Arion Bank

Q3 results 2022

Investor presentation
26 October 2022

Key results in Q3

Continued strength in core income

- 10.5% ROE in the quarter and 14.8% for the first nine months
- Driven by ongoing positive momentum in Core Income which increased by 19.2% from Q3 2021 (19.6% increase vs. 9M 2021)
- Challenging market conditions impact financial income in the quarter
- Strong capital, funding and liquidity position. Share buyback program ongoing
- Good progress towards achieving medium term targets
- CET1 ratio target clarified with 150-250 bps management buffer on capital regulatory requirements instead of fixed ratio

Key results	Q3 2022	9M 2022	Medium term targets
Return on equity	10.5%	14.8%	Exceed 13%
Operating income / REA	6.4%	6.5%	Exceed 7.3%
Insurance premium growth (YoY)	10.5%	10.3%	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]
Loan growth	3.4%	11.6%	In line with nominal economic growth[2]
Cost-to-income ratio	41.8%	44.8%	Below 45%
CET1 ratio	19.3%	19.3%	150-250 bps management buffer[3]
Dividend payout ratio[4]	-	-	50%

Medium-term targets are reviewed annually, and the underlying horizon is up to 3 years

1 Premium growth in the domestic insurance market in 6M 2022 was 6.5% from 6M 2021
2 Arion Bank forecasts nominal GDP growth of 14.0% in 2022 (real GDP 5.5%)
3 Approx.17.2-18.2% based on current capital requirements
4 Pay-out ratio of approximately 50% of net earnings attributable to shareholders through either dividends or buyback of the Bank's shares or a combination of both. Additional distributions will be considered when Arion Bank's capital levels are above the minimum requirements set by the regulators in addition to the Bank's management buffer

Our operating environment is relatively strong…

Macro

- Key interest rates are now **close to terminal rates**
- Inflation **expected to decrease** in line with the stabilization of the housing market (house prices are included in Iceland's CPI)
- **Terms of trade improving** with all key export sectors performing
- IMF projects Iceland to have one of the **highest real GDP growth rates in Europe** next year (+2.9%)

Favorable demographics

- Iceland has one of the **highest population growth rates in Europe** (11.1% in the last five years and 2.8% for the past year)

Capital markets

- **Positive Net International Investment position** by ISK 863bn (25% of GDP)
- One of the **strongest pension fund systems** in the world with size 190% relative to GDP
- **Strong FX reserves** ISK 886bn (25% of GDP)
- 2022 is a very strong year in terms of **foreign direct investment** and Iceland was included in **FTSE secondary emerging market index**

Sources: IMF, Central Bank of Iceland, Statistics Iceland

… and we are seeing growing potential in the Arctic region

- **Eco-tourism is growing** in Iceland, Northern Norway and Faroe Islands. Greenland is also emerging with great potential
- **Sustainable energy potential** (hydro, geothermal, wind, green hydrogen)
- Mining – including green minerals in Greenland that will **support the energy transition**
- **Fisheries and aquaculture** (including land-based fish farming) expected to continue to grow
- Iceland is in a **unique position** to support development in the region

The formation of Arctic Investment Partners

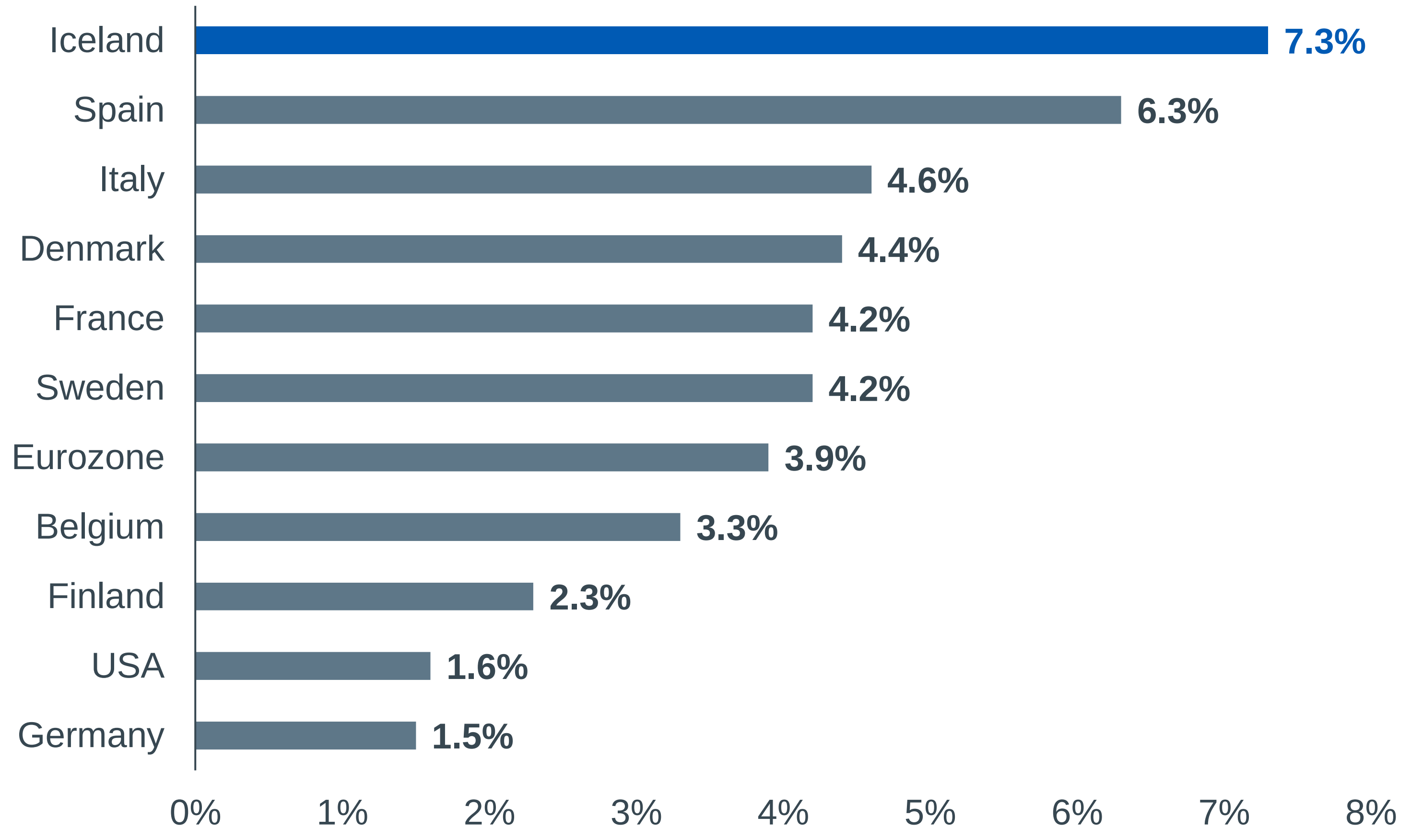
"The formation of the AIP working group is a signal to the world of the tremendous opportunities for responsible investment in and development of the Arctic," Chairman Grimsson said. "I am delighted by the group's formation, which comprises world-class investors and established friends of the Arctic."

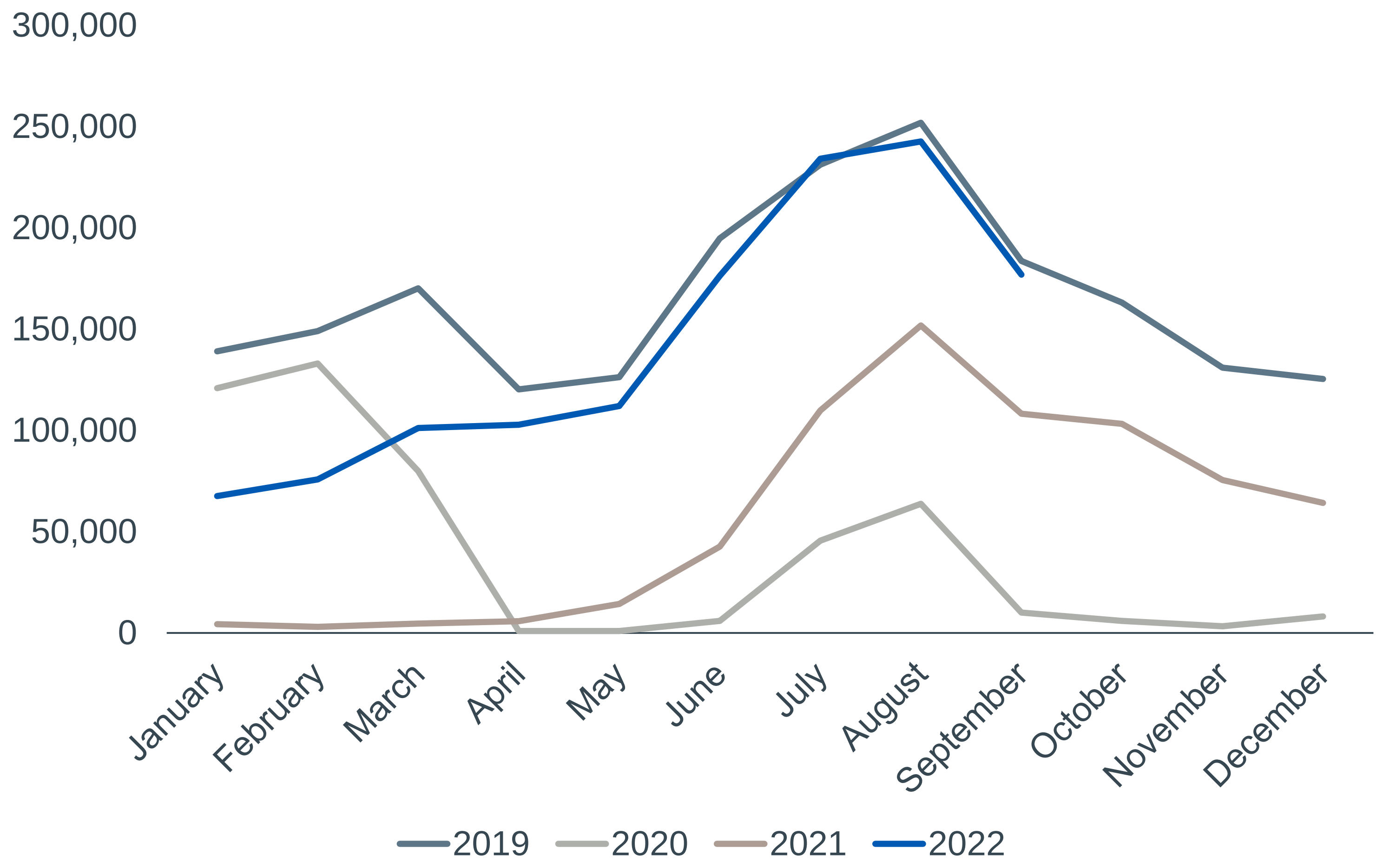
GUGGENHEIM ARCTIC CIRCLE Arion Bank Pt CAPITAL

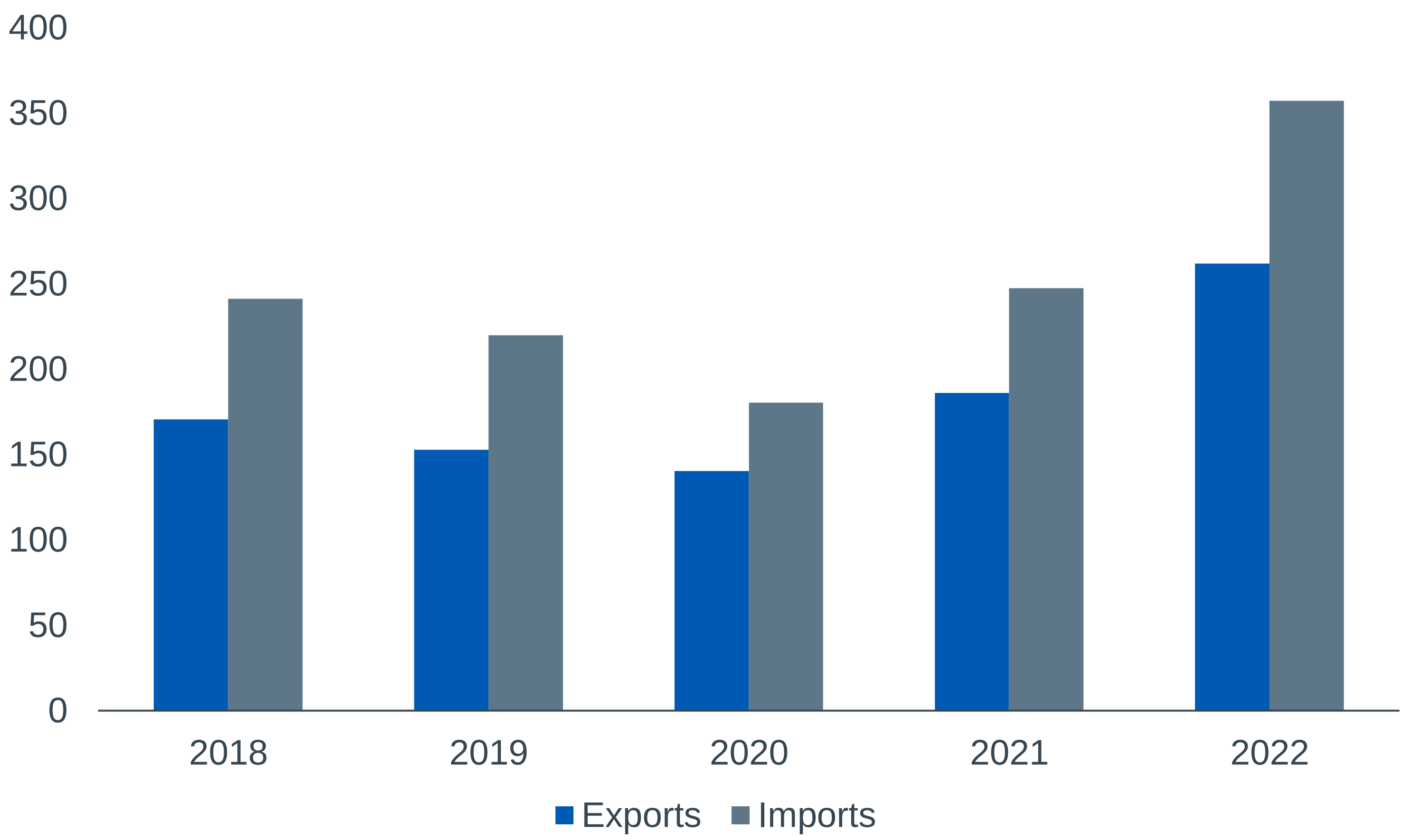
Macroeconomic environment

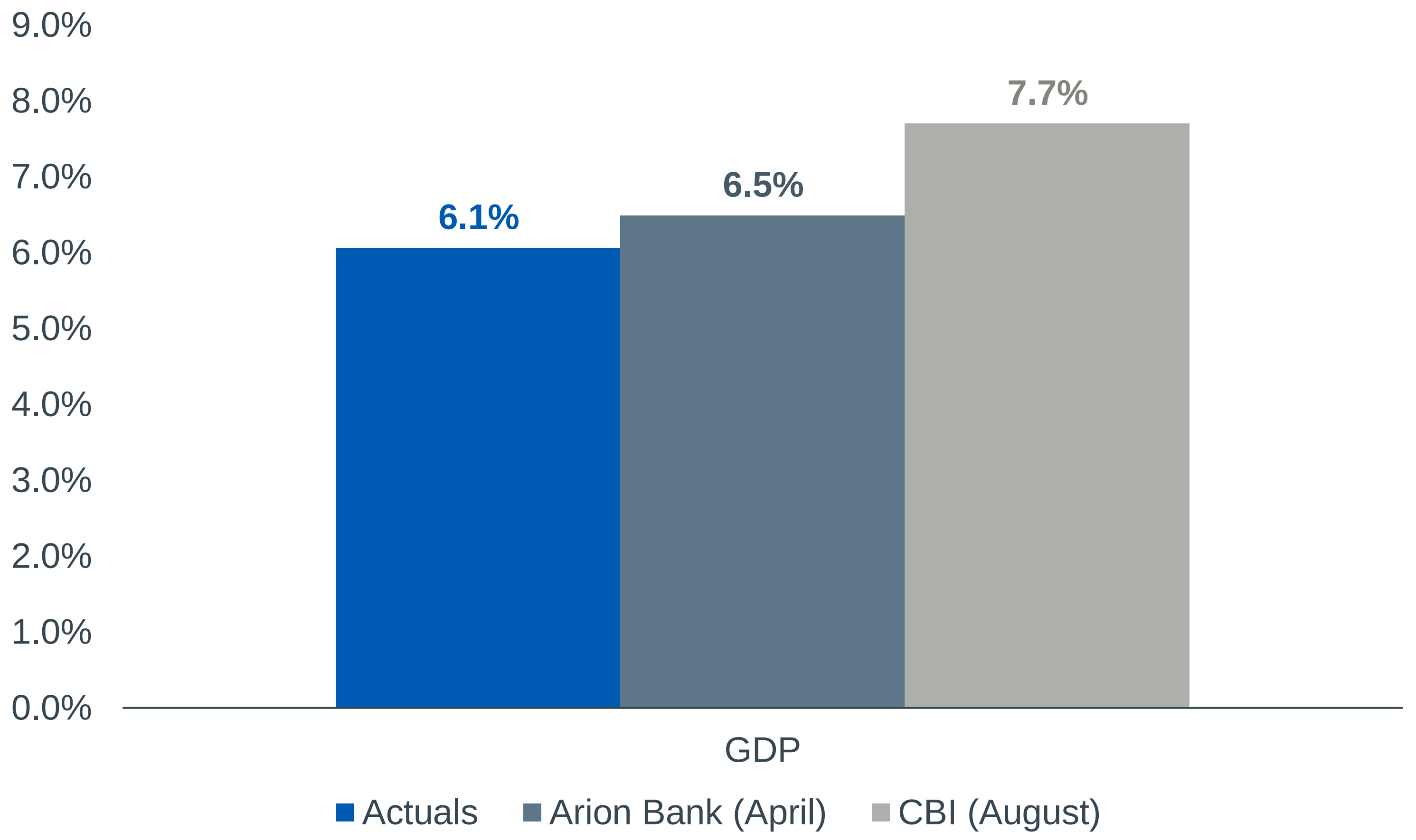
Strong economic growth in growing global uncertainty

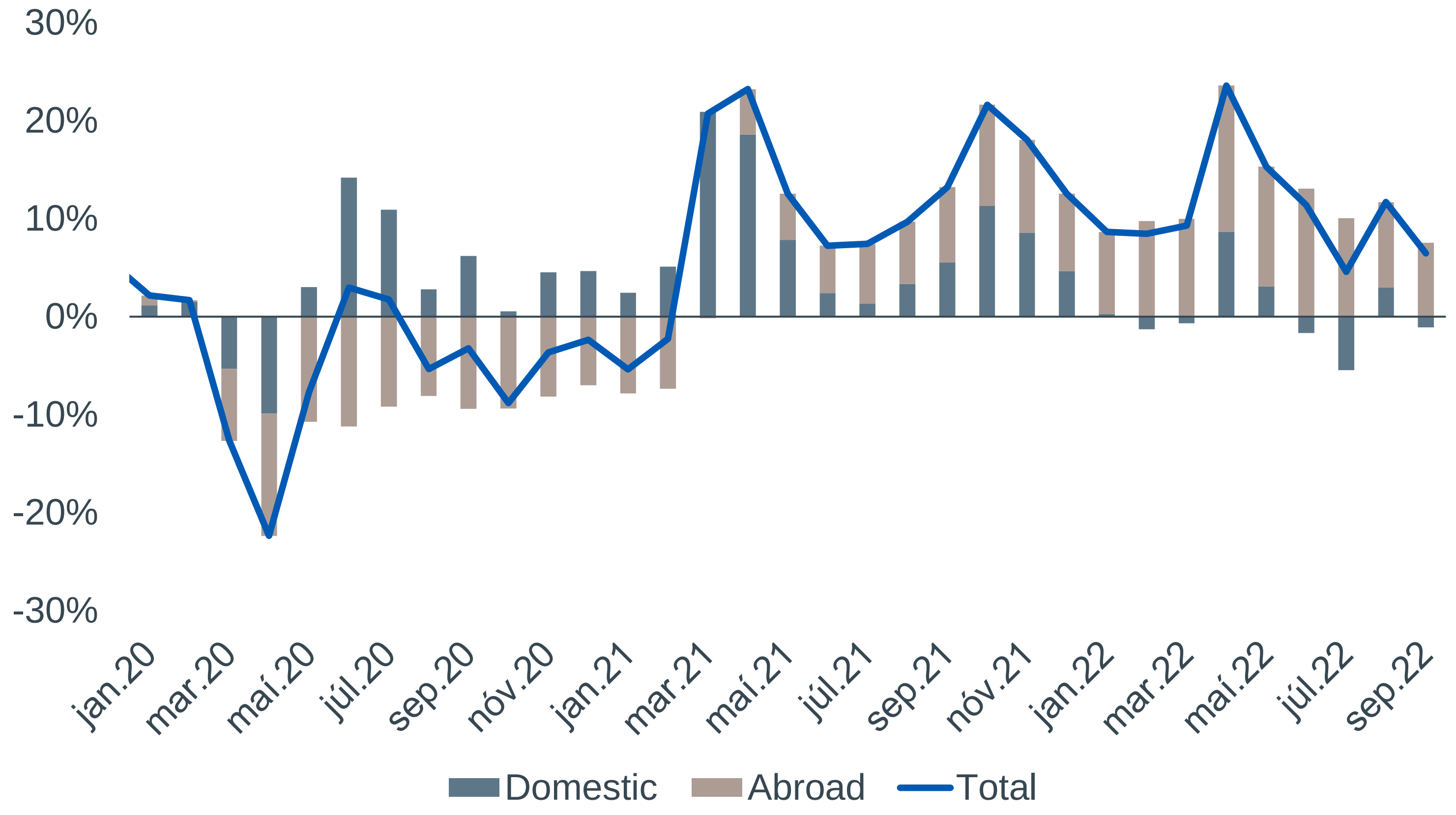
GDP increased by 6.1% YoY in Q2, a result that was in line with, or even slightly below, expectations. Growth was driven by record-breaking private consumption and increased growth in tourism, while business investment lent a helping hand. Robust domestic economic activity is reflected in large trade deficit and falling unemployment rate

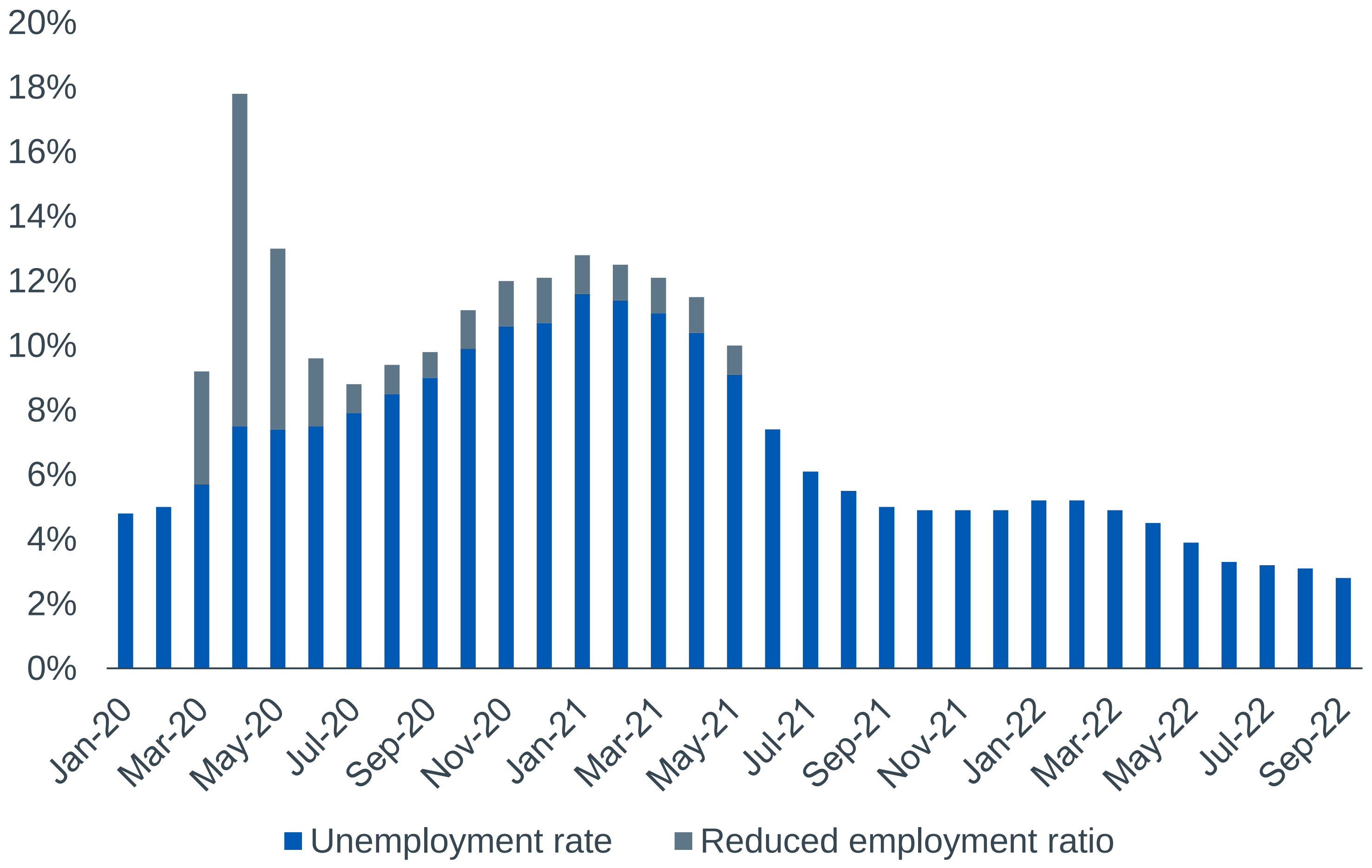








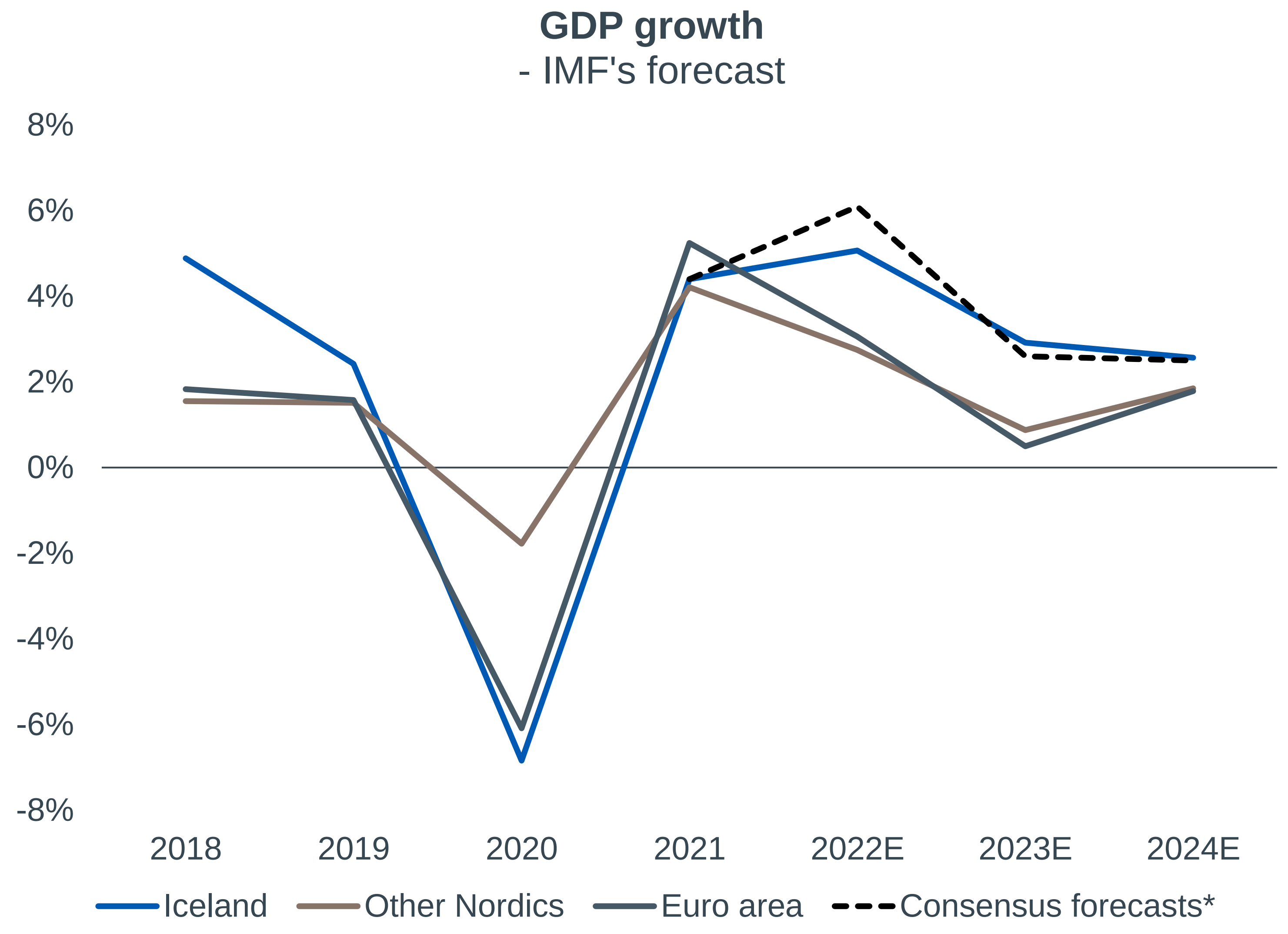


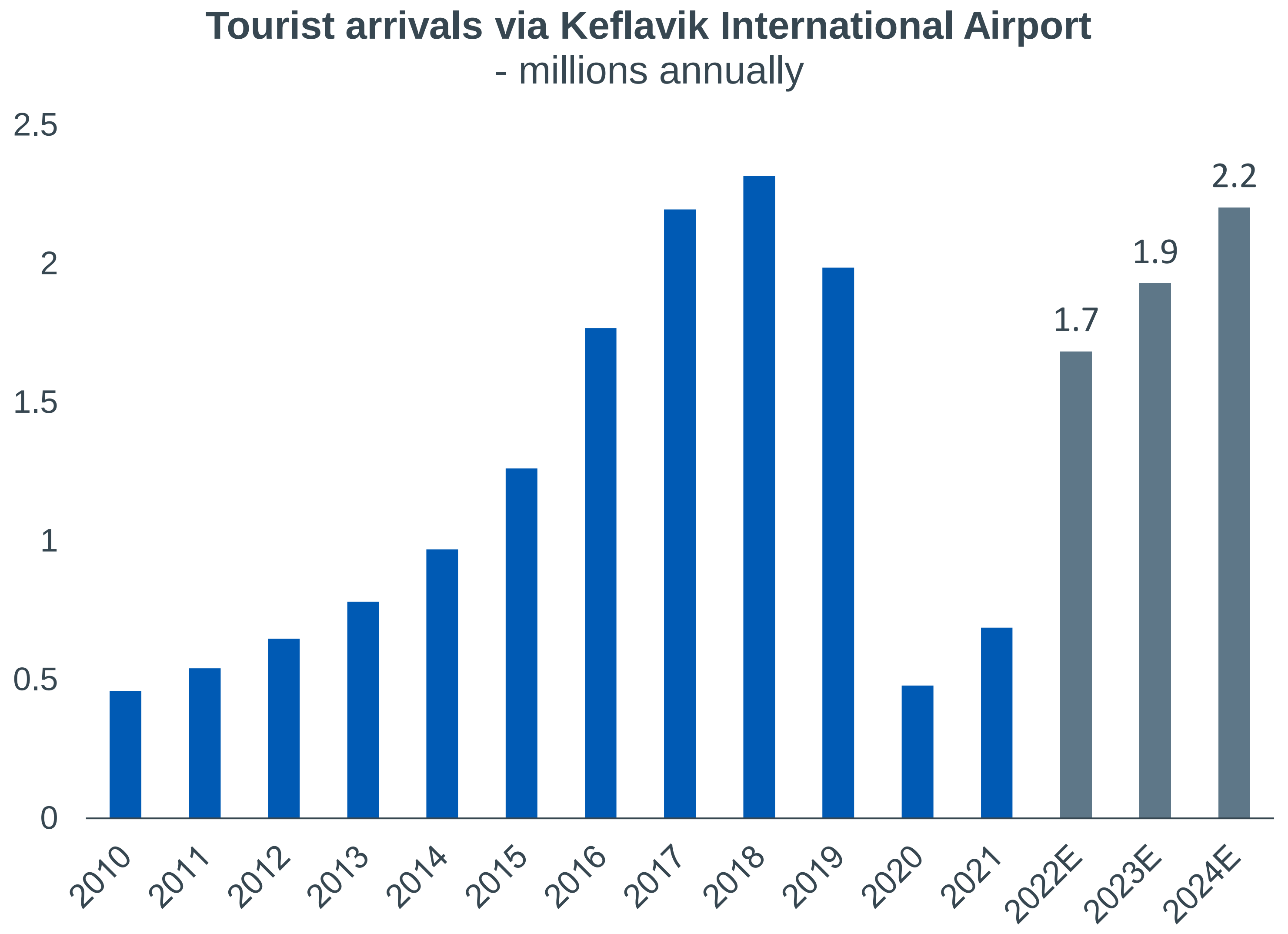


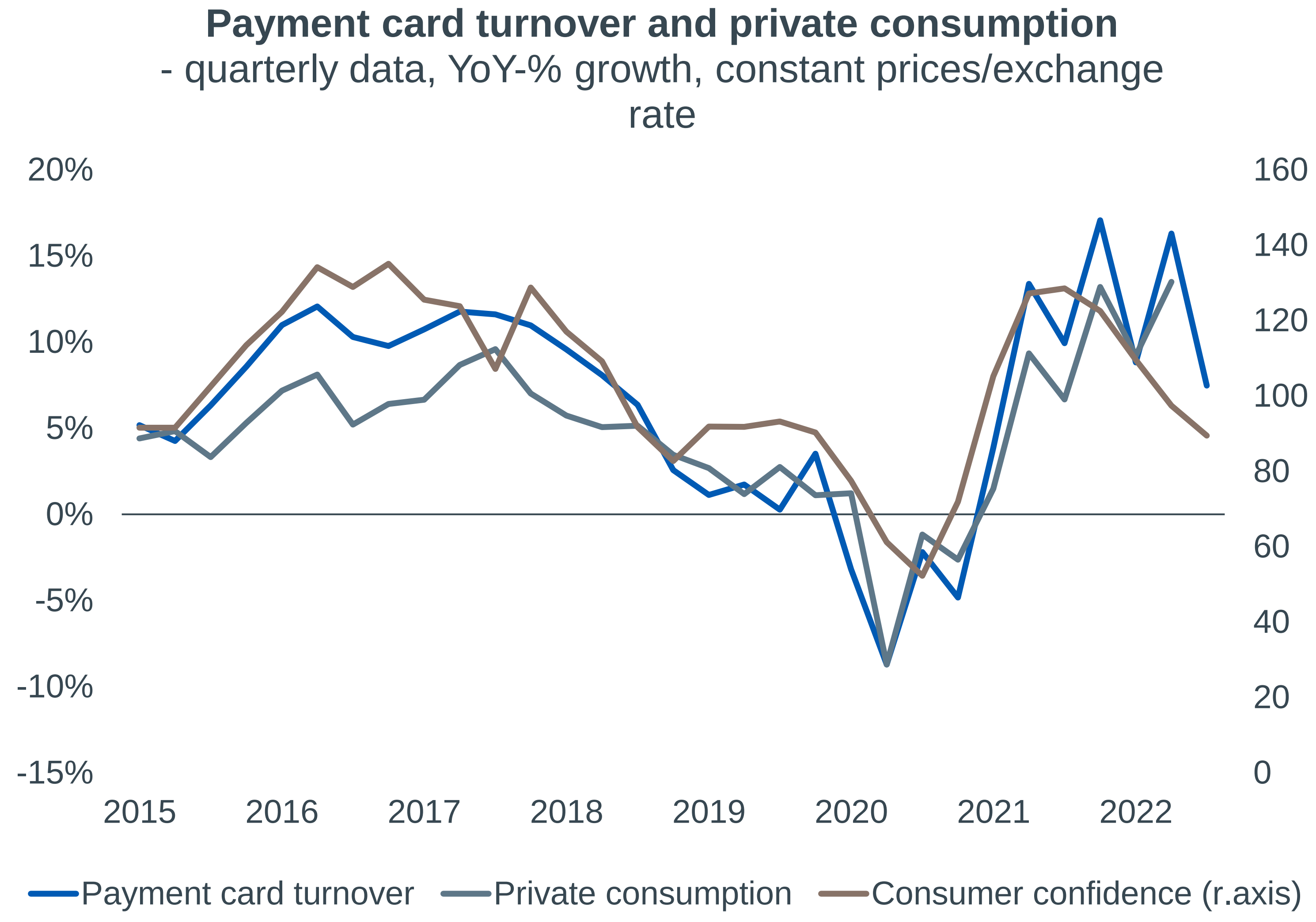
Sources: Statistics Iceland, Central Bank of Iceland, Icelandic Tourist Board, Directorate of Labour, Arion Bank

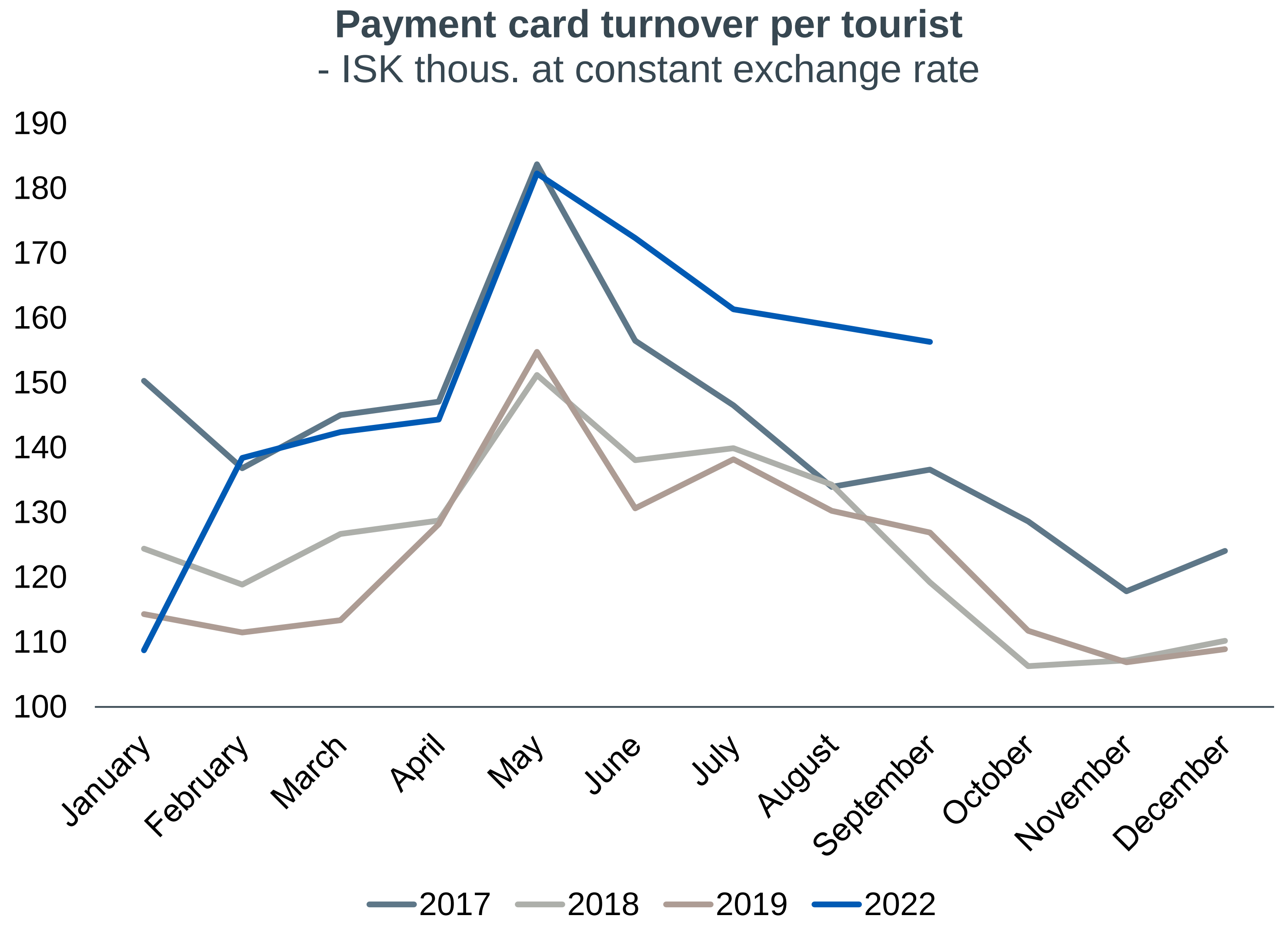
No country is an island

- Despite highly uncertain global economic outlook the Icelandic economy is set for strong growth in 2023, driven by tourism and household consumption
- The IMF expects Iceland to have one of the highest real GDP growth rates in advanced Europe in 2023, a view that is shared by domestic analysts
- Household consumption appears to have been strong in Q3, with payment card turnover increasing by 7.5% between years
- Tourism has regained its former strength, with tourist arrivals in Q3 reaching 98% of Q3 2019. More importantly, each tourist is spending more than pre-covid, despite high inflation on both sides of the Atlantic
- Deteriorating global economic outlook could negatively affect the country’s export sectors and investment, slowing down growth







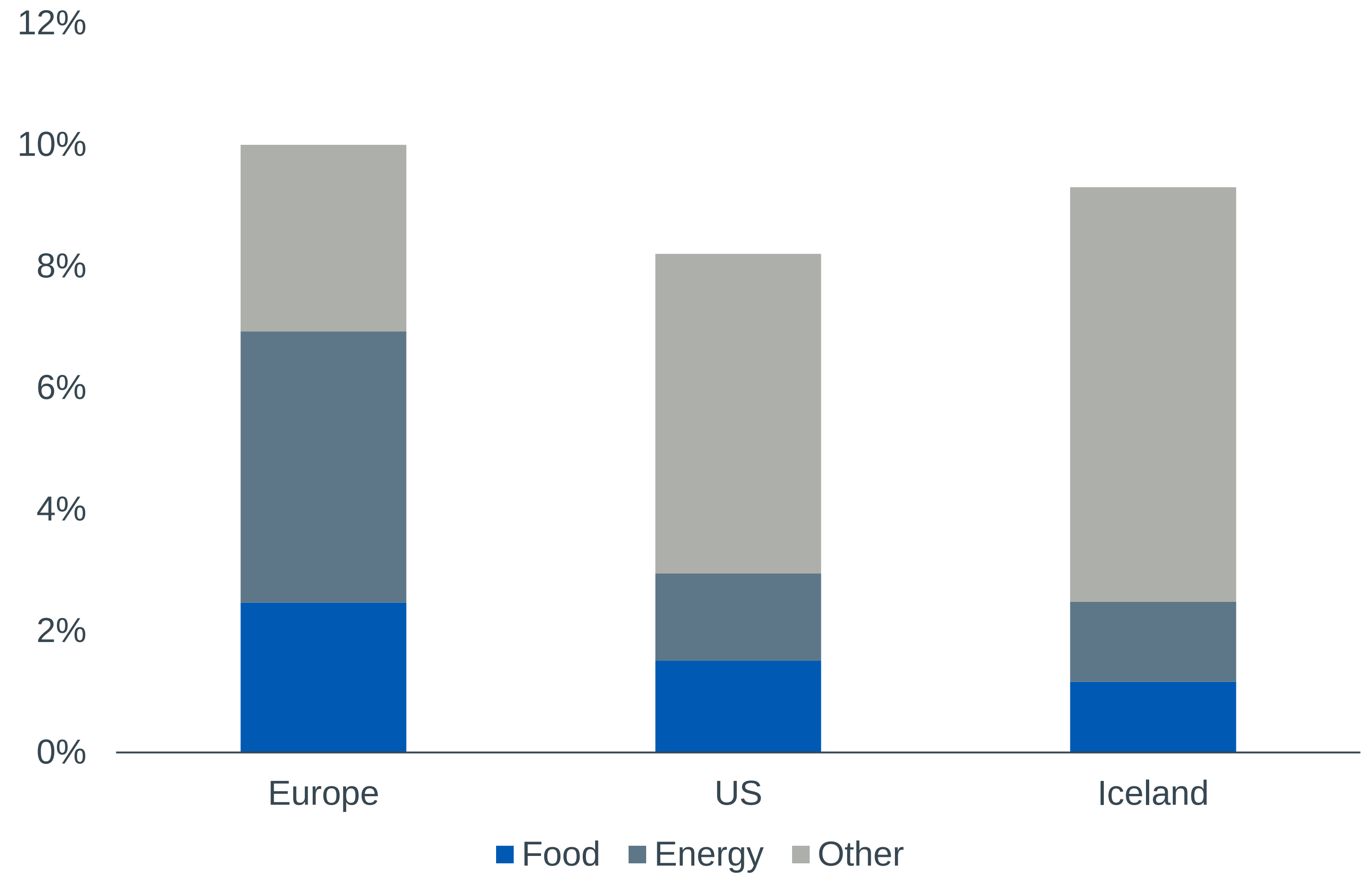


Sources: IMF, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board

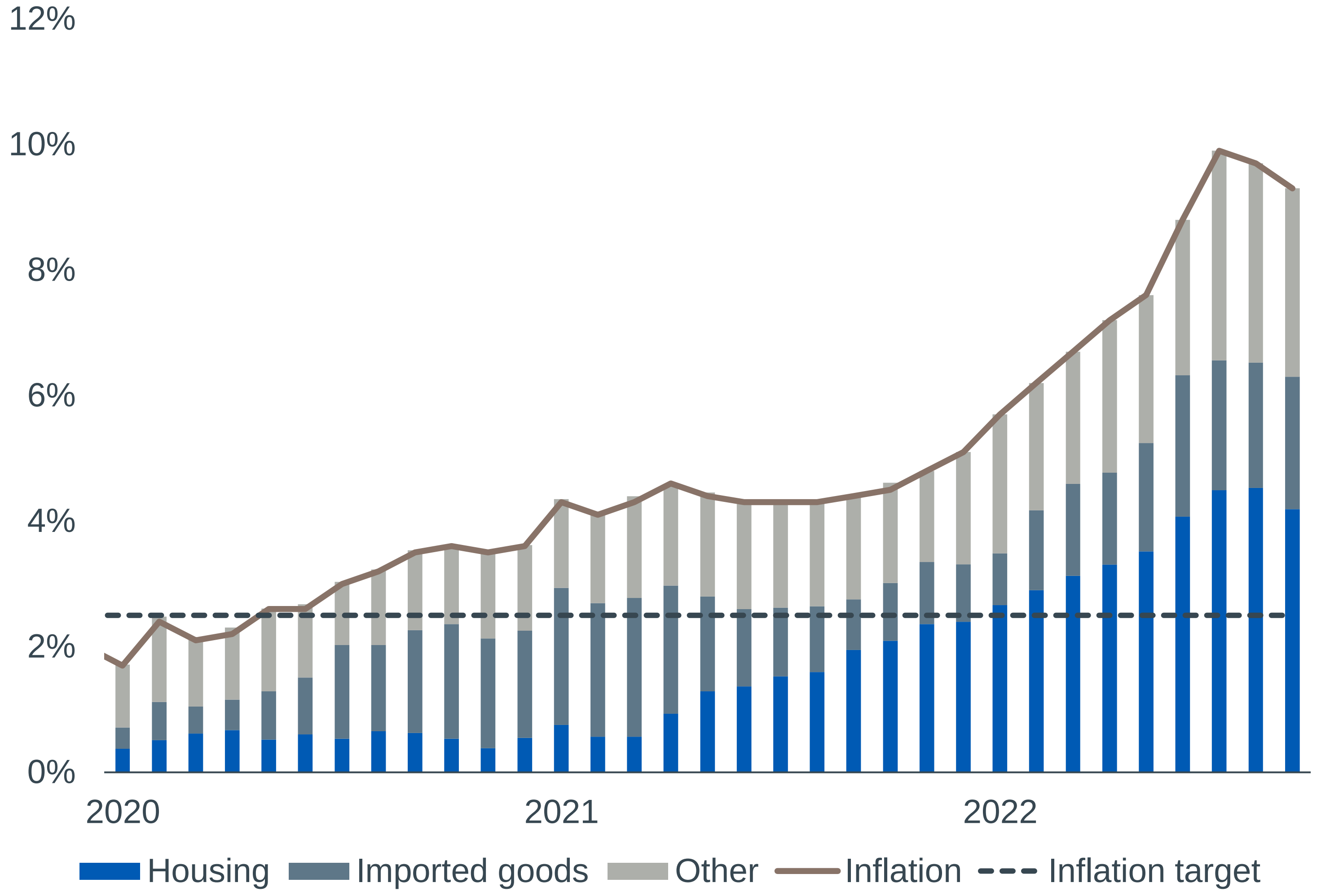
Different kind of crisis

- Despite similar headline inflation, Icelandic households are not faced with the same cost-of-living crisis as their European counterparts, thanks to Iceland's hydro- and geothermal resources
- This means that the effect on household spending could be less pronounced in Iceland than on the continent
- House prices are currently the main driving force behind inflation, accounting for almost half of the 9.3% inflation rate in September
- The rapidly cooling housing market, largely due to the Central Bank's aggressive rate hikes, puts Iceland in the unique position of being able to bring inflation down quickly in the coming months

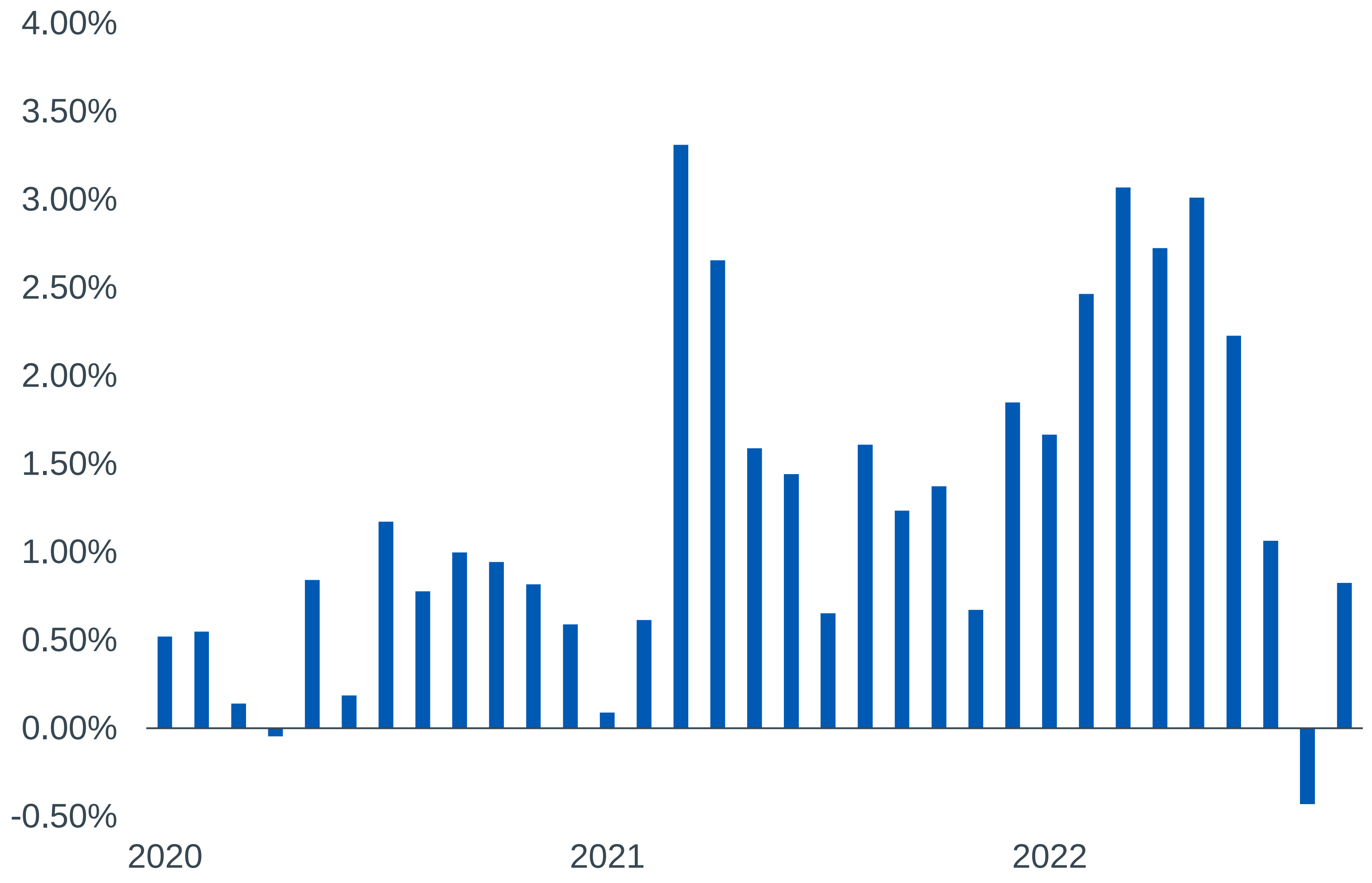
Contribution to annual inflation rate
- September



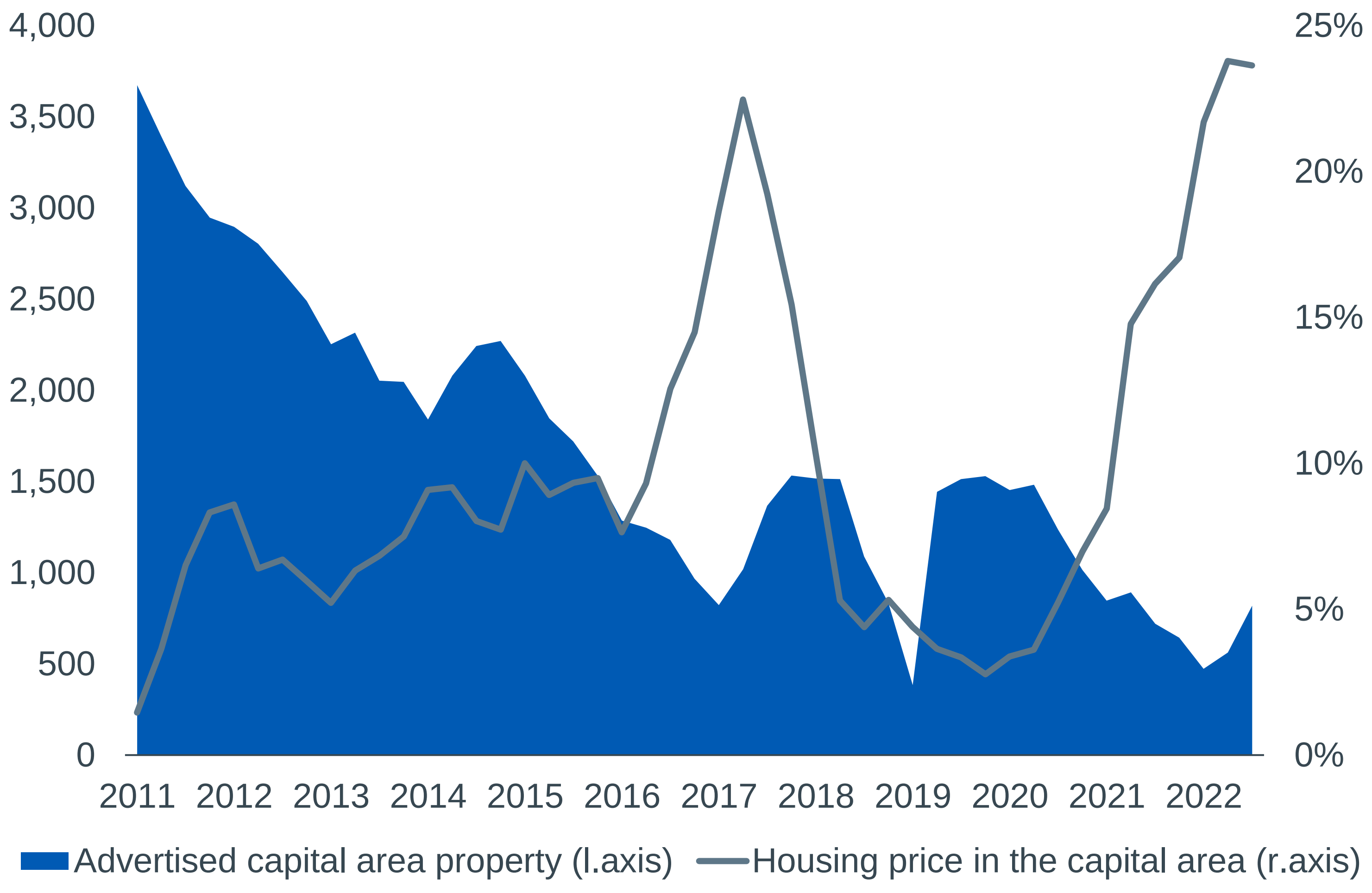
CPI by expenditure groups



Housing price index in the Capital area
- MoM %-change



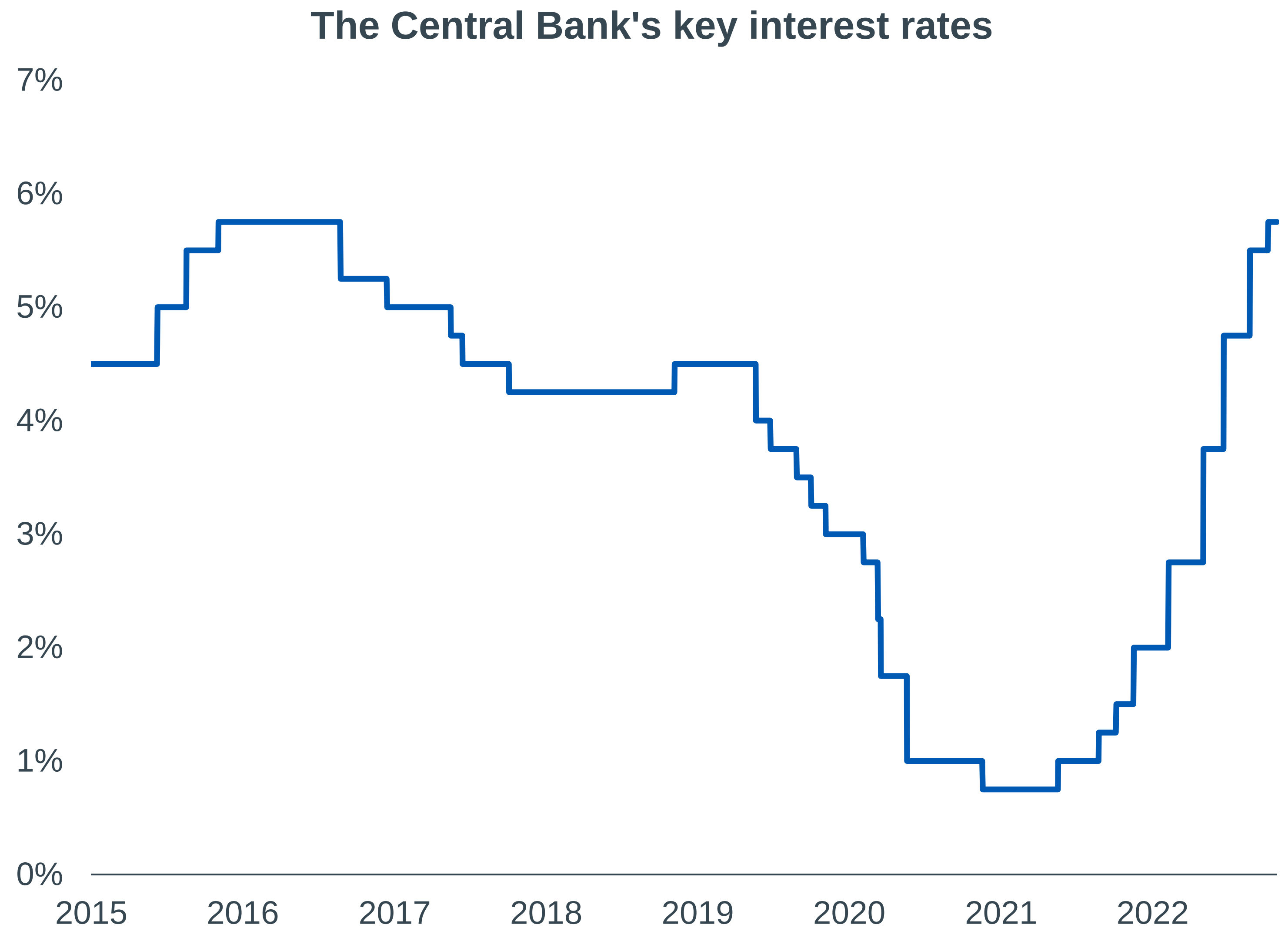
Advertised capital area property and housing price
- quarterly data, no. and YoY %-change

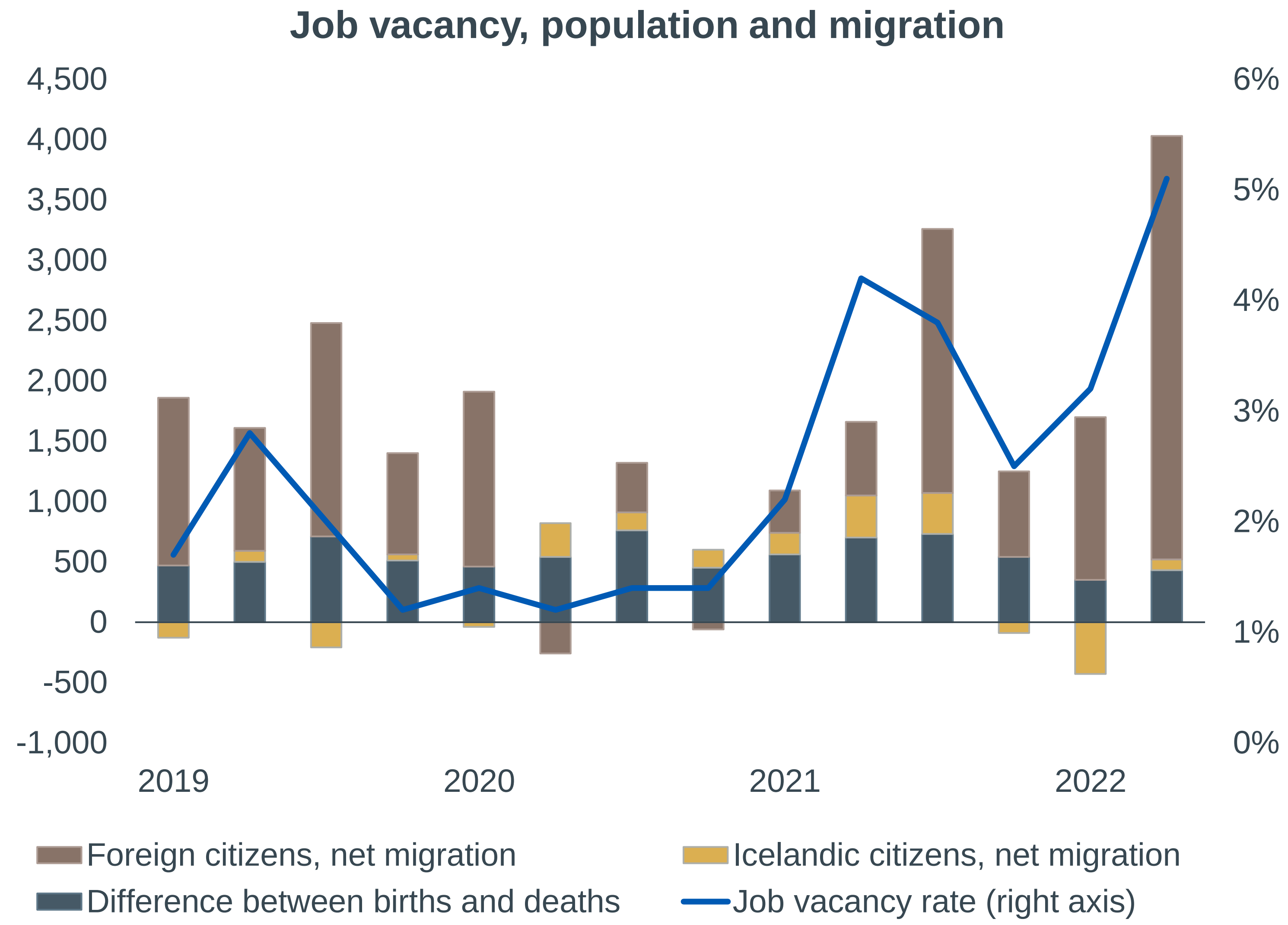


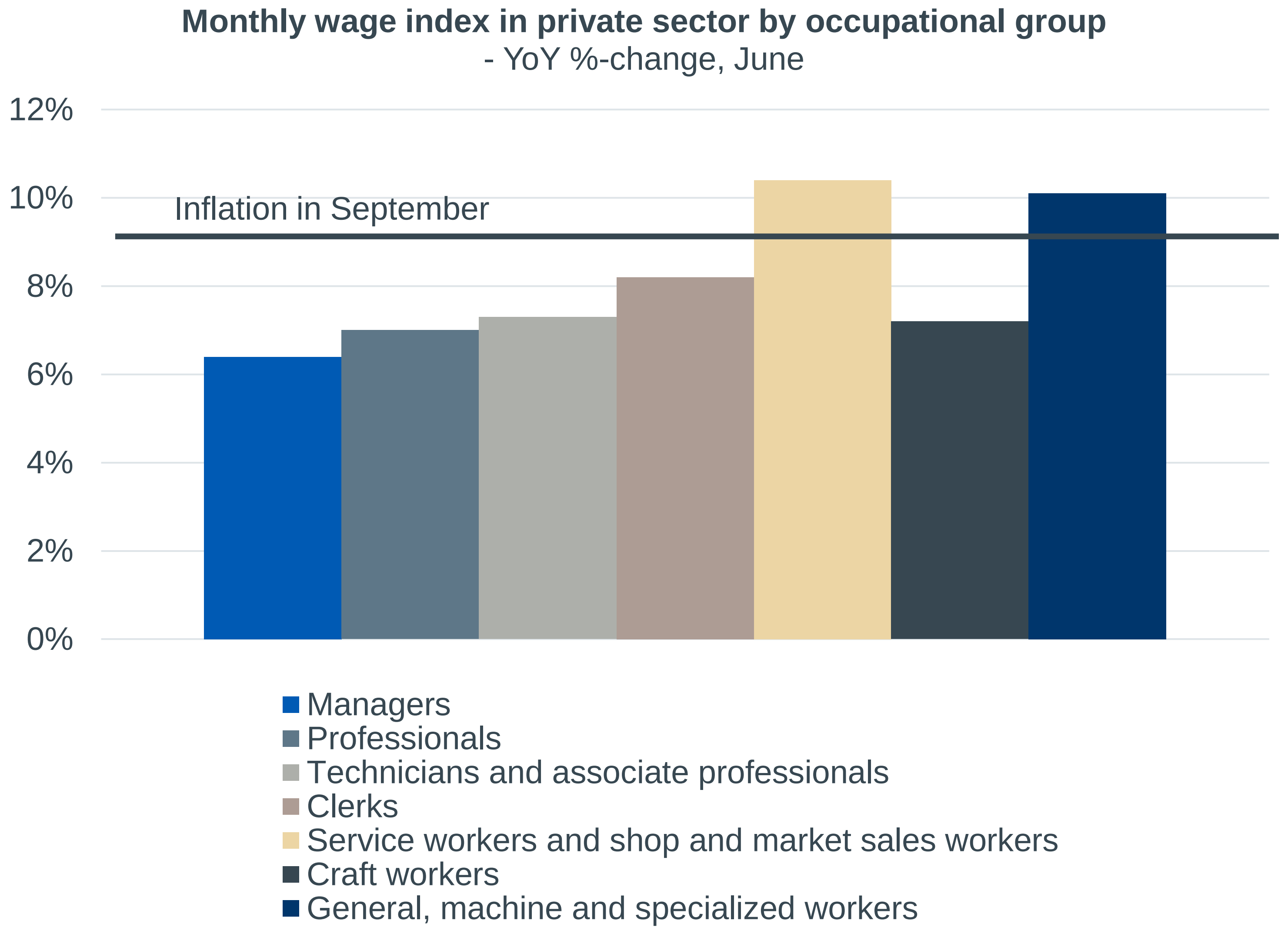
Sources: Statistics Iceland, Central Bank of Iceland, Eurostat, LBS, HMS, Arion Bank

Next up: Wage negotiations

- High inflation, fear over de-anchoring of inflation expectations and robust domestic demand has compelled the Central Bank to raise rates further, by 75 bps in August and 25 bps in October
- The Governor of the Central Bank has strongly indicated that the rate hike cycle is over, if decisions taken in the labor market and public sector finances support price stability
- Wage agreements in the private sector expire on November 1. The labor market is currently very tight, with unemployment well below its natural rate, staffing shortage almost at an all time high and job vacancy met by imported labor
- Due to the nature of the last collective agreements, real wage growth for the lowest income groups is still positive

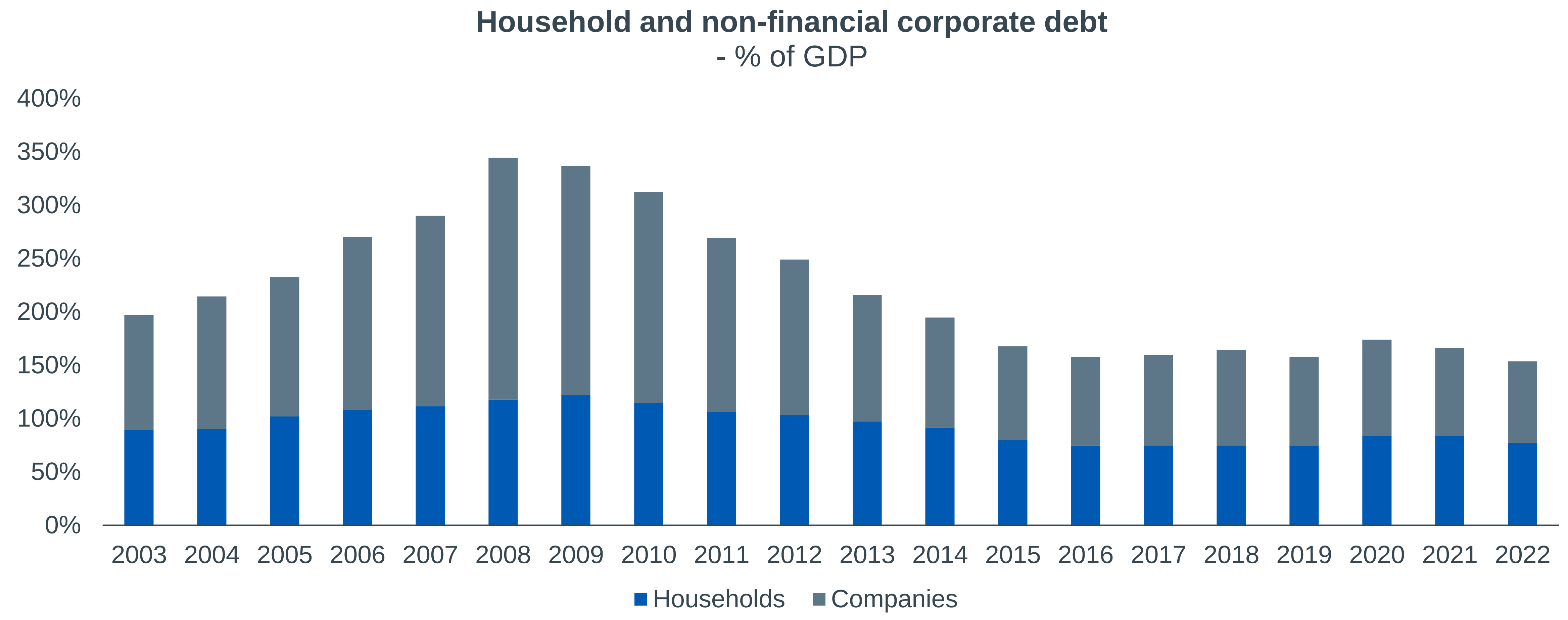


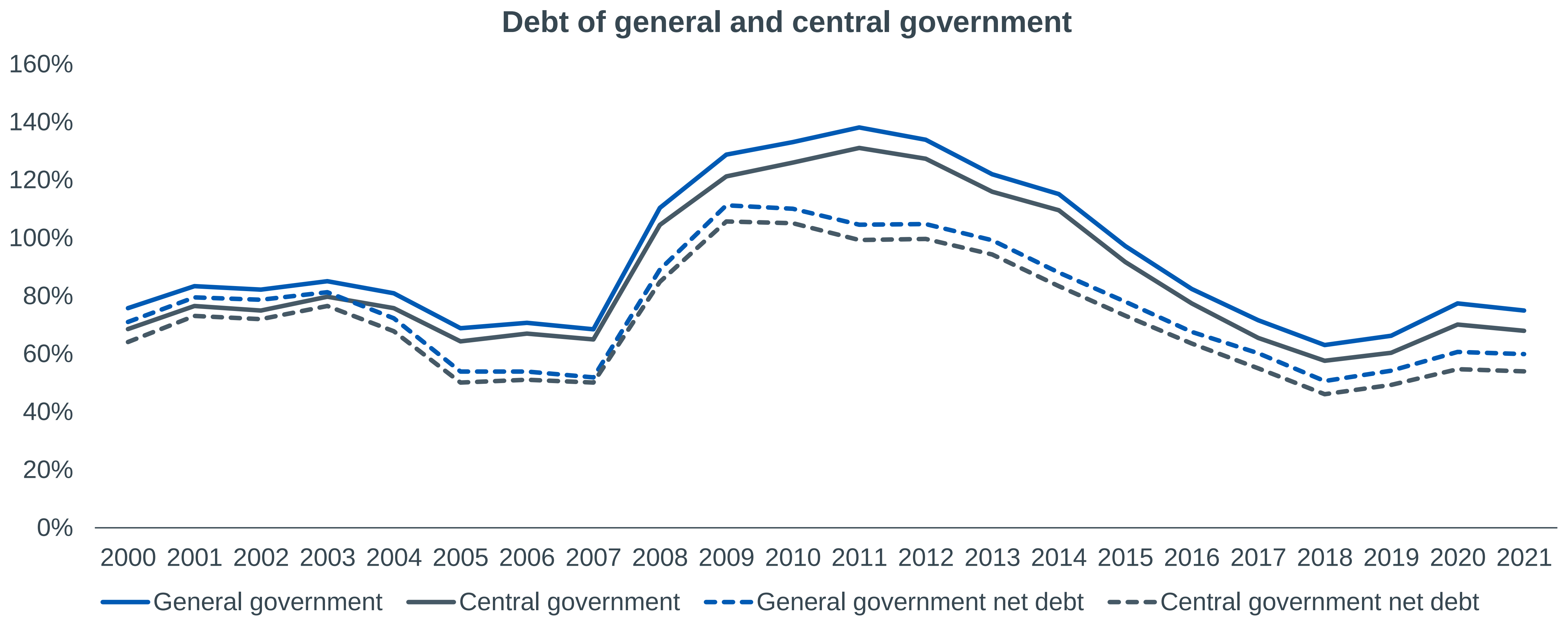


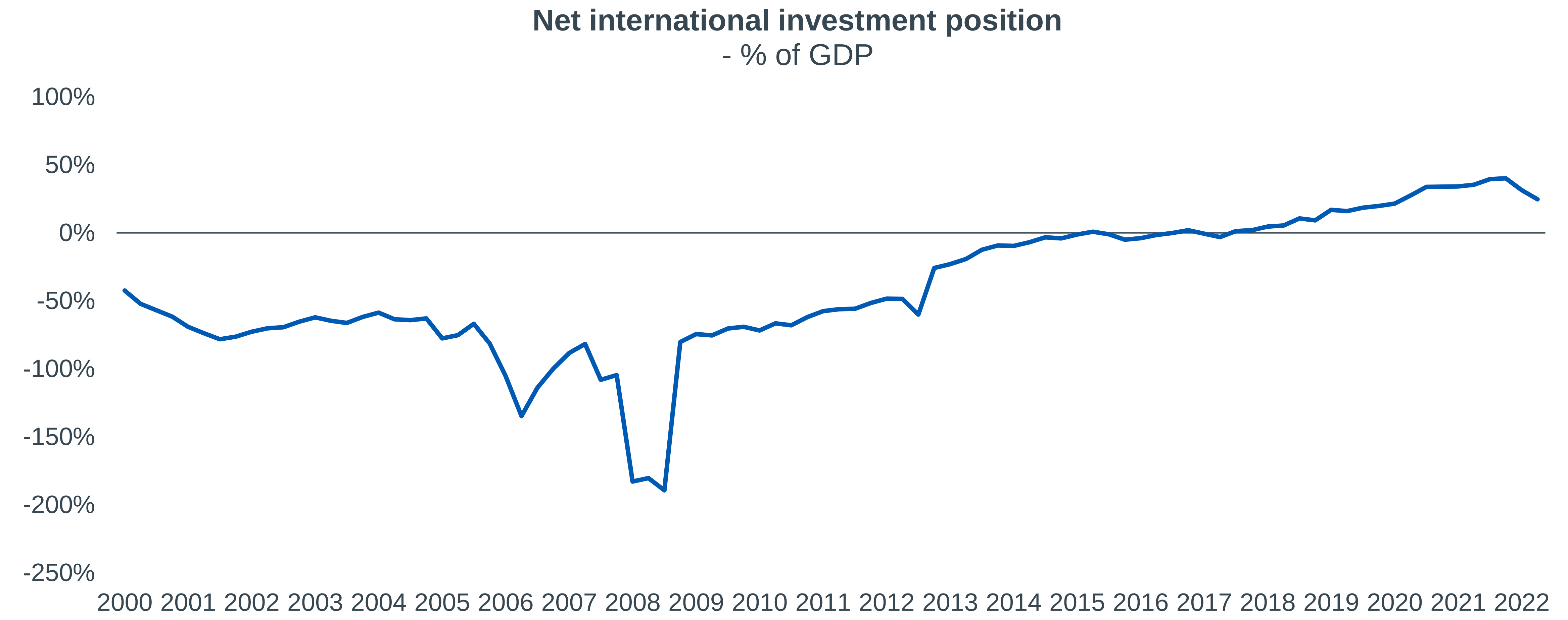


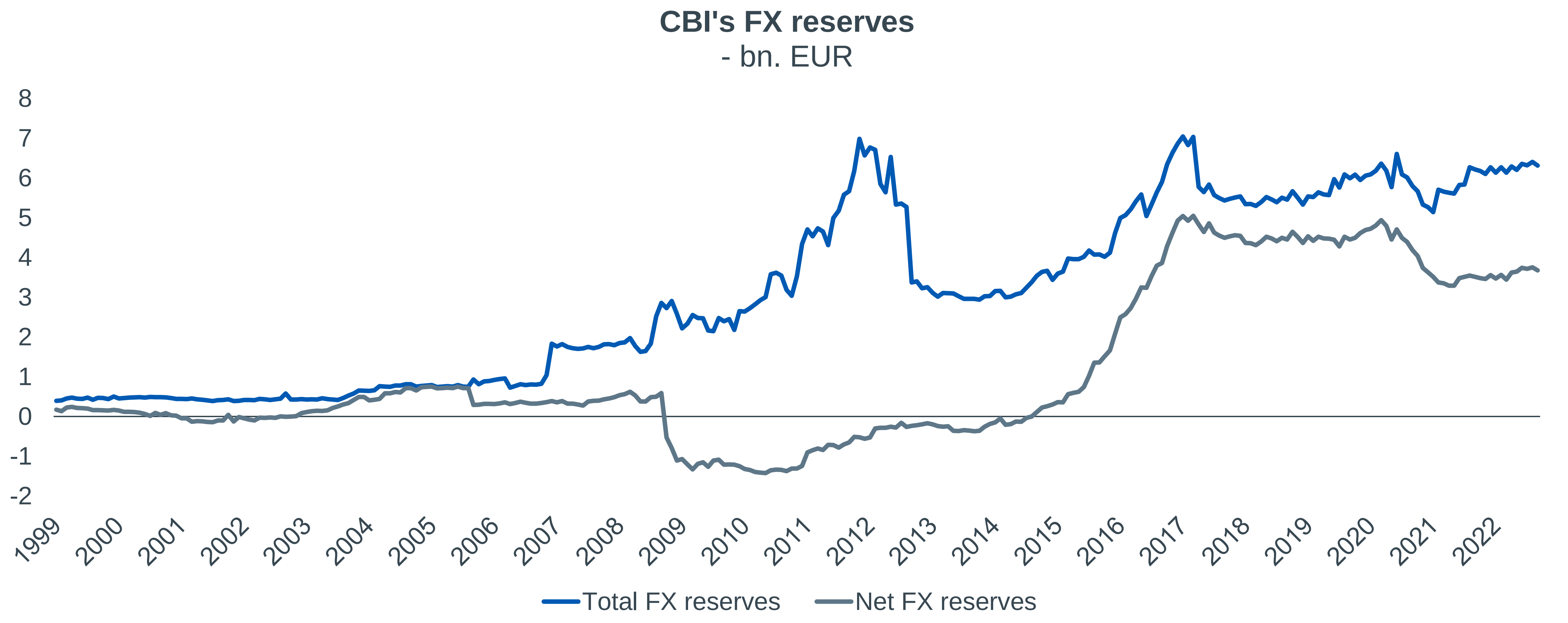
Sources: Central Bank of Iceland, Statistics Iceland, Arion Bank

Small economy, strong foundations









 Sources: Central Bank of Iceland, Arion Bank

Financials

Key takeaways in Q3 2022

Profitability *Continued core income momentum*	▸ Net profit of 4.9 bn and ROE of 10.5% in the quarter, resulting in a 20.4 bn profit for the first 9 months with an ROE of 14.8% ▸ Continued positive development in Core Income[1], increasing by 19.2% YoY ▸ Positive momentum across our businesses, while external environment retains level of uncertainty
Net interest income *Strong NIM*	▸ Net interest margin at a strong level of 3.2% with rate sensitivity slowing somewhat, mainly from liability side impact ▸ Net interest income increases 6% from last quarter ▸ 3.4% loan growth in the quarter continues to be supported by 4.2% growth in core deposits
Net commissions *Supported by diversification*	▸ Solid net commissions of ISK 4.0bn in a quarter ▸ Asset management fees resilient in a challenging market backdrop and our capital markets division continues to rank number one in Iceland YTD in terms of both equity and bond trading ▸ Card fees very strong in the quarter of ISK 0.8bn
Funding, liquidity and capital *Robust position*	▸ Funding position robust following a new EUR 300m senior issuance in September with very light maturities through 2023 ▸ Liquidity positions remain strong with an LCR of 189% ▸ CET1 capital ratio is 19.3% or 360bps above requirements ▸ A buyback program of ISK 5bn in progress with approvals in place for further ISK 5bn, which will be considered in the near term

[1] Net interest income, net fee and commission income and net insurance income

Income statement Q3 2022

- Core income (NII, NCI and net insurance income) increases 19.2% YoY
- Strong growth in NII YoY, mainly due to increased base rate and 18% growth in the loan book from Q3 2021
- Continuing strong NCI growth across the Bank
- Difficult quarter in insurance mainly due to high claim rate in September
- Negative Net financial income due to difficult market conditions, especially in the equity market
- Operating expense increased by 4% YoY, significantly below inflation of 8% YoY
- Positive effect from impairments, solely due to recovery on loans previously written off
- Income tax rate very high due to unfavorable combination of income

	Q3 2022	**Q3 2021**	**Diff**	**Q2 2022**	**Diff**
Net interest income	10,421	7,937	31%	9,804	6%
Net commission income	4,002	3,755	7%	4,539	(12%)
Net insurance income	690	992	(30%)	1,086	(36%)
Net financial income	(1,332)	1,366	-	(2,911)	-
Share of profit of associates	41	7	486%	23	78%
Other operating income	62	833	(93%)	719	(91%)
Operating income	**13,884**	**14,890**	**(7%)**	**13,260**	**5%**
Salaries and related expense	(3,100)	(2,899)	7%	(3,843)	(19%)
Other operating expenses	(2,710)	(2,689)	1%	(2,806)	(3%)
Operating expenses	**(5,810)**	**(5,588)**	**4%**	**(6,649)**	**(13%)**
Bank levy	(444)	(486)	(9%)	(416)	7%
Net impairment	42	718	(94%)	186	(77%)
Net earnings before taxes	**7,672**	**9,534**	**(20%)**	**6,381**	**20%**
Income tax expense	(2,803)	(1,920)	46%	(3,488)	(20%)
Net earnings from continuing operations	**4,869**	**7,614**	**(36%)**	**2,893**	**68%**
Discontinued operations net of tax	(6)	624	-	6,819	-
Net earnings	**4,863**	**8,238**	**(41%)**	**9,712**	**(50%)**
Return on equity	10.5%	17.0%		21.8%	

 All amounts in ISK m

Income statement 9M 2022

- Core income (NII, NCI and net insurance income) increases 19.6% YoY
- Very strong increase in NII YoY, mainly due to increased base rate and 17% growth in loans to customers from the same period last year
- Continuing strong NCI growth across the Bank
- Weak first and third quarter in net insurance income mainly due to high claim rate but insurance premiums have increased by 9.3% from 9M 2021
- Negative Net financial income in difficult equity market
- Operating expense increased by 4% YoY, significantly below inflation during the period
- Impairments lower than through the cycle expectations of 21bps
- Income tax rate unusually high due to unfavorable combination of income
- The profit from sale of Valitor is ISK 5.6bn, the operating results of Valitor and positive outcome from sale of assets at Sólbjarg of ISK 0.5bn is the main contributor to discontinued operations

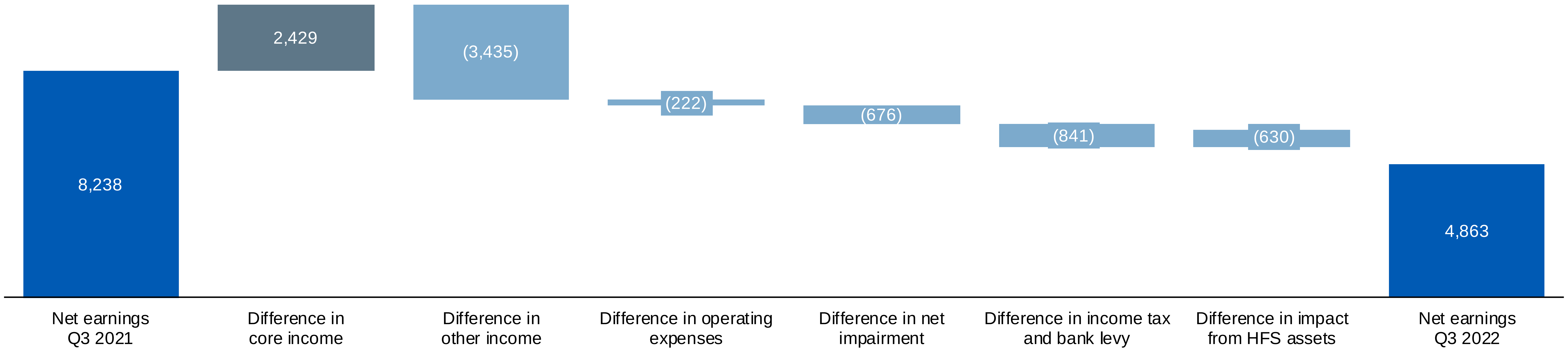
	9M 2022	9M 2021	Diff
Net interest income	29,753	23,295	28%
Net commission income	12,093	10,594	14%
Net insurance income	1,781	2,577	(31%)
Net financial income	(3,252)	5,069	-
Share of profit of associates	267	33	-
Other operating income	1,016	1,423	(29%)
Operating income	**41,658**	**42,990**	**(3%)**
Salaries and related expense	(10,483)	(9,745)	8%
Other operating expenses	(8,177)	(8,263)	(1%)
Operating expenses	**(18,660)**	**(18,008)**	**4%**
Bank levy	(1,253)	(1,171)	7%
Net impairment	(267)	2,610	-
Net earnings before taxes	**21,478**	**26,421**	**(19%)**
Income tax expense	(7,994)	(5,194)	54%
Net earnings from continuing operations	**13,484**	**21,227**	**(36%)**
Discontinued operations net of tax	6,909	865	-
Net earnings	**20,393**	**22,092**	**(8%)**
Return on equity	14.8%	15.2%	

13 All amounts in ISK m

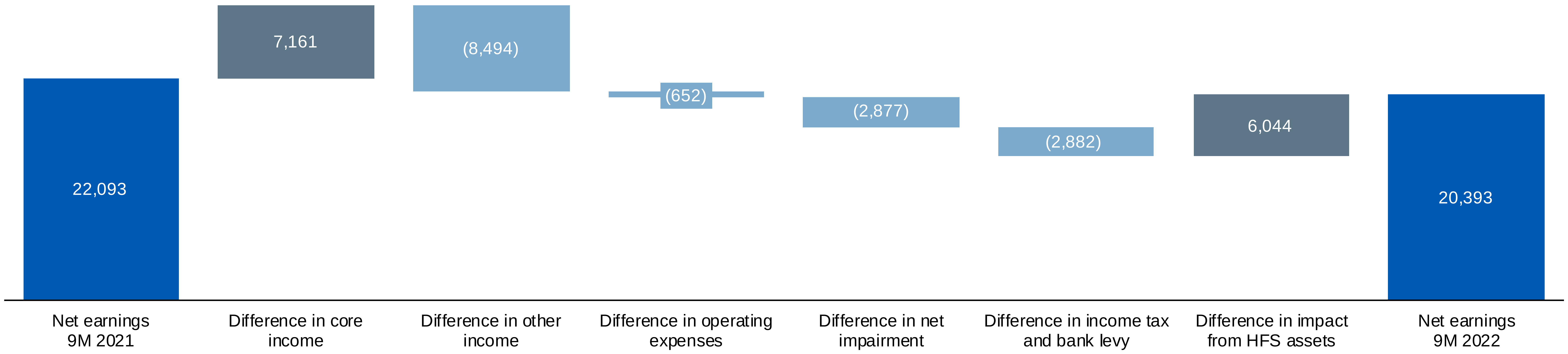
Continued strong development in core income

Negative net financial income affects other income

Q3 2021 vs. Q3 2022



9M 2021 vs. 9M 2022



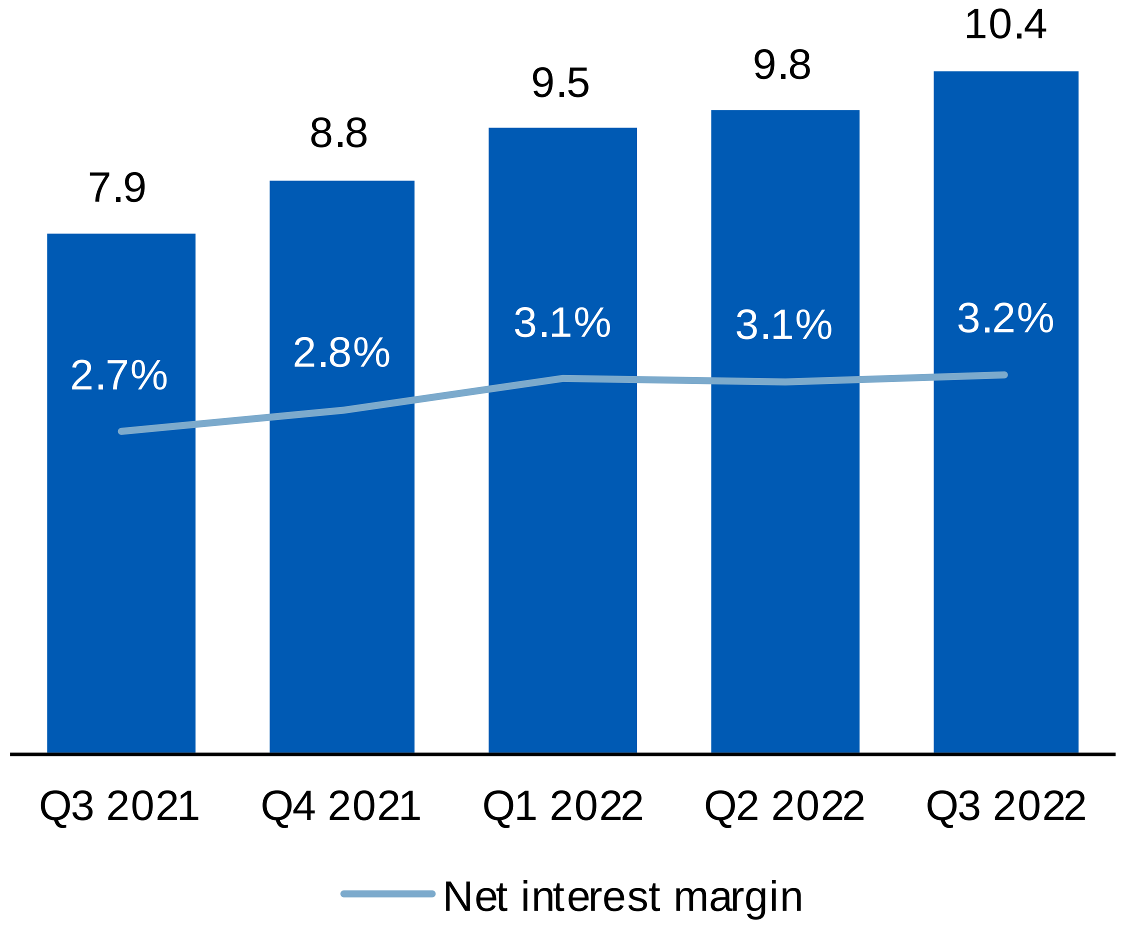
 All amounts in ISK m

Net interest income

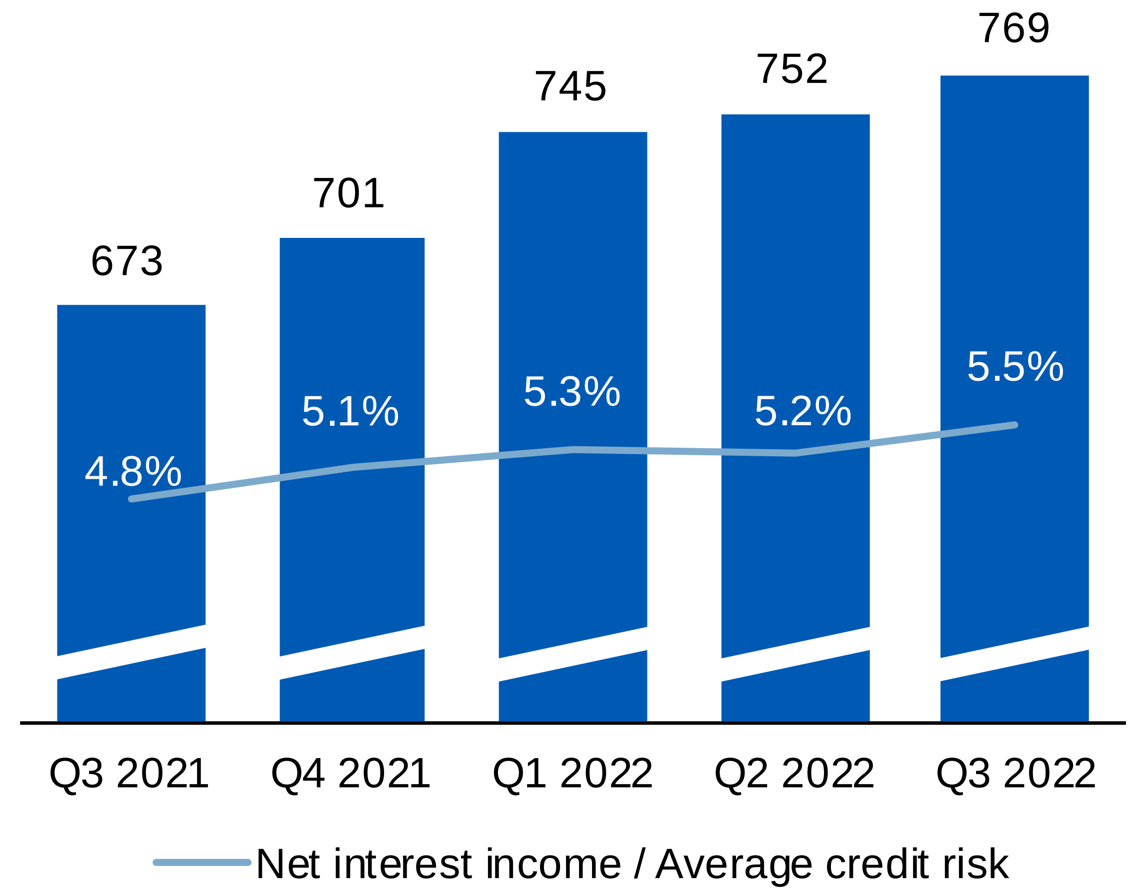
Strong 3.2% NIM but sensitivity to rate hikes slowing

- Net interest income increased by 31% from Q3 2021 whilst average interest bearing assets increased by 12%, mainly loans to customers but interest bearing liabilities increased by 13% YoY, mainly deposits
- Base rate has increased from 1.0% at the beginning of Q3 2021 to 5.5% in September 2022. During the quarter there was a rate hike of 75 bps
- Net interest income / average credit risk continues at strong levels – stable above 5% and significantly up from previous years
- Evolution of borrowings has had a positive effect on NII, with similar funding cost on approx. 20% higher borrowings
- Recent EUR senior issuance which priced at +265bps over EURIBOR and increased cost of deposits are however an indication of rising funding costs

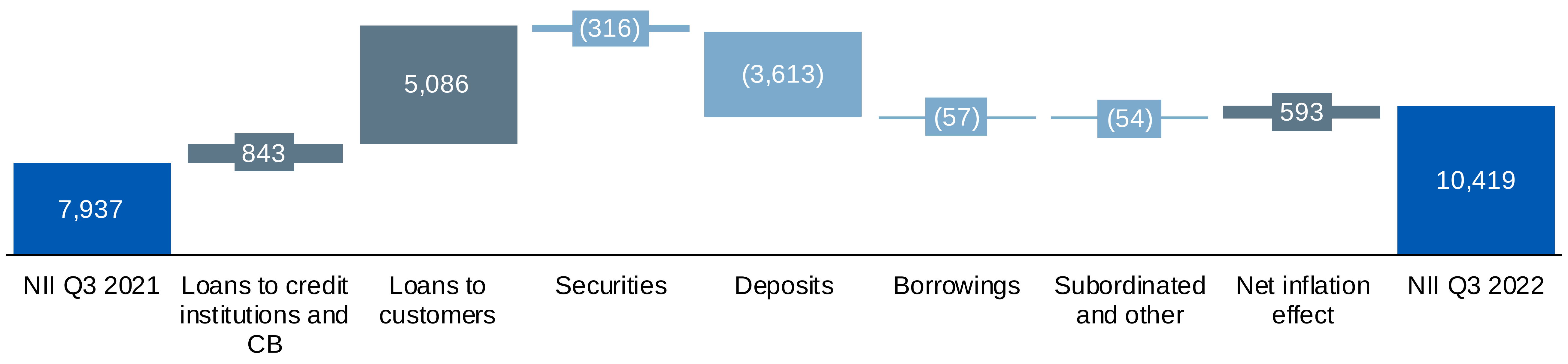
Net interest income



Credit risk



Net interest income Q3 2021 vs. Q3 2022 (ISK m)

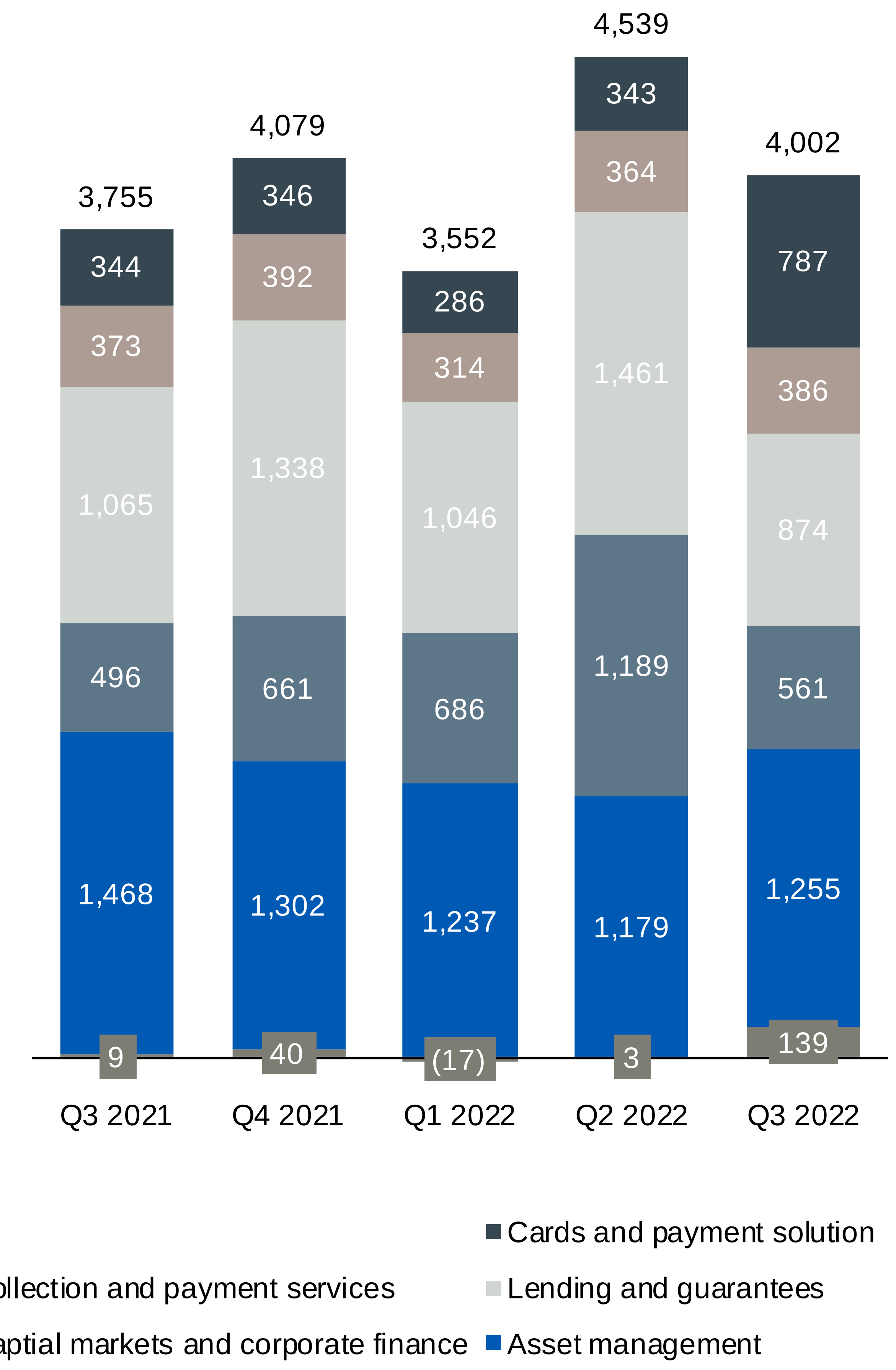


Net fee and commission income

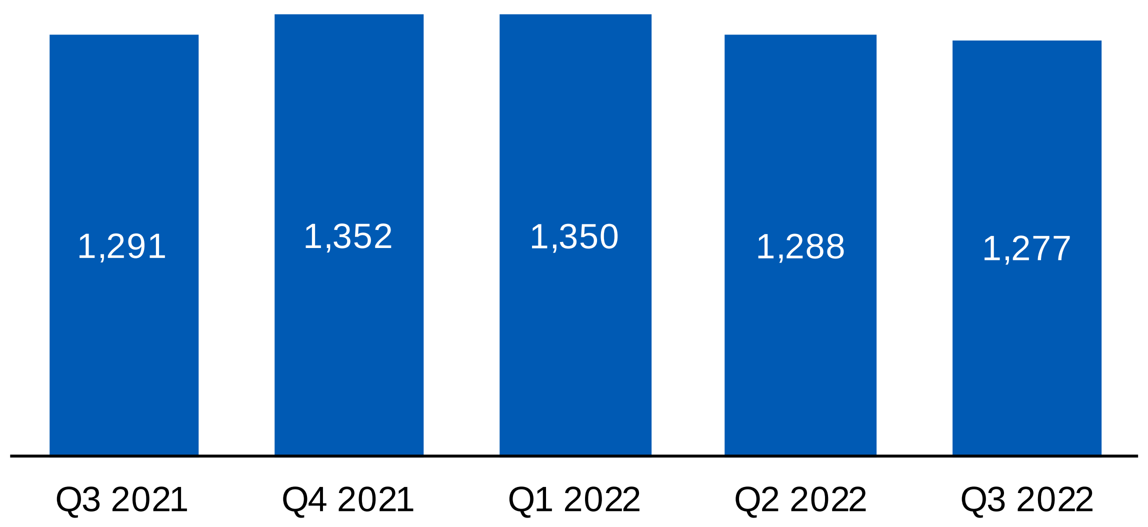
Diversified fee generating operations support continued momentum

- Strong income from cards and payment solutions. There fees were partly lost in consolidation and in HFS line prior to sale of Valitor
  - Commission from cards and payment solutions is mainly from the Bank's issuance of credit and debit cards and other card related commission, e.g. yearly fee on cards and transaction fees
- Income from asset management robust in a challenging market backdrop
  - AuM colored by challenging markets but mitigated by strong net positive inflow YTD which continued in Q3
- CIB fees seasonally low in Q3 but pipeline remains strong
- The Bank ranks number one both in bond trading and equity trading in the Icelandic market

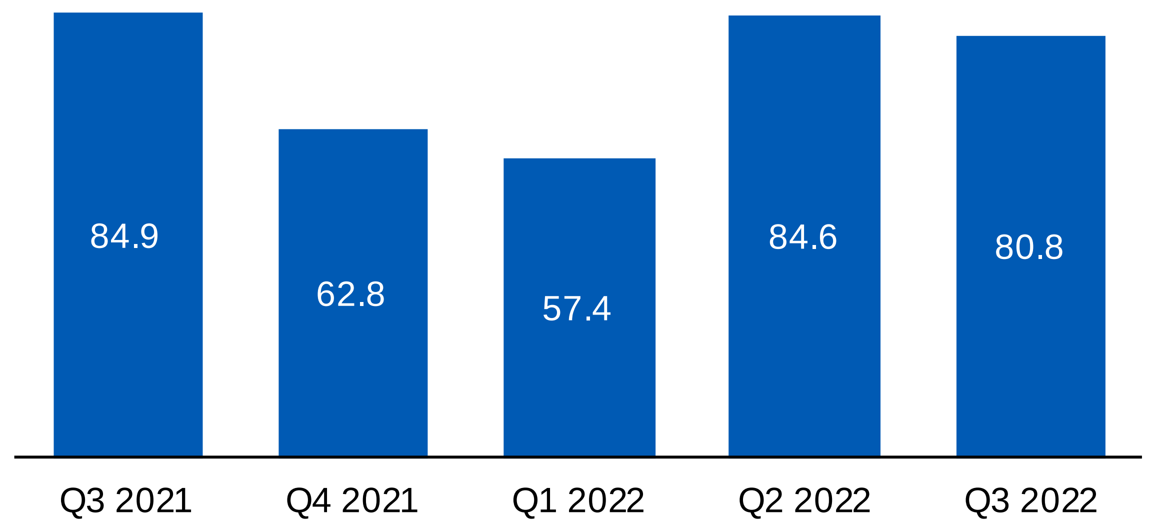
Net fee and commission income (ISK m)



Assets under management (ISK m)



Net fee and commission income and net insurance income / Operating expenses (%)

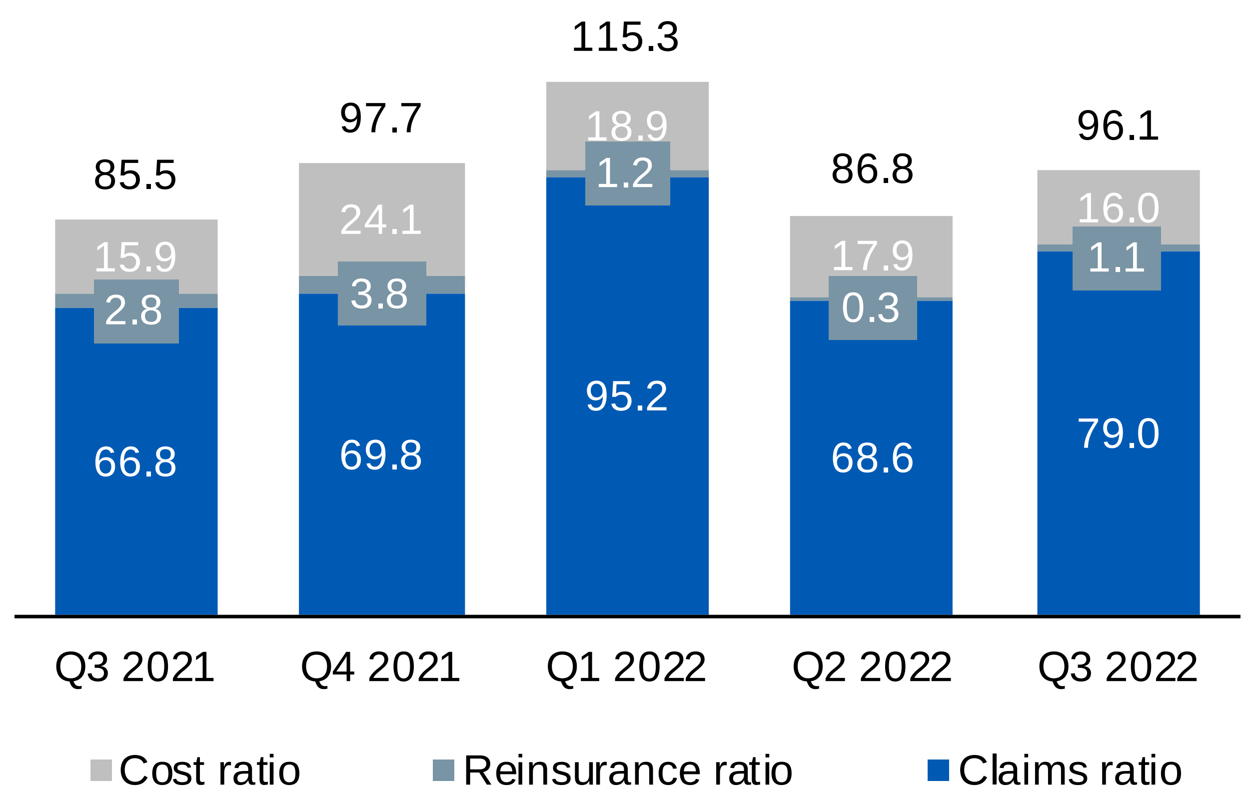


Net insurance income

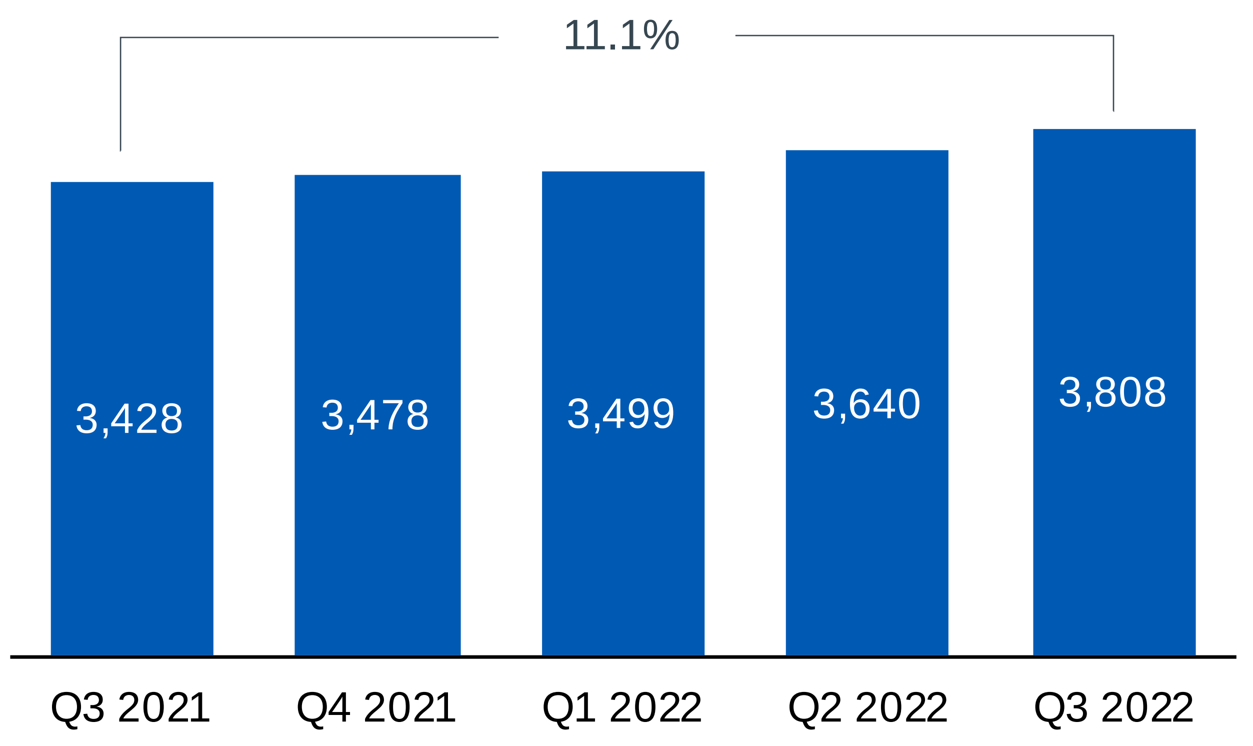
Challenging year with unusually high volume in claims in Q1 and Q3

- Earned premiums increased by 11.1% YoY and amounted to ISK 3,808m
- Strong growth in number of customers, especially corporates with 9.9% increase YoY
- Combined ratio of 96.1% for the quarter and 99.5% in 9M 2022
  - Severe weather at the end of September
  - Increase in average claim in motor insurance
  - Claims due to travelling and lost luggage above average
  - One large claim
- Integration of Arion Bank and Vördur progressing as a long term strategic project

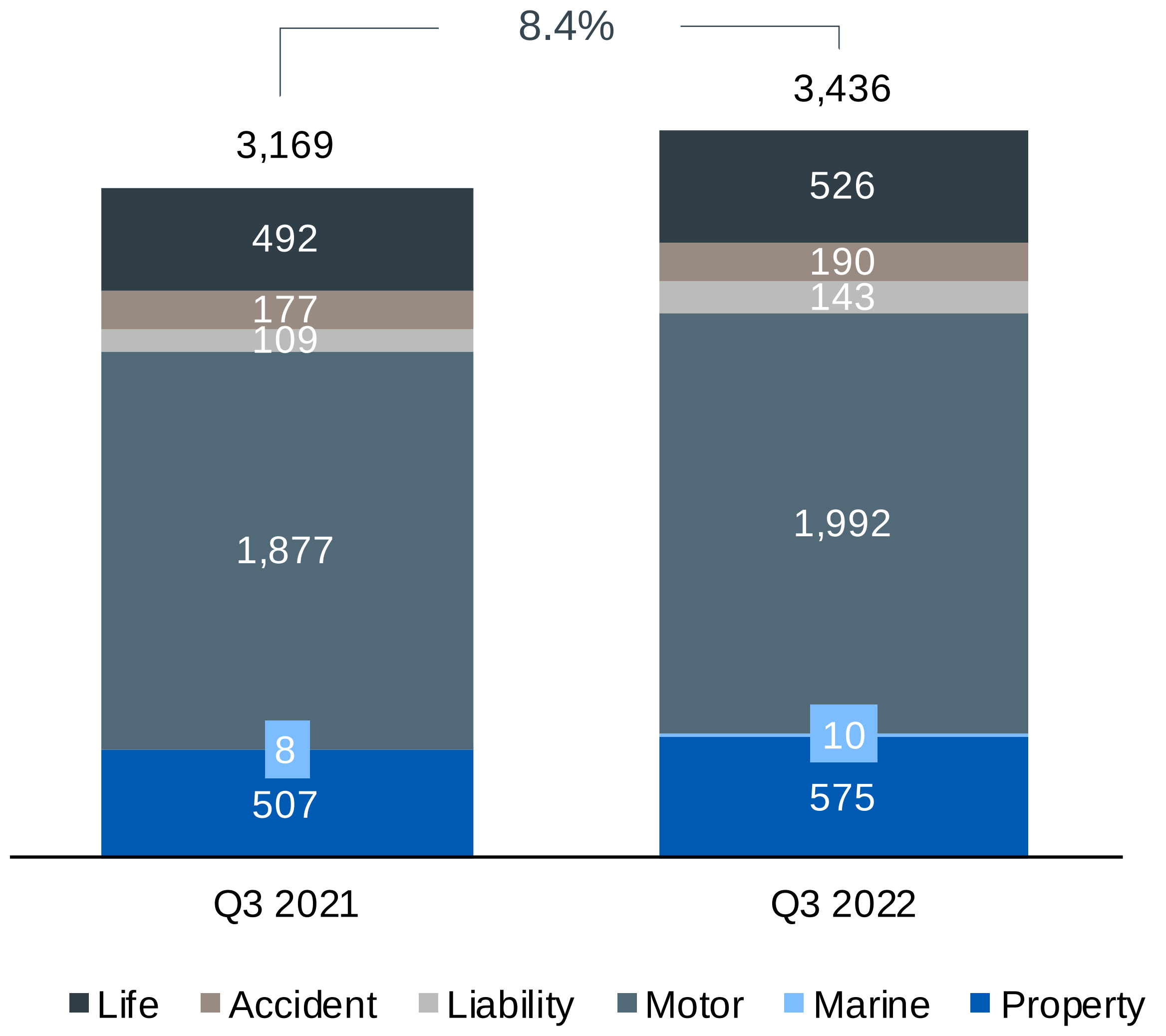
Combined ratio (%)



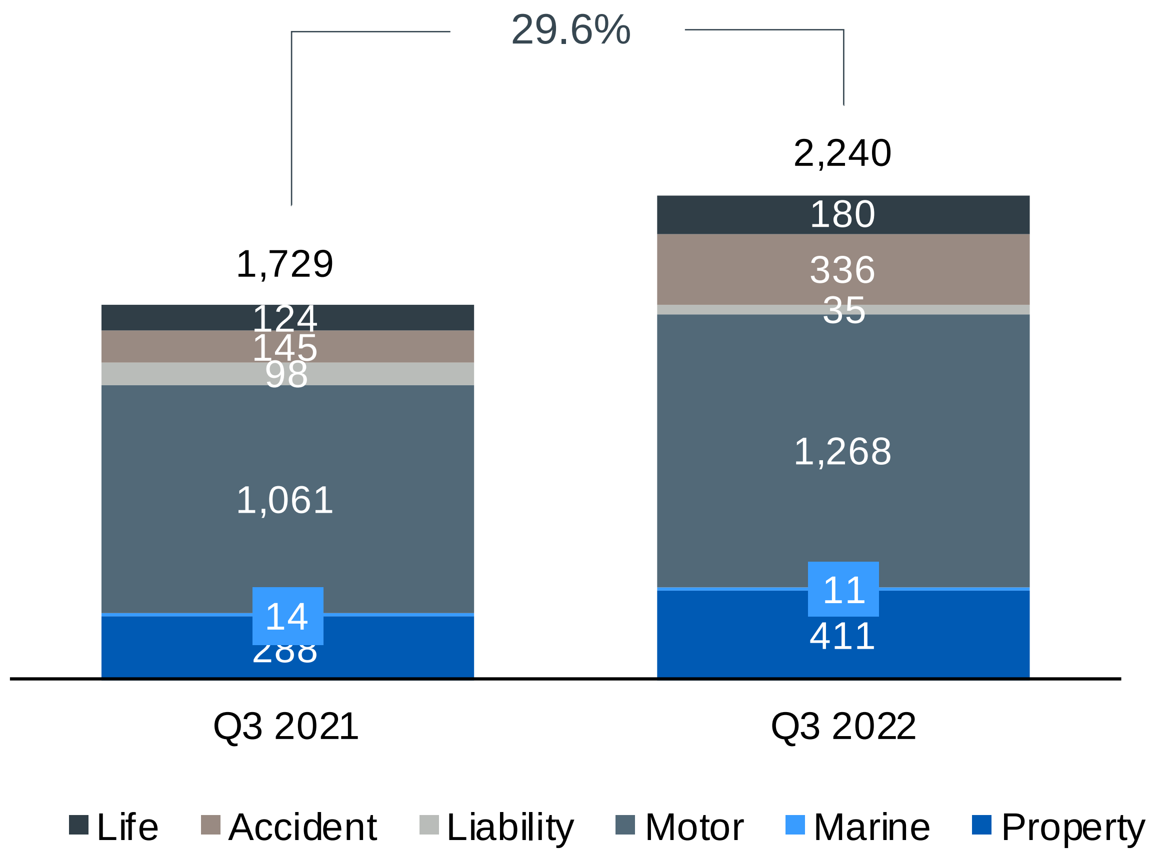
Earned premiums



Premiums written



Claims paid



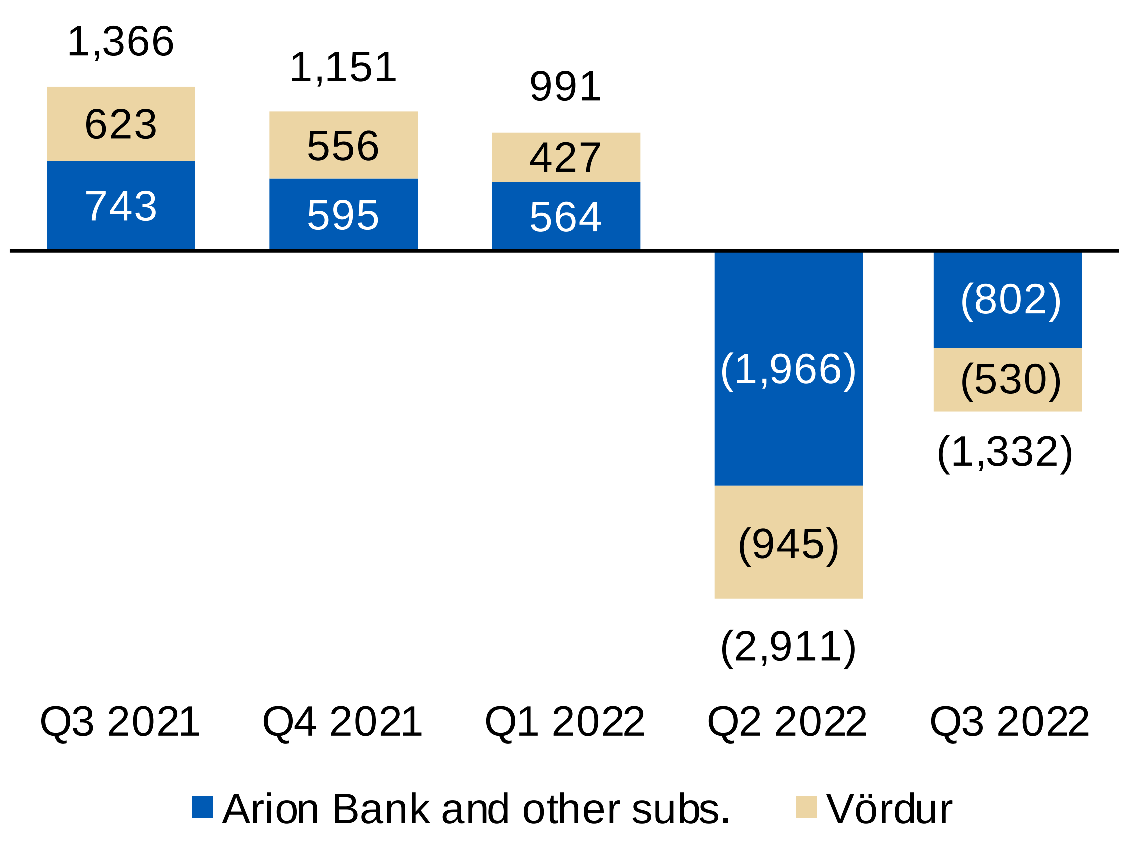
 All amounts in ISK m

Net financial income

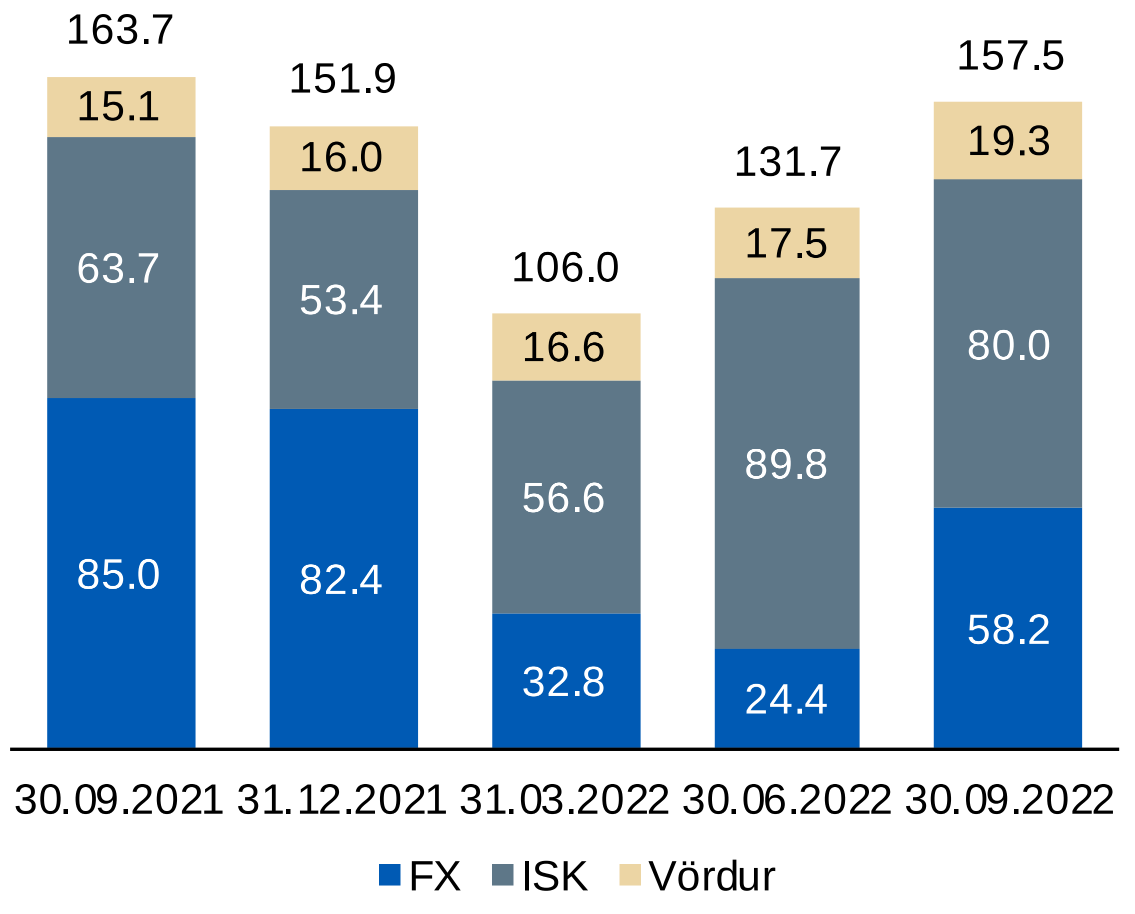
Challenging market conditions

- Negative net financial income in Q3 driven by loss in equity and bond holdings at the Bank and at Vördur
- Equity holdings in market making business vary between quarters and decreased by ISK 1.7bn from 30.06.2022
- Active reduction of unlisted equity holdings
- Total investment portfolio of Vördur is ISK 26.7bn; ISK 19.3bn of bonds and ISK 7.4bn in equity instruments, yielding a total loss of ISK 530m in the quarter
- The Ministry of Finance announced last week their intentions to wind down the Housing Financing Fund (HFF) by settling outstanding bonds
  - The direct and indirect holding of the Group in HFF bonds was ISK 4.4bn at the end of September. Based on valuing these bonds at par the estimated P&L impact is negative around ISK 250m. This is anticipated to be a conservative assumption and the actual impact is subject to ongoing dialog between the creditors, the borrower and the state

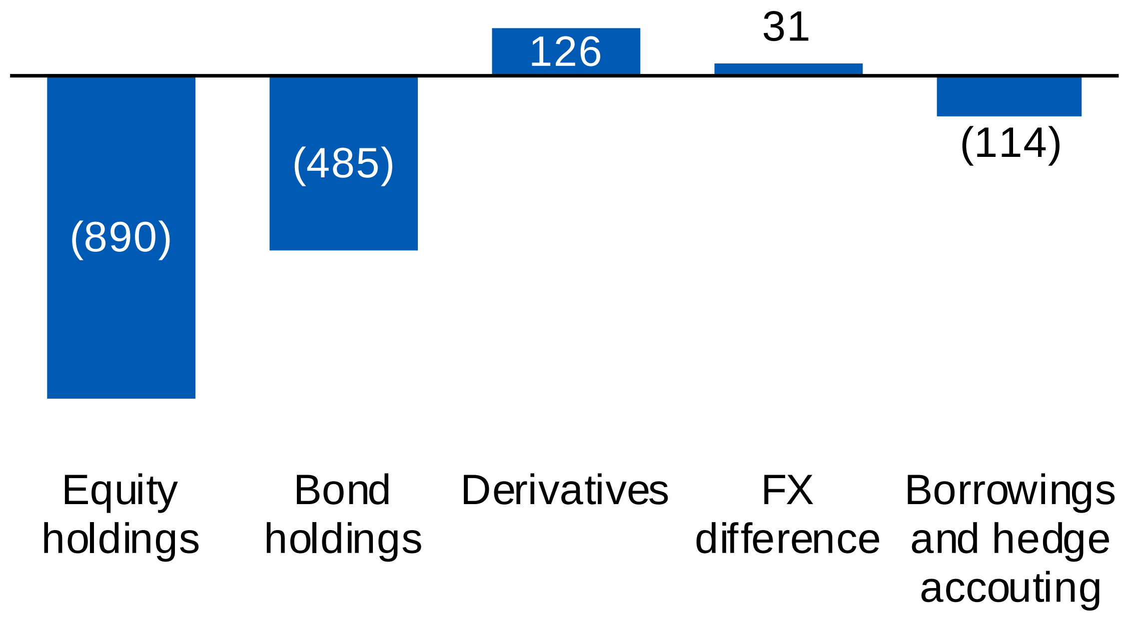
Net financial income (ISK m)



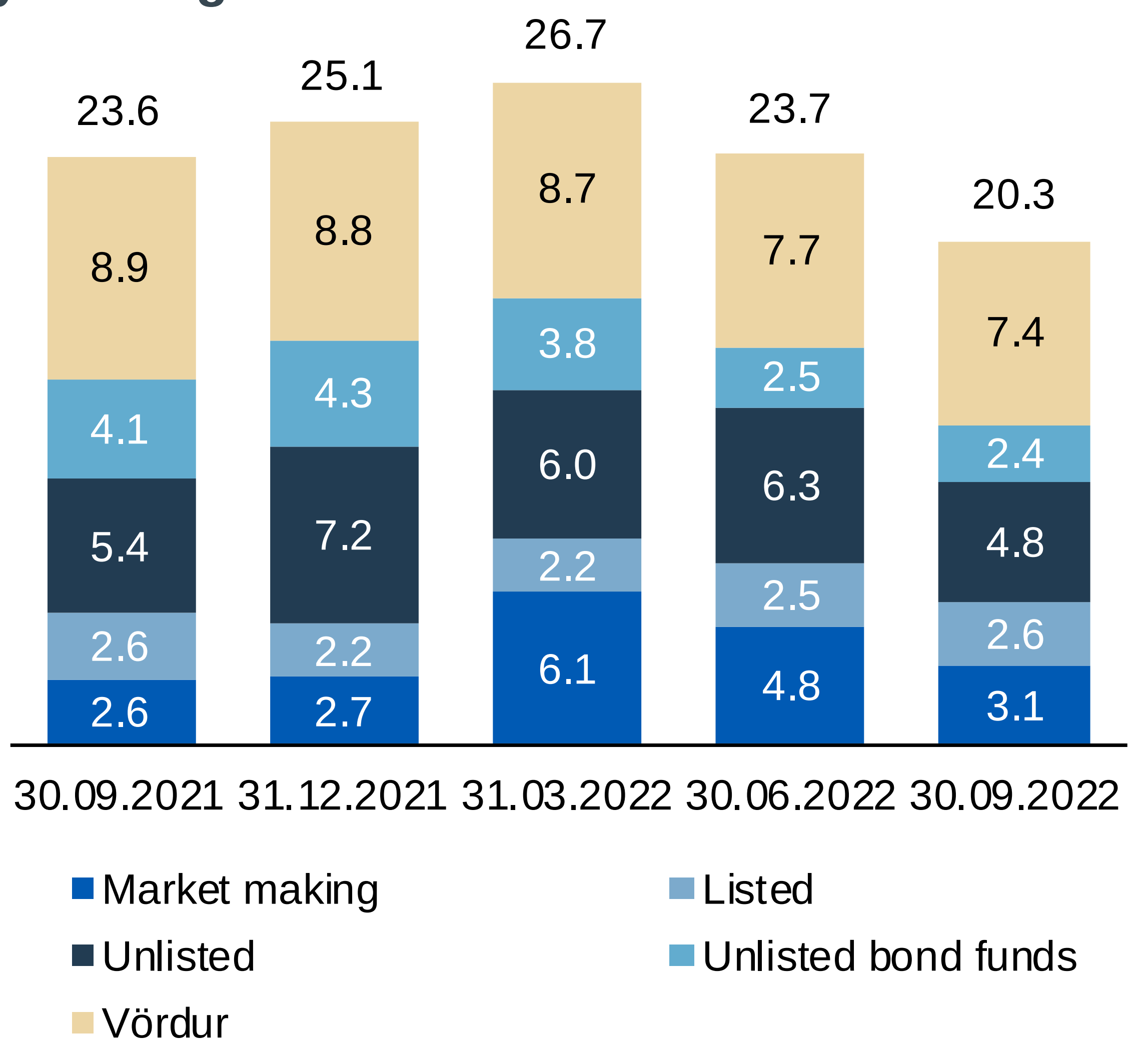
Bond holdings



Net financial income by type Q3 2022 (ISK m)



Equity holdings



 All amounts in ISK bn

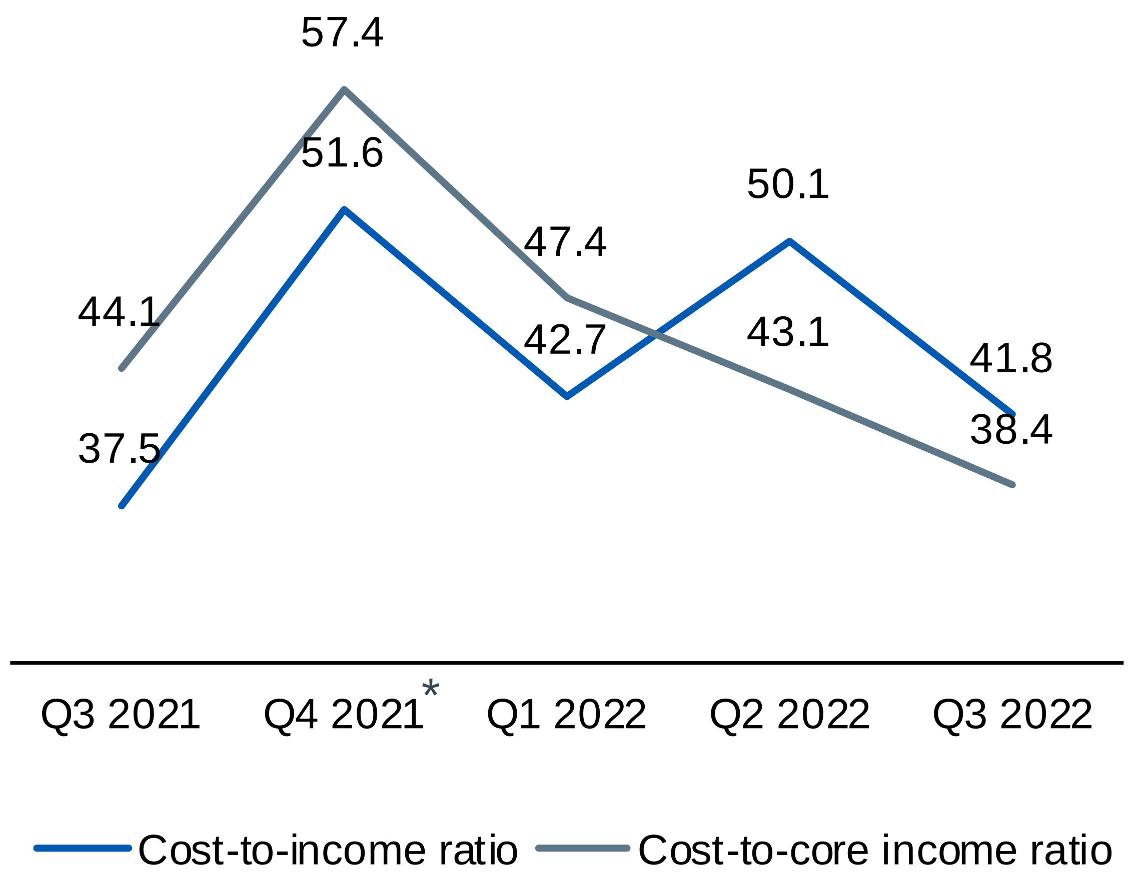
Total operating expense

Stable YoY total OPEX despite high inflation

- Ongoing focus on opex and efficiency
- Core cost to income ratio and core income per employee on a positive trajectory
  - Core income (NII, NFI and net insurance income) excludes net financial income which causes fluctuations in Cost to income ratio
- Salary expense in Q3 2022 increases YoY, partly due to insourcing of IT operations
  - No accruals are recognized for incentive scheme during the quarter nor will be until Q4. Should all criteria be met at the end of the year the maximum total expense is estimated to be ISK 1.6bn including salary related expenses and would then be expensed in Q4
- Other OPEX stable YoY
  - IT expenses decreased partly due to more insourcing reflected in more FTEs and higher salary expenses in IT division
  - Due to amendments to the Act on the Depositors' Guarantee Fund no further charges from Q2 2022, was approx. ISK 135m pr. quarter
  - Marketing expense increases as new communication strategy was launched
  - Housing cost on new level following restructuring of branches and transfer of Vördur into HQ of the Bank

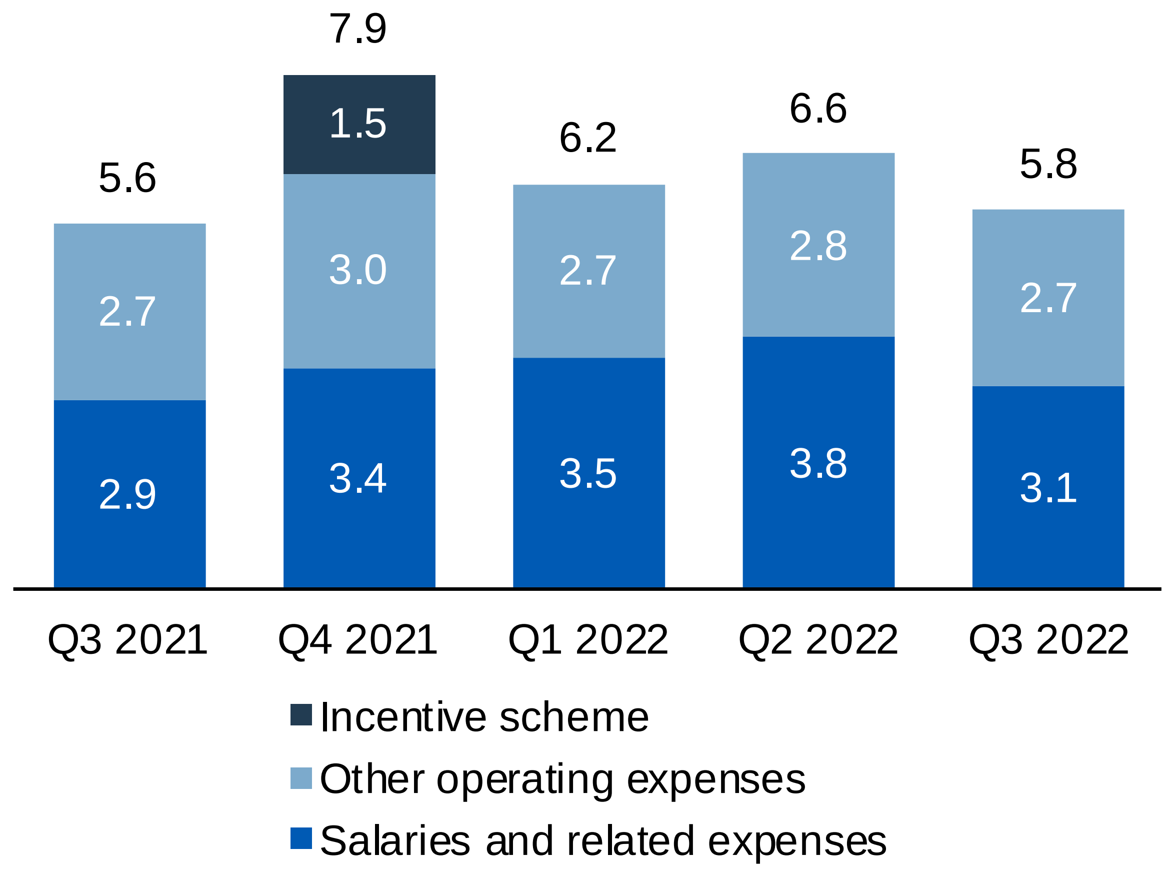
 All amounts in ISK bn

Cost-to-income ratio (%)

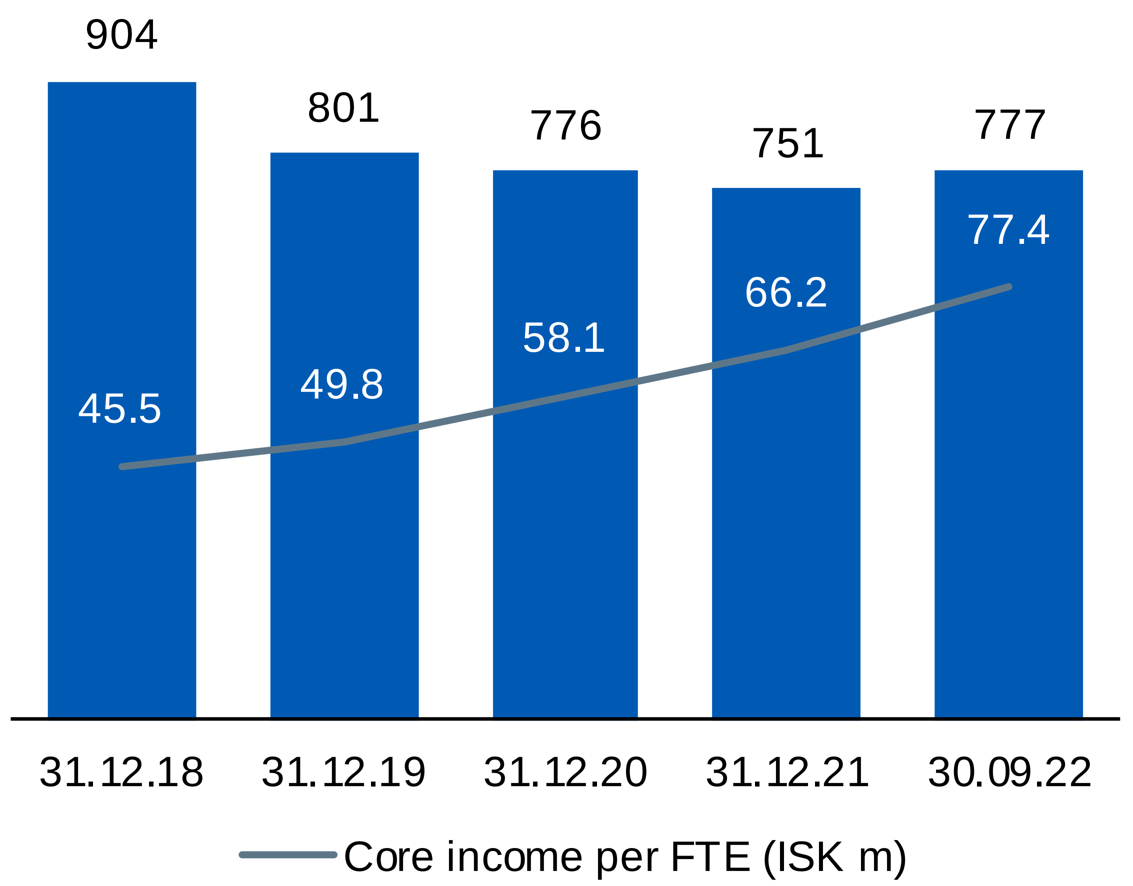


*Increase due to incentive scheme expenses

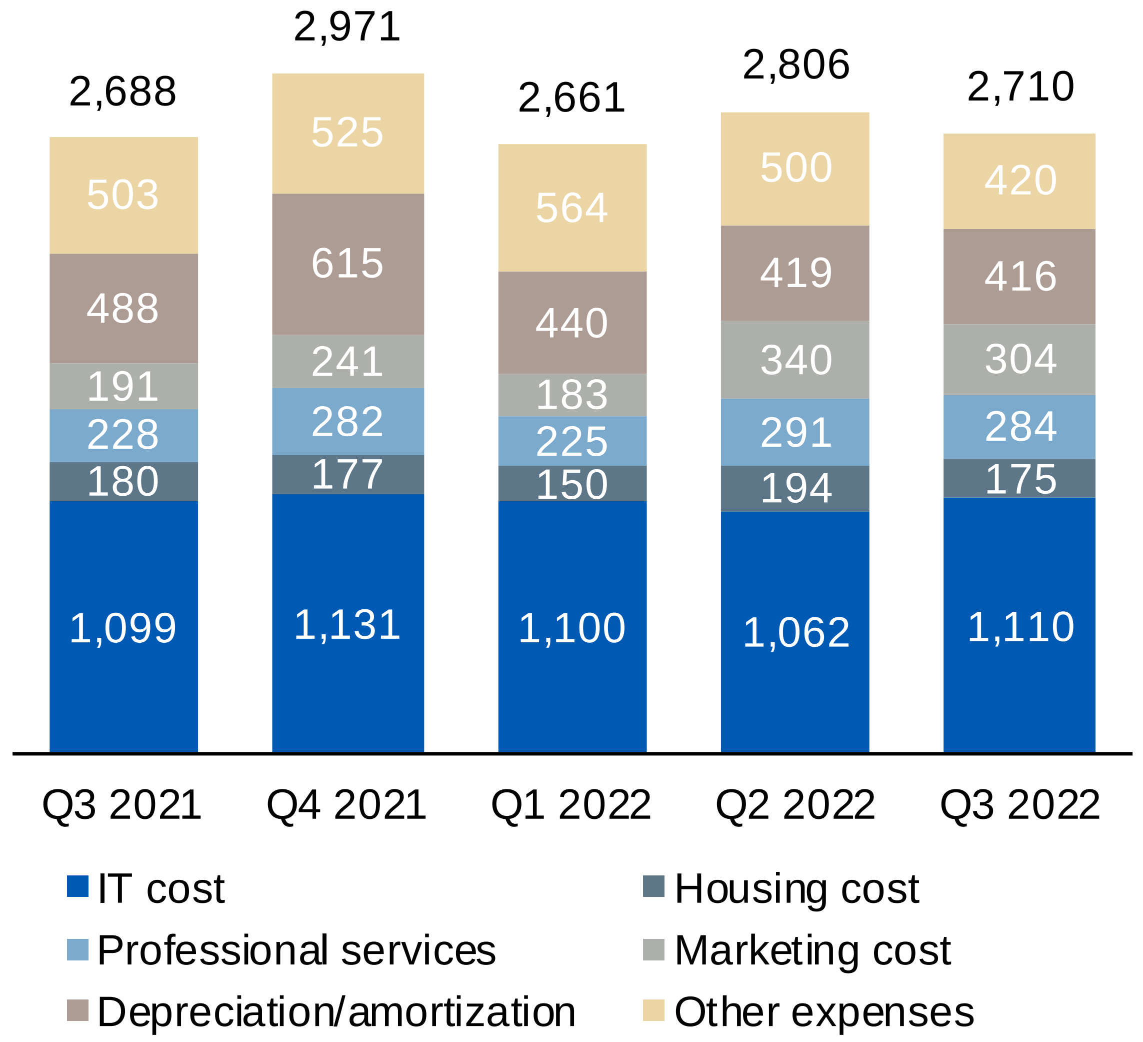
Total operating expenses



Number of FTE's



Other operating expenses (ISK m)



Balance sheet

Continued growth in deposits supports lending growth

- Loan growth supported by strong momentum in deposits
  - Loans to customers increased by 3.4% in Q3 and 11.6% from year end 2021
  - Deposits increased by 1.8% in Q3 and 13.0% from year end 2021
- Liquidity position remains strong despite ISK 28.9bn capital distribution through dividend and buyback during the first nine months
  - Strong liquidity coverage ratio (LCR) of 189% (141% in ISK)
  - Net stable funding ratio (NSFR) of 119%
- Balance sheet further simplified with reduction in HFS lines
- Strong equity position and very high leverage ratio despite significant capital distribution

Assets	**30.09.2022**	**30.06.2022**	**Diff.**	**31.12.2021**	**Diff.**	**30.09.2021**	**Diff.**
Cash & balances with CB	68	78	(13%)	69	(1%)	70	(3%)
Loans to credit institutions	53	40	31%	30	74%	30	73%
Loans to customers	1,045	1,011	3%	936	12%	897	17%
Financial assets	223	204	10%	226	(1%)	250	(11%)
Assets and disposal groups held for sale	2	2	1%	16	(87%)	17	(87%)
Other assets	37	49	(25%)	37	0%	82	(55%)
Total Assets	**1,428**	**1,383**	3%	**1,314**	9%	**1,346**	6%
Liabilities and Equity							
Due to credit institutions & CB	5	5	11%	5	2%	8	(40%)
Deposits from customers	740	727	2%	655	13%	641	15%
Liabilities associated with disposal groups held for sale	-	-	-	17	(100%)	17	(100%)
Other liabilities	86	72	20%	50	71%	52	64%
Borrowings	377	363	4%	357	6%	397	(5%)
Subordinated liabilities	34	33	2%	35	(3%)	35	(4%)
Total Liabilities	**1,242**	**1,200**	3%	**1,119**	11%	**1,152**	8%
Equity	186	183	2%	195	(4%)	195	(4%)
Total Liabilities and Equity	**1,428**	**1,383**	3%	**1,314**	9%	**1,346**	6%

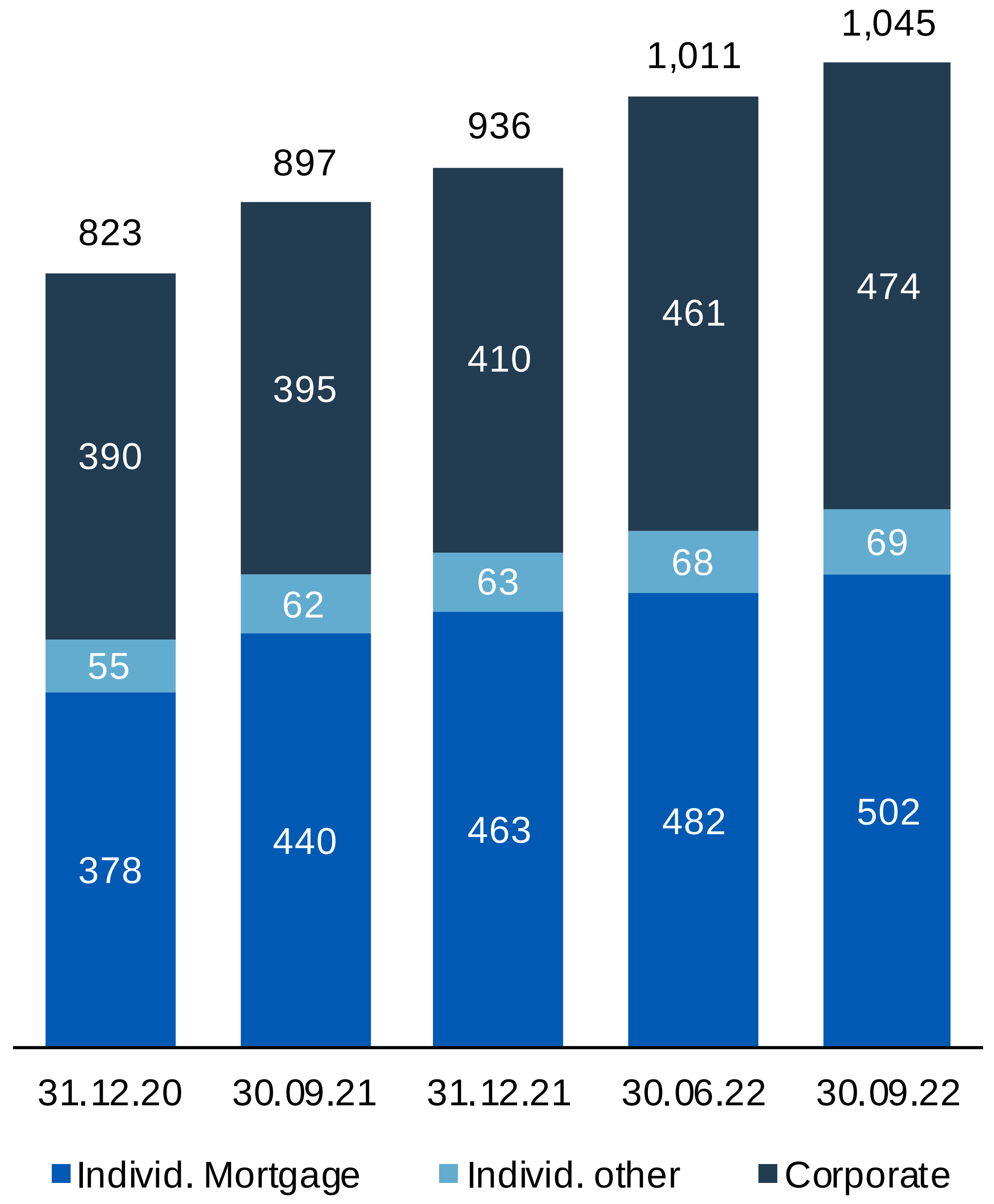
 All amounts in ISK bn

Loans to customers

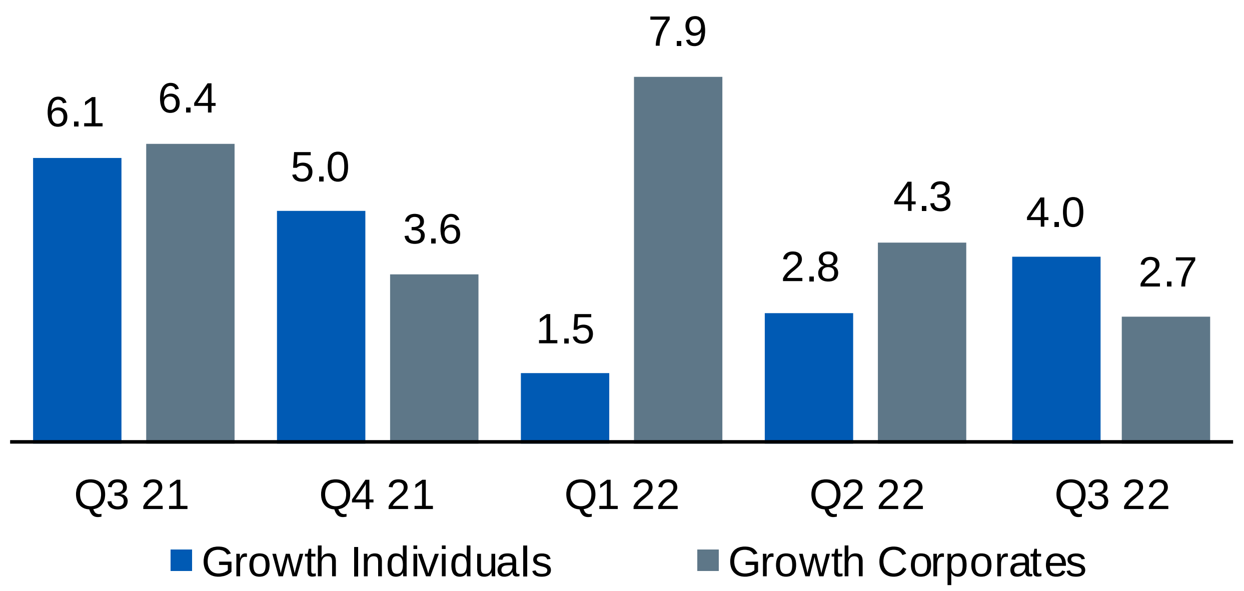
Balanced growth between corporates and individuals during the quarter

- Loans to customers increased by ISK 34bn or 3.4% during the quarter, loans to corporates 2.7% and loans to individuals 4.0%
  - Thereof approx. ISK 6bn increase due to weaker ISK and approx. ISK 8bn due to inflation
  - Strong pipeline combined with a robust capital and liquidity position allows for optionality for balance sheet management going forward
  - Near term growth and capital allocation to be managed carefully with a view of the external environment
- Continued CIB strategy of capital velocity
  - The Bank has sold corporate loans for ISK 19bn to institutional investors in 2022
- The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy

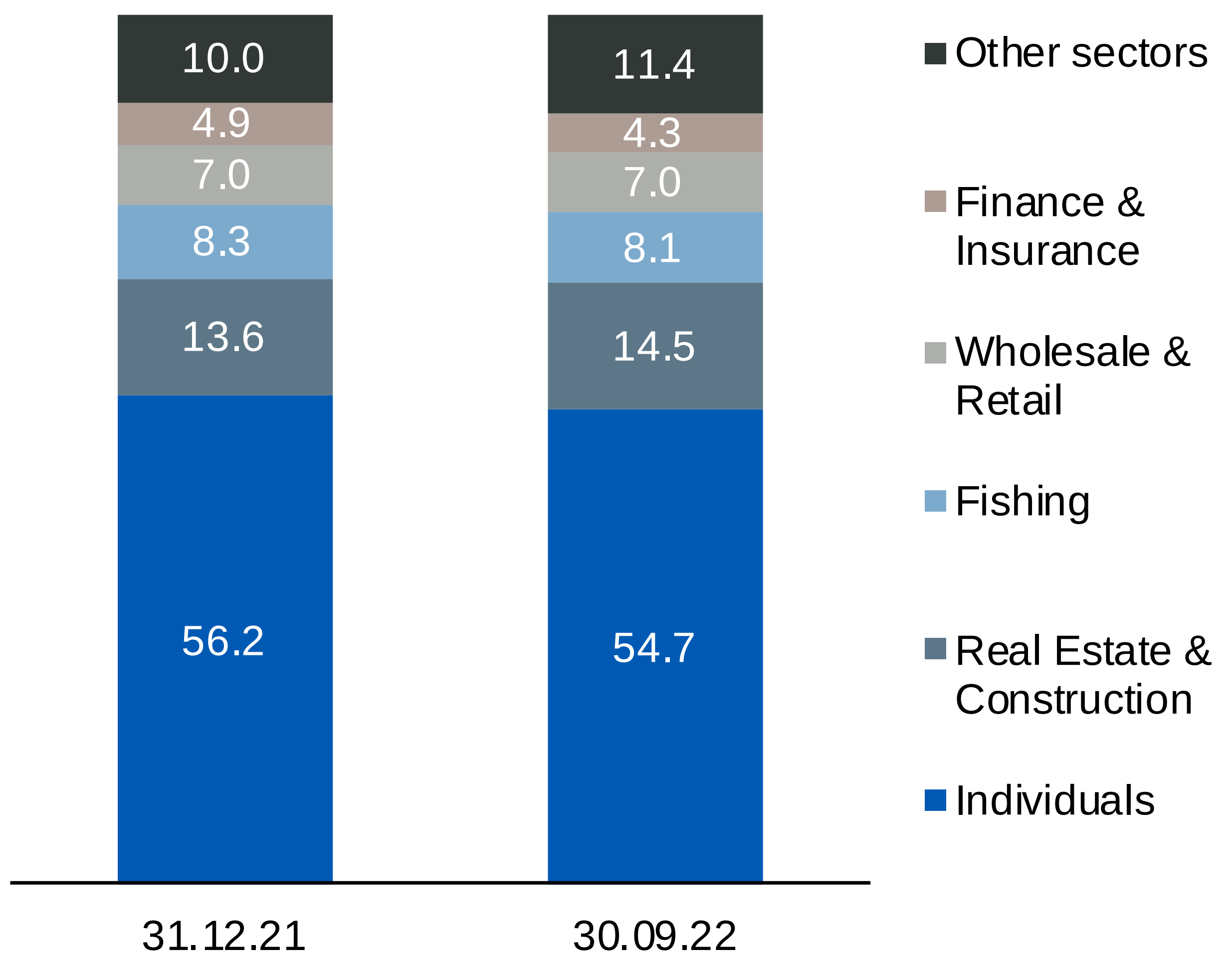
Loans to customers



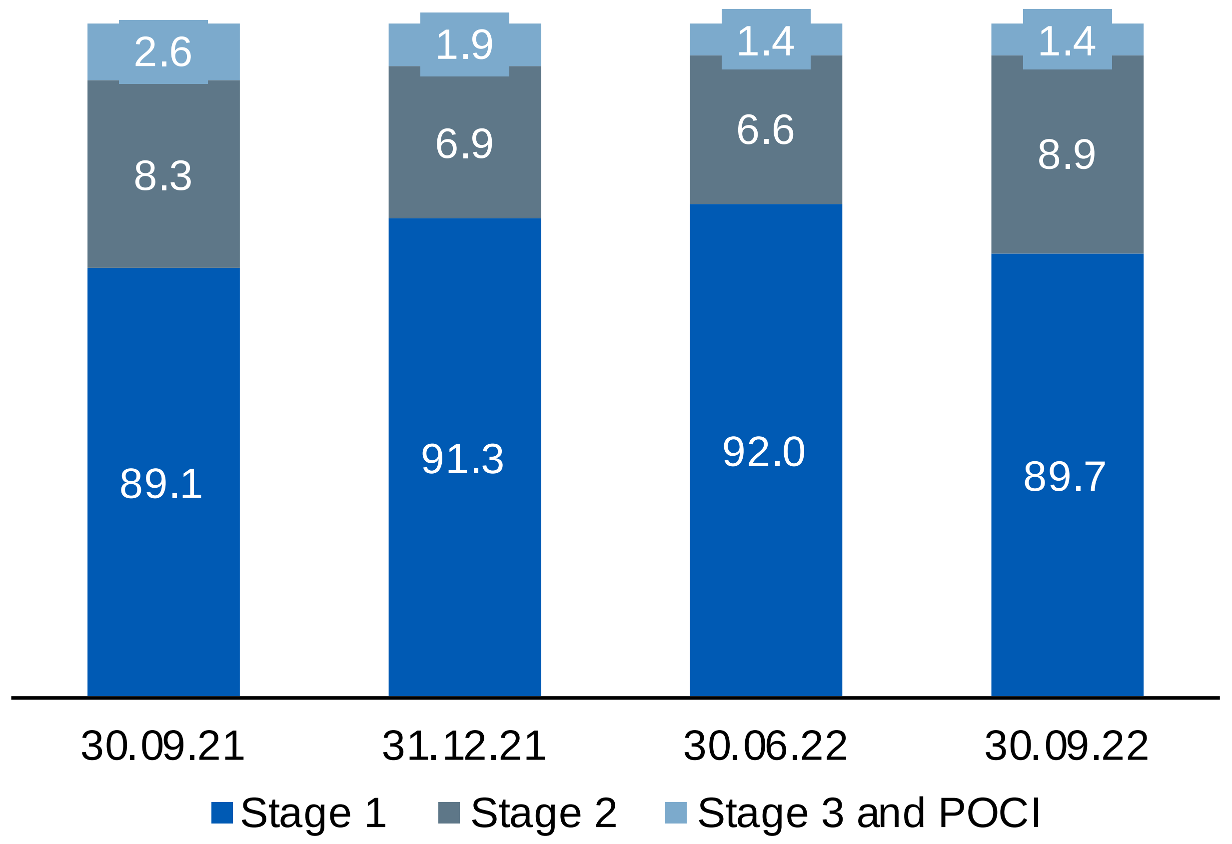
Growth in loans to customers (%)



Loans to customers by sector (%)



Loans to customers by stages (%)

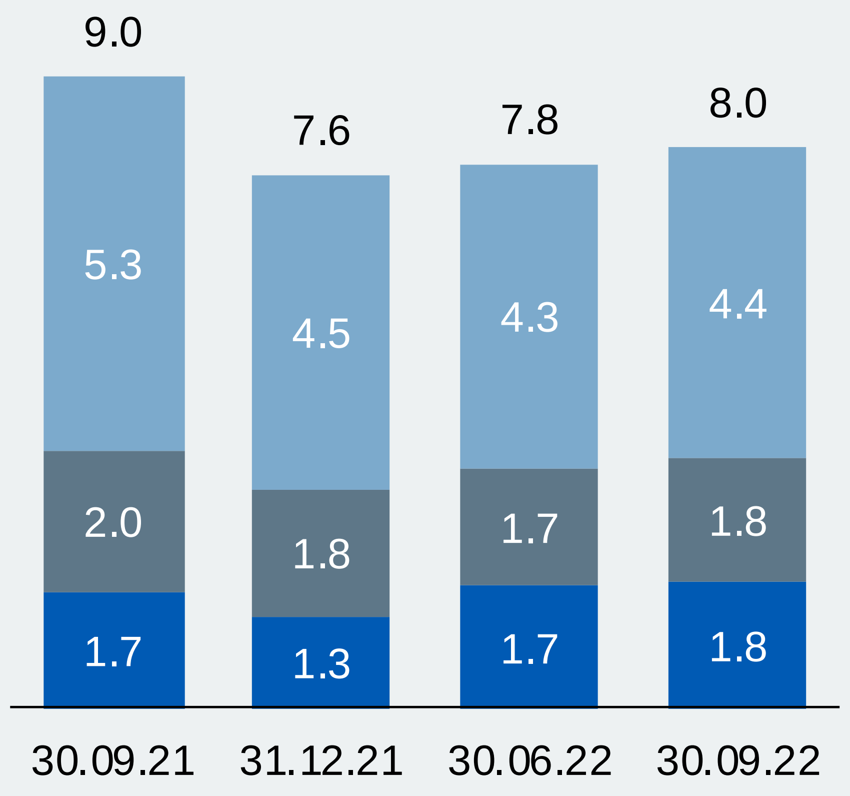


 All amounts in ISK bn

Loss allowance by IFRS 9 stages

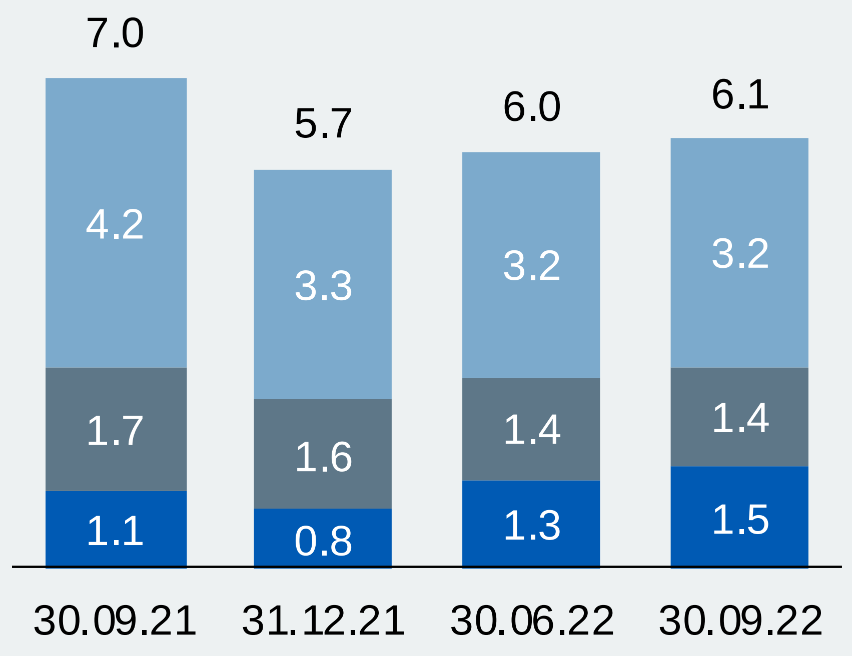
On loans to customers total

Loans to customers are 0.8% provisioned at period end

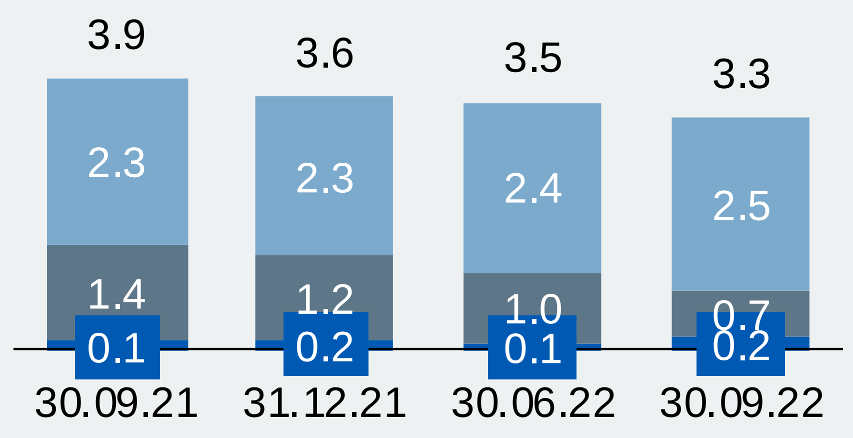


Thereof on loans to corporates

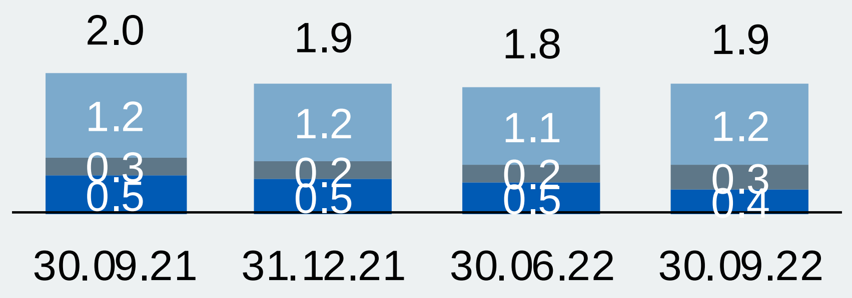
Loans to corporates are 1.3% provisioned at period end



Thereof on tourism exposure



Thereof on loans to individuals



■ Stage 1 ■ Stage 2 ■ Stage 3

IFRS9 economic scenarios and assumptions

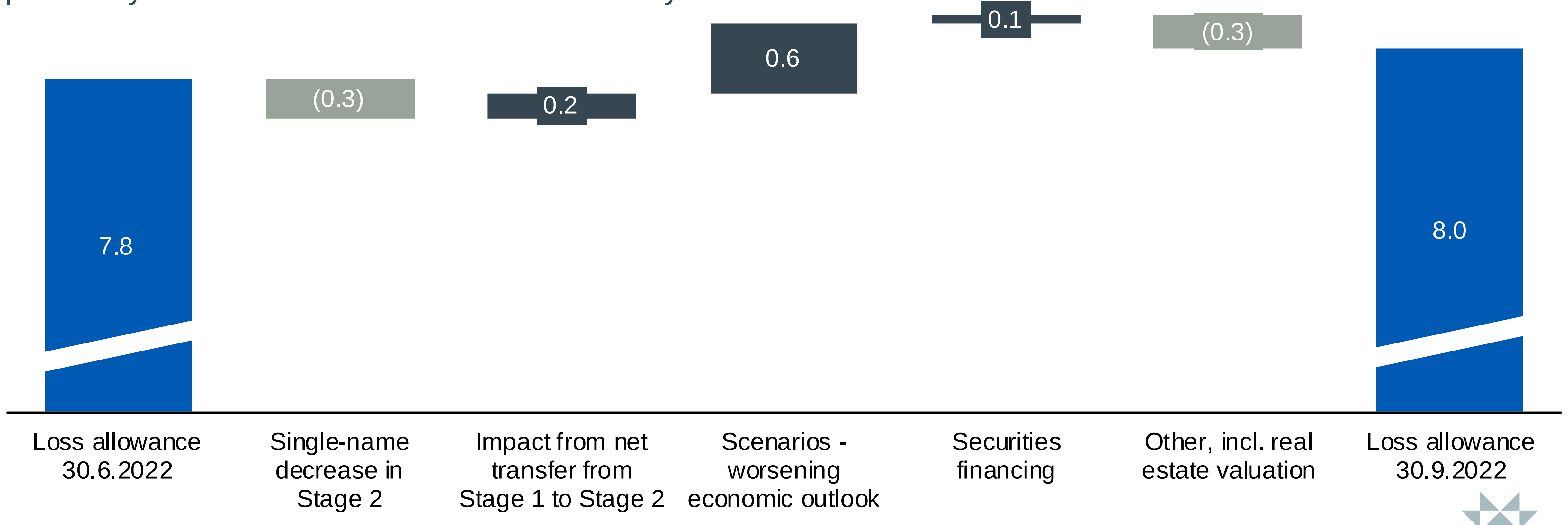
Increase in loss allowance in Q3 2022. Worsening economic outlook reflected in 30% likelihood of pessimistic scenario and 5% increase to haircut of real estate collateral in that scenario. Increase in loss allowance is largely offset by reduced loss allowance on a single-name exposure in Stage 2 and an adoption of a more advanced residential real estate valuation model

IFRS9 scenario likelihood	YE 2021	Q1 2022	Q3 2022
Optimistic	20%	10%	10%
Base case	60%	65%	60%
Pessimistic	**20%**	**25%**	**30%**

Real estate collateral haircut in pessimistic scenario	Q2 2022 and prior	Q3 2022
Residential	30%	35%
Commercial	40%	45%

Changes to loss allowance on loans to customers in Q3

Included are FX changes and calculated interests on Stage 3 provision, which are not reflected in Net impairment line in the Income Statement. Off-balance impairments and effect of payments of loans previously written off are excluded from this analysis



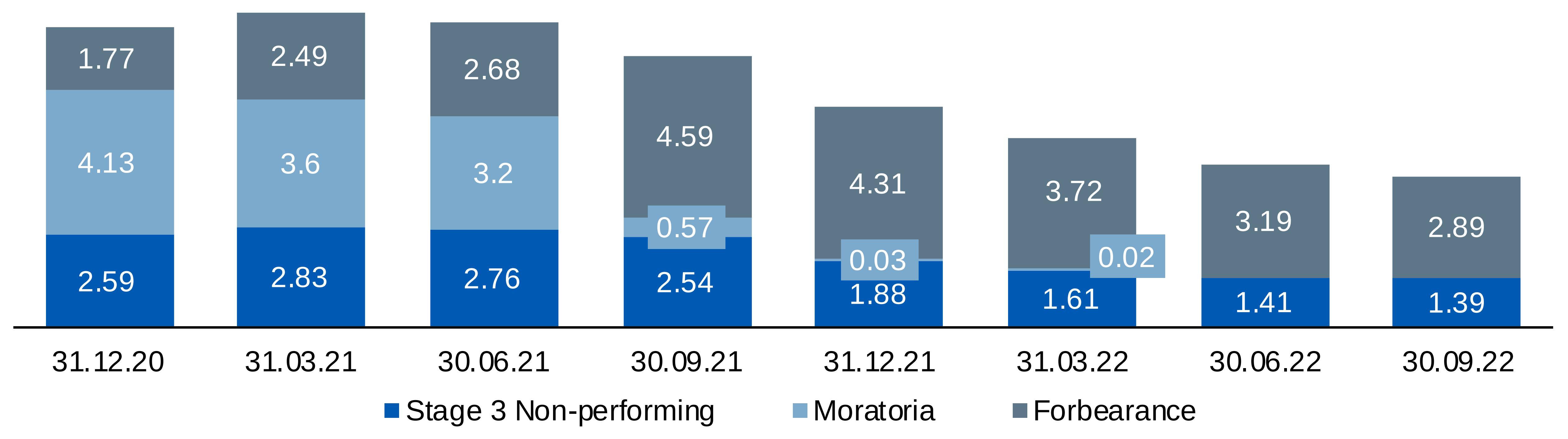
All amounts in ISK bn

Risk profile

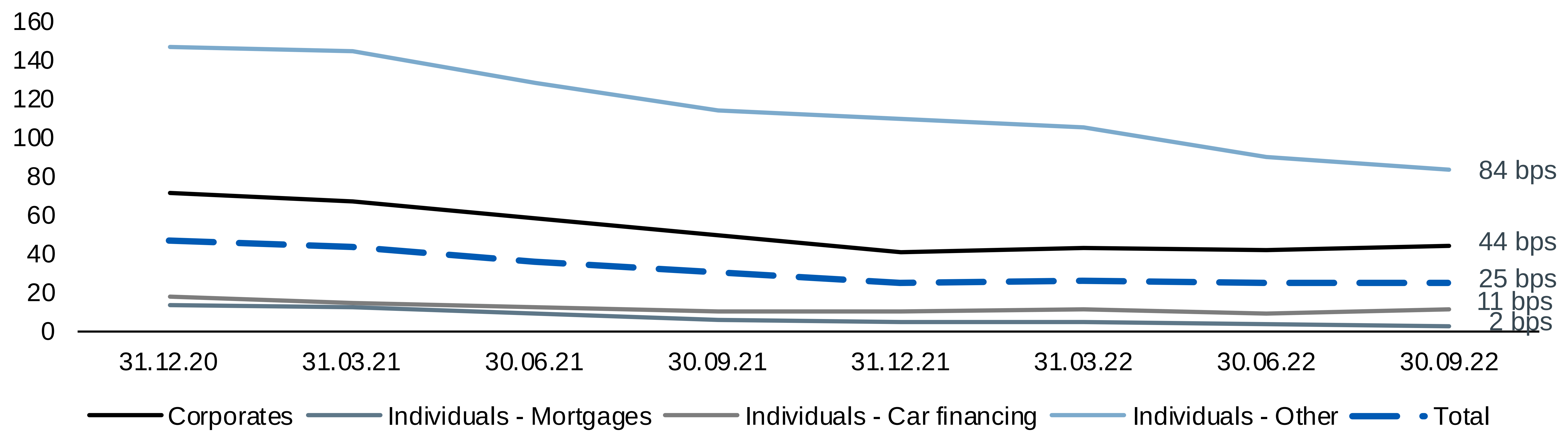
Increased proportion of mortgages over the past couple of years has reduced overall expected losses

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality such as past due loans, credit migrations and watchlist exposures continue to show an overall positive development
- The change in composition of the loan portfolio, with increased weight in residential mortgages for which expected loss is lower contributes to decrease in cost of risk through the cycle
- Total expected credit loss is expected to approach between 20-25bps in the long term based on current loan book composition. At the end of Q3 the expected 12 month credit loss ratio was 25bps
- Loans with moratoria and forbearance measures which are not in Stage 3 continue to decrease as the economy recovers from the effects of Covid-19. At the end of Q3 2022, they were 2.9% of the total loan to customers
- At end of Q3 about 47% of loans in default or subject to moratoria or forbearance are in the tourism sector

Development of non-performing loans, moratoria and forbearance (% of total loan book)



12-month expected credit loss for performing loans to customers (on balance sheet) (bps)

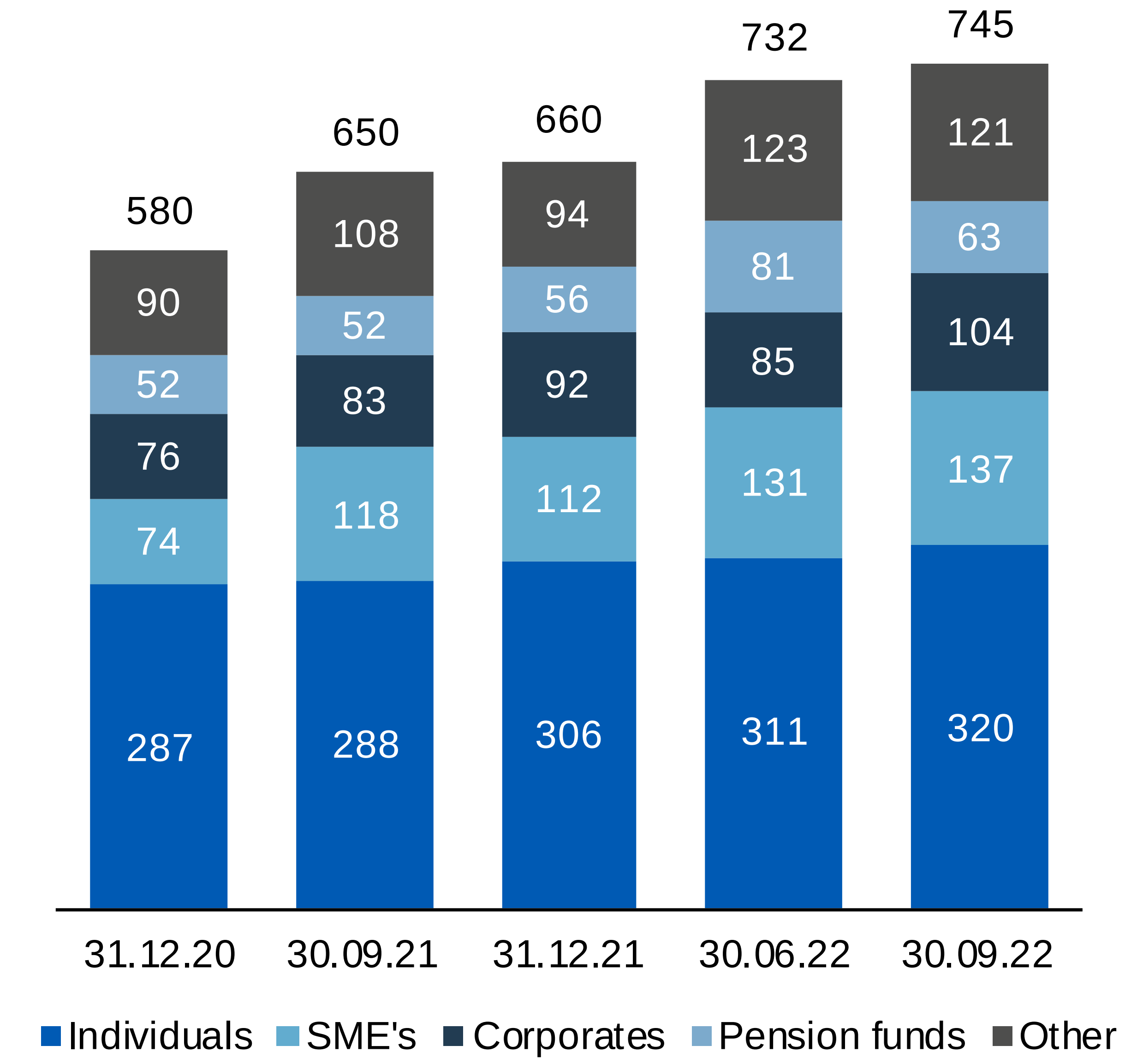


Deposits

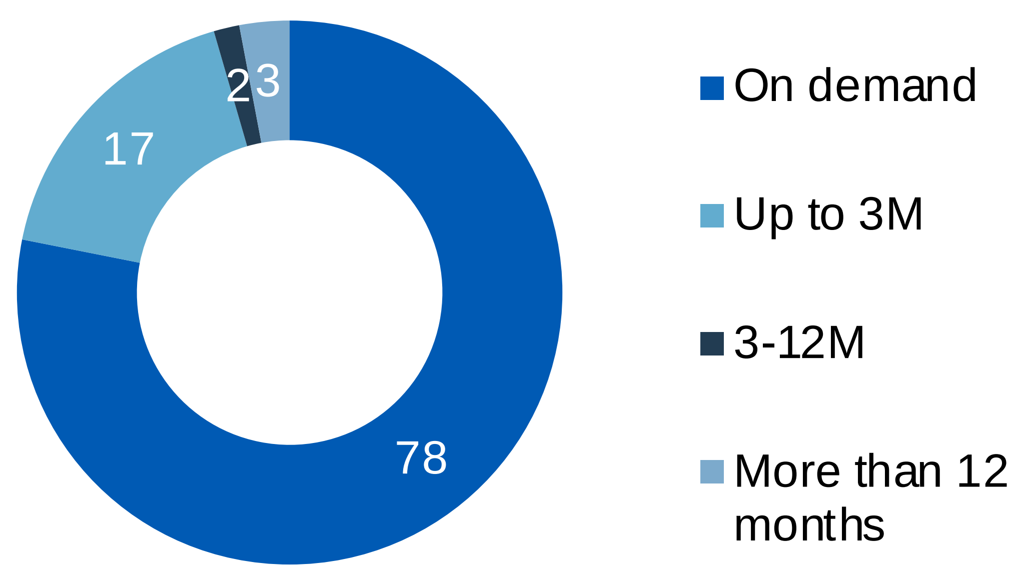
Continued strong growth in core deposits

- Deposits represent 60% of the Bank's total liabilities, was 59% at year-end 2021
- Growth in core deposits of 4.2% in the quarter and 14.7% YoY
  - Core deposits are from individuals, SME's and corporates
- Loans to deposits ratio has decreased significantly over the last few years with stronger deposit base

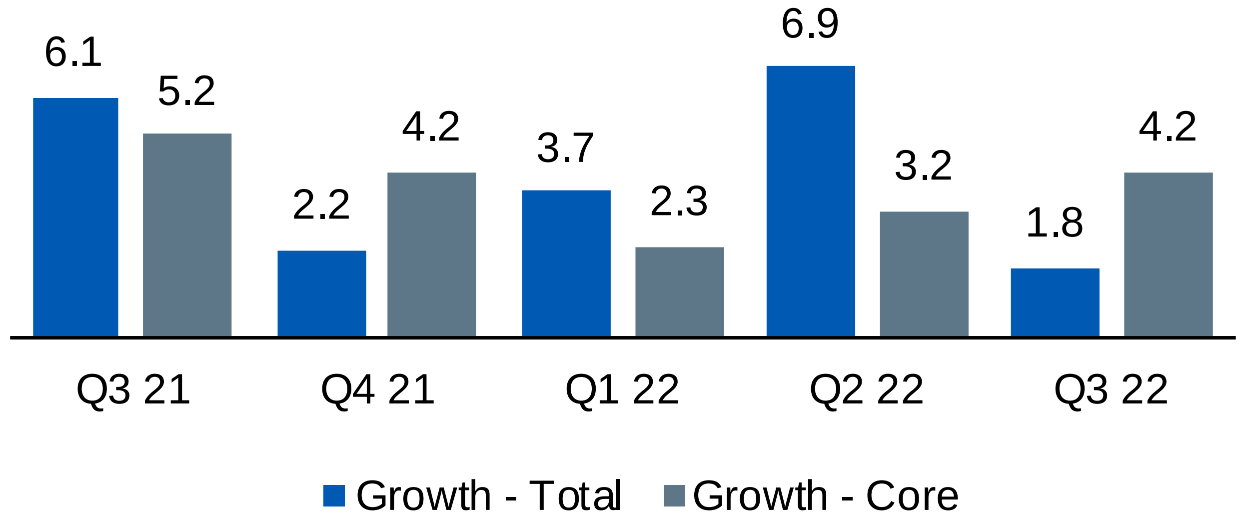
Deposits*



Maturity of deposits (%)

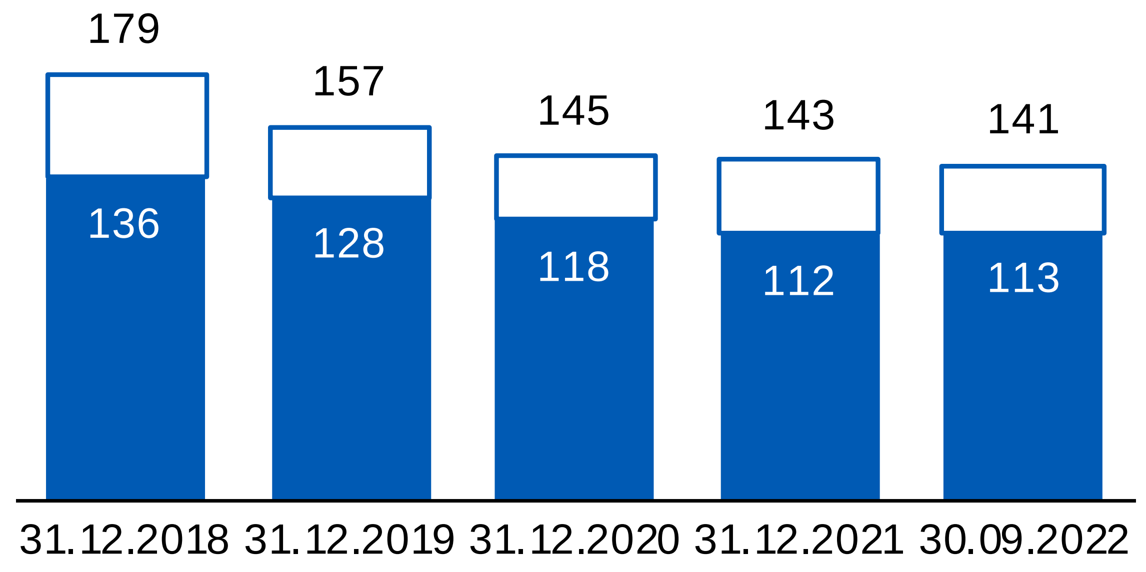


Growth in deposits (%)



Loans to deposits ratio (%)

(Without loans financed by covered bonds)



*Includes due to credit institutions and Central Bank

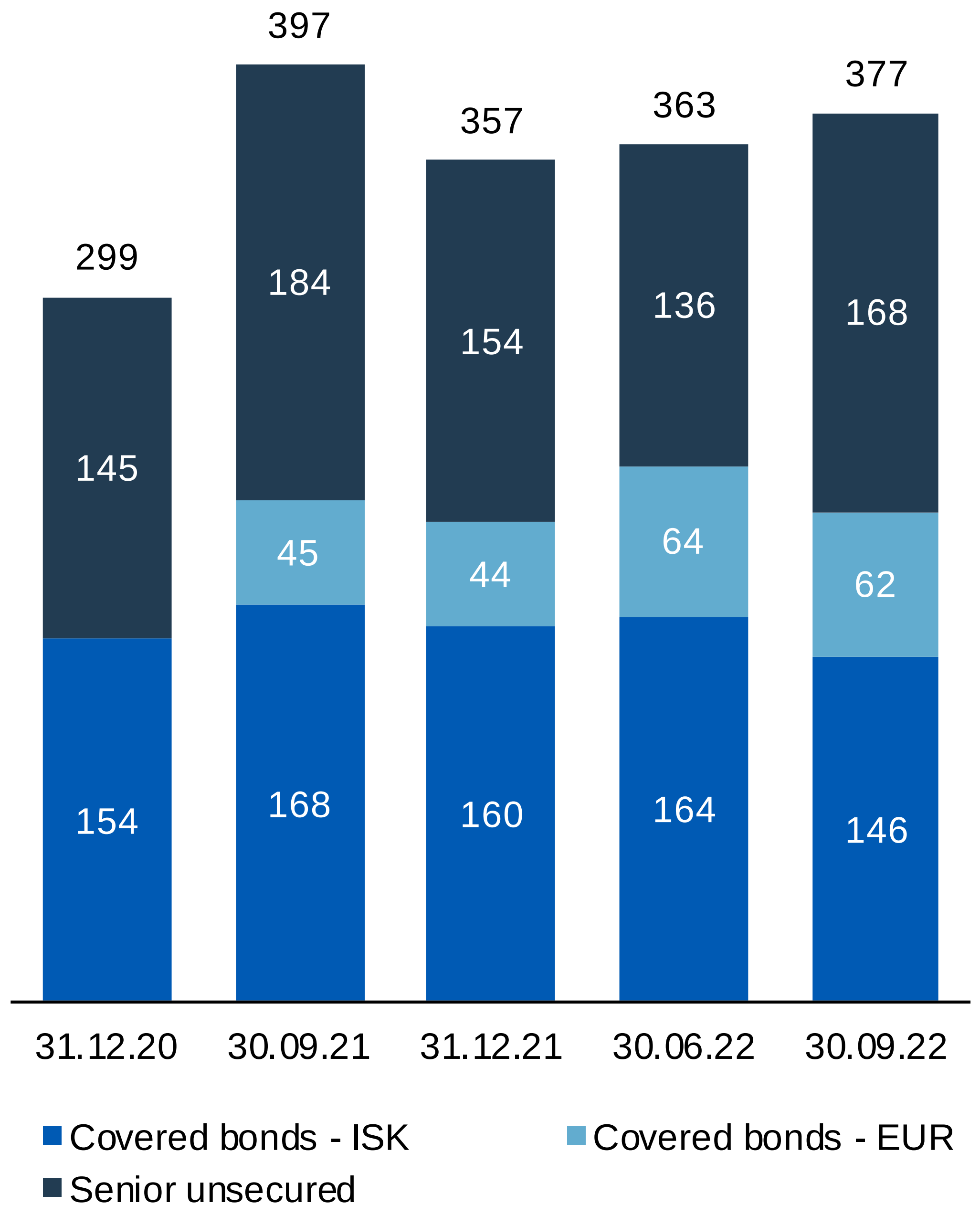
 All amounts in ISK bn

Borrowings

No material funding maturities until 2024

- Arion Bank issued EUR 500 million, NOK 550 million, SEK 230 million and ISK 17.9 bn in Senior Preferred and Covered Bond format during the first nine months of the year
- Additionally Arion Bank issued EUR 250 million of ECB repo eligible covered bonds in July that are retained on balance sheet. This further broadens funding options and can be utilized especially while markets remain volatile
- Moody´s assigned A3 deposit and Baa1 issuer rating with positive outlook
- The Bank will continue to regularly issue in the domestic market and opportunistically access the international markets
- Issued green bonds amounted to ISK 92bn or 24.5% of total borrowings

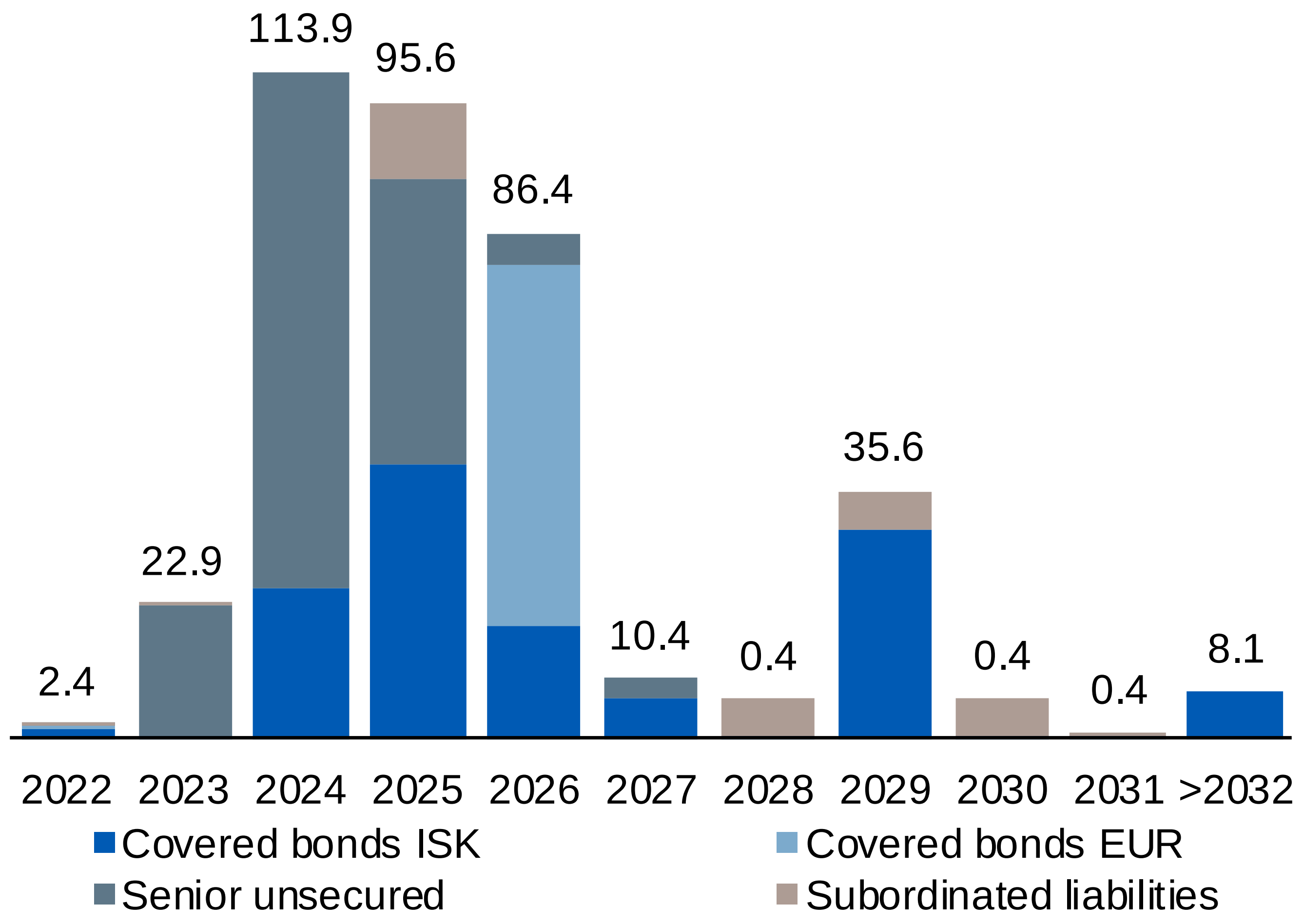
Borrowings by type



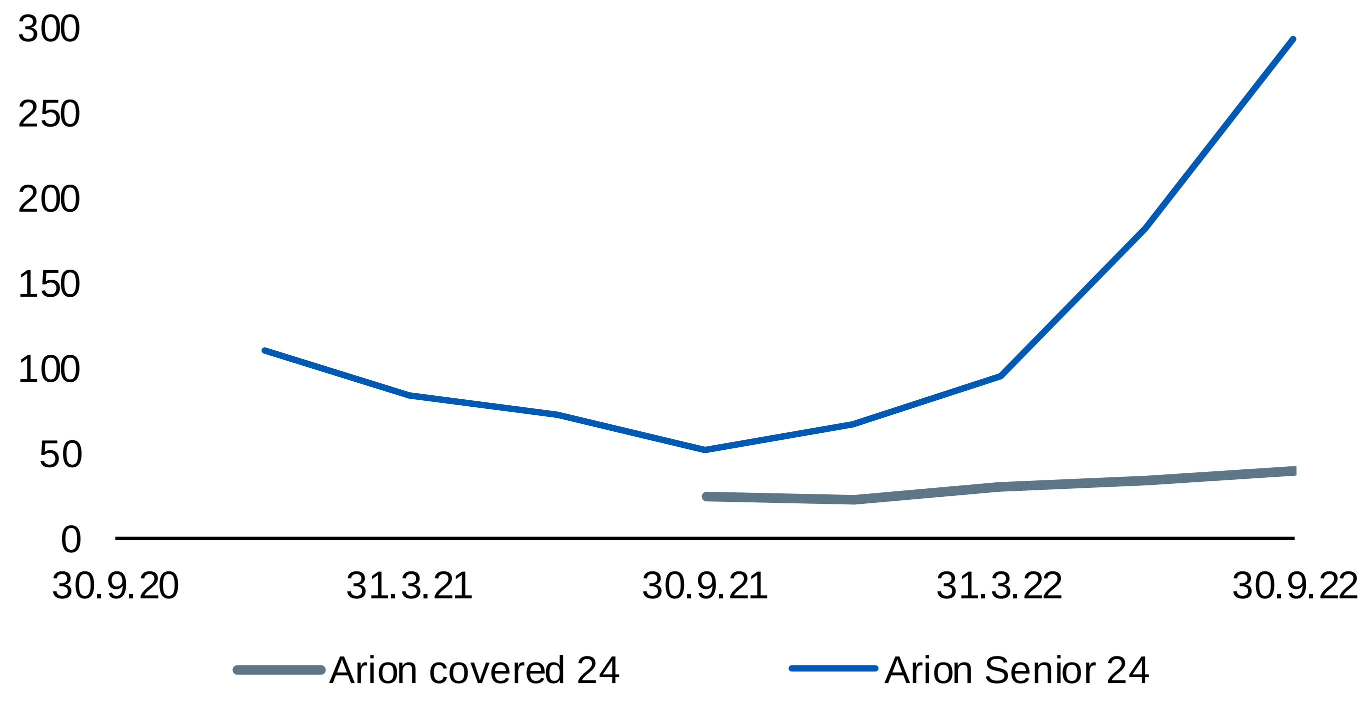
Ratings

S&P		
Senior unsecured	BBB	A
Covered bond	A-	N/A
Short term debt	A-2	A-1
Outlook	Stable	Stable
Moody's		
Long-term	Baa1	A-2
Outlook	Positive	Stable

Maturities of borrowings and call dates on subordinated liabilities



Development of funding spreads (bps)



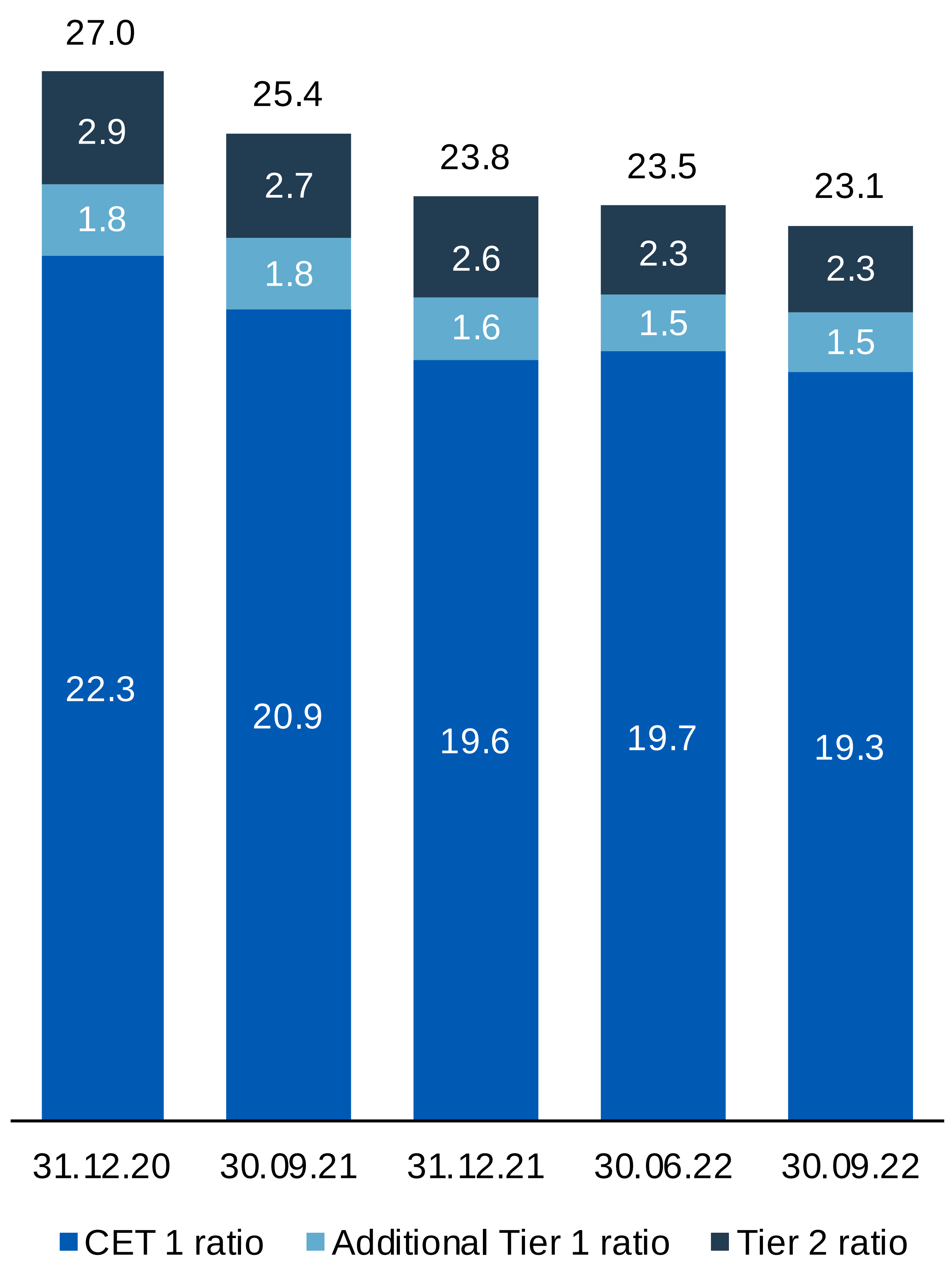
Source: Bloomberg

Own funds

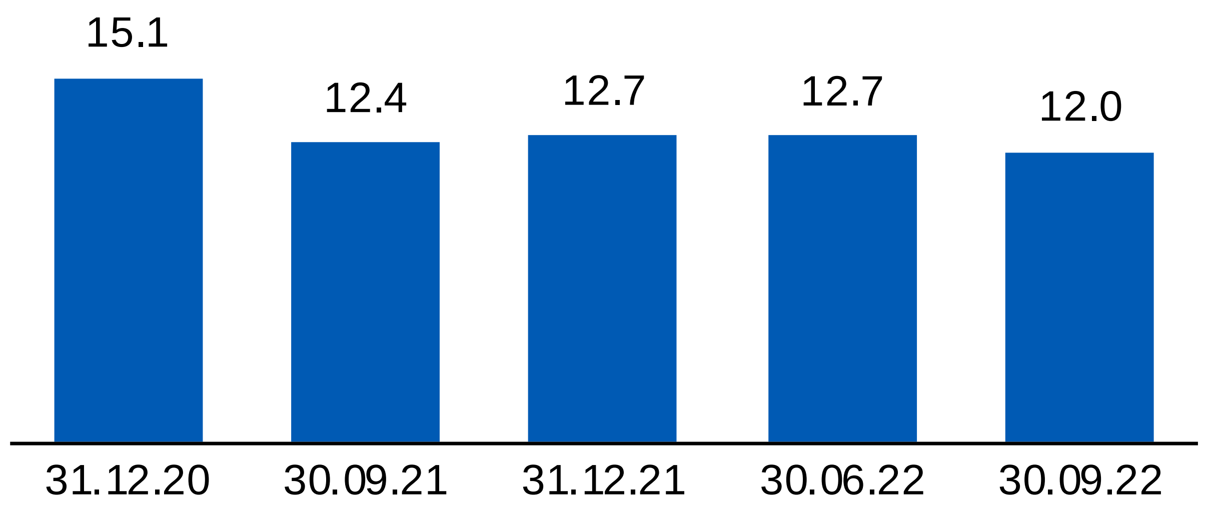
Strong capital ratios while capital optimization continues

- Capital position stable between quarters despite balance sheet growth and share buybacks
- REA increased by 1.2% in Q3. REA density is reduced as a result of reduction in equity positions among other items
- Leverage ratio of 12.0% significantly above international competitors despite release of total ISK 60.5bn capital from beginning of 2021

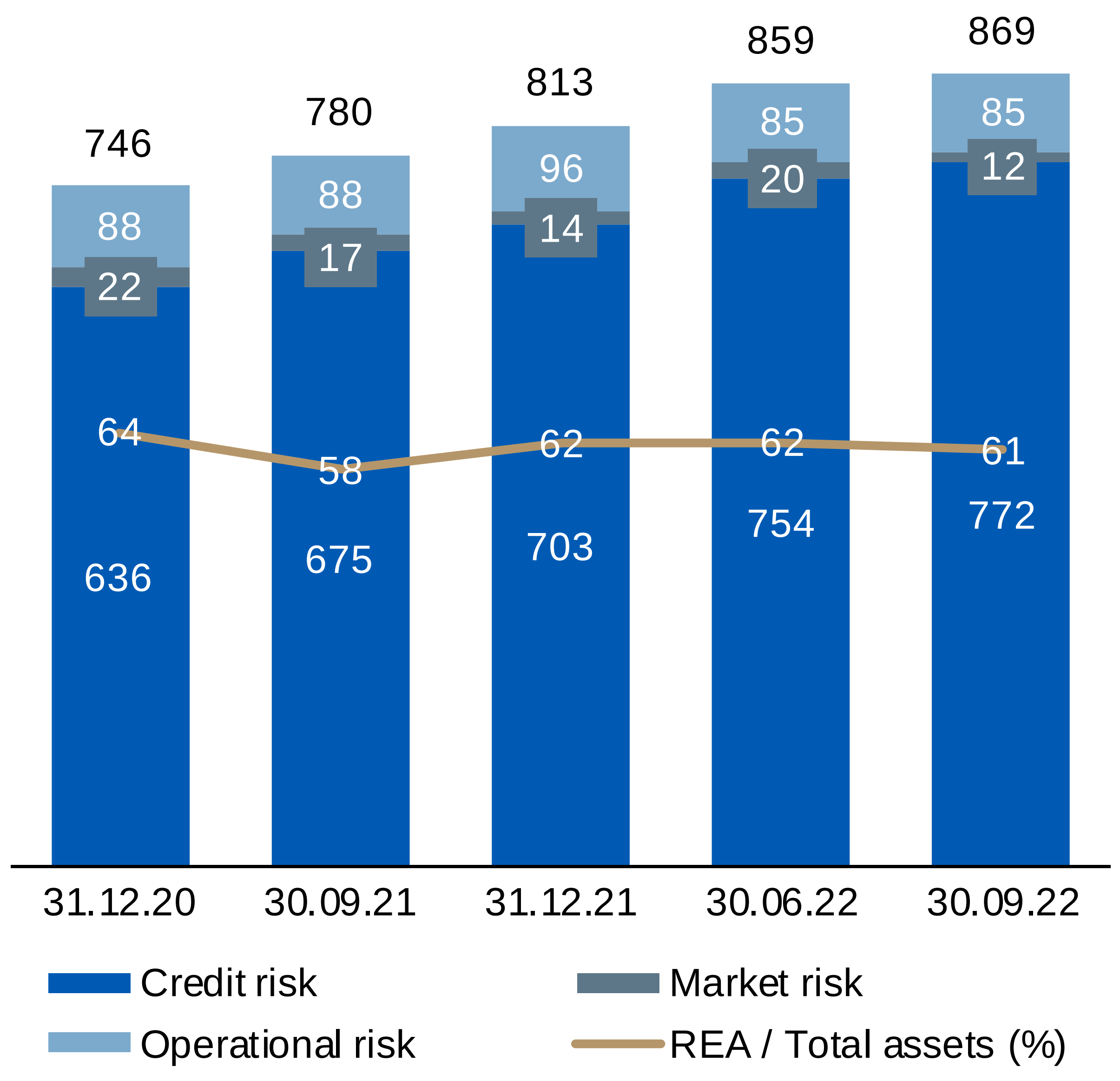
Total capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount



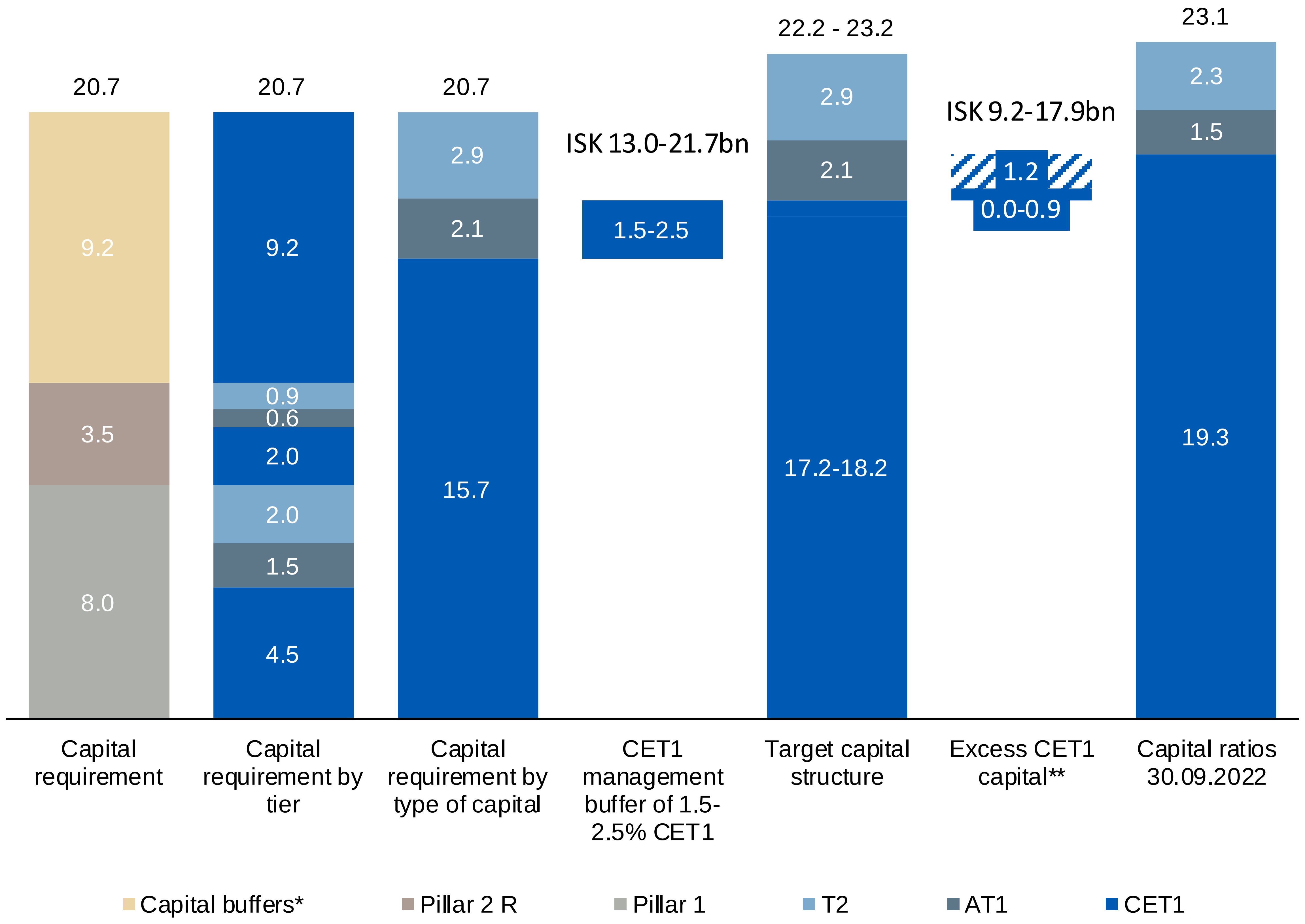
 All amounts in ISK bn

Own funds

The capital ratios continue to be very strong while capital optimization efforts are ongoing

- ISK 22.5bn dividend paid out in March 2022 and ISK 6.5bn buyback during 9M 2022
- 9M profits of ISK 20.4 bn and corresponding foreseeable dividends of ISK 10.2 bn included in the capital ratios
- Also included is ISK 2.8 bn remaining of a ISK 5.0 bn buyback program announced on 9 September 2022
- The Pillar 2 requirement is 3.5% as a result of the SREP process based on year-end 2021 financials.
- The countercyclical buffer rose from 0% to 2% as of 29 September 2022 based on a decision of The Financial Stability Council from a year earlier
- The management buffer on CET1 has been clarified and is now 1.5-2.5%
  - CET1 capital of ISK 9.2 - ISK 17.9 bn in excess of target capital structure, however since currently the Bank does not make the optimal use of the AT1 and T2 capital items, CET1 capital of ISK 10.4 bn is used to make up that shortfall.
- The solvency ratio of Vördur insurance is 154%

Own funds and capital requirements (%)



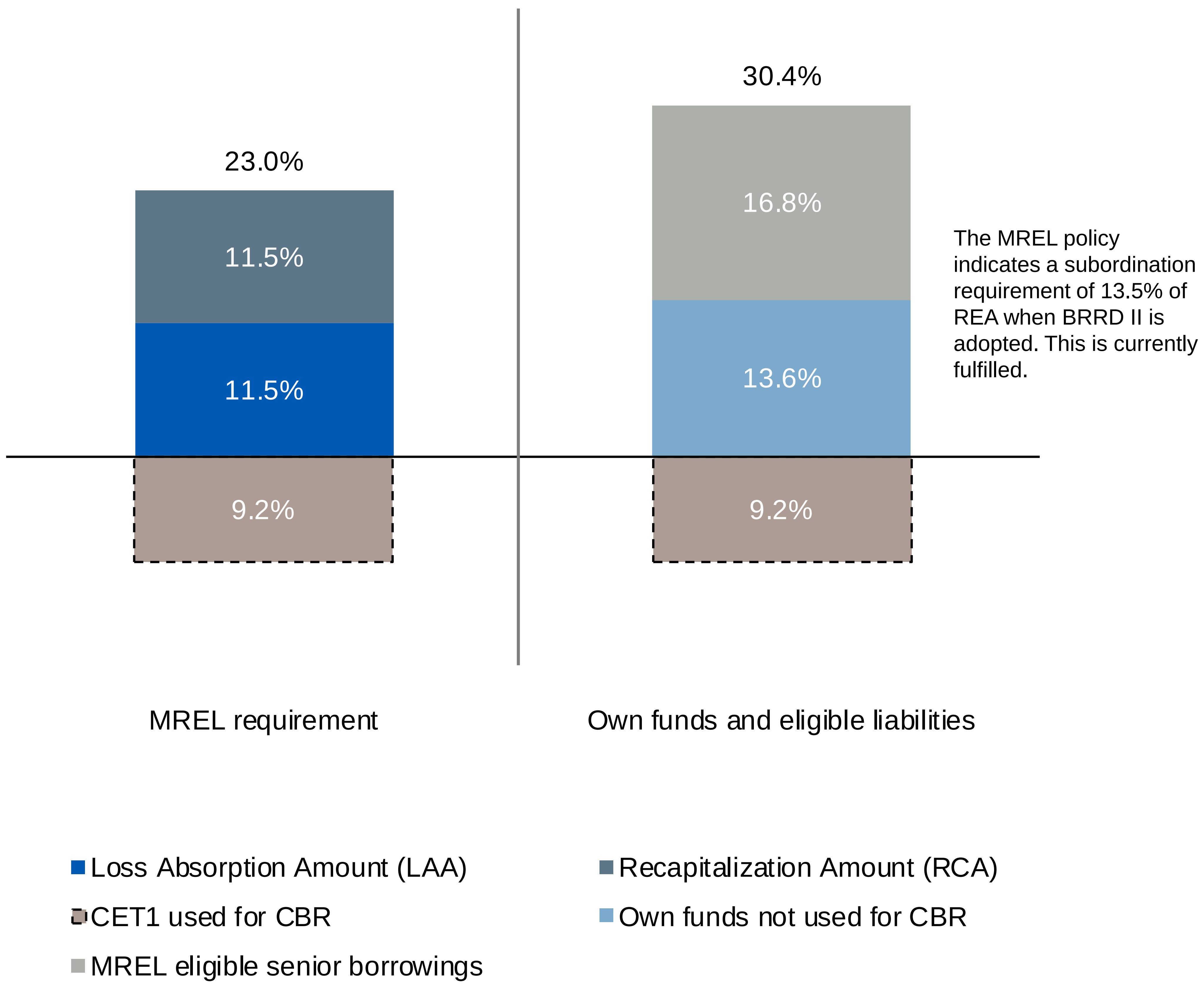
* Capital buffers include the increase in the countercyclical buffer in Iceland to 2%, which took effect on 29 September 2022
** A portion of the excess CET1 capital must be used to make up for the AT1 and T2 shortfall. This portion is shown in a chequered pattern

MREL requirement

The Icelandic Resolution Authority has published its MREL policy

- The BRRD I approach to MREL has been codified in Icelandic law
- Senior unsecured debt is MREL eligible unless it is excluded from the scope of bail-in
- The Icelandic Resolution Authority (IRA) has published its MREL policy
  - Both Loss Absorption Amount (LAA) and Recapitalization Amount (RCA) equal Pillar 1 plus Pillar 2, currently 11.5% of REA
  - No Market Confidence Charge (MCC) because of the high level of combined buffer requirement (CBR), currently 9.2% of REA
  - No subordination requirement
- Iceland is obligated to introduce the BRRD II approach at some point but the timeline is uncertain
- Some steps towards BRRD II have been taken
  - The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law
  - The IRA MREL Policy discusses the key differences in MREL between BRRD I and BRRD II but does not state any firm decisions regarding their approach under the BRRD II regime
- Arion Bank has updated the terms of senior unsecured borrowings so that new issuances will be MREL eligible (senior preferred, SP) according to BRRD II
- The graph shows
  - MREL requirement for Arion Bank 23.0% of REA in addition to the CBR
  - Own funds and MREL eligible senior borrowings (>1yr to maturity)

MREL requirement as % of REA*



*According to BRRD I, MREL requirement should be expressed in terms of total liabilities and own funds (TLOF) but % of REA is more relevant for determining the size of the requirement. Actual requirement is 14.2% TLOF which corresponds to 21.9% REA at 30.09.2022

Going forward

Strong position to navigate the current market environment

Underlying business dynamics are strong, with a healthy net interest margin and good trajectory in non-interest income, supported by clear strategy and operational discipline.

Robust capital and liquidity positions. Funding position strengthened with recent EUR senior issue which leaves a light maturity profile over coming year.

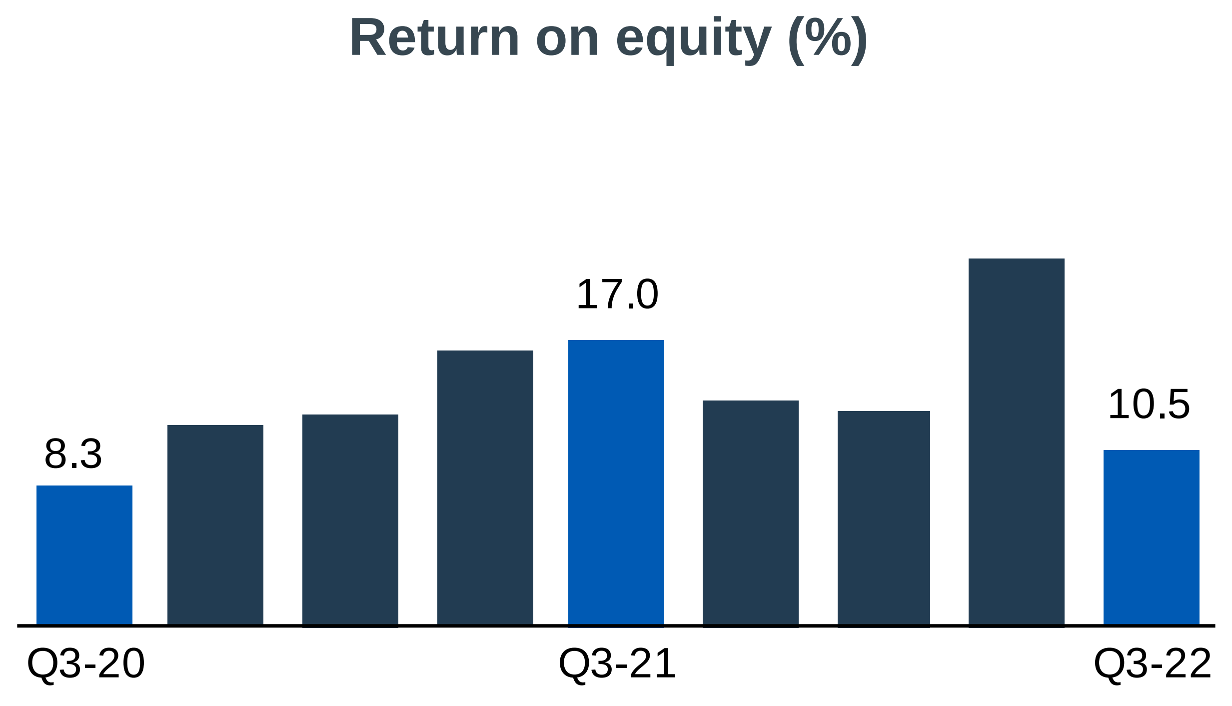
The global economic volatility continues to drive uncertainty in our market environment.

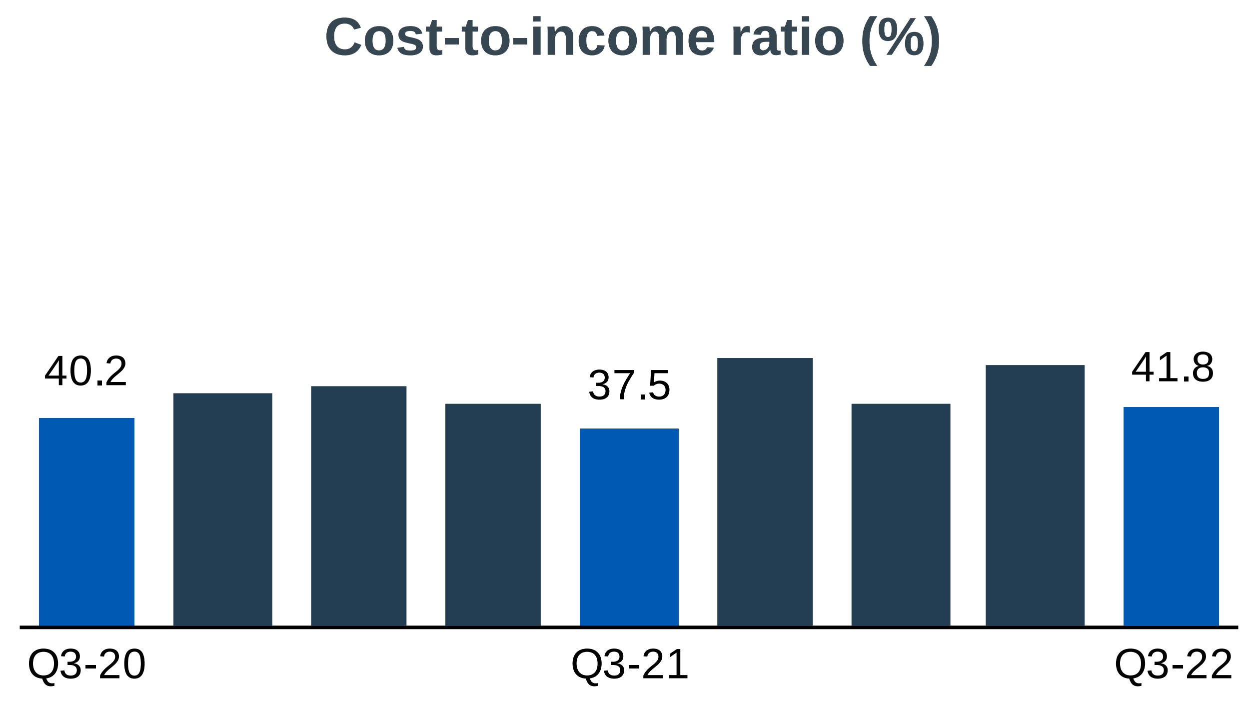
The Icelandic economy is in a relatively strong position and has approached terminal policy rates faster than in other jurisdictions. Upcoming wage negotiations will be a key test for the sustainability of that position.

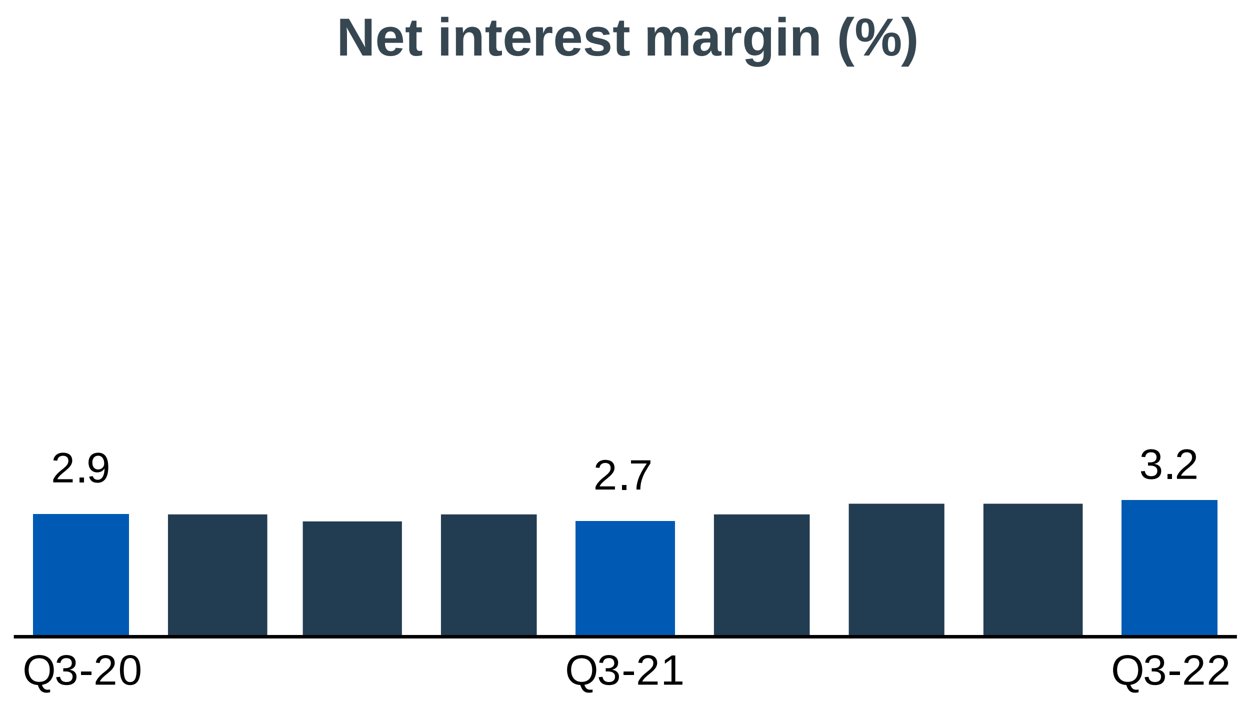
The key theme for the coming months is to utilize this strong position and retain optionality in the current environment in terms of capital and balance sheet management.

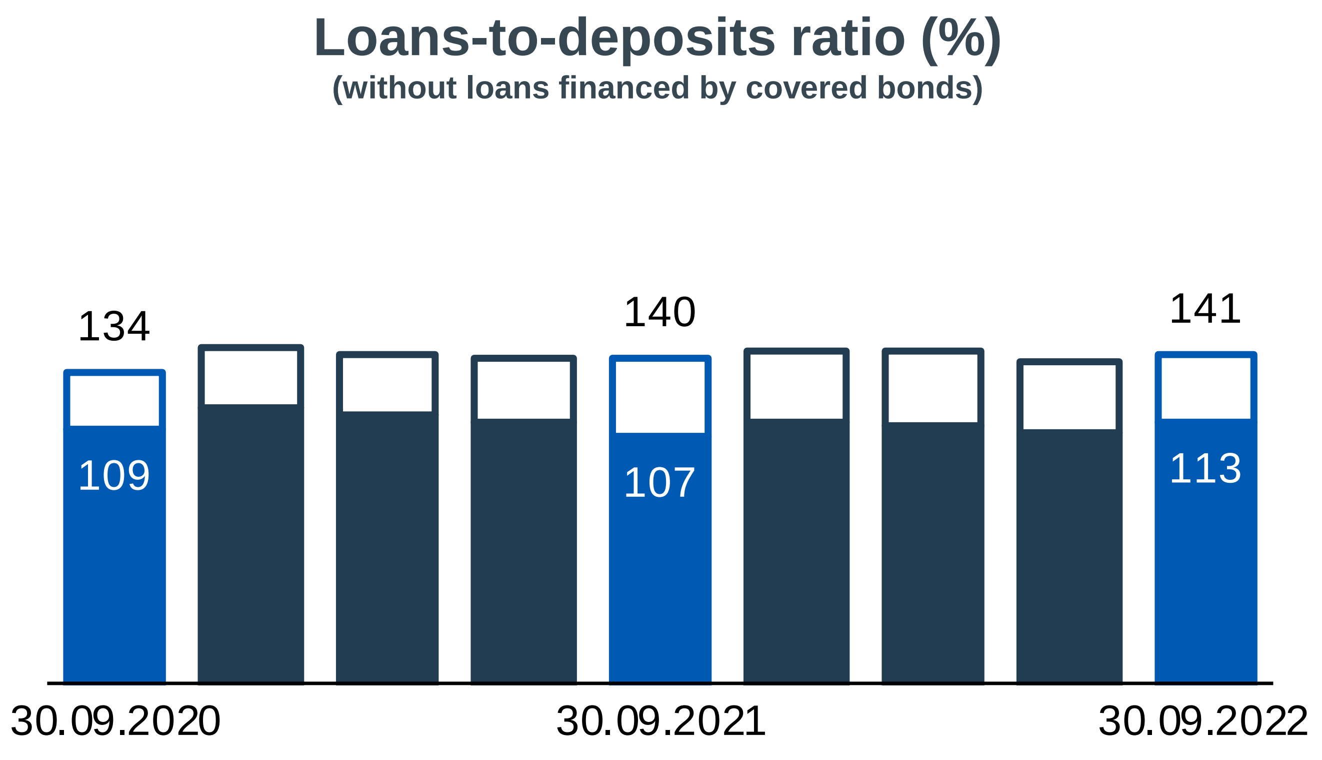
The Group is in a strong position to navigate the current environment, with diverse and profitable businesses, good funding options and robust capital and liquidity positions.

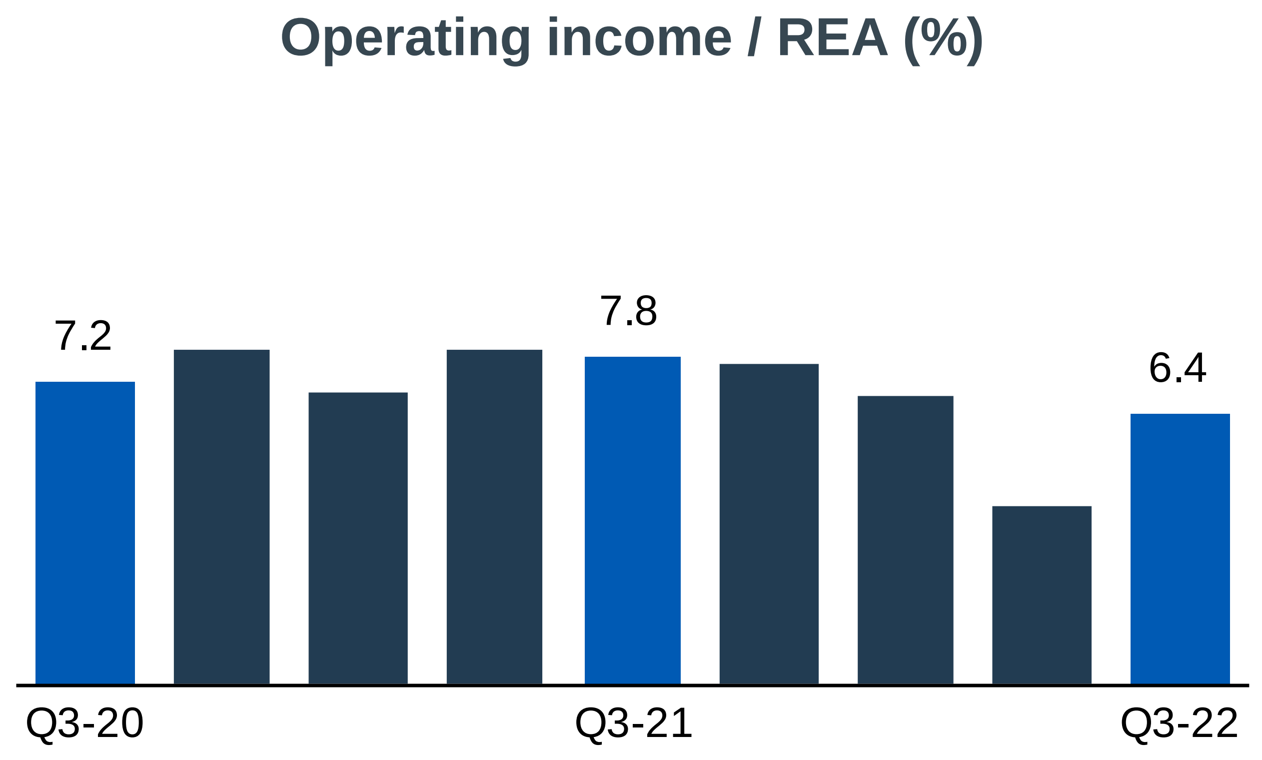
Key financial indicators - quarter

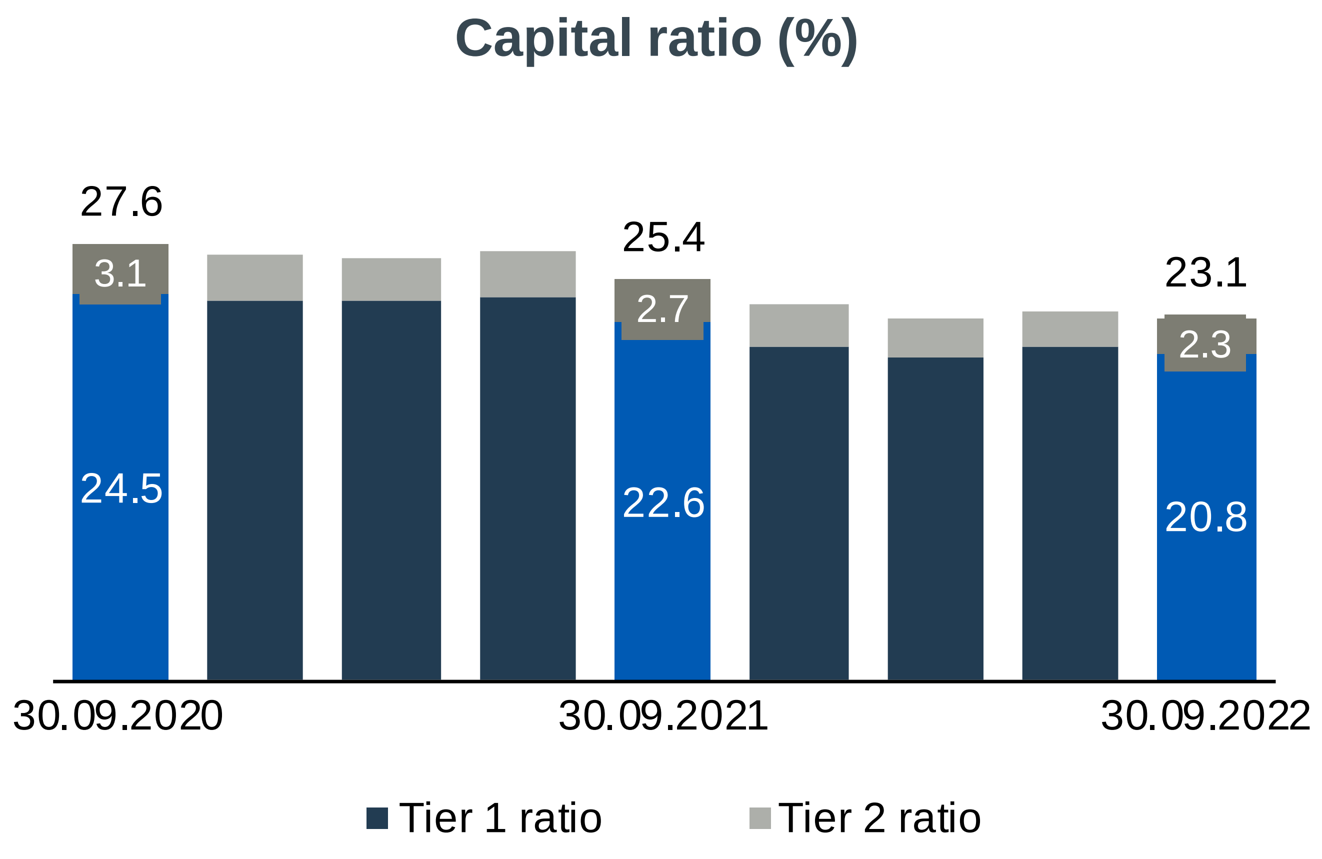






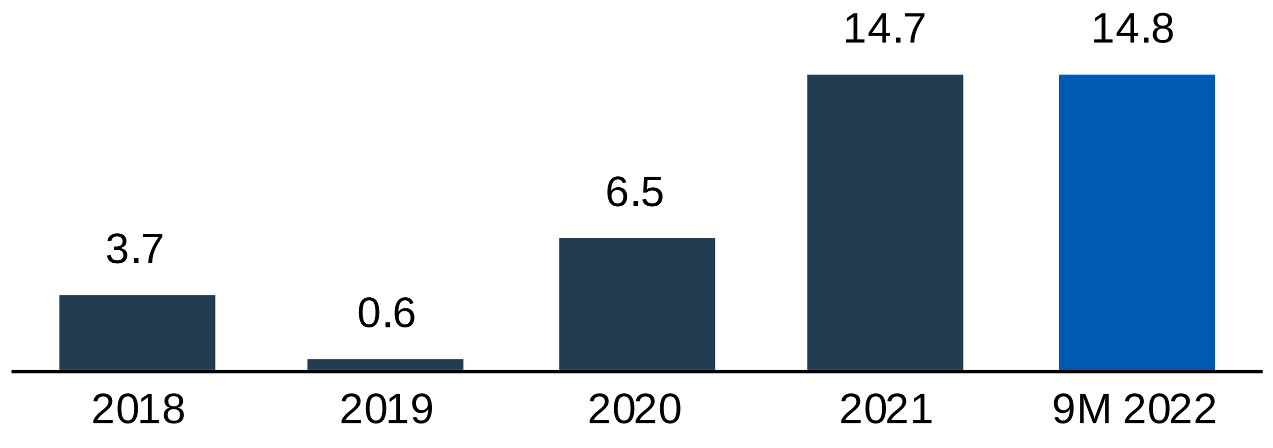




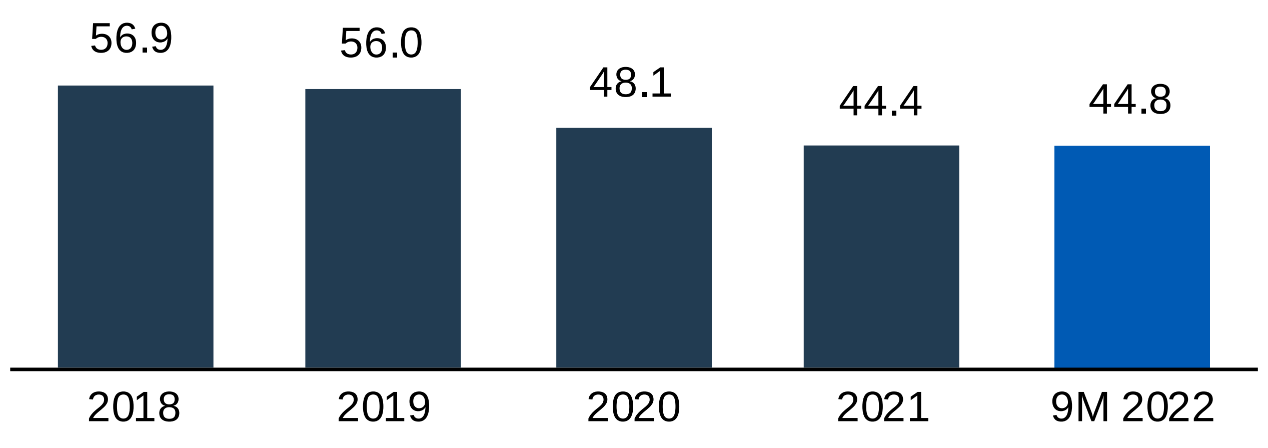


Key financial indicators - annual

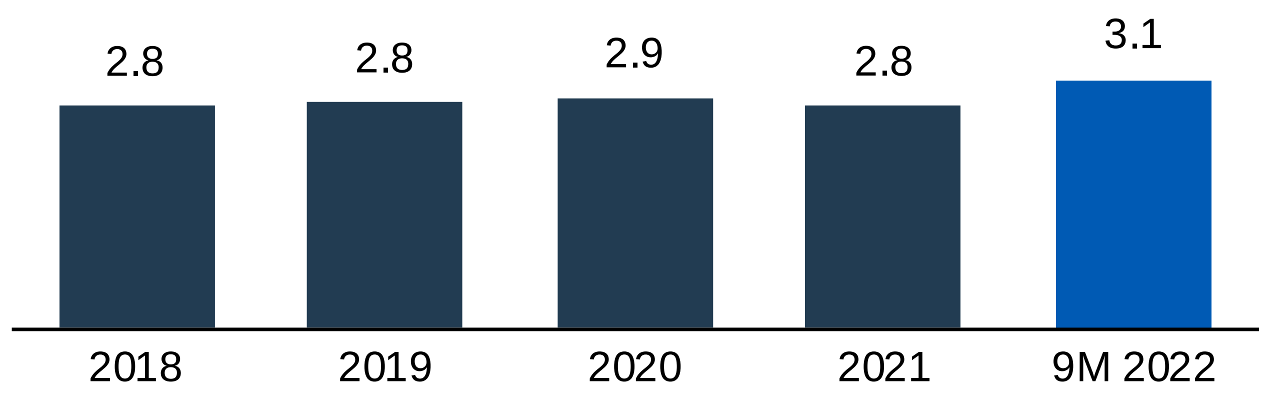
Return on equity (%)



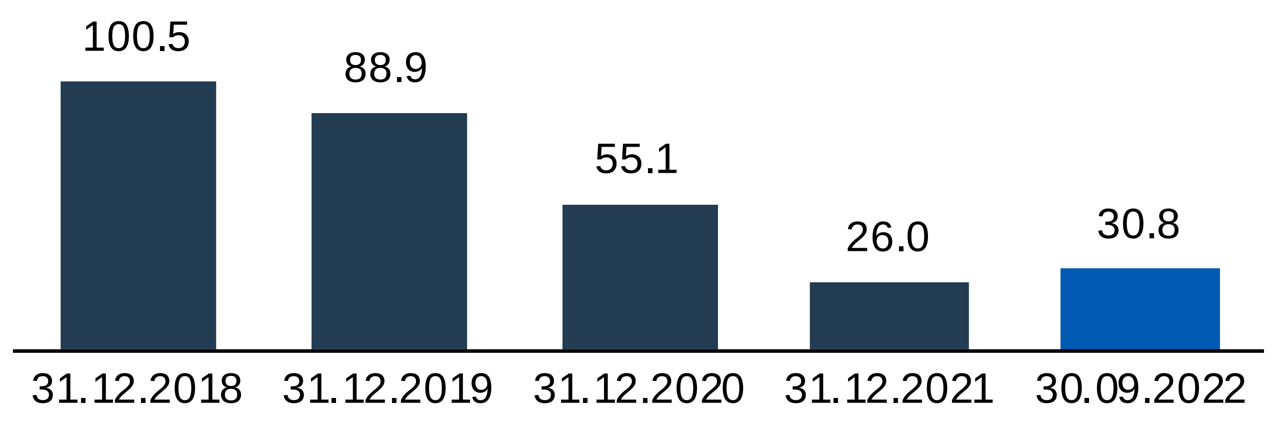
Cost-to-income ratio (%)



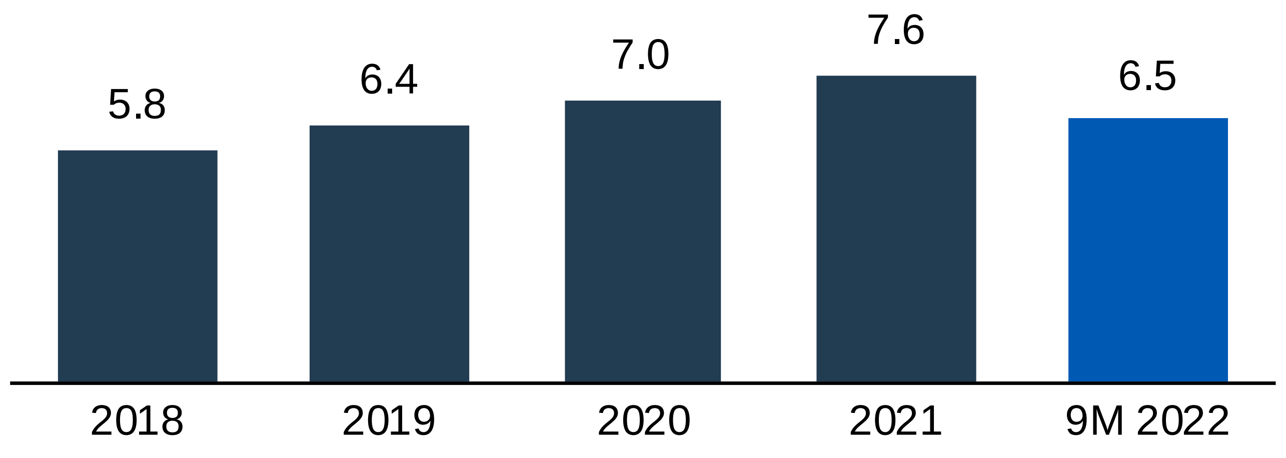
Net interest margin (%)



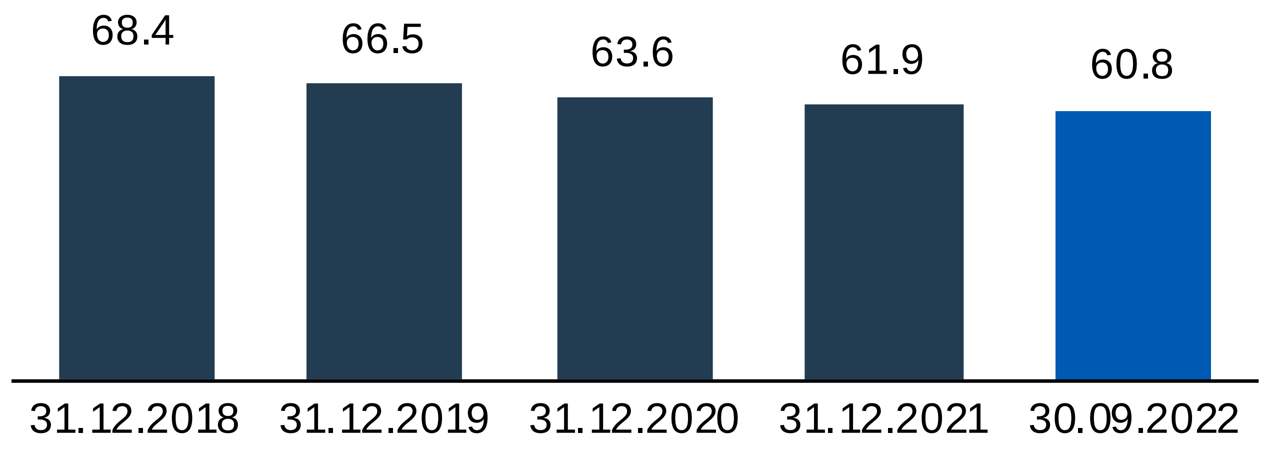
CPI imbalance (ISK bn)



Operating income / REA (%)



Risk exposure amount / Total assets (%)



Key figures

Operations	9M 2022	9M 2021	9M 2020	9M 2019	9M 2018	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Net interest income	29,753	23,295	23,099	22,624	21,350	10,421	9,804	9,528	8,768	7,937
Net commission income	12,093	10,594	8,526	7,335	7,603	4,002	4,539	3,552	4,079	3,755
Operating income	41,658	42,991	36,051	36,272	35,219	13,884	13,260	14,514	15,234	14,890
Operating expenses	18,660	18,008	17,834	20,420	19,679	5,810	6,649	6,201	7,867	5,588
Net earnings	20,393	22,093	6,710	3,874	6,160	4,863	9,712	5,818	6,522	8,238
Return on equity	14.8%	15.2%	4.7%	2.6%	3.9%	10.5%	21.8%	12.7%	13.4%	17.0%
Net interest margin	3.1%	2.7%	2.9%	2.7%	2.7%	3.2%	3.1%	3.1%	2.8%	2.7%
Return on assets	2.0%	2.4%	0.8%	0.4%	0.7%	1.4%	2.9%	1.8%	2.0%	2.6%
Cost-to-income ratio	44.8%	41.9%	49.5%	56.3%	55.9%	41.8%	50.1%	42.7%	51.6%	37.5%
Cost-to-total assets	1.8%	2.0%	2.0%	2.3%	2.2%	1.7%	2.0%	1.9%	2.4%	1.7%

Balance Sheet	30.09.2022	31.12.2021	31.12.2020	31.12.2019	31.12.2018	30.09.2022	30.06.2022	31.03.2022	31.12.2021	30.09.2021
Total assets	1,427,886	1,313,864	1,172,706	1,081,854	1,164,326	1,427,886	1,383,362	1,341,014	1,313,864	1,346,092
Loans to customers	1,045,152	936,237	822,941	773,955	833,826	1,045,152	1,010,666	976,383	936,237	896,940
Mortgages	562,617	504,877	409,641	333,406	365,820	562,617	536,610	515,760	504,877	483,514
Share of stage 3 loans, gross	1.4%	1.9%	2.6%	2.7%	2.6%	1.4%	1.4%	1.6%	1.9%	2.6%
REA/ Total assets	60.8%	61.9%	63.6%	66.5%	68.4%	60.8%	117.4%	64.9%	61.9%	58.0%
CET 1 ratio	19.3%	19.6%	22.3%	21.2%	21.2%	19.3%	19.7%	18.6%	19.6%	20.9%
Leverage ratio	12.0%	12.7%	15.1%	14.1%	14.2%	12.0%	12.7%	12.5%	12.7%	12.4%
Liquidity coverage ratio	189.3%	202.8%	188.5%	188.3%	164.4%	189.3%	163.2%	195.4%	202.8%	221.0%
Loans to deposits ratio	141.2%	142.8%	144.8%	157.0%	178.9%	141.2%	139.0%	143.6%	142.8%	139.9%

All amounts in ISK m

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