Pillar 3 Report

Íslandsbanki 2025

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1. Introduction

1.1. About this report

This Pillar 3 report has been prepared in accordance with the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD) and the European Banking Authority (EBA) guidelines on Pillar 3 disclosures. The purpose is to provide transparent and comprehensive information on Íslandsbanki's risk profile, capital adequacy and risk management practices.

The disclosures complement information in the Bank's Annual and Sustainability Report and other regulatory filings. They aim to promote market discipline by enabling stakeholders to assess the Bank's capital structure, risk exposures and approach to managing risk.

Scope of disclosure

The report covers all material risks and exposures relevant to Íslandsbanki's operations. Quantitative and qualitative information is presented in accordance with the EBA Pillar 3 framework, including its prescribed templates, to ensure consistency, comparability and regulatory compliance. Where applicable, comparative figures and explanatory notes are provided to enhance clarity and support users in interpreting the disclosures.

Non-disclosed templates

The Bank remains committed to full compliance with applicable regulations and will update its disclosures as new requirements come into effect. Certain templates required under the EBA Pillar 3 framework are omitted due to regulatory exemptions, immateriality, or non-applicability to Íslandsbanki's business model:

- *EU CR2a – Non-performing and forborne exposures:* Íslandsbanki's non-performing loan (NPL) ratio is 1.5%, well below the 5% threshold. The Bank is therefore exempt from completing template EU CR2a.
- *EU CQ2, EU CQ6, EU CQ8 – Credit quality of forborne exposures:* Omitted for the same reason as above.
- *EU PV1 – Prudent valuation:* Not applicable as the Bank does not have material prudent valuation adjustments.
- *EU INS1, EU INS2 – Insurance participations:* Not applicable as Íslandsbanki does not participate in insurance activities.
- *EU CRE, EU CR6–CR10, EU CMS1, EU CMS2 – IRB approach for credit risk:* Íslandsbanki applies the Standardised Approach for credit risk and does not use IRB models.
- *EU CR10 – Specialised lending exposures under slotting approach:* Not applicable as the Bank does not use slotting criteria for specialised lending.
- *EU CCR4, EU CCR7 – Counterparty credit risk under IRB:* Not applicable as the Bank does not use IRB models for credit risk. *EU CCR6 - Credit derivatives exposures, EU CCR8 – Exposures to CCPs*: Not disclosed as the Bank had neither credit derivatives exposures nor exposures to Central Counterparties (CCPs) during the reporting period.
- *EU-SECA, EU-SEC1–SEC5 – Securitisation exposures:* Not disclosed as the Bank does not engage in securitisation activities.
- *EU MRB, EU MR2, EU MR3 – Market risk under alternative internal models:* Not disclosed as the Bank does not use alternative internal models for market risk.
- *EU CVAB, EU CVA2–CVA4 – Credit valuation adjustment risk:* Omitted as Íslandsbanki applies the Reduced Basic Approach under CRR 3, which does not require these templates to be disclosed.
- *Templates 6–10 – ESG and taxonomy-related disclosures:* Summary of KPIs on taxonomy-aligned exposures, GAR, BTAR and other climate-related actions are not disclosed due to the EBA no-action letter regarding Regulation (EU) 2020/852. The Bank will provide these disclosures once the regulatory framework is finalised and applicable.
- EU REM2-*REM3:* Not disclosed as the Bank has no remuneration information relevant to the applicable regulatory requirements.
- *EU SB1 – Exposures to shadow banking entities:* Not disclosed as the disclosure requirement under CRR 3 does not apply until 2027.
- *Templates related to exposures to crypto-assets:* Not applicable as these activities are not part of Íslandsbanki's business model.

1.2. The Board of Directors' risk statement and declaration

1.2.1. Risk statement

Íslandsbanki's objective is to be a force for good, and the corporate vision is to create value for the future, with excellent service. Íslandsbanki is a universal bank, offering a full range of banking services to personal and corporate customers in Iceland. In addition to its domestic focus, the Bank maintains a portfolio of carefully selected international exposures in sectors such as seafood, infrastructure, and leveraged finance. This means that the Bank's core business is taking on risk through the extension of credit and the rendering of other financial services to its customers.

Risk assessment and the prudent evaluation and pricing of risk are key elements in Íslandsbanki's operations and value creation, and the business strategy is well within with the risk appetite as set by the Board of Directors. The Board reviews the risk appetite and the risk management framework at least once a year. The risk management and internal control framework is based on the three lines of defence model and aims for informed decision-making and strong risk awareness throughout the Bank. The framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial disclosures, as well as compliance with law, regulations, supervisory requirements and the Bank's internal rules and decisions. Íslandsbanki promotes a strong risk culture as an important part of an effective risk management and internal control framework. Emphasis is placed on transparency, acknowledgement, responsiveness, and respect for risk throughout the Bank and open communication regarding risk is encouraged. All business decisions and the resulting risks are initiated and owned by a business unit and undergo a clearly defined review and control process. The level of authority needed to approve each business decision depends on the size, complexity and risk involved.

The Bank has a healthy and well-diversified funding base and a strong capital framework based on the regulatory Standardised Approach. At year-end, the Bank's total capital ratio was 24.0%, which is 3.9 percentage points above the regulatory overall capital requirement. According to the Bank's assessment, the implementation of CRR 3 into Icelandic law has led to nearly an 8% reduction in the Bank's Risk Exposure Amount (REA). The Bank made substantial progress in optimising its capital structure during 2025. Íslandsbanki aims to have a management buffer of 1.0 – 3.0 percentage points in addition to the total regulatory requirement in order to cover volatility in REA and earnings.

The leverage ratio was 12.5% at the end of 2025 compared to 13.2% at year-end 2024, indicating low leverage. The Bank is predominantly a credit risk operation with credit risk accounting for 91% of the Bank's REA. The credit risk policy aims for a modest credit risk profile resulting in a well-diversified loan book with conservative collateralisation. The Bank has a long-standing, disciplined credit risk culture and is shifting most retail products to digital channels with data driven decision-making with significant risk management benefits. The Risk Appetite Statement includes tolerance thresholds for credit quality, a limit on non-primary lending activity and limits on concentration risk.

The share of loans with significant increase in **credit risk** (Stage 2) increased from 3.1% to 4.6%, due to a handful of credit cases, while the non-performing loans ratio (Stage 3) lowered slightly to 1.5%.

Market risk accounts for a small proportion of the Bank's REA but is carefully managed through limits, in particular for interest rate risk and inflation risk in the banking book, and equity risk that arises from a small portfolio of strategic equity investments and market making activities.

The Bank manages its **liquidity risk** in accordance with the liquidity risk policy and has internal limits for Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and the Encumbrance ratio. Throughout 2025, the Bank maintained a strong liquidity position, and all key metrics were well above their respective limits.

Operational risk, covers business, process, outsourcing, reputational, legal, ICT and security, model, and conduct risk. The Bank manages these risks in accordance with its operational risk policy and supplementary policies and guidelines. The Bank monitors and manages operational risk through Risk and Control Self-Assessment and Key Risk Indicators for non-financial risk factors, process for new products and significant changes, and follows-up of all significant operational risk events in the Loss Event Database.

The Bank continually seeks to strengthen its operational risk framework to prevent deviations in operations and its Information Security Management System is certified under ISO/IEC 27001:2013.

Compliance risk is the risk of legal or regulatory sanctions, financial loss or reputational damage from non-compliance with laws and regulations. Íslandsbanki manages this risk through a comprehensive framework of policies, monitoring, training and escalation procedures. In 2025, the Bank focused on strengthening anti-money laundering (AML) and counter-terrorist financing controls.

Sustainability risk is managed in line with the Bank's sustainability policy and risk management framework. In 2025, the Bank made notable progress in managing sustainability risk by integrating ESG risk assessment into the credit risk model for large corporates, strengthening the evaluation of sustainability factors in lending. The Bank also reinforced its sustainable funding framework for green housing through the introduction of an energy-efficiency model, further supporting green bond issuances.

1.2.2. Declaration

The Bank is exposed to various risks and the management of these risks is an integral part of the Bank's operations. The Bank has focused on building up a responsible internal risk culture among the Bank's employees, although the Board of Directors is Íslandsbanki's supreme governing body and has the final word on risk management. The Board defines and communicates the acceptable level of risk through the Bank's Risk Appetite Statement and risk management policies that are reviewed at least annually, and the CEO is responsible for ensuring that risks are managed within those limits.

The Board hereby declares that the Bank's risk management arrangements are satisfactory in relation to the Bank's profile and strategy.

Board of Directors
12 February 2026

1.2.3. Board and CEO

This section provides an overview of the members of Íslandsbanki's Board of Directors and the Chief Executive Officer. A shareholders' meeting held on 19 January 2026 resulted in changes to the composition of the Board of Directors. At the meeting, Linda Jónsdóttir (previously Chairman of the Board) and Agnar Tómas Möller left the Board as of the same date. Heiðar Guðjónsson was elected as a new Board member and as Chairman, and Margrét Pétursdóttir was elected as a new member.

Heiðar Guðjónsson

Professional experience

Owner and Managing Director of Ursus ehf. and Ursus Capital AG, Switzerland (Current Occupation) • CEO of Sýn hf. • Executive Director of Novator Partners in London • Specialist at Íslandsbanki in London • Specialist at Kaupthing Bank in New York • Head of Securities Brokerage at Íslandsbanki.

Education

B.Sc. in Economics, University of Iceland.

Bank specific experience

Operative: 8 years • Chairman of the Board of Íslandsbanki since January 2026.

Directorships

HS Veitur (Board member). Innviða fjárfestingar slhf. (Board member). Icelandic Arctic Chamber of Commerce (as Chairman).

Stefán Pétursson

Professional experience
CFO of EpiEndo Pharmaceuticals ehf. (Current Occupation) • CFO of Arion Bank hf. • Head of Funding, Treasurer and CFO of Landsvirkjun.

Education
MBA from Babson College • Cand.oecon in Business Administration, University of Iceland.

Bank specific experience
Operative: 11 years • Vice Chairman of the Board of Íslandsbanki 3 years (2023).

Directorships
Landsnet hf. (Board member). Has served as Committee member of ÍL fund Projects Committee and on the boards of Margildi ehf., Landfestar ehf., Valitor hf., The Icelandic Depositors Guarantee Fund, Landey ehf. and Hablaer.

Haukur Örn Birgisson

Professional experience
Supreme Court Attorney, Owner and managing Director of FIRMA Legal (Current Occupation) • Supreme Court Attorney, owner • Managing Director of Íslenska lögfræðistofan. Chairman of the Reparations Settlement Committee • Chairman of the Rehearing Committee • Chairman of the Board and CEO of Inkasso ehf. District Court Attorney and associate at Lex lögmannsstofa • District Court Attorney and associate at Nestor lögmenn • Teacher in various legal courses in universities and upper secondary schools in Iceland.

Education
Cand.jur., University of Iceland • Licensed Supreme Court Attorney.

Bank specific experience
Board of Íslandsbanki 3 years (2023).

Directorships
The Open Championship (member of the Executive Committee). Has been on the boards of the Golf Union of Iceland (as President), the European Golf Association (as President), the International Golf Federation and GAM Management hf.

Helga Hlín Hákonardóttir

Professional experience
Partner and Consultant at Strategía (Current Occupation) • Founder and lawyer at Lixia lögmannsstofa • Co-founder and MD of Legal at Saga Investment Bank hf. • Attorney at Straumur Burðarás Investment Bank hf. and Íslandsbanki • Capital markets lawyer at Fjárfestingarbanki atvinnulífsins and the Iceland Stock Exchange.

Education
Cand.jur., University of Iceland • Licensed District Court Attorney • Securities Broker License by the Icelandic Ministry of Finance and Economic Affairs.

Bank specific experience
Operative: 13 years • Board of Íslandsbanki 3 years (2023).

Directorships
Rue de Net (Board Member), AÞ Þrif (as Chairman). Has been a Board Member at mark.is as chairman, Iceland Stock Exchange as alternate, Skeljungur hf., Summa Rekstrarfélag hf., Greiðsluveitan, Icelandic Chamber of Commerce, Festi hf., Krónan hf., Vís hf. as chairman, Lífís as alternate, WOW air hf., Meniga Ltd. and on The University Council of Akureyri University.

Margrét Pétursdóttir

Professional experience
Independent Consultant and Board membership (Current Occupation • Partner at KPMG • CEO of Ernst & Young • Head of Audit at Ernst & Young • Head of Internal Audit at Ernst & Young, intermittently.

Education
Cand. oecon degree, University of Iceland • Certified public accountant.

Bank specific experience
Board of Íslandsbanki since January 2026.

Directorships
Has been on the boards of IFAC (International Federation of Accountants), has served on the boards of the Institute of State Authorized Public Accountants in Iceland, the Nordic Federation of Accountants, and the Iceland Chamber of Commerce.

Stefán Sigurðsson

Professional experience

Managing Director and Owner of Nordic Development ehf. (Current Occupation) • CEO of Sýn hf. • Managing Director of Wealth Management at Íslandsbanki • Executive Director and later Managing Director of Strategic Development at Glitnir hf. • Corporate Finance Associate at Glitnir hf. in Denmark • Managing Director and co-founder at Bæjarútgerðin ehf. • Managing Director and co-founder at Inntak almannatengsl • Senior Trader at Íslandsbanki hf. and Landsbankinn hf.

Education

M.Sc. in Economics, University of Copenhagen • B.Sc. in Economics, University of Iceland.

Bank specific experience

Operative: 12 years • Board of Íslandsbanki 3 years (2023).

Directorships

Isavia ANS ehf. (as Chairman), Fólk Reykjavík ehf. (Board Member), Nordic Development ehf. (Board Member), Eimskipafélag Íslands (as Alternate). Has been on the boards of the Iceland's Chamber of Commerce, Island Fund S.A. in Luxembourg and Verðbréfamiðstöð Íslands hf.

Valgerður Hrund Skúladóttir

Professional experience

Consultancy, board memberships, and volunteer work on community projects (Current Occupation) CEO and founder of Sensa ehf. • Director of Corporate Services and Holistic Solutions at Tæknival hf. • Head of the Electrical Department at Jóhann Ólafsson og Co. ehf.

Education

MBA, University of Miami • C.Sc. in Electrical Engineering, University of Iceland.

Bank specific experience

Operative: 11 years • Board of Íslandsbanki 3 years (2023).

Directorships

Sensa ehf. (Board member), Memento ehf. (Board member), Reykjavík Forest Society (Board member), Isavia ANS ehf. (Board member) and serves on the University Council of Reykjavík University. Has been on the boards of Confederation of Icelandic Employers, Orb ehf., Staki Automation ehf., Talenta ehf., Siminn DK, Sensa A/S, the Federation of Icelandic Industries, its Intellectual Property Council and the Federation of IT companies (as Chairman).

Jón Guðni Ómarsson

Professional experience

CEO of Íslandsbanki hf. (Current Occupation) • CFO of Íslandsbanki hf. • Various senior roles in banking and finance • ALM consultant at SunGard in Boston.

Education

B.Sc. degree in Industrial Engineering • M.Sc. in Quantitative and Computational Finance, Georgia Institute of Technology • AMP, Harvard Business School • Securities Broker License by the Icelandic Ministry of Finance and Economic Affairs.

Bank specific experience

Operative: Over 20 years.

Directorships

SSF - Finance Iceland (as Chairman).

1.3. Key metrics

1.3.1. EU KM1: Key metrics template

		a	b	c	d	e
	(in ISK millions)	**31.12.2025**	30.9.2025	30.6.2025	31.3.2025	31.12.2024
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	207,576	201,119	200,801	197,374	209,479
2	Tier 1 capital	224,792	210,744	210,326	207,193	218,849
3	Total capital	247,891	233,670	233,488	229,877	241,174
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	1,033,788	1,084,527	1,084,492	1,061,903	1,040,972
4a	Total risk exposure pre-floor	1,033,788				
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	20.1%	18.5%	18.5%	18.6%	20.1%
5b	Common Equity Tier 1 ratio considering unfloored TREA (%)	20.1%				
6	Tier 1 ratio (%)	21.7%	19.4%	19.4%	19.5%	21.0%
6b	Tier 1 ratio considering unfloored TREA (%)	21.7%				
7	Total capital ratio (%)	24.0%	21.5%	21.5%	21.6%	23.2%
7b	Total capital ratio considering unfloored TREA (%)	24.0%				
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7d	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.4%	1.4%	1.4%	1.8%	1.8%
EU 7e	of which to be made up of CET1 capital (percentage points)	0.8%	0.8%	0.8%	1.0%	1.0%
EU 7f	of which to be made up of Tier 1 capital (percentage points)	1.1%	1.0%	1.0%	1.3%	1.3%
EU 7g	Total SREP own funds requirements (%)	9.4%	9.4%	9.4%	9.8%	9.8%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	2.4%	2.5%	2.5%	2.5%	2.5%
EU 9a	Systemic risk buffer (%)	1.8%	1.9%	1.9%	1.9%	1.9%
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer	3.0%	3.0%	3.0%	2.3%	3.0%
11	Combined buffer requirement (%)	9.7%	9.8%	9.8%	9.8%	9.9%
EU 11a	Overall capital requirements (%)	19.1%	19.2%	19.2%	19.7%	19.7%
12	CET1 available after meeting the total SREP own funds requirements (%)	14.6%	12.2%	12.1%	11.8%	13.4%
	Leverage ratio					
13	Leverage ratio total exposure measure	1,797,721	1,807,080	1,756,995	1,717,394	1,660,998
14	Leverage ratio	12.5%	11.7%	12.0%	12.1%	13.2%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)					
EU 14b	of which to be made up of CET1 capital (percentage points)					
EU 14c	Total SREP leverage ratio requirements (%)	3.0%	3.0%	3.0%	3.0%	3.0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14e	Leverage ratio buffer requirement (%)					
EU 14f	Overall leverage ratio requirement (%)	3.0%	3.0%	3.0%	3.0%	3.0%
	Liquidity Coverage Ratio[1]					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	227,548	221,118	219,559	220,267	227,053
EU 16a	Cash outflows - Total weighted value	232,342	228,387	220,994	219,238	217,913
EU 16b	Cash inflows - Total weighted value	116,728	116,989	109,612	108,195	104,921
16	Total net cash outflows (adjusted value)	115,614	111,398	111,383	111,043	112,993
17	Liquidity coverage ratio (%)	196.8%	198.5%	197.1%	198.4%	200.9%
	Net Stable Funding Ratio					
18	Total available stable funding	1,390,049	1,349,049	1,316,559	1,330,972	1,287,701
19	Total required stable funding	1,090,283	1,043,371	1,050,965	1,037,447	1,029,854
20	NSFR ratio (%)	127.5%	129.3%	125.3%	128.3%	125.0%

[1]The Liquidity Coverage Ratio is shown as the average ratio over last 12 months as in LIQ1.

1.4. Risk management objectives and policies

1.4.1. EU OVA: Institution risk management approach

Íslandsbanki is committed to maintain a strong capital position and ample liquidity, ensuring resilience and sustainable value creation for all stakeholders. This commitment is guided by the Bank's Risk Appetite Statement and supported by a comprehensive risk management and internal control framework. Risk assessment and the prudent evaluation and pricing of risk are key elements in Íslandsbanki's operations. In turn, an efficient risk assessment framework forms the foundation of the Bank's risk and capital management strategy.

1.4.1.1. Risk strategy

The Bank's business model focuses on universal banking services for domestic individuals, households, corporates, and public entities, with a strong emphasis on lending. Credit risk is managed through a clearly defined authorisation framework. The Bank's loan portfolio is diversified and well-collateralised, broadly reflecting the composition of the Icelandic economy. In addition to its domestic focus, the Bank maintains a portfolio of carefully selected international exposures in sectors such as seafood, infrastructure, and leveraged finance, in line with its risk appetite and strategic objectives. The Bank maintains a robust capital framework based on the CRD standardised approach, a strong funding base, and an ample liquidity buffer. Interest rate risk is managed to stabilise net interest income and minimise fluctuations in the economic value of equity.

1.4.1.2. Risk Taxonomy

The Risk Taxonomy provides a structured approach for consistent classification and management of risks. Six key risk types are defined as critical to the Bank's operations and strategy.

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Compliance Risk
- Sustainability Risk

Concentration risk is addressed within the Credit, Market, and Liquidity Risk Policies. Anti-money laundering considerations fall under Compliance Risk. Other risks inherent in the Bank's operations are assessed through Internal Capital Adequacy Assessment Process (ICAAP) and addressed in relevant policies and reports.

1.4.1.3. Risk appetite statement

The Board of Directors defines the Bank's risk appetite through the Risk Appetite Statement, which includes thresholds for financial and non-financial risks. These thresholds cover profitability, capital adequacy, credit risk, market risk, liquidity risk, operational risk, compliance risk, and sustainability risk. The Risk Appetite is supported by specific risk policies and the Key Risk Indicator framework.

Exhibit 1: Risk types and corresponding metrics in the Risk Appetite Statement.

Type of risk	**Metrics**
Profitability	Long-term rate of return on capital Cost-to-income ratio Target dividend ratio
Capital adequacy	CET1 capital ratio target Total capital ratio target MREL ratio threshold
Credit risk	Average annual credit losses Non-primary lending activity Leveraged transactions Concentration risk
Market risk	Market risk as a ratio of capital SOT for EVE and SOT for NII Inflation imbalance Market value of listed and unlisted equities Equity and bond underwriting exposures
Liquidity risk	Liquidity Coverage Ratio Net Stable Funding Ratio Encumbrance ratio
Operational risk	Operational losses as a percentage of capital Key Risk indicators for material sub-categories of operational risk
Compliance risk	Key Risk indicators
Sustainability risk	Alignment with the Sustainability Principles

1.4.1.4. Risk policies and limits

Risk policies are reviewed annually to ensure effectiveness and alignment with regulatory changes and operational developments. Stress testing is conducted as part of the ICAAP and Recovery Plan processes, using forward-looking scenarios to assess capital and liquidity adequacy. The Bank maintains a Liquidity and Capital Contingency Plan and a Recovery Plan.

Risk reporting is structured and frequent. The Risk Dashboard is submitted monthly to the Board and the All-Risk Committee, summarising risk positions against risk appetite, as well as internal and regulatory limits. Annual reports include ICAAP, ILAAP, and the Recovery Plan. External disclosures are made through the Annual and Sustainability Report, Consolidated Financial Statements, and the Pillar 3 Report.

1.4.1.5. Risk governance and organisation

Íslandsbanki emphasises sound governance principles. The risk management and internal control framework is intended to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported internally and externally, and compliance with the relevant laws, regulations, supervisory requirements and the Bank's internal rules and decisions.

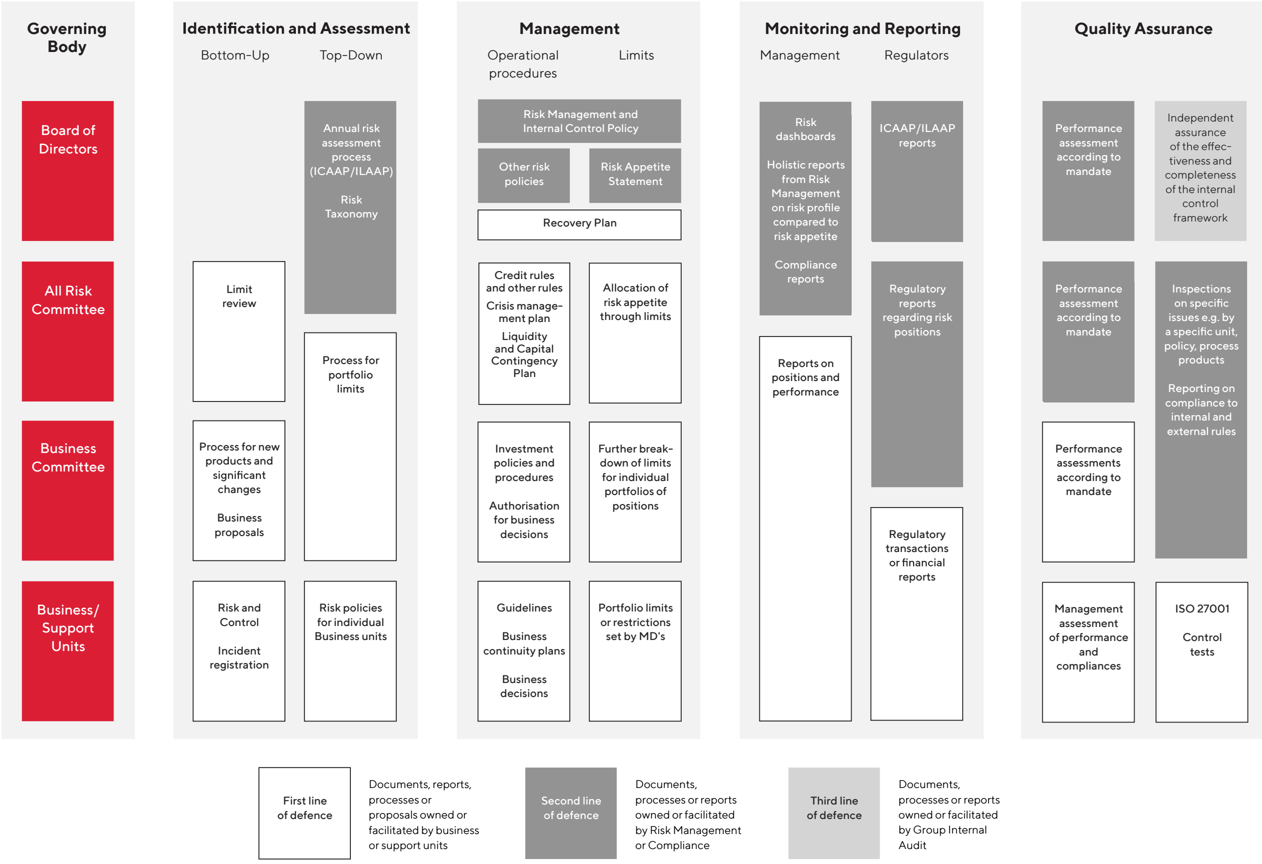
1.4.1.6. Three lines of defence model

The first line of defence consists of the Bank's business and support units. The business units take on risk through the extension of credit, through proprietary trading, and by providing other services to the Bank's customers. The primary responsibility for managing these risks lies with the business units. Each business unit shall have in place effective processes to identify, measure or assess, monitor, mitigate and report on the risks taken on by the unit. Support units, whose decisions have an impact on the Bank's operational risk, compliance risk and sustainability risk, are subject to the same requirements for risk identification and management as the Bank's business units.

The second line of defence comprises the Bank's risk management function and the compliance function. They are responsible for developing and maintaining an efficient internal framework to facilitate adequate control of risks, prudent conduct of business, reliability of financial and non-financial information reported or disclosed, and compliance with the relevant laws, regulations, supervisory requirements and the Bank's internal policies and procedures.

The third line of defence provides independent assurance to management and the Board of Directors of the effectiveness and completeness of the internal control framework, including both the first and the second line of defence. The third line of defence duties are performed by Group Internal Audit. Exhibit 2 provides an overview of the risk governance framework.

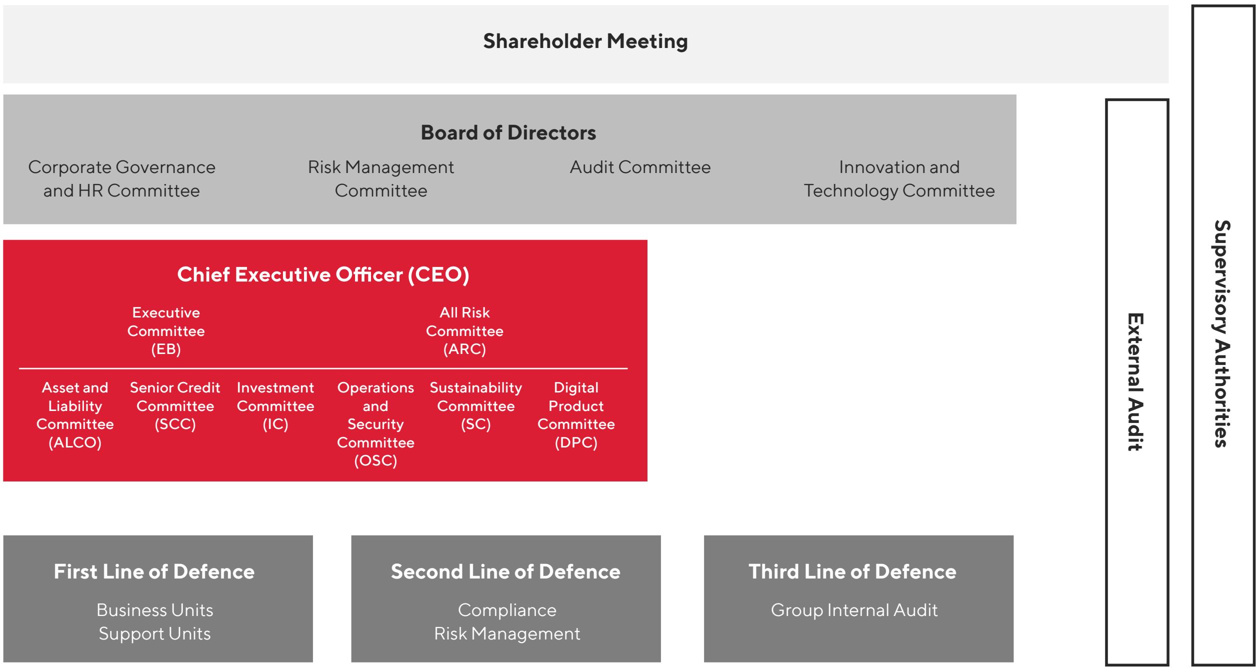
Exhibit 2: Risk Governance Framework.



1.4.1.7. Organisational hierarchy

The Bank's management body has a dual structure. The Board of Directors has a supervising role in setting and monitoring the execution of policies, the sound control of accounting and financial management and ensuring that group internal audit, compliance and risk management are effective. The Chief Executive Officer (CEO), the Chief Risk Officer (CRO) and other members of the senior management committees are responsible for implementing risk management practices and internal control in accordance with Board authorisation. Exhibit 3 provides an overview of the risk management and internal control governance.

Exhibit 3: Íslandsbanki's risk management and internal control governance.



The Chief Risk Officer (CRO) and Chief Compliance Officer (CCO) report directly to the CEO and the Board, ensuring independence. Risk Management is actively involved in strategic decisions, significant risk-related decisions, including introduction of new products and major operational changes.

The Compliance function advises management and staff, supports policy development, product approval, and regulatory change. It monitors adherence to laws and internal controls through surveillance and testing. Compliance reports on findings and significant issues, with an annual report submitted to the Central Bank of Iceland.

1.4.1.8. Board of Directors and Board sub-committees

The Board of Directors is the supreme governing body of Íslandsbanki and has the final word on risk management within the Bank. It sets the risk appetite and approves the risk management and internal control framework. The Board is supported by four sub-committees: the Risk Management Committee, the Audit Committee, the Corporate Governance & Human Resource Committee, and the Innovation & Technology Committee, and Human Resource Committee. Further information on the roles, composition and frequency of meetings of these Board's sub-committees can be found in the Bank's corporate governance statement, in an unaudited appendix to the Consolidated Financial Statements.

1.4.1.9. Executive and business committees

The CEO is responsible for day-to-day operations and the implementation of the risk framework. The CEO appoints the CRO, CCO, and other senior managers, subject to Board confirmation. The CRO and CCO cannot be removed without prior Board approval, and any changes are reported to the Central Bank.

The Bank has established two executive committees, Executive Committee (EC) and All Risk Committee (ARC) and six business committees.

1.4.1.10. Executive committee

The Executive Committee, chaired by the CEO, is responsible for implementing the Board-approved business strategy, maintaining oversight for and coordinating the Bank's operations and human resources. The Executive Committee also coordinates key aspects of the Bank's activities and holds decision-making power in matters entrusted to it by the CEO in accordance with the Bank's strategy, policies and risk appetite.

1.4.1.11. All Risk Committee

The All Risk Committee (ARC) is responsible for reviewing and overseeing the implementation of risk management and internal control policies issued by the Board. ARC translates the Board-approved risk policies into risk limits or guidelines for individual business units, desks or portfolios and approves methods and assumptions used for calculating risk measures, capital and liquidity requirements and targets, impairment, and internal and external pricing. The committee reviews and confirms proposals regarding risk assessment, impairments and capital and liquidity requirements prior to submission to the Board of Directors for approval.

1.4.1.12. Business committees

The business committees decide on individual business proposals in accordance with the rules and procedures issued by the Executive Committee, ARC and the Board. All business proposals discussed in the business committees are initiated and owned by a business or support unit and although authorisation has been given by a committee, the business decision itself is made and owned by the relevant unit.

Representatives from Risk Management attend all meetings of business committees. Their attendance is intended to ensure effective communication of risk in the decision-making process, to ensure that the risks inherent in individual proposals are adequately addressed by the business units and to give an independent view on the risk inherent in the proposals and whether the risk is in line with the Bank's risk appetite.

The Risk Management representatives do not take part in the final decision of the business committees but have the right but not the obligation veto or escalate certain risk decisions if they are considered inconsistent with the Bank's risk appetite, policies or procedures.

The Bank promotes a strong risk culture through training, transparency, and accountability. All employees are responsible for understanding and managing risks relevant to their roles. Incident reporting is encouraged through a no-blame culture and an anonymous whistleblowing channel managed by an external provider. All breaches of risk limits are formally reported and escalated.

1.4.2. EU OVB: Disclosure on governance arrangements

1.4.2.1. Human resource policy and diversity commitments

The Recruitment Policy and Diversity Policy are integrated into Íslandsbanki's overarching Human Resource Policy. Social factors and goals are also incorporated in the Bank's Sustainability Policy. Íslandsbanki maintains a structured succession planning framework to ensure continuity and stability within its management.

The Bank is committed to providing an outstanding work environment that fosters employee growth and development. The Bank seeks ambitious individuals from diverse backgrounds and strives to maintain a team of qualified, motivated, and well-trained professionals who demonstrate initiative and deliver exceptional service.

Equality and inclusive participation are fundamental to the Bank's values. The Bank is dedicated to promoting equality and diversity across all organizational levels. To support this commitment, a guideline has been established to ensure that no single gender represents more than 60% of the Bank's management team.

The Bank maintains a comprehensive equal pay policy designed to ensure that compensation decisions are based on objective criteria and to prevent any form of discrimination. Since 2018, Íslandsbanki has consistently achieved equal pay certification in accordance with the ÍST 85:2012 standard.

The Bank's performance and talent management aims at encouraging and reinforcing risk awareness and a healthy risk culture. The Bank has in place a comprehensive training programme managed by the Human

Resources Department. The programme includes mandatory training on the Bank's internal policies and procedures tailored to the responsibilities of individual employees.

In 2025, the Bank recorded over 10.000 registrations for over 200 different in-house training courses, on-demand courses online and live online courses which is an average of 13 courses per employee. All employees are required to read and confirm their knowledge of the Bank´s operational procedures, code of conduct, security policies and rules on measures against money laundering.

1.4.2.2. Selection of Board of Directors

The Boards Nomination Committee ensures that Board candidates possess diverse knowledge, experience, and backgrounds aligned with the Bank's strategy and needs. Selection is based on interviews, Board self-assessment, shareholder input, and compliance with eligibility rules and the Bank's competence policy. Key criteria include expertise in financial services, risk management, leadership, and independence. The process is transparent, with open calls for nominations and thorough candidate evaluation.

1.4.2.3. The Bank's Risk Management Committee and senior committees

As outlined in OVA, the Bank's Board is supported by the Risk Management Committee and three other Board committees. In addition, the Bank has established two executive committees, the Executive Committee (EC) and the All-Risk Committee (ARC) as well as six business committees. The table below provides an overview of these committees, including the number of meetings held in 2025.

Exhibit 4: The Board's Risk Management Committee and the Bank's senior committees and the number of meetings in the year 2025.

Committee	Role	Number of meetings
Risk Management Committee	Advisory and supervisory role to the Board in relation to risk policy and risk appetite	9
Executive Committee	Business strategy, finances, IT strategy, marketing, governance and human resources	48
All Risk Committee	Risk strategy and risk appetite	19
Asset and Liability Committee	Funding and liquidity, market risk, capital management and internal and external pricing	45
Senior Credit Committee	Credit proposals	84
Investment Committee	Investment proposals	11
Operations and Security Committee	Product approval, operations, security and business continuity	35
Sustainability Committee	Review's sustainability related matters and business opportunities	12
Digital Product Committee	Reviews and implements the Bank´s digital strategy.	5

1.4.2.4. Risk reporting

Risk information is communicated to the Board through structured reporting. The Risk Dashboard is submitted monthly and includes key risk measures, limit utilisation, and contingency indicators. ICAAP, ILAAP, and the Recovery Plan are submitted annually. Risk positions are also reported to business committees such as ALCO and the Sustainability Committee.

1.4.2.5. Personal details of the Board and CEO

Section 1.2.3 provides details on the members of the Board and CEO, including the number of directorships held by each member. Profiles of the Board members, the CEO, and the Executive Committee are available on Íslandsbanki's website.

1.5. Scope of application

1.5.1. EU LIA: Explanations of differences between accounting and Regulatory Exposure Amounts

The regulatory consolidation comprises the whole Group; therefore, there is no difference between the carrying values in the financial statements and under the scope of regulatory consolidation.

The main difference between carrying values under the regulatory scope of consolidation and amounts considered for regulatory purposes is due to off-balance sheet items after applying the relevant credit conversion factor.

1.5.2. EU LIB: Other qualitative information on the scope of application

There is no impediment to the prompt transfer of own funds or to the repayment of liabilities within the Group. However, no group financial support agreements exist between the Bank and its subsidiaries.

All subsidiaries are included in the consolidation, and the Bank does not apply the derogation referred to in Article 7 of the CRR or the individual consolidation method laid down in Article 9 of the CRR.

1.5.3. EU LI1: Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values		Carrying values of items				
(in ISK millions)	As reported in published financial statements	Under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with Central Bank	80,394	80,394	80,394		-	-	-
Loans to credit institutions	80,009	80,009	80,009		-	-	-
Bonds and debt instruments	151,959	151,959	141,075		-	10,884	
Derivatives	5,304	5,304	-	5,304		-	-
Loans to customers	1,367,106	1,367,106	1,367,106		-	-	-
Shares and equity instruments	20,517	20,517	4,324		-	16,193	
Investments in associates	5,384	5,384	5,384		-	-	-
Investment property	2,900	2,900	2,900				
Property and equipment	4,702	4,702	4,702		-	-	-
Intangible assets	2,682	2,682	860		-	-	1,822
Other assets	7,190	6,039	5,888		-	-	151
Total assets	**1,728,147**	**1,726,997**	**1,692,642**	**5,304**	**-**	**27,077**	**1,973**
Liabilities							
Deposits from Central Bank and credit institutions	13,250	13,250		-	-	-	13,250
Deposits from customers	968,695	968,695		-	-	-	968,695
Derivative instruments and short positions	6,183	6,183		4,275		1,907	
Debt issued and other borrowed funds	444,593	444,593		-	-	-	444,593
Subordinated loans	40,315	40,315		-	-	-	40,315
Tax liabilities	12,757	12,757		-	-	-	12,757
Other liabilities	16,995	15,371		-	-	-	15,371
Total liabilities	**1,502,788**	**1,501,164**	**-**	**4,275**	**-**	**1,907**	**1,494,982**

1.5.4. EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial

		a	b	c	d	e
			Items subject to			
	(in ISK millions)	Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of prudential consolidation (as per template LI1)**	**1,726,997**	**1,692,642**		**5,304**	**27,077**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**1,501,164**			**4,275**	**1,907**
3	**Total net amount under the scope of prudential consolidation**	**1,726,931**	**1,692,642**		**5,304**	**28,984**
4	**Off-balance-sheet amounts**	**239,809**	**239,809**			
5	*Differences in valuations*				4,547	
6	*Differences due to different netting rules, other than those already included in row 2*					
7	*Differences due to consideration of provisions*					
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	(21,451)	(21,451)			
9	*Differences due to credit conversion factors*	(170,860)	(170,860)			
10	*Differences due to Securitisation with risk transfer*					
11	*Other differences*					
12	**Exposure amounts considered for regulatory purposes**	**1,945,289**	**1,740,140**		**9,852**	**28,984**

1.5.5. EU LI3: Outline of the differences in the scopes of consolidation (entity by entity)

a	b	c	d	e	f	g
	Method of accounting consolidation	Method of prudential consolidation				Description of the entity
		Full consoli-dation	Proportional consolidation	Equity method	Neither consoli-dated nor deducted	Deducted	
Name of the entity						
Íslandssjóðir ehf.	Full consolidation	X					Investment fund management company
Hringur-Eignarhaldsfélag ehf.	Full consolidation	X					Holding company
Allianz Ísland hf.	Full consolidation	X					Insurance agent
IS ÞL2 ehf.	Full consolidation	X					Holding company
ISB Software Development Center	Full consolidation	X					Software Development Center
Miðengi ehf.	Full consolidation	X					Holding company

2. Capital Position

2.1. Own funds

2.1.1. EU CC1: Composition of regulatory own funds

At year-end 2025, the Bank's common equity Tier 1 capital (CET1) amounted to ISK 207bn, compared to ISK 209bn year-end 2024. The ISK 25bn profit for the year, of which the 50% target dividend payment is deducted from the capital base, contributed to an increase in CET1. The Central Bank has furthermore granted permission for the Bank to acquire, through buyback, share capital of the Bank equivalent to ISK 15bn which is within the 10% authorisation from the Annual General Meeting (AGM) of Íslandsbanki hf. held on 31 March 2025. The ISK 15bn was deducted from the CET1 capital following the approval, offsetting the Group's profit.

The bank launched in November a dual tranche issue of Additional Tier 1 notes as part of its plan to optimise its capital structure. The issues were SEK 700 million and NOK 200 million perpetual notes with 5.25 year calls.

The main restrictions that apply to the calculation of own funds for the Group and result in a deduction from CET1 capital are the following:

- Intangible assets, excluding prudentially valuated software assets.
- Deferred tax assets
- Gains or losses on liabilities valued at fair value resulting from changes in own credit standing

In addition, foreseeable dividend payment and buyback approved by the Bank's AGM are deducted from retained earning before calculating the CET1 capital.

	(in ISK millions)	a
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	51,372
	of which: Instrument type 1	
	of which: Instrument type 2	
	of which: Instrument type 3	
2	Retained earnings	124,868
3	Accumulated other comprehensive income (and other reserves)	7,201
EU-3a	Funds for general banking risk	-
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-
5	Minority interests (amount allowed in consolidated CET1)	-
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	25,249
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**208,690**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-
8	Intangible assets (net of related tax liability) (negative amount)	(1,822)
9	N/A	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(151)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-
12	Negative amounts resulting from the calculation of expected loss amounts	-
13	Any increase in equity that results from securitised assets (negative amount)	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	913
15	Defined-benefit pension fund assets (negative amount)	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
20	N/A	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-

	(in ISK millions)	a
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-
EU-20c	of which: securitisation positions (negative amount)	-
EU-20d	of which: free deliveries (negative amount)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-
22	Amount exceeding the 17,65% threshold (negative amount)	-
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
24	N/A	
25	of which: deferred tax assets arising from temporary differences	-
EU-25a	Losses for the current financial year (negative amount)	-
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-
26	N/A	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-
27a	Other regulatory adjustments *(including IFRS 9 transitional adjustments when relevant)*	(53)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,113)**
29	**Common Equity Tier 1 (CET1) capital**	**207,576**
	Additional Tier 1 (AT1) capital: instruments	
30	Capital instruments and the related share premium accounts	17,216
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	17,216
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) of CRR	-
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**17,216**
	Additional Tier 1 (AT1) capital: regulatory adjustments	
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-
41	N/A	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-
42a	Other regulatory adjustments to AT1 capital	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**
44	**Additional Tier 1 (AT1) capital**	**17,216**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**224,742**
	Tier 2 (T2) capital: instruments	
46	Capital instruments and the related share premium accounts	23,099
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR	-
EU-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-
EU-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Credit risk adjustments	-
51	**Tier 2 (T2) capital before regulatory adjustments**	**23,099**
	Tier 2 (T2) capital: regulatory adjustments	
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	

	(in ISK millions)	a
54a	N/A	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	
56	N/A	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	
56b	Other regulatory adjustments to T2 capital	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	
58	**Tier 2 (T2) capital**	**23,099**
59	**Total capital (TC = T1 + T2)**	**247,891**
60	**Total risk exposure amount**	**1,033,788**
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	20.1%
62	Tier 1 (as a percentage of total risk exposure amount)	21.7%
63	Total capital (as a percentage of total risk exposure amount)	24.0%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	15.0%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	2.4%
67	of which: systemic risk buffer requirement	1.8%
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	3.0%
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0.8%
68	**Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	14.6%
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
	Amounts below the thresholds for deduction (before risk weighting)	
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	
74	N/A	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

2.1.2. EU CC2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The entire balance sheet falls within the prudential scope.

		a	b
		Balance sheet as in published financial statements	Under regulatory scope of consolidation
	(in ISK millions)	As at period end	As at period end
	Assets		
1	Cash and balances with Central Bank	80,394	80,394
2	Loans to credit institutions	80,009	80,009
3	Bonds and debt instruments	151,959	151,959
4	Derivatives	5,304	5,304
5	Loans to customers	1,367,106	1,367,106
6	Shares and equity instruments	20,517	20,517
7	Investments in associates	5,384	5,384
8	Investment property	2,900	2,900
9	Property and equipment	4,702	4,702
10	Intangible assets	2,682	2,682
11	Other assets	7,190	7,190
	Total assets	**1,728,147**	**1,728,147**
	Liabilities		
1	Deposits from Central Bank and credit institutions	13,250	13,250
2	Deposits from customers	968,695	968,695
3	Derivative instruments and short positions	6,183	6,183
4	Debt issued and other borrowed funds	444,593	444,593
5	Subordinated loans	40,315	40,315
6	Tax liabilities	12,757	12,757
7	Other liabilities	16,995	16,995
	Total liabilities	**1,502,788**	**1,502,788**
	Equity		
1	Share capital	8,900	8,900
2	Share premium	44,823	44,823
3	Reserves	4,850	4,850
4	Retained earnings	166,787	166,787
	Total shareholders' equity	**225,360**	**225,360**

*Breakdown by asset, liability and equity classes according to the balance sheet in the published financial statements.

2.1.3. EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

1	Issuer	Islandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS2390396427
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 51(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 5,262m
9	Nominal amount of instrument	SEK 388,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	N/A
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	28.09.2021
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	28 September 2026, call at par
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Floating coupon
17	Fixed or floating dividend/coupon	3 Month STIBOR + 475 basis points
18	Coupon rate and any related index	Yes
19	Existence of a dividend stopper	Mandatory
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No
21	Existence of step up or other incentive to redeem	Non-cumulative
22	Noncumulative or cumulative	Non-convertible
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	5.125% CET 1 ratio at Bank or Group level
31	If write-down, write-down trigger(s)	Partial
32	If write-down, full or partial	Temporary
33	If write-down, permanent or temporary	Anytime write-up at issuer's discretion in terms of timing and amount.
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Article 85(a), Paragraph 1, Item 7 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all instruments except shares. Next in priority are Tier 2 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Link

1	Issuer	Islandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: NO0013697466
2a	Public or private placement	Public
3	Governing law(s) of the instrument	Swedish
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 51(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 9,472m
9	Nominal amount of instrument	SEK 700,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	N/A
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	25.11.2025
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	25 November 2030, call at par
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Floating coupon
17	Fixed or floating dividend/coupon	3 Month STIBOR + 350 basis points
18	Coupon rate and any related index	Yes
19	Existence of a dividend stopper	Mandatory
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No
21	Existence of step up or other incentive to redeem	Non-cumulative
22	Noncumulative or cumulative	Non-convertible
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	5.125% CET 1 ratio at Bank or Group level
31	If write-down, write-down trigger(s)	Partial
32	If write-down, full or partial	Temporary
33	If write-down, permanent or temporary	Anytime write-up at issuer's discretion in terms of timing and amount.
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Article 85(a), Paragraph 1, Item 7 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all instruments except shares. Next in priority are Tier 2 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitional features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Link

1	Issuer	Islandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: NO0013697425
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	Yes
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 51(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 2,481m
9	Nominal amount of instrument	NOK 200,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	N/A
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	25.11.2025
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	25 November 2030, call at par
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Floating coupon
17	Fixed or floating dividend/coupon	3 Month NIBOR + 358 basis points
18	Coupon rate and any related index	Yes
19	Existence of a dividend stopper	Mandatory
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	No
21	Existence of step up or other incentive to redeem	Non-cumulative
22	Noncumulative or cumulative	Non-convertible
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	5.125% CET 1 ratio at Bank or Group level
31	If write-down, write-down trigger(s)	Partial
32	If write-down, full or partial	Temporary
33	If write-down, permanent or temporary	Anytime write-up at issuer's discretion in terms of timing and amount.
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Article 85(a), Paragraph 1, Item 7 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all instruments except shares. Next in priority are Tier 2 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Link

1	Issuer	Íslandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IS0000034502
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 62(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 10,797m
9	Nominal amount of instrument	ISK 9,020,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	100%
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	17.10.2022
12	Perpetual or dated	Dated
13	Original maturity date	17.4.2033
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	17 April, 2028 at 100%
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Fixed
17	Fixed or floating dividend/coupon	CPI-indexed Fixed 4.86% per annum payable quarterly
18	Coupon rate and any related index	No
19	Existence of a dividend stopper	
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Tier 2: Article 85(a), Paragraph 1, Item 6 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all senior debt.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	Link

1	Issuer	Íslandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IS0000034494
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 62(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 1,526m
9	Nominal amount of instrument	ISK 1,500,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	100%
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	17.10.2022
12	Perpetual or dated	Dated
13	Original maturity date	17.4.2033
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	17 April, 2028 at 100%
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Fixed
17	Fixed or floating dividend/coupon	8.62% per annum payable quarterly
18	Coupon rate and any related index	No
19	Existence of a dividend stopper	
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Tier 2: Article 85(a), Paragraph 1, Item 6 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all senior debt.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	
37a	Link to the full term and conditions of the instrument (signposting)	Link

1	Issuer	Íslandsbanki hf.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IS0000035475
2a	Public or private placement	Public
3	Governing law(s) of the instrument	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	No
	Regulatory treatment	
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	CRR: Article 62(a)
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	ISK 10,776m
9	Nominal amount of instrument	ISK 9,600,000,000
EU-9a	Issue price	100%
EU-9b	Redemption price	100%
10	Accounting classification	Liability - Amortised cost
11	Original date of issuance	6.9.2023
12	Perpetual or dated	Dated
13	Original maturity date	12.9.2034
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	12 September 2029 at 100%
16	Subsequent call dates, if applicable	Quarterly
	Coupons / dividends	Fixed
17	Fixed or floating dividend/coupon	CPI-indexed Fixed 5.80% per annum payable annually
18	Coupon rate and any related index	No
19	Existence of a dividend stopper	
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	Contractual
34a	Type of subordination (only for eligible liabilities)	Tier 2: Article 85(a), Paragraph 1, Item 6 of Act no. 70/2020, as amended.
EU-34b	Ranking of the instrument in normal insolvency proceedings	Subordinated to all senior debt.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	No
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	
37a	Link to the full term and conditions of the instrument (signposting)	Link

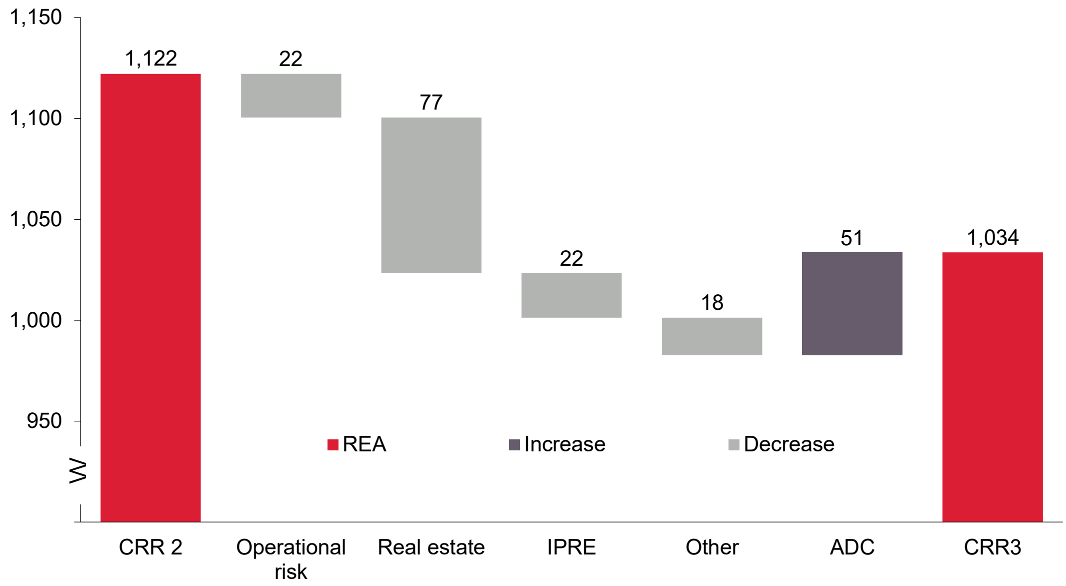
2.2. Capital requirements

2.2.1. EU OV1: Overview of total risk exposure amounts

In 2025, the implementation of the updated Capital Requirements Regulation (CRR 3) significantly changed the regulatory landscape for banks in the European Union. The framework enhanced the robustness and stability of the financial system by better aligning the internal ratings-based approach and the standardised approach for calculating risk exposure amounts (REA). CRR 3 was enacted into Icelandic law in December 2025 and has a notable impact on Íslandsbanki's REA and capital ratios, mainly through the changes to the standardised approaches for credit and operational risk.

The effect of the implementation of CRR 3 for REA at year-end 2025 is displayed in Exhibit 5, where the more sensitive treatment of real estate exposures and the adoption of the new standardised approach for operational risk play the biggest role.

Exhibit 5: Changes in REA due to the implementation of CCR 3 at year-end 2025 (ISK bn).



The Group's loan portfolio grew substantially during the year, especially in the corporate exposure class, which would have led to a substantial growth in REA without the implementation of CRR 3. No other significant risk profile changes affected the REA.

		a	b	c
		Total risk exposure amounts (TREA)		Total own funds requirements
		31.12.2025	30.9.2025	**31.12.2025**
1	**Credit risk (excluding CCR)**	**932,798**	**964,741**	**74,624**
2	Of which the standardised approach	932,798	964,741	74,624
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (AIRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**6,970**	**6,744**	**558**
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
9	Of which other CCR	6,970	5,731	558
10	**Credit valuation adjustments risk - CVA risk**	**1,375**	**1,013**	**110**
EU 10a	Of which the standardised approach (SA)	-	-	-
EU 10b	Of which the basic approach (F-BA and R-BA)	1,375	-	110
EU 10c	Of which the simplified approach	-	-	-
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250%/ deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**4,093**	**5,923**	**327**
21	Of which the standardised approach		5,923	
EU 21a	Of which the Simplified standardised approach (S-SA)	4,093	-	327
22	Of which the Alternative Internal Models Approach (A-IMA)			
EU 22a	**Large exposures**	**-**	**-**	**-**
23	Reclassifications between trading and non-trading books	-	-	-
24	**Operational risk**	**88,551**	**107,119**	**7,084**
EU 24a	Exposures to crypto-assets	-	-	-
25	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**-**	**-**	**-**
26	Output floor applied (%)	-	-	
27	Floor adjustment (before application of transitional cap)	-	-	
28	Floor adjustment (after application of transitional cap)	-	-	
29	**Total**	**1,033,788**	**1,084,527**	**82,703**

2.2.2. EU OVC: ICAAP information

The Internal Capital Adequacy Assessment Process (ICAAP) aims to identify and assess the risks inherent in the Bank's operations and to integrate the Bank's business strategy and business plan on one hand and the risk profile on the other hand to ensure that the Bank holds sufficient capital to support its risk profile and business strategy through a period of severe stress.

The Board of Directors is actively involved in the ICAAP and approves the formal report. The process is carried out by Risk Management with active participation of the business and support units through risk identification and appropriate reviewal of the capital adequacy assessment and stress testing results.

In an annually revised 5-year business plan, the Bank's risk strategy is aligned with the business strategy, and the financial targets are translated into a base case projection of the financial results under normal business conditions. The business plan forms the basis for pro forma financial statements, enabling comprehensive business and strategic stress testing to assess the impact of all relevant risk drivers.

The Pillar 2-R capital requirements are presented as a proportion of Risk Exposure Amount (REA) and are added to the regulatory capital minimum of 8% under Pillar 1. The Bank's Pillar 2-R results are reviewed by the Central Bank through the Supervisory Review and Evaluation Process (SREP).

Based on the 2025 SREP, the additional capital required for the Bank under Pillar 2-R was 1.4% of REA, a decrease of 0.4% from 2024. The breakdown of the Pillar 2-R capital and the total SREP capital requirements can be seen in the following exhibit.

Exhibit 6: Breakdown of the total SREP capital requirements.

SREP capital requirement	2025	2024
Pillar 1	**8.0%**	**8.0%**
Credit risk	7.1%	7.1%
Market risk	0.1%	0.1%
Operational risk	0.8%	0.8%
Pillar 2-R	**1.4%**	**1.8%**
Credit risk	0.6%	0.9%
Market risk	0.7%	0.8%
Operational risk	0.1%	0.1%
Total SREP capital requirement	**9.4%**	**9.8%**

2.3. Countercyclical capital buffer

2.3.1. EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

		a	b	c	d	e	f
		General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value
	(in ISK millions)	Exposure value under the SA approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models		
	Breakdown by country:						
010	Iceland	1,539,225	-	1,828	-	-	1,541,053
	Denmark	8,355	-	-	-	-	8,355
	Sweden	8,324	-	-	-	-	8,324
	Belgium	7,706	-	-	-	-	7,706
	Australia	6,329	-	-	-	-	6,329
	Norway	5,838	-	-	-	-	5,838
011	Other w. CCyB	5,305	-	91	-	-	5,396
012	Other	26,486	-	76	-	-	26,562
020	**Total**	**1,607,568**	**-**	**1,995**	**-**	**-**	**1,609,563**

		g	h	i	j	k	l	m
		Own fund requirements			Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	(in ISK millions)	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book				
	Breakdown by country:							
010	Iceland	68,090	146	-	68,237	852,962	93.6%	2.5%
	Denmark	354	-	-	354	4,425	0.5%	2.5%
	Sweden	597	-	-	597	7,462	0.8%	2.0%
	Belgium	579	-	-	579	7,238	0.8%	1.0%
	Australia	505	-	-	505	6,312	0.7%	1.0%
	Norway	435	-	-	435	5,438	0.6%	2.5%
011	Other w. CCyB	351	7	-	358	4,475	0.5%	1.7%
012	Other	1,854	7	-	1,859	23,238	2.5%	0.0%
020	**Total**	**72,765**	**160**	**-**	**72,924**	**911,550**	**100.0%**	**2.4%**

2.3.2. EU CCyB2: Amount of institution-specific countercyclical capital buffer

1	Total risk exposure amount	1,033,788
2	Institution specific countercyclical capital buffer rate	2.4%
3	Institution specific countercyclical capital buffer requirement	24,875

2.4. Leverage ratio

2.4.1. EU LRA: Disclosure of LR qualitative information

The Bank is not currently exposed to the risk of excessive leverage because of its risk profile and capital structure. The standardised approach for credit risk is used to calculate REA, resulting in high REA density and strong leverage ratio. As a precaution, the leverage ratio is monitored monthly and serves as a contingency indicator within the Bank's Liquidity and Capital Contingency Plan (LCCP). Apart from this, the Bank does not maintain a dedicated process for managing the risk of excessive leverage.

The main factors impacting the leverage ratio during the year is the Bank's buyback of own shares as a part of its capital optimisation plan, a growth in the loan portfolio as well as in off balance sheet items, and a larger liquidity portfolio.

2.4.2. EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	(In ISK millions)	a Applicable amount
1	Total assets as per published financial statements	1,728,147
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	-
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	4,547
9	Adjustment for securities financing transactions (SFTs)	-
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	68,948
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
12	Other adjustments	(3,921)
13	**Total exposure measure**	**1,797,721**

2.4.3. EU LR2 - LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures	
		a	b
	(In ISK millions)	31.12.2025	30.6.2024
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	1,720,894	1,596,427
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(1,973)	(2,235)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**1,718,921**	**1,594,192**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	-	-
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	2,824	2,848
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	7,028	6,374
EU-9b	Exposure determined under Original Exposure Method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivatives exposures**	**9,852**	**9,222**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
17	Agent transaction exposures	-	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
18	**Total securities financing transaction exposures**	**-**	**-**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	237,199	137,725
20	(Adjustments for conversion to credit equivalent amounts)	(168,251)	80,142
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	**68,948**	**57,583**
	Excluded exposures		
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-	-

		CRR leverage ratio exposures	
		a	b
	(In ISK millions)	31.12.2025	30.6.2024
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)		
EU-22k	(Excluded exposures to shareholders according to Article 429a (1), point (da) CRR)		
EU-22l	(Exposures deducted in accordance with point (q) of Article 429a (1) CRR)	-	-
EU-22k	**(Total exempted exposures)**	-	-
	Capital and total exposure measure		
23	Tier 1 capital	224,792	218,849
24	**Leverage ratio total exposure measure**	**1,797,721**	**1,660,997**
	Leverage ratio		
25	Leverage ratio (%)	12.5%	13.2%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	12.5%	13.2%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	12.5%	13.2%
26	Regulatory minimum leverage ratio requirement (%)	3.0%	3.0%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%
EU-26b	of which: to be made up of CET1 capital (percentage points)	0.0%	0.0%
27	Leverage ratio buffer requirement (%)	0.0%	0.0%
EU-27a	Overall leverage ratio requirement (%)	3.0%	3.0%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	-	-
	Disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	1,797,721	1,660,998
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	1,797,721	1,660,998
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	12.5%	13.2%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	12.5%	13.2%

2.4.4. EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	(In ISK millions)	CRR leverage ratio exposures a
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**1,718,920**
EU-2	Trading book exposures	27,077
EU-3	Banking book exposures, of which:	1,691,843
EU-4	Covered bonds	34,844
EU-5	Exposures treated as sovereigns	176,894
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	14,069
EU-7	Institutions	85,362
EU-8	Secured by mortgages of immovable properties	900,184
EU-9	Retail exposures	102,991
EU-10	Corporate	337,238
EU-11	Exposures in default	16,202
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	24,059

2.5. MREL

2.5.1. EU KM2: Key metrics - MREL and, where applicable, G-SII requirement for own funds and eligible liabilities

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

On 17 October 2025, the Resolution Authority announced its MREL decision for the Group. According to the decision, the Group's MREL is set at 18.8% of the total risk exposure amount (TREA) and 6.0% of the total exposure measure (TEM). The decision further requires that a portion of the Groups's MREL must be met with subordinated instruments. The subordination portion of the MREL is set at 13.5% of TREA and must be fulfilled by 4 October 2027.

The MREL is published irrespective of the value of the combined buffer requirement, which must be met in parallel with both the MREL-TREA and the subordination requirement. Taking into account the Group's combined buffer requirement as at 31 December 2025, the resulting MREL-TREA amounts to 28.5%, while the subordinated portion of the MREL is equivalent to 23.3% of TREA.

		a
		Minimum requirement for own funds and eligible liabilities (MREL)
	(In ISK millions)	2025-12-31
	Own funds and eligible liabilities, ratios and components	
1	Own funds and eligible liabilities	455,035
EU-1a	Of which own funds and subordinated liabilities	247,891
2	Total risk exposure amount of the resolution group (TREA)	1,033,788
3	Own funds and eligible liabilities as a percentage of TREA	44.0%
EU-3a	Of which own funds and subordinated liabilities	24.0%
4	Total exposure measure (TEM) of the resolution group	1,797,721
5	Own funds and eligible liabilities as percentage of the TEM	25.3%
EU-5a	Of which own funds or subordinated liabilities	13.8%
	Minimum requirement for own funds and eligible liabilities (MREL)	
EU-7	MREL requirement expressed as percentage of the TREA	28.5%
EU-8	Of which to be met with own funds or subordinated liabilities	23.2%
EU-9	MREL requirement expressed as percentage of the TEM	16.4%
EU-10	Of which to be met with own funds or subordinated liabilities	13.4%

2.5.2. EU TLAC1: Composition - MREL and, where applicable, the G-SII requirement for own funds and eligible liabilities

	(In ISK millions)	a Minimum requirement for own funds and eligible liabilities (MREL)
	Own funds and eligible liabilities and adjustments	
1	Common Equity Tier 1 capital (CET1)	207,576
2	Additional Tier 1 capital (AT1)	17,216
6	Tier 2 capital (T2)	23,099
11	Own funds for the purpose of Articles 92a CRR and 45 BRRD	247,891
	Own funds and eligible liabilities: Non-regulatory capital elements	
12	Eligible liabilities instruments issued directly by the resolution entity that are subordinated to excluded liabilities (not grandfathered)	-
EU 12a	Eligible liabilities instruments issued by other entities within the resolution group that are subordinated to excluded liabilities (not grandfathered)	-
EU12b	Eligible liabilities instruments that are subordinated to excluded liabilities, issued prior to 27 June 2019 (subordinated grandfathered)	-
EU12c	Tier 2 instruments with a residual maturity of at least one year to the extent they do not qualify as Tier 2 items	-
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	207,145
EU-13a	Eligible liabilities that are not subordinated to excluded liabilities issued prior to 27 June 2019 (pre-cap)	-
14	Amount of non subordinated instruments eligible, where applicable after application of Article 72b (3) CRR	-
17	Eligible liabilities items before adjustments	207,145
EU-17a	Of which subordinated	-
	Own funds and eligible liabilities: Adjustments to non-regulatory capital elements	
18	Own funds and eligible liabilities items before adjustments	455,035
20	(Deduction of investments in other eligible liabilities instruments)	-
22	Own funds and eligible liabilities after adjustments	455,035
EU-22a	Of which own funds and subordinated	247,891
	Risk-weighted exposure amount and leverage exposure measure of the resolution group	
23	Total risk exposure amount (TREA)	1,033,788
24	Total exposure measure (TEM)	1,797,721
	Ratio of own funds and eligible liabilities	
25	Own funds and eligible liabilities as a percentage of TREA	44.0%
EU-25a	Of which own funds and subordinated liabilities	24.0%
26	Own funds and eligible liabilities as a percentage of TEM	25.3%
EU-26a	Of which own funds and subordinated liabilities	13.8%
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	15.6%

2.5.3. EU TLAC3b: Creditor ranking - resolution entity

		insolvency ranking				
		1	2	3	4	Total
	(In ISK millions)	(most junior)			(most senior)	
1	Description of insolvency rank (free text)	Common Equity Tier 1 capital	Additional Tier 1 capital instruments	Tier 2 capital instruments	Senior unsecured debt	
5	Own funds and liabilities potentially eligible for meeting MREL	207,576	17,216	23,099	207,145	455,036
6	o/w residual maturity ≥ 1 year < 2 years	-	-	-	35,022	35,022
7	o/w residual maturity ≥ 2 year < 5 years	-	-	-	119,761	119,761
8	o/w residual maturity ≥ 5 years < 10 years	-	-	23,099	44,410	67,509
9	o/w residual maturity ≥ 10 years, but excluding perpetual securities	-	-	-	7,953	7,953
10	o/w perpetual securities	207,576	17,216	-	-	224,792

3. Credit Risk

3.1. Credit risk quality

3.1.1. EU CRA: General qualitative information about credit risk

The Bank undertakes credit risk by offering loans, guarantees, and other credit products. Credit risk is the primary risk factor in the Bank's operations, and taking on credit risk is a core activity of the Bank. The Bank has policies and procedures for accepting, measuring, and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return while minimising potential adverse effects of credit risk on the Bank's financial performance.

By the end of 2025, the Bank's exposure amount considered for regulatory purposes under the credit risk framework was ISK 1,740bn, a rise from ISK 1,611bn at year-end 2024. The loan portfolio grew by 5.5% in 2025, compared to the 5.9% increase in the previous year. Inflation remained elevated and showed only modest signs of easing throughout the year, resulting in a slower than expected reduction in interest rates. The share of loans with significant increase in credit risk grew slightly to 4.6%, from 3.1% the year before. In contrast, the non-performing loans ratio fell to 1.5% from 1.6% in the previous year. Credit risk accounted for 90% of capital requirements under Pillar 1 while credit risk and credit concentration risk accounted for 82% of the total capital requirements, as determined in the SREP.

3.1.1.1. Credit risk governance and management framework

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Bank.

Credit concentration risk is the increase in risk that is driven by common underlying factors, such as industry sector, economy, geographical location, type of financial instrument, or due to connections or relations among counterparties. This includes large individual exposures to parties under common control and significant exposures to groups of connected clients whose probability of default is driven by common underlying factors.

The Board defines the framework for credit risk governance and the acceptable level of credit risk through the Risk Management and Internal Control Policy, the Risk Appetite Statement, and the Credit Risk Policy. This framework is built on prudent risk evaluation, disciplined risk-taking, and a clearly defined authorisation structure aligned with the Bank's risk appetite.

These policies define the principles for risk-taking and establish credit risk limits across counterparties, countries, sectors, and products. Risk Management continuously monitors these limits to ensure exposures remain within the Bank's defined appetite. The policies are reviewed annually to ensure alignment with the Bank's strategic objectives and regulatory requirements.

The Bank maintains a modest credit risk profile, and it aims to maintain long-term average annual credit losses below 0.9% of the loan portfolio, excluding liquidity and qualified retail mortgage portfolios, where the annual credit loss is much lower. This objective reflects the Bank's strategic intent to manage credit risk prudently while supporting sustainable lending practices.

Credit risk governance at Íslandsbanki is structured around a robust three lines of defence model.

- **First line:** Business units are responsible for identifying, assessing, and managing credit risk within their portfolios. They ensure transparency in risk registration and reporting, with managing directors equipping teams to monitor risk effectively.
- **Second line**: The Risk Management division operates independently from the business units and is responsible for developing, implementing, and overseeing credit risk policies, methodologies, and internal rating systems. It monitors exposures, ensures compliance with risk limits, and provides independent assessments in the credit approval process—especially for large or complex exposures. This division includes dedicated teams for risk assessment and modelling, risk data and reporting, risk monitoring and governance, and security and resilience.
- **Third line**: Group Internal Audit provides independent assurance on the effectiveness of the risk management and internal control systems. It conducts regular audits of the credit risk framework and reports directly to the Board Audit Committee.

This governance structure promotes informed decision-making and strong risk awareness throughout the organisation. It supports effective operations, reliable disclosures, and compliance with both regulatory and internal standards, while embedding risk ownership at all levels.

The Chief Risk Officer (CRO), a member of the Executive Committee, reports directly to the CEO and the Board, ensuring the independence and authority of the risk management function. Regular reporting and escalation procedures are in place to identify and mitigate emerging risks promptly.

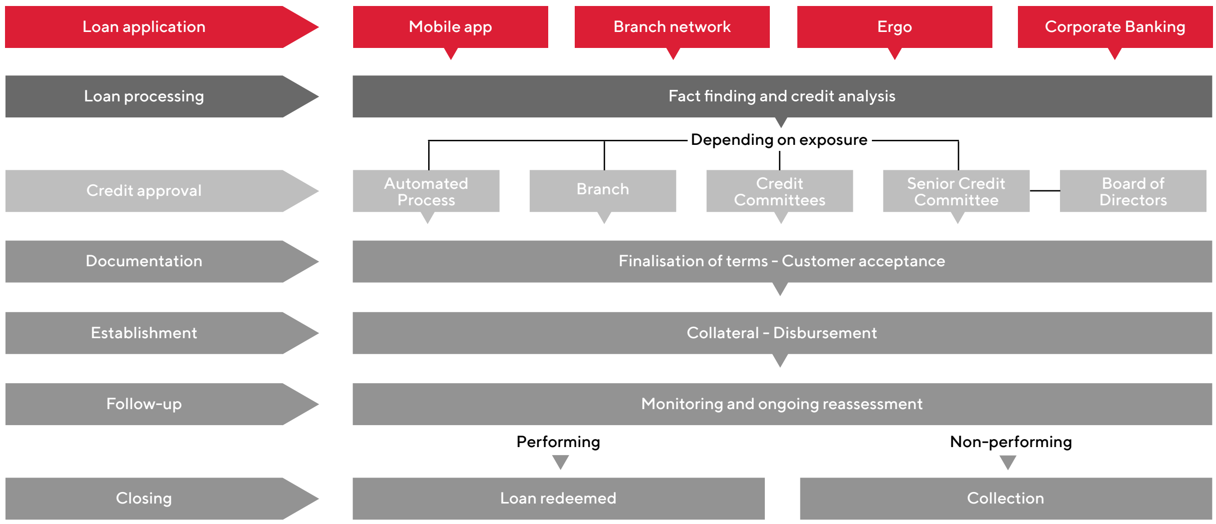
Credit risk management is closely coordinated with other key control functions—Risk management, Compliance, and Group Internal audit. Risk Management ensures that all risk types (credit, market, liquidity, operational, sustainability) are managed within the Bank's defined appetite and works closely with credit risk management to align risk-taking with strategic and regulatory requirements.

These functions are designed to operate independently but in a coordinated manner. Their roles and responsibilities are clearly defined in the Bank's internal governance documents to prevent conflicts of interest and ensure a robust system of checks and balances. This structure supports the Bank's ability to manage credit risk effectively while maintaining regulatory compliance and operational integrity.

3.1.1.2. Credit process governance

The Bank's credit process, shown in Exhibit 7, is governed by a committee structure, with the Senior Credit Committee authorised to approve proposals within limits set by the Board. It delegates credit authorisation to subcommittees and individuals, such as branch and credit managers, based on counterparty risk class or product type. Certain retail products—like mortgages, car loans, overdrafts, and credit cards—are partially approved through automated processes.

Exhibit 7: Schematic overview of the Bank's credit process. Loan applications can be received through the Bank's Call Centre as well as the Bank's mobile and online banking platforms.



The All Risk Committee oversees frameworks for rule-based and automated approvals, ensuring they include controls, monitoring, risk assessments, and mitigation. These frameworks are reviewed annually, with results presented to the Board. Automated processes do not exempt business units from responsibility for credit quality or accountability.

The Bank's Credit Rules define principles for loans, guarantees, and other credit risk exposures. Lending is based on mutual trust and the borrower's ability and willingness to repay. Sufficient collateral alone cannot justify lending to customers with insufficient payment capacity. The Bank's Sustainability Policy requires that ESG risks be assessed as part of credit evaluation and risk assessment.

The main sources of credit risk are shown in Exhibit 8. Loans to customers constitute the largest share of the Bank's credit risk exposure.

To mitigate credit risk, the Bank applies policies that include the use of collateral and guarantees. Collateral requirements depend on the product offered; for example, relatively small overdrafts to individuals may not require collateral if the customer meets the Bank's creditworthiness criteria. Since collateral is only seized in cases of serious repayment difficulties, its valuation focuses on the expected future value at the time of default. Regular reviews of credit exposures and risk limits are conducted to maintain alignment with the Bank's risk appetite and regulatory requirements, and the overall policy framework is periodically updated to reflect changes in the external environment and the Bank's strategic objectives.

Customers showing financial distress are placed on a watchlist and monitored. If restructuring is more suitable than collection, the Bank offers forbearance options such as payment holidays, loan term extensions, arrears capitalization, and covenant waivers. These may lead to a more formal restructuring if needed. If all measures fail, legal collection and collateral liquidation are pursued if other measures are not successful.

The legal collection process is carried out entirely in-house and is not outsourced. This approach ensures that all data handling and collection activities comply with internal procedures, security requirements, and legal obligations.

Exhibit 8: The main sources of credit risk.

Item	Obligor type	Description
Loans to customers	Individuals and households	Loans to individuals derive from lending activities to individuals and households. The largest product type is mortgages, but it also includes term loans, car loans and leasing agreements, credit cards, and overdrafts.
	Companies, municipalities and public-sector entities	Loans to companies as well as municipalities and public-sector entities. This includes long-term facilities, leases and asset-based financing, working capital facilities and other short-term financing, project finance, and financing of income producing real estate.
Cash and balances with Central Bank and loans to credit institutions	Financial institutions and Central Bank	Mandatory reserve deposits and other balances with the Central Bank as well as other exposures to international banks and financial institutions, for example as part of the Bank's liquidity management.
Bonds and debt instruments	Government entities, issuers of listed bonds approved by the Bank's credit committees	The Bank is exposed to credit risk due to investment in debt instruments, for example as part of the Bank's liquidity management.
Derivatives	Qualified counterparties with defined credit limits at the Bank	Derivatives and other financial instruments that involve contingent exposures.
Shares and equity instruments		Shares and equity instruments in the banking book mainly consist of strategic equity investments to support the Bank's operations.
Other assets		Account receivables, property and equipment, non-current assets and disposal groups held for sale.
Off-balance sheet items	Same as loans to customers	This includes unused overdrafts and credit card limits, undrawn amounts in credit agreements and project finance agreements, letters of credit, and export documentary credits.

3.1.2. EU CRB: Additional disclosure related to the credit quality of assets

3.1.2.1. Definition of default

Íslandsbanki applies a consistent and harmonised definition of default across accounting and regulatory frameworks. The Bank's definition satisfies the requirements of Stage 3 under IFRS 9, Article 178 of the Capital Requirements Regulation (CRR), and the definition of non-performing exposure under FINREP. It is applied at the obligor level rather than the facility level, both for retail and non-retail exposures. There are no material differences between the definitions of past-due and default for accounting and regulatory purposes, ensuring full alignment with the European Banking Authority (EBA) Guidelines on the application of the definition of default in accordance with Article 178 CRR.

An obligor is considered in default if the Bank assesses that they are unlikely to meet their contractual obligations without recourse to default provisions, or if they are more than 90 days past due on material credit obligations. This assessment is based on defined triggers, including serious covenant breaches, internal watchlist registrations, initiation of collection procedures, and adverse external credit information.

3.1.2.2. Credit risk adjustment

Íslandsbanki applies the impairment framework of International Financial Reporting Standard 9 (IFRS 9) to all financial assets measured at amortised cost or at fair value through other comprehensive income, as well as to loan commitments and financial guarantee contracts. The Bank's impairment model is based on expected credit losses (ECL), which are recognised at each reporting date to reflect changes in credit risk since initial recognition.

The IFRS 9 model is forward-looking and incorporates a probability-weighted average of possible outcomes. It employs a dual measurement approach, whereby the loss allowance is calculated as either a 12-month ECL or a lifetime ECL, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition.

All assets subject to impairment are assigned to one of three stages:

- **Stage 1** consists of assets that have not experienced a SICR. These are subject to a 12-month ECL and interest is recognised on the gross carrying amount.
- **Stage 2** consists of assets that have experienced a SICR but are not credit-impaired. These are subject to lifetime ECL and interest is recognised on the gross carrying amount.
- **Stage 3** consists of credit-impaired assets. These are considered to be in default and subject to lifetime ECL. Interest is recognised on the net carrying amount.

The assessment of SICR is based on a predefined set of triggers, including internal risk assessments, external credit information, forbearance events, and a backstop of 30 days past due. The definition of SICR is based solely on the probability of a credit event occurring and does not consider collateral or expected loss. Assets may migrate back to Stage 1 once all SICR triggers are no longer active. Forbearance events cause assets to remain in Stage 2 for 12 months and in forborne status for 24 months.

Credit-impaired status is assessed at the customer level and is in full alignment with definition of default as described in section 3.1.2.3 Customers may exit credit-impaired status after a probation period and a reassessment of their financial outlook.

The ECL for each asset is calculated using models for probability of default (PD), loss given default (LGD), and exposure at default (EAD). PD models may be statistical, expert-based, or hybrid, and are subject to periodic review and validation. Inputs include demographic data, financial statements, and payment history. Macroeconomic effects are incorporated through scaling factors derived from forecasts provided by the Bank's Chief Economist. These forecasts cover a five-year horizon and are reviewed quarterly by the All Risk Committee (ARC). The Bank uses three scenarios—base, optimistic, and adverse—and the final ECL is the weighted average across these scenarios.

The Bank's PD models predict the long-term average of the one-year default rate while the observed default frequency (ODF) depends on the current state of the economy.

Exhibit 9 presents the through-the-cycle probability of default (TTC PD) values by risk class for large companies, small companies and individuals. The PD model for small companies was recalibrated in the fourth quarter of 2025, which led to some migration between risk classes and updates to the mapping to TTC PDs. This recalibration was undertaken to enhance the accuracy and risk sensitivity of the credit risk assessment.

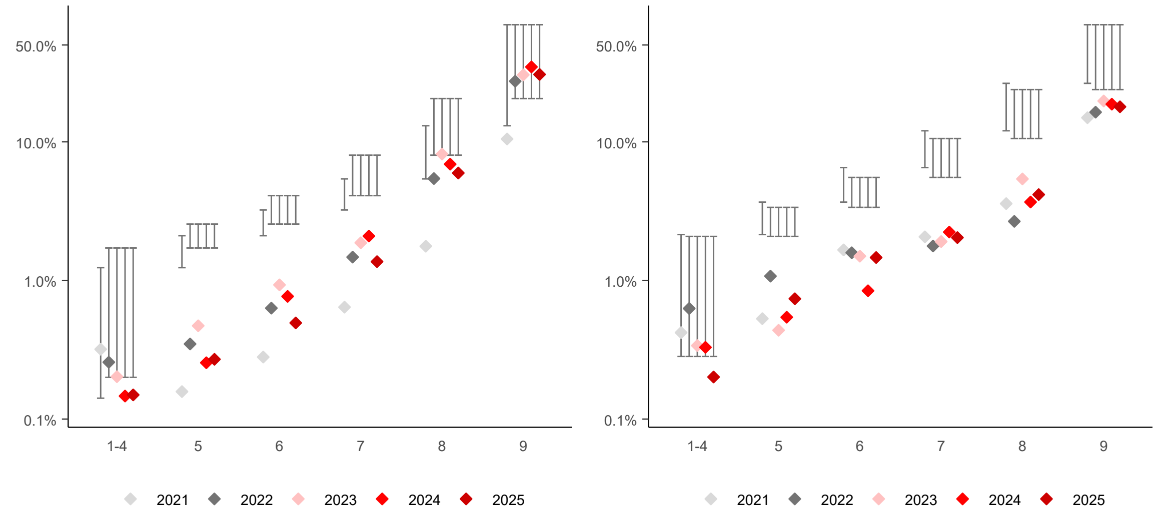
Exhibit 9: Average long-term PD levels per risk class for the different rating models at end of year 2025.

Risk group	Risk class	Large companies	Small companies	Individuals
		(%)	(%)	(%)
Low	1	0.3	0.2	0.1
	2	0.4	0.4	0.4
	3	0.8	0.7	0.9
	4	1.3	1.6	1.4
Medium	5	2.3	3.4	2.1
	6	4.1	6.0	3.1
Increased	7	7.1	8.8	5.4
	8	12.5	14.0	11.9
High	9	21.8	34.1	35.4

In 2025 there were a handful of observed defaults for large companies in the Bank's portfolio, which translates to a 0.6% default frequency compared to a predicted default probability of 4.6%. The defaults were so few that a meaningful comparison of the observed default frequency and the predicted probability of default per risk class is not possible.

For individuals and small companies, however, the number of defaults allow for a meaningful breakdown by risk classes, as shown in Exhibit 10. Risk classes 1 through 4 are grouped together due to few defaults in those classes. The mapping from PD to risk classes for the years 2022 to 2025 differ from those of previous years, both for individuals and small companies, due to a recalibration of the corresponding rating models at year-end 2021. The long-term average of the probability of default for each risk class is based on the rating models in use at the beginning of each year and therefore the recalibration of the model for small companies that was implemented during the year will not be visible here until the next report.

Exhibit 10: Observed default frequency (dots) and the range of the predicted through-the-cycle probability of default (vertical lines) by risk class for individuals (left) and small companies (right) in 2025, results from other years shown for comparison. Logarithmic scale.



Despite high interest rates and persistent inflation for the past few years, households and businesses continue to demonstrate greater resilience following COVID-19 than has been observed historically. Thus, a discrepancy between ODF and predicted default rates is not necessarily a cause for concern. The ODF was 1.2% compared to the 3.1% predicted probability of default for individuals, while corresponding rates were 3.0% and 8.5% for small companies, respectively.

LGD models consider multiple recovery scenarios, including cure without loss, collateral recovery, and unsecured recoveries. These scenarios are weighted differently across economic conditions, resulting in non-linear effects on the final ECL. EAD models account for expected prepayments and utilisation of undrawn commitments, including credit cards, overdrafts, and guarantees. The expected lifetime of agreements may exceed contractual terms for facilities that are typically renewed.

The Bank regularly reviews and recalibrates its ECL models to ensure accuracy and compliance with IFRS 9. This includes updates to PD and LGD models, adjustments to macroeconomic assumptions, and validation of model outputs against observed loss experience. The approach ensures that impairment reflects both current credit conditions and reasonable forecasts of future developments.

Assets are written off when there is no reasonable expectation of recovery or when legal collection is uneconomical. Write-offs do not extinguish the debt obligation, and any recoveries are recognised in the income statement.

The impairment process is governed by the Bank's modelling framework and overseen by the All Risk Committee. Stage assignment and ECL calculations are reviewed by business units, which may propose changes supported by documentation. Final impairment allowances are approved quarterly by the All Risk Committee, following a review by the Impairment Council.

3.1.2.3. Forbearance

Forbearance measures can be granted to customers facing temporary challenges or financial difficulties. For a loan to be considered as forborne, two conditions need to apply: (1) the Bank has agreed to changes to the terms of the loan that would normally not be offered to the customer and (2) the customer was in financial difficulties, making it hard for them to uphold the loan contract at the time the terms were changed. Such forbearance measures include temporary payment holidays, capitalisation of arrears, extension of loan terms, and waiving of covenants. Generally, forbearance measures are less severe than recovery actions for defaulted exposures and they do not lead to economic loss for the Bank. When the restructuring of loans corresponds to an economic loss then the obligor is classified as in default and any subsequent forbearance actions are classified as forbearance on non-performing facilities.

For households, forbearance measures are used to accommodate temporary changes in household income, for instance due to illness or unemployment. Temporary changes in terms are also granted to companies when needed, for example to meet adverse changes in the operating environment, which affect revenue and cash flows or to meet necessary but unforeseen capital expenditures. The customer is expected to resume normal repayments after the concession period. Furthermore, when covenants are waived due to minor difficulties of customers then it may be classified as a forbearance measure.

3.1.3. EU CR1: Performing and non-performing exposures and related provisions

		a	b	c	d	e	f
		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
	(in ISK millions)		of which stage 1	of which stage 2		of which stage 2	of which stage 3
005	**Cash balances at central banks and other demand deposits**	**84,385**	**84,385**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**1,427,135**	**1,364,057**	**63,079**	**20,427**	**-**	**20,427**
020	Central banks	-	-	-	-	-	-
030	General governments	20,531	20,530	1	-	-	-
040	Credit institutions	72,810	72,810	-	-	-	-
050	Other financial corporations	51,661	43,075	8,586	418	-	418
060	Non-financial corporations	632,895	587,391	45,504	12,713	-	12,713
070	Of which SMEs	270,024	241,517	28,507	6,717	-	6,717
080	Households	649,239	640,251	8,988	7,296	-	7,296
090	**Debt securities**	**141,073**	**132,559**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-
110	General governments	94,846	88,460	-	-	-	-
120	Credit institutions	41,146	41,146	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-
140	Non-financial corporations	5,081	2,954	-	-	-	-
150	**Off-balance-sheet exposures**	**240,084**	**236,619**	**3,465**	**699**	**-**	**699**
160	Central banks	1	1	-	-	-	-
170	General governments	4,840	4,840	-	-	-	-
180	Credit institutions	11,321	11,321	-	-	-	-
190	Other financial corporations	27,198	27,085	112	26	-	26
200	Non-financial corporations	155,874	152,653	3,222	613	-	613
210	Households	40,850	40,720	131	59	-	59
220	**Total**	**1,892,677**	**1,817,620**	**66,544**	**21,126**	**-**	**21,126**

	(in ISK millions)	g	h	i	j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			of which stage 1	of which stage 2		of which stage 2	of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**(13)**	**(13)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**(3,995)**	**(2,791)**	**(1,204)**	**(3,699)**	**-**	**(3,699)**	**-**	**1,271,070**	**15,609**
020	Central banks	-	-	-	-	-	-	-	-	-
030	General governments	(26)	(25)	-	-	-	-	-	3,793	-
040	Credit institutions	(48)	(48)	-	-	-	-	-	-	-
050	Other financial corporations	(346)	(160)	(187)	(61)	-	(61)	-	48,541	281
060	Non-financial corporations	(2,672)	(1,813)	(859)	(3,144)	-	(3,144)	-	608,474	9,056
070	Of which SMEs	(1,566)	(883)	(683)	(1,146)	-	(1,146)	-	256,421	5,181
080	Households	(903)	(745)	(158)	(495)	-	(495)	-	610,262	6,272
090	**Debt securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,798**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	34,844	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	2,954	-
150	**Off-balance-sheet exposures**	**(845)**	**(682)**	**(164)**	**(121)**	**-**	**(121)**		**98,663**	**238**
160	Central banks	-	-	-	-	-	-		-	-
170	General governments	(1)	(1)	-	-	-	-		3	-
180	Credit institutions	(5)	(5)	-	-	-	-		229	-
190	Other financial corporations	(78)	(77)	(1)	(2)	-	(2)		8,795	23
200	Non-financial corporations	(694)	(536)	(158)	(105)	-	(105)		88,295	212
210	Households	(67)	(63)	(4)	(15)	-	(15)		1,342	3
220	**Total**	**(4,840)**	**(3,473)**	**(1,368)**	**(3,820)**	**-**	**(3,820)**	**-**	**1,407,531**	**15,847**

3.1.4. EU CR1-A: Maturity of exposures

	(in ISK millions)	a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	8,935	321,307	414,660	694,965	-	1,439,868
2	Debt securities	-	59,044	76,104	5,925	-	141,073
3	**Total**	**8,935**	**380,351**	**490,764**	**700,891**	**-**	**1,580,941**

3.1.5. EU CR2: Changes in the stock of non-performing loans and advances

The Bank's definition of default is fully aligned with the definition in Article 178 of the Capital Requirements Regulation (CRR). See chapter 3.1.2 for further information.

Inflows and outflows are inflated due to reclassifications of loan commitments within FINREP report 24, which forms the basis for this template.

	(in ISK millions)	a Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**21,490**
020	Inflows to non-performing portfolios	8,342
030	Outflows from non-performing portfolios	(9,405)
040	Outflows due to write-offs	(1,177)
050	Outflow due to other situations	(8,228)
060	**Final stock of non-performing loans and advances**	**20,427**

3.1.6. EU CQ1: Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/ Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne						
	(in ISK millions)			Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	**Cash balances at central banks and other demand deposits**	-	-	-	-	-	-	-	-
1	**Loans and advances**	**27,865**	**8,385**	**8,385**	**8,385**	**(403)**	**(1,401)**	**33,038**	**6,707**
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	-	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	6,363	191	191	191	(168)	(50)	5,928	67
6	Non-financial corporations	12,378	5,905	5,905	5,905	(186)	(1,234)	16,310	4,516
7	Households	9,123	2,290	2,290	2,290	(48)	(117)	10,799	2,125
8	**Debt Securities**	-	-	-	-	-	-	-	-
9	**Loan commitments given**	**540**	**190**	**190**	**190**	**4**	**20**	**212**	**52**
10	**Total**	**28,405**	**8,575**	**8,575**	**8,575**	**(399)**	**(1,381)**	**33,250**	**6,759**

3.1.7. EU CQ3: Credit quality of performing and non-performing exposures by past due days

	(in ISK millions)	a	b	c
		Gross carrying amount / Nominal amount		
		Performing exposures		
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days
005	**Cash balances at central banks and other demand deposits**	**84,385**	**84,385**	**-**
010	**Loans and advances**	**1,427,135**	**1,425,507**	**1,628**
020	Central banks	-	-	-
030	General governments	20,531	20,531	-
040	Credit institutions	72,810	72,810	-
050	Other financial corporations	51,661	51,632	29
060	Non-financial corporations	632,895	631,902	993
070	of which SMEs	270,024	269,063	961
080	Households	649,239	648,633	606
090	Debt Securities	**141,073**	**141,073**	**-**
100	Central banks	-	-	-
110	General governments	94,846	94,846	-
120	Credit institutions	41,146	41,146	-
130	Other financial corporations	-	-	-
140	Non-financial corporations	5,081	5,081	-
150	**Off-balance sheet exposures**	**240,084**		
160	Central banks	1		
170	General governments	4,840		
180	Credit institutions	11,321		
190	Other financial corporations	27,198		
200	Non-financial corporations	155,874		
210	Households	40,850		
220	**Total**	**1,808,292**	**1,566,580**	**1,628**

	(in ISK millions)	d	e	f	g	h	i	j	k	l
		Gross carrying amount / Nominal amount								
		Non-performing exposures								
			UTP*, that are not past-due or past-due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
010	**Loans and advances**	**20,427**	**16,554**	**1,227**	**1,603**	**979**	**59**	**5**	**-**	**20,427**
020	Central banks	-	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-	-
050	Other financial corporations	418	407	8	2	1	-	-	-	418
060	Non-financial corporations	12,713	11,082	376	710	527	12	5	-	12,713
070	of which SMEs	6,717	5,495	234	537	450	1	-	-	6,717
080	Households	7,296	5,065	843	891	451	47	-	-	7,296
090	**Debt Securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-
150	**Off-balance sheet exposures**	**699**								**699**
160	Central banks	-								-
170	General governments	-								-
180	Credit institutions	-								-
190	Other financial corporations	26								26
200	Non-financial corporations	613								613
210	Households	59								59
220	**Total**	**21,126**	**16,554**	**1,227**	**1,603**	**979**	**59**	**5**	**-**	**21,126**

*UTP: unlikely to pay

3.1.8. EU CQ4: Quality of non-performing exposures by geography

	(in ISK millions)	a	b	c	d	e	f	g
		Gross carrying amount/ Nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which non-performing		of which subject to impairment			
				of which defaulted				
010	**On balance sheet exposures**	**1,588,635**	**20,427**	**20,427**	**1,580,121**	**(7,694)**		**-**
020	Iceland	1,427,403	20,175	20,175	1,418,889	(7,432)		
030								
040								
050								
060								
070	Other countries	161,232	252	252	161,232	(262)		
080	**Off balance sheet exposures**	**240,783**	**699**	**699**			**966**	
090	Iceland	217,485	697	697			942	
100								
110								
120								
130								
140	Other countries	23,298	2	2			24	
150	**Total**	**1,829,418**	**21,126**	**21,126**	**1,580,121**	**(7,694)**	**966**	**-**

3.1.9. EU CQ5: Credit quality of loans and advances to non-financial corporations by industry

	(in ISK millions)	a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	63,311	31	31	63,311	(146)	-
020	Mining and quarrying	3,642	-	-	3,642	(20)	-
030	Manufacturing	67,330	1,124	1,124	67,330	(395)	-
040	Electricity, gas, steam and air conditioning supply	17,020	-	-	17,020	(31)	-
050	Water supply	10,394	4,596	4,596	10,394	(1,532)	-
060	Construction	96,285	942	942	96,285	(1,195)	-
070	Wholesale and retail trade	48,208	679	679	48,208	(483)	-
080	Transport and storage	39,319	146	146	39,319	(103)	-
090	Accommodation and food service activities	41,278	356	356	41,278	(297)	-
100	Information and communication	38,204	65	65	38,204	(155)	-
110	Financial and insurance activities	803	-	-	803	-	-
120	Real estate activities	138,550	3,935	3,935	138,550	(1,035)	-
130	Professional, scientific and technical activities	8,178	54	54	8,178	(78)	-
140	Administrative and support service activities	63,357	382	382	63,357	(242)	-
150	Public administration and defense, compulsory social security	4	-	-	4	-	-
160	Education	3,499	130	130	3,499	(40)	-
170	Human health services and social work activities	1,239	18	18	1,239	(20)	-
180	Arts, entertainment and recreation	1,922	249	249	1,922	(34)	-
190	Other services	3,063	5	5	3,063	(9)	-
200	**Total**	**645,607**	**12,713**	**12,713**	**645,607**	**(5,816)**	**-**

3.1.10. EU CQ7: Collateral obtained by taking possession and execution processes

	(in ISK millions)	a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	-	-
2	Other than PP&P	2,885	(1,136)
3	Residential immovable property	117	(36)
4	Commercial Immovable property	2,377	(960)
5	Movable property (auto, shipping, etc.)	2	-
6	Equity and debt instruments	-	-
7	Other collateral	390	(140)
8	**Total**	**2,885**	**(1,136)**

3.2. Use of credit risk mitigation techniques

3.2.1. EU CRC: Qualitative disclosure requirements related to CRM techniques

Credit concentration risk is monitored and constrained by limits set in the Risk Appetite Statement. The Bank actively limits large exposures, sector concentrations, and geographic concentrations. At year-end 2025, one large exposure, after eligible credit risk mitigation (CRM), amounted to 11.1% of Tier 1 capital. Product and collateral concentrations are monitored but are not currently considered material. The Bank does not accept collateral highly correlated with the underlying exposure in derivatives to avoid wrong-way risk. Limits are also set to manage concentration risk towards single issuers or instruments.

3.2.1.1. Credit risk mitigation techniques

Íslandsbanki applies a range of CRM techniques to manage and reduce credit risk across its portfolio. These techniques include collateralisation, guarantees, and netting arrangements, all governed by internal policies and regulatory requirements. The Bank's approach is designed to ensure legal certainty, consistency in valuation, and effective risk reduction, while maintaining transparency and control over concentration risks.

3.2.1.2. Netting agreements

The Bank uses netting primarily in the context of derivative exposures. Netting is applied across contracts with the same counterparty to offset profits and collateral requirements, thereby reducing the exposure at default. These arrangements are governed by ISDA master agreements with Credit Support Annexes or equivalent legal frameworks. Netting is recognised for regulatory purposes where enforceability is legally confirmed, and the Bank ensures legal certainty through rigorous documentation and counterparty due diligence. On-balance sheet netting is not used for lending exposures, and off-balance sheet netting is limited to derivative contracts. The Bank does not apply netting to traditional loan products.

3.2.1.3. Collateral valuation and management

Collateral is a central component of the Bank's CRM framework. The valuation of collateral is based on market prices, official valuations from Registers Iceland, statistical models, or expert assessments, depending on the asset type and availability. For residential real estate, the Bank uses a third-party statistical pricing tool that estimates market value monthly. For newly granted mortgages, the purchase price may be used as a more accurate valuation. Fishing vessels are valued including assigned quota rights, based on assessments by an expert model.

Haircuts are applied to collateral values to account for sale costs, depreciation, and recovery uncertainty. These haircuts vary by asset type and scenario, and are embedded in the Bank's loss given default (LGD) models. Collateral values are reassessed regularly, with frequency determined by asset volatility and risk profile. The Bank does not seize collateral unless the borrower faces serious repayment difficulties, and the valuation focuses on expected recovery value at the time of default.

3.2.1.4. Types of collateral accepted

The Bank accepts a wide range of collateral types depending on the obligor and facility. For individuals, residential property is the principal collateral, particularly for mortgages. For corporates, collateral includes commercial real estate, fishing vessels, vehicles, equipment, accounts receivable, inventory, and securities. The Bank also accepts cash and eligible bonds as collateral for margin trades in derivative contracts. Non-cash collateral is subject to haircuts based on issuer, duration, volatility, and liquidity.

3.2.1.5. Guarantees and credit derivatives

Guarantees are used selectively as credit enhancements, typically from parties with direct ties to the obligor, such as owners or affiliated entities. These guarantees improve credit quality but do not reduce exposure under regulatory capital calculations since they effectively transfer credit risk from one counterparty to another. The Bank does not use credit derivatives for credit risk mitigation purposes and does not engage in synthetic securitisation structures. Derivatives are used primarily to hedge currency, interest rate, and inflation exposures. All derivative contracts are subject to margin requirements and collateral limits, and the Bank generally does not accept collateral that is correlated with the underlying asset to avoid wrong-way risk.

3.2.1.6. Concentration risk in credit risk mitigation

The Bank actively monitors concentration risk arising from CRM techniques. Limits are set on exposures to single issuers, counterparties, and instruments to prevent excessive reliance on any one source of protection.

These limits are defined in terms of the Bank's capital base and are integrated into the credit approval and limit-setting processes. Product and collateral concentration are monitored regularly, although neither is currently considered material. The Bank's Risk Appetite Statement limits credit exposure outside principal lending activities, such as lending to holding companies collateralised by shares in operating companies.

The Bank does not use general credit derivatives to mitigate credit risk and does not accept collateral that is highly correlated with the underlying exposure in derivative contracts. This approach ensures that CRM instruments remain effective under stress and do not introduce additional risk through concentration or correlation.

3.2.2. EU CR3: CRM techniques overview – Disclosure of the use of credit risk mitigation techniques

The increase in unsecured carrying amount is attributed to an increase in corporate loans.

	(in ISK millions)	a	b	c	d	e
		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
1	Loans and advances	237,561	1,286,679	1,282,667	4,011	-
2	Debt securities	103,275	37,798	34,844	2,954	
3	**Total**	**340,836**	**1,324,477**	**1,317,511**	**6,965**	**-**
4	Of which non-performing exposures	1,118	15,609	15,557	52	-
5	Of which defaulted	1,118	15,609			

3.3. Use of the Standardised Approach

3.3.1. EU CRD: Qualitative disclosure requirements related to standardised approach

The Group uses credit ratings from designated External Credit Assessment Institutions (ECAI) to determine the risk weight assigned to governments and financial institutions. When more than one rating is available, the second-highest rating is used. This method has remained unchanged during the reporting period. The Bank follows the standards set by the European Banking Authority.

3.3.2. EU CR4: Standardised approach – Credit risk exposure and CRM effects

The enactment of CRR 3 into Icelandic law had a significant impact on the Group's REA with more risk sensitive exposure classes and risk weights, especially for real estate exposures.

		a	b	c	d	e	f
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWEAs and RWEAs density	
	(in ISK millions)	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWEAs	RWEA density
	Exposure classes						
1	Central governments or central banks	176,894	1	182,684	444	1,770	1.0%
2	Non-central government public sector entities	14,069	4,596	18,038	692	3,760	20.1%
EU 2a	Regional government or local authorities	14,069	4,596	18,038	692	3,760	20.1%
EU 2b	Public sector entities	-	-	-	-	-	
3	Multilateral development banks	-	-	-	-	-	
EU 3a	International organisations	-	-	-	-	-	
4	Institutions	85,362	14,218	82,358	2,648	18,601	21.9%
5	Covered bonds	34,844	-	34,844	-	5,009	14.4%
6	Corporates	337,589	102,972	316,906	30,072	326,959	94.2%
6.1	Of which Specialised Lending	-	-	-	-	-	
7	Subordinated debt exposures and equity	7,810	-	7,810	-	7,810	100.0%
EU 7a	Subordinated debt exposures	-	-	-	-	-	
EU 7b	Equity	7,810	-	7,810	-	7,810	100.0%
8	Retail	102,991	60,236	102,783	2,580	68,470	65.0%
9	Secured by mortgages on immovable property and ADC exposures	899,835	57,173	895,210	22,869	465,237	50.7%
9.1	Secured by mortgages on residential immovable property - non IPRE	641,645	-	637,868	-	185,837	29.1%
9.2	Secured by mortgages on residential immovable property - IPRE	11,143	-	11,143	-	3,247	29.1%
9.3	Secured by mortgages on commercial immovable property - non IPRE	63,507	-	63,506	-	44,913	70.7%
9.4	Secured by mortgages on commercial immovable property - IPRE	107,042	-	107,021	-	83,428	78.0%
9.5	Acquisition, Development and Construction (ADC)	76,498	57,173	75,672	22,869	147,812	150.0%
10	Exposures in default	16,202	577	16,121	162	19,480	119.6%
EU 10a	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	
EU 10b	Collective investment undertakings	1,898	-	1,898	-	1,352	71.2%
EU 10c	Other items	14,350	36	14,350	-	14,350	100.0%
11	Not applicable						
12	**Total**	**1,691,844**	**239,809**	**1,673,002**	**59,466**	**932,798**	**53.8%**

3.3.3. EU CR5: Standardised approach

The enactment of CRR 3 into Icelandic law had a significant impact on the Group's REA with more risk sensitive exposure classes and risk weights, especially for real estate exposures.

		Risk weight								
		0%	2%	4%	10%	20%	30%	35%	40%	45%
	Exposure classes									
1	Central governments or central banks	174,285	-	-	-	8,849	-	-	-	-
2	Non-central government public sector entities	-	-	-	-	18,682	-	-	-	-
EU 2a	Regional governments or local authorities	-	-	-	-	18,682	-	-	-	-
EU 2b	Public sector entities	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
EU 3a	International organisations	-	-	-	-	-	-	-	-	-
4	Institutions	-	-	-	-	73,445	14,145	-	-	-
5	Covered bonds	-	-	-	19,596	15,249	-	-	-	-
6	Corporates	-	-	-	-	-	-	-	-	-
6.1	Of which Specialised Lending	-	-	-	-	-	-	-	-	-
7	Subordinated debt exposures and equity	-	-	-	-	-	-	-	-	-
EU 7a	Subordinated debt exposures	-	-	-	-	-	-	-	-	-
EU 7b	Equity	-	-	-	-	-	-	-	-	-
8	Retail exposures	-	-	-	-	-	-	-	-	14,463
9	Secured by mortgages on immovable property and ADC exposures	-	-	-	-	542,760	4,407	-	-	1,497
9.1	Secured by mortgages on residential immovable property - non IPRE	-	-	-	-	542,760	-	-	-	-
9.1.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.1.2	loan splitting applied (secured)	-	-	-	-	542,760	-	-	-	-
9.1.3	loan splitting applied (unsecured)	-	-	-	-	-	-	-	-	-
9.2	Secured by mortgages on residential immovable property - IPRE	-	-	-	-	-	4,407	-	-	1,497
9.3	Secured by mortgages on commercial immovable property - non IPRE	-	-	-	-	-	-	-	-	-
9.3.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.3.2	loan splitting applied (secured)	-	-	-	-	-	-	-	-	-
9.3.3	loan splitting applied (unsecured)	-	-	-	-	-	-	-	-	-
9.4	Secured by mortgages on commercial immovable property - IPRE	-	-	-	-	-	-	-	-	-
9.5	Acquisition, Development and Construction (ADC)	-	-	-	-	-	-	-	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
EU 10a	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
EU 10b	Collective investment undertakings (CIU)	375	-	-	-	213	-	-	-	-
EU 10c	Other items	-	-	-	-	-	-	-	-	-
11	not applicable									
12	**Total**	**174,661**	**-**	**-**	**19,596**	**659,199**	**18,551**	**-**	**-**	**15,960**

		Risk weight								
		50%	60%	70%	75%	80%	90%	100%	105%	110%
	Exposure classes									
1	Central governments or central banks	-	-	-	-	-	-	-	-	-
2	Non-central government public sector entities	47	-	-	-	-	-	-	-	-
EU 2a	Regional governments or local authorities	47	-	-	-	-	-	-	-	-
EU 2b	Public sector entities	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
EU 3a	International organisations	-	-	-	-	-	-	-	-	-
4	Institutions	1,277	-	-	34	-	-	-	-	-
5	Covered bonds	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	350,539	-	-
6.1	Of which Specialised Lending	-	-	-	-	-	-	-	-	-
7	Subordinated debt exposures and equity	-	-	-	-	-	-	7,703	-	-
EU 7a	Subordinated debt exposures	-	-	-	-	-	-	-	-	-
EU 7b	Equity	-	-	-	-	-	-	7,703	-	-
8	Retail exposures	-	-	-	90,899	-	-	-	-	-
9	Secured by mortgages on immovable property and ADC exposures	-	39,644	41,632	63,373	-	46,093	58,267	60	19,285
9.1	Secured by mortgages on residential immovable property - non IPRE	-	-	-	62,759	-	-	32,349	-	-
9.1.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.1.2	loan splitting applied (secured)	-	-	-	-	-	-	-	-	-
9.1.3	loan splitting applied (unsecured)	-	-	-	62,759	-	-	32,349	-	-
9.2	Secured by mortgages on residential immovable property - IPRE	-	204	-	127	-	-	-	60	-
9.3	Secured by mortgages on commercial immovable property - non IPRE	-	39,440	-	487	-	-	23,579	-	-
9.3.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.3.2	loan splitting applied (secured)	-	39,440	-	-	-	-	-	-	-
9.3.3	loan splitting applied (unsecured)	-	-	-	487	-	-	23,579	-	-
9.4	Secured by mortgages on commercial immovable property - IPRE	-	-	41,632	-	-	46,093	-	-	19,285
9.5	Acquisition, Development and Construction (ADC)	-	-	-	-	-	-	2,339	-	-
10	Exposures in default	-	-	-	-	-	-	10,090	-	-
EU 10a	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
EU 10b	Collective investment undertakings (CIU)	-	-	-	-	-	-	1,310	-	-
EU 10c	Other items	-	-	-	-	-	-	14,350	-	-
11	not applicable									
12	**Total**	**1,324**	**39,645**	**41,632**	**154,306**	**-**	**46,093**	**442,258**	**60**	**19,285**

		Risk weight								
		130%	150%	250%	370%	400%	1250%	Others	Total	Of which unrated
	Exposure classes									
1	Central governments or central banks	-	-	-	-	-	-	-	183,134	-
2	Non-central government public sector entities	-	-	-	-	-	-	-	18,729	18,729
EU 2a	Regional governments or local authorities	-	-	-	-	-	-	-	18,729	18,729
EU 2b	Public sector entities	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
EU 3a	International organisations	-	-	-	-	-	-	-	-	-
4	Institutions	-	50	-	-	-	-	-	88,951	41
5	Covered bonds	-	-	-	-	-	-	-	34,845	34,845
6	Corporates	-	-	-	-	-	-	-	350,539	350,539
6.1	Of which Specialised Lending	-	-	-	-	-	-	-	-	-
7	Subordinated debt exposures and equity	-	107	-	-	-	-	-	7,810	7,810
EU 7a	Subordinated debt exposures	-	-	-	-	-	-	-	-	-
EU 7b	Equity	-	107	-	-	-	-	-	7,810	7,810
8	Retail exposures	-	-	-	-	-	-	-	105,362	105,362
9	Secured by mortgages on immovable property and ADC exposures	-	98,552	-	-	-	-	-	915,570	915,570
9.1	Secured by mortgages on residential immovable property - non IPRE	-	-	-	-	-	-	-	637,868	637,868
9.1.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.1.2	loan splitting applied (secured)	-	-	-	-	-	-	-	542,760	542,760
9.1.3	loan splitting applied (unsecured)	-	-	-	-	-	-	-	95,108	95,108
9.2	Secured by mortgages on residential immovable property - IPRE	-	-	-	-	-	-	-	6,295	6,295
9.3	Secured by mortgages on commercial immovable property - non IPRE	-	-	-	-	-	-	-	63,506	63,506
9.3.1	no loan splitting applied	-	-	-	-	-	-	-	-	-
9.3.2	loan splitting applied (secured)	-	-	-	-	-	-	-	39,440	39,440
9.3.3	loan splitting applied (unsecured)	-	-	-	-	-	-	-	24,066	24,066
9.4	Secured by mortgages on commercial immovable property - IPRE	-	11	-	-	-	-	-	107,021	107,021
9.5	Acquisition, Development and Construction (ADC)	-	98,541	-	-	-	-	-	100,880	100,880
10	Exposures in default	-	6,193	-	-	-	-	-	16,283	16,283
EU 10a	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
EU 10b	Collective investment undertakings (CIU)	-	-	-	-	-	-	-	1,898	1,898
EU 10c	Other items	-	-	-	-	-	-	-	14,350	14,350
11	not applicable									
12	**Total**	**-**	**104,902**	**-**	**-**	**-**	**-**	**-**	**1,737,472**	**1,737,472**

3.4. Counterparty credit risk

3.4.1. EU CCRA: Qualitative disclosure related to CCR

Counterparty credit risk (CCR) is the risk of loss arising if a counterparty defaults before the final settlement of a derivative or similar transaction, at a time when the exposure can fluctuate with market movements. CCR therefore combines elements of credit and market risk and is measured through exposure methods that capture both current exposure and potential future exposure.

For Íslandsbanki, CCR stems primarily from simple over-the-counter derivatives, including foreign exchange forwards and swaps, equity forwards, interest rate swaps, and cross-currency swaps. These transactions are used to hedge interest rate, foreign exchange and inflation risks for the Bank and its customers. They are not undertaken by the Bank for proprietary trading purposes. As result, the Bank's CCR exposures are limited in both scale and complexity.

3.4.1.1. CCR assessment framework

In assessing counterparty credit risk, the Bank considers the counterparty's payment capacity, collateral quality, asset valuation and other relevant assumptions related to the exposure. This assessment is documented in a standardised credit approval template reviewed by the credit committees. Counterparty credit limits are assigned within the Bank's authorisation framework and escalated when proposals exceed predefined limits.

Internal capital allocation for CCR is based on Simplified SA-CCR (sSA-CCR) exposure measure, in line with CRR requirements and the Bank's ICAAP methodology. The Bank currently has no exposures to central counterparties (CCP), and therefore CCP-specific limit structures are not applied.

3.4.1.2. Collateral and credit risk mitigation

To mitigate counterparty credit risk, the Bank accepts both cash and non-cash collateral for derivative transactions. Eligible non-cash collateral includes selected stocks and bonds, subject to internal haircuts that depend on issuer quality, duration, volatility, and liquidity. Margin requirements are calibrated to ensure sufficient coverage for potential losses prior to closing positions. Collateral eligibility and haircut practices are reviewed regularly to ensure consistency with the Bank's risk appetite and market conditions.

Derivative transactions are governed by ISDA or in-house bilateral agreements. Where enforceable netting applies, exposures across contracts with the same counterparty are netted for risk and collateral purposes.

3.4.1.3. Wrong-Way risk management

Wrong-Way risk, both general and specific, is identified as part of the Bank's assessment of counterparty credit risk for derivatives and collateral arrangements. When the counterparty and collateral are exposed to the same underlying risk drivers, a targeted analysis is carried out, ensuring such risks are flagged and managed within the credit approval process.

3.4.1.4. Additional CCR requirements

The Bank maintains a modest level of derivative activity and has no contractual collateral-posting requirements linked to an external credit rating downgrade. As a result, the Bank would not be required to provide any additional collateral in the event of a downgrade.

CCR exposures are monitored via counterparty limits, collateral requirements and sSA-CCR exposure measures. Given the low level of activity, no additional CCR-specific policies are considered necessary.

3.4.2. EU CCR1: Analysis of CCR exposure by approach

Total counterparty credit risk (CCR) exposure calculated under the Simplified SA-CCR approach increased year-on-year, with the RWEA increasing from ISK 6,886m to ISK 7,065m.

		a	b	c	d	e	f	g	h
	(in ISK millions)	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU - Original Exposure Method (for derivatives)	-	-		1.4	-	-	-	-
EU2	EU - Simplified SA-CCR (for derivatives)	2,017	5,020		1.4	9,852	9,852	9,852	7,065
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	Of which securities financing transactions netting sets			-		-	-	-	-
2b	Of which derivatives and long settlement transactions netting sets			-		-	-	-	-
2c	Of which from contractual cross-product netting sets			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					**9,852**	**9,852**	**9,852**	**7,065**

3.4.3. EU CCR3: Standardised approach – CCR exposures by regulatory exposure class and risk weights

Year-on-year exposures shifted away from central government and retail counterparties, while corporate exposures increased modestly.

		a	b	c	d	e	f	g	h	i	j	k	l
												Risk weight	Total
	(in ISK millions)	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
	Exposure classes												
1	Central governments or central banks	7	-	-	-	-	-	-	-	-	-	-	7
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	2,475	374	-	-	-	50	1,046	3,945
7	Corporates	-	-	-	-	-	-	-	-	5,900	-	-	5,900
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total**	**7**	**-**	**-**	**-**	**2,475**	**374**	**-**	**-**	**5,900**	**50**	**1,046**	**9,852**

3.4.4. EU CCR5: Composition of collateral for CCR exposures

The fair value of collateral received in derivative transactions decreased from ISK 29,449m to ISK 19,667m year-on-year, driven mainly by lower holdings of domestic-currency cash, corporate bonds and equity securities. The fair value of collateral received in derivative transactions decreased from ISK 29,449m to ISK 19,667m year-on-year, driven mainly by lower holdings of domestic-currency cash and equity securities. The reduction was partly offset by an increase in cash collateral received in other currencies. Posted collateral in derivatives transactions increased from ISK 928m to ISK 1,461m. No collateral was used in securities financing transactions (SFTs).

		a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	(in ISK millions)	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
	Collateral type								
1	Cash – domestic currency	-	10,595	-	706	-	-	-	-
2	Cash – other currencies	-	3,541	-	755	-	-	-	-
3	Domestic sovereign debt	-	407	-	-	-	-	-	-
4	Other sovereign debt	-	-	-	-	-	-	-	-
5	Government agency debt	-	-	-	-	-	-	-	-
6	Corporate bonds	-	1,183	-	-	-	-	-	-
7	Equity securities	-	3,935	-	-	-	-	-	-
8	Other collateral	-	5	-	-	-	-	-	-
9	**Total**	**-**	**19,667**	**-**	**1,461**	**-**	**-**	**-**	**-**

3.5. Credit valuation adjustment risk

3.5.1. EU CVAA: Qualitative disclosure requirements to credit valuation adjustment risk

Credit Valuation Adjustment (CVA) risk arises from the potential deterioration in the creditworthiness of derivative counterparties, which can lead to a decline in the fair value of derivative positions. CVA risk therefore reflects changes in counterparty credit spreads rather than default risk itself.

The Bank manages CVA risk through a structured framework that is a part of its broader risk governance. This framework covers the identification, measurement, monitoring, and control of exposures from over-the-counter derivatives. CVA risk is assessed in accordance with regulatory guidelines, primarily using standardised inputs. The Bank does not engage in active CVA hedging but instead applies conservative exposure management and collateral practices. These processes are governed by the Risk Management and Internal Control Policy and are subject to periodic review. As the Bank does not maintain CVA hedges, monitoring hedge effectiveness does not apply.

The Bank does not meet the conditions in Article 273a(2) of the CRR for the simplified approach under Article 385. Accordingly, the Bank calculates its own funds requirements for CVA risk using the (reduced) Basic Approach (BA-CVA) without hedges in accordance with CRR 3.

3.5.2. EU CVA1: Credit valuation adjustment under the Reduced Basic Approach

CVA risk remains limited, reflecting the Bank's low level of derivatives activity. The CVA capital requirement is calculated using the Reduced Basic Approach, and year-on-year changes mainly reflect regulatory methodology updates rather than changes in underlying risk.

		a	b
		Components of Own Funds Requirements	Own funds requirements
1	Aggregation of systematic components of CVA risk	129	
2	Aggregation of idiosyncratic components of CVA risk	126	
3	**Total**		**110**

4. Market Risk

4.1. Trading book activities

4.1.1. EU MRA: Qualitative disclosure requirements related to market risk

Market conditions in 2025 were characterised by a stabilising macroeconomic environment, continued disinflation and a gradual easing of monetary policy. Inflation declined through the year but remained above the Central Bank's target rate of 2.5%. Inflation represented the most material macro factor, given the Bank's substantial CPI-linked exposures, affecting both short-term net interest income (NII) and long-term economic value of equity (EVE).

Foreign-exchange markets were relatively stable, and the trade-weighted ISK index ended slightly lower than at year-end 2024, indicating mild appreciation of the króna. FX volatility had limited impact due to the Bank's consistently low net open FX position. Domestic yield-curve movements largely reflected the transition toward lower policy rates.

Overall, the 2025 macro environment was defined by easing inflation pressures, modest ISK strengthening and generally moderate financial-market volatility. For the Bank, CPI dynamics remained the dominant source of macro-driven risk, while FX and other market-factor fluctuations contributed less to the Bank's overall market-risk.

4.1.1.1. Strategy, organisation and responsibility

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those resulting from changes in interest rates, inflation, equity prices and foreign exchange rates.

Market risk has been identified as one of the key risk factors in the Bank's operations. As part of its business strategy, the Bank aims to maintain a moderate market risk profile in line with the Board's approved risk appetite. The objective of the Market Risk Policy (MRP) is to manage and control market risk exposures efficiently, ensuring that the risk profile remains within the established risk appetite limits.

The Board of Directors defines the market risk governance framework and approves the overall risk appetite through the Risk Management and Internal Control Policy, the Risk Appetite Statement and the Market Risk Policy. The All Risk Committee (ARC) is responsible for reviewing and implementing the Market Risk Policy and the market risk appetite, while the Asset and Liability Committee (ALCO) oversees balance sheet exposures, including interest rate, inflation, foreign exchange, and equity risks.

Treasury and individual business units manage positions within approved limits, while Risk Management monitors adherence and reports material trends to ALCO, ARC and the Board. All positions follow a defined limit structure covering basis-point value (BPV), duration, foreign exchange, inflation and equity positions, with breaches escalated as appropriate. Trading book exposures are measured daily while banking book exposures are reported on a monthly basis. Market risk is covered in a monthly report to ARC and the Board by Risk Management, which monitors the Bank's overall risk profile, ensures proper escalation of limit breaches and provides an independent view on all market risk taken within the Bank.

4.1.1.1.1. Sources of market risk

The Bank's market risk originates from two areas: the trading book and the non-trading book (hereafter called the banking book).

- In the banking book, market risk arises from mismatches in assets and liabilities with respect to currencies, interest rate reset dates and CPI indexation. It also encompasses risk related to exposures in instruments held in the long-term, positions in unlisted securities, and holdings in subsidiaries or affiliates.
- The trading book consists of market risk exposures related to short-term trading in securities, currencies, other capital market instruments, and derivatives. These positions are primarily undertaken as part of the Bank's flow trading activities and to hedge against customers' derivative contracts, with a limited amount of proprietary trading conducted within approved risk limits

The Bank is exposed to interest rate, inflation, foreign exchange, equity risks, as summarised in the table below. Trading book interest rate risk comprises general and issuer-specific components, while banking book interest rate risk (IRRBB) is reflected in sub-risks such as gap, basis and optionality risk. Credit Spread Risk in the Banking Book (CSRBB) captures the sensitivity of banking book exposures to credit spread movements unrelated to credit quality deterioration. Equity risk primarily stems from client-driven market-making.

Exhibit 11. Main types of market risk within Íslandsbanki.

Risk type		Origination	Main limit / Control types
Interest Rate Risk	General interest rate sensitivity (GIRR)	Fixed-income positions, general interest rate movements (Trading Book)	BPV limits, total position in individual securities
	Specific interest rate risk	Fixed income positions, issuer-related credit spread movements (Trading Book)	BPV limits, total position in individual securities
	Gap risk	Loans and deposits with mismatched repricing (Banking Book)	Economic Value of Equity (EVE) and Net-interest Income (NII) limits
	Basis risk	Loans, deposits and derivatives referencing different rate indices, e.g., CB policy rate vs REIBOR (Banking Book)	No standalone basis limits due to immaterial EVE impact
	Optionality risk	Prepayment options on mortgages (Banking Book)	Measured using behavioural assumptions; controlled via EVE and NII limits.
Inflation Risk		CPI-linked assets and liabilities, inflation swaps (Banking Book)	Balance sheet inflation imbalance relative to a neutral position
Foreign Exchange Risk		FX spot/forward positions, FX-denominated loans and deposits (Banking and Trading Book)	Net FX imbalance, net open position per currency, notional in underlying FX-derivatives
Equity Risk		Listed equity positions, sensitivity to price movements (Banking and Trading Book)	Equity position limits, individual and total
Credit Spread Risk		Banking book fixed-income exposures sensitive to credit spreads (Banking Book)	Sensitivity monitored; no standalone CSRBB limit currently due to immaterial EVE impact

4.1.1.1.2. Strategic approaches to the trading book and banking book

The Bank's strategy is divided into distinct approaches for the trading book and the banking book, each tailored to address their unique objectives and risk profiles:

- In the trading book, the primary objective is to maximise short-term profitability while contributing to the liquidity and efficiency of Iceland's securities market. The Bank also aims to take advantage of market opportunities through active trading, positioning itself as a key participant in promoting market depth and facilitating transactions.
- In contrast, the focus of the banking book is to stabilise net interest income, including indexation and fair value changes (NII) in the short term, while minimising fluctuations in the economic value of equity (EVE) over the long term. The Bank seeks to mitigate risks arising from changes in the yield curve, maintaining a disciplined approach to protect against adverse shifts in interest rates.

4.1.1.1.3. Trading book and banking book classification principles

Positions are assigned to the trading or banking book in accordance with Article 104(1) of the CRR and the Bank's internal policies. Instruments held for short-term resale, market-making, or to benefit from short-term price movements are included in the trading book. Any reclassifications between books would need to be approved by ALCO, justified by changes in business intent or trading activity levels, approved by the Central Bank and disclosed publicly.

The Bank does not apply any exceptions to the presumptions for trading or banking book classification, and no reclassifications occurred during the reporting period. The Bank does not maintain an internal risk transfer desk for transferring risks from banking book to trading book, with market risks remaining within their originating areas.

4.1.1.2. Lines of defence and responsibilities

The Bank applies a three lines of defence model to ensure robust governance and oversight of market risk.

The business units, as the first line of defence:

- Continuously monitor market risk inherent in their activities.
- Maintain an updated understanding of their risk exposures.
- Escalate foreseeable breaches of limits, policies or strategic direction to senior management.

Risk Management, as the second line of defence:

- Monitors the Bank's overall market risk profile and adherence to limits.
- Ensures timely escalation of breaches and emerging risks.
- Provides an independent assessment of all market risk taken across the Bank.

Internal Audit, as the third line of defence:

- Independently reviews the effectiveness of the market risk framework, governance processes and internal controls.
- Reports findings to senior management and the Board's Audit Committee.

4.1.1.3. Market risk measurement, limits, stress testing and reporting

The Bank's market risk exposure is measured and monitored within the Market Risk Measurement Framework (MRMF), which defines the methodologies and reporting processes applied across portfolios. The Bank's market-risk appetite is set at a maximum of 15% of total capital base. This aggregate limit is further allocated between the banking book and trading book, with the majority assigned to structural interest rate and inflation risks in the banking book, and a smaller portion allocated to the Bank's limited trading book activities.

The Bank uses a range of tools to assess and control market risk. Sensitivity-based metrics are central to this framework, including basis-point-values (BPV) for interest rate risk, open foreign-exchange position limits for currency risk, and delta and other option-sensitivity measures for derivatives. These metrics are monitored against approved limits, with utilisation reported regularly to senior management, ALCO, ARC and the Board.

Derivatives such as interest rate swaps (IRS), cross-currency interest rate swaps (CIRS), and foreign-exchange swaps and forwards are used to hedge interest rate, inflation and currency risk in the banking book. All derivative positions are subject to established limits, and hedge relationships are documented at inception and monitored for effectiveness through daily reporting.

The MRMF incorporates scenario-based stress testing designed to estimate the impact of severe but plausible market movements on both current and potential future positions. Stress tests are performed for each risk factor and portfolio, taking into account the maximum exposures permitted by limits.

Concentration limits are applied to manage exposures to individual issuers, instruments and market segments, with trading-liquidity risk taken into consideration.

The Bank is also indirectly exposed to market risk through customers' derivative positions, which are subject to defined margin requirements and continuous monitoring to ensure adequate collateral coverage.

Daily risk reports provide information on limit utilisation, key sensitivities (including BPV and FX positions), and daily profit and loss. These reports are distributed to Treasury and senior management. Monthly summaries presented to ALCO and the Board include exposure trends, stress test results, limit consumption and overall compliance with market risk policies. This framework ensures that risks are identified, measured and managed in a manner proportionate to the risk profile of Íslandsbanki.

4.1.1.4. Capital requirement for market risk

The Bank calculates its regulatory capital requirements for market risk using the Standardised Approach in accordance with the CRR. These requirements cover potential losses arising from movements in interest rates, foreign exchange rates, equity prices and other market factors relevant to the Bank's trading book activity. Market risk capital forms part of the Bank's Pillar 1 capital requirement and is monitored in accordance with the Risk Appetite Statement.

Market risk Pillar 1 capital requirements are driven primarily by general interest rate risk and equity price risk. As the Bank maintains a small flow-oriented trading book, market risk RWAs represent only a modest portion of total RWAs. The Bank has no commodity positions and therefore no capital requirement for commodity risk.

Risk Management monitors the utilisation of market risk capital to ensure alignment with strategy and regulatory expectations. Developments in market risk RWAs and associated capital requirements are reported regularly to senior management, ALCO, ARC and the Board. Numerical Pillar 1 capital requirements for market risk are disclosed in template MR1 of this report.

4.1.1.5. Trading book profile and activities

The Bank maintains a small and limited trading book of listed instruments to support client transactions and market-making needs. Trading book exposures mainly include listed equities, fixed income securities, FX spot and forward positions, money market instruments, and simple interest rate derivatives held for client facilitation. The Bank engages in limited proprietary trading within its approved risk appetite, and trading book activity remains low in volume, short in duration, and tightly controlled through sensitivity-based limits. Overall, the trading book is immaterial relative to the Bank's balance sheet, and its risk profile is simple and well-contained.

4.1.2. EU MR1: Market risk under the alternative standardised approach (ASA)

Market risk exposure decreased year-on-year, primarily reflecting a reduction in equity exposures in the trading book. Overall market risk remains limited and is managed under the standardised approach.

		a
	(In ISK millions)	REAs
	Outright products	
1	Interest rate risk (general and specific)	742
2	Equity risk (general and specific)	3,351
3	Foreign exchange risk	-
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	**Total**	**4,093**

4.2. Interest rate risk of non-trading book activities

4.2.1. EU IRRBBA: Qualitative information on interest rate risks of non-trading book activities

Interest rate risk in the banking book (IRRBB) arises from the Bank's core lending and deposit-taking activities and reflects the risk of loss in earnings or economic value resulting from changes in market interest rates. It stems from the fact that assets and liabilities reprice or mature at different times and relative to different reference rates. The Bank's IRRBB exposure is primarily driven by fixed-rate mortgage lending, covered bond issuance and fixed-term deposits, which give rise to structural repricing and duration mismatches. Longer-duration positions contribute most to the Bank's interest rate sensitivity.

4.2.1.1. Governance and risk management

IRRBB is governed through the Market Risk Policy and the Board-approved Risk Appetite Statement. ALCO oversees balance sheet structure, hedging activities and limit utilisation, while Risk Management independently monitors IRRBB exposures, conducts Supervisory Outlier Tests (SOTs) and reports IRRBB metrics to ALCO, ARC and the Board on a monthly basis. Treasury manages structural balance sheet positions within approved limits and is responsible for identifying and escalating emerging risks.

IRRBB reporting, including Supervisory Outlier Tests, is provided to the Central Bank of Iceland in line with prudential reporting requirements.

4.2.1.2. Strategy and risk appetite

The Bank's IRRBB strategy is to maintain a stable net interest income (NII) profile and minimise fluctuations in the economic value of equity (EVE), in line with the Board's approved risk appetite. The strategy supports the Bank's business model by ensuring resilience under a range of interest rate environments and by limiting earnings volatility. Limits on EVE and NII sensitivity form the primary tools for aligning IRRBB exposures with the Bank's risk appetite.

4.2.1.3. Measurement methods and monitoring

IRRBB measurement is based on bucketed repricing analysis, basis-point value (BPV) metrics, and scenario-based stress tests. IRRBB is monitored monthly using Supervisory Outlier Tests (SOTs) on Economic Value of Equity (EVE) and Net Interest Income (NII). Sensitivity is measured using basis point value (BPV) and scenario analyses applying weighted adverse shifts in relevant yield curves.

Supervisory Outlier Tests (SOTs) are monitored internally on a monthly basis through the Bank's risk dashboards and formally reported to the Central Bank of Iceland on a quarterly basis as part of the prudential reporting.

4.2.1.4. Shock scenarios and key assumptions

The Bank applies the six regulatory EVE shock scenarios and two NII shock scenarios as required in the supervisory standards. Key modelling assumptions include duration-based sensitivity calculations, exclusion of non-performing loans, and behavioural modelling of non-maturity deposits (NMDs). The behavioural model assigns a maximum repricing term of five years and a weighted average maturity of approximately 0.6 years for the non-interest-sensitive component.

4.2.1.5. Credit Spread Risk in the Banking Book (CSRBB)

CSRBB is monitored alongside IRRBB. It is defined as any spread risk of credit risky instruments that is not explained by IRRBB, expected credit jump-to-default risk and excludes idiosyncratic movements. Developments in CSRBB are disclosed alongside the EU IRRBB1 template.

4.2.1.6. Hedging and risk mitigation

IRRBB is hedged using derivatives, including interest rate swaps (IRS), cross-currency swaps (CIRS) and inflation-linked instruments, which are used to offset structural interest rate and inflation risks in the banking book. Derivatives are measured at fair value, and hedge relationships are accounted for in accordance with IFRS 9. Fully hedged positions are subject only to indirect market risk.

4.2.2. EU IRRBB1: Interest rate risks of non-trading book activities

IRRBB decreased in 2025 due to reduced mismatches between non-indexed assets and liabilities and lower sensitivity in CPI-linked positions. In addition, the IRRBB analysis was refined to include significant currencies only, as well as EBA scenario-dependant conservatism factors, in line with regulatory disclosure requirements. This change in scope had a material impact on the reported metrics and contributed to lower volatility in both economic value of equity (EVE) and net interest income (NII) volatility compared with the prior year.

		a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
	(In ISK millions)	Current period	Last period	Current period	Last period
	Supervisory shock scenarios				
1	Parallel up	(2,504)	(2,149)	(4,203)	(5,072)
2	Parallel down	8	(518)	239	(126)
3	Steepener	230	(116)		
4	Flattener	(2,133)	(1,100)		
5	Short rates up	(2,905)	(1,575)		
6	Short rates down	224	(132)		

In addition, the Bank's Credit Spread Risk in the Banking Book (CSRBB) assessment in terms of potential EVE impact in year-end 2025 was around ISK 200 million at year-end 2025, similar to year-end 2024. The Bank takes this amount into account in its ICAAP to cover its structural credit spread risk. Note that the table excludes CSRBB assessment.

5. Liquitidy Risk

5.1. Liquidity requirements

5.1.1. EU LIQA: Liquidity risk management

5.1.1.1. Liquidity risk definition, objectives and governance

The Bank defines liquidity risk as the risk of not being able to meet its financial obligations or planned growth, or only being able to do so at an excessive cost. Sound and efficient management of liquidity risk is key to ensuring the viability of the Bank's operations and achieving and maintaining a target credit rating. The Bank takes a conservative and prudent approach to managing liquidity risk, ensuring compliance with regulatory requirements and internal thresholds while maintaining resilience in stress.

The Board sets the liquidity risk governance framework and acceptable risk levels through the Risk Management and Internal Control Policy, Risk Appetite Statement and Liquidity Risk Policy. The All Risk Committee (ARC) reviews and implements these, while the Asset and Liability Committee (ALCO) decides on pricing, investment policies and contingency assessments. The CFO ensures resources and training, while Treasury is responsible for day-to-day liquidity and funding operations.

5.1.1.2. Organisation, funding and liquidity management

Liquidity management is centralised in Treasury, which manages liquidity within internal and regulatory limits, oversees funding operations, and maintains the internal funds pricing framework. Subsidiaries manage their own liquidity independently in accordance with requirements.

The Bank's funding structure is primarily deposit-based, supplemented by diversified bond issuance across different currencies and instrument types, including sustainable funding. This supports a resilient liquidity profile and enhances the Bank's ability to access funding under different market conditions. Treasury monitors liquidity daily through cash-flow forecasts and key ratios such as LCR and NSFR, ensuring compliance with internal limits, including the encumbrance ratio.

The Bank maintains the operational capability to generate liquidity through secured funding transactions, including repurchase agreements, using eligible assets as part of its liquidity management toolkit.

5.1.1.3. Liquidity risk measurement, monitoring and stress testing

The Bank manages its liquidity risk in line with the Liquidity Risk Policy and the risk appetite approved by the Board of Directors, ensuring alignment with its business strategy. Internal limits are maintained for key regulatory ratios, including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity risk is measured primarily through LCR and NSFR. The Bank also reports additional monitoring metrics (AMM) to the Central Bank, including maturity ladders, funding concentration, counterbalancing capacity and rollover of funding. LCR and AMM are reported monthly and NSFR quarterly. Contractual maturity gaps are monitored through the Bank's AMM reporting and internal maturity ladder assessments. Liquidity exposures at subsidiaries or branches are not applicable.

The Bank monitors liquidity both on a static and forward-looking basis through LCR forecasts, behavioural assumptions, and early-warning indicators. Liquidity risk is also monitored separately for the Bank's significant currencies, namely ISK and EUR, in accordance with regulatory requirements.

Stress testing is conducted within ICAAP and ILAAP frameworks to identify and assess risks and link the business strategy to the Bank's risk profile and appetite. The results are used to ensure that sufficient capital and liquidity are maintained, to calibrate internal limits, and to inform predefined management actions.

5.1.1.4. Contingency planning

The Liquidity and Capital Contingency Plan (LCCP) outlines predefined actions to support the Bank's financial position in the event of liquidity or capital stress. It sets out three stress stages, with defined roles and responsibilities and communication procedures. The plan is reviewed and tested annually to ensure operational readiness and effective execution under adverse conditions.

5.1.2. EU LIQ1: Quantitative information of LCR

The Bank's liquidity position remained strong throughout 2025, with the average LCR comfortably above regulatory requirements and broadly in line with 2024 levels. HQLA remained stable, while higher weighted cash outflows, mainly reflecting increased retail and wholesale funding were largely offset by higher inflows from fully performing exposures. As a result, the average LCR declined slightly year-on-year but continued to indicate a robust liquidity buffer and strong short-term resilience.

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
		31.12.2025	30.9.2025	30.6.2025	31.3.2025	31.12.2025	30.9.2025	30.6.2025	31.3.2025
		Number of data points used in the calculation of averages							
	(In ISK millions)	12	12	12	12	12	12	12	12
	High-quality liquid assets								
1	Total high-quality liquid assets (HQLA)					227,548	221,118	219,559	220,267
	Cash - Outflows								
2	Retail deposits and deposits from small business customers, of which:	584,548	573,092	559,569	542,902	50,132	49,011	47,368	45,401
3	Stable deposits	324,087	319,034	315,936	311,180	16,204	15,952	15,797	15,559
4	Less stable deposits	260,071	253,643	243,215	231,377	33,538	32,644	31,154	29,497
5	Unsecured wholesale funding	227,208	225,630	221,077	223,458	145,739	143,059	138,096	138,064
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	5,865	5,441	4,986	4,874	1,466	1,360	1,247	1,218
7	Non-operational deposits (all counterparties)	216,911	216,810	212,763	214,127	139,841	138,320	133,521	132,389
8	Unsecured debt	4,431	3,379	3,328	4,457	4,431	3,379	3,328	4,457
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	26,560	23,183	19,751	19,138	9,892	9,347	8,853	9,239
11	Outflows related to derivative exposures and other collateral requirements	1,844	2,005	2,235	3,041	1,844	2,005	2,235	3,041
12	Outflows related to loss of funding on debt products	1,637	1,604	1,619	1,589	1,637	1,604	1,619	1,589
13	Credit and liquidity facilities	23,079	19,574	15,898	14,508	6,411	5,738	5,000	4,609
14	Other contractual funding obligations	4,390	4,646	3,681	3,442	3,508	3,847	3,179	2,885
15	Other contingent funding obligations	44,488	44,741	45,085	45,051	23,071	23,122	23,498	23,650
16	**Total cash outflows**					**232,342**	**228,387**	**220,994**	**219,238**
	Cash - Inflows								
17	Secured lending (e.g. reverse repos)	2,625	3,464	2,590	1,719	-	-	-	-
18	Inflows from fully performing exposures	87,093	86,716	79,469	78,818	82,559	81,913	74,994	73,567
19	Other cash inflows	54,314	56,325	55,384	55,195	34,168	35,076	34,618	34,602
19-a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
19-b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**Total cash inflows**	144,031	131,942	148,278	149,862	116,728	116,989	109,612	108,195
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
20-c	Inflows subject to 75% cap	141,407	130,113	146,409	147,144	116,728	116,989	109,612	108,195
	Total adjusted value								
21	**Liquidity buffer**					**227,548**	**221,118**	**219,559**	**220,267**
22	**Total net cash outflows**					**115,614**	**111,398**	**111,383**	**111,043**
23	**Liquidity coverage ratio (%)**					**196.8%**	**198.5%**	**197.1%**	**198.4%**

5.1.3. EU LIQB: On qualitative information on LCR, which complements template EU LIQ1

5.1.3.1. Main drivers of the LCR

The main drivers of the Bank's LCR are wholesale deposits, inflows from fully performing exposures and holdings of high-quality liquid assets (HQLA).

The liquidity buffer consists mainly of cash held at the Central Bank, government securities and high-quality covered bonds. These assets are predominantly held in Icelandic krona and euro-denominated securities, reflecting the Bank's significant currencies (exposures above 5%).

The LCR in foreign currencies generally exhibits greater volatility than total LCR, reflecting higher concentration of wholesale funding and the regulatory application of inflow caps.

Derivative-related cash outflows within the LCR mainly arise from interest rate and foreign exchange derivatives used for hedging purposes.

5.1.3.2. Changes in the LCR over time

Over the reporting period the LCR remained stable and well above regulatory requirement. Periodic fluctuations during the year were mainly driven by funding maturities and movements in wholesale customer deposit. Overall, changes in the LCR reflect offsetting movements in the underlying factors.

5.1.3.3. Actual concentration of funding sources

Weighted outflows within the LCR horizon primarily reflect non-operational wholesale deposits. No material concentration was observed in individual counterparties, funding instruments, or markets that would give rise to elevated liquidity risk within the 30-day stress horizon.

Derivative exposures, including margining requirements, are limited and do not represent a material driver of the Bank's liquidity profile. Currency mismatch risk is actively monitored and is not considered a material driver of the Bank's overall LCR.

5.1.4. EU LIQ2: Net Stable Funding Ratio

The Bank's structural liquidity position strengthened further in 2025, reflected in an improvement of the Net Stable Funding Ratio (NSFR) to 127% from 125% the previous year. The change was mainly driven by higher available stable funding, reflecting growth in retail deposits and stable capital levels. On the asset side, required stable funding increased due to a higher volume of longer-dated lending, while a reduction in asset encumbrance partly offset this effect. Overall, the Bank maintained a strong long-term liquidity profile, demonstrating resilience and a balanced funding structure across the balance sheet.

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
	Total currency (in ISK millions)	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items					
1	Capital items and instruments	224,870	-	-	22,815	247,685
2	Own funds	224,870	-	-	22,815	247,685
3	Other capital instruments		-	-	-	-
4	Retail deposits		669,582	4,298	37,703	663,124
5	Stable deposits		376,123	2,449	31,268	390,911
6	Less stable deposits		293,459	1,849	6,435	272,213
7	Wholesale funding:		253,253	12,337	2,254	86,432
8	Operational deposits		-	-	-	-
9	Other wholesale funding		253,253	12,337	2,254	86,432
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	1,159	68,511	13,887	385,864	392,808
12	NSFR derivative liabilities	1,159				
13	All other liabilities and capital instruments not included in the above categories		68,511	13,887	385,864	392,808
14	**Total available stable funding (ASF)**					**1,390,049**
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					8,037
EU-15a	Assets encumbered for more than 12m in cover pool		3,235	3,404	355,302	307,649
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		241,750	81,974	744,229	720,071
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		76,621	-	-	389
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		208	41	509	550
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		154,020	79,260	531,354	564,880
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		663	989	31,164	21,083
22	Performing residential mortgages, of which:		2,083	2,228	207,686	145,643
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		1,648	1,750	165,228	109,097
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		8,818	445	4,680	8,610
25	Interdependent assets		-	-	-	-
26	Other assets:		7,563	599	39,585	47,172
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		917			917
30	NSFR derivative liabilities before deduction of variation margin posted					-
31	All other assets not included in the above categories		6,646	599	39,585	46,255

	Total currency (in ISK millions)	a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
32	Off-balance sheet items		141,097	3,272	2,712	7,354
33	**Total RSF**					**1,090,283**
34	**Net Stable Funding Ratio (%)**					**127.5%**

5.2. Encumbered and unencumbered assets

5.2.1. EU AE1: Encumbered and unencumbered assets

Asset encumbrance increased modestly year on year in 2025, with the carrying amount of encumbered assets rising to ISK 321bn, from ISK 306bn in 2024. The balance sheet expanded during the period, increasing to ISK 1,408bn from ISK 1,302bn, supported by higher unencumbered HQLA holdings, whose fair value rose to ISK 155bn from ISK 132bn. Overall, the year-on-year development indicates stable encumbrance levels alongside strengthening liquidity buffers and a higher share of unencumbered high-quality liquid assets.

	(In ISK millions)	a	b	c	d	e	f	g	h
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the disclosing institution**	**320,611**	**35,527**			**1,407,536**	**154,756**		
030	Equity instruments	-	-	-	-	20,517	-	20,517	-
040	Debt securities	5,331	2,527	-	-	146,628	133,089	146,628	133,089
050	of which: covered bonds	-	-	-	-	35,873	35,016	35,873	35,016
060	of which: securitisations	-	-	-	-	-	-	-	-
070	of which: issued by general governments	2,527	2,527	-	-	98,985	98,073	98,985	98,073
080	of which: issued by financial corporations	2,804	-	-	-	9,486	-	9,486	-
090	of which: issued by non-financial corporations	-	-	-	-	5,088	-	5,088	-
120	Other assets	315,280	33,000			1,240,391	21,667		

5.2.2. EU AE2: Collateral received and own debt securities issued

Encumbrance of collateral received and own debt securities issued increased moderately in 2025, with the fair value of encumbered assets rising to ISK 321bn from ISK 306bn in 2024. The increase primarily reflects a higher allocation of assets to secured structures, including covered bond and securitisation programmes, while the stock of own covered bonds issued and not yet pledged remained broadly stable year on year.

	(In ISK millions)	a	b	c	d
		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the disclosing institution	-	-	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by general governments	-	-	-	-
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and securitisations issued and not yet pledged**			**131,212**	**109,063**
250	**Total assets, collateral received and own debt securities issued**	**320,611**	**38,331**		

5.2.3. EU AE3: Sources of encumbrance

Encumbrance increased year on year in 2025, reflecting higher volumes of assets allocated to secured structures, while the relationship between encumbered assets and matching liabilities remained broadly stable.

	(In ISK millions)	a	b
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	Carrying amount of selected financial liabilities	215,667	320,544

5.2.4. EU AE4: Accompanying narrative information

Encumbered assets are assets that have been pledged or otherwise set aside to secure funding or meet contractual obligations, and as a result are not available for the Bank's unrestricted use. The encumbrance ratio provides insight into the resilience of the Bank's funding structure and its capacity to mobilise additional collateral under stressed conditions.

The disclosures are prepared on the same consolidation basis as the Bank's liquidity reporting, and there are no differences in reporting scope. Differences between IFRS pledged assets and regulatory encumbered assets are immaterial, though some operational collateral may be treated as encumbered for regulatory purposes. Exposure values disclosed in the templates reflect end-of-period amounts.

5.2.4.1. Main drivers of asset encumbrance

The Bank's asset encumbrance is primarily driven by mortgage loans pledged as collateral for covered bond issuance, forming a stable encumbrance base supporting the Bank's long-term funding strategy. Additional sources of encumbrance arise from cash and securities posted as collateral for derivative exposures, mandatory reserve deposits held at the Central Bank, and collateral pledged in connection with payment system and liquidity management operations.

During the reporting period, the Bank adjusted the composition of collateral pledged in the Central Bank's settlement system for routine payment and liquidity management purposes to include its own covered bonds alongside government securities. This represents a change compared to the previous year, with own covered bonds accounting for up to half of the collateral posted for such purposes, within applicable eligibility and concentration limits.

Encumbrance is concentrated at the parent entity, with no intragroup encumbrance, and is almost entirely denominated in Icelandic krona. A limited portion of asset encumbrance arises in EUR in connection with the Bank's covered bond programmes.

5.2.4.2. Composition of encumbered and unencumbered assets

The covered bond programme requires a level of over-collateralisation, which contributes to encumbrance beyond the nominal value of issued bonds. The Bank retains a portion of its own covered bond issuances for use in repo and Central Bank transactions, which are disclosed in template EU AE2. Irrespective of whether the covered bonds are pledged or retained, the underlying mortgage assets included in the cover pool remain encumbered for the duration of their inclusion in the programme.

The Bank also holds certain unencumbered assets, such as intangible assets, fixed assets, deferred tax assets and derivative receivables, that are not available for encumbrance in the normal course of business. The Bank does not operate securitisation structures.

5.2.4.3. Overall profile and period changes

The Bank manages asset encumbrance within internal limits and maintains a substantial buffer of unencumbered high-quality liquid assets to meet regulatory liquidity requirements and support contingency funding capacity. Encumbrance levels remained stable during the reporting period, with minor movements primarily driven by seasonal covered bond issuance. The Bank monitors encumbrance in line with its Risk Appetite Statement, and levels remained comfortably within internal risk parameters throughout the period.

6. Operational Risk

6.1. Operational risk

6.1.1. EU ORA: Qualitative information on operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk is inherent in the Bank's business activities, and it defines eight sub-types of operational risk: Model risk, business and strategic risk, process risk, legal risk, reputational risk, ICT and security risk, third party risk and physical security risk.

Íslandsbanki's operations remained stable throughout 2025 and operational risk losses were limited. The Bank recognises that it is neither cost-efficient nor feasible to eliminate all operational risks. Instead, the Bank seeks to maintain a low operational risk exposure, taking into account market conditions, regulatory requirements, the Bank's strategy, and its capacity to absorb operational risk losses.

6.1.1.1. Risk management objectives and policies

The Board of Directors is the Bank's supreme governing body and has the final word on operational risk management by approving the Operational Risk Policy and the risk appetite for operational risk. The operational risk management framework is based on the following principles:

- Clear responsibilities and ownership of operational risk and operational risk controls.
- The Bank accepts no undue operational risk except after careful consideration when the benefits outweigh the cost.
- The Bank has no appetite for compliance risk that can lead to financial loss or reputational damage.
- The Bank promotes a strong risk culture, emphasising employees' understanding of and compliance with internal and external laws and regulations.
- A key feature of a strong risk culture is to foster a "no-blame" environment where operational risk events are recognised and recorded to enable continuous improvement in the Bank's operations.
- The Bank takes appropriate measures across all operations to ensure the safety and health of its customers and employees.

A healthy risk culture, supported by a clear risk appetite, is a key factor in a sound operational risk framework. The framework is maintained and further developed through staff training on policies, processes, risk strategy, and employee awareness of risk-taking.

The All Risk Committee (ARC) is responsible for the review and implementation of the Bank's operational risk framework. Risk Management is responsible for developing and maintaining the Operational Risk Policy and for communicating the policy to the Bank's employees. Key risk factors related to operational risk are addressed in other policies such as the Security Policy, Outsourcing Policy, and New Products, Significant Changes and Product Governance Policy. These policies outline the risk management and internal controls specific to these risk categories.

6.1.1.2. Structure and organisation of the operational risk management function

The Operational Risk Management (ORM) function operates within the second line of defence. It is established under the authority of the Chief Risk Officer (CRO). The ORM function derives its authority from the institution's internal governance documents, including the Risk Management and Internal Control Policy and the Operational Risk Framework that is approved by the Board.

The ARC is responsible for reviewing and implementing the operational risk framework. The Operations and Security Committee (OSC) decides on individual proposals for assuming and mitigating operational risk on behalf of the Bank, within the appetite and limits approved by the Board and ARC. The OSC also reviews and approves proposals for new products, services, outsourcing, and other material changes within the Bank.

The managing directors for individual business and support units are responsible for the operational risk inherent in their business and for reporting on their operational risk profile to the Operations and Security Committee. This entails identifying the sources of operational risk in their operations, assessing whether the cost of avoiding the risk outweighs the benefits, and ensuring that unacceptable operational risks are mitigated and losses prevented.

6.1.1.3. Scope and nature of the measurement system

The main processes for measuring and managing operational risk are the Business Continuity Framework, including the Crisis Management Plan, the Risk and Control Self-Assessment, development and monitoring of Key Risk Indicators, and compliance monitoring of risk policies and underlying processes. Furthermore, all loss events are registered in the Bank's Loss Event Database (LED). Managers are responsible for reporting and analysing incidents in their units, where timely and appropriate handling of detected incidents is important to minimise possible impacts.

Aggregated operational risk losses, as registered in the LED, in any given quarter shall not exceed a given percentage of the Bank's capital, as defined in the Risk Appetite Statement. The Operational Risk Policy describes the reporting limits on operational risk losses in any given quarter to the Board.

Managing directors are required to ensure that Risk and Control Self-Assessments (RCSAs) are conducted at least annually within their divisions. The RCSA process includes:

- the identification of risks related to all critical processes,
- evaluation of inherent risk,
- mapping and evaluations of risk controls effectiveness,
- evaluation of residual risk,
- assessment of the acceptability of residual risk in relation to the Bank's risk appetite and,
- the design and planning of additional controls if the residual risk is deemed outside the Bank's risk appetite.

Additionally to the annual process, the implementation of a new product or other material changes should always trigger a risk and control assessment in line with the New Product, Material Changes and Product Governance Policy.

Key Risk Indicators (KRIs) are used to monitor risk trends. Regular reporting to senior management and the Board ensures transparency and accountability. A framework of KRIs covering all material sub-categories of operational risk has been implemented, with a clear connection to the risk appetite. The aim of well-defined risk indicators is to measure whether non-financial risk is within risk appetite, detect negative trends and be predictive and, identify and reduce operational risks before possible negative impact materialises.

Regular assessments and compliance monitoring of risk policies and underlying processes are integral parts of the monitoring framework. Additionally, model validation plays a crucial role in identifying and mitigating model risk within the framework.

6.1.1.4. Scope and nature of the operational risk reporting framework

Risk Management monitors the overall operational risk profile of the Bank, ensures proper escalation and reporting of operational risk issues, and provides an independent view of the overall operational risk inherent in the Bank's operations. Furthermore, Risk Management is responsible for reporting on operational risk events and limit breaches to senior management, the Board of Directors and to the competent authorities in accordance with internal procedures and regulatory requirements.

Risk Management provides a holistic view on operational risk, to internal and external stakeholders. The main channel for internal risk reporting from Risk Management is through the Risk Dashboard which gives a comprehensive overview of the Bank's operational risk exposure compared to appetite. The main recipients of the Risk Dashboard are the Board and ARC. Managing Directors are responsible for the reporting on operational risk inherent in their business or support unit to the Operations and Security Committee.

6.1.1.5. Policies and strategies of the risk mitigation and risk hedge

The Bank's operational risk framework ensures effective risk control, aligned with the Bank's risk appetite set by the Board. Risk Management maintains independent oversight of risk identification, measurement, and key controls. Operational risk is primarily mitigated through strong internal controls and adherence to Board-approved policies, with a focus on improving processes rather than divesting from profitable activities.

Business units are responsible for identifying, assessing, and managing risks within approved limits, performing annual Risk and Control Self Assessments (RCSA), and reassessing risks for new products or significant changes. During the RCSA, defined control processes are addressed and reevaluated annually. These control processes are intended to mitigate and ensure operational resilience of the Bank.

Residual risks are retained and managed through governance and capital allocation. Where appropriate, insurance is used to cover certain operational risk events, including directors' and officers' liability. The Outsourcing Policy ensures strict controls over outsourced functions, with ultimate accountability remaining with the Bank.

6.1.2. EU OR1: Operational risk losses

Operational risk losses remained limited in 2025. In 2023 and 2024, the Bank concluded a settlement with the Financial Supervisory Authority of the Central Bank of Iceland. In 2018, an interest-rate judgement was issued against the Bank. No operational risk events have been excluded from the calculation of annual operational risk losses over the past 10 years.

		a	b	c	d	e	f	g	h	i	j	k
	(in ISK millions)	T	T–1	T–2	T–3	T–4	T–5	T–6	T–7	T–8	T–9	Ten-year average
	Using €20,000 threshold											
1	Total amount of operational risk losses net of recoveries (no exclusions)	107	705	1,474	139	9	94	350	827	518	178	440
2	Total number of operational risk losses	6	5	7	7	2	9	8	6	11	8	7
3	Total amount of excluded operational risk losses	-	-	-	-	-	-	-	-	-	-	-
4	Total number of excluded operational risk events	-	-	-	-	-	-	-	-	-	-	-
5	Total amount of operational risk losses net of recoveries and net of excluded losses	107	705	1,474	139	9	94	350	827	518	178	440
	Using €100,000 threshold											
6	Total amount of operational risk losses net of recoveries (no exclusions)	77	701	1,445	113	-	55	307	808	493	149	415
7	Total number of operational risk losses	2	4	2	2	-	3	2	2	8	4	3
8	Total amount of excluded operational risk losses	-	-	-	-	-	-	-	-	-	-	-
9	Total number of excluded operational risk events	-	-	-	-	-	-	-	-	-	-	-
10	Total amount of operational risk losses net of recoveries and net of excluded losses	77	701	1,445	113	-	55	307	808	493	149	415
	Details of operational risk capital calculation											
11	not applicable											
12	not applicable											
13	not applicable											

*T=2025

6.1.3. EU OR2: Business Indicator, components and subcomponents

The implementation of the new standardised approach for operational risk under CRR 3 has materially reduced the Bank's risk-weighted exposure amount (REA). As the Bank's Business Indicator remains below EUR 1 billion, the lowest regulatory multiplier of 12% applies, resulting in a significant year-on-year decrease in operational risk REA.

The Bank does not apply any adjustments to the Business Indicator related to divested activities or mergers and acquisitions.

		a	b	c	d
		T	T-1	T-2	Average value
	BI and its subcomponents				
1	**Interest, lease and dividend component (ILDC)**				36,912
EU 1	**ILDC related to the individual institution/consolidated Group (excluding entities considered by Article 314(3)**				-
1a	Interest and lease income	-	-	-	-
1b	Interest and lease expense	-	-	-	-
1c	Total assets/Asset component	-	-	-	-
1d	Dividend income/ dividend component	-	-	-	-
2	**Services component (SC)**				20,565
2a	Fee and commission income	-	-	-	-
2b	Fee and commission expense	-	-	-	-
2c	Other operating income	-	-	-	-
2d	Other operating expense	-	-	-	-
3	**Financial component (FC)**				-
3a	Net profit or loss applicable to trading book (TB)	-	-	-	-
3b	Net profit or loss applicable to banking book (BB)	-	-	-	-
EU 3c	Approach followed to determine the TB/BB boundary (PBA or accounting approach)				Accounting approach
4	**Business Indicator (BI)**				59,034
5	**Business indicator component (BIC)**				7,084

Disclosure on the BI:

		a
6a	BI gross of excluded divested activities	59,034
6b	Reduction in BI due to excluded divested activities	-
EU 6c	Impact in BI of mergers/acquisitions	-

6.1.4. EU OR3: Operational risk own funds requirements and risk exposure amounts

		a
1	Business Indicator Component (BIC)	7,084
EU 1	Alternative Standardised Approach (ASA) Own Funds Requirements (OROF) under Article 314(4)	-
2	*Not applicable*	
3	Minimum Required Operational Risk Own Funds Requirements (OROF)	7,084
4	Operational Risk Exposure Amounts (REA)	88,551

7. Compliance Risk

7.1. Compliance risk, CRR article 431

Overview

Compliance risk is identified as a key risk in Íslandsbanki's operations and is classified as a Level 1 risk in the Bank's Risk Taxonomy. In line with the Bank's Risk Appetite Statement, Íslandsbanki has no appetite for compliance risk that could result in financial loss or reputational damage. The Bank promotes a strong risk culture by ensuring that employees understand and comply with both external and internal requirements, thereby limiting compliance risk in its operations.

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or loss of reputation that the Bank may suffer because of its failure to comply with applicable laws, regulations, rules, related self-regulatory organisation standards and codes of conduct. The Bank breaks compliance risk down into financial crime risk, data protection risk, conduct risk and regulatory compliance risk.

Íslandsbanki was not subject to any administrative fines, convictions or sanction in 2025.

Governance and responsibilities

Compliance risk management follows the three lines of defence model. The first line of defence consists of business units, which are responsible for identifying, assessing, and managing the compliance risk inherent in their operations. The second line of defence is the Compliance function, which develops and maintains the Compliance Policy and framework, monitors compliance risk, advises management and staff on measures to ensure compliance with applicable laws and regulations, and provides independent reporting to senior management and the Board of Directors. The third line of defence is Internal Audit, which provides independent assurance on the effectiveness of compliance risk management.

The Chief Compliance Officer (CCO), a member of the Executive Committee, leads the Compliance function and reports directly to the CEO and the Board of Directors, ensuring independence and authority. The Board of Directors defines the Bank's compliance risk management and internal control framework. It sets the compliance risk appetite, decides on the principles for managing compliance risk, and approves the Compliance Risk Policy. The All Risk Committee (ARC) is responsible for reviewing and implementing the Compliance Policy, the compliance risk appetite, and the compliance risk framework.

Compliance risk management framework

The Bank applies a structured approach to mitigating compliance risk. Compliance risk is identified through annual risk and control self-assessments and ongoing regulatory screening. Monitoring is conducted by business units (first line of defence) and by the Compliance function (second line of defence), utilising key risk indicators and thematic reviews.

The Compliance function monitors compliance risk and ensures that it is reported to senior management and the Board of Directors. It provides regular updates through the Risk Dashboard and via an annual report, which is also submitted to the Central Bank of Iceland.

Breaches of limits and policies are escalated in accordance with the Risk Appetite KRI framework for non-financial risk. Such breaches are categorised by severity, and corrective actions are overseen by the CCO.

Compliance risk is also incorporated into the Bank's ICAAP and stress testing processes to ensure adequate capital allocation for non-financial risks.

Internal Alert Procedures

Íslandsbanki has an independent reporting channel that enables employees to report anonymously any suspicion of fraudulent activities or actual breaches of regulatory or internal requirements. This reporting channel, referred to as a whistleblowing service, is provided by an external partner to ensure anonymity and whistleblower protection. Information stored in the system is only accessible to the Bank's Group Internal Audit Fraud Investigation Team.

8. Sustainability Risk

8.1. Environmental, Social and Governance risk

8.1.1. Tables 1, 2 and 3: Qualitative information on Environmental, Social and Governance (ESG) risk

This chapter is based on the Implementing Technical Standards (ITS) on prudential disclosures of Environmental, Social and Governance (ESG) risks, in accordance with Article 449a of the Capital Requirements Regulation (CRR) and set out in the EBA ITS 2022/01. It covers the required qualitative disclosure areas, including Business Strategy and Processes, Governance, and Risk Management.

8.1.1.1. Business strategy and processes

Strategic approach

Íslandsbanki integrates Environmental, Social and Governance (ESG) considerations into its business model, strategy and financial planning to ensure resilience and long-term value creation. ESG risk is embedded within the Bank's Risk Taxonomy and assessed through the Risk Assessment Framework alongside traditional financial risks. This integration reflects the Bank's commitment to responsible banking and alignment with international standards, including the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement and EU regulatory requirements such as the Capital Requirements Regulation (CRR) and the European Sustainability Reporting Standards (ESRS).

Sustainability is fundamental to the Bank's overall approach to responsible business. The Bank aims to be a leader in sustainable development, adhering to ESG criteria in risk management and actively evaluating sustainability-related business opportunities. The Bank focuses on integrating sustainability considerations into its activities, alongside its financial objectives and profitability goals.

Environmental and social factors are incorporated into strategic planning, capital allocation and product development. The Bank applies a double materiality assessment to identify and evaluate ESG risks and opportunities, mapping its business model against ESRS and considering both financial materiality and environmental and social impacts.

The Board of Directors approves the Sustainability Policy and the Risk Appetite Statement, which include qualitative statements on sustainability risk. Oversight is ensured through the Corporate Governance and Human Resource Committee and the Sustainability Committee. The Bank participates in global initiatives such as the UN Global Compact, Principles for Responsible Banking (PRB) and Principles for Responsible Investment (PRI).

Objectives, targets and limits

Íslandsbanki has set short-, medium- and long-term goals to support its Sustainability Policy, as outlined in the Annual and Sustainability Report 2025. These objectives guide the Bank's approach to managing environmental and social risks and are embedded in its strategic planning and risk management framework.

For environmental risk, the Bank focuses primarily on climate-related risks by setting medium- and long-term carbon emission reduction targets to mitigate transition and physical risks. The Bank aims to achieve net-zero financed emissions by 2040, with interim targets of 60% reduction by 2030 and 85% by 2040, compared with the 2019 baseline. In addition, targets are set for the Bank's own operations to limit CO_2 emissions, supporting its commitment to reducing its direct environmental footprint.

Climate risk management is reinforced through qualitative principles on sustainability risk aligned with the Bank's Sustainability Policy. These principles apply when undertaking new business or evaluating proposals related to existing business relationships, ensuring full alignment with sustainability objectives. For social risk, the Bank sets objectives to maintain gender balance in management, ensuring no gender exceeds 60%, and to close the unexplained pay gap, currently at 0.1%. Broader social risk management includes commitments to human rights and labour standards across the Bank's supply chain. Social risk considerations are also embedded in the Risk Appetite Statement, ensuring that sustainability principles guide decision-making.

Performance against these objectives and targets is monitored and reported regularly to the Board. Forward-looking information, including climate scenarios and transition pathways, informs the design of business strategy and processes, ensuring that the Bank remains resilient and aligned with its sustainability commitments.

Investment in sustainable activities

Íslandsbanki reports EU Taxonomy-aligned exposures in accordance with Regulation (EU) 2020/852 and discloses Green Asset Ratio (GAR) metrics for turnover and capital expenditure. The Sustainable Funding Framework governs issuance of green, social and sustainability instruments, ensuring proceeds finance eligible projects under ICMA principles.

The Bank has set annual targets for sustainable finance within its business units for several years. The goal is for 15% of total lending by business units to be sustainable. The Bank remains committed to increasing the share of lending and investment activities that support environmental objectives and align with the EU Taxonomy. Future plans include expanding the issuance of green and sustainability bonds and financing projects that promote sustainable initiatives.

Risk mitigation measures

The Sustainability Policy aligns Íslandsbanki with society's goals as expressed in the UN SDGs and the Paris Climate Agreement. ESG criteria are considered in lending decisions and pricing. The ESG risk assessment score of a client can affect the future business relationship, and the Bank may terminate relationships if ESG issues are not adequately addressed.

Counterparty engagement follows a structured process, including dialogue, improvement plans and escalation steps where necessary. Additional measures include climate stress testing, scenario analysis, sector-specific guidelines for high-impact industries and engagement with customers to support decarbonisation and social responsibility initiatives. The Bank also implements a Supplier Code of Conduct and provides training programmes for employees on climate risk, diversity and ethics. Internal operations are managed to reduce environmental impact through energy efficiency and responsible procurement.

8.1.1.2. Governance

Role of the management body

The Board of Directors is responsible for establishing the overall risk management framework and approving the Sustainability Policy. This policy defines Íslandsbanki's priorities for environmental, social and governance matters and ensures that these considerations are embedded in the Bank's strategy, risk culture and decision-making processes. The Board also approves the Risk Appetite Statement and the Corporate Governance and Human Resource Committee, a subcommittee of the Board, supports oversight of the implementation of the Sustainability Policy.

The Board ensures ESG risks are considered across all transmission channels, including physical, transition and liability risks for environmental factors, and reputational, legal and operational channels for social factors such as labour standards, human rights and customer protection. Governance factors such as ethics and transparency are also monitored. Regular updates on sustainability matters are provided to the Board through the monthly Risk Dashboard and through the Internal Capital Adequacy Assessment Process (ICAAP), which contains a dedicated section on sustainability risks. Reports on the utilisation of the Sustainable Funding Framework are also presented to the Board. The Board reviews and approves the Annual Sustainability Report and Pillar 3 disclosures, ensuring transparency on ESG performance.

Executive management and committees

The Chief Executive Officer (CEO) is responsible for executing the Sustainability Policy and has appointed a Sustainability Committee as a key component of the governance structure. The committee serves as the formal forum for ESG-related discussions. The Sustainability Committee's mandate includes reviewing sustainability risk issues, approving proposals for sustainable loans and investments under the Sustainable Funding Framework, and supervising sustainable procurement and identifying business opportunities in sustainability. The Committee comprises the CEO, the Director of Strategy and Sustainability, the Deputy CRO, and senior representatives from business units. A Sustainability Working Group complements this structure by focusing on education and operational ESG matters.

Risk governance follows the three-lines-of-defence model. Business units integrate ESG factors into strategies, lending and advisory processes. Risk Management provides oversight, challenges business units and ensures ESG risks are treated as drivers of prudential risks. Internal Audit provides independent assurance. ESG factors are considered in the Bank's planning over short, medium and long-term horizons, taking into account near-term regulatory changes, sector transition risks and long-term climate scenarios.

Integration of ESG risks

Environmental, social and governance risks are fully integrated into the Bank's risk taxonomy and risk assessment framework. ESG factors influence credit, market, liquidity, operational and reputational risks. Environmental risks, including climate-related physical and transition risks, are assessed through sector heatmaps and stress tests. Social risks, such as human rights, equality and customer protection, are addressed through due diligence and internal policies. Governance risks, including ethics, anti-corruption and transparency, are evaluated in counterparties' ESG ratings and credit assessments. Business units set ESG-related goals in their five-year plans, which are reported to the Board. Insights from ESG risk assessments inform strategic planning and influence lending and investment decisions, supporting alignment with the Bank's sustainability objectives.

Committees and allocation of responsibilities

Committees have clearly defined responsibilities. The All Risk Committee (ARC) reviews sustainability risk as part of the overall risk framework. The Sustainability Committee supervises ESG initiatives and approves sustainable financing proposals. The Corporate Governance and Human Resource Committee oversees policy implementation and diversity objectives, diversity objectives and social topics such as labour standards and human rights.

Internal reporting

ESG risks are embedded in the Bank's internal reporting framework. Monthly reporting includes sustainability risk indicators in the Risk Dashboard. Semi-annual reporting includes comprehensive ESG disclosures in the Pillar 3 report, while the Annual and Sustainability Report is published annually.

Remuneration policy

Íslandsbanki does not apply variable remuneration, so ESG risk considerations do not directly influence pay structures. However, the Bank's remuneration policy supports equal pay and diversity, aligning indirectly with social and governance objectives.

Counterparty governance performance

Governance risk management includes evaluating counterparties on ethical conduct, anti-bribery and anti-corruption measures, strategy and risk management practices, inclusiveness and diversity, transparency in disclosures, and conflict of interest management and internal communication processes. These factors are assessed during ESG due diligence and credit rating processes, influencing lending decisions and pricing. Counterparties with weak governance performance may be subject to stricter conditions or declined financing.

8.1.1.3. Risk management

Íslandsbanki recognises sustainability risk as a key prudential risk category within its risk taxonomy, encompassing environmental, social and governance factors. Sustainability risk refers to the potential for the Bank to be negatively affected by externalities related to climate change, biodiversity loss, social inequality and governance failures. These risks can materialise through transmission channels such as lower profitability, reduced asset values, increased compliance costs and reputational harm.

The Bank's ESG risk management framework is fully integrated into its overall risk governance structure, based on the three lines of defence model, and is aligned with the UN Sustainable Development Goals, the Paris Climate Agreement and relevant EU regulations, including CRR and the EU Taxonomy.

Environmental risk management

Integration into risk framework

Environmental factors are embedded in the Bank's Risk Appetite Statement and Risk Assessment Framework, covering short-, medium- and long-term horizons. Climate-related risks are assessed through two main categories: transition risk, which arises from regulatory, technological and market shifts towards a low-carbon economy, and physical risk, which results from acute and chronic climate events such as floods, storms and long-term changes in sea temperature. The Bank uses climate risk heatmaps, stress tests and scenario analysis to identify exposures sensitive to environmental risks. These tools are applied at sectoral and counterparty levels and inform the ICAAP process.

Definitions, standards and methodologies

Íslandsbanki's Sustainability Policy aims to make the Bank a model of exemplary operations in the Icelandic business community and a catalyst for positive social action, moving Iceland forward by empowering its customers to succeed.

The Bank's ESG risk management framework draws on the EU Taxonomy Regulation for sustainable activities, the Partnership for Carbon Accounting Financials (PCAF) for financed emissions, Nasdaq ESG Guidelines, and GRI Standards for reporting.

In addition, the Bank applies an internal ESG rating methodology using a six-category scale from A (best) to F (worst) to rank customers on sustainability-related matters. This framework undergoes an annual review, and continuous improvements are made as the Bank refines its methodologies and strengthens its approach to ESG risk assessment.

The Iceland Chamber of Commerce, in collaboration with Nasdaq, Festa, IcelandSIF and the Icelandic Standards Council, has published ESG guidelines in Icelandic. Using this standard, Risk Management has established an internal ESG framework, which serves as a comprehensive list of relevant ESG factors to be considered for risk management purposes when they are deemed relevant or material.

These standards are consistent with international benchmarks and comply with EBA Guidelines on ESG risk management.

Identification and monitoring processes

Environmental risk identification occurs during loan origination and credit assessment, incorporating ESG due diligence, and during portfolio monitoring using heatmaps and financed emissions data. Environmental factors are embedded in Íslandsbanki's due diligence requirements for both lending and investment decisions. These assessments contribute to the overall decision-making process and facilitate ongoing monitoring of aggregate ESG risk levels.

Additionally, environmental factors are identified, assessed and monitored as part of portfolio risk assessments. The climate risk heatmap is a key tool for identifying exposures most sensitive to climate-related risks, including both transition and physical risks. Sector-specific guidelines are applied for high-impact industries such as seafood, construction, tourism as well as industrials, and commerce & services. Sensitive sectors include agriculture, fisheries, forestry and real estate, especially in regions vulnerable to flooding or biodiversity loss.

Mitigation activities

Íslandsbanki actively engages in mitigating environmental risks through a variety of initiatives, primarily focused on climate-related risks. These efforts include conducting ESG due diligence assessments to address risks associated with financing activities, setting CO_2 emission reduction targets across the loan portfolio, and incorporating an exclusion list into the Sustainability Policy. The Bank aims to set a positive precedent by demonstrating its commitment through concrete actions, thereby earning and maintaining the trust of customers and other stakeholders. Proactive communication with customers and collaborators regarding responsible business practices is essential to ensuring that the Bank serves as a force for good in society.

Mitigation measures include the Sustainable Funding Framework, which is aligned with ICMA Green and Social Bond Principles, and an exclusion list for activities harmful to environmental objectives. The Bank has committed to achieving net-zero emissions by 2040, with sectoral targets for aviation and maritime, road vehicles, commercial and residential real estate, power generation and seafood. Engagement with clients is a key component of mitigation, and loans rated D or worse under the ESG framework are excluded from sustainable financing.

Implementation of tools and results

Climate stress tests and heatmaps provide insights into short- and long-term vulnerabilities. Residual climate risk is captured through credit risk parameters in ICAAP, and to date, no material impact on capital ratios has been identified. Quantitative estimates of potential credit loss impact under severe climate scenarios are being developed as part of the Bank's stress testing programme.

To support this analysis, Íslandsbanki applies a range of tools to manage risks from environmental factors, including:

- Sustainable Funding Framework, aligned with ICMA Green and Social Bond Principles.
- ESG risk due diligence assessments for both lending and investment processes, enabling monitoring of ESG risks.
- Climate risk heatmap to identify exposures most sensitive to transition and physical risks.
- CO_2 emission data, based on PCAF methodology and external sources, to measure transition risks and estimate the carbon footprint of the loan book.
- Long-term emission reduction targets and an exclusion list to manage transition-related concentration risks.

These tools are integrated into the Bank's risk governance and decision-making processes, ensuring that environmental risks are systematically identified, measured and managed across portfolios.

Data availability, quality and accuracy

Data availability remains a challenge, particularly for energy efficiency of buildings, as Directive 2010/31/EU has not been implemented in Iceland. Environmental risk data primarily relies on qualitative assessments conducted as part of due diligence processes or obtained from external sources. Quantitative data is more readily available for climate risk, such as CO_2 emission estimates based on the Partnership for Carbon Accounting Financials (PCAF) methodology and external data sources.

The Bank applies PCAF data quality scoring to assess the reliability of financed emissions data and is committed to maintaining transparency regarding the quality of climate data and methodologies. While the Bank has made good progress, there is still considerable room for improvement. Collaboration with customers is expected to lead to enhanced data granularity and accuracy.

Ongoing initiatives include the implementation of an ESG data platform in 2026 and partnerships with industry bodies to improve sectoral data coverage. These efforts aim to strengthen the Bank's ability to identify, measure and monitor environmental risks effectively.

Limits and escalation

Íslandsbanki integrates sustainability criteria into its risk analysis and decision-making. Qualitative limits include ESG rating cut-offs and sectoral sustainability criteria. Counterparties rated E or F under the Bank's ESG framework are generally excluded from new lending. Breaches of ESG-related limits are escalated to the Sustainability Committee and may lead to portfolio adjustments or intensified client engagement.

New business and existing relationships must align with the Sustainability Policy. Exclusions are listed in the policy appendix. Through the Sustainable Funding Framework, the Bank supports financing for sustainable projects. ESG scores influence lending decisions and pricing, and the Bank may terminate relationships if clients fail to address ESG issues. Additional risk indicators and refinements to risk appetite will be introduced as the ESG framework matures.

Transmission channels and integration into risk framework

Sustainability risk is one of six main risk types within the Bank's Risk Taxonomy. To ensure thorough oversight, relevant sustainability risk issues are reviewed by the ARC and incorporated into the Risk Assessment Framework. This framework is essential for identifying risks inherent in the Bank's operations and assessing both capital and liquidity adequacy. It encompasses all significant risks faced by the Bank and its subsidiaries, forming the foundation of the Bank's risk and capital management strategy. By integrating sustainability risk into this framework, the Bank ensures that potential ESG factors are evaluated alongside traditional financial risks.

Although the Bank's operations are not carbon-intensive and climate change does not affect day-to-day activities, the Bank is exposed to climate risk through its customers. Climate risk comprises transition risk and physical risk. Transition risk arises from policy and legal changes, technological developments, market behaviour and reputational factors. Physical risk includes acute events, such as extreme weather, and chronic changes, such as rising sea levels.

These risks materialise via several channels, including lower profitability, reduced real estate values, decreased household wealth, diminished asset performance, increased compliance costs and higher legal expenses.

Ultimately, these transmission channels affect financial risk categories within the Bank's Risk Taxonomy. Environmental risks affect credit risk through increased probabilities of default and loss given default, as well as lower collateral valuations. Market risk arises from shifts in market prices and stranded assets. Liquidity and funding risk may occur if clients withdraw deposits or refinancing costs increase. Operational risk includes physical damage and business continuity issues. Reputational risk may arise from association with environmentally harmful activities.

By recognising these transmission channels, the Bank ensures that sustainability risk is fully integrated into its risk and capital management processes.

Social risk management

Social risks are managed under the Sustainability Policy and include human rights, labour standards, diversity and customer protection. The Bank adheres to the UN Global Compact, Icelandic ESG guidelines and its internal ESG framework for social factors, based on standards published by the Iceland Chamber of Commerce, Nasdaq, Festa, IcelandSIF and the Icelandic Standards Council.

Methodologies and identification

Social factors are assessed during loan origination, investment decisions and portfolio reviews. Due diligence incorporates ESG criteria and supports ongoing monitoring of aggregate social risk. High-risk sectors include those with migrant labour, low wages or poor working conditions.

Mitigation and monitoring

Íslandsbanki mitigates social risks through equal-pay certification under ÍST 85:2012, diversity targets for gender balance and a Supplier Code of Conduct. Engagement with clients addresses social issues, and an exclusion list applies to severe breaches. Scenario analysis considers demographic trends, migration and social impacts of climate change across short-, medium- and long-term horizons.

Tools include:

- Sustainable Funding Framework
- ESG due diligence for lending and investment
- External data sources

The Bank also communicates proactively with customers and stakeholders to promote responsible business practices.

Limits and transmission channels

Social risk is assessed through the Bank's ESG due diligence process. The Risk Appetite Statement includes qualitative requirements for sustainability risk, including social risk, requiring alignment with the Sustainability Policy. Breaches of these requirements are escalated to the Sustainability Committee. Social risks can lead to reputational damage, litigation costs and operational disruptions, affecting credit and liquidity risk. ESG scores influence lending decisions and pricing, and the Bank may terminate relationships if clients fail to address social issues.

Governance risk management

Governance risks relate to decision-making structures, transparency and ethical conduct. The Bank evaluates counterparties' governance performance through ESG due diligence and credit rating processes, including KYC and AML measures under Act No. 140/2018. Factors assessed include board composition, audit practices, conflict of interest management, and supply chain governance.

Governance factors are embedded in lending and investment policies, and poor governance may lead to exclusion from financing. Internal governance follows the three-lines-of-defence model, with oversight by the Board and the Sustainability Committee.

8.1.2. ESG 1: Banking book – climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity

Íslandsbanki monitors transition risk in its banking book by assessing credit quality across sectors, emissions, and residual maturity. Exposures are reported by NACE sector, including carbon-intensive industries, and classified by credit quality indicators such as non-performing status and IFRS 9 Stage 2.

The Bank calculates financed greenhouse-gas (GHG) emissions in line with the Partnership for Carbon Accounting Financials (PCAF) standard. This covers Scope 1 and Scope 2 emissions where data is available, and Scope 3 on a best-effort basis. Figures are based on client data and sector averages when necessary. Further details on methodology and data sources are provided in the Annual and Sustainability Report 2025 and Road to net-zero 2022.

Íslandsbanki continues to improve data coverage and estimation processes for financed emissions and alignment metrics. These disclosures support compliance with Article 449a of the CRR and EBA ITS requirements.

The table below shows the Bank's exposure to non-financial corporates, as well the scope 1, 2 and 3 financed emissions. Note that the table is split in two parts with columns a-h in the first part and columns i-p in the second part. The decrease in GHG financed emissions since last reporting (374 ktCO2e on 31 December 2025 from 526 ktCO2e on 30 June 2025) is mostly due to improved data quality for listed equity in the G sector.

		a	b	c	d	e	f	g	h
									31 December 2025
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	(In ISK millions)		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks²	Of which environ-mentally sustain-able (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures
	Sector/subsector								
1	**Exposures towards sectors that highly contribute to climate change¹**	**525,375**		**-**	**40,975**	**11,810**	**(5,235)**	**(806)**	**(3,001)**
2	A - Agriculture, forestry and fishing	63,310		-	526	31	(146)	(32)	(2)
3	B - Mining and quarrying	3,642		-	835	-	(20)	(18)	-
4	*B.05 - Mining of coal and lignite*	-		-	-	-	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	2		-	-	-	-	-	-
6	*B.07 - Mining of metal ores*	-		-	-	-	-	-	-
7	*B.08 - Other mining and quarrying*	3,630		-	835	-	(20)	(18)	-
8	*B.09 - Mining support service activities*	10		-	-	-	-	-	-
9	C - Manufacturing	67,328		-	2,678	1,125	(394)	(18)	(271)
10	*C.10 - Manufacture of food products*	43,509		-	570	279	(85)	(4)	(20)
11	*C.11 - Manufacture of beverages*	12,601		-	249	-	(16)	(7)	-
12	*C.12 - Manufacture of tobacco products*	-		-	-	-	-	-	-
13	*C.13 - Manufacture of textiles*	170		-	15	86	(8)	-	(8)
14	*C.14 - Manufacture of wearing apparel*	42		-	-	-	(1)	-	-
15	*C.15 - Manufacture of leather and related products*	-		-	-	-	-	-	-
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	748		-	46	-	(6)	-	-
17	*C.17 - Manufacture of paper and paper products*	4		-	-	-	-	-	-

		a	b	c	d	e	f	g	h
		31 December 2025							
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	(In ISK millions)		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks²	Of which environ-mentally sustain-able (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures
18	*C.18 - Printing and reproduction of recorded media*	225		-	4	-	(1)	-	-
19	*C.19 - Manufacture of coke and refined petroleum products*	-		-	-	-	-	-	-
20	*C.20 – Manufacture of chemicals and chemical products*	249		-	16	-	(6)	-	-
21	*C.21 – Manufacture of basic pharmaceutical products and pharmaceutical preparations*	405		-	-	-	(2)	-	-
22	*C.22 - Manufacture of rubber products*	918		-	887	-	(2)	(1)	-
23	*C.23 - Manufacture of other non-metallic mineral products*	1,540		-	176	470	(225)	(2)	(220)
24	*C.24 - Manufacture of basic metals*	49		-	-	-	-	-	-
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	3,539		-	687	117	(10)	(4)	(2)
26	*C.26 - Manufacture of computer, electronic and optical products*	1		-	-	-	-	-	-
27	*C.27 - Manufacture of electrical equipment*	301		-	1	-	-	-	-
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	656		-	-	173	(21)	-	(21)
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	3		-	-	-	-	-	-
30	*C.30 - Manufacture of other transport equipment*	27		-	-	-	-	-	-
31	*C.31 - Manufacture of furniture*	1,162		-	1	-	(7)	-	-

		a	b	c	d	e	f	g	h
		31 December 2025							
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	(In ISK millions)		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks²	Of which environ-mentally sustain-able (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures
32	*C.32 - Other manufacturing*	490		-	1	-	(1)	-	-
33	*C.33 - Repair and installation of machinery and equipment*	689		-	25	-	(3)	-	-
34	D - Electricity, gas, steam and air conditioning supply	17,021		-	666	-	(31)	(4)	-
35	*D35.1 - Electric power generation, transmission and distribution*	14,084		-	666	-	(26)	(4)	-
36	*D35.11 - Production of electricity*	10,472		-	503	-	(15)	-	-
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-		-	-	-	-	-	-
38	*D35.3 - Steam and air conditioning supply*	2,937		-	-	-	(5)	-	-
39	E - Water supply; sewerage, waste management and remediation activities	10,395		-	-	4,596	(1,532)	-	(1,517)
40	F - Construction	96,284	-	-	13,993	942	(1,195)	(374)	(300)
41	*F.41 - Construction of buildings*	75,887		-	12,571	750	(1,040)	(344)	(238)
42	*F.42 - Civil engineering*	2,450		-	133	2	(9)	-	(2)
43	*F.43 - Specialised construction activities*	17,947		-	1,289	190	(146)	(30)	(60)
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	48,208		-	15,839	679	(483)	(180)	(174)
45	H - Transportation and storage	39,320		-	377	146	(102)	(13)	(17)
46	*H.49 - Land transport and transport via pipelines*	5,607		-	71	142	(40)	(3)	(16)
47	*H.50 - Water transport*	20,873		-	292	-	(20)	(8)	-
48	*H.51 - Air transport*	2,876		-	9	4	(5)	(2)	(1)
49	*H.52 - Warehousing and support activities for transportation*	9,907		-	5	-	(37)	-	-

		a	b	c	d	e	f	g	h
									31 December 2025
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	(In ISK millions)		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks[2]	Of which environ-mentally sustain-able (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures
50	*H.53 - Postal and courier activities*	57		-	-	-	-	-	-
51	I - Accommodation and food service activities	41,278		-	1,158	356	(297)	(33)	(65)
52	L - Real estate activities	138,589		-	4,903	3,935	(1,035)	(134)	(655)
53	**Exposures towards sectors other than those that highly contribute to climate change[1]**	**137,380**		**-**	**4,531**	**920**	**(608)**	**(50)**	**(148)**
54	K - Financial and insurance activities	803		-	-	-	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	136,577		-	4,531	920	(608)	(50)	(148)
56	**Total**	**662,755**	**-**	**-**	**45,506**	**12,730**	**(5,843)**	**(856)**	**(3,149)**

[1] In accordance with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation), the scope of this table is limited to exposures to counterparties operating in sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

[2] In accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation.

		i	j	k	l	m	n	o	p
									31 December 2025
		GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting					
	(In ISK millions)	-	Of which Scope 3 financed emissions		≤ 5 years	> 5 year ≤ 10 years	> 10 year ≤ 20 years	> 20 years	Average weighted maturity
	Sector/subsector	-							
1	**Exposures towards sectors that highly contribute to climate change[1]**	**326,279**	**203,603**	**14.7%**	**321,730**	**61,029**	**53,942**	**88,674**	**6**
2	A - Agriculture, forestry and fishing	23,896	9,030	2.4%	44,747	12,375	2,792	3,396	4
3	B - Mining and quarrying	1,087	1	0.0%	1,542	1,183	559	358	8
4	*B.05 - Mining of coal and lignite*	-	-	0.0%	-	-	-	-	-
5	*B.06 - Extraction of crude petroleum and natural gas*	1	-	0.0%	-	-	-	2	-
6	*B.07 - Mining of metal ores*	-	-	0.0%	-	-	-	-	-
7	*B.08 - Other mining and quarrying*	1,084	1	0.0%	1,532	1,183	559	356	8
8	*B.09 - Mining support service activities*	3	-	0.0%	10	-	-	-	4
9	C - Manufacturing	53,729	23,692	1.2%	27,202	23,045	8,741	8,340	6
10	*C.10 - Manufacture of food products*	34,807	6,426	1.8%	15,592	21,770	1,453	4,694	6
11	*C.11 - Manufacture of beverages*	2,480	2,356	0.0%	8,599	97	3,729	176	5
12	*C.12 - Manufacture of tobacco products*	-	-	0.0%	-	-	-	-	-
13	*C.13 - Manufacture of textiles*	39	2	0.0%	60	23	7	80	3
14	*C.14 - Manufacture of wearing apparel*	24	23	0.0%	2	-	-	40	15
15	*C.15 - Manufacture of leather and related products*	-	-	0.0%	-	-	-	-	3
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	1,697	1,614	0.0%	75	52	207	414	6
17	*C.17 - Manufacture of paper and paper products*	78	20	0.0%	1	-	-	3	1
18	*C.18 - Printing and reproduction of recorded media*	946	924	0.0%	80	8	16	121	5
19	*C.19 - Manufacture of coke and refined petroleum products*	-	-	0.0%	-	-	-	-	-
20	*C.20 - Manufacture of chemicals and chemical products*	1	-	8.1%	188	14	33	14	3

		i	j	k	l	m	n	o	p
									31 December 2025
		GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting					
	(In ISK millions)	–	Of which Scope 3 financed emissions		≤ 5 years	> 5 year ≤ 10 years	> 10 year ≤ 20 years	> 20 years	Average weighted maturity
21	*C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations*	10	6	0.0%	405	-	-	-	4
22	*C.22 - Manufacture of rubber products*	3,883	3,829	0.0%	3	10	900	5	16
23	*C.23 - Manufacture of other non-metallic mineral products*	2,557	2,085	0.0%	531	393	92	524	5
24	*C.24 - Manufacture of basic metals*	283	-	0.0%	-	48	-	1	9
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	213	9	0.0%	940	438	1,407	754	9
26	*C.26 - Manufacture of computer, electronic and optical products*	-	-	0.0%	1	-	-	-	1
27	*C.27 - Manufacture of electrical equipment*	3,734	3,718	0.0%	3	7	181	110	12
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	180	156	0.0%	25	8	276	347	13
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	7	6	0.0%	3	-	-	-	2
30	*C.30 - Manufacture of other transport equipment*	167	166	0.0%	1	-	-	26	21
31	*C.31 - Manufacture of furniture*	1,556	1,432	0.0%	461	48	-	653	9
32	*C.32 - Other manufacturing*	320	291	0.5%	88	8	258	136	12
33	*C.33 - Repair and installation of machinery and equipment*	747	629	0.0%	144	121	182	242	8
34	D - Electricity, gas, steam and air conditioning supply	5,233	804	0.0%	10,199	5,964	280	578	5
35	*D35.1 - Electric power generation, transmission and distribution*	697	568	0.0%	7,480	5,945	87	572	6
36	*D35.11 - Production of electricity*	678	566	0.0%	4,176	5,682	71	543	5
37	*D35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	-	-	0.0%	-	-	-	-	-
38	*D35.3 - Steam and air conditioning supply*	4,537	236	0.0%	2,719	19	193	6	4

		i	j	k	l	m	n	o	p
									31 December 2025
		GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO_2 equivalent)							
	(In ISK millions)	-	Of which Scope 3 financed emissions	GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	≤ 5 years	> 5 year ≤ 10 years	> 10 year ≤ 20 years	> 20 years	Average weighted maturity
39	E - Water supply; sewerage, waste management and remediation activities	12,415	10,213	0.0%	8,991	103	502	799	4
40	F - Construction	20,427	2,418	1.8%	74,364	2,051	6,293	13,576	4
41	*F.41 - Construction of buildings*	2,601	657	14.5%	63,605	830	3,715	7,737	3
42	*F.42 - Civil engineering*	1,718	1,499	0.0%	896	218	497	839	10
43	*F.43 - Specialised construction activities*	16,108	262	0.0%	9,863	1,003	2,081	5,000	5
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	124,006	120,136	30.0%	22,206	1,606	3,835	20,561	7
45	H - Transportation and storage	58,152	11,802	15.9%	23,016	10,935	3,848	1,521	5
46	*H.49 - Land transport and transport via pipelines*	1,662	73	0.0%	3,120	1,002	476	1,009	6
47	*H.50 - Water transport*	33,434	6,145	0.0%	11,300	6,604	2,966	3	5
48	*H.51 - Air transport*	20,189	2,849	38.9%	2,867	-	-	9	2
49	*H.52 - Warehousing and support activities for transportation*	2,842	2,728	49.5%	5,708	3,329	370	500	4
50	*H.53 - Postal and courier activities*	25	7	0.0%	21	-	36	-	11
51	I - Accommodation and food service activities	25,531	24,729	0.0%	29,234	691	4,668	6,685	8
52	L - Real estate activities	1,803	778	1.9%	80,229	3,076	22,424	32,860	9
53	**Exposures towards sectors other than those that highly contribute to climate change[1]**	**47,229**	**26,279**	**0.2%**	**104,749**	**12,759**	**5,916**	**13,956**	**5**
54	K - Financial and insurance activities	55	55	100.0%	803	-	-	-	-
55	Exposures to other sectors (NACE codes J, M - U)	47,174	26,224	0.1%	103,946	12,759	5,916	13,956	5
56	**Total**	**373,508**	**229,882**	**12.9%**	**426,479**	**73,788**	**59,858**	**102,630**	**6**

[1] In accordance with Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation), the scope of this table is limited to exposures to counterparties operating in sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

[2] In accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation.

8.1.3. ESG 2: Banking book - Indicators of potential climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

Information on the energy efficiency of buildings in Iceland is currently limited. This is primarily because Directive 2010/31/EU on the energy performance of buildings has not been implemented in Iceland. As a result, there is no comprehensive national database or standardised reporting framework that provides reliable data on the energy performance of residential or commercial properties.

Íslandsbanki recognises the importance of energy efficiency in reducing climate-related risks and supporting the transition to a low-carbon economy. To address this gap, the Bank has developed a methodology to categorise Green Housing Loans within its *Sustainable Funding Framework*. This approach is based on international best practices and focuses on financing properties that meet high energy-efficiency standards or show significant improvements in energy performance.

The methodology includes criteria such as type of housing, year of construction, floor area, estimated energy consumption, and other basic information, ensuring that financed properties contribute to sustainability objectives. While official data remains limited, Íslandsbanki continues to refine its approach and engage with stakeholders to promote transparency and support the development of a more robust energy-efficiency framework in Iceland.

		a	b	c	d	e	f	g
		Total gross carrying amount amount (ISK m)						
			Level of energy efficiency (EP score in kWh/m² of collateral)					
	(In ISK millions)		0; ≤ 100	>100; ≤ 200	>200; ≤ 300	>300; ≤ 400	>400; ≤ 500	>500
	Counterparty sector							
1	**Total EU area**	1,016,874	-	303,272	230,924	40,115	28,423	4,129
2	Of which Loans collateralised by commercial immovable property	328,736	-	1,683	419	11,867	114	5
3	Of which Loans collateralised by residential immovable property	687,126	-	301,589	230,505	28,248	28,309	4,124
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	1,012	-	-	-	-	-	-
5	*Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	606,863	-	303,272	230,924	40,115	28,423	4,129
6	**Total non-EU area**	-	-	-	-	-	-	-
7	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-
8	Of which Loans collateralised by residential immovable property	-	-	-	-	-	-	-
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-
10	*Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	-	-	-	-	-	-	-

		h	i	j	k	l	m	n	o	p
		31 December 2025								
		Total gross carrying amount amount (ISK m)								
		Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
	(In ISK millions)	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
	Counterparty sector									
1	**Total EU area**	-	-	-	-	-	-	-	1,016,874	606,863
2	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	328,736	14,088
3	Of which Loans collateralised by residential immovable property	-	-	-	-	-	-	-	687,126	592,775
4	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	1,012	-
5	*Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	-	-	-	-	-	-	-	606,863	606,863
6	**Total non-EU area**	-	-	-	-	-	-	-	-	-
7	Of which Loans collateralised by commercial immovable property	-	-	-	-	-	-	-	-	-
8	Of which Loans collateralised by residential immovable property	-	-	-	-	-	-	-	-	-
9	Of which Collateral obtained by taking possession: residential and commercial immovable properties	-	-	-	-	-	-	-	-	-
10	*Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	-	-	-	-	-	-	-	-	-

8.1.4. ESG 3: Banking book - Indicators of potential climate change transition risk: Alignment metrics

Íslandsbanki has committed to supporting Iceland's transition to a net-zero economy by 2040 and aligning its lending activities with the goals of the Paris Agreement. To monitor potential climate-related transition risks in the banking book, the Bank uses alignment metrics that assess whether its loan portfolio is on track with sectoral decarbonisation pathways.

The Bank calculates financed emissions in line with the Partnership for Carbon Accounting Financials (PCAF) methodology. The Bank reports financed emissions for sectors which represent a significant share of its credit exposure. These calculations provide a baseline for assessing transition risk and identifying sectors where emissions intensity may indicate misalignment with Iceland's climate targets.

The Bank has set interim targets for reducing financed emissions in key sectors, consistent with its commitment to achieve net-zero financed emissions by 2040. These targets are guided by recognised frameworks such as the Net Zero Banking Alliance and the International Energy Agency (IEA) scenarios. For example, the Bank aims to lower emissions intensity in real estate through energy efficiency measures and green building standards, and in transport by financing low-emission vehicles and related infrastructure.

Alignment metrics compare the current portfolio against these decarbonisation pathways. Positive alignment indicates progress towards long-term climate goals, while negative alignment highlights areas of potential transition risk.

All figures presented in this table have been calculated on a best-effort basis, using the information available at the time of preparation. While every reasonable measure has been taken to ensure accuracy, completeness and consistency, deviations may occur due to data updates, system limitations or methodological refinements.

	a	b	c	d	e	f	g
		NACE Sectors (a minima)	Portfolio gross carrying amount	Alignment metric	Year of reference	Distance to IEA NZE2050 in % *	Target (year of reference + 3 years)
	Sector						
1	Power	3511	10,472	< 10 gCO2/kWh	2019	0.0%	434 gCO2/kWh
2	Fossil fuel combustion						
3	Automotive						
4	Aviation	5110	2,876	6.03 tCO2e/ISKm	2019	9.9%	5.87 tCO2e/ISKm
5	Maritime transport	5020	20,873	1.31 tCO2e/ISKm	2019	0.0%	2.76 tCO2e/ISKm
6	Cement, clinker and lime production						
7	Iron and steel, coke, and metal ore production						
8	Chemicals						
9	Commercial and residential real estate	6810, 6820	138,589	0.01 tCO2e/ISKm	2019	0.0%	2.57 tCO2e/ISKm
10	Seafood	0311, 1020	89,774	0.43 tCO2e/ISKm	2019	53.0%	0.33 tCO2e/ISKm

*PiT distance to 2030 NZE2050 scenario in % (for each metric)

8.1.5. ESG 4: Banking book - Indicators of potential climate change transition risk: Exposures to top 20 carbon-intensive firms

In accordance with the EBA guidelines on ESG disclosures under Pillar 3, ESG Template 4 requires reporting of exposures to the top 20 carbon-intensive firms globally.

Íslandsbanki does not have any exposures to these firms. Therefore, this template does not apply to the Bank, and no data is reported in this section. The Bank's disclosures comply with applicable regulatory requirements and reflect its commitment to responsible lending and sustainability.

8.1.6. ESG 5: Banking book - Indicators of potential climate change physical risk: Exposures subject to physical risk

Íslandsbanki acknowledges that climate change may increase the likelihood and severity of physical risks such as flooding, landslides, and extreme weather events, which could affect the value and resilience of assets financed by the Bank. These risks can affect collateral values, borrower cash flows, and overall credit quality.

The Bank is developing a methodology to identify exposures subject to physical risk. Progress has been constrained by the limited availability of official data and hazard mapping from Icelandic authorities, which is essential for accurate and comparable risk assessment within Iceland. This lack of comprehensive national data makes it challenging to determine the geographic and sectoral vulnerabilities of assets with precision and to ensure the reliability of such assessments.

Despite these limitations, Íslandsbanki monitors developments in climate science and regulatory guidance. The Bank explores external data sources and industry best practices to strengthen its approach. Priority areas include real estate and infrastructure, which are more likely to be exposed to physical climate risk. In an international context, physical risk in Iceland is considered low to moderate in the long term, given Iceland's stable climate, limited exposure to major hazards, and robust infrastructure.

Future disclosures will provide more detailed information once the methodology is finalised and reliable data sources are integrated into the Bank's risk management framework.

	(In ISK millions)	a	b	c	d	e	f	g
		31 December 2025						
		Gross carrying amount						
			Of which exposures sensitive to impact from climate change physical events					
			Breakdown by maturity bucket					Of which exposures sensitive to impact from chronic climate change events
			≤ 5 years	> 5 year ≤ 10 years	> 10 year ≤ 20 years	> 20 years	Average weighted maturity	
	Geographical area subject to climate change physical risk - acute and chronic events							
1	A - Agriculture, forestry and fishing	63,310						
2	B - Mining and quarrying	3,642						
3	C - Manufacturing	67,328						
4	D - Electricity, gas, steam and air conditioning supply	17,021						
5	E - Water supply; sewerage, waste management and remediation activities	10,395						
6	F - Construction	96,284						
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	48,208						
8	H - Transportation and storage	39,320						
9	L - Real estate activities	138,589						
10	Loans collateralised by residential immovable property	687,126						
11	Loans collateralised by commercial immovable property	328,736						
12	Repossessed collaterals	1,012						

	(In ISK millions)	h	i	j	k	l	m	n
		31 December 2025						
		Gross carrying amount						
		Of which exposures sensitive to impact from climate change physical events						
		Of which exposures sensitive to impact from acute climate change events	Of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which Stage 2 exposures	Of which non-performing exposures
	Geographical area subject to climate change physical risk - acute and chronic events							
1	A - Agriculture, forestry and fishing							
2	B - Mining and quarrying							
3	C - Manufacturing							
4	D - Electricity, gas, steam and air conditioning supply							
5	E - Water supply; sewerage, waste management and remediation activities							
6	F - Construction							
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles							
8	H - Transportation and storage							
9	L - Real estate activities							
10	Loans collateralised by residential immovable property							
11	Loans collateralised by commercial immovable property							
12	Repossessed collaterals							

9. Remuneration

9.1. Remuneration policy

9.1.1. EU REMA: Remuneration policy

9.1.1.1. Governance and responsibilities

The Board Corporate Governance and Human Resource Committee acts as the Bank's remuneration committee and advises the Board of Directors and the CEO on the terms of employment and remuneration of senior management and other key employees, ensuring that all arrangements comply with the Remuneration Policy and support responsible, long-term performance.

The committee reviews remuneration proposals, monitors adherence to regulatory and internal requirements, and ensures that remuneration practices remain aligned with the Bank's risk appetite and governance framework. It held eleven meetings in 2025, reflecting active and ongoing oversight. No external consultants were engaged in relation to the remuneration framework during the reporting period.

Further information on the Committee's composition and mandate is available on the Bank's website.

9.1.1.2. Regulatory framework

Íslandsbanki's remuneration practices follow the rules issued by the Central Bank of Iceland for financial undertakings. These rules require banks to maintain a Board-approved Remuneration Policy that:

- Supports sustainable long-term operations
- Discourages excessive or inappropriate risk-taking
- Ensures that remuneration outcomes reflect responsibility, performance, and prudent behaviour.

The Bank's Remuneration Policy is reviewed at least annually, and the Bank reports on its implementation to the Central Bank as part of its regulatory obligations.

The framework also complies with CRD/CRR requirements, the EBA Guidelines on sound remuneration (EBA/GL/2021/04), and national rules, including the Icelandic limitation that variable remuneration may not exceed 25% of fixed annual salary for employees of supervised institutions.

9.1.1.3. Scope of the remuneration policy

The Remuneration Policy applies to Íslandsbanki hf. and its subsidiaries in Iceland and Poland. It covers all employee groups, including senior management, identified staff, and employees whose professional activities may materially influence the Bank's risk profile.

Remuneration for staff in Risk Management, Compliance and Internal Audit is structured independently of the financial performance of the business areas they oversee, ensuring full functional independence in accordance with regulatory requirements.

Identified staff are those employees whose roles have a material impact on the Bank's risk profile. For the reporting year, this group consists of the Executive Committee excluding second line of defence: the Chief Executive Officer, the Chief Financial Officer, and the Managing Directors of Retail Banking, Commercial Banking, Investment Banking, and Digital & Data. These positions carry strategic responsibilities and have a material impact on the Bank's risk profile.

9.1.1.4. Key features of the remuneration framework

Íslandsbanki's remuneration framework is designed to support long-term performance, prudent risk-taking, and fairness across the organisation. Its core components include:

- **Fixed remuneration**, which forms the main part of total compensation and reflects role, responsibility, and required competencies.
- **Variable remuneration**, which is only awarded when approved by shareholders and is subject to strict caps, performance criteria, and any required deferral mechanisms (to be implemented 2026).
- **Holistic performance evaluation**, considering financial outcomes, customer service quality, risk and compliance behaviour, teamwork, and leadership, rather than focusing solely on short-term financial metrics exclusively (to be implemented 2026).

- **Equal Pay Policy**, supported by compliance with the Icelandic Equal Pay Standard, ensuring that employees receive equal pay for equal or comparable work.
- **Independence of control functions**, whose remuneration is not linked to the financial performance of the business lines they supervise.

The framework aims to attract and retain qualified staff while ensuring alignment with the Bank's risk appetite and long-term strategic objectives.

These provisions ensure that the Remuneration Policy applies consistently across the Group and aligns compensation practices with the Bank's strategic objectives, culture and risk profile.

9.1.1.5. Disclosure and reporting

A formal report on the implementation of the Remuneration Policy is prepared annually and published on the Bank's website, in accordance with Icelandic law. Quantitative disclosures on remuneration are provided in templates REM1 and REM5 of this Pillar 3 report.

9.1.1.6. Remuneration incentives

An extraordinary shareholder meeting of Íslandsbanki was held on 30 June 2025, where proposed amendments to the Bank's Remuneration Policy were approved. Two provisions were introduced under Article 7: the ability to establish a special incentive scheme for employees and the option to adopt a stock option plan in accordance with Article 10 of the Income Tax Act no. 90/2003.

The Directorate of Internal Revenue approved the share option plan on 21 July 2025. At the beginning of August share option agreements were concluded with employees in accordance with the approved share option plan. According to the plan the share option applies to all permanent employees of Íslandsbanki, except for employees of Group Internal Audit.

According to the plan each option holder acquires the right to buy shares in Íslandsbanki for up to ISK 1,500,000 once a year for five years, following the release of the Bank's half year results in 2026, 2027, 2028, 2029 and 2030, for the total maximum amount of ISK 7,500,000. The purchase price is the weighted average traded price in transactions with the Bank's shares 10 business days before the agreement date, being ISK 126.4 a share.

A total of 743 employees entered into option agreements on up to 8,817,181 shares per year based on 100% exercise of share options. A total of 44,085,905 share options were granted during the year. 1,698,964 share options were forfeited during the year. A total of 42,386,941 share options were outstanding at the end of the year, with a weighted-average remaining contractual life of 4.6 years.

The fair value of the options was determined on the grant date using the Black-Scholes option pricing model and expensed as salary costs in accordance with IFRS 2. Inputs used in the model include share price on grant date of ISK 126 a share, exercise price of ISK 126.4 a share, option life of 1, 2, 3, 4 and 5 years, expected volatility of 22.44% (based on historical volatility), expected dividends of 5.13%, risk-free interest rate in the range of 7.29-7.67%.

The total expense recognised in 2025 amounted to ISK 104 million. The Group estimates that remaining expenses related to the share option plan until August 2030 will amount to ISK 581 million, with the expenses being front-loaded.

The Board of Directors approved a variable remuneration incentive scheme for all employees except for employees of Risk Management, Group Internal Audit and Compliance. Rollout is expected to be completed in the first quarter of 2026.

In 2025 there were no paid performance-based salaries (2024: none) and there were no unpaid performance-based salaries at year-end 2025. There were no share-based payments in the years 2025 and 2024.

The Bank's broader remuneration structure is anchored in Icelandic collective wage agreements, which define core terms and conditions of employment for most staff. These agreements establish baseline salary structures, benefits and working conditions, and therefore form the foundation upon which the Bank's remuneration and incentive frameworks are built. Any variable remuneration arrangements will be designed to complement these agreements, ensuring consistency with contractual obligations and with the Bank's Remuneration Policy.

Employee feedback continues to inform the development of the Bank's remuneration and human resources policies. Recent employee surveys indicate strong engagement levels and a positive perception of fairness and transparency in remuneration practices. These insights support the Bank's ongoing efforts to maintain a remuneration framework that promotes responsible behaviour, long-term performance, and the retention of qualified employees.

9.1.2. EU REM1: Remuneration awarded for the financial year

		a	b	c	d
	(In ISK millions)	MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Fixed remuneration				
1	Number of identified staff	13	9	4	19
2	Total fixed remuneration	148	506	169	574
3	Of which: cash-based	133	434	146	490
4	(Not applicable in the EU)				
EU-4a	Of which: shares or equivalent ownership interests	-	-	-	-
5	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x	Of which: other instruments	-	-	-	-
6	(Not applicable in the EU)				
7	Of which: other forms	15	72	23	85
8	(Not applicable in the EU)				
	Variable remuneration				
9	Number of identified staff	9	8	3	19
10	**Total variable remuneration**	-	16	5	28
11	Of which: cash-based	-	5	-	6
12	Of which: deferred	-	-	-	-
EU-13a	Of which: shares or equivalent ownership interests	-	10	5	22
EU-14a	Of which: deferred	-	10	5	22
EU-13b	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b	Of which: deferred	-	-	-	-
EU-14x	Of which: other instruments	-	-	-	-
EU-14y	Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-
16	Of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**	**148**	**521**	**174**	**602**

9.1.3. EU REM5: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	a	b	c	d	e	f	g	h	i	j
	Management body remuneration			Business areas						
(In ISK millions)	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1 **Total number of identified staff**										**45**
2 Of which: members of the MB	13	9	22							
3 Of which: other senior management				-	-	1	2	1	-	
4 Of which: other identified staff				7	7	-	5	-	-	
5 **Total remuneration of identified staff**	**148**	**521**	**670**	**236**	**211**	**33**	**245**	**51**	**-**	
6 Of which: variable remuneration	-	16	16	11	11	1	8	1	-	
7 Of which: fixed remuneration	148	506	654	225	200	32	237	49	-	

10. Abbreviations

ADC:	Acquisition, Development, and Construction
AGM:	Annual General Meeting
AI:	Artificial Intelligence
ALCO:	Asset and Liability Committee
AML:	Anti-Money Laundering
AMM:	Additional Monitory Metrics
ARC:	All Risk Committee
ASF:	Available Stable Funding
AT1:	Additional Tier 1
BP:	Basis Points
BPV:	Basis Point Value
BoD:	Board of Directors
BRRD:	Bank Recovery and Resolution Directive
CAE:	Chief Audit Executive
CAPEX:	Capital Expenditures
CB:	Central Bank of Iceland
CBR:	Combined buffer requirement
CCF:	Credit Conversion Factor
CCR:	Counterparty Credit Risk
CCP:	Central Counterparties
CCyB:	Countercyclical capital buffer
CEO:	Chief Executive Officer
CET1:	Common Equity Tier 1
CFO:	Chief Financial Officer
CIRS:	Cross-Currency Interest Rate Swaps
CLTV:	Cumulative Loan to Value
CPI:	Consumer Price Index
CRD:	Capital Requirements Directive
CRE:	Commercial Real Estate
CRM:	Credit Risk Mitigation
CRR:	Capital Requirements Regulation
CRR 3:	Capital Requirements Regulations 3
CRO:	Chief Risk Officer
CSDR:	Corporate Sustainability Reporting Directive
CSRBB:	Credit Spread Risk in the Banking Book
CVA:	Credit Valuation Adjustment
EAD:	Exposure at Default
EEA:	European Economic Area
EBA:	European Banking Authority
ECAI:	External Credit Assessment Institutions
ECL:	Expected credit loss
EMTN:	European Medium Term Note
ESG:	Environmental, social, and governance

ESRS:	European Sustainability Reporting Standards
EU:	European Union
EUR:	Euro
EVE:	Economic Value of Equity
FINREP:	Financial Reporting (Regulatory financial reporting framework)
FSN:	The Financial Stability Committee of the Central Bank of Iceland
FX:	Foreign Exchange
GAR:	Green Asset Ratio
GBP:	Green Bond Principles
HMS:	Housing and Construction Authority
HQLA:	High Quality Liquid Assets
IC:	Investment Committee
ICAAP:	Internal Capital Adequacy Assessment Process
IcelandSIF:	Iceland Sustainable Investment Forum
ICMA:	International Capital Market Association
ICT:	Information and Communications Technology
IFRS:	International Financial Reporting Standards
ILAAP:	Internal Liquidity Adequacy Assessment Process
IPRE:	Income-Producing Real Estate
IRRBB:	Interest Rate Risk in the Banking Book
IRS:	Interest Rate Swaps
ISDA:	International Swaps and Derivatives Association
ISK:	Icelandic Króna
ITS:	Implementing Technical Standards
KRI:	Key Risk Indicators
LAA:	Loss absorption amount
LCR:	Liquidity Coverage Ratio
LCCP:	Liquidity and Capital Contingency Plan
LED:	Loss Event Database
LGD:	Loss Given Default
LTV:	Loan-to-Value
MREL:	Minimum Requirement for Own Funds and Eligible Liabilities
MRMF:	Market Risk Measurement Framework
NIBOR:	Norwegian Interbank Offered Rate
NII:	Net Interest Income
NMD:	Non-Maturity Deposits
NOK:	Norwegian Kronar
NPL:	Non-Performing Loans
NSFR:	Net Stable Funding Ratio
NTÍ:	Natural Catastrophe Insurance
ODF:	Observed Default Frequency
OSC:	Operations and Security Committee
O-SII:	Other Systemically-Important Institutions

OTC:	Over-the-Counter
PCA:	Principal Component Analysis
PCAF:	Partnership for Carbon Accounting Financials
PD:	Probability of Default
PRI:	Principles for Responsible Investments
RCA:	Recapitalisation amount
RCSA:	Risk and Control Self-Assessment
RSF:	Required Stable Funding
REA:	Risk Exposure Amount
RRE:	Residential Real Estate
RTS:	Regulatory Technical Standards
SBG:	Sustainability Bond Guidelines
SBP:	Social Bond Principles
SCC:	Senior Credit Committee
SEK:	Swedish Kronar
SICR:	Significant Increase in Credit Risk
SMEs:	Small and medium-sized enterprises
SOT:	Supervisory Outlier Test
SREP:	Supervisory Review and Evaluation Process
STIBOR:	Stockholm Interbank Offer Rate
S&P:	Standard and Poors
TSCR:	Total SREP Capital Requirement
TTC PD:	Through-the-Cycle Probability of Default
UNEP FI:	United Nations Environment Programme Finance Initiative
UNGC:	United Nations Global Compact
UN SDGs:	United Nations Sustainable Development Goals
USD:	US Dollar
YE:	Year End