Flash Note – Bank Levy II

The Margin It Takes to Stand Still: 13bp of NIM to Hold 2027E ROE

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Note date	Levy rate	Added levy 2027E	NIM to hold ROE, own basis	Same, on the loan book	2027E ROE impact without repricing	Ratings
21/09/2026	**0,145% → 0,254%**	**ISKm 3.767**	**13bp**	**16-17bp**	**-54 to -82bp**	**Unchanged**

Bottom Line

To hold 2027E return on equity where it stood before the proposed levy increase, each of the three covered banks would need to lift net interest margin by about 13bp on its own reported basis (11-13bp of total assets, 16-17bp on the loan book), or 3-4% of 2027E net interest income. That is about a third more than the levy itself: the levy is not deductible, while the income replacing it is taxed at 26% at the margin (20% income tax plus the 6% financial activities tax on profit above ISKbn 1). Recovering only the levy before tax, 8-9bp of assets, still leaves ISKm 979 of the ISKm 3.767 in lost earnings. Without repricing ROE falls to 11,6% / 12,9% / 9,8%. All figures are sensitivities against AKKUR's current model estimates, which still carry the levy at 0,145%: the increase is not yet in the estimates. AKKUR takes no view on whether the banks will reprice. **Theses intact. Ratings and target prices unchanged.**

What It Takes to Hold 2027E ROE after the Levy Increase

ISKm unless stated	ISB	ARION	KVIKA
Incremental levy 2027E	1.695	1.749	323
Pre-tax income needed to offset it (÷ 0,74)	2.290	2.364	437
Levy-neutral NIM uplift, bp of total assets	9,3	9,2	8,0
ROE-neutral NIM uplift, bp of total assets	**12,6**	**12,5**	**10,7**
ROE-neutral NIM uplift, bp on own reported basis*	**12,6**	**13,1**	**13,1**
ROE-neutral uplift, bp of average loans to customers	15,7	16,6	17,0
ROE-neutral uplift as % of 2027E net interest income	4,2%	4,4%	3,1%
Average assets / average equity 2027E (x)	8,8	8,5	6,7
ROE change per 10bp of NIM on total assets (bp)	65	63	50
Alternative: capital return to restore ROE (ISKbn)**	23,8	20,6	6,3
as % of 2027E average equity	11,5%	9,3%	10,5%

*AKKUR calculations on AKKUR 2027E estimates; averages follow each model's convention. ROE-neutral uplift = incremental levy ÷ (1 − 26%) ÷ average assets; the levy is non-deductible (Art. 6, Act no. 155/2010). * ISB reports NIM on total assets, Arion on interest-earning assets, Kvika on interest-bearing assets. ** Assumes returned capital forgoes a 7,1% pre-tax yield (CBI key rate 8,00%); ISKbn 13,7 / 12,7 / 3,1 if ignored.*

Levy-neutral is not ROE-neutral. Repricing by 8-9bp of assets recovers the levy krona for krona before tax, but the extra income is taxed at 26% and the levy is not deductible, so ISKm 979 of earnings is still lost. Rule of thumb: uplift ≈ change in levy rate × (levy base ÷ assets) ÷ 0,74; the base is about 85% of assets at ISB and Arion and 73% at Kvika.

Degree of repricing	ISB	ARION	KVIKA
ROE 2027E: No repricing	11,6%	12,9%	9,8%
ROE 2027E: 25% of ROE-neutral	11,8%	13,1%	10,0%
ROE 2027E: 50% of ROE-neutral	12,0%	13,3%	10,1%
ROE 2027E: Levy-neutral (74% of ROE-neutral)	12,2%	13,5%	10,2%
ROE 2027E: ROE-neutral	**12,4%**	**13,7%**	**10,4%**
Net income 2027E vs current estimate: No repricing	-6,6%	-5,7%	-5,2%
Net income 2027E vs current estimate: 25% of ROE-neutral	-5,0%	-4,3%	-3,9%
Net income 2027E vs current estimate: 50% of ROE-neutral	-3,3%	-2,9%	-2,6%
Net income 2027E vs current estimate: Levy-neutral	-1,7%	-1,5%	-1,3%
Net income 2027E vs current estimate: ROE-neutral	0,0%	0,0%	0,0%
Cost of equity, current AKKUR models	10,38%	10,33%	10,54%

Sensitivities against AKKUR's current 2027E model estimates, which carry the levy at 0,145% and no repricing; "no repricing" is the higher levy with nothing else changed. Repricing is a share of the ROE-neutral pre-tax uplift at left; ROE on unchanged average equity. The 26% rate is marginal, not the effective tax rate.

Capital is a partial lever. Restoring ROE through distributions takes 9-12% of equity and restores the ratio, not the earnings. On AKKUR's YE2027E balance sheet ISB would end about 110bp below requirement plus minimum management buffer (its 385bp CET1 excess at end-Q2, ISKbn 40,2, is guided to 200bp by year-end); Arion and Kvika would keep about 90bp and 70bp.

Ratings and target prices, unchanged. ISB BUY, ISK 181, last close ISK 141,60 (+28%); ARION BUY, ISK 291, ISK 179,00 (+63%); KVIKA BUY, ISK 20,75‡, ISK 12,05 (+72%). Target prices dated 24/11/2025. ‡ Adjusted for the ISK 2,35 special dividend paid in June 2026.

Valuation Read

Directional implication: none beyond the 07/09/2026 note. Full ROE-neutral repricing would reverse that note's indicative 4,9-8,1% fair value impact; levy-neutral repricing would still leave about a quarter of it; the capital route would not reverse it. The levy increase and any pass-through are both outside AKKUR's current estimates.

Trigger for TP update: unchanged. Publication of the amending bill with a confirmed rate and effective date, or evidence of pass-through in deposit or lending pricing, where Landsbankinn, the largest payer and not covered by AKKUR, is likely to set the pace. Otherwise at the next scheduled review.

All data from company annual/interim reports, Kodiak Excel and AKKUR estimates unless otherwise stated.

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What Accounts for Wider Icelandic Margins: Capital, Rates, Taxes and Costs

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Note date	ROE, Iceland vs Nordic median	ROE less risk-free rate	Assets / equity	NII / assets	Cost / assets	Ratings
21/09/2026	13,4% vs 14,1%	6,6pp vs 10,5pp	7,9x vs 20,1x	3,4% vs 1,0%	1,7% vs 0,8%	Unchanged

Bottom Line

Icelandic bank ROE is below the Nordic peer median: 13,4% in H1 2026 against 14,1%, and 6,6pp above the local risk-free rate against 10,5pp. Four structural differences account for net interest income of 3,4% of assets against 1,0%: assets are 7,9x equity against 20,1x; the risk-free rate is 6,8% against 3,2%; the banks pay a 26% marginal tax rate plus a non-deductible levy; and operating cost is 1,7% of assets against 0,8%, only partly offset by higher fees. At Nordic leverage, rates and a 20% tax rate, NII / assets about 185bp lower would deliver the same accounting ROE spread over risk-free; Nordic costs, fees and credit losses would take a further 90bp. The bridge targets accounting returns and does not establish unchanged shareholder value (see Limits). **It shows where the margin goes; the test for excess return is ROE against cost of equity (page 1).**

ROE, Risk-Free Spread, Leverage and Margin against Nordic Peers, and an Accounting Bridge for the Gap

H1 2026, as reported	ROE	Risk-free rate	ROE less risk-free, pp	Assets / equity	NII / assets
ISB	13,4%	6,78%	6,6	8,5x	3,62%
ARION	14,6%	6,78%	7,8	8,8x	3,41%
KVIKA†	7,1%	6,78%	0,3	6,5x	3,34%
Landsbankinn[1]	13,4%	6,78%	6,6	7,3x	3,30%
Handelsbanken	13,2%	3,16%	10,0	21,0x	1,03%
SEB	14,3%	3,16%	11,1	19,3x	0,96%
Swedbank§	13,6%	3,16%	10,4	16,0x	1,36%
DNB	14,3%	4,47%	9,8	13,9x	1,57%
Danske Bank	13,9%	3,28%	10,6	23,1x	0,97%
Nordea§	15,7%	3,83%	11,9	22,9x	0,99%
Icelandic median	**13,4%**	**6,78%**	**6,6**	**7,9x**	**3,38%**
Nordic median	**14,1%**	**3,22%**	**10,5**	**20,1x**	**1,01%**

Company H1 2026 reports; peer group as in the 24/11/2025 valuation update. ROE: H1 2026; calculation and adjustment exceptions noted below. Risk-free: longest RIKB per AKKUR models for Iceland; 10-year government yields for the peers (Finland for Nordea). NII / assets = H1 NII annualised over period-end assets. Medians by column. [1] Not covered by AKKUR. † AKKUR calculation; Kvika does not report ROE. § Swedbank as reported (14,3% excl. one-offs); Nordea excludes items affecting comparability. Icelandic operating cost includes the 5,5% financial activities tax on wages.

Return on assets is higher, ROE is not. Icelandic banks hold 2,6x the equity per krona of assets (regulatory leverage ratios of 11-14% against 4-6%) and earn 2,4x the Nordic return on assets, yet ROE is 0,7pp lower.

NII / assets could fall by, bp	Alone	Cumulative	NII / assets
Today, Icelandic median	-	-	3,38%
1. Nordic leverage (20,1x against 7,9x), ROE unchanged	140	140	1,98%
2. Nordic risk-free rate (3,2% against 6,8%), same ROE spread	61	163	1,74%
3. 20% income tax only, no bank levy, ROE unchanged	34	185	1,53%
4. Nordic costs, fees, other income and credit losses	91	276	0,62%
Nordic median	-	-	1,01%
Difference to the Nordic median (split below)	-	-39	-

AKKUR calculations from the medians at left (unrounded): return on assets = ROE ÷ (assets / equity); step 1 = ROE ÷ (1 − 26%) × (1 ÷ 7,9 − 1 ÷ 20,1). Alone: each item removed with the others in place. Cumulative: removed in the order shown; steps 1-3 overlap. Steps 2 and 3 assume the same ROE spread over the local risk-free rate. Step 3 replaces the 26% marginal rate and the levy (about 12bp of assets) with a 20% rate. Step 4 is the gap between the medians of each bank's fees plus other income less operating cost (ex levies) and impairments, H1 annualised, on period-end assets; by line: costs +94, credit losses +16, other income +5, fees -32: 82bp using unrounded inputs (the rounded components sum to 83bp); line medians do not add to the median of each bank's combined figure, which is what step 4 uses. Calculations use unrounded inputs; displayed figures may not reconcile exactly due to rounding.

Four structural items. Leverage is the largest, about 140bp alone, then costs net of fees at about 90bp, the rate level at about 60bp and taxes at about 35bp, rising to about 45bp with the proposed levy. Together they exceed the 236bp gap (3,38% less 1,01%, before rounding) by 39bp: the Nordic peers earn 28bp more pre-tax return on assets than the bridge requires and pay levies of 5bp; 6bp is aggregation of medians.

Read-across

For the levy debate: the proposed increase adds the 11-13bp of total assets on page 1 to item 3. Without repricing, 2027E ROE falls to 11,6% / 12,9% / 9,8%, against modelled costs of equity of 10,38% / 10,33% / 10,54%. ISB and Arion remain above their cost of equity in 2027E. Kvika remains below in 2027E, but its longer-term ROE exceeds its cost of equity in AKKUR's current forecasts, which exclude the proposed levy increase.

Limits: the bridge targets accounting returns on medians of four and six banks at one date and does not establish unchanged shareholder value. Step 1 holds ROE constant despite higher leverage, making it an upper-bound illustration of the margin reduction from that adjustment; required ROE is assumed to move one-for-one with the risk-free rate. Cost to assets reflects scale and operating-model differences, which are not separated from efficiency.

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