Risk and Capital Management 2025

Landsbankinn hf. Pillar III risk report 31.12.2025

Landsbankinn hf. in brief

Landsbankinn hf. (hereinafter referred to as the 'Bank' or 'Landsbankinn') was founded on 7 October 2008. The Bank is a limited liability company incorporated and domiciled in Iceland. The Bank operates in accordance with Act No. 161/2002 on Financial Undertakings. The Bank is subject to supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA) in accordance with Act No. 87/1998, on Official Supervision of Financial Activities.

The registered address of the Bank's office is Reykjastræti 6, Reykjavík. Landsbankinn operates an extensive branch network in Iceland, comprised of 34 branches and service points at year-end 2025. The Bank's primary lines of business are corporate and personal banking, markets, asset management, non-life and life insurance and other related financial services. The Bank operates solely in Iceland.

The National Treasury of Iceland holds 98.2% of shares in the Bank. The Bank itself owns 1.6% of shares and other shareholders own 0.2% of shares in the Bank.

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1 Introduction

Introduction

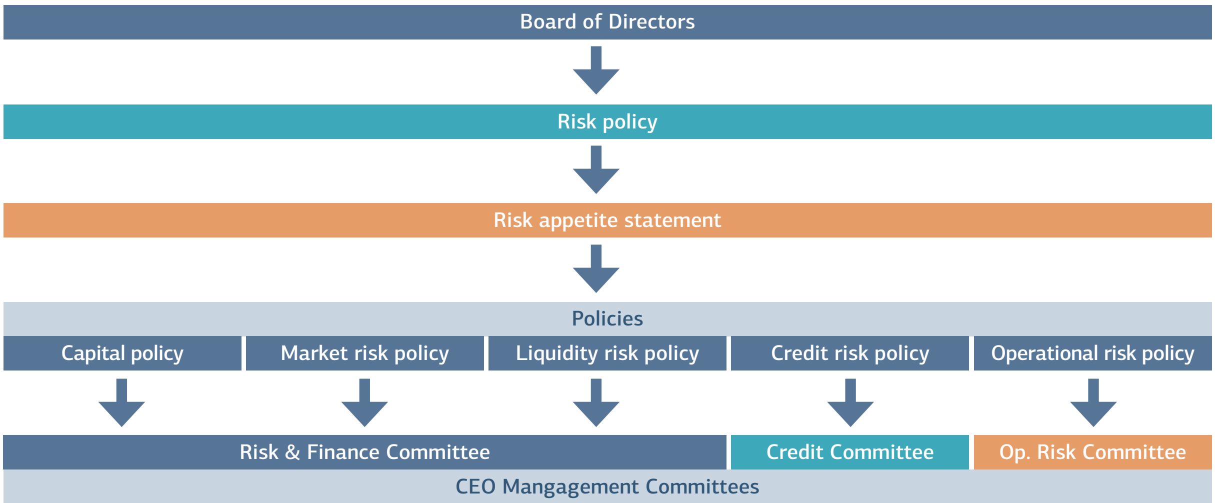
1.1 Declaration of the Board

Risk is inherent in the Bank's activities. It is managed through a process of on-going identification, measurement, management and monitoring, subject to internal limits and controls. Risk identification involves finding the origins and structures of possible risk factors in the Bank's operations and undertakings. Risk measurement entails measuring identified risk for management and monitoring purposes. Controls and limits promote compliance with rules and procedures, as well as adherence with the Bank's risk appetite.

The objective of the Bank's risk policies and procedures is to ensure that the risks in its operation are detected, measured, monitored and effectively managed, and that exposure to risk is managed to ensure that it remains within limits. Risk policy is implemented through risk appetite, business strategy, and internal policies and limits that comply with the regulatory framework of the financial market.

The Board of Directors has reviewed the adequacy of the Bank's risk management arrangements, providing assurance that the risk management systems put in place are adequate regarding the Bank's profile and strategy, in accordance with Article 435 of Regulation EU 575/2013 (CRR).

Figure 1.1: Risk policy structure



1.2 Risk statement

The following statement has been approved by the Board of Directors and describes the Bank's overall risk profile. For key ratios and figures, refer to section 1.7 in this chapter, and for the interaction of the Bank's risk profile with risk tolerances set by the Board via the Bank's risk appetite, refer to section 2.4.

1.2.1 Executive summary

Landsbankinn's risk profile developed favourably during 2025, ensuring the Bank remained in a robust position at year-end with risk appetite metrics staying consistently within approved limits. While the inflation indexation imbalance ratio remained the sole metric exceeding its target, consistent with trends observed in recent years, it is expected to decline in the near term as part of active balance sheet management.

This internal stability was maintained despite a challenging Icelandic economic environment characterized by persistent inflation, high interest rates, and cooling economic growth. Although the housing market saw a decline in activity and real prices, and geological uncertainty remains on the Reykjanes peninsula, the easing of volcanic activity has reduced the immediate pressure on customers in the affected regions.

The Bank continued to adapt to an evolving regulatory environment. Preparations for the implementation of CRR III progressed on schedule, and the Bank accelerated its efforts to ensure compliance with the Digital Operational Resilience Act (DORA), reinforcing the Bank's prudential framework, governance and operational resilience. These efforts are particularly relevant as non-financial risks, specifically cybersecurity and third-party dependencies, remain a primary focus. While some third-party operational events occurred during the year, their impact was contained, serving to validate the Bank's defensive capabilities and its proactive approach to fraud prevention and customer awareness.

Standard & Poor's upgraded the Bank's long-term credit rating from BBB+ to A- in 2025, further validating the Bank's resilence and strong financial position. The Bank acquired the insurance company TM Tryggingar in 2025. The addition of insurance operations further enhances the Bank's business model by diversifying income streams and deepening customer relationships, ultimately contributing to a more balanced risk profile for the Group.

Geopolitical risks remained elevated throughout 2025, driven by armed conflicts, trade tensions and global economic uncertainty. To date, these developments have had limited direct impact on the Bank's risk exposures. Geopolitical developments continue to be closely monitored, contingency plans are regularly updated, and such risks are incorporated into stress testing and scenario analysis.

Despite these conditions, credit quality in the loan portfolio remained strong. Default and impairment ratios stayed low, reflecting the resilience of households and corporates during a prolonged period of high inflation and elevated interest rates. Low leverage in the private sector, moderate debt growth and increases in purchasing power have supported this resilience.

A strong risk culture remains a cornerstone of the Bank's operations. Continued emphasis was placed on training, internal communication and effective risk reporting. The risk framework was further enhanced through the ongoing development of policies, rules and processes supporting prudent and consistent risk-taking.

The Bank has taken initial steps towards the responsible use of artificial intelligence, including within risk management. While such technologies offer opportunities to enhance monitoring and analytical capabilities, their adoption is being approached cautiously, with due consideration given to model risk, data quality and governance. Further development of models and quantitative methods for risk assessment and monitoring continued during the year.

Overall, Landsbankinn concludes 2025 with a sound risk profile, strong capital and liquidity position and a well-diversified funding base, providing a solid position to support future growth while remaining resilient to potential adverse global or domestic developments.

1.2.2 Capital position

The Bank's capital position remains strong at year-end 2025. The total capital ratio increased by 0.5 percentage points in 2025 and was 24.8% at year end. The Bank's minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements. The Pillar I requirement is 8% and the Pillar II-R requirement of 2.5% is based on the FSA's 2025 Supervisory Review and Evaluation Process (SREP). The effective capital buffer requirement was 9.8% at year-end 2025. Taking effective capital buffers into account, the CET1 capital requirement for the Bank was 15.7% and the total capital requirement was 20.3%. The Bank has a CET1 capital target of ≥18% and a total capital target of ≥22%, and so there is an implied management buffer of 1.7% and, as a result, excess capital of 2.8%, or ISK 42 billion.

In February 2025, the Bank completed its inaugural issuance of Additional Tier 1 (AT1) securites. Securities in the amount of USD 100 million were sold at a fixed interest rate of 8.125%. The issuance of AT1 securites is a step towards optimising the Bank's capital structure, strengthening its capital base and diversifying funding sources.

The Bank's risk-weighted exposure amount (RWEA) was ISK 1,473 billion at year-end 2025 and increased by ISK 72 billion, or 5.1%, for the year. The main reasons for the increase are credit growth and the acquisition of TM Tryggingar hf. The effects of the implementation of CRR III into Icelandic law in December 2025 amount to an ISK 65 billion reduction in total RWEA, of which ISK 27 billion is due to credit risk and ISK 38 billion is due to operational risk. Credit risk remains the single largest risk factor, amounting to 91.3% of total RWEA.

1.2.3 Credit risk

Lending to customers increased by ISK 77 billion or 4.3% in 2025. Carrying amount of loans to corporates increased by ISK 75 billion, driven by lending to construction and real estate companies. Carrying amount of loans to individuals increased by ISK 2 billion in 2025. Growth in the mortgage portfolio slowed significantly in 2025, as interest rates have remained high and uncertainty surrounding Supreme Court rulings regarding mortgage loan terms have slowed demand. The loan portfolio to customers is composed of loans in Icelandic krona (84%) and loans in foreign currencies (16%).

Credit risk metrics were all in line with the Bank's risk appetite at year-end 2025. The total average PD, weighted by gross carrying amount, was 1.4% at year-end 2025 (2024: 1.4%) and weighted default rate remains low at 0.5% for 2025 (2024: 0.8%). Carrying amount of loans past due remained low in 2025 and the ratio of the carrying amount of loans over 90 days past due was 0.2% at year-end 2025 (2024: 0.2%) while the ratio for loans past due by 6-90 days was 0.8% at year-end 2025 (2024: 0.6%). The loan portfolio continues to show signs of resilience as interests rates remain high and inflation remains well above target.

In 2025, net impairment charges on loans and advances were ISK 1.3 billion or 0.07% of gross carrying amount of the loan portfolio at year-end 2024.

Risk-weighted exposure amount (RWEA) for credit risk increased by ISK 90 billion in 2025 and was ISK 1,344 billion at year-end 2025 (2024: ISK 1,254 billion). The increase is mainly due to credit growth and the acquisition of TM Tryggingar hf. The effects of the implementation of CRR III amount to an ISK 27 billion reduction in RWEA for credit risk.

Credit concentration risk decreased in 2025 in relation to single name risk. The ratio of large exposures to Tier 1 capital was 0.1% at year-end 2025 (2024: 18.6%). The Bank's risk appetite includes a limit on the sum of the 20 biggest single name exposures as a ratio of Tier 1 capital. This ratio decreased in 2025 and is well within the limit. Other measures of credit concentration risk remained stable in 2025 and are in line with the Bank's risk appetite.

1.2.4 Market risk

The Bank's total market risk decreased slightly in 2025, was 1.0% at year-end compared to 1.1% at year-end 2024, measured as the ratio of risk-weighted assets to total RWEA. RWEA for all market risk factors fluctuated during the year, most for the equity in trading book. Despite unstable market conditions and fluctuations, the Bank has effectively managed it market risk, and market risk in total remained within the defined risk appetite throughout the year.

The Bank's total CPI indexation balance was ISK 296 billion at year-end 2025, or 86% of equity. CPI balance is now a part of Bank's risk appetite with an internal limit set at 80% of equity. A revised limit for CPI imbalance has been approved and implemented for 2026. The balance increased by ISK 29 billion in 2025, however, changes made by the Bank to its mortgage's product offering moderated the strong growth seen in recent years. Inflation-linked mortgages increased by ISK 46 billion in 2025 compared to ISK 140 billion in 2024.

1.2.5 Liquidity risk and funding

Liquidity risk is one of the Bank's key risk factors and the Bank's policy is to sustain strong liquidity position in the near- and long term. The Bank's liquidity coverage ratio (LCR) at year-end 2025 was 180% across all currencies, 1,386% in EUR and 122% in ISK.

The Bank's funding rests on three main pillars: equity, deposits from customers and funding through borrowing. The largest part of the funding is the form of deposits from customers, which increased by 21 billion in 2025 and amounted to ISK 1,249 billion at year-end 2025.

Regular auctions of covered bonds were held in 2025, at year-end 2025 outstanding covered bonds amounted to ISK 290 billion, increasing by ISK 23 billion during the year.

Senior bond issuance in foreign currencies is the most important pillar in the Bank‘s international funding. The bonds are issued under the Bank's EUR 3 billion EMTN programme.

At year-end 2025, senior unsecured issuance in foreign currency amounted to ISK 283 billion, increasing by ISK 26 billion during the year. Table 6.2 shows the Bank's EMTN issuance.

The Bank issued its inaugural Additional Tier 1 (AT1) issuance under a standalone AT1 prospectus with a reference to the EMTN programme in February, USD 100 million. Subordinated bond and Additional Tier 1 securities issuance amounted to ISK 54 billion at year-end, increasing by ISK 14 billion from the previous year.

1.2.6 Operational risk

The Digital Operational Resilience Act (DORA) became law in Iceland on the first of January 2026. Through 2025 the Bank had a dedicated project in place to ensure alignment with the regulatory requirements of the act. This work will continue in 2026. In 2025 the Bank had to deal with a major incident that was caused by a software glitch in a payment-processing system operated by Reiknistofa bankanna (RB). There was a slight reduction in the number of operational incidents in 2025 although the Bank reported more incidents to the regulators due to alignment with the requirements of DORA. Customer protection against fraud remains high on the Banks agenda with several controls being strengthened in 2025 to better protect customers and minimise potential losses.

1.2.7 Sustainability risk

Sustainability risk is a part of the Bank's risk framework through internal rules on sustainability risk, implemented in 2024, a sustainability risk assessment tool for corporate lending and sustainability risk metrics in the Bank's risk appetite. The Omnibus proposal, adopted by the European Union in 2025, aims to simplify the regulatory framework on sustainability. This has resulted in uncertainty about the implementation of the Corporate Sustainability Reporting Directive (CSRD) in Iceland.

Assessment of impact and materiality of sustainability risk factor indicates that overall risk is low to medium. The largest impact of sustainability risk is on credit risk, funding risk and operational risk.

1.2.8 Economic outlook

GDP growth was 1.5% in the first three quarters of 2025 and increased by 1.2% in the third quarter, according to preliminary figures from Statistics Iceland. The contribution of foreign trade has been negative in the past 1-2 years, reflecting increased imports related to the construction of data centres and weaker export growth. There continues to be strong momentum in private consumption and investment, although rising inventories have also played a role. Landsbankinn Economic Research expects that figures will show 1.1% economic growth in the past year and that growth will be slightly lower in 2026.

Inflation hovered around 4% in 2025 but fluctuated considerably in the final months of the year. Statistics Iceland's December measurement came in higher than expected, with inflation jumping from 3.7% to 4.5%. Increased purchasing power has sustained robust consumption: Households are spending more in real terms than last year, and the number of trips abroad has risen significantly. At the same time, there are clear signs that activity in the economy has begun to slow. Unemployment has increased, demand for labour has declined rapidly and imports of investment goods have weakened, excluding data centres. Over time, it can be expected that slack in the economy will begin to be reflected in household consumption, which should lead to easing inflationary pressures. In the near term, however, Economic Research expects inflation to rise. The department forecasts that inflation will increase to 5.1% in January, mainly due to changes in vehicle-related charges, and that inflation will remain fairly stable in the first months of the year, at around 5%.

The Central Bank's Monetary Policy Committee cut interest rates in November 2025, and the key policy rate now stands at 7.25%. Following increased inflation in December 2025, real interest rates declined somewhat and are now around 2.75%, based on past inflation. Economic Research believes it is likely that interest rates will be kept unchanged at the beginning of the year, but it is clear that persistent inflation combined with slowing economic activity places the Central Bank in a difficult position.

The housing market remains calm, with new homes selling slowly and price increases cooling markedly in recent months. Nominal housing prices have risen by 2.7% over the past twelve months, while real housing prices have declined year-on-year for four consecutive months. Uncertainty about loan terms in connection with the interest rate ruling left its mark on recent months and demand may increase again in the coming weeks once that uncertainty has been resolved.

1.3 Regulatory background

The Basel III Accord, implemented in the European Union through the Capital Requirements Directive (CRD 2013/36/EU (the 'Directive')) and the Capital Requirements Regulation (CRR 2013/575/EU ('CRR')), establishes the regulatory capital framework across the EEA, governing the amount and nature of capital that must be maintained by credit institutions. The framework has been implemented into Icelandic law by amendments to the Act No. 161/2002 on Financial Undertakings. The amendments to Icelandic law incorporate, among other things, the CRD IV capital buffer requirements, disclosure requirements, minimum leverage ratio, supervisory review and evaluation process and capital definitions.

The final implementations of the Basel III Accords in the EU, amendments commonly referred to as CRRIII and CRDVI, came into effect in Europe on 1 January 2025. CRR III was implemented to Icelandic law on 18 December 2025 but CRDVI is yet to be implemented as at year-end 2025.

The Basel framework consists of three 'Pillars':

- Pillar I defines the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar II requires the firm to assess whether its Pillar I capital is adequate to meet its risks (Internal Capital / Liquidity Adequacy Assessment Process, ICAAP/ILAAP) and is subject to annual review by the FSA in the Supervisory Review and Evaluation Process (SREP);
- Pillar III requires disclosure of specified information about the underlying risk management controls and capital position.

This publication, Risk and Capital Management 2025, reviews the Bank's organisation and processes relating the identification and management of the risk type characteristic of a financial group with its type of business concept. It also describes the Bank's risk position based on the requirements under Pillar III.

1.4 Disclaimer

This report is presented solely to explain the basis for preparation and disclosure of certain capital requirements and provide information about the management of certain risks. The report does not constitute any form of audited financial statement. The information it contains should not form the basis for any judgements about the Bank. The disclosures herein will only be subject to external verification to the extent that they are equivalent to those made under accounting requirements.

In the interest of simplifying text, Landsbankinn Group, which consists of the parent entity Landsbankinn and its subsidiaries, is referred to as the 'Bank' in the disclosures. Where necessary, a distinction is made in the report between the group and the parent. The Group's consolidated situation as stipulated in CRR is the Group's accounting consolidation excluding insurance subsidiaries. For further information, see Note No. 83.1 – Basis of consolidation in the Bank's Consolidated Financial Statements for 2025 and Template EU LI3 in the Pillar III additional disclosures.

This publication, Risk and Capital Management 2025, has not been audited by external auditors. It does include information from the audited Consolidated Financial Statements 2025 and has been verified internally and approved by the Board of Directors. This publication has also been presented to and reviewed by the Board's Risk Committee. There may be some discrepancies between this report and financial information in the Consolidated Financial Statements 2025, as the report has been prepared for the purpose of complying with the Basel Pillar III disclosure requirements, rather than in accordance with IFRS. In the case of such discrepancies, information in the Consolidated Financial Statements 2025 takes precedence.

All amounts are in ISK million unless otherwise stated.

1.5 Disclosure policy

In accordance with the Directive, the Bank has adopted a formal disclosure policy in that it will comply with the requirement to publicly disclose relevant information.

The rules state that one or more of the required disclosures may be omitted if it is believed that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. If a disclosure is considered immaterial, it will be stated in the relevant section.

One or more of the required disclosures may be omitted if the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine a competitive position. Information is considered confidential if there are obligations binding the Bank to confidentiality with customers and counterparties. If information is omitted for either of these reasons, it will be stated in the relevant section along with the rationale. Further general information on required disclosures will be published where appropriate.

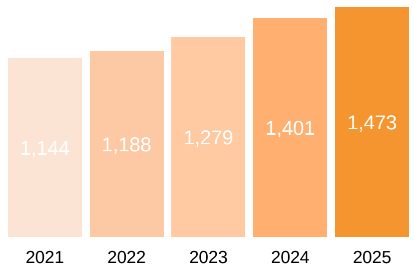
The disclosures are published annually on the Bank's website.

1.6 Additional disclosures

Additional Pillar III disclosures required under CRR are included as an appendix to this report in the form of a spreadsheet. Table 10.1 in the appendix to this report lists the relevant templates included in the additional disclosures. The additional disclosures can be downloaded here: https://www.landsbankinn.is/en/the-bank/investor-relations/reports-and-financials.

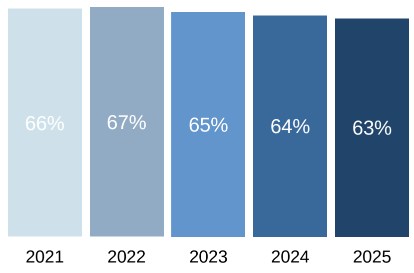
1.7 Risk metrics overview

Risk-weighted exposure amount (RWEA)



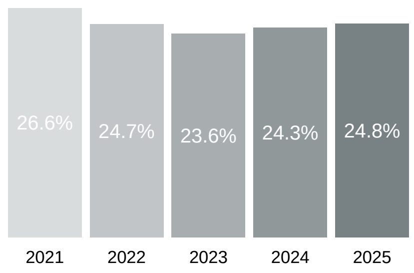
1,473 ISK bn

RWEA to total assets



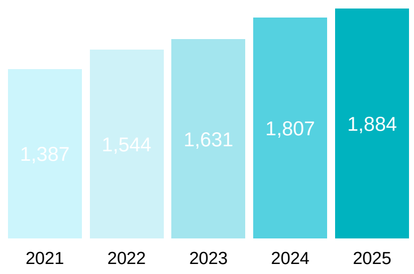
63%

Total capital ratio



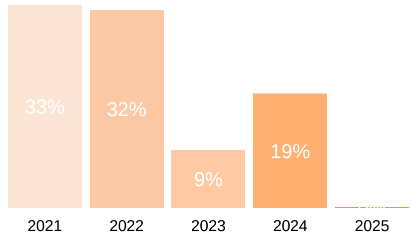
24.8%

Loans and advances to customers



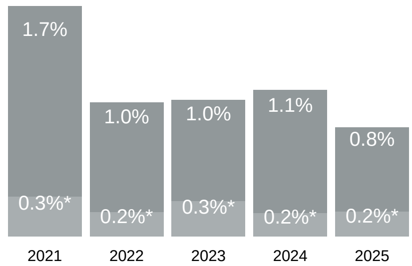
1,884 ISK bn

Large exposures to tier 1 capital



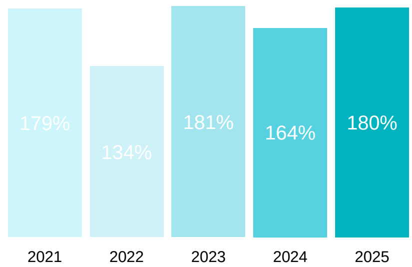
0.1%

Stage 3 loans



0.8%

Liquidity coverage ratio total



180%

* Of which 90 days past due.

2 Risk management

Risk management

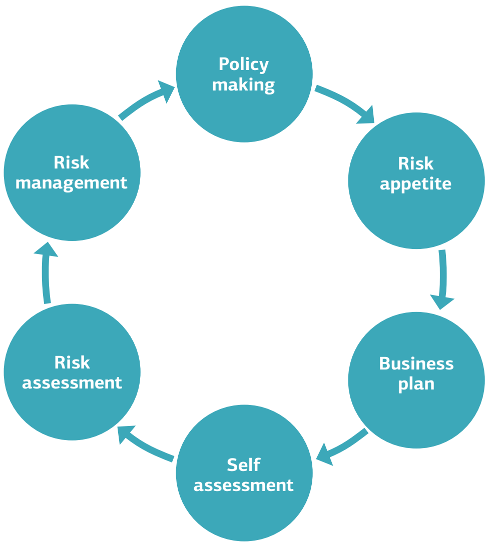
Risk management involves the identification, assessment and control of risk in the Bank's operation. The Bank adopts detailed risk rules and develops an effective internal governance structure to ensure a clear division of responsibility, management of risks and compliance to internal and external rules and regulations.

All pertinent risks in the operation are considered, both financial and non-financial. The Bank's management structure defines authorisations regarding decision making, risk taking, follow-up and monitoring.

The Board of Directors approves the Bank's risk appetite, which defines target levels for risk in the Bank's operation and is utilised for the management of risk taking within the Bank. Risk appetite is reviewed at least annually, or as needed, so that it reflects the Bank's targets regarding risk taking at any given time.

Risk management entails a process in which the Bank's risk appetite and business plan are intertwined. That process includes self assessment and risk assessment which are followed by further analysis and management of risk. The Bank's strategic planning takes risk appetite and risk management into account, making risk policy an integral part of its operation. Risk management is an ongoing process, the implementation of which is an integral part of a sound risk culture.

Figure 2.1: Risk management process



2.1 Risk policy

The Bank's risk policy is as follows:

The Bank's operations, risk diversification and decisions shall be in accordance with its risk appetite, sound business practices, financing, liquidity and equity position. The Bank seeks to ensure diversified and sound financing, high asset quality, and a sustainable risk profile. The Bank has set internal limits with the aim of maintaining a strong capital and liquidity position which, along with active risk management, are important to achieve long-term profitability and strong standing. In this manner, the Bank aims to minimise fluctuation in its operations and promote resilience.

Risk appetite defines the type and extent of risk that management is willing to take to meet the Bank's business objectives. In pursuit of its goals, the Bank only takes on risks that it understands and can measure, evaluate and manage.

The Bank seeks to maintain solid business relationships, having regard for its own position as well as that of its customers at all times, and with due regard to any internal connections between customers. The Bank pursues long-term business relationships and aims to minimise and contain reputational risk.

The Bank is obligated to comply with relevant laws and regulations in all its operations. The main focus areas within the Bank's risk culture are adherence to rules, integrity, ethical behaviour, professionalism and the promotion of risk awareness throughout the organisation.

2.2 Risk identification

The Bank defines material risk as any risk large enough to substantially impact the success of the enterprise.

The Bank is exposed to the following material risks:

- Credit risk
- Market risk
- Liquidity and funding risk
- Operational risk
- Concentration risk
- Sustainability risk
- Business and strategic risk

Table 2.1 provides a link between the Bank's business units and the material risks that they are exposed to. The risk significance is assessed within the context of the Bank as a whole and is measured based on allocation of capital within the Bank. Risk due to the subsidiary of TM Tryggingar hf. is expressed as credit risk arising from the Bank's equity in the subsidiary in this context.

Table 2.1: Relative allocation of capital due to material risks to the Bank's business units

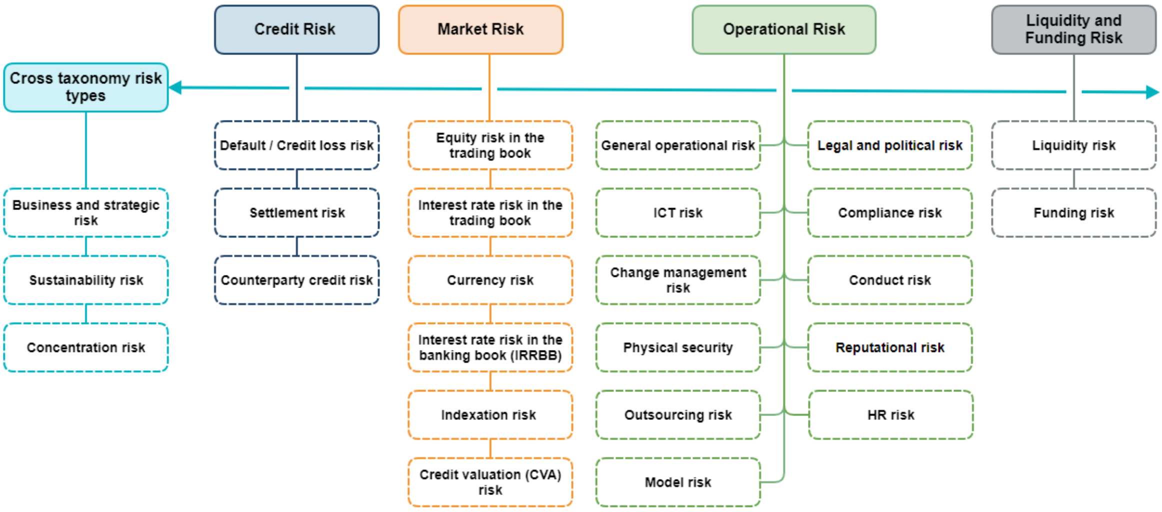
Material risk	Personal Banking	Corporate Banking	Asset Management & Capital Markets	Treasury & Market Making
Credit risk	High	High	Low	Low
Market risk	Low	Low	Medium	High
Liquidity & funding risk	n/a	n/a	n/a	High
Operational risk	Medium	Medium	High	Medium
Concentration risk	Low	High	Medium	Medium
Sustainability risk	Low	Medium	Low	Low
Business & strategic risk	Medium	Medium	Low	Low

The risk taxonomy in Figure 2.2 below has been developed to visualise the scope of capital and liquidity assessments. For each of these risk factors, several material risk subfactors are defined.

There is a subset of risk factors identified that can act as an amplifier to one or more of the Bank's material risk factors. These are called cross taxonomy risk factors and includes business and strategic risk, sustainability risk and concentration risk.

The taxonomy is reviewed annually as part of the ICAAP/ILAAP process, to ensure its relevance.

Figure 2.2: The Bank's risk taxonomy as of 31 December 2025.



2.3 Risk management structure

The Bank aims to operate in line with international best practice and guidelines on risk management. The Bank devotes substantial resources to developing and maintaining its risk management systems and operations. The Bank's commitment to sound risk culture and risk awareness is supported by regular employee risk training, both mandatory and additional optional training.

The Bank's risk management is based on policies and governance determined by the Board of Directors. These policies are implemented by the Bank's CEO through key risk management bodies and committees.

2.3.1 Risk committees

The Bank's risk management governance structure at year-end 2025 is shown in Tables 2.2 and 2.3.

Table 2.2: Sub-committees of the Board of Directors

Supervision by the Board of Directors and its sub-committees
Risk Committee
Audit Committee
Remuneration Committee

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, risk appetite, and setting risk limits. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The Board of Directors has three subcommittees, which play a major role in increasing the efficacy of Board meetings by preparing and analysing issues addressed by the Board.

Table 2.3: Key risk management bodies and committees

Committee	Chair	Other members
Executive Board	CEO	Managing Directors
Risk & Finance Committee	CEO	CFO, CRO, Head of Legal Services
Credit Committee	CEO	CRO, MD of Corporate Banking
Operational Risk Committee	CEO	CRO, MD of IT, Compliance Officer
Project Committee	CEO	Managing Directors

- The Risk Committee advises the Board of Directors on the development of the Bank's risk strategy and risk appetite. The Risk Committee met 11 times in 2025.
- The Audit Committee's role is to ensure the quality of the Bank's financial information – including financial statements – and the independence of its auditors.
- The Remuneration Committee's role is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the Board on the Bank's remuneration policy.

The Executive Board ensures that Bank operations comply with laws, regulations, business plans and policies at any given time. It discusses business opportunities and challenges, approves funding for larger projects and makes decisions on matters that do not fall within the remit of other committees. The Executive Board has four subcommittees.

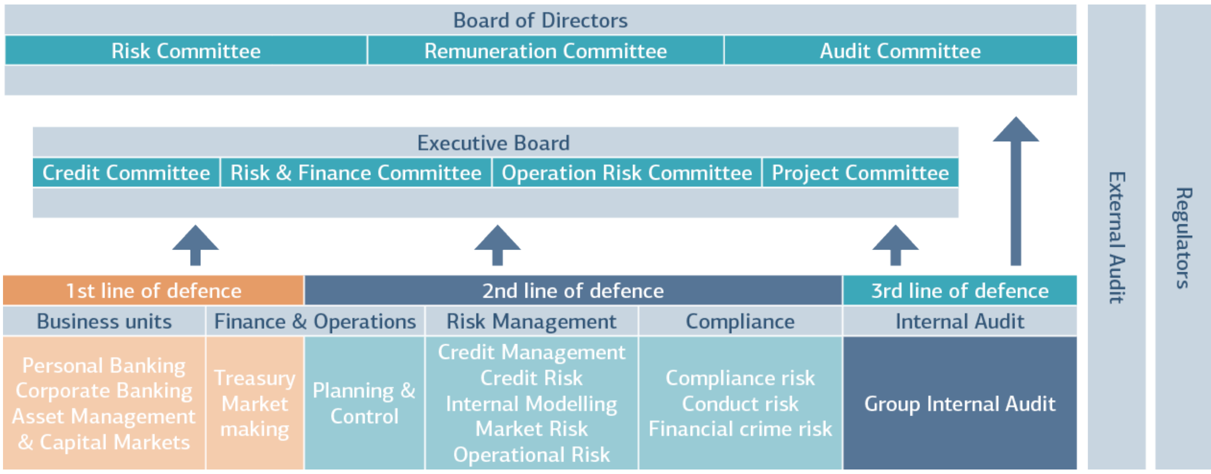
- The Risk & Finance Committee oversees market risk, liquidity risk and counterparty credit risk, reviews their rules and policies and sets risk limits for the Board of Directors. The committee also reviews the ICAAP methodology and scenarios and the Bank's economic capital framework.

- The Credit Committee makes credit decisions and ensures that the Bank's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The committee is also responsible for significant credit decisions, credit limits for customers, credit quality and large exposures.

- The Operational Risk Committee discusses and makes decisions on operational risk issues and reviews the effective implementation of the operational risk policy of the Bank.

- The Project Committee selects, prioritises and supports the Bank's major projects to ensure their success.

Figure 2.3: Risk management governance structure



Governance pertaining to specific risks is discussed in the relevant sections.

2.3.2 Managing directors

Managing directors are responsible for the implementation of risk appetite and risk culture in their units based on the Bank's risk policy and business plan. Managers are responsible for risk-taking and risk management and for ensuring that risk within their units is assessed and measured, and information escalated to the relevant parties. Managers shall contribute to the development and maintenance of a healthy risk culture in their units, present the risk policy and ensure that employees are familiar with the rules that apply to their duties.

2.3.3 Risk Management

The Risk Management Division is responsible for the Bank's risk management framework and for comprehensive risk reporting on risk positions within the Bank and to external supervisory authorities. Subsidiaries of the Bank have their own risk management functions, from which the Risk Management Division receives information on exposures and collates into Bank exposure.

The Risk Management division comprised five departments at year-end 2025:

- Credit Management reviews and approves or vetoes credit decisions made by the Bank's business units when credit applications exceed the business unit's limits. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and does not exercise its veto rights. Credit applications exceeding the confirmation limits of Risk Management are referred to the Bank's Credit Committee. The department also oversees regular updates of the Bank's credit policies and other rules related to the credit process.

- Credit Risk is responsible for measuring and monitoring credit risk as well as for providing the Bank with systems and processes to measure, monitor and control credit risk in credit and policy decisions. Credit Risk is responsible for assessment, analysis and reporting on credit risk, economic capital and impairment. Credit Risk is also responsible for rules and procedures regarding credit risk, such as procedures for impairment measurement, credit mitigation and forbearance.

- Market Risk is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the banking book along with limit monitoring and reporting. The department develops and maintains the Bank's market risk models and maintains the Bank's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk within the Bank. Market Risk is also responsible for monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes, securities financing transactions as well as FX balance monitoring for the Bank.

- Operational Risk is responsible for ensuring centralised management of operational risk other than compliance and conduct risk. The department assists in mapping the Bank's operational risk in a comprehensive risk assessment and in executive assessment and analysis of operational and loss events. Operational Risk is involved in the design and testing of the Bank's continuity plans. The department is responsible for ensuring compliance with the ISO 27001 standard for information security.

- Internal Risk Models provides the Bank with IRB and EC models and related processes to estimate credit risk and link the risk to equity and provides support during the implementation of those models and processes within the Bank. The department develops models for pre-approved limits in order to facilitate the automation of lending processes.

2.3.4 Compliance

Compliance is an independent control function which reports directly to the CEO and operates in accordance with the terms of reference set out by the Board of Directors.

Compliance is part of the Bank's second level control and is responsible for monitoring conduct and compliance and for coordinating measures against financial crimes.

Compliance advises management on actions necessary to ensure that the Bank operates in accordance with regulatory requirements and proper and sound business practices.

2.3.5 Internal Audit

Internal Audit is an independent and objective assurance and consulting unit, which is a part of the Bank's organisational chart and internal control system. The Board of Directors has oversight of Internal Audit and appoints the Chief Audit Executive. The role of Internal Audit is to improve and protect the Bank's value with risk-based and objective verification, consultation and insight. Internal Audit evaluates and improves the risk management framework, systems, control and governance processes through systematic and disciplined practices, thus supporting the Bank in accomplishing its objectives. The Chief Audit Executive is responsible for ensuring that Internal Audit works in accordance with laws, recommendations from the FSA no. 3/2008, and standards and guidelines cited therein, including the benchmarks of the Institute of Internal Auditors (IIA).

2.3.6 General staff

All employees are responsible for carrying out their duties in accordance with external laws and rules, risk appetite, risk policy, rules and the Bank's procedures and ensure compliance with them at all times. Employees shall report any suspected breaches to their superior. Employees need to be familiar with the purpose and nature of the control measures they carry out. They must be mindful of the proper functionality of control measures and inform management should they consider control measures insufficient or control inadequate to support the Bank's objectives.

2.4 Risk measurement

The Bank regularly monitors and assesses its risk profile. The risk appetite framework considers material risks relevant to the Bank's business activities by setting limits and target levels for risk. In addition, the Bank measures and monitors other risk indicators to support the management of key risk factors.

The Bank's risk appetite for 2025 has been reviewed, revised and implemented. Table 2.4 lists the risk appetite metrics, year-end values for the past three years and the status of the metrics in relation to target levels set by the Board. A green status indicates that the value is in line with target levels, yellow status indicates that the value is outside target levels but within external limits and red status indicates that the value is outside of external limits. Monitoring and reporting on the Bank's risk appetite has been aligned with monitoring and reporting of recovery plan indicators according to the Bank Recovery and Resolution Directive (BRRD).

Table 2.4: Overview of risk appetite metrics

Risk category	Risk type	Metric	31.12.2025	31.12.2024	31.12.2023
Credit risk	Credit quality	Expected loss (% of total loans)	0.2%	0.2%	0.3%
		Probability of default	1.4%	1.4%	1.6%
		Economic capital due to credit risk	67.8%	69.6%	68.0%
Concentration risk		20 largest exposures (% of Tier 1 capital)*	125.4%	-	-
Market risk	Market risk	Economic capital due to market risk	4.2%	5.2%	5.3%
	Indexation risk	CPI imbalance (% of equity)	86.2%	-	-
Liquidity risk	Liquidity risk	Liquidity coverage ratio - Total	180.2%	163.5%	180.9%
		Liquidity coverage ratio - EUR	1,386.1%	950.7%	1,499.6%
		Liquidity coverage ratio - ISK	121.7%	132.6%	128.6%
Funding risk	Funding	Net stable funding ratio - Total	125.6%	124.5%	123.0%
Capital risk	Capital adequacy ratio	Capital adequacy ratio	24.8%	24.3%	23.6%
	MREL	MREL funds (% of RWEA)	40.5%	-	-
		Subordinated MREL funds (% of RWEA)	27.6%	-	-
Profitability	Profitability	Return on equity after taxes	11.6%	12.1%	11.6%
Sustainability risk	Green financing	Ratio of assets eligible for green financing	12.5%	12.7%	9.1%
Operational risk	Operational risk	Economic capital due to operational risk	5.6%	8.4%	7.5%
		Significant operational losses (m ISK)	273	-	-

*In addition to monitoring the 20 largest exposures as a % of Tier 1 capital, the Bank also monitors the largest single exposure as a % of Tier 1 capital. The goal is <18% and as at 31.12.2025, the largest exposure is well below that goal. External regulation mandates a ratio of <25%.

2.4.1 Stress testing and sensitivity analysis

Stress testing and sensitivity analysis are important tools used to quantify risk in severe, unlikely but plausible scenarios. This section provides an overview of stress testing and sensitivity analysis for different risk types within the Bank.

2.4.1.1 Capital and liquidity

Stress testing is an important part of the Bank's capital and liquidity planning process. Internal stress tests are used as an important risk management tool to determine how severe, unlikely but plausible changes in the business and macro environment affect the Bank's capital need and liquidity position. Stress tests reveal how the capital need and liquidity ratios vary during a stressed scenario, where impact on financial statements, regulatory capital requirements and capital ratios are tested. The stress testing process is divided into the following steps:

- Sensitivity analysis to determine the main risk drivers
- Scenario development and approval
- Scenario translation
  - Translation model to determine loan loss
  - Translation method to determine the effect on financial statements
  - Translation model to determine internal capital requirements

- Calculation
- Analysis and reporting
- Management actions

The Bank aims to develop dynamic, forward-focused scenarios that simultaneously cover key aspects of the Bank's operations, including system-wide interaction and feedback effects.

These scenarios, which include a baseline scenario, assume developments of key macro indicators over a three-year period. The scenarios demonstrate an alternative development of key economic variables induced by various shocks compared to the baseline macroeconomic forecast of the Bank's Economic Research department. Idiosyncratic events are also defined within the scenarios to stress specific asset classes or operations of the Bank.

The Bank uses a loan loss model which incorporates macroeconomic variables and produces probability of default (PD), default rates, as well as loss given default (LGD), which can be translated into loan losses for a given scenario. In addition to the loan loss model results, expert judgement is applied for loan loss on selected large exposures by industries affected within each scenario.

Scenario results are compared with the Bank's current business plan, risk appetite, and the Bank's solvency.

The effect on financial statements is translated and calculated with a resulting impact on the capital base and liquidity position. Capital assessment for the Bank is calculated for each scenario, as well as various risk metrics within the Bank's risk appetite. If the risk appetite constraints are violated, management actions are required within the scenario.

2.4.1.2 Credit risk

Stress testing is an important part of the Bank's capital planning process. Stress testing for credit risk is mainly applied as part of capital planning and focuses on measuring potential credit losses and effects on capital.

2.4.1.3 Market risk

The Bank conducts stress tests and sensitivity analysis pertaining to market risk on a regular and ad-hoc basis. Comprehensive market risk stress testing is conducted as part of the Bank's ICAAP/ILAAP once a year with a time horizon of three years. Other stress tests and sensitivity analyses of the Bank's trading and non-trading portfolios with regard to equity and interest rate risk and currency risk are made on a case-by-case basis.

2.4.1.4 Liquidity risk

Various stress tests have been constructed to try to efficiently model how different scenarios affect the Bank's liquidity position and liquidity risk. The stress tests are based on the Bank's balance sheet mixture and take the Bank's current operating environment into account. Key liquidity metrics are also mapped onto annual internal stress tests that are used as an important risk management tool in order to determine how severe, unlikely but plausible changes in the business and macro environment affect the capital need and liquidity position of the Bank. The Bank also performs other internal stress tests that may vary from time to time.

2.5 Risk monitoring

The Bank allocates considerable resources to ensure ongoing adherence with approved risk limits and for risk monitoring. The risk monitoring process combines active monitoring of risks, exposures and adherence to the Bank's risk framework and extensive risk reporting. The Bank has set guidelines for reporting to relevant management bodies, including the Board of Directors, Executive Board and all relevant committees on developments in risk measures and risk appetite.

The Bank has implemented a policy on risk data in compliance with BCBS 239 (Basel Committee on Banking Supervision's guideline 239). The policy defines which reports should be submitted where, the frequency of those submissions, and who is responsible for them.

Figure 2.4: Overview of risk reporting within the Bank

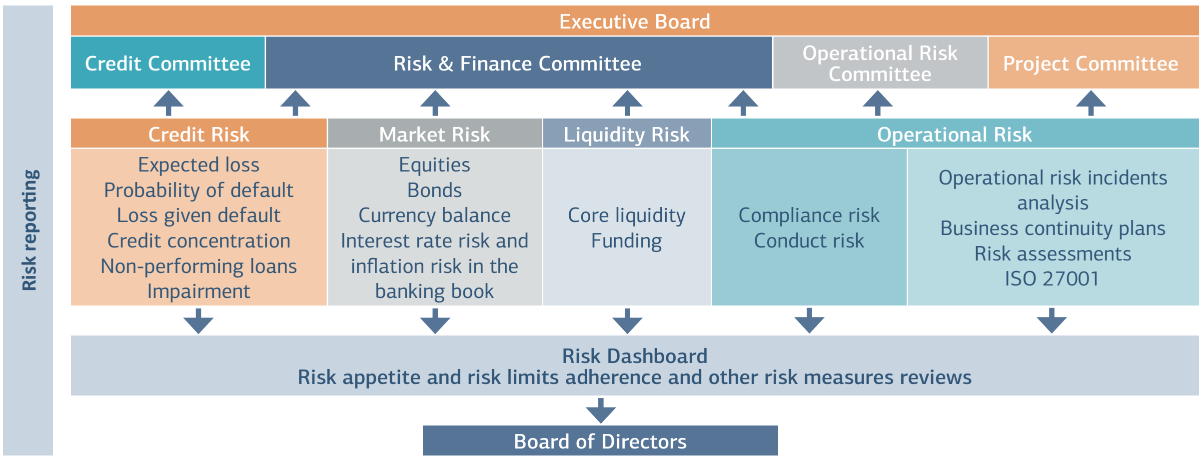


Table 2.5: Principal reporting to the Board of Directors

Annual	
Risk and capital management report	Pillar III disclosures.
ICAAP/ILAAP report	Evaluation of the risk profile and solvency need. The report contains conclusions drawn from stress testing, including the effect of various scenarios on expected losses and capital needs. The ICAAP/ILAAP report is subject to the FSA's Supervisory Review and Evaluation Process (SREP).
Recovery plan	The recovery plan focuses on measures to protect and restore the Bank's financial position, following a significant deterioration. It includes governance and decision-making processes, continuity of critical economic functions and core business lines, specification of trigger points to activate recovery options and internal and external communications.
Compliance report	Annual assessment of the role, independence, authorisations and work of Compliance and whether Compliance has sufficient funding to perform its duties. The report contains an assessment of compliance risk and conduct risk as well as an AML report.
Semi-annual	
Credit risk report	Thorough risk report providing analysis of such issues as development in risk appetite, past due loans, average exposure-weighted probability of default (PD), default rate vs. PD, distribution of loan portfolio in rating categories and migration analysis and other analysis of credit risk aspects.
Market & liquidity risk report	Thorough risk report summarising the Bank's liquidity risk and market risk exposures and any concerns regarding liquidity and/or market risk.
Operational risk report	Thorough risk report providing analysis of operational risk aspects.
Monthly	
Risk report	An aggregated report containing information on the Bank's risk appetite and material from the credit, market, liquidity and operational risk reports.
Executive management report	An aggregated report containing risk related material such as risk appetite, internal capital and RAROC.
Market & liquidity risk report*	Market and liquidity risk report highlighting the Bank's market risk exposures, risk appetite, market risk limit utilisation and liquidity risk and any concerns regarding liquidity and/or market risk.

*Daily during adverse conditions

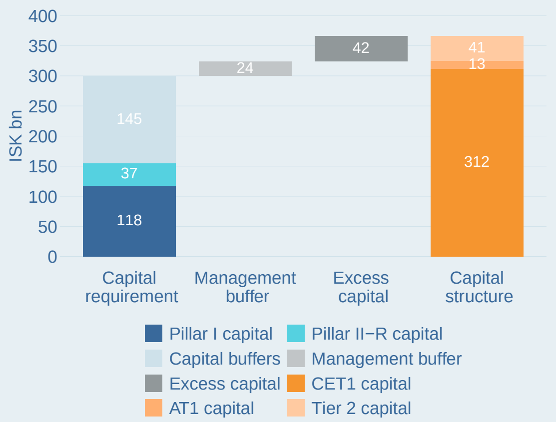
3 Capital management

Capital management

The purpose of the Bank's capital management is to support the Bank's strategy and ensure that it has sufficient capital to cover its risk at all times.

- The Bank's total capital ratio increased by 0.5 percentage points in 2025, to 24.8%.
- A regular dividend payment of ISK 0.80 per share in the total amount of ISK 18.9 billion was made in 2025.
- The Bank's Pillar II-R capital requirement was unchanged in the latest SREP, but remains in excess of the Bank's internal assessment of capital.
- Compared to the total capital requirement of 20.3%, and an implied management buffer of 1.7%, the Bank's excess capital was 2.8 percentage points or ISK 42 billion.

Capital position as at 31.12.2025



3.1 Capital management framework

The purpose of the Bank's capital management framework is to support the Bank's strategy and ensure that it has sufficient capital to cover its risks. The capital management framework of the Bank is comprised of four interdependent activities: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring.

The Bank uses standardised approaches in measuring the regulatory capital requirement for Pillar I risks and economic capital (EC) for capital management purposes.

The Bank's capital management governance structure at year-end 2025 is as follows:

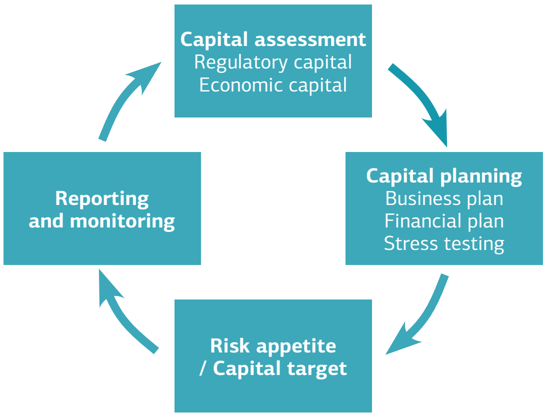
Board of Directors

The Board of Directors of Landsbankinn is responsible for reviewing and approving the Bank's business strategy and policy on aggregate exposure and determines the Bank's risk appetite. The Board of Directors approves the Bank's current funding programme and subordinated borrowings. The Board of Directors shall be actively involved in the design and implementation of stress tests and ensure that they are based on robust and efficient governance and methodology.

CEO, Risk & Finance Committee

The CEO is responsible for implementation of the capital management policy. The CEO has formed the Risk & Finance Committee to manage and oversee the implementation. The Committee is responsible for

Figure 3.1: Capital management framework



ensuring compliance with the policy in the development of the Bank's business and financial plans. The Risk & Finance Committee is responsible for the design and presentation of stress tests and scenarios.

Finance

The CFO is responsible for the day-to-day capital management and funding of the Bank and reports to the Risk & Finance Committee. The Finance Division is tasked with monitoring the risk-weighted asset base, the capital base and capital position at any given time. Finance participates in the design, implementation and development of the Bank's stress testing programme. The Division is also responsible for the Bank's recovery plan which is to ensure that banks are prepared to restore their viability in a timely manner even in periods of severe financial stress.

Finance is responsible to the Risk & Finance Committee for the management of the Bank's funding, both in ISK and foreign currency.

Risk Management

The CRO is responsible for risk assessment and monitoring of risk factors and reports to the Risk & Finance Committee. Risk Management is responsible for the EC framework and measurement, the Pillar III risk report and the ICAAP and ILAAP report. Risk Management also participates in the design, implementation and development of the Bank's stress testing programme.

Managing directors

The managing directors shall comply with the capital structure policy in their activities. This means, *inter alia*, that business decisions taken by these divisions shall comply with the business plan and budget, risk appetite and the Bank's profitability target.

Internal Audit

Internal Audit shall regularly review and comment on the framework and work procedures related to the capital structure policy and, thereby, help ensure that the policy extends to and is proportional to the nature, scope and risk inherent in the Bank's operation.

3.2 Capital policy

The Bank has a policy on capital structure, the objective of which is to ensure appropriate management, efficiency and economic utilisation of the Bank's equity, while additionally ensuring that the Bank fulfils regulatory capital requirements. With active capital management, the Bank ensures that dividend payments are based on its dividend policy and do not exceed set limits, and that the Bank can at all times meet increased risk in its operating environment.

The total capital ratio target is reviewed annually. When setting the target, EC, Pillar I and II capital requirements, MREL requirements, regulatory capital buffers, the management capital buffer, risk appetite, and strategic objectives are considered. The Bank's aim is to maintain a capital ratio above the CBI's total capital requirement at any given time, plus a management buffer specified in the Bank's risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

The Bank´s dividend policy is to pay annually around 50% of the previous year's profit as dividend. In addition, and in line with the Bank's target capital and liquidity ratios, the aim is also to make special dividend payments to optimise the Bank's capital structure. The Bank paid a regular dividend of ISK 18.9 billion in 2025.

When determining the amount of dividend payments, the Board needs to maintain the Bank's strong financial position. The Board needs to consider internal and external risk, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements.

3.3 Capital position

The Bank's equity increased by ISK 19.1 billion in 2025 and amounted to ISK 343.8 billion at year-end 2025 (2024: ISK 324.6 billion). The capital adequacy ratio is calculated in accordance with Article 84 of Act No. 161/2002, on Financial Undertakings. The Bank's total capital ratio increased by 0.5 percentage points in 2025, remaining strong at 24.8% as at 31 December 2025 (2024: 24.3%).

The capital base consists of 21.2% CET1 based on core equity only, 0.8% of additional Tier 1 capital and 2.8% of Tier 2 capital, with five instruments in the form of subordinated liabilities.

The Bank's capital base calculations are in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended and made part of the Icelandic legal order. Table 3.1 shows the Bank's capital base.

3.3.1 CET1 capital - statutory deductions and transitional arrangements

CET1 capital consists of core equity less statutory deductions according to requirements of the FSA based on Chapter 10 of Act No. 161/2002.[1] The Bank makes deductions in order to determine its CET1 capital where applicable.

- Carrying amounts of intangible assets
- Foreseeable dividends in next year's operations

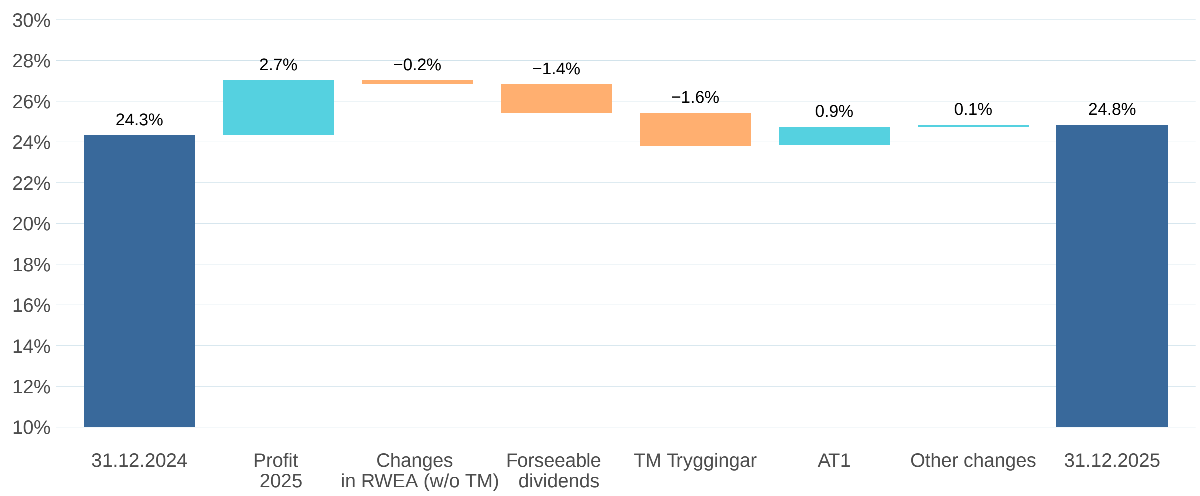
[1]See https://www.althingi.is/lagas/nuna/2002161.html

Table 3.1: Breakdown of the capital base (ISK m)

	31.12.2025	31.12.2024
Share capital	23,615	23,615
Share premium	120,516	120,516
Reserve	13,124	13,213
Retained earnings	186,518	167,305
Total equity attributable to owners of the Bank	**343,773**	**324,649**
Intangible assets	-9,096	-3
Foreseeable dividends*	-19,007	-18,754
Fair value hedges	-2,957	-4,348
Insufficient coverage for non-performing exposures	-905	-568
CET1	**311,806**	**300,976**
Non-controlling interests	0	0
Additional Tier 1 capital	12,749	
Tier 1 capital	**324,555**	**300,976**
Subordinated liabilities	41,600	39,989
Regulatory amortisation	-499	-26
Tier 2 capital	**41,101**	**39,963**
Capital base	**365,656**	**340,939**
Risk exposure amount (RWEA)		
Credit risk	1,344,359	1,254,254
Market risk	15,042	15,399
Operational risk	113,631	131,388
Total RWEA	**1,473,033**	**1,401,041**
CET1 ratio	**21.2%**	**21.5%**
Total capital ratio	**24.8%**	**24.3%**

*The Board of Directors intends to propose that the annual general meeting (AGM) approve a dividend of ISK 19.0 billion, or 0.80 per share, to be paid to shareholders in 2026. The Bank's capital and capital ratio has been reduced by an amount equivalent to the dividend payment as foreseeable dividends in the consolidated financial statements for the year 2025.

Figure 3.2: Changes in the Bank's total capital ratio in 2025



Further to CET1 statutory deductions, the Bank deducts from CET1 capital due to insufficient coverage for non-performing exposures in accordance with Article 47c in CRR. The deduction is applicable for exposures originated after April 2019.

Further quantitative information regarding the Bank's capital position can be found in templates CC1, CC2 and CCA in the additional disclosures accompanying this report.

3.3.2 Additional Tier 1 capital

In February 2025, the Bank completed its inaugural issuance of Additional Tier 1 (AT1) securites. Securities in the amount of USD 100 million were sold at a fixed interest rate of 8.125%. The issuance of AT1 securites is a step towards optimising the Bank's capital structure, strengthening its capital base and diversifying funding sources.

3.3.3 Tier 2 capital - Statutory deductions

Regulatory amortisation of Tier 2 instruments is determined in Article 64a of CRR, the deduction is applicable for exposures during the final five years of maturity of the instruments.

3.4 Capital assessment

3.4.1 Pillar I capital requirement

The regulatory minimum capital requirement (CR) under Pillar I of the Directive is 8% of risk-weighted exposure amount for credit risk, market risk and operational risk. The Bank uses the standardised approach in measuring Pillar I capital requirements for credit risk, counterparty credit risk, market risk and operational risk.

The Bank's risk-weighted exposure amount (RWEA) was ISK 1,473 billion at year-end 2025 and increased by ISK 72 billion, or 5.1%, for the year. The main reasons for the increase are credit growth and the acquisition of TM Tryggingar hf. The effects of the implementation of CRR III into Icelandic law in December 2025 amount to an ISK 65 billion reduction in total RWEA, of which ISK 27 billion is due to credit risk and ISK 38 billion is due to operational risk. Accordingly, the Pillar I capital requirement for the Bank was ISK 117.8 billion as compared to ISK 112.1 billion at year-end 2024. Credit risk is the single largest risk type or 91.3% of total RWEA. Further quantitative information regarding the Bank's RWEA can be found in templates OV1, CR4-5, CCR1-3, MR1 and OR1 in the additional disclosures accompanying this report.

Table 3.2: Pillar I capital requirement and RWEA (ISK m)

	31.12.2025		**31.12.2024**	
	Pillar I	**RWEA**	**Pillar I**	**RWEA**
Credit risk	107,549	1,344,359	100,340	1,254,254
Market risk	1,203	15,042	1,232	15,399
Operational risk	9,090	113,631	10,511	131,388
Total capital requirement and RWEA	**117,843**	**1,473,033**	**112,083**	**1,401,041**

3.4.2 Pillar II capital requirement

The Bank's Pillar II-R requirement is determined via the CBI's Supervisory Review and Evaluation Process (SREP). The Pillar II-R requirement remained at 2.5% in the 2025 SREP. The CBI can also issue a non-binding additional capital guidance based on stress test results (Pillar II-G). The result of the 2025 SREP did not yield a Pillar II-G guidance. The total Pillar II capital requirement was therefore 2.5% or ISK 37 billion at year-end 2025.

The Internal Capital Adequacy Assessment Process (ICAAP) is the Bank's own assessment of its capital need. The Bank uses internal models for the calculation of economic capital (EC) for material risk factors for ICAAP, as well as using stress tests and expert judgment where applicable. For credit risk, which is the biggest risk factor in the Bank's operation, the Bank primarily uses the internal rating based (A-IRB) approach to assess its Pillar II capital need. The Bank's total Pillar II capital assessment as calculated by the Bank's internal models in 2025 is lower than the requirement set by the SREP. The difference lies mainly in the assessment of the Pillar II capital need for credit risk. ICAAP and SREP form the foundation for the Bank's capital planning, including the business and financial plan for the next 3 years. Table 3.3 shows the results of the 2025 SREP compared to 2024.

Table 3.3: SREP results

		2025	2024
		% RWEA	**% RWEA**
Pillar I	Credit risk	7.2%	7.2%
	Market risk	0.1%	0.1%
	Operational risk	0.8%	0.7%
	Minimum capital requirement	**8.0%**	**8.0%**
Pillar II	Credit, counterparty and concentration risk	0.9%	1%
	Market risk and IRRBB	1.2%	1.2%
	Other risk	0.3%	0.3%
	Additional P-II R	**2.5%**	**2.5%**
	Additional P-II G	**0.0%**	**0.0%**
	Minimum requirement under Pillar I and Pillar II-R	**10.5%**	**10.5%**

3.4.3 Capital buffers

CRD IV introduced a combined buffer requirement that applies in addition to the solvency need ratio. The combined buffer consists of a countercyclical buffer, a capital conservation buffer, O-SII buffer and a systemic risk buffer. Capital buffers must be funded with CET 1 capital.

The combined capital buffer requirement as determined by the Icelandic Financial Stability Committee (FSC) for SIFIs was 10% of RWEA at year-end 2025. The FSC made no changes to its capital buffers in 2025.

The capital buffers are expressed as a proportion of consolidated RWEA. However, the systemic risk buffer only applies to domestic RWEA, meaning that the effective requirement for the buffer is somewhat lower than defined by the financial authorities, or 1.9% instead of 2.0%. The effective countercyclical capital buffer is determined using the weighted average of the prevailing capital buffer level in the countries where the Bank has exposure. The buffer is currently 2.5% in Iceland. Countercyclical buffers for foreign exposures, can raise or lower the effective buffer for the portfolio, based on their respective values. The effective countercyclical buffer was 2.4% at year-end 2025. Further quantitative information

Table 3.4: Regulatory capital buffers

	29.9.2022	16.3.2024	4.12.2024	Effective capital buffers at year-end 2025
Systemic risk buffer	3.0%	3.0%	2.0%	1.9%
O-SII buffer	2.0%	2.0%	3.0%	3.0%
Countercyclical buffer	2.0%	2.5%	2.5%	2.4%
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
Combined capital buffer requirement	**9.5%**	**10.0%**	**10.0%**	**9.8%**

regarding the countercyclical capital buffer can be found in templates CCyB1 and CCyB2 in the additional disclosures accompanying this report.

The effective total regulatory capital buffer for the Bank at year-end 2025 was 9.8% of consolidated RWEA. Therefore, the Bank's total capital requirement at year-end 2025 is 20.3% of consolidated RWEA.

Table 3.5: Capital requirement

31.12.2025	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.4%	1.8%	2.5%
Minimum requirement under Pillar I and Pillar II-R	**5.9%**	**7.8%**	**10.5%**
Systemic risk buffer	1.9%	1.9%	1.9%
Capital buffer for systematically important financial institutions	3.0%	3.0%	3.0%
Countercyclical capital buffer	2.4%	2.4%	2.4%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirement	**9.8%**	**9.8%**	**9.8%**
Total capital requirement	**15.7%**	**17.6%**	**20.3%**

3.4.4 Capital target

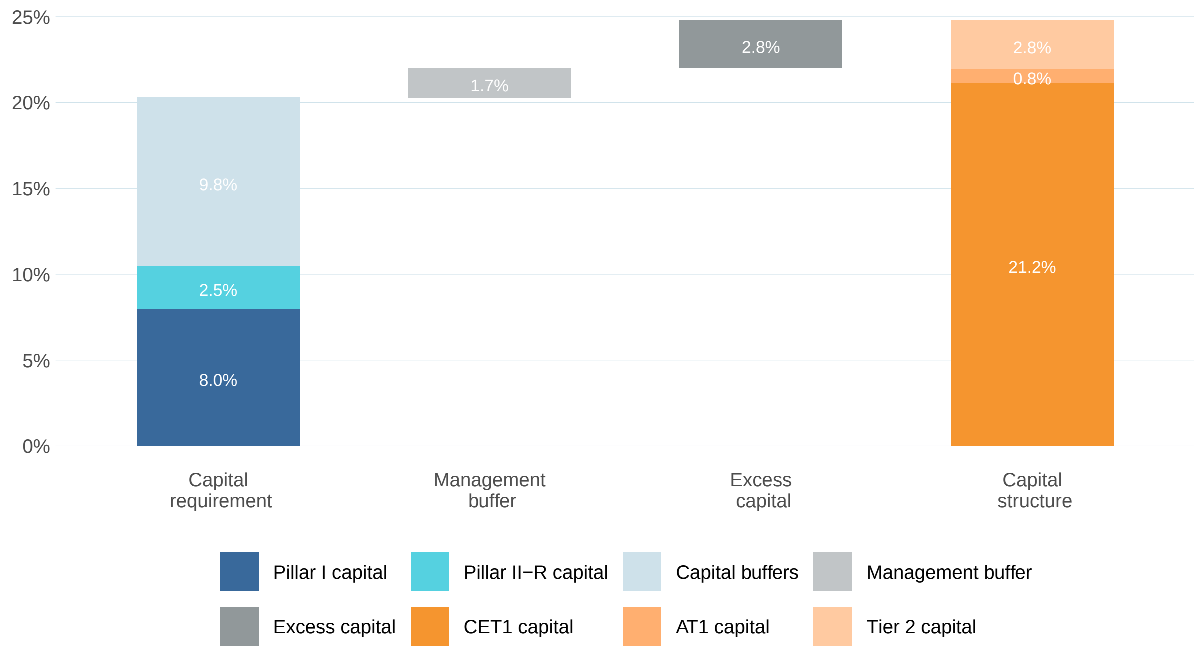
The Bank's capital target is based on the current regulatory capital requirement of 15.7% CET1 and 20.3% total capital ratio (TCR). In addition, the Bank defines a management buffer for the purpose of targeting and managing its capital position comfortably above the overall regulatory capital requirement. Determination of the management buffer is based on various current and forward-looking factors such as the economic and funding outlook, competitive issues, risk profile and business plan.

As shown in Table 3.6, the Bank's total target capital ratio is $\geq$ 22% and $\geq$ 18% for the CET1 ratio. Given the 20.3% TCR requirement, the Bank's current implied management buffer is 1.7%. The total capital ratio at year-end 2025 was 24.8%, hence the implied Bank's excess capital was 2.8% of RWEA, or ISK 42 billion.

Table 3.6: Capital ratio

	Target	2025	2024	2023	Comment
Total capital ratio	$\geq$22.0%	24.8%	24.3%	23.6%	Long-term goal
Common equity Tier 1	$\geq$18.0%	21.2%	21.5%	22%	Long-term goal
Dividend pay-out ratio	Around 50%	50%	50%	50%	The target dividend pay-out ratio is around 50% of the previous year's profit.

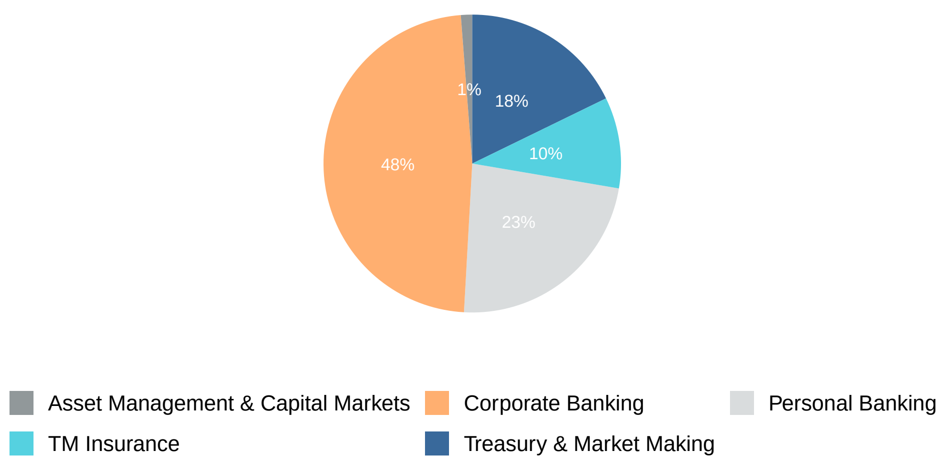
Figure 3.3: Capital structure (% RWEA) as at 31.12.2025



3.4.5 Capital allocation to business lines

The Bank makes an internal capital allocation across business divisions on the basis of each unit's contribution to the Bank's total risk as estimated by the Bank's EC model. Capital exceeding the Bank's minimum capital target and the management buffer is allocated to Treasury. Allocated capital plus retained earnings per business unit at year-end 2025 is shown in Figure 3.4.

Figure 3.4: Capital allocation per business line 31.12.2025



3.4.6 Risk-adjusted return on capital

To analyse the Bank's risk-adjusted profit and profitability, i.e. including the cost of risk, the measures risk-adjusted profit (RAP) and risk-adjusted return on capital (RAROC), are reported monthly to senior management. The objective of these metrics is to assess shareholder value creation and profitability in relation to the equity capital needed to cover the undertaken risks, i.e., the economic capital. The measures enable risk-based pricing, increase incentives to measure and manage risk appropriately, focus on long-term profit, and support the assessment of the Bank's optimal capital structure. These measures have been implemented throughout the Bank and are used in individual credit decisions for large corporate customers, as well as to determine the pricing of loan products for smaller corporate customers and individuals.

3.5 Leverage ratio

The Capital Requirements Regulation (CRR), as part of the Basel III framework, requires banks to measure, report and monitor their leverage ratios. The ratio is defined as CET1 capital as a percentage of total leverage exposure (see Table 3.7) and acts as a credible supplementary measure to the risk-based capital requirements.

A credible leverage ratio is one that ensures broad and adequate capture of both the on and off-balance sheet sources of the Bank's leverage, aimed at revealing hidden leverage on the Bank's balance sheets. The ratio reinforces the risk-based requirements with a simple non-risk based 'backstop' measure and is intended to restrict the build-up of leverage in the banking sector. The leverage ratio minimum requirement is 3%.

At year-end 2025, the Bank's leverage ratio was 13.6%. Figures 3.5 and 3.6 show the Bank's leverage ratio for the past five years.

Table 3.7: Leverage ratio

	2025	**2024**
Tier 1 capital	324,555	300,976
Leverage exposure		
- On balance sheet exposure (excluding derivatives)	2,279,096	2,158,835
- Derivatives instrument exposure	6,045	6,062
- Securities financing transaction exposures	18,520	14,820
- Off balance sheet exposure	114,167	116,036
- Regulatory adjustments to Tier 1 capital	-31,966	-23,673
Total leverage exposure	**2,385,862**	**2,272,079**
Leverage ratio	**13.6%**	**13.2%**

In theory, if the Bank would want to decrease its leverage ratio and aim for the minimum requirement of 3%, it would not be able to do so without breaching other regulated, or internal risk appetite ratios first. Furthermore, off-balance sheet exposures and derivative instrument exposures are not significant factors of the Bank's leverage ratio. The risk of excessive leverage is thus not considered a significant risk factor for the Bank. Leverage ratio is nevertheless a part of the Bank's risk appetite and is considered a relevant risk indicator both in the Bank's ICAAP/ILAAP, as well as within BRRD. The Bank has management actions in place to meet scenarios that would adversely affect the Bank's leverage ratio. Further quantitative information regarding the Bank's leverage ratio can be found in templates LR1, LR2 and LR3 in the additional disclosures accompanying this report.

Figure 3.5: Leverage ratio

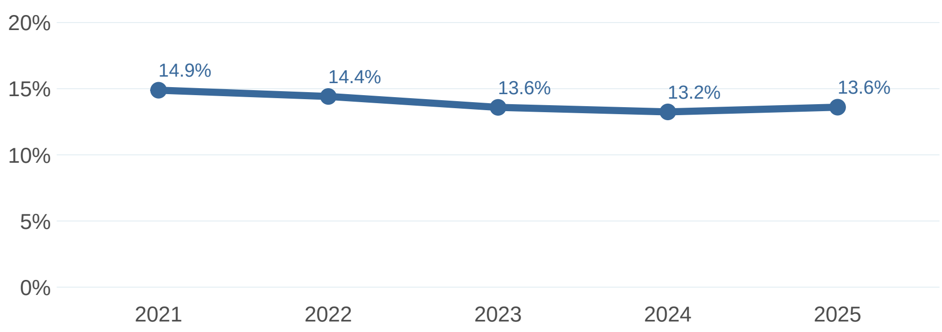
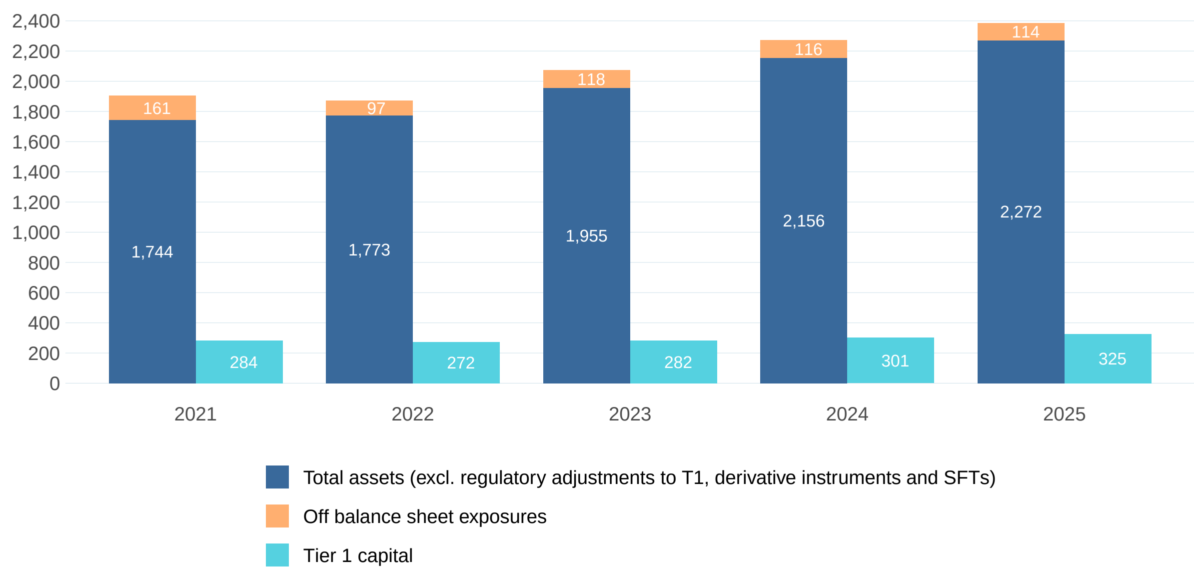


Figure 3.6: Leverage ratio breakdown (ISK bn)



3.6 Minimum requirement for own funds and eligible liabilities (MREL)

The Act on Recovery and Resolution of Credit Institutions and Investment Firms No. 70/2020, as amended, implementing the Bank Recovery and Resolution Directive 2014/59/EU (BRRD) and Directive 2019/879 (BRRD II), provides for the determination by the Central Bank of Iceland's Resolution Authority of minimum requirement for own funds and eligible liabilities (MREL).

On 17 October 2025 the Resolution Authority announced it's latest annual MREL decision for the Bank. The decision entails that the Bank must at all times maintain a minimum of 21.0% of MREL funds, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA) and a minimum of 6.0% as a percentage of the Bank's Total Exposure Measure (TEM).

The decision also introduces a 13.5% MREL subordination requirement, as a percentage of the Bank's Total Risk-weighted Exposure Amount (TREA), which must be fulfilled as of 4 October 2027.

The MREL-TREA and the MREL Subordination Requirements must be met without regards to the combined buffer requirement (CBR), which must be separately fullfilled alongside the MREL-TREA and the

MREL Subordination Requirement.

Further quantitative information regarding the Bank's MREL can be found in templates KM2, TLAC1 and TLAC3 in the additional disclosures accompanying this report.

Table 3.8: Minimum requirements for own funds and eligible liabilities (MREL)

	31.12.2025		31.12.2024	
Own funds and eligible liabilities	**Amount**	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Common Equity Tier 1 (CET1)	311,806	21.2%	300,976	21.5%
Additional Tier 1 capital (AT1)	12,749	0.9%	-	0.0%
Tier 2 capital	41,600	2.8%	39,989	2.9%
Eligible Senior Non-preferred bonds	40,518	2.8%	15,640	1.1%
Sum of Subordinated MREL funds	**406,673**	**27.6%**	**356,605**	**25.5%**
Eligible Senior Preferred liabilities	189,605	12.9%	178,037	12.7%
Sum of MREL funds	**596,278**	**40.5%**	**534,642**	**38.2%**
MREL-TEM Requirement				
Recurring MREL-TEM requirement	143,152	9.7%	136,325	9.7%
MREL-TREA Requirement				
Recurring MREL-TREA requirement	309,337	21.0%	294,219	21.0%
Combined Buffer Requirement (CBR)	144,357	9.8%	138,703	9.9%
Sum of MREL-TREA Total and Combined Buffer	**453,694**	**30.8%**	**432,922**	**30.9%**
MREL Subordination Requirement				
Recurring Subordination Requirement	198,859	13.5%	189,141	13.5%
Combined Buffer Requirement (CBR)	144,357	9.8%	138,703	9.9%
Sum of MREL Subordination and Combined Buffer Requirements	**343,216**	**23.3%**	**327,844**	**23.4%**

The MREL maximum distributable amount (M-MDA) is the maximum amount that the Bank is allowed to distribute via various actions, including dividend payments to shareholders, buy-back of own shares and payments of variable remuneration. These MREL restrictions are in addition to other own funds requirements.

Table 3.9: Maximum distributable amount related to MREL

	31.12.2025		31.12.2024	
	Amount	**Percentage of RWEA**	**Amount**	**Percentage of RWEA**
Total MREL funds above MREL-TEM Requirement	453,126	30.8%	398,317	28.4%
Total MREL funds above MREL-TREA Requirement	142,584	39.7%	101,720	7.3%
Subordinated MREL funds above MREL Subordination Requirement	63,456	4.3%	28,761	2.1%
Maximum Distributable Amount related to MREL (M-MDA)	**63,456**	**4.3%**	**28,761**	**2.1%**

4 Credit risk

Credit risk

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

- The Bank's total risk-weighted exposure to credit risk was ISK 1,344 billion at year-end 2025, increasing by 7.2% from the previous year. Loans and advances to customers carry the most credit risk of the Bank's assets.
- Total credit exposure from lending to customers increased by 4% in 2025 and amounted to ISK 1,884 billion at year end.
- Demand for mortgages slowed significantly in 2025 with the mortgage portfolio only growing by ISK 1 billion during the year.
- Probability of default, weighted by gross carrying amount, was 1.4% at year-end 2025 (2024: 1.4%).
- Total expected credit loss was ISK 9.8 billion at year-end 2025 (2024: ISK 11.2 billion).
- Default rates in the credit portfolio remain at low levels. However, the ratio of loans in stage 2 increased in 2025 as conditions of high interest rates and above-target inflation remain.

4.1 Credit risk management

The Bank offers loans, credits, guarantees and other credit-related products as part of its business model and thus takes on credit risk. Regular risk reporting enables the on-going monitoring of the Bank's credit risk position relative to its risk appetite.

The credit risk appetite is converted by the business units to their specific key performance indicators (KPIs) in collaboration with Risk Management. Monitoring functions determine whether credit facilities are granted in accordance with the risk appetite. Risk Management monitors and challenges the performance and reports the progress to the Executive Board and the Board of Directors.

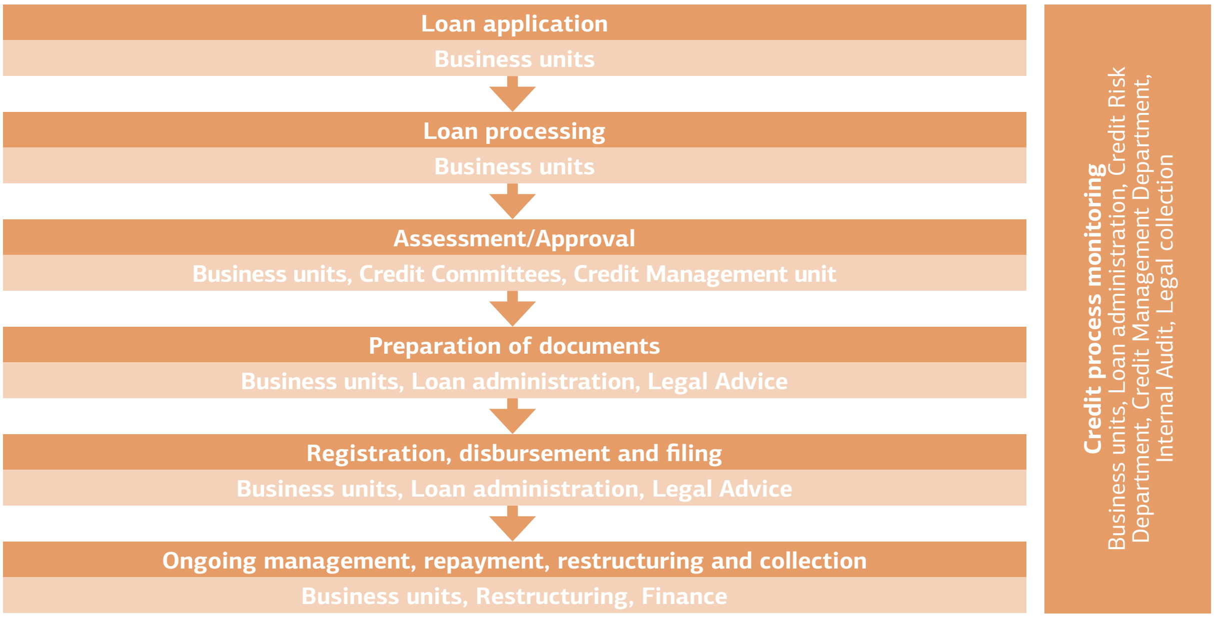
Credit risk is primarily managed through the credit process and the Bank's credit risk models which include PD, LGD and EAD modelling. The models are used for various purposes, such as in provisioning, internal assessment of capital and management reporting.

4.1.1 Identification

Credit risk is defined as the risk of loss if customers fail to fulfil contractual obligations and the estimated value of pledged collateral does not cover existing claims. The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligation to deliver cash, securities or other assets as contractually agreed. Settlement risk is deemed immaterial in the Bank's operations.

Credit risk is the greatest single risk faced by the Bank and arises principally from loans and advances to customers, but also from loans and advances to financial institutions, investments in bonds and debt instruments, investments in equity and equity instruments, commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and the aforementioned settlement risk along with other assets.

Figure 4.1: The credit process



4.1.2 Assessment

Credit risk is primarily assessed using three key parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). PD is estimated through the Bank's internal rating system, which includes internally developed rating models. The rating system is designed to provide a robust assessment of obligor characteristics, differentiate credit quality, and produce accurate and consistent quantitative estimates of default risk (PD). Internal ratings and the associated PD estimates are integral to the Bank's risk management, credit decision-making, credit approval, and corporate governance processes.

The internal rating system applies an obligor rating scale that reflects the quantified risk of obligor default (credit quality). The scale comprises 10 grades for non-defaulted obligors (grades 1–10), where grade 10 represents the highest credit quality, and a separate grade (0) for defaulted obligors. The Bank's definition of default is aligned with the EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).

The internal rating system is used to assign ratings and calculate risk-weighted exposure amounts for economic capital purposes for the majority of the Bank's customers. PD assignment is supported by PD models that incorporate relevant information, including industry classification, financial statements and payment behaviour. These models are calibrated to ensure that PD estimates appropriately reflect default risk in accordance with EBA/GL/2016/07. In addition, external ratings from Standard & Poor's, Moody's and Fitch are used for foreign credit institutions, and CreditInfo ratings are used for new retail customers.

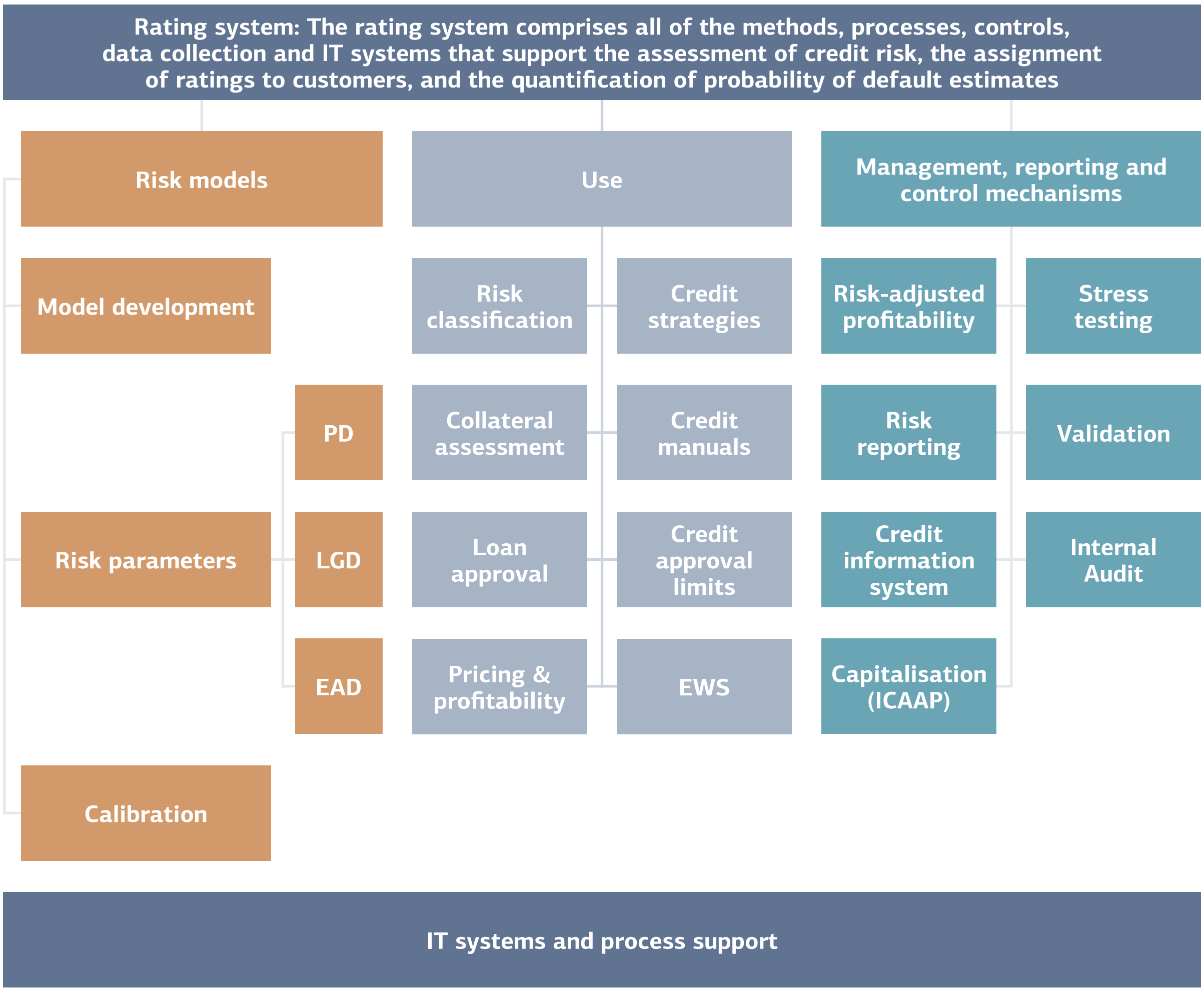
Rating assignment and approval form an integral part of the credit approval process. Ratings are reviewed and updated at least annually, and more frequently where material new information regarding the obligor or the exposure becomes available.

The Bank's estimation and validation framework incorporates quality controls to monitor the performance of models, procedures and systems, and is designed to ensure that risk parameters remain accurate. Where required, the framework provides for adjustments to address identified deficiencies.

Table 4.1: Internal mapping from internal rating grade to external rating agencies

Internal rating grade	Standard & Poor's and Fitch	Moody's	Lower PD	Upper PD
10	AAA/AA+/AA/AA-	Aaa/Aa1/Aa2/Aa3	0.00%	0.04%
9	A+/A/A-	A1/A2/A3	0.04%	0.10%
8	BBB+	Baa1	0.10%	0.21%
7	BBB/BBB-	Baa2/Baa3	0.21%	0.46%
6	BB+/BB	Ba1/Ba2	0.46%	0.99%
5	BB-	Ba3	0.99%	2.13%
4	B+	B1	2.13%	4.54%
3	B	B2	4.54%	9.39%
2	B-	B3	9.39%	18.42%
1	CCC/C	Caa1/Caa2/Caa3/Ca/C	18.42%	99.99%

Figure 4.2: Rating system overview



Internal rating models are validated annually using both quantitative and qualitative methods. Quantitative validation includes statistical testing of (i) discriminatory power, i.e. the model's ability to differentiate between obligors with different default risk, and (ii) calibration (absolute accuracy), i.e. the model's ability to predict default rates at the appropriate level.

PD parameters are re-estimated annually and are based on long-run observed default frequencies derived from available internal data which is adjusted appropriately for deficiencies in the default data. Limitations in the length of the internal observation period, and other deficiencies in the data, are addressed through a margin of conservatism to reflect statistical uncertainty in the estimation.

LGD is estimated using an internal LGD model for the purposes of internal economic capital assessment and provisioning. Compared with the Basel framework standardised approach, the model recognises a wider range of collateral types and is more responsive to changes in the degree of collateralisation. It is calibrated using the Bank's internal historical loss experience.

EAD represents the expected exposure at the time of default, comprising drawn amounts and expected future drawings on undrawn commitments. The Bank applies the standard approach for calculating RWEA and for internal economic capital assessment, while internal EAD models are used for provisioning.

4.1.3 Management and policy

The Bank's credit risk management objective is to ensure compliance with the Bank's credit risk policy, which entails that the only risk taken is one that the Bank understands, can evaluate, measure and manage.

The Bank's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within the Risk Management Division and the business units. The Bank manages credit risk according to its risk appetite statement, credit policy and industry policies, approved by the Board of Directors, as well as detailed credit policies approved by the CEO. The risk appetite, credit risk policy and industry policies include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposure to certain industries. The CEO ensures that the risk policy is reflected in the Bank's internal framework of regulations and guidelines. The Bank's Managing Directors are responsible for ensuring that the Bank's business units execute the risk policy appropriately and the CEO is responsible for oversight of the entire process.

Figure 4.3: Credit risk management framework

Incremental credit authorisation levels are defined based on size of units, types of customers and the lending experience of credit officers. The Bank applies automatic credit approval processes for simpler and low-risk loans to customers. If a loan application does not fulfill requirements for automatic approval the credit decision is subject to approval by the appropriate credit authorisation level. Credit decisions exceeding authorisation levels of business units are subject to approval by Risk Management. The Corporate Banking Credit Committee has authorisation levels exceeding that of individual business unit managers and meets regularly to make credit decisions. Risk Management has veto powers over the decisions of the Corporate Banking Credit Committee and the Bank's Credit Committee. Credit decisions exceeding the authorisation levels of the Corporate Banking Credit Committee are subject to approval by the Bank's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors, which holds the highest credit authorisation within the Bank.

4.1.4 Mitigation

Mitigating risk in the credit portfolio is a key element of the Bank's credit risk policy, as well as an inherent part of the credit-decision process. Securing loans with collateral is the main method of mitigating credit risk, whereas for some loan products collateral is required by legislation, as in the mortgage finance market, or is standard market practice.

The most important types of collateral are real estate, vessels and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Bank's credit risk framework. Credit extended by the Bank may be secured on residential or commercial property, land, listed and unlisted securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, etc. The Bank also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

The Bank regularly assesses the market value of received collateral. The Bank estimates the value as the market value less a haircut. A haircut in this context is a discount factor which represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs during the period the asset is held for sale, external fees and loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Bank monitors the market value of mark-to-market collateral and may require additional collateral in accordance with the underlying loan agreements.

In order to further limit the credit risk arising from financial instruments, the Bank enters into netting agreements, under which the Bank is able to set off all contracts covered by the netting agreement against the debt in cases of default. The arrangements generally include all market transactions between the Bank and the customer.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Bank includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take price volatility and the expected costs of repossession and sale of the pledge into account.

4.1.4.1 Counterparty credit risk

Counterparty credit risk (CCR) is the risk arising from the possibility that the counterparty may default on amounts owned on derivative financial instruments and securities financing.

In order to mitigate this risk, the Bank chooses the counterparties for derivatives and margin trading based on stringent requirements. The Bank also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements and similar general netting agreements with financial counterparties. In the case of derivatives, amounts due to and from the Bank are offset when the Bank has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Collateral and margin requirements are in place for all derivative contracts and securities financing transactions the Bank enters into. Collateral management and monitoring are performed daily, and derivative contracts with customers are usually fully hedged.

The Bank's supervision system monitors both exposure and collateral value and calculates an intraday credit equivalent value for each derivative. It also issues margin calls and manages netting agreements.

Information on CCR can be found in templates CCRA and CCR1-CCR6 in the additional disclosures accompanying this report.

4.1.5 Control and monitoring

The Bank has set limits for large exposures as well as policies for exposure ratio for different portfolios to control the credit risk in the Bank's credit portfolio and ensure risk diversification. The credit risk decision process is controlled with limits set in the Bank's Credit rules approved by the Board of Directors. The rules set the limit for each credit decision party within the Bank where the credit approval authority is based on the underlying credit risk measured by exposure size, credit rating and colour classification code.

The credit risk monitoring process is based on regular reporting, monitoring systems and other manual monitoring. There is increased monitoring for significant exposures and for customers with indications of financial difficulties. One of the integral parts of the credit risk monitoring process is the early warning system.

The Bank monitors exposures to identify signs of weakness in customer earnings and liquidity, or other issues that could increase the Bank's credit risk, as soon as possible. To monitor customers, the Bank uses an early warning system, which is supplemental to ratings and classifies credit exposures to four credit risk groups (green, yellow, orange and red). The colour classification is as follows:

- The customer is considered as performing without signs of financial difficulties
- The customer shows indication of deteriorating financial strength, which could lead to financial difficulties
- The customer is or has been in financial difficulties or default
- The customer is in default and in legal collection and/or restructuring

The Credit Risk department within Risk Management and the Bank's business units are responsible for the colour classification of customers.

4.1.6 Impairment process

The Bank uses the three-stage expected credit loss model under IFRS 9. Allowance is calculated as the 12-month expected credit loss (ECL) or the lifetime expected credit loss.

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through profit or loss:

- Cash and balances with Central Bank
- Bonds and debt instruments
- Loans and advances to financial institutions
- Loans and advances to customers
- Other assets

Off-balance sheet exposures:

- Financial guarantees and underwriting commitments
- Undrawn loan commitments
- Undrawn overdraft/credit card facilities

When measuring ECL, the Bank uses a forward-focused model in compliance with IFRS 9. This requires considerable judgement over how changes in economic factors affect ECL. ECL reflects the present value of cash shortfalls due to possible default events either over the following twelve months or over the expected life of a financial instrument, depending on credit deterioration from origination.

The Credit Risk Department is responsible for assessing impairment on loans and receivables and a Valuation Team, comprised of the CEO, the managing directors of Finance, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

In general, all impairment charges are loan-specific based on the aforementioned ECL models. If needed, the Valuation Team can assess and issue additional general impairment charges.

For further information on the Bank's impairment process, see Note 84.12(g) in the Bank's Annual Financial Statement 2025.

4.2 Credit portfolio

4.2.1 Risk-weighted exposure amount

The Bank's risk-weighted exposure amount (RWEA) for credit risk was ISK 1,344 billion at year-end 2025, which is an increase of 7.2% from the previous year. The increase is mainly due to credit growth and the acquisition of TM Tryggingar hf. The effects of the implementation of CRR III amount to an ISK 27 billion reduction in RWEA for credit risk.

The effects of CRR III on RWEA for credit risk are mostly due to loans to customers, firstly due to lower RWEA for loans secured by real estate collateral and secondly due to higher RWEA for ADC exposures. ADC exposures are evaluated specifically under CRR III and most of the Bank's ADC exposures at year-end 2025 receive a 150% risk-weight. This leads to an ISK 121 billion increase in RWEA. RWEA due to mortgages decreases by ISK 86 billion as the majority of the Bank's mortgage portfolio are exposures below the 55% loan-to-value threshold for a 20% risk-weight. RWEA due to other loans collateralised by real estate decreases by ISK 47 billion as CRR III allows for more types of real estate collateral to be considered as eligible and the reduction reflects generally modest loan-to-value ratios for the underlying loans. The Bank applies the non-IPRE treatment for calculation of RWEA for all exposures secured by immovable property in line with articles 125 (2) and 126 (2) of the CRR.

Table 4.2 shows the RWEA for credit risk at year-end 2024 and 2025, broken down by exposure classes. Further quantitative information regarding RWEA for credit risk can be found in templates CR4 and CR5 in the additional disclosures accompanying this report.

Table 4.2: Exposure, RWEA and average risk-weight by exposure classes

	31.12.2025			31.12.2024		
	Exposure	**RWEA**	**Risk-weight**	**Exposure**	**RWEA**	**Risk-weight**
Central governments or central banks	265,444	19	0%	244,712	42	0%
Regional governments or local authorities	12,453	2,693	21.6%	14,687	3,194	21.7%
Public sector entities	5,359	2,678	50%	2,079	1,027	49.4%
Institutions	46,086	10,370	22.5%	42,428	8,969	21.1%
Corporates	417,806	392,470	93.9%	756,253	706,724	93.5%
Retail	95,138	62,062	65.2%	136,547	93,970	68.8%
Secured by mortgages on immovable property	1,411,944	746,881	52.9%	941,046	337,172	35.8%
Exposures in default	24,164	31,533	130%	28,695	38,647	135%
Items associated with particular high risk	-	-	-	25,966	38,949	150%
CIUs	5,279	7,572	143%	838	838	100%
Equities and equity instruments	25,390	59,726	235%	583	583	100%
Other items	28,355	28,355	100%	24,138	24,138	100%
Credit risk	**2,337,418**	**1,344,359**	**57.5%**	**2,217,974**	**1,254,254**	**56.5%**

4.2.2 Credit exposure

The Bank's credit exposure is defined as balance sheet items and off-balance sheet items that carry credit risk. For on-balance sheet loans and advances, the exposure is calculated net of accumulated

ECL for exposures measured at amortised cost, otherwise at fair value. Off-balance sheet amounts are the maximum amounts the Bank might have to pay out in guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

At year-end 2025, 91.3% of the Bank's RWEA was due to credit risk, most of which comes from lending activities. The on-balance exposure to credit risk was ISK 2,244 billion. and the maximum off-balance exposure to credit risk was ISK 299 billion at year-end 2025. Most of the Bank's credit risk exposure comes from lending activites, but other sources include cash and balances with the Central Bank, bonds and debt instruments, equities, derivatives and other assets. A breakdown of the Bank's maximum exposure to credit risk by instrument type can be found in Note 55 in the Bank's annual financial statement for 2025. Further quantitative information regarding the Bank's credit portfolio can be found in templates CR1, CR1-A, CR2, CQ1, CQ3, CQ5, CQ7 and CR3 in the additional disclosures accompanying this report.

4.2.2.1 Credit exposure from lending activities

At year-end 2025, the Bank's total credit exposure from lending activities amounted to ISK 1,884 billion, increasing by 4% from ISK 1,807 billion at year-end 2024. The increased lending was mainly in the corporate portfolio, most notably among real eastate and construction companies. The risk profile of the credit portfolio remained stable in 2025 as the high interest rate environment of the past two years started to sescede, with policy rates decreasing by 125 bps in 2025. However, inflation has remained resilient and well above target.

The total average PD weighted by gross carrying amount was 1.4% at year-end 2025 (2024: 1.4%). Excluding loans to financial institutions, the average PD was 1.4% (2024: 1.4%). The average PD for individuals was 0.6% (2024: 0.7%) and the average PD for corporates was 2.1% (2024: 2.1%).

At year-end 2025, the total average LGD weighted by gross carrying amount, excluding loans to financial institutions, was 10.3% (2024: 10.8%). The average LGD for individuals was 7.0% (2024: 6.9%) and the average LGD for corporates was 13.3% (2024: 14.7%).

The carrying amount of loans in stage 3 net of accumulated ECL as a percentage of the total portfolio was 0.8% at year-end 2025 (2024: 1.1%). The ratio was 1.1% for corporates (2024: 1.7%) and 0.6% for individuals (2024: 0.5%). The ratio of the carrying amount of loans and advances to customers past due more than 90 days was 0.2% at year-end 2025 (2024: 0.2%).

The carrying amount of loans and advances to customers past due by 6-90 days increased slightly in 2025 and was 0.8% at year end (2024: 0.6%). For individuals, the ratio was 0.6% (2024: 0.7%) and for corporates, the ratio was 0.9% (2024: 0.6%).

Figure 4.4: Probability of default (PD)

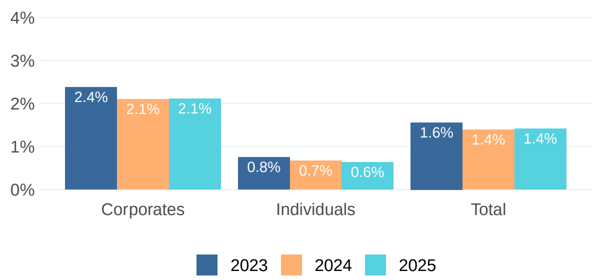


Figure 4.5: Loss given default (LGD)

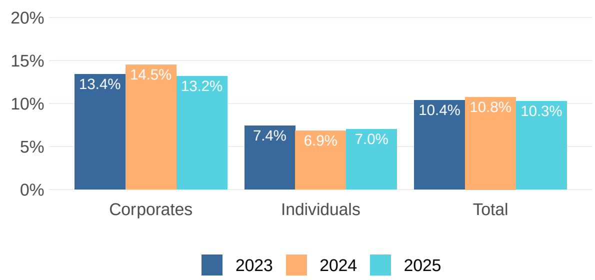


Figure 4.6: Stage 3 loans (% of total portfolio)

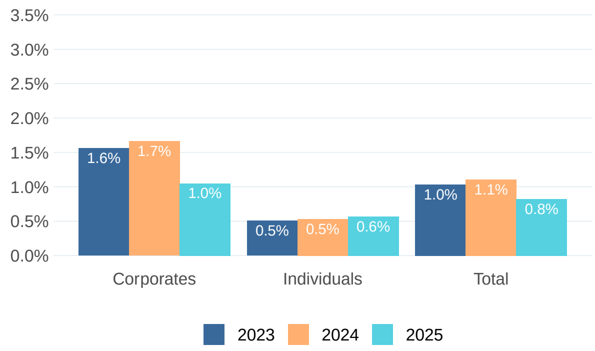


Figure 4.7: Ratio of loans past due 6-90 days

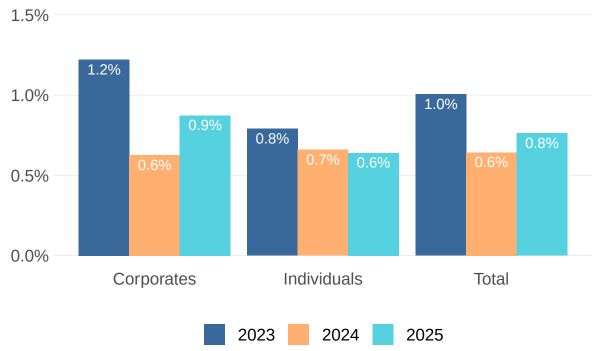


Table 4.3 shows the carrying amount of loans and advances by industry sectors along with key risk metric values. PD and LGD averages in the table are weighted by gross carrying amount, other ratios with carrying amount.

4.2.2.2 Credit exposures in Grindavík

The Bank's credit exposures in and around Grindavík, and therefore affected by the ongoing seismic and volcanic activity in the area, amounted to ISK 38 billion at year-end 2025. The Bank's credit exposure in the area is almost exclusively to corporate entities, as the overwhelming majority of indiviudals who owned residential real estate in Grindavík have chosen to sell to the real estate company Thórkatla. The Bank's loan to Thórkatla was refinanced with a bond issuance at the end of 2025. Credit exposure to corporate entities in the area amounted to ISK 38 billion at year end 2025. For further information on credit exposure in Grindavík, see Note 18 in the Bank's consolidated financial statements for 2025.

4.2.2.3 Loans to corporates

The Bank's corporate loan portfolio is well diversified across sectors and is almost exclusively (97%) comprised of loans to domestic entities. The largest sectors are fisheries, real estate companies, construction companies and the travel industry.

The corporate portfolio grew by 8% in 2025 and loans and advances to corporate customers amounted to ISK 982 billion at year end. Corporate loans represent 52% of the Bank's loan portfolio. Credit quality, in terms of PD, in the corporate portfolio remained stable in 2025, and the average PD value at year-end was 2.1% (2024: 2.1). The average LGD value for corporate loans decreased in 2025 and was 13.3% at year end (2024: 14.7%). The ratio of corporate loans in stage 2 increased in 2025 and was 9.1% at year end (2024: 7.4%), while the ratio of corporate loans in stage 3 decreased and was 1.1% at year end (2024: 1.7%).

4.2.2.4 Loans to individuals

Loans to individuals comprise 48% of the Bank's loan portfolio. A majority of these loans are mortgages, secured by residential properties. Other loans to individuals include car loans, credit cards, overdrafts and other consumer loans.

Table 4.3: Overview of credit risk measures by industries

As at 31 December 2025	Carrying amount	PD	LGD	Past due 6-90 days	Stage 2 loans	Stage 3 loans	Total ECL
Public entities	13,550	0.2%	5.0%	0.0%	0.3%	0.0%	-1
Individuals	**888,815**	**0.6%**	**7.0%**	**0.6%**	**2.8%**	**0.6%**	**-1,860**
Individuals Mortgage	804,824	0.5%	4.0%	0.6%	2.3%	0.5%	-364
Individuals Other	83,991	1.9%	35.2%	1.1%	7.7%	1.1%	-1,496
Corporates	**981,940**	**2.1%**	**13.3%**	**0.9%**	**9.1%**	**1.1%**	**-7,284**
Fisheries	190,272	1.5%	7.6%	0.2%	0.6%	1.0%	-596
Real estate companies	260,435	2.1%	7.9%	1.7%	6.3%	0.7%	-1,019
Construction companies	193,311	2.9%	13.9%	0.1%	9.4%	0.2%	-1,522
Travel industry	110,443	2.6%	13.0%	2.1%	21.3%	3.3%	-1,485
Services and ITC	73,605	1.8%	23.1%	0.8%	5.4%	0.6%	-509
Retail	59,545	1.6%	18.6%	1.2%	7.8%	1.6%	-1,029
Manufacturing and energy	55,352	1.4%	29.3%	0.1%	24.0%	2.3%	-755
Holding companies	32,003	3.8%	29.0%	0.0%	24.5%	0.1%	-353
Agriculture	6,972	0.7%	10.2%	0.3%	1.4%	0.1%	-15
Other	0	3.6%	99.4%	0.0%	0.0%	0.0%	-1
Total loans to customers	**1,884,305**	**1.4%**	**10.3%**	**0.8%**	**6.1%**	**0.8%**	**-9,145**
Financial institutions	41,084	0.1%	30.0%	0.0%	0.0%	0.0%	0
Total loans including financial institutions	**1,925,392**	**1.4%**	**10.7%**	**0.7%**	**5.9%**	**0.8%**	**-9,146**
As at 31 December 2024	**Carrying amount**	**PD**	**LGD**	**Past due 6-90 days**	**Stage 2 loans**	**Stage 3 loans**	**Total ECL**
Public entities	14,302	0.3%	5.0%	0.0%	0.3%	0.0%	-1
Individuals	**886,879**	**0.7%**	**6.9%**	**0.7%**	**2.6%**	**0.5%**	**-1,660**
Individuals Mortgage	803,873	0.6%	4.1%	0.6%	2.0%	0.5%	-489
Individuals Other	83,007	1.8%	33.5%	1.2%	8.7%	1.2%	-1,172
Corporates	**906,256**	**2.1%**	**14.7%**	**0.6%**	**7.4%**	**1.7%**	**-8,990**
Fisheries	195,754	1.4%	9.0%	0.2%	0.6%	0.8%	-2,783
Real estate companies	233,125	2.2%	11.1%	0.9%	2.1%	0.5%	-632
Construction companies	143,040	3.0%	15.4%	0.2%	5.7%	1.5%	-1,197
Travel industry	110,844	2.5%	17.7%	2.2%	21.2%	8.3%	-2,167
Services and ITC	65,392	1.9%	23.2%	0.5%	8.4%	0.9%	-415
Retail	68,202	1.6%	16.6%	0.2%	6.6%	0.5%	-344
Manufacturing and energy	43,853	1.9%	31.3%	0.3%	7.7%	0.8%	-773
Holding companies	38,746	3.6%	17.3%	0.0%	40.6%	0.1%	-664
Agriculture	7,299	0.7%	10.2%	0.1%	1.2%	1.7%	-13
Other	1	38.0%	34.5%	99.9%	99.7%	0.0%	0
Total loans to customers	**1,807,437**	**1.4%**	**10.8%**	**0.6%**	**5.0%**	**1.1%**	**-10,651**
Financial institutions	39,346	0.0%	30.0%	0.0%	0.0%	0.0%	0
Total loans including financial institutions	**1,846,783**	**1.4%**	**11.2%**	**0.6%**	**4.9%**	**1.1%**	**-10,651**

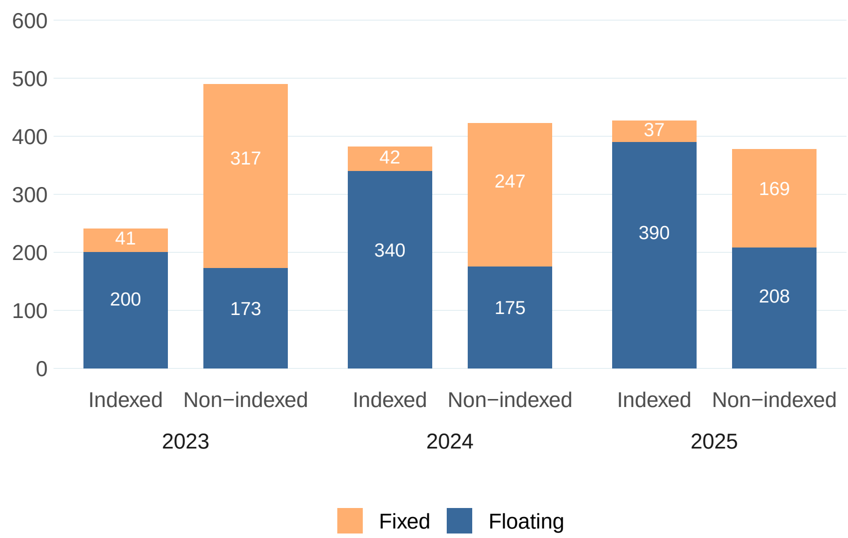
*ITC consists of corporations in the information, technology and communication sectors

4.2.2.4.1 Mortgages

The carrying amount of mortgages to individuals in the portfolio was ISK 805 billion at year-end 2025 (2024: ISK 804 billion). Non-indexed loans represented 47% of the carrying amount of the mortgage portfolio at year-end 2025 (2024: 53%). Fixed-rate, non-indexed mortgages amounted to ISK 169 billion at year-end 2025 (2024: ISK 247 billion). Customers can choose to fix rates on their mortgages for either a period of 1, 3 or 5 years at a time. Indexed mortgages amounted to ISK 427 billion at year-end 2025 (2024: ISK 382 billion), of which ISK 390 billion were floating rate mortgages. Floating-rate, non-indexed mortgages amounted to ISK 208 billion at year-end 2025 (2024: ISK 175 billion).

Demand for mortgages slowed in 2025 as policy rates and inflation remained high. In October, the Supreme Court of Iceland delivered a ruling in a case against Islandsbanki, where certain terms on variable interest rates for a mortgage issued by Islandsbanki were ruled illegal. Following the ruling, Landsbankinn made changes to the terms offered on new mortgages by the Bank, offering fixed 1-, 3- and 5-year non-indexed rates for all customers, and fixed 20-year indexed rates for first-time buyers. The changes made by the Bank do not affect mortgages already issued by the Bank. In December, the Supreme Court ruled in two cases regarding loan terms on mortgages issued by Landsbankinn. The Bank was acquitted in both cases. With these rulings by the Supreme Court, legal uncertainty surrounding mortgage terms has been minimised.

Figure 4.8: Indexed vs. non-indexed mortgages (ISK bn)



All new mortgages must meet requirements for credit rating, payment capacity and collateralisation limits. These limits become more stringent as the loan amount increases. The Central Bank of Iceland has set rules on the maximum loan-to-value (LTV) ratio, i.e. the ratio of loan value to the value of the underlying collateral, of real estate loans to consumers. The current rules state that the maximum LTV for new mortgages is 80%, except for first-time buyers, where the maximum is 90%. The rules also include a payment capacity constraint, capping the monthly payment of mortgages to 35% of net monthly income (40% for first-time buyers). These limits were imposed to prevent unsustainable indebtedness for mortgage customers in the portfolio, in a market environment with high interest rates and rising housing prices.

The weighted average LTV of mortgage loans decreased in 2025 and was 46.6% at year-end (2024: 47.6). The decrease in LTV is in line with rising housing prices, as the value of real estate underlying the calculation is largely based on official property valuation. If the LTV per customer is considered for the mortgage portfolio, 82% of the customers in the portfolio have an LTV of 70% or lower, and 97% have an LTV of 85% or lower. Figure 4.10 shows the gross carrying amount at year-end 2025 of indexed and non-indexed mortgages and the weighted-average LTV, as at year-end 2025, by year of loan origination. The weighted-average LTV was 53.6% for loans issued in 2025, 53.5% for loans issued in 2024 and lower for older loans.

Figure 4.9: Weighted average LTV - Mortgages

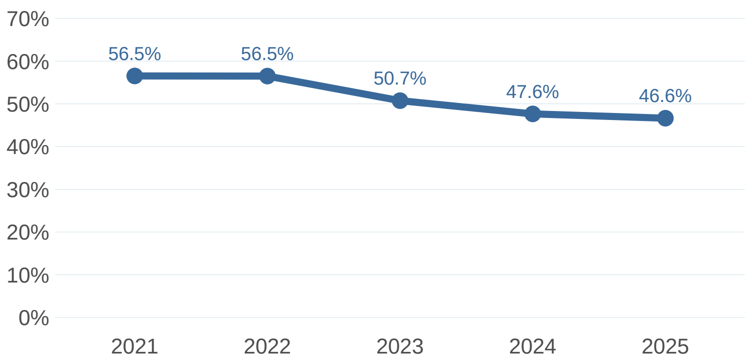
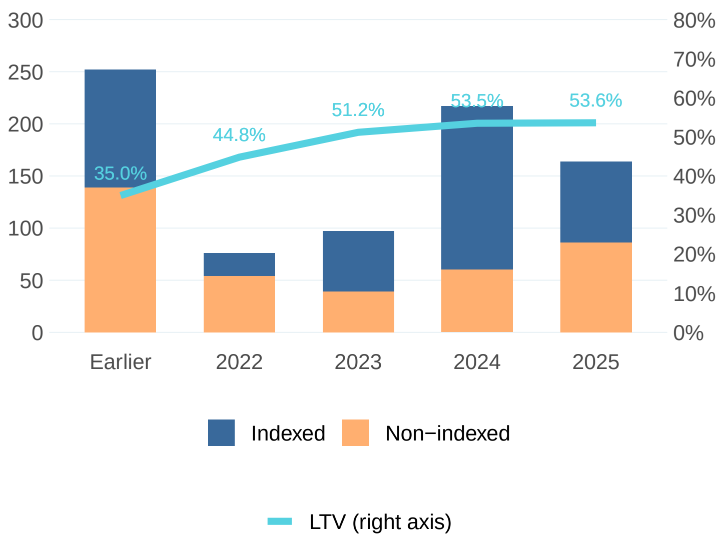


Figure 4.10: Gross carrying amount (ISK bn) and LTV of mortgages at 31.12.2025 by year of loan origination



The average PD value for mortgages remained stable in 2025 and was 0.5 at year end (2024: 0.6). Total ECL as a ratio of gross carrying amount for mortgages was 0.05% at year-end 2025 (2024: 0.06%). The default rate for mortgages, weighted by gross carrying amount, was 0.3% in 2025 (2024: 0.4%). Default rates and past due ratios have been very low in the mortgage portfolio for the past few years.

4.2.3 Probability of default & migration analysis

Migration analysis in this section is based on the Bank's rating scale and PD estimates.

Figures 4.12 and 4.13 show the rating grade distribution of the loan portfolio for corporates and individuals.

Figure 4.11: Average PD & LGD - Mortgages

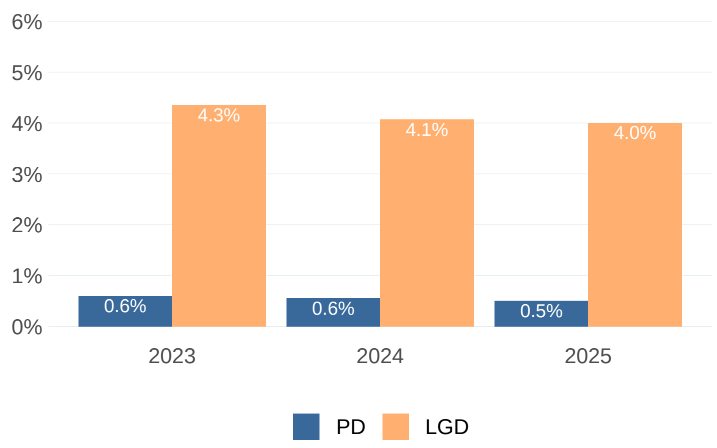


Figure 4.12: Rating grade distribution - Corporates

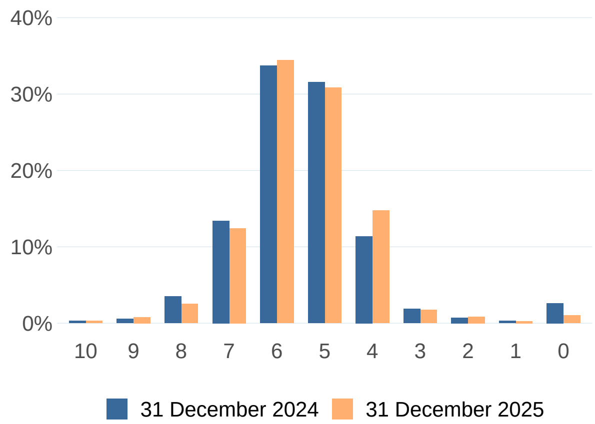
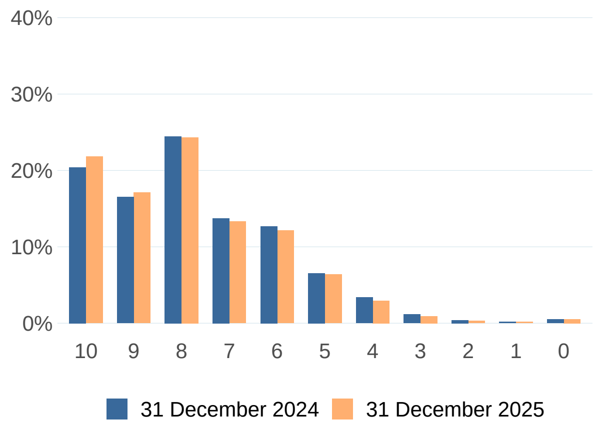


Figure 4.13: Rating grade distribution - Individuals



Figures 4.14 to 4.16 show the rating grade migration for corporates and individuals during 2025, based on existing customers at year-end 2024 and 2025

Migration is shown both in terms of number of customers and exposure. Migration analysis does not include customers in default, i.e. customers with a credit rating of 0.

The rating and risk grade distribution changes primarily due to three factors: changes in rating grade for existing customers, or pure migration; different rating grade distribution of new customers and customers leaving the Bank compared to the rating grade distribution of existing customers during the comparison period, and; increased or decreased exposure per rating grade to existing customers.

Figure 4.14: Rating migration ratios in 2025

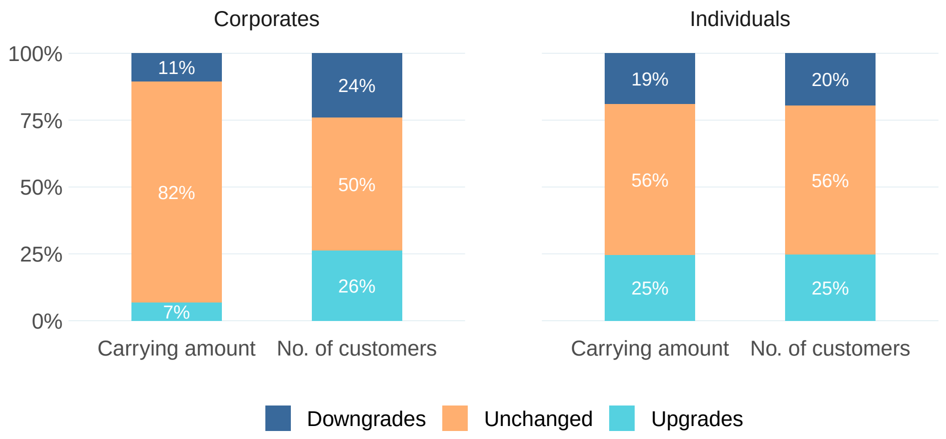


Figure 4.15: Rating migration of corporates in 2025

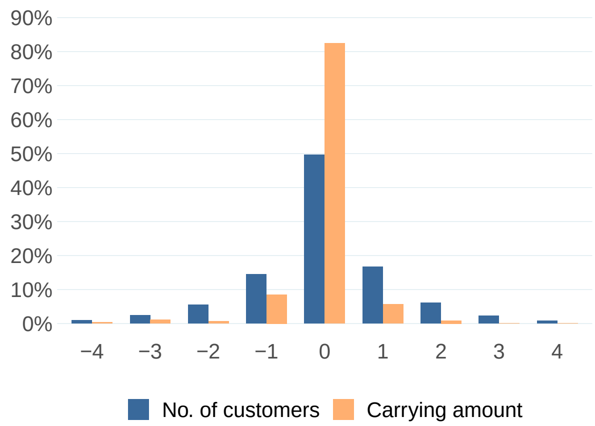
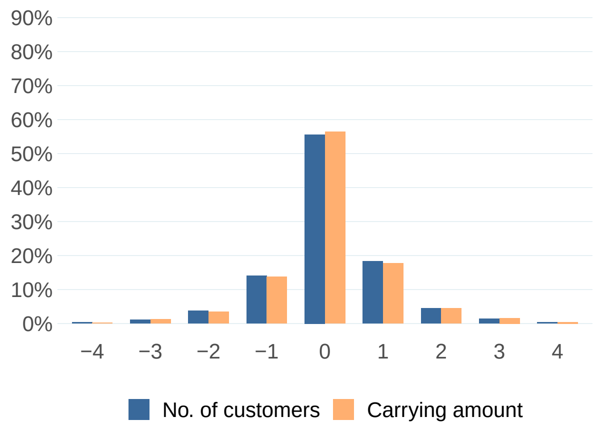


Figure 4.16: Rating migration of individuals in 2025



The default rate, measured by number of customers, was 1.8% for corporate customers in 2025, as compared to the estimated 3.0%. The default rate of individuals for 2025 was 0.7% as compared to the estimated 1.0%. Estimated default rates are based on the average through-the-cycle (TTC) PD values for each rating category at the start of the year. For all rating grades, both for individuals and corporates, the default rate was below the PD bands.

Figures 4.18 and 4.19 show a comparison between realised default rates and estimated PD values at the start of each year, weighted by gross carrying amount and number of customers, for both corporates and individuals. Realised default rates have been consistently below the estimated PD values both for corporates and individuals for the past four years.

Figure 4.17: 12-month default rate vs. probability of default band

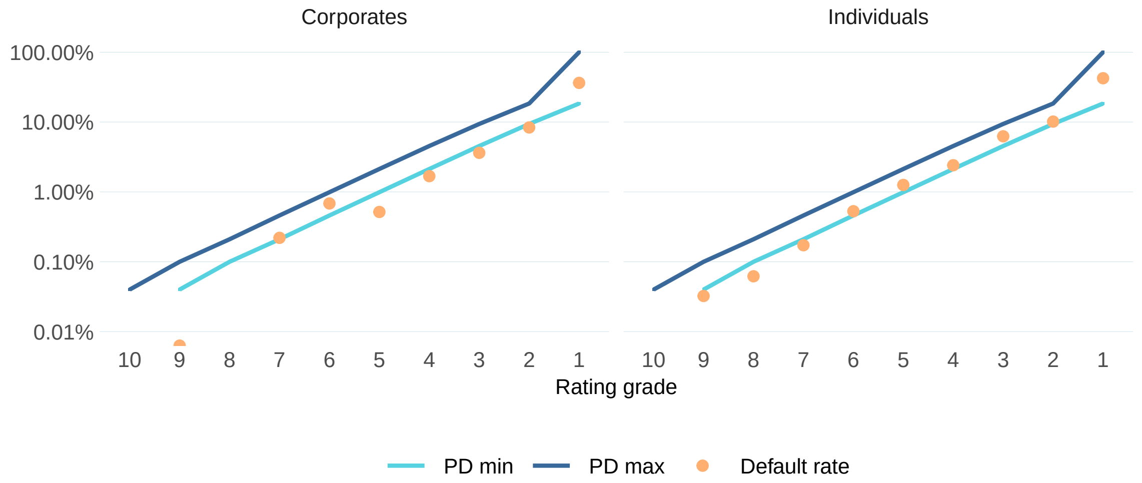


Figure 4.18: Default rate vs. PD - Corporates

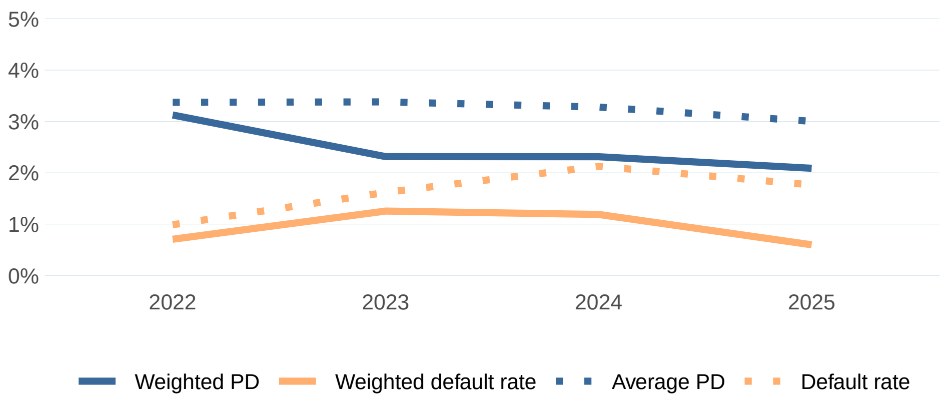
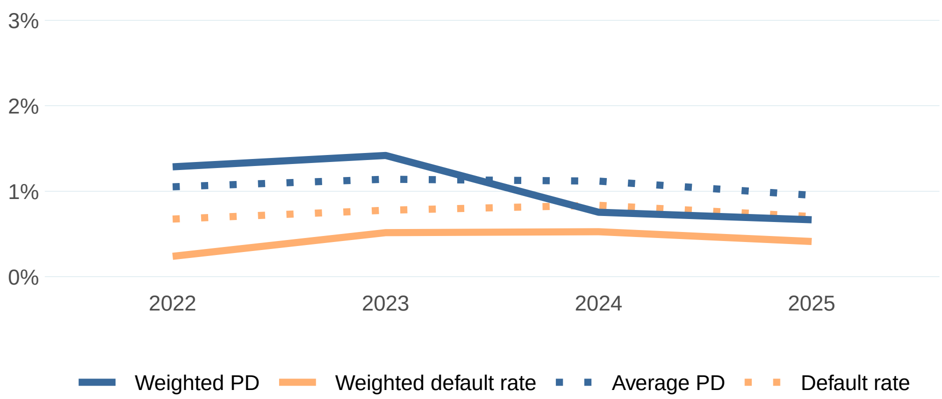


Figure 4.19: Default rate vs. PD - Individuals



4.2.4 Forbearance

The Bank adopts forbearance plans to assist customers in financial difficulty with the goal of protecting the Bank's long-term interests. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees and settlements.

Forbearance plans must comply with the Bank's credit policy. They are used as an instrument to maintain long-term customer relationships for customers with financial difficulties if there is a realistic possibility that the customer will be able to meet obligations again and are used for minimising loss in the event of default.

The Bank has implemented EBA's definition of loans subject to forbearance measures. Table 4.4 is based on EBA's definition where exposures with forbearance measures are divided into performing and non-performing loans.

The gross carrying amount of total exposures subject to forbearance measures was ISK 32,935 billion at year-end 2025 (2024: 32,086), and remains at 1.7% of the total portfolio.

Further quantitative information regarding forborne exposures can be found in template CQ1 in the additional disclosures accompanying this report.

Table 4.4: Exposures subject to forbearance (Gross carrying amount - ISK m)

	31.12.2025		**31.12.2024**	
	Performing	**Non-performing**	**Performing**	**Non-performing**
Modification	18,159	9,926	17,176	10,762
Refinancing	2,092	2,760	2,492	1,656
- of which: Under probation	1,786	0	4,041	0
Total	**20,250**	**12,685**	**19,668**	**12,418**

4.2.5 Loan impairment

Total expected credit loss (ECL) amounted to ISK 9.8 billion at year-end 2025 (thereof classified as deduction from gross carrying amounts: ISK 9.1 billion), as compared to ISK 11.2 billion at year-end 2024 (thereof classified as deduction from gross carrying amounts: ISK 10.7 billion). In 2025, a net impairment charge of ISK 1.2 billion was recognised in the Bank's income statement, as opposed to an ISK 2.8 billion charge in 2024. ECL increased in stage 1 in 2025 but decreased in stages 2 and 3. For individuals, the total ECL increased by ISK 200 million while ECL in the corporate portfolio decreased by ISK 1.7 billion. The decrease is largely due to write-offs in stage 3, and total ECL in stages 1 and 2 in the corporate portfolio increased by ISK 465 million in 2025. Details on the development of ECL during the year can be found in note 62 in the Bank's annual financial statement for 2025.

Figure 4.20: Expected credit loss by stage (ISK bn)

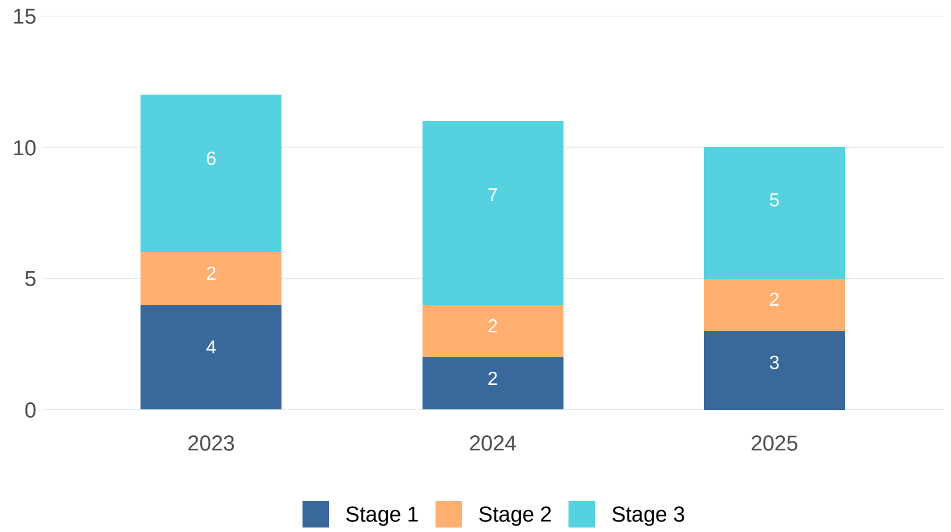


Figure 4.21: ECL to gross carrying amount - Stage 1

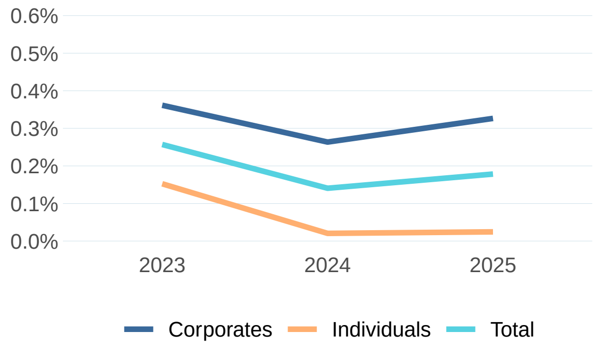


Figure 4.22: ECL to gross carrying amount - Stage 2

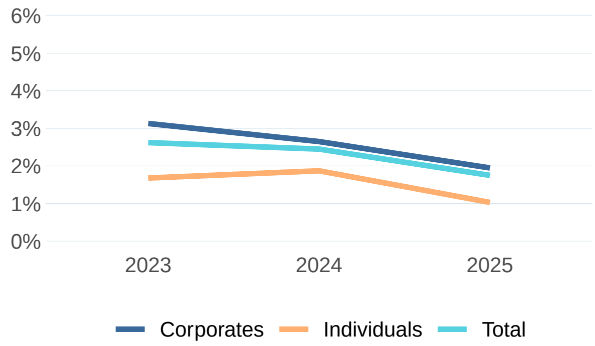


Figure 4.23: ECL to gross carrying amount - Stage 3

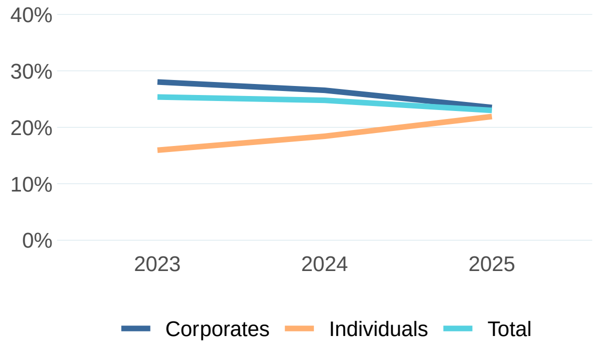
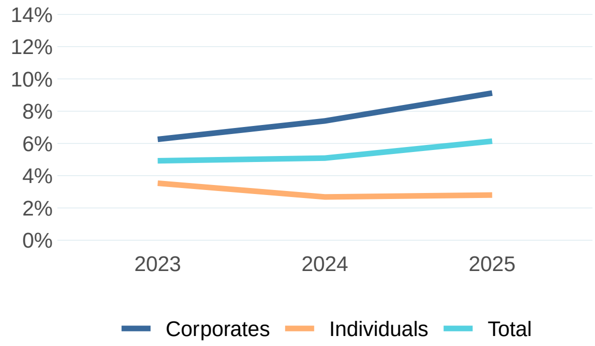


Figure 4.24: Gross carrying amount in stage 2



4.2.5.1 Effects of natural disaster on the Reykjanes peninsula on loan impairment

In 2025, the Bank continued performing a detailed risk assessment of loans to larger corporates in Grindavík on a quarterly basis and staging is based on that assessment. Non-defaulted loans to smaller Grindavík based corporates are all classified as stage 2.

In 2024, as a response to the ongoing seismic and volcanic episode unfolding in the vicinity of Grindavík, Landsbankinn along with other banks and pension funds, agreed to participate in the State's establishment of real estate company Fasteignafélagið Thórkatla ehf. ("Thórkatla") for the purpose of purchasing residential housing in Grindavík and giving individuals who are legally domiciled in Grindavík the option of selling their properties to the company with pre-emption. As at 31.12.2025, almost all mortgages in Grindavík have been paid up and the accompanied risk transferred to the Bank's exposure to Thórkatla. The Bank's loan to Thórkatla was refinanced with a bond issuance at the end of 2025 and is therefore no longer a loan exposure. An operating loan to Thórkatla with a total exposure of ISK 404 million remains as a loan exposure and is measured at amortized cost.

At year-end 2025 the carrying amount of loans in the Grindavík area amounted to ISK 38 billion and total ECL was ISK 2.1 billion. For further information on credit exposure in Grindavík, see Note 18 in the Bank's consolidated financial statements for 2025.

4.3 Credit concentration risk

Credit concentration risk includes (i) single name concentrations of large (connected) individual counterparties and (ii) significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type, or other.

Limit management for single name and segment concentrations is set, monitored and managed through the Bank's risk appetite and its limit management structure. The Bank's risk profile for concentration risk is reported monthly to the Executive Committee and the Board of Directors according to internal guidelines.

The Bank uses the identification of concentration risk in the credit portfolio as a credit risk management parameter. Concentration risk arises in the credit portfolio as an inevitable consequence of the Bank's business strategy. Concentration risk is credit risk related to the degree of diversification in the credit portfolio and includes both single name concentration risk and segment concentration risk.

According to CRR, exposures to a single customer or a group of related customers – after the deduction of particularly secure claims – may not exceed 25% of common equity tier 1 (CET1) capital. No exposure to a single customer or a group of related customers exceeded 25% in the year 2025 and, at year end, the largest single-customer exposure was well below 25%. The three large exposures at year-end 2025 are all exposures to sovereign states and are only 0.1% of CET1 capital after mitigation and deductions. No exposure to a single customer was above 10% of CET1 at year-end 2025. The Bank's risk appetite includes a limit on the sum of the 20 biggest single name exposures, excluding sovereign states and financial institutions, as a ratio of Tier 1 capital. This ratio decreased in 2025 and is well within the limit.

The Bank's risk profile for large exposures is monitored daily by Risk Management and reported monthly to the Executive Committee and the Board of Directors.

As for single name concentration, the Bank's Board of Directors sets portfolio limits for segment concentration in the Bank's risk appetite.

At year-end 2025, lending to individuals represented 47% of the Bank's total credit exposure (2024: 49%). Most of the demand from individuals is for mortgages, and the Bank's lending to individuals is therefore mostly secured by real estate.

The Bank's corporate credit exposures are primarily to Icelandic corporate customers. Companies in the fisheries, real estate, travel and construction sectors represent the largest exposure to single sectors.

Customers domiciled in Iceland accounted for 98% of the Bank's total credit exposure in 2025 (2024: 98%), excluding exposures to financial institutions. The majority of exposures to foreign counterparties relate to management of the Bank's foreign liquidity reserves and are classified as loans and advances to financial institutions.

The Bank estimates sector concentration risk as the difference between sector concentration for Iceland and the sector concentration in the Bank's portfolio. Figure 4.27 shows a comparison of industry concentration between the Bank's portfolio and the portfolios of all Icelandic banks. Data for Iceland is the CBI's most recent data, from November 2025. Note that this sector classification includes the travel industry as part of the services sector.

Figure 4.25: Exposures between 10% and 20% of Tier 1 capital

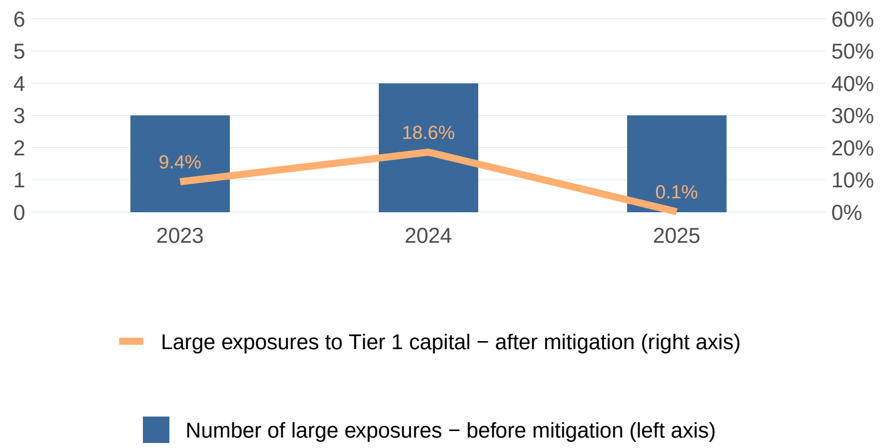


Figure 4.26: Loans and advances by geographical area (ISK bn)

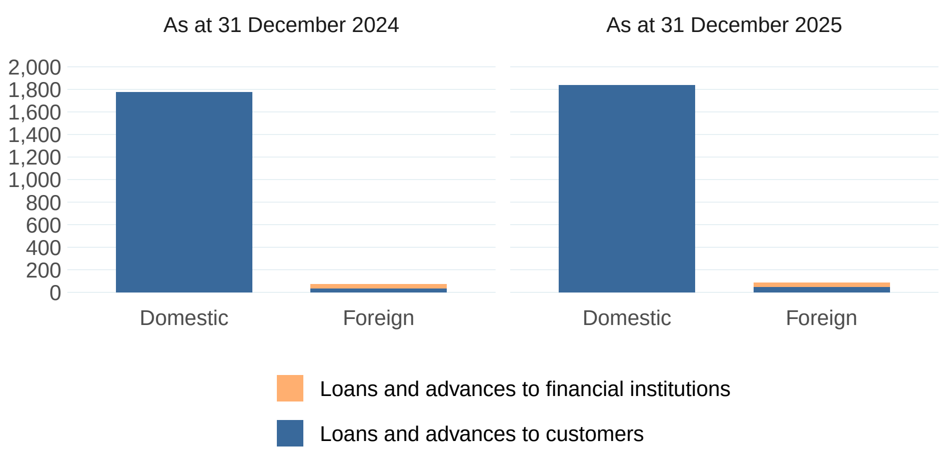
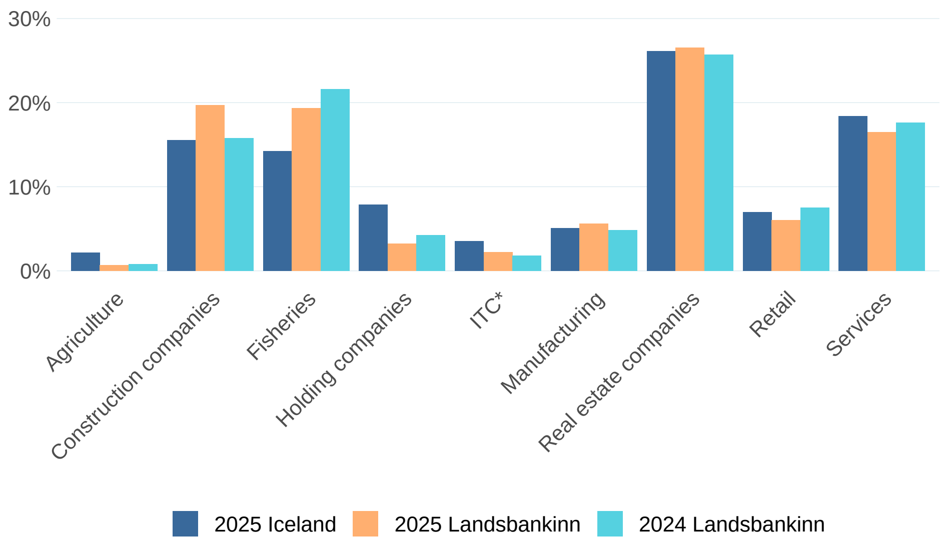


Figure 4.27: Industry concentration



*ITC consists of corporations in the information, technology and communication sectors

5 Market risk

Market risk

Market risk is the possibility of loss in financial instruments because of fluctuations in market prices. Market risk arises from open positions in currencies, equities and bonds. All are exposed to general and specific market movements and changing volatility levels in market rates and prices. This includes foreign exchange rates, equity prices, credit spreads, interest rates and inflation.

- The Bank's total risk-weighted exposure to market risk decreased slightly in 2025, from 1.1% to 1.0%.
- The risk exposure across market risk factors fluctuated over the year, with the largest fluctuations in equity risk in the trading book.
- Despite unstable market conditions and fluctations, the Bank has effectively managed its market risk, and market risk in total remained within the defined risk appetite throughout the year.

5.1 Governance, management and policy

The Bank's market risk management objective is to ensure compliance with the Bank's market risk policy, which entails that the only risk taken is one that the Bank understands and can evalute, measure and manage.

The Board of Directors is responsible for determining the Bank's market risk appetite. The CEO and the Risk & Finance Committee are responsible for developing market risk management policy and procedures and setting market risk limits. The Risk & Finance Committee ensures that the risk policy is reflected in the Bank's internal framework of regulations and guidelines. The Bank's Managing Directors are responsible for ensuring that the Bank's business units execute the risk policy appropriately and disclose, without delay, major concerns regarding market risk to the Risk & Finance Committee. Market risk is managed by Treasury, Market Making and Capital Markets. Together, the risk appetite and the market risk policy, approved by the Board of Directors, set the overall limits for market risk management within the Bank in accordance with the Bank's three lines of defence principle.

The aim of the market risk management process is to ensure that market risk levels are within the Bank's risk appetite and to limit the possibility of loss, while maintaining acceptable profitability. Market risk mitigation reflects the Bank's overall risk appetite by identifying the target level for market risk factors and limiting exposure accordingly. Other market risk mitigation plans are made on a case-by-case basis and involve hedging strategies and risk reduction through diversification.

5.2 Monitoring and reporting

Market risk is measured, monitored and reported on a daily, weekly and monthly basis. The market risk limits are monitored by the Market Risk department, with exceptions and breaches reported to the Risk & Finance Committee and other relevant parties as necessary. The department is also responsible for detecting and correcting any deficiencies in compliance to policies, processes and procedures.

Risk reports show the Bank's total risk in addition to summarising risk concentration in different business units and asset classes, as well as across other attributes, as appropriate, pursuant to the Bank's activities. Additional reports on market risk, risk appetite measurements and any concerns regarding market risk are sent to the Board of Directors on a regular basis.

Several indicators are used to assess market risk, including value-at-risk (VaR), profit and loss analysis, delta positions and net positions across different attributes, such as currencies and issuers. These risk measurements are supplemented by specific stress tests and scenario analyses as appropriate, taking the Bank's balance sheet composition and operating environment into account.

5.3 Exposure and measurement

The Bank separates its exposure to market risk into trading and banking book portfolios, managing each separately. Pillar I capital requirements for market risk is composed of Interest rate and Equity price risk in the trading book, Foreign exchange risk and CVA risk, following Capital Requirements Regulation (CRR). Pillar II-R capital requirements for Interest rate and Equity price risk in the trading book and Foreign exchange risk are calculated using Value-at-Risk, according to the Central Bank's benchmark. It also specifies Pillar II capital requirements for Indexation risk and Interest rate and Equity risk in the banking book. Together, Pillar I and Pillar II-R capital requirements form Economic Capital (EC).

RWEA is 12.5 times the Pillar I capital requirement. The ratio of market risk RWEA to total RWEA was moderate and amounted to 1.0% at year-end 2025, compared to 1.1% at year-end 2024. Table 5.1 shows the Bank's net position in each market risk category and the corresponding RWEA. Table 5.1 and Figure 5.1 show the ratio of market risk RWEA to total RWEA.

Table 5.1: Market risk composition at year-end

	2025			2024		
	Net position	**RWEA**	**Ratio to RWEA**	**Net position**	**RWEA**	**Ratio to RWEA**
Interest rate risk in the trading book	6,413	1,881	0.1%	8,313	3,115	0.2%
Equity price risk in the trading book	3,087	6,244	0.4%	3,455	6,917	0.5%
Foreign exchange risk	2,914	4,974	0.3%	3,257	4,602	0.3%
CVA risk	4,965	1,944	0.1%	4,144	764	0.1%
Total	**17,379**	**15,042**	**1.0%**	**19,169**	**15,399**	**1.1%**

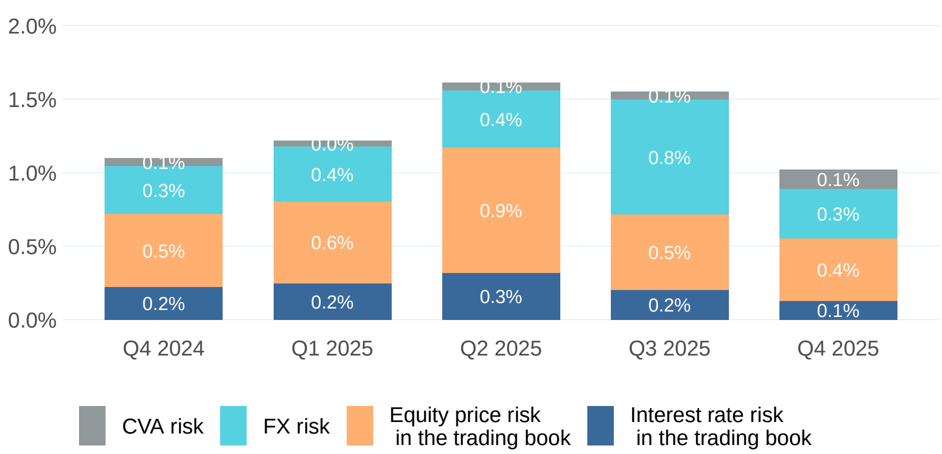
5.3.1 Interest rate and equity price risk in the trading book

Trading portfolios include positions arising from proprietary trading and exposures due to market making, derivative sales and hedging. All equity- and bond-based derivative contracts are usually fully hedged with respect to market risk and are subject to strict limit requirements. Fixed income instruments in the trading book mainly comprise government bonds and covered bonds, while all equity instruments are listed on an exchange. This gives rise to interest rate and equity price risk, which is the possibility of loss due to fluctuations in interest rates and equity prices.

5.3.2 Foreign exchange risk

Foreign exchange risk is the possibility of loss in financial instruments denominated in foreign currencies due to fluctuations in foreign exchange rates. Foreign exchange risk within the Bank may arise from

Figure 5.1: Market risk composition (Ratio to total RWEA)

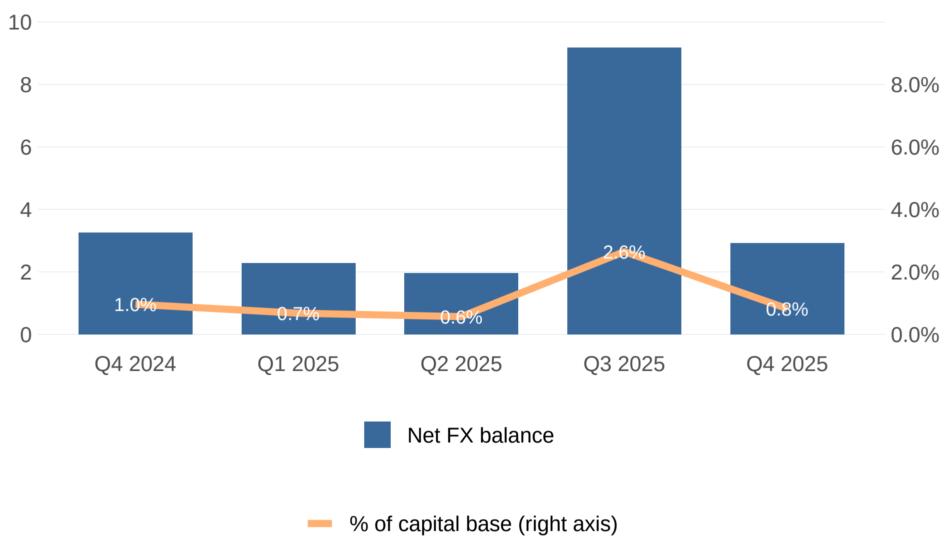


holding assets in one currency and liabilities in another, from spot or forward foreign exchange trades, from currency swaps or from other currency contracts that are not matched with an offsetting contract. The net FX balance can be seen in Table 5.2 and Figure 5.2.

Table 5.2: Net FX balance

	Net position at year-end	
	2025	**2024**
EUR	1,663	-228
GBP	104	452
USD	1,754	2,995
NOK	993	326
SEK	-176	163
Other	-1,425	-451
Total	**2,914**	**3,257**

Figure 5.2: Net FX balance (ISK bn)



5.3.3 Credit valuation adjustment

Credit valuation adjustment (CVA) is an adjustment to a derivative's price to account for a potential default of the counterparty. The Bank's derivative contracts are well collateralised, which reduces CVA. The Bank does not hedge its exposure further, since the Bank's CVA is considered immaterial. When moving from CRR II to CRR III, the Bank changed from the Standardised method to the Reduced Basic Approach for CVA, which caused a small increase in CVA due to a change in risk weights and multipliers. The Bank continues to use the Standardised approach method for counterparty credit risk. Further information about the Bank's exposure to counterparty credit risk can be found in the additional disclosures accompanying this document (see also 4.1.4.1).

5.3.4 Interest rate risk in the banking book

Banking book portfolios include positions arising from the Bank's retail and commercial banking operations and Treasury's proprietary position-taking as part of asset and liability management and funding transactions. Treasury is also responsible for daily liquidity management, creating exposure to market risk. Interest rate risk in the banking book is part of market risk and consists of interest rate sensitive assets and liabilities, such as loans to customers, strategic investments, liquidity management instruments, funding instruments and deposits.

Interest rate risk in the banking book is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Changes in interest rates on the Bank's assets and liabilities impact its interest rate margin and/or the value of its equity. This risk is primarily the result of duration mismatch of assets and liabilities. Net positions of assets and liabilities in the banking book by the interest rate fixing period are shown in Table 5.3.

Table 5.3: Assets and liabilities in the banking book by interest rate fixing period

	Net position at year-end 2025				
	Up to 3 M	**3-12 M**	**1-5 Y**	**Over 5 Y**	**Total**
Total assets	1,801,430	207,320	203,055	20,369	2,232,174
Total liabilities	-1,321,379	-82,842	-443,145	-76,155	-1,923,521
Net on-balance sheet position	480,051	124,478	-240,090	-55,786	308,653
Effect of derivatives held for risk management	-220,560	0	176,448	44,112	0
Net off-balance sheet position	-3,473	0	0	3,473	0
Total interest repricing gap	**256,019**	**124,478**	**-63,642**	**-8,202**	**308,653**
	Net position at year-end 2024				
	Up to 3 M	**3-12 M**	**1-5 Y**	**Over 5 Y**	**Total**
Total assets	1,634,013	226,410	247,993	20,104	2,128,520
Total liabilities	1,278,703	74,045	398,068	72,977	1,823,793
Net on-balance sheet position	355,310	152,365	-150,076	-52,873	304,727
Effect of derivatives held for risk management	-172,680	0	172,680	0	0
Net off-balance sheet position	2,000	-2,000	0	0	0
Total interest repricing gap	**184,630**	**150,365**	**22,604**	**-52,873**	**304,727**

The Bank employs a daily stress test of the interest rate risk in the banking book by measuring the impact of shifting the relevant interest rates for every currency on the fair value of all interest-rate sensitive assets and liabilities in the banking book. Table 5.4 shows the sensitivity of the Bank's banking book fair value resulting from a 100 bps parallel shift up and down of all yield curves.

Equities and bonds in the banking book consist of investments aligned with the Bank's investment policy in unlisted assets and positions obtained through corporate restructuring. Capital reserved against these exposures is classified as credit risk.

Table 5.4: Interest rate risk (fair value sensitivity) in the banking book at year-end

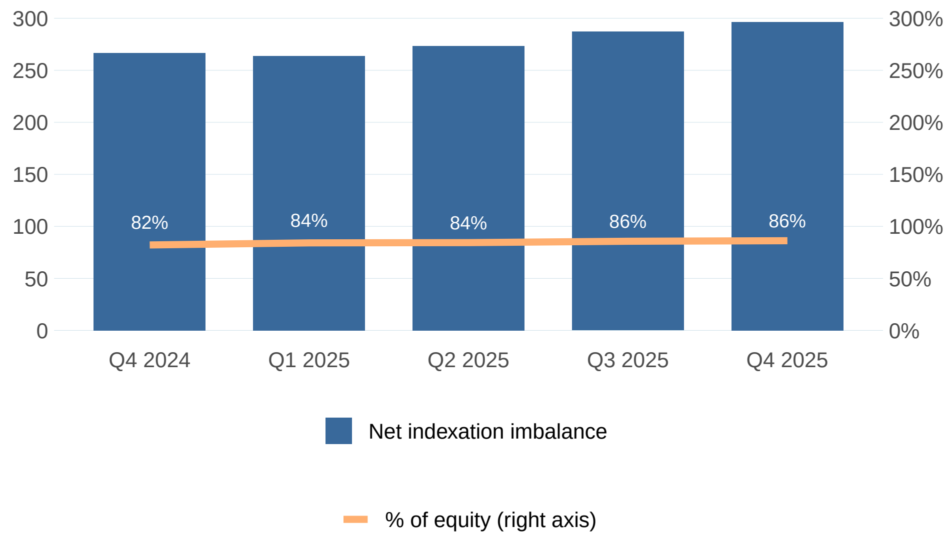
	2025		2024	
	+100 bps	-100 bps	+100 bps	-100 bps
ISK non-indexed	-1,867	1,930	-2,513	2,640
ISK indexed	3,675	-3,780	3,888	-4,051
EUR	52	-57	16	-10
SEK	83	-83	39	-39
USD	495	-515	-138	148
Other	4	-4	23	-23
Total	**2,442**	**-2,509**	**1,315**	**-1,335**

5.3.5 Indexation risk

Indexation risk is the possibility of loss in inflation-linked financial instruments due to fluctuations in the Icelandic consumer price index (CPI). Mismatched CPI-linked assets and liabilities expose the Bank to indexation risk. The Bank's total CPI indexation balance increased from ISK 267 billion to ISK 296 billion in 2025. CPI imbalance is now a metric in the Bank's risk appetite and throughout 2025 the imbalance was around and above the internal limit, 80% of equity. The Bank's risk appetite for 2026 has been reviewed and revised limit for CPI imbalance been implemented.

The balance increased in 2025, however, changes made by the Bank to its mortgage's product offering moderated the strong growth seen in recent years. Inflation-linked mortgages increased by ISK 46 billion in 2025 compared to ISK 140 billion in 2024. CPI-linked liabilities increased less than CPI-linked assets 2025, with borrowing, subordinated liabilities and customer deposits increasing by total ISK 40 billion while total assets grew by ISK 65 billion. Further information about the Bank's market risk can be found in template MR1 in the additional disclosures accompanying this report.

Figure 5.3: Indexation imbalance



6 Liquidity risk

Liquidity risk

Liquidity risk is the possibility that the Bank will encounter difficulties in meeting obligations associated with its financial liability that are settled by delivering cash or another financial asset, or that such a settlement involves excessive costs. Liquidity risk arises from mismatches in the timing of cash flows of financial assets and liabilities, which is inherent to the Bank's operations and investments.

- Liquidity risk is identified as one of the Bank's key risk factors. The Bank's policy is to have a strong liquidity position near- and long-term. This is reflected in the Bank's risk appetite, business plan, internal liquidity management policies and rules.
- The Bank's liquidity position at year-end 2025 was well above regulatory requirements and the Bank's internal limits. At year-end 2025, the liquidity coverage ratio was 180% across all currencies, 1,386 % in EUR and 122% in ISK (164%, 951% and 133% at year-end 2024, respectively).
- The largest part of the Bank's funding is in the form of deposits from customers, which increased by 21 billion in 2025 and amounted to ISK 1,249 billion at year-end.

6.1 Identification

The Board sets the liquidity management policy and the liquidity contingency plan of the Bank. Liquidity risk management refers to the internal policies and procedures, which ensure that quantitative and qualitative objectives, limits and reporting are established. The policy describes how the Bank identifies, evaluates, measures, monitors, manages and reports its liquidity. The policy clearly outlines the structure, responsibilities and controls for managing liquidity risk within the Bank. The contingency plan provides a framework for detecting an upcoming liquidity event with predefined early warnings and actions for preventing temporary or longer-term liquidity disruptions.

6.2 Assessment

The main metrics for measuring liquidity risk are the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). They help the Bank monitor and manage its short-term and longer-term liquidity risk.

6.2.1 Liquidity coverage ratio

The Bank uses LCR as a key indicator for short-term liquidity risk. The objective of LCR is to promote short-term resilience, by ensuring that the Bank has sufficient high-quality liquid assets to withstand a significant stress scenario lasting 30 calendar days. LCR is calculated as the ratio of high-quality liquid assets to the expected total net outflow over the next 30 days, under a specified stress scenario. To prevent over-reliance on the estimated inflow, it can at most be 75% of the estimated outflow.

The Bank follows CBI's Rules No. 1520/2022 on LCR, which require the Bank to maintain a minimum LCR of 100% across all currencies, 80% in euros and 50% in Icelandic krona. The Bank submits reports to the CBI on LCR monthly. Quantitative information on the Bank's LCR at year-end 2025 can be found in the additional disclosures accompanying this document.

Table 6.1 shows the Bank's deposit base at year-end 2025. Run-off rates are used to estimate deposit outflows under stressed conditions for the next 30 calendar days and are set according to CBI's Rules No. 1520/2022 on LCR. Figure 6.1 and Figure 6.2 show further breakdown of the Bank's deposit base.

Table 6.1: Total deposits by groups

As at 31 December 2025	**Run off rate**	**0-30 days**	**Over 30 days**	**Guaranteed**	**Unguaranteed**	**Total**
Individuals	5-100%	556,537	180,240	517,612	219,165	736,777
Small and medium sized corporates	5-100%	107,669	13,637	68,757	52,549	121,306
Operational deposits	5-25%	0	0	0	0	0
Large corporates	20-40%	184,670	47,667	12,633	219,704	232,337
Public entities	20-40%	52,410	4,775	0	57,185	57,185
Financial customers	100%	63,998	44,205	0	108,203	108,203
Pledged deposits		12,422	1,349	2,574	11,197	13,771
Total deposits		**977,706**	**291,872**	**601,575**	**668,003**	**1,269,578**

Figure 6.1: Total deposits by maturity

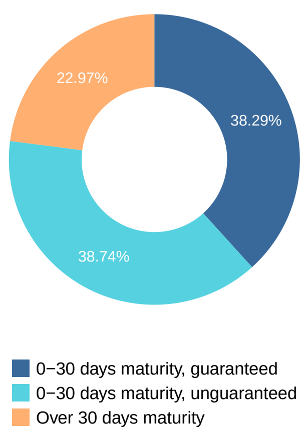
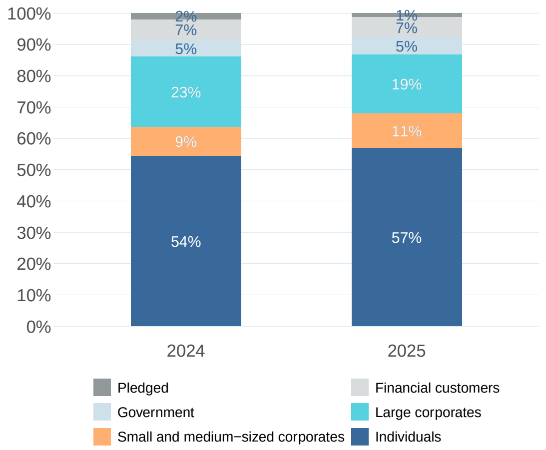


Figure 6.2: 0-30 days maturity deposits by groups*



*According to the Central Bank's Rules on Liquidity Coverage Requirements.

Figures 6.3, 6.4 and 6.5 show the development of the Bank's LCR across all currencies, in EUR and in ISK, respectively.

Figure 6.3: Liquidity coverage ratio (total)

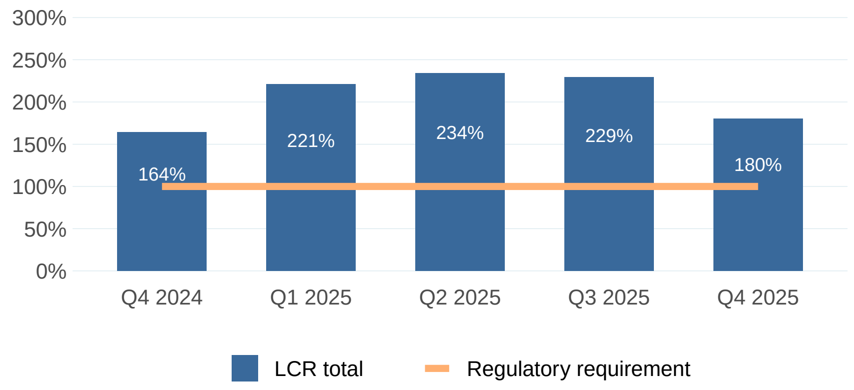


Figure 6.4: Liquidity coverage ratio (EUR)

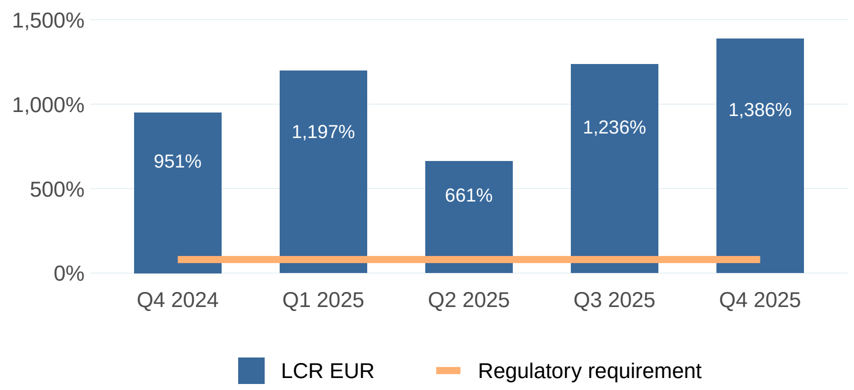
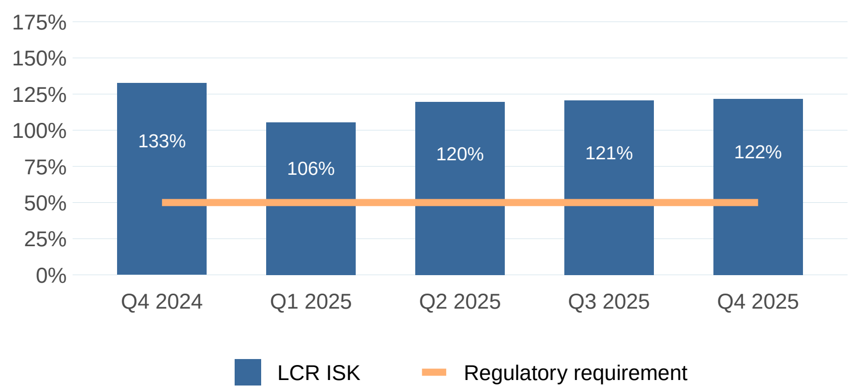


Figure 6.5: Liquidity coverage ratio (ISK)



6.2.2 Net stable funding ratio (NSFR)

The Bank uses NSFR as a key indicator for medium- to long-term liquidity risk. Its objective is to capture structural issues in the balance sheet over the next 12 months, with the aim to balance the maturity structure of assets and liabilities and to limit overreliance on short-term funding of long-term assets.

NSFR is defined as the ratio between the amount of available stable funding to the amount of required stable funding. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR. Required stable funding is a function of the liquidity characteristics and residual maturities of the various assets and off-balance sheet (OBS) exposures held by the Bank.

NSFR requirements are according to Regulation (EU) No. 575/2013 (CRR), as amended. The Bank is required to maintain a minimum NSFR of 100% across all currencies at all times. The Bank submits reports to the CBI on NSFR quarterly. At year-end 2025, the Bank's NSFR was 126% across all currencies and 163% in foreign currencies (124% and 143% at year-end 2024, respectively). Figures 6.6 and 6.7 show the development of the Bank's NSFR across all currencies and in foreign currencies, respectively.

Figure 6.6: Net stable funding ratio (total)

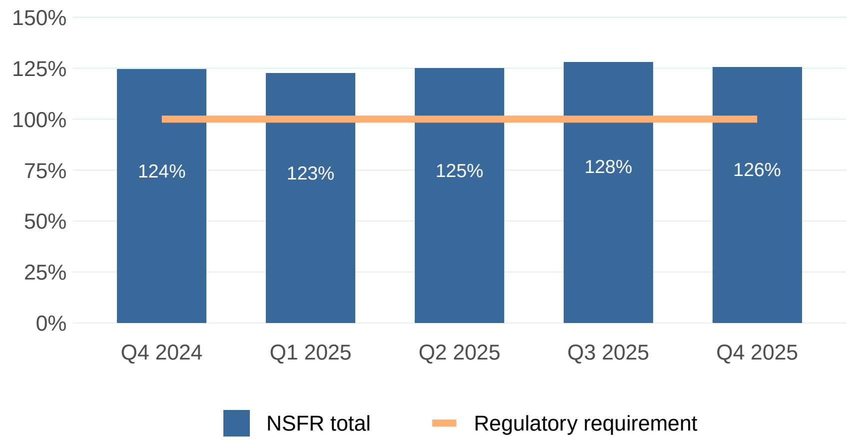
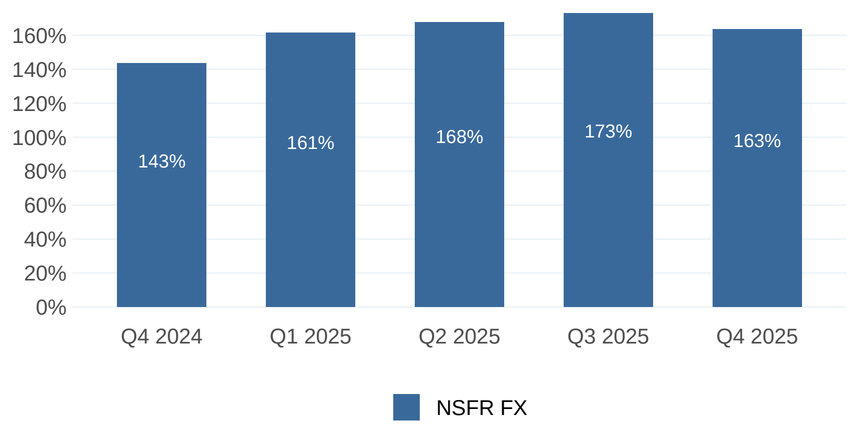


Figure 6.7: Net stable funding ratio (FX)



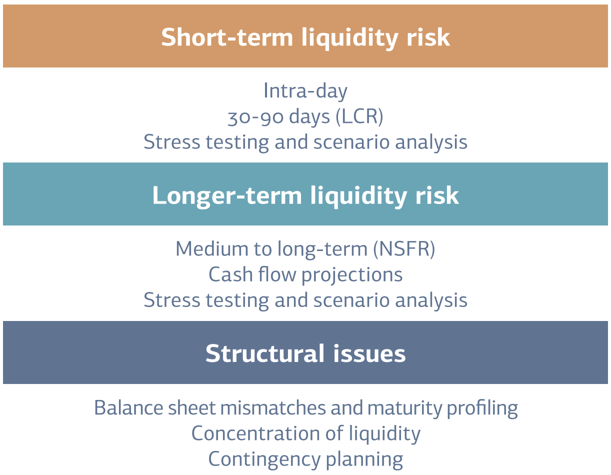
6.3 Management

The Bank's liquidity management policy requires that adequate level of unencumbered, high-quality liquid assets can readily be converted into cash. The Bank's liquidity management process entails procedures, measurements, monitoring and reporting of both short- and longer-term liquidity risk, as well as structural issues in the balance sheet. This three-way split can be seen in Figure 6.8, including the components of each part.

An integral part of the liquidity management process is to conduct forward-looking analysis, by taking the Bank's commitments to estimate future liquidity position. The Bank has implemented stringent stress tests, which have a realistic basis in the Bank's operating environment. This ensures that the Bank can meet financial obligations and sustain withdrawals of deposits in a timely manner and at a reasonable cost, even under stressed conditions.

The Bank's liquidity risk is managed centrally by Treasury, reported by Market Risk and monitored by the Risk & Finance Committee. The Bank's Internal Audit function assesses whether the liquidity management process is designed properly and is operating effectively.

Figure 6.8: Liquidity management process



6.4 Control and monitoring

The Bank's Treasury Department is responsible for day-to-day liquidity management, which entails closely monitoring current trends and potential market developments that may present significant and complex challenges for the Bank's liquidity strategy. Liquidity risk is primarily controlled through limits set in the Bank's risk appetite and the Bank's liquidity management policy. Limit management is supplemented by regular monitoring and reporting of liquidity position under normal and stressed business conditions. The Market Risk department regularly evaluates the Bank's liquidity position and monitors internal and external events and factors that may affect the liquidity position.

6.4.1 Liquidity Contingency Plan

The Bank has a Liquidity Contingency Plan in place. It provides a framework for detecting an upcoming liquidity event, with predefined early warning indicators and actions for preventing temporary or longer-term liquidity disruptions. It includes a detailed action plan and procedures for managing a liquidity event, along with various management actions aimed at resolving liquidity disruptions.

It specifies ways to estimate the likelihood or imminence of a liquidity event or a confidence crisis. It ensures that early warning indicators are monitored – along with their defined warning and trigger levels – to detect potential liquidity problems. Internal early warning indicators show changes in the Bank's balance sheet composition, decreasing liquidity ratios, deposit outflows and a downward trend in financial ratios. External early warning indicators show rating downgrades, third party evaluations and market price fluctuations. The Bank determines up to four risk alert levels of stress for each early warning indicator. Higher level indicates the increasing likelihood of funds leaving and a liquidity event occurring. The indicators are monitored weekly by the Risk & Finance Committee and reviewed at least annually by the Board of Directors.

6.5 Funding profile

The Bank continued to be an active issuer in the domestic bond market with regular covered bond issuance in 2025

Activity in the international capital markets continued in 2025 with two senior preferred issuances in euros for 5 and 7 years and senior nonpreferred issuance in SEK and NOK. The Bank was also active in senior preferred issuance in NOK and SEK in August 2025.

The Bank issued its inaugural Additional Tier 1 issuance in February. The issuance amounted to USD 100 million.

The Bank's credit rating was raised by one notch to A-/A-2 in with a stable outlook in April 2025.

The Bank's covered bond program has been rated by S&P Global Ratings since January 2021. In November 2023 the covered bond rating was raised to A+ with a stable outlook.

6.5.1 Funding

The Bank's funding rests on three main pillars. Deposits from customers are the Bank's primary funding source. The Bank is also funded through borrowing in the form of bond issuance, both in the international markets in foreign currencies and in the domestic market in ISK. Furthermore, the Bank is funded with contributions from owners in the form of equity. Figures 6.9 and 6.10 show breakdowns of borrowings and funding profile.

Figure 6.9: Borrowings and subordinated liabilities (ISK bn)

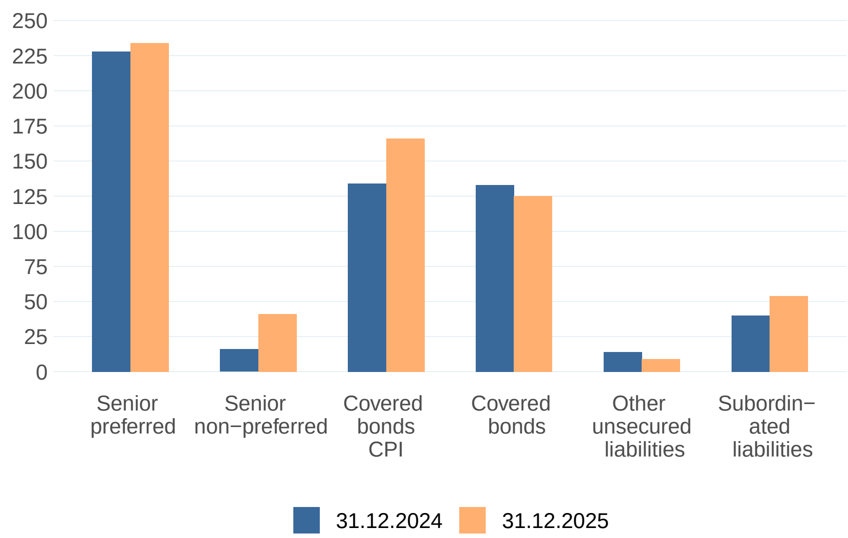
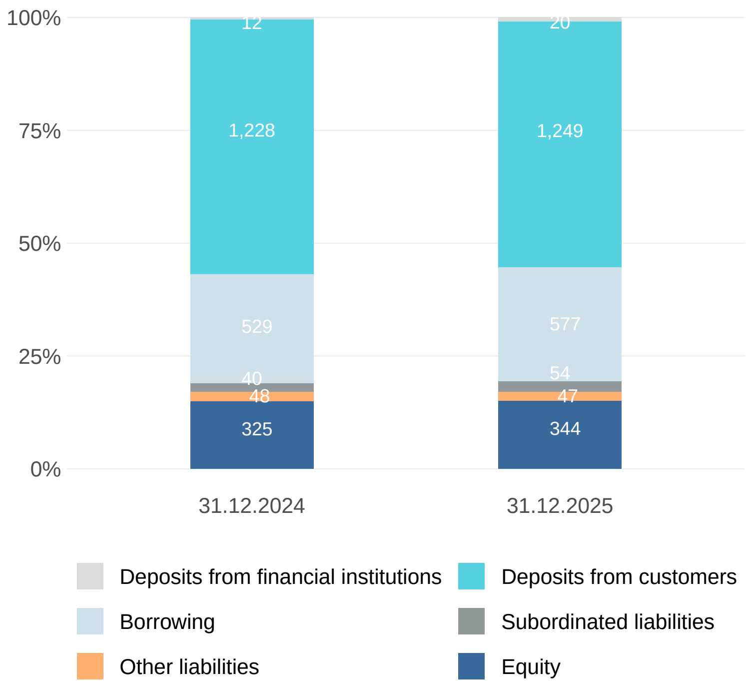


Figure 6.10: Funding profile (ISK bn)



6.5.2 Deposits from customers

The largest part of the Bank's funding is in the form of deposits from customers, which increased by ISK 21 billion in 2025 and amounted to ISK 1,249 billion at year-end. Inflation-linked deposits increased by ISK 5 billion in 2025 and amounted to ISK 187 billion at year-end 2025.

6.5.3 Borrowings

6.5.3.1 EMTN Programme and other loans

Senior bond issuance in foreign currencies is the most important pillar in the Bank's international market funding. The bonds are issued under the Bank's EUR 3 billion EMTN programme.

In March 2025, the Bank continued the issuance of senior non-preferred bonds with a new issuance in the amount of SEK 1,300 million with a 4NC3 structure and NOK 500 million with a 5NC4 structure.

The Bank issued 5-year senior preferred green bonds in June 2025 in the amount of EUR 300 million.

In August 2025, the Bank issued senior preferred bonds with a tenor of 3-years in the amount of SEK 500 million and NOK 400 million.

In November 2025, the Bank issued 7-year senior preferred green bonds in the amount of EUR 300 million. In conjunction with the issuance, the Bank offered to tender outstanding bonds maturing in March 2027 resulting in a buyback and delisting of the series in whole or for EUR 300 million.

At year-end 2025, senior unsecured issuance in foreign currency amounted to ISK 283 billion, increasing by ISK 26 billion during the year. Table 6.2 shows the Bank's EMTN issuance.

Table 6.2: EMTN Programme

As at 31 December 2025	Currency	Final maturity	Outstanding principal	Contractual interest rate
Senior unsecured				
LBANK 0.75 5/26	EUR	25.05.2026	300	FIXED 0.75%
LBANK 5.00 5/28	EUR	13.05.2028	300	FIXED 5.0%
LBANK 8/28	NOK	29.08.2028	400	NIBOR + 0.87%
LBANK 08/28	SEK	29.08.2028	500	STIBOR + 0.90%
LBANK 3.75 10/29	EUR	08.10.2029	300	FIXED 3.75%
LBANK 3.5 6/30	EUR	24.06.2030	300	FIXED 3.50%
LBANK 3.625 11/32	EUR	03.11.2032	300	FIXED 3.625%
Senior non-preferred				
LBANK 1.8 9/28	SEK	13.09.2028	1,000	STIBOR + 1.80%
LBANK 1.83 9/28	NOK	13.09.2028	250	NIBOR + 1.83%
LBANK 1.5 3/29	SEK	20.03.2029	1,300	STIBOR + 1.5%
LBANK 1.65 3/30	NOK	26.03.2030	500	NIBOR + 1.65%

6.5.3.2 Covered bonds

The size of the programme for covered bond issuance is EUR 3.5 billion and was increased from EUR 2.5 billion in 2024 and is listed on the Irish stock exchange, Euronext Dublin.

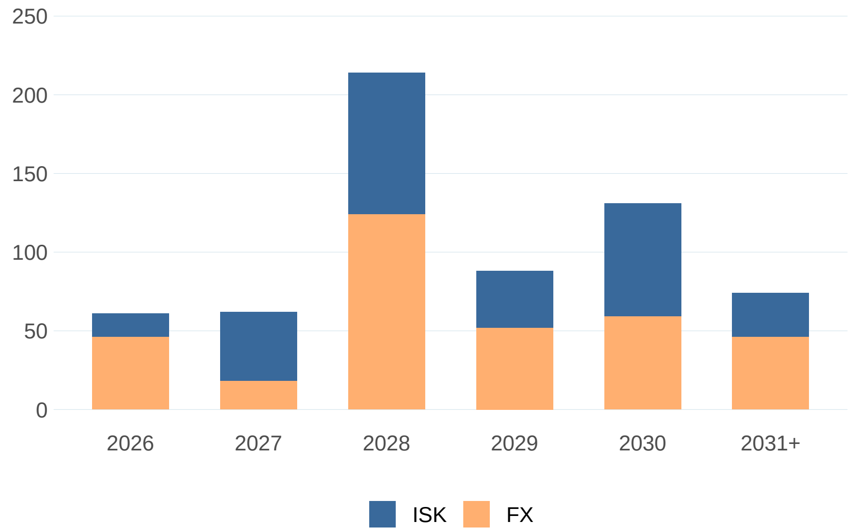
Regular auctions of covered bonds were held in 2025 where previously issued series were tapped and addition to issuance of a new inflation-linked series, LBANK CBI 31. The non-indexed series LBANK CB 25 matured in 2025. Agreements with market makers in the secondary market for covered bonds were renewed in the year.

At year-end 2025, outstanding covered bonds amounted to ISK 290 billion, increasing by ISK 23 billion during the year.

Table 6.3: Covered bonds (All amounts in ISK)

As at 31 December 2025	Currency	Final maturity	Outstanding principal	Contractual interest rate
Non-indexed				
LBANK CB 27	ISK	20.09.2027	46,320	4.60%
LBANK CB 28	EUR	16.03.2028	43,980	4.25%
LBANK CB 29	ISK	27.09.2029	33,380	8.20%
Indexed				
LBANK CBI 26	ISK	20.11.2026	11,120	1.50%
LBANK CBI 28	ISK	04.10.2028	50,200	3.00%
LBANK CBI 30	ISK	22.02.2030	49,940	3.50%
LBANK CBI 31	ISK	24.03.2031	18,380	3.65%

Figure 6.11: Maturity profile (ISK bn)



6.5.3.3 Commerical paper

No commercial paper auctions were held in 2025 under the ISK 50 billion debt issuance programme. There was no outstanding issuance of commercial paper at year-end 2025.

6.5.3.4 Subordinated issuance

The Bank issued its inaugural Additional Tier 1 (AT1) issuance under a standalone AT1 prospectus with a reference to the EMTN programme in February. The securities are in the amount of USD 100 million, have no fixed maturity but are callable by the Bank after 5.5 years and are subordinated to all other claims, except equity.

Subordinated bond and Additional Tier 1 securities issuance amounted to ISK 54 billion at year-end, increasing by ISK 14 billion from the previous year.

Table 6.4: Subordinated bond issuance (All amounts in ISK)

As at 31 December 2025	Currency	Final maturity	Outstanding principal	Contractual interest rate
Subordinated				
LBANK T2I 29	ISK	11.12.2029	1,700	FIXED 3.85%, CPI-indexed
LBANK T2I 33	ISK	23.03.2033	12,000	FIXED 4.95%, CPI-indexed
LBANK T2I 35	ISK	07.03.2035	12,000	FIXED 5.70%, CPI-indexed
LBANK T2 35	ISK	07.03.2035	3,000	FIXED 9.60%
LBANK T2I 36	ISK	19.06.2037	7,640	FIXED 5.06%, CPI-indexed
LBANK AT1	USD	Perpetual	12,475	FIXED 8.125%

6.5.3.5 Equity

The Bank's equity increased by ISK 19 billion in 2025 and amounted to ISK 344 billion at year-end. The Bank paid ISK 18,891 million in dividends to shareholders in 2025. The Bank's total capital ratio was 24.8% at year-end 2025.

6.5.4 Asset encumbrance ratio

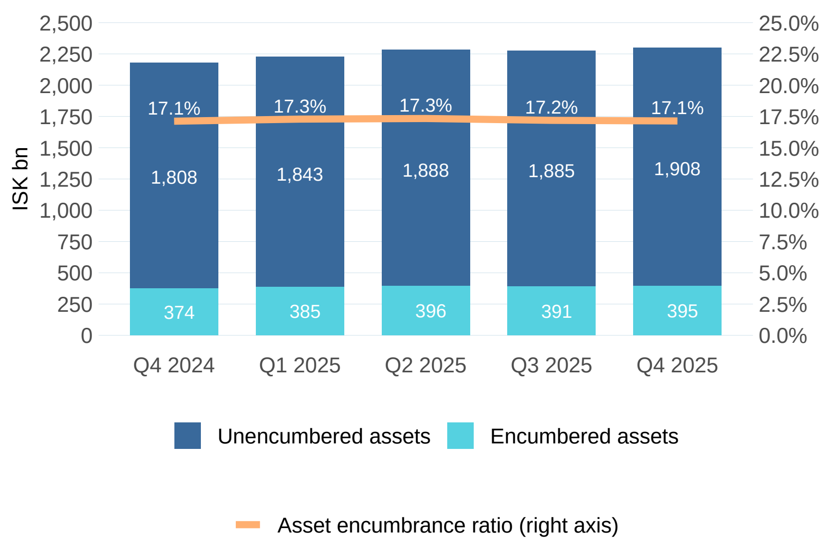
The use of covered bonds has contributed to greater awareness of asset encumbrance. This is because all mortgage lending is kept on the Bank's balance sheet and the home ownership rate is high in Iceland and this ownership is financed by mortgage loans. At year-end 2025, encumbered assets accounted for ISK 395 billion, which is about 17.1% per cent of the balance sheet, compared with ISK 374 billion (Note: previously disclosed number did not account for assets pledged against unused retained bonds) and 19.5% per cent, respectively, the previous year. The current level of encumbered assets in the Bank is comfortable, considering the Bank's balance sheet composition, capitalisation and liquidity.

The Bank's liquidity and funding risk framework measures the ratio of encumbered assets to total assets. Encumbered assets are primarily comprised of loans and advances, which are pledged against covered bonds and secured bonds issued by the Bank, in accordance with Icelandic laws and FSA rules. The Bank retains some of the bonds issued, which it can sell later or use for securities lending and repurchase agreements. At year-end 2025, retained unused bonds amounted to ISK 28 billion and EUR 250 million. Pledged assets against these bonds amounted to ISK 82 billion (ISK 51 billion at year-end 2024).

The Bank has pledged assets as collateral to the Central Bank of Iceland, to secure settlement in the Icelandic clearing system. Furthermore, the Bank has pledged assets as collateral to secure trading lines and credit support for GMRA and ISDA master agreements, as well as other pledges of similar nature.

Figure 6.12 shows the Bank's asset encumbrance ratio.

Figure 6.12: Asset encumbrance ratio



7 Operational risk

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.

- The number of operational and loss incidents in 2025 decreased slightly compared to 2024.
- The Bank maintained a strong focus on information and communication technology (ICT) risk management and regulatory expectations with work to ensure compliance with DORA.

7.1 Control

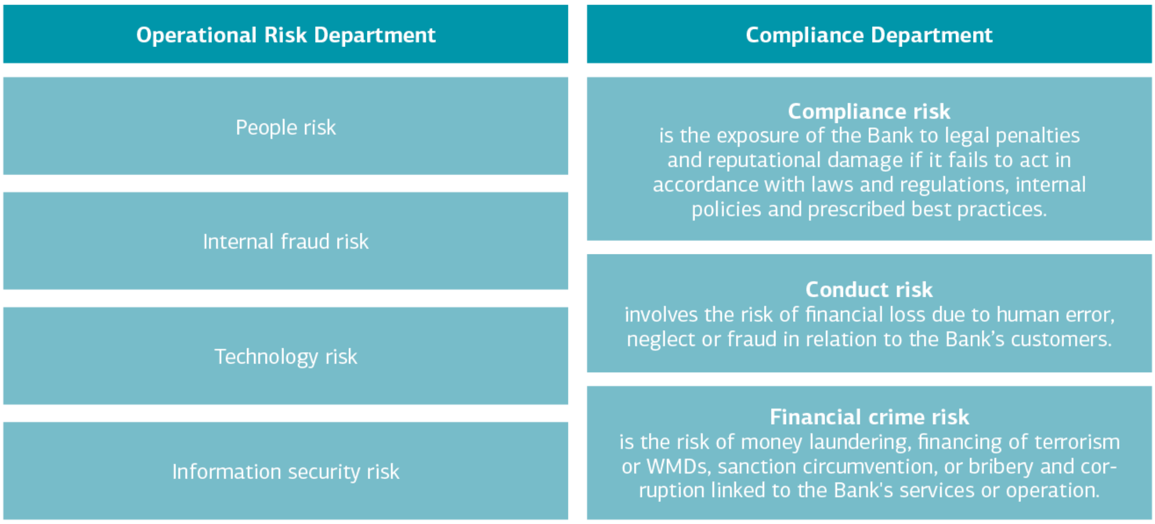
The Bank is exposed to operational risk through its activities. Loss may result from inadequate or failed internal processes, people and systems, or from external events.

The Board of Directors sets the Bank's policy regarding operational risk and risk appetite. The policy outlines the roles and responsibilities of stakeholders within the Bank, and the operational risk tolerance in terms of limits. The Operational Risk Committee is responsible for overseeing all operational risk and for approving rules that fall within the remit of the Operational Risk Committee.

The Bank identifies the types of operational risk to which it is exposed in order to better understand its operational risk profile and assess its vulnerability to these risks. The aim is to identify and assess the operational risk inherent in all existing or new material products, activities, processes and systems. Effective operational risk identification and assessment processes are crucial in establishing a framework for operational risk monitoring and control.

Landsbankinn uses the Operational Riskdata eXchange Association (ORX) categrorisation for operational risk, there are 16 subcategories and responsibilities for managing the risks posed by them are divided between the Operational Risk department and the Compliance department. The most important categories for the Bank are the following.

Figure 7.1: Operational risk categories



7.1.1 General methods to measure operational risk

In order to understand the effects of the exposures to operational risks in general, the Bank continually assesses its operational risk. A number of tools are used to identify and assess operational risk.

- Self-assessment. The Bank assesses its operations and activities against a menu of potential risk vulnerabilities. This is done annually, and more often if there are material changes in the operational risk environment in any particular business unit.
- Risk mapping. This process involves mapping all reported incidents by risk type and to business units.
- Risk assessments on important IT systems and as a part of project management.
- Key risk indicators (KRIs) are statistics and/or metrics, which can provide insight into the Bank's risk position.

In total there were 80 loss events in 2025. The category of execution, delivery and process management has the largest number of loss events; 60 in 2025, the category of external fraud has 5 events.

The Bank uses ORX categorisation for incidents with the largest number of incidents from transaction processing & execution, technology, and information security. The total number of incidents in 2025 was 214, 72 were due to transaction processing & execution and 55 related to technology.

7.1.2 Mitigation

The Bank buys insurance to mitigate its operational risk. The insurance comprises of banker's comprehensive crime policy and cyber liability insurance policy.

Clear procedures are in place regarding the mitigating actions that result from self-assessment. There are separate procedures in place for how the Bank handles operational incidents and corrective and mitigating actions resulting from these incidents.

The architecture of the Bank's information systems is based on two mirrored data centres, primary and secondary, located in two different buildings linked with high-speed communication. This setup allows the Bank to run its core systems with access to mission critical data, even if one data centre (for instance the primary data centre) becomes unusable. In the event of a failure, core systems will automatically switch from one site (the failed one) to the other.

There are business continuity plans in place for all operations considered to be mission critical to the Bank. These plans are all tested on an annual basis, apart from the IT department's plan, which is tested more frequently.

7.1.3 Control and monitoring

Day-to-day management of operational risk is a part of every manager's responsibility, and they are further responsible for monitoring and controlling the operational risk in their departments. Managers evaluate operational risk through risk self-assessment, focusing on key risks identified with top-down management involvement.

Information security, physical security, education and training activities are important components of the management of operational risk, and close cooperation is maintained with the relevant departments involved in these processes. The Operational Risk department, Internal Audit and Compliance are key functions in the framework that the Bank has established to monitor and control operational risk. The Bank is certified in accordance with ISO 27001, the international standard on information security.

Incident reporting, auditing and follow-up is an important part of operational risk management, as the identification and remedial action helps to limit losses resulting from inadequate and failed processes. The Operational Risk department is responsible for business continuity management and for overseeing the Bank's disaster recovery plans.

In identifying operational risk, the Bank examines both internal and external factors that could adversely affect its performance and prevent the achievement of its objectives, such as:

- Risk culture, human resource management practices, organisational changes, and employee turnover.
- The nature of the Bank's customers, products, contractors, and activities, including sources of business, distribution mechanisms and volume of transactions.
- The design, implementation, review and operation of the processes and systems involved in the operating cycle of the Bank's products and activities.
- The external operating environment and industry trends, including political, legal, technological, and economic factors, as well as the competitive environment and market structure.

Operational risk measurements are reported to the Board in a comprehensive manner as part of regular reporting.

7.2 Management of operational risk subcategories

7.2.1 Technology and information secutiry risk

The Bank manages technology and information security risk (ICT) by minimising the risk of loss through breaches of confidentiality, loss of integrity, and/or unavailability of data and systems. ICT risk includes the risk of breaches in data confidentiality through the exploitation of vulnerabilities. The Bank's framework for managing ICT risk is robust, leveraging its ISO 27001 certification, held since 2007, and adhering to the EBA Guidelines on ICT and Security Risk Management. As part of this framework, the Bank adopts a defence-in-depth approach to cyber defences, relying on layered security measures where each layer is monitored by multiple security systems.

A continuous vulnerability management programme is in place, including regular scans conducted by an external party. Complementing this, internal vulnerability scans are performed on internal and external systems, associated ports, services, and applications. These proactive measures are critical for maintaining a strong security posture.

The Bank places significant emphasis on fostering cultural awareness of cyber threats among employees. To this end, relevant materials on cybersecurity and awareness are actively shared with employees via the Bank's intranet. Additionally, the Bank utilises threat intelligence from external sources, such as NF CERT, to gain insights into emerging threats, enabling a preventative approach to potential risks.

In line with its comprehensive ICT risk management framework, the Bank has designated specific roles to oversee critical areas of information and cyber security. The Information Security Officer (ISO) is responsible for maintaining the ISO 27001 certification and managing the Information Security Management System (ISMS). Physical security is under the supervision of the Director of Facilities, while cybersecurity operations are overseen by the Cyber Security Officer within IT Operations. This clear allocation of responsibilities ensures accountability and a cohesive approach to managing ICT risk across the Bank.

7.2.2 People risk

The management of people risk throughout the Bank's operations is every manager's responsibility. Examples of people risk are key person dependency, segregation of duties, managing capability and resourcing. The management includes embedding people risk requirements and controls into processes, assessing people risk exposures and associated controls for effectiveness, and ensuring appropriate escalation and remediation of material people risk issues.

7.2.3 Internal fraud risk

The management of internal fraud risk throughout the Bank's operations is a shared responsibility, with first line managers accountable for identifying and controlling internal fraud risk within their teams and processes. Examples of internal fraud risk include misappropriation of cash or assets, manipulation of customer or account records, expense and procurement fraud. Management includes embedding internal fraud prevention and detection controls into processes (e.g., segregation of duties, dual control, approval authorities, and least-privilege access), monitoring for indicators of fraud (e.g., exception reporting, reconciliations, and privileged access reviews), and ensuring timely escalation, investigation, remediation, and loss recovery for suspected or confirmed internal fraud events.

7.2.4 Conduct & compliance risk

The Bank manages conduct and compliance risk in accordance with its Conduct Policy. Based on the policy, the Bank has set in place a variety of organisational and managerial actions, e.g.:

- A process to identify, assess and mitigate conduct and compliance risk.
- An appropriate governance framework to effectively manage relations with public authorities.
- A process to monitor and implement regulatory changes.
- Adopted suitable internal rules and work processes to promote conduct and compliance.
- Mandated management to promote conduct and compliance e.g. by leading by example, ensuring that employees are familiar with policies, rules and procedures relevant to their work and responsibilities, and take appropriate action in response to compliance violations.
- Training of management and employees.

- A secure whistleblowing program.
- A robust process for handling customer complaints.

The Compliance department monitors compliance and submits a report to the Risk Committee every four months, and an annual report to the Board of Directors.

The Bank was not the subject of any fines, convictions or other forms of sanctions or convictions or the refusal/withdrawal of authorisation to conduct business in 2025.

7.2.5 Financial crime risk

Financial crime risk is managed in accordance with the Policy on Action against Financial Crime, which covers money laundering, terrorism financing, sanctions, bribery and corruption, fraud and market abuse. Based on the policy, the Bank has set in place a variety of organisational and managerial actions, e.g.:

- A process to identify, assess and mitigate financial crime risk.
- A robust process for on-going customer due diligence.
- Advanced automated transaction monitoring and sanction screening.
- A process for investigating and reporting suspicious activities.
- Training of management and employees.

The Managing Director of Corporate Banking is the member of the management body responsible for AML/CFT and the CFO is the deputy.

The Compliance department monitors compliance and submits a report to the Risk Committee every four months, and an annual report to the Board of Directors.

7.2.6 Legal risk

The Risk and Finance Committee has adopted Internal Rules for the Assessment of Legal and Political Risk for the Purpose of Calculating Economic Capital (EC). The objective of the Rules is to explain the internal procedures of the Bank for the assessment of legal and political risk. A complete list of open court cases in electronic form is submitted to the FSA once a year and made available more frequently upon request by the FSA. The Legal Services calculate the total possible requirement of EC under Pillar II linked to cases on the list, according to a methodology set out in the Rules. If considered appropriate, the Legal Services assess the legal precedent set by individual cases. Based on the assessment, the Legal Services may ask Risk Management to provide a financial assessment of the precedent in the context of calculating the Bank’s EC. Such assessment may be different than the above standard methodology and may lead to additional EC requirements. Such an assessment has been made regarding contractual clauses on changes to variable interest rates in credit agreements. The notes to the Bank´s financial statements provide a description of these and other open court cases against the Bank or its subsidiaries which the Bank considers as material in the sense that they may have a significant impact on the amounts disclosed in the Group’s financial statements and are not comparable to other, previously closed, cases.

8 Sustainability risk

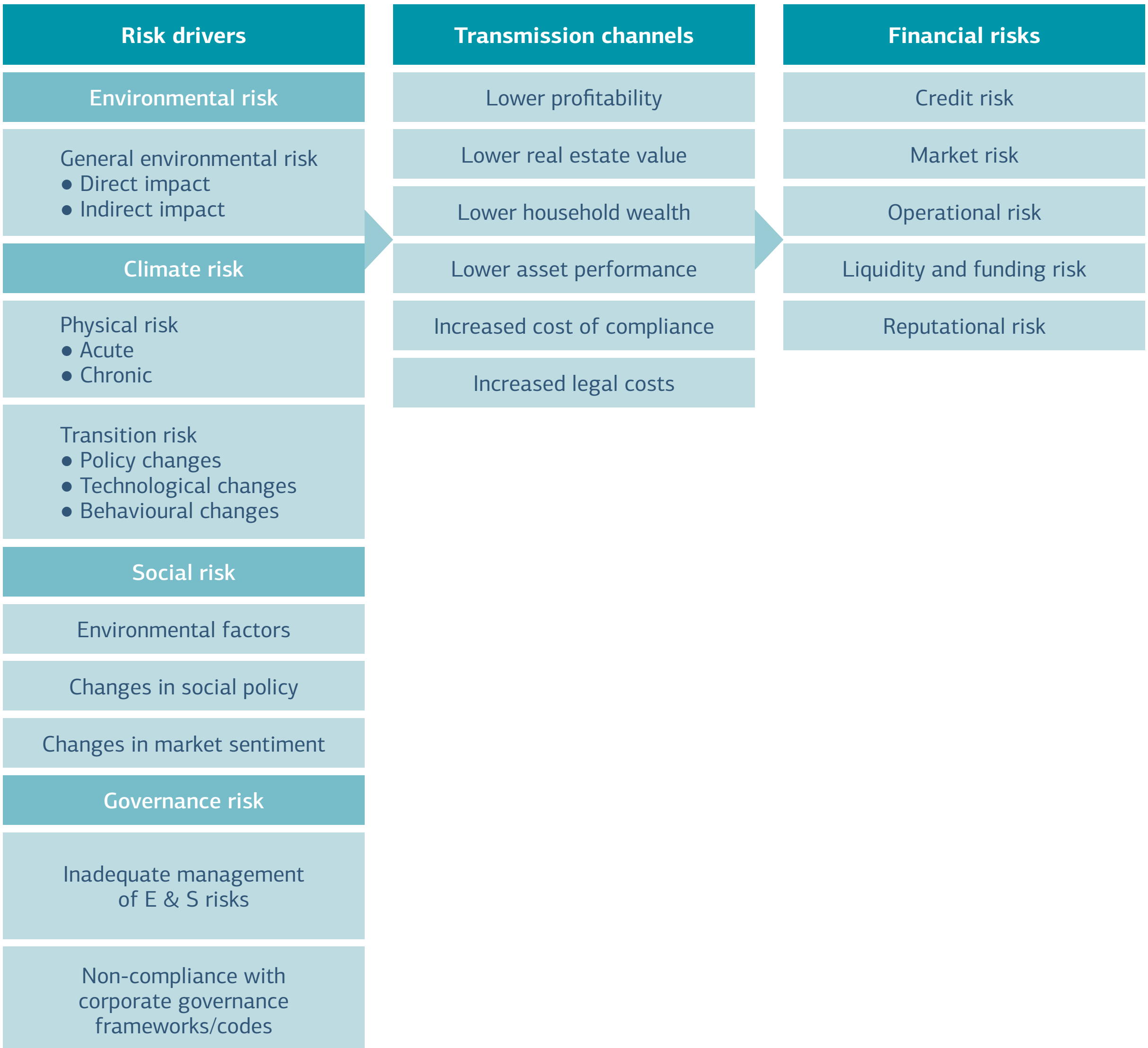
Sustainability risk

Sustainability risk is defined as risk that stems from the current or prospective impact of environmental, social and governance (ESG) factors on an institution's counterparties or invested assets. Sustainability risk materialises through the amplification of traditional categories of financial risks.

- In 2025, the Bank updated its sustainability policy.
- The Omnibus proposal, adopted by the European Union in 2025, aims to simplify the regulatory framework on sustainability.
- This has resulted in uncertainty about the implementation of the Corporate Sustainability Reporting Directive (CSRD) in Iceland.
- The Bank has implemented an assessment of sustainability risk into the loan application process for large corporate loans.

Sustainability risk drivers can affect and amplify traditional financial risk factors such as credit and market risk via various transmission channels as shown in Figure 8.1.

Figure 8.1: Sustainability risk drivers



The Bank has assessed the impact and materiality of different sustainability risk factors on other material financial risk factors in its operations. The assessment underpins further implementation of sustainability-related assessments, measures and mitigants in the Bank's risk framework.

8.1 Management and policy

The Bank's Sustainability Policy sets out aims for sustainability and describes the Bank's methods of implementing these in its operation. The Board of Directors approves the Policy and the CEO is responsible for its implementation and realisation. The CEO is also responsible for monitoring implementation of the Policy and reports to the Board of Directors annually. Authority to approve and amend key points and principles lies with the Executive Board. The Managing Director of Finance is responsible for shaping, maintaining and presenting the Sustainability Policy. The Policy was reviewed and updated in 2025. The Bank has set itself eight sustainability goals based on its Sustainability Policy. For further information regarding the Policy, the Bank's sustainability goals and other sustainability issues, refer to the Bank's Sustainability accounts for 2025.

Climate risk has been defined as a relevant risk factor in the Bank's Risk Policy. The Risk Management division is responsible for assessing, measuring and developing risk measures for relevant risk factors in the Policy. The Bank has implemented sustainability risk into its risk appetite.

In 2024, the Bank implemented rules on sustainability risk into its risk management framework. The purpose of the rules is to prevent instability or unexpected losses due to sustainability risk. The goal of the rules is to enable the Bank to manage its exposure to sustainability risk in an efficient manner, according to the Bank's risk policy and risk appetite. The rules define a framework on the assessment, measurement and management of sustainability risk and its sub-factors and set benchmarks regarding the execution of sustainability risk management within the Bank. The rules are based on requirements laid out in CRR, guidelines from EBA on loan origination and monitoring, as well as on a report from EBA on management and supervision of ESG risks for credit institutions and investment firms.

The Bank's Risk & Finance Committee has formed a Sustainability Group under its auspices. The Group's role is to oversee the Bank's sustainability framework and compliance of the Bank's green financing schemes to the framework. The Bank produces annual public reports on various sustainability-related factors, such as carbon emissions (PCAF and Pillar III additional disclosures) and the Bank's progress on sustainability in a report to the Global Reporting Initiative (GRI).

Information about the governance structure for remuneration is presented in the Bank's Remuneration report in chapter 9. For further information on the Bank's governance as regards sustainability, refer to the Bank's Sustainability Policy and the Bank's corporate governance statement.

8.2 Control and monitoring

In 2025, the Bank assessed greenhouse gas (GHG) emissions from its credit portfolio, using the methodology of the Partnership for Carbon Accounting Financials (PCAF). The Bank has set science-based targets for carbon emissions and has committed to reaching carbon neutrality by 2040, in tandem with targets set by the Icelandic government. The Bank aims to reach this target in cooperation with its customers, assisting them in their sustainability journey, rather than directing business away from larger emitters. The Bank has published a PCAF report for the year 2024, disclosing information on total GHG emissions from the Bank's operation.

For corporate lending, the Bank has set itself sustainability guidelines. These guidelines influence the assessment of risk and compliance with the Bank's sustainability goals in credit decisions, applying both generally to corporate customers and specifically to certain sectors. These guidelines cover issues such as sound business practises, choice of suppliers, effect of climate change, waste management and more. The Bank has implemented a sustainability risk assessment tool to be used for large corporate loans.

The Bank has established a green financing framework and included the ratio of eligible green assets, according to the framework, in the Bank's risk appetite for 2026.

8.3 Assessment

The Bank has assessed sustainability risk in relation to other material risks for the Bank. The largest impact of sustainability risk is on credit risk, funding risk and operational risk.

The effect of sustainability risk on financial risk factors, regarding capital and liquidity, is assessed in the Bank's Internal Capital/Liquidity Adequacy Assessment Process (ICAAP/ILAAP). No additional capital was allocated due to sustainability risk in the Bank's operation at year-end 2025.

When assessing the appropriate scope of risk management for each sub-risk factor of sustainability risk, the Bank takes existing risk mitigation into account, both in the Bank's external environment and the management of other risk factors in the Bank's operation. This includes but is not limited to conditions specific to Iceland, such as laws and regulations, infrastructure designed to mitigate natural disasters, Iceland's place in relation to the effects of climate change and the composition and nature of the Bank's customers.

When assessing sustainability risk, defining metrics and integrating sustainability risk into its risk management framework, the Bank emphasises the collection of readily available, accurate and high-quality data. These data can either be from external data vendors, collected internally or directly from the Bank's customers. Going forward, the Bank expects data on sustainability risk to become more available, more accurate and increase in quality. This will in turn lead to a more accurate assessment of sustainability risk.

8.3.1 Environmental risk

Environmental risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of environmental factors, such as natural disasters or climate change and other forms of environmental degradation, on its counterparties or invested assets. In this section, environmental risk is divided into general environmental risk, which comprises volcanic activity, earthquakes, landslides, avalanches or any other type of natural disaster, and climate risk, which comprises physical risk and transition risk. Physical risk can be further divided into acute and chronic physical risk.

8.3.1.1 General environmental risk

General environmental risk events are not uncommon in Iceland. The recent and ongoing seismic and volcanic activity on the Reykjanes peninsula is the latest such event, but other recent events include avalanches and landslides in East Iceland.

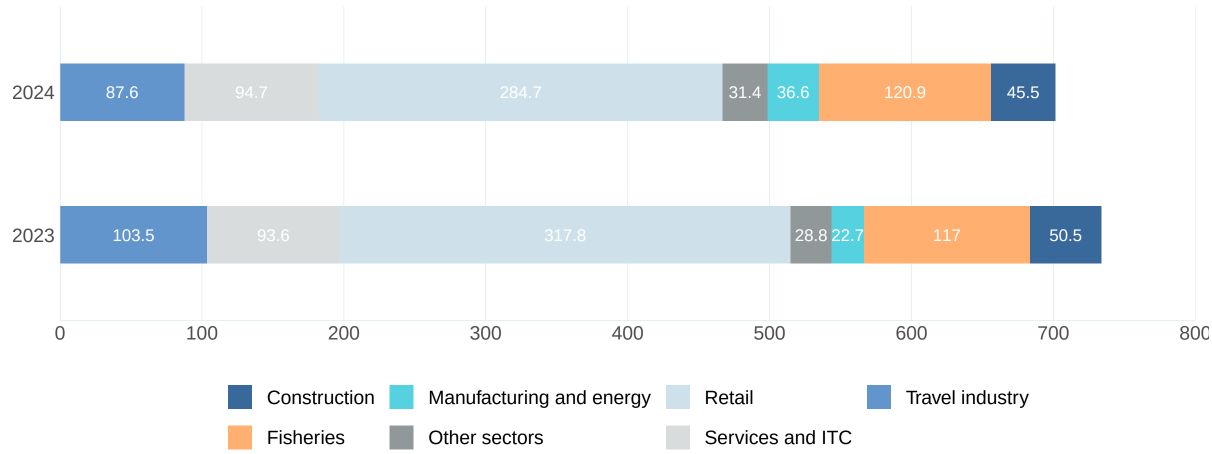
The biggest direct impact of general environmental risk events on the Bank is realised through damage to collateralised property. Due to the commonality of these events in Iceland, real estate is generally well insured against damages, both through regular insurance and via the National Catastrophe Insurance of Iceland (NTI).

Indirect impacts of environmental risk events can entail more uncertainty for the Bank and its customers. For example, temporary or permanent relocation of individuals from their primary residence or temporary loss of income for individuals and corporates due to operational challenges as a result of such risk events. These impacts of natural disasters can have a substantial impact on the Bank's customers and on the Bank, particularly via increased credit risk.

8.3.1.2 Climate risk

Total GHG emissions from the Bank's credit portfolio amounted to 701 kilotons of CO_2 equivalent ($ktCO_2e$) in 2024 (2023: 734 $ktCO_2e$). Of the total GHG emissions, 247 $ktCO_2e$ were scope 1 and scope 2 emissions, and 454 $ktCO_2e$ were scope 3 emissions. Emissions for previous years, including 2023, have been recalculated based on new and improved emissions data and in accordance to the guidance of the Corporate GHG Protocol for appropriate threshold for determining materiality. Figure 8.2 shows a breakdown of emissions by sector.

Figure 8.2: GHG emissions from the loan portfolio in $ktCO_2e$



8.3.1.3 Acute physical risk

Acute physical risk, as a subcategory of climate risk, arises from particular events, especially weather-related events such as storms, floods, fires or heatwaves or other environmental hazards that may damage production facilities and disrupt value chains, potentially having a negative financial impact on the Bank, its counterparties or invested assets.

An increase in acute physical events due to climate change would potentially impact credit risk for the Bank through the effect on collateral. Real estate is the single largest category of collateral in the Bank's portfolio, all of which is located in Iceland. Another plausible impact on credit risk is that physical risk events could lead to negative economic effects and/or direct negative effects on distinct counterparties or groups of counterparties of the Bank, leading to an increase in default rates.

Should the effects of acute physical events increase in commonality and seriousness, they might negatively impact asset prices and put increased pressure on the Bank's liquidity profile if individuals and corporates need to access cash as a response to physical catastrophes.

Acute physical events can impact the Bank's operational risk via potential damages to property and equipment, injuries to staff and system disruptions. The Bank utilises data centres in various locations to mitigate this risk. Acute physical events also impact the Bank's suppliers, increasing the importance of supplier monitoring.

The negative impact on the Bank's collateral of acute physical events increasing in commonality and seriousness is already partly mitigated through strong insurance coverage. The overall impact and materiality of acute physical risk on the Bank's credit risk is therefore considered low. Figure 8.3 shows the sectors of the Bank's credit portfolio where acute physical risk is considered non-trivial, according to the Bank's risk assessment. While the potential effect of increased frequency of acute physical events on asset prices and liquidity is not currently mitigated, market risk is a small part of the Bank's overall risk profile and the impact and materiality of acute physical risk on the Bank's market and liquidity risk is as result considered low. The impact and materiality of acute physical risk on the Bank's operational risk is considered low.

8.3.1.4 Chronic physical risk

Chronic physical risk arises from longer-term trends such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity. Such trends can potentially have a negative financial impact on the Bank, its counterparties or invested assets.

Through its exposure to the fisheries industry, the largest sector in the Bank's credit portfolio, the Bank is potentially exposed to chronic physical risk from the negative effect of rising temperatures and acidification on the marine ecosystem around Iceland. Rising sea levels can also potentially impact economic activity and/or real estate close to sea level.

The impact and materiality of chronic physical risk on the Bank's credit, market and liquidity risk is considered low in the short-term, but medium in the long-term. Figure 8.3 shows the sectors of the Bank's credit portfolio where chronic physical risk is considered non-trivial, according to the Bank's risk assessment.

8.3.1.5 Transition risk

Transition risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of the transition to an environmentally sustainable economy on its counterparties or invested assets. In a report on the management and supervision of ESG risks published in 2021, the European Banking Authority (EBA) states that transition risk is most affected by three drivers; policy, technology and consumer behaviour. First, climate-related policy action or potentially disordered mitigation strategies could have an impact on asset prices in carbon-intensive sectors. Second, technological changes may, for instance, make existing technologies obsolete or uncompetitive, changing their affordability and affecting the relative pricing of alternative products. Third, changes in the preferences and behaviour of consumers and investors could affect institutions.

Operational conditions in certain sectors of the economy can be sensitive to change in laws and regulations, market conditions and market sentiment. Carbon-heavy sectors, such as manufacturing or transportation, are examples of this, where potentially increased costs due to the rising price of carbon emission certificates can impact the operation of companies significantly. As Iceland is committed to reaching carbon neutrality by 2040, regulatory changes, increased taxes for carbon-heavy sectors or other measures that contribute to this national target can be expected.

This could potentially affect the Bank's credit and liquidity risk, as well as operational risk via conduct risk. As a result, the impact and materiality of transition risk on the Bank's credit, liquidity and operational risk is considered medium. The impact and materiality of transition risk on the Bank's market risk is considered low. Figure 8.3 shows the sectors of the Bank's credit portfolio where transition risk is considered non-trivial, according to the Bank's risk assessment. The assessment is based on the underlying materiality of each sector, i.e. the total exposure and total GHG emissions of each sector, the likelihood of each risk factor materialising and the effect and severity of the risk factor on each sector.

Figure 8.3: Sustainability risk drivers

			Transition risk			Physical risk	
Sector	% of portfolio	% of CO_2	Policy	Technology	Behaviour	Acute	Chronic
Construction	8.1%	11.7%	Moderate	Low	Low	Minimal	Minimal
Fisheries	11.8%	38.7%	Low	Low	Minimal	Low	Moderate
Motor vehicle loans to individuals	1.0%	0.9%	Moderate	Minimal	Minimal	Minimal	Minimal
Travel industry	6.7%	12.9%	Moderate	Low	Low	Minimal	Minimal
Services and ITC	3.8%	13.0%	Moderate	Low	Low	Minimal	Low
Agriculture	0.4%	4.9%	Low	Low	Low	Low	Low
Manufacturing and energy	2.0%	10.9%	Low	Low	Minimal	Minimal	Minimal
Mortgages	44.8%	0.2%	Minimal	Minimal	Minimal	Minimal	Minimal
Other sectors	21.3%	6.8%	Minimal	Minimal	Minimal	Minimal	Minimal

Minimal	
Low	
Moderate	
High	

8.3.2 Social risk

Social risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of social factors on its counterparties or invested assets.

These social risk factors include but are not limited to activities towards the community and society, employee relationships and labour standards, customer protection and product responsibility and human rights. The Bank's risk policy states that 'the Bank seeks to maintain sound business relationships, having regard for its own position as well as that of customers at each time, and with due regard for any internal connections between customers. The Bank pursues long-term business relationships and aims to avoid being linked to transactions that might damage its reputation.'

As previously mentioned, the Bank has set itself sustainability benchmarks for corporate lending, some of which pertain to social risk factors, such as:

- Considering potential risk factors in the counterparties' operational environment regarding inappropriate business practices, such as tax evasion, market dumping, competition infringements or other deviations from sound business practises.
- Human resource issues, such as equality, turnover of staff and number of staff in relation to the scope of operations.
- The collection of personal data, and security of such data.

The Bank can also be exposed to social risk in its own operation via reputational and conduct risk if it were to fail to adhere to laws, regulations and best practises regarding gender equality, inclusiveness, and health and safety in the workplace. Social conditions in Iceland rank among top conditions in the world in most areas and the Bank is well positioned as regards social issues. The Bank has implemented rules on gender ratios among managers, it has equal pay certification, and contributes to society through partnerships and charitable donations. The impact and materiality of social risk on the Bank's material risk factors in considered low.

8.3.3 Governance risk

Governance risk is the risk of any negative financial impact on the Bank stemming from the current or prospective impact of governance factors on its counterparties or invested assets.

These governance factors include but are not limited to ethical considerations, strategy and risk management, inclusiveness, transparency, management of conflict of interest and internal communication of critical concerns. The credit assessment of corporate customers includes a qualitative assessment of various governance factors for the customer, such as the experience, competence and integrity of executives, finances and planning, and disclosure of information to the Bank. The Bank can also be exposed to governance risk in its own operation via reputational and conduct risk. The Bank has a sound governance structure, with an established three lines of defence setup of risk governance, strong internal audit and compliance departments, a clear remuneration policy and sustainability policy. The greatest potential impact governance risk could have on the Bank is via reputational risk and conduct risk.

The impact and materiality of governance risk on the Bank's material risk factors in considered low.

8.4 Additional disclosures

Further quantitative information regarding sustainability can be found in templates ESG1-10 in the additional disclosures accompanying this report.

9 Remuneration report

Remuneration report

The Bank emphasises hiring and employing exceptional personnel. The aim of its remuneration policy is to make the Bank a desirable workplace for qualified employees to ensure the Bank's competitiveness, continued development and acceptable profitability. The remuneration policy shall support sound operations in the long term and not encourage unreasonable risk taking. It is the Bank's aim that the terms of employment of executives and other employees are competitive but modest and not market leading. In determining terms of employment, responsibility and performance shall be taken into account, as well as equal rights perspectives. The remuneration policy applies to the Board of Directors, the Bank's Executive Board, and all employees of the Bank. The Bank's subsidiaries have their own Remuneration policies and Remuneration Committees.

9.1 Governance

The remuneration policy of the Bank is approved by its Board of Directors and submitted to the Bank's Annual General Meeting for approval or rejection. The remuneration policy is reviewed annually, and any amendments shall be submitted to a shareholders' meeting for approval. The remuneration policy serves as an indicative guideline for the Bank and the Board of Directors. The Board of Directors shall note any deviations from the remuneration policy and substantiation thereof in the Board minutes. Deviations shall be presented to the Bank's next AGM.

The Remuneration Committee of the Bank is comprised of three Directors. The role of the Remuneration Committee is to provide guidance to the Board of Directors and CEO on salary and benefits for key executives and to advise the Board on the remuneration policy. The Committee reviews that the terms of employment of the Bank's executives are within the framework provided by the remuneration policy and report on its implementation yearly in connection with the Bank's AGM. The Committee shall monitor the developments of collective bargaining agreements, trends in salary expenses and number of employees. The Board of Directors has issued Rules of Procedure for the Committee, setting out its role and duties.

The Remuneration Committee members are the Chairman of the Board, which also chairs the Remuneration Committee and two other Directors of the Board. In 2025, the Remuneration Committee held 6 meetings. The Committee reviewed the remuneration policy in preparation for the 2025 AGM and made an amendment to the Remuneration Policy, allowing for the payment of sales commissions for the sale of pension savings and insurance products, up to 10% of fixed wages.

9.2 Remuneration policy for the Bank's Board of Directors and CEO

Board members shall receive set monthly remuneration in accordance with the decision of the AGM each year, as provided for in Article 79 of Act No. 2/1995, on Public Limited Companies. In determining the remuneration amount, consideration shall be had for hours spent on the job, the responsibilities borne by Directors of the Board and the Company's performance. The Remuneration Committee prepares a proposal on Director's salary to the Board of Directors. The Board of Directors deliberates on the Committee's proposal and submits a final proposal on remuneration to the AGM. The Bank reimburses Directors domiciled outside the capital region for travel expenses. Board members may not conclude severance agreements with the Bank.

Salaries for the CEO and the Bank's key executives are determined by the Board and the CEO in accordance with the remuneration policy. The Bank publishes remuneration for Directors and key executives in its Annual Financial Statement. The Bank intends to achieve and maintain a gender balance of at least 60/40 at all levels of management. There are currently five male and two female Managing Directors, and the CEO is female. Members of the Bank's management body hold a total of 11 directorships in other entities.

Most employees in the Bank receive a fixed salary. The salary is evaluated regularly, mainly through collective bargaining. Mandatory pension contributions are made for all employees who also receive paid holiday, maternity and sick leave as provided for by law, collective agreements and general market terms.

The Bank does not offer variable remuneration or bonuses and has no plan to implement any such remuneration system. However, this does not apply to payments of up to 10% of fixed remuneration to general employees in connection with the sale of pension or insurance products. Such payments are made in accordance with rules set by the Board of Directors of the Bank, or by the board of the relevant subsidiary, and in compliance with applicable laws. Any decision to implement a broader variable remuneration scheme must be presented to a shareholders' meeting for approval.

In 2013, the Bank offered a one-off employee incentive scheme in an agreement made by the Minister of Finance on behalf of the State, Landsbankinn hf. and Landsbanki Íslands hf. dated 15 December 2009. The scheme was compliant with FSA rules on performance-linked remuneration by financial undertakings. As a result, a few hundred employees still hold shares in the Bank.

The Remuneration Committee performs an annual comparison with market data on the Bank's remuneration to ensure remuneration is in accordance with the remuneration policy. Further quantitative information regarding the Bank's remuneration can be found in templates REM1, REM2 and REM5 in the additional disclosures accompanying this report.

10 Appendix

Table 10.1: List of additional disclosures

Template name	Template code	Type	Disclosure frequency	Reference chapter
Risk management				
Institution risk management approach	OVA	Qualitative	Annual	Chapter 2
Disclosure on governance arrangements	OVB	Qualitative	Annual	Chapter 2
Key metrics and risk-weighted exposure amounts				
Overview of RWEAs	OV1	Quantitative	Quarterly	Chapter 3
Key metrics template	KM1	Quantitative	Quarterly	Chapter 1
ICAAP information	OVC	Qualitative	Annual	Chapter 3
Insurance participations	INS1	Quantitative	Annual	Chapter 3
Own funds				
Composition of regulatory own funds	CC1	Quantitative	Semi-annual	Chapter 3
Reconciliation of regulatory own funds to balance sheet in the audited financial statements	CC2	Quantitative	Semi-annual	Chapter 3
Main features of regulatory own funds instruments and eligible liabilities instruments	CCA	Quantitative	Annual	Chapter 3
Countercyclical capital buffers				
Geographical distribution of credit exposures used in the countercyclical capital buffer	CCyB1	Quantitative	Semi-annual	Chapter 3
Amount of institution-specific countercyclical buffer	CCyB2	Quantitative	Semi-annual	Chapter 3
Scope of application				
Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories	LI1	Quantitative	Annual	Chapter 3
Main sources of differences between regulatory exposure amounts and carrying values in financial statements	LI2	Quantitative	Annual	Chapter 3
Outline of the differences in the scopes of consolidation (entity by entity)	LI3	Quantitative	Annual	Chapter 3
Explanations of differences between accounting and regulatory exposure amounts	LIA	Qualitative	Annual	Chapter 3
Other qualitative information on the scope of application	LIB	Qualitative	Annual	Chapter 3

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Template name	Template code	Type	Disclosure frequency	Reference chapter
Leverage ratio				
LRSum - Summary reconciliation of accounting assets and leverage ratio exposures	LR1	Quantitative	Semi-annual	Chapter 3
LRCom - Leverage ratio common disclosure	LR2	Quantitative	Semi-annual	Chapter 3
LRSpl - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	LR3	Quantitative	Semi-annual	Chapter 3
Disclosure of LR qualitative information	LRA	Qualitative	Annual	Chapter 3
Liquidity requirements				
Liquidity risk management	LIQA	Qualitative	Annual	Chapter 6
Quantitative information of LCR	LIQ1	Quantitative	Quarterly	Chapter 6
Qualitative information on LCR, which complements template EU LIQ1	LIQB	Qualitative	Quarterly	Chapter 6
Net Stable Funding Ratio (NSFR)	LIQ2	Quantitative	Semi-annual	Chapter 6
Credit risk quality				
General qualitative information about credit risk	CRA	Qualitative	Annual	Chapter 4
Additional disclosure related to the credit quality of assets	CRB	Qualitative	Annual	Chapter 4
Performing and non-performing exposures and related provisions	CR1	Quantitative	Semi-annual	Chapter 4
Maturity of exposures	CR1-A	Quantitative	Semi-annual	Chapter 4
Changes in the stock of non-performing loans and advances	CR2	Quantitative	Semi-annual	Chapter 4
Credit quality of forborne exposures	CQ1	Quantitative	Semi-annual	Chapter 4
Credit quality of performing and non-performing exposures by past due days	CQ3	Quantitative	Semi-annual	Chapter 4
Credit quality of loans and advances to non-financial corporations by industry	CQ5	Quantitative	Semi-annual	Chapter 4
Collateral obtained by taking possession and execution processes	CQ7	Quantitative	Semi-annual	Chapter 4
Credit risk mitigation techniques				
Qualitative disclosure requirements related to CRM techniques	CRC	Qualitative	Annual	Chapter 4
CRM techniques overview - Disclosure of the use of credit risk mitigation techniques	CR3	Quantitative	Semi-annual	Chapter 4
Use of the standardised approach				
Qualitative disclosure requirements related to standardised approach	CRD	Qualitative	Annual	Chapter 4

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Template name	Template code	Type	Disclosure frequency	Reference chapter
Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects	CR4	Quantitative	Semi-annual	Chapter 4
Standardised approach	CR5	Quantitative	Semi-annual	Chapter 4
Counterparty credit risk				
Qualitative disclosure related to CCR	CCRA	Qualitative	Annual	Chapter 5
Analysis of CCR exposure by approach	CCR1	Quantitative	Semi-annual	Chapter 5
Standardised approach - CCR exposures by regulatory exposure class and risk weights	CCR3	Quantitative	Semi-annual	Chapter 5
Composition of collateral for exposures to CCR	CCR5	Quantitative	Semi-annual	Chapter 5
Credit derivatives exposures	CCR6	Quantitative	Semi-annual	Chapter 5
Market risk				
Qualitative disclosure requirements related to market risk	MRA	Qualitative	Annual	Chapter 5
Market risk under the standardised approach	MR1	Quantitative	Semi-annual	Chapter 5
Credit valuation adjustment				
Qualitative disclosure requirments to credit valuation adjustment risk	CVAA	Qualitative	Annual	Chapter 5
Credit valuation adjustment under the Reduced Basic Approach	CVA1	Quantitative	Annual	Chapter 5
Operational risk				
Qualitative information on operational risk	ORA	Qualitative	Annual	Chapter 7
Operational risk losses	OR1	Quantitative	Annual	Chapter 7
Business indicator, components and subcomponents	OR2	Quantitative	Annual	Chapter 7
Operational risk own funds requirements and risk exposure amounts	OR3	Quantitative	Annual	Chapter 7
Encumbered assets				
Encumbered and unencumbered assets	AE1	Quantitative	Annual	Chapter 6
Collateral received and own debt securities issued	AE2	Quantitative	Annual	Chapter 6
Sources of encumbrance	AE3	Quantitative	Annual	Chapter 6
Accompanying narrative information	AE4	Quantitative	Annual	Chapter 6
Remuneration				
Remuneration policy	REMA	Qualitative	Annual	Chapter 9
Remuneration awarded for the financial year	REM1	Quantitative	Annual	Chapter 9

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Template name	Template code	Type	Disclosure frequency	Reference chapter
Special payments to staff whose professional activities have a material impact on the institutions' risk profile	REM2	Quantitative	Annual	Chapter 9
Information on remuneration of identified staff	REM5	Quantitative	Annual	Chapter 9
Interest rate risk of non-trading book activities				
Qualitative information on interest rate risks of non-trading book activities	IRRBBA	Qualitative	Annual	Chapter 5
Interest rate risk of non-trading book activities	IRRBB1	Quantitative	Semi-annual	Chapter 5
Environmental, social and governance risk				
Environmental risk	ESGA	Qualitative	Semi-annual	Chapter 8
Social risk	ESGB	Qualitative	Semi-annual	Chapter 8
Governance risk	ESGC	Qualitative	Semi-annual	Chapter 8
Climate change transition risk: Credit quality of exposures by sector, emissions and residual maturity	ESG1	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral	ESG2	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Alignment metrics	ESG3	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	ESG4	Quantitative	Semi-annual	Chapter 8
Banking book - Climate change physical risk: Exposures subject to physical risk	ESG5	Quantitative	Semi-annual	Chapter 8
Summary of GAR KPIs	ESG6	Quantitative	Semi-annual	Chapter 8
Mitigating actions: Assets for the calculation of GAR	ESG7	Quantitative	Semi-annual	Chapter 8
GAR (%)	ESG8	Quantitative	Semi-annual	Chapter 8
Mitigating actions: BTAR	ESG9	Quantitative	Semi-annual	Chapter 8
Other climate change mitigating actions that are not covered in the EU Taxonomy	ESG10	Quantitative	Semi-annual	Chapter 8
MREL				
Key metrics - MREL	KM2	Quantitative	Quarterly	Chapter 3
Composition - MREL	TLAC1	Quantitative	Quarterly	Chapter 3
Creditor ranking - resolution entity	TLAC3	Quantitative	Quarterly	Chapter 3