



Annual Report 2025

Report of the Board of Directors 2025

1 Introduction

The Board of Directors' Report accompanying the 2025 Annual Financial Statements is intended to provide a comprehensive overview of the operations of the Pension Fund of Commerce (LV), supplementing the information presented in the statements, and thus giving stakeholders a more complete view of the fund's operations. It presents a picture including, for instance, current and prospective fund members, staff, the fund's member organisations, public authorities and issuers of securities.

The contents of the report reflect currently applicable rules for annual financial statement of pension funds^[1] and the provisions of the Act on Annual Financial Statements^[2]. In preparing the Board of Directors' report and the Annual and Sustainability Report, an effort is made to integrate^[3] financial information and sustainability information. As the aim is to provide a clear and informative overview, for further information on various aspects reference is made to the attached Annual and Sustainability Report for 2025 and more detailed discussion in the annual financial statements.

2 Highlights of the fund's operations in 2025

The year 2025 was generally quite favourable for LV's operations, whether the focus is on the returns on the fund's portfolios, pension and loan products or operations in general.

- **Portfolios.** Both the fund's mutual division and personal pension options delivered positive real returns. The total value of portfolios at year-end amounted to ISK 1,566 billion. Of this, the value of the mutual division was ISK 1,524 billion and that of the personal pension options was ISK 42.1 billion. All asset classes of the mutual division delivered positive nominal and real returns, with the exception of its foreign bond portfolio, where the nominal return was negative by 1.0%

	Nominal return (x)			Real return (x)		
	2025	5 years	10 years	2025	5 years	10 years
Mutual Division options	7.0%	8.1%	8.5%	3.2%	1.8%	4.0%
Personal pension options						
Ævileið III option	8.3%	5.0%		4.4%	-1.0%	
Ævileið II option	8.0%	5.9%		4.1%	-0.2%	
Ævileið I option	8.1%	7.2%		4.3%	1.0%	
Verðbréfaeið option	6.9%	8.1%	8.5%	3.1%	1.8%	4.0%

x) Net annualised return, i.e. after taking into account operating expenses

- **Pension payments.** As in recent years, pension payments continued to increase year-on-year (YoY), totalling ISK 45.4 billion, compared to ISK 40.3 billion the previous year. Of this, payments from the mutual division amounted to ISK 43.8 billion and the personal pensions division to ISK 1.6 billion. The number of fund members receiving pension payments also increased YoY, totalling 28,970, compared to 27,577 the previous year. This is a positive development for fund members, as it shows that more and more fund members are beginning to enjoy the benefits of their transactions with the fund in the form of increased pensions, a development that is based on the pension fund's decades-long and successful operating history.
- **Premiums** paid to the fund for the acquisition of pension rights and savings amounted to ISK 51.7 billion in 2025, compared to 50.6 billion the previous year. Of this, payments to the mutual division totalled ISK 47.9 billion and to the personal pension division ISK 3.8 billion. The number of paying fund members remained almost unchanged between years at 49,700, compared to 50,185 the previous year.

- **The actuarial balance** of the mutual division weakened somewhat during the year and is now -5.4% compared to -4.3% the previous year. Returns had a positive impact on the actuarial balance, while inflation had a negative impact, as fund members' accrued entitlement is indexed. Updated disability and rehabilitation rates also had a slight negative effect.
- **Pension and loan products.** Work continued on developing pension and loan products and expanding services to fund members. Special emphasis was placed on providing information to more age groups, through a variety of educational and information videos, to make it easier for fund members to understand their entitlement and avail themselves of the fund's services. In addition, a strong emphasis was placed on providing personal advice, both through digital solutions and direct communication. New types of mortgages for first-time home buyers were introduced at the turn of 2024/2025, with increased flexibility in loan-to-value (LTV) ratios, borrowing requirements and loan tenor. Following changes in September, indexed mortgages were generally only granted for 25 years, except for mortgages of first-time home buyers, which have 40-year terms. Loans to first-time buyers amounted to ISK 10.8 billion during the year, making it clear that credit and services provided by the fund to persons entering the real estate market for the first time were an important addition for the fund's members.
- **Court judgments on interest rates changes of mortgages to individuals.** In the final months of 2025, the Supreme Court handed down several judgments in cases testing the interpretation of statutory provisions and terms of variable-rate mortgages of individuals. Following these judgments, there has been some uncertainty in the market for these loans. LV's response included changing the indexed loans offered so that such loans were only available with fixed interest rates throughout the loan term. A temporary pause was also made in granting loans with non-indexed interest rates. The aim is to expand the fund's loan offerings in the near future. Work is underway on the details, taking into account the aforementioned legal developments. Fund member loans as a proportion of the mutual division's portfolio remains fairly similar to what it has been in recent years, or around 10%. This ratio is not expected to change significantly in the near term.
- **Stronger foundation for asset management** During the past year, extensive analytical work began, in collaboration with the international consulting firm Mercer, regarding the assumptions for LV's long-term investment strategy for its portfolios. The work largely involved reviewing and reassessing return targets for the portfolios and their composition. In the assessment of the Board, this will lay an even solid foundation for the long-term asset composition of the portfolios. The aim is to update the investment strategy in 2026, based on this work.
- **Custody of foreign assets.** The year 2025 saw the completion of a journey begun in 2024 aimed at moving the lion's share of foreign securities assets from mutual funds to direct ownership through specialised portfolios. At the same time, an agreement was reached with a new custodian, the international bank JP Morgan, for the custody of the fund's foreign securities portfolios. The Board believes this will achieve cost savings, greater transparency of ownership and potentially better monitoring of individual assets.
- **Methodology of sustainability and responsible investment in portfolio management.** During the year, a detailed examination was made of whether the fund's portfolio management should be systematically linked directly to the Paris Agreement and/or the United Nations Sustainable Development Goals (SDGs). The conclusion was not to set targets based on the SDGs. However, the feasibility would be examined of possibly setting targets regarding financed carbon emissions in the fund's portfolios. A conclusion in this regard is expected to be available in 2026.
- **Development of disability pensions.** LV, like pension funds in general, faces several challenges arising from the development of disability pension payments and the regulatory framework that applies to pension

funds regarding such entitlement. A major factor here is the so-called temporary provision regarding the interaction of payments from social security, on the one hand, and pension funds, on the other. The provision, which expired in the autumn of 2025, has now been re-enacted, while the government and other relevant stakeholders seek to draft a new regulatory framework that supports the sustainable development of this important entitlement. The current regulatory framework is likely to create in many cases what can be called a perverse financial incentive, as the total disability payments to beneficiaries can be significantly higher than the income they had before the loss of capacity. According to experts, this can cause abnormal development and even result in reducing individuals' successful rehabilitation to greater or even full functional work capacity. The fund hopes that a successful resolution will be found for this matter, to permanently safeguard the important basis for entitlement that disability pensions from pension funds and social security are. What is significant here is that only the assets of the mutual division and their returns cover the fund's pension payments. An increase in disability pension payments is therefore liable to reduce the fund's ability to pay old-age pensions.

Further information on the individual aspects above and other issues relating to the pension fund's operations can be found in the attached annual financial statements and notes thereto, as well as in the fund's Annual and Sustainability Report for 2025.

3 Further details on individual aspects of LV's operations

3.1.1.1 Balance sheet

LV's principal activity is the operation of the entitlement system of its mutual division, personal pensions options and the administration of five asset portfolios, i.e. that of the mutual division and those of the four personal pension investment options. This is explained in more detail in Section II, on the fund's pension products, Section III, on asset portfolios, and in an overview of the development of several key figures in operations, see Section I on operations, in the fund's Annual and Sustainability Report.

The performance of the fund's portfolio in 2025 was quite acceptable given the circumstances.

Market conditions in 2025 were challenging, but improved as the year progressed. Inflation eased from that of previous years but remained above the Central Bank of Iceland's inflation target. Inflation was close to 4% for much of the year, ranging from 3.7% to 4.5% during the year. Interest rates therefore remained high in the early months of the year, while monetary policy began to relax towards the end of the year and the Central Bank of Iceland, among other things, lowered its policy rate in November.

In global markets, the trend was twofold: equity markets generally delivered strong returns during the year, despite the high uncertainty created by tariff wars in the spring of 2025. Bond markets also picked up, as expectations of lower interest rates increased, and overall returns were generally positive in most leading markets. Despite positive trends on foreign markets, the weakening of the USD was a drag on ISK returns. More information can be found in Section III, on portfolios, securities markets and their development.

Investment income and operating expenses Total net investment income from all portfolios amounted to ISK 104,888 million, compared to ISK 161,979 million the previous year. The fund's operating expenses, i.e. office and administrative expenses, amounted to ISK 1,981 million compared to ISK 1,877 million the previous year. Operating expenses as a percentage of average asset position were 0.13%, unchanged YoY. The number of full-time equivalent positions during the year was 65.2, compared to 60.6 for the previous year. Total salaries were ISK 1,095.5 million and salary-related expenses were ISK 276 million. In 2024 salaries amounted to ISK 1000.3 million while salary-related expenses were ISK 256 million. The increase in full-time equivalent positions reflects the increased scope of the fund's operations. This results, among other things, from the management of growing portfolios, the increase in pension applications, greater emphasis

on advice to fund members, increased requirements for the operation and management of IT systems and data security (including the implementation of the Digital Operational Resilience Act (DORA)) and growing requirements concerning the fund's governance and risk management in general.

Mutual division. The mutual division is the pension fund's largest asset portfolio, with assets amounting to ISK 1,524 billion at year-end, compared to ISK 1,421 billion the previous year. The division's net nominal return was 7.0%, compared to a nominal return of 12.4% the previous year. Taking inflation into account, net real return was 3.2%, compared to 7.3% in 2024. Long-term real returns remain acceptable, averaging 1.8% over the past 5 years, 4.0% for the last 10 years and 3.2% over the past 20 years.

The actuarial balance deteriorated during the year. At year-end, it was negative by 5.4%, compared to a negative balance of 4.3% the previous year. The return for the year had a positive impact on the actuarial balance; however, inflation during the year had a negative impact on the actuarial balance, as the fund's obligations, comprised of the accrued entitlement of fund members, are indexed. Assumptions regarding disability rates were also updated, which had a negative impact on the actuarial balance, as the disability rates are increasing. For the first time, rehabilitation rates were calculated, i.e. the probability that persons receiving disability pension will be rehabilitated, and this has a slight positive effect on actuarial balance. This aspect is discussed in more detail in Section II of the Annual and Sustainability Report.

The investment options for personal pensions are four in number. Three of them, *Ævileið* I, II and III, form a continuous lifetime progression with varying levels of risk; the fourth, *Verðbréfaleið*, follows the same investment strategy as the mutual division. This option has not been open for new membership agreements since 2017.

The nominal return of all personal pension options was positive during the year. *Ævileið* I, II and III have now been in operation for seven calendar years and the five-year average returns are 7.2% for *Ævileið* I, 5.9% for *Ævileið* II, 5.0% for *Ævileið* III and 6.9% for *Verðbréfaleið*.

The portfolios of the personal pension divisions have grown in recent years, totalling ISK 42.1 billion at year-end, compared to ISK 36.8 billion the previous year.

Pension products The fund's pension products consist of entitlement in the mutual division and personal pension divisions (general personal pension and specified personal pension). Providing services, information and advice is also an integral aspect of the fund's pension products.

The increase in premiums to the mutual division, in the number of active fund members and in the number of individuals receiving pensions continued in 2025. Contributions to the division amounted to ISK 47.9 billion, compared to ISK 46.5 billion the previous year. The average number of active fund members was 37,067, down slightly from 37,259 the previous year, while the average number of individuals receiving pensions increased to 28,970, compared to 27,577 the previous year. The number of pension recipients who have earned significant entitlement is also increasing. Pensions paid from the mutual division amounted to ISK 43.8 billion, compared to ISK 39.0 billion the previous year, bringing the ratio of pension payments to premiums, the so-called pension burden of the mutual division, to 92.2% in 2025, compared to 83.6% the previous year.

3.1.1.2 The environment and sustainability methodology in general

In recent years, the pension fund has placed increased emphasis on analysing environmental factors, other sustainability factors and their impact on the fund's portfolios. In so doing it is following up on the Board's priorities as laid out, for instance, in the fund's Sustainability Strategy, adopted in January 2025, and its Policy on Responsible Investment, as well as in recent legislation, for instance, on risk analysis and disclosure of sustainability information in financial services and pension fund operations.

Carbon footprint. In 2024, work was carried out on analysing the carbon footprint of the fund's portfolios, as stated in the Board's report and the Annual and Sustainability Report for that year.

As stated in the introduction, a detailed analysis was conducted during the year to form the basis for a reassessment of the sustainability objectives of the pension fund's portfolios and its focus on responsible investment. The Board is now evaluating the next steps in connection with the fund's policy in this regard. The intention is to review and present an update to LV's policies on these aspects of the fund's operations in 2026. These include its responsible investment policy, shareholder policy, investment exclusion policy and sustainability strategy.

Objectives of responsible investment. LV's objective is to maximise the long-term return on the fund's portfolios, taking risk into account, in fund members' best interests. LV's Policy on Responsible Investment describes the methodology in more detail, as is also done in Section IV, on responsible investment, in the Annual and Sustainability Report. The pension fund analyses sustainability risks alongside traditional analyses of financial metrics with the aim of achieving the optimal risk-adjusted return at any given time based on available information and assumptions. Among the main challenges in that regard is the availability of quality data and how it can be utilised for decision-making.

In tandem with analyses of sustainability risk factors in accordance with LV's Policy on Responsible Investment, the fund follows the Board's policy adopted in 2021, on excluding certain investment options from its portfolios.

LV's ownership role. In recent years, LV has placed increased emphasis on implementing the fund's ownership role as provided for in its current shareholder policy. The policy primarily concerns domestic portfolios with an emphasis on listed shares. It highlights issues that the fund emphasises concerning those companies in which it invests and those it considers as investment options.

Regarding information on sustainability (ESG: environmental, social and governance aspects) in the fund's operations, reference is made to Section IV, on responsible investments, Section VI, on governance, and Section VII, on sustainability in LV's operations.

Analysis of sustainability factors in portfolios. This year the Pension Fund of Commerce publishes for the first time a statement on the main negative impacts of its investment decisions on sustainability factors, as provided for in the Sustainable Finance Disclosure Regulation (SFDR) on sustainability-related disclosures in financial services and Delegated Regulation (EU) 2022/1288 supplementing the SFDR Regulation, i.e. the so-called principal adverse impact (PAI) metrics.

It includes metrics that describe the negative impact of the fund's domestic portfolios on sustainability factors, as listed in the annexes to the delegated regulation. In due course, LV will publish information on the negative impact of all assets in the fund's portfolios covered by the regulation, based on the availability and quality of relevant data.

All of LV's fund divisions, its mutual division and personal pension division options, are defined as Art. 6 products under the SFDR. For these there is a general provision for disclosure regarding sustainability aspects. Articles 8 and 9 of the SFDR prescribe more detailed disclosures. Firstly, where a financial product is intended to promote, among other characteristics, environmental or social characteristics (Art. 8), and secondly, where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark (Art. 9).

3.1.1.3 Society

An increased focus on social aspects is somewhat of a novelty among pension funds, both in Iceland and abroad, and is part of the greater emphasis on sustainability of operations and the management of portfolios in general.

LV is monitoring this trend and adapting its activities accordingly. Here the tasks concern, to a varying extent, LV's operations and its pension and loan products, on the one hand, and the impact of its portfolios on social aspects, on the other.

Operations. As far as LV's direct operations are concerned, the emphasis on social aspects is manifest primarily in the development of its human resources and corporate culture. As explained in the discussion of the fund's business model in Section I of the Annual and Sustainability Report, human capital is an important pillar of the fund's operations. During the year LV followed up on its adopted policy of developing and strengthening human resources, with emphasis on education, professional development, processing of the results of regular human resource measurements and improvements to work facilities. A discussion of these aspects can be found in Section VII, on sustainability in operations, in the Annual and Sustainability Report.

Pension products. The fund's pension products are important when it comes to social aspects. The widespread participation of employees and self-employed persons in the mutual insurance system of pension funds is conducive to improving living standards after retirement. Pension fund premiums have increased, insuring a higher lifelong pension and trauma pension. In recent years the focus had been on talking about pension issues in everyday language, so that fund members can easily understand the pension products and use them to their best advantage. Fund members have access to a live overview on "My pages", where they can always access the latest information about their pension entitlement and savings. In 2025, development of this interface to benefit fund members has continued. In addition, major emphasis was placed on providing personalised advice, both through digital solutions and direct communication, to ensure that all fund members receive assistance in making informed decisions about pension matters and loan types. This approach has contributed to increased participation and better information flow to all groups within the fund. Regular service surveys show that younger target groups are increasingly becoming aware of their entitlement and the protection that mutual insurance provides, and that fund members are generally preparing for retirement earlier than before.

Portfolios. Historically, pension funds and most other institutional investors have primarily focused on asset returns, taking into account risk, which is primarily assessed in light of expected fluctuations in returns. In the past couple of years, the focus on social aspects related to portfolio management has increased.

LV's policy on excluding certain investments from its portfolios, adopted in 2021, is among the actions taken concerning social issues. Among the undertakings excluded are those which violate the principles of the UN Global Compact. These companies are seen to violate the UN principles on human rights and fundamental rights of workers, for example, regarding freedom of association, collective bargaining, forced labour and misuse of child labour. The development of laws and other issues in this field will continue to be monitored.

Regarding the development of LV's policy in these matters, reference is made to the discussion earlier in the report.

3.2 LV's policy and rules on governance

Strategic planning. In 2021, the fund's Board and management collaborated on drafting the fund's strategic plan until 2030. This work defined the fund's future vision and its mission, implementing its established values. It is based on LV's role as laid down in law and in the fund's Articles of Association, with emphasis on long-term vision in its operations. In doing so, the aim is to reinforce the fund's activities in the long term and prepare it optimally for its role in a rapidly changing operating environment.

The strategic priorities are expected to be reviewed in 2026, including in light of the policy regarding the emphasis on sustainability aspects in LV's portfolios, the implementation of a responsible investment policy and shareholder policy.

Governance. The Board emphasises complying with rules and recognised standards regarding governance. This includes an efficient organisational structure, team effort, appropriate internal rules, internal controls and discipline exercised by internal and external auditors as well as stakeholders. The follow-up consists, among other things, of increased emphasis on disclosure, as included in the Board's report and the Annual and Sustainability Report, and in ongoing disclosures by the fund. The Board also regularly evaluates its own working practices.

In 2025, the Board approved an update to the fund's Code of Conduct and Communication and a new sustainability policy for the fund that covers all activities, i.e. operations, pension products and portfolios. The Board also adopted the fund's first policy on the use of artificial intelligence (AI) in its operations. The policy is intended to promote the safe, targeted and effective implementation of this technology.

In 2026, the intention is to establish rules on prevention of bribery and corruption, in accordance with accepted criteria.

Prior to the end of 2025, work was done to prepare a double materiality assessment (DMA) for the fund's operations, with the aim of building a better foundation for prioritising important projects in the fund's operations. Work on this assessment is not complete. It will be presented when the results are available.

Further information regarding governance in LV's operations is provided in the detailed governance statement accompanying Section VII of the Annual and Sustainability Report, as well as in Section V, on risk management, and Section VI, on governance and management.

3.3 LV's business model

The fund's business model, based on its main role as prescribed by law and the fund's Articles of Association, is to:

- receive premiums from fund members that form the basis for their entitlement;
- invest the fund's assets in its mutual and personal pension divisions;
- pay lifelong pensions upon retirement, trauma pensions in the form of disability pensions to fund members and their children, as well as spouse's and child's pensions upon the death of fund members;
- disburse personal pension savings upon retirement, disability or death.

LV also grants fund members loans in the form of real estate mortgages, in accordance with its currently applicable credit rules.

LV's business model is based on the examples in guidelines on an "Integrated Reporting Framework"; for further discussion see Section I on LV's activities. There the resources which the fund has to work with are classified into six categories: capital, human capital, society, nature and the environment, intangible

assets and tangible assets. The aspects of its operations aimed at creating value for fund members are highlighted: i.e. investment activities, operations and services, pensions and personal pension savings, as well as rules, policies and other criteria. An attempt is also made to explain the value creation in operations from each resource.

3.4 Stakeholders

Since LV began publishing a sustainability report in 2019, the fund has carried out and disclosed the results of a stakeholder analysis. Stakeholders were defined as the individuals, groups or legal entities affected by LV's activities and able to influence the fund's activities. Analysis of its stakeholders makes it easier for the fund to work on and protect the interests it is entrusted with. In 2025, work continued on strengthening relations with stakeholders by focusing especially on fund members, premium payers and employees, as explained in detail Section I, on LV's operations. Work will continue on that path.

3.5 ESG metrics

Section VII, on sustainability in LV's operations, in the Annual and Sustainability Report, contains information on environmental, social and governance (ESG) aspects. The information is presented, on the one hand, as a general review and, on the other hand, in tables. The disclosures in reports of recent years are mainly based on the GRI (Global Reporting Initiative) guidelines^[4]. This 2025 report now uses the latest EU sustainability standard, which is optional for small- and medium-size enterprises (SMEs).^[5] LV believes that this provides a useful picture of sustainability aspects of its activities in general. Various ESG disclosures and further discussion are also provided in other sections of the report, including in Section IV, on responsible investment.

3.6 Risk and uncertainty

In recent years, international tensions have increased significantly. There are no indications that these tensions will ease in the near future. Such a situation creates uncertainty that can have a negative impact on markets and therefore a negative impact on the performance of the Pension Fund of Commerce, as the fund invests in markets throughout the world.

Regarding other risks and uncertainty in LV's operations, reference is made to the detailed explanations in Notes 19-23 of the fund's annual financial statements and to Section VI, on risk management, in the Annual and Sustainability Report.

3.7 LV's exploratory talks with Birta on possible merger of the pension funds

In an announcement of 27 January 2026, the Boards of LV and Birta Pension Fund disclosed that the funds have decided to begin preliminary discussions regarding a possible merger of the funds.

Both pension funds have a long and successful operating history that has delivered solid benefits to their fund members and contributed to their financial security upon retirement.

The discussions will examine whether there is a basis for initiating formal negotiations on merging the funds. This involves assessing whether a merger would be likely to further strengthen their operations, including through increased administrative efficiency, stronger infrastructure and improved service to fund members, whether such a merged fund would be even better equipped to provide strong and reliable support to fund members in the long term.

The intention is to take a decision on further steps once the conclusions of preliminary discussions are available.

3.8 Endorsement by the Board of Directors and managing director

To the best of our knowledge, in our opinion the annual financial statements of the Pension Fund of Commerce, Lífeyrissjóður verzlunarmanna (LV), give a clear picture of the pension fund's operating performance in 2025 and its assets, liabilities and financial position as of 31 December 2025. Furthermore, in our opinion, the annual financial statements and report of the Board of Directors and managing director provide a clear overview of the development and success of the fund's operations and its position at year-end, and describe the principal risk factors facing the pension fund.

The Board of Directors and managing director of Lífeyrissjóður verzlunarmanna have today reviewed the fund's annual financial statements for 2025 and endorse them with their signatures. The annual financial statements will be made available and presented at the fund's next annual general meeting.

[1] Rules on the Annual Financial Statements of Pension Funds, No. 335/2015, as subsequently amended, Art. 50, issued by the Financial Supervisory Authority (now the Financial Supervisory Authority of the Central Bank of Iceland).

[2] Act on Annual Financial Statements, No. 3/2006, as subsequently amended. In particular, Articles 65, 66 and 66, b to E.

[3] This is based on the "[Integrated Reporting](#)" guidelines.

[4] [GRI](#)

[5] EFRAG Voluntary Sustainability Reporting Standard for non-listed SMEs, published by the European Financial Advisory Reporting Group (EFRAG) in December 2024. The standard was published in the *Official Journal* in August 2025.

Reykjavík, 26 February 2026

Board of Directors of the Pension fund of
Commerce (Lífeyrissjóður verzlunarmanna)

Jón Ólafur Halldórsson
Chairman

Stefán Sveinbjörnsson
Vice Chairman

Bjarni Þór Sigurðsson

Guðmunda Ólafsdóttir

Guðrún Ragna Garðarsdóttir

Helga Ingólfisdóttir

Páll Ásgrímsson

Sigrún Helgadóttir

Guðmundur Þ. Þórhallsson
Managing Director

Independent Auditor's Report

To the Board of Directors and members of the Pension fund of Commerce (Lífeyrissjóður verzlunarmanna).

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Pension Fund of Commerce ("the Fund"), which comprise the balance sheet as at 31 December, 2025, the income statement, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December, 2025, and of its financial performance and its cash flows for the year then ended in accordance with the regulation on the financial statements of pension funds and the Icelandic Financial Statement Act.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audits of the financial statements of public interest entities in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting on March 28, 2023. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters

Assessment of investments

The book value of investments amounted ISK 1.550 billion or 98,8% of total assets on 31 December 2025 (2024: ISK 1.430 billion). Reference is made to notes 2.7 and 9 - 12 for investments.

Investments include stocks, shares and bonds. The fund sets an investment policy which where, among other things, the composition of the investments and the confidence limits of individual investment classes are discussed.

The investments are either assessed at fair value, held to maturity or according to valuation method, where variables are based on market information and other external information. Due to the size and importance of investments and that a part of them is assessed at an other external valuation, then their assessment is a key audit matter.

Assessment of pension liability

Mutual insurance department's pension liability amounted to ISK 2.403 billion on 31 December 2025 (2024: ISK 2.255 billion). Revalued assets in excess of the fund's total liabilities amounted to ISK -129 billion on 31 December 2025 or -5,4% of the liabilities (2024: ISK -96 billion or -4,3% of the liabilities). Reference is made to the statement of actuarial position and to note 16.

The actuarial position indicates the fund's ability to meet its pension liability. The calculation is performed by an independent actuarial mathematician and is largely based on assumptions that have been issued by the Icelandic actuarial association and approved by the Ministry of Finance and Economic Affairs. Due to the importance of the fund's actuarial position, the pension liability is a key audit matter.

How the matter was addressed in the audit

Our audit procedures were designed to confirm the value of investments. These procedures include:

- * Information was obtained about the investment process and the methodology and criteria for investment valuation.
- * The exchange rate of a sample of listed investments was confirmed with the help of the data provider.
- * The fund's methods and calculations of unregistered investments were assessed.
- * An independent calculation by KPMG's valuation specialist on the value of a sample of bonds recognized at fair value or held to maturity.
- * Relevant notes were reviewed, including the note regarding the level of fair value.

Our audit procedures were designed to evaluating the assumptions used by the actuary in estimating the pension liability. These procedures include:

- * We assessed the independence and competence of an actuary.
- * Information was obtained about the calculation process.
- * The fund's procedures for recalculating the actuarial liability and actuarial revaluation of securities were reviewed.
- * Analytical measures were carried out on the development of the pension liability, assumptions and conclusions.
- * We reviewed the summary of the actuarial position and note 16 in the financial statements and confirmed that the presentation was in accordance with the rules.
- * We performed a recalculation of a sample of actuarial revaluations of investments.

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us after that date.

Responsibilities of the Board of Directors and CEO for the Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and CEO are responsible for assessing the Funds's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Funds's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with The Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the financial statements.

The engagement partner on the audit resulting in this independent auditor's report is
Hrafnhildur Helgadóttir

Reykjavík, February 26, 2026
KPMG ehf.

Statement of Changes in Net Assets for Pension Payments 2025

	2025	2024
Premiums		
Members	14,589,499	13,982,241
Employers	37,375,073	36,153,921
Transfer of rights and repayments	(263,452)	(106,147)
	<u>51,701,120</u>	<u>50,030,015</u>
Special supplementary contributions	656	585,464
	<u>51,701,776</u>	<u>50,615,479</u>
Pensions		
Total amount of pensions	45,409,903	40,336,288
Contribution to Rehabilitation Fund	322,927	308,712
Direct expenses from disability pensions	15,647	16,444
	<u>45,748,477</u>	<u>40,661,444</u>
Net investment income		
Net income from holdings in companies and funds	58,411,904	121,727,167
Net income from bonds	45,586,760	39,107,165
Interest income from cash equivalents	1,102,652	1,483,897
Interest income from premiums and other claims	83,264	115,274
Other investment income	0	340
Investment expenses	(296,381)	(454,736)
	<u>104,888,199</u>	<u>161,979,107</u>
Operating expenses		
Office and management expenses	1,981,192	1,876,538
Increase in net assets	108,860,307	170,056,604
Net assets from previous year-end	<u>1,457,577,507</u>	<u>1,287,520,903</u>
Net assets for pension payments at year-end	<u>1,566,437,814</u>	<u>1,457,577,507</u>

Balance Sheet as of December 31, 2025

	2025	2024
Investments		
Holdings in companies and funds	993,549,397	909,872,641
Bonds	556,746,978	519,903,156
Other investments	0	0
	<u>1,550,296,375</u>	<u>1,429,775,797</u>
Claims		
Claims on employers	5,530,559	5,116,656
Other claims	13,116	8,762,426
	<u>5,543,675</u>	<u>13,879,082</u>
Other assets		
Fixed assets	<u>686,045</u>	<u>698,997</u>
Cash equivalents	<u>11,892,229</u>	<u>15,087,775</u>
Total assets	<u>1,568,418,324</u>	<u>1,459,441,651</u>
Liabilities		
Short-term liabilities		
Cost incurred and income collected in advance	165,484	147,755
Other liabilities	1,815,026	1,716,387
	<u>1,980,510</u>	<u>1,864,142</u>
Net assets for pension payments at year-end	<u>1,566,437,814</u>	<u>1,457,577,507</u>
Division of net assets for pension payments		
Common pension fund	1,524,309,299	1,420,485,970
Private pension fund – Securities division	25,099,587	23,573,697
Private pension fund – Other division	17,028,928	13,517,840
	<u>1,566,437,814</u>	<u>1,457,577,507</u>

Statement of Cash Flows 2025

	2025	2024
Inflow		
Premiums	51,635,776	49,971,479
Paid interest income on cash equivalents and claims	1,286,143	1,686,075
Other inflow	9,039,911	970,879
	<u>61,961,830</u>	<u>52,628,433</u>
Outflow		
Pensions	45,748,477	40,661,444
Operating expenses	1,873,439	1,772,757
Investment in operating assets	77,072	273,923
Other outflow	564,866	181,682
	<u>48,263,854</u>	<u>42,889,806</u>
New disposable resources for investments	<u>13,697,976</u>	<u>9,738,627</u>
Investment transactions		
Received income from holdings in companies and funds	21,534,630	16,845,635
Investments in holdings in companies and funds	(410,290,426)	(244,199,370)
Sold holdings in companies and funds	363,198,985	210,682,789
Installments on bond principals and interest	71,662,975	60,412,187
Purchased bonds	(172,741,109)	(67,183,898)
Sold bonds	109,816,650	18,293,301
Sold other investments	0	0
	<u>(16,818,295)</u>	<u>(5,149,356)</u>
Increase (decrease) in cash equivalents	(3,120,318)	4,589,270
Exchange rate difference on cash equivalents	(75,228)	(94,850)
Cash equivalents at beginning of year	15,087,775	10,593,355
Cash equivalents at year-end	<u>11,892,229</u>	<u>15,087,775</u>

Statement of Actuarial Position

	2025		
	Accrued liabilities	Future liabilities	Total liabilities
Net assets			
Net assets for pension payments	1,524,309,299	0	1,524,309,299
Difference in book value and net present value of bonds	7,447,574	0	7,447,574
Net present value of future premiums	0	742,039,509	742,039,509
Total net assets	<u>1,531,756,873</u>	<u>742,039,509</u>	<u>2,273,796,382</u>
Liabilities			
Old age pension	1,440,000,384	656,675,049	2,096,675,433
Disability pension	107,965,511	73,452,912	181,418,423
Spouse's pension	54,479,996	20,434,112	74,914,108
Children's allowance	835,891	4,447,666	5,283,557
Net present value of future operating expenses	23,269,519	21,727,694	44,997,213
Total liabilities	<u>1,626,551,301</u>	<u>776,737,433</u>	<u>2,403,288,734</u>
Net assets in excess of liabilities	<u>(94,794,428)</u>	<u>(34,697,924)</u>	<u>(129,492,352)</u>
Ratio of net assets to liabilities at year-end	(5.8%)	(4.5%)	(5.4%)
Ratio of net assets to liabilities at the beginning of year	(5.1%)	(2.5%)	(4.3%)

	2024		
	Accrued liabilities	Future liabilities	Total liabilities
Net assets			
Net assets for pension payments	1,420,485,970	0	1,420,485,970
Difference in book value and net present value of bonds	9,962,128	0	9,962,128
Net present value of future premiums	0	728,700,970	728,700,970
Total net assets	<u>1,430,448,098</u>	<u>728,700,970</u>	<u>2,159,149,068</u>
Liabilities			
Old age pension	1,337,995,302	641,112,382	1,979,107,684
Disability pension	99,127,089	61,843,547	160,970,636
Spouse's pension	48,444,272	20,000,169	68,444,441
Children's allowance	849,465	3,758,443	4,607,908
Net present value of future operating expenses	21,310,264	20,865,818	42,176,082
Total liabilities	<u>1,507,726,392</u>	<u>747,580,359</u>	<u>2,255,306,751</u>
Net assets in excess of liabilities	<u>(77,278,294)</u>	<u>(18,879,389)</u>	<u>(96,157,683)</u>
Ratio of net assets to liabilities at year-end	(5.1%)	(2.5%)	(4.3%)
Ratio of net assets to liabilities at the beginning of year	(8.6%)	(3.3%)	(6.8%)

Financial Indicators

Common Pension Fund	2025	2024	2023	2022	2021
Financial position based on actuarial valuation					
Net assets in excess of total liabilities	(5.4%)	(4.3%)	(6.8%)	(5.6%)	3.5%
Net assets in excess of accrued liabilities	(5.8%)	(5.1%)	(8.6%)	(6.9%)	12.2%
Return on investment					
Net nominal return on investment *	7.0%	12.4%	8.6%	(3.6%)	16.9%
Real return on investment *	3.4%	7.4%	0.7%	(11.8%)	11.6%
Net real return on investment *	3.2%	7.3%	0.5%	(11.9%)	11.5%
Net nominal return on investment (at market price) *	7.0%	12.4%	7.8%	(6.2%)	16.9%
Net real return on investment (at market price) *	3.2%	7.3%	(0.2%)	(14.2%)	11.5%
Net real return (five-year average)	1.8%	3.3%	4.8%	4.9%	8.8%
Net real return (ten-year average)	4.0%	4.6%	4.8%	5.3%	7.6%
Net real return (twenty-year average)	3.2%	3.8%	4.1%	4.6%	5.2%
Net real return (thirty-year average)	4.6%	4.7%	4.7%	4.9%	5.5%
Investment securities					
Listed holdings in companies and funds	51.0%	50.0%	47.9%	47.8%	53.8%
Listed bonds	24.9%	26.7%	28.0%	27.8%	26.5%
Unlisted holdings in companies and funds	13.1%	13.6%	13.7%	13.7%	10.8%
Unlisted bonds	11.0%	9.7%	10.4%	10.7%	8.9%
Bank deposits	0.0%	0.0%	0.0%	0.0%	0.0%
Other investments	0.0%	0.0%	0.0%	0.0%	0.0%
Investment securities by currencies					
Securities in Icelandic króna	49.6%	50.3%	54.2%	56.2%	54.9%
Securities in other currencies	50.4%	49.7%	45.8%	43.8%	45.1%
Number of					
Number of active fund members	37,067	37,259	37,152	36,512	35,854
Number of total fund members at year-end	192,290	189,410	186,351	182,768	178,661
Number of pensioners	27,666	26,076	24,222	22,115	21,044
Staff (full-time equivalent position)	65.2	60.6	57.6	54.2	51.1
Pension payments					
Old age pension	80.8%	80.7%	79.6%	77.5%	76.7%
Disability pension	15.1%	15.1%	16.0%	17.5%	17.9%
Spouse's pension	3.6%	3.7%	3.9%	4.4%	4.7%
Children's allowance	0.5%	0.5%	0.5%	0.6%	0.7%
Other financial indicators					
Pensions as percentage of premiums	92.2%	83.6%	74.7%	64.0%	61.5%
Operating expenses as percentage of premiums	4.0%	3.9%	3.7%	3.7%	3.5%
Net investment income as % of average asset position	6.9%	11.8%	8.4%	(3.6%)	15.7%
Operating expenses as % of average asset position	0.13%	0.14%	0.14%	0.13%	0.12%
Amounts at fixed prices (in millions of Icelandic króna)					
Total premiums	47,877	48,815	48,750	46,799	46,354
Total pensions	44,141	40,786	36,402	29,949	28,493
Total net investment income	102,007	163,927	109,405	(48,569)	218,634
Total operating expenses	1,920	1,890	1,817	1,710	1,632
Increase in net assets for pension payments	103,823	170,066	119,935	(33,430)	234,863

* Return is calculated on the basis of FME rules (assets are not valued on daily basis)

Financial Indicators

Private Pension Funds	2025	2024	2023	2022	2021
Private pension fund – Securities division					
Net nominal return on investment *	6.9%	12.4%	8.6%	(3.6%)	16.9%
Net real return on investment *	3.1%	7.3%	0.5%	(11.9%)	11.5%
Net real return (five-year average)	1.8%	3.3%	4.8%	4.9%	8.8%
Number of active fund members	1,064	1,098	1,159	1,173	1,236
Number of pensioners	171	161	144	125	135
Securities division has the same investment strategy as the Common Division					
Private pension fund – Ævileið I division					
Net nominal return on investment *	8.1%	13.0%	7.2%	(7.9%)	17.4%
Net real return on investment *	4.3%	7.8%	(0.7%)	(15.8%)	12.0%
Net real return (five-year average)	1.0%	2.4%	2.8%	2.4%	
Number of active fund members	3,163	2,832	2,433	2,221	2,020
Number of pensioners	20	11	7	2	1
Investment securities					
Listed holdings in companies and funds	54.7%	55.0%	52.7%	52.2%	58.8%
Listed bonds	45.3%	45.0%	47.3%	47.8%	41.2%
Securities in Icelandic króna	65.9%	64.3%	69.1%	72.7%	72.9%
Securities in other currencies	34.1%	35.7%	30.9%	27.3%	27.1%
Private pension fund – Ævileið II division					
Net nominal return on investment *	8.0%	10.7%	5.9%	(5.1%)	10.7%
Net real return on investment *	4.1%	5.7%	(1.9%)	(13.2%)	5.6%
Net real return (five-year average)	(0.2%)	0.5%	1.0%	1.5%	
Number of active fund members	1,594	1,554	1,433	1,352	1,293
Number of pensioners	103	80	53	25	13
Investment securities					
Listed holdings in companies and funds	35.9%	37.6%	32.4%	31.6%	35.8%
Listed bonds	64.1%	62.4%	67.6%	68.4%	64.2%
Securities in Icelandic króna	82.1%	80.8%	84.4%	86.8%	85.7%
Securities in other currencies	17.9%	19.2%	15.6%	13.2%	14.3%
Private pension fund – Ævileið III division					
Net nominal return on investment *	8.3%	8.2%	5.8%	1.3%	1.7%
Net real return on investment *	4.4%	3.2%	(2.0%)	(7.3%)	(3.0%)
Net real return (five-year average)	(1.0%)	(1.5%)	(1.6%)	(1.1%)	
Number of active fund members	679	694	681	659	673
Number of pensioners	86	72	69	37	21
Investment securities					
Listed holdings in companies and funds	23.5%	22.2%	23.1%	24.8%	22.1%
Listed bonds	76.5%	77.8%	76.9%	75.2%	77.9%
Securities in Icelandic króna	100.0%	100.0%	100.0%	100.0%	100.0%

* Return is calculated on the basis of FME rules (assets are not valued on daily basis)

