Earnings Press Release, 4 May 2022

Arion Bank's Q1 2022 financial results

- Arion Bank reports net earnings of ISK 5,818m in Q1 2022, compared with ISK 6,039m in Q1 2021
- Return on equity in Q1 was 12.7%, compared with 12.5% in Q1 2021
- Net interest margin of 3.1%, compared with 2.7% in Q1 2021
- Core income increased by 15.9%, compared with Q1 2021
- Cost-to-income ratio in Q1 was 42.7%, compared with 46.2% in Q1 2021
- Dividend payment and share buy-backs amounted to ISK 26.8bn during Q1 2022
- The Bank's total capital ratio was 22.9% and the CET1 ratio was 19.1% on 31 March 2022
- The agreement on the sale of Valitor has been extended to 1 June 2022. Due to the delays in completing the transaction Rapyd has paid Arion Bank an additional $10m, recognized at closing

Arion Bank reported net earnings of ISK 5,818m in the first quarter with 12.7% return on equity.

Total assets amounted to ISK 1,341bn at the end of the period, compared with ISK 1,314bn at the end of 2021. Loans to customers increased by 4.3% from year-end 2021. The increase is primarily in corporate lending, or an 8% increase from year-end 2021. Total equity amounted to ISK 173bn at period end. Total equity decreased due to a capital release of ISK 26.8bn which was partly offset by net earnings for the period.

The Bank's total capital adequacy ratio was 22.9% and the CET1 ratio was 19.1% at the end of March. The ratios are determined on the basis of the unaudited net earnings in the quarter, with a deduction of 50% of net earnings as foreseeable dividends in line with the Bank's dividend policy. The Group's capital ratio, as calculated under the Financial Undertakings Act No. 161/2002, was 22.5% and the CET1 ratio was 18.8%. The Bank's capital ratios comfortably exceed the requirements set by law and the Financial Supervisory Authority of the Central Bank.

Benedikt Gíslason, CEO of Arion Bank

"Arion Bank's financial results in the first quarter were excellent and in line with our medium-term financial targets. There was solid growth in the Bank's core revenues, not least in interest income which was up 9% between quarters. We can clearly feel that the Icelandic economy is rebounding strongly and we have numerous exciting projects in the pipeline. Loan growth, particularly on the corporate side, was excellent during the quarter. We continue to consolidate our position as a financial intermediary. Over the last two years Arion Bank has made corporate loans amounting to ISK 36 billion which have then been sold to institutional investors, such as pension funds. This gives us a greater capacity to grow our corporate lending and helps diversify the asset portfolios of the pensions funds. It has also been pleasing to see an upswing in the Bank's activities in the Arctic region between years, which have grown by 87%. We are targeting further growth in this area, placing a special focus on sectors where we have developed expertise and experience in the last few years.

Insurance premiums at Vörður have grown strongly, but the company's financial results bear testament to the fact that the winter was unusually harsh, leading to a surge in the number of claims. The partnership between Arion Bank and Vörður continues to go from strength to strength. Our goal is to grow vigorously on the insurance market and to further enhance the services we provide to our customers. The Arion app is one of the most effective service channels available on the Icelandic market today and makes it easy for customers of both companies to view information on their accounts, savings, loans, pensions and insurance in one place, enabling them to take care of all their business simply and conveniently.

The AGM of Arion Bank in March approved the payment of a dividend of ISK 22.5 billion. The Bank also purchased own shares amounting to ISK 4.3 billion during the first quarter. After taking these transactions into account, CET1 ratio was 19.1% at the end of the quarter, above our target figure of 17%. The Bank remains well capitalized and has robust liquidity and capital positions. We are in prime position to continue to support our customers and the Icelandic economy."

Income Statement

In ISK millions	Q1 2022	Q1 2021	Δ	Δ %
Net interest income	9,528	7,342	2,186	30%
Net commission income	3,552	3,277	275	8%
Net insurance income	5	671	(666)	-
Net financial income	991	1,500	(509)	(34%)
Other operating income	438	307	131	43%
Operating income	**14,514**	**13,097**	**1,417**	**11%**
Salaries and related expenses	(3,540)	(3,271)	(269)	8%
Other operating expenses	(2,661)	(2,777)	116	(4%)
Operating expenses	**(6,201)**	**(6,048)**	**(153)**	**3%**
Bank levy	(393)	(330)	(63)	19%
Net impairment	(495)	1,080	(1,575)	-
Net earnings before income tax	**7,425**	**7,799**	**(374)**	**(5%)**
Income tax expense	(1,703)	(1,866)	163	(9%)
Net earnings from cont. operations	**5,722**	**5,933**	**(211)**	**(4%)**
Discontinued operations, net of tax	96	106	(10)	(9%)
Net earnings	**5,818**	**6,039**	**(221)**	**(4%)**

KFI's		
Return on equity (ROE)	12.7%	12.5%
Return on total assets (ROA)	1.8%	2.1%
Earnings per share (in ISK)	3.67	3.61
Cost to income ratio (C/I)	42.7%	46.2%
Net interest margin (NIM)	3.1%	2.7%
Operating income / REA	6.9%	7.0%

Net interest income increased by 30%, compared with the first quarter of 2021. The net interest margin (NIM) as a percentage of average interest-bearing assets was 3.1% during the quarter, compared with 2.7% for the first quarter of 2021. Interest-bearing assets increased by ISK 130bn or 12% compared with the first quarter of 2021, mainly loans to customers, and interest-bearing liabilities increased by ISK 150bn or 16% for the same period.

Net commission income increased by 8.4%, compared with the first quarter of 2021. Income from asset management increased by 21% from the first quarter of 2021 through higher AuM and increasing flows into equity funds. Income from lending, capital markets transactions and corporate finance was also strong during the quarter.

Insurance premiums earned at the insurance company Vördur have been increasing, but volatility in *net insurance income* is mainly due to seasonal fluctuations in the claim rate. Insurance premiums for own account increased by 10% from the same period in the previous year, whereas claims for own account increased by 40%, mostly due to unusually bad weather and increased travel in the quarter. The combined ratio for the first quarter of 2022 was 115.3%, compared with 98.4% for the same period in 2021.

Net financial income was acceptable in the first quarter following a difficult start to the year. Financial income was ISK 991m, of which 34% was from Vördur. Equity holdings performed relatively well during the quarter despite volatile market conditions and thanks to effective management.

Operating expenses increased by 3% in the first quarter, compared with the first quarter of 2021. At the end of March the number of full-time equivalent positions (FTEs) was 753, a 2.5% decrease from the same period last year. Other operating expenses decreased compared with the same period in 2021, mainly IT and housing costs. Salary expenses increased, compared with the first quarter of 2021, mainly due to the insourcing of IT operations. The average salary increase per employee was considerably less than the increase in the salary index.

Net impairment was ISK 495m in the first quarter of 2022, mainly due to changes in scenario weight due to the uncertainty in Ukraine and the economic environment. Impairments are in line with through the cycle expectations, calculated at 21bps of the loan book on an annualized basis.

Income tax, as reported in the financial statements, comprises 20% income tax on earnings and a special 6% financial tax on the earnings of financial undertakings of more than ISK 1bn. The effective income tax rate was 22.9% for the quarter. In general, the combination of income is the main driver behind the fluctuation in the effective tax rate.

Discontinued operations held for sale comprise the operating results of the subsidiary Valitor hf. and valuation changes of the underlying assets of the subsidiaries Stakksberg ehf. and Sólbjarg ehf. The impact of HFS assets was positive in the quarter, mainly due to the positive effect from operations at Valitor. Valitor reported net earnings of ISK 59m in the first quarter of 2022, whereas Valitor’s positive contribution to the Group, after taking into account the Group’s eliminations, was ISK 296m.

Balance sheet

The balance sheet increased by 2.1% from year-end 2021. The liquidity position remains very strong despite ISK 26.8bn capital distribution through dividends and buy-backs of own shares during the quarter.

In ISK millions	31.03.2022	31.12.2021	Δ	Δ %
Cash & balances with CB	64,395	69,057	(4,662)	(7%)
Loans to credit institutions	35,868	30,272	5,596	18%
Loans to customers	976,383	936,237	40,146	4%
Financial instruments	185,679	225,657	(39,978)	(18%)
Intangible assets	9,239	9,463	(224)	(2%)
Assets and disposal groups HFS	14,706	16,047	(1,341)	(8%)
Other assets	54,745	27,131	27,614	102%
Total assets	**1,341,015**	**1,313,864**	**27,151**	**2%**

KFI's		
REA / Total assets	64.9%	61.9%
Share of stage 3 loans, gross	1.6%	1.9%

Assets

Loans to customers increased by 4.3% from the end of 2021, with loans to corporates increasing by 8%, whereas loans to individuals increased by 1%. The medium-term growth outlook going forward is expected to be more balanced between corporates and individuals, while this will fluctuate between quarters. There is a strong pipeline, especially on the corporate side in origination and syndications. Sales of loans are progressing well as the Bank follows the strategy of increasing capital velocity. Over the last two years the Bank has sold corporate loans for ISK 36bn and further syndication is in process.

The Bank's liquidity position is very strong with the total LCR ratio at 195% and the ISK LCR ratio at 115%. This is reflected in the strong position in *Cash and balances with Central Bank*, *Loans to credit institutions* and *Financial assets*, including bonds and debt instruments.

Assets and disposal groups held for sale comprise the subsidiaries Valitor ehf., Stakksberg ehf. and Sólbjarg ehf. The impact of HFS assets was positive in the first quarter of 2022, mainly due to the positive effect from operations at Valitor. On 1 July 2021 Arion Bank and Rapyd entered into a definitive agreement regarding the sale of Valitor hf. The transaction is subject to regulatory approval and the parties had agreed on a deadline for obtaining this approval of 1 May 2022. Should the sale not be finalized due to the failure to obtain regulatory approval, the risk shall be borne by the buyer, a condition valid for two years. As conditions in the agreement to acquire Valitor have not yet been met, the parties have agreed to extend the agreement until 1 June 2022. According to the original agreement the purchase price to be paid by Rapyd for Valitor is USD 100m. Due to the delays in completing the transaction Rapyd has paid Arion Bank an additional USD 10m. Additionally, Rapyd will pay Arion Bank 10% annualized interest on the original purchase price from 1 April 2022 and until closing. The estimated profit on the sale, minus costs, increases accordingly and is estimated at ISK 5 billion at the exchange rate at the end of March 2022. The sale agreement for Valitor hf. does not affect the Consolidated Financial Statements for the period, in accordance with IFRS.

Liabilities and equity

In ISK millions	31.03.2022	31.12.2021	Δ	Δ %
Due to credit institutions & CB	4,270	5,000	(730)	(15%)
Deposits from customers	679,925	655,476	24,449	4%
Other liabilities	64,985	50,131	14,854	30%
Borrowings	370,026	356,637	13,389	4%
Subordinated liabilities	33,674	35,088	(1,414)	(4%)
Liabilities associated w/disposal groups HFS	15,122	16,934	(1,812)	(11%)
Total liabilities	**1,168,002**	**1,119,266**	**48,736**	**4%**
Shareholders equity	172,333	193,925	(21,592)	(11%)
Non-controlling interest	680	673	7	1%
Total equity	**173,013**	**194,598**	**(21,585)**	**(11%)**
Total liabilities and equity	**1,341,015**	**1,313,864**	**27,151**	**2%**

KFI's		
Loans to Deposits ratio	143.6%	142.8%
CET1 ratio	19.1%	19.6%
Capital adequacy ratio	22.9%	23.8%

Deposits from customers remain the most important source of funding for Arion Bank, with 59% of total liabilities in deposits. The increase from year-end 2021 is mainly in SMEs but also in deposits from individuals and institutional investors. Green deposits continue to grow at a strong pace, or 67% during the first quarter.

The increase in *borrowings* from year-end 2021 is mainly due to the Bank's successful EUR 200m covered bond tap in March and a total issuance of ISK 9bn in the domestic market.

Shareholders' equity decreased due to dividend payments and the purchase of own shares, in total ISK 26.8bn, which is partly offset by the net earnings for the period of ISK 5.8bn. The leverage ratio was 12.5% at the end of March, compared with 12.6% at the end of 2021, which is very high in international comparison. At the end of March the Group had ISK 18.6bn in excess of the Group's target capital structure.

For further information on the accounts please visit Arion Bank's website.

Medium term financial targets

Return on equity	Exceed 13%
Operating income / REA	Exceed 7.3%
Insurance premium growth	Premium growth (net of reinsurance) to exceed the growth of the domestic market by more than 3 percentage points
Loan growth	In line with nominal economic growth
Cost-to-income ratio	Below 45%
CET1 ratio	~17%
Dividend payout ratio	50%

Investor meeting / webcast in English on 5 May at 10:30 CET (8:30 GMT)

Arion Bank will be hosting a meeting / webcast at the Bank's headquarters in Borgartún 19, Reykjavík, on Thursday 5 May at 10:30 CET (8:30 GMT) where CEO Benedikt Gíslason and CFO Ólafur Hrafn Höskuldsson will present the results and Chief Economist Erna Björg Sverrisdóttir will give an update on the economic environment. The meeting will take place in English and will be streamed live.

The webcast will be accessible live on financialhearings.com and a link is also available on the Bank's website under Investor Relations.

Participants attending virtually will be able to ask questions during the meeting through a message board, located below the video feed. Answers will be provided by presenters at the end of the webcast.

For any further information please contact Theodór Fridbertsson, Head of IR, tel.+354 856 6760, or Haraldur Gudni Eidsson, Head of Corporate Communications, tel. +354 856 7108.

Financial calendar

The Bank's Financial Statements are scheduled for publication as stated below. The calendar may be subject to change.

Q2 2022 Financial results	27 July 2022
Q3 2022 Financial results	26 October 2022
Q4 / 12M 2022 Financial results	8 February 2023
AGM 2023	15 March 2023
Q1 2023 Financial results	4 May 2023
Q2 2023 Financial results	26 July 2023
Q3 2023 Financial results	26 October 2023

This is information that Arion Bank hf. is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication through the agency of the contact persons set out above.

Forward-looking statements

This release contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. The information in the release is based on company data available at the time of the release. Although Arion Bank believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. The most important factors that may cause such a difference for Arion Bank include, but are not limited to: a) the macroeconomic development, b) change in inflation, interest rate and foreign exchange rate levels, c) change in the competitive environment and d) change in the regulatory environment and other government actions. This release does not imply that Arion Bank has undertaken to revise any forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes after the date when this release was made. Arion Bank assumes no responsibility or liability for any reliance on any of the information contained herein. It is prohibited to distribute or publish any information in this release without Arion Bank's prior written consent.