Arion Bank

Q2 results 2024

Investor presentation
25 July 2024

Key results in Q2

Solid quarter

- 11.5% ROE vs. medium term target of 13%
  - Good momentum in core earnings drivers
  - The key reason for below target earnings in the quarter is settlement fine paid to regulator of ISK 0.6bn. This follows an inspection by the regulator in the summer of 2022 of the Bank’s AML processes. The Bank took these findings with the utmost seriousness and have now significantly reinforced our infrastructure and processes
- Capital optimization continuing with ISK 4.5bn of share buybacks during the quarter
  - New ISK 2.5bn share buyback program launching
- Robust capital, liquidity and funding position and Moody’s A3 credit rating on stable outlook

Key results	Medium-term targets	Q2 2024		H1 2024	
Return on equity	Exceed 13%	•	11.5%	•	10.2%
Core operating income[5] / REA	Exceed 7.2%	✓	7.3%	•	7.0%
Insurance revenue growth (YoY)[1]	In excess of market growth	✓	12.8%	✓	13.9%
Combined ratio Vördur	Below 95%	✓	89.4%	•	96.5%
Cost-to-core income[5] ratio	Below 45%	•	46.2%	•	47.2%
CET1 ratio above regulatory capital requirements	150-250 bps management buffer[2]	•	330 bps[3]	•	330 bps[3]
Dividend payout ratio[4]	50%	✓	50% of net profit deducted from CET1	✓	50% of net profit deducted from CET1

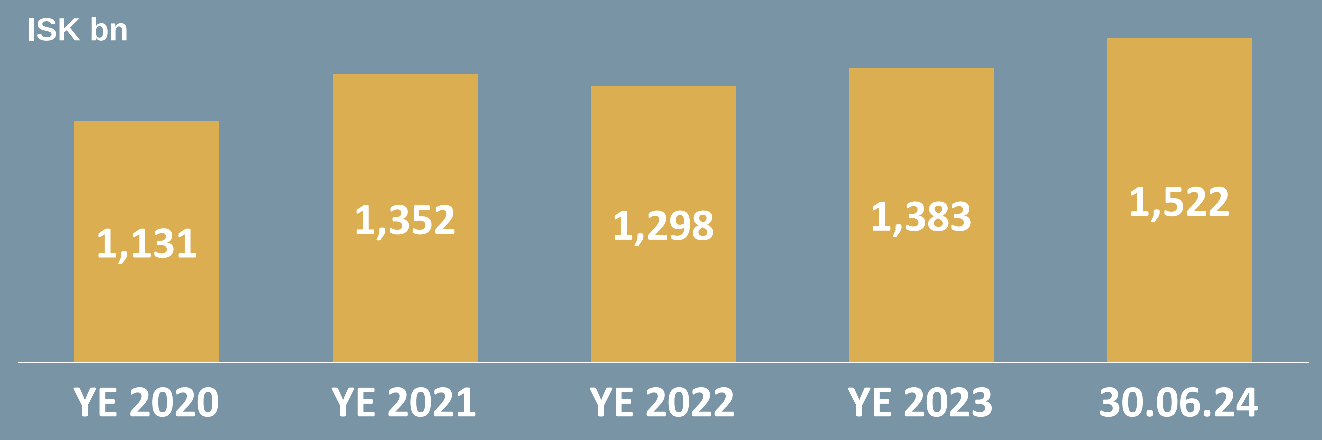
Medium-term targets are reviewed annually, and the underlying horizon is up to 3 years

1 Insurance revenue growth in the domestic insurance market in Q1 2024 was 10.6%
2 Approx.16.7 - 17.7% based on management target buffer and optimal AT1 and T2 positions
3 Assumes fully utilized AT1
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
5 Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)

Strong operational momentum in H1 2024

10% growth in Assets under Management YTD

Including 28% growth at Stefnir



Increased activity in corporate advisory

- Advised on the sole public of listing so far in 2024
- Mandated advisor for the JBT / Marel takeover offer, the largest corporate action in Iceland for more than a decade

Kaldvík JBT marel

THE BANKER BANK OF THE YEAR 2023 ICELAND

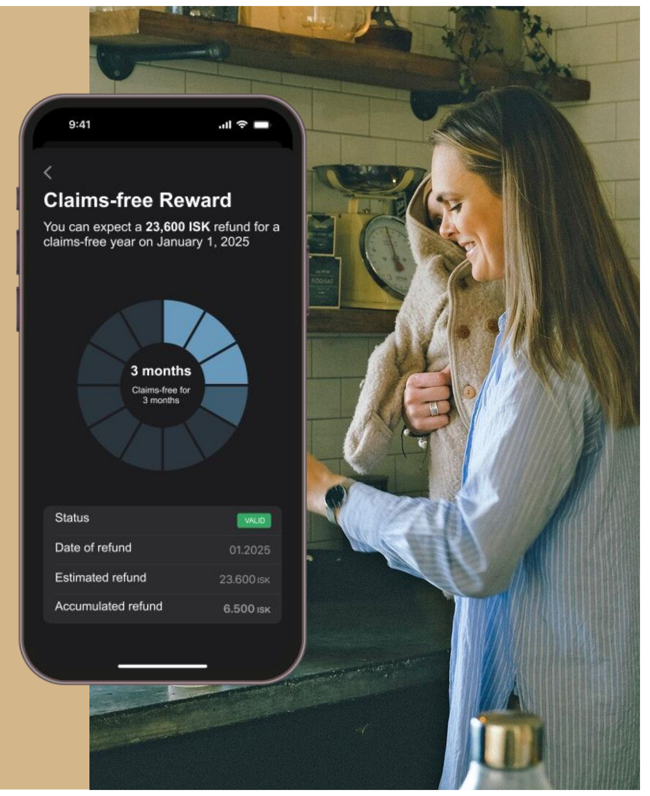
EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST BANK

EUROMONEY AWARDS FOR EXCELLENCE ICELAND 2024 BEST DIGITAL BANK

MORNINGSTAR SUSTAINALYTICS ESG 2024 INDUSTRY TOP RATED

Successful launch of Arion Rewards

- Key bancassurance initiative with more than half of eligible customers now onboarded for Arion Refund
- Leading to increased customer satisfaction and loyalty



Arion Bank Capital Markets

#1

in fixed income and total market share during the first half of 2024

Bancassurance progress

Arion Bank insurance sales to individuals through Arion sales teams up 47% YoY*

Bancassurance ratio:

- Individuals 35.5% vs 34.9% YE 2023
- Corporates 27.1%% vs 25.8% YE 2023

*excluding contractors

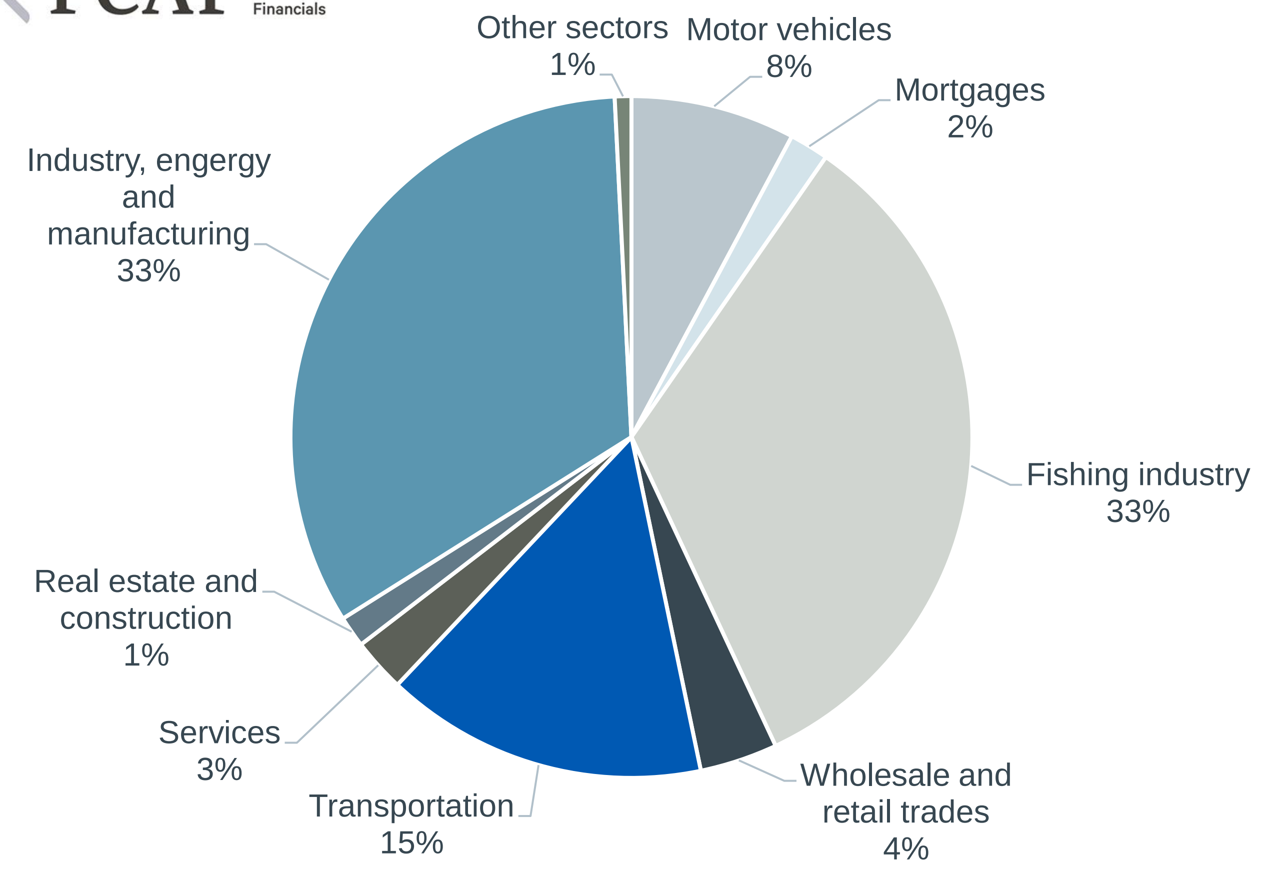
Ambitious sustainability strategy continues to support strong ESG ratings

Arion Bank became a member of Science Based Targets initiative (**SBTi**) and Net-Zero Banking Alliance (**NZBA**) at the end of 2023. For the second time the Bank has published a financed emissions report along with its first emissions reduction targets until 2030.

Morningstar Sustainalytics places Arion Bank in the top 4% of banks (around 1,000 banks globally) and the **top 2%** of regional banks (around 550 banks).
On a scale of 0-100, Arion Bank received **9.2 points**, with fewer points signifying lower risk which places the Bank in the **negligible** category.

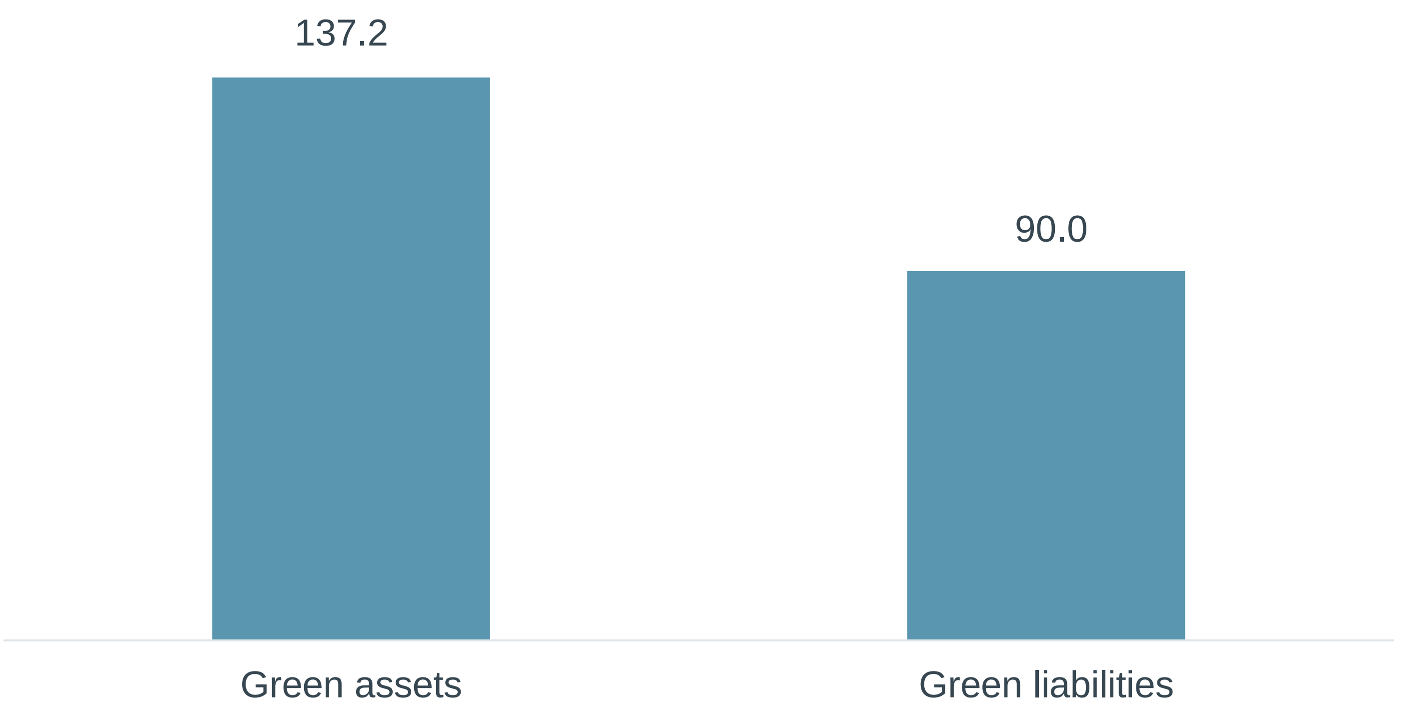
Arion Bank has achieved the score **"outstanding"** in Reitun's ESG rating, scoring **90 out of 100** possible points and placing it in **category A3**.
The rating is based on the Bank's performance in environmental, social and governance (ESG) issues in its operations. This is the fourth year in row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

Arion Bank's emissions from loan portfolio



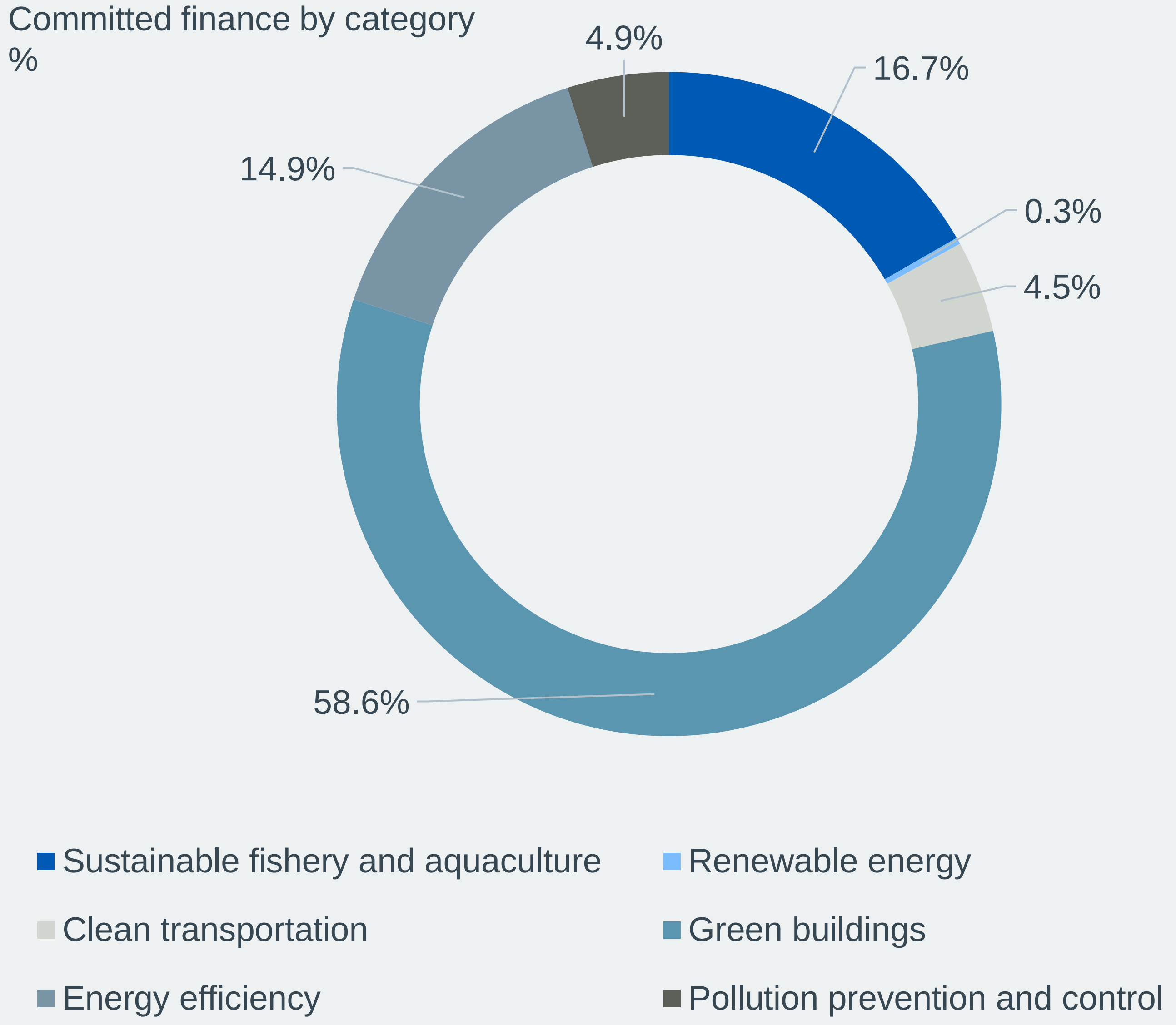
The Bank's total financed emissions in 2022 was 153 ktCO_2e (excluding emissions from sovereign debt)

The difference between green assets and green liabilities at the end of Q2 was ISK 47.2bn



At the end of Q2 the Bank's green asset pool was ISK 137bn

Committed finance by category
%



Next steps in our sustainability strategy

- Aim to reduce financed emissions in the sectors which have the most impact in line with net zero target by 2040
- Have targets on financed emissions validated by SBTi within two years
- Increase percentage of investment by women
- A harmonized risk assessment for different sectors and regions with respect to ESG risk and the financial impact on the Bank
- Implementing CSRD legislation and report on sustainability according to ESRS standards
- Further engagement with corporate customers regarding their sustainability and impact on financing options
- Promote and operate according to Arion Bank's Sustainability Policy for the Arctic region

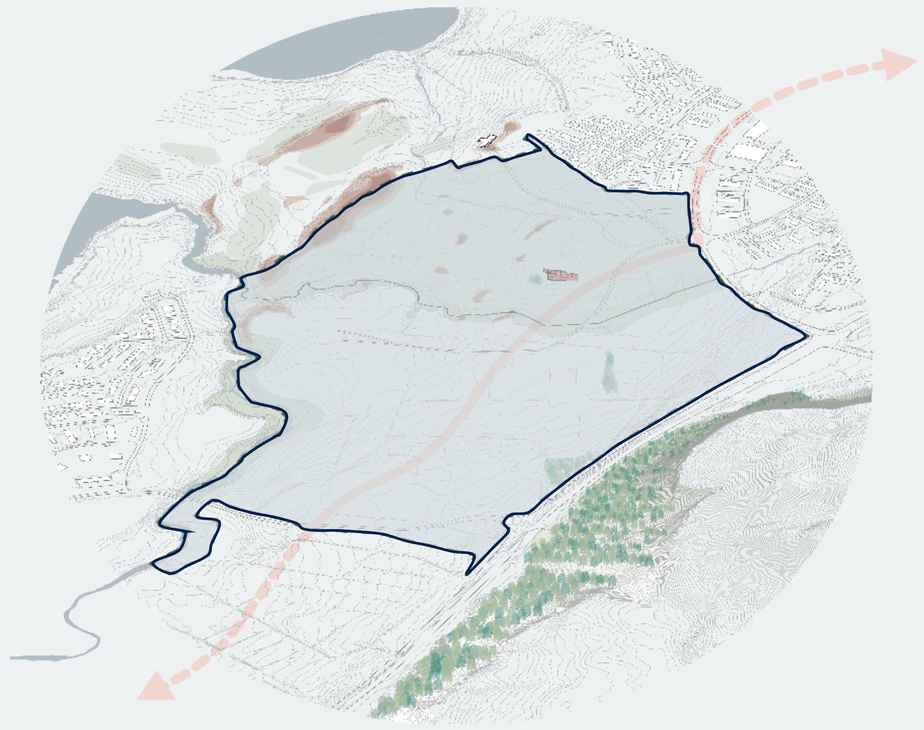
Property development assets progressing in line with expected timeline

Arnarland

Arnarland covers 9 hectares, estimated 530 residences and commercial property of 32,000m^2. The current book value is ISK 1.5bn. Arion owns 51% in the project

Current timeline

- Spring 2022 – Organizational description
- Spring 2022 – Pre phase consultation
- Summer 2023 – First phase presentation
- Fall 2023 – Planning proposal
- Summer 2024 – Final proposal presented
- Fall 2024 – Processing suggestions
- Fall 2024 – Approval process



Blikastaðir

The first phase of Blikastaðir land covers 30-35 hectares for estimated 1,200 residential units. The first phase also includes the building of a school and preschool. The total size of Blikastaðir development land is close to 100 hectares. The current book value is ISK 6.8bn

Current timeline for the first phase design

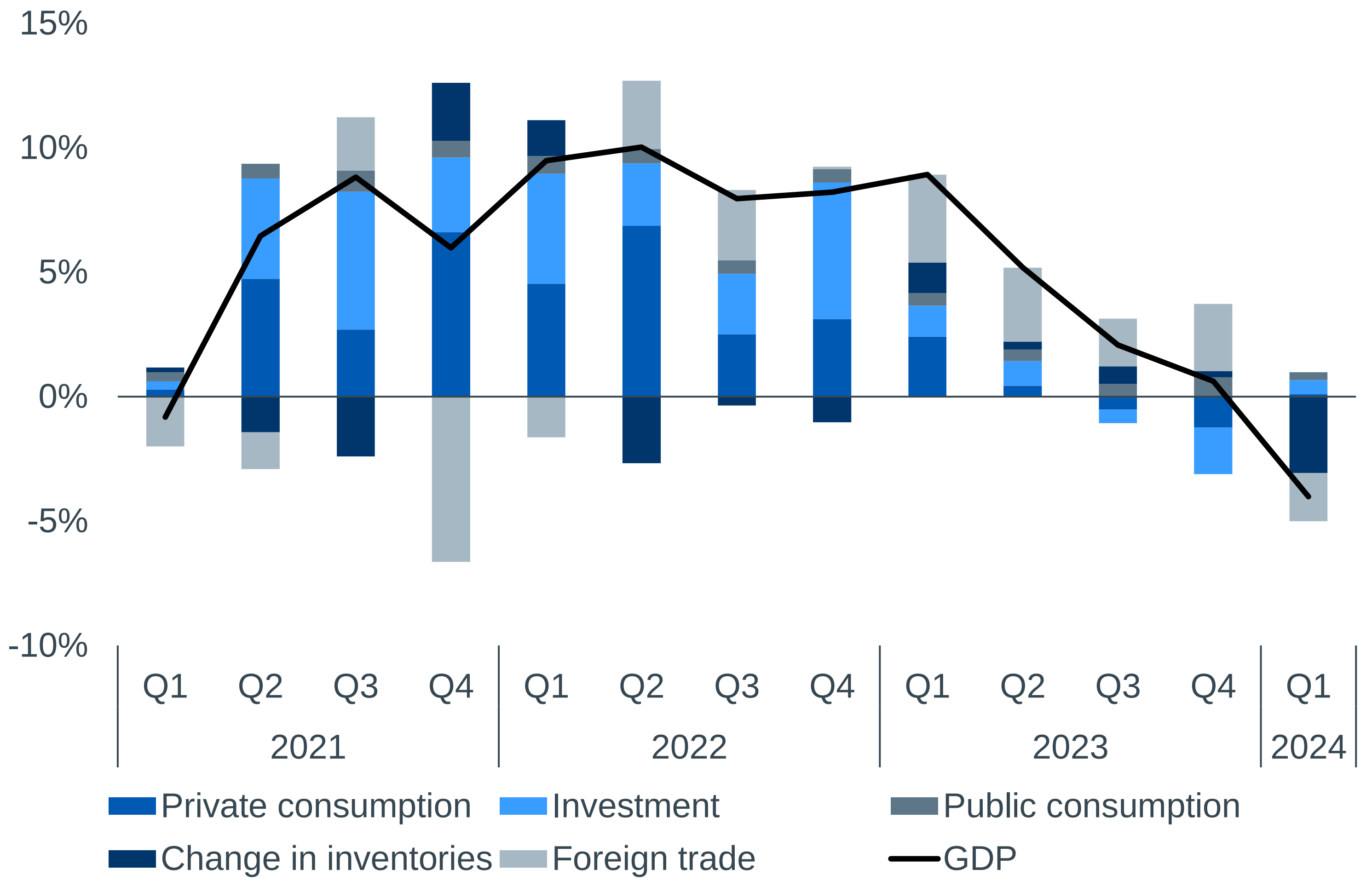
- Fall 2023 – Scope of work
- Winter 2023/2024 – Pre phase consultation
- Fall 2024 – First phase presentation
- Winter 2024/2025 – Planning proposal
- Spring 2025 – Final proposal presented
- Fall 2025 – Processing suggestions
- Fall 2025 – Approval process

 Source: Municipality of Gardabaer, municipality of Mosfellsbaer, Arion Bank

The economy is slowing down

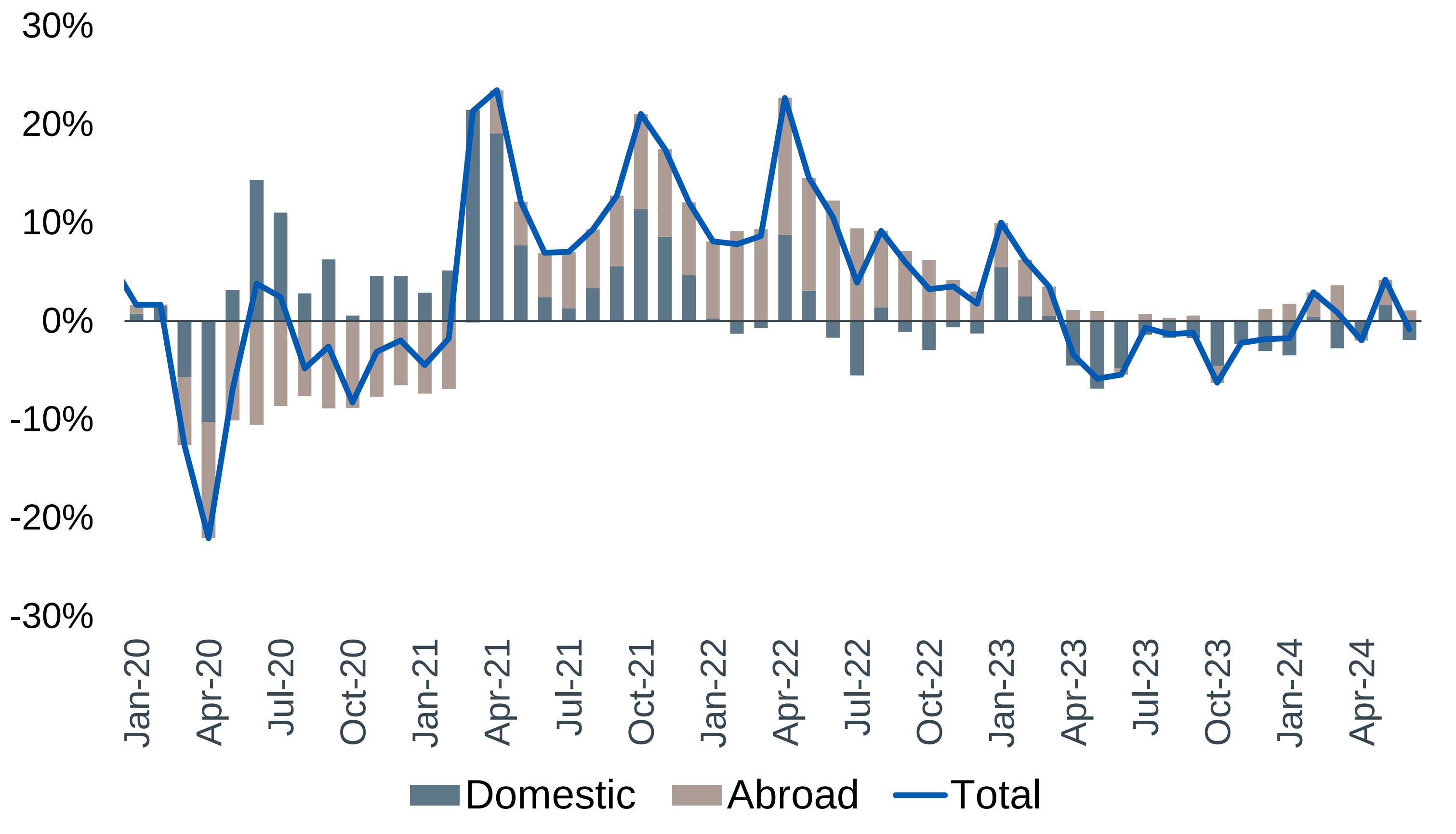
Fewer tourists and reduced tourist spending, in addition to tight monetary policy will most likely continue to reduce consumer demand, which is necessary to bring inflation down to target. Still, the labor market has proven to be remarkably resilient, although signs of an inflection point have started to emerge

Contributions of GDP components

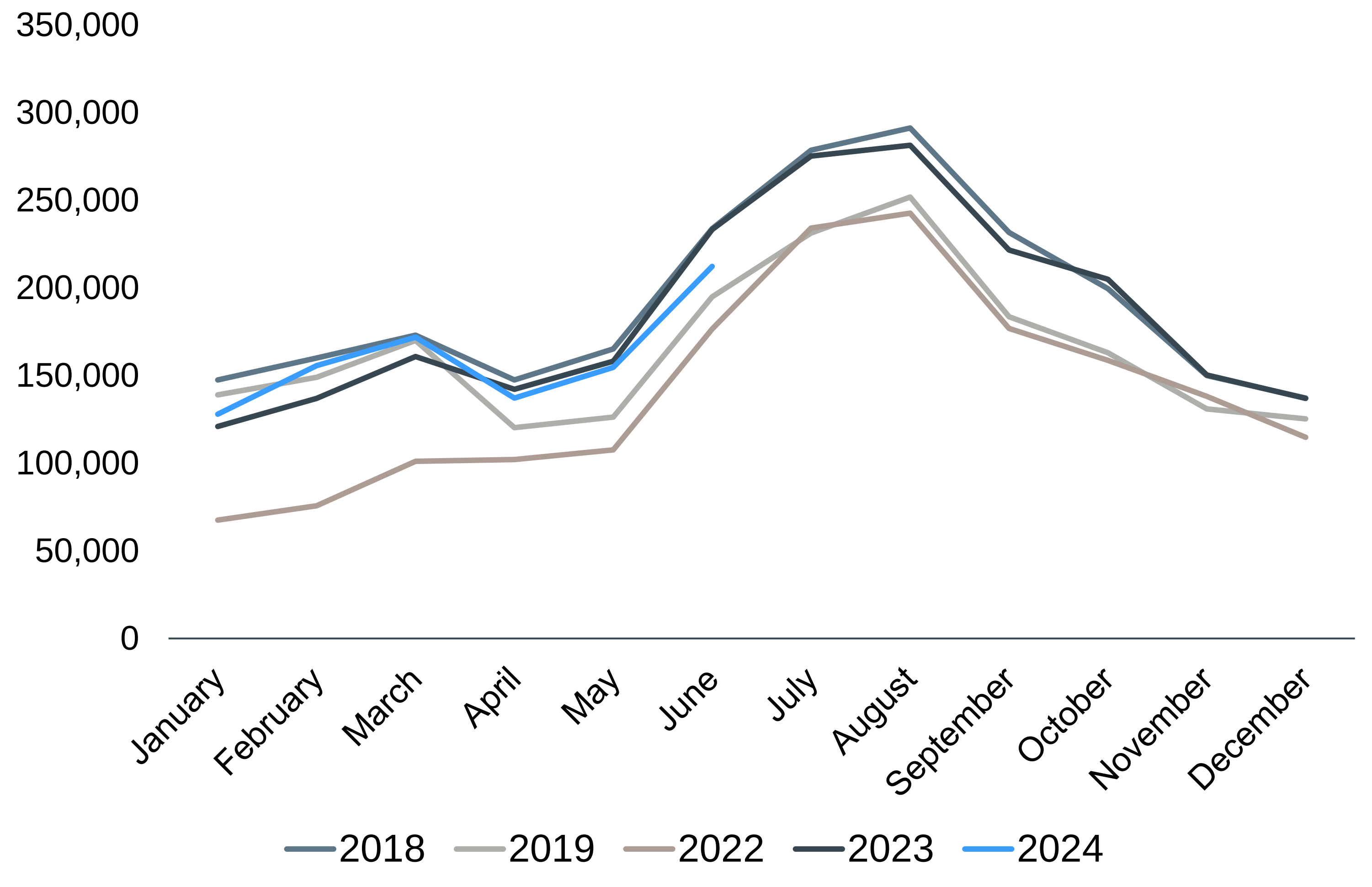


Payment card turnover

- YoY growth, growth contributions of underlying components

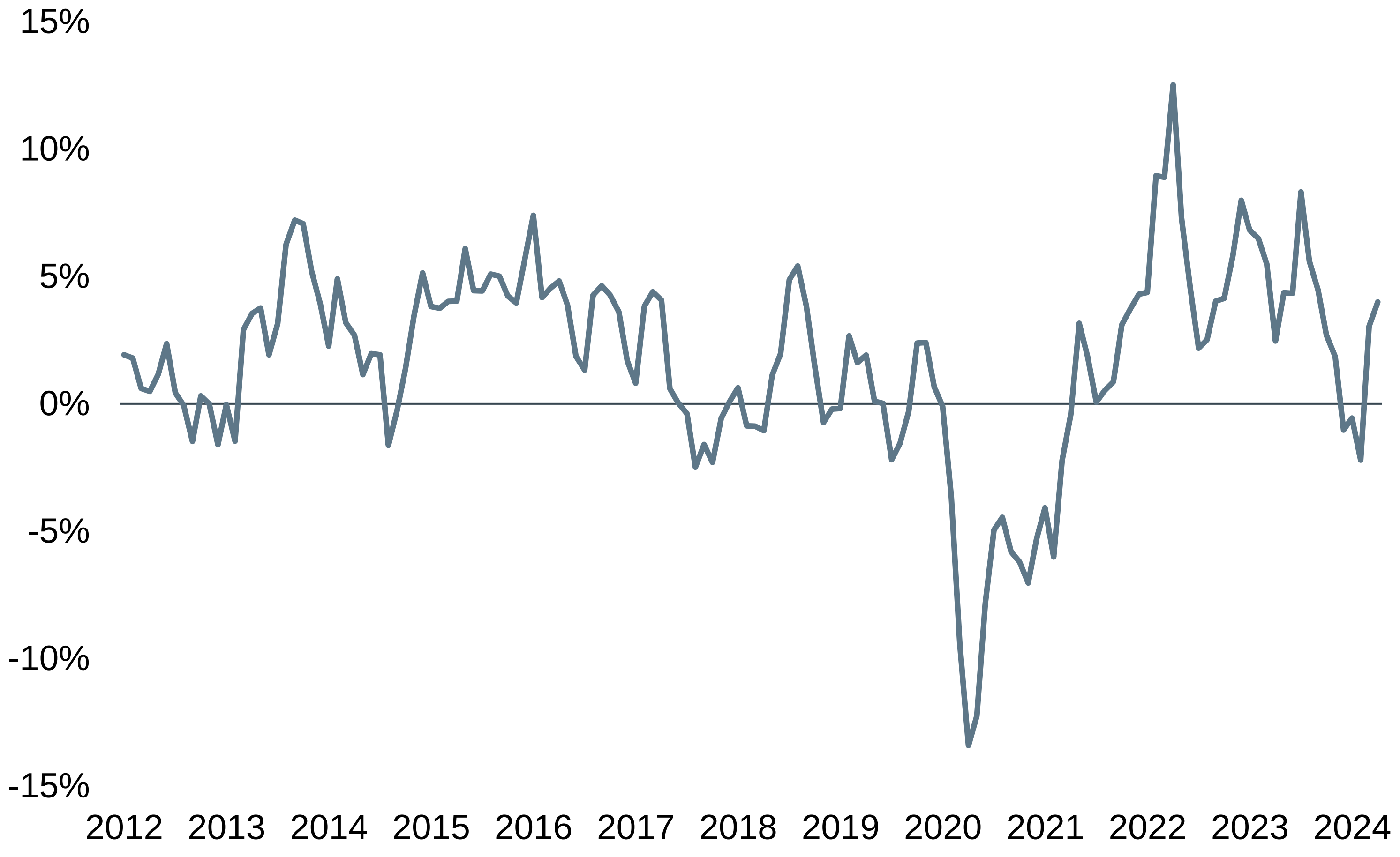


Tourist departures via Keflavík International Airport

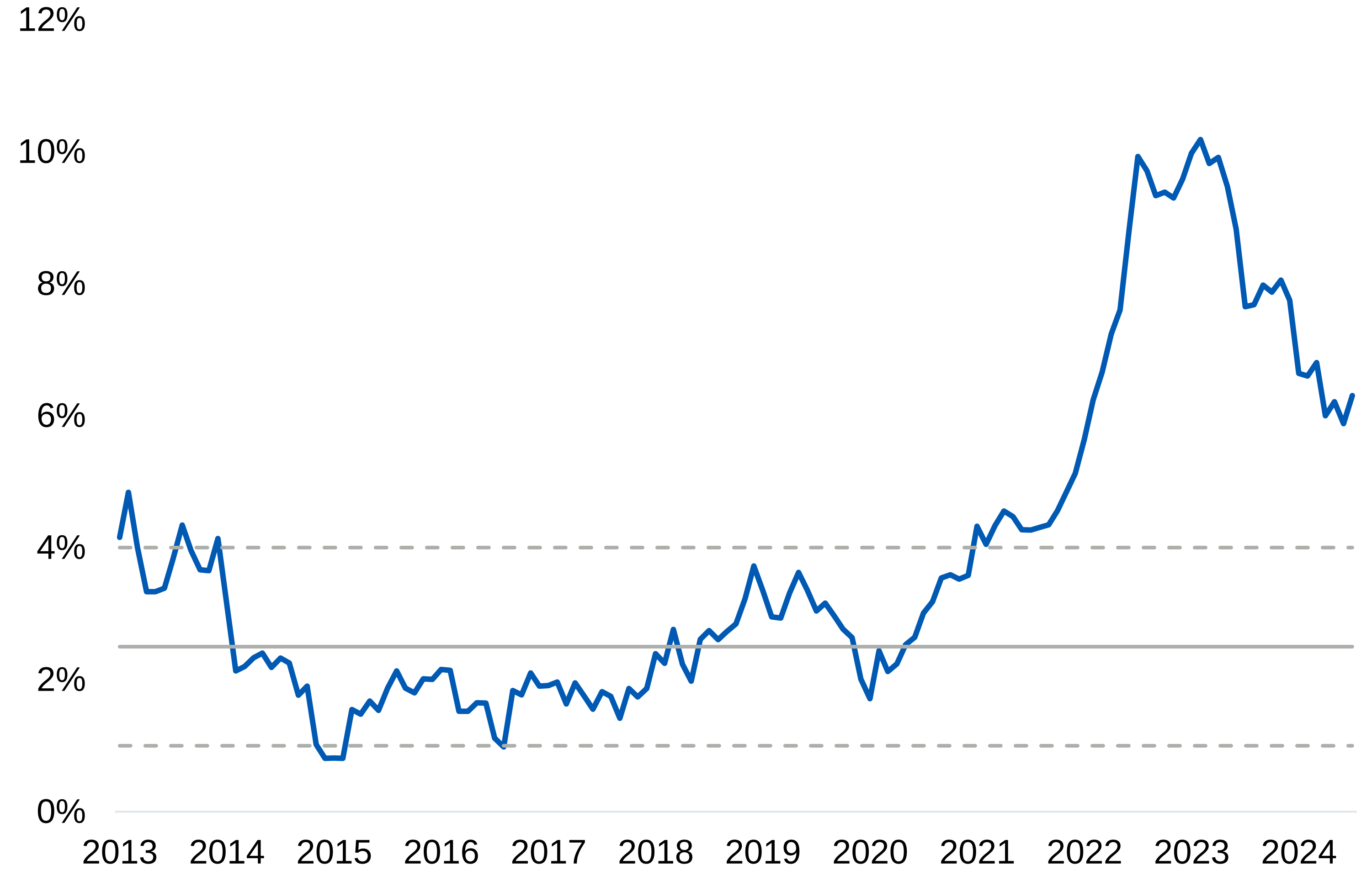


Total hours worked

- 12 month change (of a 3 month average)

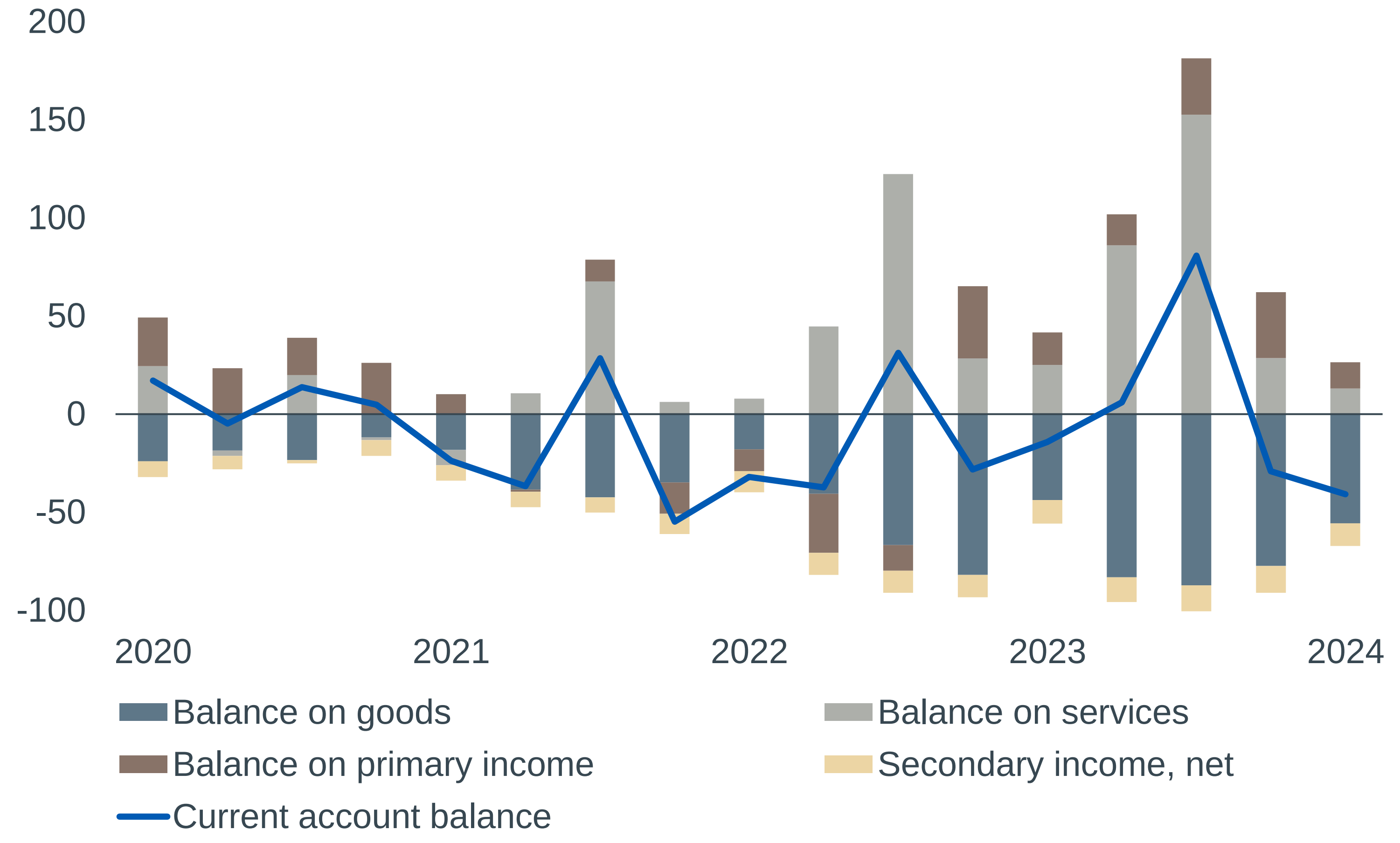


Inflation



Current account balance

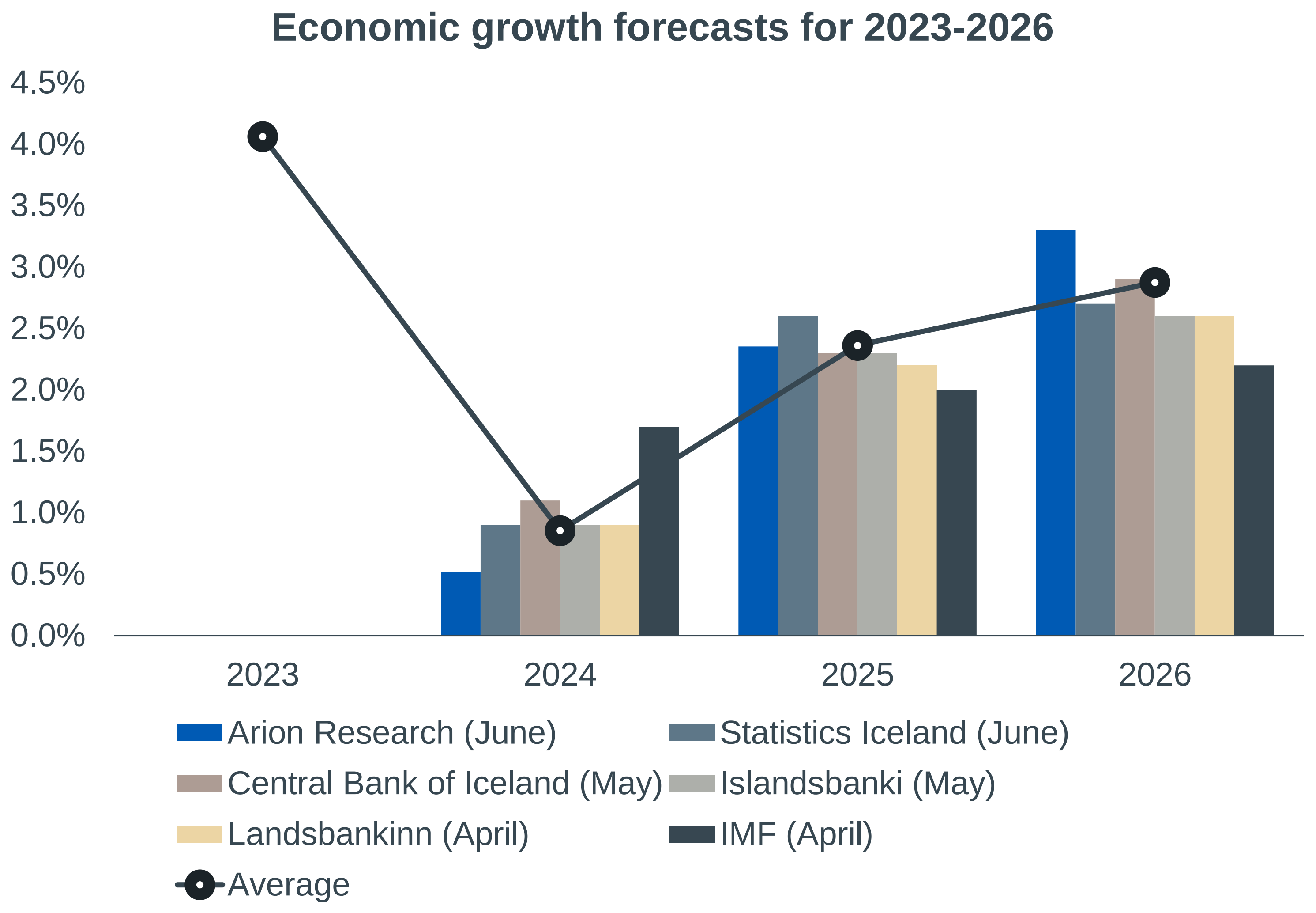
- bn. ISK at constant exchange rate

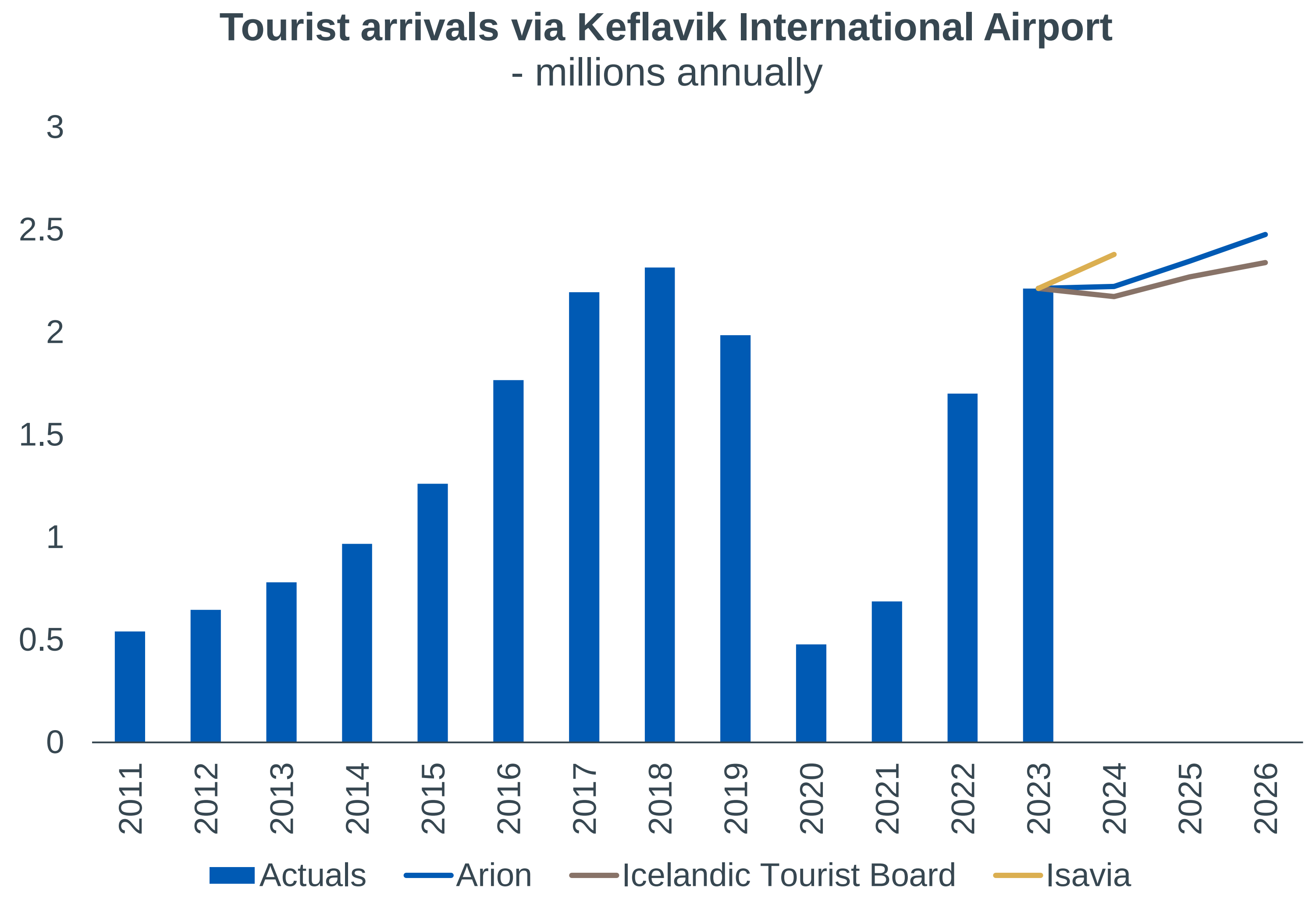


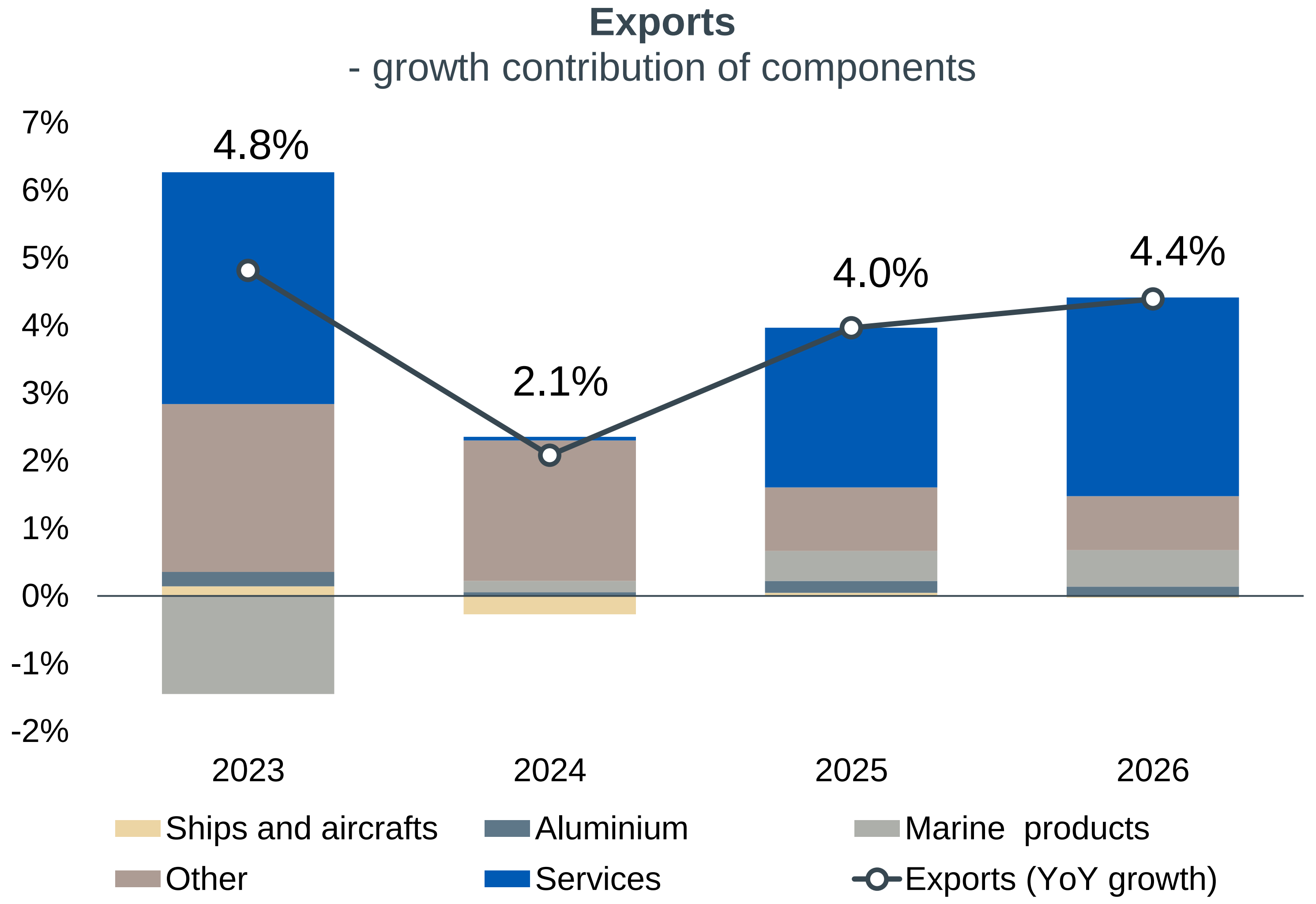
Sources: OECD, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, Arion Research.

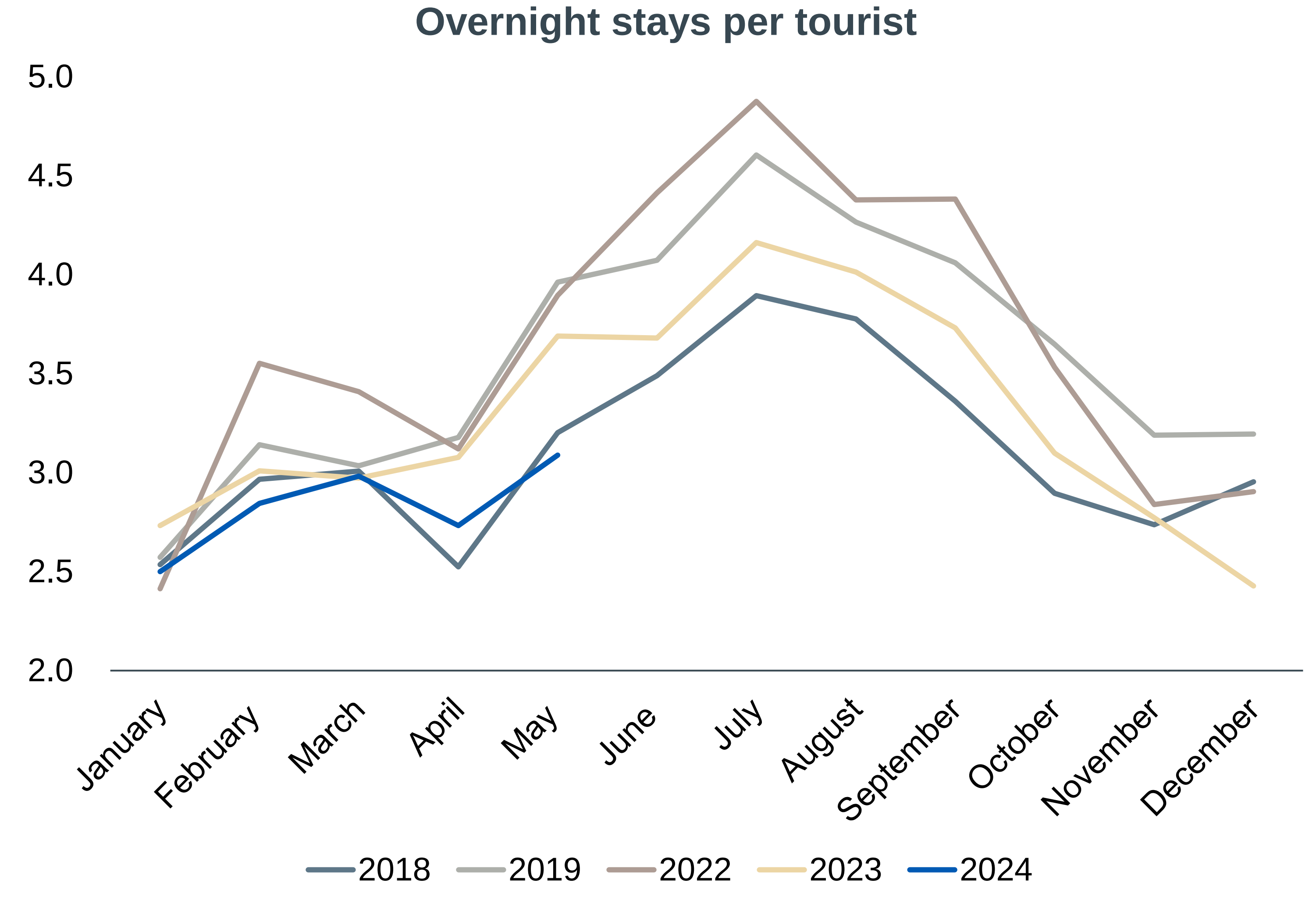
Slow growth as the economy grapples with tighter monetary policy

- Most analysts have revised their economic forecasts for this year downwards, with the consensus among domestic analysts at 0.9% growth. This change is primarily due to slower growth in the tourism industry, which offsets stronger domestic demand. Additionally, the 4% contraction in Q1, mainly due to changes in inventories, plays a significant role
- The growth in the number of tourists appears to be coming to a temporary halt, with 2.2 million tourists expected to visit the country this year. Compounding this issue is the fact that each tourist is staying for a shorter period and spending less. Besides the challenges faced by the tourism industry this year, the capelin shortage is impacting the fisheries sector, and heavy industry struggles with electricity shortages
- Despite these issues, the export outlook is fairly bright. The pharmaceutical industry, aquaculture, and various innovation-driven activities are expected to drive export growth this year







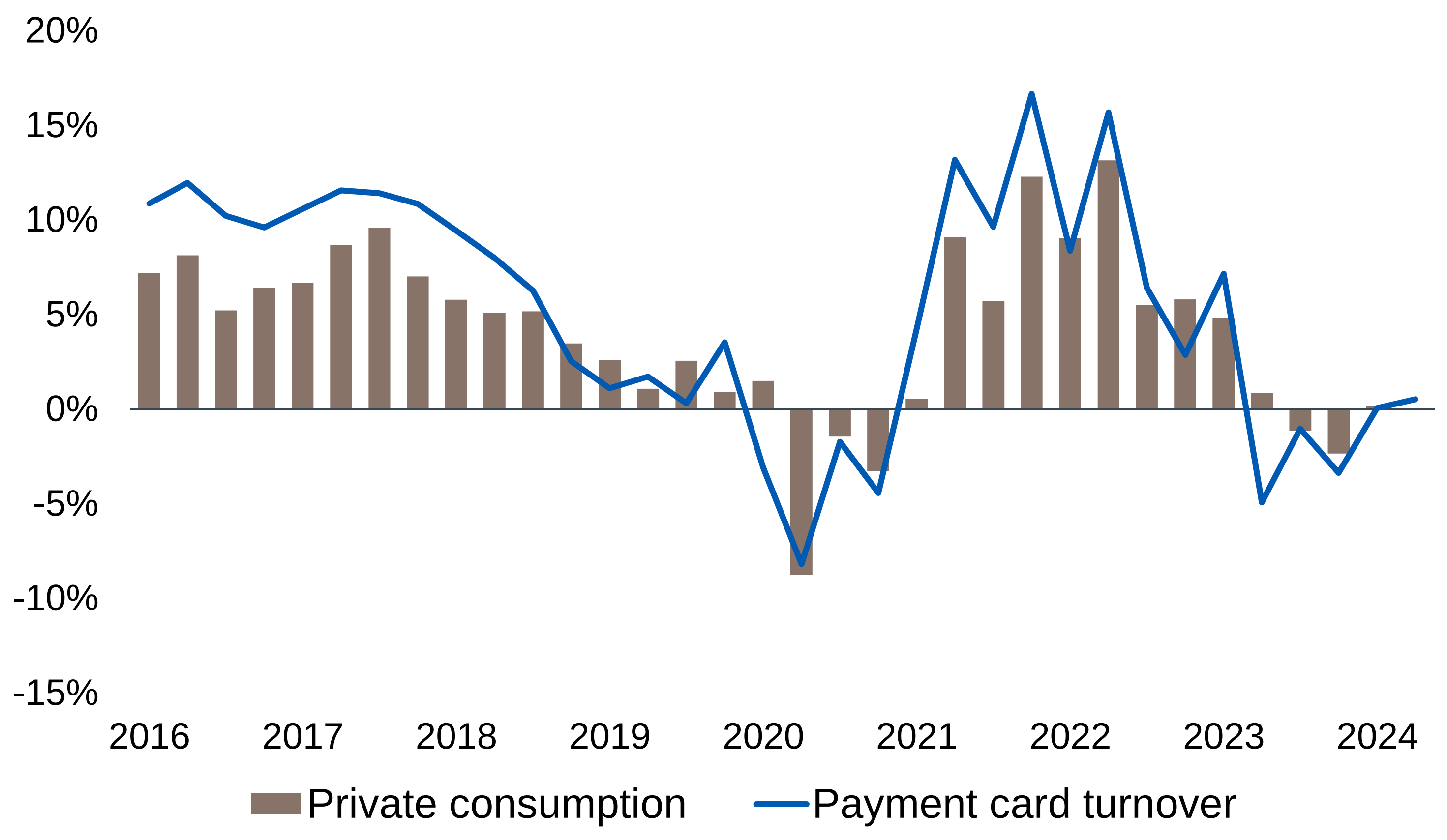


Sources: Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, ISAVIA,, IMF, Landsbanki, Islandsbanki, Arion Research.

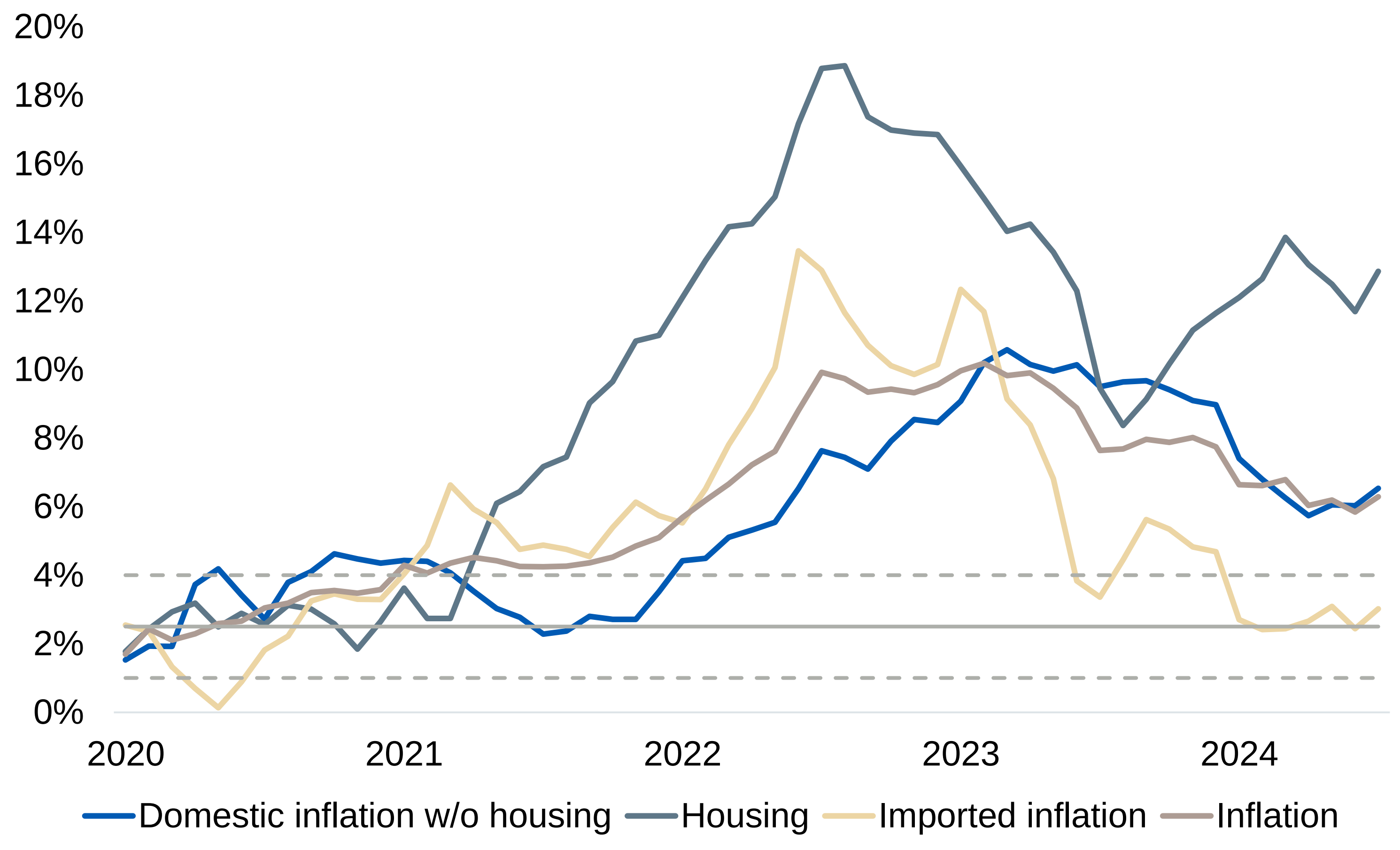
Resilient domestic demand creates headwinds for the CBI

- Despite some easing, inflation has proven to be persistent, measuring 6.3% in July, with inflationary pressures apparent. While housing is still the main culprit, prices of domestic goods and services are rising at a similar rate as headline inflation, whereas imports have only seen modest price increases
- Although domestic demand has taken a hit in this high-interest rate environment, declining in the second half of last year, it has remained surprisingly resilient, complicating the CBI's efforts. Private consumption increased by 0.2% between years in Q1, and payment card turnover figures indicate continued growth in Q2
- Additionally, a very lively housing market poses further risks to the Central Bank's agenda. Recent volcanic eruptions and a rapidly increasing population have driven up demand, while supply has failed to keep pace. Households have sought refuge in inflation-indexed mortgages, where the repayments are lower at the beginning of the loan term

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

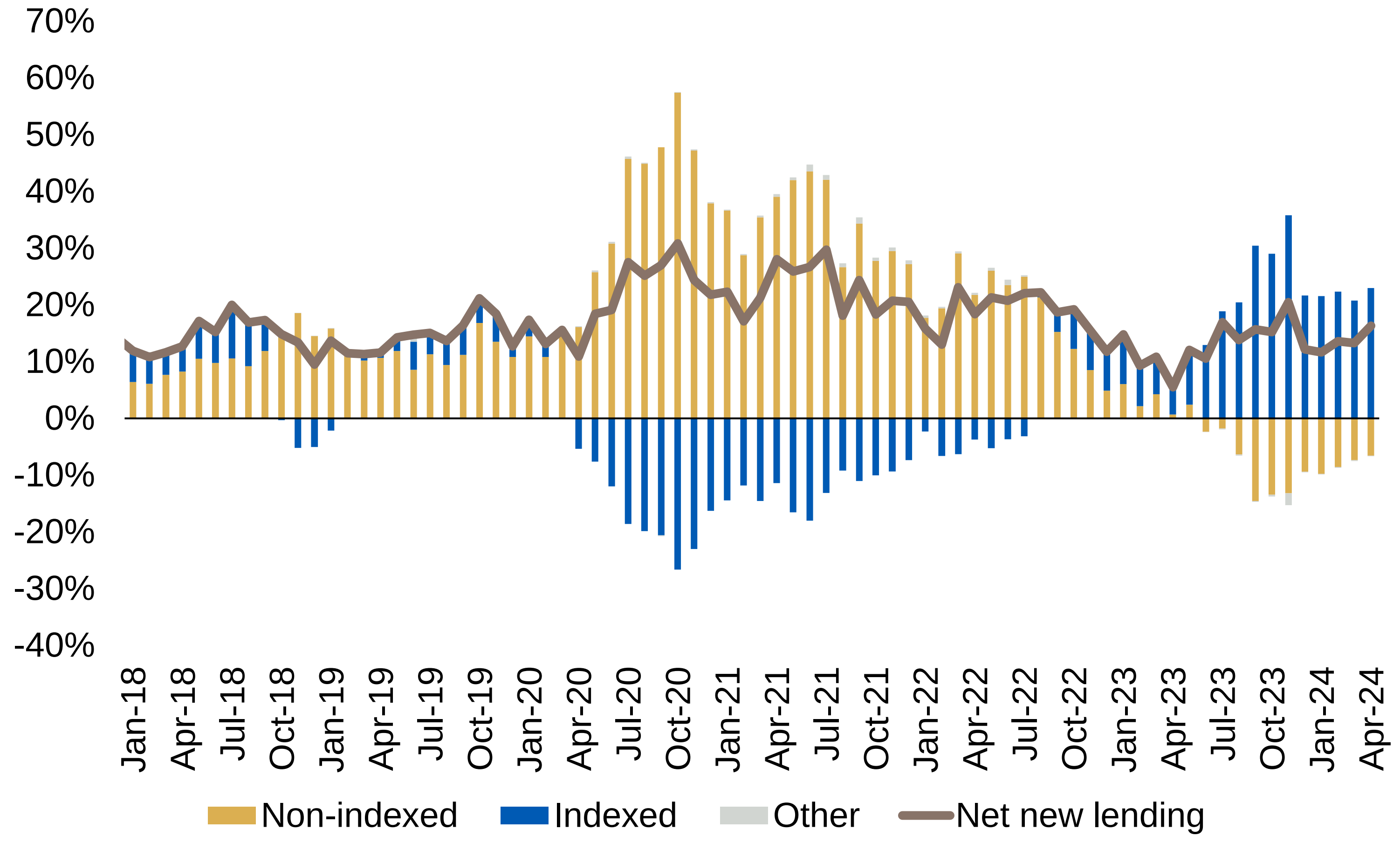


Domestic and imported inflation
-YoY change (%)



Number of housing transactions

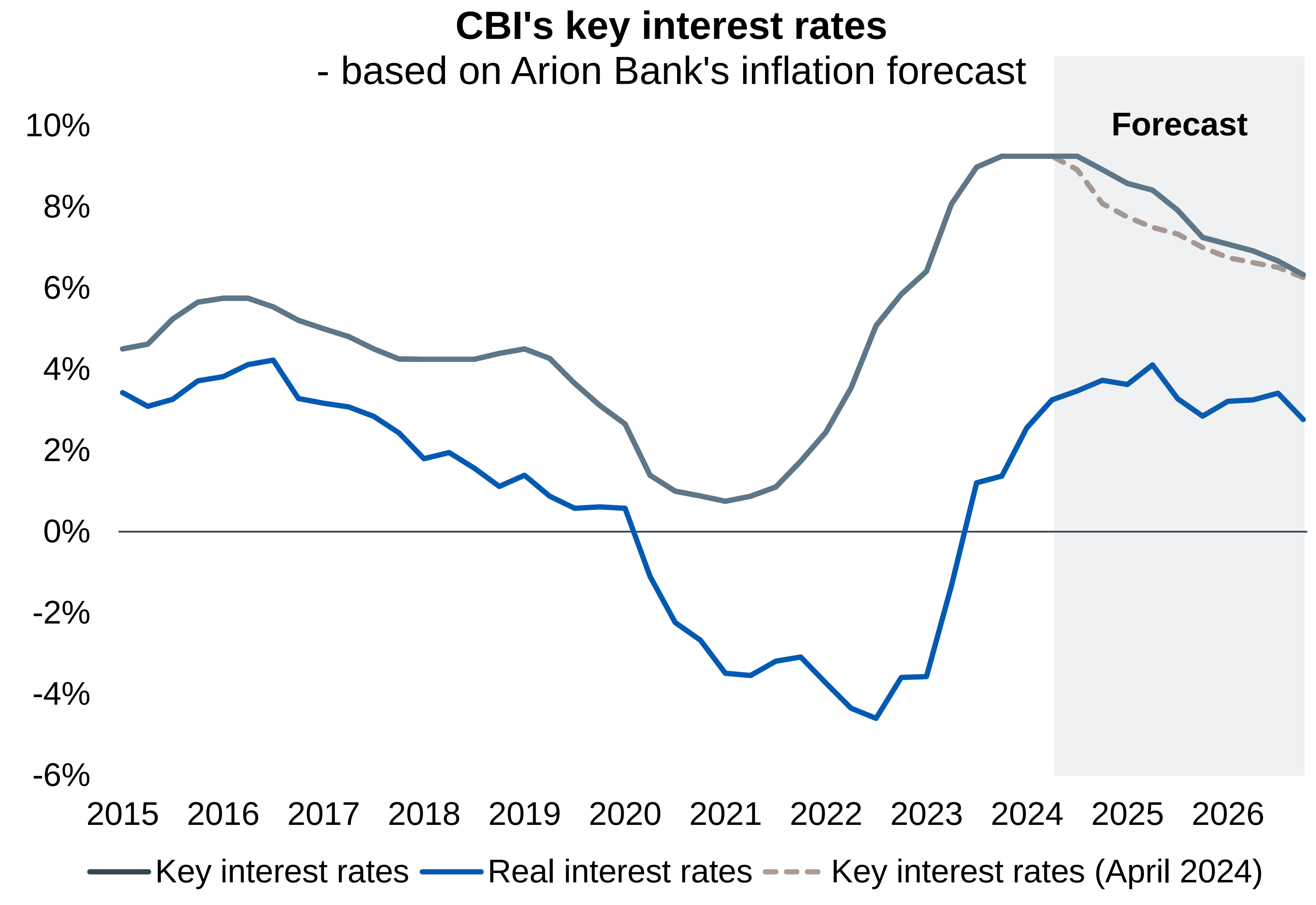
Net new lending from DMBs, pension funds, and HCA to households

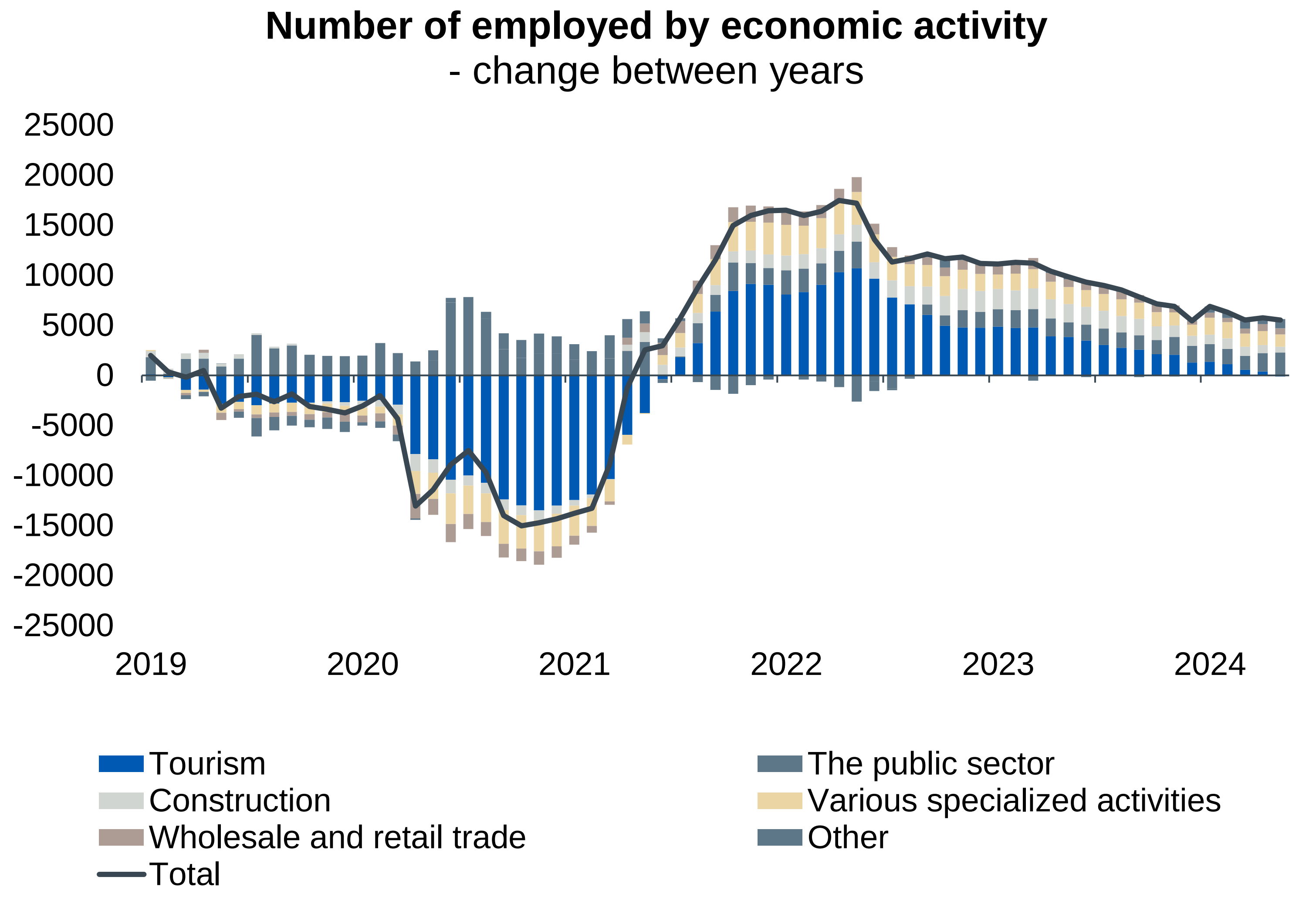


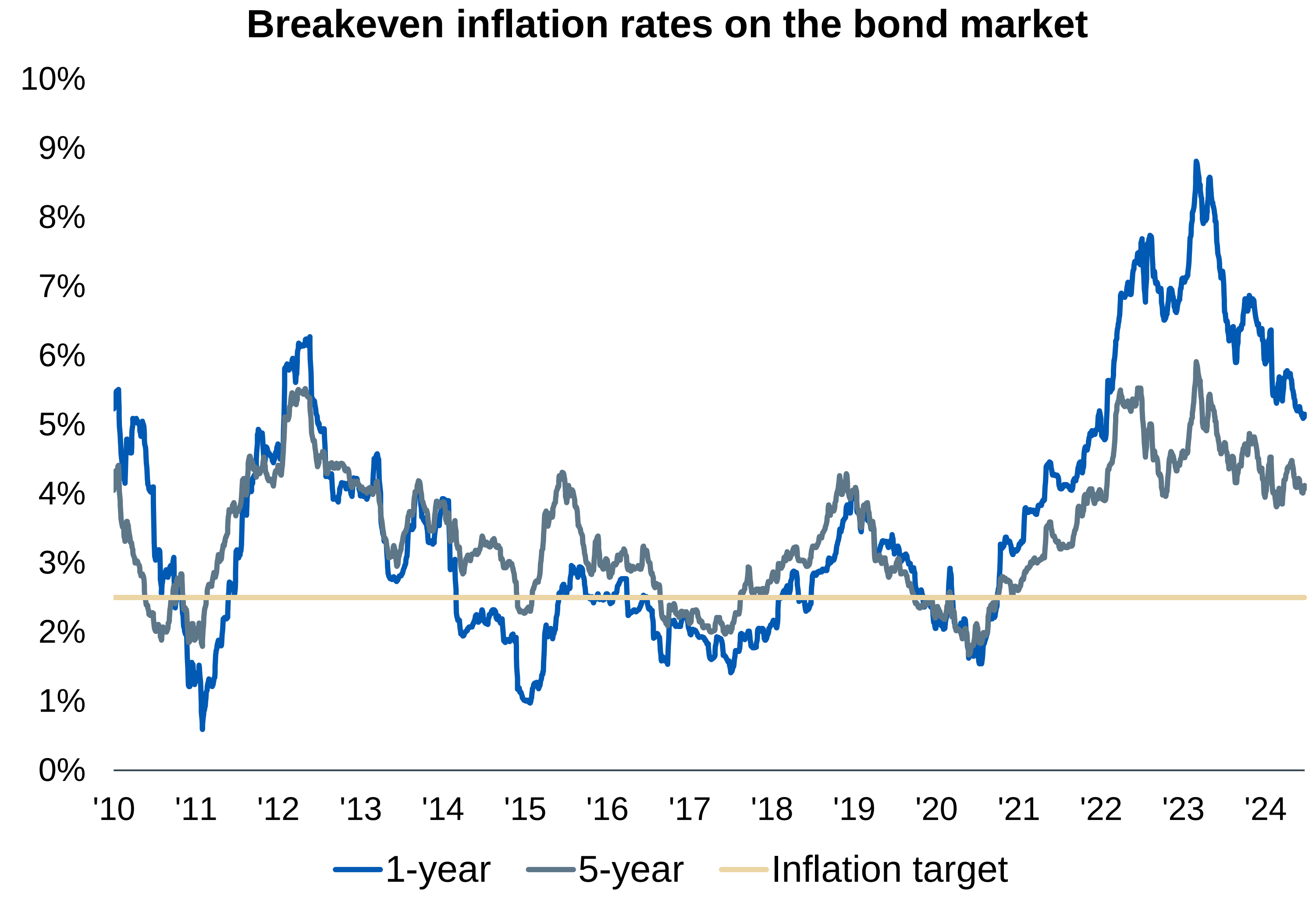
Sources: Central Bank of Iceland, Federal Reserve, ECB, BoE, Statistics Iceland, Arion Research

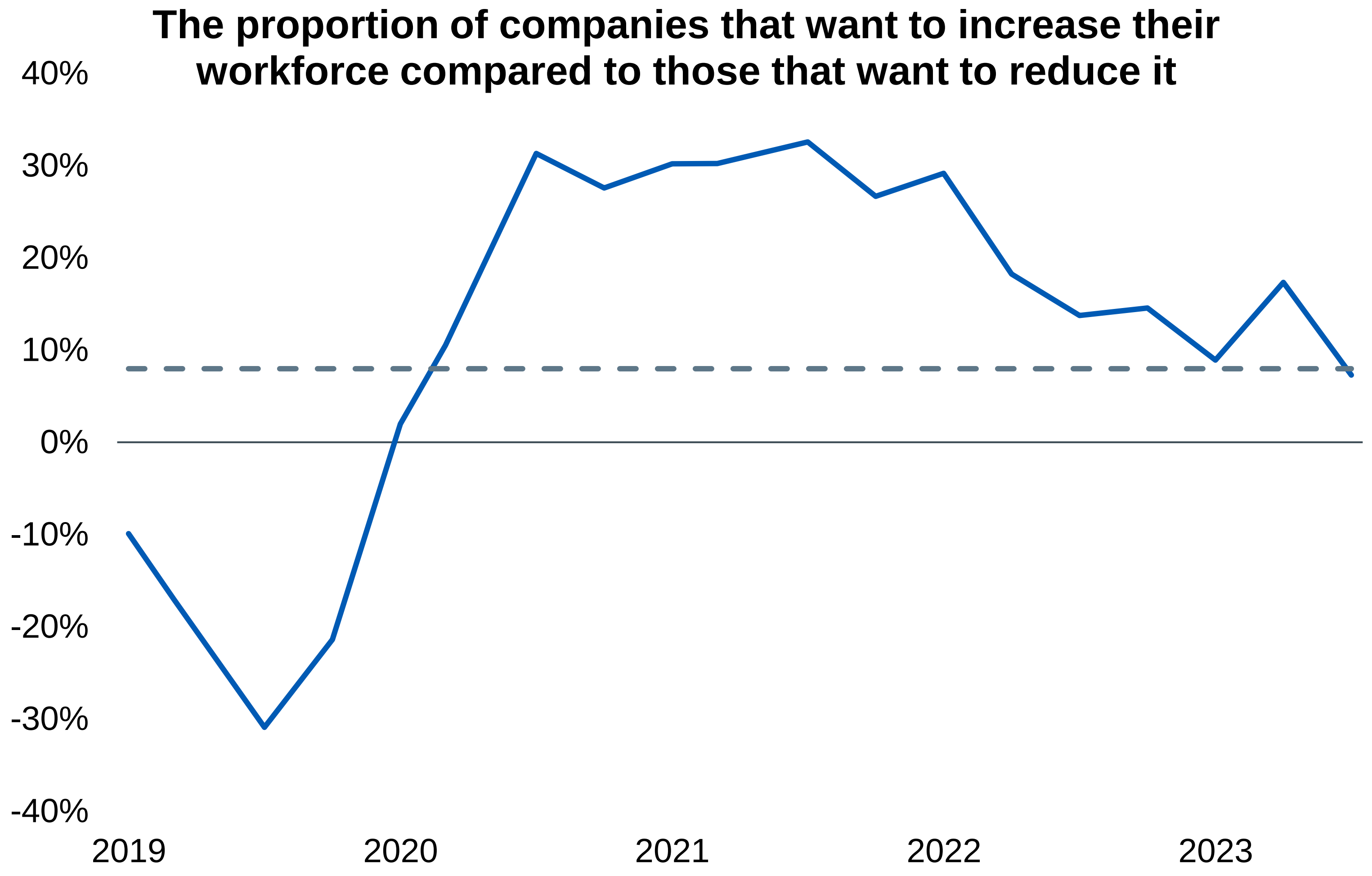
First signs of labor market cooling

- Despite the challenges faced by CBI, numerous signs indicate that the monetary policy is slowly but surely taking effect. Since the impacts of monetary policy typically take 18-24 months to manifest and the CBI’s key interest rates are still rising in real terms, we can expect their effects to become more pronounced in the coming quarters
- Inflation expectations are moving in a favorable direction, and the demand for labor appears to be slowing down. For example, job availability is decreasing, and the number of companies planning to hire no longer exceeds those planning to reduce their staff
- Additionally, a recent drop in consumer sentiment and fewer anticipated big-ticket purchases suggest that private consumption is starting to wane under the pressure of tighter monetary policy





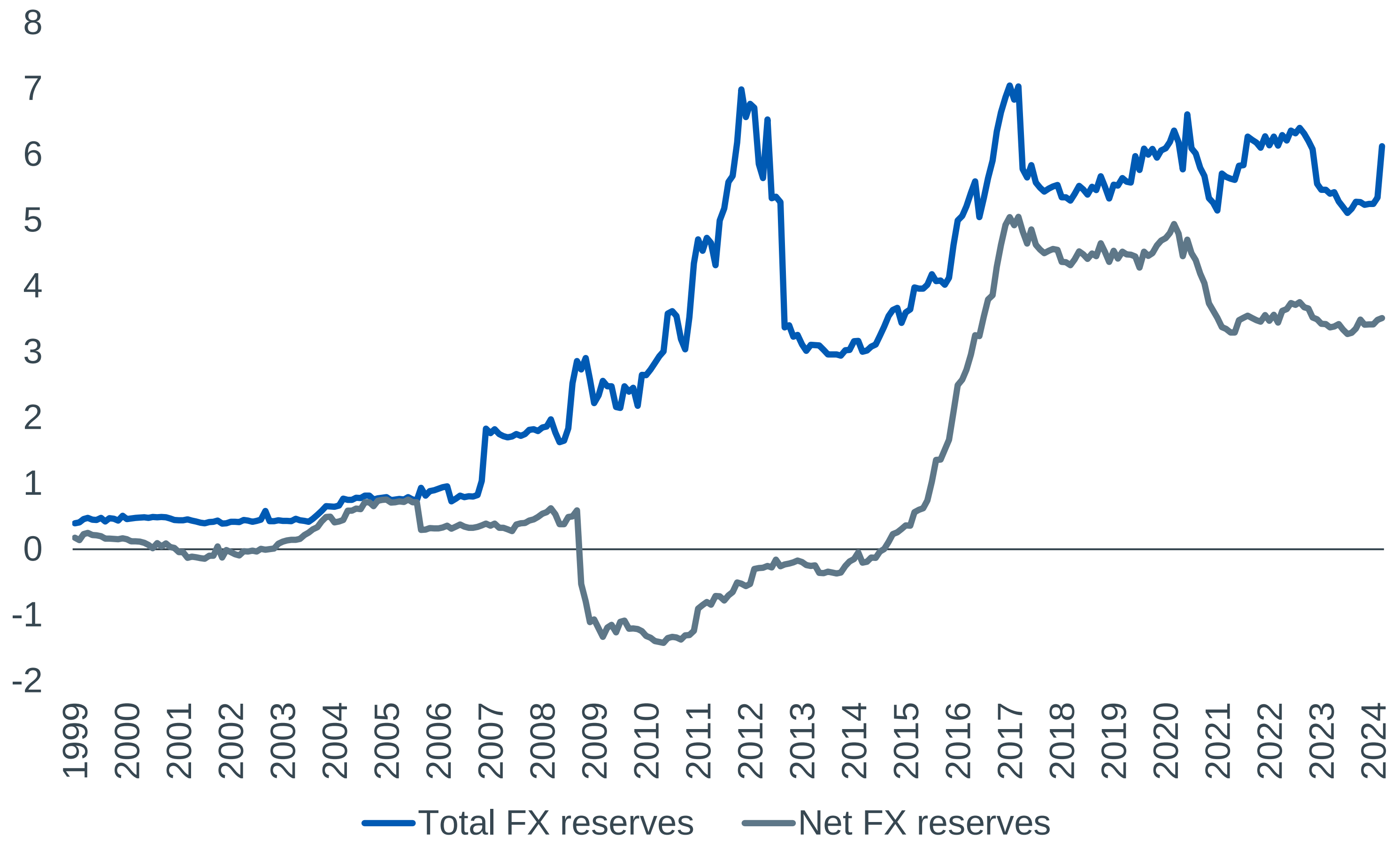




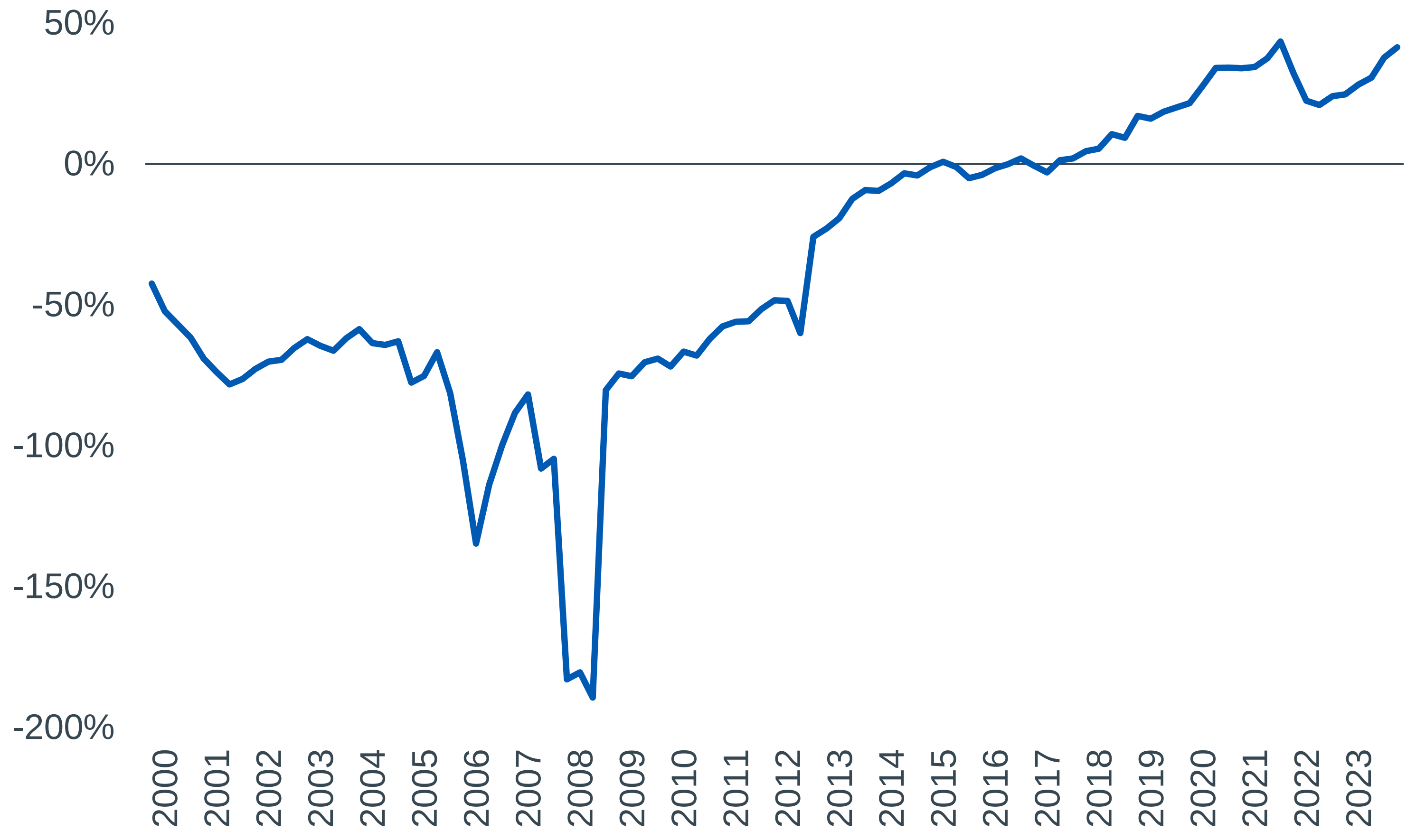
Sources: Central Bank of Iceland, Statistics Iceland, Arion Research

Small economy, strong foundations

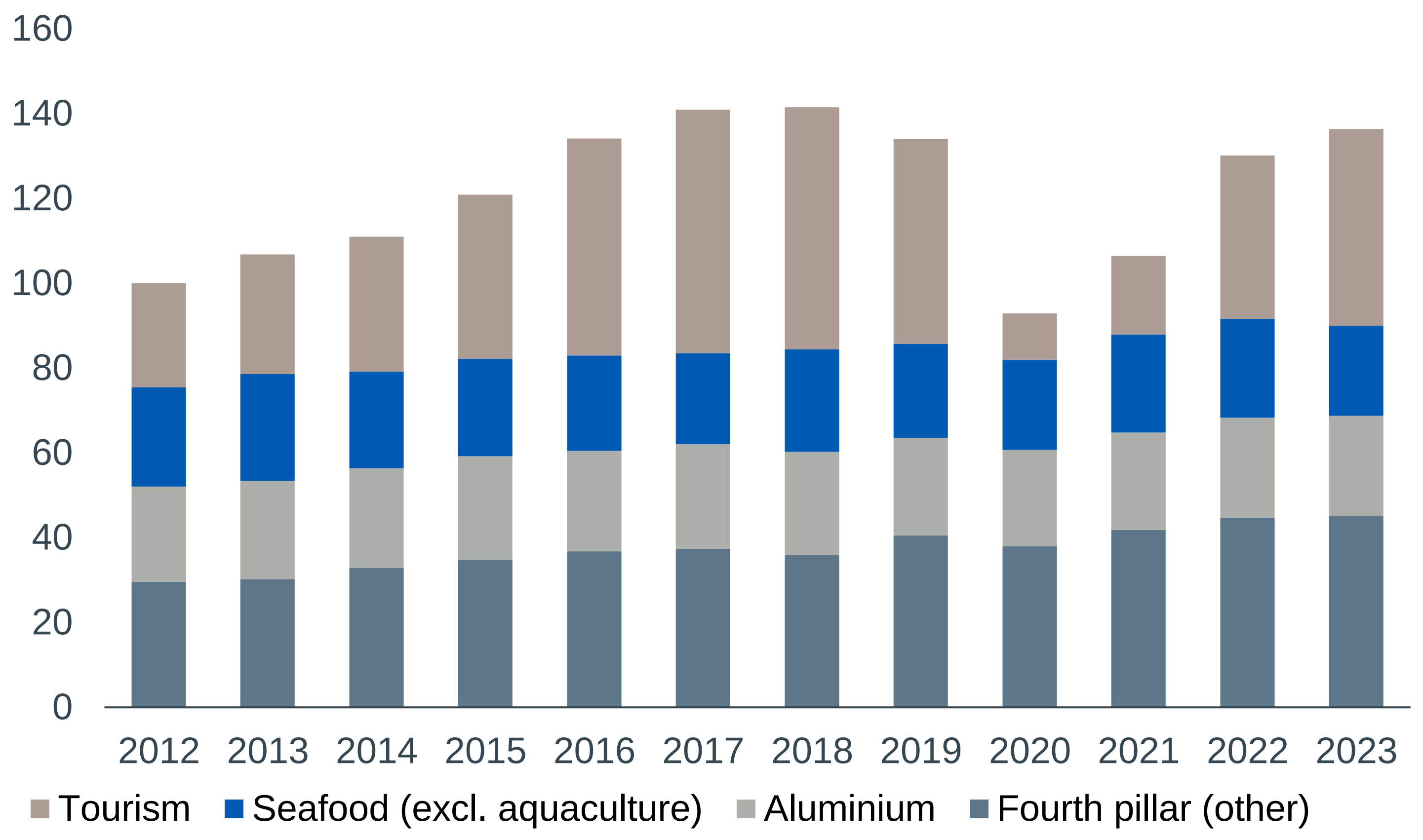
CBI's FX reserves
- bn. EUR



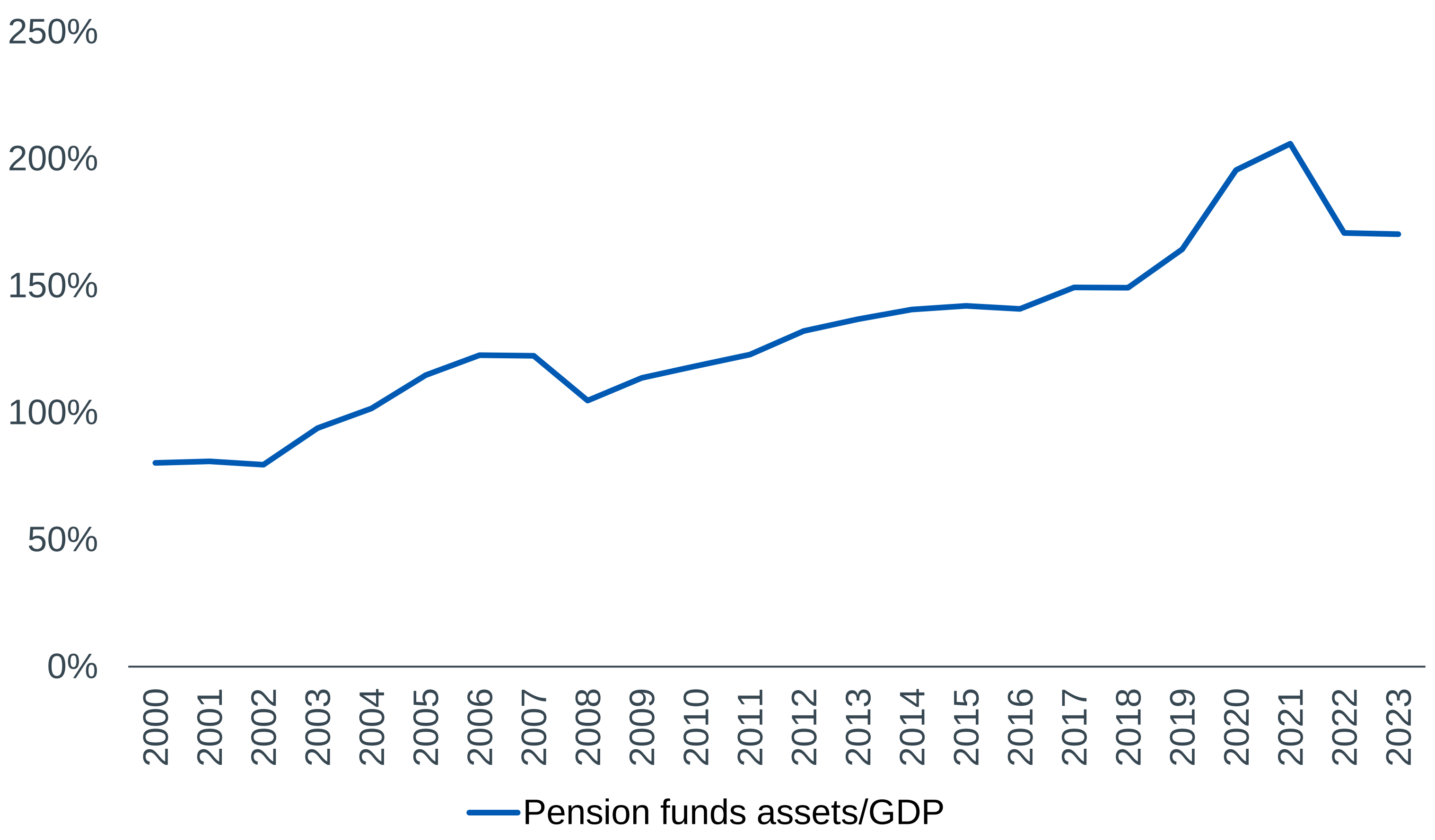
Net international investment position
- % of GDP



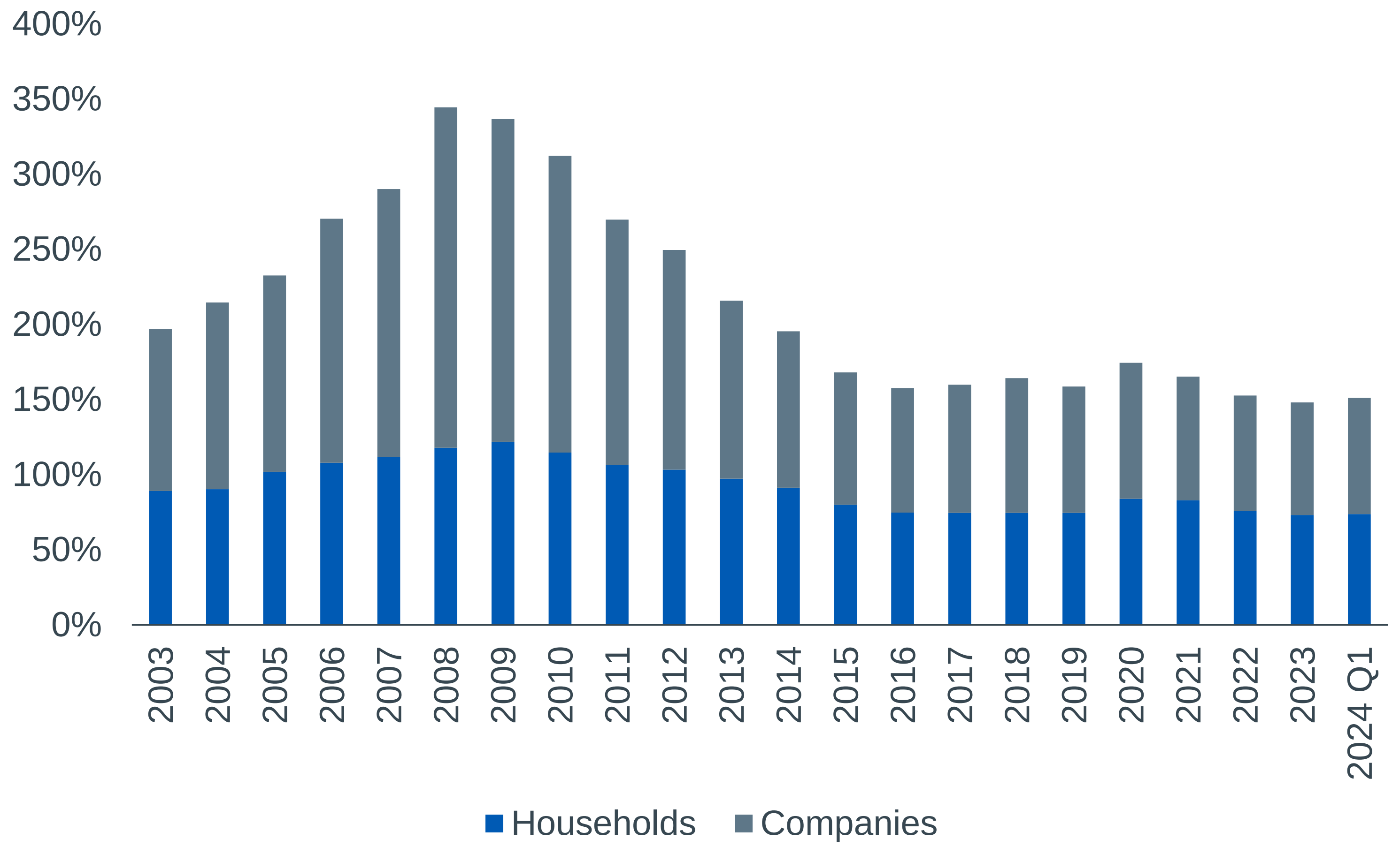
Total exports composition
- index, total in 2012=100



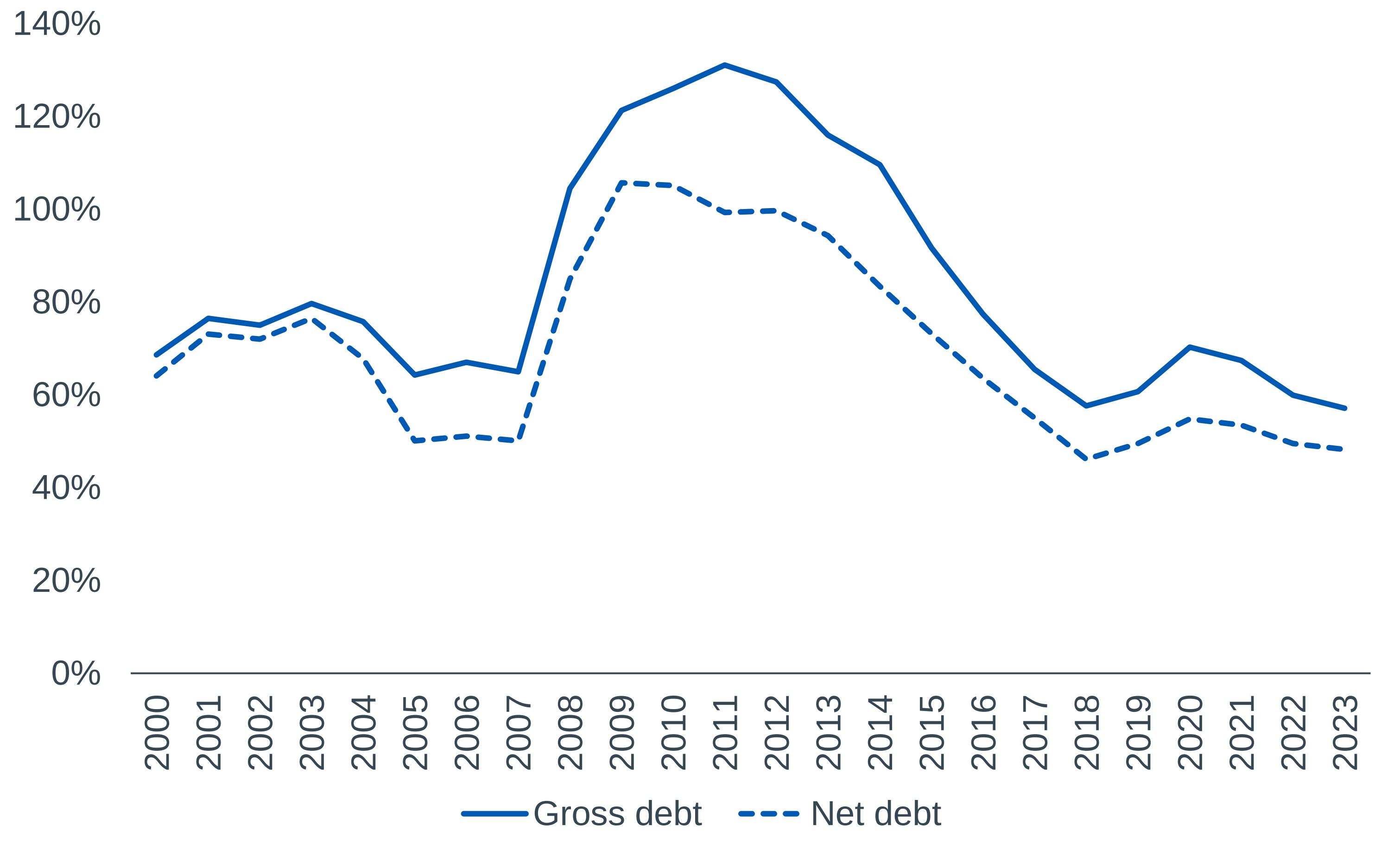
Pension funds assets
- % of GDP



Household and non-financial corporate debt
- % of GDP



Debt of central government
- % of GDP



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

Key takeaways from Q2 2024

Operational performance

- Solid quarter with good momentum in core earnings drivers
- Operating expense and effective tax rate impacted in the quarter by ISK 585m fine following a settlement with the regulator
- ROE of 11.5% in the quarter and 12.7% excluding settlement expense

Net fee and commission income

- Positive development in fee and commission income in the quarter, following an unusually subdued first quarter
- Growth between quarters broad-based but driven by asset management, cards and lending fees

Net interest income

- The interest margin holding at a strong 3.2% level
- Reset of fixed rate mortgages beginning to support the margin and this will pick up further over coming months

Capital, funding and liquidity

- Capital position very strong with a CET1 ratio of 18.5% or 330bps above regulatory minimum
- Liquidity position strong, stable deposits continue to grow and wholesale funding profile balanced

Income statement Q2 2024

- Net profit of ISK 5.5bn resulting in ROE of 11.5%
- Core income* increase by 1% YoY and 14% between quarters
- NII increases by 6% between quarters and net commission income by 18%
- Operating expense increased by 19% YoY
  - Increase partly due to ISK 0.6bn fine following a settlement with the regulator
  - Also impact of new collective wage agreements in May, which were backdated to February
- Impairments are calculated at 28bps on yearly basis
- High effective tax rate of 32.6% due to unfavorable combination of income and expenses

	Q2 2024	Q2 2023	Diff	Q1 2024	Diff
Net interest income	11,948	11,426	5%	11,245	6%
Net fee and commission income	3,979	4,187	(5%)	3,365	18%
Insurance service results	522	762	(31%)	(215)	-
Net financial income	99	(617)	-	29	-
Other operating income	37	1,586	(98%)	50	(26%)
Operating income	**16,585**	**17,344**	**(4%)**	**14,474**	**15%**
Operating expenses	(7,152)	(6,009)	19%	(6,554)	9%
Bank levy	(476)	(457)	4%	(460)	3%
Net impairment	(775)	(568)	36%	(315)	146%
Net earnings before taxes	**8,182**	**10,310**	**(21%)**	**7,145**	**15%**
Income tax expense	(2,671)	(3,226)	17%	(2,704)	(1%)
Net earnings from continuing operations	**5,511**	**7,084**	**(22%)**	**4,441**	**24%**
Discontinued operations net of tax	(11)	7	-	(9)	22%
Net earnings	**5,500**	**7,091**	**(22%)**	**4,432**	**24%**
Return on equity	11.5%	15.5%		9.1%	
Core income*	17,272	17,116	1%	15,203	14%
Net interest margin	3.2%	3.2%		3.1%	
Cost-to-core income ratio**	46.2%	39.4%		48.4%	

*Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)
** Cost-to-core income ratio excluding the settlement fine was 42.8% in Q2 2024

 All amounts in ISK million

Income statement H1 2024

- Net profit of ISK 9.9bn resulting in ROE of 10.2%
- Core income* stable YoY
- NII increases by 3% from prior year while NCI decreased, partly due to closure of Keflavik airport branch and reclassification of card insurance
- Operating expense increased by 10% YoY, partly due to ISK 585m fine following a settlement with the regulator. Inflation in H1 2024 was 7.1%
- Impairments for the period are calculated at 18bps on yearly basis
- High effective tax rate of 35.1% due to unfavorable combination of income and expenses

	H1 2024	H1 2023	Diff
Net interest income	23,193	22,420	3%
Net fee and commission income	7,344	8,638	(15%)
Insurance service results	307	41	-
Net financial income	128	179	(28%)
Other operating income	87	1,605	(95%)
Operating income	**31,059**	**32,882**	**(6%)**
Operating expenses	(13,706)	(12,479)	10%
Bank levy	(936)	(906)	3%
Net impairment	(1,090)	(620)	76%
Net earnings before taxes	**15,327**	**18,878**	**(19%)**
Income tax expense	(5,375)	(5,513)	(3%)
Net earnings from continuing operations	**9,952**	**13,365**	**(26%)**
Discontinued operations net of tax	(20)	17	-
Net earnings	**9,932**	**13,382**	**(26%)**
Return on equity	10.2%	14.5%	
Core income*	32,475	32,644	(1%)
Net interest margin	3.1%	3.1%	
Cost-to-core income ratio**	47.2%	43.0%	

*Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)
** Cost-to-core income ratio excluding the settlement fine was 45.4% in H1 2024

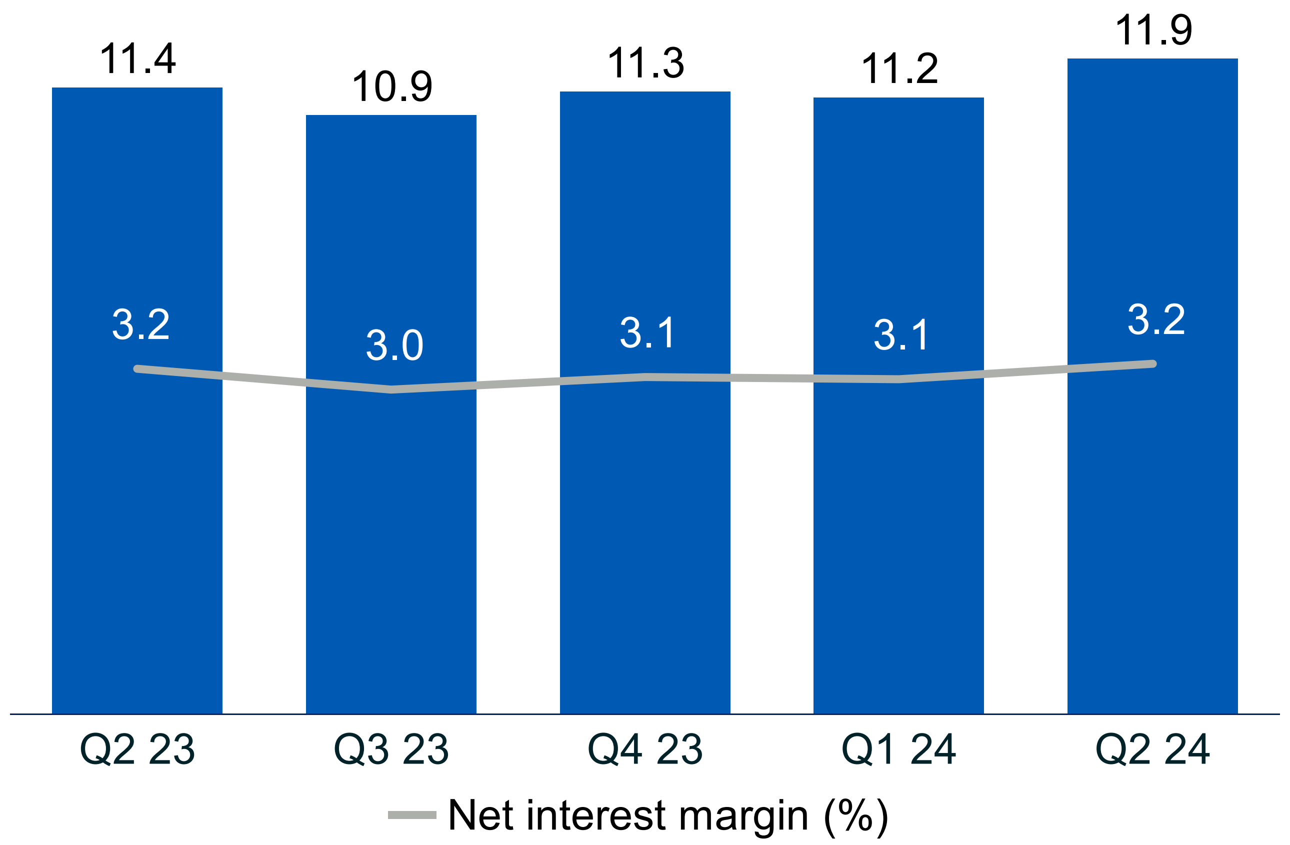
13 All amounts in ISK million

Net interest income

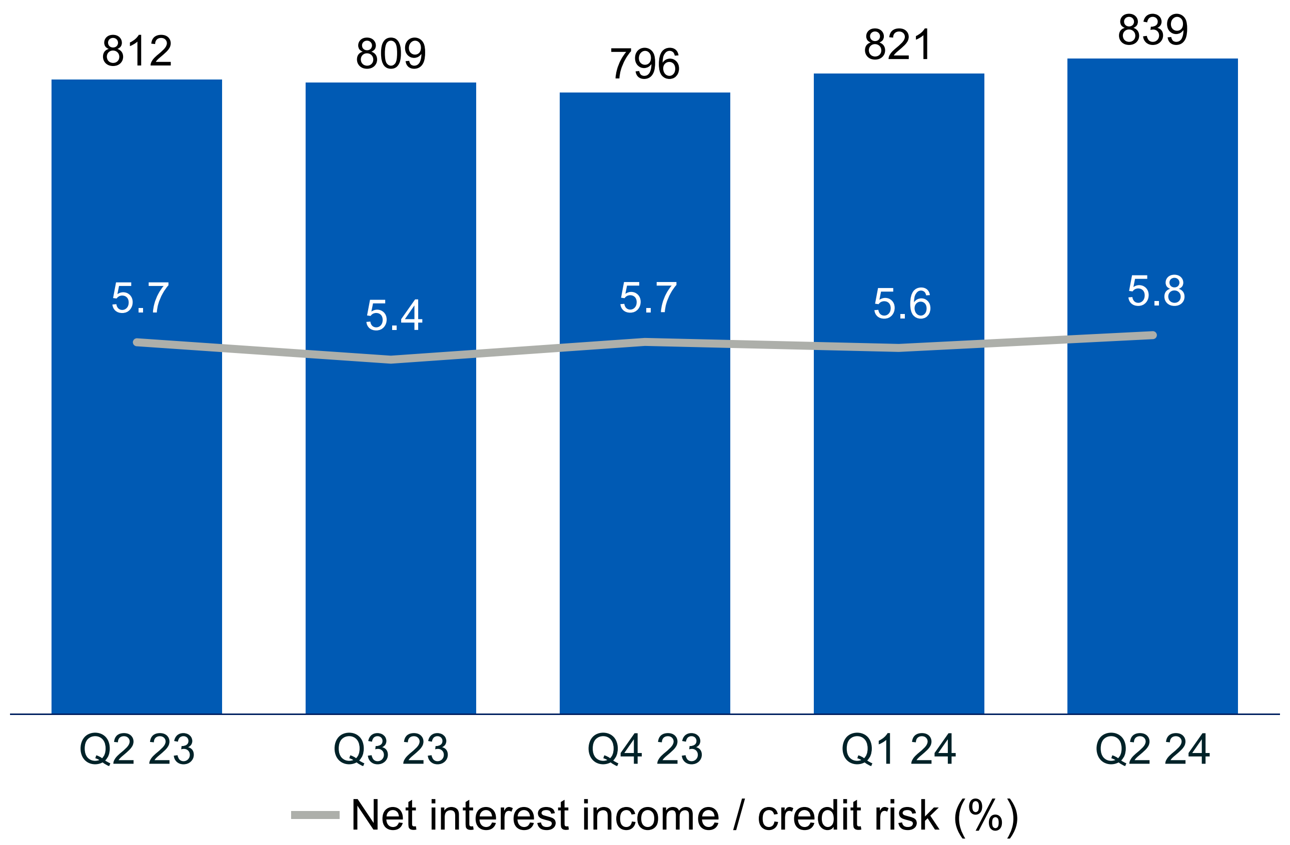
Margin holding at robust level

- Net interest income in Q2 increased by 5% from Q2 2023 and by 6% from Q1 2024
- New phase of the rate hiking cycle commenced recently with resetting of fixed rate mortgages at low rates. Non-CPI linked mortgages with fixed rates of around ISK 15bn reset in the first half of the year with further 44bn being reset over second half of the year
- Negative impact from interest-free reserve requirements increased by the Central Bank in the quarter from 2% to 3%
- Net CPI balance was ISK 144bn at the end of June 2024 compared with ISK 90bn at year end 2023.

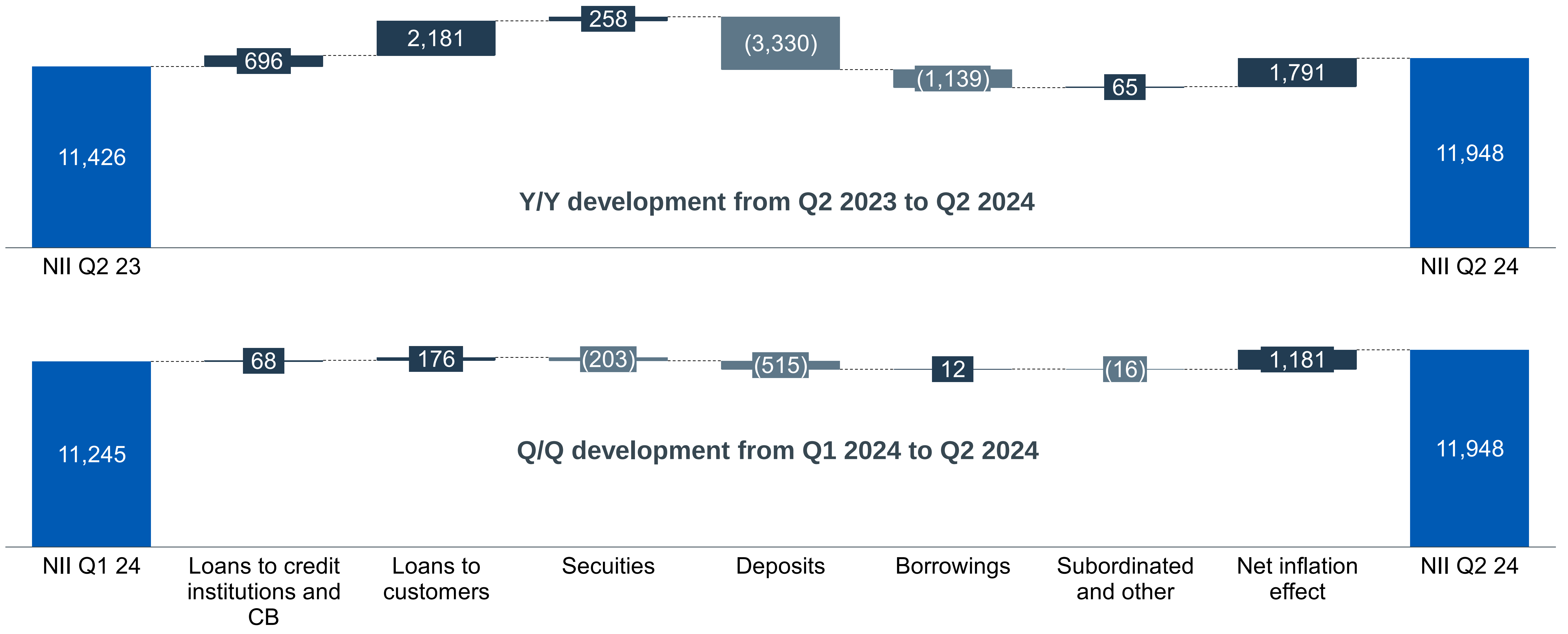
Net interest income (ISK bn)



Credit risk (ISK bn)



Net interest income development (ISK m)

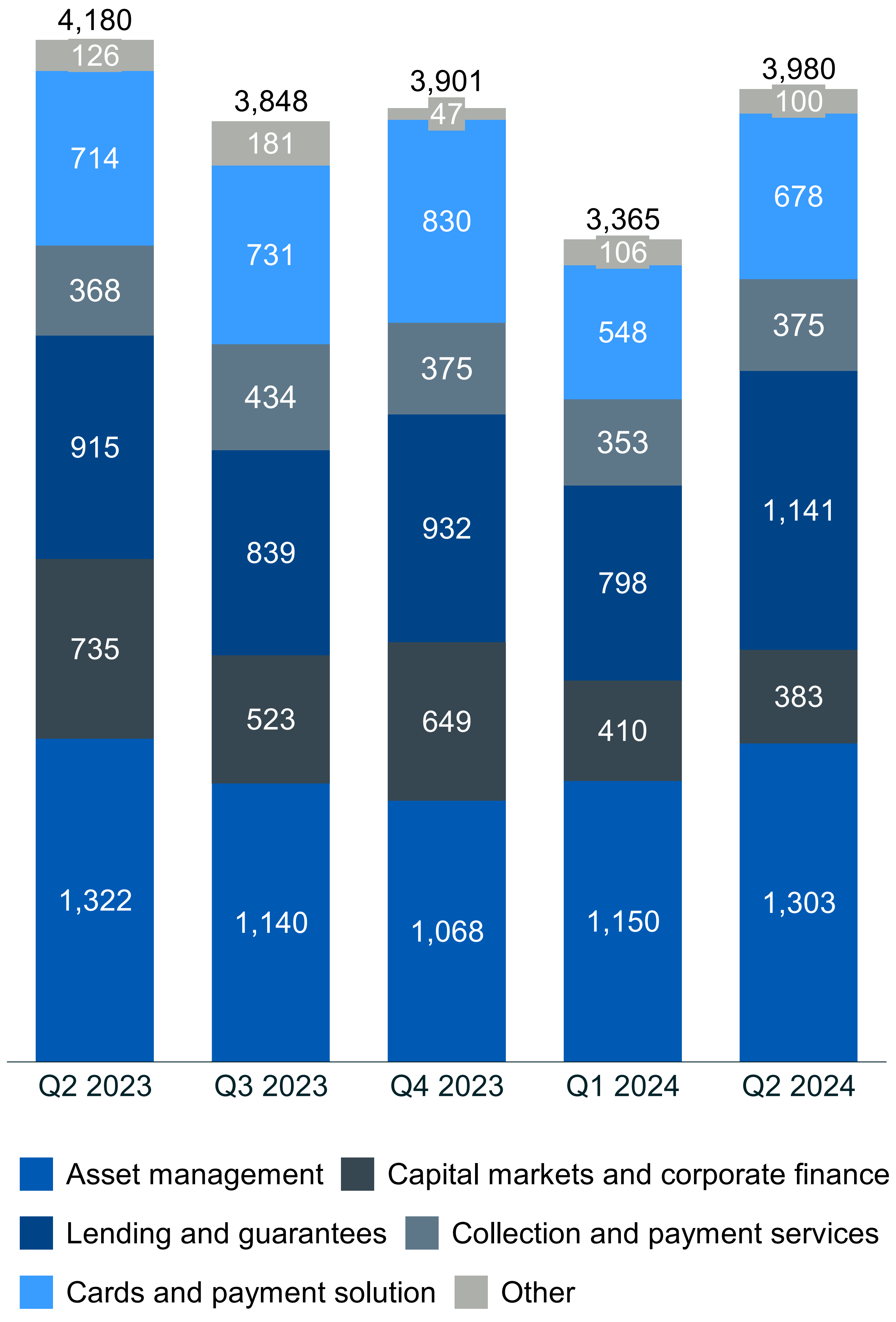


Net fee and commission income

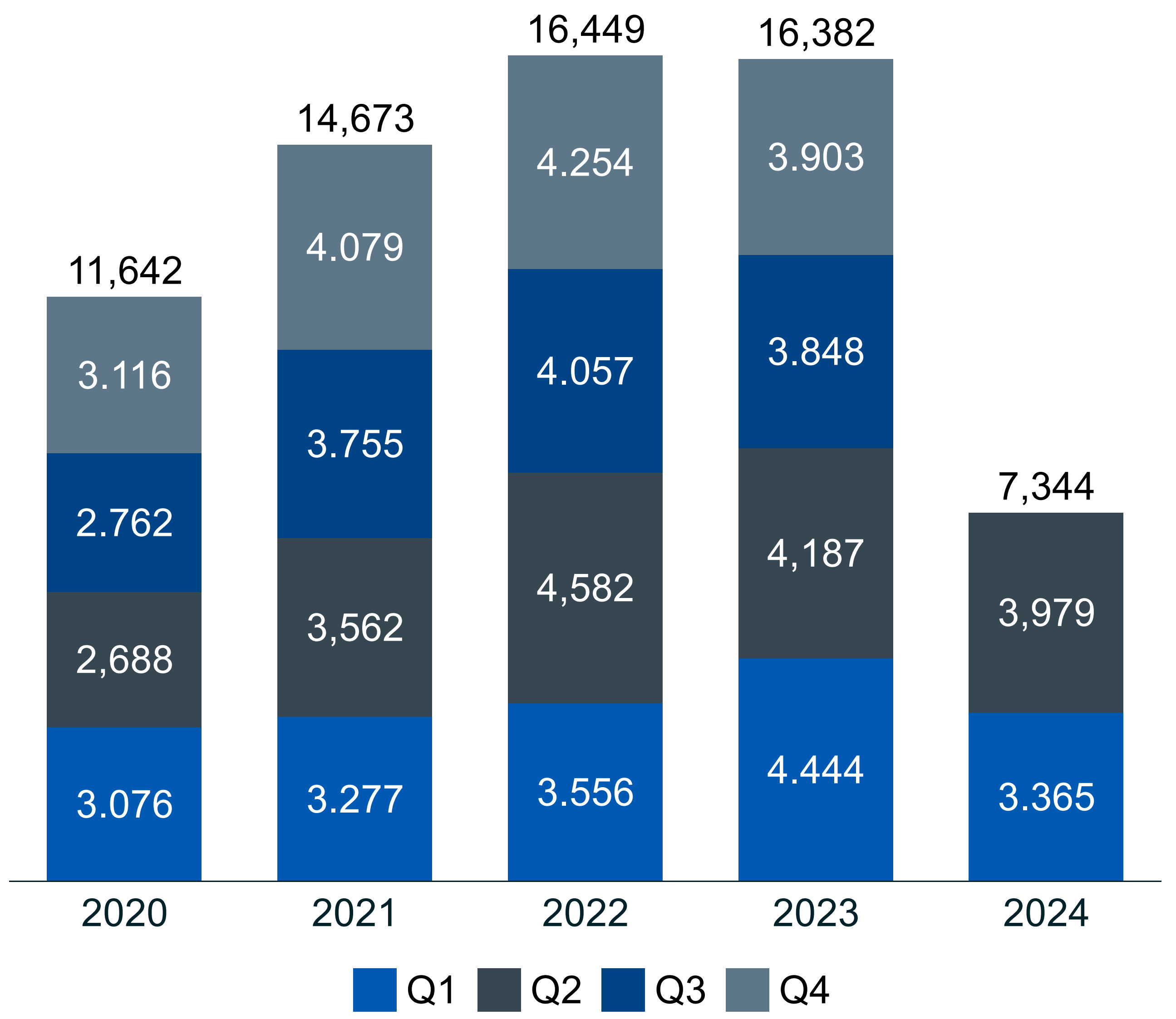
Strong quarter

- Strong second quarter following an unusually subdued first quarter
- Increase driven primarily by lending fees, mostly relating to corporates as well as increased income from cards and payments
- Asset management also robust with AuM increasing by more than 10% during the quarter or by ISK 75bn to ISK 1,522bn
- Comparison between years impacted by closure of Keflavik airport branch and reclassification of card insurance fees in Q1 2024. Fee income from these sources totaled ISK 220m in Q2 2023

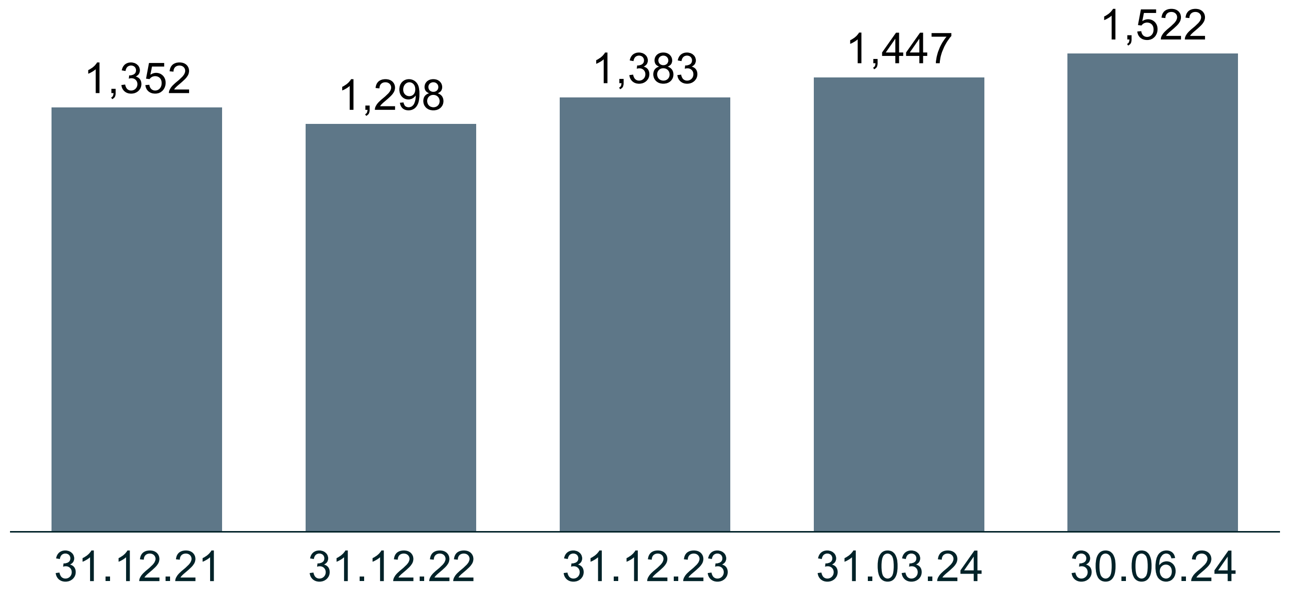
Net fee and commission income (ISK m)



Net fee and commission income (ISK m)



Assets under management (ISK bn)

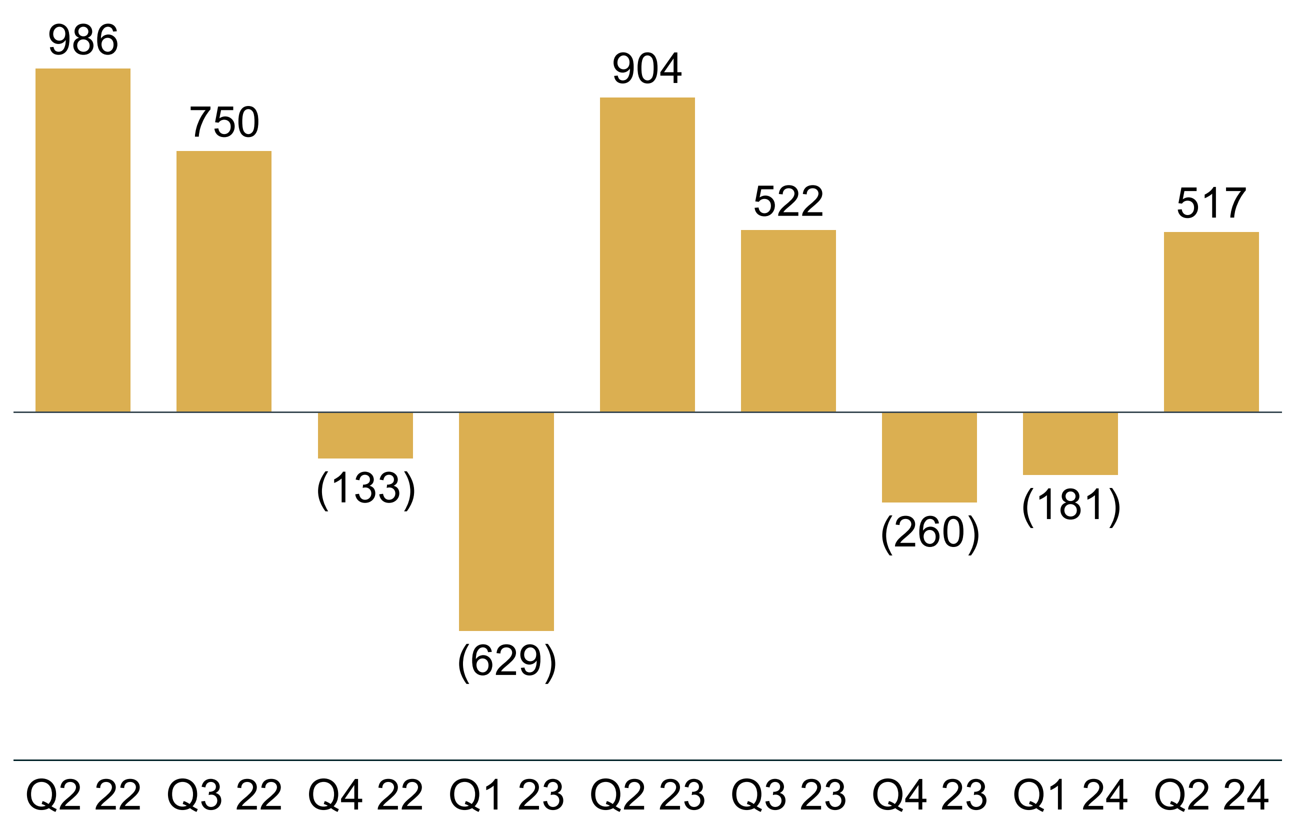


*Operating expenses from insurance operations are included in Total operating expenses

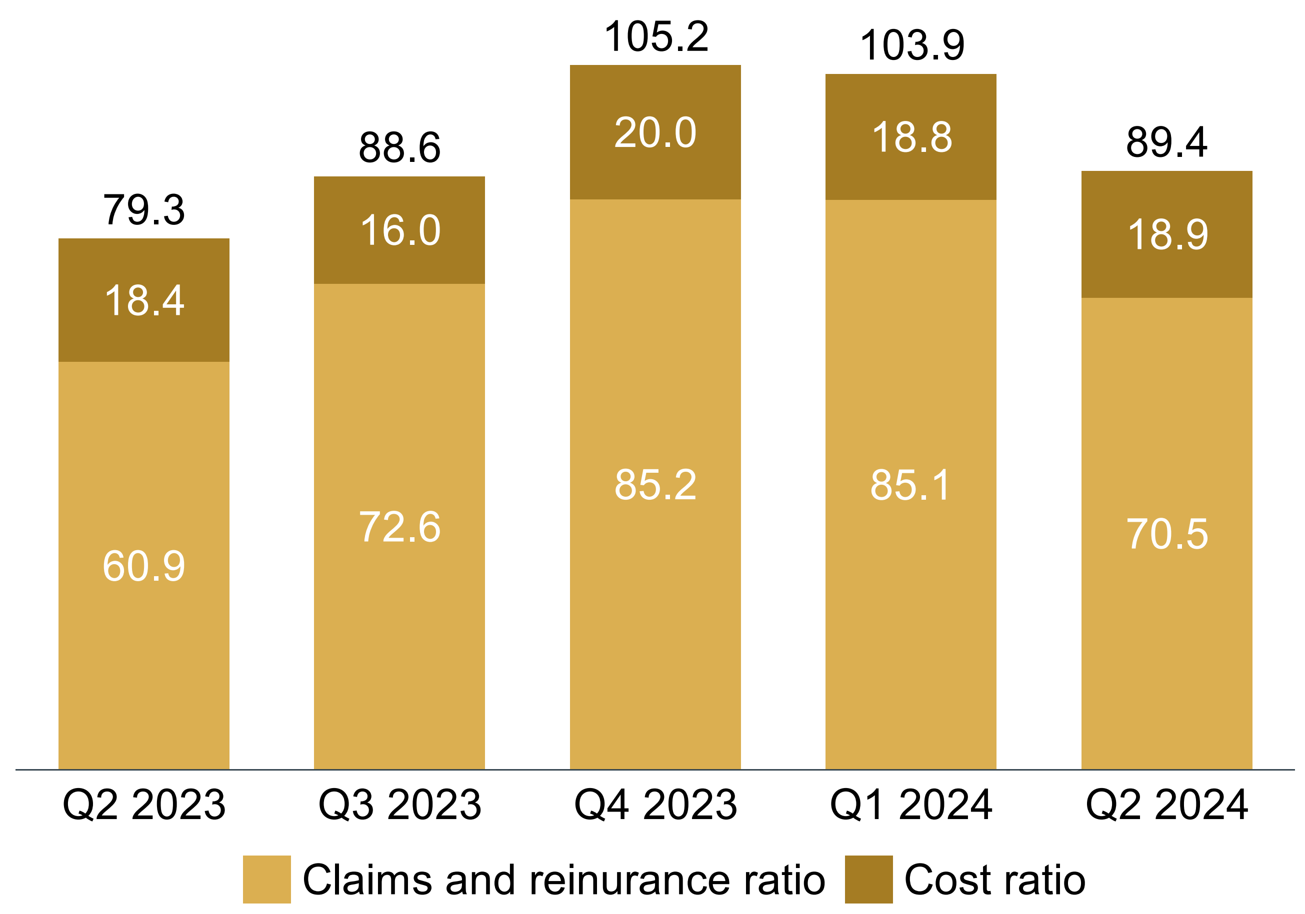
Ongoing solid momentum in insurance

- Vördur's stand-alone operations had a net profit of ISK 407m for the quarter compared with ISK 339m in Q2 2023
  - Combined ratio 89.4% in Q2 and 93.6% YTD
  - Revenue growth 13% YoY, in line with five-year compound annual growth rate
  - Strong momentum in new sales with sales to individuals in the quarter exceeding last year by 30%
  - Solid results despite a major claim that occurred in June where several stores in the shopping mall Kringlan were impacted by a fire in the building. Current estimate of net claim is ISK 270m
  - Cost ratio continues to be robust at 18.9%
  - Investment income (excluding calculated interest on insurance contracts) in Q2 is positive by ISK 345m compared with loss of ISK 157m in Q2 2023

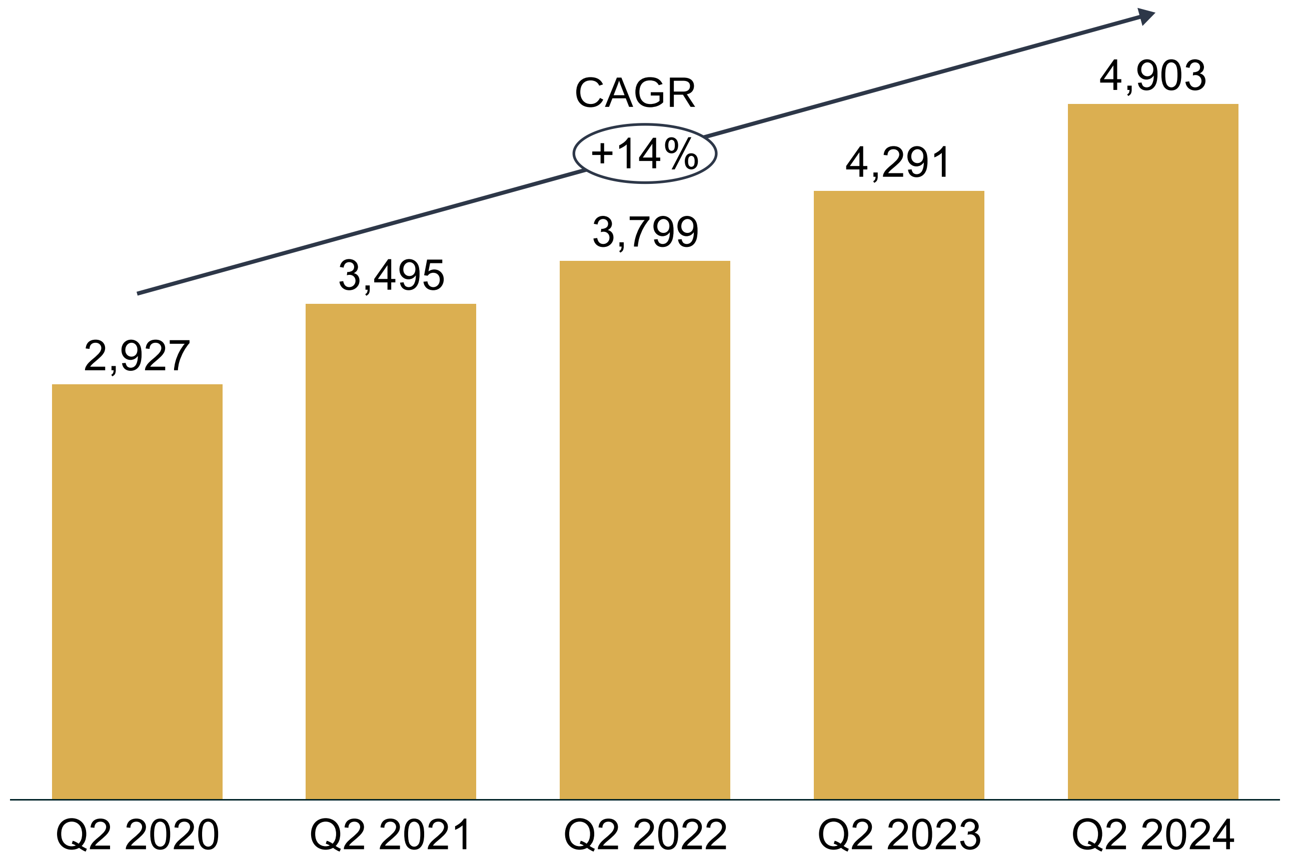
Insurance service result* (ISK m)



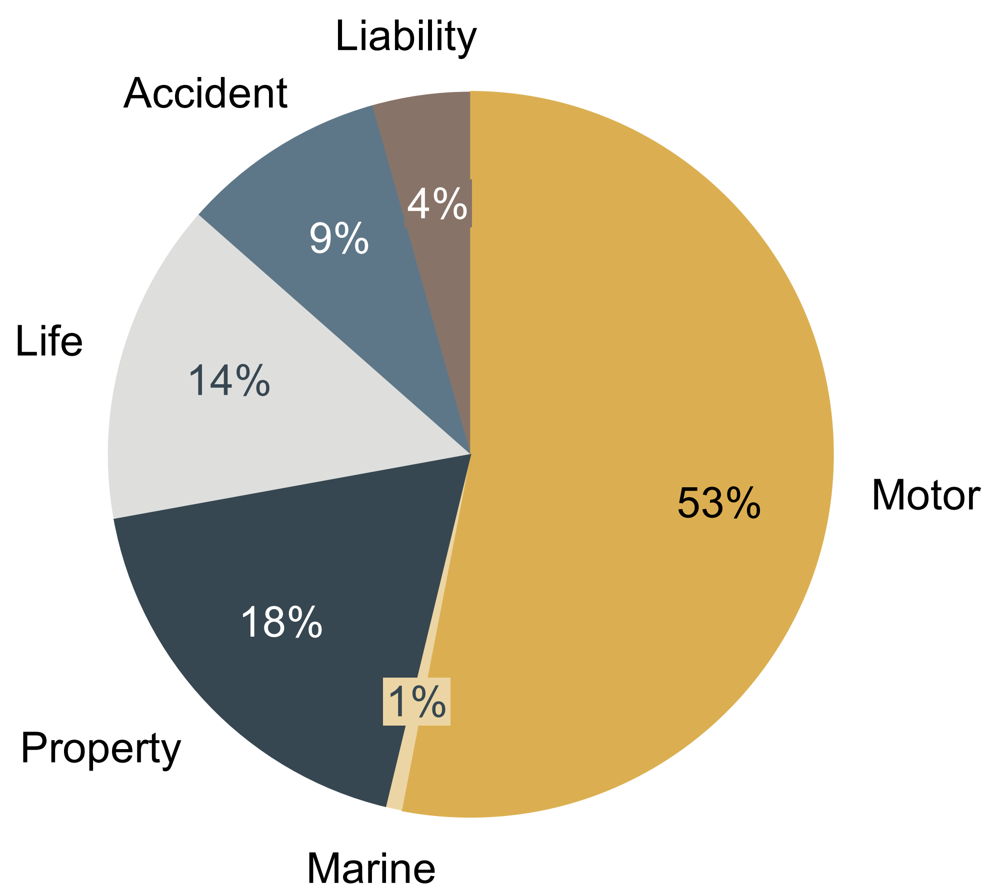
Combined ratio (%)



Insurance revenue** (ISK m)



Insurance revenue by type (%)



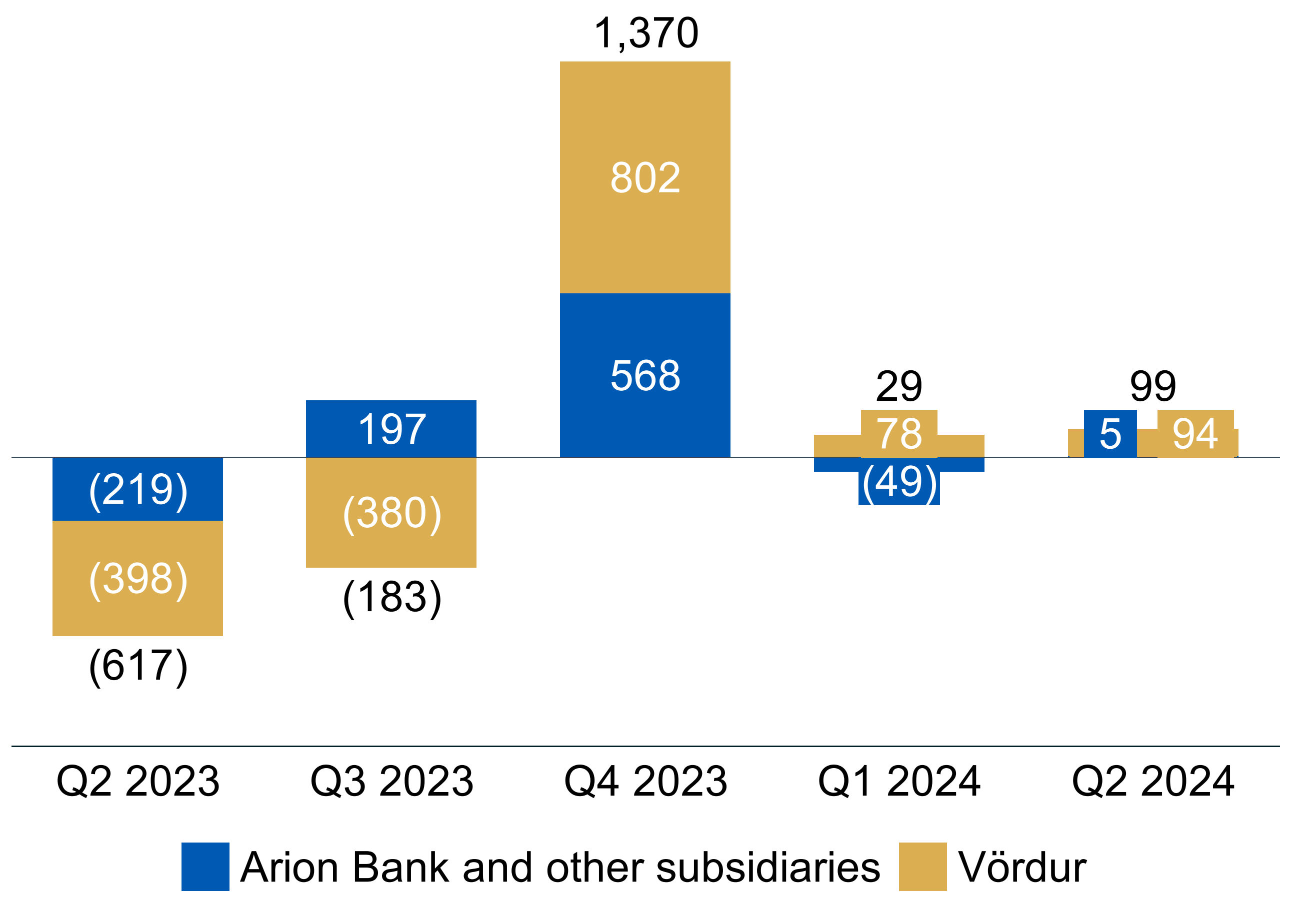
* Figures based on Vördur stand-alone financial results, before elimination within the Group. Figures for 2022 have been restated in accordance with IFRS 17
** Figures for 2020 and 2021 have not been restated according to IFRS 17

Net financial income

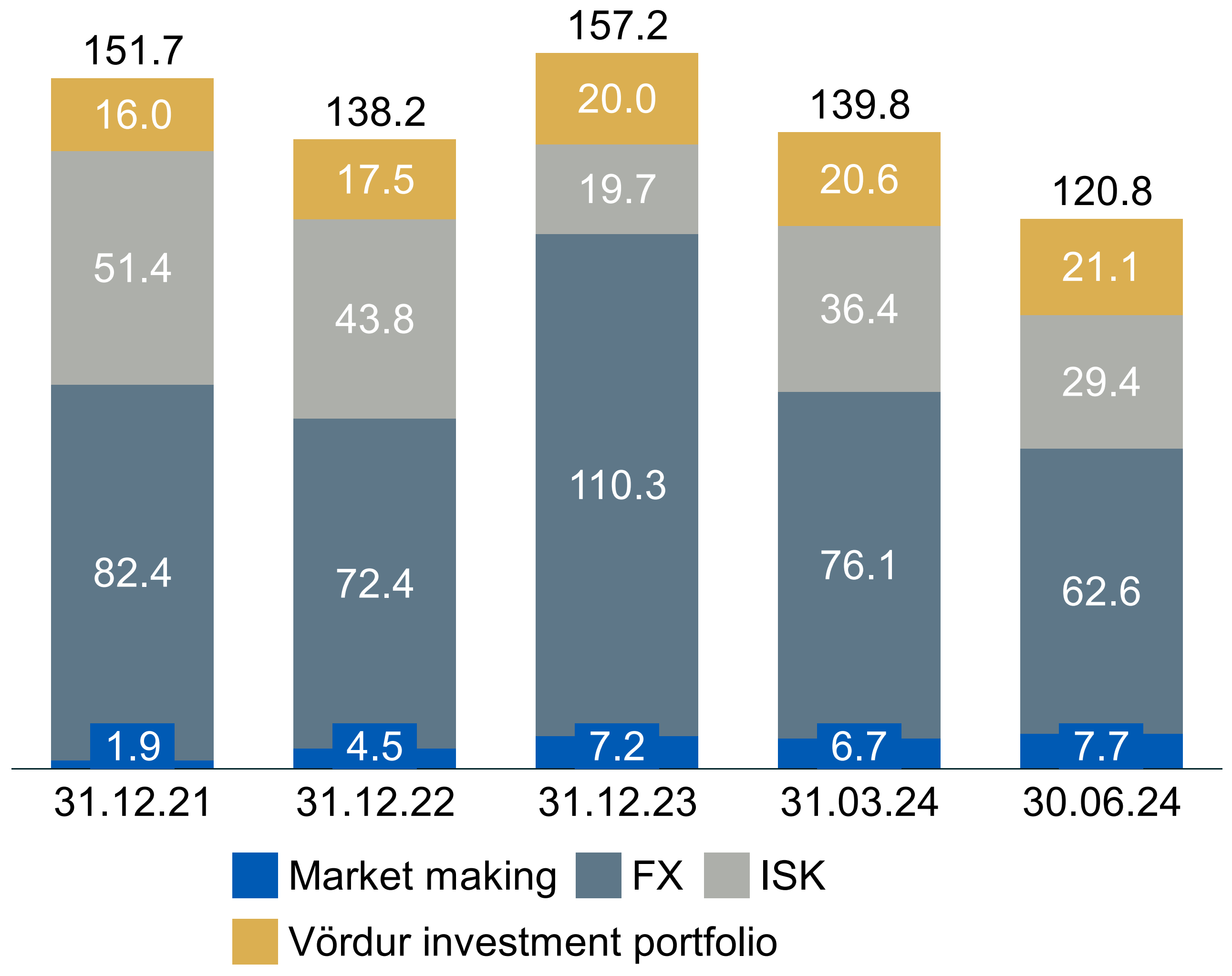
Another subdued quarter

- Net financial income in the quarter again muted or ISK 99m
- Total investment portfolio of Vördur is ISK 30.4bn; ISK 21.1bn of bonds and ISK 9.3bn in equity instruments, yielding a profit of ISK 94m in the quarter, including negative effects from insurance contracts
- Bond holdings fluctuate between quarters in line with liquidity management
  - No held-to-maturity (HTM) accounting within bond portfolio, with all market value changes incorporated in capital position
  - Average duration of liquidity portfolio within one year
- During the quarter there was a tender of a senior bond maturing at the end of the year. One-off cost of the tender was around ISK 0.5bn. This will then be countered through lower interest expense for the rest of the year

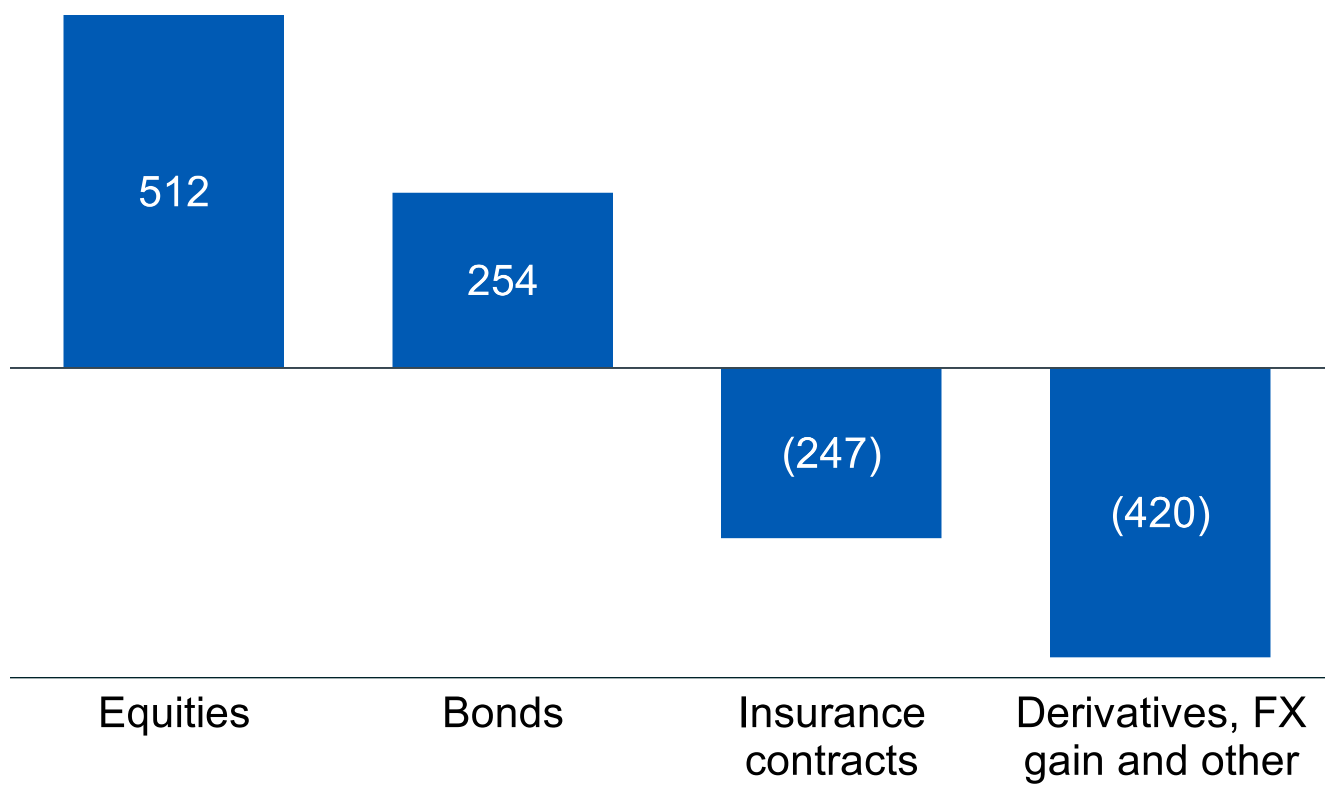
Net financial income (ISK m)



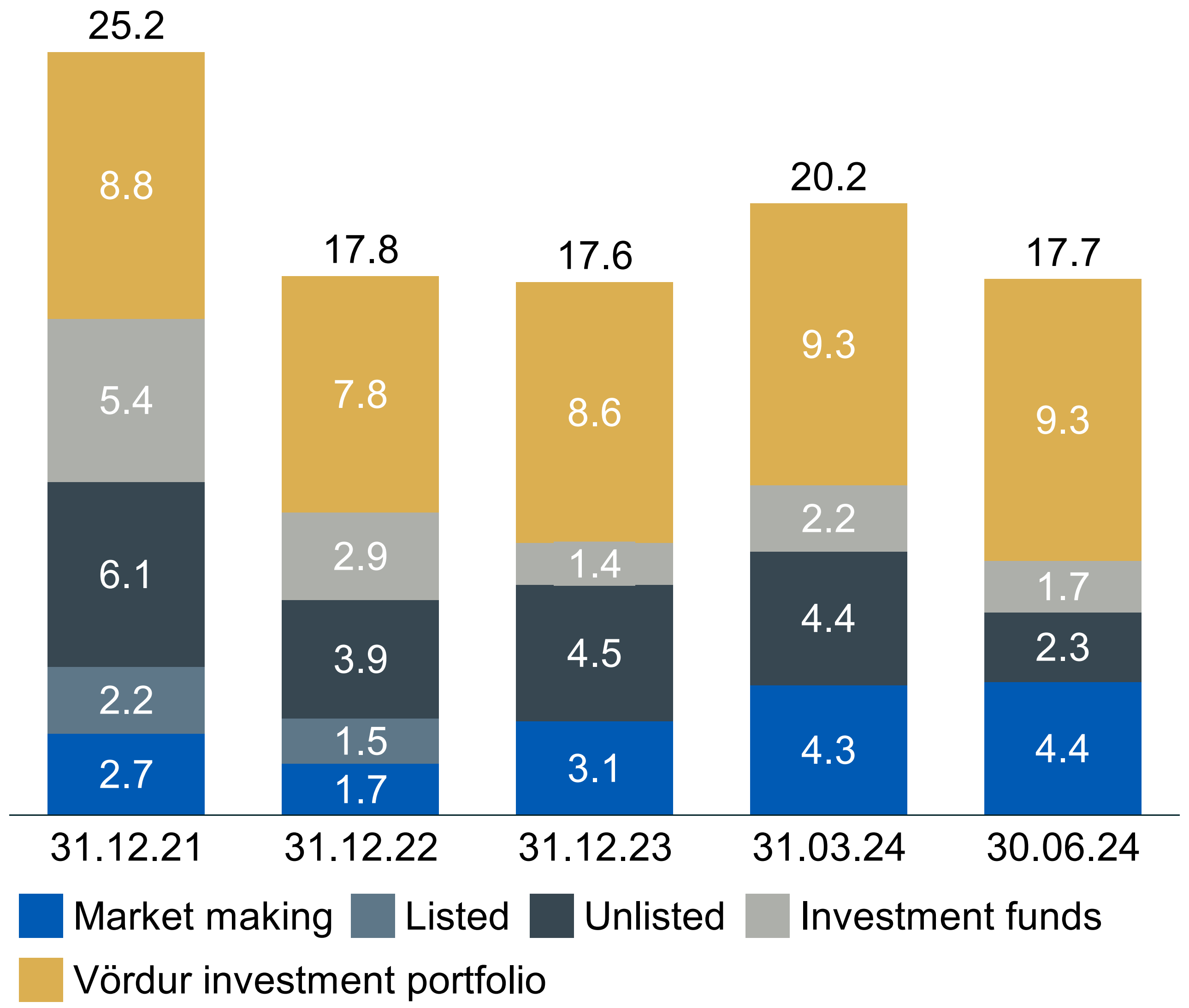
Bond holdings (ISK bn)



Net financial income by type Q2 2024 (ISK m)



Equity holdings (ISK bn)

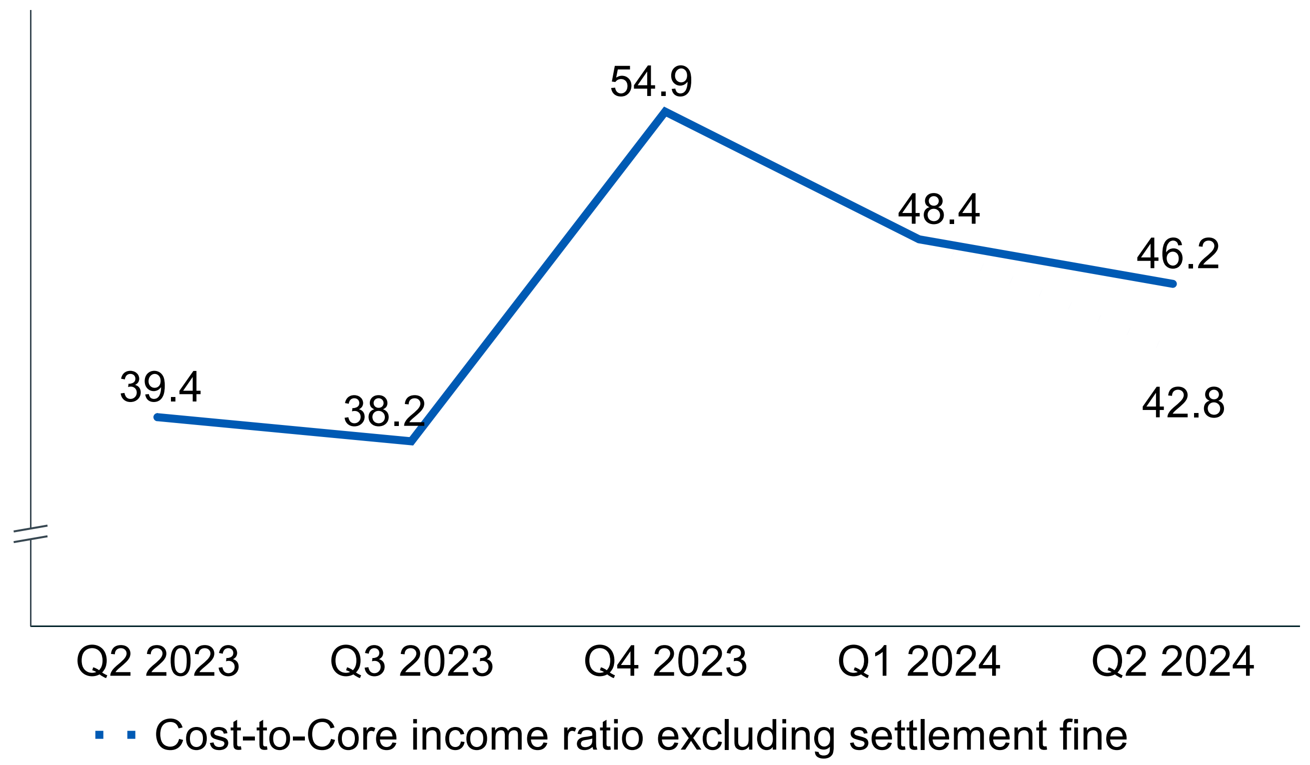


Operating expenses*

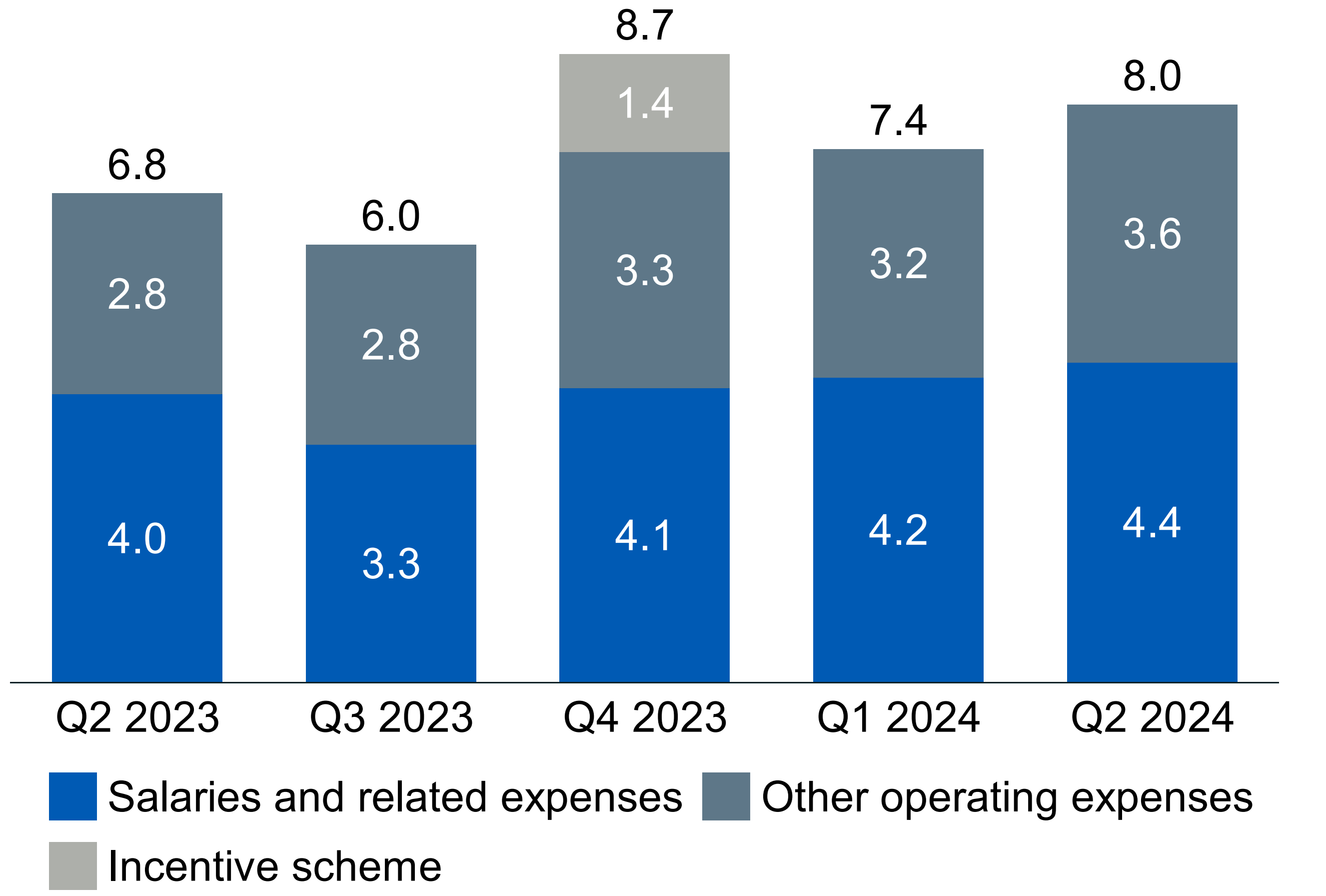
Continued cost discipline while headline figure impacted by settlement fine

- Total operating expenses outlined here include costs related to insurance business which is accounted for through insurance service results post IFRS17
- During the quarter, the Bank reached a settlement with regulator regarding AML processes which resulted in a fine of ISK 585m
- The increase of total operating expenses from Q2 2023 was 19.1% while excluding the settlement fine the increase is 9.3%. Inflation was 7.0% for the period

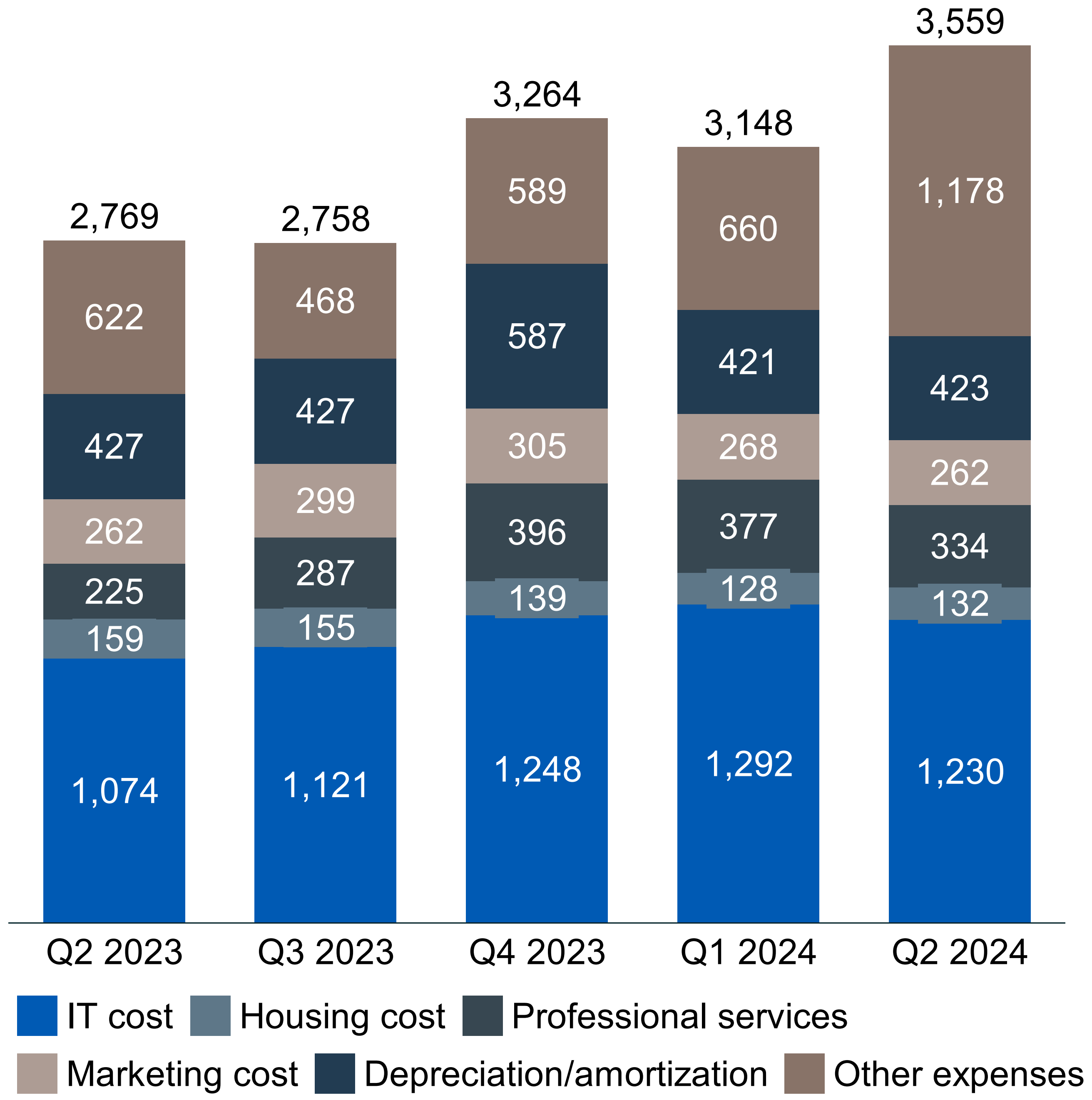
Cost-to-Core income ratio (%)



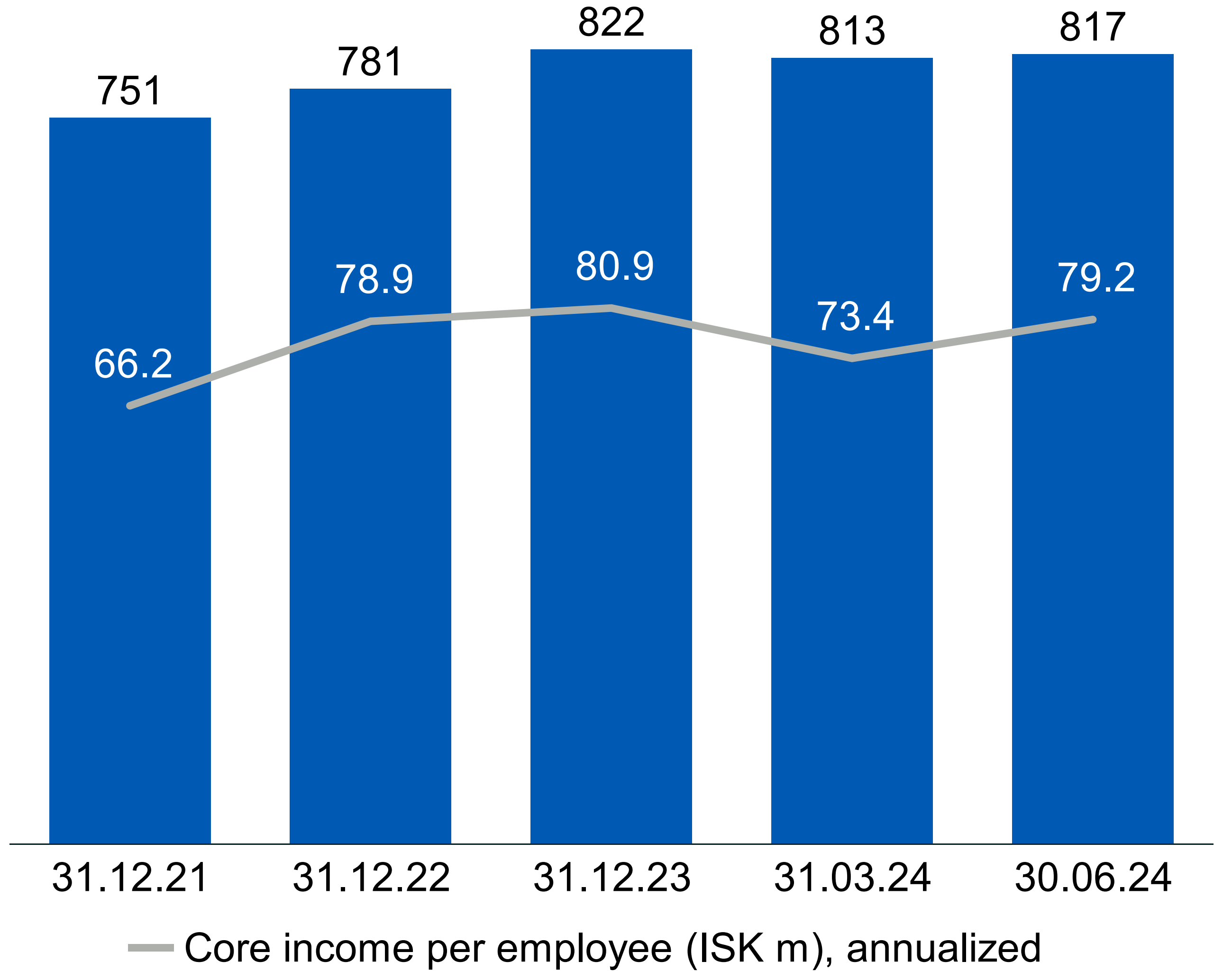
Total operating expenses (ISK bn)



Other operating expenses (ISK m)



Number of FTE's



*Operating expenses from insurance operations are included in all figures for comparative purposes

Balance sheet

Robust and relatively simple balance sheet

- Loans to customers increased by 2.0% in Q2
- Deposits increased by 5.6% in Q2
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 154% (138% in ISK)
  - Net stable funding ratio (NSFR) of 120%

Assets	30.06.2024	31.03.2024	Diff.	31.12.2023	Diff.	31.12.2022	Diff.
Cash & balances with CB	136	102	32%	102	33%	114	19%
Loans to credit institutions	33	34	(3%)	29	14%	46	(28%)
Loans to customers	1,203	1,179	2%	1,153	4%	1,085	11%
Financial assets	166	196	(15%)	206	(19%)	193	(14%)
Other assets	32	34	(4%)	36	(11%)	28	16%
Total Assets	**1,569**	**1,544**	2%	**1,526**	3%	**1,466**	7%

Liabilities and Equity							
Due to credit institutions & CB	5	3	58%	3	83%	12	(57%)
Deposits from customers	847	802	6%	793	7%	755	12%
Other liabilities	67	73	(8%)	69	(3%)	71	(5%)
Borrowings	415	433	(4%)	420	(1%)	393	6%
Subordinated liabilities	42	42	1%	41	2%	47	(11%)
Total Liabilities	**1,376**	**1,353**	2%	**1,326**	4%	**1,278**	8%
Equity	192	191	1%	199	(3%)	188	2%
Total Liabilities and Equity	**1,569**	**1,544**	2%	**1,526**	3%	**1,466**	7%

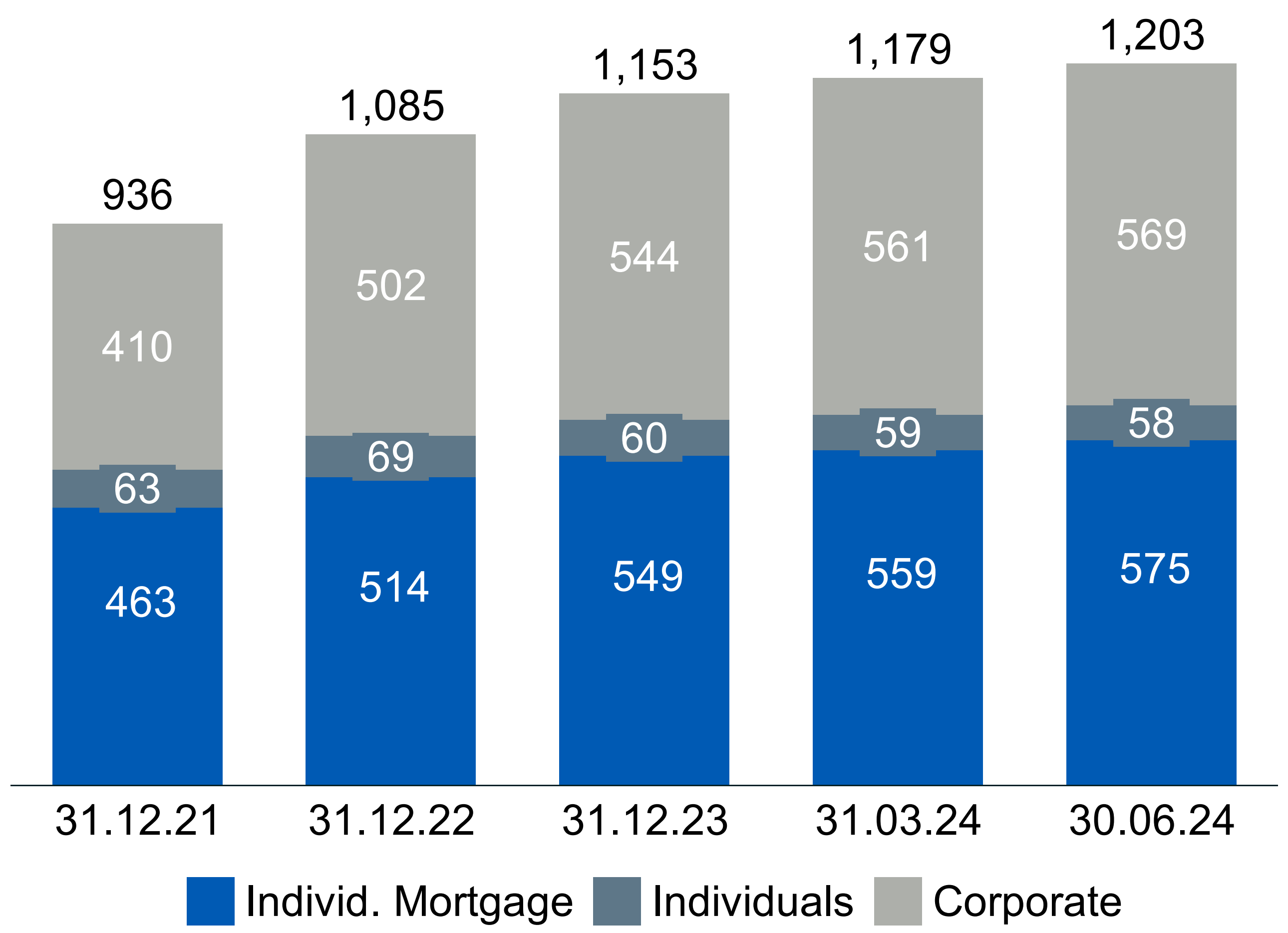
All amounts in ISK billion

Loans to customers

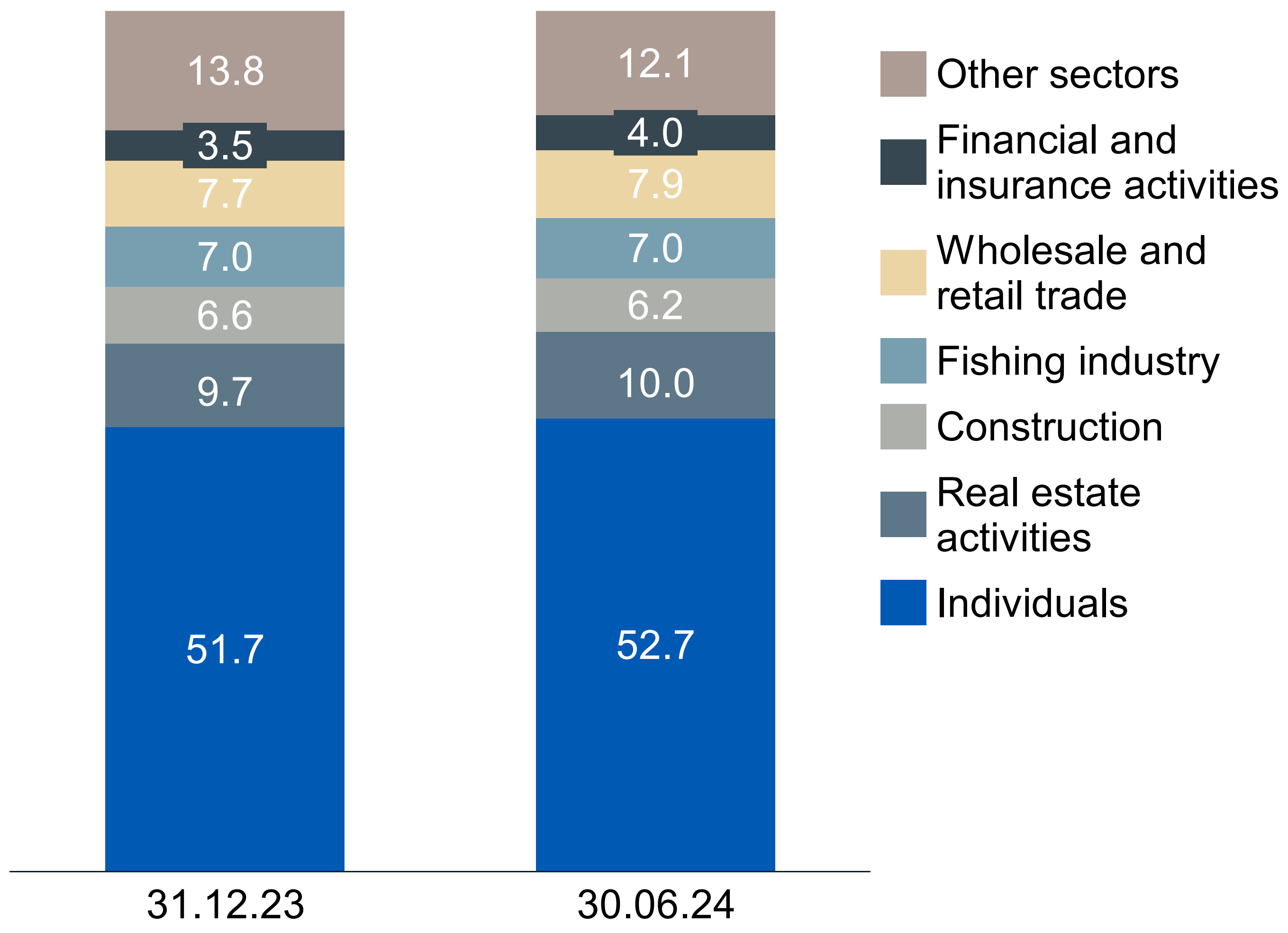
Balanced loan portfolio

- Loans to customers increased by ISK 23.9bn or 2.0% during the quarter
  - Loans to corporates increased by ISK 8.1bn or 1.4%
  - Loans to individuals increased by ISK 15.8bn, or 2.6%
  - Total loans increased by ISK 8.4bn due to inflation, of which ISK 6.1bn mortgage lending. FX loans decreased by approx. ISK 0.2bn during the quarter due to stronger ISK, primarily corporate loans
- Continued CIB focus on capital velocity
  - The Bank has sold corporate loans for ISK 10.8bn to institutional investors in the first half of 2024 compared with ISK 4.6bn for the same period in 2023
- The diversification in terms of sector and single name concentration of the corporate loan book continues to be good and in line with the Bank's credit strategy
- The green loan book was ISK 137bn at the end of the quarter, up from ISK 123bn at the end of 2023

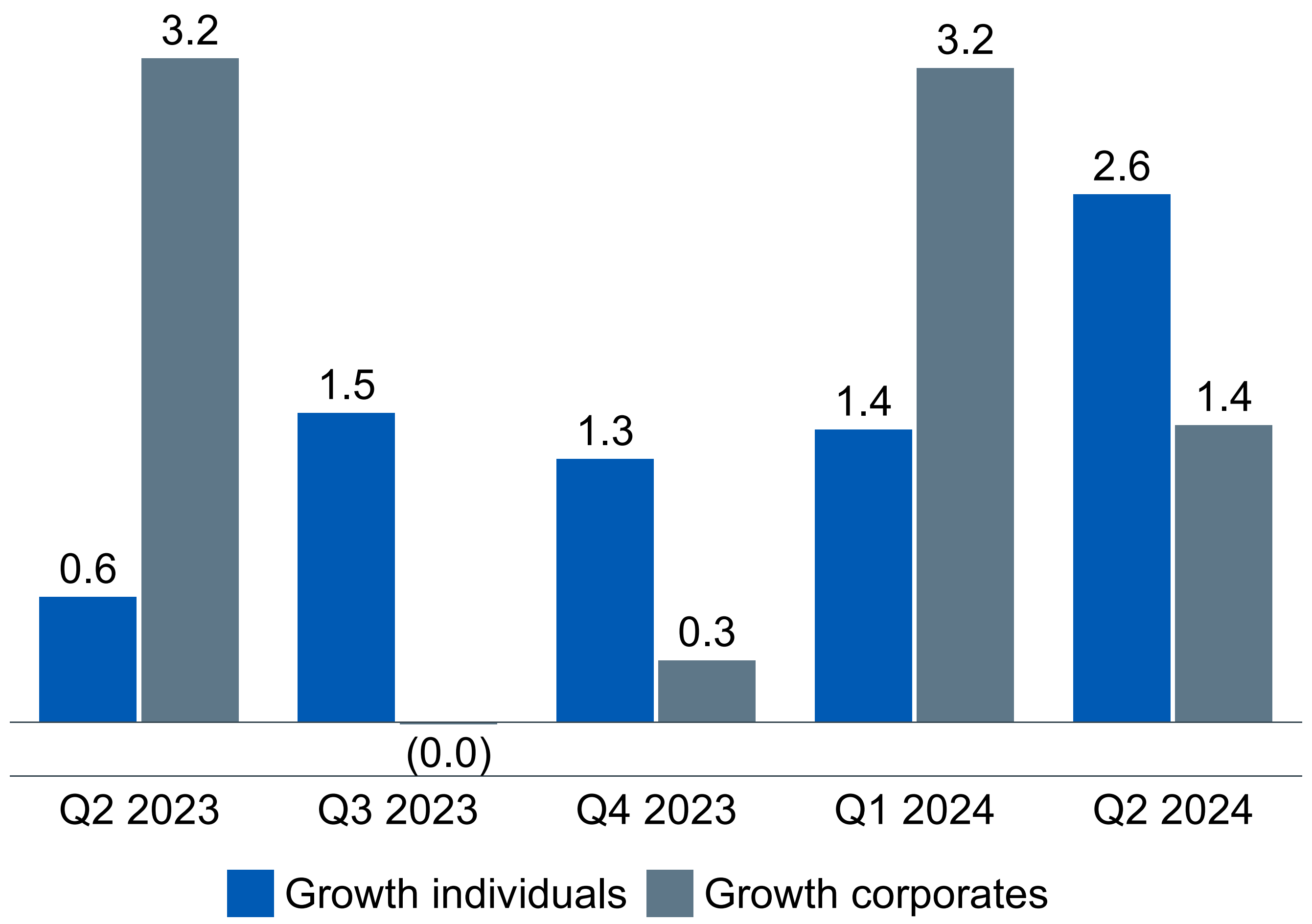
Loans to customers (ISK bn)



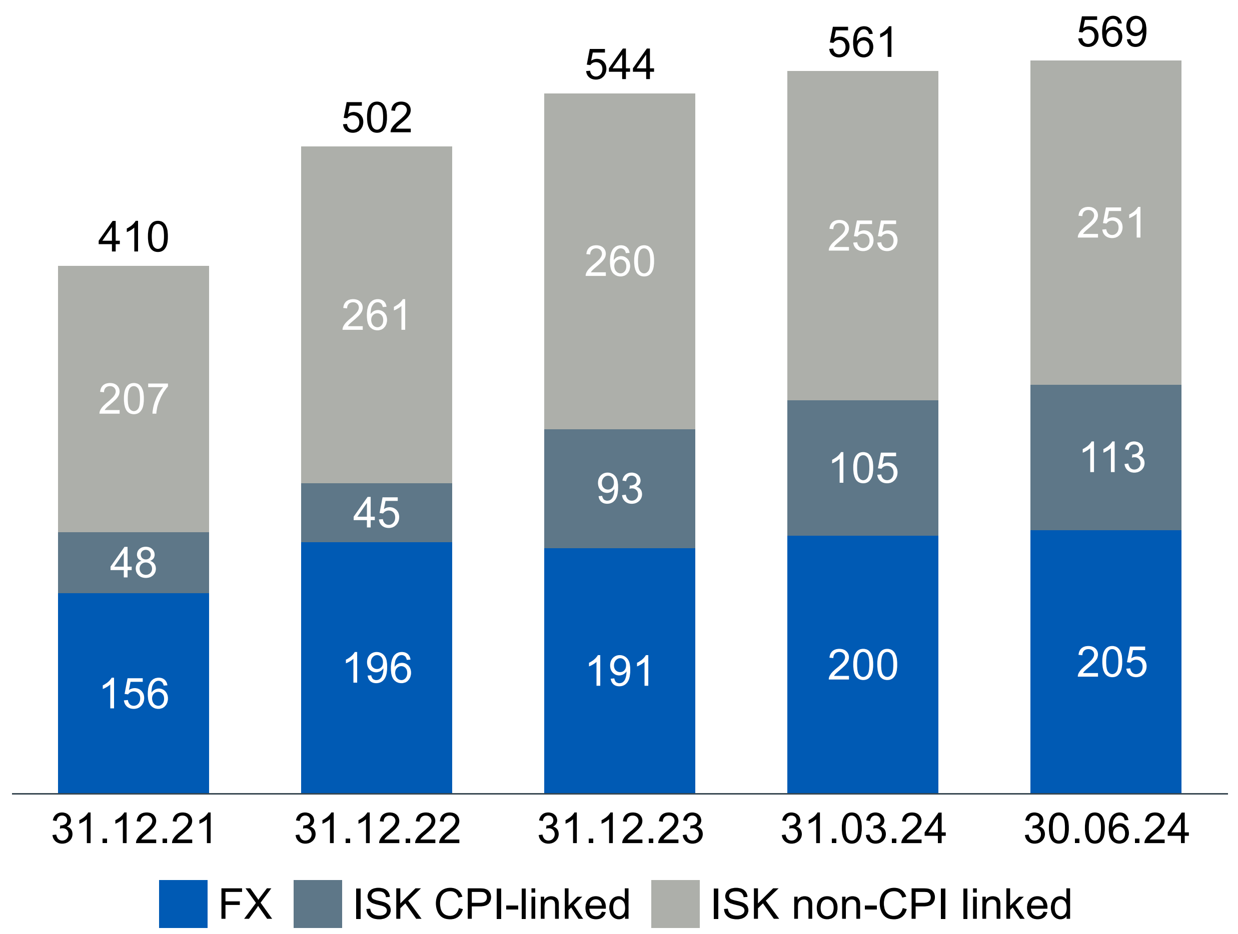
Loans to customers by sector (%)



Loan growth (%)



Loans to corporates by type (ISK bn)



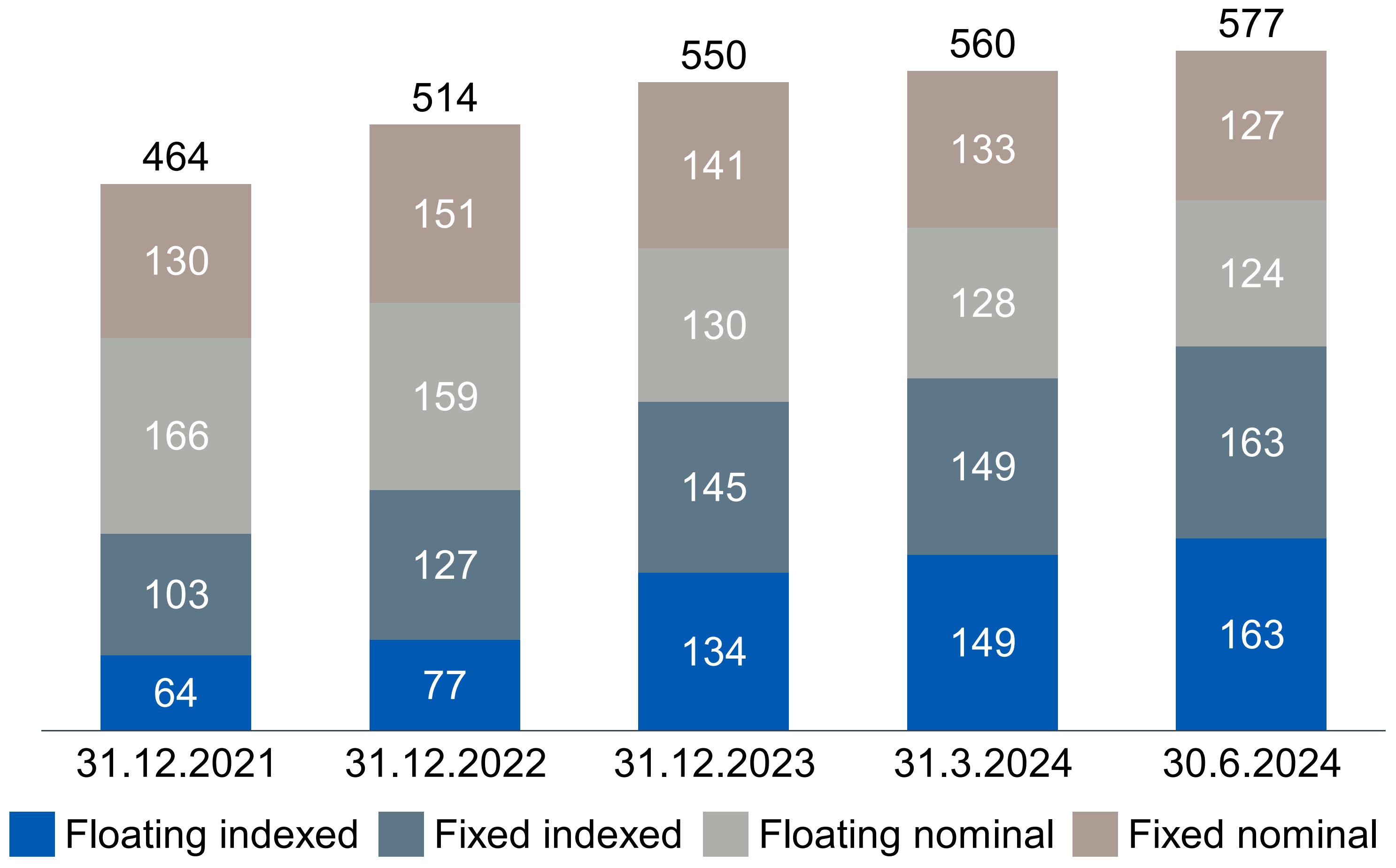
Residential mortgages

Low default rates and comfortable LTV levels, but rising costs for borrowers

- The average loan-to-value of the mortgage portfolio is 48%. The problem loans ratio is trending upwards and was 1.3% at end of June, which is below the historical average. As a result of current interest rate levels, there is a shift towards indexed mortgages which offer lower payment burden.
- The Bank has adjusted its criteria for household expenditures in its customer payment assessment, considering the rising cost of living
- A significant portion of fixed nominal rate mortgages are reset in the second half of 2024
- An internal stress test of fixed nominal rate portfolio shows that up to one third of borrowers may need to seek lower monthly payments, e.g., through refinancing to indexed loans
    - The stress test reveals that most borrowers would have the option of refinancing to indexed loans which have lower monthly payments. Further measures may be needed for around 1.5% of borrowers

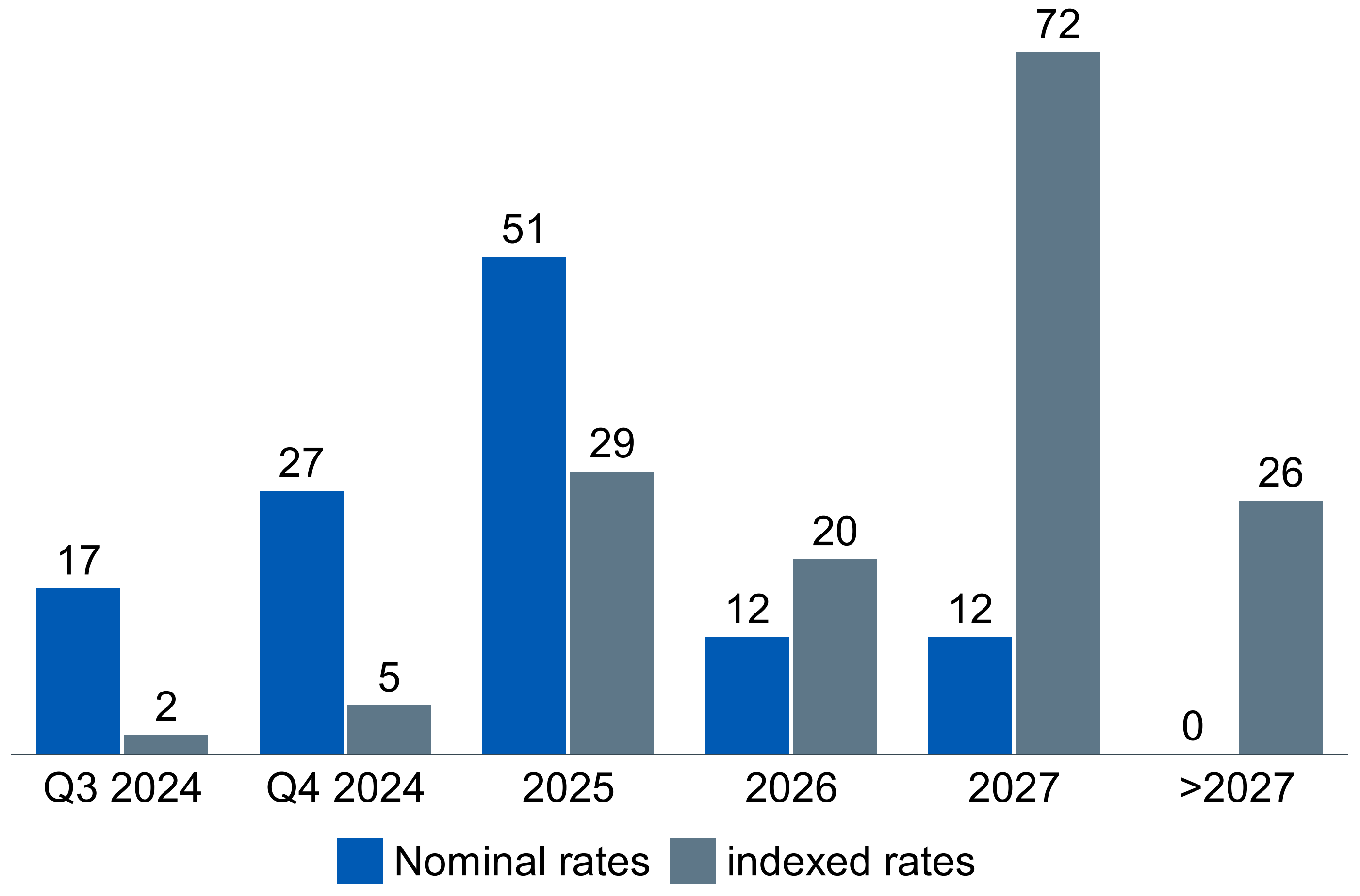
Residential mortgages by interest rate type (ISK bn)

Indexed mortgages were 56% of the portfolio at 30.6.2024



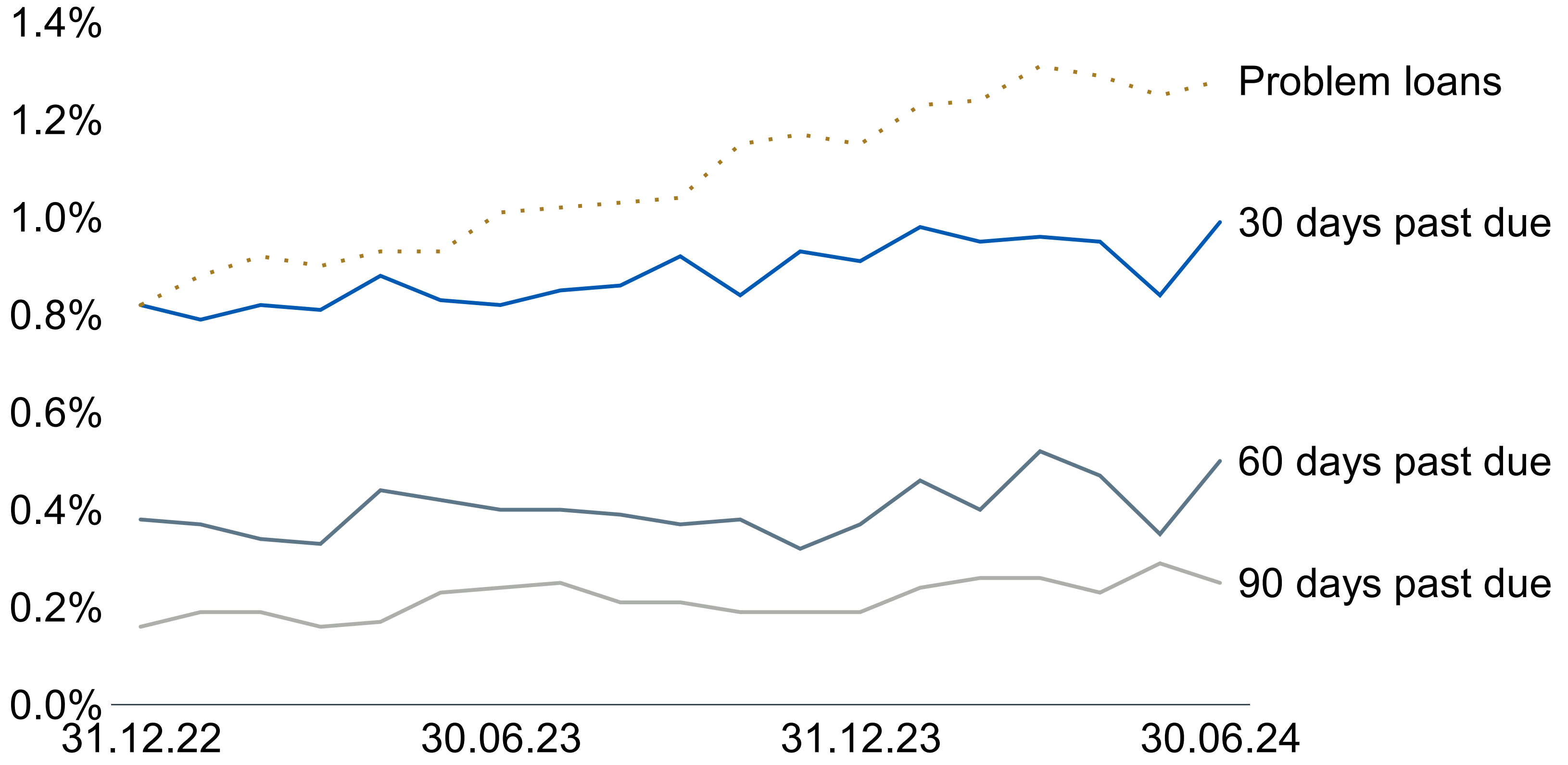
Interest rate reset profile for fixed rate mortgages (ISK bn)

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



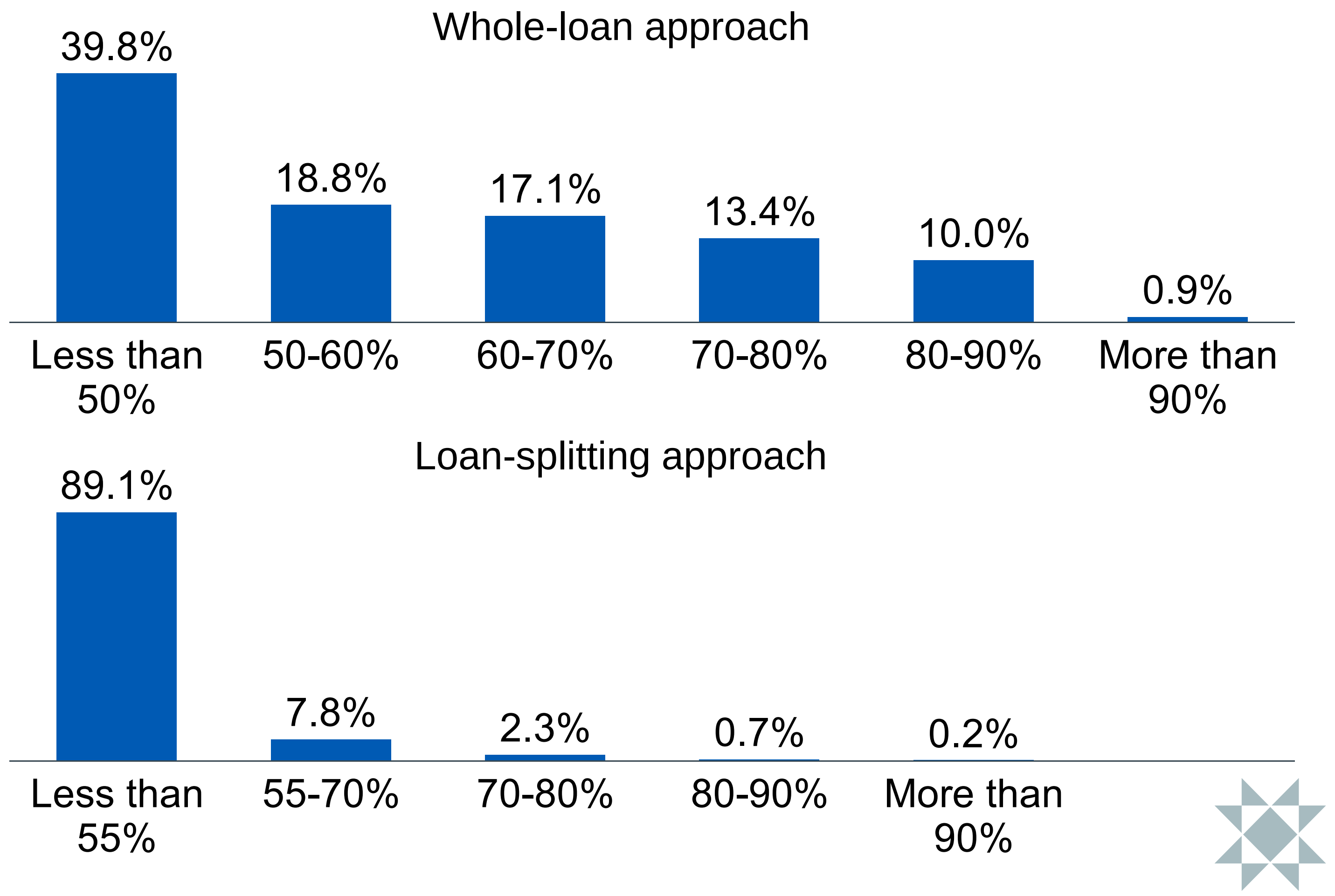
Rate of defaults and payments past due

Non-performing loans are 1.3% of the mortgage portfolio with a slight trend upwards from YE 2022



Loan to value distribution

Loan-to-value below 80% accounts for 89% of the mortgage portfolio (whole-loan approach)



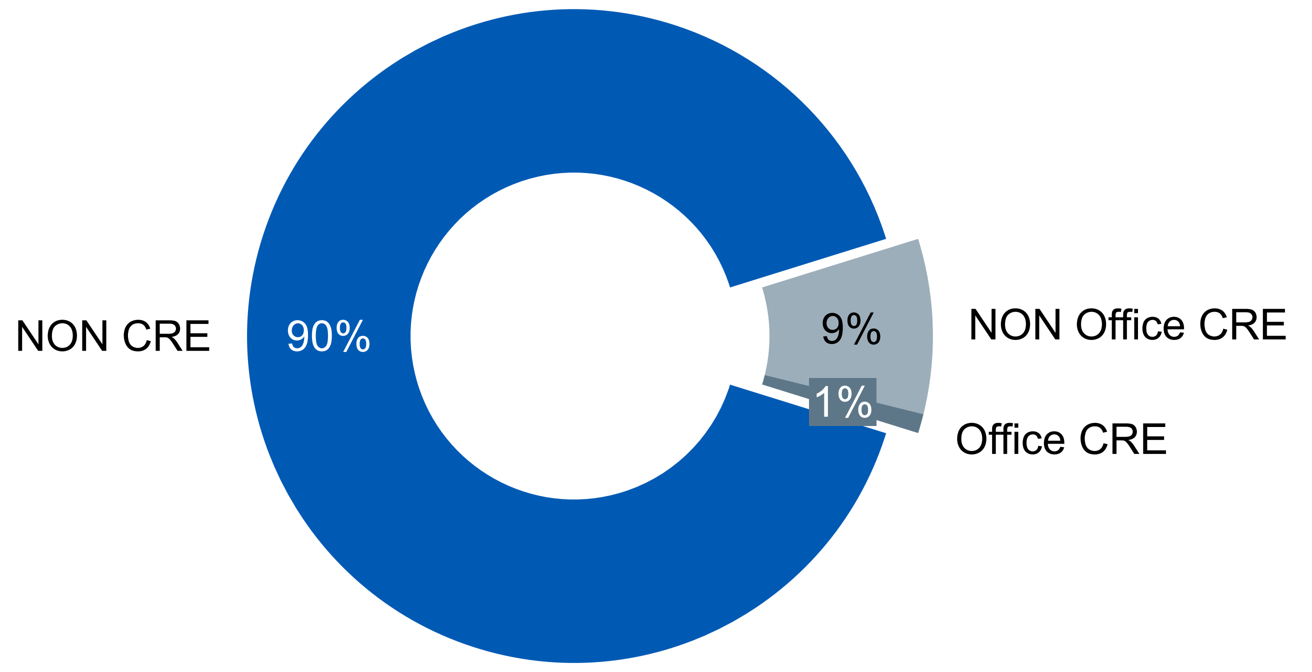
Real estate sector

Diversified portfolio

- Real estate related lending in the corporate loan book comprises a total of ISK 121bn or around 10.0% of the loan book with an average LTV of 65%
- The portfolio is highly diversified
  - 40% of the portfolio comes from SME retail exposures (< ISK 600m per customer)
  - The portfolio is split between companies that lease properties to operating companies within the same group (parent, subsidiaries or sister companies) and property management companies, both residential and commercial.
  - Exposure to office real estate is small or around 12bn or 1% of the loan book
- From 2020 to the end of 2022, the proportion of CPI linked loans to real estate companies decreased significantly. With the recent hikes in interest rates this trend has been reversed and CPI linked loans are now 61% of the portfolio

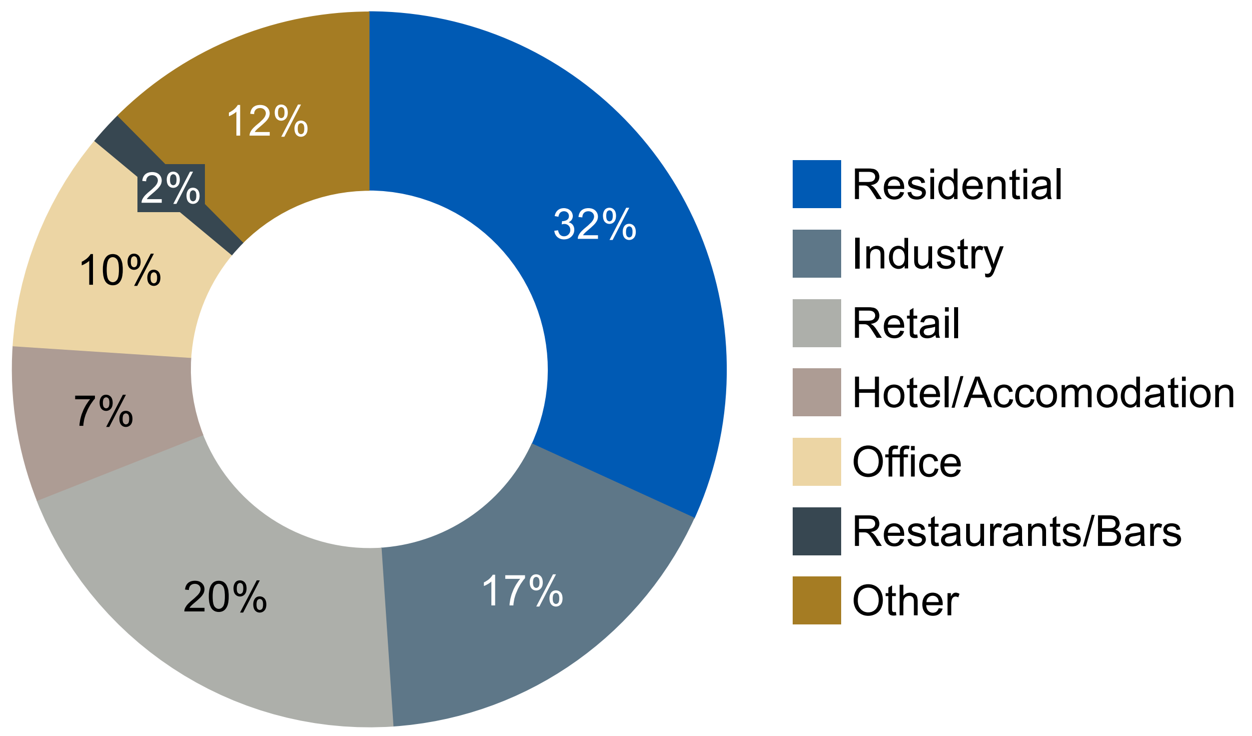
Loans to customers

Loans to real estate companies are approx. 9.6% of total loans to customers and 1.0% relate to office buildings



Real estate collateral by type[1]

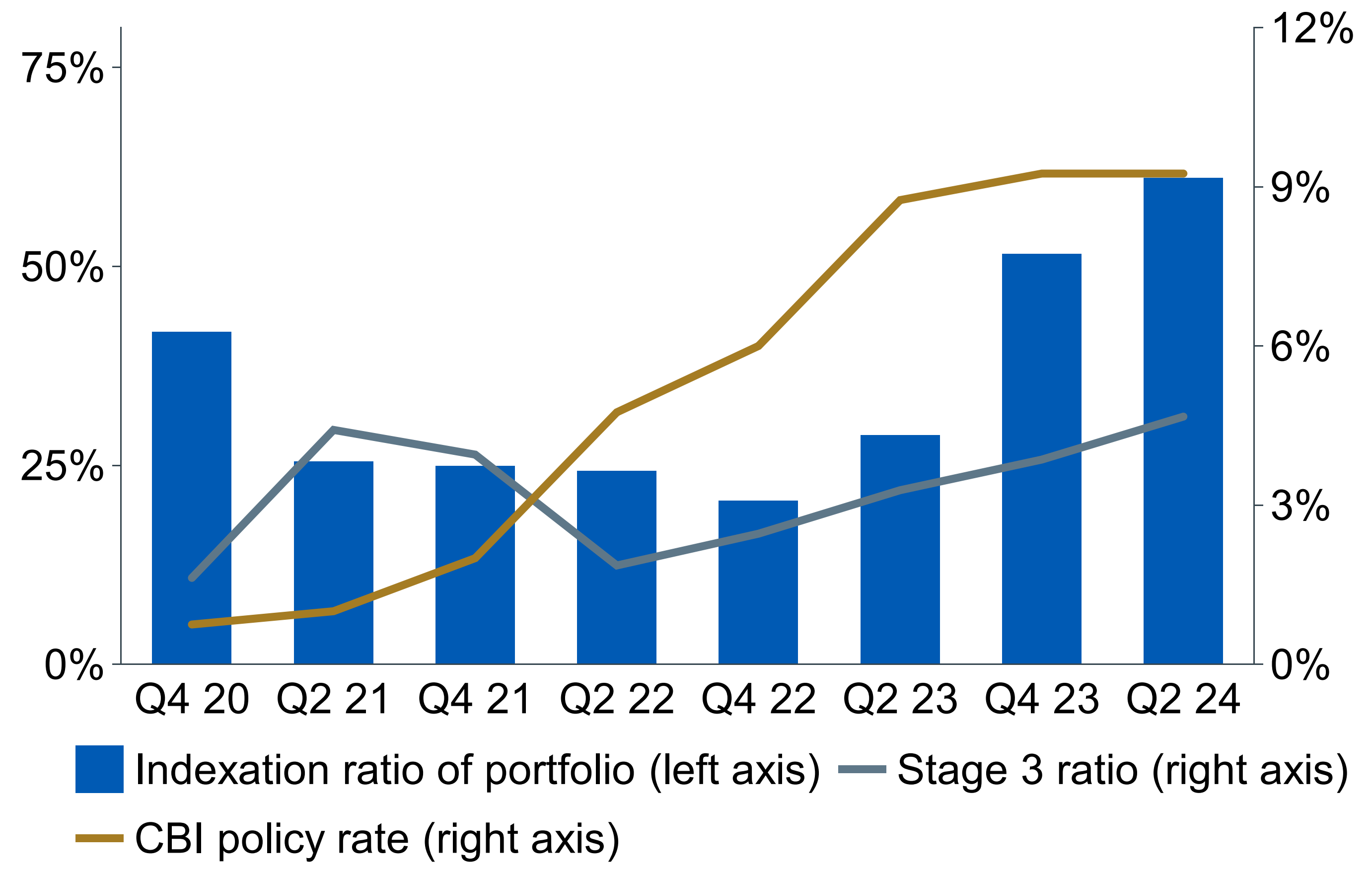
Well diversified collateral in terms of real estate type



1. For real estate sector only.

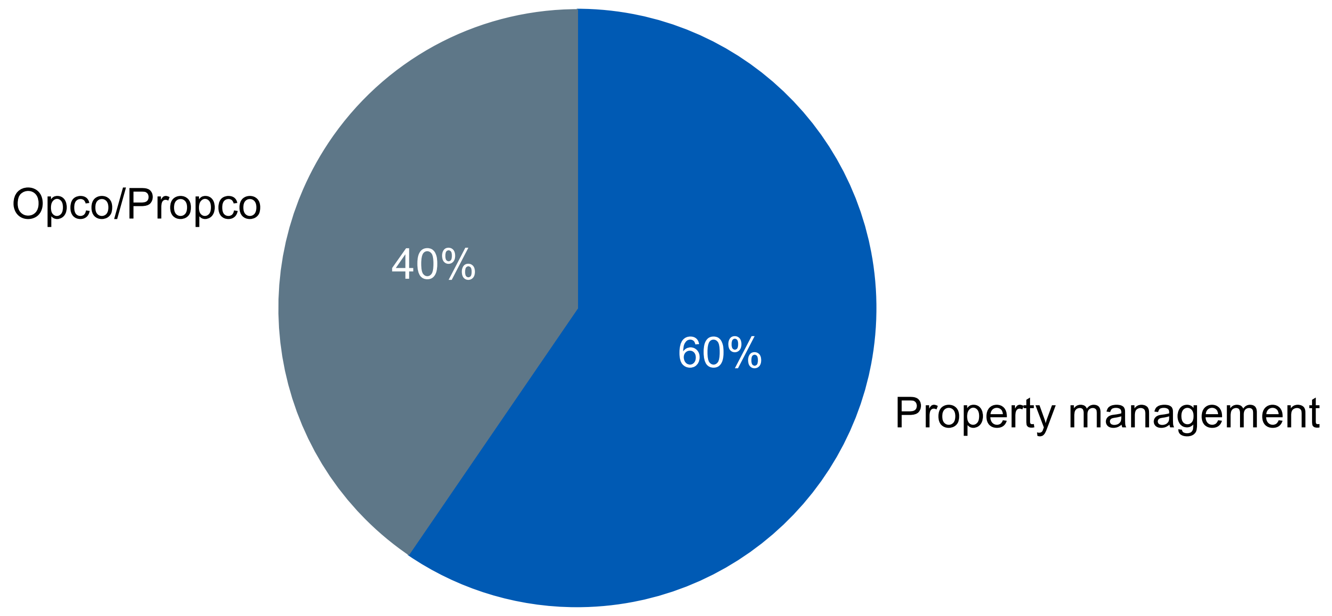
Development of indexed loans and 90 days past due

Customers have reverted to indexed loans due to high interest rates. The delinquency rate remains low



Borrower type

The Bank is focused on real estate exposures that are occupied by operational companies that are customers of the Bank (Opco/Propco). Property management contains both exposures to companies renting residential real estate and commercial real estate.

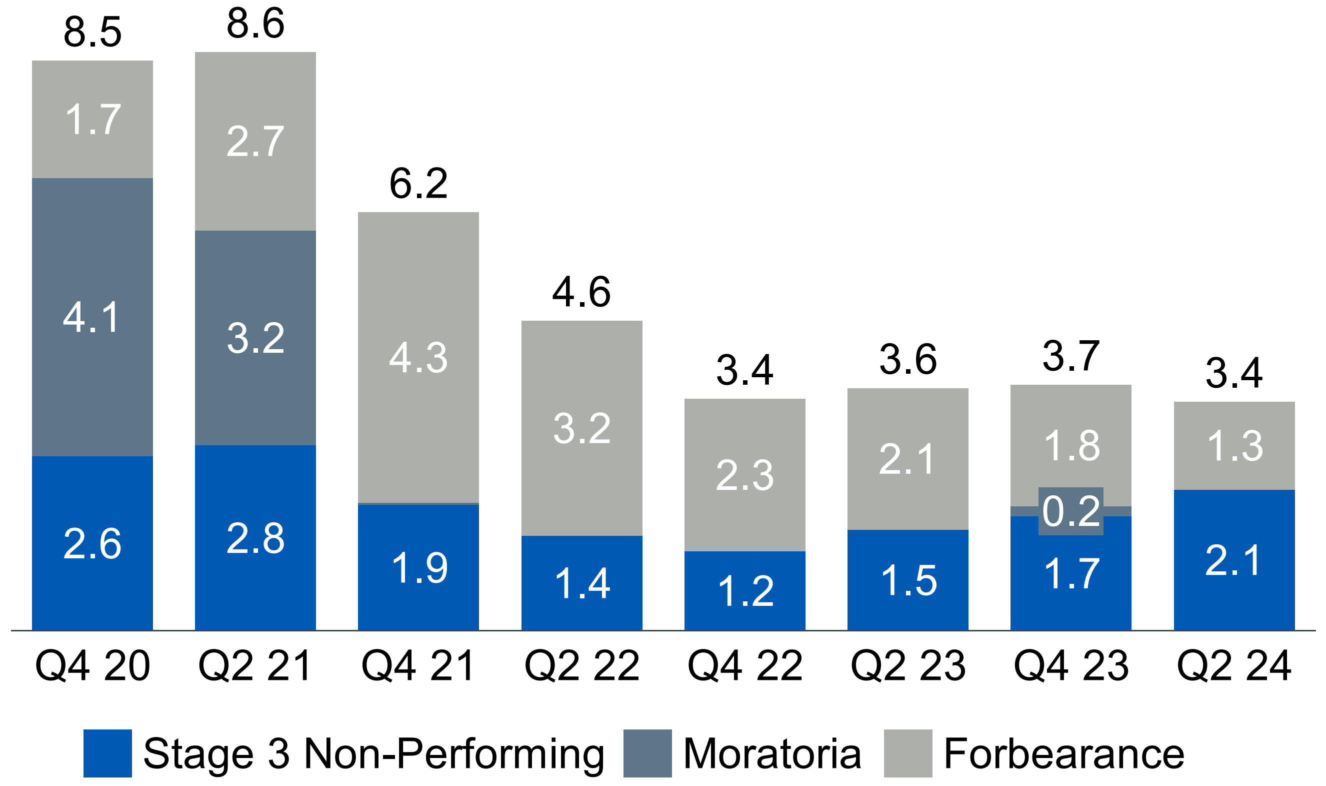


Risk profile

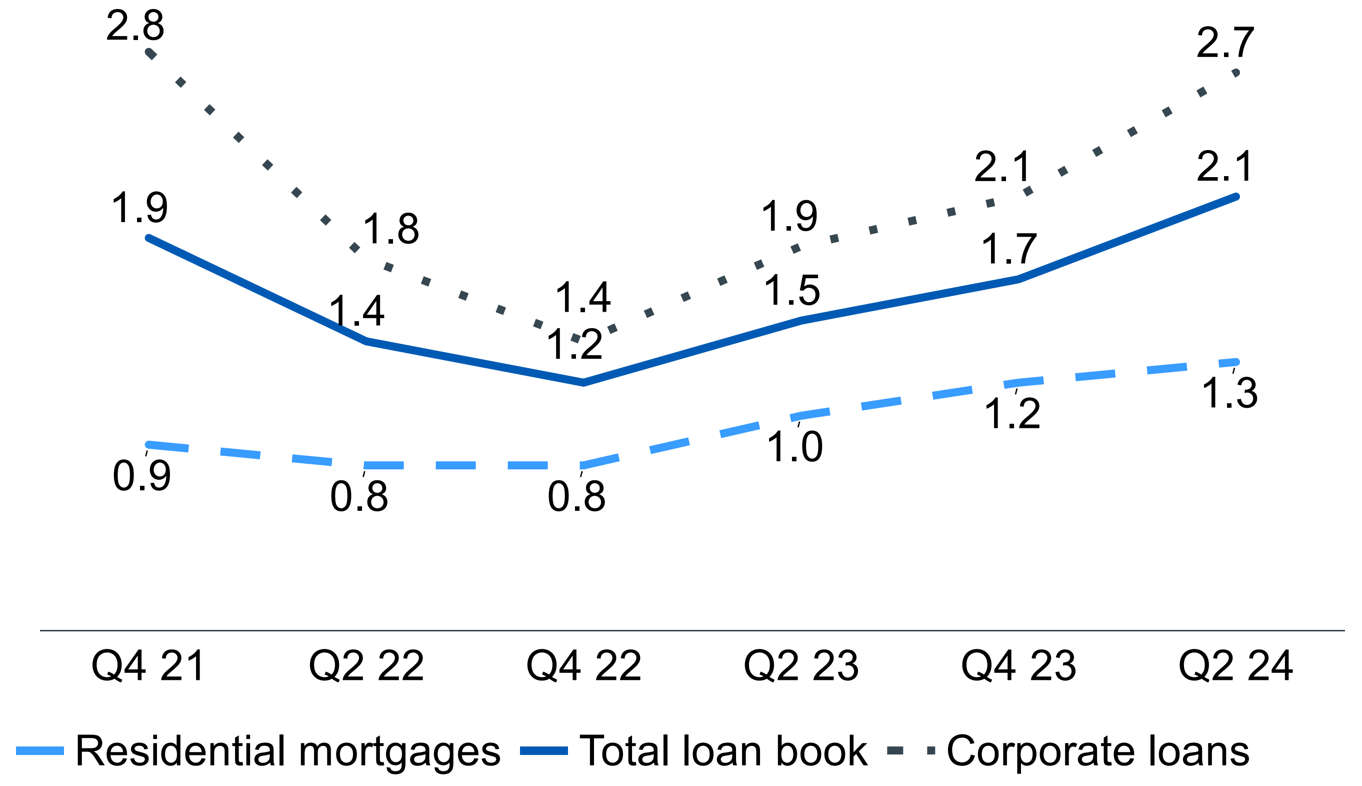
Strong credit quality indicators while payments past due increasing slightly

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality remain at healthy levels
- The problem loans ratio has trended upwards since the start of 2023 following record low levels during Covid-19. The trend applies to all portfolios. The ratios are however still below long-term averages
- Forborne exposures that are not in Stage 3 are 1.3% of loans to customers at 30.06.2024. This percentage has dropped compared with 31.12.2023 since the majority of forbearance for companies in tourism related activities has expired
- 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 Q2 the expected 12-month expected credit loss ratio of 29bps reflects management's prudent view in the current challenging conditions
- The NPL coverage ratio at 30.06.2024 was 17.2%. Approximately 71% of problem loans are exposures secured by real estate, which have low coverage in general

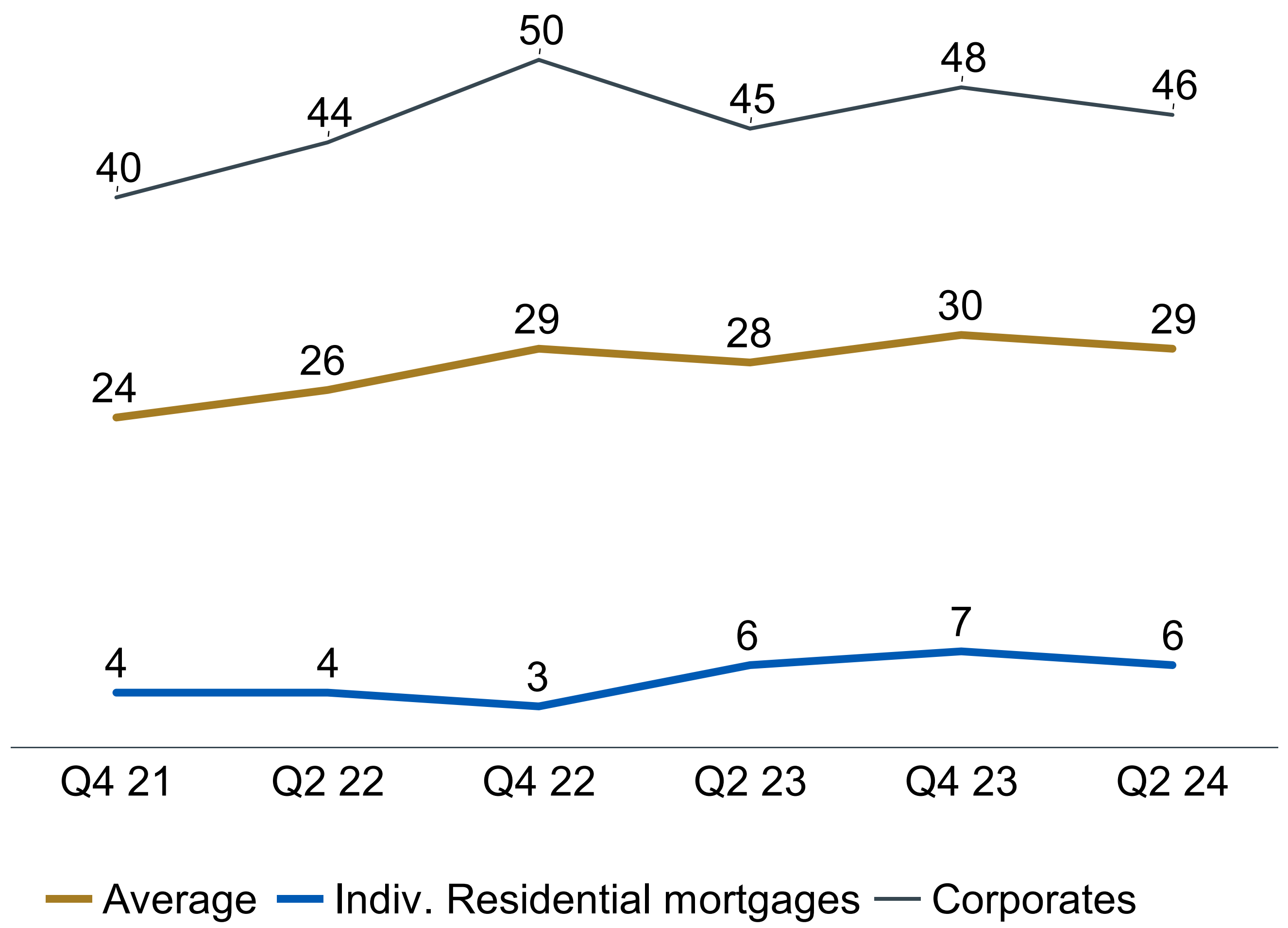
Development of non-performing loans, moratoria and forbearance (% of total loan book)



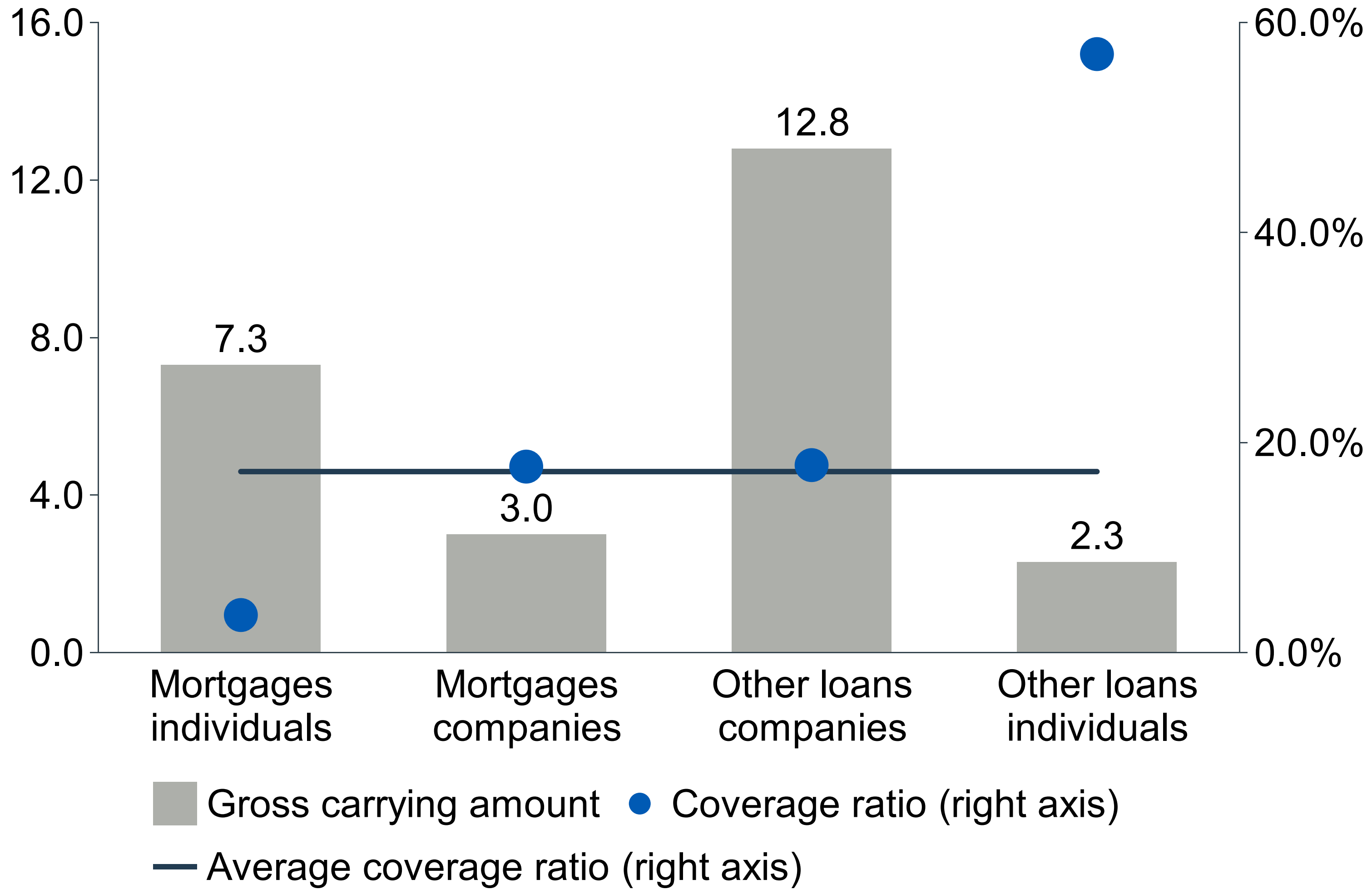
Development of problem loans ratio for loan portfolios (% of relevant loan book)



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



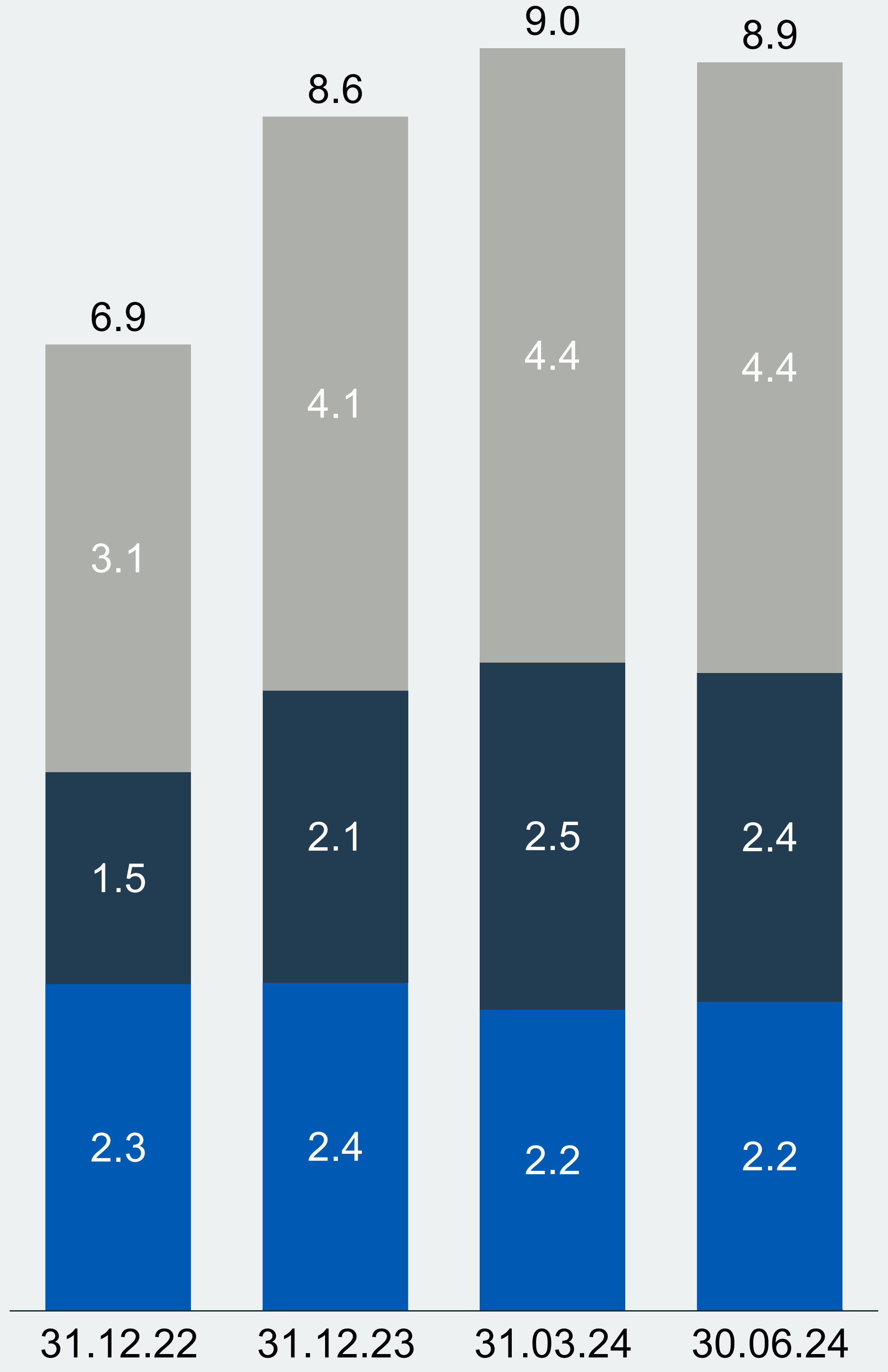
NPL coverage breakdown (ISK bn)



Loss allowance by IFRS 9 stages

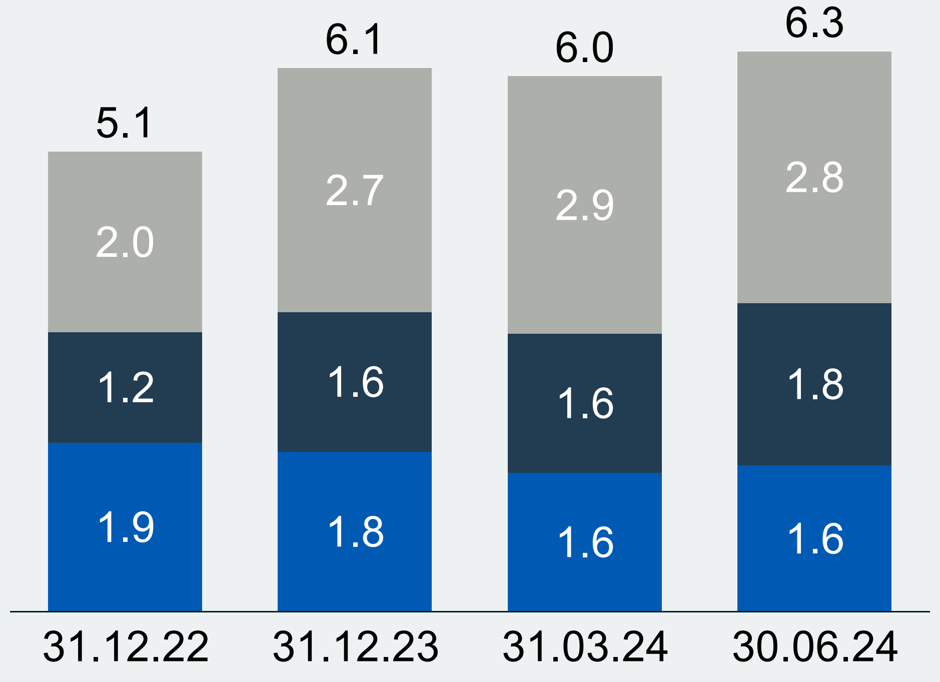
On loans to customers total (ISK bn)

Loans to customers are 0.74% provisioned at period end, the same as at YE 2023



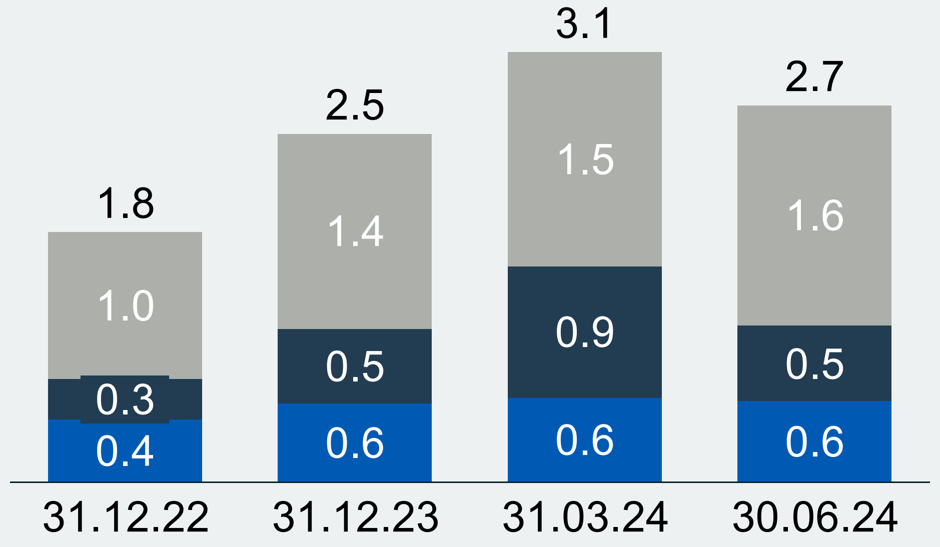
Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.09% provisioned at period end



Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.42% provisioned at period end*



Stage 1 Stage 2 Stage 3

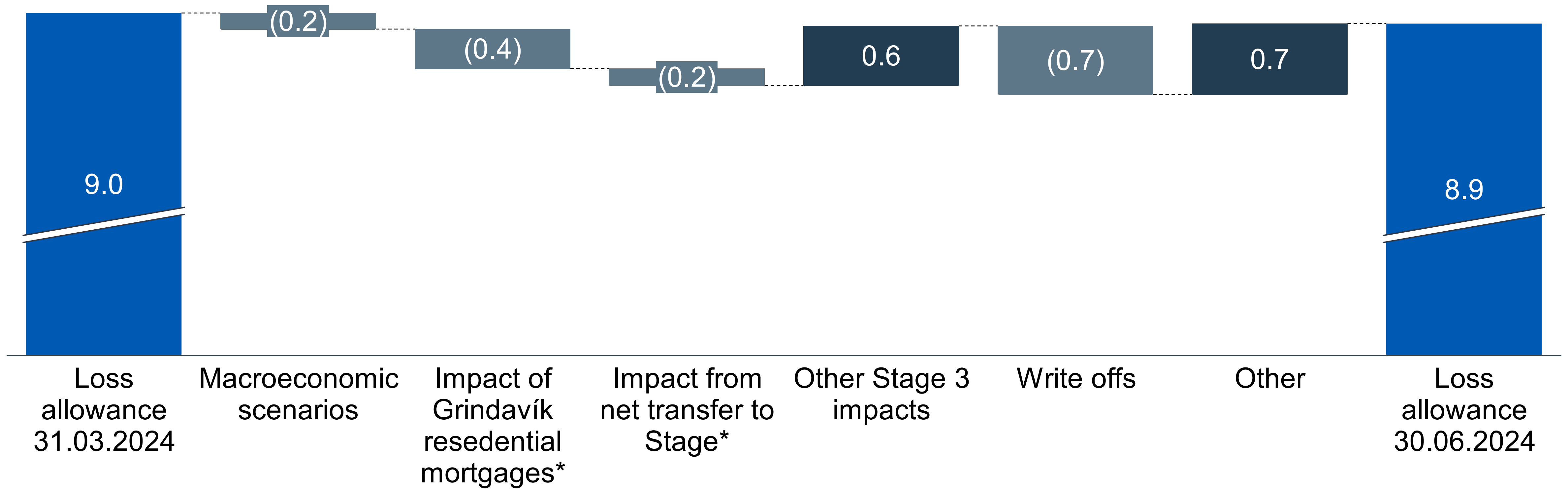
IFRS9 economic scenarios and assumptions

Deteriorating economic outlook is captured in a movement of weights during the past quarters from the base case to the pessimistic case

IFRS9 scenario likelihood	YE 2022	YE 2023	Q2 2024
Optimistic	10%	10%	10%
Base case	65%	60%	60%
Pessimistic	25%	30%	30%

Changes to loss allowance on loans to customers in Q2 (ISK bn)

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



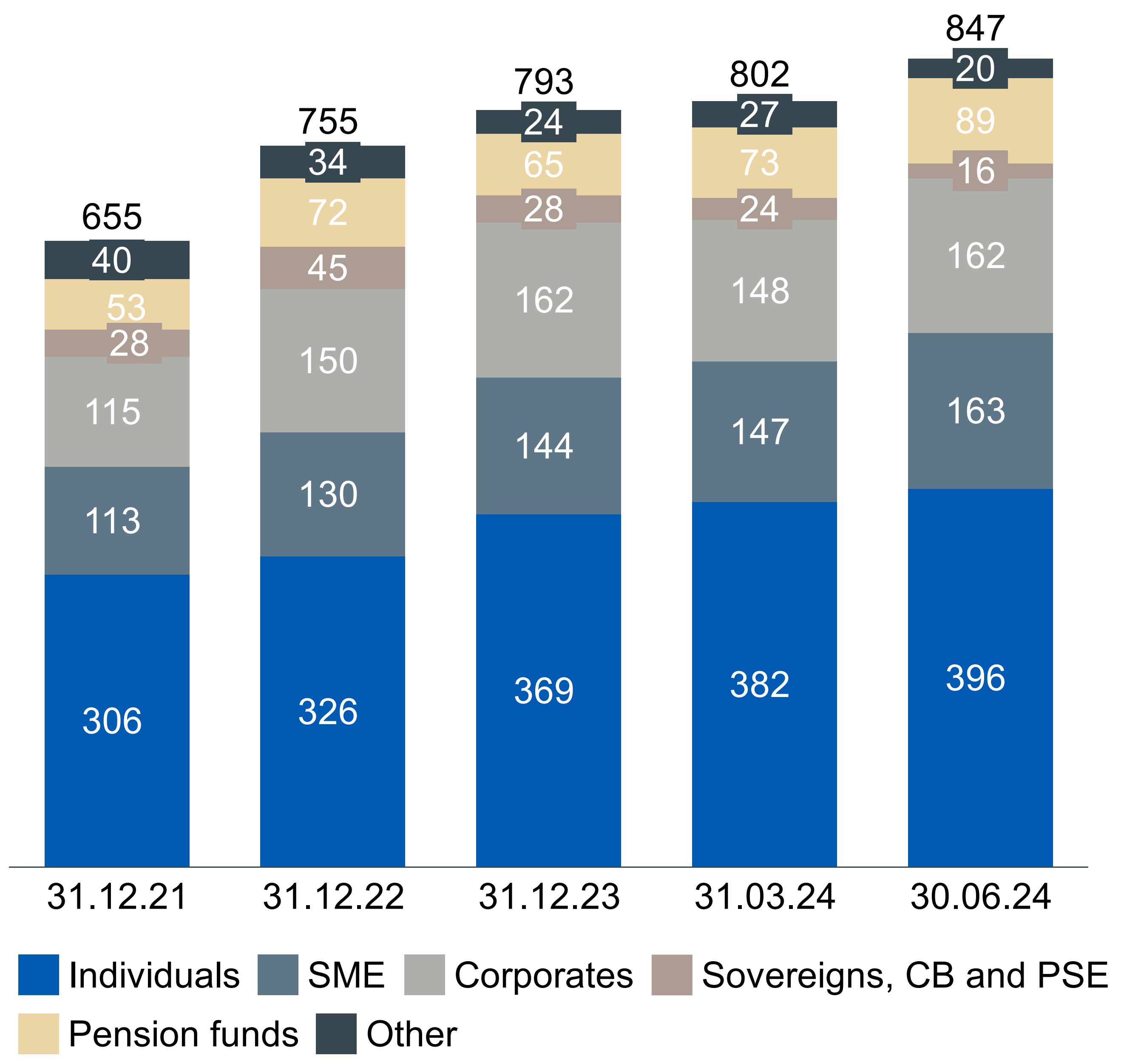
* Decrease in Stage 2 from Q1 is primarily due to transfer of mortgage loans to customers in Grindavik. Those loans have been transferred to a SPV co-owned by the Icelandic state and the Banks and the loan is now classified at fair value. A corresponding fair value loss has been recognized on that exposure

Deposits from customers

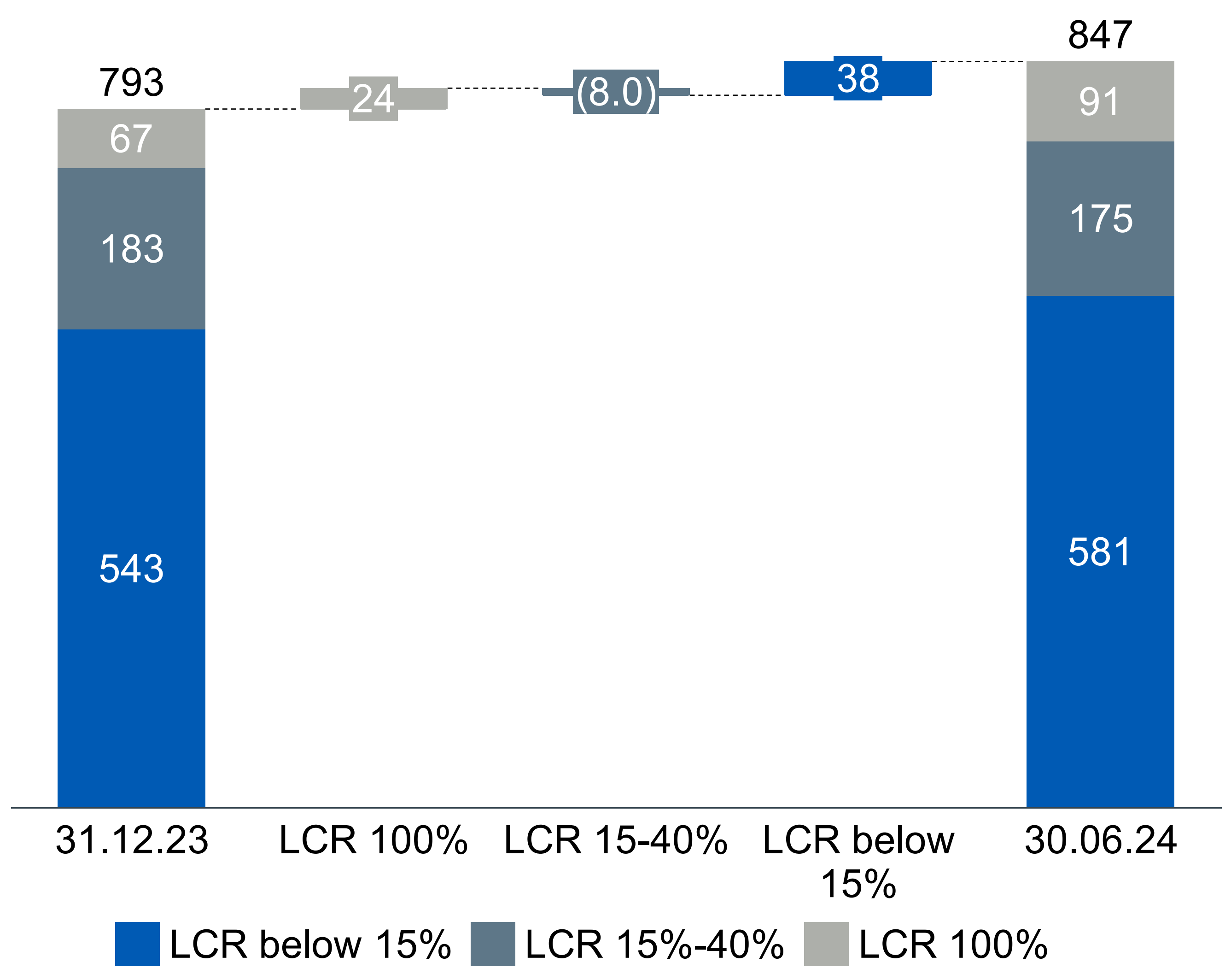
Continued momentum in stable deposits

- Deposits from customers of ISK 847bn represent 62% of the Bank's total liabilities
- Increase in deposits from customers during the quarter was 5.6%, mainly from individuals, SME's and corporates
- YoY growth has primarily been in "stable" LCR category and term deposits, reflecting the strategic focus in the area
- Loans to deposits ratio of 142% at the end of the quarter and has been relatively stable over the last few years

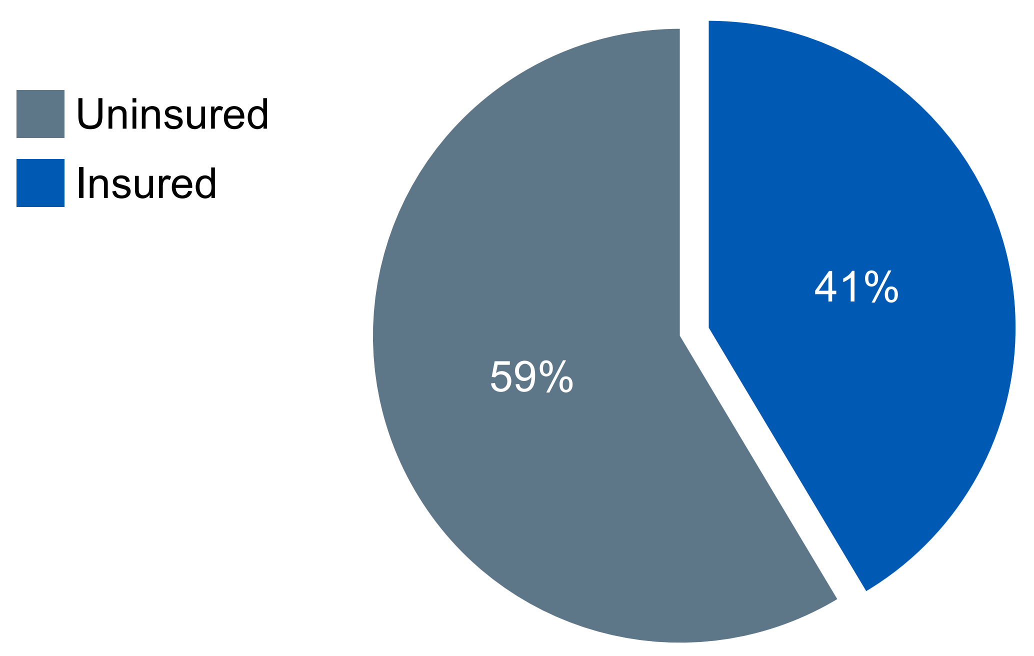
Deposits (ISK bn)



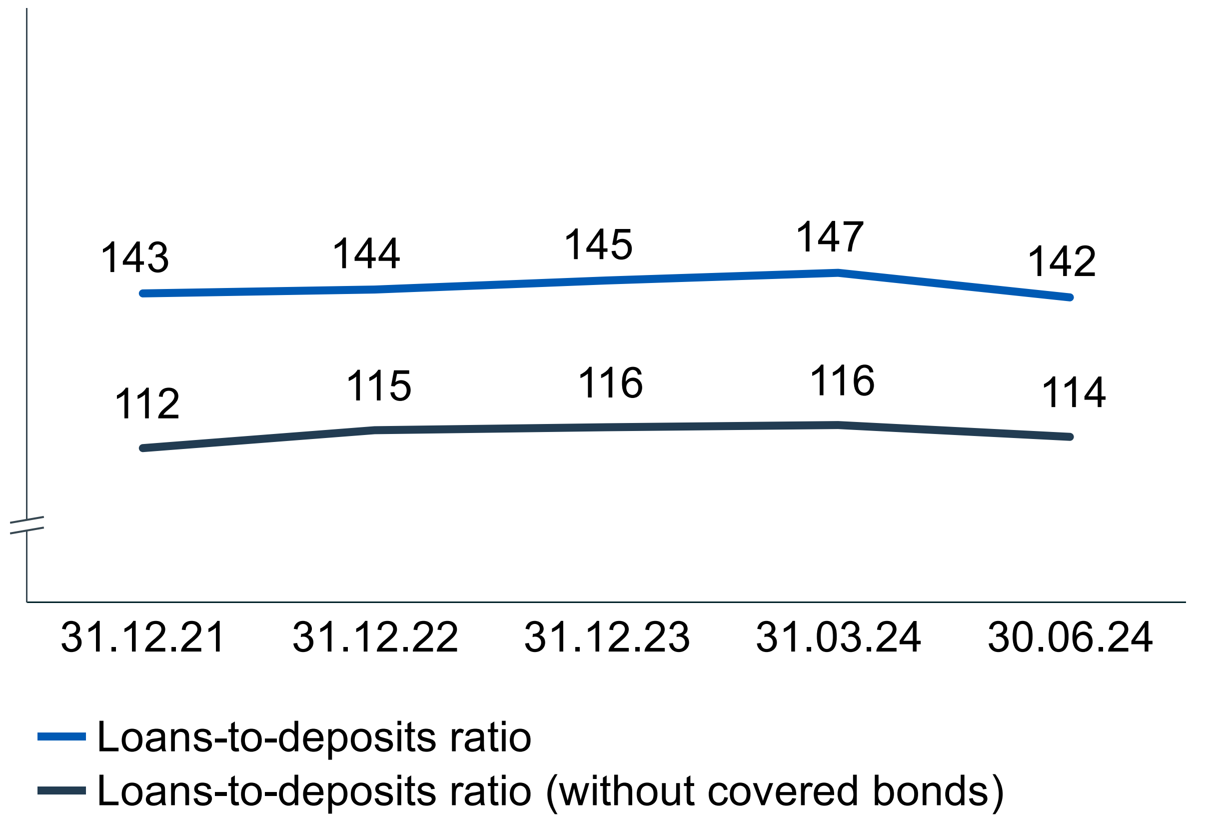
Deposit growth by LCR outflow category (ISK bn)
(including due to credit institutions)



Deposits by insurance scheme



Loans to deposits ratio (%)

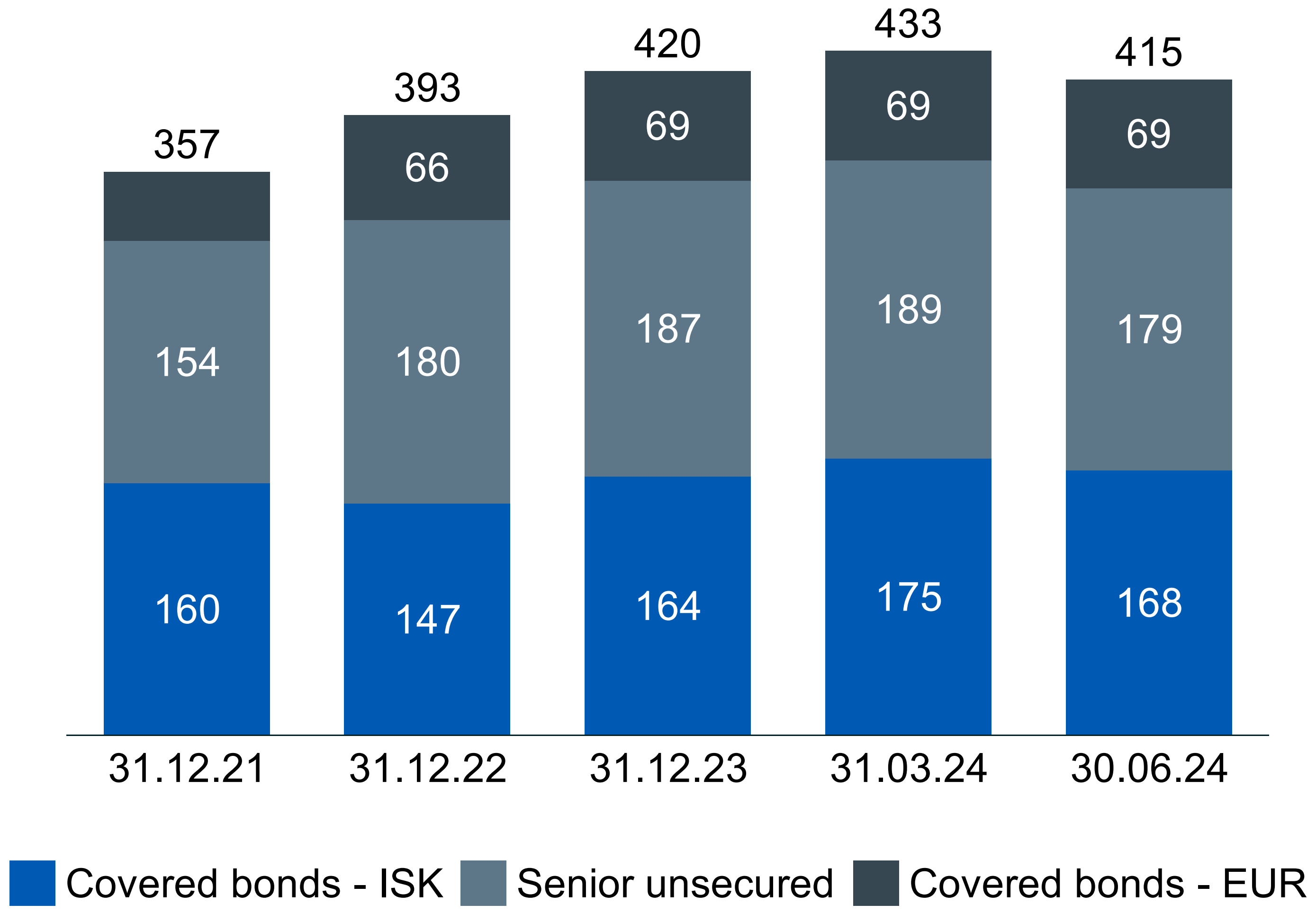


Borrowings

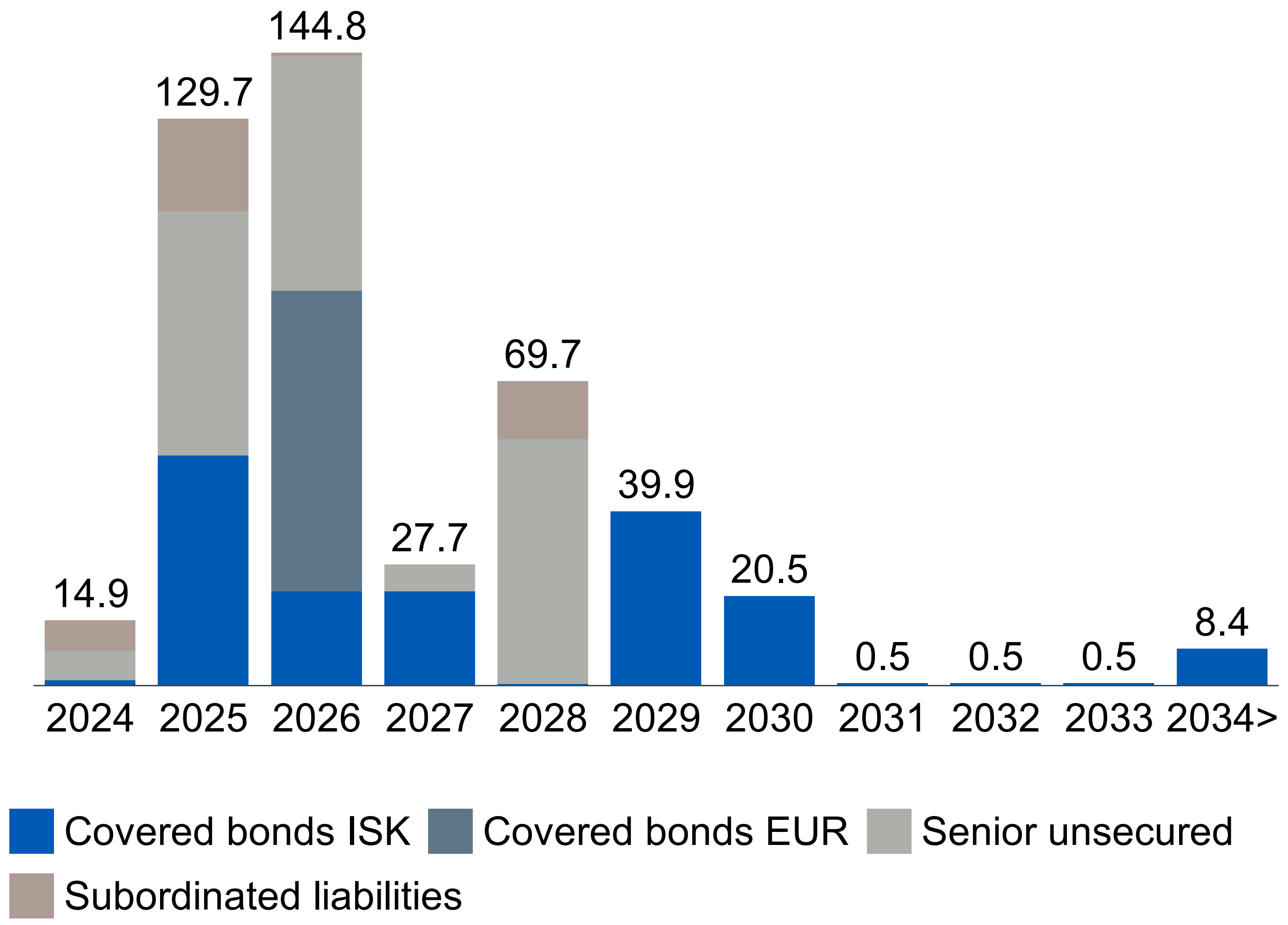
Balanced maturity profile and improved spread development

- Credit spreads have tightened significantly in recent months
- EUR 300 million senior preferred notes issued during the quarter with a maturity of 4.5 years
  - The deal was more than 8.5 times oversubscribed with orders from more than 190 investors spanning over 25 countries
  - Resulted in the tightest Icelandic bank EUR Senior Preferred instrument in over 2-years
- EUR 300m Senior Preferred Green notes due in December 2024 were fully prepaid
- Total issuance of ISK covered bonds was ISK 1.7bn and total issuance of ISK senior bonds was ISK 2.6bn in the quarter

Borrowings by type (ISK bn)



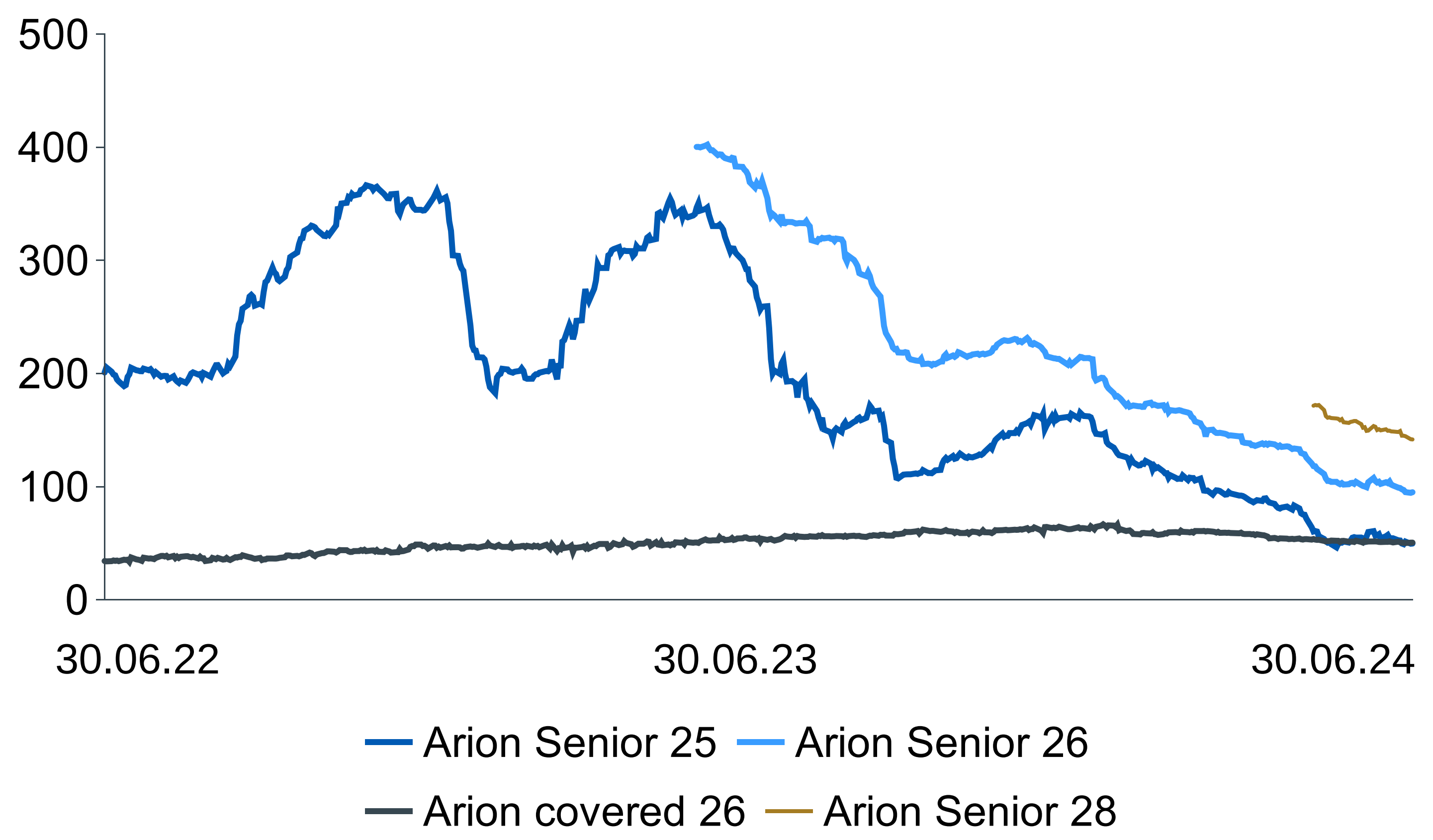
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



Ratings

MOODY'S		
Issuer - long term	A3	A2
Covered bond	Aa2	N/A
Outlook	Stable	Positive

Development of EUR funding spreads (bps)

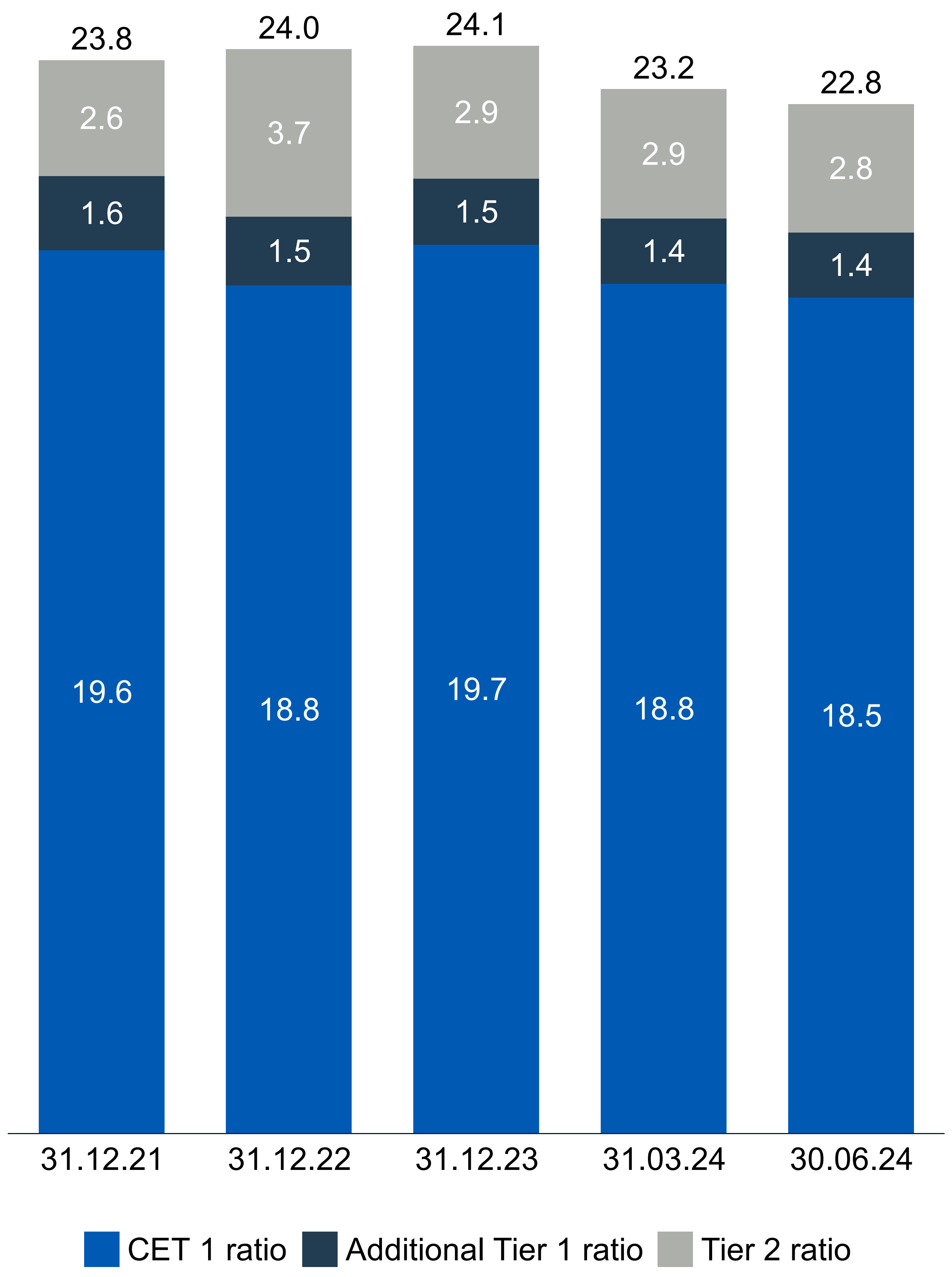


Own funds

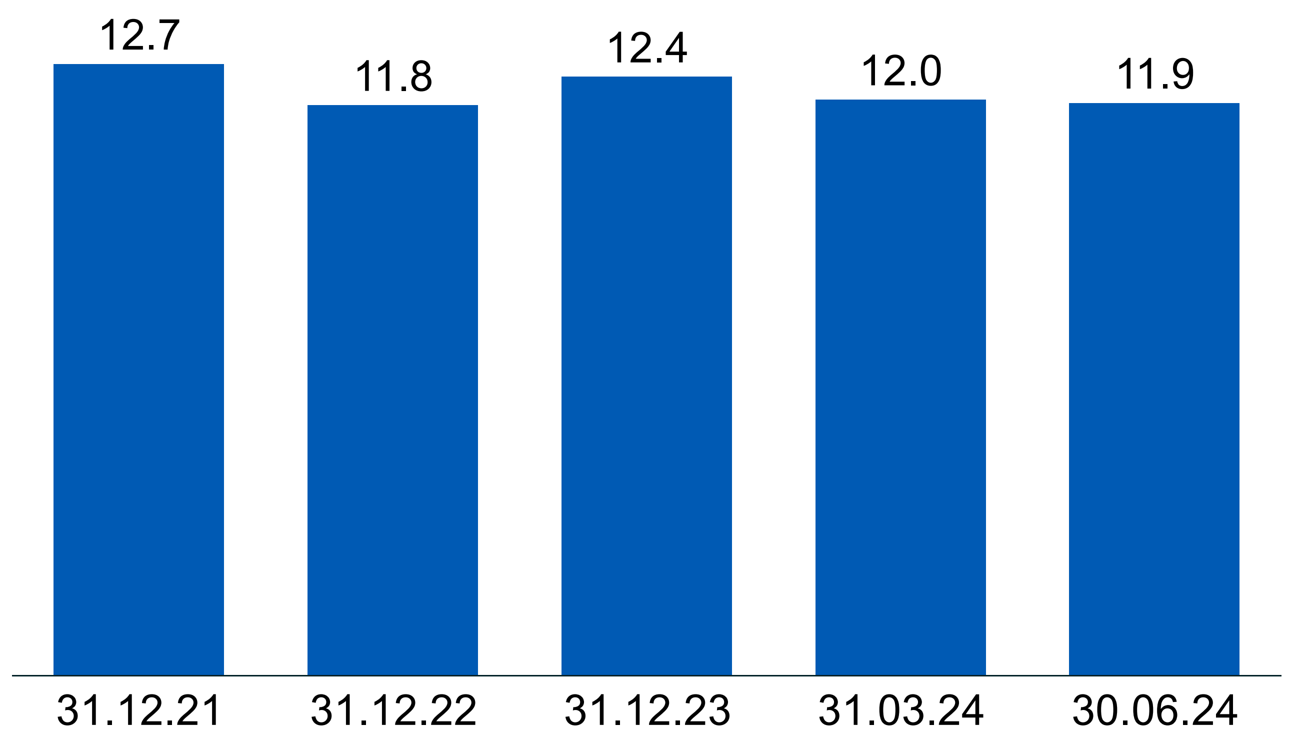
Strong capital position

- Capital position remains strong and above medium-term targets
- CET1 position is 330bps above regulatory requirement
- Leverage ratio of 11.9% significantly above most international peers
- The Bank's MREL requirements are 20.2% of REA in addition to the CBR and 6% of TEM (exposure measure for the leverage ratio). The current levels are 30.9% and 24.2%, respectively, very comfortably exceeding the requirements
- The solvency ratio of Vördur insurance is 140.7%

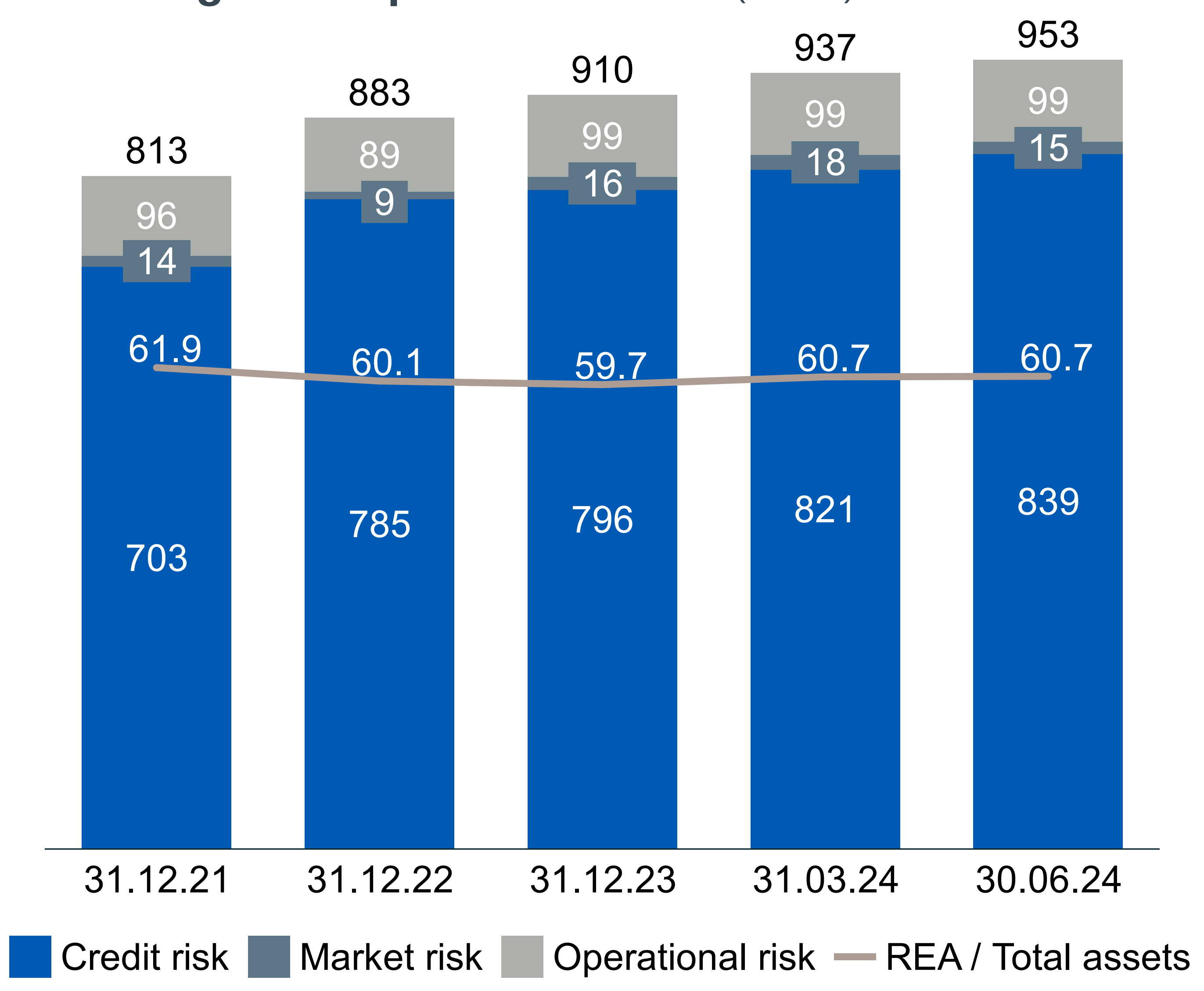
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount (ISK bn)

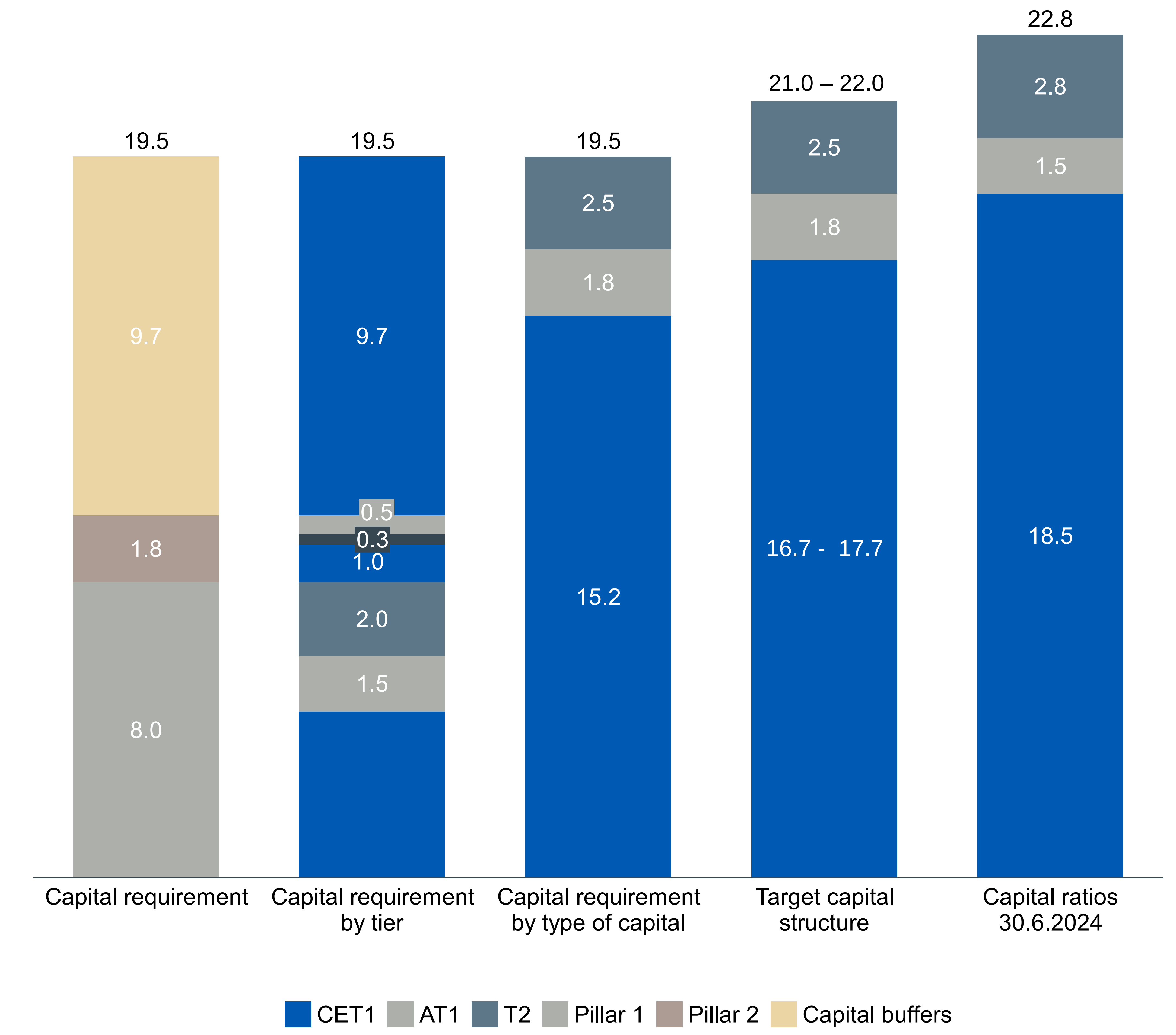


Own funds

The capital ratios continue to be strong and Pillar 2 requirements reduced

- H1 profits of ISK 9.9bn and foreseeable dividend of ISK 5.0bn, as per the Bank's dividend policy, included in the capital ratios shown
- An ISK 2.5bn buyback program has been unconditionally approved by the Board and the FSA and this amount is subtracted from CET1 capital. Additionally, ISK 0.5bn remaining of previously approved buyback is also subtracted
- The Pillar 2 requirement is 1.8%, down from 2.1%, as a result of the SREP process based on year-end 2023 financials
- The medium-term capital management buffer target is around 150-250bps over regulatory requirements
- CET1 capital is ISK 8.0 – 17.5bn in excess of target capital structure. However, since currently the Bank does not make the optimal use of the AT1 capital item, CET1 capital is partially used to make up that shortfall
- The final exercise period for outstanding issued warrants of 51.7 million is in August. These are currently in the money. Assuming that all outstanding warrants will be exercised, CET 1 is expected to increase by approx. ISK 6.0bn.
    - This would increase CET 1 ratio to 19.2% with all other assumptions unchanged
    - FSA has approved up to ISK 5bn additional share buy-back subject to outstanding warrants being exercised

Own funds and capital requirements (%)



Going forward

Good momentum in core earnings drivers

Capital optimization commitment

Strong position to navigate evolving external environment

Key figures*

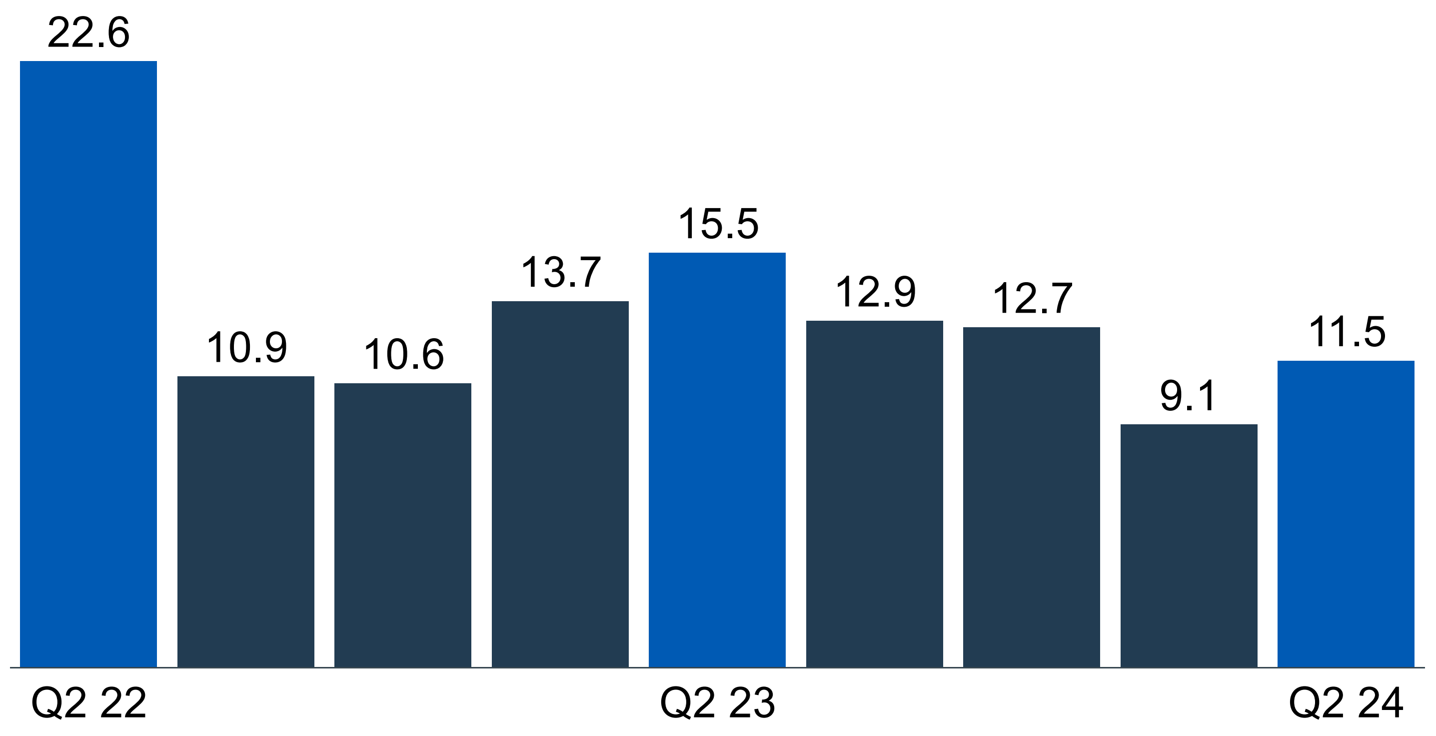
Operations	H1 2024	H1 2023	H1 2022	H1 2021	H1 2020	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Net interest income	23,193	22,419	19,221	15,358	15,110	11,948	11,245	11,347	10,918	11,426
Net commission income	7,344	8,631	8,138	6,839	5,764	3,979	3,365	3,903	3,848	4,187
Operating income	31,059	32,853	27,125	28,101	23,039	16,585	14,474	16,312	14,986	17,344
Operating expenses	(13,706)	(12,449)	(11,633)	(12,420)	(12,602)	(7,152)	(6,554)	(7,830)	(5,392)	(6,009)
Net earnings	9,932	13,382	15,987	13,854	2,742	5,500	4,432	6,224	6,131	7,091
Return on equity	10.2%	14.5%	17.5%	14.3%	2.9%	11.5%	9.1%	12.7%	12.9%	15.5%
Net interest margin	3.1%	3.1%	3.1%	2.8%	2.9%	3.2%	3.1%	3.1%	3.0%	3.2%
Return on assets	1.3%	1.8%	2.4%	2.3%	0.5%	1.4%	1.2%	1.6%	1.6%	1.9%
Cost-to-core income ratio	47.2%	43.0%	44.4%	52.2%	56.9%	46.2%	48.4%	54.9%	38.2%	39.4%
Cost-to-income ratio	44.1%	37.9%	42.9%	44.2%	54.7%	43.1%	45.3%	48.0%	36.0%	34.6%
Cost-to-total assets	1.8%	1.7%	1.7%	2.1%	2.2%	1.8%	1.7%	2.0%	1.4%	1.6%

Balance Sheet	30.06.2024	31.12.2023	31.12.2022	31.12.2021	31.12.2020	30.06.2024	31.03.2024	31.12.2023	30.09.2023	30.06.2023
Total assets	1,568,789	1,525,672	1,465,609	1,310,710	1,172,706	1,568,789	1,544,432	1,525,672	1,540,669	1,518,227
Loans to customers	1,202,616	1,152,789	1,084,757	936,237	822,941	1,202,616	1,178,700	1,152,789	1,143,473	1,134,621
Mortgages	640,648	617,648	574,029	504,877	409,641	640,648	624,342	617,648	605,449	595,896
Share of stage 3 loans, gross	2.1%	1.7%	1.2%	1.9%	2.6%	2.1%	1.9%	1.7%	1.5%	1.5%
REA/ Total assets	60.7%	59.7%	60.1%	61.9%	63.6%	60.7%	60.7%	59.7%	58.9%	60.1%
CET 1 ratio	18.5%	19.7%	18.8%	19.6%	22.3%	18.5%	18.8%	19.7%	19.4%	18.9%
Leverage ratio	11.9%	12.4%	11.8%	12.7%	15.1%	11.9%	12.0%	12.4%	11.8%	11.7%
Liquidity coverage ratio	154.4%	191.8%	158.5%	202.8%	188.5%	154.4%	143.6%	191.8%	179.1%	162.9%
Loans to deposits ratio	142.0%	145.4%	143.6%	142.8%	144.8%	142.0%	147.0%	145.4%	141.8%	145.2%

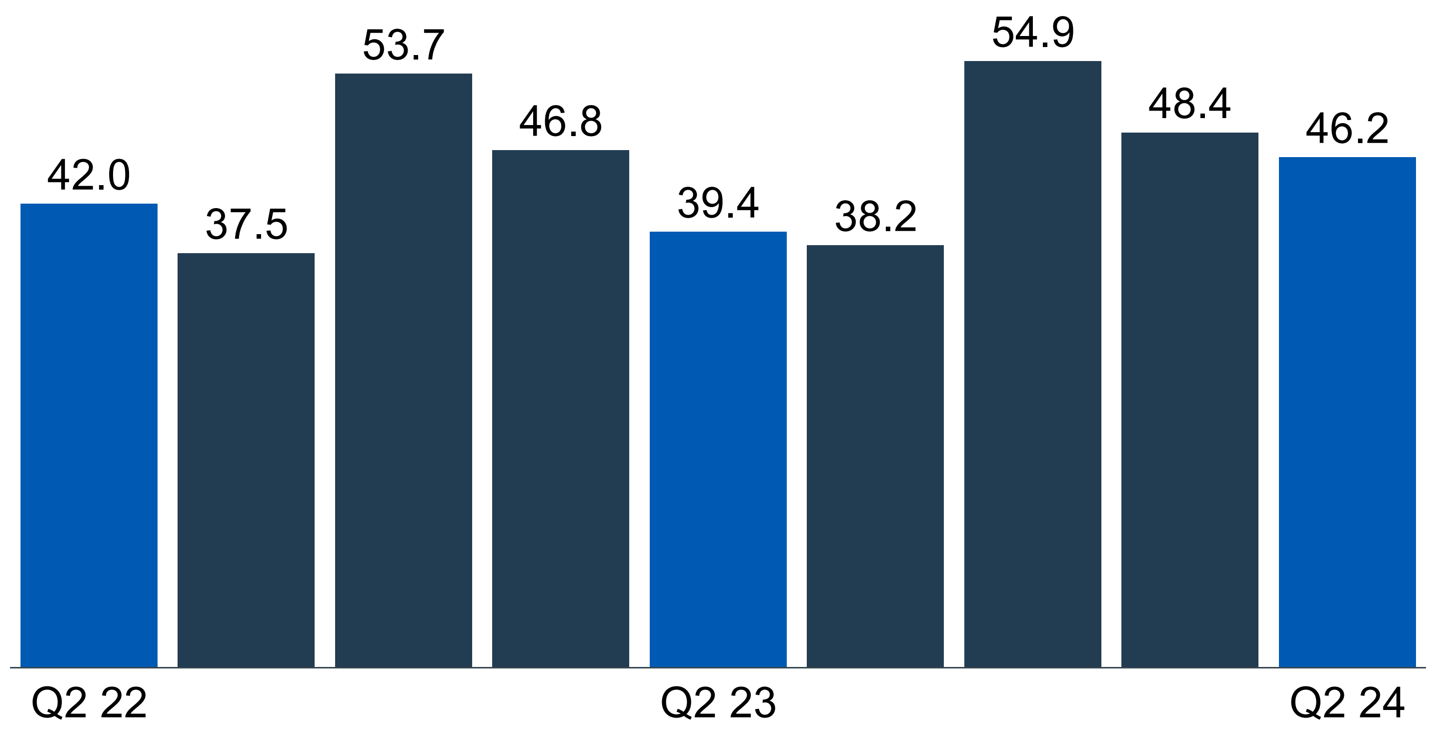
*Figures for periods prior to 2022 have not been restated according to IFRS 17

Key financial indicators - quarterly

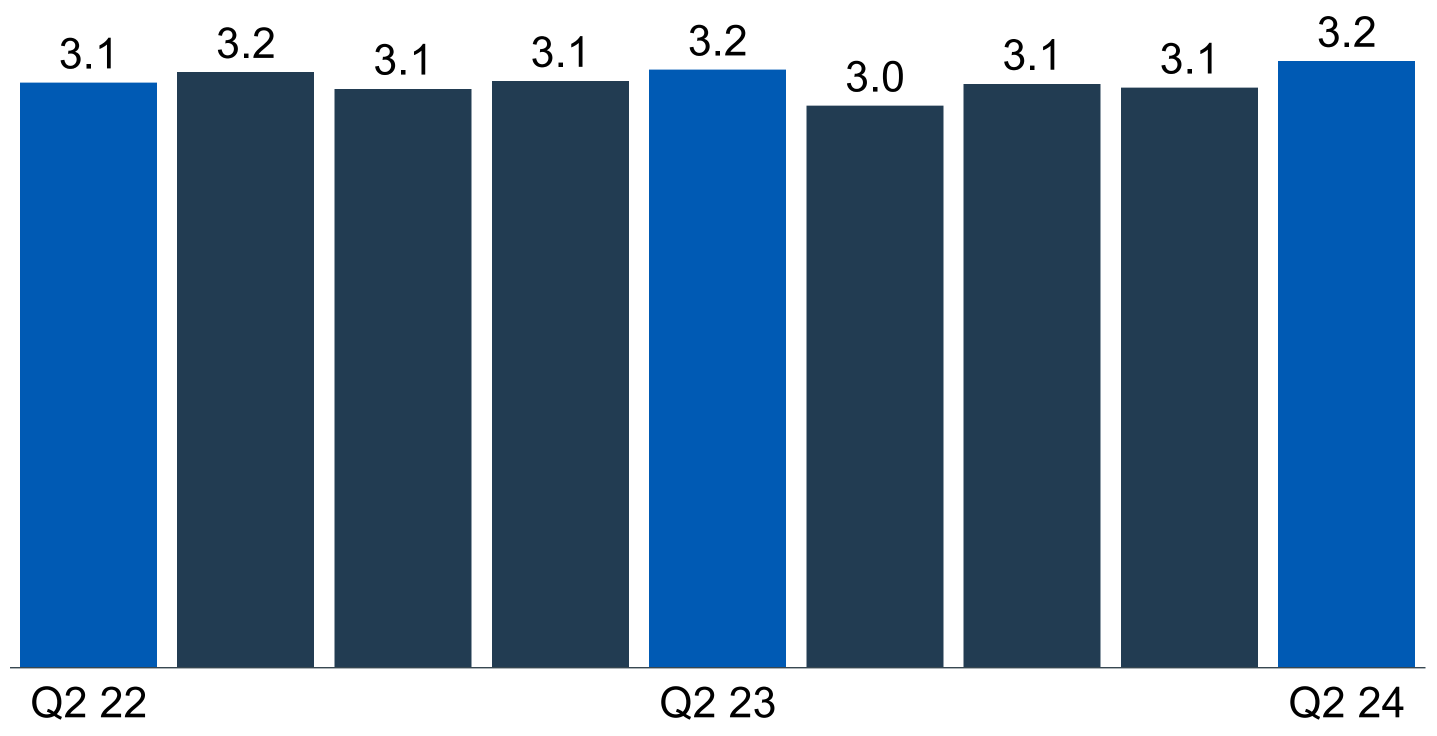
Return on equity (%)



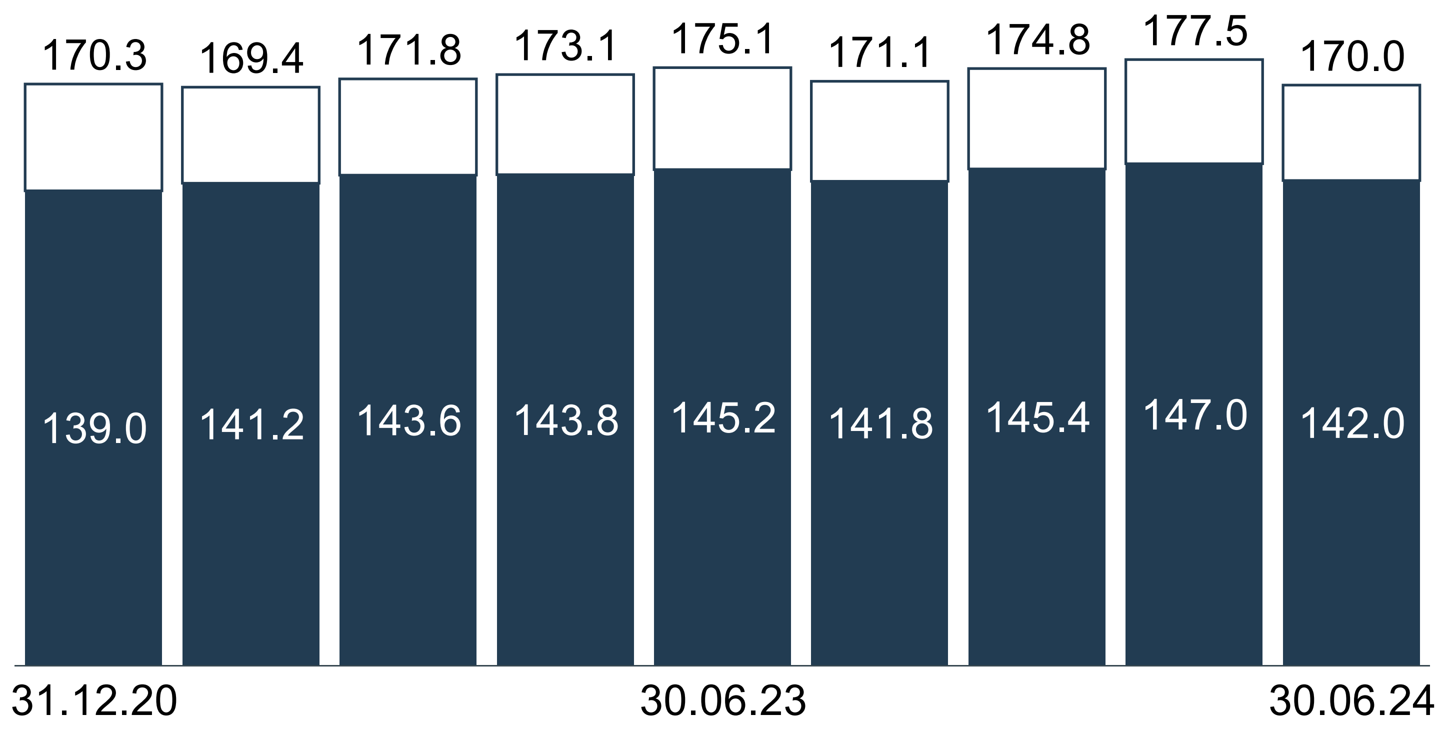
Cost-to-Core income ratio (%)



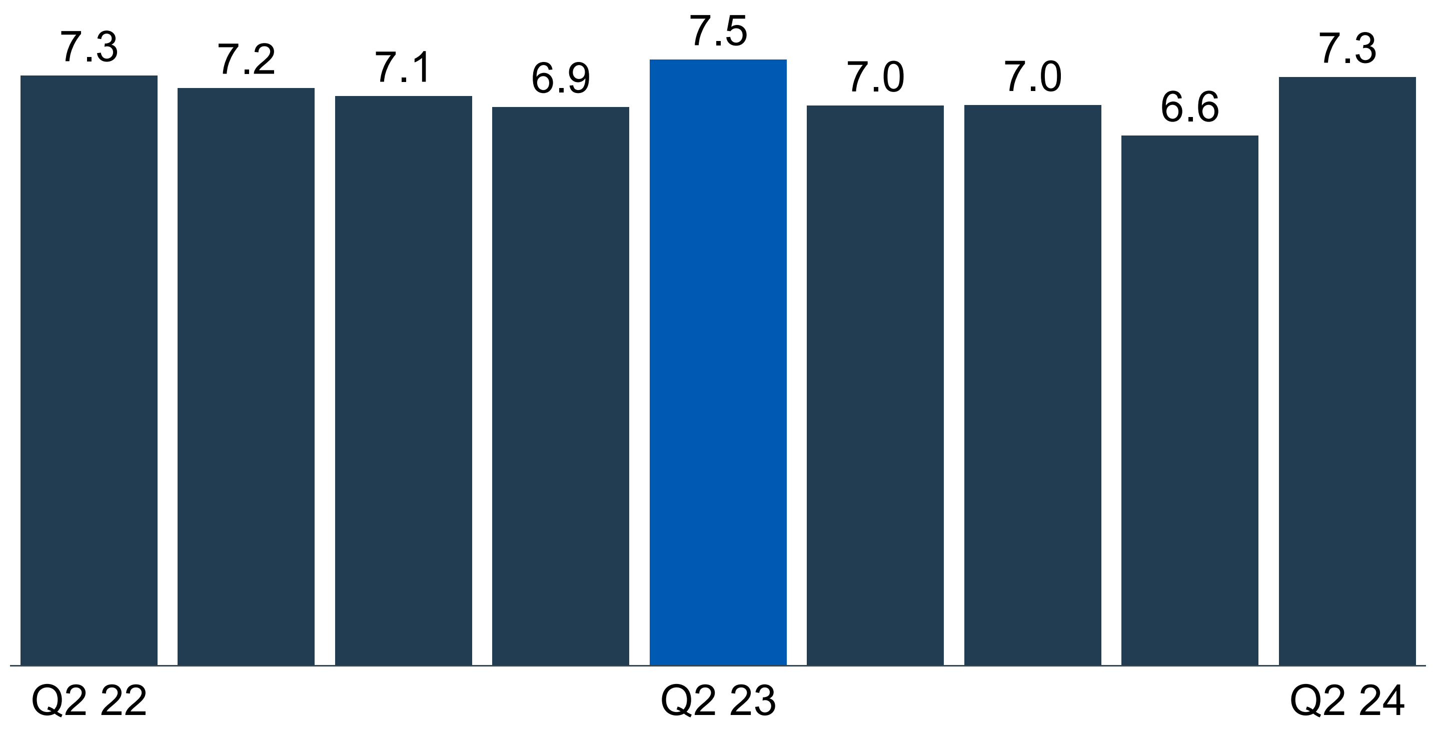
Net interest margin (%)



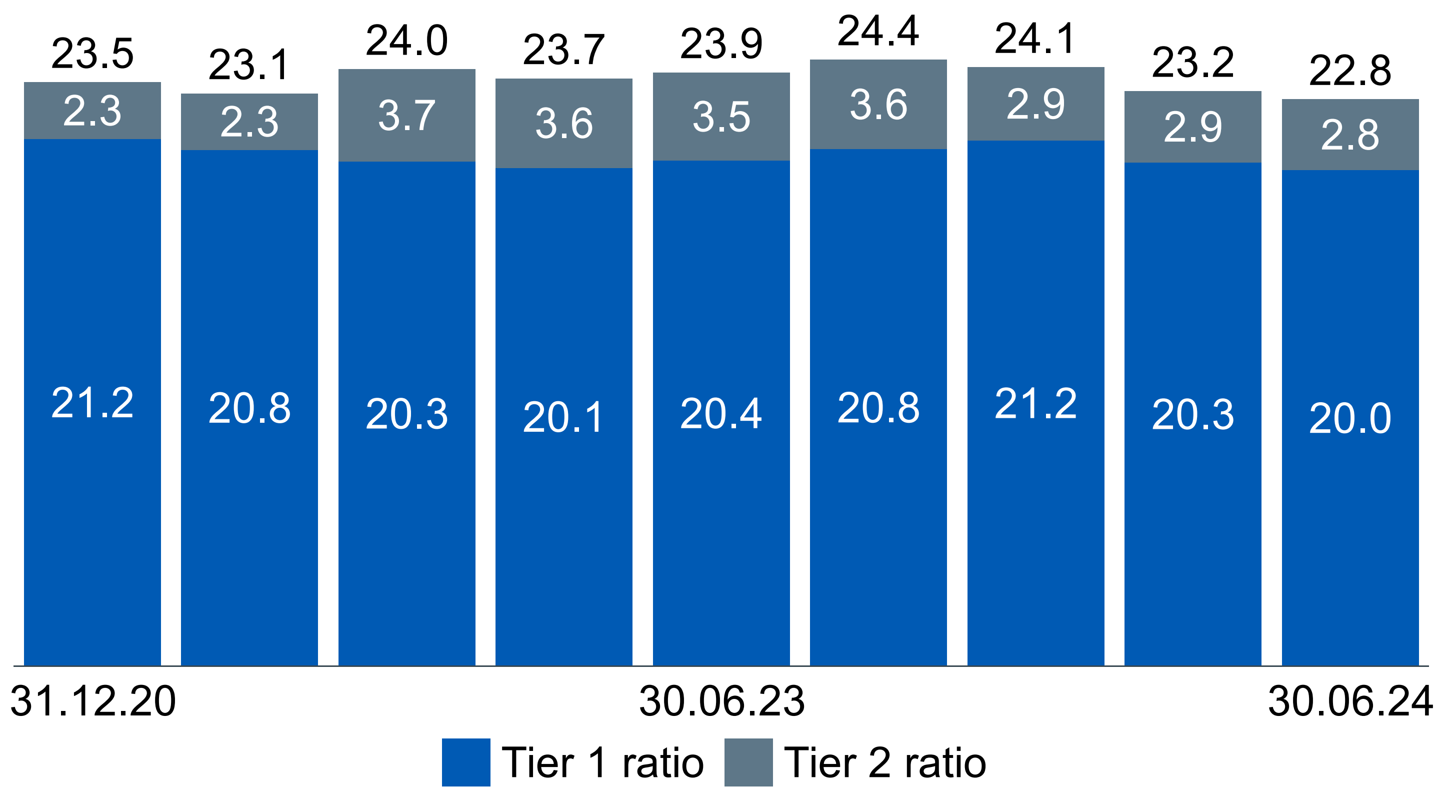
Loans to deposits ratio (%) (without loans financed by covered bonds)



Core operating income / REA (%)

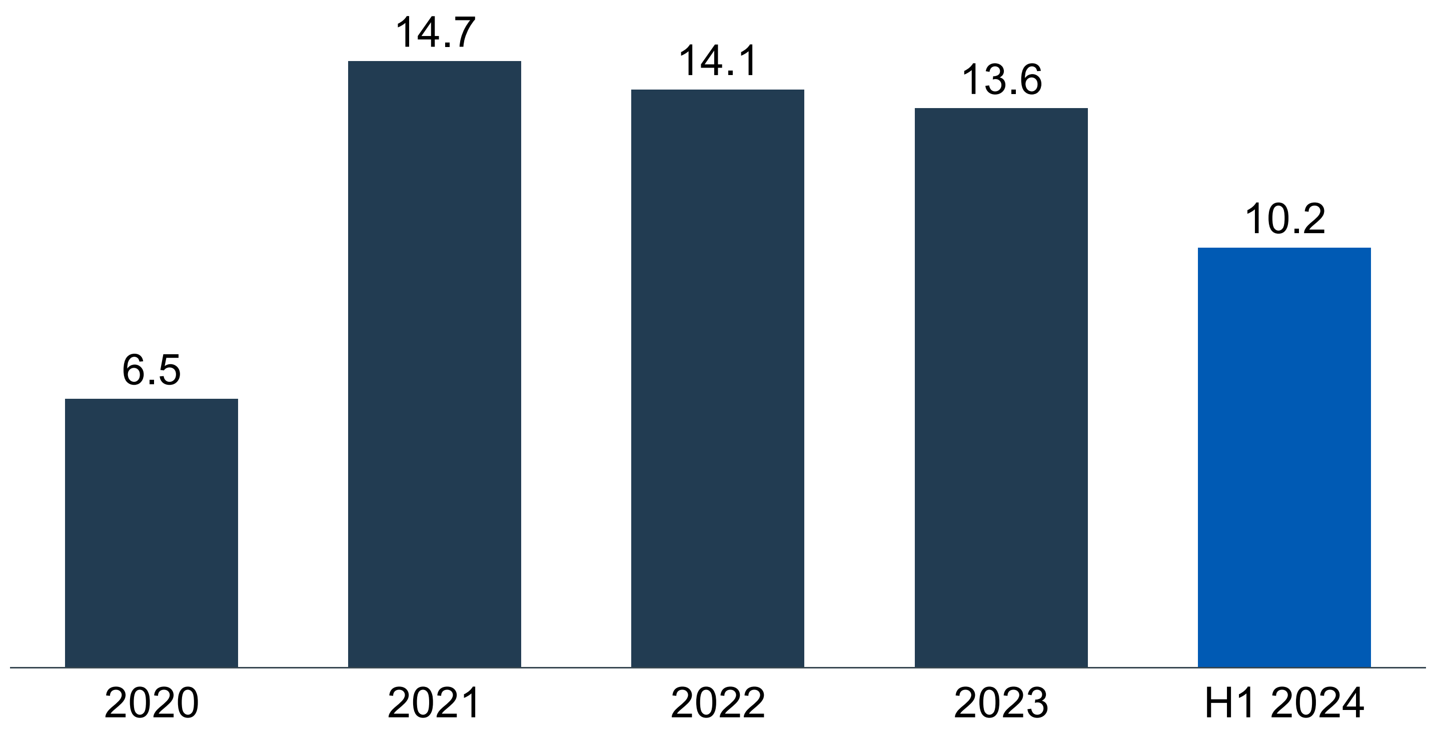


Risk exposure amount / Total assets (%)

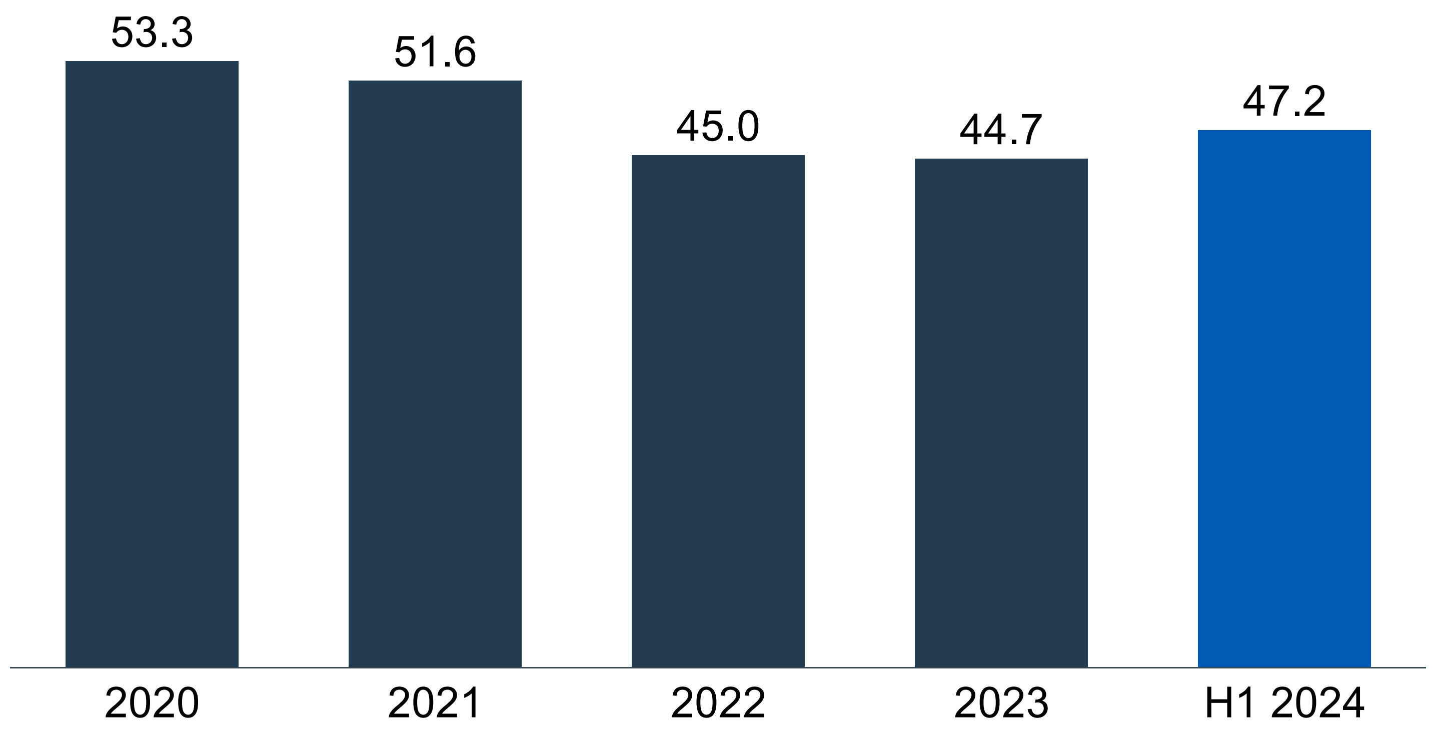


Key financial indicators - annual

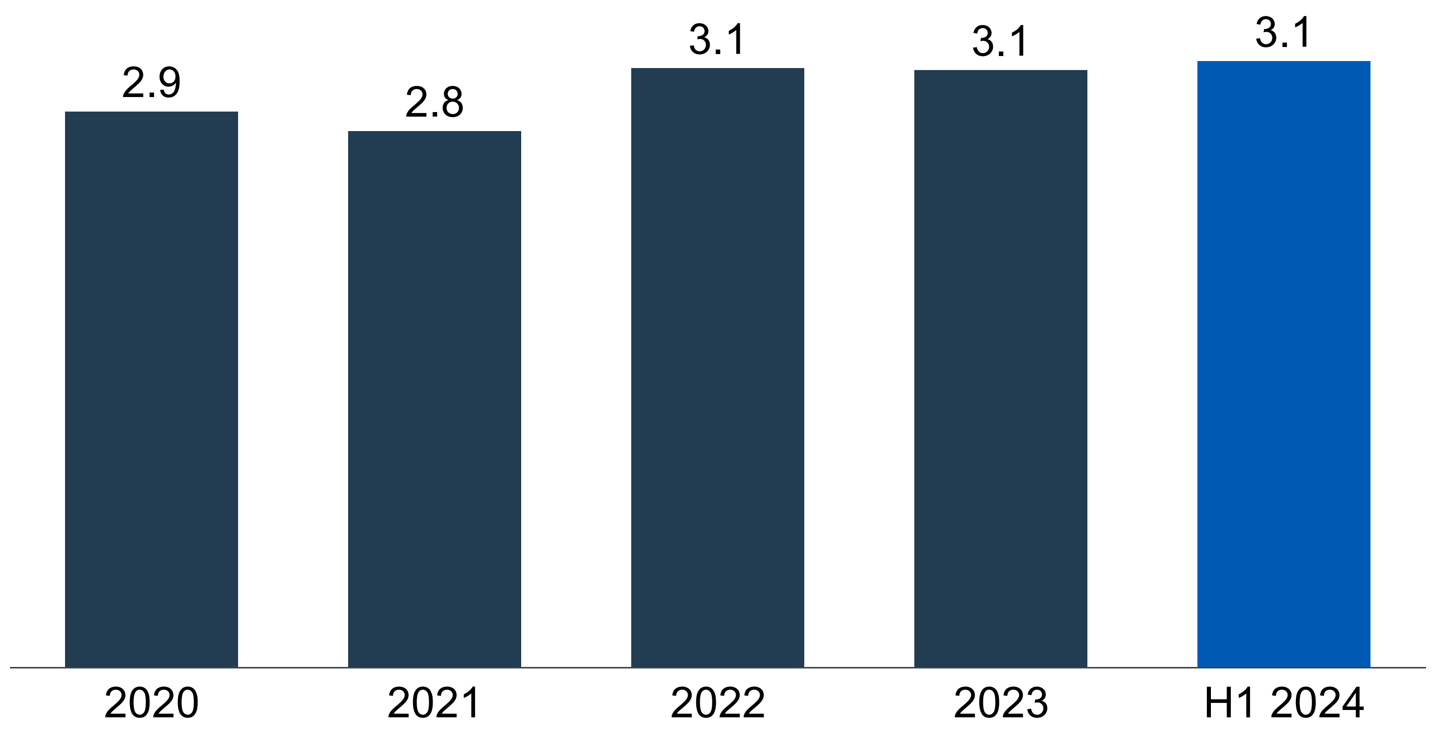
Return on equity (%)



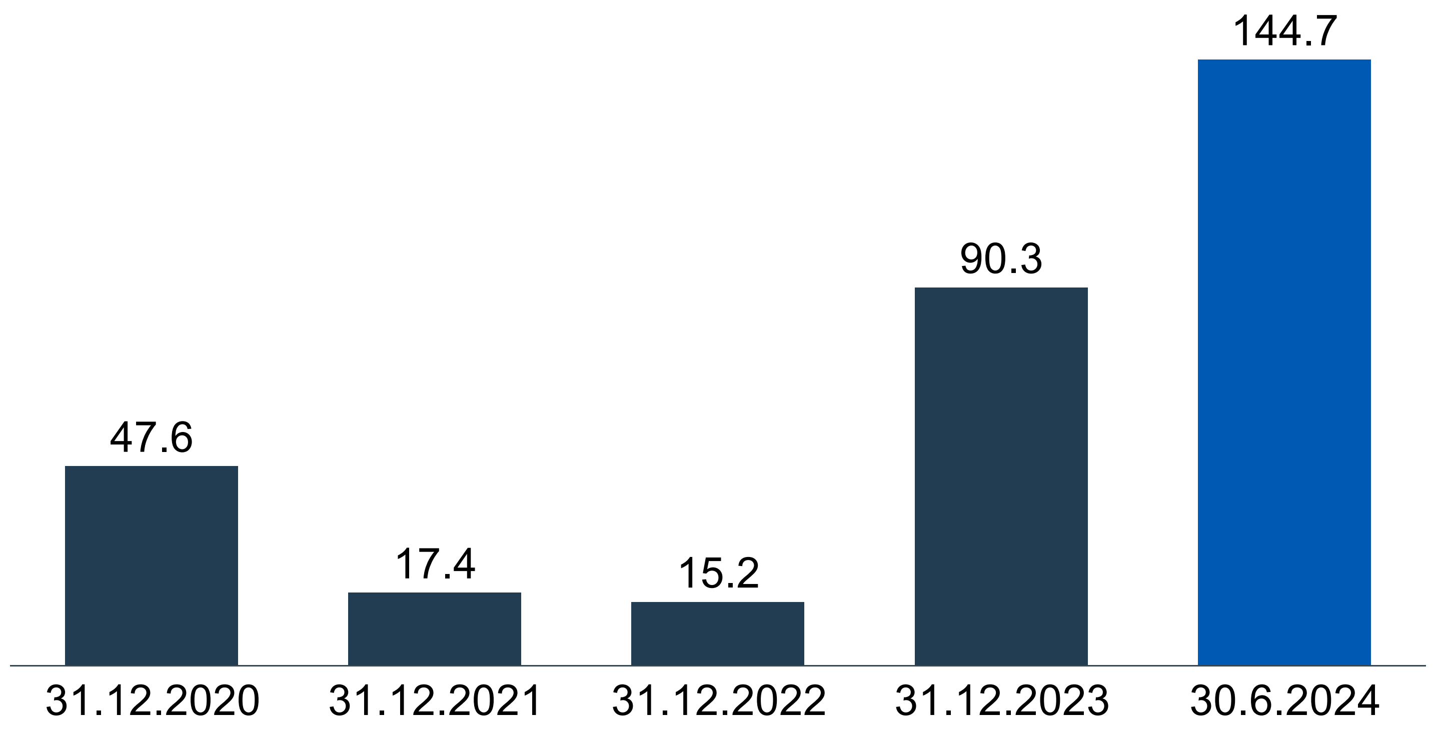
Cost-to-Core income ratio (%)



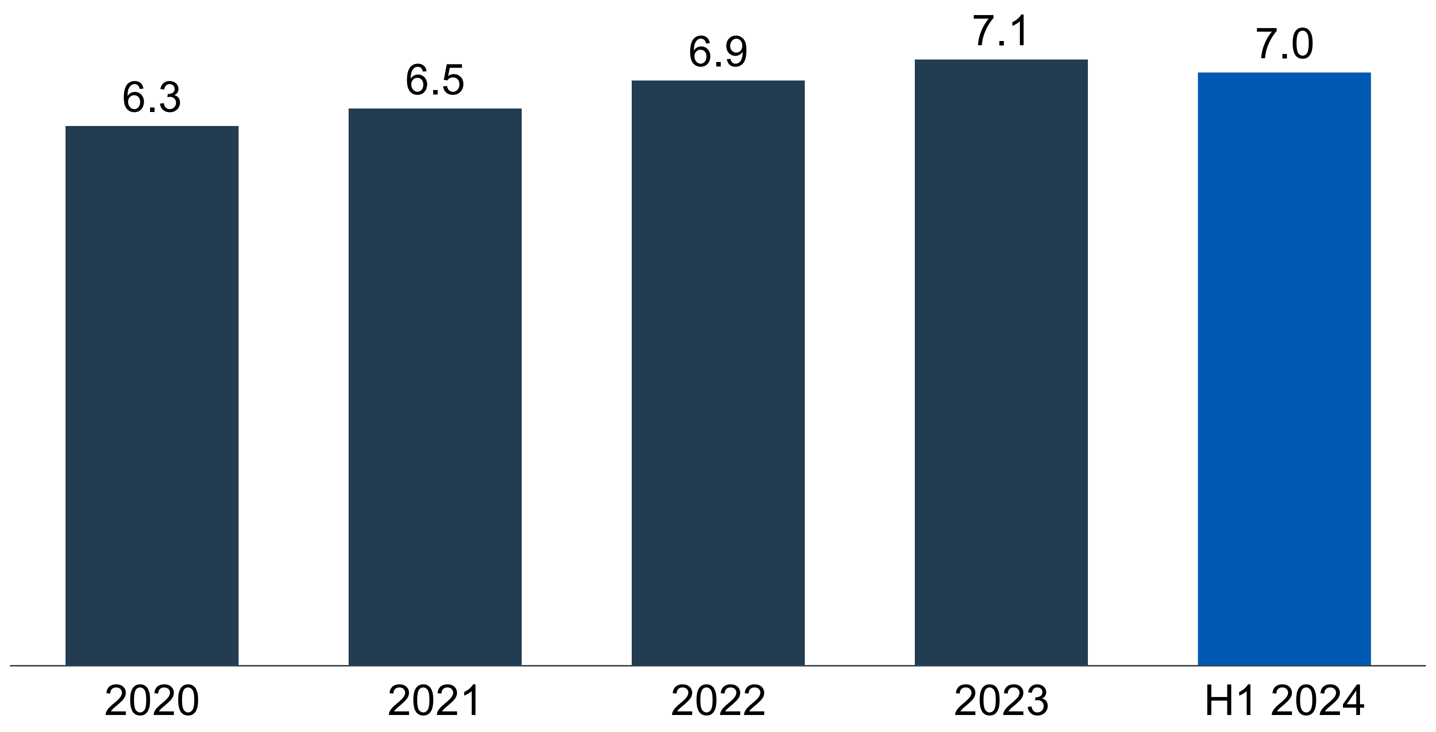
Net interest margin (%)



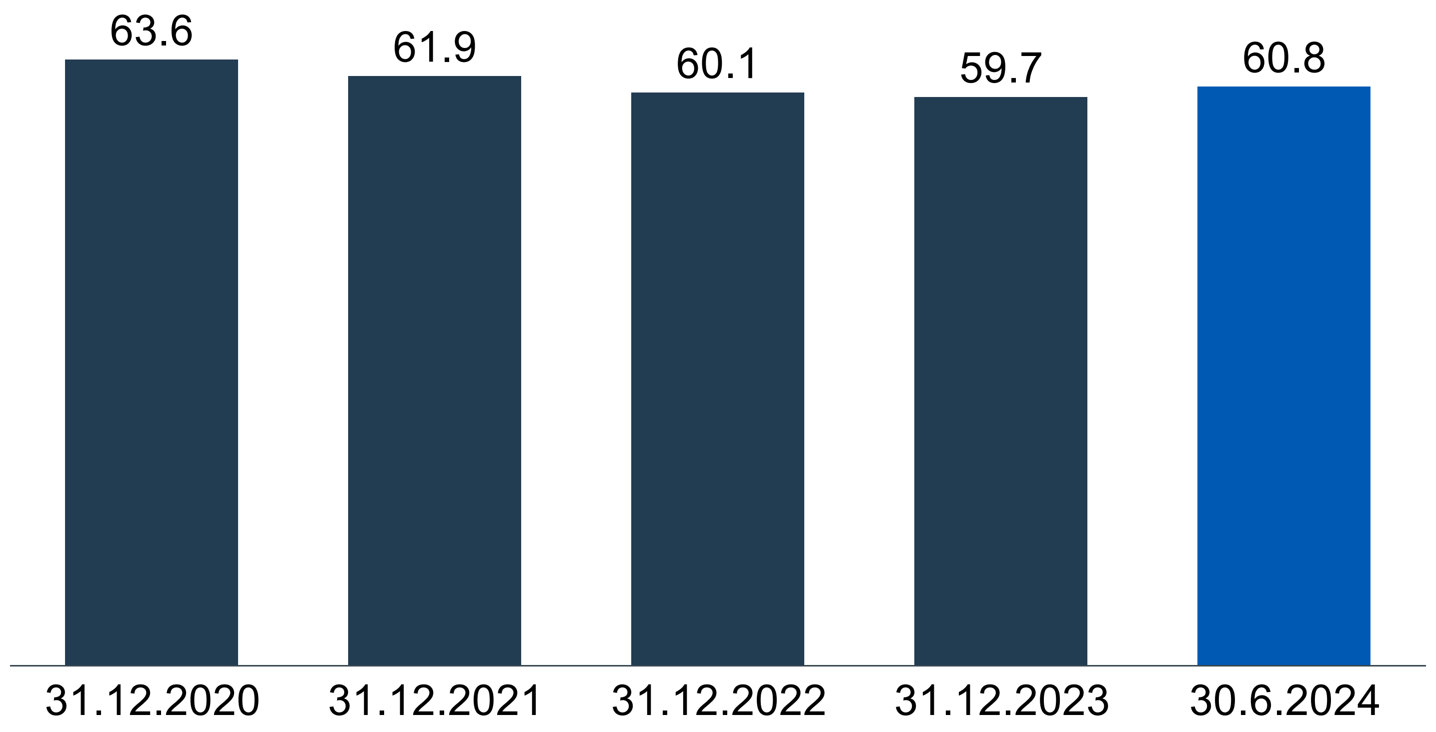
CPI imbalance (ISK bn)



Core operating income / REA (%)



Risk exposure amount / Total assets (%)



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