Q1 Results 2024

Investor presentation 30 April 2024

Arion Bank

Key results in Q1

Net results in the quarter below target

- 9.1% ROE vs. target of 13%
- High effective tax rate and subdued fee income key negative drivers
- Key medium-term targets upgraded at CMD in March demonstrating solid operational outlook
- Dividend payment in March of ISK 9 per share or a total of ISK 13.1bn
- Capital optimization on track with approved ISK 5bn buyback program
- Robust capital, liquidity and funding position and Moody's A3 credit rating on stable outlook

Key results	Medium-term targets		Q1 2024
Return on equity	Exceed 13%	•	9.1%
Core operating income[5] / REA	Exceed 7.2%	•	6.6%
Insurance revenue growth (YoY)[1]	In excess of market growth	✓	13.5%
Combined ratio Vördur	Below 95%	•	103.9%
Cost-to-core income[5] ratio	Below 45%	•	48.4%
CET1 ratio above regulatory capital requirements	150-250 bps management buffer[2]	•	350 bps[3]
Dividend payout ratio[4]	50%	✓	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 2023 was 11.2%
2 Approx.16.8 - 17.8% based on optimal capital requirements and optimal AT1 and T2 ratios
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)

Key milestones in Q1 2024

Successful Capital Markets Day

- Operating in an attractive market
- Occupying a unique position
- And track record of delivering

Credit rating review finalized

- Going forward, the Bank will operate with one international credit rating agency, Moody's
- The current long-term rating is A3 with stable outlook

Moody's

Commitment to capital optimization

- Dividend of ISK 9 per share distributed in March of total around ISK 13bn
- An ISK 2.5bn share buy-back program launched (50% of ISK 5bn buy-backs authorized by the FSA)

Stefnir launched SRE III

- Largest Icelandic real estate fund to date

STEFNIR

Stefnir launches the largest Icelandic real estate fund to date

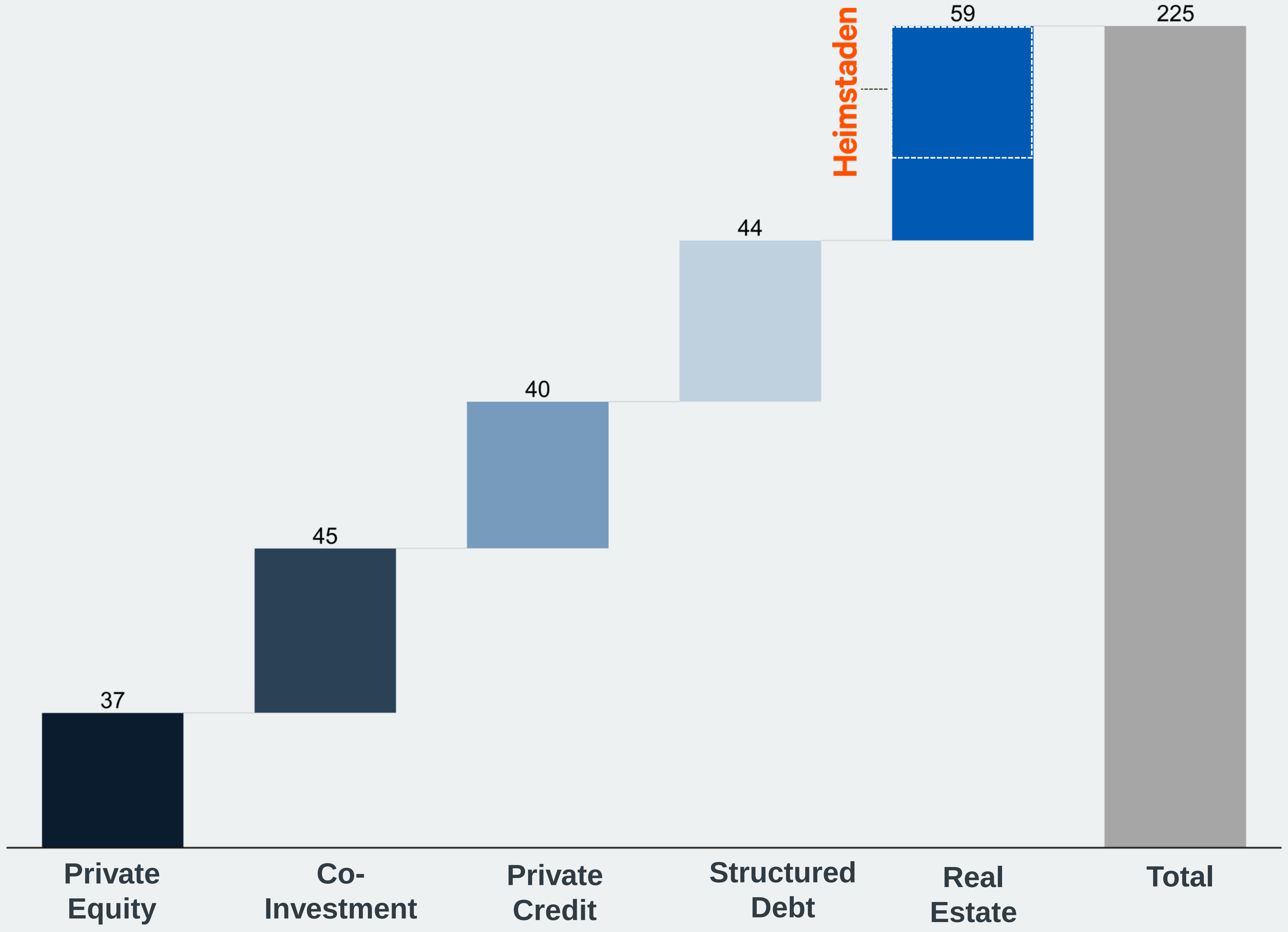
The acquisition of Heimstaden's residential portfolio in Iceland by SRE III

- Heimstaden Iceland is the largest residential real estate company in the country and owns 1,600 rental housing units
- The majority of the pension funds in Iceland participated in the fund and total equity capital committed to the transaction amounts to ISK 40 billion
- The fund aims to drive development of new housing and to double the number of units owned by Heimstaden by 2030
- The fund opens up a new and important asset class for the Icelandic pension funds as well as Stefnir's asset management portfolio

STEFNIR Heimstaden

Stefnir is a key player in the Icelandic private equity and credit arena

Over ISK 225bn raised for private investments since 2009



*Amounts are in ISK bn, adjusted to March 2024 prices

Arion Refund

Reward system for customers of the Arion Group with diverse financial services was launched in April

Our bancassurance journey continues with a new refund program focused on families. Arion Refund is created to increase loyalty and satisfaction and highlight the value of being customer of the Group

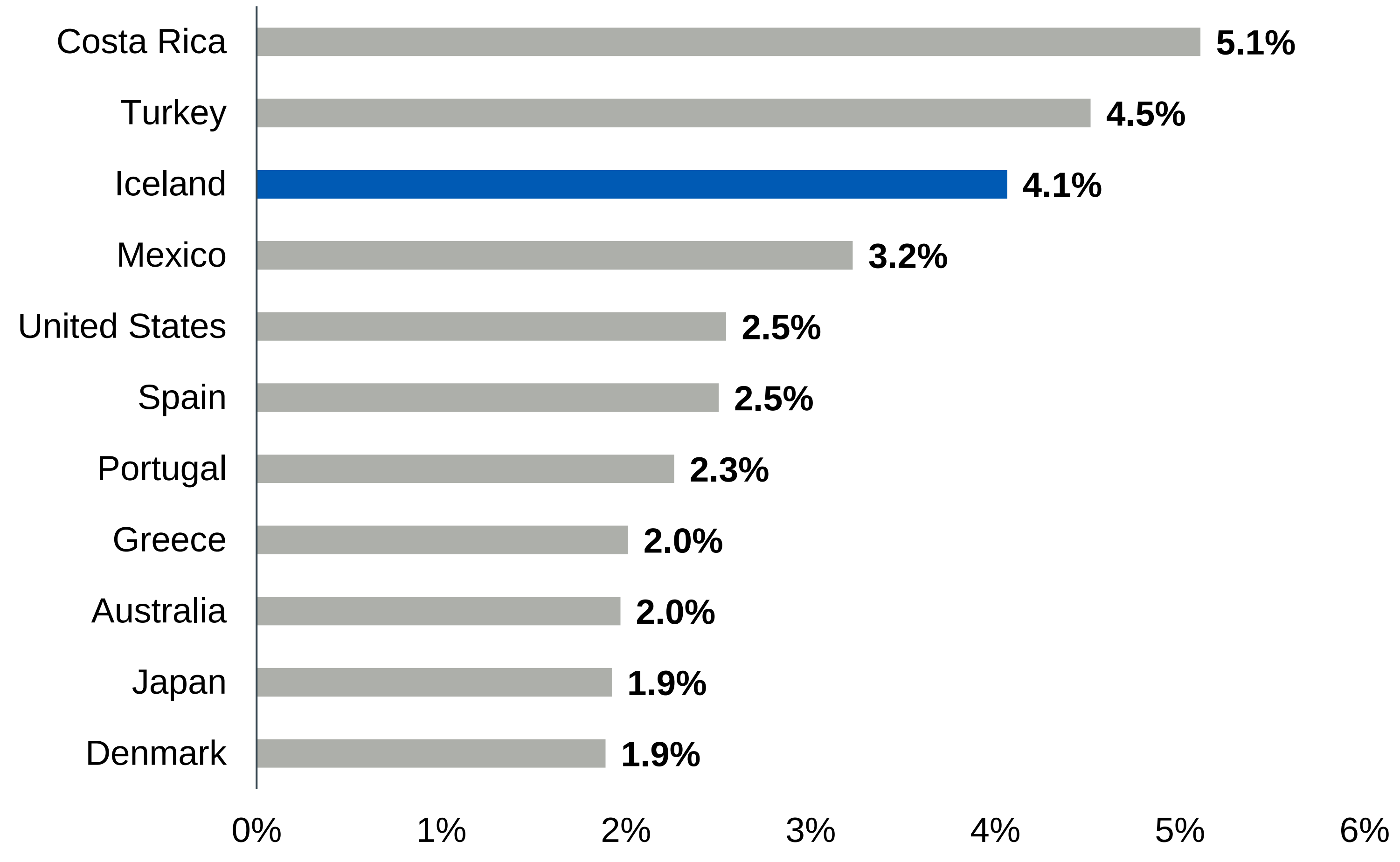
Key aspiration

- Increase perceived and actual value of Arion services
- Increase customer satisfaction and loyalty
- Increased cross-selling within the Group

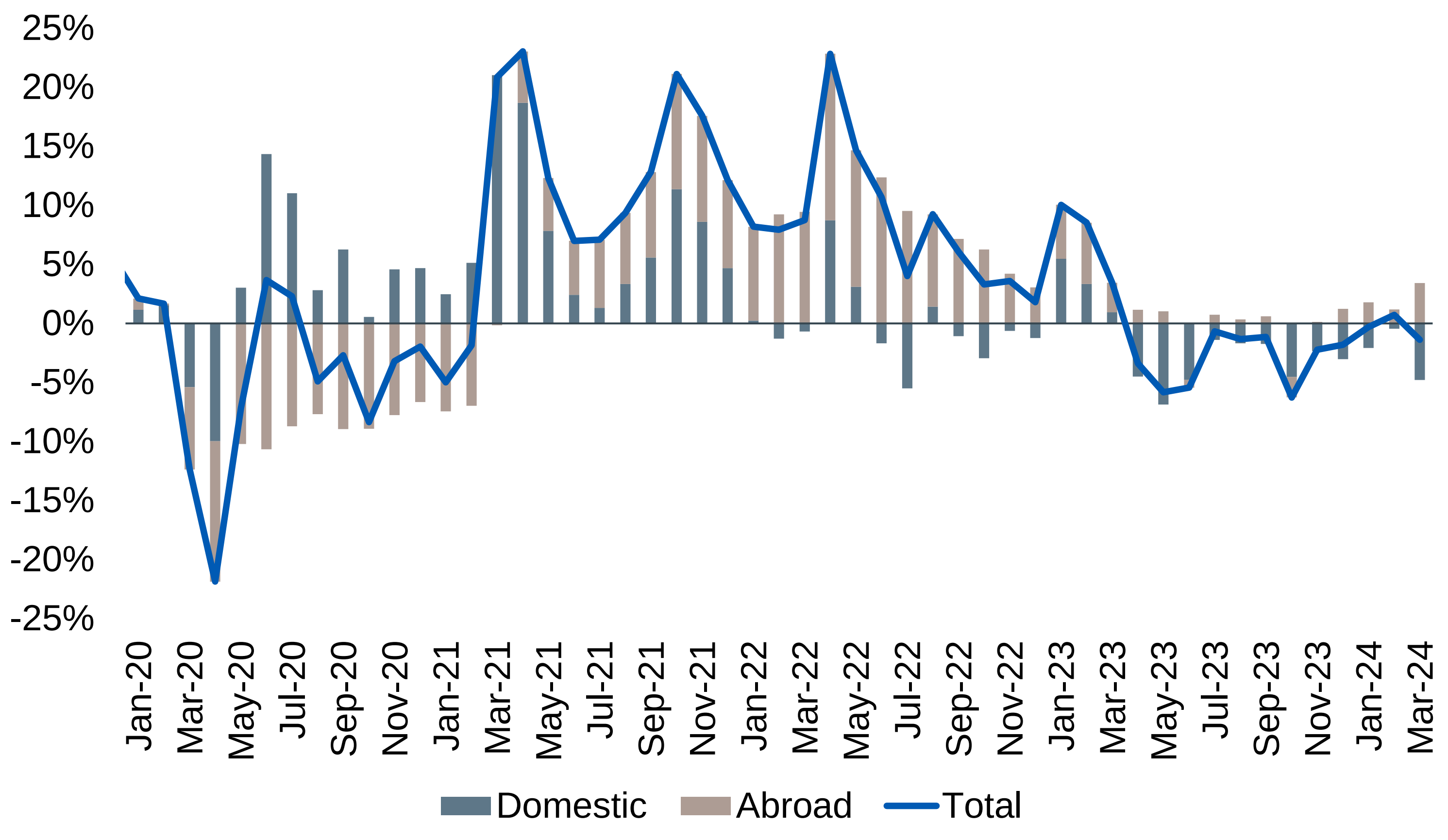
Tight monetary stance curbs economic growth

GDP increased by 4.1% in 2023, a result that was in line with Arion Research's expectations. Growth was mainly driven by exports, as domestic demand lost pace quickly in the second half of the year following hefty rate hikes. This development is expected to continue in the first half of 2024, at least.

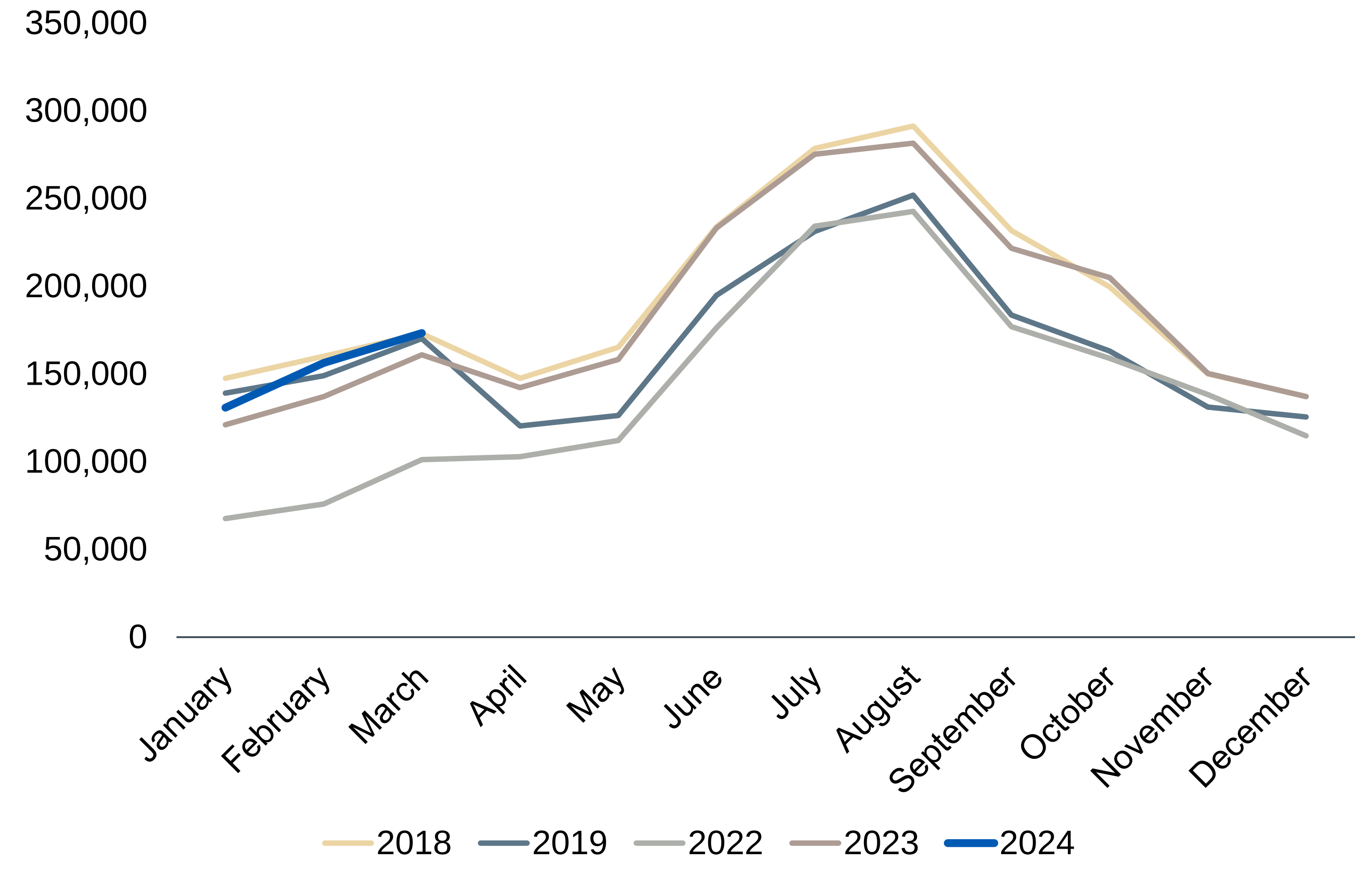
GDP growth 2023
- YoY %-change, top ten OECD countries



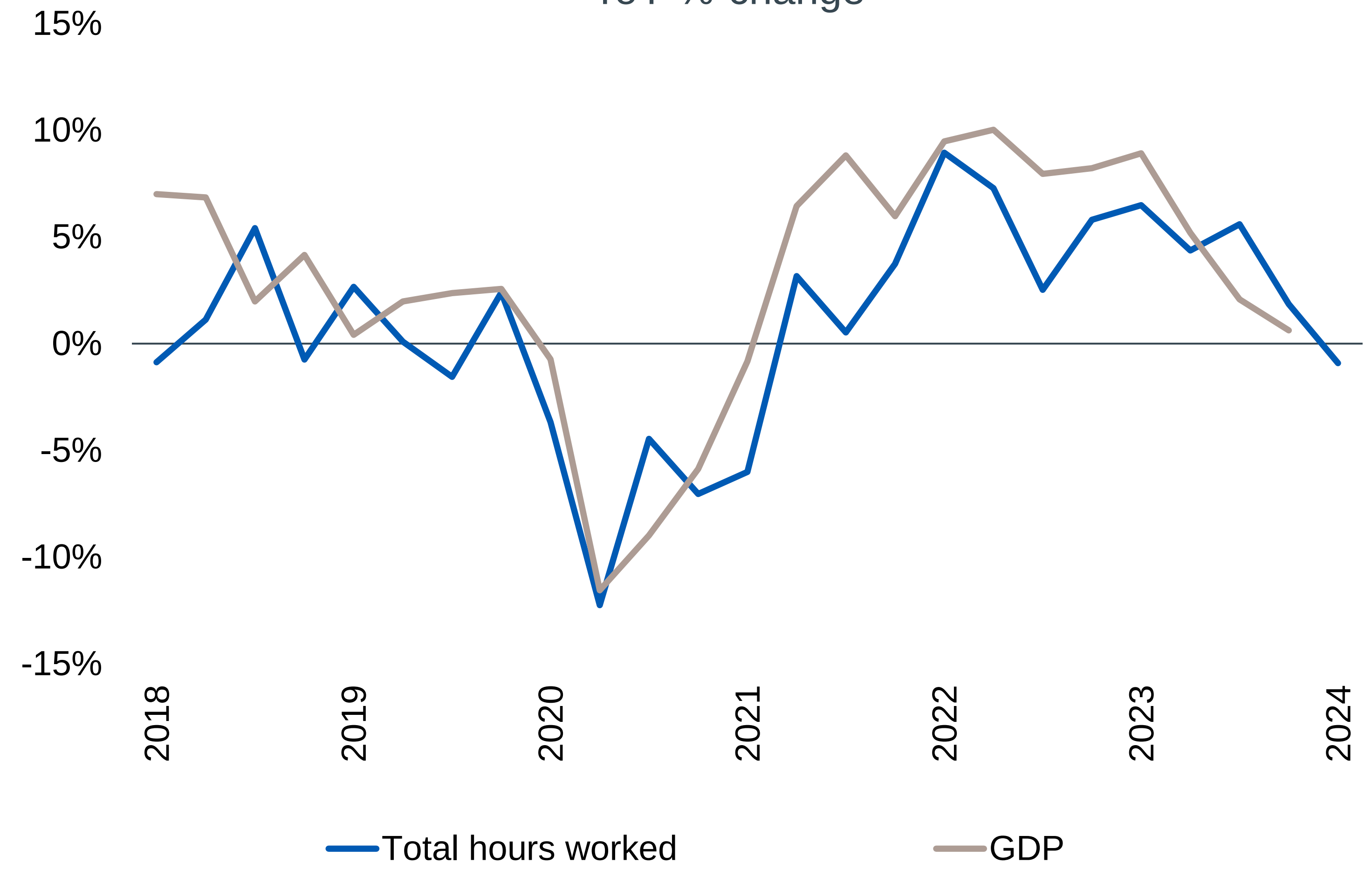
Payment card turnover
- YoY growth, growth contributions of underlying components



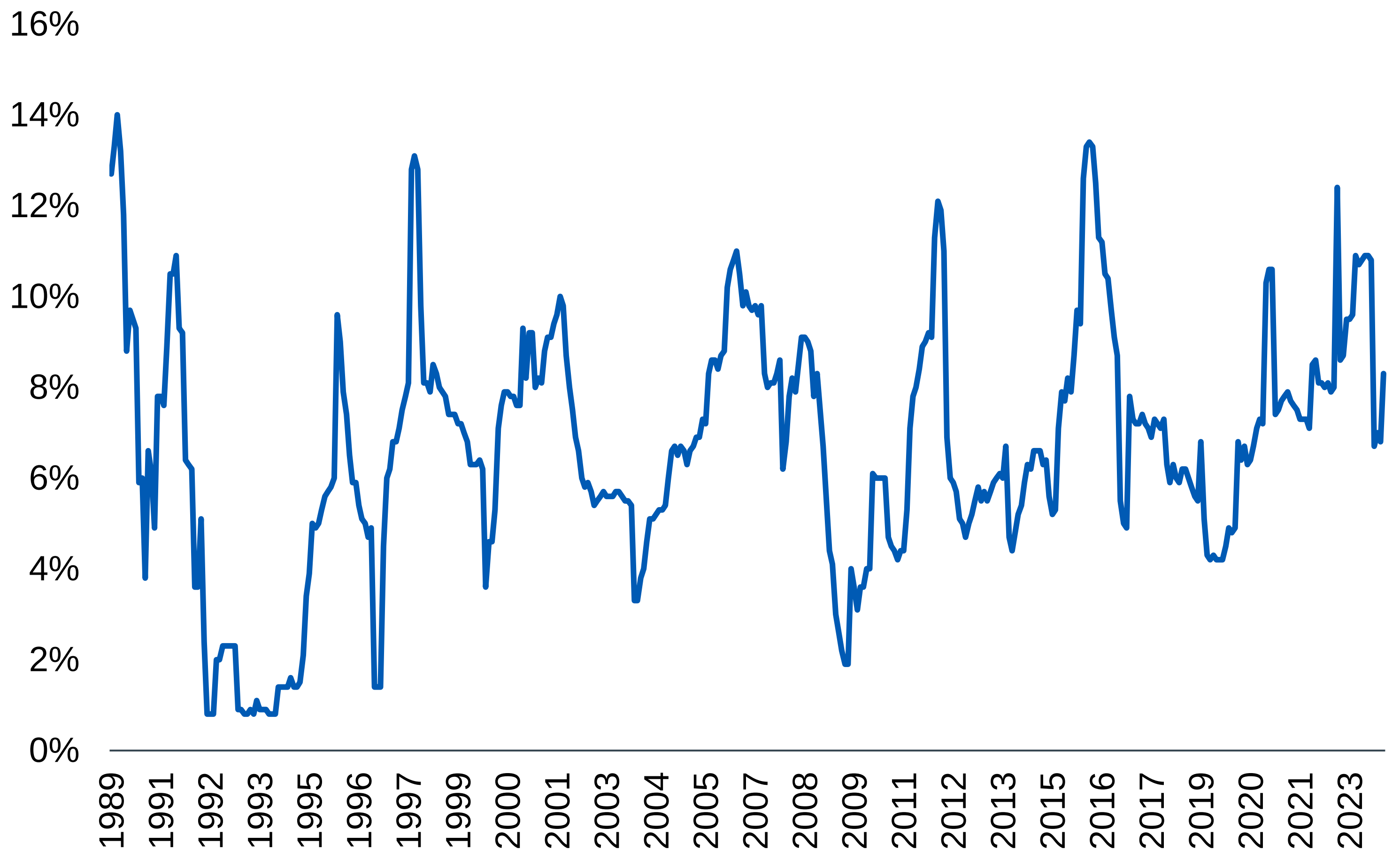
Tourist arrivals via Keflavík International Airport



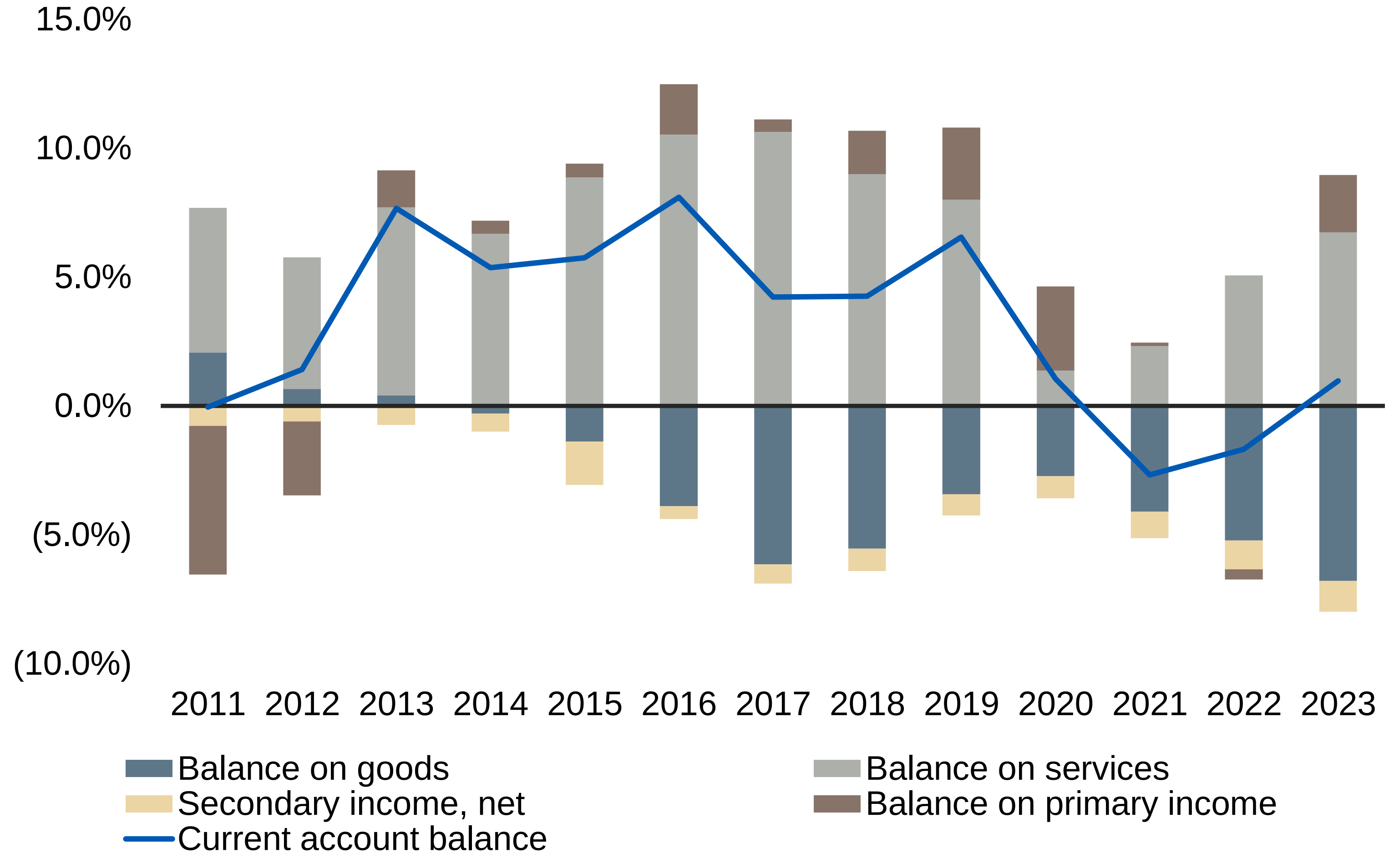
Employment and GDP
- YoY %-change



Nominal wage index
- YoY %-change



Current account balance
- % of GDP

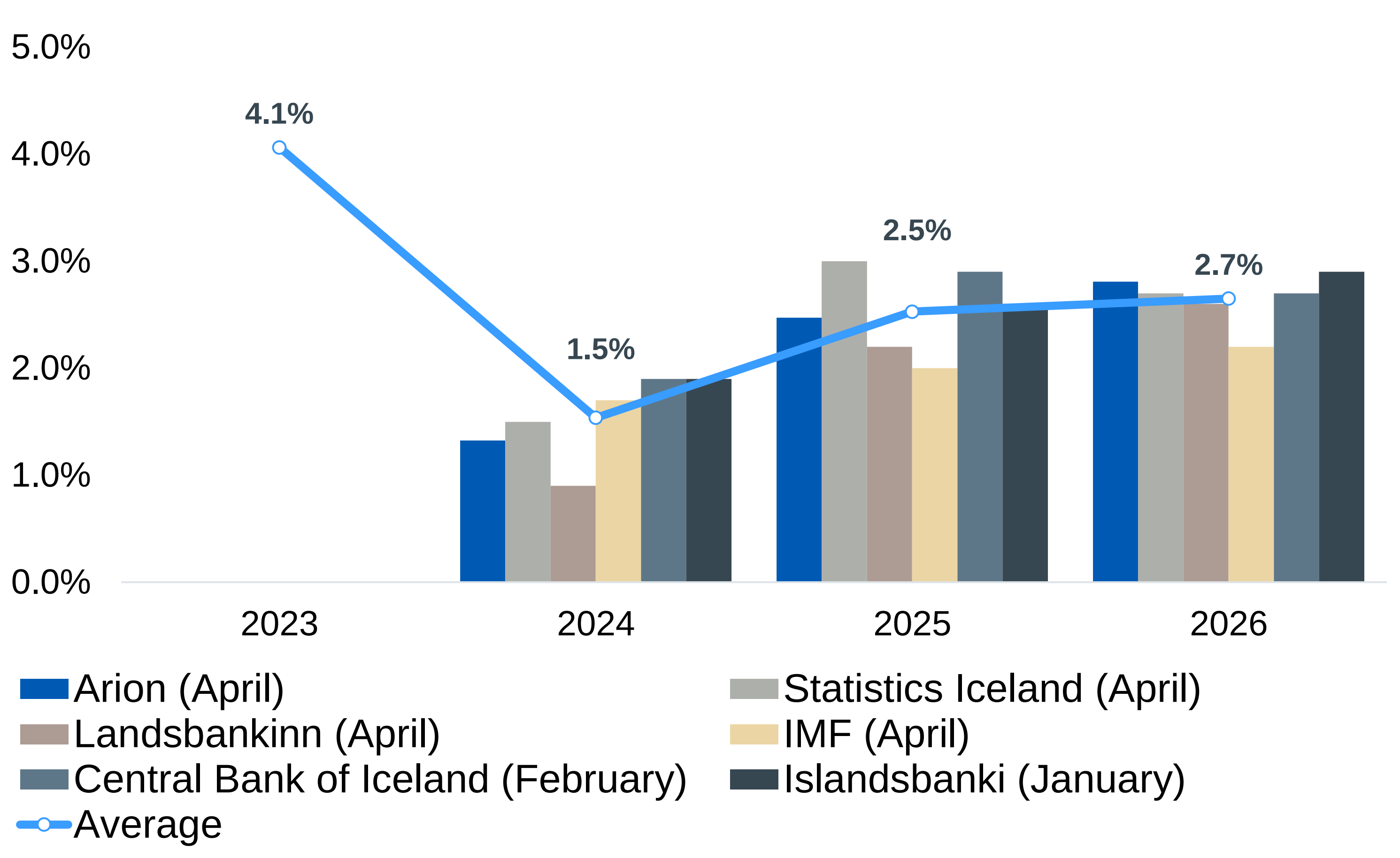


Sources: OECD, Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, Arion Research.

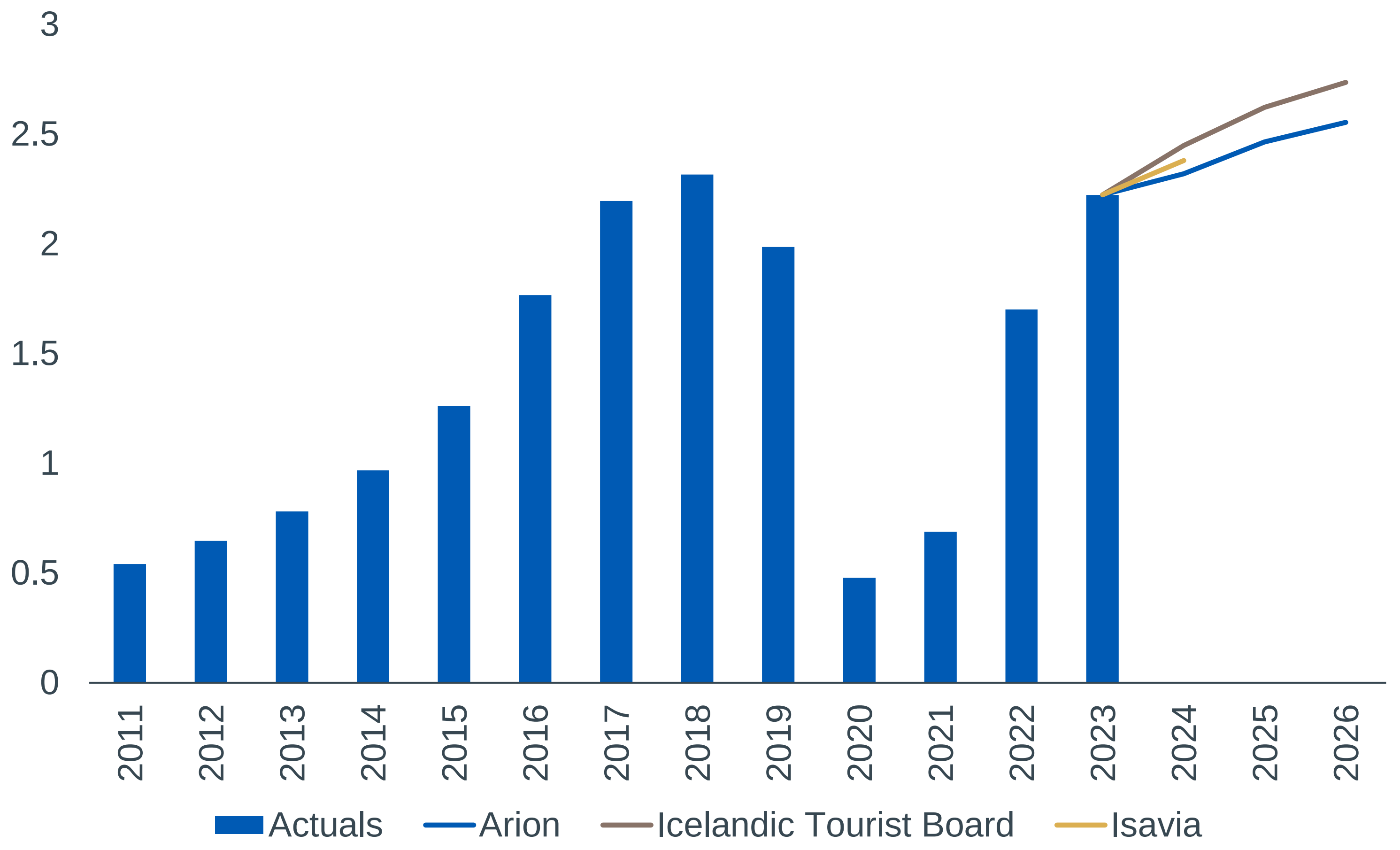
Iceland's economy on track for more balanced growth

- After tremendous economic growth over the past two years, the Icelandic economy is expected to see tempered growth as real rates have risen markedly, curbing domestic economic activity.
- Economic growth will be buoyed by a robust expansion in foreign trade, as exports continue to outpace imports. The tourism industry plays a key role, although a worrying trend of less consumption per tourist and shorter stay has emerged in the past months.
- Icelandic payment card turnover decreased by 0.4% between years in Q1, adjusted for inflation and exchange rate fluctuations. Car purchases have also dropped significantly, as has the number of trips abroad, which means that household consumption most likely declined in Q1.
- According to Arion Research's forecast, private consumption is unlikely to keep up with population growth this year and is projected to increase only modestly over the following two years.

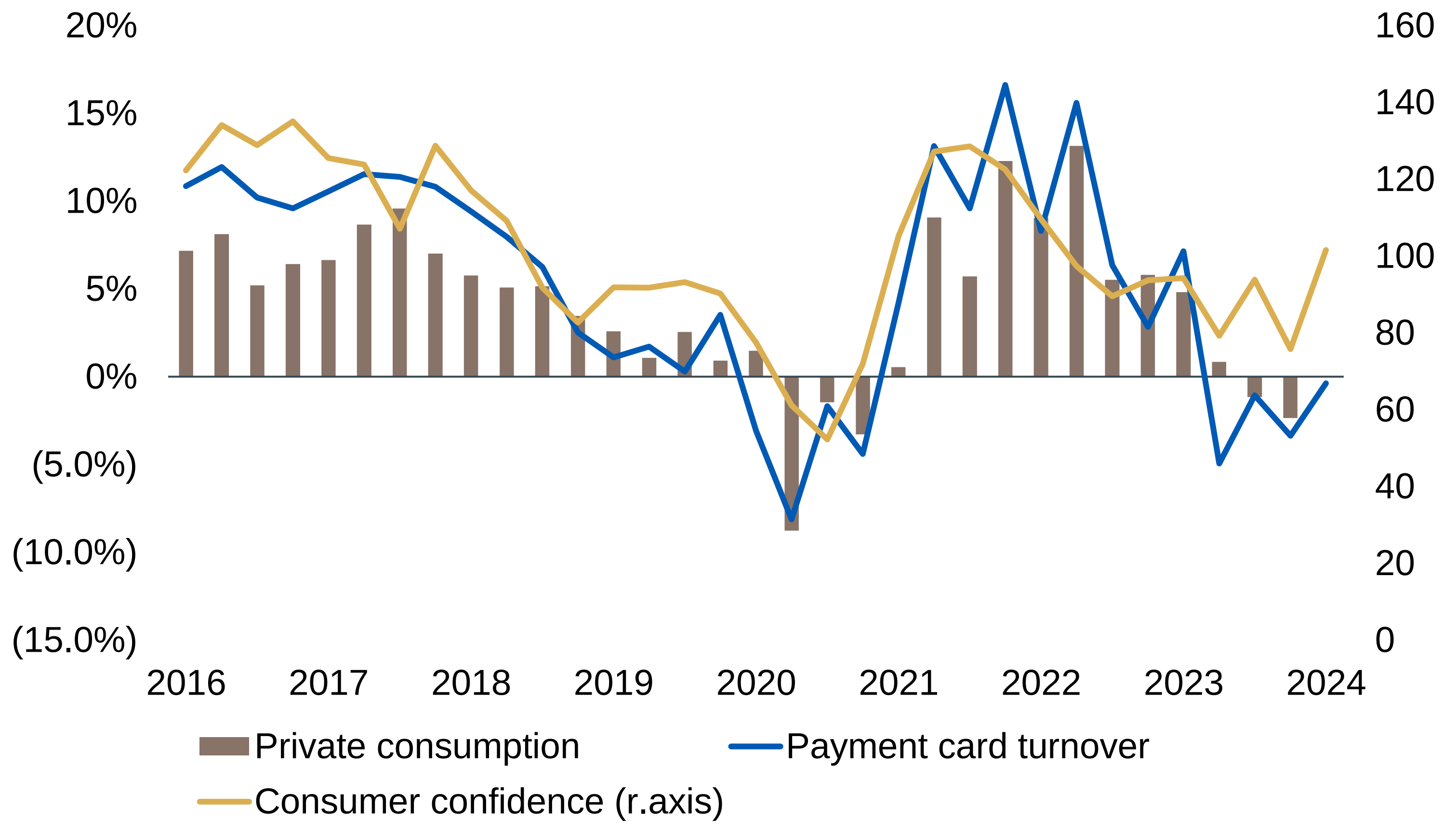
Economic growth forecast
- %



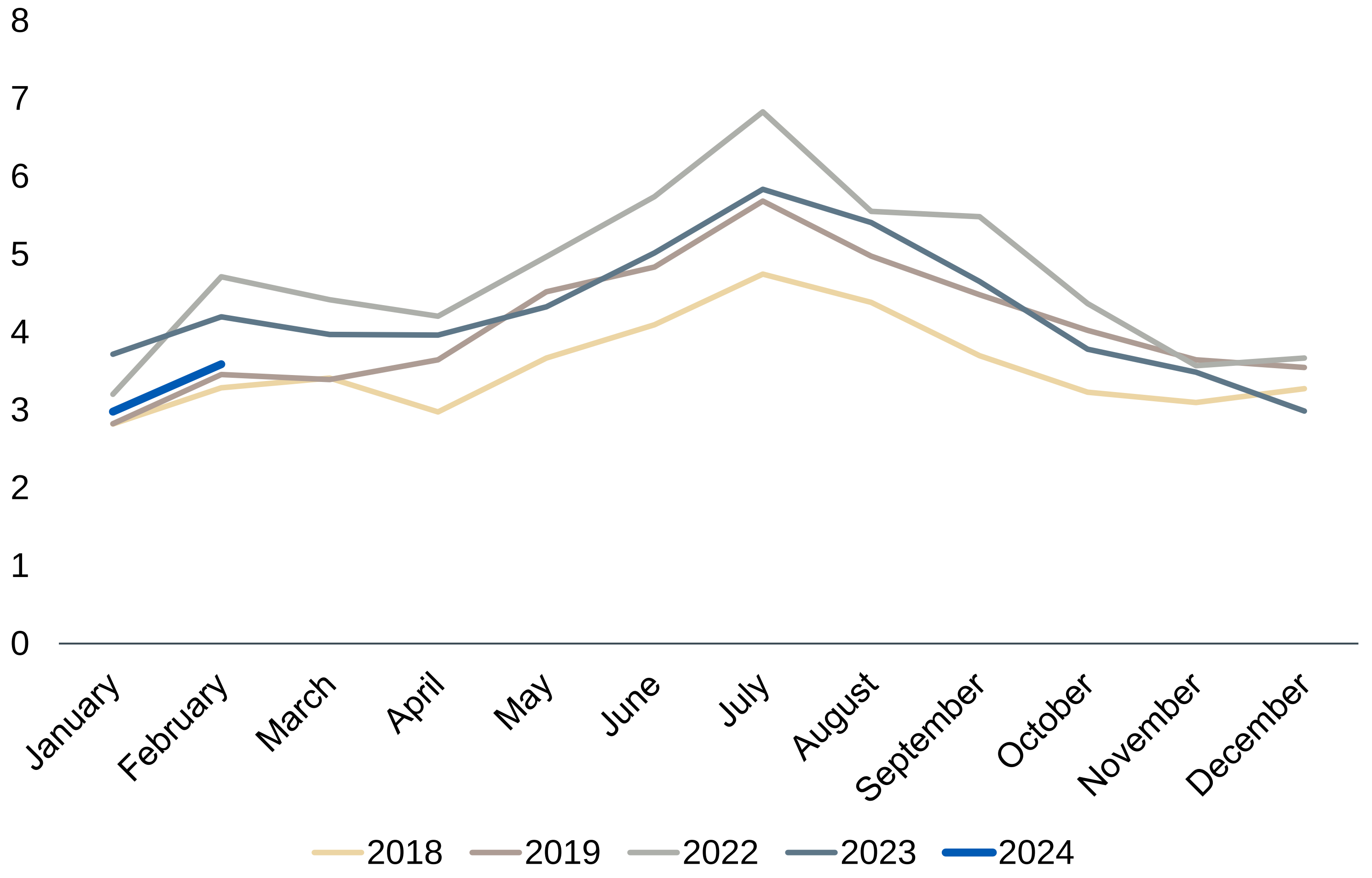
Tourist arrivals via Keflavik International Airport
- millions annually



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



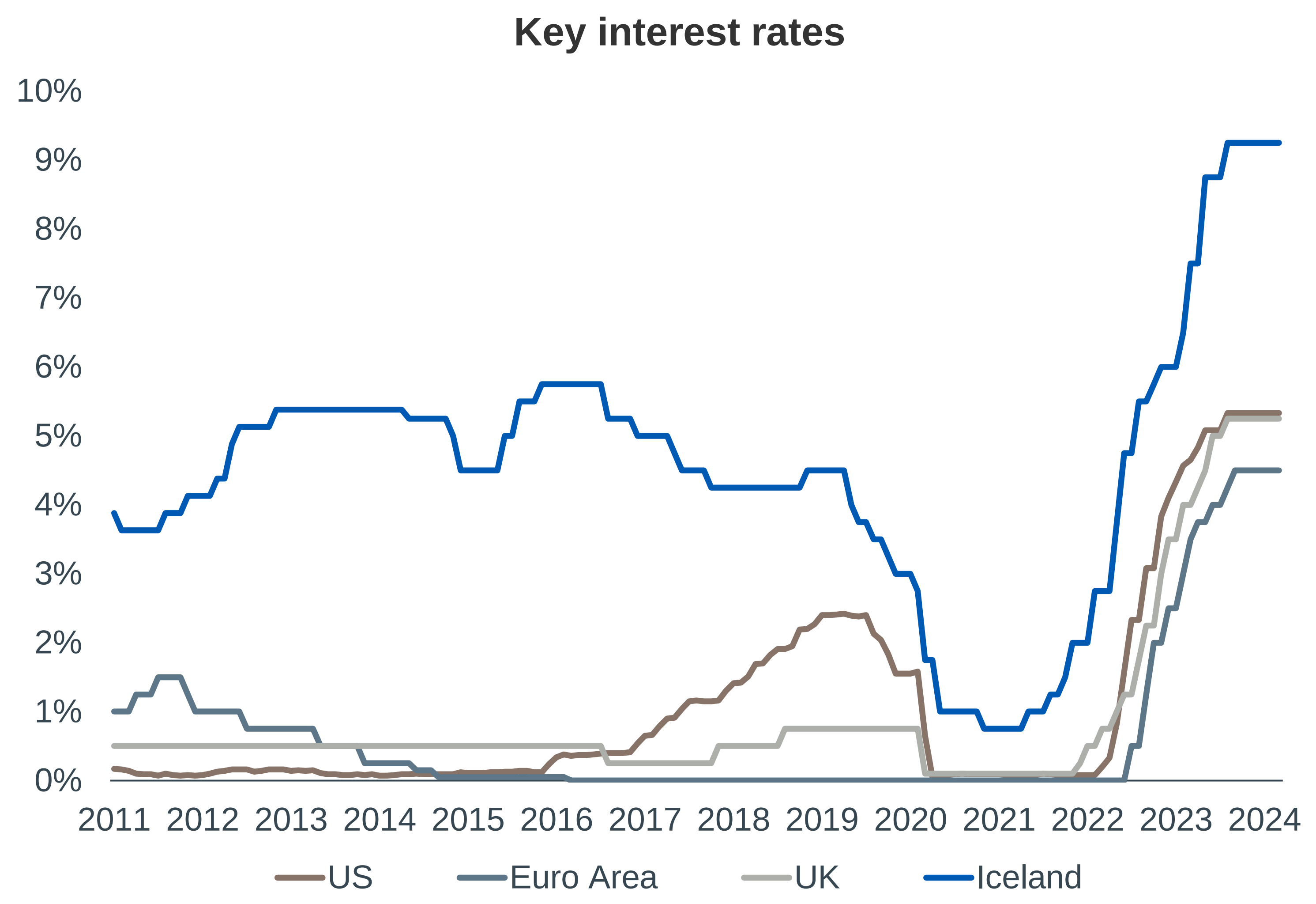
Overnight stays per tourist

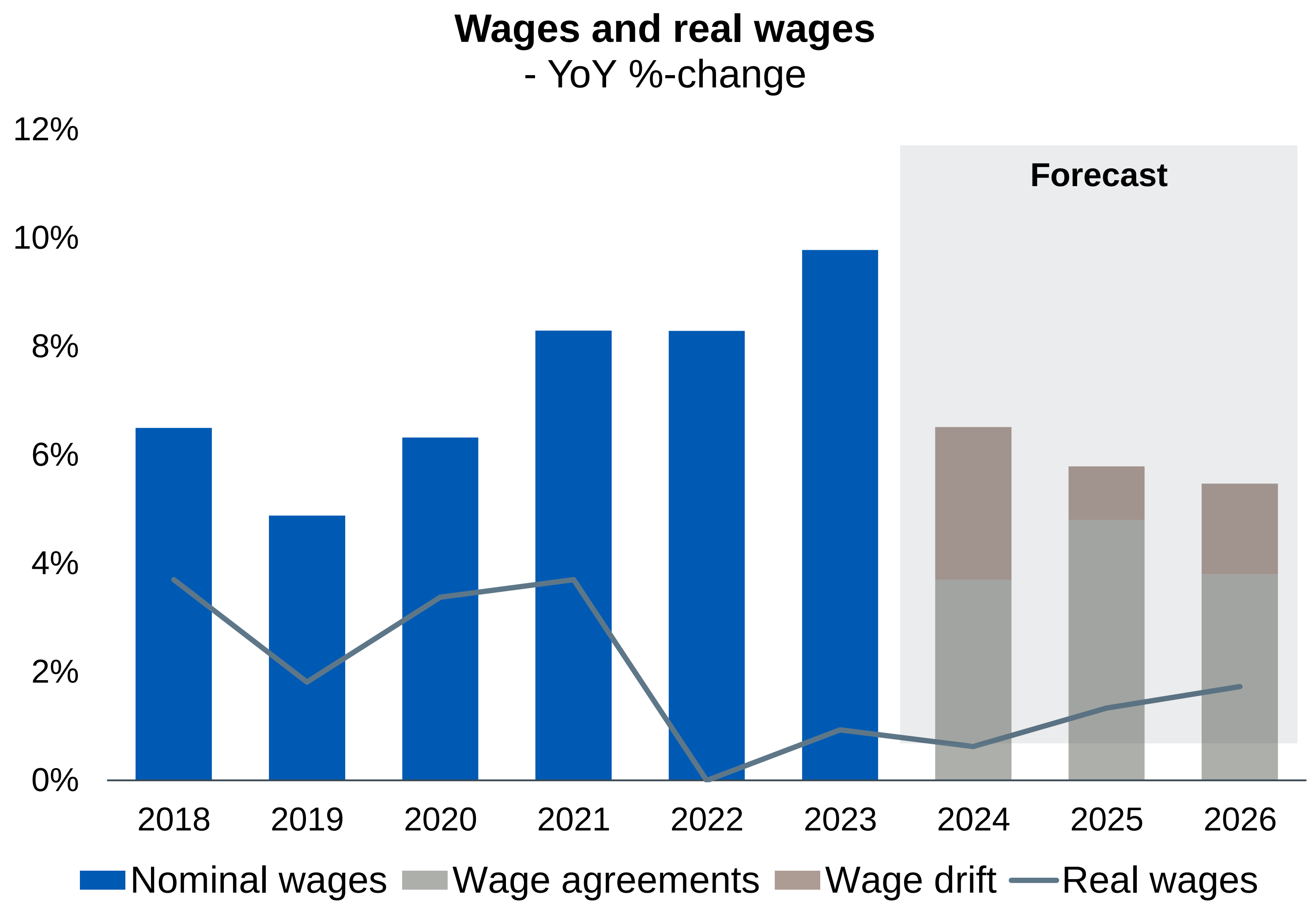


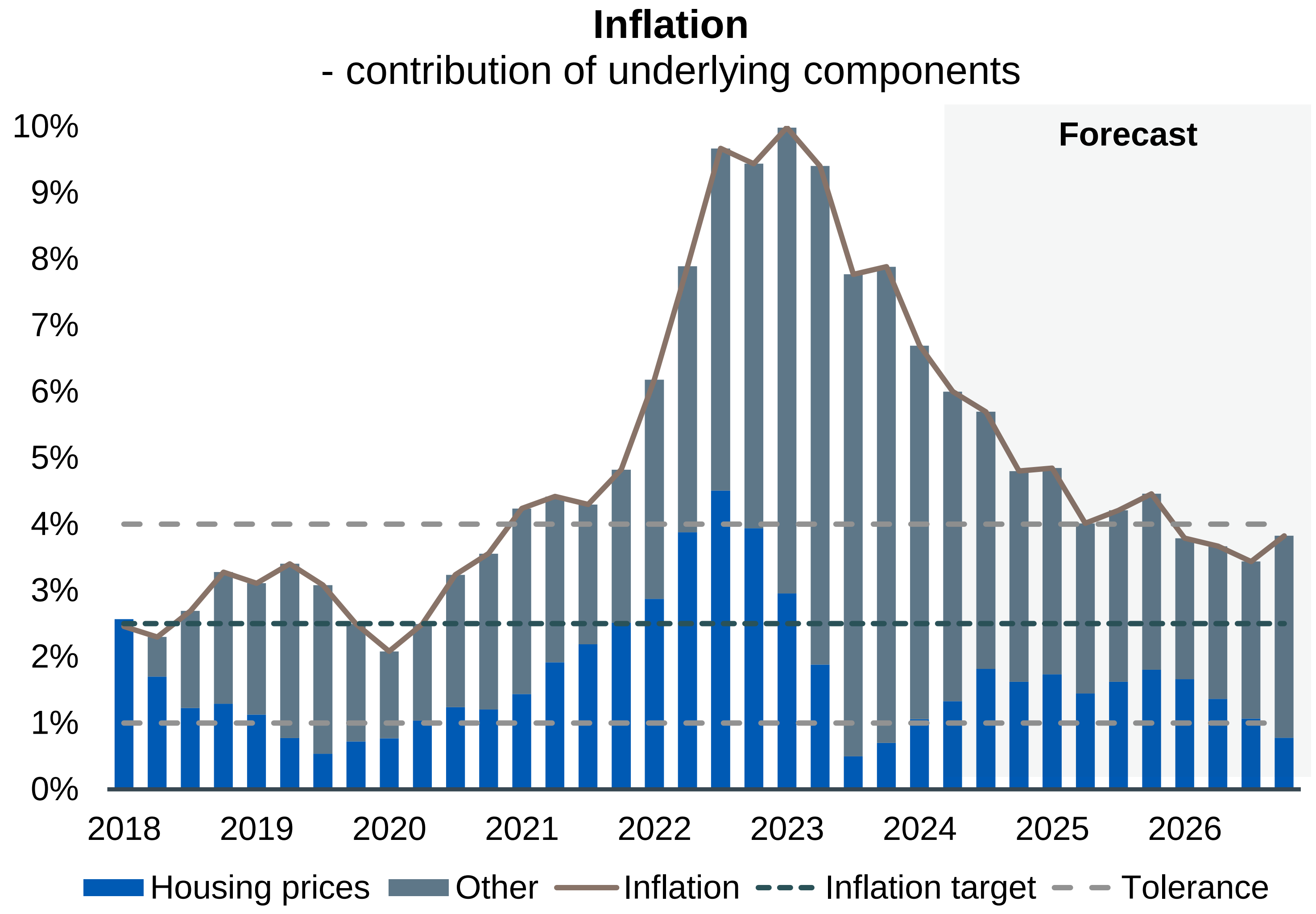
Sources: Central Bank of Iceland, Statistics Iceland, Icelandic Tourist Board, ISAVIA, Gallup, IMF, Landsbanki, Islandsbanki, Arion Research.

Demand for labour still remarkably strong

- The Icelandic economy has once again demonstrated its flexibility and resilience, as households have managed to withstand high interest rates without significant increases in defaults on lending or in unemployment, and investment has stayed afloat.
- The labour market remains robust, with an increasing number of firms looking to hire in the coming months and fewer contemplating staff reductions.
- Despite the contractionary monetary policy, unemployment rates have remained stable. While beneficial for the economy, this poses a risk of wage growth exceeding the benchmarks set by collective wage agreements, potentially impeding efforts to control inflation.
- While inflation has been subsiding quickly so far this year, it will likely prove challenging to steer it to the target. However, even though inflation is still way above target, interest rates are expected to start falling later this year.





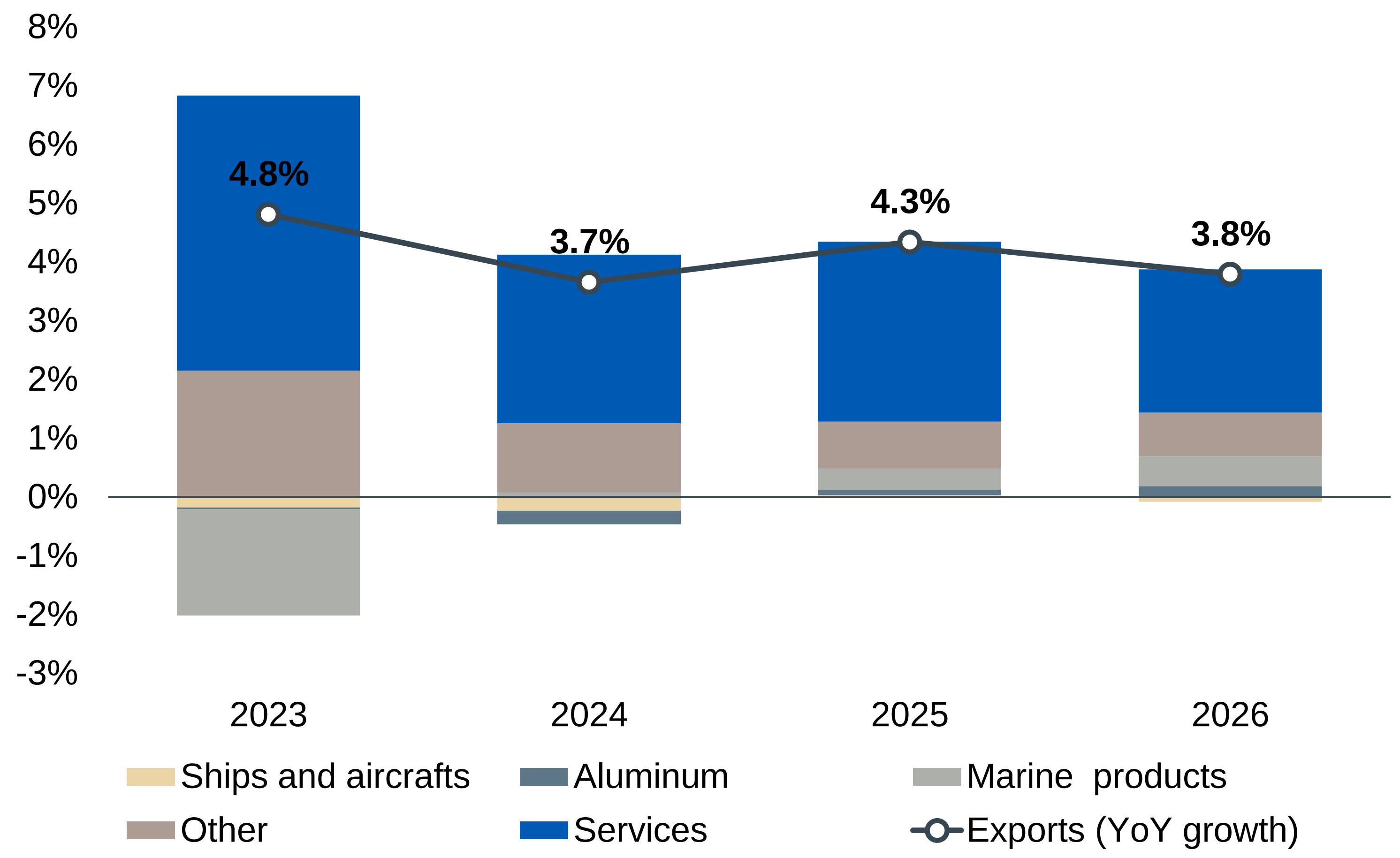


Sources: Central Bank of Iceland, Federal Reserve, ECB, BoE, Statistics Iceland, Arion Research

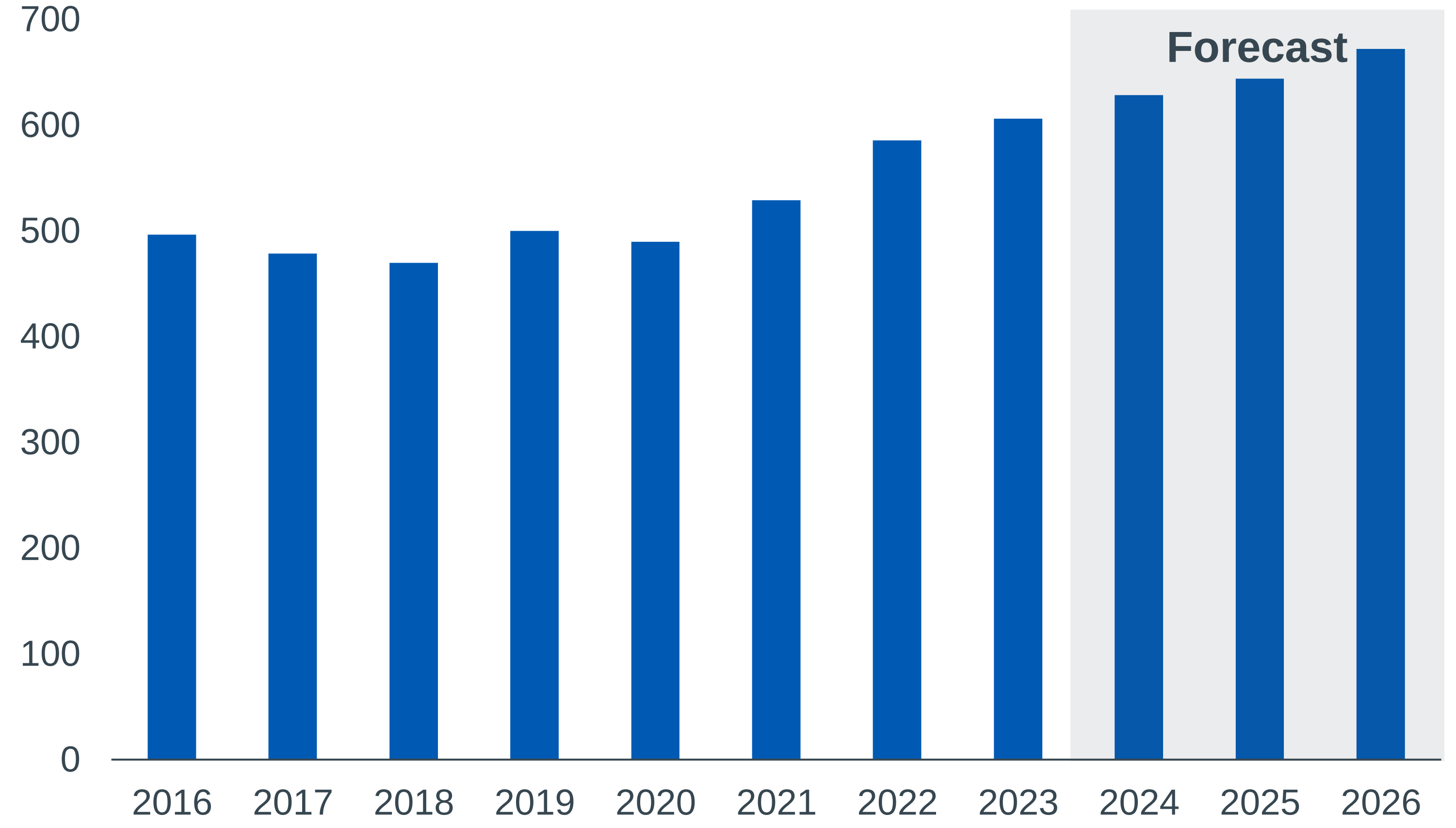
While tourism is thriving, innovative sectors are driving export growth

- While tourism has fully rebounded and the traditional exports of marine products and aluminium offer limited potential for growth, other sectors have seen a significant rise in exports, now being hailed as the fourth pillar of Icelandic export.
- In this context, the IP industry has been mentioned most often, with aquaculture following close behind. These two industries are expected to grow rapidly in the coming years, contributing a significant amount to total export growth.
- Most forecasts tend to err on the side of caution when it comes to these sectors, and Arion Research's forecast is no exception.

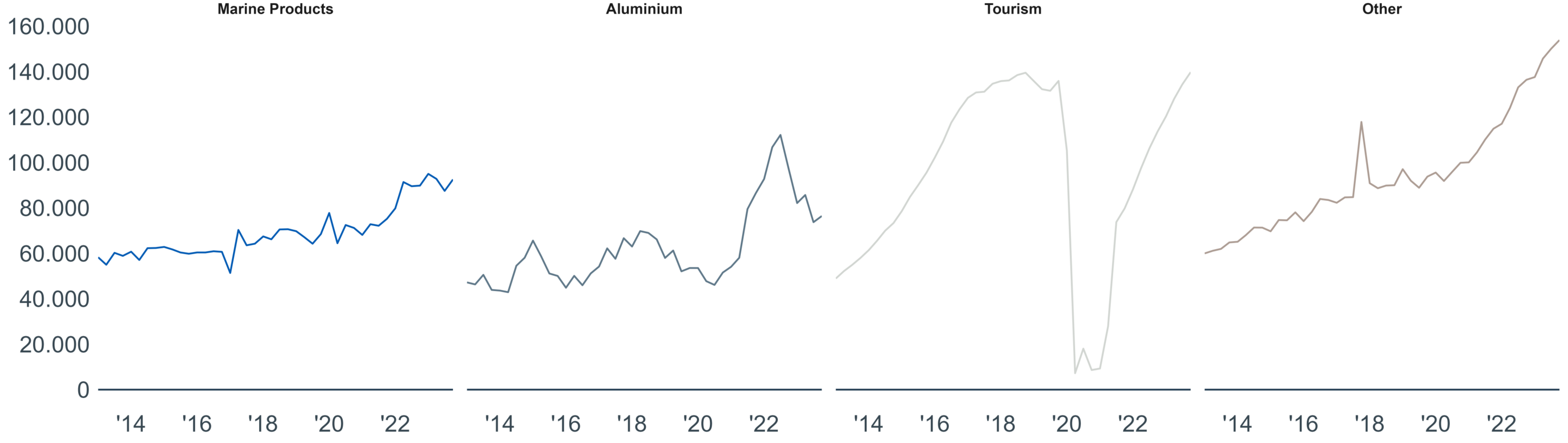
Exports
- growth contribution of components



Other exports
- excl. tourism, seafood, aluminium, ships and aircrafts, bn. ISK at 2023 prices



Four pillars of export
-Bn ISK of export per quarter, adjusted for exchange rate and seasonality

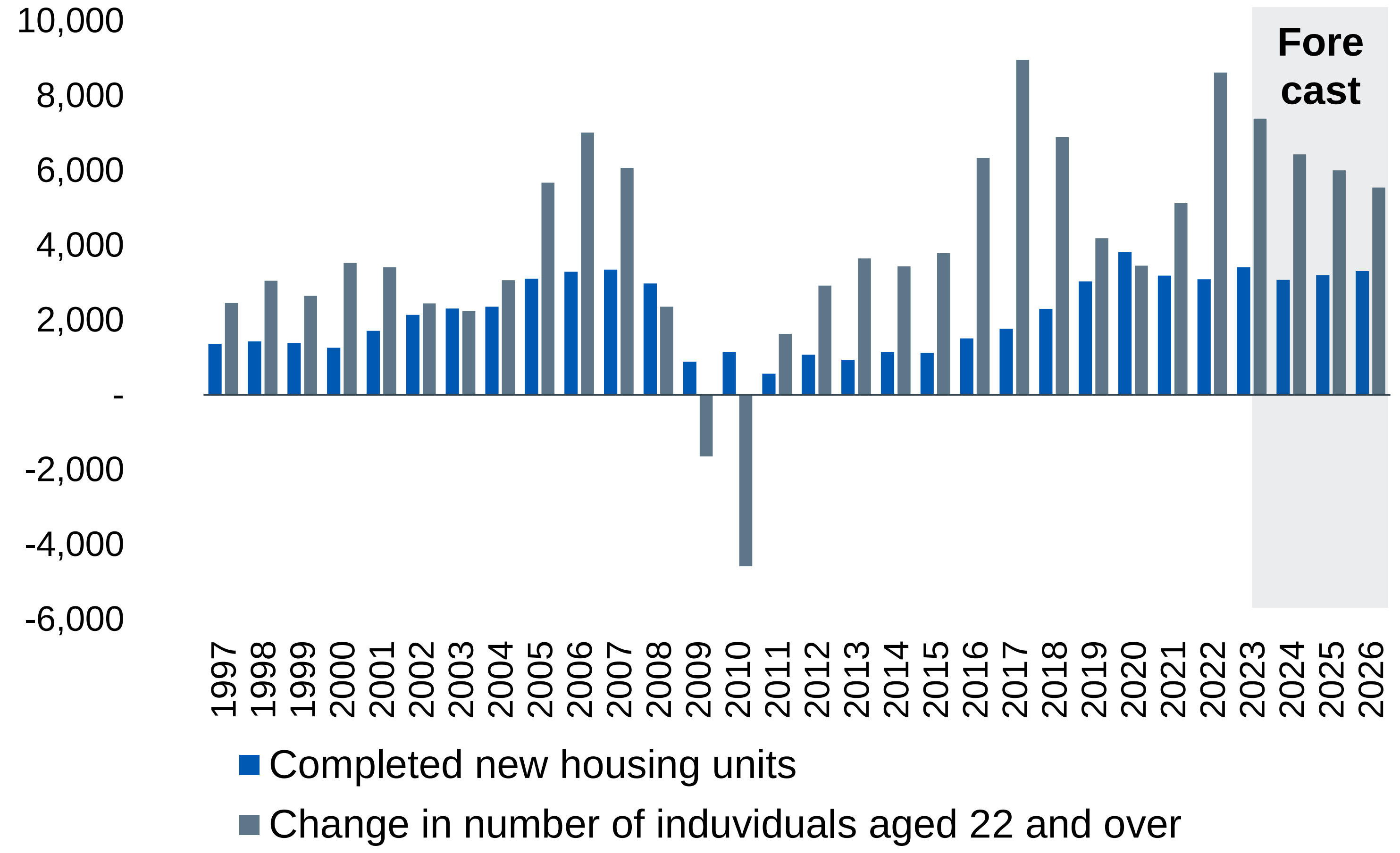


Sources: Statistics Iceland, Arion Research

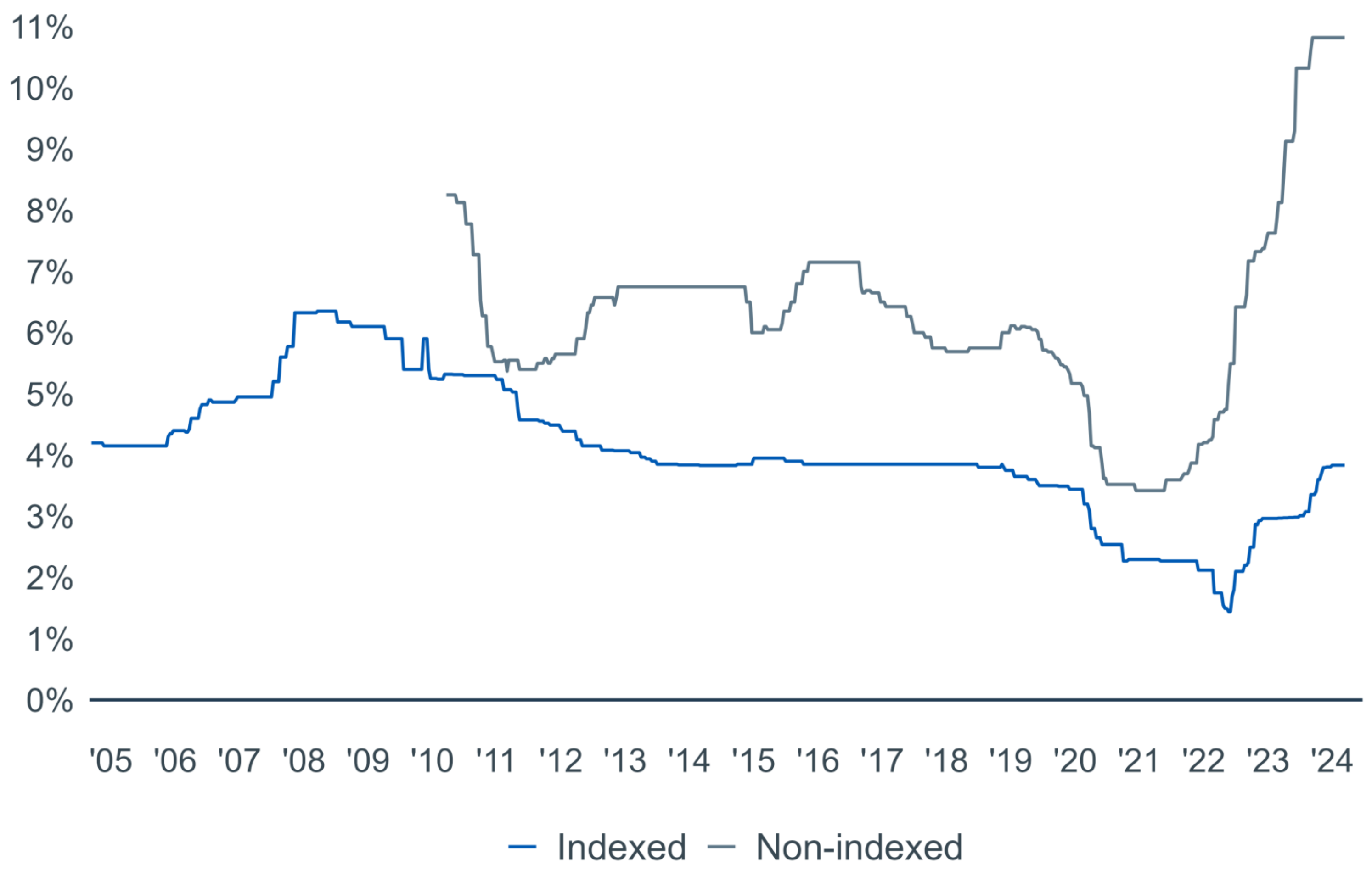
Housing dynamics: immigration influx vs mortgage constraints

- A significant influx of immigrants and demographic shifts have escalated the demand for housing. Although there has been an increase in supply, it falls short of meeting the burgeoning demand, exerting upward pressure on housing prices.
- Conversely, surging mortgage rates for both inflation-indexed and non-indexed loans are curtailing demand. Additionally, access to mortgages has been constricted by recent regulations on the maximum debt service ratio. Anticipated decreases in non-indexed mortgage rates are unlikely to expand access to capital, given that indexed rates remain high, ensuring that those eligible for non-indexed mortgages are also eligible for indexed ones.
- Given these countervailing forces, a modest rise in housing prices is expected in the coming years. However, alterations in capital accessibility could trigger a more substantial increase in prices.

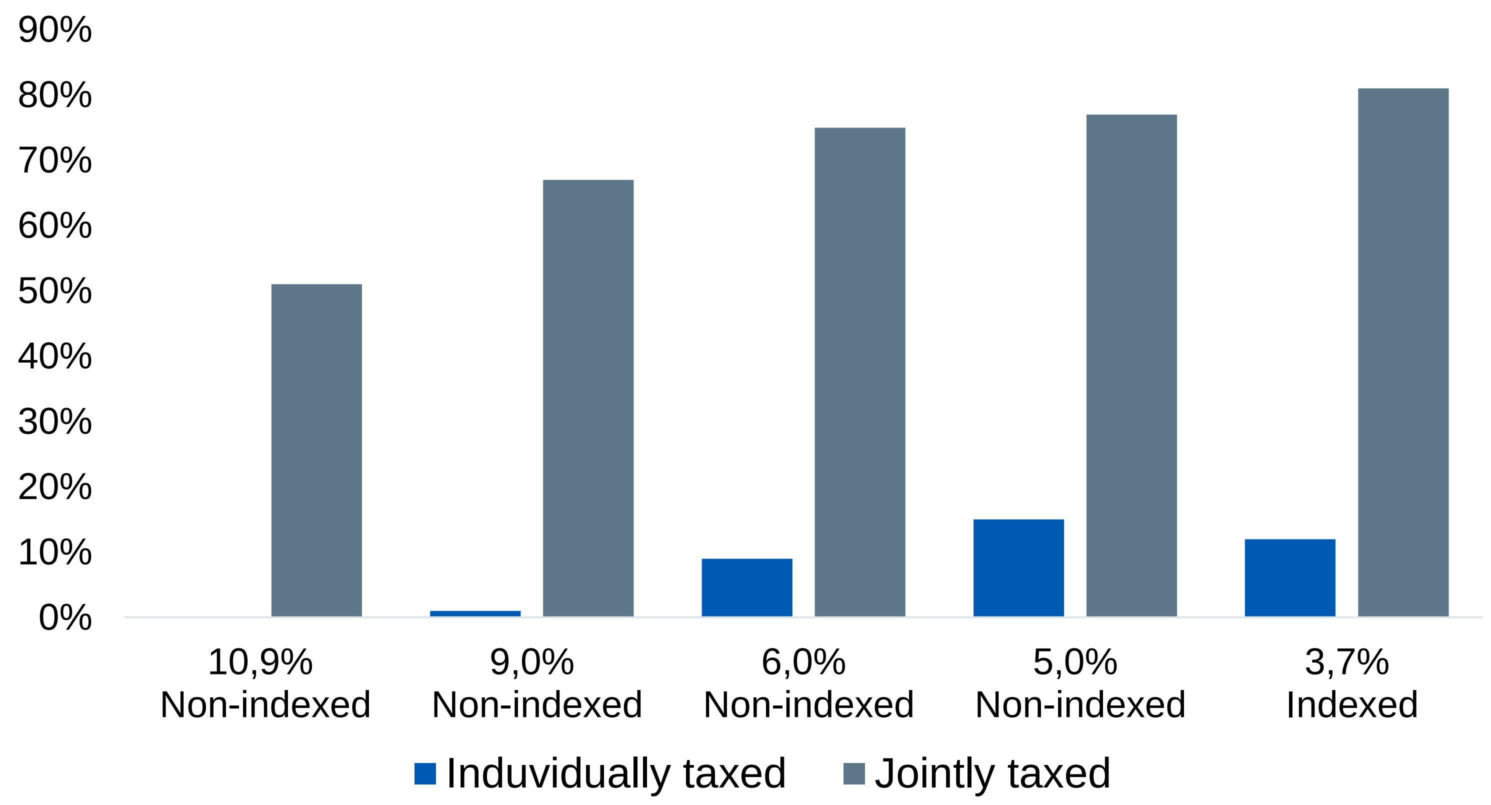
Number of new housing units and change in the number of individuals aged 22 and over



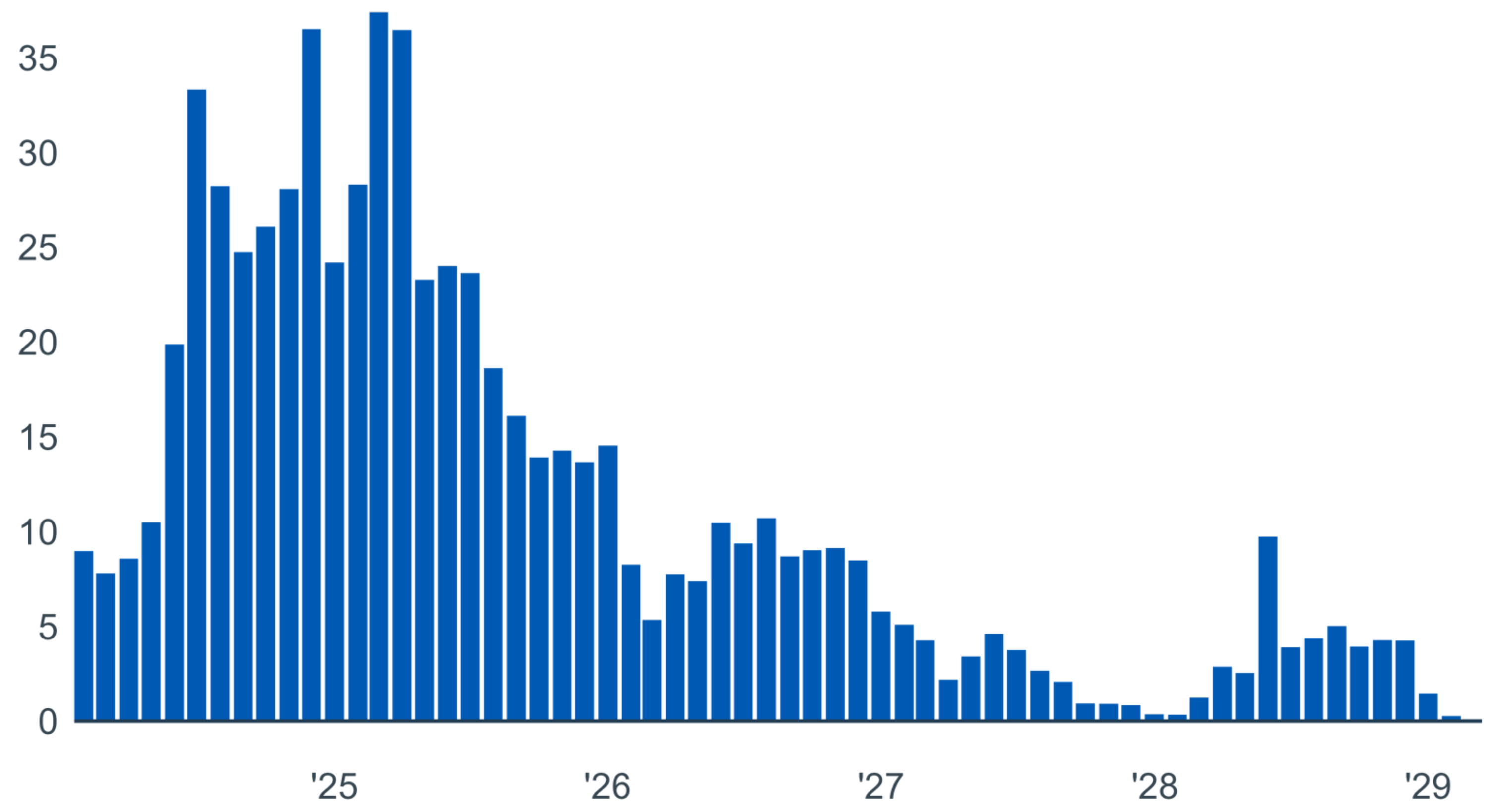
Mortgage rates



Share of population elligable for 40 million ISK mortgage
-According to maximum debt service ratio and credit assessment rules

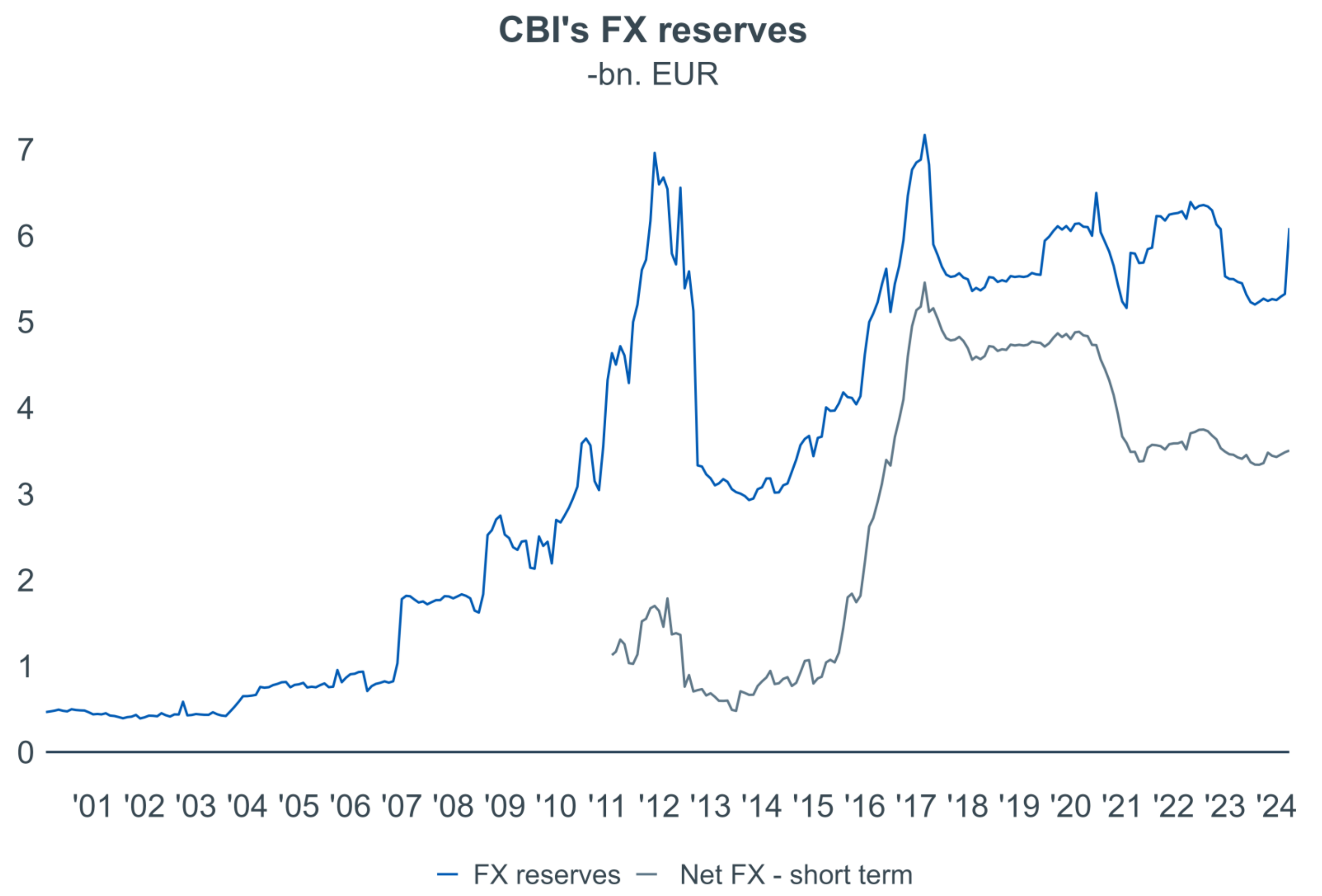


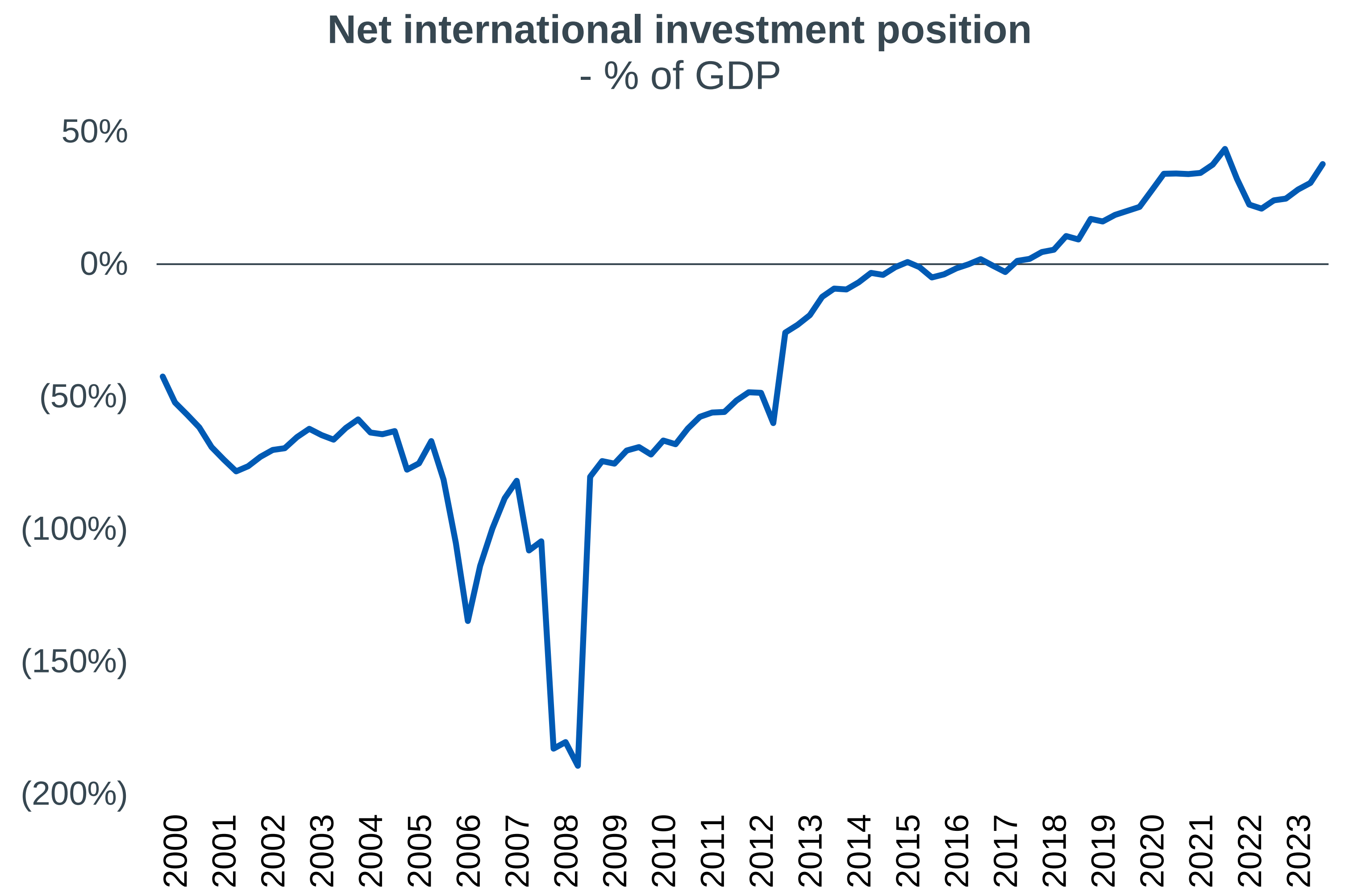
Outstanding non-indexed loans by date of interest rate review
-Billions ISK

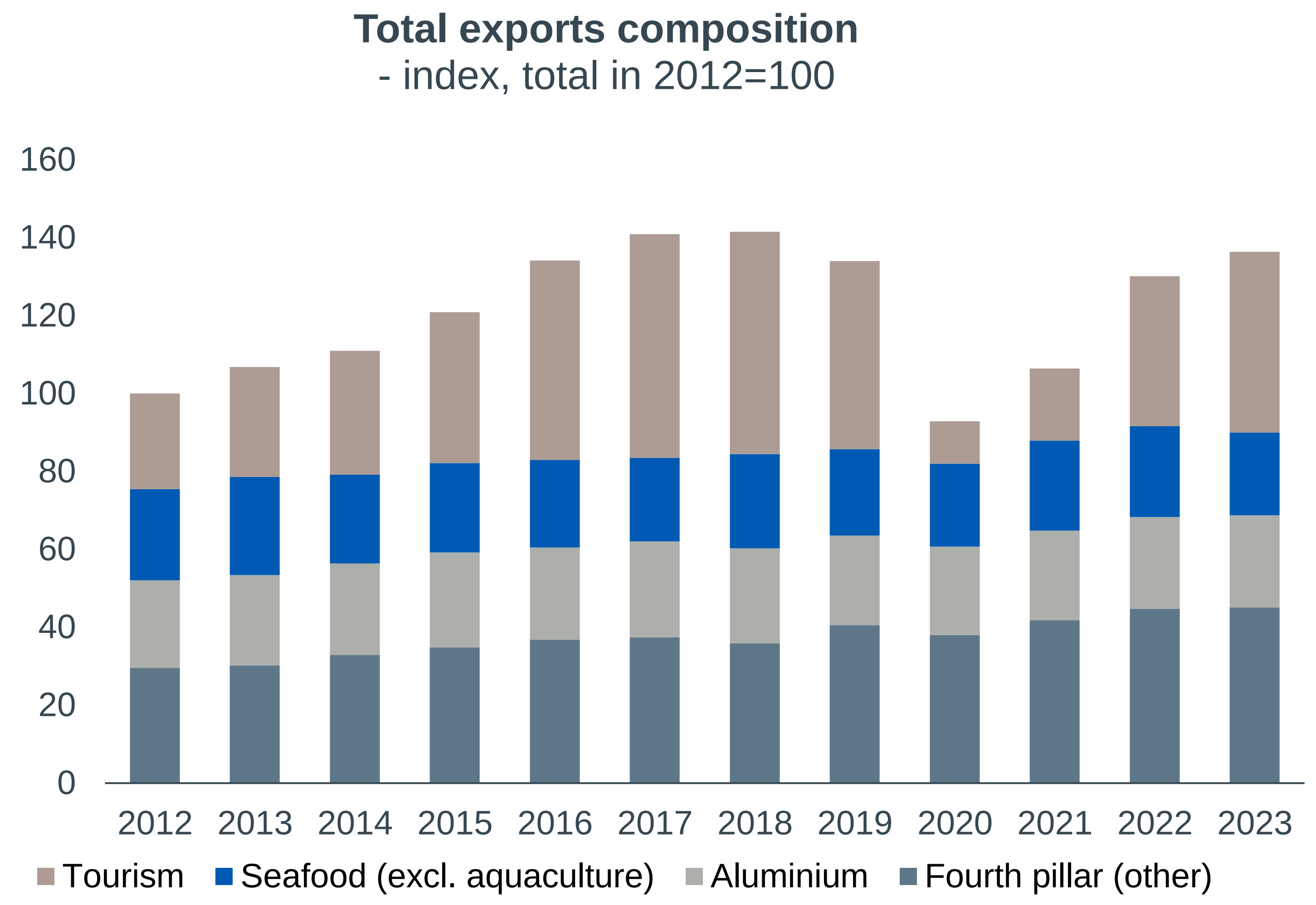


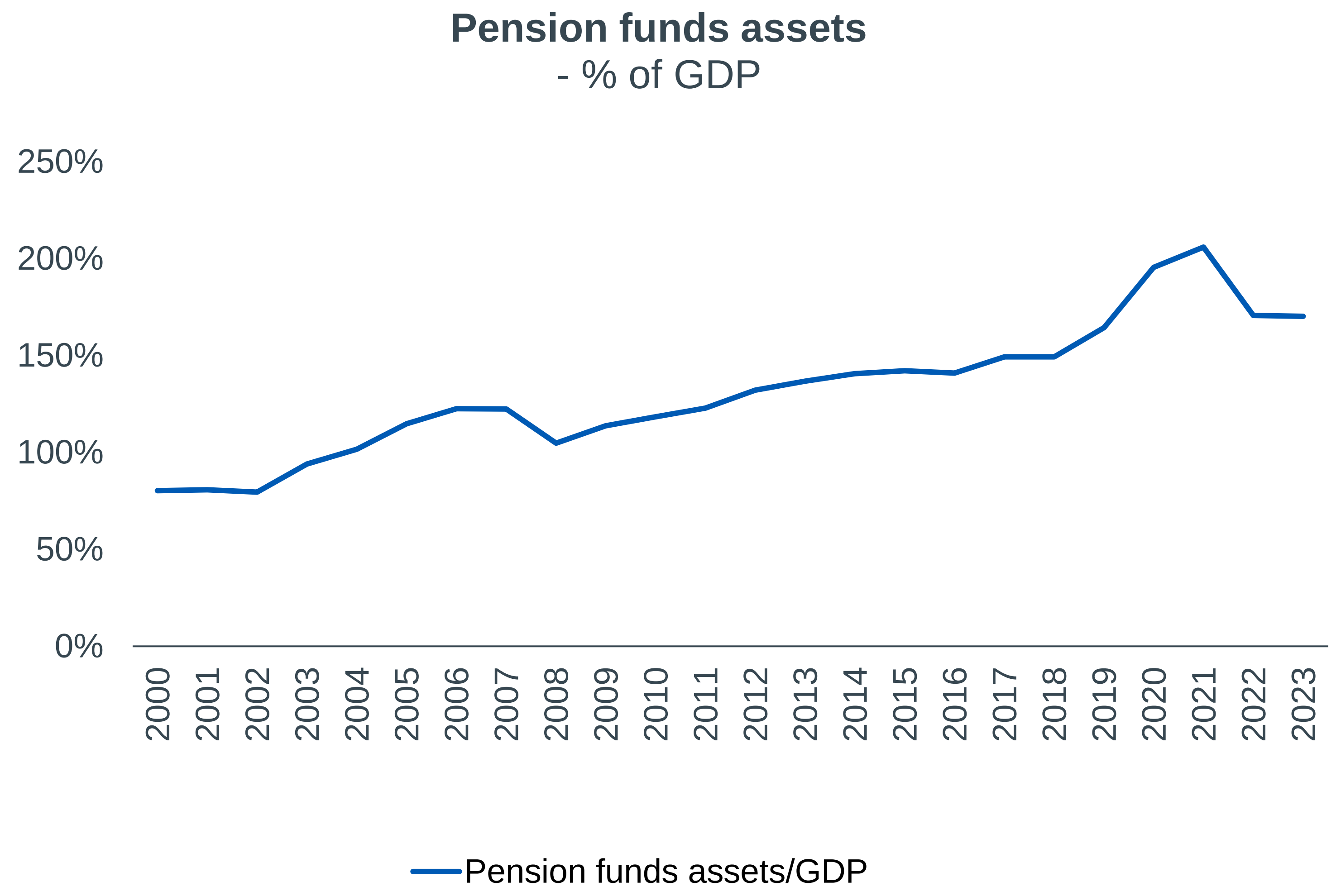
Sources: Statistics Iceland, Central Bank of Iceland, Arion Research

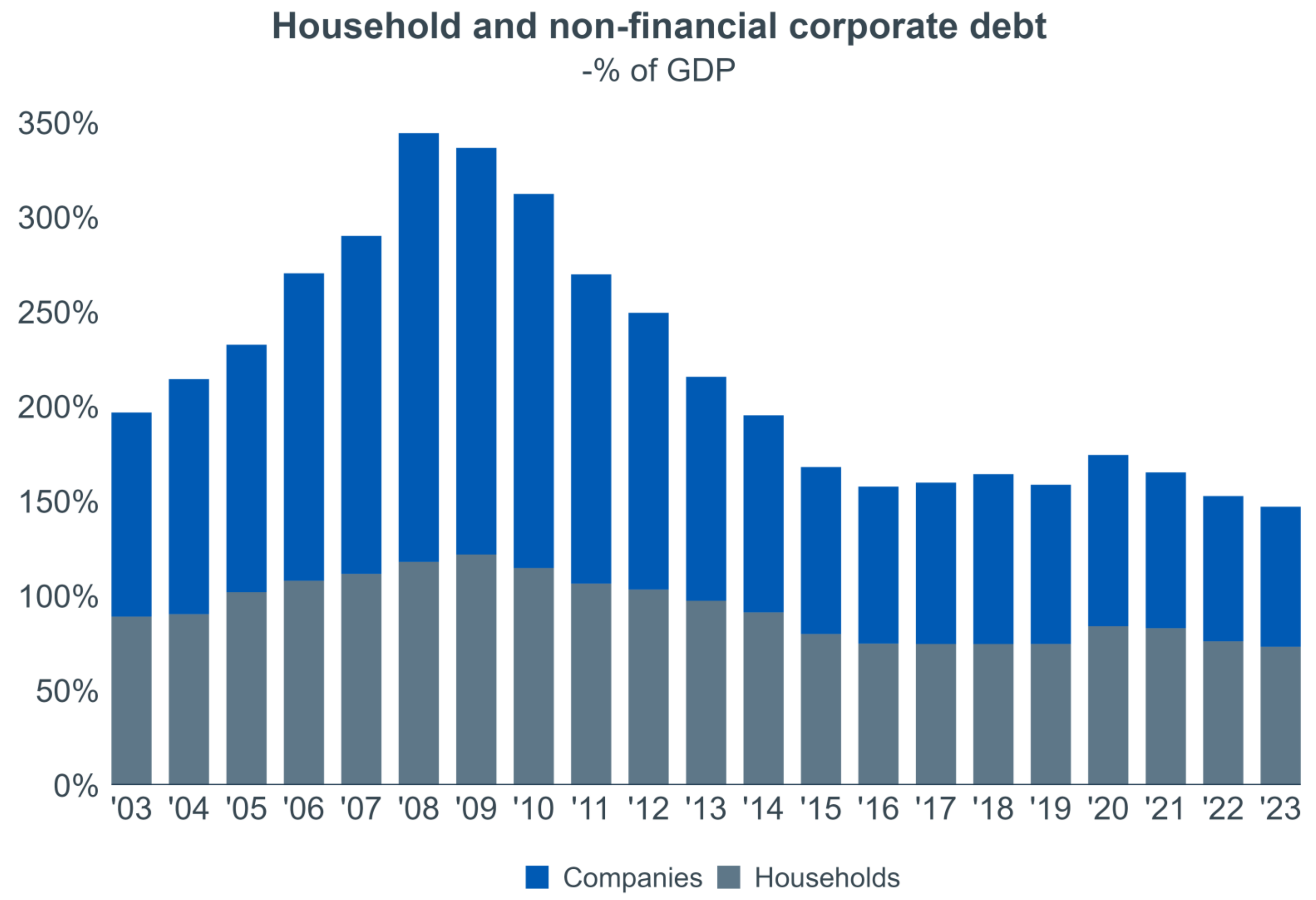
Small economy, strong foundations

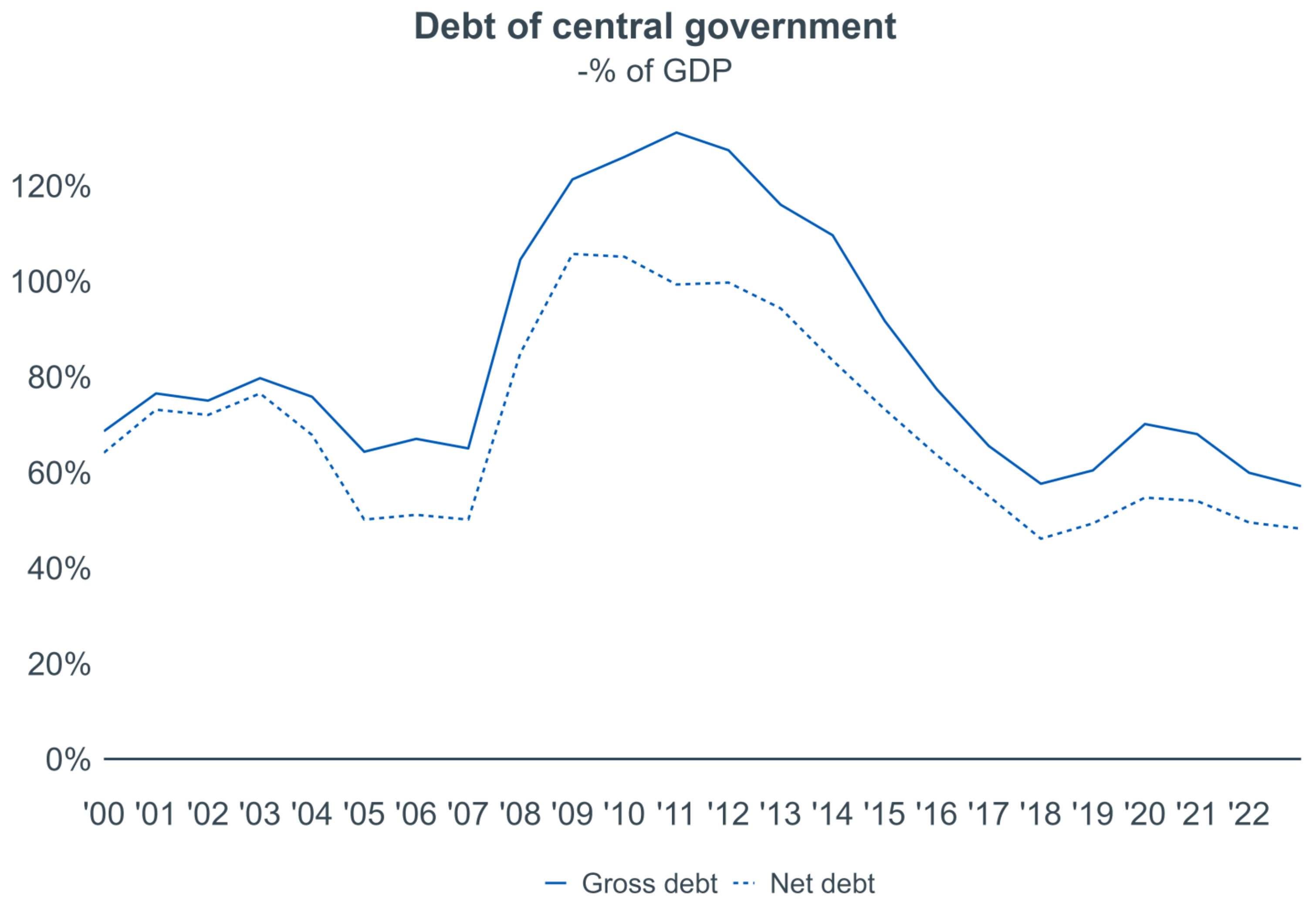












 Sources: Statistics Iceland, Central Bank of Iceland, Arion.Research

Key takeaways from Q1 2024

Operational performance

- Solid operational momentum while ROE of 9.1% in the quarter is below expectations
- Subdued fee income and high effective tax rate negative drivers in the first quarter results

Effective tax rate

- Loss on equity holdings held against forward contracts leads to a very high effective tax rate of 38% in the quarter
- Gain on equity forward contracts taxable while countering loss on equity position not deductible

Fee income

- Fee income in the quarter considerably lower than in previous quarters
- Specific items impacting this quarter include the closure of Keflavik airport branch and reclassification of card insurance fees
- Slowdown in economic activity also a driver while solid pipeline expected to support more constructive view over coming quarters

Net interest margin

- The interest margin holding at a robust 3.1% level
- Fixed rate mortgage resets will support the margin especially in the second half of the year

Capital, funding and liquidity

- Capital position very strong with a CET1 ratio of 18.8% or 350bps above regulatory minimum
- Stable deposits continue to grow and wholesale funding profile balanced
- Liquidity position strong with an LCR of 144%. Average duration of liquidity bond portfolio within one year and no HTM accounting

Income statement Q1 2024

- Net profit of ISK 4.4bn resulting in ROE of 9.1%
- Core income* decrease by 2% YoY, mainly NCI
- NII increases by 2% between quarters
- NCI decrease from prior quarters, partly due to closing of branch in Keflavik airport and changes in presentation for card insurance
- Positive momentum in insurance revenue, with 15% increase in insurance revenue and lower claim rate compared with prior year
- Low net financial income, especially on equity holdings
- Operating expense increased by 1.8% YoY, while inflation was 7%
- Impairments are calculated at 11 bps on yearly basis. The main increase is due to additional impairments on mortgages to individual customers from Grindavík, ISK 0.4bn
- Effective tax rate of 37.8% unusually high due to very unfavorable combination of income

	Q1 2024	Q1 2023	Diff	Q4 2023	Diff
Net interest income	11,245	10,993	2%	11,347	(1%)
Net commission income	3,365	4,444	(24%)	3,903	(14%)
Insurance service results	(215)	(736)	71%	(284)	24%
Net financial income	29	794	(96%)	1,370	-
Other operating income	50	14	257%	(24)	-
Operating income	**14,474**	**15,509**	**(7%)**	**16,312**	**(11%)**
Operating expenses	(6,554)	(6,440)	2%	(7,830)	(16%)
Bank levy	(460)	(449)	2%	(422)	9%
Net impairment	(315)	(52)	-	13	-
Net earnings before taxes	**7,145**	**8,568**	**(17%)**	**8,073**	**(11%)**
Income tax expense	(2,704)	(2,287)	(18%)	(1,808)	50%
Net earnings from continuing operations	**4,441**	**6,281**	**(29%)**	**6,265**	**(29%)**
Discontinued operations net of tax	(9)	10	-	(41)	(78%)
Net earnings	**4,432**	**6,291**	**(30%)**	**6,224**	**(29%)**
Return on equity	9.1%	13.7%		12.7%	
Core income*	15,203	15,535	(2%)	15,814	(4%)
Net interest margin	3.1%	3.1%		3.1%	
Cost-to-core income ratio	48.4%	46.8%		54.9%	

*Core income: Net interest income, net fee and commission income and insurance service results (excluding opex)

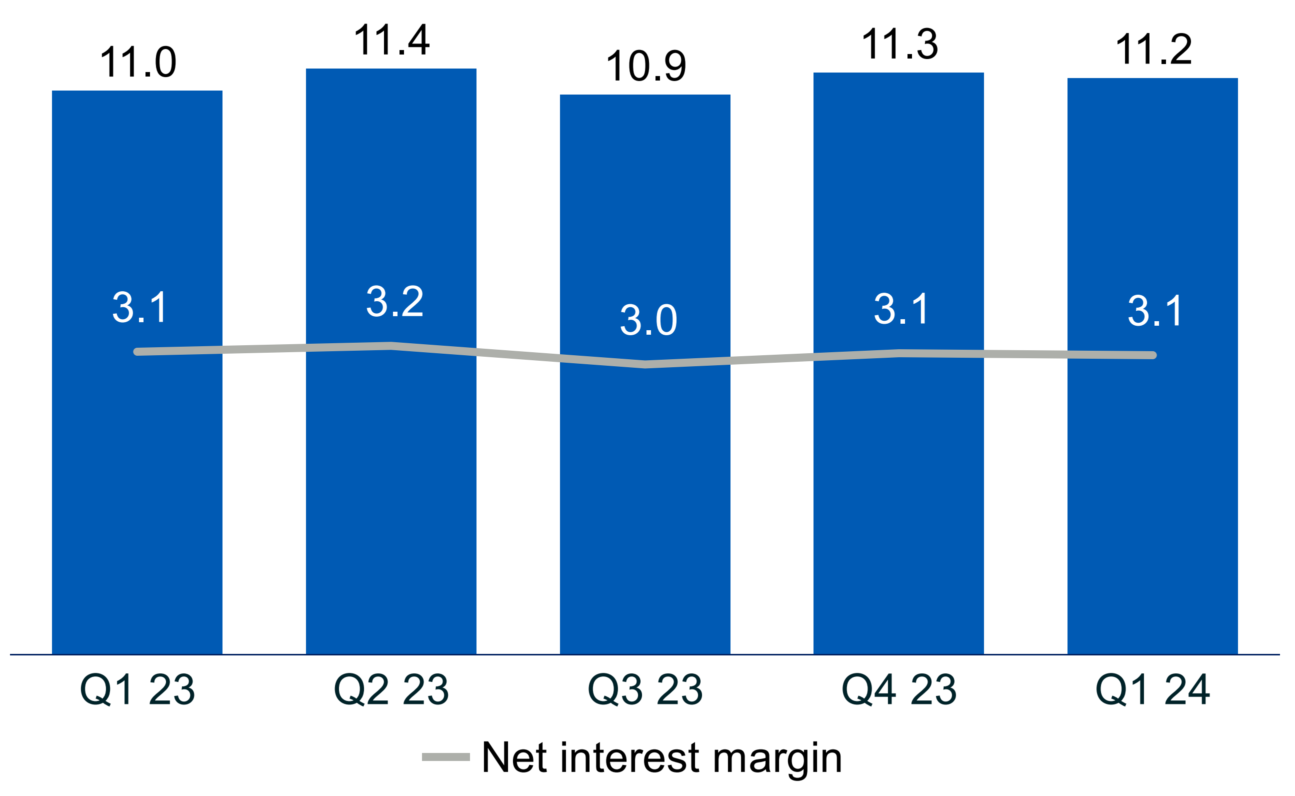
13 All amounts in ISK million

Net interest income

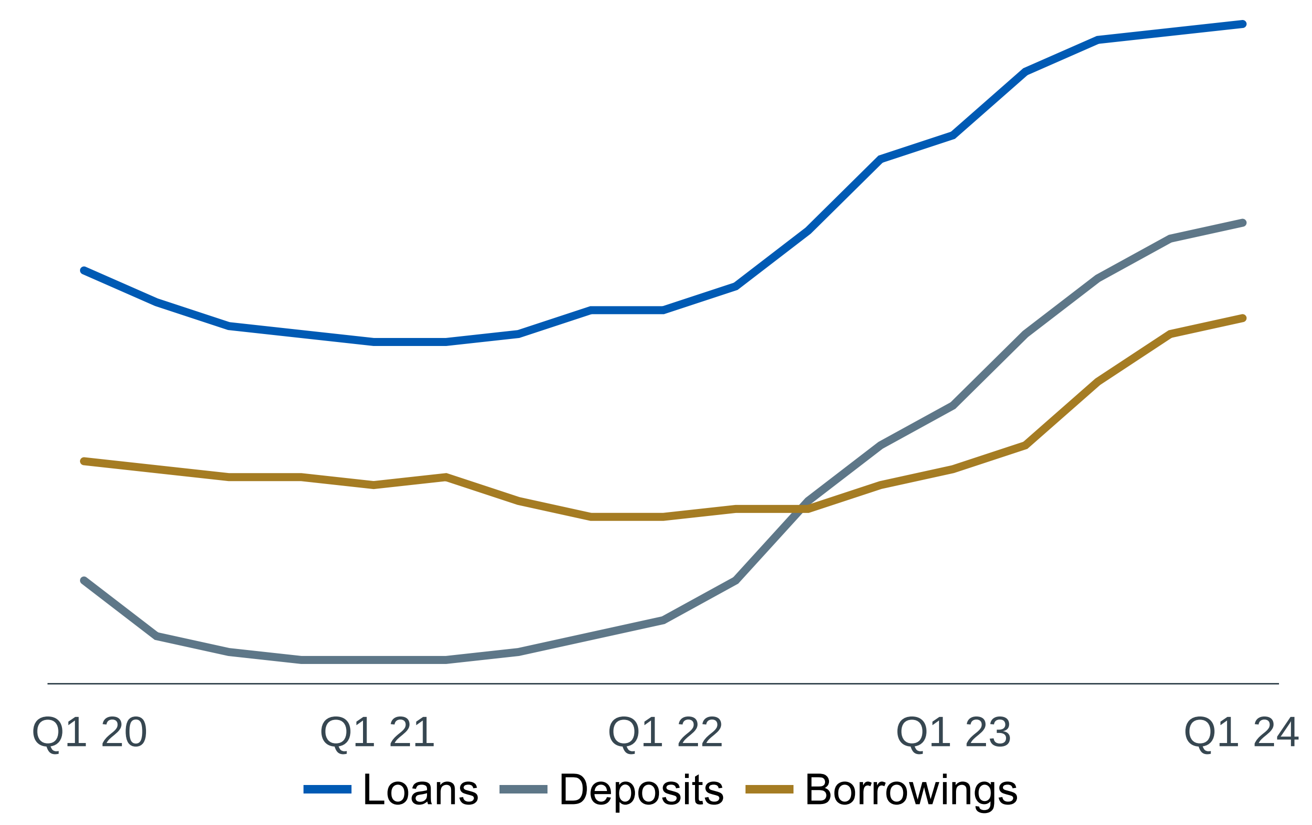
Margin holding at robust level

- Net interest income in Q1 increased by 2.3% from Q1 2023 but decreased by 0.9% from Q4 2023
- Despite lower inflation in Q1 2024 compared with Q1 2023 the effects from inflation is positive by ISK 868m due to increased net CPI balance
- CPI linked loans increased by ISK 32bn during the quarter and ISK 139bn from Q1 2023
- Net CPI balance was ISK 115bn at the end of March 2024 compared with ISK 90bn at year end 2023
- New phase of the rate hiking cycle commenced recently with resetting of fixed rate mortgages. Non-CPI linked mortgages with fixed rates of ISK 113bn will be reset in the next 24 months which will boost the margin

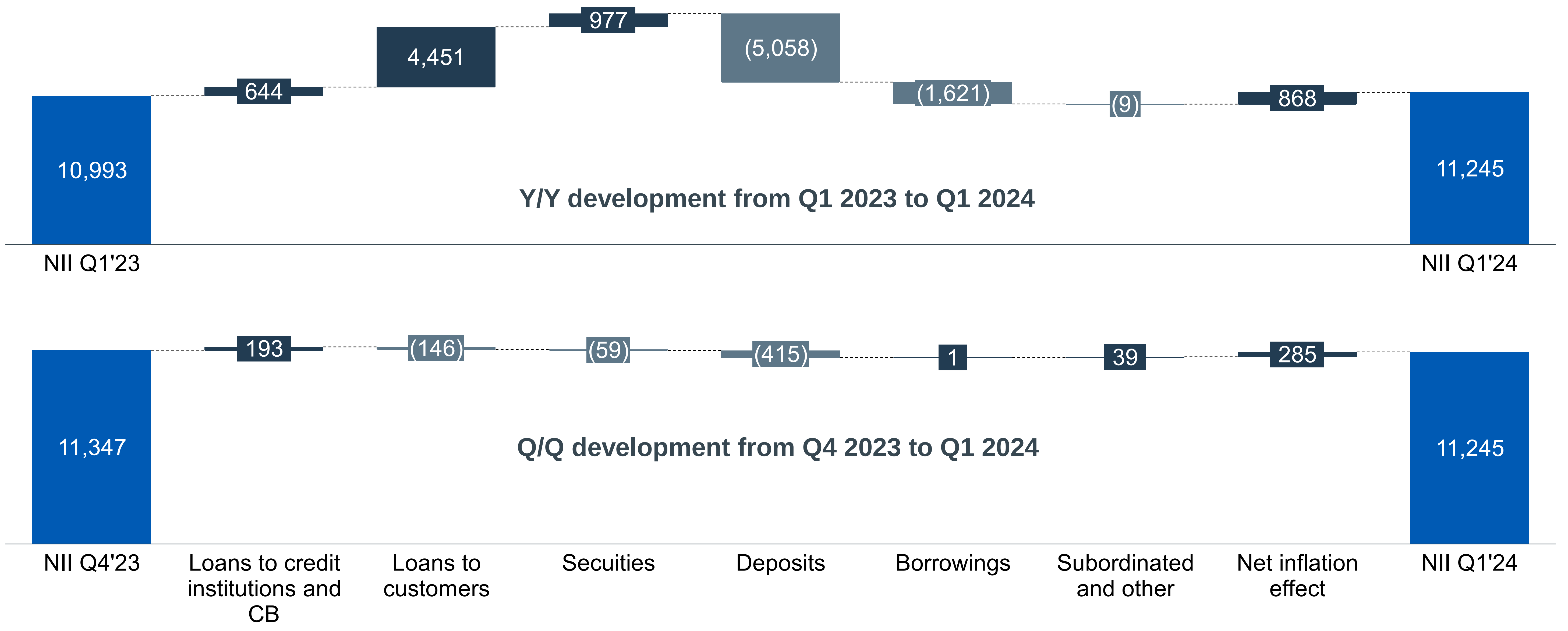
Net interest income (ISK bn)



Main interests (%)



Net interest income development (ISK m)

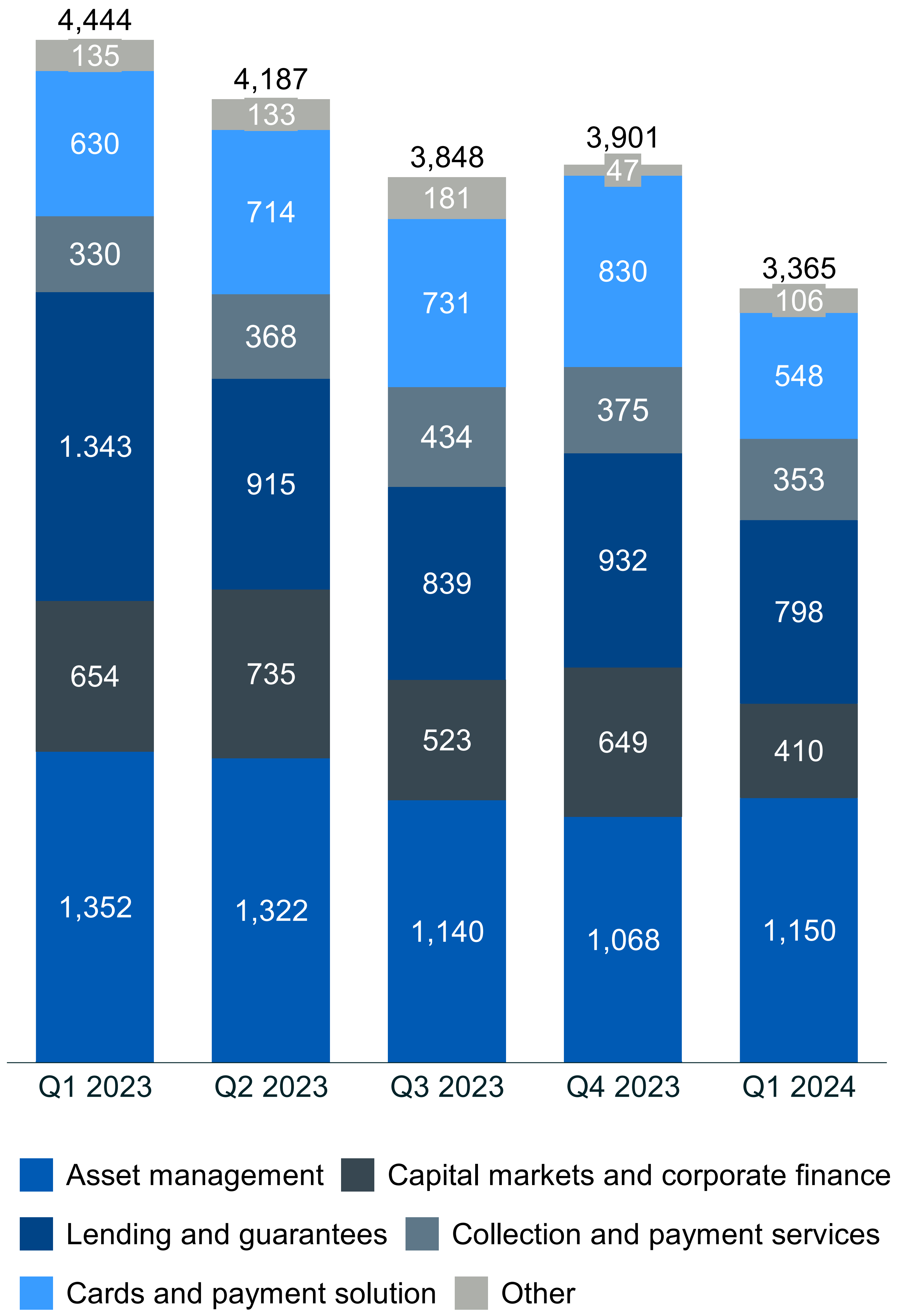


Net fee and commission income

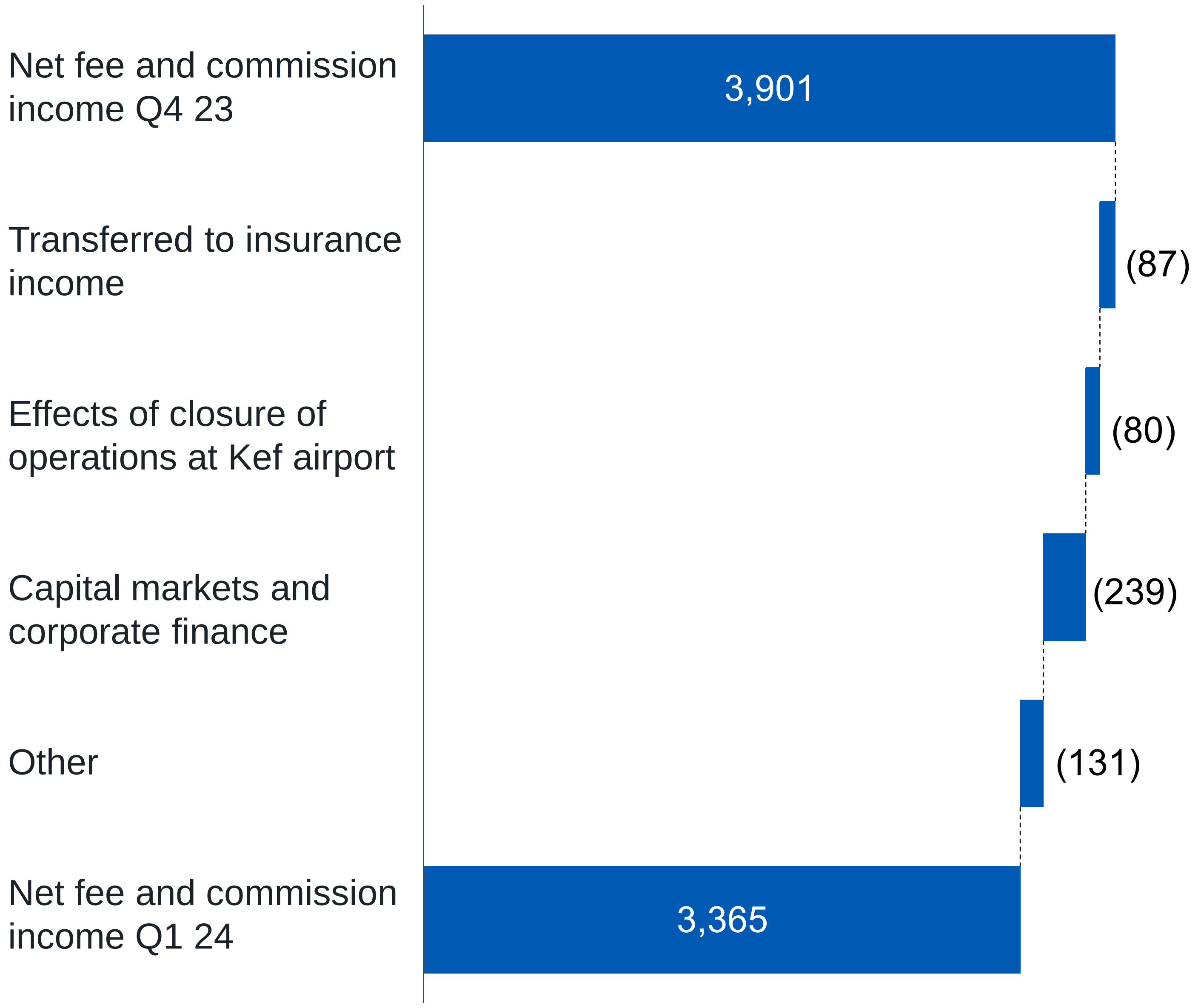
Subdued quarter

- Slow quarter in terms of deal related activity lowers fees especially in lending and corporate finance compared to a very strong quarter in these areas Q1 last year
- Closing of Keflavik airport branch at the end of January lowers fees by ISK 80m from Q4 2023 and will decrease fees by ISK 100-200m per quarter going forward. Operating expenses also expected to reduce in relation to this going forward
- Reclassification of card insurance fees to net insurance ISK 87m impact between quarters
- Continued stable income from asset management. Assets under management robust and end the quarter at ISK 1,447bn

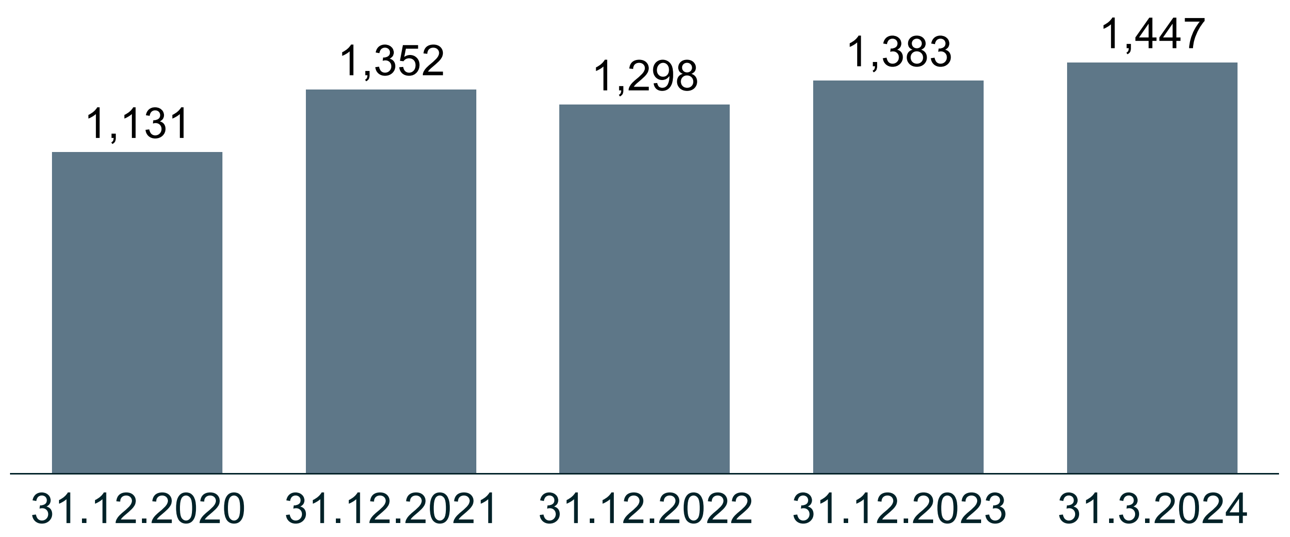
Net fee and commission income (ISK m)



Change in net fee and commission income Q4 23 vs Q1 24 (ISK m)



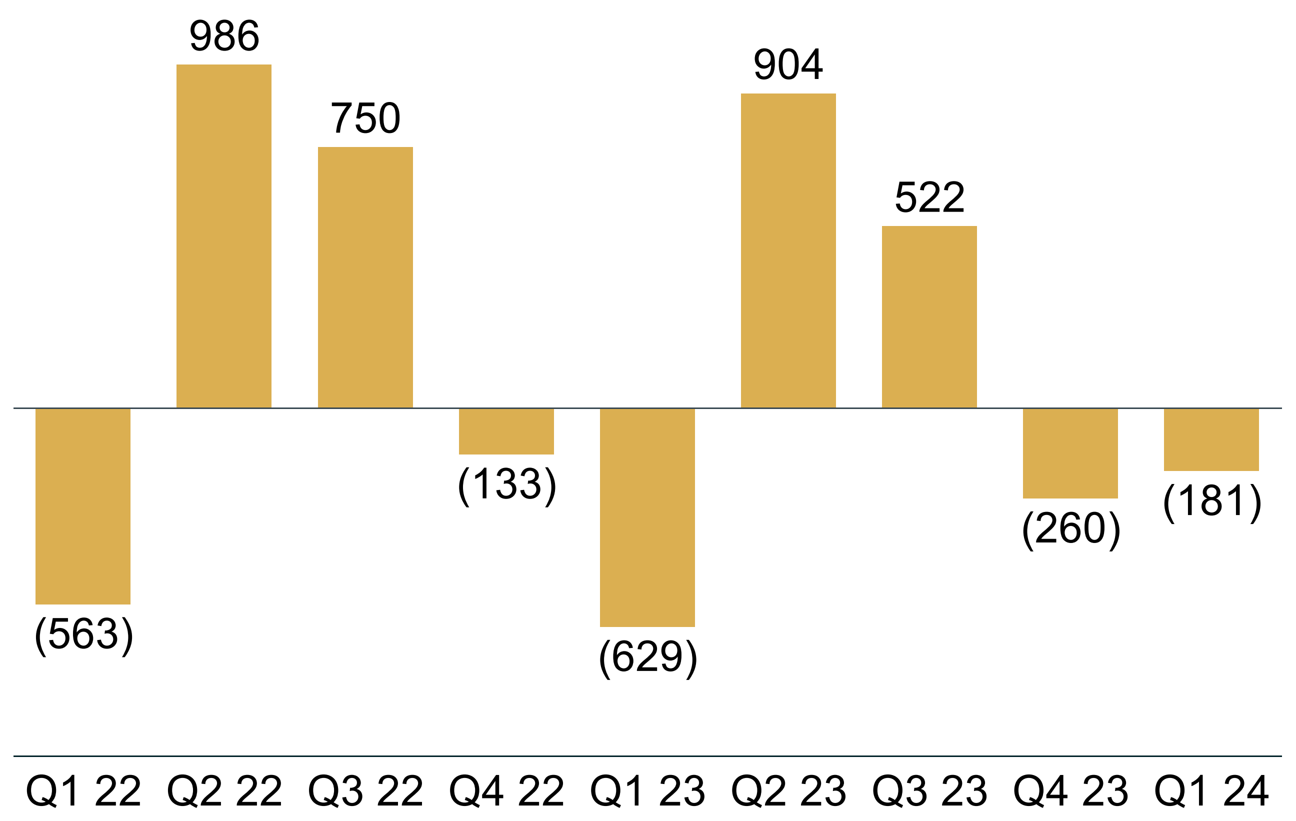
Assets under management (ISK bn)



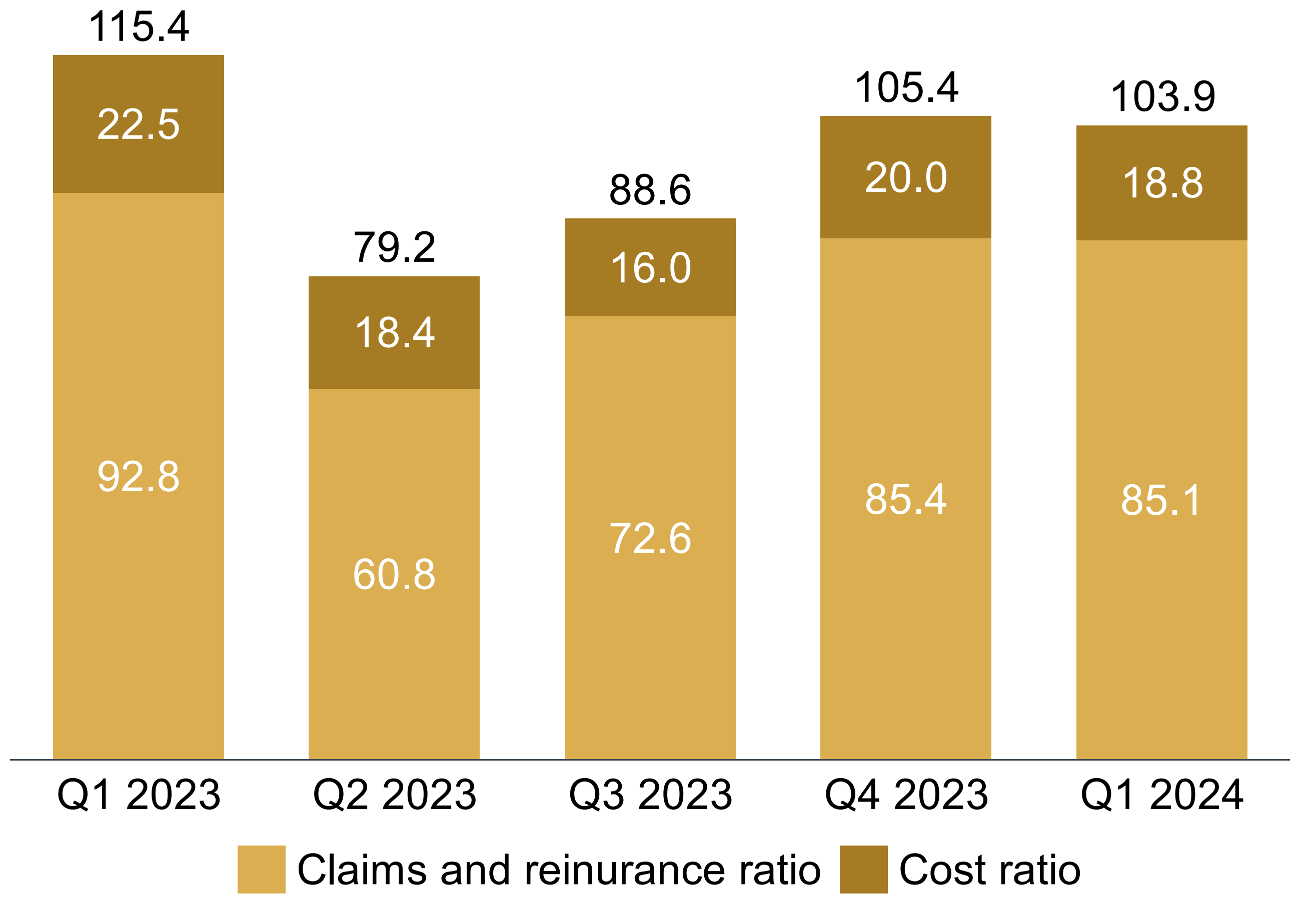
Insurance results

- The start of 2024 has seen a considerable improvement in insurance service results compared with the same quarter last year
  - Q1 resulted in 13% revenue growth and 13% CAGR over the past five years, life portfolio is seeing a turnaround and churn in families is 11% lower compared with same quarter last year
  - Number of claims in Q1 2024 is 6,100 compared with 6,800 last year resulting in one of Vördur's best first quarters in a long time. Last year saw a high number of claims, mainly due to fires and difficult weather conditions
  - Claims ratio was 83.5% compared with 88.5% Q1 2023 and cost ratio was below the target of 20%
  - Seasonality in claims normally results in Q1 and Q4 annual highs in claims ratio
- Vördur's operation resulted in a loss of ISK 166m for the quarter compared with a loss of ISK 5m in Q1 2023
  - Investment income in Q1 is positive by ISK 330m compared with ISK 651m in Q1 2023

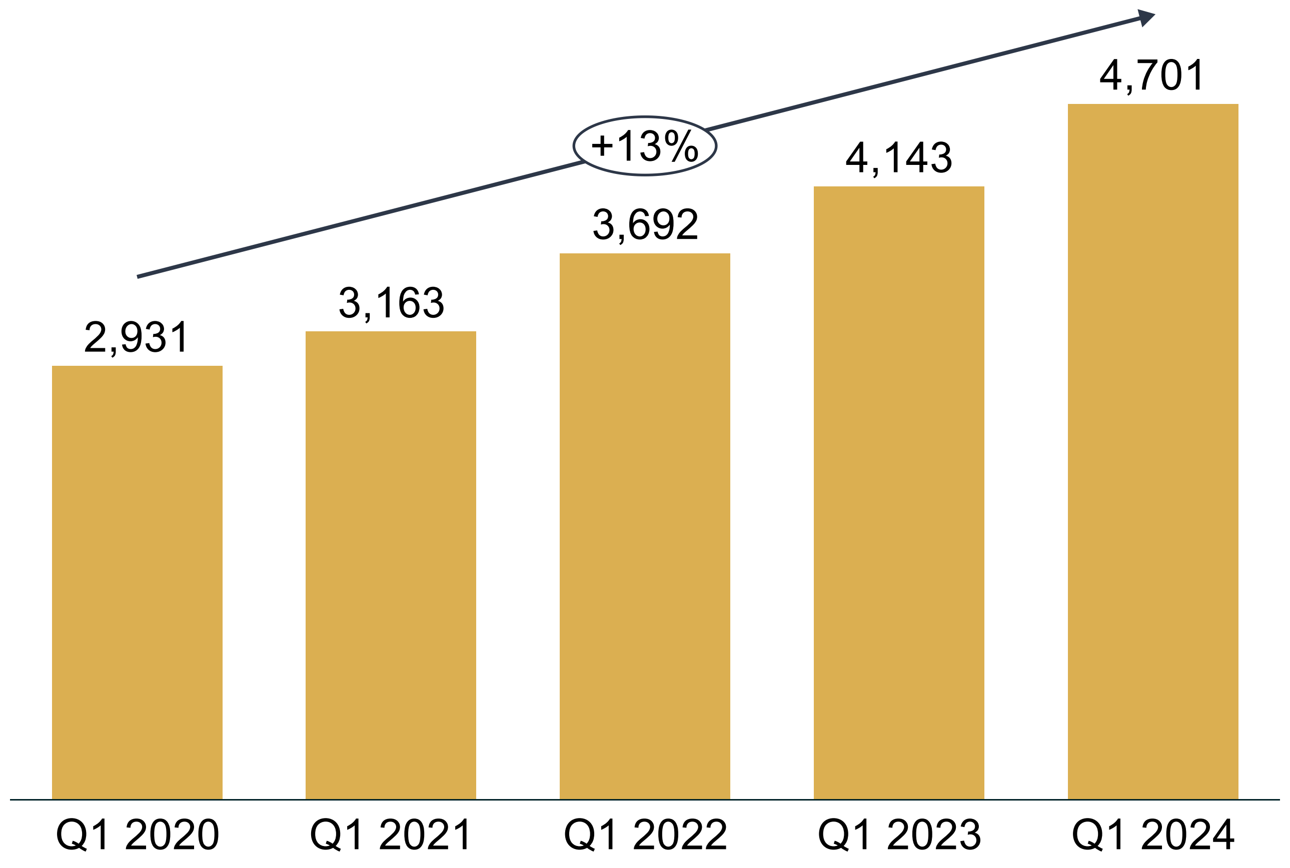
Insurance service result* (ISK m)



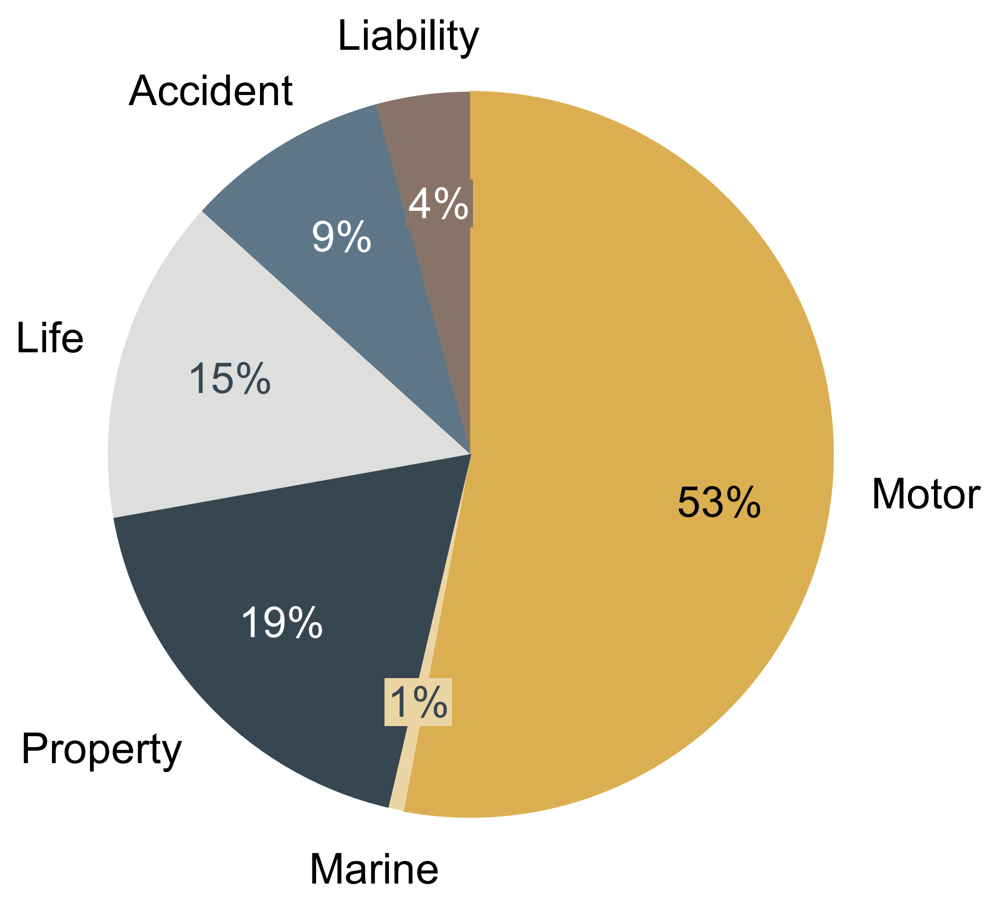
Combined ratio (%)



Insurance revenue** (ISK m)



Insurance revenue by type (%)



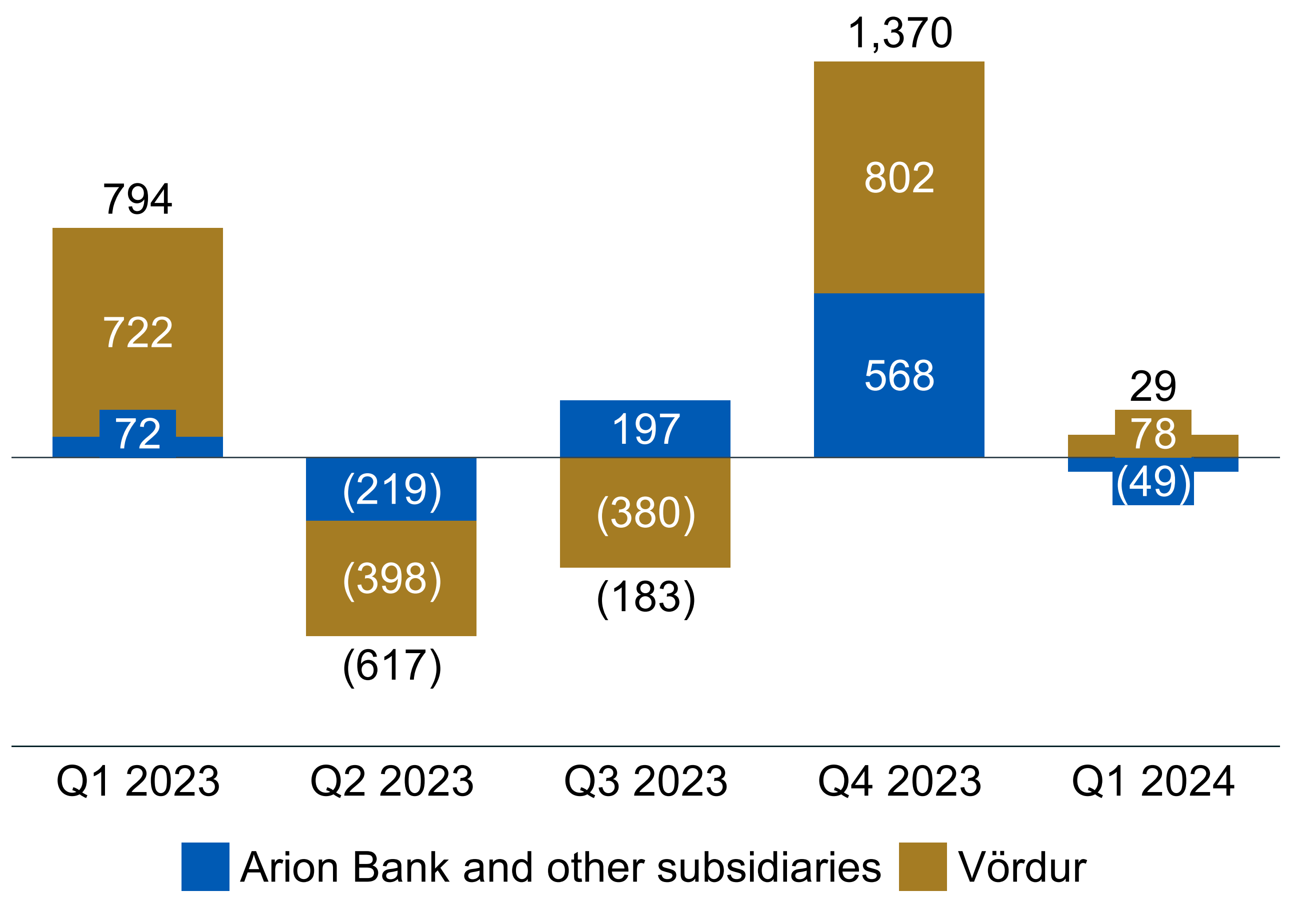
* Figures based on Vördur stand-alone financial results, before elimination within the Group. Figures for 2022 have been restated in accordance with IFRS 17
** Figures for 2020 and 2021 have not been restated according to IFRS 17

Net financial income

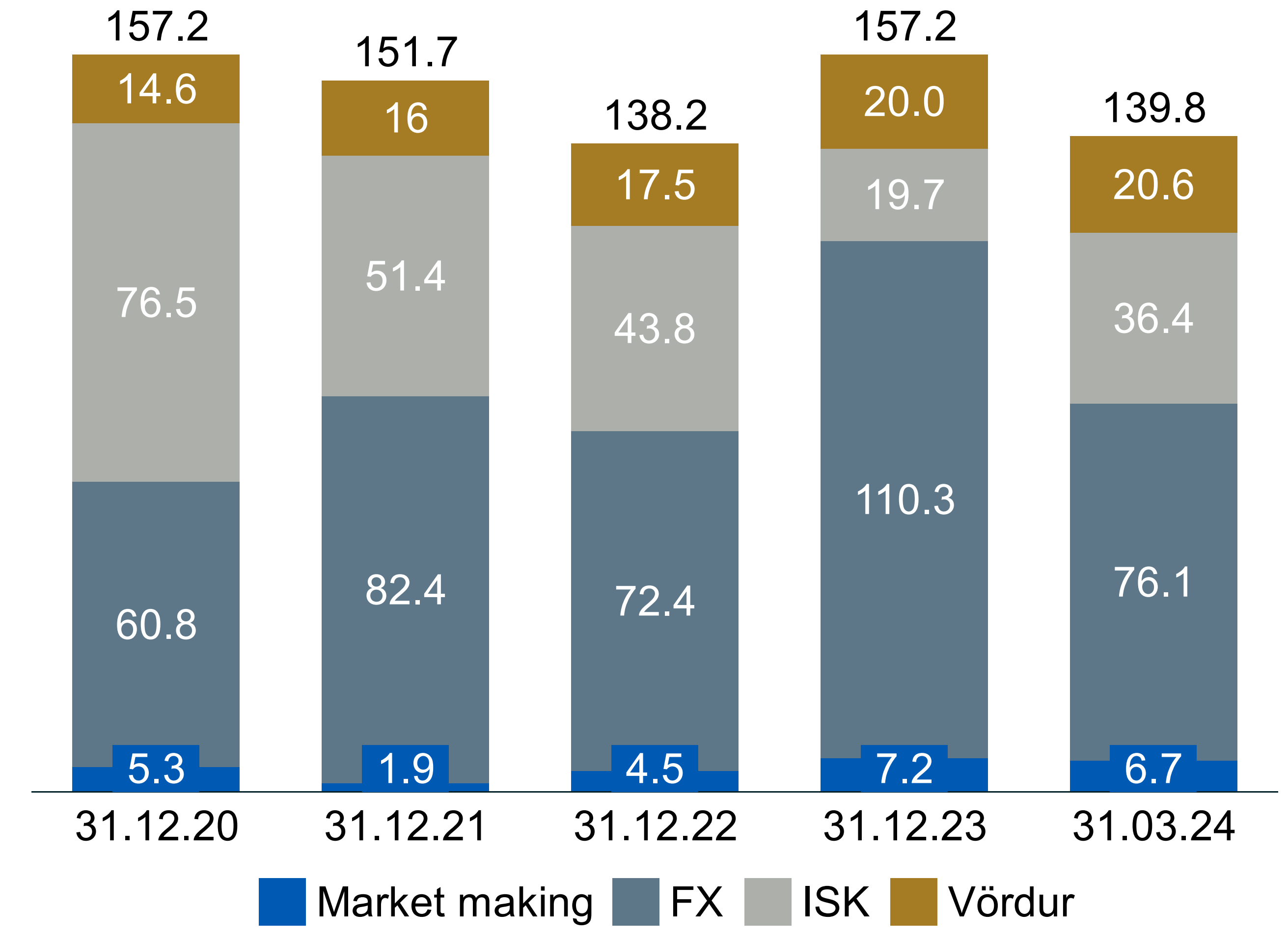
Challenging market environment

- Net financial income in the quarter muted or ISK 29m
- Total investment portfolio of Vördur is ISK 29.9bn; ISK 20.6bn of bonds and ISK 9.3bn in equity instruments, yielding a profit of ISK 78m 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
- Effective tax rate significantly impacted by equity forward business in the quarter. Profit and loss of equity forward contracts is offset in the income statement. However, loss from subsequent equity holdings is not deductible for tax purposes while profit from underlying contracts is taxable income

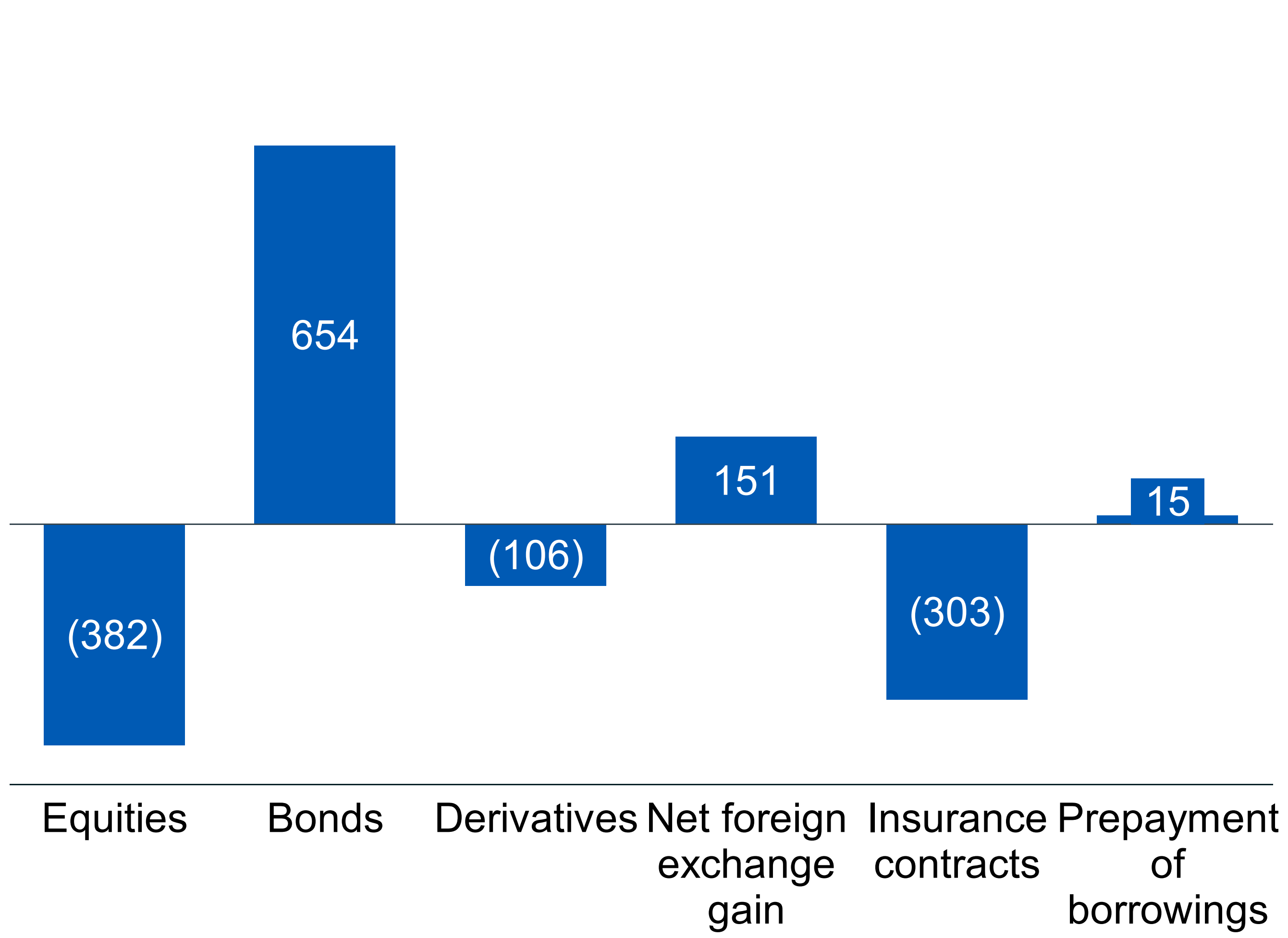
Net financial income (ISK m)



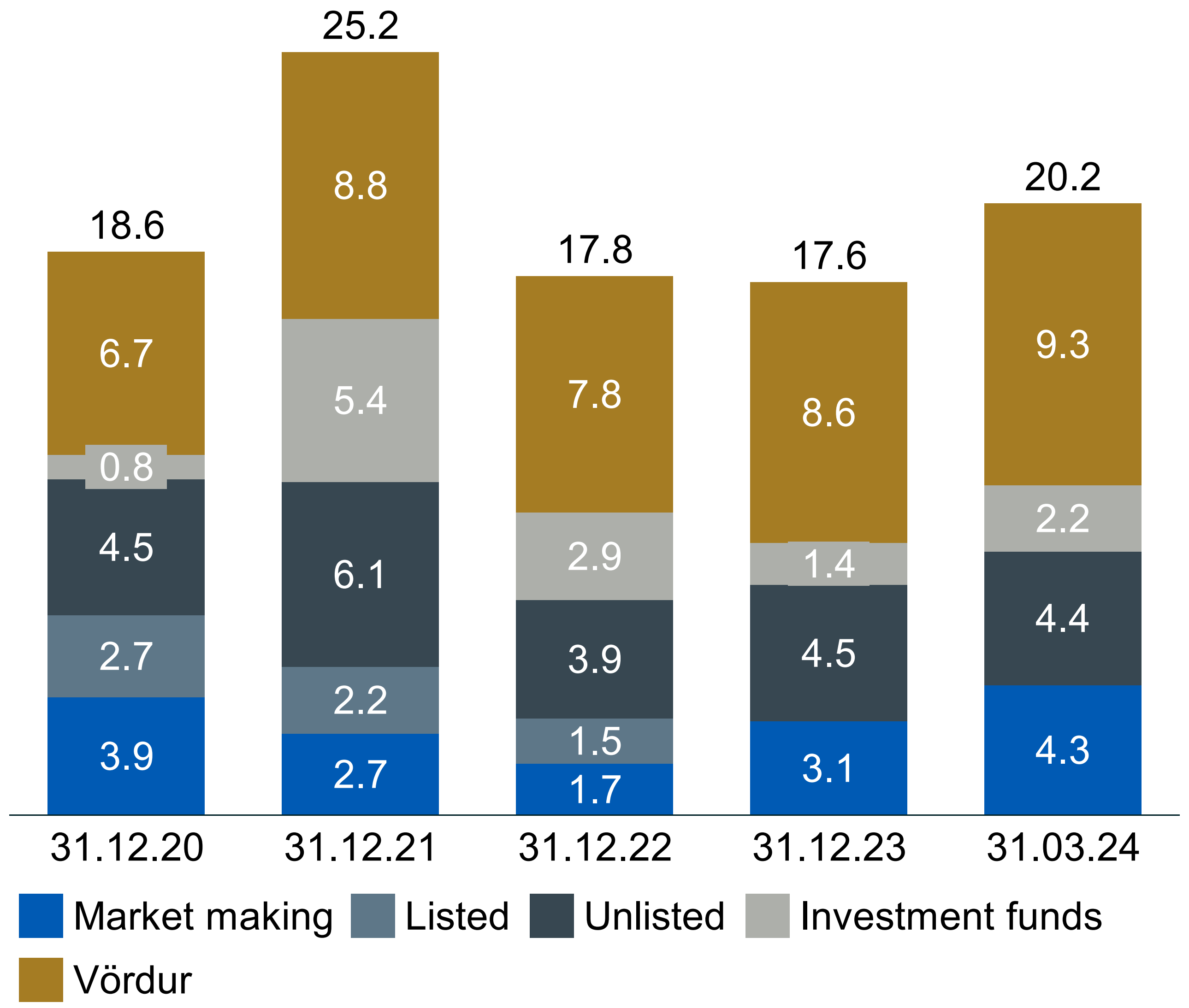
Bond holdings (ISK bn)



Net financial income by type Q1 2024 (ISK m)



Equity holdings (ISK bn)

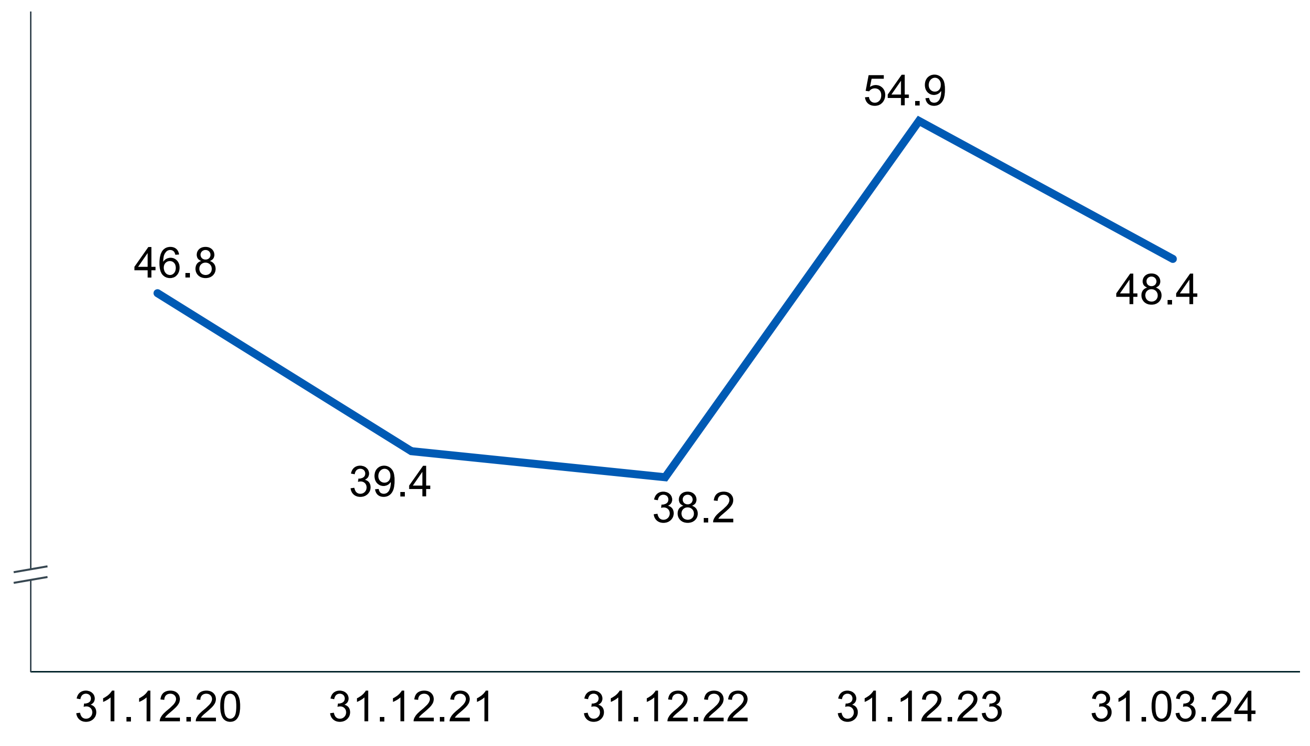


Operating expenses*

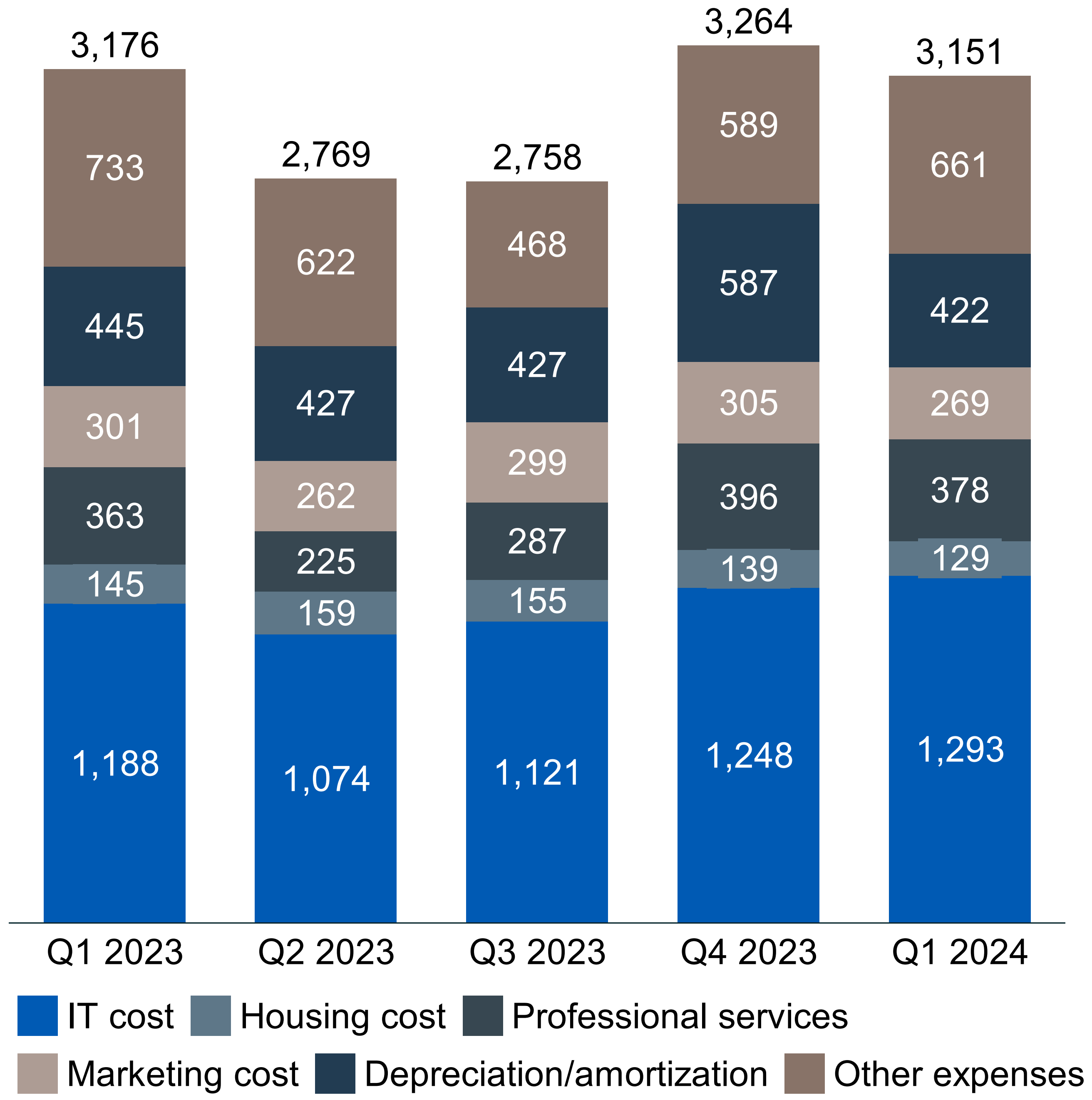
Continued cost discipline while inflationary pressure remains

- Total operating expenses outlined here include costs related to insurance business which is accounted for through insurance service results post IFRS17
- The increase of total operating expenses from Q1 2023 was 1.2% but at the same time inflation was 7.0%
- Expense from Keflavik Airport branch was approx. ISK 100m per quarter, closed at the end of January 2024
- Changes in FTE's is mainly related to organizational changes during the quarter, resulting in ISK 211m one-off redundancy expenses in Q1 2024

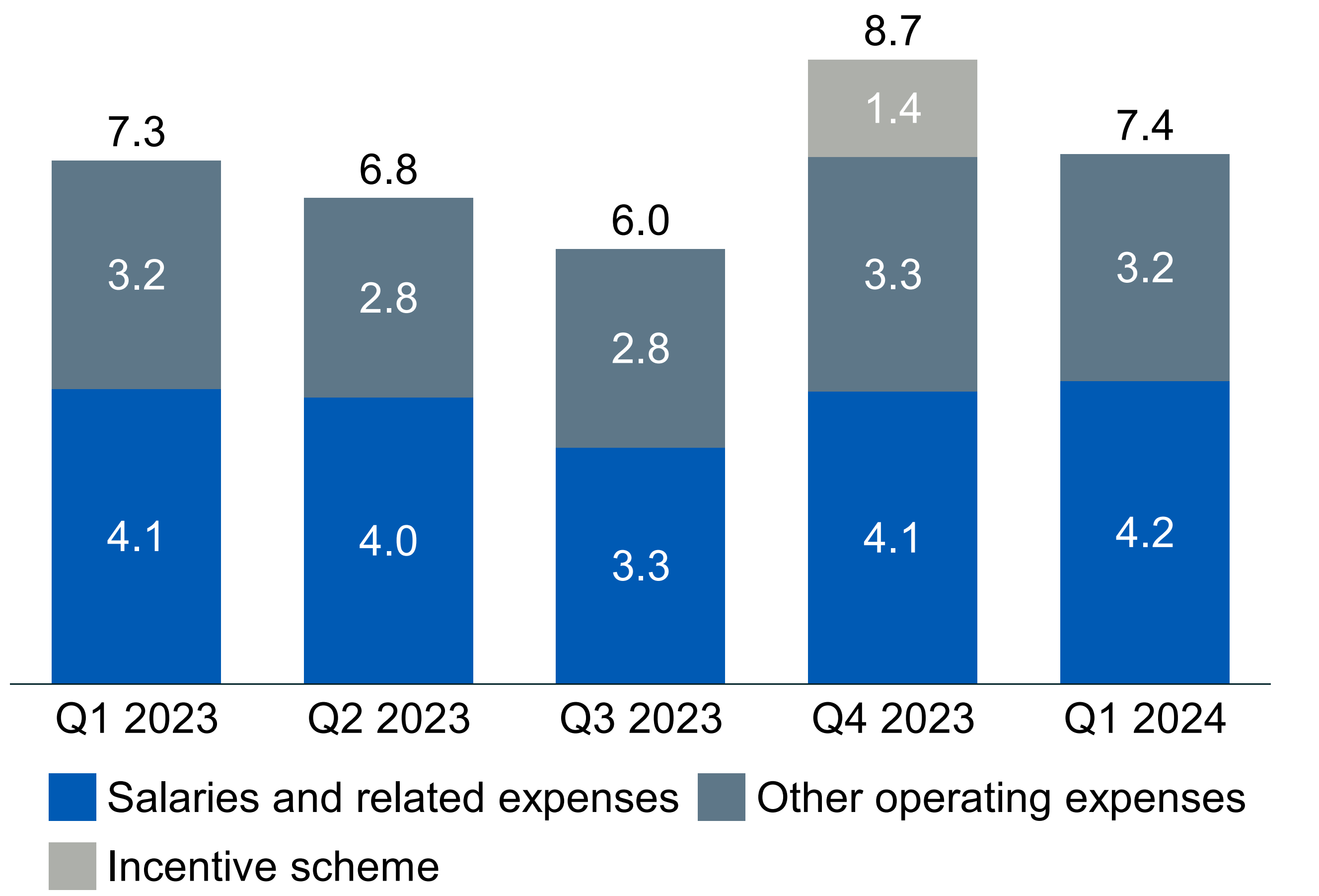
Cost-to-Core income ratio (%)



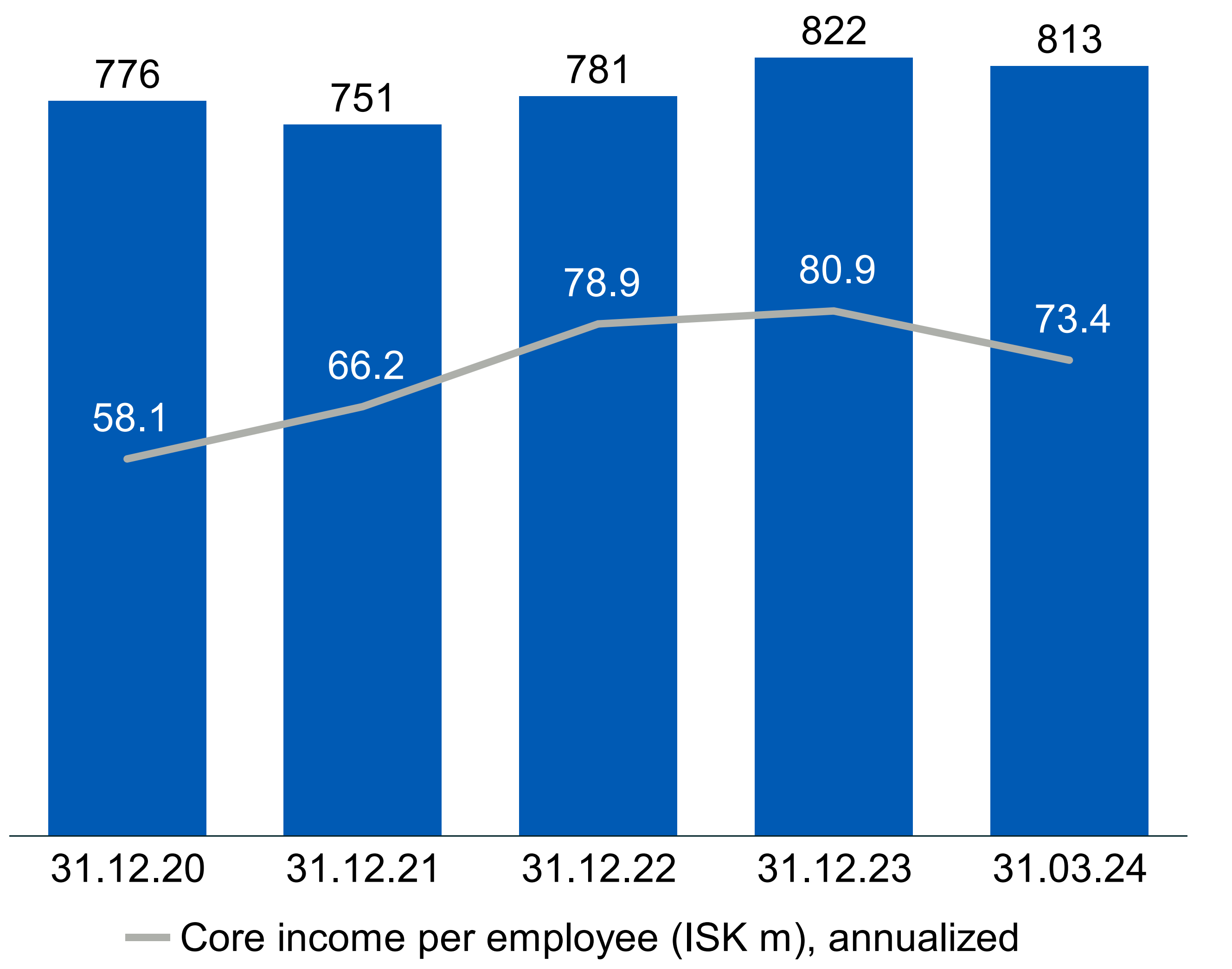
Other operating expenses (ISK m)



Total operating expenses (ISK bn)



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 2.2% in Q1
- Deposits increased by 1.2% in Q1
- Liquidity position remains strong:
  - Liquidity coverage ratio (LCR) of 144% (107% in ISK)
  - Net stable funding ratio (NSFR) of 117%

Assets	**31.03.2024**	**31.12.2023**	**Diff.**	**31.03.2023**	**Diff.**	**31.12.2022**	**Diff.**
Cash & balances with CB	102	102	0%	80	28%	114	(10%)
Loans to credit institutions	34	29	17%	63	(46%)	46	(26%)
Loans to customers	1,179	1,153	2%	1,114	6%	1,085	9%
Financial assets	196	206	(5%)	205	(4%)	193	1%
Other assets	34	36	(7%)	38	(12%)	28	21%
Total Assets	**1,544**	**1,526**	1%	**1,501**	3%	**1,466**	5%

Liabilities and Equity							
Due to credit institutions & CB	3	3	16%	24	(87%)	12	(73%)
Deposits from customers	802	793	1%	775	3%	755	6%
Other liabilities	73	69	6%	84	(13%)	71	3%
Borrowings	433	420	3%	391	11%	393	10%
Subordinated liabilities	42	41	1%	47	(11%)	47	(12%)
Total Liabilities	**1,353**	**1,326**	2%	**1,321**	2%	**1,278**	6%
Equity	191	199	(4%)	180	6%	188	2%
Total Liabilities and Equity	**1,544**	**1,526**	1%	**1,501**	3%	**1,466**	5%

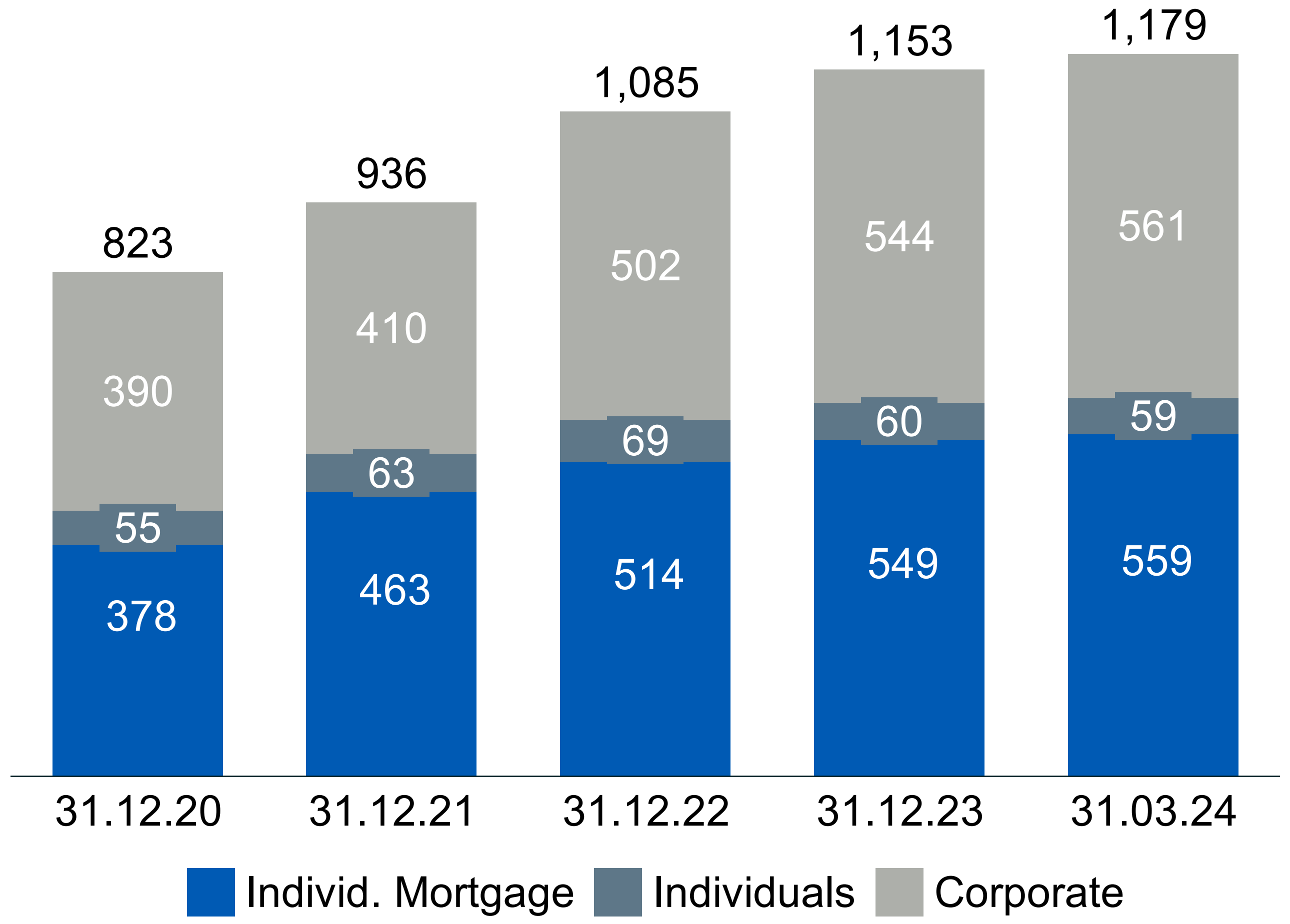
All amounts in ISK billion

Loans to customers

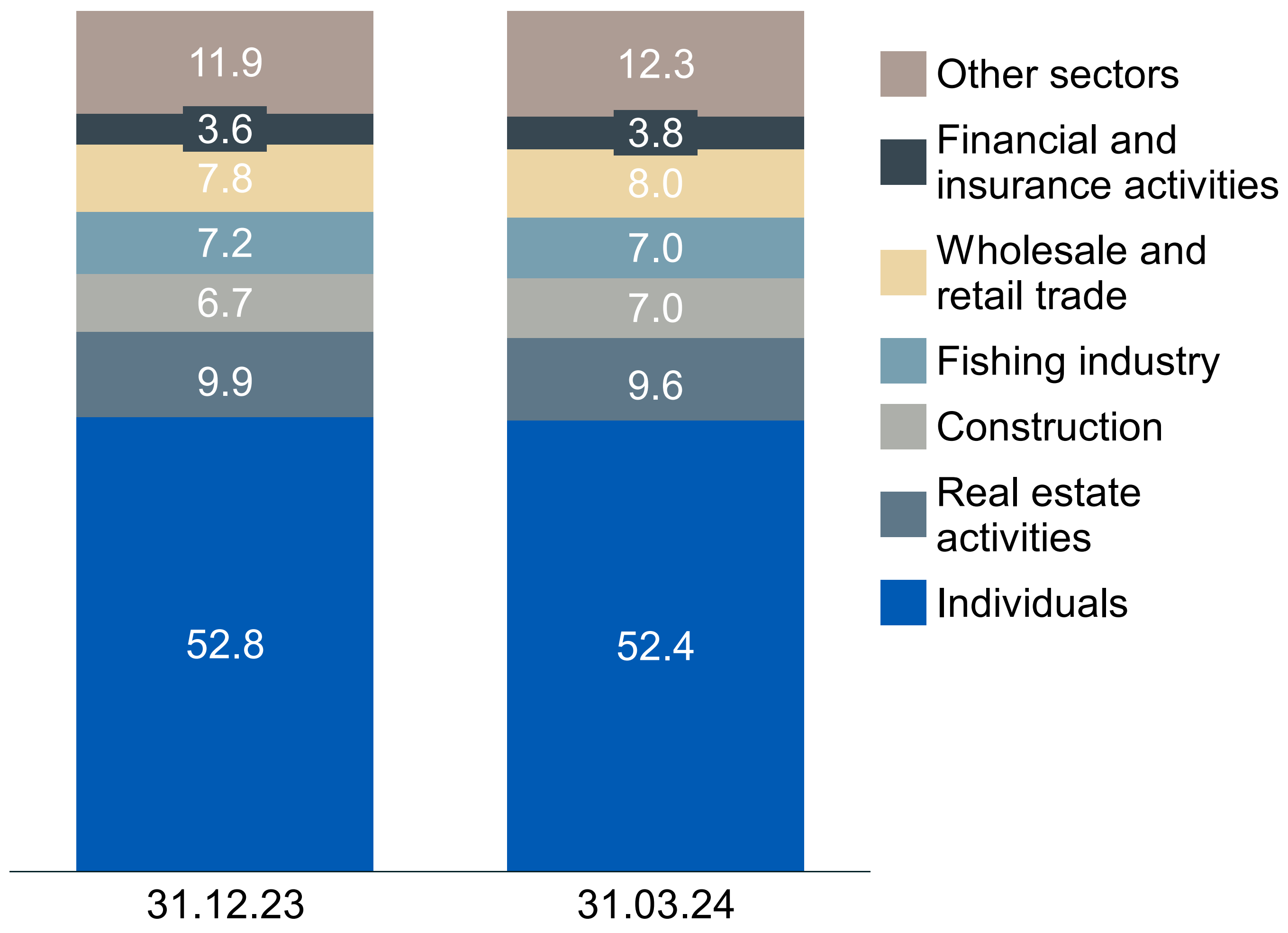
Balanced portfolio

- Loans to customers increased by ISK 25.9bn or 2.2% during the quarter
  - Loans to corporates increased by ISK 17.3bn or 3.2% and loans to individuals increased by ISK 8.7bn, or 1.4%
  - Total loans increased by ISK 6.3bn due to inflation, of which ISK 4.6bn mortgage lending. FX loans increased by approx. ISK 1.4bn during the quarter due to weaker ISK, primarily corporate loans
- 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

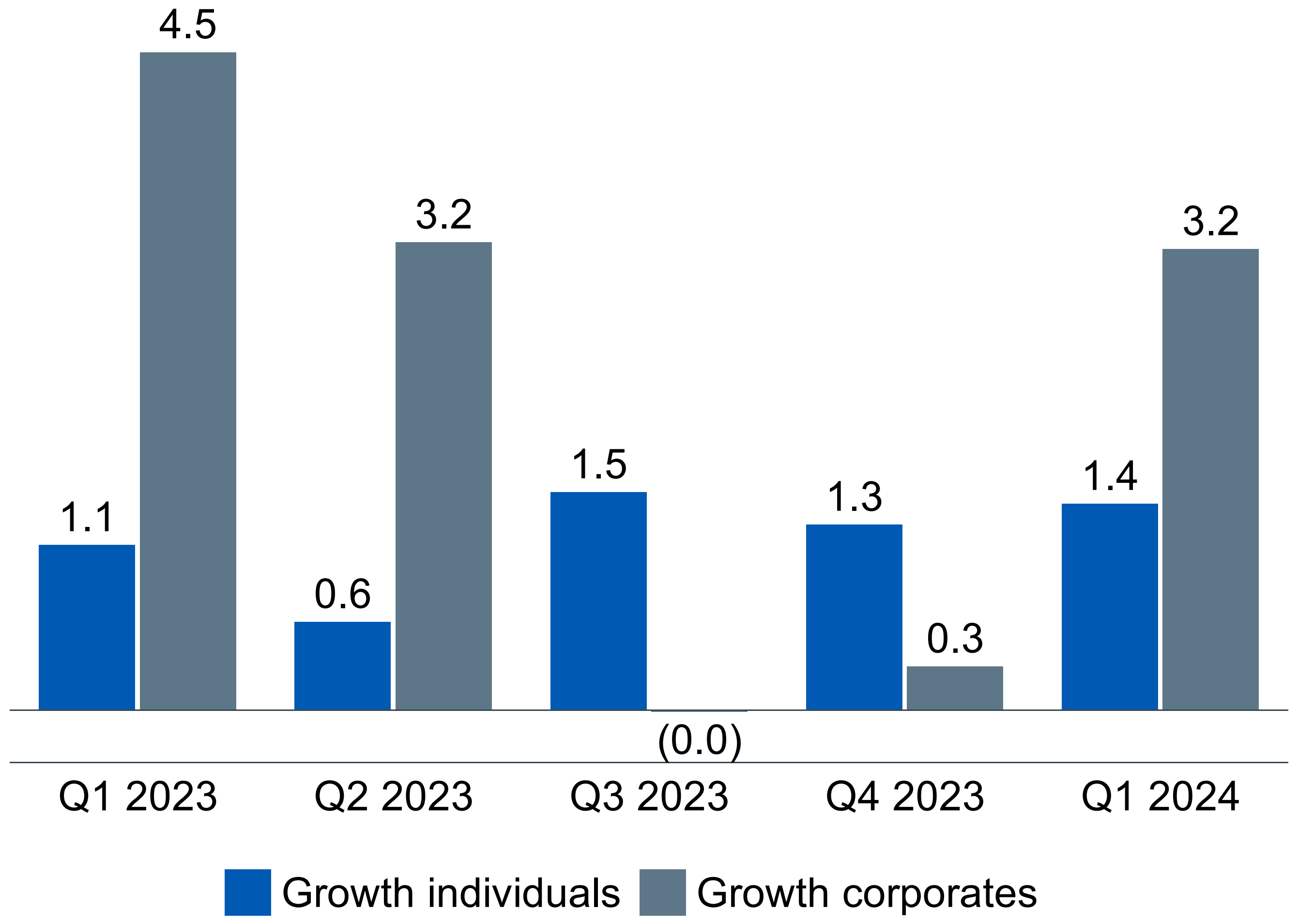
Loans to customers (ISK bn)



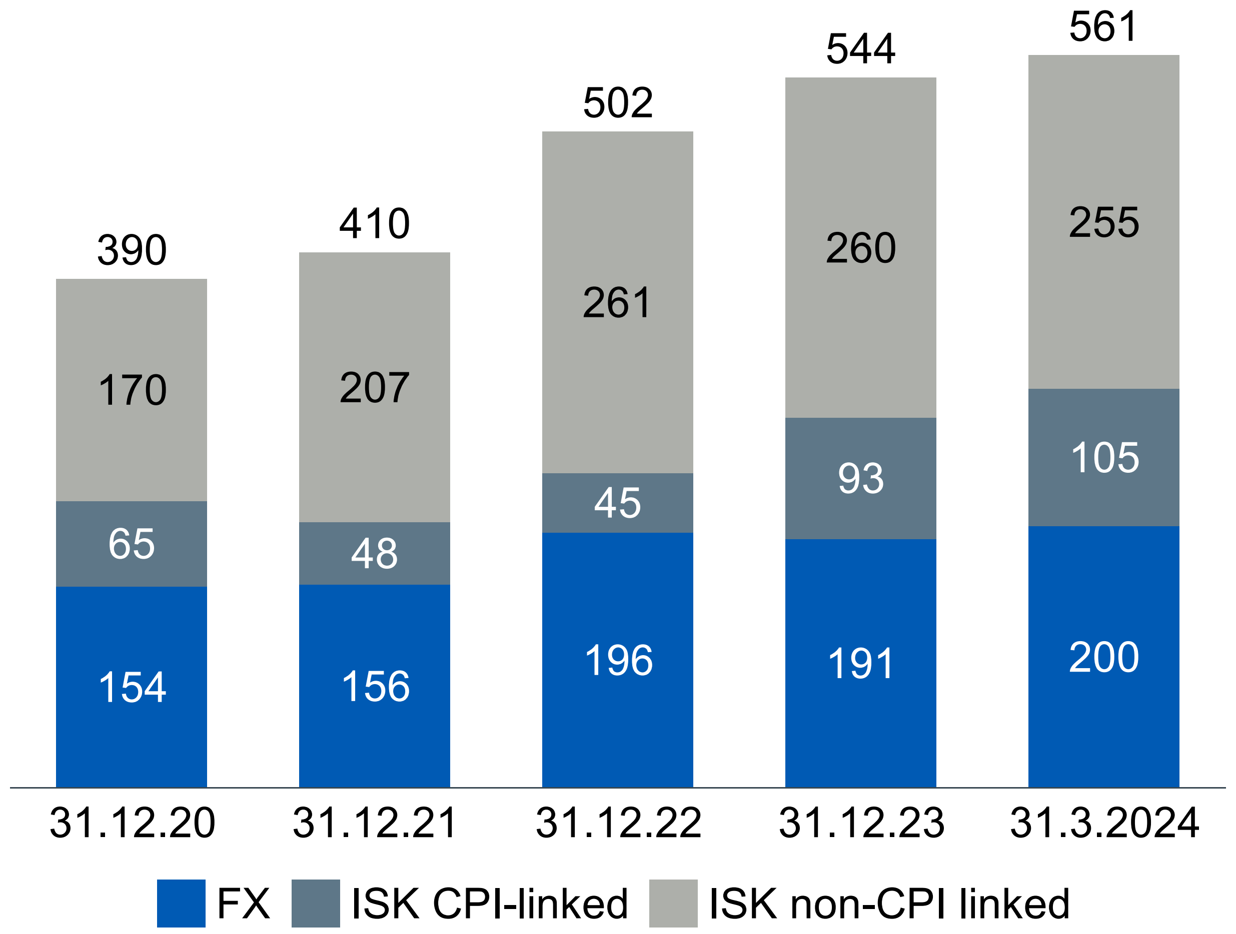
Loans to customers by sector (%)



Loan growth (%)



Loans to corporates by type (ISK bn)



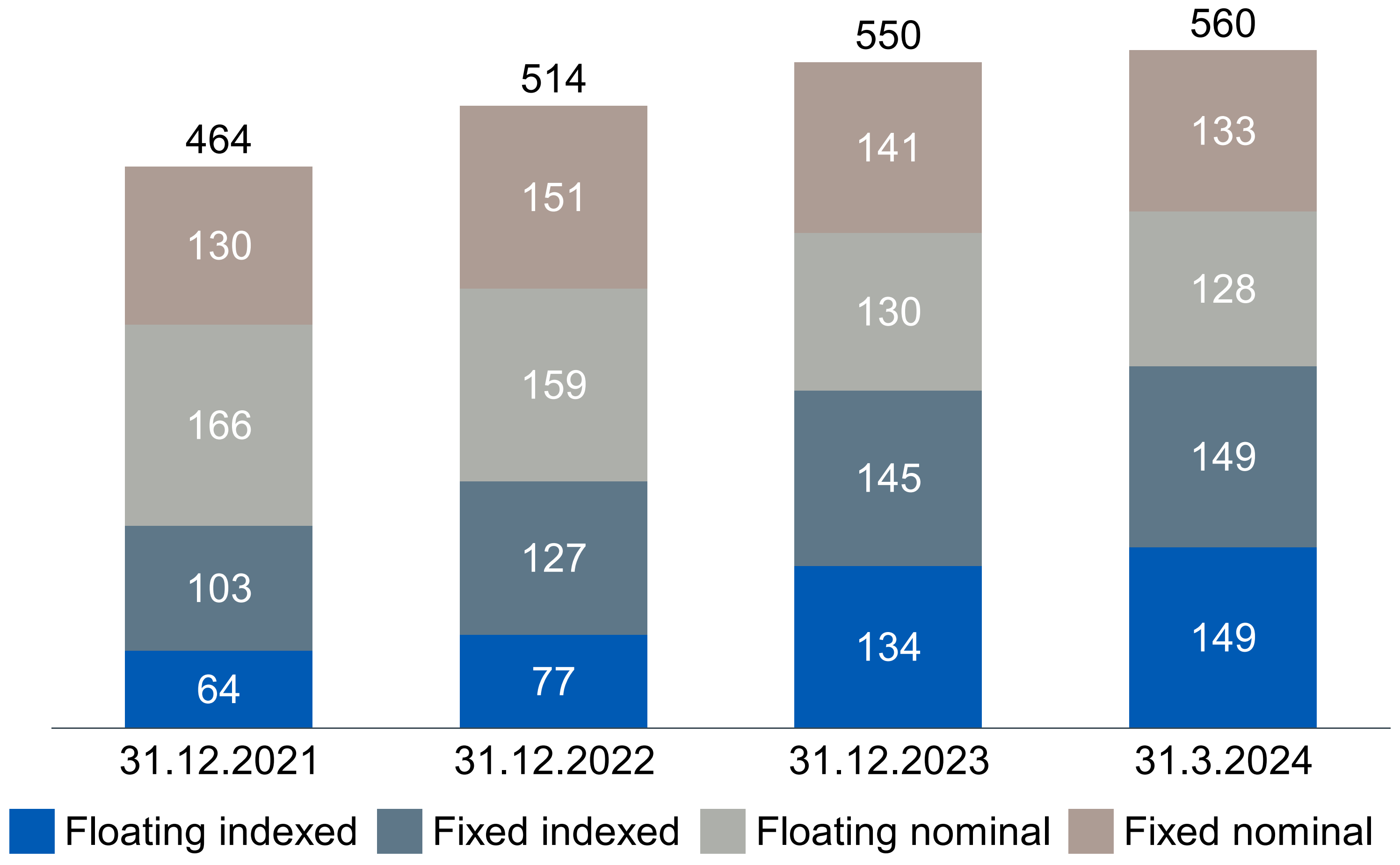
Residential mortgages

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 31.3.2024, which is below the historical average. As a result of current interest rate levels, there is a considerable shift towards indexed mortgages which offer lower payment burden.
- The Bank has adjusted its criteria for household expenditures in its customer payment assessment, taking into account the rising cost of living. The Bank applies surplus buffers for larger loans.
- A significant portion of fixed nominal rate mortgages are reset in the second half of 2024
- An internal stress test of the fixed nominal portfolio shows that up to one third of those borrowers may need to seek lower monthly payments, e.g., through refinancing to indexed loans
  - In this stress test floating nominal rates reach a maximum of 13% in 2024 and rates remain high into 2025
  - The stress test reveals that following refinancing to lower debt servicing, further measures may be needed for 3-4% of borrowers assuming the indexed rates offered currently

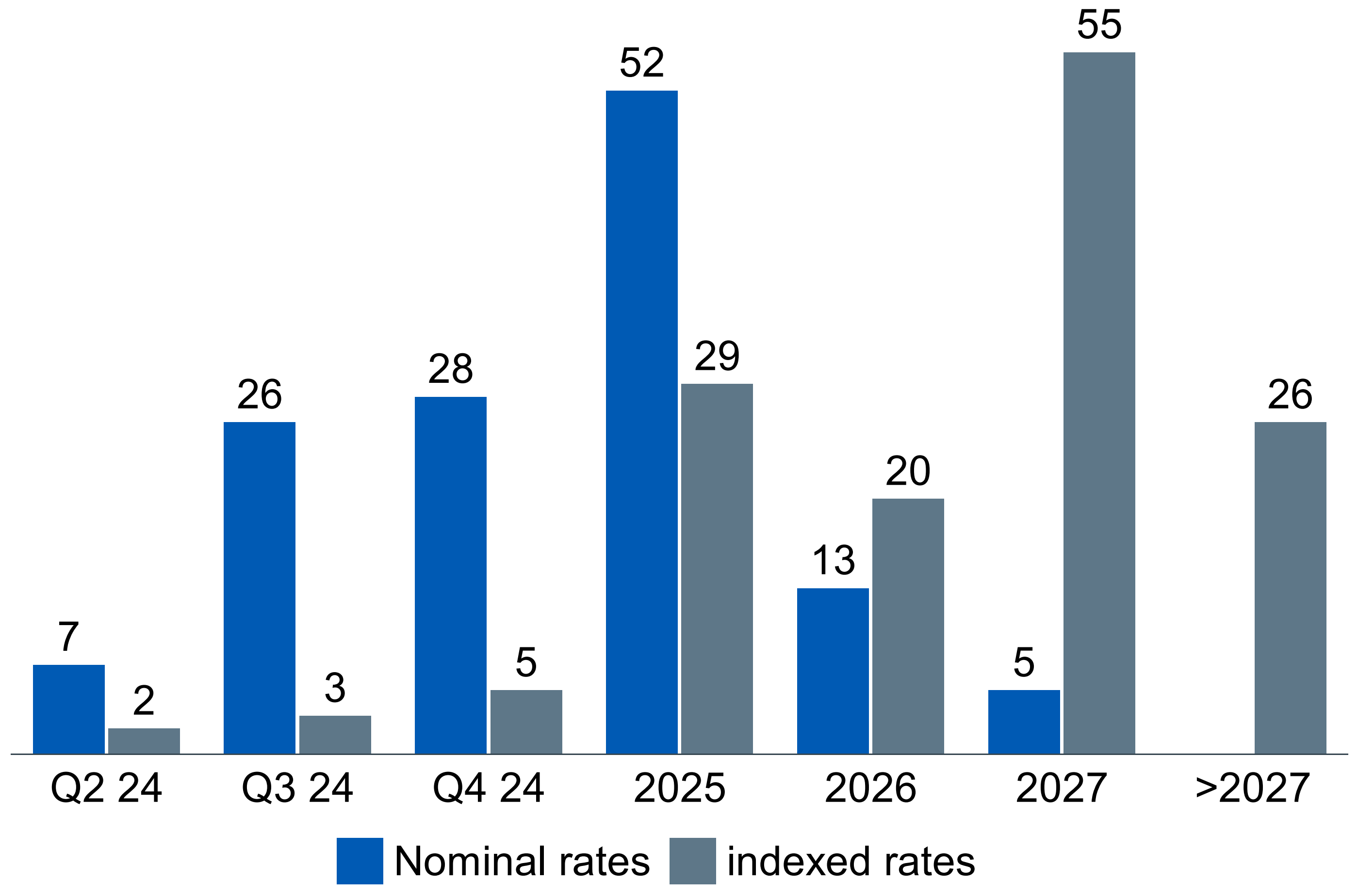
Residential mortgages by interest rate type (ISK bn)

Indexed mortgages were 53% of the portfolio at year-end. Currently, most mortgage applications are for indexed loans.



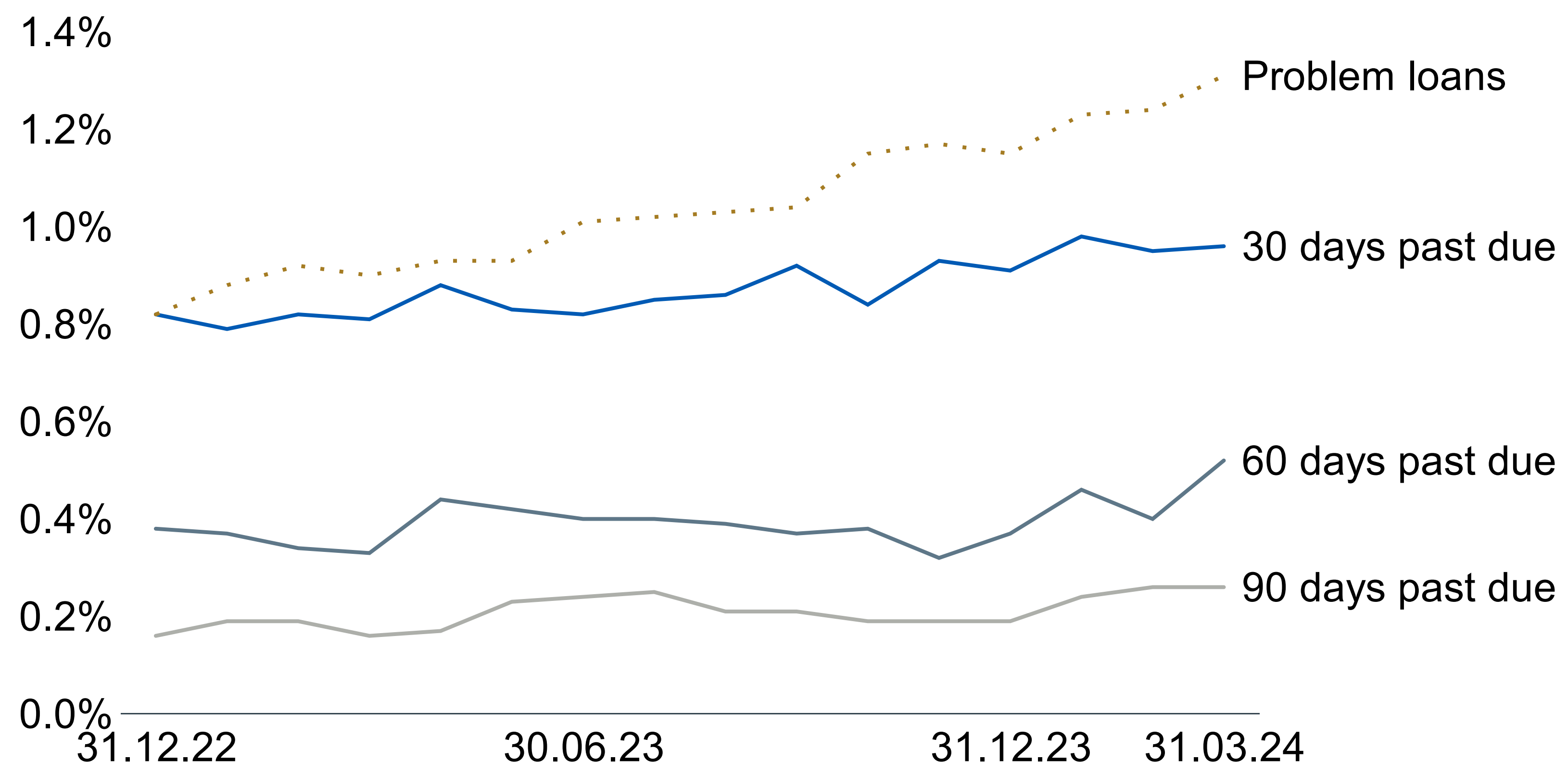
Interest rate reset profile for fixed rate mortgages (ISK bn)

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



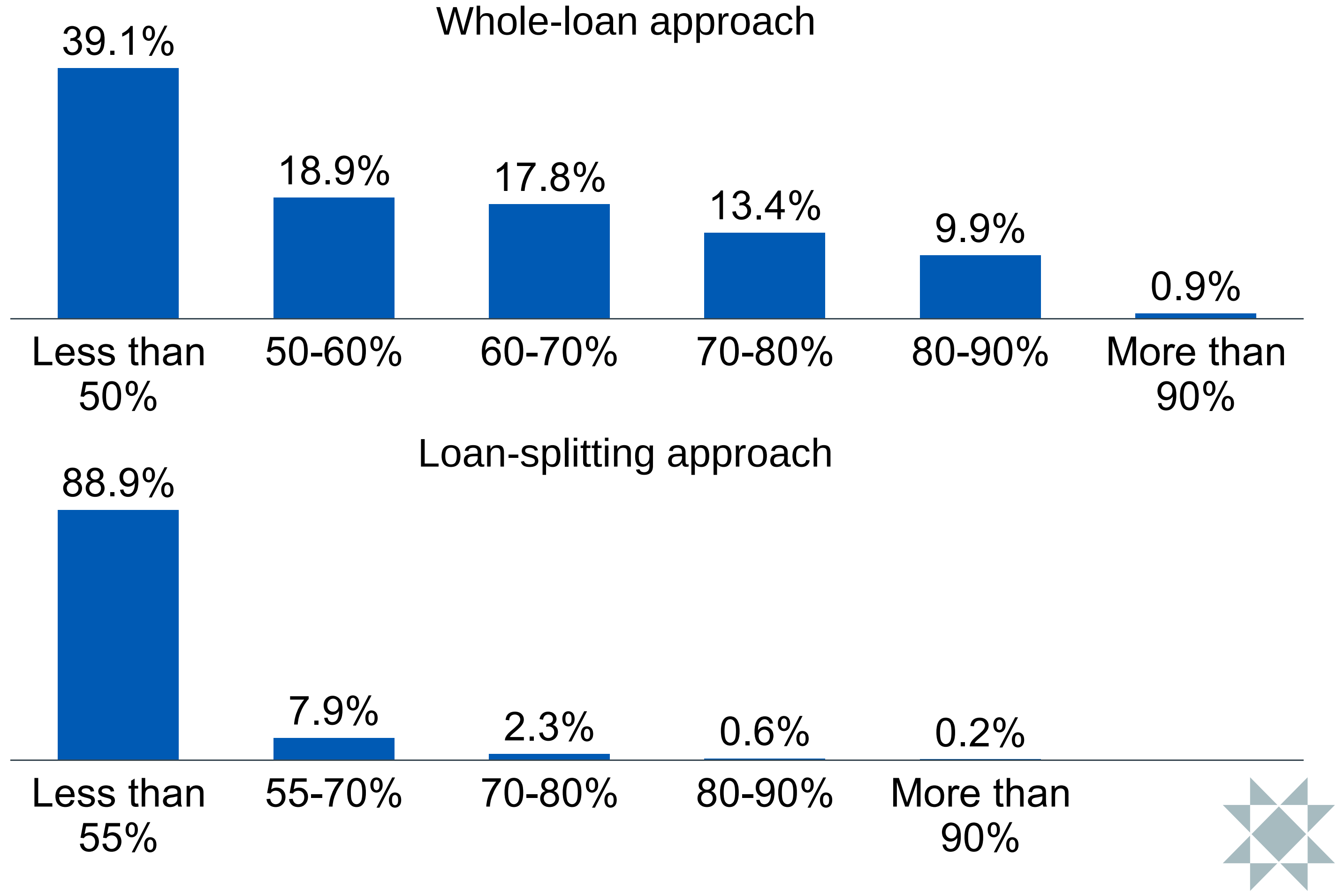
Rate of defaults and payments past due

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).



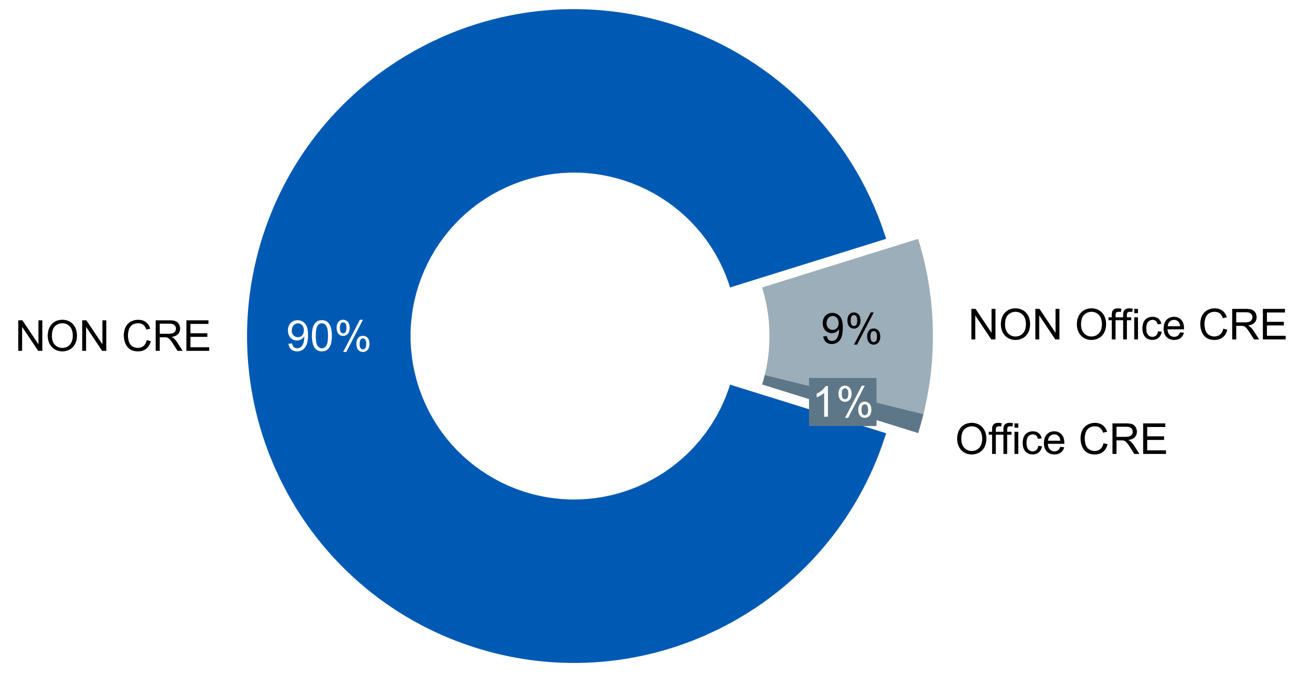
Real estate sector

Diversified portfolio

- Overall real estate related lending in the corporate loan book comprises a total of ISK 113bn or around 9.6% of the loan book with an average LTV of 66%
- The portfolio is highly diversified
  - 44% 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 ISK 11bn or 1% of the loan book
- From 2020 to the end of 2022, the portion 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 56% of the portfolio

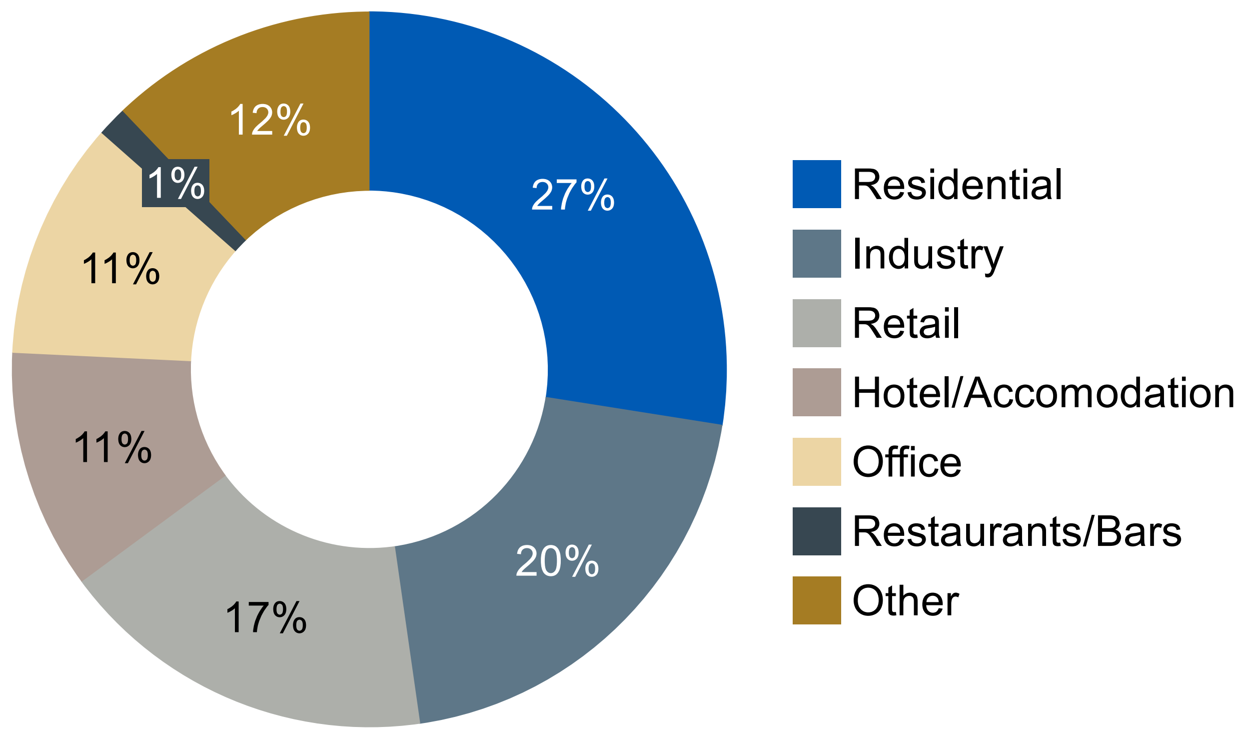
Loans to customers

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]

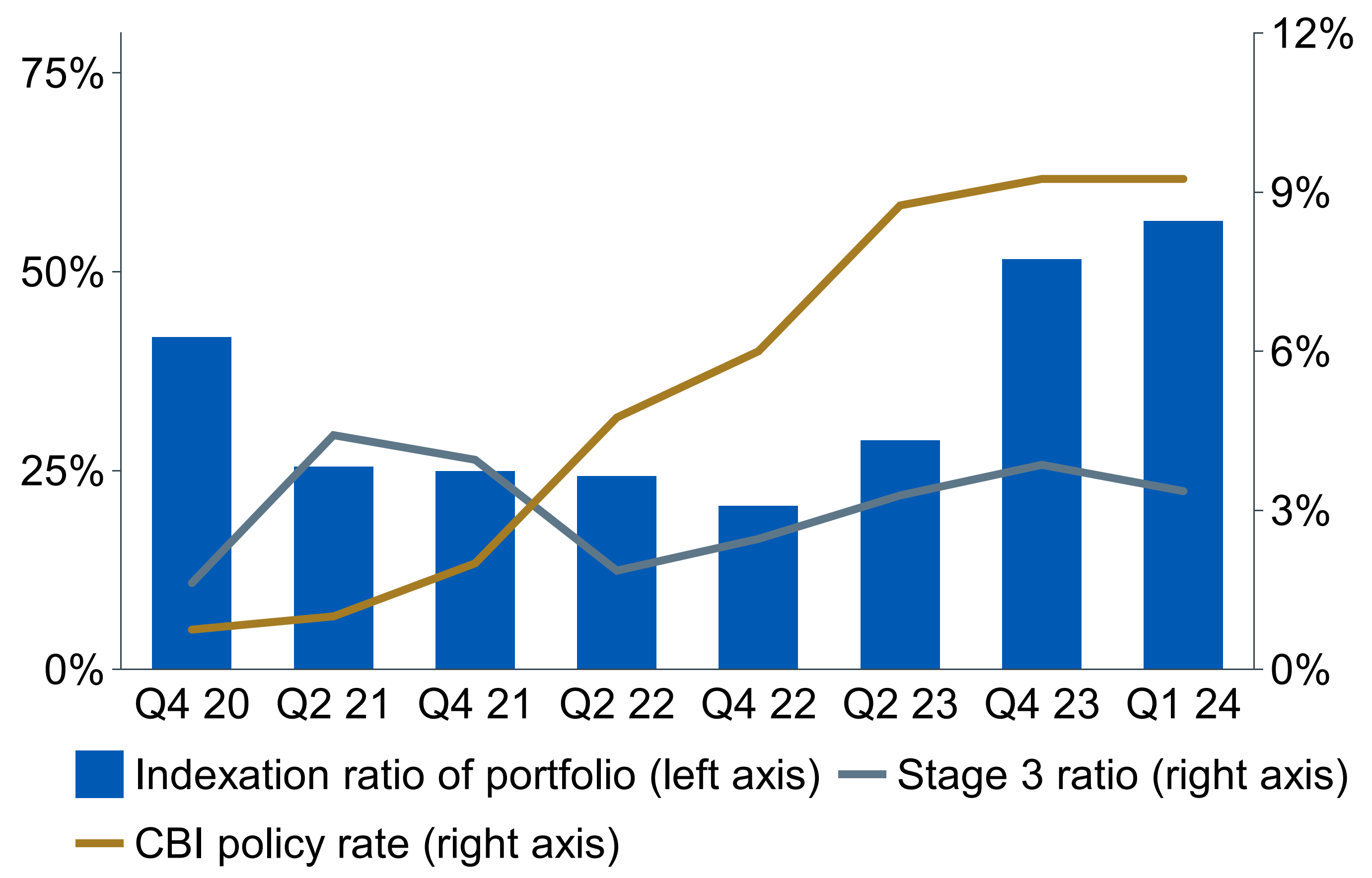
Well diversified collateral in terms of real estate type



1. For real estate sector only.

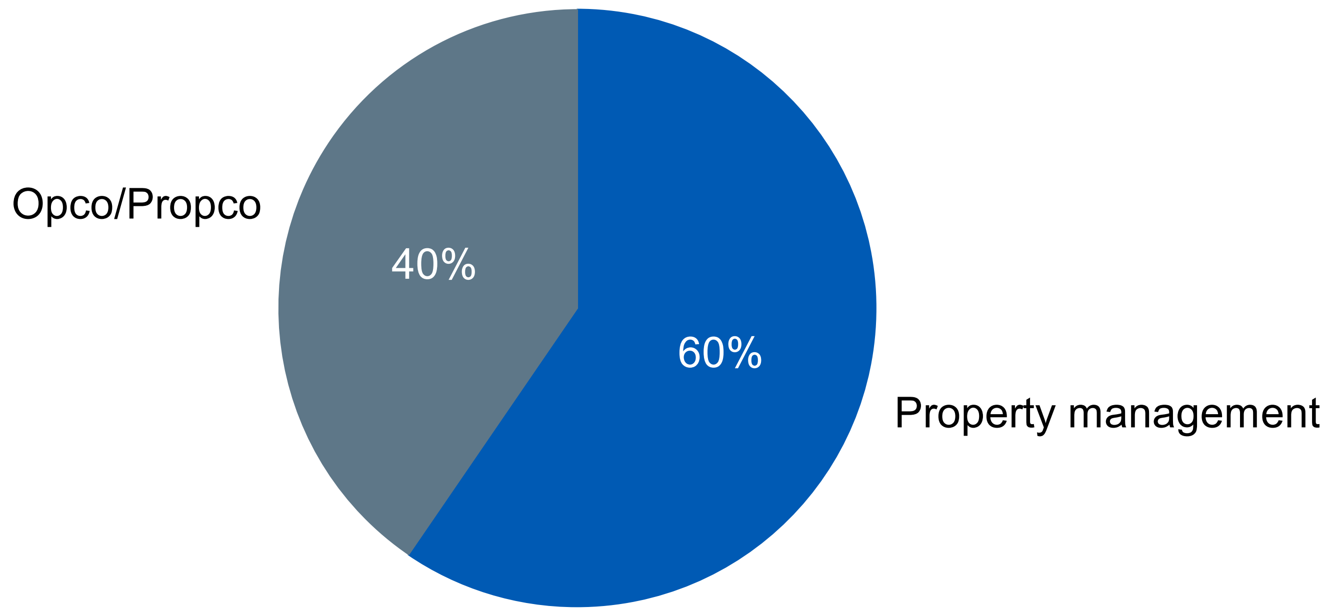
Development of indexed loans and 90 days past due

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.

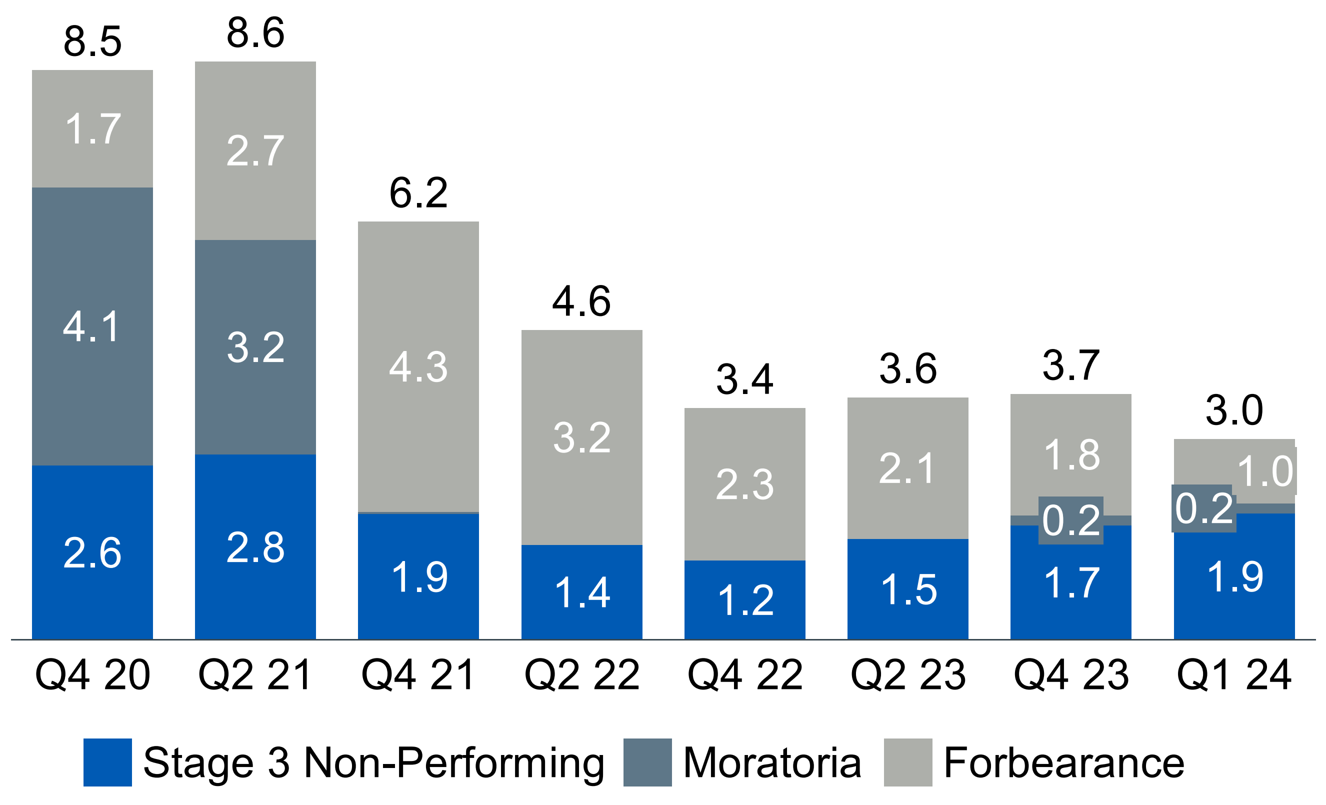


Risk profile

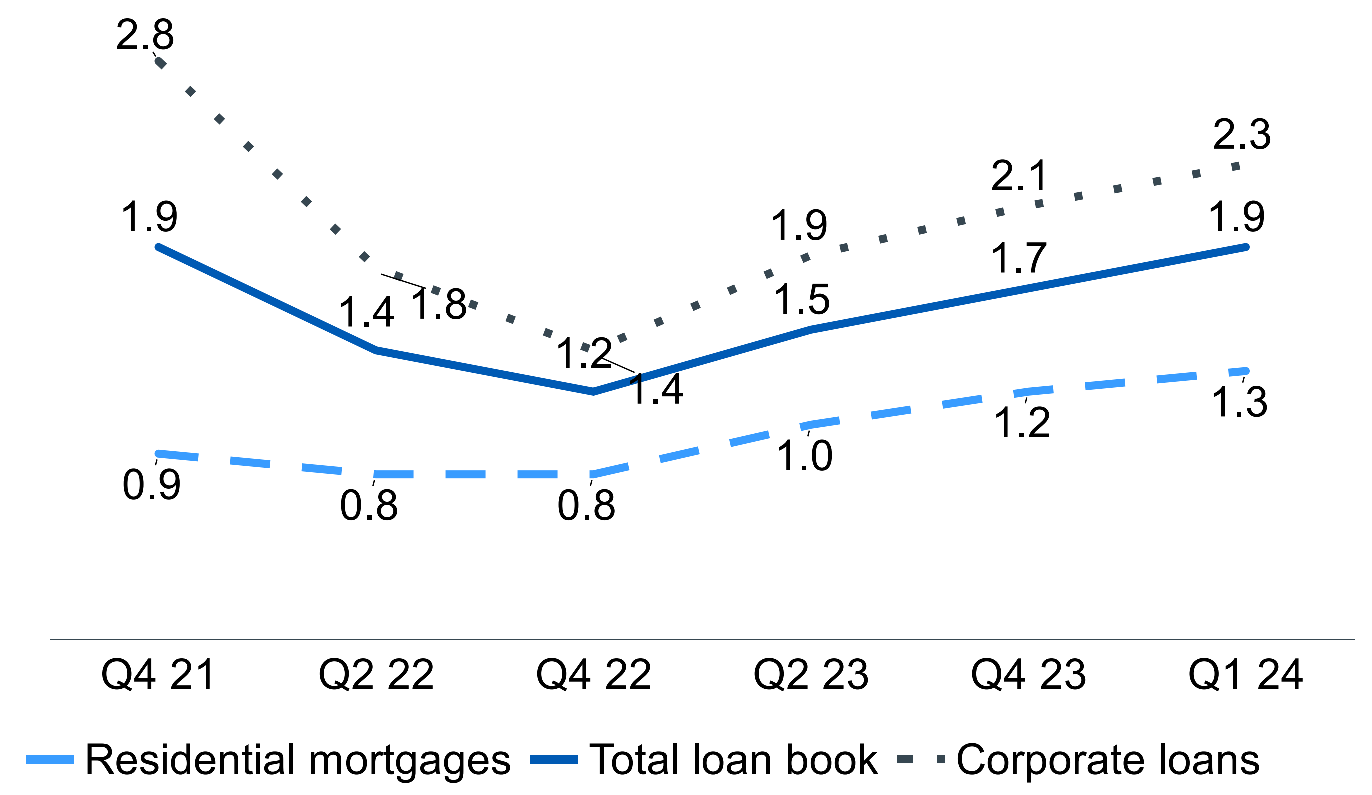
Strong credit quality indicators while a slight trend towards higher rate of payments past due observed

- Despite increased provisioning through management's forward looking macro-economic assumptions, risk indicators of credit quality remain at healthy levels.
- Loans in moratoria in the quarter are due to measures in response to volcanic activity near Grindavík.
- Total credit loss is expected to approach between 20-25bps in the long term based on current loan book composition. At the end of Q4 the expected 12-month expected credit loss ratio of 28bps reflects management's prudent view in the current challenging conditions.
- Mortgages to individuals secured with residential real estate in Grindavík are excluded from this analysis.
- The NPL coverage ratio at 31.03.2024 was 19.7%. Approximately 65% of problem loans are exposures secured by real estate, which have low coverage in general.

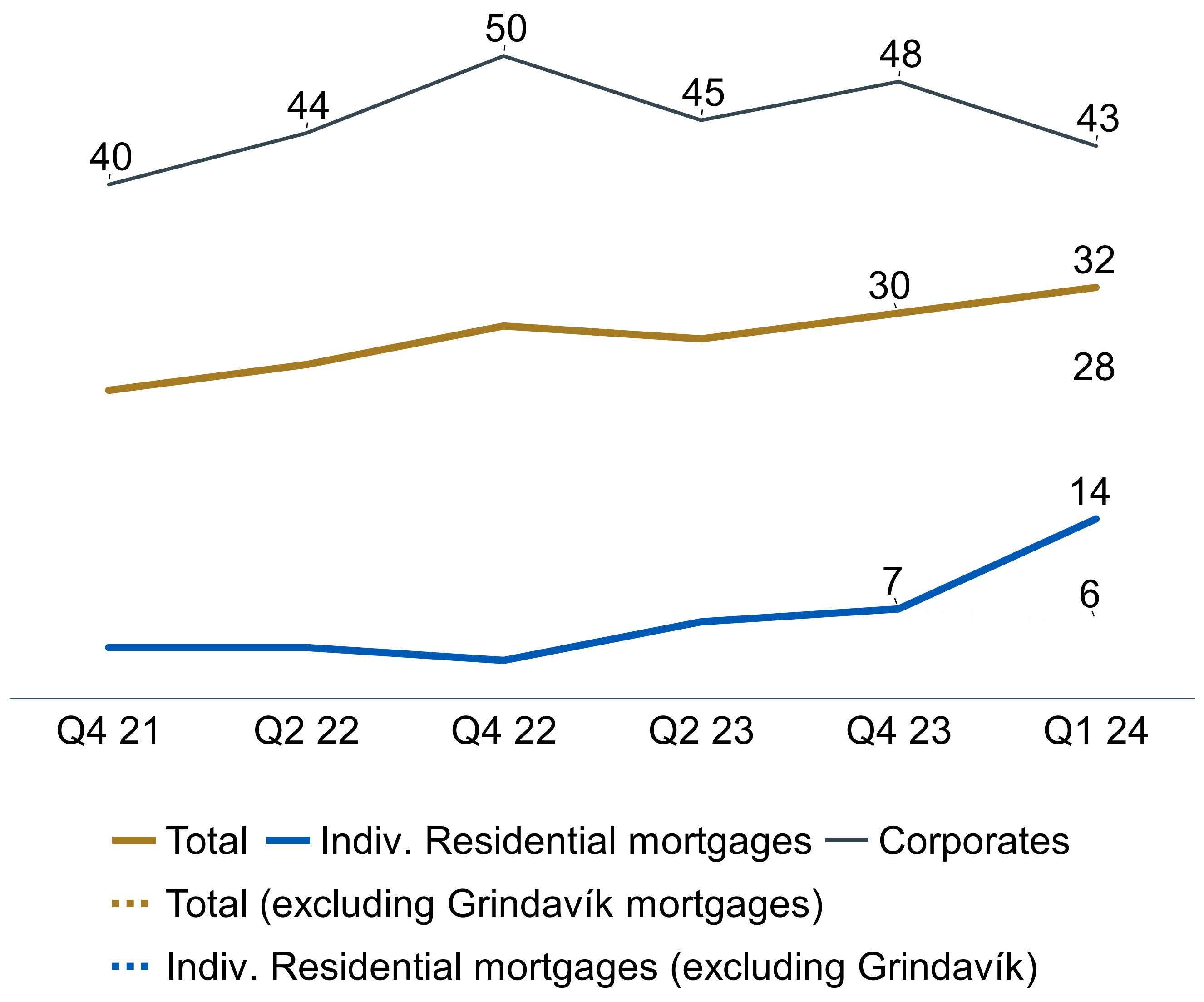
Development of non-performing loans, moratoria and forbearance (% of total loan book)



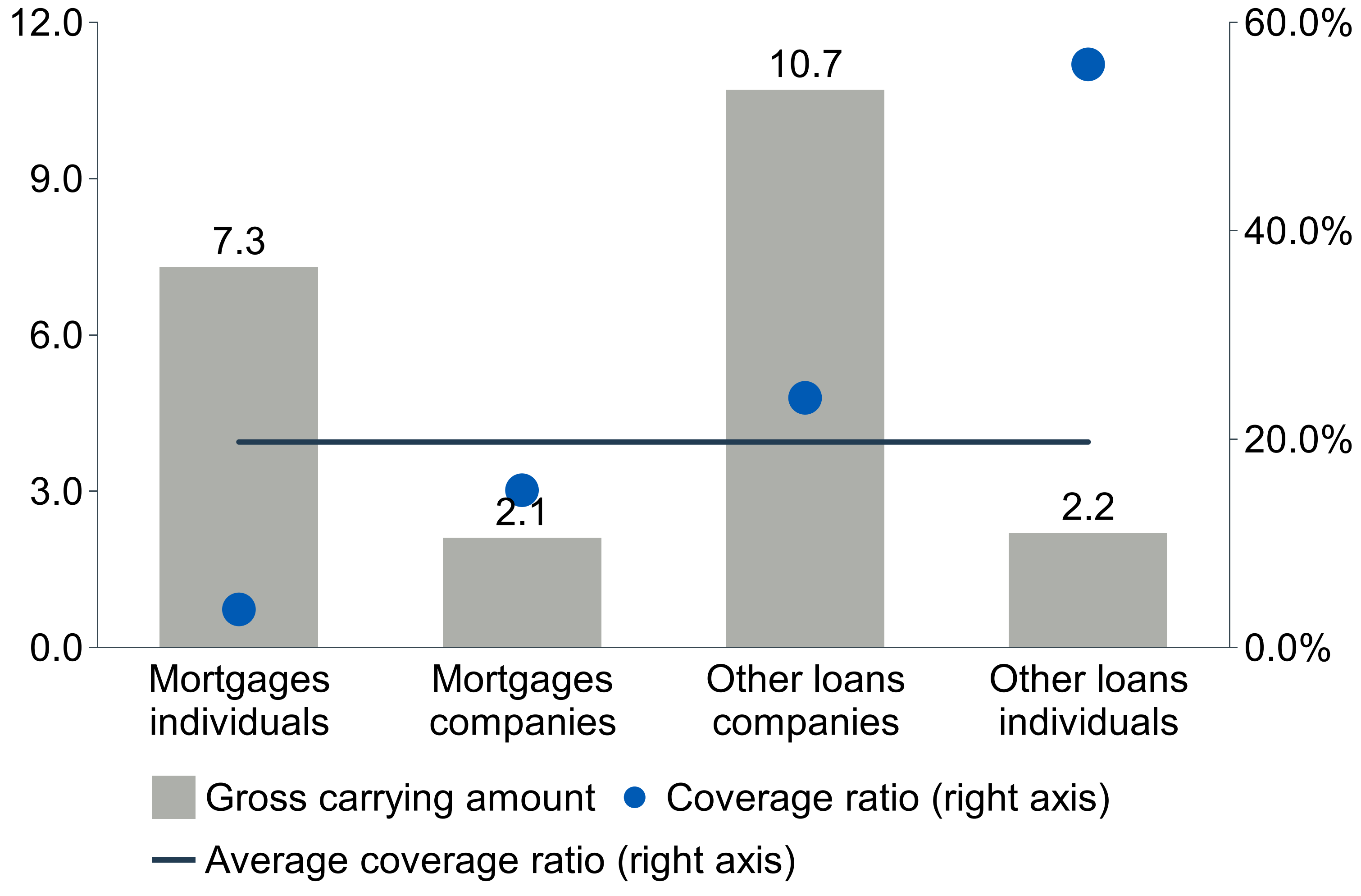
Development of problem loans ratio for loan portfolios (% of relevant loan book)



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



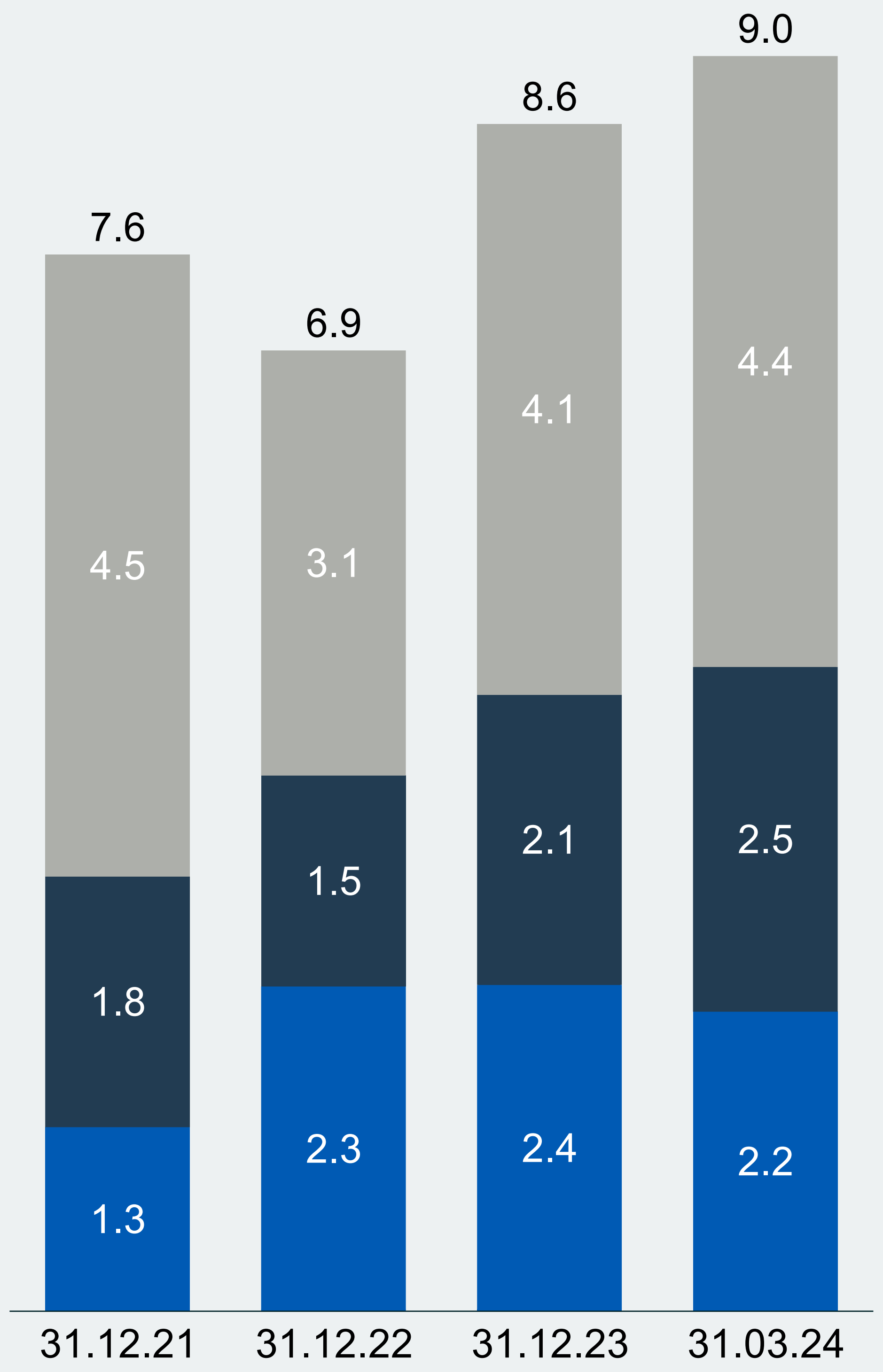
NPL coverage breakdown (ISK bn)



Loss allowance by IFRS 9 stages

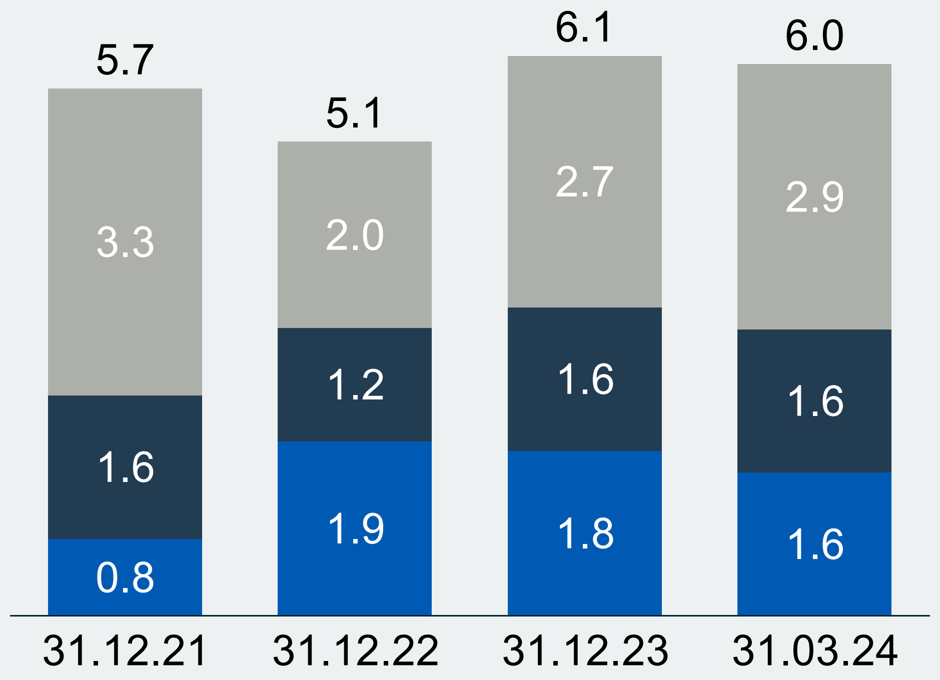
On loans to customers total (ISK bn)

Loans to customers are 0.76% provisioned at period end compared with 0.74% at YE 2023



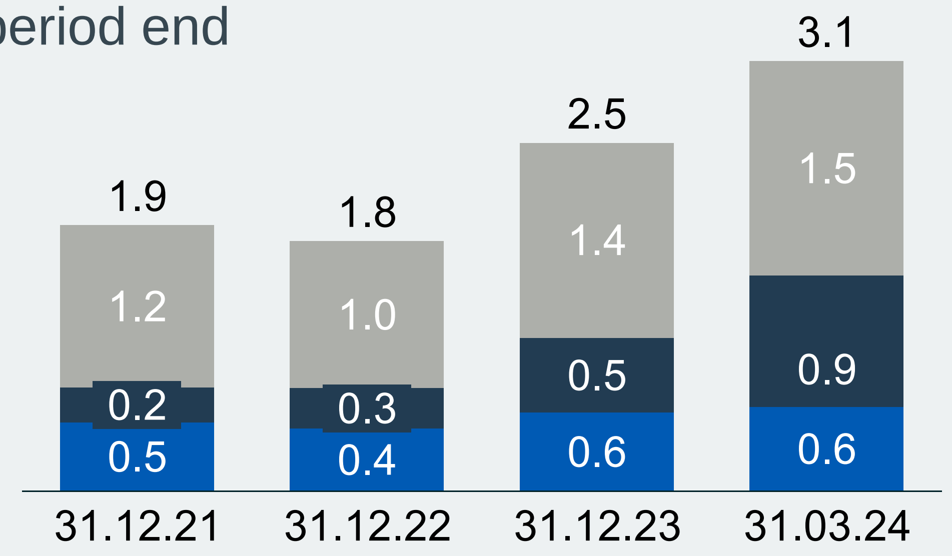
Thereof on loans to corporates (ISK bn)

Loans to corporates are 1.06% provisioned at period end



Thereof on loans to individuals (ISK bn)

Loans to individuals are 0.49% provisioned at period end



Stage 1 Stage 2 Stage 3

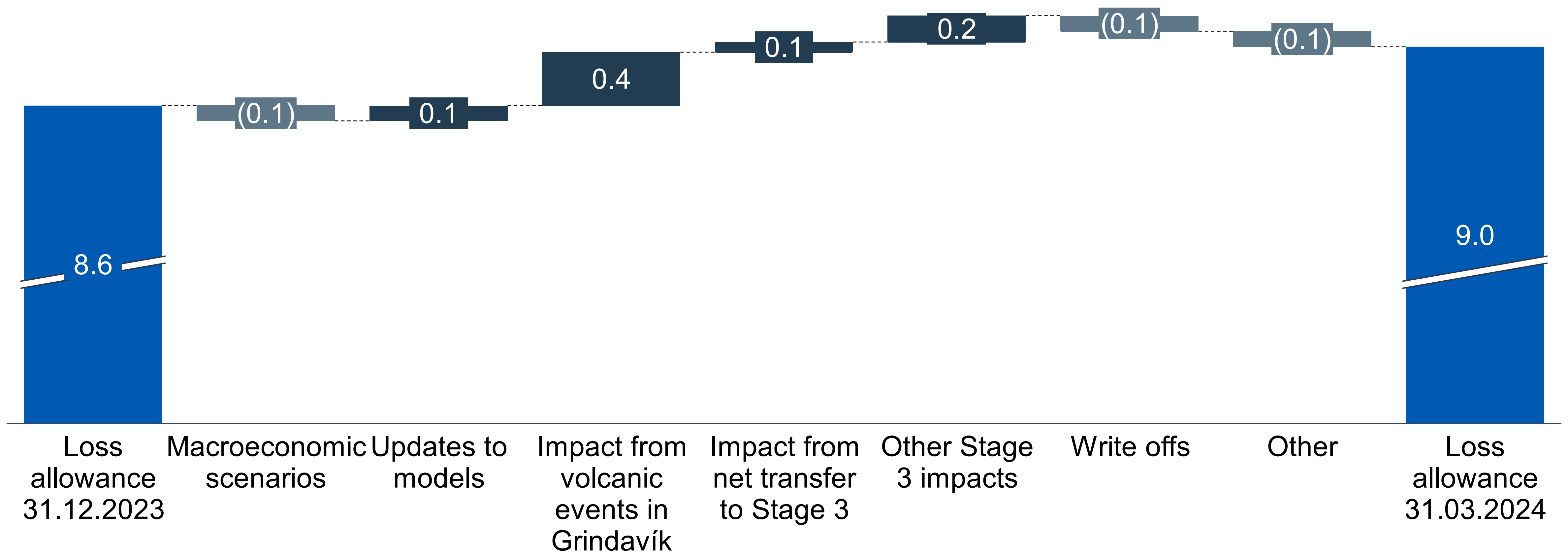
IFRS9 economic scenarios and assumptions

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	Q1 2024
Optimistic	10%	10%	10%
Base case	65%	60%	60%
Pessimistic	25%	30%	30%

Changes to loss allowance on loans to customers in Q1 (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

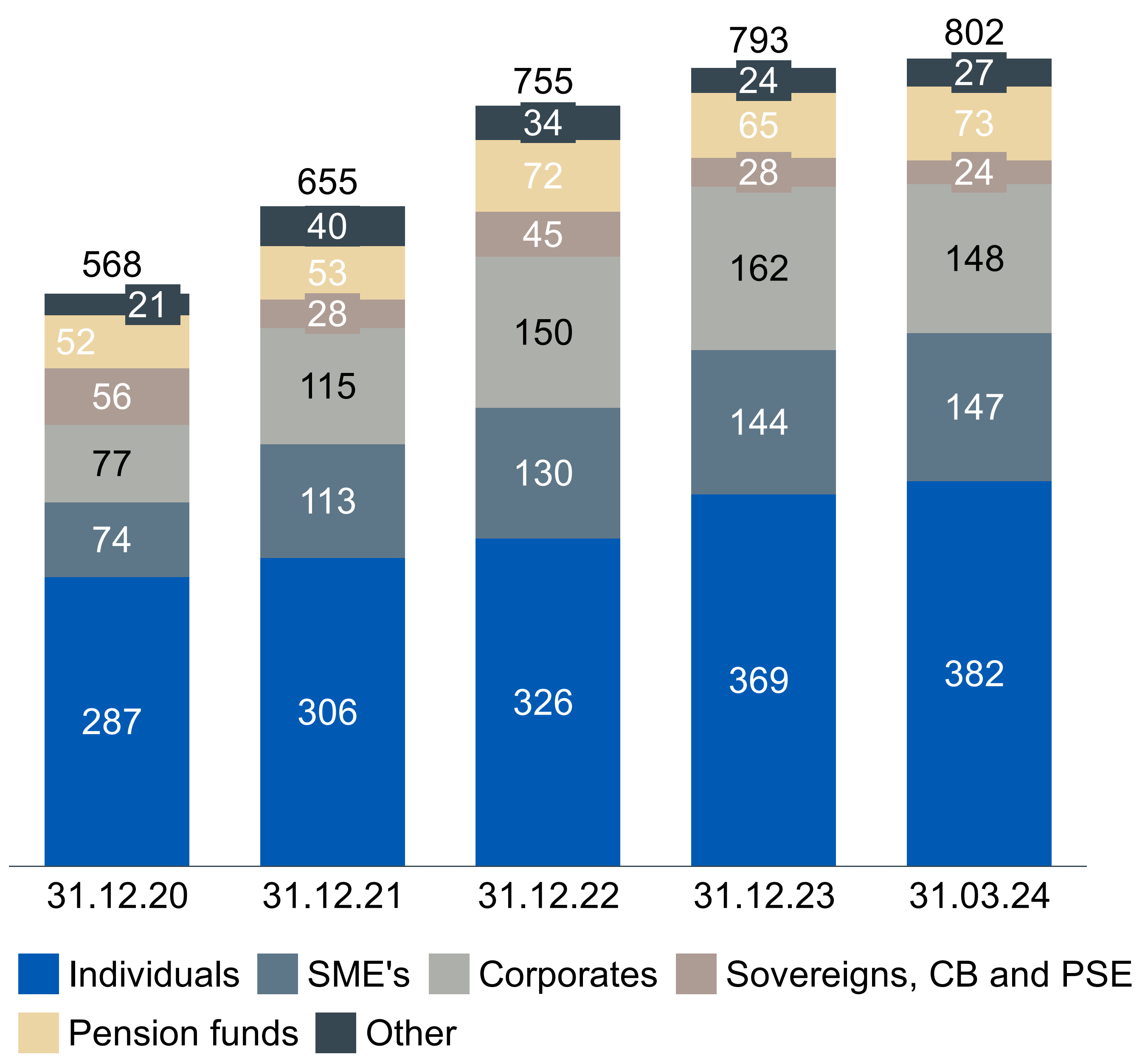


Deposits from customers

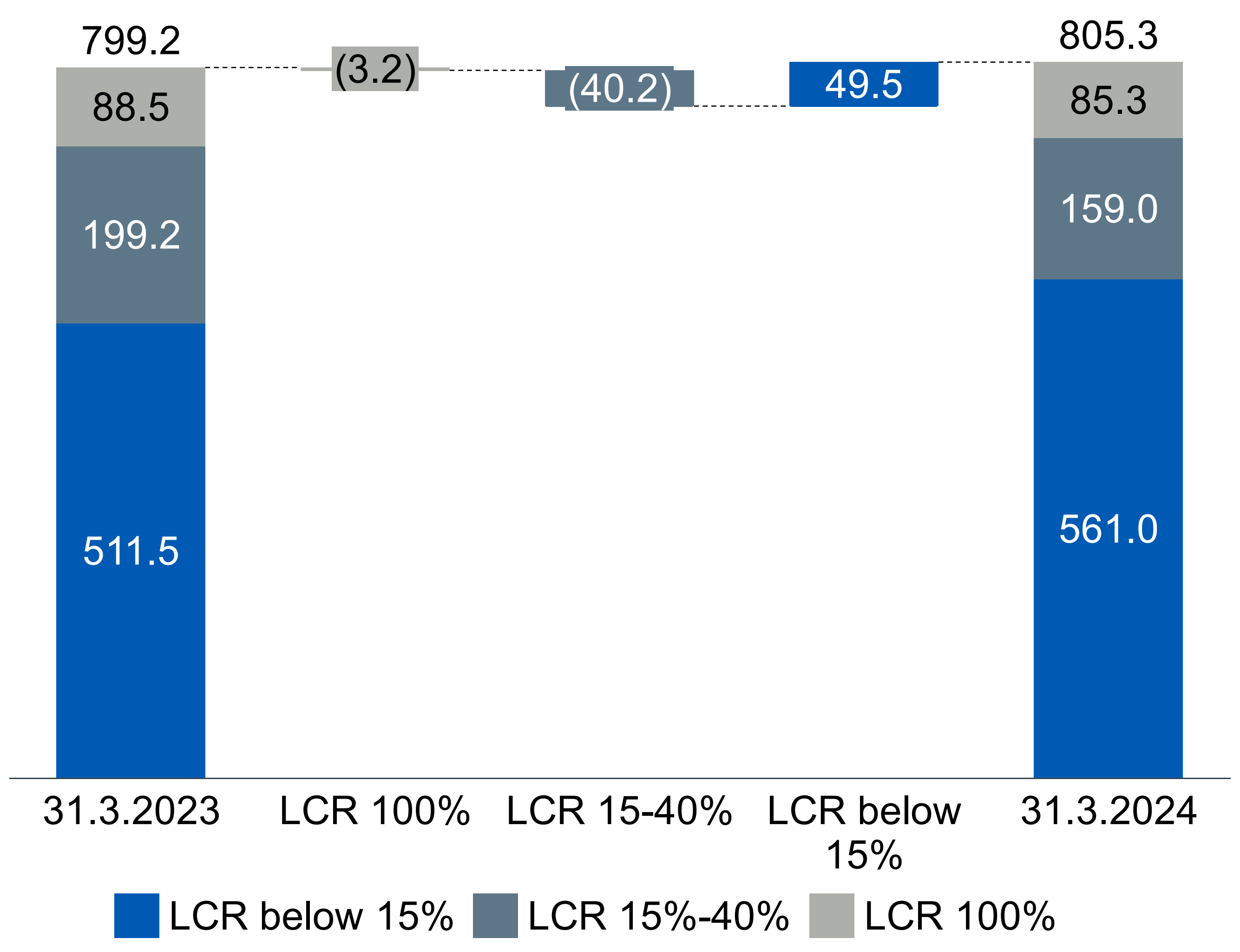
Diversified deposit base supports strong position in competitive environment

- Deposits from customers of ISK 802bn represent 59% of the Bank's total liabilities
- Increase in deposits from customers during the quarter was 1.2%, mainly from individuals and pension funds
- YoY growth has primarily been in "stable" LCR category and term deposits, reflecting the strategic focus in the area.
- Loans to deposits ratio of 147% at the end of the quarter and has been relatively stable over the last few years

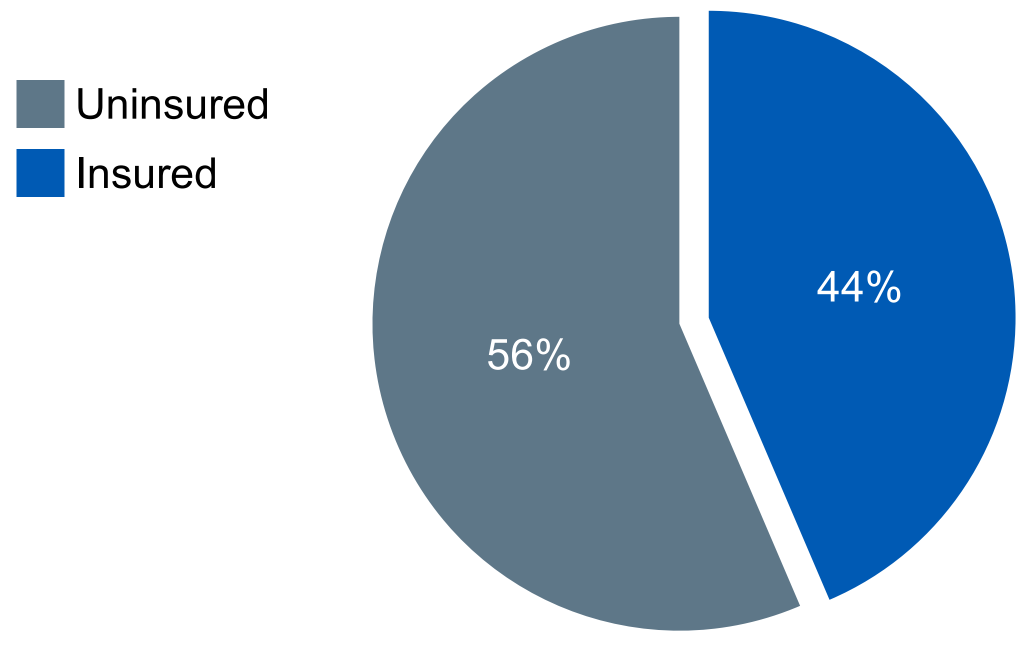
Deposits (ISK bn)



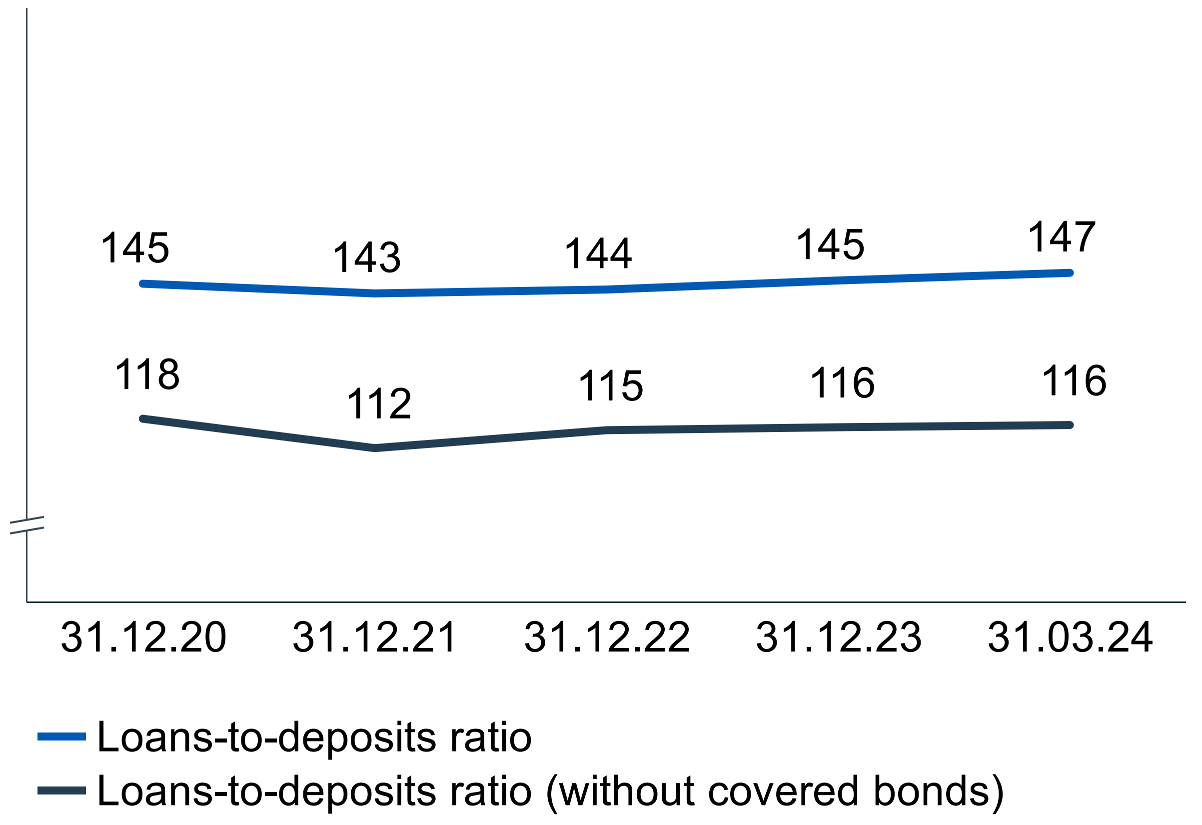
Deposit growth by LCR outflow category (ISK bn)
(including due to credit institutions)



Deposits by insurance scheme



Loans to deposits ratio (%)

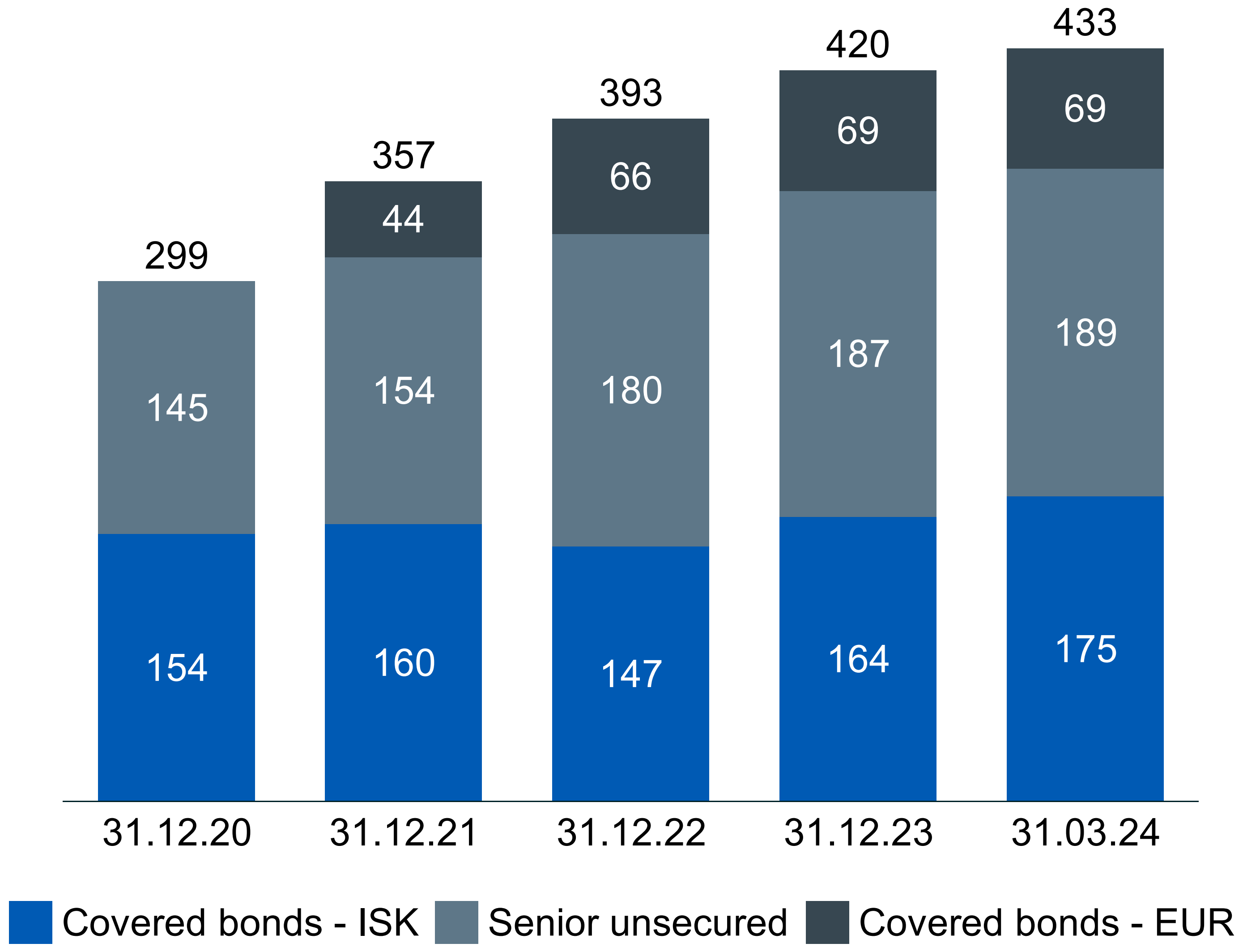


Borrowings

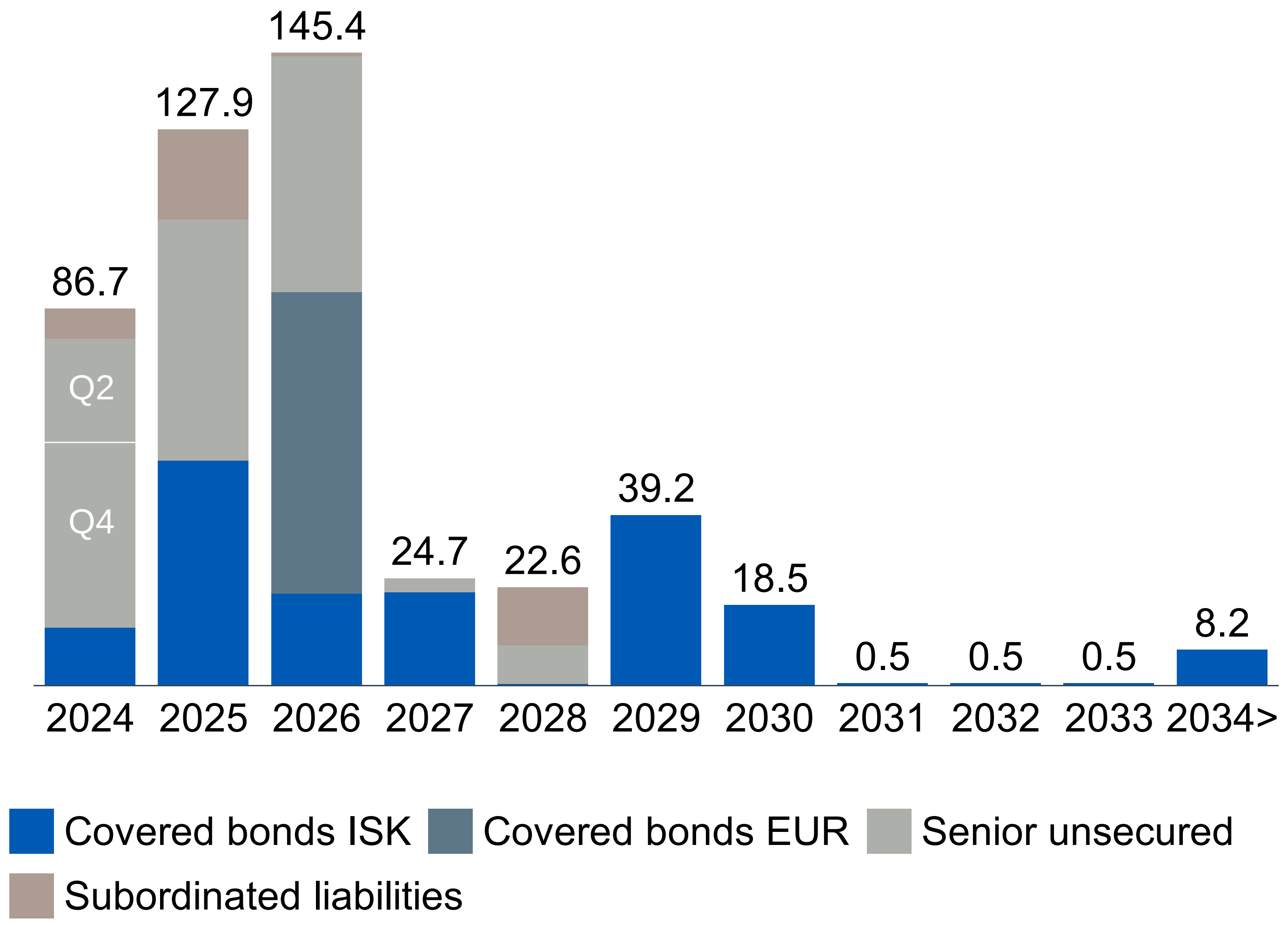
Balanced maturity profile and improved spread development

- Covered bonds issued in the domestic market in the quarter ISK 11.5 bn
- Funding spreads in the international market have developed favorably in recent months
- The Bank will continue to regularly issue in the domestic market and access the international markets periodically
- Following strategic review, going forward the Bank will operate with one international credit rating agency, Moody's. This review considered among other factors:
  - Strategic fit given our size and business model
  - The issuance plan and quality of market access
  - Ensuring that Arion investors have access to quality and independent credit assessments from highly credible credit global rating agencies

Borrowings by type (ISK bn)



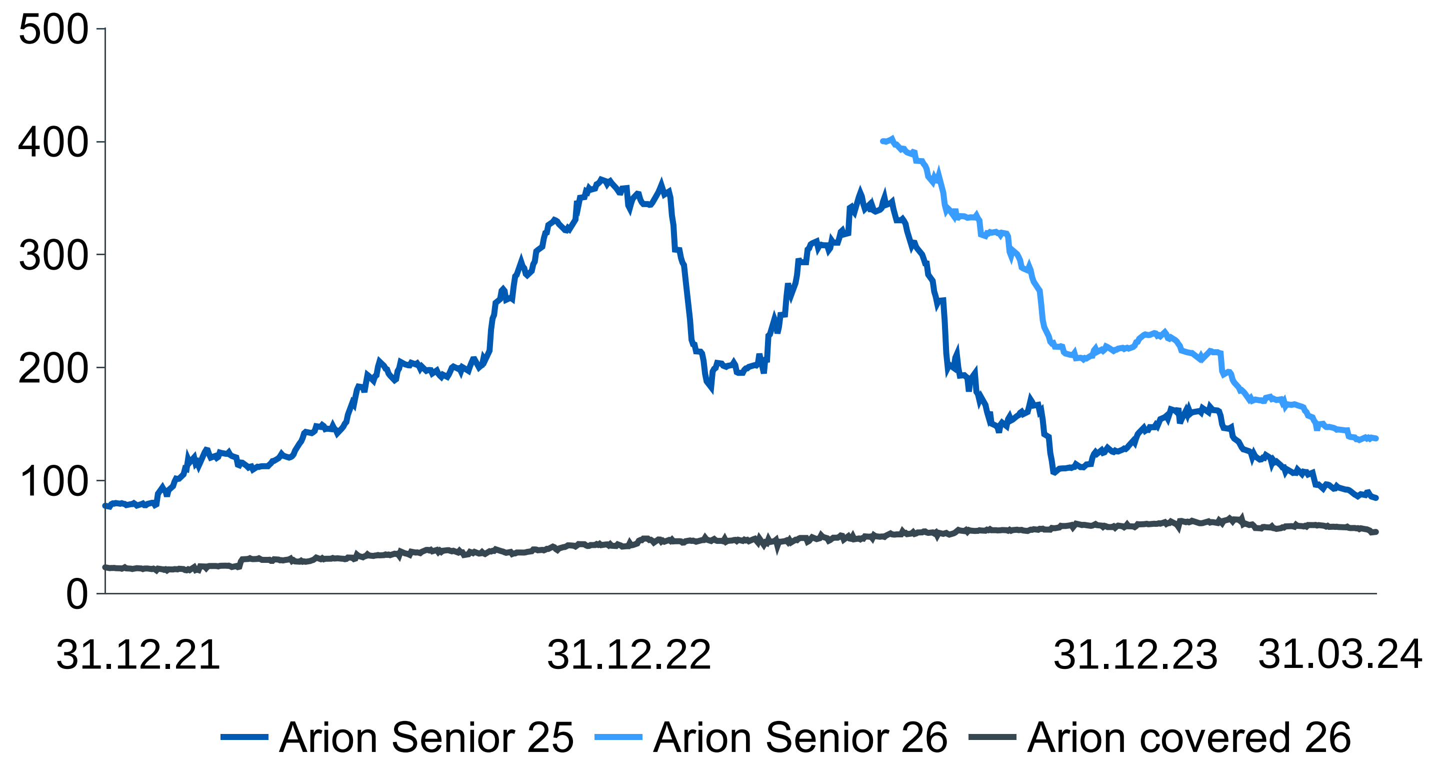
Maturities of borrowings and call dates on subordinated liabilities (ISK bn)



Ratings

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

Development of EUR funding spreads (bps)

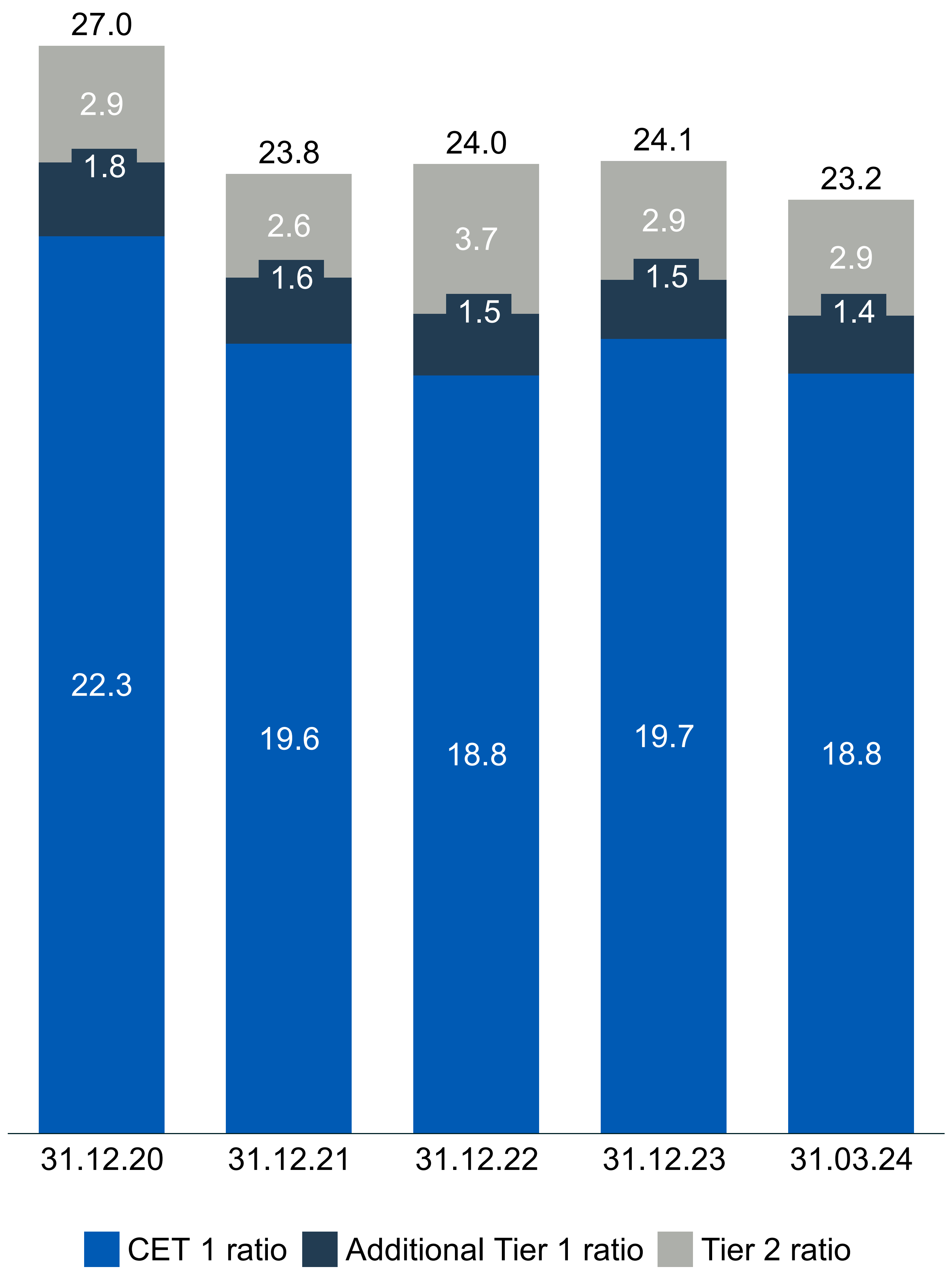


Own funds

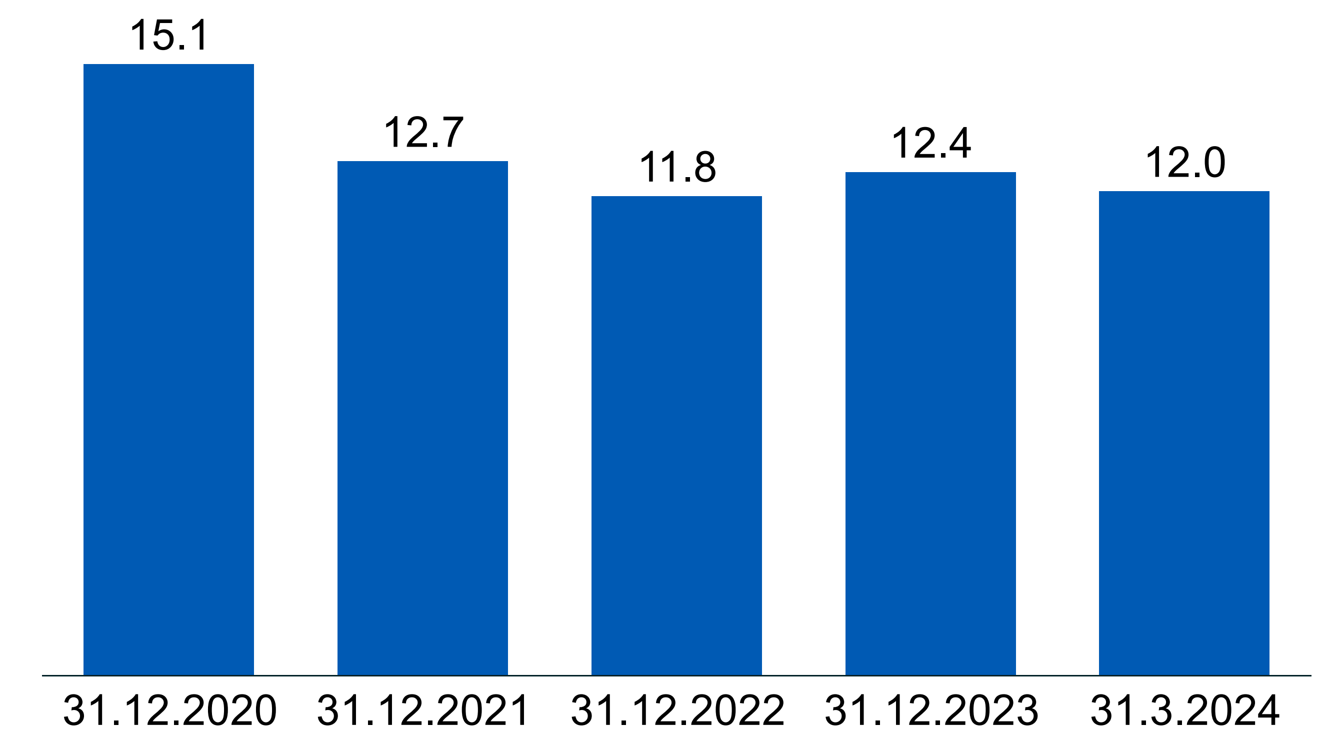
Strong capital position

- Capital position remains strong and above medium-term targets
- CET1 position is 350bps above regulatory requirement
- Leverage ratio of 12.0% 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 26.4% and 21.5%, respectively, very comfortably exceeding the requirements

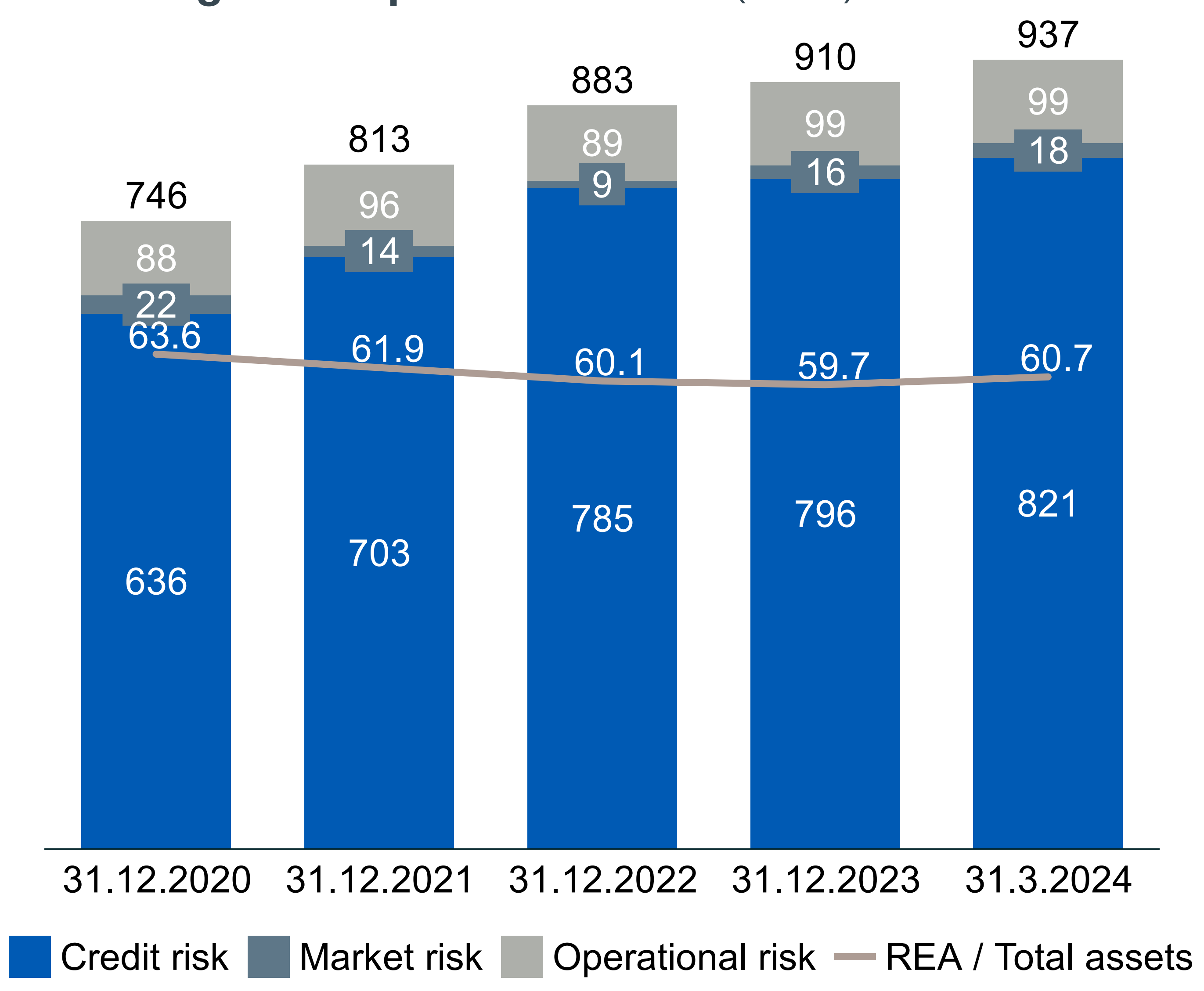
Capital ratio (%)



Leverage ratio (%)



Risk-weighted exposure amount (ISK bn)

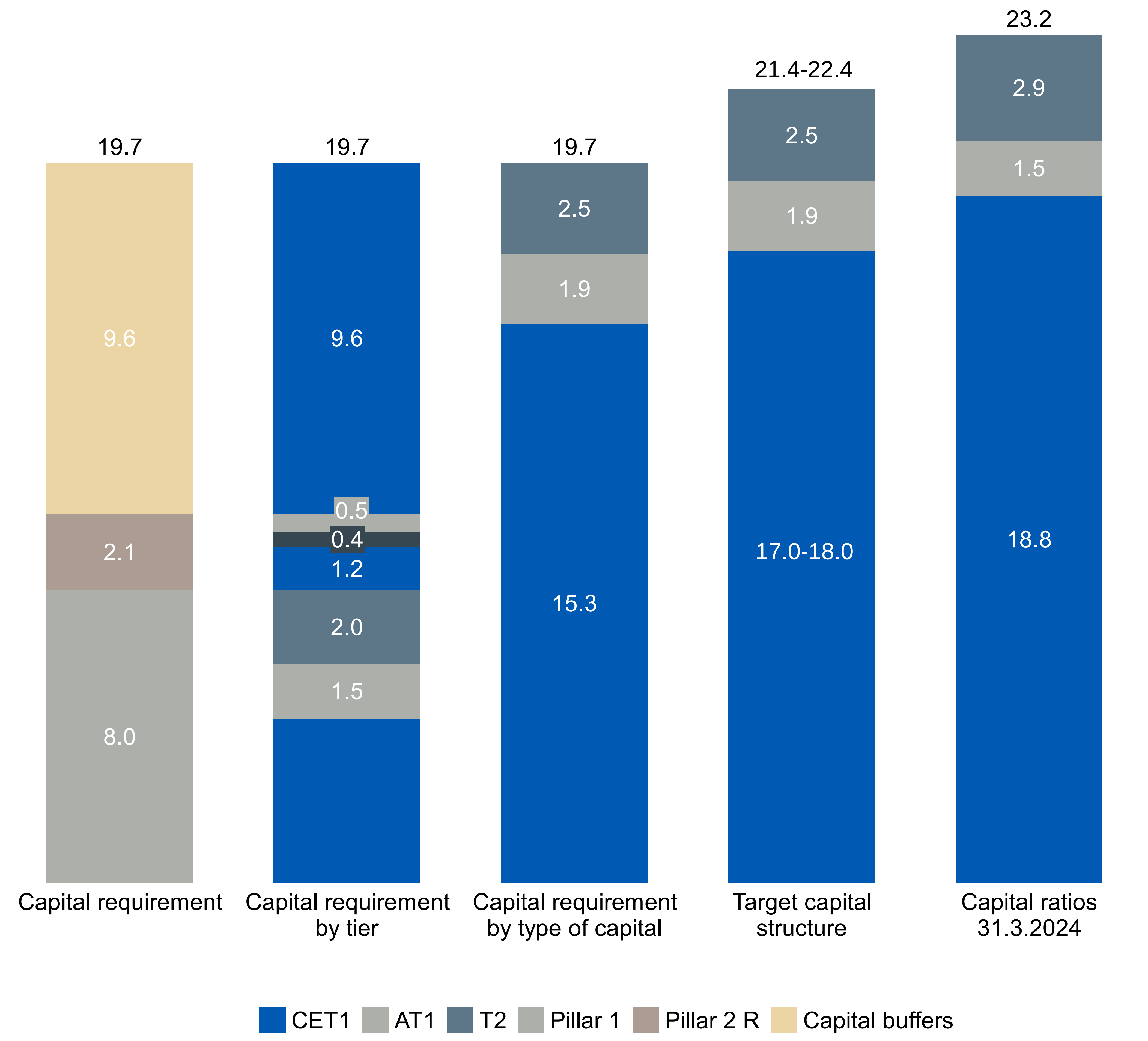


Own funds

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

- Unaudited Q1 profits of ISK 4.4bn and corresponding foreseeable dividends of ISK 2.2bn included in the capital ratios shown
- An ISK 5.0bn buyback program has been approved by the Board and the FSA and this amount is subtracted from CET1 capital
- The Pillar 2 requirement is 2.1% as a result of the SREP process based on year-end 2022 financials
- The countercyclical buffer in Iceland rose from 2.0% to 2.5% as of 16 March 2024 based on a decision of The Financial Stability Council from a year earlier
- The medium-term capital management buffer target is around 150-250bps over regulatory requirements
- CET1 capital is ISK 9.8 – 19.1bn in excess of target capital structure. However, since currently the Bank does not fully utilize AT1 capacity, CET1 capital of ISK 4.2bn is used to make up that shortfall
- The final exercise period for outstanding issued warrants of 52.9 million is in August. These are currently in the money. Assuming that all outstanding warrants will be exercised, CET1 is expected to increase by approx. ISK 6.1bn
  - This would increase CET1 ratio to 19.5%, with all other assumptions unchanged
- The solvency ratio of Vördur insurance is 133.4%

Own funds and capital requirements (%)



Going forward

Positive general outlook while policy rate and inflationary outlook remains a key external consideration

Overall positive outlook for the group

- Demonstrated in upgraded medium term targets and messaging at the Arion CMD in March.

The first quarter results are however below expectations

- Key drivers off high effective tax rate and subdued commission income are expected to recover over the coming year.

The Group is in a strong position

- Diverse and seasoned businesses supported by conservative and agile balance sheet management empowers the Bank to navigate the current external operating environment.

Very strong capital, liquidity and funding position

- Capital management ongoing with 5bn buyback program approved.
- Strategic review of credit rating coverage completed with focus on sole Moody's rating going forward.

The Icelandic economy is robust

- It was a key positive that during the quarter the union wage negotiations in the private sector were largely concluded with a long-term agreement which is a key milestone for managing inflation.

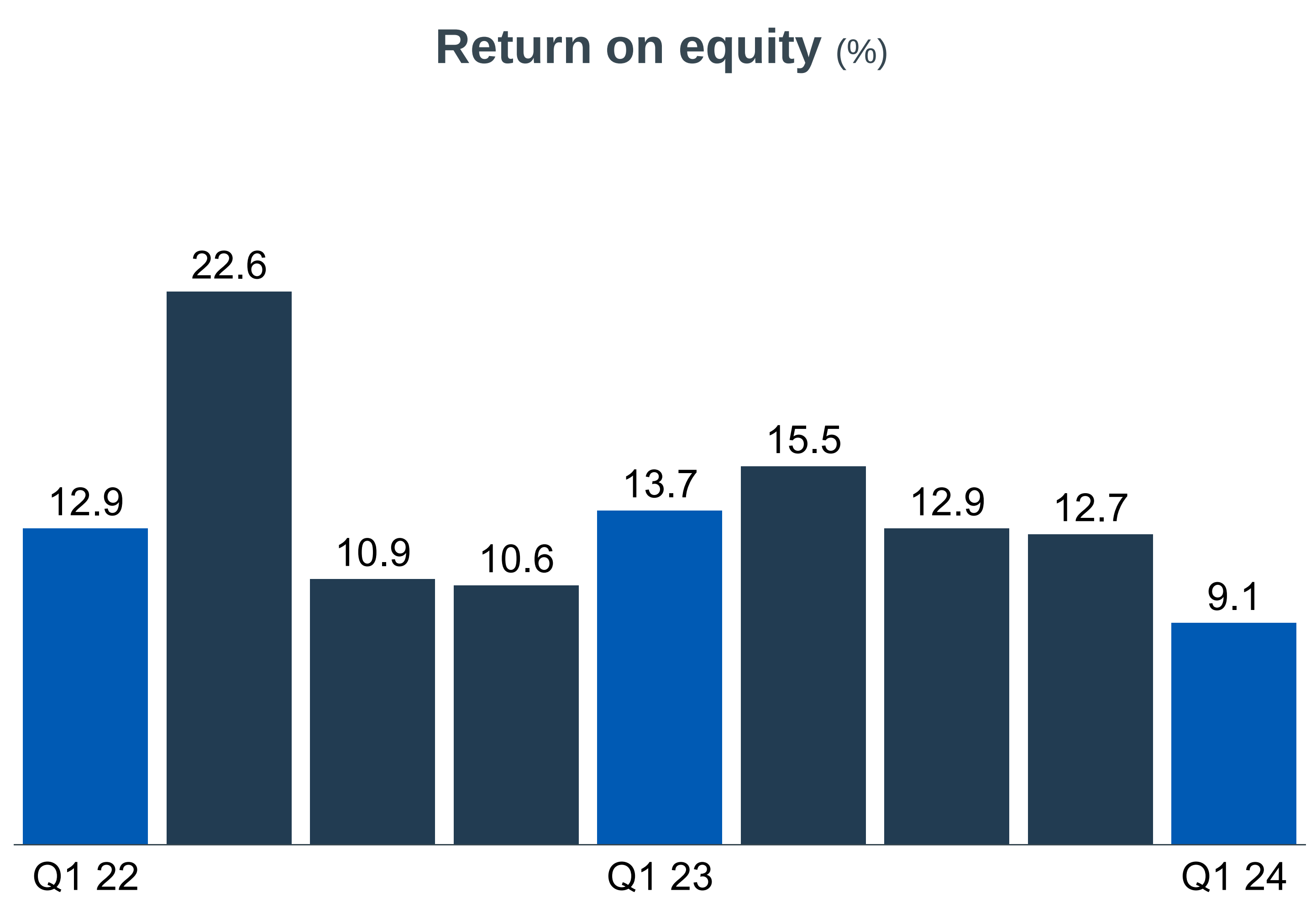
Key figures*

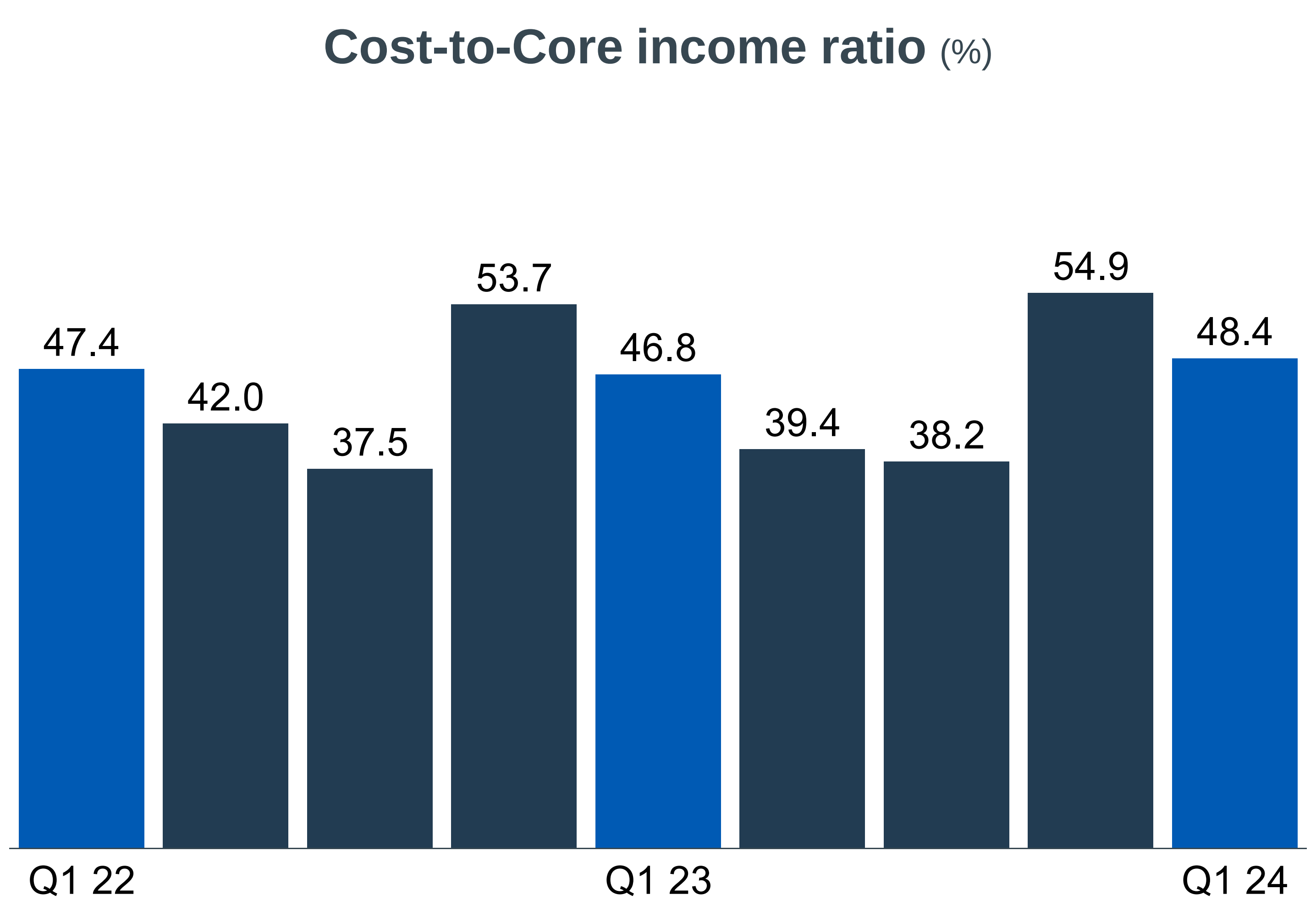
Operations	Q1 2024	Q1 2023	Q1 2022	Q1 2021	Q1 2020	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Net interest income	11,245	10,993	9,476	7,342	7,253	11,245	11,347	10,918	11,426	10,993
Net commission income	3,365	4,444	3,556	3,277	3,076	3,365	3,903	3,848	4,187	4,444
Operating income	14,474	15,509	14,020	13,097	8,976	14,474	16,312	14,986	17,344	15,509
Operating expenses	(6,554)	(6,440)	(5,577)	(6,048)	(6,207)	(6,554)	(7,830)	(5,392)	(6,009)	(6,440)
Net earnings	4,432	6,291	5,937	6,038	(2,171)	4,432	6,224	6,131	7,091	6,291
Return on equity	9.1%	13.7%	12.9%	12.5%	(4.6%)	9.1%	12.7%	12.9%	15.5%	13.7%
Net interest margin	3.1%	3.1%	3.1%	2.7%	2.8%	3.1%	3.1%	3.0%	3.2%	3.1%
Return on assets	1.2%	1.7%	1.8%	2.1%	(0.8%)	1.2%	1.6%	1.6%	1.9%	1.7%
Cost-to-core income ratio	48.4%	46.8%	47.4%	53.6%	57.3%	48.4%	54.9%	38.2%	39.4%	46.8%
Cost-to-income ratio	45.3%	41.5%	39.8%	46.2%	69.2%	45.3%	48.0%	36.0%	34.6%	41.5%
Cost-to-total assets	1.7%	1.7%	1.7%	2.1%	2.2%	1.7%	2.0%	1.4%	1.6%	1.7%

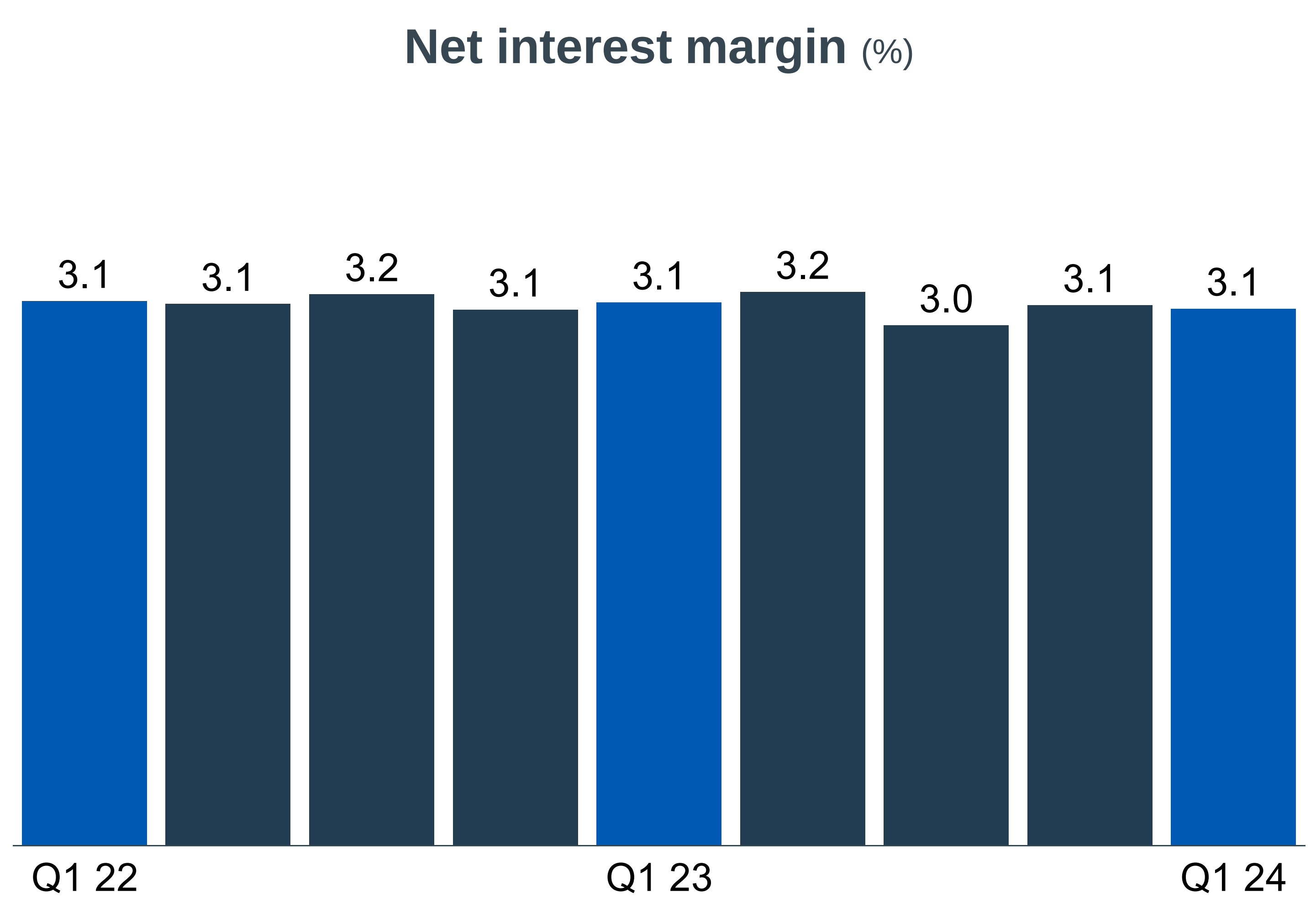
Balance Sheet	31.03.2024	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.03.2024	31.12.2023	30.09.2023	30.06.2023	31.03.2023
Total assets	1,544,432	1,525,672	1,465,609	1,310,710	1,172,706	1,544,432	1,525,672	1,540,669	1,518,227	1,500,645
Loans to customers	1,178,700	1,152,789	1,084,757	936,237	822,941	1,178,700	1,152,789	1,143,473	1,134,621	1,114,128
Mortgages	624,342	617,648	574,029	504,877	409,641	624,342	617,648	605,449	595,896	576,861
Share of stage 3 loans, gross	1.9%	1.7%	1.2%	1.9%	2.6%	1.9%	1.7%	1.5%	1.5%	1.4%
REA/ Total assets	60.7%	59.7%	60.1%	61.9%	63.6%	60.7%	59.7%	58.9%	60.1%	60.4%
CET 1 ratio	18.8%	19.7%	18.8%	19.6%	22.3%	18.8%	19.7%	19.4%	18.9%	18.6%
Leverage ratio	12.0%	12.4%	11.8%	12.7%	15.1%	12.0%	12.4%	11.8%	11.7%	11.3%
Liquidity coverage ratio	143.6%	191.8%	158.5%	202.8%	188.5%	143.6%	191.8%	179.1%	162.9%	173.6%
Loans to deposits ratio	147.0%	145.4%	143.6%	142.8%	144.8%	147.0%	145.4%	141.8%	145.2%	143.8%

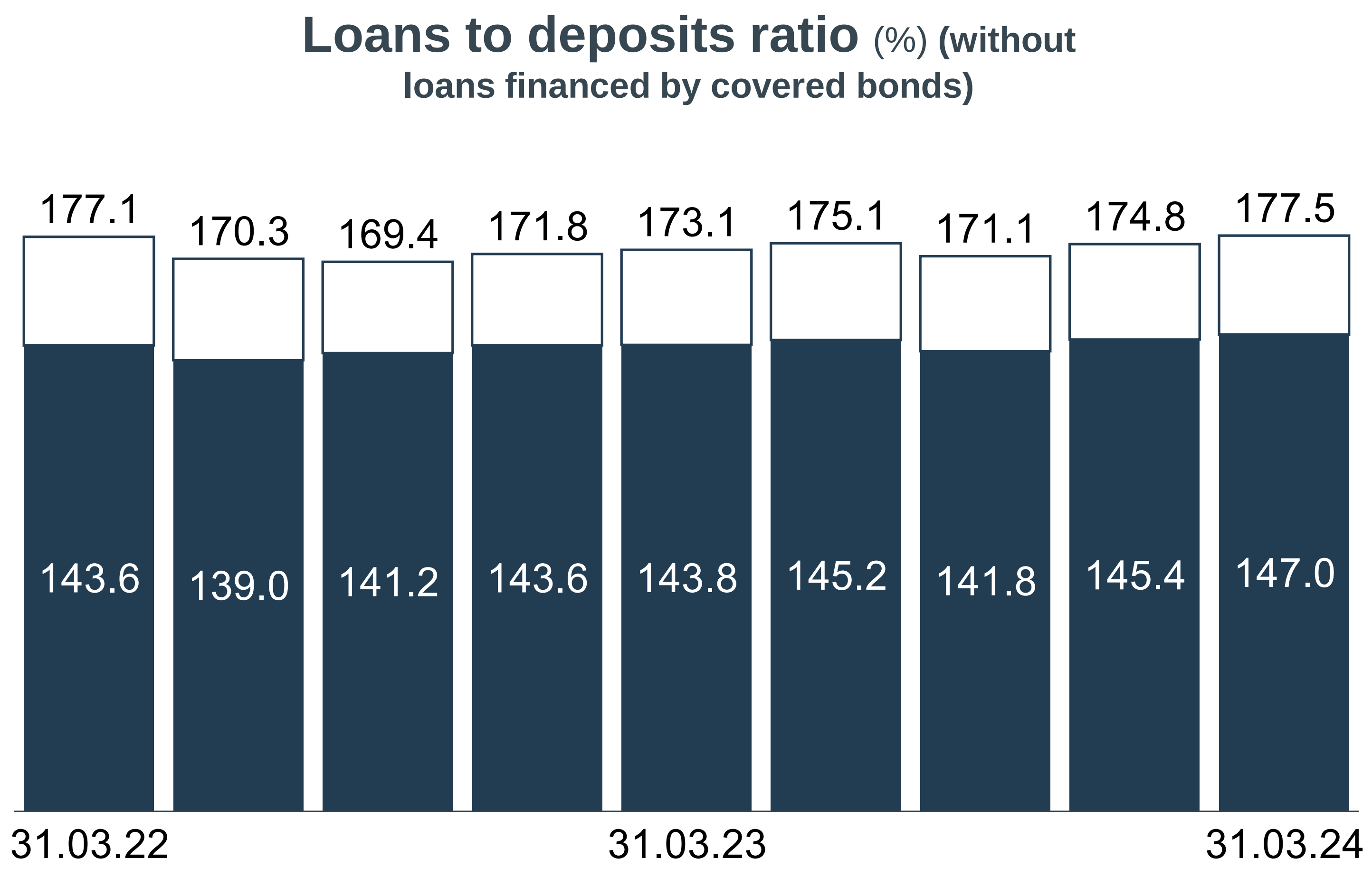
*Figures for periods prior to 2022 have not been restated according to IFRS 17

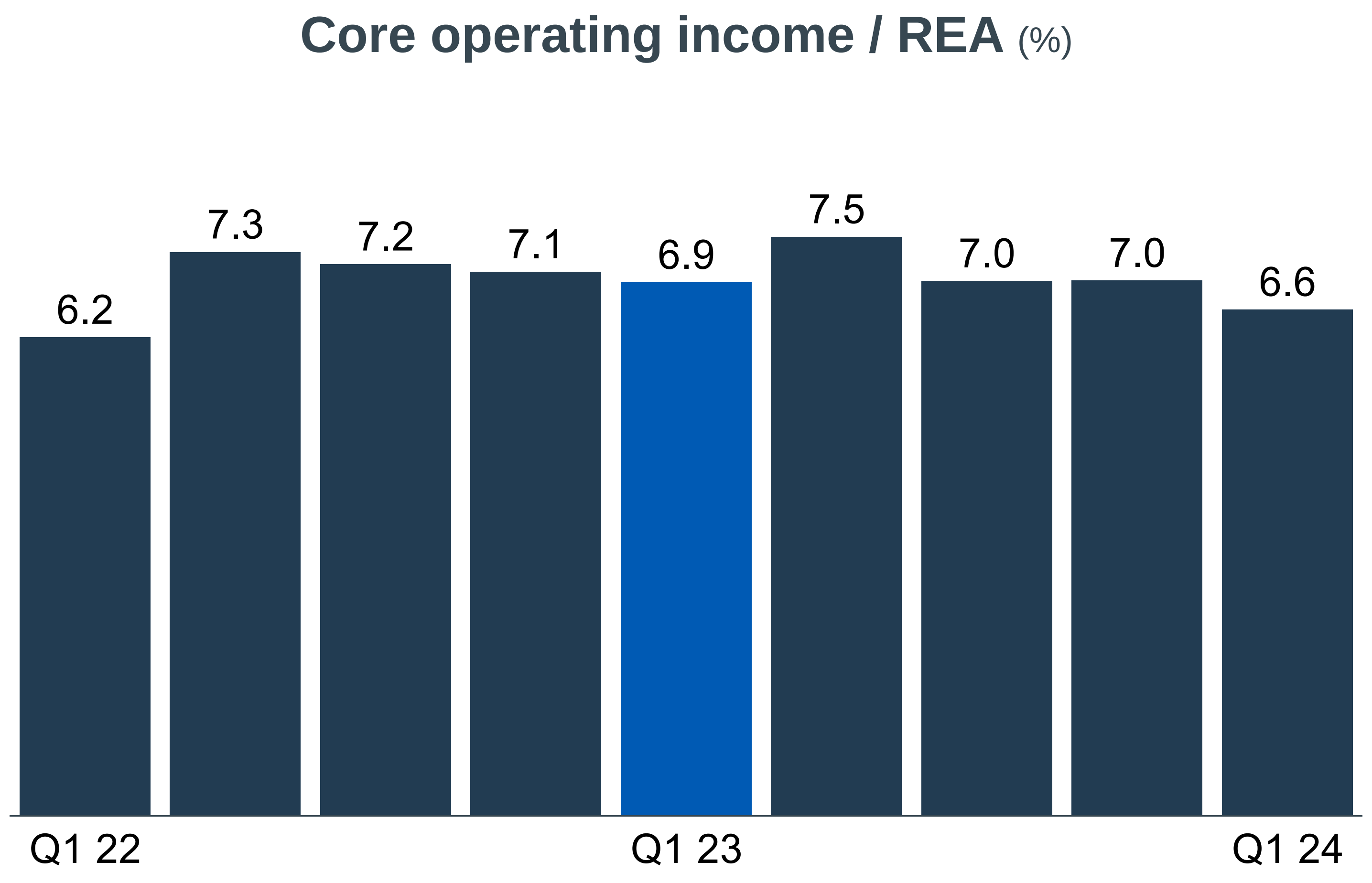
Key financial indicators - quarterly

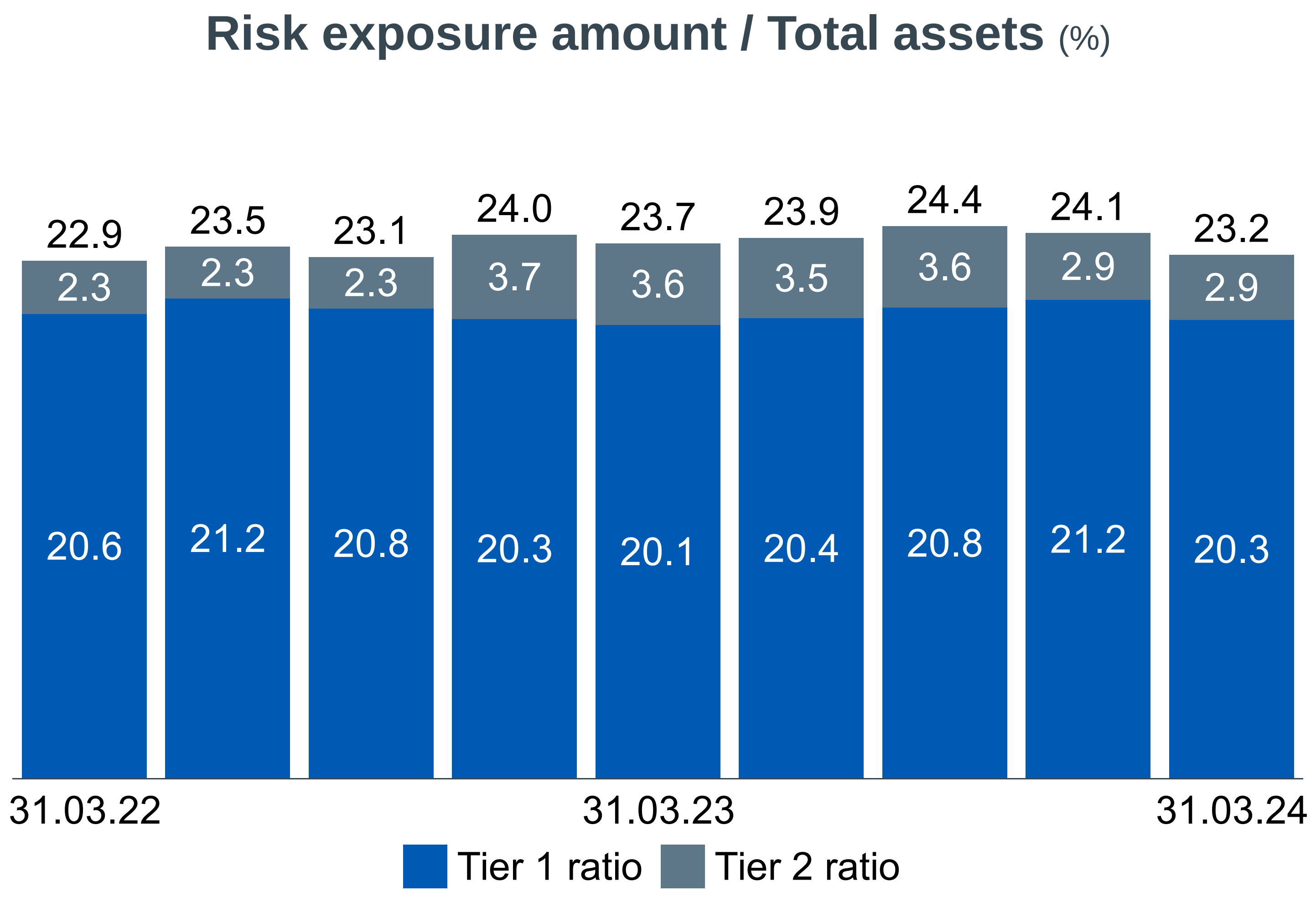






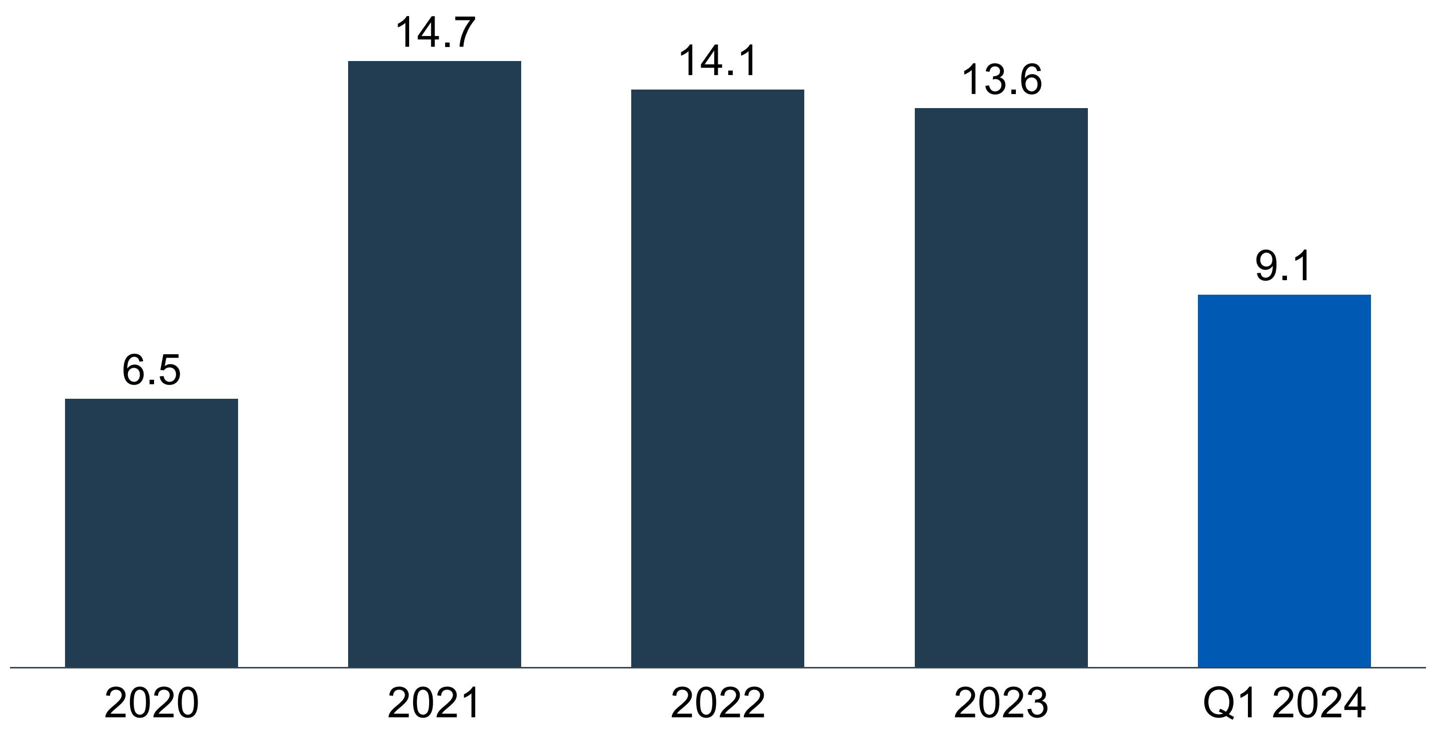




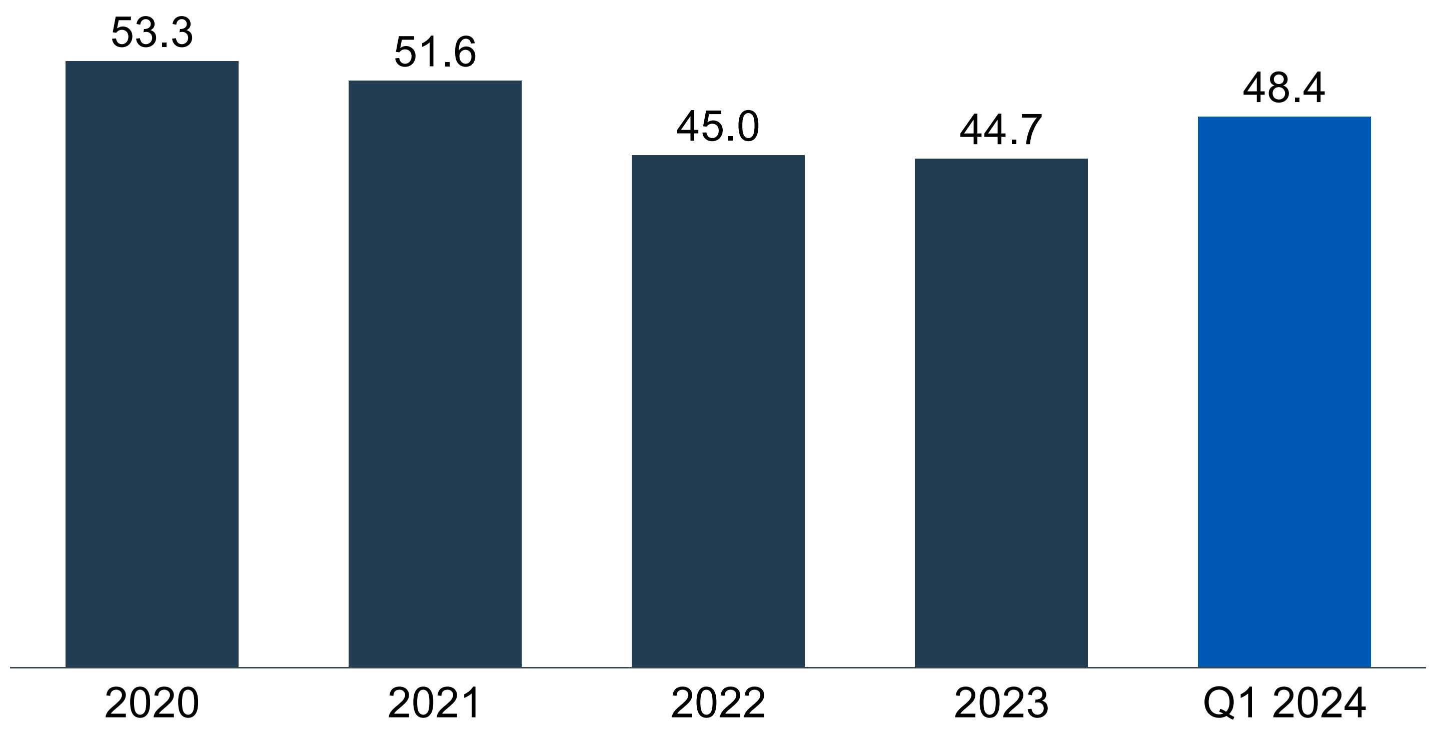


Key financial indicators - annual

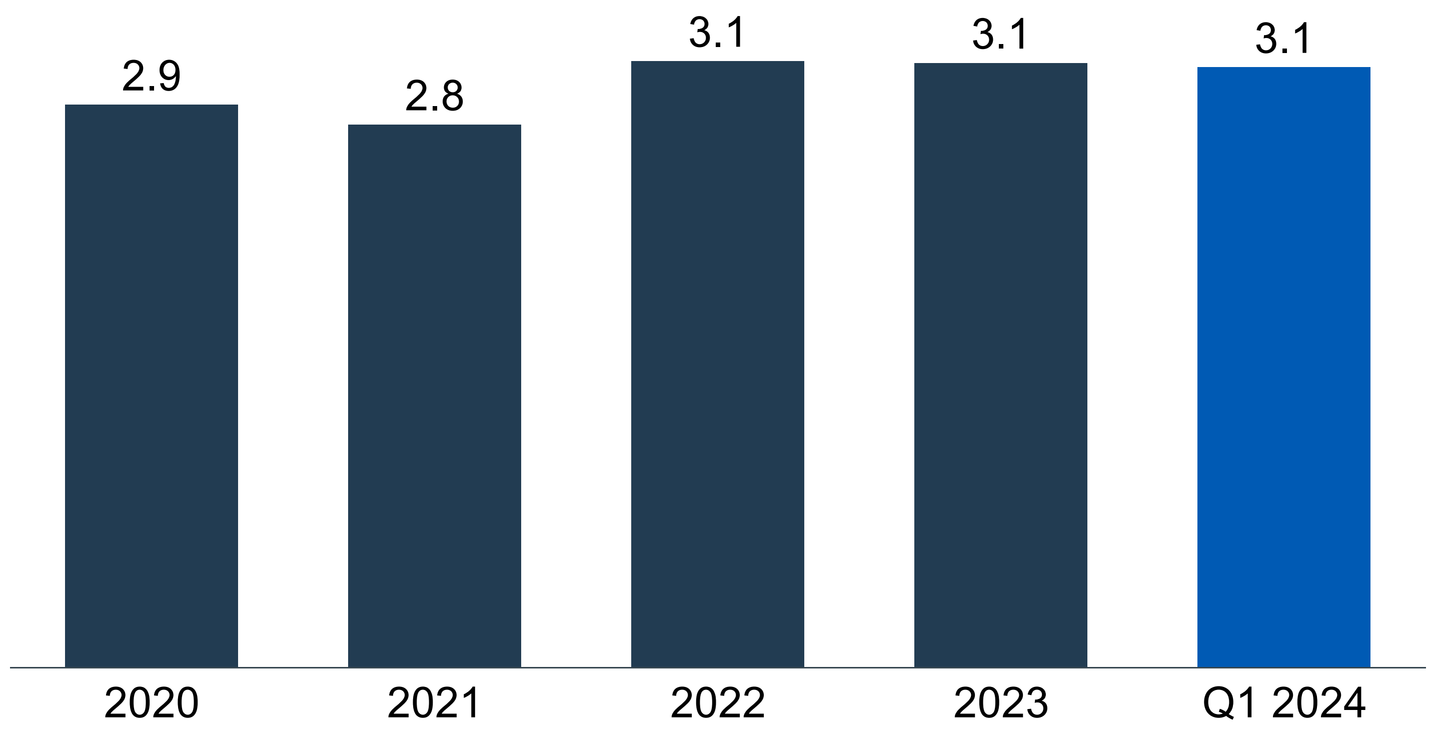
Return on equity (%)



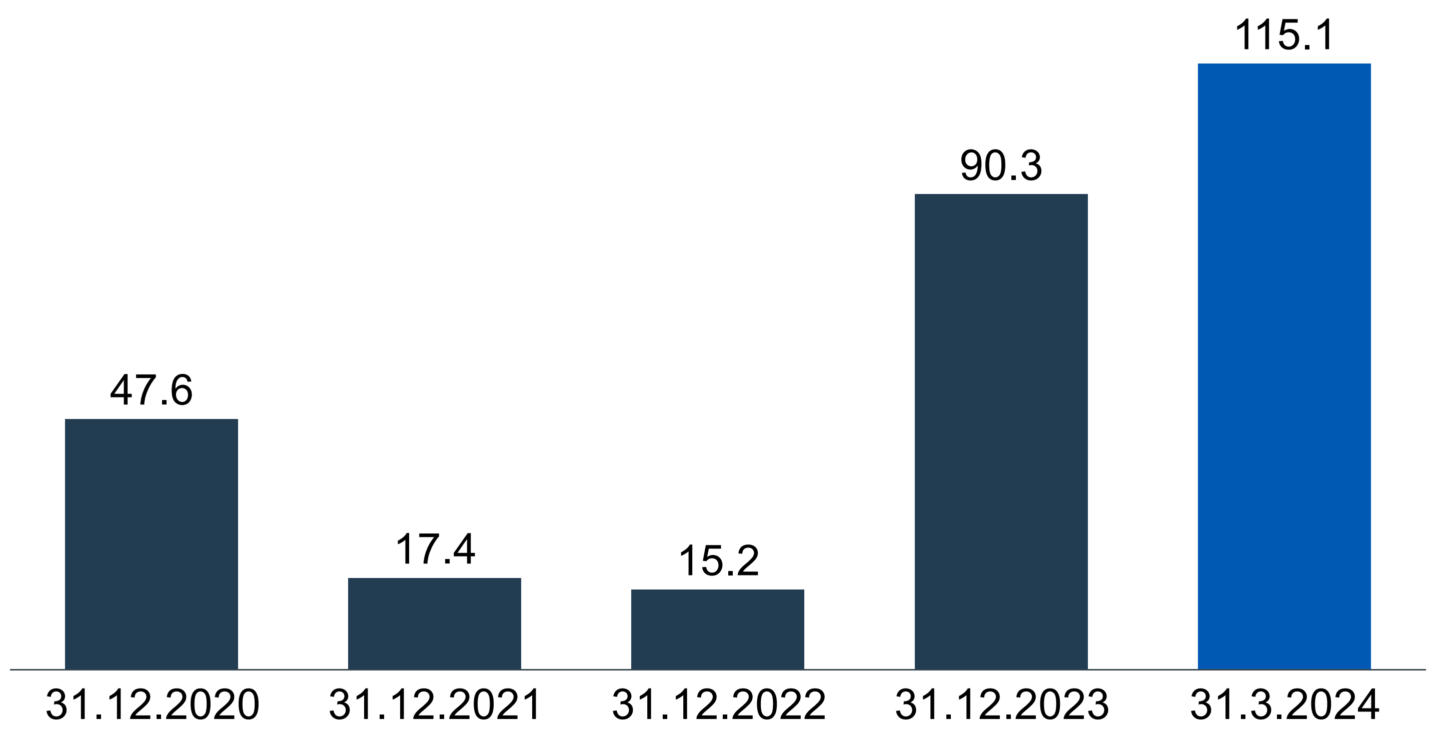
Cost-to-Core income ratio (%)



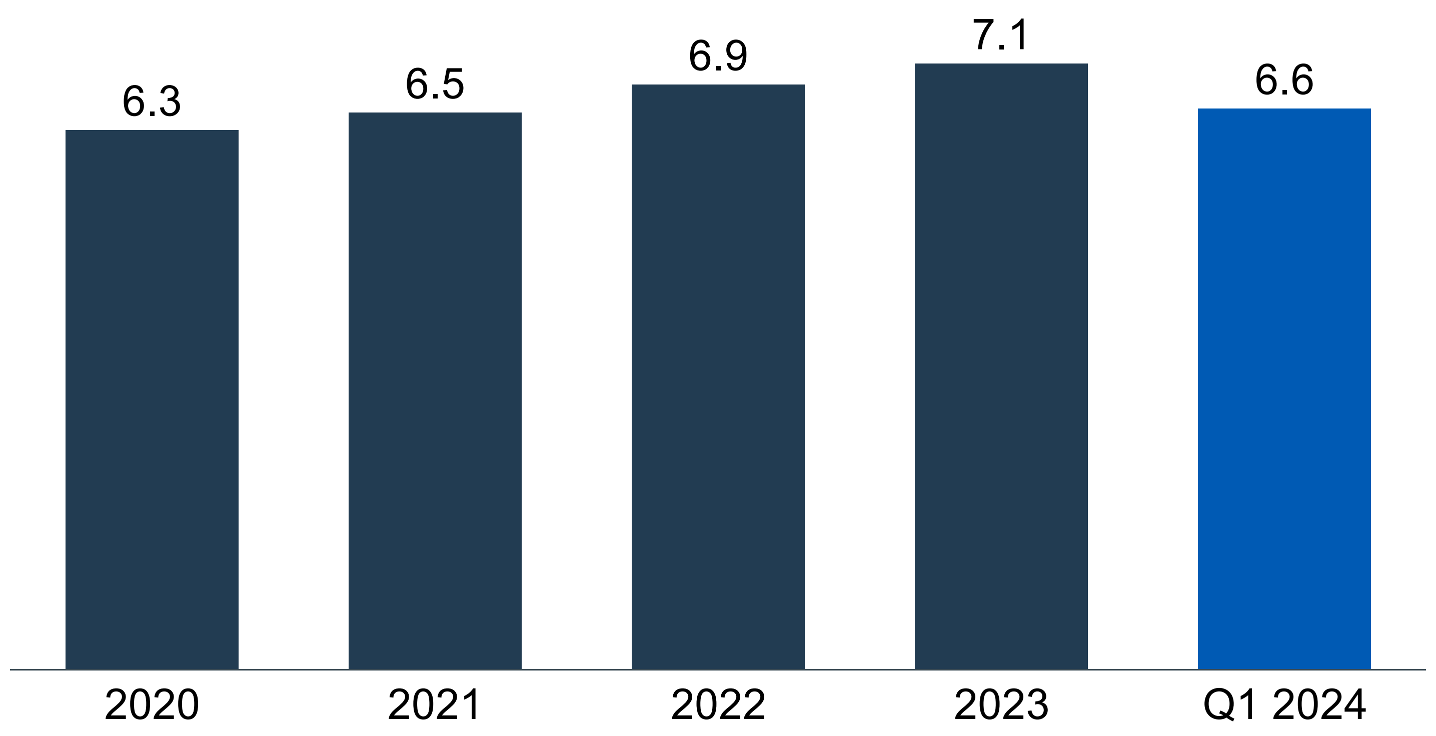
Net interest margin (%)



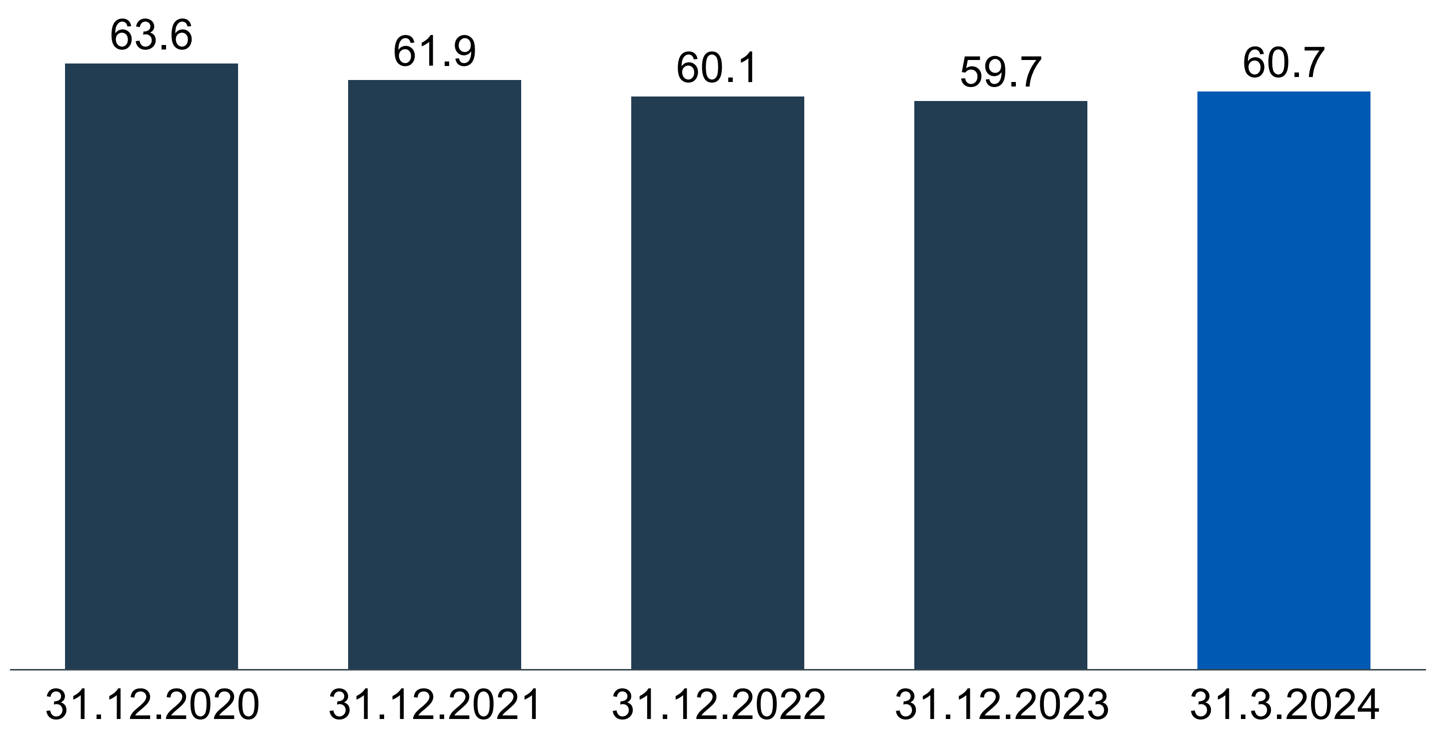
CPI imbalance (ISK bn)



Core operating income / REA (%)



Risk exposure amount / Total assets (%)



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