2026	31.12.2025
Assets, pledged as collateral against borrowings	436,452	359,645
Assets pledged as a collateral against loans from banks and other financial liabilities	6,254	5,049
Pledged assets against liabilities	442,706	364,694
Thereof pledged assets against issued covered bonds held by the Bank	(144,012)	(85,549)
Assets against repoed issued bonds	15,597	15,727
Pledged assets against liabilities on balance	314,291	294,872

The Group has pledged assets against due to credit institutions and borrowings, both issued covered bonds and other issued bonds and loan agreements under Icelandic law. Pledged loans comprised mortgage loans to individuals. The book value of those liabilities were ISK 254 billion at period end (31.12.2025: ISK 238 billion).

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

The Group has issued covered bonds amounting to ISK 112 billion that can be used for repo borrowings at the Central Bank of Iceland, the European Central Bank or sold if market conditions are favorable (31.12.2025: ISK 61 billion). Pledged assets against those covered bonds are ISK 128 billion (31.12.2025: ISK 70 billion).

38. Equity

Share capital and share premium

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

	Share capital	Own shares	Share premium	2026 total	Share capital	Own shares	Share premium	2025 total
Balance at the beginning of the year	1,420	(36)	-	1,383	1,513	(101)	4,273	5,686
Share capital reduction	(40)	40	-	-	(93)	93	-	-
Purchase of treasury shares	-	(37)	(1,356)	(1,393)	-	(36)	(5,218)	(5,254)
Share option vested	-	7	1,039	1,046	-	6	715	721
Incentive scheme	-	1	317	318	-	1	229	230
Balance at the end of the period	1,380	(24)	-	1,354	1,420	(36)	-	1,383
Own shares / issued share capital		1.88%				2.59%		

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

In accordance with the Bank's dividend policy Arion Bank has in place a regular buyback program. In January and May 2026, the FSA granted the Bank the authorization to buy back own shares in Iceland and Sweden amounting on each occasion to up to ISK 5.0 billion, or a total of ISK 10.0 billion. At the end of June, approximately 2.7 million shares of the authorized buyback program remained. The program will end no later than 31 December 2026. In 2025, the FSA authorized the Bank to initiate share buyback programs in Iceland and Sweden amounting to up to a total of 19.9 million shares or up to ISK 3.0 billion.

Amounts are in ISK millions

38. Equity, continued

Share options

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

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

The following share option contracts are in existence at period end.	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2024 - deferred remuneration contingent on specific conditions	1,281	2028-29	*
Issued in 2025 - incentive scheme - employees of Group	4,337	2028-30	**
Issued in 2025 - deferred remuneration contingent on specific conditions	776	2029-30	*
Issued in 2026 (ISK 1,500,000) - employees of the Group	31,411	2027-31	199.6
Issued in 2026 - incentive scheme - employees of Group	3,940	2029-31	**
Issued in 2026 - deferred remuneration contingent on specific conditions	898	2030-31	*
	42,643		

Movements in share options during the period.	30.6.2026		31.12.2025	
Share options pursuant to Icelandic income tax act	Number of shares (in ths.)	Weighted average contract rate	Number of shares (in ths.)	Weighted average contract rate
Outstanding at the beginning of the year	8,952	139.1	17,116	135.1
Share options granted	31,411	199.6	1,203	172.0
Share options forfeited	(2,776)	162.8	(4,523)	130.1
Share options exercised, WAVG share price ISK 197.8 at exercise date (2025: 169.5)	(6,176)	132.1	(4,844)	124.2
Share options pursuant to Icelandic income tax act	31,411	199.6	8,952	135.1
Share options - incentive scheme				
Outstanding at the beginning of the year	4,338		-	
Share options granted	3,940		4,562	
Share options forfeited	-		(224)	
Share options - incentive scheme	8,278	**	4,338	**
Share options - deferred remuneration contingent on specific conditions				
Outstanding at the beginning of the year	3,420		3,618	
Share options granted	898		785	
Share options forfeited	-		(9)	
Share options exercised (deferrred from 2023)	(1,364)	199.5	(974)	175.5
Share options - deferred remuneration contingent on specific conditions	2,954	*	3,420	*
Outstanding share options at the end of the period	42,643		16,710	

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

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

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

* Market price on payment date

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

Amounts are in ISK millions

Other information

39. Shareholders of Arion Bank

	30.6.2026	31.12.2025
Lífeyrissjódur verzlunarmanna	9.78%	9.56%
Gildi lífeyrissjódur	9.41%	9.55%
Lífeyrissjódur starfsmanna ríkisins	9.08%	9.24%
Brú lífeyrissjódur	5.30%	5.22%
Stodir hf.	5.00%	5.07%
Vanguard	4.07%	3.97%
Frjálsi lífeyrissjódurinn	4.03%	4.07%
Almenni-Lífsverk lífeyrissjódur	3.62%	3.87%
Birta lífeyrissjódur	2.86%	2.97%
Festa lífeyrissjódur	2.70%	2.61%
Hvalur hf.	2.66%	2.59%
Stapi lífeyrissjódur	2.59%	2.92%
Arion banki hf.	1.88%	2.59%
Íslandsbanki hf.	1.19%	1.44%
Stefnir funds	1.16%	1.73%
Kjálkanes ehf.	1.00%	0.97%
Landsbréf hf.	0.73%	1.05%
Other shareholders with less than 1% shareholding	32.94%	30.60%
	100.0%	100.0%

At the end of the period the Group's employees held a shareholding of 1.67% in Arion Bank (31.12.2025: 1.36%). The Board of Directors and key management personnel shareholding is as follows:

	30.6.2026		31.12.2025	
	Options	Number of shares	Options	Number of shares
Steinunn K. Thórdardóttir, Director	-	12,000	-	12,000
Alternate directors of the Board	-	49,173	-	49,933
Benedikt Gíslason, CEO	37,573	3,229,488	12,136	3,181,575
Key management personnel*	1,905,185	3,511,741	627,353	3,328,222

* Key management personnel are defined in Note 44.

40. Legal matters

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

Contingent liabilities

Legal proceedings regarding damages

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

Amounts are in ISK millions

40. Legal matters, continued

Consumer Association's class-action lawsuit

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

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

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

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

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

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

FSA preliminary findings into alleged violations of MAR and MiFID II

The Financial Supervisory Authority of the Central Bank of Iceland (FSA) has, since April 2024, been examining possible violations by Arion Bank of provisions of Act No. 60/2021 on measures against market abuse, for having failed to report to the FSA suspicious transactions, that the bank executed on behalf of clients, which may have constituted market manipulation and the Bank's compliance with certain provisions of Act No. 115/2021 on markets in financial instruments relating to sound business conduct and investor protection. The Bank received a preliminary finding regarding the examination in end March 2026, submitted views and objections, pursuant to Article 13 of the Administrative Procedures Act No. 37/1993 in the beginning of May 2026 and received an offer for settlement by the FSA on 7 July 2026. The deadline for acceptance is 6 weeks and the Bank is in the process of reviewing the offer. The Bank has not made a provision regarding this matter.

Other legal proceedings

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

41. Events after the reporting period

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

Off balance sheet information

42. Commitments

	30.6.2026	31.12.2025
Financial guarantees, unused credit facilities and undrawn loan commitments		
Financial guarantees	23,217	25,450
Unused overdrafts	87,618	90,187
Undrawn loan commitments	82,650	85,329
Financial guarantees, unused credit facilities and undrawn loan commitments	193,485	200,966

43. Assets under management, supervision and custody

	30.6.2026	31.12.2025
Assets under management	1,645,410	1,563,569
Assets under supervision	477,422	425,248
Assets under custody	1,227,567	1,107,656

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

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

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

Related party

44. Related party

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

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

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

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

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

	Key management personnel		Associated companies	
	30.6.2026	31.12.2025	30.6.2026	31.12.2025
Loans	5,328	3,940	1,851	1,072
Other assets	4	4	-	-
Total assets	5,332	3,944	1,851	1,072
Deposits	(1,527)	(995)	(138)	(10)
Other liabilities	-	-	(22)	(24)
Total liabilities	(1,527)	(995)	(160)	(33)

Amounts are in ISK millions

Risk management disclosures

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

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

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

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

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

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

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

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

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

45. Credit risk

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

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

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

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

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

Exposure to credit risk

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

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

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

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

45. Credit risk, continued

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

		Collateral				
30.6.2026	Maximum exposure	Cash and securities	Real estate	Vessels	Other collateral	Total collateral
Cash and balances with Central Bank	114,477	-	-	-	-	-
Loans to credit institutions at amortized cost	24,715	-	-	-	-	-
Loans to customers at amortized cost	1,416,125	14,055	1,035,388	69,439	108,860	1,227,742
Individuals	*662,579*	*147*	*610,827*	*9*	*13,681*	*624,664*
Mortgages	*597,969*	*114*	*597,389*	*-*	*-*	*597,503*
Other	*64,610*	*33*	*13,438*	*9*	*13,681*	*27,161*
Corporates	*753,546*	*13,908*	*424,561*	*69,430*	*95,179*	*603,078*
Real estate activities	*153,481*	*4,430*	*140,359*	*-*	*361*	*145,150*
Construction	*118,821*	*531*	*107,769*	*-*	*3,182*	*111,482*
Fishing industry	*114,497*	*1,251*	*34,789*	*54,319*	*14,734*	*105,093*
Commerce and services	*93,843*	*1,299*	*37,581*	*1,046*	*21,463*	*61,389*
Accommodation and food service activities	*49,275*	*76*	*38,944*	*-*	*235*	*39,255*
Financial and insurance activities	*54,805*	*5,613*	*10,000*	*4,094*	*25,732*	*45,439*
Industry, energy and manufacturing	*73,879*	*423*	*36,641*	*288*	*11,978*	*49,330*
Transportation	*25,615*	*19*	*1,242*	*9,650*	*9,498*	*20,409*
Information and communication technology	*44,748*	*260*	*1,661*	*-*	*7,264*	*9,185*
Public sector	*10,585*	*6*	*2,813*	*12*	*102*	*2,933*
Agriculture and forestry	*13,997*	*-*	*12,762*	*21*	*630*	*13,413*
Other assets with credit risk	15,323	-	-	-	-	-
Financial guarantees	23,217	1,323	5,668	295	4,144	11,430
Undrawn loan commitments and unused overdrafts	170,268	-	-	-	-	-
Fair value through OCI	165,311	-	-	-	-	-
Government bonds	*163,696*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*1,615*	-	-	-	-	-
Balance at the end of the period	1,929,436	15,378	1,041,056	69,734	113,004	1,239,172
31.12.2025						
Cash and balances with Central Bank	150,111	-	-	-	-	-
Loans to credit institutions at amortized cost	22,567	-	-	-	-	-
Loans to customers at amortized cost	1,327,606	15,816	982,047	65,647	111,401	1,174,911
Individuals	*640,394*	*161*	*589,706*	*28*	*14,604*	*604,499*
Mortgages	*576,828*	*134*	*576,297*	*-*	*-*	*576,431*
Other	*63,566*	*27*	*13,409*	*28*	*14,604*	*28,068*
Corporates	*687,212*	*15,655*	*392,341*	*65,619*	*96,797*	*570,412*
Real estate activities	*126,000*	*2,168*	*118,383*	*11*	*294*	*120,856*
Construction	*108,071*	*222*	*98,010*	*6*	*2,886*	*101,124*
Fishing industry	*107,416*	*1,294*	*26,435*	*58,230*	*13,314*	*99,273*
Commerce and services	*87,036*	*1,554*	*36,263*	*1,063*	*25,114*	*63,994*
Accommodation and food service activities	*46,775*	*34*	*44,842*	*-*	*206*	*45,082*
Financial and insurance activities	*58,606*	*9,528*	*18,072*	*4,069*	*20,174*	*51,843*
Industry, energy and manufacturing	*69,908*	*532*	*32,288*	*-*	*18,288*	*51,108*
Transportation	*17,925*	*40*	*1,223*	*2,208*	*9,038*	*12,509*
Information and communication technology	*40,458*	*275*	*1,606*	*-*	*6,810*	*8,691*
Public sector	*11,354*	*8*	*2,678*	*11*	*104*	*2,801*
Agriculture and forestry	*13,663*	*-*	*12,541*	*21*	*569*	*13,131*
Other assets with credit risk	17,031	-	-	-	-	-
Financial guarantees	25,450	1,348	4,989	274	6,597	13,208
Undrawn loan commitments and unused overdrafts	175,516	-	-	-	-	-
Fair value through OCI	138,302	-	-	-	-	-
Government bonds	*136,868*	-	-	-	-	-
Bonds issued by financial institutions and corporates	*1,434*	-	-	-	-	-
Balance at the end of the year	1,856,583	17,164	987,036	65,921	117,998	1,188,119

Amounts are in ISK millions

45. Credit risk, continued

LTV ratio for residential mortgage lending

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

			Thereof in Stage 3	
	30.6.2026	31.12.2025	30.6.2026	31.12.2025
Less than 50%	218,740	223,975	2,533	2,832
50-60%	107,494	107,698	1,777	2,110
60-70%	108,706	102,661	1,367	1,587
70-80%	97,185	88,631	1,142	1,427
80-90%	61,109	51,163	984	708
90-100%	3,693	1,669	296	114
More than 100%	1,681	1,497	196	261
Not classified	175	198	15	5
Gross carrying amount	598,783	577,492	8,310	9,044

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

			Thereof in Stage 3	
	30.6.2026	31.12.2025	30.6.2026	31.12.2025
Less than 55%	529,517	516,063	7,158	7,925
55-70%	50,287	45,445	737	743
70-80%	14,257	12,363	239	230
80-90%	3,445	2,521	96	77
90-100%	500	385	53	41
More than 100%	602	517	12	23
Not classified	175	198	15	5
Gross carrying amount	598,783	577,492	8,310	9,044

Collateral for financial assets in stage 3

At the end of the period, the gross carrying amount of assets in stage 3 was ISK 36,466 million (31.12.2025: ISK 32,661 million) with ISK 30,990 million in collateral (31.12.2025: ISK 28,860 million), thereof ISK 28,458 million in real estate (31.12.2025: ISK 24,474 million).

Collateral repossessed

The Group has taken possession of assets due to foreclosures. The total value of real estate the Group took possession of and still holds was ISK 78 million at the end of the period (31.12.2025: ISK 98 million) and ISK 2 million in other assets (31.12.2025: nil). Assets acquired due to foreclosure are held for sale, see Note 31.

Amounts are in ISK millions

45. Credit risk, continued

Large exposures

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

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

Credit quality

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

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

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

45. Credit risk, continued

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

30.6.2026

Loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	442,030	7	-	119	442,156
Risk class 1 - (Grades BBB+ to BBB-)	430,279	5,933	-	133	436,345
Risk class 2 - (Grades BB+ to BB-)	328,986	15,375	-	57	344,418
Risk class 3 to 4 - (Grades B+ to CCC-)	122,697	46,012	-	-	168,709
Risk class 5 - (DD)	-	-	36,023	443	36,466
Unrated	373	1	-	-	374
Gross carrying amount	1,324,365	67,328	36,023	752	1,428,468
Loss allowance	(3,390)	(1,749)	(7,004)	(200)	(12,343)
Book value	1,320,975	65,579	29,019	552	1,416,125

Loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	342,265	7	-	119	342,391
Risk class 1 - (Grades BBB+ to BBB-)	239,825	322	-	133	240,280
Risk class 2 - (Grades BB+ to BB-)	47,581	4,219	-	57	51,857
Risk class 3 to 4 - (Grades B+ to CCC-)	9,936	10,573	-	-	20,509
Risk class 5 - (DD)	-	-	10,175	145	10,320
Unrated	38	1	-	-	39
Gross carrying amount	639,645	15,122	10,175	454	665,396
Loss allowance	(754)	(440)	(1,621)	(2)	(2,817)
Book value	638,891	14,682	8,554	452	662,579

Loans to customers - Corporates and public sector entities	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 - (Grades AAA to A-)	99,765	-	-	-	99,765
Risk class 1 - (Grades BBB+ to BBB-)	190,454	5,611	-	-	196,065
Risk class 2 - (Grades BB+ to BB-)	281,405	11,156	-	-	292,561
Risk class 3 to 4 - (Grades B+ to CCC-)	112,761	35,439	-	-	148,200
Risk class 5 - (DD)	-	-	25,848	298	26,146
Unrated	335	-	-	-	335
Gross carrying amount	684,720	52,206	25,848	298	763,072
Loss allowance	(2,636)	(1,309)	(5,383)	(198)	(9,526)
Book value	682,084	50,897	20,465	100	753,546

Loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 to 1 (Grades AAA to BBB-)	105,945	145	-	-	106,090
Risk class 2 to 4 (Grades BB+ to CCC-)	75,769	4,309	607	-	80,685
Unrated	6,710	-	-	-	6,710
Nominal	188,424	4,454	607	-	193,485
Loss allowance	(370)	(149)	-	-	(519)
Nominal less loss allowance	188,054	4,305	607	-	192,966

Amounts are in ISK millions

45. Credit risk, continued

31.12.2025

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

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

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

Loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Risk class 0 to 1 - (Grades AAA to BBB-)	114,147	46	-	-	114,193
Risk class 2 to 4 - (Grades BB+ to CCC-)	76,291	4,758	1,116	-	82,165
Unrated	4,608	-	-	-	4,608
Nominal	195,046	4,804	1,116	-	200,966
Loss allowance	(342)	(266)	(73)	-	(681)
Nominal less loss allowance	194,704	4,538	1,043	-	200,285

Amounts are in ISK millions

45. Credit risk, continued

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

	Stage 1		Stage 2		Stage 3		
30.6.2026	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Gross Carrying amount	Loss allowance	Book value
Loans to credit instit., securities & cash	304,510	(7)	-	-	-	-	304,503
Loans to individuals	639,645	(754)	15,431	(440)	10,320	(1,623)	662,579
Mortgages	*577,896*	*(281)*	*12,577*	*(191)*	*8,310*	*(342)*	*597,969*
Other	*61,749*	*(473)*	*2,854*	*(249)*	*2,010*	*(1,281)*	*64,610*
Loans to corporates and public sector entities	684,720	(2,636)	52,206	(1,309)	26,146	(5,581)	753,546
Real estate activities	*141,897*	*(373)*	*5,766*	*(132)*	*7,345*	*(1,022)*	*153,481*
Construction	*107,292*	*(544)*	*6,245*	*(128)*	*8,189*	*(2,233)*	*118,821*
Fishing industry	*105,468*	*(172)*	*8,334*	*(47)*	*1,437*	*(523)*	*114,497*
Commerce and services	*85,589*	*(446)*	*6,105*	*(212)*	*3,520*	*(713)*	*93,843*
Accommodation and food service activities	*36,926*	*(153)*	*9,839*	*(379)*	*3,579*	*(537)*	*49,275*
Financial and insurance activities	*49,826*	*(279)*	*4,478*	*(134)*	*1,078*	*(164)*	*54,805*
Industry, energy and manufacturing	*68,305*	*(247)*	*5,571*	*(58)*	*605*	*(297)*	*73,879*
Transportation	*21,197*	*(60)*	*4,645*	*(169)*	*13*	*(11)*	*25,615*
Information and communication technology	*44,618*	*(288)*	*287*	*(9)*	*203*	*(63)*	*44,748*
Public Sector	*10,486*	*(35)*	*100*	*(15)*	*60*	*(11)*	*10,585*
Agriculture and forestry	*13,116*	*(39)*	*836*	*(26)*	*117*	*(7)*	*13,997*
Balance at the end of the period	1,628,875	(3,397)	67,637	(1,749)	36,466	(7,204)	1,720,628
31.12.2025							
Loans to credit instit., securities & cash	310,987	(7)	-	-	-	-	310,980
Loans to individuals	617,802	(611)	14,141	(332)	11,012	(1,618)	640,394
Mortgages	*556,668*	*(201)*	*11,780*	*(123)*	*9,044*	*(340)*	*576,828*
Other	*61,134*	*(410)*	*2,361*	*(209)*	*1,968*	*(1,278)*	*63,566*
Loans to corporates and public sector entities	633,170	(2,222)	41,911	(1,219)	21,649	(6,077)	687,212
Real estate activities	*117,560*	*(237)*	*5,623*	*(68)*	*3,919*	*(797)*	*126,000*
Construction	*93,971*	*(475)*	*9,159*	*(279)*	*7,639*	*(1,944)*	*108,071*
Fishing industry	*105,252*	*(197)*	*1,086*	*(31)*	*1,934*	*(628)*	*107,416*
Commerce and services	*79,503*	*(331)*	*5,911*	*(212)*	*2,685*	*(520)*	*87,036*
Accommodation and food service activities	*35,122*	*(133)*	*10,897*	*(274)*	*1,653*	*(490)*	*46,775*
Financial and insurance activities	*55,466*	*(288)*	*3,433*	*(138)*	*191*	*(58)*	*58,606*
Industry, energy and manufacturing	*69,437*	*(168)*	*390*	*(46)*	*582*	*(287)*	*69,908*
Transportation	*14,596*	*(49)*	*3,440*	*(69)*	*22*	*(15)*	*17,925*
Information and communication technology	*38,092*	*(274)*	*1,255*	*(75)*	*2,792*	*(1,332)*	*40,458*
Public Sector	*11,299*	*(32)*	*53*	*(7)*	*41*	*-*	*11,354*
Agriculture and forestry	*12,872*	*(38)*	*664*	*(20)*	*191*	*(6)*	*13,663*
Balance at the end of the year	1,561,959	(2,840)	56,052	(1,551)	32,661	(7,695)	1,638,586

Amounts are in ISK millions

45. Credit risk, continued

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

Transfers of financial assets between impairment stages

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

Net remeasurement of loss allowance

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

New financial assets, originated or purchased

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

Derecognitions and maturities

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

Write-offs

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

30.6.2026

*Impairment loss allowance **	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(3,175)	(1,817)	(7,581)	(187)	(12,760)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(766)	661	105	-	-
Transfers to Stage 2 (lifetime ECL)	137	(323)	186	-	-
Transfers to Stage 3 (credit impaired financial assets)	71	183	(254)	-	-
Net remeasurement of loss allowance **	417	(597)	(1,364)	(13)	(1,557)
New financial assets, originated or purchased	(705)	(165)	(676)	-	(1,546)
Derecognitions and maturities	260	150	1,095	-	1,505
Write-offs ***	1	10	1,485	-	1,496
Impairment loss allowance ****	(3,760)	(1,898)	(7,004)	(200)	(12,862)
Impairment loss allowances for assets only carrying 12-month ECL	(7)	-	-	-	(7)
Total impairment loss allowance	(3,767)	(1,898)	(7,004)	(200)	(12,869)

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

** During the period the loss allowance balance for stage 3 loans was reduced by ISK 608 million due to unwinding of interest income.

*** During the period an amount of ISK 140 million was written off but is still subject to enforcement activities subject to Icelandic law.

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

Amounts are in ISK millions

45. Credit risk, continued

Impairment loss allowance for loans to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,833)	(1,551)	(7,508)	(187)	(12,079)
Transfers of financial assets:					
Transfers to Stage 1 (12-month ECL)	(717)	612	105	-	-
Transfers to Stage 2 (lifetime ECL)	129	(315)	186	-	-
Transfers to Stage 3 (credit impaired financial assets)	70	154	(224)	-	-
Net remeasurement of loss allowance	355	(634)	(1,394)	(13)	(1,686)
New financial assets, originated or purchased	(584)	(152)	(676)	-	(1,412)
Derecognitions and maturities	189	127	1,022	-	1,338
Write-offs	1	10	1,485	-	1,496
Total loss allowance for loans to customers	(3,390)	(1,749)	(7,004)	(200)	(12,343)

Impairment loss allowance for loans to customers - Individuals	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(611)	(332)	(1,617)	(1)	(2,561)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(172)	109	63	-	-
Transfers to Stage 2 (lifetime ECL)	37	(88)	51	-	-
Transfers to Stage 3 (credit impaired financial assets)	5	50	(55)	-	-
Net remeasurement of loss allowance	51	(187)	(237)	(1)	(374)
New financial assets, originated or purchased	(115)	(46)	(100)	-	(261)
Derecognitions and maturities	50	45	160	-	255
Write-offs	1	9	114	-	124
Total loss allowance for loans to individuals	(754)	(440)	(1,621)	(2)	(2,817)

Impairment loss allowance for loans to customers - Corporates	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(2,222)	(1,219)	(5,891)	(186)	(9,518)
Transfers of financial assets					
Transfers to Stage 1 (12-month ECL)	(545)	503	42	-	-
Transfers to Stage 2 (lifetime ECL)	92	(227)	135	-	-
Transfers to Stage 3 (credit impaired financial assets)	65	104	(169)	-	-
Net remeasurement of loss allowance	304	(447)	(1,157)	(12)	(1,312)
New financial assets, originated or purchased	(469)	(106)	(576)	-	(1,151)
Derecognitions and maturities	139	82	862	-	1,083
Write-offs	-	1	1,371	-	1,372
Total loss allowance for loans to corporates	(2,636)	(1,309)	(5,383)	(198)	(9,526)

Impairment loss allowance for loan commitments, guarantees and unused credit facilities	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at the beginning of the year	(342)	(266)	(73)	-	(681)
Transfers					
Transfers to 12-month ECL	(49)	49	-	-	-
Transfers to lifetime ECL	8	(8)	-	-	-
Transfers to credit impaired	1	29	(30)	-	-
Net remeasurement of loss allowance	62	37	30	-	129
New financial commitments originated	(121)	(13)	-	-	(134)
Derecognitions and maturities	71	23	73	-	167
Total loss allowance for loan commit., guarantees, unused facilities	(370)	(149)	-	-	(519)

Amounts are in ISK millions

45. Credit risk, continued

31.12.2025

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

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

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

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

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

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

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

Amounts are in ISK millions

45. Credit risk, continued

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

Macroeconomic forecast

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

	Base case		
	2026	2027	2028
Unemployment rate	5.4%	4.7%	4.3%
Housing prices, year-on-year change	2.6%	3.6%	5.4%
Private consumption, growth	1.4%	2.1%	2.7%
GDP growth	1.5%	2.0%	2.2%
Key interest rate	7.6%	6.8%	5.6%

	Optimistic			Pessimistic		
	2026	2027	2028	2026	2027	2028
Unemployment rate	4.6%	3.2%	3.6%	7.0%	6.4%	5.1%
Housing prices, year-on-year change	4.5%	9.7%	7.8%	0.7%	-0.5%	2.8%
Private consumption, growth	3.5%	3.1%	3.0%	-0.8%	0.0%	2.0%
GDP growth	3.6%	3.0%	2.6%	-1.1%	0.3%	1.9%
Key interest rate	7.4%	6.4%	5.2%	7.7%	7.2%	6.0%

Sensitivity analysis

Regarding macroeconomic outlook, see Note 4, Material accounting estimates and judgements. The Group calculates loss for three different scenarios, optimistic, neutral and pessimistic and the loss allowance is the weighted average of the results. As a sensitivity analysis, it can be noted that the loss allowance in stage 1 and 2 for each of these scenarios separately is ISK 2.3 billion, ISK 4.4 billion and ISK 10.8 billion for the optimistic, base case and pessimistic scenarios, respectively (31.12.2025: ISK 2.2 billion, ISK 4.0 billion and ISK 9.1 billion, respectively).

Amounts are in ISK millions

45. Credit risk, continued

Forbearance

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

	Stage 1		Stage 2		Stage 3		Total	
30.6.2026	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Individuals	6,112	(26)	4,143	(100)	5,805	(676)	16,060	(802)
Companies	5,009	(28)	21,175	(479)	12,764	(2,676)	38,948	(3,183)
Total	11,121	(54)	25,318	(579)	18,569	(3,352)	55,008	(3,985)
31.12.2025								
Individuals	5,566	(15)	3,350	(53)	5,963	(678)	14,879	(746)
Companies	4,322	(31)	16,552	(302)	11,420	(3,351)	32,294	(3,684)
Total	9,888	(46)	19,902	(355)	17,383	(4,029)	47,173	(4,430)

Amounts are in ISK millions

46. Market risk

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

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

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

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

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

Interest rate risk

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

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

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

Interest rate risk

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

30.6.2026	Up to 3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Assets						
Balances with Central Bank	114,477	-	-	-	-	114,477
Loans to credit institutions	24,715	-	-	-	-	24,715
Loans to customers	918,118	209,708	271,894	1,146	8,603	1,409,469
Bonds and debt instruments	74,794	79,703	35,167	9,547	5,763	204,974
Bonds and debt instruments used for hedging	-	-	2,749	2,398	983	6,130
Derivatives	121,909	92,602	193,882	43,143	-	451,536
Assets	1,254,013	382,013	503,692	56,234	15,349	2,211,301
Liabilities						
Due to credit institutions and Central Bank	9,329	-	-	-	-	9,329
Deposits	973,435	7,887	-	-	-	981,322
Derivatives	354,605	88,313	4,000	-	-	446,918
Borrowings	49,089	64,588	329,638	71,277	13,292	527,884
Subordinated liabilities	3,347	-	34,665	-	12,101	50,113
Liabilities	1,389,805	160,788	368,303	71,277	25,393	2,015,566
Net interest gap	(135,792)	221,225	135,389	(15,043)	(10,044)	195,735

Amounts are in ISK millions

46. Market risk, continued

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

Sensitivity analysis of interest rate risk

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

	30.6.2026		31.12.2025	
NPV change in the banking book	-100 bps	+100 bps	-100 bps	+100 bps
ISK, CPI index-linked	(1,916)	1,868	(1,781)	1,728
ISK, Non index-linked	1,311	(1,260)	638	(610)
Foreign currencies	155	(152)	45	(35)
NPV change in the trading book				
ISK, CPI index-linked	256	(233)	215	(194)
ISK, Non index-linked	475	(447)	339	(317)
Foreign currencies	(30)	30	(37)	37

Amounts are in ISK millions

46. Market risk, continued

Indexation risk

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

Book value and maturity profile of indexed assets and liabilities

30.6.2026	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	27,122	144,819	384,021	555,962
Financial instruments	5,195	8,939	5,024	19,158
Off-balance sheet position	-	3,019	-	3,019
Assets, CPI index-linked	32,317	156,777	389,045	578,139
Liabilities, CPI index-linked				
Deposits	119,022	12,958	4,544	136,524
Borrowings	13,991	122,935	37,711	174,637
Subordinated liabilities	-	-	22,666	22,666
Other	-	-	1,271	1,271
Liabilities, CPI index-linked	133,013	135,893	66,192	335,098
Net on-balance sheet position	(100,696)	17,865	322,853	240,022
Net off-balance sheet position	-	3,019	-	3,019
CPI balance	(100,696)	20,884	322,853	243,041
CPI balance for prudential consolidation, excluding insurance operations *	(101,787)	19,793	317,908	235,914

31.12.2025	Up to 1 year	1 to 5 years	Over 5 years	Total
Assets, CPI index-linked				
Loans to customers	24,567	119,753	376,058	520,378
Financial instruments	6,335	8,772	5,137	20,244
Assets, CPI index-linked	30,902	128,525	381,195	540,622
Liabilities, CPI index-linked				
Deposits	118,029	12,687	4,371	135,087
Borrowings	20,522	118,169	18,782	157,473
Subordinated liabilities	-	-	21,803	21,803
Other	-	-	1,243	1,243
Off-balance sheet position	4,241	-	-	4,241
Liabilities, CPI indexed linked	142,792	130,856	46,199	319,847
Net on-balance sheet position	(107,649)	(2,331)	334,996	225,016
Net off-balance sheet position	(4,241)	-	-	(4,241)
CPI balance	(111,890)	(2,331)	334,996	220,775
CPI balance for prudential consolidation, excluding insurance operations *	(114,555)	(10,663)	329,939	204,697

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

Amounts are in ISK millions

46. Market risk, continued

Currency risk

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

Breakdown of assets and liabilities by currency

30.6.2026

Financial assets	ISK	EUR	USD	GBP	DKK	NOK	Other	Total
Cash and balances with CB	113,917	259	120	101	-	21	59	114,477
Loans to credit institutions	252	9,386	10,560	1,333	1,348	699	1,137	24,715
Loans to customers	1,123,689	193,206	54,170	2,052	33,730	2,770	8,038	1,417,655
Financial instruments	131,982	83,352	18,393	230	92	16,288	4,089	254,426
Other financial assets	12,616	2,087	372	1	243	2	2	15,323
Financial assets	1,382,456	288,290	83,615	3,717	35,413	19,780	13,325	1,826,596
Financial liabilities								
Due to credit inst. and Central Bank	2,630	5,662	243	761	-	-	33	9,329
Deposits	869,191	40,144	58,491	7,595	1,506	3,109	1,286	981,322
Financial liabilities at fair value	773	1,861	148	-	737	99	34	3,652
Other financial liabilities	12,199	3,187	9,556	477	539	441	367	26,766
Borrowings	206,486	245,491	6,067	-	-	32,666	32,551	523,261
Subordinated liabilities	24,914	-	15,470	-	-	-	2,937	43,321
Financial liabilities	1,116,193	296,345	89,975	8,833	2,782	36,315	37,208	1,587,651
Net on-balance sheet position	266,263	(8,055)	(6,360)	(5,116)	32,631	(16,535)	(23,883)	
FX assets with underlying ISK bonds	7,185	(7,185)	-	-	-	-	-	
Net off-balance sheet position	(32,715)	14,961	5,599	4,946	(32,390)	16,432	23,167	
Net position *	240,733	(279)	(761)	(170)	241	(103)	(716)	
Non-financial assets								
Investment property	7,538	-	-	-	-	-	-	7,538
Investments in associates	788	-	-	-	-	-	-	788
Intangible assets	7,345	-	-	-	-	-	-	7,345
Tax assets	2	-	-	-	-	-	-	2
Assets and disposal groups held for sale	81	-	-	-	-	-	-	81
Other non financial assets	5,729	284	137	54	-	23	(2)	6,225
Non-financial assets	21,483	284	137	54	-	23	(2)	21,979
Non-financial liabilities and equity								
Tax liabilities	15,490	-	-	-	-	-	-	15,490
Other non-financial liabilities	34,943	108	18	2	2	1	6	35,080
Shareholders' equity	210,284	-	-	-	-	-	-	210,284
Non-controlling interest	70	-	-	-	-	-	-	70
Non-financial liabilities and equity	260,787	108	18	2	2	1	6	260,924
Management reporting of currency risk **	1,429	(103)	(642)	(118)	239	(81)	(724)	

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

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

Amounts are in ISK millions

46. Market risk, continued

30.6.2025

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

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

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

Amounts are in ISK millions

46. Market risk, continued

Sensitivity analysis for currency risk

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

	30.6.2026		31.12.2025	
Currency	-10%	+10%	-10%	+10%
EUR	10	(10)	(202)	202
USD	64	(64)	15	(15)
GBP	12	(12)	(27)	27
DKK	(24)	24	56	(56)
NOK	8	(8)	1	(1)
Other	72	(72)	58	(58)

Equity risk

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

Sensitivity analysis for equity risk

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

	30.6.2026		31.12.2025	
Equity	-10%	+10%	-10%	+10%
Trading book - listed	(343)	343	(367)	367
Banking book - listed	(723)	723	(759)	759
Banking book - unlisted	(488)	488	(594)	594

Derivatives

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

Amounts are in ISK millions

47. Liquidity and Funding risk

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

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

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

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

Maturity analysis of assets and liabilities

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

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

Contractual cash flow of assets and liabilities

30.6.2026	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	20,693	61,092	32,691	-	-	-	114,476	114,477
Loans to credit institutions	21,524	3,184	-	7	-	-	24,715	24,715
Loans to customers	8,755	244,035	239,848	611,666	1,255,331	-	2,359,635	1,417,655
Financial instruments	21,150	79,047	55,362	63,103	12,289	35,541	266,492	254,426
Derivatives - assets leg	-	*43,850*	*4,868*	*30,800*	*9,952*	-	*89,470*	*67,961*
Derivatives - liabilities leg	-	*(37,564)*	*(5,620)*	*(27,080)*	*(8,536)*	-	*(78,800)*	*(60,180)*
Other financial instruments	*21,150*	*72,761*	*56,114*	*59,383*	*10,873*	*35,541*	*255,822*	*246,645*
Other financial assets	434	10,056	863	3,686	284	-	15,323	15,323
Financial assets	72,556	397,414	328,764	678,462	1,267,904	35,541	2,780,641	1,826,596
Financial liabilities								
Due to credit inst. and Central Bank	2,869	6,462	-	-	-	-	9,331	9,329
Deposits	677,635	269,910	18,425	13,607	5,654	-	985,231	981,322
Financial liabilities at fair value	-	1,579	500	393	-	-	2,472	3,652
Derivatives - assets leg	-	*(51,721)*	*(9,074)*	*(66,102)*	-	-	*(126,897)*	*(106,743)*
Derivatives - liabilities leg	-	*53,300*	*9,574*	*66,495*	-	-	*129,369*	*110,366*
Short pos. in bonds	-	*29*	-	-	-	-	*29*	*29*
Other financial liabilities	226	24,667	740	1,133	-	-	26,766	26,766
Borrowings	-	6,043	67,913	430,395	83,904	-	588,255	523,261
Subordinated liabilities	-	1,031	2,149	24,847	33,159	-	61,186	43,321
Financial liabilities	680,730	309,692	89,727	470,375	122,717	-	1,673,241	1,587,651
Net position for assets and liab.	(608,174)	87,722	239,037	208,087	1,145,187	35,541	1,107,400	238,945
Off-balance sheet items								
Financial guarantees	-	1,225	5,815	7,043	9,134	-	23,217	23,217
Unused overdraft	-	87,618	-	-	-	-	87,618	87,618
Undrawn loan commitments	-	47,214	22,647	12,789	-	-	82,650	82,650
Off-balance sheet items	-	136,057	28,462	19,832	9,134	-	193,485	193,485
Net contractual cash flow	(608,174)	(48,335)	210,575	188,255	1,136,053	35,541	913,915	45,460

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

31.12.2025	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	With no maturity	Total	Book value
Financial assets								
Cash and balances with CB	31,371	85,137	33,603	-	-	-	150,111	150,111
Loans to credit institutions	20,222	2,342	3	-	-	-	22,567	22,567
Loans to customers	6,193	194,928	206,108	606,114	1,213,624	-	2,226,967	1,329,056
Financial instruments	11,733	58,312	42,035	71,729	7,049	34,475	225,333	215,816
Derivatives - assets leg	-	*54,751*	*38,482*	*38,081*	-	-	131,314	*107,477*
Derivatives - liabilities leg	-	*(50,757)*	*(33,310)*	*(35,221)*	-	-	(119,288)	*(98,853)*
Other financial instruments	*11,733*	*54,318*	*36,863*	*68,869*	*7,049*	*34,475*	213,307	*207,192*
Other financial assets	689	12,358	413	3,232	339	-	17,031	17,031
Financial assets	70,208	353,077	282,162	681,075	1,221,012	34,475	2,642,009	1,734,581
Financial liabilities								
Due to credit inst. and Central Bank	6,405	5,602	-	-	-	-	12,007	12,003
Deposits	615,915	174,863	115,497	13,319	5,441	-	925,035	921,182
Financial liabilities at fair value	-	1,960	2,065	(187)	(115)	-	3,723	3,129
Derivatives - assets leg	-	*(65,157)*	*(5,397)*	*(7,097)*	*(10,138)*	-	*(87,789)*	*(78,261)*
Derivatives - liabilities leg	-	*67,117*	*7,462*	*6,910*	*10,023*	-	*91,512*	*81,390*
Short position in bonds used for hedging	-	-	-	-	-	-	-	-
Other financial liabilities	183	9,545	900	1,164	-	-	11,792	11,792
Borrowings	-	6,366	162,564	315,285	66,226	-	550,441	494,823
Subordinated liabilities	-	1,071	2,103	25,566	33,759	-	62,499	43,518
Financial liabilities	622,503	199,407	283,129	355,147	105,311	-	1,565,497	1,486,447
Net position for assets and liab.	(549,947)	198,007	45,635	323,315	1,162,593	35,541	1,215,144	248,134
Off-balance sheet items								
Financial guarantees	-	2,344	10,034	3,865	9,207	-	25,450	25,450
Unused overdraft	-	90,187	-	-	-	-	90,187	90,187
Undrawn loan commitments	-	38,891	29,913	16,525	-	-	85,329	85,329
Off-balance sheet items	-	131,422	39,947	20,390	9,207	-	200,966	200,966
Net contractual cash flow	(552,295)	22,248	(40,914)	305,538	1,106,494	34,475	875,546	47,168

Net Stable Funding Ratio

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

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

	30.6.2026	31.12.2025
Available stable funding	1,454,532	1,319,265
Required stable funding	1,193,952	1,115,682
Net stable funding ratio	122%	118%

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Liquidity coverage ratio

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

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

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

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

30.6.2026	ISK	EUR	Total all currencies
Liquid assets level 1 *	176,031	81,505	292,376
Liquid assets level 2	12,484	-	12,484
Liquid assets	188,515	81,505	304,860
Deposits	137,147	13,255	181,757
Borrowings	391	-	852
Other cash outflows	8,555	7,336	15,450
Cash outflows	146,093	20,591	198,059
Short-term deposits with other banks **	-	12,299	24,890
Other cash inflows	32,477	7,737	44,534
Cash inflows	32,477	20,036	69,424
Liquidity coverage ratio (LCR) ***	166%	1583%	237%

31.12.2025	ISK	EUR	Total all currencies
Liquid assets level 1 *	205,171	47,836	290,759
Liquid assets level 2	11,898	-	11,898
Liquid assets	217,069	47,836	302,657
Deposits	146,016	11,987	180,284
Borrowings	376	-	598
Other cash outflows	9,395	9,014	16,668
Cash outflows	155,787	21,001	197,550
Short-term deposits with other banks **	-	4,874	18,089
Other cash inflows	24,805	2,917	31,822
Cash inflows	24,805	7,791	49,911
Liquidity coverage ratio (LCR) ***	166%	362%	205%

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

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

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

Amounts are in ISK millions

47. Liquidity and Funding risk, continued

Composition of liquid assets

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

30.6.2026	ISK	USD	EUR	Other	Total
Cash and balances with Central Bank	113,917	120	259	181	114,477
Short-term deposits with financial institutions	-	8,837	12,299	3,754	24,890
Domestic bonds eligible as collateral with Central Bank and CIUs	76,802	-	7,198	-	84,000
Foreign government bonds	-	16,371	74,408	18,169	108,948
Liquidity reserve	190,719	25,328	94,164	22,104	332,315
31.12.2025					
Cash and balances with Central Bank	149,766	56	167	122	150,111
Short-term deposits with financial institutions	-	9,271	4,874	3,944	18,089
Domestic bonds eligible as collateral with Central Bank and CIUs	69,404	-	-	-	69,404
Foreign government bonds	-	3,762	47,669	33,811	85,242
Liquidity reserve	219,170	13,089	52,710	37,877	322,846

LCR deposit categorization

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

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

LCR categorization - amounts and LCR outflow weights

	Deposits maturing within 30 days					
30.6.2026	Less stable	Weight %	Stable	Weight %	Term deposits*	Total deposits
Individuals	174,685	11%	142,979	5%	203,967	521,631
Small and medium enterprises	128,715	12%	19,563	6%	33,990	182,268
Operational relationship	7,152	25%	-	-	-	7,152
Corporations	117,785	41%	17,327	21%	24,325	159,437
Sovereigns, central banks and PSE	11,611	40%	11	20%	548	12,170
Pension funds	61,705	100%	-	-	19,733	81,438
Domestic financial entities	16,450	100%	-	-	2,673	19,123
Foreign financial entities	970	100%	-	-	-	970
Total	519,073		179,880		285,236	984,189
31.12.2025						
Individuals	142,436	12%	136,146	5%	200,648	479,230
Small and medium enterprises	119,944	12%	19,563	5%	30,998	170,505
Operational relationship	4,950	25%	-	-	-	4,950
Corporations	102,657	41%	17,125	20%	28,642	148,424
Sovereigns, central banks and PSE	16,229	40%	15	20%	1,051	17,295
Pension funds	62,076	100%	-	-	18,442	80,518
Domestic financial entities	23,521	100%	-	-	1,069	24,590
Foreign financial entities	2,071	100%	-	-	-	2,071
Total	473,883		172,849		280,850	927,583

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

Amounts are in ISK millions

48. Capital management

Capital adequacy

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

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

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

	30.6.2026	31.12.2025
Own funds		
Total equity	210,354	217,391
Non-controlling interest not eligible for inclusion in CET1 capital	(70)	(64)
Common Equity Tier 1 capital before regulatory adjustments	210,284	217,327
Intangible assets	(7,101)	(7,273)
Additional value adjustments	(267)	(228)
Foreseeable dividend and buyback *	(10,418)	(20,313)
Insufficient coverage for non-performing exposures	(320)	(314)
Common Equity Tier 1 capital	192,178	189,199
Additional Tier 1 capital	15,470	15,635
Tier 1 capital	207,648	204,834
Tier 2 instruments	27,851	27,883
Tier 2 instruments of financial sector entities (significant investments)	(1,408)	(1,355)
Tier 2 capital	26,443	26,528
Total own funds	234,091	231,362
Risk-weighted exposure amount (REA)		
Credit risk, loans and off-balance sheet items	910,500	862,862
Credit risk, securities and other	61,624	59,140
Credit risk, derivatives and repos	4,238	4,222
Market risk due to currency imbalance	7,324	2,309
Market risk due to trading book positions	14,817	13,516
Credit valuation adjustment	1,679	2,501
Operational risk	84,635	84,635
Total risk-weighted exposure amount	1,084,817	1,029,185
Capital ratios		
CET1 ratio	17.7%	18.4%
Tier 1 ratio	19.1%	19.9%
Capital adequacy ratio	21.6%	22.5%

* On 30 June 2026, the deduction consists of 50% of reviewed profits as per the Bank's dividend policy, and ISK 2.7 billion relating to the remaining balance of the ISK 5 billion buyback program approved by the Board and the FSA in May 2026. On 31 December 2025, the deduction consists of 50% of audited profits as per the Bank's dividend policy and ISK 5 billion buyback program approved by the Board (in December 2025) and the FSA (in January 2026, after the accounting period end).

Amounts are in ISK millions

48. Capital management, continued

Capital ratios of the parent company	30.6.2026	31.12.2025
CET1 ratio	19.0%	18.3%
Tier 1 ratio	20.4%	19.8%
Capital adequacy ratio	22.8%	22.4%

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

	30.6.2026		31.12.2025	
Capital buffer requirement, % of REA	Icelandic buffer	Effective buffer	Icelandic buffer	Effective buffer
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
Capital buffer for systematically important institutions	3.0%	3.0%	3.0%	3.0%
Systemic risk buffer *	2.0%	1.8%	2.0%	1.8%
Countercyclical capital buffer *	2.5%	2.4%	2.5%	2.4%
Combined capital buffer requirement	10.0%	9.7%	10.0%	9.7%

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

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

Capital requirement, % of REA	CET1	Tier 1	Total
Pillar 1 capital requirement	4.5%	6.0%	8.0%
Pillar 2R capital requirement **	1.1%	1.5%	2.0%
Combined capital buffer requirement *	9.7%	9.7%	9.7%
Regulatory capital requirement	15.3%	17.2%	19.7%
Available capital	17.7%	19.1%	21.6%

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

** The SREP result based on the Group's Financial Statement at 31 December 2025. The Pillar 2R requirement is 1.9% of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur.

Leverage ratio

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

	30.6.2026	31.12.2025
On-balance sheet exposures	1,799,581	1,696,618
Derivative exposures	14,722	12,582
Repos	11,115	11,181
Off-balance sheet exposures	68,228	71,258
Total exposure	1,893,646	1,791,639
Tier 1 capital	207,648	204,834
Leverage ratio	11.0%	11.4%

Amounts are in ISK millions

48. Capital management, continued

MREL

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

	30.6.2026	31.12.2025
Minimum requirement for own funds and eligible liabilities		
Own funds	234,091	231,362
Eligible liabilities	260,966	201,513
Own funds and eligible liabilities	495,057	432,875
Combined buffer requirement (CBR)	105,227	99,831
Own funds and eligible liabilities not used for CBR	389,829	333,044
Risk-weighted exposure amount (REA)	1,084,817	1,029,185
Own funds and eligible liabilities not used for CBR (% REA)	35.9%	32.4%
MREL requirement (% REA)	19.8%	19.8%
Total exposure measure (TEM)	1,893,646	1,791,639
Own funds and eligible liabilities (% TEM)	26.1%	24.2%
MREL requirement (% TEM)	6.0%	6.0%

Solvency II for insurance subsidiary Vördur		
Excess of assets over liabilities in accordance with Solvency II	14,644	14,228
Subordinated liabilities	1,426	1,372
Foreseeable dividends	(408)	-
Own funds	15,662	15,600
Solvency capital requirements (SCR)	10,041	10,049
SCR ratio	156.0%	155.2%
SCR ratio before foreseeable dividends	160.1%	155.2%

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

49. Operational risk

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

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

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

Amounts are in ISK millions

50. Sustainability risk

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

Sustainable financing framework

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

	30.6.2026	31.12.2025
Sustainable Financing Instruments		
Green deposits	23,237	24,755
Green borrowings	103,080	38,272
Book value	126,317	63,027
Identified eligible sustainable assets by category		
Sustainable marine value chains and marine ecosystem management	23,983	18,000
Sustainable forestry and agriculture	583	534
Renewable energy	545	545
Clean transportation	6,063	8,875
Green buildings	98,733	97,512
Energy efficiency	8,062	-
Sustainable waste and wastewater management	1,512	7,914
Green book value	139,480	133,380
Affordable housing	19,018	20,958
Education	3,016	1,637
Healthcare	401	424
Employment generation and alleviate unemployment	13,541	14,447
Social book value	35,976	37,465
Sustainable book value	175,457	170,845

Amounts are in ISK millions

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