Investor Presentation

May 2023

Arion Bank

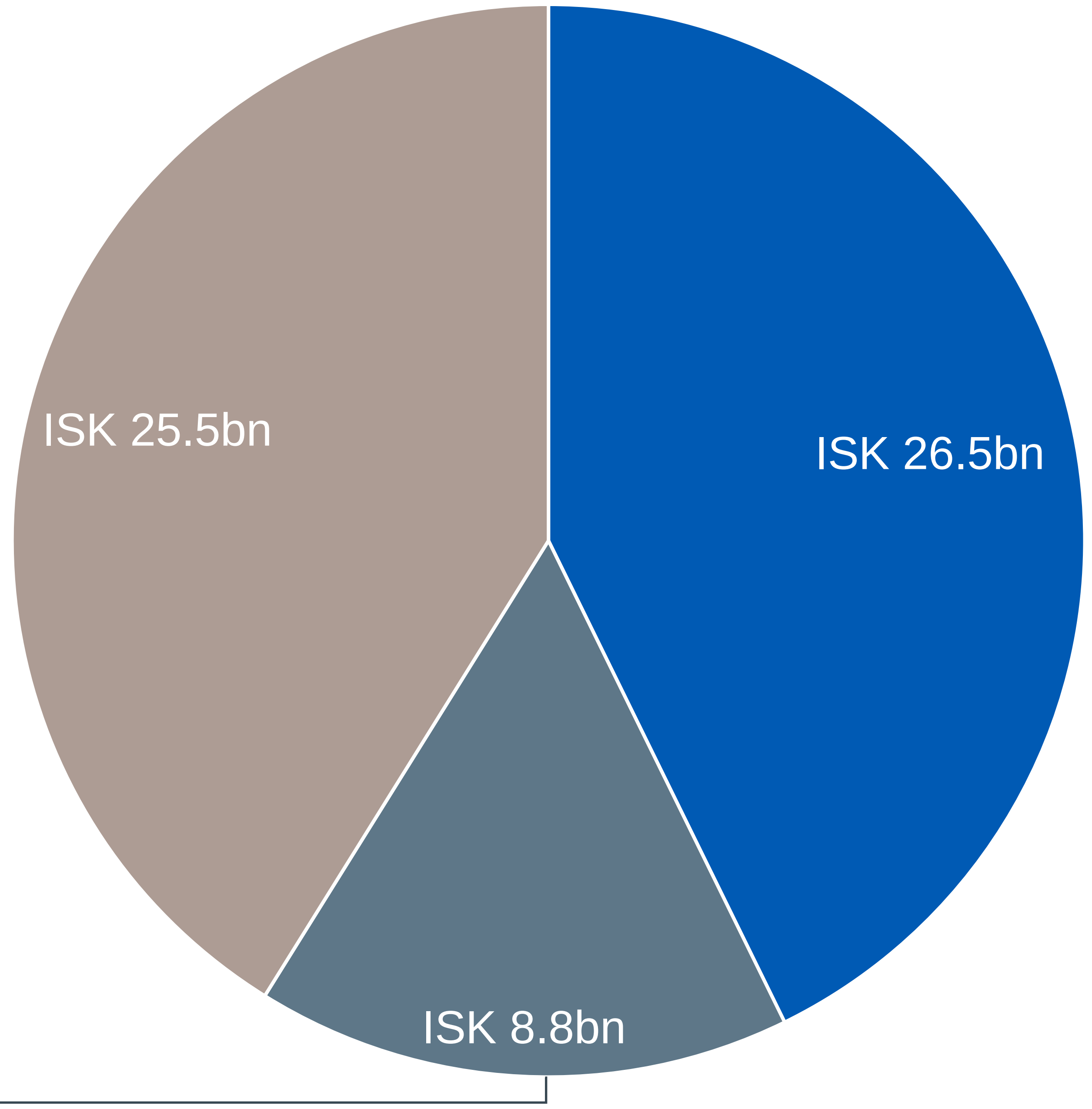
Arion Bank at a glance

Diversified financial institution in Iceland with strong market position

Retail Banking
(including insurance)

- Comprehensive financial services to individuals
- Around one-third market share in Iceland
- Large provider of residential mortgages in Iceland
- Domestic digital leader in retail banking with focus on customer experience
  - First to introduce fully digitalized credit assessment for mortgages, car loans in 5 minutes, awarded for the best banking app in Iceland for the last 6 years and offers premium services for affluent clients
  - 71% of core products sold digitally in 2022
- Insurance service to retail customers

Operating income 2022 (ISKbn)



Corporate & Investment Banking
(including insurance)

- Corporate banking, advisory and insurance service to corporate customers
- Partner to large corporates and SMEs in Iceland and internationally
  in the Arctic region
  - Arctic loan book has more than doubled in the last two years
- Leader in credit origination, using own balance sheet, private and capital markets, for clients. Significant growth in managed products
- Advised and managed 75% of public equity offerings in 2022 and preferred advisor in private transactions

Markets and STEFNIR

- Arion Bank the largest asset manager in the Icelandic market with EUR 8.8bn in assets under management – estimated around 40% of estimated domestic GDP 2022
- Emphasis on institutional investors and high net worth clients
- Capital Markets had the highest market share in the domestic market, both in equities and bonds
- Stefnir Funds is among largest fund management companies in Iceland with a variety of domestic and international assets under management

Strategic focus

- Increase market share in target client segments
- Enhance business we do with our clients by cross-selling products and services from the group and partners
- Enhance overall customer journey through:
  - Efficient and targeted customer acquisition
  - Increased customer engagement
  - Optimized monetization
  - Loyalty

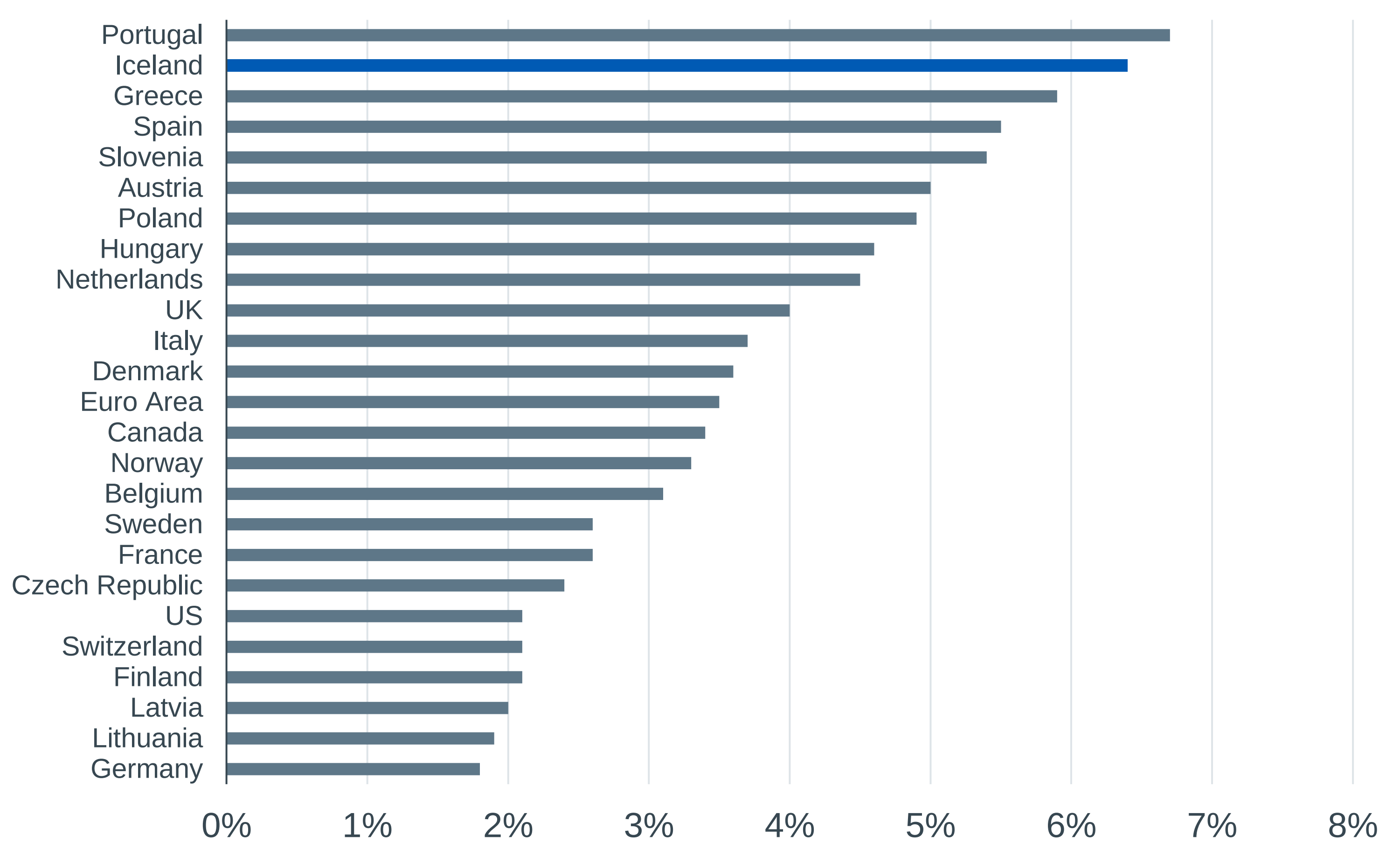
Insurance vörður
Insurance premium 2022: ISK 15.6bn

- Fastest growing insurance company in Iceland - around 18.2% market share
- Around 65,000 customers
- Full range of insurance products and services
- Continued focus on a fully integrated bancassurance model with the Bank
  - Bancassurance ratio at YE 2022:
    Individuals 33.7%
    Corporates 22.9%

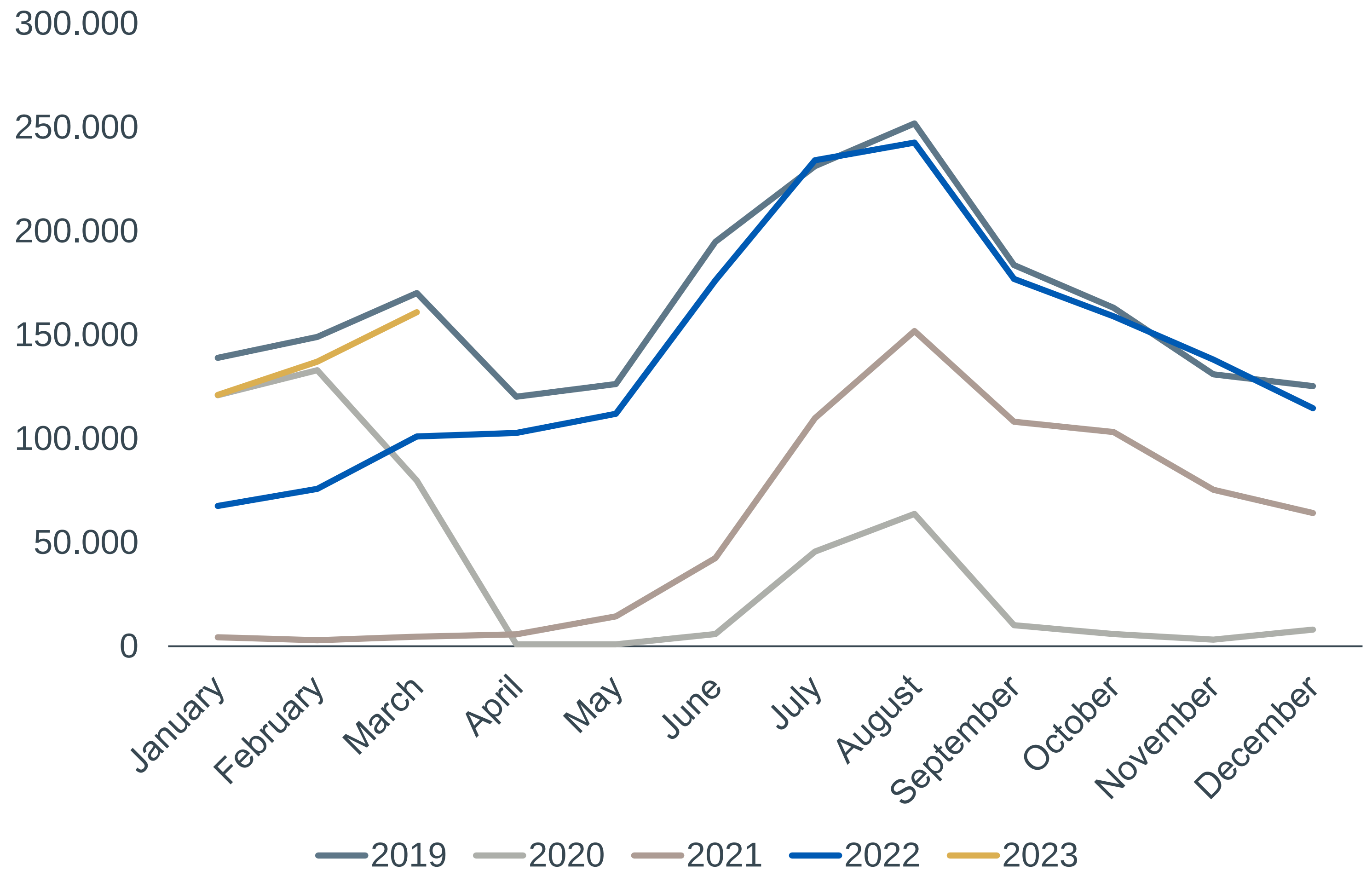
Strong GDP growth amid global turbulence

GDP increased by 6.4% in 2022, a result that was in line with Arion Bank's expectations. Growth was driven by exports, namely increased growth in tourism, and record-breaking private consumption. With tourism regaining its former strength, the current account finished the year smaller than expected, despite robust economic activity as reflected in a significant trade deficit.

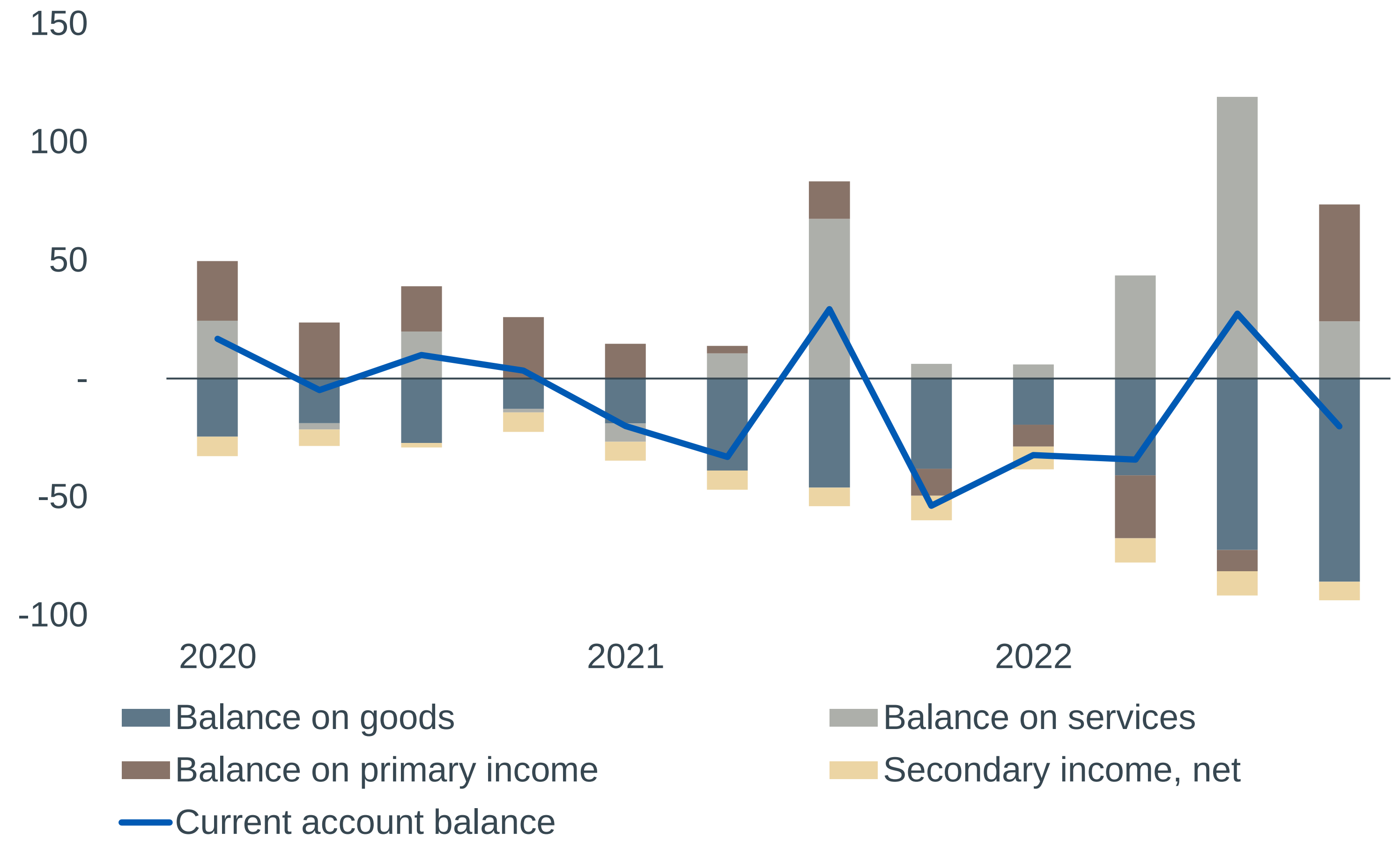
GDP growth in 2022
- YoY %-change



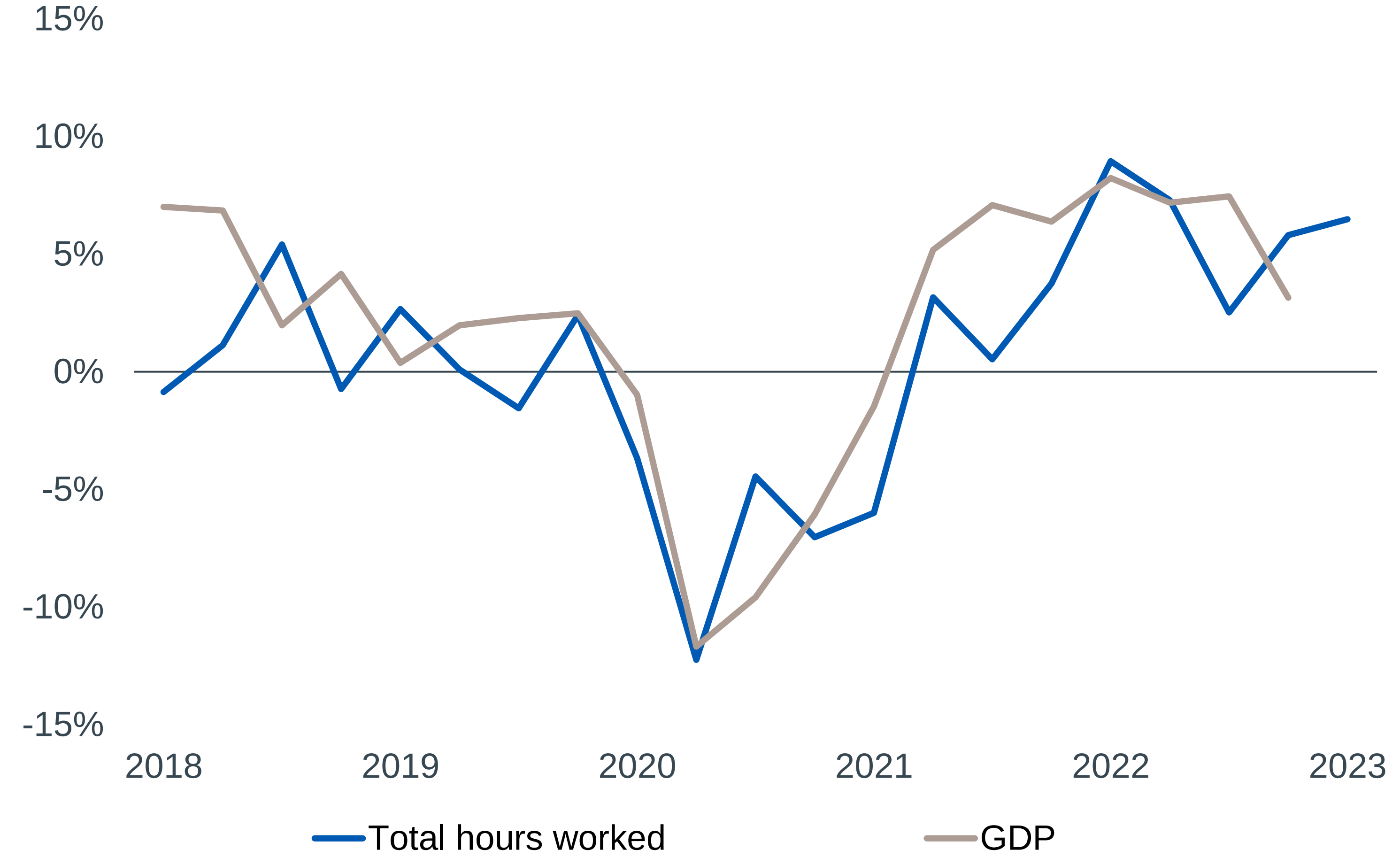
Tourist arrivals via Keflavík International Airport



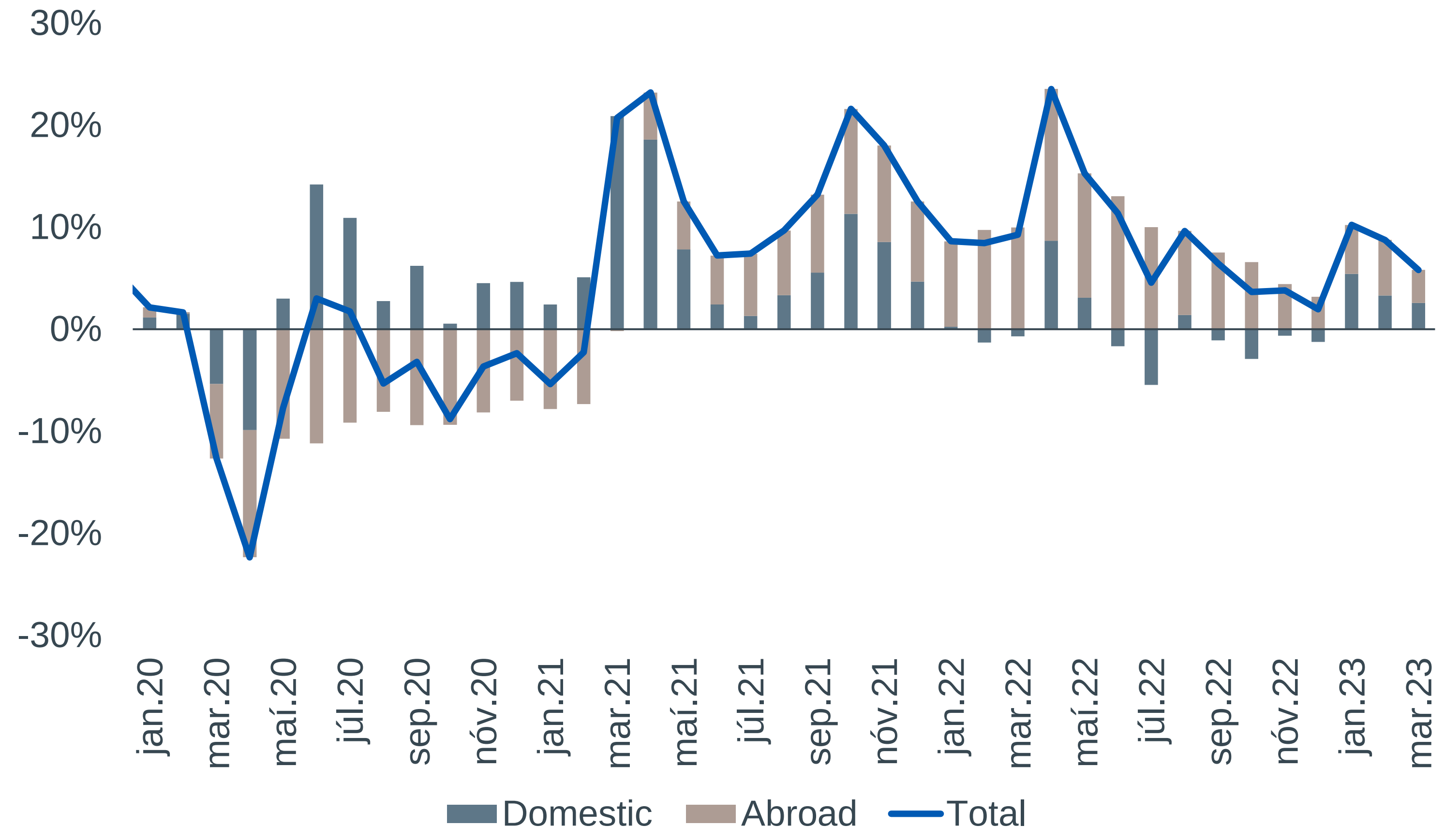
Current account balance
- bn. ISK at constant exchange rate,



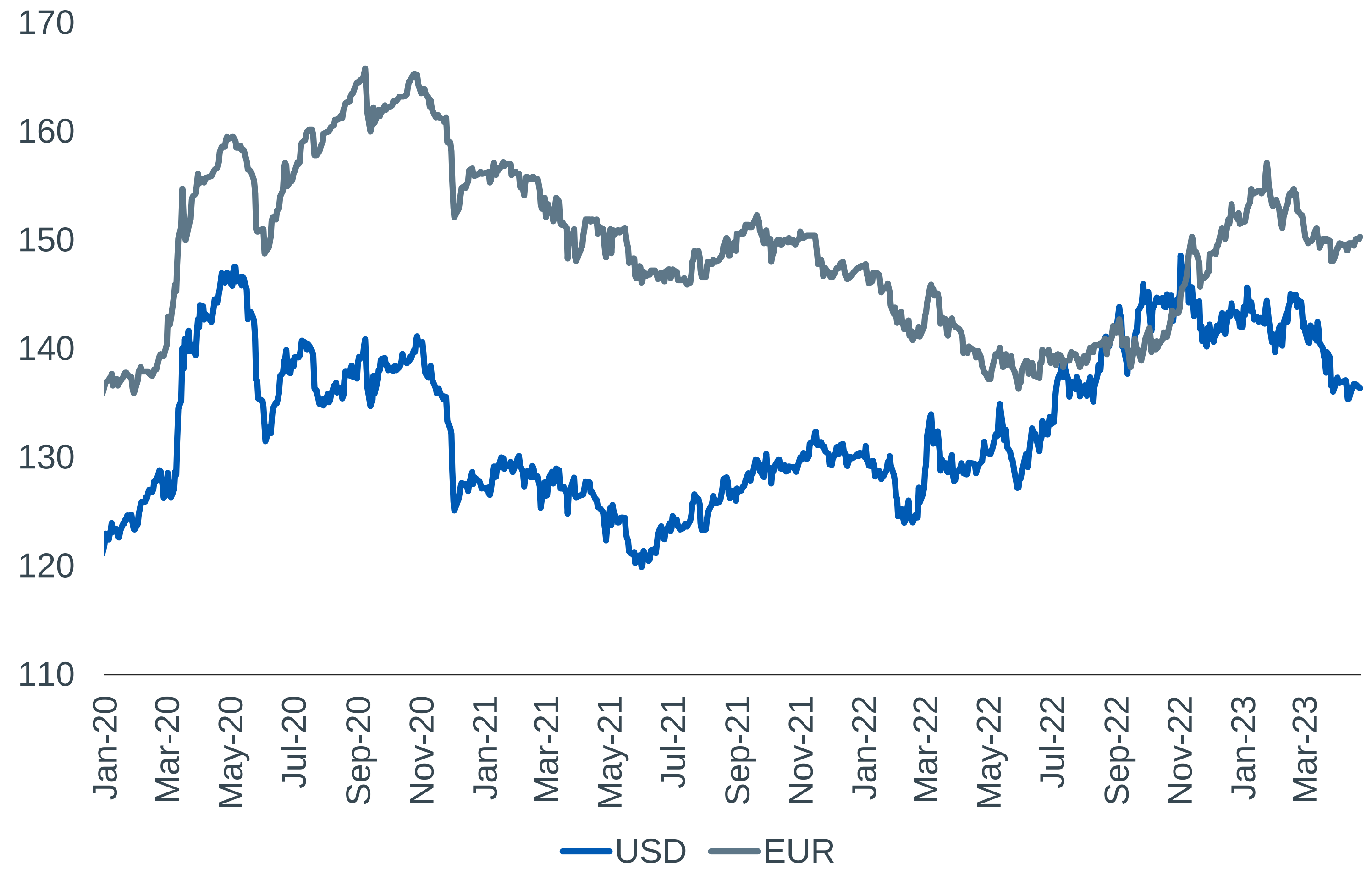
Employment and GDP
- YoY growth



Payment card turnover
- YoY growth, growth contributions of underlying components



The ISK against major trade currencies

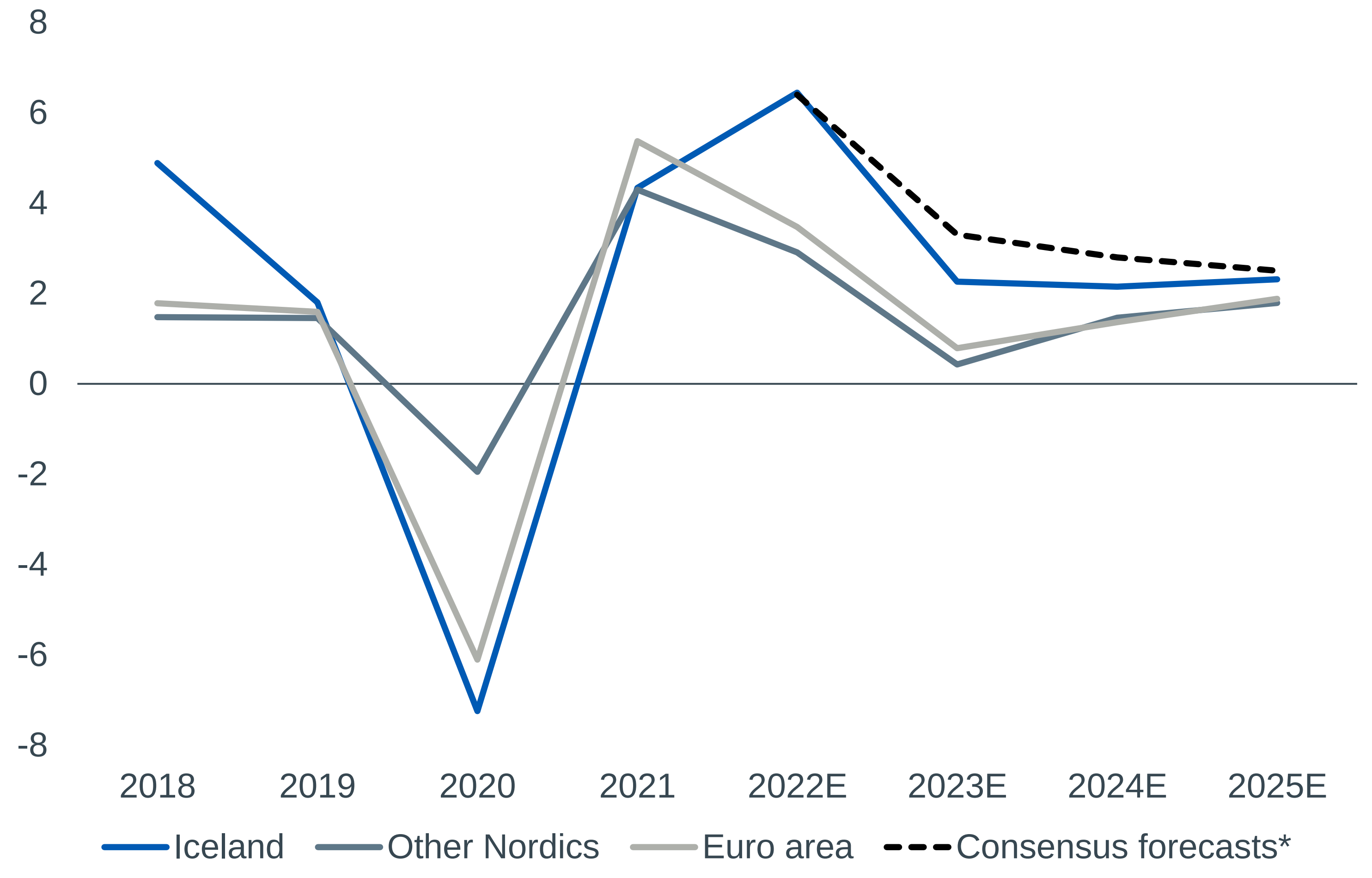


Sources: Eurostat, Statistics Iceland, Central Bank of Iceland, Icelandic Tourist Board, Arion Research

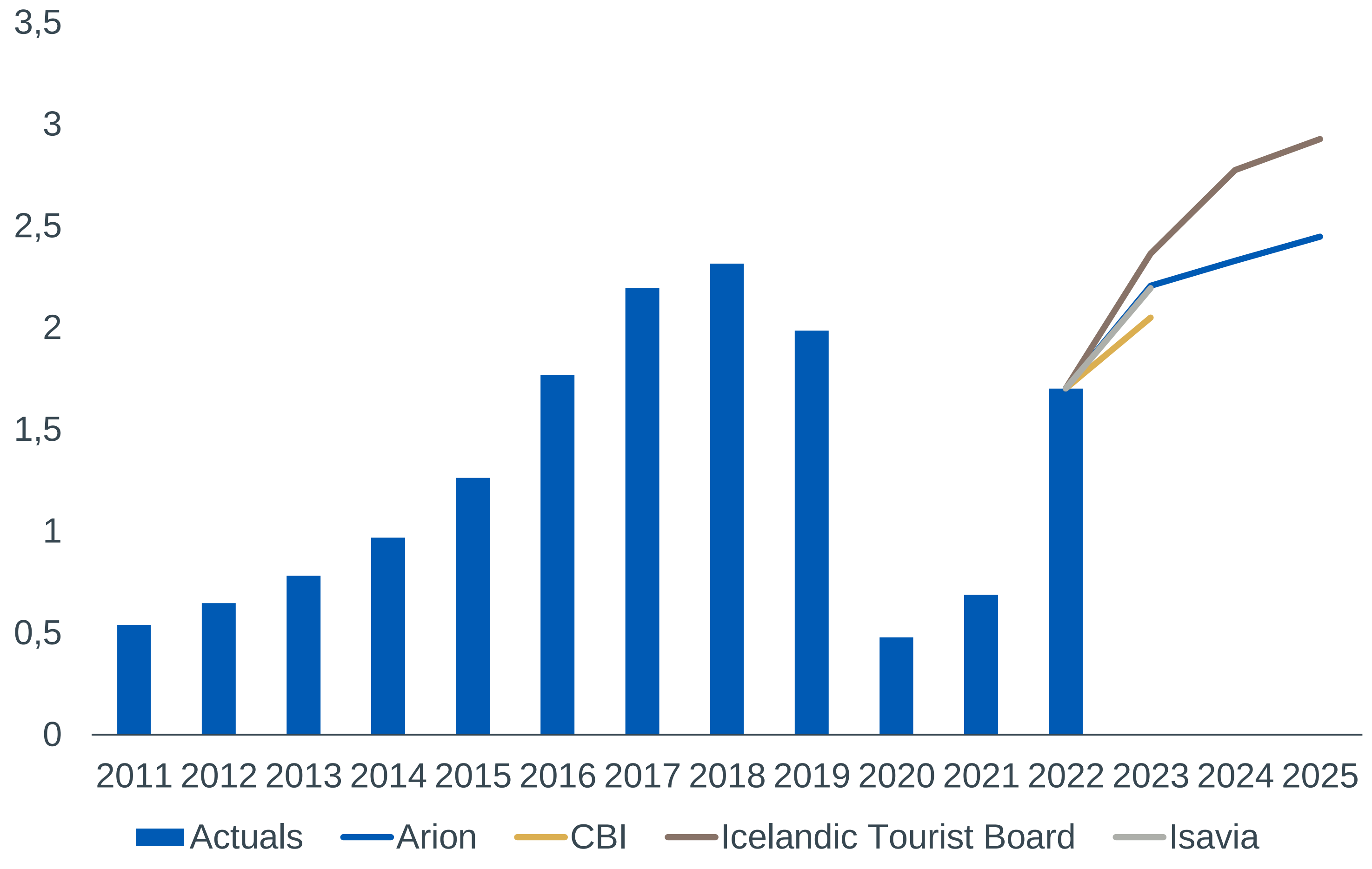
Outpacing our main trading partners

- The Icelandic economy is set for strong growth in 2023, despite the rocky global recovery.
- The IMF expects Iceland to have one of the highest GDP growth rates in advanced Europe in 2023. Domestic analysts are even more optimistic, with the consensus at 3.3% GDP growth in 2023.
- Growth will be driven by exports, mainly tourism, and household consumption, which started the year strongly.
- The payment card turnover of Icelandic consumers increased by 8% between years in Q1, adjusted for inflation and exchange rate fluctuations, partly due to substantial wage increases in the private market and significant household savings.
- Tourism is well on its way to reaching previous heights, with tourist arrivals in Q1 reaching 91% of Q1 2019. Around 2.2 million tourists are expected to visit the country in 2023, a 30% increase YoY.

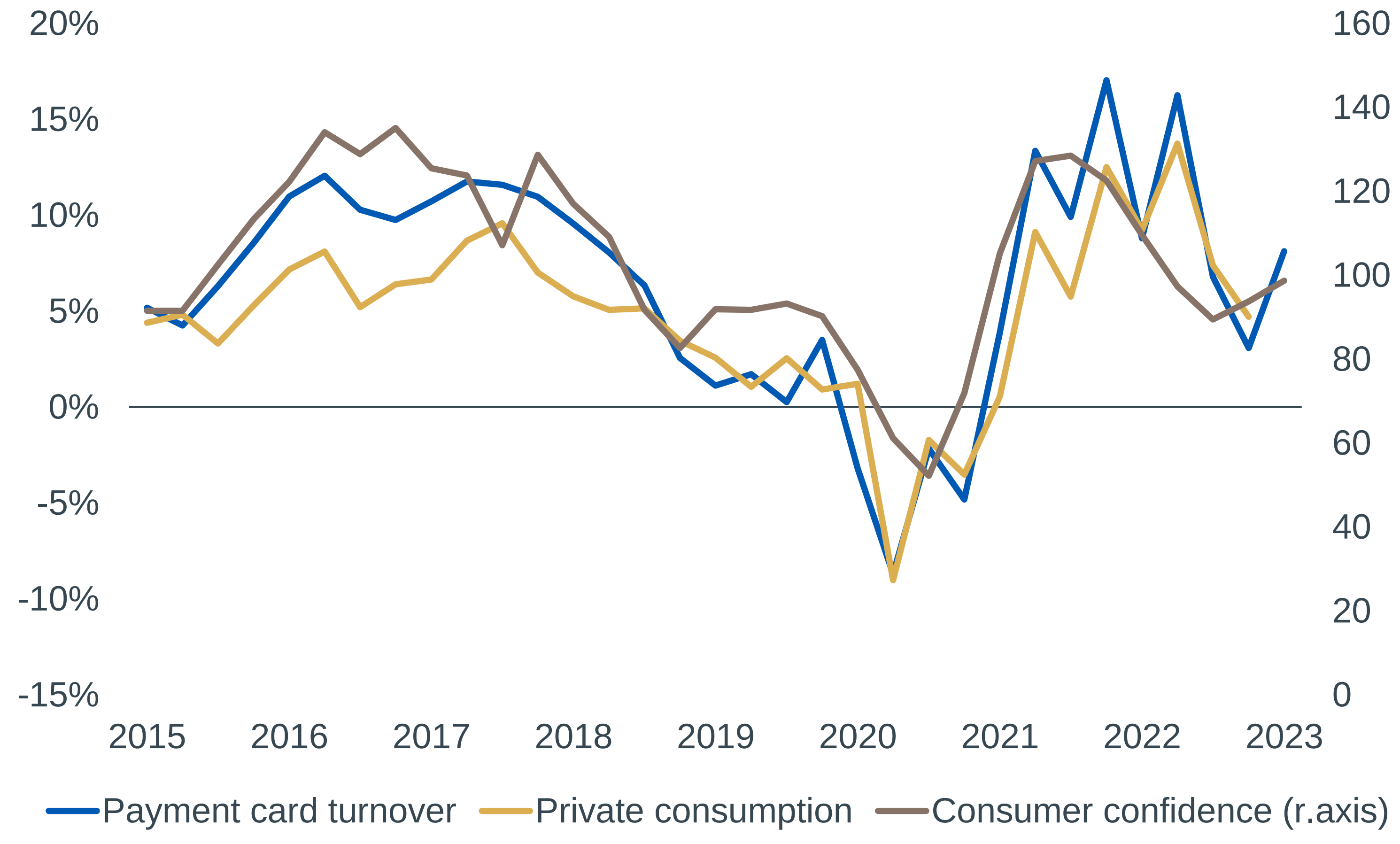
GDP growth
- IMF's forecast



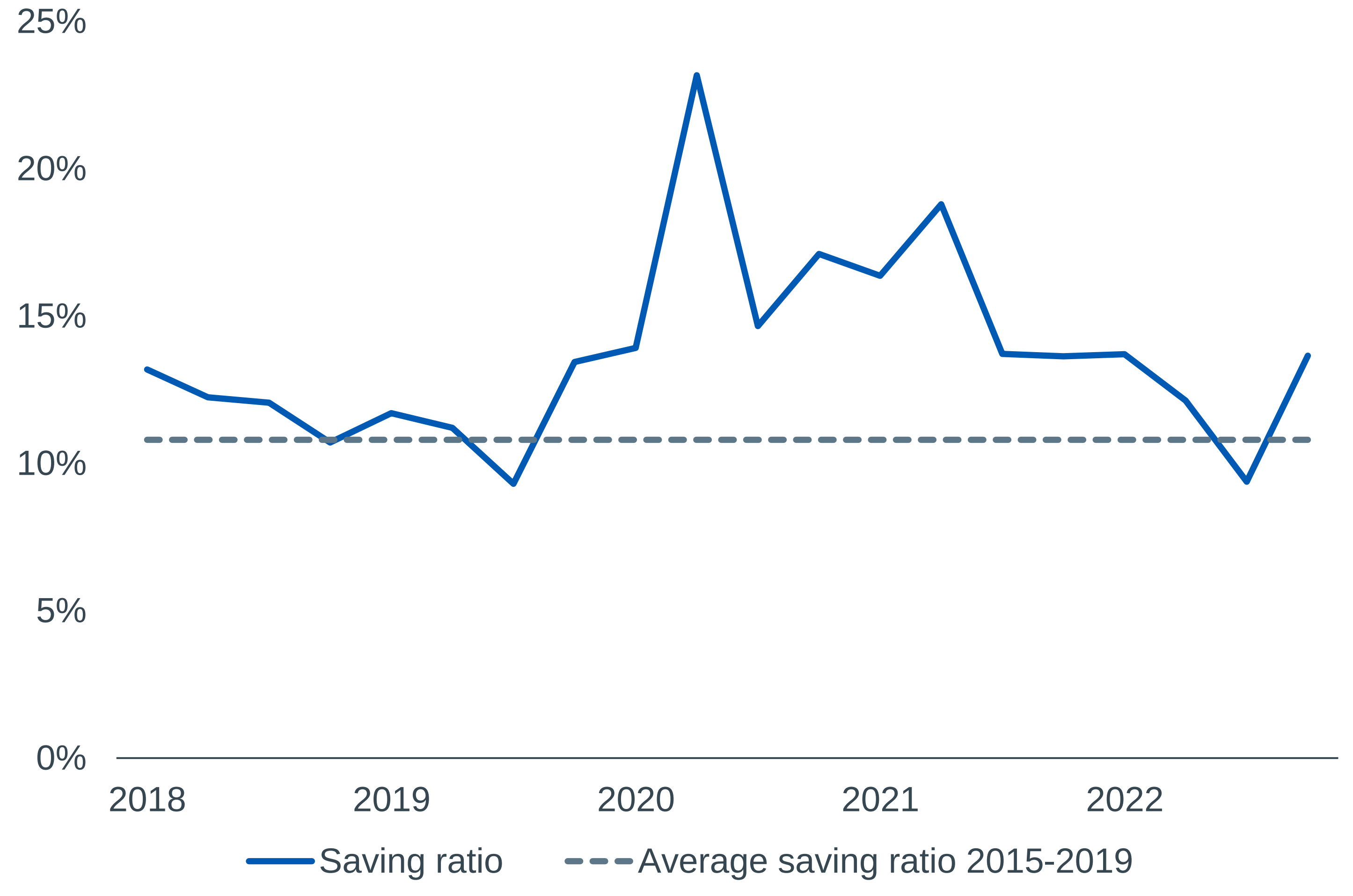
Tourist departures via Keflavik International Airport
- millions annually



Payment card turnover and private consumption
- quarterly data, YoY-% growth, constant prices/exchange rate



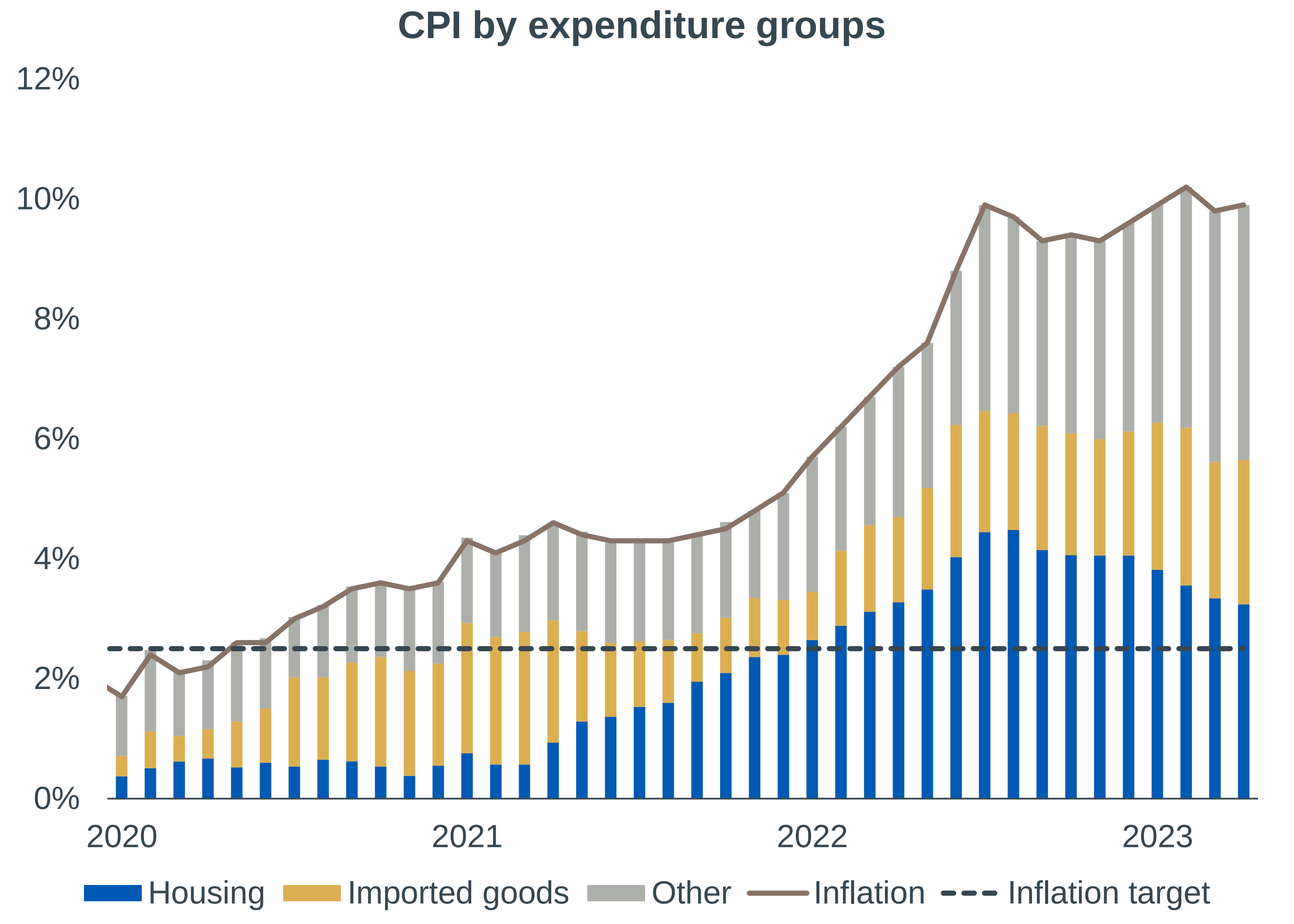
Household savings
- % of disposable income

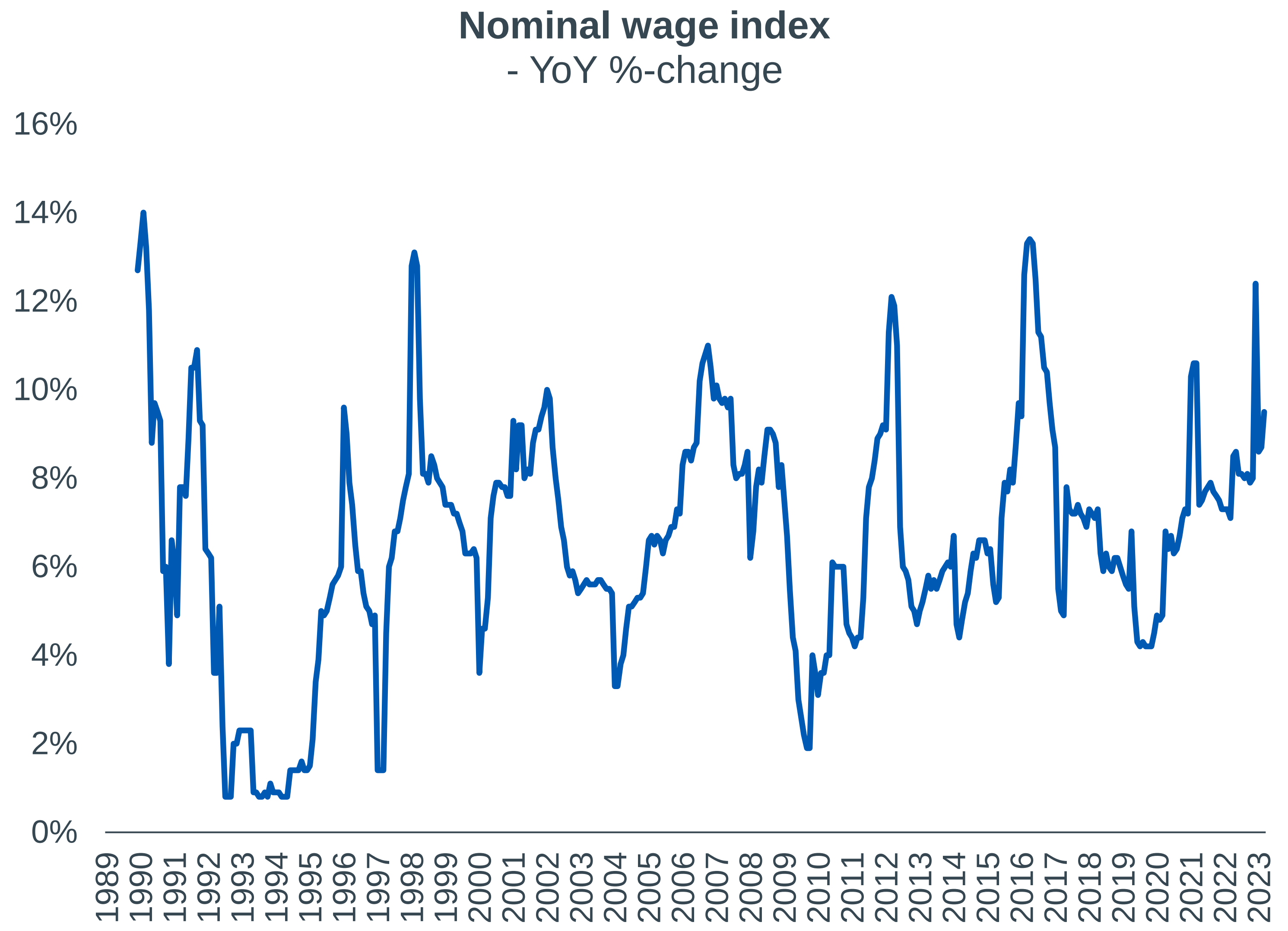


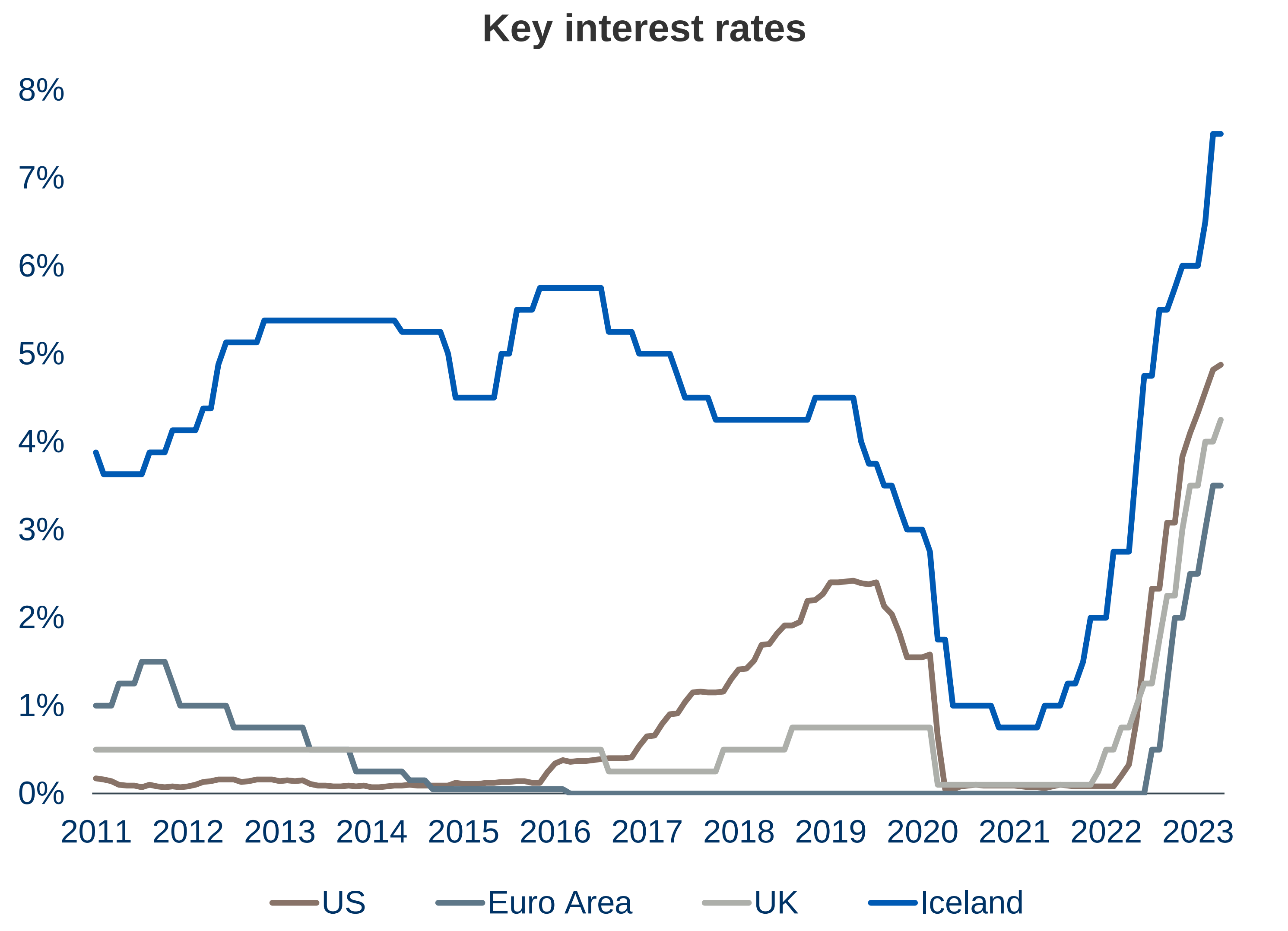
Sources: IMF, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, ISAVIA, Arion Research

Facing a familiar foe

- Inflation has proven to be much more persistent than expected and price increases are now widespread.
- Although the contribution of housing prices is still substantial, domestic goods and services have taken over as the main driving force behind inflation.
- Even though inflation is expected to subside in the coming months, inflationary pressures are still pronounced, particularly due to the new private sector wage agreements, which have been used as benchmarks for other agreements.
- Long-term inflation expectations are still rising on some measures and are well above the Central Bank's 2.5% inflation target.
- High inflation, fear over de-anchoring of inflation expectations, robust domestic demand and inflationary wage agreements compelled the Central Bank to raise rates by 150 bps in Q1. Further rate hikes are expected.





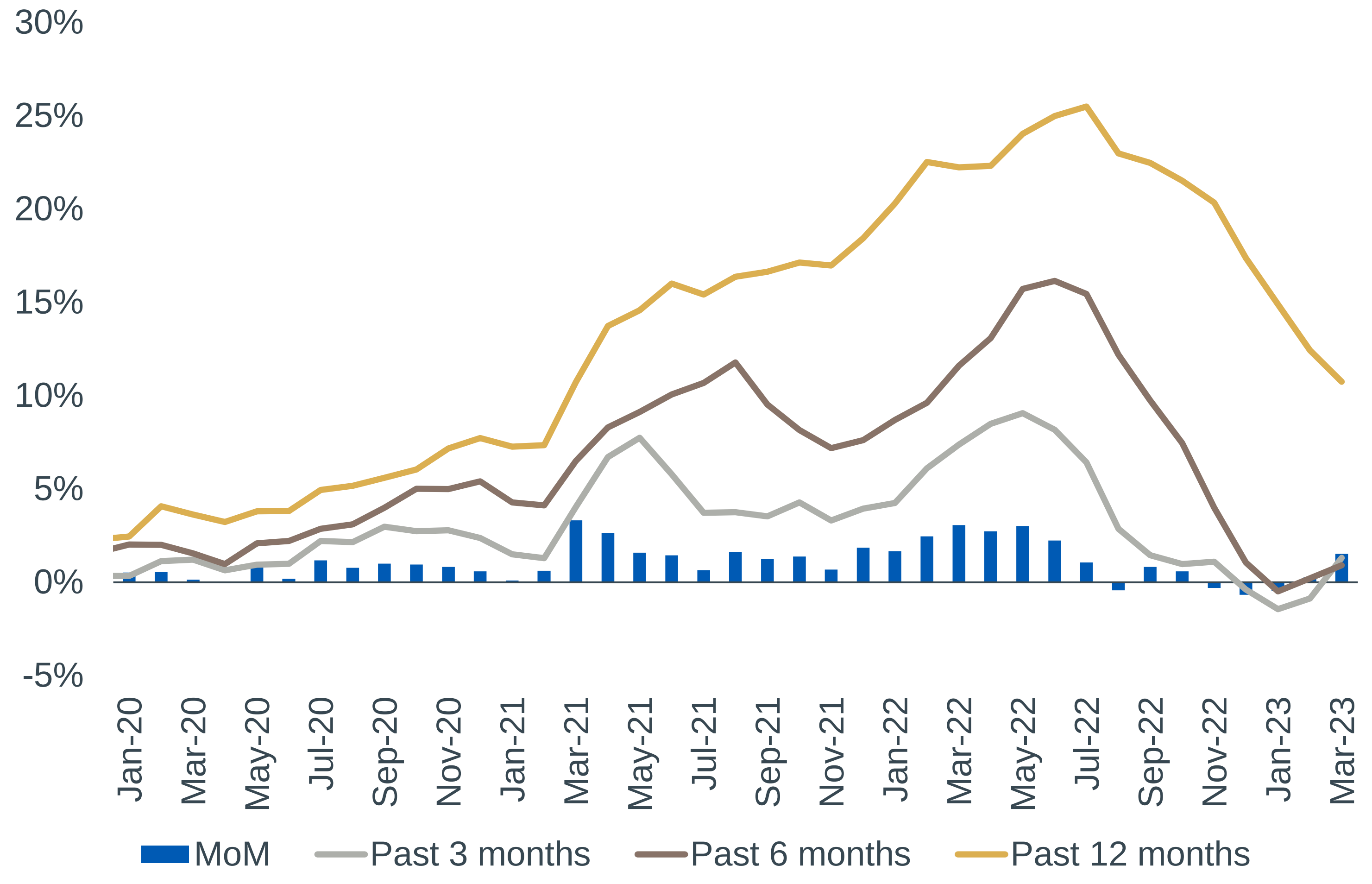


Sources: Statistics Iceland, Central Bank of Iceland, BoE, ECB, Federal Reserve, Arion Research

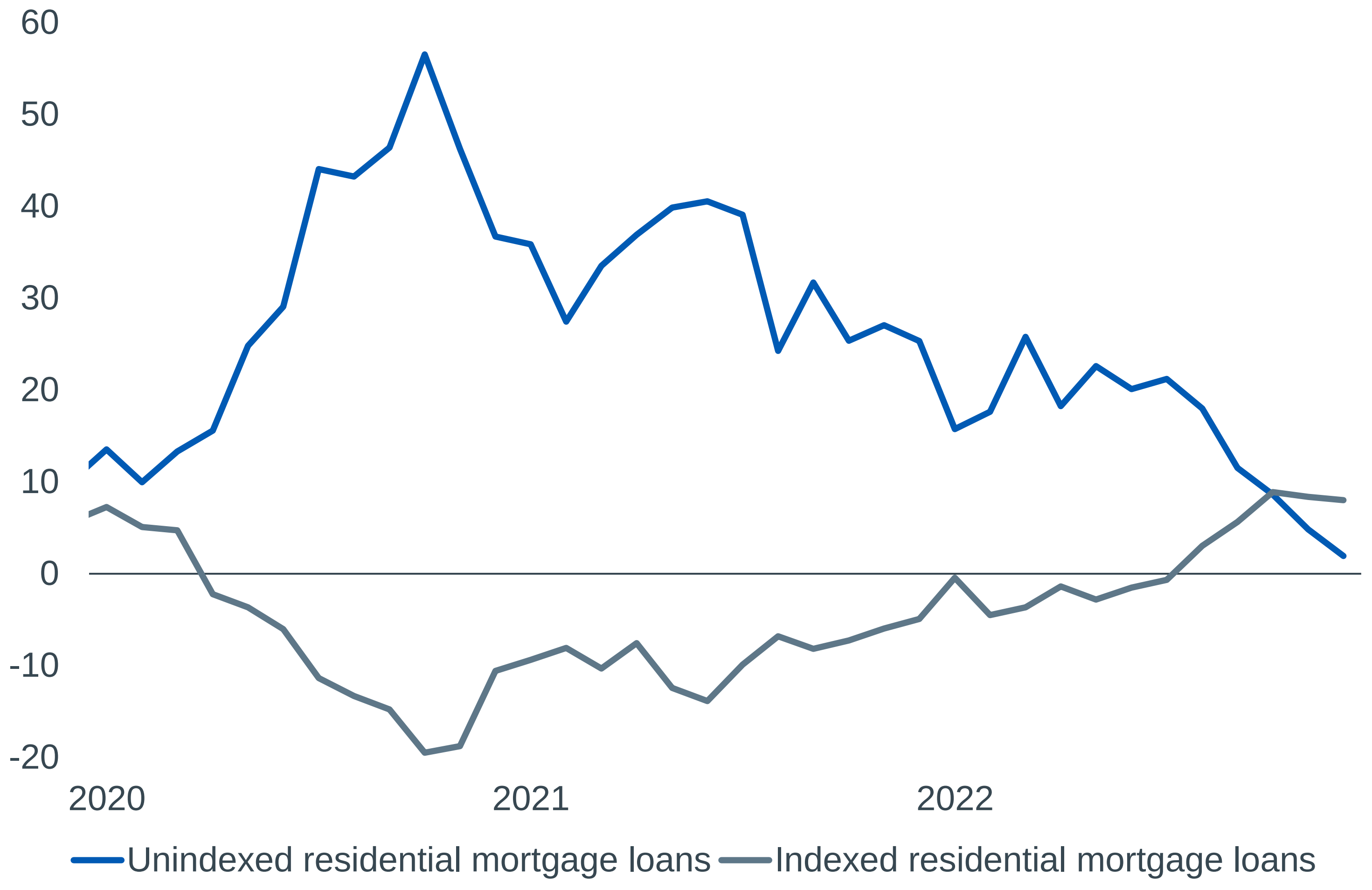
Cooling, not freezing

- The housing market is rapidly cooling, largely due to the Central Bank's actions. Not only has the Bank raised rates by 475 bps in the past twelve months, it has also implemented borrower-based measures.
- Still, the resilience of the housing market has come as a surprise to many, with the three-month price change turning positive again in March.
- One reason for the strong numbers could be the fact that households have responded to the rate hikes by increasingly moving to inflation-indexed mortgages, which have lower debt burden at the start of the credit period.
- Other important reason is population growth. In 2022 the population of Iceland increased by 3.1%, the largest increase since 1734 (as far back as the records go).
- Despite significant house price increases households' debt position has been developing favorably.

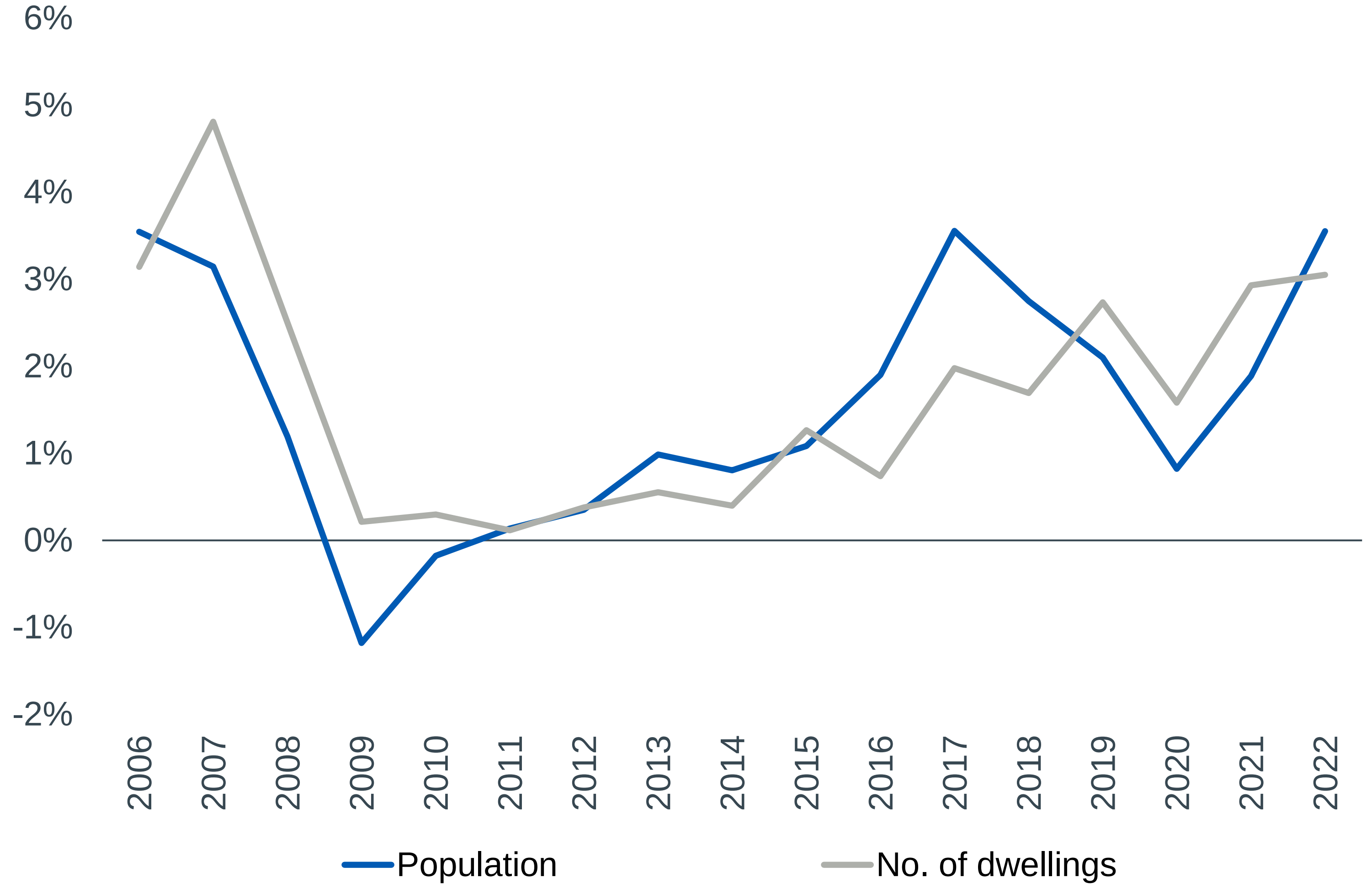
Housing price index in the Capital area
- % change



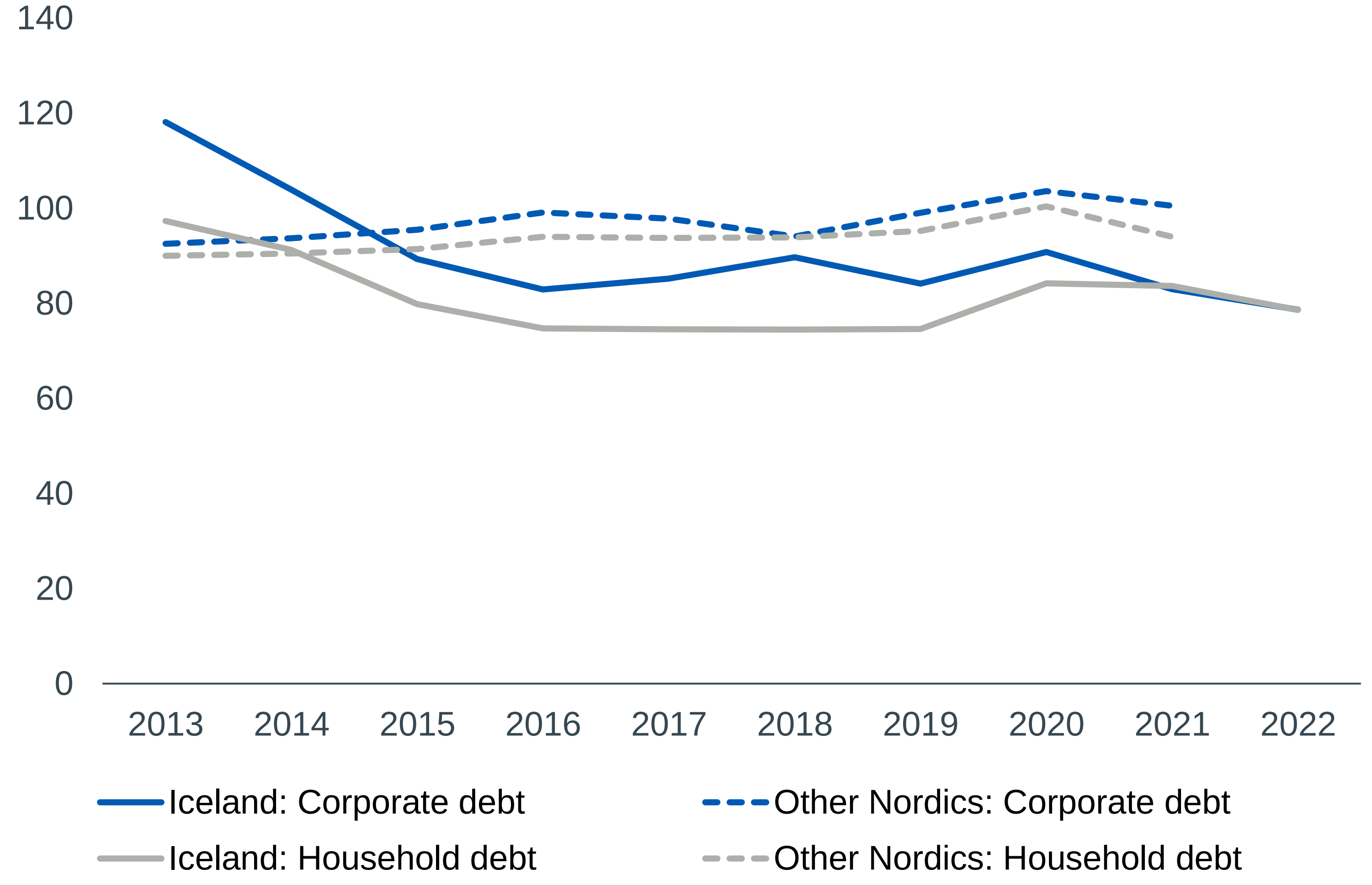
New mortgage loans less prepayments
- bn. ISK



Housing and population growth
- % change between years, 15-64 year old



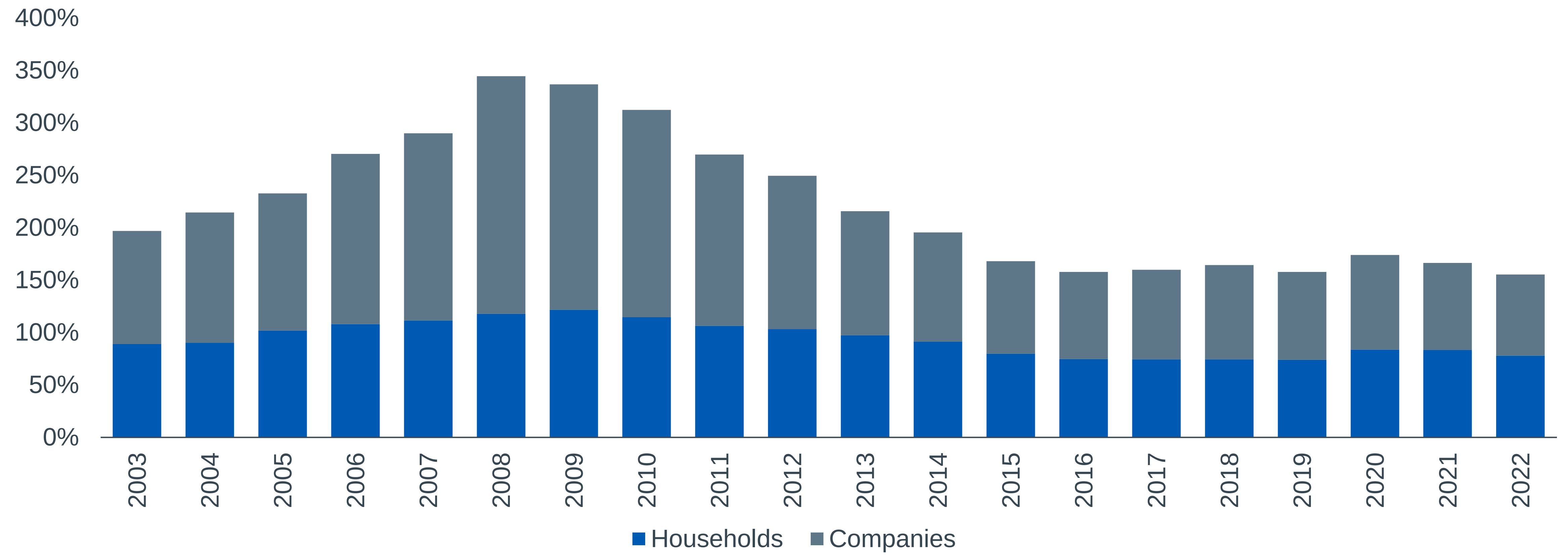
Private debt
-% of GDP



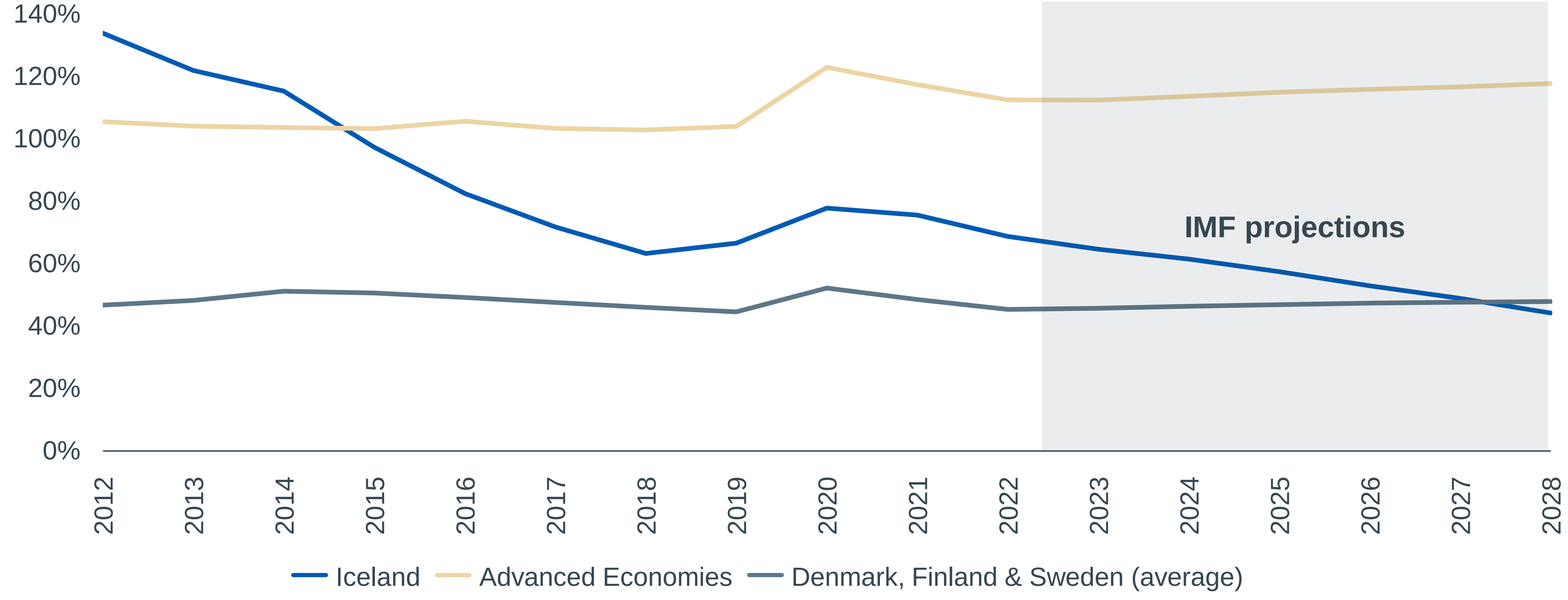
Sources: Central Bank of Iceland, Statistics Iceland, HMS, Arion Research

The economy is built on stronger foundations than before

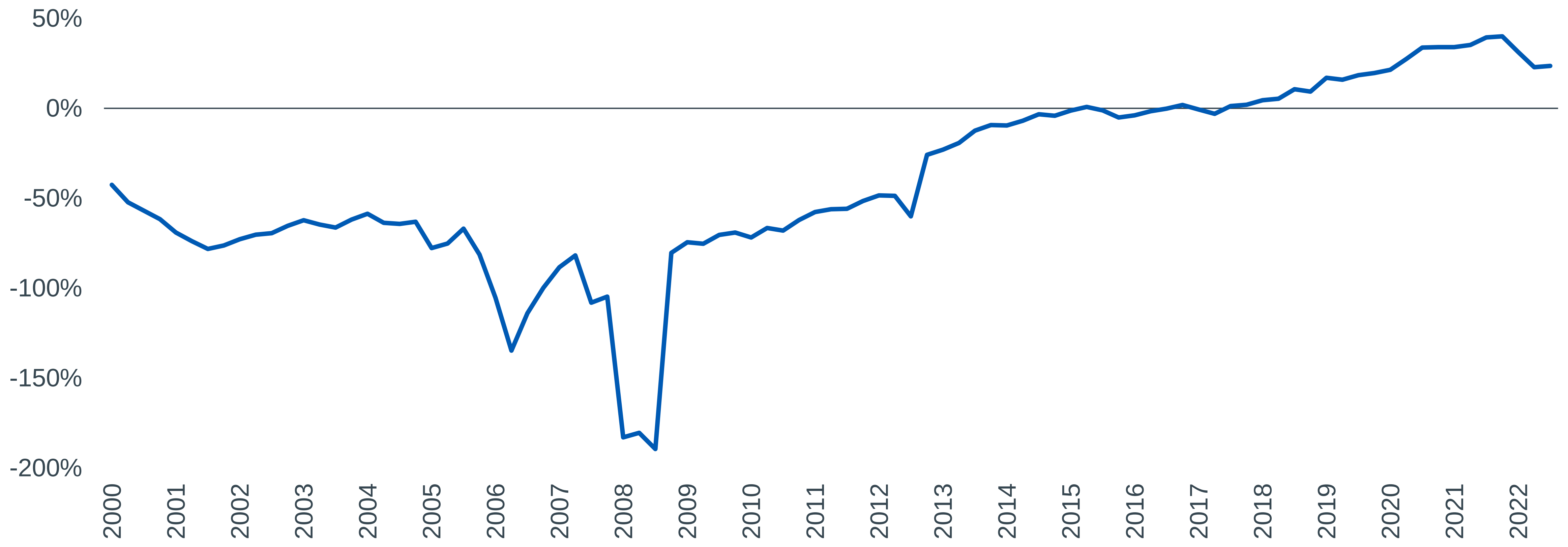
Household and non-financial corporate debt
- % of GDP



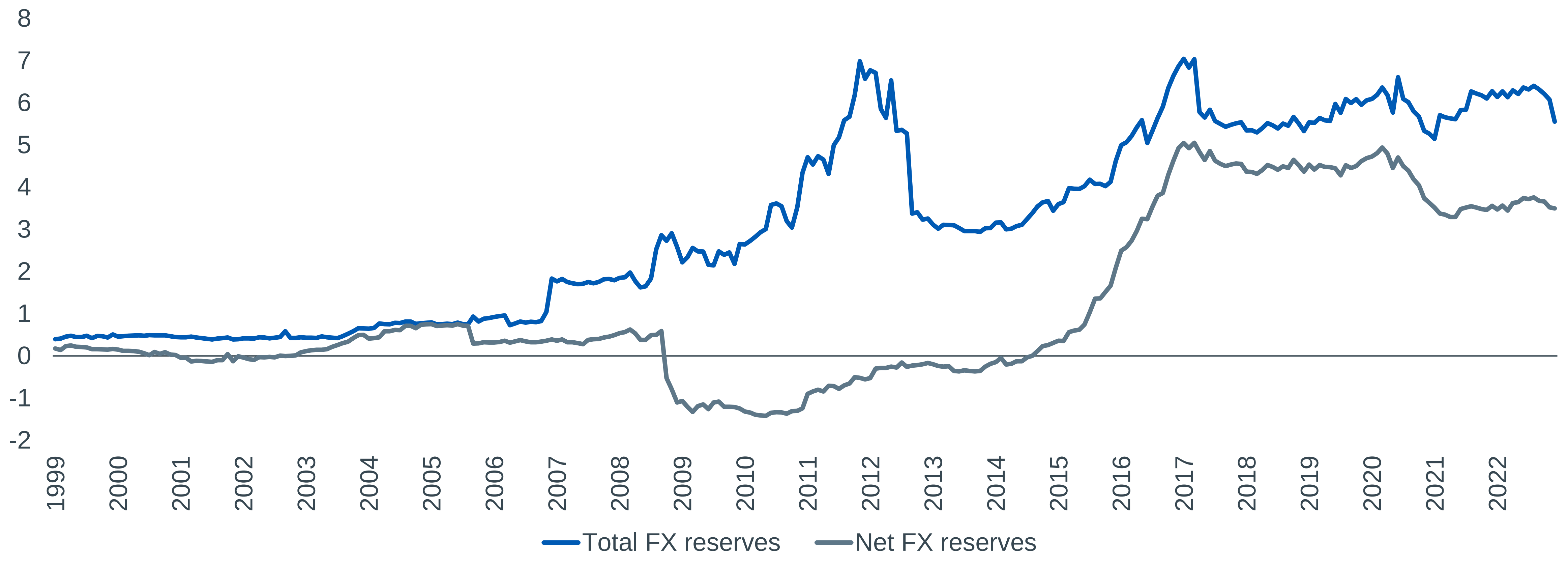
General government debt
- % of GDP



Net international investment position
- % of GDP



CBI's FX reserves
- bn. EUR

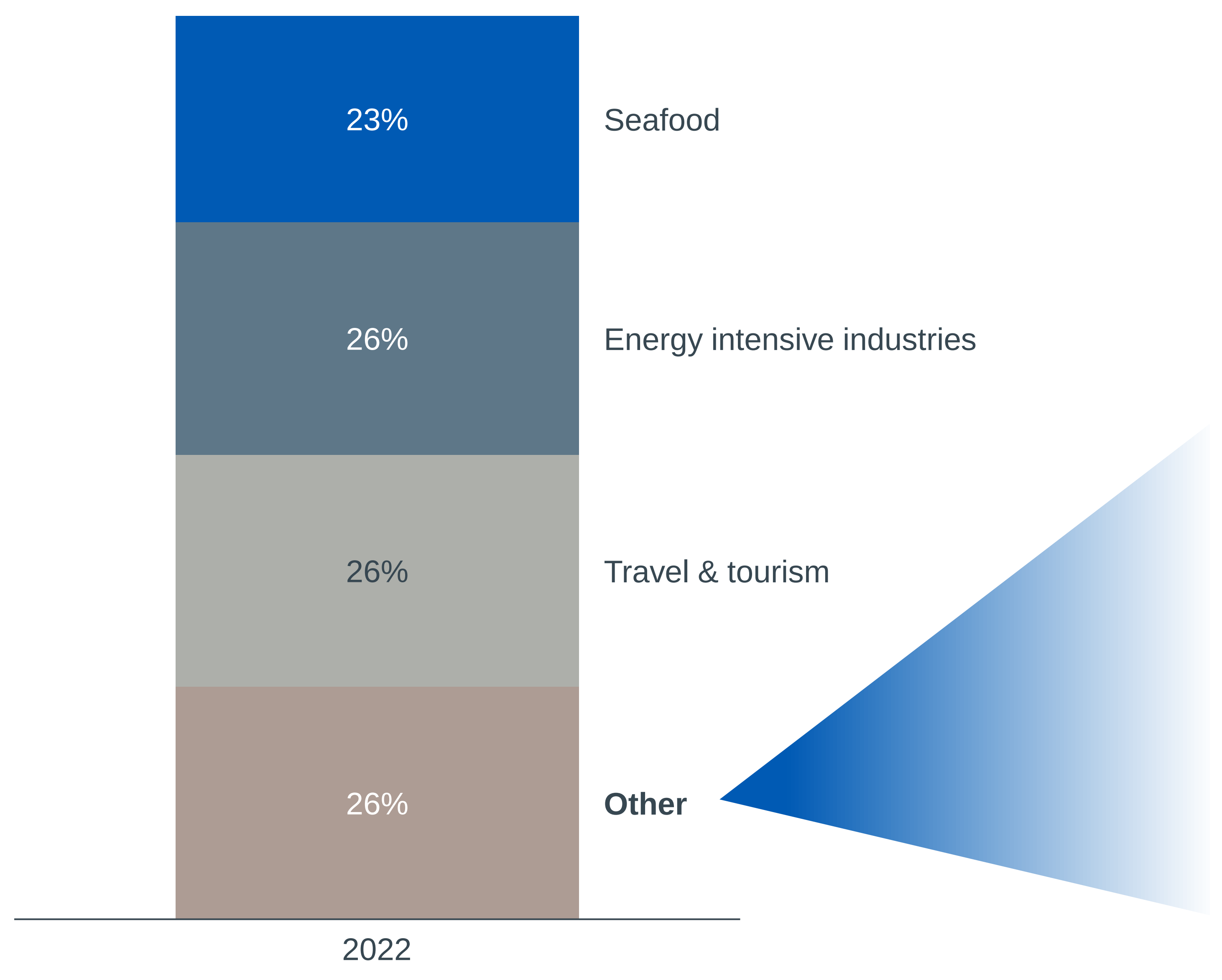


Sources: Central Bank of Iceland, Arion Research

We are confident about the economy’s ability to generate new exports

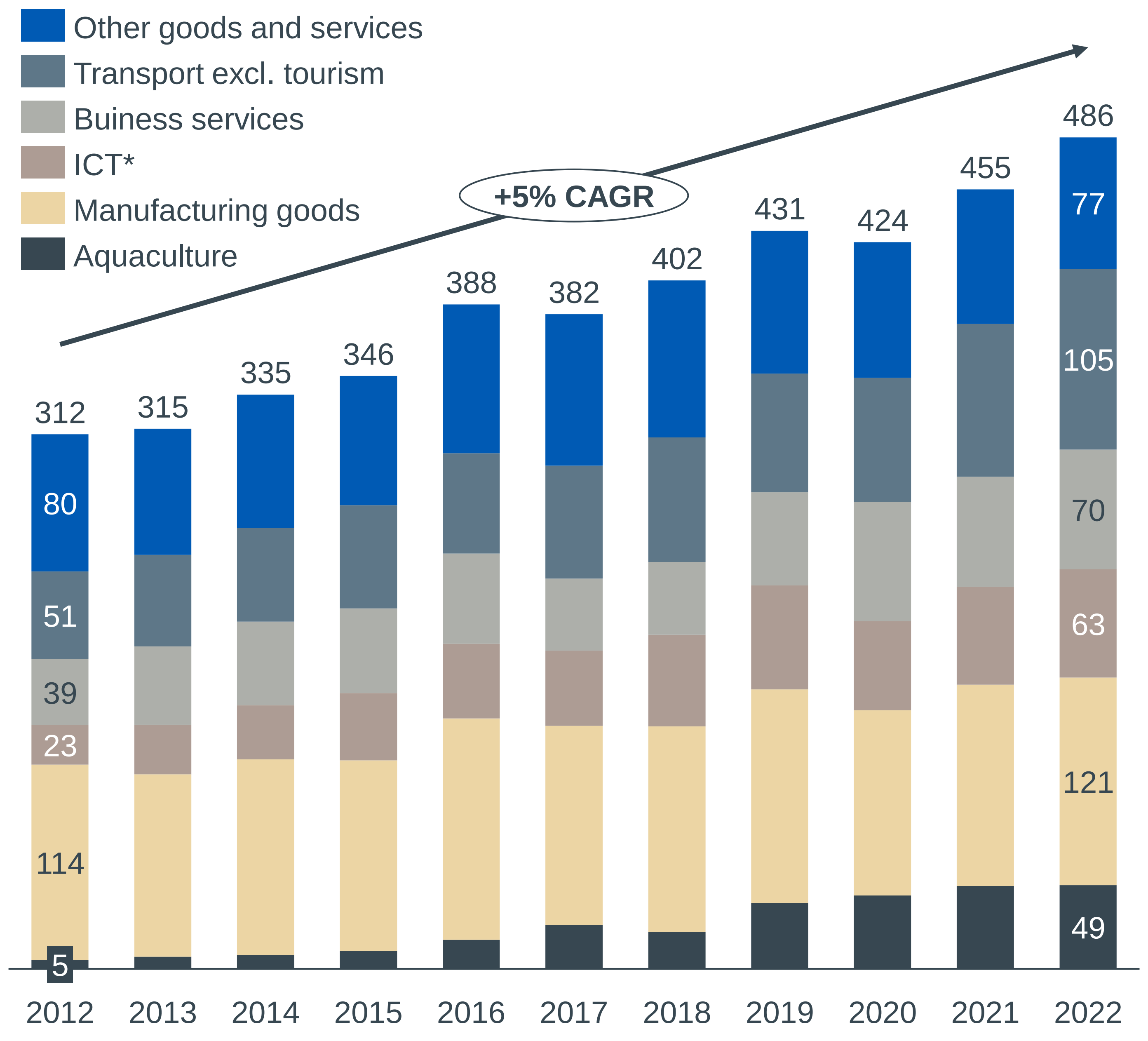
IP-intensive and other new exports are a significant part of the economy

Composition of Iceland’s exports in 2022
- %



Recent growth has been impressive

Exports of selected sectors in real terms
- bn. ISK at 2022 prices*



Ambitious plans going forward

- Great potential in biotech and other health related sectors
- Other IP intensive industries, such as tech, are reaping benefits of increased R&D activity
- Continued growth in aquaculture, both on land and offshore.
- Many exciting projects relating to renewables and fighting climate change, such as carbon capture

*Sources: Statistics Iceland, Central Bank of Iceland, Arion Research calculations. Other exports excluding airplanes and ships.
ICT=Telecommunications, computer and information services

Key results in Q1

Strong quarter

- 13.7% ROE in the quarter
- Key medium-term targets exceeded in the first quarter
- Driven by ongoing positive momentum in Core Income which increased 18% between years
- Strong liquidity and funding position and healthy deposit growth

Robust capital position and prudent capital management

- Conservative capital management in the near term given the volatile external industry landscape following recent events in Europe and US and the rapid change in the global and domestic interest rate environment
- Medium-term CET1 management buffer target retained but expected to operate above these targets in the near term
- Extraordinary shareholder distributions for the near term not anticipated

Key results22	Medium term targets	Q1 2023	
Return on equity	Exceed 13%	✓	13.7%
Core operating income / REA	Exceed 6.7% on core income	✓	6.9%
Insurance premium growth (YoY)	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3%[1]	✓	11.6%
Cost-to-core income ratio	Below 48% on core income	✓	47.0%
CET1 ratio	150-250 bps management buffer2[2]	•	270 bps
Dividend payout ratio[3]	50%	✓	50% of net profit deducted from CET1

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

1 Premium growth in the domestic insurance market in 2022 was 7.5% from 2021
2 Approx.17.3-18.3% based on current capital requirements.
3 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

Key takeaways in Q1 2023

Profitability
Strong core income generation

- Strong quarter with net profit of ISK 6.3bn resulting in ROE of 13.7%
- Continued positive development in Core Income[1], increasing by 18.3% YoY and 1.0% from Q4 2022

Net interest income
NIM robust in evolving market backdrop

- Net interest income increases by 15.6% YoY and 4.7% from Q4 2022
- Robust net interest margin of 3.1%
- Loan growth in the quarter of 2.8% supported by continued solid deposit growth of 2.6%

Net commissions
Continued momentum

- Net commissions again strong in the quarter at ISK 4.4bn, growing by 22.6% YoY and 9.6% from Q4 2022
- All key fee generating businesses delivering strong results, especially in CIB and Asset Management

Balance sheet
Robust position

- Liquidity position strong with an LCR of 174%. Average duration of liquidity bond portfolio within one year and no HTM accounting
- Wholesale maturity profile light over coming year which allows for optionality in funding plans
- Robust and diversified deposit base
- Capital position strong with a CET1 ratio of 18.6% or 270bps above regulatory minimum
- Prudent capital management near term with management buffer above medium-term target

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

Income statement Q1 2023

- Net profit of ISK 6.3bn resulting in ROE of 13.7%
- Core income (NII, NCI and net insurance income) increases 18.2% YoY
- Strong growth in NII YoY, mainly due to increased base rate and 14% growth in the loan book from Q1 2022
- Continuing strong NCI performance across the Bank
- Strong growth in insurance premiums of 11.6% but with higher claim rate, which is seasonally high in Q1
- Net financial income strong, both from equity and bond holdings
- Operating expense increased by 17% YoY, partly due to new labor agreements, increased number of FTE's and one-off projects in the quarter
- Effective income tax rate of 26.7%

	Q1 2023	Q1 2022	Diff	Q4 2022	Diff
Net interest income	11,015	9,528	16%	10,524	5%
Net commission income	4,353	3,552	23%	3,972	10%
Net insurance income	118	5	-	833	(86%)
Net financial income	839	991	(15%)	157	-
Share of profit of associates	(17)	203	-	3	-
Other operating income	36	235	(85%)	51	(29%)
Operating income	**16,344**	**14,514**	**13%**	**15,540**	**5%**
Salaries and related expense	(4,099)	(3,540)	16%	(5,373)	(24%)
Other operating expenses	(3,176)	(2,661)	19%	(2,878)	10%
Operating expenses	**(7,275)**	**(6,201)**	**17%**	**(8,251)**	**(12%)**
Bank levy	(449)	(393)	14%	(496)	(9%)
Net impairment	(52)	(495)	(89%)	411	-
Net earnings before taxes	**8,568**	**7,425**	**15%**	**7,204**	**19%**
Income tax expense	(2,287)	(1,703)	34%	(1,815)	26%
Net earnings from continuing operations	**6,281**	**5,722**	**10%**	**5,389**	**17%**
Discontinued operations net of tax	10	96	-	(366)	-
Net earnings	**6,291**	**5,818**	**8%**	**5,023**	**25%**
Return on equity	13.7%	12.7%		10.7%	

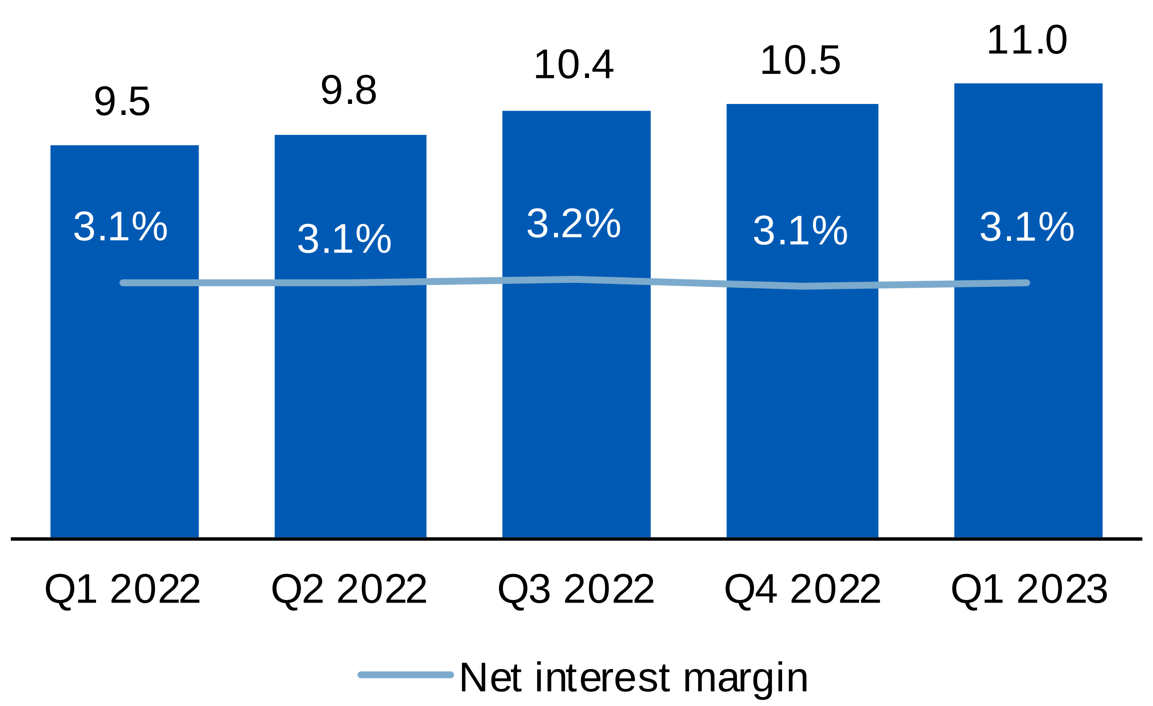
 All amounts in ISK m

Net interest income

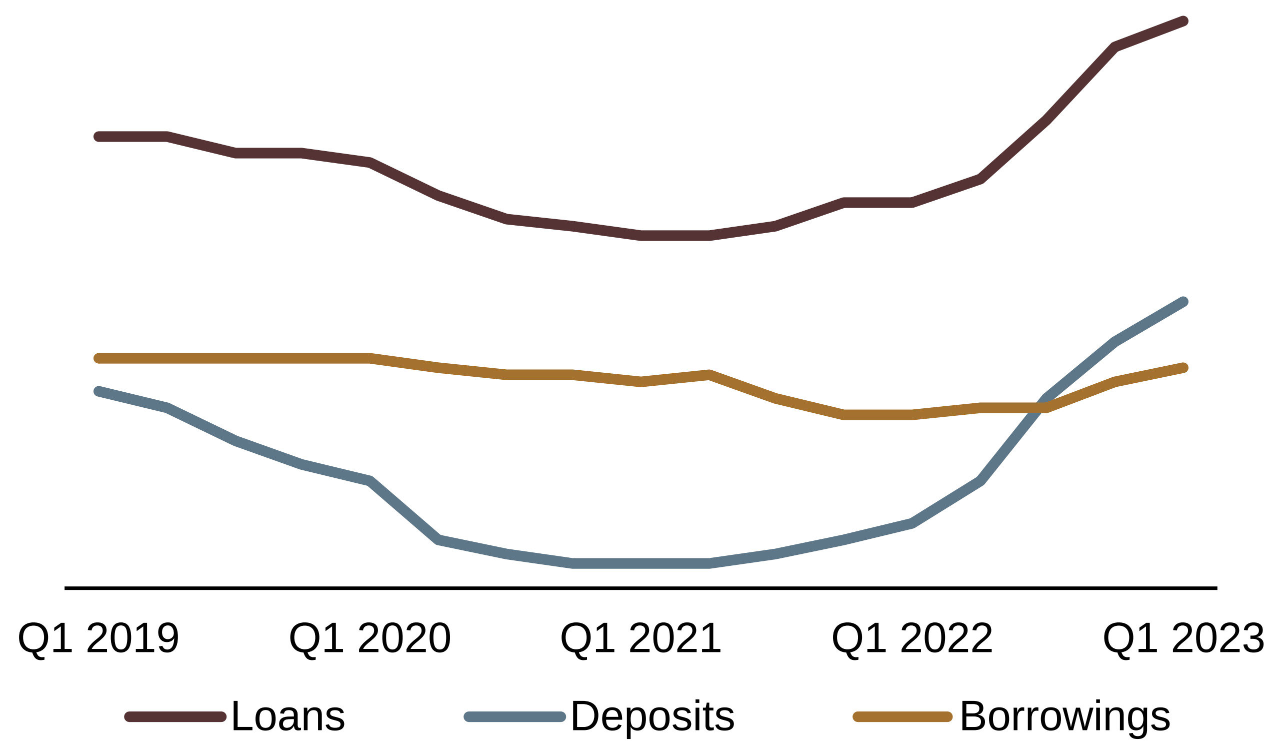
Continued momentum but rate sensitivity slowing as expected

- Net interest income in Q1 increased by 16% from Q1 2022 and 5% between quarters from Q4 2022
- Policy rate increased from 2.0% at the beginning of Q1 2022 to 7.5% at the end of Q1 2023. During the quarter there was a hike of 150 bps
- Rate sensitivity slowing as interest expense increasing on both deposits and wholesale funding. Forward guidance for NIM continues to be around 3% level
- Average interest-bearing assets increased in Q1 by 15.7% from Q1 2022 and by 3.1% from Q4 2022

Net interest income

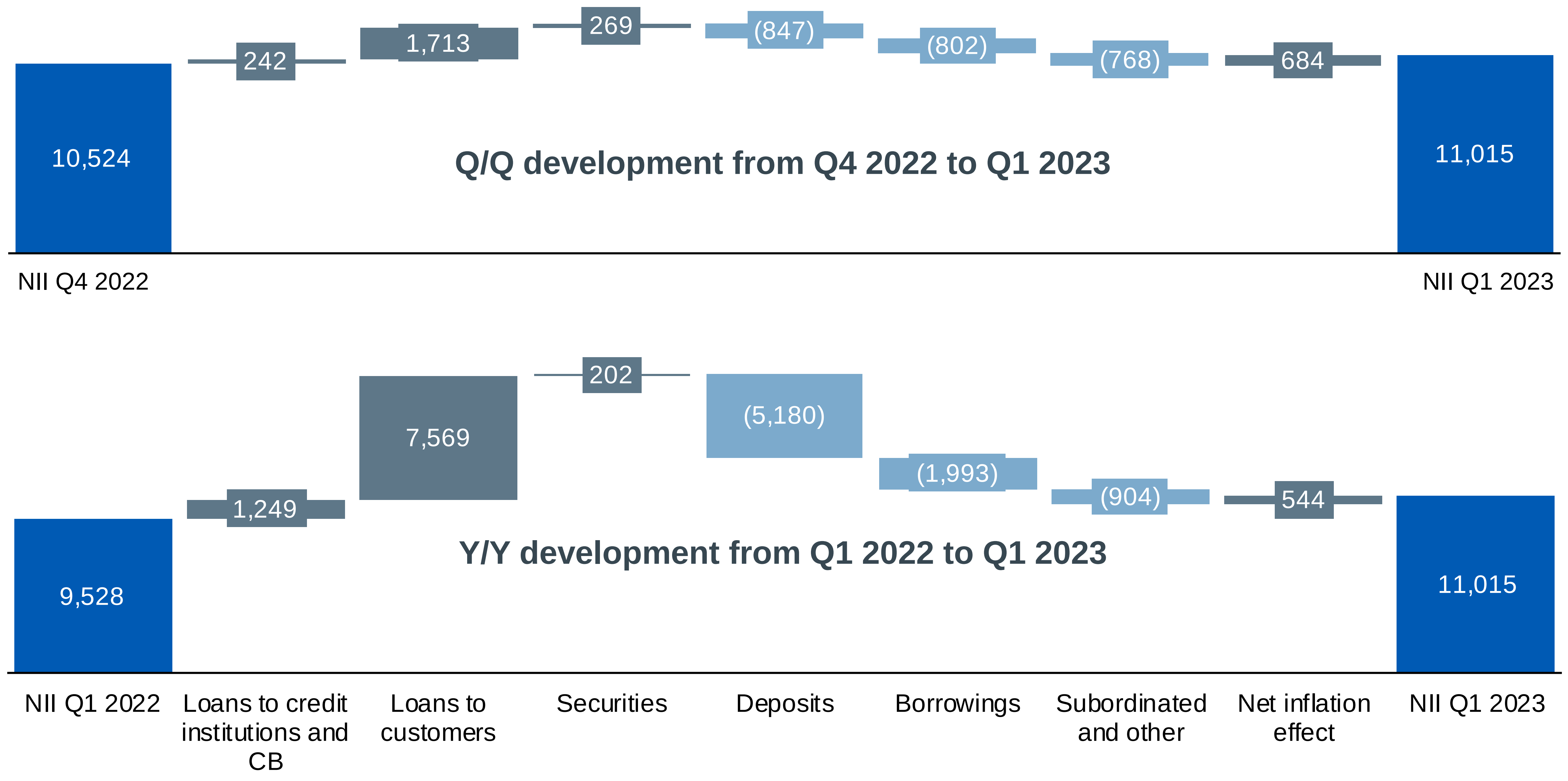


Main interests* (%)



*Excluding net inflation effect

Net interest income development (ISK m)

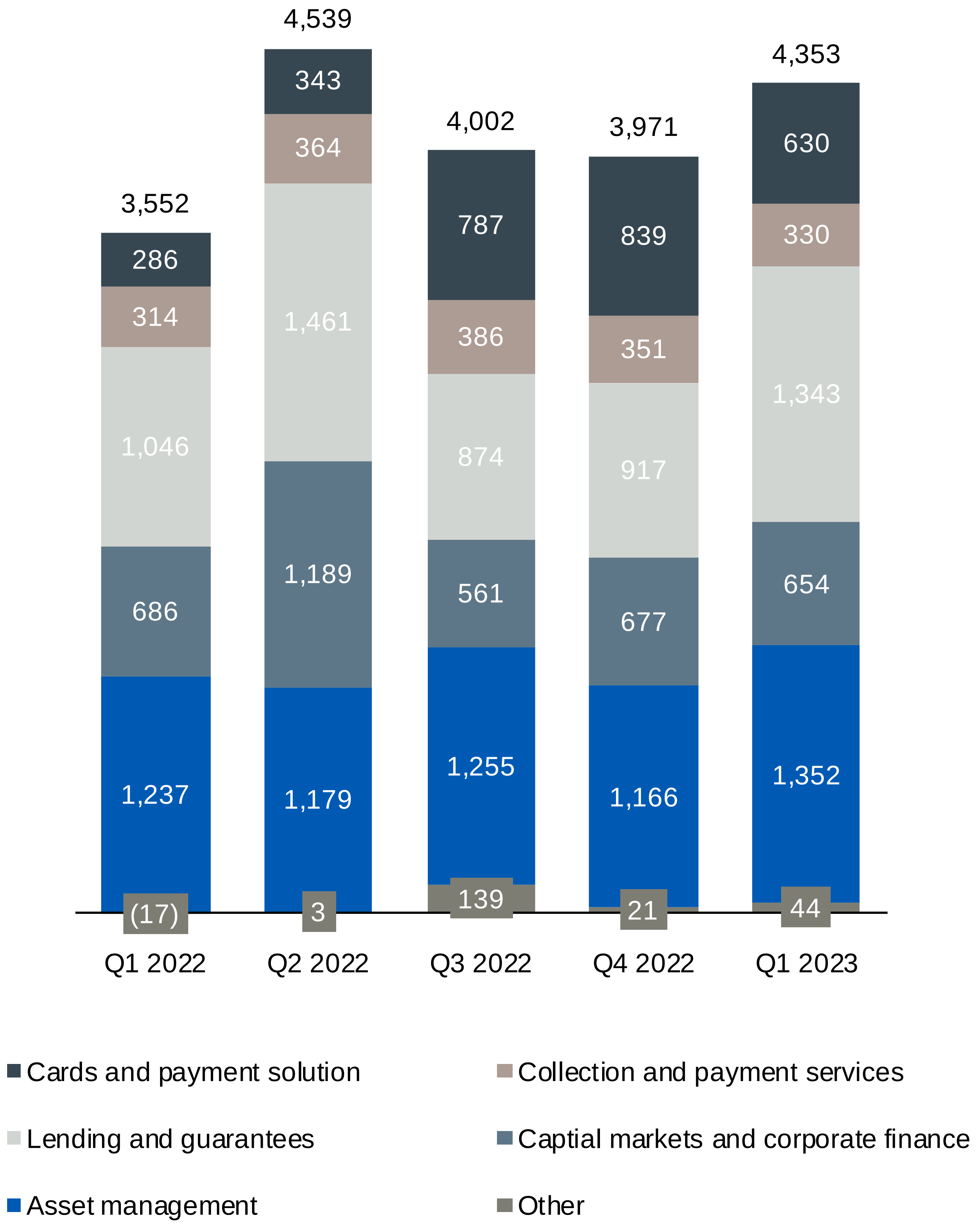


Net fee and commission income

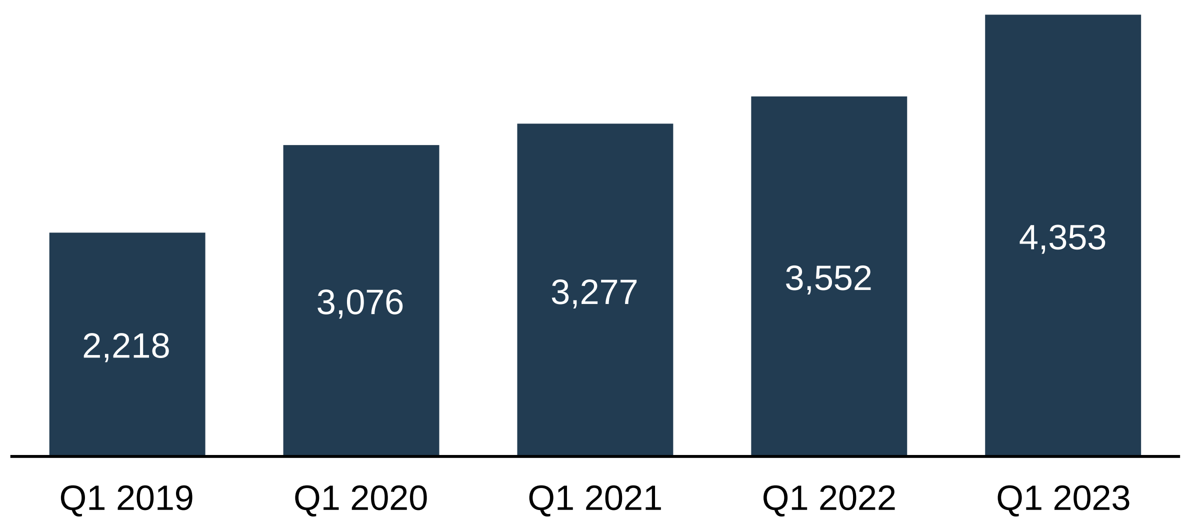
Diversified fee generating operations support continued momentum

- Strong quarter in all fee generating businesses
- Very strong income from lending and guarantees with several large CIB projects in the quarter
- Continued strong and stable income from asset management, with one of the strongest historical quarters for the business
- Capital Markets had the highest market share in equities in the domestic market and third in bonds
- Total fee split in the quarter 73% from corporates and 27% from individuals

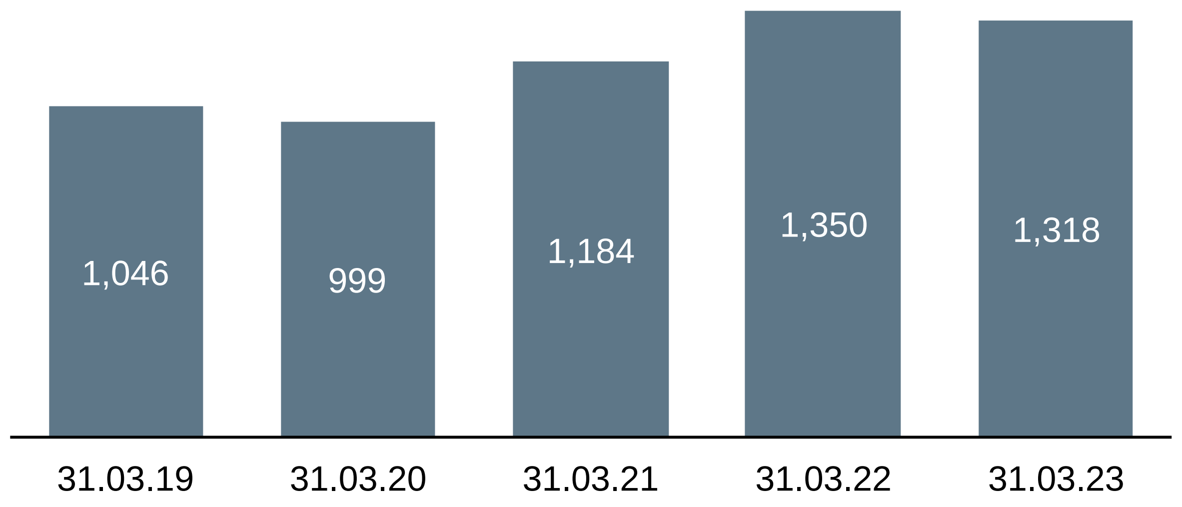
Net fee and commission income (ISK m)



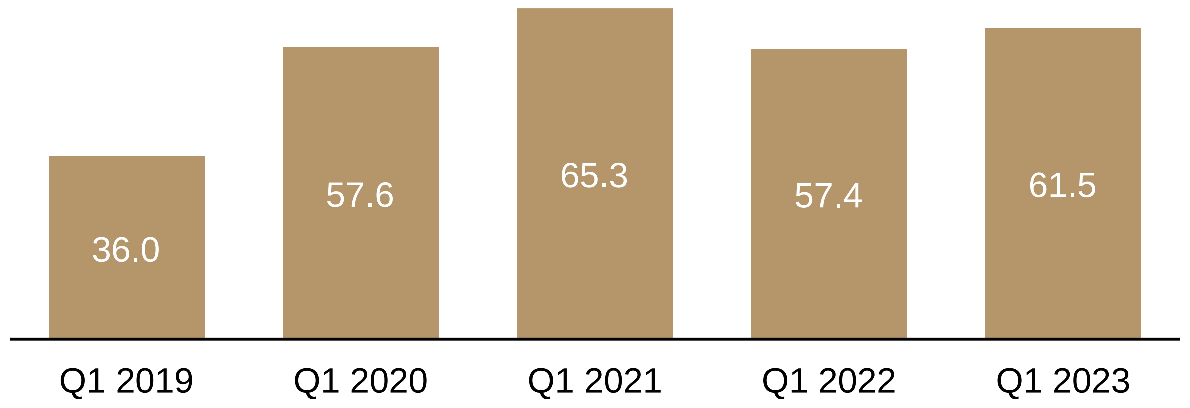
Net fee and commission income (ISK m)



Assets under management (ISK bn)



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

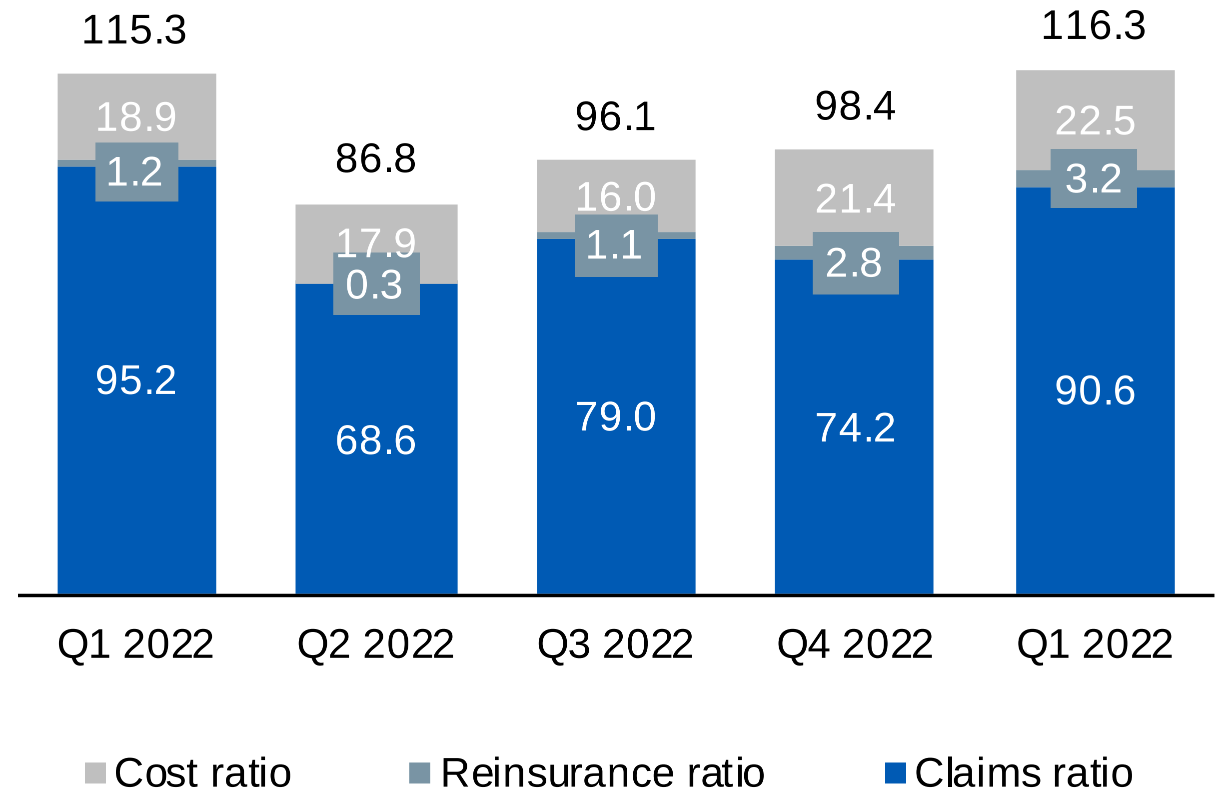


Net insurance income

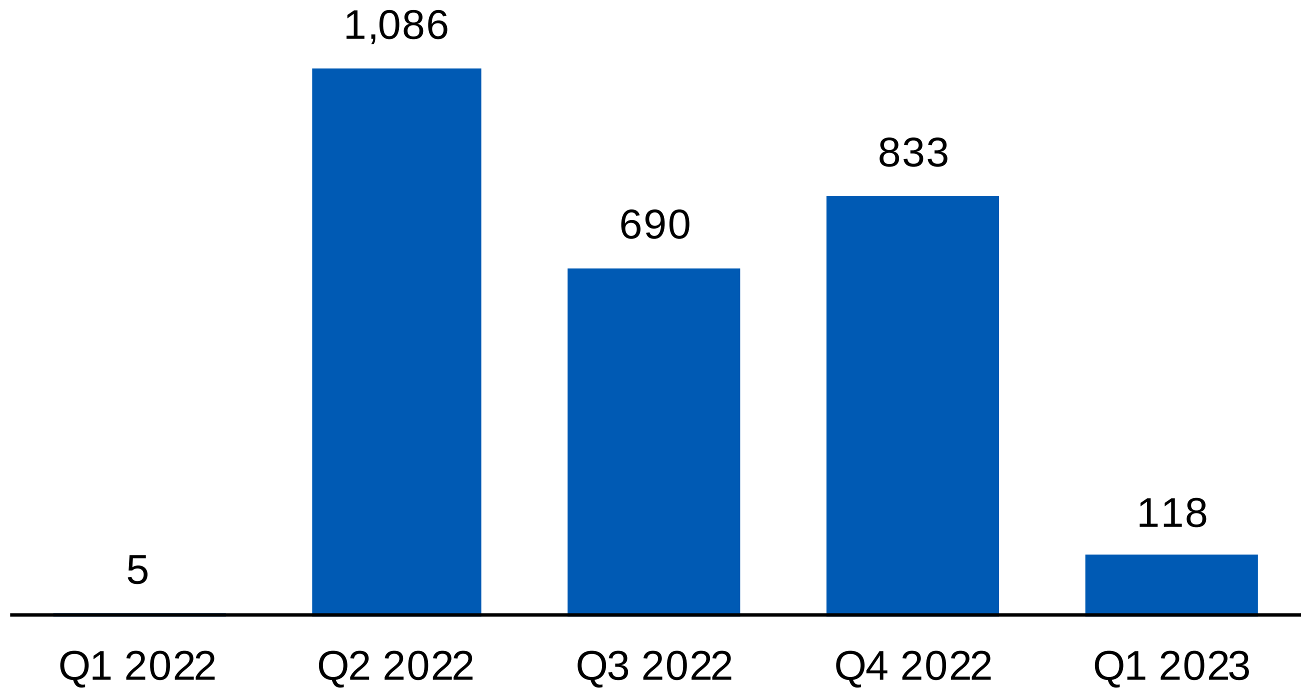
Strong growth in premiums written during the quarter

- Strong 15.5% growth in premiums written YoY
  - Corporate sales have increased considerably following the transition of the corporate insurance team to Arion Bank's CIB division
  - Insurance products are now visible in the Arion app
- The first quarter of the year is normally a seasonal high in terms of claims and combined ratio
  - Combined ratio was 116.3% in Q1 2023 compared to 115.3% in Q1 2022
  - Lower claims ratio but increase in cost ratio, mostly one-off cost due to changes in management and marketing cost
- Limited effects of IFRS 17 on income items but insurance liability and accounts receivables were impacted

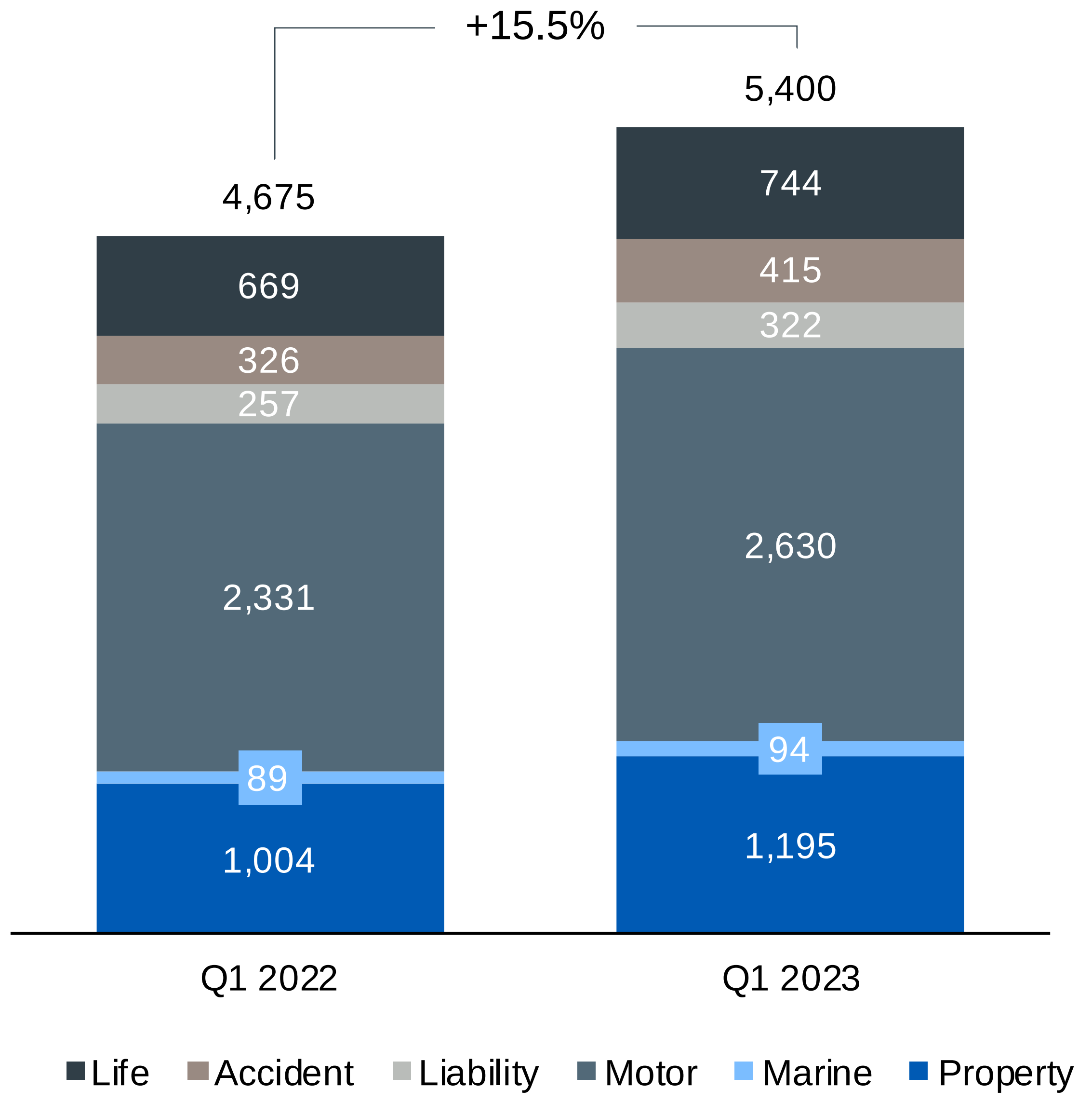
Combined ratio (%)



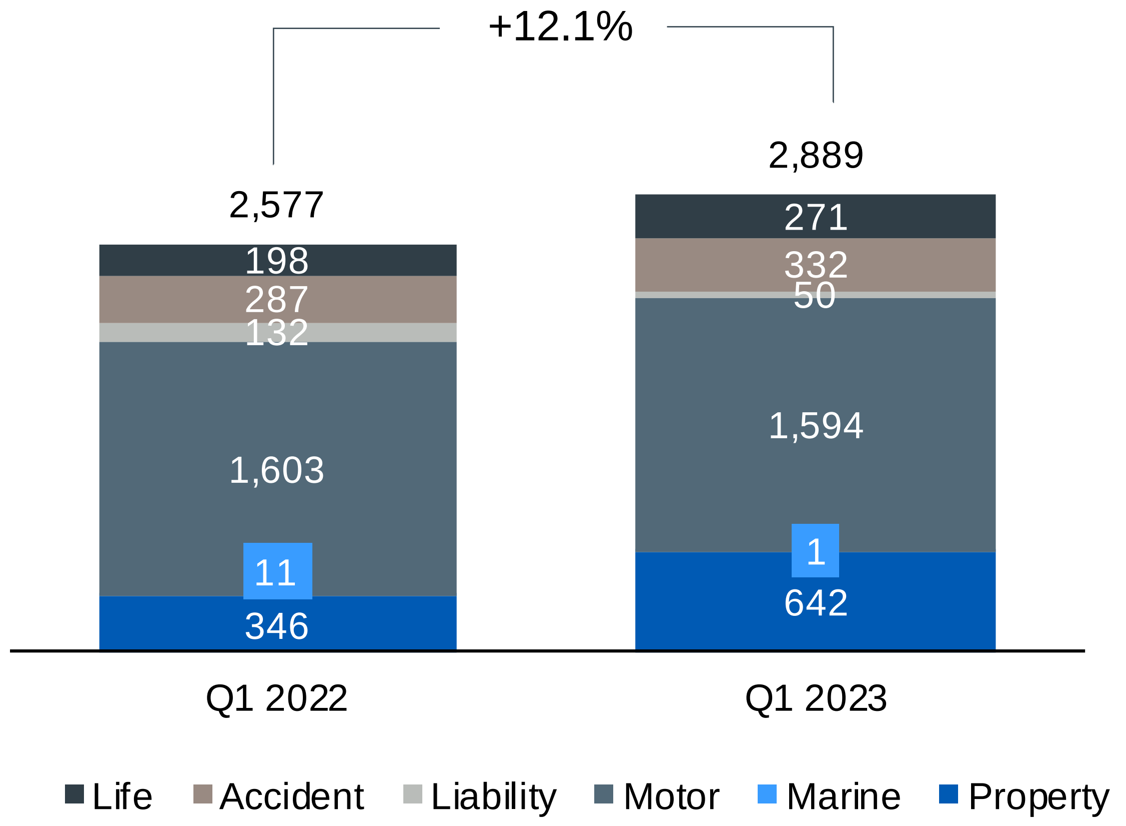
Net insurance income



Premiums written



Claims paid

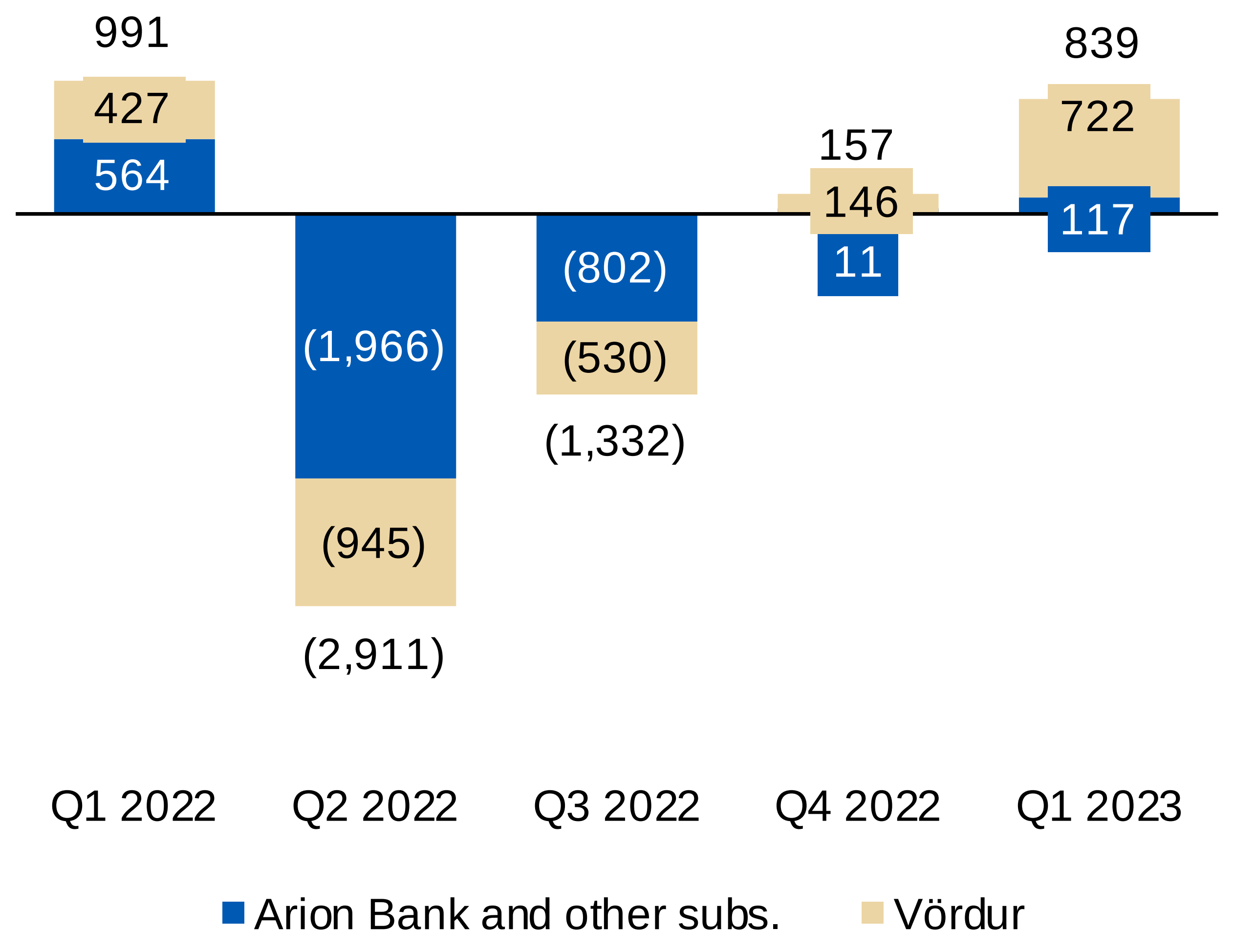


Net financial income

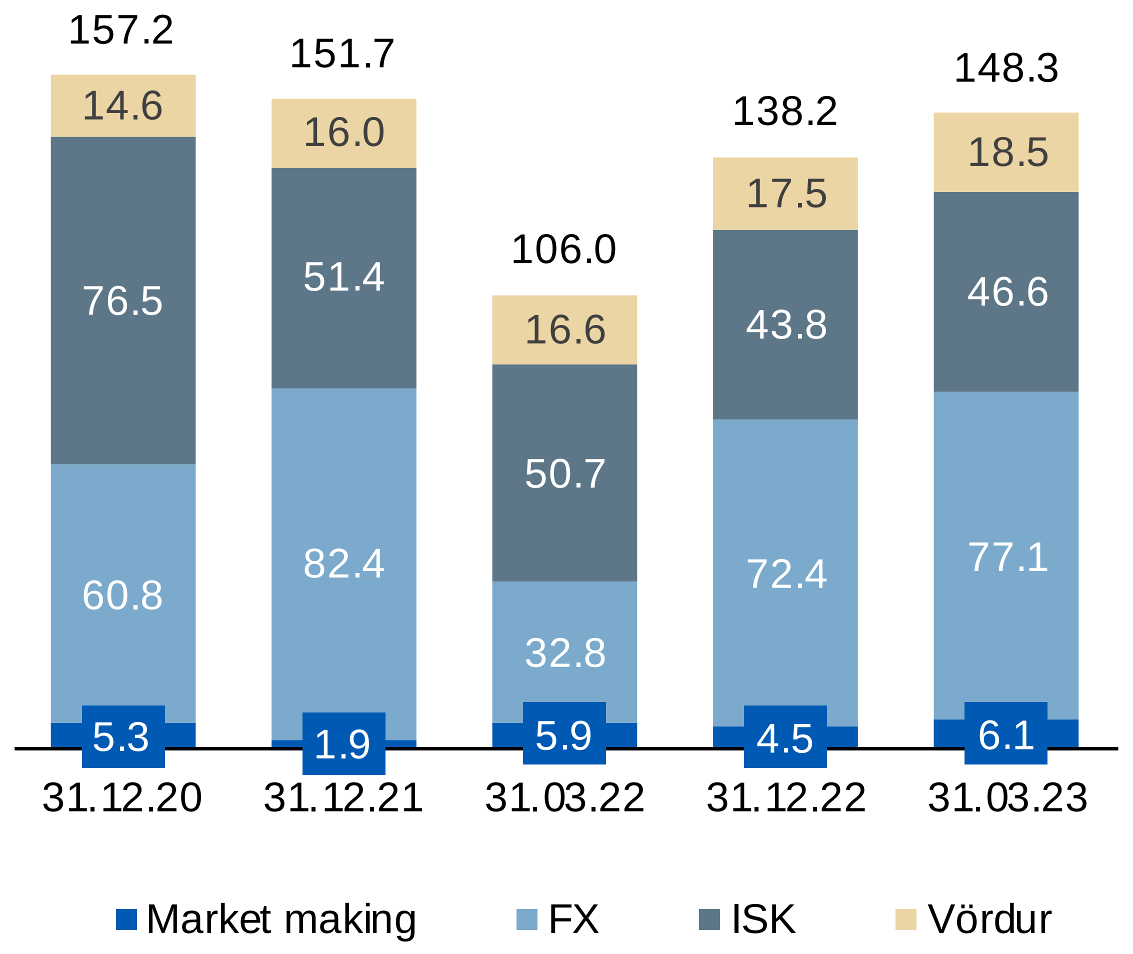
Improving market conditions support results

- Solid performance both in equity and bond holdings
- Bond holdings fluctuate between quarters in line with changes in liquidity management
  - No held-to-maturity (HTM) accounting within bond portfolio, with all market value changes incorporated in capital position
  - Average duration of total ISK 123bn portfolio is 203 days, 98 days for ISK 77bn FX bond portfolio and 388 days for ISK 46bn portfolio
- Total investment portfolio of Vördur is ISK 26.3bn; ISK 18.5bn of bonds and ISK 7.8bn in equity instruments, yielding a profit of ISK 722m in the quarter
- Equity holdings in the market making business vary between quarters, increased slightly from year end 2022 to ISK 2.2bn
- Active reduction of unlisted equity holdings and expected to continue near term

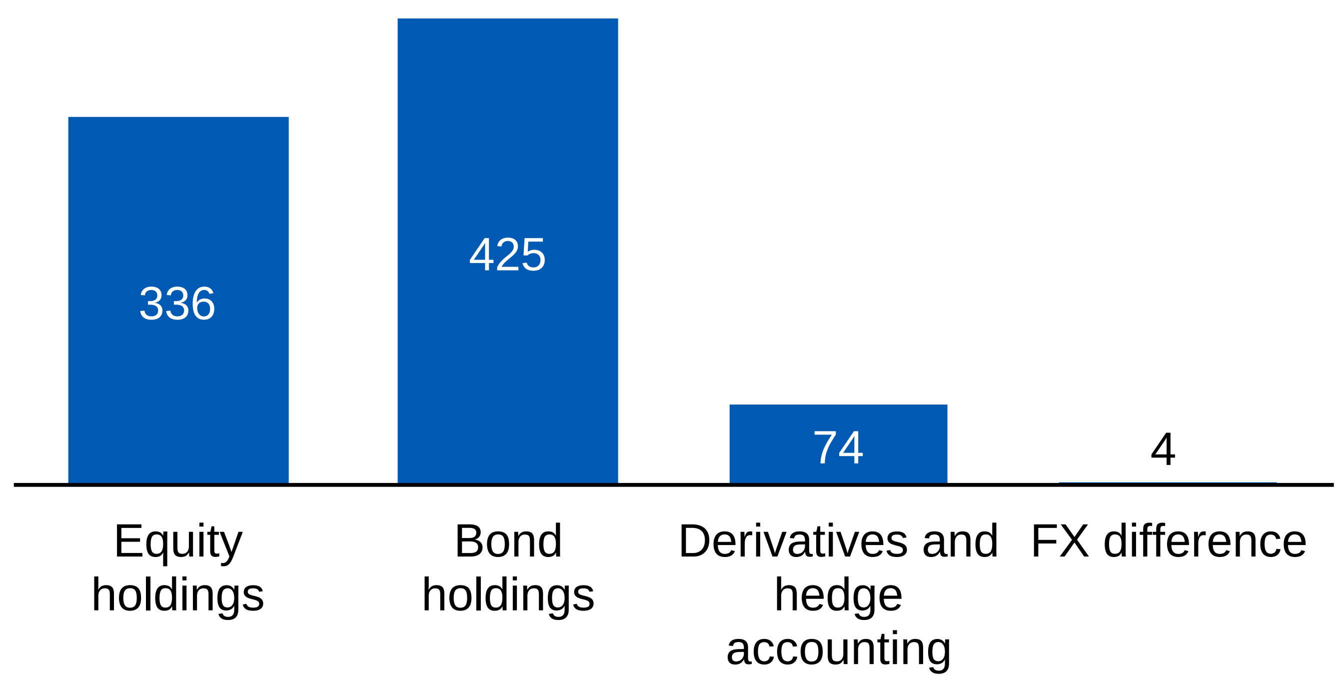
Net financial income (ISK m)



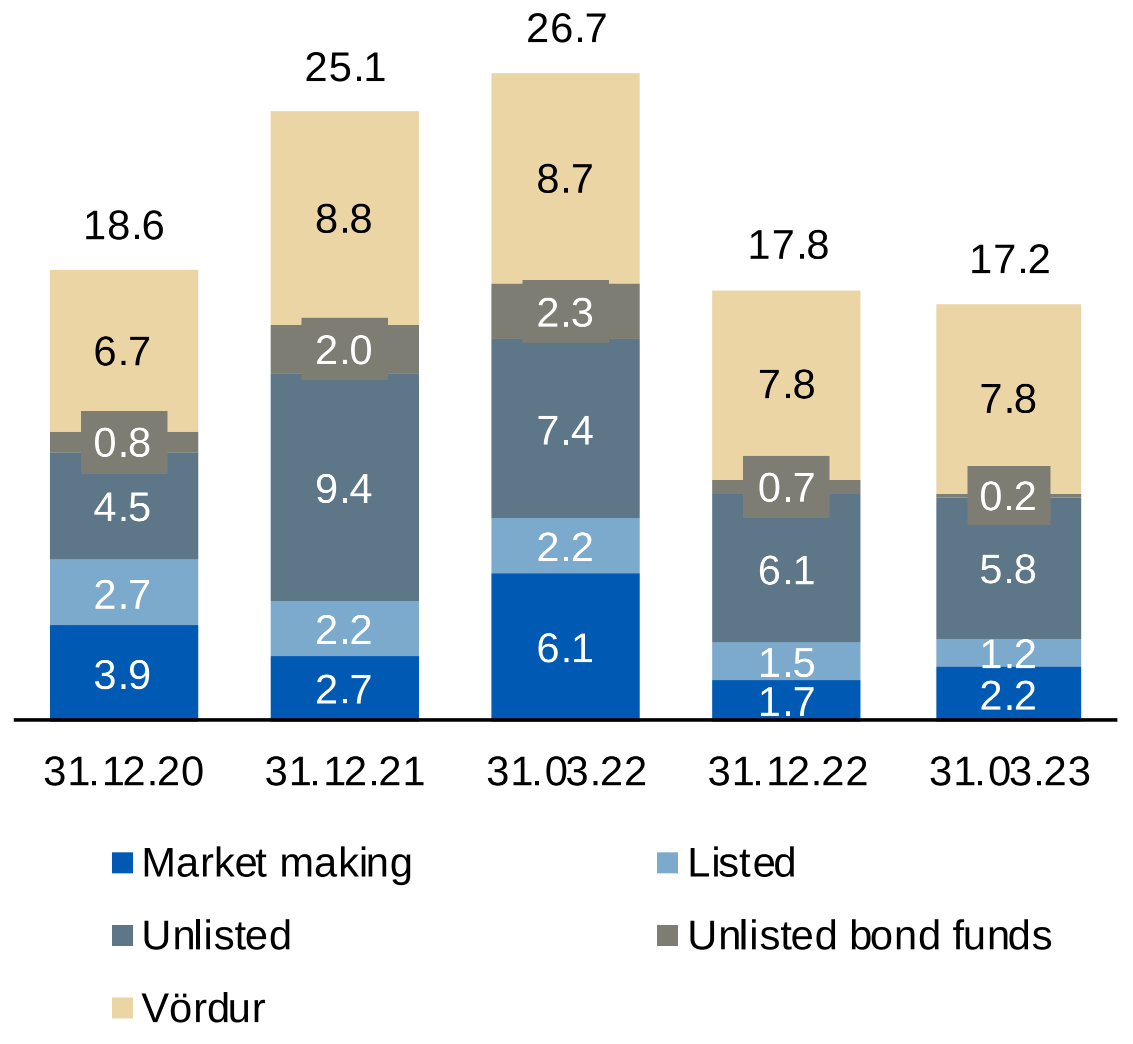
Bond holdings



Net financial income by type Q1 2023 (ISK m)



Equity holdings

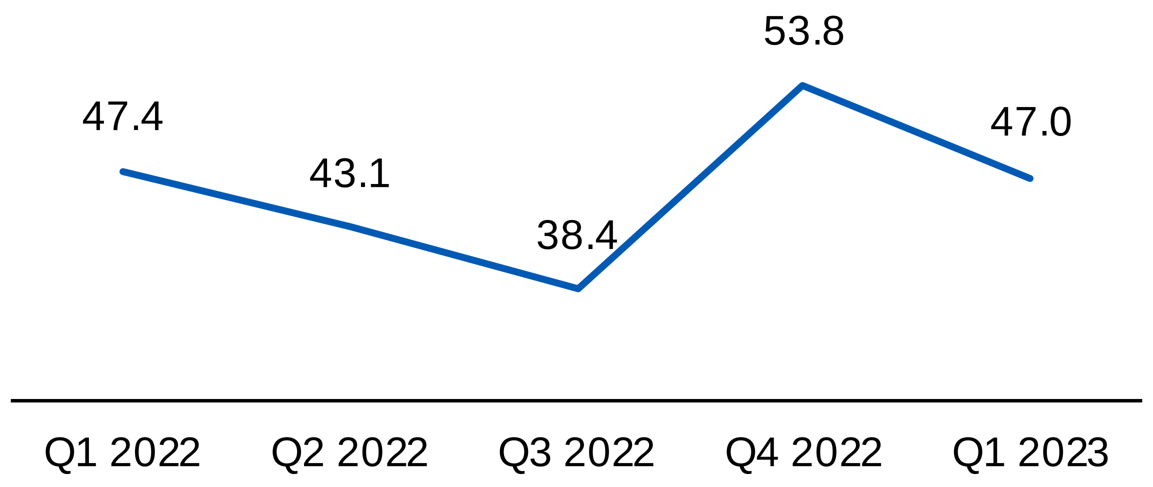


Operating expenses

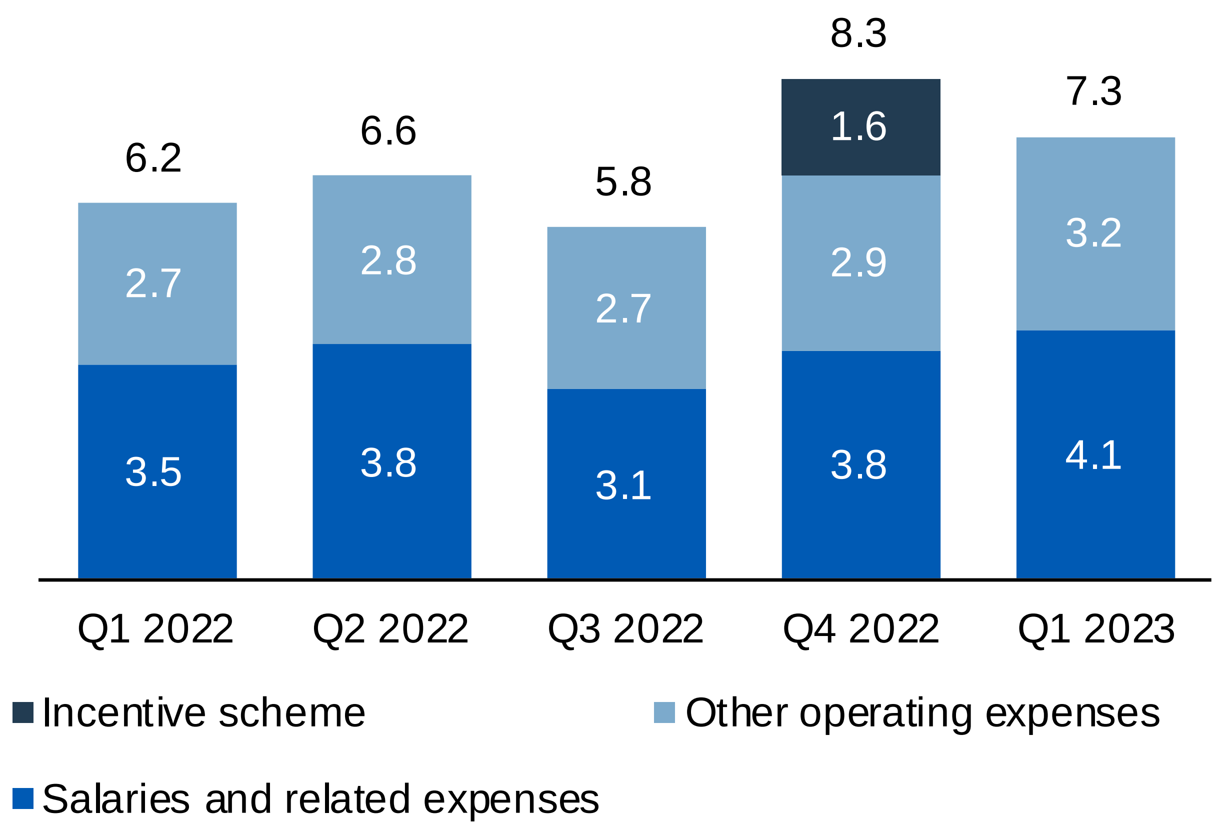
Growth in total OPEX mainly due to new labor agreements and several projects in the quarter

- Ongoing focus on OPEX and efficiency
  - Cost-to-core income for the Q1 2023 was 47.0% compared with 47.4% in Q1 2022
  - Core income per employee 19.7m vs 17.5m in Q1 2022
- Salary expense increases between years mainly due to new labor agreements and increased number of FTE's, mostly in IT
  - ISK 120m one-off charge related to back-dated impact of labor agreements
  - Going forward impact of labor agreement is approx. 60m per quarter
- Other OPEX increases from Q4, partly due to general inflation but also several projects
  - One-off projects accounted for mostly within professional services increase the cost for the quarter by approx. ISK 150m
  - Additionally, a fine of ISK 80m from the Icelandic Competition Authority was expensed in March

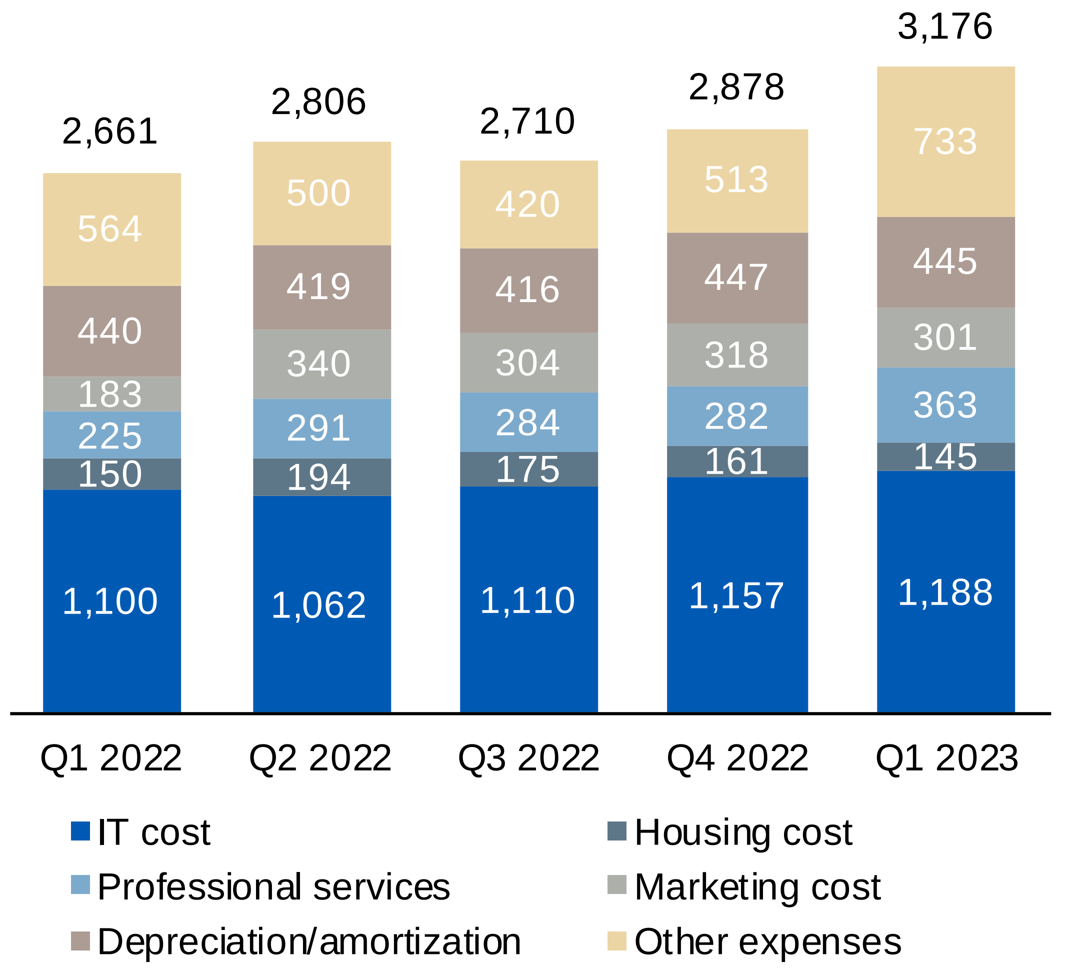
Cost-to-Core income ratio (%)



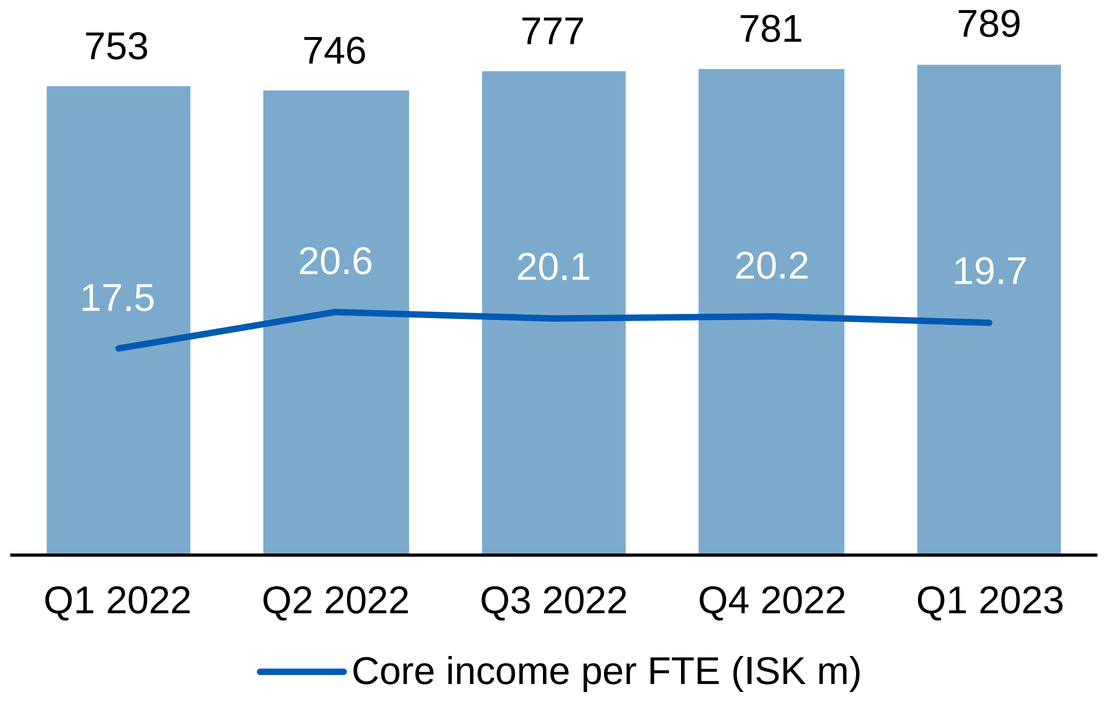
Total operating expenses



Other operating expenses (ISK m)



Core income per FTE



Balance sheet

Continued growth in deposits supports lending growth

- Robust and simple balance sheet
- Loan growth supported by ongoing positive momentum in deposits
  - Loans to customers increased by 2.7% in Q1
  - Deposits increased by 2.6% in Q1
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 174% (110% in ISK)
  - Net stable funding ratio (NSFR) of 117%

Assets	**31.03.2023**	**31.12.2022**	**Diff.**	**31.03.2022**	**Diff.**
Cash & balances with CB	80	114	(30%)	64	25%
Loans to credit institutions	63	46	38%	36	75%
Loans to customers	1,114	1,085	3%	976	14%
Financial assets	205	193	6%	186	10%
Other assets	39	32	22%	79	(51%)
Total Assets	**1,501**	**1,470**	2%	**1,341**	12%

Liabilities and Equity					
Due to credit institutions & CB	24	12	107%	4	466%
Deposits from customers	775	755	3%	680	14%
Other liabilities	84	74	13%	80	5%
Borrowings	391	393	(0%)	370	6%
Subordinated liabilities	47	47	(1%)	34	39%
Total Liabilities	**1,321**	**1,281**	3%	**1,168**	13%
Equity	180	188	(4%)	173	4%
Total Liabilities and Equity	**1,501**	**1,470**	2%	**1,341**	12%

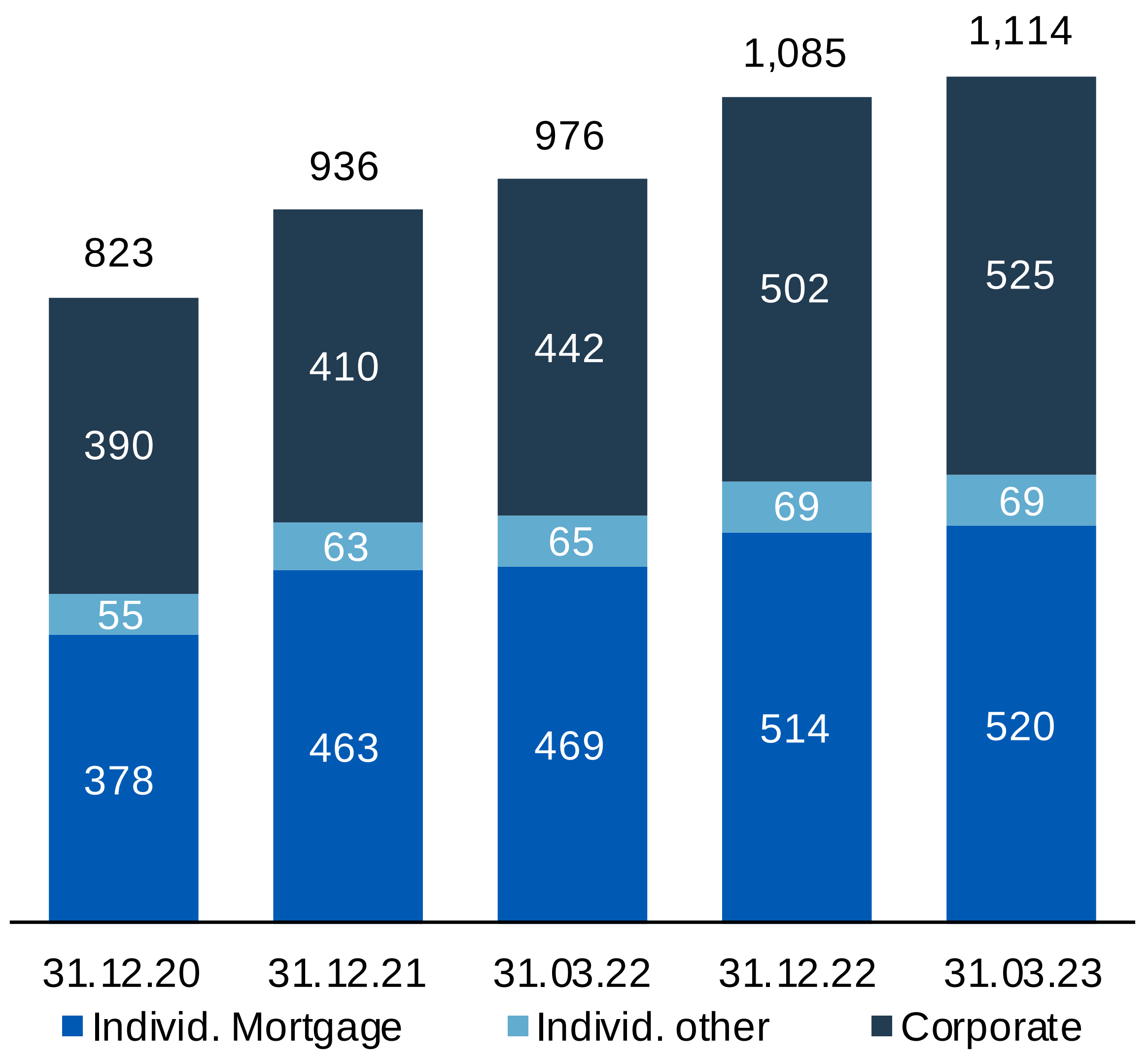
 All amounts in ISK bn

Loans to customers

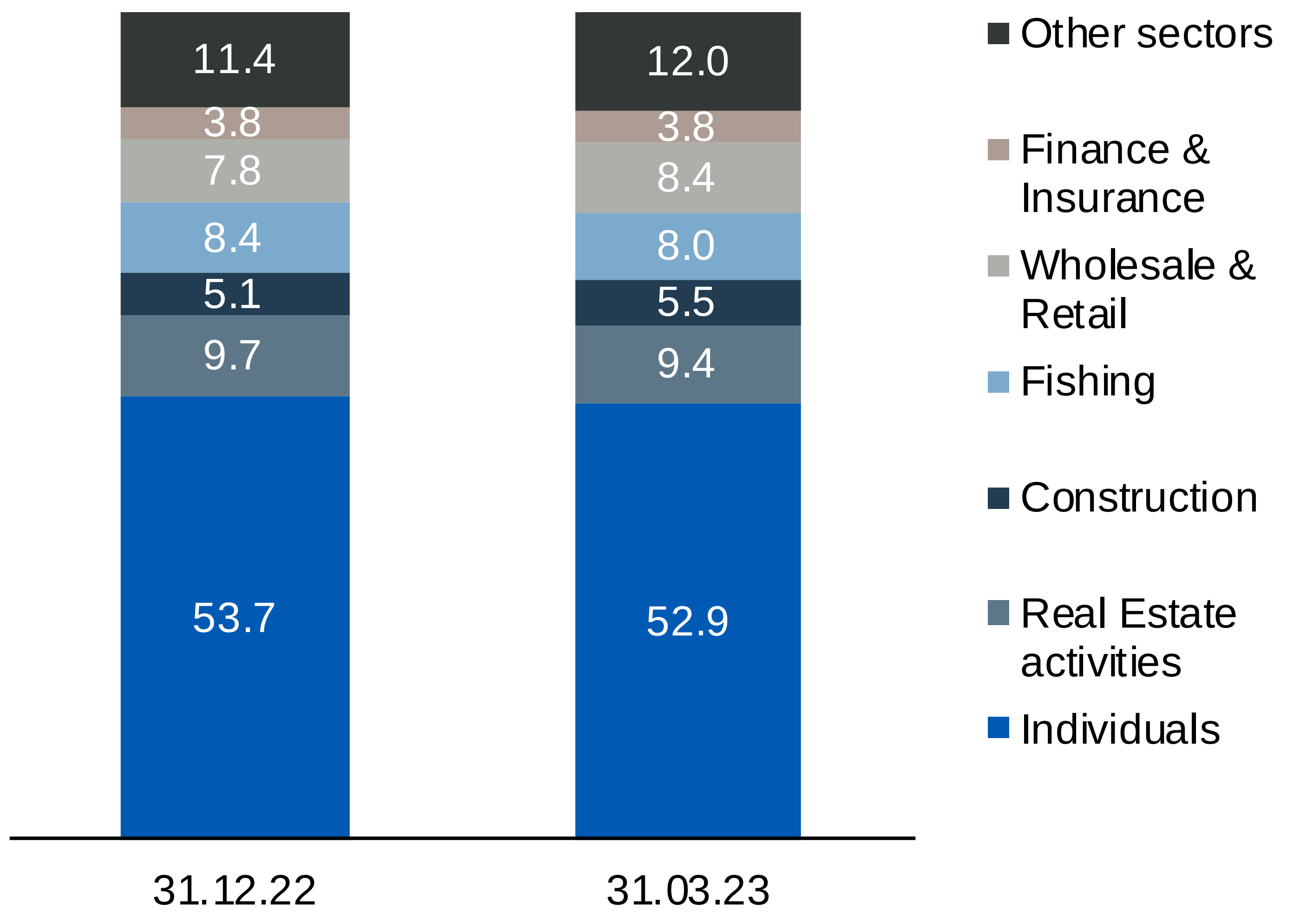
Growth in corporate lending in the quarter but expected to slow

- Loans to customers increased by ISK 29bn or 2.7% during the quarter
  - Loans to corporates 4.5% and loans to individuals 1.1%
  - Total loans increased by ISK 4.8bn due to inflation, of which ISK 3.7bn mortgage lending. Loans decreased by ISK 4.3bn during the quarter due to stronger ISK, primarily corporate loans
- Lending activity starting to slow on the mortgage side and expected to slow on the corporate side as the rate increases start to impact economic activity. The Bank is agile and will continue to view growth opportunistically considering evolving risk/return dynamics
- Share of CPI linked (indexed) products expected to grow in current rate environment and with recent change in legislation
- Continued CIB strategy of capital velocity with corporate loans worth ISK 4bn sold to institutional investors during the quarter
- The diversification of the corporate loan book continues to be good and in line with the Bank's credit strategy

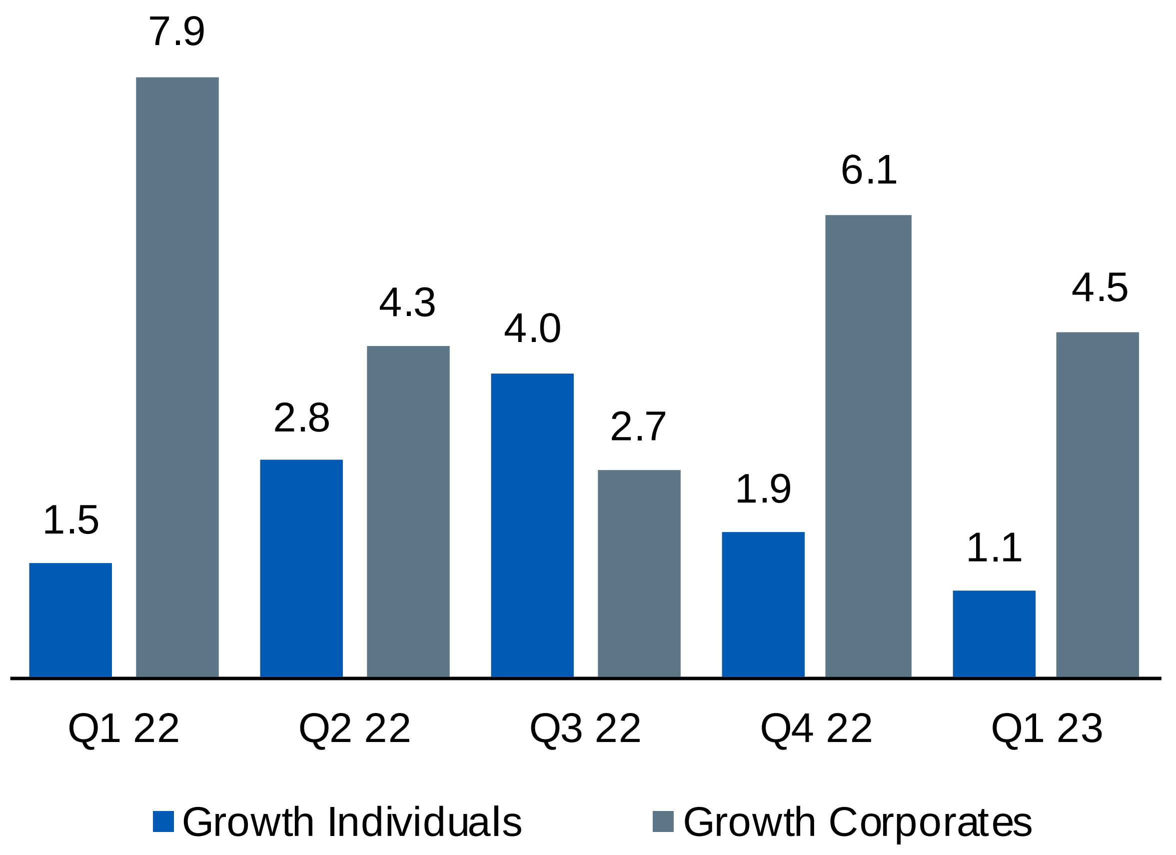
Loans to customers



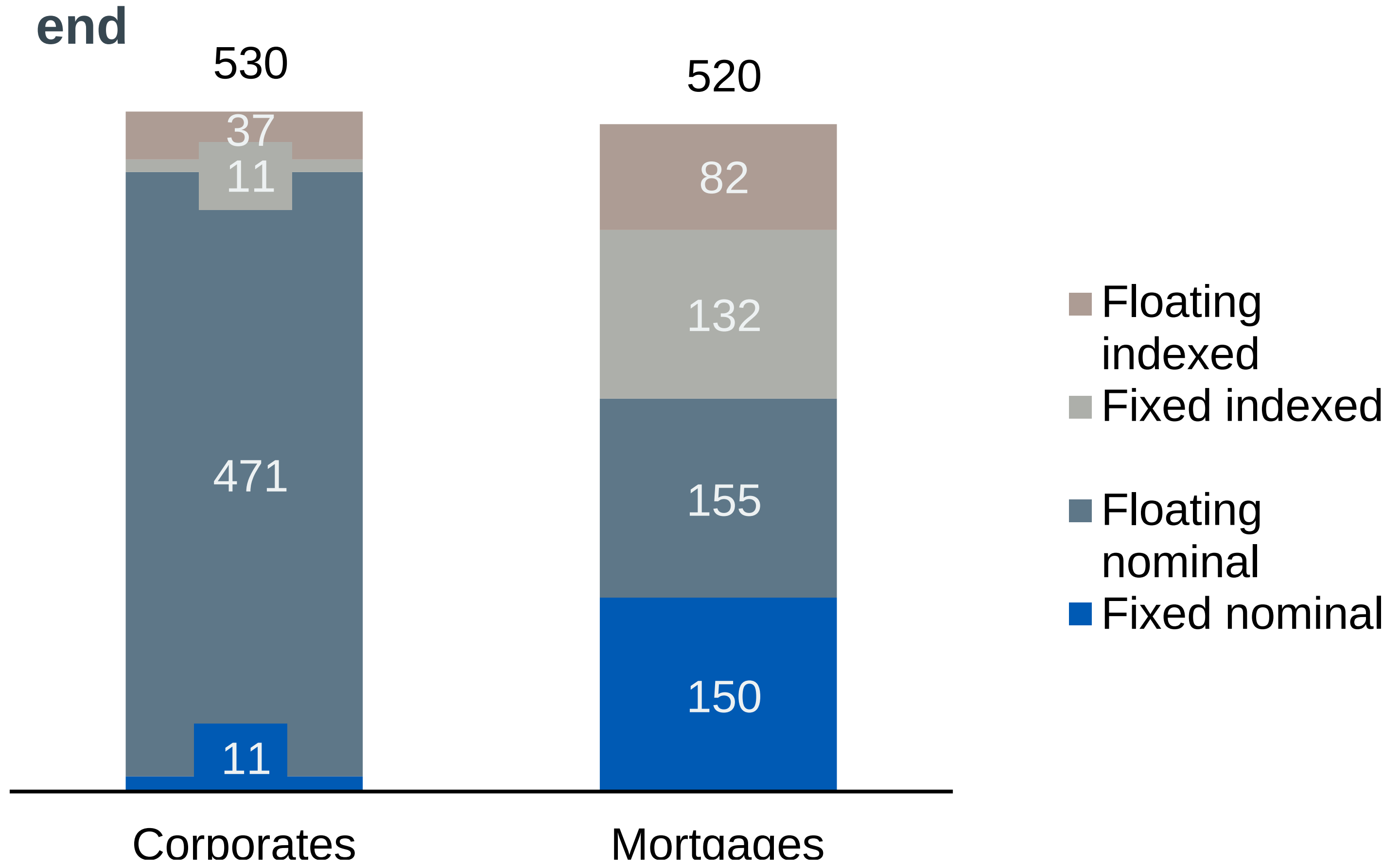
Loans to customers by sector (%)



Loan growth (%)



Loans to customers by interest rate type at year end



 All amounts in ISK bn

Residential mortgages

Low default rates and comfortable LTV levels, but increased risk due to rising costs for borrowers

Macroprudential measures:

- Loan-to-value capped at 80% (85% for first-time buyers, which was already applied by Arion)
- Debt service-to-income < 35% (40% for first-time buyers). In June 2022, the Central Bank introduced prescribed minimum interest rates for debt-service which primarily affects indexed loans.
- Affects mostly first time buyers and higher loan applications

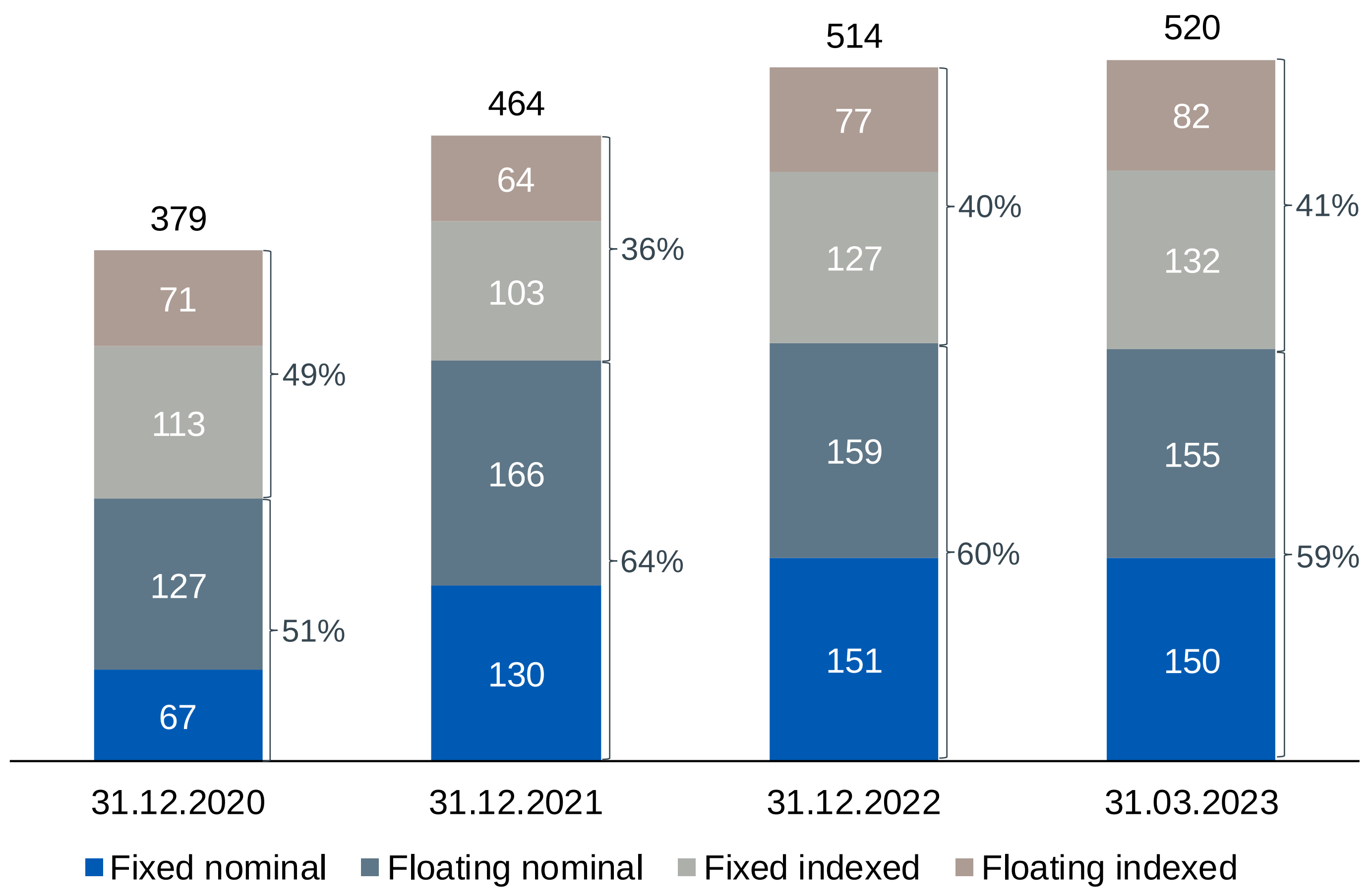
Furthermore, the Bank has adjusted its criteria for household expenditures in its payment assessment taking into account rising cost of living.

Internal stress test of fixed nominal portfolio shows that if interest rates remain high into 2025, up to one third of borrowers need to seek lower monthly payments, e.g. through refinancing to indexed loans.

- In this stress test floating nominal rates reach a maximum of 10.7%
- The stress test reveals that, following refinancing to lower debt servicing, further measures may be needed for 0.5-1% of borrowers

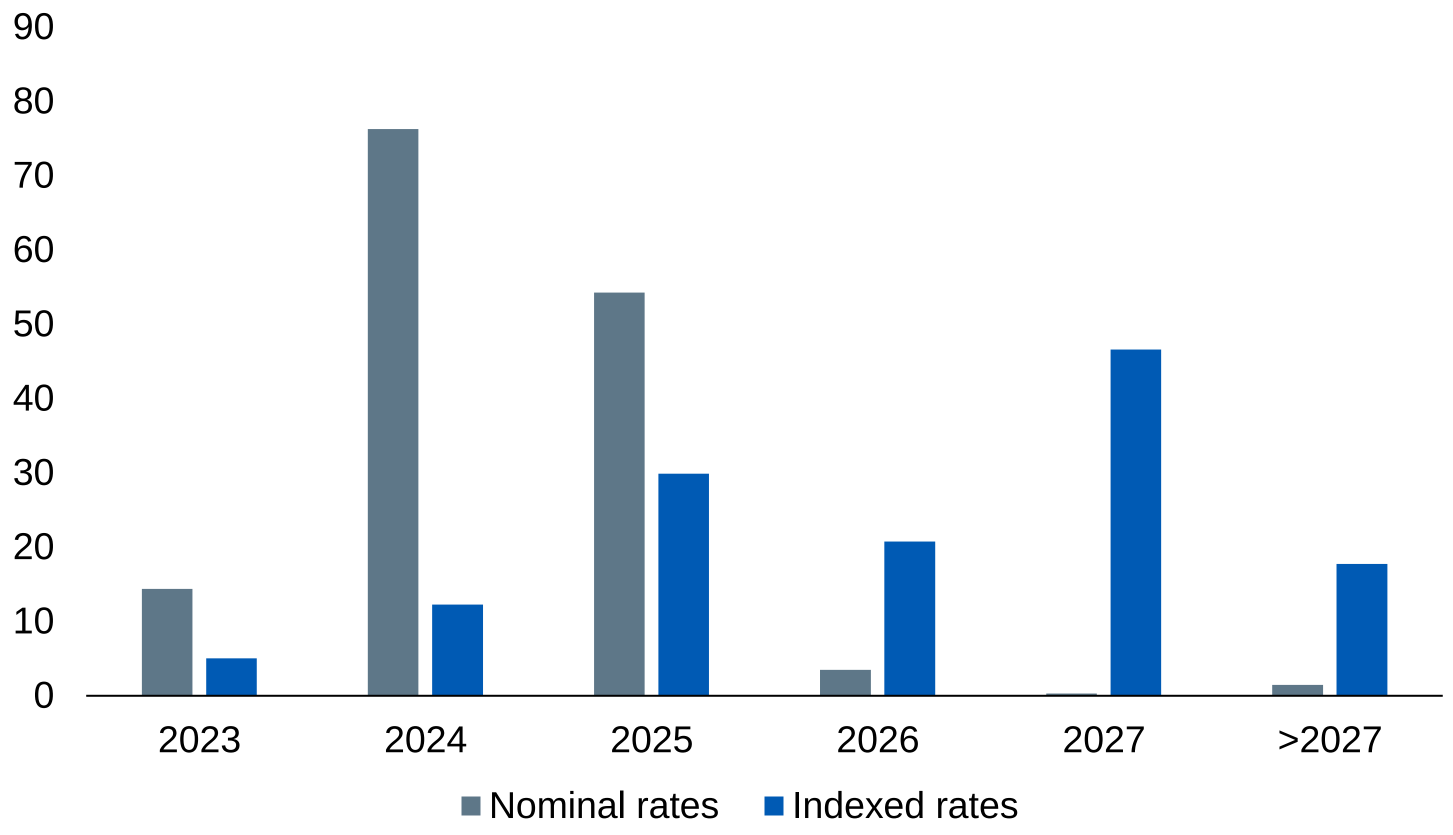
Residential mortgages by interest rate type (ISK bn)

Nominal rate loans are 59% of the mortgage portfolio at end of Q1 2023. Demand for indexed loans is picking up again.



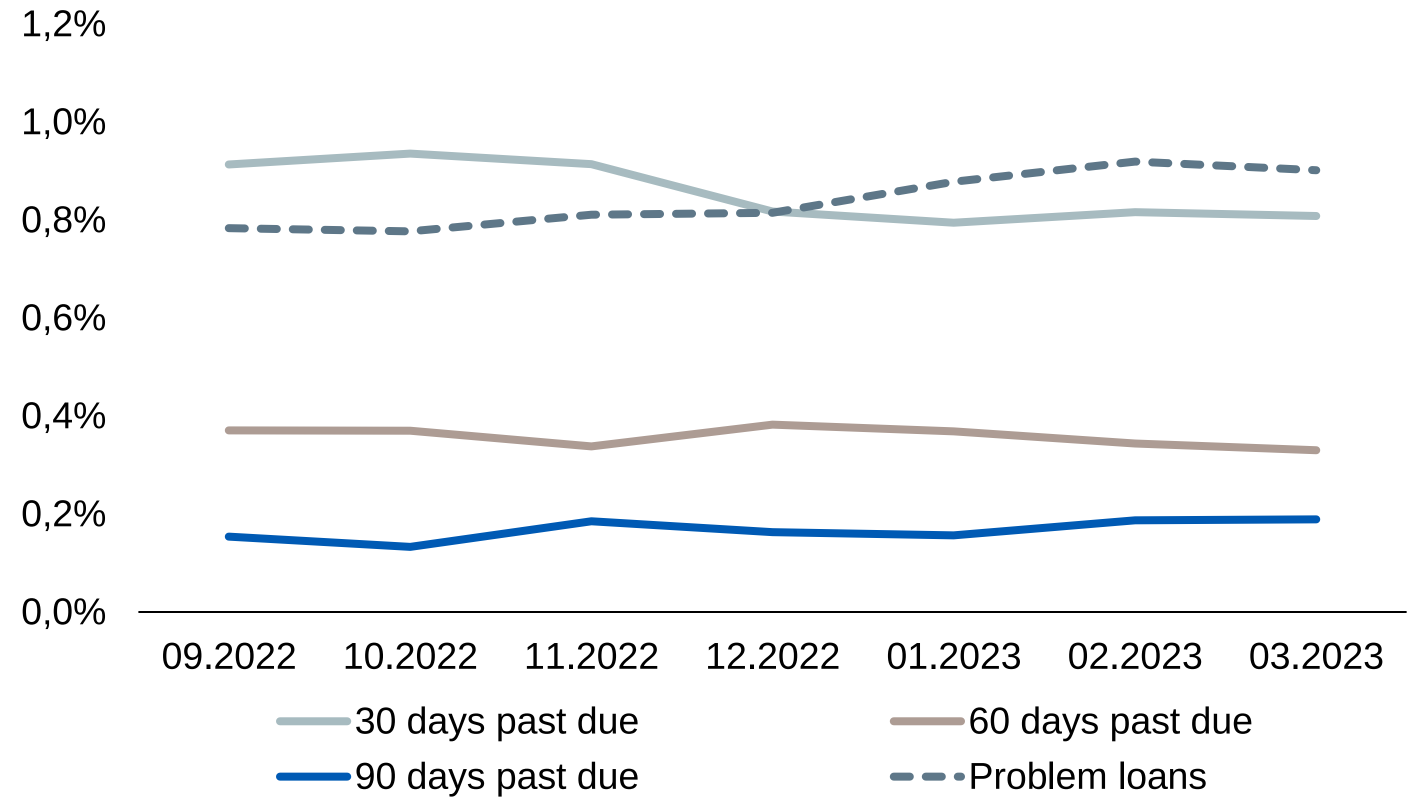
Interest rate reset profile for fixed rate mortgages (ISK bn)

The bulk of fixed nominal rate loans are reset in 2024 and 2025.



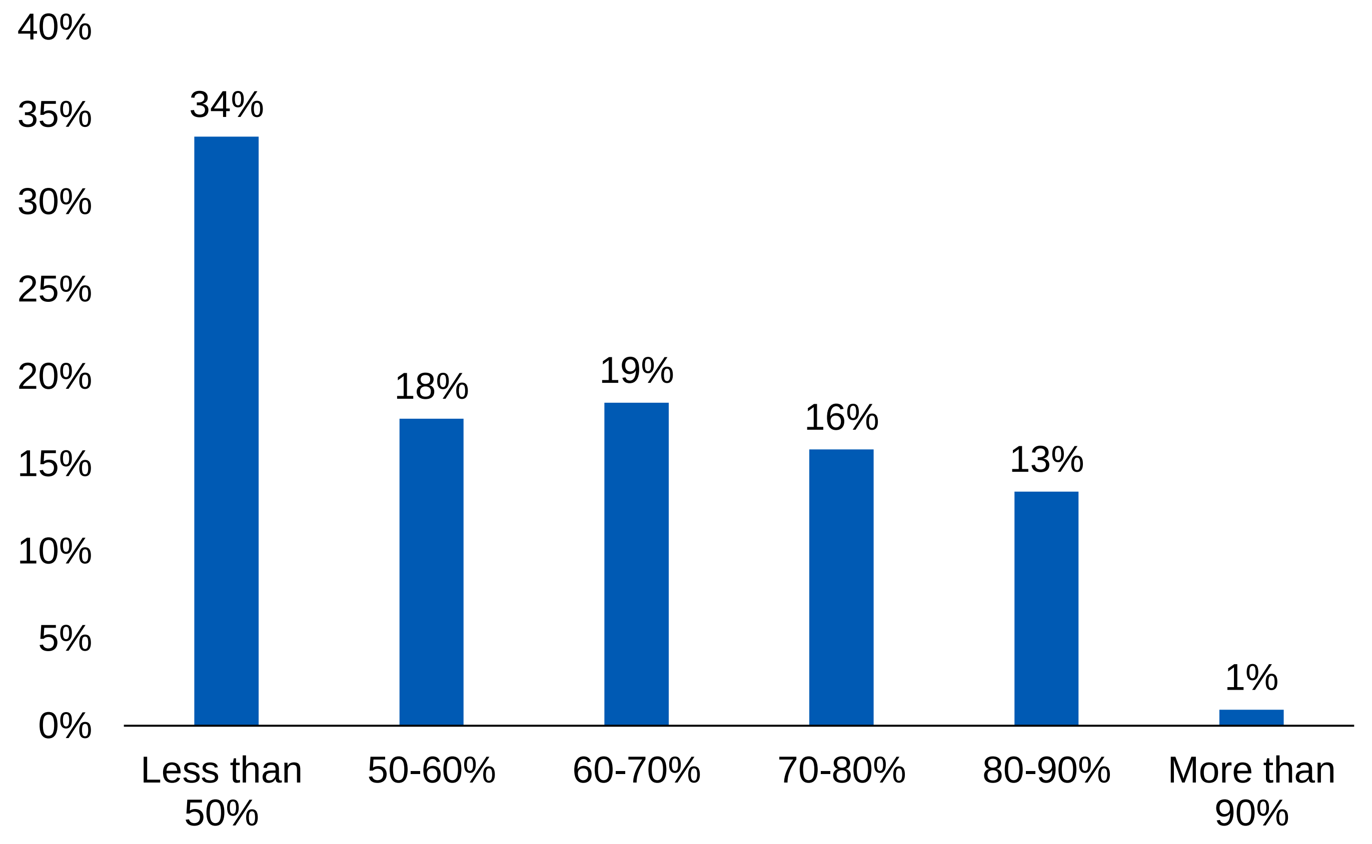
Rate of defaults and payments past due

Non-performing loans are 0.9% of the mortgage portfolio, the same level as before Covid-19. Loans past due are relatively stable.



Loan to value distribution[1]

Loan-to-value below 80% accounts for 86% of the mortgage portfolio.



1. Total exposure of a loan is in one bracket

Real Estate Sector

Diversified portfolio

Overall real estate related lending in the corporate loan book comprises a total of 105bn or around 9.4% of the loan book with an average LTV of 66%.

The portfolio is highly diversified

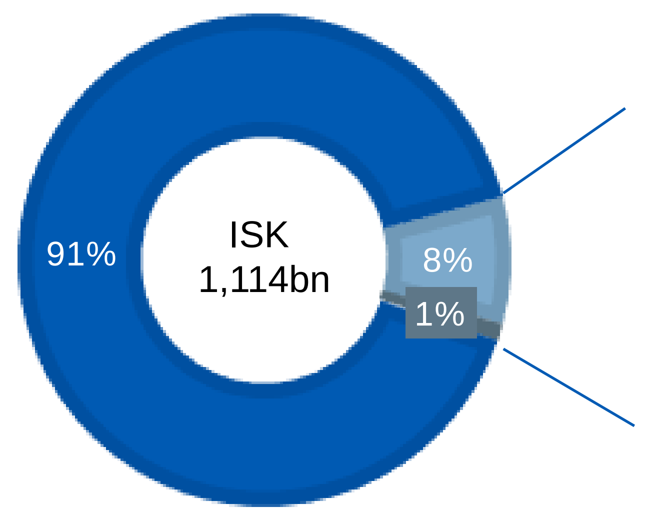
- 52% of the portfolio comes from SME retail exposures (< ISK 600m per loan)
- The portfolio is mostly towards companies that lease properties to operating companies within the same group (parent, subsidiaries or sister companies).
- Exposure to office real estate is small or around 12bn or 1% of the loan book. More than half of financed office real estate is on long-term lease to government institutions

Over the past couple of years, the portion of borrowers with CPI linked loans have decreased significantly. With the recent hikes in interest rates these companies have the option of moving back to CPI linked products to manage increased debt service levels.

Loans to customers (ISK bn)

Loans to real estate companies are approx. 9.4% of total loans to customers and 1.1% are against office buildings

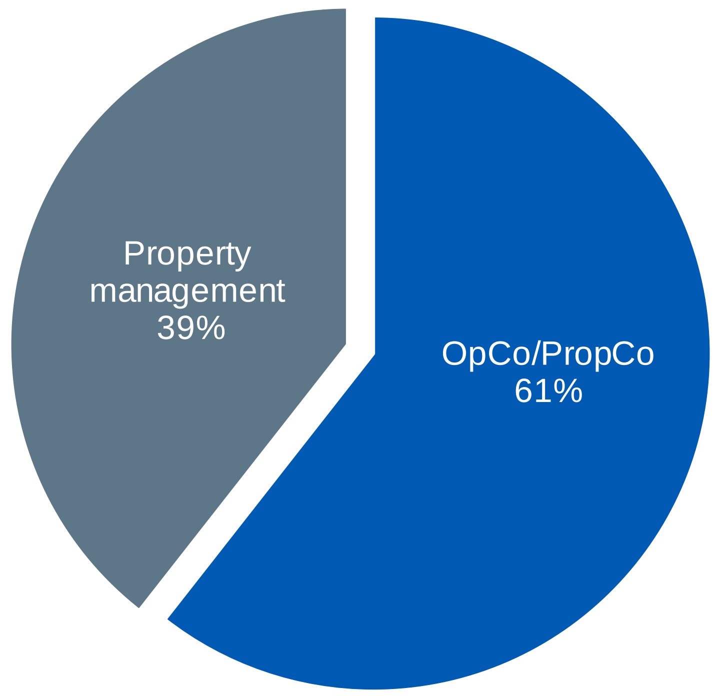
Total loan portfolio



ISK billions		% of Total Loans to customers
Residential	28.0	2.5%
Retail	19.3	1.7%
Office	11.9	1.1%
Industrial	20.1	1.8%
Hotel	18.8	1.7%
Mixed Use	6.5	0.6%
Total loans to CRE	**104.6**	**9.4%**

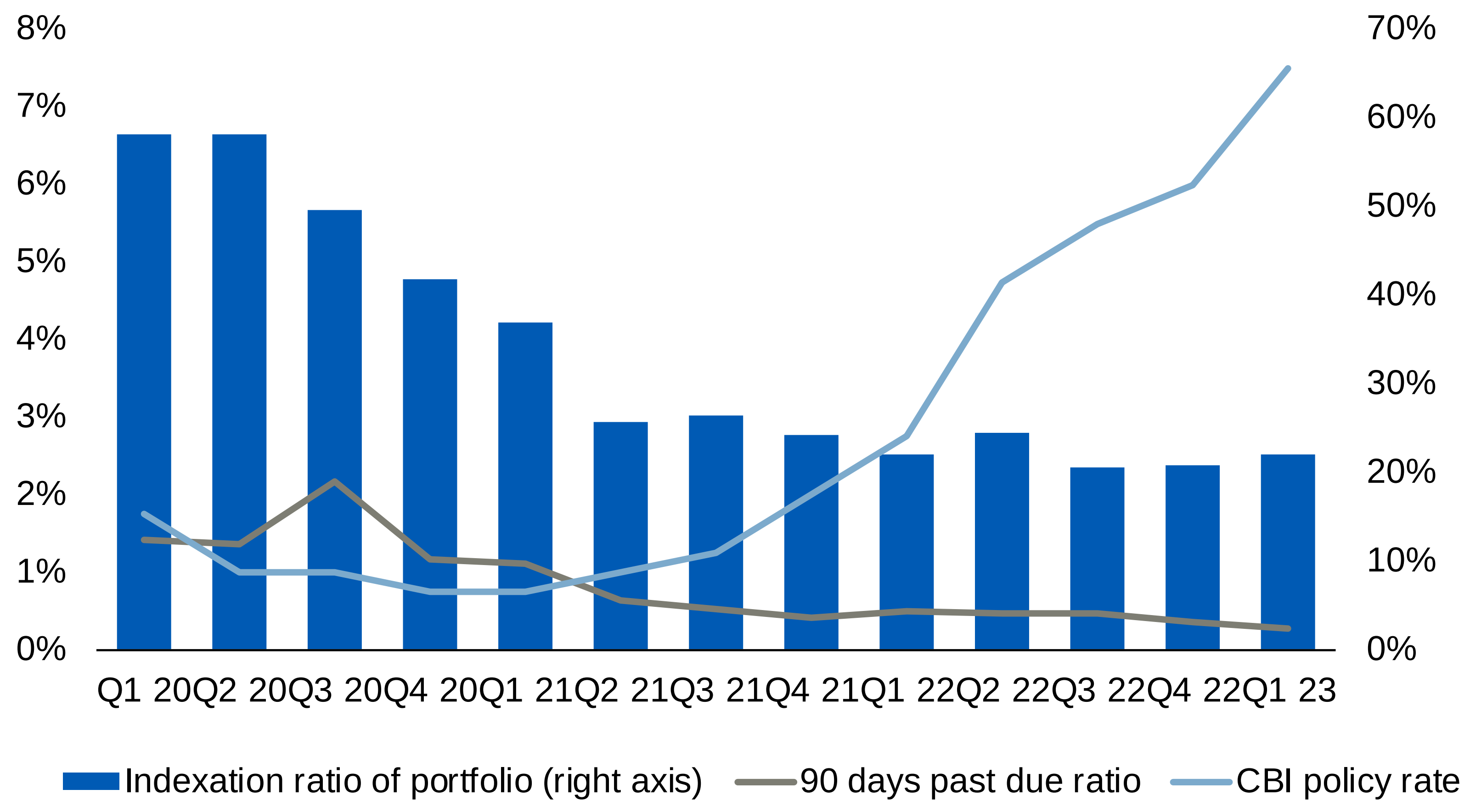
Borrower type

The Bank is primarily focused on CRE exposures that are owned and occupied by operational companies that are customers of the Bank



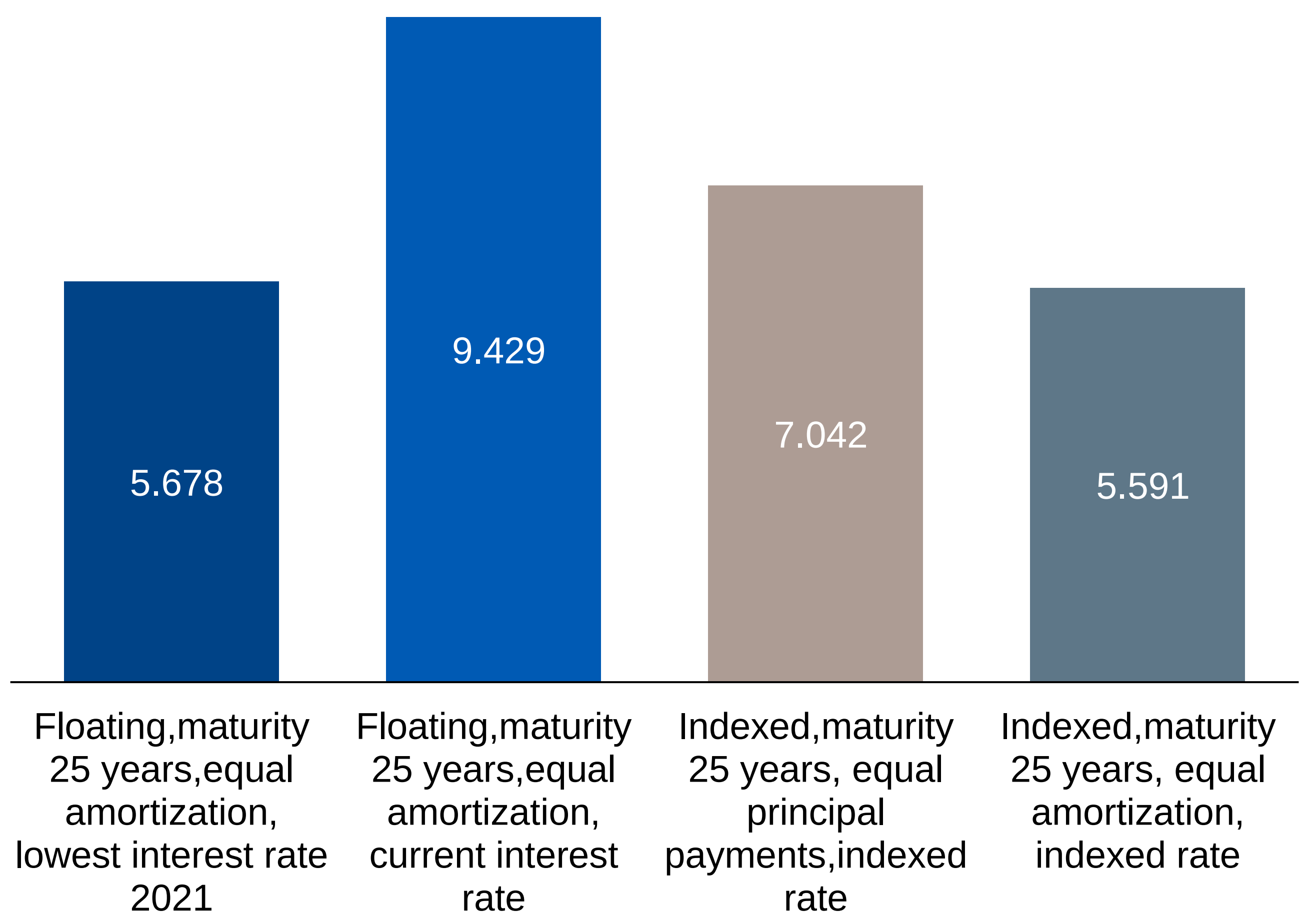
Development of indexed loans and 90 days past due

It is highly likely that customers will revert back to indexed loans if interest rates remain high. Historically the portfolio's indexation ratio has exceeded 50%. The delinquency rate remains low



Debt servicing: Indexed vs. floating rate

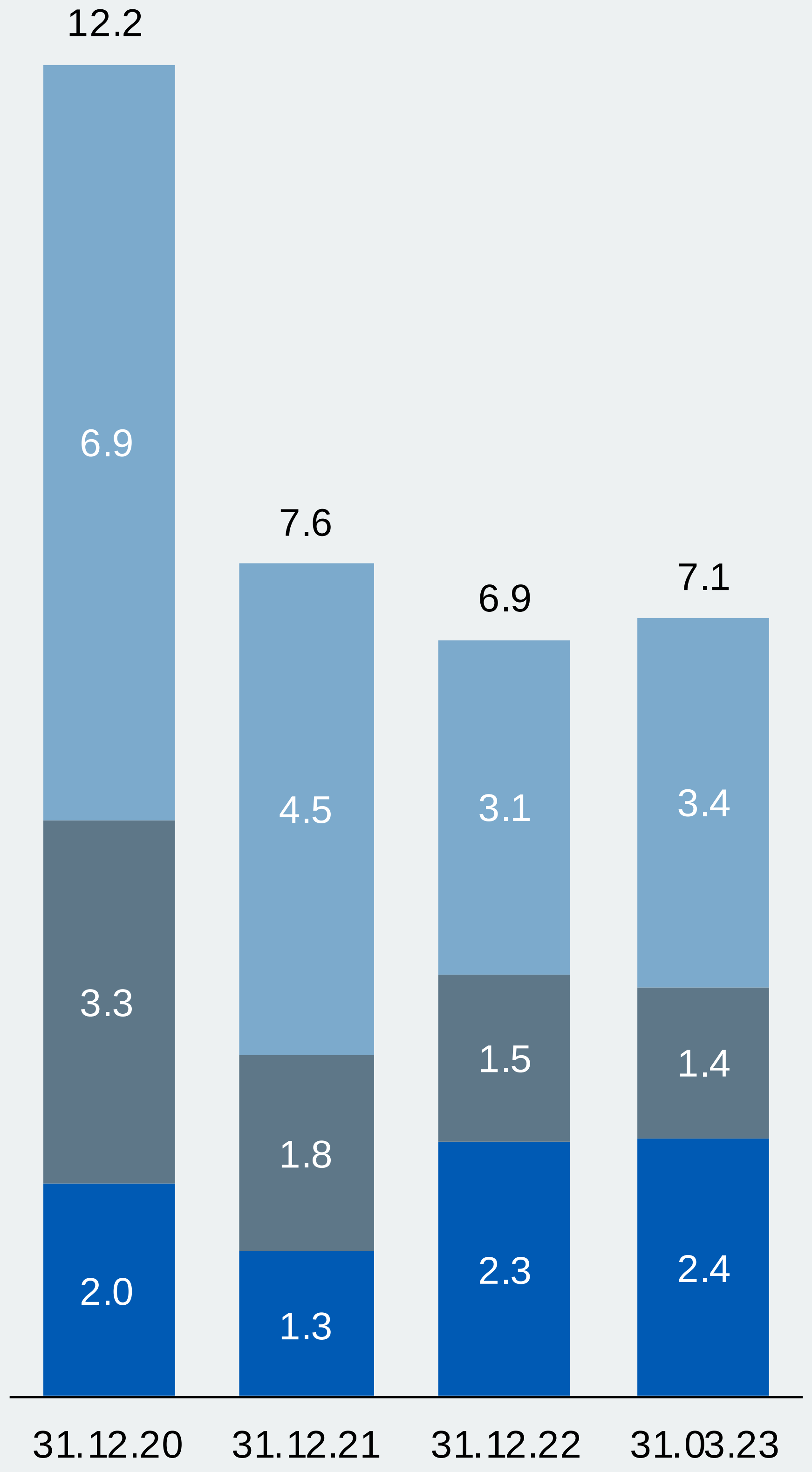
Companies have the option of moving into ISK indexed. The graph below shows the monthly debt service of ISK 1m debt in various form



Loss allowance by IFRS 9 stages

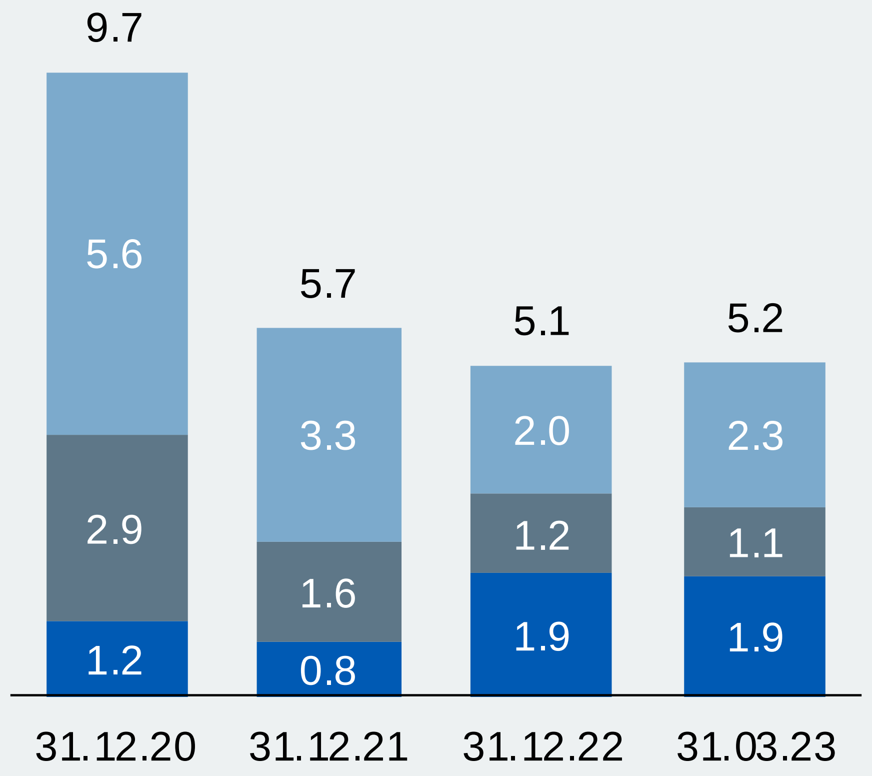
On loans to customers total

Loans to customers are 0.6% provisioned at period end



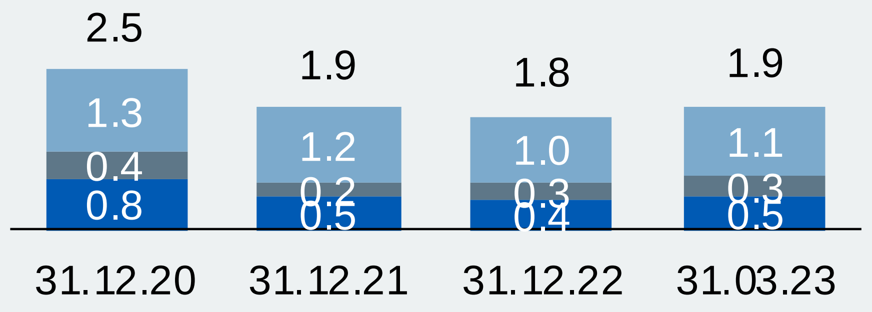
Thereof on loans to corporates

Loans to corporates are 1.0% provisioned at period end



Thereof on loans to individuals

Loans to individuals are 0.3% provisioned at period end



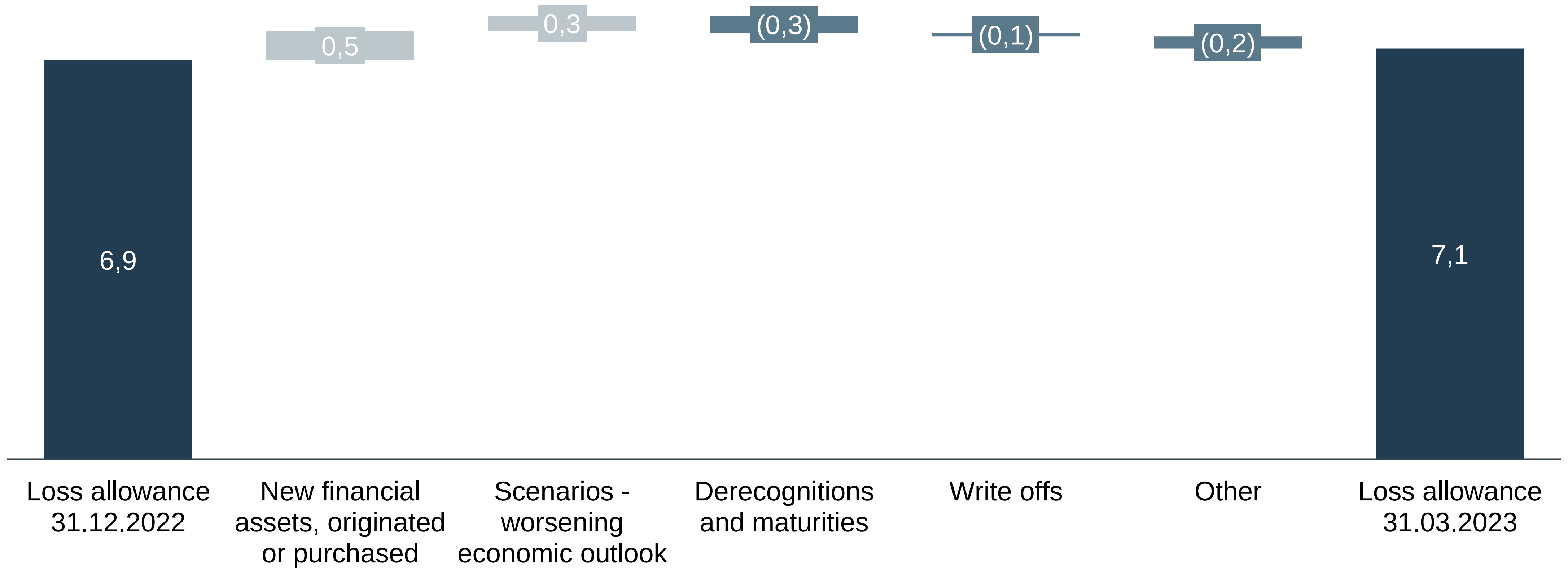
IFRS9 economic scenarios and assumptions

Worsening economic outlook is captured in a movement of weights from the optimistic case to the base and pessimistic case. It is also captured by a somewhat more negative view within the pessimistic scenario

IFRS9 scenario likelihood	YE 2021	YE 2022	Q1 2023
Optimistic	20%	10%	10%
Base case	60%	65%	60%
Pessimistic	**20%**	**25%**	**30%**

Changes to loss allowance on loans to customers in Q1

Included are FX changes and calculated interest 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.



* 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

Strong credit quality indicators while a slight trend towards higher rate of payments past due observed

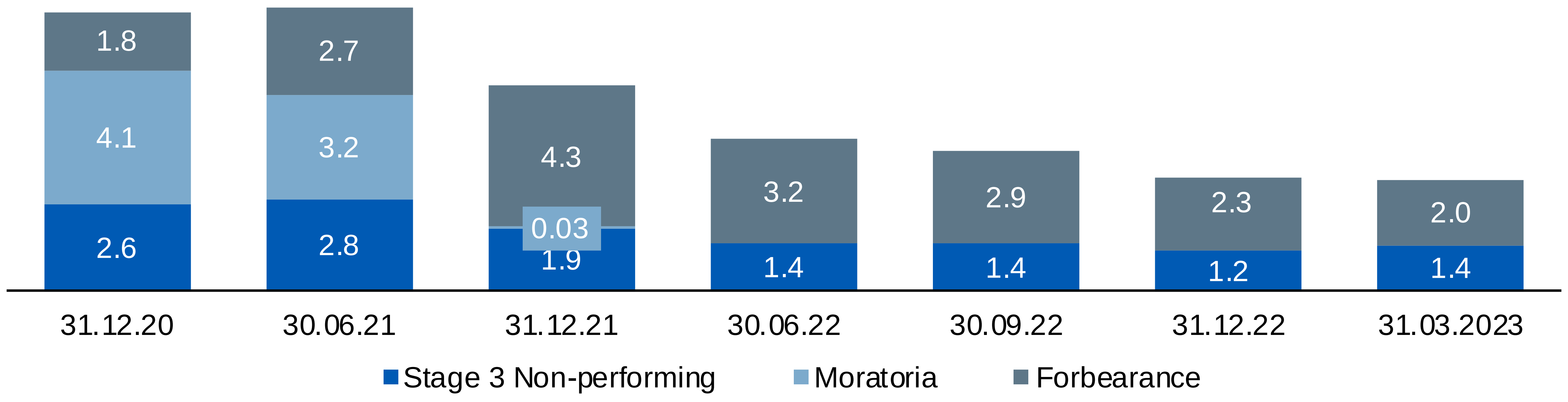
- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality remain at healthy levels.

- In Q1 2023, the problem loans ratio however increased for the first time since before Covid-19. The increase is primarily due to a single exposure which has been deemed unlikely to pay. In Q1, a slight increase to payments past due for consumer lending and SME loans is observed, indicating that the credit cycle is past an inflection point.

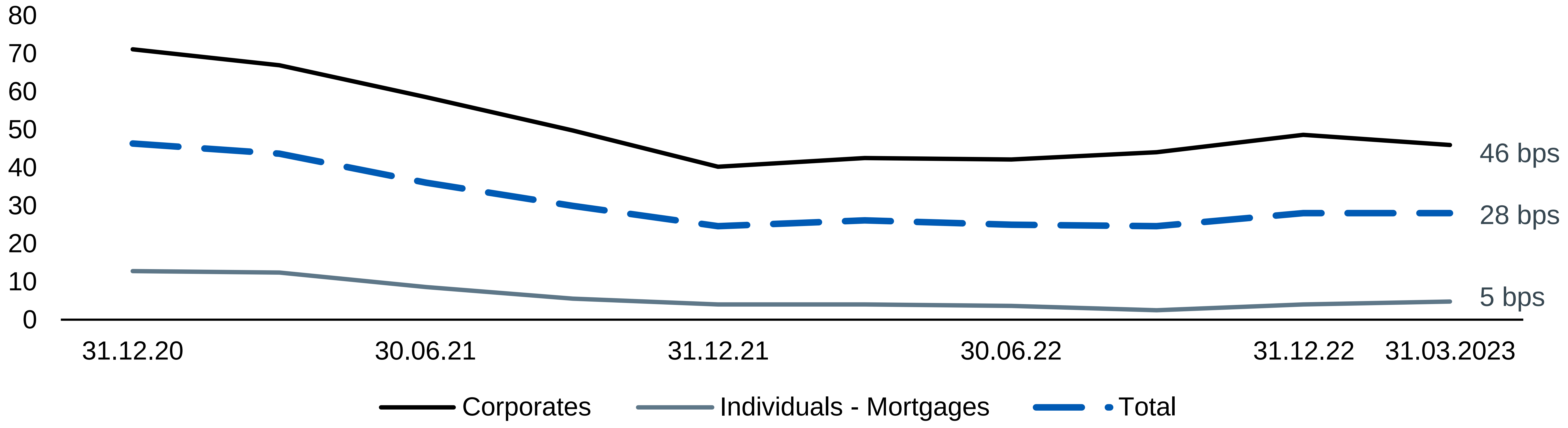
- Loans with moratoria and forbearance measures which are not in Stage 3 continue to decrease as the economy recovers from the effects of Covid-19. At the end of Q1 2023, they were 2.0% of total loans to customers.

- 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 Q1 the expected 12 month credit loss ratio of 28bps reflects the current challenging conditions.

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)

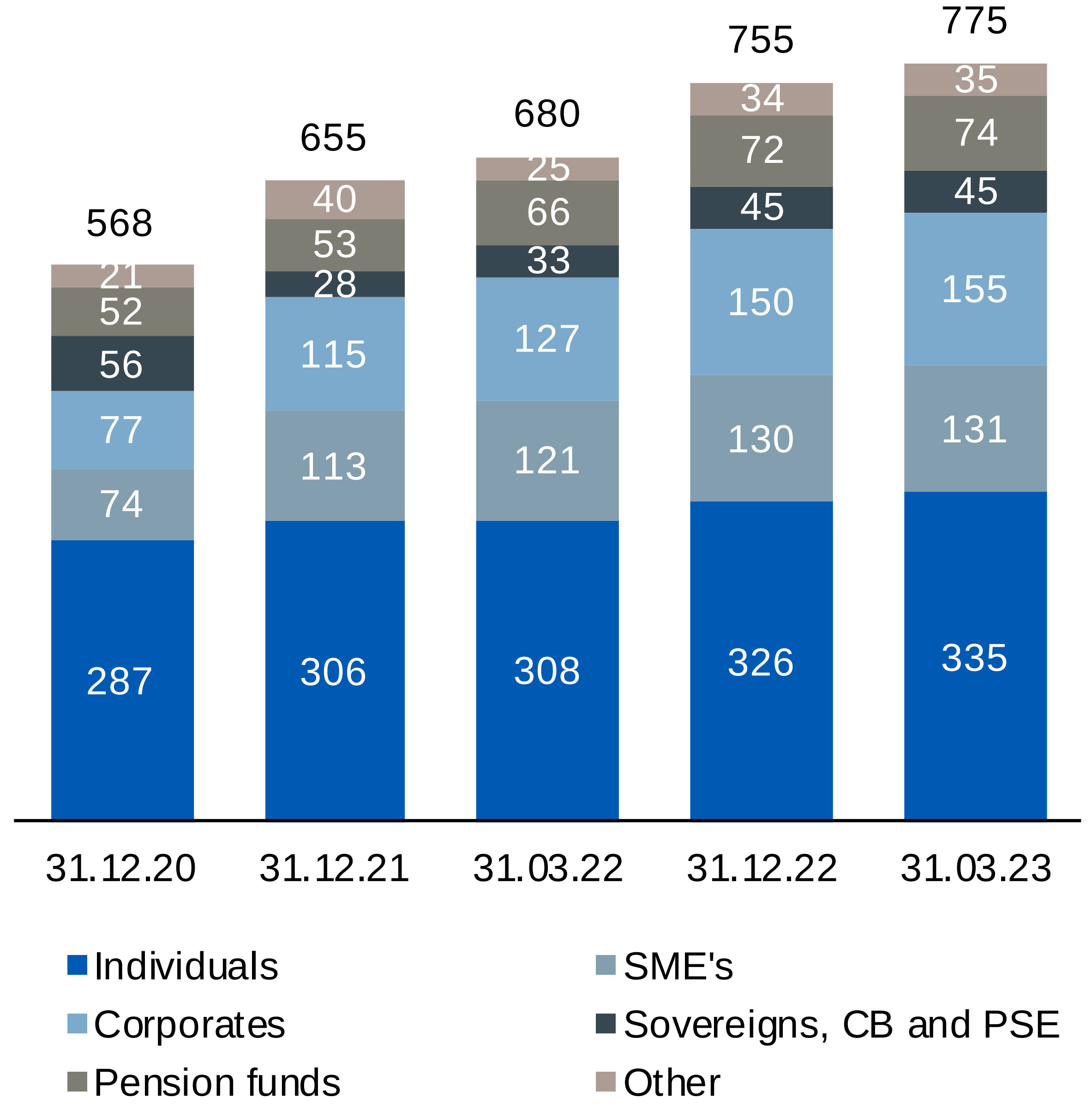


Deposits from customers

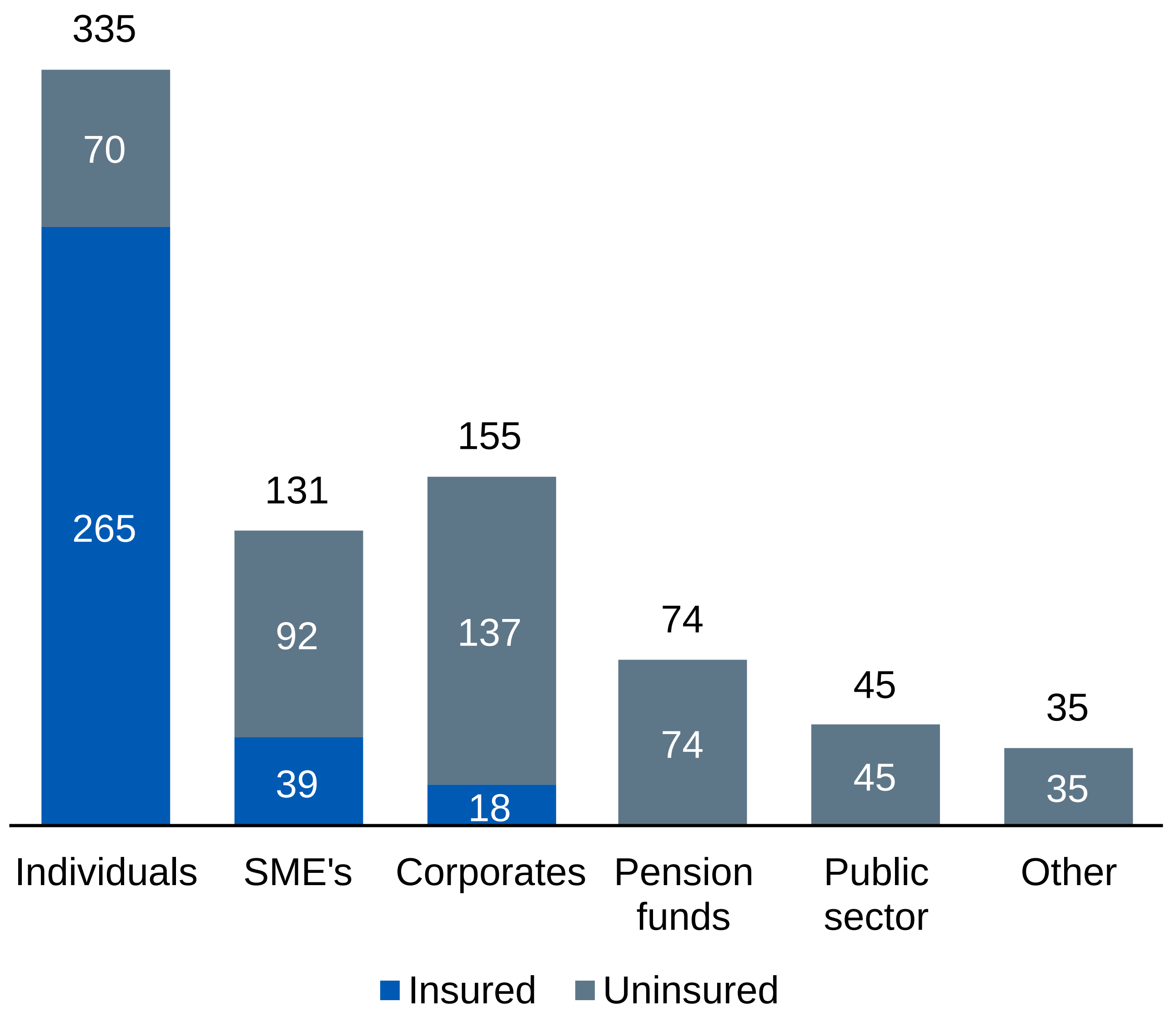
Continuing growth in deposits

- Deposits represent 58.7% of the Bank’s total liabilities
- Growth in deposits from customers during the first quarter of 2023 was 2.6% and 14.0% from the same quarter in 2022
- Loans to deposits ratio of 144% at the end of the quarter and has been stable over the last few years
- Higher rates and change in legislation regarding CPI linked products expected to retain competition in the deposit market
- Even split between savings and current accounts at the end of the quarter, was 47/53 at year-end 2022

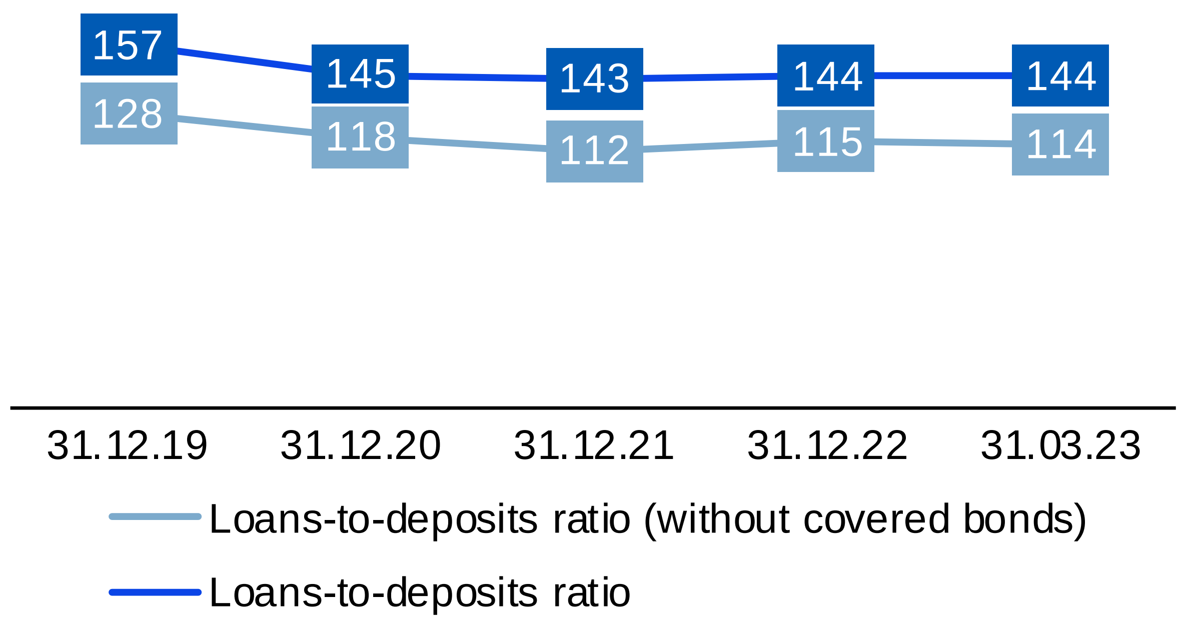
Deposits



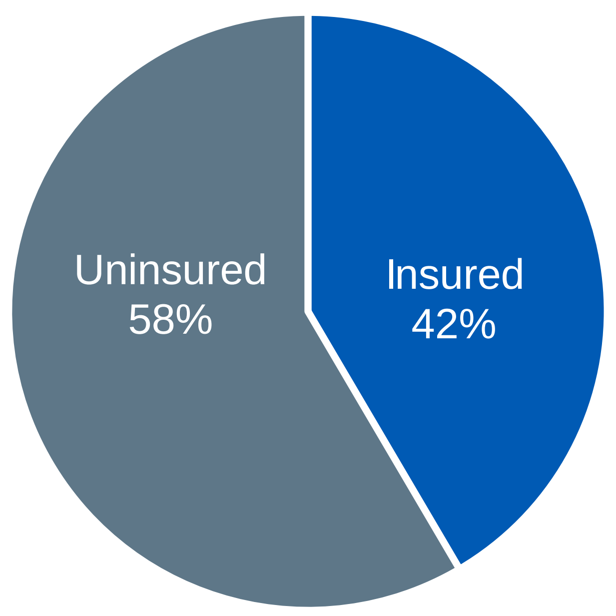
Deposits by insurance scheme



Loans to deposits ratio (%)



Total deposits by insurance scheme

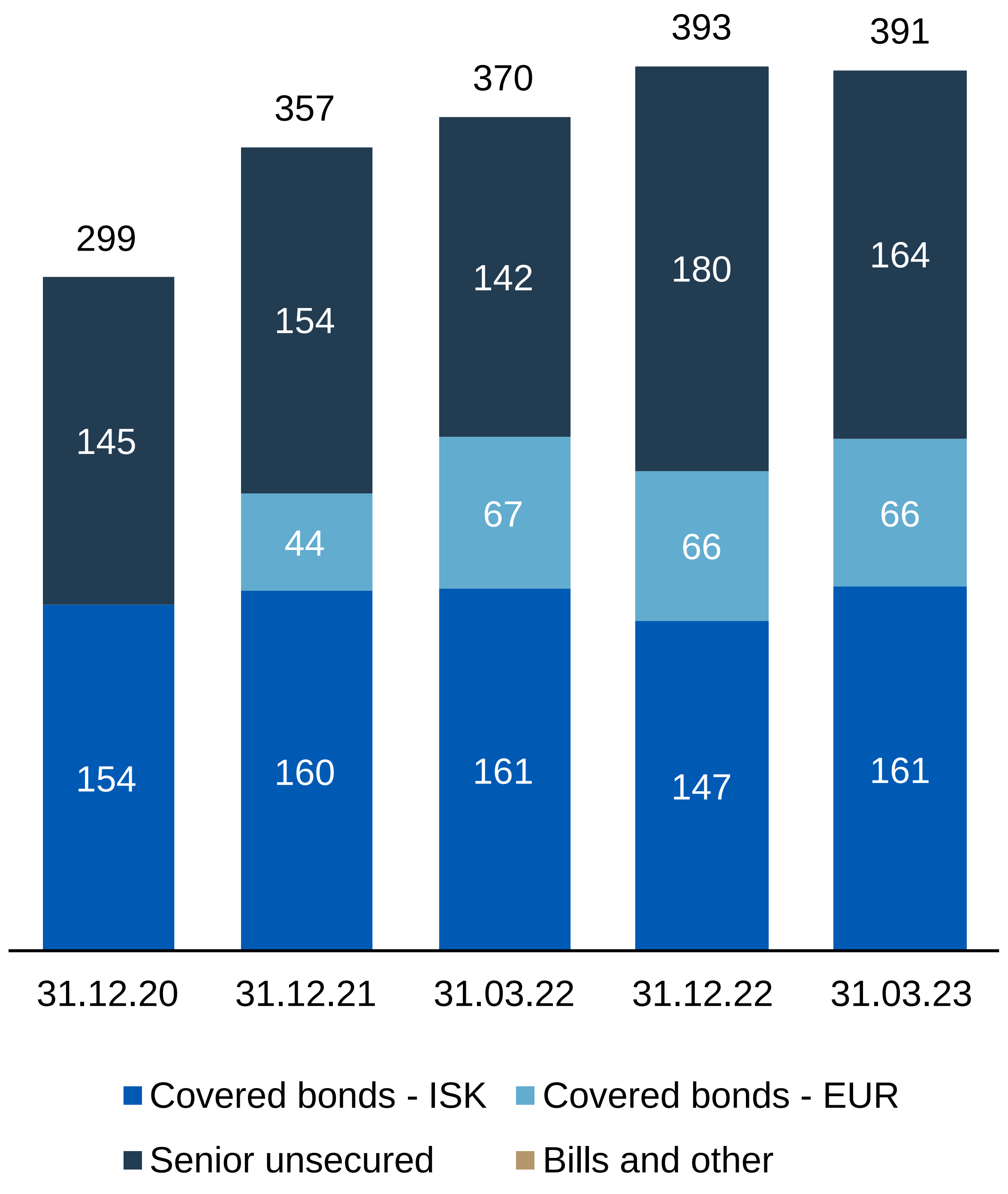


Borrowings

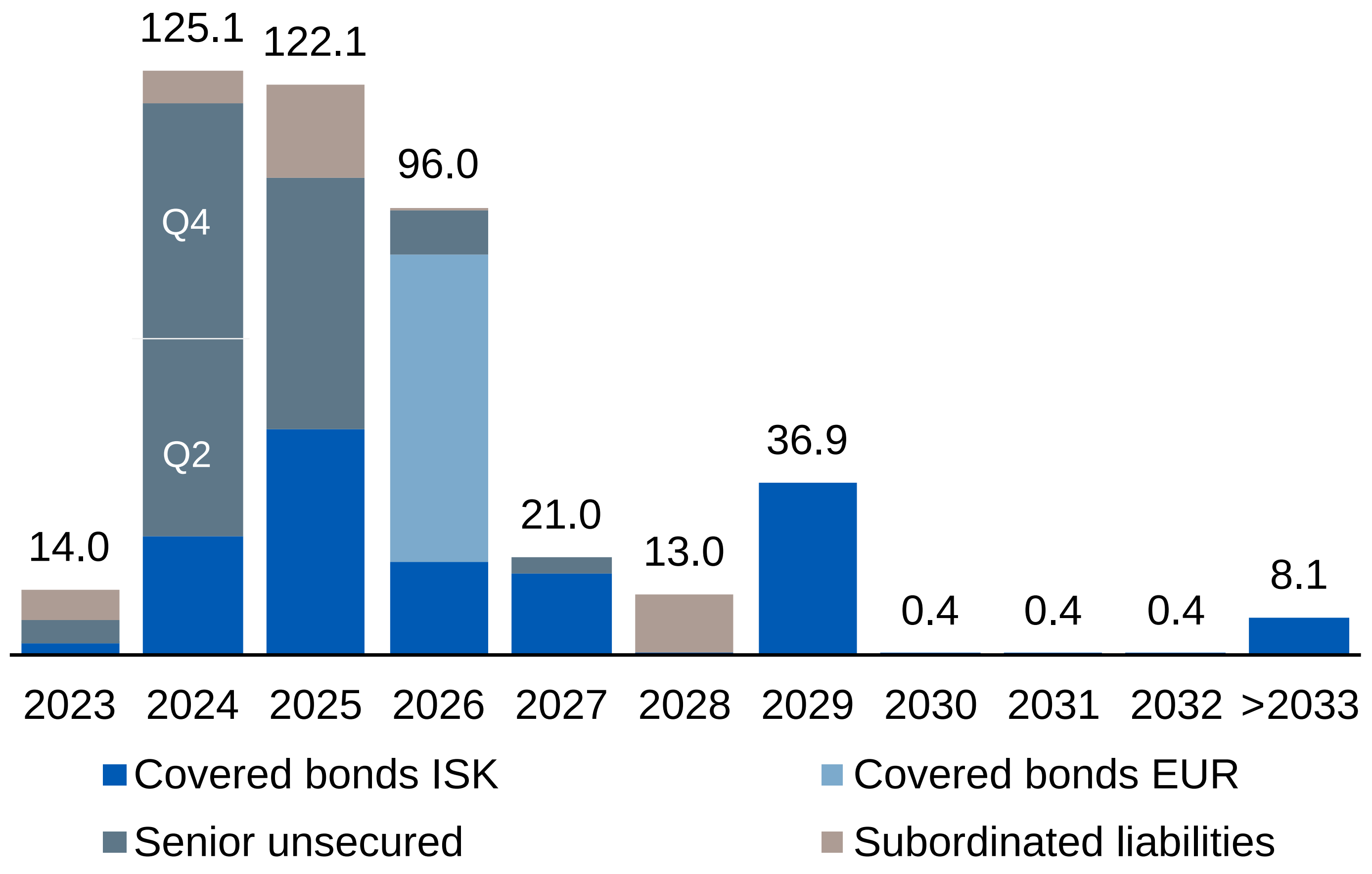
Balanced maturity profile with broad funding options

- Arion Bank issued private placements amounting to NOK 200 million and SEK 300 million in Senior Preferred in Q1 2023
- Total issuance of Covered Bond format ISK 32.9bn in Q1 2023 of which ISK 21.6bn for own use
- Positive spread development in early 2023 but now widening following US banking sector volatility and Credit Suisse/UBS merger
- The Bank will continue to regularly issue in the domestic market and opportunistically access the international markets

Borrowings by type



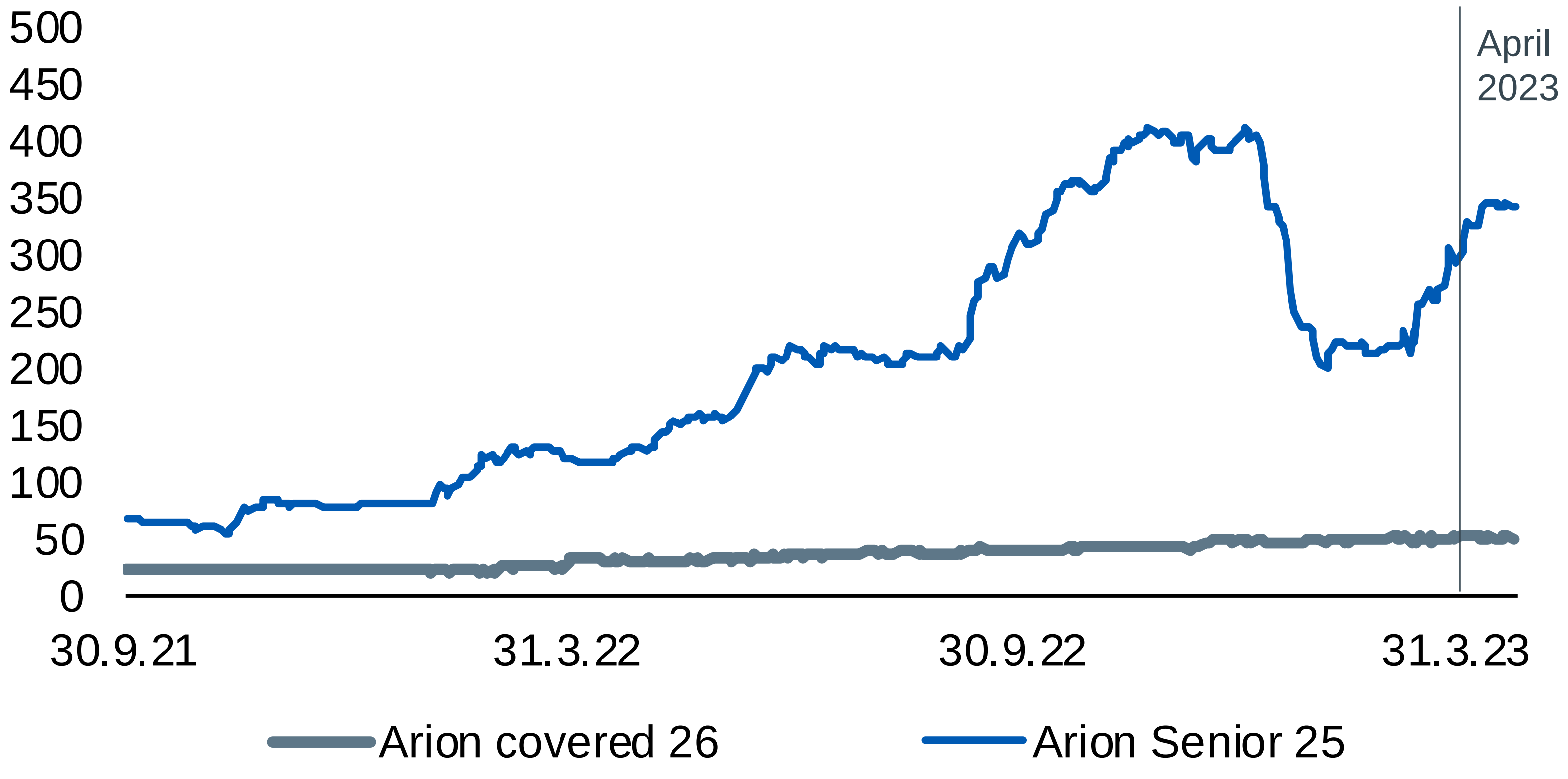
Maturities of borrowings and call dates on subordinated liabilities



Ratings

S&P		
Long term	BBB	A
Covered bond	A	N/A
Short term	A-2	A-1
Outlook	Negative	Stable
Moody's		
Deposits - long term	A3	N/A
Issuer - long term	Baa1	A2
Outlook	Positive	Stable

Development of EUR funding spreads (bps)



Source: Bloomberg

The Bank received strong ESG ratings and the green asset pool grew by 16% in 2022

The Bank will continue to focus on sustainability in its operations and measure its impact. We aim to raise the ratio of green lending to 20% of the Bank's total loan portfolio by 2030 in line with our green financing framework.

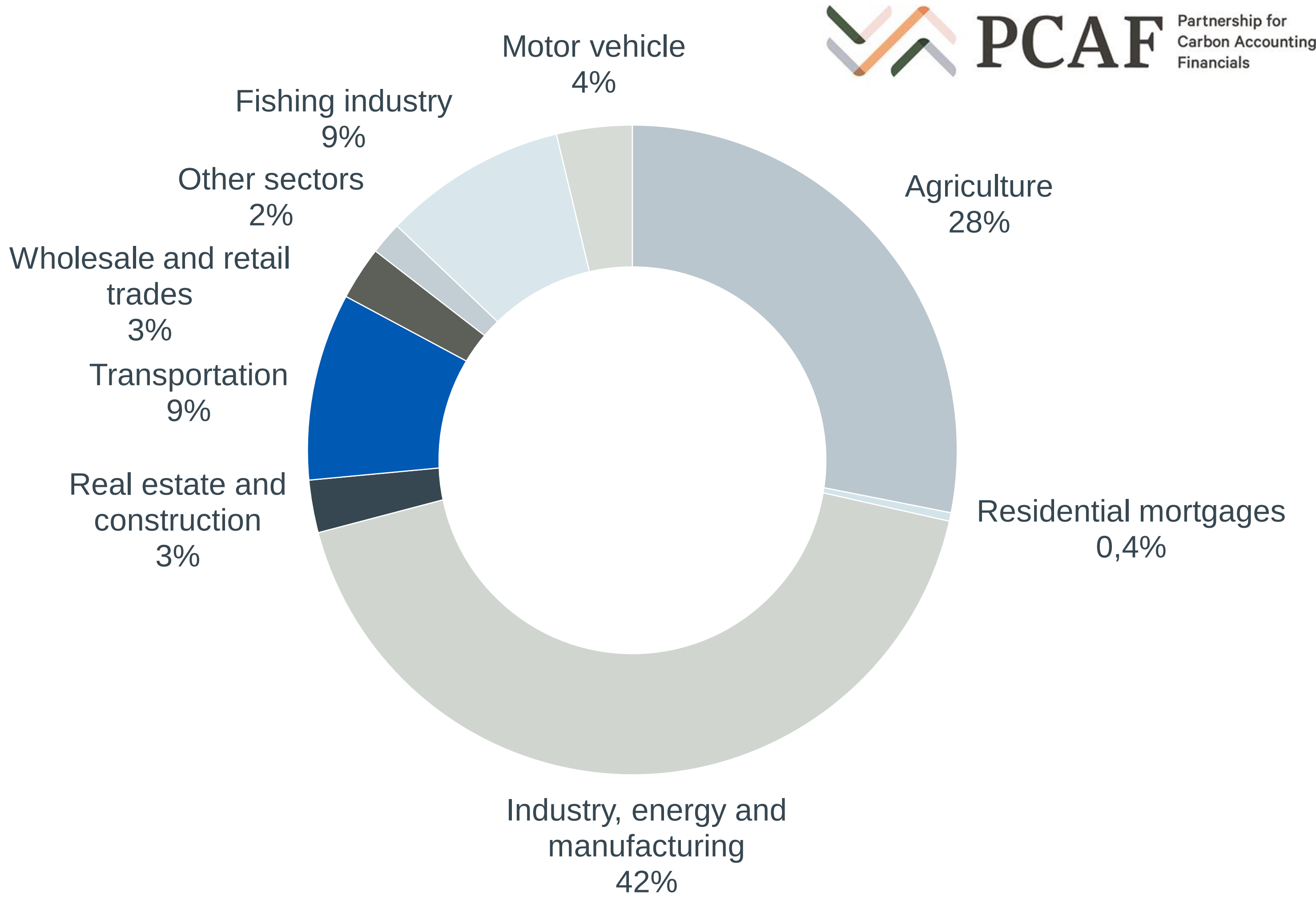
MORNINGSTAR | SUSTAINALYTICS
ESG INDUSTRY TOP RATED 2023

Sustainalytics places Arion Bank in the top 6th percentile of banks (around 1,000 banks globally) and the top 4th percentile of regional banks (around 400 banks). On a scale of 0-100, Arion Bank received 12 points, with fewer points signifying lower risk which places the Bank in the low-risk category.

Reitun

Arion Bank has achieved the score "outstanding" in Reitun's ESG rating, scoring 90 out of 100 possible points and placing it in category A3. The rating is based on the Bank's performance in environmental, social and governance (ESG) issues in its operations. This is the third year in row the Bank has achieved this score.

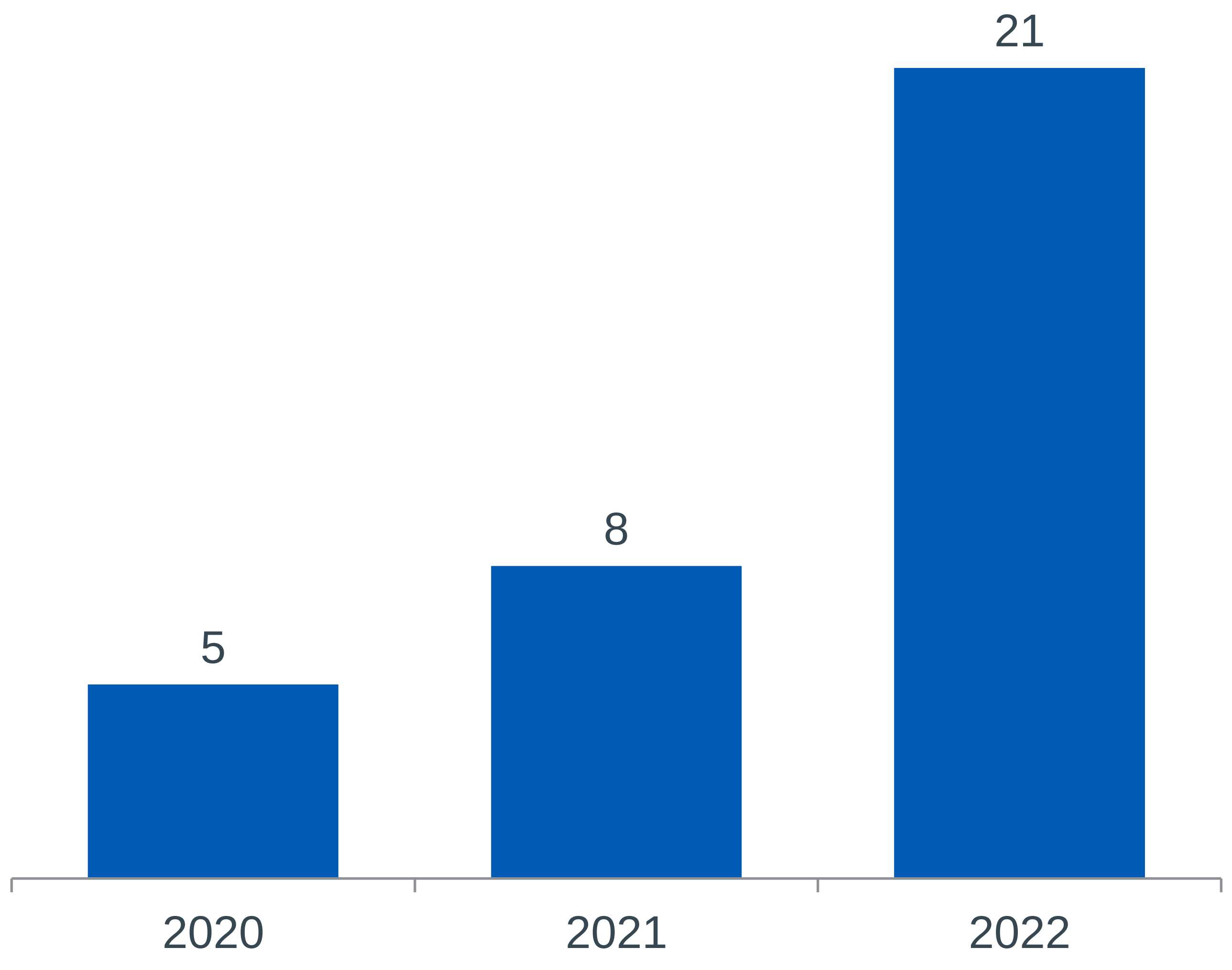
Arion Bank's emissions from loan portfolio in 2021



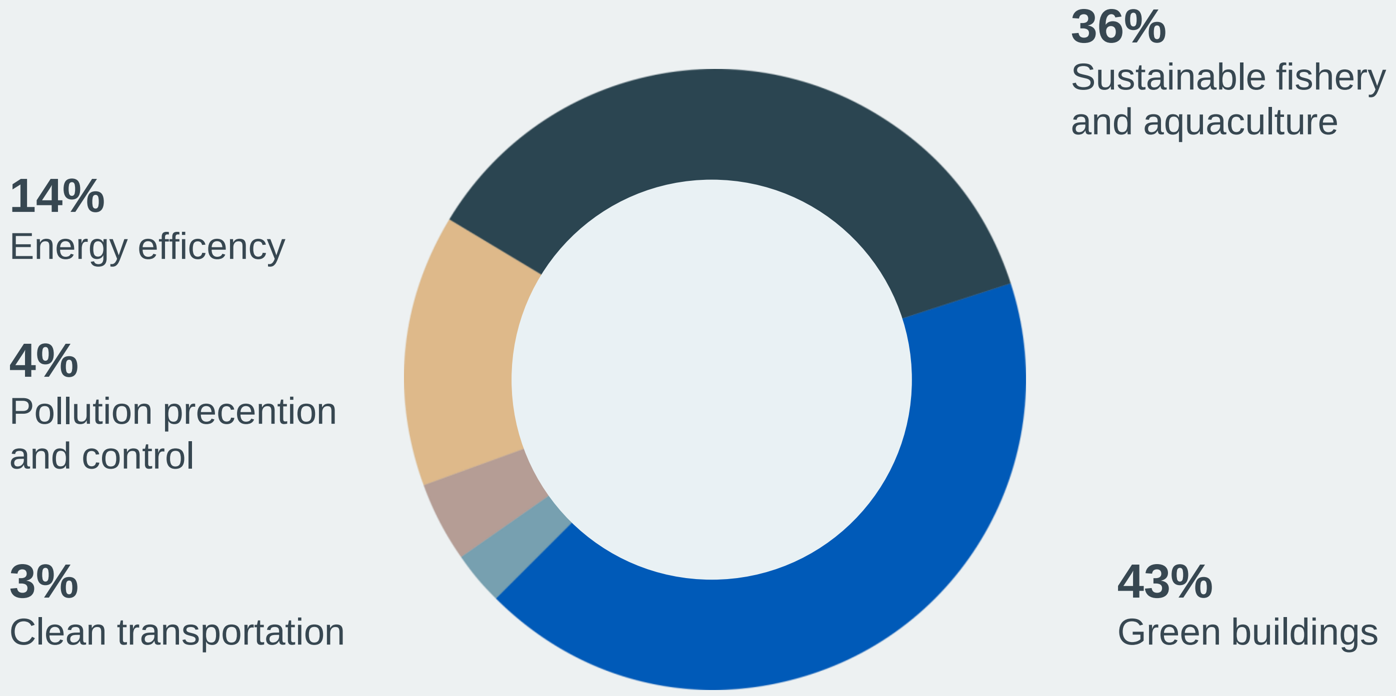
PCAF Partnership for Carbon Accounting Financials

The Bank's total financed emissions in 2021 was 279.4ktCO_2e
92.5% of total loan portfolio has been measured

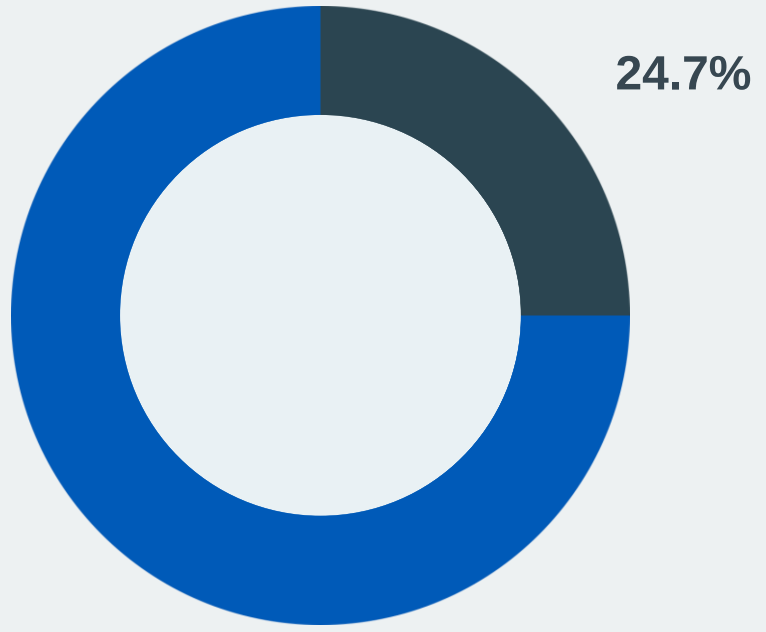
Green deposits (ISK bn)



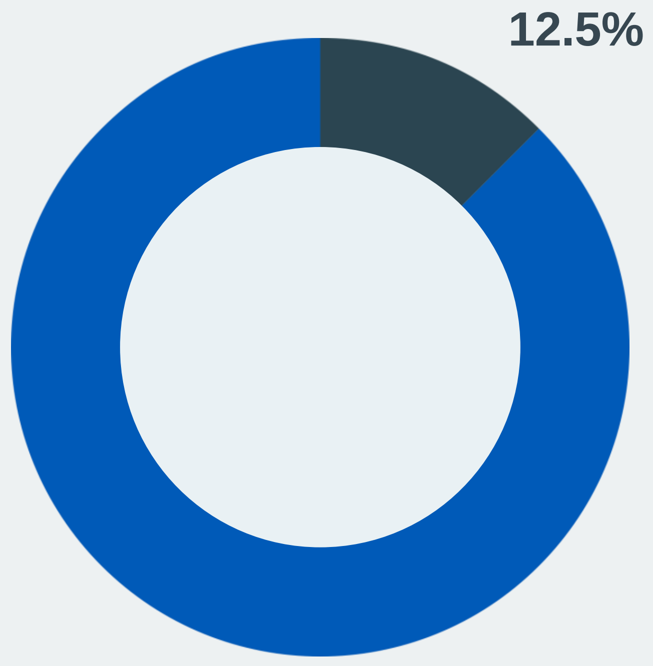
Diversified pool of eligible green assets (total ISK 151bn) at YE 2022



Green bonds represent 24.7% of borrowings



Green assets represent 12.5% of the Bank's loan book

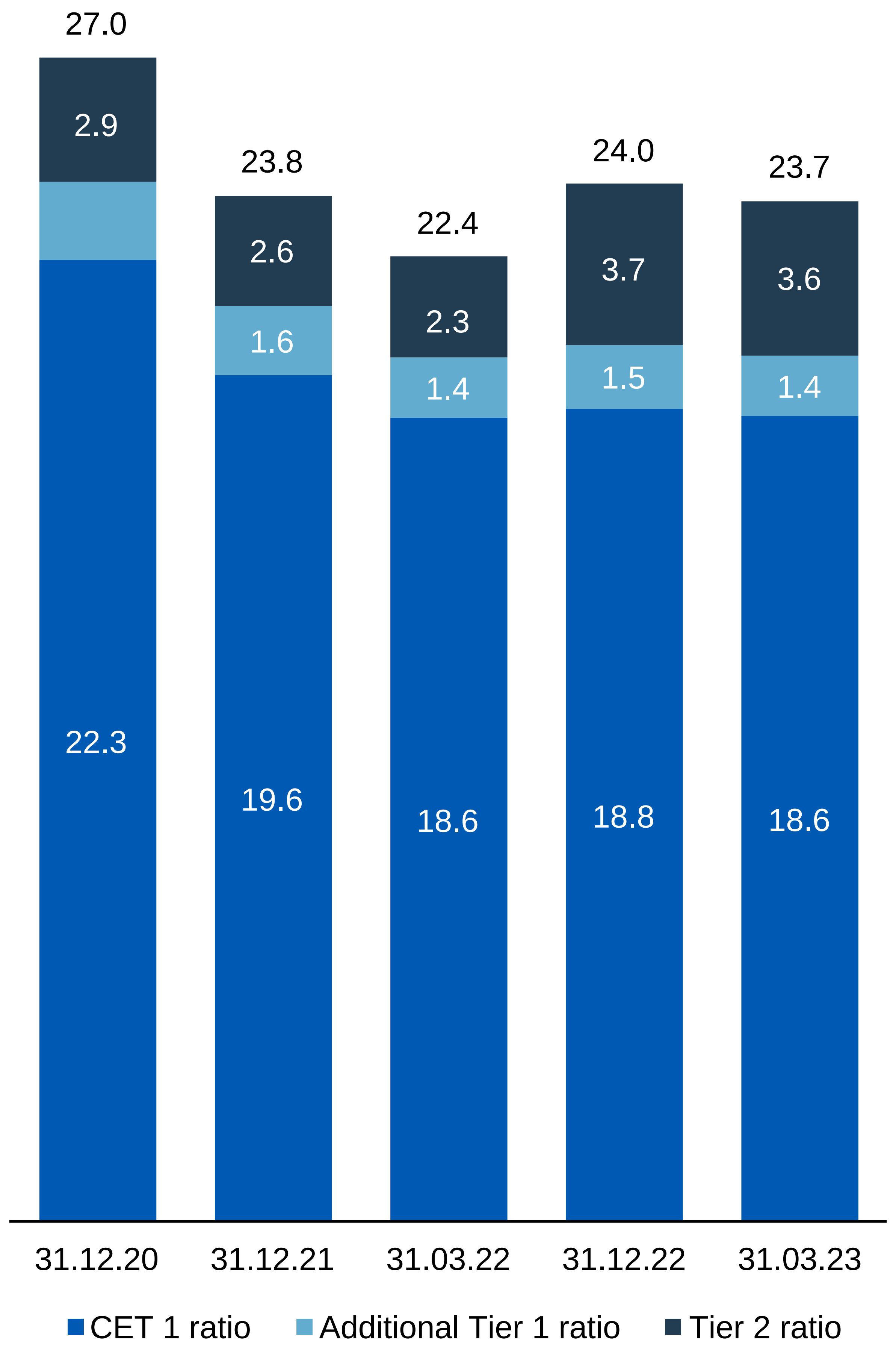


Own funds

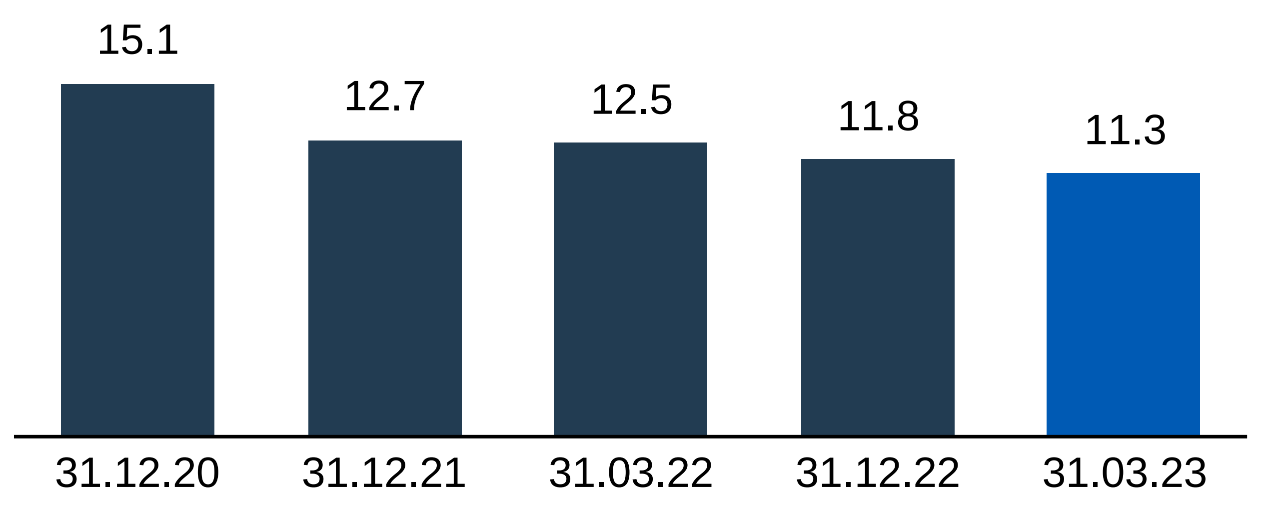
Strong capital ratios

- Capital position stable between quarters despite balance sheet growth and share buybacks
- REA increased by 2.6% in Q1. The increase is mainly in credit risk from lending activities
- Leverage ratio of 11.3% significantly above international competitors

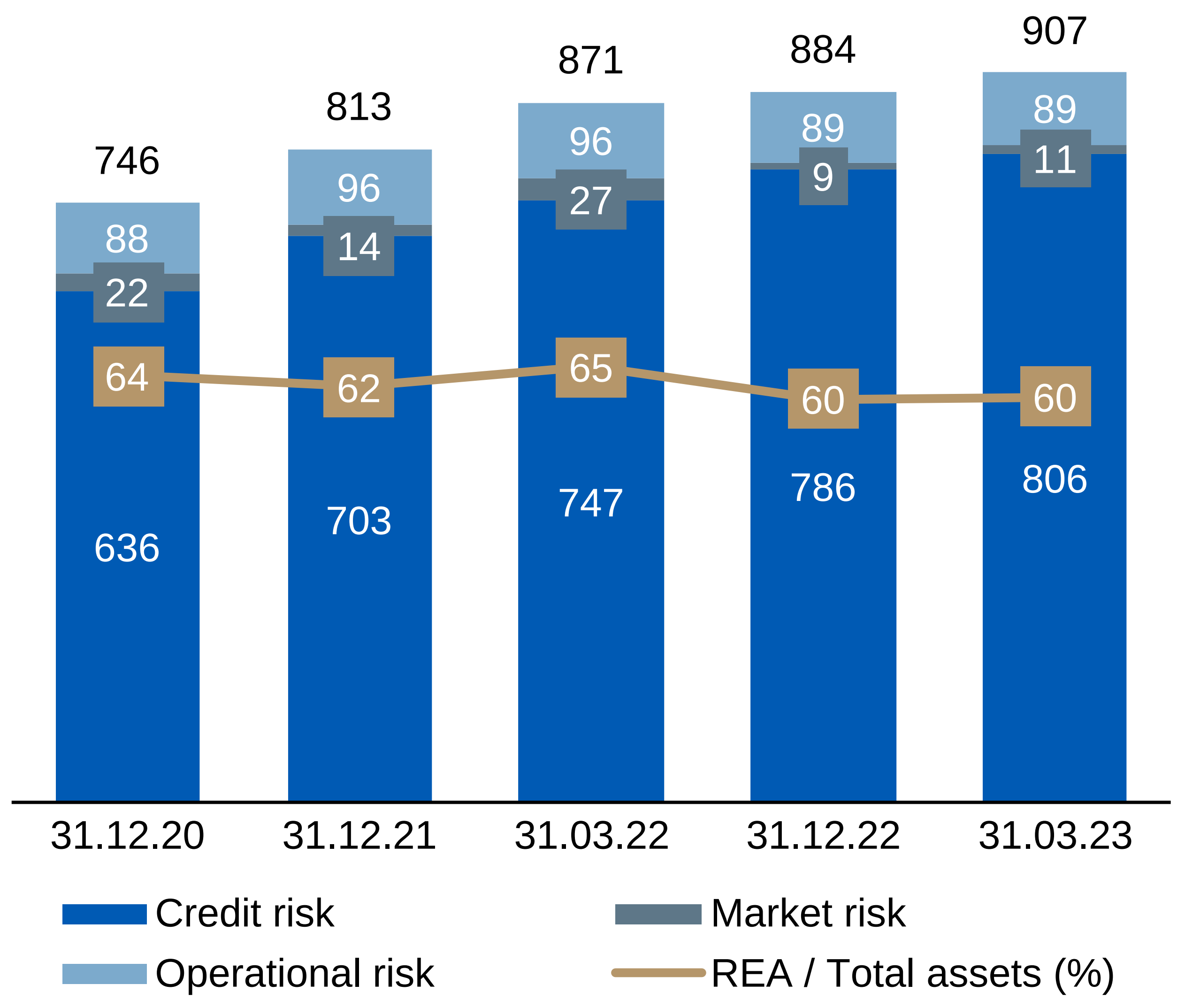
Total capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount

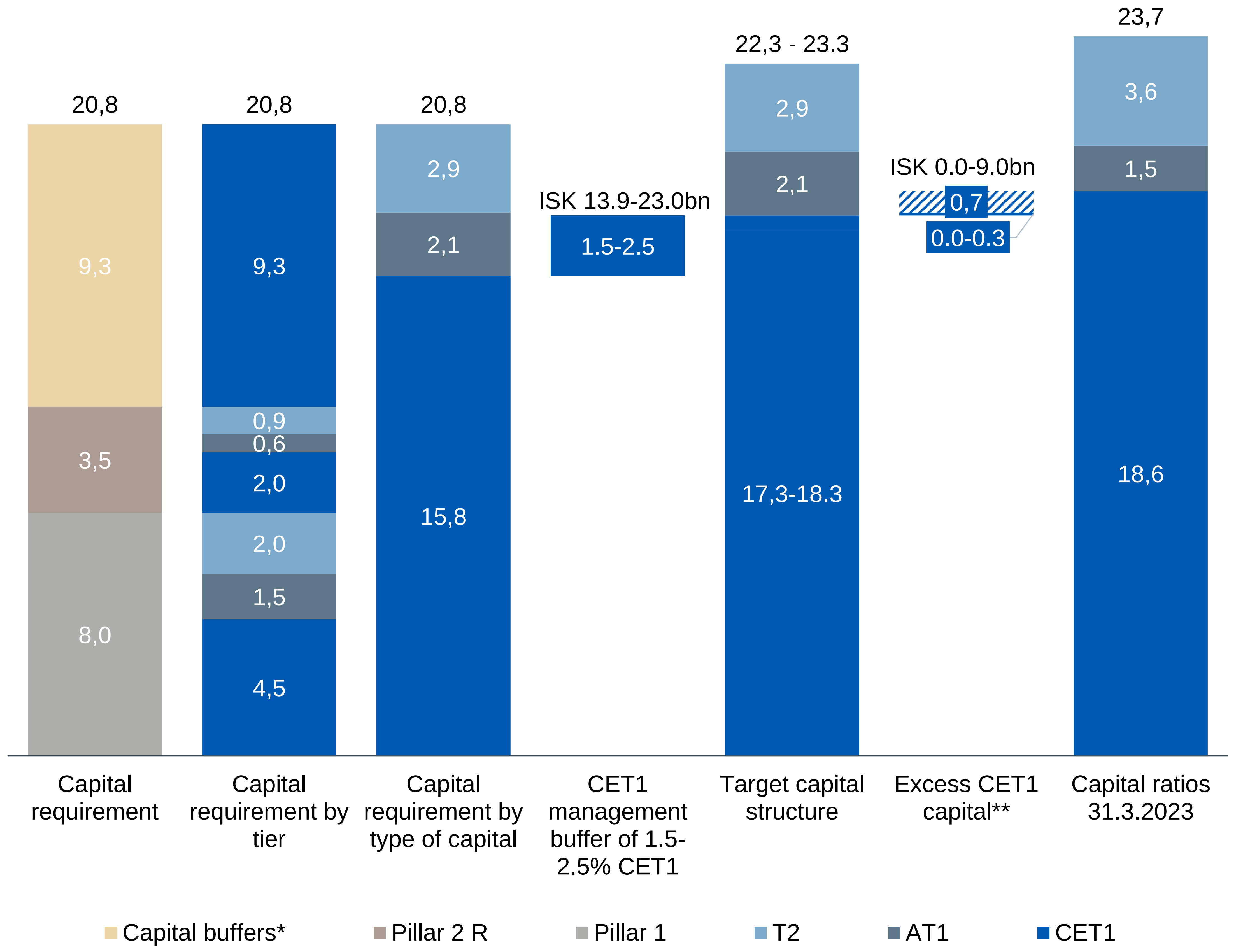


Own funds

The capital ratios continue to be strong while capital optimization efforts are slowing

- Unaudited Q1 profits of ISK 6.3 bn and corresponding foreseeable dividends of ISK 3.1bn included in the capital ratios shown
- Also included is ISK 0.9 bn remaining of a buyback program approved on 8 February 2023
- The Pillar 2 requirement is 3.5% as a result of the SREP process based on year-end 2021 financials.
- The countercyclical buffer in Iceland rose from 0% to 2% as of 29 September 2022 based on a decision of The Financial Stability Council from a year earlier. On 14 March 2023, the Central Bank of Iceland announced that the countercyclical buffer will rise to 2.5% on 15 March 2024.
- The medium-term capital management buffer target is 150-250bps
- CET1 capital of ISK 0.0 - ISK 9.0 bn in excess of target capital structure. However, since currently the Bank does not make the optimal use of the AT1 capital item, CET1 capital of ISK 6.6 bn is used to make up that shortfall.
- The solvency ratio of Vördur insurance is 138.5%

Own funds and capital requirements (%)



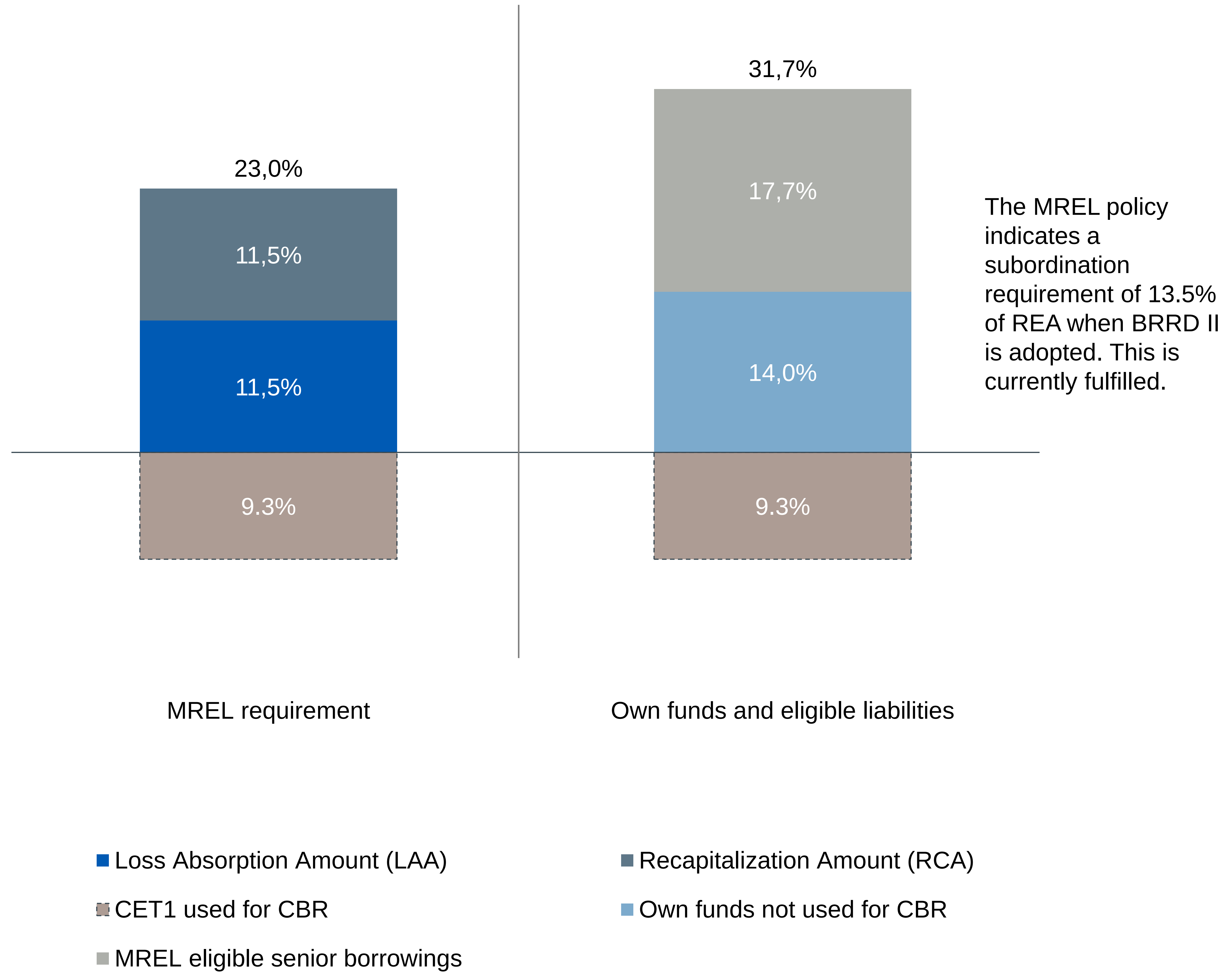
* Capital buffers include the increase in the countercyclical buffer in Iceland to 2%, which took effect on 29 September 2022
** A portion of the excess CET1 capital must be used to make up for the AT1 shortfall. This portion is shown in a chequered pattern

MREL requirement

Comfortably exceeding MREL requirements

- 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 9.3% of REA
  - No subordination requirement
- Iceland is obligated to introduce the BRRD II approach, the legislative process has started but the date of the application of the requirements is uncertain
  - The details of the implementation of the MREL requirement in accordance with BRRD II will be introduced in secondary legislation
- The Senior Non-Preferred (SNP) rank has been introduced into Icelandic law, but the Bank does not see a need to issue SNP debt in the coming year
- 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 14.7% TLOF which corresponds to 24.1% REA at 31.3.2023

Going forward

Strong momentum

Strong operating momentum across our business has continued into 2023

The external environment continues to add complexity, but the Group is in a good position to navigate this and continue to drive results

The Icelandic economy is relatively robust and is set for healthy growth in 2023. However, persistent inflation combined with global market volatility continues to pose challenges

The liquidity and funding position of the Group is strong and allows for flexibility when it comes to issuance plans near term

Agility continues to be key in the current market and the Group benefits from strong diversification which allows for optionality in capital allocation

While the outlook for our operations remain strong, the Bank will continue to take a conservative view when managing growth, provisioning and capital positioning during the current external market volatility

Appendix

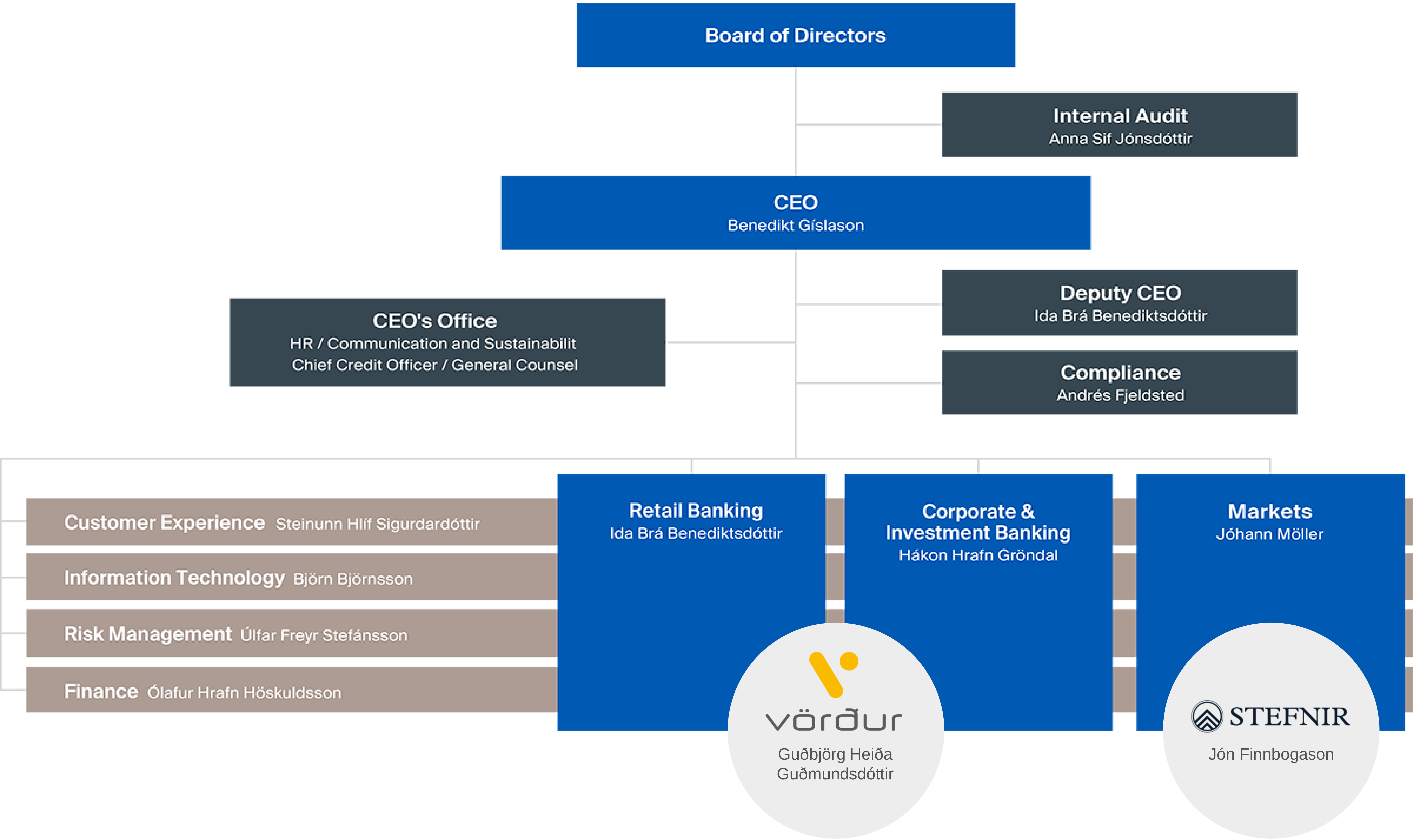
Recent management changes

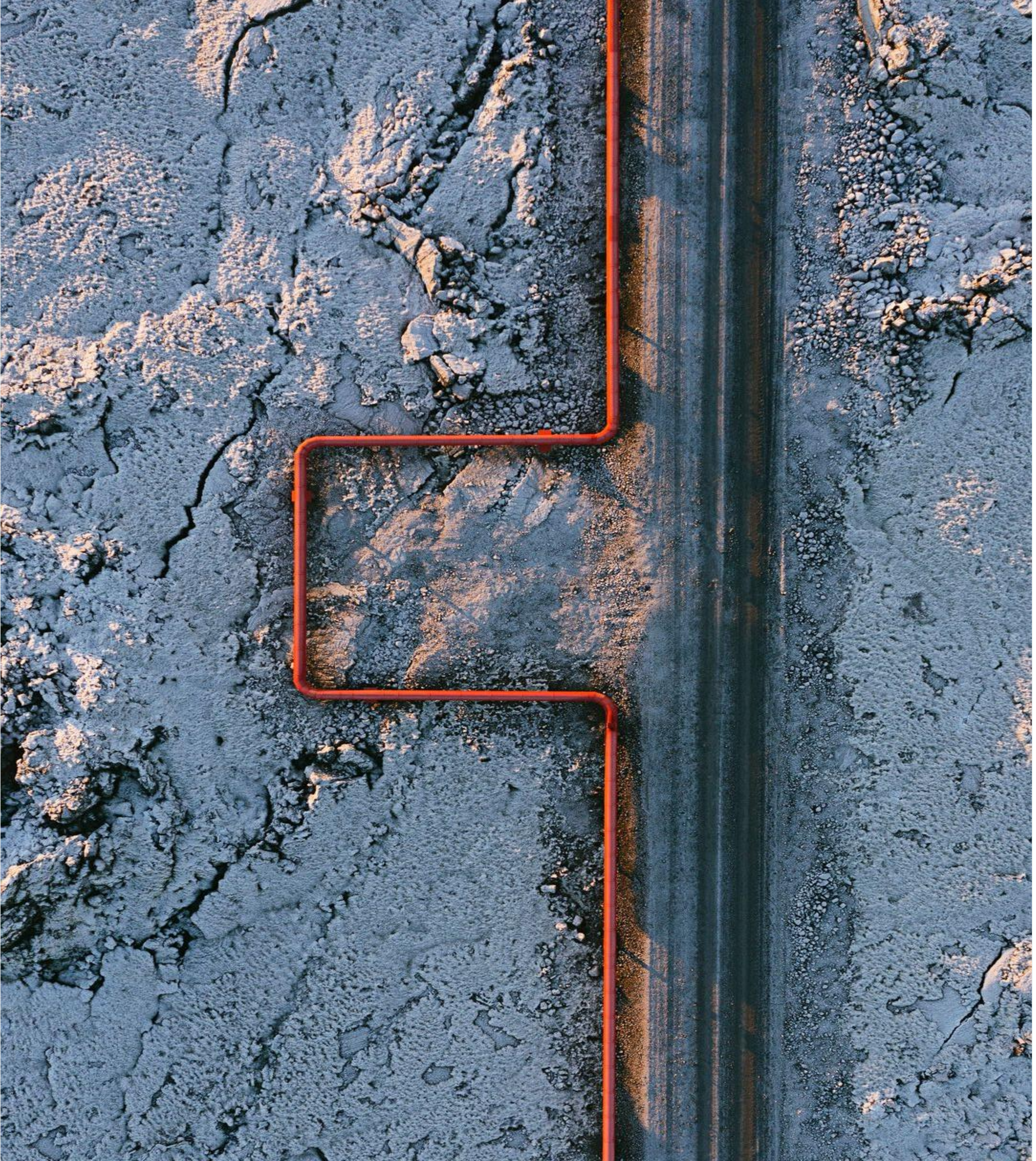
Björn Björnsson
CIO

From 2015, until joining the Bank, Björn worked for Boston Consulting Group (BCG) in Australia and the Nordics, with a focus on financial institutions, information technology strategy and transformation. Before joining BCG, he held several executive roles in the Icelandic financial services sector, including Chief Risk Officer at Byr Savings Bank.

Guðbjörg Heiða Guðmundsdóttir
CEO of Vörður Insurance

From 2011, until joining Vörður, Guðbjörg worked for Marel, most recently as EVP for Marel fish and location manager for Marel Iceland. Prior to that she was innovation cluster manager for Marel in Iceland and the UK.





Executive summary of impact of green financing 2022

Annual CO2 emissions avoided

4,049 tCO_2

Annual emissions of greenhouse gases avoided with green financing corresponds to:

13,497 return flight tickets from Copenhagen

Clean transportation

1,514

Number of MSC and ASC certified projects

16

Number of green housing units

2,338

Number of waste handling projects

3

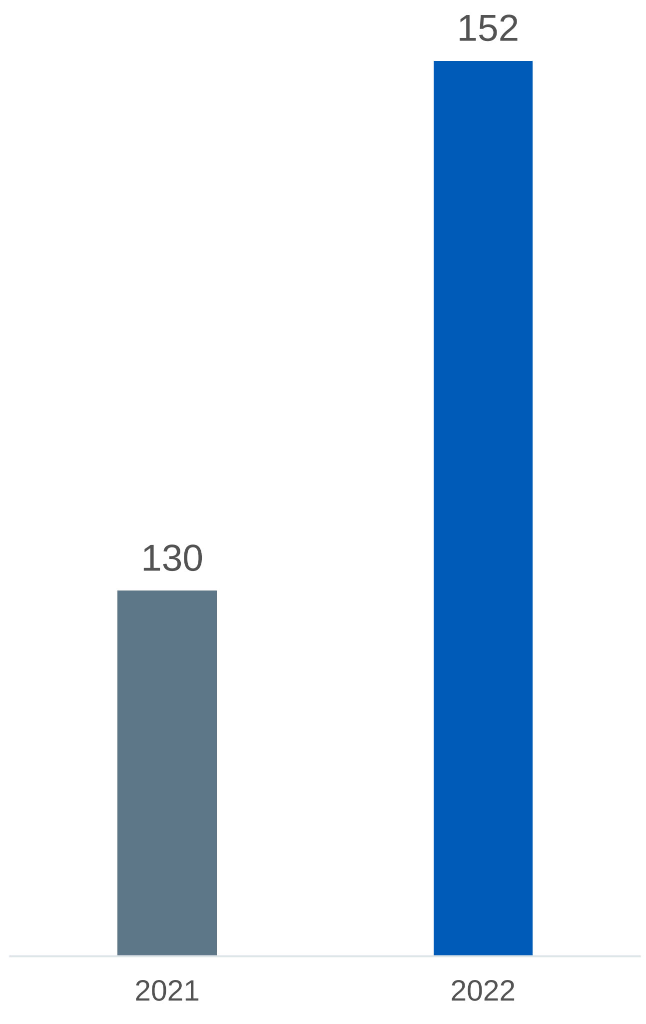
Calculations are according to requirements set by Arion Bank's green financing framework
Deloitte has provided limited assurance on Arion Bank's allocation of net proceeds from Green Financing Instruments and its allocation to loans for the year 2022.

Green Financing Framework Impact and Allocation Report 2022

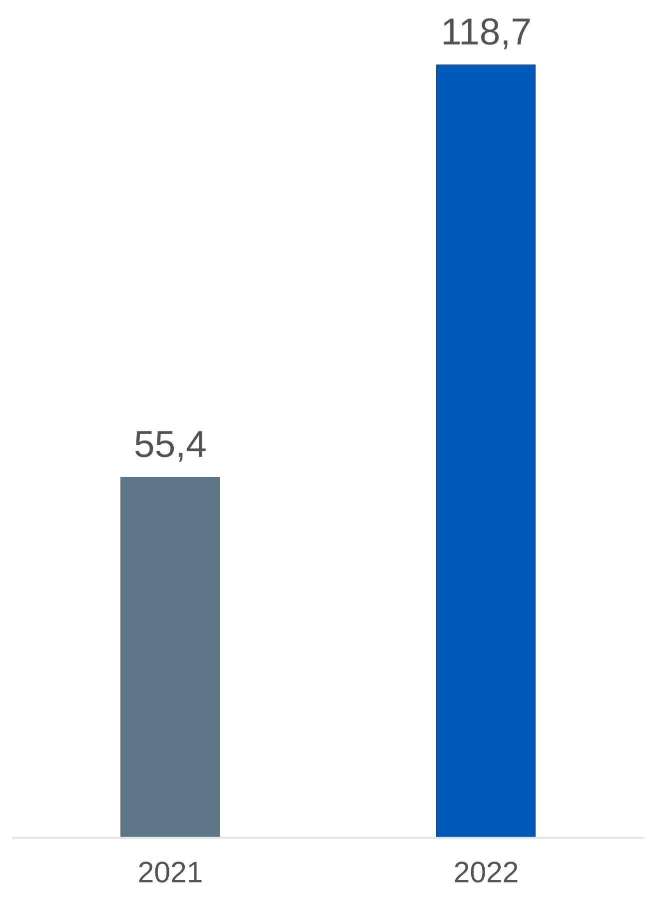
Executive summary for green financing 2022

Total committed green financing

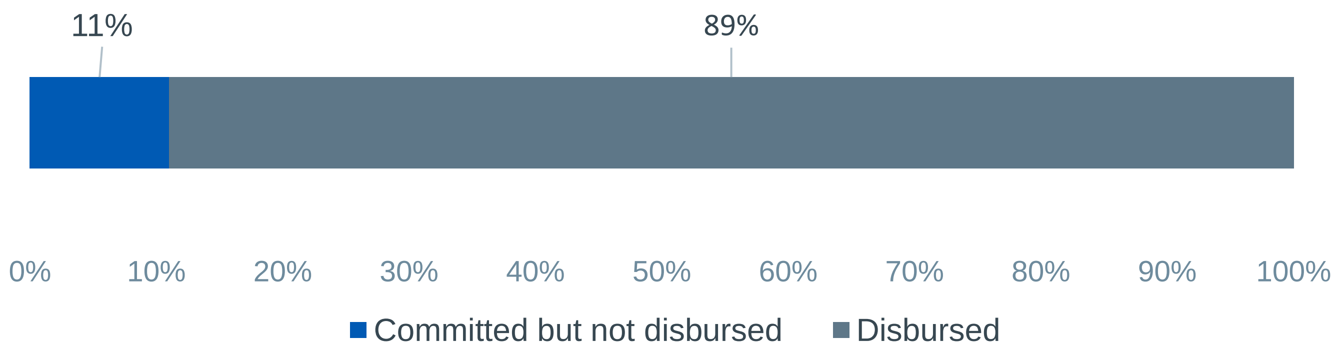
ISK bn



Arion Bank's green financing - total bond issues and deposits

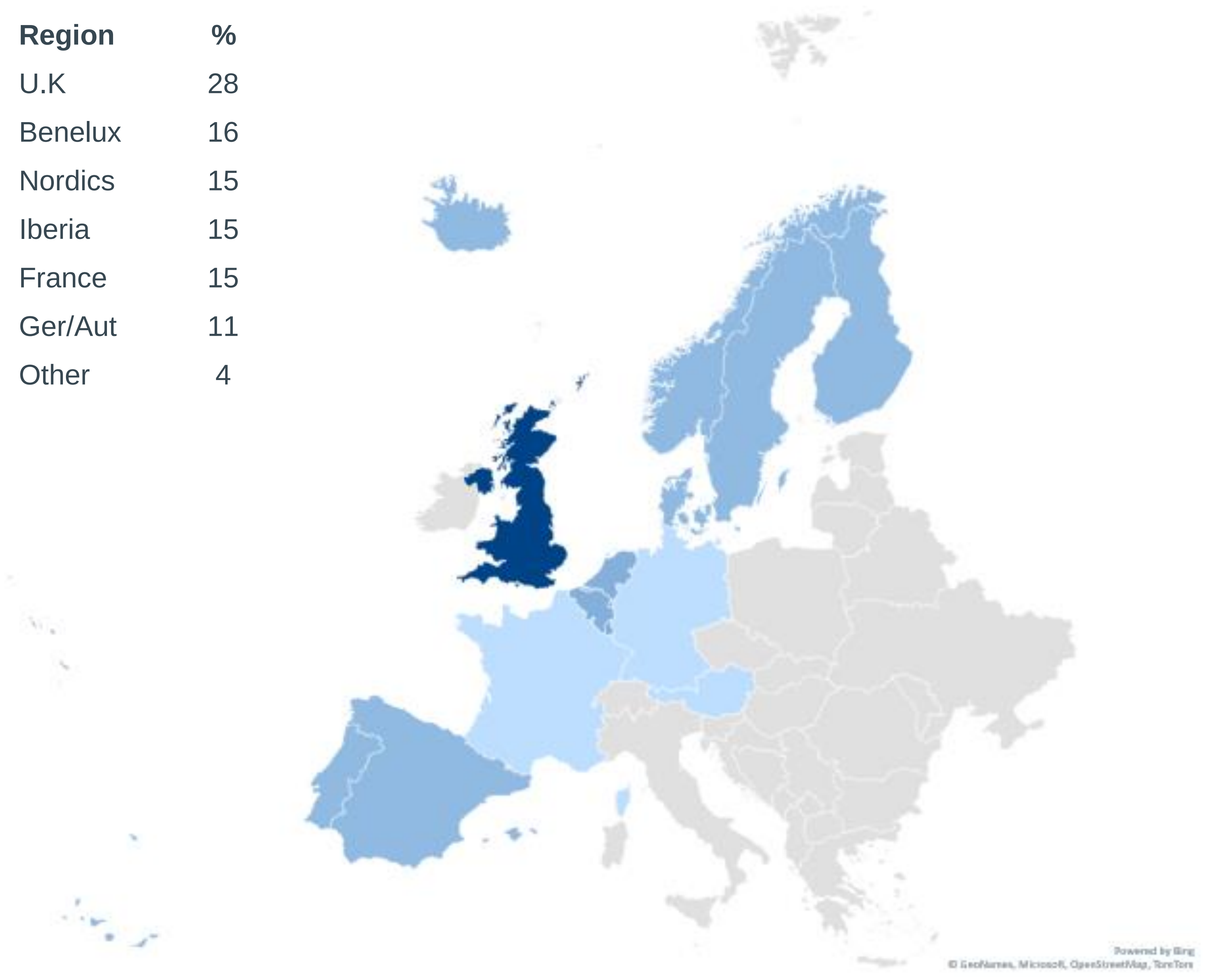


Committed but not disbursed vs. disbursed



Investor breakdown of green bonds by region 2022

Region	%
U.K	28
Benelux	16
Nordics	15
Iberia	15
France	15
Ger/Aut	11
Other	4



Number of green projects

3,873

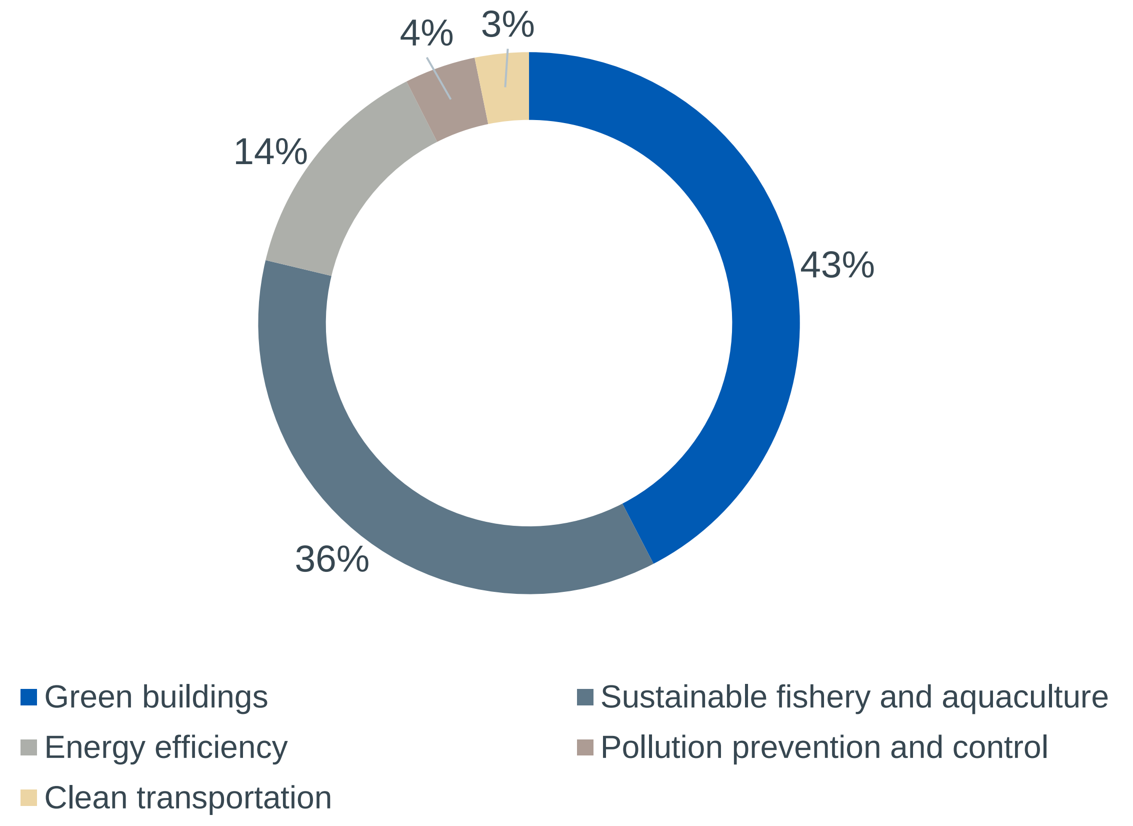
Total committed green finance

151.5 bn ISK

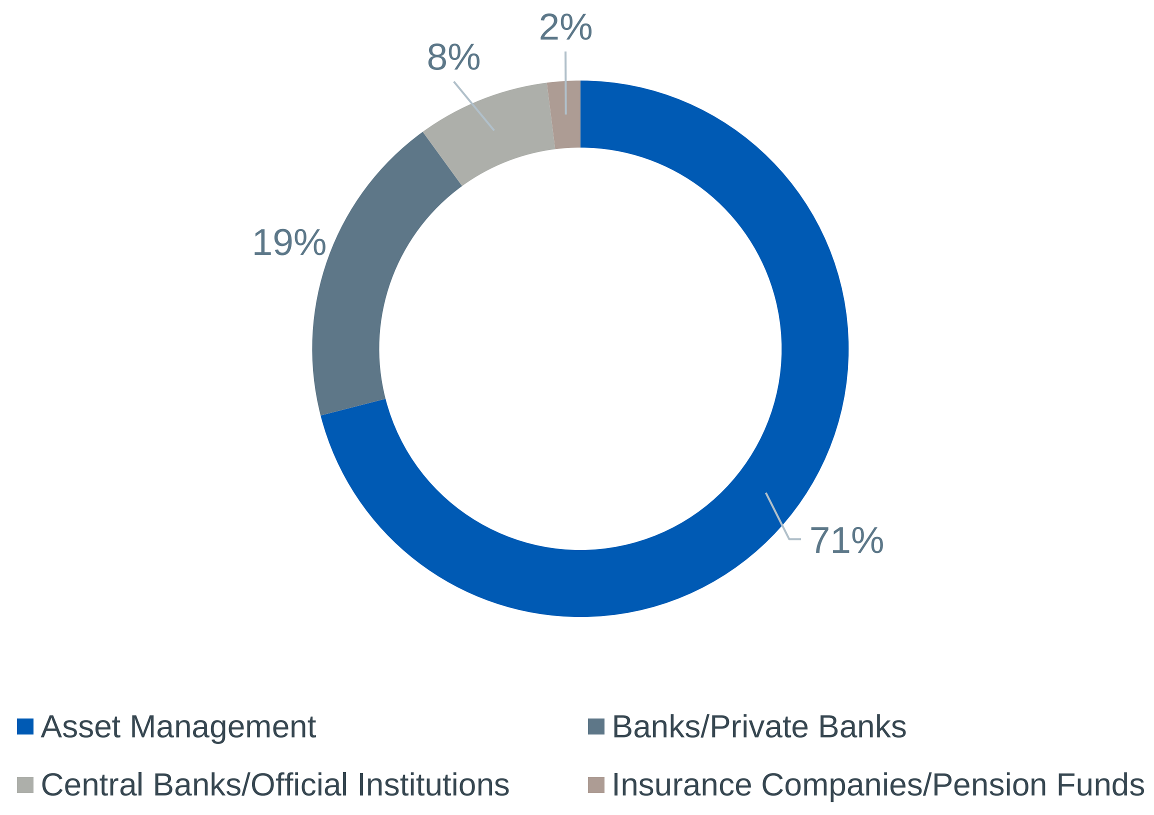
Outstanding amount of green finance

33.3 bn ISK

Committed financing breakdown %



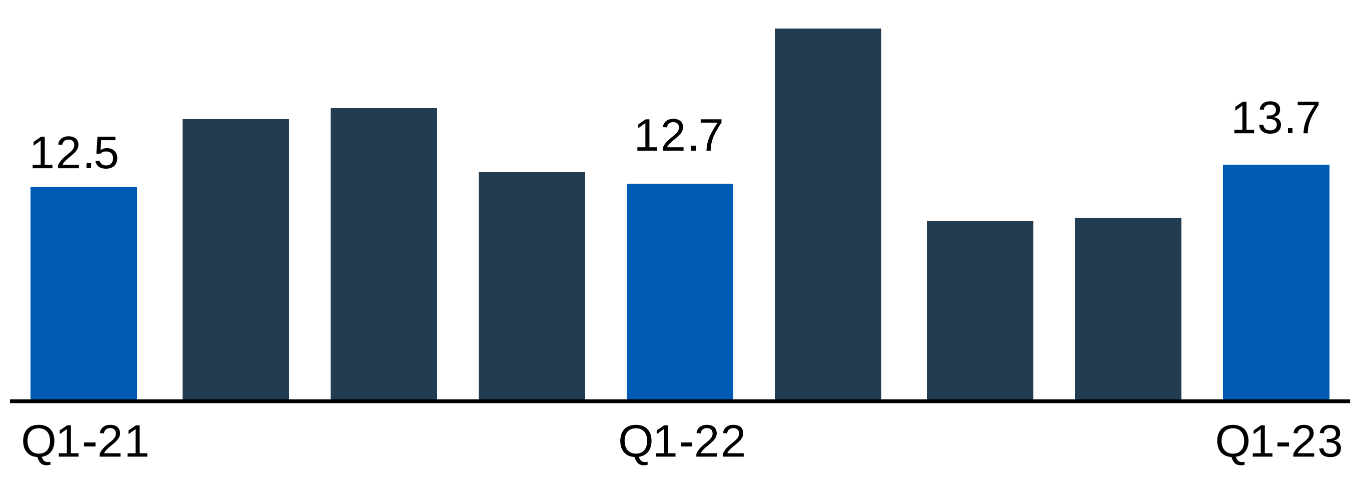
Investor breakdown of green bonds by type 2022



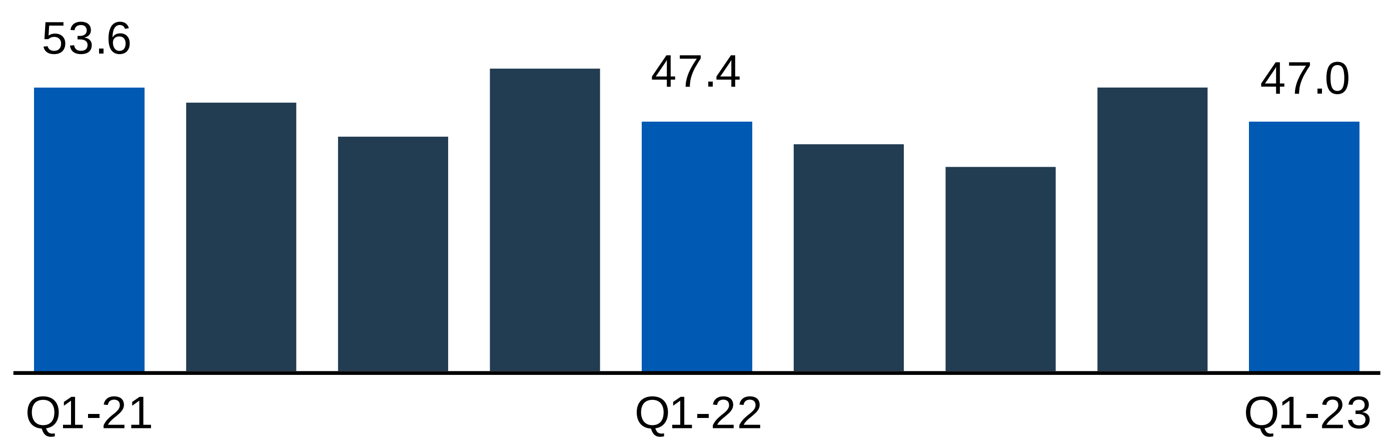
Deloitte has provided limited assurance on Arion Bank's allocation of net proceeds from Green Financing Instruments and its allocation to loans for the year 2022.

Key financial indicators - quarter

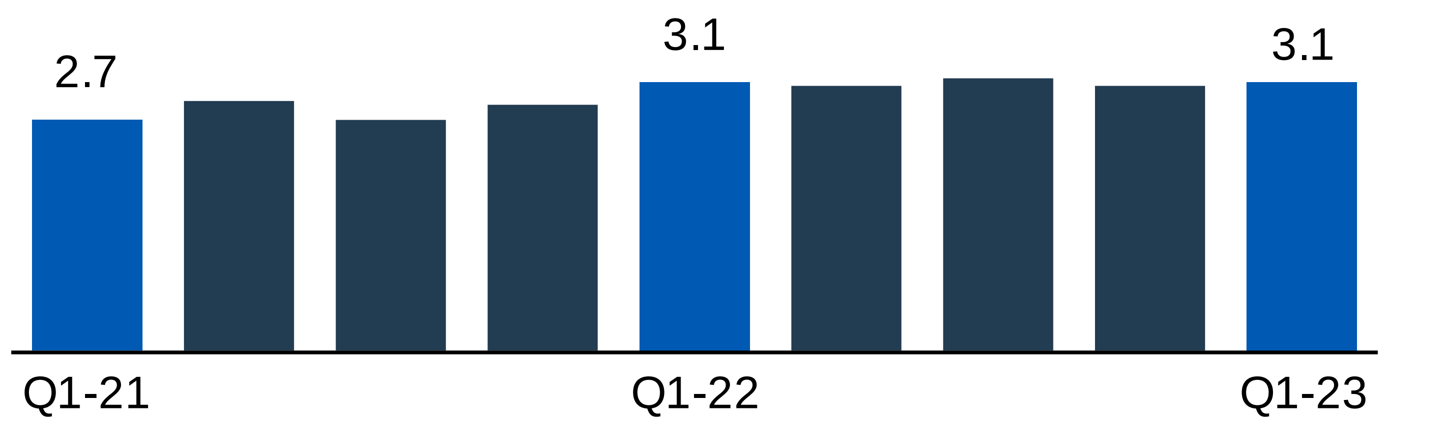
Return on equity (%)



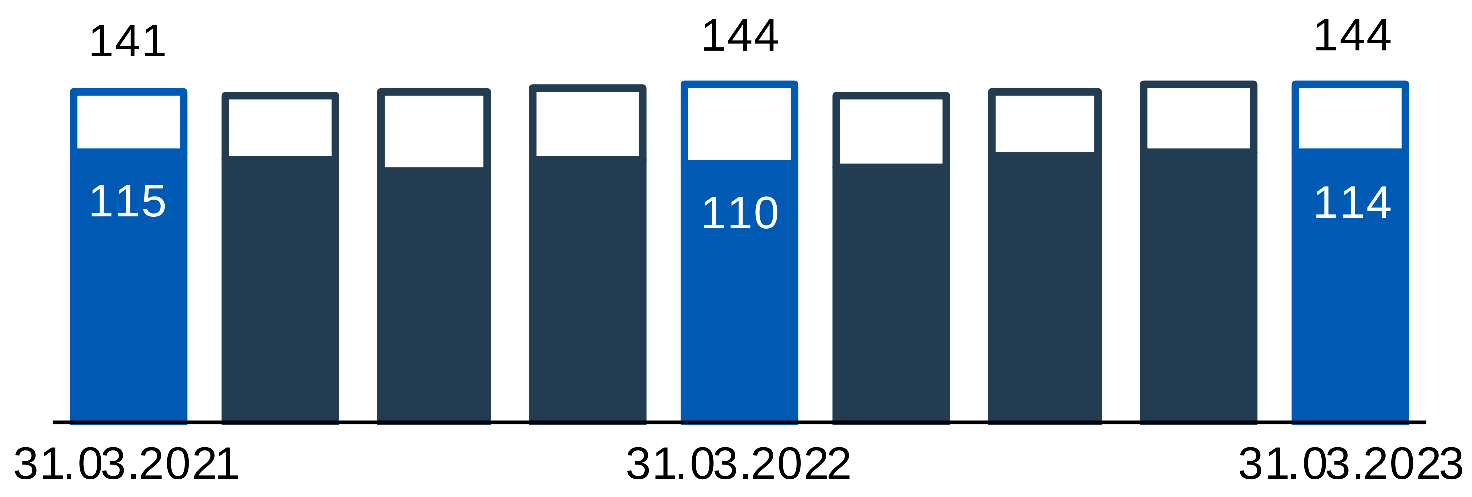
Cost-to-Core income ratio (%)



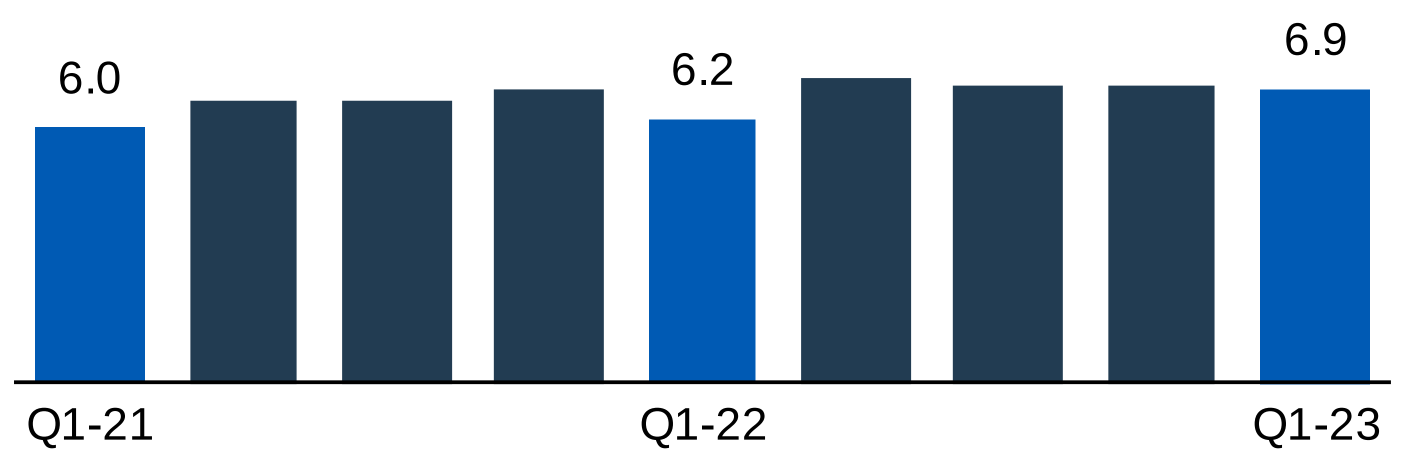
Net interest margin (%)



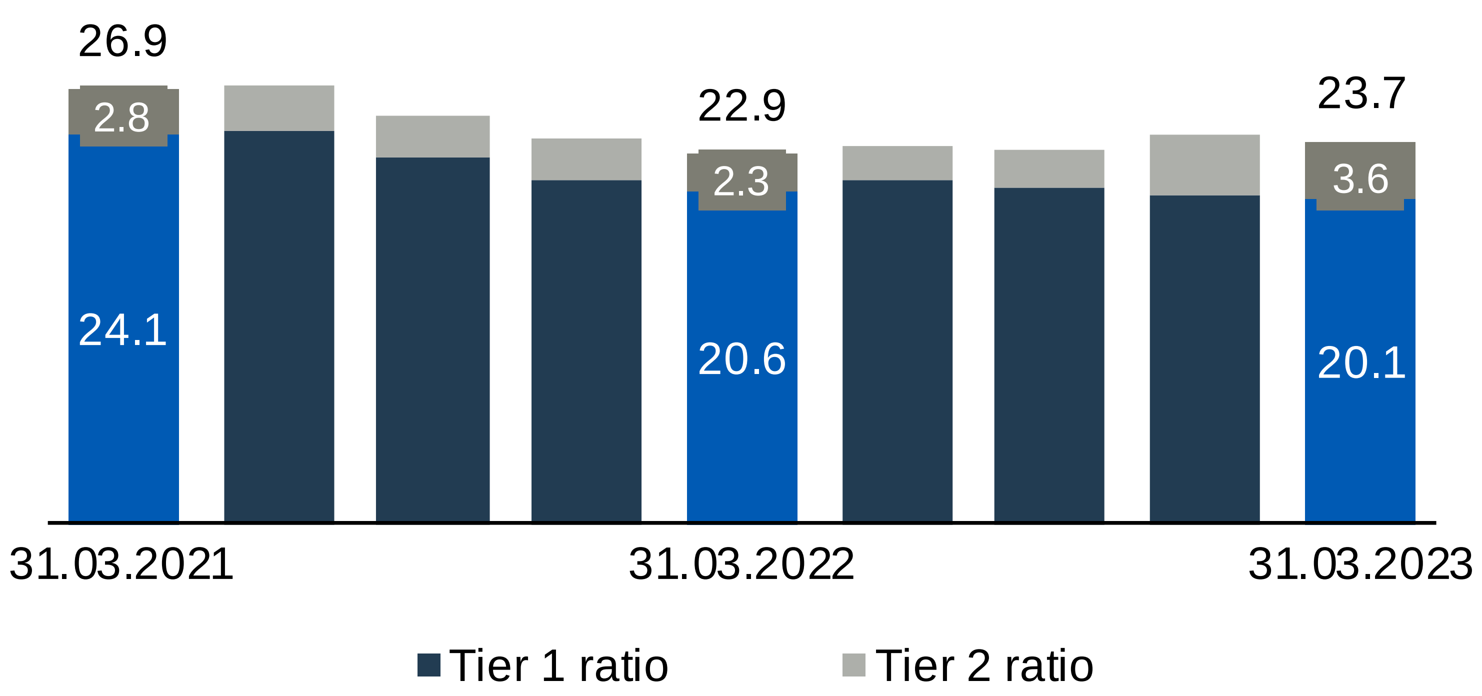
Loans-to-deposits ratio (%)
(without loans financed by covered bonds)



Core operating income / REA (%)

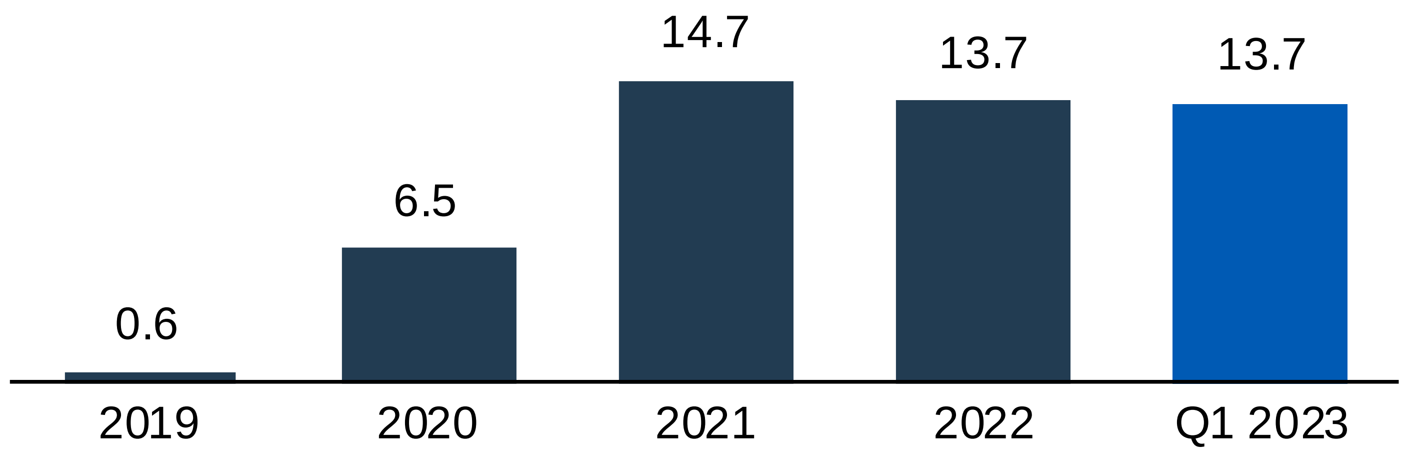


Capital ratio (%)

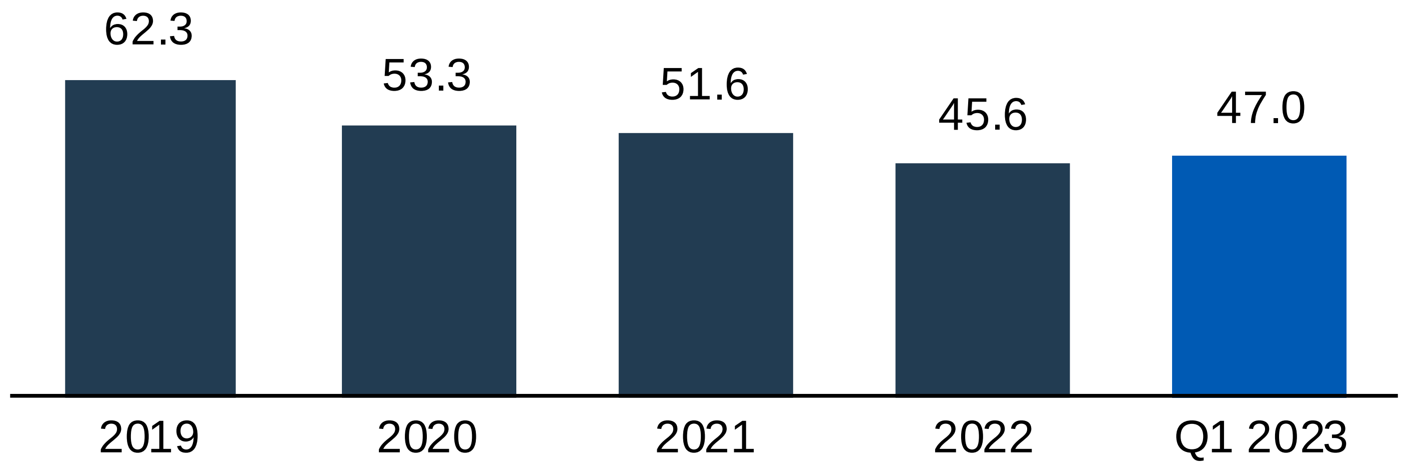


Key financial indicators - annual

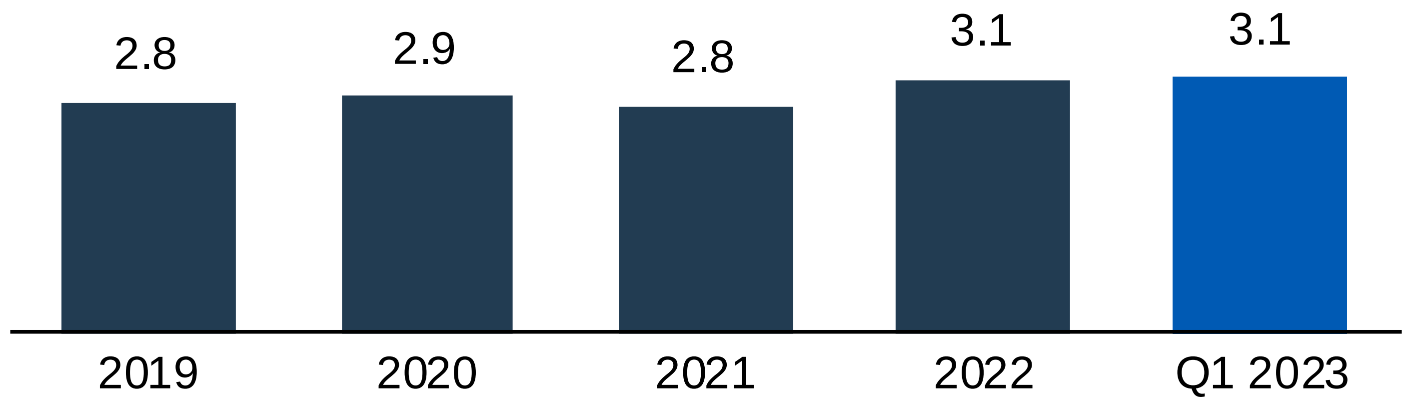
Return on equity (%)



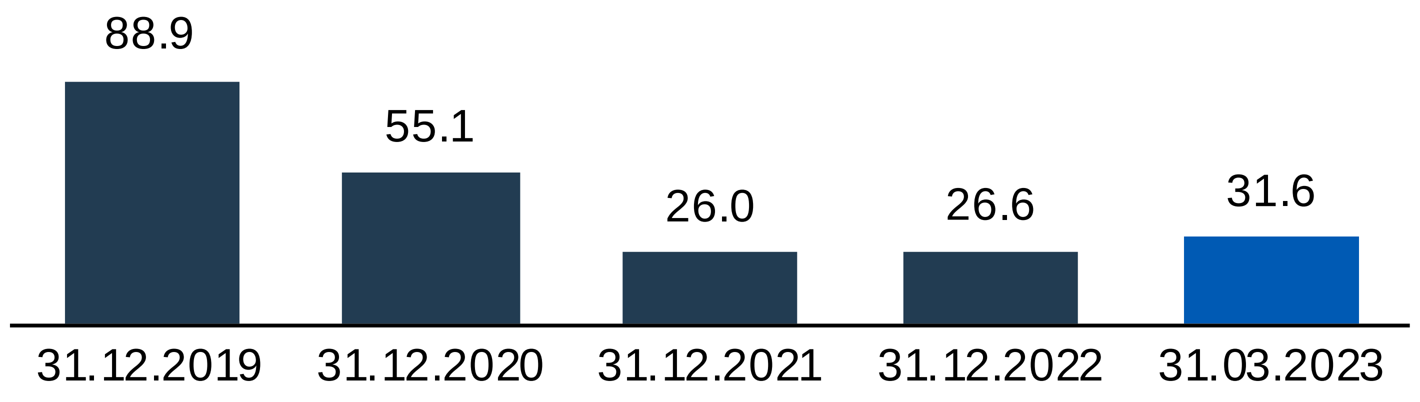
Cost-to-Core income ratio (%)



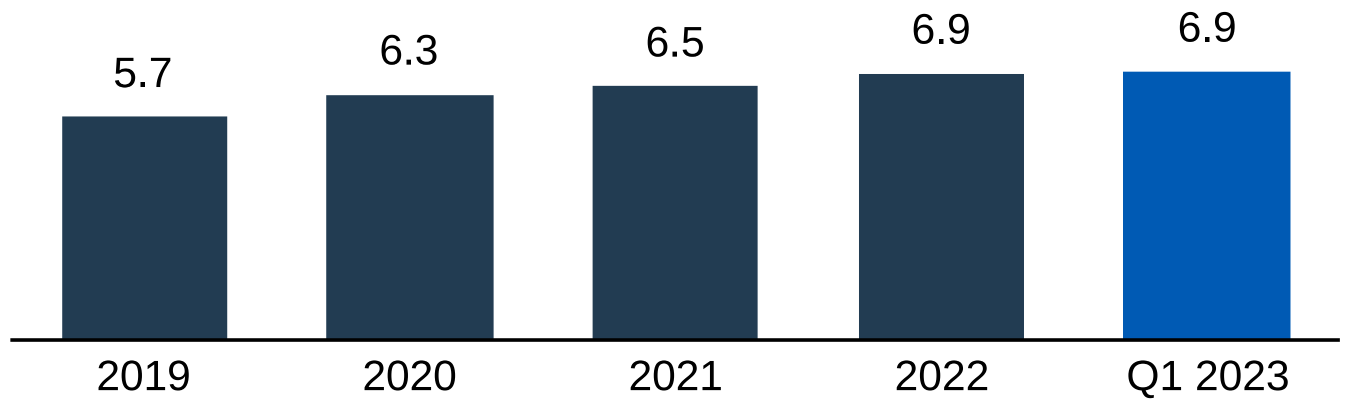
Net interest margin (%)



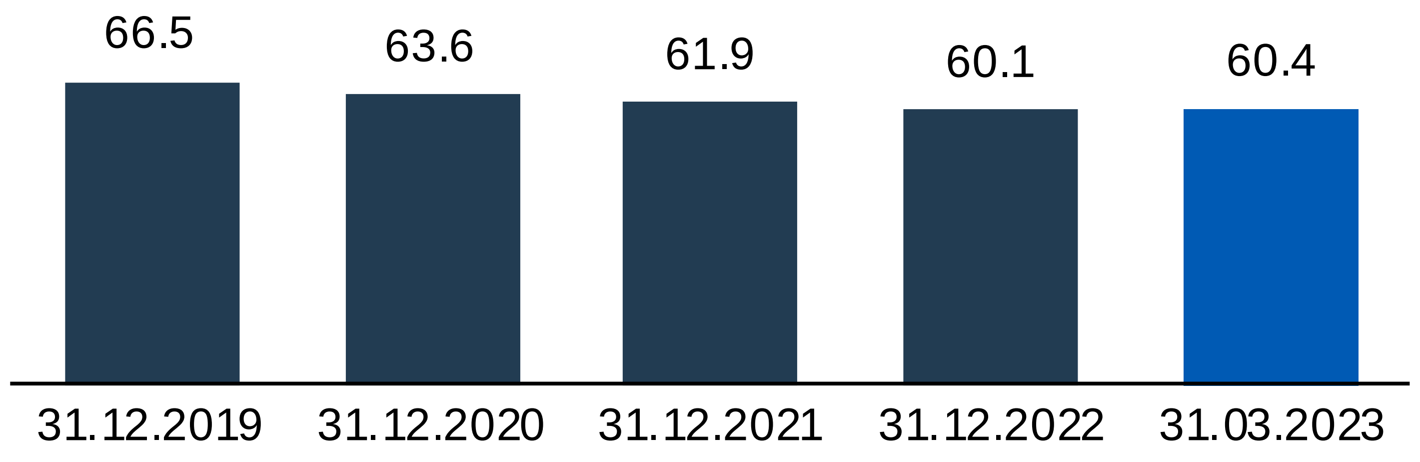
CPI imbalance (ISK bn)



Core operating income / REA (%)



Risk exposure amount / Total assets (%)



Key figures

Operations	Q1 2023	Q1 2022	Q1 2021	Q1 2020	Q1 2019	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net interest income	11,015	9,528	7,342	7,253	7,434	11,015	10,524	10,421	9,804	9,528
Net commission income	4,353	3,552	3,277	3,076	2,218	4,353	3,972	4,002	4,539	3,552
Operating income	16,344	14,514	13,097	8,976	11,708	16,344	15,540	13,884	13,260	14,514
Operating expenses	7,275	6,201	6,048	6,207	6,862	7,275	8,251	5,810	6,649	6,201
Net earnings	6,291	5,818	6,041	(2,172)	1,018	6,291	5,023	4,863	9,712	5,818
Return on equity	13.7%	12.7%	12.5%	(4.6%)	2.1%	13.7%	10.7%	10.5%	21.8%	12.7%
Net interest margin	3.1%	3.1%	2.7%	2.8%	2.7%	3.1%	3.1%	3.2%	3.1%	3.1%
Return on assets	1.7%	1.8%	2.1%	(0.8%)	0.3%	1.7%	1.4%	1.4%	2.9%	1.8%
Cost-to-core income ratio	47.0%	47.4%	53.6%	57.3%	69.3%	47.0%	53.8%	38.4%	43.1%	47.4%
Cost-to-income ratio	44.5%	42.7%	46.2%	69.2%	58.6%	44.5%	53.1%	41.8%	50.1%	42.7%
Cost-to-total assets	2.0%	1.9%	2.1%	2.2%	2.3%	2.0%	2.3%	1.7%	2.0%	1.9%

Balance Sheet	31.03.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019	31.03.2023	31.12.2022	30.09.2022	30.06.2022	31.03.2022
Total assets	1,500,645	1,469,557	1,313,864	1,172,706	1,081,854	1,500,645	1,469,557	1,427,886	1,383,362	1,341,014
Loans to customers	1,114,128	1,084,757	936,237	822,941	773,955	1,114,128	1,084,757	1,045,152	1,010,666	976,383
Mortgages	576,861	574,029	504,877	409,641	333,406	576,861	574,029	562,617	536,610	515,760
Share of stage 3 loans, gross	1.4%	1.2%	1.9%	2.6%	2.7%	1.4%	1.2%	1.4%	1.4%	1.6%
REA/ Total assets	60.4%	60.1%	61.9%	63.6%	66.5%	60.4%	60.1%	60.8%	117.4%	64.9%
CET 1 ratio	18.6%	18.8%	19.6%	22.3%	21.2%	18.6%	18.8%	19.3%	19.7%	18.6%
Leverage ratio	11.3%	11.8%	12.7%	15.1%	14.1%	11.3%	11.8%	12.0%	12.7%	12.5%
Liquidity coverage ratio	173.6%	158.5%	202.8%	188.5%	188.3%	173.6%	158.5%	189.3%	163.2%	195.4%
Loans to deposits ratio	143.8%	143.6%	142.8%	144.8%	157.0%	143.8%	143.6%	141.2%	139.0%	143.6%

All amounts in ISK m

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